evidence for better health care

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Is the NHS financially sustainable?

Key points

- New OBR projections suggest that public spending on health care in the UK could rise from 7.4% of GDP in 2015/16 to between 8.8% and 8.9% by 2030/31.
- Judging historically and comparing projections with those of other countries provides a strong indication that spending increases are sustainable – although difficult economic choices remain.
- Longer-term projections of spending on health suggest increased spending over the next fifty years, but they vary widely – from just under 8% of GDP to between 15.5% and 18.5%.
- More than doubling the share of GDP devoted to health care spending over the next fifty years would mean further tough choices about how this should be funded – and what the public might be willing to forgo.

Amid stark warnings that there is an "unbridgeable gap" between the services the NHS needs to deliver and the money available for it, the Office for Budget Responsibility's latest projection is that health spending will account for 8.8% of GDP by 2030. So what can current spending projections tell us about the long-term sustainability of the NHS?

The House of Lords is currently investigating the long-term sustainability of the NHS. The timeframe being considered by the committee goes up to 2030. Its main objective is to assess whether the NHS is on a sustainable path and, if not, to suggest policy options that will need to be considered to deal with this.

Worries about the affordability of the NHS have a long history. Almost as soon as it opened its doors, concerns were expressed about its cost. In 1953, the then health minister Iain Macleod announced an independent parliamentary committee to investigate the long-term costs of the NHS and to make recommendations about possible structural and funding changes. Three years later, Claude Guillebaud's committee reported that the NHS was not particularly inefficient, that costs were not as high or rising as fast as feared and that little structural reform was needed.

At the time of the report, the UK was spending around 3 per cent of its GDP on the NHS – equivalent to nearly £13 billion at today's prices.

Over the sixty years since Guillebaud's report, spending on the NHS has risen (as it has in other countries). While the economy has grown over four-fold since 1956, NHS spending has increased eleven-fold – taking its share of GDP from 3% to 7.4% – equivalent to around £1 in every £14 in the economy. And on average, NHS spending rose in real terms by around 4% each year. Key drivers of this increase

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Contact the Nuffield Trust Press Office on **020 7462 0555**
or email: **pressoffice@nuffieldtrust.org.uk**

included increasing national wealth, population growth and the expansion in medical technology.

If NHS spending as a share of GDP continued to grow at the rate it has done since the 1950s, by 2191 it will consume 100% of GDP. Clearly, on this trajectory, at some point between now and 176 years in the future, spending on the NHS will need to stabilise for it to be financially sustainable. The question is, when?

How we – the public, taxpayers, politicians – make the decision that 'enough is enough' will, among other things, involve choices between competing areas of public spending, the balance between taxes and private disposable income and how we value what health care and medicine has to offer in the future.

A crucial starting point for these difficult decisions is how NHS spending might evolve in the future based on how it has changed in the past and how we think the drivers of spending – population changes, national income and so on – will shape spending in the future.

Public spending projections on health care in the UK

Estimates of future health spending can be carried out either on the basis of 'policy neutrality' – what spending would look like given forecasts of the path of key spending drivers (such as demographic change) but not those related to changes in policy (such as the introduction of seven-day working, for example) – or on a more positive basis, in terms of specifying what sort of health care should be available in future and then estimating the cost of achieving such a vision. Most projections, both in the UK and in other countries and supra regional organisations, are of the former kind. The estimates of future spending needs for the UK NHS carried out by, for example, Derek Wanless in 2002 was an example of the latter.

In practice, the distinction between these two perspectives can be blurred, and given uncertainties about the future, both approaches involve assumptions about the drivers of future spending (population changes, health system productivity and so on) with tests of the sensitivity of projections to variations in the underlying assumptions. So, where might spending on the NHS be headed over the next fifteen or even fifty years?

Table 1 on the next page shows the latest estimates of UK health care public spending to 2030/31 from four organisations – the Office for Budget Responsibility (OBR), McKinsey Consulting, the European Commission (EC) and the OECD. All are essentially

policy neutral, take slightly different approaches to the assumptions underlying their projections and vary in the extent of the testing of these assumptions. Table 1 also includes Wanless's estimates of the costs of his 'vision' for the NHS up to 2022/23 for comparison.

Table 1: UK health care public spend projections to 2030/31 as a percentage of GDP

	Scenario	Baseline	2015/16	2022/23	2030/31
	Actual		**7.4**		
OBR (2016)	Declining 'other pressures'		7.4	7.2	8.8
	Constant 'other pressures'		7.4	7.2	8.9
	Low health care productivity (1.2% p.a.)		7.4	7.1	8.3
	High income elasticity (1.2 converging to 1)		7.4	7.1	7.9
	Low income elasticity (0.8 converging to 1)		7.4	6.9	7.3
	Slower expansion of morbidity		7.4	7.0	7.5
	Compression of morbidity		7.4	7.0	7.4
Wanless (2002)	Slow uptake		10.5	11.3	
	Solid progress		9.6	9.9	
	Fully engaged		9.4	9.4	
McKinsey (2007)	Baseline	8.4 (2007)			10.4
	High				12.3
European Commission (2013)	Cost pressure	8.0 (2010)			10.6
	High cost containment				9.4
	Low cost containment				9.8
OECD (2013)	Cost pressure	6.5 (avg 2006-2010)			8.4
	Cost containment				7.9

NB: McKinsey and EC 2030/31 are linear interpolations inferred from these studies' longer term projections (to 2040 and 2060 respectively)

Across the four policy-neutral studies, spending is projected to change from around 7.4% of GDP in 2015/16 to between 7.3% and 12.3% by 2030/31. However, these are the extremes based on alternative assumptions about, for example, the ability of the NHS to contain growing costs (through higher productivity for example) or how health care needs might change in the future.

New projections from the Office for Budget Responsibility

Of more note – not least because the projections are the most recent and involve a change in assumptions – are those by the OBR.

"The increase in projected spending does not seem out of line with history – and indeed, slightly lower than the long-term growth in spending."

The OBR have produced estimates of future health spending since their inception, taking over from a similar annual exercise by the Treasury. A key change in the OBR's assumptions about future spending is the inclusion (similar to the OECD) of a factor for 'other cost pressures'. These are in essence the extra growth in costs over and above demographic change and any effects of growing national income (and the desire to devote increasing wealth to health). This element of the growth in health spending is hard to pin down, but is generally recognised as an important driver of additional growth in health spending over time for all countries. The OBR's new 'cost pressures' growth projections suggest that public spending on health care in the UK could rise from 7.4% of GDP in 2015/16 to between 8.8% and 8.9% by 2030/31 depending on the extent of any containment of this element of growth.

Based on the OBR's 2015 projections for growth in GDP, this is broadly equivalent to a real increase in health spending of just under £100 billion over the next fifteen years (from £139 billion to £237 billion, in 2015/16 prices).

What do current spending projections tell us about the long-term sustainability of the NHS?

Bearing in mind the inevitable uncertainty of any projections of health spending, taking OBR's new projection of around 8.8% of GDP by 2030 (and bearing in mind projections from the OECD and the European Commission), is it possible to draw a conclusion about the financial sustainability of the NHS in the context of the timeframe of the House of Lords investigation?

The short answer is, yes, but the OBR's projection does have implications for taxation and spending priorities across government.

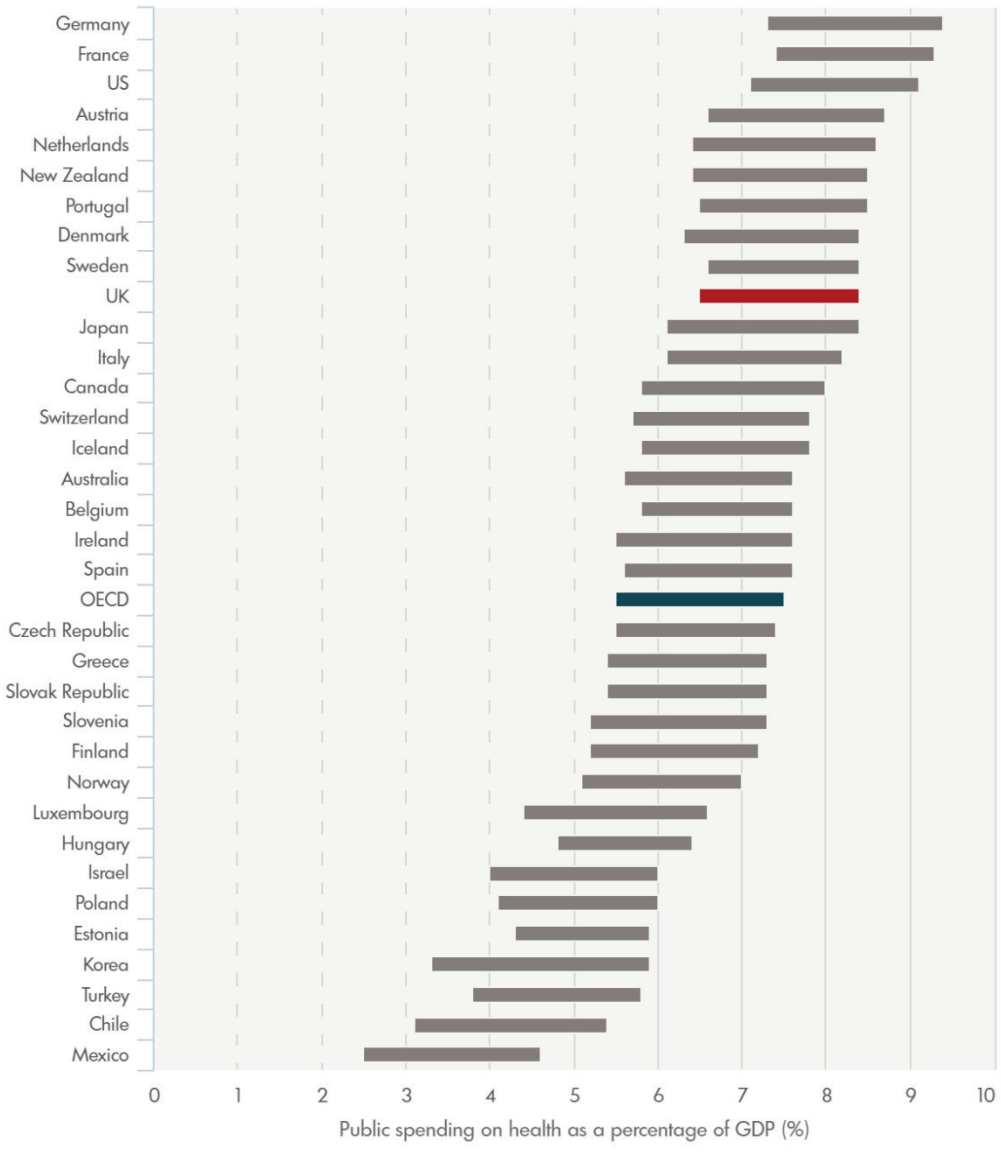
To put the projection in some historical context, the increase of around £100 billion in spending over the next fifteen years implied by the new cost pressures projection (and projections of GDP growth) represents an average annual real increase of around 3.5%. This is less than the long term (1950–2015) increase of just over 4%. The increase in share of GDP of 1.4% over fifteen years is also the same as the increase over just five years between 1999/2000 and 2004/5.

From this perspective, then, the increase in projected spending does not seem out of line with history – and indeed, slightly lower than the long-term growth in spending.

From an international perspective (caveated with warnings about the difficulty of making comparisons in health spending between countries), a national public spend of 8.8% by 2030 would take the UK to the levels of public spending for France, the Netherlands, Denmark, Sweden, Germany and Japan (and a little above Norway and the US) – in 2015.

And in terms of where other countries are likely to be in terms of public spending by 2030, the OECD projections suggest that all countries' spending is likely to increase (see Figure 1), leaving the UK's relative rank on public spending on health essentially unchanged between 2010 and 2030.

Figure 1: Public spending on health across OECD countries 2010 and projected to 2030



Source: Data: OECD (2013). NB: Projections based on OECD's highest cost pressures projection.

In themselves (and possibly taken together), these triangulations of the UK's possible spending on health by 2030 do not provide a conclusive answer to the financial sustainability of the NHS over the next fifteen years. However, they do provide a strong indication that – judged historically and across countries – spending increases are sustainable.

Higher health spending – but who pays?

Nevertheless, if the OBR's cost pressures projection became the chosen spending path, this choice has policy implications. Not least is the question of where the extra money would come from. The choice, crudely, is between (or rather, some combination of) extra taxation and/or shifting government spending away from some areas and towards health.

It is important to bear in mind that a big chunk of the £100 billion increase implied by the OBR projection arises because the economy – and its measure, GDP – is also projected to increase; even if the health spend share remained unchanged at its current rate of 7.4% (and all other government also staying the same as their 2015/16 shares), the NHS would grow by nearly £60 billion in real terms. This would leave around £40 billion (an extra £2.7 billion each year) to be funded through some combination of increased tax and reprioritisation of government spending.

Of course, all these estimates depend on the rate at which GDP will grow in the future. The full impact of the Brexit decision on GDP, for example, remains unknown, but most projections indicate a reduction in the rate of growth of GDP into the future. This will clearly limit the choices available to future governments in terms of their tax and spend decisions.

Beyond 2030…

Although hard choices remain – over taxation, the balance of government spending between health and non-health areas – on balance, and given the OBR's latest projections, increased spending on health by 2030 looks to be not only a distinct possibility, but affordable too.

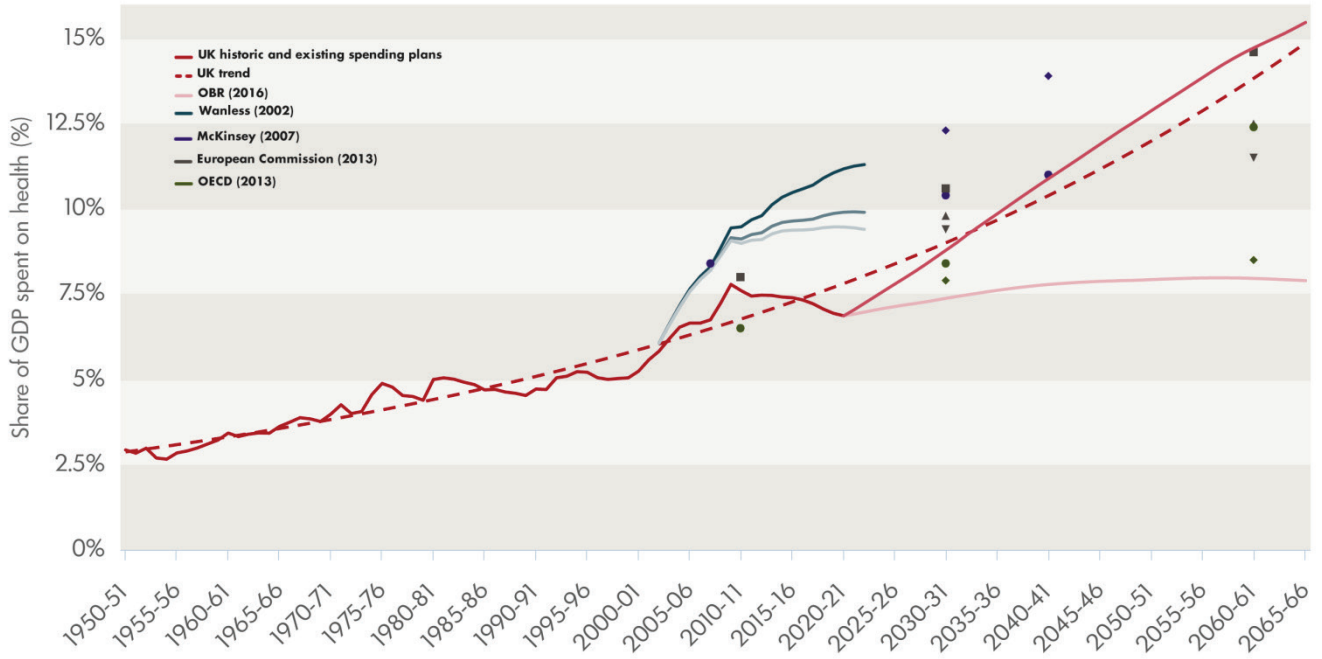
So what about the even longer term, fifty years from now?

While the uncertainty of projections increases into the future, as Figure 2 on the next page shows, all projections suggest increased spending over the next sixty years. However, they vary widely – from the OBR's lowest projection of just under 8% of GDP to its cost pressures projection of between 15.5% and 18.5% (the latter not

shown on chart) – similar to a simple projection of historical spending (the dotted line on Figure 2).

As with the projections to 2030, as both the European Commission and OECD projections suggest, the UK would not be out of line with other countries in terms of the sorts of increases in spending these studies indicate.

Figure 2: Projections for UK health spending to 2065



But while pressures to spend more on health are universal, more than doubling the share of GDP devoted to public spending on health care over the next fifty years would mean further choices about how this increase should be funded and, crucially, what the public are willing to forgo (in disposable income, higher spending in other areas, etc) to enjoy the benefits of this extra spending on health care.

On the other hand, and albeit from a lower starting point, it's been done before: over the sixty years to 2010, as a result of choices about public spending and taxation, NHS spending more than doubled its share of GDP.

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Nuffield Trust is an independent health charity. We aim to improve the quality of health care in the UK by providing evidence-based research and policy analysis and informing and generating debate.

59 New Cavendish Street
London W1G 7LP
Telephone: 020 7631 8450
Facsimile: 020 7631 8451
Email: info@nuffieldtrust.org.uk

www.nuffieldtrust.org.uk

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