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NHS funding choices and the 2017 General Election

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There is no right or wrong answer to the question: “how much money does the NHS need?”. The answer is a political choice about how we spend our national wealth: do we choose to fund new treatments for diseases or disorders we previously could not alleviate, or do we spend that wealth on other personal or social priorities?

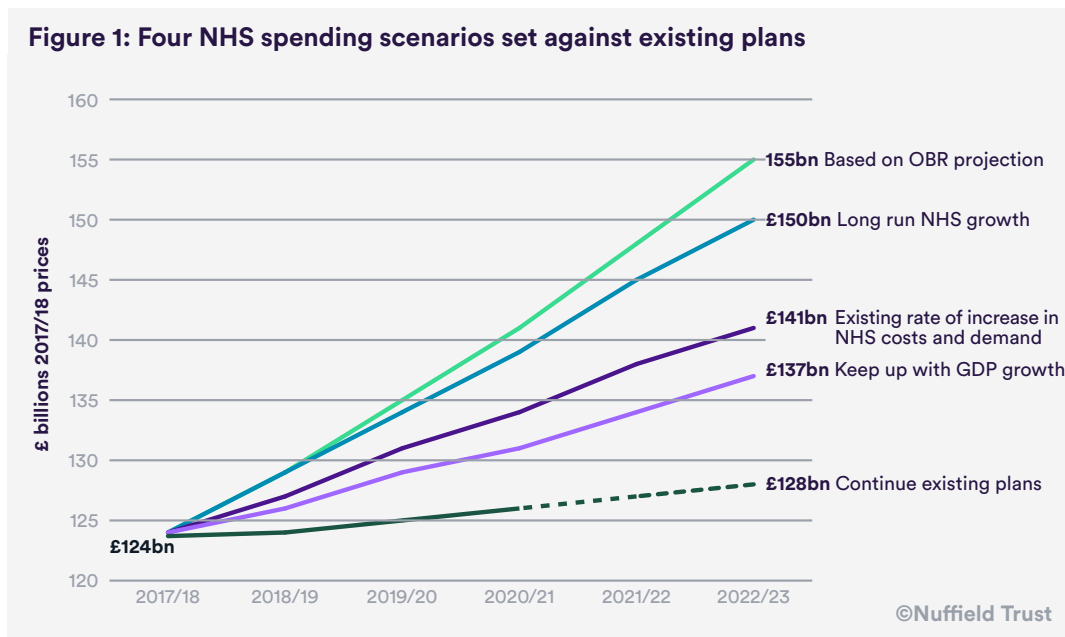
Whichever choice we make inevitably involves a cost. Spending more on the NHS means better health care, but also requires further choices about how this would be funded – through some combination of higher taxes, more borrowing or changing other government spending priorities. Equally, *not* spending more implies a cost in terms of deteriorating quality of care for patients, and failing to keep up with the latest medical treatments which may become available in other countries.

There are no easy choices. Here we set out different scenarios about possible future spending on the NHS in England – from carrying on with current government plans to the end of the new parliament in 2022/23, to keeping up with projected change in population and new medical technologies. We then compare these possible funding futures against each of the three main political parties’ manifesto pledges on NHS funding, set out on a like-for-like basis.

What if we carried on with existing plans?

Existing spending plans for health in England, set out by the previous government in 2015 (HM Treasury, 2015), imply an average real increase per year of 0.75% above inflation between 2017/18 and 2020/21. This is an increase from £123.7 billion to £126.5 billion, in today's prices. If that rate of increase carried on to the end of the next parliament, it would take spending to £128.4 billion.

However, the previous government's spending settlement has already led to significant overspending problems for the vast majority of NHS hospitals (Gainsbury, 2016), as costs and demand for health care have risen faster than funding. And with the economy projected to grow at around 2% a year between now and 2022/23, existing plans imply a decreasing share of gross domestic product (GDP) being devoted to the NHS – from around 7.3% this year to 6.9% by 2022/23.



Scenario 1: Keeping up with economic growth

A more generous settlement would be to increase NHS spending in line with growth in the whole of the economy as measured by GDP, which is forecast to grow by around 2% per year between now and 2022/23 (Office of Budget Responsibility, 2017). In a sense, this would pay for itself, as the base for taxation revenue would expand at a similar rate.

That would see NHS spending increase to around £137 billion by 2022/23; £13.2 billion higher in real terms than spending this year.

Scenario 2: Keep up with the existing rate of increase in NHS costs and demand

However, the NHS might still struggle to live within that spending envelope as it faces higher inflation and faster growing demand than the economy as a whole.

The most significant drivers of NHS inflation are the pay awards given to its clinical staff and increases in the cost of drugs. Government policy to cap pay awards over recent years has therefore held NHS-specific inflation artificially low.

Inflation forecasts by the regulator NHS Improvement imply that a removal of the pay cap would lead to a 1 percentage point rise in NHS inflation (NHS Improvement, 2016). If that came into effect from 2018/19, the NHS would experience inflation of around 2.9% a year until 2022/23; compared to about 1.8% for general inflation in the economy.

But we could expect some of those costs to be off-set by NHS organisations becoming more efficient. NHS Improvement's analysis suggests that the trend has been for organisations to be 1.4% more efficient each year. If this were to continue from 2018/19 onwards, we might assume that the NHS could absorb around half of the cost inflation it faced each year, leaving it with a net annual increase in its costs of around 1.5%.

Those two factors – NHS-specific inflation and NHS efficiency – would account for the rising costs of each unit of care provided by the NHS, but not any increase in the amount of activity it undertook. According to NHS England, this has been increasing at a rate of around 3% a year – through a combination of caring for more patients with more complex needs, and through more intensive and advanced treatments.

Accounting for all those factors would require NHS spending to rise to around £141 billion in 2022/23: £17.6 billion more than spending this year. It would also mean spending as a share of GDP increasing modestly from 7.3% now to around 7.5% by the end of the next parliament.

Scenario 3: Return to the long run NHS spending trend

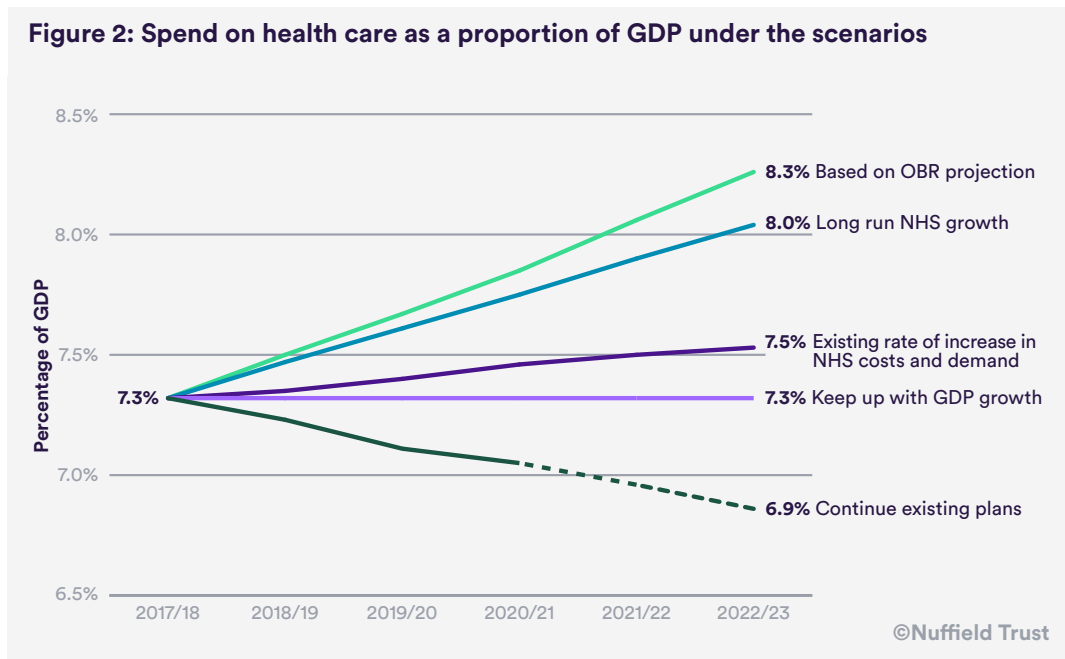
However, that level of spending growth would still fall short of the long run trend in real terms spending growth in the NHS since its inception. Between the early 1950s and 2009, the average real increase in funding for the NHS has been around 4% per year.

Getting back to this spending trend – at least in the short/medium term – would suggest spending of around £150 billion in 2022/23; £26.8 billion more than this year.

Scenario 4: Matching the OBR projection

Finally, what do the independent economists at the Office for Budget Responsibility (OBR) have to say about future NHS spending? The OBR's latest projections for the NHS (Licchetta and Stelmach, 2016) suggest a wide range of possible spending futures depending on assumptions made about, for example, the future health of the population, NHS productivity and so on.

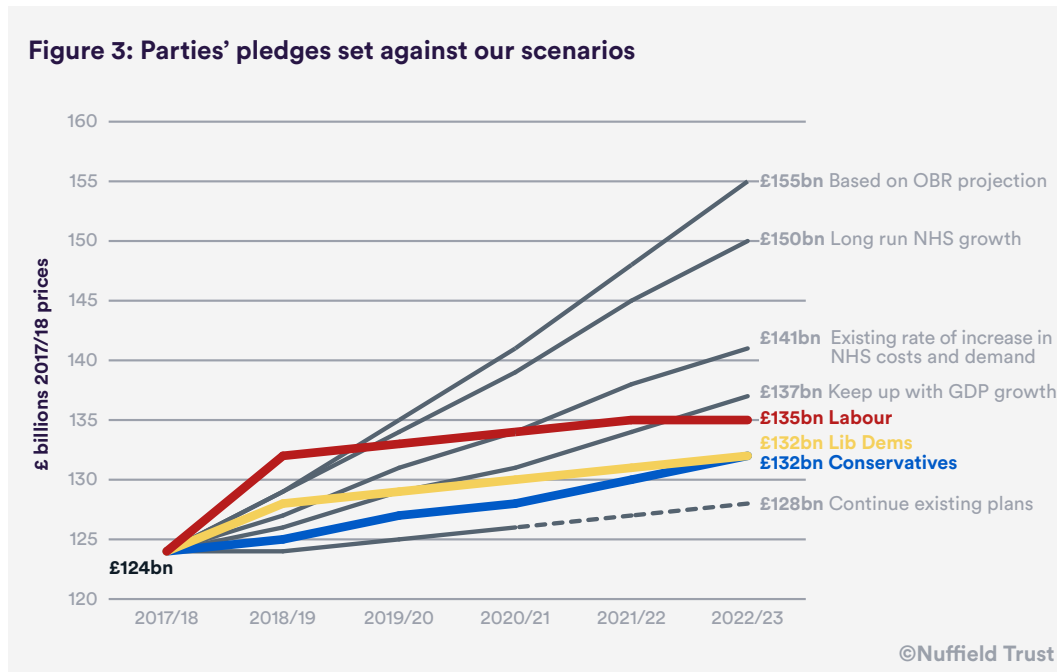
Their central projection suggests that NHS spending could rise at around 4.5% a year in real terms in future (Nuffield Trust, 2016) – driven by changes in



population and new medical advances, for example. If we chose to increase NHS funding at this rate, this would suggest spending of around £155 billion in 2022/23; £30.8 billion more than this year.

Political party manifesto pledges

How do the NHS spending pledges made by each of the main political parties in England compare with the scenarios set out above?



NB: parties' spending in 2022/23 rounded to nearest billion

Liberal Democrat proposals: £9 billion more by 2022/23

The Liberal Democrats were first out of the blocks to set out their spending pledge at the beginning of May (Liberal Democrats, 2017). They promised a headline “extra £6 billion” for health and adult social care combined, funded through an immediate 1p increase on all rates of income tax, including on share dividends.

This figure, however, refers to increased tax revenue from across England, Wales and Northern Ireland, as well as a small proportion of additional taxation in Scotland. The England-only figure would boost spending on health and social care by around £4.9 billion in its first year (2018/19), of which around two thirds (£3.3 billion) would be spent on the NHS, growing to £4 billion in extra cash above a continuation of existing plans in 2021/22 (the last year for which the Liberal Democrats have set out plans).

Liberal Democrat plans indicate they would take health spending in England to around £132.2 billion in 2022/23 in today's prices; the equivalent of an extra £9 billion that year compared with spending this year. This would still, however, see health spending fall as a share of GDP from 7.3% today to 7.1% in 2022/23 (Figure 4).

Labour proposals: £12 billion more by 2022/23

Labour set out their pledge next, promising an “extra £8 billion” per year on top of existing spending plans, to fund both capital and current spending commitments. This commitment was expressed in a number of ways (see note 1) and is to be funded mainly through tax rises.

Labour's plans, like the Liberal Democrats', involve a one-off boost to health spending plans in the first year, which is then more or less increased at the same rate as existing annual increases set out in the Conservative government's spending plans to 2020/21.

Labour's spending commitments would bring total health spending in England to £135.3 billion in 2022/23; an increase of £12 billion above spending this year.

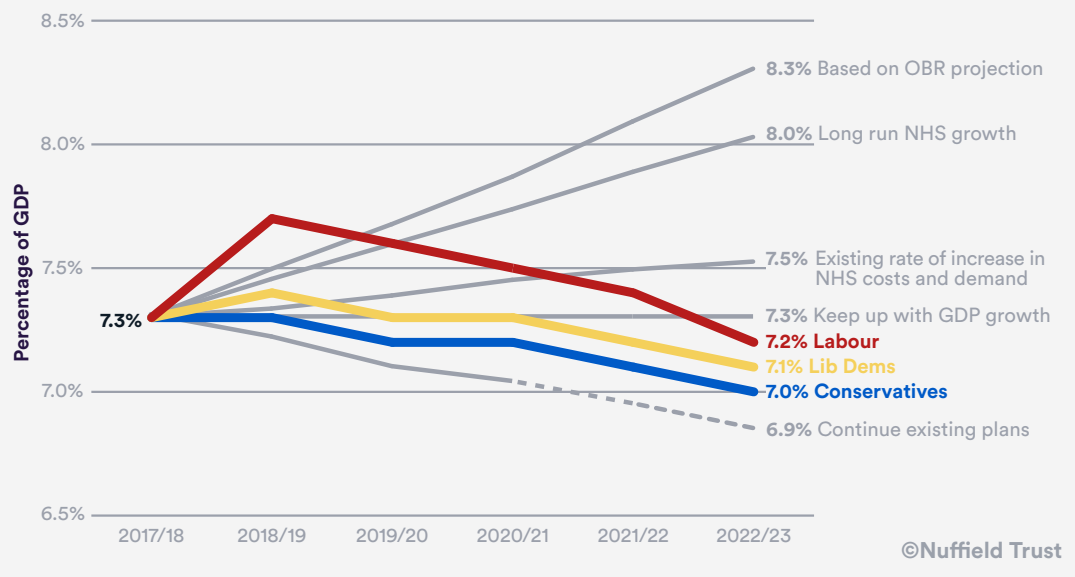
Despite increasing spending, with the economy projected to grow at a faster rate, NHS spending as a proportion of GDP would fall slightly under Labour's plans – from 7.3% to 7.2% (Figure 4).

Conservative proposals: £8 billion more by 2022/23

The Conservative party's headline “extra” spending figure of a minimum of £8 billion in real terms is, again, stated on a different basis to the other two parties. It relates to extra spending in 2022/23 compared with this financial year, rather than with existing plans.

1. Labour's pledge was expressed in three ways: a pledge of £30 billion, which counts the spending increases over five years but does not include capital investment; a pledge of £37 billion, which counts the spending increases over five years and includes capital and current expenditure, but does not include funding to reinstate nurses bursaries; and a £40 billion pledge, which counts the spending increases over five years and includes current and capital spending, as well as student bursaries.

Figure 4: How much the parties would spend on health care as a proportion of GDP



The Conservatives' NHS spending proposals are only partly revealed in their manifesto and some details remain obscure. However, assuming that their pledge to increase spending by £8 billion applies across the whole of the NHS and does not (unlike their 2015 spending review) contain cuts to some elements of the NHS budget, then that would bring total spending in 2022/23 to £131.7 billion. This would see health spending fall as a share of GDP to 7.0% (Figure 4).

In the heat of an election campaign, promises of billions extra for the health service can sound like big sums. But unpicking the pledges from each of the manifestos reveals that the NHS looks set to face a further five years of austerity, whoever forms the next government. With NHS spend as a proportion of GDP growth due to fall under all parties' proposals, whichever party forms the next government will have to face some tough decisions about the future shape of the health service, and how it can continue to meet the needs and expectations of its patients and staff.

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