

## The NHS under the coalition government and after the Election

*by Alistair McGuire and John Van Reenan*

The NHS has become a central issue of the general election. It comprises a fifth of all UK public expenditure: £129.5 billion in 2013-14 and expected to be £131.4 billion in 2015-16. The majority is spent on staff costs. Although the number of doctors has risen since 2010, the number of nurses has hardly risen. There is also growing concern over the level of GP recruitment.

Between 1999 and 2010 real expenditure on the NHS almost doubled. Since 2010, the NHS budget essentially flat-lined in real terms. Between 2010-11 and 2014-15 the NHS budget rose by £4.8 billion, an increase of only 0.7% in real expenditure per year.

Following the **Barker Commission (2014)**, £3.8 billion was allocated to support integration, although almost £2 billion was a transfer from the NHS budget to the local authorities at a time when social services expenditure on adult services has itself fallen by 12% in real terms since 2010.

NHS expenditure was 8.2% of GDP in 2009-2010, fell to 7.9% by 2013-14, and is forecast to be 6.4% of GDP by 2019-20 – the same proportion as in 2003-04. While a larger level of expenditure in absolute terms, it is likely to provoke deterioration in service delivery. Even promises to maintain real levels of NHS expenditure are going to prove problematic over the next Parliamentary session.

Demand and cost pressures have continued to grow during this period of flat-lining expenditure. Consequently there has been increasing reliance on 'efficiency savings' of 4% per year to maintain provision of NHS services. These are substantial efficiency gains, given that over the 15 years prior to 2010 NHS productivity growth averaged less than 0.5% per year. Initially managed, largely through constraining inputs rather than increasing NHS output, it is unlikely that cuts in costs can be maintained going forward.

Some estimate that NHS productivity fell by almost 1% in 2012-13 and 2013-14, while the NHS in aggregate had a projected budget overspend of £625 million in 2014-15. Performance indicators signal a system under strain; most waiting time targets have been missed despite additional funding. Transfers of care and delayed discharges are causing further concern.

Given current pressures, NHS England predicted that with no real expenditure increases, no further efficiency gains and continued rising demand, the NHS would face a £30 billion per year shortfall within five years. This would reduce to £21 billion if efficiency gains averaged the long-term norm of 0.5%; £16 billion if efficiency savings remained at recently attained levels of 1.5% per annum; and the much quoted £8 billion if it were optimistically assumed efficiency gains were 2-3% per annum.

### What are the main parties promising?

The Conservatives will continue to pursue competition among providers, whereas Labour want to 'abolish' such competition. Both parties want more integration of care across health and social care providers. The Liberal Democrats' statements seem similar to Labour's, although they might base integration around local authority control, a model recently proposed as a pilot in the Manchester area.

#### *The Conservatives*

The Health and Social Care Act 2012 continues to shape their policy, with regulated competition among any willing providers of healthcare and promoting patient choice through increasing information over aspects of delivery and the provision of various forms of integrated care.

They also propose piloting of a scheme where the NHS would transfer £6 billion of the annual health budget to the 10 local authorities defining Greater Manchester, which would take responsibility for some areas of expenditure including staffing, regulation and capital spend. This mimics the original organisational structure of the NHS, as based on Local Authority management. Some have raised concerns that it represents another ill thought through NHS reorganisation.

These proposals are on top of the last minute pledge to fund the NHS by an additional £8 billion per year by 2020, in line with the minimum additional funding called for by NHS England. This will still need to be accompanied by 2-3% per annum efficiency gains, a hard ask given the situation noted above. Detail on where the additional funds are to come from is lacking.

### *Labour*

Labour have set out a 10-year plan for the NHS that will abolish the Health and Social Care Act 2012, fostering greater integration across NHS providers. This does not rule out private provision of healthcare to NHS patients, but will give priority to NHS and voluntary providers. Labour have also promised to recruit more staff.

While not pledging to meet the estimated minimum required additional yearly funding of £8 billion coupled with 2-3% efficiency savings from NHS England to maintain service, they do pledge an additional £2.5 billion gained through further efficiency savings and by an estimated £2.5 billion to be raised from a mansion tax, more penalties for tax avoidance and a new levy on tobacco firms. Pay restraint and assurance of the efficiency of the increased tax base will be the basic issues moving forward. Again, little detail has emerged with the announcement of these proposals, and again any efficiency gains would be a stretch.

### *The Liberal Democrats*

The Liberal Democrats' headline policy is that they will increase NHS funding in line with NHS England's £8 billion requirement to provide, among other things, more staff, lower waiting times and will improve cancer care. They will also promote the integration of health and social care and a retreat from competition in the delivery of healthcare.

## **Conclusions**

All parties are seeking to portray an NHS protected from major public sector expenditure cuts, with expansion in some areas. This is only viable through further efficiency savings of some kind, and even then it is not clear how resource levels will be maintained. The threat to the NHS is certainly not going to be creeping privatisation, but through ill-thought through reforms that target inputs rather than focusing on improving the value of NHS outcomes. The important matter to concentrate on should be what achieves higher quality service provision, given the expenditure constraints.

## **Further information**

McGuire A, Van Reenen J (2015) *Health: How Will the NHS Fare in a Cold Climate?*, Paper No' CEPEA028, Centre for Economic Performance, London.

## **About the authors**

**Alistair McGuire** is Professor in Health Economics within LSE Health, Department of Social Policy at the LSE.

**John Van Reenan** is Professor of Economics within the Department of Economics and Director of the Centre for Economic Performance at LSE.

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