

## The NHS England Five Years Forward View and the missing £30 billion


by *Mireia Jofre-Bonet and Alistair McGuire*

The NHS England Five Years Forward View was released on 23/10/2014 and highlights that the current NHS is facing a crisis. There has been a fall in real terms expenditure, as, regardless of what the current government states, the productivity gains that were necessary to maintain NHS expenditure in real terms have not been achieved. The **King's Fund productivity report (2014)** indicates that spending on health care went from 5.5% of GDP in the mid 1990s to 8% in 2009 and then stayed around that level. The King's Fund report adds that it could fall to 6% of GDP by 2021 under a flat cash scenario for the NHS and moderate GDP growth, meaning that the resources for the NHS could be reduced by about 25%.

Recently, any productivity gains that may have been achieved in the NHS have tended to come through wage restraints and volume changes on the input side of the productivity equation. Since productivity is the rate of change in outputs as inputs change; if output grows faster than inputs, productivity increases; if inputs grow slower than outputs, productivity also increases. Currently input growth is behind output increase and that explains any productivity gains. To maintain real health-care expenditure at 2010 levels, the King's Fund report estimates that productivity gains would have to be around 4% per annum. This has not been achieved. More recently productivity has been running at 2% per annum, but this has probably been driven by people working harder as inputs get cut.

Given the changing demographics of the country, and a growing proportion of the main users of the NHS – the elderly – and the increasing treatment technologies available, the NHS is not going to cope. Most technologies increase expenditure as, even if a new technology is less expensive than the treatment it replaces, more people tend to use it. As demand goes up, expenditure goes up. Thus, something has to be done. Given this background, the plans revealed in the Five Year Forward Plan this week (October 2014) are imaginative and bold. Essentially, the plan states that given growing population and technology pressures, more money is required in the NHS for current levels of service to stand still, even more if things are to improve. The estimate of how much is required to match population preferences – if real-term expenditure continues at current levels – is an additional £30 billion per year; of which they state £22 billion can be saved through productivity gains, including increased prevention and public health initiatives, leaving an £8 billion shortfall.

In reality, if real-terms expenditure is held constant over the planning period and the NHS sees the long-term productivity growth of 0.8%, then the shortfall will be around £20 billion. If the productivity gains increase to 1.5% per annum, the shortfall almost halves, to £16 billion per annum. If there are 2-3% productivity gains, then health expenditure *per person* is held constant and the shortfall of £30 billion is completely overcome. In all cases, the real-term expenditure will require new expenditure allocated to the NHS.

The level of the shortfall is therefore dependent on the degree to which there are productivity gains. But the imaginative aspect of the plan is how the productivity gains might be achieved. As well as changing information flows, to improve choices and record treatment outcomes, the NHS will have to have stronger central regulation to ensure standards of care are improved. Health care is to be patient-centred and integrated, rather than fragmented and split across different teams of providers. The form of health care provision is envisaged to be flexible and adaptable to different individuals and different circumstances. General Practitioners will be allowed to integrate forward in to the provision of specialised hospital care; and hospitals will be allowed to integrate back into provision of General Practitioner services. Community based services are to be especially supported. This enhanced structure will also support a move towards preventative care  which

targets at-risk populations and also sees an up-lift in information to improve individual health behaviour both in consumption and in the workplace. Individuals suffering from long-term chronic conditions will also be empowered to choose and improve their own treatment pathways.

What is the down-side? Two out of the three envisaged scenarios give rise to a short-fall. Not only must health expenditure be supported politically but productivity gains must be maintained. The devil is in the detail in this plan. It is not entirely clear how the productivity gains will be achieved efficiently. A lot relies on preventative medicine and public health interventions and, very importantly, on the use of new information technologies. The latter may be possible, but it is not guaranteed. It is also not entirely clear what incentives must be put in place to promote and maintain these actions. We know that, generally, health care providers react quickly to incentives, but this is not necessarily maintained over the long-run. Whether integration of patient based services is possible with some form of on-going competition is unclear. How patient-based treatments relate to payment structures is not spelt out. What is clear is that the NHS will deteriorate if nothing happens. The public funding of health care is going to suffer increased pressures. This plan attempts to maintain a largely public-funded NHS free at access for all, with an added objective of trying to improve quality to meet increasing patient preferences. The fears over privatisation could be misplaced. There may be some increased role for regulated private provision to help drive quality improvements where appropriate, but this will be marginal under these plans.

The plans are ambitious, lacking in detail but do at least put the NHS back at the centre of the public debate in a productive way.

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