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Funding the NHS: past, present and future

Since the NHS's foundation in 1948, public spending on health has outstripped the growth of the wider economy, at 3.7% per year. It now accounts for 7.3% of national income, up from around 3.5% when the NHS was founded.¹ However, over the last eight years spending growth has averaged 1.4%, and just 0.1% per year in real terms when adjusting for the age and growth of the population; lower than during any equivalent period in the NHS's history.² Over the same period, social care spending has fallen by 10%.³ Now, the government has announced that funding for the NHS will be increased by £20.5 billion, or around 3.4% per year for the next five years.⁴ The move has been greeted with scepticism. A recent analysis suggests that annual increases of 4% will be needed over the next five years to address areas of underprovision such as mental health and deliver vital modernisations to services and infrastructure, following almost a decade of underfunding.⁵ In absence of clearly defined spending requirements, any such analysis offering a benchmark for future funding needs must be treated with caution. However, it is clear that the government's 70th anniversary 'birthday present' to the NHS leaves some important questions unanswered. The NHS faces complex and wide-ranging challenges aside from paying for front-line clinical services. Tellingly, any mention of additional funding for social care or public health, both subject to major cuts in recent years, was conspicuous by its absence. While the boost in funding will help to secure the immediate future of the NHS, the ultimate goal of better population health requires a more radical shift in thinking.

The government's initial claim that the increases would be paid for by a 'Brexit dividend' has been swiftly disputed. After almost a decade of austerity, there is little scope for reallocating resources from other priorities, and additional funds must be raised either by borrowing or, as the Prime Minister has acknowledged, raising taxes. In order to retain its redistributive character, the most equitable means of raising additional money for the NHS would be to increase income taxes, which are progressive compared to VAT and national insurance.⁶ This may seem unpalatable, given the Conservatives' manifesto commitment not to raise income taxes. However, there is evidence that the public would support such a move. Despite its challenges, the NHS remains a source of considerable national pride, if not a pillar of national identity. The 2016 British Social Attitudes survey found that

¹ Institute for Fiscal Studies and the Health Foundation. Securing the future: funding health and social care to the 2030s [Internet]. May 2018. Available from <https://www.ifs.org.uk/uploads/publications/comms/R143.pdf>

² Ibid.

³ Ibid.

⁴ Government press release: Prime Minister sets out 5-year NHS funding plan [Internet]. 2018. Available from: <https://www.gov.uk/government/news/prime-minister-sets-out-5-year-nhs-funding-plan>

⁵ Institute for Fiscal Studies (2018)

⁶ Pope T, Miller H. The changing composition of UK tax revenues [Internet]. 2016. Available from: <https://www.ifs.org.uk/publications/8244>

⁷ Mossialos E, Dixon A, McKee M. Paying for the NHS : First decide how much we are willing to pay, then think about how to collect it. *BMJ*. 2000 Jan 22; 320(7229): 197–198.

61% of respondents would support tax rises to bolster the service, albeit only 26% would themselves be willing to pay more.⁸ A third of respondents would support the introduction of a hypothecated tax for the NHS, which could help to bring long-term certainty over resources. There is also evidence of strong public support for increased investment in our inequitable and under-resourced system of social care. The government has deferred its long-awaited Green Paper on this question until the autumn.⁹

For some, the government's parsimony is the correct response to the NHS's fundamental problem: that it is bureaucratic and inefficient; a 'bottomless pit' which will absorb any additional funding, and then declare it insufficient.¹⁰ However, the evidence suggests that the NHS is no more expensive than the health systems of comparable economies and in recent years has been more productive than the rest of the economy.¹¹ The rise in health spending as a proportion of national income in the UK over the past 40 years is in line with trends in most high-income OECD countries. At 7.3%, public spending on health as a share of GDP is actually lower than that in Austria, Denmark, Belgium, Norway, the Netherlands, Canada, Japan, France, Sweden, Germany, Switzerland and the United States, which employ a variety of funding mechanisms.¹² Such comparisons say little of health system performance, but do cast doubt on the notion that alternatives to taxation funding hold the key to containing costs.

The NHS has largely succeeded in meeting the demands placed on it, despite budgetary constraints. However, the opportunity to find further savings within its existing organisation without compromising quality or access to care is limited.¹³ Both wages and the national tariff for health services have been suppressed, while capital investment has fallen drastically. Providers have been set tough financial targets, incentivised with the promise of additional money, nominally intended to support transformation.¹⁴ By necessity, significant efficiencies have been found, some of which may have displaced demand to elsewhere in the system, or left needs unmet. While some of these effects are difficult to detect, others, such as last winter's mass postponement of non-urgent elective

⁸ Robertson R, Appleby J, Evans H. Public satisfaction with the NHS and social care in 2016. Results and trends from the British social attitudes survey. London: King's Fund. 2017.

⁹ The Health Foundation and the King's Fund. A fork in the road: Next steps for social care funding reform [Internet]. 2018. Available from: <https://www.health.org.uk/publication/fork-road-next-steps-social-care-funding-reform>

¹⁰ Charlesworth A, Bloor K. 70 years of NHS funding: how do we know how much is enough?. *BMJ*. 2018 Jun 14;361:k2373.

¹¹ Institute for Fiscal Studies (2018)

¹² OECD. Fiscal Sustainability of Health Systems Bridging Health and Finance Perspectives [Internet]. 2015. Available from: <https://www.oecd.org/gov/budgeting/Fiscal-Sustainability-of-Health-Systems-Policy-Brief-ENG.pdf>

¹³ Institute for Fiscal Studies (2018)

¹⁴ The King's Fund. Understanding NHS financial pressures. How are they affecting patient care [Internet]. 2017. Available from:

https://www.kingsfund.org.uk/sites/default/files/field/field_publication_file/Understanding%20NHS%20financial%20pressures%20-%20full%20report.pdf

procedures, are less so.¹⁵ Savings have partially been achieved by the diversion of maintenance budgets and investment capital to meet day-to-day running costs, with the result that a £5.6bn maintenance deficit had accrued by 2016/17, including £1bn of ‘high risk’ repairs¹⁶. Almost half of all NHS providers ended the last financial year in deficit.¹⁷ There are significant numbers of posts unfilled, particularly in nursing, and a recently announced pay increase of £4.2bn over three years must also be paid for.¹⁸ These liabilities will absorb a significant proportion of the new funding.

If additional savings will not be easy to find, it is widely assumed that significant productivity and performance improvements will rely on changes to the way in which services are organised and coordinated. Accordingly, NHS England has now been asked to produce a report setting out how it intends to increase productivity, address workforce shortages, and eliminate unwarranted variations in care. This will likely build on the agenda set out in NHS England’s Five Year Forward View, which set out a vision for the adoption of new care models and greater integration of primary, secondary and social care.¹⁹ Undoubtedly, there are major improvements to be made across the system, and programmes such as Getting It Right First Time have a vital contribution to make in reducing variation. However, the additional investment needed to facilitate large-scale transformation has been lacking. Despite promising results from some early pilots of Integrated Care Organisations, the funding and management of health and social care remain separate in England, and services remain fragmented. In any case, it is not a given that greater integration of services will reduce costs.²⁰ In the long term, productivity increases in labour intensive sectors such as health and care are bound to lag behind those in the wider economy.²²

Another route to financial sustainability could be found in reducing the overall amount of activity that takes place. However, the drivers of increasing demand seem intractable. Patients’ expectations are rising along with the costs of meeting them. The costs of drugs in the hospital sector are on an upward

¹⁵ NHS England. Operational update from the NHS National Emergency Pressures Panel [Internet]. 2018. Available from:

<https://www.england.nhs.uk/2018/01/operational-update-from-the-nhs-national-emergency-pressures-panel/>

¹⁶ Appleby J. NHS urgent facilities repairs: is your hospital on the critical list. *BMJ* 2017;359:j5479. Available from: <https://www.bmj.com/content/359/bmj.j5479>

¹⁷ King’s Fund. Trusts in Deficit [Internet]. 2018. Available from: <https://www.kingsfund.org.uk/projects/nhs-in-a-nutshell/trusts-deficit>

¹⁸ Health Education England. Facing the Facts, Shaping the Future, A draft health and care workforce strategy for England to 2027 [Internet]. 2018. Available from: <https://www.hee.nhs.uk/our-work/workforce-strategy>

¹⁹ NHS England. Next steps on the NHS Five Year Forward View [Internet]. 2017. Available from: <https://www.england.nhs.uk/publication/next-steps-on-the-nhs-five-year-forward-view/>

²⁰ McWilliams JM. Cost containment and the tale of care coordination. *New England Journal of Medicine* 2016;375(23): 2218-2220.

²¹ Mossialos, E. and Wharton, G. Integrating health and social care in England—when the sum is not greater than its parts, *BMJ* [Internet], available from: <https://blogs.bmj.com/bmj/2018/04/17/integrating-health-and-social-care-in-england-when-the-sum-is-not-greater-than-its-parts/>

²² Marino A, Morgan D, Lorenzoni L, James C. Future trends in health care expenditure: A modelling framework for cross-country forecasts. *OECD Health Working Papers*. 2017 Jun 21(95).

trajectory and the wages of doctors and nurses must continue to rise in order to sustain the workforce.^{23,24} The population is growing and while people are living longer, people are spending longer in poor health, and major health inequalities persist.²⁵ On this score, the picture is daunting. The UK has high levels of income inequality, with a ‘residual’ welfare state offering minimal protections in terms of housing, income support, unemployment benefits and pensions.^{26,27} There are substantial pro-rich inequalities in utilisation of services, particularly of some forms of preventive and non-medical personal care.²⁸ The NHS is unique in the protections it provides, but it carries a disproportionate burden.

The alternative to increasing funding is to allow the NHS to enter a state of ‘managed decline’ and, ultimately, the entrenchment of a two-tier health system in which those who can pay for better, do. The government recognises that this is a position which is unlikely to win votes, and has opted to increase the health budget at a time when the debate on the future of the NHS has occupied more column inches than ever before. However, the announcement does not mark a significant shift in health and care policy away from the position that has prevailed since 2009/10. Given continuing public support for the current system of funding by general taxation, the question of how to raise extra money will be less challenging than determining how much is justified, and how to spend it to best effect.²⁹ Looking ahead, the government has stated that its Green Paper on social care reform in England will be developed in tandem with NHS England’s plan for the future direction of the health system. This presents a rare opportunity to address issues across both health and social care, but ultimately the sustainability of the system is about more than pounds and pence, new delivery models and better joined-up services; it will require concerted action on the wider social determinants of health.

²³ The King’s Fund. The rising cost of medicines to the NHS [Internet]. 2018. Available from: <https://www.kingsfund.org.uk/sites/default/files/2018-04/Rising-cost-of-medicines.pdf>

²⁴ UK Parliament. House of Lords Select Committee on the Long-term Sustainability of the NHS. Report of session 2016–17 the long-term sustainability of the NHS and adult social care [Internet]. 2017. <https://publications.parliament.uk/pa/ld201617/ldselect/ldnhssus/151/151.pdf>

²⁵ Marmot M, Allen J, Bell R, Bloomer E, Goldblatt P. WHO European review of social determinants of health and the health divide. *The Lancet*. 2012 Sep 15;380(9846):1011-29.

²⁶ OECD. Understanding the Socio-Economic Divide in Europe [Internet]. 2017. Available from: <http://www.oecd.org/els/soc/cope-divide-europe-2017-background-report.pdf> (accessed 5 April 2017).

²⁷ Esping-Andersen G. *The three worlds of welfare capitalism*. Cambridge, UK: Polity Press, 1990.

²⁸ Wenzl M, McCuskee S, Mossialos E. Commissioning for equity in the NHS: rhetoric and practice. *Br Med Bull* 2015; 115: 5–17.

²⁹ Mossialos E, McGuire A, Anderson M, Pitchforth E, James A, Horton R.

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