

Chart update, May 2015

**NHS Finances –
The challenge all
political parties
need to face**

Charts and tables

NHS Finances briefing – May 2015 update

- In January 2015, we published a series of briefings on NHS finances. These included analyses of: historical trends, international comparisons, current NHS spending and future projections.
- Since the publication of these briefings, there have been some updates to the information we used. We have updated the charts in the presentation to reflect the most up-to-date figures available.
- The majority of charts present data in real terms (2014/15 prices). These figures have been updated using the Treasury’s most recent GDP deflators (March 2015). However, the revisions are small and there are no major changes in the findings.
- The new historical trends charts also reflect updates to UK public and private spending, productivity and overall TME (total managed expenditure) estimates.
- The NHS funding projections have also been updated to include a crude projection for community health services

Summary of updates

The table below provides a short summary of the updates made to the charts in each of the briefings.

Title	Updates
Briefing: NHS Finances – The challenge all political parties need to face	March 2015 GDP deflator (HM Treasury) New projections of NHS funding pressures, including community health services
Funding overview: Historical trends in the UK	March 2015 GDP deflator (HM Treasury) UK public and private health spending (ONS) Productivity (ONS) Total Managed Expenditure (IFS)
Funding overview: International comparisons	No change
Funding overview: Current NHS spending in England	March 2015 GDP deflator (HM Treasury)
Funding overview: NHS funding projections	New projections of NHS funding pressures, including community health services

The following slide sets out the updates in more detail.

Details of the May 2015 updates

Historical trends and current NHS spending: New GDP deflators

- The changes due to the latest GDP deflator (*GDP deflators at market prices, and money GDP: March 2015 (ONS Quarterly National Accounts)*) are minor. For example, real terms spending on health in the UK in 2013/14 (2014/15 prices) is now estimated at £131.7bn, compared to £132.2bn in the January briefing. In most cases these changes are undetectable in the charts, given the level of detail presented.
- The overall trends remain unchanged.

Historical trends (Figure 3): Public spending on health in the UK, as a percentage of total public spending

- New figures for Total Managed Expenditure (TME) were released by the Institute for Fiscal Studies in April 2015 (*Fiscal facts: spending by function*). These figures are slightly higher than the previous estimates for years 1963/64 onwards.
- In the January briefing, we used the latest PESA data to estimate TME for the period 2009/10 – 2013/14. For this update, we have used the IFS TME estimates, which are based on more recent ONS data, to estimate total public spending for the entire time period.
- The updated figures mean that UK public spending on health, as a percentage of total public spending, is slightly lower for years 1963/64 onwards than was shown in the January briefing. However, this change is minor (eg 17.9% vs 18.1% in 2013/14) and is not easily detectable in figure 3, apart from a smoother increase in recent years.
- Over time, the percentage of total UK government spending devoted to health has risen, from 9.3% in 1949/50 to 17.9% in 2013/14.

Historical trends (Figure 5): UK health care productivity

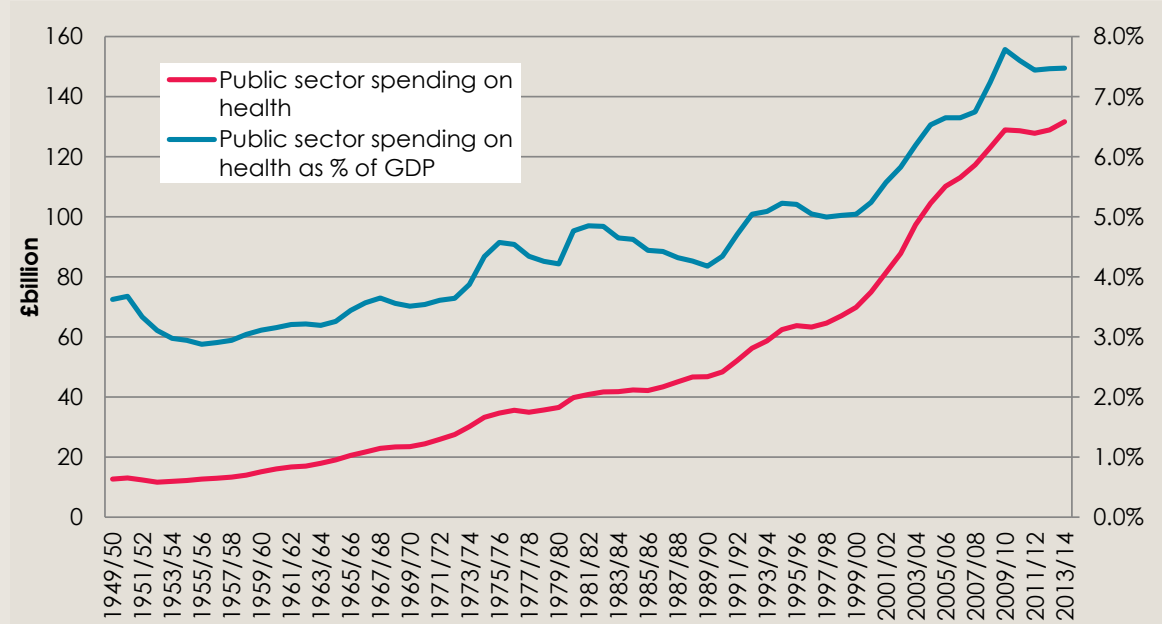
- The Office of National Statistics has released revised estimates of UK health care productivity, including new figures for 2011 and 2012. These figures show productivity growth in 2010 to 2012, with a large increase of 3.5% in 2011 and a smaller increase of 0.9% in 2012.
- ONS now estimates that productivity has increased by a yearly average of 0.8% between 1995 and 2012 (compared to 0.4% between 1995 and 2010 in the January briefing).

Historical trends (Figure 6): Private health care in the UK

- The Office of National Statistics has released revised estimates of private and public spending on health in the UK, including new figures for 2013 (*Expenditure on healthcare in the UK, 2013*). Although the trends outlined in the January briefing remain unchanged, all ONS estimates have been revised, primarily as a result of changes to bring the UK accounting in line with international standards.
- The updated analysis show:
 - Private health spending grew on average by 5.0% a year in real terms between 1997 and 2008, from £15.7bn to £26.9bn (2014/15 prices). However, as a proportion of total UK health spending, the same period saw an overall drop (from 19.7% in 1997 to 18.4% in 2008), as spending in the public sector increased at a faster rate.
 - From the start of the economic downturn in 2008 to 2013, private spending fell on average by 1.1% a year in real terms, to £25.5bn in 2013 according to the latest estimates.
 - In 2013, private spending made up 16.7% of overall health care spending – the second lowest proportion in more than 15 years. Although the fall in private spending is less severe than according to the previous estimates, the trend is still the same, with private spending more impacted by the financial crisis than public spending.

Briefing: NHS Finances – The challenge all political parties need to face

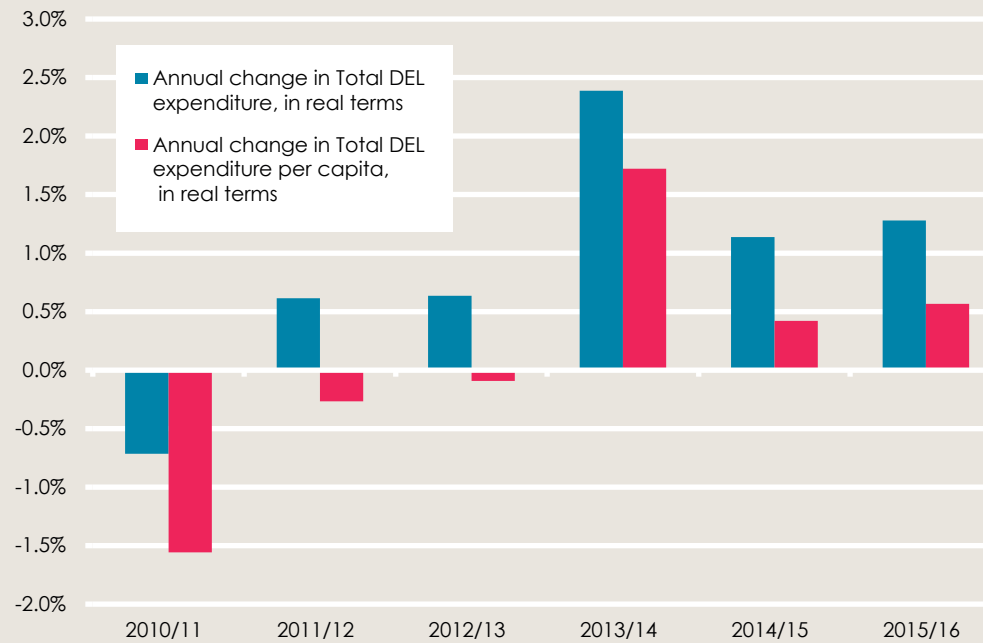
Figure 1: Public spending on health in the UK, in real terms and as a percentage of national income (GDP) (2014/15 prices)



Sources: Author's calculations, using data from: *Public Sector Statistical Analyses 2014* (HM Treasury), *Fiscal Facts: Spending by function* (Institute of Fiscal Studies), *OHE Guide to UK Health and Health Care Statistics 2013* (Hawe E and Cockcroft L), *UK National Accounts – The Blue Book* (Office for National Statistics), *Quarterly National Accounts* (Office for National Statistics), *GDP deflators at market prices, and money GDP* (HM Treasury).

Note: GDP deflators for 1949/50 to 1954/55 were estimated by using the GDP deflators available for the calendar years 1949 to 1954, calculating the yearly change in GDP deflator for these years and applying them to the fiscal years.

Figure 2: The annual change in English NHS spending since 2009/10



Source: *Public Sector Statistical Analyses 2014* (HM Treasury); *Autumn Statement 2014* (HM Treasury); ONS population estimates.

Table 1: NHS England estimates of funding pressures facing the NHS in England by the end of the decade

Annual productivity growth assumption	Funding requirement in 2020/21 above inflation
0.8 per cent a year	£21 billion
1.5 per cent a year	£16 billion
2-3 per cent a year	£8 billion

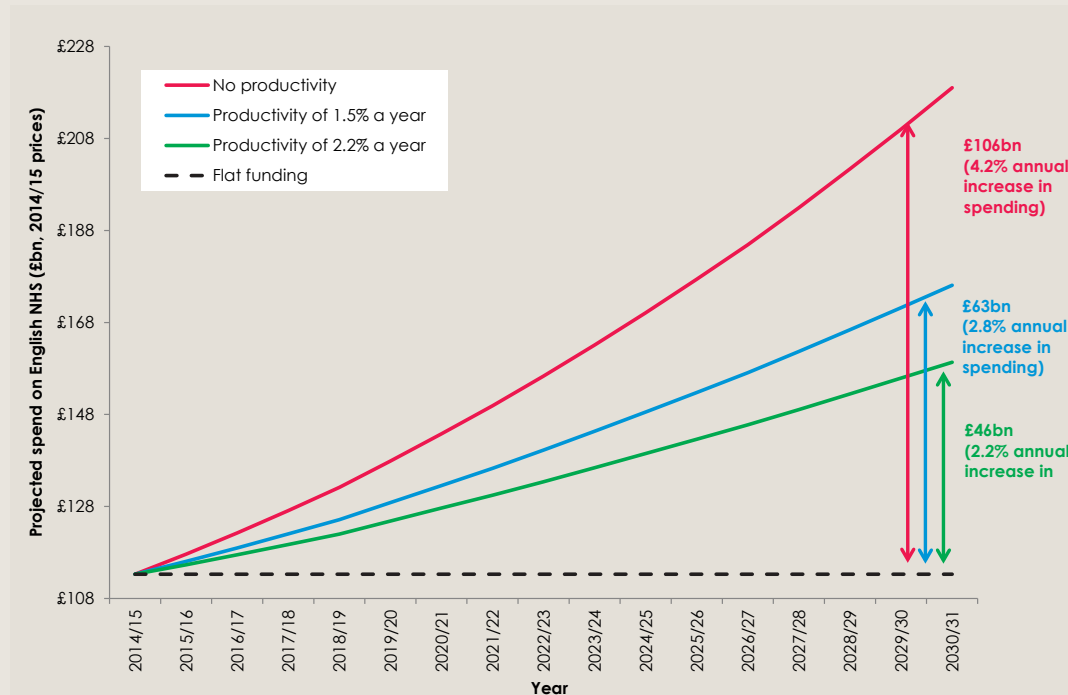
Table 2: Health Foundation projected funding gap for English NHS in 2030/31 under three assumptions for productivity

Annual rate of productivity growth	Average annual increase in English NHS spending	NHS England Estimate 2020/21	Health Foundation estimated funding gap in 2030/31:		
			Budget stays flat in real terms	Budget rises by 1.5% a year in real terms	Budget rises by 2.3% a year in real terms
0.0%	4%	£30bn	£106bn	£75bn	£56bn
1.5%	3%	£16bn	£63bn	£32bn	£13bn
2.2%	2%	£8bn	£46bn	£16bn	£4bn surplus

Source: Roberts A. *Funding overview: NHS funding projections*. London: The Health Foundation, 2015.

Please note: The May 2015 projections include community health services, which the January release did not.

Figure 3: Funding pressures on English NHS in 2030/31

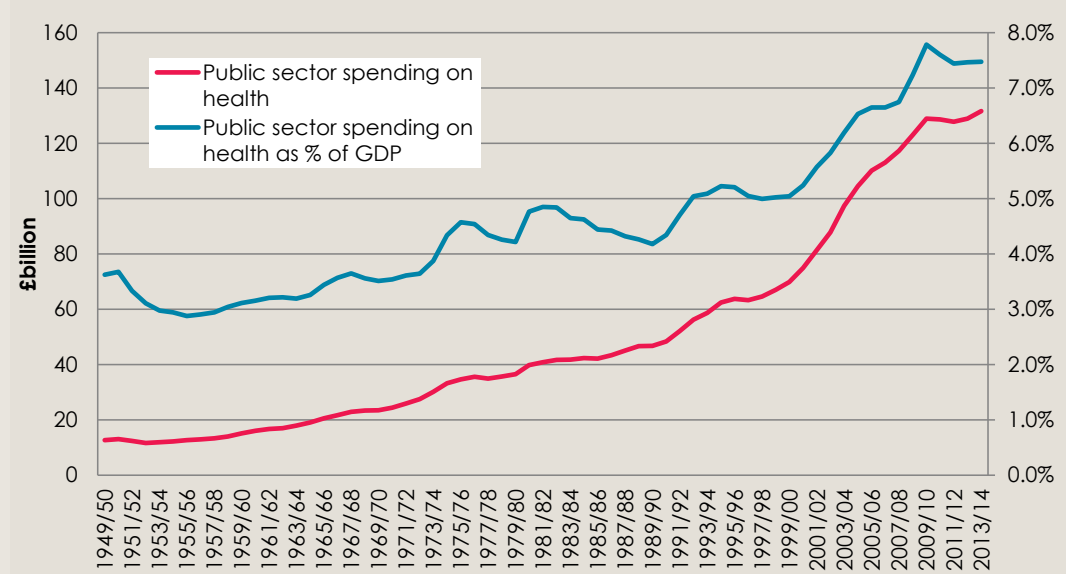


Source: Roberts A. *Funding overview: NHS funding projections*. London: The Health Foundation, 2015.

Please note: The May 2015 projections include community health services, which the January release did not.

Funding overview: Historical trends in the UK

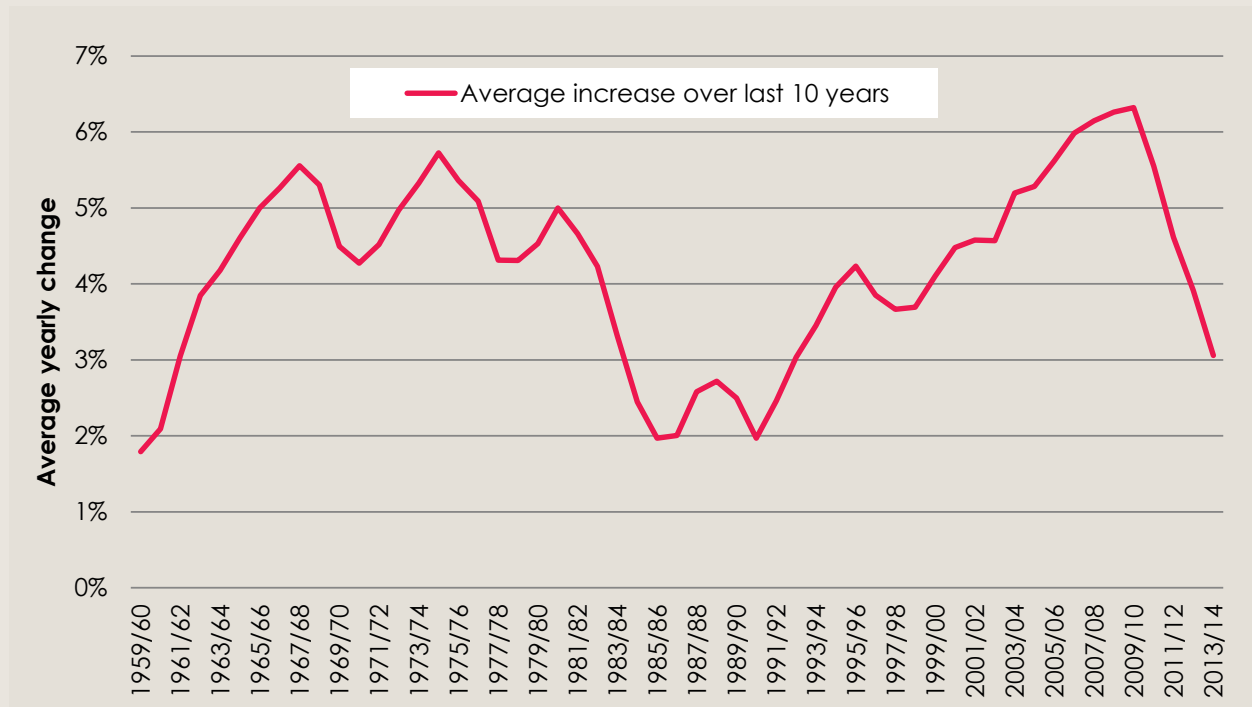
Figure 1: Public spending on health in the UK, in real terms and as a percentage of gross domestic product (2014/15 prices)



Source: Author's calculations, using data from: Public Sector Statistical Analyses 2014 (HM Treasury), Fiscal Facts: Spending by function (Institute of Fiscal Studies), OHE Guide to UK Health and Health Care Statistics 2013 (Office of Health Economics, Hawe E and Cockcroft L), UK National Accounts – The Blue Book (Office for National Statistics), GDP deflators at market prices, and money GDP (HM Treasury).

Note: GDP deflators for 1949/50 to 1954/55 are estimated.

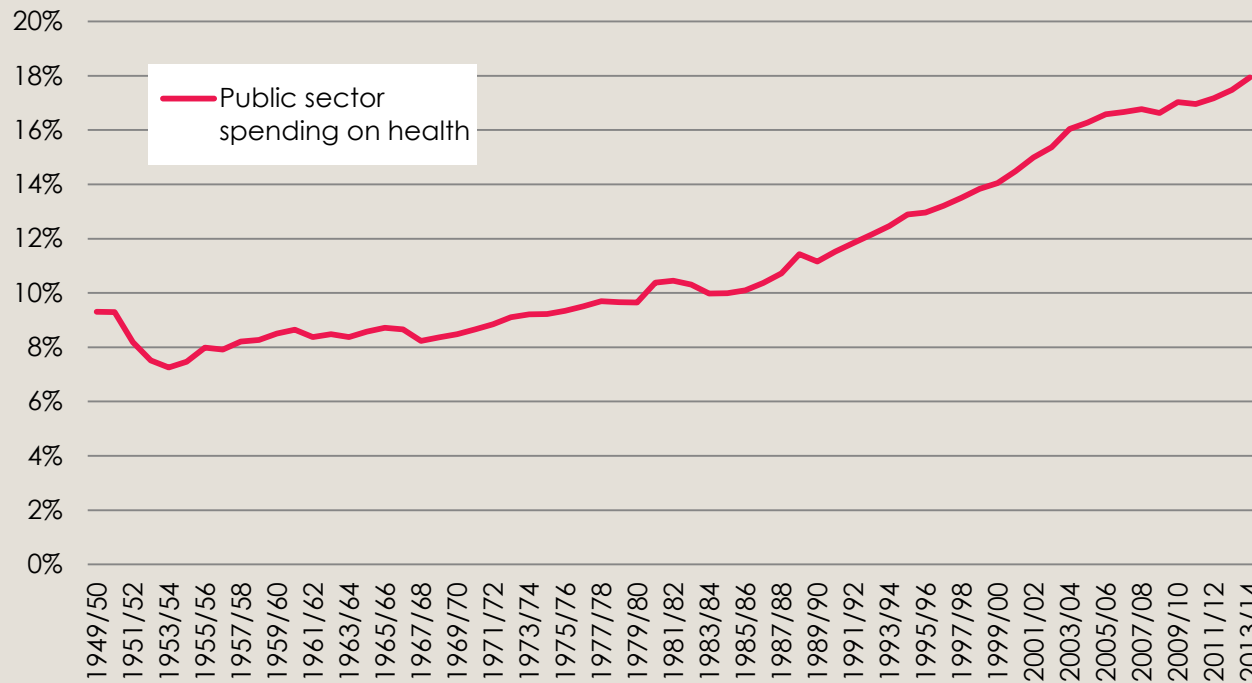
Figure 2: Rolling 10-year average yearly change in UK health spending (2014/15 prices)



Sources: Author's calculations, using data from: Public Sector Statistical Analyses 2014 (HM Treasury), Fiscal Facts: Spending by function (Institute of Fiscal Studies), OHE Guide to UK Health and Health Care Statistics 2013 (Office of Health Economics, Hawe E and Cockcroft L), UK National Accounts – The Blue Book (Office for National Statistics), GDP deflators at market prices, and money GDP (HM Treasury).

Note: GDP deflators for 1949/50 to 1954/55 are estimated

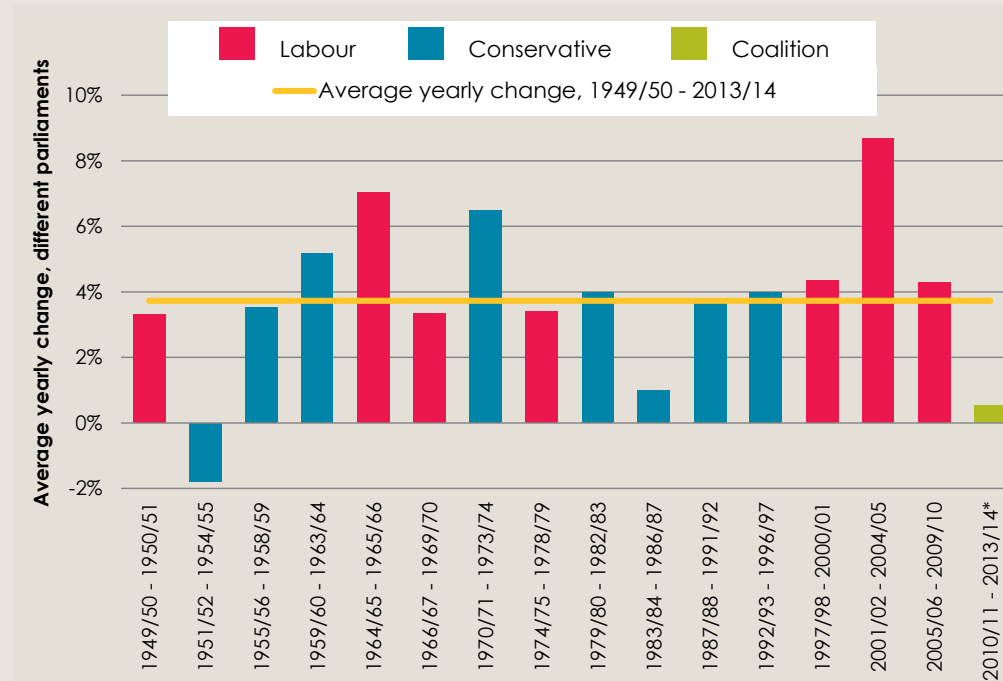
Figure 3: Public spending on health in the UK, as a percentage of total public spending



Sources: Author's calculations, using data from: Public Sector Statistical Analyses 2014 (HM Treasury), Fiscal Facts: Spending by function (Institute of Fiscal Studies), OHE Guide to UK Health and Health Care Statistics 2013 (Office of Health Economics, Hawe E and Cockcroft L), UK National Accounts – The Blue Book (Office for National Statistics), GDP deflators at market prices, and money GDP (HM Treasury).

Note: GDP deflators for 1949/50 to 1954/55 are estimated

Figure 4: Average yearly change in UK health spending over different parliaments (2014/15 prices)



Sources: Author's calculations, using data from: Public Sector Statistical Analyses 2014 (HM Treasury), Fiscal Facts: Spending by function (Institute of Fiscal Studies), OHE Guide to UK Health and Health Care Statistics 2013 (Office for Health Economics, Hawe E and Cockcroft L), UK National Accounts – The Blue Book (Office for National Statistics), GDP deflators at market prices, and money GDP (HM Treasury).

Notes:

- Date ranges shown are the years of each parliament. Average yearly change is calculated starting from the previous year.
- GDP deflators for 1949/50 to 1954/55 are estimated.
- Elections held between 1 January and 5 April of any year are counted as starting in the following fiscal year.
- Parliaments shorter than two years have been merged with a preceding or subsequent parliament with the same party in office.
- For the Labour government of 1945/46 to 1950/51, data on health spending are only available for the fiscal years 1949/50 and 1950/51.
- *UK health spending only includes outturn data (to the end of 2013/14), so does not cover the whole of the last parliament.

Table 1: UK public spending on health – comparison between different parliaments (2014/15 prices)

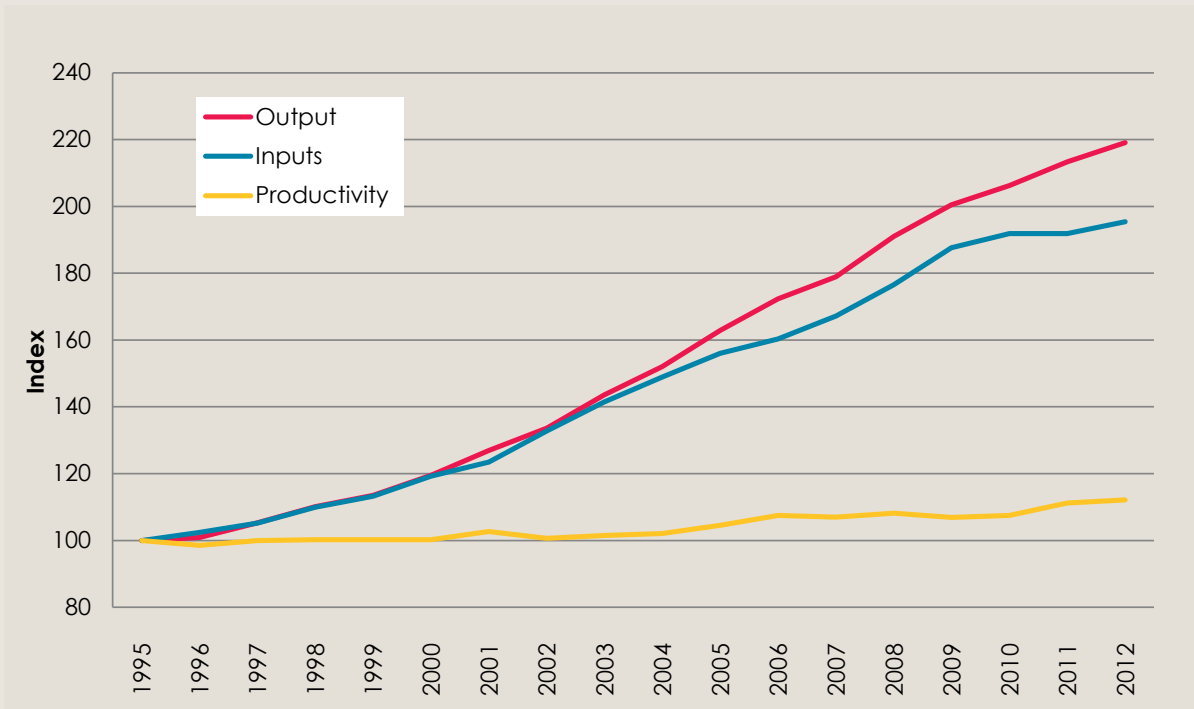
Period	Years	Average annual growth in UK NHS spending in real terms
Average over time	1949/50 – 2013/14	3.7%
Most recent parliament*	2010/11 – 2013/14	0.5%
Highest parliament	2001/02 – 2004/05	8.7%
Lowest parliament	1951/52 – 1954/55	-1.8%

Source: *Public Sector Statistical Analyses 2014* (HM Treasury), *Fiscal Facts: Spending by function* (Institute of Fiscal Studies), *OHE Guide to UK Health and Health Care Statistics 2013* (Hawe E and Cockcroft L), *UK National Accounts – The Blue Book* (Office for National Statistics), *GDP deflators at market prices, and money GDP* (HM Treasury).

Notes:

- Date ranges shown are the years of each parliament. Average yearly change during a parliament is calculated starting from the previous year.
- The estimate for the parliament 1951/52 to 1954/55 relies on our estimate of the GDP deflator.
- *UK health spending only includes outturn data (to the end of 2013/14), so does not cover the whole of the last parliament.

Figure 5: Health care output, inputs and productivity estimates for the UK, 1995-2012 (index numbers 1995=100)



Source: Public Sector Productivity Estimates: Healthcare, 2012 (Office for National Statistics).

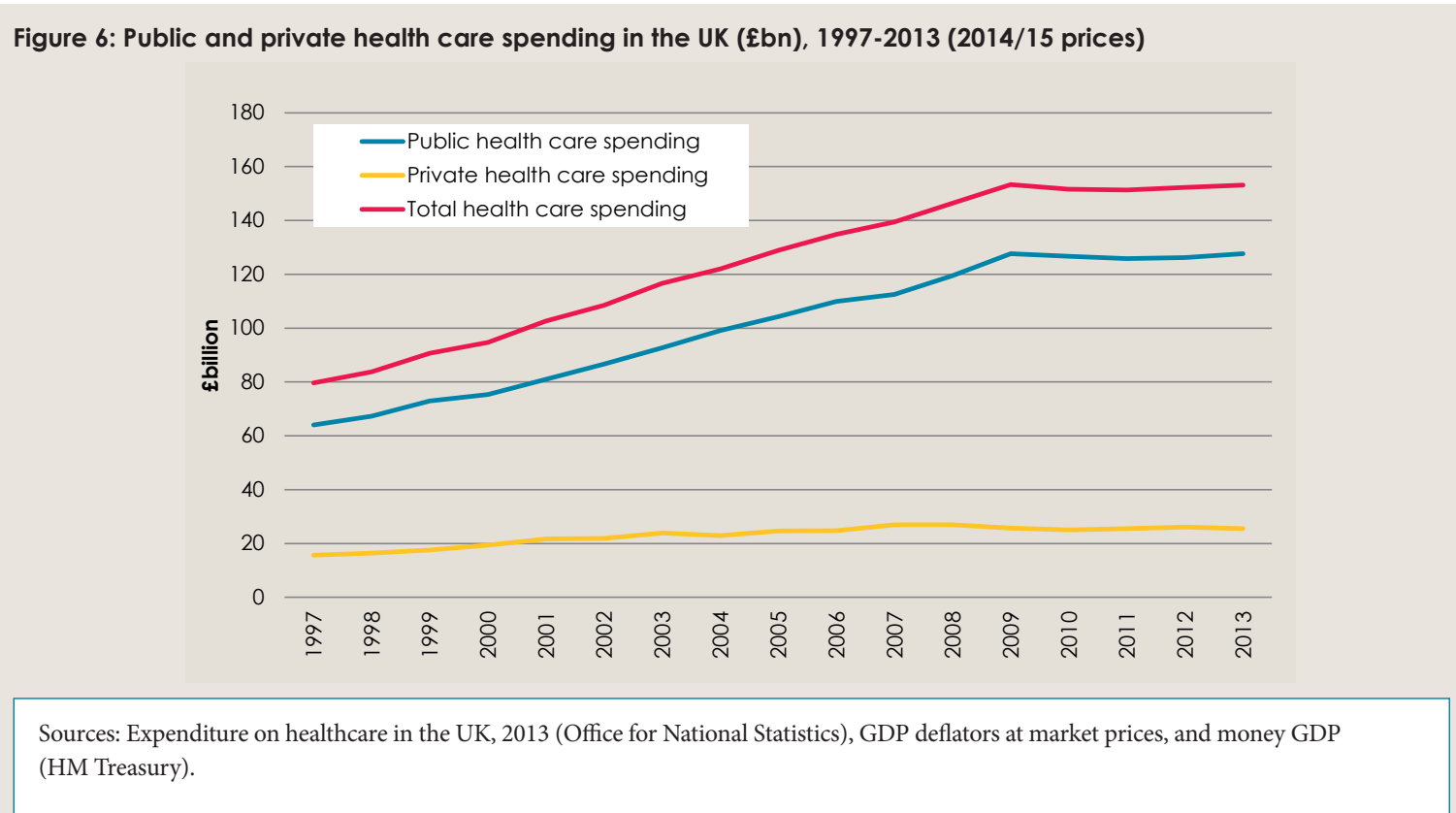
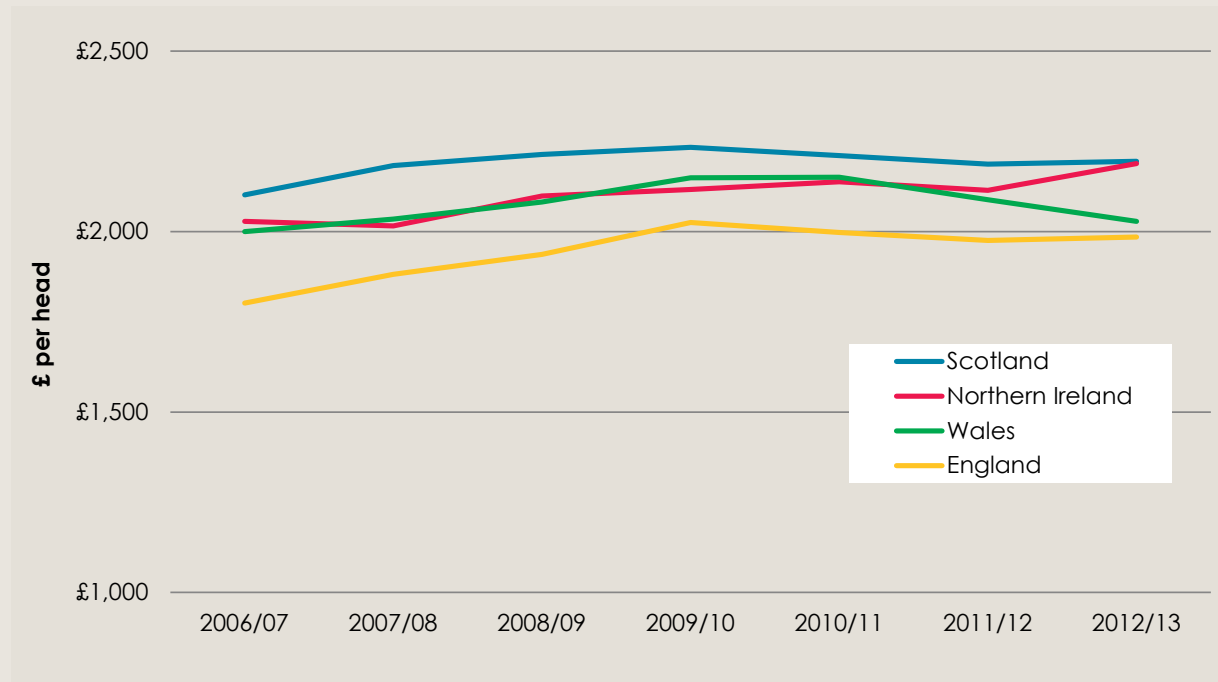
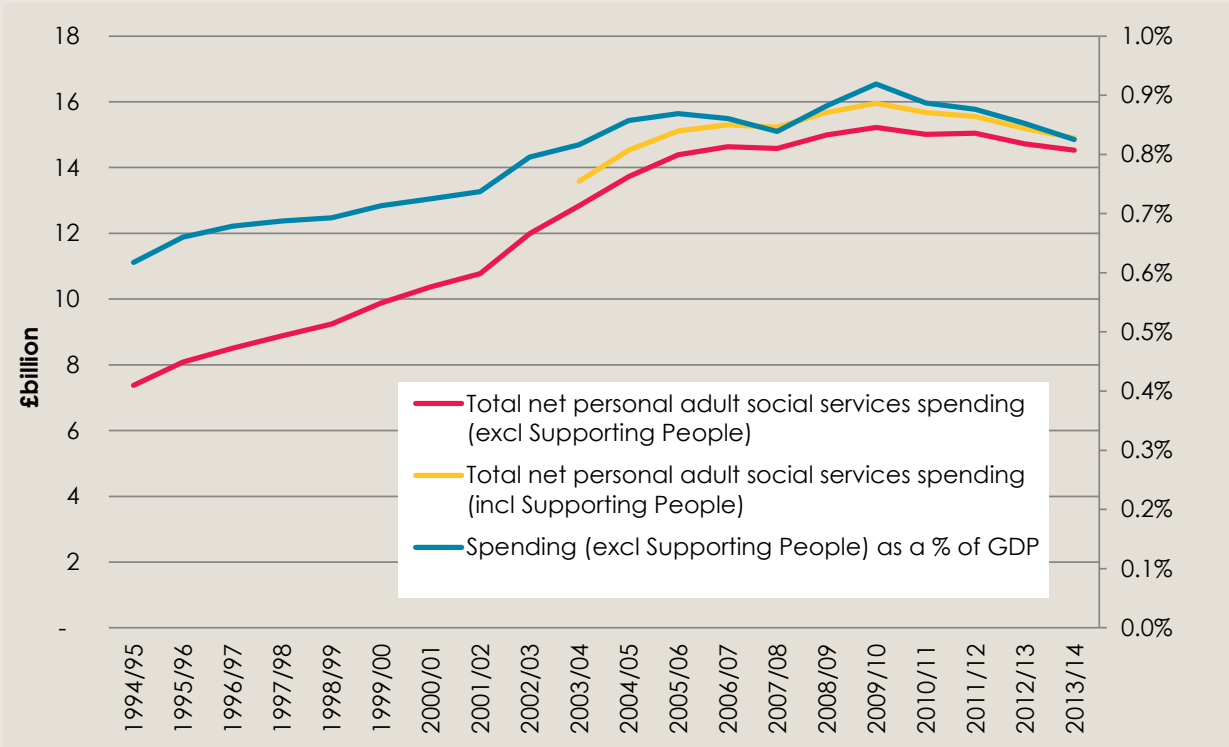


Figure 7: Identifiable spending on health in the four countries of the UK, per head (2014/15 prices)



Source: Public Sector Statistical Analyses 2012, 2013 and 2014 (HM Treasury), GDP deflators at market prices, and money GDP (HM Treasury).

Figure 8: Total net public spending on personal adult social services in England* (2014/15 prices)

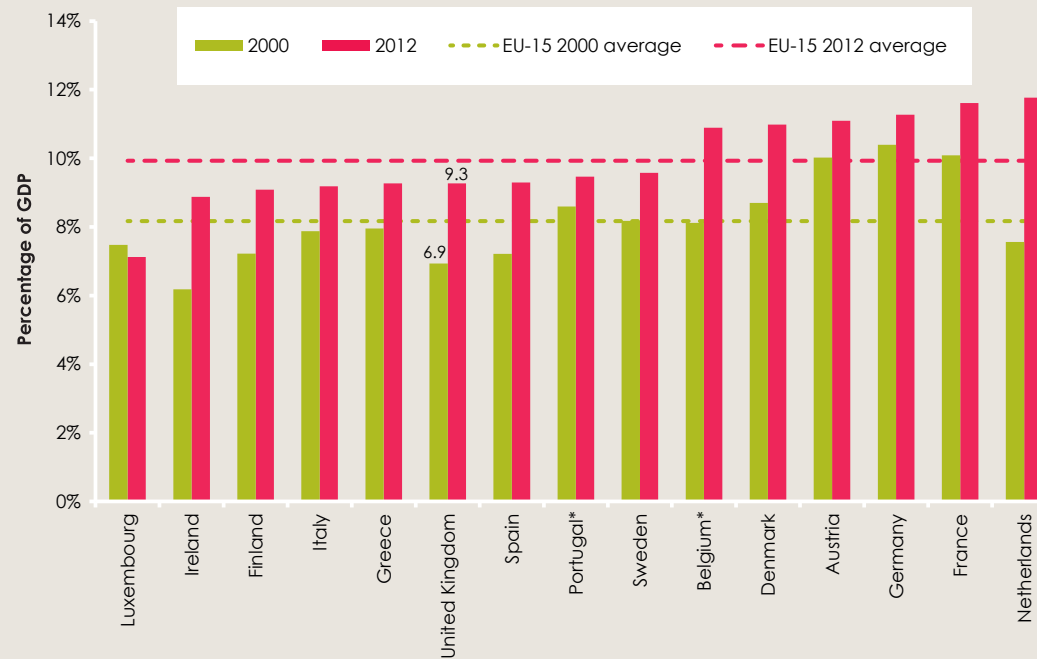


Sources: Personal Social Services: Expenditure and Unit Costs (The Health and Social Care Information Centre), GDP deflators at market prices, and money GDP (HM Treasury).

Note: Data on Supporting People costs are only available from 2003/04 onwards.

Funding overview: International comparisons

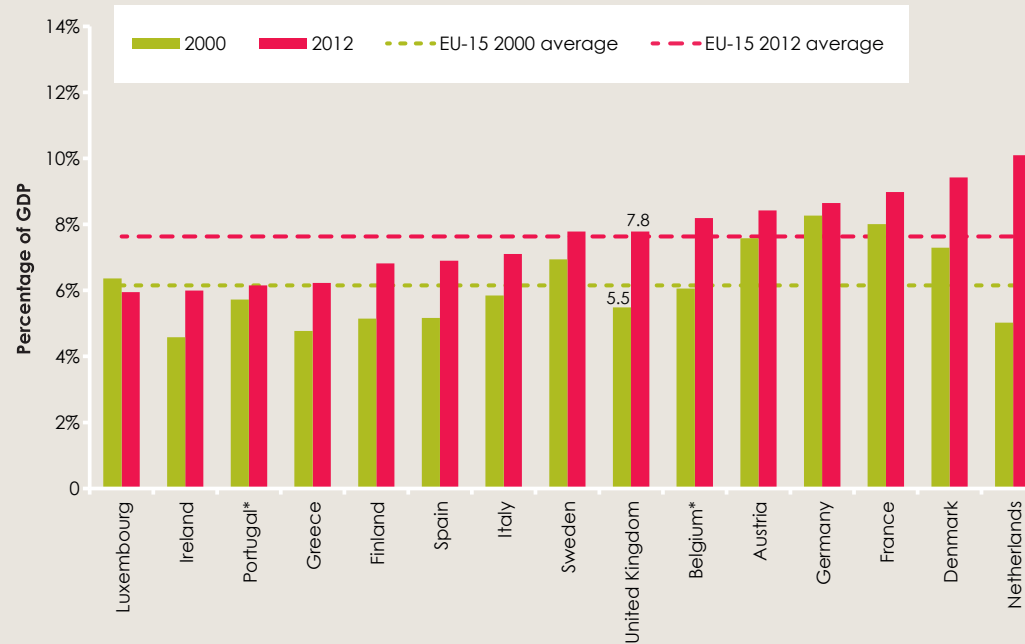
Figure 1: Total health spending as a percentage of GDP for the EU-15 countries, 2000 and 2012



Source: Organisation for Economic Co-operation and Development, *OECD Health Statistics 2014 - Frequently Requested Data*.

* Data for Portugal are current rather than total spending. Data for Belgium exclude investments.

Figure 2: Public spending on health as a percentage of GDP for the EU-15 countries, 2000 and 2012



Source: Author's calculations using data from: Organisation for Economic Co-operation and Development, *OECD Health Statistics 2014 - Frequently Requested Data*.

* Data for Portugal are current rather than total spending. Data for Belgium exclude investments.

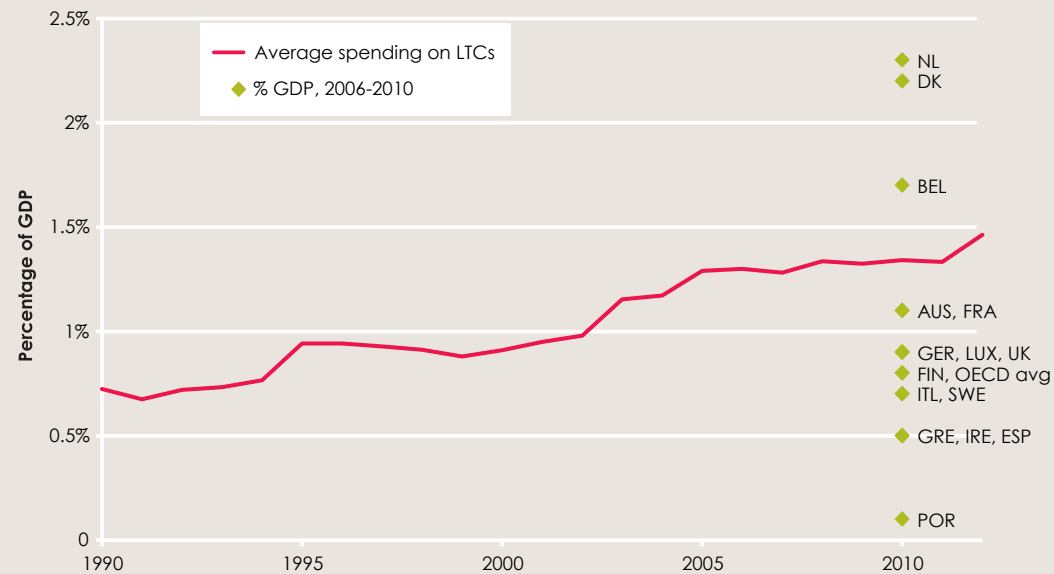
Figure 3: Average annual percentage change in health spending per head in real terms, 2008–2012



Source: Organisation for Economic Co-operation and Development, *OECD Health Statistics 2014 - Frequently Requested Data*.

* Data for the Netherlands and Portugal are current spending.

Figure 4: OECD average spending on long-term conditions as a percentage of GDP



Source: Organisation for Economic Co-operation and Development. *OECD Health Data: Health expenditure and financing: Health expenditure indicators*. OECD Health Statistics (database). OECD, 2014; de la Maisonneuve C, Oliveira Martins J. A Projection Method for Public Health and Long-Term Care Expenditures. *OECD Economics Department Working Papers*. OECD, 2013;1048.

Please note: different sources mean trend data and country data are not directly comparable.

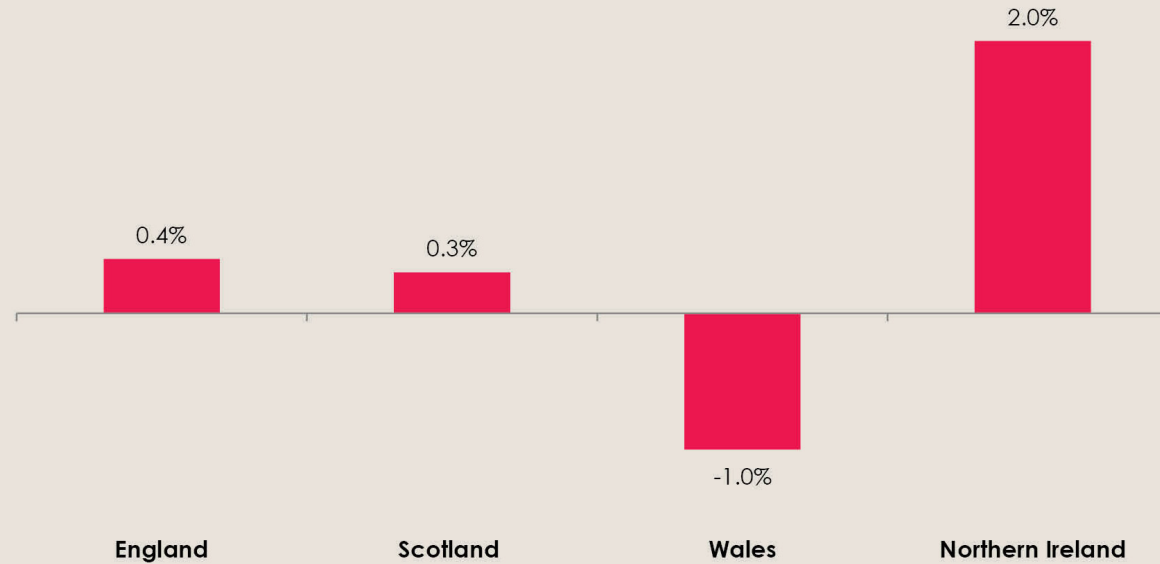
Funding overview: Current NHS spending in England

Table 1: English NHS spending from 2009/10 to 2015/16, real terms in 2014/15 prices (£bn)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Total DEL, in cash terms (£bn)	98.42	100.42	102.84	105.22	109.72	113.30	116.36
Total DEL, excluding depreciation, in real terms (£bn)	108.84	108.06	108.72	109.41	112.03	113.30	114.75
Annual change in Total DEL spending, excluding depreciation, in real terms		-0.7%	0.6%	0.6%	2.4%	1.1%	1.3%
Total DEL, excluding depreciation, per head, in real terms (£)	2,085	2,053	2,047	2,045	2,081	2,089	2,101
Annual change in Total DEL expenditure per head, in real terms		-1.6%	-0.3%	-0.1%	1.7%	0.4%	0.6%

Source: *Public Sector Expenditure Analyses 2014* (HM Treasury); *2014 Autumn Statement* (HM Treasury). Spending per head based on author's calculation using Office for National Statistics population estimates and correspondence with HM Treasury as of 13/01/2014.

Figure 1: Annual change in health funding in the UK between 2014/15 and 2015/16, in real terms



Source: 2014 Autumn Statement (HM Treasury); Correspondence with HM Treasury as of 13/01/2015; *Scottish Budget draft budget 2015-16* (Scottish Government); *Northern Ireland draft budget 2015-16* (Northern Ireland Executive); *Welsh government draft budget 2015-16* (Welsh Government).

Notes:

- Definition of what is included under 'health spending' may vary across the four countries.
- Figures for Scotland, Wales and Northern Ireland do not include extra funding announced during the Autumn Statement and is based on each country's Spending Review.
- Northern Ireland expenditure includes spending for public safety, which covers policy and legislation for fire and rescue services.

Figure 2: Additional funding outlined in the Autumn Statement 2014

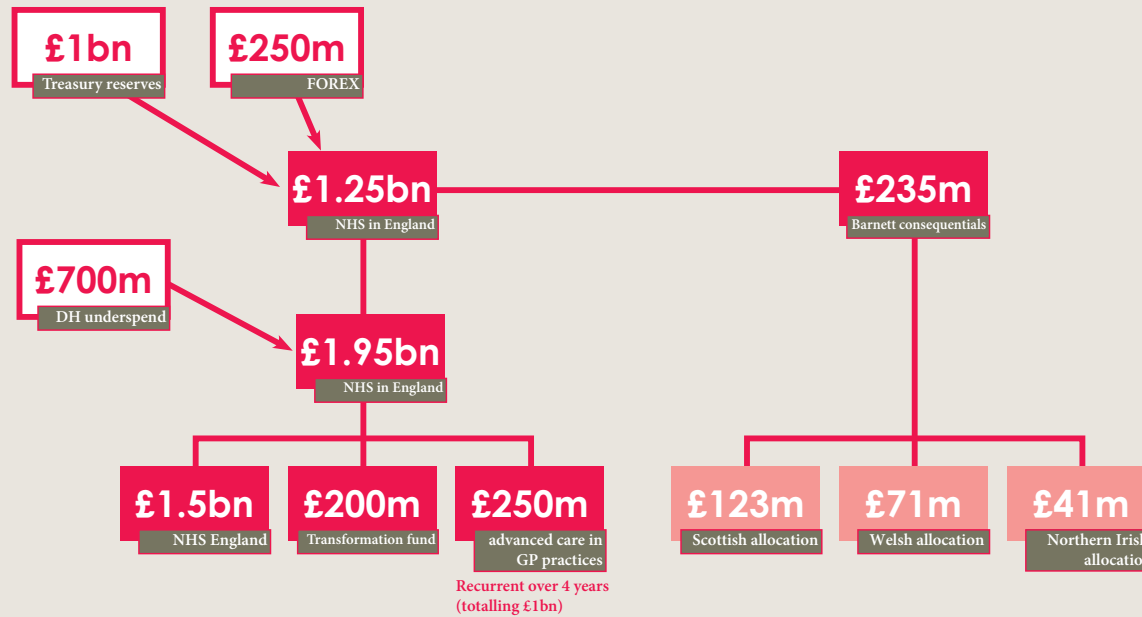
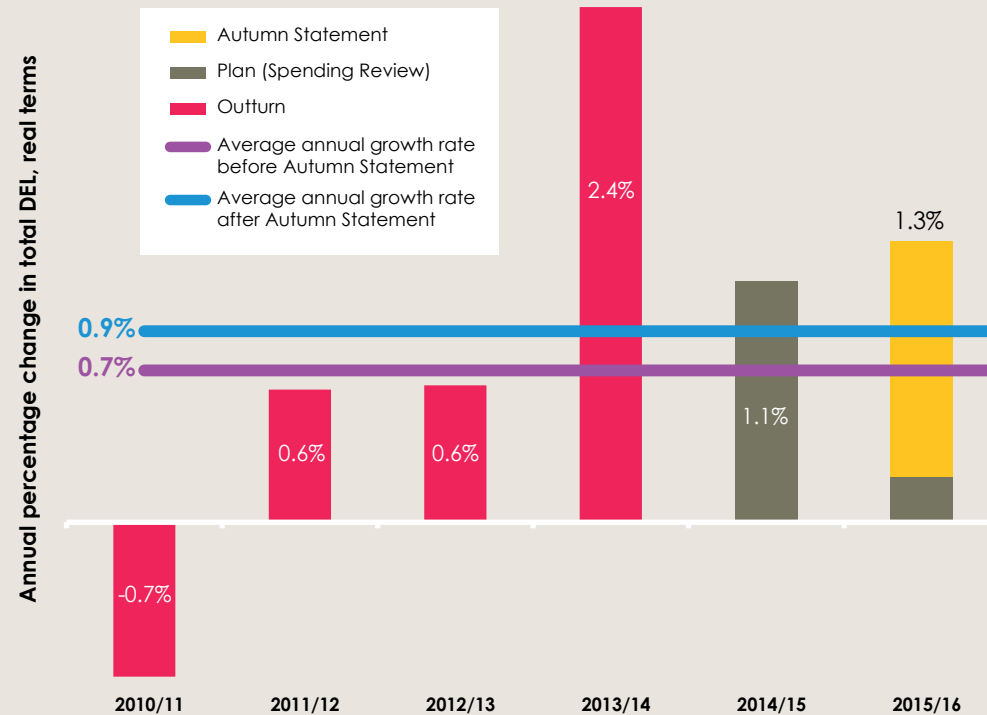


Figure 3: Annual change in health spending following the Autumn Statement 2014



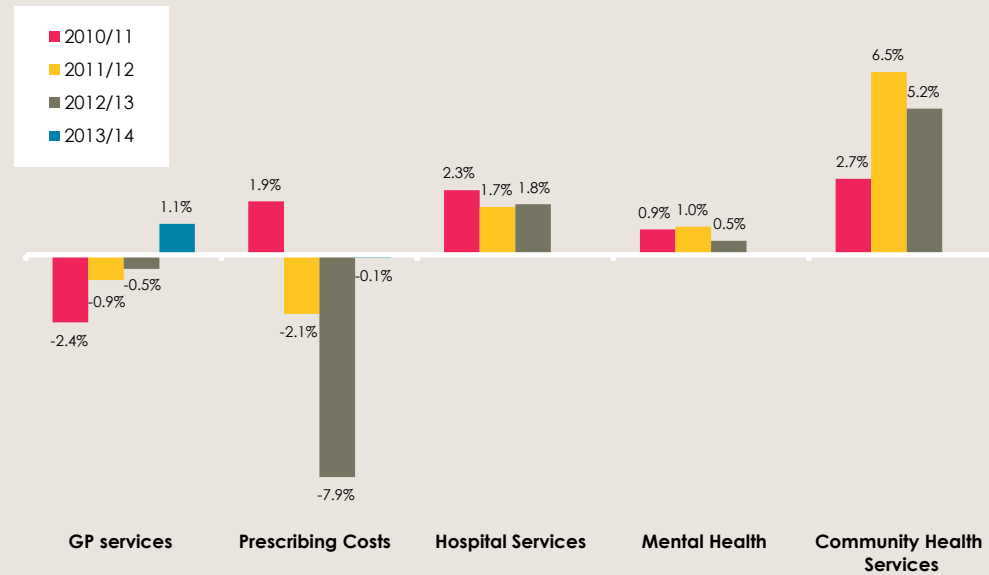
Source: Public Sector Expenditure Analyses 2014 (HM Treasury); 2014 Autumn Statement (HM Treasury).

Table 2: NHS administration cost from 2009/10 to 2015/16, real terms

	NHS Administration cost £bn	Total spend £bn	Admin cost as a percentage of total spend	Annual change
2009/10	5.57	108.83	5.1%	-
2010/11	5.84	108.06	5.4%	4.9%
2011/12	3.74	108.72	3.4%	-35.9%
2012/13	3.82	109.41	3.5%	1.9%
2013/14	3.12	112.03	2.8%	-18.4%
2014/15	4.13	113.30	3.6%	32.6%
2015/16	3.08	114.75	2.7%	-25.5%

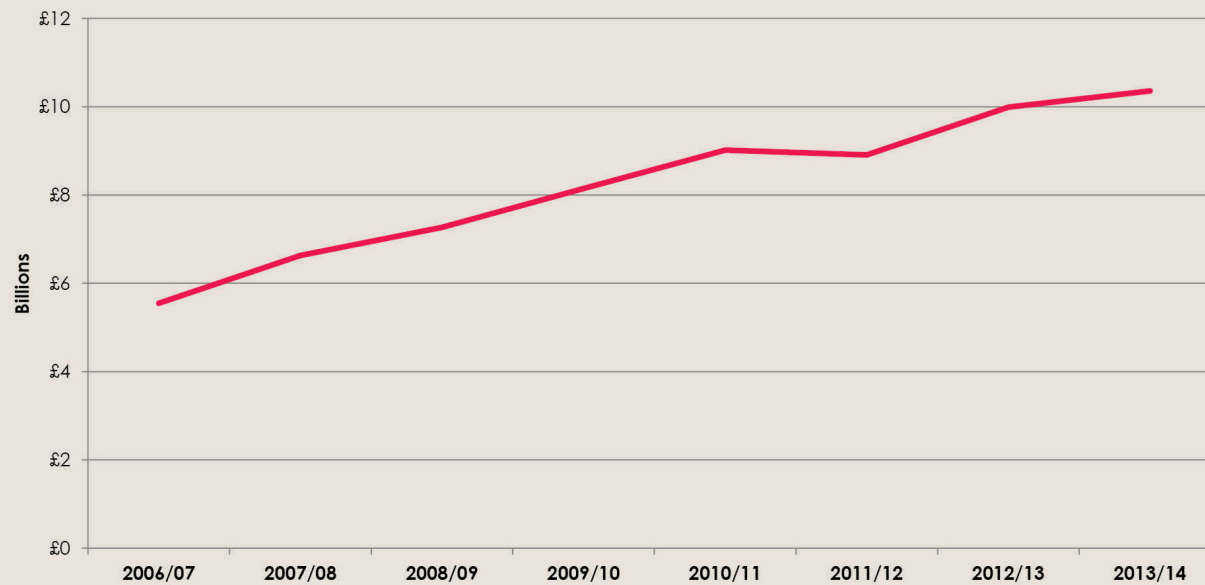
Source: *Public Sector Expenditure Analyses 2014* (HM Treasury); Correspondence with HM Treasury as on 13/01/2015.

Figure 4: Percentage change from previous year in funding for GP services and prescribing



Source: Investment in General Practice; 2009/10 to 2013/14 England, Wales, Northern Ireland and Scotland (HSCIC, 2014); Department of Health annual report and accounts 2013 to 2014 (Department of Health); PCT annual accounts 2010/11 to 2012/13.

Figure 5: Purchase of health care from non-NHS providers from 2006/07 to 2013/14, (2014/15 prices)



Source: National Health Service Commissioning Board annual report and accounts 2013/14 (NHS England); Primary care trusts' financial accounts from 2006/07 to 2012/13.

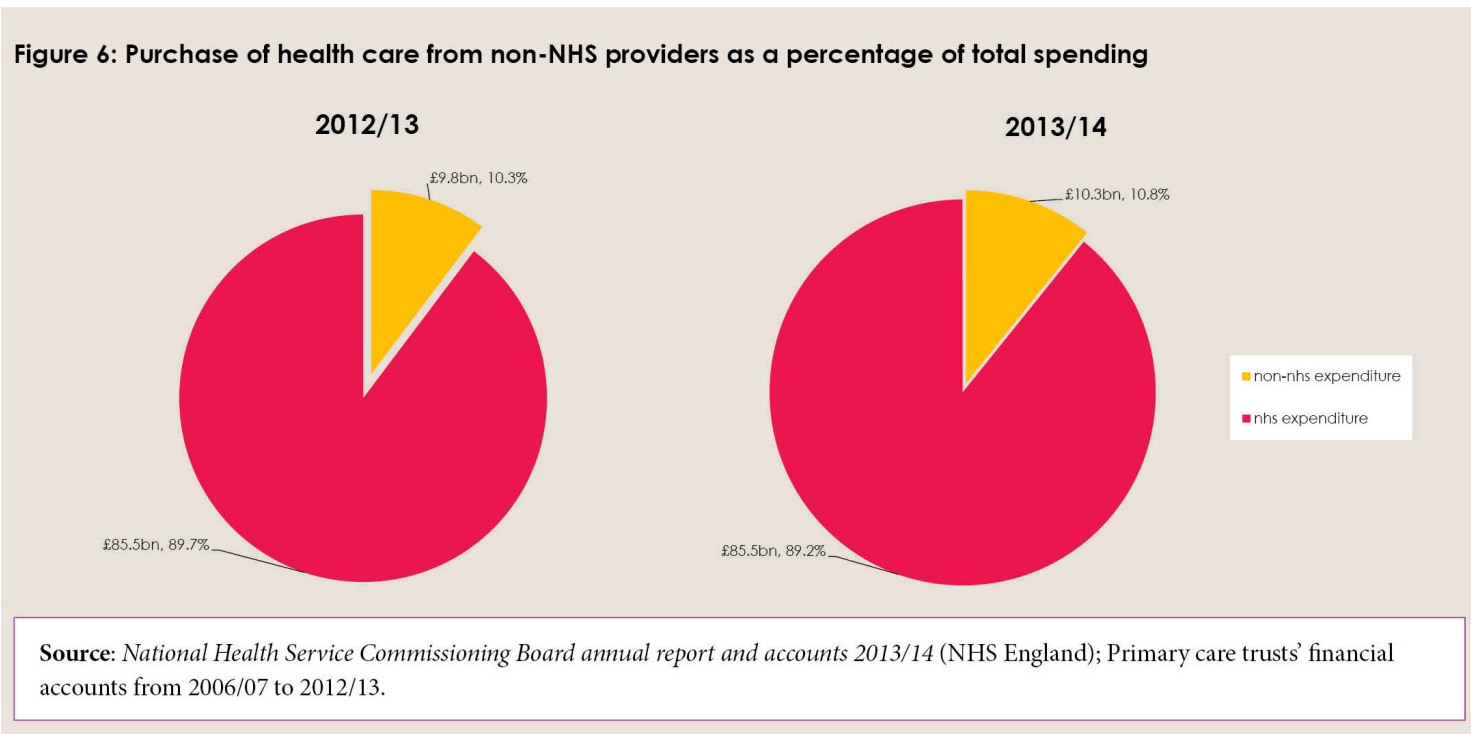
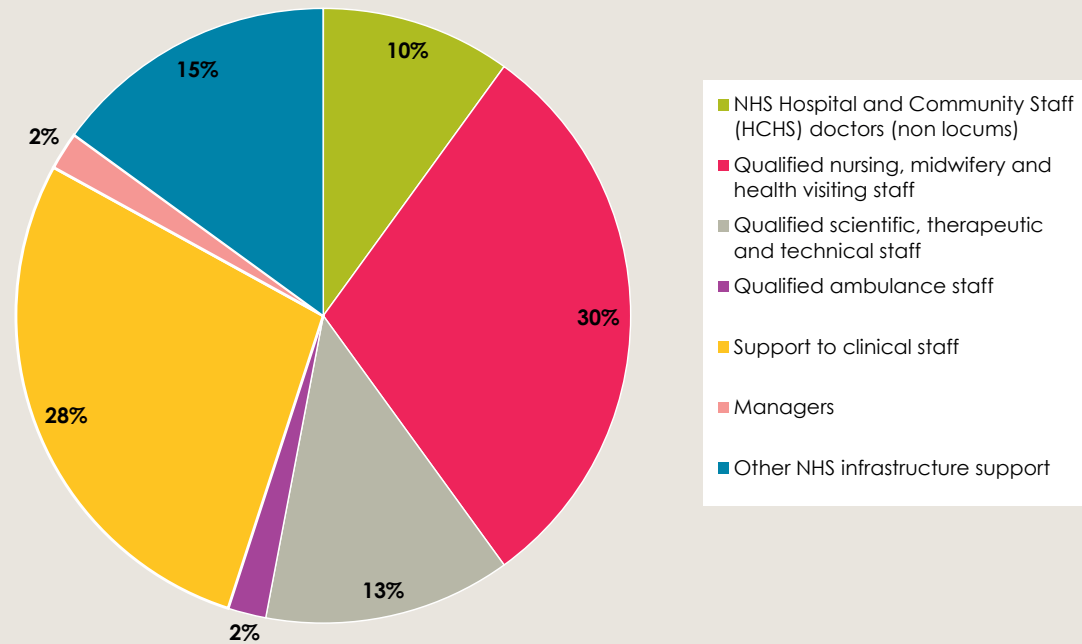


Table 3: Primary care trust (PCT) spending on community health services provided by the NHS and non-NHS providers from 2009/10 to 2012/13 (2014/15 prices)

	PCT spending on NHS bodies (£bn, % total share)	PCT spending on independent service providers (ISP) (£bn, % total share)	PCT spending on voluntary and other (£bn, % total share)	Total PCT spending for community health services (£bn)
2009/10	7.24 (82%)	0.92 (10%)	0.65 (7%)	8.81
2010/11	7.26 (80%)	1.04 (11%)	0.74 (8%)	9.04
2011/12	7.09 (74%)	1.38 (14%)	1.12 (12%)	9.59
2012/13	6.99 (69%)	1.84 (18%)	1.31 (13%)	10.14

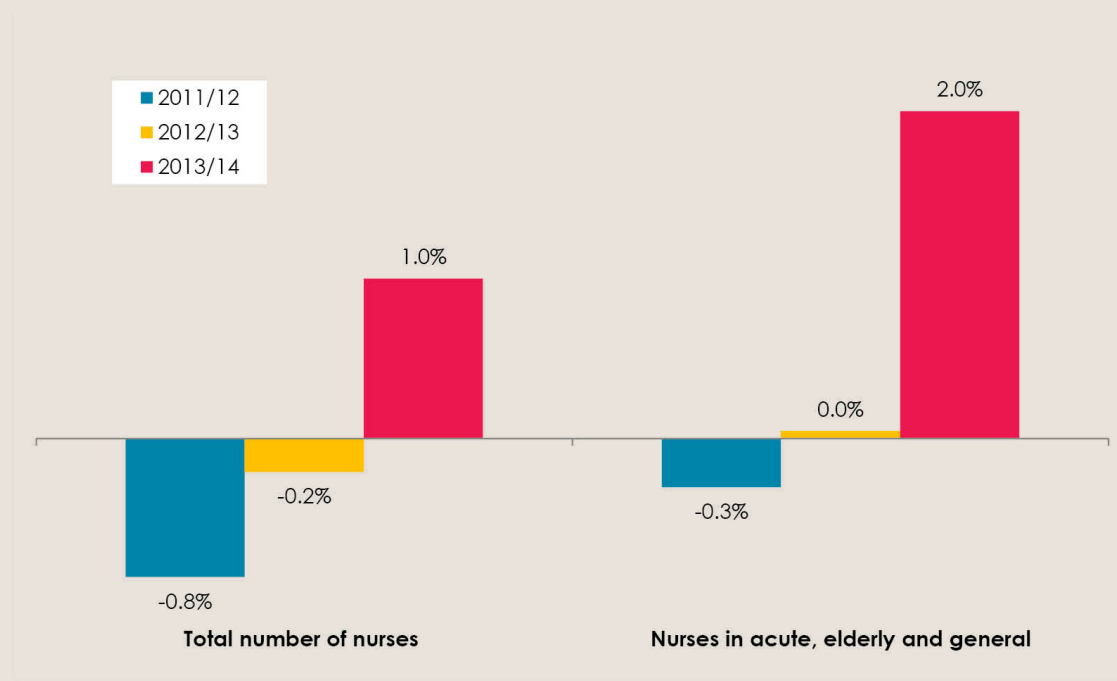
Source: Lafond S and others. *Into the red*. London: Nuffield Trust, 2014.

Figure 7: Skill mix in NHS workforce, 2013/14



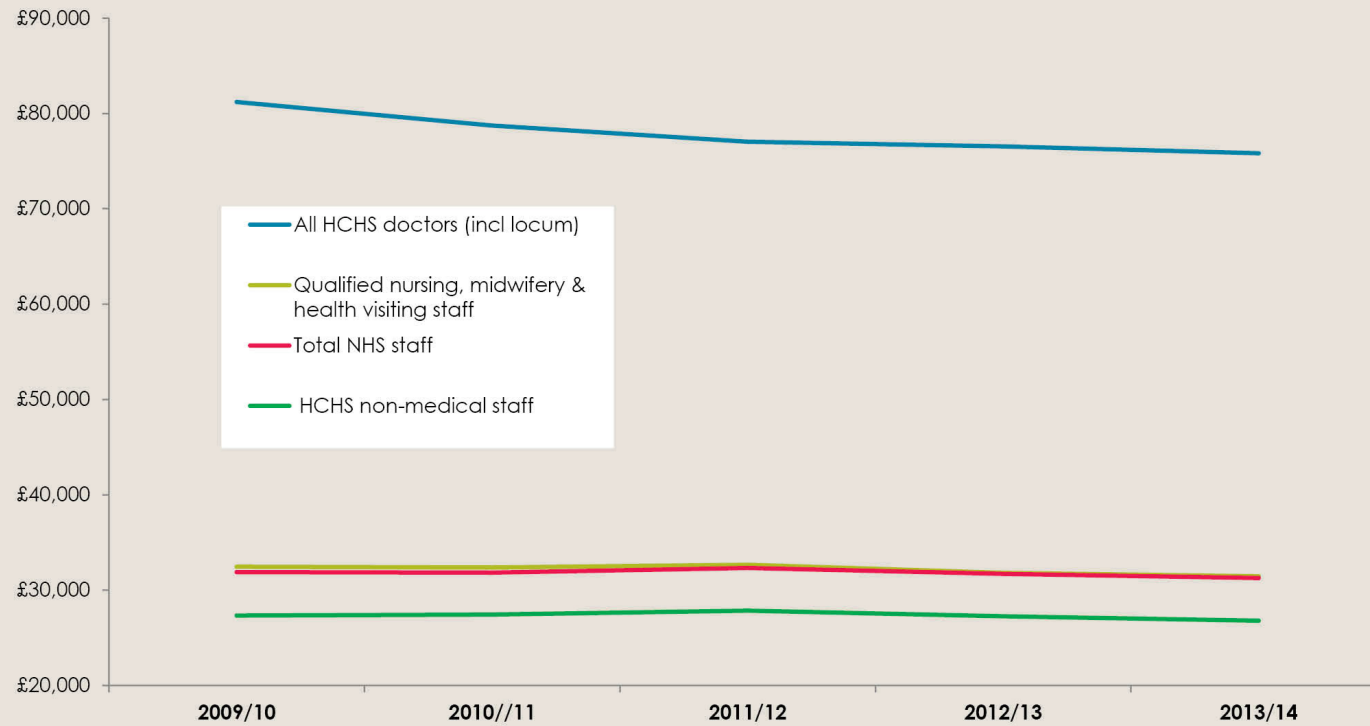
Source: 2014 NHS Workforce Statistics - August 2014 (Health and Social Care Information Centre).

Figure 8: Annual change in the number of nurses from 2011/12 to 2013/14



Source: 2014 NHS Workforce Statistics - August 2014 (Health and Social Care Information Centre)

Figure 9: Average NHS staff earnings from 2009/10 to 2013/14



Source: NHS Staff Earnings Estimates to July 2014 - Provisional statistics (Health and Social Care Information Centre)

Table 4: Net reported year-to-date surplus/deficit by sector, 2014/15 Q2

	Net reported surplus/deficit (£m)	Number of trusts in deficit	Total number of trusts	Proportion of trusts in deficit (%)
Acute	-714	115	142	81%
Ambulance	2	5	10	50%
Community	3	3	19	16%
Mental Health	49	12	56	21%
Specialist	30	6	18	11%
TOTAL	-630	141	245	58%

Source: Paper D: Service and Financial Performance Report for September 2014 (NHS Trust Development Authority); Performance of the foundation trust sector, 6 months ended 30 September 2014 (Monitor).

Table 5: Quality, Innovation and Productivity (QIPP) savings, 2011/12 to 2014/15

Year	Outturn/forecast	Saving (£bn), cash terms	Saving (£bn), (2014/15 prices)
2011/12	Outturn	5.8	6.1
2012/13	Outturn	5.0	5.2
2013/14	Outturn	4.3	4.4
2014/15	Forecast	4.8	4.8
Total		19.9	20.5

Source: Correspondence with NHS England, 2014.

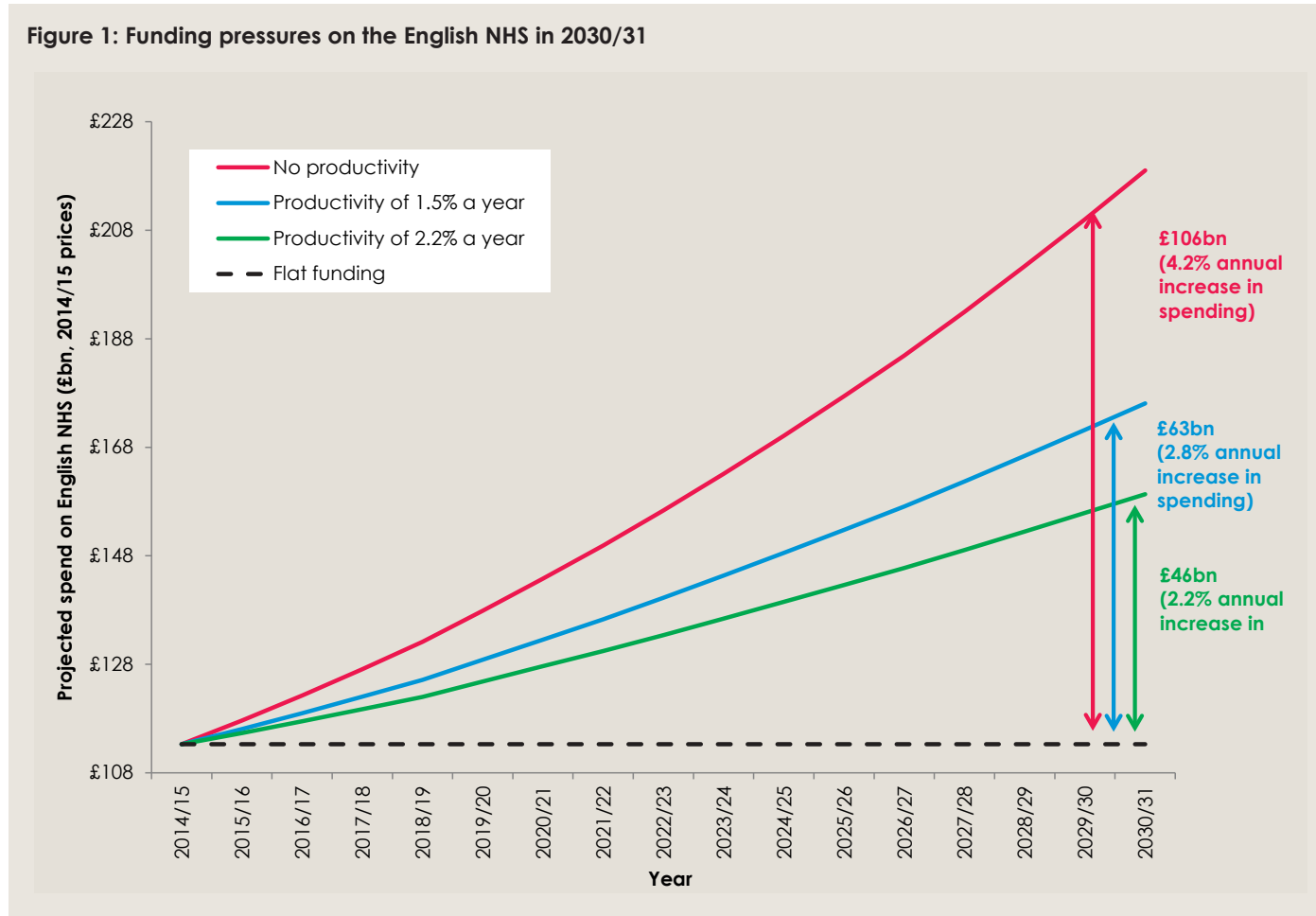
Funding overview: NHS funding projections

Table 1: Funding gap for the English NHS in 2020/21 under scenarios from NHS England's Five Year Forward View

Productivity	Funding gap in 2020/21
0.0%	£30bn
0.8%	£21bn
1.5%	£16bn
2.0% - 3.0%	£8bn

Note: NHS England's projections of total spending are in cash terms, allowing them to explore the impact of cost pressures (such as pay) separately to assumptions for GDP deflators. The budget for NHS England is then assumed to rise with inflation

Figure 1: Funding pressures on the English NHS in 2030/31



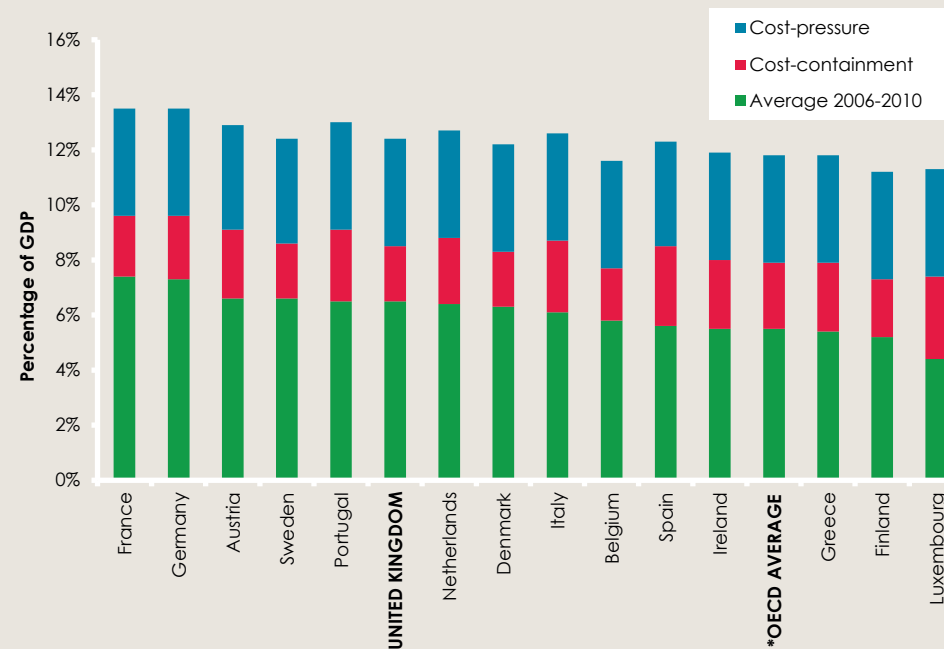
Please note: The May 2015 projections include community health services, which the January release did not.

Table 2: Health Foundation projected funding gap for English NHS in 2030/31 under three assumptions for productivity

Annual rate of productivity	Average annual real-terms increase in NHS spending	Funding gap in 2030/31 (2014/15 prices):		
		Budget stays flat in real terms	Budget rises by 1.5% a year in real terms	Budget rises by 2.3% a year in real terms
0.0%	4.2%	£106bn	£75bn	£56bn
1.5%	2.8%	£63bn	£32bn	£13bn
2.2%	2.2%	£46bn	£16bn	£4bn surplus

Please note: The May 2015 projections include community health services, which the January release did not.

Figure 2: OECD projection for average public spending on health for EU-15 countries, as a percentage of GDP between 2006 and 2010, with projected spend in 2060 under both cost-containment and cost-pressure assumptions



Source: OECD, Public spending on health and long-term care: a new set of projections.