

The Politics of NHS Spending

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Fatima Osman is a fifth-year medical student at Imperial College London. She completed an intercalated degree in Management at Imperial College Business School where she became interested in Health Economics. She has worked with clinicians and health economists to lead two publications in the field. She is excited to use her skills to formulate approaches to improve the cost effectiveness of healthcare provision by harnessing the power of artificial intelligence and healthtech.

The UK's National Health Service (NHS) was set up in 1948 following the 1942 Beveridge report, a cross-party report which established its core principles. Since then, the two main political parties in the UK, the Conservative and Labour parties, have had differing approaches to how the NHS ought to be managed and financed. Today, healthcare is the largest single item of government expenditure, accounting for 24% of public spending compared with only 7% in the 1950s. This article will map the UK's healthcare spending over the past 25 years, surveying the approaches of the various governments during this time. It will soon be clear why the NHS is struggling to meet its own performance criteria and why it has battled to deliver much-needed elective care during the coronavirus disease (COVID-19) pandemic.

Fig 1 shows the share of gross domestic product (GDP) attributed to healthcare expenditure between 1997 and 2018. Healthcare spending has risen considerably over the last 24 years, starting out at 6.9% of GDP in 1997 before plateauing at 10% from 2009 onwards. However, while UK health-related spending stagnated, the ratio of healthcare expenditure to GDP rose over the same period for four of the six other G7 countries. Simply looking at healthcare spending as a percentage of GDP can, however, be a poor prognostic tool in determining how successful a healthcare system is. For example, in 2017 the US outperformed all G7 nations in this metric, with a total healthcare spend of 17.1% of GDP, but performed poorly in key healthcare success metrics such as healthcare outcomes, equity, and access. Instead of looking at this solely as a stand-alone percentage, it is important to look at its growth over time.

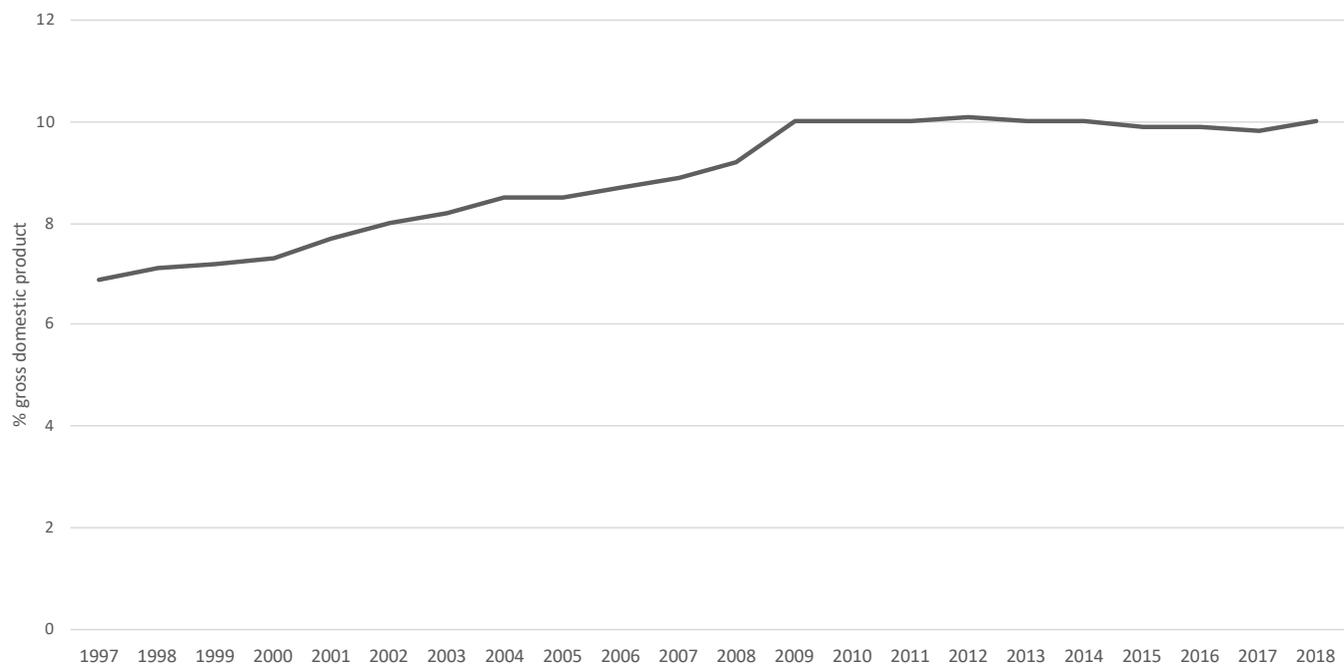


Fig 1. The share of UK GDP attributed to healthcare expenditure, 1997–2018. Data: ONS.

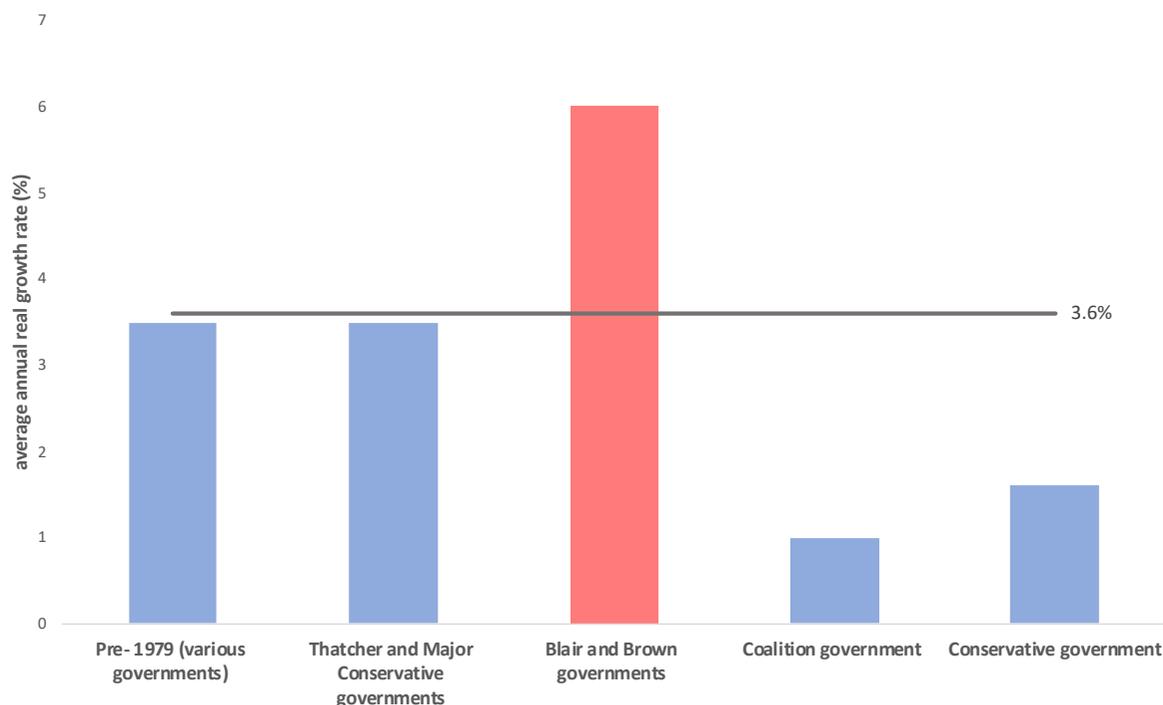


Fig 2. Average annual growth rates in UK public spending on health, 1949–2018. Data: ONS.

Adjusting for economy-wide inflation, fig 2 shows the annual average growth rates in UK public spending on health between 1949 and 2018. Growth in healthcare spending has fluctuated over time, with peaks in spending over the past 40 years largely attributed to Labour governments, as evident in fig 2. Under the Labour governments of Tony Blair and Gordon Brown, UK public spending on health averaged a real growth rate of 6%, six times the rate of growth under the coalition government which followed.

The 2008 economic crash

The 2008 economic crash and the subsequent period of austerity severely impacted the economy, contracting the UK's GDP by 6.3% in Q1 2008. The continued impact of the crash resulted in a Department of Health and Social Care budget that continued to grow, only at a much slower pace than in previous years. Adjusting for inflation, the healthcare budget rose by 1% each year on average in the five years between 2009–10 and 2014–15, compared to the average 3.6% rise since the NHS was established.

The NHS' five-year deal

In June 2018, then-Prime Minister Theresa May announced a new five-year funding deal that would see NHS funding rise by £20.5bn in 2023–24 compared to 2018–19. An increase of around 3.3%, this is closer to the long-term average of 3.6%, though still lower than it. This long-term commitment to improving NHS funding only applied to services within the mandate of NHS England, and was only sufficient to let it meet its immediate demands. It excluded important areas of the Department of Health and Social Care budget such as capital investment, public health, and the education and training of NHS staff. The government chose not to invest more heavily in innovation, health promotion, and its workforce. This

choice has worsened the NHS' ability to keep up with increasing demand and to adopt new medical technology, and it has contributed to the NHS' staffing crisis.

Using the lower bound of healthcare spending models means that budgets are almost always increased by the government, with predictions falling short of actual demand levels. This often means making ad hoc budget announcements outside of the usual budgetary process and redirecting money away from capital budgets to fund day-to-day financing of the NHS. This leads to a cycle of poor strategic planning, negatively impacting the quality of investment in the health service.

The impact of the pandemic

The nation-wide lockdown aimed at curbing the impact of the COVID-19 pandemic has caused significant harm to the UK economy, contracting the UK's GDP by over 20% in Q2 2020. The government, in attempting to mitigate the economic impact of the crisis, launched the largest public stimulus program in the post-war period. Vast sums of money have been spent propping up businesses across the country, furloughing staff, and making sure the public sector meets its bottom line. However, the government's public spending spree, alongside reduced tax revenue and a contraction in GDP, pushed the UK's debt-to-GDP ratio to its highest in more than 50 years. Unsurprisingly, in less than a year, the eight years of fiscal retrenching under the coalition and Conservative governments has been undone.

The impact of the pandemic on future NHS funding is uncertain, although there could well be an increase as the public becomes more conscious of the importance of healthcare spending and a well-functioning NHS. In the short term, the UK has attempted

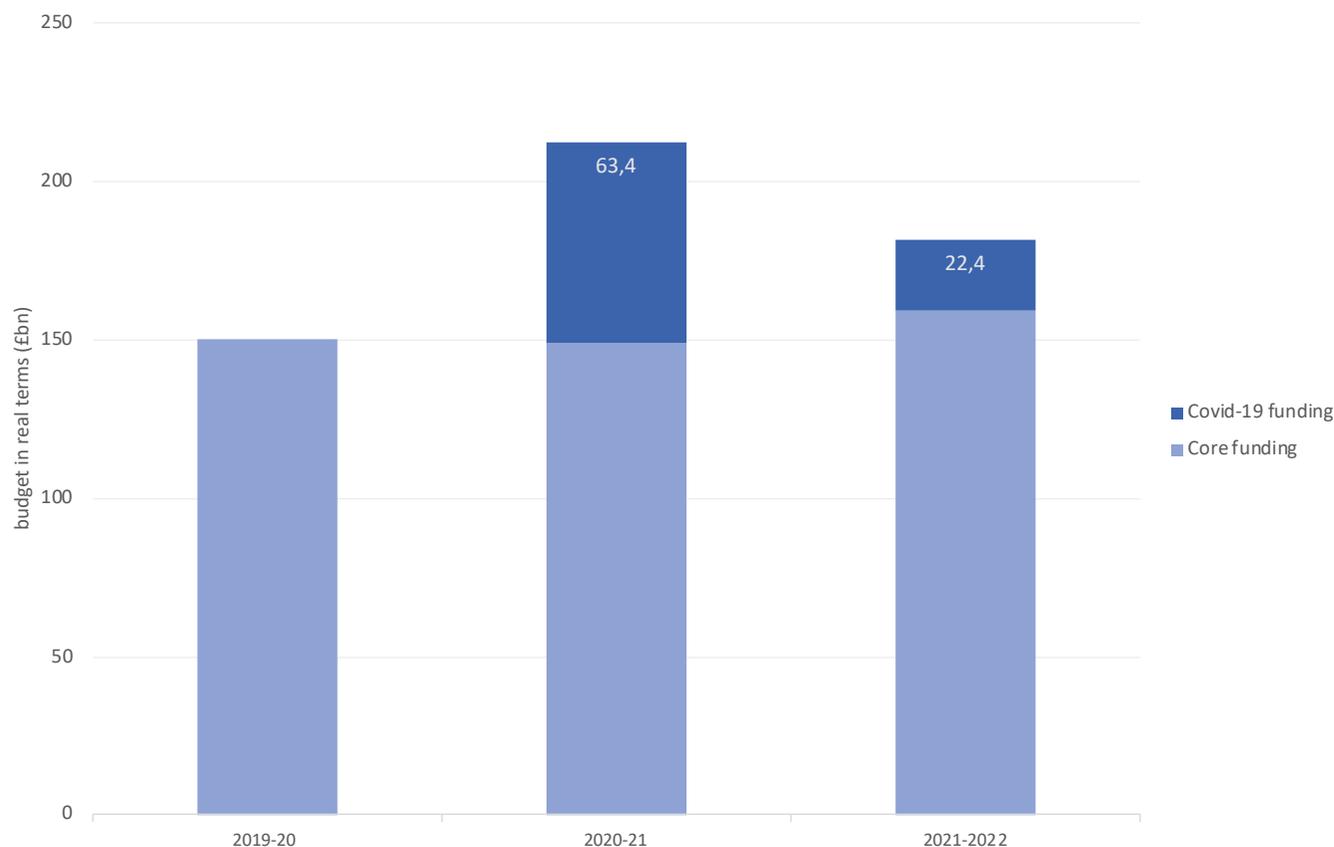


Fig 3. Budget of the UK's Department of Health and Social Care in real terms (£bn), 2019–22. Data: ONS.

to manage the pandemic's negative health outcomes by spending an extra £63.4bn on health and social care. However, with the Chancellor already speaking of the need for 'hard decisions', it seems likely that the significantly worse position of the UK government's finances may cause NHS spending to grow at a slower pace. This is already evident in the reduction of COVID-19 healthcare spending by 65% (from £63.4bn in 2020–21 to a proposed spend of £22.4bn in 2021–22) despite uncertainty surrounding whether the pandemic is likely to end soon. This is without considering the long-term negative impacts of the pandemic, such as the longer waiting lists for hospital treatment. Concerningly, a large proportion of the patients facing longer waiting times are those on waiting lists for elective surgery, such as surgery relating to cancers and cardiovascular disease. The number of people on these lists topped five million during the pandemic, the highest since records began in 2007. This new data suggests that over 9% of England's population is waiting for care. On top of core NHS spending, the proposed budget to tackle the backlog drawn up by the Cabinet Office has proposed that the government may have to commit anywhere between £2bn and £10bn over the next four years on top of core spending. Recently, core NHS spending has risen from £150.4bn in 2019–20 to £159bn in 2021–22. This only represents a 3.3% annual average growth, which fails to match historical growth of the NHS budget. This is despite the NHS battling through an unprecedented pandemic and recovering from a challenging year. Neither current nor predicted growth matches the 6% average annual real growth

achieved during the 14 years of Labour government between 1996–97 and 2009–10.¹

The rise in the waiting list for non-urgent NHS treatment and the worsening mental health crisis underline the struggle the NHS faces as it tries to return to normal following a year battling COVID-19 pandemic. Short-term increases in healthcare funding have been used to meet new obligations, such as virology services to combat virus mutations, an incredibly successful COVID-19 vaccination campaign, and the 'Track and Trace' initiative. Improved funding will make the NHS more resilient to surges in demand, and it is likely to require pandemic-level spending to manage the long-term pressures from COVID. However, with the worsening position of the UK's finances and the need to save money, it would be challenging for any Chancellor to reduce spending without impacting the health service, as the NHS accounts for 24% of government spending, a figure which is predicted to rise.

1 Matt Hancock, 'Secretary of State's oral statement on the NHS Long Term Plan' (oral statement to Parliament, London, 7 January 2019) <<https://www.gov.uk/government/speeches/secretary-of-states-oral-statement-on-the-nhs-long-term-plan--2>>; HM Treasury, 'GDP deflators at market prices, and money GDP December 2019 (Quarterly National Accounts)' (7 January 2020) <<https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-december-2019-quarterly-national-accounts>>.