The funding pressures facing the English NHS from 2010/11 to 2021/22

Background

Spending on the UK National Health Service (NHS) has more than doubled since its introduction in 1948, during which time it has risen by an average of four per cent a year in real terms. This growth has now halted due to reductions in public spending following the economic crisis. The NHS in England is therefore targeting efficiency savings of £15–20 billion (€18–24 billion) by 2014/15 to meet rising demographic pressure combined with increasing prevalence of chronic conditions.

This research looks beyond 2014/15 to estimate the financial challenge facing the NHS in England in 2021/22, examining the potential impact of various policies in managing these pressures.

Methods

To estimate funding pressures facing the NHS, health care activity was broken down by type: acute (hospital), maternity, mental illness, community, general practice, and prescribing. A least-squares approach was used to model determinates of use and spend for each type of activity in the base year. Results of these models were applied to projections of population growth, based on observed activity patterns continuing, and the unit cost applied to the activity. The effect of chronic conditions on hospital use was modelled, to explore how continuation of trends might increase pressure on hospitals above the effect of population change alone. The cost of projected health care activity was compared to the combined effects of population change and rising probability of admission for chronic conditions, to determine the required efficiency gain by 2021/22. The effect of three key factors on closing this gap was examined: pay restraint, management of demand for chronic conditions, and increased acute sector productivity.

Findings

Funding pressures on acute services in England are estimated to rise by three per cent a year due to the combined effects of population change and rising hospital admissions for chronic conditions (each effect alone accounts for just over one per cent a year). If pay rises in line with recent trends, total acute sector pressure will rise by four per cent a year.

These pressures on acute care, combined with those for other services, would result in a funding gap worth £44–54 (€52–64) billion in 2021/22 if spending remains flat in real terms (at 2011/12 prices). If the current efficiency challenge is met in 2014/15, this gap reduces to £28–34 (€33–41) billion.

Closing this gap will require a combination of measures: releasing all savings related to productivity gains made prior to 2015/16 (£6bn); and restricting pay growth to rising with inflation (£8bn). The remaining £8bn gap will require further productivity gains of one per cent a year between 2015/16 and 2021/22.

General interpretation

The current austerity experienced by the English NHS is likely to extend beyond the period to 2014/15 that is currently the focus of planned efficiency savings. If funding pressures increase with recent trends, further savings of four per cent a year will be needed between 2015/16 and 2021/22 to meet rising demands on health care. This will require unprecedented sustained increases in health service productivity to avoid cuts to services or fall in quality. A combination of measures will be needed, including avoidance of catch-up pay growth to compensate for the current pay freeze, effective management of rising demand for hospital care for chronic conditions, and translation of productivity gains into ongoing cash savings for reinvestment in services. Further productivity gains of one per cent a year will be required on top of these measures, without a real-terms increase in funding. NHS organisations must therefore plan beyond 2014/15 and consider the longer-term funding challenge.