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Health and the looming spending squeeze

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London Health 09

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Outline

- The public finance problem: disease and cure
- The implications for public spending
- The implications for health
- Are the public ready?

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Context: the public finance problem

- The financial crisis means that the economy and the value of our houses and financial assets will be significantly and **permanently** smaller in cash terms than the Treasury had previously expected

- This will **permanently** reduce tax receipts and increase public spending as shares of national income, increasing the amount we have to borrow – even after the economy has recovered

- Leaving this unaddressed would see debt explode to unsustainable levels, so the Government plans gradual tax increases and spending cuts to offset it from 2017–18 onwards

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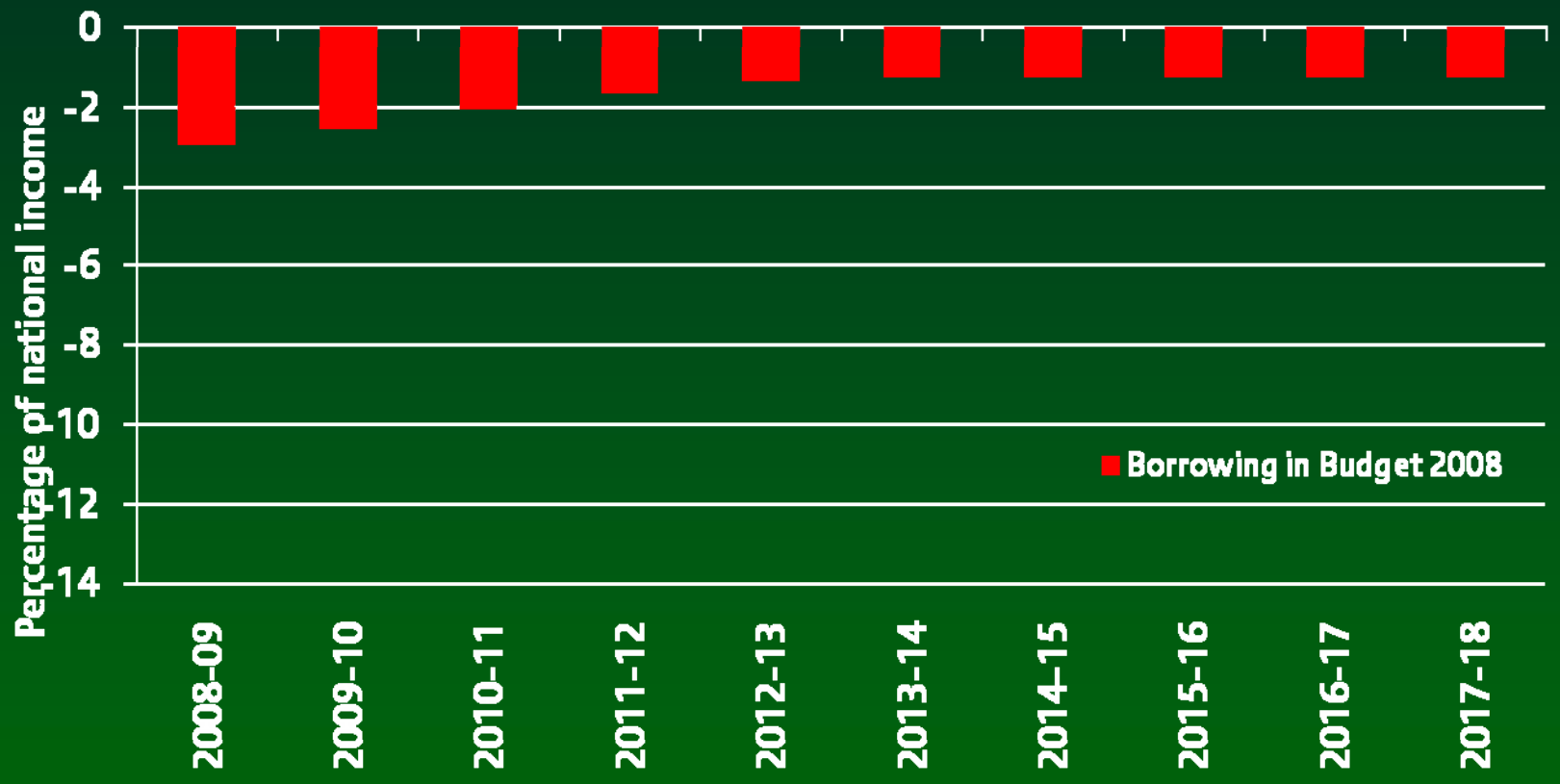
The disease: more borrowing, mostly structural

Public sector net borrowing in Budget 2009, excluding PBR and Budget policy measures



Sources: HM Treasury; IFS calculations; figures may not add due to rounding.

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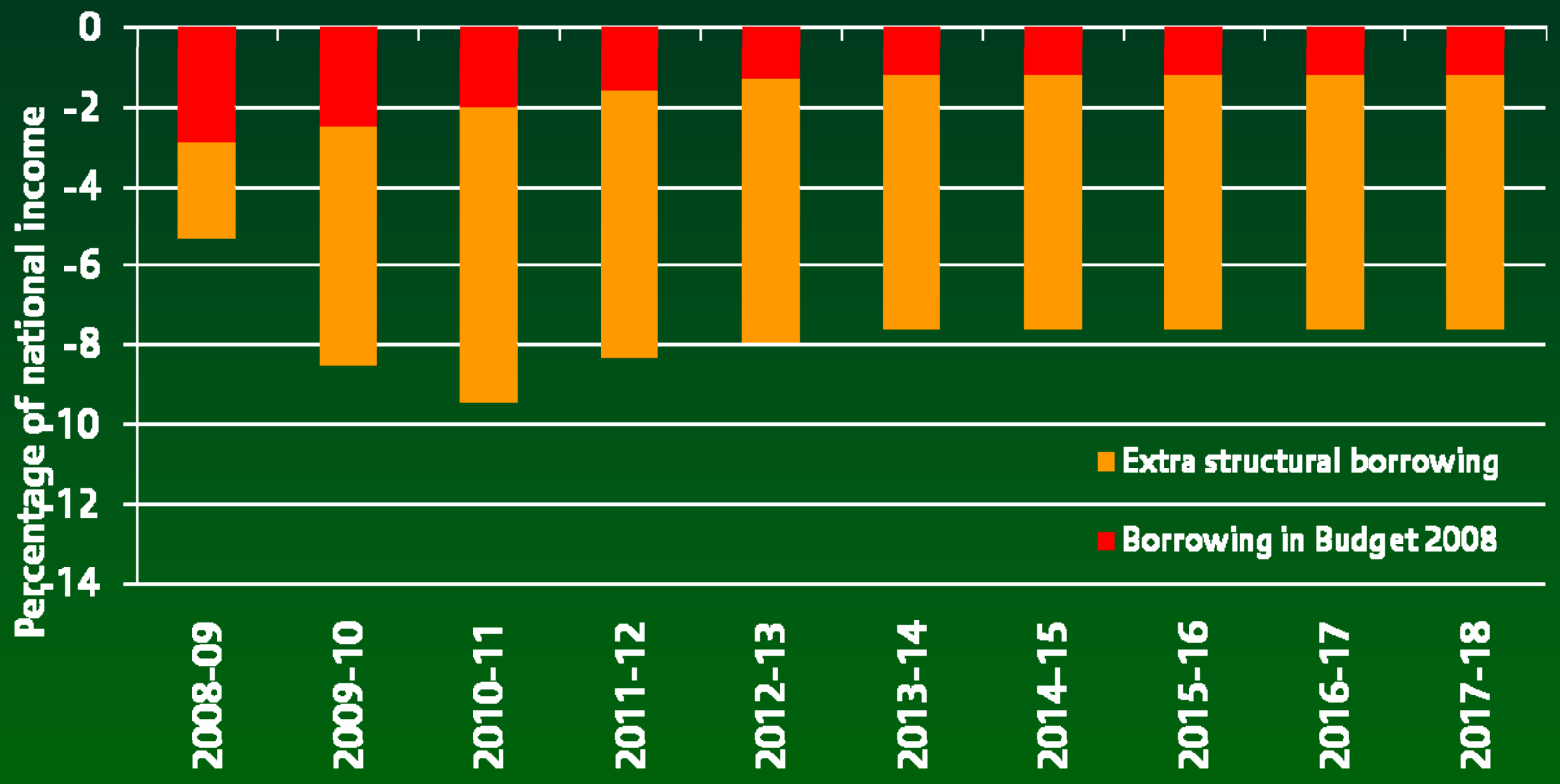

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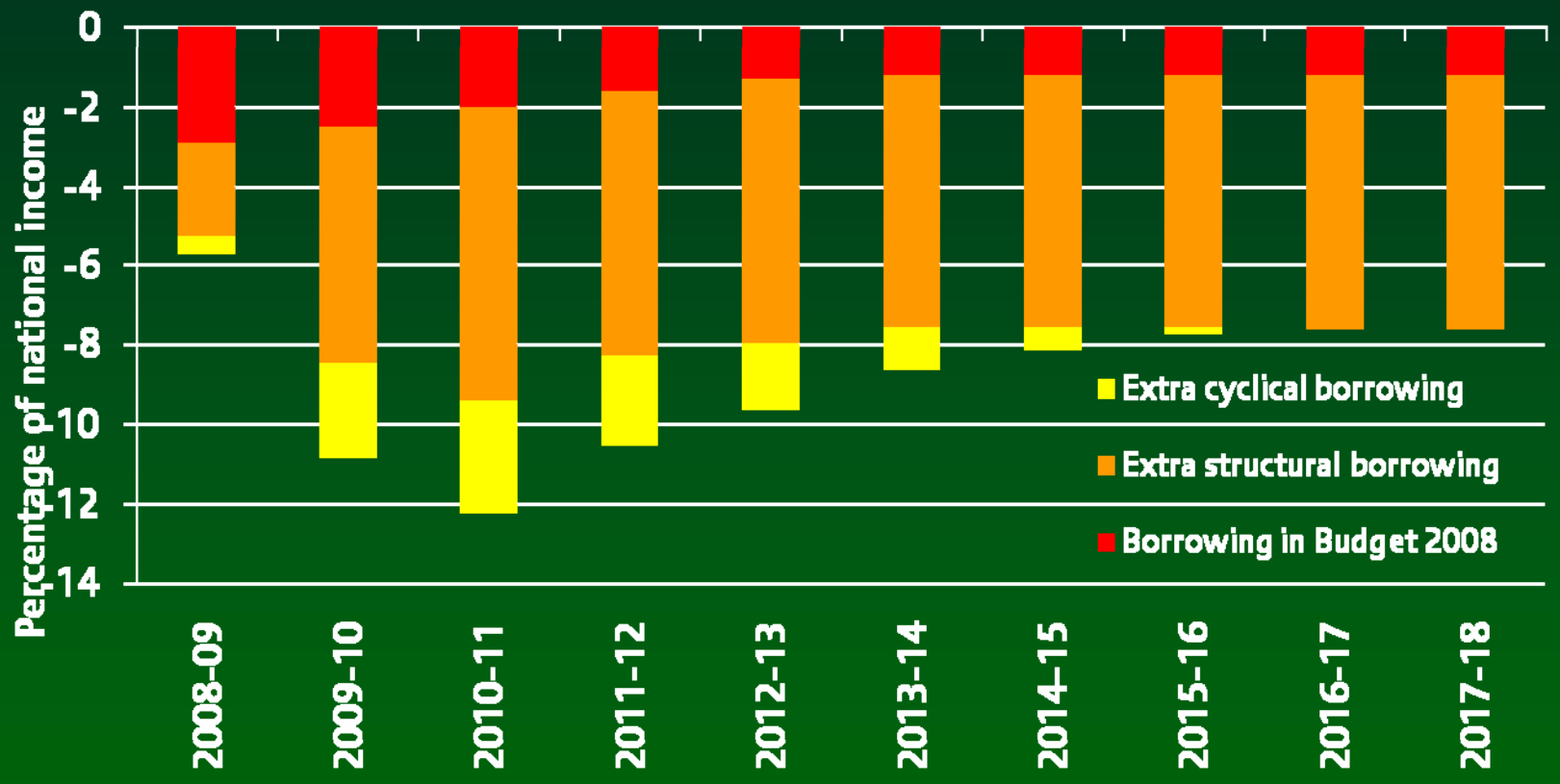

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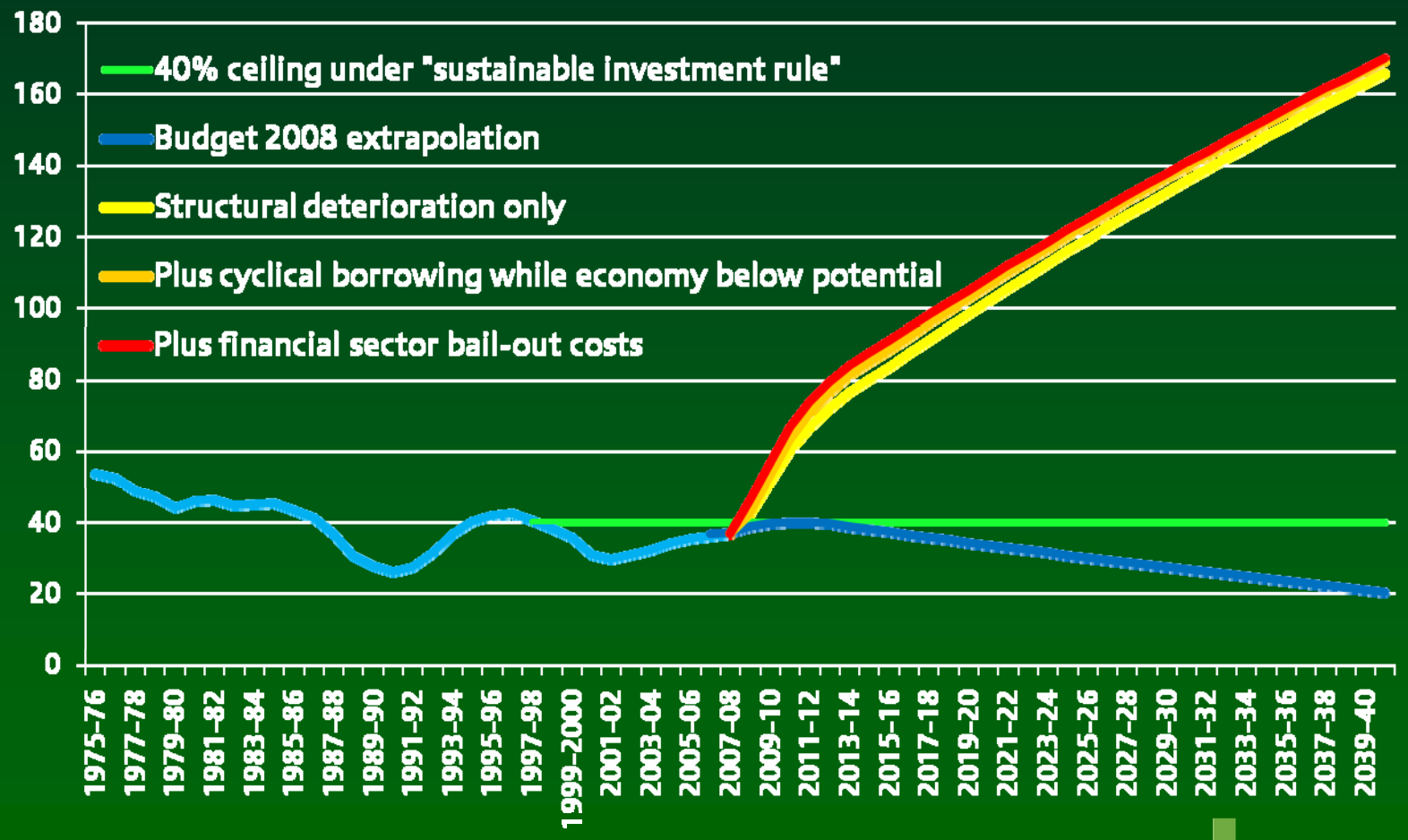
The consequences for public sector debt



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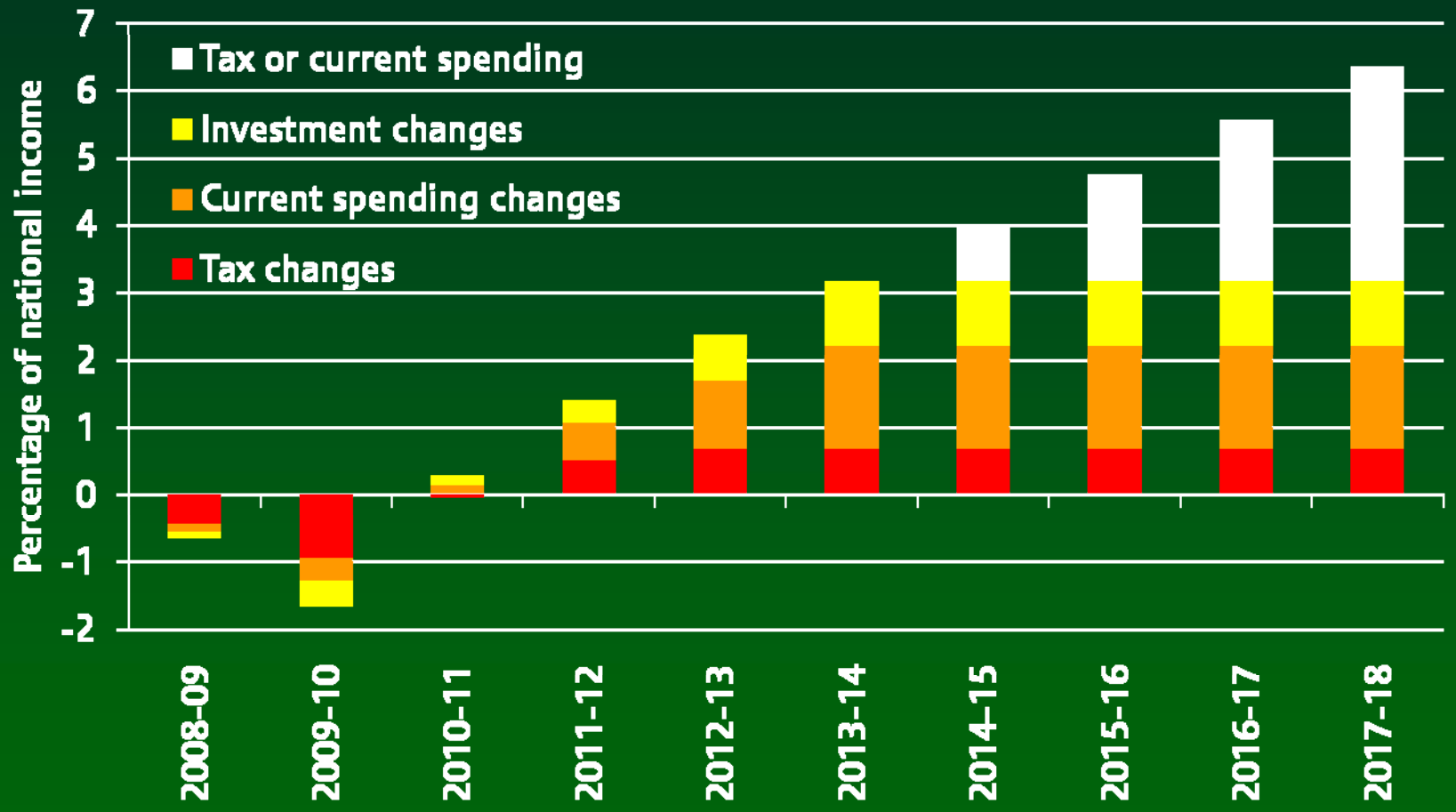
The cure: giveaway then takeaway



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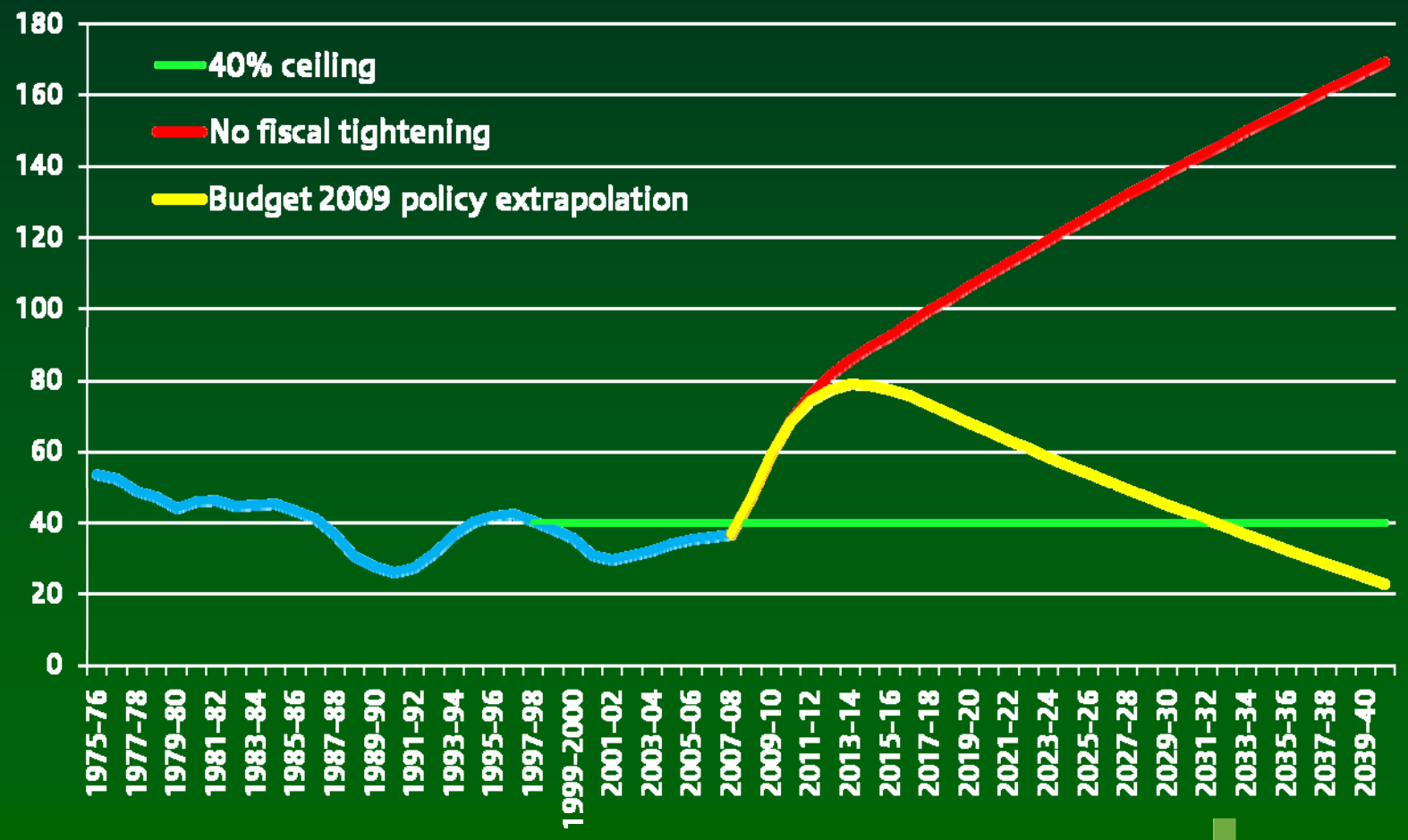
Tightening returns debt to pre-crisis levels



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The implications for public spending

- 2010–11
- Spending Review 2010
  - 2011–12 to 2013–14
- Beyond Spending Review 2010
  - 2014–15 to 2017–18

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2010–11

- Spending forecast to rise from £671.4bn in 2009–10 to £701.7bn
- But two-thirds of the increase accounted for by social security (+£6.2bn) and debt interest (+£15.7bn)
- Whitehall spending on public services and administration (Departmental Expenditure Limits) to rise by only £3.2bn, the plans having been cut by £5bn in PBR 2008
- This is a real cut of 0.7%. But NHS up 4.9%.

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Spending Review 2010: 2011–12 to 2013–14

- Published Budget 2009 plans
  - Current spending: real growth of 0.7% a year
  - Capital spending: “move to 1¼ per cent of GDP in 2013–14”
    - Darling-speak for real cuts of 17.3% a year
  - Together these imply total spending: real cuts of 0.1% a year

- Leaked additional Budget 2009 detail
  - After taking debt interest, social security and other spending pressures into account, Whitehall spending on public services and admin are set to be cut by 2.9% a year in real terms
    - Probably tightest squeeze since late 1970s

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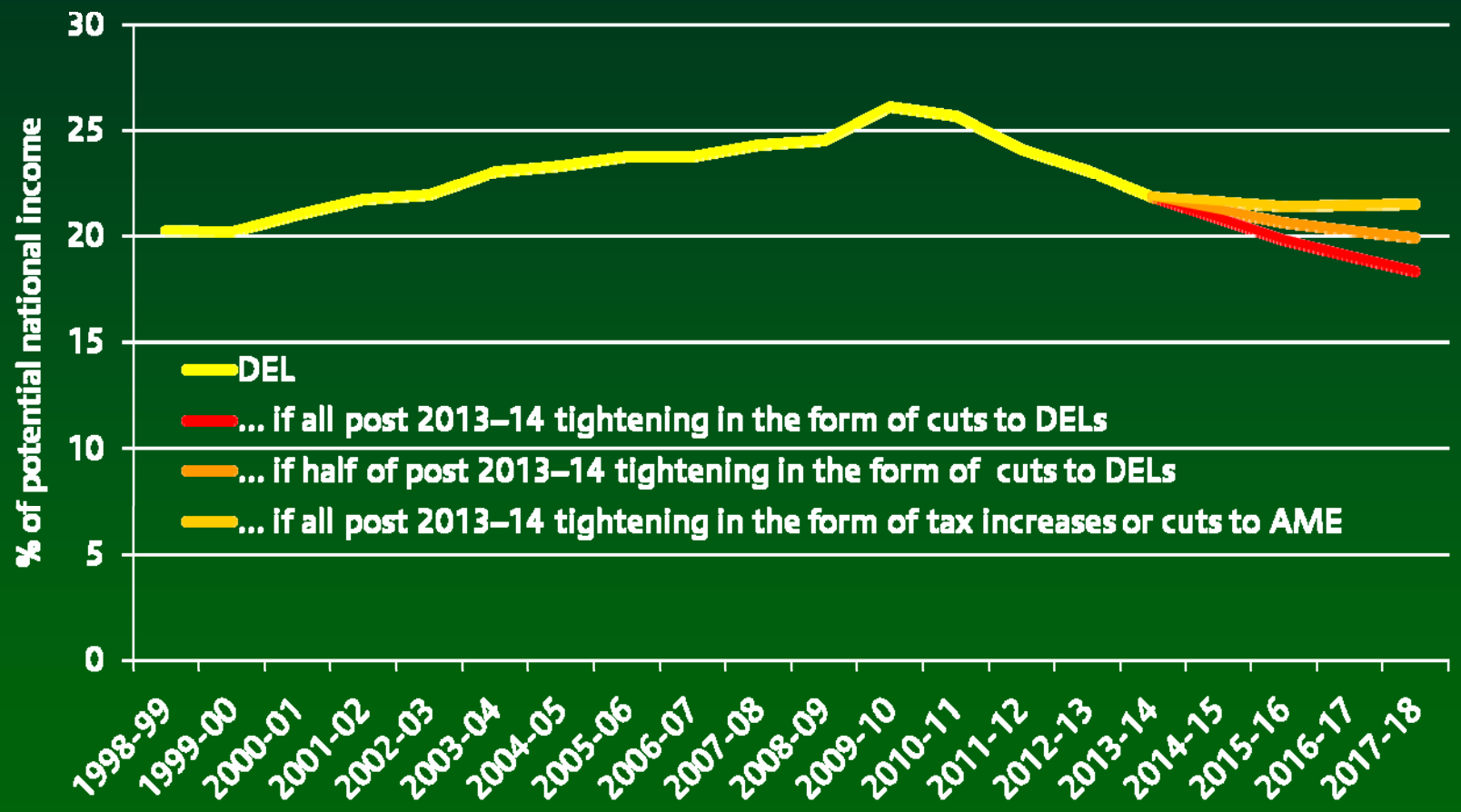
Whitehall spending on public services and admin



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What about health over the Spending Review?

- If pain shared equally health would see real cut of 1% a year
- But Tories have promised to “protect” it (i.e. no real cut)
- If health is protected, other departments cut by 4.9% a year
- This squeeze could be loosened by raising money from tax increases or welfare cuts instead

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Implications of 0% real growth in health

- Less than the1.1% increase King's Fund think necessary to maintain quality in face of demographic pressures
- Shortfall against best-case scenario in 2002 Wanless Report of £11 billion by 2013–14 and £21 billion by 2016–17
- Protecting quality under this scenario would require productivity growth of 6–7% a year, which seems very unlikely

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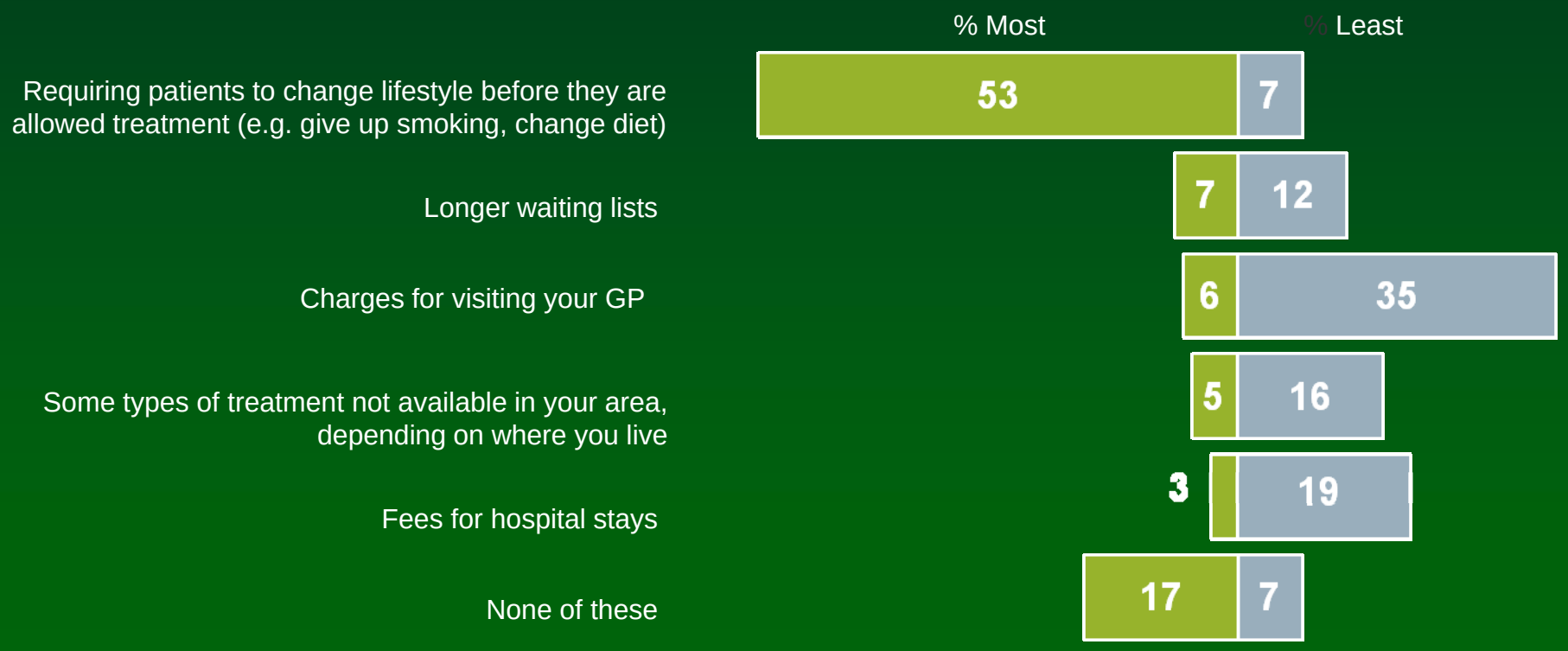
Are the public being realistic?

If the NHS was to face lower levels of spending, which of these, if any, would you be most/least willing to accept?



Source: Ipsos MORI Base: 1,041 online British adults aged 16-64, 4-7 Sept 2009

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Conclusions

- Budget figures imply tightest squeeze on public services since the 1970s over the next spending review
- Tories promise to protect health from real cuts
- But this would fail to compensate for demographic factors and would see big gap with Wanless recommendations
- Public appear not to have grasped the scale of the challenge yet

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