

# **The Role of the UK Treasury in Setting Health Care Expenditure Levels: Some Reflections.**

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## 2. Overview

- History of estimates of health care costs
- Tools the Treasury has used to set and manage public health expenditure:
  - setting the NHS Budget
  - improving value for money
- Responses of Department of Health
- What the Treasury [should have] learnt
- Conclusions

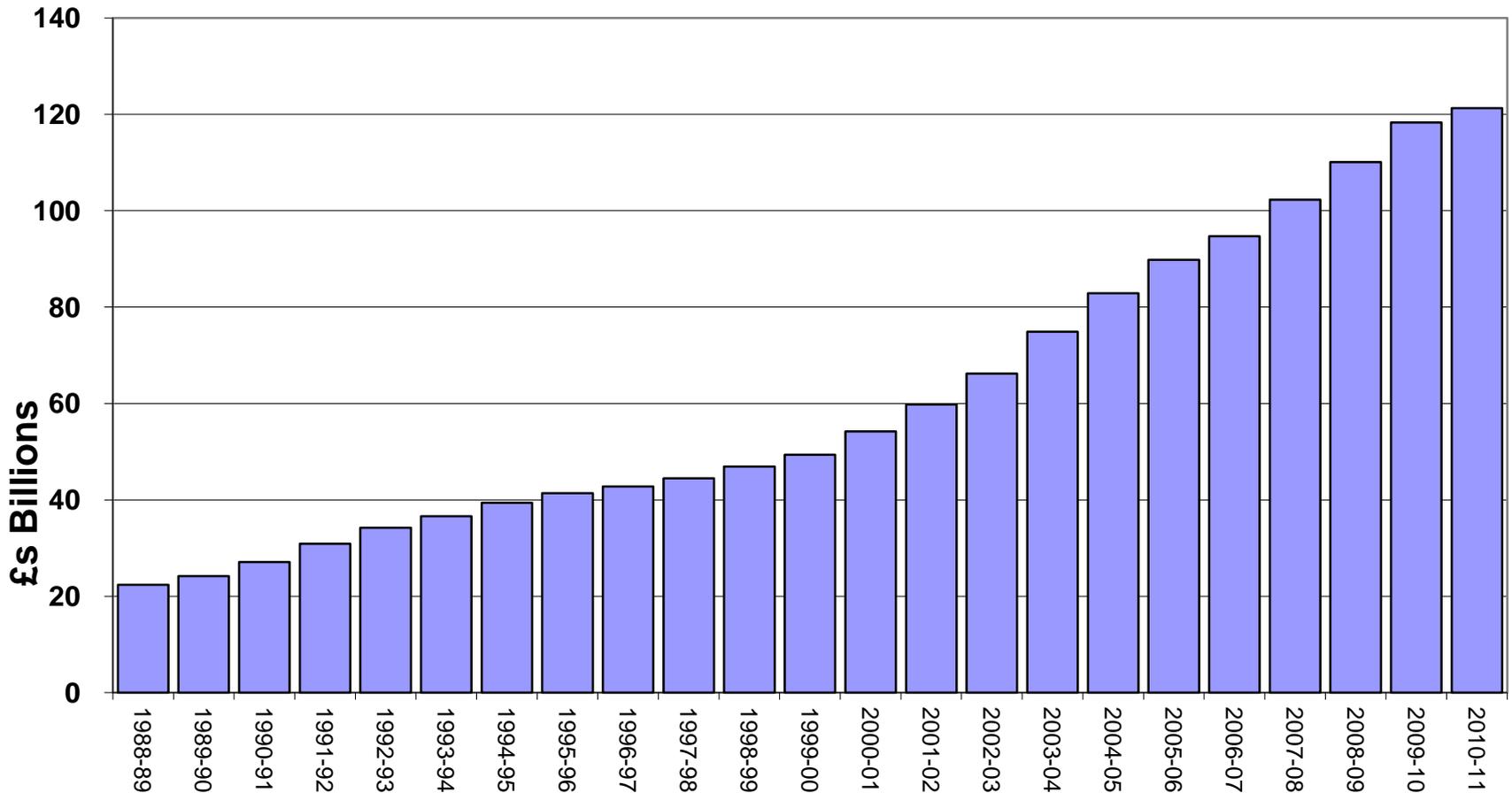
### **3. Estimating future health care costs: key events**

- **1948:** founding assumptions of National Health Service
- **1956:** HMG. Guillebaud Committee
- **1979:** HMG. NHS Royal Commission
- **2002:** Treasury. “Wanless Report”

# 4. Key Assumptions

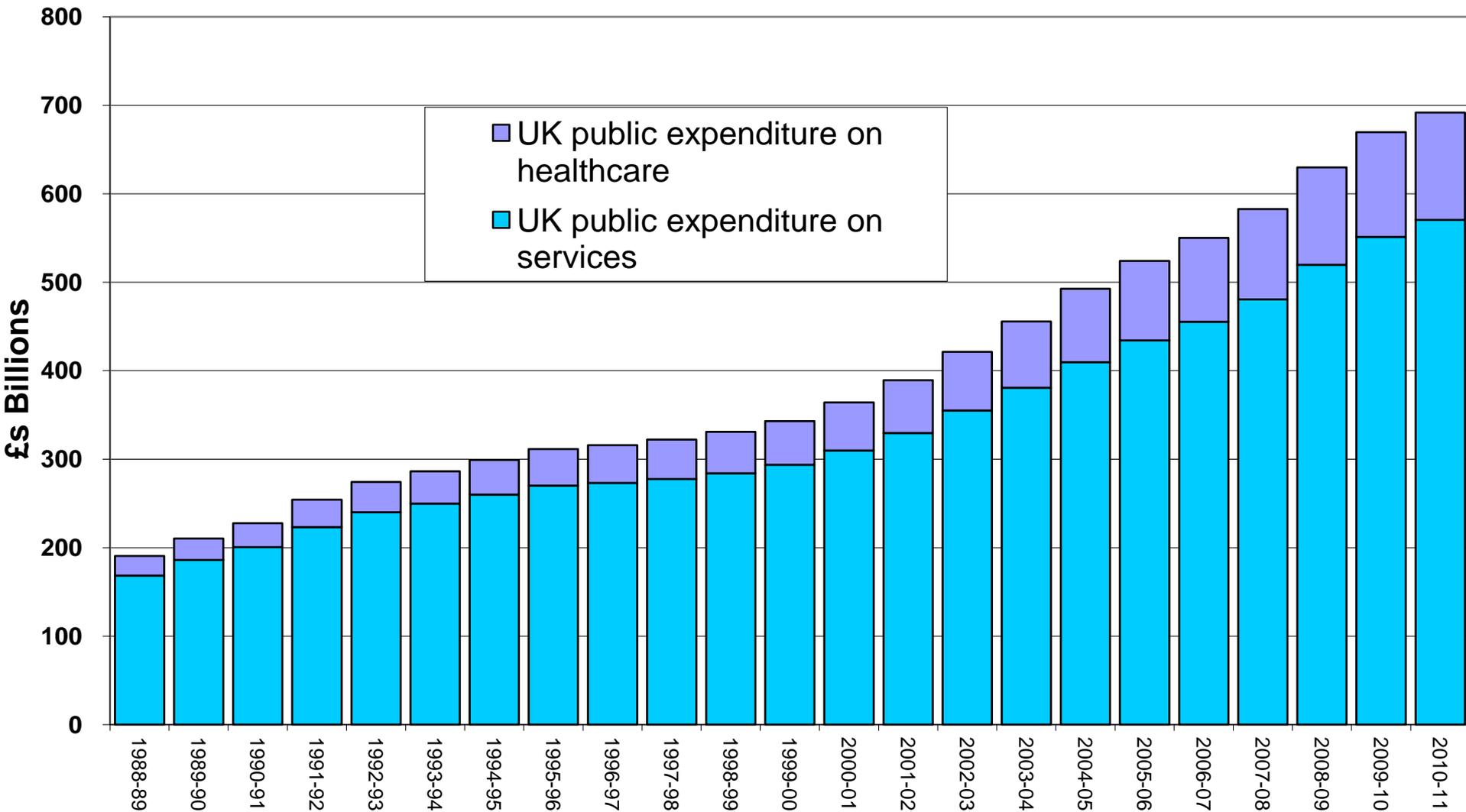
- **1948:** a national health service would **diminish** disease (and care costs) by prevention and cure
- **1956 and 1979:** NHS budgets were policy and political judgements as no objective measures of adequacy
- **2002:** possible to define a “high-quality” service and to estimate cost of achieving it

# 5. Growth in UK Public Expenditure on Health (cash) 1988-2010



# 6. UK public expenditure: total & health

## 1988- 2011 (cash)



## 7. Contribution of health to growth in total UK public expenditure (cash)

1988/9 to 1999/2000: **17.7%**

1999/2000 to 2010/11: **20.6%**

**Public health spend as share of total public expenditure:**

1989/9 : **11.7%**

2010/11: **17.5%**

# 8. Treasury Tools to set the NHS Budget

- **1948-1950:** bottom up hospital bidding
- **1950-1976:** annual global budgets with large exceptions and inflation adjusted
- **1976- 1997:** annual global budgets with **cash limits** and fewer exceptions
- **1997-** : **comprehensive expenditure limits for 3-4 year period;** capital spend ring fenced

# 9. Treasury initiatives to improve value for money - and DH responses

- **1970s Systematic policy appraisal (Green Book)**
  - 1979 : DH guidance on option appraisal of capital projects
  - 1995: DH guide, “Policy Appraisal and Health”
- **1981 Efficiency savings targets for NHS**
  - 1982 : DH efficiency index for hospital & community health services
  - late 1980s: annual efficiency targets agreed with Treasury
- **1985 Systematic policy evaluation (ex-post)**
  - DH response slow & patchy (eg 1989 Working for Patients)
- **1998 Public Service Agreements**
  - quantified performance targets, outcomes focus and evidence base
- **2000 Regulatory Impact assessment**
  - 2001 DH Impact assessment of new policies and regulations

# 10. Department of Health Arguments for More Resources

- Demography ] 1980s
- Relative price effects ] “
- Service commitments ] 1990s
- Investment in reform ] “
- Efficiency savings ] “
- Medical advance ] 2000s
- “Catch up” with public expectations ] “
- “Catch up” in quality of care ] “  
(international comparisons)

# 11. How can Ministries of Finance increase influence on health expenditure? – UK lessons

**Do:** - build up & maintain sufficient in-house expertise on health care and health economics to support **challenge role** - particularly on “the givens”

- maintain good institutional memory and hold health ministries to account on their past commitments

- develop direct relations with, and support, analytical staff in health ministries (but can have risks for health and finance staff !)

## 12. How can Ministries of Finance increase influence on health expenditure? – UK lessons –cont.

**Do Not:** - encourage finance ministers whose views on health expenditure clash with those of the Prime Minister!  
(if to avoid “straightforward pre-emption”\*)

- set up major reviews of future health expenditure that rely heavily on economists and analysts from health ministries

- take eye off efficiency (and pay settlements) when large increases in health budgets have been agreed

\*Tony Blair: A Journey. 2010

# 13. Conclusions

- UK Treasury has developed wide range of tools to enable it to set and manage (public) health spending in **short to medium term**
- Only major Treasury sponsored attempt to estimate **longer term** health care costs (arguably) proved “own goal” – led to fastest increase in resources in NHS history and (possibly) lowest increase in efficiency. (Not been repeated!)
- Overall, Treasury pressure for more evidence based & analytical approach to health budgets has strengthened both analytical capacity in UK Dept of Health and efficiency in NHS

# 14. Conclusions -cont

- But at times Treasury capacity to challenge DH analysis and policies has been too weak
- A key priority for finance ministries should be to encourage an “arms race” across countries in improving technical and allocative efficiency, to match the “arms race” in health outcomes that is already underway.
- Better sector wide measures of efficiency and productivity would be a useful first step