



Office for
**Budget
Responsibility**

Fiscal sustainability and public spending on health

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Austrian Fiscal Advisory Council
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Context: role of the OBR

“examine and report on the sustainability of the public finances”

Five key roles

- Produce five-year forecasts for economy and public finances
- Judge progress towards government’s fiscal targets
- **Assess long-term sustainability of public finances**
- **Evaluation of fiscal risks**
- Scrutinise costing of tax and welfare policy measures

Outline

- Modelling public finances in the long term
- The role of demography
- Non-demographic drivers of health spending
- Assessing long-term fiscal sustainability in the 2017 *Fiscal sustainability report (FSR)*
- *Fiscal Risks Report (2017)*

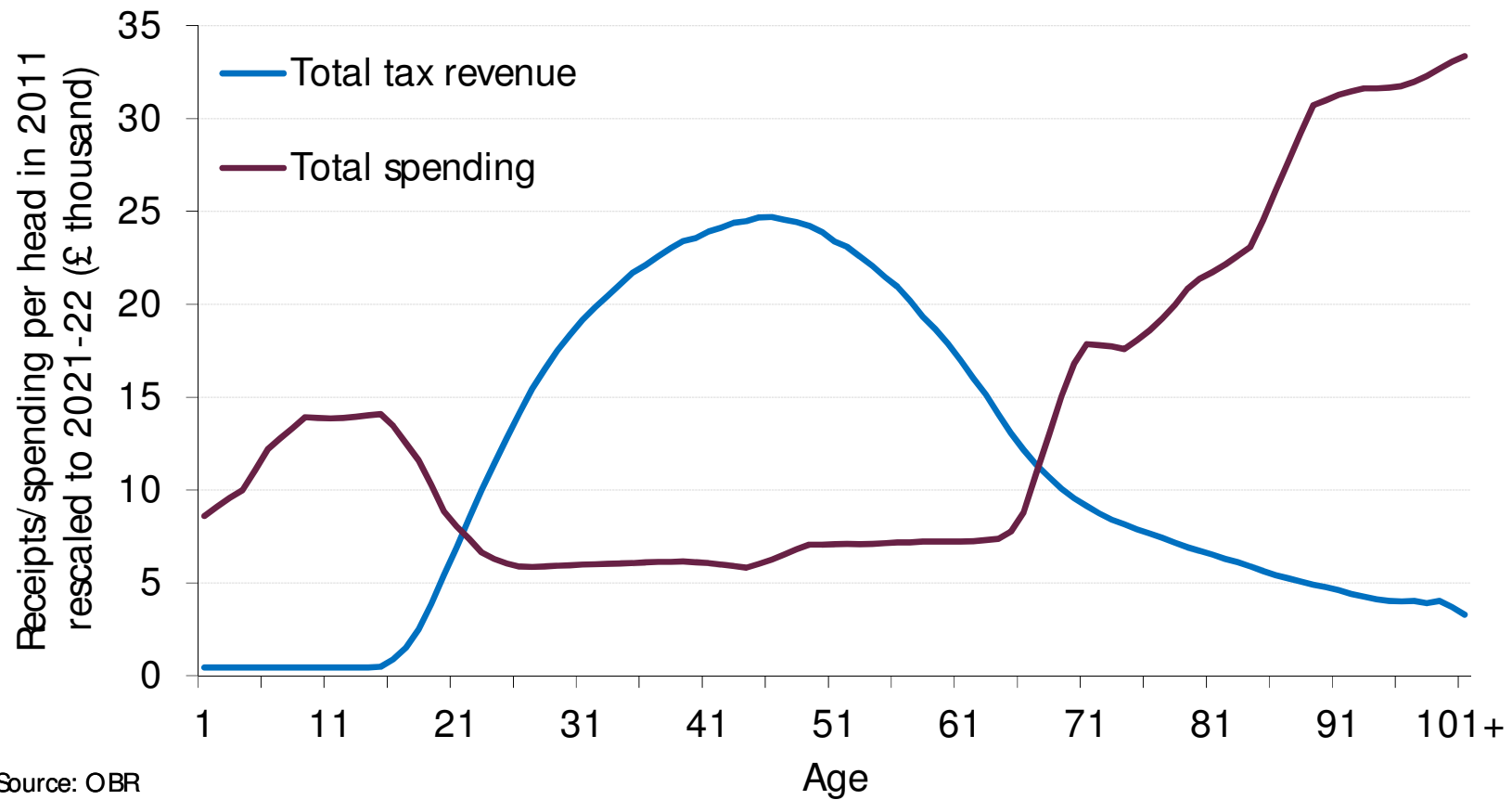
Long-term projections

- Next 50 years (to 2066-67)
- Projections, not forecasts
- Output gap closed
- Unchanged Government policy beyond the medium-term forecast (2021-22)
- Tax thresholds rise with earnings
- Functional definitions of public spending on health, education, etc

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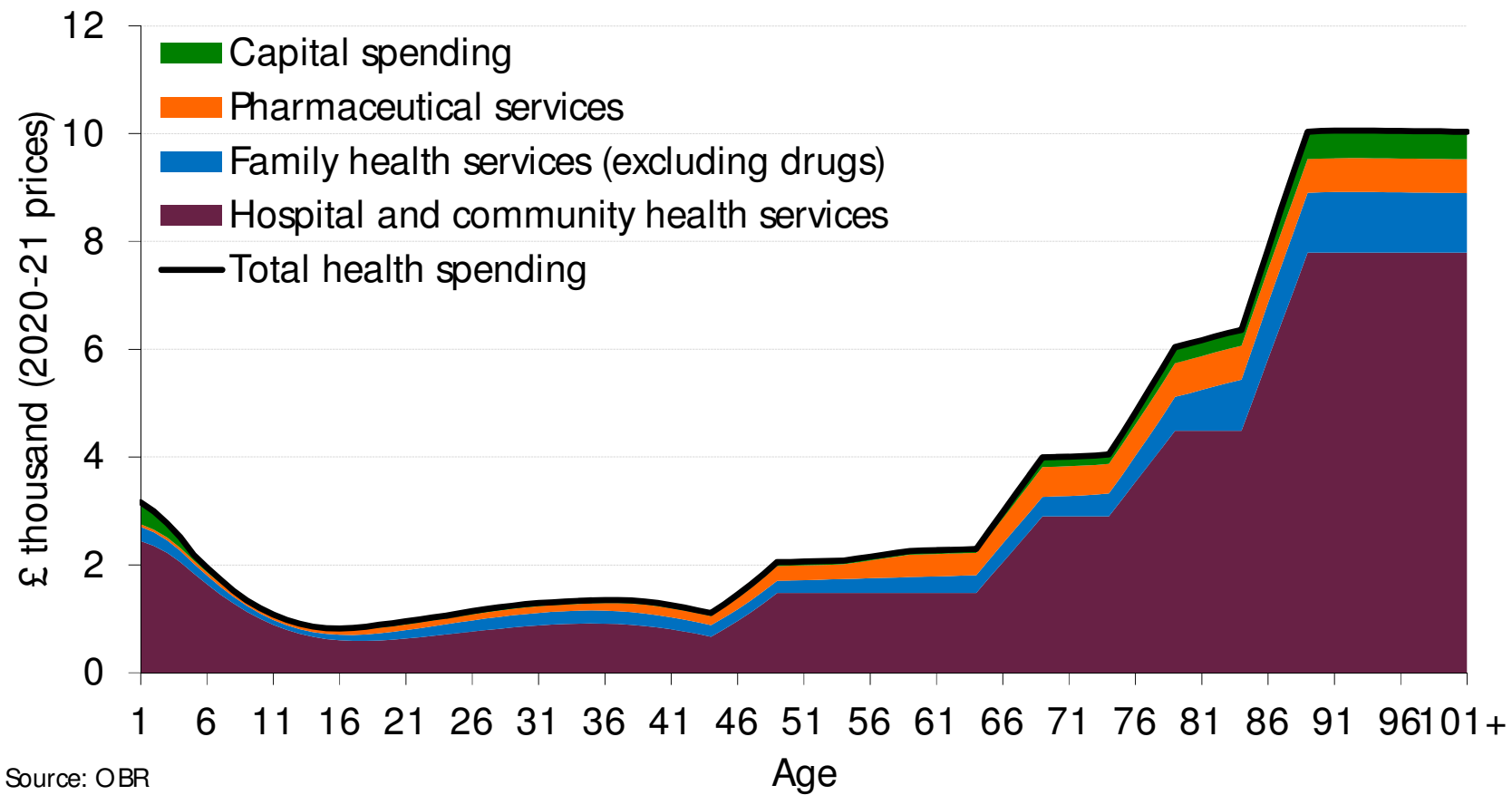
Fiscal sustainability report

Why ageing matters: in one picture



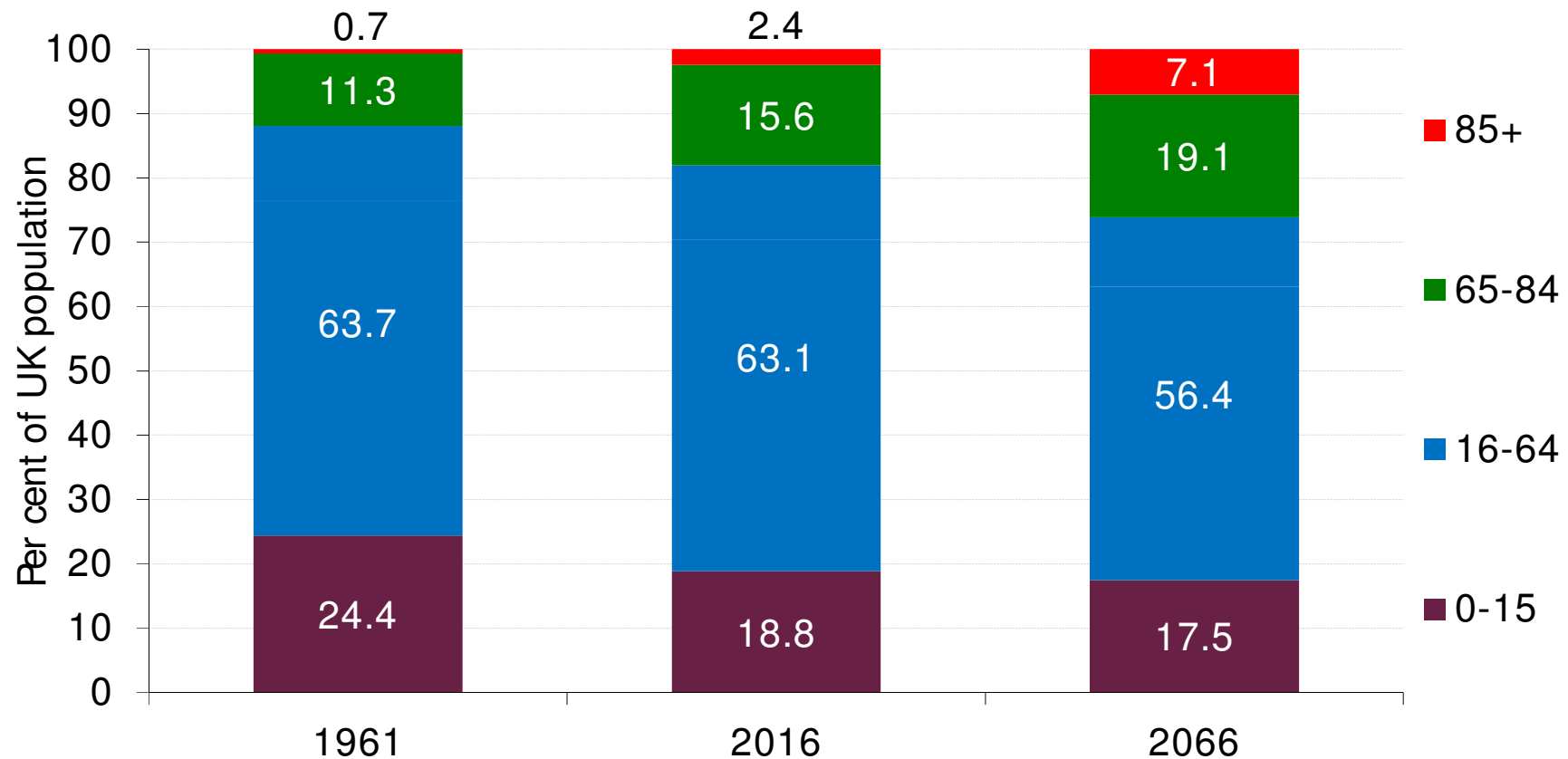
Source: OBR

Health spending by age



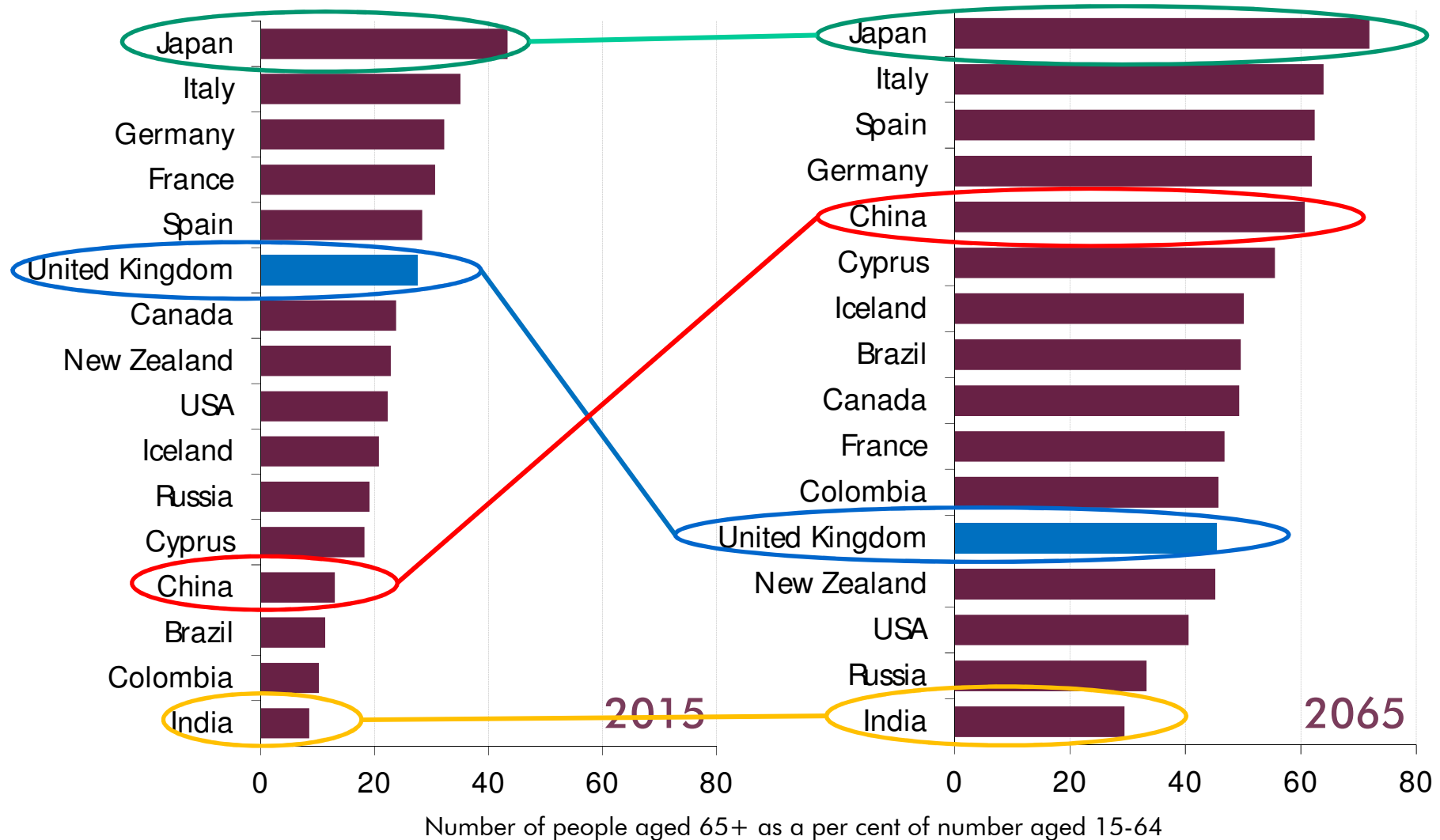
Source: OBR

The changing age distribution

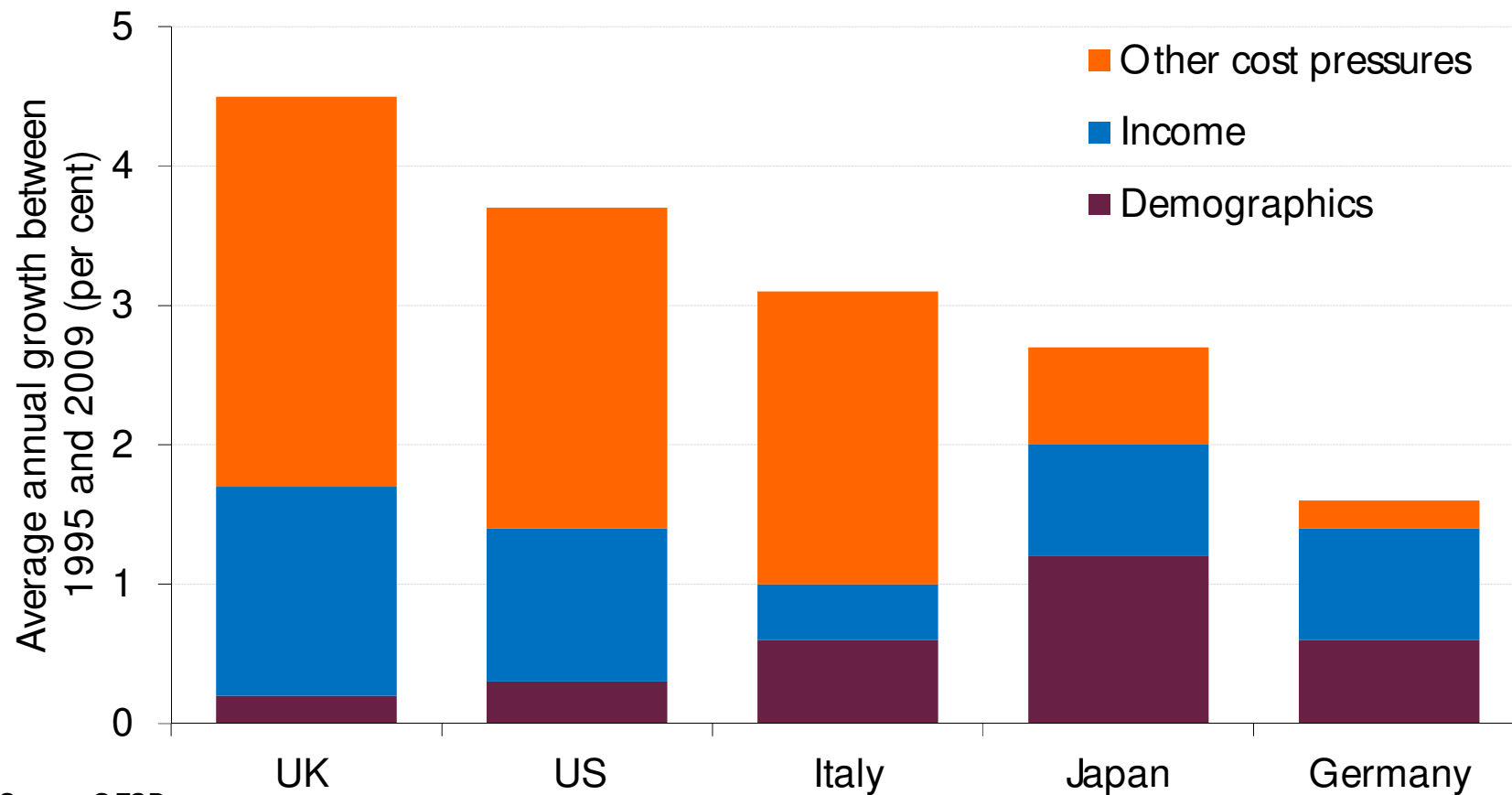


Note: 1961 is England and Wales only. Source: ONS

The rising dependency ratio

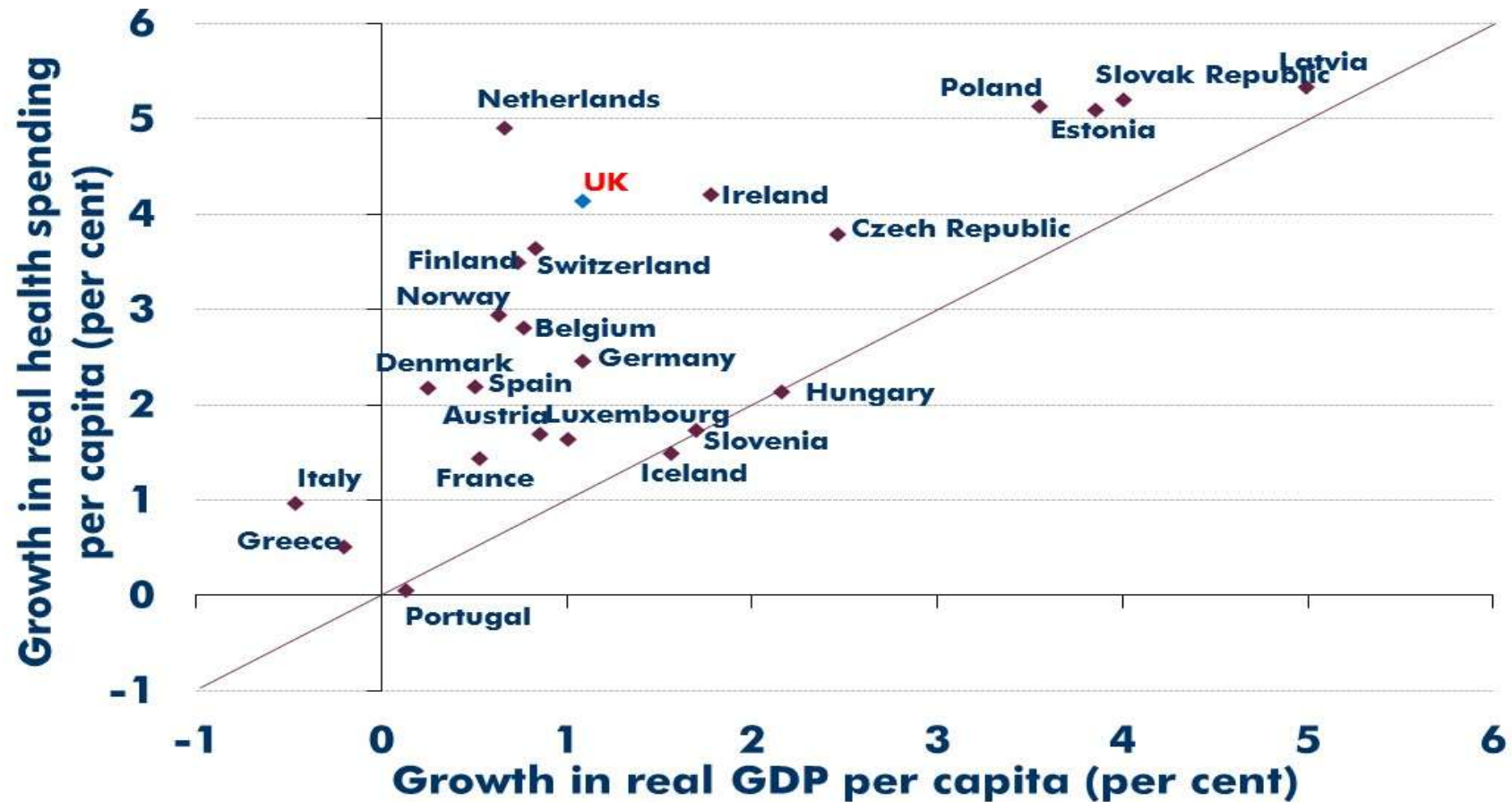


Drivers of public health spending



Source: OECD

Income effect

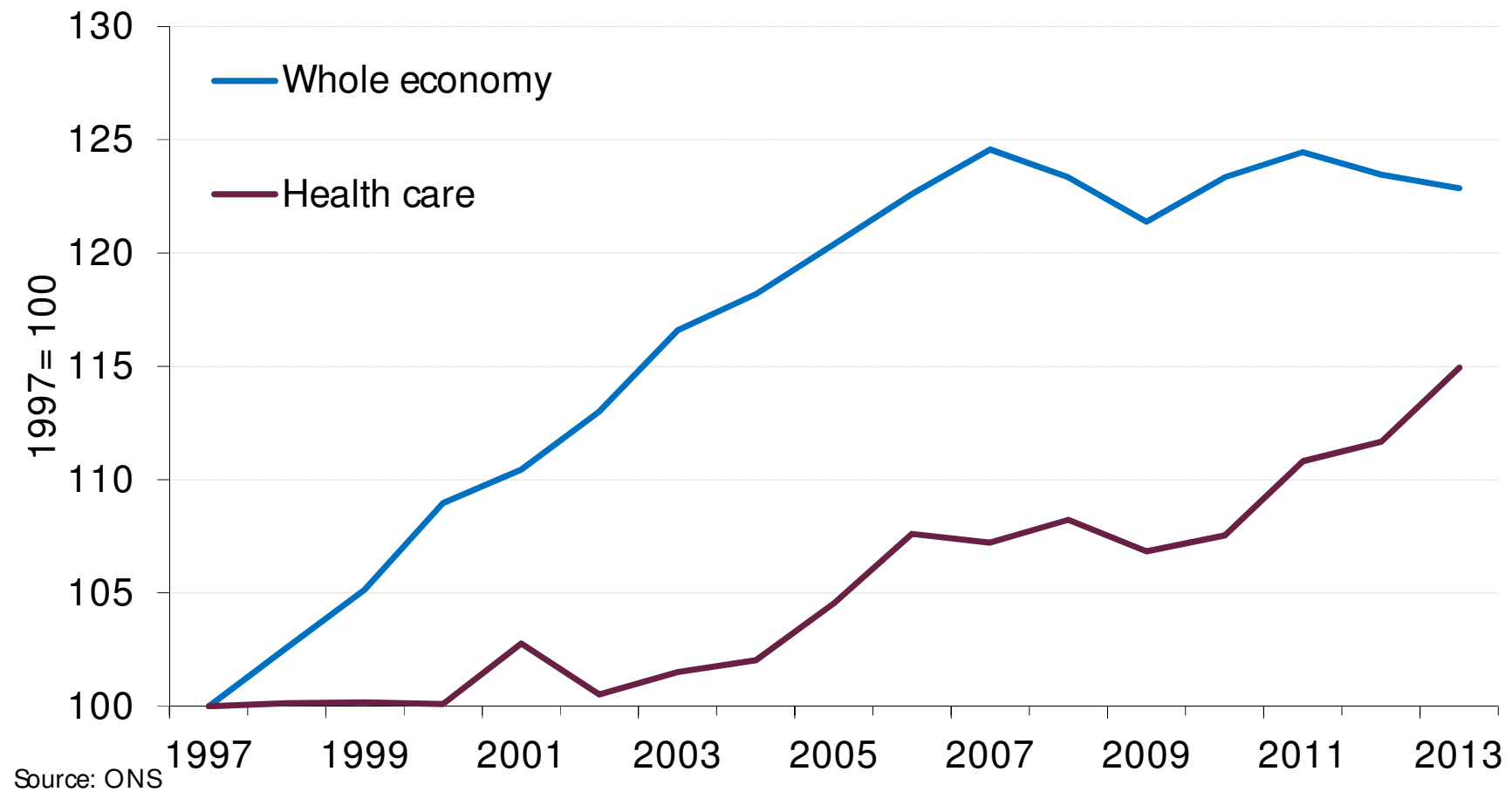


Change between 2000-2015

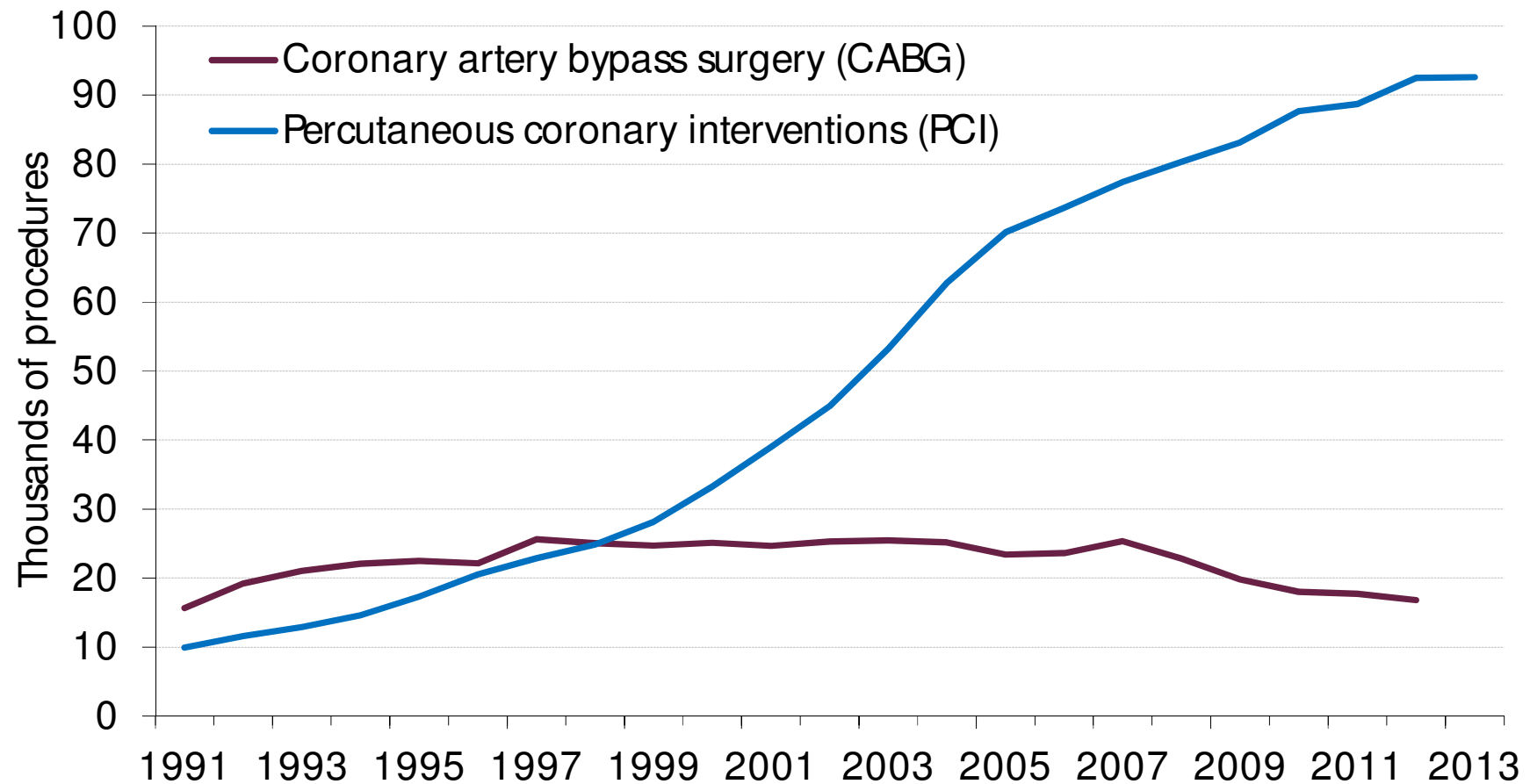
Other cost pressures

- Increasing relative health care costs
 - Health care is relatively labour intensive. Harder to generate productivity improvements but wages have to keep up with the rest of the economy
- Technological change
 - Even cheaper technologies may increase spending
- Chronic conditions and multi-morbidity
 - Thanks to ageing and lifestyle. King's Fund estimates mental health costs (inc dementia) will rise nearly 50% from 2007 to 2026.

Productivity growth in healthcare

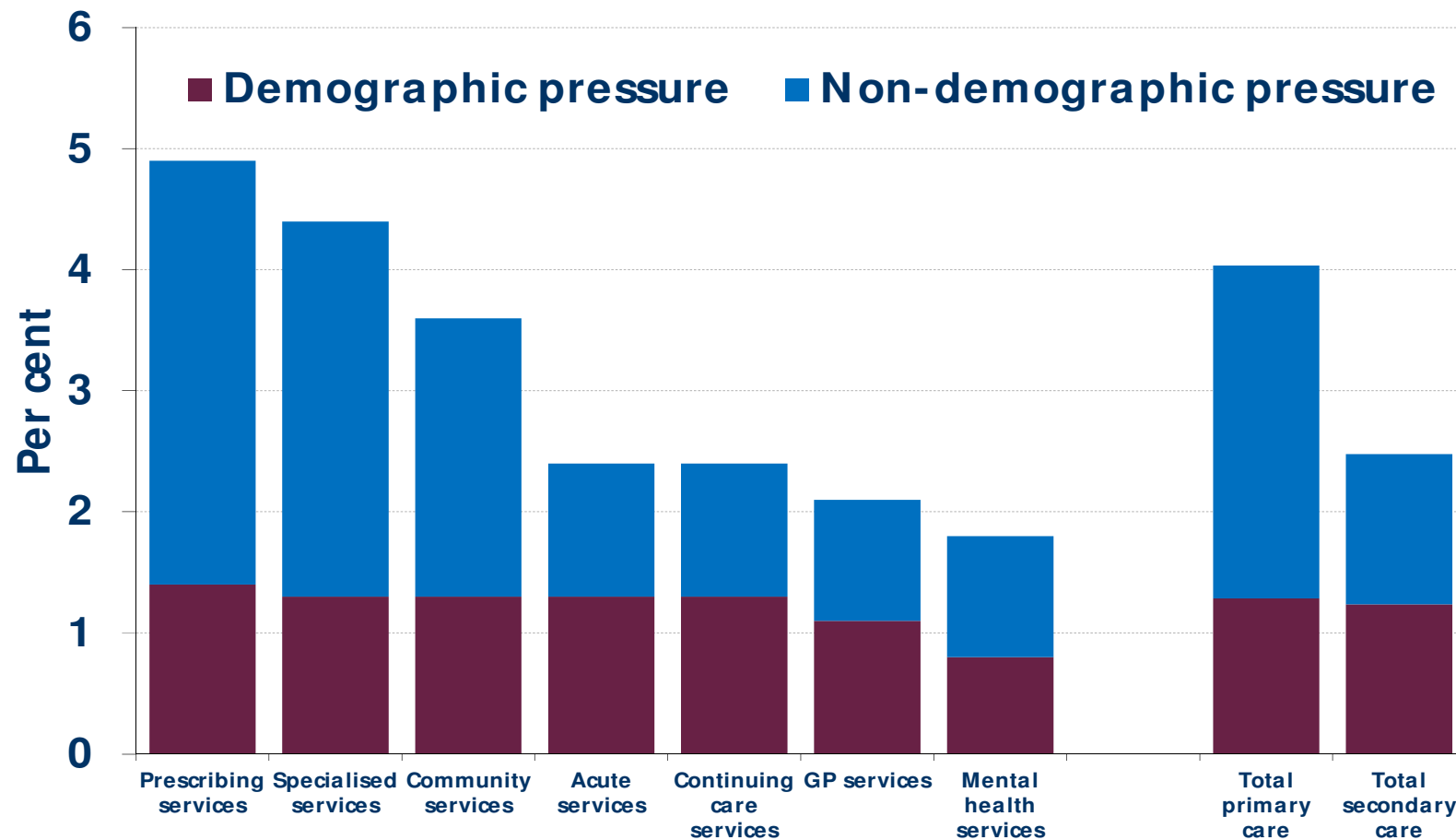


Surgery for heart disease



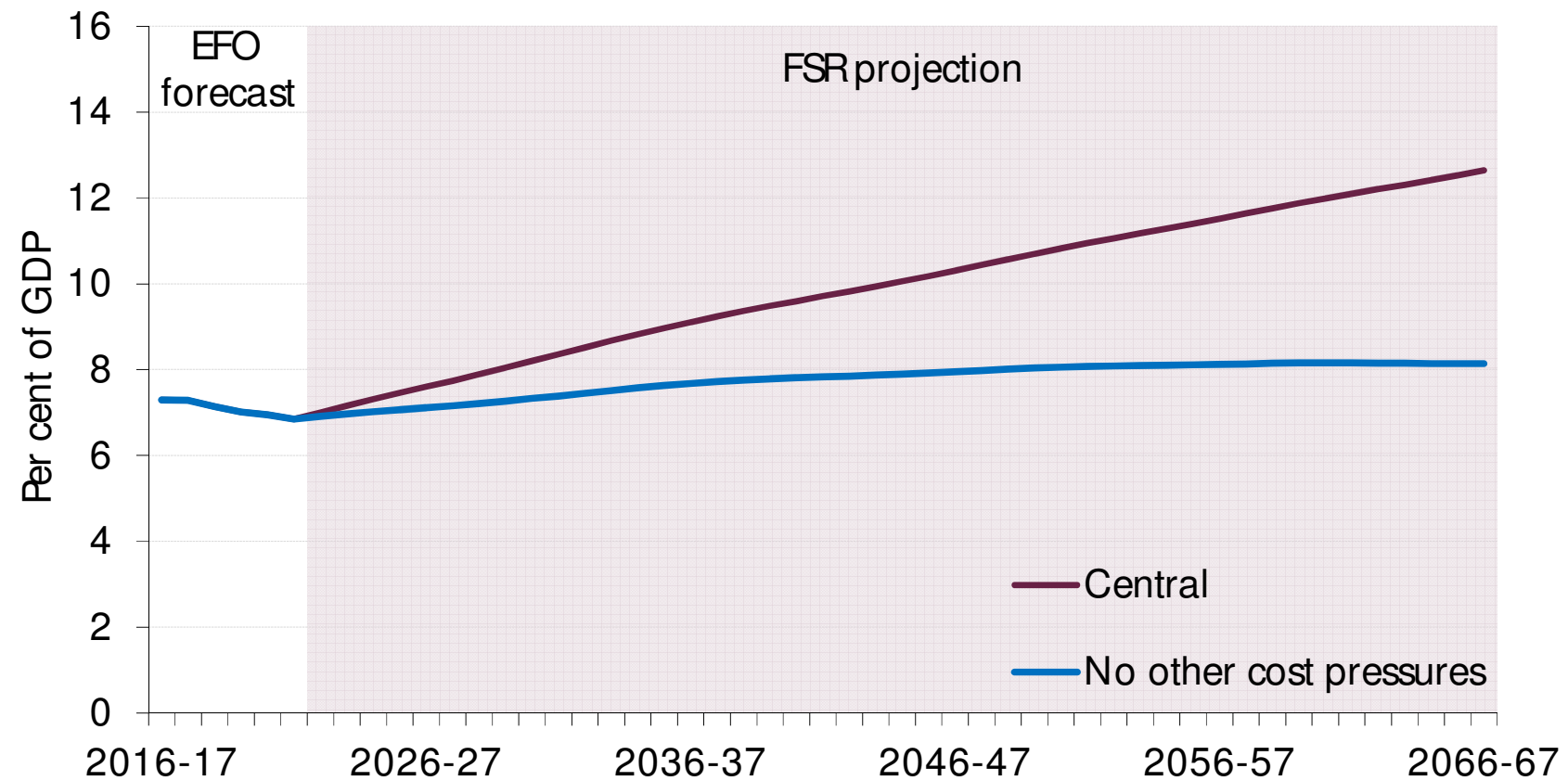
Source: British Heart Foundation

Pressures in the NHS



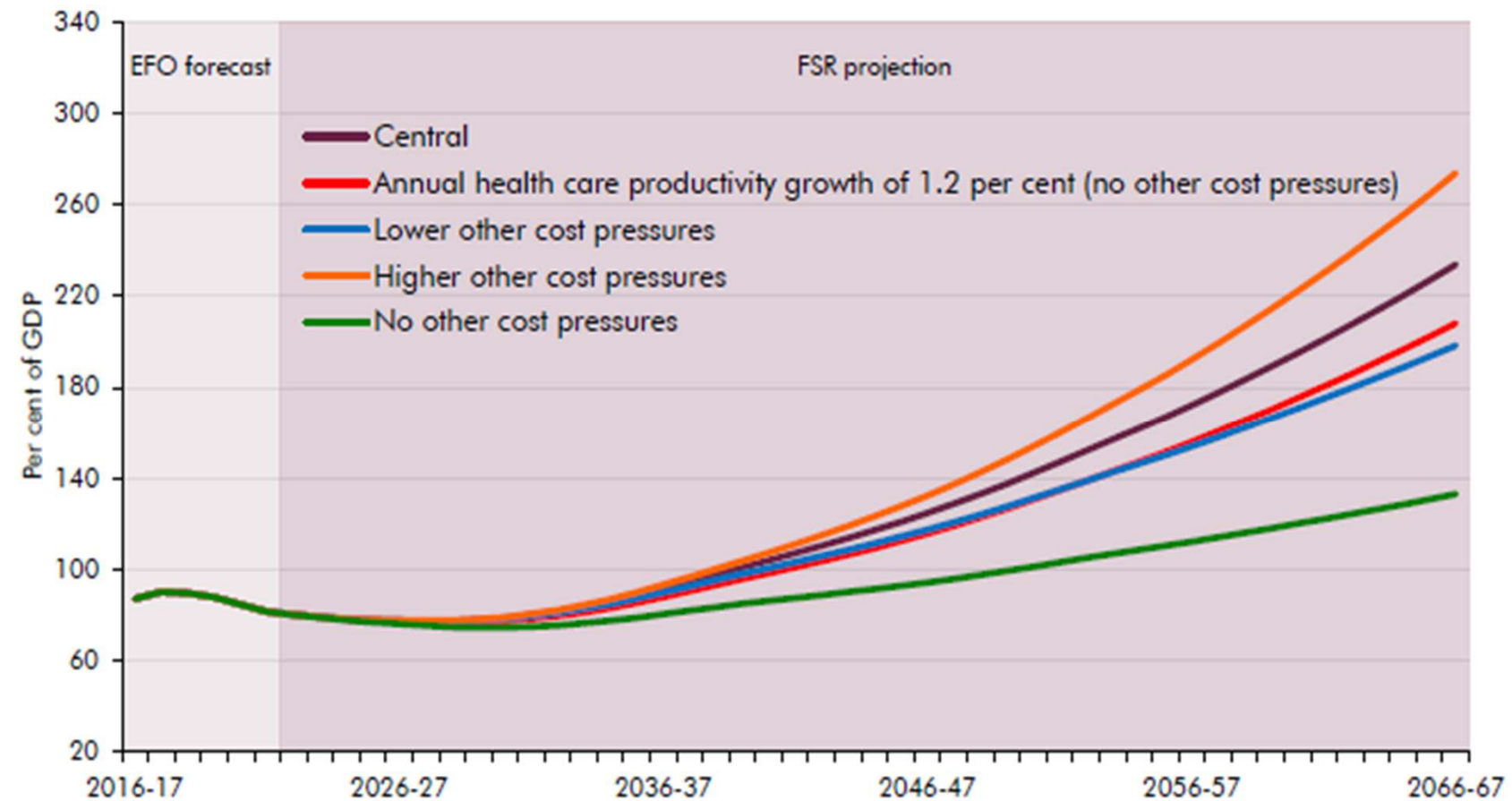
Source: NHS England (2016)

Projected health spending



Source: OBR

Public debt sensitivities (1)



Source: OBR

Public debt sensitivities (2)

Considerable uncertainty around 50 year projections

Outlook for debt would be worse if:

- **Other cost pressure** rise faster than in central projection
- **Population structure** older
- **Primary surplus** at end of medium term forecast smaller
- Long run **interest rates** higher relative to long run growth rates

Higher net migration would **improve outlook** as immigrants more likely to be of working age

Fiscal Risks Report

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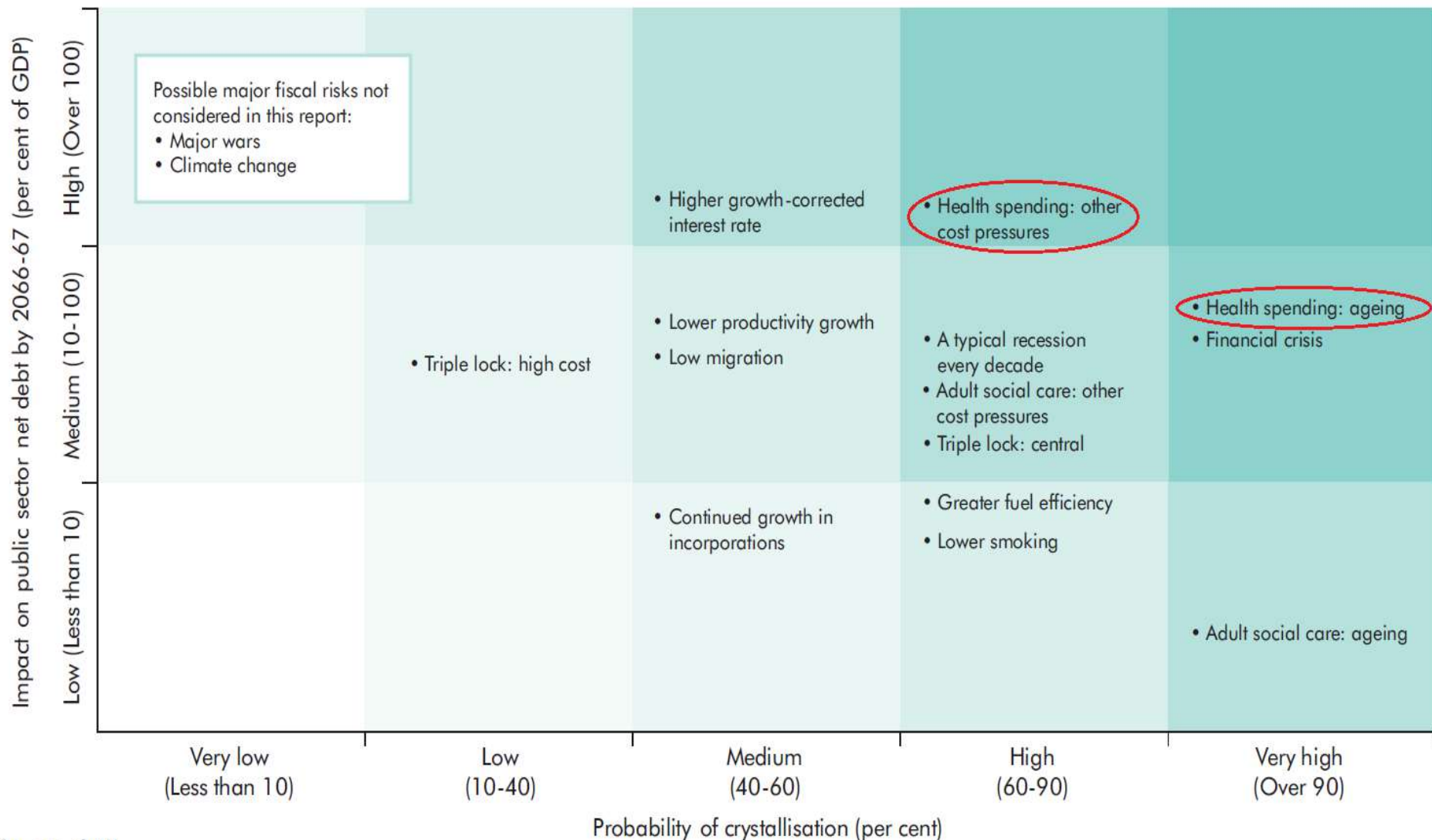
Fiscal risks report

July 2017

IMF (2017), *“Stressing the Public Finances – the UK Raises the Bar”*, PFM Blog

- macroeconomic risks
- financial sector risks
- specific revenue risks
- specific non-interest expenditure risks
- balance sheet
- debt interest spending and its relationship with economic growth
- illustrative fiscal stress test

Sources of risk to fiscal sustainability



Source: OBR

Conclusion

- Substantial fiscal challenge from rising **health care costs** over the longer term.
- Significant **population ageing** expected
- **Non-demographic** pressures likely to continue raising health spending
- Sensitivity analysis vital given the scale of **uncertainty**
- Long-term outlook **unsustainable** without policy change.

Questions?