NERI Research inBrief

May 2014

Overview of spending and staffing in the healthcare sector (No 12)

Daragh McCarthy

ISSN 2009-5848

Summary

The sharp decline in economic activity experienced in 2008 and 2009 and subsequent stuttering return to growth has forced a re-evaluation of the sustainability of healthcare spending in Ireland. The data points to a retrenchment of state funding of healthcare and increased reliance on private income. There is reason to believe that the scope for continuing to use private sources as a substitute for public funding is quite limited. This raises the possibility of a reduction in health spending over the coming years. To date, the decrease government spending has largely been achieved through a decline in the number of staff working in the healthcare sector. While determining an appropriate level of staffing is a complex exercise, there are clear risks associated with driving a reduction in spending through a lowering in staff numbers in key areas of service provision.

Key Points

- The data points to a retrenchment of state funding of healthcare and increased reliance on private income
- As a proportion of GDP, health expenditure in 2012 returned to a level similar to 2007. Current expenditure declined by 10.4 per cent between 2008 and 2012
- There has been an overall reduction of just over nine per cent in the number of employees in the healthcare sector

Nevin Economic Research Institute (NERI)
31/32 Parnell Square
Dublin 1
+ 353 (1) 8897722

e-mail: info@ NERInstitute.net
Web: www.NERInstitute.net

Research for new economic policies

Introduction

The sharp decline in economic activity experienced in 2008 and 2009 and subsequent stuttering return to growth has forced a re-evaluation of the sustainability of healthcare spending in Ireland. Agencies involved in the health system are under intense pressure to show that spending delivers good value for money. This *inBrief* provides an overview of spending on healthcare in Ireland, gives a breakdown of the sources of funding in the sector and examines recent developments in staffing. The initial overview of the data provided in this paper suggests overall health spending will continue to decrease in the medium term.

Public funding of healthcare

Comparing health spending across countries is fraught with difficulty; for instance, when compiling their 2003 set of data the OECD re-classified certain areas of public health spending excluding sub-heads that are counted as social services or social transfers in other countries. With this caveat in mind, Table 1 shows the average level of spending on healthcare across the EU15 from 1995 to 2009. In Ireland, both in real terms and as a percentage of GDP, healthcare spending rose significantly over the same period. At different points in time, all EU 15 countries have decided to prioritise a sustained increasing in spending on health in order to improve services and meet citizens' increased expectations. In Ireland's case, during the 1980s and early 1990s the growth in spending on healthcare barely kept pace with inflation, so a period of expenditure growth in healthcare sector was required to strengthen infrastructure, processes and outcomes. In addition, technological advances and improved medication tend to considerably increase the real cost of providing healthcare over time.

The recent economic crisis has undermined the state's ability to support the level of expenditure growth experienced from the mid-nineties onward. In the early stages of the crisis real government spending on the provision of healthcare increased by eight per cent—partly explained by a two percentage point drop in the HCIP health inflation index. The counter cyclical movement in health spending was also influenced by more people becoming eligible for medical cards and other state supports. In recent years, however, overall health

Table 1: Public Spending on Health, 1996-2012

	Health/GDP Ire (%)	Health/GDP EU15 Av (%)	Health/Gov. Spend, Ire (%)
'95	6.0	5.9	14.7
'96	5.7	6.0	14.6
'97	5.7	5.9	15.4
'98	5.4	5.9	15.5
'99	5.5	5.9	16.0
'00	5.2	5.9	16.6
'01	5.7	6.1	17.1
'02	6.1	6.2	18.3
'03	6.4	6.4	19.2
'04	6.6	6.5	19.7
'05	6.5	6.7	19.2
'06	6.5	6.7	18.8
'07	6.8	6.7	18.5
'08	7.6	6.9	17.7
'09	8.3	7.6	17.2
'10	7.9	7.4	12.1
'11	7.3	7.3	15.6
'12	7.1	7.3	16.7

spending has fallen considerably. As a proportion of GDP, health expenditure in 2012 returned to a level similar to 2007. Current expenditure declined by 10.4 per cent between 2008 and 2012, and it is almost certain that another large decrease in public expenditure on health will be sought in Budget 2015. Including the capital budget and adjusting for inflation, total public spending on healthcare decreased by an average of 6.5 per cent between 2010 and 2012. After a period of growth in government spending on healthcare, the sharp decline in economic activity that began in 2008 resulted in the level of publically funded support for the sector being deemed unsustainable. This considerable decrease in public funding for healthcare is consistent with the World Bank's (2009) finding that state expenditure on health tends to fall in times of severe economic distress.

Private funding

Health services in Ireland are funded through a combination of public and private funding. In 2011, total spending on healthcare was 8.9 per cent of GDP. Charts 1-3 provide a breakdown of public and private health spending that year. The data points to a retrenchment of state funding of

Chart 1: Public/Private spend on healthcare, 2011

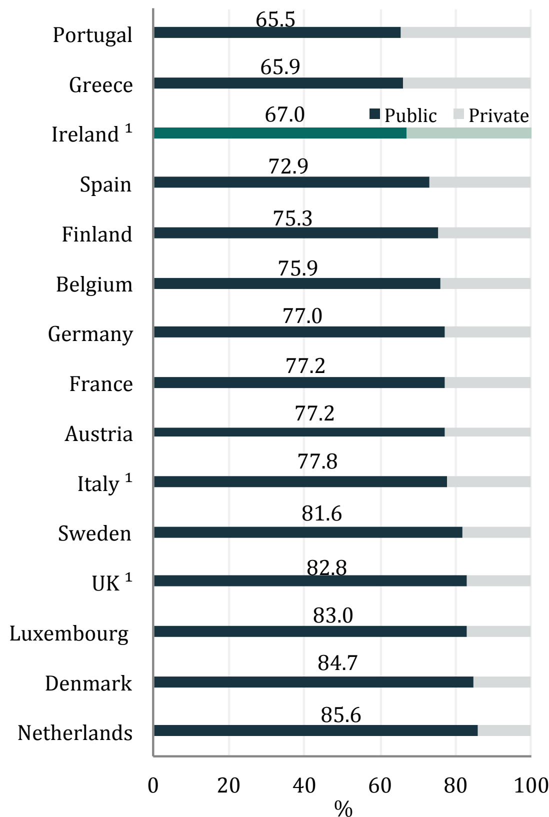


Chart 2: Composition of private spend ing on healthcare, 2011

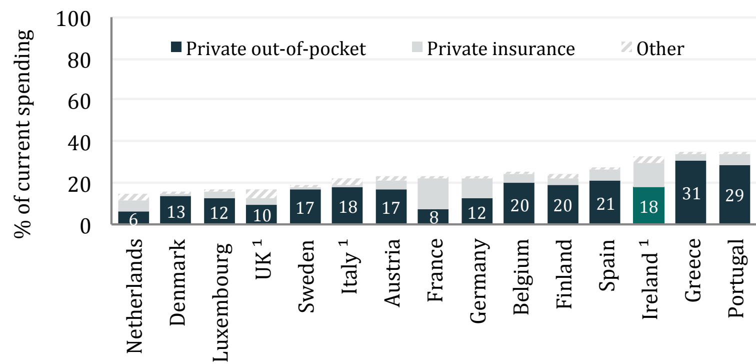
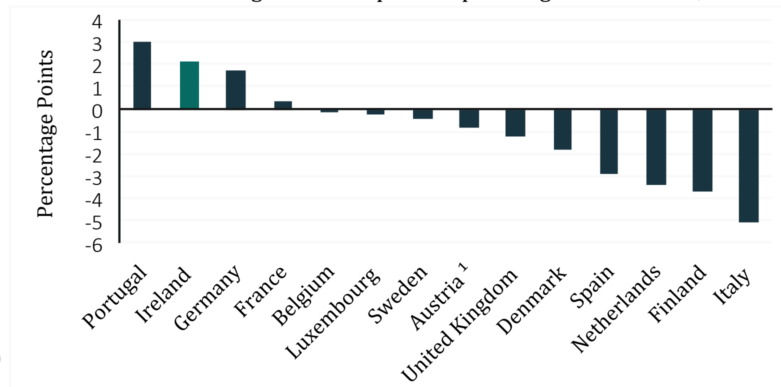


Chart 3: Change in out-of-pocket spend ing on healthcare, '00-'11



healthcare and increased reliance on private income. In 2011, a third of total spending on healthcare was derived from private sources. Private spending was split almost evenly between direct out-of-pocket spending and health insurance. Ireland is one of the few countries where out-of-pocket spending increased between 2000 and 2011. Recent policy—increased prescription charges for medical card holders and a rise in the statutory charge for an overnight stay in hospital, for example—indicates that the emphasis on out-of-pocket spending is set to continue. Similarly, charges on private insurances companies have increased significantly over the past four years resulting in higher premiums for customers. Setting aside questions of equity and social justice, the extent that private sources can be used as a substitute for public funding has a limit. A six percentage point fall, from a peak of 51 percent in 2008, in the proportion of the population with inpatient health insurance plans suggests there is little scope for private funding to continue to replace public spending. This raises the possibility of overall health spending continuing to decrease for the foreseeable future.

Staffing

Staffing costs are the main component of public spending on healthcare, and a reduction in staff numbers is one of the primary drivers of reduced public spending on health. Since 2009, there has been an overall reduction of just over nine per cent in the number of employees in the sector. Table 2 shows that nursing, down 10.1 per cent, and management/administation, decrease of 12.6 per cent, are the two categories that have where the greatest reduction in staff numbers has occurred since 2009. The most recent internationally comparable data on nursing levels relates to 2011 and indicates that, compared to the EU 15, Ireland has an above average level of nursing staff—12.2 nurses per 1,000 population (OECD 2013). However, international comparisons of health statistics should be interpreted with caution. In this instance, the data for Ireland includes both practising nurses and nurses working in the health sector in other capacities. This makes it difficult to determine an appropriate level of staffing on the basis of international comparison alone. While ascertaining an appropriate level of staffing is a complex exercise, there are clear risks

Table 2: Staffing in the health sector, 2009-2013

Year	Medical/ Dental	Nursing	Social care	Manage/ Admin
'09	8,149	38,789	16,027	17,954
'10	8,042	37,794	16,049	17,559
'11	8,005	36,782	16,295	16,256
'12	8,268	35,330	15,948	15,869
'13	8,345	34,866	15,838	15,699

associated with driving a reduction in spending through a lowering staff numbers in key areas of service provision. Cost control measures that centre on decreasing staff numbers increase the risk of compromising the quality of care provided and the health outcomes achieved. International studies have found that a significant decrease in nursing staff is strongly associated with a reduction in the quality of care provided and increased risks to patient outcomes—in particular, higher rates of preventable morality. These risks must be considered, so that short-run pressures to reduce health-spending can be reconciled with the overarching goal of creating a single tier system that allows all citizens access to high quality services.

Conclusion

The economic distress experienced since 2008 lead to a re-evaluation of the sustainable level of state support for healthcare and, ultimately, a considerable reduction in public expenditure on health. Over the past five years, the importance of private sources of funding has increased significantly, though there is reason to believe that the scope for continuing to use private sources as a substitute for public funding is quite limited. This raises the possibility of decreasing overall health spending in the coming years. To date, the reduction in public spending on healthcare has been largely been achieved through reducing staff numbers. Reducing costs through decreases in staff runs the risk of lowering the quality of care provided and the health outcomes achieved.

References

- Aiken L.H. et al (2014) The Lancet. Nurse staffing and education and hospital mortality in nine European countries: a retrospective observational study.
- Eurostat (2014). Government Finance Statistics.
- Health Insurance Authority (2014) Market Statistics February 2014.
- Health Service Executive (2014) Health Service Personnel Census, December 2013
- Organisation for Economic Development and Cooperation (2013) *Health at a Glance 2013.*
- Nolan, A. (2008) Health: Funding, Access and Efficiency. In The Economy of Ireland: National and Sectoral Policy Issues, edited by John W. O'Hagan, and Carol Newman. Dublin: Gill and Macmillan.
- Social Justice Ireland (2014) *Steps Towards and Fairer Future: Securing Economic Development, Social Equity and Sustainability*. Dublin.
- The World Bank. (2009).Protecting pro-poor health services during financial crises—Les sons from experience. Washington, DC: The World Bank.

The views expressed in NERI Research inBrief documents are those of the author(s) and do not necessarily represent those of the NERI.

Previous editions of this series are available on the institute's website www.NERInstitute.net