

## ***CIVITAS: Online Briefing – June 2007***

### **NHS finances**

#### **An increase in funding....**

Since 2000, the NHS has witnessed a huge, and unprecedented, increase in funding. Public spending on the NHS has risen from £43.9bn in 2000/1 to an estimated £84.3bn in 2006/7, representing an increase of 92.3% in cash terms and over 50% in real terms:

|                | <b>NHS spending<br/>(England, £billion)</b> | <b>Percentage<br/>increase</b> | <b>Real terms percentage<br/>increase</b> |
|----------------|---|--------------------------------|---|
| <b>1999-00</b> | 40.2  | -                              | -   |
| <b>2000-01</b> | 43.9  | 9.3                            | 11.6                                      |
| <b>2001-02</b> | 49.0  | 11.6                           | 8.9                                       |
| <b>2002-03</b> | 53.9  | 9.9                            | 6.5                                       |
| <b>2003-04</b> | 63.0  | 13.1                           | 10.2                                      |
| <b>2004-05</b> | 69.7  | 10.6                           | 8.4                                       |
| <b>2005-06</b> | 76.4  | 9.6                            | 6.9                                       |
| <b>2006-07</b> | 84.3  | 10.4                           | 7.5                                       |
| <b>2007-08</b> | 92.6  | 9.9                            | 7.0                                       |

*Source: DH, Departmental Report 2007, ch.3*

[http://www.dh.gov.uk/en/PublicationsAndStatistics/Publications/AnnualReports/DH\\_4134613](http://www.dh.gov.uk/en/PublicationsAndStatistics/Publications/AnnualReports/DH_4134613)

This has, in turn, caused expenditure on healthcare as a percentage of GDP to increase significantly, allowing the NHS to 'catch up' to a level at least comparable to other developed countries as was envisaged by the Wanless Report:

|                | <b>Total UK public sector health<br/>spending (% GDP)</b> | <b>Total UK private health<br/>spending (% GDP)</b> | <b>Total UK health<br/>spending (% GDP)</b> |
|----------------|---|---|---|
| <b>2004-05</b> | 6.9   | 1.4   | 8.3   |
| <b>2005-06</b> | 7.1   | 1.4   | 8.6   |
| <b>2006-07</b> | 7.5   | 1.4   | 8.9   |
| <b>2007-08</b> | 7.8   | 1.4   | 9.2   |

*Source: HM Treasury, Government Spending Review 2004, ch.8*

[http://www.hm-treasury.gov.uk/media/801/75/sr2004\\_ch8.pdf](http://www.hm-treasury.gov.uk/media/801/75/sr2004_ch8.pdf)

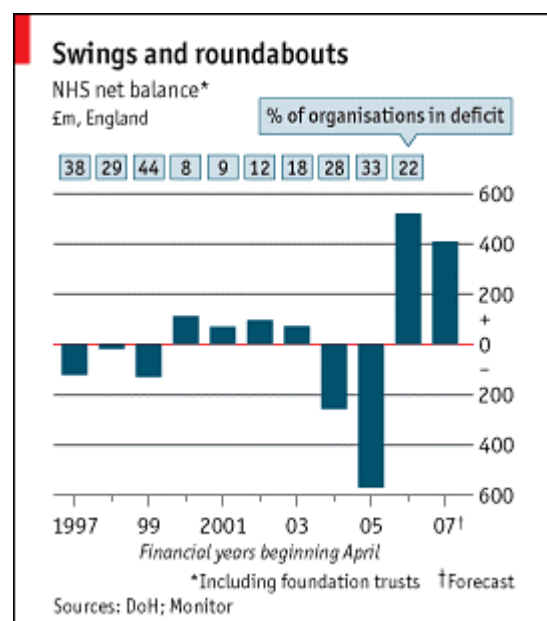
|                       | Health Spending (% GDP) |            |                                 |
|-----------------------|-------------------------|------------|---------------------------------|
|                       | 1999                    | 2004       | 2007/8<br>(planned expenditure) |
| Australia             | 8.4                     | 9.6        |                                 |
| Canada                | 9                       | 9.9        |                                 |
| France                | 9.2                     | 10.5       |                                 |
| Germany               | 10.3                    | 10.6       |                                 |
| Italy                 | 7.8                     | 8.7        |                                 |
| Netherlands           | 8                       | 9.2        |                                 |
| Sweden                | 8.4                     | 9.1        |                                 |
| Switzerland           | 10.5                    | 11.6       |                                 |
| <b>United Kingdom</b> | <b>7.1</b>              | <b>8.1</b> | <b>9.2</b>                      |
| United States         | 13.1                    | 15.3       |                                 |

Source: OECD, OECD Health Data 2006

[http://www.oecd.org/document/16/0,2340,en\\_2649\\_37407\\_2085200\\_1\\_1\\_1\\_37407,00.html](http://www.oecd.org/document/16/0,2340,en_2649_37407_2085200_1_1_1_37407,00.html)

### Deficits...

However, despite the increase in funding, the NHS has struggled to balance its books over the last few years. It first registered a deficit in the financial year 2004/05, which then more than doubled to £570m in 2005/06:



Source: *The Economist*, June 9-15 2007, p.31

[http://www.economist.com/world/britain/displaystory.cfm?story\\_id=9312352](http://www.economist.com/world/britain/displaystory.cfm?story_id=9312352)

This should not come as a surprise. Traditional financial concerns have consistently played second-fiddle to meeting top-down performance targets set by the government, particularly on waiting times. Pay increases offered by the government were in many cases over-generous and, with market-based reforms lagging behind the increase in spending, the NHS displayed a typical monopoly response to higher resources: overbuilding capacity, taking on too many extra staff and incurring lots of fixed costs (Slywotzky, Morrison, 1997).

Nor has the market been allowed to work. Micro-management – such as top-slicing profits made by financially sound PCTs, and giving windfall payments in the form of contingency funds to those that have not – has produced perverse financial incentives and inhibited local management already struggling to get to grips with the new system.

### Surplus...

Nonetheless, a huge £1.37bn turn-around has been witnessed in 2006/07, with NHS finances going into a £510m surplus. This looks an impressive achievement, and is a step in the right direction, but in fact hides the detail that 22% of NHS organisations remain in deficit, with a combined gross debt of £911m. This is a decrease on the £1.37bn gross deficit the previous year, but is indicative of a turn-around more the result of bigger surpluses than smaller deficits:

|                        | NHS finances<br>(excluding Foundation Trusts) |                    |                                   |
|------------------------|---|--------------------|-----------------------------------|
|                        | (Deficit)/Surplus (£m)                        | Gross deficit (£m) | % NHS organisations<br>in deficit |
| 2003/04                | 73  | 265                | 18                                |
| 2004/05                | (221)   | 725                | 28                                |
| 2005/06                | (547)   | 1312               | 33                                |
| 2006/07                | 510   | 911                | 22                                |
| 2007/08<br>(projected) | 400   | 200                | 6                                 |

Source: DH, NHS financial performance: quarter four 2006-07, June 2007

[http://www.dh.gov.uk/prod\\_consum\\_dh/idcplg?IdcService=GET\\_FILE&dID=141386&Re ndition=Web](http://www.dh.gov.uk/prod_consum_dh/idcplg?IdcService=GET_FILE&dID=141386&Re ndition=Web)

Significantly the DH has classified 17 Trusts, who have consistently run large deficits, as ‘financially challenged’, to be subject to rigorous review of their financial and operational performance. Hillingdon PCT is the extreme example, with a massive £52.1m deficit. It has made the decision to outsource the majority of commissioning functions to the private sector in an attempt to reign in costs.

What turn-around that has happened has also come at a cost; it is estimated that £1.8bn in extra funding due to the NHS in 2006-7 was held back to pay off previous deficits and to form a contingency fund for any deficit this year. This has unsurprisingly had a knock-on effect on NHS services. The 18-week referral-to-treatment target now looks out of reach, training budgets have been cut and some elective surgery has been delayed.

The DoH has projected a £400m surplus for 2007-8, and a fall in the number of organisations in deficit to just 6%. It will be interesting to trace any knock-on effects on patient care.

### **Foundation Trusts...**

It is interesting to note is the more impressive performance of NHS Foundation Trusts [FTs] (not contained in the above figures). Free from DH and SHA 'performance management', and able to determine their own priorities for service provision and development on the basis of demand, their financial performance has been sound. While there was a significant number of FTs in deficit in 2004/05 and 2005/06, the size of deficit for any individual FT was small (with the exception of UCLH – see below) and a large surplus was returned in 2006/07:

|                | <b>NHS Foundation Trust finances</b> |                           |                                       |
|----------------|--------------------------------------|---------------------------|---------------------------------------|
|                | <b>(Deficit)/Surplus (£m)</b>        | <b>Gross deficit (£m)</b> | <b>% NHS organisations in deficit</b> |
| <b>2004/05</b> | (36.9)                               | 40.7                      | 38                                    |
| <b>2005/06</b> | (24.2)                               | 53.8*                     | 34                                    |
| <b>2006/07</b> | 130                                  | 7.1                       | 8                                     |

\*Includes UCLH, which incurred a debt of £35.9m due to a large capital investment.

*Source: Monitor, NHS Foundation Trusts: Report for the year ended March 2007, June 2007*

<http://www.monitor-nhsft.gov.uk/publications.php?id=1008>

This financial performance is reflected in the fact that the Healthcare Commission rated 87% of FTs either 'excellent' or 'good' for use of resources, compared with just 12% of other Trusts. It is true that the FTs were the best performing NHS Trusts, but their continued financial security suggests independence from central control could be beneficial for all.

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**CIVITAS: The Institute for the Study of Civil Society**

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