

NHS: IS THE EXTRA MONEY WORKING?

1. HOW MUCH EXTRA IS BEING SPENT ON HEALTH?

- Recent and Scheduled Increases
- How much do we need to spend to reach EU levels?

Recent and Scheduled Increases

When the Labour Party took office in 1997, most commentators accepted that health care in Britain had been under-funded for years. Renewing public services was at the heart of the 1997 Blair manifesto, and this meant more money. On health spending, the manifesto said:

‘The Conservatives have wasted spending on the NHS. We will do better. We will raise spending on the NHS in real terms every year and put the money towards patient care. And a greater proportion of every pound spent will go on patient care not bureaucracy.’¹

In its July 1997 budget the Government announced an extra £1 billion for the NHS in England in 1998-99 (£1.2 billion across the United Kingdom).² Then in October 1997 the Government announced that a further £269 million, including £30 million to be released from the efficiency savings promised in the manifesto, had been made available in 1997-98 to help ease winter pressures in the NHS in England.³

In December 1997 in the forward of *The New NHS - Modern, Dependable* Tony Blair wrote:

‘In my contract with the people of Britain I promised that we would rebuild the NHS. We have already made a start. The Government is putting an extra £1.5 billion into the health service during the course of this year and next.’⁴

In its March 1998 budget the Government announced a further £417 million for the NHS in England in 1998-99 (£500 million across the UK), as part of a package of measures to reduce NHS waiting lists and times. These increases would increase its spending on the NHS in England by £1.8 billion to £35,315 million in 1998-99, equivalent to 2.5 per cent in real terms.⁵

Figure 1 shows NHS net expenditure growth. We see that growth in expenditure was modest between 1996-97 and 1998-99, after which the rate of increase rose.

¹ Labour Party. *New Labour: because Britain deserves better*. London: The Labour Party, 1997.

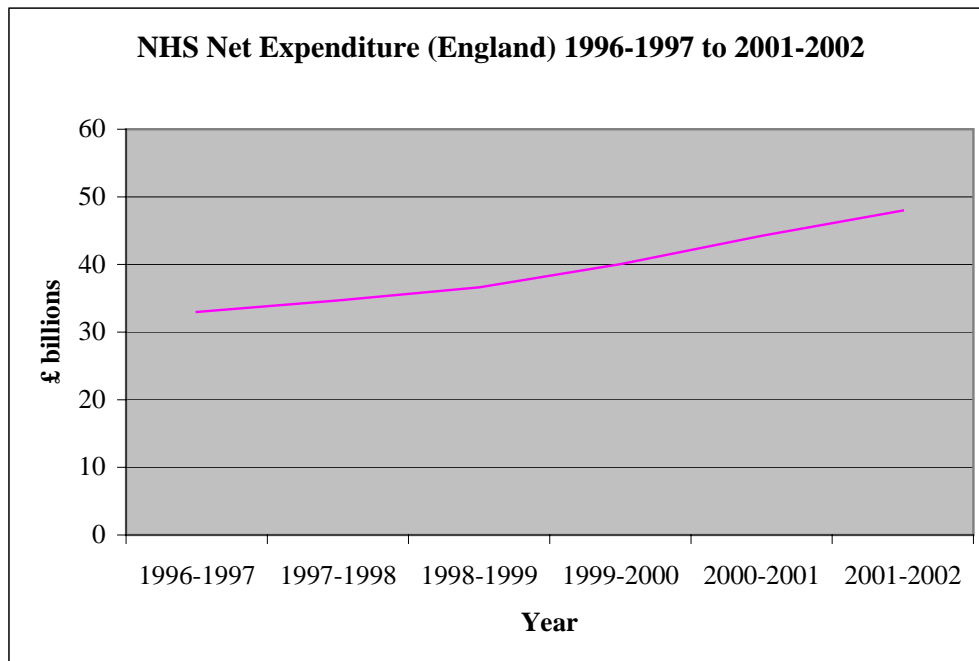
² Department of Health, *Departmental Report*, Government’s Expenditure Plans 1998-1999, Chapter 2. <http://www.archive.official-documents.co.uk/document/cm39/3912/3912-02.htm>

³ Department of Health, *Departmental Report*, Government’s Expenditure Plans 1998-1999, Chapter 2. <http://www.archive.official-documents.co.uk/document/cm39/3912/3912-02.htm>

⁴ Blair writing in Department of Health, *The New NHS - Modern, Dependable*, (1997) White Paper. <http://www.archive.official-documents.co.uk/document/doh/newnhs/newnhs.htm>

⁵ Department of Health, *Departmental Report*, Government’s Expenditure Plans 1998-1999, Chapter 2. <http://www.archive.official-documents.co.uk/document/cm39/3912/3912-02.htm>

Figure 1. NHS Net Expenditure (England), 1996-1997 to 2001-2002



Source: Department of Health, Departmental Report The Government's Expenditure Plans 2000-2001.⁶

While New Labour's approach to the NHS may have sounded reassuring and even promising in some quarters, the government began experiencing hostile press regarding its new performance indicators, waiting lists, and particularly, its annual flu crises – said to be bringing the NHS to a near standstill.⁷

So it was against the background of another 'winter crisis', early in January 2000, that Tony Blair made a pledge on the BBC's David Frost programme, to take UK health spending up to the European average of 8 per cent over five years.⁸ In March 2000, a promise of 6.3 per cent increase in funding over the five years to 2004 was made. *The NHS Plan*, which is subtitled '*A plan for investment, a plan for reform*', reprised this spending pledge.⁹ The Plan begins:

“The NHS is the public service most valued by the British people.....Yet despite its many achievements, the NHS has failed to keep pace with changes in our society. Too often patients have to wait too long. There are unacceptable variations in standards across the country. What patients receive

⁶ <http://www.doh.gov.uk/dohreport/report2000/dr2000-03.html>

⁷ Simon Jeffery, The NHS winter crisis explained, *The Guardian*, Monday December 4, 2000.

⁸ BBC David Frost Programme, January 2000. A significant furore followed this announcement. It was argued that much of the increase of funding simply amounted to re-announcement of earlier pledges. The status of the announcement was queried – was it a pledge, a promise, an aim, an aspiration, or a firm commitment? The level of the EU average was also the subject for much debate – primarily regarding whether the average in 2000 be used, or whether a 'floating' average taking account of changes in EU health spending over following years should be adopted. Latest OECD figures (Health Data 2003) show that average health expenditure rose from 8.0% GDP in 2000 to 8.3% GDP in 2001.

⁹ Increased spending continues to be funded from mainly taxation. Since April 2003, a one percent increase in national insurance contributions has been hypothecated to the NHS.

depends too much on where they live and the NHS has yet to fulfil the aspiration to provide a truly national service. Constraints on funding mean that staff often work under great pressure and lack the time and resources they need to offer the best possible service.

“To tackle these problems, the government has decided to make an historic commitment to increase the funding of the NHS over the next four years. The Prime Minister’s announcement ...of large, sustained investment in the NHS provides the funding that doctors, nurses, dentists, therapists, managers and other staff have called for over the years.”¹⁰

In the forward to the Plan, Tony Blair added:

“In March [2000,] we took a profound decision as a Government.....We decided to make an historic commitment to a sustained increase in NHS spending. Over five years it amounts to an increase of a third in real terms.¹¹ Over time, we aim to bring it up to the EU average.”¹²

Table 1. NHS Net Expenditure in England from 1995-96 to 2003-04.

	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04
NHS Net Expenditure	32.2	33.3	35.0	37.0	40.3	44.6	48.7	52.6	57.0
Net percentage real terms change (%)		-0.1	2.2	2.7	6.4	8.9	6.6	5.3	5.6

Source: DoH Expenditure Plans 2001-02

Table 1 shows NHS net expenditure in England from 1995-96 to 2003-04. This shows that real terms increases have been significant since 1999-2000. Table 2 below presents total Department of Health Resource Budget from 1998-1999 to 2002-2003. We see that expenditure in that period rose by almost one quarter.

Table 2. Total Department of Health Resource Budget by year.

Year	1998-99 Outturn £billion	1999-00 Outturn £billion	2000-01 Outturn £billion	2001-02 estimated Outturn
Total DoH Budget	£41,128	£42,400	£45,550	£51,535

Source: DoH Expenditure Plans 2002-03 to 2003-04

In his March 2002 Budget, the Chancellor of the Exchequer, Gordon Brown, announced a major review on future health finance needs and appointed former banker Derek Wanless to carry it out.¹³ Published in November 2001, Section B of the

¹⁰ NHS Plan, 2000.

¹¹ This amounts to growth by half in cash terms.

¹² Tony Blair writing in the Forward to the National Plan.

¹³ The Review’s terms of reference were: “1) To examine the technological, demographic and medical trends over the next two decades that may affect the health service in the UK as a whole; 2) In light of (1), to identify the key factors which will determine the financial and other resources required to ensure that the NHS can provide a publicly funded, comprehensive, high quality service available to all on the basis of clinical need and not ability to pay; 3) To report to the Chancellor by April 2002, to allow him

review body's interim report *Securing our Future Health: Taking a Long-Term View*, was concerned with the historical and international context of NHS funding and performance. This section noted how much we had fallen behind our neighbours even though our average real rate of growth in spending had been 3.6 per cent a year since the 1970s:

“Despite these increases, a widening gap developed between UK spending and the higher EU average (as a percentage of GDP) The cumulative underspend (relative to the unweighted average of EU spending) between 1972 and 1998 has been calculated as £220 billion in 1998 prices. Relative to EU average spending on an income-weighted basis, the cumulative underspend is £267 billion. Not surprisingly, with such significantly lower spending, the UK health service outcomes have lagged behind continental European performance....”¹⁴

The Chancellor accepted the recommendations of the review. Accordingly, in his Spring Budget 2002, Mr Brown promised to get us to European levels of funding and announced a 7.4% (real terms) per year increase in public spending on the NHS between 2002-03 and 2007-08.¹⁵ In 2002, the NHS cost the average British household £2400 per year; that is roughly £1000 per person. By 2007-08 the UK NHS budget is set to rise by over 44% in real terms to over £90 billion¹⁶, roughly £1400 per person. Table 3 presents the Government's total net NHS expenditure plans as announced in Gordon Brown's Budget 2002.¹⁷

Table 3. Government's Total Net NHS Expenditure Plans (England):

	2002-03 Plan £billions	03-04 Plan £billions	04-05 Plan £billions	05-06 Plan £billions	06-07 Plan £billions	07-08 Plan £billions
Total NHS expenditure (bn)	55.8	61.3	67.4	74.4	81.8	90.2
Real terms growth		7.3	7.3	7.6	7.3	7.5

Source: DoH Departmental Report 2002-2003. Chapter 3.

Figure 2 shows these planned expenditure increases and also plots an approximation of what expenditure would be had real terms increases of 3.6% continued. Table 4 shows the planned increases in GDP terms.

to consider the possible implications of this analysis for the Government's wider fiscal and economic strategies in the medium term; and to inform decisions in the next public spending Review in 2002.”

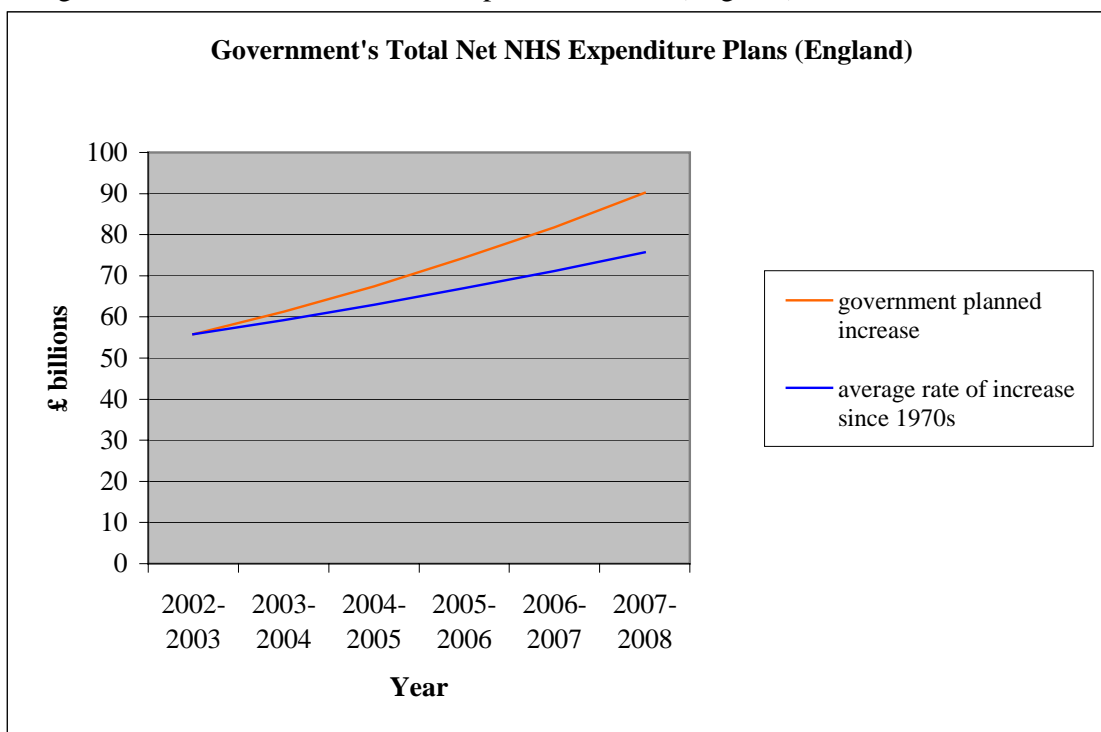
¹⁴ Wanless, D., *Securing our Future Health: Taking a Long-Term View, Interim Report*, London: Her Majesty's Treasury, 2001 (p37).

¹⁵ DoH, NHS expenditure Plans 2002-03. And Emmerson C., Frayne, C., *Challenges for the July 2002 Spending Review*, The Institute for Fiscal Studies, Briefing Note No.27. 2002.

¹⁶ DoH, NHS expenditure Plans 2002-03, HMSO, 2002 (pp30-32).

¹⁷ “These spending plans are shown in Stage 2 Resource Budgeting terms as this is the basis upon which public expenditure will be monitored and controlled as of 1 April 2003.” These figures are not directly comparable with the other expenditure figures in this section, (eg Table 1) as those figures are “consistent with another method of budgetary control – ie a Stage 1 Resource Budgeting basis.” See Annexes for further details.

Figure 2. Government's Total Net Expenditure Plans (England)



Source: DoH Departmental Report 2002-2003. Chapter 3; Civitas calculations.

Table 4. UK health spending as a proportion of GDP

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total UK health spending	7.7	8.0	8.3	8.7	9.0	9.4
Gross UK NHS spending	6.6	6.9	7.2	7.5	7.8	8.2
Non-NHS health spending (a)	1.2	1.2	1.2	1.2	1.2	1.2

Source: Comprehensive Spending Review 2002,

(a) Includes additional 1.1 per cent of GDP for private spending on health as assumed in the Wanless Report, as well as minor changes for charity spend and national accounts classifications.

So will these rises be sufficient to allow us to make up for lost time, match our neighbours health spending, and also take account of likely increased demand for ever more expensive health care?

The Wanless review body's final report '*Securing our Future Health: Taking a Long-Term View*', published in April 2002, set out three scenarios (solid progress, slow uptake, and fully engaged) for health spending projections to 2022.¹⁸ The 'solid

¹⁸ Wanless, D., *Securing our Future Health: Taking a Long-Term View, Final Report*, London: Her Majesty's Treasury, 2002.

progress' projections are shown in Table 5.¹⁹ The Government's spending proposals to 2007 match the Wanless projections fairly closely. But what would it take to match EU levels of spending now?

Table 5. Wanless final report 'solid progress' projections

	2002-03	2007-08	2012-13	2017-18	2022-23
Projected total health spending, GDP, (includes 1.2% private spending)	7.7	9.4	10.5	10.9	11.1
Total NHS spending (£ bn, 2002-03 prices) (a)	68	96	121	141	161

Source: Wanless final report. Chapter 5.

Current UK GDP is £1,005,023 million. Table 6 takes the GDP rates of the EU, France and Germany and projects what expenditure in the UK would be, were we to match those countries' levels of spending.

Table 6. Projections of expenditure were we to adopt EU spending levels

Country	Total Expenditure on Health % GDP (2000)	Equivalent expenditure UK GDP 2001-02 £1,005,023.00 (£m)	Amount by which comparator exceeds UK spending	Public Expenditure % GDP (2000)
UK	7.3 %	73,000,	na	5.9
Fr	9.5 %	95,477.19	c. £27 billion	7.2
Ger	10.3 %	103,517.37	c. £35 billion	7.8
EU	8.0 %	80,401.84	c £12 billion	5.8

Source: OECD Health Data 2002; and http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_fig.cfm

In short, if we take current total UK NHS expenditure as c. £68bn (the figure used by Wanless), in order to reach the EU average of 8.0%, we would need to spend c. £12bn more per year. To reach French levels of total health spending the figure rises to something approaching c. £27bn extra per year. While to reach German or Swiss levels, spending would have to rise by c.35bn.

Summary of Key Points:

- The government has delivered on its promise of extra funds for the NHS

But have those funds made a difference to patient care yet? Section two briefly looks at some of the reforms and newly created bodies that have accompanied the extra spending.

¹⁹ In April 2003 the Chancellor asked Wanless to make a further enquiry into NHS funding and to report in 2004.