

In Budget 2002, the Chancellor announced the biggest ever sustained spending growth in the history of the NHS:

- **£40 billion extra resources** in the UK by 2007-08 compared to 2002-03;
- **annual average growth of 7.3 per cent** above inflation; and
- **spending on social services in England growing at an annual average rate of 6 per cent** above inflation over the next three years.

These resources are linked to a package of reforms:

- **resources and responsibility for delivery will be progressively devolved to local organisations**, with the greatest freedoms and flexibilities going to the highest performing organisations;
- **a new set of performance improvement incentives** will underpin this process;
- **accountability will be strengthened** by the Department of Health's focus on setting standards and holding the NHS to account, and by two new, fully independent health and social services inspectorates;
- **greater choice for patients** will also reinforce accountability to the public.

Delivery priorities are set out in a new Public Service Agreement.

DELIVERING THE NHS PLAN

7.1 In Budget 2000, the Chancellor announced significant, sustained increases in investment in the NHS over the period 2000-01 to 2003-04. Alongside the new resources the Secretary of State for Health published the NHS Plan, which set out key delivery priorities, including reducing waiting times, tackling health inequalities and improving cancer, heart disease and mental health services. The new resources and priorities were underpinned by a programme of reforms to ensure delivery. This programme of investment and reform is now underway, leading to improvements in health outcomes and quality of care for patients. Death rates from cancer and heart disease are declining. Maximum waiting times for hospital treatment have fallen from 18 months to 15 months. Numbers of doctors and nurses are rising, with 39,000 more nurses, 5,000 more consultants and 1,500 more GPs since 1997. Investment in new equipment and buildings is beginning to deliver modern facilities for patients. The challenge now for the NHS is to sustain this progress over the long term.

The Wanless Review of long term health trends

7.2 To ensure that the NHS can sustain this progress and is able to deliver a publicly-funded, comprehensive and high quality service available on the basis of clinical need and not ability to pay, in his 2001 Budget the Chancellor commissioned Derek Wanless to undertake an independent review of the long-term trends and resource needs that will affect the health service in the UK over the next 20 years. His final report, published at the time of Budget 2002, describes a fully engaged scenario for the health service of the future, in which public expectations for their health are high, life expectancy rises more quickly, health status improves dramatically and people have confidence in the health system. The report highlights the importance of a more productive and flexible workforce, more effective use of technology, policies to promote better disease prevention and putting in place improved incentives to ensure more efficient use of resources.

7.3 The report concluded that over the next 20 years health care spending would have to rise substantially to deliver this fully engaged scenario. Over the short term, the review recommended the fastest rises within the 20 year period, to allow for improvements to address the legacy of under-investment. Over the long term the fully engaged scenario is projected to be both the least expensive and to involve the best health outcomes of the three scenarios set out in the review, reflecting the potential for improved use of resources.

7.4 In Budget 2002, the Chancellor accepted the recommendations of the review. To help deliver the fully engaged scenario, NHS spending will grow by 7.4 per cent annually in real terms over the next five years: the largest sustained spending growth in the history of the NHS. By 2007-08, UK health spending is projected to reach 9.4 per cent of GDP compared with the current European Union unweighted average of around 8 per cent.

7.5 These resources will help deliver the key priorities set out in the Department of Health's new Public Service Agreement (PSA). The priorities include maximum waiting times for hospital treatment, with a new maximum target of three months by 2008. Existing priorities are restated on introducing booked appointments by 2005 to increase patient choice and targets to tackle health inequalities, reduce mortality rates from cancer and heart disease and tackle drug abuse. A tough new target has been set to cut waiting times for accident and emergency treatment. New standards are also being introduced to help older people live independently at home.

Value for money **7.6** The Government is committed to improving the performance of the NHS. The new PSA includes a value for money target which will require the NHS to improve its cost efficiency and treat even more patients than before. The Government is also committed to improving the quality of health services and to reflect this, for the first time, the value for money target includes a quality element. Reductions in unit costs and improving quality will contribute around 1 per cent respectively to the overall value for money target of at least 2 per cent a year.

Expanding capacity **7.7** To deliver the PSA priorities, the NHS needs to continue expanding capacity. As a result of the new plans, compared with September 2001, by 2008 there will be on a headcount basis an additional 15,000 GPs and consultants, 30,000 more therapists and scientists, and 35,000 more nurses, midwives and health visitors in the NHS. More surgery will take place in new freestanding diagnostic and treatment centres. By 2008, an extra 42 major hospital schemes will be operational with 13 more under construction. The extra investment will allow an increase in treatment capacity equivalent to over 10,000 beds.

Reforms to deliver the NHS Plan **7.8** But expanding capacity is not enough by itself to deliver the higher standards for patients required by the PSA objectives and to make progress towards the fully engaged scenario. The Secretary of State for Health published *Delivering the NHS Plan* at the time of the Budget, bringing together a programme of reforms already in progress and a series of new measures, that will underpin the Budget resources and PSA priorities. The reforms focus on devolving responsibility for delivery to frontline organisations and strengthening accountability for delivery. In addition, the Department of Health will be announcing new standards and measures to help more older people live at home independently.

Devolving responsibility for delivery **7.9** Resources and responsibility for delivery will be progressively devolved to local organisations, with the greatest freedoms and flexibilities going to the highest performing organisations. By 2004 local primary care trusts will hold 75 per cent of NHS resources and, within the framework of national standards, will be able to use their resources to commission care from a range of providers to provide patients with high quality care in both community and hospital settings.

7.10 A new set of performance improvement incentives will underpin the devolution of resources and responsibilities, including a system of financial flows that will reward efficient use of resources through payment by results. High performing organisations will also benefit from less monitoring and inspection, improved access to capital and increased delegated authorities.

**Strengthening
accountability**

7.11 The role of the slimmed-down Department of Health will be to set standards and hold the NHS to account for delivery. Following the abolition of the old NHS regional offices and almost 100 health authorities, day-to-day management of the NHS will become the responsibility of the 28 new strategic health authorities, who will hold local services to account, build capacity and support performance improvement.

7.12 Accountability will be strengthened by the establishment of two new, streamlined inspectorates of health and social services. The new inspectorates will be independent of government. Their responsibilities will include value for money audit and inspections, publishing an annual report to Parliament on performance and use of resources in the NHS, validating performance information for local patient prospectuses to be published by all primary care trusts, publishing star ratings for all NHS organisations and independent scrutiny of patient complaints.

7.13 Accountability to the public will also be reinforced by greater choice for patients. As capacity expands, NHS patients for the first time will have choice over where and when they are treated, with booked appointments for all hospital admissions. Patients and their GPs will receive the independently validated information they need about hospital performance to help them make informed choices.

WORKING TOGETHER WITH SOCIAL SERVICES

7.14 Social services resources in England will increase by an annual average of 6 per cent above inflation over the next three years – the largest ever sustained increase. These increases will be matched with reforms to deliver higher standards of care.

7.15 To help more older people live independently at home with a high quality of life, the Department of Health will be announcing tough new standards on access to social care. New models of housing will also be developed, including sheltered housing and supported accommodation. Extra resources will help to ensure that fees paid to care homes are fair.

7.16 In order to ensure that older people receive care in the most appropriate settings, a new cross-charging system announced by the Department of Health following the Budget will incentivise local social and NHS services to work more effectively together. Under the new arrangements, social services departments will be subject to a charge if an older person remains in hospital after they are clinically fit for discharge, when the cause is lack of rehabilitation and ongoing social care. There will be matching charges on NHS hospitals. Details of the scheme are being discussed with stakeholders prior to the introduction of legislation.

7.17 There will be continued investment to improve the life chance of children in care, focused on increasing their educational attainment and reducing the gap between youth offending rates of children in care and their peers. To support this programme, the Government has begun a review of placement choice and fostering with a focus on helping local councils commission and deliver effective placements for looked-after children, with a special emphasis on fostering services.

7.18 There will also be investment in new and improved child and adolescent mental health services, as part of a cross-cutting government commitment to improve support for children at risk and their families.

BETTER FOOD STANDARDS

7.19 The Food Standards Agency (FSA) is a UK-wide body, operating at arm's length from ministers, whose priorities are to improve food safety standards and help people improve their dietary health.

7.20 To help ensure that the FSA can deliver these priorities, resources will grow by an average of 3 per cent a year above inflation over the next three years. A Service Delivery Agreement (SDA) setting out precise targets that the FSA will deliver with these resources will be published in the autumn. The SDA will be built around four key inter-related aims: increased consumer confidence, better food safety and standards, improved consumer choice and diet and more effective and efficient ways of working.

SPENDING PLANS

7.21 These new spending plans provide for NHS funding in the UK to be £40 billion higher in 2007-08 than in 2002-03, representing an average increase of 7.4 per cent a year, after inflation (7.3 percent on a full resource budgeting basis) over the same period. Spending on social services will increase at an average rate of six per cent a year, in real terms, from 2002-03 to 2005-06.

Table 7.1: Key figures

	£ million					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
National Health Service (England)						
Resource budget	53,883	58,852	64,510	70,569	77,277	84,744
Capital budget	2,195	2,821	3,379	4,359	5,159	6,129
Total NHS (England)¹	55,752	61,300	67,444	74,394	81,838	90,200
Personal Social Services (England)						
Funded by the department	2,125	2,503	2,681	2,720		
Local Authority PSS SSA ²	9,231	10,023	10,715	11,856		
Total PSS (England)^{1,3}	11,356	12,526	13,396	14,576		
Food Standards Agency						
Resource budget	120	125	138	141		
Capital budget	1	3	1	1		
Total FSA¹	119	127	137	140		
Total resource budget	56,040	61,382	67,221	73,312		
Total capital budget	2,283	2,921	3,487	4,477		
Total Departmental Expenditure Limit^{1,4}	57,995	63,929	70,262	77,254		
Near-cash spending in DEL	55,743	61,627	67,827	74,489		

¹ Full resource budgeting basis, net of depreciation.

² Standard Spending Assessment: subject to spending decisions by local authorities.

³ Prior to transfers of grants from Department of Health (DH) DEL to SSA of £248 / 813 / 813m for years to 2005-06, and transfers from Department for Work and Pensions to Personal Social Services in respect of care leavers and residential allowance.

⁴ Includes DH DEL of £57,875 / 63,802 / 70,125 / 77,114m and FSA DEL.

⁵ Consistent with previous control basis.

Table 7.2: UK NHS spending

	£ million					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total UK NHS spending¹	68,065	74,849	82,193	90,489	99,373	109,359
UK NHS estimated cash spending ²	65,364	72,085	79,271	87,198	95,893	105,573

¹ Full resource budgeting basis, net of depreciation. UK spending is subject to the decisions of the devolved administrations.

² Consistent with previous control basis.

Table 7.3: UK health spending as a proportion of GDP

	Per cent 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
<i>of which</i>						
Gross UK NHS spending ¹	6.6	6.9	7.2	7.5	7.8	8.2
Non-NHS health spending ²	1.2	1.2	1.2	1.2	1.2	1.2

¹ The NHS budget is net of certain receipts. To measure total health spending in line with the national accounts, total NHS spending is gross of these receipts and is on a near-cash basis.

² Includes an 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. Total assumption for non-NHS spending is 1.15 per cent so some totals may not sum due to rounding.

