

# Parliamentary briefing

## THE IMPACT OF THE SPENDING REVIEW ON THE DEPARTMENT OF HEALTH: WESTMINSTER HALL DEBATE, THURSDAY 11 NOVEMBER 2010

### Key points

- 1) The NHS budget will increase by 0.1 per cent a year in real terms over the Spending Review period. This means the Government has met its pledge to protect the health budget, although cost pressures will reduce NHS purchasing power.
- 2) The Spending Review commits the NHS to finding up to £20 billion of annual efficiency savings by 2014/15, the biggest financial challenge it has faced in its history. It is essential that this challenge is met if the NHS is to maintain quality and avoid significant cuts to services.
- 3) £1 billion will be set aside from the NHS budget by 2014/15 to improve partnership working between the NHS and social care. This provides an important opportunity to achieve more with available resources by improving integration between health and social care services.
- 4) An additional £1 billion in grant funding will be provided for social care, providing some relief for hard-pressed local services. However, the money is not ring-fenced and with local government facing a 26 per cent reduction in its budget, social care services will be vulnerable to competing local priorities.
- 5) The Spending Review includes a commitment to provide a ring-fenced budget for public health. However, there are no details about how much funding will be provided - this will presumably follow in the Public Health White Paper.

### **(1) The NHS budget**

The NHS budget will grow from £103.8 billion in 2010/11 to £114.4 billion in 2014/15. This represents a real terms increase of 0.4 per cent over the period, or 0.1 per cent a year. Although this is generous compared to other departmental settlements, it is low in historical terms: the NHS has averaged real terms increases of 4 per cent a year since it was established and 7 per cent since the turn of the century. The only similar period of near-zero real terms growth was in the early 1950s.

The real terms increase in the NHS budget meets the government's pledge to protect health spending. However, the NHS will face various cost pressures over the period:

- The increase in VAT to 20 per cent from January 2011 is likely to cost the NHS an additional £250 million a year.
- Despite the two year freeze on public sector pay for those earning above £21,000 a year announced in the Emergency Budget, the NHS pay bill is likely to increase by up to £900 million a year due to increments built into most NHS contracts.

- By 2013/14, pressure to increase pay will be considerable: GPs will have had their pay frozen for four years, consultants for three years and other NHS staff earning above £21,000 for two years. With staff costs accounting for more than half of NHS expenditure, this could have significant implications.
- The additional costs associated with demographic change are likely to equate to annual real terms increases in the NHS budget of around £1 billion a year.
- There will also be costs associated with implementing the proposals in the government's health white paper; an estimate from Kieran Walshe at Manchester Business School puts this at £2-£3 billion.<sup>i</sup>

Thus, although the NHS budget will benefit from a real terms increase over the Spending Review period, its spending power will be reduced.

## **(2) The NHS productivity challenge**

The Spending Review commits the NHS to finding up to £20 billion of annual efficiency savings by 2014/15. This reinforces the aspiration previously set out by the NHS Chief Executive, David Nicholson, for the NHS to find £15-£20 billion in efficiency savings by 2013/14. It leaves the NHS facing the biggest financial challenge in its history.

To put this into context, the Office for National Statistics estimates that health care productivity fell by an average of 0.3 per cent a year between 1995 and 2008.<sup>ii</sup> Delivering the productivity improvements needed will be even more challenging now that, over the same period, the NHS will also be required to implement the reforms set out in the health white paper and respond to the structural changes this will entail, including the abolition of primary care trusts and strategic health authorities.

With local budgets already under significant pressure in some areas, hard decisions will need to be taken. However, slashing budgets and cutting services should not be the answer to the financial challenge facing the NHS. There are significant opportunities to improve productivity at every level of the health system.

- The most significant savings can be made by reducing variation in the delivery of clinical services - evidence suggests that productivity improvements valued at £4.5 billion could be delivered in acute hospitals alone by bringing performance across the board up to the level already achieved by the best.
- Commissioners have a vital role to play by reducing spending on low-value interventions and redesigning care pathways to avoid unnecessary hospital admissions. With around two-thirds of hospital bed days accounted for by emergency admissions, significant gains can be made here.
- NHS employers should increase workforce productivity by improving staff performance, tackling sickness absence and adopting more flexible ways of working. For example, renegotiating incremental increases built into staff contracts could save up to £900 million and protect jobs.

Delivering productivity improvements on the scale needed will require action at all levels of the health system. With the NHS facing significant cost pressures, it is essential that it rises to the productivity challenge if it is to maintain quality and avoid significant cuts to services.

### **(3) NHS and social care integration**

The Spending Review announced that £1 billion a year will be set aside from the NHS budget by 2014/15 for partnership working between the NHS and social care services. Last week, the Secretary of State for Health announced that part of this budget will be used to fund reablement services which support people when they return home from hospital. Funding for these services will increase to £150 million in 2011/12 and £300 million a year from 2012/13.

Emerging evidence suggests that improving co-ordination between health and social care services delivers better outcomes for patients and saves money for the NHS by, for example, enabling people to continue living at home and preventing unnecessary admissions to hospital. However, although improving integration between health and social care services has been a policy objective for more than three decades, progress up to now has been limited to a small number of local authority exemplars and examples of good practice.

Given the severe pressure on health and social care budgets over the next few years, it will be essential that the NHS and local authorities do more to work together to pool resources and align services. This funding therefore provides an important opportunity to improve the delivery of services and save money, and should provide welcome encouragement to local health and social care services to work in partnership.

### **(4) Social care funding**

The Spending Review provides a real terms increase in grant funding for social care of around £1 billion a year by 2014/15. This will be provided through the Department of Health's Personal Social Services grant which will be merged into local government formula grant.

This funding is welcome recognition of the pressures on the social care system and should provide some relief for hard-pressed local services. However, the money is not ring-fenced and there is therefore no guarantee that it will be spent on social care. With adult social care the largest area of expenditure in many local authorities and local government facing a 26 per cent reduction in its overall budget, social care services will be vulnerable to competing local priorities.

Councils will face difficult choices to protect social care funding. Some authorities are likely to consider increasing user charges, especially for non-residential services, and the relatively small number of councils still providing care for people with 'moderate' needs may tighten their eligibility criteria.

The additional funding provides a stepping stone while the Dilnot Commission considers how to reform social care funding. With the number of people over 85 set to double by 2026 and people living for longer with complex conditions, services will come under even more severe pressure in the years ahead. Our report *Securing good care for more people*, estimated that the cost of the current social care system left unreformed will increase from £6.4 billion in 2010 to £12.1 billion in 2026. Long term reform of social care funding remains a pressing political priority and must be taken forward urgently once the Dilnot Commission has reported.

### **(5) Public health**

The Spending Review includes a commitment to provide a ring-fenced grant to local authorities for public health, one of only two remaining ring-fenced revenue grants. This meets the commitment made by the Conservative Party in opposition to separate funding for public health from the NHS budget. However, there are no details about how much funding will be provided - this will presumably follow in the Public Health White Paper which will be published later this year.

### **Conclusion**

In the context of significant cuts to other Whitehall budgets, the settlements for health and social care are generous. Although NHS purchasing power will be reduced, the government has met its pledge to protect the health budget and has prioritised additional funding for social care. Nevertheless, both sectors face significant challenges in the years ahead.

In health, the small real terms increase in the NHS budget will not be enough to meet increasing cost pressures or cope with increasing demand for services from an ageing population. This leaves the NHS facing the biggest financial challenge in its history. It is essential that it rises to the productivity challenge if it is to maintain quality and avoid significant cuts to services.

The impact of the Spending Review on social care will not become clear until the local government settlement is revealed in detail and local authority budgets are finalised. Notwithstanding this, and despite the additional funding announced by the government, it is already clear that the pressure on local government finances will leave social care services vulnerable to competing local priorities.

Stronger co-ordination between health and social care is essential if both services are to respond to these challenges. In the longer term, there is a compelling case for considering how combined public spending of more than £120 billion could be better planned and allocated through a more integrated approach.

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<sup>i</sup> <http://www.bmj.com/content/341/bmj.c3843.extract>

<sup>ii</sup> [www.statistics.gov.uk/articles/nojournal/healthcare-productivity-2010.pdf](http://www.statistics.gov.uk/articles/nojournal/healthcare-productivity-2010.pdf)