

# 6

## DELIVERING HIGH QUALITY PUBLIC SERVICES

The Government's long-term goal is to deliver world-class public services through investment and reform to ensure that taxpayers receive value for money. Budget 2002 lays the foundations for further sustained investment and reform in public services, consistent with the fiscal rules, by:

- releasing an additional £100 million for schools improvement and £250 million to tackle crime and counter the threat of terrorism in 2002-03;
- adding £4 billion to Departmental Expenditure Limits (DEL) in 2003-04 and setting firm overall spending limits for the three-year period of the 2002 Spending Review up to 2005-06, allowing:
  - **current spending**, excluding spending on health, to increase by 2½ per cent a year in real terms in 2004-05 and 2005-06. Current spending will rise in total by an average of 3.3 per cent a year in real terms over the same period; and
  - **public sector net investment** to rise from its 2003-04 target of 1.8 per cent of GDP to 2 per cent by 2005-06, to address the historic under-investment in Britain's public infrastructure.

Decisions on departmental spending allocations will be announced in the 2002 Spending Review. In Budget 2002, the Government is responding to the **Wanless Review of long-term health trends**, by:

- immediately allocating **£2.4 billion of the new DEL addition to UK health spending**, and providing for an **average annual 7.4 per cent real terms increase in UK spending on the NHS up to 2007-08**. Health spending in England will rise by 7.5 per cent a year on average;
- providing for an extra **£0.4 billion allocation to personal social services in England in 2003-04**, and an **average annual 6 per cent real terms increase over the three years to 2005-06**; and
- making these new resources conditional on a **comprehensive programme of health service reform** to ensure the efficient delivery of the Government's key priorities for health and social services.

### INTRODUCTION

**6.1** The Government's long-term goal is to deliver world-class public services through sustained increases in investment and reforms to ensure that taxpayers receive value for money. Strong and dependable public services are vital to extend opportunity, tackle poverty and social exclusion and improve the quality of life for all. They also lay the foundations for a successful, high productivity economy.

**6.2** Through its action to maintain macroeconomic stability, the Government has already been able to deliver significant and sustained investment in Britain's public services, while ensuring that the fiscal rules are met. To advance its long-term goal, the Government will build on these foundations in the 2002 Spending Review, ensuring that resources are available for investment in priority services over the next three years and that departments' programmes can effectively deliver modernisation and reform.

## INVESTMENT AND REFORM

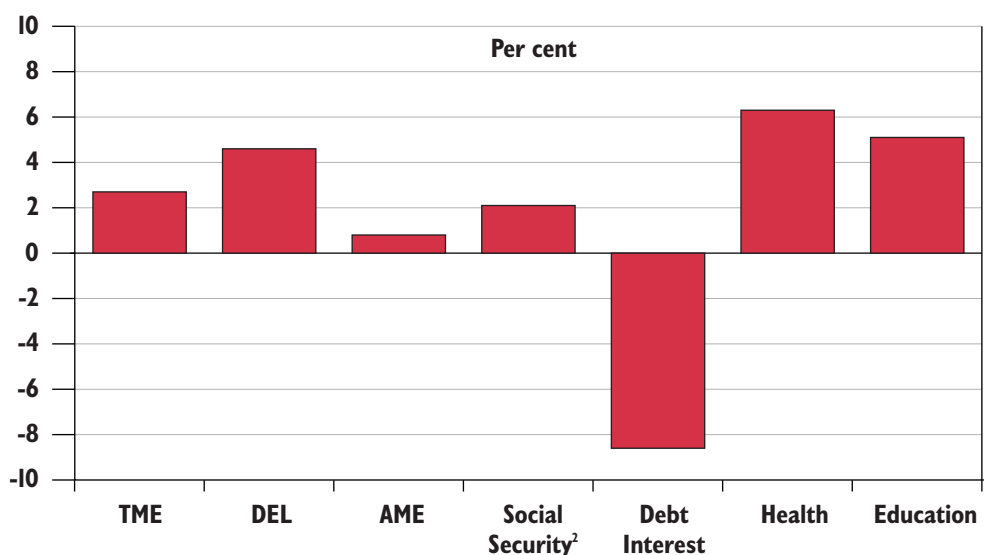
**6.3** The Government's approach to building world class public services involves providing investment in return for reforms in delivery and improvements in outcomes.

**6.4** To help departments plan for the medium term, the Government has introduced a system of firm and fixed Departmental Expenditure Limits (DEL) for spending stretching over three years, and reviewed every two. Expenditure items that are large, potentially volatile and demand-led – such as social security benefits and payments under the Common Agricultural Policy – are collectively known as Annually Managed Expenditure (AME). These items are subject to tough annual scrutiny as part of the Budget forecasting process to ensure that spending does not threaten fiscal stability. Taken together, DEL and AME add up to Total Managed Expenditure (TME), the Government's measure of public sector spending.

### Delivering resources to priorities

**6.5** Prudent management of the economy has allowed the Government to deliver significant increases in resources for frontline public services. Chart 6.1 shows the real growth in DEL and AME expenditure between 1997-98 and 2002-03. Social security payments and tax credits are forecast to have grown, on average, by 2.1 per cent a year in real terms over this period, compared with 4.1 per cent a year between 1991-92 and 1996-97. Debt interest payments, which rose by 6.6 per cent a year on average between 1991-92 and 1996-97, are expected to have fallen by 8.6 per cent a year in real terms between 1997-98 and 2002-03. By spending less on these areas as a proportion of total public spending, the Government has been able to release more money for frontline public services within DEL.

**Chart 6.1: Releasing resources for public service priorities<sup>1</sup>**



<sup>1</sup> Average annual real growth rates in categories of spending 1997-98 to 2002-03, including Budget 2002 changes.

<sup>2</sup> For the purposes of comparison, social security includes the Working Families' Tax Credit and the Disabled Person's Tax Credit.

Source: HM Treasury

**6.6** These resources have been directed toward the Government's priorities. For example, spending on health will have increased by 6.3 per cent a year, on average, in real terms between 1997-98 and 2002-03, and education by 5.1 per cent. The Government has also been able to meet other pressures – for example to combat terrorism - without jeopardising its plans for investment in public services.

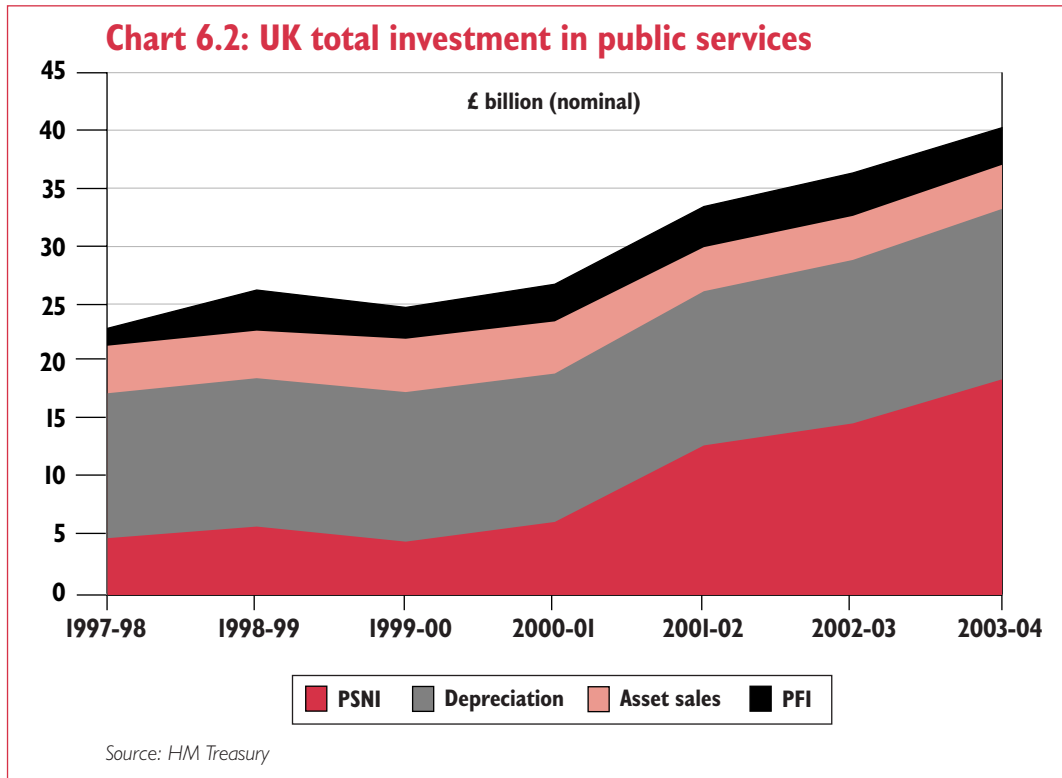
#### **Box 6.1: Combating terrorism**

The terrorist attacks of 11 September had repercussions around the world, directing attention toward a new sort of warfare. The Government has provided additional funding for measures to counter the security and economic implications of the September attacks, which include:

- allocating an additional £155 million to the Ministry of Defence for new military equipment and urgent operational requirements;
- funding humanitarian assistance to Afghanistan, and elsewhere, with over £120 million of new support for the region;
- an additional £20 million of resources to strengthen the UK's tough anti-terrorist financing regime and to fund other anti-terrorism measures. Before the fall of Kabul the UK froze \$100 million of assets belonging to the Taleban, Usama Bin Laden and al-Qa'ida. Of these funds, \$85 million have been unfrozen and are being returned to the new Afghan authorities;
- ensuring that the aviation industry could continue business by providing airlines with an insurance guarantee;
- providing a further £30 million of funding to the Metropolitan police and other forces; and
- entering into a unique partnership with the tourism industry in a major promotional campaign in the United States and Western Europe. The Government has allocated £20 million, which will be matched by the industry, to the Million Visitor Campaign.

**6.7** The plans for the 2002 Spending Review, described later in this chapter, add a further £4 billion to departmental spending in 2003-04, including a £2.8 billion allocation to health and personal social services.

**6.8** To deliver vital improvements in the nation's infrastructure, public sector net investment (PSNI) is set to more than double over the 2000 Spending Review period, to nearly £20 billion, or 1.8 per cent of national income, by 2003-04. Chart 6.2 shows how total UK investment in public services, which includes PSNI, depreciation, recycled proceeds from public sector asset sales and investment under the Private Finance Initiative (PFI), will rise to over £41 billion by 2003-04, compared with a level of £23 billion in 1997-98.



**6.9** Budget 2002 takes further steps to accelerate delivery in the priority areas of education and crime reduction in 2002-03. In particular, in 2002-03 the Government is releasing:

- **£100 million from the Capital Modernisation Fund for 2002-03 to tackle past under-investment in schools.** This will allow additional direct capital payments worth around £2,500 to a typical primary school and £7,100 to a typical secondary school; and
- **£250 million, with an extra £110 million from the Reserve, for the Home Office** to tackle street crime and associated pressures, and counter the threat of terrorism.

### Using resources effectively

**6.10** Improving public services is not simply a matter of increasing investment. Resources must also be allocated and used efficiently to ensure that they deliver genuine public service reform and give the taxpayer value for money.

**6.11** A modern and effective framework for the planning and control of public spending is needed to improve the quality and cost-effectiveness of public services. The Government's public spending framework is underpinned by four important principles:

- consistency with a long-term, prudent and transparent regime for managing the public finances as a whole;
- the judgement of success by policy outcomes rather than resource inputs;
- strong incentives for departments and their partners in service delivery to plan over several years and plan together where necessary; and
- the proper costing and management of capital assets to provide the right incentives for public investment.

**The public spending framework** **6.12** The Government's public spending framework is also underpinned by the fiscal rules. The fiscal rules, described in detail in Chapter 2, ensure that the public finances are sustainable over the economic cycle and that spending and taxation impact fairly within and between generations. The rules have important consequences for the budgeting regime, removing the past discrimination against investment and ensuring that borrowing for investment is conducted in a responsible way.

**6.13** Building on the foundation of the fiscal rules, the Government has introduced a significant number of important innovations to the budgeting system, including:

- separate departmental **allocations for resource and capital spending** which ensure that growth-enhancing public investment is not sacrificed to meet short-term current pressures. This supports the Government's golden rule;
- **Public Service Agreements (PSAs)** which set out, for each department, the public service improvements that the Government is committed to achieving, alongside the resources which make them possible. Existing PSA targets will be reviewed and, where necessary, improved as part of the 2002 Spending Review;
- **firm and fixed plans** for departmental services spending stretching over three years, and reviewed every two. These Departmental Expenditure Limits (DELs) replace the old annual system of expenditure planning and provide departments with greater certainty over the medium term;
- **ten year plans** for the National Health Service (NHS) and transport, reflecting the need to plan beyond the three-year horizons of firm DEL plans in specific areas;
- **full end-year flexibility (EYF)** which allows departments to retain resources not fully spent at the end of the year and is designed to engineer a lasting change in the traditional "use it or lose it" mindset of public sector budget holders;
- **a National Asset Register<sup>1</sup>** to improve the way in which the public sector asset base, valued at £480 billion, is managed. The Register helps departments to use their assets effectively and to judge whether individual assets are still required. The UK is the only country in the world with access to a register of this kind;
- **resource accounts and budgets** which enable the full economic costs of decisions to be reflected in public sector financial information, rather than simply the cash consequences, giving departments new incentives to maximise the benefits from their capital stock and to manage their liabilities more effectively;
- **central funds**, including the Invest to Save Budget and the Capital Modernisation Fund which reward innovative ideas on a competitive basis (see box 6.2); and
- **pooled budgets**, such as the Criminal Justice Reserve where the Home Office, Lord Chancellor's Department and Crown Prosecution Service can access a single fund subject to joint agreement, to spend on cross-cutting initiatives.

<sup>1</sup>The National Asset Register, HM Treasury, Cm 5221, July 2001

**Box 6.2: Central funds for innovation****Invest to Save Budget (ISB)**

The ISB provides venture capital for the public sector, to encourage innovative and joined-up delivery of public services. The Government has allocated over £300 million to 335 cutting edge partnership projects across central government and the wider public and voluntary sectors. For example:

- *Forecasting the Nation's Health* is an ISB funded project, which is tracking links between changes in the weather and patterns of illness. It uses meteorological data to make localised NHS workload forecasts over a seven to ten day period. This helps hospitals to plan ahead and is already saving money.

**Capital Modernisation Fund (CMF)**

The CMF was set up as part of the Comprehensive Spending Review with an initial £2.5 billion endowment. The 2000 Spending Review allocated a further £2.5 billion. CMF resources are allocated annually, on a challenge basis, to projects that promote more modern and effective methods of public service delivery. A total of £3.9 billion has now been allocated to 116 projects, many of which are already delivering real public service improvements. For example:

- as a result of a £360 million allocation to the *Primary Care Modernisation Programme*, the Department of Health opened 42 NHS “walk-in” centres, providing health advice and minor treatment services without the need for an appointment. Over one million people visited the centres in 2001, reducing pressures on GPs and hospital accident and emergency departments; and
- an *IT Learning Centres* project in inner-city schools was allocated £100 million in the first round of the CMF. The project is setting up IT centres in major city areas to enhance teaching and learning across the whole curriculum through state of the art educational technology. The Centres are based in secondary schools but are intended to serve as a resource for other schools in the area, as well as the local community as a whole. The first phase of the project is now complete and 69 centres have been opened. A further 15 centres will be opened by September 2003.

**Reforming delivery 6.14** Besides reform of the budgetary framework, improving public services also requires change and reform in management culture and systems. The Prime Minister has set out the Government's four principles of public service reform:<sup>2</sup>

- **national standards**, which means working with hospitals, schools, police forces, and local government to agree tough targets, with performance independently monitored so that people can see how their local services compare;
- **devolution**, whereby central government has to give successful frontline professionals the freedom to deliver;
- **flexibility**, which means removing artificial bureaucratic barriers which prevent staff improving local services; and
- **choice**, acknowledging that customers should increasingly be given the kind of options that they take for granted in other walks of life.

<sup>2</sup> *Reforming our Public Services*, March 2002

**6.15** The Prime Minister has also established a Delivery Unit under the day-to-day supervision of Lord Macdonald, Minister for the Cabinet Office. Concentrating on the key areas of health, education, law and order, and transport, the Unit is working closely with the Treasury to strengthen the capacity of the responsible departments to deliver effectively on particularly challenging targets. The aim of the Unit is to ensure that the Government's ambitious programme of public service reform is translated into genuine improvements on the ground.

**6.16** The Government has also conducted a cross-cutting review of the public sector labour market to help to ensure that public sector employers can recruit, retain and motivate suitably qualified staff to deliver customer-focused public services. Sponsoring departments or employers are required to develop workforce strategies tailored to their individual service programmes, with the aim of attracting and retaining workers in specific fields, taking into account local or regional challenges. These strategies should involve elements such as flexible work arrangements, including movements across sectors; training and career progression; the removal of disincentives to working past retirement age; and pay and benefits to address local issues. Details of other cross-cutting reviews of public services are provided later in this chapter.

### **Improving delivery of local public services**

**6.17** Improving public service delivery is not just a task for central government. Local government provides a range of vital public services, including schools and care for the elderly. It spends more than £60 billion each year. The Government is therefore committed to modernising local government to ensure that high quality and cost-effective services are provided throughout the country.

**6.18** To strengthen the delivery of local public services, local Public Service Agreements (PSAs) have been negotiated with nearly 50 local authorities that have committed to deliver more stretching outcomes in return for greater flexibilities, freedoms and financial rewards if they succeed. Local PSAs strengthen the links between central and local government, providing help for local authorities to deliver, while ensuring that national priorities are met. They have won widespread endorsement in local government and are being rolled out to a further 100 larger councils over the next eighteen months. This initiative will be updated to reflect the outcomes of the 2002 Spending Review, and in particular to incorporate revised national PSA targets for which local authorities are important delivery partners.

### **Focusing investment on results**

**6.19** Public Service Agreements (PSAs) were introduced for each department following the 1998 Comprehensive Spending Review. PSAs set out the key outcomes that the Government is committed to achieving in return for investment. By linking funding to the delivery of improvements in services and outcomes for consumers, PSAs are central to the Government's strategy for improving public services.

**6.20** This section describes how the Government has performed so far against some of its key PSA targets. Where improvements are needed, Ministers will be looking for further reforms to ensure that targets are met; where performance is on track, the presumption will be that the reforms already in place are working.

**Box 6.3: Accountability for Government performance**

The Government is committed to providing reliable performance information on PSA targets, so that the public can have confidence that departments are delivering what they say they are. In response to Lord Sharman's Report, *Holding to Account*, the Government has invited the Comptroller and Auditor General to take responsibility, under his existing powers, for the validation of systems used in reporting on PSA targets where measurement of performance depends on data. The Government has also decided to publish reports on departments' performance against PSA targets in the autumn, as well as in the spring.

**Health 6.21** In July 2000, the Government published the ten year NHS Plan, setting out a series of ambitious objectives to be delivered with increased resources allocated in the 2000 Spending Review. The NHS is making good progress against a number of these objectives. Maximum waiting times for inpatient treatment have fallen from 18 months to 15 months, and all hospitals are now operating booked admissions systems in at least two specialities. However, further progress is needed to meet some other targets, including those to reduce maximum outpatient waits and delays in discharging elderly people from hospital, though in both these cases the trend is now improving.

**Education 6.22** There have been significant improvements in education. Half of all 16-year olds achieved five A\*-C grades at GCSE in 2001, a year ahead of target. In the same year, the number of infant class sizes larger than 30 was all but eliminated. A further four targets are on course to be met this year. While results for literacy and numeracy at age 11 last year showed that performance was static after earlier significant improvements, the Department for Education and Skills is confident that results will improve this year and is working with Local Education Authorities to meet the target for 2002. Two targets for 2002 – to reduce truancies and increase the proportion of 19 year olds with a level 2 qualification – have proved more challenging. In both these cases the department re-evaluated its plans and committed to new objectives in SR2000.

**Transport 6.23** The number of people killed or seriously injured on the roads is 6 per cent below the 2000 target, and the equivalent child accident reduction target has been bettered by 17 per cent. Rail use had increased by 30 per cent between 1997 and 2000, but Hatfield and recent problems have restricted growth. Although numbers are now back above pre-Hatfield levels, reaching the 2010 target requires a 50 per cent increase; and while the Government is on course to reduce congestion on trunk roads by 2010, urban congestion is predicted to continue to rise. Bus use has grown significantly in London and some other urban areas, helping to advance the national target of a 10 per cent increase by 2010.

**Crime 6.24** Overall crime levels have fallen. In the two years to March 2001, domestic burglary fell by 15 per cent and vehicle crime by 10 per cent. While the overall number of crimes for which an offender was brought to justice fell between 1999-2000 and 2000-01, the average time from arrest to sentence for persistent young offenders has more than halved from 142 days to 67 days.

**Housing 6.25** Over eight million people live in more than four million local authority and housing association homes. The availability and condition of social housing, and the systems through which people gain access to it and help with its costs, are vitally important for tackling poverty and regenerating deprived neighbourhoods. Between April 1999 and 2001 the backlog of repairs was reduced by around 120,000 dwellings with around 660,000 council houses benefiting from new investment. The Government is on course to bring a third of non-decent social housing (around 700,000 homes) up to a decent standard by 2004, as part of its long-

term target to make all social housing decent by 2010. The 2000 Spending Review committed over £39 billion of investment for new housing, the maintenance and renewal of existing stock and support for tenants with housing costs. The Government has also embarked on important reforms to rents, Housing Benefit and the regulation of private landlords, and has published a Green Paper on planning reform setting out proposals to improve dramatically the land use planning system.

**Defence 6.26** The main PSA targets for defence focus on implementation of elements of the 1998 Strategic Defence Review (SDR). A number of these SDR targets have been met, including the establishment of the Joint Helicopter Command, the launch of the Procurement Executive as the Defence Procurement Agency, and a reduction in the value of non-munitions stockholdings by £2.2 billion. The public-private partnership (PPP) for the Defence Evaluation and Research Agency was not completed in April this year as planned, but the majority of its business has been vested as Qinetiq plc, and the PPP is now expected during the course of 2002-03. The targets for raising manning levels in the armed forces have been rolled forward to 2004.

## THE 2002 SPENDING REVIEW

**Aim of the Review 6.27** The Government is currently conducting a Spending Review to ensure that funds are available to spend on priority services up to 2005-06. The Review will report by the summer. The aim of the Review is to determine how departments' programmes can best contribute to the achievement of the Government's priorities, including:

- the delivery of high quality, efficient and responsive public services through investment linked to reform and modernisation;
- raising productivity, in the public sector and outside, through improved skills, research and infrastructure;
- extending opportunity and prosperity more widely, and tackling child poverty and social exclusion;
- improving the quality of life in both urban and rural areas; and
- securing a modern international role for Britain through cooperation with our European and international partners.

**6.28** The 2002 Spending Review will be the first Review in which departments' performance against their PSA targets will be an input into decisions on resources and reform, helping to ensure that investment is directed to achieve the most cost effective outcomes. The Cabinet Committee on Public Services and Public Expenditure (PSX), supported by the Treasury and the Prime Minister's Delivery Unit, is looking closely at how departments have been performing against their existing PSA targets and scrutinising carefully departments' assessments of their resource needs. Where departments have made proposals for new spending, they have been required to accompany these with stretching targets and clear plans for effective delivery. Where that requires change, investment will be conditional on reform.

**6.29** Compared with previous reviews, the 2002 Spending Review will also:

- involve a greater concentration on assembling a substantial and relevant evidence base on the effectiveness of programmes;
- be conducted and published on a full resource budgeting basis; and
- give consideration to the need to plan beyond the three-year horizons of firm

DEL plans in specific areas, building on the Transport Ten Year Plan and the NHS Plan.

**Outputs from the Review**

**6.30** The main outputs of the Review will include:

- new Departmental Expenditure Limits (DELs), rolling forward the existing plans for 2003-04 and setting new plans for 2004-05 and 2005-06;
- Public Service Agreements (PSAs) rolling forward and, in some cases, being developed further in line with priorities;
- revised Departmental Investment Strategies linking PSA targets to capital plans; and
- a series of cross-cutting reviews of policy areas spanning several departments' responsibilities.

**Cross-cutting reviews**

**6.31** The Government has been conducting a number of cross-cutting reviews as part of the 2002 Spending Review. The reviews aim to find effective solutions to some of the biggest challenges facing public services, through coordinated departmental policies, resources and implementation efforts. By examining issues across departments, the reviews seek to avoid wasteful duplication, identify and fill gaps in services, and ensure that resources are used effectively and efficiently.

**6.32** The findings of the reviews will be reflected in departments' spending plans, pooled budgets and PSA targets where appropriate. The reviews address:

- the trends affecting the size and composition of the **public sector workforce** and how best to ensure that public sector employees make a positive contribution to public service delivery, described earlier;
- the factors contributing to **health inequalities** and how government services could be better integrated to narrow the health gap across socio-economic groups;
- the ways in which Government policies, funding and targets can deliver improvements in the safety and attractiveness of **public space**, as described in Chapter 7;
- the role of the **voluntary sector** in working alongside central and local government to deliver public services;
- the opportunities for improving the delivery of government **services for small business**;
- the funding of the UK science base and the effectiveness of government departments' own **science and research** programmes. Details of the Government's strategy for supporting science and research, building on the findings of this review, are set out in Chapter 3; and
- the integrated delivery of government programmes and services to help **children at risk** from poverty and social exclusion.

**New spending plans**

**6.33** As described in Chapter 2, Budget 2002 sustains and increases the resources for public services already announced and **adds £4 billion to Departmental Expenditure Limits (DEL)**

in 2003-04. The Budget sets firm overall spending plans for the period of the 2002 Spending Review up to and including 2005-06, allowing:

- **current spending**, excluding spending on health, to increase by 2<sup>1</sup>/<sub>2</sub> per cent a year in real terms in 2004-05 and 2005-06. Current spending will rise in total by an average of 3.3 per cent a year in real terms over the same period; and
- **public sector net investment** to rise from the 2003-04 target of 1.8 per cent of GDP to 2 per cent by 2005-06, to address the historic under-investment in Britain's public infrastructure.

**6.34** In the Spending Review, Ministers are examining how these resources can best be allocated to deliver modernisation and reform in priority areas. New departmental spending plans will be set at the end of the Review. For the first time, departments' spending limits will be set on a full resource budgeting basis and include the full economic cost of holding and using capital assets, and incurring longer-term liabilities. The rationale for this move, a full explanation of the changes themselves, and a reconciliation back to previous departmental budgeting information, was published at the time of the Pre-Budget Report<sup>3</sup>. Although the budgetary control on departments from 2003-04 onwards will be on a full resource budgeting basis, the Government will publish the outcome on both bases to aid transparency and promote understanding of the new system. Box 6.5 explains the impact of this reform on the new plans for the National Health Service.

**6.35** Alongside reforms to be negotiated in the Spending Review, the plans for public spending announced in this Budget will deliver the step change needed to help bring Britain's public services up to the level of the best.

### A modern National Health Service and social care system

#### The Wanless Review of Long-Term Health Trends

**6.36** In Budget 2001 the Chancellor commissioned Derek Wanless, former Group Chief Executive of NatWest Bank, to undertake an independent review of the long-term trends that will affect the health service in the UK over the next 20 years and the resources required to deliver a publicly funded, comprehensive, and high quality service available on the basis of clinical need and not ability to pay. The Review published an interim report for consultation in November 2001 and has now published its final report. The main conclusions of the Review are summarised in Box 6.4.

<sup>3</sup> *Better Management of Public Services: Resource Budgeting and the 2002 Spending Review, HM Treasury, November 2001*

**Box 6.4: Main conclusions of the Wanless Review**

The Review concludes that both additional resources and reform are needed to deliver a world-class health service.

According to the Review, the UK will need to devote a substantially larger share of its national income to health over the next 20 years – with total health spending rising from around 7.7 per cent of GDP at present to between 10.6 and 12.5 per cent of GDP in 20 years' time. Across the 20-year period as a whole, this implies growth in UK NHS spending of between 4.2 and 5.1 per cent a year in real terms.

The Review also considers the profile of spending over the 20 year horizon. The most rapid spending is projected in the early years, reflecting the need to deliver improvements in standards as quickly as possible. However, it stresses the dangers of attempting to expand activity too rapidly given the existence of short-term capacity constraints, particularly related to the workforce.

The Review projects real terms growth in UK NHS spending of between 7.1 and 7.3 per cent a year over the period from 2003-04 to 2007-08. It suggests that these growth rates are at the upper end of what should sensibly be spent.

In later years, the Review suggests that higher levels of activity in the health service are likely to have significant workforce implications, requiring the need for changes in the skill mix and other means of improving productivity.

The Review emphasises that while additional resources are necessary, success in achieving a high quality health service will not be guaranteed by higher spending alone and that there is a need to ensure that all resources are used to maximum effect. The Report makes a number of observations and recommendations in this respect. In particular, it points to:

- the importance of setting national standards for clinical care and integrated information and communication technology (ICT) systems;
- the significant scope to give more discretion to those delivering care at the local level, helping to drive up performance across the board;
- the need for a mechanism to ensure regular and rigorous independent audit of all health care spending;
- the vital interface between health and social care, and the need for similar quality improvements in the social care sector; and
- the need for public engagement to increase health awareness, based on a better understanding of rights and responsibilities. For example, the Review recommends a greater role for patient and business representatives in local health care decisions, and other means of raising understanding and involvement in the development of local health services.

**The Government's response** **6.37** The Government accepts the conclusions of the Review. To deliver the increase in resources needed for reform, it has decided to **allocate an additional £2.4 billion to UK health spending in 2003-04 and that UK NHS spending should grow by 7.4 per cent a year after inflation over the five years to 2007-08. Health spending in England will rise by 7.5 per cent a year.** Table 6.1 sets out the new spending plans in detail. The plans provide the NHS with stable growth in funding at a rate that exceeds even the growth over the 2000 Spending Review period. UK health spending as a proportion of GDP is projected to reach 9.4 per cent by 2007-08. The plans include substantial increases in capital for investment in modern IT, buildings and equipment.

**Table 6.1: NHS spending in the UK<sup>1</sup>**

£billion	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Average real growth
Previous plans	65.4	69.7					
New provision		72.1	79.3	87.2	95.9	105.6	7.4%
of which, England	53.5	59.0	65.0	71.6	78.9	87.1	7.5%

<sup>1</sup> As budgets are set on a full resource budgeting basis (see Box 6.6), these near-cash numbers are indicative. UK figures are subject to the decisions of the devolved administrations.

**6.38** Taking into account these new resources, Table 6.2 shows that total UK health spending will rise to 9.4 per cent of GDP in 2007-08.

**Table 6.2: 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
of which						
Gross UK NHS spending <sup>1</sup>		6.6	6.9	7.2	7.5	7.8
Non-NHS health spending <sup>2</sup>		1.2	1.2	1.2	1.2	1.2

<sup>1</sup> 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.

<sup>2</sup> 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 health spending is 1.15 per cent so some totals may not sum due to rounding.

### Box 6.5: NHS spending and the move to resource budgeting

The 2002 Spending Review will be the first Review to be conducted on a full resource budgeting basis, and the resulting DEL spending plans will be set and controlled on this basis. The table below shows the same plans for the NHS in England, and indicative plans for the UK, but set out on a full resource budgeting basis, including the full economic costs of holding assets and creating new liabilities.

#### NHS spending on a full resource budgeting basis<sup>1</sup>

£billion	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Average real growth
Previous plans	68.1	72.2					
New plans		74.8	82.2	90.5	99.4	109.4	7.3%
of which England	55.8	61.3	67.4	74.4	81.8	90.2	7.4%

<sup>1</sup> These figures are on a full resource budget basis. UK figures are subject to the decisions of all devolved administrations.

The difference between these numbers and those shown in Table 6.1 reflects increases in the NHS resource budget baseline due to costs associated with holding and using capital assets, and the changes in provisions to cover liabilities. For those reasons, resource budgets are generally higher than those expressed in cash terms. The analysis contained in the Wanless Review is based on full resource budgeting data. Expressed on a resource budgeting basis, the annual growth in the UK NHS budget after inflation is 7.3 per cent, in line with the Wanless Review recommendations. For a full discussion of the move to resource budgeting, see *Better Management of Public Services: Resource Budgeting and the 2002 Spending Review*, HM Treasury, November 2001.

**6.39** In addition, because of the importance that the Wanless Review attaches to investment in social services, the Government has decided to **allocate an additional £0.4 billion to spending on personal social services in 2003-04 and to plan for increases in English social services resources in the period to 2006 at 6 per cent a year on average in real terms**. Details of social services resources, including Standard Spending Assessment and Department of Health (DH) special grants, will be announced at the conclusion of the Spending Review, along with the consequences of this commitment for the Devolved Administrations. Table 6.3 sets out the new plans.

**Table 6.3: Personal Social Services spending in England<sup>1</sup>**

£billion	2002-03	2003-04	2004-05	2005-06	Average real growth
Previous plans	11.4	12.2			
New plans		12.5	13.4	14.6	6.0%

<sup>1</sup> Standard Spending Assessment plus DH grant. Actual spending is subject to the decisions of local authorities.

**Reforms to ensure delivery**

**6.40** The Government is determined to match new resources with reform. These new resources are conditional on reform to ensure delivery of the priorities set out in the PSA Delivery Contract (see Box 6.6.). The Secretary of State for Health will announce how, with the guarantee of sustained investment, these reforms will establish:

- devolution of power to front line organisations and new financial incentives to improve performance;
- increased choice for patients;
- improved standards of social services care for the elderly;
- the separation of the standard-setting role of the Department of Health from the delivery role of the NHS; and
- new independent regulators, with powers enshrined in legislation to audit and inspect local health services and scrutinise patients' complaints, and a duty to report to the public on money spent and standards achieved.

**Box 6.6: New Department of Health draft PSA Delivery Contract**

The Government will publish a new PSA Delivery Contract for the Department of Health at the end of the 2002 Spending Review, setting out targets to take forward the next stage of the ten-year NHS Plan. This will bring together the Department's Delivery Contract and its PSA. The Treasury and the Prime Minister's Delivery Unit will work with the Department of Health to develop the targets and ensure delivery. There will be publicly available summary delivery plans for each priority area. All the areas covered by the existing PSA will be covered in the new PSA Delivery Contract. As well as existing overarching targets on health inequalities there will also be a focus on the following priority issues.

**Improve service standards**

Cut waiting times:

- reduce the maximum wait for an outpatient appointment to three months, and the maximum wait for inpatient treatment to six months by the end of 2005. This will be followed by progressive further cuts in waiting with the aim of reaching a maximum inpatient and day case waiting time of three months by 2008;
- reduce maximum waits for emergency services: end long trolley waits in Accident and Emergency (A&E) by reducing to four hours by 2004 the maximum wait from arrival to admission, transfer or discharge; and
- speed up access to GPs: guaranteed access to a primary care professional within 24 hours and to a primary care doctor within 48 hours by 2004.

Increase choice for patients by providing treatment at a time and place that suits them in accordance with their clinical need: all outpatient appointments and planned inpatient admissions will be pre-booked by 2005.

**Improving health outcomes for everyone**

Reduce substantially mortality rates from the major killer diseases by 2010: from heart disease by at least 40 per cent in people under 75; from cancer by at least 20 per cent in people under 75; and from suicide and undetermined injury by at least 20 per cent.

Improve standards of care for older people so that they can live independently with a high quality of life.

**Value for money**

Enhance accountability to patients and the public by providing better information on health and NHS performance.

Improve value for money for the taxpayer: the NHS and social services will deliver year on year gains of at least 2 per cent in quality and cost efficiency.

The detailed targets in these and other PSA areas, including drug treatment and patient experience, will be announced at the end of the Spending Review. In the case of children's services, this work will take account of the conclusions of the cross-cutting review of children at risk.

**Funding principles**

**6.41** Given its other priorities, and the need to meet its strict fiscal rules, the Government is raising national insurance contributions (NICs) from April 2003, and freezing the personal allowance for those aged under 65 in 2003-04, so that it can deliver over five years the 7.4 per cent annual real growth in spending planned for the NHS.

**6.42** The NHS has always been and will continue to be funded in part from NICs. But the Government does not support the hypothecation of revenues to the NHS or other public services, since it would make public services subject to the ups and downs of the economic cycle and unpredictable changes in revenues. It would not provide what the NHS needs: a sound long-term and sustainable stream of funding.

**6.43** The Chancellor set out the case for continuing to fund the NHS from revenues in his speech of 20 March at the Social Market Foundation. Because the range of medical treatments is growing, and some are more expensive than ever, the risks to a family's finances would be greater than ever if the costs were met from charges or insurance payments.

**6.44** General taxation and NICs provide affordable, comprehensive cover for health care as the costs are spread as widely and fairly as possible. General taxation provides health care that is free at the point of need, accessible to all irrespective of their income. It also minimises the administrative costs of providing the funds. In contrast:

- charges would mean the sick paying for being sick. The experience of other countries is that charges deter the sick from seeking treatment, to their own detriment and that of their dependants;
- private insurance would fail to help those in greatest need, tend not to extend to chronic or emergency care, and often require co-payments by the insured. If insurance companies take advantage of growing knowledge of genetics, people predisposed to a particular illness seem likely to be put at a further disadvantage. Because of the administrative costs of private insurance, and a fragmentation of service, private insurance tends also to be more expensive than the alternatives; and
- social insurance systems such as those used by France, Germany and the Netherlands reflect the regional or local organisation of health, in contrast to Britain's national service. They tend to deny to some the full range of benefits and create anomalies. They may also bear disproportionately on employers. France is increasing the share of health spending borne by general taxation both to reduce the exclusion of the needy and to widen the revenue base.

**6.45** Within the range of alternatives for revenue funding, NICs offer several advantages:

- unlike indirect taxes, and because the new one per cent payment will extend beyond the upper earnings and profits limits for employees and the self-employed, NICs are strictly related to earnings and so a measure of people's ability to pay;
- most of those in work will contribute through NICs and the freezing of the tax allowance for those aged under 65. However, unlike income tax, the great majority of pensioners will not have to contribute as they do not pay NICs; and the age-related personal allowances will be increased in 2003-04 so that no pensioner aged 65 or over will pay tax on incomes of less than £127 a week; and
- NICs are levied on both employers and employees. Higher employers' contributions reflect their interest in a healthy labour supply. The CBI has estimated that workplace absence cost British business over £10 billion in 1999<sup>2</sup>.

<sup>2</sup> Focus on Absence survey, CBI, June 2000