CENTRE *for* ECONOMIC PERFORMANCE

ELECTION ANALYSIS

Health: Higher Spending has Improved Quality, But Productivity Must Increase

- UK healthcare spending has increased by nearly 7% a year in real terms in the last decade – the largest ever sustained increase in the history of the National Health Service.

- Spending on the NHS will slow in the next decade, making it necessary to achieve significant improvements in productivity. Neither of the major political parties has been explicit about their budget proposals for the NHS or provided specific plans to improve the productivity of the health service.

- Since taking office in 1997, the Labour government has implemented a combination of market-based reforms to the hospital sector and performance management for general practitioners (GPs) and waiting times.

- Clinical performance and patient satisfaction have increased substantially and waiting times have dropped significantly since Labour has been in power.

- The NHS still lags behind other European countries on several quality indicators and in particular on cancer mortality.

- A key battleground in the General Election will be over the centralisation of the health service. The opposition parties want to abolish targets and the Conservatives are also proposing to limit political involvement by creating an independent NHS board.

- There has been a rush of policy proposals in the run-up to the election. Recently, the Labour government has proposed paying for social care for anyone in care for more than two years. Likewise, the Conservatives have proposed guaranteeing all NHS patients access to any cancer medication that has been approved since 2005. Neither party has directly addressed how to pay for their proposals.

LSE Health

Introduction

The National Health Service will be a central issue in the 2010 General Election. Over the last decade, the Labour government has nearly doubled NHS spending in real terms and has introduced significant reforms across the health service. During the same period, the NHS has improved considerably on most measures of quality and patient satisfaction, although it still lags behind a number of comparable European countries on cancer survival and the quality of stroke and heart attack care.

Both major parties have pledged to continue to increase NHS funding in real terms going forward. However, the rate of real terms increases from 2010/2011 onwards will be significantly slower than the increases from the last decade. This slowdown in NHS spending increases will place considerable pressure on the health service to become more productive. Thus far, neither party has been explicit about their plans either to rein in healthcare spending or to make the NHS more efficient.

A focal point of the debate between the two major parties is likely to be over the degree of centralisation of the health service. The Conservatives have pledged to create an independent NHS board that will lead the management of the NHS, shift the Department of Health's focus onto public health and abolish the centrally set targets created by Labour. The Labour party will campaign on their existing record with the health service, advocate continuing reform and introducing into law key patient 'rights', such as maximum waiting times.

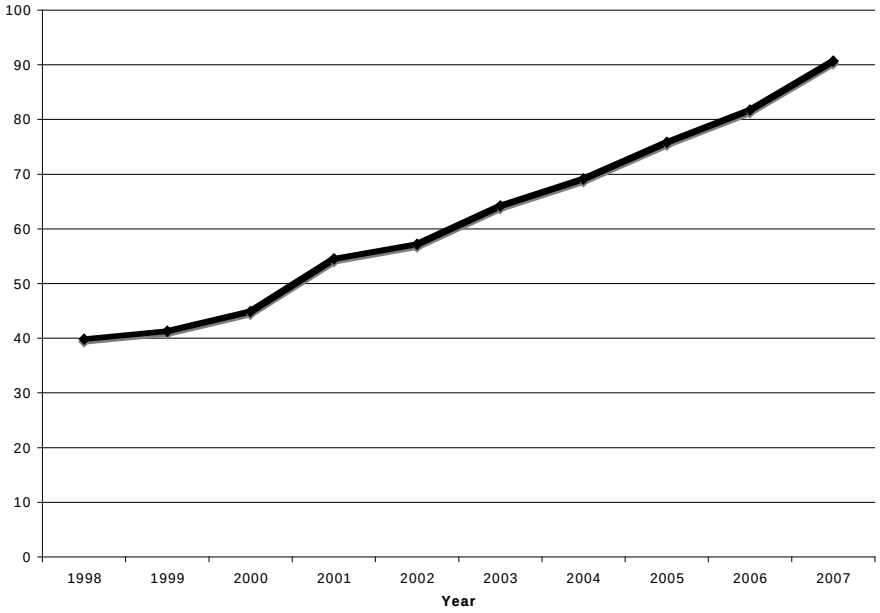
NHS spending 1997-2010

Since 1997, NHS spending has increased at a faster rate than at any other period in time to £127 billion in 2010/11 (see Figure 1). NHS spending increased by 4% annually over the lifetime of the NHS, but since 2000 it has increased by approximately 7% in real terms.

The Labour government increased funding as part of a concerted effort to raise healthcare spending in the UK as a proportion of GDP up to the European average. Healthcare expenditure is estimated to be 9.3% of GDP in 2010/11, with the NHS accounting for approximately 18% of UK public expenditure.

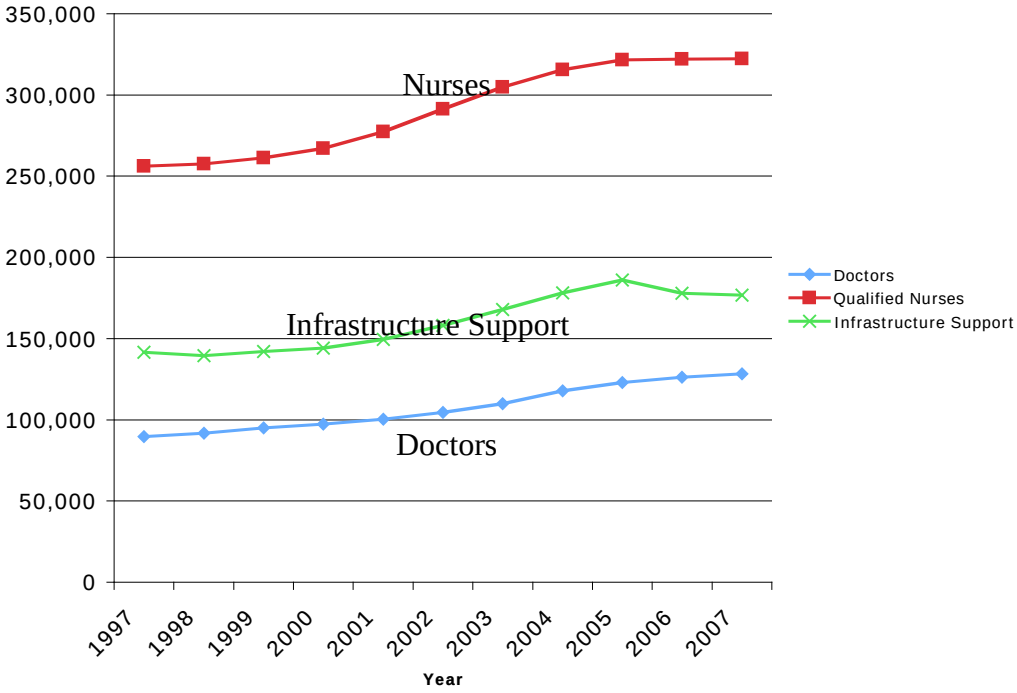
This rise in spending has resulted in a 2.8% increase in total NHS staff; a 4.8% increase in NHS consultants; and a 2.3% increase in nurses since 1996 (see Figure 2). In addition, NHS infrastructure has expanded greatly, staff salaries have risen and the number of patients treated in the NHS per year is significantly higher today than it was in 1997. It is worth noting that the NHS in England currently employs approximately 1.3 million people, which means that over 2% of the English population works for the health service.

Figure 1: Annual spending on the NHS (£ billion)



Source: Department of Health

Figure 2: Staff numbers in the English NHS



Source: NHS Information Centre

The need to increase productivity

The NHS will face considerable pressure to become more productive over the next 10 years. Both major parties have pledged to continue to raise NHS spending in real terms. But it is highly unlikely that the rate of growth in the next decade will come close to the 7% annual increases that the NHS has seen since 2000. To maintain a modest increase in spending on the NHS, other departments across Whitehall will need to slow their spending or the government will need to increase taxes.

Demographic changes will require 1.1% annual increases in NHS spending to maintain the current levels of quality and outputs, on top of additional spending necessary to adopt new technology and cater to the rising demand for healthcare across the population.[1] Between 2009 and 2017, the population of England is projected to grow by approximately 6.3% and it will age substantially, placing additional pressure on the NHS. Because of this rising pressure on the NHS, both major parties will need to be explicit about their plans to make the NHS more efficient.

A decade of reform – mobilising the spending

To take advantage of the increase in spending, there have been three central themes to the Labour government's healthcare reforms:

- An increase in centrally set targets, particularly in relation to waiting times.
- A new general practitioner (GP) contract that enables providers to earn additional revenue by achieving various clinical and service related quality targets.
- An increase in patient choice and a new activity-based reimbursement system for providers, which has created significantly more competition between hospitals.

From 2000 onwards, the government created a range of centrally set government targets and published a number of quality indicators, including hospital waiting times. There was significant punishment doled out to poorly performing hospitals, including the sacking of senior management as well as public 'naming and shaming'.

In contrast, hospitals that met the centrally set targets were eligible for increased fiscal and managerial autonomy and could eventually earn 'foundation trust' status – essentially become a local cooperative that was exempt from many government targets.

Research comparing waiting times in Scotland (which did not introduce targets) and England (which did introduce targets) finds that the targets had a significant impact on

[1] Appleby et al (2009)

shortening waiting times.[2] Unfortunately, the reliance on targets likely led to significant 'gaming' of waiting times figures, and they have also frustrated the medical profession.

The second theme of the Labour government's reforms was the new GP contract, created in 2004. The contract, known as the Quality and Outcomes Framework (QOF), allowed GPs to earn additional revenue by meeting set criteria related to their clinical performance, patient experience and managerial competence.

A typical QOF clinical measure would be the percentage of patients with coronary heart disease who had their cholesterol measured during the year. Under the scheme, GPs could earn up to an additional 25% on top of their base salary. As GPs reacted with vigour to these financial incentives and met far more of the targets than the government initially expected, the plan cost approximately £2 billion more than planned.

The third theme of the reforms involved increasing patient choice and introducing hospital competition. To create competition, every patient in England was allowed to select where they could receive secondary care and the government introduced a reimbursement scheme that paid hospitals a fixed fee for each patient they treated.

There was an increase in publicly available data on clinical performance to inform patients' choices, and the government encouraged private sector providers to enter the market and compete with traditional NHS hospitals. Beginning in 2006, every patient in the NHS was offered a choice of at least four providers and from April 2008 onwards, patients could choose to be treated at any facility in England, public or private, as long as it met minimum quality standards and was paid for using the NHS tariff.

Initial evidence suggests that hospital competition has created incentives for providers to improve their clinical performance. After the reforms were introduced in January 2006, hospital mortality has decreased more quickly in hospitals located in more competitive markets.[3]

In addition, CEP research suggests that one mechanism through which higher competition improves clinical outcomes is by fostering better management practices.[4] Nevertheless, the Labour government has begun to shy away from competition. The government has become increasingly critical of private sector providers, arguing that traditional NHS hospitals should be the preferred providers for NHS patients.

Have the investments and reforms paid dividends?

On virtually every measure of quality, the NHS has improved considerably since 1997. The NHS has also become more equitable as regularly published NICE (National Institute for Health and Clinical Excellence) guidelines have helped to prompt a more uniform uptake of new drugs and technology across the country. Nevertheless, on some

[2] Propper et al (2008)
[3] Cooper et al (2010)
[4] Bloom et al (2010)

measures of clinical performance, particularly in relation to cancer survival, the UK does not compare favourably with levels of performance in North America and continental Europe.

The continued rise of international comparisons will put significant pressure on NHS policy-makers to improve their performance relative to their European neighbours. Similarly, in addition to their significant policy successes, the Labour government has had some dramatic failures, such as the £12 billion information technology project that was recently scaled back by Chancellor Alistair Darling.

Waiting times and patient satisfaction

The government has made significant progress on hospital waiting times and the waiting times for care in Accident and Emergency departments. The number of patients on waiting lists has decreased by approximately 600,000 patients since 1997 and average waiting times have fallen substantially.

In addition, the distribution of waiting times across different socio-economic groups has become more equitable. In 1997, the poorer you were, the longer you waited. By 2007, there was almost no variation in waiting times across different socio-economic groups (see Figure 3).

Patient satisfaction with the NHS is at its highest point in 20 years. In 2008, 51% of people in Britain were 'very satisfied' or 'quite satisfied' with the NHS, an increase of 9 percentage points since 2000 and 17 percentage points since 1997.[5]

NHS productivity

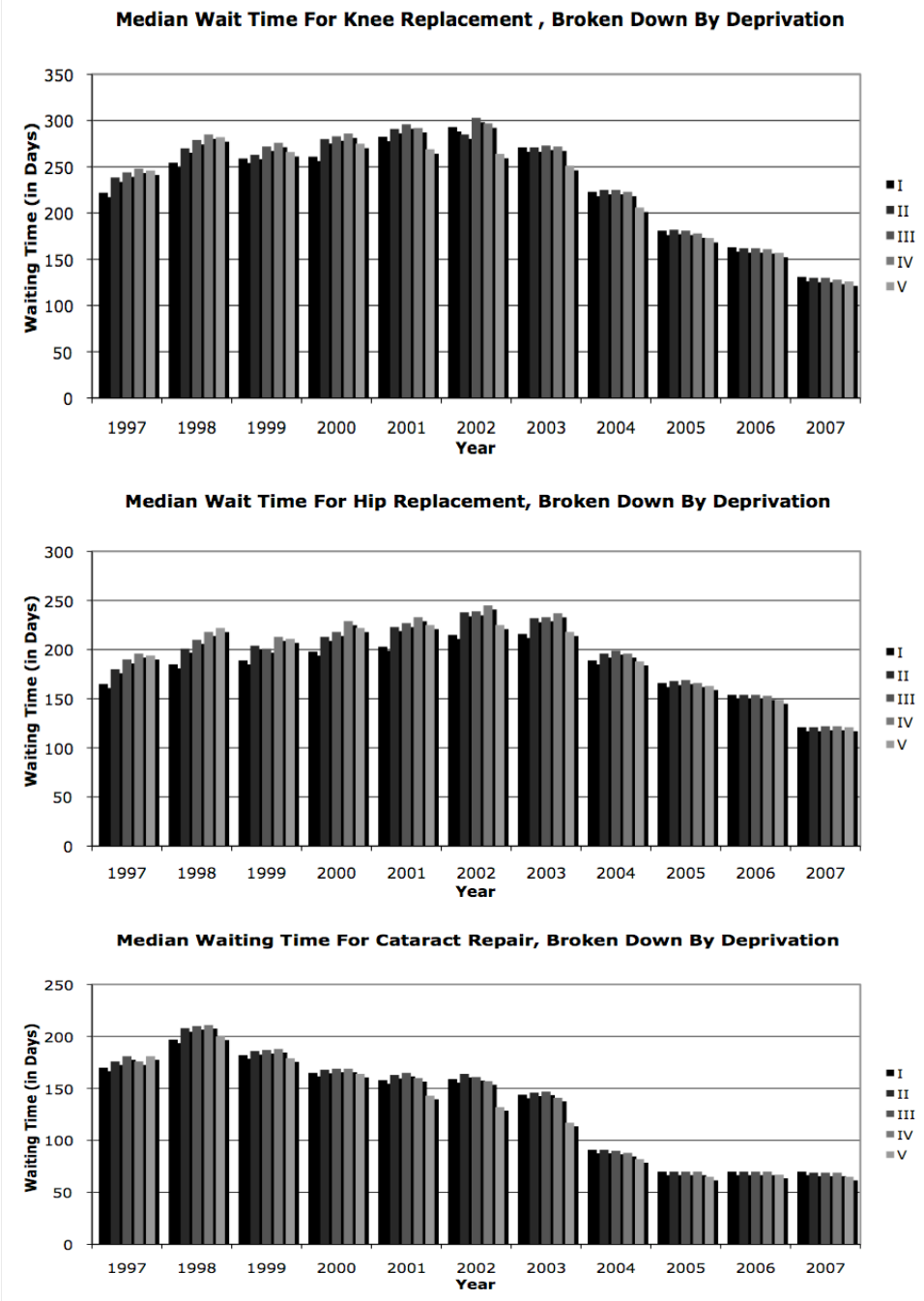
According to the Office for National Statistics, NHS productivity fell over the period 1995-2008.[6] This reduction was largely driven by the tremendous increases in staff numbers during the period that was not matched by increases in outputs.

But recent research finds that from 2004/5 onwards, NHS productivity increased.[7] These results have been driven by increases in the number of patients treated in the NHS, improvements in the quality of care delivered to patients and a decrease in the use of temporary staff.

Some of the additional spending during this period went towards hiring new, more qualified management teams and bringing in outside contractors to improve NHS hospital management. As the House of Commons Public Accounts Committee has highlighted, historically lacklustre hospital financial management was a source of inefficiency and it is likely that the current increases in productivity have been driven by recent improvements in management quality (see Bloom et al, 2010).

[5] Appleby and Phillips (2009)
[6] ONS (2010)
[7] Street and Ward (2009)

Figure 3: Median waiting times in England 1997-2007



Source: Cooper et al (2009)
Notes: I = least deprived quintile of the population; V = most deprived quintile of the population' deprivation is measured using Carstairs Index of Deprivation, measured at the output area

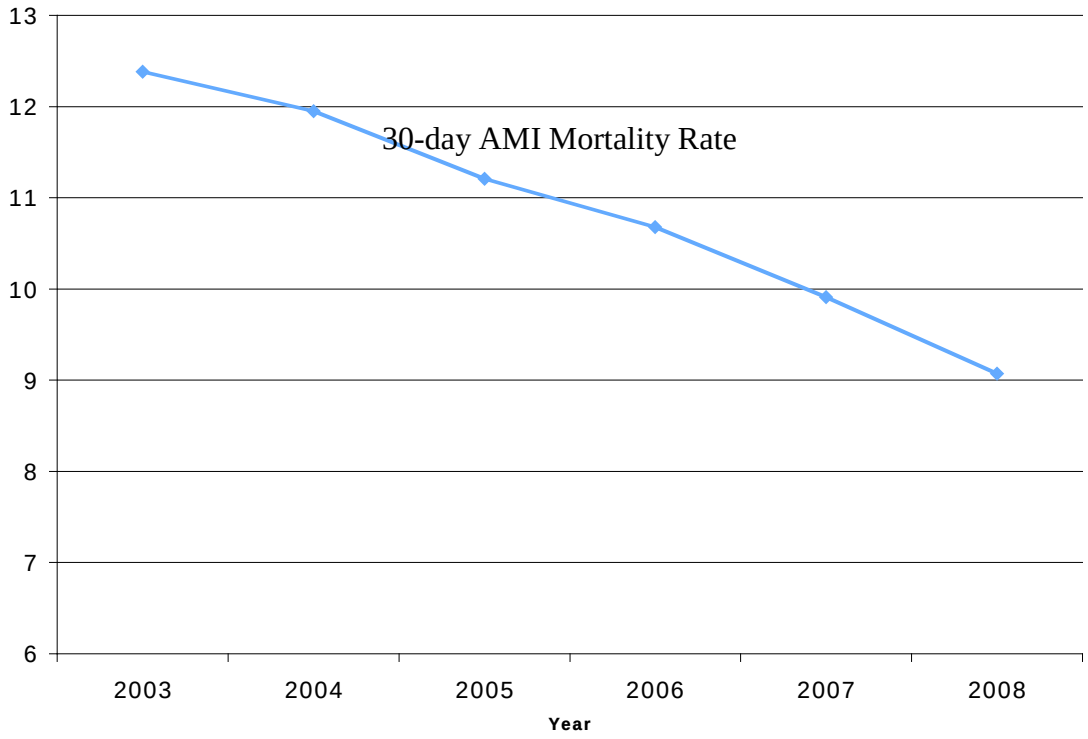
Death rates from heart attacks

Between 2003 and 2008, the mortality rate for patients admitted to hospital with a heart attack has fallen by approximately 20% (see Figure 4). This reduction in mortality has

been driven partly by an increase in the speed that patients with a heart attack are treated with best practice interventions (thrombolysis or angioplasty).

Because the elements that make for high quality heart attack care, such as better organisation within the hospital, lead to better care for other clinical conditions, improvements in heart attack care are likely to reflect improvements in care that are happening across hospitals.[8]

Figure 4: 30-day in-hospital mortality rate in the English NHS



Source: MINAP (2009)

International comparisons

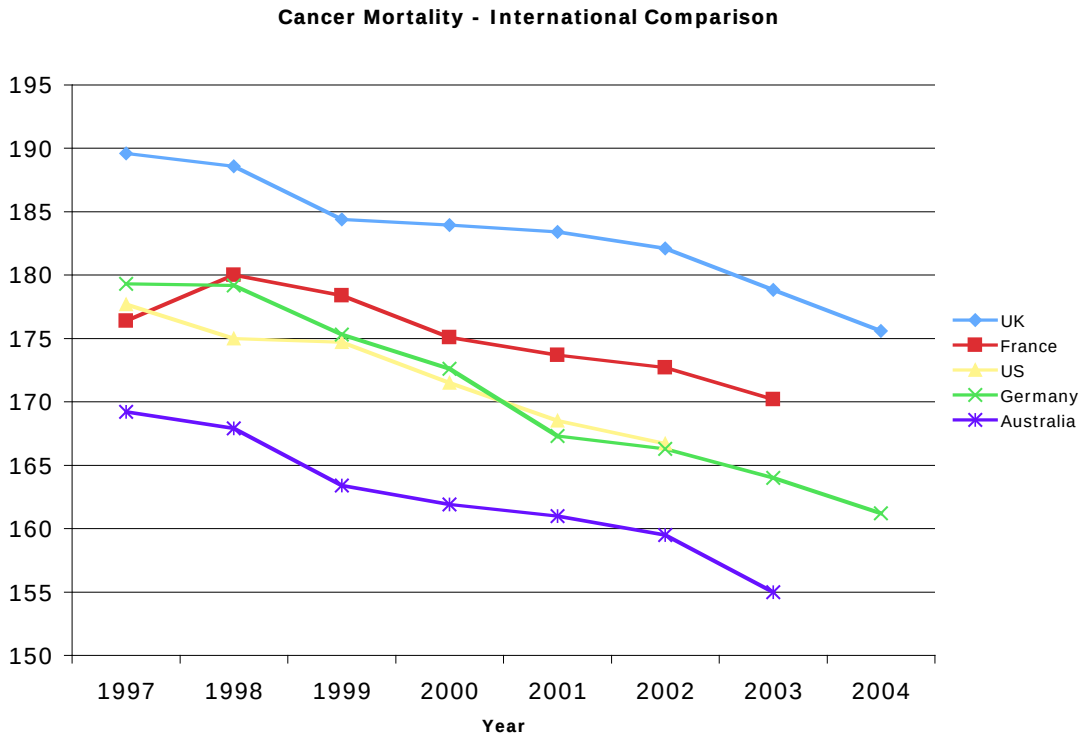
Despite significant improvements in clinical performance across the NHS, health outcomes in the UK, particularly for cancer, strokes and heart attacks, still do not compare favourably with other European countries or the United States (see Figure 5).

According to a recent study in *Lancet Oncology*, the five-year breast cancer survival rate in the United States is 83.9%, compared with a UK five-year survival rate of 69.7%. For prostate cancer, US five-year survival is 91.9%, compared with a five-year survival rate in the UK of 51.1%.[9]

[8] MINAP (2009)
[9] Coleman et al (2008)

The reason why the UK falls behind on cancer mortality is likely to be because of differences in the speed of access to diagnostic services, the UK's waiting times to treatment and delayed access to some new medications.

Figure 5: Cancer mortality in five OECD countries



Source: OECD (2007)

Policy differences between the parties

The Conservatives will focus on improving public health and decentralising the NHS. They will advocate creating an independent NHS board that manages the health service and is accountable to parliament, but is not composed of elected officials. Their hope is that an NHS board will insulate politicians from the day-to-day running of the NHS and allow policy-makers to make difficult decisions, which are often not politically popular.

Creating an NHS board, the Conservatives argue, would also allow them to shift the focus of the Department of Health from managing the day-to-day running of the health service to concentrating on public health. But every opposition party argues for the merit of increasing the autonomy of the NHS, but realises soon after taking power that political realities often make it impossible to do so.

In addition, the Conservatives plan to create a larger role for GPs in purchasing care and being responsible for improving public health. They have announced plans to expand the GP QOF contract to include significantly more public health measures that GPs would be responsible for achieving.

All three of the main parties have placed strong emphasis on the need to publish data on hospital quality and provider performance and continue to provide patients with a choice of where they receive care.

A key difference between the parties is that both the Liberal Democrats and Conservatives plan to abolish targets, whereas Labour intends to reduce the number but continue them in certain key areas. The Labour government has been working to put into law key 'rights' that NHS patients should expect. The rights will be added to the NHS Constitution, which outlines what healthcare workers, patients and the public can expect from the health service.

As the election has drawn near, the Labour government and the Conservatives have begun to introduce significant policy proposals designed to reverberate with the electorate. Recently, the Labour government introduced a White Paper outlining a proposal to pay for social care for anyone in care for longer than two years.[10] Along the same lines, the Conservatives have outlined plans to spend £200 million on funding cancer medications that are licensed but not approved for use by NICE.

Neither party has described their policies in detail, nor have they concretely outlined how they will pay for their proposals. For a complete list of Labour and Conservative policy proposals, see Figure 7.

Conclusions

Labour has dramatically increased NHS funding and introduced significant reforms across the NHS during their time in government. They have aimed to mobilise the 7% real annual growth in NHS spending by creating a new GP contract that links pay to performance and introducing market-based reforms to the hospital sector.

Thus far, there has been little research that has directly linked Labour's reforms to improvements in outcomes. But research that is beginning to emerge is demonstrating that Labour's various reforms have probably made a positive difference on quality, efficiency and equity.

On virtually every measure of performance, the NHS has improved significantly since 1997, making the decade a transformative period for the health service. But despite such significant improvements, on several key indicators of clinical quality, the NHS still does not compare favourably with other European countries.

[10] Secretary of State for Health (2010)

The NHS will face substantial financial constraints in the next decade, which make it necessary for the health service to become significantly more efficient. Both major political parties will campaign to continue to raise NHS spending in real terms. But the rate of spending increase will pale in comparison to what the health service has seen in the last decade, regardless of who wins the General Election.

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Figure 7: Key Labour and Conservative policy proposals[11]

Labour Policy Proposals		
Policy	**Description**	**Source**
Creating more foundation trusts	The government has pledged to continue to give high-performing hospitals increased managerial and fiscal autonomy by granting foundation trust status. Failing hospitals will have their management teams replaced.	http://www2.labour.org.uk/manifesto-splash
Include the right to treatment within 18 weeks within the NHS Constitution	Proposing to make 18-week time to treatment a guaranteed, legal right in the NHS constitution.	http://www.dh.gov.uk/en/Consultations/Liveconsultations/DH_108012
Include the right to cancer test results within one week within the NHS Constitution	Would guarantee patients a right to have diagnostic tests for cancer carried out and reported back to them within seven days.	http://www.guardian.co.uk/politics/2005/sep/26/speeches.labourconference
Include the right to five-year physicals for everyone age 40-74 within the NHS Constitution	Proposes to require every adult from age 40-75 to have the ability to access a 'health check'.	http://www.number10.gov.uk/Page14171
Choice of GPs	Proposal to abolish GP catchment areas so that patients can register with the practice of their choice.	http://www.dh.gov.uk/en/MediaCentre/Speeches/DH_105366
Reforming social care	The government has proposed creating a national care service funded by compulsory contributions. Recently, the government pledged to begin by making care free for those in care for over two years.	http://careandsupport.direct.gov.uk/consultation/ http://careandsupport.direct.gov.uk/the-white-paper-and-supporting-documents/

[11] The information in this table is derived from the King's Fund election webpage (http://www.kingsfund.org.uk/general_election_2010/)

Conservatives		
More patient choice and information	The party has proposed to give patients more choice and continue to promote publicly available information on quality.	http://www.conservatives.com/~/media/Files/Green%20Papers/A%20Healthier%20Nation.ashx?dl=true
More competition	The party will place more emphasis on competition between providers and will allow NHS patients to have more access to care at non-profit and private facilities.	http://www.conservatives.com/Policy/Where_we_stand/~/media/Files/Draft%20Manifesto/DraftHealthManifesto.ashx
Plan to withhold hospital payment if patient acquires hospital avoidable acquired infection	The party has pledged to withhold payment for cases where the patient acquires an avoidable infection in the hospital.	http://www.conservatives.com/Policy/Where_we_stand/~/media/Files/Draft%20Manifesto/DraftHealthManifesto.ashx
NHS Independent Board	The party will create an NHS board to allocate resources and manage the NHS.	http://www.conservatives.com/Policy/Where_we_stand/~/media/Files/Draft%20Manifesto/DraftHealthManifesto.ashx
Re-introduce GP-commissioning	The party will give GPs the ability to hold resources and purchase services for their registered patients.	http://www.conservatives.com/Policy/Where_we_stand/~/media/Files/Draft%20Manifesto/DraftHealthManifesto.ashx

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