Half of extra money for the NHS has gone on pay rises

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Half the new investment in the NHS hospital budget in the past year has been spent on higher pay for staff, a new analysis of NHS finances has shown.

Another 27% went on increases in capital costs, the cost of clinical negligence, and the cost of drugs, and meeting the recommendations of the National Institute for Health and Clinical Excellence.

As a result the NHS is struggling to meet targets and government health priorities, the analysis by a leading health policy think tank says.

The King's Fund, which has published two briefing papers on NHS finances, has also called for the government to become more sophisticated in its planning for future spending before committing more money to the health service.

In one of the briefing papers, *Where's the Money Going?*, the charity has analysed new data from the Department of Health and calculated that only 13% of the extra £3.6bn (\$6.1bn; £5.1bn) invested in the NHS hospital and community health services budget in 2005-6 was available for new developments and meeting targets and priorities set by the government.

The extra money for staff in the hospital and community health sector went to pay for the new consultants' contract and the "agenda for change" pay system for non-medical staff. The increase in pay due to the GPs' contract did not form part of the hospital and community budget.

After taking rises in the cost of such items as capital expenditure, drugs, and clinical negligence into account, only £475m was left for other developments such as meeting targets on waiting times.

A similar picture is predicted for the coming financial year, says the King's Fund, with almost 40% of the extra

£4.5bn for the 2006-7 hospital and community health services budget going on higher staff pay and 32% going on rises in capital costs, drugs, clinical negligence and other items.

The paper says the figures explain why so many trusts are facing serious deficits this year—collectively the worst deficit since 1997-8, despite record amounts of money being spent on the NHS.

John Appleby, the chief economist for health policy at the King's Fund, said: "People within the NHS say that the government underestimated the cost of the new pay systems, but I have not seen any hard evidence of that."

Paul Miller, chairman of the BMA consultants' committee, said: "All NHS staff, including doctors, deserve a fair salary for the work they do. In any service industry salaries account for a significant proportion of expenditure. The NHS is no exception. It is a good sign that much of the spending has been on salaries, as the NHS needed to recruit more staff to bring down waiting times and to improve patient services."

Gill Morgan, chief executive of the NHS Confederation, the representative body for NHS organisations, said: "Paying a decent wage to valued and motivated staff is crucial in the delivery of high quality patient care. Savings will be made in the long term as recruiting and retaining staff becomes easier."

"The results of extra investment in staff may not be obvious straight away, but over time benefits will become clear. Increasing staff numbers in the NHS is one of the two key objectives of the NHS plan. Improved patient access and choice, shorter waiting times, and improved standards of care depend on it."

The briefing paper says that although the situation in 2006-7 looks as though it will be better

than in the current year, the Department of Health has decided to raise the tariff price for the work hospitals do by only 1.5%, which is below the inflation rate for NHS costs.

"This will potentially leave hospitals with less cash than we estimate to meet other development targets," the paper says.

Moreover, the health department is expecting hospitals to make efficiency savings of 2.5%, which is a higher target than it has set in previous years.

The authors also point out that they have been unable to find out whether previous, and smaller, efficiency targets have ever been met.

In its other newly published briefing paper, *Spending on Healthcare: How Much is Enough?*, the King's Fund says that quantifiable evidence on the costs and benefits of implementing major policies is lacking.

The government has to be clear about the value of the benefits expected from spending on the health service before it commits to future investment, argue

the paper's authors.

Some policies have been evaluated but not sufficiently and comprehensively enough, they say, so it is difficult to say whether patients get value for money.

There is evidence, the paper says, that the rate of improvement in the benefits from health spending may be declining as more money flows into the NHS and that pressure to spend more is rising as a result of government policies that have fuelled demand on the health service.

The report recommends:

- Introducing a health status questionnaire before, during and after patients receive care so that the effects of healthcare services and interventions can be measured
- Extending the role of NICE's evaluative process to new areas of treatment and new policy areas, and
- A programme of studies on the costs and benefits of new policy initiatives. □

Both briefing papers are accessible at www.kingsfund.org.uk.