HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

Number CBP 07791, 21 November 2016

The financial sustainability of the NHS in England

By Claire Fears and Thomas Powell

Contents:

Contents

Summary

The NHS is facing significant financial challenges as a consequence of the ageing and growing population, the rising cost of new drugs and treatments and the need to maintain safe staffing and access to care. Although health spending has been protected relative to other public services, there are concerns that increasing demand and costs threaten the financial stability and sustainability of the NHS.

In December 2013 NHS England outlined projected budget allocations to 2020/21 and forecast that the NHS would face a funding gap of around £30 billion between 2013/14 and 2020/21 (*The NHS belongs to the people: A Call to Action – The Technical Annex*). The NHS Five Year Forward View (FYFV), published in October 2014, set out further detail on possible funding scenarios for the period to 2020/21. The FYFV estimated that if the NHS in England received £8 billion of additional funding, over the 5 years to 2020/21, the remaining £22 billion gap could be found through efficiencies. In response, the Department of Health's settlement at the Spending Review 2015 included the commitment to a £10 billion real terms increase in NHS funding in England, between 2014/15 and 2020/21. A number of commentators have expressed concern over whether the £22 billion figure of efficiencies is realistic, and about the actual value of the Government's funding commitment. In particular, the additional £10 billion is being allocated to NHS England, not to total health spending, and part of the increase in NHS England's funding is from reductions in other areas of the Department of Health budget.

The National Audit Office report *Sustainability and financial performance of acute hospital trusts,* published in December 2015, found that running a deficit was becoming normal for acute trusts. Primary care, mental health and community providers also remain under significant financial pressure.

The Department of Health's accounts for 2015/16 reported that NHS trusts and foundation trusts had a combined net financial deficit of £2.45 billion, a significant deterioration on the financial position of the sector compared to previous years. The trust deficit in 2015/16 was partly balanced by underspends in the Department of Health and NHS England budgets but the Department only avoided overspending its overall budget due to higher than expected National Insurance payments.

In July 2016 NHS Improvement and NHS England announced a "financial reset": a suite of new measures for providers and commissioners to restore financial discipline and help ensure ongoing financial sustainability for the NHS. The actions are designed to achieve financial sustainability and improve operational performance. £1.8 billion will be provided to help challenged hospitals to achieve financial balance. This £1.8 billion forms part of the Sustainability and Transformation Fund which committed £2.1 billion in 2016/17. Financial control totals have been introduced, representing the minimum level of financial performance, against which trusts must deliver in 2016/17. With the introduction of the Sustainability and Transformation Fund and other measures there has been both a reduction in the size of the net deficit and in the number of organisations in deficit when compared to 2015/16. Financial performance information from providers record a year-to-date deficit of £648 million in the first half of the year, on an operating revenue of around £39 billion. While NHS Improvement estimate the deficit can be brought down to £580 million, if providers met their savings targets in full over the remaining half of 2016/17, the aim for the sector as a whole is to get the net deficit down to £250 million. However, the *Health Service Journal* has collected data from NHS trusts for Q2 of 2016/17 which suggests a year-end deficit could be around £850 million.

In December 2015 NHS Shared Planning Guidance was published which asked local NHS organisations in England to come together to create five year plans to support service and financial sustainability, and to accelerate implementation of the vision set out in the NHS Five Year Forward View. 44 areas of England have now developed Sustainability and Transformation Plans (STPs), which aim to improve care quality and efficiency through new models of care and a greater focus on prevention. There have been concerns about lack of transparency and public involvement in the development of STPs so far and STPs were debated in the House of Commons on Wednesday 14 September 2016. To date around half of the 44 STP areas have published plans.

In a number of reports and hearings over the past year, the Health Select Committee and the Public Accounts Committee have raised concerns about the sustainability of the current NHS budget. In advance of the 2016 Autumn Statement, these two Committees, as well as leading health think tanks, and organisations representing NHS staff and providers, have called on the Government to revisit the financial settlement for health and social care.

The issue of the NHS's future sustainability is also the subject of a current inquiry by the House of Lords' Long-Term Sustainability of the NHS Committee, which is scheduled to report by 31 March 2017. The inquiry is looking at the health service, including social care and prevention, and how it can remain sustainable beyond the next 15 to 20 years.

1. NHS Funding to 2020/21

1.1 Funding for the NHS in England

Funding for health services comes from the total budget for the Department of Health. In 2015/16 the total allocated budget for the Department was £115 billion for England.[1] The majority of this budget (£100.6 billion) was transferred to NHS England, with the remainder divided between the Department's other agencies and programmes. NHS England's budget is used to deliver its mandate from the Department. NHS England is responsible for allocating resources to local commissioners of health services: clinical commissioning groups (CCGs) and local authorities. The majority of the funding, £69.2 billion, went to CCGs in 2015-16. NHS England also directly commissions certain services on a national level; specialised services, primary care and military and offender services for which it had a budget of £29.7 billion in 2015/16. The remainder of the budget was spent on centrally administered projects and services.[2]

Information on funding for adult social care in England can be found in Commons Library Briefing Paper CBP7564, Social care: recent funding announcements and the state of the care home market (England).

1.2 Budget Allocations

NHS England's A Call to Action – The Technical Annex outlined projected NHS England budget allocations to 2020/21. NHS England assessed the likely cost of future health needs and compared this to the future funds available to purchase that care. Its analysis used seven years of flat 'real' spending on health. This modelling process indicated that the NHS would face a funding gap of around £30 billion between 2013/14 and 2020/21. The scale of the potential funding gap is in line with other research conducted by Monitor, the Department of Health and commentators such as the Nuffield Trust and the King's Fund. The £30 billion gap could be larger or smaller depending on demand, funding or efficiency.[3]

The Department of Health's settlement at the Spending Review 2015 included the commitment to a £10 billion real terms increase in NHS funding in England between 2014/15 and 2020/21.[4]

1 HM Treasury, Public Expenditure Statistical Analyses 2014, Table 1.10
2 NHS Business Plan 2015-16
3 The NHS belongs to the people: A Call to Action – The Technical Annex, 19 December 2013, Executive Summary
4 Department of Health's settlement at the Spending Review 2015, 25 November 2015

	£ billion						
	Outturn	Plans					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
NHS TDEL[1]	98.1	101.3	106.8	110.2	112.7	115.8	119.9
Real terms growth rate		1.9%	3.6%	1.3%	0.4%	0.7%	1.4%
Cumulative delivery of £10bn commitment[2]		**2**	**6**	**7**	**8**	**9**	**10**

[1] *Included within Department of Health Total DEL*

[2] *The additional £10 billion real terms funding is calculated with reference to the Summer Budget 2015 deflators, consistent with when the commitment was made.*

1.3 Five Year Forward View spending projections

The NHS Five Year Forward View' (FYFV) proposed major changes to the provision of healthcare services. It identified that the NHS will need to continue to adapt in response to increasing patient demand, funding constraints and new technologies and treatments. The annual difference between the spending allocated by Government and the amount the NHS needs (as set out in A Call to Action – The Technical Annex) is set out below:

NHS spending projections and funding to 2020/21 (£ billions)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NHS England projected requirements	107.0	113.0	118.0	124.0	130.0	137.0
Spending review settlement	101.3	106.8	110.2	112.7	115.8	119.9
Funding gap	5.7	6.2	7.8	11.3	14.2	17.1

The FYFV set out NHS funding scenarios for the period to 2020-21 and estimated that if it received £8 billion more funding than the remaining £22 billion gap could be found through efficiencies. These would cover the size of the funding gap as shown in the table above.

> Of the so-called "£22bn efficiency requirement", around £7bn will be delivered nationally, leaving around £15bn to be secured from local efficiencies, of which only £8.6bn relates to provider tariff efficiencies. Furthermore, the majority of these efficiencies are not cost reductions per se but involve slowing the rate of spend and growth.[5]

The NHS' performance has been efficiency of 0.8% annually, although it has increased to 1.5-2% in recent years. For the NHS to achieve the target of an extra 2% net efficiency each year until 2020/21 would represent a strong accomplishment compared with past performance. NHS England and the other FYFV partners believe it is possible provided action is taken on prevention, and there is increased investment in new care models and in social care services. Over time the FYFV anticipates a greater share of the efficiency savings coming from wider system improvements.[6]

5 NHS, NHS Five Year Forward View: Recap briefing for the Health Select Committee on technical modelling and scenarios, para 4.4 Summary

6 NHS, Five Year Forward View, October 2014, para 14

2. Performance of the NHS provider sector in England

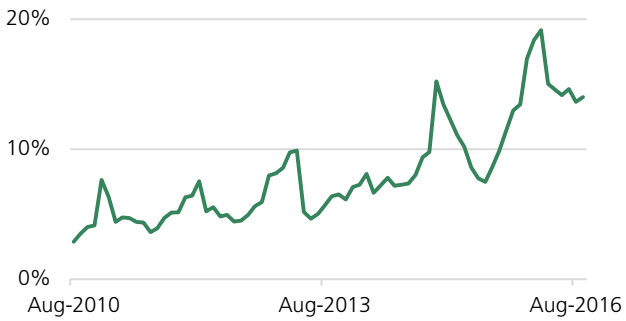
While the CQC's *State of Care* report for 2015/16 found that most health and services in England are providing good quality care, access to care has worsened across a large majority of hospital trusts. NHS Improvement—a body established on 1 April 2016 by bringing together existing organisations including Monitor and the NHS Trust Development Authority—has stated that "sustained operational and financial challenges continued to affect adversely the performance of the NHS provider sector".[7]

Accident and Emergency

In 2016 so far, attendances at major A&E departments are 6% above 2015 levels. This amounts to an average of 2,500 more people attending A&E every day.

In the last year, 15% of people spent more than 4 hours in major A&E departments. This has risen from 5% five years ago. The target for 95% of all attendees to be discharged, admitted or transferred within 4 hours has not been met in the monthly data since July 2015

Percentage of patients spending more than 4 hours in major A&E departments, England, 2010-2016



Waiting lists for treatment

The waiting list for routine treatment has grown to almost 4 million – its highest level in nine years. At the same time, the target for 92% of those on the waiting list to have been waiting for less than 18 weeks was breached in 2016 for the first time since 2011.

Waiting list for routine treatment, England, 2007-2016

7 NHS Improvement Board Paper for meeting on 26 May 2016: Performance of the NHS provider sector: year ended 31 March 2016

Cancer waiting times

The number of urgent GP referrals with suspected cancer was 72% higher in 2015/16 than five years before. The number of first treatments for cancer has risen 15% over five years. Many cancer waiting time targets are still met, but the target for 85% of patients to wait no more than two months between an urgent GP referral and their first treatment has been missed for 28 of the last 29 months.

Ambulance response times

The number of Red 1 (cardiac arrest/stopped breathing) calls resulting in an ambulance response was 30% higher in 2015/16 than two years previously. The total number of calls for life-threatening incidents rose by 17% over two years. Correspondingly, the target for 75% of Red 1 calls to be responded to within 8 minutes was not met in either 2014/15 or 2015/16.

More NHS Indicators

More detail on these and other NHS demand and performance indicators for England can be found in the Library's quarterly NHS Indicators: England publication.

3. Analysis of additional funding and efficiency saving commitments

3.1 Additional funding

The Health Select Committee report, *Impact of the Spending Review on health and social care* (July 2016) analysed the Government's claim that there would be an additional £10 billion above inflation for the NHS by 2020/21. The Committee found that:

- The £10 billion figure is expressed in 2020/21 prices, rather than the current 2015/16 prices. At 2015/16 prices, NHS England's budget will rise by £9.5 billion between 2014/15 and 2020/21.
- The £10 billion figure refers to the additional sum allocated to NHS England, not to total health spending. Part of the increase in NHS England's funding is from reductions in areas of health spending which fall outside NHS England's budget (such as the public health grant to local authorities, and education and training funded through Health Education England). These reductions amount to £3.5 billion in real terms, at 2015/16 prices, between 2014/15 and 2020/21. Therefore the Department of Health's budget will increase by £6 billion between 2014/15 and 2020/21 and for the spending review period (2015/16 to 2020/21) the increase is £4.5 billion.[8]

The Committee's findings endorsed research from the Nuffield Trust, the Health Foundation and the King's Fund. These think-tank's analysis of what the 2015 Spending Review means for the NHS noted that:

- Funding is less than expected following the announcement of the NHS settlement. Previous governments had defined NHS spending as the whole of the Department of Health's budget and not just NHS England's budget.
- The rise of £4.5 billion in real terms will result in an increase of 0.9 per cent a year (over the whole of the Parliament), almost identical to the rate of increase over the last Parliament.
- The additional investment will be front-loaded with a significant increase in 2016/17. However, much of this money will be absorbed by dealing with deficits among NHS providers and by additional pension costs.[9]

The three health think-tanks raised concerns that after a sustained funding squeeze and growing deficits among NHS providers, an average annual increase of 0.9 percent may not tackle the underlying problems facing health and social care. In particular, they note that waiting times are rising, several key performance targets are being regularly missed

---

8 Health Committee, *Impact of the Spending Review on health and social care,* HC 139, 19 July 2016, para 6

9 Nuffield Trust, Health Foundation and King's Fund, *The Spending Review: what does it mean for health and social care?*, December 2015, Key Points

and the service is struggling to recruit and retain enough staff.[10] They also outline the impact on health spending outside of NHS England's budget, which will be reduced by £3 billion:

- Local authority public health budgets will be cut by 3.9 per cent a year. This is a reduction of at least £600 million in public health spending by 2020/21, on top of £200 million already cut from the 2015/16 budget.
- Student nurses will see grants for tuition fees replaced by student loans. Most of the projected savings of £1.2 billion a year will not be realised until the end of the Parliament.
- It has been reported that the remainder of Health Education England's budget is likely to be frozen in real terms.
- The Care Quality Commission expects significant reductions to its budget and has proposed large increases to the fees it charges to providers.[11]

The Health Select Committee conducted a further inquiry into the Department of Health and NHS finances in the autumn of 2016 and took evidence from Jeremy Hunt and Simon Stevens. On 26 October 2016 the Committee wrote to the Chancellor of the Exchequer to express their continuing concerns about the Government's use of the £10 billion funding figure, and disputing claims that it had fully funded the NHS Five Year Forward View (FYFV). The Shadow Health Secretary, Jon Ashworth, has also asked the UK Statistics Authority to investigate.[12] The Chancellor responded to the Committee on 8 November 2016, setting out the Government's view that it had delivered the front-loaded increase in funding that the FYFV had asked for. In particular, he explained:

- The £10 billion figure was determined using a 2014/15 baseline as this was used by the FYFV. It is based on 2020/21 prices because the funding gap identified in the FYFV is described in this way.
- The decision to focus investment on the NHS is deliberate, reflecting Government's desire to prioritise frontline services.[13]

Giving evidence to the Committee on 18 October 2016 the Health Secretary acknowledged the financial pressures facing the NHS and provided further background to the Government's position on NHS funding:

> "First, I do not believe at all that the NHS is awash with cash. There are very real financial pressures as the NHS copes with the extraordinary pressures on the frontline, particularly to do with the ageing population but for other reasons as well. The significance of that figure is simply that it relates to an increase to NHS front-line funding, as you were absolutely right to point out, and not an increase to the Department of Health budget. One way that we were able to fund the money that the NHS asked to kick-start the forward view was by making efficiency savings in

10 Nuffield Trust, the Health Foundation and the King's Fund, The Spending Review: what does it mean for health and social care?, December 2015, p3
11 *Ibid,* p5
12 Labour requests inquiry into Theresa May's £10bn for NHS claim, *Guardian,* 31 October 2016
13 Reply from the Chancellor of the Exchequer to the Chair of the Health Select Committee, dated 8 November 2016, concerning NHS funding

> the non-NHS England parts of the budget. That was the only way we were able to afford it in very constrained national circumstances. We never pretended that the number was an increase in the overall Department of Health budget, but it is what the NHS said they needed to kick-start the forward view. That is why it is significant."[14]

At the same evidence session Simon Stevens was asked for his view on whether the NHS has been given the funding increases it asked for in the FYFV:

> "…for this year, year 1, of the spending review, we did indeed get the kick-start to the funding that we, broadly speaking, were looking for, which we needed because we had to absorb nearly £1 billion of extra pension costs, as well as the pressures in the provider sector coming out of last year. With the kick-start settlement this year, we will be able to cut the hospital deficit by more than two thirds; we are going to bring some stability back to many parts of the service that are under pressure; and we are going to be able to make some modest starts to the improvements that we know are needed in mental health services, and cancer and primary care services. That is year 1.
>
> Turning to year 5, within the range of £8 billion to £21 billion—we got within that range, albeit it at the lower end—the extent to which that can work depends on other things, the other criteria, working with us over that period. For years 1 and 5, yes, you could say that we were kind of in the zone, but for the next three years we did not get the funding that the NHS had requested. This is not a controversial statement. It is what I have already said to the Public Accounts Committee, so it is not a new statement. As a result, we have a bigger hill to climb. It is going to be a more challenging 2017, 18 and 2019-20.[15]

On 8 November 2016 the Nuffield Trust, the Health Foundation and the King's Fund issued a joint statement urging the Government to address the critical state of social care in its forthcoming Autumn Statement. They also noted that financial pressures in 2018/19 and 2019/20 would require the Government to address the NHS funding settlement in future financial statements.[16]

On 18 November 2016 NHS Providers, which represents NHS acute, ambulance, community and mental health services, published its Autumn Statement Submission. It welcomed that health spending has been protected relative to other public services but called on Government to increase funding to primary care and social care, which it said would also relieve pressure on hospital services:

> With rising demand for care and constrained budgets leading to more than 150 trusts being in deficit and the majority of NHS trusts not meeting their performance targets, NHS Providers is urging the government to use its autumn statement on 23 November to deliver extra funding beyond hospitals However, in order to meet the clear financial challenges that the NHS faces,

---

14 Health Select Committee, Department of Health and NHS finances - oral evidence Q58 18 Oct 2016, HC 693 (published 27 Oct 2016)

15 *Ibid.* Q66

16 Nuffield Trust, the Health Foundation and the King's Fund, The Autumn Statement: joint statement on health and social care, November 2016

> we outline six areas that need to be addressed by the government.
>
> These are:
>
> 1.Tackle the delayed transfer of care through greater support for adult social care
>
> 2.Support primary care and collaborative budget decisions
>
> 3.Refocus on the need for capital investment
>
> 4.Support provider productivity gains
>
> 5.Re-plan finances for this parliament
>
> 6.Develop a genuine longer term plan for the NHS[17]

3.2 Breakdown of efficiencies

The Health Select Committee received a high level summary from Simon Stevens, Chief Executive of NHS England, of where the £22 billion of efficiencies would come from:

- £6.7 billion to be delivered nationally by NHS England, Department of Health and wider government.
- £14.9 billion to be delivered locally (£1 billion already in hand).
- Of the remaining £14 billion, £8.6 billion will come from 2% provider tariff efficiencies.
- Remaining efficiencies from service change to be delivered through sustainability and transformation plans.[18]

The Health Committee expressed concerns that this breakdown did not contain sufficient detail. In particular it did not show the contributions that individual organisations would be expected to make and lacked clarity around how these stated efficiencies would be achieved. The Committee also reported that a number of commentators have expressed concerns about whether the £22 billion target for efficiency savings is realistic:

> NHS Providers told us that the Five Year Forward View "now needs to be complemented by a clear plan of how this destination will be reached including how the service will fund transformation in the middle years of the settlement". Likewise, the British Medical Association told us "there is still no credible plan to enable this unprecedented scale of efficiency savings to be made. This is even more unrealistic when we consider the fact that this expectation is balanced against the NHS priority for improving performance". Similar views were expressed by a number of other witnesses, including the Health Foundation, Nuffield Trust, King's Fund and NHS Clinical Commissioners.[19]

---

17 NHS Providers, NHS is fighting a losing battle without extra funding for neglected areas, 18 November 2016

18 Health Select Committee, Impact of the Spending Review on health and social care, HC 139, 19 July 2016, para 72

19 *Ibid,* para 73

4. Sustainability and financial performance of NHS trusts and foundation trusts

In July 2016, NHS Improvement and NHS England published a document entitled *Strengthening Financial Performance and Accountability in 2016/17*.[20] This confirmed action by NHS England to ensure the commissioning sector ends 2016/17 in balance and action by NHS Improvement to cut the annual trust deficit to a control total of £580 million, while seeking further reductions towards a goal of £250 million, on an operating revenue of around £39 billion.

On 18 November 2016 NHS Improvement published financial performance information from providers, showing a year-to-date deficit of £648 million in the first half of the 2016/17.NHS Improvement highlight that this indicates a £968 million improvement on the Q2 position for 2015/16.[21] However, the *Health Service Journal* has collected data from NHS trusts for Q2 of 2016/17 which suggests a year-end deficit of around £850 million.[22]

The Department of Health's accounts for 2015/16 reported that NHS trusts and foundation trusts had a combined net financial deficit of £2.45 billion, confirming the trend of deteriorating performance for both NHS Trusts and Foundation Trusts in recent years:

- NHS Trusts reported a net financial deficit of £1.35 billion, compared to a net deficit of £0.48 billion in 2014/15; and
- Foundation Trusts reported a net deficit of £1.10 billion, compared to a net deficit of £0.36 billion in 2014/15.[23]

The National Audit Office report published in December 2015, *Sustainability and financial performance of acute hospital trusts* found that running a deficit was becoming normal for acute trusts (see below). David Williams, Director General Finance Department of Health, acknowledged this in evidence to the Public Accounts Committee:

> There were 160 organisations in deficit in [2015-16], so the previous peer pressure that if you were in deficit, you were an outlier, flipped in 2015-16 to being the norm.[24]

In July 2016 the King's Fund produced a briefing paper on *Deficits in the NHS 2016*. One of the key messages was that increasing deficits are a system wide issue:

---

20 NHS England and NHS Improvement, *Strengthening Financial Performance and Accountability in 2016/17*, 21 July 2016

21 NHS Improvement, Quarterly performance of the NHS provider sector: quarter 2 2016/17 (published 18 November 2016)

22 Trusts heading for £670m end of year deficit, says regulator, HSJ, 18 November 2016

23 Department of Health Annual Report and Accounts 2015-16, HC332, 21 July 2016, para 157

24 Public Accounts Committee oral evidence session on, Department of Health Annual Report and Accounts 2015-16, 7 September 2016, Q54

> The scale of the aggregate deficit makes it clear that overspending is largely not attributable to mismanagement in individual organisations – instead it signifies a health system buckling under the strain of huge financial and operational pressures.[25]

The Health Select Committee heard evidence that the deficits can be attributed to three main factors:

- Increasing demand for services as a result of an ageing population living with multiple health problems, and delayed hospital discharges as a result of not having adequate social care packages in place.
- Reductions in the price that providers are paid through the tariff, where providers have not reduced their costs sufficiently to compensate for the annual 4% efficiency factor in the tariff ; and
- Additional staffing costs following the Francis review of events at Mid Staffordshire NHS Trust, where a shortage of permanent staff to fill these extra posts has seen spending on agency staff costs increase.[26]

In July 2016 NHS Improvement and NHS England announced a "financial reset" (see section 4 of this briefing): a suite of new measures for providers and commissioners to restore financial discipline and help ensure ongoing financial sustainability for the NHS. The actions are designed to achieve financial sustainability and improve operational performance. £1.8 billion will be provided to help challenged hospitals to achieve financial balance. This £1.8 billion forms part of the Sustainability and Transformation Fund which committed £2.1 billion in 2016/17. Financial control totals have been introduced, representing the minimum level of financial performance, against which trusts must deliver in 2016/17. With the introduction of the Sustainability and Transformation Fund and other measures there has been both a reduction in the size of the net deficit and in the number of organisations in deficit when compared to 2015/16. However, Sally Gainsbury, Senior Policy Analyst at the Nuffield Trust, has said that trust's reported deficit figures "must be understood in the context of the additional £1.8bn that will have been pumped into the hospital sector by the end of this financial year… That means that the forecast deficit for NHS providers by the end of the year will appear £1.8bn smaller than the real underlying deficit."[27] This is still likely to be a significant improvement on the underlying deficit in 2015/16, which was thought to be around £3.7 billion.[28]

In an evidence session for the Health Select Committee's inquiry on the Department of Health and NHS finances, Chris Hopson, Chief Executive NHS Providers, discussed how at month 5 of the 2016/17 financial year

---

25 The King's Fund, *Deficits in the NHS 2016*, July 2016, Key messages p1

26 Health Select Committee, Impact of the Spending Review on health and social care, HC 139, 19 July 2016, para 17

27 Nuffield Trust comment ahead of the publication of the latest financial figures from NHS Improvement, 18 November 2016

28 Trusts heading for £670m end of year deficit, says regulator, HSJ, 18 November 2016

the sector was still on track. However he raised serious concerns about future years:

> But clearly there is a huge amount of risk about whether we will deliver the end-year figure that we are being asked to deliver, which is minus £580 million at the end of the year. (…) what worries us is if you look at the funding increases that are coming over the next few years. Cost and demand, as we know, in the NHS rises by 4% a year, and we are going from a 3.7% increase this year to a 1.3% increase next year, 0.3% the year after and 0.7% the year after.[29]

4.1 National Audit Office research

The National Audit Office (NAO) have produced a number of financial sustainability reports on the health sector with *Sustainability and financial performance of acute hospital trusts* published in December 2015.[30] In this report, the NAO examines the NHS trusts and NHS foundation trusts that are acute trusts. Acute trusts provide acute healthcare services such as accident and emergency services, inpatient and outpatient, and some specialist and/or community care. Acute trusts received 78% of NHS trusts and NHS foundation trusts income in 2014/15 and are therefore important in assessing risks to overall NHS financial sustainability.

To achieve financial sustainability and stay within budget, trusts need to successfully manage activity and financial pressures within the income they receive. Spending on non-permanent staff by acute trusts, as a proportion of their total income, increased by 24% between 2012/13 and 2014/15. The increased costs associated with using agency staff may reflect the need to meet safer staffing guidelines. In November 2015 he Department announced interventions to reduce trusts spending on agency staff.[31] The report also found that:

- £471 million deficit reported by commissioners, NHS trusts and NHS foundation trusts in 2014/15 represents a worsening financial position from the £722 million surplus achieved in 2013/14 and the £2.1 billion surplus in 2012/13.
- The deterioration in the financial position of NHS trusts and NHS foundation trusts has been severe and worse than expected. Their £843 million net deficit in 2014/15 reflects a sharp decline from trusts' £91 million deficit reported in 2013/14, and trusts' £592 million surplus reported in 2012/13.
- The number of NHS trusts and NHS foundation trusts reporting a deficit rose by 80% between 2013/14 and 2014/15.[32]

The report found that this declining financial performance was not sustainable. Running a deficit was becoming normal for acute trusts and

---

29 Health Committee, Oral evidence: Department of Health and NHS Finances, HC 693, 11 October 2016, Q24

30 National Audit Office, *Sustainability and Financial Performance of Acute Hospital Trusts*, 16 December 2015, HC 611 of session 2015–16

31 *Ibid*, p9

32 *Ibid*, p8

there were risks that poor financial management was not being taken seriously. Intervention by multiple organisations and a turbulent planning period had further undermined financial management within the trusts. [33] The NAO went on to make five recommendations:

- The Department, NHS England, Monitor and NHS Trust Development Authority (TDA) should work together to improve the trust planning process and their oversight of financial risk.
- When designing measures to control costs, the Department should consider how these measures will be implemented successfully.
- The Department, NHS England, Monitor and NHS TDA should put in place a clear plan for improving financial sustainability.
- The Department must move ambitiously and more thoroughly to set out savings goals to secure financial sustainability.
- Price and tariff setters (NHS England and Monitor) should move faster to ensure that payment systems support change and promote financial sustainability.[34]

4.2 Public Accounts Committee follow up report

On 15 March 2016 Public Accounts Committee (PAC) published its report *Sustainability and Financial Performance of Acute Hospital Trusts* in response to the NAO's report. Since 1 April 2016, NHS Improvement has brought together NHS TDA and Monitor under common leadership. PAC recommended that:

1 The Department, NHS England and NHS Improvement should make sure all trusts in deficit have realistic recovery plans by the start of the 2016/17 financial year that will lead to timely and sustainable improvements.

2 The Department, NHS England and NHS Improvement should set informed and realistic targets for providers to make efficiencies.

3 NHS Improvement should set out how it will work with trusts in the 2016/17 financial year to improve the quality of the data on which its savings targets are based.

4 NHS England and NHS Improvement should set out proposals for changing the payment and contracting system for providers to one that supports financial and service sustainability, incentivises integration and service collaboration and reduces the need for reactive financial support to providers in difficulty.

5 NHS England and NHS Improvement should be clear that spending on agency staff is only one contributing factor to the deficit. They should set out how they will support providers to secure the collective action that is needed to get value for money from the use of agency staff as a matter of urgency.

---

33 *Ibid,* pp12-13
34 *Ibid,* pp13-14

6 The Department of Health, NHS England and NHS Improvement should report to us jointly in September 2016 on their progress with implementing the NAO's recommendations and the further recommendations we make in this report.[35]

4.3 Government response

The Government accepted all the PAC's recommendations in relation to its report *Sustainability and Financial Performance of Acute Hospital Trusts*:

- Recommendation one relates to Sustainability and Transformation Plans (discussed further in section below). These will describe how NHS organisations will work together to meet finance and efficiency challenges, and ensure the sustainability of high-quality services. Initial plans are to be submitted by 30 June 2016.
- Recommendation two has been implemented through the introduction of an efficiency rate of 2% for the 2016/17 national tariff.
- Recommendation three relates to the Costing Transformation Programme, which was launched in 2015 to deliver changes in the quality and use of costing information. The Programme is developing new costing standards and standards development version two will be issued in January 2017.
- Recommendation four relates to new payment models, contracts and procurement processes for providers, which will be developed in conjunction with a number of vanguards and implemented by March 2017.
- Recommendation five has been implemented through the introduction of national price caps for all agency staff.
- Recommendation six relates to an update on progress with regards to the recommendations made by NAO and PAC which will be implemented by September 2016. NHS England and NHS Improvement have now published details of the £22 billion efficiency programme and a further progress review is due in January 2017.[36]

Further reading

Correspondence from the Department of Health, NHS England and NHS Improvement relating to the Public Accounts Committee's Thirtieth Report of Session 2015-16: Sustainability and financial performance of acute hospital trusts (Published 10 October 2016)

Correspondence from the Chair of the PAC to the Prime Minister relating to the NHS budget (dated 3 November 2016)

---

35 Public Accounts Committee, *Sustainability and Financial Performance of Acute Hospital Trusts*, HC 709, 7 March 2016, pp 5-7

36 HM Treasury, Treasury Minutes Government Responses on the Twenty Seventh to the Thirty Third Reports from the Committee of Public Accounts: Session 2015–16, May 2016, Cm 9270, pp 10–13.

5. Financial reset

On 21 July 2016 NHS Improvement and NHS England announced a "financial reset": "a suite of new measures for providers and commissioners to restore financial discipline and help ensure ongoing financial sustainability for the NHS."[37] The actions are designed to achieve financial sustainability and improve operational performance. These are detailed in *Strengthening Financial Performance and Accountability in 2016/17*, and include:

- allocated extra £1.8 billion to trusts with the aim of cutting the deficit to around £250 million in 2016/17;
- replaced national fines with trust specific incentives linked to agreed organisation specific published performance improvement trajectories, so as to kick-start a multi-year recovery and redesign of A&E and elective care;
- agreed 'financial control totals' with individual trusts and CCGs, which represent the minimum level of financial performance, against which they must deliver in 2016/17, and for which they will be held directly accountable;
- introduced new intervention regimes of special measures which will be applied to both trusts and CCGs who are not meeting their financial commitments;
- set new controls to cap the cost of interim managers and to fast track savings from back office, pathology and temporary staffing;
- published the 2015/16 performance ratings for CCGs; and
- launched a two-year NHS planning and contracting round for 2017/18 and 2018/19.

The series of actions initiated in the financial reset also included new controls to cap the cost of interim managers across CCGs and CSUs.

These actions build on a wider set of measures to support the NHS in reaching financial balance, including accelerated implementation of the RightCare programme in all health economies during 2016/17, national action to implement Lord Carter's recommendations on operational efficiency, and the development of local efficiency programmes in STP footprints.

In November 2015 the Government introduced measures to cut the cost to the NHS of agency staff. All NHS trusts and foundation trusts are now required to stay within a specified annual expenditure ceiling for total spending on agency staff (expressed as a percentage of staff costs) and to use only approved frameworks to procure all agency staff. Price caps have been introduced which limit the amount a trust can pay to an agency for the provision of temporary staff. The Government reports that between April and August 2016 the NHS has spent £188 million

[37] NHS Improvement, 'Strengthening Trusts' Financial and Operational Performance for 2016/17', 21 July 2016

less on agency staff than in the same period in 2015.[38] NHS providers estimate that they are on course to reduce their agency costs by around £900 million over the whole of 2016/17.[39]

NHS Improvement had also written to NHS providers on 28 June 2016, setting out three specific areas where further action is required to improve their financial position in 2016/17. These areas are:

- Tackling excessive pay bill growth: analysis of 2015-16 cost trends and 2016-17 plans indicates significant growth in excess of inflation and pension effects in some trusts
- Implementation of Lord Carter's recommendations on back office and pathology consolidation: all STP areas were required to report back on opportunities in this area by the end of July, with a particular focus on opportunities for quick wins with impact in 2016/17 and 2017/18.
- The consolidation of unsustainable services: providers are particularly focusing on areas where planned care services are being delivered using locums and agency staff, with a view to early decisions to re-provide at nearby units operating at efficient scale and with greater assurance of quality.[40]

In answer to a written question in the House of Lords, the Government explained how NHS Improvement's new oversight regime would monitor and support providers' financial performance:

> NHS Improvement is currently consulting on a new oversight regime, which details proposals on how providers will be monitored in future and this will set out how variance from financial plan or control total will be managed.
>
> NHS Improvement does not intend to replace the boards of those providers who do not achieve financial balance by the end of 2016/17. The organisation's new oversight regime also sets out in detail how it proposes to monitor and support providers.
>
> The Government's mandate to the NHS 2016-17 […] confirms that the National Health Service must ensure that it balances its budget, including commissioners and providers living within their budgets. To support this, £1.8 billion of NHS England's budget for 2016-17 will be allocated through the Sustainability and Transformation Fund to support providers, in particular emergency services, payable through commissioning or as other support.[41]

During a PAC evidence session on the Department's accounts in September 2016 Chris Wormald, Permanent Secretary at the Department of Health, explained how the delivering these plans would ensure long-term financial sustainability:

---

38 Correspondence from the Department of Health, NHS England and NHS Improvement relating to the Public Accounts Committee's Thirtieth Report of Session 2015-16: Sustainability and financial performance of acute hospital trusts (Published 10 October 2016)

39 NHS Improvement, Quarterly performance of the NHS provider sector: quarter 2 2016/17 (published 18 November 2016)

40 Correspondence from the Department of Health, NHS England and NHS Improvement relating to the Public Accounts Committee's Thirtieth Report of Session 2015-16: Sustainability and financial performance of acute hospital trusts (Published 10 October 2016)

41 House of Lords, 'Written Question: NHS Finance', 13 July 2016, HL1045.

> We expect NHS budgets to remain challenging. If you look at the detail of the financial reset that NHS Improvement and NHS England published on the same day as our accounts, it is a tough plan. It is a difficult plan, and it is a challenge for all NHS commissioners and providers to meet. It has a lot of tough challenges within it, including a new financial special measures regime. I can describe that for the Committee, if that is helpful. It will be a challenge to deliver. If we can deliver that plan and the other elements of what we need to do to make the NHS financially stable long term around delivering the five year forward view and reducing demand on acute, and then in the longer term improving public health by cutting smoking and those sorts of thing, we believe we have a plan that is financially sustainable and that will deliver the spending review settlement and the NHS mandate that the Government has set out. But I am not going to beat about the bush: that is a big challenge for the sector.[42]

A survey by NHS Providers has found that despite the financial reset and other associated measures, NHS finance directors remain very pessimistic about the financial position for 2016/17. The survey with CCGs, NHS foundation trusts and trusts was conducted in early August 2016. The survey asked for information on quarter one financials for 2016/17, confidence in their plans for the rest of the year and their views on the financial "reset" by NHS Improvement. The survey found that:

- 47% of trusts are ahead of their target at the end of the first quarter, a third are on target but 21% are worse-off than anticipated.
- 38% of trusts are not confident of meeting their control totals. A third were 'unsure' and the final third were 'fairly confident'.
- There are significant incentives on trusts to declare they are on track at quarter one to ensure access to the sustainability and transformation funding, which they might otherwise lose. This casts doubts about the sustainability of the first quarter results.
- Most finance directors have little or no confidence that recent financial measures (control totals and placing some trusts into financial special measures) will help the NHS to achieve financial sustainability this year. 54% are not confident that financial special measures for trusts will work, while 58% are not confident in measures to curtail increases in staff costs.[43]

---

42 Public Accounts Committee oral evidence session on, Department of Health Annual Report and Accounts 2015-16, 7 September 2016, Q12

43 NHS Providers, *The state of NHS finances at Q1 2016/17*, 25 August 2016

6. Department of Health's Annual Report and Accounts 2015/16

6.1 Overall position

The Department of Health's accounts were laid on the 21 July 2016 and showed that NHS providers had a net £2.45 billion financial deficit. The Department exceeded its net aggregate HM Treasury DEL control totals by £0.1 billion. Despite savings elsewhere the NHS provider pressures ultimately proved too great to fully mitigate.[44]

> In financial terms, the NHS has faced significant pressures in meeting increased demand for services, and at the same time, labour cost – particularly labour headcount, has increased at a higher rate than the demand for services during the year. This has made it increasingly difficult for the Department to stay within overall spending controls.[45]

The Department of Health offers a range of financial assistance to NHS providers with deficits, to enable the NHS to pay creditors and staff and ensure there is no interruption to services. This support has consisted of loans and Public Dividend Capital (PDC), whereby trusts pay an annual fixed dividend to the Department instead of paying back the money in full. In 2014/15, NHS trusts and foundation trusts received £1.8 billion of additional financial support, more than double that it received in 2013/14.[46]

6.2 Control limits

Departments' financial resources are formally allocated to them by Parliament each year (authorised through annual vote procedures in the Supply and Appropriation account). In their audited Annual Report and Accounts, the Department's actual outturn for the year is compared with their authorised amounts. These spending limits are often referred to as control totals. Any spending in excess of the amounts authorised by Parliament is irregular. Where excesses are reported the Comptroller and Auditor General (C&AG) of the NAO 'qualifies' his audit opinion and reports the excess to PAC. There are certain categories of expenditure (e.g. some healthcare costs) that are not subject to annual approval in this way and they are included under the heading 'non-voted'. The Department did not breach its Parliamentary control totals but did exceed the non-voted revenue limit. This does not result in a qualified opinion but does have implications for how the Government is managing its budgets overall.

To stay within its control limits the Department re-prioritised and recycled from areas that had savings. Controls were introduced over the price that NHS providers paid for agency staff and £0.95 billion of capital budget was transferred to its revenue budget to offset pressures.

---

44 Department of Health Annual Report and Accounts 2015-16, HC332, 21 July 2016, paras 118 & 121
45 *Ibid,* para 28
46 The King's Fund, *Deficits in the NHS 2016*, July 2016, p5

Higher than expected National Insurance Contributions receipts ensured there was an excess of funding over voted amounts.[47]

> Initial NHS plans were received in April 2015 and indicated a risk adjusted year-end deficit of £2.1 billion. Monitor and the NHS Trust Development Authority identified potential savings which would restrict the overall deficit to £1.6 billion by restraining the growth in spending on agency staff and increasing income to providers by allowing the use of capital budgets for revenue purposes. However these plans were only partially successful and the NHS providers finished the year with a £2.45 billion deficit.[48]

6.3 In year accounting treatments

Within his explanatory report the C&AG discussed:

> The requirement for the Department to achieve a specific and absolute budgetary control figure creates significant additional pressure on its financial management. This pressure is compounded by the lack of an overall plan. Together these issues create a focus on the short-term (meeting the annual budget control) rather than the long term (putting the NHS in England on a more financially sustainable footing).[49]

He identified short-term or non-recurring savings that would not form part of a comprehensive plan to secure financial sustainability. One such example is transferring capital budget to revenue, which has significant consequences for deferring capital investment and may mean that planned service improvements cannot happen or will not happen in a timely way.

> The availability of these areas to create favourable budgetary control impacts necessarily reduces through time. And they are unlikely, in my view, to be able to continue to answer in 2016-17.[50]

The Department had reviewed its accounting treatments during the year, which led to the majority of these actions improving the Department's financial outturn against its control totals:

- In quarter four, the Department received an extra £417 million from National Insurance contributions than was anticipated in its original Annual Estimate. The Department did not follow the process adopted in previous years as a result of an administrative error and HM Treasury wasn't notified of the extra receipts, which the Department were due to receive from HMRC. Without these extra receipts the Department would have exceeded one of its control totals by £207 million.
- Super Dividend from the Medical and Healthcare Products Authority for £100 million was received in year without which the Department would have breached a control total.

---

47 Department of Health Annual Report and Accounts 2015-16, HC332, 21 July 2016, paras 29 & 30
48 *Ibid*, para 118
49 *Ibid,* The Explanatory Report of the Comptroller and Auditor General to the House of Commons, para 16
50 *Ibid*, para 13

- The Department posted a number of central adjustments from reviewing the underlying accounts of their component bodies. The majority of these adjustments were identified as appropriate by the NAO but over the course of the audit a number of more speculative adjustments were proposed. Although not subsequently processed, it demonstrated the pressure under which the Department was operating to improve its outturn position.
- Monitor and NHS TDA wrote to all NHS providers instructing them to consider a number of areas in preparing their annual accounts; looking for one-off accounting adjustments, which could improve the bottom line in 2015/16.
- The Department engaged in a review of certain accounting policies and practices adopted by a sample of organisations within the Departmental group. The terms of reference for it and its actual outcomes focussed on finding areas which would improve the financial outturn of the Department.
- The accounting treatment of European Economic Area liabilities was an one-off non-recurring benefit which had no impact on the total amount spent by the Department in year, but improved its position against the voted expenditure limit by £150 million.[51]

6.4 Select Committee follow up sessions

While the Department's accounts were not qualified, the C&AG, Sir Amyas Morse, did take the unprecedented step of writing an extended report. His concerns over the steps taken by the Department to stay within its cash limits led to a follow up session with the PAC. The Chair of the PAC referred to the accounts as having wafer-thin margins, and said she was concerned about short-term fixes and piecemeal measures being used to reconcile the accounts.[52] The Department, responding to these criticisms, agreed that the one-off measures applied to stay within the control totals is not a sustainable way forward.

The Health Select Committee then conducted a separate inquiry into the Department of Health and NHS finances in the autumn of 2016 with evidence sessions held on the 11 and 18 October. In the first session, Sir Amyas Morse, gave an update on areas of interest since the Department's accounts were published, including the financial reset:

> The reset at least gives a bit of financial capacity and space to get things stabilised and moving forward in a positive fashion. The question of whether or not some of the reset money will be spent swallowing up larger than expected deficits, rather than really improving things, we will not know until we see.[53]

He highlighted that in his opinion the Department were acting prudently; the FYFV, two year detailed planning approach and its plans

---

51 Department of Health Annual Report and Accounts 2015-16, HC332, 21 July 2016, The Explanatory Report of the Comptroller and Auditor General to the House of Commons, para 14

52 Public Accounts Committee, Oral evidence: Department of Health Annual Report and Accounts 2015-16, HC 634, 7 September 2016, Q1

53 Health Select Committee, Oral evidence: Department of Health and NHS Finances, HC 693, 11 October 2016, Q1

to encourage transformation through conditional funding were positive developments. He did caveat that future plans and initiatives would need to take into account the detail of the population as there will continue to be a lot of demand push in the medium term.[54] Acute trusts are still generating the biggest deficits and need focused attention to ensure these don't continue to grow and strain the system further. However, in his opinion attention also needed to focus on the source of instability in the system and thought be given to what can be done about it.[55]

[54] *Ibid,* Q10
[55] *Ibid,* Q13

7. Sustainability and Transformation

7.1 NHS Sustainability and Transformation Plans (STPs)

In December 2015, NHS England and NHS Improvement published planning guidance, which asked NHS organisations and their partners to come together to create area-based plans for the five year period from October 2016 to March 2021. These blueprints, called Sustainability and Transformation Plans (STPs) are intended to do this by accelerating the implementation of the NHS *Five Year Forward View* (FYFV). STPs are expected to show how local services will improve quality of care, promote population health, and become more financially sustainable. NHS providers, CCGs, Local Authorities, and other health and care services have come together to form 44 STP 'footprints'. As at 21 November 2016, STPs have been published for around half of the 44 areas. They look at a range of issues included prevention, better coordinated services and preventing unnecessary hospital admissions.

The NHS FYFV, published in October 2014, identified three key drivers for change across the NHS: health and wellbeing, care and quality, and funding and efficiency. It set out a new central-local partnership to support and stimulate the creation of new care models that can be deployed in different combinations locally across England. The FYFV also set out a range of financial scenarios for the NHS and called for £22 billion of efficiencies by 2020/21 – implying productivity improvements averaging 2.4% per year. As part of their STPs the 44 footprints have been asked to set out their own local plans for delivering key efficiencies.

Initial STPs had to be submitted to NHS England by 30 June 2016, with more detailed plans submitted to NHS England and NHS Improvement for review at the end of October. While there has been some confusion about how and when STPs would be published NHS England has confirmed it expects local areas to publish a version of their STP's in November and December 2016. [56]. Responding to coverage in the media, and concerns about possible cuts to services, and a perceived lack of transparency, NHS England has said that plans being published at the moment are "a starting-point for local conversations."[57] On 15 September NHS England published advice for local health and care leaders on how to put the communities they serve at the heart of their work.[58]

On 22 September 2016 NHS England and NHS Improvement published *Delivering the Forward View: NHS Operational Planning Guidance for 2017/18 and 2018/19.* This noted that a financial control total would be

[56] PQ 47711, 18 October 2016
[57] https://www.england.nhs.uk/2016/11/common-sense-changes/
[58] We need patients and the public to shape local health plans, say NHS leaders, NHS England, 15 September 2015

set for each STP in April 2017 and that all NHS organisations will be held accountable for delivering both their individual control total and the overall system control total.[59] NHS Improvement has also issued proposed 2017/18 and 2018/19 control totals to each trust.

Analysis of STPs

On 14 November the King's Fund published *Sustainability and transformation plans in the NHS: How are they being developed in practice?*, based on interviews with senior leaders in four STP areas.[60]

The report concluded that despite concerns about how the process has been managed so far STPs remain the best hope to improve health and care services. Its findings include:

- Involvement of local government has been patchy.
- There has not been enough time to adequately involve clinicians and frontline staff.
- Patients and the public have been 'largely absent' from the process.
- STP leads are struggling with a confused process, with unclear or changing deadlines and instructions from national NHS bodies.
- There is a lack of governance structure or formal authority for STP leaders.

The report also found they have been introduced against a difficult backdrop, and said that the *Health and Social Care Act 2012* has "created a complex system and its focus on competition makes it more difficult for organisations to work collaboratively." At the same time as supporting the idea behind STPs, the report makes recommendations for making them work better. These include the need for:

- all parts of the health and care system, as well as the public, to be involved in the plans;
- improved governance, with the role of STP leaders strengthened and clarified, and NHS regulation changed to make it easier for organisations to work collaboratively;
- national bodies in the NHS to 'stress test' STPs to ensure the assumptions behind them are credible and the proposed changes realistic.

The Nuffield Trust has reviewed one third of the draft plans and held workshops with STP leaders. Its report, *Sustainability and Transformation Plans: what we know so far*, found that due to the financial challenges that providers are facing, some STPs are based on assumptions and projections that local participants thought were

---

59 NHS Operational Planning and Contracting Guidance 2017-19, NHS England and NHS Improvement, 22 September 2016, para 10

60 King's Fund, *Sustainability and transformation plans in the NHS: How are they being developed in practice?*, 14 November 2016

unachievable.[61] In terms of implementing the plans the Nuffield Trust identified several risks in relation to delivery; including an absence of a clear mechanism for accountability, lack of resources available and limited involvement of many important stakeholders. It concluded that:

> The scale of the STP process is large and ambitious, and the speed with which plans are being pulled together is astonishing. So far, the plans are not sufficient to close the [funding] gap, but, if implemented well and combined with high-quality local efficiency improvement, they would go some way to doing so and would demonstrate the capability of the NHS and social care system to deliver.[62]

NHS Providers' Autumn Statement Submission, published on 18 November 2016 commented that while NHS trusts and foundation trusts support the principles behind STPs, the speed with which these plans have had to be developed, and the pressure to produce plans that deliver swift system wide financial balance, means many of the assumptions contained within them are unrealistic.[63]

Commons debate on STPs

NHS Sustainability and Transformation Plans were debated in the House of Commons on Wednesday 14 September 2016; contentious issues centred on the perceived secrecy of these discussions and the potential for cuts and closures to hospitals. There was also discussion around the impact of STPs on the deficit, with approximately 29 of the 44 STPs projecting substantial deficits.[64] The Health Minister Philip Dunne said:

> It is the case that many trusts were in deficit in the last financial year, and those deficits were funded by the Department of Health. Looking forward, we are using the financial discipline of control totals not to instigate cuts, as the hon. Member for Hackney North and Stoke Newington suggested, but to hold the accountable managers to account for delivering within the financial envelope that those control totals represent. [65]

Minister's also reiterated that the plans were not about cuts, but collaboration between areas to decide how to improve services in the medium and long term. Plans would be subject to rigorous local and national scrutiny.[66]

Criticism around STP's were varied, including whether they would be effective in addressing financial sustainability. Concerns were expressed that each organisation within a STP footprint would focus on its own financial survival, rather than the entire health and care system in that locality.[67] Also raised was the idea that the need to balance budgets

---

61 Nuffield Trust, *Sustainability and Transformation Plans: what we know so far*, 1 September 2016, p10
62 *Ibid*, conclusion
63 Autumn Statement Submission: NHS Providers, 18 November 2016
64 HC Deb (NHS Sustainability and Transformation Plans), 14 September 2016, Ms Abbott, c951
65 *Ibid*, Mr Dunne, c955
66 *Ibid*, c960
67 Ibid, Col 977, Norman Lamb

was becoming increasingly pivotal in discussions around quality of care.[68]

In preparation for the Opposition Day Debate on Wednesday 14 September 2016 the House of Commons Library briefing page provided a summary of the issues and links to Parliamentary and press coverage. NHS Providers (organisation for the NHS acute, ambulance, community and mental health services) also produced a paper for the STP debate. It concluded that STP's represent an opportunity to make the necessary changes to the way care is delivered, to better meet changing patient need and growing demand. However, it identified a number of issues that must be addressed effectively to ensure the success of the STP process; governance arrangements, patient and public involvement and realism about how long it will take for STPs to be developed and delivered.[69]

7.2 Sustainability and Transformation Fund

On 16 December 2015, the Sustainability and Transformation Fund (STF) was announced which committed £2.1 billion in 2016-17. As part of this fund £1.8 billion would be provided to 'help challenged hospitals to achieve financial balance while focusing on changing the way they provide high quality care for patients.'[70]

The Government stated that:

> The £1.8 billion, part of a £3.8 billion front-loaded funding boost for next year, is designed to help trusts reduce their deficits and allow them to focus on transforming services to deliver excellent care for patients every day of the week.[71]

The transformation element of the fund is intended to support the objectives of the FYFV. However, because of the deficit position of the hospital sector these plans have been delayed. The Health Select Committee have expressed concern at this perceived diversion of the STF to correct deficits rather than to support transformation. The Nuffield Trust reported that funding in 2016/17 to help reduce deficits will be available again in 2017/18 and 2018/19.[72]

7.3 Success Regimes

Success regimes were introduced on the 3 June 2015 and discussed in the House of Commons 4 June 2015. Ben Gummer, as Health Minister, made a statement detailing success regimes. Their aim is to improve local health and care systems that are struggling with financial or quality problems and to build on improvements made through the special measures regime.[73]

---

68 Ibid, Ms Abbott, Dr Whitford, Col 961
69 NHS Providers, Briefing for opposition day debate on Sustainability and Transformation Plans, September 2016
70 Department of Health, 'Hospitals Get £1.8 Billion for Sustainability and Transformation', 16 December 2015
71 Ibid
72 Hospital deficits could force NHS to divert money meant for improving care, The Guardian,18 October 2016
73 HC Deb 4 June 2015, column 753

> Unlike under previous interventions, this success regime will look at the whole health and care economy: providers, such as hospital trusts, service commissioners, clinical commissioning groups and local authorities will be central to the discussions. It will be supported by three national NHS bodies, whereas existing interventions tend to be delivered by individual organisations and to concentrate on one part of a health economy.[74]

In guidance published by the NHS success regimes will:

- Provide the necessary support and challenge to health and care economies from diagnosing the problems, identifying the changes required and implementing these changes;
- Seek to strengthen local leadership capacity and capability, with a particular focus supporting transformation and developing collaborative system leadership;
- Direct link to the new care models work of the Five Year Forward View, and will consider whether the application of the new care models may form part of the solution for the selected health and care economies.[75]

The aim of the Success Regime is to secure improvement in three main areas:

- Short-term improvement against agreed quality, performance or financial metrics;
- Medium and longer-term transformation, including the application of new care models where applicable;
- Developing leadership capacity and capability across the health system.[76]

7.4 The Better Care Fund

The Government recognises that adult social care and NHS costs are closely related, and that savings can be achieved through better integration. This was one reason for the creation of the Better Care Fund (BCF), announced in the June 2013 Spending Round, to support transformation and integration of health and social care services. Introduced in 2015/16, the BCF requires local government and the NHS to create pooled budgets in every area in England, bringing local government and NHS leaders together to plan how to spend a portion of their shared resources to provide a more integrated health and care system for local people.

£3.8 billion is the minimum amount to be pooled for the BCF but local areas can choose to pool more than their Fund allocations. Plans submitted in September 2014 indicate that local areas actually pooled £5.3 billion in total in 2015/16. Further information can be found on the NHS England website.

---

74 *Ibid.*

75 NHS England and partner organisations, *Five Year Forward View The Success Regime: A whole systems intervention,* 3 June 2015, p3

76 *Ibid.*

The BCF is continuing in 2016/17 and the Autumn 2015 Spending Review set out the ambition that every area in England should integrate health and social care by 2020, with a plan for this in place by 2017. In 2016/17 the BCF increased to £3.9 billion, and from 2017/18 the Government will make an extra £1.5 billion available for the scheme.

Further information is available in the POST briefing on the integration of health and social care.[77] This notes that although integration is sometimes suggested as a way to reduce costs, there is little robust evidence that this is commonly achieved.[78]

[77] Parliamentary Office of Science and Technology, *Integrating health and social care.* POST Note Number 532 (August 2016)

[78] *Ibid.*

8. Long-term sustainability

8.1 Possible sources of funding

Financial pressures facing the NHS, and social care services, have led to calls for a fundamental review of the way services are funded. A number of independent commissions and reports have considered possible alternative sources of funding; including patient charges and hypothecated tax. Government Ministers have subsequently rejected a number of calls for a Government backed commission to consider the future of health and social care, or to consider alternative funding options.

NHS charges

The *National Health Service Act 1946* provided that NHS services should be provided free of charge subject to certain exceptions as legislated for by Parliament. For example, amendments have been made to legislation on the NHS to allow for prescription, dental and optical charges.[79] There are also charges for facilities not covered by NHS legislation, such as hospital car parking.[80] The issue of charging is raised occasionally with regards to the sustainability of NHS funding. An article written by a senior fellow at the King's Fund, Nick Timmins, argues that if Beveridge were alive today he would look at the current NHS and England's social care system and conclude that the two were not working well together.

> If English politicians and their electorate are not willing fully to fund a jointly free health and social care system, then some new NHS charges may be needed in return for a better funded but fully integrated health and social care approach. Given his love of insurance, he'd probably seek to devise those charges (for a GP visit or out-patient attendance, or hospital stay, for example) in a way that made them insurable.[81]

While some commentators have suggested that additional charges could be introduced to relieve pressure on NHS finances any change would be hugely controversial. As noted above, substantive changes to existing NHS charges would also require primary legislation. The independent Barker Commission on the Future of Health and Social Care in England, *A new settlement for health and social care*, considered arguments for GP appointment and hospital charges.[82] In its report the Commission largely rejected any new NHS charges and private insurance options in favour of public funding.

In July 2015, the Secretary of State for Health confirmed that there are no plans to charge people who have missed GP appointments.[83]

---

79 The Commons library briefing on *The prescription charge and other NHS charges* outlines the provisions for prescription, dental and other NHS charges under NHS legislation, which were first introduced in the 1950s.

80 The prescription charge and other NHS charges, Number 07227, 11 April 2016, Summary

81 'If Beveridge were alive today he might introduce NHS charges', The Guardian, 1 July 2016

82 King's Fund, Barker Commission on the Future of Health and Social Care in England, *A new settlement for health and social care*, (2014)

83 HC Deb 7 July 2015 c163

However concerns have continued to be raised about the possibility that new charges might be introduced.[84] Ministers have confirmed that there is no review of charging for NHS services and warned of the risk of scare mongering.[85]

Hypothecated tax

The Barker Commission on the Future of Health and Social Care in England examined the case for a hypothecated tax for health and social care although they concluded that a move to full hypothecation was not feasible at this point in time.[86] They set out the benefits that hypothecated tax links the electorate to the purposes of taxation and gives an idea of what people are paying for in terms of service costs. However governments tend to be highly resistant to hypothecated taxes as they reduce flexibility in spending decisions as these decisions should be based on priorities, not on the way the money is raised. It could also lead to pressure for hypothecation in other areas and for some to opt out of the tax. Demands on the health service may rise in times of recession just when revenues are falling. Conversely when revenues are higher it makes no sense to spend more on health and social care.[87] If hypothecation is to be considered the organisation recommended the following options:

- Government undertake a comprehensive review of wealth and property taxation with a view to spending all or part of the proceeds on health and social care.
- A one percentage point increase in employee National Insurance is introduced for those aged over 40 as a health and care contribution. A one percentage point increase on the main rate across the board increases government revenue by around £3.5 billion in 2014/15 according to HMRC.
- An additional contribution from the income of the most affluent. A further one percentage point increase to three percent which would raise an additional £800 million a year, according to HMRC.[88]

In a survey conducted for ITV1's programme The Agenda it found that 70% of Britons were prepared to pay an extra one pence in income tax to help fund the NHS, and 48% would pay an additional two pence. An extra penny on the basic rate of income tax would raise around £4.5 billion.[89]

8.2 House of Lords inquiry

The issue of the NHS's future sustainability is the subject of a current inquiry by the House of Lords Long-Term Sustainability of the NHS

84 For example, the then Shadow Secretary of State for Health, Andy Burnham, raised the issue in the House of Commons on 16 July 2015 (HC Deb 16 July 2015 c1104
85 *Ibid* c1105
86 King's Fund, Barker Commission on the Future of Health and Social Care in England, *A new settlement for health and social care*, (September 2014)
87 *Ibid,* p31
88 *Ibid*, p36
89 'Hospital deficits could force NHS to divert money meant for improving care,' The Guardian, 18 October 2016

Committee with it scheduled to report by 31 March 2017. The inquiry will look at the health service, including social care and prevention and how it can be sustainable beyond the next 15 to 20 years. The first evidence session explored current thinking around the long term sustainability of the NHS. Representatives from the Department confirmed that their thinking had not currently developed ideas around introducing charging or changing what is free at the point of delivery. Further evidence sessions are at NHS Sustainability Committee publications.

Evidence given by Sam Higginson, Director of Strategic Finance NHS England, (in the third session) discussed the modelling used in the FYFV.[90] Although this modelling is only to 2020, it informs their thinking about what might happen after this date. If 2% efficiencies were to be maintained within the NHS then it would leave a funding gap of about 3% real-terms growth, which would be affordable within the current NHS model. STPs were also discussed as the mechanism for looking across the system over multiple years and ensuring long-term sustainability.[91]

In the seventh session Professor Andrew Street, Professor of Health Economics University of York, argued that the NHS remains a sensible way of funding for now and for the future and that the alternatives are going to be more expensive and result in a worst situation.[92] However he argued that hospitals needed to make better decisions about what work they did on the basis of both income and cost consequences. For example, he noted that only 50% of hospitals have invested in patient-level clinical-costing systems and without cost information hospitals do not know how income is going to impact on their deficit or surplus.[93] In the sixth session Professor Alistair McGuire, Chair in Health Economics London School of Economics argued that raising taxes was the best way to deal with the increased expenditure needed on health.[94] Evidence given by John Appleby, Chief Economist Nuffield Trust, (in the fourth session) centred on his opinion that the real financial problems were in the short to medium term and that there was a danger of using this to project a deeper, systemic problem with the nature of the NHS and funding.[95]

8.3 Brexit

Following the vote to leave the European Union challenges around funding of the NHS could increase. The Health Foundation have performed analysis of the UK leaving the EU and the impact it would

90 The Select Committee on the Long-Term Sustainability of the NHS, Evidence Session No 3, 19 July 2016, Q32
91 The Select Committee on the Long-Term Sustainability of the NHS, Evidence Session No 3, 19 July 2016, Q32
92 The Select Committee on the Long-Term Sustainability of the NHS, Evidence Session No 7, 13 September 2016, Q77
93 Ibid, Q84
94 The Select Committee on the Long-Term Sustainability of the NHS, Evidence Session No 6, 13 September 2016, Q70
95 The Select Committee on the Long-Term Sustainability of the NHS, Evidence Session No 4, 5 September 2016, Q49

have on NHS finances. Growth is expected to be lower in the coming years and in the long term NHS will need to maintain efficiency growth. Analysis by the organisation shows that if the Government seeks a balanced budget in 2019/20, and the NHS takes an equal share of the cuts needed to achieve this, then the NHS budget could be £2.8 billion less than currently planned.[96] However, with likely changes to the forecasts for economic growth and for inflation, the Autumn Statement will give an indicator for the Government's new plans for the rest of this Parliament including NHS funding. An Adjournment debate on the impact of leaving the EU on NHS funding took place on 15 November 2016 (HC Deb c209, 15 November 2016).

8.4 Further reading

King's Fund Library reading list, Future demands on health and social care (July 2015)

Backbench Business debate tabled by Norman Lamb on "The NHS and social care commission", HC Deb 28 January 2016, c453 and Commons Library debate pack prepared for this debate.

Former head of the civil service Lord Kerslake says health spending needs to rise at least in line with GDP, Guardian, 16 February 2016

Office for Budget Responsibility, Health spending fiscal sustainability analytical paper published (September 2016)

Nuffield Trust blog, Behind the numbers: NHS Finances, 18 October 2016

[96] The Health Foundation, 'Briefing: NHS finances outside the EU,' July 2016, Conclusion

BRIEFING PAPER
Number
18 November 2016

About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publicly available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email hcenquiries@parliament.uk.

Disclaimer