



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department of Health and Social Care**

# Sustainability and transformation in the NHS

## Key facts

<b>£791m</b>	<b>£1.8bn</b>	<b>£2.7bn</b>
combined deficit of NHS trusts and NHS foundation trusts (trusts) in 2016-17	sustainability and transformation funding for trusts in 2016-17	extra revenue funding given to trusts as interest-bearing loans in 2016-17

<b>£111 million</b>	net surplus of NHS bodies (NHS England, clinical commissioning groups, and trusts) overall in 2016-17, not including adjustments needed to report against the Department's budget for day-to-day resources and administration costs <sup>1</sup>
<b>62</b>	clinical commissioning groups reported a cumulative deficit in 2016-17, up from 32 in 2015-16
<b>44</b>	number of sustainability and transformation partnerships set up to improve system-wide strategic planning
<b>£10 billion</b>	independent estimate of the extra capital needed to implement sustainability and transformation partnerships' plans
<b>£1.2 billion</b>	capital budget transferred to revenue budget in 2016-17
<b>£623 million</b>	net deficit forecast by the trust sector in 2017-18 based on the first six months of the year

<sup>1</sup> See footnote 6 on page 16.

# Summary

**1** This is our sixth report on the financial sustainability of the NHS. To be sustainable, the NHS needs to manage its activities, the quality of its work and financial pressures successfully within the income it receives. This income has been protected in recent years, but increasing demands on the NHS makes achieving financial balance more difficult.

**2** The Department of Health and Social Care (the Department) has overall responsibility for healthcare services. It is accountable to Parliament for ensuring that its spending, as well as spending by NHS England, NHS Improvement, other arm's-length bodies and local NHS bodies is contained within the overall budget authorised by Parliament. It is responsible for ensuring that those organisations perform effectively and have governance and controls in place to ensure that they provide value for money. The Department has made NHS England and NHS Improvement responsible for ensuring the NHS balances its budget.

**3** In our past two reports, in December 2015 and November 2016, we concluded that financial problems in the NHS are endemic and that this situation is not sustainable. To address this, local partnerships of commissioners, NHS trusts and NHS foundation trusts (trusts) and local authorities have been set up to develop long-term strategic plans and transform the way services are provided more quickly.

**4** Since the NHS was formed in 1948, health spending in real terms has increased by 3.7% a year on average. Since 2010, this rate of increase has slowed considerably, and within this spending the NHS England budget will increase by an average of 1.9% between 2014-15 and 2020-21. However, within this period, in 2015-16 and 2016-17 it saw relatively large increases in funding, compared with 2017-18 onwards. Additional funding announced in the government's 2017 Autumn Budget has shifted the slowdown in funding increases to later in this period (**Figure 1** overleaf). Funding per person, once adjusted for age, will fall by 0.3% in 2019-20.

**5** In this report on financial sustainability in the NHS, we:

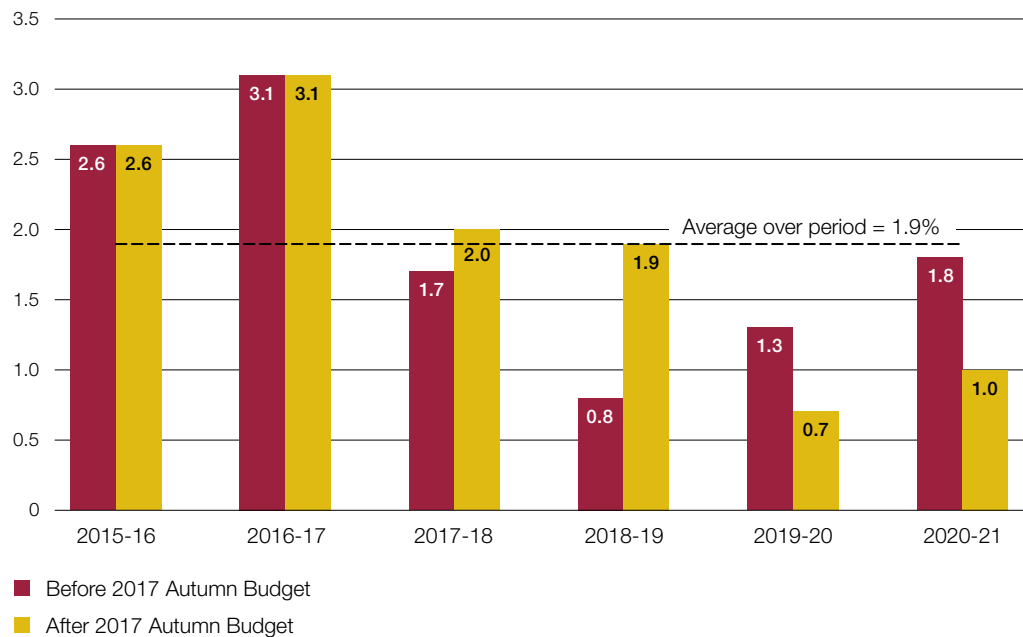
- give a summary of the financial position of NHS England, clinical commissioning groups and trusts (Part One);
- look at what the Department, NHS England and NHS Improvement (the national bodies) have done to support local NHS bodies to improve their financial positions (Part Two); and
- examine the support the national bodies have given local NHS bodies to help them work better in partnership, in order to enable the NHS to become financially sustainable (Part Three).

**Figure 1**

Growth in NHS funding, 2015-16 to 2020-21

Additional funding announced in the 2017 Autumn Budget has shifted the slowdown in funding increases further towards the end of this period

Annual real-terms change (%)



**Notes**

- 1 The increase in funding in 2016-17 included £900 million (0.9%) for additional pension costs.
- 2 In November 2017, HM Treasury announced an additional £335 million for the NHS in 2017-18, £1.6 billion in 2018-19 and £0.9 billion in 2019-20. The average real-terms increase over the period is 1.9% both including and excluding this additional funding.
- 3 Percentages rounded to one decimal place.

Source: Department of Health and Social Care

**6** We set out our audit approach in Appendix One and evidence base in Appendix Two. Technical notes explaining how we have used financial data are in Appendix Three. We do not look in detail at primary care, social care, the integration of health and social care, public health or similar services, although the transformation and sustainability of these services are key elements of these new partnerships' work and to the sustainability of the NHS. For example, we reported in 2016 that pressures in adult social care were causing delays in discharging older patients from hospital.<sup>2</sup>

<sup>2</sup> Comptroller and Auditor General, *Discharging older patients from hospital*, Session 2016-17, HC 18, National Audit Office, May 2016.

## Key findings

Financial and operational performance of NHS bodies

**7 In 2016-17, NHS commissioners and trusts reported a combined surplus of £111 million, not including adjustments needed to report against the Department's budget for day-to-day resources and administration costs.** This was made up of:

- NHS England achieving an underspend of £748 million, against the £29,072 million available for its national functions and centrally commissioned services;
- clinical commissioning groups together achieving an underspend of £154 million, against the £76,630 million available for locally commissioned services, but 62 clinical commissioning groups reported a cumulative deficit, up from 32 in 2015-16; and
- trusts reporting a combined deficit of £791 million against their total income of £80,552 million (paragraphs 1.4 and 1.7).

**8 The NHS achieved its overall surplus in 2016-17 by planning a series of measures to rebalance its finances, some of which have restricted the money available for longer-term transformation.** For instance, the Department transferred £1.2 billion of its £5.8 billion budget for capital projects to revenue budgets to fund the day-to-day activities of NHS bodies. NHS England required commissioners to hold back 1% of their income in a risk reserve to help balance overspends elsewhere in the NHS. Total savings amounted to just under £800 million (£707 million by clinical commissioning groups and £92 million by NHS England's direct commissioning of primary care). It also spent £1.8 billion through the Sustainability and Transformation Fund to improve the financial position of trusts (paragraphs 1.8, 1.10 and 1.18).

**9 In 2016-17, the national bodies gave £4.1 billion in financial support to trusts outside of service contracts with commissioners, which does not support effective planning.** NHS Improvement hoped that the Sustainability and Transformation Fund would replace the need for most direct departmental cash funding for trusts. While £1 billion of the committed £1.8 billion was given as cash within the year, cash support on top of this increased from £2.4 billion in 2015-16 to £3.1 billion in 2016-17. Most (£2.7 billion) was revenue support to allow trusts to maintain services. These payments bypass local commissioners by funding trusts directly rather than through the purchase of health services (paragraphs 1.10 and 1.17).

**10 The financial deficit position of the trust sector significantly reduced in 2016-17, but failure to achieve its target position has limited the resources available to transform services and built financial pressure for future years.** The Department initially intended the Sustainability and Transformation Fund to return trusts to aggregate financial balance and give the NHS the stability to improve performance and transform services. However, in the NHS financial reset in July 2016 NHS England and NHS Improvement clarified the Fund's objective for 2016-17 was to support the trust sector to achieve its target deficit position of £580 million. The additional £1.8 billion funding incentivised most trusts to improve their financial discipline. It helped the trust sector greatly improve its overall financial position, from a combined deficit of £2,447 million in 2015-16 to £791 million in 2016-17. The national bodies directed most funding towards acute trusts to relieve pressures in providing emergency care services, although the largest deficits remain in this sector. Some 60% of fund payments (£1,069 million) helped trusts reduce or eliminate their in-year deficits. However, the remaining 40% (£727 million) created or increased trust surpluses, with these trusts not necessarily able to spend the extra cash in 2017-18 because of financial planning targets. Financial problems in the trust sector have since continued: based on the first six months of the year, trusts have forecast a combined deficit of £623 million by the end of 2017-18 (paragraphs 1.11 to 1.16, and Figures 3 and 6).

**11 Clinical commissioning groups and trusts are increasingly reliant on one-off measures to deliver savings, posing a significant risk to financial sustainability in the future.** Financial sustainability relies on local bodies making recurrent savings; otherwise, they will need to make additional savings the following year to replace any non-recurrent savings made in the current year. Commissioners and trusts delivered more savings in 2016-17 than in 2014-15 and 2015-16: between 2014-15 and 2016-17, clinical commissioning group savings increased from £1.4 billion to £2.0 billion and trust savings increased from £2.8 billion to £3.1 billion. However, between 2014-15 and 2016-17 the percentage of savings that were non-recurrent cost savings increased from 14% to 17% for commissioners, and from 14% to 22% for trusts (paragraphs 2.3 to 2.6, and Figures 10 and 11).

**12 While the headline financial position of the NHS markedly improved in 2016-17, increased reliance on financial support and non-recurrent savings suggest the financial problems of NHS bodies have not eased.** The aggregate financial position improved, from a £1,848 million deficit in 2015-16 to a £111 million surplus in 2016-17. The underlying position of the NHS is difficult to quantify, but two measures indicate the position may not be getting better. Firstly, the sharp increase in the level of cash support to trusts outside of service contracts with commissioners suggests that healthcare providers are increasingly struggling to deliver care under the contracts they hold and the prices they are paid. Secondly, the rise in non-recurrent savings made by clinical commissioning groups and trusts means NHS bodies are increasingly reliant on making savings that they cannot rely on being made the following year (paragraphs 1.4 and 1.19).

**13 In 2016-17, demand for health services continued to increase and performance against key access targets declined further.** The Department estimates that population and demographic changes increased demand for health services by 1.3% in 2016-17. Activity carried out by acute trusts increased at a greater rate. For example, hospital admissions increased by 1.9%. Trusts are struggling to manage this activity within their budgets, particularly given higher than planned non-elective activity in 2016-17. Performance against key access targets declined further in 2016-17, for instance only 89% of accident and emergency patients were seen within four hours, against a target of 95% and a rate in 2015-16 of 92%. We found that on average, trusts in deficit performed worse against key access targets than trusts in surplus (paragraphs 1.20, 1.21 and Figure 8).

### National savings initiatives

**14 It has taken time for the national bodies to bring together their savings initiatives into a coordinated programme with effective monitoring arrangements.** In response to the efficiency gap identified in the *NHS Five Year Forward View*, published in October 2014, the national bodies introduced a number of savings programmes. In March 2017, NHS England and NHS Improvement realigned their savings programmes to a new 10-point efficiency plan, and are working together to help local NHS bodies and wider systems achieve the expected savings. Some national programmes have already helped local bodies to make savings. For example, central controls have helped trusts reduce spending on agency staff to 5.9% (£3.0 billion) of their total staff costs in 2016-17, following a peak of 7.5% (£3.7 billion) in 2015-16. However, significant challenges remain. Some programmes still lack reliable data to enable effective monitoring, local bodies have limited capacity to engage effectively with these programmes, and some programmes are reliant on delivering most of their savings from 2018-19 onwards, increasing the risk that they are not realised by 2020-21 (paragraphs 2.2 and 2.13 to 2.17, and Figure 12).

**15 The cap on NHS staff pay is planned to be lifted in 2018, which will increase the NHS's costs above forecast levels.** In 2015, the government announced that wage increases for all public sector workers would be restricted to 1% each year until 2019-20. The Department estimated that the public sector pay cap would result in £3.3 billion of savings between 2016-17 and 2020-21. However, in November 2017, the government committed to funding pay awards as part of a pay deal for NHS staff on the Agenda for Change contract, including nurses, midwives and paramedics. The government noted that any pay deal will be on the condition that the pay award enables improved productivity in the NHS, and is justified on recruitment and retention grounds. It is not clear what impact this will have on NHS finances (paragraph 2.12).

## Sustainability and transformation partnerships

**16 New partnership arrangements across health and local government are laying the foundations for more strategic system-wide planning and delivery, and these arrangements are at different stages of development.** In March 2016, clinical commissioning groups, trusts and local authorities grouped into 44 sustainability and transformation partnerships. In October 2016, they submitted five-year plans setting out how local services will change and improve to meet rising demand within the resources available. Partnerships are not new statutory bodies; they supplement rather than replace the accountabilities of individual organisations. However, they do require a board, a system leader and a programme management function. NHS England has provided some funding for leadership and programme management, but partnerships are reliant on constituent organisations contributing resources to develop plans and deliver transformation projects. Partnerships are at very different stages of development. Partners in some areas had a long history of working together and planning collectively. In others, the process has required partners to collaborate in ways they had not done before. Many still have a lot to do to establish effective governance arrangements and realise their plans (paragraphs 3.2, 3.4 and 3.8 to 3.11 and Figure 14).

**17 Local transformation of care is being hampered by a lack of resources and ongoing pressure to make increasingly tighter finances balance each year.** Effective transformation takes time and resources. But the partnerships we visited told us they were struggling to find the resources to further develop and implement their plans. Partnerships' tight financial positions make it difficult to shift focus from short-term day-to-day pressures. For example, NHS England and NHS Improvement told partnerships with unbalanced plans for 2017-18 and 2018-19 to quickly identify and pursue new savings opportunities to ensure that their finances balance. A lot of transformational change relies on additional funding. An independent review by Sir Robert Naylor estimated that partnerships needed an additional £10 billion of capital funding by 2020-21 to carry out their transformation plans and for backlog maintenance. So far, HM Treasury has given the Department an extra £425 million, and committed a further £3.5 billion over the next four years (paragraphs 3.3, 3.11, 3.14, 3.15 and 3.19).



**18 Investment for transformation is more focused on those partnerships most advanced, which risks those that are relatively under-developed or complex being left further behind.** In July 2017, NHS England published ratings of the progress that partnerships have made so far. The Department has allocated early capital funding to those partnerships rated as the most advanced. NHS England has stated that transformation funding, for example for mental health and cancer services, will increasingly be targeted at those partnerships that make the most progress. NHS England has selected 10 of the most advanced partnerships to become accountable care systems, including two to become devolved health and social care systems. These will be given more autonomy over how they spend their resources and manage their own performance. NHS England and NHS Improvement are supporting partnerships and organisations in difficulty through other, non-financial ways. However, these partnerships and organisations face additional challenges. For example, to discourage trusts in financial special measures from seeking additional financial support, the Department imposes on them higher interest rates on loans (6% compared with 1.5% for most other trusts) (paragraphs 2.9, 2.10, 3.3, 3.5, 3.8, 3.15 and 3.16).

**19 NHS England and NHS Improvement need to further develop the way they regulate these new arrangements.** NHS England and NHS Improvement are integrating more of their functions, such as creating joint appointments in key roles and a joint programme to track and oversee delivery of savings across the partnerships. However, partnerships cited issues that potentially took capacity away from transformation work such as the number of returns these organisations require and duplicated efforts to complete similar returns for different regulatory teams. NHS England and NHS Improvement have also given partnerships mixed messages on the balance between achieving system-wide sustainability and protecting individual organisations' financial positions. From 2017-18, some partnerships will be trialling system-wide target financial positions, but some organisations we spoke to highlighted the challenge of making these work in a challenging financial environment (paragraphs 3.7 and 3.17 to 3.21).

**20 The NHS will need to make difficult choices to stay within its resources.** Most sustainability and transformation partnerships' plans are overly optimistic, relying on transforming services to move more care out of hospital and into the community. However, there is limited evidence to suggest that these changes will achieve the level of savings required. In addition, partnerships are at different stages in their development and some may take longer to achieve their plans than others. For 28 of 44 partnerships, planned savings in 2017-18 are in excess of savings achieved in 2016-17 for both the commissioner and trust sectors. Partnerships need to find effective ways of managing demand for services or delivering services at a lower cost, or both. Without these, the NHS will have to make difficult choices about which services it can and cannot afford (paragraphs 3.8, 3.12 and 3.19, and Figure 18).

## **Conclusion on value for money**

**21** The NHS received extra funding in 2016-17 to give it breathing space to set itself up to manage on significantly less funding growth from 2017-18 onwards. On top of this, trusts are receiving large levels of in-year cash injections in the form of loans that worsen rather than improve their reported financial performance. Some progress has been made in setting up local partnerships. However, it looks, based on our work, as if these extra sources of money have been spent on coping with current pressures rather than the transformation required to put the health system on a sustainable footing, and trusts are still a long way from being able to live within their means without it.

## **Recommendations**

- a** **The Department, NHS England and NHS Improvement should, within the confines of current legislation, move further and faster towards system-wide incentives and regulation.** Partnerships are seen as the way forward, but many of the incentives and oversight arrangements are still based on an institution-by-institution basis. The national bodies need to consider future incentives that would support local partnerships in developing system-wide working.
- b** **The Department, NHS England and NHS Improvement should assess how funding currently available from the Sustainability and Transformation Fund can best support trusts beyond 2018-19.** Current arrangements are only in place for 2017-18 and 2018-19. In 2016-17 40% of payments were paid to create or increase trust surpluses, but these trusts may not be able to spend the extra cash in 2017-18 because of financial planning targets.
- c** **The Department, NHS England and NHS Improvement should assess whether the various financial flows and management approaches they use are working as intended, and take remedial action if necessary.** These approaches include a higher rate of interest on loans for trusts already in difficulty, and a risk reserve held by clinical commissioning groups which has been used to balance trust deficits. The national bodies should provide clarity to clinical commissioning groups and trusts about how these approaches are working and how they fit within a coherent financial strategy.
- d** **The Department and NHS England need to gain greater clarity over the fundamental financial pressures in the trust sector when allocating funding to clinical commissioning groups and directly to trusts.** As part of this work, the Department, NHS England and NHS Improvement should define the underlying financial position of the trust sector and report this position annually.

- e **NHS England and NHS Improvement should continue to align their resources and regulatory functions to better support local partnerships.** Partnerships need consistent, streamlined oversight from NHS England and NHS Improvement, such as coordinated data requests and aligned efficiency programmes. NHS England and NHS Improvement should continue to improve their regulatory approach, within the confines of current legislation, in order to support system-wide working.
- f **The Department, working with NHS England and NHS Improvement, should set out when the committed capital investment for transformation and backlogs of essential maintenance will be made available.** To plan more effectively, local partnerships need clearer information about what resources they will have to invest in services.
- g **NHS England and NHS Improvement should give those local partnerships making the slowest progress sufficient financial support and opportunities to transform services.** NHS England and NHS Improvement are currently targeting funding for transformation at those partnerships deemed to have made the most progress, and are giving early accountable care systems greater freedom over how they spend their transformation funding. The national bodies must ensure this approach does not create additional difficulties for those partnerships already struggling.