



National Audit Office

Report

by the Comptroller
and Auditor General

Department of Health & Social Care

NHS financial sustainability

Key facts

£991m

combined deficit of NHS trusts and NHS foundation trusts (trusts) in 2017-18

£1bn

capital budget transferred to revenue budget in 2017-18

£3.2bn

extra funding given to trusts as interest-bearing loans in 2017-18

£21 million net deficit of NHS bodies (NHS England, clinical commissioning groups (CCGs) and trusts) overall in 2017-18

£213 million combined deficit of CCGs in 2017-18

69% percentage of the combined deficit of trusts in 2017-18 accounted for by the 10 trusts with the largest deficits

75 CCGs reported overspends against their planned position in 2017-18, up from 57 in 2016-17

32 number of the 44 sustainability and transformation partnerships that had a financial deficit in 2017-18, when trusts' and CCGs' finances within the partnerships were added together

£558 million deficit forecast by the trust sector in 2018-19 based on the first six months of the year

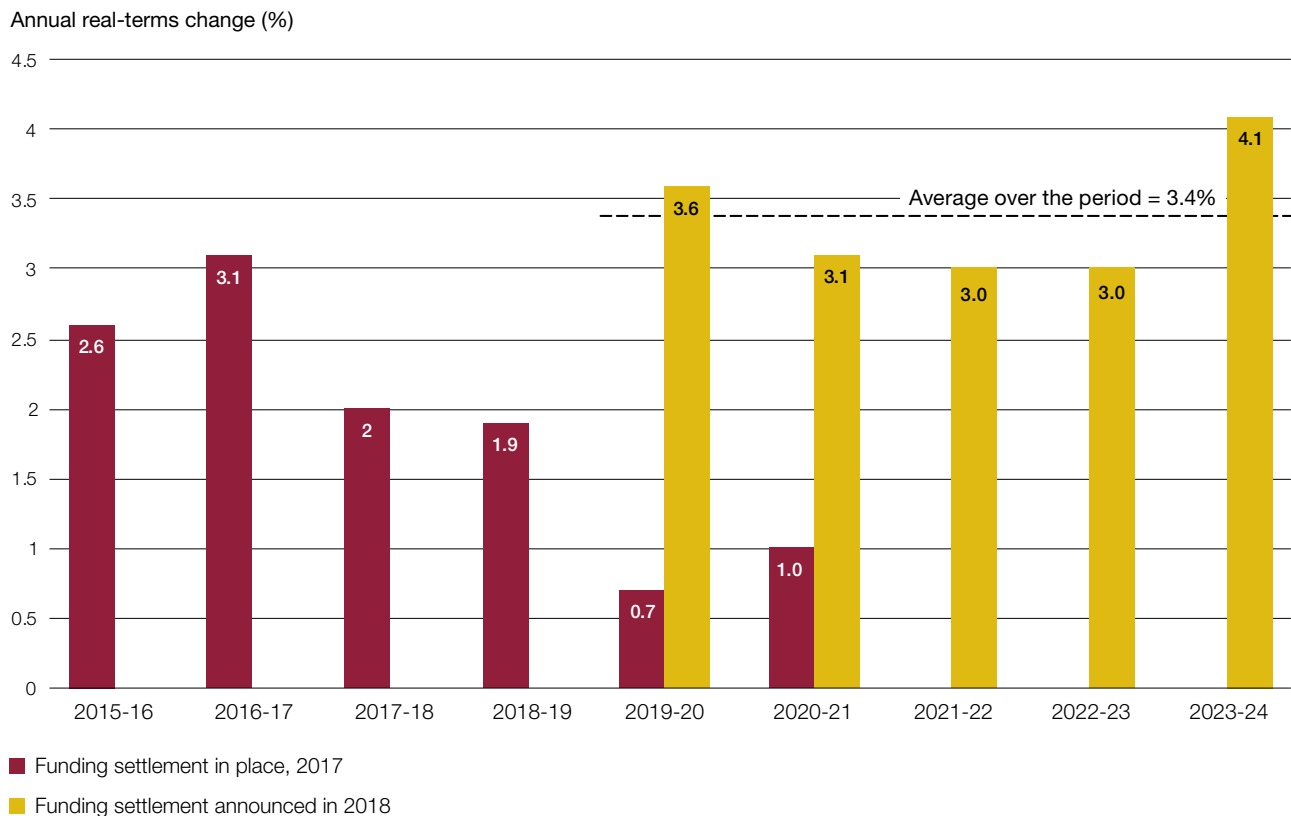
3.4% average annual real-terms growth in NHS funding in the five years, 2019-20 to 2023-24

Summary

- 1** This is our seventh report on the financial sustainability of the NHS. To be sustainable, the NHS needs to manage patient demand, including how long patients wait, the quality and safety of services, and remain within the resources given to it.
- 2** The Department of Health & 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. The Department is responsible for ensuring that those organisations perform effectively and have governance and controls in place to ensure that they provide value for money. It has made NHS England and NHS Improvement responsible for ensuring that the NHS balances its budget.
- 3** In our recent reports, in December 2015, November 2016 and January 2018, we concluded that financial problems in the NHS were endemic and that extra in-year cash injections to trusts had been spent on coping with current pressures rather than the transformation required to put the health system on a sustainable footing. To address this, local partnerships of clinical commissioning groups (CCGs), NHS trusts and NHS foundation trusts (trusts) and local authorities were set up to develop long-term strategic plans and transform the way services are provided more quickly. These partnerships take the form of 44 sustainability and transformation partnerships covering England (42 in 2018-19). Within these, there are 14 integrated care systems, in areas where partnership working is most advanced.
- 4** In June 2018, the Prime Minister announced a long-term funding settlement for the NHS, which will see NHS England's budget rise by an extra £20.5 billion by 2023-24. Between 2019-20 and 2023-24, this equates to an average annual real-terms increase of 3.4% (**Figure 1** overleaf). The government asked NHS England to produce a 10-year plan that aims to ensure that this additional funding is well spent. The government's priorities for the plan included: making progress towards achieving agreed waiting times; improving cancer outcomes; better access to mental health services; better integration of health and social care; and focusing on preventing ill-health. In January 2019, NHS England and NHS Improvement published a long-term plan for the NHS. To support the plan, NHS England and NHS Improvement is undertaking a fundamental restructuring of the financial architecture supporting the NHS.

Figure 1
Growth in NHS funding, 2015-16 to 2023-24

From 2019-20 to 2023-24, NHS funding will increase by 3.4% a year on average in real terms



Notes

- 1 Covers growth in funding for NHS England only.
- 2 Future funding is based on NHS England's 2018-19 budget of £113.8 billion plus an additional £0.8 billion funding for pay awards.
- 3 Percentages rounded to one decimal place.

Source: National Audit Office analysis of Department of Health & Social Care data

5 In return for this extra funding, the government has set the NHS five financial tests to show how the NHS will do its part to put the service onto a more sustainable footing. The NHS long-term plan sets out how the NHS aims to meet these tests: (including providers) return to financial balance; achieve cash-releasing productivity growth of at least 1.1% a year, with all savings reinvested in front-line care; reduce the growth in demand for care through better integration and prevention; reduce variation across the health system, improving providers' financial and operational performance; and make better use of capital investment and its existing assets to drive transformation.

- 6 In this report on financial sustainability in the NHS, we:
- summarise the financial position of NHS England, CCGs and trusts (Part One);
 - look at the financial flows and incentives in the NHS and whether these encourage long-term financial sustainability (Part Two); and
 - examine how local partnerships of health and care organisations are progressing, and what the Department, NHS England and NHS Improvement are doing to support them (Part Three).
- 7 We set out our audit approach in Appendix One, evidence base in Appendix Two, and technical notes explaining how we have used financial data in Appendix Three.

Key findings

The funding settlement for the NHS long-term plan

8 The long-term funding settlement does not cover key areas of health spending. The 3.4% average uplift in funding applies to the budget for NHS England and not to the Department's entire budget. The Department's budget covers other important areas of health spending such as most capital investment for buildings and equipment, prevention initiatives run by Public Health England and local authorities, and funding for doctors' and nurses' training. Spending in these areas could affect the NHS's ability to deliver the priorities of the long-term plan, especially if funding for these areas reduces. The government will consider proposals in these areas as part of its 2019 Spending Review. In addition, without a long-term funding settlement for social care, local NHS bodies are concerned that it will be very difficult to make the NHS sustainable (paragraphs 2.27 and 2.28).

9 There is a risk that the NHS will be unable to use the extra funding optimally because of staff shortages. Difficulties in recruiting NHS staff presents a real risk that some of the extra £20.5 billion funding will either not be used optimally (more expensive agency staff will need to be used to deliver additional services) or will go unspent as even if commissioners have the resources to commission additional activity, health care providers may not have the staff to deliver it (paragraphs 1.19 and 2.29).

10 From what we have seen so far, the NHS long-term plan sets out a prudent approach to achieving the priorities and tests set by the government, but a number of risks remain. The long-term plan describes how the NHS aims to achieve the range of priorities and five financial tests, set by the government in return for the long-term funding settlement, which NHS England believes are stretching but feasible. As with all long-term plans, it provides a helpful indicator of the direction of travel, but significant internal and external risks remain to making the plan happen. These risks include: growing pressures on services; staffing shortages; funding for social care and public health; and the strength of the economy. Our reports have highlighted how previous funding boosts appear to have mostly been spent on dealing with current pressures rather than making the changes that are needed to put the NHS on a sustainable footing (paragraphs 2.24 to 2.26).

Financial and operational performance of NHS bodies

11 In 2017-18, NHS commissioners and trusts reported a combined deficit of £21 million. This was made up of:

- NHS England achieving an underspend of £1,183 million, 4.1% of the £28,572 million available for its national functions and centrally commissioned services;
- CCGs together reporting an overspend of £213 million, 0.3% of the £80,964 million available for locally commissioned services; and
- trusts reporting a combined deficit of £991 million, 1.2% of their total income of £82,793 million (paragraph 1.4).

The combined deficit of £21 million does not include adjustments needed to report against the Department's budget for day-to-day resources and administration costs.

12 It is not clear that funding is reaching the right parts of the system.

The overspends by trusts and CCGs were broadly offset by the underspend by NHS England. In 2017-18, NHS England's underspend included: £962 million from non-recurrent central programme costs, including efficiencies from vacancies; a £280 million contribution to the risk reserve and £223 million from centrally commissioned services, mostly specialised services (paragraphs 1.4 and 1.8).

13 Most of the combined trust deficit is accounted for by a small number of trusts, while the number of CCGs in deficit increased in 2017-18.

The net trust deficit hides wide variation in performance between trusts, with 100 out of 232 trusts in deficit. In 2017-18, 69% of the total trust deficit was accounted for by 10 trusts. NHS Improvement has committed to returning the trust sector to balance in 2020-21, but it is difficult to see how this will be achieved for the worst-performing trusts under current arrangements. Although support provided to trusts in NHS Improvement's financial special measures programme has been successful in improving the position of some trusts (by £49 million in 2017-18), the financial performance of the 10 worst-performing trusts deteriorated significantly in 2017-18. Between 2016-17 and 2017-18, the number of CCGs reporting overspends against their planned position increased from 57 to 75. The NHS long-term plan sets out the national bodies' aim that no NHS organisation is reporting a deficit by 2023-24 (paragraphs 1.6 and 1.11).

14 There are indications that the underlying financial health in some trusts is getting worse.

In 2017-18, trusts reported that their combined underlying deficit was £4.3 billion, or £1.85 billion if the Provider Sustainability Fund (which replaced the Sustainability and Transformation Fund in 2018-19) is allocated to trusts in future years. There is no historical data on the underlying deficit that takes account of one-off savings, emergency extra cash and other short-term fixes that boost the financial position of the NHS, so it is not clear whether this position is getting better or worse. However, indicators such as cash support and one-off efficiency savings suggest the position has not improved. For example, in 2017-18, the Department gave £3.2 billion in loans to support trusts in difficulty, up from £2.8 billion in 2016-17. In 2017-18, 26% of trusts' savings were one-off. Trusts will need to make additional savings in 2018-19 to replace these one-off savings (paragraphs 1.13, 1.14, 2.13, 2.17 and 2.18).

15 Patient waiting times continue to slip. Overall, the NHS has continued to deliver increasing activity, but performance against key access standards has steadily declined since 2012-13 and fell further in 2017-18. For example, while more than 200,000 additional patients were treated in A&E within four hours, performance against the target that 95% of patients should be seen within four hours fell to 88% (from 92% in 2015-16 and 89% in 2016-17). NHS England is undertaking a clinically led review to consider the current performance standards. However, even though the NHS has treated nearly 1.5 million more non-urgent patients than in 2012-13, there are now 4.1 million patients on waiting lists for non-urgent treatment (up from 2.5 million in 2012-13). We estimate that it would cost an additional £700 million to reduce the waiting list to the level last seen in March 2018, based on current trends. However, trusts told us that even with extra funding, it is unlikely they will meet performance standards, because of difficulties in recruiting staff (paragraphs 1.15 and 1.19).

Funding flows

16 The current funding flows in the NHS are complicated and do not support partnership working, integration and the better management of demand.

For example, NHS tariff payments incentivise more activity in an acute (hospital) setting, while block contracts with community trusts provide an incentive for costs outside of hospital settings to remain as low as possible. The national tariff allows providers and commissioners to agree alternative payment arrangements with different incentives and allocations of risk. In addition, several 'add on' financial mechanisms have been introduced in recent years to provide incentives for the NHS to achieve emerging priorities. These have made the financial structures and mechanisms of the NHS more complex. We have previously reported that NHS England and NHS Improvement could do more to create the right incentives for NHS bodies to collaborate. NHS England and NHS Improvement have taken action intended to address this, including changes to centrally-managed support funds announced in the NHS long-term plan. However, not all details of the financial reforms are yet known, for example, levels of capital funding for investing in assets (paragraphs 2.3 to 2.8).

17 Sustainability and Transformation Fund payments have helped most trusts improve their reported performance but encourage short-term gains over long-term sustainability.

The Department initially intended that the Fund would return trusts to aggregate financial balance and give the NHS the stability to improve performance and transform services. However, NHS England and NHS Improvement later clarified that the Fund's objective was to support the trust sector to achieve its target deficit position (£580 million in 2016-17 and £496 million in 2017-18). To incentivise improvements, NHS England and NHS Improvement have set financial targets (control totals) that trusts must meet to access the Fund. The funding has helped most (210 of 232) trusts improve their reported performance. In 2017-18, 46% of fund payments helped trusts reduce or eliminate their in-year deficits. However, the remaining 54% created or increased trust surpluses. This has driven disparity between trusts and the trust sector failed to achieve its target deficit position again in 2017-18. Trusts told us that the Fund had encouraged them to prioritise short-term gains over longer-term financial sustainability, so that they would meet their control totals in that year, and to prioritise their own financial gains at the expense of collaborating with other local bodies (paragraphs 2.11 to 2.13).

18 Capital budgets have been repeatedly raided to support revenue spending.

Investment in capital is essential for maintaining quality of care and achieving the transformation required for the NHS to be sustainable in the longer term. Since 2014-15, the Department has used money originally intended for capital projects to cover a shortfall in the revenue budget to fund day-to-day services (£1 billion of its £5.6 billion capital budget in 2017-18). This followed transfers of £1.2 billion in 2016-17 and £950 million in 2015-16. The Department plans to transfer £0.5 billion in 2018-19, £0.25 billion in 2019-20, and intends to stop this practice from 2020-21. The reduction in these transfers has been accompanied by a rise in the annual capital budget available since 2016-17; £1.3 billion more in 2018-19 than 2016-17. Between 2016-17 and 2017-18, the maintenance backlog across all NHS trusts grew by 9% to £6 billion. Trusts and commissioners raised concerns about access to capital funding including inequitable access, and slow and resource-intensive processes. The Department is undertaking a review of NHS capital, which will feed into the capital settlement in the 2019 Spending Review (paragraphs 2.20 to 2.23).

Supporting local partnerships

19 Many parts of the NHS do not have sufficient understanding of increasing levels of demand for services.

Local bodies need a good understanding of the reasons for increasing activity to manage this demand. Regional offices of the national bodies also need a good understanding to support local bodies to manage demand and gain assurance that they are managing demand effectively. However, it is difficult to predict and quantify all variation in demand because of the complex nature of healthcare and drivers of demand. Some initiatives led by national bodies, such as RightCare, have helped to improve local understanding of the factors that drive local variations in changes in demand. However, local partnerships had mixed views about the extent to which they understood what was driving demand in their areas. They noted that combining data from across local bodies, including health and local government, would help to provide a better understanding of demand pressures. NHS England and NHS Improvement are working with partnerships to develop their expertise in understanding demand (paragraphs 3.9 to 3.12).

20 It is difficult to say how much progress has been made by local partnerships across the system.

The local partnerships we spoke to are clearly making progress in developing a system-level vision, and in planning and delivery, but are still at very different stages of development. Most areas noted that the pace of change was slow in transforming the way services are provided, with few having yet reached the stage where major service reconfiguration had taken place. However, it is difficult to assess the collective progress of partnerships across England, because NHS England and NHS Improvement have yet to repeat their baseline assessment of sustainability and transformation partnerships' progress, published in July 2017. National bodies plan to develop a new accountability and performance framework for integrated care systems. To support the NHS long-term plan, local partnerships will develop five-year plans by autumn 2019, which aim to set out how they intend to improve services and achieve financial sustainability (paragraphs 3.5 and 3.6, and Figure 12).

21 Partnership working is vulnerable, given that partnerships are not statutory bodies and face significant challenges. Three-quarters of partnerships have a deficit when the finances of their constituent trusts and CCGs are added together. Even the most advanced partnerships face significant challenges in managing demand within the resources available. The areas we visited all reported making progress on partnership working within the existing legal framework. However, the need for organisations to meet their own statutory requirements may hinder partnership working. Partnerships are not statutory bodies supported by a legislative framework, and so require the goodwill of all involved. Continued financial pressure will test this goodwill. National bodies, in discussion with NHS colleagues, have developed a provisional list of potential legislative changes for Parliament’s consideration to support better integration in the best interest of patients (paragraphs 3.7 and 3.8).

22 More progress is needed in the joined-up approach to regulation that NHS England and NHS Improvement are adopting. It is important that the regulators work closely together otherwise local NHS bodies will be faced with mixed messages and competing priorities. NHS England and NHS Improvement have continued to integrate more of their functions. For example, as well as creating several joint regional posts, such as regional directors, there will be a single chief finance officer, nursing officer and medical director at a national level. Local bodies told us that NHS England and NHS Improvement are making progress in holding systems rather than organisations to account. However, they added that they still receive mixed messages from the two organisations, especially when financial pressures emerge, and regulators may revert to organisation-based working. NHS England and NHS Improvement plan to implement a new shared operating model that aims to support the delivery of the NHS long-term plan (paragraphs 3.15 and 3.16).

Conclusion on value for money

23 This report covers 2017-18, so we first conclude on financial sustainability for that year. We consider that the growth in waiting lists and slippage in waiting times, and the existence of substantial deficits in some parts of the system, offset by surpluses elsewhere do not add up to a picture that we can describe as sustainable. Recently, the long-term plan for the NHS has been published, and government has committed to longer-term stable growth in funding for NHS England.

24 In our view these developments are positive, and the planning approach we have seen so far looks prudent. We will really be able to judge whether the funding package will be enough to achieve the NHS’ ambitions when we know the level of settlement for other key areas of health spending that emerges from the Spending Review later in the year. This will tell us whether there is enough to deal with the embedded problems from the last few years and move the health system forward. Let’s hope there are not too many strings attached.

Recommendations

- 25** These recommendations aim to support national bodies to ensure that the additional funding supporting the NHS long-term plan is spent wisely, and that financial rigour is maintained over this funding settlement period.
- a** **The national bodies should test whether local plans to manage demand are realistic.** Commissioners and trusts now set out the drivers of activity growth between years in their operational plans. The national bodies should test whether local bodies have identified all their local drivers in their plans and have sufficient capacity to meet demand. A better understanding of drivers should allow them to better support local bodies in managing demand and ensure that funding is targeted at the right areas.
 - b** **As part of current reforms, NHS England and NHS Improvement should design and implement a simpler payment system.** This system should be better aligned with the new structures in the NHS, reduce transaction costs and promote greater collaboration and better management of demand. National bodies need to identify the behaviours they want to encourage in local bodies and ensure that the payment system and other incentives encourage these behaviours. They should set out a medium-term strategy for redesigning tariffs as part of a wider statement of any intended reform of how money flows around the NHS in relation to demand and costs.
 - c** **The national bodies should review local plans to ensure consistency with the national long-term plan.** Once local health systems have developed their five-year plans, national bodies should assess whether these are consistent with the long-term plan, ensuring key risks to delivery are identified and mitigating action put in place to address these risks.
 - d** **The Department and NHS Improvement should develop a sustainable long-term plan for supporting the worst financially performing trusts.** Current support and incentives will not alone be sufficient to return these trusts to financial balance. The Department and NHS Improvement should review the underlying cause of the problems experienced by trusts in severe financial difficulty and the Department could consider whether it should restructure the balance sheets in those trusts where there is little or no prospect of loans being repaid.
 - e** **The national bodies' review of how capital is allocated needs to ensure that investment is available for essential modernisation of health services.** This review should examine how arrangements for accessing capital can be made simpler for all NHS bodies regardless of their financial position or statutory basis and consider mechanisms for targeting capital in the most effective ways.
 - f** **NHS England and NHS Improvement should review how their regulatory and oversight approach is supporting collaborative working locally.** This should include reviewing the changes necessary to support the development of integrated care systems if the legislative changes proposed in the long-term plan are not brought in. NHS England and NHS Improvement should also publish an update on the progress being made by partnerships on integration and system-working.