National Audit Office

Report
by the Comptroller
and Auditor General

Department of Health & Social Care

NHS financial management and sustainability

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Key facts

£827m

combined deficit of NHS trusts and NHS foundation trusts (trusts) in 2018-19 (not including a favourable £256 million technical adjustment from the collapse of Carillion)

£4.3bn

amount transferred from the capital to revenue budget between 2014-15 and 2018-19 (including £0.5 billion in 2018-19)

£10.9bn

outstanding debt in March 2019 issued by the Department of Health & Social Care to trusts in financial difficulty

£1,066 million	underspend by NHS England on the budget for its national functions and centrally commissioned services in 2018-19, compared with an underspend of £1,183 million in 2017-18
£150 million	combined deficit of clinical commissioning groups (CCGs) in 2018-19
£89 million	net surplus of NHS bodies (NHS England, CCGs and trusts) in 2018-19
£844 million	combined deficit of the 10 trusts with the largest deficits in 2018-19
31%	percentage of trusts' savings that were one-off savings in 2018-19, up from 26% in 2017-18
64%	percentage of sustainability and transformation partnerships and integrated care systems in deficit in 2018-19, when all the finances of their constituent trusts and CCGs were added together
38%	percentage of sustainability support funding allocated to trusts that helped reduce or eliminate their deficits in 2018-19

Summary

1 This is our eighth report on the financial sustainability of the NHS. To be sustainable, the NHS needs to manage patient demand (including how long patients wait) and 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 made NHS England and NHS Improvement responsible for ensuring that the NHS balances its budget. From April 2019, NHS England and NHS Improvement (NHSE&I) came together to act as a single organisation.

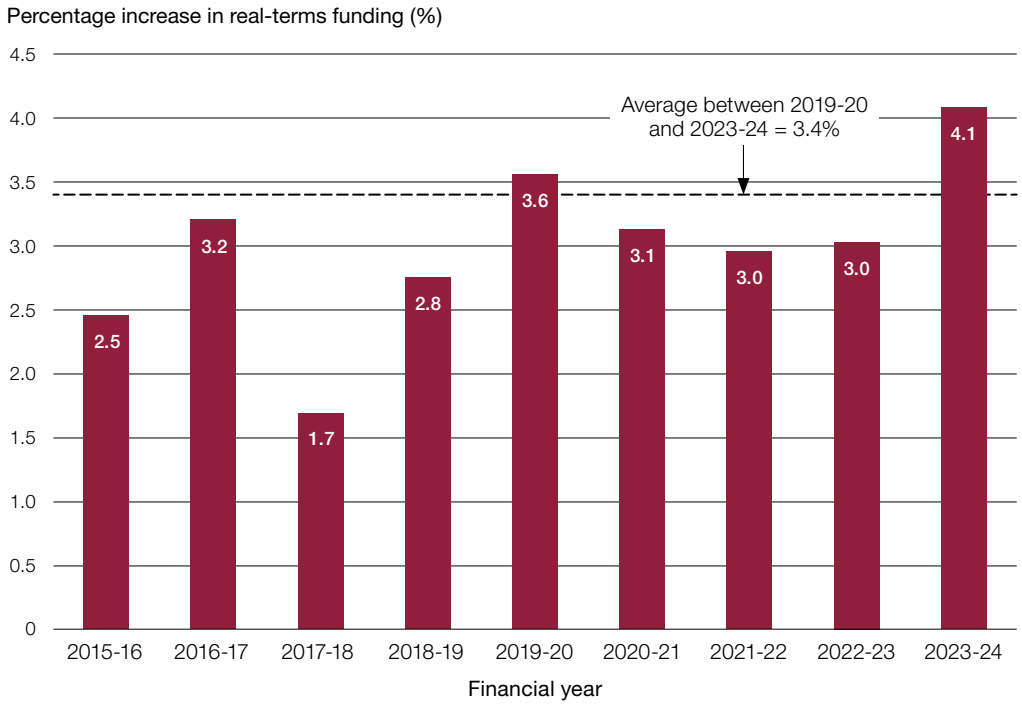
3 In June 2018, the Prime Minister announced a long-term funding settlement for the NHS, which will see NHS England's budget grow by an average 3.4% a year in real terms over the next five years (**Figure 1** overleaf). This amounts to a £33.9 billion increase in cash terms by 2023-24. In January 2019, the NHS published *The NHS Long Term Plan*. This set out how it aims to achieve the range of priorities and five financial tests set by the government in return for the long-term funding settlement. Local partnerships of clinical commissioning groups (CCGs), NHS trusts and foundation trusts (trusts), and local authorities are due to publish plans setting out how they aim to deliver *The NHS Long Term Plan*. These partnerships are known as sustainability and transformation partnerships (STPs) and integrated care systems (ICSs) in areas where partnership work is most advanced.

4 Our last report on the financial sustainability of the NHS, published in January 2019, noted that we would only be able to judge if the funding package will be enough to achieve the NHS's ambitions when we know the level of settlement for other key areas of health spending, such as capital and prevention. It concluded that the growth in waiting lists, the 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 could describe as sustainable.

Figure 1

Growth in NHS England's revenue funding in real terms, 2015-16 to 2023-24

Between 2019-20 and 2023-24, NHS England's budget will increase by 3.4% a year on average in real terms, an extra £33.9 billion a year in cash terms by 2023-24



Notes

1 The 2018-19 baseline was £114.6 billion.

2 Real-terms increases at the time of the long-term funding settlement, calculated using gross domestic product (GDP) deflators October 2018.

3 The numbers in the bars are rounded to one decimal place.

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

5 In this report we:

- summarise the financial and operational performance of the NHS as a whole in England in 2018-19 (Part One);
- examine the financial performance of local NHS organisations (Part Two); and
- examine NHS service transformation and sustainability (Part Three).

6 We set out our audit approach in Appendix One and evidence base in Appendix Two. Appendix Three provides further details about our regression analysis and Appendix Four technical notes explaining how we have used financial data.

Key findings

Overall financial and operational performance of the NHS

7 **In 2018-19, NHS commissioners and trusts reported a combined surplus of £89 million, with financial balance only being achieved with significant underspends by NHS England**. Trusts reported a combined deficit of £827 million (not including a £256 million favourable exceptional technical adjustment resulting from the collapse of Carillion), 1.0% of their total income of £86,946 million. CCGs together reported an overspend of £150 million, 0.2% of the £84,384 million available for locally commissioned services. As in previous years, overspends by trusts and CCGs were offset by an NHS England underspend. It achieved an underspend of £1,066 million, 3.6% of the £29,237 million available for its national functions and centrally commissioned services. This underspend was £117 million lower than in 2017-18 (paragraphs 1.3 and 1.4).

8 **Although the NHS delivered increased activity in 2018-19, patient waiting times continued to slip**. For example, while 717,000 more patients were treated in accident and emergency departments within four hours, performance against the target that 95% of patients should be seen within four hours fell to 88.1% (from 88.3% in 2017-18). The NHS only met six out of 16 access standards for acute services in 2018-19. NHS England is undertaking a clinically led review to consider the current performance standards and is due to report by the end of March 2020. The number of patients on waiting lists for non-urgent treatment also continued to rise, from 3.85 million in 2017-18 to 4.23 million in 2018-19 (paragraphs 1.7 and 1.8).

Financial performance of local NHS organisations

9 **In 2018-19, CCGs failed to achieve financial balance again**. As a result of changes to CCG funding in 2018-19, NHS England expected all CCGs to achieve financial balance with no overspends. Changes included additional funding allocations for all CCGs and a new £400 million Commissioner Sustainability Fund to support CCGs that would otherwise not be able to live within their means. In 2018-19, CCGs reported a £150 million deficit, compared with a £213 million deficit in 2017-18. This included £384 million in payments from the fund (paragraphs 2.2 to 2.4).

10 **Trusts were unable to contain their combined deficit to NHSE&I's ambition in 2018-19**. NHSE&I increased the additional support funding available to trusts in 2018-19 to £2.45 billion, from £1.8 billion in 2017-18. As a result, trusts planned to contain their combined deficit to £394 million. In 2018-19, trusts reported a combined deficit of £827 million compared with a combined deficit of £991 million in 2017-18. Of the trusts that accepted financial targets (control totals) in 2018-19, 75% (149) reported positions at or better than their plan at the end of the year, compared with 71% in 2017-18. NHSE&I has committed to returning the trust sector to balance in 2020-21 (paragraphs 2.5 and 2.11, and Figure 5).

11 Trusts are becoming increasingly dependent on short-term measures to meet financial targets. Financial sustainability relies on local bodies making year-on-year savings, rather than one-off savings. Over recent years, trusts have become increasingly reliant on one-off savings to deliver efficiency targets. In 2018-19, 31% of their savings were one-off, up from 26% in 2017-18. Relying on one-off savings means that trusts must find new savings each year in addition to savings already planned (paragraph 2.26, and Figure 12).

12 Variation in the financial performance of trusts grew in 2018-19. NHSE&I aims for no NHS organisation to be reporting a deficit by 2023-24. Between 2017-18 and 2018-19, the percentage of trusts in deficit increased from 43% to 46%. The gap in financial performance between the best- and worst-performing trusts (with the largest surplus and the largest deficit) also increased from £218 million to £282 million over this period. The allocation of support funding (the Provider Sustainability Fund and its predecessor the Sustainability and Transformation Fund) increased the levels of variation in trust performance, because payments were conditional on the delivery of control totals, to provide incentives to deliver the best position nationally. In 2018-19, only 38% of these payments helped trusts reduce or eliminate their deficits, compared with 46% in 2017-18. Recognising that this support funding had not focused on those trusts most in need, NHSE&I reduced it from £2.45 billion in 2018-19 to £1.25 billion in 2019-20, to make more money (£1 billion) available for urgent and emergency care. It also set up a £1 billion Financial Recovery Fund, which will be directed to support those trusts in deficit in 2019-20, with more being directed to those in financial distress in future years. This should help to reduce the variation in trust financial performance and enable NHSE&I to move away from nationally mandated control totals (paragraphs 2.6, 2.12 to 2.14 and Figures 6 and 7).

13 Financially distressed trusts are increasingly relying on short-term loans from the Department with little or no prospect of paying them back. Some trusts continue to rely on borrowing from the Department just to meet their running costs. Extra financial support to trusts in difficulty has continued to increase year-on-year. Most of this support (£3.3 billion out of £3.6 billion issued in 2018-19) is interim revenue support, rather than 'normal course of business' loans. By 31 March 2019, outstanding debt issued by the Department to these trusts was £10.9 billion, up from £8.0 billion on 31 March 2018. Where trusts have been unable to repay loans in line with their initial agreements, they have been able to agree new repayment plans, but the profile of loans and interest repayments indicates that there is no realistic prospect of this debt being repaid. Although the Financial Recovery Fund will go some way towards reducing the level of loans, loans will continue. This is not an acceptable or sustainable approach to the financial management of major public bodies and the Department is reviewing options to address this issue (paragraphs 2.16 to 2.20).

14 The underlying reasons for deficits in the most financially challenged trusts are complex and not always fully understood. The financial performance of the 10 worst-performing trusts has continued to deteriorate over several years. In 2018-19, they had a combined deficit of £844 million (up from £758 million in 2017-18), representing 31% of the combined deficit of all trusts reporting a deficit. NHSE&I aims to provide central funding to cover trusts' deficits for the next few years by transferring the remaining Provider Sustainability Fund and Commissioner Sustainability Fund into the Financial Recovery Fund from 2020-21. It recognises that a better understanding is needed of how much of these deficits can be tackled by the trusts or the local health systems themselves through improving operations, compared with issues outside of their control that may require adjustments to funding flows. NHSE&I plans to deploy an accelerated turnaround process in the 30 worst financially performing trusts (paragraphs 2.6 to 2.9).

15 Trusts continue to struggle to make the capital investments needed to maintain the estate and support transformation, storing up problems for the future. Since 2014-15, the Department has transferred £4.3 billion from capital to revenue spending, foregoing longer-term investment in buildings and other long-term assets to support day-to-day spending on current services. Transfers peaked at £1.2 billion in 2016-17 and have since decreased to £0.5 billion in 2018-19. In March 2019, the Department was unable to give a definitive measure of the impact on patients' services of repeatedly making these transfers. Local NHS bodies told us that the current capital regime does not address the challenges local health economies face and expressed a need for a long-term capital strategy and settlement. The Department acknowledges that: there is a significant unmet need for capital in the NHS; the current approach to allocating capital funding is outdated; the approvals process is bureaucratic; and the capital regime has become disconnected from revenue and cash systems. In September 2019, it published a *Health Infrastructure Plan*, that aims to deliver a five-year programme of investment in health infrastructure. This plan is contingent on a multi-year capital settlement, which is yet to be announced (paragraphs 2.22 to 2.25).

Service transformation and sustainability

16 The NHS has not fully achieved the vision set out in the *Five Year Forward View*. The *Five Year Forward View*, published in October 2014, set out the NHS's vision to support a sustainable NHS. The strategy had several key themes:

- **Developing and rolling out new care models to provide integrated services**

  Evaluation of the programme found that while there were signs that some new care models had a positive impact on reducing demand for urgent care, the programme had not provided the evidence needed at a system level on what worked and what did not work. When the programme ended in 2018 place-based new care models covered 9% of the population. The programme also supported the development of primary care homes, which led to the development of primary care networks which were rolled out across the country in 2019. NHSE&I told us that new care models will continue to be rolled out by integrated care systems.

- **Reducing demand for services through a greater focus on public health and prevention**

  This aspiration was not matched by dedicated funding. For example, the public health grant to local authorities decreased by £0.5 billion, in real terms, between 2015-16 and 2018-19. Ongoing pressures in social care provision also presented challenges for NHS services.

- **Strengthening care out of hospitals**

  This theme had out-of-hospital (primary and community) care becoming more integrated and a larger part of what the NHS does. But, between 2015-16 and 2018-19, total spending on primary medical and community health services as a proportion of the NHS expenditure decreased from 20.0% to 19.4%.

However, stakeholders told us that the *Five Year Forward View* had helped to build consensus across the health system for collaborative working and the need for more focus on prevention and integration (paragraphs 3.2 to 3.9, and Figure 14).

17 *The NHS Long Term Plan* has built on lessons learnt from the *Five Year Forward View* but the NHS may struggle to deliver all its commitments with the additional money available. For example: it is more realistic in the efficiencies required of trusts (1.1% tariff efficiency requirement compared with 2% in 2017-18 and 2018-19, although individual trusts may have to deliver higher levels of efficiencies in practice); it has committed investment in priority areas such as primary care and mental health; and it is in the process of developing a people plan to support the delivery of the long-term plan. However, the plan contains more than 500 general ambitions and more than 100 commitments. Local partnerships are free to define their pace of delivery for many commitments with only about half of the commitments needing to be delivered in line with nationally defined timetables. Local bodies told us that it will be challenging to deliver all the commitments over the life of the plan (paragraphs 3.16 and 3.17).

18 Local partnerships continue to develop system working but still face significant challenges to become sustainable and deliver *The NHS Long Term Plan*. The sustainability and transformation partnerships and integrated care systems that we visited continue to make progress towards joint working. They are developing their five-year implementation plans to support the delivery of *The NHS Long Term Plan*. However, they continue to face a range of challenges, many of which have been highlighted in our previous reports, and some of which may affect partnerships' ability to deliver *The NHS Long Term Plan*. For example, in 2018-19, 64% of partnerships had deficits when all their constituent trusts' and CCGs' finances were added together, down from 73% in 2017-18. Partnerships also remain 'coalitions of the willing' as they are constrained by the existing legislative framework and rely primarily on the goodwill of participating organisations. NHSE&I recommended amendments to legislation in September 2019 to help promote collaboration and service integration (paragraphs 3.11 and 3.12, and Figure 15).

19 There continues to be a risk that the NHS will be unable to use the extra funding from the long-term settlement optimally because of staffing shortages. Difficulties in recruiting NHS staff present a real risk that some of the extra £33.9 billion funding will not be used optimally (more expensive agency staff will need to be used to deliver additional services), even if commissioners have the resources to commission additional activity, healthcare providers may not have the staff to deliver it. The NHS continues to carry about 40,000 nursing vacancies and 9,000 vacancies for medical staff. Local NHS bodies told us that staffing shortages are one of the biggest risks to delivering the long-term plan. The NHS people plan, which is due for publication in spring 2020, aims to address this risk and an *Interim NHS People Plan* was published in July 2019, with a focus on the actions needed for 2019-20 (paragraphs 1.9, 3.16 and 3.17).

20 A lack of clarity persists on key areas of health and care spending that are likely to affect the NHS's ability to deliver *The NHS Long Term Plan*. Local NHS bodies remain concerned that without a long-term funding settlement for social care, it will be very difficult to make the NHS sustainable. The government has committed to ensuring that adult social care funding is such that it does not impose any additional pressure on the NHS between 2019-20 and 2023-24. Other areas of health spending where there is a lack of long-term clarity are 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. The 2019 Spending Review originally intended to set day-to-day budgets for three years and capital budgets for four years. However, it only provided budgets for one year (paragraph 3.17).

21 NHSE&I continues to adopt a more joined-up approach to oversight but is still in a period of transition. The *NHS Oversight Framework 2019-20* set out a new approach where NHSE&I's regional teams review performance and identify support needs across local partnerships with a single voice and a greater emphasis on system performance, working with and through system leaders. It also suggests greater autonomy for systems with evidenced capability for collective working and a track record of successful delivery of NHS priorities. Local areas we visited reported that NHSE&I's approach continued to feel more joined-up, but its regional teams were still in a state of transition. Local bodies told us that it is not clear where responsibilities will sit between the national and regional NHSE&I teams, and also between regional teams and local partnerships (paragraphs 3.18 to 3.20).

Conclusion on value for money

22 The NHS is treating more patients but has not yet achieved the fundamental transformation in services and finance regime needed to meet rising demand. The short-term fixes that the Department, NHS England and NHS Improvement put in place to manage resources in a constrained financial environment are not sustainable. The extra money brought in to stabilise the finances of NHS bodies has continued to drive volatility and variability among trusts, while patient waiting times continue to deteriorate and the number of people waiting for treatment continues to increase. Loans provided to financially distressed trusts by the Department are effectively being treated as income by these organisations and they have built up a level of unsustainable debts which they have no ability to ever repay. The system has tolerated this for several years but using loans in this way is not an acceptable approach to the financial management of major public bodies.

23 Years of short-term funding decisions for the health sector means that resources have moved away from areas of investment in the future, such as the workforce, public health and capital. This will need to be rebalanced to ensure that the ambitions set out in *The NHS Long Term Plan* are realised. To bring about lasting stability, the NHS needs a financial restructuring programme not just a recovery programme. If integrated care systems are to be successful, funding mechanisms and incentives need to support collaborative behaviours. The delivery of long-term financial sustainability is at risk unless every organisation is on a realistic path to breaking even. Until the Department and NHSE&I have implemented more sustainable solutions and dispensed with short-term financial fixes, we cannot conclude that they have delivered value for money through their collective actions.

Recommendations

24 These recommendations aim to ensure that the additional funding supporting *The NHS Long Term Plan* is spent optimally to maximise its impact, and that financial rigour and transparency is improved over this funding settlement period.

a The Department and NHSE&I should redesign the financial architecture to promote the behaviours that will be needed to achieve *The NHS Long Term Plan*. It should draw on the lessons from previous schemes which have not worked, such as the use of punitively high interest-bearing loans to deter trusts from overspending.

b As part of these wider financial reforms to establish a more stable funding system, the Department should put in place an alternative support system to provide assistance to the most financially distressed organisations, stop issuing loans where there is no realistic prospect of those loans being repaid, and restructure the balance sheets of these trusts to address the accumulated debt that will not be repaid.

c The Department and NHSE&I should develop a better understanding of how much of the deficits in trusts in severe financial difficulties are down to structural issues that cannot be addressed by local health systems and develop a plan to address these structural issues and include this in any changes to payment systems.

d The Department and NHSE&I should develop a coherent long-term capital strategy, based on a long-term capital settlement, to support the development of *The NHS Long Term Plan*. This should include establishing a transparent, simplified, needs-based mechanism for prioritising, accessing and spending capital that better addresses high- and significant-risk backlog maintenance and supports place-based reform.

e NHSE&I should put in place a regulatory and oversight system that aligns with the responsibilities placed upon individual NHS bodies and their role within non-statutory sustainability and transformation partnerships and integrated care systems. This should clearly set out how roles and responsibilities sit between the national NHSE&I team, regional NHSE&I teams and local partnerships.