

## THE AUTUMN STATEMENT: NHS FUNDING

### Summary

- The NHS faces huge pressures as a result of an ongoing funding squeeze, rising demand for services and the need to safeguard quality of care following the Francis report.
- Halfway through the year, provider trusts are in deficit by £630 million. The number of hospitals reporting deficits is unprecedented, indicating that financial distress has now become endemic across the system – it is touch and go whether the Department of Health will be able to balance its books this year.
- At the same time, NHS performance is beginning to slip, with A&E waiting times at their highest level at this time of year for a decade and target waits for hospital treatment, diagnostic tests and cancer treatment being breached on a regular basis.
- With a financial crisis inevitable in 2015/16, additional funding of around £2 billion more than the current settlement is needed for next year. Unless this money is found in the Autumn Statement, patients will bear the cost as staff numbers are cut, waiting times rise and quality of care deteriorates.
- Looking further ahead, there is scope to improve productivity in the NHS. However, even under the most optimistic scenario outlined in the *NHS five year forward view* (NHS England 2014b), an additional £8 billion a year in funding will be needed by 2020.
- A transformation fund should also be established early in the next parliament to help meet the costs of developing new community-based services and double-running during the transition between old and new models of care.
- While we welcome the recent commitments from all the main parties to increase NHS funding during the next parliament, it is clear that none of them have yet addressed the scale of the financial challenge facing the NHS.

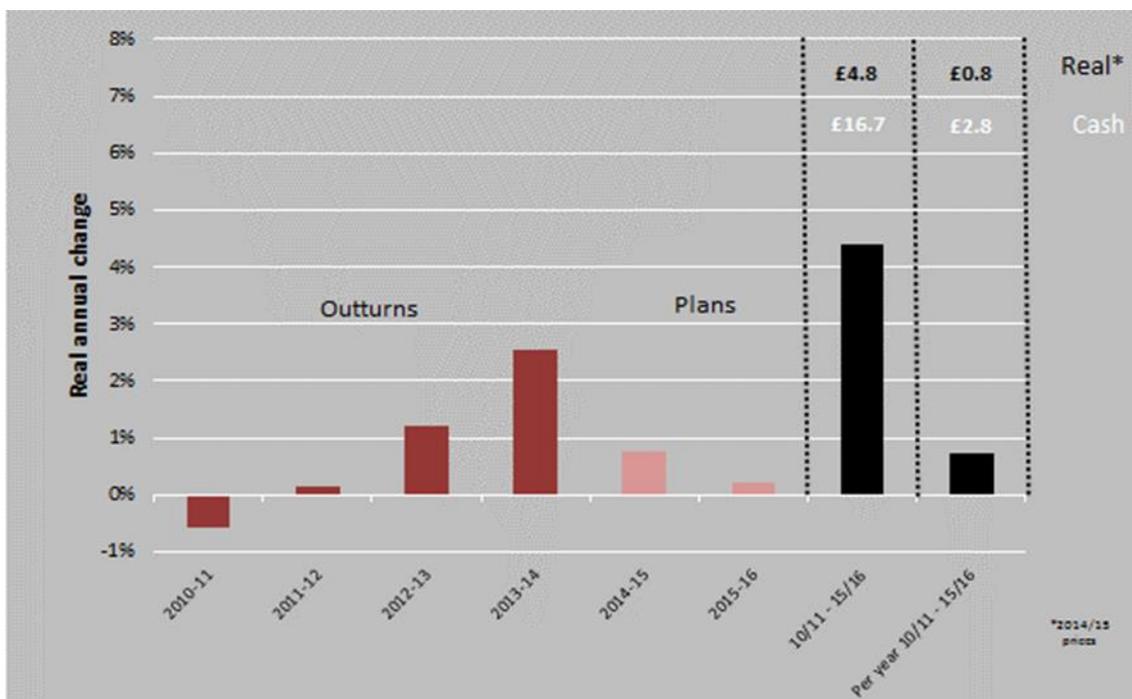
### Background

The NHS is now in the fifth year of an unprecedented funding squeeze. On current estimates, this year's planned spending for the NHS in England will amount to a real-terms increase of approximately 0.8 per cent (£846 million). Over the period between 2010/11 and 2015/16, the NHS budget will have increased by £4.8 billion in real terms – an average of 0.7 per cent a year (see graph below). This is higher than the 0.1 per cent increase originally forecast, largely as a result of lower than expected inflation.

These calculations do not account for transfers to social care and allocations to the Better Care Fund. Since 2011/12, between £0.6 billion and £1.1 billion a year has been transferred to local authorities to support better joint working between health and social care. Next year, £3.8 billion in funding will be deployed through the Better Care Fund (see below).

Social care is also under huge pressure. Since 2010, spending on adult social care has fallen by 12 per cent in real terms. Despite the best efforts of local authorities to protect services, this has led to a reduction of more than a quarter in the number of people receiving publicly funded care, with nearly 90 per cent of councils now

responding only to needs classified as critical or substantial under the Fair Access to Care (FACS) criteria. In addition to the impact on social care services, this risks exacerbating pressures on the NHS by increasing emergency admissions and delayed discharges from hospital.



*Real annual changes in English NHS total departmental expenditure limits: outturns and plans 2010/11 to 2015/16*

## Financial pressures

Last year, around a quarter of NHS providers ended the year in deficit, with the sector as whole overspending by £107 million. This year, the position looks significantly worse. Monitor's report for the first half of the current financial year reveals an overall deficit of £254 million among foundation trusts, with 81 reporting deficits, double the number at the end of 2013/14 (Monitor 2014). The NHS Trust Development Authority's report for the six-month period up to the end of September recorded an aggregate deficit of £376 million among NHS trusts, with more than a quarter forecasting end-of-year deficits (NHS Trust Development Authority 2014).

The position in the acute sector in particular has deteriorated sharply, with more than 60 per cent of hospitals in deficit. This is unprecedented, indicating that financial distress has spread well beyond those hospitals with a history of struggling to balance their books and is now endemic across the system. This is due to a combination of the funding squeeze, year-on-year reductions in the prices paid for treatment (which add up to a cut of nearly 7 per cent in real terms) and the recruitment of significant numbers of nurses to safeguard quality of care following the Francis report into the tragic events at Mid Staffordshire NHS Foundation Trust. Faced with a choice between safeguarding quality of care and balancing the books, it is clear that acute hospitals are choosing the former.

There are more grounds for optimism on the commissioner side – papers for NHS England's board meeting in November forecast a surplus of £283 million in the commissioning budget, mainly as a result of the underspend carried forward from last year (NHS England 2014a). However, it remains touch and go whether the

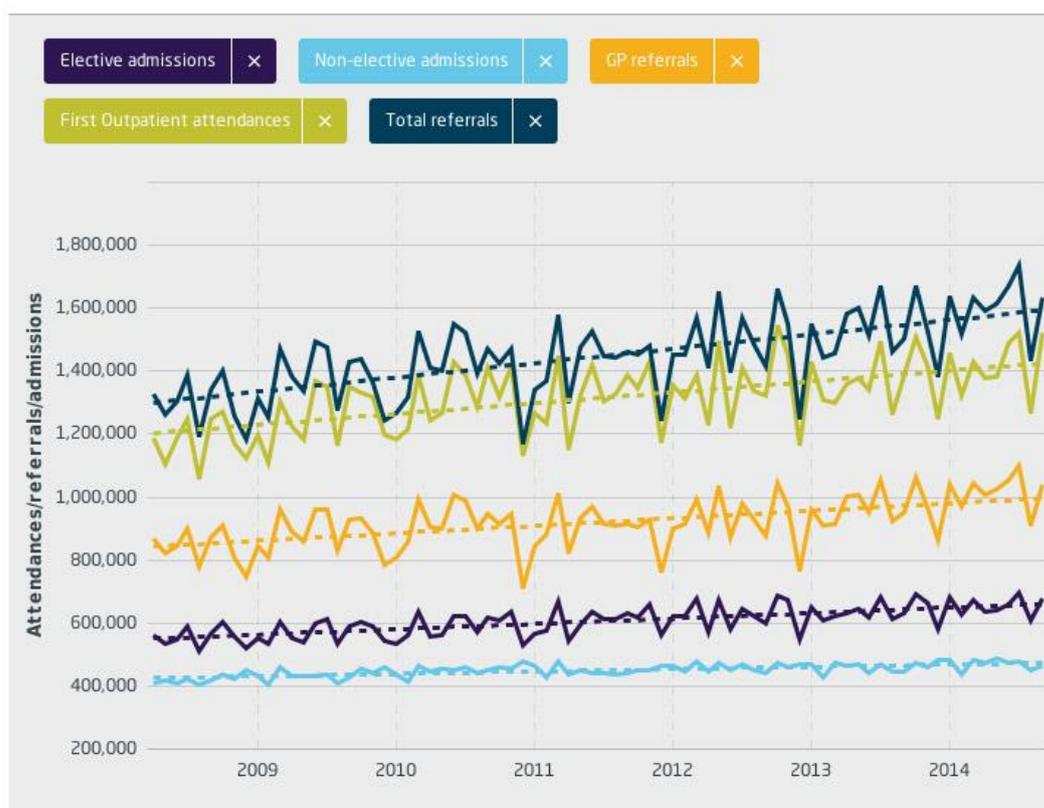
end-of-year surplus will be enough to cover the inevitable deficit on the provider side and enable the Department of Health to balance its books. Giving evidence to the Health Select Committee recently, Paul Baumann, Chief Financial Officer at NHS England, described the prospects of achieving financial balance this year as 'absolutely on the knife edge' (House of Commons Health Committee 2014).

### Service pressures

We have recently visited a number of trusts to increase our understanding of the pressures they are facing. All of them highlighted growing service pressures. Some of the key themes they identified include:

- patients are sicker, older and more likely to have multiple conditions
- GPs are referring more patients for hospital treatment
- more vulnerable people are ending up hospital, which may be linked to reductions in social care, community health services and other support
- delayed discharges are increasing

Having already delivered £50 million in efficiency savings over the past five years, one large foundation trust we visited estimated it needed to find another £70 million over the next five years (4 per cent a year) to avoid being in deficit. Its board has concluded this is unachievable and set a lower savings target. This means drawing down its reserves for the next two years. After that, it will move into debt. This is against a backdrop of rapidly escalating demand - emergency admissions increased by 15 per cent last year, while A&E attendances are more than 30 per cent higher than expected. Surgical admissions have also been increasing by 5 per cent a year.



Data source: NHS England, Monthly hospital activity data (commissioner based time series) [www.england.nhs.uk](http://www.england.nhs.uk)

Monthly referral and admission trends 2008/9 – 2014/15

Anecdotal evidence provided by individual trusts is confirmed at the aggregate level. As the graph above shows, the number of referrals, admissions and outpatient attendances have been rising steadily over the last few years, adding significantly to the pressures on hospitals. This growth now appears to be accelerating, placing further pressure on the system.

### **NHS performance**

The NHS has held up well in the face of these pressures, but performance has now begun to slip. For most of 2014, A&E waiting times have tracked well above last year's levels. The target that no more than 5 per cent of patients should spend longer than four hours in A&E has been regularly missed in recent months. During the last quarter (July – September), just over 5 per cent of patients spent four or more hours in A&E, the highest level at this time of year for a decade.

Waiting times for hospital treatment have also reached their highest levels since 2008. The target that 90 per cent of inpatients should be treated within 18 weeks of referral has been breached for four consecutive months, with 11.7 per cent of inpatients waiting more than 18 weeks in September (this is partly due to the government allowing a 'a managed breach' of waiting times targets, while a backlog of 'long waiters' are cleared using £250 million in additional funding announced in June). Waiting times targets for diagnostic tests and cancer treatment have also been breached in recent months, while the number of delayed transfers of care in September was 17.5 per cent higher than the same month last year.

Other areas of the NHS are also facing considerable challenges. General practice is facing rising demand from patients at a time when its share of NHS funding is declining. Between 2005/6 and 2012/13, total investment in general practice fell by 7.6 per cent, including a fall of 2 per cent since 2010/11. This has contributed to well-documented pressures on general practice including problems for patients in being able to book appointments.

While relatively few mental health trusts are reporting deficits, recent analysis suggested that the sector experienced a real-terms reduction in funding of more than 2 per cent between 2011/12 and 2013/14, leading to cuts in staff and prompting warnings from sector leaders about the parlous state of services (Lintern 2014). A recent report from the Care Quality Commission highlighted how shortages of beds and staffing issues are resulting in vulnerable patients with mental health problems being held in police cells (Care Quality Commission 2014).

Several of the trusts we visited commented on the growing numbers of mental health patients arriving in A&E. Although reluctant to admit them, the hospitals said that they often have no alternative. A shortage of suitable beds in the mental health system means that patients are also sometimes being sent a long way from their local area to receive treatment.

### **The Autumn Statement and beyond**

The National Audit Office recently described NHS financial trends as 'unsustainable' (National Audit Office 2014) Next year, it will receive a smaller real-terms funding increase of 0.2 per cent. At the same time, significant amounts of NHS funding will be deployed through the Better Care Fund. Even if the Department of Health is able to balance the books this year, without additional funding, a financial crisis is inevitable next year. It is therefore essential that this is addressed in the Autumn Statement. Even allowing for significant efficiency savings, we estimate that additional funding of around £2 billion more than the current settlement will be needed in 2015/16.

Looking further ahead, the most optimistic of the funding scenarios outlined in the *NHS five year forward view* (NHS England 2014b) depends on achieving very challenging efficiency savings of 2-3 per cent a year. The NHS has made good progress in finding £20 billion in productivity improvements during the current parliament. However, the main ways used to deliver savings so far – limiting staff salary increases, reducing the tariff and cutting management costs – have now been largely exhausted, with the result that efficiencies are becoming more difficult to find.

While we agree that there is still scope to find savings, even if productivity improvements on this scale can be achieved, the NHS will still need an additional £8 billion a year by 2020. As the *NHS five year forward view* points out, investment will also be needed to deliver essential changes to services. A transformation fund should be established early in the next parliament to help meet the cost of developing new community-based services and double-running during the transition between old and new models of care. We are currently undertaking work with the Health Foundation to quantify how much funding is needed and how such a fund might operate.

In the long term, as the Barker Commission set out, a new settlement is needed for health and social care that ends the historic divide between the two systems and better meets the needs of 21<sup>st</sup> century patients and service-users (Commission on the Future of Health and Social Care in England 2014).

## **Conclusion**

We welcome the recent commitments from all the main parties to increase NHS funding during the next parliament. While there is scope to improve productivity, and efforts to find savings should be re-doubled, this will not be enough to respond to the unprecedented pressures on NHS budgets and to meet rising demand for services. It is clear that none of the parties have yet addressed the scale of the financial challenge facing the NHS or the immediate challenge in 2015/16. With deficit reduction still a high priority, finding the money for this will not be easy. However, unless it is found, patients will bear the cost as staff numbers are cut, waiting times rise and quality of care deteriorates.

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