

## THE BUDGET: HEALTH AND SOCIAL CARE FUNDING

### Summary

- This year will be the most challenging in the recent history of the NHS – financial problems are now endemic among NHS providers, with even the most prestigious and well-run hospitals forecasting deficits.
- Our most recent survey of NHS finance directors found that two-thirds of trusts are forecasting a deficit this year, a figure that rises to almost 90 per cent among acute trusts.
- A cut in the prices paid for treatment for the fifth consecutive year and the withdrawal of performance payments from some trusts have exacerbated the huge pressures facing NHS providers.
- Despite the additional funding announced in the Autumn Statement, estimates suggest that provider deficits could top £2 billion this year, indicating that the NHS as a whole is heading towards a deficit.
- The social care system is also under sustained and growing pressure, with significant real-terms cuts in spending resulting in a reduction in the number of people accessing publicly funded care.
- If the Chancellor does not announce additional funding in the Budget, the government must face the consequences – either patient care will suffer or the Department of Health will overspend its budget this year. Further reductions in access to social care are also inevitable.
- There are still significant opportunities to improve productivity, and the NHS must redouble its efforts to deliver better outcomes at lower cost by changing the way clinical care is delivered.
- It is essential that the £8 billion increase in the NHS budget the government has pledged by 2020 is front-loaded early in the parliament. Additional funding for social care and to support large-scale service changes should be prioritised in the Spending Review.

## **Growing financial pressures in the NHS**

The NHS is now in the sixth year of an unprecedented funding squeeze. During the last parliament, funding increased by an average of 0.8 per cent a year in real terms. Although the coalition government met its pledge to protect the NHS budget, this is significantly less than the 3-4 per cent a year that estimates suggest is needed to keep pace with demand for services and rising costs of treatment. Although the NHS coped well for most of the coalition government's time in office, it came under increasing strain towards the end. With mounting deficits, rising waiting times and declining staff morale, it begins the new parliament facing its biggest challenges for many years.

Last year, NHS providers overspent their budgets by £823 million. This included a deficit of £349 million among foundation trusts – the first time the foundation trust sector has recorded an overspend. In response to these pressures, significant additional funding was made available in-year, including £640 million from capital budgets and £250 million in additional funding from the Treasury. The end-of-year accounts have not yet been published by the Department of Health, but underspends among clinical commissioning groups and unspent money in NHS England and Department of Health central budgets are likely to mean that the NHS as a whole narrowly avoided ending 2014/15 in deficit.

The position in the acute sector in particular has deteriorated sharply, with two-thirds of acute trusts in deficit at the end of the year. This is unprecedented and is due to a combination of the funding squeeze, year-on-year reductions in the tariff (the prices paid to NHS providers for treatment) and the recruitment of significant numbers of nurses as hospitals sought to prioritise safety and quality of care following the report by Robert Francis QC into the tragic events at Mid Staffordshire NHS Foundation Trust (The Mid Staffordshire NHS Foundation Trust Public Inquiry 2013). One of the consequences of this has been a significant increase in spending on agency staff. It is also important to recognise the impact of growing workload pressures on staff. Staff morale has emerged as a key issue in our regular survey of NHS finance directors over the past year, a particular concern given the strong link between staff and patient experience.

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 2013/14, total investment in general practice fell by 6 per cent. This has contributed to well-documented pressures, in response to which the government has pledged to recruit 5,000 more GPs by 2020 and invest £1 billion over four years through the Primary Care Infrastructure Fund.

While fewer mental health trusts are reporting deficits (one-third reported overspends last year), financial pressures are also growing in this sector. Analysis shows that funding for NHS mental health providers was cut by more than 2 per cent in real terms between 2011/12 and 2013/14 (Lintern 2014). A recent report from the Care Quality Commission found worrying failures in the quality of care provided to people in crisis by some services, including A&E departments (Care Quality Commission 2015). Bed shortages are resulting in delayed admissions and contributing to the increasing number of inpatients being treated a long way from their home. The government's commitment to 'parity of esteem' between physical and mental health and the announcement in the last Budget of an additional £1.25 billion over five years for mental health services are therefore welcome, although it remains to be seen whether funding for mental health will be prioritised as financial pressures grow across the NHS.

## **Social care**

While the NHS budget has been protected, reductions in financial support for local authorities have led to a real-terms cut in spending on adult social care of 8.7 per cent between 2010/11 and 2014/15 (National Audit Office 2014), at a time when demographic pressures mean that the cost of providing care for older and disabled people is increasing by 3 per cent a year. Despite the best efforts of local authorities to protect services, this has resulted in a reduction of more than a quarter in the number of people accessing publicly funded social care. According to this year's annual budget survey from the Association of Directors of Adult Social Services (ADASS), there will be a further £420 million in service reductions this year, while spending on prevention is also falling (ADASS 2015).

Publicly funded social care is at risk of becoming a residual service, available only to those with the lowest incomes and the highest needs, leaving thousands of people and their families struggling to meet the costs of the care and support they need. This also risks exacerbating pressures on the NHS by increasing emergency admissions and delayed discharges from hospital. With estimates suggesting a potential funding gap of more than £4 billion by 2020/21 (Local Government Association 2015), finding additional funding for social care must be an urgent priority in the forthcoming Spending Review.

## **The prospects for the NHS this year**

Overall, the NHS budget increased by £3.4 billion this year, a real-terms rise of 1.5 per cent. This includes the additional £250 million for mental health services announced in the last Budget, as well as £1.95 billion additional funding announced in last year's Autumn Statement, £700 million of which was 'reprioritised' from other NHS England and Department of Health budgets; this leaves £1.25 billion of 'new' money, of which £250 million is already committed to the Primary Care Investment Fund.

This year sees the implementation of the Better Care Fund, with at least £3.46 billion of NHS funding being pooled with money from other funding streams to be spent jointly by the NHS and local authorities on promoting integrated care. The King's Fund supports pooled budgets and hopes the Better Care Fund is a stepping stone towards a single budget and single local commissioner for health and social care. However, the compulsory pooling of significant amounts of funding when budgets are already under huge strain will add to the pressures facing NHS providers; furthermore, changes to the operation of the Fund have undermined support for it within local government.

These pressures have been exacerbated by changes to this year's tariff. After the initial tariff proposed by NHS England was rejected by providers delivering the majority of NHS care, a revised offer was eventually accepted by most trusts. However, this still represents a cut of 3.5 per cent in the prices they are paid for treatment. A total of 28 trusts that did not accept the revised offer (mostly large teaching and specialist hospitals) have remained on last year's tariff but have had their commissioning for quality and innovation payments (CQUIN) withdrawn. These payments can be worth up to 2.5 per cent of contract income.

The disagreement about this year's tariff is unprecedented and is another indication of the pressures facing NHS providers. The reduction in income this represents and the withdrawal of CQUIN payments from some trusts are significant factors in driving more providers into deficit. After five consecutive years of cuts in the tariff amounting to a real-terms reduction of around 8 per cent, even the most prestigious and best-run hospitals in the country are now forecasting deficits. This underlines that the policy of relentlessly cutting the prices paid to NHS providers for treatment has reached the end of the line.

Not surprisingly, this year's financial forecasts make grim reading. Our latest survey of finance directors from trusts and foundation trusts found that:<sup>1</sup>

- two-thirds (66 per cent) of trusts are forecasting an end-of-year deficit, up from 25 per cent at the same time last year and by far the highest proportion since we began the survey in 2011
- 62 per cent say their forecast depends on the provision of additional financial support, running down their reserves (in the case of foundation trusts), or both
- among acute trusts, 89 per cent are forecasting a deficit, up from 21 per cent this time last year.

These findings are reinforced by other evidence. A survey of its members by NHS Providers (Wintour and Campbell 2015) and an analysis of acute trust board papers by the Health Service Journal (Barnes and Dunhill 2015) both suggest the provider sector could be heading for a deficit of £2 billion this year. Despite the additional funding announced in the Autumn Statement, all the indications are that this year will be the most challenging in the recent history of the NHS.

### **A renewed focus on finance**

Following the publication of the Francis report, hospitals were effectively given a green light by the government to recruit more nurses, despite the financial consequences of this. However, since the general election, the Secretary of State and NHS leaders have indicated that budgets must be brought back under control. A raft of measures has been announced to reduce costs including new controls to reduce spending on agency staff, management consultancy and pay for senior managers. The recent publication of a review of efficiency in hospitals by Lord Carter (Department of Health 2015) also signals a much stronger emphasis on improving productivity.

In their speeches to the NHS Confederation conference, the Secretary of State and the Chief Executive of NHS England, Simon Stevens, both warned that the NHS will not receive any further funding increases this year. While efforts to reduce spending on agency staff and improve efficiency are welcome, they are unlikely to deliver significant savings in the current financial year. Given the scale of the deficits forecast, it is also unlikely that they will be compensated for by underspends among commissioners.

### **Beyond the Budget**

The government has pledged a real-terms increase in the NHS budget of £8 billion a year by 2020. While this is welcome, it is important to stress that it is the bare minimum needed to continue to meet patient needs and maintain standards of care. It will not pay for new staff, the upfront costs of essential changes to services or new initiatives such as the government's pledge to implement seven-day working across the NHS. There has been no commitment to increase social care funding.

The phasing of the additional NHS funding is critical. Given the scale of provider deficits and the need to invest in the new models of care outlined in the *NHS five year forward*

---

<sup>1</sup> The full results of the survey will be published in our next quarterly monitoring report later this month

view (NHS England 2014), it must be front-loaded in the early years of the parliament. Additional money will also be needed for a transformation fund to support large-scale service changes and manage the transition between old and new models of care. These will be key issues for the Spending Review later this year.

Whether this is enough also depends on delivering efficiency savings of £22 billion a year by 2020/21, a challenge that the Secretary of State and Simon Stevens have both emphasised must now be a key priority for the NHS. This follows on from the requirement for the NHS to find £20 billion in productivity improvements during the last parliament. Although delivering further savings of £22 billion is hugely ambitious and would require much higher efficiency gains than the NHS has historically been able to achieve, there are still significant opportunities to improve productivity in the NHS.

However, relying on central policy levers such as limiting staff salary increases and reducing further the prices paid to hospitals for treatment will not be sufficient to address this challenge. Instead, action is required at all levels of the NHS to change the way that care is provided and to deliver better outcomes at lower cost. A report from The King's Fund, due to be published shortly, will outline the opportunities to improve productivity by changing the way that clinical care is delivered.

## **Conclusion**

If last year's deficit among NHS providers was unprecedented, this year will be much worse. Further reductions in access to publicly funded social care are also inevitable. There are significant opportunities to improve productivity in the NHS, and efforts to deliver better outcomes at lower cost must be redoubled. However, exhortations and initiatives to increase financial control will not be enough to close the black hole in NHS finances. It is clear that if more funding is not forthcoming for the current year, the consequences will be significant – either patient care will suffer as staff are cut, waiting times rise and the quality of care deteriorates, or the Department of Health will overspend its budget.

## **References**

Association of Directors of Adult Social Services (2015). *ADASS budget survey 2015* [online]. Available at: [www.adass.org.uk/full-report-adass-budget-survey-2015/](http://www.adass.org.uk/full-report-adass-budget-survey-2015/) (accessed on 1 July 2015).

Barnes S, Dunhill L (2015). '£2bn acute deficit may mean 'real trouble' for frontline services'. *Health Service Journal*, 17 June. Available at: <http://www.hsj.co.uk/news/finance/2bn-acute-deficit-may-mean-real-trouble-for-frontline-services/5086907.article#.VZP-I005CHs> (accessed on 1 July 2015).

Care Quality Commission (2015). *Right here right now: people's experiences of help, care and support during a mental health crisis*. London: Care Quality Commission. Available at: [http://www.cqc.org.uk/sites/default/files/20150630\\_righthere\\_mhcrisiscare\\_full.pdf](http://www.cqc.org.uk/sites/default/files/20150630_righthere_mhcrisiscare_full.pdf) (accessed on 1 July 2015).

Department of Health (2015). *Review of operational productivity in NHS providers. An independent report for the Department of Health by Lord Carter of Coles*. London: Department of Health. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/434202/carter-interim-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/434202/carter-interim-report.pdf) (accessed on 1 July 2015).

Lintern S (2014). 'Analysis reveals mental health trust funding cuts'. *Health Service Journal*, 14 August. Available at: [http://www.hsj.co.uk/news/exclusive-analysis-reveals-mental-health-trust-funding-cuts/5073800.article#.VZP\\_NE05CHs](http://www.hsj.co.uk/news/exclusive-analysis-reveals-mental-health-trust-funding-cuts/5073800.article#.VZP_NE05CHs) (accessed on 1 July 2015).

Local Government Association, Association of Directors of Adult Social Services (2014). *Adult social care funding: 2014 state of the nation report*. London: LGA/ADASS. Available at: [www.local.gov.uk/publications/-/journal\\_content/56/10180/6659174/PUBLICATION](http://www.local.gov.uk/publications/-/journal_content/56/10180/6659174/PUBLICATION) (accessed on 1 July 2015).

National Audit Office (2014). *Financial sustainability of local authorities 2014*. HC 783 (2014/15) 19 November 2014. Available at: [www.nao.org.uk/report/financial-sustainability-of-local-authorities-2014/](http://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2014/) (accessed on 1 July 2015).

NHS England (2014). *NHS five Year Forward View*. London: NHS England Available at: <http://www.england.nhs.uk/wp-content/uploads/2014/10/5yfv-web.pdf> (accessed on 1 July 2015).

The Mid Staffordshire NHS Foundation Trust Public Inquiry (Chair: Francis R) (2013). *Report of the Mid Staffordshire NHS Foundation Trust Public Inquiry* HC 898-I. London: The Stationery Office. Available at: [www.midstaffpublicinquiry.com](http://www.midstaffpublicinquiry.com) (accessed on 1 July 2015).

Wintour P, Campbell D (2015). 'Ed Miliband warns that NHS faces financial bombshell'. *The Guardian*, 5 May. Available at: <http://www.theguardian.com/politics/2015/may/04/ed-miliband-nhs-labour-health-service-election> (accessed on 1 July 2015).