Spending review 2015: submission from NHS Providers

1) ABOUT NHS PROVIDERS

NHS Providers is the membership organisation and trade association for the NHS acute, ambulance, community and mental health services that treat patients and service users in the NHS. We help those NHS foundation trusts and trusts to deliver high quality, patient focused, care by enabling them to learn from each other, acting as their public voice and helping shape the system in which they operate. NHS Providers has over 220 members – over 90% per cent of all NHS foundation trusts and aspirant trusts – who collectively account for £65 billion of annual expenditure and employ more than 928,000 staff.

2) ABOUT THIS SUBMISSION

NHS services need to transform in order to respond to long-term demographic and demand trends, and to meet 21st century expectations of more personalised and integrated care. At the same time, NHS funding is under intense and unprecedented pressure. To meet these dual challenges, the NHS – locally and nationally – needs additional funding and to transform how it works and how it configures and delivers services. We welcome the Government's pledge to increase its real terms investment in the NHS, and this submission is intended to support that allocation and ensure the maximum value for money is realised.

3) CURRENT CONTEXT

The NHS has performed exceptionally well over the past five years in meeting the funding, demand and efficiency challenge. Under the Nicholson Challenge, it has been able to deliver £20 billion of savings, alongside coping with an inexorable four per cent annual increase in both demand for NHS services and the costs of delivering services. The NHS was also able to increase its productivity up until the middle of the last Parliament, with the average annual productivity growing by 1.5 per cent.[1]

However, in recent years the deterioration in NHS finances has been accompanied by declining productivity in the sector, as the scale and pace of efficiency savings that providers are able to realise has started to slow:

- At the end of 2014/15, Monitor reported that foundation trusts had achieved £1.17 billion savings through cost improvement programmes (CIPs), but this was 21 per cent less than planned, indicating year-on-year decline in CIPs achieved by the sector.
- NHS foundation trusts and trusts continue to work relentlessly to identify recurrent and in-year savings, but the easily realisable savings and existing approaches for improving efficiency are increasingly limited given what they have already achieved in the past five years.
- Providers have had to absorb substantial additional cost increases as a result of implementing the recommendations from the Francis review and safe staffing standards. Our own research indicates that this has led to £1.2bn in additional costs in 2013/14 and 2014/15 alone.[2] This means that providers have limited potential to realise savings in their operational costs through workforce savings, despite this being the single largest cost in all organisations.

These factors have meant that productivity fell by almost one per cent in both 2012/13 and 2013/14 (for the acute and specialist hospital sector) after increasing in the first two years of the current Parliament.[3]

[1] Bojke C, Castelli A, Grasic K, Street A., 'Productivity of the English National Health Service From 2004/5: updated to 2011/12', *CHE research paper 94*, Centre for Health Economics, University of York, 2014 (www.york.ac.uk/media/che/documents/papers/researchpapers/CHERP%2094_NHS_productivity_update2011-12.pdf).
[2] *How much does high quality care cost?*, NHS Providers , spring 2014 (http://www.nhsproviders.org/resource-library/ftn-briefing-the-cost-of-high-quality-care/briefing-the-cost-of-high-quality-care.pdf).
[3] *Hospital finances and productivity: in a critical condition?*, Health Foundation, April 2015 (http://www.health.org.uk/sites/default/files/HospitalFinancesAndProductivity.pdf).

Demand and costs in the NHS have risen steeply year-on-year since the inception of the NHS, but this has historically been met by an average of four per cent annual increases to the budget. The sector now appears to be experiencing a decade of a one per cent annual funding increase, even in this parliament with the additional investment of £8 billion.

In our latest analysis of quarter one 2015/16 finances for sector, NHS foundation trusts and trusts are still heading for a £2 billion deficit by the end of the year, with the deficit position for the sector already at around £700m-£800m at the end of the first quarter.

There remain substantial opportunities for realising efficiencies in the NHS, and providers will work relentlessly to deliver savings. However, the challenge facing the sector in this Parliament is materially different from the last five years and we need new approaches, capabilities and resources to make this possible. If they are to maintain their strong track record in delivering savings, providers will need time and investment to make the step change in productivity necessitated in the *Five year forward view*, while the whole system needs to adopt new ways of working – such as those exemplified by the Carter productivity review which pursued a realistic and mature approach to the savings that could be made.

Under these circumstances, the challenge facing the sector is exceptional and unprecedented.

4) WHAT IS BEING ASKED OF THE NHS OVER THE NEXT FIVE YEARS

According to the *Forward view*, as a result of 4 per cent annual increases in demand and costs, the NHS faces a £30 billion funding gap by 2020/21.

In response to the funding gap, the Government allocated an additional £2 billion to the NHS in the 2014 Autumn Statement for 2015/16, and has committed to add a further £8 billion to the NHS budget by 2020. This latter allocation has the corollary – again, set out in the *Forward view* – that the NHS is expected to achieve £22 billion in savings over that same period by increasing its annual productivity by 2-3%.[4]

These are welcome and vital real terms increases, but even so, the exceptional challenge still facing the sector should not be underestimated:

- The growing impact of the gap between the NHS's funding needs and funding allocation is already clear. NHS providers, having made significant efficiency savings in recent years, are still planning for a deficit of around £2 billion in 2015/16, and immense pressure on patient care and quality of services is showing with a number of targets set by the NHS Constitution being missed over an extended period.[5]
- Although the NHS's average annual productivity improved up until the middle of the last Parliament, providers' declining ability to realise savings without additional investment, alongside growing costs and demands, means that the current productivity potential in the sector has started to decrease. These recent trends are concerning given that in order to achieve £22 billion in savings by 2020/21, it would require a 2-3 per cent increase, substantially more than the long run average for the NHS or achieved elsewhere in Western healthcare, and higher even than the current productivity growth in the UK economy.
- Over the past five years, the NHS has saved around £20 billion principally through lowering prices and contracts, and pay restraint. The potential to realise efficiencies through the same levers and to the same extent is limited, and we need a fundamentally new approach to delivering the step change in productivity being required of the sector.
- There are a number of promising and new approaches to delivering efficiencies being developed in this Parliament, such as: the Carter review, making a step change in prevention and public health initiatives, and the potential savings through longer term transformation of services. However, all these will take time – as identified in the interim report by Lord Carter, the sector could make savings of up to £5bn but only "by 2019/20 provided that there is political and

[4] The £30 billion gap first posited by NHS England's *Call to Action* was forecast in the last Parliament, and based on the level and stability of demand, performance and finance seen at that time. The assumptions underpinning the NHS funding challenge are now likely to need review. For the purposes of this section, we use this figure, and the £22bn savings flowing from this, for the sake of consistency but we no longer consider these to be an accurate description of the gap facing the facing the NHS.

[5] See for example, *NHS Indicators: England, August 2015*, House of Commons Library, August 2015 (http://researchbriefings.files.parliament.uk/documents/CBP-7281/CBP-7281.pdf).

managerial commitment to take the necessary steps and funding to achieve these efficiencies".[6] This leaves substantial pressure facing the sector in 2016/17 and 2017/18, as current initiatives will do little to address the funding gap in the intervening years. We urgently need a realistic plan of how we are going to deliver the necessary efficiency savings in the next two to three years of the Parliament, given that savings will not be realised until the end of the Parliament.

- A small proportion of the additional £8 billion can be expected to directly enable transformation and could be used to move to new ways of working through supporting double running, workforce and infrastructure costs. Yet fundamentally, a large proportion of this funding will still be required simply to keep up with demand. Both transformation and efficiency require upfront investment, with a return on that investment to be realised in the medium to long term, and at a level which takes into account the risks inherent in innovation.

5) THE CONSEQUENCES OF FAILING TO TRANSFORM THE NHS

The Government has said that it will fully fund the *Forward view.*[7] That is does so is vital. If the operational and financial changes it describes are not successfully carried out, the consequences will be severe:

- the NHS will face exponentially increasing demand pressure, and in the absence of funding to match this, NHS services will need to be radically cut and rationed;
- the NHS will be increasingly less able to deliver value for money, as it will not have the resources to transform care to the benefit of patient and service users. Running the existing model harder is not in the best interests of patients or tax payers;
- NHS deficits will grow and become entrenched, with an increasing proportion of resources diverted to servicing deficits rather than being invested in transforming care. This will have an adverse impact on providers currently at the forefront of driving change and transformation, leaving them disempowered and unable to realise their ambitions to continually improve patient care; and
- underinvestment in the NHS workforce – through long-term pay restraint, an inadequate supply of trained staff, and a mismatch between job roles and care needs – will lead to widespread demoralisation and staff leaving the service, resulting in increasing pressure on remaining staff and poorer patient care, as well as increasing recruitment costs.

6) THE CONDITIONS FOR SUCCESSFUL TRANSFORMATION

It is not enough to pledge £8 billion additional funding to the NHS, to continue as we have done in the past, and then expect transformed services with balanced books. How the funding is used is critical. We set out below the key conditions for successfully realising the ambitions of this funding and committing to the *Forward view.*

A) A RENEWED LOCAL-NATIONAL PARTNERSHIP, underpinned by formal engagement mechanisms

The size of the challenge means that national policy makers and local leaders must develop a more open, transparent and trusting partnership based on more shared ownership of the challenges ahead, and a commitment to co-producing solutions. This will create the conditions and flexibilities for innovation and the development of new care models tailored to the needs of local communities, underpinned by the principles of autonomy and local accountability.

Why it matters

Recent announcements in finances, workforce and quality have served to reinforce a perception that the provider sector will be "done to" without due consultation and, crucially, without a shared understanding of the evidence base. This blurs accountabilities and distorts objectives, entrenches the status quo and maintains a focus on an institution's short-term performance. Yet the radical transformation required cannot be externally or nationally imposed: it relies on local leadership being empowered and with the capacity to achieve. Local and national bodies must collaborate and there must be a structured process which will enable current services to be maintained while transformation is planned and implemented

[6] *Interim Report,* Review of Operational Productivity in NHS providers - An independent report for the Department of Health by Lord Carter of Coles, June 2015 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/434202/carter-interim-report.pdf).
[7] The Conservative Party Manifesto, 2015 (https://s3-eu-west-1.amazonaws.com/manifesto2015/ConservativeManifesto2015.pdf).

alongside efficiency improvements. All organisations at the national and local level need to be aligned and coordinated behind the same set of strategic objectives, and an agreed, realistic plan to deliver those objectives. The following are prerequisites for such a renewed local-national partnership:

- *A focus on patients and service users.* The beneficiaries of NHS transformation are patients and service users. This must be at the centre of plans and of funding. As much as a strong NHS needs a strong economy, the converse is equally true: a strong economy needs a strong NHS.
- *Alignment between and within central bodies.* Plans to date have been piecemeal and at times in conflict (as with the current expectation that staffing levels should be "proportionate and appropriate" in financial terms, as well as with "no compromise" in terms of quality and numbers).[8] The signals from the centre – both from the Government and the arm's length bodies – must be consistent and representative of the whole system view, creating a coherent and transparent plan. To do otherwise is distracting and wasteful, and neglects addressing the fundamental challenges facing the service.
- *Full provider engagement.* It is providers who will ultimately be making the changes. It is providers who will be held accountable for the quality and safety of patient and service user care. Their expertise in the potential to improve care delivery and in maintaining standards is therefore paramount, and it is only through their input that a realistic plan can be built. The *Forward view* governance boards and the Carter productivity review team are steps towards the type of mechanism required, with clear strategic objectives, strong leadership, transparent processes and joint working across the whole service.
- *Realism.* Providers and their local health and care system partners are ready and willing to break out of existing models. However, as much as we need to be ambitious, we need to be realistic, recognising that many of the savings identified in the *Forward view* will take time to deliver, creating immense pressure on NHS finances in 2016/17 and 2017/18. The underlying need for change is too significant for efforts towards delivering change to be set up to fail. To this end, there must be clarity and agreement in what level of transformation and efficiency savings are achievable over what timescales and with what investment profile. There must also be an informed assessment of the long-term operational costs and investment requirements for the NHS, bearing in mind that the direct costs of delivering care through new models will not necessarily be less than those of current models.
- *An active commitment to a long-term approach predicated on partnership.* Success cannot be imposed or achieved through short term, reactive measures. It is by local and national NHS bodies working together that improvements will be made. The old levers – such as "turning the national tariff screw" – are not suited to achieving the vision for transformed NHS care and should be abandoned. A new approach with the sector – as exemplified by Lord Carter's productivity review with 32 providers – must be adopted to embed a well-founded and planned model of improvement. Working in collaboration with the sector to identify efficiency and transformation opportunities, rather than imposing a centrally agreed plan on them, will be crucial to success.
- *In-built scale and pace.* The sooner a plan is in place, the greater the chances of success in achieving improvements up to the hoped for level. There is a critical need to balance in-year finances and savings with the drive for long-term reform to ensure the scale and pace of reform necessary.

B) EARLY AND MULTI-ANNUAL ALLOCATION OF THE ADDITIONAL £8 BILLION, to maximise value for money and enable confidence in long-term investment

To maximise the benefits of the additional £8 billion by 2020/21, the investment needs to be front-loaded to enable the NHS frontline to invest it in service developments which will have a long-term return. The NHS also needs confidence in its funding profile so that frontline providers are able to plan with certainty and confidence about the resources likely to be available to them in the future. We need to move beyond the existing short term nature of NHS funding decisions, which forces providers to invest in services in one year only to have to disinvest in them the next year. Instead, we need to move to a multi-annual settlement for clinical commissioning groups with multi-annual approaches applied, where appropriate, to provider payment mechanisms and contracts.

[8] As set out in letters from Monitor and the NHS Trust Development Authority to NHS foundation trusts and trusts in August 2015.

Why it matters

NHS foundation trusts and trusts are committed to transforming NHS services to meet 21st century needs, and are ready to take up this task. However, to do so, we need a realistic plan which balances what can be achieved with the funding available in the given timescales.

The growing impact of the funding gap facing the NHS is evident in the plans for 2015/16. Demand has outpaced funding, and will continue to do so based on current demographic trends. The tolerance within the provider sector, and NHS more generally, to continue absorbing growing deficits is becoming unsustainable. If the NHS is to achieve any level of transformation and increased efficiency by 2020/21, this requires investment above and beyond the resources currently available to the service, in part to bring stability to the finances of the sector. Conversely, delaying funding allows costly problems to continue and encourages irrational disinvestment, and both increases the cost of correction as well as lengthening the time required to recover.

To fully realise the benefits of the additional investment, it needs to be accompanied by a multi-annual funding profile for the NHS and the Department of Health, potentially requiring HM Treasury to be more flexible about the way the total departmental expenditure limit is managed on an annual basis.

C) A JOINED-UP APPROACH TO PUBLIC SERVICES FUNDING, recognising the interdependence of health, social care and public health funding

The sustainability of public services is interdependent. The NHS is particularly affected by resourcing and demand levels in adult social care funding and public health, and for the NHS to succeed, these services must also succeed. Both adult social care and public health funding need to be protected alongside NHS funding if the NHS is to maximise the additional investment.

Why it matters

The NHS is part of a network of public services, with a particular interdependence with social care and public health, as well as being affected by wider societal issues and government policies such as housing and welfare. It is therefore critical to take account of the effect of cross-cutting spending issues to avoid budget reductions in one area having a disproportionate and adverse impact in another.

Adult social care is facing a growing funding gap, expected to reach an estimated £4.3 billion gap by 2020/21, or 29 per cent of its budget. To date, its budgetary shortfall has been met through savings within its own spending, transfers from the NHS and savings made in other council services.[9] However, the need for social care remains and is growing. Where need is not met through social care provision, the impact is felt in the NHS, both because people rely on it in place of social care and because the savings otherwise realised through early intervention and ongoing social care are not realised.

The approach taken in the last Parliament – to create the Better Care Fund – took £1.9 billion out of the NHS budget to create a local single pooled health and social care budget. Although its aim to support more integrated forms of care was the right one, it created substantial financial and operational risks for the NHS.

The NHS, beyond experiencing a budget cut due to transfers to social care faces disproportionately increased costs as a direct result of constraints in social care. The cost impact on the NHS manifests in particular through increased emergency and unplanned work, and delays in discharging people to other care settings. In 2012, it was estimated that delayed transfers of care cost the NHS approximately £200 million a year.[10] In 2015, in a survey of over 300 NHS chief executives, 99 per cent agreed that social care funding cuts were increasing pressure on the NHS, with 92 per cent citing specific pressures within their own

[9] *ADASS Budget Survey Report 2014: Final*, Association of Directors of Adult Social Services (ADASS), July 2014 (www.adass.org.uk/uploadedFiles/adass_content/policy_networks/resources/Key_documents/ADASS%20Budget%20Survey%20Report%202014%20Final.pdf).

[10] *Papering over the cracks: the impact of social care funding on the NHS*, NHS Confederation, September 2012 (http://www.nhsconfed.org/~/media/Confederation/Files/Publications/Documents/papering-over-cracks.pdf).

organisation.[11] In 2015, the King's Fund concluded that "the number of people getting publicly funded social care has fallen by a quarter despite growing demographic need. If reductions on this scale continue, it is difficult to see how the social care system or the NHS will be sustainable in their current form".[12]

Likewise, it is crucial to not see public health funding as entirely separate to NHS funding; the two are intrinsically linked and investment in one without the other has the potential to undermine the ability of the NHS to deliver the change needed in the longer term. The recent cut to public health budgets is already leading to adverse consequences for the contracts NHS foundation trusts and trusts have in place with local authorities. Cutting or losing contracts in this way could potentially compromise their operating model and ability to put necessary capacity in place to provide public health services in future.

Moreover, there is growing evidence of the benefits and return on investment of local authorities' public health spending, as well as for the implications for NHS resources of failing to invest in prevention. The King's Fund and Local Government Association have highlighted that unhealthy lifestyles cost the NHS billions of pounds a year.[13] This suggests that a short term focus on tackling public sector finances in non-protected areas of the health budget, such as in this case public health budgets, is likely to end up costing the taxpayer more in the long run as a result of increased and more costly demand for NHS services.

The Spending Review needs to clearly outline the resources available for health care, and the resources available for social care and public health to support effective planning and joint working. Only by protecting and, where possible, investing in the public services which have an impact on the NHS, will the ambitions of the *Forward view* be realised.

7) CONCLUSION

The Commonwealth Fund in 2014 ranked the NHS first among comparable countries for quality, access and efficiency.[14] Sustaining this status, and the world-class healthcare which enables and furthers a strong economy, demands a new way of working. This takes place in the context of a decade of one per cent annual increases to the NHS's budget in the face of four per cent annual increases to demand and costs.

The Government has pledged an additional £8 billion in recognition of the financial and operational challenges facing the NHS. That notwithstanding, the pressures on the service will be severe, particularly in 2016/17 and 2017/18 before more substantial savings can be realised. Addressing these pressures will require a system level response which goes far beyond that of the last Parliament. Without an adequate response at scale and pace, the NHS will be increasingly less able to deliver value for money, with funding shortfalls necessitating reduced or rationed service levels.

Transforming the service and realising the value of the Government's additional investment in the NHS therefore implies going beyond conventional approaches to funding allocation and management. The conditions for success in using the additional £8 billion funding effectively, and in ensuring the long-term clinical and financial sustainability of the NHS, are:

- a renewed local-national partnership, underpinned by formal engagement mechanisms;
- early and multi-annual allocation of the additional £8 billion, to maximise value for money and enable confidence in long-term investment; and
- a joined-up approach to public services funding, recognising the interdependence of health, social care and public health funding.

11 'NHS chiefs warn of impact of social care cuts', *Public Finance*, June 2015 (http://www.publicfinance.co.uk/news/2015/06/nhs-chiefs-warn-impact-social-care-cuts).
12 *How serious are the pressures in social care?*, The King's Fund, March 2015 (http://www.kingsfund.org.uk/projects/verdict/how-serious-are-pressures-social-care).
13 *Making the case for public health interventions*, The King's Fund and Local Government Association, September 2014 (http://www.kingsfund.org.uk/sites/files/kf/media/making-case-public-health-interventions-sep-2014.pdf).
14 *Mirror, mirror on the wall, 2014 update: how the US health care system compares internationally*, The Commonwealth Fund, June 2014 (http://www.commonwealthfund.org/publications/fund-reports/2014/jun/mirror-mirror).

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