What is the current state of NHS finances?

NHS Providers is the membership organisation for the NHS hospital, mental health, community and ambulance 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 all trusts in England in voluntary membership, collectively accounting for £124bn of annual expenditure and employing 1.5 million people.

This briefing provides a brief history of NHS funding and outlines the current challenges NHS trusts are facing in delivering operational priorities within a pressurised financial environment.

If you have any queries about the content of this briefing, or require further information, please contact: publicaffairs@nhsproviders.org.

Historic NHS funding levels

From 2010 onwards, the NHS went through the most prolonged financial squeeze in its history. The average annual increase in funding for healthcare between 1949/50 and 2019/20 was 3.7%. However, between 2009/10 and 2019/20 average real terms growth in health spending was 1.6% - the lowest average rise in health spending since the NHS was founded in 1948 (Health Foundation, 2021).

However, when the Covid-19 pandemic arrived in March 2020, the government made a welcome commitment to give the NHS "whatever it needs" to effectively respond – this led to significant investment (c. £47.1bn of Covid funding) in frontline health services in 2020/21 in order to equip the health service with the resources (e.g. PPE, ventilators, Test and Trace) it needed to effectively respond to the pandemic (King's Fund, 2021).

October 2021 Spending Review

In October 2021 and set against the context of the shift towards the country's recovery from the Covid-19 pandemic, the government held a multi-year Spending Review (SR) which sought to re-establish economic control and invest in public services. The October 2021 SR set departmental budgets up to the end of 2024/25.

See below for details of the headline budgets for both the Department of Health and Social Care (DHSC) and NHS England (NHSE) which were agreed at the last Spending Review (HM Treasury, 2021):

Revenue funding

£ billion	2022/23	2023/24	2024/25
DHSC	167.9	173.4	177.4
Of which: NHS England	151.8	157.4	162.6

Capital funding

£ billion	2022/23	2023/24	2024/25
DHSC	10.6	10.4	11.2

At the time the Spending Review was held, the government's funding increases indicated that both the NHS revenue budget and the DHSC capital budget would grow by an average real terms increase of 3.8% per year to the end of 2024/25. The growth in capital spending on NHS buildings was particularly crucial as it amounted to a multi-year increase in capital funding to the highest level in real terms since 2010. This also represented a relative real-terms increase in comparison to recent years – from 2015/16 to 2019/20, NHS spending grew by an average 2.8% in real terms (King's Fund, 2024).

However, wider economic turbulence and a prolonged period of higher inflation has significantly reduced the value of budgets agreed at the 2021 Spending Review. Since 2022/23 NHSE's revenue expenditure has fallen in real terms. In 2022/23, NHS England spent £155.1bn and is expected to have spent £153.2bn in 2023/24 – a real terms reduction of 1.2%.

How has the NHS performed financially as it recovered from the pandemic?

As the National Audit Office report on the financial sustainability of the NHS makes clear, trusts and systems have faced significant financial challenges which have made achieving breakeven financial plans difficult. In 2022/23, systems planned to finish the year with an aggregated deficit of £99m, however, the final aggregated deficit for systems ended up at £621m – with a total of 20 systems in deficit positions at year-end.

This theme continued in 2023/24. Despite the best efforts of NHS trusts and systems, the final aggregated deficit at the end of the financial year was £1.4bn. Furthermore, NHS England had injected £3.4bn of additional funding received from government and a further £1.7bn of centrally held funding to try and supplement system positions (NAO, 2024). However, this was still not sufficient enough to support systems to breakeven.

What have been the key financial challenges facing NHS trusts?

Inflation

Persistently high levels of inflation in recent years have significantly eroded the value of increased revenue and capital budgets over the current Spending Review period. The Office for Budget Responsibility's report from the Spring Budget shows that inflation (measured by the GDP deflator) over the 2022/23 financial year was 6.7% and was forecast to be 6.1% over 2023/24. Trusts were asked to plan for both financial years on the assumption that inflation would be 4.4% for 2022/23 and 2.5% for 2023/24. NHS England has estimated that this differential between the inflation assumption underpinning planning and actual inflation levels has created an unfunded pressure of £1.7bn (NHS England, 2024).

Inflation has had a severe impact on trusts' ability to meet financial plans as they grapple with increased costs across a range of items, notably energy, utilities and medicine costs. Exceptionally high prices have now been embedded into contracts for their entire duration, despite any future reduction in inflation. As trusts continue to be exposed to higher prices, they remain concerned that current national tariff uplifts have been insufficient to cover the impact of inflationary cost increases.

Industrial action

Industrial action from a number of different staff groups has been ongoing since December 2022 and has had a significant impact on the ability of the NHS to reduce the size of the waiting list across elective, mental health and community services. Crucially, industrial action has also had a material financial impact on NHS budgets, with the total cost of industrial action estimated by NHS England in the 2023/24 financial year alone to be c. £2.4bn (NHS England, 2024). Strikes carry with them the direct cost of recruiting temporary cover to fill the gaps left by striking members of staff, as well as indirect costs such as the loss of elective income from rescheduled appointments. Providers also tell us that planning for the strikes has consumed a significant proportion of management time and headroom, impacting on the delivery of business-as-usual activity, such as meeting operational priorities and identifying efficiency savings. This will continue until industrial disputes are resolved.

Efficiency savings

In March 2022, as the NHS continued its recovery from the pandemic, the government announced a renewed focus on generating efficiency savings across the NHS and closing the gap between income and expenditure. The government doubled the NHS' efficiency target to 2.2% a year and was tasked with delivering £12bn of efficiency savings over the current Spending Review period in a bid to eliminate waste across the service (DHSC, 2023). To achieve this target, trusts are set an annual efficiency factor baked into their allocations and asked to identify cost savings to bridge the gap between income and expenditure. The financial and operational pressures trusts are facing means that the efficiency savings they must deliver are significantly higher than in previous years.

The efficiency savings trusts achieved in 2022/23 were primarily non-recurrent (one-off) as trusts found it increasingly difficult to identify recurrent, cash-releasing efficiency savings. Persistent inflation made it increasingly difficult to cut costs. Furthermore, some trusts have significantly less non-recurrent funding available to them in 2023/24. To submit breakeven plans, trusts have signed up to very stretching cost improvement programmes which trust finance directors have shared that they had no confidence that such plans would be able to be delivered. For 2024/25, finance directors have told us that financial plans are based on the fragile assumption that they will be able to deliver double the amount of savings than in previous years – roughly 6%-8% vs 3%-4%.

Operational pressures

Trusts are focused on improving their productivity levels within a challenging financial and operational context. While trusts have made significant progress in reducing the number of long waiters across elective care and in diagnostics, the elective waiting list continues to hover around 7.5 million people and urgent and emergency care departments continue to experience real pressure with 2.3 million A&E attendances in March 2024 alone – the highest level ever recorded. Ambulance demand remains considerably higher than pre-pandemic levels, with the number of category 1 incidents being 39% higher than the equivalent period in 2019. Significant challenges remain across the community and mental health sectors as well; over one million people are on the waiting list for community services and mental health referrals were 46.7% higher in March 2024 than in March 2020. This pressure on service delivery often comes with significant financial costs as well, for example, outsourcing procedures to the independent sector. Furthermore, trusts are still grappling with the operational pressures that the continuing effects of the pandemic present, including complying with enhanced inflection control measures which can often reduce hospital capacity.

2024/25 planning process

The financial outlook for 2024/25 looks even more pressured with NHSE's total revenue allocation only rising by 0.2% in real terms. As a result, trusts are looking at identifying unprecedented levels of efficiency savings this year, well above the efficiency target of 2.2% set by government, in some cases, as high as 5%-6%. 31 out of 42 systems have submitted deficit plans this year, amounting to an aggregated deficit of £2.2bn. Furthermore, M2 financial data (i.e. to the end of May 2024) highlights that systems are already £237m off plan (NHS England, 2024).

Trusts will continue to work flat out to ensure they are delivering value for taxpayers, however, as the recent NAO report concludes "the NHS' longer-term financial sustainability depends greatly on how elected governments decide to address steeply increasing demand for healthcare" (NAO, 2024).

Improving NHS productivity

In an effort to deliver more value within existing resources, there has been an increased focus on improving NHS productivity. Figures from the Office for National Statistics show that quality-adjusted healthcare productivity was 6.6% lower over the 2021/22 financial year than the 2019/20 financial year (ONS, 2024). NHSE published its own analysis that outlined that the acute sector productivity gap is approximately 11% lower than pre-pandemic levels. NHSE have made clear that "recovering productivity is categorically not about staff working harder" but the NHS needs to focus on returning productivity back to pre-pandemic levels as a priority.

Trusts are firmly focused on improving their productivity levels despite the challenging financial and operational context. Indeed, the NHS is treating record numbers of people in A&E each month and is carrying out higher volumes of diagnostic tests. However, the overall operational picture remains considerably challenging as the elective waiting list continues to hover around 7.5m people and over one million people are on the waiting list for community services.

As well as the obvious operational pressures, trust leaders identified a number of barriers in our *Stretched to the Limit* report that were preventing them from accelerating productivity growth (NHS Providers, 2023). NHS staff survey results continuously highlight the level of burnout experienced by NHS staff - 30.4% of NHS staff feel burn out because of their work and 42.7% of staff often or always feel worn out at the end of their shift (NHS England, 2024). A tired and pressurised workforce is not conducive to increased productivity growth. Trust leaders have also highlighted that they are often seeing patients who are sicker and presenting with more complex conditions, requiring more resources and staff time to deliver their care. Another issue which is proving to be a significant barrier to productivity growth is a lack of social care capacity. Delays in social care assessments, and difficulties in quickly accessing complex housing packages, mean medically fit patients are not discharged in a timely fashion, limiting trusts' capacity to free up additional bed capacity. All of the above are just some of the examples of barriers trusts are facing in improving productivity levels.

NHS Providers published a report in June 2024 which highlighted some of the success trusts have had in developing local initiatives that are having an impact on improving productivity. The report outlines some of the approaches trusts have taken to improve productivity, despite the very challenging financial and operational context. Our report acknowledges that trusts do have some degree of control over how they can improve productivity, however, it is clear that there are a number of long-term enablers of productivity growth that sit outside the gift of trusts to influence and control, notably capital and digital investment (NHS Providers, 2024). Trusts would welcome the government matching their efforts in helping to make the NHS as productive as possible and ensuring financial sustainability.

NHS Providers resources

Please see our latest reports and briefings on NHS finances below:

- Providers Deliver: achieving value for money (2024)
- Stretched to the Limit: tackling the NHS productivity challenge (2023)
- NHS Reality Check: the financial and performance ask for trusts in 2022/23 (2022)

Please get in touch with us by email if you have any questions or would like to discuss further.