Briefing on the financial challenges facing NHS trusts

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.

Member survey on financial and operational challenges

In May 2024, we surveyed trust chief executives and finance directors, asking for their views on a variety of financial and operational challenges in 2024/25. We received responses from 114 different trusts, accounting for over half (55%) of the provider sector (209 trusts), from all regions and trust type in England.

Key findings

1. Over half (51%) of respondents were extremely concerned about delivering operational priorities within their organisation's 2024/25 financial allocation.
2. Almost all respondents (97%) said it would be extremely difficult (72%) or difficult (25%) for their ICS to reach financial balance over 2024/25.
3. Over nine in ten respondents (92%) felt that the scale of the efficiency challenge in 2024/25 is more challenging than 2023/24.
4. 44% of respondents forecast their trust's financial position for 2024/25 as a deficit, 45% forecast their position as breakeven and 11% forecast their position as a surplus. *This survey was conducted before the planning round was completed and so may not reflect final planning submissions made by trusts.*
5. 32% of respondents felt that it was very likely (25%) or likely (7%) that their trust will require additional national support to manage cash flow pressures over 2024/25.
6. In regard to physical health services, almost a third of respondents (32%) were confident that their system will deliver its recovery targets to reduce waits in 2024/25 (2% very confident, 30% confident).

7 Fewer respondents were confident with their system's ability to deliver its recovery targets to reduce long waits in mental health services compared to physical health. Only 8% said they were confident, a slight increase from 5% in 2023/24.

8 Of the respondents who deliver A&E services, nearly half (46%) said it is likely that their trust will meet the new target of seeing 78% of A&E attendees within four hours by March 2025. 28% of respondents said it is unlikely (20%) or very unlikely (8%) that their trust will meet this target.

Comments from trust leaders

- "Workforce and capital constraints are going to make it very difficult to deliver the stretching targets laid down by NHS England" – Acute trust chief executive
- "We are expected to cut our cost base and do more activity every year with no real increase in block funding" – Community trust finance director
- "There is a credibility gap in much of the finance conversation at the moment, the gap between the headline figure and known high risks in plans to deliver the highest CIP programme the trust has ever committed to gives cause for concern about the potential for achievement." – Acute trust chief executive
- "The plan for 2024/25 is incredibly challenging and extremely high risk with no contingency. Any issues that materialise in year will therefore result in re-prioritisation of existing resourcing so sacrificing one operational area for another or a failure to deliver financially." – Acute trust finance director
- "The most challenging financial plan I can remember in nearly four decades" – Combined mental health / learning disability and community trust finance director
- "This year has the most significant financial risk built into plans that I have seen in my whole NHS career" – Acute trust finance director

Analysis

Ahead of the new government's first Budget on 30 October, our survey of NHS trust finance directors and chief executives highlights the systemic financial challenges the health service faces. Trust leaders are increasingly concerned about being able to deliver operational priorities (e.g. reducing the size of the waiting list, meet waiting times standards) while achieving financial balance.

With NHS England's revenue budget only rising by 0.24% in real terms, the financial outlook for 2024/25 looks to be even more pressurised than in recent years. As outlined by the evidence from our survey, trusts will have to identify unprecedented levels of efficiency savings this year, well above the 2.2% target set by government, in order to break even. The annual planning process concluded with 31 out of 42 integrated care systems submitting 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.

As a result of the challenging state of NHS finances, trusts are having to consider a number of options that in previous years had been ruled out. For example, NHS England has placed greater emphasis on controlling staff costs to reduce the total amount of provider expenditure on pay costs. This includes reducing the health service's reliance on temporary staff spending (e.g. bank and agency staffing), extending vacancy freezes and, in some places, reducing substantive staffing numbers. Some trusts are even having to consider scaling back services for which funding is insufficient to cover the cost of delivery.

It is clear that the current level of financial risk being absorbed by trusts is not sustainable. Trusts will always prioritise patient safety and the continued delivery of high-quality care, but flat real-terms funding growth and a variety of external pressures have threatened trusts' ability to deliver financial balance. Trust leaders are keen to engage with the new government and its review of the NHS, to help identify long-term solutions and return the NHS back to financial stability.

Given the constrained fiscal position the new government is in, trust leaders are committed to ensuring that the NHS is delivering the best possible value for money. Trusts are working hard to improve productivity, but their efforts will need to be matched by support from government on some of the key long-term enablers of productivity growth, such as investment in NHS infrastructure and digital technologies.

Background information

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 to support systems to break even.

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 fully resolved.

Stretching efficiency assumptions

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 nonrecurrent funding available to them in 2023/24. To submit breakeven plans, trusts have signed up to very stretching cost improvement programmes and our survey findings showed low confidence levels among finance directors around the deliverability of these plans. 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% (2024/25) vs 3%-4% (2023/24).

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 7.6 million people and urgent and emergency care departments continue to experience real pressure with 2.3 million A&E attendances in July 2024 alone – the highest July on record. Ambulance demand remains considerably higher than pre-pandemic levels, with the number of category 1 incidents so far this year being 37% higher than the equivalent period in 2019. Significant challenges remain across community and mental health services as well; over one million people are on the waiting list for community services and mental health referrals were 34.4% higher in June 2024 than in June 2019. This pressure on service delivery often comes at a significant financial cost as well, for example due to outsourcing procedures to the independent sector.

What are trusts doing to help improve efficiency and productivity?

Our recent report, *Providers Deliver: achieving value for money*, highlights local initiatives developed by trusts that have been designed to improve their productivity.

Key themes include:

- Taking a holistic approach to improving productivity – Prioritising improvements to patient care also pays dividends for improving productivity. This case study explores the benefits of a value-based approach to productivity that allocate resources more effectively to improve outcomes for patients.
- Collaborating to tackle shared challenges – This case study identifies two examples at one trust where together collaboration has improved data-sharing and benchmarking across trust networks, enabling local trusts to tackle their waiting lists more effectively.
- Digital tools to free up staff time – This case study demonstrates how equipping staff with the right tools will allow them to spend more time on delivering care rather on administrative processes.
- Improving whole-system productivity - This case study highlights why it is important to adopt a whole-system approach to productivity – as costs incurred by one trust may pay productivity dividends elsewhere throughout the wider health system.
- Incentivising staff to help tackle waiting lists – This case study explores the introduction of a bespoke payment model for staff at one trust designed to help incentivise staff to tackle care backlogs.

Further resources

We will be publishing further findings from our survey of trust chief executives and finance directors on capital investment and NHS productivity in due course.

If you have any questions regarding any of the material within this briefing then please contact Sandy Cook (sandy.cook@nhsproviders.org).