

## Health Foundation response to the Public Accounts Committee's inquiry on NHS Financial Sustainability

15 February 2019

### Summary of our response

- The Health Foundation supports the National Audit Office's view that despite the announcement of an additional £20.5bn of NHS funding over the next five years, funding issues still constitute a threat to the long-term sustainability of the health service.
- We highlight that the main focus for NHS finances needs to be on system-wide, long-term funding issues rather than finances at trust level.
- The implications of not addressing the NHS funding situation will be felt across many different sectors including the NHS workforce, public health, capital spending and social care.

### About the Health Foundation

The Health Foundation is an independent charity committed to bringing about better health and health care for people in the UK. Our aim is a healthier population, supported by high quality health care that can be equitably accessed. We learn what works to make people's lives healthier and improve the health care system. From giving grants to those working at the front line to carrying out research and policy analysis, we shine a light on how to make successful change happen.

### NHS funding settlement

#### Overview

- NHS England's budget is due to increase by £20.5bn in real terms by 2023/24, rising from £114.6bn in 2018/19 to £135.1bn in 2023/24 (in 2018/19 prices).
- This represents average annual increases to the NHS England budget of 3.4%. Health Foundation and Institute for Fiscal Studies projections published in *Securing the future* set out that annual funding increases of 3.3% would be needed just to maintain current services and meet increasing demand from a growing and ageing population with more complex needs. It concluded that increases of 4.1% would be needed to see modest improvements to services. This was predicated in increases to the entire Department of Health and Social Care budget, not just that of NHS England.
- The Treasury has allocated additional money to NHS England alongside its £20.5bn funding uplift to account for the additional pension costs. However, as things stand the wider Department of Health and Social Care (DHSC) budget (not including the NHS England budget) will be reduced by £1bn in 2019/20. This includes the Health Education England budget for workforce, as well as separate budgets for capital and public health funding. This is a consequence of unavoidable increased pension costs. Officials have stated this will also be addressed in the wider DHSC budget decisions. However, this will

need to be resolved urgently so that the different areas covered by this budget can make spending decisions for 19/20.

- Many of the objectives outlined in the NHS Long Term Plan rely heavily on these other budgets that are still to be confirmed which means a great deal of uncertainty still remains.
- The additional NHS funding also excludes social care which we, together with the Institute for Fiscal Studies, have calculated, requires funding increases of at least 3.9% a year to meet the needs of an ageing population and an increasing number of younger adults living with disabilities.
- Below, we outline the specific funding challenges in each of these areas (i.e. workforce, public health, capital funding and social care).

## Workforce

- Workforce challenges in the NHS in England are the single-biggest threat to delivery of the Long Term Plan.
- There are currently over 100,000 Full Time Equivalent (FTE) vacancies in NHS trusts. In our recent report with the King's Fund and Nuffield Trust *Make or Break?*, this is projected to grow to almost 250,000 by 2030 which would make delivering even current services near impossible.
- In the worst-case scenario, this figure could rise to over 350,000 by 2030 if the NHS continues to lose staff and cannot attract skilled workers from abroad.
- The widespread difficulties with recruiting and retaining staff could lead to growing waiting lists, deteriorating care quality, and to other planned improvements failing to materialise. This presents a real risk that that some of the £20.5bn secured for NHS front-line services will go unspent: even if commissioners have the resources to commission additional activity, health care providers may not have the staff to deliver it.
- There are also severe shortages of key groups of essential staff, including nurses, many types of doctors, allied health professionals and care staff. In 2017/18, NHS trusts spent £5.5bn on temporary staff to cover vacancies and other short-term absences, accounting for over 10% of total pay costs.
- Central investment in education and training has dropped from 5% of health spending in 2006/7 to 3% in 2018/19. Had the previous share of health spending been maintained, investment would be £2bn higher.

The NHS Long Term Plan outlines ambitions to increase the workforce through training and recruitment including more clinical placements for undergraduate nurses, medical school places, and routes such as apprenticeships. It also proposes to make the NHS a better place to work, so more staff stay and feel able to make better use of their skills and experience. It sets out more immediate actions to be overseen by NHS Improvement as well as wider reforms to be finalised in a workforce implementation plan due 2019 once the budget for Health Education England is set following the Spending Review.

## Public health

- The Health Foundation has recently assessed the extent of cuts to the public health grant since 2014/15 in our report *Taking our health for granted*. We found a reduction of almost a quarter (25%) in spending per person between 2014/15 and 2019/20 (a £700m real-terms reduction in the public health grant over that period).
- According to allocations confirmed at the end of 2018, next year's public health grant (i.e. 2019/20) will be cut by £85m in cash terms, leaving a £200m real term gap in funding compared to public health spend by local authorities in 2018/19.

- We have calculated that an extra £3.2bn of funding per year is required for the public health grant to be more fairly distributed according to local need, while restoring real-terms losses and preventing any local area experiencing a reduction in funding.

## Capital funding

- The Health Foundation published an analysis of NHS funding pressures in our report *False economy*. Since 2010/11, capital spending in the DHSC declined in real terms – from £5.7bn in 2010/11 to £5.3bn in 17/18, a fall of 7%. This means the capital budget in 2017/18 was 4.2% of total NHS spending, compared to 5.0% in 2010/11. This fall is mostly explained by transfers by the DHSC from the capital to the revenue budget, to focus more funding on frontline services.
- In 2016/17, there was an estimated maintenance backlog of £5.6bn, up from £5.2bn in 2015/16. This was greater than the total capital budget. Of this amount, £2.8bn represented backlog that is a high or significant risk, up from £2.4bn in 2015/16.
- While capital is mentioned in the NHS Long Term Plan with reference to technology and scanners, most of the capital budget goes on buildings and the bulk of the backlog relates to buildings. It is therefore unclear how the capital improvements alluded to in the Plan could be delivered without significant extra investment to cover this backlog as well as investing in technology and equipment.
- In our joint *Securing the Future* report, we projected that for England to increase capital spending to 0.5% of GDP (the OECD average), NHS capital spending would need to be £4bn higher in 2023/24 than today.

## Social care

- Without a solution to the growing crisis in social care, people will continue to suffer unnecessarily and more pressure will be placed on the NHS. The number of older people who are not getting the care and support they need has hit a record high, with one 1.4 million people over 65s living with some level of unmet need.
- Analysis in our *Securing the future* report found that social care funding will need to increase by 3.9% a year over the next 15 years to meet the needs of an ageing population and an increasing number of younger adults living with disabilities.
- According to the [Institute for Fiscal Studies](#), cuts to social care spending totalled 11% in real terms between 2009/10 and 2015/16. This is despite the number of people aged over 65 increasing by more than a million over that period.
- The NHS Long Term Plan notes that the NHS funding settlement is predicated on a commitment from the government that adult social care funding, ‘does not impose any additional pressure on the NHS over the coming five years’ and that this is ‘the basis on which the demand, activity and funding in this Long Term Plan have been assessed.’

## Trust finances

- Latest analysis from the [Health Foundation](#), following the announcement of the NHS England funding settlement in Summer 2018, found that stabilising NHS trust finances and bringing waiting times back to NHS constitution standards would cost around £4bn. This is in addition to £16bn of unavoidable cost pressures (such as demographic changes, pay, and rising pharmaceutical costs for new, innovative medicines), which would account for almost all of the additional £20.5bn in NHS funding over the next five years, leaving very little space to fund genuinely new improvements to quality or access.

## NHS productivity

- The NHS Long Term Plan includes a commitment to meet the government-set objective of making re-investable efficiency and productivity gains of at least 1.1% a year over the next five years. **Health Foundation** analysis outlines that without productivity gains the NHS would need around £10 billion of further funding in 2023/24 just to stand still; that's equivalent to around 1p extra on employee and employer NI contributions.
- Latest data from the **Office for National Statistics** shows that in 2017, health care productivity grew by 3%, substantially above both performance across the economy as a whole and the long-run trend for the NHS. A target of 1.1% a year might therefore seem unambitious, but much of the productivity growth in recent years has come from one-off events which can't be repeated.
- It will be challenging for the NHS to sustain productivity improvements. The volume of inputs (staff, buildings, goods and services bought from suppliers) grew very modestly last year to drive up headline productivity. Progress is likely to be hindered because the major drivers of sustained productivity – such as an adequate, skilled workforce, capital investment and the consistent spread of best practice, are not in place.

## Conclusion

While £20.5bn extra funding promised for NHS England by 2023/24 is generous compared with other public services, there are questions over whether it is enough keep pace with growing demand pressures, chronic staff shortages, and cuts to other parts of the health and care system. It is unclear as yet where the inevitable trade-offs will be, however there has been speculation that waiting times targets may be sacrificed. Clarity is needed so that the public know what can be realistically expected from the NHS.

Many of the objectives outlined in the NHS Long Term Plan rely heavily on the other areas of health and care spending outlined above and a great deal of uncertainty remains while they are still to be confirmed. The outcome of the 2019 Spending Review will therefore determine the extent to which the NHS Long Term Plan can be delivered and ultimately, whether the health service will be placed on a more sustainable footing for the future.

### **For further information:**

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