



National Audit Office

Financial and service sustainability of the NHS

Findings from the National Audit Office's Value For Money studies on NHS Capital and Financial management and Sustainability

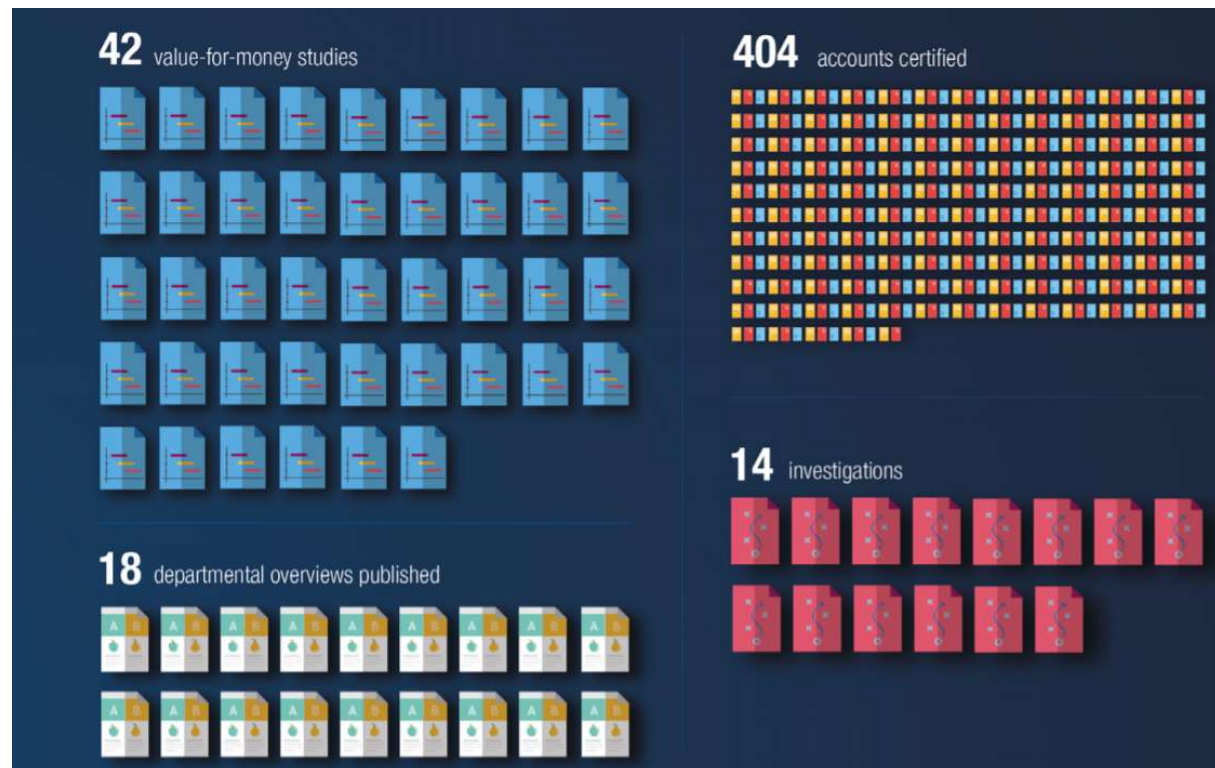
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Introduction to the National Audit Office

- The National Audit Office (NAO) **scrutinises public spending** for Parliament.
- We help to **hold government departments** and the bodies we audit **to account** for how they use public money (£1.7 trillion in 2019-20).
- In 2019-20, we published 42 VFM reports and certified over 400 accounts and our work led to a positive **financial impacts of £1.1 billion**.



Two VFM reports focused on NHS financial management and sustainability in February 2020 before COVID-19 pandemic

NHS Financial Management and Sustainability and Review of capital expenditure in the NHS



Report
by the Comptroller
and Auditor General

Department of Health & Social Care

NHS financial management
and sustainability

HC 44 SESSION 2019-20 5 FEBRUARY 2020

Report
by the Comptroller
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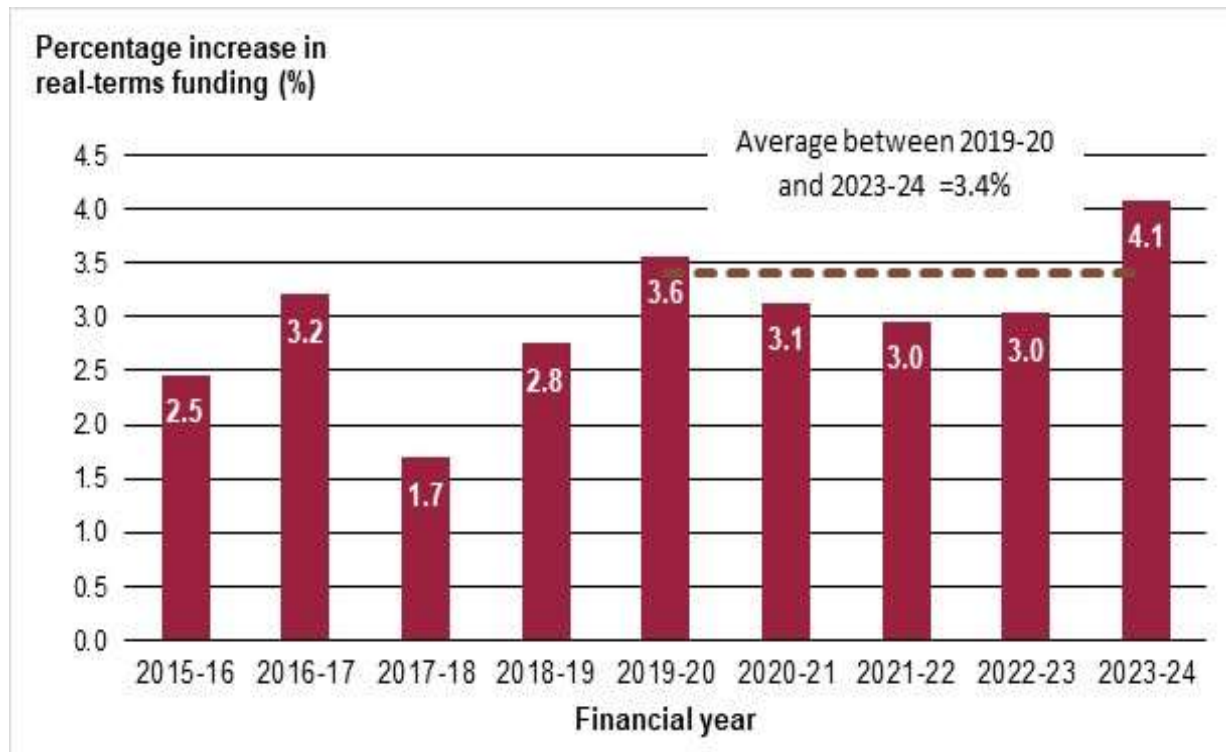
Department of Health & Social Care

Review of capital
expenditure in the NHS

HC 43 SESSION 2019-20 5 FEBRUARY 2020

Our findings: NHS Long Term Plan is ambitious but the extra funding may not be sufficient to deliver the ambitions of the long term plan

- The NHS will benefit from increased funding in a settlement up to 2023/24 and will be delivering an ambitious 10 year plan to transform services
- However, issues around financial volatility in the provider sector and lacking certainty on long term investment pose a real risk to delivering the plan and using the additional funding efficiently

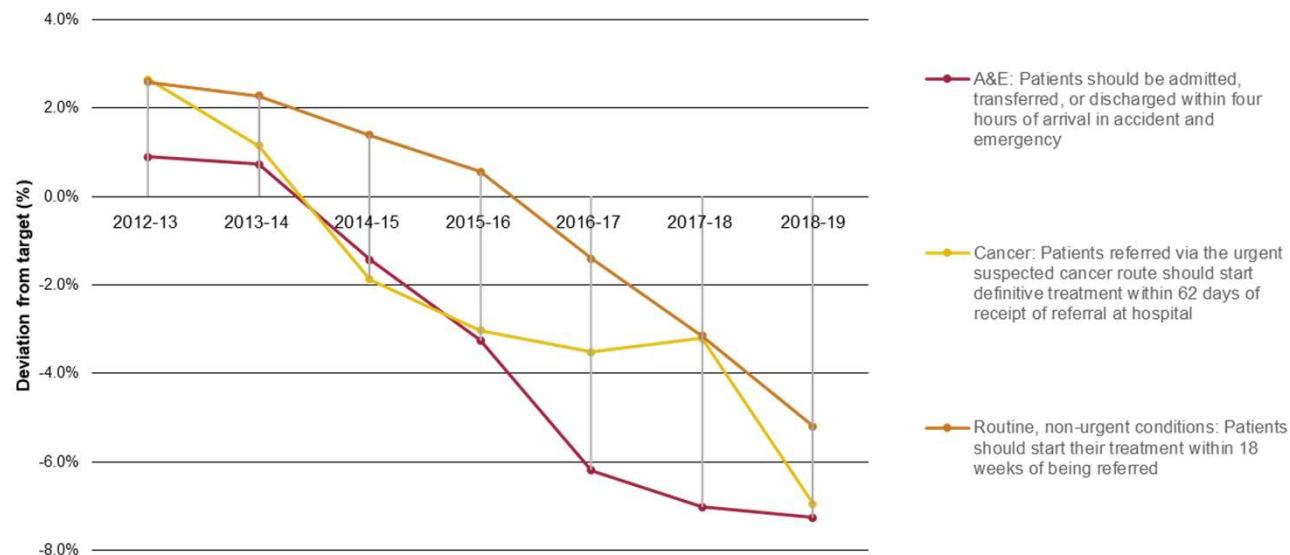


What has happened since?

NHS Long Term Plan was put on hold in March in response to the pandemic.

Our findings – the NHS is treating more patients but performance against key access standards continue to slip

- The NHS only met six out of 16 key access standards for acute services in 2018-19
- The Department and NHSE have focussed more on emergency care and cancer services, and a clinical review is carried out
- Trusts stress that even with additional resource it will be difficult to meet performance standards due to staffing issues



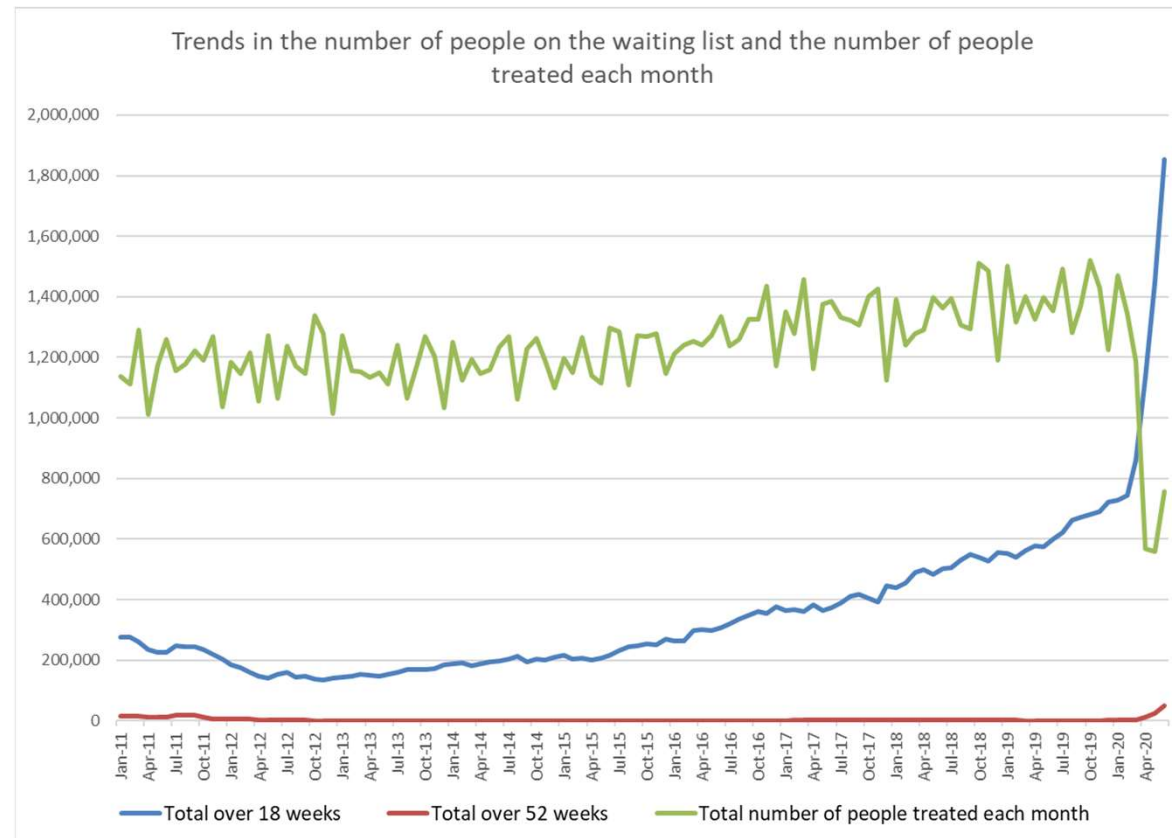
What has happened since?

Performance against standards improved across A&E, waiting times and cancer mainly as the number of referrals and attendances at A&E reduced. However, this will build up pressures for the future.

Reduced access to NHS services during the pandemic introduces risks to future service and financial sustainability

As the NHS focuses on its responses to COVID-19, access to both routine and non-COVID emergency care reduced significantly. In turn creating a backlog.

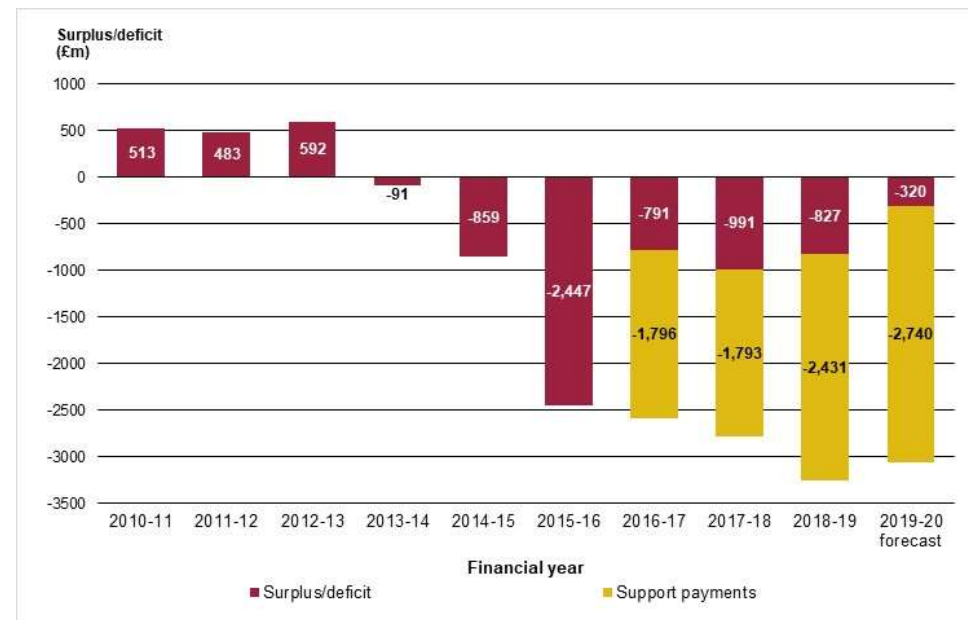
- Non-COVID urgent activity has reduced across the NHS: in April, attendances in major (Type 1) A&E services dropped and were down 48% compared with the same month in 2019. Cancer referrals also down by 60% in April, it has recovered some ground since but still well below the level before (June around 80%)
- The number of people receiving elective treatment between March and June reduced by 44% compared with the same period last year and the number of people waiting more than 18 weeks for their treatment increased from 0.7million at the end of Feb 2020 to 1.9m at the end of June 2020.



Our findings – Trusts spend more money than intended and the extra money brought in to stabilise the finances of NHS bodies has failed to do so.

- The combined deficit of trusts only improved by £164 million in 2018-19 despite an increase in support payments of £638 million
- Trusts were unable to contain their combined deficit to NHSE&I's ambition in 2018-19
- As in previous years, financial balance was only achieved with significant underspends by NHS England

The combined surplus/deficit of trusts in England between 2010-11 and 2018-19, and forecast for 2019-20



What has happened since?

The COVID pandemic has caused natural delays in the production of NHS Trusts/FT accounts for 2019/20. Routine funding for trusts was replaced by a temporary regime which was welcomed by many. While the future remains uncertain, both in terms of the pandemic and financial systems, the recent announcement by NHSE&I signals a return the “carrot and stick” system of system control totals.

Our findings – Variation in trusts performance grew but the underlying reasons for deficits in the most financially-challenged trusts are not always understood

- Between 2017-18 and 2018-19, the percentage of trusts in deficit increased from 43% to 46%.
- The gap in financial performance between the best- and worst-performing trusts (with the largest surplus and the largest deficit) also increased from £218 million to £282 million over this period

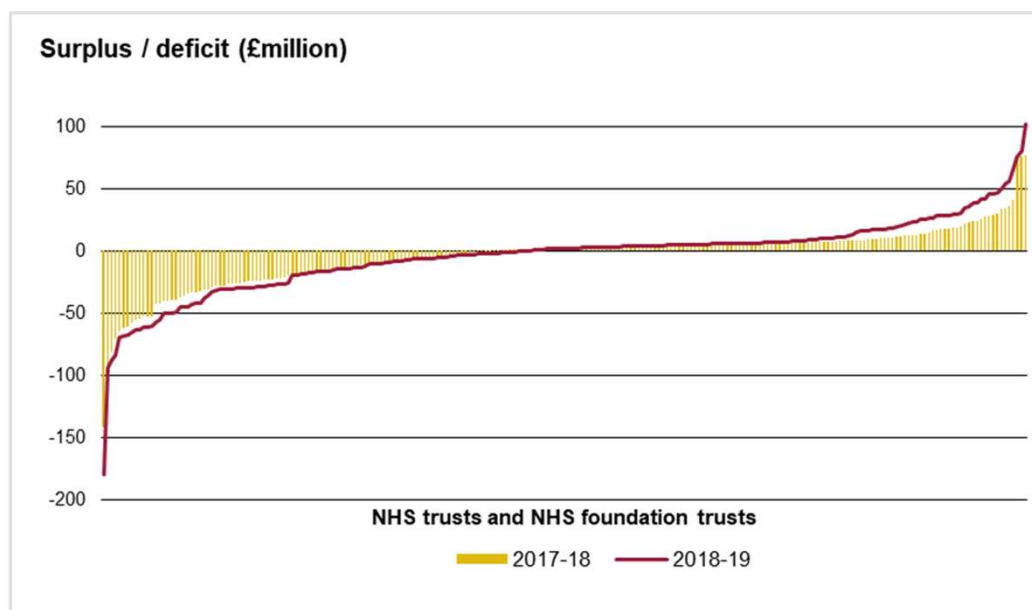
The allocation of support funding (PSF and STF) increased the levels of variation in trust performance

The underlying reasons for deficits are complex and poorly understood.

What has happened since?

2019-20 results will be published later in September. But for Quarter 1 of 2020-21, most trusts should be in a break even position given the emergency COVID measures in place.

The spread of surpluses and deficits of trusts in England 2017-18



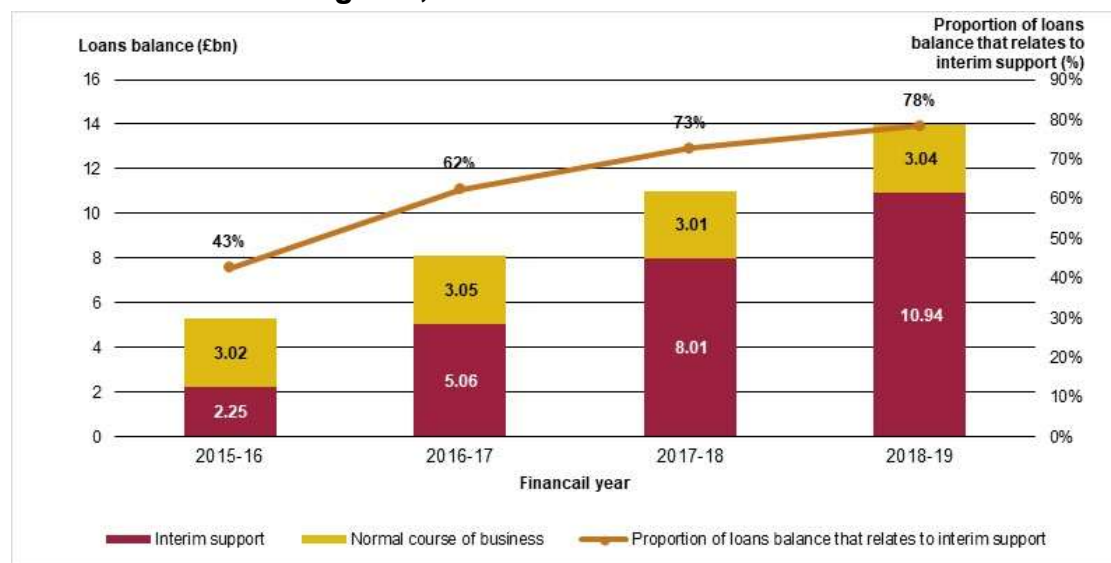
Our findings – Financially-distressed trusts are increasingly relying on short-term loans from the Department with little or no prospect of paying them back.

By 31 March 2019, outstanding debt issued by the Department to trusts in financial difficulty (interim support) was **£10.9bn** (£8.0bn 2018)

The current repayment profile is frontloaded with **£11.9 billion of the £16.2 billion due to be repaid by 2021-22**

Trusts are consistently drawing down more than they are repaying

Closing balances for interim support and normal course of business loans to trusts in England, between 2015-16 and 2018-19



What has happened since?

As part of the preparation for COVID-19 “to protect the NHS and save lives” the Government provided significant additional funding to the NHS, including writing off £13.4bn of loans which is yet to be actioned. But this, and funding for specific staffing and other support, does not address the underlying issues of the NHS’s financial sustainability.

Our findings – Over the last 5 years, the NHS struggled to move more services out of hospitals as outlined in the NHS five year forward view.

- The health and social care sector has not focused as much on prevention and public health as expected.
- Transformation funding has been reallocated to the acute sector to help reduce trusts' deficits
- Between 2015-16 and 2018-19, funding for public health interventions in local authorities decreased in real terms

	2015-16	2018-19
Public Health England's budget	£962 million	£1,002 million
Public health grant given to local authorities	£3,676 million	£3,219 million
Primary medical and community health services expenditure as a percentage of total NHS expenditure*	20.0%	19.4%
Hospitals' expenditure as a percentage of total NHS expenditure	62.7%	65.2%

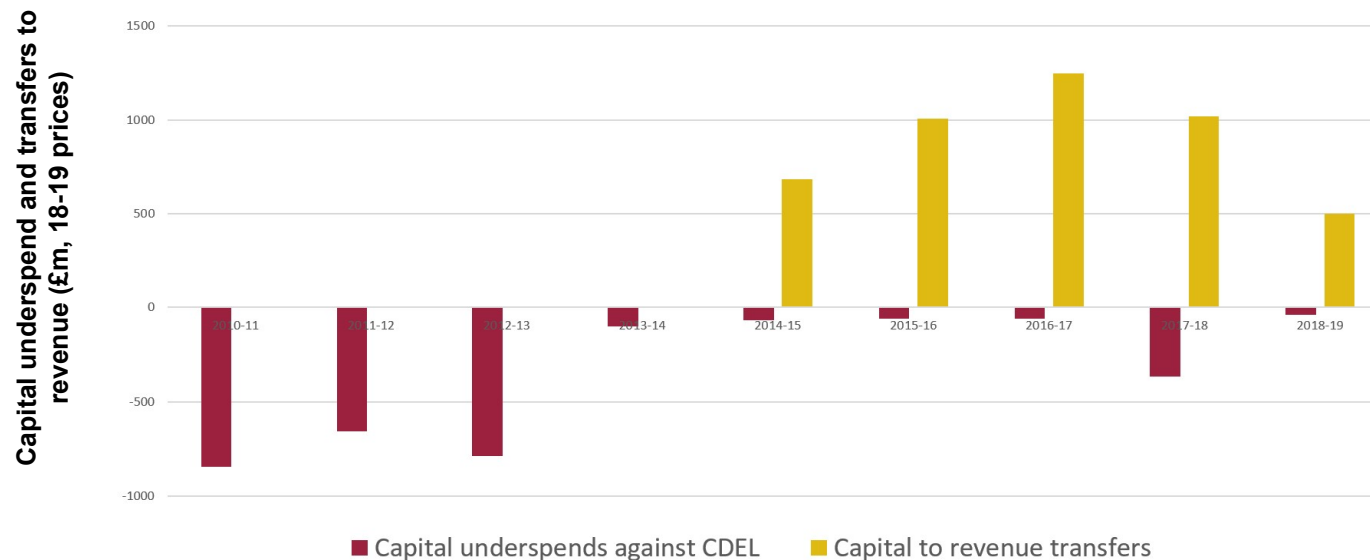
What has happened since?

The lack of investment in public health may have consequences for the response to COVID-19 as the NHS responds to demand and works to increase its testing capacity and PPE. The pandemic has also served as a catalyst to service transformations in many areas including a significant shift to remote digital working.

Our findings: The NHS has diverted funding from capital to meet short term revenue pressures

- Capital spending is essential for investment in new buildings and equipment required to provide key services in the future
- But, there has been an annual draw on capital investment to support day-to-day services, raising opportunity cost issues regarding the future impact on patient services

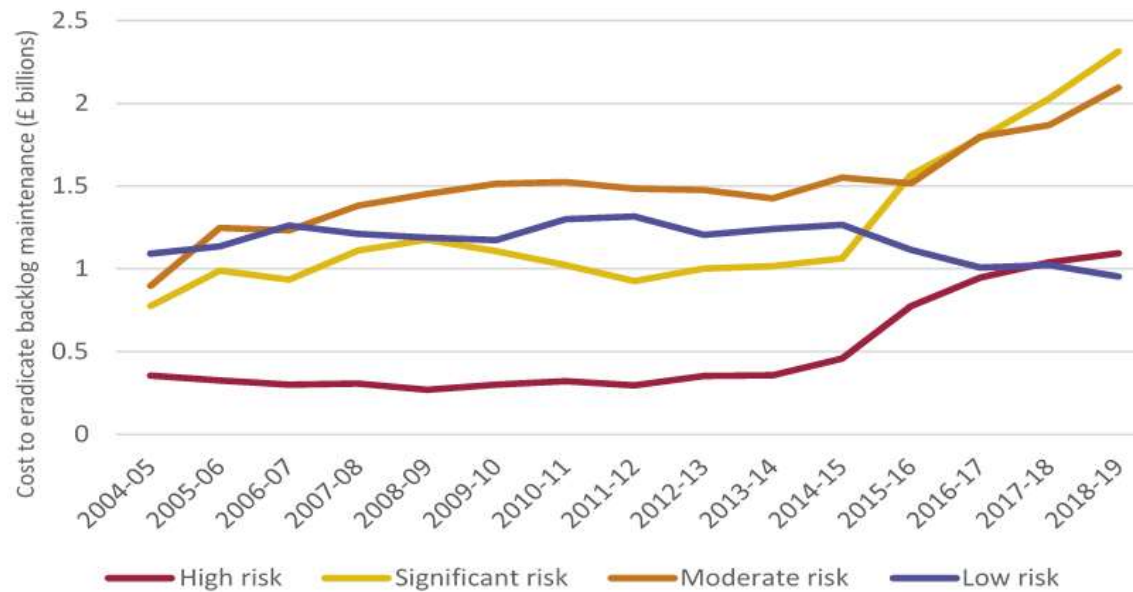
Transfers from capital spending to revenue spending occurred between 2014-15 and 2018-19



Our findings: The NHS has huge problems with the maintenance backlog of its buildings and equipment.

- The capital allocation system is tortuous, with lengthy approvals processes and provider business planning that costs time and money against uncertain outcomes
- At the start of the financial year providers' demand for capital exceeded the spending limit, and the full spending limit is not always utilised

Significant and high risk backlog maintenance has increased by 118% and 139% percent respectively since 2014-15



- Trusts are building up substantial maintenance backlogs, with a risk profile that indicates an increased risk of harm to patients.
- Individual trusts told us about specific risks from failing operating theatres and dangerous ligature points

Our findings: There are many other risks and challenges to the success of STPs and ICSs

Summary of the main challenges raised by sustainability and transformation partnerships

The main challenges include resources, system incentives and regulatory processes

Resources	Partnership working	Regulation and Oversight
Workforce: remains a key challenge for local areas.	Culture: after years of working in competitive environment, cultural change is needed.	NHSE&I reorganisation: cited are an opportunity and challenge
Capital: a shortage of capital could limit what partnerships can achieve.	NHS and local government: continue to collaborate around place-based care.	
Significantly challenged organisations: continue to use up significant time and resources firefighting.	Geography: in some areas, partnership boundaries are not a natural fit.	
Local authority funding: NHS bodies remain concerned that without a long-term funding settlement for adult social care, it will be difficult to put the NHS on a sustainable footing.	System incentives: partnerships told us current payment systems are not fit for purpose.	Roles and responsibilities: a lack of clarity persists at local, regional and national level.
Specialised commissioning: budgets for specialised services sit outside of partnerships' control.	Data sharing: remains a challenge. Poor data quality and other barriers limit system-level working.	

What has happened since?
It is not clear whether STP/ICS had a meaningful role during the pandemic response. At local level, local resilience forums have played a key role in coordinating local responses.

Source: National Audit Office Interviews

Our conclusion and next steps

On the financial sustainability of the NHS:

The NHS is relying on **short term measures** to manage constrained resources in a way that is not sustainable.

- Variation in the provider sector is growing, and struggling trusts are becoming reliant on loans to finance running costs.
- Financial problems are impacting the commissioner sector, which again failed to achieve financial balance in 2018-19.
- Lack of capital investment and growing high risk backlogs are storing up risks for the future.

On operational performance and governance:

The NHS is treating more patients, but NHSE&I continues to adopt a **more joined-up approach to oversight** but is still in a **period of transition**. The *NHS Long Term Plan* has built on lessons learnt from the *Five Year Forward View*, but the NHS may struggle to deliver all its commitments.

- Local partnerships continue to develop system working but still face significant challenges to become sustainable and deliver the *NHS Long Term Plan*
- There continues to be a risk that the NHS will be unable to use the extra funding from the long-term settlement optimally because of staffing shortages.
- A lack of clarity persists on key areas of health and care spending that are likely to affect the NHS's ability to deliver the *NHS Long Term Plan*

What has happened since?

Loans to be written off, but what measures are put in place to address the underlying pressures?

As the “carrot and stick” approach returns to NHS finance, leaders are signalling that they will struggle to meet new targets given their capacity constraints.

What has happened since?

NHSE&I phase 3 response puts STP/ICSs in the forefront of planning and delivery, but are their roles sufficiently defined and does this lend itself to effective accountability?

Based on our reports, what did PAC find and recommend?

- As part of the preparation for COVID-19 the Government provided significant additional funding to the NHS, including writing off £13.4bn of loans. But **writing off the loans, and funding for specific staffing and other support during the COVID, does not address the underlying issues of the NHS's financial sustainability.**
- NHSE&I suspended the implementation of the Plan and temporary changes to existing payment mechanisms for trusts, shifting from the earlier move towards more local devolved control, back to a command and control system coordinated by national bodies.
- **The NHS had not made the transformation required to meet rising demand before the COVID-19 pandemic.** The pandemic has highlighted the need for the NHS to continue its efforts to fundamentally transform services. In order to get to that position, **the NHS needs to have a coherent plan for how it will function after the peak of the COVID-19 crisis.**
- **Access to health services has reduced substantially,** creating backlogs that will need to be addressed. There is uncertainty about what capacity is required to deliver services during and following the pandemic, and how this should be allocated. **Trusts will need guidance and potential financial support to plan beyond the summer and respond to winter pressures.**
- During the COVID-19 crisis, implementation of the NHS Long Term Plan was halted and capital expenditure requests from trusts were required to be clearly linked to delivery of the COVID-19 response.
- **A lack of clarity persists** on key areas of health and care spending that are likely to affect the NHS's ability to deliver the Plan, including capital, education and training and social care. **The NHS has still not published a capital funding strategy to support the NHS Long Term Plan.**
- **NAO recommendations in summary: 1)** redesign the financial architecture **2)** stop issuing loans **3)** find out what's driving the deficits **4)** identify a long-term capital strategy **5)** align the regulatory regime to what you are trying to achieve

The response to COVID-19 presents an opportunity to address long-standing issues such as workforce shortages, coherent and aligned capital investment strategies, tackling trust deficits and at the same time, remaining ready to deal with any future peaks in the pandemic.

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