The Department of Health annual report and accounts for the last financial year were published in July. As expected, they show at a headline level in 2016/17 that the Department contained its resources within its budget and broadly delivered financial balance for the sector. However, there remain a number of significant concerns about the sustainability of the NHS financial position.

KEY QUESTIONS

We would reiterate the National Audit Office’s comment within the accounts that “the NHS still has a long way to go before we can regard it as being on a sustainable footing again”. The average well-run NHS trust should be able to deliver its operational targets and make a sufficient surplus to invest for the future. This should incorporate an appropriately stretching but realistic level of savings based on improving efficiency and productivity. Failing to hit operational targets or make the required level of surplus should be an exception, but at the moment, it is the rule for all but a very few trusts. What is the plan for the NHS to return, both nationally and locally, to a sustainable footing?

Beyond this central question, we believe the following are key points to address:

- How will the NHS cope as it enters the two years of the spending review with the lowest NHS funding increases (0.7% in 2018/19 and 0.4% in 2019/20)? The chief executives of NHS England and NHS Improvement were clear at last week’s Health Select Committee that the NHS cannot deliver what is being asked of it over the next two years without more funding. Either more funding is needed or the NHS has to deliver less.
- The NHS revenue budget has only balanced in the last few years because we’ve raided the capital budget. The NHS trust safety critical maintenance backlog has doubled in two years. Is this sustainable?
- The gap facing the sector means that trusts are still being asked to deliver 4% annual savings, a level that no other advance Western health economy has ever realised, and more than double the rate of long run UK whole economy productivity gain. Given NHS trusts’ reliance on one off land sales, non recurrent savings and accounting adjustments, to achieve this level of savings, how long can this continue?
- The NHS appears, on paper, to have reduced the £2.45 billion deficit to £800m by introducing individual provider control totals and a £1.8 billion Sustainability and Transformation Fund (STF) directly allocated to providers. Have control totals and the STF worked? Is it a sustainable approach? What is the real underlying provider deficit?
What happens when, as currently planned, the £1.8bn STF currently going direct to providers stops at the end of 2018/19?

NHS PROVIDERS VIEW ON THE 2016/17 ACCOUNTS

1. Based on the last spending review, 2016/17 was the year that was to receive the biggest funding increase expected between 2015 and 2020. Nevertheless, the provider sector deficit was still large at £791m, which was over plan and heavily reliant on non recurrent funding. This strongly indicates the challenge that 2017/18 will present. It is important to bear in mind that the tariff net increase reduces to 0.1% and provider cost improvement plans (CIPs) will have to average 4.2% to achieve exacting control total targets. Moreover, the accounts show that in 2016/17, for the fourth year in a row, the overall DH position was supported by a significant capital to revenue transfer, this time equalling £1.2bn. This level of transfer cannot continue indefinitely.

2. The accounts say the provider sector planned for a “small” deficit of about £600m in 2016/17 (compared to the actual £2.5bn deficit in 2015/16). This shows that large deficits have become normalised, but we need to ensure that this means the parameters of the debate on funding don’t shift as well. The NHS needs to be adequately funded: requiring trusts to consistently plan for sizeable deficits is not a sustainable way to run a system.

3. It is important not to conflate the Department staying within its budget with the sustainability of local provision, and support the statement by the National Audit Office on this point: “unlike in 2015-16, the Department itself has not been forced to use the same level of significant one-off accounting adjustments to remain within its budget. However, the system at a local level remains under considerable financial pressure and Monitor’s Annual Report and Accounts note that “the NHS still has a long way to go before we can regard it as being on a sustainable footing again”.

4. Around £50bn of the Department’s spend is on staff, indicating the scale of the challenge to removing the public sector pay cap. We welcome the health secretary’s confirmation that the cap has been lifted. We are keen to understand how this will be delivered, over what timescale and how it will be funded. It is imperative to award new funding for this purpose and not expect it to be delivered within the current financial envelope. According to the Institute of Fiscal Studies, the cost of a 2% pay award for the NHS would be £1bn annually.¹

5. Provider asset disposals to generate capital equalled £200m. This is despite trusts being incentivised to take such actions by control totals and subsequent access to the

¹ http://www.bbc.co.uk/news/health-39720085
sustainability and transformation fund (STF). We should therefore not overestimate how much capital can be generated through asset disposals and at what speed this can take place.

6. We still do not have a sustainable way of dealing with challenged providers. Those trusts which could not sign up to control totals or which missed their targets could not benefit from the STF but still needed revenue support from the Department. During 2016/17, trusts drew down £2.7bn of interim revenue support from the government, which was a third more than the previous year (£2bn).

7. Clinical commissioning groups holding back 1% of their resources, as required by the Department in order to mitigate the predicted provider deficit, was key to the Department balancing its budget.

8. Departmental level spend on private providers was essentially flat from 2015/16. However, NHS trust spending on private providers went up considerably as they were forced to outsource elective demand last winter to help with flow pressures in emergency demand. This meant the purchase by NHS trusts of healthcare from independent sector providers increased by nearly 60% in 2016/17 to nearly £400m.

9. Control totals and the STF were conceived as short-term solutions. If they were to become a long term design feature of the system, this would be incompatible with the principles of appropriate delegation and autonomy that should sit at the heart of the NHS. These principles are essential for organisations and systems to be effective and empowered in setting and delivering their own financial targets.