Autumn Statement 2016
Representation from the NHS Confederation

About the NHS Confederation

The NHS Confederation is the only body that brings together the full range of organisations that make up the modern NHS. Our whole system voice covers a broad range of networked organisations, which includes the Mental Health Network, NHS Clinical Commissioners and NHS Partners Network. Our membership of almost 500 organisations spans the whole health economy and we speak with authority for the NHS on the issues that matter to all those involved in healthcare. We also work closely with a wide range of organisations across the health and care system on the important issue of NHS and social care funding.

This is our formal representation to HM Treasury for the 2016 Autumn Statement. It outlines four key proposals we wish to put to the Government on how it can support the NHS to achieve sustainability in a time of immense financial challenge and is based on engagement with our networked organisations and members. These proposals build upon the previous submission we made as part of the 2015 Spending Review.

Our representation

We continue to highlight the strong moral and economic case for transforming how health and care is delivered to achieve a sustainable service fit for the 21st century. This is to ensure the level of healthcare need can continue to be met through cost-effective delivery, that quality and safety of care is upheld, that health and adult social care services become fully integrated, and that demand on the health service is managed through successful prevention measures. Delivery of these services should be based on local need through place-based commissioning, with recognition that diverse geographies need diverse local solutions. There are substantial economic and social costs from failing to invest adequately in the NHS and from not supporting it to meet current needs and reduce unnecessary demand on the service.

We are now hearing repeated concerns about the future sustainability of the NHS from within the service, in the context of widespread provider deficits and the emergence for first time of deficits faced by local health commissioners, and there is increased visibility of the financial challenge. This should be a prompt to the Government through Parliament to take a close look at how this could be addressed and, in this submission, we propose four key approaches for the Government to respond to.

We already recognise the Government’s efforts in the 2015 Spending Review to give the NHS a fighting chance to deliver the Five year forward view (5YFV), yet our members need to be afforded the right conditions to transform the service to one which is sustainable for the future. Unfortunately, it has become apparent that these conditions are not being met in full and this threatens making a tough challenge impossible. Most notable are the decisions to cut spending on public health through the local authority grant and to delay much needed social care funding until later in this parliament. While these have no doubt made a short-term saving for the Treasury, there are strong indications this will come at the expense of significant long-term costs and the possibility of hindering transformation.
We’re keen the Government reiterates its commitment to ensuring the long-term sustainability of the NHS in the 2016 Autumn Statement, which will depend on the delivery of the transformation described in the 5YFV. This includes through the Sustainability and Transformation Plans (STPs) currently in development and due to be consulted on locally. This will require decisions now to restore a fighting chance for implementation, namely to:

- Guarantee additional funding that is already earmarked for 2017 is ring-fenced for transformation, specifically as investment in STPs;
- Enable resources to be available for one-off investment in buildings and equipment from next year, by offering routes to greater public and private capital spending;
- Bring NHS and social care funding into line at least by carrying forward money already committed, to reflect the pressing need for action and to release £1.5 billion of Better Care Fund money immediately;
- Stop cuts to public health and deliver adequate investment in prevention for the next four years, to ensure we work to keep people healthy and manage future demand upon the NHS.

We believe the Government should incorporate these actions in the Autumn Statement. We set out our justification below and are keen to discuss them further with HM Treasury on behalf of our members.

Our Autumn Statement proposals

We advocate four proposals to address concerns on delivering transformation and sustainability in the NHS, and the wider adult social care system. We believe these will ease the financial pressure on the NHS, while limiting the burden on public services funding as a whole.

<table>
<thead>
<tr>
<th>Proposal 1</th>
<th>HM Treasury should restate its commitment to transforming the health and care system, as described in the Five year forward view</th>
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<tbody>
<tr>
<td>What does this mean in practice?</td>
<td>Establishing an explicit ring-fence for additional funding and creating arrangements to ensure it is spent on transformation, rather than business-as-usual activities.</td>
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<tr>
<td>Benefits</td>
<td>This would support the energy around transformation. It would also make clear the distinction between investing in the 5YFV and sustaining current NHS services.</td>
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<tr>
<td>Costs</td>
<td>There are no obvious costs, although it will likely require a different approach to allocating funds.</td>
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The 5YFV describes a mismatch between how resources are currently distributed and the level of future expected need.\(^1\) It highlights how an increased and ageing population, with more long-term and complex conditions, and greater cost pressures on prices and pay will introduce a finance gap as it costs more to run the service. This finance gap is estimated to be £30 billion by 2020/21 which the Government has already recognised within the 2015 Spending Review, where it chose to meet the minimum funding commitment recommended by NHS England. This settlement confirmed that demand for NHS services would continue to outstrip increases in NHS funding. It represented just a small increase in real terms funding on a per person

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\(^1\) NHS England – Five year forward view (October 2014)
basis and accounted only for population growth, which is just one cost driver in health. Activity in acute care, for example, is shown to be growing each year by around 2.5 per cent and pressures on prices in this area are expected to increase these costs by a further 3.7 per cent a year. Furthermore, total NHS funding will grow by less than 1 per cent each year of this parliament, which means - based on agreed allocations - the emerging gap must be met through efficiencies just to maintain current services.

We welcome the ambitious efficiency programme already outlined and the NHS is expected to achieve £22 billion savings by 2020. This includes £8.6 billion worth of productivity improvements in the hospital sector to realise 2 per cent savings each year. This would be a significant step up from the long-run average in the NHS of around 1 per cent a year and would require an improvement in hospital productivity, which has been reducing for the last three years. CCGs meanwhile are expected to deliver savings of £4.1bn through activity related care redesign and demand offsets, whilst at the same time maintaining current service levels. In the latest NHS Confederation member survey, most NHS leaders currently have little or no confidence that £22 billion worth of efficiency savings will be possible.

Despite additional funding within the current financial settlement, we are cautious then about the ability of the NHS to make new substantial savings beyond those it has already delivered. We recognise though the impact increased health spending has on other public services and on the Government’s ability to live within its means. Flat health spending within a decreasing total budget means that health becomes a growing proportion of expenditure on public services, which is evident when considering spending on health, education and other local services.

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2 The Health Foundation - Health Foundation responds to government’s Spending Review (November 2015)
3 NHS England - NHS Five Year Forward View: Recap briefing for the Health Select Committee (May 2016)
4 HM Treasury – PESA; ONS - England population mid-year estimate (accessed October 2016)
5 Health Foundation - A perfect storm: an impossible climate for NHS providers’ finances? (March 2016)
6 NHS Confederation - 2016 Membership Survey (March 2016)
We nonetheless maintain that continuing flat spending per person represents a tough settlement. This is compounded by the decision to redraw the boundaries of the NHS ring-fenced finances to remove protection for all areas of Department of Health spending, including funding for clinical training, public health and capital investment. Furthermore, no support has been granted to cover the costs this year of implementing the new state pension, estimated at around £800 million for the NHS that we believe were not included in the original 5YFV analysis. These decisions and others have compounded the financial pressure on the NHS provider sector, which ended last year with a combined deficit of £2.45 billion that would have been bigger were it not for a non-recurrent £950 million capital to revenue budget transfer.

Commissioners are experiencing similar pressures with 31 finishing 2015/16 in deficit and an increased number already predicting deficits for the current year. At the same time, there has been a reduction in and increased restrictions on available drawdown which has historically allowed the sector to remain within budget. Current allocations for 2016/17 have been subject to increased restrictions, with committed allocations to specific programmes, an uplift in tariff prices and a requirement to retain 1.5% of their budgets as uncommitted spend, amongst other factors. This means there is less money available to fund transformation programmes whilst maintaining current levels of service. Commissioners are having to make difficult decisions to reduce services in some areas in order to deliver those efficiency savings through service redesign, which the current funding settlement requires.

We have long highlighted our serious concerns about the state of NHS finances and the financial settlement agreed in the 2015 Spending Review doesn’t provide assurances these issues have been resolved. Additional funding in 2016/17, worth £1.8 billion this year, has been used to plug holes in NHS provider budgets and yet

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7 Ibid
8 Health Select Committee - Impact of the Spending Review on health and social care (July 2016)
9 This figure is based on NHS Employers/NHS Confederation analysis of the 2014/15 NHS Pension Scheme Accounts and the impact of removing a 3.4 per cent rebate on the NHS pay bill
10 Department of Health - Estimates Memorandum, Supplementary Supply Estimate (February 2016)
the sector continues to forecast a £500 million deficit. We need a clear commitment from this Government to transform health and care, which includes ensuring additional funding for the NHS is used to do things differently. If not, issues of NHS sustainability will continue to go unaddressed and the challenge of meeting and reducing people’s need for medical care will be even more difficult within an even more expensive NHS.

### Proposal 2

**HM Treasury should enable investment in sustainability through sustained spending on buildings and equipment**

| What does this mean in practice? | Increasing public capital spending from 2016/17 and supporting the work to tackle systemic issues for taking advantage of private capital. |
| Benefits | This would allow much needed improvements to buildings and equipment in the NHS, which will generate value for years to come. |
| Costs | If NHS public capital spending was increased by 5 per cent, this would cost around £240 million a year and would not count towards current public sector spending. |

Financial reports suggest that non-recurrent measures form a large part of the budget balancing approach and this raises concerns about the long-term viability of current performance. In particular, we would highlight the fall in capital investment and the future impact of not investing in new technologies and buildings, the latter being vital to supporting the delivery of new models of care. Our proposal for addressing these concerns in the Autumn Statement aims to restate the focus on long-term transformation and break the cycle of savings at the expense of sustainability.

The 2015 Spending Review confirmed public capital spending will remain flat in cash terms until 2020, which means it will decrease in real terms. Furthermore, the amount actually being spent on one-off investments and upgrades has been reduced in recent years by capital to revenue transfers of up to a £1 billion. This is an untenable approach to delivering public services and it should be the intent of the Treasury to sustain current services without risking long-term sustainability. As such, we believe support is needed to ensure public capital spending is used to invest in future NHS services, especially while Government borrowing costs hit an all-time low.

![NHS public capital spending in cash terms](source: HM Treasury)

| Year | £2,690 | £2,227 | £3,969 | £4,370 | £5,393 | £4,159 | £3,771 | £3,783 | £4,353 | £3,863 | £3,700 | £4,800 | £4,800 | £4,800 | £4,800 | £4,800 |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 2004 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2005 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2006 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2007 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2008 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2010 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2011 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2012 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2013 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2014 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2015 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2016 * |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2017 * |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2018 * |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2019 * |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 2020 * |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |

*planned

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11 NHS Improvement - Quarterly performance of the provider sector (August 2016)
12 Department of Health - Estimates Memorandum, Supplementary Supply Estimate (February 2016)
13 HM Treasury – PESA (accessed October 2016)
Another way the Government might support investment spending, while public capital spending is limited, would be to encourage the NHS to consider how it can supplement spending with external investment. As evidenced by the representation of NHS Partners Network, the independent sector is well positioned to support this and can access capital from existing corporate balance sheets or the commercial markets to fund new and remodelled services. Moreover, the independent sector can take a long term view and secure funding against future assets or funding streams, using direct relationships with funding markets.

<table>
<thead>
<tr>
<th>Proposal 3</th>
<th>HM Treasury should address the current state of social care urgently and bring funding into line with the NHS to sustain services</th>
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<tbody>
<tr>
<td>What does this mean in practice?</td>
<td>Carrying forward additional funding for the BCF, currently planned for 2019, and bring social care funding overall in line with NHS funding in recent years.</td>
</tr>
<tr>
<td>Benefits</td>
<td>This would prevent additional unmet care needs to develop and reduce the pressures on the NHS from people better served by social care services.</td>
</tr>
<tr>
<td>Costs</td>
<td>BCF funding of £1.5 billion carried forward for three years and overall spending would need to increase by around £5 billion to match NHS protection</td>
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We continue to have serious concerns about funding for social care (non-DH spend) and believe this presents a significant risk to the sustainability of the NHS. The current systemic divide between health and adult social care increasingly belies the reality of how patients and service users traverse these services. Therefore, the need for integration of health and adult social care services at pace is crucial to remove inefficiencies, alleviate log-jams between services and uncertainty, and serve local people better.

Cuts to social care funding are having a real and negative impact on the NHS, which is a clear position we share with local government colleagues. In the last five years, budget savings in adult social care budget have amounted to around a third, requiring reductions of £4.6 billion. Furthermore, tighter eligibility thresholds mean 400,000 fewer people now have access to state-funded adult social care. CCGs have a clear overview of how these pressures are manifesting in the current system – as GPs they hear on a daily basis the challenges that local people face in accessing the care that they need, and as commissioners are aware of the financial impact that this has on the system as a whole in a local area. Unmet social care needs have increased demand on the NHS, including through longer and otherwise unnecessary in-hospital stays, in the absence of adequate social care services.

14 Association of Director of Adult Social Services (ADASS) - Budget Survey 2016 (June 2016)
15 Association of Director of Adult Social Services (ADASS) - Budget Survey 2015 (June 2015)
We have collaborated across the public, private and voluntary sectors on this matter in a firm alliance in order to make our case to HM Treasury and to demonstrate the depth of shared concern. This continues as we look to the Government to do more in the Autumn Statement to protect social care services.

The 2015 Spending Review acknowledged the potential social care funding gap and the Government accepted the impact it could have on the NHS in this parliament. A social care precept was proposed and estimated by HM Treasury as providing up to £2 billion a year by 2019-20, yet analysis since then from the King’s Fund suggests realistically it will raise only £800 million a year. Furthermore, the Spending Review confirmed an additional contribution to increase the Better Care Fund by £1.5 billion, although this will not come until the final years of this Parliament. We highlight concerns across the health and social care sector that without further action across government and the sector, the settlement for social care is not sufficient, targeted at the right geographies and will not come soon enough to resolve the care funding crisis.

Based on our analysis, we would argue there has been approximately a £5 billion shortfall in social care funding over the last 5 years. The funding shortfall in this area needs to be directly and promptly addressed by the Government, otherwise it risks the future sustainability of the NHS. We welcome Simon Steven’s position set out at the 2016 NHS Confederation Annual Conference that if there is more funding available adult social care must be made a priority. The Autumn Statement is a critical moment to address this gap in funding and to agree resources, in line with the top priority placed on it by the public, as well as NHS and local government leaders.

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16 NHS Digital - Personal Social Services: Expenditure and Unit Costs, England (accessed October 2016);
17 NHS Confederation - Spending Review 2015: A representation from across the care and support sector (September 2015)
18 NHS Confederation - Health and care sector calls for ‘care crisis’ talks with the Treasury and other Whitehall Departments (December 2015)
Proposal 4

HM Treasury should recognise the flaw in making savings on public health and invest in keeping people healthy as a priority

What does this mean in practice?
Halting planned cuts to the local grant for public health and outlining a long-term spending plan for prevention and well-being.

Benefits
This would enable local services to establish and deliver durable public health programmes, which would continue to be assessed on a value-for-money basis.

Costs
Annual cuts of 4 per cent are planned, which would require forgoing intended short-term savings of around £130 million a year for the remainder of this Parliament.

Sustaining social services was a key condition for the 5YFV and one that Simon Stevens himself has acknowledged isn’t met in the financial settlement. Another condition that hasn’t been met is the need for the Government to commit to a “radical upgrade in public health and prevention”. Our joint letter with royal colleges, local authorities and directors of public health demonstrated the extent of concern around the cuts to the public health grant and how they will impact on the NHS. Our members have told us about the direct impact cuts will have to front-line services, including local cuts to the treatment of substance misuse, smoking cessation and sexual health.

Furthermore, the failure to adequately resource public health will impact partnership working between CCGs and local authorities. This could challenge the effective delivery of STPs and the ability of the services as a whole to deliver efficiency savings. Vital services will become fragmented as procurements are driven by cost saving as opposed to delivering the best quality service, with increasing variability as to what is available in local areas. In some cases, CCGs will need to step in to fill these voids, leading to increased costs for the NHS.

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19 NHS Confederation – Member survey 2015 (May 2015); ADASS - Budget Survey 2016 (June 2016); NHS Confederation/ComRes – Public polling 2016 (October 2016), note “don’t knows” removed
20 Health Select Committee - Impact of the Spending Review on health and social care (July 2016)
21 NHS Confederation - NHS Confederation calls for an end to public health cuts in the upcoming spending review (October 2015)
If social care and public health funding are not fully protected in this Parliament, then this will have a significant impact on the ability of our members to deliver the 5YFV. It is worth recognising that the 5YFV describes more gaps than simply on NHS finance and efficiency, which is what the current settlement only partially addresses. A wellbeing gap and a care gap has also been identified, which describes the necessity to reshape care delivery and get serious about prevention. If we don’t address these gaps the result will be wider health inequalities and further unmet need.

We call on the Government to improve the levels of public health and social care funding, which we believe will improve the stability of the NHS. Our proposals for addressing these concerns in the Autumn Statement attempt to redress the unbalance in health and care funding, alongside a clear commitment to support the NHS in delivering transformation.

If you would like any further information about our representation, please do not hesitate to contact our Senior Economic Advisor, Paul Healy on paul.healy@nhsconfed.org or 0207 799 8773.

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22 NHS Confederation - The five-year vision explained (October 2016)