Tough times, tough choices
Being open and honest about NHS finance

Key points

• The most likely future scenario for the NHS is one of tough times – the demand for healthcare is growing at a rate that the supply of funding will struggle to match.

• The NHS Confederation has published a report that lays out the choices we face in the current financial dilemma.

• The public and politicians must be engaged in the debate on what happens, where, and why.

• We identify four tough choices:
  – do nothing
  – spend more
  – do more for less
  – do things differently.

The NHS faces an unprecedented financial dilemma: the supply of funding is struggling to match the growing rate of demand for healthcare. To a certain extent, the public is developing a greater awareness of this challenge but, although they have often been told about tough choices, there has been little attempt to explain what these tough choices might require.

To address this, the NHS Confederation has published a report that lays out the choices we face to guarantee the delivery of safe, effective and sustainable health services in the years to come. This Briefing summarises these choices.

This Briefing sets out options, not solutions. These choices are not pain-free and some may prove too difficult to swallow. The public will be better placed to understand and engage in a national debate if we are open about what happens, where, and why.

Tough times

The financial pressures on the NHS are increasing due to a growth in demand – more people need more care, and want this care to be better than it has ever been before. There is nothing wrong with this; such expectations are proof of what the NHS has been able to achieve up until this point.

In recent years cost burdens have emerged due to the effect of lifestyle choices on public health and the impact of allowing mental health problems to be undiagnosed and untreated. While we strongly argue for more to be done to address the causes of these demands, there are few signs that great strides will be made, particularly in the short term.
1. Do nothing

The first choice is to do nothing at all. The NHS may decide that it will continue to treat patients in much the same way it always has done, although it would need to do so within a tighter financial environment where health spending is kept constant. This would put the NHS at a greater risk of going into financial deficit: while headline figures show that the NHS is currently reporting an overall surplus, there are worrying indications that the future sustainability of some individual NHS organisations is unfeasible.

Should the NHS do nothing, services deemed not to offer sufficient cost effectiveness might be withdrawn or treatment waiting lists allowed to grow – in effect, rationing by delay. Patients may be denied access or be forced to wait longer for treatment, which has up to now been politically unacceptable.

A more alarming potential outcome is a decline in the standards of care, as financial troubles can lead to a failure in quality. Despite the fact that there are clear standards and effective quality regulations in the NHS, major failures can still occur and variations across the system may widen.

Can we do nothing?
The NHS will find it difficult to do nothing in a worsening financial environment. Patients and the public are sensitive to drops in quality, and this is never likely to be an acceptable price for dealing with fiscal challenges.

2. Spend more

A simple solution to increased demand and costs is to increase the level of spending. Indeed, most health systems in developed nations have done just this in recent decades.

In theory, the government could choose to spend more money on health, but in practice this would not be feasible without an impact on other public services – the bigger the slice of the public spending 'pie' allocated to health, the smaller the slice for other public services. The government might mitigate this by raising taxes or borrowing more, but this risks long-term consequences for the economy.

The government could raise extra revenues through private spending, most likely by increasing user charges or applying new ones. However, extending user charges might increase the risk that some patients go untreated and would be difficult regardless, given the commitments from political parties of all colours to maintain the NHS as free at the point of need.

Further attempts to increase private spending would almost certainly require an increase in private health insurance coverage which, while rising, is still relatively low in the UK. There are few signs that this is set to change because of a widely-held sentiment that access to NHS services should be determined by need and not ability to pay.

Can we spend more?
As appealing and simple a prospect as it may seem, spending more on health is fraught with all kinds of potential drawbacks. Although it appears on the surface that the public might want health spending to increase, it has been difficult to assess what this should be at the expense of.
3. Do more for less

In 2010 the Department of Health introduced QIPP – Quality, Innovation, Productivity and Prevention – a programme to improve the quality of care, while making up to £20 billion of efficiency savings by 2015. This challenged the NHS to do more for less.

Savings linked to staff costs – the biggest single cost in the NHS – account for just under a third of the total savings achieved to date. This has been helped by a national two-year pay freeze, but has been restricted by incremental salary growth linked to length of service. Savings in staff costs might also be achieved by tackling variations in sickness absence rates across the NHS.

The NHS buys goods and services in large volumes but, as individual organisations tend to procure separately, it is almost certainly not maximising its collective purchasing power. There is a growing move by some NHS providers to collaborate in order to drive down prices, but such standardisation is difficult to achieve in a devolved NHS system.

Capital expenses – a key cost factor for the acute sector – might also be reduced. Private finance initiative (PFI) schemes, which established public-private partnerships to fund public infrastructure projects, have sparked considerable debate and, while attempts are being made to reduce costs by renegotiating contracts, there appears to be little incentive for investors to make concessions.

Can we do more for less?
There is certainly scope for the NHS to do more for less, and the last few years have shown that savings can be made by tackling inefficiencies. Unfortunately, NHS leaders are now questioning how sustainable this strategy is, with many suggesting that the early savings have been achieved by picking off easy targets.

4. Do things differently

The scope for ensuring sustainability appears limited when considered within the context of current service delivery. There is a growing consensus that services need to be transformed in a way that improves quality, while also making them more efficient and sustainable.

Ensuring services are safe for patients is the primary driver for change. Variations in quality are not just harmful for patients, they can also prove expensive if patients are not treated effectively. There is clearly a discrepancy between the quality of care during the week in the NHS and at weekends, which will be difficult to tackle within current configurations.

Parts of the NHS indicate that they are over-supplying their local populations, while other providers are close to maximum capacity. If some services could be rationalised, a local health economy may reach a more optimal level of supply across a larger geographic area.

Many care pathways are also currently designed in a way that can often be unnecessarily expensive and inconvenient – for example, fragmenting services. Redesigning services in a way that better integrates the divide between primary and secondary care could focus services much more sustainably around the needs of patients, rather than buildings.

Can we do things differently?
Regardless of the rationale, such plans are often controversial with the public. Moves to amalgamate units have been, in some cases, negatively received and local loyalties to local services have tended to have a strong impact. As a result, it can be difficult to communicate the case for change in local services, even when there is a good clinical case for doing so.
Conclusions

There are demands and cost pressures on all health systems across the developed world. Ideally, we would prefer to manage these demands by encouraging a healthier society that has less immediate need to access healthcare. Doing so may mitigate the pressures imposed on the health system by demographics and the rising cost of developing and delivering modern services. However, the most likely scenario for the NHS is one of tough times.

Over the last decade, pressures on the NHS have commonly been met with increases in government spending. However, for a number of reasons, this is no longer an easy option. Instead, the NHS is confronting the need to consider a number of tough choices for the future. So far, it has been generally accepted that doing nothing is not an option, and that the most appropriate response is to focus on achieving efficiency savings. However, this choice is developing into a progressively difficult challenge.

There is mounting evidence to support the need for redesigning services to unlock more sustainable efficiencies, while remodelling services around the needs of patients. This would make it possible to reduce the need for patients to be treated in the acute sector and allow them to be more appropriately cared for in their own communities. Making this choice and delivering this vision will not be easy and will not be achieved without public support, which has proved difficult to win up to now.

The choices facing the NHS are not without challenges or consequences, and all will need serious and sensible public deliberation. This Briefing, and the more detailed report, are intended to stimulate just such a debate.

For more information on the issues covered in this Briefing, contact paul.healy@nhsconfed.org.

Further information

NHS Confederation Factsheet: Tough times, tough choices: an overview of NHS finances.
NHS Confederation Factsheet: Tough times, tough choices: how does the financial situation compare?
NHS Confederation (2012) Papering over the cracks: the impact of social care funding on the NHS.

Our work

This Briefing forms part of our work programme on Rising to the financial challenge. To read more about our work in this area, see www.nhsconfed.org/finance.