



Health Committee

House of Commons London SW1A 0AA

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From Dr Sarah Wollaston MP, Chair

Rt Hon Philip Hammond MP
Chancellor of the Exchequer

26 October 2016

Dear Chancellor,

We write, ahead of the Autumn Statement, following a brief inquiry by the Health Committee into the current state of NHS finances. Our inquiry follows the report of a more comprehensive look at the impact of the Spending Review on health and social care which we published in July.

Our most recent inquiry, in the course of which we took evidence from representatives of those responsible for managing NHS finances on a day-to-day basis, as well as from the Secretary of State and the Chief Executives of NHS England and NHS Improvement, clearly demonstrated the financial pressure facing the NHS. We write as members of the Health Committee to express our concern that the extent of this pressure is not sufficiently recognised by the Government.

The current situation

“£10 billion for the NHS”

The continued use of the figure of £10 billion for the additional health spending up to 2020–21 is not only incorrect but risks giving a false impression that the NHS is awash with cash. This figure is often combined with a claim that the Government “has given the NHS what it asked for”. Again, this claim does not stand up to scrutiny as NHS England spending cannot be seen in isolation from other key areas of health spending.

The £10 billion figure can only be reached by adding an extra year to the spending review period, changing the date from which the real terms increase is calculated and disregarding the total health budget. A substantial part of the increase in funding to NHS England is being funded by reductions in areas of health spending which fall outside NHS England’s budget, such as the public health grant to local authorities, and education and training funded through Health Education England. Those reductions amount to £3.5 billion in real terms, at 2015–16 prices, between 2014–15 and 2020–21. The overall impact is that total health spending—the Department of Health’s budget—will increase in real terms, at 2015–16 prices, by £6 billion between 2014–15 and 2020–21. If the spending review period is considered—2015–16 to 2020–21—that increase is £4.5 billion. Whilst the settlement may appear generous in comparison to some departments, the

inflationary pressures for the health service are far greater in coping with a rapidly changing demographic and escalating demand.

The reality of taking such a substantial portion of the additional money granted to the NHS from other areas of health spending is that this puts at risk the achievement of the Five Year Forward View. The 5YFV called for a “radical upgrade in prevention and public health”. Instead, we have seen radical reductions in public health spending. The long term sustainability of the NHS depends on action to reduce the rate at which the demands placed upon it are increasing. All the indicators suggest that demand is continuing to grow and that we need to go further on prevention, especially if we are to make inroads into widening health inequality.

Social care

Of more immediate concern even than the reductions in spending on public health and prevention, however, are the reductions in spending on social care which have been seen over recent years. We have heard that these reductions are having a serious impact on the NHS. The Care Quality Commission’s latest State of Care report reaches the following conclusion:

State of Care finds that the sustainability of the adult social care market is approaching a tipping point. This view is based on the evidence of inspections, information received through our market oversight function, and external data.

The fragility of the adult social care market is now beginning to impact both on the people who rely on these services and on the performance of NHS care. The combination of a growing and ageing population, more people with long-term conditions, and a challenging economic climate means greater demand on services and more problems for people in accessing care.

This is translating to increased A&E attendances, emergency admissions and delays to people leaving hospital, which in turn is affecting the ability of a growing number of trusts to meet their performance and financial targets.

The evidence we heard over the course of our two most recent evidence sessions indicates that unless urgent action is taken to improve the state of social care and thus mitigate the effects on trusts which the CQC describes, the NHS cannot be expected to deliver the Five Year Forward View.

Capital

A further requirement for the achievement of the 5YFV is the availability of capital. Not only are many NHS facilities already struggling to cope with existing demand in buildings designed for much smaller numbers and different options for treatment, but the wider transformation of services which will be necessary to put the NHS on a sustainable footing will require the investment of adequate capital resources. That investment needs to be made now if the necessary longer-term savings are to be made. Yet the capital allocation for health—already declining in real terms over the spending review period—has been repeatedly raided to fund revenue overspends. The Government cannot claim to have “fully funded” the Five Year Forward View while the capital budget remains so constrained and while instead of being used to achieve the transformation of services required for the achievement of the 5YFV it is repeatedly plundered to shore up revenue spending.

The financial challenge to the NHS

The financial challenge facing the NHS in the current year is considerable. Officially, the deficit in NHS trusts and foundation trusts in 2015–16 was £2.45 billion. We heard that the real figure, taking into account non-recurrent savings, capital to revenue transfers and the raft of accounting adjustments which the Department of Health applied to ensure that it did not breach its voted spending limit, was over £1 billion higher. The consequence is that what looked like a significant increase in funding to the NHS between 2015–16 and 2016–17 is now considerably less significant. Further efforts will need to be expended on ensuring that the sector reaches financial balance in 2016–17—efforts which, as the Comptroller and Auditor General observed in his report on the Department of Health’s 2015–16 accounts, divert attention from the more important long-term task of putting the NHS on a more financially sustainable footing.

Our fear is that, given the “U-shaped” trajectory of increases in funding for the NHS over the Spending Review period, these short-term pressures will become overwhelming. As the Chief Executive of NHS England pointed out to us in oral evidence, despite the real-terms increases set out in the Spending Review, per capita funding for the NHS is projected to be flat in 2017–18, and actually to fall in 2018–19. That calls into question the ability of the NHS to maintain services in the latter part of the Spending Review period—and reinforces the danger of cutting spending on preventative and public health measures which could help to slow the rate of demand growth. Very similar issues are being faced in the health services in the rest of the UK.

Comparisons with other departments

There have been suggestions that the NHS should learn from the cuts which have been made to Home Office and Ministry of Defence budgets. We are concerned that such arguments do not take into account the far higher inflationary pressures on the NHS that arise from an ageing population. From mid-2005 to mid-2015, the number of people aged 65 and over in the UK increased by 21%; the number aged 85 and over increased by 31%.

We do not doubt that there are efficiencies to be made. In our report on the impact of the Spending Review, we noted the work undertaken by Lord Carter, and that done by Professor Tim Briggs on tackling variation in clinical services, which has produced efficiency savings and improved the quality of care. However, public expectations of the health service, and the continued rise in demand for its care produced by an increasing and ageing population, mean that the measures which could be taken in some government departments are not acceptable in the NHS. The evidence we took from NHS Providers and NHS Clinical Commissioners illustrated the consequences—including rationing of care and cuts in service provision—which are already being proposed to achieve the kind of savings which are being demanded of the NHS in this spending review period.

Our requests of the Government

The Autumn Statement

Ahead of the Autumn Statement, therefore, we wish to make two requests of the Government. The first is that it seriously consider a means of increasing the capital funding available to the NHS. We note that the Sustainability and Transformation Plan process should soon produce an indication of the capital needs of the NHS if the necessary progress is to be made towards long-term financial sustainability. The expectation is that the needs will far outstrip the availability of capital so far announced.

Adequate access to capital is essential if the aims of the Five Year Forward View are to be met.

The second is that the Government respond to the crisis in social care provision. The social care precept has been entirely swallowed up by meeting the demands of the living wage and the rest of the funding settlement for social care is backloaded with a small increase not arriving until later in the review period. Numerous sources testify to the impact of the real terms cuts to social care not only on the vulnerable people who rely on care, but also on NHS services. There is an emerging consensus across the NHS that any additional money which might be available in the Autumn Statement should be directed first towards social care. We support that view.

Revenue funding in the middle years of the Spending Review period

Beyond the Autumn Statement, we consider that the Government needs to take a long, hard look at the consequences for the NHS of the middle years of the revenue funding settlement announced in the Spending Review. The Chief Executive of the NHS told us plainly that the NHS did not get what it requested for those years: he says that as a result, the service has “a bigger hill to climb”. We consider this an understatement.

We have heard that the Sustainability and Transformation Plan process is producing some good early results, bringing system leaders from different institutions together, sometimes for the first time, to produce joined up plans for health and care services across their area. But we have also heard that the financial constraints of the spending review settlement are forcing some local leaders into producing STPs which are unrealistic and doomed to fail. They need to be supported. We ask that the Government assess the demands being placed on the NHS realistically, and make sure that it has the resources which will enable it to continue to provide the high-quality, universal healthcare, free at the point of need, which the people of this country value so highly. We join others in calling for an honest and open discussion about the future funding challenges and how to meet them.

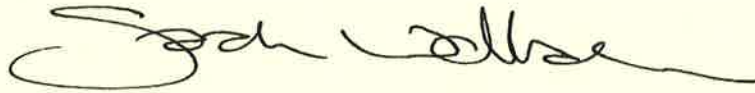
Conclusion

In conclusion, then, we look for your answers to three questions:

1. Will the Government support the long-term sustainability of the NHS by making available the further capital resources required for the success of the Sustainability and Transformation Plan process?
2. Will the Government address the crisis in social care provision which is impacting so severely both on vulnerable people who require care, and on NHS services for the wider population?
3. Will the Government look again at the NHS funding settlement for the middle years of the Spending Review, and commit to ensuring that the health service has the resources which it needs to meet the rising demands upon it?

We hope that our Chair will be able to meet you to discuss the Government's responses to these questions in advance of the Autumn Statement. We look forward to your response.

Yours sincerely,



Dr Sarah Wollaston MP
Chair of the Committee



Mr Ben Bradshaw MP



Dr James Davies MP



Emma Reynolds MP



Dr Philippa Whitford MP