

NHS financial sustainability

November 2024

About us

The [NHS Confederation](#) is the membership organisation that brings together, supports, and speaks for the whole healthcare system in England, Wales, and Northern Ireland. The members we represent employ 1.5 million staff, care for more than 1 million patients a day and control £150 billion of public expenditure. We promote collaboration and partnership working as the key to improving population health, delivering high-quality care, and reducing health inequalities. As such, we will predominantly focus on the health workforce rather than social care in this submission.

Executive Summary

NHS leaders welcomed the National Audit Office report into NHS Financial Management and Sustainability published in July 2024, which echoed many of the issues they have been raising with us as their membership body for a number of years. In particular, our members were pleased to see the emphasis the report put on the need to shift to longer-term funding cycles, which has been a key frustration and barrier to improving service experience and delivery over recent years.

Given the ever-rising demand for NHS care, putting the NHS on a more financially sustainable footing will require a more effective approach to reducing future demand for care – particularly for most costly, later stage treatments. This will require a shift in focus to earlier, more preventative services, which is something NHS leaders have long aspired to.

The government's commitments to shift more care from hospital to community, from illness to prevention and from analogue to digital are the right way to do this. However, realising this ambition will require a new approach to oversight and targets, sustained capital investment, new routes for private investment in estate and new mechanisms for paying for care services to encourage those services to integrate. In addition to longer-term cycles, funding cycles should be better aligned across Whitehall to enable better integration of health, care, housing and return-to-work services so departments can collectively deliver better value.

Background

1. NHS leaders welcomed the National Audit Office report into NHS Financial Management and Sustainability published in July 2024,¹ and particularly the emphasis it put on the

¹ NHS Confederation (2024) *NHS Confederation responds to NAO report on NHS financial management and sustainability*
<https://www.nhsconfed.org/news/nhs-confederation-responds-nao-report-nhs-financial-management-and-sustainability>

way they can use existing NHS funding better, and the challenges that the lack of autonomy using funding creates.

2. Our Integrated Care System (ICS) members also welcomed the recognition the report gave to the relative infancy of ICS, reflecting that they need more time to bed in to deliver more sustainable services in local communities and to deliver on their four core purposes².
3. As identified by the NAO report and later by Lord Darzi in his independent investigation into the NHS in England, there have been a number of key factors driving the current financial situation facing NHS services that have been outside of its control:
 - Over a decade of below historically average spending in health, and austerity driving real-terms cuts in spending to other public services, driving worse health outcomes and increasing demand on NHS services
 - A historic underinvestment in capital compared to other OECD countries, impeding efforts to improve productivity
 - An increase in the numbers of people living with multiple complex conditions, meaning they need to engage with a wider range of health and care services more frequently
 - Industrial action spanning 2022 – 2024 (at the time of writing, GPs are currently engaging in collective action and pharmacists have just voted in favour of strike action).³
4. The combination of these factors mean it will be extremely difficult for the NHS to meet the responsibilities set out in the 2024/25 planning guidance, and there will be substantial risks in relation to delivering safe care this winter. Nearly 9 in 10 of our members told us in the summer that they will not be able to meet their ambitions for the financial year within current budgets, and 31 of England 42 ICS are currently in deficit.⁴ This shows a systemic funding problem is at work, rather than financial mismanagement at a local level.
5. In our most recent State of Integrated Care Systems report, three of the top five answers given to the question of what ICS leaders consider the biggest challenges to them making progress against their four core purposes (improving population health and healthcare; tackling inequalities in outcomes, experience and access; enhancing productivity and value for money; and helping the NHS to support broader social and economic development), related to finances: current financial position of the NHS, current financial position of local authorities and lack of investment in social care.⁵
6. Although our members robustly aim to uphold the prudent management of public money, the fact that such a high proportion of ICS are predicting financial deficits suggests that

² The four core purposes of ICS are to:

- improve outcomes in population health and healthcare
- tackle inequalities in outcomes, experience and access
- enhance productivity and value for money
- help the NHS support broader social and economic development

³ DHSC (2024) *Independent Investigation of the National Health Service in England*

<https://www.gov.uk/government/publications/independent-investigation-of-the-nhs-in-england>

⁴ NHS Confederation (2024) *More staffing and patient care cuts likely unless government addresses growing NHS deficit*

<https://www.nhsconfed.org/news/more-staffing-and-patient-care-cuts-likely-unless-government-addresses-growing-nhs-deficit>

⁵ NHS Confederation (2024) *State of Integrated Care Systems 2023-24* <https://www.nhsconfed.org/publications/state-integrated-care-systems-202324>

financial distress is not down to individual financial mismanagement but rather systemic issues and the NHS delivery model.

7. The NHS Confederation considers the funding announced at the Autumn Budget on 30 October 2024 an important first step towards putting the NHS back on to a sustainable footing. We also welcome the government's commitment to more regular spending reviews and a five-year capital spending window.
8. Our members were particularly pleased to see the £3.1 billion announced for capital funding to help drive a boost in productivity and begin to address some of the maintenance backlog across the NHS estate. In summer 2022, nine in ten of our members told us a lack of capital investment was undermining their ability to tackle the elective backlog.⁶ However, some of this increase can be attributed to a capital to revenue transfer this year, artificially inflating the year-on-year increase.
9. Whilst the funding is welcome, particularly in the context of awards (or lack thereof) to other public services, the funding does need to cover a lot of expenditure, including new pay deals agreed by unions earlier in the year, the 40,000 additional appointments a week set out by the government in their election manifesto and to tackle the deficit many systems across England currently face.
10. Additionally, our members have expressed concern about the rise in Employer National Insurance Contributions.⁷ The policy that will provide rebates to NHS services to cover this cost, which is welcome, will not be extended to providers of NHS services in primary care, mental health and community (where GP surgeries, the VCSE and independent sectors hold NHS contracts.) One GP surgery in our membership with 42,000 patients has calculated it will see its costs increased by £100,000 per annum as a result of increased Employer National Insurance Contributions. This will reduce capacity in services as they will have to cut jobs roles in response or in some cases, face closure.
11. Amongst all this, our members also recognise that investment must come with reform and so will do everything they can to rise to the challenge so that the NHS can meet the government's expectations on productivity and performance improvements. We continue to work with NHS England the Department for Health and Social Care as they bring together the 10-year plan announced by the Secretary of State for Health and Social Care in September.

Operational improvements identified by the NAO

12. It has been the position of the NHS Confederation for a number of years, informed by conversations with our members across the whole breadth of NHS services, that the NHS requires a shift in culture of short-term funding decisions, driven by funding review cycles and incomplete funding allocations, frequently topped up with ringfenced non-recurrent monies.
13. Short-term funding cycles undermine the ability of services to be able to make multi-year funding commitments to projects that have the potential to drive changes in access, quality of care and outcomes. For example, at the end of March 2024, ringfenced funding

⁶ NHS Confederation (2022) *Lack of capital funding risking patient safety and waiting list recovery*
<https://www.nhsconfed.org/news/lack-capital-funding-risking-patient-safety-and-waiting-list-recovery>

⁷ NHS Confederation (2023), *Employer National Insurance rise could create the perfect storm for GP surgeries*
<https://www.nhsconfed.org/news/employer-national-insurance-rise-could-create-perfect-storm-gp-surgeries>

for virtual wards came to an end, meaning funding must now be drawn from wider urgent and emergency care budgets. This has led, despite documented [benefits](#), to the [stalling](#) of the expansion and use of virtual ward beds in 2024 after strong growth. The number of virtual ward beds occupied by patients increased by 38 per cent between July and December 2023, but by less than 1 per cent from the end of 2023 to May 2024.⁸

14. This delivery model of ringfenced, non-recurrent funding pots with complex reporting requirements also presents a significant challenge in the face of all three of the government's three shifts for the NHS.
15. Out of hospital care and preventative interventions (moving from a National to Neighbourhood Health Service, and from a focus on treating disease to prevention, to use the government's language), both require the longer-term investment that is currently largely absent from the operating model. In addition, returns on investment in terms of improved health outcomes can take years to become apparent. The focus of targets for activity, rather than health outcomes, compounds this. By focusing almost solely on 'downstream' care, the current approach to oversight and performance management disincentivise NHS leaders from shifting proportionately more funding towards community, mental health and primary care out of acute settings, as this would make it more difficult for them to meet their constitutional standards. The NHS Confederation has been calling for a review of national targets with a view to reducing the overall number and looking at outcomes measures over activity for some time.
16. On the government's third shift - from an analogue to digital system - major digital projects require front-loaded funding decisions that are not possible with the current lack of certainty about future budgets. Furthermore, our analysis indicates that that government needs to increase capital funding to at least £14.1 billion a year for the period of the next spending review (this is a £6.4 billion increase from the current budget of £7.7 billion).⁹ The NHS Confederation has recently published an options paper for the government setting out a number of ideas to raise this funding in the current economic context, including use of Mutual Investment Models to unlock private investment in NHS estate.¹⁰
17. This capital investment is also critical to the delivery of the government's flagship health pledge at the general election to ensure 92 per cent of patients have less than an 18-week waiting time for treatment during their first parliament in office.¹¹ Analysis we produced with Carnall Farrer identified digitising waiting list management, continuously validating the patient tracking list, creating elective hubs and centres of expertise for complex elective committed to care will all be critical to achieving the pledge, and all require additional capital investment for NHS services to deliver.
18. To drive all three of the government's shifts for the NHS, NHS England, HMT and DHSC need to agree longer-term funding cycles and better align these funding cycles, as well as with other key departments whose funding allocations have strong implications for the

⁸ NHS England (2024) *Virtual Ward* <https://www.england.nhs.uk/statistics/statistical-work-areas/virtual-ward/>

⁹ NHS Confederation (2023) *Investing to save: the capital requirement for a more sustainable NHS in England* <https://www.nhsconfed.org/publications/investing-to-save-NHS-capital-England>

¹⁰ NHS Confederation (2024) *Raising NHS capital funding: options for government* <https://www.nhsconfed.org/publications/raising-nhs-capital-funds-options-government>

¹¹ NHS Confederation (2024) *Achieving the 18-week waiting standard for elective care* <https://www.nhsconfed.org/publications/achieving-18-week-standard-elective-care>

work of the health service – in particular the Ministry for Housing, Communities and Local Government and the Department for Work and Pensions.

19. In order to realise the benefits of this, the planning guidance process should become aligned with these new funding cycles.
20. Whilst not a silver bullet, payment mechanisms can help boost allocative and technical productivity, including a shift to more preventative interventions. In her 2023 Review, Rt Hon Patricia Hewitt consideration of alternative payment mechanisms within the health system. Following this, we have undertaken work to research the benefits of new payment systems, we are working with several systems on pilots that we will be launching in the coming weeks.¹²
21. Different payment mechanisms and financial incentives are needed to shift a greater portion of funding to out of hospital settings and prevention. Outcomes-based payment mechanisms for multiple providers (across a whole care pathway) can incentive providers to work together to make best use of the collective financial resources. Outcomes-based commissioning was used effectively was in Oxfordshire between 2015 and 2020. A partnership of six providers including Oxford Health NHS Foundation Trust (lead provider), Restore, Response, Oxfordshire Mind, Elmore and Connection Support, and other provider mental health services came together to commission services for people of working age using mental health services. Evaluation of the measures agreed by the partnership found that the majority of the outcomes had been achieved and that physical health monitoring for mental health service users has increased. In addition to this, new services were created, joint working between providers improved and the voluntary sector had greater financial security. Financial constraints in the local health economy and a rise in out-of-area hospital admissions created challenges for the partnership, particularly in delivering large-scale change in service provision.¹³ During 2025/26, ICSs should be encouraged and support to trial different payment approaches, including outcomes-based contracts, and inform a more substantial change in the NHS Payment Scheme from April 2026.
22. Government needs to know whether such approaches are working and effective at shifting care from hospital to community and from sickness to prevention. The Hewitt Review in April 2023 recommended that DHSC, NHS England and HMT should agree a definition of what counts as prevention to help track spending over time and to identify whether funding is being used in the most effective way.¹⁴
23. In October 2024, we published a report with Newton and the Universities of Strathclyde and Southampton that interviewed ICS leaders to understand the barriers to them unlocking prevention. A key recommendation of this report was for an as definition, and a metric for preventative services (both NHS and local government spending) so a such a shift can be measured at national and local levels. This work should be broken into phases, starting with agreeing a workable definition that can be iterated, to allow ICSs to

¹² NHS Confederation (2024) *Unlocking reform and financial sustainability for the integrated age* <https://www.nhsconfed.org/publications/unlocking-reform-and-financial-sustainability>

¹³ NHS Confederation (2024) *Unlocking reform and financial sustainability for the integrated age* <https://www.nhsconfed.org/publications/unlocking-reform-and-financial-sustainability>

¹⁴ NHS Confederation (2024) *The Hewitt Review: where are we one year on?* <https://www.nhsconfed.org/long-reads/hewitt-review-where-are-we-one-year>

baseline consistently. This work should be supported by Cabinet Office and HM Treasury and include such targets in spending and public services agreements. This measure should inform delivery of the forthcoming NHS 10-year health plan.¹⁵

24. Better alignment of funding cycles would promote the ability of local services to work together to deliver for local communities, such as the Bedford Borough Warm Homes project. This project is funded by Bedfordshire, Luton and Milton Keynes Integrated Care Board, commissioned by Bedford Borough Council and run by the National Energy Foundation's warmth and wellbeing service Better Housing Better Health, to reduce health inequalities in the borough. Over 1,600 patients were invited to take part, because GP records showed that they could be at risk of fuel poverty, and they had a chronic health condition that could be made worse by living in a cold or damp home. Fifty-three households with residents who have a chronic health condition in Bedford borough benefited. They were offered home improvements that could make their homes warmer and/or less damp, with an average cost of £2,500. A further 320 households also received expert, impartial advice to help improve the energy efficiency of their homes and save them money. The evaluation of the scheme is ongoing, but it is expected the NHS will make savings of £358,000 against the total project cost, through reduced attendances at general practice and A&E. For example, residents whose chronic asthma was exacerbated by their cold or damp home are expected to see improvements in their health and need fewer appointments as a result.¹⁶
25. To break the cycle of continual deficits in the health service and incentivising short-term cuts which harm longer-term ambitions, we recommend that the government, at their next Spending Review return the NHS' annual real-terms funding to the historic average growth rate of 3.8 per cent as set out by the Health Foundation think tank.¹⁷ This would have extra funding implications for the devolved countries of the UK through the so-called 'Barnett consequentials'.
26. Despite the challenges, there are parts of the country where NHS leaders are managing to work against the odds innovatively with partners to drive improvements. North West London ICS faced a longstanding deficit, difficult relationships in the system with productivity challenges across the system. To tackle it, they undertook a needs analysis across the ICS in acute, community, mental health, primary care and Continuing Healthcare compared it with their areas of spend. This enabled them to identify gaps between resourcing and needs and where they were spending more than they needed to. The system also analysed productivity levels, including cost-weighted activity across different sectors. One of the root causes of excess expenditure in the acute sector was low theatre productivity. To address this, the ICS focused on increasing grip and control and ensuring basic processes (such as scheduling) were as effective as possible improving productivity and financial planning. Being open and transparent about resources, financial plans and performance data and ensuring that all the directors of finance worked together was key. Overall system theatre utilisation moved from 70 per

¹⁵ NHS Confederation (2024) *Unlocking Prevention in Integrated Care Systems* <https://www.nhsconfed.org/publications/report-unlocking-prevention-integrated-care-systems>

¹⁶ NHS Confederation (2024) *State of Integrated Care Systems 2023-24* <https://www.nhsconfed.org/publications/state-integrated-care-systems-202324>

¹⁷ The Health Foundation (2024) *Health care funding* <https://www.health.org.uk/publications/long-reads/health-care-funding>

cent to 83 per cent and the system has consistently achieved over 80 per cent for 12 months. North West London ICB has also submitted a breakeven plan for 2024/25.¹⁸

Longer-term challenges to the NHS' financial sustainability

27. As identified by the NAO report, an ageing population and increasing numbers of people living with multiple long-term conditions means increasingly complex patient need, which drives demand for services.
28. The new government's mission approach to health provides an opportunity to reset short-termism if it takes a truly cross-government approach that seeks to build health and not just focus on NHS policy. Any efforts to improve NHS financial sustainability have to come lock-step with wider efforts to improve health outcomes in order to bend the demand curve for services which without intervention, will continue to accelerate.
29. A key policy change needed for government to do this is to restore the public health grant to 2015/16 levels, through increasing it by at least £900 million a year. Since 2015/6, this grant, delivered through local authorities, has been cut by 28 per cent in real terms per person¹⁹, as well as a wider assessment of local authority budgets, who in many parts of the country are struggling to deliver on even their statutory commitments.²⁰
30. It is also critical that the government's Health Mission Board is cross-government in approach and constitution in order to ensure government health policy can drive improved health outcomes. Conversely, the remaining four mission boards also need a health representative to ensure proper consideration of the health implications of policy changes driven from other Whitehall departments.²¹
31. With a shift to longer-term, better aligned funding cycles across Whitehall, a move to outcomes-focused targets and a true commitment to the mission approach government have set out, there is an ability to move towards a future where the NHS is financially sustainable. Whilst we should not underestimate the entrenched ways of working across the system (here meaning across Whitehall, ALBs and public services at the local level), change is possible, and we are working with members to continue to support them to play their part in that change.
32. We call for a real term at least 3.8% increase annual revenue funding increase over the next decade so that the NHS can meet long term demand.

¹⁸ NHS Confederation (2024) *State of Integrated Care Systems 2023-24* <https://www.nhsconfed.org/publications/state-integrated-care-systems-202324>

¹⁹ NHS Confederation (2024) *Building the health of the nation: Priorities for a new government* <https://www.nhsconfed.org/publications/building-health-nation-priorities-new-government>

²⁰ Local Government Association (2024) *Local Government White Paper* <https://www.local.gov.uk/publications/local-government-white-paper>

²¹ NHS Confederation (2024) *Improving our nation's health: a whole government approach to tackling the causes of long-term sickness and economic inactivity* <https://www.nhsconfed.org/publications/improving-our-nations-health-whole-government-economic-inactivity>