NHS Confederation

Spending Review Phase 2 Representation

Spring 2025

Key points

- Health drives economic growth. Every £1 in health spending correlates with £4 in economic activity, rising to £14 in economic activity for every £1 spent on primary and community care.
- Reform is essential to putting the NHS on a financially sustainable footing. Local leaders back the government's reform agenda and are working hard to support and implement it. To boost productivity and deliver best value, the existing capital regime should be overhauled. This should include streamlining the levels of approvals for business cases including a departmental approval committee and simplifying Strategic Outline Case requirements. The NHS Confederation has set out proposals for reforming the NHS capital regime to achieve best value from existing spend.
- HM Treasury should commit to a new model of private investment in capital to help bridge the funding gap and boost productivity. The NHS Confederation has already set out options for raising NHS capital funds and will publish further detail on a potential new private investment model ahead of the Spending Review. The Government's forthcoming 10-year infrastructure strategy provides the perfect opportunity to introduce new solutions.
- NHS leaders welcome the £22.6bn additional health revenue spending committed at October 2024 Budget and are working hard to deliver best value for money and boost efficiency. The 4 per cent efficiency savings required of NHS providers in 2025/26, set out in planning guidance, is historically difficult. It is almost double last year's 2.2 per cent and more than four times the NHS's historical rate of productivity growth at 0.9 per cent. Further capital investment and reconfiguring local services are key to unlocking productivity and better value from existing revenue spend.
- To boost NHS productivity to 2% per year, at least an additional £3.3bn capital spending is required over the next 3 years. The £3.1bn extra announced at the October 2025 Budget was £3.3bn short of the £6.4bn NHS leaders calculate is needed for 2% productivity growth.

Overall priorities for NHS leaders

The NHS Confederation wholeheartedly supports the government's three 'shifts' towards care closer to home, digitisation and prevention. The need for these shifts has been long recognised, yet successive governments have failed to achieve them.

What is different this time, and key to success, is a more devolved and integrated structure, better set up to drive reform via the introduction of integrated care systems (ICSs), introduced by the Health and Care Act 2022. The 10-year health plan provides the opportunity to move towards a more devolved and integrated structure working to deliver a new model of care at neighbourhood level which is community engaged, empowering, personalised and holistic. To succeed where past efforts failed, the 10-year health plan must harness ICSs to drive reform and use other levers of government coherently. Given 80 per cent of health outcomes are driven by wider determinants than just healthcare, the plan should deliver a cross-sector approach to improve population health outcomes and tackle health inequalities.

Ensuring the ambitions and proposals made in the 10-year health plan are properly resourced should be the key focus on this second phase spending review and the government's forthcoming 10-year infrastructure strategy.

While we joined many in welcoming the funding boost announced at the first spending review, we, like the Nuffield Trust, were concerned once further detail emerged about how much was 'new' money, and how much was money already committed to existing pay deals, pension recalibration and in-year pressure. A large part of 2023/24's NHS funding increase came from the Department's own allocation, meaning less money to fill the Department's other stated priorities like health inequalities, social care and shifting care towards the community. This won't be compatible with the three shifts.

Instead, the government must use this second phase to set out a sustainable funding settlement that addresses both the acute needs of the NHS – elective waiting lists first amongst them – and the long-neglected parts of the Department's purview that health leaders need to complete the three shifts. The 4% annual real terms revenue increase at the October 2024 Budget should be sustained through the course of the Spending Review, along the lines of what the Health Foundation says is necessary to improve services over the coming decade. We welcome the government's commitment in the 2025/25 planning guidance to "stand behind local leaders to make the best choices to meet the needs of their local populations, including where this means reducing or stopping lower-value activity." To boost productivity, it's essential ministers follow through and back local leaders make difficult and sometimes unpopular decisions to reconfigure service, including closing some lower value services.

We were more encouraged by the increase in capital funding announced in the Autumn. Although that also suffered from an inflated 'increase' owing to an in-year underspend caused by the Department redirecting £0.8bn capital towards revenue. While the Chancellor's Autumn announcement that changes to fiscal rules should mean that this will not happen in future, health leaders want a strong, clear statement from HM Treasury and the DHSC that this is the case. Similarly, we look forward to the Chancellor fulfilling her

pledge in the Autumn to set out rolling five-year health capital envelopes. These should be cascading down to Integrated Care Boards as soon as possible.

The UK has historically underinvested in capital compared to other OECD countries with Lord Darzi identifying a £37 billion shortfall. Both Lord Darzi and various independent think tanks identify poor capital investment as an impediment to further productivity growth.

To plug this gap, NHS leaders estimate that the NHS needs an additional £6.4 billion per year in capital (a total additional £19.2 billion investment over three years). This is essential to efforts to boost NHS productivity growth to 2 per cent per year – a key requirement of the NHS Long Term Workforce plan. We acknowledge Phase One's £3.1bn increase, but this still falls far short of what a health service with a £13.8bn maintenance backlog needs. This leaves a £3.3bn capital funding gap for the next two years – addressing this is key to boosting productivity and achieving better value from existing revenue spending.

This is why we recently published a paper investigating different models to fund local health leaders' capital needs. It suggests that government should learn from international and domestic models to consider innovative approaches to use private capital to invest in NHS estate. We covered four main categories:

- **Government borrowing** (including Treasury borrowing and the Public Works Loan Board)
- **Leveraging existing assets** (including cash reserves and existing estate)
- **Private investment** (including private finance initiatives/PF2, third-party development and buy-back, mutual investment models, infrastructure and investment partnerships and others that learn from previous experience)
- **Third-party ownership** (classic third-party development, shared ownership and pay per use).

Given the scale of the maintenance backlog and the pressing need for investment in estate, digital and equipment to boost NHS productivity, the Treasury's forthcoming 10-year infrastructure plan should open new routes for private investment in public sector capital. The NHS Confederation will publish and share more detailed proposals ahead of the Spending Review in June. Alongside this, the Department of Health and Social Care and NHS England would need to reform capital funding rules to allow health leaders to fund projects that deliver value for money and excellent patient outcomes.

To get best value from existing capital investment, the Treasury should work with the Department of Health and Social Care and NHS England to reform the NHS capital regime. The NHS Confederation has set out 16 practical proposals for reforming the NHS capital regime.

Sector specific investment

As the only body that represents the entirety of the NHS, our networks have set out the following issues to address in specific sectors:

- **Community services** play a vital role in the NHS. Accounting for around 13 per cent of all daily activity, they provide a range of services in a variety of setting helping keep people well, treat and manage acute illness and long-term conditions and supporting people to live independently.

- Every pound committed to community services can reduce acute costs by £1.31, whilst those systems who already spend more than the average on the community services record 15 per cent fewer non-elective patient admissions and 10 per cent fewer people being taken to hospital in an ambulance per year.
- Work should be undertaken to **develop a target and metric** to incentivise organisations and systems to shift spending from hospital to more preventative community and primary care by the end of this parliament. This should be included in the National Oversight and Assessment Framework and the CQC's single assessment framework
- The ambition for the NHS to be **digitally advanced** must be underpinned by adequate investment in crucial infrastructure – digital equipment, IT and digital tools.
- The 10-year health plan has set 'analogue to digital' as a one of the key three shifts for improving and galvanising improved care for the NHS. We welcome the government's vision for a modernised NHS and our members welcome the ambition to innovate and deliver more through digital and technological advancement. To do this the Government and Department should set out a long-term plan for digital investment.
- **Primary care** provides more appointments than ever, despite falling investment. In 2023 general practice provided over 36 million more appointments than pre pandemic, and this year is set to deliver even more. This year alone community pharmacy has provided almost 70 million unfunded appointments. With the shifts in priority to care closer to home and prevention, activity and expectations of primary care are set to increase.
- DHSC & HMT should act immediately to invest in a GP recruitment and retention fund, with England having almost 16% fewer fully qualified GPs than other OECD countries relative to population.
- Integrated Care Boards should be financially supported with the means to standardise and level up locally commissioned services and locally enhanced services. Many of these services play a vital role in preventative care and have funding formulas that pre-date the formation of CCGs.
- Significant capital and revenue investment is required to support the renewal of the Primary & Community Estate; this may require settling historic debts and disputes between NHS providers, NHS Property Services (NHSPS), and Community Health Partnerships (CHP) to ensure the utilisation of existing premises.
- **Mental health** problems account for 20% of the burden of disease but only 10% of NHS spending and the National Audit Office estimates that only one in three people with mental health needs has access to services.
- We welcomed the government bringing forward the new Mental Health Bill. Successful implementation over the next 10 years will depend on expanding and upskilling the workforce and funding capital improvements to the mental health estate and digital infrastructure.
- Achieving true parity of esteem, which is a key commitment of the government, will require sustained focus and investment over several years. This spending review is the opportunity for the government to show their commitment to parity of esteem.
- The Care Quality Commission has repeatedly raised concerns about the physical condition of mental health buildings and the recent Health Services Safety

Investigations Body report said increased capital funding will help enhance staff productivity and patient experience and is vital to the success of the MHA reforms.

- **Social care** delayed discharges undermine quality and effectiveness of care and come at great expense to the NHS. NHSE data from September 2024 shows 38% of delayed discharge days were attributable to social care and a further 26% were attributable to NHS and social care, both excluding housing. In mental health, the lack of supported housing options and social care support are major factors in delayed discharge. Early intervention is key to preventing serious mental health issues and is an effective use of funding. Interim findings of NHS Confederation's commissioned work looked at programmes that the evidence shows are most economically effective which include; evidence-based parenting programmes, early access support for CYP, more digitally enabled talking therapies and mental health crisis provision.
- For example, Hampshire and Isle of Wight Healthcare NHS Foundation Trust partnered with Citizen's Advice Winchester District to develop an advice service on mental health wards, including housing, employment and social welfare. The first-year cost of the service was £24,000 and independent economic analysis calculated a return on investment of 1,306 percent.100 percent of mental health staff saying it has reduced their workload, so they are able to provide support for the mental health needs of their patients, rather than supporting their non-healthcare needs. There are huge opportunities to scale-up this service across the country.
- The financial impacts of increased employment costs to VCSE and other non-statutory organisations providing NHS services, such as pay-uplifts and national insurance contributions need to be included when funding settlements are allocated to the NHS.
- **Public health** needs funding that is long term and sustainable. The Government should restore the public health grant to its 2015/16 real-terms per person value. Restoration of the public health grant should be accompanied by a readjustment in how funding is allocated to solve longstanding inequity between LAs.