HFMA response
February 2019

HFMA evidence to the Public Accounts Committee's inquiry into the financial sustainability of the NHS

Who we are

The Healthcare Financial Management Association (HFMA) is the representative body for finance staff in healthcare. For the past 60 years, it has provided independent and objective advice to its members and the wider healthcare community. We are a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through our local and national networks. We also analyse and respond to national policy and aim to exert influence in shaping the wider healthcare agenda. We have a particular interest in promoting the highest professional standards in financial management and governance and are keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

Summary

This submission is based on the views of our members and draws on HFMA publications and research.

Key points:

- The HFMA welcomes the additional funding for the NHS and the vision set out in the *NHS long term plan*, however the scale of the challenge to return the system to financial sustainability must not be under estimated.
- The contradiction between integrated system working and individual statutory accountability for NHS organisations needs to be addressed.
- Workforce availability continues to be a significant challenge in meeting both current provision and the system transformation expected. Health Education England's workforce strategy needs to deliver appropriately skilled staff, quickly.

- The current system for managing and funding capital expenditure is too combative, cumbersome and complex. Uncertainty around future levels of capital funding make planning for the future difficult.
- Historic debt, interest charges and the resultant lack of cash for some organisations needs to be addressed.
- The outcomes of the green paper on adult social care and the 2019 spending review are critical to supporting the ambitions of the *NHS long term plan*.

Detailed response

1. The additional funding of £20.5bn (a real term increase of 3.4% per annum over the next five years) announced by the Prime Minister in June 2018 was a welcome boost for a healthcare system struggling to meet rising demand due to factors such as the ageing population and the increasing number of people living with single and multiple chronic conditions. However, expectations of what is possible with this funding must be realistic. Research carried out by experts at the Health Foundation and the Institute for Fiscal Studies[1] found that a funding increase of 3.3% would only be sufficient to maintain provision at current levels, but not improve them. Addressing existing financial shortfalls, meeting current demands on the system and workforce challenges mean that the transformational change envisaged may not be easily achieved.

2. With finite resources, the question of how the NHS can achieve best value from each NHS pound for the population is essential. This requires a whole system approach to change the way healthcare is delivered with professionals working together across organisations, both within and outside of the NHS. Close collaboration between clinical and non-clinical staff is essential to move to delivering value-based healthcare. Measuring outcomes that matter to people is a top priority in driving value, although difficult to do and generally at an early stage of development.

3. The HFMA and its members support the vision of the *NHS long term plan* (the Plan) and the intention to create a sustainable NHS that is fit for the future. However, a number of areas need to be addressed to enable this vision to be delivered effectively by those tasked with commissioning and providing services at a local level.

4. The Plan, while intended to stand alone, is contingent on the outcome of a number of other areas such as the green paper for adult social care and spending review settlements for NHS capital, public health funding and the supporting workforce strategy from Health Education England.

Development of integrated care systems

5. The move to greater integrated working is welcomed by our members and it is recognised that reducing fragmentation of services has a direct impact on patient experience, and improves use of resources, across the whole health and care system. There is a mixed picture of developing arrangements across the country. The Plan states that the whole of England will be covered by an integrated care system (ICS) by 2021; a challenging timescale for areas still at the early stages of their integration journey with little clarity around the fall-back position for those areas that do not meet the necessary criteria by the deadline.

6. Sustainability and transformation partnerships (STPs) and ICSs face a number of governance and accountability challenges within the current NHS framework but represent an essential way forward in bringing together all the key players. An ongoing concern for the HFMA's members is the implementation of effective governance arrangements in an integrated system and how this interacts with the statutory obligations of individual bodies.

7. Although members are seeing a picture of improving collaboration and positive relationships, a number of challenges remain. These are particularly around a lack of accountability to and from

[1] Institute for Fiscal Studies and The Health Foundation, *Securing the future: funding health and social care to the 2030s,* May 2018

individual organisations; lack of clarity of the local vision; the need for greater transparency in decision-making processes; and the time required to support significant cultural change.

8. System working is largely based on voluntary partnerships, requiring trust, shared objectives and shared information. The move towards system control totals grants more flexibility for NHS services to manage funding for local needs but, under the current architecture, accountability remains with individual organisations. They are also a high-risk proposition for organisations in financial balance who may be financially disadvantaged through being tied to a system in overall deficit.

9. To be effective, systems must have a clear view of how money flows around the system. The Plan has the potential to make a complex system even more so, through the introduction of primary care networks and financial management for different elements of care at a system (population > 1 million), place (population 250,000 – 500,000) or neighbourhood level (population approximately 50,000) as well as within organisations.

10. Managing risk across a system is challenging and system risk can have quite different impacts on the different parties. Each party needs to mitigate that risk so that their organisation continues to operate within its statutory duties, while maintaining a system focus.

11. While recognising the opportunities presented by system working, the HFMA has considered the governance and financial risks created. We have published a series of briefings looking at aligning resources across a system[2]; system decision making[3]; and system risk management[4].

12. The move away from competition to a more collaborative way of working is welcomed but raises questions about the impact of current competition rules and where large private providers fit into the new systems. Our members have expressed concern about how far they can go in redesigning services as a system without being subject to legal challenge for doing so.

Sharing information

13. Information governance, for example information sharing, continues to be a challenge for health and care bodies but is essential to realise the aim of delivering joined-up services for patients and improving population health as described in the Plan.

14. Continued difficulties in gaining access to data, understanding when and how it can be shared, and developing interfaces between computer systems mean that the data required to support the development of population health may not become available in the timescales expected.

Workforce

15. The challenges facing the NHS workforce are widely documented. The ability of organisations and systems to make the changes required to develop a sustainable NHS and deliver the aspirations of the Plan, are severely limited by the lack of qualified workforce to draw upon. The HFMA is keen to see the anticipated workforce strategy that supports the Plan, which needs to quickly deliver a sufficient, and appropriately skilled, workforce in order to avoid adverse impacts on quality and patient care.

16. Workforce issues will continue to impact the financial position of trusts through a need to buy in extra support or incur contractual penalties for not being able to deliver commissioned services.

17. The NHS faces additional workforce issues that are the result of other government policies – for example, the apprenticeship levy is a cost pressure for most NHS bodies as they are unable to engage sufficient apprentices in appropriate roles. Similarly, NHS bodies are reporting that they are losing senior staff who are taking early retirement or reducing their hours as a result of the annual and lifetime allowance for pension tax relief.

[2] HFMA, *How do you align resource plans across the system?* October 2018
[3] HFMA, *How do you support effective system decision-making?* November 2018
[4] HFMA, *How do you ensure robust system risk management arrangements?* December 2018

18. As the NHS and social care work ever closer together, an increasing number of health services are delivered by local authority staff. It is likely that the workforce will move between health and care organisations, however the differing pay and pension structures can make this complex.

19. The cultural change of moving from a competitive regime to a collaborative approach must not be underestimated when considering the skills that both clinical and non-clinical staff require in order to work effectively in integrated systems.

Financial balance

20. Returning the system to financial balance is one of the key objectives of the Plan. It is essential that the plans to do this are realistic and recognise the scale of problem together with the pace of change that is possible, while meeting the other significant objectives in the Plan. Early views of members is that the financial challenge will continue into 2019/20 despite the additional funding.

21. The financial position of NHS organisations is well documented. Overall the system balanced in 2017/18, with the provider deficit offset by a surplus in the commissioning sector. For 2018/19 however an additional £600million funding has been transferred from the Treasury to the Department of Health and Social Care (DHSC) to cover cost pressures[5]. The scale of the task to return the NHS to financial balance should not be under estimated.

22. Uncertainties around capital, historic debt and workforce as described in this document, all limit organisations' abilities to meet financial sustainability targets.

Capital funding

23. The current system for managing and funding capital expenditure is too combative, cumbersome and complex. The HFMA published NHS capital – a system in distress?[6] in October 2018, which explains the very complex arrangements in place for managing capital in the NHS and made recommendations on how the regime could be improved.

24. The DHSC has to manage capital expenditure within the capital departmental expenditure limit. Local NHS bodies have different capital constraints depending on the type of organisation they are and their financial position – NHS foundation trusts who are not in financial distress do not have any constraints other than the funding available for capital expenditure, while NHS trusts have to meet several targets as well as get approval for all capital expenditure over £15million.

25. To ensure that the departmental limits are met, access to capital for those bodies with capital constraints or those who need to borrow to fund their capital expenditure is slowed down. This means that NHS bodies are struggling to plan their capital programmes and are focusing simply on the immediate problems rather than transformational programmes. NHS bodies are reporting that patient care is now being affected by the increasing levels of backlog maintenance and slippage in capital programmes.

26. Alongside this, NHS Improvement and the DHSC are concerned that local NHS bodies are not forecasting their capital spend accurately. NHS bodies report that they cannot forecast as they have no certainty over access to funds or are asked to spend funds within unrealistic timescales. The capital allocation for future years is unknown.

27. Any future capital funding system needs to be open, transparent, fair, equitable, clear, cooperative, timely, streamlined, consistent and take a long-term view. It also needs to work to meet system wide population health objectives.

Historic debt

28. The financial performance of local NHS bodies, both provider and commissioner, is varied across the country and the sector, although the real difficulties are seen mainly in the acute provider sector. Some NHS bodies are in financial balance, but others have been struggling for

[5] tbc
[6] HFMA, *NHS capital – a system in distress?* October 2018

many years now. Those in the latter category have often had to borrow simply to pay their bills and are unable to pay off their debts as they become due.

29. Historic debt and the resulting lack of working capital, in particular cash, means that senior management time and resource is spent on working capital management rather than on transformational change to improve the patient experience. NHS bodies with historic debt may also struggle to recruit staff who would prefer to work in an organisation which is not focused on working capital management to the detriment of patient care.

30. While we support the aim of all NHS bodies being in financial balance within the next five years, the levels of historic debt will not be able to be repaid within that timeframe. We are concerned that those bodies with that debt will never be able to achieve financial stability and will always be paying interest on historic debt which may be better used on patient care. We are aware that organisations with a deficit control total are required to make additional efficiency savings which further impacts on the level of resource available for patient care. Overall debt in individual organisations is not a problem at the group DHSC level but has a very real local impact which affects staff and patients.

Dependencies

31. The success of the Plan, and hence the future sustainability of the NHS, depends upon the outcomes of a number of other government ambitions.

32. The links between health and social care are growing ever stronger and the publication of the green paper on adult social care will set out the long-term sustainability of this crucial service. It is essential that this paper addresses not only the recognised demographic challenge but also considers the wider determinants of health such as housing, along with other issues already raised in this document such as data sharing and system integration.

33. The outcome of the 2019 spending review will have a direct impact on the ability of the NHS to achieve the ambitions set out in the Plan. This submission has set out the importance of the capital regime to meet the Plan objectives but the level of capital funding available is yet to be determined. The 2019 spending review will also set the funding available for other areas of local government which have a direct impact on the NHS, such as support for public health and the prevention agenda.

34. Health Education England is yet to publish the workforce strategy for the NHS to support the Plan. This strategy again depends upon the 2019 spending review and is essential to the future sustainability of the NHS.

35. The HFMA's members strive to support their organisations to deliver the best health services for the population but can only go so far without the support of these other key areas.

Regulation

36. At a national and regional level NHS England and NHS Improvement are combining their organisational structures to give consistent messages to both NHS commissioners and providers. We welcome this move as the previous, sometimes disjointed, approach of NHS England and NHS Improvement has proved frustrating for our members. It is essential that this new approach is reflected in the local working practices of these regulators.

Legislative boundaries

37. While much can be achieved through collaborative working, the boundaries of legislation still create some obstacles to the aims of the Plan. Not least of these are the statutory obligations on individual NHS organisations regarding governance and financial accountability. These obligations are different depending upon whether the organisation is a trust or foundation trust.

The HFMA considers that this creates an unnecessary level of bureaucracy and that best practice should be applied consistently to the provider sector.

38. The *Health and Social Care Act 2012* requires NHS bodies to cooperate both with each other and with local authorities. However, these duties tend to be overlooked in favour of meeting the individual duties for which the organisation is held accountable.

39. The Plan anticipates NHS bodies working together. However, this assumes that the boards of statutory bodies will be willing to give up budgetary control to partnership boards while still being held to account for the financial performance of their own organisation. It is not certain that all will be willing to do this.

40. The differing VAT regimes between the NHS and local authorities present unnecessary cost and administrative pressures when seeking to work collaboratively to deliver a service that is subject to different rules depending upon hosting arrangements. This can create financial obstacles to the development of joint working.

41. Primary care services are fundamental to the success of the Plan, with the development of primary care networks cited as a key measure to integrate services in the community. However, the legislation concerning who can deliver these services and how they are administered may restrict the ability of the Plan to deliver on these objectives.

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