The short medium and long view

The NHS is showing signs of a financial squeeze, but to find lasting solutions it must be aware of the different types of challenge, argues Chris Hopson

There has, rightly, been a lot written recently about the deteriorating state of NHS finances. These range from commentary on the 2013/14 year end and the current pressures facing different parts of the service, to the challenge for NHS funding in the next Parliament and the likely funding gap in 2021 and beyond. But, if we are to create workable solutions, we need to break down this current, somewhat fuzzy and wide-ranging, bundle of concerns into a clear set of long-term, medium-term and short-term issues. We must also be specific about the different processes and timing required to resolve each.

Longer term

In the longer term, the challenge is to align health and social care and set overall long-term funding levels.

The context for the longer term issues is surely set by the Barker Commission, whose excellent interim report was published in April and whose final report is published this month. It sets out a clear case for 'England moving towards a single ring-fenced budget for health and social care, which is singly commissioned and within which entitlements are much more closely aligned'.

It also argues that both systems are underfunded and that, taking a longer term view, we will need to devote a higher proportion of GDP to health and social care. There are a number of ways to address this gap, ranging from spending more public money and raising efficiency to limiting access to certain treatments/elements of care or charging for them.

These are, as the report acknowledges, big issues and any changes will require major debate and an extended implementation period of at least five to 10 years. These are also decisions that require cross-party political consensus and a high degree of public support.

The report optimistically hopes this debate will start during the general election, while wryly observing that politicians find this type of long-term, hard-choices debate difficult at the best of times.

It seems more realistic to expect the debate to start after the general election either via a Wanless style exercise or a Royal Commission – processes that can generate the required degree of cross-party consensus and public involvement/alignment at a lower party political cost.

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Medium term

The medium-term issues revolve around how the NHS (and social care) will navigate the further five years of austerity that will be required if, as seems inevitable, the next government is committed to eliminating the budget deficit over the course of the parliament.

Given the scale of public expenditure reduction needed, the size of public debt repayments now required, and the degree to which other public services have already had their funding reduced, this will bring some very hard choices.

The nature of these choices for the NHS should be spelt out in the NHS England five-year forward view, expected to be published in October.

NHS England chief executive Simon Stevens has already said that this document should set out the performance/funding trade-offs the next government will face. It should also set out what savings the service can be expected to generate from transformation or efficiency improvement, how quickly these can be delivered and, crucially, what investment and support will be required to generate them.

Again, it would be nice to think that these issues would be debated as part of the general election. But politicians will, inevitably, find it difficult to spell out the detailed consequences of further deficit reduction, particularly any adverse consequences for the NHS, during an election campaign.

The issues will therefore have to be resolved in a major public expenditure settlement or review exercise early in the next parliament. It is important to note that this exercise will need to be completed quickly, which means that the quality longer term thinking required should be starting now.

The FTN, for example, believes that the NHS would benefit hugely from a multi-year settlement. This should cover as many years of the next Parliament as possible and then be translated into the detailed operation of NHS finances – for example, multi-year clinical commissioning group allocations, provider contracts, tariff-setting and levels of efficiency saving required.

But such an approach will require a lot of preparation, which we should be beginning now. Some have been arguing for a 10-year settlement for the NHS, but it's difficult to see how any settlement can extend beyond the life of a single parliament. A single parliament settlement may be difficult enough if there is another coalition.

Short term

In the short term, a deliverable 2015/16 NHS financial plan is needed. The financial framework for 2014/15 has been set and, in a welcome move, the government has already announced extra winter funding and support to reduce elective waiting lists (though this isn't flowing transparently and consistently everywhere). The key short-term task is to create a deliverable financial plan for 2015/16.

Five trends from the first quarter of 2014/15 already show how difficult this will be:

- **Activity levels** are continuing to rise unabated – there has been a 3% increase in emergency admissions (making the supposed 2015/16 better care fund plan target of a 3.5% reduction look even more optimistic). The elective waiting list money, for example, won't close all of the current performance gap against the 18-week target.
- **Pressure on staff numbers** – a key NHS budget driver – also continues unabated, with the latest NICE guidelines potentially costing NHS providers an extra, currently unfunded, £400m.

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- There is no more Department of Health **'rainy day underspend'** to raid – according to King's Fund analysis, this has been used up to fund 2013/14's extraordinary 2.6% spending rise (the highest since deficit reduction began).
- Rapidly growing levels of **provider (and commissioner) deficit** will not only require funding but also make it very difficult to continue with the approach adopted over the last three years of using the tariff efficiency factor to close the affordability gap, particularly given the continuing pernicious effect of the 30% marginal tariff for emergency admissions on many acute trusts.
- There is precious little time left to deliver effective risk arrangements for the **better care fund**. While the guaranteed £1bn for the NHS announced last month is welcome, there is still significant risk involved as £1.9bn less for health and social care overall has to land somewhere.

So it's vital that the entire NHS system pulls together and does its best to create a viable 2015/16 financial plan. The FTN believes there could well still be a significant gap once this work is completed, with estimates currently varying between £1bn and £2bn.

If there is a gap, the government will need to decide whether to fill it with extra funding – a decision we can presumably expect either at party conference or in the autumn statement (the former being infinitely preferable as it allows two months of extra planning).

Health Foundation chief economist Anita Charlesworth has pointed out, however, how constrained the government is here. Its entire 2015/16 planned public expenditure reduction is £5bn, so performing a U-turn to invest nearly half of that in health, as some suggest, seems a big ask.

The watchwords in this must be honesty, realism and transparency. If a gap remains, we all have a duty of candour to NHS staff and patients to recognise it and agree how it will be managed. The worst outcome would be to pretend the gap doesn't exist or can be filled with unrealistic new activities that won't deliver, resulting in unplanned poorer patient care.

There is a set of very difficult NHS financial challenges to address. But the time has come to move beyond describing them and hyperventilating over them – we need solutions. That requires us to identify the different groups of short-, medium- and long-term issues to address and recognise that we need to create appropriately tailored approaches to solving each.

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