November 2015

NHS financial temperature check

Finance directors' views on financial challenges facing the English NHS

Briefing

Contents

The HFMA is grateful to all the finance directors who took the time to complete the NHS Financial Temperature Check survey.

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Introduction

This is the fourth in a series of HFMA briefings setting out finance directors' views on the financial issues facing the English NHS. Directors completed the survey during the first two weeks of October 2015. It draws on the responses of finance directors and chief finance officers[1] (CFOs) of 123 (51%) provider trusts and 86 (41%) clinical commissioning groups (CCGs) from across the English NHS.

Key findings

The financial performance of the NHS in England continues to deteriorate across all sectors, with the provider trust sector deteriorating most rapidly. NHS trusts[2] reported a combined £930m deficit for the first three months of 2015/16, larger than the deficit reported for the whole of the 2014/15 financial year. Overall, CCGs[3] reported a £5m overspend against what was planned for the first four months of 2015/16.

These figures – reported by Monitor, NHS England and the Trust Development Authority (TDA) – reiterate that the NHS is under great financial pressure. The scale of the deficit reported across the English NHS is unprecedented. It is clear the NHS cannot afford to continue to operate in the way it has been.

Analysis of our survey shows:

- 66% of trusts are forecasting a year-end deficit, including all acute trusts. The main drivers are an under-achievement of savings plans (63%) and a rise in agency staff costs (59%).
- More than 56% of CCG CFOs and 79% of trust finance directors report that their forecast 2015/16 year-end outturn is worse than their organisation's 2014/15 financial position, as reflected in their 2015/16 financial plans.
- The majority of NHS organisations are forecasting a 2015/16 year-end outturn that is the same or better than planned at the beginning of the year. However, a quarter of finance directors expect their year-end financial position to be worse than their original plan. Trust finance directors forecasting a position better than they had planned said that they are only able to do so because of non-recurrent benefits, and this may be optimistic given the financial performance during the first three months of the year.
- Most respondents reported the degree of risk associated with achieving their organisation's 2015/16 financial plan as high or medium. Finance directors are less confident about achieving their 2016/17 financial plans.
- The key risks to delivering financial plans in organisations and across health economies are increases in demand for services, slippage in cost savings and the impact of social care funding cuts.
- 88% of CCG CFOs and 93% of trust finance directors do not think there are effective financial arrangements in place to manage financial risk across their local health economies.
- Finance directors overwhelmingly agree that the organisations in their area do not have sufficient baseline financial resources available

1 CCGs use the terminology of chief financial officer (CFO), whereas NHS trusts and NHS foundation trusts (FTs) generally use finance director. In this briefing we sometimes use the term finance director to mean both finance directors and CFOs together when describing the views of all our survey respondents collectively

2 We have used the term trust to mean NHS trusts and NHS foundation trusts collectively

3 It should be noted that CCGs work under a different financial regime to NHS trusts and NHS foundation trusts, which makes direct comparison of their financial performance difficult. CCG financial performance is reported against what was planned and business rules set out by NHS England apply. CCG allocations include their brought forward surplus or deficit positions, and the plan will include agreed changes to the brought forward position. NHS trusts and NHS foundation trust performance is based on in-year income and expenditure

to them to implement the *Five-year forward view* or other long-term financial plans without additional support.

- Finance directors are sceptical about whether the new care models outlined within the *Five-year forward view* and Lord Carter of Coles' work on NHS productivity will be sufficient to meet the identified funding shortfall of £30bn, even after the pledged government funding of £8bn is taken into account.
- The majority of finance directors would prefer the NHS to receive more funding for health and social care from the government rather than rationing services or charging service users in order to return to financial stability.
- However, many finance directors think there are aspects of current service provision that the NHS could withdraw or change that would ease financial pressures without damaging the principles of universal healthcare, free at the point of delivery.

Financial performance

The financial performance of the NHS in England continues to deteriorate across all sectors, with the provider trust sector deteriorating most rapidly. There is a deficit overall in local NHS organisations. NHS trusts reported a larger combined deficit for the first three months of 2015/16 than for the whole of the 2014/15 financial year, and overall CCGs reported a small overspend against what was planned four months into the financial year.

The most recent financial reporting from national agencies and regulators shows:

- NHS foundation trusts (FTs) reported a £445m deficit for the first three months of the 2015/16 financial year, compared with a planned net deficit of £354m[4]. Some 118 of the 151 (78%) FTs reported a year-to-date deficit. Acute FTs represent the majority of the deficit, and mental health FTs were the only group to report a small aggregate surplus. The combined year-to-date deficit is larger than the full-year £349m[5] deficit reported for the year ending 31 March 2015.
- The NHS trust sector reported an aggregate net deficit of £485m, compared with a planned net deficit of £412m[6]. A total of 72 of the 90 (80%) NHS trusts reported a deficit. The combined year-to-date deficit is larger than the full year £473m[7] deficit reported for the year ending 31 March 2015.
- CCGs reported a combined overspend against their plans of £5m[8] (less than 0.1% of allocation) for the first four months of the 2015/16 financial year. There are small overspends across 35 (17%) CCGs.

The financial performance reported by NHS England, Monitor and the TDA shows the sustained financial pressure across the NHS. NHS provider organisations are reporting a combined deficit of £930m for the first three months of 2015/16 and 79% of trusts are reporting a deficit.

The most severe deficits are materialising in the acute and specialist sector. Some 143 (92%) acute and specialist NHS provider organisations reported a deficit at the end of the first quarter of 2015/16, compared with 90 (58%) at the end of 2014/15[9]. However, the financial pressure is being felt by all sectors in the NHS. At the end of the first quarter of 2015/16, 47 (55%) non-acute NHS provider organisations reported a deficit compared with 27 (31%) at the end of 2014/15.

According to Monitor, FTs estimate a combined deficit of more than £1bn for the full 2015/16 financial year. Monitor reports that FTs' 2015/16 plans assumed a 30% reduction in agency staff costs. However, the reliance on agency staff has continued due to recruitment difficulties. Control measures to reduce the amount spent on agency staff by providers were outlined by Monitor and the TDA in June 2015.

The forecast year-end financial position of NHS trusts has not been reported publicly yet by the TDA.

Finance directors are sceptical about how the new care models in the Five-year forward view and Lord Carter's work on NHS productivity will be sufficient to meet the identified funding shortfall of £30bn

4 *Performance of the foundation trust sector 3 months ended 30 June 2015*, October 2015, Monitor. www.gov.uk/government/uploads/system/uploads/attachment_data/file/466705/To_publish_-_Performance_of_the_NHS_Foundation_Trust_Sector-_3_monts_ended_30_June_-_report.pdf

5 *Performance of the foundation trust sector year ended 31 March 2015*, May 2015, Monitor. www.gov.uk/government/uploads/system/uploads/attachment_data/file/429947/Q4_2014-15_Sector_Performance_for_Board_-_Updated_Final__map_pdf

6 *Overarching financial position of NHS Trusts for the first quarter of 2015/16*, October 2015, NHS TDA. www.ntda.nhs.uk/wp-content/uploads/2015/10/NTDA-Financial-Performance-1516-Q1-Press.pdf

7 *NHS TDA Board meeting paper D: NHS service and financial performance report*, 21 May 2015, NHS TDA www.ntda.nhs.uk/wp-content/uploads/2015/03/Paper-D-Service-and-Financial-Performance-Report-for-March-2015.pdf

8 *NHS England Board Paper PB.24.09.15/08*, September 2015, NHS England www.england.nhs.uk/wp-content/uploads/2015/09/item8-board-29-09-15.pdf

9 HFMA analysis of Monitor and TDA financial performance reports for the period ending 30 June 2015

Chart 1: Forecast 2015/16 year-end financial positon – trusts

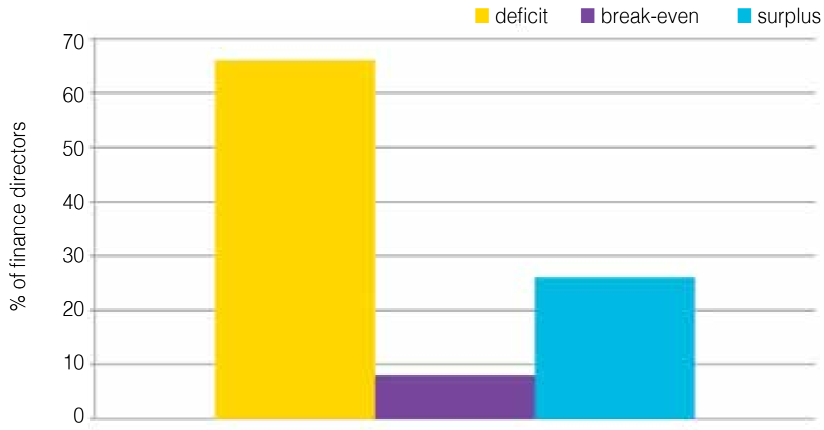
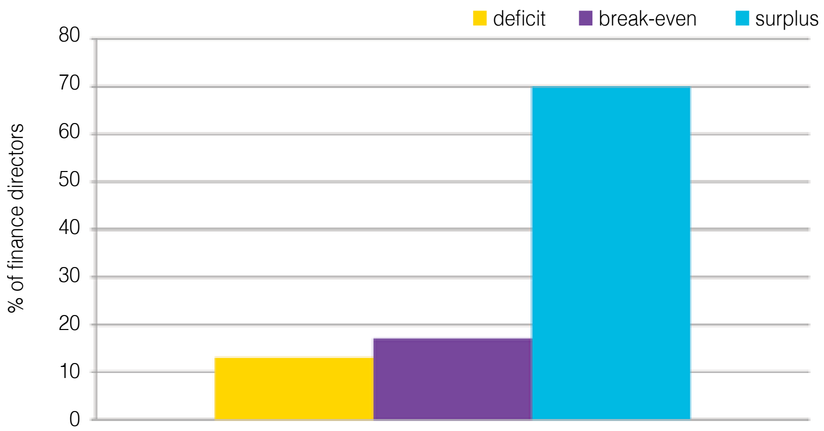


Table 1: Analysis of forecast 2015/16 year-end forecast by sector (HFMA July 2015 survey results in brackets)

Sector	Deficit	Break-even	Surplus
Acute	100% (77%)	0% (9%)	0% (14%)
Acute and community	75% (85%)	0% (0%)	25% (15%)
Acute and specialist	85% (81%)	10% (8%)	5% (12%)
Ambulance	20% (33%)	60% (33%)	20% (33%)
Community	0% (0%)	0% (0%)	100% (100%)
Community and mental health	43% (29%)	7% (21%)	50% (50%)
Mental health	39% (43%)	6% (0%)	55% (57%)
Specialist	50% (50%)	30% (25%)	20% (25%)

Chart 2: Forecast 2015/16 year-end financial positon – CCGs



In the local commissioning sector, NHS England reports that CCGs are forecasting a combined year-end underspend of £2m (less than 0.1% below plan) as at the end of July 2015. The underspend forecast by CCGs in 2015/16 will be a deterioration for the sector compared to the £151m[10] net underspend in 2014/15. Even though 35 CCGs are overspent after the first four months of the financial year, only two are forecasting an a position worse then their annual plan at the end of the financial year.

Of the 22 CCGs with planned deficits, all are forecasting to achieve their annual plan and there are no CCGs forecasting unplanned deficits. NHS England reports there is an additional risk from increases in activity volume that could further deteriorate the 2015/16 CCG financial position.

The figures reported by Monitor, NHS England and the TDA reiterate that the NHS is under great financial pressure. The scale of deficit reported across the English NHS is unprecedented. It is clear the NHS cannot afford to continue to operate in the way it has been.

2015/16 year-end forecast

Our survey results show that, in line with figures already reported by others, the majority of trusts are forecasting a deficit, as shown in **Chart 1**. A similar position is being forecast for 2016/17.

Overall, 66% of trusts in our survey are now forecasting a year-end deficit, with all of the acute trusts forecasting a year-end deficit, compared with 77% in our previous survey[11]. Community trusts are faring better, with all finance directors in the sector expecting to report a surplus at the financial year-end. **Table 1** summarises the forecast 2015/16 year-end financial position by type of NHS trust.

Among CCG survey respondents, 70% forecast a surplus for their organisation, as shown in **Chart 2**. This surplus is not comparable to the

10 *NHS England Board Paper PB.150528/06*, May 2015, NHS England. www.england.nhs.uk/wp-content/uploads/2015/05/item7-board-280515-upd.pdf

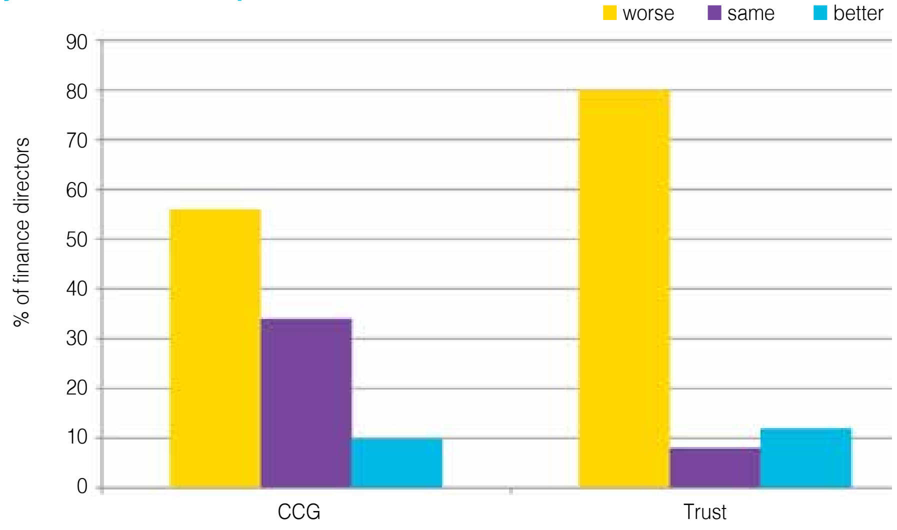
11 *NHS Financial Temperature Check*, July 2015, HFMA. www.hfma.org.uk/NR/rdonlyres/F55744DF-B27B-46F1-BA2A-4B14E4BA7E55/0/NHSFinancialTemperatureCheckbriefing.pdf

surplus reported by trusts. CCGs are required by NHS England's financial planning business rules to make a minimum surplus of either 1% of allocation or the 2014/15 surplus, less any agreed drawdown, whichever is the greater.

Despite the majority of CCGs forecasting a surplus, it is important to recognise that 48% of CFOs report that their 2015/16 financial plans reduce their CCG's brought-forward surplus. NHS England reports that overall, CCGs are planning to spend £71,833m during 2015/16, which is comprised of an in-year allocation of £71,439m plus a drawdown of previous years' surpluses of £394m[12]. Without the drawdown, the CCG sector would report an in-year deficit.

Our survey shows that more than 56% of CCG CFOs and 79% of trust finance directors reported their forecast 2015/16 year-end outturn is worse than their organisation's 2014/15 financial position, as shown in **Chart 3**.

Chart 3: Forecast 2015/16 year-end outturn compared with 2014/15 year-end financial position

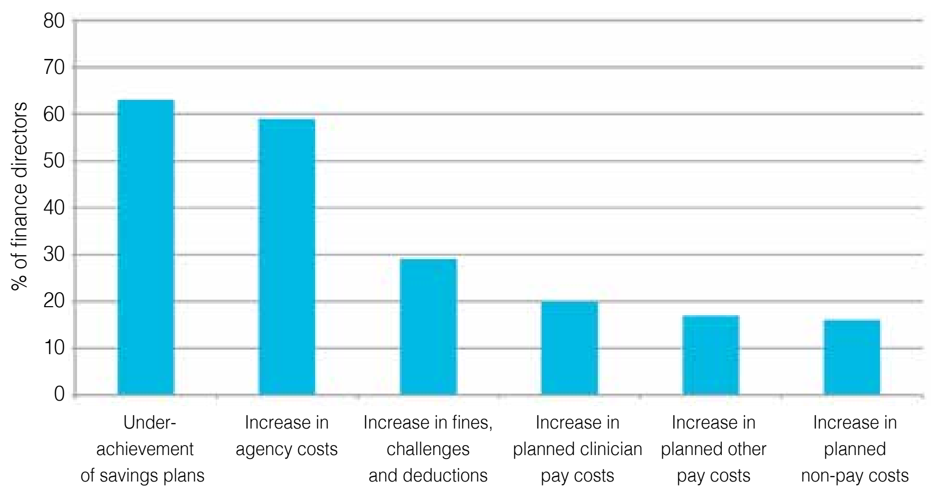


Performance against plans

While the financial plans show a worsening financial position and performance during the first quarter was worse than that planned, the majority of NHS organisations are forecasting that by the 2015/16 year-end their financial performance will be the same or better than planned at the beginning of the year. A quarter of finance directors expect their year-end financial position to be worse than their original plan.

We asked finance directors for the causes of the variances between their forecast and 2015/16 plan. Among trusts, the main drivers were an under-achievement of savings plans (63%) and a rise in agency staff costs (59%). **Chart 4** summarises the main responses.

Chart 4: Main variance between 2015/16 year-end forecast and plan, trusts



These reasons remain consistent with our previous surveys. However, the number of trust finance directors reporting the impact of increased agency costs has decreased to 59% from 72% in June 2015. Since our last survey, more trusts are reporting that increases in fines, challenges and deductions are affecting their financial performance.

Trust finance directors who are forecasting a position better than they had planned said that they are able to do so only because of non-recurrent benefits this year – for example, receipts from the sale of assets; benefits from private finance initiative settlements; and releases of transformation or contingency reserves.

While most CCGs expect to achieve their planned performance, CFOs consider the main drivers of variances

12 *NHS England Board Paper PB.23.07.15/10*, July 2015, NHS England. www.england.nhs.uk/wp-content/uploads/2015/07/Item-10-Month-2-Finance-Report.pdf

to be programme cost rises for acute care (78%) and slippage in savings plans (52%).

The proportion of CFOs reporting these cost pressures has remained at this level since our July survey. The number of CFOs reporting increases to planned prescribing costs has risen to 60% from 44% during the same period. **Chart 5** summarises the responses.

We also asked respondents about the achievability of their organisations' 2015/16 savings plans. A total of 55% of CCG CFOs and 41% of trust finance directors are very confident or quite confident of achieving their organisation's 2015/16 savings plan. Overwhelmingly, finance directors report they will require non-recurrent savings to deliver an element of their recurrent savings target and only 5% of trust finance directors and 21% of CCG CFOs expect to deliver their 2015/16 savings target recurrently.

Only 12% of finance directors said their regulator or national body is very supportive in recognising the financial pressures at their organisation. A greater proportion of respondents from trusts feel very supported (15%), compared with CCGs (7%). Overall, 45% of finance directors said they feel quite supported by their regulator or national body. However, 22% responded to say that they feel their regulator was not very, or not at all, supportive in recognising financial pressures at their organisation, with 21% saying that it depended on the situation.

When asked about submitting revised financial forecasts or stretch plans to their regulator or national body, 76% of trust finance directors said they have been asked to submit a revised proposal, compared with 26% of CCG CFOs. Finance directors reported that it was increasingly challenging to improve their financial plans. Many thought their plans were prudent and the risks they are managing may prevent them achieving any stretch targets they are set.

Chart 5: Main variance between 2015/16 year-end forecast and plan, CCGs

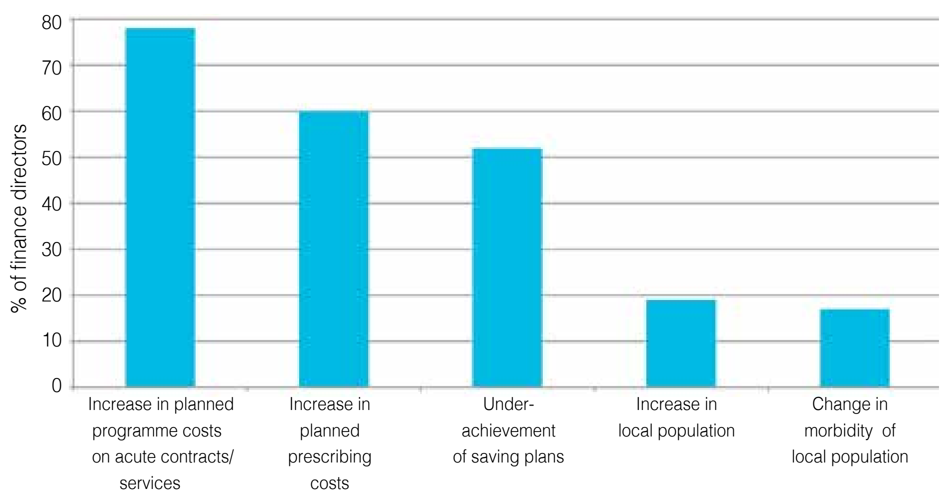
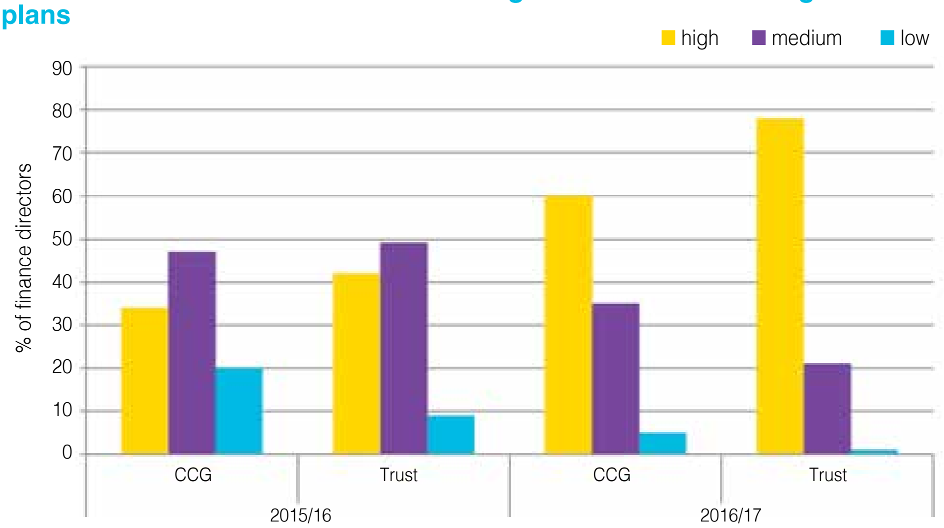


Chart 6: Finance directors' estimated degree of risk to achieving financial plans



Financial risk

Most respondents reported the degree of risk associated with achieving their organisation's 2015/16 financial plan as high or medium, as shown in **Chart 6**. The proportion of CCG CFOs estimating a high risk to achieving their plans in 2015/16 is 34%, compared with 42% of trust finance directors (39% of all finance directors).

Both CCG CFOs and trust finance directors think there is a greater risk to achieving their 2016/17 financial plans. The number of CCG CFOs estimating a high risk of delivery in 2016/17 increases from 34% to 60%. Trust finance directors agree, with

78% of them – up from 42% – judging their organisational financial plans to be high risk. Overall, 71% of finance directors judge their 2016/17 financial plans to be high risk.

The key risks to achieving trusts' financial plans were identified as:

- Slippage in cost savings (82%)
- Agency staff costs (66%)
- Impact of social care financial constraints (56%)
- Impact of delayed discharges (56%)
- Increasing demand (54%).

The key risks to achieving CCGs' financial plans were identified as:

- Increasing demand (74%)
- Prescribing costs (67%)
- Increases in emergency care (64%)
- Increases in elective activity (59%)
- Slippage in cost savings (57%)
- Impacts of social care financial constraints (57%).

We asked finance directors about the main mechanisms they plan to use to meet the financial challenges their organisations face. The planned responses are summarised in **Chart 7** and **Chart 8**.

CCGs are planning integration of services with other NHS organisations (80%), investment in community services (76%) and investment in primary care (72%).

To meet trusts' financial challenges, finance directors plan to reduce expenditure on agency staff (79%), make savings in procurement (71%), redesign jobs to reduce spend on non-clinical staff (67%) as well as reducing unnecessary clinical variation (67%).

When asked about the actions their organisations were taking to meet the current financial challenges in their local health economies finance directors across all sectors identified:

- Integrating services with other NHS organisations (56%)
- Investing in community services (43%)

Chart 7: Main mechanisms CCGs are planning to meet the financial challenges ahead

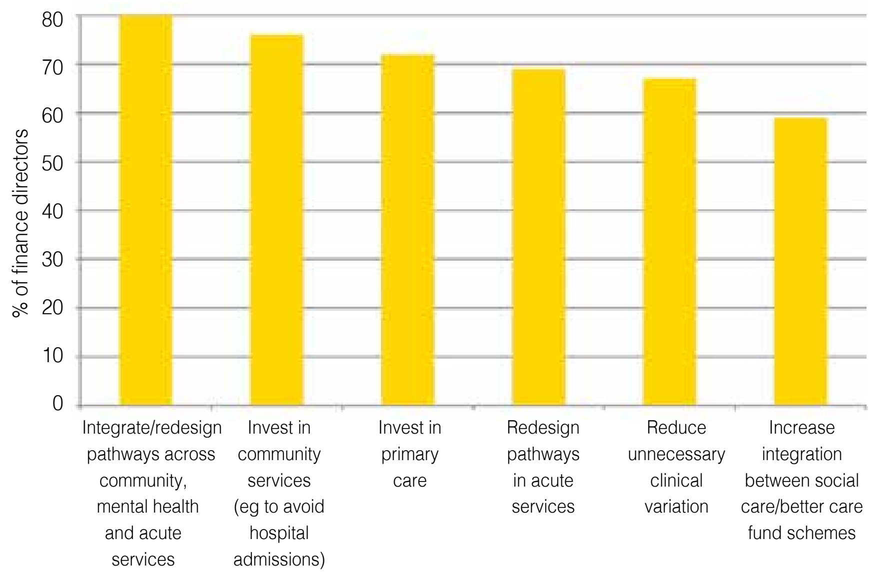
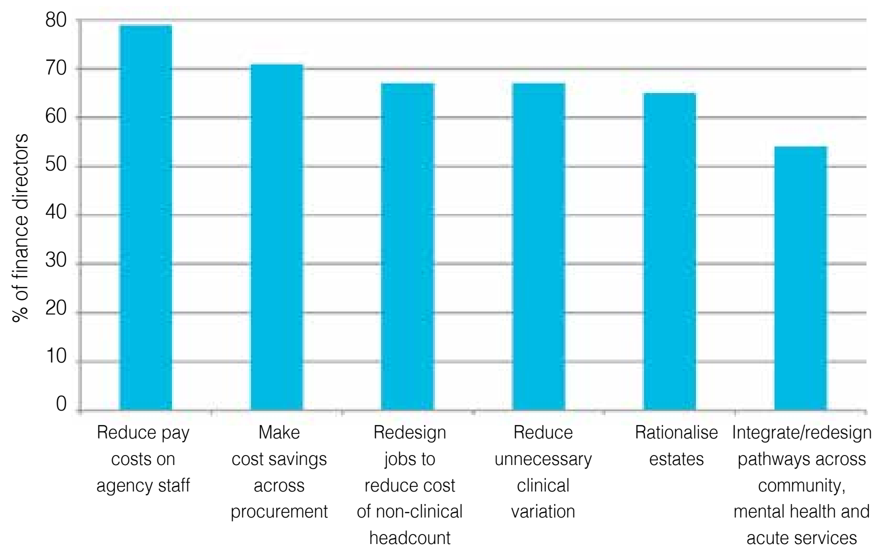


Chart 8: Main mechanisms trusts are planning to meet the financial challenges ahead



- Redesigning pathways within acute services (41%).

We asked finance directors how financial risk is shared across their local health economies. Some 76% of CCG CFOs and 56% of trust finance directors agreed with the statement: ‘NHS providers, commissioners and local authorities share a common understanding of the causes of financial difficulties. But there are not effective financial arrangements to manage financial risk in place’.

Among trust finance directors, 37% think there is not a shared understanding of the causes of the current financial difficulties and that there are no effective arrangements to manage financial risk. Meanwhile, 88% of CCG CFOs and 93% of trust finance directors do not think there are effective financial arrangements in place to manage financial risk across their local health economies.

Quality

Despite being pessimistic about the financial position of the NHS for current and future years, 88% of finance directors do not expect the quality of patient services to reduce in 2015/16. Some 72% of finance directors feel that quality will stay the same, 16% believe quality will improve, 9% think quality will deteriorate and 3% do not know.

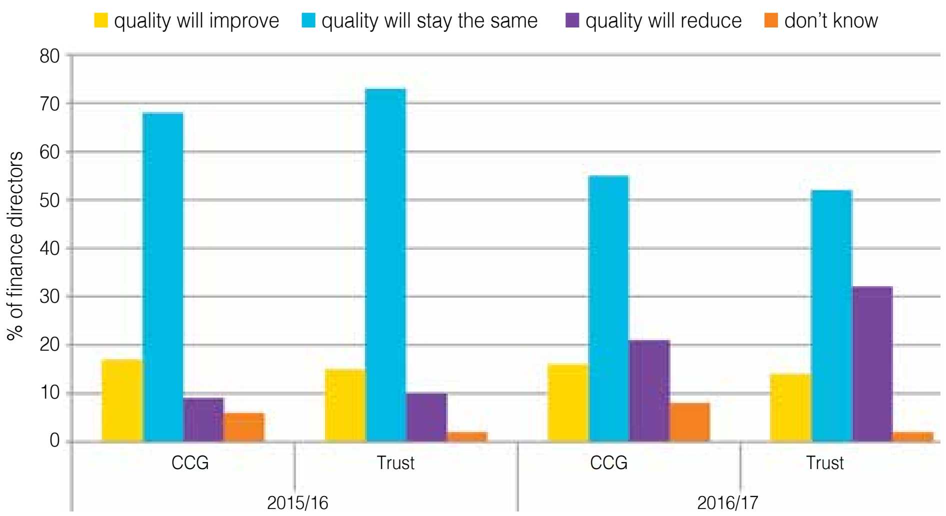
Finance directors are less confident about the quality of patient services in 2016/17 – 68% of respondents do not expect quality to deteriorate, 28% believe quality will reduce, and 4% are unclear how quality will change. Responses for each sector across 2015/16 and 2016/17 are shown in **Chart 9**.

These results are perhaps surprising given that Monitor’s analysis of FTs found providers had missed a number of national waiting times targets during the first quarter of 2015/16. These targets include accident and emergency, routine operations and some cancer treatments that mean people are waiting longer for treatments.

How finance directors interpret what quality means may explain some of the difference between our survey results and the reported performance.

While the majority of finance directors do not expect quality to deteriorate in their organisations, we asked them to identify which aspects of service quality generally are most vulnerable because of the current financial challenges. Respondents from all sectors felt that waiting times (74%) and access to services (63%) were most vulnerable.

Chart 9: Anticipated change in quality of patient services



What is the outlook?

We asked respondents about their outlook for their organisations and health economies.

Improving quality and financial performance

Nearly 70% of CCG CFOs and 59% of trust finance directors reported that they either definitely or probably have sufficient levers in their organisations to improve quality and financial performance. Trust finance directors in particular are much less confident about their ability to effect change in their local areas. Only 29% of trust finance directors report having sufficient levers to effect change in their local areas, compared with 52% of CFO CCGs. **Chart 10** summarises the responses.

In line with our previous surveys, there is an overall view that there is a weakness in strategic system management and also that the regulatory regimes for CCGs and providers are not consistent, which makes implementing change across an area difficult. Some respondents suggested that effecting change across an area was more about the willingness to work differently, rather than a lack of levers.

It was felt that organisations were unwilling to accept plans that were good for the whole health economy if it was thought to be detrimental to their own organisation. Several CCG CFOs raised the issue of the current national payment system, which in their opinion does not incentivise organisations to work together.

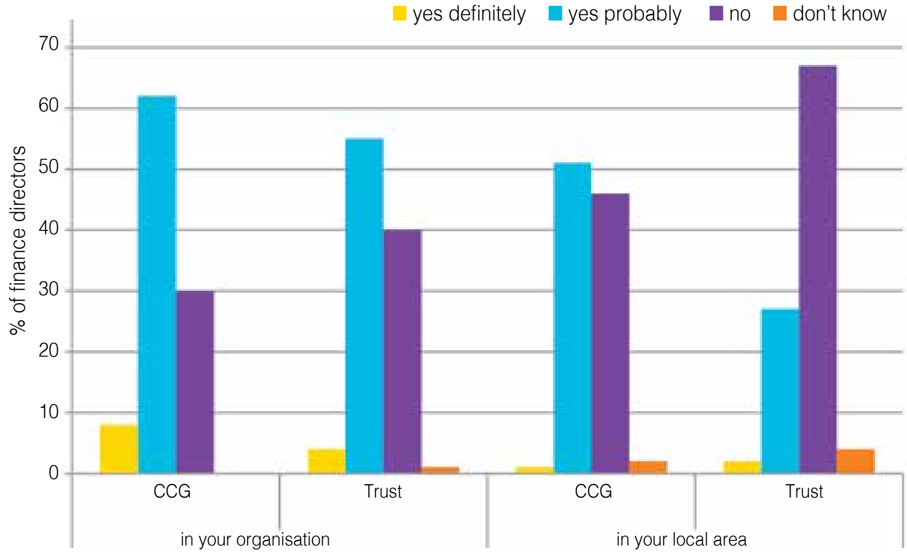
Only 1% of CCG CFOs and 3% of trust finance directors were confident that they have the autonomy to make the changes they would like to see. Many more thought they probably had sufficient authority, 55% and 44% respectively. Worryingly 38% of CCG CFOs and 50% of trust finance directors reported that they did not have sufficient authority to make the necessary changes. The reasons for this varied, but many cited conflicting financial regimes, the need to satisfy the different regulatory regimes and the impact of local and national politics.

Working with others

Among the respondents, 94% of CCG CFOs and 91% of trust finance directors agreed that their organisation's financial sustainability depended on working jointly with other organisations.

Respondents provided additional details about barriers to joint working. Commissioners and providers agreed on a number of barriers, including the lack of capacity to support the cultural and transactional changes needed,

Chart 10: Do you think you have sufficient levers to effect change that could improve quality and financial sustainability?



the mismatch of regulatory regimes and conflicting financial regimes.

Finance directors from both sectors also reported the difficulty of working collaboratively with local authorities because of cultural, governance and financial regimes and cuts to social care funding. Again, the lack of effective strategic system leadership was raised by respondents several times.

Some CCG CFOs reported difficulties in engaging acute trusts, mainly because they were focused on resolving internal issues. Others reported issues engaging with neighbouring CCGs in working collaboratively. Trust finance directors cited a lack of CCG engagement, CCGs not being empowered to make the necessary changes and trusts being unwilling to work together.

Many finance directors reported that the lack of an agreed vision for their area was a barrier to joint working. There was a difference in views about whether there were agreed medium-term financial plans in place for the local area. Only 42% of CCG CFOs and 14% of trust finance directors reported that such plans existed.

We asked finance directors whether relationships between

Only 1% of CCG CFOs and 3% of trust finance directors were confident that they have the autonomy to make the changes they would like to see commissioners and providers or the main organisations that work together in their area were strong enough to deliver the cross-organisational changes required. Only 43% of CCG CFOs and 27% of trust finance directors thought that they were, as illustrated in **Chart 11**. Some finance directors reported that relationships were improving as all parties recognised it was essential to work together to deliver sustainable services. Others reported that the financial pressures were placing a strain on relationships.

We asked respondents for their views on whether there would be structural reconfiguration of the organisations in their area over the next 12 months. **Chart 12** shows that 21% of CCG CFOs and 25% of trust finance directors do not know whether there will be any reconfigurations in their area, suggesting a worrying degree of uncertainty. Many of the finance directors who reported that they were not expecting structural reorganisation in that timeframe said that it was needed to ensure a sustainable local health economy.

Chart 11: Are relationships across the organisation strong enough to deliver changes?

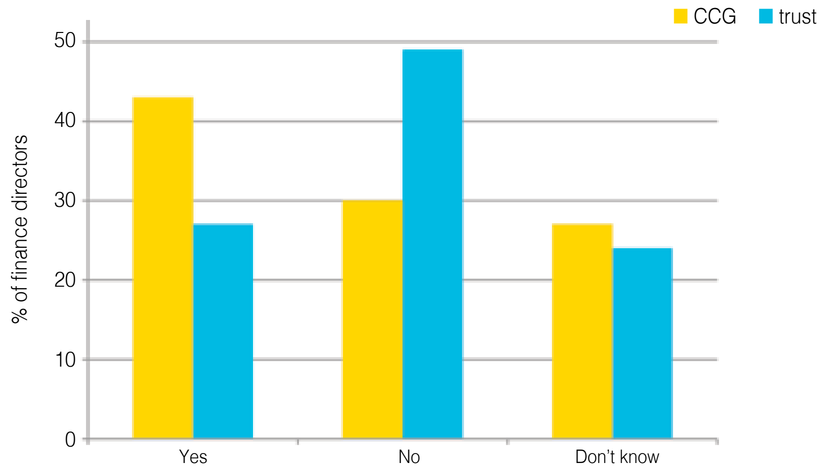
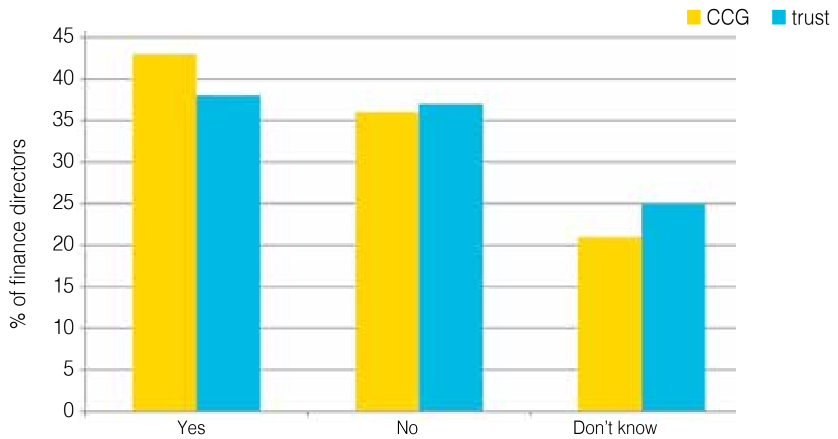


Chart 12: Do you expect structural reconfiguration of organisations in your area in the next 12 months?



Action required

We asked respondents to tell us what actions would be of most help to meeting the financial challenges in their areas. The responses covered national and local issues.

Given the financial position reported by NHS organisations, it is not surprising that actions to improve contracting, funding of services and the national payment system were frequently mentioned. Respondents suggested changes to the national payment system, a reduction in contract penalties and the temporary suspension of payment by results to address the financial problems in their organisations.

Others reiterated the importance of working together to achieve financial stability across their localities, and the need to eliminate the shifting of financial problems between the health and social care sectors.

Finance directors saw the need for collaboration to produce joint strategies and financial plans across the health and social care sectors, in particular to help reduce demand and make timely discharges. Several respondents highlighted the negative impact on their organisations of reductions in councils' social care budgets. As with previous surveys, many finance directors called for greater investment across primary and community services to transfer services closer to patients, alongside parity of funding and esteem for mental health.

They also suggested that transformation of how care is currently delivered will be key to meet the financial challenges in their areas. Many are working to deliver internal transformation schemes and revise care pathways, but highlight complexities of delivering transformation in addition to business-as-usual activities and cost improvement programmes. Others called for a more realistic expectation of the pace of change and how much will be delivered.

A number of finance directors called for a serious debate at a national level about priorities for the NHS and system-wide capacity constraints. Several respondents suggested greater political support to reconfigure services would make changes more successful, allied with a coordinated approach to delivery from the regulators and national bodies. Finally, finance directors recognised that national solutions would only be achievable if there was financial certainty for the medium-term.

Are there sufficient financial resources?

Some 84% of finance directors agree that the organisations in their area do not have sufficient baseline financial resources available to them to implement the *Five-year forward view* or other long-term financial plans without the need for additional support over and above that already pledged, as set out in **Chart 13**.

Only 10% of CCG CFOs and 7% of trust finance directors think that there are sufficient resources, although some suggested that this would only be the case if resources were pooled and without the constraints of the national payment system or regulators.

Others reiterated the need for transitional funding to enable new arrangements to be implemented. Concerns about under investment in capital, such as substantial building upgrades, good quality information technology and key medical equipment were raised.

Overall, 88% of finance directors are not confident that their organisation could deliver productivity gains of 2% to 3% a year between now and 2020 to help close the expected £22bn NHS funding gap. Only 10% of CCG CFOs and 13% of trust finance directors were either 'very' or 'quite' confident that these productivity gains could be achieved. **Chart 14** shows the full range of responses.

Asked when the £8bn additional NHS funding promised by the government was required, 62% of CCG CFOs and 60% of trust finance directors responded with the 2016/17

Chart 13: Do you feel the organisations in your area have sufficient baseline financial resources available to implement the *Five-year forward view* or other long-term financial plans without extra support?

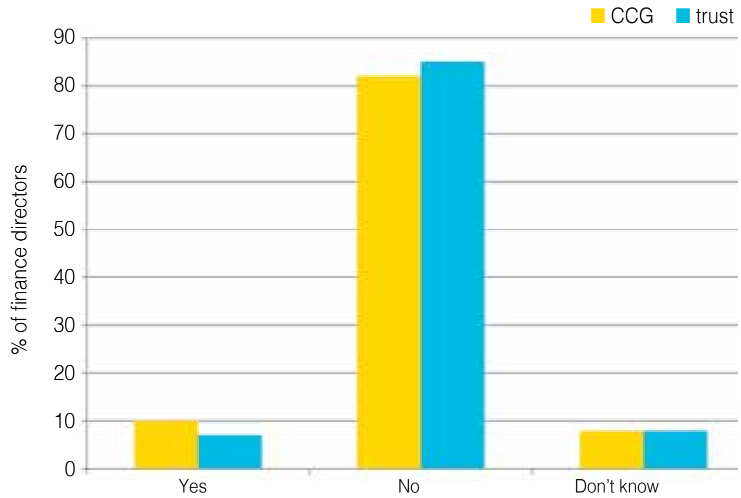
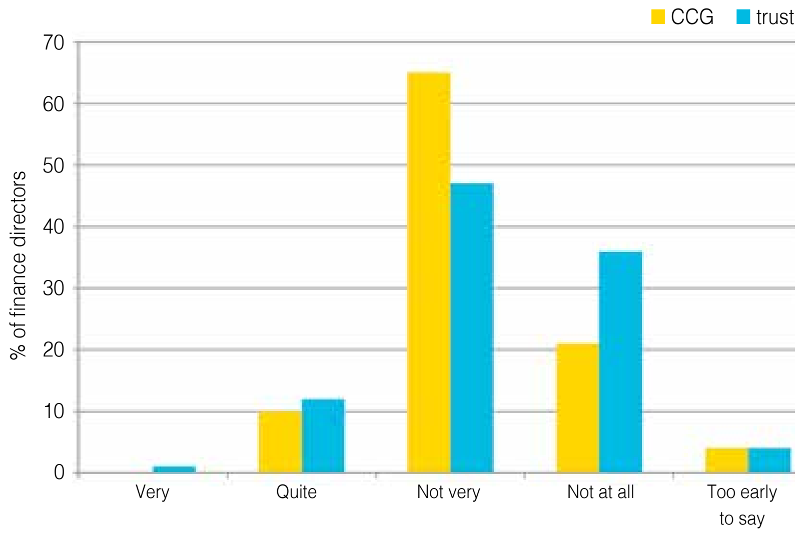


Chart 14: How confident are you that your organisation can deliver productivity gains of 2% to 3% a year between now and 2020 to help close the expected £22bn NHS funding gap?



financial year – see **Chart 15**. The second most popular option was the current financial year. Overall, 94% of finance directors think the additional funding is needed within the next 18 months.

CCG CFOs and trust finance directors have similar views about whether Lord Carter of Coles' work on NHS productivity will deliver the anticipated improvements. In the *Review of operational productivity in NHS providers: interim report*[13], Lord Carter states that, based on his work with a cohort of NHS providers, he believes savings of up to £5bn per annum by 2019/20 are possible, provided there is political and managerial commitment to take the necessary steps.

Overall, 46% of finance directors are not confident that savings on this scale are achievable and 53% do not know. Only 1% of CCG CFOs and 2% of trust finance directors are confident, as shown in **Chart 16**.

Several finance directors provided additional comments to support their views. Many said that their organisations had already taken steps to improve productivity and that they needed to see additional details before deciding on the achievability of the savings forecasted.

Others were concerned that the findings were based on a relatively small number of trusts and that the report's contents were already familiar to most NHS organisations.

Some finance directors said that there was still room for improving productivity and efficiency, but it was unclear whether the £5bn was in addition to the annual efficiency savings already built into the tariff.

Finance directors are equally sceptical about whether the new care models outlined within the *Five-year forward view* and piloted at vanguard sites will meet the estimated funding gap of £17bn, the balance of the £30bn after additional funding and estimated productivity savings are taken into account.

Chart 15: When do you feel the additional £8bn funding pledged from the government will be needed?

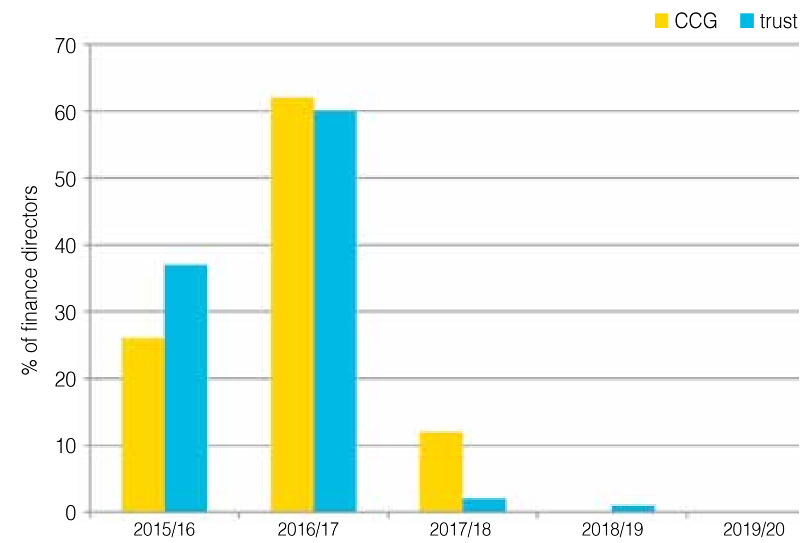
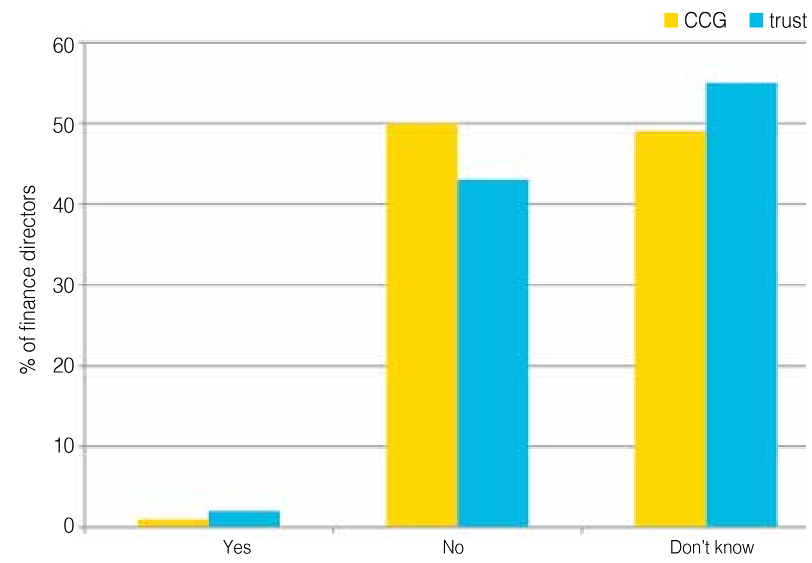


Chart 16: Are you confident improvements to provider productivity outlined in Lord Carter's interim report can save the NHS up to £5bn?



13 *Review of operational productivity in NHS providers: interim report*, June 2015, Lord Carter of Coles. www.gov.uk/government/uploads/system/uploads/attachment_data/file/434202/carter-interim-report.pdf

Overall, 57% of finance directors do not think the new care models will deliver the savings required and 42% do not know. The full results are shown in **Chart 17**.

Finance directors' scepticism largely comes from concerns over timing and the lack of capacity in the system to move to the new models of care. Several finance directors said that the vanguards are not demonstrating deliverability yet, so it is too soon to give a view on whether replicable models will be developed and the scale of any possible savings. Of those that elaborated, most agreed that any savings would not be achieved for several years and therefore would not help to alleviate the current financial pressures.

We asked finance directors whether the NHS can continue to deliver the current levels of quality within the promised levels of increased funding. We defined quality as services that are patient-centred, safe, effective, efficient, equitable and timely.

One third of CCG CFOs and half of trust finance directors think that the promised £8bn of funding is insufficient to maintain current levels of quality (43% of all finance directors). Two thirds of CCG CFOs and 47% of trust finance directors think it will only be possible if the £8bn is received early on in the five-year period (56% of all finance directors). **Chart 18** sets out the full range of responses.

The NHS is not sustainable in its current form if the number of organisations failing to achieve financial balance continues. We asked finance directors to rank possible actions that would enable the NHS to return to financial stability while maintaining current quality standards.

Unsurprisingly the majority of finance directors (66%) ranked more government funding for health and social care, beyond that already promised, as their first choice.

Chart 17: Do you think the savings from new care models outlined within the *Five-year forward view*, and piloted at vanguard sites, will be able to deliver the financial benefits required to meet the estimated £17bn NHS funding gap?

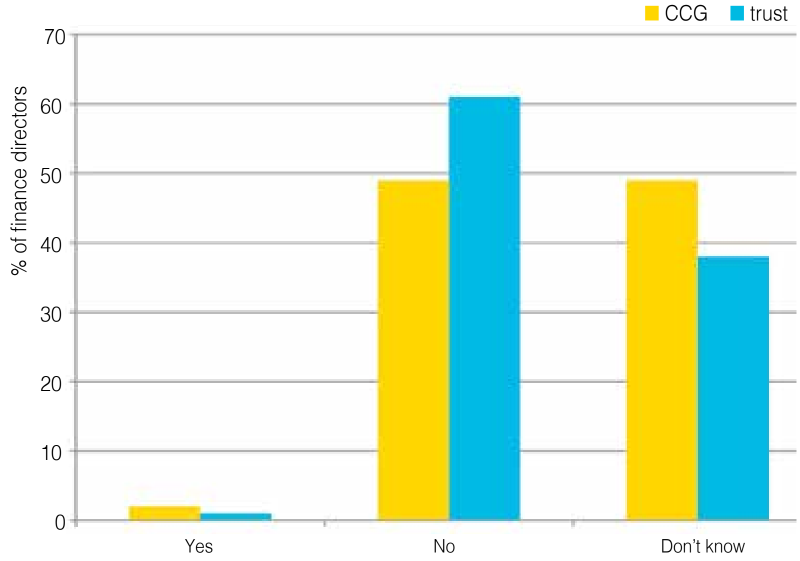
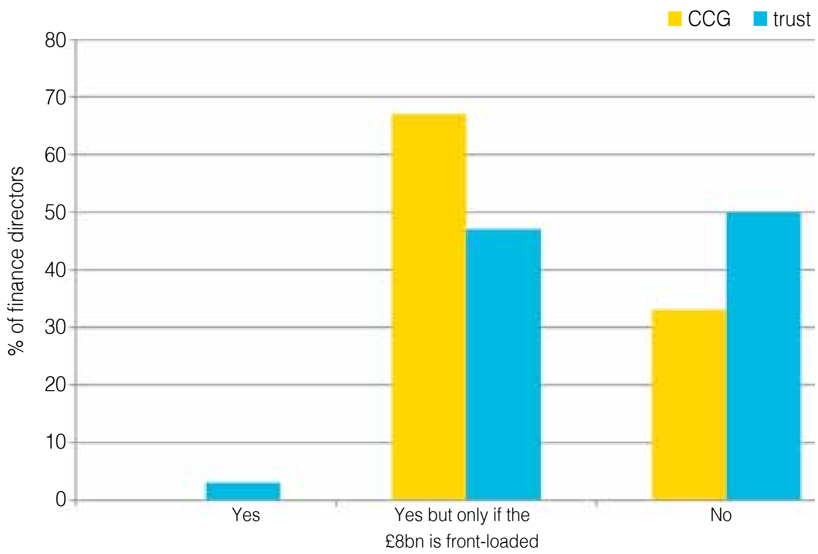
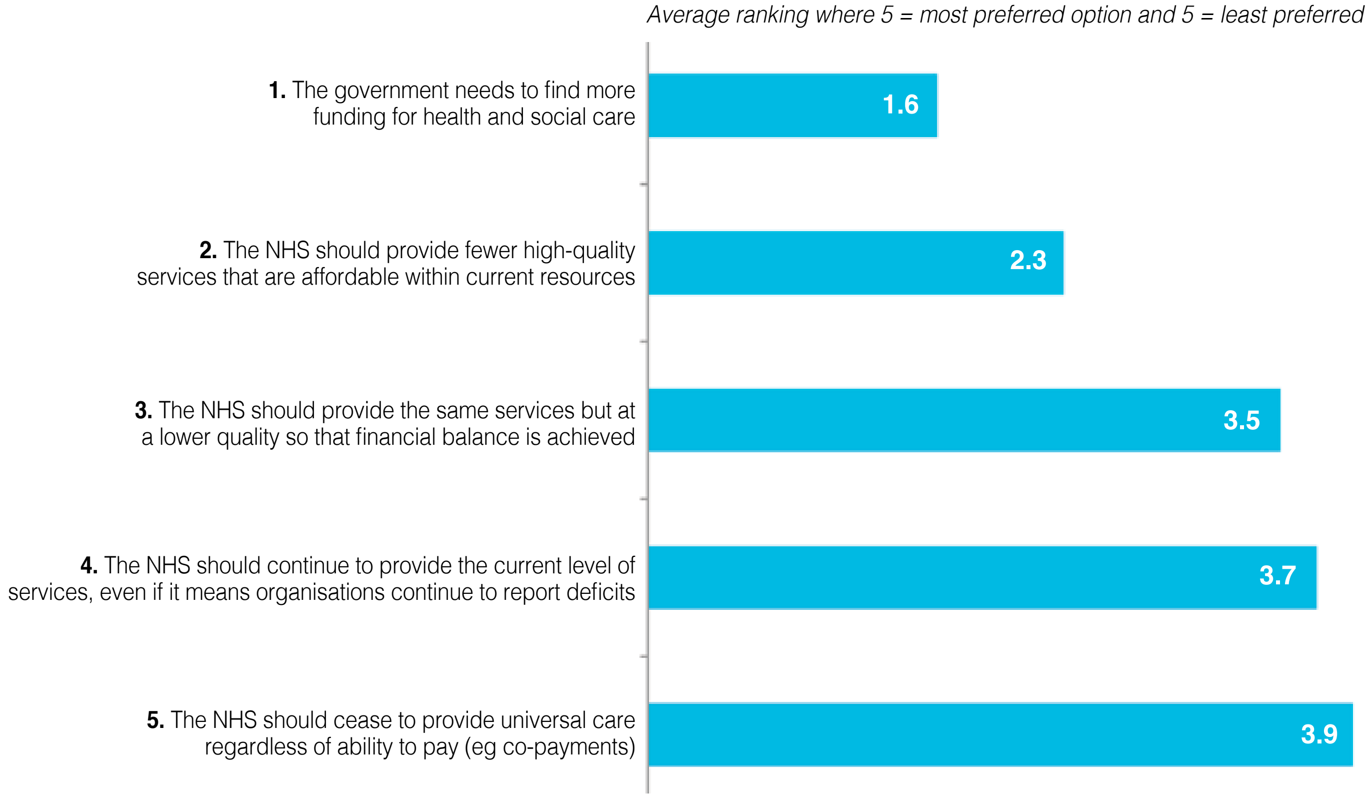


Chart 18: Can the NHS continue to deliver current levels of quality* within the promised levels of increased funding (£8bn in real terms over the next five years)?



* *Quality is defined as services that are patient-centred, safe, effective, efficient, equitable and timely*

Chart 19: Which actions should be used to reduce the financial deficit if the NHS cannot continue to deliver the current levels of quality within the promised levels of funding?



The least palatable option for finance directors was the NHS ceasing to provide universal care regardless of ability to pay, for example by the introduction of co-payments. **Chart 19** ranks the five options[15].

After securing extra government funding, finance directors' second favourite option is the NHS providing fewer, high-quality services that are affordable within current resources. Several finance directors said that an open and honest public debate is necessary to identify whether there is an appetite for higher taxes to pay for the NHS or, if not, what level of universal care should be provided.

A small number of finance directors queried whether £30bn was an accurate assessment of the size of the financial challenge, given the impact of financial cuts already made in social care and the introduction of initiatives such as seven-day services in the NHS. The majority of finance directors think there are aspects of current service provision that the NHS could withdraw or change elements of that would ease financial pressures without damaging the principles of universal healthcare, free at the point of delivery – **Chart 20**.

Finance directors reported several areas where services could be withdrawn or changed in order to ease financial pressures. The most common suggestions were:

- Changing the choice and competition rules
- Relaxing of the access targets for non-urgent care – the most frequently suggested was making the four-hour accident and emergency target only applicable to those in need of urgent care
- More national direction on reducing procedures of limited clinical value
- Reducing the number of hospital sites, merging specialised services and co-location of primary care services
- Consolidating commissioning organisations and reducing the burden of regulation.

15 Respondents were asked to prioritise statements about potential actions to take if the NHS cannot continue to deliver current levels of quality within the promised levels of funding. The preferred action was given a score of one and the least palatable action a score of five. The mean ranking for each statement was calculated. The statement with the lowest mean is the one that was ranked most highly

Conclusion

As predicted in our previous surveys, financial pressures have risen significantly in the current financial year. The combined provider deficit at the end of June 2015 was £930m and finance directors tell us that keeping the deficit under the £2bn currently being forecast is going to be challenging. Their financial plans are high risk and there is some slippage against savings plans.

The problems in the NHS are system-wide and the current position is not sustainable. The scale of the deficit reported across the English NHS is unprecedented. It is not living within its means and this has consequences.

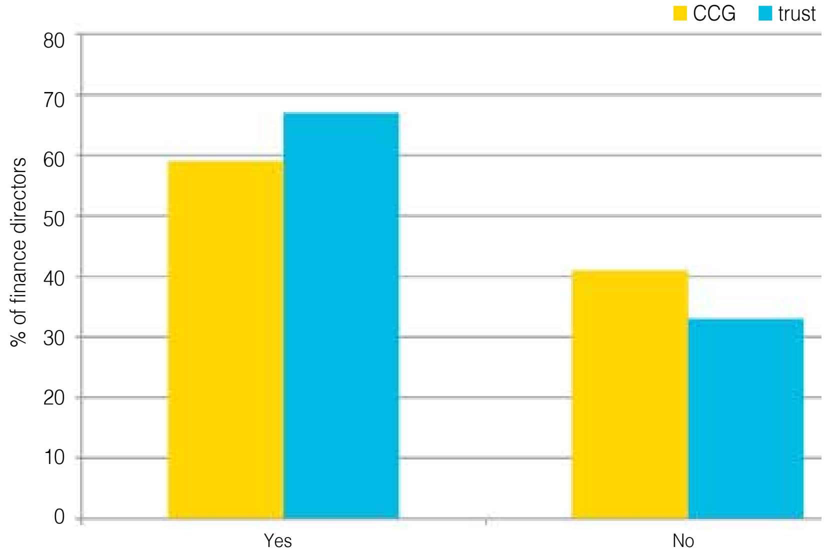
Finance directors do not have confidence that the financial plan set out in the *Five-year forward view* is achievable. They question whether the £8bn of extra funding promised by the government will be sufficient to return the NHS to balance and ensure quality is maintained.

Added to this, there is scepticism about whether the productivity gains identified by Lord Carter are achievable. They are also sceptical that new care models will deliver the level of savings required and whether those savings will materialise in time to help alleviate current pressures.

We asked directors what should be done to reduce the deficit if the NHS could not continue to deliver current levels of quality within the promised funding levels. After securing more government funding, finance directors' second favourite option is the NHS providing fewer high-quality services that are affordable within current resources. Finance directors in our survey had little appetite for any change to services being provided regardless of ability to pay.

An honest public debate is needed about how the NHS is funded and what services should be provided. Action is needed so that the activity the NHS is being asked to undertake is brought into line with the funding available. In the meantime, it is clear the promised funding of £8bn, while it might not be sufficient to address the whole financial problem, is needed now. There must be certainty about its timing and whether there will be any conditions attached to it.

Chart 20: Are there aspects of current service provision where the NHS could withdraw services or change aspects (such as choice or access) that would ease financial pressures without damaging the principles of universal healthcare, free at the point of delivery?



The £8bn brings opportunities to shape the NHS for the future. It could be targeted at areas moving towards developing new care models, rather than propping up existing services, some of which are financially unsustainable. Also, providers need realistic efficiency targets with adequate funding for new demands and cost pressures. Headroom is needed to help providers focus on new care models and improving efficiency in a sustainable manner, rather than firefighting and taking short-term measures to solve in-year financial problems.

Finance directors reported a lack of strategic system leadership, which is needed to drive and support change across an area, and also the difficulty of working across different regulatory regimes. This must be addressed if the NHS is to move to new models of care with services integrated across mental health, acute, community, primary and social care.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For more than 60 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has a particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

Our vision & mission

The vision that inspires us is a world where we see:

Better quality healthcare through effective use of resources

In order to help deliver our vision, we are committed to our mission of:

- Representing and supporting healthcare finance professionals
- Influencing healthcare policy
- Promoting best practice, education and CPD

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