3 November 2016

Dear Prime Minister

In response to my Parliamentary Question to you on 12 October about the NHS’s budget crisis you answered that the Government had given the NHS what it asked for. As an answer is necessarily brief I am sure you are aware of some of the wider concerns. I thought it might be helpful to set out in detail the concerns that the Public Accounts Committee has uncovered about the sustainability of the NHS budget in this Parliament and beyond. In nine reports and multiple hearings we have had on the NHS this calendar year, concerns about the sustainability of the budget were very clear.

The situation was highlighted by the extraordinary and one off measures used to balance the Department of Health Budget which was laid in Parliament on 21 July. This was accompanied by an extraordinary and unprecedented explanatory note from the Comptroller and Auditor General which raised serious concerns. He reiterated these concerns in person to the Permanent Secretary at the Public Accounts Committee hearing on 7 September.

As you are aware concerns have also been raised by the Chair of the Health Select Committee, Dr Sarah Wollaston MP, in her letter to the Chancellor of the Exchequer on the 26 October 2016. I was dismayed that the official Government response was to deny there was any issue. This flies in the face of the evidence that our committees and the National Audit Office has uncovered.

The mantra from ministers and officials is that transformation and efficiencies are achievable at a scale that will solve the problem. In reality there are a number of pressures which even the most ambitious and successful transformation programme would be hard pressed to deliver.

Growing patient demand is at the base of the funding crisis. Monitor, NHS England and independent analysts have previously calculated that a combination of growing demand, if met by no further annual efficiencies and flat real terms funding, would produce a mismatch between resources and patient needs of nearly £30 billion a year by 2020/21.

1 Department of Health Annual Report and Accounts 2015-16, HC332, July 2016
Acute trusts set a base staffing complement which is under par at the outset (as trusts have to plan according to their set budget) and leads to a reliance on a high volume of agency staff. In 2010 former Chancellor George Osborne called for a 4 per cent year on year efficiency saving from the NHS budget. This was widely recognised as unsustainable in the face of growing demand and the subsequent crisis in acute hospital budgets was predictable.

The fact that the budget pressures were predictable, but that few senior NHS figures were willing to say so publicly underlines a key issue for Ministers. Too often NHS personnel raising concerns find themselves pariahs in the system. There is a long list of formal whistleblowers who have never worked in the NHS again as a result of their willingness to raise their concerns. I fear that this lack of willingness to talk truth to those in charge extends right up to No.10.

The Public Accounts Committee is clear that whistleblowing is a sign of system failure – genuinely open and learning organisations will have clear routes for concerns to be raised.

My Committee will continue to look at the financial sustainability of the NHS. The National Audit Office is expecting to publish its latest evaluation of the NHS very soon. In the meantime, and before the Autumn Statement announcements, I present below evidence from hearings we have held on a range of specialities and financial performance to demonstrate the need to seriously reconsider the NHS budget, and to produce a coherent long-term plan for health and social care systems.

I would welcome the chance to meet with you to explain the concerns in more detail. If the NHS is to survive we need an honest discussion about budget pressures. I look forward to hearing from you.

Yours sincerely

Meg Hillier MP
Chair of the Committee of Public Accounts

---

Summary of Public Accounts Committee evidence

Pressures on funding

In January 2016 we held a session on acute hospital trusts, which have had increasing deficits over the past three years. Trusts had a net deficit of £843 million in 2014–15, a £91 million deficit in 2013–14, and £592 million surplus in 2012–13. As you know, by 2015–16 NHS trusts and foundation trusts’ total deficit was £2.45 billion. Jim Mackey (Chief Executive of NHS Improvement) admitted that the 4 per cent efficiency target had been too hard for trusts to achieve, and blamed the exploitation of the NHS by agencies for the rates they were charging for temporary staff.4

However, in our hearing on clinical staff numbers in February 2016, Jim Mackey told the Committee there had been pressure on trusts to change their initial workforce plans to meet efficiency savings, which resulted in the use of more temporary and agency staff. When pushed on the £1 billion savings expected from caps on agency staff rates, Mr Mackey admitted that the issue is about the volume of staff being used that pushes up costs, not just the rates that agencies charge for staff, and in fact, “the biggest benefit will come from volume reduction”.5

In June 2016 during a hearing on the increase in delays in discharging older people from acute hospitals – which costs the NHS an estimated £800m a year – the Chief Executive of NHS England, Simon Stevens, told the Committee that a third of problems was caused by issues in social care. Sarah Mitchel (Director of Social Care Improvement, Local Government Association) said local government has had to make savings in adult social care of an estimated £5 billion since 2010.6

In the same hearing, Mr Stevens argued that the Better Care Fund was money taken from the NHS with the assumption that there would be a reduction in emergency admissions. Whereas in reality, hospitals are aiming to moderate the growth in admissions given the growing aging population...the “real pressures building in social care...spill over in the NHS”.

In September 2016, the Committee held a short session on the Department of Health’s annual report and accounts 2015-16. The Comptroller and Auditor General reported on the measures taken by the Department of Health to manage their financial position, because of his concern at the use of one off technical and other adjustments to support spending in the absence of a comprehensive credible plan to return the NHS in England to a sustainable financial footing. In the Committee hearing, the Department’s Accounting Officer told the Committee that in order to deliver NHS services within budget in 2016-17 and longer term, they will need to deliver the five year forward view, reduce demand on acute services, and longer term improve public health by cutting down on things like smoking. As you know, funding for public health and education was cut over the spending review period, to allocate to the NHS.

The Accounting Officer told us delivering within the spending review settlement is a “huge challenge”.7

---

6 HC Committee of Public Accounts, Oral evidence: Discharging older people from acute hospitals, HC 76, June 2016
Impact on services and over-commitment of additional funding

The number of adults diagnosed with diabetes increases by an average of 4.8% a year, and by 2030 8.8% of the adult population are expected to have the condition. Treating the condition cost the NHS an estimated £5.6 billion in 2010/11.

In the same hearing, Charlie Massey (Director General, Strategy and External Relations, Department of Health) told the Committee that the additional £10 billion would cover the 7-day NHS, but that has not been costed because "it is difficult right now to get a precise figure or to have a mechanical approach for how you would deliver seven-day services in different areas". ⁸

In the hearing on commissioning specialist services in May 2016, we heard that spending on specialised services increased faster than spending on the NHS as a whole over the last three years, and now accounts for 14% of the NHS budget. Dr Jonathan Fielden (National Director of Specialised Commissioning, NHS England) told us they will need to have some difficult conversations with some trusts about whether they should be providing these services.

However, Simon Stevens told us that spending on specialised services as a proportion of the budget will continue to increase, because it is going up by 4.5% and 5% a year from next year, at a faster rate than the NHS budget overall over the spending review period. ⁹

The NHS has an ambition for 'parity of esteem' between mental and physical health. Mental health services currently take 12% of the NHS budget, and in June 2016 we heard in the hearing on improving access to mental health services that the Mental Health Taskforce set up by Simon Stevens has set out plans that will cost an additional £1 billion a year. Mr Stevens said he saw that as the minimum necessary, and that, "the need on the ground already outstrips the budget and will still outstrip even the expanded budget in 2020". ¹⁰

These are just some of the areas of spend by the NHS and Department of Health, but given the pressures we have heard about in each, it is safe to assume this is the case across the board.

Taken as a whole, the current situation and the current budget just do not add up.

---

⁹ HC Committee of Public Accounts, Oral evidence: NHS Specialised Services, HC 916, May 2016
¹⁰ HC Committee of Public Accounts, Oral evidence: Improving Access to Mental Health Services, HC 80, June 2016