

Nuffield Trust Briefing

Spending on NHS and non-NHS providers

2 July 2014

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In July 2014 the Nuffield Trust will publish *In the Red*, a comprehensive analysis of the finances of the NHS since 2010. The full report will be published on the Nuffield Trust website at 00.01am on Thursday 10 July.

This short briefing is extracted from *In the Red* and focuses on the breakdown of commissioner spending on NHS and non-NHS providers in the acute, community and mental health sectors. It updates [previous analysis](#) published by the Nuffield Trust and IFS in May 2013 on the private/ public provider mix in the NHS.

Key points

- Increased spending on non-NHS providers of acute care has slowed. Between 2010/11 and 2012/13 spending on acute care provided by independent sector hospitals increased by an annual average of 6.7% from £1.30bn to £1.58bn. In 2012/13, the growth in spending on NHS funded care delivered by independent sector hospitals slowed, with PCTs spending £14 million less in real terms compared with 2011/12.
- But spending on non-NHS providers of community and mental health services has continued to rise. The independent sector has become a more important provider of NHS community and mental health services. This trend continued in 2012/13 and spending growth on non-NHS providers of community and mental health services outpaces spending increases for NHS trusts. These are now the major areas for non-NHS providers. One pound in every five spent by PCTs on community health services in 2012/13 was spent on care provided by independent sector providers, an increase of 34 per cent in one year alone.

- Similarly, funding for independent sector mental health service providers increased by 15 per cent in real terms between 2011/12 and 2012/13 alone while funding for NHS provided mental health service decreased by one per cent. Provisional data from foundation trusts suggests that funding of NHS provided mental health services has again fallen slightly in real terms while that for community services has held steady.

Commissioner spending on NHS and non NHS providers

Up until 2013, when the Health and Social Care Act came into force, Primary Care Trusts (PCTs) were the sole commissioners for secondary care (including hospital, community and mental health services). After April 2013 PCTs were abolished and commissioning was handed to Clinical Commissioning Groups (CCGs).

Over the last decade, commissioners purchased care from an increasingly wide range of providers. As a result, the independent sector now plays a much greater role in the provision of NHS-funded care. This briefing, extracted from a forthcoming Nuffield Trust publication, focuses on changes in commissioner spending with NHS, independent and voluntary sector providers of community health services, mental health care and hospital services between 2010/11 and 2012/13. This is the last year for which audited accounts data is available, and therefore the briefing examines PCT spending.

The accounts distinguish between payments to Independent Sector Treatment Centres, centres that are privately run and commissioned by the English NHS to deliver services to NHS patients, other private providers, voluntary providers and ‘other’ which includes local authorities and NHS bodies in Wales, Scotland and Northern Ireland. We have used these definitions throughout, except that we have combined payments to ISTCs and other private providers and refer to this group as ‘Independent Sector Providers’.

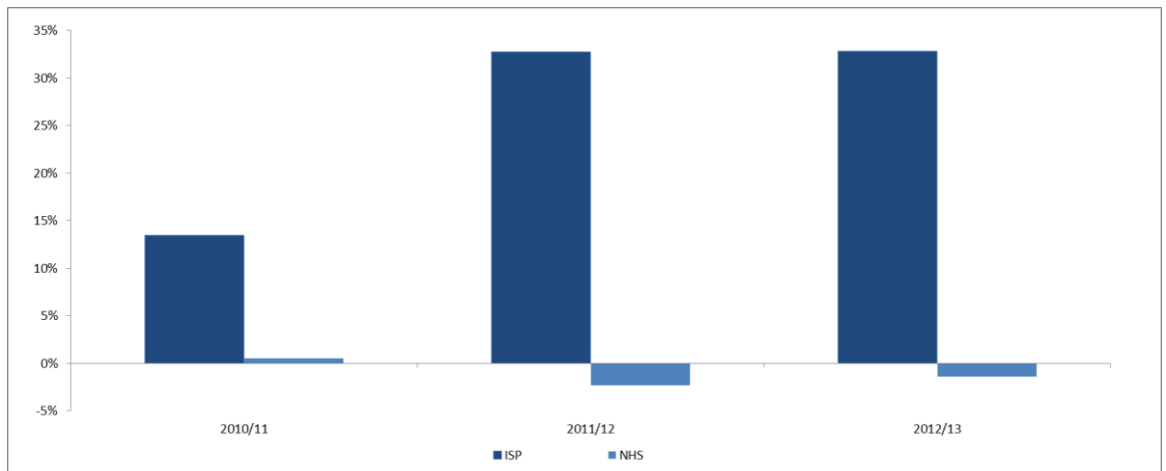
Community health services

From 2010/11 to 2012/13, spending on community health services increased at an average rate of 5% annually in real terms from £8.7 billion to £9.7 billion. But within this total, PCT expenditure on NHS provided community services fell while spending on care provided by non-NHS providers such as increased rapidly (table 1). Spending on non-NHS providers accounted for all the growth in community health services in 2011/12 and 2012/13. Nearly one third of NHS spending on community health services is now with non-NHS providers.

Table 1: PCT spending on community health services provided by the NHS and non-NHS providers from 2010/11 to 2012/13 (£ billion) (2012/13 prices)

Year	PCT spending on ISP (% total share)	PCT spending on Voluntary and other (%total share)	PCT spending on NHS bodies (% total share)	Total PCT Spending for community health services
2010/11	1.00 (12%)	0.72 (8%)	6.98 (80%)	8.70
2011/12	1.33 (14%)	1.07 (12%)	6.82 (74%)	9.22
2012/13	1.77 (18%)	1.26 (13%)	6.72 (69%)	9.75

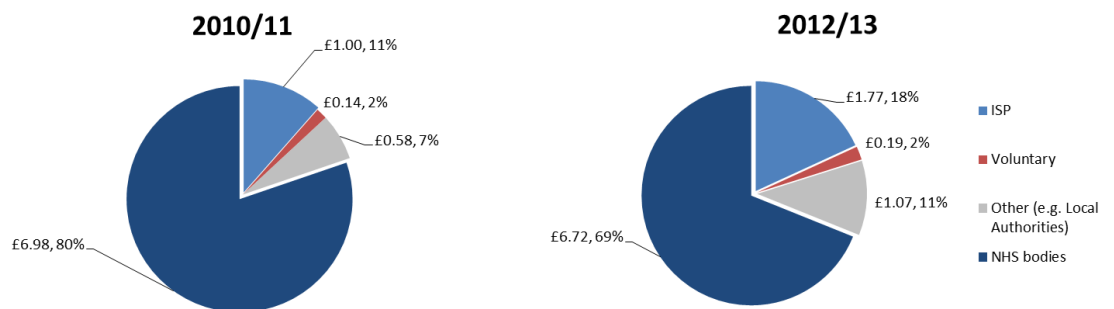
Figure 1: Annual change in PCT spending on Independent Sector (ISP) and NHS providers of Community Health Services, real terms, 2010/11- 2012/13



As a result, the proportion (by value) of community health services provided by the independent sector increased from 12 per cent in 2010/11 to 18 per cent in 2012/13. The total amount spent on independent sector providers was greater in 2012/13 than that in the acute sector. The proportion of expenditure with voluntary and other sector providers also increased significantly almost certainly as the *Transforming Community Services* programme led to new employee owned organisations being established (figure 2). Policy and service priorities may also have led to the increase, for example investment in reablement services which are normally supplied by non-NHS providers. Provisional data from foundation trusts in 2013/14 suggests that spending on NHS providers of community services held more or less steady in real terms.

Figure 2 Expenditure on Community health care by service providers, 2010/11-2012/13

(£ billion) (2012/13 prices)



Mental health services

Non-NHS providers accounted for almost £1 in every £5 of NHS funded mental health care in England in 2012/13 but this has been relatively stable for the last few years. (table 2).

Table 2: PCT spending on mental health care by service providers from 2010/11 to 2012/13 (£ billion) (2012/13 price)

Year	PCT spending on ISP (% total share)	PCT spending on voluntary and other service providers (% total share)	PCT spending on NHS bodies (% total share)	Total PCT spending for mental health services
2010/11	1.05 (12%)	0.56 (6%)	7.26 (82%)	8.86
2011/12	1.01 (12%)	0.58 (7%)	7.11 (82%)	8.71
2012/13	1.17 (13%)	0.54 (6%)	7.08 (81%)	8.80

However, over this period PCT spending on NHS providers of mental health services fell by 2.5% in real terms (£17 million) with funding for independent sector providers rising by 12% (£126 million) but from a much lower base. Funding for voluntary sector and local authority providers also fell slightly. All the growth in mental health spending in 2012/13 was in non-NHS providers. Figure 2.7 shows the annual change in spending by provider type in each of the three years from 2010/11 to 2012/13 and Figure 4 shows the proportion spent in each type of provider in 2010/11 and 2012/13. Provisional data from foundation trusts suggests funding for NHS provided mental health services fell slightly in real terms in 2013/14.

Figure 3: Annual change in PCT spending for ISP and NHS provided Mental Health care, 2010/11- 2012/13 (2012/13 prices)

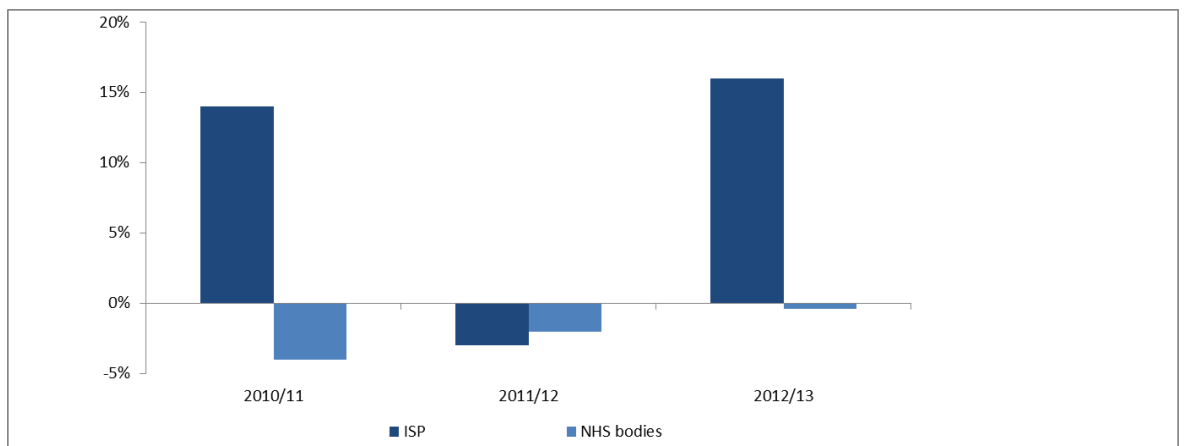
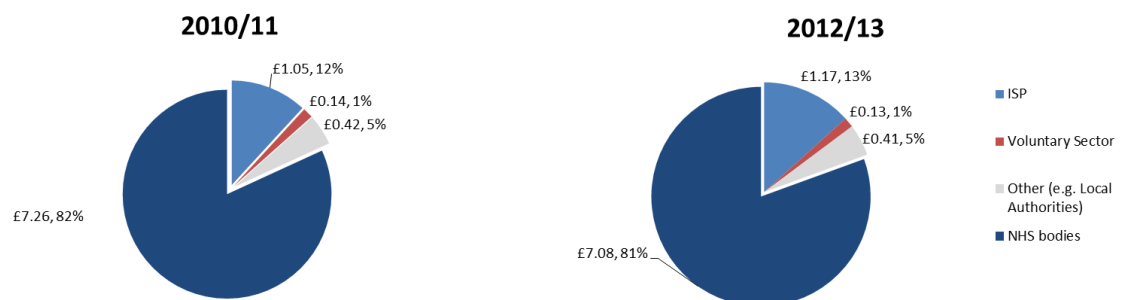


Figure 4: PCT Expenditure on Mental Health Care by service providers, 2010/11-2012/13 (£ billion) (2012/13 price)



Hospital services

Contrary to community and mental health services, the provision of hospital services (general and acute and accident and emergency services) is much more concentrated in NHS providers. Spending on hospital services increased by 4.0% in real terms from £42.5 billion in 2010/11 to £44.2 billion in 2012/13, at an annual average rate of 1.3% (table 3).

Table 3: PCT spending on hospital services by providers from 2010/11 to 2012/13 (£ billion) (2012/13 prices)

Year	PCT spending on ISP (% total share)	PCT spending on voluntary and other service providers (% total share)	PCT spending on NHS bodies (% total share)	Total PCT Spending on Hospital services
2010/11	1.35 (3.2%)	0.24 (0.57%)	40.96 (96.3%)	42.55
2011/12	1.60 (3.7%)	0.23 (0.54%)	41.26 (95.8%)	42.60
2012/13	1.58 (3.6%)	0.23 (0.53%)	42.42 (95.9%)	44.24

In 2010/11 and 2011/12, PCT funding for independent sector providers of hospital services grew at a much faster rate than funding for NHS providers but from a much lower base. However, in 2012/13, PCT expenditure on care provided by independent sector providers fell by £13 million (-0.86%) compared to that of the previous year while funding for NHS bodies increased by nearly £1.2 billion (2.7%) (figure 5).

Figure 5: Annual percentage changes in expenditure with NHS and ISP providers of Hospital Services 2010/11- 2012/13

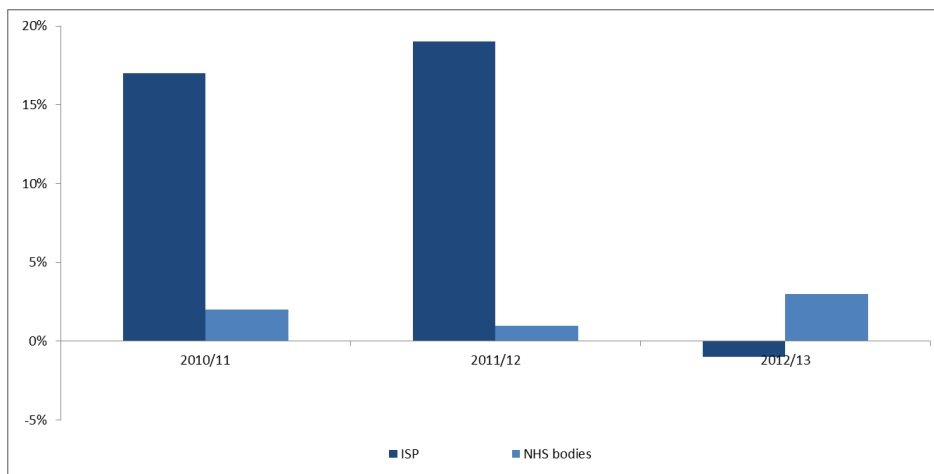
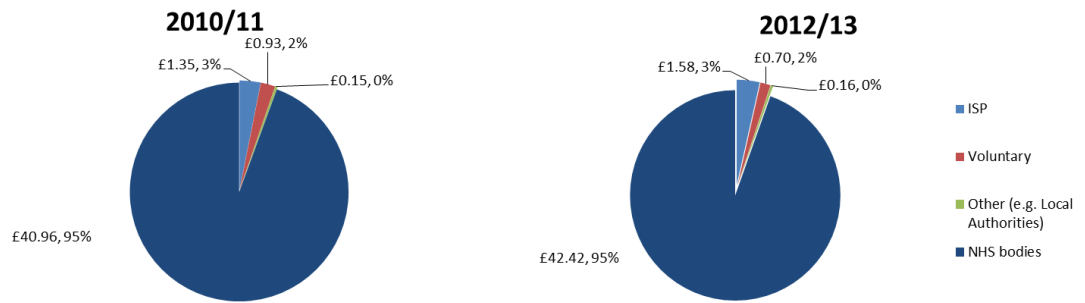


Figure 6: PCT Expenditure on Hospital Care by service providers, 2010/11- 2012/13 (£ billion)



Conclusion

Our analysis of services by provider shows that there are changes in the mix of funding by type of service providers in the secondary care sector. Funding for NHS provided mental health care and community health services both saw a fall in real terms, by contrast funding for the provision of those services by the independent sector experienced a rapid increase. Our analysis focuses on the three financial years to 2012/13 but these trends started before 2010/11. Indeed, the share of the independent sector as a proportion of total spend on community health services has nearly tripled since 2006/07 from 7% to 18%. The share of the independent sector as a proportion of total spend on mental health services increased by 5 percentage points between 2008/09 and 2012/13, while the share of NHS bodies have decreased by same amount (5 percentage points).

This rapid growth is partly explained by the *Transforming Communities Services* (TCS) programme, a 2 year programme that ended in March 2011, which has led to some community health services becoming stand-alone social enterprises¹. But it clearly goes beyond this. There is very little information on the number or nature of the contracts commissioners are tendering or agreeing with non-NHS bodies. However some research has tracked invitations to tender and contract awards in the 2013/14 financial year². This found that CCGs awarded 80 contracts during 2014. Two-thirds of these contracts were awarded to non-NHS providers and they covered a diverse range of clinical services with diagnostics, mental health and pharmacy featuring prominently.

In the hospital setting, non-NHS providers compete for NHS work under the fixed national tariff – this limits the scope for price competition. In community health services and mental health there is no system of national pricing and so local commissioners determine both the quality and price parameters of any contracting. It is however almost impossible to judge what impact this shift from NHS to non-NHS providers has had on access to care and the efficiency of provision as there is little data available nationally. Beyond concerns about efficiency such a rapid change over a short period of time raises questions about the impact on NHS community and mental health services that are left with a declining revenue base.

¹ <http://webarchive.nationalarchives.gov.uk/+/www.dh.gov.uk/en/Healthcare/TCS/index.htm>

² Davies P (2014) 'Is the great NHS sell-off under way?' *BMJ* 2014;348:g2912

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