Gateway reference is No: 04845

Additional technical guidance – Financial Planning 2016/17

Utilisation of 1% non-recurrent spend to create a risk reserve

Introduction

As part of the spending review £2.14 billion has been established as a sustainability & transformation fund (S&TF) – in 2016/17 with £1.8 billion of this being made available to stabilise the financial position of the provider sector.

To contribute to the health system risk management, HM Treasury has stipulated that all commissioning organisations (with the exception of Specialised & Public Health, both of which are expected to manage within their resource limits) must make sure that the 1% non-recurrent spend (as required by the business rules) is fully uncommitted at the start of the financial year. Approval for spending of the 1% non-recurrent monies during the year will also be subject to approval by HM Treasury.

By commissioning organisations not committing their 1% monies this creates c. £800m of additional headroom to mitigate financial risk. This will help provide financial stability within each transformation footprint, which in turn goes to provide a sound foundation for the Sustainability and Transformation Plans.

As this approach will be an important contribution to the overall system risk management, further guidance is being issued to provide clarity as to how this should be demonstrated in financial plans, and the process for release during the year. The delivery of this requirement will form an important part of the Regional assurance of organisational plans.

Retention of funds by commissioners

Whilst the rationale for this requirement is to mitigate system risk, it is important to underline that this money remains a commissioning resource and is ***not*** a commissioner-held provider pot. The money will not be paid over to providers to directly support provider financial positions. If the risk reserve is required to be called upon, commissioners will release the money to their bottom line, and the resulting underspend will offset the provider overspend.

The money will not be top-sliced from commissioners, and will not provide a 'bail out' fund to be paid to providers. If it becomes necessary for a commissioner to flow some or all of the non-recurrent funding through to the bottom line, the additional underspend thereby created will be carried forward into future years. The commissioner finance template requires commissioners to confirm that the 1% non-recurrent is uncommitted at the start of the year.

Local and regional teams will be asked to confirm with each commissioner that the planned 1% non-recurrent spend has not been committed at the start of the year. The plans for the spend should also be considered to ensure that they are appropriately phased in line with the rest of this guidance and can be scaled should a commissioner be required to release some but not all of the proposed spend. For clarity the setting aside of the 1% non-recurrent monies is separate to planning to the uncommitted 0.5% contingency.

Scope of risk management

The default position is that the 1% non-recurrent will only be used to offset pressures within the transformational footprint, and will not be called upon to offset risks in other parts of the country or at a national level. As mentioned above, it is expected that Providers and Specialised/Public Health commissioners will manage within their respective financial envelopes.

However there are examples where transformation footprints have significant patient outflows into neighbouring footprints, particularly those footprints that are proximate to large teaching hospitals. In these specific circumstances, a commissioner risk pool may be applied to specific out-of-area provider risks.

Further, there are a small number of providers whose commissioner footprint is so widely dispersed that it would be inappropriate to tie them to a specific transformation footprint. These providers will be excluded from local risk pooling arrangements.

The 1% non-recurrent attributable to direct commissioning will be split pro rate across the transformational footprints (taking account of delegation of primary care budgets), and included within the risk pools for local areas.

Provider control totals

NHSI will set the conditions that each provider planned to be in receipt of S&TF monies must meet. These conditions will be set nationally, and there will be little variation between providers. If a provider does not meet the required conditions it will not receive its S&TF monies. Instead the funds will be held back by NHS England nationally and either paid out at a later time if the provider is able to catch up, or held back to create a compensating underspend.

The financial performance of each provider will be measured by reference to a control total. For some organisations this may be a deficit control total.

Process for releasing 1% for investment

In-year the financial position will be reviewed by HM Treasury in conjunction with NHS England and NHS Improvement. The process for this is currently being finalised, and further detail will be released in due course.

Based on the outcome of these reviews the transformational footprints will either be required to continue to hold the 1% or will be able to release it for investment. If part of the 1% is required to be used to offset provider deficits the financial impact of this will be pro-rated over all commissioners in a transformational footprint; the contribution is linked to footprints and not contractual relationship with providers.