

## BOARD PAPER - NHS ENGLAND

**Title:**

Consolidated Month 5 2016/17 Financial Report

**Lead Director:**

Paul Baumann, Chief Financial Officer

**Purpose of Paper:**

- To update the Board on the financial position for month 5 2016/17, the forecast for the year and the associated risks of delivery

**The Board is invited to:**

- Note the financial position for month 5

# Consolidated Month 5, 2016/17 Financial Report

## PURPOSE

1. This paper summarises the year to date and forecast position at month 5, 2016/17.

## CONTEXT

2. The commissioning system is planning to spend a total RDEL allocation of £105.8bn, which includes £250m of prior year drawdown, plus a further £651m for AME/Technical items<sup>1</sup> giving a total in-year allocation of £106.5bn. This excludes any historical underspends that are not available to be spent in 2016/17.
3. A total of 39 CCGs have plans that show a cumulative deficit by the end of 2016/17. 29 of these CCGs expect to report an in-year deficit; this is a similar number to 2015/16, but with a 33% lower average overspend.
4. The commissioning expenditure for the year includes plans for non-recurrent investment expenditure of 1% of allocations (ca. £800m), which is currently uncommitted but will be released for investment in local priorities if not required to offset risks in the delivery of overall financial balance. The creation of this reserve has placed significant pressure on the commissioning system, which is reflected in an increase in the level of savings that commissioners need to deliver, from an average of 2.2% of allocations in 2015/16 to 3.0% of allocations in 2016/17 plans. The challenge in delivering a higher level of savings has been reflected in commissioner risks from the start of the year, and in some cases is now beginning to crystallise into deteriorations in forecasts.
5. The figures in this report are derived from the consolidated financial reports of clinical commissioning groups (CCGs) and direct commissioning units, which have been reviewed and assured by local offices and the regional teams, and from the monthly financial reports on central budgets.

## ANALYSIS

### Overall Financial Position

6. Table 1 summarises the year to date and full year forecast expenditure for NHS England as at month 5:

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<sup>1</sup> The NHS England mandate includes two technical financial targets; £300m Annually Managed Expenditure (AME) limit for provision movements and other impairments and £351m Technical accounting limit (e.g. for capital grants). These limits are ringfenced and cannot be used to support core patient services, which comprise our Revenue Departmental Expenditure Limit (RDEL) limit.

**Table 1**

Net Expenditure	Year to Date				Forecast Outturn			
	Plan £m	Actual £m	Under/(over) spend		Plan £m	FOT £m	Under/(over) spend	
			£m	%			£m	%
CCGs	31,433.4	31,592.1	(158.7)	(0.5%)	76,197.6	76,285.5	(87.9)	(0.1%)
Direct Commissioning	10,429.7	10,450.6	(20.9)	(0.2%)	25,782.4	25,782.4	-	-
NHSE Running & central programme costs (excl. depreciation)	832.1	747.2	84.9	10.2%	3,729.1	3,582.7	146.4	3.9%
Other including technical and ringfenced adjustments					(58.6)	23.4	(82.0)	
<b>Total non-ringfenced RDEL under/(over) spend</b>	<b>42,695.2</b>	<b>42,789.9</b>	<b>(94.7)</b>	<b>(0.2%)</b>	<b>105,650.5</b>	<b>105,674.0</b>	<b>(23.5)</b>	<b>(0.0%)</b>

7. Overall at month 5, year to date headline expenditure is £95m (0.2%) above plan. There is an overspend on CCGs (see para 9) and Specialised Commissioning which is partially compensated for by an underspend on other areas of direct commissioning and NHS England central budgets.
8. The full year forecast currently shows a bottom line position broadly in line with plan (an overspend of less than 0.1%). This is made up of a forecast overspend in CCGs (see para 9) offset by a forecast underspend on NHS England central costs (see para 10). The forecast also reflects greater pressure than expected from the impact of the technical and ringfenced adjustments relating to provision movements and depreciation. The total forecast variance of £82m in these areas is principally the result of the release of provisions in CCGs (£49m) and lower than expected depreciation charges (£24m), both of which are eliminated from our performance when reported against the core non-ringfenced RDEL measure.
9. There are 77 CCGs reporting year to date overspends, of which 40 are greater than 1%. The majority of these CCGs are assuming that they will be able to recover their financial position by the end of the year, so their year to date overspend is not translating into a deterioration in their forecast outturn. There are 24 exceptions to this, where CCGs are forecasting a position worse than their annual plan, of which 4 are forecasting an unplanned deficit. Of the 39 CCGs with planned cumulative deficit positions, 13 are forecasting overspends, and the remainder are reporting a position in line with plan. The main reasons for the overspends in CCGs are shortfalls against commissioner efficiency plans and over-performance on acute contracts. This results in an overall £101m (0.1%) overspend which is offset by a £13m forecast underspend on the quality premium.
10. The NHSE running and central programme costs underspend predominantly relates to unplanned rates rebates (£77m), and the release of contingencies (£33m).
11. Further detail on the overall financial position can be found in the appendices, including a detailed summary of year to date and forecast expenditure (Appendix A), a breakdown of running costs (Appendix B) and of programme costs (Appendix C).

## **Commissioner Efficiency Plans**

12. In aggregate commissioners are planning for efficiency savings of £3.1bn, which equates to 3.0% of allocations compared to 2.2% in 2015/16.

13. At month 5, commissioners are forecasting that £2.8bn of their savings plans will be delivered, a delivery rate of 89%, with the forecast under delivery spread across all areas of commissioning. In 2015/16, the actual delivery rate for the year was 87% against the target of £2.2bn. Further detail on commissioner efficiency performance can be found in Appendix D.

## **Risks and Mitigations**

14. A higher level of risk than in previous years was identified during planning, predominantly reflecting the higher level of ambition with regard to efficiency gains, which continues to be reflected in the position reported by commissioners.
15. The net risk position reported by CCGs and direct commissioning teams (after application of available mitigation) is £444m, mostly reflecting the level of challenge in delivering the full year commissioner efficiency plans, managing activity risks and absorbing the cost of the increase in Funded Nursing Care recently notified by the Department of Health.
16. This is partially offset by central mitigations identified to date of £71m (net of risks), predominantly relating to opportunities for managed underspends on NHSE central costs, giving an overall net risk position of £373m.
17. As at Q1, the provider sector was forecasting performance broadly in line with Operating Plan control totals totalling £580m. The impact of the financial 'reset' initiated in July and designed to reduce the in-year provider sector deficit to £250m will be reflected in future quarterly forecasts published by NHS Improvement.
18. The senior management team are undertaking a full 'deep dive' review of the financial position of commissioners as at Month 5 to test the robustness of the forecast, which will include a detailed assessment of the year to date pressures and verification of the overall level of risk in the commissioning system. The outcome of this review will be reflected in Month 6 reporting to the Board.

## **RECOMMENDATION**

19. The Board is asked to note the financial position for month 5.

**Author:** Paul Baumann, Chief Financial Officer  
**Date:** September 2016

### Summary of Year to Date and Forecast Expenditure by Area of Commissioning

2016/17 - Month 5 (August 2016) Net Expenditure	Year to Date Net Expenditure				Forecast Net Expenditure			
	Plan £m	Actual £m	Var £m	Var %	Plan £m	Forecast £m	Var £m	Var %
<b>Local Net Expenditure</b>								
North	9,659.9	9,696.5	(36.6)	(0.4%)	23,449.6	23,472.1	(22.5)	(0.1%)
Midlands & East	9,159.4	9,236.7	(77.3)	(0.8%)	22,207.8	22,212.6	(4.8)	(0.0%)
London	4,848.5	4,859.7	(11.2)	(0.2%)	11,786.0	11,791.6	(5.6)	(0.0%)
South	7,765.6	7,799.2	(33.6)	(0.4%)	18,664.2	18,732.2	(68.0)	(0.4%)
Quality Premium (note)	-	-	-	-	90.0	77.0	13.0	14.4%
<b>Total Local Net Expenditure</b>	<b>31,433.4</b>	<b>31,592.1</b>	<b>(158.7)</b>	<b>(0.5%)</b>	<b>76,197.6</b>	<b>76,285.5</b>	<b>(87.9)</b>	<b>(0.1%)</b>
<b>Direct Commissioning</b>								
Specialised Commissioning	6,259.9	6,286.1	(26.2)	(0.4%)	15,644.7	15,644.7	-	-
Armed Forces	25.4	25.6	(0.2)	(0.8%)	62.8	62.8	-	-
Health & Justice	212.7	212.2	0.5	0.2%	521.0	521.0	-	-
Primary Care & Secondary Dental	3,595.7	3,592.6	3.1	0.1%	8,618.4	8,618.3	0.1	0.0%
Public Health	336.0	334.1	1.9	0.6%	935.5	935.6	(0.1)	(0.0%)
<b>Total Direct Commissioning Expenditure</b>	<b>10,429.7</b>	<b>10,450.6</b>	<b>(20.9)</b>	<b>(0.2%)</b>	<b>25,782.4</b>	<b>25,782.4</b>	<b>-</b>	<b>-</b>
<b>NHS England Other (excluding depreciation &amp; technical)</b>								
NHS England Running Costs (excl. depreciation)	181.1	165.8	15.3	8.5%	454.4	448.3	6.1	1.3%
NHS England Central Programme Costs (excl. depreciation)	294.3	218.9	75.4	25.6%	899.4	762.4	137.0	15.2%
CSUs net margin	5.6	(2.2)	7.8	139.3%	5.6	5.6	-	-
Other Central Budgets (including provider STF)	340.4	341.2	(0.8)	(0.2%)	2,369.7	2,366.4	3.3	0.1%
<b>Total NHS England Other (excluding depreciation &amp; technical)</b>	<b>821.4</b>	<b>723.7</b>	<b>97.7</b>	<b>11.9%</b>	<b>3,729.1</b>	<b>3,582.7</b>	<b>146.4</b>	<b>3.9%</b>
NHS England depreciation charges	10.7	23.5	(12.8)		116.0	60.9	55.1	
Remove ringfenced under/(over) spend (depreciation and impairments)					(166.0)	(86.4)	(79.6)	
Remove AME/Technical items					(8.6)	48.9	(57.5)	
<b>Total non-ringfenced RDEL under/(over) spend</b>	<b>42,695.2</b>	<b>42,789.9</b>	<b>(94.7)</b>	<b>(0.2%)</b>	<b>105,650.5</b>	<b>105,674.0</b>	<b>(23.5)</b>	<b>(0.0%)</b>

Note - Quality Premium is added to the planned expenditure (and income) of CCGs in the lines above when earned. This line shows the element of annual quality premium budget which has not yet been earned.

**Summary of Year to Date and Forecast NHS England Running Costs Expenditure**

	Year to Date Net Expenditure				Forecast Net Expenditure			
	Plan £m	Actual £m	Var £m	Var %	Plan £m	Forecast £m	Var £m	Var %
Medical	7.0	6.4	0.6	8.6%	16.9	16.5	0.4	2.4%
Nursing	3.1	2.8	0.3	9.7%	7.2	6.8	0.4	5.6%
Operations and Information	88.9	84.1	4.8	5.4%	217.0	215.2	1.8	0.8%
Specialised Commissioning	6.3	5.9	0.4	6.3%	15.2	14.8	0.4	2.6%
Finance	16.0	15.7	0.3	1.9%	38.3	38.0	0.3	0.8%
Commissioning Strategy	6.2	5.8	0.4	6.5%	14.9	14.6	0.3	2.0%
Transformation & Corp Operations	28.4	25.1	3.3	11.6%	69.7	71.1	(1.4)	(2.0%)
PCS	24.6	25.4	(0.8)	(3.3%)	61.7	62.6	(0.9)	(1.5%)
Chair & Chief Executive Group	0.6	0.5	0.1	16.7%	1.5	1.5	0.0	(0.0%)
Contingency/other	0.0	(5.9)	5.9	100.0%	12.0	7.2	4.8	40.0%
<b>TOTAL running costs excl depreciation</b>	<b>181.1</b>	<b>165.8</b>	<b>15.3</b>	<b>8.4%</b>	<b>454.4</b>	<b>448.3</b>	<b>6.1</b>	<b>1.3%</b>

**Summary of Year to Date and Forecast NHS England Programme Costs Expenditure**

	Year to Date Net Expenditure				Forecast Net Expenditure			
	Plan £m	Actual £m	Var £m	Var %	Plan £m	Forecast £m	Var £m	Var %
Medical	29.6	17.5	12.1	40.9%	132.3	130.3	2.0	1.5%
Nursing	7.6	5.4	2.2	28.9%	25.3	23.9	1.4	5.5%
Operations and Information	44.3	30.8	13.5	30.5%	192.8	191.6	1.2	0.6%
Specialised Commissioning	6.1	2.5	3.6	59.0%	14.5	14.2	0.3	2.1%
Finance	2.7	1.8	0.9	33.3%	6.4	6.0	0.4	6.3%
Commissioning Strategy	41.2	39.4	1.8	4.4%	106.8	106.8	-	-
Transformation & Corp Operations	2.7	1.8	0.9	33.3%	13.7	13.7	-	-
Leadership Academy	-	-	-	-	-	-	-	-
Clinical Excellence Awards	45.5	45.5	-	-	150.0	150.0	0.0	0.0%
Provider Support	80.0	80.0	-	-	123.0	123.0	0.0	0.0%
Other Programmes	34.6	20.2	14.4	41.6%	62.0	(28.8)	90.8	146.5%
NHS England contribution to legacy CHC claims	0.0	(0.1)	0.1	100.0%	50.0	50.0	0.0	0.0%
Contingency/other	0.0	(25.9)	25.9	100.0%	22.6	(18.3)	40.9	181.0%
<b>TOTAL programme costs excl depreciation</b>	<b>294.3</b>	<b>218.9</b>	<b>75.4</b>	<b>25.6%</b>	<b>899.4</b>	<b>762.4</b>	<b>137.0</b>	<b>15.2%</b>

### Summary of Year to Date and Forecast Commissioner Efficiency Performance by Area of Commissioning

	YTD Commissioner Efficiency				Forecast Commissioner Efficiency				
	Plan £m	Actual £m	Var £m	Achieved %	Plan £m	As % of Allocation	Forecast £m	Var £m	Achieved %
Local Commissioner Efficiency									
North	215.3	188.4	(26.9)	87.5 %	631.6	2.7%	540.4	(91.2)	85.6 %
Midlands and East	250.2	204.6	(45.6)	81.8 %	767.1	3.5%	691.0	(76.1)	90.1 %
London	108.8	95.6	(13.2)	87.9 %	329.0	2.8%	294.0	(35.0)	89.4 %
South	225.9	187.8	(38.1)	83.1 %	710.3	3.8%	596.6	(113.7)	84.0 %
<b>Total Local Commissioner Efficiency</b>	<b>800.2</b>	<b>676.4</b>	<b>(123.8)</b>	<b>84.5 %</b>	<b>2,438.0</b>	<b>3.2%</b>	<b>2,122.0</b>	<b>(316.0)</b>	<b>87.0 %</b>
Direct Commissioning Commissioner Efficiency									
Specialised	160.0	142.4	(17.6)	89.0 %	420.1	2.7%	408.0	(12.1)	97.1 %
Health & Justice	-	-	-	100.0 %	-	-	-	-	100.0 %
Armed Forces	2.7	3.1	0.4	114.8 %	6.4	1.2%	6.4	0.0	100.0 %
Primary Care and Secondary Dental	28.2	28.6	0.4	101.4 %	245.3	2.7%	233.3	(12.0)	95.1 %
Public Health	4.4	5.2	0.8	118.2 %	7.9	0.8%	7.9	0.0	100.0 %
<b>Total DC Commissioner Efficiency</b>	<b>195.3</b>	<b>179.3</b>	<b>(16.0)</b>	<b>91.8 %</b>	<b>679.7</b>	<b>2.6%</b>	<b>655.6</b>	<b>(24.1)</b>	<b>96.5 %</b>
<b>TOTAL Commissioner Efficiency</b>	<b>995.5</b>	<b>855.7</b>	<b>(139.8)</b>	<b>86.0 %</b>	<b>3,117.7</b>	<b>3.0%</b>	<b>2,777.6</b>	<b>(340.1)</b>	<b>89.1 %</b>