

BOARD PAPER - NHS ENGLAND

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| Title: Consolidated Month 7 2016/17 Financial Report |
| Lead Director: Paul Baumann, Chief Financial Officer |
| Purpose of Paper: <ul style="list-style-type: none">• To update the Board on the financial position for month 7 2016/17, the forecast for the year and the associated risks of delivery |
| The Board is invited to: <ul style="list-style-type: none">• Note the financial position for month 7 |

**Consolidated Month 7, 2016/17 Financial Report
NHS England Board – 15 December 2016**

PURPOSE

1. This paper summarises the year to date and forecast position at month 7, 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 items¹ 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 planned 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 used as necessary to offset any overspends across the health system to ensure 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 is now increasingly beginning to crystallise in individual CCG 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 7:

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 | 44,028.3 | 44,321.6 | (293.3) | (0.7%) | 76,308.5 | 76,564.1 | (255.6) | (0.3%) |
| Direct Commissioning | 14,640.6 | 14,677.7 | (37.1) | (0.3%) | 25,642.4 | 25,599.6 | 42.8 | 0.2% |
| NHSE Running & central programme costs (excl. depreciation) | 1,377.5 | 1,247.0 | 130.5 | 9.5% | 3,772.3 | 3,492.2 | 280.1 | 7.4% |
| Other including technical and ringfenced adjustments | 12.3 | 33.5 | (21.2) | | (72.8) | 1.3 | (74.1) | |
| Total non-ringfenced RDEL under/(over) spend | 60,058.7 | 60,279.8 | (221.1) | (0.4%) | 105,650.4 | 105,657.2 | (6.8) | (0.0%) |

¹ 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.

7. Overall at month 7, NHS England is reporting a year to date overspend of £221m (0.4%). 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. The commissioners' risk reserve is phased in Quarter 4, and the year to date performance therefore excludes any potential release. If the 7 month value of this reserve is notionally applied to the year to date results, it results in an underspend of £246m.
8. The full year forecast currently shows a bottom line position broadly in line with plan (an overspend of less than 0.1%). This also excludes any release of the commissioners' risk reserve and is made up of a forecast overspend in CCGs (see para 9) offset by forecast underspends on direct commissioning (see para 10) and NHS England central costs (see para 11). 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 £74m in these areas is the result of the release of provisions (£56m) and lower than expected depreciation charges (£18m), both of which are eliminated from our performance when reported against the core non-ringfenced RDEL measure.
9. There are 93 CCGs reporting year to date overspends, of which 53 are greater than 1%. Roughly half of these CCGs are assuming that they will be able to recover their financial position by the end of the year, resulting in 47 CCGs forecasting a year end position worse than their annual plan. There are 15 CCGs forecasting unplanned cumulative deficit positions, and of the 39 CCGs with planned cumulative deficit positions, 20 are now forecasting overspends, and the remainder are reporting a position in line with plan. There is a 38% forecast increase in the value of commissioner savings compared to 2015/16. All CCGs facing potential overspends are fully engaged in mitigating actions, with additional intervention where necessary by NHS England regional teams, but CCGs are currently forecasting an overall £269m (0.4%) overspend which is offset by a £13m forecast underspend on quality premium.
10. 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). Detailed financial performance information is also published on the NHS England website on a quarterly basis (<https://www.england.nhs.uk/publications/financial-performance-reports/>).

Commissioner Efficiency Plans

11. In aggregate commissioners planned for efficiency savings of £3.1bn, which equates to 3.0% of allocations compared to 2.2% in 2015/16.
12. At month 7, commissioners are forecasting that £2.7bn of their savings plans will be delivered, a delivery rate of 86%. In 2015/16, the actual delivery for the year was £1.9bn - 87% of the target of £2.2bn. Further detail on commissioner efficiency performance can be found in Appendix D.

Risks and Mitigations

13. Alongside the forecast, NHS England operates a continuous programme to quantify financial risks and identify available mitigations. 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 and this has been reported to the board since the start of the year. An increasing amount of risk is crystallising into forecasts as the year progresses, but the aggregate of forecast overspend and net risk has been reducing steadily in recent months, as mitigating actions take effect.
14. The net risk position reported by CCGs and direct commissioning teams (after application of available mitigation) is £282m, mostly relating to 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. This also includes additional risk resulting from the delay in the implementation by the Department of Health of the new pharmacy contract.
15. This is partially offset by central mitigations of £67m (net of central risks); mainly reflecting further opportunities for managed underspends on NHSE central costs, giving an overall net risk position of £215m.
16. This net risk assessment excludes the £800m non-recurrent investment funding which is currently being held uncommitted by CCGs and NHS England Commissioning Teams; decisions on the utilisation of this funding will be taken later in the year in the light of the emerging pattern of financial performance in both commissioners and providers across the NHS.
17. Including this reserve, the current forecast and risk assessment show that CCGs and NHS England are on course to balance their combined budget for 2016/17 as a whole, while contributing a managed underspend sufficient to offset the planned £580m net deficit in the provider sector.

RECOMMENDATION

18. The Board is asked to note the financial position for month 7.

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Date: December 2016

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

| | Year to Date Net Expenditure | | | | Forecast Net Expenditure | | | |
|---|------------------------------|-----------------|----------------|---------------|--------------------------|------------------|----------------|---------------|
| | Plan £m | Actual £m | Var £m | Var % | Plan £m | Forecast £m | Var £m | Var % |
| Local Net Expenditure | | | | | | | | |
| North | 13,548.6 | 13,616.1 | (67.5) | (0.5%) | 23,478.9 | 23,532.5 | (53.6) | (0.2%) |
| Midlands & East | 12,848.4 | 12,980.7 | (132.3) | (1.0%) | 22,234.8 | 22,298.6 | (63.8) | (0.3%) |
| London | 6,792.2 | 6,809.3 | (17.1) | (0.3%) | 11,809.1 | 11,853.3 | (44.2) | (0.4%) |
| South | 10,839.1 | 10,915.5 | (76.4) | (0.7%) | 18,695.7 | 18,802.7 | (107.0) | (0.6%) |
| Quality Premium ¹ | - | - | - | - | 90.0 | 77.0 | 13.0 | 14.4 % |
| Total Local Net Expenditure | 44,028.3 | 44,321.6 | (293.3) | (0.7%) | 76,308.5 | 76,564.1 | (255.6) | (0.3%) |
| Direct Commissioning | | | | | | | | |
| Specialised Commissioning | 8,813.7 | 8,872.8 | (59.1) | (0.7%) | 15,535.3 | 15,535.3 | - | - |
| Armed Forces | 36.1 | 36.4 | (0.3) | (0.8%) | 62.8 | 62.8 | - | - |
| Health & Justice | 300.8 | 300.0 | 0.8 | 0.3 % | 526.6 | 525.3 | 1.3 | 0.2 % |
| Primary Care & Secondary Dental | 4,994.2 | 4,977.1 | 17.1 | 0.3 % | 8,585.6 | 8,554.3 | 31.3 | 0.4 % |
| Public Health | 495.8 | 491.4 | 4.4 | 0.9 % | 932.1 | 921.9 | 10.2 | 1.1 % |
| Total Direct Commissioning Expenditure | 14,640.6 | 14,677.7 | (37.1) | (0.3%) | 25,642.4 | 25,599.6 | 42.8 | 0.2 % |
| NHS England Other (excluding depreciation & technical) | | | | | | | | |
| NHS England Running Costs (excl. depreciation) | 254.1 | 234.1 | 20.0 | 7.9 % | 454.4 | 438.7 | 15.7 | 3.5 % |
| NHS England Central Programme Costs (excl. depreciation) | 436.9 | 337.9 | 99.0 | 22.7 % | 921.2 | 771.6 | 149.6 | 16.2 % |
| CSUs net margin | 5.6 | (6.6) | 12.2 | 217.9 % | 5.6 | 5.6 | - | - |
| Other Central Budgets (including provider STF) ² | 680.9 | 681.6 | (0.7) | (0.1%) | 2,391.1 | 2,276.3 | 114.8 | 4.8 % |
| Total NHS England Other (excluding depreciation & technical) | 1,377.5 | 1,247.0 | 130.5 | 9.5 % | 3,772.3 | 3,492.2 | 280.1 | 7.4 % |
| NHS England depreciation charges | 12.3 | 33.5 | (21.2) | | 122.9 | 63.4 | 59.5 | |
| Remove ringfenced under/(over) spend (depreciation and impairments) | | | | | (166.0) | (88.6) | (77.4) | |
| Remove AME/Technical items | | | | | (29.7) | 26.5 | (56.2) | |
| Total non-ringfenced RDEL under/(over) spend | 60,058.7 | 60,279.8 | (221.1) | (0.4%) | 105,650.4 | 105,657.2 | (6.8) | (0.0%) |

Note 1 - 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.

Note 2 - Expenditure relating to awards under the provider element of the Sustainability and Transformation Fund is assumed to be in line with the full allocation of 1.8bn. The related income for trusts is fully accounted for in the provider position reported by NHS Improvement – either within individual organisations' results and forecasts or as a separate line to the extent that it is either not yet allocated or not earned under the relevant award criteria.

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 | 9.8 | 9.3 | 0.5 | 5.1% | 16.9 | 16.3 | 0.6 | 3.6% |
| Nursing | 4.3 | 4.0 | 0.3 | 7.0% | 7.4 | 6.9 | 0.5 | 6.8% |
| Operations and Information | 124.8 | 118.5 | 6.3 | 5.0% | 216.5 | 213.5 | 3.0 | 1.4% |
| Specialised Commissioning | 9.0 | 8.8 | 0.2 | 2.2% | 15.5 | 15.2 | 0.3 | 1.9% |
| Finance | 22.4 | 21.9 | 0.5 | 2.2% | 38.3 | 38.2 | 0.1 | 0.3% |
| Commissioning Strategy | 8.7 | 8.0 | 0.7 | 8.0% | 14.9 | 14.0 | 0.9 | 6.0% |
| Transformation & Corp Operations | 39.7 | 35.7 | 4.0 | 10.1% | 69.7 | 69.9 | (0.2) | (0.3%) |
| PCS | 34.6 | 36.5 | (1.9) | (5.5%) | 61.7 | 62.5 | (0.8) | (1.3%) |
| Chair & Chief Executive Group | 0.8 | 0.7 | 0.1 | 12.5% | 1.5 | 1.5 | - | - |
| Contingency/other | - | (9.3) | 9.3 | 100.0% | 12.0 | 0.7 | 11.3 | 94.2% |
| TOTAL excl Depreciation | 254.1 | 234.1 | 20.0 | 7.9% | 454.4 | 438.7 | 15.7 | 3.5% |

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 | 58.5 | 39.3 | 19.2 | 32.8% | 134.1 | 127.1 | 7.0 | 5.2% |
| Nursing | 12.3 | 9.0 | 3.3 | 26.8% | 24.5 | 23.8 | 0.7 | 2.9% |
| Operations and Information | 80.3 | 61.9 | 18.4 | 22.9% | 203.6 | 201.8 | 1.8 | 0.9% |
| Specialised Commissioning | 8.5 | 4.6 | 3.9 | 45.9% | 14.5 | 12.6 | 1.9 | 13.1% |
| Finance | 3.3 | 2.6 | 0.7 | 21.2% | 6.8 | 6.2 | 0.6 | 8.8% |
| Commissioning Strategy | 60.7 | 54.2 | 6.5 | 10.7% | 109.2 | 107.1 | 2.1 | 1.9% |
| Transformation & Corp Operations | 5.7 | 3.3 | 2.4 | 42.1% | 21.1 | 20.9 | 0.2 | 0.9% |
| Clinical Excellence Awards | 64.1 | 64.1 | 0.0 | 0.0% | 150.0 | 150.0 | - | - |
| Provider Support | 96.5 | 96.5 | 0.0 | 0.0% | 123.0 | 123.0 | - | - |
| Other Programmes | 47.0 | 46.9 | 0.1 | 0.2% | 61.9 | 62.1 | (0.2) | (0.3%) |
| Rates and fraud recovery income | - | (17.9) | 17.9 | 100.0% | - | (91.0) | 91.0 | 100.0% |
| NHS England contribution to legacy CHC claims | - | (0.7) | 0.7 | 100.0% | 50.0 | 50.0 | - | - |
| Contingency / Other | - | (25.9) | 25.9 | 100.0% | 22.5 | (22.0) | 44.5 | 197.8% |
| TOTAL excl Depreciation | 436.9 | 337.9 | 99.0 | 22.7% | 921.2 | 771.6 | 149.6 | 16.2% |

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

| | Year to Date | | | | Forecast | | | | | 2015/16 Outturn £m | Percentage Increase | |
|-----------------------------------|----------------|----------------|----------------|---------------|----------------|-----------------------|----------------|----------------|---------------|--------------------------|---------------------|---------------|
| | Plan £m | Actual £m | Var £m | Achieved % | Plan £m | As % of Allocation | Forecast £m | Var £m | Achieved % | | Planned % | Forecast % |
| Local | | | | | | | | | | | | |
| North | 313.2 | 271.9 | (41.3) | 86.8 % | 631.6 | 2.7% | 500.1 | (131.5) | 79.2 % | 346.7 | 82.2% | 44.2% |
| Midlands and East | 380.8 | 306.6 | (74.2) | 80.5 % | 767.1 | 3.5% | 685.3 | (81.8) | 89.3 % | 471.7 | 62.6% | 45.3% |
| London | 162.0 | 152.4 | (9.6) | 94.1 % | 329.0 | 2.8% | 297.3 | (31.7) | 90.4 % | 257.2 | 27.9% | 15.6% |
| South | 352.0 | 272.5 | (79.5) | 77.4 % | 710.3 | 3.8% | 553.6 | (156.7) | 77.9 % | 404.7 | 75.5% | 36.8% |
| Total Local | 1,208.0 | 1,003.4 | (204.6) | 83.1 % | 2,438.0 | 3.2% | 2,036.3 | (401.7) | 83.5 % | 1,480.3 | 64.7% | 37.6% |
| Direct Commissioning | | | | | | | | | 0.0 | | | |
| Specialised | 231.5 | 198.9 | (32.6) | 85.9 % | 420.1 | 2.7% | 396.6 | (23.5) | 94.4 % | 350.4 | 19.9% | 13.2% |
| Health & Justice | - | - | - | 100.0 % | - | - | - | - | 100.0 % | - | - | - |
| Armed Forces | 3.8 | 4.2 | 0.4 | 110.5 % | 6.4 | 1.2% | 6.4 | - | 100.0 % | 7.4 | (13.5%) | (13.5%) |
| Primary Care and Secondary Dental | 60.7 | 47.8 | (12.9) | 78.7 % | 245.3 | 2.7% | 221.2 | (24.1) | 90.2 % | 67.9 | 261.3% | 225.8% |
| Public Health | 5.3 | 6.0 | 0.7 | 113.2 % | 7.9 | 0.8% | 7.9 | - | 100.0 % | 6.4 | 23.4% | 23.4% |
| Total DC | 301.3 | 256.9 | (44.4) | 85.3 % | 679.7 | 2.6% | 632.1 | (47.6) | 93.0 % | 432.1 | 57.3% | 46.3% |
| TOTAL | 1,509.3 | 1,260.3 | (249.0) | 83.5 % | 3,117.7 | 3.0% | 2,668.4 | (449.3) | 85.6 % | 1,912.4 | 63.0% | 39.5% |
| Of which transformational | 596.5 | 475.2 | (121.3) | 79.7 % | 1,174.7 | 1.1% | 1,065.9 | (108.7) | 90.7 % | 733.9 | 60.1% | 45.2% |