

BOARD PAPER - NHS ENGLAND

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| <p>Title:</p> <p>Consolidated Month 9 2016/17 Financial Report</p> |
| <p>Lead Director:</p> <p>Paul Baumann, Chief Financial Officer</p> |
| <p>Purpose of Paper:</p> <ul style="list-style-type: none">• To update the Board on the financial position for month 9 2016/17, the forecast for the year and the associated risks of delivery <p>Key Points:</p> <ul style="list-style-type: none">• NHS England is on track to meet its financial targets to balance its budget, while generating an £800m managed underspend to offset trust deficits, which NHS Improvement is committed to ensuring do not exceed £580 million. |
| <p>The Board is invited to:</p> <ul style="list-style-type: none">• Note the financial position for month 9 |

CONSOLIDATED MONTH 9 2016/17 FINANCIAL REPORT

PURPOSE

1. This paper summarises the year to date and forecast position at month 9, 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. The commissioning expenditure for the year includes a reserve 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 increasingly crystallising in individual CCG forecasts.
4. 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

5. Table 1 summarises the year to date and full year forecast expenditure for NHS England as at month 9:

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 | 56,671.6 | 57,108.8 | (437.2) | (0.8%) | 76,413.9 | 76,784.3 | (370.4) | (0.5%) |
| Direct Commissioning | 18,990.1 | 18,953.4 | 36.7 | 0.2% | 25,700.7 | 25,623.8 | 76.9 | 0.3% |
| NHSE Running & central programme costs (excl. depreciation) | 1,972.7 | 1,633.3 | 339.4 | 17.2% | 3,613.7 | 3,250.3 | 363.4 | 10.1% |
| Other including technical and ringfenced adjustments | 48.4 | 48.4 | - | | (77.9) | (13.4) | (64.5) | |
| Total non-ringfenced RDEL under/(over) spend | 77,682.8 | 77,743.9 | (61.1) | (0.1%) | 105,650.4 | 105,645.0 | 5.4 | 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.

6. Overall at month 9, NHS England is reporting a year to date overspend of £61m (0.1%). There are overspends on CCGs (see para 8) and Specialised Commissioning which are partially offset by underspends 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 9 month value of this reserve is notionally applied to the year to date position, it results in a year to date underspend of £539m.
7. The full year forecast shows a bottom line position broadly in line with plan (an underspend 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 (£77m, 0.3%) and NHS England central costs (£363m, 10.1%). 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 £65m in these areas is the result of the release of provisions in CCGs (£45m) and lower than expected depreciation charges (£20m), both of which are adjusted for when reported against the core non-ringfenced RDEL measure.
8. There are 98 CCGs reporting year to date overspends, of which 60 are greater than 1%. There are 71 CCGs forecasting a year end overspend, of which 27 are forecasting unplanned cumulative deficit positions. Of the 39 CCGs with planned cumulative deficit positions, 23 are now forecasting a position worse than their annual plan. The deterioration in the CCG position is consistent with the crystallising of risk identified in previous months, and all CCGs facing potential overspends are fully engaged in mitigating actions, with additional intervention where necessary by NHS England regional teams. CCGs are currently forecasting an overall £404m (0.5%) overspend which is offset by a £34m forecast underspend on the quality premium budget for the year. There is a 36% forecast increase in the value of commissioner savings compared to 2015/16.
9. 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

10. In aggregate commissioners planned for efficiency savings of £3.1bn, which equates to 3.0% of allocations compared to 2.2% planned in 2015/16.
11. At month 9, commissioners are forecasting that £2.6bn of their savings plans will be delivered, a delivery rate of 82%. 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

12. Alongside the forecast, NHS England monitors financial risks and 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.

13. The net risk position reported by CCGs and direct commissioning teams (after application of available mitigation) is £147m, mostly relating to the level of challenge in delivering the full year commissioner efficiency plans and managing activity risks. There is an additional central risk of £7m (net of central mitigations), giving an overall net risk position of £154m.
14. This net risk assessment excludes the £800m non-recurrent investment funding which is currently being held uncommitted by CCGs and NHS England Commissioning Teams; it is our expectation that a substantial proportion of this funding will be required to offset overspends across the wider health system, and so will not be available to commissioners to spend.
15. 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 up to an £800m managed underspend sufficient to offset the planned £580m net deficit in the provider sector.

RECOMMENDATION

16. The Board is asked to note the financial position for month 9.

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Date: February 2017

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 | 17,447.0 | 17,556.0 | (109.0) | (0.6%) | 23,534.4 | 23,645.9 | (111.5) | (0.5%) |
| Midlands & East | 16,525.1 | 16,674.8 | (149.7) | (0.9%) | 22,245.7 | 22,346.3 | (100.6) | (0.5%) |
| London | 8,783.9 | 8,816.6 | (32.7) | (0.4%) | 11,895.3 | 11,955.8 | (60.5) | (0.5%) |
| South | 13,915.6 | 14,061.4 | (145.8) | (1.0%) | 18,705.0 | 18,836.3 | (131.3) | (0.7%) |
| Quality Premium ¹ | - | - | - | - | 33.5 | 0.0 | 33.5 | 100.0 % |
| Total Local Net Expenditure | 56,671.6 | 57,108.8 | (437.2) | (0.8%) | 76,413.9 | 76,784.3 | (370.4) | (0.5%) |
| Direct Commissioning | | | | | | | | |
| Specialised Commissioning | 11,486.2 | 11,511.9 | (25.7) | (0.2%) | 15,535.5 | 15,535.5 | - | - |
| Armed Forces | 46.4 | 46.3 | 0.1 | 0.2 % | 62.8 | 62.8 | - | - |
| Health & Justice | 383.0 | 380.0 | 3.0 | 0.8 % | 525.5 | 520.0 | 5.5 | 1.0 % |
| Primary Care & Secondary Dental | 6,398.3 | 6,353.7 | 44.6 | 0.7 % | 8,644.7 | 8,597.1 | 47.6 | 0.6 % |
| Public Health | 676.2 | 661.5 | 14.7 | 2.2 % | 932.2 | 908.4 | 23.8 | 2.6 % |
| Total Direct Commissioning Expenditure | 18,990.1 | 18,953.4 | 36.7 | 0.2 % | 25,700.7 | 25,623.8 | 76.9 | 0.3 % |
| NHS England Other (excluding depreciation & technical) | | | | | | | | |
| NHS England Running Costs (excl. depreciation) | 327.9 | 298.3 | 29.6 | 9.0 % | 454.4 | 429.4 | 25.0 | 5.5 % |
| NHS England Central Programme Costs (excl. depreciation) | 561.6 | 366.0 | 195.6 | 34.8 % | 940.2 | 759.5 | 180.7 | 19.2 % |
| CSUs net margin | 5.6 | (9.8) | 15.4 | 275.0 % | 5.6 | 5.6 | 0.0 | 0.0 % |
| Other Central Budgets (including provider STF) ² | 1,077.6 | 978.8 | 98.8 | 9.2 % | 2,213.5 | 2,055.8 | 157.7 | 7.1 % |
| Total NHS England Other (excluding depreciation & technical) | 1,972.7 | 1,633.3 | 339.4 | 17.2 % | 3,613.7 | 3,250.3 | 363.4 | 10.1 % |
| NHS England depreciation charges | 48.4 | 48.4 | - | | 122.9 | 66.4 | 56.5 | |
| Remove ringfenced under/(over) spend (depreciation and impairments) | | | | | (166.0) | (89.7) | (76.3) | |
| Remove AME/Technical items | | | | | (34.8) | 9.9 | (44.7) | |
| Total non-ringfenced RDEL under/(over) spend | 77,682.8 | 77,743.9 | (61.1) | (0.1%) | 105,650.4 | 105,645.0 | 5.4 | 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 | 12.7 | 12.0 | 0.7 | 5.5% | 16.9 | 16.3 | 0.6 | 3.4% |
| Nursing | 5.7 | 5.1 | 0.6 | 11.0% | 7.7 | 7.2 | 0.5 | 7.0% |
| Operations and Information | 160.5 | 152.6 | 7.9 | 4.9% | 216.5 | 212.0 | 4.5 | 2.1% |
| Specialised Commissioning | 11.7 | 11.5 | 0.2 | 1.5% | 15.5 | 15.5 | 0.0 | 0.2% |
| Finance | 28.8 | 29.2 | (0.4) | (1.4%) | 38.4 | 39.0 | (0.6) | (1.6%) |
| Commissioning Strategy | 11.2 | 10.1 | 1.1 | 9.7% | 14.9 | 13.9 | 1.0 | 6.4% |
| Transformation & Corp Operations | 51.0 | 47.0 | 4.0 | 7.9% | 69.7 | 69.7 | 0.0 | 0.1% |
| PCS | 45.4 | 43.4 | 2.0 | 4.4% | 61.8 | 63.1 | (1.3) | (2.2%) |
| Chair & Chief Executive Group | 1.0 | 0.9 | 0.1 | 10.5% | 1.5 | 1.5 | 0.0 | 0.0% |
| Contingency/other | (0.1) | (13.5) | 13.4 | 100.0% | 11.5 | (8.8) | 20.3 | 176.3% |
| TOTAL excl Depreciation | 327.9 | 298.3 | 29.6 | 9.0% | 454.4 | 429.4 | 25.0 | 5.5% |

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 | 90.3 | 56.0 | 34.3 | 38.0% | 146.0 | 136.3 | 9.7 | 6.6% |
| Nursing | 16.2 | 12.2 | 4.0 | 24.7% | 24.6 | 24.2 | 0.4 | 1.6% |
| Operations and Information | 94.0 | 76.0 | 18.0 | 19.2% | 167.7 | 165.9 | 1.8 | 1.1% |
| Specialised Commissioning | 10.9 | 7.0 | 3.9 | 35.6% | 14.5 | 12.6 | 1.9 | 13.4% |
| Finance | 4.5 | 3.5 | 1.0 | 22.3% | 6.7 | 6.2 | 0.5 | 7.1% |
| Commissioning Strategy | 70.3 | 61.5 | 8.8 | 12.5% | 107.5 | 101.1 | 6.4 | 5.9% |
| Transformation & Corp Operations | 11.7 | 8.3 | 3.4 | 28.9% | 21.1 | 20.9 | 0.2 | 0.9% |
| Clinical Excellence Awards | 73.5 | 73.5 | - | 0.0% | 150.0 | 139.4 | 10.6 | 7.1% |
| Provider Support | 138.5 | 138.5 | - | 0.0% | 152.3 | 152.3 | 0.0 | 0.0% |
| Other Programmes | 51.7 | 51.6 | 0.1 | 0.1% | 61.7 | 61.7 | 0.0 | 0.0% |
| Rates and fraud recovery income | - | (88.1) | 88.1 | 100.0% | - | (95.0) | 95.0 | 100.0% |
| NHS England contribution to legacy CHC claims | - | (0.7) | 0.7 | 100.0% | 50.0 | 49.3 | 0.7 | 1.4% |
| Contingency | - | (33.3) | 33.3 | 100.0% | 38.1 | (15.4) | 53.5 | 140.4% |
| TOTAL excl Depreciation | 561.6 | 366.0 | 195.6 | 34.8% | 940.2 | 759.5 | 180.7 | 19.2% |

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

| | Year to Date Commissioner Efficiency | | | | Forecast Commissioner Efficiency | | | | | | 2015/16 | | Percentage Increase | |
|-----------------------------------|--------------------------------------|----------------|----------------|---------------|----------------------------------|-----------------------|----------------|-----------------------|----------------|---------------|----------------|-----------------------|---------------------|---------------|
| | Plan £m | Actual £m | Var £m | Achieved % | Plan £m | As % of Allocation | Forecast £m | As % of Allocation | Var £m | Achieved % | Outturn £m | As % of Allocation | Planned % | Forecast % |
| Local | | | | | | | | | | | | | | |
| North | 370.5 | 308.5 | (62.0) | 83.3 % | 631.6 | 2.7% | 493.9 | 2.1% | (137.7) | 78.2 % | 346.7 | 1.5% | 82.2% | 42.5% |
| Midlands and East | 455.5 | 375.3 | (80.2) | 82.4 % | 767.1 | 3.5% | 689.2 | 3.1% | (77.9) | 89.8 % | 471.7 | 2.2% | 62.6% | 46.1% |
| London | 192.6 | 179.8 | (12.8) | 93.4 % | 329.0 | 2.7% | 292.4 | 2.4% | (36.6) | 88.9 % | 257.2 | 2.2% | 27.9% | 13.7% |
| South | 422.0 | 319.2 | (102.8) | 75.6 % | 710.3 | 3.8% | 542.9 | 2.9% | (167.4) | 76.4 % | 404.7 | 2.3% | 75.5% | 34.1% |
| Total Local | 1,440.6 | 1,182.8 | (257.8) | 82.1 % | 2,438.0 | 3.2% | 2,018.4 | 2.6% | (419.6) | 82.8 % | 1,480.3 | 2.0% | 64.7% | 36.4% |
| Direct Commissioning | | | | | | | | | 0.0 | | | | | |
| Specialised | 304.9 | 250.5 | (54.4) | 82.2 % | 420.1 | 2.7% | 353.8 | 2.3% | (66.3) | 84.2 % | 350.4 | 2.4% | 19.9% | 1.0% |
| Health & Justice | 4.8 | 5.6 | 0.8 | 116.4 % | 6.4 | 1.2% | 6.4 | 1.2% | 0.0 | 99.8 % | 7.4 | 13.6% | (13.5%) | (13.5%) |
| Armed Forces | 0.0 | 0.0 | 0.0 | 0.0 % | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0 % | 0.0 | 0.0% | 0.0% | 0.0% |
| Primary Care and Secondary Dental | 111.0 | 68.1 | (42.9) | 61.4 % | 245.3 | 2.7% | 183.1 | 2.0% | (62.2) | 74.6 % | 67.9 | 0.6% | 261.3% | 169.7% |
| Public Health | 6.3 | 7.1 | 0.8 | 112.7 % | 7.9 | 0.8% | 7.9 | 0.8% | 0.0 | 100.0 % | 6.4 | 0.5% | 23.4% | 23.4% |
| Total DC | 427.0 | 331.3 | (95.7) | 77.6 % | 679.7 | 1.7% | 551.2 | 2.1% | (128.5) | 81.1 % | 432.1 | 1.6% | 57.3% | 27.6% |
| TOTAL | 1,867.6 | 1,514.1 | (353.5) | 81.1 % | 3,117.7 | 3.0% | 2,569.6 | 2.5% | (548.1) | 82.4 % | 1,912.4 | 1.9% | 63.0% | 34.4% |
| Of w hich transformational | 720.1 | 570.8 | (149.3) | 79.3 % | 1,174.7 | 1.2% | 1,016.5 | 1.1% | (158.2) | 86.5 % | 733.9 | 0.7% | 60.1% | 38.5% |