

BOARD PAPER - NHS ENGLAND

<p>Title:</p> <p>Consolidated Month 11 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 11 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 contribute to offsetting trust deficits.
<p>The Board is invited to:</p> <ul style="list-style-type: none">• Note the financial position for month 11

CONSOLIDATED MONTH 11 2016/17 FINANCIAL REPORT

PURPOSE

1. This paper summarises the year to date and forecast position at month 11, 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 uncommitted and will be used to offset 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 11:

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	69,366.6	69,950.7	(584.1)	(0.8%)	76,682.3	77,232.7	(550.4)	(0.7%)
Direct Commissioning	23,209.2	23,128.0	81.2	0.3%	25,668.7	25,543.8	124.9	0.5%
NHSE Running & central programme costs (excl. depreciation)	2,413.5	1,889.7	523.8	21.7%	3,446.6	2,967.6	479.0	13.9%
Other including technical and ringfenced adjustments					(95.7)	(42.7)	(53.0)	
Total non-ringfenced RDEL under/(over) spend	94,989.3	94,968.4	20.9	0.0%	105,701.9	105,701.4	0.5	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 11, NHS England is reporting a year to date underspend of £21m (0.0%). A 0.8% overspend on CCGs (see para 8) is offset by underspends on other areas of direct commissioning and NHS England central budgets.
7. The full year forecast shows a bottom line position in line with plan. This excludes any release of the commissioners' risk reserve and is made up of a forecast overspend in CCGs (£550m, 0.7%) offset by forecast underspends on direct commissioning (£125m, 0.5%) and NHS England central budgets (£479m, 13.9%). The forecast also reflects greater pressure than expected from the impact of the technical and ringfenced adjustments relating to provision movements and depreciation, though the position has improved slightly compared to month 10. The total forecast variance of £53m in these areas is the result provision movements (£35m) and lower than expected depreciation charges (£18m), both of which are adjusted for when reporting against the core non-ringfenced RDEL measure.
8. There are 79 CCGs forecasting a year end overspend, of which 37 are forecasting unplanned cumulative deficit positions. 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 £584m (0.8%) overspend which is offset by a £34m forecast underspend on the quality premium budget for the year. There is a 34% forecast increase in the value of commissioner savings compared to 2015/16. At month 11, commissioners are forecasting that £2.5bn of their savings plans will be delivered. Further detail on commissioner efficiency performance can be found in Appendix D.
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/>).

Risks and Mitigations

10. 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. As expected and planned for, risk has crystallised into forecasts as the year has progressed, but the aggregate of forecast overspend and net risk has reduced steadily in recent months, as mitigating actions have taken effect. At Month 11 the outstanding net risk has been reduced to £34m.
11. This net risk assessment excludes the £800m non-recurrent investment funding which is being held uncommitted by CCGs and NHS England Commissioning Teams. This funding will be required to offset overspends across the wider health system, and so will be released into the CCG positions in month 12.
12. 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 an £800m managed underspend.

RECOMMENDATION

13. The Board is asked to note the financial position for month 11.

Author: Paul Baumann, Chief Financial Officer
Date: March 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	21,357.3	21,532.3	(175.0)	(0.8%)	23,613.6	23,788.2	(174.6)	(0.7%)
Midlands & East	20,214.1	20,358.1	(144.0)	(0.7%)	22,320.1	22,436.1	(116.0)	(0.5%)
London	10,767.4	10,811.5	(44.1)	(0.4%)	11,931.9	11,992.4	(60.5)	(0.5%)
South	17,027.8	17,248.8	(221.0)	(1.3%)	18,783.2	19,016.0	(232.8)	(1.2%)
Quality Premium ¹	0.0	0.0	0.0	0.0 %	33.5	0.0	33.5	100.0 %
Total Local Net Expenditure	69,366.6	69,950.7	(584.1)	(0.8%)	76,682.3	77,232.7	(550.4)	(0.7%)
Direct Commissioning								
Specialised Commissioning	14,083.6	14,106.9	(23.3)	(0.2%)	15,497.1	15,497.1	0.0	0.0 %
Armed Forces	56.6	54.7	1.9	3.4 %	61.9	60.6	1.3	2.1 %
Health & Justice	468.2	462.9	5.3	1.1 %	523.5	515.9	7.6	1.5 %
Primary Care & Secondary Dental	7,773.3	7,698.0	75.3	1.0 %	8,661.0	8,578.9	82.1	0.9 %
Public Health	827.5	805.5	22.0	2.7 %	925.2	891.3	33.9	3.7 %
Total Direct Commissioning Expenditure	23,209.2	23,128.0	81.2	0.3 %	25,668.7	25,543.8	124.9	0.5 %
NHS England Other (excluding depreciation & technical)								
NHS England Running Costs (excl. depreciation)	413.6	370.6	43.0	10.4 %	458.3	425.2	33.1	7.2 %
NHS England Central Programme Costs (excl. depreciation)	760.3	516.2	244.1	32.1 %	888.0	646.2	241.8	27.2 %
CSUs net margin	5.6	(8.2)	13.8	246.4 %	5.6	5.6	0.0	0.0 %
Other Central Budgets (including provider STF) ²	1,122.2	952.2	170.0	15.1 %	2,094.7	1,890.6	204.1	9.7 %
Total NHS England Other (excluding depreciation & technical)	2,301.7	1,830.8	470.9	20.5 %	3,446.6	2,967.6	479.0	13.9 %
NHS England depreciation charges	111.8	58.9	52.9		122.9	64.6	58.3	
Remove ringfenced under/(over) spend (depreciation and impairments)					(166.0)	(89.5)	(76.5)	
Remove AME/Technical items					(52.6)	(17.8)	(34.8)	
Total non-ringfenced RDEL under/(over) spend	94,989.3	94,968.4	20.9	0.0%	105,701.9	105,701.4	0.5	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 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	15.5	14.5	1.0	6.4%	16.9	16.1	0.8	4.5%
Nursing	7.7	6.9	0.8	10.1%	8.4	7.8	0.6	6.8%
Operations and Information	196.5	187.0	9.5	4.8%	216.5	209.8	6.7	3.1%
Specialised Commissioning	14.2	14.0	0.2	1.4%	15.5	15.5	0.0	0.2%
Finance	36.8	35.7	1.1	2.9%	39.9	40.3	(0.4)	(0.9%)
Commissioning Strategy	13.0	11.5	1.5	11.6%	14.2	13.2	1.0	7.0%
Transformation & Corp Operations	64.1	57.4	6.7	10.5%	69.8	67.8	2.0	2.9%
PCS	56.3	56.2	0.1	0.1%	61.7	62.3	(0.6)	(1.0%)
Chair & Chief Executive Group	1.3	1.1	0.2	11.9%	1.5	1.5	0.0	0.0%
Contingency/other	8.2	(13.7)	21.9	100.0%	13.9	(9.1)	23.0	165.8%
TOTAL excl Depreciation	413.6	370.6	43.0	10.4%	458.3	425.2	33.1	7.2%

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	108.7	76.7	32.0	29.4%	124.2	97.8	26.4	21.3%
Nursing	19.8	16.0	3.8	19.4%	25.6	22.6	3.0	11.5%
Operations and Information	113.6	96.2	17.4	15.3%	155.5	146.0	9.5	6.1%
Specialised Commissioning	13.3	8.9	4.4	33.0%	14.5	11.8	2.7	18.8%
Finance	6.0	4.6	1.4	23.2%	6.7	6.0	0.7	10.1%
Commissioning Strategy	90.0	77.7	12.3	13.7%	105.8	93.4	12.4	11.7%
Transformation & Corp Operations	18.6	13.9	4.7	25.2%	21.0	19.5	1.5	7.3%
Clinical Excellence Awards	132.3	110.8	21.5	16.2%	150.0	126.6	23.4	15.6%
Provider Support	139.5	139.5	-	-	157.9	157.5	0.4	0.2%
Other Programmes	53.4	53.1	0.3	0.6%	61.7	53.5	8.2	13.2%
Rates and fraud recovery income	0.0	(90.9)	90.9	100.0%	0.0	(93.6)	93.6	100.0%
NHS England contribution to legacy CHC claims	50.0	49.3	0.7	1.5%	50.0	49.3	0.7	1.4%
Contingency	15.1	(39.6)	54.7	363.3%	15.1	(44.2)	59.3	393.8%
TOTAL excl Depreciation	760.3	516.2	244.1	32.1%	888.0	646.2	241.8	27.2%

APPENDIX D

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	557.8	418.6	(139.2)	75.0 %	631.6	2.7%	467.7	2.0%	(163.9)	74.1 %	346.7	1.5%	82.2%	34.9%
Midlands and East	688.5	598.4	(90.1)	86.9 %	767.1	3.5%	698.7	3.1%	(68.4)	91.1 %	471.7	2.2%	62.6%	48.1%
London	290.1	251.9	(38.2)	86.8 %	329.0	2.7%	283.3	2.4%	(45.7)	86.1 %	257.2	2.2%	27.9%	10.1%
South	636.9	449.8	(187.1)	70.6 %	710.3	3.8%	528.3	2.8%	(182.0)	74.4 %	404.7	2.3%	75.5%	30.5%
Total Local	2,173.3	1,718.7	(454.6)	79.1 %	2,438.0	3.2%	1,978.0	2.6%	(460.0)	81.1 %	1,480.3	2.0%	64.7%	33.6%
Direct Commissioning									0.0					
Specialised	381.5	268.6	(112.9)	70.4 %	420.1	2.7%	325.3	2.1%	(94.8)	77.4 %	350.4	2.4%	19.9%	-7.2%
Health & Justice	5.9	6.4	0.5	108.5 %	6.4	1.2%	6.4	1.2%	(0.0)	99.8 %	0.0	0.0%	0.0%	0.0%
Armed Forces	0.0	0.0	0.0	0.0 %	0.0	0.0%	0.0	0.0%	(0.0)	0.0 %	7.4	13.6%	(100.0%)	(100.0%)
Primary Care and Secondary Dental	179.4	108.8	(70.6)	60.6 %	245.3	2.7%	172.3	1.9%	(73.0)	70.2 %	67.9	0.6%	261.3%	153.8%
Public Health	7.4	8.1	0.7	109.5 %	7.9	0.8%	7.9	0.8%	0.0	100.0 %	6.4	0.5%	23.4%	23.4%
Total DC	574.2	391.9	(182.3)	68.3 %	679.7	2.6%	511.9	1.9%	(167.8)	75.3 %	432.1	1.6%	57.3%	18.5%
TOTAL	2,747.5	2,110.6	(636.9)	76.8 %	3,117.7	4.1%	2,489.9	2.4%	(627.8)	79.9 %	1,912.4	1.9%	63.0%	30.2%
Of which transformational	1,059.5	816.5	(243.0)	77.1 %	1,174.7	1.1%	973.5	0.0	(201.2)	82.9 %	733.9	0.7%	60.1%	32.6%