

BOARD PAPER - NHS ENGLAND

Title: Consolidated Month 3 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 3 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 3

Consolidated Month 3, 2016/17 Financial Report NHS England Board – 28 July 2016

PURPOSE

1. This paper summarises the financial plan for 2016/17 and the year to date and forecast position at month 3.

CONTEXT

Plan Summary

2. Table 1 presents the planned expenditure for 2016/17 across the commissioning system:

Table 1

2016/17 In-year plans	Total in-year Allocation (including drawdown) £m	Planned Expenditure £m	Under / (over) spend £m
Commissioning Budgets			
Clinical Commissioning Groups	76,131	76,131	-
Specialised Commissioning	15,637	15,637	-
Primary Care & Secondary Dental	8,590	8,590	-
Other Direct Commissioning	1,510	1,510	-
Total Commissioning Budgets	101,868	101,868	-
NHS England Central Budgets	3,948	3,948	-
Total NHS England before technical adjustments¹	105,816	105,816	-
AME/Technical ²	660	660	-
Total NHS England in year plan	106,476	106,476	-

3. The above table shows how the commissioning system plans to spend a total allocation of £106.5bn, which includes £250m of prior year drawdown. The summary is presented on an in-year basis, so excludes any historical underspends that are not available to be spent in 2016/17.
4. These figures are supported by the individual financial plans of each CCG and direct commissioning unit, the assurance process for which has now been concluded. 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.
5. The £3.9bn of planned expenditure for central NHS England budgets includes running and programme costs (£533m and £925m respectively) as well as centrally managed

¹ Total planned expenditure excludes £20m of mental health funding that is included in the mandate but is expected to transfer back to the DH when the mandate is revised. This funding is required for non NHS England mental health initiatives including Health Education England training.

² The NHS England mandate includes two technical financial targets; £360m Annually Managed Expenditure (AME) limit for provision movements and other impairments and £300m 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.

resources for provider sustainability and system transformation including GP Forward View implementation.

- The commissioning expenditure for the year includes plans for non-recurrent investment expenditure of 1% of allocations, which is currently uncommitted in order to provide a contingency of £800m to support the wider health system if required. 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 2.2% of allocations in 2015/16 to 3.0% of allocations in 2016/17 plans.

ANALYSIS

Overall Financial Position

- The month 3 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 the monthly financial reports on central budgets.
- Table 2 summarises the year to date and full year forecast expenditure for NHS England as at month 3:

Table 2

Net Expenditure	Year to Date				Forecast Outturn			
	Plan £m	Actual £m	Under/(over) spend		Plan £m	FOT £m	Under/(over) spend	
			£m	%			£m	%
CCGs	18,857.5	18,914.9	(57.4)	0.0%	76,131.3	76,141.8	(10.5)	0.0%
Direct Commissioning	6,234.2	6,234.5	(0.3)	0.0%	25,737.0	25,737.0	-	-
Running, programme costs and other	309.6	274.2	35.4	11.4%	3,947.9	3,891.1	56.8	1.4%
Total before Technical Adjustments	25,401.3	25,423.6	(22.3)	(0.1%)	105,816.2	105,769.9	46.3	0.0%
Technical and Ringfenced adjustments					(166.0)	(37.2)	(128.8)	
Total non-ringfenced RDEL under/(over) spend	25,401.3	25,423.6	(22.3)	(0.1%)	105,650.2	105,732.7	(82.5)	(0.1%)

- Overall at month 3, year to date headline expenditure is £22m (0.1%) above plan. There is an overspend on CCGs (see para 12) which is partially compensated for by an underspend on NHS England central budgets which is mostly related to budget phasing.
- The full year forecast currently shows an underspend of £46m (0.0%) which includes a forecast overspend in CCGs (see para 12) offset by a forecast underspend on NHS England central costs. This £57m underspend relates to the release of the centrally held depreciation reserve, designed to mitigate the potential impact of commissioners using ringfenced allocation for non-ringfenced activities³.
- The technical and ringfenced adjustment removes the impact of provision movements and spend against technical limits and depreciation/amortisation (ringfenced RDEL), resulting in an overall overspend of £83m (0.1%) against the non-ringfenced Revenue Departmental Expenditure Limit (RDEL) which is the core measure of financial performance of NHS commissioners by the Department of Health.

³ CCGs are managed on an IFRS basis and so do not recognise the ringfencing of different categories of expenditure which are important for HM Treasury accounting purposes. Under Treasury accounting, depreciation is a ringfenced budget, but this division is not recognised in CCG accounts, so in effect underspends against depreciation are spent in other areas. Depreciation charges are then removed when reporting against the non-ringfenced RDEL limit to DH and the Treasury.

12. There are 45 CCGs reporting year to date overspends, of which 27 are greater than 1%. The majority of the year to date overspend is in the Midlands and East region. In the main, CCGs are assuming they will be able to recover overspends, so the year to date overspend is not translating into a deterioration in forecast outturn. There are 2 exceptions to this, where Shropshire and Croydon CCGs are forecasting a position worse than their annual plan, resulting in an £11m overspend; both of these CCGs have planned deficits and are the subject of intensive intervention under our new oversight regime.
13. 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.

Quality, Innovation, Productivity & Prevention (QIPP)

14. In aggregate commissioners are planning for QIPP of £3.1bn, which equates to 3.0% of allocations compared to 2.2% in 2015/16.
15. At month 3, commissioners are forecasting that £2.8bn of their QIPP plans will be delivered, a delivery rate of 90%, 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 QIPP performance can be found in Appendix D.

Risks and Mitigations

16. A higher level of risk than in previous years was identified during planning predominantly affecting the higher level of ambition with regard to efficiency gains and continues to be reflected in the position reported by commissioners.
17. The risks and mitigations identified by CCGs, regional teams and the national team result in a net risk of £453m on a non-ringfenced RDEL basis. This does not include non-recurrent investment funding of £800m currently being held uncommitted by CCGs and NHS England Commissioning Teams; decisions on the release of this funding will be taken later in the year in the light of the emerging pattern of financial performance across the NHS.
18. The regional and central finance teams are working with commissioners to monitor and manage the in-year risk position and to ensure that appropriate mitigations are in place where required.

Financial Reset

19. The above information needs to be taken in context of the overall resetting of the NHS finances for 2016/17 and beyond, with particular focus on addressing the provider sector deficit.
20. Last week we published the financial reset document, setting out a series of actions designed to support the NHS to achieve financial sustainability and improve operational performance. The full document can be found published [here](#).

21. The programme is centred around a seven-point set of actions being taken by NHS Improvement and NHS England, with the support of the Department of Health and the Care Quality Commission, which include

- allocating an extra £1.8 billion to trusts, with the aim set by NHS Improvement of cutting the combined provider deficit to around £250 million in 2016/17 and the ambition that, in aggregate, the provider position commences 2017/18 in run-rate balance;
- replacing national fines with trust-specific incentives linked to agreed organisation-specific published performance improvement trajectories, so as to kick-start a multi-year recovery and redesign of A&E and elective care;
- agreeing 'financial control totals' with individual trusts and CCGs, which represent the minimum level of financial performance, against which their boards, governing bodies and chief executives must deliver in 2016/17, and for which they will be held directly accountable;
- introducing new intervention regimes of special measures which will be applied to both trusts and CCGs who are not meeting their financial commitments;
- setting new controls to cap the cost of interim managers and to fast track savings from back office, pathology and temporary staffing;
- publishing the 2015/16 performance ratings for CCGs; and
- launching a two-year NHS planning and contracting round for 2017/18-2018/19, to be completed by December 2016, and linked to agreed STPs.

22. The measures announced in this document, as well as wider actions with individual organisations and local health economies, are designed to give us the best opportunity to bring the NHS back onto a sustainable footing.

RECOMMENDATION

23. The Board is asked to note the financial position for month 3.

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Date: July 2016

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

2016/17 - Month 3 (June 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 %
Local Net Expenditure								
North	5,803.3	5,809.7	(6.4)	(0.1%)	23,428.8	23,428.8	-	-
Midlands & East	5,489.6	5,531.3	(41.7)	(0.8%)	22,183.1	22,188.0	(4.9)	0.0 %
London	2,906.3	2,912.8	(6.5)	(0.2%)	11,769.8	11,775.5	(5.7)	0.0 %
South	4,658.3	4,661.1	(2.8)	(0.1%)	18,659.6	18,659.5	0.1	0.0 %
Quality Premium*	-	-	-	-	90.0	90.0	-	-
Total Local Net Expenditure	18,857.5	18,914.9	(57.4)	(0.3%)	76,131.3	76,141.8	(10.5)	0.0 %
Direct Commissioning								
Specialised Commissioning	3,739.9	3,743.4	(3.5)	(0.1%)	15,637.3	15,637.3	-	-
Armed Forces	15.3	15.3	-	-	62.8	62.8	-	-
Health & Justice	128.0	127.9	0.1	0.1 %	522.0	522.0	-	-
Primary Care & Secondary Dental	2,141.4	2,139.9	1.5	0.1 %	8,589.5	8,589.5	-	-
Public Health	209.6	208.0	1.6	0.8 %	925.4	925.4	-	-
Total Direct Commissioning Expenditure	6,234.2	6,234.5	(0.3)	0.0 %	25,737.0	25,737.0	-	-
Other (excluding Technical)								
NHS England Running Costs	111.4	106.3	5.1	4.6 %	533.0	471.7	61.3	11.5 %
NHS England Central Programme Costs	198.2	167.7	30.5	15.4 %	925.4	929.7	(4.3)	(0.5%)
CSUs	-	(0.9)	0.9	0.0 %	-	-	-	-
Other Central Costs	-	1.1	(1.1)	0.0 %	2,489.5	2,489.7	(0.2)	0.0 %
Total Other (excluding Technical)	309.6	274.2	35.4	11.4 %	3,948.0	3,891.1	56.8	1.4 %
Total before Technical Adjustments	25,401.3	25,423.6	(22.3)	(0.1%)	105,816.2	105,769.9	46.3	0.0 %
Remove AME/Technical items					-	47.2	(47.2)	
Remove ringfenced (under)/over spend					(166.0)	(84.4)	(81.6)	
Total non-ringfenced RDEL under/(over) spend	25,401.3	25,423.6	(22.3)	(0.1%)	105,650.3	105,732.7	(82.5)	(0.1%)

* Quality Premium is added to the planned income of CCGs in the lines above when awarded. To date, no Quality Premium awards have been made.

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	4.2	3.9	0.3	7.8%	16.9	16.5	0.4	2.5%
Nursing	1.9	1.5	0.4	21.1%	7.4	6.9	0.5	6.4%
Operations and Information	51.1	48.6	2.5	4.8%	208.5	207.2	1.3	0.6%
Specialised Commissioning	3.5	3.5	-	-	14.1	14.3	(0.2)	(1.1%)
Finance	11.6	11.1	0.5	3.9%	46.1	46.0	0.1	0.2%
Commissioning Strategy	4.2	3.8	0.4	9.0%	16.7	16.2	0.5	3.0%
Transformation & Corp Operations	17.0	14.9	2.1	12.6%	70.4	71.9	(1.5)	(2.1%)
PCS	14.8	15.6	(0.8)	(5.1%)	61.7	62.6	(0.9)	(1.4%)
Chair & Chief Executive Group	0.3	0.3	-	-	1.5	1.5	-	-
Contingency	-	-	-	-	16.7	16.7	-	-
TOTAL excl Depreciation	108.6	103.2	5.4	5.0%	460.0	459.8	0.2	0.0%
Depreciation	2.8	3.1	(0.3)	(11.2%)	73.0	11.9	61.1	83.7%
TOTAL Running Costs	111.4	106.3	5.1	4.6%	533.0	471.7	61.3	11.5%

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	16.1	6.4	9.7	60.2%	135.1	135.1	-	-
Nursing	4.6	3.5	1.1	23.8%	27.1	27.1	-	-
Operations and Information	23.3	17.2	6.1	26.2%	176.8	176.8	-	-
Specialised Commissioning	3.6	1.4	2.2	61.1%	14.4	14.4	-	-
Finance	2.2	1.1	1.1	50.9%	8.2	8.2	-	-
Commissioning Strategy	23.7	17.2	6.5	27.4%	103.7	103.7	-	-
Transformation & Corp Operations	3.1	1.9	1.2	38.7%	13.5	13.5	-	-
Clinical Excellence Awards	16.4	16.4	-	-	150.0	150.0	-	-
Provider Support	69.9	69.9	-	-	123.0	123.0	-	-
Other Programmes	29.1	22.6	6.5	22.3%	61.9	61.9	-	-
Other Reserves	-	-	-	-	50.0	50.0	-	-
Contingency	-	-	-	-	18.7	18.7	-	-
TOTAL excl Depreciation	192.0	157.6	34.4	17.9%	882.4	882.4	-	-
Depreciation	6.2	10.1	(3.9)	(62.5%)	43.0	47.3	(4.3)	(9.9%)
TOTAL Programme Costs	198.2	167.7	30.5	15.4%	925.4	929.7	(4.3)	(0.5%)

Summary of Year to Date and Forecast QIPP Performance by Area of Commissioning

	Year to Date QIPP				Forecast QIPP				
	Plan £m	Actual £m	Var £m	Achieved %	Plan £m	As % of Allocation	Forecast £m	Var £m	Achieved %
Local QIPP									
North	133.9	129.1	(4.8)	96.4 %	631.6	2.7%	564.0	(67.6)	89.3 %
Midlands and East	144.4	116.7	(27.7)	80.8 %	767.1	3.5%	703.8	(63.3)	91.7 %
London	63.8	58.5	(5.3)	91.7 %	329.0	2.8%	296.2	(32.8)	90.0 %
South	118.0	103.3	(14.7)	87.5 %	710.3	3.8%	599.0	(111.3)	84.3 %
Total Local QIPP	460.1	407.6	(52.5)	88.6 %	2,438.0	3.2%	2,163.0	(275.0)	88.7 %
Direct Commissioning QIPP								0.0	
Specialised	101.5	93.4	(8.1)	92.0 %	420.1	2.7%	396.2	(23.9)	94.3 %
Health & Justice	-	-	-	100.0 %	-	-	-	-	100.0 %
Armed Forces	1.6	2.0	0.4	125.0 %	6.4	1.2%	6.4	-	100.0 %
Primary Care and Secondary Dental	17.0	17.3	0.3	101.8 %	245.3	2.7%	226.8	(18.5)	92.5 %
Public Health	3.7	3.7	-	100.0 %	7.9	0.8%	7.9	-	100.0 %
Total DC QIPP	123.8	116.4	(7.4)	94.0 %	679.7	1.7%	637.3	42.4	93.8 %
TOTAL QIPP	583.9	524.0	(59.9)	89.7 %	3,117.7	3.0%	2,800.3	317.4	89.8 %
Of which transformational	227.4	202.2	(25.2)	88.9 %	1,176.4	1.2%	1,196.4	20.0	101.7 %