NHS England

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NHS ENGLAND – BOARD PAPER

Title:

NHS Planning and Financial Allocations for 2018/19

Lead Directors:

National Directors

Purpose of Paper:

1. The NHS already has two year baseline local funding allocations, two year service priorities, a two year national tariff, and two year commissioner-provider contracts, all in place and effective for 2018/19. So in updating planning for next year, rather than 'starting from scratch', the task for CCGs and providers is now to make quick and modest updates to local operating plans and contracts for the year ahead. This paper sets out how that is to be achieved.

2. Refreshed planning guidance (attached) has now been published for 2018/19. It gives effect to the 2018/19 'deliverables' already agreed in last March's Next Steps on the NHS Five Year Forward View, and the approach to post-Budget service prioritisation agreed by the Board at our public meeting on 30 November 2017.

3. Since our post-Budget Board meeting on 30 November, the Government has now confirmed that 2018/19 revenue for NHS England will grow by £2.14 billion over the 2015 Spending Review figure. This comprises the £1.6 billion announced in the Autumn Budget in November 2017, and a further £540 million that the Department of Health and Social Care (DHSC) has subsequently agreed to make available. Alongside the planning guidance, NHS England therefore needs to make formal allocations of these additional funds to CCGs and others for 2018/19. Proposals for so doing are detailed in this paper.

The Board invited to:

- Note the publication of planning guidance for 2018/19; and
- Agree the proposed allocation of funds between areas of commissioning spend, and the proposed methodology for additional allocations to CCGs.

PLANNING AND FINANCIAL ALLOCATIONS FOR 2018/19

Purpose

1. The NHS already has two year baseline funding allocations, two year service priorities, and a two year national tariff, all effective for 2018/19. So in planning for next year, rather than ‘starting from scratch’, the task for CCGs and providers is now to make quick and modest needed adjustments to local operating plans and contracts for the year ahead. This paper sets out how that is to be achieved.

2. Part A of this paper asks the Board to note the updated planning guidance (attached) that has now been published for 2018/19. It gives effect to the 2018/19 ‘deliverables’ already agreed in last March’s *Next Steps on the NHS Five Year Forward View*, and the approach to post-Budget service prioritisation agreed by the Board at our public meeting on 30 November 2017.

3. Part B of this paper asks the Board to agree the proposed deployment of additional funds to CCGs and others for 2018/19.

PART A: REFRESHED NHS PLANNING GUIDANCE FOR 2018/19

4. Since our post-Budget Board meeting on 30 November, the Government has now confirmed that 2018/19 revenue for NHS England will grow by £2.14 billion over the 2015 Spending Review figure. This comprises the £1.6 billion announced in the Autumn Budget in November 2017, and a further £540 million that the Department of Health and Social Care (DHSC) has subsequently agreed to make available.

5. In framing refreshed planning guidance for the NHS jointly with NHS Improvement, we have therefore taken account of**:**
    - this improved funding outlook;
    - the already agreed 2018/19 ‘deliverables’ contained in the *Next Steps* document;
    - the priorities set by Government in the recent November Budget and the expected Mandate; and
    - insight from ongoing public engagement, involvement and feedback including from Healthwatch.

6. The Board also agreed at our public meeting on 30 November five “considerations to guide decisions” in finalising plans for 2018/19. (Board paper PB.30.11.2017/04). The Planning Guidance Refresh gives effect to those five principles as follows:

    a) *Funding should “Deal with current levels of unfunded care (deficits) that need funding going into next year”.*

    We are proposing allocating an additional £1.05 billion to support costs of care currently being provided. This comprises £650 million of additional Provider Sustainability Funding and an equivalent £400 million for CCGs. (Details in Part B below). As a result, the CCG sector is expected to achieve budget balance in 2018/19, and NHS Improvement has specified that the trust sector will do the same.

b) *"Set realistic activity plans for growth in emergency care"*

CCG purchasing power has been set on the basis of being able to fund realistic levels of emergency activity growth next year – see Appendix 1. The target is for improved A&E performance next year, with the £2.45bn provider sustainability fund strongly incentivising improved performance each quarter next year compared to the same quarter the prior year, and the CCG Quality Premium incentivising CCGs to constrain non-elective activity growth to levels at or below locally agreed plans.

c) *"Seek to protect planned investment in mental health, cancer and primary care"*

This package avoids introducing new targets or expectations, but instead funds the *'Next Steps*' service improvements in mental health, cancer, primary care and other national priorities. Details are in Annex 1 of the Planning Guidance Refresh. In each of these areas, CCG and STP plans will be scrutinised for their impact on population health and inequalities reduction.

On mental health, given the approach to relieving pressure on CCGs unavoidably in deficit (as set out at Para a) above), for next year we are for the first time going to require each and every CCG to meet the Mental Health Investment Standard (where mental health spending grows faster than its overall funding growth). Furthermore this will be subject to independent validation by the CCG's auditors. Doing so will support further expansions next year in children and adolescent mental health services, crisis and emergency mental health care, talking therapies, and a range of other improvements.

On cancer, the funding package includes completing the national upgrade of radiotherapy machines, faster diagnostics including for lung, prostate and colorectal cancers, and a new bowel cancer screening programme.

On primary care, the package enables the 2018/19 GP Forward View funding and service commitments to be met. It enables the development of primary care networks covering 30,000-50,000 populations; the rollout across England of extended evening and weekend GP appointments; and primary care workforce expansions including 600 international GP recruits, another 500 clinical pharmacists, and 1500 mental health therapists working in primary care.

d) *"Be realistic about what can be expected from the remaining available funds"*

The overall funding growth for 2018/19 means that it is now possible to plan for a substantially bigger annual increase in NHS-funded elective operations than in recent years. CCGs and providers are therefore being asked to secure a step change in elective activity such that the overall national waiting list stabilises, and where locally possible reduces, alongside a halving of the number of patients nationally waiting over 52 weeks.

e) *"Ensure that where government sets pay rises above the currently budgeted 1% cap these are separately funded"*

This is the basis on which these plans and allocations are being made for 2018/19.

Next steps on care integration

7. The refreshed planning guidance also signals 'full speed ahead' for the deeper care redesign, population health and community engagement work set out in the *Forward*

View and being led by Integrated Care Systems. It sets out new system incentives and flexibilities available to the first group of ICSs that 'go live' in April, and invites applications from other areas to join the next group of ICSs. For those parts of the country not covered by ICSs, the guidance lays out the important role of STP leadership in reviewing and supporting system working between organisations as 2018/19 plans are finalised.

PART B: REVISED ALLOCATION OF RESOURCES FOR 2018/19

8. The Government has now confirmed that 2018/19 revenue for NHS England will grow by £2.14 billion over the 2015 Spending Review figure. This comprises £1.6 billion announced in the Autumn Budget in November 2017, and a further £540 million that the Department of Health and Social Care (DHSC) has subsequently agreed to make available.

9. As a result of the additional £2.14 billion funding being made available to NHS England, percentage growth figures are now higher than those cited in the paper on 2018/19 planning discussed at the November 2017 board meeting. The extra funding now provides funding growth of 2.4% in real terms compared to 2017/18. Factoring in England's growing and ageing population, age-weighted revenue growth per person becomes 1.4% in 2018/19.

Table 1: Funding growth for 2018/19

NHS England revenue budget available for allocation	2017/18	2018/19	2019/20
	£m	£m	£m
As at October 2017	109,300	111,800	114,846
Revised expected budget	109,637	113,940	115,746
Cash change on previous budget	337	2,140	900
	%	%	%
Real terms growth	2.0%	2.4%	0.2%
Real terms growth per age cost weighted capita	0.9%	1.4%	-0.8%

Notes

Budget figures are RDEL including ring-fenced depreciation

10. Despite these additional resources, delivering our objectives including financial balance will still require considerable efficiency improvements and other savings to be secured by CCGs, providers and STPs.

Allocation of additional funding

Clinical Commissioning Groups

11. Additional funding is required for CCGs to fund realistic levels of emergency activity in plans, the additional elective activity necessary to stabilise waiting lists, universal adherence to the Mental Health Investment Standard, and transformation commitments for cancer services and primary care.

12. The overall resources available to CCGs will therefore be increased by £1.4 billion. This additional funding is made available in the following ways:

    - The requirement for CCGs to underspend 0.5% of their allocations has been lifted for 2018/19, releasing £370 million of CCGs' resources to fund local pressures and transformation priorities
    - £600 million is added to CCG allocations for 2018/19. The proposed approach to the distribution of this funding is discussed below, and
    - A new £400 million Commissioner Sustainability Fund (CSF) will be created, to enable CCGs to return to in-year financial balance, whilst supporting and incentivising them to deliver against their financial control total.

13. The CSF and £600 million additional allocation appear in the revised commissioning stream allocations set out in table 2 below.[1]

14. The CSF will be a targeted fund to support those CCGs that would otherwise be unable to live within their means for 2018/19. All CCGs will be expected to plan against fixed control totals communicated at the outset of the planning process. Any CCG that has been set a deficit control total will be eligible for the CSF, the value of which will be set to bring the CCG back to a position of in-year financial balance as long as the in-year control total is delivered.

15. The Board is asked to approve the establishment of the Commissioner Sustainability Fund.

16. The planning guidance sets out a requirement for each system to develop winter plans using allocated funds. No additional funding will be available.

Distribution of additional CCG allocations

17. The Board considered funding distribution and the pace-of-change policy in December 2015 as part of setting the 2016/17 to 2020/21 allocations. CCGs have already established two-year plans based on these allocations, and we do not propose to revisit the previously published allocations or pace-of change policy for 2018/19. For the same reason, we will not change CCG running cost allocations.

18. We therefore recommend that the additional £600 million available for core CCG allocations should be distributed to all CCGs in proportion to a CCG's overall fair share of funding according to the target allocation formula. This ensures that the distribution takes account of factors including population, age, health need, and unmet need/health inequalities.

19. We have updated target allocations from those published in 2016. The key changes are to reflect the latest GP registered lists and ONS population projections, take account of CCG mergers and use new data where available.

20. The agreed methodology for the health inequalities/unmet need adjustment has been retained in these updated target allocations, with the Standardised Mortality Ratio for those aged under 75 measure (SMR<75) which drives this adjustment updated with the most recent (2011-2015) data.

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[1] The impact of the change to the 0.5% underspend requirement is not shown, as this provides additional spending power within the existing published allocations

21. We also wish to ensure that no CCG is more than 5% below its updated target allocation, in line with the principle established in previous allocations rounds. This requires additional funding to be allocated to one CCG.[2]

Provider Sustainability Fund

22. At the end of Q2, the provider sector was forecasting an aggregate full year deficit for 2017/18 of £623 million, after taking account of the existing £1800 million Sustainability and Transformation Fund.

23. It is therefore necessary to continue to allocate the planned £1800 million for provider sustainability in 2018/19. In addition, to ensure that the overall plan for the NHS can deliver a balanced position and to make it possible to withdraw the requirement on CCGs to hold a system risk reserve, we propose to increase the funding available by £650 million to £2450 million. To avoid confusion this is now renamed the Provider Sustainability Fund (PSF).

24. The additional funding must deliver a pound-for-pound improvement in the aggregate provider position and will be reflected in 2018/19 provider control totals. NHS Improvement has agreed that the provider sector will plan for and deliver a balanced income and expenditure position for 2018/19 after deployment of the £2.45 billion of available PSF funding.

25. The Board is asked to approve the expansion of the PSF and (as with this year) to delegate allocation and release of specific amounts to individual trusts to the Chief Executive and Chief Financial Officer in partnership with NHS Improvement, the Department of Health and Social Care and HM Treasury.

Specialised services

26. Our previous plan allocated funding growth of 4.4% for specialised services commissioning in 2018/19. A key driver of this was a relatively low level of assumed growth in expenditure on effective but expensive new drugs and devices. Our latest assessment of pressures on specialised commissioning, including an updated review of new drugs likely to receive NICE approval, concludes that it will be necessary to set aside a higher level of funding to meet these legally mandated requirements.

27. Nevertheless, delivering within this budget will still require the achievement of a substantial programme of planned efficiencies and the consideration of affordability constraints through the application of the Budget Impact Test to new medicines with significant aggregate cost. Similarly, as discussed at our 30 November 2017 board meeting, new advisory NICE guidelines will in future be expected to be accompanied by a clear and agreed affordability and workforce assessment at the time they are drawn up.

General Practice

28. The planned 2018/19 allocation for general practice has been maintained to enable the expected cost uplifts in the 2018/19 GP contract to be funded, as well as the funding commitments set out in the General Practice Forward View on extended access and investment in estates and technology.

[2] South Worcestershire, which is allocated an additional £1.1m.

29. Local general practice allocations are unchanged from those previously published for 2018/19, and no changes to the funding formula have been implemented.

Other Direct Commissioning

30. The other Direct Commissioning allocation covers dental, optical services, pharmacy, armed forces, public health and health & justice commissioning undertaken by NHS England. Our initial plan was for this allocation to fall to reflect planned savings, efficiency requirements, and growth in income from prescription and dental charges.

31. Our revised assessment, following a review of income forecasts and other financial assumptions, is that a small cash increase in this allocation is required. This does not affect the underlying requirement to deliver significant efficiencies and cost savings in these areas of commissioning.

Other NHS England funding

32. Other NHS England funding comprises central transformation resources for key priority areas such as cancer and mental health, cover for non-recurrent drawdown of historic CCG surpluses, as well as core programme and management budgets. The slight increase on previous plans reflects a number of adjustments. The most notable are the provision of additional Government funding for specific purposes (e.g. costs associated with the Mental Health Green Paper) and the necessary reserves for legacy Continuing Healthcare claims.

Allocation Overview and Assumptions

33. Table 2 below sets out our recommended distribution of funds at commissioning stream level. Appendix A describes our assumptions in more detail.

Table 2: Commissioning stream allocations

	2017/18 initial allocation £m	2017/18 adjusted allocation £m	2018/19 adjusted allocation £m	Previously planned growth £m		2018/19 additional allocation £m	2018/19 final allocation £m	Total growth £m	Revised growth %
Clinical Commissioning Groups	73,352	73,450	74,996	1,546		603	75,599	2,149	2.9%
Commissioner Sustainability Fund	0	0	0	0		400	400	400	n/a
General Practice	7,965	7,815	8,127	312		0	8,127	312	4.0%
Specialised Services	16,413	16,602	17,339	737		354	17,693	1,092	6.6%
Provider Sustainability Fund	1,800	1,800	1,800	0		650	2,450	650	36.1%
Other Direct Commissioning	6,641	6,684	6,653	-32		71	6,724	39	0.6%
Other NHS England funding	3,022	2,949	2,886	-63		61	2,947	-2	-0.1%
Total	**109,193**	**109,300**	**111,800**	**2,500**		**2,140**	**113,940**	**4,640**	**4.2%**

Note: 2017/18 adjusted allocation excludes the non-recurrent additional funding provided in the Autumn Budget.

Recommendations

34. The Board is invited to:

- Note the publication of planning guidance for 2018/19; and
- Agree the proposed allocation of funds between areas of commissioning spend, and the proposed methodology for additional allocations to CCGs.

Author National Directors

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APPENDIX A

Pressures in commissioning streams

Cost pressures
The financial modelling supporting the 2018/19 allocations and planning is based on a set of assumptions, which where applicable are aligned to those reflected in the National Tariff for 2017 to 2019. We discuss the key drivers of these assumptions below. In developing the specific commissioning stream pressures these assumptions are adapted them as appropriate for each commissioning stream.

Activity
The activity assumptions are intended to be both affordable and deliverable under the revised allocations. The allocations for 2018/19 allow for:

- *Non-elective.* 2.3% growth in non-elective admissions and ambulance activity and 1.1% growth in A&E attendances. This is in aggregate for England and reflects recent trends, but activity growth patterns to be reflected in plans will in practice vary by commissioner and provider. However the aggregate 2.3% non-elective growth figure masks an important trend: non elective admissions actually needing an *overnight* admission to hospital (i.e. spells with a 1 day+ length of stay) are growing at a modest 1% year to date, whereas 'zero day' non-elective spells are reportedly growing at 7.3%. NHS Improvement has recently issued clarifying guidance on accurate counting so as to remove some of the 'noise' in these 'zero day' numbers.
- *Elective*. 4.9% growth (4.0% per working day) in total outpatient attendances and up to 3.6% growth (2.7% per working day) in elective admissions. GP referrals will increase by 0.8% (no change per working day).

Pay
The pay assumptions are based on estimates calculated by the DHSC of the underlying pay pressure in the system assuming a 1% headline pay settlement, and therefore do not reflect any increased pressure should the pay settlement be greater than 1%. The pay pressure assumption is consistent throughout all commissioning streams, weighted accordingly.

Drugs
Secondary care, non-specialised drugs expenditure is assumed to grow in line with forecasts used for the 2017-19 tariff. Growth in specialised excluded drugs is based on detailed work performed by NHS England.
Underlying growth in primary care drugs expenditure is assumed to be offset by prescribing efficiencies, including reforms to the prescribing of drugs available over the counter.The current high level of discretionary prices for generic drugs in short supply is assumed not to persist into 2018/19.

Other
For the majority of other pressures we have included an assumption cost increase in line with the GDP deflator. This includes secondary care procurement pressure for non-pay non-drugs related costs.
We have funded commissioners for the projected increases in Clinical Negligence Scheme for Trusts (CNST) contributions reflected in the National Tariff.
Revised allocations take account of additional costs as a result of the delegation for 2018/19 of Primary Care IT Enabling Services (PCES).

Cost and volume pressures on Continuing Healthcare, including any increases to Funded Nursing Care rates, are taken into account and assumed to be partly mitigated by efficiency opportunities.

NHSE and NHSI are both clear that no extra in-year funding is available for ‘winter’ 2018/19 over and above these allocations and contracts agreed at the start of the year. This fact is communicated clearly to CCGs and NHS providers in the refreshed planning guidance.