

Paper: PB.29.03.2018/12

NHS ENGLAND – BOARD PAPER

Title:

Consolidated Month 11 2017/18 Financial Report

Lead Director:

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Purpose of Paper:

- To update the Board on the financial position for month 11 2017/18.
- To note that CCGs are likely to end the year with an underlying net deficit of £300-400m, excluding the impact of significant issues with generic drug pricing, which are outside the control of NHS organisations. We have identified sufficient non-recurrent central mitigations to offset the CCG variances, but a targeted funding solution is required for 2018/19, as central mitigations of this magnitude will not be available.
- For 2018/19 NHS England and CCGs will not be holding any national contingency to cover off the provider financial position, as £650m has instead been allocated to expand the Provider Sustainability Fund from £1.8bn this year to £2.45bn next year. As a consequence, the Government's Mandate for 2018/19 to NHS England is that the commissioning sector balances its budget and the Government's Remit Letter to NHS Improvement is that it ensures the provider sector reaches a break even position.

The Board invited to:

- The Board is asked to note the financial position for month 11 and in particular the implications for 2018/19 of the underlying deficit in the CCG sector.

CONSOLIDATED MONTH 11 2017/18 FINANCIAL REPORT

Purpose

1. This paper summarises the year to date and forecast position at month 11 2017/18.

Context

2. 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
3. The CCG expenditure for the year includes plans for non-recurrent investment expenditure of 1% of allocations, of which half has been held uncommitted in order to provide a contribution of £360m to a system risk reserve to support the wider health system. NHS England is holding a further £200m uncommitted risk reserve centrally. All of the figures presented in this report, including the discussion of risks and mitigations, exclude the release of these reserves. They also exclude historical underspends that are not available to be spent in 2017/18. The information is presented on a non-ringfenced RDEL basis.

Overall Financial Position

4. 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	73,382.6	74,007.3	(624.7)	(0.9%)	80,846.9	81,462.7	(615.8)	(0.8%)
Direct Commissioning	22,063.7	21,856.4	207.3	0.9%	24,421.2	24,177.8	243.4	1.0%
NHSE Running & central programme costs (excl. depreciation)	1,815.5	1,567.2	248.3	13.7%	4,306.3	3,791.3	515.0	12.0%
Other including technical and ringfenced adjustments	11.2	(21.1)	32.3		(5.3)	(36.9)	31.6	
Total non-ringfenced RDEL under/(over) spend	97,273.0	97,409.8	(136.8)	(0.1%)	109,569.1	109,394.9	174.2	0.2%

5. CCGs have reported year to date overspends of £625m, affecting 125 CCGs, with 70 greater than 1% adverse to their plan. They are currently forecasting a year end overspend of £687m offset by £71m of unearned quality premium. The deterioration in the position from the £351m overspend forecast at month 9 is a result of risks crystallising into the forecast, including the full impact of generic drug pricing pressures now estimated at £362m (see para 6 below). Excluding this pressure, the underlying CCG position amounts to a deficit of around £300-400m excluding non-recurrent costs and mitigations. This factors in the mitigating actions of CCGs themselves and the additional intervention undertaken where necessary by NHS England regional teams. It is also important to note that the CCG position has arisen

despite a £487m increase in the in-year delivery of efficiencies compared with 2016/17

6. Reimbursement prices for 'category M' drugs paid by CCGs to community pharmacies are set to reflect market prices plus a reasonable margin. Price concessions are granted by the Department of Health & Social Care (DHSC) to allow for short-term price pressures on individual drugs. The number of drugs subject to price concessions and the scale of pricing uplifts have significantly increased in the current financial year. In April, 27 price concessions were in force, which is the normal historic level; this increased to 81 by October, with the highest individual increase being a 40-fold increase in the price. In the month of October alone, the cost of these concessions was over £57m, which exceeds the annual value in 2015/16 and 2016/17. In recent months this has reduced significantly, as DHSC has taken action to tackle the issues relating to temporary price-setting processes.
7. Specialised commissioning underspends are driven by underspends on the Cancer Drugs Fund, Proton Beam Therapy and Commissioning through Evaluation budgets., The underspend in Primary Care relates predominantly to dental budgets.
8. There are further underspends on other central budgets which include income from GP rates rebates and counter fraud receipts not included in the operating plan, central running cost underspends arising mainly through vacancies and deferral of transformation programme expenditure.
9. Taking all of this together, we have identified sufficient mitigations to offset the CCG overspend, and we are now forecasting an overall underspend for the year of £174m. In addition, our regular monitoring of risks and mitigations indicates that all remaining commissioning risk is offset by further mitigations.
10. It is evident that a sustainable solution to the underlying CCG deficit will be required, if financial balance is to be achieved next year, as the bulk of the central mitigations in 2017/18 are non-recurrent in nature. The Commissioner Sustainability Fund introduced for 2018/19 is designed to achieve this.
11. Further detail on the overall financial position can be found in the appendices. This includes a detailed summary of year to date and forecast expenditure (Appendix A), a breakdown of NHS England running costs (Appendix B) and programme costs (Appendix C) and further detail on commissioner efficiency performance (Appendix D). 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/>).

Recommendations

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

Author **Paul Baumann, Chief Financial Officer**

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	22,176.2	22,320.0	(143.8)	(0.6%)	24,401.0	24,558.3	(157.3)	(0.6%)
Midlands & East	21,464.6	21,666.1	(201.5)	(0.9%)	23,654.9	23,894.7	(239.8)	(1.0%)
London	11,783.3	11,848.3	(65.0)	(0.6%)	12,947.8	13,027.1	(79.3)	(0.6%)
South	17,958.5	18,172.9	(214.4)	(1.2%)	19,772.2	19,982.6	(210.4)	(1.1%)
Quality Premium ¹	0.0	0.0	0.0	0.0 %	71.0	0.0	71.0	100.0 %
Total Local Net Expenditure	73,382.6	74,007.3	(624.7)	(0.9%)	80,846.9	81,462.7	(615.8)	(0.8%)
Direct Commissioning								
Specialised Commissioning	14,936.8	14,836.1	100.7	0.7 %	16,509.9	16,412.9	97.0	0.6 %
Armed Forces	57.0	57.0	0.0	0.0 %	63.2	63.2	0.0	0.0 %
Health & Justice	505.7	492.1	13.6	2.7 %	565.9	544.6	21.3	3.8 %
Primary Care & Secondary Dental	5,683.2	5,618.3	64.9	1.1 %	6,307.7	6,221.6	86.1	1.4 %
Public Health	881.0	852.9	28.1	3.2 %	974.5	935.5	39.0	4.0 %
Total Direct Commissioning Expenditure	22,063.7	21,856.4	207.3	0.9 %	24,421.2	24,177.8	243.4	1.0 %
NHS England Other (excluding depreciation & technical)								
NHS England Running Costs (excl. depreciation)	413.5	378.6	34.9	8.4 %	459.5	427.6	31.9	6.9 %
NHS England Central Programme Costs (excl. depreciation)	676.5	475.6	200.9	29.7 %	864.1	661.7	202.4	23.4 %
CSUs net margin	4.9	(6.9)	11.8	240.8 %	4.9	4.9	0.0	0.0 %
Other Central Budgets (including provider STF) ²	720.6	719.9	0.7	0.0 %	2,977.8	2,697.1	280.7	9.4 %
Total NHS England Other (excluding depreciation & technical)	1,815.5	1,567.2	248.3	13.7 %	4,306.3	3,791.3	515.0	12.0 %
NHS England depreciation charges	113.0	73.2	39.8		129.1	79.4	49.7	
Remove ringfenced under/(over) spend (depreciation and impairments)	(146.5)	(92.9)	(53.6)		(166.0)	(99.3)	(66.7)	
Remove AME/Technical items	44.7	(1.4)	46.1		31.6	(17.0)	48.6	
Total non-ringfenced RDEL under/(over) spend	97,273.0	97,409.8	(136.8)	(0.1%)	109,569.1	109,394.9	174.2	0.2%

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	6.2	5.3	0.9	14.5%	6.7	6.0	0.7	10.4%
Nursing	7.4	6.5	0.9	12.2%	8.1	7.2	0.9	11.1%
Operations and Information	207.5	199.7	7.8	3.8%	228.0	223.0	5.0	2.2%
Specialised Commissioning	17.5	16.8	0.7	4.0%	19.1	18.6	0.5	2.6%
Finance	45.9	41.4	4.5	9.8%	52.1	48.7	3.4	6.5%
Strategy & Innovation	10.1	8.2	1.9	18.8%	11.0	9.0	2.0	18.2%
Transformation & Corp Operations	57.1	52.6	4.5	7.9%	62.9	57.7	5.2	8.3%
PCS	56.9	57.7	(0.8)	(1.4%)	62.1	64.0	(1.9)	(3.1%)
Chair & Chief Executive Group	1.2	1.1	0.1	8.3%	1.4	1.3	0.1	7.1%
Contingency	3.7	(10.7)	14.4	100.0%	8.1	(7.9)	16.0	197.5%
TOTAL excl Depreciation	413.5	378.6	34.9	8.4%	459.5	427.6	31.9	6.9%

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	26.1	19.3	6.8	26.1%	29.9	29.8	0.1	0.2%
Nursing	23.9	15.2	8.7	36.4%	28.6	24.7	3.9	13.7%
Operations and Information	224.0	187.0	37.0	16.5%	318.3	291.1	27.3	8.6%
Specialised Commissioning	25.6	17.1	8.5	33.2%	28.1	22.4	5.7	20.0%
Finance	13.7	10.3	3.4	24.8%	16.9	11.0	5.9	34.9%
Strategy & Innovation	75.4	70.8	4.6	6.1%	81.8	76.7	5.1	6.2%
Transformation & Corp Operations	16.9	16.0	0.9	5.3%	18.2	17.2	1.0	5.3%
Clinical Excellence Awards	118.8	118.8	0.0	0.0%	141.0	135.0	6.0	4.3%
Provider Support	102.2	101.7	0.5	0.5%	117.6	117.0	0.6	0.5%
Other Programmes	35.6	33.4	2.2	6.1%	36.6	33.8	2.8	7.5%
Rates and fraud recovery income	0.0	(88.3)	88.3	100.0%	0.0	(88.1)	88.1	100.0%
Other Reserves	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%
Contingency	14.3	(25.7)	40.0	100.0%	47.1	(8.9)	56.0	118.9%
TOTAL excl Depreciation	676.5	475.6	200.9	29.7%	864.1	661.7	202.4	23.4%

APPENDIX D

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

	Year to Date Commissioner Efficiency				Forecast Commissioner Efficiency						2016/17		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	695.0	560.1	(134.9)	80.6 %	802.8	3.3%	626.5	2.6%	(176.3)	78.0 %	462.0	2.6%	73.8%	35.6%
Midlands and East	865.7	751.1	(114.6)	86.8 %	987.0	4.2%	845.4	3.6%	(141.6)	85.7 %	701.7	3.4%	40.7%	20.5%
London	448.9	362.4	(86.5)	80.7 %	505.1	3.9%	409.0	3.1%	(96.1)	81.0 %	284.2	2.7%	77.7%	43.9%
South	708.2	528.8	(179.4)	74.7 %	811.9	4.2%	596.1	3.1%	(215.8)	73.4 %	541.7	3.8%	49.9%	10.0%
Total Local	2,717.8	2,202.4	(515.4)	81.0 %	3,106.8	3.9%	2,477.0	3.1%	(629.8)	79.7 %	1,989.6	2.6%	56.1%	24.5%
Direct Commissioning														
Specialised	374.8	370.3	(4.5)	98.8 %	423.1	2.6%	412.2	2.6%	(10.9)	97.4 %	325.7	2.1%	29.9%	26.6%
Armed Forces	0.0	0.0	0.0	100.0 %	0.0	0.0%	0.0	0.0%	0.0	100.0 %	0.0	0.0%	0.0%	0.0%
Health & Justice	3.2	3.2	0.0	100.0 %	3.5	0.6%	3.5	0.6%	0.0	100.0 %	6.4	1.2%	0.0%	0.0%
Primary Care and Secondary Dental	107.8	91.4	(16.4)	84.8 %	135.9	2.2%	99.3	1.6%	(36.6)	73.1 %	175.6	1.9%	(22.6%)	(43.5%)
Public Health	8.2	6.9	(1.3)	84.1 %	8.8	0.9%	7.4	0.8%	(1.4)	84.1 %	7.8	0.8%	12.3%	(5.5%)
Total Direct Commissioning	494.0	471.8	(22.2)	95.5 %	571.4	2.4%	522.4	2.2%	(49.0)	91.4 %	515.6	2.0%	10.8%	1.3%
Total Commissioner Efficiency	3,211.8	2,674.2	(537.6)	83.3 %	3,678.2	3.5%	2,999.4	2.9%	(678.8)	81.5 %	2,505.2	2.4%	46.8%	19.7%
Of which transformational	1,488.6	1,045.3	(443.3)	70.2 %	1,698.7	1.6%	1,182.5	1.1%	(516.2)	69.6 %	965.8	0.9%	75.9%	22.4%