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## NHS ENGLAND – BOARD PAPER

**Title:**

Consolidated 2017/18 Year-end Financial Report

**Lead Director:**

Paul Baumann, Chief Financial Officer

**Purpose of Paper:**

- To update the Board on the financial results for 2017/18.
- To confirm that NHS England has met its financial duty to balance its budget, while generating a £955m managed underspend to contribute to the overall NHS position.
- The underspend includes a total of £640m of planned risk reserves, which were released by CCGs and NHS England at the end of financial year in accordance with commitments made at the start of the year.

**Patient and Public Involvement:**

This is an accounting exercise summarising the financial results for 2017-18 and building on the public reports made to the Board through the financial year. Full information will be available to patients and the public in the NHS England annual accounts.

**The Board invited to:**

- Note the financial position for 2017/18 and in particular the implications for 2018/19 of the underlying deficit in the CCG sector.

# CONSOLIDATED MONTH 12 2017/18 FINANCIAL REPORT

## Purpose

1. This paper summarises the financial results for 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. All of the figures presented in this report exclude historical underspends that are not available to be spent in 2017/18. The information is presented on a non-ringfenced RDEL basis.
3. The final year-end financial position is subject to review by the National Audit Office as part of the external audit of the NHS England Group Annual Report and Accounts for 2017/18. Once these numbers are confirmed, the Department of Health & Social Care (DHSC) will consolidate the NHS England financial performance with their own results, the position of NHS trusts and that of a variety of other national bodies. The consolidated financial position will then be presented to Parliament and published when the DHSC report and accounts are laid in July.
4. CCG expenditure for the year included plans for non-recurrent investment expenditure of 1% of allocations, of which half was held uncommitted in order to provide a contribution of £360m to a system risk reserve to support the wider health system. NHS England held a further £200m uncommitted risk reserve centrally. A further £80m of reserves has been added to this from other sources to give total risk reserves of £640m. All elements of this reserve were released at the end of the financial year to offset overspends in the provider sector of the NHS. For 2018/19 NHS England and CCGs will not be holding any national contingency to cover wider system risks, as £650m has instead been allocated to expand the Provider Sustainability Fund from £1.8bn this year to £2.45bn next year.

## Overall Financial Position

5. Table 1 summarises the year-end expenditure position for NHS England and shows the final variances both including and excluding the release of the system risk reserve.

Table 1

Net Expenditure	Month 12 Outturn				System Risk Reserve	Exc Risk Reserve	
	Plan £m	Actual £m	Under/(over) spend			Under/(over) spend	
			£m	%	£m	%	£m
CCGs	80,995.9	81,246.4	(250.5)	(0.3%)	440.0	(690.5)	(0.9%)
Direct Commissioning	24,485.8	24,257.9	227.9	0.9%	0.0	227.9	0.9%
NHSE Running & central programme costs (excl. depreciation)	4,064.6	3,173.6	891.0	21.9%	200.0	691.0	17.0%
Other including technical and ringfenced adjustments	(10.3)	(97.2)	86.9		0.0	86.9	
<b>Total non-ringfenced RDEL under/(over) spend</b>	<b>109,536.0</b>	<b>108,580.7</b>	<b>955.3</b>	<b>0.9%</b>	<b>640.0</b>	<b>315.3</b>	<b>0.3%</b>

6. Excluding the impact of the system risk reserve, CCGs have ended the year with an overspend of £761m offset by £71m of unearned quality premium. CCGs have delivered an unprecedented level of efficiencies, equivalent to 3.1% of their allocations, and have generally performed well in taking appropriate mitigating action to manage unprecedented in-year pressures. £349m of the CCG overspend relates to exceptional levels of concessionary prices for generic drugs, which are set by DHSC and thus outside the control of NHS organisations. This is partially offset by the release of the £80m Category M drugs rebate which was passed back to CCGs in month 12.
7. There are overspends in 124 CCGs, and 65 CCGs have an overspend of more than 1% against plan. Including the release of the 0.5% risk reserve held uncommitted by CCGs, this is reduced to 75 CCGs with an overspend, and 57 with an overspend of more than 1%.
8. Underspends in Direct Commissioning are mainly driven by Specialised Commissioning, reflecting the improvements made to financial management processes and controls put in place over the last two years, particularly with regard to the operation of the Cancer Drugs Fund. The underspend in Primary Care predominantly relates to budgets for certain dental services.
9. Excluding the £200m contribution to the risk reserve, NHS England central budgets have underspent as a result of management action initiated early in 2017/18 to cover the emerging overspends in CCG positions, including the impact of concessionary drugs pricing pressures. Underspends against central budgets are a mixture of non-recurrent income, central running and programme cost reductions, including the deferral of some transformation expenditures.
10. In order to provide a sustainable solution to the underlying CCG deficit and achieve financial balance in 2018/19 without the need for the level of non-recurrent central mitigations that have been required in 2017/18, we have introduced the Commissioner Sustainability Fund.
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 and programme costs (Appendix B) and further detail on commissioner efficiency performance (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/>).

## Recommendations

12. The Board is asked to note the financial position for 2017/18.

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**Date:** May 2018

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

	Month 12 Outturn			
	Plan £m	Actual £m	Var £m	Var %
<b>Local Net Expenditure</b>				
North	24,449.2	24,471.1	(21.9)	(0.1%)
Midlands & East	23,697.2	23,822.8	(125.6)	(0.5%)
London	12,983.5	12,996.7	(13.2)	(0.1%)
South	19,795.0	19,955.8	(160.8)	(0.8%)
Quality Premium <sup>1</sup>	71.0	0.0	71.0	0.0 %
<b>Total Local Net Expenditure</b>	<b>80,995.9</b>	<b>81,246.4</b>	<b>(250.5)</b>	<b>(0.3%)</b>
<b>Direct Commissioning</b>				
Specialised Commissioning	16,525.4	16,430.6	94.8	0.6 %
Armed Forces	63.2	60.6	2.6	4.1 %
Health & Justice	565.9	543.8	22.1	3.9 %
Primary Care & Secondary Dental	6,358.4	6,289.2	69.2	1.1 %
Public Health	972.9	933.7	39.2	4.0 %
<b>Total Direct Commissioning Expenditure</b>	<b>24,485.8</b>	<b>24,257.9</b>	<b>227.9</b>	<b>0.9 %</b>
<b>NHS England Other (excluding depreciation &amp; technical)</b>				
NHS England Running Costs (excl. depreciation)	460.9	429.2	31.7	6.9 %
NHS England Central Programme Costs (excl. depreciation)	849.6	665.2	184.4	21.7 %
CSUs net margin	4.9	4.8	0.1	2.0 %
Other Central Budgets (including provider STF) <sup>2</sup>	2,749.2	2,074.4	674.8	0.0 %
<b>Total NHS England Other (excluding depreciation &amp; technical)</b>	<b>4,064.6</b>	<b>3,173.6</b>	<b>891.0</b>	<b>21.9 %</b>
NHS England depreciation charges	129.1	80.8	48.3	
Remove ringfenced under/(over) spend (depreciation and impairments)	(166.0)	(108.9)	(57.1)	
Remove AME/Technical items	26.6	(69.1)	95.7	
<b>Total non-ringfenced RDEL under/(over) spend</b>	<b>109,536.0</b>	<b>108,580.7</b>	<b>955.3</b>	<b>0.9%</b>

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.

## APPENDIX B

**Summary of Year to Date and Forecast NHS England Running Costs Expenditure**

	Month 12 Outturn			
	Plan £m	Actual £m	Var £m	Var %
Medical	6.7	6.0	0.7	10.4%
Nursing	8.1	7.2	0.9	11.1%
Operations and Information	227.8	221.3	6.5	2.9%
Specialised Commissioning	19.1	18.6	0.5	2.6%
Finance	52.1	50.3	1.8	3.5%
Strategy & Innovation	11.0	9.0	2.0	18.2%
Transformation & Corp Operations	63.3	56.8	6.5	10.3%
PCS	62.1	63.2	(1.1)	(1.8%)
Chair & Chief Executive Group	1.4	1.2	0.2	14.3%
Contingency	9.3	(4.4)	13.7	100.0%
<b>TOTAL excl Depreciation</b>	<b>460.9</b>	<b>429.2</b>	<b>31.7</b>	<b>6.9%</b>

**Summary of Year to Date and Forecast NHS England Programme Costs Expenditure**

	Month 12 Outturn			
	Plan £m	Actual £m	Var £m	Var %
Medical	29.9	28.4	1.5	5.0%
Nursing	27.9	22.1	5.8	20.8%
Operations and Information	327.0	286.7	40.3	12.3%
Specialised Commissioning	28.1	21.8	6.3	22.4%
Finance	17.2	14.5	2.7	15.7%
Strategy & Innovation	90.7	84.3	6.4	7.1%
Transformation & Corp Operations	18.2	17.5	0.7	3.8%
Clinical Excellence Awards	141.0	132.6	8.4	6.0%
Provider Support	102.7	102.1	0.6	0.6%
Other Programmes	36.6	33.4	3.2	8.8%
Rates and fraud recovery income	0.0	(88.1)	88.1	100.0%
Other Reserves	0.0	0.0	0.0	0.0%
Contingency	30.3	9.9	20.4	100.0%
<b>TOTAL excl Depreciation</b>	<b>849.6</b>	<b>665.2</b>	<b>184.4</b>	<b>21.7%</b>

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

	Commissioner Efficiency Outturn						2016/17		Percentage Increase	
	Plan £m	As % of Allocation	Outturn £m	As % of Allocation	Var £m	Achieved %	Outturn £m	As % of Allocation	Planned %	Forecast %
Local										
North	802.8	3.3%	630.1	2.6%	(172.7)	78.5 %	462.0	2.6%	73.8%	36.4%
Midlands and East	987.0	4.2%	855.6	3.6%	(131.4)	86.7 %	701.7	3.4%	40.7%	21.9%
London	505.1	3.9%	410.8	3.1%	(94.3)	81.3 %	284.2	2.7%	77.7%	44.5%
South	811.9	4.2%	589.1	3.0%	(222.8)	72.6 %	541.7	3.8%	49.9%	8.8%
<b>Total Local</b>	<b>3,106.8</b>	<b>3.8%</b>	<b>2,485.6</b>	<b>3.1%</b>	<b>(621.2)</b>	<b>80.0 %</b>	<b>1,989.6</b>	<b>2.6%</b>	<b>56.1%</b>	<b>24.9%</b>
Direct Commissioning										
Specialised	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	0.0%	0.0	100.0 %	0.0	0.0%	0.0%	0.0%
Health & Justice	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	135.9	2.2%	99.3	1.6%	(36.6)	73.1 %	175.6	1.9%	(22.6%)	(43.5%)
Public Health	8.8	0.9%	7.4	0.8%	(1.4)	84.1 %	7.8	0.8%	12.3%	(5.5%)
<b>Total Direct Commissioning</b>	<b>571.3</b>	<b>2.4%</b>	<b>522.4</b>	<b>2.2%</b>	<b>(48.9)</b>	<b>91.4 %</b>	<b>515.6</b>	<b>2.0%</b>	<b>10.8%</b>	<b>1.3%</b>
<b>Total Commissioner Efficiency</b>	<b>3,678.1</b>	<b>3.5%</b>	<b>3,008.0</b>	<b>2.9%</b>	<b>(670.1)</b>	<b>81.8 %</b>	<b>2,505.2</b>	<b>2.4%</b>	<b>46.8%</b>	<b>20.1%</b>
Of which transformational	1,698.7	1.6%	1,189.5	1.1%	(509.2)	70.0 %	965.8	0.9%	75.9%	23.2%