Finely balanced

A tough commissioning year reaches the half-way mark with challenges emerging but a forecast for the overall position broadly on plan. Steve Brown has the details

It was always going to be a tough year financially for NHS commissioners. There was a smaller provider efficiency requirement built into tariff, compared with recent years. And on top of this, they were asked to set aside funds to offset wider system overspends. Commissioner figures at month six show how the sector is squaring up to this challenge.

After last year's major overspend by NHS providers of £2.45bn – and a bigger underlying deficit – the focus in 2016/17 has been to move providers back towards balance. To this end, the £1.8bn sustainability and transformation fund has been focused on providers. But the broader business rules for the year also put an extreme burden on commissioners in helping to address provider overspends.

First, the efficiency requirement built into tariff prices was set at 2% compared with 4% in previous years. While this is almost certainly a more realistic assessment of what providers can be expected to deliver, it inevitably puts pressure on commissioner budgets compared with previous years' tariff uplifts. This might have been hard enough. But commissioners have also been required to set aside 1% of allocations (worth about £800m) to cover any further system overspends. NHS England has always acknowledged that it was asking a lot of commissioners in 2016/17 – needing a 3% savings requirement compared with the 2.2 % in the previous year.

With providers currently forecasting a year-end deficit of £669m, commissioners' set-aside may well need to stay uncommitted. Month six analysis shows that, overall, NHS England is reporting a £168m (0.3%) overspend in the year to date. This comprises a £236m overspend (0.6%) by clinical commissioning groups, a £27m overspend on direct commissioning budgets and a £95m underspend on central budgets.

The direct commissioning overspend is itself made up of a £49m overspend on specialised commissioning, offset largely by just over a £21m underspend on primary care, dental and public health budgets.

These figures take no account of the half-year value of the commissioner risk reserve, worth about £400m. Taking this into account equates to a net underspend for commissioning as a whole of £231m.

However, NHS England says the forecast for the full year remains broadly in line with plan – an overspend of just £10m, representing less than 0.1% of total budgets (within NHS

Central view

Speaking to *Healthcare Finance*, **NHS England chief financial officer Paul Baumann** (right), assesses the challenge facing commissioners and the NHS and progress in 2016/17.

'In 2016/17 we committed ourselves to stabilising the financial position of the NHS while taking the first steps towards the implementation of the *Five-year forward view*. We always knew this was going to be tough, and indeed the year is throwing up very significant challenges for commissioners and providers alike, as we seek to ramp up the level of efficiency – of all types – to secure financial balance in this critical first year of the spending review cycle.

'As things stand, we have a line of sight to delivery of this all important marker of our credibility as a service – and of our professional "grip" as a function. Providers up and down the country are taking resolute action to bear down on cost – notably in reversing the recent trend of burgeoning agency costs – in order to get as close as possible to the £580m deficit plan they set for themselves.

'Meanwhile, commissioners are on track to deliver the highest ever level of QIPP efficiencies, which will maximise the availability of the system reserve we took at the beginning of the year and deliver an overall commissioner underspend to square off the overall NHS financial position. This delicate balance is by no means "in the bag", but with single-minded focus over the remaining months of the year it can still be done.

'Moving forward, finance teams in local health economies have a key role to play in building on the strategies and partnerships created in the sustainability and transformation planning process. They are already working hard to create credible and affordable plans for the equally challenging middle years of the spending review and will also need to ensure that we get the best possible value from the crucial choices we need to make over the coming months as to how to invest the substantial, but distinctly finite, revenue and capital resources we have available for the transformation the NHS needs to achieve clinical and financial sustainability.

'More than ever before, this calls for a finance function that is resilient, joined up and equipped to play at the top of its game - which is, of course, the vision we set out in the Future-Focused Finance programme. Bob Alexander and I are greatly encouraged by the way in which our profession is stepping up to this challenge, and we are deeply grateful for the tireless efforts of finance teams across the country. We look forward to exploring with colleagues gathering for the HFMA annual conference how we can continue to work together for maximum success in tackling the challenges and opportunities of the critical years ahead.'

NHS England says the forecast for the full year remains broadly in line with plan – an overspend of just £10m, representing less than 0.1% of total budgets

England's revenue departmental expenditure limit, or RDEL, allocation).

This forecast position would leave commissioners' risk reserve intact and available to offset deficits elsewhere in the system. But the overall £10m overspend would mask a forecast £190m deficit across CCGs and £88m of pressure resulting from 'technical' adjustments. These adjustments include the elimination of benefits included in the headline numbers from an anticipated release of provisions (£64m) and lower than budgeted depreciation charges (£24m), neither of which can be included when reporting against the core non-ringfenced RDEL measure.

Offsetting these overspends are forecast underspends on central running costs (£216m) and direct commissioning (£52m). This latter forecast underspend would be thanks to a continued underspending on primary care and an expectation that the specialised commissioning overspend can be eliminated.

There are signs of pressures having a real impact at local level. The year-to-date deficit for CCGs has increased by £77m between month five reports and month six figures. CCGs' forecast outturn has also worsened by more than £100m between the two reports.

Some 84 (40% of all CCGs) are reporting year-to-date overspends – with nearly 50 of these being greater than 1%. Most of these expect to recover their financial position by the end of March. But 35 CCGs are forecasting a position worse than plan, with 11 of these forecasting an unplanned cumulative deficit.

Efficiency gains

Efficiency gains – as expressed in reported commissioner QIPP savings – are expected to be 40% higher than 2015/16, but are currently expected to fall short against the ambition of a 65% increase. Some of this can be attributed to rising activity, although there is a view that activity rises are not across all types of activity and a greater understanding of trends in specific service areas is needed.

CCGs clearly had ambitious plans to bend the normal growth trends downwards. Their efficiency gains suggest they have had only partial success and not yet delivered the full impact needed to meet their plans.

NHS England has been reporting the higher level of risk being carried this year – reflecting the higher level of ambition on efficiency. But it says 'an increasing amount of risk' is now crystallising into forecasts – a progressive increase as more data and activity figures become available as the year progresses.

It assesses the net risk position reported by CCGs and direct commissioning teams, after available mitigation has been applied, to be £299m – reflecting the difficulty in delivering full-year commissioner efficiency plans, managing activity risks and absorbing the cost of increases in funded nursing care. This is partially offset by central mitigations of £20m – reducing central costs – giving an overall net risk position of £279m.

The assessment excludes the £800m of uncommitted funds held by CCGs and commissioning teams. Decisions on whether this can be used (or how much of) will be taken 'later in the year' as it becomes clear how the financial performance of commissioners and providers is developing.

NHS England does not expect all identified risks to materialise. Its summary position, as things stand, is that commissioners are on course to balance their combined budget for 2016/17 as a whole, while contributing a managed underspend to fully offset the planned £580m net deficit in the trust sector.

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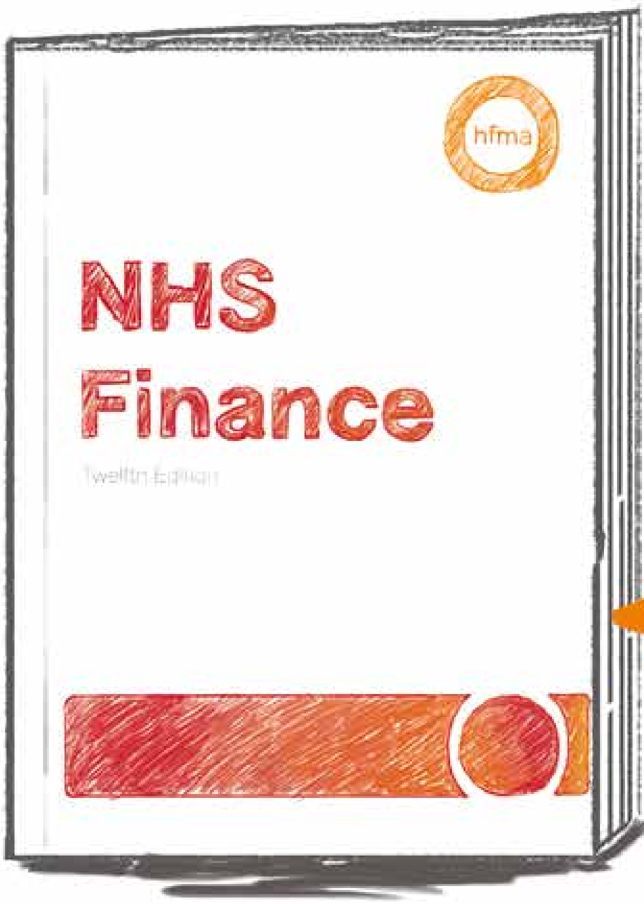

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