

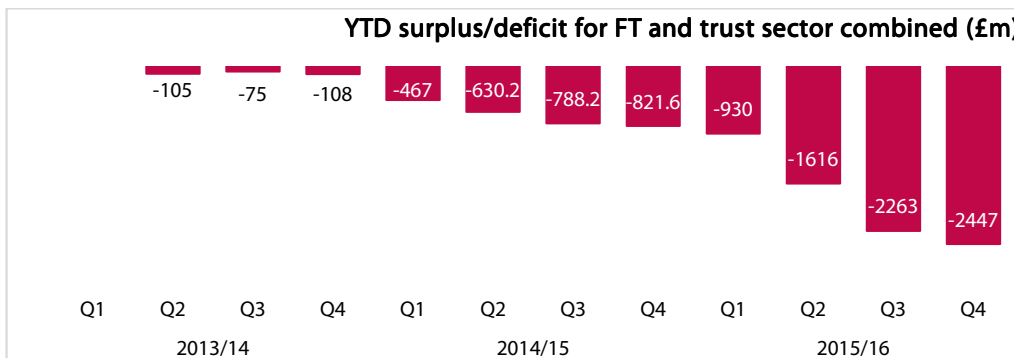
QUARTER 4 FINANCES

NHS Improvement has today **published** quarter 4 finances for the provider sector, covering the period 1 April 2015 to 31 March 2016. This briefing provides a summary of these figures, our view on what it means and how we are reacting, as well as our media response and coverage.

KEY HEADLINES

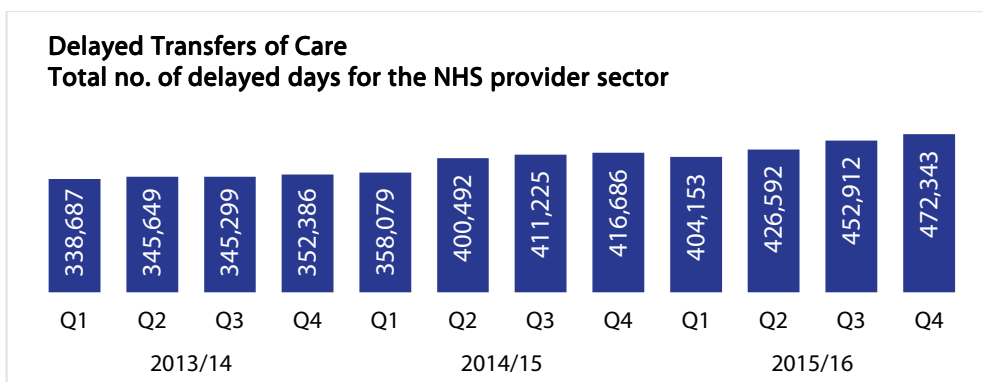
- The Q4 net deficit for the sector is **£2.45 billion**, compared to £2.27 billion at Q3 (figure 1). This is £1.6 billion more than at the end of 2014/15 and £2.3 billion more than at the end of 2013/14.

FIGURE 1: YEAR TO DATE SURPLUS/DEFICIT FOR THE NHS PROVIDER SECTOR (£M)



- The Q4 net deficit is **£460 million worse than planned**, driven by:
 - Ongoing high level use of contract and agency staff: the sector spent £3.6 billion on agency and contract staff, which is £1.4 billion more than planned.
 - Fines and readmission penalties: these accounted for £498 million of adverse financial impact. Providers have also spent £143 million on initiatives to reduce waiting lists and avoid fines.
 - Significant impact of delayed transfers of care: providers have estimated that delayed transfers of care (figure 2) have cost around £145 million so far this year, although the true cost is likely to be much higher.

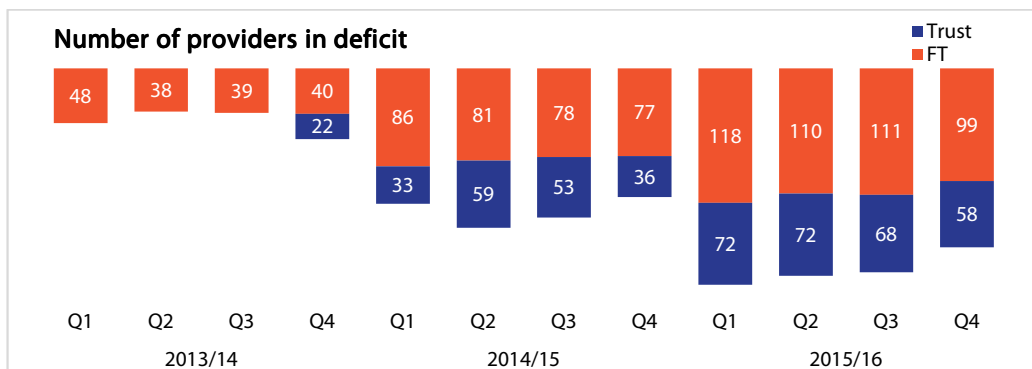
FIGURE 2: INCREASES IN DELAYED TRANSFERS OF CARE



- Failure to deliver planned levels of cost improvement schemes: providers have already made around £2.9 billion of savings, but this is circa £316 million (or 9.8%) less than planned. These saving reduced the total year-to-date costs by 3.6%.

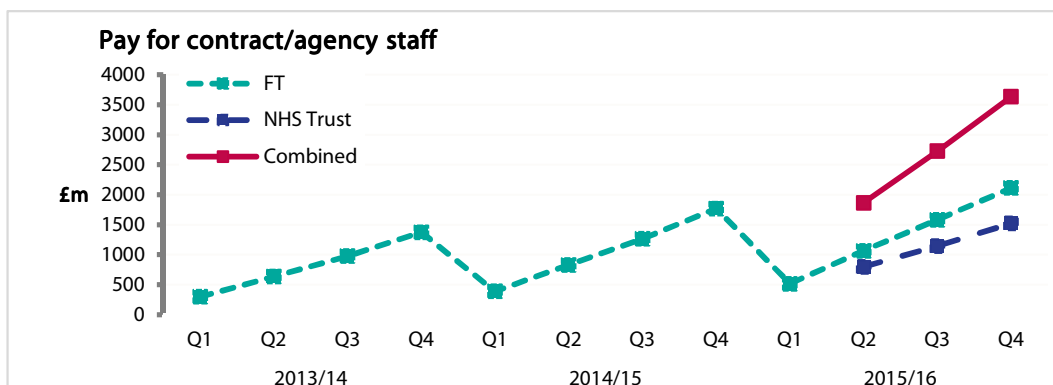
- **157 (65%) of 240 providers are reporting a deficit**, compared to 179 (75%) at Q3 (figure 3). 118 acute providers were in deficit, 86% of the sector. The report includes a breakdown for different sectors showing:
 - The acute and ambulance sectors ended the year with a combined deficit of £2.6 billion.
 - The 92 mental health, community and specialist sector providers reported a combined surplus of £148 million.

FIGURE 3: NUMBER OF PROVIDERS IN DEFICIT



- **Planned capital expenditure (capex) was strongly reduced in 2015/16:** at Q4, total capex was £3.7 billion, over £1.4 billion (28%) less than plan. The report notes “Between December 2015 and March 2016, providers ... actioned a total of £724m financial improvement[s]...including £324m of local capital-to-revenue transfers.”
- **EBITDA for foundation trusts and NHS trusts was 1.6% in Q4, compared to a planned 2.6%.** This ranges from 0.5% for acute providers to 5.5% for specialist trusts. In aggregate, NHS foundation trusts delivered a year-to-date EBITDA margin of 2.3%, whilst NHS trusts reported 0.5%.
- **At Q4, providers delivered £2.9 billion of savings through cost improvement programmes.** Agency staff spend continues to adversely affect trusts’ planned savings, with under delivery of pay CIPs responsible for 82% of the £403 million shortfall against plan.
- **NHS trusts and foundation trusts spent £3.6 billion on contract agency staff** (figure 4) from April 2015 to March 2016, which is more than a billion above plan. Agency costs at Q4 made up 7.5% of total staff pay, above the 4.7% which was planned.

FIGURE 4: TRENDS IN PAY FOR CONTRACT/AGENCY STAFF FOR THE PROVIDER SECTOR



- The report notes “the 2015/16 year-end position poses a significant challenge for the sector going into 2016/17. Despite the Sustainability and Transformation Fund adding extra funding for the sector in the coming

year, providers will need to do more to strengthen their financial grip to improve and sustain their financial performance and meet the sector's control totals."

NHS PROVIDERS VIEW

The quarter four finances for the provider sector are reflective of a year when yet again demand and costs have rapidly outstripped revenue to the detriment of provider financial performance. The number of providers overall in deficit has risen from 50% to 65% in the course of a year, and is spread across provider type, size and geography, telling us more clearly than ever that this is a systemic issue. As such it requires strong, clear and honest national leadership as well as a provider sector willing to do everything within its power to address it.

There is a clear initial national plan to turnaround finances for 2016/17. £1.8bn of sustainability funding is being awarded to trusts that hit stretching financial savings and performance trajectory targets as part of the control totals process. However, this fund was designed to cover what was anticipated to be a £1.8bn gap in in provider finances at the end of the financial year. Now the latest figures show definitively that this target has been breached, by a distance, there is a need for a coherent strategy on the gap between the forecast and reality. According to planning guidance, missing £1.8bn will require providers to agree to even greater stretch in their control totals. In light of the figures published today, this is not a realistic way of covering a further £700m worth of deficit over this next financial year. Those who have agreed to control totals are already looking at barely deliverable stretch to their plans, and initial feedback from providers' month 1 figures show already huge further deterioration in financial positions for 2016/17. It is not tenable to simply keep asking providers to work harder and take on more risk. There now needs to be realism from leaders in the system therefore about what is an achievable position by the end of 2016/17, and a clear plan for the following two years.

Over the course of the past two years, tariff efficiency factors of 4% for 2014/15 and 3.8% for 2015/16 have resulted in a net reduction in prices, which has strongly contributed to the detrimental deficit position in which the sector now finds itself. It is reassuring in this context this has been recognised in the payment system via a net uplift in tariff prices of 1.7% 2016/17 achieved in part via a reduction of the efficiency factor to 2%. This 2% efficiency target, while more realistic than previous targets, is still a much greater rate of efficiency improvement than the NHS provider sector has been able to sustain over recent years. With the scale of the financial situation now clearly apparent, the guaranteed holding of the efficiency factor at no more that 2% for the rest of this parliament is a vital, baseline step to ensure that providers have the chance to start turning their finances around. Simply ramping up the efficiency factor in this or future years is not a viable way of addressing the deficit.

In addition, there was a significant scaling back and postponement of capital spending in 2015/16 as providers did everything within their gift to reduce the deficit this year. These postponements cannot continue indefinitely however and mean that the underlying deficit is in all likelihood larger than the figures published today. However, an explicit part of the control totals process was that providers should develop capital plans for 2016/17 that distinguished essential expenditure from strategic, and prepare for restrictions to both access to external finance and deployment of existing cash reserves. With the delay of strategic investment this causes, it is likely that providers will have more cost pressures stored up for later on in the parliament when money is even tighter than in 2016/17.

Finally, there are still unresolved issues with spiralling agency staff costs and delayed transfers of care. These require both individual and collective action to address them such as national workforce planning strategies and greater

joined up local working with social care. Joined up health and social care provision, along with trying to reduce ever increasing demand, require transformational as well as sustainability funding. However funding that could otherwise have been spent on transformation is being diverted out of necessity towards deficit management. Of the £2.14bn allocated in 2016/17 for sustainability and transformation funding, the split of £1.8bn on stabilising NHS operational performance through control totals, with just £340m allocated for 'transformation' programmes shows where priority currently lies.

This has serious repercussions relating to reducing the £22bn funding gap the five year forward view estimates will exist by 2020/21. The introduction of sustainability and transformation plans, and the recent publication of their indicative allocations by the end of this parliament shows how £3.8bn of sustainability and transformation funding 2020/21 will be split by area, but it does not yet show how it will be split between maintaining financial balance and genuinely transforming the delivery of local care. However, according to current national level modelling, local health economies and STPs are "on the hook" to find over £14bn of the efficiencies needed to get to the £22bn, partly by moderating the exponential growth in activity through care redesign.

This is problematic. Given we are already £700m off trajectory, it seems likely transformation funding will continued to be swallowed up by sustainability funding, meaning that tackling demand is going to be an extremely difficult ask. In other words under the current funding settlement the system faces a classic catch 22: it needs to use the little extra money it has to plug the gaps that are appearing now, but also needs that same money for longer term investment to stop the same gaps appearing and growing in the future. This, unfortunately, is an inevitable by-product of just 0.9% yearly funding increases over the course of a decade between 2010 and 2020, and a falling percentage of GDP spent on healthcare.

Taken together then, these issues point clearly to a need for honesty from NHS leadership about how far we can really go to address the gap we now find ourselves with at the start of 2016/17, as well as a need for a clear, detailed and coherent plan for the longer term on how the NHS will close the £22bn gap as outlined in the five year forward view.

What is NHS Providers doing?

Chris Hopson is continuing to represent our members' views on these issues through his place on the Department of Health finance and efficiency board, chaired by David Williams. Across our wider organisation in order to influence the future direction of policy decisions we will continue to highlight and raise the profile of these issues with ministers, NHSI and NHSE senior team and our staff level contacts. We will also carry on supporting our members through the provision of up to date information and advice, including regular surveys and data collection.

We are also continuing to highlight the larger challenges our members face through increased engagement with the wider media, to ensure the general public and broader stakeholder groups have greater awareness of these issues and can in turn help exert greater levels of influence on key decision makers. In the section below you can see the press work we have done on the figures today.

Finally, we will help improve and support existing policy areas that can have a positive impact, such as influencing tariff and pricing developments and advising on developments in vanguards (where again Chris Hopson sits on the Five Year Forward View New care models board) and STPs.

NHS PROVIDERS MEDIA

NHS Providers has had substantial media coverage already today on the scale of the deficit. A selection is set out below along with our media release.

Provider Bites: <https://www.youtube.com/watch?v=Y1RL6Nrg5JK>

BBC Radio 4 Today programme (from 1h53) <http://www.bbc.co.uk/programmes/b07d2cb1>

BBC 5 live (from 2hr50) <http://www.bbc.co.uk/programmes/b07bbw3t#play>

BBC <http://www.bbc.co.uk/news/health-36334496>, <http://www.bbc.co.uk/news/health-36341235>

Guardian <http://www.theguardian.com/society/2016/may/20/nhs-in-england-set-to-announce-23bn-deficit>

PRESS RELEASE

20 May 2016

NHS maxing out and mid-term NHS finances look impossible without a proper plan: NHS Providers responds to Q4 performance figures

Commenting in response to the publication of the quarter 4 financial and performance figures from NHS Improvement, NHS Providers chief executive Chris Hopson said:

"Today's report reveals how the combination of increasing demand and the longest and deepest financial squeeze in NHS history is maxing out the health service. At the same time as treating the highest ever number of patients, NHS trusts are £2.45 billion in the red, with 65 per cent of providers in deficit. Although this figure is lower than the third quarter trajectory suggested, thanks to lots of hard work by trusts, the underlying deficit is actually nearer £3 billion. This record number of trusts in deficit, with a record overall deficit, is simply not sustainable. We have to rapidly regain control of NHS finances otherwise we risk lengthening waiting times for patients, limiting their access to services, and other reductions in the quality of patient care.

"There is a clear plan to address provider finances in 2016/17, supported by the largest funding increase of the parliament. But we need to be realistic about how much can be achieved. The actual increase in total Health Department spend per head of population in 2016/17, according to the Health Foundation and The Kings Fund, is less than 1%. We are therefore predicting that there will still be a provider sector deficit of somewhere between £0.5 and £1 billion by the end of 2016/17. The prospects for the following three years look a lot worse, as spend per head of population drops to 0 in 2017/18 and then falls to -0.6% in both 2018/19 and 2019/20.

"NHS trusts are looking to do everything possible to extract maximum value from every pound they spend. They have a big part to play in turning this round, as they did in the last parliament when they managed to help deliver £20 billion of efficiency savings. But the financial challenge before them today is much tougher than before, so they need more help than ever from national NHS leaders. That includes, in the Public Accounts Committee's words, realistic efficiency targets and a convincing plan to avoid a black hole in NHS finances.

"We already devote a lower percentage of our nation's wealth to the NHS than France, Germany, Sweden or Greece, but by 2020 public spending on the NHS is set to drop further to below 7 per cent. This is simply not enough and we need to stop pretending it will be. In the end you get what you pay for. There is now a clear gap between the quality of health service we all want the NHS to provide and the funding available. What we can't keep doing is passing that gap to NHS trusts – asking them to deliver the impossible and chastising them when they fall short. Not least because it is placing an increasingly intolerable burden on NHS staff whose commitment and discretionary effort are the lifeblood of our NHS."