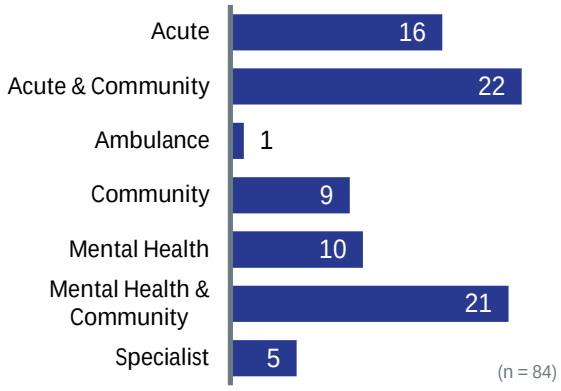
THE STATE OF NHS FINANCES AT Q1 2016/17: A SURVEY OF FINANCE DIRECTORS

SUMMARY

NHS Providers conducted a survey in the first half of August 2016 with NHS foundation trusts and trusts. We asked finance directors how their finances are faring after the first quarter of 2016/17, how much confidence they have in their plans going into the rest of the year, and their view on the effectiveness of measures outlined in NHS Improvement's (NHSI) financial 'reset'. A total of 84 providers responded to the survey, representing 35% of England's 238 provider trusts[1].

Trust type



Region

Key findings

1. Nearly two thirds of respondents (60%) were planning a deficit position for the end of Q1 2016/17, with almost the same number (61%) reporting an actual deficit position. The number in surplus increased while the number at breakeven decreased.
2. When looking at the variance between planned and actual surplus/deficit for Q1 2016/17, a third (32%) were on plan, 21% worsened and 47% were better than plan.
3. When asked about achieving their control totals respondents fell into three groups: just under a third (30%) were 'fairly confident'; just under a third (32%) were 'unsure'; and just over a third (38%) were not confident.
4. Respondents were overall not confident that any of the measures outlined in the financial 'reset'[2] would help the NHS achieve financial sustainability in 2016/17.

[1] All trust types and regions were represented, though only one ambulance provider responded making the modelling for ambulance trusts less reliable. All respondents were at finance director level. Ambulance providers were excluded from all trust type analysis as there was only one ambulance trust in the sample. Trust type is NHS Providers classification based on services registered with the CQC.

[2] Over the course of the summer there has been a series of announcements and directions from the national bodies, collectively termed a 'reset', that were aimed at addressing the provider deficit and helping aid stability of finances: https://improvement.nhs.uk/uploads/documents/Strengthening_financial_performance_and_accountability_in_2016-17_-_Final_2.pdf

Key messages

- Almost four in 10 finance directors (38%) were 'not confident' about hitting their control totals figure, and a further 30% were unsure. Control totals are a target financial position trusts have been set via individual negotiations with NHSI, which asks them to deliver a certain level of savings over the course of the 2016/17 year[3]. Some of the main reasons for concern included: not being able to reduce agency staff costs, lack of bed capacity, not being able to manage the rise in A&E attendance and emergency admissions to hospital, and the ongoing impact on the NHS of cuts to social care.
- Doubts about the sustainability of the first quarter results were raised by the way trusts access £1.8 billion of a sustainability and transformation funding (STF) pot. This funding was introduced for 2016/17 to support providers to move to a sustainable financial footing and reduce their deficit positions. If trusts hit their control total targets as well as certain performance standards in any given quarter in the year they can access a tranche of the funding. This was felt by many finance directors to create an incentive for trusts to make sure their plans were on track at early in the financial year, possibly at the expense of being sustainable throughout the course of the rest of the year.
- Finance directors were also asked how effective they believe the recent wave of financial measures introduced by NHSI and NHS England were likely to be. These include the control totals process, but also placing some trusts into a new financial special measures regime, requiring back office rationalisation and limiting capital spend. However, most finance directors have little or no confidence that these measures will help the NHS to achieve financial sustainability this year. For example, 54% were not confident that financial special measures for trusts would work, while 67% were not confident about the effectiveness of measures to cut back office costs.
- More generally, finance directors are raising concerns about the sheer volume of central measures and guidance that try and address deficits they must respond to, and want instead an honest debate about what can be provided by health and social care with the levels of funding we have.
- These findings show further evidence of the strain NHS trusts are operating under. There is now a clear and widening gap between what the NHS needs to deliver and the funding available. This will only get worse as overall funding increases are about to drop from 2017/18.

[3] Several trusts have not signed up to control totals as they believe the savings being asked for are undeliverable. For full details on STF see chapter 7 in https://improvement.nhs.uk/uploads/documents/Strengthening_financial_performance_and_accountability_in_2016-17_-_Final_2.pdf

FINDINGS

Q1 2016/17 surplus/deficit

Of the respondents, 60% planned a deficit for Q1 2016/17, and 61% reported an actual Q1 deficit position (figure 3). When looking at this by trust type, acute providers were the most likely to have planned a deficit position and the most likely to have reported an actual deficit position. Specialist providers were the most likely to have planned a surplus, but community providers were the most likely to report an actual surplus (figure 4).

FIGURE 3. **Q1 2016/17 surplus/deficit position**

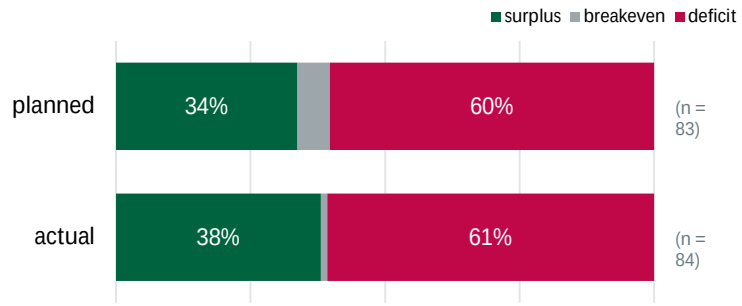
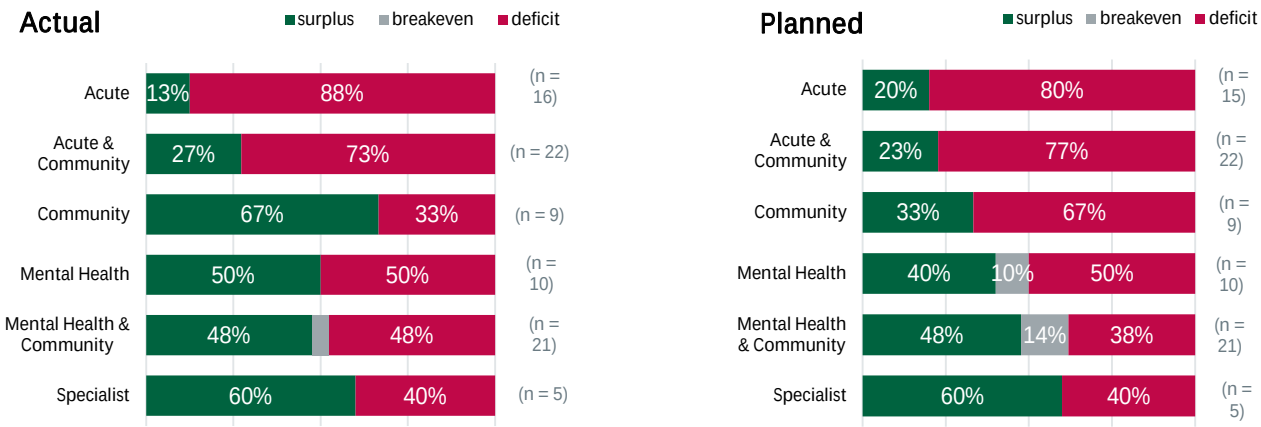
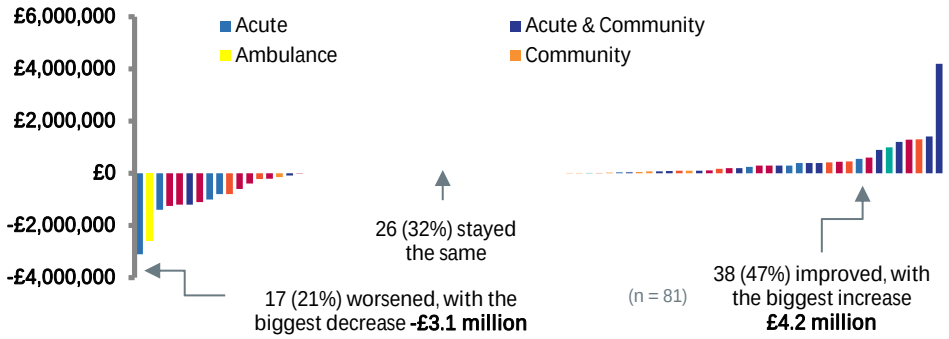


FIGURE 4. **Q1 2016/17 surplus/deficit position by trust type**



The variance between planned and actual Q1 performance ranged from a worsening of -£3.1 million to a better than plan performance of £4.1 million (figure 5), with a third of respondents remaining on plan. Variance appears less affected by trust type than overall surplus/deficit position, with all types of trust represented at both ends of the spectrum. It is worth noting that the largest Q1 increase was due to timing of reserve releases. Several of the trusts that had Q1 performance that was significantly better than plan noted this was due to them deciding to release cash reserves, or choices made on how they phase income throughout the year.

FIGURE 5. **Variance between planned and actual Q1 2016/17 surplus/deficit**



We asked finance directors what the reasons were for any variance against their plan. Several of those who are behind plan commented that their cost improvement programme (CIP) was slipping, agency costs were still high, and contract income was lower than predicted. Those who are ahead of plan often noted the difference was not material, vacancies had helped keep their costs down, or that the design of providers' access to the sustainability funding and pressure from NHSI meant hitting targets in Q1was of utmost importance.

Selected reasons given by providers for being behind plan	
"Unplanned cost pressures resulting from A&E performance pressures"	"Slower CIP delivery, revenue risk due to a contract not yet signed, pressure on out of areas treatments drugs and medic locums"
"Ongoing agency pressures and sustained growth in emergency demand, preventing closure of escalation capacity"	"Funding pressures on children's community services - pressure on CAMHS secure ward due to two highly complex patients"
"Inability to deliver savings through the application of agency pay rates"	"Income shortfall, CIP slippage, increased use of agency staff"
"Shortfall on cost and volume income - non-achievement of original CIP plan (primarily agency spend). Impact of increased control total set by NHSI and not yet backed with identified CIP"	"Challenges highlighted at plan - public health grant cost reductions, slippage on CIP programme due to phasing, locum medical costs (agencies not working with providers to achieve price caps)"
Selected reasons given by providers for being ahead of plan	
"Pay costs reduction and efficiency programme slightly ahead of plan. This is non recurrent position and therefore not necessarily a good news story!"	"Adverse operating expenditure offset by over-performance income"
"Huge pressure to be on plan at Q1 to access STF funding and stay out of trouble with NHSI"	"We deliberately phased the plan to give flexibility in the first three quarters"
"Underspends against agency staff due to better recruitment or cheaper forms of temporary staffing"	"Junior doctors strike impact was far less and more income is being generated from outpatients and emergency care than planned."
"Phasing of CIP - versus actual delivery"	"One off phasing to income which will even out in Q2"
"Favourable performance on non elective activity and income, pay costs lower than plan due to vacancies"	"Vacancies held to manage CIP slippage better than planned"

Control totals

When asked how confident they were about achieving financial control totals, respondents fell into three approximate groups: just under a third (30%) were 'fairly confident'; just under a third (32%) 'unsure'; and just over a third (38%) were not confident (figure 6). Those who are 'fairly confident' referenced non-recurrent savings that they can action if there is a shortfall in their CIP. Those who were uncertain highlighted the level of risk in the system, for example around stretching CIPs and unknown winter activity levels. There was a clear segmentation by trust type in answers to this question (figure 7). Providers of acute services showed far less confidence in achieving their control totals than colleagues who worked for mental health or community providers.

FIGURE 6. **How confident are you about achieving your financial control total?**

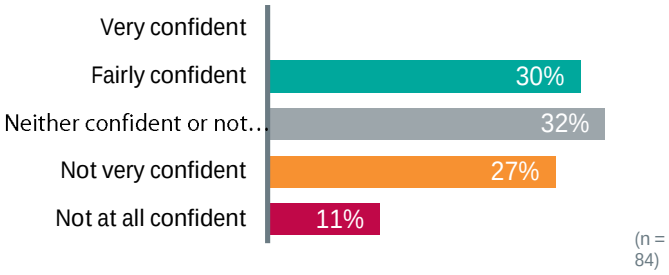
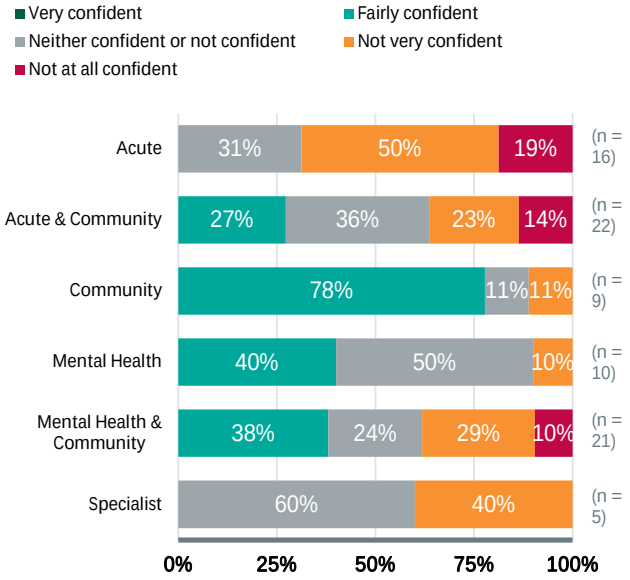


FIGURE 7. **How confident are you about achieving your financial control total? (by trust type)**



Community providers showed significantly more confidence than any other group, while no trust from either a specialist or purely acute background had confidence about achieving their control totals.

This may reflect a mixture of points. Acute providers may have less confidence in the efficacy of the payment system in general for meeting their costs. Additionally the sustainability funding is split between the 'general element' of £1.6 billion for providers of emergency care and the 'targeted element' of £0.2 billion to support all providers to achieve sustainability. This split may have affected local control total negotiations with most acute providers signing up to their control totals earlier in the year. Asked to give reasons for their selection, in those who lacked confidence, of note are mentions that the data that was the basis of their control total was out of date, penalties for readmissions had not been suspended as they had assumed, and A&E pressures.

Selected reasons why providers are "fairly confident" of hitting control totals	
"Currently in a very good financial position and have ability to manage within own operating income"	"Have managed to provide a level of contingency to cover CIP shortfall"
"Underspends in Q1 will support financial outturn and risks in CIP"	"Although there are risks, we have some non-recurrent mitigations that can be actioned if required"
"Additional £XXm added to our original planned surplus through the control total process, which as yet has no planned, recurrent CIP against it"	Savings plans in place, recovery plans being taken forward to reduce other overspends, any delay to be supported via non-recurrent support"
Selected reasons why providers are "neither confident or not confident" of hitting control totals	
"Risk to CIP delivery still great, then with potential pressures in year, has meant CIP plans hitting 5-6%"	"Challenging in Q1 given unexpected changes in income. Developing plans to recover for full year"
"Achievement of RTT targets"	"While we have delivered our required plan to date we have a number of risks including agency staffing and lack of bed capacity"
"There is significant risk from not delivering agency CIP and managing emergency activity costs. The control total is a stretch target and for this trust is proportionately larger than that for other trusts"	"Some major risks around demand management in the winter - the plan relies on the sustainability and transformation plan (STP[4]) and social care financial support although overall there will be a system wide return on investment"
Selected reasons why providers are "not very or not at all confident" of hitting control totals	
"Very significant costs pressures resulting from A&E and emergency pathway performance issues. Slippage against QIPP target of over 4% of turnover"	"We have assumed a massive step down in costs in Q3 and Q4, plus an assumption that we hit all our sustainability funding trajectories, and that seems optimistic"
"CIP of 5% + / £XXm needed to achieve"	"At the point the plan was agreed it was assumed that readmission penalties (£X.Xm) would be suspended"
"The control total was incorrectly set based on M6 figures for 2015/16 without proper discussion. NHSI aware of the position but wasn't empowered to change"	"Forecast is worsening. Agency costs much greater than plan. Expecting to incur unplanned costs for CQC as yet unknown"

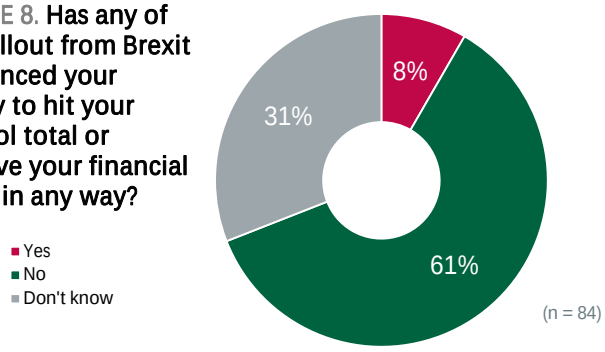
[4] These are place based plans, across 44 different areas in England. They are jointly owned by commissioners, providers and local authorities with the aim of "planning by place for local populations" rather than just at an institution level

Brexit

Two thirds of respondents felt that currently Brexit had not influenced their ability to achieve their financial plans (figure 9).

Almost a third were unsure, indicating that it was too early to tell, and 8% felt that there had been an impact, in particular on IT costs and some impact on overseas recruitment.

FIGURE 8. **Has any of the fallout from Brexit influenced your ability to hit your control total or achieve your financial plans in any way?**

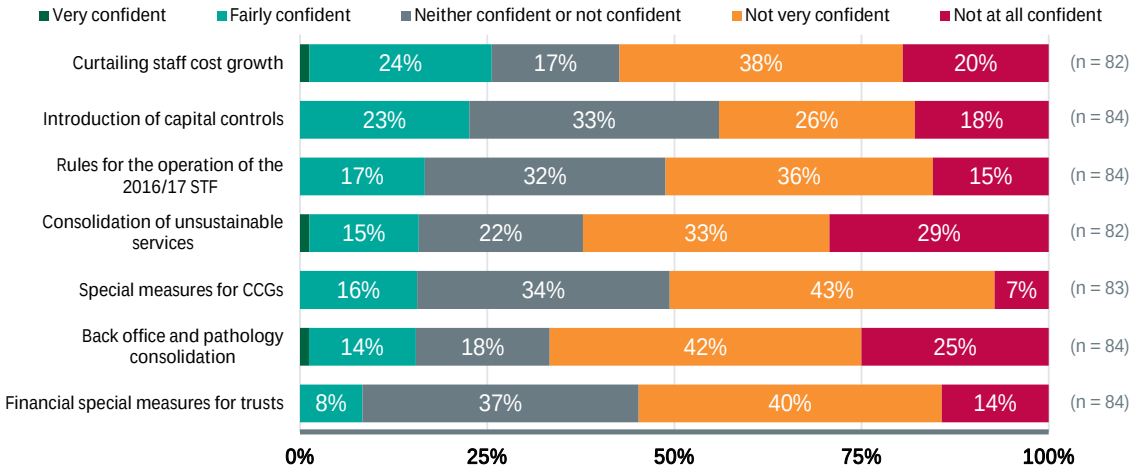


Selected reasons given why Brexit has influenced ability to hit control total or achieve financial plans	
"Adverse **foreign exchange rates on capital items/IT equipment. Will add circa 1% to total non-pay costs**"	"We are beginning to see some price rises in medical and **surgical consumables**"
"It has definitely impacted on **overseas recruitment which** is key to reducing agency spend"	"Recruitment. Staff have withdrawn. Higher non pay spend expected later in year"

Financial 'reset'

The over the course of the summer there has been a series of announcements and directions from the national bodies that were aimed at addressing the provider deficit and helping aid stability of finances. These were packaged together in a NHSI document, *Strengthening financial performance and accountability in 2016/17*. For each of the different elements contained within this financial reset, less than a quarter of respondents were confident that they would effectively contribute to the stabilisation of NHS finances in 2016/17 (figure 9). Respondents had most confidence that the curtailing of staff cost growth would have a positive impact and least confidence in the effectiveness of the new financial special measures for trusts, with 54% not confident.

FIGURE 9. **How confident are you that each of the various 'reset' measures and the rules for the STF will contribute effectively to the stabilisation of finances for the NHS in 2016/17?**



We asked our members to comment more specifically on the proposals for the new financial special measures regime. The results were mixed; with some respondents calling it 'draconian' and concerned that it won't address the root causes of issues, while others felt that something needs to be done and if this will actively support trusts to resolve financial problems then it would be welcomed.

Selected answers to "What are your initial thoughts on the proposals for financial special measures for trusts?"	
"Measures are nearly sensible, but may be over ambitious in terms of speed and impact. Most NHS cost pressures are caused by increasing demand, so special measures needs to take this into account on a system (STP) basis"	"For perennial underperformers it may be the only way to respond although the prospects of turning around difficult trusts in the short term looks remote"
"If done selectively for those trusts that have genuinely weak management fair enough - some element of central control seems perfectly reasonable. If good management are blamed for system failures then I would be against a proposal for special measures"	"If this operates as we have seen in the past there is often too little attention paid to a full analysis and understanding of the root causes of the problem as the 'political pressure' is for quick results - some turnaround is achieved due to the level of attention and scrutiny applied but this is very rarely sustained"
"The language suggests they are a big stick to beat failing trusts with which is the opposite of the single oversight framework language that talks about packages of support. It also feels like almost all trusts could find themselves falling foul of one of the three metrics yet not be a failing trust necessarily so they feel a little arbitrary"	"Insufficient attention paid to systems - the majority of trusts likely to fall within the financial special measures regime will do so because of system-wide issues, not poor management. Insufficient clarity about how providers will be helped to improve, over realistic timescales"
"Too early to say. Will depend entirely on the quality of the turnaround teams and processes that are deployed"	"This will lead to excessive regulation and that trusts will not have the opportunity to take the time needed to take the necessary actions. Recruitment to leadership roles in these trusts will become even harder"
"I'm not sure that this is greatly different to what has previously happened but if it leads to a better understanding of the issues at the centre then this in itself will be good. At the moment there is a tendency to beat everyone up rather than tell the position as it is which is untenable with current funding"	"The threat of special measures may work at the margins, but am not sure whether this doesn't cut across STP principles and, in effect, disengage the challenged trust from the local health economy."

The next question asked about the lessons that can be learned from quality special measures when looking at the proposed financial special measures outlined in the reset. Several respondents commented that "real change takes time" and that short term intervention does not always lead to sustainable change.

Others commented that getting the balance between finance and quality was essential and it would be better if they were addressed together – however there was a divide between those who felt trusts in quality special measures had 'spent' their way out of trouble, contributing to the current financial problems and others who argued that high quality care doesn't cost more. There were also concerns about the impact of special measures of staff motivation and engagement, in particular recruiting and retaining high calibre staff.

Selected answers to "Thinking of financial special measures, what lessons do you think can be learned from how special measures for quality has operated?"	
"Get a stick and beat them does not work! Use the language and culture of improvement, rather than unachievable targets. Give staff the confidence that you have credible plans for improvement. Top down regulation is not the answer to get a cultural shift"	"It's different. Engaging staff to improve quality is a much more effective strategy than trying to engage staff to improve finances in isolation from other service improvement issues"
"Special measures for quality has resulted in a number of cases of ignoring the financial impact, and hence the current financial position in some providers. We mustn't go the other way - finance is not the be all and end all, there is always a balance to be struck to focus on quality and finance together. We know that this is the case, and we need to ensure that we maintain this, otherwise staff will not be engaged in the transformation that is the only solution. Knee-jerk focus on one thing only will not work sustainably"	"1) Quality/care special measures have been introduced and are still in force for several trusts a year or more after they were supposed to conclude, suggesting that the measures don't deal with the root causes. 2) Success in improving care has happened, but is inconsistent across the NHS. 3) Regulators have introduced a significant alternative mechanism to 'correct' these failings (the STP process). 4) A key output has been a significant drain in key people (CEOs in particular)"
"Special measures around quality very quickly led to trusts becoming financially unstable. If one lesson is learned it is around still maintaining the balance between quality and financial sustainability"	"You can't just focus on one element of special measures without the other. Operational, clinical and financial sustainability all have to be looked at equally."
"The latter seems to have focused on safer (i.e. higher) staffing levels: the former seems to row back from that principle. Is this sensible?"	"My own personal view is that the measures have significantly added to the current unsustainability of the NHS"

Final comments

Finally we asked if finance directors had any more comments they would like to make on the current financial landscape. Comments focused on the volume of directives providers have to respond to, lack of capital spend, the gap between expectations at the centre of the NHS and the ability to deliver savings this year, and the need to make a different public argument about NHS funding.

Selected comments	
"Concerned by the volume of change from the centre. The lack of information on cumulative impact of all the changes. Unreasonable expectations in terms of timeliness of interventions and associated impacts"	"As the trust is developing its financial recovery plan there is concern that the centrally driven savings may duplicate those plans already developed in the organisation. The trust is working to tight timeframes in turning these plans around and the increased central pressure is hampering the focus on delivery"
"The NHS is too big for central control to work. The 'reset' clearly brings finance to the top of the priority list but more interventions are likely to be needed in more locations. We need to celebrate the successes and get people inspired to do better. Currently the message is all too negative which effects even the best organisation's morale"	"It feels impossible to keep up with the level of guidance being written in a rushed way and sent out to the service. Conversations with the relationship team show that they aren't even aware of what is being published before it is sent out. Finance teams cannot keep on top of all these new requests on top of all the effort that is going into STPs"
"Many of the reset actions are valid, just not sure it is practical to assume they will deliver the necessary savings part year"	"Need an honest debate about what can be provided by health and social care with the levels of funding we have"
"There are some helpful references in the 'reset' to systemic financing at local level. However, we need a debate quickly on the fact that we have neither financial nor managerial capacity to do the necessary transformation at the pace required and therefore need to stop doing some things soon"	"It feels like the centre are desperately looking for savings in 2016/17 that will be extremely challenging to achieve - to consolidate back office and services successfully requires process, and respect for employee rights – it's definitely the right thing to look at though"
"The STF allocation process could encourage poor recognition and reporting of financial risks in the system with a potential for an overly optimistic position to be reported throughout the year that collapses at the death with associated increased governance breaches"	"Someone in government has to grasp the nettle of redefining the NHS offer (a tripartite discussion would be best to avoid the risk of losing votes)"
"I am concerned about the potential limits applied to capital spend. This will impact on quality of care and build trouble for the future"	"We must guard against cutting back on capital expenditure. As a one-year exercise it is possible but it can lead to years of recovery and a deterioration in patient care if cut back to much over a sustained period"

NHS PROVIDERS VIEW

The views we have gathered in this survey allow us to draw several conclusions. Firstly, although providers are off plan for their finances at the end of Q1, they are not significantly so, with many providers actually reporting to be ahead of plan. This is to be welcomed - in previous years providers have been much further off plan at this stage, and have had to improve performance in the last three quarters in order to make up the shortfall. It shows that providers are working as hard as possible to turn around their own finances and help address the system wide deficit position.

However, this relative improvement in performance could be an inverse of this pattern – where instead performance in the first quarters of the year is held on track, only for it to dip in the latter quarters. The reason for this can be found in the qualitative comments in the survey, where many providers make reference to the fact they are phasing their approach to the year in this manner to ensure they are able to access as much as possible of the available STF funding as part of the control total process - attaining STF money is vital for providers to be able to maintain the delivery of frontline services. Furthermore, despite the relatively positive headline figures, the provider sector is split – almost into thirds – about whether they can attain their control total at the end of the year. We cannot therefore draw the conclusion - yet - that the raft of reset measures and the STF criteria outlined by the central NHS bodies are indeed starting to already produce results: their effectiveness or otherwise is likely to become more apparent later in the year.

However at this stage we can gauge how confident providers are that those measures will be effective. The answer at this stage in the year is not very. The qualitative statements combined with the quantitative statistics show that providers think many of the measures have been rushed through, do not look at system-wide issues or root causes, and lack consistency with other elements of national policy. While in many cases they readily agree with the principles behind the centre needing to take action to arrest the decline in finances, they have concerns about the practical operation of the measures.

Finally, our members echo what we have long called for: the need for an honest public debate about what can be provided by health and social care with the levels of funding we have. Trusts consistently highlight the fact that measures to bring financial performance back on track lack alignment with the need to maintain quality. It is now the turn of system leaders to publically make the argument that we will ultimately get the service we pay for, rather than making providers try to deliver the impossible within current system funding.

ANNEX

2015/16 surplus/deficit position

A total of 84 respondents provided their final 2015/16 surplus/deficit position, with the majority (56%) being in deficit (figure 1). Of the respondents, 82 respondents provided details of the amount of their surplus/deficit. The largest deficit in the sample was -£65.6 million, the largest surplus £24.7 million, and the median value was a deficit of -£2 million. When looking at the surplus/deficit position by trust type (figure 2) there was notable variation, with 100% of community trusts who responded in surplus, compared to 91% of acute and community providers who responded in deficit.

FIGURE 1. **2015/16 surplus/deficit position**

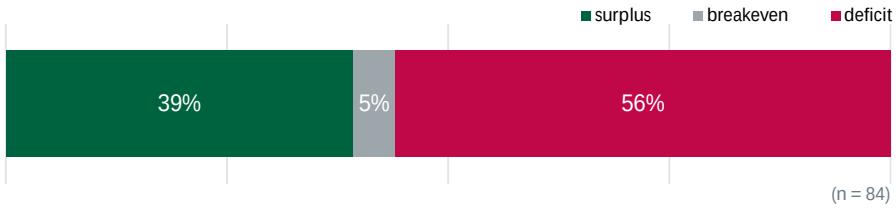
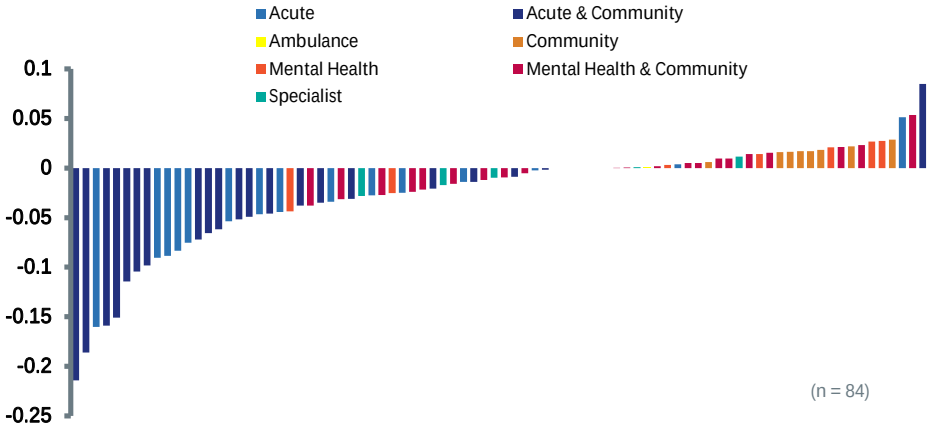


FIGURE 2. **2015/16 surplus/deficit as percentage of 2014/15 turnover (by trust type)**



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