INTRODUCTION

This survey was circulated to the finance and commercial directors across NHS trusts and foundation trusts in England in February 2017. It received responses from 99 providers, equal to 42% of the provider sector. It asked questions concerning how financial plans are progressing for the next financial year, what the financial outlook is, and how providers have responded to the issues related to control totals.

The results of the survey clearly indicate that the provider sector has been set an unprecedentedly challenging financial task for 2017/18. Control total savings targets are far larger than those outlined in the national tariff, and represent a ratcheting up of the already challenging savings required in 2016/17. On top of this, non-recurrent savings made this year mean that those targets are even more difficult to reach. Finally, some of the difficulties of moving towards ever greater financial collaboration within sustainability and transformation plans (STPs) are also clearly demonstrated. Providers highlight concerns around governance and financial regulation in signing up to system control totals, in particular the issue that while providers are expected to collaborate at a local health economy level, they are still held to account and regulated as standalone institutions.

The key findings of the report are summarised below:

1. Approaching the end of 2016/17: most providers are on plan, but are approaching an unsustainable position next year
   - Most providers are on track for this financial year. The majority of respondents (73%) are currently forecasting that their 2016/17 year-end position will be above or on plan.
   - However, this year is hugely reliant on approximately £1bn of non-recurrent savings, capital revenue transfers, balance sheet and accounting adjustments, which are one-off measures and therefore unsustainable in the longer term. Two thirds of respondents indicated they would be very or quite reliant on these one-off measures to reach their year-end position.
   - The total figure for these types of savings for the 99 providers surveyed was £340m. Using our modelling to expand this to the whole sector, the total of one-off savings is likely to amount to approximately £1bn, or larger than the total aggregate deficit figure for the financial year 2016/17.

2. Looking ahead to 2017/18: a gradually improving aggregate financial position, but little flexibility and confidence amongst providers
   - Just over half, 56% of respondents, are forecasting a surplus for the end of 2017/18
   - In 2017/18 they will need to be less reliant on non-recurrent savings than 2016/17; just 19% of the sector say their position will be very reliant on these savings next financial year.
   - Only 19% are confident of hitting their control totals savings targets next year (see below).

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1 Trusts can access £1.8 billion of a sustainability and transformation funding (STF) pot this year. 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’ financial targets as well as certain performance standards in any given quarter in the year they can access a tranche of the funding. The targets are set via discussions with the regulator NHS Improvement. Control totals will also be in place in 2017/18 (see section 3 of this report).
3. Control totals: a gap between those who signed and those who didn’t, and a lack of confidence in their ability to support system change

- Providers who did not sign up to 2017/18 control totals were asked to deliver much more stretching savings targets. 70% of providers signed up to control totals, and 30% did not: the savings targets proposed to the 30% who did not sign were a (median) average 6.4% of annual revenue, while those who did sign, signed up to a (median) average savings target of 4.2% of revenue.

- The move towards system wide strategic planning is being undermined by the institutional focus of financial oversight. The option for 2017/18 where local CCGs and providers combine their savings targets to have one aggregate figure or “system control total” was unlikely to have a high take up rate according to our survey respondents. Just 10% of providers thought it likely they would be part of system control totals, compared to 67% who thought it was unlikely. The main reason cited was trusts being held first and foremost to account for their own financial performance through the current system of oversight.

We explore each of these three issues in more detail below:

1. APPROACHING THE END OF 2016/17

In 2016/17, nearly all providers surveyed said they had signed up to control totals; only 3% had not agreed a control total for this year (fig 1). Most providers are also on plan to deliver their control totals as part of their financial plan this year, with 13% forecasting that they will actually over achieve against their plan for 2016/17. This leaves 27% of providers who are forecasting that they will miss their planned end of year position (fig 2). Those off plan cited elective underperformance and cancelled operations due to winter pressures as the key reasons for their financial forecasts coming in under what they had expected.

However, while most providers are on plan for this year, how they will achieve their end of year position is significant. To permanently shrink the provider deficit (which equalled £2.45bn at the end of 2015/16), providers have to make recurrent savings i.e. cost improvements that will continue to deliver benefits, year-on-year. This might be for example reconfiguring a range of services, or finding permanent ways of performing a service more efficiently.

Our survey told us that this year providers are hugely reliant on one-off, non-recurrent savings, such as land sales, capital to revenue transfers, and balance sheet and accounting adjustments to try and reach their planned financial positions (fig 3). Two thirds of those surveyed were highly reliant on those types of actions in order to achieve their financial plan for the year. So while most providers are likely
to achieve their plans, the way they are doing so indicates that many of the cost improvements they make will not continue to deliver benefits next year.

The extent of this issue is revealed in the total amount that can be allocated against these one-off savings. 66 respondents were able to give a total non-recurrent savings figure for 2016/17. These ranged from zero to £30 million, with a median of £3.25 million (fig 4).

Across the respondents these savings equalled, in total, £340m. Using our modelling based on the sample in this survey, we have estimated that for the whole sector, these types of one-off savings could equal over £1bn for 2016/17.² To put that into context, this is likely to be higher than the total forecast deficit of approximately £900m.³

That providers have had to make one-off cost improvements of this order is due to the requirements placed on them by the current financial system - control totals only award STF funding if providers hit their financial targets throughout this financial year. Many of these targets have proven to be extremely challenging, and therefore providers have found that as the year has progressed the only realistic chance of attaining them is to complete significant one-off savings (this is explored further in the following section on control totals).

This reliance on one-off savings in turn means that there is a significant underlying deficit that will not be reflected in the final top line deficit figure at the end of 2016/17. One-off savings improve the in-year cash position, but they leave an underlying position that is much worse than it initially appears.

This underlying deficit is important. It means providers will have to find considerable one-off savings again next year just to stand still rather than improve their position. This in turn raises the question whether it is reasonable to expect this to be the method by which providers maintain their position as we move into 2017/18.

² This is higher than the £622m forecast for non-recurrent savings in the official Q3 figures, which includes standard non-recurrent savings, but not the full range of adjustments that trusts will have to make.

³ Quarterly performance of the NHS provider sector: quarter 3 2016/17
2. LOOKING AHEAD TO 2017/18

The survey asked providers to look ahead to the next financial year and forecast their financial position: 56% said that they are forecasting a surplus for the end of 2017/18, 40% a deficit and 4% a breakeven position (fig 5). The highest forecast deficit was £60m, and the highest forecast surplus was £39m, meaning the average position for the sample equalled a deficit of -£3.6m.

To reach these positions, the respondents indicated that they will be less reliant on one-off savings than in 2016/17. Looking again at figure 3, we see that just 19% will be very reliant on these types of savings to reach their end of year position, compared to 39% the previous year.

Although providers are forecasting to be less reliant on one-off savings than in 2016/17, this is not necessarily positive. This could indicate that providers’ potential to continue to realise one-off savings has been eroded. This is supported by the official sector Q3 figures published by NHS Improvement in February 2017.4

These figures showed that in 2016/17, non-recurrent savings are being used to prop up a shortfall in recurrent savings: recurrent savings are forecast to be £2.5bn, £577m behind plan, while non-recurrent is forecast to be £622m, £348m ahead of plan5. It seems unlikely that over the course of the next 12 months this level of above plan non-recurrent funding can be sustained.

Another key indicator that 2017/18 will be difficult is providers’ confidence levels in achieving their plans for next year. If we look at those providers who have signed up to control totals for 2017/18 (figure 6), there is a significant level of uncertainty that the savings allocated will be achievable.

No respondents to our survey were very confident of achieving their savings targets, and only 19% were fairly confident. Most (54%) were neutral, while 27% lacked confidence to varying degrees.

4 Ibid
5 See footnote 2
3. CONTROL TOTALS

Providers’ concerns about achieving next year’s control totals can probably be attributed to the extra level of savings required to deliver them compared to 2016/17.

Our survey showed that providers who have signed up to a control total for 2017/18 had a median cost improvement programme (CIP) for 2016/17 of 4.0% and a median CIP for 2017/18 of 4.2% (see table above left). The gap is even more significant for acute providers, where it is 4.0% and 4.5%, or a 25% increase between the two years.

In the comments submitted as part of this survey, acute providers outlined some of the concerns that they have regarding their control totals next year – specifically we asked what caveats or issues they had flagged to NHS Improvement. Some of the most cited examples are below:

- Many noted that they were heavily reliant on local CCGs, either working with the trust to develop a joint financial recovery plan, or more simply noting the strong risk around the level of income from local commissioners meeting the trust’s expected value.
- Other trusts mentioned their concerns about the impact of national policy and politics. Inflation assumptions in national tariff were thought to be susceptible to large scale changes around growth trends following Brexit. Some financial plans were also based on a successful recruitment strategy which will be dependent on the relaxation of the current national recruitment rules.
- System activity and demand management were also emphasised: commissioner and provider planning assumptions for 2017-19 are based on 2016/17 forecast activity levels, meaning there is “flat” cash to fund any net increase in activity and capacity (workforce and beds).

“The main caveat was that to achieve CIP at this level we would require our CCGs to work with the Trust (and to work together as CCGs) to develop a joint financial recovery plan.”

The difference between those who signed up and those who did not

It is significant that for 2017/18, a far greater proportion of providers did not sign up to control totals – 30% of the respondents in this survey. Looking at the data the reason is clear - they were asked to deliver a dramatically larger step change in their savings between the two years.

Our survey asked providers who subsequently did not sign up what the CIP requirement proposed to them was. The median average was 6.4%, up from an average of 4% this year, a proposed increase of approximately 75% (see table left): the equivalent of a

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6 This is the annual amount of savings or income improvement as % of revenue that a trust delivers. Trusts deliver savings through a series of cost improvement programmes or “CIPs” that identify areas to increase efficiency or reduce expenditure.
rise three times more than those who have signed up. This gap can clearly be seen in figure 7, where the distribution of providers who have not signed up for control totals can be clearly seen to cluster around the most stretching savings targets.

Based on this graph, there seems to be a clear inflection point around 6% where a greater number of providers feel unable to sign up to their proposed control totals.

The survey also asked providers who did not sign up to give reasons for their decision. Unsurprisingly most of them cited the savings step change they would have to deliver, which was variously described as impossible, unrealistic, undeliverable, unachievable and unaffordable. This translated into governance concerns, with some trusts noting as their control total was not credible it would therefore be “irresponsible” for their board to sign up. Others, who were in surplus, said it would be difficult to communicate to front line staff why they had signed up to a control total that would limit their ability to use additional resources.

“We don’t believe as a Board that we can safely deliver a CIP of that magnitude from our current position. We have chosen to submit a plan which, whilst stretching, we think we are capable of delivering.”

The total CIP “ask” made of the sector

When looking at what was asked of the sector, across providers who both did and did not sign up to their control totals, we can see the scale of the financial task for next year. It is still the policy of NHS Improvement and NHS England that the provider sector returns to balance by the end of 2017/18. To achieve this, it is clear that providers have been asked to deliver a real step change in their savings.

If we look across providers who did not accept their control totals for 2017/18 (see figure 8), we can see an increase in what is being asked of the sector compared to 2016/17. For example across our survey, just five of these providers were asked to deliver a 6% or above CIP this year, while next year 19 were asked to do so.
This shift is perhaps unsurprising. The sector is forecast to end the year with a deficit of approximately £900m, while the target set at the start of the year by NHS England was -£250m. Making up the shortfall next year is vital. However, there has to be a question as to whether continually exhorting the sector to find ever deeper savings is the correct approach, and whether what is being asked of the sector is realistic. As this report has already demonstrated, the number of one-off savings that providers can make is dwindling. The tariff efficiency factor is based on the assumption that 2% efficiencies is a reasonable but stretching ask of the sector, whereas the demand made via control totals for next year shows many providers were asked to make cost improvements of 5% or above.

**System control totals**

For 2017/18, system control totals have also been proposed. This was defined in the planning guidance for 2017-2019 as follows:

> “On a by-application basis, there will be flexibility, by agreement with NHS England and NHS Improvement, for STP partners to adjust organisational control totals (both for providers and for CCGs) within an STP footprint, provided the overall system control total is not breached.”

It has been hoped by leaders in the system that having jointly agreed system control totals in this manner would allow closer working across local health economies as STPs develop. We asked providers in our survey how likely it was that they would agree locally to move into delivering a system wide and adjusted “system control total” in this manner. Two thirds of respondents thought that it was ‘quite unlikely’ or ‘very unlikely’ they would be part of a system control total in 2017/18. Just 2% thought it was very likely, and only 8% thought it was quite likely.

**How likely do you think it is that you will be part of a system that agrees its own “system control total” for 2017/18?**

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<tr>
<th>How likely</th>
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<tr>
<td>Very likely</td>
<td>2%</td>
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<tr>
<td>Quite likely</td>
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<td>23%</td>
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<tr>
<td>Quite unlikely</td>
<td>29%</td>
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<tr>
<td>Very unlikely</td>
<td>38%</td>
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**FIGURE 9**

Providers also gave us the rationale for their answers. The key themes that emerged from those who had not signed indicated that there were not yet robust enough governance and decision making processes within STP to make the “pooling” of control totals either easily achievable or properly assured. In particular, respondents mentioned that
STPs have no statutory basis, and even with flexed control totals within STPs, individual institutions would still be responsible for delivery of individual control totals to the system regulators.

“One system control total would require the system to be held to account as one 'organisation' - presently Trusts and CCGs are held to account as individual organisations.”

“Whilst organisational control totals remain a key focus of NHSE/NHSI it will be hard to get individual organisations to take decisions that whilst in the interest of the healthcare economy are not in the interest of the individual organisation.”

Also mentioned was the criteria that the system control total must equal the same amount of all the individual totals within the STP. This was seen as problematic for several reasons. Firstly many providers are involved in more than one STP, which meant practical difficulties of agreeing shared control totals over multiple geographies were a clear barrier to progress. More frequently cited however was the view that since the system control total had to equal the individual control totals, it de facto meant that providers within each area had to firstly have agreed their own control totals, which many have not. On top of this, providers within STPs must accept that the control totals of others in the STP were also credible enough to be a starting point for discussions. A final issue that was raised is that aggregation principle behind system control totals means that while there are some potential benefits for organisations, they will always be zero sum – someone in the STP has to lose for someone else to gain.

These difficulties suggest that system control totals need to be more than just an aggregation of individual control totals to encourage providers, and indeed CCGs, to sign up. There instead needs to be a level of mitigation from both a financial and governance perspective. From a financial perspective, one solution could perhaps to be to offer access to unallocated or unearned STF funding at an STP level, rather than the current approach where these funds are awarded at individual level to providers who over achieve on their financial plans. Similarly, governance concerns could start to be allayed with regulation (perhaps through the single oversight framework when it is updated in the spring) recognising the work that providers do at a system level as a mitigating factor for individual performance issues.