

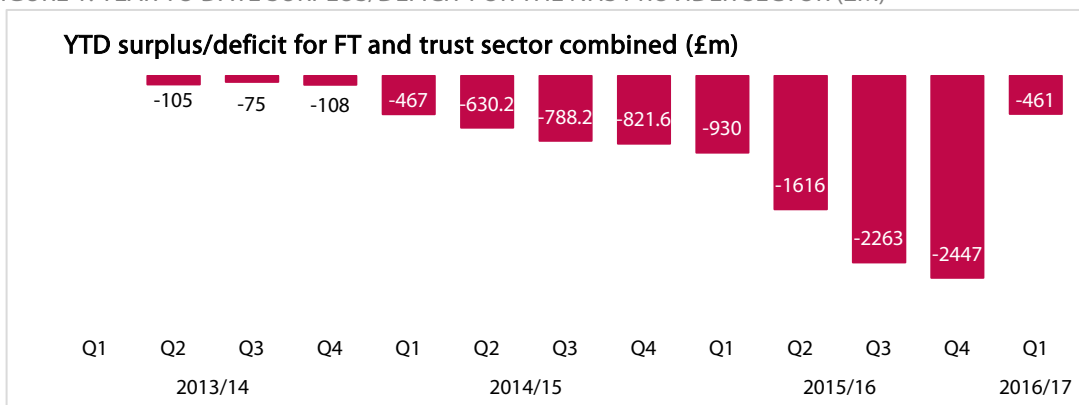
## QUARTER 1 2016-17 FINANCES

NHS Improvement (NHSI) has today **published** headline Q1 finances for the provider sector, covering the period 1 April 2016 to 30 June 2016. This briefing provides a summary of these headline figures, our view on what it means for the sector, and our media response and coverage. Additional detail will be supplemented in due course, following full publication of the underlying data sets.

### KEY HEADLINES

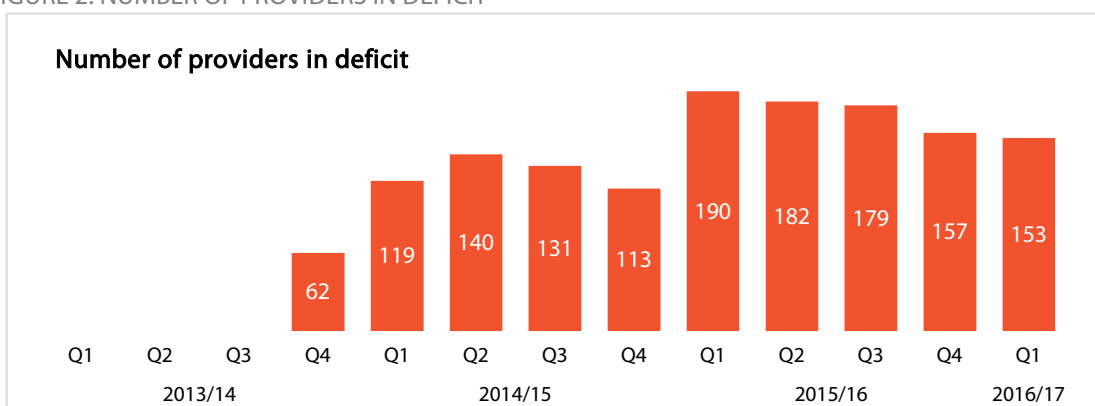
- The Q1 net deficit for the sector is **-£461 million** (figure 1). This includes the receipt of Q1 Sustainability and Transformation Fund (STF) allocations for those providers which met their control totals and agreed to performance improvement trajectories. The net deficit has fallen by a total of £469 million, from a net deficit of £930 million in Q1 2015/16.

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



- The Q1 net deficit is **£5 million better than planned**. The factors cited as contributing to this reduction are:
  - **Receipt of STF funding:** 185 out of the 214 providers that accepted their control totals met their Q1 targets, which allowed them to receive their STF payments for Q1.
  - **The Q1 2016/17 aggregate pay bill, including agency costs, was £9.8 million better than plan:** the report states that as a result of national measures introduced in 2015/16, “trusts are currently on course to reduce their combined annual agency staff costs by £1 billion this year”.
- **153 providers are reporting a deficit**, compared to 190 at Q1 2015/16 (figure 2).

FIGURE 2: NUMBER OF PROVIDERS IN DEFICIT



- **Variance against plan is currently expected to increase the aggregate planned 2016/17 provider deficit by £64m, from £580m to £644m.** This is because some providers have indicated their outturn may be “a worse financial position than NHSI assessed they could achieve”. The report states that NHSI are adopting remedial action to address this.
- **The largest area of overspend continued to be in non-pay spend.** The overspend on drugs and clinical supplies was a £44 million overspend against plan, which represents 60% of the total non pay overspend for Q1. The report cites this overspend to be “driven by a combination of cost and volume factors”.
- **Cost Improvement Plan (CIP) savings fell short of plan by £45 million. The report states that NHSI will continue to ask trusts to focus on:**
  - tackling excess pay bill growth;
  - taking forward Lord Carter’s recommendations on back office and pathology consolidation;
  - consolidating unsustainable services that rely on locum and agency staff.
- **The number of people waiting for elective care reached the highest recorded level of 3.45 million.** Q1 saw the continuation of an aggregate underperformance (91.27%) against the 92% RTT incomplete target. However, despite providers not meeting the 1% target for diagnostic waiting time, the percentage of patients waiting longer than six weeks for a diagnostic test fell from 1.88 per cent at June 2015 to 1.50 per cent in June 2016.
- **In urgent and emergency care, A&E demand rose to a record 5.34 million attendances.** This is 6.3% higher than Q1 last year on a like-for-like basis. The national target of 95% was not met, with 89.31% of A&E patients treated, admitted or discharged within four hours. Major (Type 1) A&E departments saw a 6.4% year-on-year rise in A&E admissions. In addition, 112,117 patients waited longer than four hours on a trolley for a bed, an increase of 60.7% compared to the same period last year (figure 3).
- **Ambulance services in aggregate did not achieve all key response time targets** against Red 1 (time-critical), Red 2 (life-threatening) and Category A calls. Red 1 and Red 2 calls rose by 5.9% and 15.5% respectively compared to the same period last year.
- **The report notes “the provider plan profile has a challenging trajectory for the remainder of this year but... this is a promising start for the sector.** Indeed it is noticeable that the sectors achievement of meeting its aggregate financial plan for the quarter bucks the trend of recent periods of being significantly off plan at Q1 recent periods”.

## NHS PROVIDERS VIEW

### *Financial Performance*

The reduction of the deficit from -£930 million in Q1 2015/16 to -£461 million in Q1 2016/17 is to be welcomed, and is a testament to providers who are continuing to do everything within their power to address the deficit head on. We also strongly welcome the news that 47 providers are now no longer reporting a deficit, compared to their position in Q1 last year.

However, we continue to stress that caution is needed in welcoming the initial signs of success revealed by the headline figures today, which we believe must be interpreted alongside the accompanying, underlying full data sets, due to be released tomorrow. In addition we do not consider that control totals are a sustainable means of bringing NHS finances into sustainable balance and greater clarity must be provided on how financial autonomy will be returned to NHS providers.

Despite the face of success on the Q1 2016/17 finances, and the considerable financial support from the sustainability and transformation funds (STF), our survey demonstrated that nearly four in 10 finance directors say they will be unable to sustain this level of performance and expect their trust's position to worsen over the rest of the year. There is therefore limited confidence amongst the sector that stricter financial measures, which have resulted in the reduction of the net deficit, will ultimately help in the long term.

This lack of confidence is supported in the NHSI report, whereby some providers have indicated a likely variance against plan. The effect of this is currently expected to increase the aggregate planned 2016/17 provider deficit by £64m, from -£580m to -£644m. The report states that NHSI are adopting remedial action to address this, however it is unclear to what extent their proposed actions, including 1) the future introduction of the Single Oversight Framework; 2) greater engagement between regional finance teams and individual trusts; 3) supporting providers in surplus to increase their surplus delivery; and 4) "urgent Remedial action" to address the CIP shortfall, will significantly address the early indications forecasting variation against plan, before the end of the financial year.

### *Operational performance*

The initial success of the impact of the STF and the reduction of the net deficit cannot be viewed in isolation from the concerning performance headline figures published today. The performance findings are a reflection of the true strain NHS trusts are operating under. This pressure is being faced by providers from all sectors, which demonstrates the clear impact of system wide pressures catching up on providers, and points towards additional pressure to follow in future months across the sector. This puts providers in a precarious position regarding access to the performance-related funding allocated in the STF. We believe there is some cause for concern that if providers are unable to meet their performance trajectories due to system wide pressures, then this does undermine, to some extent, the efficacy of the control total mechanism for individual providers.

In light of the deeply concerning performance figures published today, NHSI's decision to tighten performance trajectory tolerances over the course of the year, based on an assumption that later in the year a provider should have a much better grip on performance, requires reconsideration.

We anticipate that the zero tolerance level applicable to the financial control totals, and phased tolerances built into the performance improvement trajectories, will present significant challenge to providers over the following quarters. The tolerances shift from no tolerance level set for Q1 (as funds are allocated on agreement of trajectories only), 1.0% in Q2, 0.5% in Q3, and no tolerance in Q4. For Q4, providers "will be expected to achieve the trajectory in full with no tolerance applied". This is a particularly prominent issue given that the typical trend of provider finances witnessed over previous years is anticipated to be reversed for the 2016/17 year. Given the rising demand for services, workforce shortages, cuts to social care and public health, and requirements to meet national standards, ultimately as we draw closer to Q3 and Q4 we anticipate that the level of challenge will surpass any that individual providers, and the sector as a whole, has encountered in previous years.

Overall, there is a clear and widening gap between what the NHS needs to deliver and the funding available. We have continually called for the national bodies to produce a robust, long term strategy which adequately addresses the system wide issues facing the provider sector, and the clear funding gap. We caution that the face of success demonstrated by the headline figures published today should by no means replace the need for a sustainable strategy for the NHS, and that a small set of focussed, deliverable but most importantly agreed set of priorities should be produced to assist the sector to return to a stable financial position.

## NHS PROVIDERS MEDIA

NHS Providers has had substantial media coverage today; a selection is set out below along with our press release.

BBC <http://www.bbc.co.uk/news/health-37179563>

Guardian [https://www.theguardian.com/society/2016/aug/25/nhs-at-breaking-point-despite-deficit-reduction-say-trusts?utm\\_source=dlvr.it&utm\\_medium=twitter](https://www.theguardian.com/society/2016/aug/25/nhs-at-breaking-point-despite-deficit-reduction-say-trusts?utm_source=dlvr.it&utm_medium=twitter)

Health Service Journal <https://www.hsj.co.uk/topics/finance-and-efficiency/breaking-nhs-providers-exceed-financial-targets-says-regulator/7010158.article?blocktitle=News&contentID=15303>

National Health Executive <http://www.nationalhealthexecutive.com/Health-Care-News/provider-deficits-decline-in-q1-but-may-mask-a-more-troubling-picture?dorewrite=false>

Telegraph <http://www.telegraph.co.uk/news/2016/08/25/glut-of-nhs-closures-ahead-warn-hospital-chiefs/>

### PRESS RELEASE

25 August 2016

#### NHS slows financial deficit runaway train but caution around year end: new survey reveals

Commenting on the first quarter results and survey findings, NHS Providers chief executive Chris Hopson said:

"It is positive news that NHS trusts have managed to slow the runaway train on NHS provider sector deficits. Many trusts are either on target or ahead of where they planned to be at this stage of the year. This is encouraging given that trusts are often off track in this quarter, recovering their position towards the end of the year. The £1.8 billion support for provider deficits and the first sensible tariff efficiency targets in years are having the desired effect.

"However, any sense of optimism must be tempered by what finance directors are telling us. Nearly four in 10 finance directors are saying they will be unable to sustain this level of performance and expect their trust's position to worsen over the rest of the year. They are not confident because of the sheer scale of the challenge they face but also because they do not want to miss their first quarter numbers and then lose access to the extra money.

"These findings show the strain NHS trusts are operating under. There is now a clear and widening gap between what the NHS is required to deliver and the funding available. This will only get worse as overall funding increases drop from next year. In reality, we have only just kept our heads above water because we have transferred the investment intended to fund long term transformation into reducing the deficit that the majority of NHS trusts face."

Commenting on the performance figures, which show record increases in A&E attendance, Chris Hopson said: "The fact that the number of people attending A&E is at a record high is further evidence that demand on our local health services is far outstripping the money they are receiving. A&E departments up and down the country are being placed under increasing pressure, and even the best A&E departments are struggling to maintain their performance. There is now a fundamental mismatch between what is being asked of emergency services and the resources they have at their disposal. It's hard to see how we can maintain high levels of A&E performance for patients within the funding we have available."