

NHS financial temperature check

Finance directors' views on
financial challenges facing
the NHS in England



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Introduction

This is the seventh in the HFMA's series of briefings setting out finance directors' views on the financial issues facing the NHS in England. Directors completed the survey during late April and early May 2017. The briefing draws on the responses of finance directors and chief finance officers¹ (CFOs) of 100 (43%) provider trusts² and 73 (35%) clinical commissioning groups (CCGs) from across the NHS.

Key findings

The financial performance of the NHS in England remains under significant financial pressure. Trusts reported a combined deficit of £791m in 2016/17, after receiving additional funds of £1.8bn from the sustainability and transformation fund (STF).

The performance of CCGs, based on month 11 forecasts, looks better than that of trusts with a forecast in-year underspend of £250m, but this is after the release of the £800m risk reserve to CCGs' bottom line. CCGs and NHS England commissioning teams were required to leave 1% of their allocation (the £800m) uncommitted in their plans, and so CCGs were forecasting a £550m overspend against plan at month 11.

CCG and trust savings plans are the highest they have been in recent years as a percentage of income, and finance directors continue to think there is significant financial risk attributable to their financial plans. Some 94% of CCG and 95% of trust finance directors state that there is a medium or high risk of non-achievement of their financial plans.

Access to capital remains a challenge in the system, with almost all finance directors of the view that there is insufficient capital in their sustainability and transformation partnerships (STPs) to carry out their transformation plans.

Analysis of our survey shows:

- Like last year, most trusts in the acute sector are forecasting a deficit for 2017/18, while most mental health and community providers are predicting a surplus.

- However, most trusts (84%) and CCGs (63%) performed as well or better in 2016/17 than they expected at the beginning of the financial year.
- For trusts, the main causes of positive variance were higher than expected sustainability and transformation fund payments (for those who received it, this was due in part to a change in the way in which quarter four payments were calculated), with lower than expected financing and agency costs also significant causes of positive variance. For CCGs, the release of the 1% risk reserve that they had been required by NHS England to retain until March was a significant cause of positive variance, and 49% of CCGs reported that prescribing costs being lower than planned because of centrally managed price reductions helped their financial position.
- Agency costs remain the most common cause of adverse variance for trusts (although many other trusts reported that agency costs are lower than expected). But trusts and CCGs alike reported that performance against savings plans was a significant cause of adverse variance.
- Finance directors continue to attribute significant risk to the achievement of financial plans: 54% of trusts and 47% of CCGs rate their financial plans as high risk, with only 5% of trusts and 6% of CCGs assessing the risk of their financial plans as low.
- The most prevalent financial risk identified by both CCGs and trusts is non-achievement of cost savings programmes. This is notable given the high levels of quality, innovation, productivity and prevention (QIPP) savings – 3.9% of income on average – and the higher still levels of cost improvement programme (CIP)

¹ CCGs use the terminology 'chief financial officer' (CFO), whereas NHS trusts and NHS foundation trusts (FTs) generally use 'finance director'. In this briefing we sometimes use the term 'finance director' to mean both finance directors and CFOs when describing the views of all our survey respondents collectively

² We have used the term 'trust' to mean NHS trusts and NHS foundation trusts collectively

savings – 4.5% of income – that CCGs and trusts have in their plans for 2017/18.

- CCGs' main mechanism for addressing the financial challenges is reducing unwarranted clinical variation. Trusts' main mechanism to meet their financial challenge is the same as their second most commonly identified financial risk, namely reducing agency costs.
- Capital remains an issue for trusts and CCGs, with only 1% of trust finance director and 3% of CCG CFOs believing there is sufficient capital to effect the transformation plans in their

sustainability and transformation partnership (STP) footprint. Alongside this, 89% of trust and 77% of CCG CFOs lack confidence that STPs will be able to close the financial gap by 2021.

- Most finance directors think that quality of services will remain the same over the next two years, but a significant minority think they will deteriorate. More than a quarter (28%) of CCG CFOs think quality will deteriorate in 2017/18 and 29% think it will deteriorate in 2018/19. This compares with 24% of trust finance directors for 2017/18, rising to 32% for 2018/19.

Financial performance

This is the fourth year that NHS trusts and foundation trusts have reported a combined deficit. While CCGs look to be under financial pressure too, it appears (based on the reported forecast month 11 position) they will report an overall surplus in 2016/17 in the region of £250m, compared with a small deficit of £16m in 2015/16. The combined CCG surplus will only be achieved through the release of their 1% risk reserve.³

In 2016/17, trusts benefited from an additional £1.8bn of funding through the STF over and above other funding increases from activity, price and contractual changes. The reported deficit of £791m would have been £2.59bn without the STF, £140m greater than 2015/16's £2.45bn deficit. This is perhaps an unfair comparison though – the STF remains for 2017/18 and 2018/19 and so will be considered by many as an increase in funding, just as the price, activity and contractual changes are. However, the plan for 2016/17 had been to achieve a £580m trust deficit and so there has been a negative variance of £211m against this.⁴

CCGs and NHS England commissioning teams were required to retain 1% of their allocation (£800m) in 2016/17 as a risk reserve that could be used later in the financial year to help restore system balance if required. In March 2017, NHS England advised CCGs that they could release their risk reserves. At the time of publication fourth quarter results had not been published by NHS England, but the month 11 forecast overspend against plan of £550m did not reflect the release of this £800m risk reserve. Were the £800m reflected in the forecast position, this would equate to a forecast £250m underspend against plan for CCGs.

Of the 238 trusts in England, 105 (44%) are reporting a deficit. Within trusts, the sector with the largest deficit was the acute

sector, which reported a combined deficit of £1.16bn. Some 83 of the 137 acute trusts reported a deficit. This was £285m worse than the planned £878m 2016/17 deficit. Overall ambulance trusts broke even, with three of the 10 reporting a deficit. The community, mental health, and specialist sectors all reported combined surpluses, with three out of 18 community trusts, 12 out of 56 mental health trusts, and four out of seven specialist trusts reporting deficits. When trusts are analysed by the four regions, only the North saw a combined surplus, with London, Midlands and East, and the South all reporting combined deficits.

At month 11, before the release of the £800m risk reserve, 79 CCGs (38%) forecast a year-end overspend, of which 37 were forecasting unplanned cumulative deficit positions. When we look at CCGs' performance by region based on month 11 forecasts, we see that all four regions were forecasting a deficit, with Midlands and East, and London forecasting a negative variance of 0.5%, the North forecast 0.7% negative variance, and the South forecasting a negative variance of 1.2% against plan.

Performance against plan

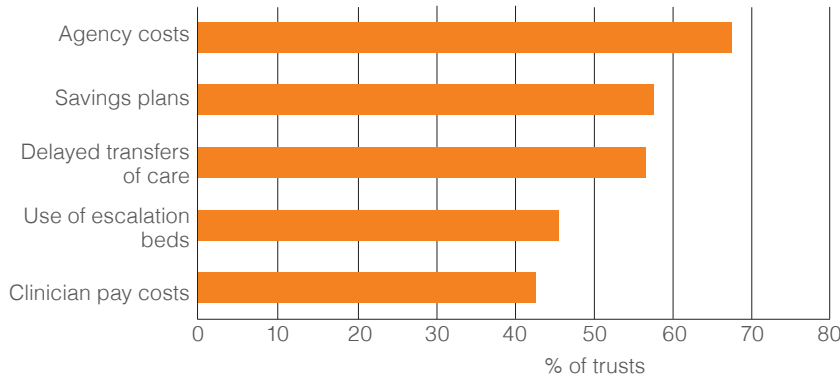
Some 63% of CCG and 84% of trust respondents reported that their organisation performed the same or better than had been planned at the beginning of 2016/17. In 2015/16, the position was almost exactly reversed, with 83% of CCGs performing the same or better than planned compared with 63% of trusts. This reversal suggests that some of the financial pressure felt in the system has shifted during the year from trusts to CCGs.

Trust finance directors reported that the £1.8bn STF was a significant benefit, with 30% reporting that it resulted in improved

³ NHS England publishes financial performance reports at www.england.nhs.uk/publications/financial-performance-reports/. Detailed commentary on the month 11 position can be found in this NHS England board paper: www.england.nhs.uk/wp-content/uploads/2017/03/board-paper-300317-item-9.pdf

⁴ *Performance of the NHS provider sector, year-ended 31 March 2017*, NHS Improvement, page 17: <https://tinyurl.com/ya45occs>

Chart 1: Main reasons for adverse variance from 2016/17 financial plan in trusts



performance against plan. Some trusts benefited from a much larger share of the fund than they were expecting, in part because of changes in how the quarter four payment was calculated. Some 27% of trusts reported that finance costs were a cause of positive variance, with agency costs also a cause of positive variance for 27% of trusts.

Agency costs were a greater source of negative variance against plan for 68% of trusts, up from 50% this time last year. Under achievement against savings plans remains the second most common cause of adverse variance for trusts (58% in 2016/17 compared with 50% in 2015/16). Delayed transfers of care (DTCOs) were a significant cause of adverse variance for 57% of trusts.

Chart 1 shows the main responses.⁵

For CCGs, the main causes of adverse variance against plan were performance against savings plans (66%) and planned programme costs for acute contracts and services (62%). Like trusts, DTCOs

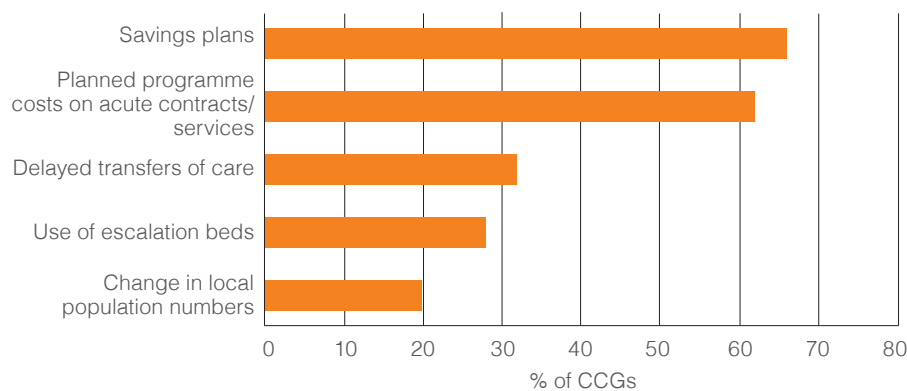
were also an issue, with 32% stating they were a cause of adverse variance against plan. **Chart 2** shows the main responses.

Almost half (49%) of CCG CFOs stated that prescription costs were a cause of positive variance against plan. This arose because of price adjustments on pharmaceuticals, due largely to centrally managed reductions to the generic medicine reimbursement prices announced in June 2016.⁶

In March 2017, NHS England allowed CCGs to release the 1% risk reserve that they had been required to retain throughout the financial year,⁷ and CCG CFOs were asked to include the impact of this in their responses.

Many highlighted that this release of the risk reserve was the single biggest cause of positive variance for them, but it was also noted that the requirement to retain this until the end of the year made planning a balanced budget difficult.

Chart 2: Main reasons for adverse variance from 2016/17 financial plan in CCGs



⁵ Respondents may have had savings plans that included, for example, reductions in agency spend or DTCOs, so there may be some overlap in the categories

⁶ www.england.nhs.uk/commissioning/primary-care/pharmacy/meds-reimbursement/

⁷ NHS England's March 2017 finance report to the board, page 3, notes this: www.england.nhs.uk/wp-content/uploads/2017/03/board-paper-300317-item-9.pdf

2017/18 and 2018/19 financial plans

Some 55% of trusts are predicting a surplus or to break-even in 2017/18, rising to 66% in 2018/19.

When the responses by sector are analysed, we see that those trusts that deliver solely acute services are predominantly predicting deficits in 2017/18 (82% of acute providers are predicting a deficit). However, most community trusts (89%), mental health trusts (80%), and trusts that cover both these sectors (88%) are predicting a surplus or to break-even. Trusts in those sectors predominantly predicting a surplus or break-even position have a large portion of their income paid through block contracts.

CCGs predict an improving position over 2017/18 and 2018/19, and they are overall more positive about their financial position than trusts. Nearly a third (32%) of CCGs predict a surplus in 2017/18 with 40% a break-even position; in 2018/19, this rises to 33% predicting a surplus and 51% a break-even position.

Chart 3 shows how CCG CFOs think their cumulative position will change over 2017/18 and 2018/19. Nearly a third think their position will improve in both years. Fewer CCG CFOs think their position will deteriorate in 2018/19 (15%), compared with 2017/18 (28%).

Financial risk

While the proportion of CCGs forecasting a deficit in 2017/18 (28%) is lower than the 45% of trusts forecasting a deficit, it is CCGs that attribute the greatest degree of financial risk to the achievement of their financial plans. More than half of CCG CFOs (54%) think there is a high degree of risk to achieving their financial plan, compared with 47% of trust finance directors.

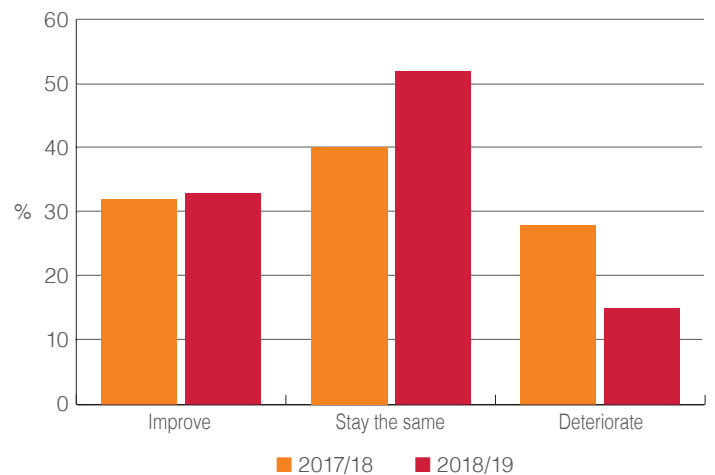
Fewer CCGs are attributing high risk to their plans than this time last year when 67% thought their 2016/17 plans were high risk. Trust responses are in line with last year, when 48% classified their plans as high risk.

Looking more broadly, almost all organisations (94% of CCGs and 95% of trusts) attach either a medium or high risk to their 2017/18 financial plans. This is in line with the position last year, when just 3% of CCGs and 3% of trusts thought there was low risk associated with their 2016/17 financial plans.

Control totals

We asked trust finance directors whether they had signed up to their NHS Improvement control totals. Some 69% reported that they

Chart 3: Forecast CCG change in cumulative position



had for both 2017/18 and 2018/19, 15% had for 2017/18 only, and 15% had not signed their control totals for either year at the point they completed the survey.

In both 2017/18 and 2018/19, there will be £1.8bn of funding available through the STF. This is accessible by trusts that sign up to and meet their control totals, contain their agency expenditure within agreed limits, and achieve the service access standards for four-hour A&E waits.⁸

Some finance directors reported that while they had signed up to the control total (because without doing so they would not be able to access the STF) they had also highlighted the risk around achieving the requisite CIP to NHS Improvement. A quarter of those who signed up to the control total do not expect to meet the conditions in 2017/18 and 29% do not expect to do so in 2018/19.

Social care funding

In the 2017 spring Budget, the chancellor announced an additional £2bn funding for social care over the three years from 2017/18. We asked finance directors whether they thought this would have a favourable impact on their finances.

Some finance directors felt the additional funding would be beneficial. However, several finance directors also felt this funding was insufficient to plug the social care funding gap, and that much

⁸ https://improvement.nhs.uk/uploads/documents/STF_and_Financial_CT_1718_1819_Guidance_Indicative.pdf

or all of it would be absorbed in shoring up finances of social care providers rather than leading to significantly improved services. It was noted that in many areas, plans about how the funding would be used were still in the process of being agreed.

2017/18 savings programmes

A theme among both CCG and trust finance directors' responses was their concern about the difficulty of achieving the future level of savings required to achieve financial balance.

Chart 4 shows how QIPP and CIP saving plans as a percentage of CCGs' and trusts' incomes are distributed across the organisations in 2017/18. Trusts, on average, are seeking a greater level of savings as a percentage of their income than CCGs. The mean trust CIP for 2017/18 as a percentage of income reported in the survey is 4.5%, compared with 3.9% for CCGs' QIPP savings. Some organisations are planning very ambitious levels of savings, with 60% of trusts and 46% of CCGs planning to deliver savings of more than 4% of their income.

NHS Improvement reported that for 2016/17, mean trust CIP was 3.7% of expenditure⁹ and so delivering the level of savings set

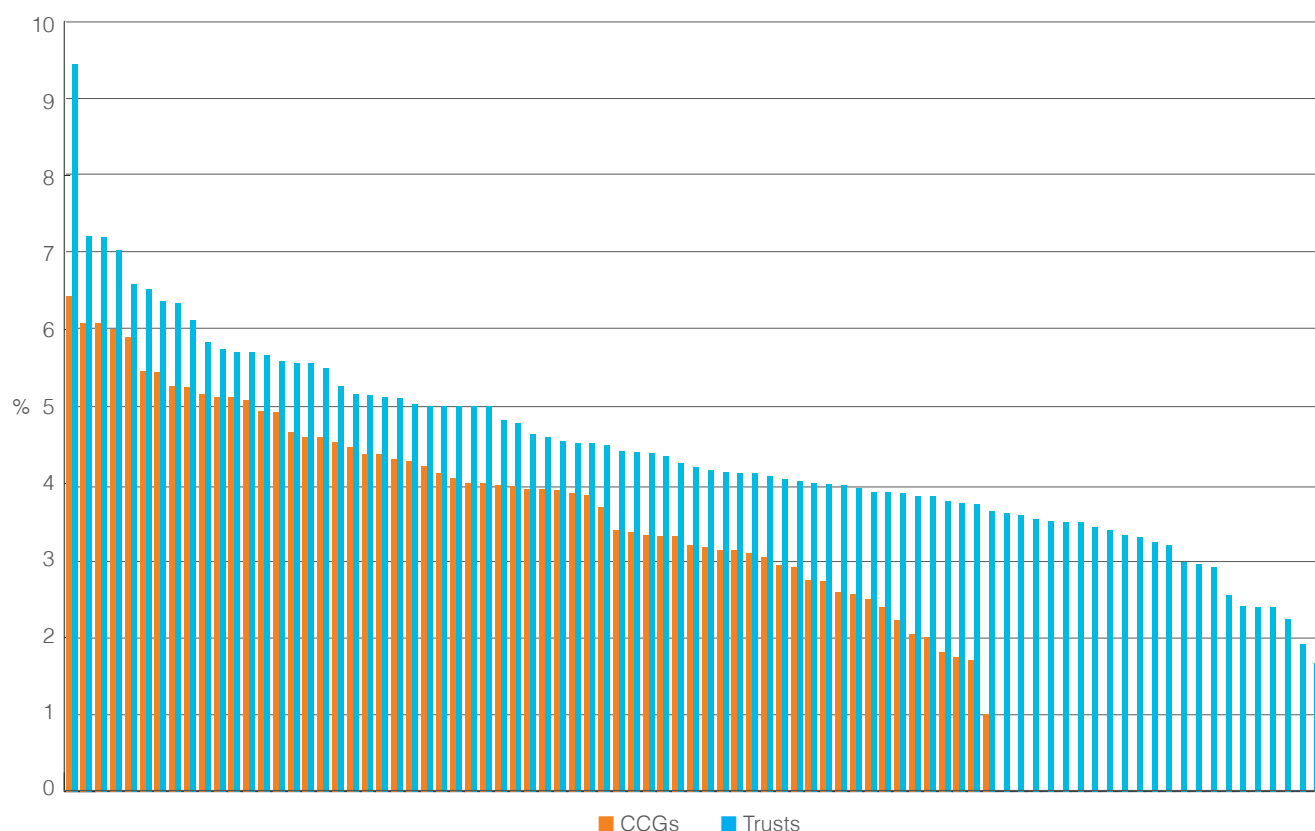
out above will be challenging. At month 11 NHS England was forecasting QIPPs of 2.6% against a plan of 3.2% in 2016/17, so a target of 3.9% for 2017/18 will be challenging.¹⁰

We asked finance directors about the levels of recurrent and non-recurrent savings delivered over the past financial year and which are planned for in 2017/18. While CCGs' proportion of savings delivered recurrently remains stable at 74% in 2016/17, and 73% in 2017/18, there is a marked increase for trusts from 71% of CIP delivered recurrently in 2016/17 to 82% in 2017/18.

However, when we drilled down into the level of confidence of delivery of recurrent savings, we found that across both CCGs and trusts more than half of finance directors were not very or not at all confident that their recurrent savings plans could be delivered. This contrasted with confidence in non-recurrent savings plans, where 35% of CCGs and only 27% of trusts were not very or not at all confident in their delivery.

Slippage in savings programmes and increasing demand for services were both identified as significant risks to achieving trusts' and CCGs' 2017/18 financial plans. Some 86% of trust finance directors and 81% of CCG CFOs rated slippage in cost saving

Chart 4: 2017/18 planned QIPP and CIP as a percentage of income



⁹ Page 17, *Performance of the NHS provider sector, year-ended 31 March 2017*, NHS Improvement. Because we have captured CIP as a % of income rather than expenditure the figures are not directly comparable, but with a deficit at less than 0.1% of income the two figures will be within 0.1% of each other and so are comparable at the degree of accuracy we and NHS Improvement report

¹⁰ Page 8, www.england.nhs.uk/wp-content/uploads/2017/03/board-paper-300317-item-9.pdf

programmes as a key risk, with 52% of trusts and 74% of CCGs identifying increasing demand for services as a key risk. The other most significant financial risk identified for 2017/18 by trusts is increasing agency costs (67%), while for CCGs it is increasing continuing healthcare costs (76%).

Looking at the details behind savings and financial plans, **Chart 5** shows the main mechanisms that CCGs are planning to use to meet financial challenges and **Chart 6** shows the main mechanisms that trusts are using.

For CCGs, a wide range of mechanisms are being adopted across the majority of CCGs that responded. More than 80% of CCGs

are aiming to reduce unnecessary clinical variation and remove services with limited clinical value, this aligns with NHS England's RightCare programme which supports these aims.

More than 80% of CCGs are seeking to redesign acute services pathways, with nearly three quarters looking for greater integration across acute, community and mental health services. These four mechanisms were also all in the top five reported mechanisms this time last year. New care models as a mechanism for meeting financial challenge has risen in prominence, with fewer than 50% of CCGs planning to use these last year, compared with more than 70% now.

Chart 5: Main mechanisms CCGs are planning to use to meet financial challenges

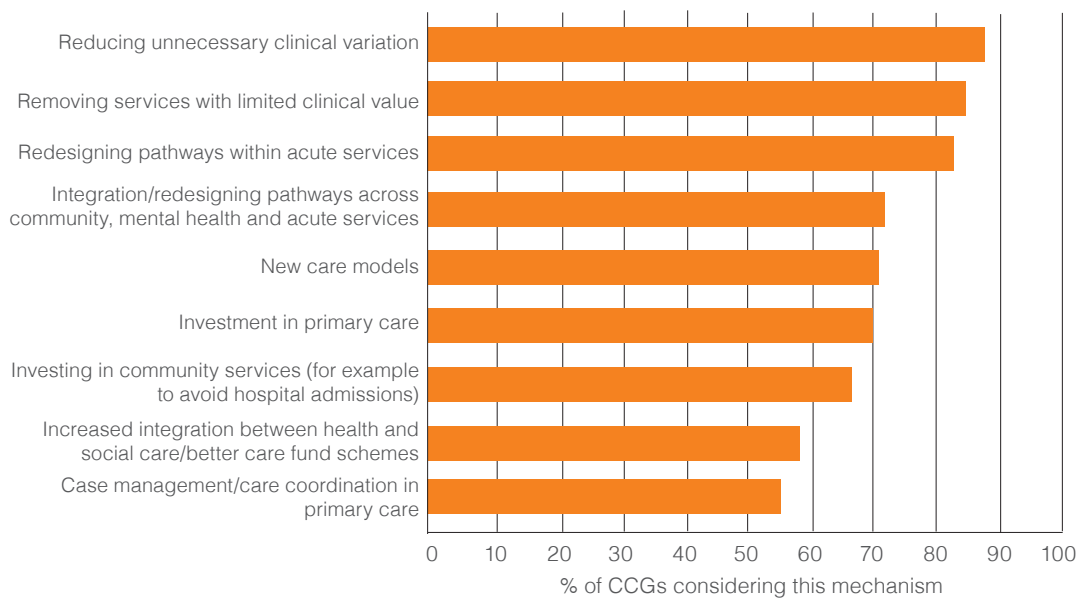
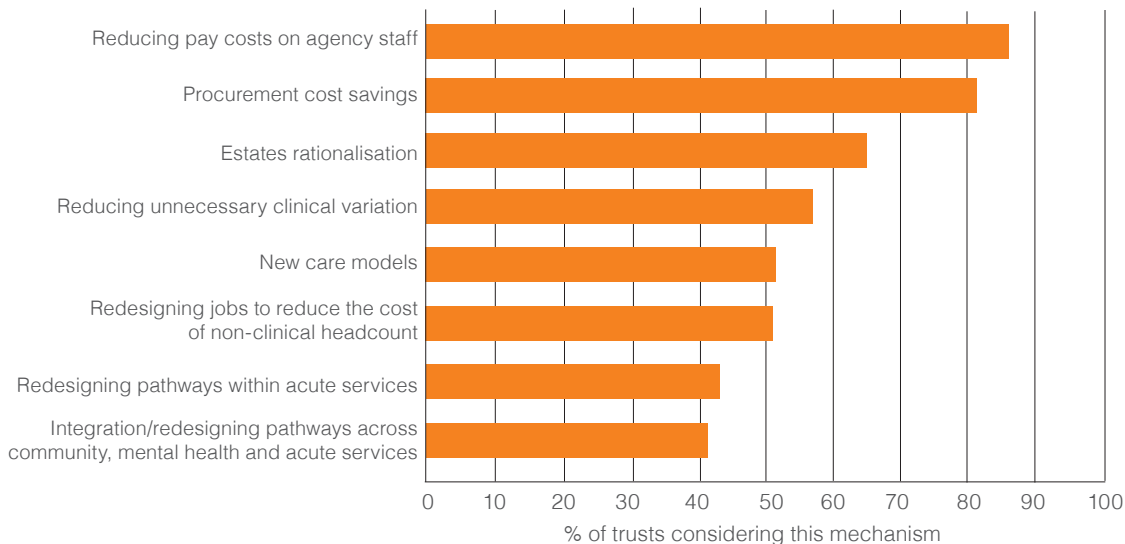


Chart 6: Main mechanisms trusts are planning to use to meet financial challenges



The top three mechanisms that trust finance directors are planning to employ to meet financial challenges in 2017/18 remain the same as 2016/17 – reducing agency pay costs, followed by procurement cost savings, and then estates rationalisation.

While this time last year 95% of trust finance directors were planning on reducing pay costs of agency staff as a key mechanism, this has fallen to 86% this year. This might reflect some non-repeatable savings made in this area during 2016/17, when there has been a sharp focus on agency costs. Nevertheless, trust finance directors are indicating that this should remain a key area of focus in 2017/18.

Both procurement savings and estates rationalisation are key recommendations of the Carter review and it is no surprise that they feature as highly as they do. We look below at how trusts are responding to the review.

It is notable that the mechanisms for effecting savings differ between CCGs and trusts. In many instances, CCGs are seeking savings through managing demand, either through reduction or through moving activity to lower acuity settings. However, trusts' savings mechanisms tend to focus more on the reduction of unit costs rather than changing activity levels or settings.

Lord Carter recommendations

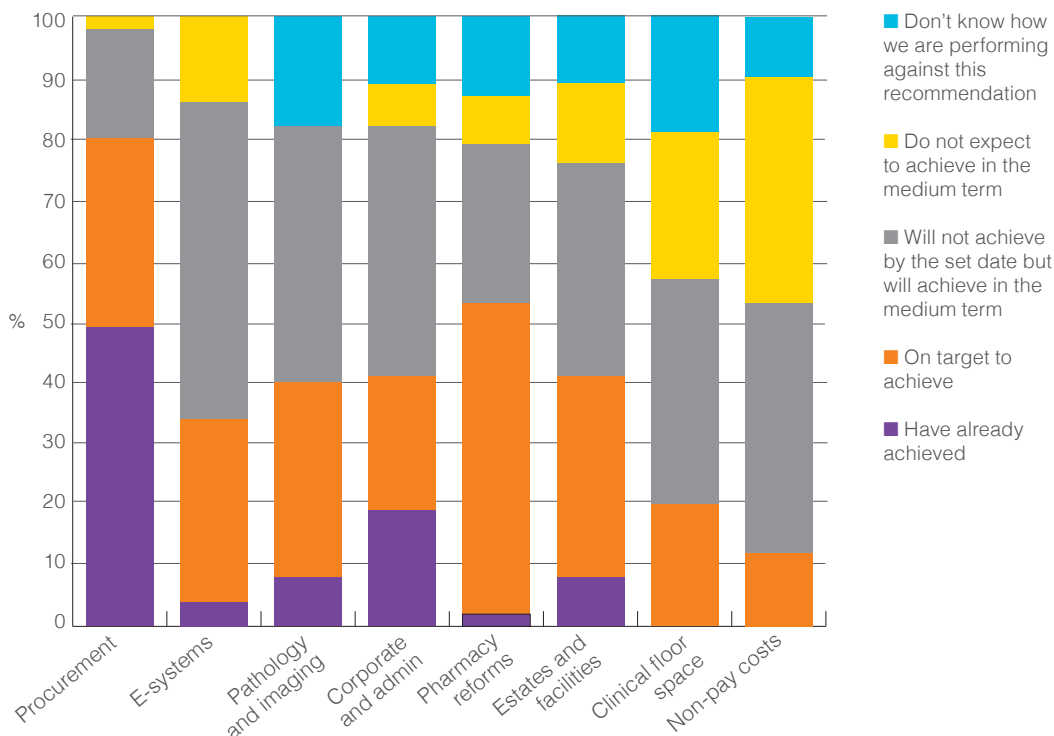
In February 2016, Lord Carter published his report on how non-specialist acute trusts can reduce unwarranted variation in productivity and efficiency in hospitals. He estimated that this

could save the NHS £5bn each year by 2020/21. Lord Carter's recommendations are shown in **Table 1**.

Table 1: Carter recommendations

Area	Recommendation	Target date
Pharmacy reforms	Ensure hospital pharmacies achieve their benchmarks, such as increasing pharmacist prescribers, e-prescribing and administration, accurate cost coding of medicines and consolidating stock-holding	April 2020
Pathology and imaging	Ensure pathology and imaging departments achieve their benchmarks as agreed with NHS Improvement	April 2017
Procurement	Report procurement information monthly to NHS Improvement	April 2016
Non-pay costs	Achieve a 10% reduction in non-pay costs	April 2018
Estates and facilities	Operate at or above the benchmarks agreed by NHS Improvement for operational management of estates and facilities functions	April 2017
Non-clinical floor space	Trusts' unused floor space should not exceed 2.5% of their total floor space, and floor space used for non-clinical purposes should not exceed 35% of their total floor space	April 2020
Corporate and administration	Ensure corporate and administration function costs do not exceed 7% of income by April 2018 and 6% of income by April 2020	April 2018/ April 2020
E-systems	Have in place fully integrated and utilised e-rostering systems, e-prescribing systems, patient-level costing and accounting systems, e-catalogue and inventory systems for procurement, radio frequency identification systems where appropriate, and electronic health record	October 2018

Chart 7: Progress against Carter recommendations



We asked respondents about their progress against these recommendations, as shown in **Chart 7**.

Over 50% of trust respondents expect to meet the Carter recommendations to reduce unwarranted variation in operational productivity in all areas in the medium term. Most progress has been made against the recommendation to report procurement information monthly to NHS Improvement by April 2016. Nearly half, 49%, have achieved this and 98% expect to meet this in the medium term.

Only 8% of respondents have achieved the recommendations for pathology and imaging, and estates and facilities, which are due to be implemented by April 2017. However, 82% are expecting to meet the target in the medium term for pathology and imaging, and 75% for estates and facilities.

The least developed areas are in non-pay cost savings and clinical floor space, with 47% and 43% of respondents respectively reporting that they are either not expecting to meet these recommendations in the medium term or do not know how they are performing against them.

The majority (81%) of trusts expect to achieve the recommended savings in corporate and administration functions in the medium term. At 95%, nearly all are exploring consolidation options, aiming to reduce the cost of this function, such as the use of shared services, outsourcing and collaboration with other organisations.

As part of this, over 60% are exploring savings in payroll, procurement, IT, HR and finance. There is recognition that although these areas are being explored by many, there is further work to do to ensure firm plans are in place to deliver savings.

Most progress has been made against the Carter recommendation to report procurement information monthly to NHS Improvement by April 2016. Nearly half, 49%, have achieved this and 98% expect to meet this in the medium term

Sustainability and transformation partnerships

NHS England introduced sustainability and transformation partnerships (STPs) in its December 2015 planning guidance.¹¹ It established 44 STP footprints across England, with a focus on place-based working as a vehicle to deliver the *Five-year forward view*¹² (FYFV). With plans completed by the end of 2016, the focus is now on implementation and action. The FYFV refresh, *Next steps for the NHS five year forward view*¹³ calls for an acceleration of the integration work through STPs. It recognises that, in some cases, areas are ready to fully integrate their funding and services through accountable care systems (ACSs).

We found broad acceptance of STPs, with finance directors welcoming the focus they bring. It is encouraging that more than 50% of respondents believe there are strong enough relationships with NHS providers and commissioners to deliver the required cross-organisational change, compared with 20% in December 2016.¹⁴

However, respondents recognise that relationships vary between organisations and in some cases are still immature. In particular, further work is required to establish strong relationships with the voluntary sector and ambulance trusts. Only 30% of trust finance directors and 19% of CCG CFOs believe there are strong enough relationships with ambulance trusts. Some 33% of trust finance directors and 42% of CCG CFOs believe there are strong enough relationships with the voluntary sector.

Also, while more than 50% of CCG CFOs believe that relationships are strong enough with general practices and local authorities to deliver change, only 27% and 31% respectively of trust finance directors agree.

Although positive relationships and shared intent and purpose across STPs is cited, our survey found that 89% of trust finance directors and 77% of CCG CFOs are either not confident or not very confident that the STP has the ability to deliver a plan to help close the funding gap by 2021.

Nearly two thirds of trust finance directors and 77% of CCG CFOs believe their operational plans are aligned with STP transformation plans. In some cases, respondents recognise that while they are aligned as much as they can be, further detail is required and fundamental STP transformation will take more time to deliver.

Only 47% of trust finance directors and 51% of CCG CFOs believe that the contracts they have entered into are aligned to STP plans. Some respondents note that despite the STP direction of travel being clear, they 'fell apart when it came to agreeing contracts' and contracts agreed 'bear little resemblance' to agreed plans.

Finance directors are not confident that STPs have the ability to deliver plans, and only half of survey respondents felt that the contracts into which they have entered aligned with their STP plan. Together this might be evidence that moving from planning to delivery at the STP level will require significant effort if competing organisational priorities are not to get in the way.

As highlighted in our December *NHS financial temperature check*, there is a scarcity of capital to facilitate change. Just 40% of trust finance directors and 26% of CCG CFOs have identified sufficient capital funding to deliver their own organisation's capital plan.

However, perhaps because of the scale of the transformation challenge, only 1% of trust finance directors and 3% of CCG CFOs believe that there is enough capital available to support their STP transformation programme. Our survey was conducted before the Conservative party pre-election response to the Naylor review in relation to potential additional capital funding. We will ask finance directors for their views on capital again in our next financial temperature check.

Concerns around the governance arrangements of the STP remain high. In our December 2016 survey, 72% of respondents had concerns about these governance arrangements. Our current survey found 74% of trust finance directors and 60% of CCG CFOs still have concerns about the governance arrangements of their STP. Respondents emphasise that STPs are still at the 'early stage of development, with difficult decisions yet to be made' and arrangements are 'large and unwieldy'. Many of these concerns were considered in the HFMA briefing on developing STP governance arrangements.¹⁵

Lack of clear accountability over responsibility for delivery and decision-making is a concern. The March 2017 FYFV refresh sets out key elements for the governance of STPs, recognising that 'to succeed, all partnerships need a basic governance and implementation support chassis'.

¹¹ www.england.nhs.uk/wp-content/uploads/2015/12/planning-guid-16-17-20-21.pdf

¹² www.england.nhs.uk/wp-content/uploads/2014/10/5yfv-web.pdf

¹³ www.england.nhs.uk/wp-content/uploads/2017/03/NEXT-STEPS-ON-THE-NHS-FIVE-YEAR-FORWARD-VIEW.pdf

¹⁴ www.hfma.org.uk/publications/details/nhs-financial-temperature-check---briefing-december-2017

¹⁵ www.hfma.org.uk/publications/details/emerging-approaches-developing-sustainability-and-transformation-plan-governance-arrangements

Several finance directors said they were concerned about the indirect impact of central government staff being focused on managing the withdrawal from the EU, as well as the cost, and the impact this would have on capacity and the resources available for the NHS

Brexit

We asked finance directors whether the UK leaving the European Union posed a financial risk to their organisation, and views differed between CCG CFOs and trust finance directors.

While many thought it was too early to give an opinion, 27% of CCG CFOs and 54% of trust finance directors think that Brexit poses a medium or high financial risk to their organisation, as shown in **Chart 8**.

When we also asked finance directors about the key areas of financial risk arising from Brexit, 90% of trust finance directors identified the recruitment and retention of staff as a key risk area.

The second largest risk for trusts was general cost inflation, identified by 64% as a key risk. CCG CFOs indicated that general cost inflation would cause most financial risk for them, with 42% identifying this as a key risk.

Several finance directors commented that they were also concerned about the indirect impact of central government staff being focused on managing the withdrawal from the EU, as well as the cost, and the impact this would have on capacity and the resources available for the NHS. They were also concerned about the lack of parliamentary time for the reform of the NHS and social care systems.

Chart 8: Anticipated financial risk to NHS organisations posed by Brexit

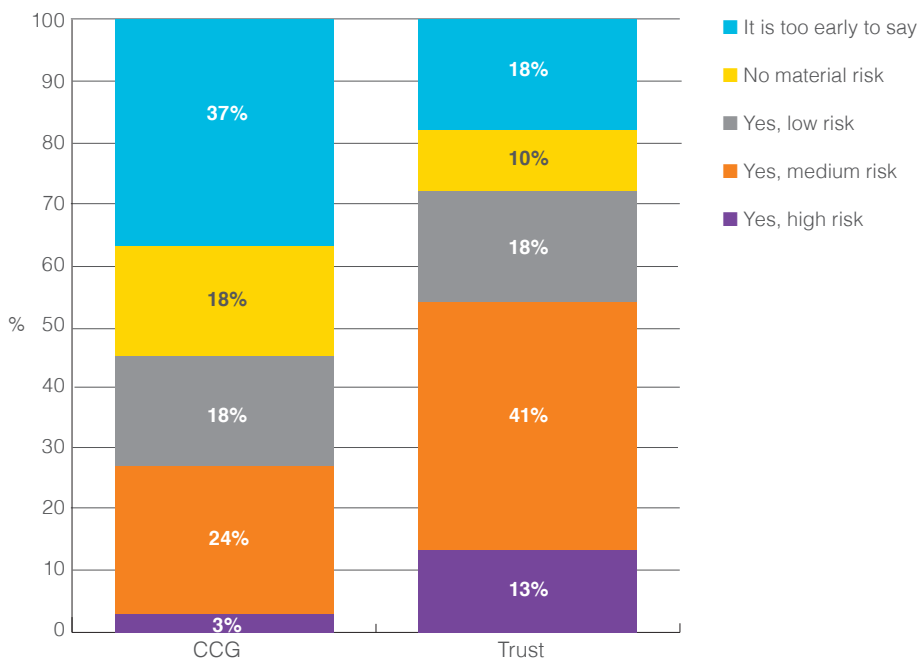
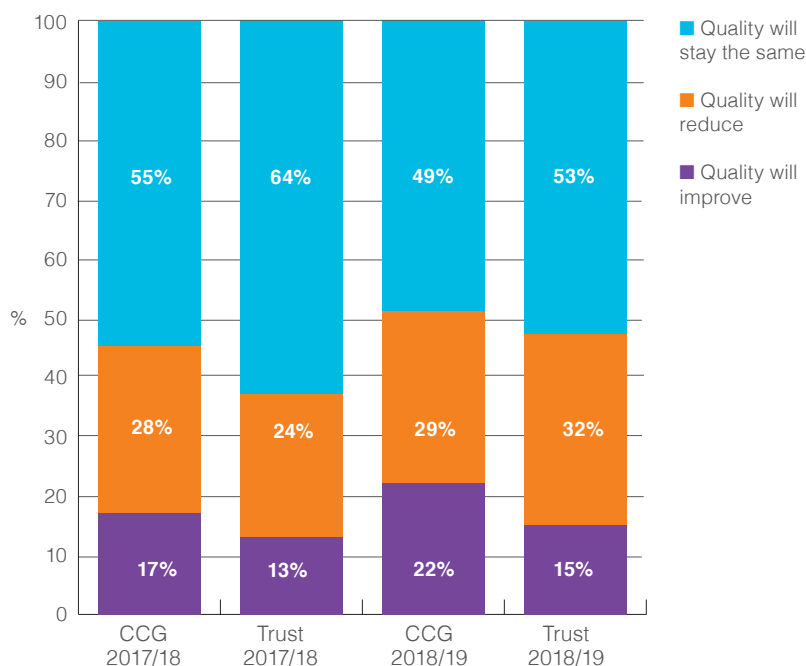


Chart 9: Anticipated change in the quality of patient services



Quality

We asked NHS finance directors for their views on the quality of patient care. For the purposes of our survey we defined quality as ‘services that are patient-centred, safe, effective, efficient, equitable and timely’.

Some 28% of CCG CFOs and 24% of trust finance directors think that quality of care will deteriorate during 2017/18. This is an improvement on the anticipated position for 2017/18 we reported in our last *NHS financial temperature check* in December.

Most respondents continue to think quality will stay broadly the same. Only 17% of CCG CFOs and 13% of trust finance directors expect quality to improve this year.

On the outlook for 2018/19, finance directors are more pessimistic. Some 29% of CCG CFOs and 32% of trust finance directors believe quality will reduce next year. Some 22% of CCG CFOs think quality will improve in 2018/19, compared with 15% of trust finance directors. Responses for each sector for 2017/18 and 2018/19 are shown in **Chart 9**.

We once again asked finance directors which aspects of service quality are most vulnerable because of the current financial

challenges. The most common area identified was waiting times, with 86% of finance directors identifying it as vulnerable.

Some 42% of finance directors think that the financial pressures have caused A&E waiting times to increase and 50% think they have caused elective waiting times to increase over the last year. Looking to the next year, 25% of finance directors expect A&E waiting times to increase and 63% expect elective times to increase, due to the current financial pressures.

This greater degree of pessimism about elective waiting times reflects the activity pressures, with NHS Improvement reporting a 6.2% increase in 2016/17 in elective waiting lists, in contrast with a 3% growth in A&E attendances.¹⁶

Respondents from both CCGs and trusts also view access to services and the range of services on offer as most vulnerable. Rationing is now cited as a material issue, as is patient choice. Few finance directors believe that patient outcomes or patient safety are at risk.

¹⁶ Performance of the NHS provider sector, year-ended 31 March 2017, NHS Improvement, pages 6-8

What is the financial outlook?

Three themes came through strongly in responses to the survey:

- Concern about the achievability of the level of savings required to meet 2017/18's financial targets
- Acknowledgement that there is still a long way to go before STPs deliver their potential
- Anxiety about current and impending workforce issues.

Saving levels required in 2017/18 are higher than those delivered in 2016/17, with 4.5% CIP and 3.9% QIPP in respondents' financial plans for 2017/18 against just 3.7% CIP and 2.6% forecast QIPP delivered in 2016/17. Many respondents noted the difficulty they will face in achieving these in full. Income reduction as a result of the HRG4+ tariff changes were cited as an issue for some providers, and finance directors across CCGs and trusts noted that the removal of activity-based tariffs would help their systems financially by providing the appropriate incentives to manage activity.

Concerns about the still developing STPs – who is delivering what and how contracts will align with operational plans – were at the fore for many finance directors. Relationships with local authorities within STPs would benefit from improvement in many finance directors' opinions, and this could help too with the frequently cited issue of high delayed transfers of care rates. Finance directors noted that some clinical pathways need to be reformed, and there needs to be better integration of services across those pathways, as well as between health and social care providers.

To achieve financial plans in 2017/18 there will need to be a firm grip on agency expenditure. This will be hard to achieve though, as many providers noted the difficulty in recruiting or retaining clinical staff. New regulations came into force on 6 April 2017, requiring

public bodies to pay agency staff net of employee taxes where they are deemed not to be self-employed. This may lead to a pressure on costs if agency staff seek to recover any perceived tax loss by increasing their day-rate. The key risk arising from Brexit for providers is the impact it will have on staff recruitment, and so finance directors will be watching developments here too.

Alongside these direct financial risks and issues, many finance directors called for either a consolidation of NHS England and NHS Improvement, or a closer alignment of the messaging and targets from them. Finance directors felt that this, coupled with earlier guidance on funding and what was required in return for this, would help them plan, and enact those plans, more effectively.

The £1.8bn STF and the £800m released CCG risk reserve played significant roles in maintaining system-wide financial balance in 2016/17 and the STF looks set to do so again in 2017/18. There is a risk that the STF is used to plug provider deficits without driving the full transformational benefits for which it is intended. With the wide variation in financial outturn within the CCG and trust sectors, as well as when contrasting the sectors against each other, some finance directors argued that a financial reset and accompanying rebalancing of funding flows would be beneficial.

It is clear that 2017/18 will be a challenging year for the NHS and that demands on finance staff in both CCGs and trusts will remain high. There is likely to be a spending review during the financial year and, while this will be an opportunity to address some of the challenges, finance staff will still be required to help guide their organisations through a landscape in which health and social care has less funding than most of them would like.

Conclusion

The results of our survey depict a difficult financial year ahead for trusts and CCGs alike, with finance directors commenting that 2017/18 will be the most difficult year yet.

Finance directors do see potential ways of tackling the challenges ahead: more joined-up working and integration through STPs; implementation of the Carter review recommendations; wider roll-out of NHS England's RightCare programme; and implementation of new care models. But there is no single panacea, and indeed there is significant uncertainty that in aggregate these approaches will be able to achieve what they need to if they are to restore the system to financial balance.

Intra-STP relationships need to improve, particularly with local authorities, ambulance trusts, and general practices. And STP

contractual arrangements need to rapidly catch up with the operational plans if transformational change is to be effected.

While some of the Carter recommendations are reported to be already well implemented or on target, the overall pace of change envisioned by the review looks challenging.

Both trusts and CCGs also report significant risk associated with their wider financial savings plans. That just 6% of CCGs and 5% of trusts think the risk with these plans is low is testament to the precarious position in which many finance directors view their organisations. When coupled with an amount of CIP and QIPP that is the highest required in recent years to meet financial plans, the financial challenges are set to continue.



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The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has a particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

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