defining the SURPLUS

The NHS has pursued a deliberate policy of building up surpluses and then using them in a managed way. It's a complicated system of drawdown, spending limits, estimates and adjustments. Steve Brown tracks the funds through one year

The NHS is facing extreme financial pressures as it looks to meet the challenges of rising demand and expectation within a difficult economic climate. Surpluses built up by commissioners in previous years – as part of a deliberate surplus policy – are being used to help meet some of these pressures while the NHS looks to transform patient pathways.

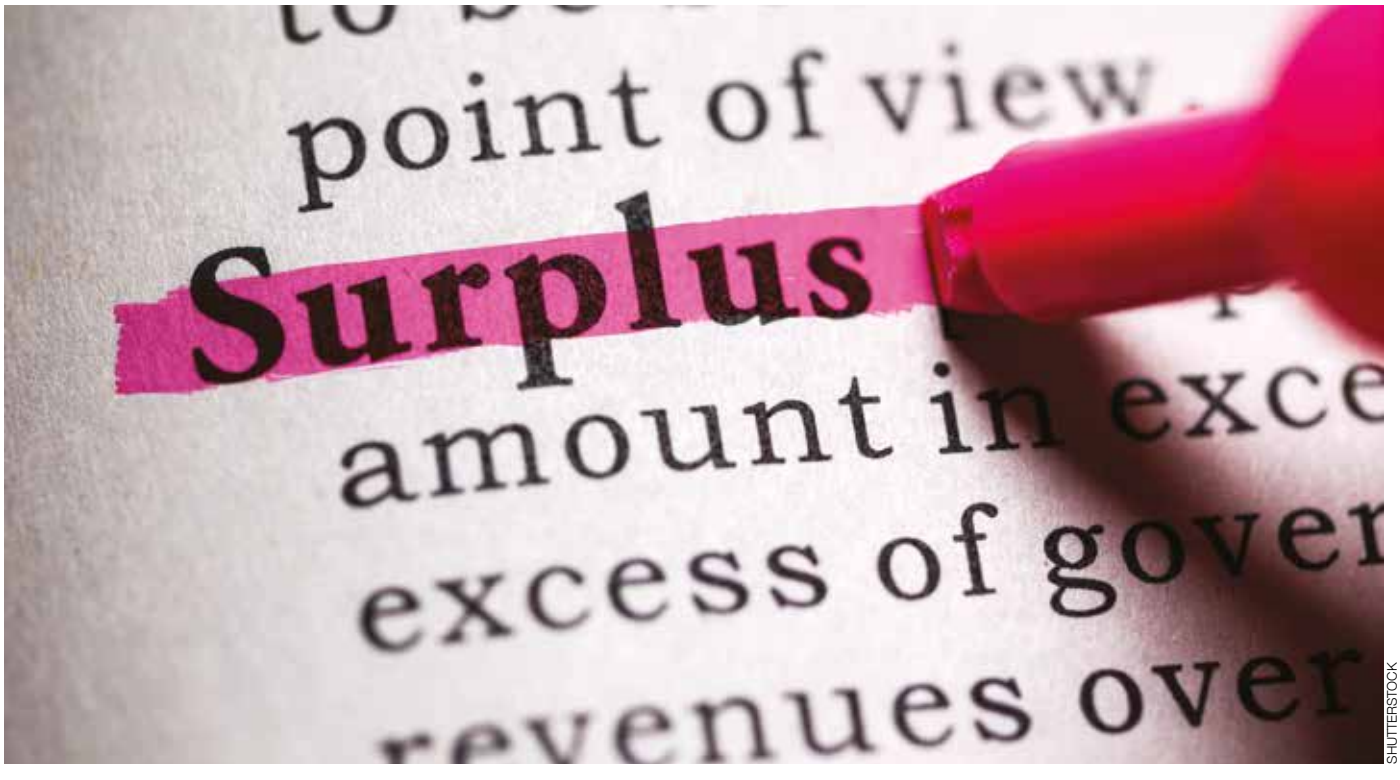
With a significant media focus on NHS deficits – particularly in the provider sector – it can be forgotten that the NHS is benefiting from these accumulated surpluses. Last year commissioners accessed close to £400m of these surpluses. The clear aim is to create sustainable services, with the NHS living within its means each year, rather than living off a declining trend of prior year surpluses forever. But the managed use of accumulated surpluses remains a key part of the NHS financial strategy.

If spending for this year ran exactly to plan, the commissioning sector would carry forward a surplus of £723m (planned £467m + the additional £256m surplus not included in the carry forward estimate for 2013/14)

A distinction needs to be drawn between provider surpluses (or deficits) and commissioner surpluses. Provider surpluses reflect in-year underspends, helping providers to build up cash reserves to support capital programmes or future transformation projects.

Commissioner surpluses on the other hand are reported cumulatively. Commissioners' cumulative underspend at the end of a financial year is carried into the following year. And the planned year-end surplus effectively sets the amount of this accumulated surplus that can be drawn down for use in-year.

At a glance, it is not always easy to see this drawdown, or how it is being used in year, in accounts or board reports. NHS England's revenue resource limit of £95,873m for 2013/14 included in the Department's mandate for that year included £1,184m of surplus attributable to commissioning organisations, brought forward from the previous year. This surplus figure was based on an assessment of the expected surplus of primary care trusts (PCTs) and



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strategic health authorities at Q3 in 2012/13. In fact, after this Q3 estimate, these organisations increased their surplus and ended 2012/13 with a surplus of £1,517m – £333m more than the estimated figure. While not available in 2013/14, these further funds will be made available in future years. More of this shortly.

The mandate for 2013/14 also indicated that the NHS would be able to draw down £650m of the £1,184m surplus it was expected to start the year with. Table 1 shows the planned expenditure for 2013/14, albeit reflecting the position at the end of the year (taking account of the fact that planned spending in various areas changed through the year as reserves were committed to specific purposes).

We have used figures reported to the NHS England board in May as a starting point for this analysis. There were slight changes in moving to final accounts (see final accounts note below).

Table 1: Planned spending and surplus levels for commissioning in 2013/14 (as at end 2013/14)

	Allocation (£m)	Planned spend (£m)	Planned surplus (£m)
CCGs	65,396	64,781	615
Social care	859	859	0
Specialised commissioning	13,130	13,010	120
Other direct commissioning	14,173	14,071	103
Running, programme costs and other	1,578	1,576	2
Technical	630	630	0
Risk reserves	106	412	-305
Total before technical adjustments	95,873*	95,339	534

*This overall resource limit includes £1,184m of surplus brought forward from 2012/13
Note: figures may not add up due to rounding

Finding the surplus

While the overall allocation of £95,873 contains the full £1,184 surplus carried into the year, it is spread across the various spending lines. Similarly the £650m available for drawdown – in effect the difference between the brought forward surplus and the planned surplus at the end of the year – cannot be read directly from the table. Some of it was committed during the planning stage by CCGs and direct commissioning, leaving a balance held as reserves to use and release throughout the year.

For example, £71m was included within CCG planned spending from the outset and £14m in other direct commissioning. The remainder of the drawdown was committed in planned expenditure in reserves. As the year progressed, amounts moved from the reserves into the various spending lines. Some £150m moved from the reserves to CCG spending to cover winter pressures. A further £24m was added to CCG spending to cover overseas visitor costs. And there were a number of small other commitments too.

The balance of planned spend (£389m) can be seen in the risk reserves row, supplemented by £23m of additional reserve created from the remaining unspent 2% non-recurrent reserve across area teams – giving a total of £412m.

At the planning stage, £305m of these reserves were planned to cover overspends, specifically those in direct commissioning. Direct commissioning – and specialised commissioning in particular – faced an extremely challenging year as funds were unpicked from previously locally agreed contracts and reconstituted into central budgets overseen by NHS England area teams. The complete breakdown of how the drawdown was used can be seen in table 2a and 2b.

While there was a small underspend (£50m) on the centrally available drawdown, CCGs also ended the year with a £712m surplus, £97m more than the planned £615m. And the £347m overspend against plan for direct commissioning meant that direct commissioning ended the year with a £123m deficit compared to its allocation.

Table 2a: How the 2013/14 drawdown translates into planned spend (£m)

Drawdown available to NHS England	**650**
CCG planned spending	-71
Direct commissioning planned spending	-14
Planned spending against reserves	565

Note: figures may not add-up due to rounding

Table 2b: Movement and actual spend on reserves (£m)

Planned spending against reserves before transfers	**565**
Winter pressures – in-year allocation transfer from reserves	-150
Overseas visitors – in-year allocation transfer from reserves	-24
Other in-year pressures – allocation transfer from reserves	-2
2% non-recurrent reserve	23
Planned spending against reserves after transfers	**412**
Planned set-aside to cover overspends (in DC)	-305
Actual spend from reserves (including agreement of balances exercise	-56
Full-year underspend on central reserves	**50**

Note: figures may not add-up due to rounding

Final position

Taken all together, the overall underspend against plan was £256m (see table 3 overleaf), which when added to the planned surplus of £534m gives a total surplus for the year of £790m (see note below).

And if you compare this to the £1,184m surplus brought forward at the start of 2013/14, this means the NHS used £394m of its surplus in year, as reported to the May board of NHS England. This is money spent, brought forward from previous years, and is in addition to money

FINAL ACCOUNTS NOTE: In moving to the final accounts, there was a slight shift in the figures with a final reported surplus of £813m, meaning NHS commissioners accessed £371m of the accumulated surplus in 2013/14.

given to NHS England in recurrent allocations for 2013/14.

In an ideal world this £790m, added to the £333m 'additional' surplus from 2012/13 (not factored into the mandate figures), would give the surplus carried into 2014/15. However, again, the mandate for 2014/15 was confirmed before the actual likely year-end surplus was identified. So the brought forward surplus was set at £867m (the actual surplus of £1,517m carried into 2013/14 minus the planned £650m drawdown).

Table 3: Actual expenditure for 2013/14

	Plan (£m)	Actual (£m)	Under/(over)spend (£m)/%	
CCGs	64,781	64,684	97	0.1%
Social care	859	859	0	0.0%
Direct commissioning	27,081	27,428	(347)	-1.3%
Running, programme costs and other	1,576	1,425	151	9.6%
Risk reserves	412	56	355	
Total before technical adjustments	**94,709**	**94,453**	**256**	**0.3%**
Technical budget	630			
Planned total spending	**95,339***			

% under/(over)spends are as a percentage of allocation
*Adding in the planned surplus of £534m gives the mandate spending limit of £95,873m

Source: NHS England board paper May 2014

2014/15 mandate

The mandate for 2014/15 allows for £400m of this surplus to be used – although this year it is being targeted solely at specialised commissioning. If spending for this year ran exactly to plan, the commissioning sector would carry forward a surplus of £723m (the planned £467m plus the additional £256m surplus not included in the carry forward estimate for 2013/14).

The latest report from NHS England for 2014/15 (based on month 4 figures) suggests that commissioners in total are broadly on course to deliver the planned surplus, with a forecast underspend against plan of £15m, giving a cumulative surplus of £482m (compared with the planned £467m, based on the carried forward surplus of £867m). However, there are significant risks to the delivery of this position.

The NHS England board has also indicated that access to a further £400m of drawdown would be 'prioritised' for CCGs in 2015/16. Business rules for 2015/16 – expected, as usual, towards the end of the year – will clarify access to the drawdown for CCGs within the planning round.