

NHS Improvement
(Monitor and the NHS Trust Development Authority)

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2015/16 Outturn and 2016/17 Plan including Sustainability and Transformation Fund

As announced in the recent Spending Review, the government has committed to provide an additional £8.4 billion real-terms funding for the NHS by 2020/21. The increase in funding available for 2016/17 totals £3.8 billion in real terms, a £5.4 billion cash increase. It includes a £1.8 billion Sustainability and Transformation Fund (S&T Fund) for the provider sector in 2016/17 which will comprise a 'general' and a 'targeted' element. The general element of the fund will be targeted at providers of acute emergency care.

This is a good settlement for the NHS in times of public spending constraint when the majority of government departments are facing real-terms funding reductions. However, this settlement is dependent on the NHS provider sector delivering a deficit of not more than £1.8 billion in 2015/16 and breaking even in 2016/17 after application of the fund. To realise this settlement, this letter sets out what your board must urgently do during the remainder of the 2015/16 financial year.

2016/17 Financial framework and planning

On 22 December 2015 we published *Delivering the Forward View: NHS planning guidance 2016/17 – 2020/21*. This sets out the steps to help local organisations deliver a sustainable, transformed health service and improve quality of care, wellbeing and NHS finances. The planning guidance includes details of the operational planning approach for the next financial year and sets out a pragmatic approach to tariff setting and business rules, with the aim of supporting system stability and recovery in 2016/17. The key details of this package, which is favourable for most NHS providers, are set out in Appendix 1.

In addition, the planning guidance introduces the £1.8 billion S&T Fund for 2016/17. The

fund is to support providers move to a sustainable financial footing. It will be primarily allocated to providers of acute emergency care that have been under the greatest financial pressure, although it will include an element to support providers achieve overall sustainability by driving maximum efficiencies. The fund will be deployed in a way that creates a balanced aggregate financial position in the NHS trust and NHS foundation trust sector in 2016/17. Payments will be made by commissioners, but approved by NHS Improvement. The fund replaces the need for the current scale of direct Department of Health (DH) cash funding for providers. Details of the fund and of eligibility to access it are attached in Appendix 2.

This additional funding is conditional on the NHS provider sector breaking even in 2016/17. To ensure this happens, every NHS trust and NHS foundation trust will have to deliver an agreed financial control total for 2016/17. This will be a core part of the new financial oversight regime that NHS Improvement will put in place.

An impact assessment model has been developed by NHS Improvement that models a range of known factors at an individual provider level. The outcome of this work will be used to allocate acute emergency care providers with an indicative payment from the S&T Fund and all providers with a control total for 2016/17. The key assumptions and the detail for your trust are attached in Appendix 3.

Please confirm by **8 February 2016** that you accept the control total. It is then our expectation that the operational plans you submit in February and April will be consistent with, or better than, the control total outlined.

The NHS settlement for 2016/17 relies on tight financial management of the capital budget. We will need to work very closely with providers to develop a capital framework which enables them to operate within the resource available. Providers should develop their capital plans for 8 February 2016, distinguishing essential expenditure from strategic investments. This should prepare providers for restrictions to both access to external finance and deployment of existing cash reserves to ensure the NHS does not exceed its capital budget. Providers that have agreed local capital to revenue transfers for 2015/16 will not be disadvantaged by these agreements in 2016/17.

2015/16 Outturn

As you will be aware, the scale of what we need to do in the future depends on how well we end this financial year. Collective urgent action is required now to ensure we contain the aggregate provider deficit position to within a £1.8 billion control total in 2015/16.

To limit the scale of the financial distress that will be carried forward into 2016/17, we would like your continued commitment to take the actions necessary to improve your current year financial position, while ensuring that safe care is delivered. We also ask you to review your plan for the remainder of 2015/16, focusing particularly on the areas

listed in Appendix 4, with the aim of improving your financial position in quarter 4 (Q4; January to March) 2015/16. These areas include both operational efficiencies and technical or one-off measures that we will need to deploy to deliver the £1.8 billion control total.

In addition, we will be meeting a number of challenged providers this month to agree a set of actions, including headcount reduction, additional to the current plan, with the clear intention of improving the financial position of those individual providers.

We cannot over emphasise that the 2016/17 Spending Review settlement that we have outlined above depends on every NHS organisation delivering the best possible financial outturn for 2015/16.

Many thanks for your continued support.



Bob Alexander
Deputy Chief Executive
NHS TDA



Stephen Hay
Deputy Chief Executive
Monitor

Copy to:

Jim Mackey, Chief Executive, NHS Improvement
Elizabeth O'Mahony, Director of Finance, NHS TDA
Jason Dorsett, Director of Finance, Reporting and Risk, Monitor

Key details of the 2016/17 financial framework for providers

We recognise that the planning documents include a large amount of technical information. Given this, we would like to draw your attention to the key details of the favourable financial framework we have secured for 2016/17 with the aim of delivering maximum stability and financial recovery.

Proposals in relation to the national tariff (soon to be subject to consultation):

- A delay in the introduction of HRG4+ to provide a year of pricing stability combined with no changes to specialised top-ups.
- A cost uplift of 3.1%, reflecting a stepped change in the cost of employers' pension contributions.
- Additional funding to cover the aggregate increased cost of CNST contributions. In addition to the general cost uplift, the majority of the increase in CNST contributions will be targeted at particular HRG chapters.
- An efficiency factor of 2%, which results in a net prices uplift of 1.1%.
- An increase in the marginal rate for emergency admissions to 70% for all providers.
- No application of a specialised services marginal rate in 2016/17. A consultation on the marginal rate will form part of the engagement on the implementation of HRG4+ in 2017/18. We will also move to centralised procurement of devices with set national reference prices.

Other system management changes:

- Commissioners are required to plan to spend 1% of their allocations non-recurrently, consistent with previous years. For provider funds to insulate the health economy from financial risks, the 1% non-recurrent expenditure should be uncommitted at the start of the year.
- The introduction of a commissioner sparsity adjustment for remote areas. The financial impact of this is added to the target allocation of the relevant CCGs. This results in an adjustment for six CCGs in relation to eight hospital sites. The adjustments to target allocations total £31 million.
- The requirement for commissioners and councils to agree a joint plan to deliver the requirements of the Better Care Fund (BTF) in 2016/17. Further, BCF funding should explicitly support reductions in unplanned admissions and hospital delayed transfers of care.

Sustainability and transformation funding

1. The Spending Review settlement confirms a recurrent £5.4 billion cash increase to the NHS England Mandate in 2016/17. This will be deployed as follows:
 - £3.6 billion to flow recurrently into commissioning allocations and related budgets
 - £1.8 billion to be passed through commissioners to fund a Sustainability and Transformation Fund (S&T Fund) which will be provisionally allocated to individual providers this month with the intention of eliminating the NHS provider deficit position in 2016/17 (linked in part to emergency services).
2. The S&T Fund for 2016/17 replaces the need for the current scale of direct Department of Health (DH) cash funding. The fund will be used to support providers move to a sustainable financial footing and will be deployed in a way that creates a balanced aggregate financial position in the NHS trust and foundation trust sector in 2016/17. As such, the 2016/17 S&T Fund will have two elements:
 - a 'general element' which will be distributed to all providers of acute emergency care and be linked to the setting of agreed control totals
 - a 'targeted element' to support trusts drive efficiencies and go further faster; this will be targeted at leveraging greater than 1:1 benefits from providers.
3. Details on how to access the targeted element of the fund will be made available later in the planning process. This will be particularly relevant for mental health ambulance, and community services providers who are unlikely to be eligible for the general element of the fund.

The remainder of this appendix will consider the general element of the fund.

General element of the S&T Fund

4. To be eligible to access the general element of the fund, providers must provide acute emergency services and formally meet all the conditions in Table 1 below:

Table 1: S&T Fund conditions and measurement

Objective	Conditions/measurement
<p>Deliver agreed control total</p> <p>Provider deficit reduction/surplus increase</p>	<p>Q1: Agreement of milestone-based recovery plan (OR surplus increase) with NHS Improvement AND agreed control total for 2016/17. Agreement to capital control total.</p> <p>Plans to include milestones for Carter implementation (including reporting and sharing data in line with the national timetable) and compliance with the NHS Improvement agency controls guidance.</p> <p>Q2 to Q4: Delivery of plan milestones AND capital and revenue control totals.</p>
<p>Access standards</p>	<p>Q1: Agreeing with NHS England and NHS Improvement a credible plan for maintaining agreed performance trajectories for delivery of core standards for patients, including the four-hour A&E standard, the 18-week referral to treatment standard and, for appropriate providers, the ambulance access standards.</p> <p>Q2 to Q4: Delivery of agreed performance trajectories.</p>
<p>Transformation</p>	<p>Q1 to Q3: Local Sustainability and Transformation Plans (STPs) – to work with commissioners and develop an integrated five-year plan in line with the national STP timetable.</p> <p>Q4: STP agreed with NHS England and NHS Improvement.</p> <p>Providers will also have the option to volunteer to join an accelerated 2016/17 transformation cohort.</p>

5. As a condition of the overall fund being approved, the NHS has to demonstrate tangible progress towards a credible plan for achieving seven-day services for patients across the country by 2020. Recipients of funding will be expected to continue to make progress towards achieving seven-day services in 2016/17.
6. S&T funding will be made available to providers as income, which will be paid by a lead commissioner and replace the need for the current scale of DH cash support. The S&T Fund allocated to CCG(s) will be ring-fenced as pass-through payments to the relevant provider in addition to normal contractual payments.
7. This funding will be provisionally allocated at the start of the planning process to ensure providers have the maximum amount of time to prepare a credible plan in sufficient detail to meet their control total and achieve the maximum amount of financial benefit in year.

8. Release of funding will be subject to a quarterly review process in arrears. This review process will cover delivery against the S&T Fund only. Arrangements are being agreed for providers who require working capital prior to the release of funds, but are likely to involve interest-bearing working capital facilities provided by DH. Plans should be prepared on this basis until further guidance is provided.
9. Access to funding will be through a formal agreement between NHS Improvement and trust boards in advance of any funds being paid. This agreement will be embedded in a high quality board-approved plan that is fully compliant with the criteria outlined above.
10. In addition, those providers eligible for S&T funding that meet the conditions of the fund will not face a 'double jeopardy' scenario whereby they incur contract penalties as well as losing access to funding; a single penalty will be imposed.
11. Providers that are in deficit and that require cash support after receipt of the funding and after local efficiencies will have access to DH interim support loans, as at present via interest bearing loans.

Individual provider detail

2016/17 Sustainability and Transformation Fund

The 2016/17 financial plan for each provider will be contingent upon its 2015/16 year-end financial position. For the purpose of the provider impact assessment, the Month 6, 2015/16 forecast has been used as the baseline adjusted for the assumed effect of agency controls and other recurrent measures in Q4 2015/16. Any further deterioration in this position will require the relevant provider to deliver higher efficiency levels to achieve the 2016/17 control total.

We have also taken into account other national funding flows in setting the control total such as the impact of changes to the tariff, education and training, CQUIN, CNST, etc.

Both the setting of the baselines and the control totals, and the measurement of performance versus control totals, will exclude gains on disposals of assets.

The general element of the fund will be distributed to providers in proportion to the cost of emergency services as reported in the 2014/15 reference costs ('Emergency Services' definition from the 2014/15 Reference Costs).

S&T funding and 2016/17 control total	
General element – S&T Fund Subject to provider eligibility and conditions	nil
Targeted element – S&T Fund Subject to provider eligibility and conditions	To be confirmed
2016/17 Control total	£4.7m surplus

This exercise has been undertaken to set control totals for 2016/17 and considers a range of incremental common factors only. Rather than debate the method by which the numbers above have been calculated, provider boards should now consider if, with the proposed tariff/business rule changes and access to the S&T Fund, their control total is achievable in 2016/17.

Details on how to access the targeted element of the fund will follow.

Financial improvement in Q4 2015/16

All providers are requested to consider the following opportunities and to report on them in their Month 9 outturn estimates submitted to either Monitor or the NHS TDA. A simple memorandum schedule detailing how much has been attributed to each of the items below should be submitted.

Description	Detail
Local capital to revenue transfers	Delivery of maximum amount of safe deferral or reduction in capital expenditure to be supported by capital-to-revenue transfers as agreed with either the NHS TDA or Monitor and the Department of Health.
Accurate monthly capital forecasting	To assist with the national capital position, ensure accurate capital forecasting including identification of any underspend.
Accurate provision reporting	To assist with the national position, ensure provisions are carefully reviewed at Month 9 and, where possible, accurately estimated for the full year.
Workforce	No non-medical agency cover for short-term sickness (<3 days), implementing acting down/cross-cover arrangements to ensure patient safety.
Agency staffing	Full compliance with the policy, including completing the weekly reporting. Review self-certification in weekly reports to identify opportunities for improvement. Focus on reducing number of shifts above rate caps and remaining within nursing agency ceiling.
Reviewing in-year priorities	Reviewing priorities in all areas: revenue maximisation, cost control, efficiency and investments
Balance sheet review: prudence	Remove prudence from estimates of: <ul style="list-style-type: none"> • accrual; • deferred income; • injury cost recovery (formerly RTA) debtor • partially completed spells

Description	Detail
Bad debt provisions	Remove prudence in bad debt provisions, including ensuring impairments to receivables are line with IFRS and are based on incurred losses and not general estimates or future expected loss events.
VAT changes	Review latest COS guidance to ensure maximum reclaim of VAT including latest position on IT spend.
Annual leave	To the maximum extent allowed under NHS contracts, manage the carry forward of annual leave. Ensure that this does not lead to the use of additional agency staff to cover leave periods. Ensure data used for calculations from HR systems are robust.
Asset valuations	Revalue operational assets at the modern equivalent asset value using the alternative site method where advantageous.
Asset lives review	Review all equipment and buildings asset lives given that less capital will be available for replacement in future. The resulting adjustment will reduce depreciation charges while creating a one-off impairment. Providers will be held to account by NHS Improvement for their financial performance before accounting for impairments.