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28 June 2016

To: Chairs & CEO's of Foundation Trusts and NHS Trusts

Dear Colleague

2016/17 Financial Position

We know from many conversations over recent weeks that colleagues are keen to understand how much progress we have collectively made towards eradicating the deficit in the provider sector and what further actions will be required this year.

You will appreciate that it has not been possible to communicate this fully during the EU referendum purdah. I am therefore taking this opportunity to explain where we are and to set out some further actions that will be required over the next few weeks and where I am looking for your support.

It has already been reported that the total provider deficit in 2015/16 was £2.45bn, with the underlying position around the £3bn mark. From this starting position, we have been able to utilise the Sustainability and Transformation Fund of £1.8bn and agree control totals with the vast majority of providers. There are, currently, 19 providers who have not yet been able to agree control totals and we will continue to work with them, with the aim of agreeing similarly stretching targets to those agreed by the rest of the sector by the end of July.

The aggregate planned provider deficit stands at c£550m which, I am sure you will agree, represents significant progress compared to 2015/16. Clearly, there is still a lot of work to do to deliver these plans and significant risk to manage. This level of deficit also makes the management of the overall NHS financial position very risky.

We therefore need to continue to develop further actions and plans and, as I said at the NHS Confederation, we should see this as an active and on-going process until we have the level of financial strength and resilience that we need to ensure the NHS stays within its allocated financial resources.

There are, therefore, three areas where further action is required as follows:-

a) ***Planned cost growth in 2016/17 and actual growth in 2015/16.***
Plans for 2016/17 show that, in aggregate, the sector is planning to actively manage and reduce costs. However, a number of providers are still planning for higher levels of pay cost growth than the rest of the sector. In addition, a number of providers experienced significant pay cost growth in 2015/16 that was out of step with activity growth across the sector.

We will therefore work through this growth with each of these providers over the coming weeks to determine how much of the planned growth can be eliminated, and the extent to which we can reverse the growth that was experienced in 2015/16.

Clearly, this is quite complex and will require a lot of work between us. However, we believe that significant inroads can be made to help bring these providers more in line with the sector as a whole and other providers with a similar general profile. We will do this work in close collaboration with CQC colleagues to ensure that any adjustments are in line with our commitment to patient safety. We aim to agree the extent of these changes with the relevant providers by the end of July.

b) ***Back office and Pathology Consolidation – Carter Implementation.***
The Carter Review, and indeed Lord Carter's review of pathology services some 15 years ago, demonstrated that there is still a significant potential saving if back office services and pathology services are consolidated on a regional basis. Indeed, back office services in the NHS have not consolidated in the way they have in many other sectors and I know that many STP areas are already developing plans in this area.

We will therefore be asking all STP leads to develop proposals to consolidate back office and pathology services with outline plans, initially on an STP footprint basis but with a mind to consolidate across larger areas over time, to be agreed before the end of July. Jeremy Marlow, Director of Operational Productivity and lead director for Carter Implementation will be heading this work, working closely with STP leads.

c) Unsustainable Service Consolidation.

It is clear from discussions with provider CEOs, STP discussions and the work on locums and agency spend, that there are many planned care acute services that are reliant on a fragile and temporary workforce, with resultant financial, operational and continuity problems. One provider with whom we spoke to last Friday identified a saving of c£2.5m pa if they were able to change some elective services with a level of operational disruption that would be manageable over time. Desktop exercises indicate that, as well as the direct savings potential, there are potential associated benefits elsewhere in deflating the locum market.

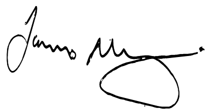
We therefore want to identify where planned care services are heavily reliant on locums and where these services can either be consolidated, changed or transferred to a neighbouring provider. We will, therefore, be asking STP leads, to identify where such changes could be made, and the operational impact and financial savings potential, again by the end of July.

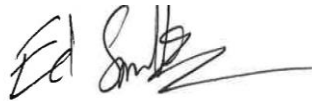
Taking these three areas together, we are aiming to get to c£250m deficit this year. We will also continue to explore other options and would be keen to hear of other suggestions as the year progresses.

The final rules for access to the Sustainability and Transformation Funds and more detail on our new oversight regime will be communicated later this week. We are also actively working on a simplified and earlier planning process for 2017/18 that brings greater stability for the NHS and which is designed to enable the service to accommodate the lower funding increase scheduled for that year.

We would like to end by thanking you for your actions and leadership in our collective efforts to put the NHS on a stronger financial footing. You have made great progress but there is much still to do.

Yours sincerely





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NHS Improvement is the operational name for the organisation that brings together Monitor, NHS Trust Development Authority, Patient Safety, the National Reporting and Learning System, the Advancing Change team and the Intensive Support Teams.