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July 2016

NHS financial temperature check

Finance directors' views on financial challenges facing the English NHS

Briefing

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Introduction

This is the fifth in a series of HFMA briefings setting out finance directors' views on the financial issues facing the English NHS. Directors completed the survey in late May and early June 2016. It draws on the responses of finance directors and chief finance officers[1] (CFOs) of 105 (44%) trusts and 82 (39%) clinical commissioning groups (CCGs) from across the NHS.

Key findings

The financial performance of the NHS continues to deteriorate across all sectors, with the trust sector deteriorating most rapidly. Trusts[2] reported a combined £2,447m deficit for the financial year 2015/16 – three times larger than the deficit reported for the 2014/15 financial year. CCGs[3] reported a £16m overspend against their allocation for 2015/16.

The figures reported by NHS Improvement and NHS England make clear the scale of the NHS financial crisis. Many organisations, across all NHS sectors and in all parts of the country, do not have the funding they require to deliver services in the way they would like. More than one in five finance directors think the quality of patient services will deteriorate in 2016/17. Also, finance directors are not confident that joint working arrangements are strong enough to deliver the improvements required.

Analysis of our survey shows:

- In most CCGs (83%), the 2015/16 year-end outturn was the same or better than planned. In trusts, there was a mixed picture – for 47% of respondents the year-end financial position was better than planned, while for 37% of respondents the year-end position was worse than planned. For trusts that over-performed against plan, the main reasons were non-recurrent revenue generation measures, masking their true underlying position.
- Among trusts, the main factors leading to higher than anticipated costs were rises in agency staff costs (51%), underachievement of planned savings (33%) and increases in fines, challenges and deductions (23%). In some cases these cost pressures were offset by increases in turnover and non-recurrent measures.
- While most CCGs responding to our survey achieved or improved on planned performance, CFOs said the main factors leading to higher than anticipated costs were increases in programme costs for acute services (60%), slippage on planned savings programmes (46%) and increases in prescribing costs (40%). In some cases these cost pressures were offset by increases in fines, challenges and deductions levied on trusts and increases in allocations.
- Most trust and CCG respondents had contracts for 2016/17 services and activity that remained unsigned at the time of our survey. Only 30% of CCG respondents and 18% of trust respondents had signed all of their contracts. Respondents' main issue was service affordability, which had led to protracted negotiations about reducing activity levels and QIPP savings requirements being written into contracts.
- Most trusts forecasting a deficit in 2016/17 are in the acute sector, while mental health trusts are currently in a more financially sustainable position as a sector, based on our survey responses. Among CCG CFOs, 49% forecast a worse cumulative financial position at the end of 2016/17 than their 2015/16 position.
- Some 67% of CCG and 48% of trust respondents reported a high degree of risk associated with achieving their organisation's 2016/17 financial plan. Only 3% of CCG and trust finance directors reported a low risk to achieving their financial plans.
- The key risks to achieving financial plans in trusts were identified as slippages in cost savings (78%), spending on agency staff (72%), the impact of social care financial constraints (56%) and increased demand (52%).

1 CCGs use the terminology of chief financial officer (CFO), whereas NHS trusts and NHS foundation trusts generally use finance director. In this briefing we sometimes use the term finance director to mean both finance directors and CFOs together 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.

3 CCGs work under a different financial regime to NHS trusts and NHS foundation trusts, which makes direct comparison of their financial performance difficult. CCG financial performance is reported against what was planned, and business rules set out by NHS England apply. CCG allocations include their brought-forward surplus or deficit positions, and the plan will include agreed changes to the brought-forward position. Trusts' performance is based on in-year income and expenditure.

- The key risks to achieving financial plans in CCGs were identified as increases in emergency care activity (76%), continuing healthcare (69%), increasing demand for services (67%) and slippages in cost savings (65%).
- The main mechanisms CCG respondents plan on using to meet the financial challenges ahead are the integration of services (82%), reducing unnecessary clinical variation (76%) and investment in primary care (69%). To meet trusts' financial challenges, finance directors plan to make savings on agency staff (95%) and procurement costs (80%) and rationalise estates (60%).
- For 2016/17, 21% of CCG CFOs and 23% of trust finance directors think quality will deteriorate, while 15% of CCG CFOs and 20% of trust finance directors think quality will improve. Trust finance directors are more pessimistic about 2017/18.
- Only 35% of respondents believe the relationships between organisations in their Sustainability and Transformation Plan[4] (STP) footprint are strong enough to the deliver the cross-organisational changes required. Just 16% of respondents are very or quite confident that the organisations in their STP footprint can deliver a connected strategic plan covering the period up to March 2021.

Financial performance

This is the third financial year that NHS trusts and NHS foundations trusts (FTs) have reported a combined aggregate net deficit, but this is the first year the CCG sector has reported an overspend against what was planned for the financial year, albeit a small one.

Finance directors in trusts and CCGs were asked by national agencies to improve their 2015/16 financial position where possible, to help ensure that overall the Department of Health did not overspend its Departmental Expenditure Limit.

NHS Improvement[5] asked all trusts to consider local capital to revenue transfers, which would have the benefit of improving a trust's financial position, as well as helping the national picture. Trusts were also asked to consider whether they had been overly prudent in their estimates of accruals and deferred income, as well as take other measures, such as revaluing assets under the most advantageous method and adjusting asset lives with the effect of reducing depreciation costs but increasing impairments (trusts report their financial position before impairments).

While finance directors will have ensured they followed accounting rules when presenting their financial performance, these measures are largely non-recurrent and could shift financial problems into future years.

The most recent reports from national agencies and regulators show:

- The combined NHS trust and FT sector reported a deficit of £2.45bn for the year ending 31 March 2016, compared with a planned deficit of £1.99bn[6]. Of the 240 trusts, 157 (65%) reported a deficit for the year. More than 75% of the trusts reporting a deficit were in the acute sector.
- Across the 209 CCGs, there was a small overspend of £16m[7] (0.022% of allocation). According to NHS England: 'At the year-end, 62 CCGs reported underspends totalling £122m against their annual plan and 39 CCGs reported overspends totalling £151m.' The overall position was improved by £13m because of lower than planned payments under the Quality Premium scheme.

The draft unaudited outturn figures were reported by NHS England in respect of CCGs and by NHS Improvement in respect of NHS trusts and FTs. NHS Improvement, set up on 1 April 2016, combined Monitor and the Trust Development Authority as well as some smaller national agencies. The two reports from these organisations show the extent of the unprecedented financial shortfall.

The most severe trust deficits continue to be in the acute sector. The ambulance sector also reported a small overall net deficit (0.5%), while the community and mental

The most severe trust deficits continue to be in the acute sector. The ambulance sector also reported a small overall net deficit

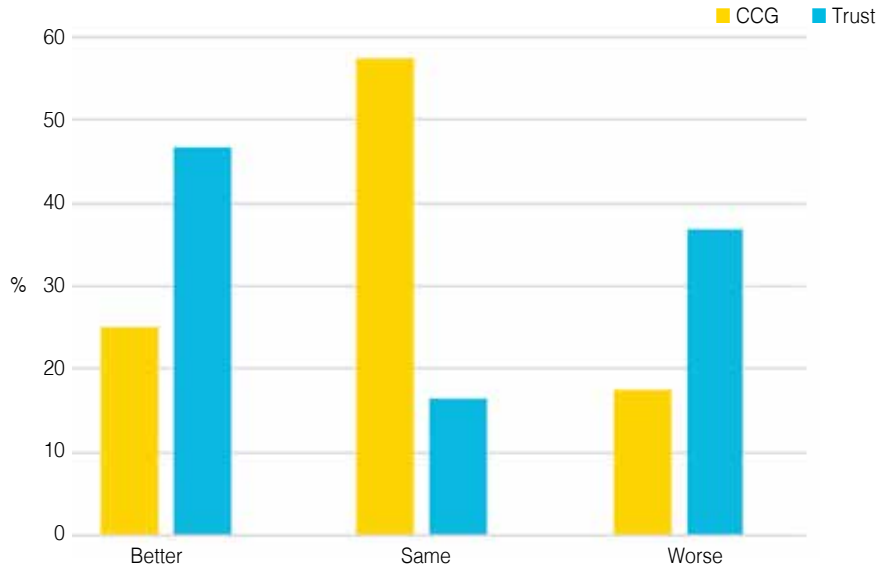
4 NHS England introduced Sustainability and Transformation Plans (STPs) in its shared planning guidance in December 2015 – www.england.nhs.uk/wp-content/uploads/2015/12/planning-guid-16-17-20-21.pdf

5 Letter to trust chief executives, 2015/16 outturn and 2016/17 Plan including Sustainability and Transformation Fund, NHS Improvement, 15 January 2016

6 https://improvement.nhs.uk/uploads/documents/BM1653_Q4_sector_performance_report.pdf

7 www.england.nhs.uk/wp-content/uploads/2016/05/item7-26-05-16.pdf

Chart 1: 2015/16 year-end financial position compared with 2015/16 plan



health sectors reported small overall surpluses (0.7% and 0.5% respectively) and the specialist sector reported a surplus of 2.3%.

Of the combined net deficit of £2,447m in the trust sector, £2,583m is attributable to the acute sector and £12m to the ambulance sector, which was offset by surpluses in the community and mental health sectors.

Of the 157 trusts with a deficit, 48 reported a deficit in excess of £20m and 11 reported a deficit of more than £50m. The year-end deficit of £2,447m was almost three times larger than the £822m reported in 2014/15[8]. The 2015/16 financial outturn in trusts was £1.6bn worse than in 2014/15 and £461m worse than planned at the start of the financial year. The gap between planned and actual EBITDA margin in the trust sector has also grown compared with previous years.

In the local commissioning sector, NHS England reports that CCGs have overspent allocation by £16m in aggregate, but it was not split evenly across the country[7]. CCGs in the Midlands and East region and South region reported net overspends, while those in London and the North underspent. According to NHS England, the CCG position was improved by £13m because of lower than planned payments under the Quality Premium scheme.

For some CCGs that have overspent, offsetting prior year underspends will result in a cumulative surplus position. However, NHS England reports that, taking into account previous financial years' results, 31 CCGs reported a cumulative deficit, 10 of which were unplanned. A continuation of this would create a funding challenge for NHS England, which reports: 'The measures to improve CCG resilience, which we have taken in 2015/16, have resulted in fewer overspends and a reduction in the scale of individual financial deficits (in 2015/16 the largest CCG overspend was 5% compared to 10% in 2014/15).' [7]

Performance against plan

Analysis of survey responses found that in most CCGs (83%) the 2015/16 year-end outturn was the same or better than budget. This is in line with the national aggregate overspend by CCGs of £16m, which represented less than 0.1% of total allocation.

In trusts, there was a mixed picture – 47% of trusts' end of year financial position was better than planned but for 37% of respondents the year-end position was worse than planned. **Chart 1** shows the details.

For trusts that over-performed against plan, the main reasons were non-recurrent revenue generation measures – capital to revenue transfers, asset revaluation resulting in reduced public dividend capital payments, profits from the sale of assets and accounting measures such as a change in provisions. Overall, 28% of organisations in our survey reported a worse year-end position than they anticipated at the beginning of 2015/16.

We asked respondents to tell us the causes for the main variances between outturn and plan in 2015/16. Among trusts, the main drivers of increased costs were a rise in agency staff costs (51%), underachievement of planned savings (33%), and an

8 www.hfma.org.uk/publications/details/nhs-financial-temperature-check-july-2015

increase in fines, challenges and deductions (23%). These were offset in some cases by increased income and non-recurrent measures.

NHS Improvement's analysis gives information on the drivers for the deterioration in financial performance. Their report[6] states: 'One of the key drivers for this year's decline in financial performance was the continued high usage of agency staff, which contributed to total pay costs exceeding the plan by over £1bn.'

NHS Improvement also identifies non-pay cost pressures, including 'extra costs associated with delayed transfers of care'. NHS Improvement has published national rules[9] about spending on agency staff. In 2016/17 all trusts will be expected to constrain agency staff spending within a ceiling figure set by NHS Improvement and to comply with maximum wage rates. These measures may help alleviate the financial pressures trusts face due to rising agency staff costs.

Continued increasing demand for emergency and urgent care led to some trusts failing to meet elective waiting time targets, resulting in financial sanctions imposed by commissioners. NHS Improvement reports: 'Gross fines and readmission penalties cost providers a total of £751m. Although £253m has been reinvested by commissioners to improve operational flows, these sanctions nevertheless further exacerbated financial stress.'

Some trusts' performance against plan improved. The main reasons include capital to revenue transfers and non-recurrent items such as property sales. The one-off nature of these transactions makes it important to understand the underlying financial as well as the reported position. **Chart 2** shows the main responses.

The reasons remain consistent with our previous surveys. In November 2015, we found 'the main drivers were an under-achievement of savings plans (63%) and a rise in agency staff costs (59%).'[10]

Chart 2: Main reasons for variance between 2015/16 year-end financial position and plan in trusts

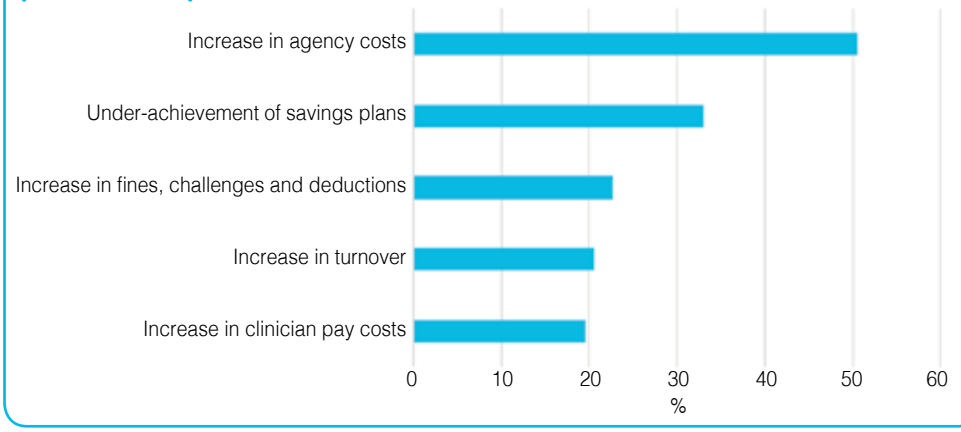
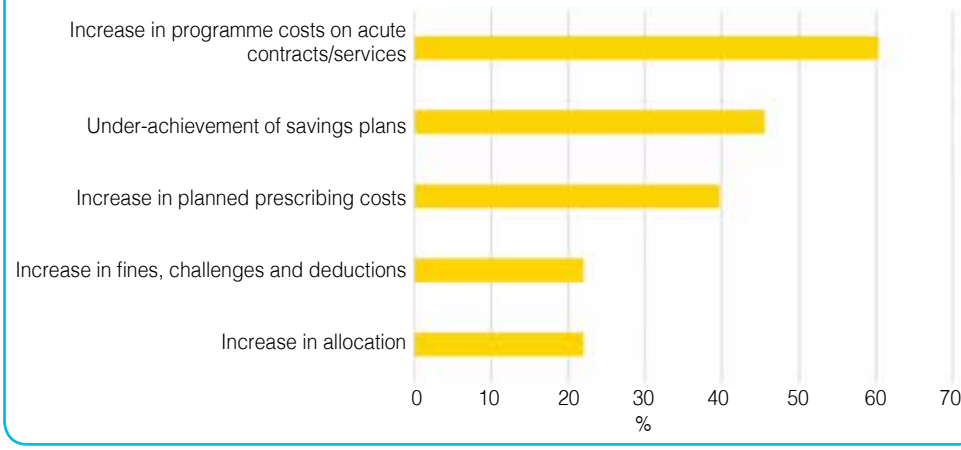


Chart 3: Main reasons for variance between 2015/16 year-end financial position and plan in CCGs



While most CCGs achieved or improved on planned performance, CFOs considered the main drivers of variances to be programme cost rises for acute services (60%), slippage on planned savings (46%) and increases in planned prescribing costs. These were offset by increases in fines, challenges and deductions levied on trusts and increases in allocations.

Chart 3 summarises the responses. These results are consistent with our survey in November 2015 but the proportion of CFOs reporting these cost pressures has decreased. In our previous survey, CFOs considered the main drivers of variances to be programme cost rises for acute care (78%) and slippage in savings plans (52%). This may indicate that CFOs have had success in addressing some of the cost pressures they are facing and financial planning is becoming more accurate.

9 www.gov.uk/government/uploads/system/uploads/attachment_data/file/510391/agency_rules__23_March_2016.pdf

10 www.hfma.org.uk/publications/details/nhs-financial-temperature-check---november-2015

Table 1: Trusts' forecast 2016/17 and 2017/18 year-end financial position, analysed by 2015/16 year-end outturn

		Trusts reporting a surplus in 2015/16	Trusts reporting a deficit in 2015/16
Expected position in 2016/17	surplus	63%	26%
	deficit	30%	61%
	break-even	7%	13%
Expected position in 2017/18	surplus	68%	38%
	deficit	27%	49%
	break-even	5%	13%

Contracts and financial plans for 2016/17

Most CCG and trust respondents had contracts that remained unsigned at the time of our survey. Only 30% of CCG and 18% of trust respondents had signed all of their contracts at the time of our survey. We asked respondents to provide further details about the difficulties they faced with the 2016/17 contracting round.

CCG CFOs said the main issue was service affordability, leading to protracted negotiations about reduced activity levels with trusts as part of QIPP savings requirements. Many CCGs felt trusts had unrealistic or increased expectations of activity and income growth. In some cases these negotiations led to official mediation. Some respondents had problems with late and changing guidance and late contract documentation from national agencies.

Respondents' comments also showed negotiations were often influenced by agreements made with other parties. For instance, trusts that had agreed control totals with NHS Improvement may have specified certain conditions regarding penalties and fines that the CCG would be obliged to agree to. In general, respondents felt the 2016/17 contracting round had been by far the most challenging experienced.

Trust respondents highlighted the main contracting problem as CCG affordability, relating to negotiations on financial risk sharing of QIPP schemes, agreeing the terms of Commissioning for Quality and Innovation (CQUIN) schemes and agreeing demand. Some mental health trust respondents had concerns about CCG funding parity of esteem commitments.

To support overspending organisations, the Department has created the £1.8bn Sustainability and Transformation Fund (STF). The STF is intended to replace the additional direct cash funding for trusts currently provided by the Department. To access the fund in 2016/17, trusts must achieve an agreed 'control total' set by NHS Improvement as their year-end financial position in 2016/17.

NHS England's joint planning guidance[11] introduced trust financial control totals. The STF supports delivery of the NHS *Five year forward view* to 2021, but trusts have been advised to plan for 2016/17 funding as non-recurrent. Finance directors will find it more difficult to plan for the longer term with this lack of clarity and certainty of funding.

The survey found 63% of trust respondents have signed up to their organisation's NHS Improvement control total. Some respondents felt they had no choice but to sign up to the control total. Others made a decision based on the amount of STF funding and the control total to work out the size of their savings plan requirement. Those who did not agree to the control total did so mainly because they did not feel their organisation would meet the required savings plan.

Of those signing up to the control total, only 60% of respondents told us they expect their organisation to meet the conditions set. Overall, 58% of trusts in our survey have been offered support from the STF, ranging from less than £1m to over £20m. The conditions for receiving STF support also include delivering the agreed contracted recovery trajectory for specific service standards (such as the 18-week waiting time target and four-hour A&E target).

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

Financial forecasts

Our survey results show the financial picture remains gloomy. Of our trust respondents that reported a surplus in 2015/16 only 70% expect to report a surplus or break-even in 2016/17, 73% in 2017/18. Of those reporting a deficit in 2015/16, just 39% expect to report a surplus or break-even in 2016/17 rising to 51% in 2017/18. **Table 1** (previous page) gives details.

Most trusts forecasting a deficit in 2016/17 are in the acute sector while mental health trusts are currently in a more financially sustainable position as a sector, based on our survey responses. **Table 2** summarises the responses. We do not have the data for the reported 2015/16 position but NHS Improvement reported that over 75% of the 157 trusts reporting a deficit were in the acute sector.

CCGs are required by NHS England's financial planning business rules[12] to make a minimum cumulative surplus equal to either 1% of allocation or the 2015/16 surplus, less any agreed drawdown, whichever is the greater.

However, in the large majority of cases the surplus is brought forward from the prior year, not generated in-year. This means most CCGs will spend their allocation for the year in full (although CCGs are still required to improve a brought forward surplus by 1% of any growth in allocation). If CCGs reported on the same basis as trusts, the large majority of CCGs would show a break-even position.

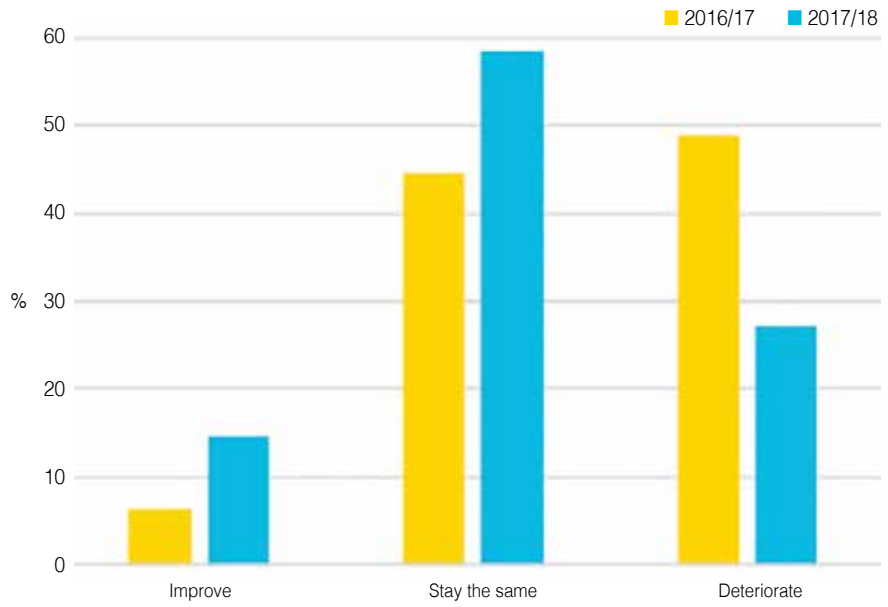
CCGs are not permitted to spend brought forward resources without a specific business case and approval from NHS England. The business rules applying to CCGs mean that in many cases the surplus in CCGs is not cash-backed and so is unavailable for spending. CCGs are only allowed to submit a deficit plan in unavoidable circumstances, as determined by NHS England.

But after taking these differences into account, the CCG sector continues to appear in better financial health than the trust sector. Some 49% of CCG

Table 2: Analysis of forecast 2016/17 financial position by sector

Sector	Deficit	Break-even	Surplus
Acute	59%	8%	33%
Acute and community	38%	0%	62%
Acute and specialist	34%	33%	33%
Acute, specialist and community	100%	0%	0%
Ambulance	0%	0%	100%
Community	25%	25%	50%
Community and mental health	38%	15%	47%
Mental health	30%	0%	70%
Specialist	50%	0%	50%

Chart 4: Forecast CCG cumulative position for 2016/17 and 2017/18 compared with 2015/16



CFOs forecast a worse cumulative financial position at the end of 2016/17 than their 2015/16 position. **Chart 4** summarises the responses.

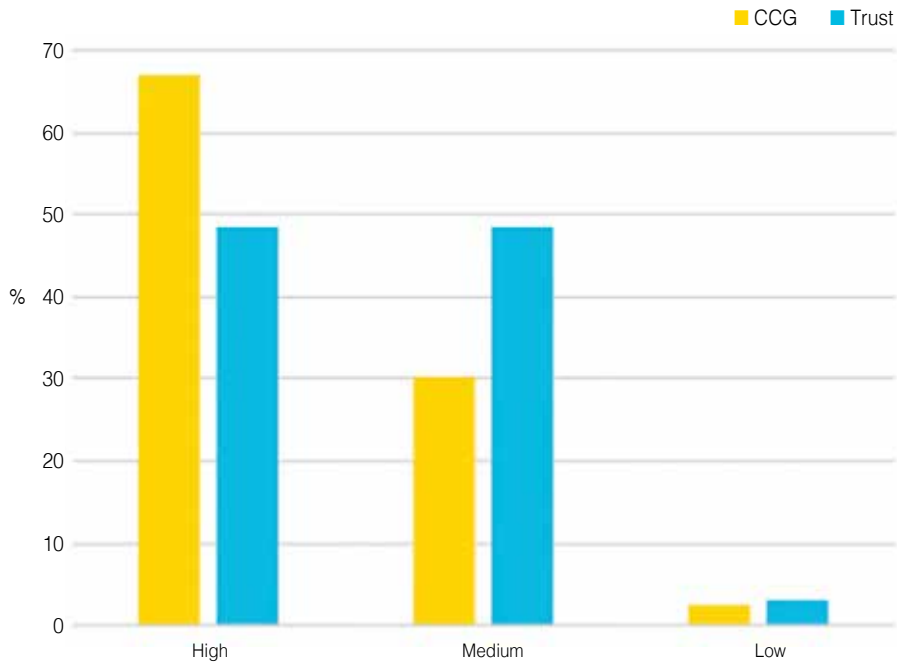
In addition to the 1% minimum surplus, CCGs are required to identify 1% of non-recurrent spending that is uncommitted at the start of the financial year[13], which is required to support STP areas.

Some 91% of respondents have been able to identify the full 1% non-recurrent reserve required by

12 www.england.nhs.uk/wp-content/uploads/2016/01/plan-guid-15-16-annx-2.pdf

13 www.england.nhs.uk/wp-content/uploads/2016/02/supplmntry-guid-non-recurrent.pdf

Chart 5: Finance directors' estimated degree of risk to achieving their organisation's 2016/17 financial plans



NHS England but for many this requirement has simply been added to existing savings plans, which many CCGs are already finding difficult to deliver.

In our survey, 30% of trusts expect to need cash support in 2016/17. Some respondents provided additional information about the support, which is needed for a mixture of capital and revenue requirements. The amounts required range from £2m to £69m, some of which is dependent on support received through the STF.

Financial risk

Some 67% of CCG and 48% of trust respondents reported the degree of risk associated with achieving their organisation's 2016/17 financial plan is high, as shown in **Chart 5**. Only 3% of CCG and trust finance directors reported a low risk to achieving their financial plans.

The key risks to achieving financial plans in trusts were identified as:

- Slippages in cost savings programmes (78%)
- Spending on agency staff (72%)
- Impact of social care financial constraints (56%)
- Increased demand (52%).

The key risks to achieving financial plans in CCGs were identified as:

- Increase in emergency care (76%)
- Continuing healthcare (69%)
- Rising demand for services (67%)
- Slippages in cost savings (65%).

We asked respondents to identify the main risks to the overall financial stability of their health economy:

- Increasing emergency care (77%)
- The impact of social care financial constraints (70%)
- Increasing demand (59%)
- Cost saving scheme slippage (53%).

Asked if they had reduced their capital programme for 2016/17,34% of trusts and 10% of CCGs said they plan to reduce their capital programme. According to NHS Improvement[6], in 2015/16 capital expenditure was 28% below plan, although this is consistent with prior year underspends.

Respondents told us that reductions in capital expenditure will affect delivery of the estates strategy in some organisations. Trust respondents also commented that capital expenditure is being reduced to support revenue spending.

Savings programmes

NHS England reported[7]: 'In 2015/16 'in aggregate commissioners planned for QIPP of £2.2bn, which equated to 2% of allocations. By the year-end £1.9bn of this had been delivered, a delivery rate of 87%.'

In trusts, NHS Improvement reports[6] that for 2015/16, 'providers delivered £2.9bn of savings through cost improvement programmes (CIPs), reducing total year-to-date costs by 3.6%. CIPs achieved were £316m (or 9.8%) short of plan'. NHS Improvement notes that acute trusts were responsible for most of the shortfall, which related mostly to difficulties in reducing reliance on agency staff due to recruitment difficulties.

We asked respondents about the savings programmes they plan for 2016/17. **Chart 6** shows trusts' and CCGs' savings plans as a percentage of their organisational turnover or resource limit range between 1% and 9%. Some 63% of trusts and 68% of CCGs plan savings in the range of 2.5% to 4.5%.

Compared with the actual savings reported over the past few years, some of the planned savings are likely to be extremely ambitious.

We also asked respondents about the achievability of their organisations' 2016/17 financial savings plans. Respondents were more confident about achieving the non-recurrent elements of their plans rather than the recurrent savings.

Some 63% of CCG CFOs and 79% of trust finance directors are very or quite confident their organisation's 2016/17 non-recurrent savings plans will be achieved. There is much less confidence about achieving the recurrent elements of savings plans. Trust finance directors have greatest confidence – 39% are very or quite confident, compared with 33% of CCG CFOs.

Chart 7 shows many organisations responding to our survey expect their entire CIP or QIPP programme to deliver recurrent savings. Given the low level of confidence finance directors have that their organisation will achieve their recurrent savings plan, there is a high risk the 2016/17 year-end financial position will again be adversely affected, compounding deficits further.

We asked finance directors about the main mechanisms they plan on using to meet the challenges ahead. CCGs are planning closer integration or redesign of care pathways they commission across other NHS organisations, such as community, acute and mental health trusts (82%), reducing unnecessary clinical variation (76%) and investment in primary care (69%). The responses are summarised in **Chart 8**.

Chart 6: 2016/17 planned CIPs and QIPP programmes as % of income

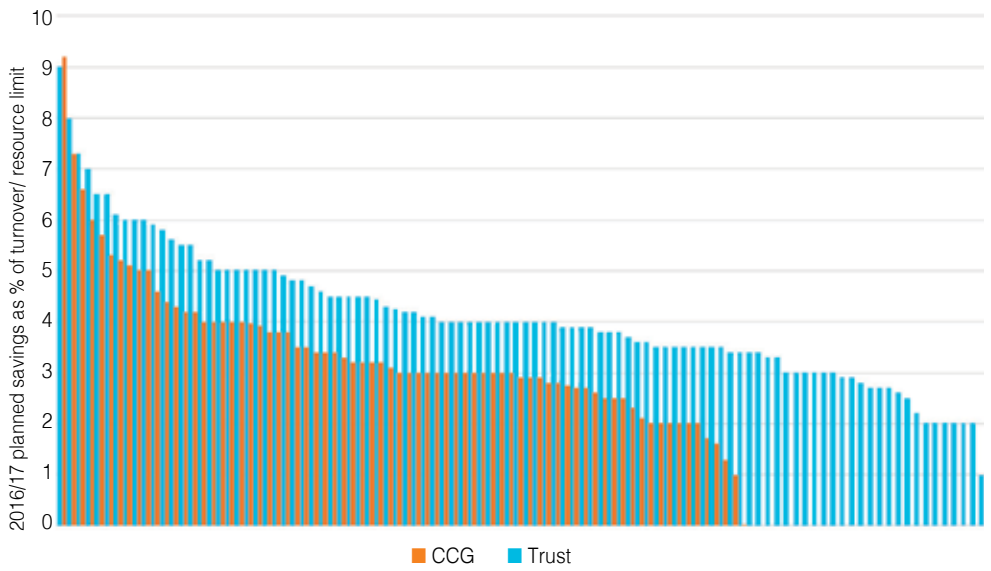


Chart 7: Proportion of 2016/17 savings plans that trusts and CCGs are planning to deliver recurrently

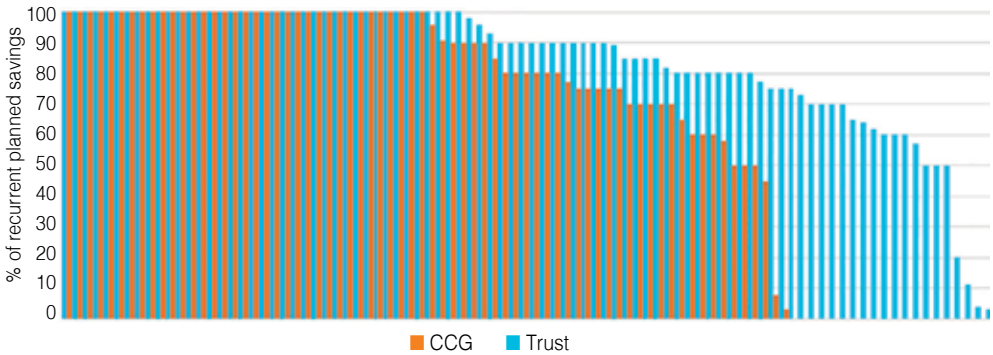


Chart 8: Main mechanisms CCGs are planning to meet financial challenges

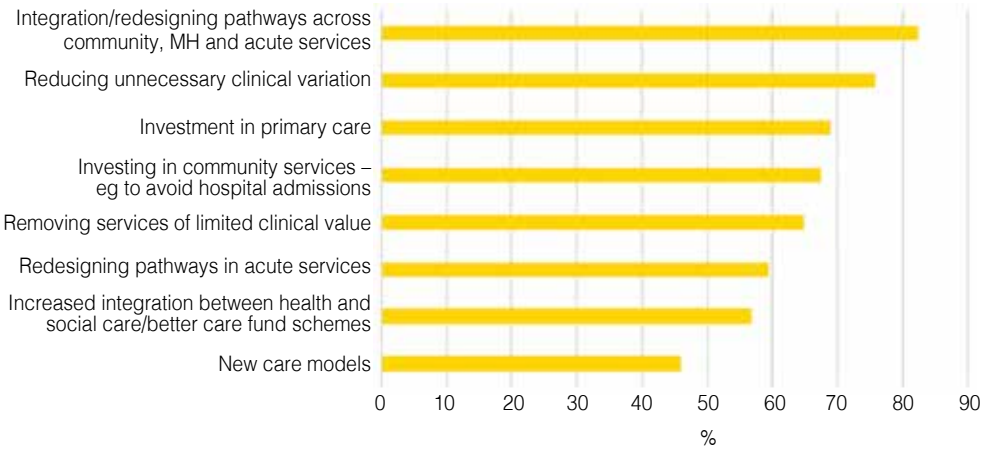


Chart 9: Main mechanisms trusts are planning to meet financial challenges

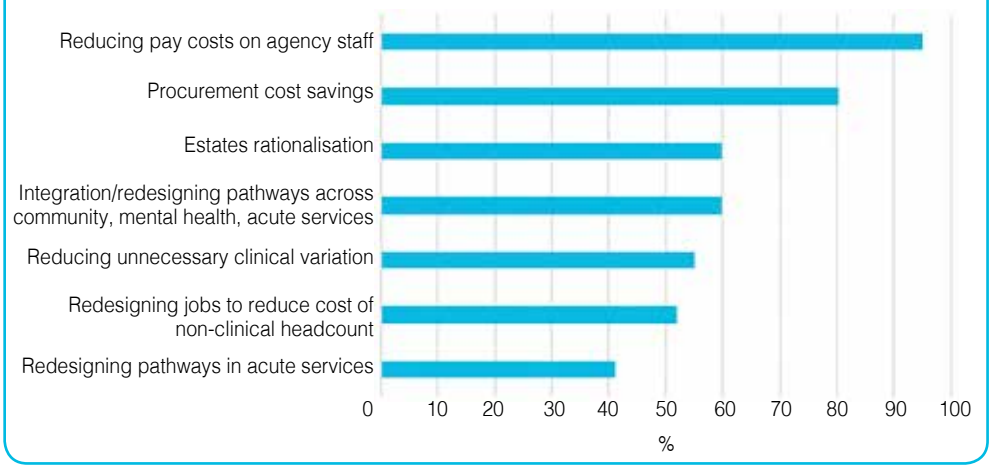
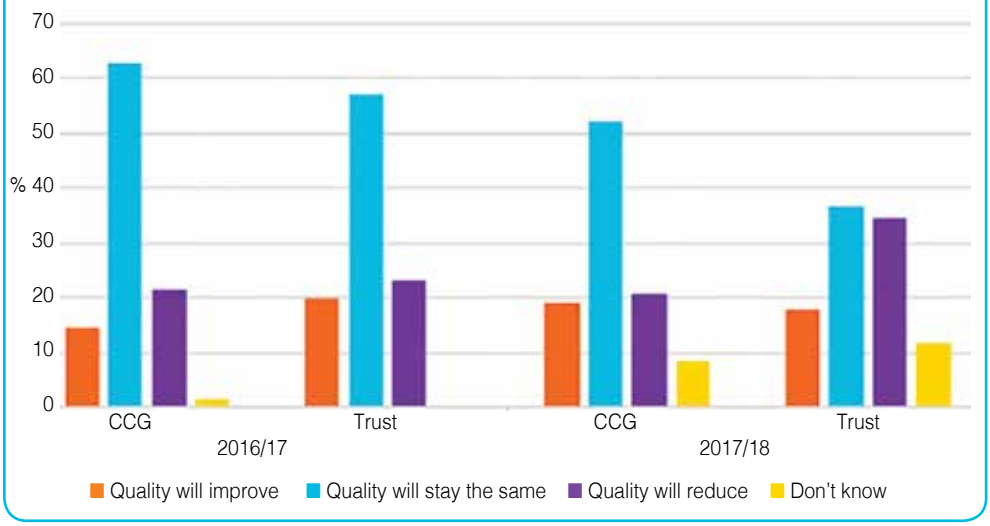


Chart 10: Anticipated change in quality of patient services



To meet trusts' financial challenges, finance directors plan to make savings on agency staff (95%) and procurement costs (80%) and through estates rationalisation (60%). **Chart 9** shows the responses.

When asked about the planned mechanisms to meet financial challenges across the health economy, most respondents chose integration across NHS organisations (70%). Other mechanisms were redesigning pathways in acute services (54%) and reducing unnecessary clinical variation (50%).

Quality

In May 2016, NHS Improvement reported that the 'sustained operational and financial challenges continued to affect adversely the performance of the NHS provider sector in 2015/16'. While trusts worked hard to improve services for patients, 'the sector as a whole continued to underperform against a number of national healthcare standards' [6]. These targets include accident and emergency, routine operations and some cancer treatments that mean people are waiting longer for treatment.

For our survey we defined quality as services that are patient-centred, safe, effective, efficient, equitable and timely. For 2016/17, 21% of CCG CFOs and 23% of trust finance directors think quality will deteriorate, while 15% of CCG CFOs and 20% of trust finance directors think it will improve. The remainder think quality will stay the same.

Finance directors are more pessimistic about quality in 2016/17 than they were in 2015/16. Since our November 2015 survey, the percentage of respondents thinking quality will deteriorate has increased from 9% to 22%. Trust finance directors are even more pessimistic about 2017/18, with a third anticipating quality will reduce. Responses are shown in **Chart 10**.

We asked finance directors to identify which aspects of service quality are most vulnerable because of the financial challenges. Respondents from both sectors felt waiting times (76%), access to services (69%) and the range of services offered (61%) were most vulnerable. Finance directors think patient safety is least likely to be affected by the current financial difficulties.

Sustainability and transformation plans

NHS England introduced STPs in its shared planning guidance[4] in December 2015. Under the guidance, 'every health and care system in England will produce a multi-year STP, showing how local services will evolve and become sustainable over the next five years'. There are 44 STP 'footprints' across England.

Finance directors support the concept of planning across areas and see it as a way of driving collaboration and reshaping services to better meet needs of their local populations and deliver better value services for patients and taxpayers. But there are difficulties. STP footprints are larger than many organisations will have been used to developing joint working arrangements with, so governance may take time to evolve.

While finance directors support the aims of joint working, each is under tremendous pressure to deliver the financial targets for their own CCG or trust and according to their regulator's planning regime. Many finance directors' experience of joint working is that financial pressure to meet targets can often take priority over the aims of the partnership.

Finance directors are positive about STP footprints being the right way to achieve the NHS *Five-year forward view* but are under no illusions about the scale of the challenge. Many fear that the desire for a faster pace of change at joint working will strain new relationships.

Overall, 40% of respondents said their outline STP has been agreed by NHS England and NHS Improvement, while 28% said no and 32% don't yet know. CCG respondents were twice as likely as trust respondents to have an agreed STP. Although NHS England and NHS Improvement required organisations to submit their plan for review, there was no formal approval process. Some respondents answered 'no' but said they had received some feedback, so a 'no' does not mean the plan has not been approved.

Only 35% of respondents believe the relationships between commissioners and trusts in their STP footprint are strong enough to deliver the cross-organisational changes required. Trust finance directors were more likely to say no (45%) compared with 33% of CCG CFOs who do not believe relationships are strong enough. For some, the relationships arising from the STP footprint are new and will take time to develop. Even those with a good track record of collaboration see this as a challenge.

The financial positions of all the organisations in the STP footprint have been shared and are transparent to all in 79% of respondents' STP footprints. But 71% of respondents believe it is too early to say whether the STP will result in a fair sharing of financial risk between the organisations in their footprint.

Just 16% of respondents are very or quite confident the organisations in their STP footprint can deliver a connected strategic plan covering the period to March 2021, while 48% of respondents are not very confident, with trust respondents less confident than CCG respondents.

What is the financial outlook?

We asked respondents to tell us what actions would be of most help to tackle the financial challenges they face. The need for NHS organisations to work together to address the financial and operational pressures was the most significant recurring theme in responses. The importance of working together to redesign services and the need to end the shifting of financial problems between sectors were reiterated.

The STP process was at the forefront of finance directors' minds, with many seeing an agreed vision for the local area being key to sustainability. Respondents highlighted the need for strong leadership and clear lines of accountability to drive progress on implementing the plans, others were frustrated the necessary actions were not happening quickly enough.

Nearly all respondents highlighted the need for the transformation of services within organisations and across areas. There is a clear consensus that changing the way services are delivered is key to meeting the financial challenges faced. Many are already working on this, but highlight the difficulty of

The need for NHS organisations to work together to address the financial and operational pressures was the most significant recurring theme in responses

delivering transformation in addition to business-as-usual activities and cost improvement programmes.

As well as looking across their local health economies to develop and deliver affordable plans, finance directors are focusing on efficiency in their organisations. Many referred to the need for their trust to deliver the cost improvement programme, not only to reduce costs but also to secure promised STF funding.

Many respondents think reducing delayed transfers of care would help reduce financial pressure and are working with local authority colleagues to improve the situation. Availability of medical and nursing staff and reducing reliance on temporary staffing solutions was raised several times, as was need for clinical engagement and leadership to support transformation of services.

As was the case in previous surveys, finance directors question whether government funding for health and social care is sufficient for what the NHS is being asked to deliver. In particular, finance directors raised the issue of whether funding for healthcare as a proportion of GDP is comparable with that in other developed countries.

We asked respondents to tell us the one thing they are most concerned about. Among CCGs, the concern is overwhelmingly finance-related – respondents are worried about delivering their QIPP savings plans and achieving financial balance.

Trust respondents are also worried about meeting their financial targets, delivering CIPs and maintaining cash flow. But they are also concerned about increasing demand, patient safety issues, estates redevelopment, health economy and national leadership, staff recruitment and local authority relationships.

Conclusion

At the end of 2015/16 trusts reported a net deficit of £2.45bn, CCGs reported a £16m overspend against their allocation and it remains to be seen whether the Department of Health will be able to keep overall health spending within the Departmental Resource Limit for 2015/16. The scale of the deficit across the English NHS is unprecedented and would have been larger were it not for some non-recurrent measures. This potentially stores up problems for the future. The financial position at the end of 2015/16 shows the NHS has insufficient funds to meet the current demands on it.

Finance directors are equally pessimistic about the financial picture in 2016/17, following what many have described as the most challenging contracting round yet. Trusts that have agreed to the control totals issued by NHS Improvement are working hard to meet the conditions, but only 60% think they will do so. Many organisations have ambitious savings plans, with only 39% of trust finance directors and 33% of CCG CFOs confident they can deliver the recurrent elements. Some 67% of CCG CFOs and 48% of trust finance directors rated their 2016/17 financial plans as high risk. Respondents are also becoming increasingly worried about the impact of financial pressures on the quality of services provided.

The general direction of travel with the creation of STPs is supported and viewed as a sensible way forward, but only one in six finance directors are confident the organisations in their STP footprint can deliver a connected strategic plan covering the period up to March 2021. There are concerns about the strength of relationships and the governance and accountability arrangements which will take time to evolve and become embedded.

However, finance directors' overwhelming concern is the tremendous pressure to deliver the financial targets for their own organisation and meeting the requirements set by their regulator. Many finance directors' experience of joint working is that financial pressure to meet targets can often take precedence over the aims of the partnership. This must be resolved if the aims of the STPs are to be achieved.

The pressure on NHS finance directors and their teams has never been greater.

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