Greater Glasgow and Clyde NHS Board

Board Meeting

25 June 2013

Director of Finance

Board Paper No. 13/26

2013/14 Financial Plan

1. Recommendation

Members are asked to review this report and approve the Board's 2013/14 financial plan.

2. Introduction

A draft plan was presented to the Board and discussed at its awayday on 17 & 18 January 2013. The draft plan showed a cash-releasing savings target of £33.7m, of which £9.7m was to be delivered by the Acute and Partnerships Divisions. The Board recognised that, in addition to the cash releasing savings, it would develop non cash-releasing savings of £26.2m to meet Scottish Government Health Directorates' (SGHD) target for 3% efficiency savings.

The Board submitted the draft financial plan to SGHD in February 2013, as required, as part of its Local Delivery Plan submission. The Board then submitted an update to the draft plan to SGHD in March 2013, again as part of the Local Delivery Plan submission.

Since January Directors have submitted a variety of proposals for funding. The Corporate Management Team (CMT) has reviewed those service developments and pressures. It has been agreed, as far as possible, to minimise any additional impact on our operational Divisions.

The plan was discussed at the Board seminar earlier in May. The Board requested further information in relation to the schemes listed in section 5 of this paper. That section has been revised accordingly.

The purpose of this revised paper is to provide an overview to Board Members of the key elements within the financial plan, highlighting key assumptions and risks and explaining how it is proposed to address the cost savings challenge which the Board faces in order to achieve a balanced financial outturn in 2013/14. The paper comprises:

- An overview of the process used to develop the financial plan;
- A brief explanation of the funding uplift that the Board will receive in 2013/14;
- Proposals for funding of pressures and investments.

- The most recent projection of the scale of financial challenge which the Board will need to address if it is to fund most of the above proposals and succeed in managing within its Revenue Resource Limit for 2013/14;

- The cost savings plan for 2013/14 that will enable the Board to address that financial challenge and deliver a break even financial outturn for the year;

- An indication of the possible financial position for 2014/15 & 2015/16, which will inform the Board's medium term financial strategy.

3. Overview of process to develop the financial plan

The Director of Finance has overseen the process of developing the financial plan. Board Members were updated on progress in January and given the opportunity to comment and advise.

Key phases within the process of developing the plan for 2013/14:

- September 2012 – Scottish Government issued draft Budget and Director of Finance prepared a first estimate of the savings challenge for 2013/14. This challenge was discussed by CMT. Savings targets were not allocated to Divisions. Instead, Divisions were asked to produce proposals.

- November 2012 – First drafts of savings proposals were submitted to Finance by Divisions and were discussed by CMT. CMT agreed to exclude all proposals that were likely to be unacceptable. CMT agreed that the majority of the savings proposals should be met by prescribing. This left a total cash releasing savings figure of £9.7m within the plan, required from Acute and Partnerships.

- January 2013 – The draft financial plan was discussed with Board members at Board Awayday.

- February 2013 – SGHD issued the opening allocation letter for 2013/14. The existing plan was reconfirmed by CMT and a draft was submitted to SGHD.

- March 2013 – CMT began to focus on a medium term financial strategy and, in order to finalise the plans for 2013/14, requested Directors to highlight any further proposals for short term funding.

- May 2013 – Discussion of draft plan at Board seminar and finalisation of plan and proposals by CMT.

- May 2013 – Approval of plan by Quality & Performance Committee.

- June 2013 – Formal ratification of plan at Board and approval to submit to SGHD.

4. Funding

SGHD has confirmed a headline funding uplift for 2013/14 of £53.5m, or 2.76%. NHSGGC does not receive a share of the funding awarded to some other Boards in order to bring them closer to NRAC parity. The uplift is shown in the table below.

	All Boards £m	NHS GGC £m	Para
Base Uplift @ 2.76%	214.0	53.5	4.1
NRAC Parity	42.0	0.0	4.2
SGHD Uplift	256.0	53.5	
Income from Other Boards		4.3	4.3
Total Uplift		**57.8**	

Notes to funding

4.1. A general uplift is provided by SGHD to support Boards in meeting expected additional costs related to pay, supplies (which includes prescribing growth and utilities charges) and capital charges.

4.2. This funding allocation is available exclusively to those NHS Boards whose current general funding allocation is below NRAC formula parity levels, to move them closer to NRAC parity. As NHSGGC's funding level currently exceeds NRAC parity, it does not receive a proportion of this funding allocation. However, as in previous years, SGHD has not sought to reduce NHSGGC's core funding level. This reflects the measured approach which SGHD continues to take in progressing implementation of NRAC recommendations, thereby avoiding creating financial turbulence within NHS Scotland.

4.3. By applying an agreed general inflationary uplift to the value of service level agreements with other NHS Boards related to patient services provided by NHSGGC, NHSGGC can reasonably expect to receive further income of around £4.3m in 2013/14.

5. Proposals for Funding

Following discussions with Directors, pressures and possible investments have been captured and agreed. The consolidated table below lists the schemes concerned.

5.1. **Pressures & Investments:**

	£m	
Nurse Staffing	4.0	This contributes to year one implementation of Keith Hurst tool, Skill Mix & Supernumerary Charge Nurses. Full year cost will be greater.
Internships	1.0	Share of cost for national scheme.
Immunisation Schemes	0.9	Cost estimate per CMT paper for Rotavirus, Meningococcal C, Shingles & Influenza.
Screening Programmes	1.1	AAA & MRSA Screening.
ACT Reduction in Funding	0.5	
Junior Doctors	0.8	Paediatrics.
Insulin Pump Therapy	0.3	Recurring element only, per CEL 4 (2012). Other non recurring costs will be funded separately.
Health Centres	0.8	Per business case for Alexandria.
Dental & Podiatry Decontamination	0.9	Final instalment to implement business case.
Interpreting	1.2	Increased usage of service.
School Nurse & Mental Health Nurse Rebanding	0.6	Band 5 to band 6 for school nursing. Band 2 to band 3 for mental health nursing.
Police Custody	0.3	Part year cost only. Full year cost £1.0m.
18 Week RTT targets	1.0	Neurosurgery, Orthopaedics & Ophthalmology.
Podiatry Rebanding	0.1	Band 5 to band 6.
Children & Family Teams	1.2	This represents an estimate of the part year cost only. The full year cost may amount to £2.5m
Musculoskeletal Physiotherapy	0.5	Recurring cost only. An additional £0.4m is required non recurringly
Rates	1.0	
Discretionary Points	1.0	
Total	**17.2**	

The costs of these proposals are being scrutinised and are subject to on-going revision.

6. Costs and pressures – recurring cash releasing target

At the Board Awayday on 17 & 18 January 2013, the draft plan, showing a cash-releasing savings target of £33.7m, was discussed. Since then the Director of Finance has continued to develop and refine our estimate of cost pressures and possible investments, as discussed above.

As explained in section 5 above, the plan assumes that the pressures and investments shown above will be funded. CMT recognises that it may be prudent to increase the challenge in order to address additional pressures that may emerge and an update on this will be provided to the Board during the year as appropriate.

	£m	Para
2013/14 Funding Uplift		
Total uplift	57.8	
Carry Forward from 2012/13		
Forecast recurring over/under commitment	(0.0)	6.1
Cost Drivers		
Pay Cost Growth	(28.6)	6.2
Prescribing Cost Growth	(27.7)	6.3
Energy Cost Growth	(3.0)	6.4
Capital Charges Growth	(4.0)	6.5
Other Cost Inflation	(12.2)	6.6
	(75.5)	
Service Commitments		
Acute Services Review	(2.4)	6.7
Pressures & Investments	(17.2)	5.1
Reinstatement of Contingency	(2.8)	6.8
Release of recurring monies not needed	6.4	6.9
	(16.0)	
Cash Releasing Financial Challenge	**(33.7)**	
CRES requirement	**1.7%**	

Notes to costs and pressures

6.1. **Recurring over-commitment:** As forecast in the 2012/13 Financial Plan, the Board has produced an outturn that demonstrates that it is in recurring financial balance, so the recurring over-commitment carried forward from 2012/13 is £0.0m.

6.2. **Pay cost growth:**

Pay provision: Current indications are that a provision of 1.0% for pay uplift in 2013/14 is reasonable. On top of the 1%, provision has been made for a minimum payment of £250 to lower paid staff and the cost of additional on-call payments.

Auto enrolment: At present, a provision of £5.9m has been made for any additional costs relating to automatic enrolment of staff to the superannuation scheme. The maximum additional cost, for enrolment of all staff, is around £16.7m. The provision is based on around 65% of non-enrolled staff opting out. The £5.9m represents an increase of £1.3m on the previous initial estimate of £4.6m.

Incremental pay progression: The experience of monitoring Agenda for Change (AfC) related pay trends has helped the Board develop a better understanding of the level of additional costs which it is likely to face related to incremental pay progression in 2013/14. This has enabled us to carry out a more detailed forecast of pay growth for 2013/14. This analysis shows that the Board would expect to incur an increase in pay costs of £8.0m in 2013/14, simply due to the impact of AfC related incremental pay progression. It is highly unlikely that services will be able to absorb these costs within existing budgets, and so this is identified as an additional cost pressure to the Board in 2013/14.

Pay cost growth, therefore, comprises:

	£m
1% plus £250 pay award for those earning less than £21,000 p.a.	14.7
Auto enrolment to Superannuation	5.9
Provision for AfC related incremental progression	8.0
	28.6

6.3. **Prescribing:** The prescribing cost growth projection for 2013/14 is based on information from the Board's Prescribing Advisers. It includes provision for likely cost increases related to growth in new and existing drug treatments within Acute Sector, including new drugs approved by SMC, and makes a realistic level of provision for likely growth in volume / prices, based on current trends, related to drug treatments prescribed within Primary Care. The results of this work are summarised below.

	£m
Primary Care	13.8
Acute	13.9
Total	**27.7**

6.4. **Energy:** Energy cost growth is forecast based on the estimated volumes of gas and electricity required in 2013/14, applying prevailing prices (based on contracted advance purchase prices) for both raw energy purchases and regulator charges. The forecast change in usage for 2013/14 is minimal. The factors which have contributed to increase forecast energy costs by £3.0m in 2013/14 are:

- Further increases in gas / electricity tariffs which impact on the cost of energy advance purchased for 2013/14;
- Increase in regulator imposed charges for electricity.

6.5. **Capital charges:** Capital charges growth is anticipated to be £4.0m because of the annual indexation of capital charges in 2013/14.

6.6. **Other costs inflation:** 1.0% general provision has been set aside for inflation on non-pay costs excluding prescribing costs, energy costs, and capital charges costs. In line with the uplift, 2.76% has been set aside for inflation on legal / contractual cost commitments, and inflation on amounts payable to other NHS Boards, Local Authorities and Voluntary Organisations, related to SLAs. 2.0%, per the national agreement, has been provided to cover Resource Transfer agreements.

6.7. **Acute services review:** £2.4m has been set aside to fund the depreciation costs of the laboratories and Car Park 0 on the Southern General site. These costs were met non-recurringly in 2012/13.

6.8. **Reinstatement of contingency:** In 2012/13, as planned, £3.6m of the £5.0m contingency was released to fund the full year effect of loss of junior doctors. £2.8m of the £3.6m is now being reinstated to the contingency. The contingency for 2013/14 will be £4.2m.

6.9. **Release of existing funding:** The following recurring funding has been identified as surplus and has been released:

	£m
CNORIS	3.7
Surplus Sites	0.7
Restructuring	2.0
Total	**6.4**

7. Cost Savings Plan

Since September 2012 CMT has been working on the development of a cost savings plan for 2013/14. Proposals have now been produced that total £33.7m of cash releasing savings, enabling us to deliver recurring balance by the end of 2013/14. Based on the plans shown we are likely to be able to retain those original savings plans and to avoid increasing pressure on our operational divisions. In addition, we will deliver £26.2m of non cash releasing savings.

A financial summary is provided below.

	Total £m
Prescribing	24.0
Acute	7.3
Partnerships	2.4
Cash Releasing	**33.7**
Non Cash Releasing	26.2
Total	**59.9**

8. Risks

The financial plan has been prepared using the most up-to-date information available. However, it is recognised that circumstances can and do change during the year. This section outlines the main risks to the plan.

8.1. **Prescribing:** Prescribing costs are demand driven and vary throughout the year. Although we believe that our projections of costs and savings are realistic, we continue to monitor this area closely to ensure that we are aware of any changes in prescribing patterns.

8.2. **Winter Pressures:** We will continue to monitor the seasonal impact that winter has on demand for services. We will make funding available non recurringly to meet the additional costs incurred.

8.3. **CNORIS:** CNORIS is an area where costs can fluctuate from year to year. As far as possible SGHD tries to ensure that fluctuations in costs are smoothed between years. However, it is possible for actual costs to vary significantly from original projections.

8.4. **Contingency:** As outlined in paragraph 6.8, we have an opening contingency of £4.2m in 2013/14. We will use this contingency to fund any additional costs of auto-enrolment and other in-year pressures as they arise.

8.5. **Recurring Impact of 2013/14 Investments:** The CMT is working to ensure that, during 2013/14, it has developed sufficient cost savings initiatives to fund the full year recurring impact of investments made in 2013/14.

8.6. **NHS Board Boundary Changes:** On 4 June 2013, the Cabinet Secretary announced changes to NHS Board boundaries, with effect from April 2014, to ensure that they are aligned to local authority boundaries. It is not known at present what the financial impact of these changes will be, or if they will result in an increased challenge to the Board.

9. Indication of Financial Challenge in 2014/15 and beyond

Derek Feeley's letter of 20 September 2012, clarifying the Draft Budget 2013-14, has indicated that the minimum uplift to territorial Boards is likely to be around 2.58% in 2014/15. SGHD has given no indication of the possible uplift beyond 2014/15. It is possible that pay increases will not be as low as in recent years. In addition, as the Board will need to build up funding to cover the transitional costs and double running costs of moving in to the new South Glasgow Hospitals, the scale of the future financial challenge remains uncertain and subject to variability.

Some of the more material issues which we will have to consider as a part of our medium term financial strategy include:

- NRAC – we need to ensure that we plan for future changes in our funding stream, both as a result of NRAC changes and also as a result of the possible impact of UK austerity;
- Cross Boundary Flow – we need to ensure that our costing methodology is kept up to date and that we reduce the risk of under-recovery from other Boards;
- Integrating health and social care – we have to monitor the development of proposals and establish the impact on our medium term financial strategy;
- New South Glasgow Hospital – we need to decide how to rebalance budgets over the next few years so that we are able to cover the changes in our cost base that will occur when the New South Glasgow hospital becomes operational
- Clinical services review – we will need to prioritise and then recognise the financial implications of implementing the service redesigns that are emerging;
- Employers' National Insurance – we will need to evaluate and plan for the abolition of the employers' contracted-out rebate in 2016/17.
- Prescribing – we need to ensure that our horizon scanning is accurate and helps us to manage the risk that results from the large variability in prescribing costs;
- Research & Development – we need to ensure that we plan intelligently for ongoing reductions in future funding.

A summary of the Board's indicative financial plan for 2014/15 and beyond is provided at **Appendix 1**. This contains indicative figures for those years, based on a series of initial assumptions regarding funding and likely expenditure growth.

APPENDIX 1

Description	2014/15 (Indicative)			2015/16 (Indicative)			Notes
	Recurring £m	Non Recurring £m	Total £m	Recurring £m	Non Recurring £m	Total £m	
Opening Surplus / (Deficit)	0.0	0.0	0.0	0.0	0.0	0.0	1
Additional Funding							
General Funding Uplift	51.5		51.5	40.9		40.9	2
Other Funding Uplifts	4.6		4.6	4.6		4.6	3
PMS & PCS NCL	1.5		1.5	1.6		1.6	4
	57.6		57.6	47.1		47.1	
General Inflation, Growth etc							
Pays	22.4		22.4	14.7		14.7	5
Supplies & Services	6.9		6.9	6.8		6.8	6
Prescribing Growth	31.7		31.7	28.7		28.7	7
Energy	3.0		3.0	3.0		3.0	8
Capital Charges	2.0		2.0	2.0		2.0	9
Other Providers	5.5		5.5	4.3		4.3	10
PMS & PCS NCL	1.5		1.5	1.6		1.6	11
	73.0		73.0	61.1		61.1	
Unavoidable Service Commitments							
Acute ASR Programme - NSGH	4.4		4.4	13.0		13.0	12
Acute ASR Programme - New Adult & Children's Hospitals		1.7	1.7		1.7	1.7	13
Government Priorities	4.9	0.3	5.2	0.7		0.7	14
Unavoidable Costs	2.0		2.0	1.0		1.0	14
Local Priorities	1.6	1.7	3.3		0.8	0.8	14
	12.9	3.7	16.6	14.7	2.5	17.2	
Other Service Commitments							
General Provision for New Service Commitments	10.0		10.0	10.0		10.0	15
	10.0	(3.7)	6.3	10.0		10.0	
Cost Savings Plan							
Cost Savings Plan	(38.3)		(38.3)	(38.7)	(2.5)	(41.2)	16
	(38.3)		(38.3)	(38.7)	(2.5)	(41.2)	
In Year Surplus / (Deficit)	0.0	0.0	0.0	0.0	0.0	0.0	

APPENDIX 1

Notes

1. Represents the excess of recurring expenditure commitments over recurring funding carried forward from 2013/14.

2. Derek Feeley's letter of 10 February 2012 has indicated a likely general funding uplift of £51.4m for 2014/15. For 2015/16, an uplift of 2.0% has been assumed.

3. Assumed uplift to existing funding allocations where notification remains outstanding. This includes uplifts to a number of SGHD funding allocations, uplifts to national services and service level agreements with other Boards.

4. 0.5% uplift assumed for Primary Care Medical Services (PMS) & non cash limited funding and associated expenditure. Cost neutral impact.

5. For 2014/15 a provision of 1.0% for general pay uplifts plus an additional £5.0m to cover incremental pay progression has been made. For 2015/16, the equivalent figures are 1.0% & £0.0m.

6. This covers anticipated price inflation related to existing PPP commitments plus 1% to cover general inflation and growth on non pay costs.

7. This is based on an assessment of prescribing advisers' detailed cost projections for acute and primary care services. The percentage growth rate used is consistent with 2013/14 (6% for Primary Care and 7.8% for Acute). The pressure for the increase in new drugs is consistent with 2013/14. This is a volatile area where, depending on drug approvals, cost pressures could be significant.

8. Provision for ongoing real increase in energy costs. The provision is an estimate of the possible increase in tariff charges.

9. Provision for increase in capital charges as a result of indexation of asset values.

10. Provision for inflationary uplift of service level agreements with other NHS Boards related to NHSGGC patients and of resource transfer agreements with local authorities.

11. 0.5% provision for increased spend on PMS & non cash limited services is in line with assumption of 0.5% increase in funding allocation. The overall impact is cost neutral.

12. Provision for New South Glasgow Hospital capital charges

13. Provision for cost of Acute Strategy Project Team.

14. This grouping includes all other unavoidable service commitments including:

    - additional nurse staffing costs;
    - nurse internships / one year job guarantee;
    - possible loss of R&D income;
    - children & families;
    - police custody costs.

15. Provision for cost pressures to come. This amount required will be kept under review.

16. Cost savings values required to bring the plan into balance.