Greater Glasgow and Clyde NHS Board

23 June 2015

Director of Finance **Paper No 15/30**

2015/16 Financial Plan

Summary

The purpose of this 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 2015/16. 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 2015/16;
- A summary of the plan;
- Proposals for funding of pressures and investments.
- A summary of the cost savings plan for 2015/16 that will enable the Board to address that financial challenge and deliver a break even financial outturn for the year;
- An explanation of the risks in the plan;
- An indication of the possible financial position for 2016/17 & 2017/18, which will inform the Board's medium term financial strategy.

The enclosed financial plan has been produced to deliver a balanced outturn for 2015/16 and to anticipate the more significant challenges and risks that the Board will face subsequently

The 2015/16 plan contains a number of risks that may need to be met through the use of its contingency and/or non-recurring monies. Those risks include medicines, integration and the double running costs of the new hospital. The way in which the Board will respond to these and other financial risks is set out in the body of this paper.

Recommendation

Members are asked to approve the plan.

1. Introduction

The process for producing the Board's financial plan has followed a similar course to previous years. In late 2014 the Chief Executive outlined a draft cash-releasing savings target of £48.1m for 2015/16. Work continued over the ensuing months to refine expectations of funding and pressures. The current expected target is £40.9m.

This paper shows that proposals have since been produced that meet the financial challenge for 2015/16. However, it should be highlighted that a number of the proposed savings schemes are risky and are rated as "red". These have been explained to the Board and further Board discussions will be needed before the plans proposals are approved.

In addition to the schemes referred to above, it is important to note that this year's plan identifies a number of assumptions and risks that may require the Board to reassess its financial position during the year. These are set out in more detail in this paper. It is also important to note that the forecast financial challenge in 2016/17 is significant. In addition to a wide range of cost pressures, the position is more challenging due to possible changes to employers' national insurance. Unless this challenge alters, the Board will need to plan service changes if it is to have confidence that it can deliver a sustainable financial position over the medium term. These are also set out in more detail in this paper.

In addition to producing proposals for cash releasing savings the Board will also produce proposals for non-cash releasing savings that, when combined with our CRES plans, allow us to declare an efficiency target of 3%. This is the expectation of Scottish Government. This paper focuses on the cash releasing savings only.

The Board submitted the draft financial plan to SGHSCD in February 2015, as required, as part of its Local Delivery Plan submission. The Board then submitted an update to the draft plan to SGHSCD in March 2015, again as part of the Local Delivery Plan submission.

This paper is the final version of the Plan for the year for Board approval in June 2015.

2. Overview of Process to Develop the Financial Plan

In late 2014, the Chief Executive proposed a draft cash-releasing savings target of £48.1m for 2015/16. Of this total, £30.0m was given to the Acute division, £15.0m was given to Partnerships and £3.1m to Corporate. In addition, the net uplift for prescribing assumed that £10.0m of savings will be delivered. The Chief Executive recognised that non cash releasing schemes would also be developed to meet SGHD's target for 3% efficiency savings.

At the Board Away Day on 9 March 2015, the Chief Executive said that the likely cash-releasing savings target would be between £39m and £43m for 2015/16. The current expected target is £40.9m.

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.

3. Funding

SGHSCD has confirmed a headline funding uplift for 2015/16 of £34.7m, or 1.8%. NHSGGC does not receive a share of the funding awarded to some other Boards in order to bring them closer to NRAC parity. In addition, there are a number of specific uplifts which are described in the narrative. The total uplift is shown in the table below.

	All Boards £m	NHS GGC £m	Para
Base Uplift @ 1.8%	149.0	34.7	3.1
NRAC Parity	70.6	0.0	3.2
Integrated Care Fund	30.0	8.9	3.3
Drugs	32.2	8.2	3.4
Delayed Discharge	30.0	7.1	3.5
SGHSCD Uplift	311.8	58.9	
Income from Other Boards		8.2	3.6
Total Uplift		**67.1**	

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

3.2. 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, SGHSCD has not sought to reduce NHSGGC's core funding level. This reflects the measured approach which SGHSCD continues to take in progressing implementation of NRAC recommendations, thereby avoiding creating financial turbulence within NHS Scotland.

3.3. Total funding for the Integrated Care Fund has been increased by £30.0m to £100.0m. NHSGGC's share of the total, which recognises need, is 23.66%. The uplift of £8.9m brings the Board's total to £23.66m.

3.4. SGHSCD has recognised that Boards are experiencing significant increases in drugs costs and has provided an additional £30.0m, targeted towards Boards with the greatest pressure.

3.5. SGHSCD has provided Boards with additional funding to address delayed discharges. The funding has been distributed on the same basis as the Integrated Care Fund.

3.6. 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 £8.2m in 2015/16 This includes an additional £2.0m from NHS Highland as it stabilises its SLA value.

4. Financial Plan Summary

A summary of the financial plan is shown below. Each of the items is explained in more detail in Appendix 1. The Board is in recurring balance so there are no figures for recurring brought forwards from 2014/15 or carry forwards to 2016/17. The Board provided a recurring contingency of £5.0m in 2014/15. The contingency was only committed non recurringly in 2014/15, so the contingency for 2015/16 will remain at £5.0m.

	Mar 15 £m		May 15 £m	Section
2015/16 Funding Uplift				
Total uplift	66.9		67.1	3
Carry Forward from 2014/15				
Forecast recurring over/under commitment	(0.0)		(0.0)	
Cost Drivers				**Appendix 1**
Pay Cost Growth	(35.8)		(35.8)	1
Prescribing Cost Growth	(25.3)		(23.3)	2
Energy Cost Growth	(0.0)		(0.0)	3
Capital Charges Growth	(2.0)		(2.0)	4
Other Cost Inflation	(10.3)		(10.5)	5
	(73.4)		(71.6)	
Service Commitments				
South Glasgow University Hospitals	(3.9)		(3.9)	6
Pressures & Investments	(28.5		(32.5)	7
	(32.4)		(36.4)	
Cash Releasing Financial Challenge	**(38.9)**		**(40.9)**	
Cash Releasing Financial Challenge	**2.0%**		**2.1%**	

5. Changes made since March 2015

The Board was previously shown a different plan and several changes, some minor, have since been made. The main changes that have been reflected since the previous draft relate to:

- Funding uplift: There has been a minor change of £0.2m.
- Prescribing: We have carried out a detailed assessment of the likely increase in prescribing costs and the possible reimbursement from SG for end of life and orphan drugs. We have provided for forecast Hepatitis C treatments.
- Other cost inflation: There has been a minor change of £0.2m.
- Pressures & Investments: The provision has increased by £4.0m to reflect possible additional unscheduled care costs.

6. Cost Savings Plan

There have been several changes to the financial plan since the previous version discussed with the Board. A summary of those changes is described in section 5 above. The changes result in a revised cash-releasing financial challenge of £40.9m.

Throughout the year Directors have worked to develop of a cost savings plan for 2015/16 with a view to delivering the full year effect of the savings challenge.

Supplementing the cash releasing savings are prescribing savings of £2.2m & £7.0m which have been netted off the relevant prescribing uplifts and site closure savings of £8.0m which have been netted off the South Glasgow University Hospitals' capital charges. In addition to the cash releasing savings, we will deliver £1.5m of non cash releasing savings developed to meet SGHSCD's target for 3% efficiency savings.

A financial summary of the targets is provided below.

	FYE £m	
Acute	20.8	
Partnerships	15.0	
Corporate	5.1	
Cash Releasing	**40.9**	**2.1%**
Acute Prescribing	2.2	
Primary Care Prescribing	7.0	
Site Closures	8.0	
Total Cash Releasing	**58.1**	**2.9%**
Non Cash Releasing	1.5	
Total	**59.6**	**3.0%**

The plan shows a cash releasing target of £40.9m for the year. Although recurring savings proposals have been produced it has proved difficult for divisions to suggest adequate in-year savings to address the full financial challenge we face.

Recurring savings proposals by divisions are largely in line with the £40.9m target but it is likely that the "current year" impact in 2015/16 of savings proposed to date will only be £33.9m. This creates an in-year gap of £7.0m, which will be addressed non-recurringly in order to enter 2016/17 in financial balance.

	FYE £m	**CYE £m**	**NR £m**
Acute	20.8	13.8	7.0
Partnerships	15.0	15.0	-
Corporate	5.1	5.1	-
Cash Releasing	**40.9**	**33.9**	**7.0**

7. Risks

The financial plan shows that we have retained the Board's £5.0m recurring contingency. It is not appropriate to decide at this stage how these funds will be used but it is clearly prudent to build some central flexibility into a plan that has £3.0bn of expenditure, potential unexpected pressures and a larger number of areas of significant financial risk.

As outlined above, a number of the savings schemes are classed as "red" risk. In addition, some of the key risks that the Board will face in-year 2015/16 include medicines, integration and the transitional costs of the new hospital. These risks are described below:

- Medicines risks include the cost of new medicines, including those for Hepatitis C, and orphan / ultra-orphan and end of life medicines. In line with SGHSCD guidance, the plan has included assumptions about funding available from the proposed new medicines fund.

- In order to plan prudently for integration, the Board will need to prepare proposed budgets for each HSCP during 2015/16. To address a potentially significant financial challenge in 2016/17, it is intended that the Chief Executive and the Director of Finance will conduct a challenge process on existing partnership budgets during the summer. Any additional savings that result will be incorporated into a revised plan for discussion by the Quality & Performance Committee.

- The transitional costs of the new hospital are non-recurring in nature. In 2013/14 the Board banked £10m of non-recurring monies with SGHSCD. In addition, a further £0.9m was banked in 2014/15. The Board will draw down this funding in 2015/16. Spend will be closely monitored to ensure that it only supports agreed transitional costs.

The other main risks to the plan are set out below.

- **Savings Schemes:** The delivery of savings schemes, including the bed model, at a time when capacity is already stretched is a major challenge.

- **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.

- **Winter Pressures:** We recognise the seasonal impact that winter has on demand for services. We intend to make funding available non-recurringly to meet the additional costs incurred.

8. Indication of Financial Challenge in 2016/17 and beyond

SGHSCD has given no formal indication of the possible uplift beyond 2015/16. It is possible that pay increases will not be as low as in recent years. In addition, as we are unclear on the exact arrangements for changes to employers' national insurance contributions, 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;
- Integrating health and social care – we have to monitor the development of proposals and establish the impact on our medium term financial strategy;
- 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. This could be significant.
- 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.

Integration Joint Boards

In considering financial planning for 2016/17 it is important to note that the Integration Joint Boards may be in place from early in the new financial year with their new responsibilities for strategic planning of local services and substantial elements of unscheduled care. This has a range of implications for this financial planning process.

The Board is responsible for allocations to the new Partnerships. In approving Integration Schemes the Board agreed in principle to allocations which reflected Partnerships financial and savings plans for 2015/16 with the likelihood of enabling financial balance to be achieved in 2015/16 and the IJBs to be established on a financially viable basis. A number of the savings plans are non recurrent posing real challenges for the IJBs to deliver recurrent balance in 2016/17. It is also important to underline the substantial pressures on social care budgets which will flow through from Council allocations to IJBs from 2015/16 onwards.

A summary of the Board's indicative financial plan for 2015/16 and beyond is provided at Appendix 2. This contains significant indicative challenges for those years, based on a series of initial assumptions regarding funding and likely expenditure growth.

APPENDIX 1

Notes to pressures & investments

1. Pay cost growth:

Pay cost growth comprises:

	£m
Provision for 1% uplift	14.2
Provision for additional low pay costs	1.8
Provision for additional Superannuation	17.3
Provision for discretionary points	1.0
Provision for incremental progression – AfC	0.0
Provision for incremental progression – Consultants	1.5
	35.8

Pay provision: Current indications are that a provision of 1.0% for pay uplift in 2015/16 is reasonable. On top of the 1.0%, provision has been made for a minimum payment of £300 for staff earning up to £21,000.

Superannuation: A provision of £17.3m has been made for the recurring implications of the increase of 1.4% to 14.9% in employers' superannuation contributions.

Discretionary Points: A provision of £1.0m has been made for the on-going impact of funding additional discretionary points.

Incremental pay progression – AfC: The experience of monitoring Agenda for Change (AfC) related pay trends has helped the Board develop a detailed understanding of the effect of incremental pay progression. This has enabled us to carry out a detailed forecast of pay growth for 2015/16, using current staff turnover ratios by staff category. The pay modelling has indicated incremental pay progression for AfC will not be a cost pressure in 2015/16, so no provision has been made for additional costs.

Incremental pay progression – Consultants: Although this has not featured as a pressure in the last few years, there has been an increase in average seniority, and hence costs, of consultants recently. This is because of a fall in turnover. A provision of £1.5m has been made for the forecast additional cost in 2015/16.

APPENDIX 1

2. **Prescribing:** The prescribing cost growth projection for 2015/16 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	16.3
Acute	21.8
Less Funded by New Medicines Fund	(17.2)
Hepatitis C	11.6
Gross Uplift	32.5
Primary Care Savings	(7.0)
Acute Savings	(2.2)
Total	**23.3**

The New Medicines Fund value is an estimate of the possible additional funding that NHSGGC might receive, to offset costs incurred within the £21.8m gross increase. This is in addition to £2.9m which had been assumed recurringly in the 2014/15 plan.

Current estimate of Hepatitis C costs for 2015/16 is £20.0m. This is based on £19.0m for the new drugs regime, plus £1.0m for conventional treatments. The existing recurring budget is £8.4m, so an additional £11.6m is required

3. **Energy:** Current estimates are, given the recent oil price decline, that no additional provision is required for 2015/16.

4. **Capital charges:** Indexation of asset values is anticipated to add £2.0m to capital charges.

5. **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. 1.8% has been set aside for uplifts to Resource Transfer, inflation on legal / contractual cost commitments and inflation on amounts payable to other NHS Boards, Local Authorities and Voluntary Organisations, related to SLAs.

APPENDIX 1

6. **South Glasgow University Hospitals:** The total capital charge per the business case is £18.7m. £2.4m was made available in 2013/14 for capital charges on the Laboratory Block and Car Park 1. £4.4m was set aside recurringly in 2014/15 as an initial contribution to the additional capital charges for the new hospital and was used non-recurringly in that year. In addition, £8.0m of capital charge savings arising from site closures has been identified, leaving an additional £3.9m to be provided for the additional step-up to the full capital charges. It should be noted, however, that the Acute Division has generated savings over the past few years to fund, in full, the additional costs of the new hospitals.

	£m
Total Capital Charge	18.7
less	
Labs & Car Park 1 Already Funded	(2.4)
Funding Set Aside in 2014/15	(4.4)
Savings from Site Closures	(8.0)
Net Additional Capital Charges	3.9

7. **Pressures and Investments:** £32.5m has been set aside to fund the following pressures and investments:

	£m	
Integrated Care Step Up	8.9	Per allocation
Delayed Discharges	7.1	Per allocation
Unscheduled Care	4.0	Possible additional costs
CNORIS	3.7	Increase in national contribution
Boundary Changes Gap	3.0	Reduction in funding
Consultants' Pay 2014/15	1.5	FYE of 2014/15 costs
National Services	1.4	Renal transplant & PICU
Brain Injuries	1.3	Ongoing pressure
Satellite Radiotherapy	0.8	Contribution per business case
Research & Development	0.6	Reduction in funding
Immunisation Schemes	0.2	Per business case
	32.5	

APPENDIX 2

Description	2016/17 (Indicative)			2017/18 (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	35.7		35.7	36.4		36.4	2
Other Funding Uplifts	5.7		5.7	5.7		5.7	3
PMS & PCS NCL	1.5		1.5	1.5		1.5	4
	42.9		42.9	43.6		43.6	
General Inflation, Growth etc							
Pays	48.2		48.2	21.3		21.3	5
Supplies & Services	6.7		6.7	6.2		6.2	6
Prescribing Growth	34.8		34.8	34.8		34.8	7
Energy	3.0		3.0	3.0		3.0	8
Capital Charges	1.0		1.0	1.0		1.0	9
Other Providers	3.9		3.9	4.0		4.0	10
PMS & PCS NCL	1.5		1.5	1.5		1.5	11
	99.1		99.1	71.8		71.8	
Unavoidable Service Commitments							
Other Investments	1.1		1.1	0.3		0.3	12
	1.1		1.1	0.3		0.3	
Other Service Commitments							
General Provision for New Service Commitments	10.0		10.0	10.0		10.0	13
	10.0		10.0	10.0		10.0	
Cost Savings Plan							
Cost Savings Plan	(67.3)		(67.3)	(38.5)		(38.5)	14
	(67.3)		(67.3)	(38.5)		(38.5)	
In Year Surplus / (Deficit)	0.0	0.0	0.0	0.0	0.0	0.0	

APPENDIX 2

Notes

1. Represents the excess of recurring expenditure commitments over recurring funding carried forward from 2015/16.

2. An uplift of 1.8% has been assumed.

3. Assumed uplift to existing funding allocations where notification remains outstanding. This includes uplifts to a number of SGHSCD 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 2016/17 & 2017/18 a provision of 1.0% for general pay uplifts with a minimum of £300 for lower paid staff has been made. In addition, provision has been made in 2016/17 for possible changes in employers' national insurance contributions.

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' outline cost projections for acute and primary care services. For 2016/17 & 2017/18, indicative values based on general uplifts in 2015/16 have been used. 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. This grouping includes all other unavoidable service commitments including:

- satellite radiotherapy;
- possible loss of R&D income.

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

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

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