

Board

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Director of Finance

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2016/17 - Financial Projections and Financial Planning Process

Introduction

The attached report projects the Boards financial position into 2016/17, and provides a high level summary of the financial planning process currently underway.

The projection is based on the Boards own assessment of the financial landscape, and incorporates the outcome of the Scottish Government's budget to the Scottish Parliament in December 2015.

The report highlights the significant financial challenge facing NHSGGC in 2016/17. The Board is required to deliver cash releasing savings of £69million in-year to break-even.

The report highlights the key elements of income and expenditure underpinning the financial challenge, together with explanation of financial pressures and potential investments.

Recommendation

The Board is asked to note the financial projection into 2016/17 and the planning process currently underway.

Directors and Management are working to identify and design savings schemes to address the financial gap identified. These will be finalised and presented to the Board in due course, together with analysis of impacts and risks.

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2016/17 - Financial Projections and Financial Planning Process

Board Meeting February 2016



1. Introduction

- 1.1 This report projects the Boards financial position into 2016/17, and provides a high level summary of the financial planning process currently underway.
- 1.2 The projection is based on the Boards own assessment of the financial landscape, and incorporates the outcome of the Scottish Government's budget to the Scottish Parliament in December 2015.
- 1.3 The report highlights the significant financial challenge facing NHSGGC in 2016/17.
- 1.4 The report highlights the key elements of income and expenditure underpinning the financial challenge, together with explanation of financial pressures and potential investments.
- 1.5 As part of the overall financial planning process, Directors and Management are working to identify and design savings schemes to address the financial gap identified. These will be finalised and presented to the Board in due course, together with analysis of impacts and risks

2. Background and Context

- 2.1 In line with every year, the Board has been working through the financial planning cycle for several months. The financial planning process for 2016/17 has been particularly challenging as we interpret the amended Acute structure, including the running of the new Queen Elizabeth University Hospital, and the formation of the six Integrated Joint Boards (IJBs).
- 2.2 As we survey the financial landscape into 2016/17 and beyond, it is imperative the Board establish a process which ensures financial decisions which relate to a coherent strategic direction. This involves moving forward in concert with the IJBs. The Board now shares responsibility for strategic planning with the IJBs but retains responsibility for the allocation of the NHS budget between the services for which we retain direct operational responsibility and those managed by IJBs. IJBs need to develop and approve integrated service and financial plans for the NHS and Council services
- 2.3 These are the foundations of the current financial planning process, which involve the presentation to the Board of a number and range of savings schemes. This will prove particularly challenging, as highlighted by the financial projections documented below. The outcome of this process will form the 2016/17 Financial Plan and underpin the Local Development Plan (LDP) in March 2016.

3. STRATEGIC POSITION

3.1 The Board has a detailed strategic direction which sets our purpose as:

“Deliver effective and high quality health services, to act to improve the health of our population and to do everything we can to address the wider social determinants of health which cause health inequalities.”

3.2 That purpose is amplified with five strategic priorities to move us towards achieving that purpose, these are:

- Early intervention and preventing ill-health.
- Shifting the balance of care.
- Reshaping care for older people.
- Improving quality, efficiency and effectiveness.
- Tackling inequalities.

3.3 The Board needs to set a fresh strategic direction for 2016/17 in Partnership with Integration Joint boards which are developing their own strategic plans. In many respects we have the material to set that clear strategic direction and to develop, alongside IJBs, the detailed service change plans which we need to put in place to deliver.

3.4 NHSGCC has:

- A mental health strategy progress through final capital development to deliver modern mental health services.
- A Clinical Strategy which maps out a clear direction for acute services, although not yet translated into detailed service plans and with a number of delivery challenges to be resolved.
- A pattern of change in community services which has improved the range and efficiency of those services but not yet the more radical developments to enable us to change the acute sector.
- Emerging local thinking about the development of primary care which we need to use to shape the national direction.

3.5 However, the financial and policy constraints within which we are working present real challenges to coherently move forward the five strategic priorities which will deliver our purpose. One of the key aims of the 2016/17 (and beyond) planning process is to make changes which align with our strategic direction, priorities and clinical strategies and enable us to deliver financial balance.

3.6 Further points of context are:

- The increasing demand (scheduled and unscheduled) and costs of acute services, means that we have made minimal progress in shifting resources to substantially develop primary care and community services;
- There are major workforce issues, filling staffing gaps is a major current cost problem, driven by:
 - medical workforce issues, which will only worsen;
 - staffing models which increase the unit costs of our current services; and
 - high levels of sickness absence.
- Immediate pressures on number of points on the system:
- Social care budget pressures including major issues in the care home sector;
- GP services struggling with demand pressures;
- real pressures on services which are impacted on by increasing numbers of vulnerable people;

- Drugs costs driven by the changed national regime.

4. PROPOSED PRINCIPLES FOR PLANNING

4.1 In order to ensure that we make financial decisions which align with our strategic direction we have established the principles set out in this section. These have shaped the proposed work programme in the final section of this paper. The principles are:-

- Make financial decisions for 2016/17 which are in line with and enable us to move in coherence with our purpose, strategic direction and related strategies.
- Continue to give priority to patient facing services and ensuring these are always high quality and safe.
- Continuing to play our part in trying to reduce the inequalities which affect our population and have a strong focus on equality impacts in making our decisions;
- Ensure that our decisions do not have unintended consequences such as unplanned transfers of pressures, responsibilities or costs to other parts of the system;
- Our approach is whole system not localised savings targets, and is driven by:-
 - cost scrutiny in every part of the organisation, led by the local teams;
 - a whole system programme of change to deliver cost reduction;
- Our aim is to continue to deliver the key Scottish Government targets.
- We focus first on changes which make clinical and service sense and increase efficiency and productivity and reduce our unit costs;
- Where we propose to restrict access to services or stop planned developments we will have a clear framework for prioritisation of patient care linked to clinical benefit.
- We are committed to shifting the balance of care and resources but also recognise the pressures on acute services.
- All new national initiatives and proposals which have financial implications will be tested against our strategy and reported to Board for decision.
- Our decision making is under pinned by evidence about what delivers the safest, highest quality and most cost effective healthcare.
- We explicitly consider risks and benefits in making decisions;
- We remain committed to the importance of innovation and research to shape changes in the way we deliver care;
- We will work across boundaries with other Health Boards and public bodies to identify ways in which we can deliver services more efficiently.

We recognise that the scale of the challenge we face means that we are entering a period of significant change. Fundamental principles of our decision making are:-

- A commitment to engagement with patients and the wider public;
- A commitment to fully engage with our staff and their representatives in shaping, planning and delivering the changes to services which will be required.

5. DETAILED FINANCIAL POSITION

- 5.1 The Scottish Government set out its budget to the Scottish Parliament in December 2015. This set out an up lift of £511 million or 5.3 % to the Health budget. The table below highlights the key strands of funding available to NHS Scotland territorial Health Boards, and demonstrates how these translate for NHSGGC.

TABLE 1: The total uplift 2016/17

	All Boards £m	NHS GGC £m	Paragraph reference
Base Uplift @ 1.7%	147.0	33.7	2
NRAC Parity	30.0	0.0	3
Social Care Funding	250.0	59.1	4
Transfer of Funding to Baseline	49.0	0.0	5
SGHSCD Uplift	476.0	92.8	
Income from Other Boards		6.9	6
Reduction in Bundled Funding		(7.0)	7
Reduction in New Medicines Fund		(6.5)	8
Total Uplift		86.2	

- 5.2 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.
- 5.3 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. This reflects the measured approach which SGHSCD continues to take in progressing implementation of NRAC recommendations, thereby avoiding creating financial turbulence within NHS Scotland.
- 5.4 SGHSCD has provided £250.0m, to be directed to Integrated Health and Social Care Partnerships, to ensure improved outcomes in social care.
- 5.5 SGHSCD has identified £49.0m as a transfer of funding to Board baselines. £7.1m for delayed discharges and £3.5m for the full year effect of 2014/15 funding, was received recurrently in 2015/16.
- 5.6 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 £6.9m in 2016/17 This includes a further £2.0m from NHS Highland as it stabilises its SLA value.
- 5.7 SGHSCD has confirmed that funding outwith Boards' recurring allocations will be reduced. The total reduction is likely to be £7.0m, comprising Alcohol (£2.1m), Drugs (£2.2m) & other bundled funding (£2.7m).

- 5.8 In 2015/16 the SGHSCD distributed £90m of receipts from the Pharmaceutical Price Regulation Scheme as income to Boards on an NRAC basis. For NHSGGC this represented £20.1m of income. In our initial 2016/17 financial planning, in the absence of any other information, we assumed a similar 2015/16 position. However, we have now been informed that in 2016/17, SGHSCD is now estimating the receipts to be approximately £60m (down from £90m). As such, our NRAC share in 2016/17 would be £13.6m (£60m * 22.65%). This represents a reduction of £6.5m of income.
- 5.9 A summary of the financial position plan is shown below. Each of the items is explained in more detail in Appendix 1. The Board provided a recurring contingency of £5.0m in 2015/16. The contingency was only committed non-recurrently in 2015/16, so the contingency for 2016/17 will remain at £5.0m.

TABLE 2: The overall financial position 2016/17

	Jan 16 £m	Reference Appendix 1
<u>2016/17 Funding Uplift</u>		
Total uplift	86.2	Refer above
<u>Carry Forward from 2015/16</u>		
Forecast recurring over/under commitment	(0.0)	-
<u>Cost Drivers</u>		
Pay Cost Growth	(50.5)	Note 1
Prescribing Cost Growth	(24.5)	Note 2
Energy Cost Growth	(0.0)	Note 3
Capital Charges Growth	(4.0)	Note 4
Other Cost Inflation	(10.1)	Note 5
	(89.1)	
<u>Service Commitments</u>		
Social Care	(59.1)	Note 6
Pressures	(7.0)	Note 7
	(66.1)	
Cash Releasing Financial Challenge	(69.0)	
Cash Releasing Financial Challenge	3.3%	

- 5.10 As part of the overall financial planning process, Directors and Management are working to identify and design savings schemes to address the financial gap identified. These will be finalised and presented to the Board in due course, together with analysis of impacts and risks.
- 5.11 A number of key points need to be reflected into that work programme:-
- prescribing savings of £3.0m & £5.0m which have been netted off the relevant prescribing uplifts.
 - Reductions in prices of drugs for the treatment of Hepatitis C will release £9.1m.

5.12 As we develop the plan we will need to assess risks. It is proposed we retain 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.

5.13 In addition, some of the key risks that the Board will face in-year 2016/17 include medicines and integration of health and social care. 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 will include assumptions about funding available from the proposed new medicines fund.
- 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 2016/17 with the likelihood of enabling financial balance to be achieved in 2016/17 and the IJBs to be established on a financially viable basis. A number of the savings plans may be 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 2016/17 onwards.

5.14 Other key 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.
- Referral to Treatment Standard: To help support delivery of referral to treatment performance, SGHSCD has made available additional non-recurring funding. If funding is no longer available, this may have an impact on our performance.
- Winter Pressures: We recognise the seasonal impact that winter has on demand for services. We need to consider whether we factor in funding non-recurringly to meet the additional costs incurred.
- Social Care: The £59.1m "pass through" of funding to social care may have limited impact on demand for acute services. The final plan will need to reflect agreement with HSCPs on how that funding can deliver a positive financial and service impact.

APPENDIX 1

Notes to pressures & investments

1. Pay cost growth:

Pay cost growth comprises:

	£m
Provision for 1% uplift	15.3
Provision for additional low pay costs	4.2
Provision for additional Employers' National Insurance	25.0
Provision for discretionary points	1.0
Provision for auto-enrolment to Superannuation	5.0
	50.5

Pay provision: Current indications are that a provision of 1.0% for pay uplift in 2016/17 is reasonable. On top of the 1.0%, provision has been made for a minimum payment of £400 for staff earning up to £22,000.

Superannuation: A provision of £25.0m has been made for the abolition of the employers' 3.4% "contracted out" rebate for staff members of the NHS Superannuation scheme.

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

Auto-enrolment to Superannuation: A provision of £5.0m has been made for the estimated cost of employees remaining in the superannuation scheme after auto-enrolment.

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 2016/17, 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 2016/17, so no provision has been made for additional costs.

Incremental pay progression – Consultants: There was an increase in average seniority, and hence costs, of consultants in the past two years. This is because of a fall in turnover. However, the pay modelling has indicated incremental pay progression for Consultants will not be a cost pressure in 2016/17, so no provision has been made for additional costs.

APPENDIX 1

2. **Prescribing:** The prescribing cost growth projection for 2016/17 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	20.7
Acute	20.9
Hepatitis C	(9.1)
Gross Uplift	32.5
Primary Care Savings	(5.0)
Acute Savings	(3.0)
Total	24.5

Current estimate of Hepatitis C costs for 2016/17 is £10.9m. The existing recurring budget is £20.0m, so a reduction of £9.1m is required

3. **Energy:** Current estimates are, given the recent oil price decline, that no additional provision is required for 2016/17.
4. **Capital charges:** Indexation of asset values is anticipated to add £4.0m 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. 1.7% 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.
6. **Social care:** SGHSCD has provided £59.1m, to be directed to Integrated Health and Social Care Partnerships, to ensure improved outcomes in social care.
7. **Pressures and Investments:** £7m has been set aside to fund the following key pressures and potential investments:

	£m	
Nursing Skill Mix	4.0	Potential additional costs
National Services	1.3	Deep Brain Stimulation
Robotic Prostatectomy	0.7	Per business case
Satellite Radiotherapy	0.7	Per business case
Research & Development	0.3	Reduction in funding
	7.0	

Supporting Notes

1. Represents the excess of recurring expenditure commitments over recurring funding carried forward from 2016/17.
2. An uplift of 1.7% 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 2017/18 & 2018/19 a provision of 1.0% for general pay uplifts with a minimum of £400 for lower paid staff has been made.
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 2017/18 & 2018/19, indicative values based on general uplifts in 2016/17 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:
 - Robotic prostatectomy full year effect;
 - 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.