

NHS Greater Glasgow & Clyde

NHS Board Meeting

19th February 2019



**Mr Mark White
Director of Finance**

Paper No: 19/09

2019/20 Financial Outlook

Recommendation

Board members are asked to note the initial financial outlook and assumptions for 2019/20.

Purpose of Paper

The purpose of this report is to provide the Board with an initial overview of 2019/20 financial projections and underlying assumptions.

Key Issues to be Considered

The impact of the Scottish Government budget on the Board's financial position and the scale of the financial challenge it faces in 2019/20.

Any Patient Safety/Patient Experience Issues

No.

Any Financial Implications from this Paper

No.

Any Staffing Implications from this Paper

No.

Any Equality Implications from this Paper

No.

Any Health Inequalities Implications from this Paper

No.

Has a Risk Assessment been carried out for this issue? If yes, please detail the outcome.

No.

Highlight the Corporate Plan priorities to which your paper relates

Use of resources.

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NHS Greater Glasgow and Clyde

2019/20 Financial Outlook – Initial Draft (February 2019)



1. Introduction

- 1.01 The purpose of this report is to provide the Board with an initial overview of 2019/20 financial projections and underlying assumptions. This will obviously be dependent on both the final Scottish Budget, the continued work and refinement on the underlying financial assumptions and the final audited out-turn for 2018/19.
- 1.02 The introduction of the Financial Improvement Programme (FIP) and significant cost containment measures in 2018/19 have been successful in reducing the Boards underlying recurring deficit. However, the continuing deficit, added to the continual cost pressures in pay and prescribing, it is clear the savings required again present a significant challenge into 2019/20. The Board will be required to take difficult spend and service decisions to achieve break-even.
- 1.03 Whilst the investment in establishing the FIP in 2018/19 will be reduced as planned, the Programme will evolve into 2019/20. It is imperative the rate of achievement and the related cost containment measures remain a key priority and area of focus for all staff and management. In addition, the work on clinical productivity and efficiency will require to yield improvements in performance to ensure the Board contributes to the Waiting Times Improvement Plan 2018 and to meet the Board's Corporate Objectives including achieving financial breakeven.

Current Position

- 1.04 Work is ongoing to assess and challenge the assumptions and to identify FIP schemes to address the financial gap. Based on the assumptions outlined within this paper, work is also ongoing to identify the financial settlement offer to HSCPs. It is anticipated this will again be agreed by the deadline of 31 March 2019.
- 1.05 A timeline for completion and approval of the 2019/20 Financial Plan is outlined later in this document.
- 1.06 Members of the Board are asked to note the paper and the initial assessment of the 2019/20 financial challenge and planning process.

2. Projections and Assumptions

The Budget

2.01 The budget was announced in the Scottish Parliament on 12th December 2018. The following are the key areas of focus;

- Waiting times improvement;
- Investment in mental health;
- Delivering greater progress and pace in the integration of health and social care; and
- Evidencing a further shift in the balance of spend to mental health and to primary, community and social care.

2.02 In terms of funding, the settlement letter outlined;

- Territorial Boards will receive a minimum baseline uplift of 2.5%, which includes funding for the 2019-20 pay award.
- An additional £149m investment across core areas;
 - Primary Care – Increase of £35m to £155m; expansion of multidisciplinary teams and GPs as expert medical generalists and clinical leaders.
 - Waiting Times – Increase of £90m to £146m; to support the Waiting Times Improvement Plan.
 - Mental Health and CAMHS – Increase of £14m to £61m; additional 800 workers. Must be a real terms increase.
 - Trauma and Cancer – increase of £10m to £30m for the implementation of the major trauma networks and the cancer strategy.
- The HSCPs NHS settlement must deliver a real terms uplift in baseline funding, before provision of funding for pay awards, over 2018/19 cash levels.
- £120 million will be allocated from the Health Budget to Local Authorities for integration, Living Wage, uprating free personal care, and school counselling services.
- £40 million directly to support the Carers (Scotland) Act 2016 and extending free personal care to under 65s.
- This funding is to be additional to each Council's 2018-19 recurrent spending on social care and not substitutional.
- Capital funding is unchanged.

The Financial Challenge Faced by NHSGGC in 2019/20

2.03 The Table below summarises the initial overall financial projection for the Board, with details provided in the subsequent notes.

| | £m |
|--------------------------------------|----------------|
| Total New Resources | 63.9 |
| Carry Forward from 2018/19 | |
| Recurring Deficit b/f | (46.3) |
| Cost Drivers | |
| Pay Cost Growth | (45.9) |
| Prescribing - Acute | (18.0) |
| Prescribing - Primary Care | (10.0) |
| Supplies, PPP & Other Inflation | (9.9) |
| Cost Pressures | (25.1) |
| Cost Drivers | (155.2) |
| Cash Efficiency Challenge | (91.3) |
| | |
| add back IJB Uplift | (17.9) |
| add back IJB Expenditure | 23.5 |
| Net Cash Efficiency Challenge | (85.7) |

2.04 As outlined below, the uplift equated to £55.6m, or 2.54% of the Boards baseline budget brought forward from 2018/19. 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 specific uplifts which are described in the subsequent narrative.

| | All Boards £m | NHSGGC £m | PARA |
|------------------------------|--------------------------|----------------------|-------------|
| New Resources | | | |
| Baseline Increase @ 1.8% | 172.5 | 39.3 | 2.05 |
| Additional for Pay Awards | 70.9 | 16.3 | 2.05 |
| NRAC Parity Adjustment | 22.9 | | 2.06 |
| | <u>266.3</u> | <u>55.6</u> | |
| Uplift from Other Boards | | 8.3 | 2.07 |
| Change in New Medicines Fund | | | 2.08 |
| Employers' Superannuation | | | 2.09 |
| Total New Resources | | <u>63.9</u> | |

- 2.05 A general uplift is provided by Scottish Government to support Boards in meeting expected additional costs related to pay, supplies (which includes prescribing growth and utilities charges) and capital charges. For 2019/20, there are 2 components to the general uplift, a baseline uplift of 1.8% to deliver a real-terms uplift in baseline funding plus an additional amount to help meet the cost of the 2019/20 public sector pay policy.
- 2.06 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.
- 2.07 By applying an agreed general inflationary uplift to the value of service level agreements with other Boards related to patient services provided by NHSGGC, NHSGGC can reasonably expect to receive further income of around £8.3m in 2019/20.
- 2.08 National PPRS receipts which are used to support the New Medicine Fund are estimated remain at 2018/19 levels, with no change in the allocation to NHSGGC.
- 2.09 It is proposed that, from 1 April 2019, employers' superannuation contributions increase from 14.9% to 20.9%. Scottish Government has said that it is reasonable for NHS Boards to plan on the basis that the cost of the increase will be fully funded. At this stage, as inclusion would have no impact on the bottom line, all costs and income exclude the impact of the superannuation increase.

Pay Cost Growth

2.10 Pay cost growth comprises:

| | £m | PARA |
|---|-------------|-------------|
| Pay Uplift | 43.5 | 2.11-2.12 |
| Discretionary Points | 1.7 | 2.13 |
| Incremental Progression | 0.7 | 2.14 |
| Employers' Superannuation Contributions | | |
| Total Pay Uplift | 45.9 | |

- 2.11 A 3-year pay deal for Agenda for Change staff commenced on 1 April 2018. The deal promised that the value of the top pay point of Bands 1 to 8c would increase by 9% cumulatively over 3 years from 2018/19 to 2020/21, with a £1,600 flat rate annual increase for higher paid staff. The 9% cumulative figure breaks down to 3.00% in 2018/19, 2.80% in 2019/20 and 2.95% in 2020/21.
- 2.12 In addition, existing pay bands will be restructured and the number of pay points will be reduced to 2 points for Bands 2, 3, 4, 8a, 8b, 8c, 8d & 9 and 3 points for Bands 5, 6 & 7. This will enable staff in Bands 2 to 7 to access the top of the pay band more quickly than in the old system. This has implications for the expected total cost of pay uplifts, marginally in 2019/20, but especially in 2020/21 when the most significant changes occur.
- 2.13 Discretionary points: A provision of £1.7m has been made for the on-going impact of funding additional discretionary points.
- 2.14 Incremental pay progression: The experience of monitoring pay trends has helped NHSGGC 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 2019/20, using current staff turnover ratios by staff category. The pay modelling has indicated that staff turnover by itself will not result in a cost pressure, but the banding changes will result in a cost pressure of £0.7m in 2019/20, so provision has been made for this amount.
- 2.15 In general, in 2019/20 the lower points on each scale will be uplifted by more than 2.8%, whilst points in the middle and upper will be uplifted by less than 2.8%. However, in 2020/21 the effect of changes to individual points is expected to add around 4.0% to the Agenda for Change paybill, rather than the 2.95% headline uplift.

Prescribing

- 2.16 The prescribing cost growth projection for 2019/20 is at a very early stage of development and is little more than a marker based on previous years. 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.
- 2.17 Examples were given at the recent Board seminar of the current PACS process for granting access to expensive ultra-orphan drugs. The Board is now experiencing the first requests for these types of drugs. It is highly likely these will be unaffordable for the Board in 2019/20 and choices will require to be made around granting unfettered access.

Other Costs Inflation

- 2.18 1.0% general provision has been set aside for inflation on non-pay costs excluding prescribing costs, energy costs, and capital charges costs. 2.54% 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.

Pressures and Investments

- 2.19 An initial list of potential cost pressures submitted by Directors and Managers totalled £25.1m. Each pressure is currently undergoing challenge and due diligence. The revised list will be presented firstly to the Corporate Management Team for debate and approval and then to Board for final approval to ensure all major decisions on resource utilisation are closely aligned with the Board's Corporate Objectives. Again, this may involve an element of choice due to overall affordability. Some examples of potential pressures are:

- Energy costs - £5.1m;
- Paid as if at work - £2.6m;
- National services - £2.6m;
- Inflationary and step up costs of IT contracts - £2.3m; and
- Pension auto enrolment - £2.0m.

IJB Uplift & Expenditure

- 2.20 NHSGGC's financial plan has to set out the Board's financial position including delegated health services which are managed by Integrated Joint Boards (IJBs). However, to highlight the scale of the challenge to be addressed by the Acute Division and Corporate Departments the shares of uplifts and expenditure to be managed by IJBs need to be deducted.
- 2.21 On the uplift side, IJBs will get 1.8% on their base recurring budgets, plus a share of the additional £16.3m for pay awards, based on their shares of pay costs. This comes to a total of £17.9m, being £14.6m base uplift plus an additional £3.3m as a top-up towards additional pay costs.
- 2.22 On the expenditure side, some estimated additional cost pressures are £9.3m for salaries, £3.2m for supplies, £1.0m for Health Visitor re-grading and £10.0m for GP prescribing.

Net Cash Efficiency Challenge

- 2.23 After providing for cost pressures, the possible investments outlined in paragraph 7 and adjusting for those items to be managed by IJBs, the initial headline financial challenge is £85.7m, equivalent to 6.2% of the total Acute and Corporate budgets.
- 2.24 This overall position continues to be assessed and refined.
- 2.25 In terms of a timetable to for the budget setting process, the IJB settlement and the 2019/20 Financial Plan, the following are the key target milestones;
- Due diligence on the development/pressures (Mid-Feb)
 - Establishing budgets vis-a-vis cost pressures (Mid-Feb)
 - Agreeing HSCP budgets (Feb-March)

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- Evolving FIP for 2019/20 and link to Demand and Capacity and MFT (Feb-March)
- Drafting a 3-year Financial Plan (linked to Waiting Times and Annual Plan) (Feb-March).
- Approved at IJBs March, F&P 4th April and Board 16th April.