Meeting of Lanarkshire NHS Board
25th January 2017

NHS Lanarkshire
Kirklands
Fallside Road
Bothwell
G71 8BB
Telephone: 01698 855500
www.nhslanarkshire.org.uk

SUBJECT: FINANCE REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

1. PURPOSE

This paper is coming to the Board:

For approval	☒	For endorsement	☐	To note	☒

2. ROUTE TO THE BOARD

As agreed, this report comes straight to the Board from the Director of Finance. The Operating Management Committees receive financial reports for their own area.

3. SUMMARY OF KEY ISSUES

At the end of December 2016 the Board is reporting a £2.370m over spend, which is £4.061m better than trajectory. The improvement arises mainly from a combination of additional income (approximately £1.2m), a further £1.3m recurring savings and approximately £1.5m from continuing under spends in corporate and community services including minor reserves not required. With continued tight cost control this provides confidence that we will be able to deliver the agreed year end position.

4. STRATEGIC CONTEXT

This paper links to the following:

Corporate objectives	☒	LDP	☒	Government policy	☐
Government directive	☒	Statutory requirement	☒	AHF/local policy	☐
Urgent operational issue	☐	Other	☐		

5. CONTRIBUTION TO QUALITY

This paper aligns to the following elements of safety and quality improvement:

Three Quality Ambitions:

Safe	☐	Effective	☒	Person Centred	☐

Six Quality Outcomes:

Everyone has the best start in life and is able to live longer healthier lives; (Effective)	☐
People are able to live well at home or in the community; (Person Centred)	☐
Everyone has a positive experience of healthcare; (Person Centred)	☐
Staff feel supported and engaged; (Effective)	☐
Healthcare is safe for every person, every time; (Safe)	☐
Best use is made of available resources. (Effective)	☒

6. MEASURES FOR IMPROVEMENT

Achievement of LDP agreed position for revenue resource limit, capital resource limit and efficiency target.

7. FINANCIAL IMPLICATIONS

As set out in the paper.

8. RISK ASSESSMENT/MANAGEMENT IMPLICATIONS

As set out in the paper.

9. FIT WITH BEST VALUE CRITERIA

This paper aligns to the following best value criteria:

Vision and leadership	☐	Effective partnerships	☐	Governance and accountability	☒
Use of resources	☒	Performance management	☒	Equality	☐
Sustainability	☒				

10. EQUALITY AND DIVERSITY IMPACT ASSESSMENT

An E&D Impact Assessment has not been completed.

Yes ☐
No ☒

This is a factual position report prepared from information in the financial ledger. It contains no proposals with an equality and diversity impact.

11. CONSULTATION AND ENGAGEMENT

This is a factual position report prepared from information in the financial ledger. It contains no proposals on which to consult.

12. ACTIONS FOR THE BOARD

The Board is asked to note the contents of the report.

Approval	☐	Endorsement	☐	Identify further actions	☐
Note	☒	Accept the risk identified	☐	Ask for a further report	

13. FURTHER INFORMATION

For further information about any aspect of this paper, please contact *Laura Ace, Director of Finance* Telephone: 01698 *858190*.

Laura Ace
Director of Finance

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SUBJECT: FINANCE REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

1. PURPOSE

The attached report provides the Board with a review of financial performance for the 9 months to December 2016.

2. CONTENT/SUMMARY OF KEY ISSUES

With the growth in drugs, pay and supplies expenditure forecast to outstrip the growth in income, the Boards opening local delivery plan (LDP) relied on making an estimated £45.551m of efficiencies to stay within its Revenue Resource limit budget (RRL) whilst delivering agreed performance levels. In March 2016 the Board was £10.4m short on plans to guarantee the LDP could be delivered within budget.

A combination of strong achievement against efficiency schemes, strong general cost control, the benefit of additional funding and slightly shallower cost growth than forecast in some areas, means there is now confidence that the Board will close the opening gap .

At the end of December 2016 the Board is reporting expenditure £2.370m over budget. Although still in deficit, the LDP trajectory envisaged that, by this point, we would be £6.431m over budget due to a time lag between expenditure being incurred and savings schemes taking effect. The improvement arises from a combination of savings being secured earlier and to a higher degree, £1.2m additional income and approximately £1.5m from continuing under spends in corporate and out of area services including minor reserves not required. With 9 months' results available, there is now confidence that year end targets will be met.

3. CONCLUSION

The Board is asked to note the contents of the report and confirm it is content with the proposed financial management approach.

4. FURTHER INFORMATION

For further information or clarification of any issues in this paper, please contact:
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NHS LANARKSHIRE

FINANCE REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

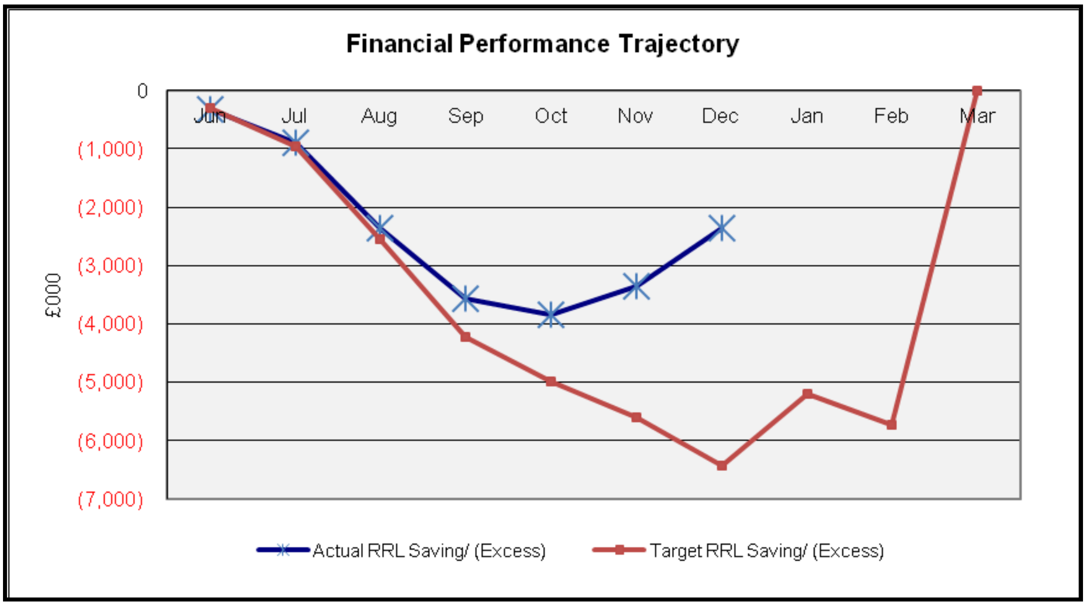
1. Introduction

1.1. The purpose of this report is to provide the Board with a summary of revenue and capital financial performance covering the nine months of 2016/17.

2. Overview

2.1. Following confirmation of £2m additional funding secured from SGHSCD for NRAC and recognition of £4m of savings still to be identified, the 3 year Financial Plan 2016/17 – 2018/19 submitted on 5th July 2016 was approved by SGHSCD.

2.2. The LDP financial trajectory (graph below) reflected a pattern whereby the already secured savings were extracted in the first quarter but the longer time frame projects and those still to be identified were back loaded. Earlier achievement of some savings (most notably the property sales), additional income and continuing under spends in corporate services including minor reserves not required, shows the Board still in deficit but £4.061m ahead of original plans.



2.3. The financial position to the end of December 2016 (Table 1) reflects this improvement and shows a reduction on over spend to £2.370m. With the earlier prescribing over spend eliminated, both partnerships are showing an under spend. Whilst in previous years this would offset other overspends, under the IJB regime this should be ring fenced for IJB carry forward. We are in dialogue with SG about how this should be shown in the year end forecasts.

Table 1 - Summary Financial Position 2016/17	**YTD Budget £M**	**YTD Actual £M**	**YTD Variance £M**
Acute Operating Division	253.898	257.420	(3.522)
North Lanarkshire Health & Social Care Partnership	188.831	187.958	0.873
South Lanarkshire Health & Social Care Partnership	135.052	134.624	0.428
Primary Care Other Services	121.902	121.749	0.153
Headquarters / Corporate Functions	111.658	110.059	1.599
Service Level Agreements / Other Healthcare Providers	135.844	134.891	0.953
NHSL - wide	5.600	8.454	(2.854)
Net operating costs	**952.785**	**955.155**	**(2.370)**

3. Revenue Resources

3.1. At the end of December 2016 confirmed allocations bring the Core Revenue Resource Limit to £1,208.474m and the Non Core Revenue Resource Limit to £30.049m. Annex A provides further detail.

3.2. The December 2016 Core Revenue Resource Limit also includes a further £0.950m access support funding for waiting times delivery, £0.178m for Pharmacists in GP Practices from the Primary Care fund, £0.217m for distinction awards paid to NHS Consultants, £0.062m in respect of equal pay claims now settled and a further £1m of funding from the access unit for Lanarkshire to source and coordinate extra capacity for all Scottish Boards.

3.3. The December 2016 Non Core Revenue Resource Limit includes confirmation of our successful bid for funding to replace obsolete items under certain conditions and funding in respect of technical accounting entries.

3.4. Board shares of the New Medicines Fund have still to be confirmed. At the time of preparing the financial plan Boards were informed of a likely decrease in the PPRS receipts which were funding this allocation from £85m to £60m nationally. The £3.2m potential loss from this was built in to the financial plan. In July Scottish Government indicated that the PPRS receipts could reduce further to £45m. This was flagged previously to the Board as a risk. In October S.G confirmed the lower level was increasingly likely and we should use this in our financial planning however they also indicated that, as this funding stream is generated by an agreement with the pharmaceutical industry that returns funding to the Department of Health if expenditure on branded drugs grew above an agreed percentage, lower receipts should be matched with less steep increases in the expenditure. As a result we have dropped both our income and our drug expenditure forecasts by £1.864m.

3.5. Although the allocation adjustment has not yet been processed through Annex A, we are progressing the capital plan on the basis of the budget set out in annex B as discussed at the November Board. The capital plan in annex B sets out the proposed revised plan.

3.6. There are further allocations still to be notified mostly of a non recurring nature.

4. Acute Division

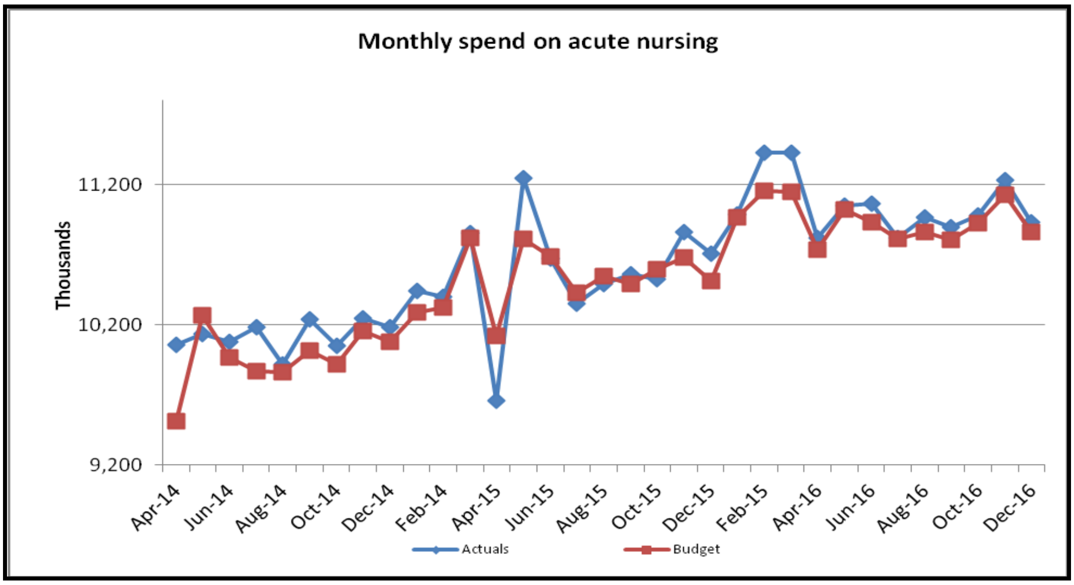
4.1. The Acute Division is reporting an over spend of £3.522m for the period to the end of December 2016 (last month, £3.201m), as detailed in Table 2. The monthly over spend has reduced from £0.486m last month to £0.321m. This time last year the Acute Division was £4.412m overspent and given £3.915m of budgets have since been handed over as realised savings, this demonstrates ongoing cost control.

4.2.

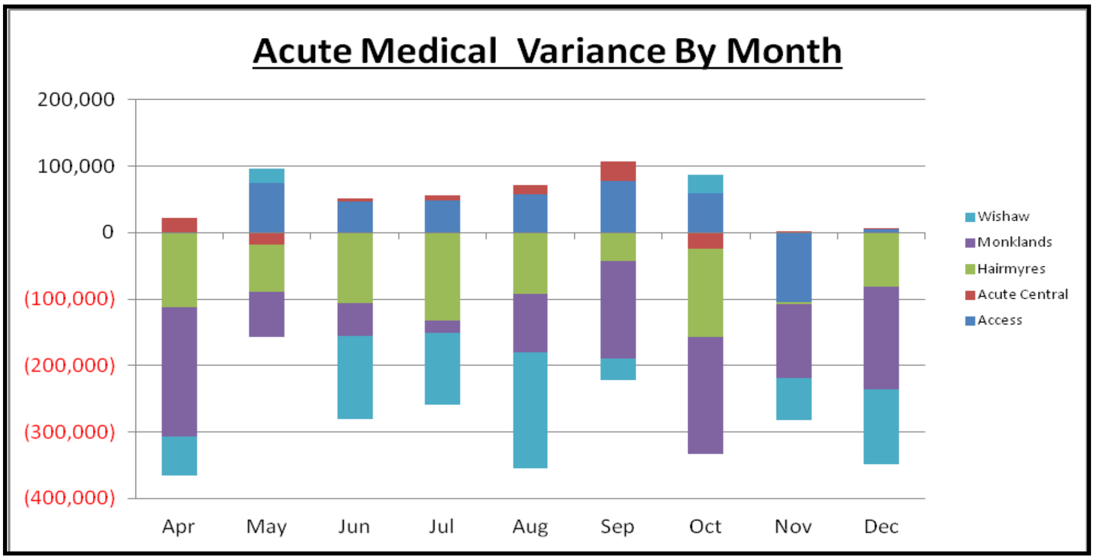
Table 2 - Acute Division 2016/17

	Budgeted Operating Costs 31/12/2016 £M	Actual Operating Costs 31/12/2016 £M	Actual saving / (excess) 31/12/2016 £M
Pay	204.564	207.385	(2.821)
Non Pay	71.263	71.966	(0.703)
Healthcare Purchases	1.085	1.083	0.002
Gross operating costs	276.912	280.434	(3.522)
Less: miscellaneous income	(23.014)	(23.014)	0.000
Net operating cost	**253.898**	**257.420**	**(3.522)**

4.3. Nursing expenditure for the first 9 months of 2016/17, at £98.749m, is £3.707m (3.9%) more than in the first 9 months of the previous year. From an early under spend nursing budgets ended 2015/16 £0.785m over spent, with expenditure in excess of budget by £0.250m per month in the final quarter. The Acute Division has put in place strict measures to reduce the use of agency nursing and the £0.684m total overspend against budget at month 9 demonstrates that these are having an impact. A slight rise in the November overspend had raised the possibility that the pattern of increased overspend in the final 5 months might be repeated but the December results have not continued this trend.



4.4. A further £2.104m of the pays over spend is within medical staffing linked to continuing locum costs as a result of sickness and national difficulties in filling posts. Many areas are experiencing medical staffing cost pressures. Hotspots at month 9 continue to include General Surgery (£0.305m), Orthopaedics including Trauma (£0.618m), A&E at all three sites (£0.611m), Renal, Medical and Respiratory at Monklands (£0.494m) and Ophthalmology at Hairmyres (£0.091m). The medical budgets were £3.829m overspent at the end of 2015/16. The month 9 performance (graph below) represents an improvement on the previous year and is in line with the savings ambitions put forward so far. On 26th October the Board approved further measures to control locum spend through the award of a contract for sourcing of locums at better rates.



4.5. Laboratory and theatres supplies are £0.598m over budget, compared with £0.403m over at this point in 2015/16. The budget has been reduced to reflect the majority (but not all) of the supplies efficiency plans and the expenditure for the first 9 months of 2016/17, at £23.738m, is £0.455m (1.9%) less than in the first 9 months of the previous year.

4.6. The Lanarkshire hospitals drug spend in month 9 is 3.6% greater than at the same point last year. As new drugs are introduced throughout the year we expect this to rise towards the year end though so far the increase is less steep than seen in previous years. We have now received data from Glasgow on MS drugs for the period April through to November and this shows that the extreme growth in cost experienced in 15/16 (62%) has plateaued. We now have 6 months information on the cost of cancer drugs prescribed through specialist centres in Glasgow and £0.303m has been phased in December from the drug reserve set aside in the financial plan. These do show rising expenditure and we continue to seek more up to date information to refine our year end forecasts. Even allowing for remaining uncertainties, our forecast rise is now lower than in our financial plan which allows us to absorb the impact of the likely further drop of £1.864m in the new medicines funding.

5. Health and Social Care Partnerships

5.1. The previous Board report format has been altered to reflect the Integrated Joint Boards wider remit with prescribing, resource transfer and out of area expenditure now shown under the relevant HSCP.

5.2. Across the Health and Social Care Partnerships, there is an under spend of £1.454m for the period to the end of December 2016, an increase of £0.381m from the previous month. . Performance against the community and mental health pays and supplies budgets remains steady. So far we have verified GP prescribing figures up to October 2016 and have had indicative November volumes. Progress to date has been good and the impact of the various initiatives plus the Scriptswitch software has been far greater than any recent previous quality and efficiency drive. There has also been the additional benefit of a continued national discount – the opening budget only assumed it would last for the first quarter whereas it will now last for the full year. The breakeven forecast for prescribing will be reviewed with each new piece of information.

5.3. Tables 3 and 4 show the position in each partnership.

Table 3 - North Lanarkshire Health & Social Care Partnership 2016/17

	Budgeted Operating Costs 31/12/2016 £M	Actual Operating Costs 31/12/2016 £M	Actual saving / (excess) 31/12/2016 £M
Pay	78.675	78.166	0.509
Non Pay	36.134	35.858	0.276
Prescribing	54.947	54.947	0.000
Sub Total	169.756	168.971	0.785
Healthcare Purchase - Out of Area	2.913	2.825	0.088
Resource Transfer	16.162	16.162	0.000
Net operating cost	**188.831**	**187.958**	**0.873**

Table 4 - South Lanarkshire Health & Social Care Partnership 2016/17

	Budgeted Operating Costs 31/12/2016 £M	Actual Operating Costs 31/12/2016 £M	Actual saving / (excess) 31/12/2016 £M
Pay	38.674	38.084	0.590
Non Pay	23.424	23.290	0.134
Prescribing	50.779	50.779	0.000
Sub Total	112.877	112.153	0.724
Healthcare Purchase - Out of Area	5.694	5.990	(0.296)
Resource Transfer	16.481	16.481	0.000
Net operating cost	**135.052**	**134.624**	**0.428**

5.4. Health & Social Care Partnership Other Services are reporting an under spend of £0.153m for the period to the end of December 2016, as detailed in Table 5, a movement of £0.154m from the previous months over spend.

Table 5 - Health & Social Care Partnership Other Services 2016/17

	Budgeted Operating Costs 31/12/2016 £M	Actual Operating Costs 31/12/2016 £M	Actual saving / (excess) 31/12/2016 £M
Pay	6.591	6.410	0.181
Non Pay	2.439	2.467	(0.028)
Family Health Services	128.744	128.744	0.000
Gross operating costs	137.774	137.621	0.153
Less: Family Health Service income	(7.194)	(7.194)	0.000
Less: Miscellaneous income	(8.678)	(8.678)	0.000
Net operating cost	**121.902**	**121.749**	**0.153**

6. Headquarters/Area Wide Departments

6.1. The Headquarters and Area Wide Departments are reporting an under spend of £1.599m for the period to the end of December 2016, as detailed in Table 6, a decrease of £0.052m from the previous month. £0.512m of this will be removed from budget as it represents agreed savings plans, still leaving a better than planned position at month 9.

Table 6 - Headquarters / Corporate Functions 2016/17

	Budgeted Operating Costs 31/12/2016 £M	Actual Operating Costs 31/12/2016 £M	Actual saving / (excess) 31/12/2016 £M
Pay	42.143	40.642	1.501
Non Pay	74.847	74.749	0.098
Gross operating costs	116.990	115.391	1.599
Less: miscellaneous income	0.000	0.000	0.000
Net operating cost	**116.990**	**115.391**	**1.599**

7. Service Level Agreements/Other Healthcare Providers

7.1. The previous Board report format has been altered to transfer expenditure for resource transfer, hospices and out of area mental health, learning disabilities or brain injury services from this section to the HSCP section, reflecting the Integrated Joint Boards wider remit.

7.2. Service Level Agreements and Other Healthcare Providers are reporting an under spend of £0.953m for the period to the end of December 2016, as detailed in table 7, an increase of £0.049m from the previous month. The month 9 performance continues to be better than original forecasts which exercised a degree of caution because of the variability that can come from high cost cases.

Table 7 - Service Agreements / Other Healthcare Providers 2016/17	Budgeted Operating Costs 31/12/2016 £M	Actual Operating Costs 31/12/2016 £M	Actual saving / (excess) 31/12/2016 £M
Service Level Agreements	120.612	119.676	0.936
Unpacs and Oats	14.142	14.244	(0.102)
Independent Sector	1.090	0.971	0.119
Net operating cost	**135.844**	**134.891**	**0.953**

8. CRES/Efficiency

8.1. The target for total efficiency savings in 2016/17, based on what was needed to stay within RRL and deliver LDP performance trajectories was £45.551m. This exceeded the LDP minimum target of 3% which would equate to £33.209m.

8.2. The residual gap of £4m needed to balance the financial plan at the time of the LDP sign off has now been closed. There is still a risk profile associated with delivering the programme but performance to date has been encouraging. The original LDP envisaged £7.075m of non recurring savings; current forecasts rely on £9.503m of non recurring savings meaning the Board still has a significant problem moving into 2017/18.

8.3. The performance to date is £1.418m ahead of the LDP trajectory at month 9 mainly due to a property sale being achieved 3 months earlier than planned. At the time of agreeing the LDP, Boards were working collaboratively with Scottish Government to identify national opportunities around shared services or different approaches to efficiency or management of resources. The national work streams are continuing and may be a source of savings in future years. Meanwhile however NHS Lanarkshire has developed its plans based on more local achievements, hence the change in emphasis between the categories in Table 8.

Table 8

LDP description	LDP Plan	Revised Plan	Plan to date	Actual to Date
Drugs and Prescribing	6.494	6.845	5.134	4.261
Estates and Facililies	3.991	5.166	3.875	2.884
Procurement	2.623	3.198	2.399	1.931
Service Productivity	13.974	14.949	4.815	10.982
Shared Services	4.650	-	-	-
Support Services	3.432	5.009	3.757	2.702
Workforce	6.387	10.384	7.788	6.424
Unidentified	4.000	-	-	-
Total	**45.551**	**45.551**	**27.766**	**29.184**

9. Capital

9.1 The initial capital aspirations exceeded available funding and further work was needed to value reengineer some schemes, recognise the realistic phasing of others and be able to bring to the Board on 26 August a viable in year capital plan.

9.2 There are 3 major E health business cases under development and while it was recognised their complexity was such major expenditure was unlikely in 16/17 these cases, alongside the continuing Monklands Hospital theatre refurbishment and medical and imaging equipment needs meant 2017/18 was going to present a major challenge.

9.3 The local capital investment group (CIG) actively looked at ways to relieve some of this pressure in 17/18 by making greater inroads into our ongoing capital programme during 16/17. A request to transfer £1m from revenue to capital has been submitted to S.G and from initial discussions is likely to be viewed favourably. The Board endorsed this approach in November 2016. The plan in annex B sets out the proposed expenditure profile.

9.4 Development work has continued on the ehealth business cases with HEPMA being the most advanced. The case has been approved nationally and endorsed by Chief Executives. Substantial SG funding is expected to be available for its roll out though each local system has to meet the ongoing costs and a portion of the implementation costs. The case has very strong local clinical support however the £1.1m local contribution to implementation costs could prove prohibitive. We are working with SG to see if a viable funding solution can be identified for 2017/18.

9.5 Expenditure to the value of £7.075m has been incurred in the first nine months as detailed in Annex B. The extent of the expenditure planned for the final quarter has entailed enhanced monitoring to ensure any issue arising is resolved speedily to avoid delay to the programme.

10. Development and Approvals

The Board's performance against access time guarantees was deviating from LDP commitments. SG pledged additional funding in return for Board sign up to specific targets. Further threat to these targets, in part from slippage from an invest to save scheme to expand ophthalmology capacity, has meant non recurring agreement has been given to a further £0.5m of activity in the final quarter.

11. Risk Assessment

The number of areas of risk and uncertainty within the financial plan has reduced and with each month the potential impact of a risk crystallising decreases. Whilst the pressure on the hospital sites in January has been intense and there is still potential for turbulence in GP and out of area prescribing (which have a greater data time lag associated with them), the risk of not delivering our year end RRL target is now deemed low.

12. Conclusion

The Board is asked to:

- Note the actual revenue over spend of £2.370m, as at 31 December 2016, £4.061m ahead of the LDP trajectory of £6.431m over spent;
- Note the £29.184m of efficiency savings recorded as achieved to date are £1.418m ahead of the LDP trajectory of £27.766m;
- Note the £7.075m expenditure to 31 December 2016, against the Board's total Capital Plan of £18.192m;
- Note ongoing work to secure a resource package for key ehealth projects.

LAURA ACE
DIRECTOR OF FINANCE
20 January 2017

ANNEX A

REVENUE RESOURCE LIMIT 2016/17

	Baseline Recurring £M	Earmarked Recurring £M	Non Recurring £M	Total £M
Revenue Resource Limit as at 30 November 2016	**1,106.756**	**91.983**	**21.530**	**1,220.269**
CHKS	0.000	(0.076)	0.000	(0.076)
Primary Care Funding for Pharmacists in GP Practices	0.000	0.178	0.000	0.178
Equal Pay Settlement	0.000	0.000	0.062	0.062
Distinction Awards	0.000	0.217	0.000	0.217
Waiting Times Support	0.000	0.000	0.950	0.950
External Waiting Times Support	0.000	0.000	1.000	1.000
Non core expenditure - Depreciation	0.000	0.000	(14.125)	(14.125)
Revenue Resource Limit as at 31 December 2016	**1,106.756**	**92.301**	**9.417**	**1,208.474**
Non Core Revenue Resource Limit as at 30 November 2016	**0.000**	**0.000**	**8.549**	**8.549**
Non core expenditure - Depreciation	0.000	0.000	14.125	14.125
Additional SGHSCD non core funding	0.000	0.000	0.801	0.801
Annually Managed Expenditure - Provisions	0.000	0.000	0.820	0.820
IFRS Revenue PFI - Non Cash	0.000	0.000	5.754	5.754
Non Core Revenue Resource Limit as at 31 December 2016	**0.000**	**0.000**	**30.049**	**30.049**
Total Revenue Resource Limit as at 31 December 2016	**1,106.756**	**92.301**	**39.466**	**1,238.523**

ANNEX B

NHS LANARKSHIRE CAPITAL EXPENDITURE TO 31st December 2016			
	2016/17 £M	**Forecast £M**	**Actual £M**
Initial Capital Formula Allocation:	**12.392**	**12.392**	**7.075**
Capital Resource limit adjustments:			
Additional Central Resource Allocation	3.000	3.000	
Brokerage for Strathclyde Sale	-1.700	-1.700	
Latest Capital Resource Limit	**£13.692**	**£13.692**	**£7.075**
Anticipated Capital Resource limit adjustments:			
Revenue to Capital Transfer		1.000	
	£0.000	**£1.000**	**£0.000**
Adjusted Capital Resource Limit	**£13.692**	**£14.692**	**£7.075**
Disposal Programme:			
Property Disposals	4.590	3.500	
Property Disposals returned to S.G.	-1.090	0.000	
	£3.500	**£3.500**	**£0.000**
Adjusted Capital Allocation	**£17.192**	**£18.192**	**£7.075**
CAPITAL EXPENDITURE:			
Business Cases			
Monklands general business continuity	1.250	2.042	0.948
Monklands Theatres/ICU	6.130	5.444	4.756
Decontamination estates work	2.550	0.837	0.122
Acute Property Works	0.762	2.563	0.111
New Monklands Fees	0.250	0.150	0.062
	10.942	**11.036**	**5.999**
Medical Equipment	3.770	5.437	0.413
	3.770	**5.437**	**0.413**
Other Expenditure			
Statutory Maintenance			
PSSD Equipment	0.075	0.075	0.007
subtotal	**0.075**	**0.075**	**0.007**
I.M.&T Projects	3.115	1.644	0.656
	3.190	**1.719**	**0.663**
TOTAL CAPITAL EXPENDITURE	**£17.902**	**£18.192**	**£7.075**
(OVER) / UNDER COMMITTED	**-£0.710**	**£0.000**	**£0.000**