

Meeting of Lanarkshire
NHS Board:
29 March 2017

Lanarkshire NHS Board
Kirklands
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SUBJECT: 2017/18 Financial Plan

1. PURPOSE

This paper is coming to the Board:

For approval	<input checked="" type="checkbox"/>	For endorsement	<input type="checkbox"/>	To note	<input type="checkbox"/>
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The Board is asked to approve this plan as the basis for interim operating budgets and the initial budget offer to the IJBs.

2. ROUTE TO THE BOARD

This paper builds on, the February 2017 PPRC paper, discussions at CMT, the February PPRC and a Board development event in February 2017.

3. SUMMARY OF KEY ISSUES

The NHS cash uplift in 2017/18 has been targeted by the Scottish Government Health and Social Care Directorate (SGHSCD) at policy developments in social care, mental health, primary care and health visiting. The opening allocation provides £4.067m (0.37%) for general expenditure rises but, once in year adjustments for a reduction in new medicines funding and an increased deduction for national specialist services have been made, the net cash position will be 0.041m less than in 16/17. This means service efficiencies will be the only way to fund in year cost rises from inflation, new drugs or other unavoidable pressures. The minimum amount needed to cover these is estimated at £32.570m, although this makes no allowance for demographic growth or increased expenditure on performance targets.

NHS Lanarkshire has for many years sat below its target share of national resources due under the NRAC formula, periodically receiving allocation adjustments to move it closer to its intended level. Up until 2015/16, NHS Lanarkshire had managed to keep recurring expenditure in check, in line with the below NRAC allocation. In 15/16 however rapid growth in costs across the system, outstripped the Board's ability to generate recurring savings and £9.503m of non recurring means were used to balance the 16/17 financial position. This leaves the Board with a £9.503m opening deficit. A £6m adjustment to partially address historic underfunding reduces this to £3.503m. The £3.503m needs to be bridged in addition to the £32.570m savings and the £0.041m general net cash reduction, taking the minimum required efficiency, before demographic growth and any other pressures, to £36.112m.

£33.592m of potential efficiencies have been identified. However given the risk profile of some of the schemes it is estimated a further £6.586m of cash savings have to be identified to have enough to meet the £36.112m gap.

The 17/18 allocation letter specifies a minimum funding level for IJBs. Meeting this requirement means differential savings targets. The savings target percentage for the areas managed outside of the IJBs is forecast to be more than double that needed to balance the IJB directly managed health services. The £6.586m of savings still to be identified sit outside the IJBs.

The Board has submitted an LDP indicating it aims to fill the gap by 31st March 2018, even though it is highly likely there will still be a reliance on non recurring means. The Board has been advised to plan for no uplifts in 18/19 and 19/20. On current forecasts an additional £68.5m of savings will have to be found over these 2 years in order to stay in financial balance.

2017/18 was always identified as a pressure point for the capital programme as 2 major e health projects were going to coincide with another phase of Monklands' theatre replacement, replacing the cardiac catheterisation lab at Hairmyres and continued business continuity work at Monklands. Recognising this NHS Lanarkshire was proactive in 16/17, protecting funding for infrastructure projects with SGHSCD's assistance. Even with this head start, the first draft of the capital plan was over £3m overcommitted but constructive discussions with SGHSCD have resulted in permission for reinvesting capital receipts to fund the capital programme.

4. STRATEGIC CONTEXT

This paper links to the following:

Corporate objectives	<input checked="" type="checkbox"/>	LDP	<input checked="" type="checkbox"/>	Government policy	<input type="checkbox"/>
Government directive	<input checked="" type="checkbox"/>	Statutory requirement	<input checked="" type="checkbox"/>	AHF/local policy	<input type="checkbox"/>
Urgent operational issue	<input checked="" type="checkbox"/>	Other	<input type="checkbox"/>		

The Financial Plan underpins all aspects of strategy and performance.

5. CONTRIBUTION TO QUALITY

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

Three Quality Ambitions:

Safe	<input type="checkbox"/>	Effective	<input checked="" type="checkbox"/>	Person Centred	<input type="checkbox"/>
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The Financial forecast emphasises the need for high levels of efficiency in the service we deliver.

Six Quality Outcomes:

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

6. MEASURES FOR IMPROVEMENT

Progress with identifying efficiency savings and performance against the revenue resource limit.

7. FINANCIAL IMPLICATIONS

See section 3.

8. RISK ASSESSMENT/MANAGEMENT IMPLICATIONS

Although there are uncertainties in the margins of income and expenditure forecasts, the greatest risk is that of not being able to identify and implement quickly enough savings of the level needed to achieve a balanced budget in 2016/17.

9. FIT WITH BEST VALUE CRITERIA

This paper aligns to the following best value criteria:

Vision and leadership	<input type="checkbox"/>	Effective partnerships	<input type="checkbox"/>	Governance and accountability	<input type="checkbox"/>
Use of resources	<input checked="" type="checkbox"/>	Performance management	<input type="checkbox"/>	Equality	<input type="checkbox"/>
Sustainability	<input type="checkbox"/>				

10. EQUALITY AND DIVERSITY IMPACT ASSESSMENT

An E&D Impact Assessment has been completed

Yes *Please say where a copy can be obtained*
No *Please say why not*

This is largely a factual information update. The proposal to spread any savings target equally preserves equity between major operating divisions and individual operational decisions below that high level allocation will be individually assessed.

11. CONSULTATION AND ENGAGEMENT

This plan sets the overall financial framework and has been built up through iterative discussions with the Board. Consultation and engagement on individual operational decisions taken within this framework will take place as appropriate to the nature of the decision.

12. ACTIONS FOR THE BOARD

The Board are asked to:

Approval	<input checked="" type="checkbox"/>	Endorsement	<input type="checkbox"/>	Identify further actions	<input checked="" type="checkbox"/>
Note	<input checked="" type="checkbox"/>	Accept the risk identified	<input type="checkbox"/>	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

SUBJECT: 2017/18 Financial Plan

1. Purpose

- 1.1 The purpose of this paper is to present the Board with the latest financial projections for 2017/18 and to seek agreement to the opening budget setting approach. It highlights further action is needed to deliver the target year end RRL position.

2. Income Forecast

- 2.1 The Board has received a formal notification of its baseline allocation (£1135.9m) and indicative information on additional funding to be issued in year.
- 2.2 £13.42m of new recurring funding is targeted at Social Care to meet new policy commitments, particularly round the living wage.
- 2.3 A general uplift of £4.067m is contained in the opening allocation. However, advance notification of funding reductions in year for new medicines and to withdraw funding to cover national specialist services, will mean the overall local cash support for recurring budgets reduces by £0.041m on its 16/17 level.
- 2.4 NHS Lanarkshire has for some time sat below its target share of national funding as calculated by the NRAC formula. Expenditure was, until 2015/16, contained within this budget. In 15/16 hospital drug expenditure rose by over 20%, the superannuation rate increased, GP prescribing costs exceeded budget by almost £5m, activity, particularly at Hairmyres (which was affected by the closure of the Victoria Hospital in Glasgow) increased. Taken together, costs increased more quickly than the system could generate recurring savings to cover. £9.503m of non recurring savings were relied on to balance in 16/17, leaving an opening recurring gap of £9.503m. A £6m adjustment in 17/18 to partially address historic underfunding will reduce the opening whole system gap to £3.503m.

2.5 During the year, further funding will be announced to support specific areas with the following already announced:

- *Health visiting*: £12.2m new funding is available nationally. AN NRAC share would be made £1.507m. Funding will be allocated based on individual discussions rather than NRAC;
- *Mental Health*: NHS Lanarkshire has been notified of £0.902m of new funding. £0.343m of this relates to a national programme which NHS Lanarkshire is hosting on behalf of other Boards;
- *Transforming Primary Care*: £27m additional funding is available nationally. Further detail is awaited on how it will be distributed. A provisional estimate of £1.976m has been made.

2.6 These movements are summarised in table 1 below

	Rec £m	Non rec £m	Total £m
Social Care funding	13.420		13.420
Adjustment for historic underfunding	6.000		6.000
General Allocation uplift	4.067		4.067
New medicines funding	-3.747		-3.747
Top slice for national specialist services	-0.361		-0.361
Mental Health (additional)		0.902	0.902
Primary Care (additional - estimate)		1.976	1.976
HV and FNP (additional - estimate)		1.482	1.482
	19.379	4.360	23.739
BFWD recurring gap	-9.500		-9.500
	9.879	4.360	14.239
Split of uplift and bfw deficit			
IJB	13.420	4.360	17.780
Rest of Health	-3.541	0.000	-3.541
	9.879	4.360	14.239

2.7 The table above only reports on new money. The NHS receives a significant number of funding allocations during the financial year as reported in an annex to the monthly finance report. Some of these are for one off initiatives, others feature regularly. It has been assumed that these will either be at the same level as in 2016/17 or, where not, expenditure will be scaled back in line with income.

2.8 So far there is no information to indicate this assumption won't hold. The ADP, Police custody and outcomes framework funding has all been confirmed at the same level as in 16/17.

- 2.9 The highest risk sits around Access target funding. In 2016/17 NHS Lanarkshire spent over £5.2m more than the recurring budget on meeting elective access targets. £3.74m of this was funded non recurrently by SGHSCD, £1.5m from Board funding, contributing to the gap. It is assumed in setting the LDP performance trajectory that the same level of SGHSCD funding will be made available in 17/18.
- 2.10 NHS Boards have been advised to plan on a 0% funding uplift for 18/19 and 19/20.

3. Expenditure Forecasts

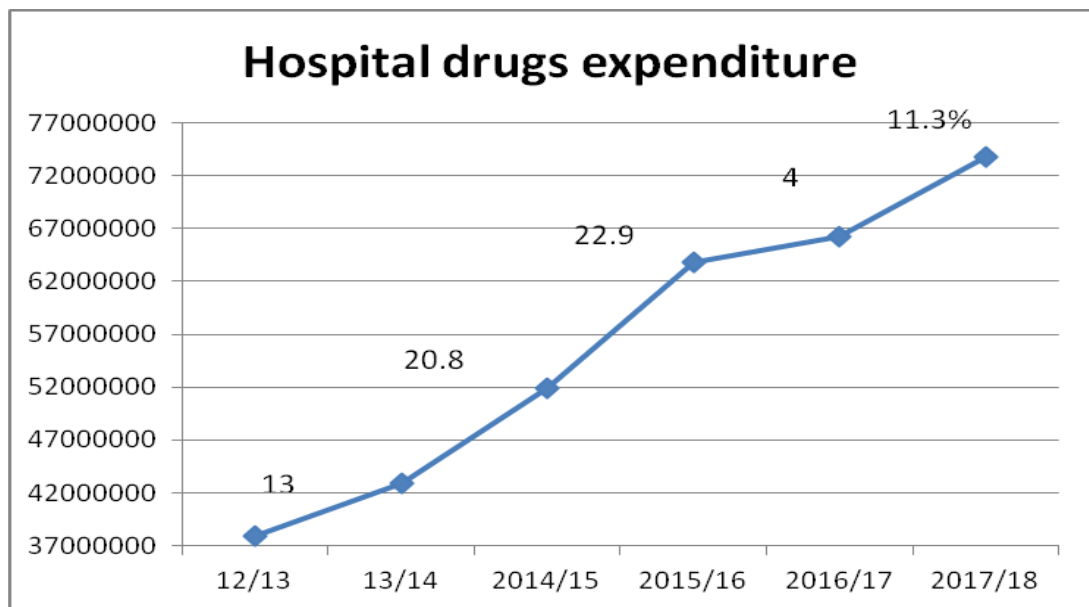
3.1 Pay

- 3.1.1 The increase in the pay bill has been modelled based on a 1% cost of living rise with a minimum of £400 for those earning under £22,000. A national pay deal designed to enrich band 1 jobs to allow employees to take on band 2 roles is forecast to cost £0.422m in 17/18 and a further £0.716m in the 2 following years. The apprenticeship levy will add £1.988m to the pay bill. Consultants' discretionary points and incremental drift are likely to increase the medical pay bill by £0.622m. In total pay increases are forecast at £9.212m.

3.2 Drugs

- 3.2.1 In total, £10.023m has been forecast for growth in the drugs bill.
- 3.2.2 The 16/17 GP prescribing budget had received an injection of over £4m to rebase it at the 15/16 outturn price and volume. A highly successful 16/17 efficiency programme contained expenditure within that budget meaning the IJBs will enter 17/18 with no residual pressure on prescribing. There are no policy changes or major drug developments known for 17/18 that would result in significant volume growth. The plan makes an allowance of £2.404m for underlying growth. However £1m of this gap should be closed from the benefit of off patent drugs and there are further expectations of reductions to the drug tariff. The Prescribing and Quality efficiency programme has identified substantial savings opportunities. This area should be aiming for overachieving on the assumptions set out in the plan. There is, however, always the potential for market volatility with prescribing so until the first months' results are available, banking on higher savings would be ill advised.
- 3.2.3 £16.7m of Lanarkshire's hospital drug expenditure is initiated by specialist clinicians in Glasgow, making it hard for Lanarkshire to influence. C£49m is initiated in Lanarkshire hospitals.

3.2.4 Hospital drug expenditure has been rising steeply due to new high cost drugs, exceeding 20% per annum in some years. In 16/17, a combination of savings schemes and a temporary slowing of new drugs becoming available for adoption, kept growth to its lowest level in the previous decade. Horizon scanning on new drugs and clinical guidelines plus analysis of trends on use of existing drugs has led to a 11.3% forecast. This has been held, despite early information that more new drugs might be adopted than had been included in the horizon scanning. Hospital drug growth exceeding 11.3% is one of the risk areas in the financial plan.



3.3 Other Supplies Inflation

3.3.1 NHS Lanarkshire pays approximately £281m to other healthcare and social care providers. It is expected that negotiating uplifts to these will be contentious in 17/18. In previous years, the NHS general allocation uplift has often been used as an uplift figure. In 2016/17 this was 1.7%. In 17/18 the £4.067m general allocation uplift, excluding social care funding, equates to 0.37%. This is an area of risk within the plan.

3.3.2 The PFI uplifts are contractually defined by a formula linked to RPI which has risen since previous plans.

3.3.3 Given current prices and forward purchases, no inflation has been proposed to the energy budget for 2017/18. There may be an element of risk in this. This assumption does not hold beyond 17/18.

3.3.4 Other supplies budgets are also likely to be affected by rising inflation. Where pre existing contracts are in place the increase may be deferred but not avoided. 2.5% has been assumed for 17/18.

3.3.5 A provisional £8.995m has been estimated as the inflationary impact on supplies budget.

3.4 Commitments and Cost Pressures

3.4.1 An additional £4.340m is expected to be incurred as a result of previous commitments, locally, regionally and nationally. This includes a £0.261m increase to our CNORIS contribution, £0.082m for the revenue costs of robotic prostatectomy and £0.221m for a national business case for HPV testing. It also includes £1.229m for activity changes within the terms of SLAs with other health Boards.

3.4.2 The Boards current performance against access targets is being sustained by non recurring investments in excess of budget for both scheduled and unscheduled care. For scheduled care it has been assumed that the same funding level as in 16/17 will be provided. The additional funding for unscheduled care plus the additional capacity put in place over winter equated to £1.825m in 16/17. Given the degree of pressure the emergency receiving function is under, it is unlikely the Board will be able to avoid additional capacity again this year.

4. Overall Position

4.1 Taking all these factors together the net position for the Board is a £36.112m gap as set out in Annex A. In order to close this gap in year a further £6.586m of savings need to be identified. Based on the profile of current savings it would appear that , as in 16/17, non recurring savings of at least £9.6m will be relied on to stay within RRL. This presents NHS Lanarkshire with a rolling challenge as it moves into 18/19.

4.2 In 18/19 current forecasts indicated £39.8m of efficiency savings would be needed to stay within budget. Any balance not met recurrently would form the starting position for 19/20, which itself is likely to see an in year gap of £28.6m from rising costs.

5. Efficiency Savings

5.1 The table below shows the profile of savings proposals identified so far as submitted in the draft LDP to SGHSCD.

Efficiency Savings Programme Details	2017-18			Risk rating			
	Rec £000s	Non- Rec £000s	Total £000s	Unidentified	High	Med	Low
Efficiency & Productivity Workstreams:				%	%	%	%
Service productivity	4,791	550	5,341	n/a	13%	18%	69%
Drugs & Prescribing	6,126	750	6,876	n/a		0%	100%
Procurement	3,230		3,230	n/a	48%	6%	46%
Workforce	1,115	312	1,427	n/a	6%	78%	17%
Support Services (Non-Clinical)	2,245		2,245	n/a	4%	40%	57%
Estates & facilities	330		330	n/a		11%	89%
Shared Services	115		115	n/a		96%	4%
Other	2,692	7,270	9,962	n/a			100%
Unidentified Savings	5,861	725	6,586	100%	n/a	n/a	n/a
Total In-Year Efficiency Savings	26,505	9,607	36,112	6,586	2,421	3,288	23,816

5.2 The nature of the allocation direction means that the IJBs savings level can be no more than is needed to cover the unavoidable cost increases in the health elements of the IJB budget. This exempts the IJBs from having to contribute to remedying the opening deficit or from the areas such as the hospital drugs, RPI contracts or the band 1 review which do not sit in the IJB's directly managed budgets.

5.3 The IJB savings challenge sits at £7.798m, the rest of health at £28.313m. The responsibility for finding the £6.586m of savings still needed to deliver within RRL sits with the rest of health.

5.4 The following actions are proposed to identify a further £6.586m of savings:

- Nationally, it has been identified that there may be opportunities for using funding sources to better effect and these will be pursued;
- All productive opportunities identified nationally will be cross matched with local plans to make sure all relevant opportunities are being followed;
- Various areas underspent in 16/17. Although the starting assumption is these underspends have already been offered up to meet 17/18 efficiency targets there will be a review of year end results to see if there is any additional potential;
- We will continue to share ideas with other Boards.

- 5.5 With the A & E and general medical budgets already overspent and under pressure from activity rising, the Acute and the IJBs will work closely to prevent further pressure on the whole system.

6. Capital Plan

- 6.1 2017/18 was always identified as a pressure point for the capital programme as 2 major e health projects were going to coincide with completing the Monklands theatre replacement, replacing the cardiac catheterisation lab at Hairmyres and continued business continuity work at Monklands. Proactive financial planning for dealing with this pressure point had started in 16/17 with £2.6m of infrastructure funding identified by the Board and protected by SGSCHD for use in 17/18 e health projects.
- 6.2 Even with this proactive planning, the first draft of the capital plan was over £3m overcommitted but constructive discussions with SGHSCD have resulted in permission for reinvesting capital receipts to fill the gap. £2m of central funding has been confirmed to assist with the £4.282m in year cost of the theatre programme. The Board's protected £2.6m of infrastructure funding plus £1.380m of central e health funding will be made available in 17/18 to complete these projects. The money will arrive as revenue but the £2.182m relating to the capital elements of the project will be vired in year to capital. Total resources available should be £19.624m.
- 6.3 There has been an open discussion with SGHSCD about the risk associated with reliance on property sales which cannot be wholly guaranteed. NHS Lanarkshire will do all it can to advance sales and will also take any feasible action to slow down expenditure should it become apparent a sale will not materialise. However some schemes have a long lead time and have to be committed to well in advance on knowing if the receipts are certain. SGHSCD will work collaboratively with NHS Lanarkshire to under write any risk not resolvable at local level.
- 6.4 The outline plan is set out in annex B. At present 18/19 is overcommitted but work will take place early in 17/18 to work on an affordable forward investment plan. In the meantime Board approval is sought to continue with expenditure.

7. IJB Budget setting

- 7.1 IJB budgets will be set in line with the SGHSCD allocation letter direction. The 16/17 expenditure recurring level budget level will be guaranteed with the new funding passed over in addition to this.

- 7.2 The NHS recurring budget includes only those elements for which recurring funding has been given through the allocation. In year specific allocations will be issued and income will be derived from other organisations, mainly NHS. All in year income or allocations relating to IJB directly managed areas will be passed to the IJBs. Work is underway to prepare an offer schedule that sets out the recurring and expected non recurring income.
- 7.3 At month 11, IJB delegated areas were £4.973m underspent, a figure which is expected to grow by the year end. This funding will be available to the IJB in opening reserves. £2m relates to the primary care transformation fund and is ringfenced against commitments in this area. The prescribing underspend element, which can be traced to the opening budget not anticipating the continuation of a national discount will be left with IJBs as a buffer against future volatility in prescribing. The use of the remaining reserves, which will exceed £2m is under discussion at the IJBs.

8. Key Risks

8.1 The main risks with this plan can be summarised as follows:

- Whilst historic cost pressures in maintaining access targets or meeting winter demand have been reflected, the cost of demographic growth or higher performance targets have not been costed into this plan. A & E attendances and general medical admissions showed a significant increase in 16/17 and if this were to continue it would exert considerable service and cost pressure;
- The plan assumes the same level of SGHSCD funding for planned care as in 17/18;
- Hospital sector drugs could rise higher than forecast;
- Other Health and Social care providers are likely to negotiate for higher uplifts than NHS Lanarkshire has been provided with.

9. Recommendation

The Board is asked to:

- Agree the reasonableness of the underlying uplift assumptions in the financial plans;
- Note the forecast savings requirement of £35.812m;
- Note that over 18/19 and 19/20 further savings totalling £68.5m are likely to required ;
- Note the differential savings targets arising from SGHSCD direction on IJB budget setting;
- Note that the savings proposals identified to date and the further work to close the gap;
- Note the key risks;
- Approve the outline capital plan for further work up;
- Note the proposed approach to IJB budget setting.

LAURA ACE
DIRECTOR OF FINANCE
27 MARCH 2017

ANNEX A

NHS Lanarkshire
High Level Financial Outlook: New Funding and Costs

	17/18		18/19	19/20
	£m	£m	£m	£m
	Recurring	Non Rec	Total	Total
BFWD recurring balance	-9.500		-9.607	0.000
Allocation uplift net of change in new medicines fund	0.320			
Topslice for national specialist services	-0.361			
Address historic underfunding	6.000			
Adjusted Opening position	-3.541		-9.607	0.000
New Funding for IJBS				
Social Care Fund	13.420	0.000		
Additional investment in Mental health		0.902		
Estimated Additional Primary Care Investment		1.976		
Estimated additional HV and FNP investment		1.482		
	13.420	4.360	0.000	0.000
Increases in Expenditure				
Pay uplifts	9.212		7.306	7.220
Drugs growth	10.023		13.127	11.408
Supplies uplifts	4.803		5.553	5.690
Other health and social care agreements	4.192		4.255	4.319
Unavoidable cost pressures	4.340			
New investments in IJBS	13.420	4.360		
Forecast cost increase	45.990	4.360	30.241	28.637
Excess of cost growth over income	-36.112	0.000	-39.848	-28.637
Efficiency savings identified	20.644	8.882	1.320	
Efficiencies to be identified	5.861	0.725	38.528	28.637
Net year end forecast	-9.607	9.607	0.000	0.000

CAPITAL PLAN

ANNEX B

2016/17 £M		2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
12.392	Formula capital Allocation	12.392	12.392	12.392	12.392	12.392
3.373	Additional Central Allocation	2.000	1.300	1.750	6.240	
0.800	Funding vired from revenue	2.182				
1.800	Property sales retained	3.050				
18.365		19.624	13.692	14.142	18.632	12.392
5.509	Monklands Business continuity : Theatres	4.282	0.365			
1.497	Monklands Business continuity : Other	2.352	3.342	1.742	1.092	1.000
0.120	Monklands Business continuity : OBC	0.500	1.300	1.750	6.240	
0.903	Decontamination estates works	1.200				
3.214	Completion of 16/17 Acute projects	0.574				
	Acute estates projects	0.739	2.200			
	Clinical strategy/shifting the balance			2.550	3.200	3.292
	Cardiac cath lab/ward replacement	1.919	0.800			
	Imaging equipment	0.850	0.880	0.800	0.250	1.450
5.465	Other medical equipment	2.300	4.120	4.200	4.750	3.550
0.075	Non medical equipment	0.075	0.075	0.075	0.075	0.075
	LIMs	2.328				
	Hepma	1.380				
0.025	Physical security/security products	0.225				
0.304	network modernisation	0.150				
1.253	Other e health	0.750	3.025	3.025	3.025	3.025
18.365		19.624	16.107	14.142	18.632	12.392
0.000	Capital Shortfall	0.000	-2.415	0.000	0.000	0.000

