

Meeting of Lanarkshire
NHS Board
30th January 2019

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



SUBJECT: FINANCIAL PLAN: 2019/20 UPDATE

1. PURPOSE

This paper is coming to the Board:

For approval	<input checked="" type="checkbox"/>	For endorsement	<input type="checkbox"/>	To note	<input checked="" type="checkbox"/>
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The Board is asked to approve the 2018/19 financial framework.

2. ROUTE TO THE BOARD

This paper builds on the initial assessment of the financial landscape discussed at the Board Development event on 18th December 2018. It is still work in progress.

3. SUMMARY OF KEY ISSUES

The financial estimates for 19/20 still indicate a gap between income and cost growth for which full solutions have not yet been identified. There is significant uncertainty about the likely extent of expenditure on new, very high cost, drugs and waiting times and the quantum of SG funding available to offset these. Guidance on how to prepare 3 year plans in line with the medium term financial framework is awaited. The target remains to produce a plan for the March 2019 Board.

If IJB's are to develop their own financial plans in time for 1/4/19, they need advance notification of their budget. The Board is asked to ratify the indicative IJB budget offer, understanding the risks associated with confirming this separate to the rest of the system.

4. STRATEGIC CONTEXT

This paper links to the following:

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

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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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

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

10. EQUALITY AND DIVERSITY IMPACT ASSESSMENT

An E&D Impact Assessment has not been completed

Yes
 No

This paper does not contain or drive any specific service proposals or policy changes.

11. CONSULTATION AND ENGAGEMENT

In addition to the engagement described in the route to the Board the input of those with specialist knowledge has been sought on specific areas, most notably in forecasting drug pricing and usage trends. The initial estimates have been shared with the IJB Chief Officer

12. ACTIONS FOR THE BOARD

The Board is asked to approve the financial framework, noting the risks and uncertainties.

Approval	<input checked="" type="checkbox"/>	Endorsement	<input type="checkbox"/>	Identify further actions	<input 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

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SUBJECT: FINANCIAL PLAN: 2019/20 UPDATE

1. PURPOSE

This paper updates the Board on progress with developing the 19/20 plan, aiming to provide sufficient context to allow an indicative budget offer to be made to North and South Lanarkshire IJBs. The IJB's need a reasonable degree of certainty on their own funding to enable them to develop their own plans in advance of 19/20 and to formulate directions back to the partner bodies for the delivery of these.

2. CONTENT/SUMMARY OF KEY ISSUES

The recommendation is that the Board applies the national general allocation uplift of 2.5% to the recurring IJB budgets. In addition the Board will confirm that any specific funding relating to the functions delegated to the will be passed intact to the IJBs as soon as confirmation on the funding is received from SGHSCD.

This offer is in line with previous practice and complies with the Board's own allocation letter which indicated a real terms uplift (later clarified as 1.8%) must be offered along with further local discussions on funding for pay. The difference between the absolute minimum 1.8% and the 2.5% proposed equates to £3.146m across both IJBs.

The initial assessment of cost growth NHS Board reveals that each major division (North, South, Acute and Corporate) would need to make further efficiency savings to live within a 2.5% uplift. To date, the assessment indicates that the highest percentage cost pressures do not sit within the health services delegated to the IJBs so the overall percentage savings required by the IJBs will be less than that needed to be delivered by the rest of Health services. The rest of Health services are currently some way from identifying efficiency plans which would enable them to balance the budget. By guaranteeing now that the IJBs can plan on a 2.5% budget, the NHS Board will be accepting that the health services not delegated to the IJBs are required to make a higher level of efficiency savings in line with their greater cost pressures.

3. CONCLUSION

The NHS Board is asked to approve the IJB budget offer, noting the risks and caveats. The NHS Board is asked to note the initial estimates for 19/20 and the work still to take place to deliver a plan for March 2019.

4. FURTHER INFORMATION

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

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NHS LANARKSHIRE

FINANCIAL PLAN: 2018/19 UPDATE

1. Overview

- 1.1. NHS Lanarkshire is expected to breakeven in 2018/19 though will have relied to an extent on non recurring means to do so and will start 2019/20 with an estimated £7.389m recurring gap. The Board has, in January lodged £4.8m of infrastructure funding with SG in order to ensure there is cover for non recurring projects which run into the next financial year. Both IJBs are forecast to underspend against the NHS portion of the budget in 2018/19, which is partly related to the time lag in recruiting to new specific funding and partly related to general underspends. The underspend will be added to IJB reserves.
- 1.2. Territorial Boards are receiving a minimum uplift of 2.5%
- 1.3. The Allocation letter specifies that IJB base budgets should receive a real terms uplift (which SG later clarified by teleconference as 1.8%) plus a local discussion on further funding towards the NHS pay deal. Specific funding is also being targeted at the IJBs. This includes the local share of £120m which will be passed through the NHS budgets to IJBs for "investment in integration including delivery of the Living Wage and uprating free personal care, and school counselling services". Local authorities will also receive directly a share of £40m to help support the Carers Act implementation and free personal care for the under 65's. There will be a significant step up in primary care funding (estimated to be an increase of £3.528m locally) and increased funding for mental health (£0.741m)
- 1.4. The 19/20 impact of the 3 year agenda for change pay deal has been modelled locally at approximately 3.66%. The terms of the medical and dental pay deal are not known yet but an assumption of a similar level to 18/19 would give a percentage of c 2.1%. There is not a significant variation in overall impact across each major division.
- 1.5. General supply inflation has been modelled at CPI (2.2%). However there are specific areas where cost rises are forecast to be very much more than this. Energy price indices suggest a potential 10% rise. Expenditure on high cost drugs was forecast, based on detailed horizon scanning, to increase by 13.9% when the exercise was completed in December. Savings forecast from potential price drop, drug switches and discounts could take the net impact down to c 10%. However even since December further developments in the drugs market could mean a further, significant step up in costs. The Laboratory managed service contract and the PFI contracts have uplift formulas linked to RPI which is sitting above CPI, at 3.1%. These areas of higher unavoidable cost uplifts sit predominantly in services not delegated to IJBs.
- 1.6. GP prescribing data is available in arrears, with October 2018 being the latest available. In early February, once the November data is received, pharmacy and medical advice will be pooled with trend analysis to produce a forecast for 19/20. At present there is nothing to indicate that with existing savings plans this £140m expenditure cannot be contained within the budget plus a 2.5% uplift.

- 1.7. No quantification at this stage has been made of the impact on NHS Lanarkshire of the national 30 month waiting times plan. £146m is available nationally (£56m of which existed in 2018/19) but part of this will go to national elective centres and the rest is not expected to be distributed on NRAC but targeted more either at Boards with the longest waits or where the biggest reduction can be achieved. To date only £3m of that funding had been guaranteed to NHS Lanarkshire. In the unlikely event of no further funding being made available the Board would have to balance a significant deterioration in waiting times with a significant financial gap. It is hoped however a reasonable level of funding is awarded to NHS Lanarkshire allowing the Board to continue to provide a good balance between service performance and living within available resources.
- 1.8. Appendix 1 sets out the impact of offering a 2.5% budget uplift to the IJBs against the identified cost pressures. The estimated percentage efficiencies needed to balance the budget range from 0.86% in North to 2.76% in the NHS services not delegated to the IJBs.
- 1.9. Prior to the creation of IJBs, the financial planning process would treat the various unavoidable inflationary rises or inevitable costs of policy directions as system wide pressures and would not look to the individual area affected to deliver higher savings to meet them, but instead look at what was achievable across the whole system. The delegation of functions to legally separate bodies also responsible for social care and the strong policy commitment to shifting the balance, leads to a different approach.
- 1.10. The planning and commissioning of Primary, Community, mental health, accident and emergency, allied health professional and inpatient services relating predominantly to general, geriatric and respiratory medicine is delegated to IJBs.
- 1.11. This still leaves a wide range of high profile health services under NHS planning. This includes outpatients, cancer services, diagnostics, surgery, cardiology, renal medicine, infectious diseases, dermatology, gastroenterology, neurology and other subspecialties. IJBs do not own property so property services sit with the NHS Board. A range of support services also sit with the NHS Board and while the guidance would allow devolving these to IJB the practical difficulty and risks of attempting to divide a whole system specialist support have so far been believed to outweigh any potential benefit. Some of the significant cost pressures, particularly those related to property or e health are linked to services that support community and other IJB service but are not devolved to them.
- 1.12. It is the services listed in 1.11 above which would have to find a higher level of savings to meet the higher drugs, energy and contractual cost growth. These services are experiencing their own demand, workforce and waiting times pressures, will have restrictions through safe staffing legislation and are struggling to put forward savings plans.

2. Proposed approach

- 2.1. Offering the IJB budgets the national territorial Board uplift of 2.5% fully complies with the allocation letter, demonstrates commitment to supporting IJBs and shifting the balance and avoids potential arguments with partners that the NHS has not provided expected funding uplifts. It allows a clear starting position that the IJBs have received the national funding uplift available for their services.
- 2.2. NHS Lanarkshire's uplift was very slightly more than the minimum, at 2.6%. The extra 0.1% would equate to an extra £0.261m in the North and £0.189m in the South. This 0.1% could be seen as making a partial contribution to the delegated services use of central costs (eg the higher energy uplift or the very substantial costs of rolling out windows 10, community wifi, cyber security and GDPR compliance). Likewise NHS Lanarkshire received £2.2m to help address historic underfunding. IJBs were given a clean slate on their inception, with the residual NHS services retaining the responsibility for the recurring gap between the lower than target share income and expenditure. It is therefore appropriate the NRAC funding is seen as either addressing the gap or seen as providing a further contribution to the identified pressures in services which contribute to the IJBs but which the IJB is not directly being asked to fund.
- 2.3. Even with the above minor contributions to the historic gap and system wide or IJB support services pressures, offering 2.5% still leaves a higher savings target on the NHS services outside the IJB (approximately 3 times higher) and increases the risks of these services not being able to deliver a balanced position. It is proposed that, all factors considered, the NHS accepts that risk rather than attempting to reduce the IJB uplift below 2.5%.
- 2.4. If the NHS Board accepts that risk, currently rated very high, it would be with the caveat that it is then recognised as highly unlikely that the NHS could provide any further funding to IJBs should any further in year pressures or demand for infrastructure funding emerge and it is incumbent on the HSCPs/IJBs to find their own solutions. This could include the impact of winter pressures on the set aside services as well as pressures within community and mental health.

Risks, Uncertainties and Ongoing Issues

- 2.5. Work continues to identify savings to close the gap but the scale of the gap at this stage suggests this carries a high risk rating.
- 2.6. The medium term financial framework envisages there are savings to be made from the IJB assuming lead responsibility for planning the unscheduled care pathway and that 50% can be used to meet rising costs and 50% reinvested. The allocation letter directs systems to put in place arrangements to achieve this by 19/20. To date the experience has been of rising costs, which the IJB has been insulated from. Further work is needed to agree local arrangements which balance risk, opportunity and policy directions. At present there are no local plans which look as if they could deliver savings of this magnitude. Over 5 years, the level of savings assumed in the medium term financial framework are equivalent to 33% of the local set aside budget.

- 2.7. The 30 month national waiting times plan sets ambitious targets. Funding for individual Boards has not yet been clarified. NHS Lanarkshire has been heavily reliant on SG funding in recent years to deliver its waiting time performance so any shortfall could have a major impact on performance.
- 2.8. The permissive policy with respect to accessing new, ultra high cost medicines in Scotland could lead to a rapid rise in costs in excess of financial plan estimates should new treatments emerge and be adopted in year. Consideration is being given centrally to potential risk sharing arrangements which could involve funding from Pharmaceutical Pricing Regulation Scheme negotiations currently being concluded. For now the assumption is the Board will not be asked to bear costs in excess of the high levels already incorporated in the plan.
- 2.9. No assumptions around the potential impact of Brexit have been made at this stage.

Recommendation

The NHS Board is asked to:

- Note the current planning assumptions on income uplifts and cost growth;
- Approve the offer of a 2.5% budget uplift to the IJB;
- Note the projected level of cost savings required to live within the uplifted budget, ranging from 0.86% in North HSCP to 2.76% in the Health services not delegated to IJBs ;
- Note that the gap at this stage for the non IJB services brings an elevated risk to financial balance for the Board;
- Note that further local work is needed to develop planning and risk arrangements on the set aside services;
- Note that a number of uncertainties exist, each with potential to have a major impact on the financial plan, but are awaiting further information so a balanced assessment can be made.

LAURA ACE
DIRECTOR OF FINANCE
23 JANUARY 2019

Appendix 1

Provisional Financial Projections for 19/20.

	Rest of health			Delegated to IJBs	
	2019/20 Recurring £m	2019/20 Non rec £m	2019/20 Total £m	2019/20 North	2019/20 South
Income					
General Allocation	18.513	0.000	18.513	6.516	4.722
NRAC	2.200	0.000	2.200		
Infrastructure funding	0.000	3.658	3.658	0.168	0.161
cfwd previous year	0.000	0.000	0.000		
cfwd recurring	-7.389	0.000	-7.389		
	13.323	3.658	16.981	6.684	4.883
Drugs	9.862		9.862	1.772	1.703
Pay Award	11.226		11.226	4.167	2.245
Other Pay Issues			0.000	0.599	0.432
Other Supplies	4.681	0.000	4.681	0.201	0.110
Health and Service Level Agreements	4.357	0.000	4.357	1.615	1.471
Cost Pressures / Developments Approved	2.856	3.658	6.514	0.571	0.761
	32.982	3.658	36.640	8.926	6.723
Identified Efficiency schemes	2.750	5.542	8.292	1.000	
Savings gap	-16.909	5.542	-11.367	-1.242	-1.840
Total savings needed as a percentage of budget			2.76%	0.86%	0.97%