

Meeting of Lanarkshire
NHS Board
27th March 2019

NHS Lanarkshire
Kirklands
Fallside Road
Bothwell
G71 8BB
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"/>
--------------	-------------------------------------	-----------------	--------------------------	---------	-------------------------------------

The Board is asked to approve the financial framework set out in this paper as the basis for opening budgets in 2019/20. The framework does not include any discretionary items not already approved by the Board and represents the modelled cost of existing commitments at 2019/20 prices. The Board is asked to approve listed initial capital expenditure pending future consideration of a wider capital plan.

2. ROUTE TO THE BOARD

The process of developing the plan has involved Corporate Management Team discussions, 2 Board development sessions, and a preliminary overview to the Board in January 2018. Links with the IJBs' Chief Finance Officer have been made in developing the planning assumptions for the health element of the IJB budgets. The savings section of this plan will be developed further following engagement with the APF and ACF and Board members. The Plan itself will be reviewed in light of any additional Annual Operating Plan commitments. An update is expected to be brought to the May 2019 Board meeting.

3. SUMMARY OF KEY ISSUES

To be able to fully fund pay rises, increased expenditure on drugs, supplies inflation and increased expenditure on Information Management and Technology it is estimated that the NHS Board will have to supplement the anticipated increase in allocations with a minimum £22.214m of efficiency plans. £2.382m of further savings would be needed to deliver breakeven, though the reliance on £10.336m of non recurring savings means work has to commence early to identify a higher total.

The Capital Plan has been deferred to allow a more in depth consideration of the Monklands business continuity risks and will be brought back to the Board in May 2019. The Board is asked to approve listed expenditure of up to £2m in the interim

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 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"/>
------	--------------------------	-----------	-------------------------------------	----------------	--------------------------

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 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

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.

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

Meeting of Lanarkshire
NHS Board
27th March 2019

Lanarkshire NHS Board
Kirklands
Fallside Road
Bothwell G71 8BB
Telephone 01698 855500
Fax 01698 858272
www.nhslanarkshire.co.uk



SUBJECT: FINANCIAL PLAN: 2019/20 UPDATE

1. PURPOSE

This paper outlines the 2019/20 financial planning assumptions and risks, and asks for Board approval of the financial plan as a basis of issuing budgets. The financial plan presented is essentially a rollover budget, building in only those items to which the Board is already committed and not asking for any further approval of discretionary revenue expenditure. NHS budget uplifts for 2020/21 and beyond are not yet known. The Board is asked to note initial scenario planning for these years. The Board is being asked to approve initial capital expenditure of up to £2m in the first 2 months to allow work to continue on priority areas.

2. CONTENT/SUMMARY OF KEY ISSUES

NHS Lanarkshire has achieved financial breakeven without Scottish Government (SG) brokerage in previous years, although in 2018/19 £7.389m of expenditure had only been covered on a temporary basis. The Board's allocation is less than its expected share under the national resource allocation formula (NRAC) and in 2019/20 £2.2m will be released to NHS Lanarkshire to reduce the level of historic underfunding as part of a commitment to ensure no Board is more than 0.8% below its target share.

The £1,169.477m baseline recurring revenue allocation will receive an uplift of £29.750m. The Board has been told to assume the new medicines fund (which is only issued on a non recurring basis and had only been confirmed till December 2018) will continue and should be higher in 2019/20. The Board will receive a share of an additional £120m nationally for social care, to be passed to the IJBs along with £4.269m increased investment in primary care and mental health, ringfenced for those purposes.

Funding unavoidable pay, price and drug increases on a recurring basis will take a minimum of £22.214m more than the recurring budget available and will have to be covered from efficiencies. Since the creation of IJB's, the overall budget has been partitioned into 3 portions, 2 to cover the budgets delegated to North and South IJB and the third for the rest of health. This presents a differential financial challenge in each area with £17.899m minimum recurring savings to be found from non IJB budgets, £2.474m for North and £1.840m for South. Both IJBs have presented plans which, if delivered, would produce in year balance. The plans from the rest of Health are £2.382m short of in year balance and £12.718m short of recurring balance. Based on previous performance there could be a degree of confidence that the

£2.382m gap could be closed. Delivering a further £12.718m of savings on a recurring basis will require increased focus and a longer timescale.

It should be noted that this is a rollover plan with no provision made for any expenditure in addition to that already approved by the Board or mandated nationally. Any decision to incur additional expenditure will increase the gap to be filled by efficiency savings.

The challenge in 2020/21 is likely to be greater as pay modelling indicates this year, the third year of the 3 year deal, will have the highest percentage pay bill increase. It is important that planning for financial sustainability for 2020/21 and 2021/22 is given enhanced focus from early 2019/20.

The requests against the Board's initial capital allocation were far in excess of funding available. If the Board is able to achieve property disposals in 2019/20 it can direct these to the capital plan. Final decisions are not being made until after an April workshop on business continuity risks, particularly on the Monklands site. However, some schemes in progress need to be able to continue uninterrupted and these are being presented to the Board today for approval.

3. CONCLUSION

The NHS Board is asked to approve this financial framework as the basis for opening budgets noting that final decisions on efficiency savings, capital expenditure and any additional expenditure in year would be made at a later date. The Board is asked to note that the challenge in 2020/21 and beyond will be greater still and to initiate discussion on how to power up arrangements for seeking financial sustainability.

4. FURTHER INFORMATION

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

Laura Ace - Director of Finance
01698 858190

Laura.ace@lanarkshire.scot.nhs.uk

NHS LANARKSHIRE

FINANCIAL PLAN: 2019/20 UPDATE

1. Introduction

- 1.1. This paper presents the opening 2019/20 financial plan to the Board.

2. Opening Position

- 2.1. NHS Lanarkshire is expected to breakeven in 2018/19 but 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. Historically the Board has received less than its target share of funding under the NRAC formula and a parity adjustment in the 2019/20 allocation will reduce this gap in year to £5.189m.

3. Funding Uplifts 2019/20

- 3.1. The general revenue allocation will receive a £29.750m uplift.
- 3.2. In January 2019 the Board approved a budget uplift offer to the IJBs which was estimated to give an uplift of £11.238m to IJB base revenue budgets for services directly managed by the Chief Officers.
- 3.3. A New Medicine's fund, to help towards the cost of rare and high cost drugs, was introduced in 2014/15. Its amount varies each year, peaking at £10.688m in 2015/16 with £5.451m issued in 2018/19. The estimated funding for 2019/20 is £9.691m, £4.240m more than in 2018/19. An assumption has been made that funding will never fall below the 2018/19 level, with the £4.240m treated as non recurring at this stage in each of the 3 years of the plan.
- 3.4. In previous years the Board has relied on c £8m of national waiting times funding on top of its own service budgets. No indication has yet been given for funding in 2019/20, although an increased sum has been made available nationally. There is a lead time of several months in establishing additional capacity and, had the Board waited till funding was confirmed, additional activity would have ceased in April 2019 and not been reinstated till some months after the timing of any funding announcement. To avoid the impact this would have had on waiting lists, the Board committed its full year's internal funding for additionality to the first six months and assumed that a bid submitted for that period would be successful and bring in the further £3m needed to cover that commitment. Having used the full year's internal budget in the first six months, additionality in the second half of the year will be dependent on further successful bids against national funding.
- 3.5. In 2018/19 the Board lodged £4.800m of infrastructure funding with SG to ensure cover for projects and cost pressures extending beyond the current year. £3.853m is being called down for 2019/20 in this opening plan. This figure is provisional and will be firmed up once the capital plan and assessment of capital and revenue splits are complete.

- 3.6. The Board will receive a share of £120m nationally for social care. This plan provisionally builds in £7.320m into South and £7.440m into North IJBs budgets, and a 100% in year expenditure. £12m of the national funding relates to mental health counselling in schools which may not be routed through the IJBs. Figures will be revised once the allocation details are known.
- 3.7. The Primary Care Improvement funding will increase from £4.239m in 2018/19 to £7.767m in 2019/20 and £14.590m in 2020/21. In 2019/20 the £0.730m returned for 2018/19 will also be reissued. As South IJB Hosts Primary care this will pass into its budget and the assumption in this opening plan is for 100% in year spend. Additional Mental Health investment will increase from £1.358m in 2018/19, to £2.099m in 2019/20 and £2.963m in 2020/21, shown in north IJB
- 3.8. The NHS receives multiple specific allocations in year. The assumption at this stage that these will be as expected and be equally matched with expenditure so will not add to a pressure on the bottom line.

4. Expenditure

- 4.1. The Hospital Drugs bill is expected to rise by £11.702m (16.6%) with various new high cost medicines (over £100k per annum per patient) arriving on the market, growth in high cost cancer treatments and increased numbers of patients receiving treatment for hepatitis C. Opportunities through savings on existing drugs, either through price reductions or switching to equivalent products or better usage could, if achieved, help offset this by £2.768m.
- 4.2. A £4.832m rise, without further action, has been forecast for GP prescribing. Savings plans for £1.640m have been identified, which if delivered would keep the cost growth under the general 2.5% allocation uplift. During 2018/19 prescribing volumes were static in North but growing by in South where the challenge to stay within budget will be greater if progress with savings schemes does not catch up on North's.
- 4.3. 2019/20 is the second year of a 3 year pay deal for Agenda for Change. Based on our existing staffing a 3.6% rise has been forecast. The pay rise for non AFC staff (predominantly medical and dental) has not yet been announced but has been modelled at a level similar to that in 2018/19. Taking account of all pay costs a rise of £18.670m has been forecast for 2019/20.
- 4.4. It has been assumed that general supplies inflation will be 2.2%, with specific inflation rates modelled for energy and contracts linked to RPI based formulae. It has been assumed that service level agreements for health or social care will increase by 2.5%. £12.436m will be needed to cover these costs
- 4.5. A number of developments have already been approved nationally or by the Board. These include the £0.805m approved by the Board when reviewing phase 1 of the Orthopaedics rationalisation, £0.178m for regional developments and £1.435m for national specialist services, primarily related to cancer treatment. This section of the plan records the revenue expenditure against various E health projects, including LIMS, HEPMA, Community IT and the PACS refresh. The expenditure of £3m anticipated waiting times funding referenced in paragraph is included in this section

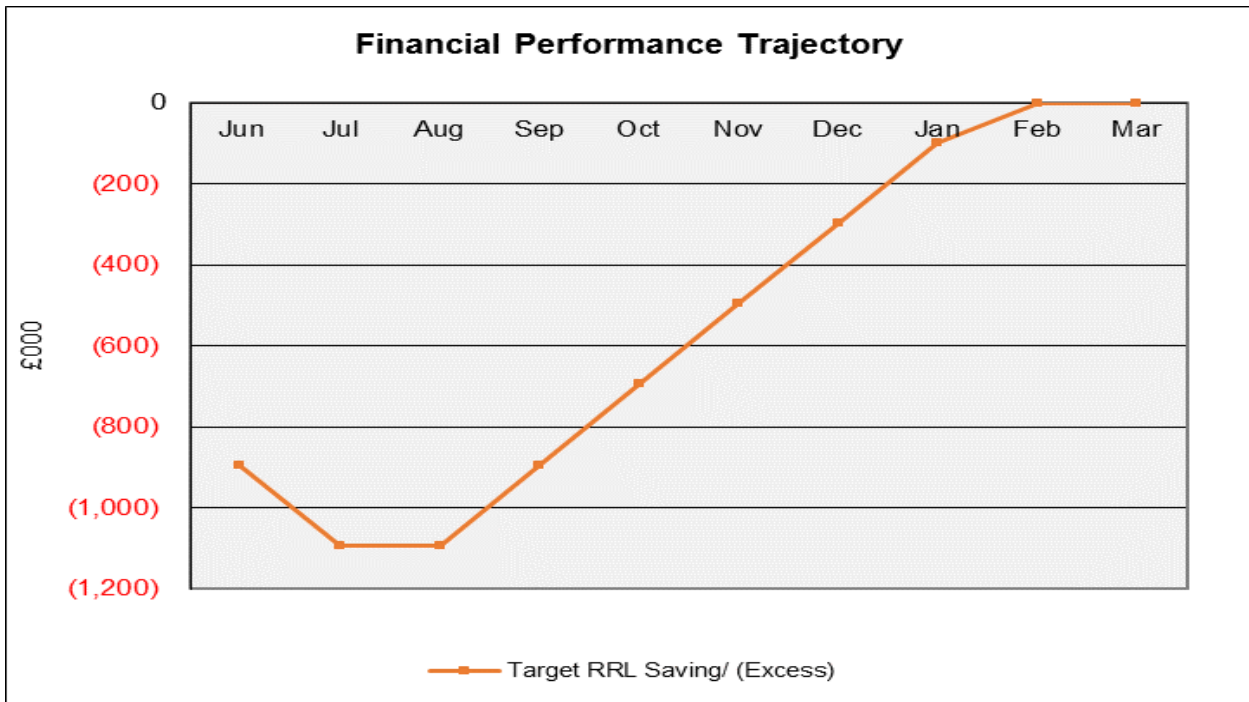
of the plan as is the full expenditure of the primary care and mental health additional funding. A cost pressure from the contingency arrangements for clinical waste until the new contract fully takes over has been recognised on a non recurring basis.

5. Efficiency Savings

- 5.1 Since the creation of IJBs, the NHS budget has been segmented into three portions, which have to plan to balance independently of each other. As there is differential cost growth across these sections, the financial challenge each faces differs. To balance, the IJBs need to make recurring efficiencies of c 0.96% (£4.314m) of budget in 2019/20. For the rest of health it is c 2.5% (£17.899m) owing to the high drugs growth, higher energy costs, higher contract growth and growth in national specialist services. NHS Lanarkshire's ability to stay within budget to date and its continued strong budgetary cost control has minimised the challenge faced for 2019/20.
- 5.2 With the exception of a small reliance on use of reserves, the IJBs have largely identified ways in which to close the budget gap. These involve a combination of prescribing efficiencies, a review of any underutilised budgets to redistribute the funding to growth areas, and relatively small scale savings projects. The IJBs are being presented with their budgets and savings schemes for approval on the 25th and 26th of March 2019.
- 5.3 The savings schemes presented by the rest of health fall £12.718m short on a recurring basis of the sum needed, though with £10.336m of non recurring proposals identified this leaves an in year sum of £2.382m still to be identified. Consideration of these schemes by the Area partnership forum, Area Clinical forum has still to take place after which they will be presented to Board members for review.

6. Cumulative Position

- 6.1 Combining the income, expenditure and efficiency projections described above, produces an overall picture as set out in appendix 1. Assuming identified efficiencies were delivered, this still leaves a minimum gap of £2.382m for the rest of health to find in 19/20.
- 6.2 If it is assumed savings schemes will deliver on a straight line basis the trajectory expected would be as set out below;



7. Risks

7.1 The overall risk rating on this plan is high as it represents the minimum forecast expenditure rise, with no allowance for any further developments or unexpected cost rises in year. It uses up the full year's additional Board budgets for waiting times in the first 6 months to avoid a gap in waiting times activity, relying on a further £3m from SG in the first 6 months and higher funding in thesecond 6 months. No funding as yet been confirmed. NHS Lanakrshire has a high level of cross boundary flow and is exposed to other Boards seeking to offset their own cost pressures through higher recharges. Although a very high percentage increase has been forecast for hospital drugs, the rate of introduction of new drugs at present could mean this is insufficient. No costs have been included in the plan for the increase in employer's superannuation from 14.9% to 20.9% in 2019/20 in line with planning advice that we should assume it will be fully funded.

8. 20/21 and 21/22

8.1 Appendix 2 rolls forward the 2019/20 position to the following 2 years. The Scottish Budget only covered 2019/20 so the 2.5% uplift assumption used in these years is no more than a reasoned guess. The impact of assuming different uplifts is contained at the bottom of Appendix 2.

8.2 2020/21 is the year that brings the largets percentage increase of the 3 year pay deal and a part year effect of that makes its way into 2021/22. Hospital drug increase forecasts have been entered at a lower level (c 9%) than in 2019/20 but the impact is still significant. Combining the higher cost increases with the, as yet unsolved, recurring gap of £12.718m and the absence to date of any longer term savings plans brings in a 2020/21 gap of £31.689m which more than doubles by the following year.

8.3 For the Board to retain financial balance, substantial effort will need to be expended in 2019/20 in order to address the forecast gaps.

9. Capital Plan

9.1 NHS Lanarkshire expects to receive a £12.393m capital allocation from SG and property receipts of £1.950m. There is the potential for a further property receipts (perhaps £2m) which SG has confirmed the Board can reinvest. SG have also set aside £2.4m to cover the MRRP development.

9.2 Requests for capital funding significantly exceed the funding available.

9.3 Decisions on the disposition of capital for 2019/20 are being deferred until after the board has had an opportunity to consider the business continuity risk profile in Monklands after which a 3 year plan will be brought to the Board for approval. However there are already approved projects in train and some high priority work that needs advanced immediately. The Board is therefore asked to approve the following expenditures in advance of the wider plan.

- £1.5m for fire safety works in Monklands
- £0.05m for forensic medical service accommodation agreed and funded through a national plan
- Any ongoing work for HEPMA, LIMS , PACs and Community IT in line with business cases previously approved by the Board
- Any emergency replacement of essential equipment
- Work on the MRRP programme as appropriate

9.4 It is anticipated a plan will be brought back to the Board in May 2019 and that expenditure in the first 2 months against these headings will be under £2m in totality.

10. Conclusion

The Board is asked to approve:

- The roll over budget as a basis for operating from 1 April 2019 until such time as the Board approves any amendments to that plan;
- Early capital expenditure on the items listed in section 9.3 of not more than £2m in totality in the first 2 months.

The Board is asked to note:

- The £2.382m unidentified savings at this stage alongside other uncertainties;
- The further reliance on £10.336m of non recurring savings, giving a £12.718m recurring gap.
- The worsening projection for 20/21 onwards
- The risks set out in section 7.1

APPENDIX 1: NHS LANARKSHIRE FINANCIAL PLAN 2019/20

	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		
New funding for integration authorities				8.181	11.578
Other funding	0.000	6.853	6.853	0.439	0.548
New Medicines Fund	3.289	4.240	7.529		
cfwd previous year	0.000	0.000	0.000		
cfwd recurring	-7.389	0.000	-7.389		
	16.612	11.093	27.705	15.136	16.848
Drugs	11.702		11.702	2.176	2.206
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	2.546	6.853	9.399	8.852	12.222
	34.512	6.853	41.365	17.611	18.687
Identified Efficiency schemes	5.182	6.096	11.277	2.474	1.840
Savings gap	-12.718	10.336	-2.382	0.000	0.000
Total savings needed as a percentage of budget	2.51%		1.92%	0.95%	0.97%
	17.899		13.659	2.475	1.840

APPENDIX 2: NHS LANARKSHIRE FINANCIAL PROJECTIONS 20/21 and 21/22 BASED ON EXISTING COMMITMENTS

	2020/21 Total £m	2021/22 Total £m
Income		
General Allocation	29.983	30.733
NRAC	0.000	0.000
New funding for integration authorities	7.687	5.590
Other funding	1.309	0.125
New Medicines Fund	4.240	4.240
cfwd previous year	-2.382	-31.689
cfwd recurring	-12.718	-29.307
	28.119	-20.308
Drugs	11.173	11.262
Pay Award	23.882	12.894
Other Pay Issues	0.254	0.254
Other Supplies	4.865	4.981
Health and Service Level Agreements	7.629	7.820
Cost Pressures / Developments Approved	12.006	7.635
	59.808	44.846
Identified Efficiency schemes	0.000	0.000
Savings gap	-31.689	-65.154
Savings gap if 1.5% uplift	-43.682	-101.613
Savings gap if 2.7% uplift	-29.290	-57.833

Note: Only the 19/20 allocation uplifts are known. Future years percentage rises are illustrative only.