Meeting of Lanarkshire NHS Board
27th March 2024

Lanarkshire NHS Board
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SUBJECT: FINANCIAL PLAN: 2024/25 – 2026/27

1. Purpose

This paper updates the Board on the financial projections for 2024/25 to 2026/27 and the work in progress to close the gap and create a financially sustainable position. The figures reflect those in the latest submission to SGHSCD.

2. 2024/25 Summary Overall Position

The projected financial position before any savings for 2024/25 for NHS Lanarkshire and the health elements of North and South Lanarkshire Integration Joint Boards is set out in the Table 1.

Table 1

	Rest of Health			Delegated to IJBs		
	2024/25 Rec £m	2024/25 Non rec £m	2024/25 Total £m	2024/25 North £m	2024/25 South £m	2024/25 Total £m
Income	6.926	46.437	53.363	17.936	27.434	98.732
Cfwd deficit	-58.087		-58.087			
Drugs	11.410	0.000	11.410	9.377	12.335	33.122
Pay Award	2.547	0.000	2.547	0.115	0.106	2.768
Other Supplies	9.829	0.000	9.829	0.463	0.142	10.434
Purchase of Healthcare	1.403	0.000	1.403	0.062	0.015	1.481
Developments	7.216	17.461	24.676	22.205	28.368	75.249
Expenditure Rise	32.404	17.461	49.865	32.222	40.967	123.053
Gap before savings	-83.565	28.976	-54.589	-14.286	-13.533	-82.408

Each element is described in more detail in the paragraphs below.

A financial gap of this scale cannot be closed by traditional efficiencies alone. To bring the service sustainably within the available financial envelope significant transformation and reform will be needed. Potential opportunities totalling £76.157m have been identified and if they could be delivered it would reduce the in year gap to £6.251m. By their nature, these schemes will involve considerable planning and engagement. The risk that this level of savings could not be delivered within a year is therefore high and advancing the transformation agenda will be a key organisational priority.

3. Income

The rollover baseline revenue resource limit for NHS Lanarkshire for 2024/25 is £1,424.1m. This incorporates the 2022/23 and 2023/24 pay deal funding as well as sustainability funding issued in 2023/24. There is no further uplift at this stage for 2024/25 cost rises. This means the predicted rise in drug costs, the impact of inflation on supplies and any other cost pressures in 2024/25 will have to be met entirely from finding savings from existing services. The impact of any 2024/25 pay deal is unknown at this stage and not included in the plan. It is assumed that when known there will be funding issued to cover the cost of it.

NHS Lanarkshire sits below its target share of national resources under the NRAC formula. To ensure it is within 0.6% of that target it will receive £6.926m extra in 2024/25. Apart from any pay deal funding this is the only additional recurring money expected in year.

In year the Board can expect upwards of a 100 separate funding allocations. The majority of these are non recurring and ringfenced for particular purposes and neither add nor detract from the overall financial position. Of note however are:

- Planned Care: £14,224m was provided to the Board in 2023/24 with an indication that we would continue to receive this in future years. However, we are required to submit a plan for SG approval and funding could be contingent on that.

- New Medicines Funding: In 2023/24, £30.781m of non recurring funding was received to help towards the cost accumulated over many years from the introduction of new, high cost new medicines. In 2024/25 £8.619m less is expected (£22.162m). The historic financial plan assumed we will always receive at least £5.415m so the difference of £16.711m is shown on the face of the plan. It should be noted that the income is non recurring but the expenditure is recurring which is one of the reasons for a net positive in the non recurring column.

- Non recurring Financial Support: Late in 2023/24 Board's facing an in year deficit were issued with a share of £150m funding as a consequence of UK spending agreements. NHS Lanarkshire was by then forecasting breakeven so has been guaranteed its £18.469m share in 2024/25 to help bridge the gap. Likewise, Boards were told the charge for the CNORIS scheme would be £4.246m less than initially advised. Again, NHS Lanarkshire has been guaranteed this benefit in 2024/25.

- Infrastructure Projects: At various points since 2016 the Board has approved infrastructure business cases with ongoing costs and lodged the funding for the future years with SG so that the ongoing costs could be covered. Based on the profile of costs we expect to draw down £ 2.823m of this funding. This leaves £ 3.070m with SG for 2025/26.

- Other Ringfenced Allocations: Normally we would expect over 100 in year allocations. Uncertainty while waiting for them to be confirmed is unhelpful and SG have pledged to issue the majority in quarter 1. The starting presumption is income will equal expenditure with no impact on the bottom line. A number of the larger value allocations are included in the plan summary both as income and expenditure under the development section. This includes the vaccination programme, the primary care improvement fund and mental health funding.

Annex 1 provides a list of the income elements featured in the financial plan.

4. Brought forward recurring deficit

Since 2010 the annual uplift in funding has been less than the increase in costs meaning the Board has had to seek efficiencies to stay within budget. Between 2016/17 and 2019/20 the Board was having to top up the recurring savings achieved in year with c £8m of non-recurring measures to balance its budgets, which was manageable given the scale of the Board's operations. On March 2020 the Board was put on emergency footing to respond to the Covid-19 pandemic. The various waves of Covid-19 plus the legacy impacts have brought in additional cost as well as moving the focus to the immediate problems of stabilising and recovering the health system.

For the first 2 years, additional Covid-19 funding kept the Board in balance but with ongoing additional costs and little bandwidth during that period to look at financial sustainability the underlying deficit was growing. By the start of 2022/23 it was £24.254m. High inflation and energy costs in 2022/23 plus the continued rise in new medicine expenditure widened the gap between costs and income. SG provided cover for additional costs linked with covid-19 in 2022/23 but with an estimated £7.730m of these carrying on, this too increased the recurring gap. Finally, the acute division overspend, fuelled mainly by workforce pressures, has increased by £11.700m over the £5.300m level recognised previously. The recurring gap carried forwards into 2023/24 was £54.413m. Further rises in drug and energy costs plus a further increase in the acute deficit beyond that which could be managed by additional savings in 2023/24 has taken the underlying deficit to £58.087m. The £16.711m New Medicines funding in the non recurring column partly offsets this.

Despite the high underlying deficit, the Board is forecasting breakeven in 2023/24. Analysis of how this has been achieved, showing the high reliance on non-recurring measures, has been provided as an annex to the monthly paper to the NHS Board or PPRC.

In keeping with SGHSCD policy to develop community and primary care services to support the growing health demands, most of the ongoing development funding over the period from 1/4/16 when the IJBs became live has been directed to the IJBs. A combination of the inevitable time lapses between being notified of the funding and planning and recruiting to the new models of service and underspends due to turnover in existing budgets have meant the IJBs have shown a surplus against their health budget each year. Having to cover the growth in prescribing costs from 2022 through to 2024 has eroded any general financial flexibility moving in to 2024/25.

5. Pay Growth Predictions

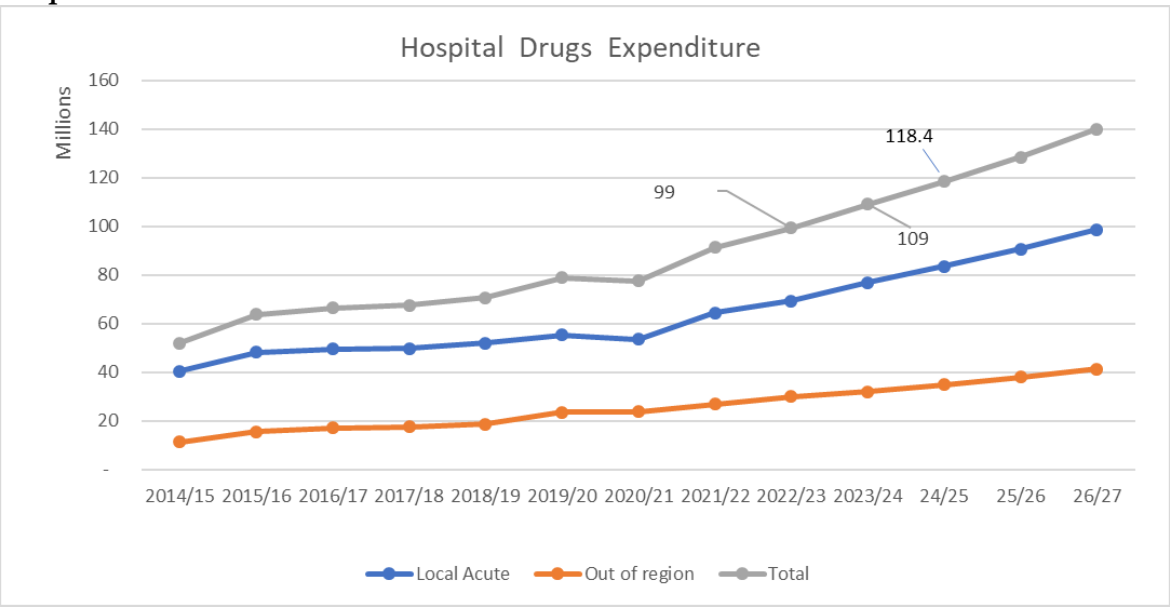
To maintain consistency Boards have been advised not to build in any estimates for the costs of any 2024/25 pay deal to be agreed or the costs of the various commitments made in 2023/24 regarding a reduced working week, a review of band 5 nursing posts and protected learning time. Should the eventual cost of these exceed any associated funding this would add to the financial gap. It has been assumed they will be funded.

The pay elements included in this version of the financial plan relate to local factors such as the ongoing impact of the HCSW rebanding from 2 to 3, the award of consultant discretionary points and incremental rises.

6. Medicines Growth

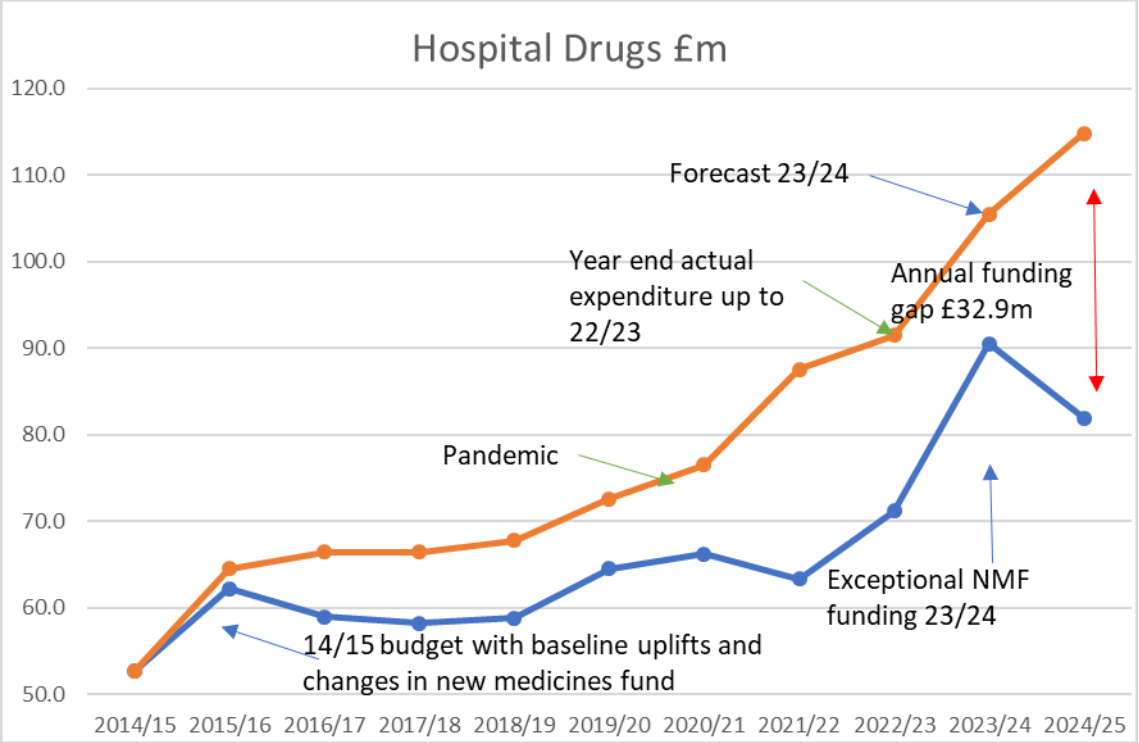
The adoption of new higher cost treatments has led to an annual growth in the expenditure on hospital medicines far in excess of the annual allocation uplift in every year other than the first year of the covid-19 pandemic when normal treatment pathways were most disrupted. Expenditure is forecast to reach £109.040m by the end of 2023/24 and increase by 8.8% per annum over the next 3 years. Graph 1 below shows how costs have risen from 2014/15.

Graph 1



Every year the growth in drugs costs exceeds the uplift provided means to stay in balance the Board needs to reduce the cost of other services by the same amount**.** **G**raph 2 below illustrates how by 2024/25 this means savings of £32.9m on an annual basis from other services are needed to cover this fast rising drug expenditure This has been a major contributor to the Boards underlying recurring deficit.

Graph 2



7. Inflation on Supplies and Energy

With no allocation uplift to cover inflationary rises in supplies and energy, all increases need to be covered by compensating efficiencies to stay within balance. It has been assumed general supplies will experience an uplift equal to CPI estimated at 2%. The energy cost rise modelling is based on our actual usage and the forward rates in the national energy contract. Each PFI contract has its own inflation formulae linked to RPI.

Table 2

Other Supplies Inflation	**2024/25 NHS Board £m**	**2024/25 North £m**	**2024/25 South £m**	**2024/25 Total £m**
General Supplies	2.153	0.463	0.142	2.758
Rates and Water	0.331			0.331
Heating, Fuel and Power	5.983			5.983
PFI	1.362			1.362
	9.829	0.463	0.142	10.434

The supplies inflation disproportionately impacts on the NHS Board as it manages the properties and associated hotel services provision as well as having a higher proportion of its budget on clinical supplies.

8. Uplift on Service Level Agreements

NHS Lanarkshire has a very high level of cross boundary activity with a £222.728m base budget for other NHS providers disbursed by the Board and £12.283m covered by the IJBs. The previous national agreement is that these SLAs will receive an uplift equal to the allocation uplift plus a share of any pay award funding. An additional 0.63% has been added non recurringly in the previous 2 years for the high energy costs.

Following that convention, only 0.63% has been included in the financial plan for a 2024/25 uplift. This is an area of risk as provider Boards are likely to argue they will be experiencing a financial gap due to the need to cover the cost pressures on services provided to other NHS Boards.

The healthcare SLAS are still apportioning costs on pre pandemic activity levels which means relative changes in where activity is flowing have not been picked up in the costings. The potential for rebasing in 2024/25 introduces a further uncertainty into these projections.

There are £137.098m of agreements with or funding transfers to other health and social care providers, mainly the local authority through previous resource transfer or social care funding. As the general allocation uplift was zero it has been assumed that these agreements will receive no uplift in 2024/25.

9. Cost Pressures and Developments

The January version of the Financial Plan included c £2m for an expansion in TAVI and CAR – T. SGHSCD asked Boards to remove these from the March submission for consistency but it remains a risk that we are asked to reinstate these.

There is a forecast £0.511m increase in the topslice for national specialist services and a £2.282m increase in the CNORIS charge. The cost of M 365 is expected to increase by £0.310m over previous estimates. We have been instructed to pick up an additional £0.155m of the national Children's Hospice costs. The combination of national and local charges for the roll out of the e rostering are estimated to be £0.958m for 2024/25. The latter costs have been entered non recurringly in the financial plan on the premise improved rostering was to lead to cash efficiencies. At this stage none have been released**.** Glasgow have indicated we are to be billed £0.275m for supplies costs in the West of Scotland trauma centre. £0.208m has been entered in the plan for increased bin collection frequency at UHM until a sustainable solution can be found.

£6.000m has been included as the part year impact of a £10m investment in transformation. The specific business cases against that fund will all be considered on their own merit and it is anticipated approval to proceed will be sought from SGHSCD in the same way as the £5.9m investment in Operation Flow was advanced.

The residue of developments in this section relates to expenditure covered by the banked infrastructure funding and the ringfenced allocations referenced in paragraph 3.

10. Efficiency Programme

To balance the plan, the Board and HSCPs would have to find £82.408m of savings in year. Closing a gap of this size would rely heavily on transformation and redesign and there would need to be considerable planning and engagement to deliver this sustainably.

There are 11 key workstreams within the programme, each coordinated by a Senior Responsible Officer and with clearly assigned director responsibilities for delivering individual schemes within each workstream. The areas of focus are set out in Table 3:

Table 3

		Workstream	Key Priorities	SRO + Support
1		Reduction in Core Beds/Occupancy	Acute Bed & Workforce Blueprint Reduce LOS, Adm, Delays & Increase Wd Beat, am D/C Offside Bed & Workforce Blueprint	DoA CO's
2		Medicines Cost Reduction	Acute Primary Care + Polypharmacy Medicines Wastage	MD DoP
3		Workforce Optimisation	Reduce Nurse Agency & Medical Locums Reduce Sickness Absence to 6% / Excess Pay /ePayslips Improve Skillmix & Define Workforce Blueprint	HRD
4		Corporate Efficiencies	Corporate Teams – Exec CRES Schemes PA Review, Procurement, Technical Accounting Offside Bed & Workforce Blueprint	DoF DPPP
5		Transform & Reform	Digital Front Door & Digital Infrastructure Virtual Wards/Wearables/OOH Interface/ FNC+ Plus/ eTriage	DPPP DoN
6		Optimise U/S Care	New Acute Bed & Workforce Blueprint UQ LOS, Beat, am D/C ED eTriage, Minors, Redirection, FNC+ Plus Direct Admission Specialities 1-2 sites with Direct Admission, Frailty Front Door	DoA
7		Optimise Planned Care	Theatre Efficiency Redefine Core Capacity/Cost + Options Define Activity, Cancer, Diagnostics	DoA
8		Mental Health	Reduce Inpatient Beds Improve Performance CAMHS /Psych Therapies	CO NL
9		Primary Care	Complete 10,000 patient review & define new pathways Improve GP Access & harness to FNC+ Plus Align Models of Care N + S/L, Direct Admission/wearable	CO SL
10		Population Health	Assess & Redefine Priorities/SMART objectives Health Behaviours, Clinical Care Prevention & Protection, Anchor Influence/Actions	DoPH
11		Bridging Actions	Vacancy Management Board, Exec Grip, Scrutiny, Agency	All

Corporate Directors with central functions have each been given a target of 6% which would generate £3.228m. Although finding efficiencies to this level will involve hard work it is within the gift of the Board to action and so has been assumed as deliverable.

The Property and Support Services Division has been given a similar percentage target which if delivered would generate £2.442m of savings. They have generated a long list of potential areas which are now being worked up further. These range from the more straightforward, such as disposing of surplus property, to more involved changes in how support would be delivered to clinical services that will require more engagement.

The HSCPS are required to deliver breakeven on their own budgets and are working up plans in line with the 11 workstreams above to do this. Based on latest estimates this would require North to deliver £14.286m of savings and South to deliver £13.533m. Both HSCPS are also identifying

significant bridging actions, recognising the longer timescale needed to agree and implement changes.

The Acute Division has identified a list of areas with potential for action which will now be taken through more in depth planning in line with the workstream structure above. If all were realisable they could generate £ 27.492m but these have the highest risk profile at this stage.

A more sophisticated local risk assessment categorisation is being developed to encapsulate which savings need Board or SG authority to proceed. The SGHSCD return has a more general delivery risk rating and using it against the long list of £76.157m areas of opportunity being further developed just now would give the following indicative risk split.

Table 4

SG Delivery Risk Profile	**L**	**M**	**H**
	£	**£**	**£**
IJB Recurring	3075000	12379667	350000
IJB Non recurring	5250000	6764333	
Rest of Health recurring	8444161	5041023	22265504
Rest of Health Non recurring	11526159	600000	460948
	28295320	24785023	23076452
	37%	33%	30%

Setting the £76.157m against the £82.408m financial gap would take the Board within £6.251m of breakeven.

In previous year's financial plans risks in the high and medium category would initially be discounted further to take account of the potential risk of longer timescales or inability to proceed. As more work takes place on the proposals the estimates of what is deliverable within 2024/25 will be revised. Other mitigating measures will also be sought.

11. Risks

The £82.408m in year gap between projected costs and income and the scale of the savings needed to be delivered is the single largest financial risk facing the Board. There are many factors which could increase this. These include:

- The pay deal not being fully funded.
- Supplies inflation averaging more than 2%. Every 1% increases costs by £1.5m;
- As all NHS Boards face gaps in their financial plans there is a risk that additional income is sought by other Boards from those using their services. Every 1% increase would be the equivalent of £2.4m.
- Being asked to reinstate investment in Car-T and TAVI. This would equate to c £2m.

12. 2025/26 to 2026/27

We have been told to plan on no uplift in future years. Even achieving the savings in section 10 above leaves us with recurring opening problem which is then exacerbated by drugs and supplies costs continuing to rise without any allocation uplift to cover them. Table 5 illustrates how this will rise without further savings.

Table 5

	2025/26 Rec £m	2025/26 Non rec £m	2025/26 Total £m	2026/27 Rec £m	2026/27 Non rec £m	2026/27 Total £m
Income	0.000	69.339	69.339	0.000	66.269	66.269
Cfwd deficit	-66.456		-66.456	-78.091		-78.091
Drugs	10.164	0.000	10.164	11.012	0.000	11.012
Pay Award	1.113	0.000	1.113	1.196	0.000	1.196
Other Supplies	4.266	0.000	4.266	4.746	0.000	4.746
Purchase of Healthcare	0.000	0.000	0.000	0.000	0.000	0.000
Developments	4.304	53.198	57.502	0.537	52.536	53.073
Expenditure Rise	19.847	53.198	73.046	17.490	52.536	70.027
Gap before savings	-86.303	16.141	-70.162	-95.581	13.733	-81.848
Potential savings	8.212	16.144	24.356	0.000	11.549	11.549
Residual gap	-78.091	32.285	-45.806	-95.581	25.282	-70.299

13. Recommendations

The Board is asked to note:

- The underlying gap at the start of 2024/25 is £58.087m and modelling the likely increase in costs this would rise to a net £82.408m deficit in year across the system without further action;
- That there are a range of risks (section 11) which could cause this position to deteriorate;
- A significant transformation programme has been initiated, currently with £76.157m areas of opportunity being further developed. £51.555m of these are potential recurring, the rest one off;
- That, without an allocation uplift in future years, rising drugs and supplies costs plus any unfunded element of pay deals will increase the underlying gap and require further savings to breakeven.

LAURA ACE
DIRECTOR OF FINANCE
21 March 2024

Income included in Financial Plan Summary **Annex 1**

	Rest of Health			Delegated to IJBs	
	2024/25 Rec £m	**2024/25 Non rec £m**	**2024/25 Total £m**	**2024/25 North £m**	**2024/25 South £m**
Income					
General Allocation	0.000		0.000		
NRAC	6.926		6.926		
New Medicines funding above 5.415m	0.000	16.711	16.711		
Banked Infrastructure Funding *		2.823	2.823		
Vaccinations, Test and Protect*		10.816	10.816		
Share of funding to reduce gap		16.087	16.087	3.446	3.181
Multi-disciplinary teams*			0.000	1.996	2.013
Mental Health Outcomes Framework*			0.000	2.461	2.292
Alcohol and Drug Partnership Investment*			0.000	2.562	1.150
School Nurse Posts*			0.000	0.840	0.776
District Nurse Posts*			0.000	0.607	0.561
Family Nurse Partnership*			0.000	0.837	0.773
Primary Care Improvement Fund*			0.000		16.689
Mental Health Action 16*			0.000	3.930	
Specialist Community Perinatal Mental Health, Infant Mental Health and Maternity Psychological Interventions*			0.000	1.256	
	6.926	46.437	53.363	17.936	27.434

Allocations flagged with * are matched exactly with expenditure in the development section of the financial plan

There are many more allocations to be issued in year – these are included as there is greater certainty over their amount.