

**DUMFRIES and GALLOWAY NHS BOARD****PERFORMANCE COMMITTEE**29<sup>th</sup> January 2018**Draft Financial Plan - 2018/19 to 2020/21****Author:**

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The Performance Committee is asked to note:

- The draft Scottish Government budget for 2018/19
- The impact on NHS Dumfries and Galloway's Financial Plan
- The level of savings required to deliver financial breakeven for 2018/19

**CONTEXT****Strategy / Policy:**

Dumfries and Galloway Health Board is required to prepare a revenue Financial Plan for 2018/19, of which the details around the guidance and deadlines have yet to be issued by the Scottish Government.

This paper summarises the work to date on the 2018/19 position and the likely level of efficiencies required to deliver financial breakeven position.

**Organisational Context /Why is this paper important /Key messages:**

The Board has a statutory requirement to deliver a breakeven financial position year on year. For 2017/18, despite the challenging financial position, the Board is on target to deliver a breakeven position primarily due to the high level of non-recurring savings identified to balance the position.

This is an initial draft Financial Plan (**Appendix 1**) with significant further work required before a balanced financial position can be brought to Board for approval. Further clarification is expected on a number of the new allocations particularly around the Transformation Change Fund to assess additional funding for NHS Dumfries and Galloway.

## **GLOSSARY OF TERMS**

AFC	-	Agenda for Change
ASRP	-	Acute Services Redevelopment Project
CRES	-	Cash Releasing Efficiency Savings
FBC	-	Full Business Case
IJB	-	Integrated Joint Board
LDP	-	Local Delivery Plan
NMF	-	New Medicines Fund
NRAC	-	National Resource Allocation Formula
PPRS	-	Pharmaceutical Price Regulation Scheme
RRL	-	Revenue Resource Limit
SG	-	Scottish Government
SGHSCD	-	Scottish Government Health and Social Care Directorate
SMC	-	Scottish Medicines Consortium

## MONITORING FORM

Policy / Strategy Implications	Achieving Financial Balance
Staffing Implications	Not applicable
Financial Implications	Part of the financial planning and reporting cycle
Consultation / Consideration	Not applicable
Risk Assessment	Part of paper
Sustainability	Financial Plan supports the sustainability agenda through the delivery of efficient solutions to the delivery of CRES.
Compliance with Corporate Objectives	<ul style="list-style-type: none"> <li>▪ To maximise the benefit of the financial allocation by delivering efficient services, to ensure that we sustain and improve services and support the future model of services.</li> <li>▪ To meet and where possible exceed Scottish Government goals and targets for NHS Scotland.</li> </ul>
Single Outcome Agreement (SOA)	Not applicable
Best Value	This paper contributes to Best Value goals of sound governance, accountability, performance scrutiny and sound use of resources.
<p>Impact Assessment</p> <p>Financial decisions are impact assessed at the point of service and financial planning and therefore no specific action required for this paper.</p>	

## **Introduction**

1. All Boards are required to produce Local Delivery Plans (LDPs), supported by Strategic Financial Plans to demonstrate how delivery of a balanced financial position can be achieved and how performance targets can continue to be delivered. The Board is required to submit a draft Financial Plan to the Scottish Government Health & Social Care Directorates (SGHSCD) as part of the Board's LDP.
2. The Board has a statutory financial target to deliver a breakeven position against its Revenue Resource Limit (RRL). For 2017/18, the efficiency savings requirement increased to 7% as a result of the lower allocation levels and exceptional cost pressures. For 2018/19, it is expected that this level of savings will be at similar levels given the gap on 2017/18 recurring savings target of £9.8m met on a non-recurrent basis for 2017/18.
3. Overall, the Board has delivered its financial targets year on year and has successfully banked in previous years £7m of a surplus with the Scottish Government to provide non-recurring support for the commissioning and double running costs of the New Hospital and implementation of the Clinical and Service Change Programme.
4. Revenue resource limits were notified to NHS Boards following the draft budget announcements in December, this paper sets out the implications of this and the review of financial assumptions underlying the Plan.

## **Draft Scottish Budget 2018/19 Board Allocations**

5. On 14th December 2017, the Scottish Government published its draft budget for 2018/19 which informs the NHS Boards setting process.
6. The budget advises an increase of £66m for Council Funding for Social Care to support, living wage, sleepover pressures, Carers Act, Free Personal Care and other social work pressures. Allocation to IJB is subject to Council's budget setting processes.
7. The implications and key headlines for NHS funding is summarised below.
8. Funding increase of £354.5m of which £175m is directed to reform and transformation and £179.5m into Boards baselines.
9. There are a number of areas to consider around the baseline funding of £179.5m and these are set out below:
  - 1.5% uplift for territorial boards
  - £30m for NRAC (National Resource Allocation Formula) parity
  - £6m to Scottish Ambulance Service
  - £350m to be transferred to Social Care (as previously agreed)
  - £20m to Alcohol and Drug partnerships

10. Scottish Government has increased investment in reform and this is detailed below totalling £175m.

**Table 1**

	<b>2017-18 (£m)</b>	<b>2018-19 (£m)</b>	<b>Increase for 2018-19 (£m)</b>
Transformational Change Fund	25	126	101
Primary Care	60	110	50
Mental Health	30	47	17
Trauma Networks	5	10	5
Cancer	8	10	2
<b>Total investment in reform</b>	<b>128</b>	<b>303</b>	<b>175</b>

11. This funding will be used to support:

- Regional delivery plans/service plans/new models/digital capability
- Elective performance improvements
- New GP contract
- Increase in Mental Health workforce
- Trauma Networks/Cancer

12. The requirement for Boards to pass across £350m of the baseline uplift to Integration Boards to support Social Care pressures remains, and whilst there are no specific directions or conditions, the expectation is that funding should remain at previous year's levels. Further detail is expected on the funding for reform and how this resource will flow to Boards.

13. The impact for NHS Dumfries and Galloway is summarised in the table below:

**Table 2**

<b>NHS D&amp;G Resource Uplift</b>	<b>2018/19</b>	
<b>Resource Budget</b>	<b>284.8</b>	
Baseline Uplift	4.3	1.50%
NRAC Parity	0.0	0.00%
<b>Subtotal</b>	<b>4.3</b>	<b>1.50%</b>
<b>TOTAL</b>	<b>289.1</b>	

14. Clarification is required on a number of additional allocations with the New Medicines Fund (NMF) assumed as £35m and no confirmation on the bundled allocations.

### **Funding Banked with Scottish Government**

15. The Board has banked a total of £7m with the Scottish Government in previous financial years to provide non-recurring support for the commissioning and double running costs of the New Hospital and implementation of the Clinical and Service Change Programme.

16. It is planned that funding will be required to be returned to the Board, as per the table below, and this was reflected in the planning assumptions in the draft Financial Plan for 2017/18 onwards. These assumptions are consistent with the previous position agreed with Scottish Government. However, as part of the latest review of the financial position for Quarter 3, if some of this resource isn't required in year we may consider slipping some of the £4m from 2017/18 into next financial year.

**Table 3**

Brokerage	Banked to date	2017/18	2018/19
	£m	£m	£m
In-year carry forward banked with SG	7.0		
Required by the Board		4.0	3.0

### Financial Plan 2018/21

17. The three year Financial Plan for 2018/19 to 2020/21 is included at **Appendix 1**. This has been built up using a range of assumptions which are explained in detail later in the paper. The Cash Releasing Efficiency Schemes (CRES) gap for 2018/19 has been initially quantified at £23.4m, this will be refined through the development of the Plan during February and March.
18. The Financial Plan has been developed with a range of pay and prices assumptions which are summarised in the table below:

**Table 4**

	2018/19 Inflation rate
Pay Awards – AFC & Medical	3% up to £30k, 2% up to £80k and cap of £1,600 beyond this
General Inflation Detail	2.0%
Utilities – Electricity	10%
Utilities – Gas	4%
External Contracts	1.5%
Drugs - Secondary care	8.0%
Drugs - Primary Care	5.0%

## 2018/19 CRES Targets

19. NHS Dumfries & Galloway has identified a CRES requirement of £23.439m in 2018/19 which increases up to £42m recurring requirement over the three year timescale. This is summarised below:

**Table 6**

<b>Summary CRES</b>	<b>£000s</b>
Recurring balance b/f	9,791
Medical Locums	5,000
Recurring 2018/19 CRES	7,895
Non-recurring 2018/19 CRES	2,853
Reserve Review/Cost Pressure Review	(2,100)
<b>TOTAL</b>	<b>23,439</b>

20. This represents a 8.01% target when compared to the Boards recurring baseline allocation and 6.7% when compared to total spend. This far exceeds CRES targets previously delivered as a Board.
21. Work to allocate this target across the IJB and Health Board is ongoing and will be developed as the CRES position is worked through. It is envisaged the principle of passing on the full NHS Board Uplift to the IJB will be continued.
22. Work is ongoing through the IJB to further progress the business transformation programme and a workshop is planned for members on 1st February 2018 to provide an update.
23. Quantification on the scale and deliverability of savings for 2018/19 is underway.

## Acute Services Redevelopment Project (ASRP)

24. The Financial Plan for 2015/16 recognised the full Board financial commitment for ASRP by making provision for the recurring revenue implications of this development of £8.8m. This recognises the increased cost identified in the Full Business Case (FBC) and provides a contingency of £0.6m to reflect inflationary and other potential increases between FBC approval in December 2014 and the hospital operational date of November 2017. During 2016/17, ongoing discussions with the Clinical and Service Change Team have recognised a shortfall in this funding to support the new clinical models as the workstreams develop the detailed models. This was recognised as a new cost pressure in 2017/18. Now that the hospital is operational, an assessment of the actual costs of the New Hospital will be undertaken. Work is also required to be concluded around assumptions for double running costs for 2018/19 and beyond, these have been estimated in the current plan.

## **Pay Uplift Assumptions**

25. In the draft budget, Scottish Government confirmed its Public Sector Pay Policy for 2018/19 with uplifts yet to be agreed by the pay review bodies. This was confirmed with a 3% increase for all staff paid under £30k and a 2% cap on staff paid over £30k up to a maximum increase of £1,600.
26. It is yet to be confirmed whether additional resource will be allocated from the UK Treasury's to fund the increase in pay costs for Agenda for Change staff over and above the 1% pay threshold and this will hopefully be clarified soon.
27. For 2018/19, budget setting pay budgets will be rolled over without any additional resource for incremental drift. In previous years, this has been assessed at around £1.8m financial risk.

## **Primary Care Prescribing**

28. The uplift figure in the 2018/19 plan for prescribing of £1.568m (5%) reflects the collective view of the West of Scotland Regional Finance Group, combining both volume and tariff changes experienced throughout 2017/18, forecast forward for anticipated growth in 2018/19. Further work is being undertaken locally to confirm the appropriateness of this modelling within Dumfries and Galloway Region.

## **Secondary Care Drugs**

29. Similarly, the uplift required for Secondary Care Budgets of £1.186m (8%) has been assessed upon a West of Scotland Regional basis, including an assessment of drugs likely to be funded via Scottish Medicines Consortium (SMC) in the new year.
30. For 2017/18, we have been advised to plan on the basis of funding for NMF assuming Pharmaceutical Price Regulation Scheme (PPRS) receipts of £30m (possible range between £25m-£35m). The impact for Dumfries and Galloway would be a financial pressure of £1.951m, assuming no change to government policy and assessing new drugs awaiting SMC approval.

## **General Non-Pay Uplifts**

31. General supplies increases have been assumed at 2% for all Non-pay budgets excluding energy, which has been modelled on a higher assumption for electricity price increases seen recently, at 10% and gas increases of 4%.
32. In addition, specific provision has been made for the rates revaluation which is expected to impact in 2018/19, with the full-year impact for the rates increase, including the New Hospital costs estimated at £1.5m. This estimate requires further work to understand the financial risk and also to assess the double running costs of Mountainhall Treatment Centre.

## **Developments and Cost pressures**

33. An indicative figure for cost pressures has been assessed for 2018/19. This is a notional sum whilst the true cost is reassessed by the Finance team. This will include only existing commitments and pressures including increased cost of our out of region service contracts which have seen a steep increase over the last few years.
34. No additional provision has been made in-year to support waiting time pressures within the Acute and Diagnostics Directorate. It is expected that some of the Transformational Change Fund will be available for this through the Regional Plan.

## **Budgets Delegated to Integration Joint Board**

35. As an NHS Board, we have delegated a range of services to the IJB and therefore must agree the basis of delegation of resources for 2018/19.
36. It is proposed that the 1.5% baseline uplift is passed on in full to the IJB budget based on the proportional value of services delegated.
37. A workshop was held with Health and Social Care Management Team on the 16th January 2018 to further develop the savings plans work for 2018/19 and the business transformation programme.

## **Local Delivery Plan**

38. No guidance has been received from Scottish Government advising of the requirement for the NHS Boards LDP for 2018/19, with detailed guidance on the finance content still anticipated. We are aware that both a national and regional financial framework for Scotland is under development and will share more information with the NHS Board as this emerges.

## **Regional Plan**

39. NHS Greater Glasgow and Clyde are leading workstreams across the West of Scotland NHS Boards, supported by a consultancy firm (Carnal Farrar) to develop a finance model that takes a 5 year view on the impact of current activity and growth assumptions until 2022/23.
40. To date, a number of workshops and meetings have involved all West of Scotland NHS Boards and Chief Finance Officers of IJBs in the region in agreeing the assumptions built into the model.
41. Work is continuing to refine and agree a final baseline assessment of a "business as usual" model, so a number of scenarios can be built around the level of recovery required across the region over the next 5 years.

## **Overall Position**

42. The Board is required to achieve a balanced financial position for 2018/19 onwards and has a statutory requirement to breakeven. This Financial Plan reflects an unprecedented level of financial risk for the Board with an unidentified CRES requirement of £23.4m.
43. Provision will be made for all known cost pressures/developments/inflationary impacts and changes to costs, which have been quantified to ascertain the level of financial risk.
44. Work is ongoing to develop a balanced plan and to work through how the savings can be achieved over the three year period.

## NHS DUMFRIES AND GALLOWAY FINANCIAL PLAN 2018 - 2021

SUMMARY	2018/19			2019/20			2020/21		
	Recurring £000s	Non Recurring £000s	TOTAL £000s	Recurring £000s	Non Recurring £000s	TOTAL £000s	Recurring £000s	Non Recurring £000s	TOTAL £000s
<b>Allocation Uplifts</b>									
Baseline Uplift	4,300		4,300			0			0
New Medicine Fund		1,025	1,025		1,025	1,025		1,025	1,025
Release of Brokerage		3,000	3,000			0			0
<b>Total Uplifts</b>	<b>4,300</b>	<b>4,025</b>	<b>8,325</b>	<b>0</b>	<b>1,025</b>	<b>1,025</b>	<b>0</b>	<b>1,025</b>	<b>1,025</b>
<b>Pressures and Uplifts</b>									
Pay Uplifts - Agenda for Change	3,520	0	3,520	3,610	0	3,610	3,720	0	3,720
Pay Uplifts - Medical Staff	690	0	690	700	0	700	710	0	710
Price Uplifts - excluding Energy	1,050	0	1,050	1,071	0	1,071	1,092	0	1,092
Price Uplifts - Energy	181	0	181	196	0	196	33	0	33
Price Uplifts - Rates revaluation	1,500	0	1,500	0	0	0	0	0	0
Primary Care Drugs	1,568	0	1,568	1,000	0	1,000	750	0	750
Secondary Care Drugs	1,186	0	1,186	1,280	0	1,280	1,383	0	1,383
New Medicines Drugs Costs	0	1,878	1,878	0	1,878	1,878	0	1,878	1,878
Cost Pressures	2,500	1,000	3,500	2,000	1,000	3,000	2,000	1,000	3,000
Acute Redevelopment/ Double Running	0	4,000	4,000	0	0	0	0	0	0
<b>Total Pressures and Uplifts</b>	<b>12,195</b>	<b>6,878</b>	<b>19,073</b>	<b>9,857</b>	<b>2,878</b>	<b>12,735</b>	<b>9,688</b>	<b>2,878</b>	<b>12,566</b>
Savings requirement brought forward	9,791		9,791	20,586		20,586	30,443		30,443
Medical Locums	5,000		5,000			0			0
Reserve review	(2,100)		(2,100)			0			0
Increased Savings Requirement	7,895	2,853	10,748	9,857	1,853	11,710	9,688	1,853	11,541
<b>TOTAL Savings Requirement</b>	<b>20,586</b>	<b>2,853</b>	<b>23,439</b>	<b>30,443</b>	<b>1,853</b>	<b>32,296</b>	<b>40,131</b>	<b>1,853</b>	<b>41,984</b>
<b>Increased Savings</b>			<b>10,748</b>			<b>8,857</b>			<b>9,688</b>