Greater Glasgow and Clyde NHS Board

Board Meeting

26 June 2012

Director of Finance

Board Paper No. 12/24

2012/13 Financial Plan

1. Recommendation

Members are asked to review this report and approve the Board's 2012/13 financial plan.

2. Introduction

The Board has submitted a draft financial plan to Scottish Government Health Directorates (SGHD) in February 2012, as required, as part of its Local Delivery Plan submission. The Board submitted an update to the draft plan to SGHD in March 2012, again as part of the Local Delivery Plan submission. At that stage the Board had not concluded preparation of a cost savings plan for 2012/13 although draft savings proposals have been discussed with Board members on several occasions during the last few months. The plan has now been finalised and scrutinised at the Q&P Committee. It is therefore possible to submit a proposed financial plan, comprising firm figures for 2012/13 and indicative figures for 2013/14 & 2014/15, to the Board for its formal review and approval.

The purpose of this paper is to provide an overview to Board Members of the key elements within the financial plan, highlighting key assumptions and risks and explaining how it is proposed to address the cost savings challenge which the Board faces in order to achieve a balanced financial outturn in 2012/13. The paper comprises:

- An overview of the process used to develop the financial plan;
- A brief explanation of the funding uplift that the Board will receive in 2012/13;
- The most recent projection of the scale of financial challenge which the Board will need to address if it is to succeed in managing within its Revenue Resource Limit for 2012/13;
- The cost savings plan for 2012/13 that will enable the Board to address that financial challenge and deliver a break even financial outturn for the year.

3. Overview of process to develop the financial plan

The Director of Finance has overseen the process of developing the financial plan. Board Members were regularly updated on progress with the plan's development and have been given various opportunities to comment and advise.

The key phases within the process of developing the plan for 2012/13 were:

- September 2011 - Scottish Government issued draft Budget and Director of Finance prepared a first estimate of the savings challenge for 2012/13. This challenge was discussed by CMT and indicative savings targets were allocated to Divisions.

- November 2011 - First drafts of savings proposals were submitted to Finance by Divisions and were discussed by senior managers.

- December 2011 - Proposals were discussed with Board members.

- January 2012 - Additional proposals were submitted by Divisions.

- February 2012 - Plan was discussed by CMT and, again, with Board members. SGHD issued opening allocation letter for 2012/13. Draft financial plan was submitted to SGHD.

- April 2012 - Further discussions with Board members.

- May 2012 - Approval at Q&P Committee.

- June 2012 - Formal ratification of plan at Board and approval to submit to SGHD.

4. Funding

SGHD has confirmed a headline funding uplift for 2012/13 of £46.2m, or 2.4%. NHSGGC does not receive a share of the funding awarded to some other Boards in order to bring them closer to NRAC parity. In addition, the remaining uplift includes access funding, prisoner healthcare and increases to the Change Fund. These specific items reduce the discretionary uplift to £19.0m (1.0% of core funding), as shown in the table below.

	All Boards £m	NHS GGC £m	Para
Base Uplift @ 1.0%	75.6	19.0	4.1
Access Support	76.2	20.7	4.2
Prisoner Healthcare	21.6	4.4	4.3
Adult Social Care Change Fund	10.0	2.1	4.4
NRAC Parity	32.0	0.0	4.5
SGHD Uplift	215.4	46.2	
Other Boards		2.7	4.6
Total Uplift		48.9	

Notes to funding

4.1. A general uplift is provided by SGHD to support Boards in meeting expected additional costs related to pay, supplies (which includes prescribing growth and utilities charges) capital charges and changes to employers' national insurance rates.

4.2. This funding was allocated to Boards on an earmarked basis in 2011/12, so does not represent additional funding and is therefore separated out from base uplift.

4.3. This funding was allocated to support the transfer of healthcare responsibility from the Scottish Prison Service to NHSScotland. The funding was allocated based on the final report from the Finance Workstream and supports additional costs transferred.

4.4. This represents an increase in the ring-fenced funding provided to establish a series of initiatives with Local Authority partners. These initiatives aim to redesign community health and social care services, supporting the delivery of new approaches and outcomes for patients. The funding has been allocated on the same formula basis as was used in 2011/12.

4.5. This funding allocation is available exclusively to those NHS Boards whose current general funding allocation is below NRAC formula parity levels, to move them closer to NRAC parity. As NHSGGC's funding level currently exceeds NRAC parity, it does not receive a proportion of this funding allocation. However, as in previous years, SGHD has not sought to reduce NHSGGC's core funding level. This reflects the measured approach which SGHD continues to take in progressing implementation of NRAC recommendations, thereby avoiding creating financial turbulence within NHS Scotland.

4.6. By applying an agreed general inflationary uplift to the value of service level agreements with other NHS Boards related to patient services provided by NHSGGC, NHSGGC can reasonably expect to receive further income of around £2.7m in 2012/13.

5. Costs and pressures

Recognising the funding movements referred to above, an updated estimate of the level of financial challenge faced by the Board in 2012/13 has been prepared. It shows that the Board will set a savings target of 3% for 2012/13. This, together with a comparative projection which was presented to Board members in June 2011 in the Board's 2011/12 Financial Plan, is set out below.

In June 2011, the Board's initial projections had indicated that it would need to address a financial challenge of £42.1m in preparing its financial plan for 2012/13. Since June 2011, it has continued to update this projection and now believes that it is necessary to amend it, increasing it to £59.0m, to reflect updated information on uplifts, discussed above, and to take account of the following expenditure projections.

	Jun 2011		May 2012	Para
	£m		£m	
2012/13 Funding Uplift				
Total uplift	22.4		48.9	
Carry Forward from 2011/12				
Forecast recurring over/under commitment	(0.0)		(0.0)	5.1
Cost Drivers				
Pay Cost Growth	(27.1)		(14.8)	5.2
Prescribing Cost Growth	(23.4)		(30.4)	5.3
Energy Cost Growth	(0.0)		(4.4)	5.4
Capital Charges Growth	(1.0)		(4.0)	5.5
Other Cost Inflation	(7.0)		(9.6)	5.6
	(58.5)		(63.2)	
New Service Commitments				
Acute	(0.7)		(3.3)	5.7
Partnerships	(0.3)		(0.7)	5.7
Other			(6.5)	5.7
Access / Prisoner / Change Fund			(27.2)	5.8
Other – general provision	(5.0)		(7.0)	5.9
	(6.0)		(44.7)	
Financial Challenge	**(42.1)**		**(59.0)**	
CRES requirement	**2.2%**		**3.0%**	

Notes to costs and pressures

5.1. As forecast in the 2011/12 Financial Plan, the Board has produced an outturn that demonstrates that it is in recurring financial balance, so the recurring over-commitment carried forward from 2011/12 is £0.0m.

5.2. Pay cost growth

The 2011 Scottish Spending Review and Draft Budget 2012-13 has indicated that the Scottish Government intends to freeze pay for staff earning over £21,000 and to increase pay by £250 per annum for those earning less. The consequential removal of the original working assumption of a 1% increase for all staff has allowed the provision for pay uplift to be reduced from £14.1m to £4.0m.

The discount on employers' National Insurance rates for contracted out staff has reduced from 3.7% to 3.4%. The impact of this reduction is to increase the net employers' National Insurance rate, for the majority of staff, from 10.1% to 10.4%. This had added £0.8m to the annual pay forecast.

The experience of monitoring Agenda for Change (A4C) related pay trends has helped the Board develop a better understanding of the level of additional costs which it is likely to face related to incremental pay progression in 2012/13. We have carried out a detailed forecast of pay growth for 2012/13, using current staff turnover ratios by staff category (overall staff turnover ratio is c 6.8%) and assumed vacancy fill rates (50%) to project likely pay growth. Vacancy fill rates assume that some posts will be removed through service redesign, contributing to the release of targeted cost savings. The Board therefore expects to incur an increase in pay costs of £10.0m in 2012/13, simply due to the impact of A4C related incremental pay progression. This compares with a previous indicative estimate of £13.0m. It is highly unlikely that services will be able to absorb these costs within existing budgets so this is identified as an additional cost pressure to the Board in 2012/13.

Pay cost growth therefore comprises:

	£m
- £250 pay award for those earning less than £21,000 p.a.	4.0
- Reduction in NI discount rate for contracted out staff	0.8
- Provision for A4C related incremental progression	10.0
	14.8

5.3. Prescribing

The prescribing cost growth projection for 2012/13 is based on information from the Board's Prescribing Advisers. It includes provision for likely cost increases related to growth in new and existing drug treatments within Acute Sector, including new drugs approved by SMC, and makes a realistic level of provision for likely growth in volume / prices, based on current trends, related to drug treatments prescribed within Primary Care. The results of this work are summarised below.

	Acute £m	**GP £m**	**Total £m**
Increase in Volumes & Prices	9.9	13.5	23.4
New Drugs	4.5	2.5	7.0
	14.4	16.0	30.4

5.4. Energy cost growth is forecast based on the estimated volumes of gas and electricity required in 2012/13, applying prevailing prices (based on contracted advance purchase prices) for both raw energy purchases and regulator charges. The forecast change in usage for 2012/13 is minimal. The factors which have contributed to increase forecast energy costs by £4.4m in 2012/13 are:

- Further increases in gas / electricity tariffs which impact on the cost of energy advance purchased for 2012/13;
- CRC Energy Efficiency scheme;
- Increase in regulator imposed charges for electricity.

5.5. Capital charges growth is anticipated to be £4.0m because of the annual indexation of capital charges in 2012/13.

5.6. A 1% general provision has been set aside for inflation on non-pay costs, excluding prescribing costs, energy costs, capital charges costs and Resource Transfer. This includes provision for inflation on legal/contractual cost commitments, and inflation on amounts payable to other NHS Health Boards and Voluntary Organisations, related to SLAs agreements. 0.5% has been provided to cover Resource Transfer agreements.

5.7. The full year effect of existing service commitments identified in previous years includes the following:

- **Acute**
  - Additional treatment costs from Abdominal Aortic Aneurysm screening
  - Impact of on-going reductions in Research and Development funding
- **Partnerships**
  - Alexandria Health Centre
  - Dental & Podiatry Decontamination
- **Other**
  - Brain Injuries
  - Legal Fees.

5.8. We have recognised access, prisons and change funding increases within our funding forecast. This is explained earlier in this paper. As a result it is necessary for us to include the corresponding costs into our cost forecast.

5.9. To address the risks we carry our plans allow for the creation of a contingency of £5m, which is part of the £7m in the table above, to cover unexpected pressures and risks. This is not sufficient to cover all of the risks that we face but it helps us to respond. It is, therefore, not appropriate to decide at this stage how that fund will be used but it is clearly prudent to build some central flexibility into a plan that has over £2bn of expenditure, potential unexpected pressures and a number of areas of significant financial risk. Some possible applications include:

- Additional prescribing pressures that cannot be funded within divisions;
- Winter pressures that cannot be funded from within Acute;
- Spend to save schemes, such as the demolition of buildings on surplus sites in order to release security costs and depreciation;
- Non-recurring IT projects;
- Additional legal fees / CNORIS costs etc;
- Further reductions in funding expected in R&D, which are currently being evaluated;
- Additional expenditure on hub projects.

6. Cost Savings Plan

Since September 2011 senior managers have been working on the development of a cost savings plan for 2012/13. These proposals have been discussed with Board members on several occasions and, during that time, some proposals have been modified reflecting feedback obtained. Proposals have now been produced that total £59.0m enabling us to deliver recurring balance by the end of 2012/13.

A financial summary, by Directorate / Division / Area, is provided below.

	Total £'000	**Total £'000**		**Number**
Acute Division				
Surgery & Anaesthetics	4,450			
Emergency Care & Medicine	4,592			
Rehabilitation & Assessment	3,196			
Diagnostics	2,668			
Regional Services	2,003			
Women's & Children's Services	1,468			
Facilities	4,078			
Corporate	7,545			
Acute Total		30,000		152
Partnerships				
Glasgow City CHP	1,600			
East Dunbartonshire CHP	210			
West Dunbartonshire CHP	262			
East Renfrewshire CHCP	117			
Renfrewshire CHP	357			
Inverclyde CHCP	249			
Partnerships – Care Group	7,785			
Partnership – Central	236			
Partnerships Total		10,816		96
Prescribing – Central Initiatives		16,500		3
Health Information & Technology		744		7
Corporate Services		989		5
TOTAL		**59,049**		**263**

Some detail behind these proposals has recently been discussed with Board members and has been approved. A summary by category is therefore provided below.

	Acute £'000	**CH(C)P £'000**	**Care Group £'000**	**Presc -ribing £'000**	**Corp -orate £'000**	**Total £'000**
Clinical Pay	11,740	382	3,141			**15,263**
Management & Admin	2,624	555	692		1,258	**5,129**
Non Pay – Contracts	2,670	440	1,083		110	**4,303**
Non Pay – Other	7,393	529	2,536		151	**10,609**
Prescribing	2,315	55	100	16,500		**18,970**
Overheads	1,763	677	110		14	**2,564**
Site Costs	1,495	157	359		200	**2,211**
TOTAL	**30,000**	**2,795**	**8,021**	**16,500**	**1,733**	**59,049**

7. Indication of Financial Challenge in 2013/14 and beyond

Derek Feeley's letter of 21 September 2011, clarifying the 2011 Scottish Spending Review and Draft Budget 2012-13, has indicated that the minimum uplift to territorial Boards is likely to be around 2.7% in 2013/14 and 2014/15. Whilst this uplift is greater than in 2011/12, it is unlikely that that pay increases will be as low as in recent years. In addition, as the Board will need to build up funding to cover the transitional costs and double running costs of moving in to the new South Glasgow Hospitals, the scale of the financial challenge is likely to be similar to recent years.

The strategic issues which we will have to consider for longer term financial planning include:

- NRAC – we need to ensure that we plan for future changes in our population profile and related income stream;
- Cross Boundary Flow – we need to ensure that our costing methodology is kept up to date;
- Benchmarking, areas of focus and performance measurement – we will continue this work to underpin our thinking about longer term budget setting;
- Integrating health and social care – we will monitor proposals and establish the impact on our longer term financial strategy;
- New South Glasgow Hospital – we need to decide how to rebalance budgets over the next few years so that we are able to cover the increases in our cost base that will occur when the capital charges relating to the New South Glasgow hospital are incurred.

In addition, we will have to consider the following cost areas:

- Pay Settlements – we need to monitor likely future pay settlements;
- Inflation – we need to be aware of contracts tied to RPI and other cost pressures;
- Prescribing – we need to ensure that our horizon scanning continues accurately to forecast prescribing costs;
- Capital Charges – we need to plan for the impact of indexation on existing asset values and for new developments;
- Research & Development – we need to ensure that we plan for the possible reduction in future funding.

A summary of the Board's indicative financial plan for 2013/14 and beyond is provided at **Appendix 1**. This contains indicative figures for those years, based on a series of initial assumptions regarding funding and likely expenditure growth.

APPENDIX 1

	2013/14 (Indicative)			2014/15 (Indicative)			Notes
	Recurring £m	Non Recurring £m	Total £m	Recurring £m	Non Recurring £m	Total £m	
Opening Surplus / (Deficit)	0.0	0.0	0.0	0.0	0.0	0.0	1
Additional Funding							
General Funding Uplift	53.4		53.4	51.4		51.4	2
Other Funding Uplifts	5.5		5.5	5.5		5.5	3
PMS & PCS NCL	1.6		1.6	1.6		1.6	4
	60.5		60.5	58.5		58.5	
General Inflation, Growth etc							
Pays	31.4		31.4	29.8		29.8	5
Supplies & Services	7.2		7.2	7.4		7.4	6
Prescribing Growth	31.2		31.2	32.2		32.2	7
Energy	3.0		3.0	3.0		3.0	8
Indexation of Capital Charges	4.0		4.0	4.0		4.0	9
Other Providers	5.7		5.7	5.5		5.5	10
PMS & PCS NCL	1.6		1.6	1.6		1.6	11
	84.1		84.1	83.5		83.5	
Unavoidable Service Commitments							
Acute ASR Programme - New Adult & Children's Hospitals		1.7	1.7		1.7	1.7	12
Acute - Other	8.1		8.1	2.0		2.0	13
CHCP / CHP / MH	2.0		2.0				13
Other	2.0		2.0	2.0		2.0	13
	12.1	1.7	13.8	4.0	1.7	5.7	
Other Service Commitments							
General Provision for New Service Commitments	5.0		5.0	10.0		10.0	14
	5.0		5.0	10.0		10.0	
Cost Savings Plan							
Cost Savings Plan	(40.7)	(1.7)	(42.4)	(39.0)	(1.7)	(40.7)	15
	(40.7)	(1.7)	(42.4)	(39.0)	(1.7)	(40.7)	
In Year Surplus / (Deficit)	0.0	0.0	0.0	0.0	0.0	0.0	

APPENDIX 1

Notes

1. Represents the excess of recurring expenditure commitments over recurring funding carried forward from 2011/12.

2. Derek Feeley's letter of 10 February 2012 has indicated likely general funding uplifts of £53.4m for 2013/14 & £51.4m for 2014/15.

3. Assumed uplift to existing funding allocations where notification remains outstanding. This includes uplifts to a number of SGHD funding allocations, uplifts to national services and service level agreements with other Boards.

4. 0.5% uplift assumed for Primary Care Medical Services (PMS) & non cash limited funding and associated expenditure. The impact is cost neutral.

5. For 2013/14 we have made a provision of 1.5% for general pay uplifts plus an additional £10.0m to cover incremental pay progression. For 2014/15, the equivalent figures are 1.5% & £8.0m.

6. This covers anticipated price inflation related to existing PPP commitments plus 1% to cover general inflation and growth on non-pay costs.

7. This is based on an assessment of prescribing advisers' 2012/13 detailed cost projections for acute and primary care services. The percentage growth rate used is consistent with 2012/13 (6% for Primary Care and 7.8% for Acute). The pressure for the increase in new drugs is consistent with 2012/13. This is a volatile area where, depending on drug approvals, cost pressures could be significant.

8. Provision for ongoing real increase in energy costs. The provision is an estimate of the possible increase in tariff charges.

9. Provision for increase in capital charges as a result of indexation of asset values.

10. Provision for inflationary uplift of service level agreements with other NHS Boards related to NHSGGC patients and of resource transfer agreements with local authorities.

11. 0.5% provision for increased spend on PMS & non cash limited services is in line with assumption of 0.5% increase in funding allocation. The overall impact is cost neutral.

12. Provision for cost of Acute Strategy Project Team.

13. This grouping includes all other unavoidable service commitments including

    - the end of transitional arrangements with the Golden Jubilee concerning residual fixed costs in GGC hospitals on the transfer of Cardiac and Interventional Cardiology services;
    - possible loss of R&D income;
    - provision for restructuring costs.

14. Provision for cost pressures to come. This amount required will be kept under review.

15. Cost savings values required to bring the plan into balance.