

Borders NHS Board

FINANCIAL PLANNING ASSUMPTIONS

Aim

The purpose of this paper is to inform the Board of the latest estimates of income and expenditure for 2016/17, making the Board aware of the size of the financial challenge and enabling discussion on the approach needed to arrive at a balanced budget proposal. This paper builds on discussions at the Board Development session on the 3rd February 2016, ongoing dialogue at the Clinical Executive Strategy Group, various discussions across the organisation and the quality, efficiency and productivity sessions in late 2015 and early 2016.

NHS Borders will receive a cash uplift in 2016/17. The forecast increase in expenditure, particularly through increases in National Insurance (NI) contribution rates, pay rates, the reduction in the level of income received from Northumberland CCG and the continued expansion in drug treatments, outstrips this. When combined with existing cost pressures and the budget deficit carried forward from financial year 2015/16, efficiency savings will be needed to remain within the forecast budget and achieve a break even financial outturn in 2016/17.

Although there are uncertainties in the margins of income and expenditure forecast, the greatest risk is that of not being able to identify and implement quickly enough savings of the level needed to achieve a balanced budget in 2016/17.

Background

Income Forecast

The indicative income forecast is based on a number of assumptions.

The Boards baseline recurring allocation of £185.488m will receive a 1.7% uplift equating £3.153m.

Funding, in addition to the baseline allocation, received in the form of ring fenced allocations in 2016/17 will be bundled together and subject to an outcomes framework. These funding streams include areas such as ehealth, effective prevention and maternity services. The total bundle will then be subject to a 7.5% efficiency reduction before being issued to the Board. Exact figures are not available but it is estimated the value of the bundle for NHS Borders will be in the region of £2.3m with the reduction of 7.5% approximately £0.25m. It is assumed that this shortfall in income will be absorbed by the services which receive the ring fenced allocations.

The new medicines fund has been created from the Pharmaceutical Price Regulation Scheme (PPRS) receipts generated from a national 5 year agreement with pharmaceutical

companies. The expected value of these PPRS receipts has dropped from an initial £90m forecast in 2015/16 to £60m forecast for 2016/17. As a result the funding received by NHS Borders is likely to drop by around £0.6m. It is assumed that this reduction will be managed within the overall NHS Borders drugs budget.

Nationally £69.2m has been made available through Health and Justice for Alcohol and Drugs in 2015/16. In 2016/17 all funding will be managed by the NHS with the total budget envelope expected to be £55.2m. Provisional calculations on the new combined budget indicate NHS Borders will need to deliver agreed outcomes with approximately £0.27m less funding than in 2015/16.

There will be a significant reduction in the level of patient income collected in 2016/17 as Northumberland CCG's policy of treating closer to home comes to fruition. Non resident patient income is expected to be £1.0m less than in 2015/16.

Expenditure Forecast

Pay

In 2016/17 the introduction of the flat rate state pension entails the removal of the rebate previously received on NI contributions for those in the NHS pension scheme. It is estimated this loss of this rebate will be in the region of 2.0% of the current paybill and equates to £2.057m.

Proposed pay increase is for a 1% cost of living rise with a guaranteed minimum of £400 for those earning under £21,000 per annum. Further low pay commitments for those staff currently on the band 1 scale are also anticipated when the Board reviews the job descriptions for these posts.

Both Medical and Agenda for Change staff remain entitled to incremental rises on the pay scale and this equates to £0.5m in 2016/17. The Board must also allocate the defined number of discretionary points for Medical staff at a cost of approximately £0.1m.

The allowances and enhancements to be taken into account when calculating the pay due whilst on leave continues to be subject to clarification through national court cases with a potential financial impact on the NHS. The financial plan currently does not include for further increases in cost.

Taken together these factors are expected to increase the pay bill by £3.995m.

Drugs

The 2015/16 financial plan provided an uplift of £1.659m to the drugs budget for hospital and GP prescribing. As at the end of December the 2015/16 budget is forecast to be exceeded by £1m.

NHS Borders is proposing an overall uplift of 7.29% on 2015/16 recurring drugs budget. This uplift is split 6.56% to GP prescribing budgets and 9.15% on secondary care budgets and equates to an overall uplift of £2.145m.

GP Prescribing volumes are continuing to increase and a provisional increase of 2% has been included in the uplift. However it is unclear if the impact of short supply drugs and the

subsequent price increase have stabilised. The uplift includes the impact of 2015/16 price increases but no allowance has been made for any new price increases related to short supply which may occur in 2016/17.

Extended indications of existing drugs alongside the introduction new drugs in the hospital sector is anticipated which will increase the amount spent on drugs. The 2015/16 increase has been anticipated in the financial plan and an estimated sum for horizon scanning has been included.

Other Supplies Inflation

NHS Borders pays approximately £29m to other healthcare and social care providers, the agreements for which typically attract the base allocation uplift which in 2016/17 will equate to 1.7%.

NHS Border has modelled the impact of its current agreed capital plan and this has resulted in an increase of £0.246k in depreciation charges for 2016/17.

Due to generally low inflation 1.5% has been put aside for supplies uplift. This will be reviewed based on further information as it becomes available.

Commitments and Cost Pressures

An additional £1.134m of funds is anticipated to be required to cover national, regional and local commitments and cost pressures. This includes the introduction of the work life balance PIN policy, increases in CNORIS contributions and national risk sharing arrangements. Funding has also been set aside for a number of non recurring pressures which have been anticipated in 2016/17 such as medical staff absence cover, efficiency programme support and a level of contingency.

The Boards current performance against access targets is being sustained by non recurring investments in excess of budget for both scheduled and unscheduled care. It is currently forecast that to sustain the current level of performance the Board will either have to identify efficiencies or attract additional income.

The BGH is forecast to overspend by over £2m in 2015/16 with the largest contributory factor being the high cost of filling gaps in the medical rotas with locums. Some short term funding has been put aside to address estimated pressures in 2016/17.

Based on current information NHS Borders will under achieve on its recurring efficiency target in 2015/16 and will therefore enter 2016/17 with a recurring deficit of £1.666m.

Summary

Overall Position

Taking all these factors together the net position for the Board is a £11.451m gap as set out in the following table:-

Summary of Expected Increases in Income and Expenditure

| | |
|--|---------|
| | £m |
| Estimated Income Increase | |
| 1.7% increase in General Allocation | 3.153 |
| Bundled Allocation funding reduction 7.5% (to be absorbed) | - |
| New Medicines Fund reduction (to be absorbed) | - |
| ADP Funding Allocation reduction of 20% (to be absorbed) | - |
| Northumberland CCG income reduction | (1.000) |
| | |
| Increase to Income | 2.153 |
| Estimated Expenditure Increase | |
| Pays | 3.995 |
| Drugs | 2.145 |
| Other Supplies Inflation | 1.219 |
| Commitments & Cost Pressures | 4.579 |
| Recurring Deficit | 1.666 |
| | |
| Increase to Expenditure | 13.604 |
| | |
| Gap to be filled by efficiency measures | 11.451 |

Actions required

In order to deliver a balanced budget the Board will have to identify efficiency savings of this level. The Executive Directors are working with the organisation to finalise an efficiency programme for 2016/17 and the process of identifying, evaluating, risk assessing, consulting and implementing efficiency schemes which will make up this programme is ongoing.

Recommendation

The Board is asked to **note** the financial forecast and the efficiencies required to deliver a balanced budget.

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|--|---|
| Policy/Strategy Implications | Impact on delivery of statutory targets |
| Consultation | Clinical Executive Strategy Group. Board, senior managers & clinicians |
| Consultation with Professional Committees | Ongoing engagement with key stakeholders |
| Risk Assessment | As detailed in the paper there are a number of risks. The figures remain draft and the risks may change |
| Compliance with Board Policy requirements on Equality and Diversity | Yes |
| Resource/Staffing Implications | Unknown until details of delivery are finalised |

Approved by

| Name | Designation | Name | Designation |
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