

**Borders NHS Board**



## **FINANCE REPORT FOR THE SIX MONTH PERIOD TO 30<sup>th</sup> SEPTEMBER 2016**

### **Aim**

The purpose of this report is to advise the Board of the financial position at the end of the second quarter as at 30<sup>th</sup> September 2016.

### **Executive Summary**

The Board are asked to note the following key points:

- At the end of September 2016 the Board is reporting an overspend position of £4.7m on revenue and break even on capital.
- The financial position is giving increasing cause for concern and based on current projections the Board is not on course to deliver its financial targets. At its meeting on the 1<sup>st</sup> September the Strategy and Performance Committee agreed a number of actions to address the financial position. These have had success but will not fully offset the financial pressures across the organisation.
- The Director of Finance and Chief Executive are in dialogue with SGHSCD on the options available to the Board linked to the financial position.
- The main pressure areas are nursing and medical costs in the set aside budgets within the BGH, primary care prescribing costs within IJB Directed Services and external health care providers.
- The Board has a challenging savings target of £11.4m, (£8.7m recurring and £2.7m non recurring) for financial year 2016/17 and at the end of month six £4.8m of savings has been delivered of which £2.8m is recurring.
- Efficiency delivery is behind trajectory and based on information currently available there will be a shortfall of £3.3m in the overall programme. A separate report on efficiency will be presented to the Strategy and Performance Committee on the 3rd November 2016.
- NHS Borders has set aside contingency funds in 2016/17 of £2m. This has not been factored into the financial position but will not be sufficient to address the financial pressures of the organisation.

### **Recommendation**

The Board is asked to **note** the report and **consider**:

- The current financial position.
- The current projection that the Board is not on course to deliver financial targets.
- The ongoing dialogue with SGHSCD on the options available to the Board linked to the financial position.

<b>Policy/Strategy Implications</b>	Impact on statutory financial targets
<b>Consultation</b>	Supporting reports have been presented to Clinical Boards and Budget Managers
<b>Consultation with Professional Committees</b>	N/A
<b>Risk Assessment</b>	Risks are covered in the risk section of the report
<b>Compliance with Board Policy requirements on Equality and Diversity</b>	Compliant
<b>Resource/Staffing Implications</b>	As described in the paper

**Approved by**

<b>Name</b>	<b>Designation</b>	<b>Name</b>	<b>Designation</b>
Carol Gillie	Director of Finance, Procurement, Estates & Facilities		

**Author(s)**

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Janice Cockburn	Deputy Director of Finance		

## **Contents**

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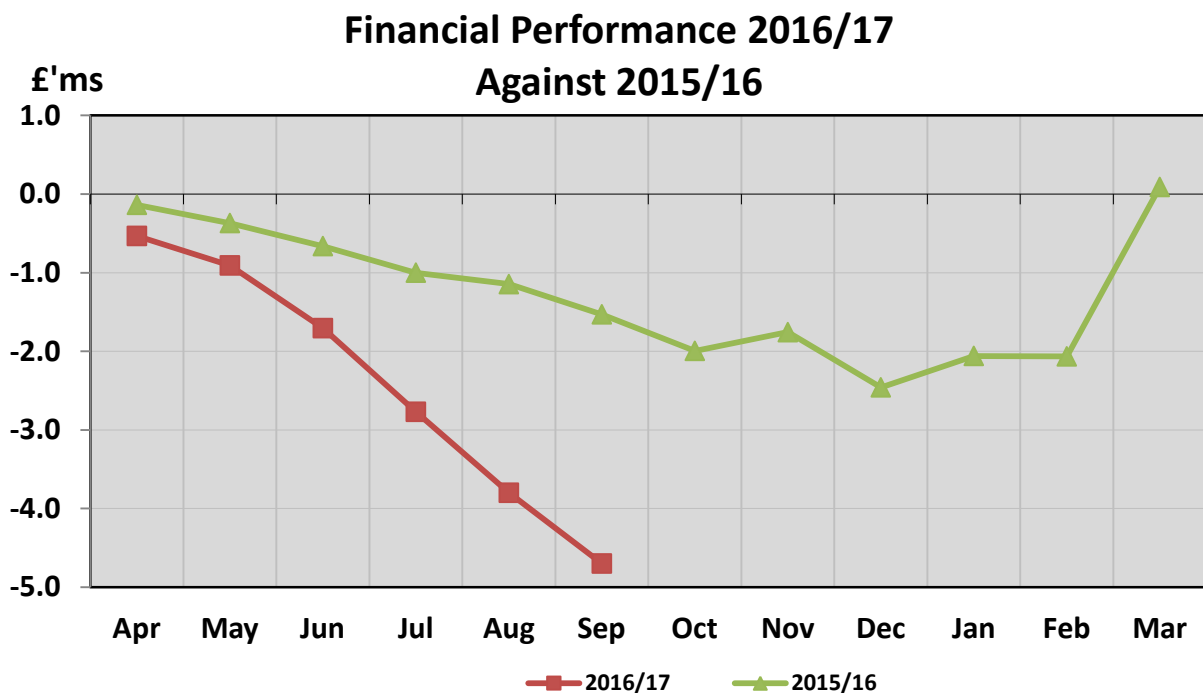
### **Section:**

1. General Overview
2. Overall Income and Expenditure Summary of Operational Budgets
3. Overview of Capital
4. Efficiency Programme – Savings Targets
5. Risk

## Section 1: General Overview

	Annual Budget £m	YTD Budget £m	YTD Actual £m	YTD Variance £m
Income	242.3	118.1	118.2	0.1
Expenditure	242.3	119.3	124.1	(4.8)
<b>Surplus/(Deficit) for Period</b>		<b>(1.2)</b>	<b>(5.9)</b>	<b>(4.7)</b>
Capital Expenditure	<b>7.2</b>	<b>1.3</b>	<b>1.3</b>	<b>0</b>

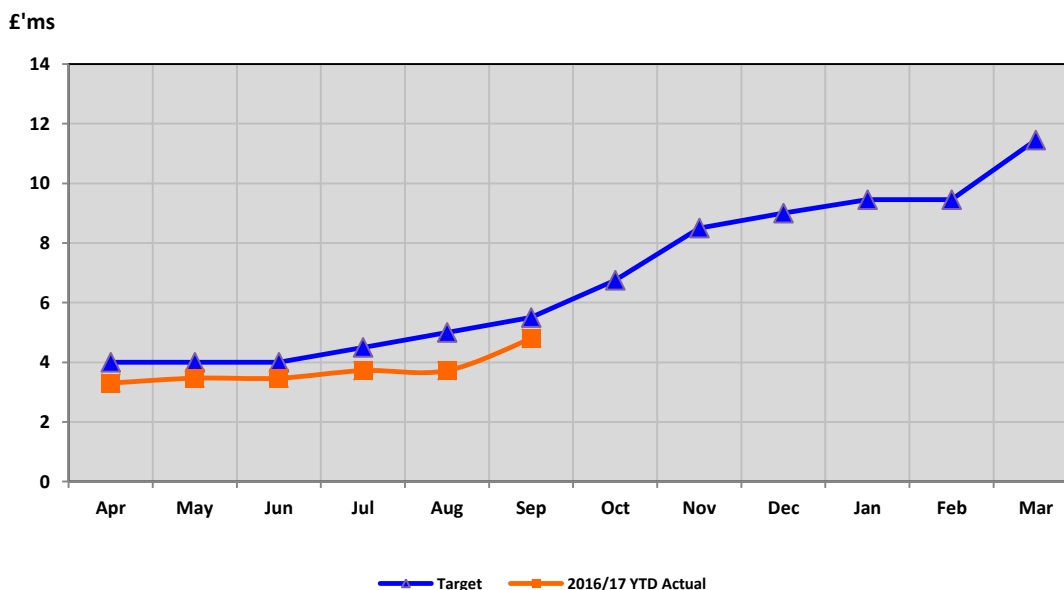
- At 30<sup>th</sup> September 2016 the Board is reporting an overall position of £4.7m overspent. This position includes a slight over-recovery on income budgets and an overspend on expenditure budgets, comprising Acute Services (£3.1m), IJB Directed Services (£1.2m), and External Healthcare Providers (£0.5m).
- The graph below compares the level of revenue overspend month by month during 2016/17 with the previous financial year.



- The financial position at the end of month six at £4.7m overspent is significantly higher than for the same period last financial year. This reflects the increased level of operational overspend compared to 2015/16 particularly in set aside budgets in the BGH linked to nursing and medical costs and the overspend on primary care prescribing costs.

- The key points to note at the month six position are:-
  - Income is currently reported an over recovery of £0.1m. This position assumes a level of income of £2m from Northumberland CCG which is reduced from 2015/16.
  - The Acute Services are overspent by £3.1m which is mainly within unscheduled care in the BGH. This overspend in medical (£1.4m) and nurse staffing budgets (£0.9m) is as a result of the additional staffing costs of the opening of surge beds linked to patient flow, patient acuity and gaps on rotas. As a result of increased financial scrutiny put in place in the middle of July the overspending trend in nursing and medical costs has reduced, however surge beds have in the main remained open which is impacting on costs.
  - External Healthcare Providers are £0.5m overspent linked to ECRs and UNPACS.
  - Within IJB Directed Services primary care prescribing costs are reporting an overspend (£1.2m) based on four months price and five months volume information projected to the end of September. This is a significant deterioration in the financial position and is linked to the increase in cost of drugs. Community services have also used flex beds to support patient flow and agency locums to improve waiting times in physiotherapy.
- The actions the Board agreed at its meeting in September to offset the operational financial pressures have reduced the level of overspending in those relevant areas however due to increases in primary care prescribing costs overall the Board's overspending trend is continuing. Based on current information the Board is not on course to achieve its financial targets and the Director of Finance and Chief Executive are in dialogue with SGHSCD on the options available to the Board linked to the financial position. An update will be given to the Board at the development session on the 27<sup>th</sup> October 2016.
- The graph below highlights the actual delivery of efficiency month on month compared with the trajectory submitted as part of the local delivery plan.

Efficiency Trajectory  
2016/17



- The Board approved a balanced financial plan for 2016/17 which assumes a breakeven outturn on revenue budgets and achievement of the challenging £11.4m efficiency savings target. NHS Borders is required to make savings of £8.7m recurrently and £2.7m on a non recurring basis. As at the end of September a total of £4.8m has been withdrawn from operational budgets for required savings, which is lower than expected. Although good progress was made in the first three months of the financial year this has slowed and an estimated shortfall of £3,3m on delivery of the efficiency target is forecast. This projection, which has a level of risk, takes into account slippage and non delivery on a number of schemes and replacement projects which have been identified including those linked to the national efficiency workstreams.
- Based on the forecast year position on efficiency and taking account of any part year implementation plans there will be a recurring shortfall of £4.9m at the end of the financial year. Unless addressed this will be carried forward into the 2017/18 and increase the challenge to unprecedented and potentially undeliverable levels in a single financial year.
- A separate more detailed report on the efficiency programme will be presented to the Strategy and Performance Committee on the 3<sup>rd</sup> November 2016.
- The capital plan is progressing in line with the report presented to the Strategy and Performance Committee on the 1<sup>st</sup> September 2016.
- The Board has set aside contingency funds of £2m for 2016/17. The reported position as at month six does not take into account the contingency funds. It is clear this level of contingency will not be sufficient to meet the current financial pressures.

## Section 2: Overall Income and Expenditure Summary

### Operational Income and Expenditure Budgets

	Annual Budget £m	YTD Budget £m	YTD Actual £m	YTD Variance £m
<b>Income Resources</b>				
SGHSCD (as per LDP)	193.6	92.9	92.9	-
SGHSCD (additional to LDP)	25.7	12.8	12.8	-
Family Health Services (incl Non Cash Ltd)	10.2	5.1	5.1	-
External Healthcare Purchasers	3.8	1.9	1.9	-
Other	7.7	4.7	4.8	0.1
Clinical Boards	1.3	0.7	0.7	-
<b>Total Income</b>	<b>242.3</b>	<b>118.1</b>	<b>118.2</b>	<b>0.1</b>
<b>Expenditure Resources</b>				
Acute Services	76.8	37.6	40.7	(3.1)
External Healthcare Providers	24.8	12.6	13.1	(0.5)
IJB Directed Services (including efficiencies)	96.5	51.8	53.0	(1.2)
Corporate Directorates	32.8	15.5	15.5	-
Cost of Capital	3.7	1.8	1.8	-
Approved Funding Unallocated	10.0	-	-	-
Non IJB Unapplied Efficiencies:				
Recurring	(4.0)			
Non-Recurring	0.1			
IJB Social Care Fund (not yet transferred)	1.6			
<b>Total Expenditure</b>	<b>243.9</b>	<b>119.3</b>	<b>124.1</b>	<b>(4.8)</b>
<b>Surplus/(Deficit) for period</b>	<b>-</b>	<b>(1.2)</b>	<b>(5.9)</b>	<b>(4.7)</b>

### Income Resources

- The SGHSCD allocations shown in the report are in line with the agreed baseline allocation and an estimate of the anticipated allocations expected to be received. Included in this is a share of the national New Medicines Fund. It has been highlighted that the level of funding available nationally may reduce which would potentially create a further operational pressure for NHS Borders.
- Currently overall the income budgets are reporting a small over-recovery at the end of month six.

### Expenditure Resources

- Acute Services, including set aside budgets, are reporting an overspend of £3.1m with the main pressure being BGH medical staffing (£1.4m), nursing budgets (£0.9m) and supplies costs (£0.5m). Due to the measures put in place in recent months the overspend trend in acute services has reduced - medical overspend has increased by £0.1m and nursing by £0.1m in September. In the case of nursing, above budgeted costs are the impact of delayed discharges resulting in the need to open

additional beds and some patient dependency issues. This has also impacted on the supplies budgets. In the case of nursing and medical costs revised year end trajectories have been agreed and are being monitored to ensure delivery.

- The reported overspend (£0.5m) on external healthcare providers includes estimated activity as per normal timescales limited actual data has been received by the Board. The areas of overspend are namely UNPAC's and ECRs.
- IJB Directed Services, excluding the set aside budgets which are included in acute services, are reported (£1.2m) overspent linked to primary care prescribing budgets and community services. Due to the normal time delay in processing prescriptions the reported position at the end of September is based on four months price and five months volume information projected forward. The key issue continues to be the increase in the nationally agreed price of drugs. Community services have also pressures related to the cost of additional flexible bed capacity and the use of agency locums to support the physiotherapy service.
- The level of approved funding unallocated is £10m. This consists of the Board's contingency funds, funding for items approved through the LDP process and ring fenced allocations not yet in operational budgets.
- In line with the Scheme of Integration the Board is reporting to the IJB the financial pressures which it is currently experiencing linked to IJB directed services and set aside budgets. The Board is seeking support from the IJB on the actions taken to address the pressures and potential next steps.
- The operational pressures which have impacted on the financial position in the six months of the year are unprecedented. The Board has increased the scrutiny on the overspending areas and actions taken to address the position. These measures have had an impact but not fully offset the pressures. Dialogue is ongoing with SGHSCD on the options available to the Board to address the financial position.



### Section 3 : Overview of Capital

#### Source of Funds

	£m
<b>Sources of Funds</b>	
Gross Capital Resource Limit (CRL)	7.1
Net Book Value of Property Sales (not yet realised)	0.1
<b>Total Capital Resources</b>	<b>7.2</b>

- NHS Borders formula capital allocation for 2016/17 of £2.4m has been supplemented by additional funding of £3.1m in relation to reinstatement of slippage from previous years and £1.5m of Primary and Community Development funding.
- Discussions are progressing with Scottish Government in respect of a capital carry forward linked to the re- tender for the Theatre Ventilation project.
- NHS Borders has received confirmation from SGHSCD that sales proceeds if realised during the financial year can be utilised to supplement the capital programme.

#### Capital Expenditure

	Plan £m	Actual To Date £m
Community Health Centres & Primary Care	3.5	0.5
Mental Health Services	0.5	0.2
IM&T	0.2	0.1
Medical & Radiology Equipment	0.7	0.1
Estates & Facilities	0.7	0.3
Other (including Feasibility Works)	0.2	0.1
Uncommitted - dependent on sale proceeds	0.1	
Requested Carry Forward	1.3	
<b>Total</b>	<b>7.2</b>	<b>1.3</b>

Expenditure incurred for the period to the 30<sup>th</sup> of September 2016 relates to the final phase of works at Melburn Lodge, programmed construction works at Roxburgh Street Replacement Surgery and estates and medical equipment rolling programmes.

Approval to replace the Gamma Camera CT was given at the September Strategy and Performance Committee meeting and resources have now been included in the plan for this purchase (estimated £0.6m).

A full Capital Plan update report will be presented to the Board at its meeting in December 2016.

**Section 4 : Efficiency Programme - Savings Targets**

	Target	Delivered			
	Total £m	Recurring £m	Non Recurring £m	Total £m	Full Year Effect/ Year End £m
Corporate Services Challenge	0.57	0.57	0.1	0.67	-
Acute Services	6.65	1.21	1.62	2.83	-
IJB Directed Services	4.24	1.03	0.28	1.31	-
<b>Total</b>	<b>11.45</b>	<b>2.81</b>	<b>2.00</b>	<b>4.81</b>	-

- In 2016/17 the overall efficiency target is £11.4m. This level of efficiency it was recognised would prove challenging for NHS Borders but full achievement of this target is a major element in determining whether a balanced out-turn for 2016/17 will be achieved.
- While overall NHS Borders has an agreed plan which equates to £11.4m there is an imbalance between the planned and required levels of recurring and non recurring savings which it is recognised needs to be addressed.
- As at month six NHS Borders has withdrawn £4.8m, £2.81m of which has been delivered on a recurring basis. This figure is broken down into savings withdrawn from IJB directed services £1.31m, Acute Services £2.83m and Corporate Services £0.67m.
- It is clear from the detailed work undertaken during September that a number of schemes will not deliver or will not deliver fully during 2016/17. A number of replacement schemes have been identified including some linked to the national efficiency workstreams. A number of schemes within the revised programme remain high risk.
- Based on current information the forecast year end position is delivery £8.1m of savings against the in year target. That means an anticipated shortfall on the efficiency programme during 2016/17 of £3.3m. This level of slippage has been included in the overall forecast year end position.
- The current forecast suggests that only £3.9m will be delivered on a recurring basis after taking into account any full year impact or effect of schemes implemented part way through the year. That represents a shortfall against the recurring target of £4.9m which will be carried forward into 2017/18. Based on the financial outlook this would make the level of savings required in 2017/18 unprecedented and potentially undeliverable in one financial year.
- The Board will receive a detailed update on efficiency at each Strategy and Performance Committee.

## Section 5 : Risk

- This section highlights to the Board the key risks currently facing the organisation in achieving its financial targets for 2016/17.
- The Acute Services are overspent by £3.1m at the end of month six. Work must continue to address the pressures and ensure that revised trajectories for nursing and medical costs are met by increasing the level of scrutiny and monitoring. This will be extremely challenging during the winter months.
- Due to the unpredictability of external health providers expenditure particularly around UNPAC's and ECR's this could be a risk in coming months for the Board. The commissioning team continue to monitor the situation.
- As part of the financial plan for 2016/17 the Board approved a significant uplift to primary care prescribing budgets. Due to the volatility of prescribing expenditure over the last few years, this is a financial pressure and continues to be an area of significant risk. The medicines resource group is monitoring the situation closely and making clinically appropriate recommendations to improve the financial position.
- The opening of surge beds linked to patient flow will continue to have an adverse impact on the financial position of NHS Borders unless a source of funding is identified or the beds are no longer required. Work is ongoing in this area.
- NHS Borders must work in partnership with the IJB to ensure that the financial pressures in the IJB directed services and set aside budgets are addressed.
- The size of efficiency challenge for NHS Borders is unprecedented in recent times. Delivery of the efficiency programme is critical to achievement of financial targets. There are risks to delivery of a number of projects within the revised programme. An increase focus on efficiency and reducing risk is required in the coming months.
- There is shortfall on the recurring efficiency target of potentially £4.9m which will be carried into 2017/18 and will increase the level of the challenge unless addressed before the end of the financial year.
- Dialogue with the SGHSCD on the options available to the Board linked to the financial position is ongoing and the outcome of discussions at present is unknown.
- There is a risk that the current forecast of non delivery of financial targets will result in increased external scrutiny of the Board.

**Glossary of Terms:**

SGHSCD	- Scottish Government Health and Social Care Department
LDP	- Local Delivery Plan
IJB	- Integration Joint Board
RRL	- Revenue Resource Limit
CRL	- Capital Resource Limit
UNPACS	- Unplanned Activity
SLA	- Service Level Agreement
ECR	- Extra Contractual Referrals
OATS	- Out of Area Treatments
CCG	- Clinical Commissioning Group