

**Borders NHS Board**



## **FINANCE REPORT FOR THE SEVEN MONTH PERIOD TO 31<sup>st</sup> OCTOBER 2016**

### **Aim**

The purpose of this report is to advise the Board of the financial position as at 31st October 2016.

### **Executive Summary**

The Board are asked to note the following key points:

- At the end of October 2016 the Board is reporting an overspend position of £3.3m on revenue and break even on capital.
- This is an improved financial position and reflects the impact of the actions the Board has agreed and the ongoing discussions to address the reported overspend position.
- SGHSCD have agreed to support the transfer of funding generated by slippage on the capital programme to offset the revenue financial pressures.
- Achievement of financial targets remains a risk however the position at the end of October is an improving situation with level of risk of non delivery reduced.
- SGHSCD and the Integration Joint Board have requested a recovery plan linked to the financial position.
- The main pressure areas are nursing and medical costs in the set aside budgets within the BGH, GP 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 seven £5.1m of savings has been delivered of which £2.8m is recurring. A shortfall of £3.3m continues to be forecast on the overall programme.
- NHS Borders has set aside contingency funds in 2016/17 of £2m. Seven months of the contingency funding and other resources that have been secured to support the financial position have been reflected in the reported position.
- The improving financial position is as a result of a number of non recurring measures. The recurring financial stability of the organisation continues to give significant cause for concern.

### **Recommendation**

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

- The current financial position.
- The current projection that there remains a risk the Board will not achieve financial targets although the risk of non delivery has reduced.

- The request from SGHSCD and the IJB for a recovery plan 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)**

<b>Name</b>	<b>Designation</b>	<b>Name</b>	<b>Designation</b>
Vivienne Buchan	Senior Finance Manager		

## **Contents**

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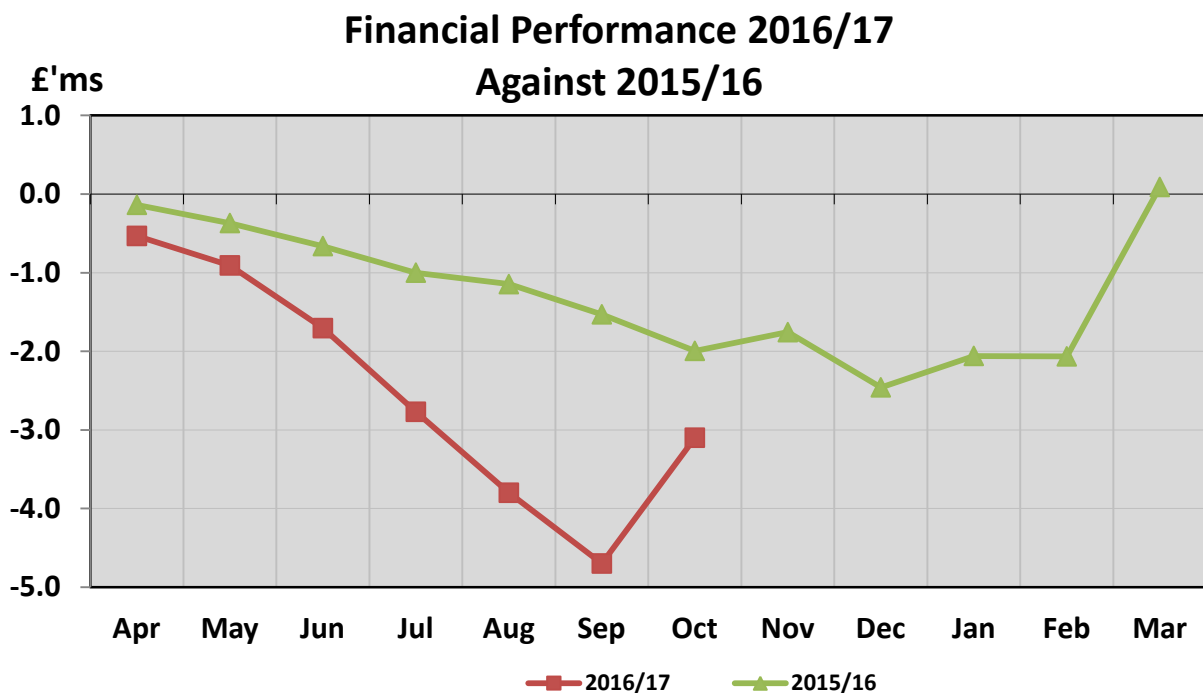
### **Section:**

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	242.5	137.5	137.6	0.1
Expenditure	242.5	140.7	144.1	(3.4)
<b>Surplus/(Deficit) for Period</b>		<b>(3.2)</b>	<b>(6.5)</b>	<b>(3.3)</b>
Capital Expenditure	5.1	1.5	1.5	0

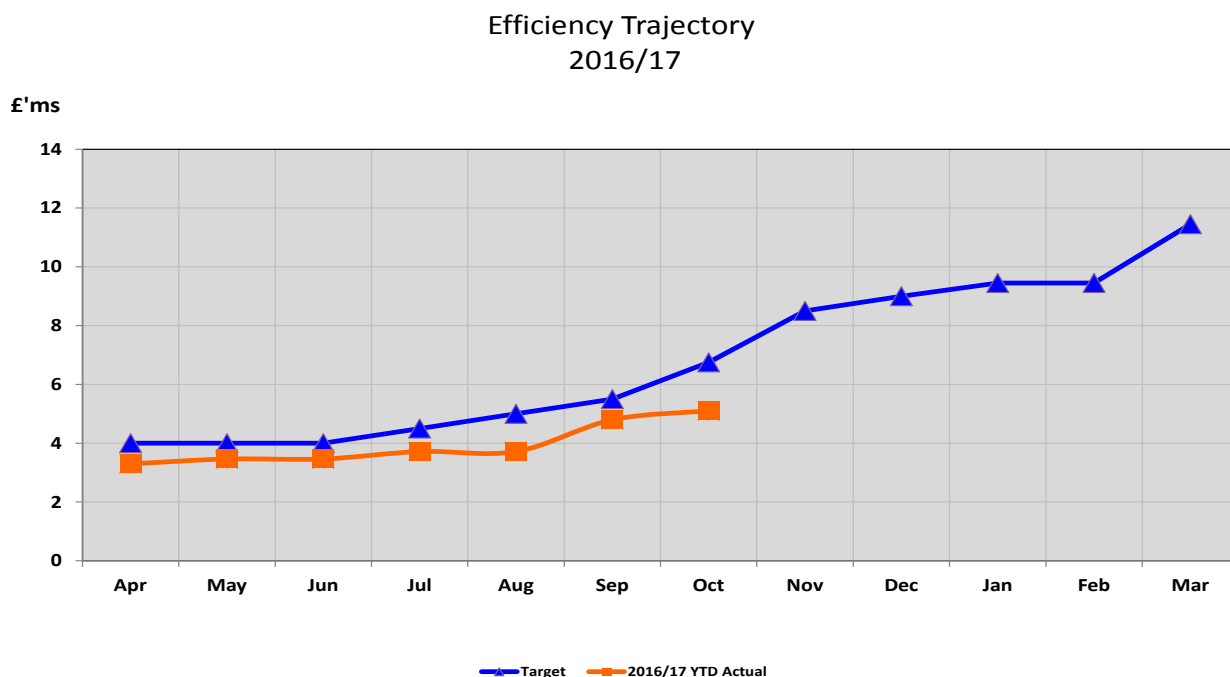
- At 31<sup>st</sup> October 2016 the Board is reporting an overall position of £3.3m overspent. This position includes a small over recovery on income budgets and an overspend on expenditure budgets, comprising Acute Services (£3.8m), IJB directed services (£1.0m), and external healthcare providers (£0.6m).
- 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 seven at £3.3m overspent is higher than for the same period last financial year. The position has improved during October as a result of actions to address operational pressures, the impact of additional funding secured and the phasing of the contingency fund.

- The key points to note at the month seven position are:
  - The Acute Services are overspent by £3.8m which is mainly within unscheduled care in the BGH. The overspend in medical (£1.6m) and nurse staffing budgets (£1m) is as a result of the ongoing use of surge beds linked to patient flow, patient acuity and gaps on staffing rotas. The increase in the medical overspend is higher than anticipated in October due to increased costs to cover medical absences and vacancies. All other expenditure areas within Acute Services are reporting a financial position as anticipated at the end of October.
  - External healthcare providers are £0.6m overspent linked to ECRs and UNPACS as reported in previous financial updates.
  - Within IJB directed services, GP prescribing costs are reporting an overspend (£1m) based on five months price and six months volume information projected to the end of October. Whilst the volume of prescriptions is at budgeted levels, price per script has significantly increased in the last few months. It is anticipated that the price changes experienced to date will continue until the end of the financial year. The reported position at the end of October is as anticipated however, due to the volatility in drugs tariffs in recent months this remains a significant risk for the Board.
  - At its meeting on the 17<sup>th</sup> October the Integration Joint Board agreed to provide £0.5m of resources to support the opening of surge beds during the summer months. This funding has been included in the financial position reported. The Integration Joint Board has requested a recovery plan for the services which it has directed the Board to provide.
  - Due to emerging capital pressures and slippage on some schemes the Board has agreed some changes to the 2016/17 capital plan. SGHSCD are supporting the use of the natural slippage on the capital plan to offset the revenue position in 2016/17. This transfer of funding and the impact on the future capital plan is yet to be finalised. A separate capital update will be presented to the Board at its meeting on 1<sup>st</sup> December 2016. SGHSCD has requested a recovery plan linked to the financial situation.
  - The impact the control measures, ring fenced funding identified to support the financial position as well as phasing of the Board's contingency fund have been included in the reported position to the end of October.

- The graph below highlights the actual delivery of total efficiency month on month compared with the trajectory submitted as part of the local delivery plan.



- As at the end of October a total of £5.1m has been withdrawn from operational budgets for required savings. There has been no change to the year end position on efficiency since the last report with an estimated shortfall of £3.3m forecast. This projection, for which there remains 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.
- 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. Based on the forecast year-end 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. This will be carried forward into 2017/18 and will increase the level of the challenge to unprecedented and potentially unmanageable levels in terms of delivery within financial year 2017/18.
- The achievement of financial targets remains a risk however the position at the end of October is an improving situation with the level of risk on non delivery reduced.

## 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	108.0	108.0	-
SGHSCD (additional to LDP)	25.8	15.0	15.0	-
Family Health Services (incl Non Cash Ltd)	10.2	6.0	6.0	-
External Healthcare Purchasers	3.9	2.3	2.3	-
Other	8.0	5.5	5.6	0.1
Clinical Boards	1.0	0.7	0.7	-
<b>Total Income</b>	<b>242.5</b>	<b>137.5</b>	<b>137.6</b>	<b>0.1</b>
<b>Expenditure Resources</b>				
Acute Services	76.8	45.2	49.0	(3.8)
External Healthcare Providers	24.8	14.6	15.2	(0.6)
IJB Directed Services (including efficiencies)	96.7	58.3	59.3	(1.0)
Corporate Directorates	33.0	18.4	18.4	-
Cost of Capital	3.9	2.2	2.2	-
Approved Funding Unallocated	10.0	2.0	-	2.0
Non IJB Unapplied Efficiencies:				
Recurring	(4.0)	-	-	-
Non-Recurring	0.4	-	-	-
IJB Social Care Fund (not yet transferred)	0.9	-	-	-
<b>Total Expenditure</b>	<b>242.5</b>	<b>140.7</b>	<b>144.1</b>	<b>(3.4)</b>
<b>Surplus/(Deficit) for period</b>	<b>-</b>	<b>(3.2)</b>	<b>(6.5)</b>	<b>(3.3)</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 for 2016/17.
- NHS Borders will receive a share of the national New Medicines Fund. It has been highlighted that the level of funding available is likely to be lower than expected the impact of which has been built into the year end financial forecast.
- Currently overall the income budgets are reporting a small over recovery of £0.1m at the end of month seven linked to income generated by laundry and occupational health services.

### Expenditure Resources

- Acute Services, including set aside budgets, are reporting an overspend of £3.8m with the main pressure being BGH medical staffing (£1.6m), nursing budgets (£1.0m) and supplies costs (£0.7m). The increase in the medical overspend is higher than anticipated at just over £0.2m in October due to the cost of covering medical absences and vacancies. In the case of nursing, above budgeted costs were as anticipated and are the impact of delayed discharges resulting in the need to open

additional beds and some patient dependency issues. All other expenditure levels are in line with revised trajectories.

- The reported overspend (£0.6m) on external healthcare providers includes some estimated activity as per normal timescales. The areas of overspend are namely UNPACS and ECRs and are in line with previous updates.
- IJB directed services, excluding the set aside budgets which are included in acute services, are reporting (£1.0m) overspent linked to GP prescribing budgets and community services. Due to the normal time delay in processing prescriptions the reported position at the end of October is based on five months price and six months volume information projected forward. The pharmacy team have identified 400 individual drugs where the price has increased in recent months, 35 of which will have an impact of more than £1m on NHS Borders this financial year. The Medicines Resource Group is considering any appropriate action. 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 October financial position includes the phased release of contingency funds and other identified sources of funding to support the financial position. This includes £0.5m which the Integration Joint Board has directed to NHS Borders to support the cost of surge beds which have been open during the summer months.
- 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 IJB has requested a recovery plan linked to the financial position and advised that directions will be issued in due course.
- The operational pressures which have impacted on the financial position in the seven 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 and IJB on the financial position and recovery plans have been requested.



## Section 3 : Overview of Capital

### Source of Funds

	£m
<b>Sources of Funds</b>	
Gross Capital Resource Limit (CRL)	7.2
Transfer of capital slippage to revenue	(2.1)
<b>Total Capital Resources</b>	<b>5.1</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.
- SGHSCD have agreed to support a capital to revenue transfer for the capital slippage arising from a number of projects in the 2016/17 Capital Plan. Discussions on the impact of this transfer of funding on the future capital programme are ongoing.

### Capital Expenditure

	Plan £m	Actual To Date £m
<b>Community Health Centres &amp; Primary Care</b>	<b>3.5</b>	<b>0.6</b>
<b>Mental Health Services</b>	<b>0.5</b>	<b>0.2</b>
<b>IM&amp;T</b>	<b>0.2</b>	<b>0.1</b>
<b>Medical &amp; Radiology Equipment</b>	<b>0.7</b>	<b>0.1</b>
<b>Estates &amp; Facilities</b>	<b>0.7</b>	<b>0.4</b>
<b>Other (including Feasibility Works)</b>	<b>0.2</b>	<b>0.1</b>
<b>Uncommitted - dependent on sale proceeds</b>	<b>0.1</b>	
<b>Agreed capital to revenue transfer of slippage</b>	<b>(2.15)</b>	
<b>Total</b>	<b>5.1</b>	<b>1.5</b>

Expenditure incurred for the period to the 31<sup>st</sup> October 2016 relates to the final phase of works at Melburn Lodge, programmed construction works at Roxburgh Street Replacement Surgery and purchase against the prioritised spend for the estates/state of the estate 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 been identified for the purchase with the delivery of the camera estimated for April 2017.

A full capital plan update report is being presented separately to the Board's December meeting.

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

	Target	Delivered				Full Year Effect/ Year End £m
	Total £m	Recurring £m	Non Recurring £m	Total £m		
<b>Corporate Services Challenge</b>	<b>0.57</b>	<b>0.57</b>	<b>0.1</b>	<b>0.67</b>		-
<b>Acute Services</b>	<b>6.65</b>	<b>1.21</b>	<b>1.92</b>	<b>3.13</b>		-
<b>IJB Directed Services</b>	<b>4.24</b>	<b>1.03</b>	<b>0.28</b>	<b>1.31</b>		-
<b>TOTAL</b>	<b>11.45</b>	<b>2.81</b>	<b>2.30</b>	<b>5.11</b>		-

- In 2016/17 the overall efficiency target is £11.4m. This level of efficiency as 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 is 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 requires to be addressed.
- As at month seven NHS Borders has withdrawn £5.1m, £2.8m of which has been delivered on a recurring basis. This figure is broken down into savings withdrawn for IJB directed services £1.31m, Acute Services £3.13m and Corporate Services £0.67m.
- It is clear from detailed work 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. The Chief Executive has requested weekly updates on the efficiency delivery to ensure any variance is quickly identified.
- The current forecast, which is unchanged from the previous report, suggests that of the £8.1m of savings identified 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 year 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 unmanageable for NHS Borders to deliver in one financial year.

**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 £3.8m at the end of month seven. Work must continue to minimise pressures through increased scrutiny and monitoring to ensure that revised trajectories for nursing and medical costs are met. This will be extremely challenging during the winter months.
- Due to the unpredictability of external health providers expenditure, particularly around UNPAC's, OATS 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 GP 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 will make clinically appropriate recommendations to improve the financial position.
- The allocation adjustments linked to the transfer of funding in 2016/17 from capital to support the revenue position has not yet been actioned and therefore remains a risk. The impact of this transfer on the 2017/18 capital plan is subject to discussion with SGHSCD and therefore remains an issue which could significantly impact on future capital investment.
- 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 production of a recovery plan will support this process.
- 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 to unprecedented and potentially unmanageable levels in terms of delivery within financial year 2017/18. The organisation will need to increase its focus on this.
- 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