

**FINANCE REPORT FOR THE SEVEN MONTH PERIOD TO 31<sup>ST</sup> OCTOBER 2017****Aim**

The purpose of this report is to advise the Board of the financial position as at 31<sup>st</sup> October 2017.

**Executive Summary**

The Board are asked to note the following key points:

- At the end of October 2017 the Board is reporting an overspend position of £5.4m on revenue and break even on capital. The overspend on revenue is as a result of pressures on operational budgets and the limited progress that has been made on the implementation of projects in the draft efficiency programme agreed by the Board at the meeting in April 2017.
- The main operational pressures are acute services in the BGH and IJB directed services.
- The Board has a challenging savings target of £15.7m, (£12.9m recurring and £2.7m non recurring) for financial year 2017/18. The forecast delivery is £9.1m in year giving an estimated shortfall of £6.6m at the financial yearend.
- NHS Borders has a contingency fund in 2017/18 of £2m. This has not been factored into the financial position. The reported position at the end of October includes the use of some capital resources to support the revenue position and additional funding linked to cross border referral patterns. In addition the Integration Joint Board at its meeting on the 23<sup>rd</sup> October 2017 directed £1m of funding to NHS Borders to offset the additional costs associated with the increased number of delayed discharge occupied bed days.
- The Board was presented with the financial recovery plan for 2017/18 at its meeting on the 26<sup>th</sup> October 2017. A further update will be provided at the meeting on the 7<sup>th</sup> December 2017. Based on a number of assumptions and caviated with some significant risks the Board is forecasting a break even position at 31<sup>st</sup> March 2018. However it should be noted this is as a result of many non recurring actions which cannot be repeated and therefore the recurring financial position of the organisation remains concerning.
- Although reporting a break even position at the end of October on capital budgets there remains much to do in the final months of the financial year to ensure the Capital Resource Limit is delivered. The Board will receive a detailed capital report at its meeting on the 7<sup>th</sup> December 2017.

**Recommendation**

The Board is asked to **note** the report and consider the current financial position in conjunction with the recovery plan which will be presented in a separate paper at the December Board meeting.

<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		

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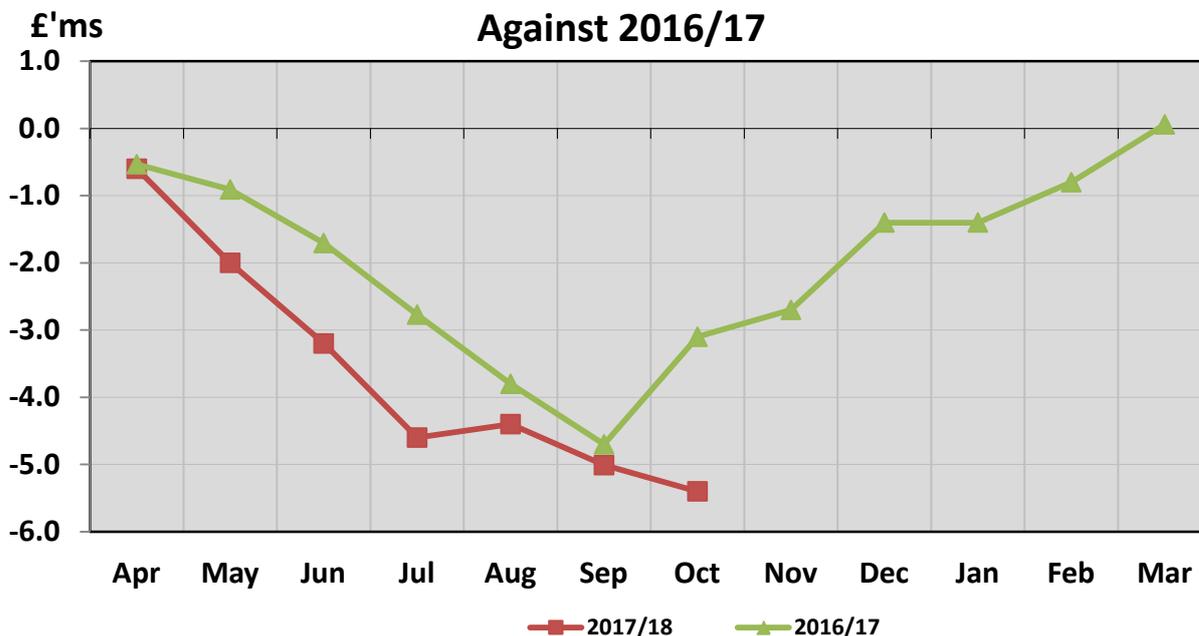
1. General Overview
2. Overall Income and Expenditure Summary of Operational Budgets
3. Overview of Capital
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## Section 1: General Overview

	Annual Budget £m	YTD Budget £m	YTD Actual £m	YTD Variance £m
Income	247.6	141.1	141.2	0.1
Expenditure	247.6	139.8	145.3	(5.5)
<b>Surplus/(Deficit) for Period</b>	-	<b>1.3</b>	<b>(4.1)</b>	<b>(5.4)</b>
Capital Expenditure	5.8	1.7	1.7	0

- At 31<sup>st</sup> October 2017 the Board is reporting an overall position of £5.4m overspent. This position includes the impact of the non delivery of efficiency savings and an overspend on a number of expenditure budgets comprising Acute Services (£4.4m), IJB directed services (£2.1m), and external healthcare providers (£0.5m). Additional resources received to date to support the financial position have been included in the position.
- The graph below compares the level of revenue overspend month by month during 2017/18 with the previous financial year.

### Financial Performance 2017/18 Against 2016/17



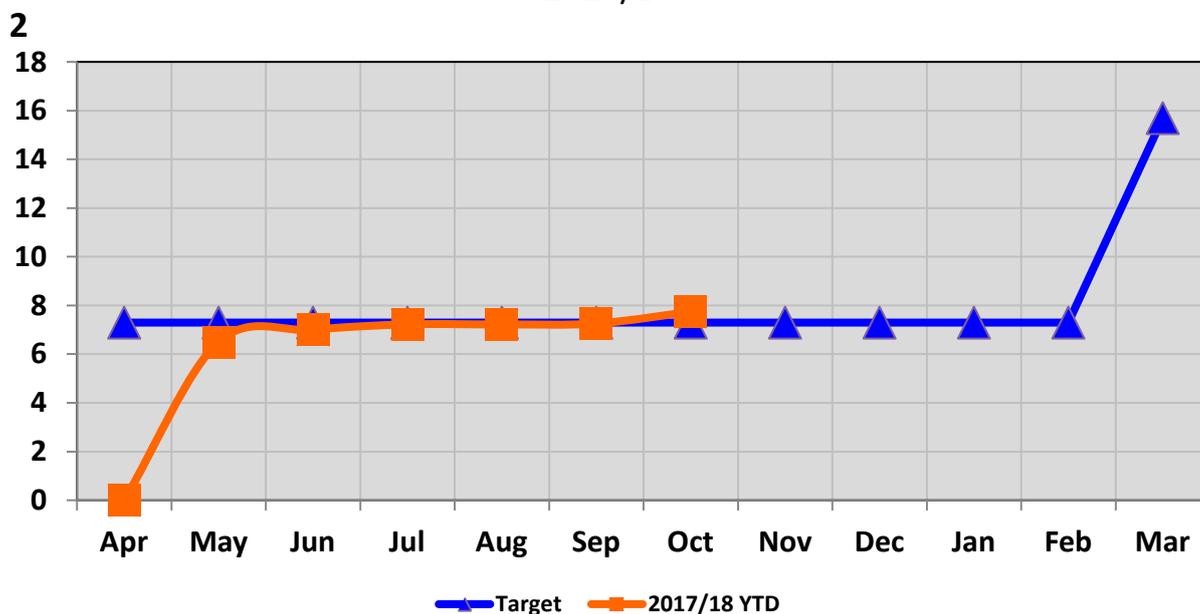
- The level of overspend is greater than last year at this time, however the position in 2017/18 takes into account seven twelfths of the 3% efficiency challenge which has been allocated to services.
- The key points to note at the month seven position are:
  - The Acute Services, including set aside budgets, are overspent on expenditure budgets by £4.4m, principally due to increased medical (£0.9m), nursing (£1.2m) and drug (£0.7m) costs and a shortfall in the delivery of

efficiency (£1.2m). A key driver for the increased costs is activity levels linked to delayed discharge occupied bed days, patient acuity, staff cover and particularly in the month of October the impact of Norovirus.

- External healthcare providers are £0.5m overspent linked to a high cost CAMHS inpatient in NHS Lothian, UNPACS activity and ECR placements.
- Within IJB directed services a shortfall on the delivery of efficiency in a number of areas is the key reason for the reported overspend.

- At its meeting in April the Board approved a financial plan for 2017/18 which required savings of £12.9m recurrently and £2.7m on a non recurring basis and noted a projected shortfall of £3.8m on this requirement.
- The graph below compares efficiency progress to date compared with the trajectory submitted as part of the local delivery plan.

Efficiency Trajectory  
2017/18



- Based on current information the Board will achieve £9.1m of efficiency this financial year. This is lower than anticipated in the financial plan due to limited delivery of the 3% efficiency target and schemes carried forward from last financial year. Section 4 of the report provides detail on actual delivery of efficiency compared with the draft efficiency plan.
- Discussions with SGHSCD are ongoing. The reported position at the end of October includes the use of £2m of capital funding to support revenue pressures and the impact of £500k additional funding from SGHSCD to offset changes to cross border referral patterns, release of some approved but not yet allocated funding and the additional £1m of funds directed from the IJB linked to the cost of delayed discharge occupied bed days.
- The Board was presented with the 2017/18 financial recovery plan at the October Board meeting and requested a further update in December. It is anticipated that the shortfall in the delivery of the efficiency plan and the existing operational pressures will be mitigated through the implementation of the financial recovery plan.

- Based on a number of assumptions and caviated with some significant risks the Board is forecasting a break even position at 31<sup>st</sup> March 2018. However it should be noted this is as a result of many non recurring actions which cannot be repeated and therefore the recurring financial position of the organisation remains concerning.
- At the end of October the Board has spent £1.7m of its £5.8m of capital resources. Section 3 of this report gives further information on the capital plan and in addition the Board will receive a detailed capital plan at its meeting on the 7<sup>th</sup> December 2017. There is still a significant amount of work to be done in the remainder of the year to ensure the Capital Resource Limit is achieved.

## 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)	198.3	112.6	112.6	-
SGHSCD (additional to LDP)	25.9	14.6	14.6	-
Family Health Services (incl Non Cash Ltd)	10.2	6.0	6.0	-
External Healthcare Purchasers	3.9	2.3	2.4	0.1
Other	8.3	5.0	5.0	-
Clinical Boards	1.0	0.6	0.6	-
<b>Total Income</b>	<b>247.6</b>	<b>141.1</b>	<b>141.2</b>	<b>0.1</b>
<b>Expenditure Resources</b>				
Acute Services	76.5	44.8	49.2	(4.4)
External Healthcare Providers	24.7	14.5	15.0	(0.5)
IJB Directed Services (including efficiencies)	98.7	58.1	60.2	(2.1)
Corporate Directorates	33.7	18.5	18.7	(0.2)
Cost of Capital	3.7	2.2	2.2	-
Approved Funding Unallocated	13.6	1.7	-	1.7
Non IJB Unapplied Efficiencies:				
Recurring	(1.8)	-	-	-
Non-Recurring	(1.8)	-	-	-
IJB Social Care Fund (not yet transferred)	0.3	-	-	-
<b>Total Expenditure</b>	<b>247.6</b>	<b>139.8</b>	<b>145.3</b>	<b>(5.5)</b>
<b>Surplus/(Deficit) for period</b>	<b>-</b>	<b>(1.3)</b>	<b>(4.1)</b>	<b>(5.4)</b>

#### Income Resources

- The SGHSCD allocations shown in the report are in line with the agreed allocations received and an estimate of the anticipated allocations expected for 2017/18.
- Currently overall the income budgets are reporting an over recovery of £0.1m at the end of October 2017 due to an increase in the level of income received for Non Borders residents treated by NHS Borders.

#### Expenditure Resources

- Acute Services, including set aside budgets, are reporting an overspend of £4.4m. In the case of medical and nursing budgets additional costs have been incurred due to activity pressures, increased acuity of patients and the need to cover staff absences. This is offset by the direction of funding from the IJB (£1m) to support the cost of surge beds required as a result of the level of delayed discharge occupied bed days across the organisation. However, the overspend on nursing costs has increased significantly in October due to the impact of norovirus and the resulting increased use of agency nurses to cover staff absence. Drugs costs are £0.7m overspent

specifically for lucentis in ophthalmology and higher than anticipated patient numbers for GI healthcare at home. The 3% efficiency requirement and unidentified drugs efficiency target are adversely impacting on the financial position (£1.2m overspent).

- External healthcare providers are £0.5m overspent based on activity information which has been received to the end of September. The key pressures are a high cost CAMHS inpatient in NHS Lothian, UNPACS activity and ECR placements.
- IJB directed services, excluding the set aside budgets which are included in acute services, are reporting (£2.1m) overspent in total at the end of October. The overspend is linked to the efficiency shortfall in prescribing (£1.1m), the 3% challenge (£0.3m) and unmet savings carried forward from last financial year (£0.7m). In the case of prescribing costs there remains an unidentified gap in the savings programme and slippage on anticipated savings from a price reduction for the drug Pregablin. The position is partially offset by underspends in LD services and dental budgets.
- In the case of corporate services the overspend position (£0.2m) reported is due to a combination of unmet 3% efficiency savings targets across all areas and specifically operational budget overspends within estates and facilities.
- £1.7m has been phased into the October financial position reflecting 7/12 of the £2m capital funding to support revenue pressures, the additional £0.5m SGHSCD support to reflect changes in cross border referrals as well as, following the completion of a year end projection of capital charges, £0.5m of earmarked funding. This is in line with the year end recovery plan.

### Section 3 : Overview of Capital

#### Source of Funds

	£m
Opening Capital Resource Limit (CRL)	5.8
Additional eHealth Division IM&T Infrastructure	2.0
Transfer of Capital to Support 2017/18 Revenue	(2.0)
<b>Total Capital Resource Limit (CRL)</b>	<b>5.8</b>

- Within the opening CRL NHS Borders formula capital allocation for 2017/18 of £2.4m has been supplemented by additional funding of £1.9m in relation to reinstatement of slippage from previous years and £1.4m for the Primary Care Premises Programme.

#### Capital Expenditure

	Plan £m	Actual To Date £m
Community Health Centres & Primary Care	1.3	0.9
IM&T Road to Digital	3.2	0.1
Medical & Radiology Equipment	0.4	0.1
Estates & Facilities	0.4	0.4
Uncommitted	0.1	0.0
Other (including Feasibility Works)	0.4	0.2
<b>Total</b>	<b>5.8</b>	<b>1.7</b>

- The main areas of spend to date include the construction works of the Primary Care Schemes at Eyemouth Health Centre, Knoll Health Centre and Roxburgh Street Replacement Surgery. Plans are progressing for the rolling replacement programmes for estates and medical (including radiology) equipment replacement.
- There has been limited spend to date on the Board's IM&T Road to Digital programme which forms a significant part of the current year Capital Plan. An update on the delivery of the 2017/18 element of this project will be presented to the Board at its meeting on the 7th December 2017.
- Seven months into the financial year £1.7m of the £5.8m capital resource has been spent. There is much to do to ensure the capital resource limit is achieved by the 31<sup>st</sup> March 2018.
- The Board will receive a detailed capital report at the meeting on the 7<sup>th</sup> December 2017.

## Section 4 : Efficiency Programme - Savings Targets

<b>Scheme</b>	<b>Plan £m</b>	<b>Allocated To Services £m</b>	<b>Delivered To date £m</b>
2016/17 Carry forward Schemes	1.9	0.1	0.1
3% Delegated Targets	4.0	4.0	2.8
Non Recurring Measures	3.5	1.4	1.4
Effective Prescribing	2.5	2.5	1.8
Unidentified	3.8	0	0
<b>Total</b>	<b>15.7</b>	<b>8.0</b>	<b>6.1</b>

- At the end of October NHS Borders is reporting that a total of £6.1m of savings have been delivered with associated funding transferred from operational budgets. £2.7m of this saving has been delivered on a recurring basis.
- In 2017/18 the overall efficiency target is £15.7m. (£12.9m recurring and £2.7m non recurring). NHS Borders is forecasting delivery of £9.1m against the required target of which £4m will be delivered on a recurring basis.
- In the case of non recurring measures £1.4m of savings have been actioned but as planned a number of these will not be actioned until later in the financial year.
- The prescribing efficiency plan is being progressed however it is anticipated that a number of projects will not be realised until later in the financial year – for example drugs which will come off patent. Work is ongoing with pharmacy colleagues in order to determine if slippage has occurred on specific projects and the resultant impact on delivery of the savings this financial year. Linked to normal time delays in receiving information on primary care prescribing costs there is a significant time delay to verify actual delivery of savings in this area.
- The Board will end the financial year with a significant recurring deficit (estimated at £8.8m) on its efficiency target. In addition the board is likely to need to deliver further efficiencies to meet new financial pressures in 2018/19. It is imperative that there is increasing focus on delivering recurring efficiencies in order to ensure financial sustainability going forward.
- The Better Borders team has been established to support the longer term financial sustainability of NHS Borders through providing a systematic review of opportunities and developing and implementing a transformational change programme.
- A detailed report on efficiency is presented to 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.
- The Acute Services are overspent by £2.4m at the end of October on operational budgets (excluding the impact of efficiency target and drugs costs). The overspend trend has slowed in recent months and the robust management that has been put in place must continue to minimise pressures. However due to Norovirus in October in the case of nursing budgets the trajectory was not met. An action plan to recover this situation has been requested. It will be increasingly challenging for all budgets to stay within trajectory as we go into the winter months.
- Across the organisation there is a need to implement plans included in the draft efficiency programme. This includes delivery of the 3% efficiency challenge and schemes that have been carried forward from last financial year. If efficiency is not delivered this will impact on the financial position of services and the financial sustainability of the organisation. Services have confirmed the level of savings that will be delivered this financial year and budgets are being adjusted accordingly.
- Due to the time delay in information available there remains a significant risk associated with drugs costs particularly primary care prescribing. The prescribing efficiency programme is continuing however it should be noted that there remains a shortfall on projected costs and the level of efficiency that has been identified to meet these costs.
- Due to the unpredictability of external health providers expenditure, particularly around UNPAC's, OATS and ECR's the Commissioning Team continue to monitor the situation.
- 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 Board considered a recovery plan for 2017/18 at its meeting in October which set out a number of actions to address the financial pressures. An update will be provided at the December meeting. Whilst every effort has been made to ensure all likely additional costs and national, regional and local priorities have been incorporated into the forecast year end position, there remain a number of inherent uncertainties and risks. It is not possible to eradicate all financial risks facing individual services or the wider organisation.
- Due to number of non recurring measures that have been put in place during 2017/18 to deliver the financial position financial sustainability is a major risk to the organisation going forward.

**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