

## **NHS LANARKSHIRE**

### **OVERVIEW OF FINANCIAL PLAN 2007/08 – 2011/12**

#### **1. Purpose of Report**

This report is to provide the NHS Board with an overview of the NHS Lanarkshire financial plan for the five year period 2007/08 to 2011/12.

It must be noted that the plan is predicated upon a number of assumptions, particularly in relation to the resource uplift from 2008/09 onwards.

#### **2. Overview**

Formal notification of the Revenue Resource Limit for 2007/08 was issued by the Scottish Executive Health Department on 1 February 2007. An uplift of 6.00% has been received, with a further 0.71% in recognition of the move toward Arbutnott parity. These uplifts equate to £46.2m in total, bringing the NHS Lanarkshire total general allocation to £735m for the forthcoming financial year. This excludes funding for Primary Medical Services, which will be confirmed by the SEHD at a later date.

The table on the following page provides a summary of the current plan for 2007/08. It should be noted that a number of additional allocations are anticipated from the SEHD during the year. These have been included within the additional non-recurring resources along with an estimate of £1.5m relating to slippage on other general allocations. Uncommitted reserves from the 2006/07 financial plan have been released into the recurring position for 2007/08 and are shown under “other resources”. These funds have only been made available following a detailed review of the forecast outturn for 2006/07 and the likely recurring impact of this position.

Appendix A summarises the overall plan for the five year period, highlighting the brought forward deficit, a breakdown of the additional resources of funding, planned utilisation of funding, and the CRES target for each year.

The NHS Board should note that the indicative financial position for 2007/08 is positive, with reasonable certainty that financial balance can be achieved in year. Importantly the contribution from uncommitted reserves and Arbutnott gain enable the Board to return to recurring balance and this is clearly extremely positive as the Board embarks on a period of significant strategic change at a time when the financial outlook is less positive. For this reason a recurring CRES target has been set for 2007/08 to ensure that we establish some reserve to support the initial commitments from Picture of Health.

However, based on the current planning assumptions, the position is less positive from 2008/09 when the annual uplift from the SEHD is likely to reduce from 6% per annum to 4%. Initial assumptions have been made in respect of additional funding for the move toward Arbutnott parity, but this needs further testing and is very much linked to changes for the

Arbuthnott formula and for other Health Board areas. The risk around this is highlighted further in section 4 below, with specific focus on the position for Arbuthnott funding in 2007/08.

It is essential therefore, that the planned surplus in 2007/08, both in-year and on a recurring basis, is achieved to secure longer term financial sustainability.

<b>Draft Financial Plan 2007/08</b>			
	<b>Recurring £m</b>	<b>Non recurring £m</b>	<b>Total £m</b>
<b>Opening deficit</b>	<b>(7.250)</b>		<b>(7.250)</b>
<b>Additional resources</b>			
Uplift	41.326		41.326
Arbuthnott	4.876		4.876
Other	3.915	4.610	8.525
	<b>50.117</b>	<b>4.610</b>	<b>54.727</b>
<b>Utilisation of resources</b>			
Local pressures	(3.390)	(0.260)	(3.650)
Picture of Health		(1.001)	(1.001)
Pay	(15.242)	(0.500)	(15.742)
Non Pay	(4.689)	(1.000)	(5.689)
Drugs	(10.000)		(10.000)
National / Regional Priorities	(2.749)	(4.509)	(7.258)
Waiting Times	(4.000)		(4.000)
Other	(0.809)	(0.357)	(1.166)
	<b>(40.879)</b>	<b>(7.627)</b>	<b>(48.506)</b>
<b>CRES</b>	<b>3.000</b>	<b>2.000</b>	<b>5.000</b>
<b>Forecast Surplus</b>	<b>4.988</b>	<b>(1.017)</b>	<b>3.971</b>

### 3. Planning Assumptions 2007/08

#### *SEHD uplift*

All mainland NHS Boards across Scotland have received a standard uplift of 6% for 2007/08. As a Board currently below our Arbuthnott target, we have received a further 0.71% in recognition of our move toward parity and our target share of the NHS Scotland budget. This equates to a total of £46.2m additional resources for the coming financial year.

It is important to emphasise that the financial plan for 2006/07 – 2010/11, approved by the NHS Board and the SEHD, as part of the Local Delivery Plan, was predicated on Arbuthnott funding of £6.8m for 2007/08, details of which were provided by the SEHD. The 0.71% actual allocation for next year equates to only £4.8m, with NHS Lanarkshire losing some of its gain and move toward parity to other NHS Board areas due to changes in population projections. This has put additional pressure in excess of £2m across Lanarkshire for 2007/08.

### *Pay issues*

Basic pay increases of 3.225% have been assumed, to cover both pay awards (2.5%) and the ongoing impact of Agenda for Change (0.725%). A full 'zero based budgeting' approach is underway in light of the changes in staffing costs arising from this major change to the pay structure. This exercise is predicated on the funding requirement being managed within the existing staff budgets available along with this additional uplift. The impact of incremental drift will require to be managed and the outcome of the budget exercise may require further consideration of the approach taken to this across the organisation. A consistent approach will be taken to the methodology for setting staffing budgets across both CHPs, the Acute Division and all corporate departments.

It should be noted that when account is taken of the further provision required to support the ongoing impact of the Consultant Contract the overall pay provision rises to 3.8%.

A key area of uncertainty at this time is the full impact of Modernising Medical Careers. Taking account of funding set aside in the 2007/08 draft financial plan, a total of £1m will be available in the coming year. Work continues nationally to assess the likely impact and the financial exposure which may need to be addressed locally.

### *Non pay uplift*

A supplies uplift of 1% has been applied to non pay budgets. Specific funding has also been allocated to cover the impact of the PFI Contracts, energy costs and the additional revenue costs associated with investment in new equipment.

In view of the potential for minor capital works and refurbishments to be classified as revenue expenditure rather than capital expenditure, additional non recurring funding of £1m has been set aside for 'non-added value' capital expenditure.

### *Drugs*

Based on current spending trends and the anticipated costs of new drugs across both primary and secondary care, a total of £10m has been set aside for further investment in hospital and GP prescribing. This equates to more than 21% of the total new resources available for the year.

At present, this investment represents a 7% uplift on GP prescribing and a 10% uplift on hospital drugs. In future years it is proposed that a fixed allocation for new drugs funding will be made to the Prescribing Management Board for prioritisation across all areas of drugs expenditure.

Within the £10m available, the impact of Original Pack Dispensing and the use of Herceptin will also be require to be managed.

### *Local Investment*

The planned investment in Primary Care continues with funding of £1m to support the further development of the Community nursing and care team services. Pressures have also been

recognised in both the Acute Division and North and South CHPs. £2.7m has been set aside to support investment in the cardiac catheterisation laboratory, renal and vascular services, and recognising a funding shortfall in the out of hours service following a change in allocation from the SEHD.

### *Picture of Health*

In view of the level of work that is required to support Picture of Health non recurring resources of £1m have been set aside to support implementation. It is currently anticipated that there will be funding received from the SEHD to meet the costs of external advisors included in this provision. It should also be noted that the initial costs of the Cumbernauld and Clydesdale Community Casualty Units are included, with full recurring funding for these provided from 2008/09.

### *National & Regional Priorities*

Considerable resources are required to meet national priorities and regional developments across the West of Scotland. These include the forensic services (medium secure) development at Stobhill Hospital, interventional neuroradiology, Beatson Oncology Centre and the impact of the West of Scotland regional prioritisation process.

Further investment is also required to deliver Waiting Times targets both locally and in Glasgow and £4m has been included in the 2007/08 plan. This will support the requirement to deliver and sustain waiting times across the range of published guarantees.

## **4. CRES**

Delivery of a CRES target across the organisation is a key component in achieving a balanced financial plan. At this time, a recurring target of £3m has been set for the coming year, with a further £2m to be achieved on a non recurring basis. Further work is underway to consider options for the achievement of these targets, including a review of externally procured services.

## **5. Efficient Government**

In addition to the need to make recurring savings to support the overall affordability of the financial plan, the SEHD set an Efficient Government cash releasing target of £20.4m for NHS Lanarkshire, to be achieved by the end of 2007/08.

This target has been in place over a three year period and includes savings which have resulted in budgets being removed entirely from the system as well as savings which have been removed then re-invested in other areas.

By the end of 2006/07 it is anticipated that a total of £13.4m will have been achieved, leaving £7m to be achieved in 2007/08. A large proportion of this will be achieved through delivery of the CRES targets, however further work is required to recognise the potential impact of areas where existing budgets have been released for re-investment elsewhere. This has been

seen previously through savings within primary care being re-invested in community nursing and other services.

Progress toward the £20.4m target will be monitored closely during the year.

## **6. Financial Plan 2007/08 – 2011/12**

As highlighted earlier, Appendix A sets out the summary financial position for the five year period 2007/08 – 2011/12. Many of the planning assumptions set out in section 4 above are consistent throughout the timescale of the plan. The key areas to highlight, however, are the assumptions around the revenue resource uplift, the impact of the Picture of Health developments and the achievement of CRES. The NHS Board should note that the long term affordability of the overall plan, and thus the Picture of Health investments, is critically linked to the level of uplift including Arbutnott, the margin between this and agreed pay awards, and the level of recurring savings which can be released each year.

### *SEHD uplift*

The financial modelling undertaken to inform the Picture of Health consultation process in June 2006 was predicated on an annual revenue resource uplift of 5.5% being made available from 2008/09 onwards. This was consistent with our planning assumptions in the previous five year financial plan and formally approved by the SEHD through the Local Delivery Plan for 2006/07 – 2010/11.

Since that time, we have been advised by the SEHD to assume the resource uplift from 2008/09 onwards is unlikely to exceed 4%. This has major financial implications for NHS Lanarkshire, equating to a reduction of almost £35m recurring funding over a three year period.

Some of this has been offset by the assumptions made in respect of additional funding for the move toward Arbutnott parity. This has been estimated at £5m per annum, but needs further testing and is very much linked to changes nationally and for other Health Board areas.

### *Picture of Health*

Work is now underway on a number of the developments within the overall Picture of Health proposals. Outline Business Cases have been prepared and approved for Airdrie Resource Centre, Carluke Resource Centre and Coatbridge Dental and Integrated Resource Centre. In addition, work is ongoing with plans for the Cumbernauld Casualty Unit and the Learning Disability Assessment and Treatment Centre.

High level financial modelling has been undertaken to provide an early estimate of the recurring impact of the associated capital investment in these areas as well as the other developments within the Picture of Health proposals, and provision is included in the financial plan to support these developments. This supports a significant element of the proposed investment in Primary Care and Mental Health.

Further detailed work in this area will continue over the coming years, with this being a major focus of attention for the finance department. Support to assess the likely revenue impact will also be provided by financial and technical advisors, as necessary. The current timeframe for the financial plan, namely the next five years, does not reflect the total investment in the Picture of Health developments. Due to the timescales involved, particularly on the acute sites, the financial modelling needs to consider the impact over a ten year period.

### *CRES*

A recurring target of 0.75% has been included in the financial plan from 2008/09 onwards. At this time there are no specific cost reduction schemes identified to achieve this circa £3m target per annum. This is a significant area of work for the corporate management team and all areas of expenditure will need to be examined. There needs to be consideration of an annual target against all budgets, and an assessment made of how sustainable this is compared to the development of a more specific corporate cost reduction programme

It is essential that recurring savings are released from existing budgets. There is an inevitable trade off necessary between the funding of developments / service pressures and the delivery of savings.

## **7. Risks**

Whilst every effort has been made to ensure all likely cost pressures and national, regional and local priorities have been incorporated into the five year plan at this time, a number of risks remain.

These include

- Picture of Health developments
  - Transitional / double running costs
  - Revenue impact of capital investment
  - Timing of developments
- New Children's Hospital in Glasgow
- Prescribing
- Waiting times
- Agenda for Change
- Pay and prices, in particular new drugs and utilities
- Further roll out of the national tariff for cross boundary flows
- Impact of Modernising Medical Careers
- Ongoing achievement of CRES / Efficient Government targets
- Uplift / Arburthnott funding

Appendix B sets out a high level risk assessment for these issues. Many of these are common across the NHS in Scotland and it is essential that we work closely at a local, regional and national level to mitigate these where possible.

## **8. Conclusion**

*The Board is asked to note:*

- *The financial pressures facing NHS Lanarkshire during 2007/08 and beyond.*
- *The anticipated funding levels and planned utilisation of these resources during the five year period 2007/08 – 2011/12.*
- *The CRES targets required to achieve a balanced financial position over the five year plan.*
- *The assumptions and risks highlighted in Appendix B.*

*The Board is asked to approve:*

- *The financial plan attached as Appendix A, for formal submission to the Scottish Executive Health Department by 31 March 2007.*

**Susan Goldsmith**  
**Director of Finance**  
**22 March 2006**

# Appendix A

## NHS LANARKSHIRE FINANCIAL PLAN 2007/08

OPENING RECURRENT SURPLUS / (DEFICIT)	2007/08			2008/09			2009/10			2010/11			2011/12		
	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000
Total recurrent surplus / (deficit) brought forward	(7,250)	0	(7,250)	4,988	0	4,988	980	0	980	(1,772)	0	(1,772)	(525)	0	(525)

ADDITIONAL SOURCES OF FUNDING	2007/08			2008/09			2009/10			2010/11			2011/12		
	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000
Scottish Executive Uplift	41,326		41,326	29,428		29,428	30,833		30,833	32,275		32,275	33,785		33,785
Arbuthnot	4,876		4,876	5,000		5,000	5,000		5,000	5,000		5,000	5,000		5,000
Savings Release to Boards (NSD PICU)	445		445			0			0			0			0
National Tariffs			0			0			0			0			0
Other Allocations:															
- Capital development support costs		715	715	1,090	1,090		715	715		250	250				0
- Sexual Health		483	483			0			0			0			0
- Smoking Cessation		736	736			0			0			0			0
- Anticipatory Care (Prevention 2010)		1,000	1,000			0			0			0			0
- Hepatitis C Action Plan		176	176			0			0			0			0
- Allocations (nr slippage)		1,500	1,500	1,500	1,500		1,500	1,500		1,500	1,500		1,500	1,500	
- Reserves	3,470		3,470			0			0			0			0
<b>Total Additional Funding Available</b>	<b>50,117</b>	<b>4,610</b>	<b>54,727</b>	<b>34,428</b>	<b>2,590</b>	<b>37,018</b>	<b>35,833</b>	<b>2,215</b>	<b>38,048</b>	<b>37,275</b>	<b>1,750</b>	<b>39,025</b>	<b>38,785</b>	<b>1,500</b>	<b>40,285</b>

PLANNED UTILISATION OF FUNDING	2007/08			2008/09			2009/10			2010/11			2011/12		
	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000
NHS Lanarkshire															
- Acute Services	(908)	(260)	(1,168)	(876)	0	(876)	(500)	0	(500)	(500)	0	(500)	(500)	0	(500)
- Primary Care Services	(2,482)	0	(2,482)	(500)	0	(500)	(500)	0	(500)	(500)	0	(500)	(500)	0	(500)
- Picture of Health	0	(1,001)	(1,001)	(1,518)	(1,090)	(2,608)	(2,521)	(715)	(3,236)	(2,241)	(250)	(2,491)	(5,207)	0	(5,207)
Uplifts															
- Pay	(15,242)	(500)	(15,742)	(16,291)	0	(16,291)	(16,649)	0	(16,649)	(17,121)	0	(17,121)	(16,609)	0	(16,609)
- Non Pay	(4,689)	(1,000)	(5,689)	(4,871)	(1,000)	(5,871)	(4,904)	(1,000)	(5,904)	(4,914)	(1,000)	(5,914)	(4,827)	(1,000)	(5,827)
- Acute Drugs / GP Prescribing	(10,000)	0	(10,000)	(10,847)	0	(10,847)	(11,629)	0	(11,629)	(12,429)	0	(12,429)	(12,417)	0	(12,417)
National & Regional Priorities															
- Cancer Services	(1,366)	(1,077)	(2,443)	(1,396)	0	(1,396)	(647)	0	(647)	0	0	0	0	0	0
- Childrens Services	(140)	0	(140)	0	0	0	0	0	0	0	0	0	0	0	0
- Health Improvement	0	(176)	(176)	0	(176)	(176)	(176)	0	(176)	0	0	0	0	0	0
- Long Term Conditions	0	(1,000)	(1,000)	(1,000)	(910)	(1,910)	0	0	0	0	(30)	(30)	0	0	0
- Mental Health	(104)	0	(104)	(603)	0	(603)	(500)	0	(500)	(500)	0	(500)	(500)	0	(500)
- National / Regional Issues	(1,089)	(2,166)	(3,255)	(2,504)	(1,000)	(3,504)	(2,402)	0	(2,402)	(1,000)	0	(1,000)	(1,000)	0	(1,000)
- Palliative Care	(50)	(90)	(140)	(140)	0	(140)	(510)	0	(510)	0	0	0	0	0	0
Waiting Times	(4,000)	0	(4,000)	(1,000)	0	(1,000)	0	0	0	0	0	0	0	0	0
Other															
- IM&T	(600)	0	(600)	0	0	0	0	0	0	0	0	0	0	0	0
- Other	(209)	(357)	(566)	(20)	0	(20)	(800)	0	(800)	0	0	0	0	0	0
<b>Total Additional Expenditure Commitments</b>	<b>(40,879)</b>	<b>(7,627)</b>	<b>(48,506)</b>	<b>(41,566)</b>	<b>(4,176)</b>	<b>(45,742)</b>	<b>(41,738)</b>	<b>(1,715)</b>	<b>(43,453)</b>	<b>(39,205)</b>	<b>(1,280)</b>	<b>(40,485)</b>	<b>(41,560)</b>	<b>(1,000)</b>	<b>(42,560)</b>

CRES	2007/08			2008/09			2009/10			2010/11			2011/12		
	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000	Rec £'000	Non-Rec £'000	Total £'000
Target	3,000	2,000	5,000	3,130		3,130	3,153		3,153	3,177		3,177	3,201		3,201

Surplus / (Deficit)	4,988	(1,017)	3,971	980	(1,586)	(606)	(1,772)	500	(1,272)	(525)	470	(55)	(99)	500	401
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Cumulative - assuming £5.5m carry forward into 07/08

9,424

8,818

7,546

7,490

7,891

## NHS LANARKSHIRE

## FINANCIAL PLAN 2007/08 – 2011/12

## RISK ASSESSMENT

Key Assumptions / Risks	Risk rating / Impact
<p><b>National Tariffs</b></p> <p>No additional income or costs have been assumed in the five year financial planning period to take account of the impact of national tariffs. To date, the impact has been managed within the overall service agreement values with other NHS Boards, particularly within the West of Scotland</p>	<p><b>Low / Low</b></p> <p>The highest proportion of NHSL expenditure outside Lanarkshire is with NHS Greater Glasgow and Clyde. To date, the impact of national tariffs has been managed within the overall service agreement value and through the ongoing update of a detailed cross boundary flow costing exercise, which has seen a reduction in NHSL expenditure in Glasgow. Further discussion is required to determine the approach to be taken in future years.</p>
<p><b>Resources</b></p> <p>Reliance has been placed on the availability of additional funding from SEHD, with an assumed 4% increase per annum.</p>	<p><b>High / High</b></p> <p>There is a risk that the standard uplift applied throughout the five year financial plan is not confirmed by SEHD. For every 0.5% movement in the standard uplift, there would be a <b>£17m</b> impact over the five year period.</p>
<p><b>Prescribing / New Drugs</b></p> <p>High level assumptions have been made in relation to the annual increase in the costs for both hospital and GP prescribing, the impact of new drugs and the use of existing drug regimes for different conditions, per SMC horizon scanning. In addition, the funding set aside has been assumed to be adequate to cover the recurring costs of the roll out of Original Pack Dispensing.</p>	<p><b>Medium / Medium</b></p> <p>There is a risk that the financial provisions made within the plan may not fully cover the actual costs. A 0.5% increase in prescribing costs across both Acute and Primary Care equates to <b>£3m</b> over the five year plan.</p>
<p><b>Waiting Times</b></p> <p>Additional funding has been set aside to meet the costs associated with the ongoing delivery of waiting times.</p>	<p><b>Medium / Medium</b></p> <p>The funding allocated within the plan for local services is based on a detailed capacity plan. Any changes to national targets and the availability of central SEHD funding will have an impact on the overall financial position.</p>

<p><b>Arbuthnott</b></p> <p>An assumption has been made that an additional £5m per annum will be available recurringly, as the move toward Arbuthnott parity and through the introduction of the NRAC formula.</p>	<p><b>High / High</b></p> <p>Any changes to the Arbuthnott formula for other NHS Boards have a subsequent impact on the funding available for NHS Lanarkshire. Assumptions in the previous round of financial planning were based on £6.8m Arbuthnott funding for 2007/08. Due to movements in other Board areas and a change in the formula methodology, this has reduced to £4.8m. If the Arbuthnott funding does not materialise in future years, this would equate to a reduction of <b>£20m</b> recurring funding over the five year plan.</p>
<p><b>Pay Uplifts (including Agenda For Change and other associated pay issues)</b></p> <p>A basic pay inflation of 2.5% has been assumed, with a further 0.725% available recurringly to support the ongoing impact of Agenda for Change. In addition, provision has been set aside for the Consultants Contract and Modernising Medical Careers.</p>	<p><b>Medium / High</b></p> <p>There is a risk that the financial provisions made within the plan may not fully cover the actual costs. The full year effect of AfC remains uncertain until a full ‘zero based budget’ exercise is complete. Provision has been made for the impact of reviews although this is difficult to predict. A detailed financial assessment of MMC remains ongoing across NHS Scotland, with little certainty around the likely costs. A movement of 0.5% in overall pay costs equates to <b>£10.5m</b> over the five year plan.</p>
<p><b>New Children’s Hospital</b></p> <p>No provision has been set aside in the financial plan to take account of the impact of the new Children’s Hospital in Glasgow.</p>	<p><b>High / Medium</b></p> <p>The business case is being progressed within NHS Greater Glasgow and Clyde. The total cost of the hospital is likely to be in the region of £200m. Although this is to be a PFI development, the SEHD is to make available £100m of public capital to support this investment. The recurring impact for NHS Lanarkshire, and indeed any of the West of Scotland Boards, has not been firmed up. Early indications suggest this may impact in 2012, with costs in the region of <b>£1m</b> for NHS Lanarkshire. This has not been taken into account in the current five year plan.</p>
<p><b>Picture of Health</b></p> <p>Reliance has been placed on the estimated completion dates for each of the capital</p>	<p><b>High / High</b></p> <p>Financial planning to support the PoH consultation exercise in June 2006 was predicated</p>

<p>investment projects, as set out in the Programme Initial Agreement. The revenue impact of the capital expenditure has been phased throughout the five year financial plan accordingly. The current plan does not reflect the total investment required, as due to the timescales involved, particularly on the acute sites, the impact extends to a ten year period.</p>	<p>on a higher level of uplift from SEHD. The reduction from 5.5% uplift to 4% for the current five year financial plan, combined with: the potential impact of inflation (where construction indexation is running at between 6% - 8%); the level of optimism bias to be applied to capital investments; and the lack of cost certainty for many of the capital projects, represent a major financial risk to the organisation.</p>
<p><b>CRES</b></p> <p>A recurring target of 0.75% has been included from 2008/09 onwards, with an additional non recurring target in 2007/08. There are no specific cost reduction schemes identified to achieve the circa £3m recurring target each year.</p>	<p><b>High / High</b></p> <p>Delivery of recurring savings year on year is essential and can be seen as a trade off against the funding of the PoH developments and other service pressures. The two areas are not mutually exclusive and savings must be released from existing budgets to free up the funds for future investment across the system.</p>