SGHD Supporting Narrative – 15 February 2013

Progress Report on Development of 2013/14 Financial Plans

PURPOSE

The purpose of this paper is to provide SGHD with an update on progress with the development of the financial plan for 2013/14. At this stage all plans shown must be viewed as draft and there remains significant work before a final plan will be submitted.

SUMMARY

In December 2012 the Corporate Management Team (CMT) approved a draft cash-releasing savings target of £33.7m for 2012/13. Of this total, £7.3m was given to the Acute Division, £2.4m was given to Partnerships and £24.0m was given to prescribing. The CMT recognised that non cash releasing schemes would also be developed to meet SGHD's target for 3% efficiency savings. At the Board Seminar on 16 January 2013, the Board accepted the CMT's conclusion that it was appropriate to aim to deliver a cash-releasing savings target of £33.7m.

It is important for SGHD to note that whilst the current plan has been produced on a prudent basis, recognising pressures that still require more detailed evaluation, the final plan may be modified to reflect the outcome of further evaluation.

UPDATE ON INFLATION, COST PRESSURES & INVESTMENTS

An updated estimate of the level of financial challenge faced by the Board in 2013/14 has recently been prepared. This draft, together with the previous projection which was presented to Board members in September 2012, is set out below. Detailed notes are attached.

	Sep 2012		Feb 2013	Notes
	£m		**£m**	
Carry Forward from 2012/13				
Forecast recurring over-commitment	(0.0)		(0.0)	1
2013/14 Funding Uplift				
Minimum uplift	57.8		57.8	2
Cost Drivers				
Pay Cost Growth	(31.1)		(28.6)	3
Prescribing Cost Growth	(28.4)		(29.9)	4
Energy Cost Growth	(3.0)		(3.0)	5
Capital Charges Indexation	(4.0)		(4.0)	6
Other Cost Inflation	(13.1)		(12.2)	7
	(79.6)		(77.7)	
New Service Commitments				
Acute	(6.0)		(4.0)	8
NHS Partnerships	(2.5)		(2.8)	8
Other	(2.9)		(5.0)	8
Recurring Restructuring Budget			2.0	9
Reinstatement of Board Contingency			(4.0)	10
	(11.4)		(13.8)	
Financial Challenge	**(33.2)**		**(33.7)**	
CRES requirement	**1.7%**		**1.7%**	

2013/14 PROJECTIONS – EXPLANATORY NOTES

1. As per the 2012/13 Financial Plan, the Board is in recurring financial balance, so the recurring over-commitment carried forward from 2012/13 is £0m.

2. Actual funding uplift for 2013/14 is subject to parliamentary approval of the 2013/14 budget. We expect that we will receive the indicative minimum uplift of 2.8%. The uplift includes additional income from SLAs with other Boards and NSD.

3. Pay cost growth comprises:

	£m
- Provision for 1% uplift	14.7
- Provision for A4C related incremental progression	8.0
- Provision for superannuation auto enrolment	5.9
	28.6

Pay provision: Current indications are that a provision of 1.0% for pay uplift in 2013/14 is reasonable. On top of the 1%, provision has been made for additional on-call payments.

Incremental pay progression: The experience of monitoring A4C related pay trends has helped the Board develop a better understanding of the level of additional costs which it is likely to face related to incremental pay progression in 2013/14. This has enabled us to carry out a more detailed forecast of pay growth for 2013/14, using current staff turnover ratios by staff category (overall staff turnover ratio is c 6%) and assumed vacancy fill rates to project likely pay growth. Based on a 6% staff turnover ratio (the current ratio) and assuming that only 50% of posts which fall vacant in 2013/14 are filled, it is assumed that the remaining 50% will not be filled and through service redesign will contribute to the release of targeted cost savings, the Board would expect to incur an increase in pay costs of £8.0m in 2013/14, simply due to the impact of A4C related incremental pay progression. It is highly unlikely that services will be able to absorb these costs within existing budgets, and so this is identified as an additional cost pressure to the Board in 2013/14.

At present, a provision of £5.9m has been made for any additional costs relating to automatic enrolment of staff to the superannuation scheme. The maximum additional cost, for enrolment of all staff, is thought to be around £16.7m.

4. Prescribing cost growth projection for 2013/14, based on initial indications from the Board's Prescribing Advisers:

	£m
- Primary Care	15.4
- Acute	14.5
	29.9

This includes provision for likely cost increases related to growth in new and existing drug treatments within Acute Sector, including new drugs approved by SMC, and makes a realistic level of provision for likely growth in volume/prices, based on current trends, related to drug treatments prescribed within Primary Care. Cost growth projections will continue to be refined and updated.

5. Energy cost growth is forecast based on the estimated volumes of gas and electricity required in 2013/14, applying prevailing prices (based on contracted advance purchase prices) for both raw energy purchases and regulator charges. The increase in usage forecast for 2013/14 is minimal. The factors which have contributed to push forecast energy costs up by £3.0m in 2013/14 are:

    - Further increases in gas/electricity tariffs which impact on the cost of energy advance purchased for 2013/14.
    - Increases in regulator imposed charges for electricity.

6. Indexation of asset values is anticipated to add £4.0m to capital charges. This is consistent with prior years.

7. Other costs inflation: 1.0% general provision has been set aside for inflation on non-pay costs excluding prescribing costs, energy costs, and capital charges costs. 2.0% has been set aside for uplifts to Resource Transfer in line with the national agreement. In line with the allocation uplift, 2.8% has been set aside for inflation on legal/contractual cost commitments and inflation on amounts payable to other NHS Boards and Voluntary Organisations, related to SLAs agreements.

8. FYE of existing service commitments entered into in previous years plus new recurring pressures identified have been evaluated in draft form only to date and include:

    - **Acute**
        - Laboratories capital charges (£2.4m) (Funded non recurringly in 2012/13)
        - Additional treatment costs from AAA screening (£0.5m)
        - Trans Aortic Valve Implementation – TAVI (£0.4m)
        - MRSA Screening (£0.6m)
    - **Partnerships**
        - Renfrew Health Centre (£0.3m) (Cessation of 3 year SGHD funding)
        - Alexandria Health Centre (£0.6m)
        - Dental & Podiatry Decontamination (£1.1m)
        - School Nursing Re-grading (£0.3m)
        - Police Custody (Will be funded non recurringly in 2013/14)
        - Salaried Dentists (£0.5m)
    - **Other**
        - Insulin Pump Therapy as directed by SGHD (£0.3m)
        - Protection of vulnerable groups (£0.4m)
        - Increase in demand for Interpreting services (£1.1m)
        - Internships/1 Year job guarantee (£3.2m)

9. Recurring restructuring budget: As the pressure to reduce headcount has eased, the existing budget can be released to fund other priorities.

10. General provisions for as yet unidentified service commitments and cost pressures. A £5.0m recurring provision was created in 2012/13. £4.0m has been used to fund the increased costs arising from the reduction in the number of junior doctors. The reinstatement of £4.0m brings the contingency up to £5.0m. It is not appropriate to decide at this stage how that fund will be used but it is clearly prudent to build some central flexibility into a plan that has £2.9bn of expenditure, potential unexpected pressures and a number of areas of significant financial risk. Some possible applications, as yet unquantified, include:

- Additional prescribing pressure that cannot be funded within divisions.
- Winter pressures that cannot be funded within divisions.
- Spend to save schemes, such as the demolition of buildings on surplus sites.
- Additional costs of auto enrolment in excess of the specific provision.
- Costs of police custody healthcare.
- Additional orphan drugs costs.
- Potential impact of "richer" nurse staffing ratios.
- Immunisation implementation.
- IVF implementation.

As these risks are quantified, this draft plan will be amended as necessary.

2013/14 SAVINGS – INITIAL PROPOSALS

The following savings have been identified:

	£m
- Prescribing	24.0
- Acute	7.3
- Partnerships	2.4
	33.7
Financial Challenge identified above	33.7
Funding Flexibility	0.0

We recognise that, in addition the cash releasing schemes above, we will develop non cash releasing schemes to meet SGHD's target for us to generate 3% efficiency savings.

NEXT STEPS – 2013/14

To ensure that the savings target remains realistic, we will continue to refine our assessment of funding uplifts and budget changes required for:

- Pay inflation.
- Non-pay inflation.
- Energy costs.
- Capital charges.
- Prescribing.
- Reductions in R&D funding.
- IT expenditure.
- Procurement.
- Investments.
- Orphan drugs.
- Nurse staffing ratios.
- Other cost pressures and risks.

The plan assumes that any reduction in Change Fund funding will be matched by a corresponding reduction in expenditure.

NEXT STEPS – 2014/15 & BEYOND

In addition to the above list there are a number of other issues which we will have to consider for longer term financial planning. These include:

- Cross Boundary Flow – we need to ensure that the methodology is continually refined to ensure it remains fit for purpose.
- Benchmarking, areas of focus and performance measurement – we have to continue the work on benchmarking and areas of focus in order to establish how they influence our thinking about longer term budget setting.
- Integrating health and social care – we have to monitor the development of proposals and establish the impact on our longer term financial strategy.
- New South Glasgow Hospital – we need to decide how to rebalance budgets over the next few years so that we are able to cover the increases in our cost base that will occur when the capital charges relating to the New South Glasgow hospital are incurred.

CAPITAL

The draft capital plan is being issued as a separate paper.