Agenda Item 14

DUMFRIES and GALLOWAY NHS BOARD

4th April 2016

Financial Plan 2016/17 to 2020/21

Author:
Graham Stewart
Deputy Director of Finance

Sponsoring Director:
Katy Lewis
Director of Finance

Date: 22nd March 2016

RECOMMENDATION

The Board is asked to approve the Board's Revenue Plan for the five year period 2016/17 to 2020/21 to the Scottish Government but to note the current level of unidentified efficiency targets in ensuring a break-even position.

CONTEXT

Strategy / Policy:

Dumfries and Galloway Health Board is required to prepare a revenue financial plan for the Scottish Government Health & Social Care Directorate (SGHSCD) as part of the Board's Local Delivery Plan (LDP), which was submitted in draft on 21st March 2016 and will be submitted as final draft on 31st May 2016 (updated to incorporate the associated Integration Joint Board (IJB) and workforce plans), subject to NHS Board approval.

This paper summarises the draft of the Board's five year financial plan for 2016/17 to 2020/21 and the efficiencies required to deliver financial breakeven for 2016/17.

Note: The requirement to submit a five year plan arises due to the major capital investment, which the Board is undertaking with the Acute Services Redevelopment Project (ASRP) (otherwise only a three year plan is required).

Organisational Context /Why is this paper important /Key messages:

The Board is asked to support submission of the initial draft of the Revenue Plan for 2016/17.

The plan highlights the key financial challenges for the Board for 2016/17 onwards, most significantly:

- Continued delivery of a breakeven position
- Delivery of a 5% Cash Releasing Efficiency Savings (CRES)
- Management of on-going cost pressures, most notably medical locum costs and secondary and primary care prescribing costs, as well as achieving access targets

- The additional 7.5% top-slice on existing health bundles
- 20% reduction on the funding associated ADP services
- Planning for the financial implications of the new hospital
- Preparing for Health and Social Care Integration

This plan has been submitted to Scottish Government as a draft plan subject to NHS Board for approval, to include further development of CRES schemes and review of cost pressures and developments to close the financial gap for 2016/17.

This financial plan reflects an unprecedented level of financial risk for the Board with an unidentified CRES gap of £2m, significant level of efficiency schemes through non recurrent plans and 58% of CRES indentified as high risk.

In addition, work is required to agree budgets with the IJB in advance of final submission of the LDP by the end of May 2016.

GLOSSARY OF TERMS

ASRP	-	Acute Services Redevelopment Project
ADP	-	Alcohol and Drugs Prevention
AfC	-	Agenda for Change
CRES	-	Cash Releasing Efficiency Saving
CSCP	-	Clinical and Service Change Programme
D&G	-	Dumfries and Galloway
DGRI	-	Dumfries and Galloway Royal Infirmary
FBC	-	Full Business Case
ICF	-	Integrated Care Fund
IPTRS	-	Individual Patient Treatment Request
LDP	-	Local Delivery Plan
NHS	-	National Health Service
NICs	-	National Insurance Contributions
NMF	-	New Medicines Fund
NRAC	-	National Resource Allocation Formula
PDS	-	Public Dental Service
RRL	-	Revenue Resource Limit
SG	-	Scottish Government
SGHSCD	-	Scottish Government Health and Social Care Directorate
SMC	-	Scottish Medicines Consortium

MONITORING FORM

Policy / Strategy Implications	Achieving Financial Balance
Staffing Implications	Not Applicable
Financial Implications	Part of the financial planning and reporting cycle
Consultation / Consideration	Not Applicable
Risk Assessment	Part of paper
Sustainability	Financial plan supports the sustainability agenda through the delivery of efficient solutions to the delivery of CRES.
Compliance with Corporate Objectives	▪ To maximise the benefit of the financial allocation by delivering efficient services, to ensure that we sustain and improve services and support the future model of services. ▪ To meet and where possible exceed Scottish Government goals and targets for NHS Scotland.
Single Outcome Agreement (SOA)	Not Applicable
Best Value	This paper contributes to Best Value goals of sound governance, accountability, performance scrutiny and sound use of resources.
Impact Assessment Financial decisions are impact assessed at the point of service and financial planning and therefore no specific action required for this paper.	

Introduction

1. All Boards are required to produce LDPs, supported by Strategic Financial Plans to demonstrate how delivery of a balanced financial position can be achieved and how performance targets can continue to be delivered. The Board is required to submit a draft financial plan to the Scottish Government Health & Social Care Directorates (SGHSCD) as part of the Board's LDP.

2. The Board has a statutory financial target to deliver a breakeven position against its Revenue Resource Limit (RRL). For 2016/17, the efficiency savings requirement has increased to 5% as a result of the lower allocation levels and exceptional cost pressures.

3. Overall, the Board has delivered its financial targets year on year and has banked £7m of a surplus with the Scottish Government to provide non-recurring support for the commissioning and double running costs of the new acute hospital and implementation of the clinical and service change programme.

4. The LDP guidance 2016/17 sets out the performance contract between the Scottish Government and NHS Boards.

5. This year, NHS Boards are asked to submit final Finance LDP templates updated to incorporate the strategic commissioning plans agreed with Health and Social Care Partnerships and workforce, as well as the spending plans announced in the draft Scottish Budget for 2016/17.

6. The Scottish Government will provide feedback on submitted draft LDPs during March, with the submission of final LDPs to be signed-off by NHS Boards before 31st May 2016.

7. To ensure that Boards plan over the longer term, more detailed financial plans are required for a three year period, however a five-year plan is required where any of the following apply; major infrastructure development; brokerage arrangements are in place; an underlying deficit greater than 1% of baseline resource funding; or major service redesign. All Boards are required to submit a five year plan in relation to capital.

Financial Planning Principles

8. The scale of the challenges that NHS Scotland faces over the coming financial period means that fundamental reform and change needs to be delivered to the way the NHS delivers care. Recent years have witnessed unprecedented levels of pressures facing public sector financial resources and the financial planning period over 2016/17 to 2020/21 will be ever more challenging.

9. The Scottish Government's '2020 Vision' for Health and Social Care is a key policy initiative to increase healthy life expectancy. Increasing healthy life expectancy will mean that people live longer in good health, increasing their capacity for productive activity and reducing the burden of ill health and long

term conditions on people, their families and communities, public services and the economy generally.

10. 2016/17 will see the full transition towards integrated Health and Social Care, which, given the nature and scale of the challenges facing both the NHS and Councils in delivering the required level of system change, means that fundamental reform and change of services will be necessary to successfully deliver this magnitude of transformation.

11. This report sets out the background against the current financial planning cycle and provides a high level summary of the pressures facing NHS Dumfries and Galloway during the five years between 2016/17 to 2020/21.

Draft Scottish Budget 2016/17/ Board Allocations

12. The draft budget for Health presented by John Swinney in December 2015 for 2016/17 includes an additional investment of £511m (5.3%) in Health with a real terms increase in the overall budget from 2015/16. This uplift delivers the Scottish Government's commitment to pass on in full the £397m of health resource consequentials.

13. NHS Territorial Boards will receive £476m (5.5%) of the overall uplift, with Special Health Boards receiving £35m (3.3%). The full breakdown of this is detailed in Table 1 below:

Table 1

NHS Scotland	**£m**	**%**
Territorial Health Boards	476	5.10
Special Health Boards	35	3.30
Total baseline uplift	511	5.30
Breakdown of Territorial Boards'uplift		
Real terms uplift	147	1.70
NRAC Parity Funding	30	0.40
Social Care Funding	250	2.90
Board Baseline Adjustments	49	0.50

14. The draft budget proposes that the resource allocation for Territorial Boards will increase by £476m (5.1% uplift). The £250m funding for Social Care is to be directed towards Health and Social Care Partnerships to ensure improved outcomes in social care.

15. Indicatively, £125m of this funding is to be used towards existing pressures in social care with the remaining £125m earmarked for "additionality". Alongside this, the Scottish Government has set a requirement that the living wage for care at home workers is implemented from 1st October 2016 from within this resource.

16. The key point relating to this funding is that none of it can be directed towards Health Care Pressures, despite being funded from the NHS Scotland Health budget.

17. £30m has been set aside to fund those Boards deemed to be below National Resource Allocation Formula (NRAC) parity, which NHS Dumfries and Galloway are not one of.

18. The Board baseline adjustment of £49m is not new money, but rather funding that has been released during 2015/16 to NHS Boards' recurring baseline budgets. This includes the previous funding for Delayed Discharges and Specialist Children's services.

19. The total resource for NHS Dumfries and Galloway is summarised in the table below:

Table 2

NHS D&G Resource Uplift	2016/17	
	£m	**%**
Resource Budget	**267.281**	
Base Uplift	4.544	1.70%
Social Care Funding	7.600	2.90%
Board Baseline Adjustments	1.500	0.50%
NRAC Parity	0.0	0.00%
Subtotal	**13.644**	**5.10%**
TOTAL	**280.925**	

20. However, when the increased allocations identified are considered alongside the commitments already made against these funds, the under-lying baseline uplift available to NHS Dumfries and Galloway is reduced to 1.36% as summarised in the table below:

Table 3

NHS D&G Resource Uplift	**£m**	**%**
Overall Uplift for Dumfries and Galloway	**13.644**	**5.10%**
Social Care Funding to be decided and can't be used for General Health priorities	(7.6)	(2.90%)
Baseline adjustments - reflects funding we already have received previously and allocated	(1.5)	(0.50%)
Outcomes Framework - 7.5% CRES	(0.5)	(0.19%)
ADP funding reduced	(0.4)	(0.15%)
Revised Position	**3.644**	**1.36%**

21. There is an ongoing requirement for Boards to continue to deliver 5% efficiencies for 2016/17. These efficiencies can either be delivered as cash or productivity efficiencies.

22. The Scottish Government has also requested that Boards plan on baseline uplifts of 1.8% beyond 2016/17.

Funding Banked with Scottish Government

23. The Board has banked a total of £7m with the Scottish Government in previous financial years to provide non-recurring support for the commissioning and double running costs of the new acute hospital and implementation of the Clinical and Service Change Programme (CSCP). It is anticipated that funding will be required to be returned to the Board as per the table below and this has been reflected in the planning assumptions in the draft financial plan for 2016/17 onwards.

Table 4

Brokerage	Banked to date	2016/17	2017/18	2018/19
	£m	£m	£m	£m
In year carry forward banked with SG	**7.0**			
Required by the Board			**4.0**	**3.0**

2016-17 CRES Targets

24. NHS Dumfries & Galloway has identified the need to deliver efficiency savings of £11.769m in 2016-17 to support the delivery of a balanced financial plan. The current financial plan shows a recurring gap on efficiency of £1.9m which in the 16/17 plan has been further reduced by £0.9m to £1m, following a review of reserves and provisions. Therefore, the CRES requirement for 2016/17 is currently estimated at £12.769m (4.67% of baseline).

25. Efficiency savings continue to be explored and discussed via the Efficiency Group and a series of workshops with input from all stakeholders, Management Team discussions with General Managers. In addition a Prescribing Workshop, attended by GPs and pharmacists has already taken place to develop plans and discuss ideas to identify the level of savings required for the forthcoming year. The requirement for continued efficiencies remains a high profile agenda item at all directorate team meetings.

26. Historically, we have focussed on delivering operational savings when exploring efficiency savings opportunities. The significant increased expectations on delivering CRES in this current five year planning cycle will require a larger emphasis on identifying tactical and strategic themes with different approaches required for each.

27. Operational savings have been the most common way of making savings so far, which includes ongoing reviews at directorate, level looking at new ways to operate and staff existing services more efficiently when opportunities arise, such as natural turnover. Tactical and Strategic changes, such as, redesign of service models and disinvestment in services of limited clinical value has been far less prominent, but has the potential to unlock larger savings.

28. The financial plan for 2016-17 sets out the anticipated allocation from Scottish Government and any other income (sources) and the areas where those funds will need to be allocated (the application of the funding). The anticipated recurring shortfall between sources and application is £12.769m.

29. After cross system savings (such as prescribing) are known, the remainder is targeted against corporate areas and operational directorates i.e. Health Services. In 2016-17, the requirement is to make a saving, which equates to 5% of Health Services and Corporate budgets. Table 5 sets out CRES targets against operating directorates grouped together as 'Health Services', the overall Corporate Directorate target and the target against cross-system initiatives.

Table 5

Directorate	Cash Target	Percentage Target
Health Services Directorates	£7.69m	5%
Corporate Directorates	£1.08m	6.5%
Prescribing	£2.5m	5.8%
Cross System Savings	£1.50m	-
2015-16 CRES Total	**£12.77m**	4.67%

30. As the plan for 2016-17 develops the schemes will be assessed in terms of risk of delivery (low, medium, high) and adherence to the 'Making Difficult Decisions' standard operating process as agreed by Management Team in January 2016 and NHS Board in February. It is recognised that some of the schemes are likely to require Board or Performance Committee approval and it is therefore envisaged that an update paper will be presented to Performance Committee in May 2016 on progress and highlighting some of the likely schemes, which will be coming forward.

31. The current draft of the plan, as summarised in table 6 below, has a gap of £2m as compared to the target of £12.77m. However, a significant proportion of the schemes identified to-date is around system-wide non-recurrent flexibility envisaged throughout 2016/17.

Table 6

	Savings Target	2016-17 In Year Impact Risk of Delivery			
	2016-17	Recurrent	Non-recurrent	Total	Shortfall
	£m	In Year £m	In Year £m	In Year £m	In Year £m
Operational	7.69	2.59	0.75	3.34	(4.35)
Corporate	1.08	0.51	0.50	1.01	(0.07)
Pharmacy & Prescribing	2.50	2.00	0	2.00	(0.50)
Other Cross-System Savings	1.50	0.45	3.96	4.41	2.91
Total	**12.77**	**5.56**	**5.21**	**10.77**	**(2.00)**

32. Delivery of 5% CRES savings in 2016-17 is an unprecedented requirement for the Board. This represents the most challenging of times yet for the organisation, as opportunities to make operational savings have diminished to the point where the only viable options are those in the tactical and strategic categories, which to date have been viewed as very high risk.

33. Work is continuing with the service management teams and finance to develop innovative solutions in the weeks ahead to help bridge the gap. It is expected that additional non-recurrent schemes will need to be identified during the course of the year to enable time for transformative solutions to be developed and implemented for 2017/18.

34. The current level of risk associated with CRES plans identified to-date across each Directorate is summarised in table 7 below:

Table 7

Directorate	**High**	**Medium**	**Low**
Operational	7%	29%	65%
Corporate	0%	18%	82%
Pharmacy & Prescribing	63%	37%	0%
Other Cross-System Savings	100%		
Unidentified savings	100%		
Total	**58%**	**16%**	**25%**

35. National workstreams continue to be progressed across themes identified by the Scottish Government and Chief Executives (including prescribing, medical locums and other productive opportunities). It is expected that these workstreams will provide further support to developing solutions to our current level of financial gap against the CRES schemes. **Appendix 1** provides further detail of CRES schemes by Directorate and classification.

Acute Services Redevelopment Project (ASRP)

36. The financial plan for 2015/16 recognised the full Board financial commitment for ASRP by making provision for the recurring revenue implications of this development of £8.8m. This recognises the increased cost identified in the Full Business Case (FBC) and provides a contingency of £0.6m to reflect inflationary and other potential increases between FBC approval in December 2014 and the hospital operational date of November 2017. During 2014/15, it was agreed that £1m of this would be released recurrently to support the Clinical and Service Change Programme (CSCP), which is being led by the Chief Operating Officer with a further £0.75m released during 2015/16.

37. The balance of this recurring reserve (£8.8m less the £1.75m for CSCP = £7.05m) is available to be used on a non-recurrent basis for 2016/17 until the new hospital is operational when the funding will be required to support the additional costs of the new hospital and the clinical and service changes strategy, which the Board is implementing. The opening of the new hospital and clinical change programme remains a significant financial risk and is being actively monitored and managed by the finance team.

38. Since the original Business Case was agreed, there continues to be significant areas of risk which may impact upon the total level of resource required as we transition towards the opening of the new hospital. These are as follows:

- Inflationary impact since FBC was approved
- Increased risk around the Board's property strategy and double running period
- Potential increased costs required for the new clinical model, especially related to medical and nursing staff, critical care models and the staffing of the Emergency Medicine Department
- Equipment strategy changes and the associated increased cost of new technology to what was envisaged in the original Business Case

39. These risks are well documented and understood, with two senior members of the finance team being an integral part of each of the work-streams around the new ASRP project team.

40. In particular, their roles and responsibilities afford a certain level of 'critical challenge' to changes being proposed and discussed, as well as working with each of the teams to understand how these changes can be best fit into the overall affordability of the recurrent funding set-aside.

41. It is important to highlight, however, that there remains a level of risk associated with changes to patient safety requirements and on-going developments in the provision of healthcare that need to be flagged to the senior management as significant potential cost pressures when the new hospital is opened.

Financial Plan 2016/17

42. The Financial Plan for 2016/17 onwards is included at **Appendix 2**. The current draft of the financial plan has the following pay and non-pay assumptions. These have been modelled through the budget setting process for pay and non-pay assumptions will be monitored as the year progresses with funding only released as and when increased inflation can be demonstrated.

Table 8

	2016/17 Inflation rate	2017/18 Inflation rate	2018/19 Inflation rate	2019/20 Inflation rate	2020/21 Inflation rate
Medical Pay Award	1.0%	1.0%	1.0%	1.0%	1.0%
Other Pay Award	1.4%	1.1%	1.1%	1.1%	1.1%
Medical Incremental Drift	1.6%	1.6%	1.4%	1.3%	1.1%
Other Incremental Drift	1.0%	0.9%	0.7%	0.6%	0.4%
National Insurance	2.0%				
General Inflation Detail	2.0%	2.0%	2.0%	2.0%	2.0%
External Contracts	1.7%	1.8%	1.8%	1.8%	1.8%
Drugs - Secondary care	20.3%	13.5%	13.5%	13.5%	13.5%
Drugs - Primary Care	10.7%	7.1%	7.1%	7.1%	7.1%

Pay Uplifts and Pressures

43. The Scottish Government's Public Sector Pay Policy states:

- A 1% cap on the cost of the increase in basic pay
- Continuing with specific measures for supporting the lower paid, including a minimum pay increase of 1% or £400 (whichever is the highest)
- Maintaining the suspension of non-consolidated performance related pay
- Retaining discretion for individual employers to reach their own decisions about pay progression, outwith the 1% on basic pay award
- Maintaining the policy of no compulsory redundancy

44. The Scottish Living Wage will be paid with a minimum uplift in the basic pay award for all staff earning less than £21,500 to £400 in 2016-17, with some low paid members of staff likely to receive increases of up to 2%. Inflation increases for the Board have been calculated on this basis, and used for financial planning estimates.

45. It is also anticipated that the additional costs associated with eliminating the band 1 payscale and uplifting all existing staff within this grade to band 2, will cost an additional £106k this year (with additional costs of £107k, £108k, £138k and £154k in each of the remaining years in the plan).

46. Increased employer national insurance contributions (NICs) this year have increased by £491k than originally anticipated in the 2015/16 financial plan. This is due to revised information around the actual % rebate change being made available in October. This national increase relates to the removal of the rebate employers previously received at 3.4%. This gives rise to a total increase in NICs of £2.3m for all staff, £1.95 of which relates to Agenda for Change (AfC) staffing.

47. The overall expected increase in AfC staff costs of £4.58m, which includes incremental drift and agenda for change staff pay inflation in 2016/17. Similarly, Medical and Dental pay costs are anticipated to increase by £0.96m for incremental drift, pay inflation and discretionary point awards, as well as NICs.

Primary Care Prescribing

48. The uplift figure in the 2016/17 plan for prescribing of £2.8m (10.7%) reflects the combination of both volume and tariff changes experienced throughout 2015/16. In particular, volume increases have accounted for a forecast increase of £0.4m in 15/16, whilst tariff increases have resulted in an estimated increase of £1.0m in the year. Continued growth into the next financial year, together with slippage on the 2015/16 CRES plan make up the remaining balance of this growth.

49. In total, this is approximately £1.6m higher than what was previously anticipated when estimating the LDP for 2016/17, resulting in a combined increase of 10.7% overall to the recurring baseline. More detail is provided in the prescribing budget setting paper.

Secondary Care Drugs

50. Whilst assessing the overall impact for the increase in hospital drugs for 2016/17, a detailed review is underway of 2015/16 activity to understand this increase. This reflects the continued increases in growth of approved drugs by the Scottish Medicines Consortium (SMC), with the New Medicine Fund (NMF) assumed to be available to off-set the costs of drugs relating to Ivacafator, historic Individual Patient Treatment Requests (IPTRs), new IPTRs and what are known as Orphan/ultra orphan drugs. In total, this represents an increase of £3.367m above expenditure levels in 2015/16.

51. It has been assumed that financial support from the Scottish Government to fund these drugs will continue, albeit at a slightly reduced level due to the reduction in discounts expected from pharmacy companies, which enables the Government to provide additional funding. Whilst it has yet to be confirmed how much funding will be made available to each Health Board, indications suggest that the NMF will reduce by £0.5m for NHS Dumfries and Galloway to £2.4m. The table below provides a high level summary of the assumed increases in expenditure relating to the NMF for 2016/17.

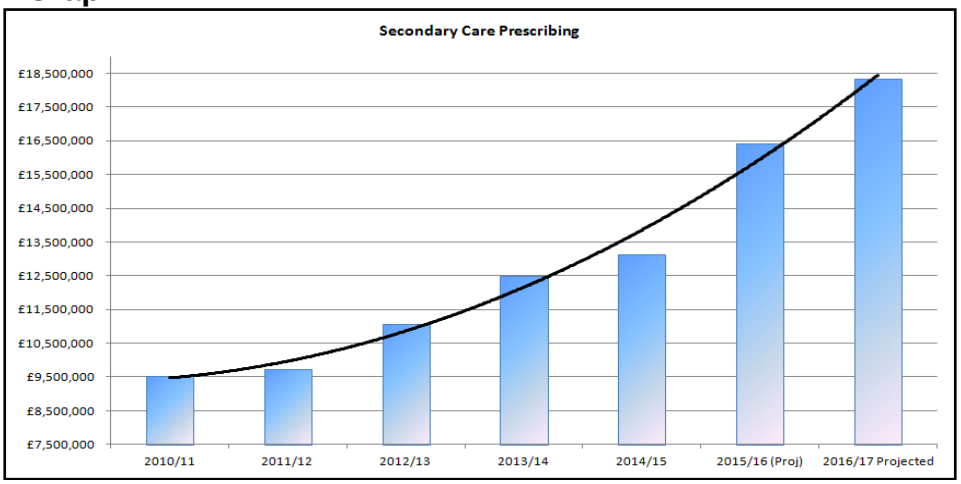
Table 9: NMF Requirement

NMF Requirement 2016/17	2015/16 Predicted Spend 000's	2016/17 Forecast 000's
Ivacaftor	£337	£239
Eculizumab	£1,137	£1,212
Vimizim	£109	£337
Vismodegib	£94	£151
IPTR's/Orphan Drugs	£307	£603
Total NMF Requirement	**£1,984**	**£2,542**

52. This results in an overall percentage increase of 21.3% in 2016/17. The largest area of growth being forecast remains around the growth in cancer drugs, with £1.4m of the increase over last year relating to these drugs alone. This is far in excess than was originally anticipated and is one of the largest increases being forecast by all Boards across Scotland. These estimates, whilst based upon the most up-to-date information available, will continue to be refined as the latest horizon scanning documentation becomes available from the SMC/NMF.

53. The graph below shows the increase year on year on secondary care prescribing, with projections for 2015/16 outturn and estimates for 2016/17 illustrating the significant increase being forecast:

Graph 1



General Non-Pay Uplifts

54. General supplies increases have been assumed at 2% for all non-pay budgets including energy. Whilst previous years have seen significant increases in energy costs, these appear to have flattened out now with more sustainable energy solutions now the norm, and the fuel price reductions in the global market impacting positively on costs.

Outcomes Framework

55. The 2016/17 draft budget creates a new Outcomes Framework of over £200m for in-year funding to focus on strategic priorities such as health inequalities. Whilst Boards will now get greater flexibility on how this resource is allocated to deliver clearly defined outcomes, the total funding is being top-sliced by 7.5%.

56. This is estimated to be a reduction in resource across all the health bundles we currently receive by £0.35m (including eHealth, Maternity Services and Effective Prevention). This has been added to the efficiency target but work is ongoing to mitigate the financial and service impact of this reduction and details of both the performance management framework and the actual allocations included as still awaiting confirmation from Scottish Government.

57. In addition, it has been highlighted that next year's (Public Dental Service) PDS allocation will be reduced by 5%, but at this stage we are still awaiting clarification whether the reduction will be based upon the 2015/16 outturn position or actual 2015/16 allocation.

58. The final allocation that has been advised to be reduced as part of the health bundles review is the Alcohol and Drugs Prevention (ADP) allocation, which is assumed to reduce by £400k (20%) for NHS Dumfries and Galloway overall. Boards have been requested to support this from general board uplifts with discussions ongoing going with the ADP to agree budgets for 2016/17 in partnership with the statutory and third sector partners around priorities.

Developments and Cost pressures

59. A recurring sum of £2.5m and a non-recurring sum of £5.0m for 2016/17 (total £7.5m) has been set aside to cover the costs of future regional and national developments, cost pressures and any other critical or must do developments.

60. A detailed review is being undertaken by the Senior Finance Team to capture all pressures in discussion with General Managers and Directors to assess the scale of financial risk for 2016/17 onwards, and will impact on the proposed financial strategy in the LDP for 2016/17 onwards.

61. This assessment shows that the total level of cost pressures identified to-date equate to over £9.4m, split between recurring costs of £2.8m and non-recurring costs of £6.7m. This is greater than the sums set aside in the financial plan and decisions will need to be made about the priorities and requirements associated with the current list of cost pressures and developments. If these costs are not negated, then an additional non recurring CRES target of £1.9m will be required to afford this level of investment. However historically we have always seen a level of slippage on this reserve and this will be reviewed further in detail during quarter one.

62. A summary of the scale of cost pressures facing the Board in 2016/17 is highlighted in table 10 below:

Table 10

Cost Pressure	2016/17 Recurring £000s	2016/17 Non Recurring £000s	Total £000s
Change in practice	215	50	265
Growth/Activity	1,614	944	2,558
Information Technology		160	160
Price changes	150	211	361
Target Driven	127		127
Pay changes/increases	650	650	1,300
Medical Locum		4,650	4,650
Total	**2,756**	**6,665**	**9,421**

63. The ongoing requirement to increase the non-recurring resource requirement for 2016/17 mainly arises from the increasing need to sustain medical staffing cover with locum and agency workers, which have an increased cost to the Board. The recurring locum reserve that was created originally remains at £850k, with an on-going requirement of a further £4.65m to be provided to fund the estimated costs of medical locum staff in 2016/17.

64. No additional provision has been made in year to support waiting times pressures within the Acute and Diagnostics Directorate, with £700k invested non recurrently in 2015/16 to support delivery of targets. The Directorate have been requested to bring forward details of how this would impact on target

delivery to Management Team and also to have discussions with Scottish Government about whether additional financial support will be available for this in year.

65. It should be noted that not all of this is for vacancies. The locum reserve supports sickness cover, gaps in junior doctor rotas, maternity leave and other cover requirements, in addition to the consultant and other medical staffing vacancies which have regularly been reported to Board.

Health and Social Care Integration

66. This year's 5 year LDP needs to be considered alongside the guidance for Health and Social Care Partnerships on strategic commissioning and Scotland's spending plans and draft budget for 2016/17.

67. The budgets which the Board will delegate to the IJB need to be agreed and a formal budget proposal will be developed for the IJB. This will be in line with planning assumptions contained within this report and will include resource for the budgets and services which the Board has agreed will be delegated to the IJB.

68. Agreement of budgets between Health and the Local Authority to be delegated to the IJB will need to be concluded by the final version of the LDP that requires submission by the end of May 2016. This will also include resources made available to the partnership for the Integrated Care Fund (ICF), Delayed Discharges and the Social Care Fund.

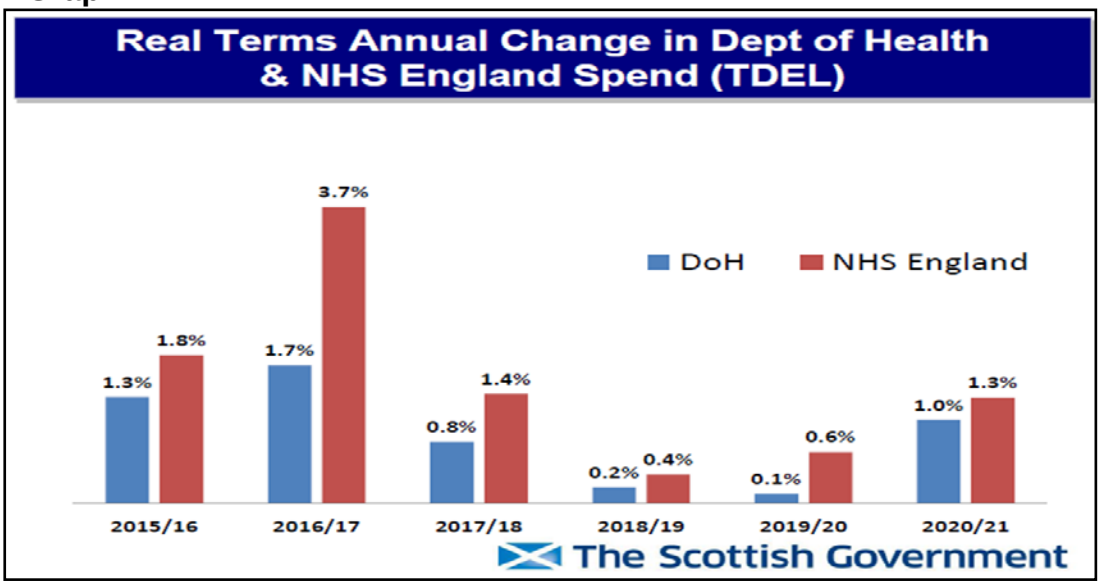
69. Further work is required on agreeing the uplifts for volume and price increases for prescribing pressures as well as the associated growth with high cost medicines. Cost pressures are currently under review and will be collated alongside the overall budgets that are being assessed, with the requirement for medical locum reserve being re-assessed in light of on-going vacancies and gaps across junior doctor rotas. It is expected that these budgets will be allocated as part of the budget resource to the IJB.

Financial Risks

70. The financial plan requires the delivery of recurring efficiencies of £12.77m (5%) to achieve financial balance for 2016/17. It is recognised that this will be extremely challenging and will remain the biggest financial risk throughout 2016/17 in achieving a break-even position. The current CRES plan has a recurring gap of over £7.2m, with non-recurrent schemes and flexibility identified of £5.2. This leave an unidentified gap of £2m that has been submitted as part of the draft LDP process to Scottish Government, but it is accepted further work is required to develop both recurring and non-recurring solutions in advance of the final LDP submission in May.

71. Whilst the spending review confirms the settlement position with an uplift of £4.5m (1.7%) for 2016/17, future years pay settlements beyond 2016/17 are unknown and, whilst a 1.8% uplift has been assumed beyond next year's plan, it may prove difficult to support uplifts at this level, considering the Treasury forecasts as set out in the UK Spending Review. There remains a level of uncertainty around expectations of how resources will be used in the future in relation to future policy commitments. The graph below is a useful summary of current UK Government forecasts for Health Care Funding as a whole.

Graph 2



72. Whilst the revenue plan identifies a range of financial risks and estimates, there are also risks that may potentially arise in relation to the Acute Services Redevelopment Project. Flexibility is likely to be required between financial years to manage the double running costs of the new hospital and work required to make this happen.

73. **Appendix 3** provides a summary table of the key financial risks to be submitted as part of the LDP process.

Overall Position

74. The Board is looking to achieve a balanced financial plan for 2016/17 onwards and has a statutory requirement to breakeven. This financial plan reflects an unprecedented level of financial risk for the Board with an unidentified CRES gap of £2m, significant level of efficiency schemes through non recurrent plans and 58% of CRES indentified as high risk.

75. Provision will be made for all known cost pressures/developments/inflationary impacts and changes to costs, which have been quantified to ascertain the level of financial risk.

76. The £7m carry forward banked in 2012/13 and 2013/14, is not planned to be called down until 2017/18 at the earliest to support the significant double running costs which we will inevitably incur, and we will need to consider adding to this fund as non-recurring resources are identified. This will be reviewed through the year to ensure the timing of this financial pressures associated with the new hospital can effectively be managed.

77. It is recognised that any future material movements in costs will need to be factored into future iterations of the Board's 5 year Revenue Plan.

Evaluation of Identified Efficiency Schemes - 2016/17

	Gross 16/17 R	16-17 NR	Potential Re-investment R	Total in-year 16-17 Saving NR+R	17-18 R
Achieved	3,416	1,250	(162)	4,504	720
Further Schemes Identified	2,524	3,964	(223)	6,265	1,353
Unidentified CRES/ GAP	2,000	0	0	2,000	
	7,940	**5,214**	**(385)**	**12,769**	**2,073**

Risk ratings of Schemes	Gross 16/17 R	16-17 NR	Potential Re-investment R	Total in-year 16-17 Saving NR+R	17-18 R	%
Low	2,547	850	(162)	3,235	687	25%
Medium	1,690	400	0	2,090	463	16%
High (incl £2m unidentified)	3,703	3,964	(223)	7,444	924	58%
	7,940	**5,214**	**(385)**	**12,769**	**2,073**	

High Level Directorate Schemes Identified - 2016-17

Directorate	Gross 16/17 R	16-17 NR	Potential Re-investment R	Total in-year 16-17 Saving NR+R	17-18 R	Proposed Target 5%	16/17 Gap	Recurring Gap
Corporate Depts	513	500	0	1,013	500	1,079	(67)	(67)
Estates and Clinical Support	220	0	0	220	150	840	(620)	(470)
Acute and Diagnostics	734	750	(230)	1,254	883	3,653	(2,399)	(2,267)
Primary And Community Care	879	0	0	879	0	1,325	(446)	(446)
Mental Health	745	0	0	745	0	937	(191)	(191)
Women and Childrens	400	0	(155)	245	211	935	(691)	(480)
Directorates Sub-total	**3,491**	**1,250**	**(385)**	**4,356**	**1,743**	**8,769**	**(4,414)**	**(3,920)**
Corporate Work-streams								0
Procurement	200	0	0	200	0	500	(300)	(300)
External SLAs/Activity	250	0	0	250	330	1,000	(750)	(420)
Prescribing	2,000	0	0	2,000	0	2,500	(500)	(500)
Other - NR schemes		3,964		3,964			3,964	0
Corporate Work-streams - Total	**2,450**	**3,964**	**0**	**6,414**	**330**	**4,000**	**2,414**	**(1,220)**
Grand Total	**5,941**	**5,214**	**(385)**	**10,770**	**2,073**	**12,769**	**(2,000)**	**(5,140)**

NHS DUMFRIES AND GALLOWAY FINANCIAL PLAN 2016- 2021

Appendix 2

SUMMARY	2016/17			2017/18			2018/19			2019/20			2020/21		
	R £000's	NR £000's	TOTAL £000's	R £000's	NR £000's	TOTAL £000's	R £000's	NR £000's	TOTAL £000's	R £000's	NR £000's	TOTAL £000's	R £000's	NR £000's	TOTAL £000's
Baseline Allocation	**116**		**116**	**0**		**0**	**1,802**		**1,802**	**2,442**		**2,442**	**1,587**		**1,587**
SOURCES															
Baseline Allocation uplift	4,520		4,520	4,867		4,867	4,955		4,955	5,044		5,044	5,135		5,135
Integration Fund		3,040	3,040		3,040	3,040		3,040	3,040		3,040	3,040		3,040	3,040
Delayed Discharge Funding		912	912		640	640		640	640		640	640		640	640
New Medicine Fund		2,409	2,409		2,409	2,409		2,409	2,409		2,409	2,409		2,409	2,409
Banked Funding Released		0	0		4,000	4,000		3,000	3,000		0	0			
Anticipated allocations (inc Ncore)	243	3,059	3,302	198	23,109	23,307	200	22,707	22,907	200	22,746	22,946	200	22,746	22,946
Reduction in Health Bundles (7.5%)	(500)		(500)												
Acute Services Redevelopment Project		7,050	7,050			0			0			0			0
TOTAL SOURCES	**4,379**	**16,470**	**20,849**	**5,065**	**33,198**	**38,263**	**6,957**	**31,796**	**38,753**	**7,686**	**28,835**	**36,521**	**6,922**	**28,835**	**35,757**
APPLICATIONS															
Uplifts:															
Pay Uplifts - Agenda for Change	2,298	0	2,298	2,135	0	2,135	2,115	0	2,115	2,108	0	2,108	2,101	0	2,101
Pay Uplifts - Medical Staff	898	0	898	766	0	766	778	0	778	752	0	752	727	0	727
National Insurance Increases	2,210	0	2,210	0	0	0	0	0	0	0	0	0	0	0	0
Low Paid Pay Award	360	0	360			0			0			0			0
Band 1 to Band 2 increases	106	0	106	107		107	108		108	138		138	154		154
Price Uplifts including energy	849	0	849	865	0	865	882	0	882	900	0	900	918	0	918
Primary Care Drugs	2,818	0	2,818	2,000	0	2,000	2,000	0	2,000	2,000	0	2,000	2,000	0	2,000
Secondary Care Drugs (incl NMF and SMC)	3,367	0	3,367	2,000	0	2,000	2,000	0	2,000	2,000	0	2,000	2,000	0	2,000
External Contract Indexation	765	0	765	780	0	780	780	0	780	795	0	795	810	0	810
Non recurring spend inc Non-Core (matching ringfenced allocations)	0	3,579	3,579	0	2,492	2,492	0	2,502	2,502	0	2,702	2,702	0	2,902	2,902
Developments & Existing Pre Commitments															
Integration Fund	0	3,040	3,040	0	3,040	3,040	0	3,040	3,040	0	3,040	3,040	0	3,040	3,040
Delayed Discharge Funding	0	912	912	0	640	640	0	640	640	0	640	640	0	640	640
New Medicines Fund	0	2,409	2,409	0	2,409	2,409	0	2,409	2,409	0	2,409	2,409	0	2,409	2,409
Cost Pressures	2,477	5,030	7,507	2,110	903	3,013	3,352	1,470	4,822	4,906	539	5,445	3,925	293	4,218
Acute Redevelopment		1,000	1,000	0	4,000	4,000	0	3,000	3,000	0	0	0	0	0	0
Contingency Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Spend to Save Schemes	0	500	500	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non Core					12,094	12,094		4,067	4,067		3,943	3,943		4,189	4,189
ASRP					9,422	9,422		17,110	17,110		17,149	17,149		17,149	17,149
TOTAL APPLICATIONS	**16,148**	**16,470**	**32,618**	**10,763**	**35,000**	**45,763**	**12,015**	**34,239**	**46,254**	**13,599**	**30,423**	**44,022**	**12,635**	**30,622**	**43,257**
CRES Requirement	**11,769**		**11,769**	**7,500**		**7,500**	**7,500**		**7,500**	**7,500**		**7,500**	**7,500**		**7,500**
CRES Balance B/Fwd	**1,000**		**1,000**			**0**			**0**			**0**			**0**
Total CRES Requirement in year	**12,769**		**12,769**	**7,500**		**7,500**	**7,500**		**7,500**	**7,500**		**7,500**	**7,500**		**7,500**
NET POSITION	**0**	**0**	**0**	**1,802**	**(1,802)**	**(0)**	**2,442**	**(2,442)**	**(0)**	**1,587**	**(1,587)**	**(0)**	**1,787**	**(1,787)**	**0**

APPENDIX 3

LDP Financial Plan 2016/17 Submission
Risks & Assumptions

Key Assumptions / Risks	Risk rating (please select from drop-down)	Impact / £
Allocation Uplift	High Risk	Only 2016/17 uplift has been confirmed by the Scottish Government to date, with a request from the Scottish Government to assume 1.8% for 2017/18 and beyond. This is a high risk when considered alongside the Treasury indications of anticipated forecasts as set out in the UK Spending Review.
CRES Delivery	High Risk	Of the Current CRES requirement of £12.77m, there still remains a high level of unidentified element, with £2m still remaining to find in year with a significant recurring gap. There is also a high degree of risk and uncertainty within the plans identified to-date that will need to be remedied in time for the final submission of the LDP. This is by far the highest level of risk facing NHS Dumfries and Galloway as it prepares for the new financial year ahead.
Prescribing (General)	High Risk	Prescribing in general (both secondary and primary care) has been successful in identifying savings over the last few financial years. The current financial year has seen a significant level of underachievement against the planned level of savings, signifying the unprecedented pressures across both Primary and Secondary Care Prescribing. Opportunities to continue to deliver the level of savings required are not as robust as in recent years. Whilst the plan has assessed the on-going financial risks of new drugs and increasing growth (taking into account national indicators and local knowledge), there remains a significant level of risk associated with new drugs that will continue to be approved by SMC. The current budget setting paper sets out the methodology and risks associated with the expected level of increases moving forwards.
Prescribing - New Medicines Fund	High Risk	An assessment has been undertaken with in the plan to incorporate estimates of likely growth of drugs in this area. It is assumed that these will be matched with funding within the 5 year plan from the New Medicines Fund. However there is an expectation that the funding available will be less than previously indicated due to a fall in PSP receipts nationally.

Key Assumptions / Risks	Risk rating (please select from drop-down)	Impact / £
Workforce/Recruitment	High Risk	Despite significant effort to reduce the level of medical vacancies within the Board, the vacancy rate remains high. In particular 20% of our consultant workforce remains covered by high-cost locum posts. In addition there has been a rise in teh level of gaps across the junior doctor rotas (especially within GP training posts) which are not expected to be remedied in the forth-coming financial year. This is an increasing problem across Scotland and the UK as a whole. Whilst appropriate provision has been made in the financial plan (£4m NR) to continue to absorb these costs, this is not a sustainable model and will need resolution in the short to medium term in order to ensure financial balance in the future, in time for the opening of the new hospital.
Health and Social Care Integration	High Risk	Plans for Health and Social Care integration are under development locally. No financial provision / risk is assumed in the LDP beyond ensuring provision has been made for supporting and resourcing the implementation within the allocation identified going forward. NHS D&G has made good progress with Council Colleagues in recent months in progressing H&SCI, however a significant level of system risk remains in ensuring resources around the delegated budgets are sufficient to deliver the planned level of service within the Strategic Plan.
DGRI Maintenance	High Risk	The backlog maintenance issue at DGRI will continue to be a risk and require expenditure in the period that the hospital remains operational. The resources available to fund backlog maintenance are severely restricted and areas of investment will require to be prioritised.
Externals (OOA SLAs)	High Risk	Growth in complex conditions and continued growth in referrals across D&G has seen a substantial increase in activity undertaken outwith Board boundaries. Whilst financial provision has been made in the plan, increases relating to complex and high cost services (particularly across Cancer and Cardiology services) remain a high risk to the Board.
Health Bundles	Medium Risk	With a 7.5% top-slice against previously ear-marked allocations now being implemented the new Outcomes' Framework will need to be clearly understood so priorities can be re-aligned to the level of funding being made available.
Inflation Uplifts	Medium Risk	In addition to building in the known inflation costs (including pay, incremental drift and NI increases) already announced, an indepth review of historic trends, combined with best available knowledge has been modelled in determining projected increases. Information has been shared and discussed with colleagues across the Corporate Finance Network, providing further assurance on the appropriateness of planning assumptions.

Key Assumptions / Risks	Risk rating (please select from drop-down)	Impact / £
Developments and Cost Pressures	Medium Risk	A recurring sum of £2.5m and a non-recurring sum of £5.0m for 2016/17 has been set aside to cover the costs of future regional and national developments, cost pressures and any other critical or must do developments.
Pay Inflation/Incremental Drift	Medium Risk	Robust financial planning information exists to allow accurate estimates of basic pay settlements for 2016/17 and beyond (based upon current assumptions of 1% pay awards). Provision has also been made this year of the potential impact of low-paid and increases of Band 1 staff to Band 2.
Statutory Change/Changes to legislation	Medium Risk	The financial plan reflects the current known position in relation to any statutory compliance in relation to VAT/ NI and pensions. Any future changes to current regulations and compliance would impact on the overall financial plan. These are reviewed regularly by the central financial team and any changes reflected through financial estimates.
Clinical Change Programme	High Risk	Whilst monies have been set aside in future years to reduce the financial risk of developing the new DGRI, the scale of the clinical change programme required to bring about the necessary transformation in service delivery reflect a significant risk as we approach the opening of the new hospital.
Capital Receipts	Medium Risk	Funding from retained receipts in future years is not guaranteed. The Capital Plan assumes this will be agreed in order for associated programmes of work to commence.
Carry Forward	Low Risk	The retained carry-forward of £7m from prior years is banked for future double running and associated costs of the new hospital. This is low risk because it has been confirmed by the Scottish Government.