

Borders NHS Board



2018/19 FINANCIAL PLAN UPDATE

Aim

The aim of the paper is to present to the Board an updated revenue financial plan for 2018/19.

At the Board meeting on the 5th April 2018 the Board was presented with the 2018/19 financial plan which was unbalanced. The plan delivered £11.6m of savings in year but there remained a substantial gap of £13.2m. The Board requested that the Executive Team be tasked with demonstrating how a break even position could be achieved in 2018/19 and how over the next 3-5 years the Board could return to recurring balance.

Executive Summary

The financial plan presented at the Board meeting on 5th April 2018 is summarised in the table below:

Table 1 Financial Plan Summary of Deficit

	2018/19			2019/20			2020/21		
	Recurring £m	Non Recurring £m	Total £m	Rec £m	Non Rec £m	Total £m	Rec £m	Non Rec £m	Total £m
Total Surplus/ Deficit	-17.6	4.4	-13.2	-22.0	-1.4	-23.4	-26.0	-1.4	-27.4

Following the presentation of the 2018/19 financial plan at the Board meeting on the 5th April 2018:

- A review of historical funding and NHS Borders population has been undertaken.
- A review of NHS Borders services and costs has been undertaken to inform the financial planning process overall and also to explore potential opportunities for efficiencies. The process has incorporated external review, where available, as well as internal scrutiny and considered:
 - The current cost of NHS Borders services – the cost base.
 - The level of services in NHS Borders – the demand.
 - The need to increase the productivity/efficiency of services – efficiency.

The size of the recurring savings potential identified through the review process is summarised in the table below:

Table 2 Savings Opportunities

Identified Opportunities	Savings when compared with Dumfries & Galloway £m	Savings when compared with Scottish Average £m	NHS Borders Internal Efficiencies £m
Cost Base			
Primary Care Prescribing	2.1	2.7	
Staffing	2.0	N/A	
AHPs & Psychology	0.6	1.0	
Hospital Administration	0.3	1.0	
Demand Base			
All services	9.5	7.2	
Business as Usual			
1% savings across all services			1.9
2% savings across all services			3.8
IJB Ring fenced funding			2.1

N.B. At this stage these are potential savings opportunities – further work is required to establish whether or not savings in any of these areas can be achieved and if so, at what level.

The recurring savings opportunities were then modelled over a number of scenarios (Worst, Best and Realistic) and the level of potential delivery for each of these in the time period 2019/20 to 2022/23 is shown in the table below.

Table 3 Model Scenarios

Recurring Savings Delivered 2019/20 to 2022/23	WORST £m	BEST £m	REALISTIC £m
Business as usual	7.6	15.2	7.6
Drugs and Prescribing	2.1	2.7	2.1
Demand / Activity	2.4	9.5	4.8
Community Services Redesign		2.1	2.1
Redesigned workforce models		2.9	0.9
Contingency		8.0	4.0
TOTAL	12.1	40.4	21.5

In summary the impact of the potential savings on the projected financial position, based on a best and worst case scenario, is as follows:

Table 4 Impact Range of Potential Savings

	2018/19	2019/20	2020/21	2021/22	2022 / 23
	Range	Range	Range	Range	Range
	£m	£m	£m	£m	£m
In Year Gap	11.5	5.5/10.3/12.7	2.8/10.5/14.5	1.3/11.8/17.0	0/12.9/19.3
Recurring Deficit	17.6	14.6/17.5/18.9	11.9/17.7/20.7	10.4/19.0/23.2	8.8/20.1/25.5

The additional savings opportunities identified through the review will be scoped out in more detail to assess if they can feasibly deliver realisable benefits, including cash savings. If assessed as realisable, then they will be added to the Better Borders programme plan and will be progressed as priority work from 2018/19 onwards.

It is clear from the outcome of the review and the impact on the financial projections as outlined above that there is a requirement for brokerage for the foreseeable future and that the opportunities identified to date do not return the organisation to recurring balance.

Discussion with Scottish Government on the requirement for brokerage in 2018/19 is continuing. Although an indicative brokerage figure of £13.2m has been provided it has been agreed that a final brokerage figure for 2018/19 will be agreed later in the financial year to give the Board time to maximise what it can deliver in-year and to quantify if there is a need for short term investment to support the financial position. As at the end of June the financial gap for 2018/19 and is reported as £11.5m.

Engagement and communication plans are under development to allow meaningful dialogue with Borders staff and the public building on the clinical strategy work. There is also a need to engage with the IJB linked to the Strategic Plan..

As the opportunities identified by the Executive Team to date do not match the size of the challenge it is proposed that the Board requests an external review of the Board's finances be undertaken. Scottish Government has offered to support a review similar to that recently undertaken by NHS Ayrshire and Arran. Discussions on this are being progressed.

The following sections are included in the report:

Section 1 Financial Plan as at 5th April 2018

Section 2 Historical Funding and Cost Pressures

Section 3 Opportunities to Address the Financial Challenge

Section 4 Impact of the Opportunities identified on the Financial Plan

Section 5 Next Steps

Section 6 Summary

Section 7 Recommendations

Appendices

Section 1 - Financial Plan as at 5th April 2018

The 2018/19 financial plan presented at the Board meeting on 5th April 2018 and is summarised in the table below.

Table 5 Financial Plan Summary

	2018/19			2019/20			2020/21		
	Rec £ms	Non Rec £ms	Total £ms	Rec £ms	Non Rec £ms	Total £ms	Rec £ms	Non Rec £ms	Total £ms
Opening Surplus/(Deficit)	-8.8	0	-8.8	-17.6	0	-17.6	-22.0	0	-22.0
Funding	11.0	-	11.0	11.0	-	11.0	11.0	-	11.0
Identified Financial Pressures	-22.4	-4.6	-27.0	-15.4	-1.4	-16.8	-15.0	-1.4	-16.4
Cost Savings Plan	2.6	9.0	11.6	-	-	-	-	-	-
Total Surplus/Deficit	-17.6	4.4	-13.2	-22.0	-1.4	-23.4	-26.0	-1.4	-27.4

The assumptions which underpin the financial plan are detailed in Appendix A.

The plan was unbalanced for each of the financial years with a gap of £13.2m identified in 2018/19. In line with the Board request at the meeting a review of the opportunities to address the financial gap in year and on a recurring basis has been undertaken.

Section 2 - Historical Funding and Cost Pressures

Since the Board meeting in April a review of NHS Borders funding levels over the last five years compared with the cost pressures including pressures link to population increases and demographic changes, has been undertaken.

The level of uplift provided to NHS Borders has been minimal although population levels (in particular over 65 years) have increased and NHS Borders has not benefitted from nationally available additional baseline uplift funding. Not only has NHS Borders had to deal with increased demand due to population rises and type it has received uplift levels which did not meet the inflationary pressures the NHS has faced each year.

The table overleaf summarises the level of uplift, financial pressures, efficiency requirement and delivery for each of the last five years:

Table6- Key Statistics

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Base Allocation Uplift	4.7(2.7%)	4.7(2.6%)	3.2(1.7%)	3.1(1.6%)	0.8 (0.4%)
Cost of Pay Awards	1.6	1.6	2.5	4.0	2.4
Investment Required in Drugs	1.3	1.6	1.7	2.1	4.4
Other Cost Pressures	6.6	6.1	5.9	8.4	9.7
Efficiency Target	4.8	4.6	6.9	11.4	15.7
Savings Delivered Recurring	2.6	2.0	3.5	3.9	4.1
Savings Delivered Non Recurring	2.2	2.6	3.4	4.2	4.2
Opening Recurring Deficit	0	0	0	1.7	4.9

It is clear that the level of uplift provided to NHS Borders did not meet the increasing costs the Board was facing even without the population increases and demographic challenges. To address this financial shortfall NHS Borders delivered increasing levels of efficiency, however due to the non-recurring nature of the savings in 2015/16 NHS Borders closed the financial year with a £1.7m recurring deficit. This has increased year on year as recurring savings have not been identified to offset the deficit and the in-year requirement for savings was not fully delivered. It is clear that as uplifts have reduced financial balance has become more challenging.

Funding is allocated to NHS territorial boards based on the NHS Scotland National Resource Allocation Committee (NRAC) formula which was introduced in 2009/10. NRAC is based on a number of factors including population size, age and gender profiles, and deprivation. As from that date the Scottish Government has been working towards allocating all funding to territorial NHS boards according to NRAC. As part of that implementation it has been stated that no board would see a reduction in funding as a result of NRAC and that by 2016/17 no NHS Board would be more than one per cent below their target allocation. NHS Borders in 2009/10, when the new formula was introduced, was significantly above its NRAC share of funding (approximately £11m). To support the move to the new formula NHS Borders has received only the minimum levels of uplift each year since that date. Boards below NRAC parity have benefited from significantly higher levels of uplift each year. As of financial year 2018/19 NHS Borders is 1.1% above its NRAC share of resources.

The table below shows allocation uplifts for NHS Borders compared with the average for NHS Scotland boards each year. It also highlights the funding which formed part of NHS Borders uplift which was passported directly to the IJB and therefore not accessible to NHS Borders to offset funding pressures. This principally relates to the Integrated Care Fund and the Social Care Fund.

Table 7 Allocation Uplifts

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Average Uplift (including NRAC funding)	3.30%	3.20%	1.70%	2.10%	1.10%	1.90%
NHS Borders Uplift	2.70%	2.60%	1.70%	1.60%	0.40%	1.50%
Difference	0.60%	0.60%	0%	0.50%	0.70%	0.40%
NHS Borders Additional Funding if given average uplift (£m)	£0.8m	£0.9m	0	£0.7m	£1.4m	£0.8m
NHS Borders Integrated Care Fund (£m)			£2.1m			
NHS Borders Social Care Fund (£m)				£5.3m	£2.1m	
	£0.8m	£0.9m	£2.1m	£6.0m	£3.5m	£0.8m
Total for the period 2013/14 to 2018/19						£14.1m

With the exception of 2015/16 NHS Borders has consistently received lower percentage uplifts than the national average. If NHS Borders allocation had been uplifted by the national average level and the Integrated Care Fund and the Social Care Fund had been available to NHS Borders over the period 2013/14 to 2018/19 £14.1m additional recurring funding would have been available to deal with financial pressures.

Scottish Borders has seen a steady growth in overall population between 2009 and 2017 rather than some of the more significant increases in other Board areas as can be seen in table below¹.

Table 8 Population Growth

NHS Board area	2009	2010	2011	2012	2013	2014	2015	2016	2017	% Shift
Scotland	5,231,900	5,262,200	5,299,900	5,313,600	5,327,700	5,347,600	5,373,000	5,404,700	5,424,800	3.70%
Ayrshire and Arran	372,430	372,800	373,760	373,220	372,240	371,140	370,590	370,560	370,410	-0.50%
Borders	113,590	113,690	113,880	113,720	113,880	114,040	114,030	114,530	115,020	1.25%
Dumfries and Galloway	151,160	151,100	151,410	150,840	150,280	149,960	149,670	149,520	149,200	-1.29%
Fife	361,410	362,610	365,300	366,210	366,900	367,250	368,080	370,330	371,410	2.76%
Forth Valley	294,190	296,020	298,080	299,090	299,670	300,400	302,650	304,480	305,580	3.87%
Grampian	559,210	564,850	569,580	573,400	579,200	584,220	587,820	588,100	586,380	4.84%
Greater Glasgow and Clyde	1,122,330	1,127,840	1,135,400	1,137,320	1,137,920	1,142,590	1,149,890	1,161,370	1,169,110	4.17%
Highland	318,200	319,350	321,660	319,800	320,980	320,730	321,000	321,900	321,990	1.19%
Lanarkshire	647,340	649,460	651,620	652,220	652,590	653,300	654,490	656,490	658,130	1.66%
Lothian	816,520	825,530	836,610	843,740	849,720	858,120	867,800	880,000	889,450	8.93%
Orkney	20,940	21,220	21,420	21,530	21,560	21,580	21,670	21,850	22,000	5.06%
Shetland	22,790	23,060	23,240	23,210	23,200	23,220	23,200	23,200	23,080	1.20%
Tayside	404,370	407,070	410,250	411,740	412,160	413,800	415,040	415,470	416,090	2.89%
Western Isles	27,420	27,600	27,690	27,560	27,400	27,250	27,070	26,900	26,950	-1.71%

Based on census data

¹ ISD statistics Mid Year figures by Health Board area.

Although the overall population growth has been lower than some areas, Scottish Borders' over 65 age group is growing at a significantly higher rate than the national average. Based on National Records of Scotland (NRS) Mid-year Population Estimates there has been a 7.7% increase in the numbers of people aged 65+ in the Scottish Borders compared to 6.9% for Scotland between 2013 and 2017. The population cohort of older adults in Borders is projected to rise most significantly in the over 75 and over 85 year bands as the average life expectancy is increasing. This group places a particularly high demand on the healthcare system due to the burden of disease in later life. By the age of 65, nearly two-thirds of people will have developed a long term condition: 75% of people aged 75-84 have two or more such conditions.

It is difficult to quantify the financial impact of the increasing demographics on NHS Borders activity and spend levels although it is clear that due to the move towards NRAC parity NHS Borders has not been funded to reflect this increase.

Discussions are ongoing with Scottish Government of the level of uplift NHS Borders has and will receive going forward.

Section 3 - Opportunities to Address the Financial Challenge

Following the presentation of the 2018/19 financial plan at the Board meeting on the 5th April 2018 a review of NHS Borders services and costs has been undertaken to inform the financial planning process overall and also to explore potential opportunities for savings. The process has incorporated external review, where available, as well as internal scrutiny and has considered a number of areas:

- The current cost of NHS Borders services – the cost base
- The level of services in NHS Borders – the demand
- The need to increase the productivity/efficiency of services – efficiency

Due to the limited availability of comparative information, within the internal review, NHS Borders has utilised information as detailed in the National Health Service Cost Book for 2016/17, NSS Discovery and information available on the ISD website. Where appropriate, Dumfries and Galloway has been chosen as a comparator as the population profile and rurality is similar to that in NHS Borders.

It should be noted that the review:

- Focused on the cost of/demand for services
- Was undertaken as a table top exercise
- Is based on data taken at a single point in time
- Requires verification

Engagement with clinicians is essential in taking forward this work.

1. NHS Borders Cost Base

The review of NHS Borders cost base is detailed in Appendix B.

In summary, the information gathered to date linked to the current cost base indicates the opportunity which warrants further investigation which may reduce the cost base as shown in the table below:

Table 9 NHS Borders Cost Related Efficiency Opportunities Comparative to Dumfries & Galloway and the Scottish Average

			Scottish
		D&G	Average
		£m	£m
Prescribing		2.1	2.7
WTE in Post as a % of Workforce		2.0	n/a
AHP's & Others*		0.6	1.1
Hospital Administration Costs*		0.3	1.0
Total cost related efficiency		5.0	4.8

With regard to the potential savings opportunities identified and in order to establish if any of these savings are releasable, further detailed work will be required to understand the model of service provided in Dumfries and Galloway and whether or not that model can be replicated in NHS Borders.

2. NHS Borders Review of the Demand Base

Internal Review of NHS Borders Internal Services

In addition to the cost base review NHS Borders has conducted its own benchmarking table-top exercise of the demand for and level of services provided compared with NHS Dumfries & Galloway and / or Scottish Average.

The exercise compared NHS Borders activity levels per 1,000 population with Dumfries and Galloway and the Scottish Average and quantified the potential financial impact of reducing the level of local current activity.

It should be noted that focus was on demand / activity and not on service cost, productivity or variation. There is a need to verify the data which is taken at a snapshot in time and to ensure ongoing engagement with clinical colleagues.

A number of service areas were reviewed in this way, where activity was above that noted in other areas; the composite list and summary figures are shown below:

Table 10 Activity Related Opportunity

Table NHS Borders Activity Related Efficiency Opportunities Compared To	D&G £m	Scottish Average £m
Orthopaedics & Trauma	0.8	1.8
Medical/Acute Paediatrics	0.1	0.5
Obstetrics	1.5	2.0
General/Acute Medicine	2.3	2.9
General Psychiatry	0.4	(2.1)
Geriatric Psychiatry	1.9	2.6
Community Nursing (DN, HV, Midw, Psy & LD)	0.1	(0.1)
Gynaecology	0.6	0.7
ITU	1.2	(0.4)
Radiology	0.5	(0.9)
Laundry	0.1	0.2
Total Activity Related	9.5	7.2

It must be noted that in order to achieve sustainable and recurring efficiencies, a level of re-investment may be required in some areas

Based on the table-top exercise around the demand base for the services listed, there are potential savings opportunities of £9.5m overall compared with Dumfries and Galloway. This would be dependent upon NHS Borders moving to activity levels comparable with Dumfries and Galloway based on NHS Borders direct costs. It should be noted that it may not be possible to release costs even moving to the Dumfries and Galloway activity level due to the configuration of services and diseconomies of scale in Borders.

Internal Review of NHS Borders External Services

The Board spends approximately £33m each year on the cost of treatments and services for Borders patients provided by the other NHS Boards of non NHS providers as detailed below:

Table 11 Expenditure on External Service Provision

Service Provision	£m
NHS Lothian – Acute	18.0
NHS Lothian – Primary Care	0.6
NHS Lothian – Unpacs	2.7
Extra Contractual Referrals (ECRs)	1.3
English Contracts	0.8
Other Service Level Agreements including Learning Disabilities	3.1
Other Scottish Providers	1.1
Resource Transfer to Scottish Borders Council	2.7
Other services including eating disorders, rehabilitation etc	2.7
TOTAL	33.0

Limited progress has been made to date on the internal review of the cost of the services provided external to NHS Borders. There is no comparable information available and therefore any review requires the engagement of the relevant provider. As we move to more integrated working both locally and regionally there has been limited interest in taking work in this area forward. The following areas have been identified for further consideration:

- In depth review of referrals to NHS Lothian for each of specialties listed and explore reasons for referral.
- Look into repatriation potential and quantify any non-recurring or recurring costs to Borders.
- Review Acute Contract with NHS Lothian and negotiate any changes.
- ECRs - Detailed review of out-of-area placements to identify trend and costs over time; appropriateness – requires involvement of LD / MH clinicians and ECR Panel.
- ECRs - Consider any appropriate other models of care provision.
- Review and define ECR protocols as necessary.

This work will be progressed but based on current information it is not possible to quantify the potential impact at this time.

3. NHS Borders Efficiency of Services

NHS Scotland has a duty to the people of Scotland to provide quality services that are good value for money. NHS Scotland is committed to becoming a world leader in healthcare quality by improving the safety, effectiveness, experience and responsiveness of services within the context of tight financial settlements for the foreseeable future.

NHS Scotland *Route Map* describes 12 priority areas for action for pursuing our 2020 Vision for high quality sustainable health and social care services in Scotland in three domains, often referred to as the 'Triple Aim':

- **Quality of Care** - improve the care experience, which goes beyond simply providing the right type of care
- **Health of the Population** - improve the overall health of the population being served
- **Value and Financial Sustainability** - provide the best care possible while lowering the per-capita costs of care over time

There is an expectation that Boards year on year will reduce costs and increase the efficiency.

Since 2013/14 NHS Borders has delivered between 1-2% annually in recurring efficiency at an operational or service level. It seems reasonable to assume services will continue to deliver savings at this level so for planning purposes an assumption has been used of 1.0% from normal operating activity being achieved annually. While this is likely to be a stretch given the demographic pressures noted, this should be achievable based on performance in previous years. This would generate a saving of £1.9m per annum.

Integrated Care Funding (ICF) was first allocated to the shadow IJB in 2015/16, commencing on the 1st April 2015 at £2.13m per annum, a total allocation of £6.39m over the 3 years of the programme. This funding was to support delivery of improved outcomes from health and social care integration, help drive the shift towards prevention and further strengthen the approach to tackling inequalities. Scottish Government Guidance further stated that *"the use of the Integrated Care Fund should include strands that will lead to reduced demand for emergency hospital activity and emergency admissions"*.

NHS Borders has agreed that for 2018/19 the £2.13m non recurring ring fenced monies will be provided to the IJB with conditions attached. It has been assumed that over the period 2019/20 to 2022/23 £2.1m of recurring savings for NHS Borders as a result of the various improvement and redesign programmes supported by the fund.

As part of the financial plan NHS Borders has set aside £2m of funding each year to deal with unforeseen events. If the organisation is able to manage its cost base all or part of this funding could be utilised to support the financial challenge.

Section 4 – Impact of the Opportunities identified on the Financial Challenge

This section of the report provides an assessment of the extent to which the shortfall set out in the financial plan can be addressed by opportunities identified in Section 4 through a programme of transformation over the next five years.

To address the ongoing requirement to move toward a recurring balanced position, we are approaching our financial challenge from the perspective of 6 key themes:

- Business as Usual Efficiency based on a % to be delivered each year from 2019/20 onwards.
- Drugs and Prescribing Costs is predicated on the ongoing programme of work, particularly in relation to a review of the NHS Borders prescribing patterns compared with other more cost effective Boards.
- Community service redesign reflects the impact of the implementation of the IJB strategic plan and the use of the integrated care fund which it is anticipated as well as moving services to be provided in a community setting will reduce costs for NHS Borders to the level of investment of £2.1m.
- Demand / Activity reductions which leads to fewer interventions. This will also consider variation and clinical thresholds.
- Workforce models reviewing the organisation's skill mix with a view to less reliance on medical staffing and reducing costs in administration and support services
- Commissioned Services including ECRs more work is required to be done before any impact of agreed changes can be quantified

The table below summaries the assumptions made for a number of scenarios which have been modelled to quantify the potential impact of the opportunities identified on the financial plan.

Table 12 Modelling Assumptions

Opportunity Theme	Realistic Scenario	Best Scenario	Worst Scenario
Business as Usual Efficiency	1% pa	2% pa	1% pa
Drugs and Prescribing Costs	£2.1m from 2019/20 to 2020/21	£2.7m from 2019/20 to 2020/21	£2.1m from 2019/20 to 2020/21
Community Service Redesign	£2.1m from 2019/20 to 2022/23	£2.1m from 2019/20 to 2022/23	Impact of IJB non recurring funding is nil
Demand / Activity	50% reinvestment required Savings released 2019/20 to 2022/23	0% reinvestment required Savings released 2019/20 to 2022/23	75% reinvestment required Savings released 2019/20 to 2022/23
Workforce models	AHP & admin costs reduce 2019/20 to 2020/21	Skill mix progressed, AHP & admin fully released 2019/20 to 2022/23	Not progressed
Commissioned Services including ECRs	TBC once reviews undertaken	TBC once reviews undertaken	TBC once reviews undertaken
Contingency	50% of the board's contingency will support the financial position = £1m 2019/20 to 2022/23	100% of the board's contingency will support the financial position = £2m 2019/20 to 2022/23	0% of the board's contingency will support the financial position

Spread over a number of financial years the following recurring savings would be delivered by the organisation in each of the three scenarios as summarised in table below:

Table 13 - Recurring Savings Delivered 2019/20 to 2022/23

	Realistic £m	Best £m	Worst £m
Business as Usual (£m)	7.6	15.2	7.6
Drugs & Prescribing (£m)	2.1	2.7	2.1
Demand /Activity (£m)	4.8	9.5	2.4
Community Services Redesign (£m)	2.1	2.1	-
Redesigned Workforce (£m)	0.9	2.9	-
Contingency (£m)	4.0	8.0	-
Total	21.5	40.4	12.1

The impact of the above scenarios on the financial plan are summarised below and are detailed in Appendix C:

Table 14 Scenarios

		Year 2018/19	Year 2019/20	Year 2020/21	Year 2021/22	Year 2022/23
		£m	£m	£m	£m	£m
REALISTIC						
Brokerage		11.5	10.3	10.5	11.8	12.9
Repayment of Brokerage						
Recurring Deficit		17.6	17.5	17.7	19.0	20.1
BEST						
Brokerage		11.5	5.5	2.8	1.3	
Repayment of Brokerage						0.3
Recurring Deficit		17.6	14.6	11.9	10.4	8.8
WORST						
Brokerage		11.5	12.7	14.5	17.0	19.3
Repayment of Brokerage						
Recurring Deficit		17.6	18.9	20.7	23.2	25.5

The key points to note are:

- Worst case scenario – the brokerage requirement and deficit is continuing to increase significantly each year.
- Best case scenario – NHS Borders would start to repay brokerage in 2022/23 but in that year would continue to have a recurring deficit albeit at a much lower level.
- Realistic case scenario – by 2022/ 23 NHS Borders would still need brokerage each year and recurring deficit would still be increasing slowly.

Section 5 – Next Steps

Better Borders was established in 2017/18 as a framework to deliver service transformation, moving from our current state of service provision to a future state, as set out in our Clinical Strategy. The programme is a 3 – 5 year programme of change and a phased approach has been taken. Phase 1 of the programme (2017/18) included the following work:

- Leading and supporting current NHS Borders & Integrated Joint Board (IJB) Projects.
- Supporting and undertaking Efficiency Projects.
- Scoping out Productive Opportunities (benchmarking approach) to achieve upper quartile performance levels.
- Service Planning and Modelling.
- Scoping out Longer Term Transformational Change opportunities.

The modelling and scoping work identified a number of opportunities for change which are in line with the Clinical Strategy, and which would deliver financial benefits. This work has informed phase 2 of the programme, the full detail of which can be seen at Appendix D.

The Phase 2 projects will commence in 2018/19, if assessed by the Programme Board (Clinical Executive Strategy Group) as priority areas for attention and will be timetabled out over the next 2 to 4 years. In order to be assessed as a priority project, the changes that it will bring must meet the direction of travel as set out by the Clinical Strategy whilst at the same time supporting NHS Borders to return to financial balance.

The financial review described in this paper has identified additional areas to be explored in more detail to assess if they can feasibly deliver realisable benefits, including cash savings. If assessed as realisable, they will be added to the Better Borders programme plan to be priority work from 2018/19 onwards.

The opportunities identified to date to support the financial challenge do not return NHS Borders to recurring balance over the 5 years of the financial plan. A recurring balanced financial plan is a requirement of brokerage. The following areas have been identified for further development to address the outstanding balance in the financial plan:

- Additional Scottish Government funding – this may be forthcoming linked to the recent government announcement.
- Look at bigger picture “difficult choices”:
 - Non delivery of national waiting times targets which will result in a further deterioration in targets.

- Redesign and review of the requirement for services
- Cap on services / high cost drugs
- Regionalisation of services
- Integration of services

If the Board is supportive these areas will be explored further.

In the meantime discussion with Scottish Government on the requirement for brokerage in 2018/19 is continuing. . A final brokerage figure for 2018/19 will be agreed later in the financial year to give the Board time to maximise what it can deliver in year and to quantify if there is a need for short term investment to support the financial position.

The in year position presented to the Board in April has been updated to reflect further work that has been undertaken and national information that has become available since that time. This is detailed below with commentary and risks on each of the key issues.

Table 15 Updated Financial Position

2018/19	£m	Comment
In year deficit	(17.7)	
Operational pressures	<u>(7.1)</u>	
Efficiency target	(24.8)	
Efficiency identified to date	<u>11.6</u>	Assumption the non recurring resources transferred to IJB will deliver £2.1m of savings
2018/19 Shortfall as reported on 5 th April 2018 (recurring)	(13.2)	
Actions to reduce cost pressures proposed by services	0.3	Patient transport, supplies & contracts
Waiting times funding in financial plan (non recurring)	1.0	Substituted by SG funding
2018/19 slippage on investments (non recurring)	<u>0.4</u>	Principally Sick Kids & Trauma Centres
Revised forecast year end position	(11.5)	

The following points should be noted from the updated 2018/19 plan:

- The £2.1m IJB ring fenced funding is part of the efficiencies identified to date in the table above. Following discussion at the Board meeting in April this £2.1m of non recurring funding will be passed to the IJB but it has been assumed in the financial plan that due to the conditions attached to this transfer this will result in efficiencies/cost reductions for the NHS of £2.1m in year. HIGH RISK
- The IJB have verbally advised NHS Borders Board that NO funding will be directed to the NHS in 2018/19 to support the requirement for surge beds due to the impact of delayed discharge occupied beds days. As at the end of June surge beds remain open with no clear source of funding. HIGH RISK
- In response to the Annual Operational Plan the Board has been advised that £1.1m will be available to support the delivery of performance targets compared with the £4.6m which was requested. As noted above linked to the financial challenge the organisation is facing the £1m of funding for waiting times held within in the financial plan will be utilised to offset the shortfall on efficiency. HIGH RISK
- It should be noted that the Agenda for Change Pay Award for 2018/19 has now been agreed nationally at 3% for all staff earning less than £80,000 and £1,600 for staff earning above this level. This settlement is at a higher level than the assumptions in the financial plan. It has been assumed that this increase in cost will be fully funded by Scottish Government. The financial plan assumes that medical and dental pay awards which have not yet been agreed will be a 1% increase for all staff. HIGH RISK
- A review of slippage on LDP investments is being progressed with a view to recommending to the Board that due to the time delay these planned investments are withdrawn and the funding is utilised to reduce the recurring deficit. If additional funding is required in the future this will need to be considered by the Board in light of the financial challenge and other competing areas for investment. This will not change the overall financial plan position but will reduce the split between recurring and non recurring efficiency savings targets. The next financial update to the Board will provide more detail on this review. MEDIUM RISK

Work is ongoing on the 2018/19 year end position however based on current information brokerage from Scottish Government will be required to ensure financial targets are achieved.

As the opportunities identified by the Executive Team to date do not match the size of the challenge it is proposed that the Board requests an external review of the Board's finances be undertaken. Scottish Government has offered to support a review similar to that recently undertaken by NHS Ayrshire and Arran. Discussions on this are being progressed.

Building on the work of the clinical strategy it is essential that staff be kept informed about and understand the challenges and opportunities described in this report. Without their full engagement, the savings opportunities will not be realised. With this in mind, a communications and engagement plan will be developed and implemented.

Public understanding, perception and expectations about the financial challenges facing NHS Borders must be managed openly. The recent UK Government announcement about additional resources to be allocated to the NHS may seem to the public to negate the difficult local financial position but it is crucial that they hear and understand the true picture. Effective

engagement with local communities will be needed not only to ensure their understanding and support but also to seek their input and ownership of the future development path for NHS Borders services within the resources available. A public engagement and communications plan will be developed accordingly, building on the work and engagement from the clinical strategy.

The Board also needs to engage with the IJB linked to its clinical strategy.

Section 6 - Summary

At the Board meeting on the 5th April 2018 the Board was presented with the 2018/19 financial plan which was unbalanced. The plan delivered £11.6m of savings in year but there remained a substantial gap of £13.2m. The Board requested that the Executive Team be tasked with demonstrating how a break even position could be achieved in 2018/19 and how over the next 3-5 years the Board could return to recurring balance.

This report has highlighted the following:

- If NHS Borders had been allocated annual national average uplifts and was able to access the baseline funding which has been ring fenced by the Scottish Government for the Integrated Care Fund and Social Care Fund £14.1m more of recurring funding would have been available to offset operational pressures. NHS Borders level of funding uplift past and future is being discussed with Scottish Government.
- A review of NHS Borders cost, demand and efficiency base has been undertaken to identify the opportunities to address the financial challenge to the value of £6.4m to £12.8m over the period 2019/20 to 2022/23. These opportunities do not fully address the financial challenge the organisation is facing.
- The report also includes areas for further consideration which have been proposed by the Executive Team.
- Further detail is awaited on the impact of the recent UK announcement of additional funding for the NHS.
- Although the current indicative figure for brokerage is £13.2m for 2018/19 an update on the assumptions in the financial plan taking account of any new planning information since April which has reduced the forecast year end position to £11.5m albeit there are a number of risks attached to this.
- The requirement to develop a communication and engagement plan for staff and the public.

At this time the Board is unable to demonstrate a financial plan which will return the organisation to recurring balance. It is therefore proposed that an external review of the Board's finances is undertaken.

In the meantime discussions with Scottish Government on the requirement for brokerage in 2018/19 are continuing. This will provide the means to break even in 2018/19. The opportunities to reduce cost identified to date are being progressed through the Better Borders Transformational Change Programme.

Section 7 - Recommendation

The Board is asked to **note**:-

- The update on the 2018/19 financial plan which is balances through application for brokerage.
- The opportunities that have been identified to address the financial challenge and that they are being progressed through Better Borders at pace.
- The need for further work to finalise how the board will return to recurring financial balance
- The recent UK announcement of the additional funding for the NHS the detail about which is not yet available
- The need to develop staff and public communication and engagement plans
- The revised year end forecast for 2018/19 of £11.5m and ongoing discussion on the setting the level for brokerage with Scottish Government.

The Board is **recommended** to request an external review of its finances to be undertaken to support the requirement to return to financial balance.

Policy/Strategy Implications	In line with NHS Borders financial and clinical strategy
Consultation	Key groups including Strategy Group & APF
Consultation with Professional Committees	As detailed in consultation
Risk Assessment	Included in the paper
Compliance with Board Policy requirements on Equality and Diversity	Compliant
Resource/Staffing Implications	Included in the paper

Approved by

Name	Designation	Name	Designation
Carol Gillie	Director of Finance		

Author(s)

Name	Designation	Name	Designation
Carol Gillie	Director of Finance		

Appendix A**Financial Plan Presented at 5th April 2018 Board Meeting**

The plan is based on a series of assumptions on the level of uplift the Board will receive and expenditure growth. These are consistent with the assumptions used in the financial plans across the East Region. As the Scottish Parliament has agreed a one year budget (for 2018/19) figures should be considered indicative as it is difficult to plan with certainty beyond 2018/19. The main planning assumptions used to forecast income and expenditure growth are detailed in the table below

Table 16 Financial Planning Assumptions

	2018/19	2019/20	2020/21	2021/22	2022/23
Revenue Growth	1.5%	1.5%	1.5%	1.5%	1.5%
Add Revenue Growth for A4C (TBC)	0.8%	0.8%	0.8%	0.8%	0.8%
Pay Awards	2.5%	2.5%	2.5%	2.5%	2.5%
Non Pay Inflation	2.0%	2.0%	2.0%	2.0%	2.0%
Income	1.5%	1.5%	1.5%	1.5%	1.5%
Drugs	14%	6.0%	6.0%	6.0%	6.0%
Cost/Demand Pressures	12.2m	£4.9m	£4.3m	£4.3m	£4.3m

Based on the assumptions set out above the Board is facing an efficiency challenge as follows:

Table 17 Efficiency Challenge

Efficiency Challenge In Year	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Recurring	20.1	4.4	4.0	4.0	4.0
Non Recurring	4.6	1.4	1.4	1.4	1.4
Total	24.8	5.8	5.4	5.4	5.4

Note that any recurring shortfall in the delivery of efficiency will be carried forward to the following financial year and increase the total required to be delivered

Appendix B**Review of NHS Borders Cost Base**External Review of NHS Borders Costs

In October 2017, an external critical friend was asked to conduct a high level review of potential areas where NHS Borders could reduce costs and increase efficiency. The summary points from the external review were:

- Staffing -staff mix (proportion of staff in each specialty) was remarkably similar to Dumfries & Galloway and Forth Valley and there didn't appear to be any single staff group where the staff levels were disproportionate to NHS Borders NRAC allocations (after adjusting for the Service Level Agreement value with Lothian).
- *Conclusion – no obvious opportunities except agency and locum spend.*
- Patient flow – whilst the rate of emergency admissions is higher than Scottish average for NHS Borders, the overall bed rate for emergency admissions is at the national benchmark as NHS Borders has one of the lowest average lengths of stay.
- *Conclusion –delayed discharges is an issue.*
- TTG performance – performance has shifted in line with other Boards indicating that NHS Borders has already incorporated into the financial plan some reduction in capacity as part of the overall financial plan. The new to return ratio for outpatients also looked to be in upper quartile.
- *Conclusion – NHS Borders is not out of synchronisation with peers and performance is generally in line with benchmarks.*

The conclusion of the review was that NHS Borders is not a significant outlier when compared to other Boards. NHS Borders internal review has looked at the areas included in this report in more detail.

Internal Review of NHS Borders Costs

The Internal review of NHS Borders has identified the following opportunities to reduce costs:

Table 18 Spend per Head of Population

Spend Per Head of Population					
Board	Hospital	Community	Family Health Service	Other	Total
	£	£	£	£	£
Borders	928	378	502	293	2,101
Dumfries & Galloway	1,025	466	493	274	2,258
Scottish Average	1,129	399	478	107	2,113

The previous table shows that NHS Borders spend per head of population is lower than both Dumfries and Galloway and the national average in both hospital and community but higher in family health services and other. "Other" includes services which are commissioned by NHS Borders either from other NHS or non-NHS providers, which are considered under the demand section of the report.

Family health services include primary medical (local GP practices), community pharmaceutical (including drugs dispensed), dental and ophthalmic independently provided services. The costs relating to independent contractors are negotiated nationally and there is little NHS Borders can do to influence these which are in the main centrally funded areas of expenditure. However approximately 50% of family health services expenditure relates to GP prescribing costs. When compared with Dumfries and Galloway and the Scottish average per head of population NHS Borders level of prescribing spend is higher. The figures are not age or need adjusted.

Table 19- Prescribing Spend per Head of Population

Board	£ per Head of Population
Borders	220
Dumfries and Galloway	202
Scottish Average	196

This information indicates that if NHS Borders could reduce prescribing spend per head of population to the same level as Dumfries and Galloway this would mean an overall reduction in family health services expenditure of approximately £2m and if it was able to move to the Scottish Average, prescribing costs would reduce by £2.7m.

Table 20- Whole Time Equivalent (WTE) Staff in Post as at April 2018 as a % of the Total Workforce

	Borders			D&G		Estimated	Borders	Borders
	WTE	%		WTE	%	Borders	In Post V	In Post V
	In post	Workforce		In post	Workforce	WTE at	Estimated	Estimated
Staff Type						D&G %	WTE	£ m
Medical	208.38	7.96		239.38	6.77	177.18	-31.19	-3.2
Dental	14.77	0.56		11.64	0.33	8.61	-6.16	-0.6
Medical/Dental support	48.77	1.86		26.82	0.76	19.85	-28.92	-1.1
Nursing	1,184.12	45.23		1755.67	49.64	1299.47	115.35	4.5
Allied Health professional	185.92	7.10		260.88	7.38	193.10	7.18	0.3
Other Therapeutic	91.01	3.48		115.40	3.26	85.42	-5.59	-0.2
Personal and social care	18.35	0.70		34.16	0.97	25.28	6.94	0.2
Healthcare Sciences	67.97	2.60		96.15	2.72	71.16	3.20	0.1
Administrative Services	471.55	18.01		605.35	17.12	448.05	-23.50	-0.7
Support Services	325.05	12.42		391.46	11.07	289.74	-35.31	-1.1
Unallocated	2.00	0.08		0.00	0.00		-2.00	-0.1
Total	2,617.87			3,536.90		2,617.87	0.00	-2.0

NB it should be noted that the above table is based on staff in post and excludes agency staff

The above table suggests that Dumfries and Galloway have a different skill mix model from Borders particularly linked to medical and nursing staffing albeit it excludes agency costs. It is recognised that there are certain anomalies and differences across the two Boards e.g. in agency spend and vacancy levels for the medical staffing component, which may have influenced the information presented. This notwithstanding, the initial figures suggest that there could indeed be efficiency opportunities around workforce models; work is now required to explore the variances in more detail in order to establish the feasibility of continuing with this area of opportunity.

In addition in terms of %, spend NHS Borders spend more in administrative services and support services. Based purely on the table-top calculation if NHS Borders was able to move to a similar staff mix as Dumfries and Galloway the amount of resources spent on staff could be reduced by potentially £2m. Further analysis has been undertaken to review whether or not the staffing mix as at April 2018 is typical and to verify the data in the above table.

The following areas have also been highlighted where the cost of services in NHS Borders does not benchmark at a higher cost than Dumfries and Galloway and the Scottish Average:

- AHPs & Others - with a range from £615k to £1,066k.
- Hospital Administration – with a range from £295k to £1,037k.
- Community costs – these are included within the demand section of this report.

There will be reasons for all of the variations which have been identified many of which will not be linked to inefficiency. The key goal is to progress areas of true cash releasing opportunities.

Appendix C

Financial Plan Models – Best, Worst & Realistic Scenarios

	2018/19			2019/20			2020/21			2021/22			2022/23		
	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
REALISTIC															
Deficit Carried Forward	- 8.8	-	- 8.8	- 17.6	-	- 17.6	- 17.5	-	- 17.5	- 17.7	-	- 17.7	- 19.0	-	- 19.0
Additional Funding	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0
Identified Financial pressure	- 23.4	- 4.6	- 28.0	- 16.4	- 1.4	- 17.8	- 16.0	- 1.4	- 17.4	- 16.0	- 1.4	- 17.4	- 16.0	- 1.4	- 17.4
Cost Savings Plans	2.6	10.7	13.3	4.5	0.9	5.4	3.8	0.9	4.7	2.7	0.9	3.6	2.9	0.9	3.8
Non Recurring Measures	-	-	-	-	7.7	7.7	-	7.7	7.7	-	7.7	7.7	-	7.7	7.7
Brokerage (subject to agreement)	-	11.5	11.5	-	10.3	10.3	-	10.5	10.5	-	11.8	11.8	-	12.9	12.9
Repayment of Brokerage (subject to agreement)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Deficit/Surplus	- 17.6	17.6	- 0.0	- 17.5	17.5	- 0.0	- 17.7	17.7	- 0.0	- 19.0	19.0	- 0.0	- 20.1	20.1	- 0.0
	2018/19			2019/20			2020/21			2021/22			2022/23		
	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
BEST															
Deficit Carried Forward	- 8.8	-	- 8.8	- 17.6	-	- 17.6	- 14.6	-	- 14.6	- 11.9	-	- 11.9	- 10.4	-	- 10.4
Additional Funding	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0
Identified Financial pressure	- 23.4	- 4.6	- 28.0	- 16.4	- 1.4	- 17.8	- 16.0	- 1.4	- 17.4	- 16.0	- 1.4	- 17.4	- 16.0	- 1.4	- 17.4
Cost Savings Plans	2.6	10.7	13.3	7.4	1.8	9.2	6.7	1.8	8.5	5.5	1.8	7.3	5.6	1.8	7.4
Non Recurring Measures	-	-	-	-	8.7	8.7	-	8.7	8.7	-	8.7	8.7	-	8.7	8.7
Brokerage (subject to agreement)	-	11.5	11.5	-	5.5	5.5	-	2.8	2.8	-	1.3	1.3	-	-	-
Repayment of Brokerage (subject to agreement)	-	-	-	-	-	-	-	-	-	-	-	-	-	0.3	- 0.3
Total Deficit/Surplus	- 17.6	17.6	- 0.0	- 14.6	14.6	- 0.0	- 11.9	11.9	- 0.0	- 10.4	10.4	- 0.0	- 8.8	8.8	- 0.0
	2018/19			2019/20			2020/21			2021/22			2022/23		
	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total	Rec	Non Rec	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
WORST															
Deficit Carried Forward	- 8.8	-	- 8.8	- 17.6	-	- 17.6	- 18.9	-	- 18.9	- 20.7	-	- 20.7	- 23.2	-	- 23.2
Additional Funding	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0	12.0	-	12.0
Identified Financial pressure	- 23.4	- 4.6	- 28.0	- 16.4	- 1.4	- 17.8	- 16.0	- 1.4	- 17.4	- 16.0	- 1.4	- 17.4	- 16.0	- 1.4	- 17.4
Cost Savings Plans	2.6	10.7	13.3	3.1	0.9	4.0	2.2	0.9	3.1	1.5	0.9	2.4	1.7	0.9	2.6
Non Recurring Measures	-	-	-	-	6.7	6.7	-	6.7	6.7	-	6.7	6.7	-	6.7	6.7
Brokerage (subject to agreement)	-	11.5	11.5	-	12.7	12.7	-	14.5	14.5	-	17.0	17.0	-	19.3	19.3
Repayment of Brokerage (subject to agreement)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Deficit/Surplus	- 17.6	17.6	- 0.0	- 18.9	18.9	- 0.0	- 20.7	20.7	- 0.0	- 23.2	23.2	- 0.0	- 25.5	25.5	- 0.0

Appendix D

