

NHS Cumbria CCG Governing Body	Agenda Item
17 April 2014	7

Financial Plan (Budget) 2014/15 and 2015/16
Exec Summary/Purpose of report:

The purpose of the report is to provide the Governing Body with the CCG's financial plan for 2014/15 and 2015/16. The 2014/15 financial plan represents the proposed CCG budget for 2014/15 to be approved by the Governing Body. The information was presented in detail to Interim Finance Committee on 26 March and the Committee:

- APPROVED submission to NHSE of the financial plan in accordance with the 4 April deadline
- RECOMMENDED the 2014/15 budget for Approval by the Governing Body in April.

Key Issues & Recommendations:
Financial Plan

The CCG was required to submit to NHSE 2-year financial plans by 4 April 2014 (covering 2014/15 and 2015/16). The attached report provides a summary of the approach taken to set the plans, along with further summary analysis of the 2014/15 plan that will form the CCG's budget for 2014/15. It is noteworthy that around 70% of the CCG's planned expenditure is effectively "fixed" for 2014/15 following the contracting round, and therefore the CCG will not be exposed to level of financial risk that it was in 2014/15. The paper also outlines the methodology for the 2015/16 plan, although it is noteworthy that this has been prepared on an "as is" basis and will need to be refined to reflect the outcome of the strategic planning work currently in progress (e.g. Better Care Together).

Actions required by members

The Governing Body is asked to:

- APPROVE the 2014/15 budget as per the plan
- NOTE the status of the 2015/16 plan



Management Sponsor	Charles Welbourn, Chief Finance Officer
Clinical Sponsor	Dr David Rogers, Medical Director
Presented By	Charles Welbourn, Chief Finance Officer
Contact Details	Charles.welbourn@cumbriaccg.nhs.uk

Financial Plan 2014/15 & 2015/16



Introduction

The purpose of this paper is to present the CCG financial plan for 2014/15 and 2015/16. The CCG is required to submit a two year financial plan in April 2014 to NHS England. The plan for 2014/15 forms the CCG's budget for the financial year, and reflects agreed contracts with providers. The headline budget has been constructed from a bottom-up basis and the underlying methodology and assumptions have been reviewed in detail by the Finance & Performance Committee. Hence this report covers the general approach to financial planning and key assumptions, with the overall budget shown in Appendix 1.

Approach to Planning 2014/15

NHS England issued guidance in December requiring CCG financial plans to be prepared for 2014/15 and 2015/16 based upon the following business rules:

- A delivery of a planned surplus of 1% of recurrent Revenue Resource Limit (RRL).
- A 1.5% recurring surplus as defined by the 1.5% "top-slice" being specifically applied to identified non-recurring expenditure and for 2014/15 CCGs should set aside a further 1% non-recurrently to support transformational change in line with "A Call to Action"
- A specifically identified 0.5% unallocated contingency as required in the planning guidance.
- In addition, NHSE have subsequently identified that for 2014/15 CCG's should only plan to draw down their allocated resources (i.e. not utilise prior-year surpluses). However, NHSE are supporting the CCG's 2014/15 plan for the exceptional issue of the NCUHT "acquisition" funding.

In 2013/14 the CCG agreed a financial plan that demonstrated achievement of all required business rules except for the 1% surplus that was reduced to £5 million to reflect year-end arrangements agreed by Cumbria PCT in 2012/13. Given the financial pressures in the Cumbria health and social care system the CCG considers that it is appropriate to maintain the level of surplus as planned for 2013/14. In

simple terms this means the CCG intends to apply all allocated resources in 2014/15 and 2015/16 to support the health needs of Cumbria (plus the final tranche of the acquisition funds brought-forward).

Resource Allocations

The assumptions around resource allocations are set out below:

- The recurring resources are in line with the CCG allocations published in December 2013.
- It is assumed that the CCG forecast surplus of £8.3 million in 2013/14 will be brought-forward into 2014/15 in full.
- The CCG has planned for all known resource allocations and has assumed for planning purposes that a further adjustment will be made to reflect the final 2013/14 Specialist Commissioning risk share agreed with NHSE. This has been re-calculated using actual 2012/13 activity data rather than the “assumed” values used to establish initial CCG allocations in December 2012.
- The plans reflect the published CCG running cost allowances for 2014/15 and the reduced amount in 2015/16.

Cost Projections 2014/15

The following paragraphs provide a summary of the underlying assumptions behind the figures shown in Appendix 1. It is noteworthy that for 2014/15 there is much more certainty surrounding the opening budget as the CCG has a much clearer baseline regarding the underlying costs for which it is responsible, unlike the 2013/14 budget when there was major uncertainty on both funding allocations and costs that were the responsibility of the CCG.

Primary Care Budgets (£92.8 million)

The most significant budget is for Prescribing at nearly £90 million. The prescribing budget has been set based upon 2013/14 costs, allowing for anticipated growth and the continuing impact of prescribing efficiency and medicines management. Within this figure there has been a net increase of the locality prescribing budget by 2.4%.

The CCG recovers funding for the cost GP IT support from NHSE. On 2 April 2014, NHSE published a new approach to funding GP IT services covering the period 2014 until 2016. The CCG is currently reviewing this information and will provide an assessment of the consequences once this work is complete. Initial reviews suggest this is more likely to have an impact in 2015/16 as there are transitional funding arrangements in place during 2014/15.

Secondary Care Activity (£333.1 million)

The budget reflects agreed contracts for 2014/15 with major providers, with 95% of the budget being covered by the five largest contracts as shown in the following table.

Secondary Providers	2014/15 £M
North Cumbria University Hospitals (NCUHT)	169.0
University Hospitals of Morecambe Bay (UHMB)	126.0
Newcastle Hospitals	10.5
Lancashire Teaching Hospitals	4.9
Northumbria Healthcare	4.7
All Other Providers	18.0
Total Budget	333.1

It is noteworthy that both NCUHT and UHMB have been agreed as “assured contracts” for 2014/15 so the value is fixed, therefore nearly 90% of the overall budget is effectively at zero financial risk of over-performance in the year. However, further assessment of risk is considered below.

Mental Health Services (£79.8 million)

The majority of the budget (75%) represents the contract with CPFT (£61 million), and the CCG continues to operate a risk-share arrangement with the Trust to encourage cost effective use of out of county placements and specific packages of care for patients with complex needs, for which the budget is set at £11.4 million.

Services Delivered in the Community (£152.5 million)

- The largest component of the community services budget is the contract with Cumbria Partnership of nearly £78 million. The contract includes provision for the trust to “earnback” the tariff deflator if it achieves a number of key performance targets.
- Out of Hospital Urgent Care covers ambulance services (both emergency and PTS) GP out of hours and the NHS 111 contract. The latter will be delivered during 2014/15 by CHOC alongside NWAS who support the local provision following the “stability” arrangements established during 2013/14. The emergency ambulance contract with NWAS (£21 million), as in 2013/14, is an assured contract so again a significant amount of in-year financial risk has been mitigated through the contract process.
- The NHS continuing care budget has been increased by 3.5% in line with NHSE planning guidance, and this also reflects the underlying growth trend experienced in 2013/14. Under the “legacy” accounting arrangements established by NHSE the CCG will be top-sliced a further £2.6 million non-

recurrently to address the residual cash consequences of continuing care provisions made by PCT in 2012/13.

Planned Investments (£6.2 million)

The investments are summarised in the following table.

Reserves	2014/15 £M
Identified commitments & pressures to be formalised in contracts	2.0
Acquisition funding from surplus re NCUHT	3.4
Children's services	0.8
Total Budget	6.2

There are a number of planned schemes agreed but not yet formalised into contracts, notably the contractual arrangements for the neurology services provided by CPFT (i.e. moving to a more formulated value from the current pass-through basis). In addition there are two significant identified investments:

- The CCG has agreed to transfer the residual £3.4 million of acquisition funding across to NCUHT in March 2015 as part of the overall agreed contract settlement process for 2014/15.
- The CCG agreed to invest £2 million to improve services for children in Cumbria in 2013/14, and this investment represents the balance of that figure following investment of £1.2 million in 2013/14.

Non-recurring Investments (£8.1 million)

NHSE requires that CCGs set aside 2.5% of the budget in 2014/15 to address non-recurring issues. Some of this investment has been reflected in contracts, and therefore budgets covered previously (e.g. additional activity to deliver 18-week RTT). The balance of the funds is outlined below.

Non-recurring Investment	2014/15 £M
Development of schemes in the community	4.0
Continuing Healthcare Top-slice	2.6
Transformational Project Support (e.g. BTC)	1.0
Cumbria Learning & Improvement Collaborative (CLIC)	0.5
Total Budget	8.1

The out of hospital investment of £4 million is to invest in services in the community in key areas (e.g. frail elderly) to reduce long-term hospital demand. This funding is also the source of the £5 per patient to address the over-75's as identified in the planning guidance. The funding will be non-recurring in 2014/15 but with the expectation that if the schemes are evaluated as having a positive impact then they will become recurrent in 2015/16.

Contingency (£3.4 million)

The CCG has established a formal contingency of 0.5% of the programme revenue resource limit. However, it is also important to note this contingency will only be required to manage variations in expenditure relating to the activity based contracts. This risk is limited as the current contracting process has effectively fixed a number of contract costs. Hence, the contingency of £3.4 million on a variable expenditure base of around £170 million represents 2%. Indeed, taking into account contingencies for growth within prescribing and continuing care the level of funding to manage cost pressures equates to around £5 million.

Running Costs (£12.3 million)

The current running cost budget is below the current allowance of £12.7 million, thus reducing the actual saving required to less than £1 million for 2015/16.

Working Capital and Balance Sheet 2014/15

CCG's have yet to receive notification of cash limits for 2014/15 and it is assumed that these will be consistent with revenue resource limits. It is assumed that similar arrangements will be in place in terms of cash in relation to provisions held outside CCGs as for 2013/14.

Risks

As noted above, and in line with the CCG's commissioning intentions approved by the Governing Body, the CCG has provided assured contracts to both acute trusts. In addition, the CPFT contract essentially provides funding to deliver services in the community to prevent admissions to hospital. This approach, in purely financial terms, has a number of benefits:

- The providers have certainty of income levels and therefore are able to deliver services knowing that funding is available and identified in the contract.
- For the CCG there is certainty of costs for the year that means the potential for overspending (i.e. as in 2013/14) is considerably reduced as reflected in the contingency. The CCG is therefore able to commit to planned investments unlike in 2013/14 whereby the CCG's investment plan was put "on hold" owing to cost pressures in the acute sector.
- The clarity of the financial position provides collective system headroom to develop a longer-term financial strategy rather than focusing on in-year transactional issues.

However such an approach, while managing financial risk, is not without operational issues, in that:

- In quality and activity terms is clearly anticipated that the providers, on the basis of agreed plans incorporated in the contracts, do deliver on key constitutional

targets (especially 18-week RTT and waiting times in A&E) and provide the services they are funded to deliver in contracts.

- That CCG continues to and improves upon demand management schemes for hospital services to ensure that activity does not continue to grow (see 2015/16 below) as this would need to be reflected in 2015/16 contracts.

Therefore, to mitigate these risks it is important to note that the CCG will continue to monitor contractual activity and performance in accordance with “normal practice” (e.g. quality, capacity planning, system-wide review of urgent care Groups, activity and finance albeit in “shadow form”) to provide assurance that services commissioned are being delivered.

Planning Approach 2015/16

The plan for 2015/6 has been created on a similar basis to 2014/15, although the following issues are noteworthy:

- The revenue resource limit is that shown in the allocations by NHS England.
- A 10% reduction in the running cost allowance has been included, and the CCG is planning to implement a cost reduction programme in-year. However, as noted above, the current cost base is around £400,000 less than the existing allowance and NECS have indicated a plan to reduce costs by 10%.
- A 1% recurring surplus has been planned with the £5 million surplus delivered.
- Other parameters are per NHS England guidance including tariff deflators

Key Issues 2015/16

There are a number of key issues surrounding the 2015/16 plans:

- The plan for 2015/16 has been prepared on an “as is” basis and therefore does not reflect the potential impact of changes to care pathways (and hence costs and contracts) as a result of the longer-term strategic planning programmes underway (e.g. Better Care Together). Given the challenges faced across Cumbria then if, once developed, the long-term plans are to succeed it is inconceivable that they would have no impact on the CCG’s underlying cost and contract base.
- The assumption for 2015/16 is that work funded to address 18-weeks referral to treatment is non-recurring, although there clearly is a risk that this is not the case, along with an expectation that other acute activity will remain at current

levels. The view is that this risk is manageable providing a number of planned initiatives are implemented in 2014/15 to impact on 2015/16, including:

- a) Using the £1.3 million winter pressures “earnback” and £4 million out of hospital investment to deliver meaningful reductions to hospital based non-elective activity.
 - b) Fully implementing and actively enforcing the recently approved “Value Based Clinical Commissioning Policy” to reduce elective activity
 - c) Implement a more proactive approach to support elective referrals in Primary Care building on examples of best practice, primarily focusing on those areas identified in “Commissioning for Value” analysis (e.g. Musculo-skeletal)
 - d) Using the outcome of the baseline assessment work commissioned by PWC to identify areas of commissioning spend where the CCG benchmarks as being high cost compared to appropriate comparator commissioners.
- The CCG is required to transfer £36 million into a pooled fund with Cumbria County Council to create the “Better Care Fund” (BCF) for Cumbria. The expected impact on local NHS finances is shown in the table below based upon work undertaken jointly with Cumbria CC. The transfer of services into the BCF explains why there are significant reductions in the community services budget for 2015/16.

Source of Funds	£M	Note
National Funding	11.6	Funds Currently Paid Directly to CCC from NHSE
Cumbria CCG Baseline	24.4	Balance to be found from CCG allocations
Total Funds Available	36.0	
Application of Funds		
Cumbria CC Existing Schemes	11.1	Current social care schemes funded by CCC from national funds
CCG Existing Investments	13.4	Funds committed by CCG within definition of BTC from existing budgets (revenue neutral)
CCG Growth 2015/16	11.5	1.7% CCG growth in 2015/16 used to support social care deliver integration with health
Total Spend	36.0	

Appendix 1 Financial Plan 2014/15 & 2015/16

	2014/15	2015/16
	£'000	£'000
Recurring Allocations		
CCG Baseline Allocation	(677,324)	(695,701)
Agreed Adjustments	4,719	0
Running Cost Allowance	(12,725)	(11,373)
Sub-total	(685,330)	(707,074)
Surplus carried forward	(8,448)	(5,037)
Revenue Resource Limit	(693,778)	(712,111)
Expenditure Budget		
Primary Care		
Prescribing & Medicines Management	88,568	90,118
Other Primary Care	4,247	4,247
Total Primary Care	92,814	94,364
Secondary Care		
NHS Acute Providers (North & West)	187,299	182,615
NHS Acute Providers (South)	140,906	136,669
Non Contract Activity & Independent Sector	4,953	4,777
Total Secondary Care	333,158	324,061
Mental Health & Learning Disabilities		
NHS Providers	62,891	62,466
Packages of Care	11,402	11,402
Learning Disability Pooled Fund	4,892	4,965
Total Mental Health & Learning Disabilities	79,185	78,833
Services Delivered in the Community		
Community Services	83,426	77,140
Out of Hospital Urgent Care	35,199	35,572
NHS Funded Continuing Care	29,745	30,857
Other Care	4,173	4,236
Total Community Based Services	152,542	147,805
Reserves		
Planned Investments	6,160	2,760
Non-recurring Investment	8,100	6,957
Planned Contingency	3,387	3,421
Better Care Fund	0	36,332
Total Reserved Funds	17,647	49,470
Programme & Running Costs		
Running Costs	12,300	11,373
Other Specific Programmes	1,096	1,096
Total Costs	13,396	12,470
Total Expenditure Budget	688,741	707,002
Planned Surplus	(5,037)	(5,109)