Working with you to make Sheffield HEALTHIER

NHS Sheffield Clinical Commissioning Group

Approval of 2014/15 Initial Budgets and Update on Five Year Financial Plan 2014/2019

Governing Body meeting

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3 April 2014

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Key messages

- 2014/15 Initial budgets are presented for Governing Body approval. They reflect the key budget setting principles and assumptions previously discussed and approved by members. They also take into account the conclusion of contract negotiations will all key local providers.

- As might be expected, at the start of the financial year there are a range of risks and uncertainties which will need to be managed during the year. Key risks and the proposed approach to risk management are set out in the paper.

- To comply with NHS England's timetable a further submission of the five year financial plan is required on 4 April 2014 and for 2014/15 this will be the final plan submission. It is intended that this is in line with the initial budgets presented in this paper for 2014/15. In the submission we will also need to describe our approach for handling the two outstanding issues discussed in this paper.

Assurance Framework (AF)

Assurance Framework Number: Assurance Framework risks 3.2 and 4.3

How does this paper provide assurance to the Governing Body that the risk is being addressed?

- Achievement of the financial surplus and other targets are included in the new CCG Assurance Framework and risk register.
- NHS England review of financial plan
- RAG rated monthly financial performance report with sensitivity analysis to Governing Body on a monthly basis.

Is this an existing or additional control:
This is an existing control – AF 3.2 and 4.3

Equality/Diversity Impact

Has an equality impact assessment been undertaken? NO

Which of the 9 Protected Characteristics does it have an impact on?
There are no specific issues associated with this report.

Public and Patient Engagement
There are no specific issues associated with this report.
Recommendations
Governing Body is asked to approve the CCG's opening 2014/15 budgets as set out in Appendix A, noting the key risks which will need to be managed in year.

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1. Background

CCG Governing Body has previously approved the key principles and assumptions to underpin the construction of the five year financial plan, including the setting of detailed budgets for 2014/15. This information has been incorporated into our Commissioning Intentions document and the relevant extract is attached at **Annex A** for ease of reference.

During February and March the finance and contracting team have continued to undertake significant work to finalise contract agreements for 2014/15, to understand the implications of further national guidance and of the changes to forecast out-turn positions on individual budget lines for 2013/14. All these issues have been incorporated into the five year financial plan and the detailed initial budgets for 2014/15 presented in this paper as far as practical at this stage.

This is with the exception of two specific issues on which Governing Body members were briefed in detail in private session in March. First, there is the NHS England proposal to create a national risk pool budget from CCG allocations to manage the payment of agreed legacy CHC retrospective claims over the next few years (as discussed in more detail in 3C below). CCGs would contribute pro-rata to the size of their allocation as opposed to specific local costs. We have agreed that if this materialises we would need to fund from within the non recurrent 2.5% fund we were required to establish by flexing other proposed investment and reducing our winter resilience /QIPP contingencies. Secondly, there is a potential £7m recurrent cost pressure from 2016/17 due to a change in national pension arrangements. The pressure will materialise if the tariff prices paid to trusts are changed to reflect these extra costs and CCGs receive no additional funding in their allocations. This will form part of future funding rounds after the next election and so no clarity is expected in the near future. Governing Body agreed that it would be appropriate to have a downside scenario plan to understand how we would fund this pressure if it arises and a first draft plan was agreed.

At the time of writing this report, the CCG remains in discussion with NHS England on these two issues and a verbal update will be made to members on 3 April. This will enable decisions to be taken on whether late changes will be made to the submission of the five year plan due to NHS England on 4 April.

2. Approval of opening 2014/15 revenue budgets

As part of CCG governance arrangements Governing Body needs to approve of budgets before or at the very start of a new financial year. **Appendix A** sets out the initial budgets covering our total anticipated resources of £701m (programme) and £14m (running costs).

Budgets are set out at the level reported to the governing body in year, and identify the proposed budget holder. Budgets have been set to achieve the overall 1% surplus which is the minimum surplus which NHS England is expecting all CCGs to deliver in 2014/15. As can be seen from Appendix A we are planning on £1.5m of that surplus being delivered from within our running cost allowance and we have also set aside contingencies reserves which we expect to add to our general risk management resilience in 2014/15 and to be partly used to fund changes to the structure of the Operations Directorate to strengthen the capacity in our clinical portfolio teams and to create a programme office to support the delivery of our key service transformation projects, which are critical to achieving our strategic intentions as set out in our Commissioning Intentions.

Governing Body is asked to approve these opening budgets and the distribution to individual directors to enable expenditure to be committed and payments to be made as necessary at the start of 2014/15.

3. Key Risks

As expected at the start of a new financial year, there are a wide range of risks and uncertainties which will need to be managed. CCG Governing Body will receive an update each month on risks and the management of these and will be asked to consider and approve recovery actions if delivery of the financial plan goes “off track” in year. This will be particularly important should contingency reserves start to look as if they will be insufficient to manage in year risk.

The key risks identified at the start of the financial year are as follows:

a) The CCG QIPP plan shows a gross saving of £6.0m less investment of £1.0m to give £5.0m net savings. Delivery of the QIPP programme requires substantial and positive clinical engagement in supporting the service changes required. It requires improvement in the flow and management of patients across the whole health and social care system if we are to deliver the majority of our QIPP which relates to urgent care. This has to be seen as a significant challenge and effective working on the joint commissioning agenda with Sheffield City Council and effective programme delivery through Right First Time will be crucial. We are currently considering increasing investment in intermediate care services in 2014/15 but it may take time for the financial benefits resulting from improved flow of patients to appropriate care settings to be realised.

b) As part of contractual agreements we have reviewed the projected activity which both STHFT and SCHFT have modelled that they need to undertake in 2014/15 to deliver the 18 week target. Based on the agreed level of activity for inclusion in contracts this has required £2.1m of our 0.5% (£6m) general contingency to be played into contract budgets at the start of the year. Clearly actual activity could prove to be more or less depending on a range of factors such as referral rates and availability of capacity to undertake treatment depending on urgent care demand etc. It would be prudent to seek to increase our general contingency reserves in year if possible if some budget areas show slippage in spend, to add to specific winter resilience/QIPP contingencies.

c) Continuing Health Care (CHC) Provisions – in 2012/13 Sheffield PCT made a provision of £7.2m with the expectation that no costs would then subsequently fall to the CCG in 2013/14 onwards. NHS England is, however, required to prepare accounts to Treasury rules (i.e. largely cash based accounting) which means CCGs

are now being asked to fund remaining retrospective payments. CCGs nationally are raising whether this is the most appropriate approach to managing the pressure. The estimated cost nationally in 2014/15 is £250m (our share potentially £2.7m, although our local view is that this is on the low side) and possibly £300m - £500m over a further 2 years. As noted above if the CCG has to contribute at this level we will have to flex budgets earmarked for other investments in year and by reducing our general contingency/winter resilience reserves.

d) Uncertainty and volatility of demand and costs in other budget areas, particularly GP Prescribing and CHC cases. In relation to the former we have seen significant growth in volume of items prescribed in recent months and some volatility in prices over which the CCG has no control as these are largely set through national agreements. We have included nearly £3.5m additional funding (net of QIPP) in the budget for 2014/15 but will need to monitor closely whether this is an appropriate increase. In relation to CHC cases we saw a change to a net small increase in the number of cases approved each month in latter part of 2013/14, partly related to changes in the discharge pathways from hospital. The £1m additional funding (net of QIPP) may prove insufficient if demand increases above current levels.

Recommendations:

The Governing Body is asked to approve the CCG's opening 2014/15 budgets as set out in Appendix A, noting the key risks which will need to be managed in year.

Julia Newton
Director of Finance
March 2014

Annex A

Development of Five Year Financial Plan 2014/2019– Key Principles and Assumptions

The CCG's Governing Body has approved a set of planning assumptions for all 5 years of the plan but with a particular focus on the first two years as follows:

1. Delivery of 1% reported surplus: The CCG has a statutory duty of financial breakeven but NHS England guidance requires each CCG to plan for a 1% surplus which it will carry forward to future years. This is £7.2m in 2014/15 rising to £7.7m in 2018/19.

2. Retain % of baseline resources for NON recurrent expenditure
   In **2014/15** 1.5% of resources held back for non recurrent spend plus a 1% "call to action" fund in line with national guidance. Thus in total 2.5% (£17.3m). Governing Body has agreed the deployment of these resources on a range of issues such as continuing existing test of change projects (elective and Right First Time) until evaluation complete, piloting new initiatives, winter resilience and 18 week back log activity. It is envisaged that some of this funding will be made recurrent and incorporated into the Better Care Fund arrangements from 2015/16.

   From 2015/16 onwards the requirement is to hold a 1% fund (or around £7m), which will be used for similar purposes as those outlined for 2014/15.

3. Start each year with 0.5% (£3.6m in 2014/15) general contingency reserve The reserve is to help manage unexpected in year pressures such as those that can be created by exceptional winter conditions, flu pandemic, or of course as part of managing risk if planned QIPP savings are not fully delivered. Should such pressures not materialise the funding can be used for local priority investments in year.

4. Recurrent baseline opening budgets: For each contract or service area an assessment of the recurrent baseline requirements has been made as a starting point for the next year's budget.

5. Inflation, Tariff efficiency and PbR changes:
   The default position is the application of national guidance on these issues. However, Governing Body has agreed that there are a few areas of spend where the CCG may find it appropriate to not impose a cash releasing efficiency requirement such as certain community and primary care services where to impose the efficiency would probably reduce the quantity/level of service and would be counter to CCG strategic intentions. In such circumstances the CCG will be looking for improvements in outcomes.

   GP prescribing is a major budget (£86m in 2014/15) where we have applied no price reduction as prices are set nationally through national negotiations or by individual suppliers and the CCG has no control over price setting.

6. Underlying/Technological led demand: A critical element of the financial planning process is to understand the underlying demand due to population changes, new technologies and other factors influencing demand for health services. Modelling has been undertaken jointly via public health, information and contracting colleagues to identify possible cost pressures.

7. Investment Priorities: The plan contains a small number of specific investments outside of QIPP for the next 2 years and then a small reserve for new investments in years 3 to 5.

8. Efficiency Savings (QIPP)
   The key driver for QIPP is to improve services to patients. We are looking to achieve a major shift in the setting in which patients receive services and reduce the need for acute interventions where appropriate. From a financial perspective the CCG needs to undertake QIPP for 2 reasons:

- To deliver the planned financial position where we need NET savings from QIPP to meet cost pressures as the cash uplift for the next 2 years will be insufficient to meet assessed pressures– ie primarily those set out in assumption 6 above.

- To allow the CCG to invest in new quality developments.

Sheffield CCG
Initial Revenue Budgets for 2014/15

N.B. ALL BUDGETS ARE SHOWN NET OF INCOME

	Proposed Budget Holder	2014/15 Opening Recurrent Budget £000	Virements £000	Growth £000	Return of Surplus Non Rec £000	Tariff Deflator Inflation £000	Tariff Deflator Efficiency at 4% £000	Gross QIPP £'000	Cost Pressures £000	New Investment Rec £000	New Investment NonRec £000	Annual Budget Rec £000	Annual Budget NonRec £000	Annual Budget Full Year 2014/15 £000
							Note 1		Note 2					
COMMISSIONING BUDGETS														
Allocation		**680,084**		**14,554**	**6,900**							**694,638**	**6,900**	**701,538**
EXPENDITURE														
Secondary Care														
Sheffield Teaching Hospitals NHS FT	J Newton	304,870	130	0	0	8,536	(12,195)	(5,123)	5,500	2,175	2,583	303,893	2,583	306,476
Sheffield Children's NHS FT	J Newton	29,834	0	0	0	835	(1,193)	(302)	500	0	256	29,674	256	29,930
Ambulance Services	J Newton	20,458	0	0	0	573	(818)	0	500	0	0	20,713	0	20,713
Other NHS Trusts	J Newton	9,842	(130)	0	0	265	(394)	0	0	0	0	9,583	0	9,583
ISTC & Extended Choice	J Newton	7,233	0	0	0	208	(289)	0	1,000	0	0	8,151	0	8,151
IFRs	K Clifford	1,224	0	0	0	34	(49)	0	0	0	0	1,209	0	1,209
NCAs	J Newton	4,013	(191)	0	0	112	(161)	0	0	0	0	3,774	0	3,774
Mental Health														
Sheffield Health and Social Care NHS FT	J Newton	74,261	0	0	0	1,634	(2,970)	0	250	200	0	73,374	0	73,374
IFRs MH	K Clifford	506	0	0	0	11	(20)	0	0	0	0	497	0	497
Other Mental Health	J Newton	948	191	0	0	21	(24)	0	0	0	0	1,136	0	1,136
Community Services														
Sheffield TH NHS FT	J Newton	53,222	565	0	0	1,171	(829)	440	0	601	3,778	55,170	3,778	58,948
Sheffield Children's NHS FT	J Newton	3,160	0	0	0	70	(126)	0	0	0	0	3,103	0	3,103
Primary Care Access Centre	J Newton	2,822				62	(113)	0		0		2,771	0	2,771
Other Community	J Newton	1,087	(565)			21	(43)	0		0		500	0	500
St Lukes Hospice	J Newton	2,495									0	2,495	0	2,495
Voluntary Organisations	J Newton	660						0			0	660	0	660
Local Authority								0						
Section 256 - Grants	J Newton	3,352					(10)			80		3,422	0	3,422
Section 75 - LD Pooled Budget	J Newton	2,676					(12)					2,664	0	2,664
Section 75 - Equipment Service Pooled Budget	J Newton	1,615				36	(65)			142		1,728	0	1,728
Other Commissioning	J Newton	963	0					(15)				948	0	948
Continuing Care	K Clifford	42,636				895		(500)	1,500			44,531	0	44,531
Funded Nursing care	K Clifford	5,418				119		0	0			5,537	0	5,537
Continuing Healthcare Assessors	I Griffiths	1,653				17						1,669	0	1,669
Primary Care														
Locally Commissioned Services	K Cleary	4,575										4,575	0	4,575
111	J Newton	1,123				24				200		1,347	0	1,347
Prescribing	K Clifford	87,461		0	0	0	0	(500)	3,936	0	0	90,896	0	90,896
Medicines Management Team	K Clifford	1,453				15						1,468	0	1,468
Primary Care Development Nurses	K Clifford	689				7						696	0	696
Reserves														
Commissioning Reserves	J Newton	444	0	0	0	0	0	0		350	0	794	0	794
General Contingency Reserve	J Newton	0	0	0	0	0	0	0	0	1,505	0	1,505	0	1,505
Non Recurrent Reserve	J Newton	0	0	0	0	0	0	0	0	0	8,165	0	8,165	8,165
Call to Action Fund	J Newton	0	0	0	0	0	0	0	0	0	2,585	0	2,585	2,585
CCG Expenditure		**670,864**	**0**	**0**	**0**	**14,669**	**(19,319)**	**(6,000)**	**12,842**	**5,415**	**17,366**	**678,471**	**17,367**	**695,838**
Net Surplus												**16,167**	**(10,467)**	**5,700**
Running Cost Allocation		14,070	0	(13)								**14,057**		**14,057**
Expenditure														
Governing Body & Chief Officers	I Atkinson	2,589				26						2,615	0	2,615
Finance & Contracting	J Newton	1,731				17						1,748	0	1,748
Operations Management	I Griffiths	1,285				13						1,298	0	1,298
Clinical Quality & Clinical Services	K Clifford	1,278				13						1,290	0	1,290
Premises & Bought in Services	I Griffiths	4,068				41						4,109	0	4,109
Collaborative	J Newton	34				0						34	0	34
Running Costs Reserve	J Newton	1,085		(13)		(110)						962	0	962
Balance of RCA for future cuts	J Newton	2,000				0					(1,500)	2,000	(1,500)	500
Running Costs expenditure		**14,070**	**0**	**(13)**	**0**	**(0)**	**0**	**0**	**0**	**0**	**(1,500)**	**14,057**	**(1,500)**	**12,557**
Net Surplus														**1,500**
TOTAL CCG Planned Position														**7,200**

Note 1: Per the principles previously agreed by Governing Body, the default position for all contractsnwas to apply the 4% national efficiency requirement unless agreed otherwise by Governing Body.
Note 2: Most cost pressures are activity demand led pressures