


Title of paper: Financial Planning 2014/15 to 2018/2019

Meeting: Governing Body
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Author: Julie Brooks, Senior Finance Manager
email: julie.brooks@surreydownsccg.nhs.uk
Exec Lead: Keith Edmunds, Chief Finance Officer

Purpose	To Agree	
	To Advise	
	To Note	

Development

This report is based on national guidance.

Executive Summary and Key Issues

This paper outlines the recent NHS England announcements on resource allocations for 2014/15 and 2015/16 and national planning guidance, as well as the financial implications for Surrey Downs CCG.

Recommendation(s):

The Governing Body is asked to note the report.

Attachments:

Financial Planning 2014/15 to 2018/19

Agenda item	9
Attachment	06

Implications for wider governance

Quality and patient safety

The CCG will commission for quality in line with local intentions and National Guidance. Financial constraints may impact the pace of development.

Patient and Public Engagement

No direct impact

Equality Duty

No direct impact

Finance and resources

This report outlines the impact of recent announcements on Surrey Downs CCG's projected financial position..

Workforce

No direct impact

Information Governance

No direct impact

Conflicts of interest

No specific issues

Communications Plan

This report is available on the CCG website

Legal or compliance issues

No significant issues with respect to legal or compliance issues.

Risk and Assurance

Included in this report.

Surrey Downs CCG Financial Planning

2014/15 to 2018/2019

Introduction

This paper outlines the recent NHS England announcements on resource allocations for 2014/15 and 2015/16 and national planning guidance, as well as the financial implications for Surrey Downs CCG.

Resource Allocation (rows 1 to 6)

NHS England has adopted a new formula for CCG allocations, which aims to allocate funding based on need, including deprivation as well as the aging population. Minimum growth was set at 2.14% in 2014/15 and 1.7% in 2015/16. The most underfunded CCGs will receive up to 2.8% additional growth each year. Surrey Downs has been given the minimum increase.

NHS England has also set expectations for years three to five of the planning period, as follows: 1.8% in 2016/17; 1.7% in 2017/18; and 1.7% in 2018/19.

In addition to the financial allocation above, 2015/2016 includes a Better Care Fund Additional Allocation of £4.5m allocated to the CCG. This equates to SDCCG's share of money that is currently given directly to the Local Authority under S256 but from 2015/16 will be given to the CCG and will form part of the amount paid by the CCG to the Better Care Fund pool. We have assumed that this will be a recurring allocation from 2015/2016 onwards.

The CCG has not yet received the running cost allocation. For 14/15 it is expected to remain flat in cash terms but guidance instructs CCGs to assume a 10% reduction in 2015/16 and to adjust for population changes in future years. It is expected that running cost projections for the five year period will be made available shortly.

National planning guidance

The national planning guidance – Everyone Counts: Planning for Patients 2014/15 to 2018/19 – was published shortly before Christmas.

The guidance deals with national objectives, the strategic and operational planning processes, as well as financial planning “business rules”.

The key outputs and deadlines set out in the guidance are:

First submission of operating and financial plans	14 February
Refresh of plan post contract sign off	5 March
Final two year operational plans and draft 5 year strategic plan	4 April
Final 5 year strategic plan	20 June

Financial planning

Certain minimum financial planning requirements are set out in the national guidance.

These include, for 2014/15:

- 2.5% of resource allocation set aside for non-recurrent spend
- A minimum 1% surplus
- A minimum 0.5% contingency

Financial challenge

To support the detailed financial planning, a high level projection has been carried out to get a sense of the size of the future financial challenge. The results of this initial modelling are included in Appendix 1.

The modelling highlights that the QIPP target for 2014/15 is expected to be between £10m and £17m in 2014/15, given application of the national business rules, and of a similar magnitude in subsequent years. This represents between 3% and 5% of the CCG's annual resource allocation. By way of benchmark, a 3% QIPP target was last year generally considered stretching but achievable. 5% was considered too high.

These estimates will be adjusted when there is more clarity and certainty around the assumptions. At the same time, to meet the QIPP challenge a number of schemes are currently being identified and developed within the CCG and this work will be a priority until a balanced budget can be demonstrated. These include:

- The continued development of the Out of Hospital strategy and the Better Care Fund Plans, and the related benefits
- Specific cost reduction plans for CHC, Medicines and Estates costs

Surrey Downs CCG Financial Planning 2014/15 to 2018/2019

Surrey Downs CCG is required to produce a financial plan for each year from 2014/2015 to 2018/2019. The plans should provide the key financial metrics to support the assurance of, and measure performance against, strategic plans.

The financial plans will include a detailed annual plan by service type, details of annual QIPP schemes and investments, annual contract values and activity by type for each major provider, statement of the financial and cash position at each year end and an assessment of risk. Work within the CCG is currently underway to produce these detailed plans in lines with the national timeframes.

To support the detailed financial plan, a high level review and summary of the annual plans has been carried out to gain an early view of the numbers and to get a sense of the size of the future financial challenge. The results of this initial modelling are set out below.

Resource Allocation (rows 1 to 6)

SDCCG have been notified of the programme resource allocation for 2014/2015 and 2015/2016 and these amounts are included in the model (row 2). The GDP deflator and the notified rates (row 1) have been applied. In addition to the financial allocation above, 2015/2016 includes BCF Additional Allocation of £4.5m allocated to the CCG.

Running cost allowance for 14/15 is expected to remain flat in cash terms but guidance instructs CCGs to assume a 10% reduction in 2015/16 and to adjust for population changes in future years (row 6).

An underlying principle of planning is that in year surpluses will be returned the following, therefore as the initial model assumes achievement of a surplus it is planned that this will be returned to the CCG (row 4).

Business Rules (rows 7-13)

Business rules set out in the national guidance have been applied in the initial planning.

Business Rules	2014/15 <ul style="list-style-type: none">• Minimum 0.5% contingency• 1% cumulative surplus carry forward• 2.5% non- recurrent spend (including 1% for transformation)	2015/16-2018/19 <ul style="list-style-type: none">• Minimum 0.5% contingency• 1% cumulative surplus carry forward• 1% non-recurrent spend• Better Care Fund as notified £16.4m
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After applying these business rules against the opening financial programme resources, the “Balance Available to Spend Recurrently” can be calculated (row 14).

Programme spend (rows 15-23)

The starting position for calculating programme and running cost spend in future years has been the forecast outturn position as at month 9 in 2013/2014 after adjustment for non-recurring items.

The full year impact of certain areas of spend and a number of recurring additional cost pressures and have been identified for 2014/15 and have been added to the 2013/14 baseline to get a revised run rate of spend (row 17), it is assumed that these will be recurring.

A number of annual planning assumptions for growth and tariff shifts have then been applied to this adjusted cost baseline.

Assumption	2014/15	2015/16	2016/17	2017/18	2018/19
Demographic Growth	0.9%	1%	1%	1%	1%
Non Demographic	1%	1%	1%	1%	1%
Acute Tariff deflator	-1.7%	-1.8%	-1.0%	-0.6%	-0.6%
Prescribing Inflation	5%	5%	5%	5%	5%
Continuing Healthcare Inflation	2.5%	1.5%	1.5%	1.5%	1.5%

With the exception of the acute tariff deflator the assumptions are locally determined based on historic information and expected future trends. The tariff deflator will be reviewed and updated when the 2014/15 National Tariff has been applied to SDCCG contract activity.

After applying the assumptions to the initial programme spend a projected spend for each year is calculated (row 24).

By deducting the projected spend from the resource available the financial gap and initial QIPP target is highlighted (row 25).

BCF Savings (rows 26-30)

For BCF planning the CCG was required to propose investment schemes and to estimate a return on the plans. The projected savings as declared in the latest submission have been deducted from the initial QIPP target; this produces an adjusted QIPP (row 30).

Risks (rows 32-34)

The assumptions applied to the modelling are based on recently available data or national guidance. However it is recognised that there may be some risks when applying the national assumptions at a local level and work is ongoing to confirm assumption validity.

An area of review is the tariff deflator, the actual rate can only be determined when as noted above the National tariff has been applied to SDCCG contracts. Historically the local case mix of activity at Surrey Acute providers has resulted in the tariff deflator not being achieved in full (row 32).

The demographic growth has been based on ONS projections for the SDCCG population as a whole but it is noted that there are significant % growth rate differences between age groups, in particular the over 75s are projected to grow significantly more than the planned 1%. To assess the reasonableness of the Acute non-demographic growth assumption a review of historic activity movements is being carried out (row 33).

The BCF plans have been risk rated as not achieving the full level of savings, the risk has been set at 50%.

QIPP

The modelling highlights that the QIPP target each year falls within a range. It is expected that this numbers will be adjusted when there is more clarity and certainty around the assumptions. To meet the QIPP challenge a number of schemes are currently being identified and developed within the CCG and this work will be an ongoing priority until a balanced budget can be demonstrated.

Surrey Downs CCG
5 Year Financial projection 2014/15 to 2018/19

		13/14 £m	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m					
Row	Financial Framework/Business Rules assumptions											
1	<i>Uplift</i>		<i>CCG Notified resources</i>		1.80%	1.70%	1.70%					
	Allocation											
2	Programme	Month 7	319.6	326.5	332.0	338.0	343.7	349.6				
3	BCF Additional Allocation			-	4.5	4.6	4.7	4.7				
4	Surplus Returned			-	3.3	3.4	3.5	3.5				
5	Total Programme		319.6	326.5	339.8	346.0	351.8	357.8				
6	Running Costs)(10% reduction in 15/16	Month 7	7.1	7.1	6.3	6.3	6.3	6.3				
			326.7	333.6	346.1	352.3	358.2	364.2				
7	Non Recurrent Adjustment		4.4									
8	Non Recurrent actual 13/14 to 1.5% to 1%			4.9	3.4	3.5	3.5	3.6				
9	Transformation 1%			3.3								
10	Contingency 0.5%			1.6	1.7	1.7	1.8	1.8				
11	BCF 3%			-	10.2	10.4	10.6	10.7				
12	Additional BCF				6.5	6.5	6.5	6.5				
13	Surplus actual 13/14 1% thereafter			3.3	3.4	3.5	3.5	3.6				
14	Balance Available to Spend Recurrently		322.3	320.5	320.9	326.8	332.3	338.0				
15	Programme Spend	Month 9	316.7	314.9	327.5	331.5	338.5	346.7				
16	Non Recurring Spend		-	1.8	-	0.6						
17	Recurring Cost Pressures			8.3								
18	Tariff Deflator		-	4.3	-	4.5	-	2.5	-	1.5	-	1.5
19	Prescribing growth			1.9		2.0		2.1		2.2		2.3
20	Continuing Healthcare growth			0.9		0.7		0.7		0.7		0.7
21	Growth 2% pa, 1% Demographic 1% Non Demographic			6.0		6.5		6.6		6.8		7.0
22	Total Programme Spend		314.9	327.5	331.5	338.5	346.7	355.2				
23	Running Costs	Month 9	5.8	6.1	6.1	6.1	6.1	6.1				
24	Total Spend		320.6	333.6	337.6	344.6	352.8	361.3				
25	Initial QIPP Target			13.1	16.7	17.8	20.4	23.3				
26	BCF impact as declared in Dec submission											
27	Acute Spend reduction		-	2.8	-	7.9	-	7.9	-	7.9	-	7.9
28	Prescribing Reduction		-	0.1	-	0.1	-	0.1	-	0.1	-	0.1
29	CHC Reduction		-	0.5	-	1.1	-	1.1	-	1.1	-	1.1
30	BCF Totals		-	3.4	-	9.1	-	9.1	-	9.1	-	9.1
31	QIPP target after BCF impact			9.7	7.6	8.7	11.3	14.2				
	Risks											
32	Non Achievement of Deflator			2.2		2.3		1.2		0.7		0.7
33	Increase Growth to 3%			3.0		3.3		3.3		3.4		3.5
34	50% achievement of planned BCF investment/savings			1.7		4.6		4.6		4.6		4.6
35	QIPP target after risk assesment			16.6	17.7	17.8	20.0	23.0				