NHS
East Lancashire
Clinical Commissioning Group

Agenda Item No: 4.5

REPORT TO:	**GOVERNING BODY**	
MEETING DATE:	**23 MARCH 2015**	
REPORT TITLE:	**FINANCIAL STRATEGY & BUDGETS 2015/16**	
SUMMARY OF REPORT:	The report outlines the baseline income and expenditure budgets of the CCG for the 2015/16 financial year and identified the key financial risks faced by the organisation during that period.	
REPORT RECOMMENDATIONS:	Support and agree the Financial Strategy/Plan for 2014/15 as described in this report and summarised in Appendix A. ▪ Agree the processes for the management of financial risk. ▪ Note the position on QIPP for 2015/16. Agree the process for ensuring delivery of targets. ▪ Note the position on Contracts for 2015/16 and underlying financial pressures ▪ Agree to adopt the commissioning and corporate budgets outlined in Appendix B, noting that they will be amended to reflect elements of financial plans, agreed contracts and changes to the CCG's in year Revenue Resource Limit. ▪ Note the position on non-recurrent funding in 2015/16, and commitments made to date.	
FINANCIAL IMPLICATIONS:	None.	
REPORT CATEGORY:		**Tick**
	Formally Receipt	✓
	Action the recommendations outlined in the report.	✓
	Debate the content of the report	✓
	Receive the report for information	✓
AUTHOR:	**MARK YOULTON** **Chief Finance Officer**	
	Report supported & approved by your Senior Lead	**Yes**
PRESENTED BY:	**MARK YOULTON** **Chief Finance Officer**	
OTHER COMMITTEES/ GROUPS CONSULTED:	**None**	
EQUALITY ANALYSIS (EA) :	Has an EA been completed in respect of this report?	**No**
RISKS:	Have any risks been identified / assessed?	**Yes**
CONFLICT OF INTEREST:	Is there a conflict of interest associated with this report?	**No**
PRIVACY STATUS OF THE REPORT:	Can the document be shared?	**Yes**

Which Strategic Objective does the report relate to		**Tick**
1	Commission the right services for patients to be seen at the right time, in the right place, by the right professional.	✓
2	Optimise appropriate use of resources and remove inefficiencies.	✓
3	Improve access, quality and choice of service provision within Primary Care	
4	Work with colleagues from Secondary Care and Local Authorities to develop seamless care pathways	

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NHS East Lancashire CCG Governing Body
23 March 2015

Financial Strategy and Budgets 2015/16

1. Summary

1.1 This report outlines the baseline income and expenditure budgets of the CCG for the 2015/16 financial year, and identifies the key financial risks faced by the organisation during that period.

2. Context

2.1 The financial settlement for NHS East Lancashire CCG for 2015/16 has been set using a national allocation formula agreed by NHS England.

2.2 In broad terms the CCG will receive funding of £518.609m for 2015/16, this being split £502.52M for commissioned services, £7.962m for running costs of the CCG and £8.163M as the pass through funding element of the Better Care Fund (ie this funding will be passed to Lancashire County Council to commit as part of the Better Care Fund)

2.3 Against a target funding formula, the CCG is 5.2% about its target funding level for 2015/16 (compared to 7.2% for 2014/15). This means that the CCG will continue to receive minimal growth in allocation which for 2015/16 equates to a 1.94% increase (£9.564M) as reflected in Appendix A.

2.4 The CCG is required to have an underlying recurrent surplus of (£5.292m). This has to be invested on a non-recurrent basis. The CCG is also required to hold a Contingency Reserve of 0.5% (£2.5M). All of these are reflected within the financial plan.

2.5 The CCG planned surplus of £12.687M for 2014/15 should if achieved be returned in 2015/16. However the CCG has been required to submit a business case to NHS England to ensure that the level of surplus can reduce below this level for 2015/16. The outcome of this is that the target surplus for next year is £7.687M (c.1.5% of baseline).

2.6 The national payment by results tariff setting process for 2015/16 has been complicated by initial proposals being rejected as part of the national consultation process to response to this, providers have been asked to choose from two options :

- Default tariff rate (DTR) – effectively 2014/15 rates but not eligible for CQUIN.
- Enhanced Tariff Offer (ETO) – less efficiency required from providers (-3.5% compared to an initial -3.8%) non elective threshold payments 70:30 split in favour of providers and CQUIN payable.

The vast majority of providers have opted for ETO, including those local to East Lancs CCG. This creates an additional pressure to the CCG of c. £1M, which has been submitted as part of financial plans as a funding request to NHS England.

2.7 The non recurrent payment to provider organisations for CQUIN remains at 2.5% of contract values.

2.8 Having taken account of the above, and in order to achieve its financial targets for 2015/16, the CCG is required to deliver a QIPP saving of £9m.

2.9 The CCG has also received a Running Cost Allowance of £7.926m. This is the maximum cost allowable for the provision of commissioning support services either through directly employed clinical and non-clinical staff or through the Midlands and Lancashire Commissioning Support Unit.

2.10 The financial plans do not reflect any funding or costs in relation to the co-commissioning of Primary Care.

3. Financial Strategy

3.1 The purpose of the financial strategy is to ensure that funding is effectively and appropriately directed to achieve the CCG's aims and objectives. Which are as follows:

Objective 1: Achieve statutory financial targets including operational financial balance. i.e. not exceeding the Revenue Resource Limit as identified in paragraph 2.2 above;

Objective 2: To live within its approved Capital Resource Limit;

Objective 3: To live within its approved cash limit;

Objective 4: Achieve the target surplus, contingency levels and efficiency savings as required by national and local guidance;

Objective 5: To manage financial risk;

Objective 6: To support the delivery of access, national and local targets;

Objective 7: Support investment proposals within the CCG's Strategic and Operational plans whilst ensuring the delivery of financial balance.

Objective 8: Achieve 95% compliance within the Better Payment Practice Code.

3.2 In overall planning terms the financial strategy has sought to identify the following:

- An underlying recurrent surplus of £5.292m
- An in-year surplus of £7.687M for 2015/16.

3.3 An outline of the financial model for 2015/16 is attached at Appendix A, and an initial outline of start budgets across functional headings is shown in Appendix B.

It is of note that due to on-going uncertainties as part of the contracting process, it is likely that the allocation of costs between lines in Appendix B may change, albeit financial targets are fixed.

4. Sources of Funds

A description of each of the main sources of funding are outlined within the following paragraphs:

4.1 A growth in allocation of £9.564M has been made available to the CCG. This reflects 1.94% of the CCG's recurrent baseline.

4.2 Underspend brought forward from 2014/15 of £12.687M will be returned to the CCG in 2015/16 as a non-recurrent resource. This value is still provisional and is subject to audit of the final accounts of the CCG.

5. Applications of Funds

A description of each of the main expenditure items are outlined within the following paragraphs

5.1 Baseline expenditure reflects the recurrent spend of the CCG exclusive of any additional items as below. The vast majority of this relates to contracts

5.2 The CCG faces a number of financial challenges in 2015/16, the majority of which have arisen in 2014/15, and will be the first call against the resources available in the new financial year. These are summarised in table 1 below:

Table 1 – Recurrent Commitments from 2014/15

	Recurrent £'000
Community Services	1,902
Contracts 2014/2015 forecast out-turn	4,500
Estates re-basing	4,882
CHC & IPA 2013/14 forecast out-turn	3,107
Total	**14,391**

5.3 Whilst the CCG received 1.94% growth funding, an ongoing issue is the legacy continuing healthcare re restriction cases. The CCG is required to contribute another £2m to the national risk share on a non-recurrent basis. Any underspend will be returned to the CCG, however it is likely to be subject to rules as existed for 2014/15. At the end of the process, the contribution will be retained by the CCG.

5.4 There are a number of funding commitments agreed through the Local Delivery Group, others appearing as contract pressures and pressures in relation to over performance., These are identified in Table 2 below :

Table 2 – Additional Funding Commitments

	Recurrent £'000
Contact Pressures/Population	6016
CHC Pressures	2189
Scheduled Care Transition	4000
Other Schemes	1520
Total	**13725**

5.5 The CCG faces a number of significant financial challenges during 2015/16, and good financial planning requires the establishment of a contingency to cover against any changes to the financial plan assumptions that may arise in year, cost pressures that

may arise (e.g. contract over-performance). This has been set at (c.0.5% of total baseline).

In addition, the CCG will need to manage planned investments to ensure that financial targets are met.

5.6 The CCG has available recurrent reserves of £5.015M. This will remain uncommitted pending closing the QIPP gap as identified in section 7 of this report.

6. Running Costs Allocation

6.1 As a separate allocation, the CCG has received a Running Cost Allowance (RCA). This exists to cover the management of the CCG, with examples of such costs being as follows:

- Clinical lead time input into commissioning.
- Staff directly employed by the CCG
- Headquarters costs
- Purchase of support services which are provided at scale by the Midlands and Lancashire Commissioning Support Unit.

As a large CCG, East Lancashire has a Running Cost Allowance of £7.962M (which equates to c. £21 per head of population). The CCG's Running Cost Allocation has reduced from £8.846m in 2014/15 in line with national policy, and reduces by c. £30k p.a. thereafter to 2018/19. This makes the sustainability of delivery much more difficult.

The forecast delivery against running cost allowance is shown as Appendix C to this report.

6.2 The current contract for the provision of CSU services expires at the end of March 2016. This will require a major procurement exercise, which the CCG plans to undertake alongside other Lancashire CCGs with support from NHS England.

6.3 The CCG will receive an allocation of c. £1.133m from NHS England for the provision of GP IT Services. At this point, this is being considered as outside of Primary Care Co-Commissioning and the CCG expects to receive this regardless of the position on the latter.

7. QIPP

7.1 As outlined in paragraph 2.8 above, the CCG is required to deliver £9m QIPP savings in 2015/16. The schemes identified for 2015/16 are summarised below, and it is of note that at this point there is an unidentified gap of £4.8m which represents a major financial risk to the organisation.

Table 4 QIPP Schemes

Scheme	Value £'000s
Prescribing	1900
Better Care Fund	1800
Zero Based Budget Review	500
Unidentified	4800
Total	**9000**

7.2 In order to improve the governance on QIPP delivery, a specific group has been established to :

- Critically review all investments/pilots to determine whether they are delivering to plan.
- Consider benchmarking data to identify further QIPP opportunities.

In addition to the above, closer working across the Pennine Lancashire Health Economy and wider Lancashire should enable more opportunities. In the meantime this will impact upon the CCG's ability to recurrently invest in service developments.

8. Contract Position

8.1 The contract proposals across all Providers have principally been based upon meeting 2014/15 forecast out-turn at 2015/16 prices and after taking account of other national guidance. An element of growth has been reflected within the planning assumptions with some Trusts (principally East Lancashire Hospitals), but the position against available resources is very tight, and cannot sustain continued over-performance.

8.2 The contract agreement process has been complicated and delayed by the National Tariff position. At this point, the CCG has an affordability level for contracts, the achievement of which will be challenging and will require additional funding as a result of changes to tariff. What is clear is that a financial risk management strategy will need to be developed locally to help mitigate short term cost pressures as the health economy moves towards implementing locality based models of care over the next couple of years.

8.3 A major element of the planning for 2015/16 is additional investment to move towards Parity of Esteem in Mental Health Services in line with the NHS England's Five Year Financial View. An additional £700,000 has been identified for this purpose and it is a feature of contracting discussions with all providers of all elements of Mental Health Services.

8.4 The Better Care Fund will become live in 2015/16. This will require payment of c. £26M as part of a pooled budget arrangement with other Lancashire County CCGs and the County Council. Much work has been undertaken to ensure the correct governance and legal framework exists to support the new arrangement and minimise risk. This features as an important element of identified QIPP schemes for 2015/16.

9. Risks

9.1 There are a number of risks within the financial position. These are outlined below and financial consequences summarised in Appendix D.

Risk 1 – QIPP balance remains unidentified.
Mitigation – The CCG will not be able to invest recurrently until the balance is identified

Risk 2 – Activity increases continue at levels beyond 0.39% that has been identified in plans.
Mitigation – A 0.5% contingency is in place to help manage variations.
Robust project management of schemes in place to ensure their delivery.
Pilots schemes have end dates and exit clauses which can be called upon if necessary.

Risk 3 – Continued Growth in Continuing Healthcare
Mitigation – Need to ensure robust processes in place to undertake timely reviews of packages and costs.

Risk 4 – Continued uncertainty on Property Costs
Mitigation – Need to develop estates strategy and where possible focus service through local Provider and CHP.

Risk 5 – Prescribing growth in costs continues to be outside of CCG control, eg price changes resulting from re-negotiation of Pharmacy Contracts.
Mitigation – Local Prescribing Incentive schemes will be agreed to deliver cost savings. Initial assumption of 5% growth assumed, with QIPP to deliver nationally assumed 2% increase.

Risk 6 – Co-commissioning of Primary Care may bring additional cost pressures to the CCG as allocations and costs are not yet known in detail.
Mitigation – Due diligence on costs/funding when known. Assess whether this is a risk, and whether opportunities can arise which will compensate this risk.

Risk 7 – Lack of clarity on 2015/16 PbR tariff will impact on CCG ability to agree an affordable contract within deadlines.
Mitigation – Continue negotiations with local Provider to agree activity baselines. Work on basis of Enhanced Tariff Offer, recognising that the cost needs to fit an overall control total. All recurrent investments will need to be retained until position clarified.

10. Capital

10.1 The Capital Programme for 2015/16 for the CCG will be minimal.

11. Cash

11.1 The cash limit for 2015/16 is £518.609m. The approval and delivery of the financial strategy outlined in this report will ensure that the CCG stays within its cash limit. This is subject to the CCG effectively managing financial risk.

12. Decisions Required

The Governing Body is requested to:

12.1 Support and agree the Financial Strategy/Plan for 2015/16 as described in this report and summarised in Appendix A.

12.2 Agree the processes for the management of financial risk.

12.3 Note the position on QIPP for 2015/16. Agree the process for ensuring delivery of targets.

12.4 Note the position on Contracts for 2015/16 and underlying financial pressures

12.5 Agree to adopt the commissioning and corporate budgets outlined in Appendix B, noting that they will be amended to reflect elements of financial plans, agreed contracts and changes to the CCG's in year Revenue Resource Limit.

12.6 Note the position on non-recurrent funding in 2015/16, and commitments made to date.

Mark Youlton
Chief Finance Officer – NHS East Lancashire CCG

NHS East Lancashire CCG **Appendix A**
Financial Plan 2015/2016

	Expenditure		
	Recurrent	Non-recurrent	TOTAL
	£'000	£'000	£'000
Source of Funds			
Revenue Resource Limit 2015/16	492,956		492,956
add			
Growth Funding	9,564		9,564
2013/2014 CCG Surplus to be returned		12,687	12,687
BCF Pass through	8,163		8,163
GP IT		1,133	1,133
2015/1 Running Cost Allocation	7,926		7,926
Total Source of Funds	**518,609**	**13,820**	**532,429**
Application of Funds			
Base Line Expenditure	460,481	2,583	463,064
Tariff & CQUIN adjustment	(1,140)	0	(1,140)
add			
BCF	24,095	2,000	26,095
GP IT		1,133	1,133
Recurrent commitments from 2014/15	14,391		14,391
In the Baseline	6,168		6,168
National Risk Share		2,020	2,020
Agreed Investments	8,015	5,709	13,724
QIPP Target	(9,000)		(9,000)
Other Pressures			0
Contingency @0.50%	5,292	(2,020)	3,272
1% Recurrent Surplus to be invessted non-recurrently	5,292	(5,292)	0
Other Reserves	5,015		5,015
Total Application of Funds	**518,609**	**6,133**	**524,742**
Forecast in year Operating Surplus/(Deficit) 2015/16	**0**	**7687**	**7687**

NHS East Lancashire CCG **Appendix B**

Start Budgets 2015/2016

	NET Expenditure		
	Recurrent	**Non-recurrent**	**TOTAL**
	£'000	**£'000**	**£'000**
Primary Care			
Prescribing	63,707		63,707
OOH Services	3,770		3,770
Local Enhanced Services	4,597	500	5,097
Total Primary Care	**72,074**	**500**	**72,574**
Secondary Care			
East Lancashire Hospitals NHS Trust - Acute	204,686		204,686
Airedale NHS Foundation Trust	11,881		11,881
Pennine Acute Hospitals NHS Trust	7,503		7,503
Lancashire Teaching Hospitals NHS Foundation Trust	7,751		7,751
Other NHS Acute Providers	21,422	4,491	25,913
Non NHS Acute Providers	10,467		10,467
East Lancashire Hospitals NHS Trust - Community	40,427		40,427
Lancashire Care NHS Foundation Trust - Community	8,313		8,313
Other NHS Community Providers	2,446	3,834	6,280
Other Non NHS Community Providers	2,125		2,125
Lancashire Care Trust - Mental Health Service	34,894		34,894
Other NHS Mental Health Service Providers	1,997		1,997
Other Non NHS Mental Health Service	904		904
North West Ambulance Service	16,325		16,325
Total Secondary Care	**371,141**	**8,325**	**379,466**
Others			
Continuing Healthcare & Free Nursing Care	22,237	2,020	24,257
Running Cost Allowance	7,926		7,926
GP IT		1,133	1,133
Contingency	5,292	(2,020)	3,272
NHS Property Services	4,346		4,346
Better Care Fund (pass through element)	8,163		8,163
Other	22,415		22,415
Reserves	5,015	(3,825)	1,190
Total Other	**75,394**	**(2,692)**	**72,702**
Total Baseline Expenditure	**518,609**	**6,133**	**524,742**

Area	Indicative Costing £'000	Notes
CCG structure	3,103	Posts are costed at actual of scale where individual is known
Pay Contingency (Increments etc)	91	
CSS SLA	2,264	Based on a 18 month initial contract
Payroll	8	Estimate based on 50 staff headcount
Premises Costs	500	Based on occupied share of Walshaw House
Clinical Engagement	981	Based on £2 per head of population & includes engagement LES
Internal Audit & CFS	40	Estimate based on current SLA
External Audit	118	Estimate based on current SLA
Non Pay contingency (travel, printing & stationery)	163	
TOTAL	**7,268**	
Running Cost Allowance	7,926	
Contingency	**658**	

CCG: *NHS EAST LANCASHIRE CCG*
CCG Code *01A*

2015/16 Financial Plan

Appendix D

CCG Commissioning Services

2015/16 In-Year Financial Risk Assessment - RECURRENT RISKS

Risks relate to values NOT covered by the 2015/16 I&E Plan

Description of risks Events that may happen which have not been built into PCT's expenditure plans.	Full value of risk £'000s	Probability of risk being realised (75 / 50 /25)%	Potential value of risk £'000s	**Commentary - Source of the Risks**
Acute Contracts	5,272	50%	2,636	Over activity and growth over and above plan
Continuing Care	2,000	50%	1,000	Continued growth in CHC particularly the use of fast tracks
Prescribing	1,893	50%	947	Prescribing QIPP does not deliver
QIPP Programme	4,800	100%	4,800	QIPP programme fails to deliver
Other risks	1,000	100%	1,000	Tariff implications of ETO
TOTAL RISKS	**14,965**		**10,383**	

Description of mitigations Actions that could be implemented or uncommitted funds	Full value of mitigating action £'000s	Probability of success of mitigating action (75 / 50 / 25) %	Expected value of mitigation £'000s	**Commentary - Source of the Mitigation**
Uncommitted Funds (Excluding 2% NR Headroom):				
Contingency Held	3,272	100%	3,272	Full use of 0.5% contingency held
Contract Reserves	4,000	100%	4,000	Overperformance reserve held
Investments Uncommitted			-	
			-	
Actions to implement:				
Further QIPP extensions			-	
Non-recurrent measures			-	

Delay / Reduce investment plans	5,015	42%	2,111	
Mitigations relying on potential funding	1,000	100%	1,000	Central funding held for new tariff offer (share of £150m)
TOTAL MITIGATION	**13,287**		**10,383**	

NET RISK / HEADROOM	0	Financial Risk in 2015/16
OF WHICH RECURRENT	0	