NHS Hillingdon CCG

Finance Overview

Hillingdon Health and Wellbeing Board
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Hillingdon Clinical Commissioning Group

CONTENTS

Introduction/Objectives

Further to discussion at previous HWB meetings, this paper is designed to provide:

1) an overview of Hillingdon CCG financial position

2) further background details on NHS financial regime and overall finances.

Introduction- NHS Financial Regime

- During 2013, NHSE set out a potential funding gap in the NHS amounting to c £30 billion by 2020/1and highlighted the need for CCG plans to be explicit how this gap would be closed in local context without impacting on quality of service to patients.

- In December 2013, NHSE published a document *"Everyone Counts: Planning for Patients 2014/15 to 2018/19"* which set out planning guidance for NHS commissioners.

- Alongside this guidance NHSE published a funding allocations paper which included:-
  a) the proposed formula to be used to determine the target (fair share) allocations for CCGs to ensure equal access for equal need;
  b) the proposed distribution of funding between different elements of commissioning (Nationally approx. 67% of NHS funds are distributed to CCGs- the balance largely relates to Primary Care and Specialised Commissioning);
  c) the proposed distribution of funding within the CCG element of commissioning, including the pace of change of movement away from historical allocations to the target allocations.

- The planning guidance also reiterated the business rules under which CCGs should operate over the 5 years of the plan which were:-
  a) CCGs should achieve a 1% cumulative surplus;
  b) CCGs should hold a minimum of 0.5% contingency;
  c) CCGs should plan for 2.5% of the 2014/15 allocation to be spent non-recurrently, including 1% for transformation; this requirement reducing to 1% in 2015/16;
  d)CCGs should be in a position of underlying recurrent (i.e. normalised) balance;
  e) CCGs should operate within their Running cost allowance (£24.73 per head in 2014/15 reducing to £22.07 per head in 2015/16)
  f) In-year Surpluses/deficits would be carried forwarded into the next year.

2013/14 - Review of the year

- In 2013/14 Hillingdon CCG inherited an underlying deficit from the PCT and had an agreed deficit plan of £12.25m as part of a three-year recovery plan to restore underlying financial balance. The plan also included £8m of transitional support for THH funded across the 8 CCGs in NW London as part of the NWL Financial strategy.

- The NWL Financial Strategy has been agreed between the 8 NWL CCGs to ensure the Shaping a Healthier Future Plan can be implemented across NWL.

- The CCG's 13/14 actual outturn was a reported deficit of £5m, which was £7.2m better than plan.

- The main contributory factors to the improved in-year position were robust contract negotiation and contract management across all commissioned services, effective budgetary control across all areas of spend and successful management of external funding risks. As a result in-year risk reserves were under-utilised

- The CCG delivered recurring QIPP savings of £9.2m (c3% of its budget). This saving achievement was 82% of the original planned savings for the year.

- The CCG's underlying position (after all its non-recurring income and expenditure is removed) improved from a deficit of £23.7m at the beginning of 2013/14 to an exit position at the end of the year of a deficit of £15.4m.

- The underlying deficit of £15.4m at the end of the year reflects the treatment of the financial headroom to be set aside by CCGs under NHS Business rules as a recurrent commitment whereas the in-year deficit of £5m excludes this.

2014/15 Financial Plan and Performance to date

- In December 2013, NHS England confirmed that Hillingdon CCG was assessed as 9% under its target allocation, and as a result the CCG has therefore received a larger than average increase in allocation in 14/15 and 15/16 of 4.3% and 4% respectively compared to a national average of 2%.

- The allocation increase in 2014/15 equated to an additional £12.2m for the CCG, however the 14/15 financial plan (pre-NWL strategy and assuming full application of NHSE Business Rules) would have resulted in a deficit of £25.6m. After the application of the NWL Financial strategy the CCG was able to set a balanced budget for 2014/15 although delivery of the balanced budget in-year would still leave a residual underlying deficit at the end of the year of c£7m.

- A source and application of funds for 14/15 has been included on the next slide which explains the movement between the underlying deficit at the end of 13/14 of £15.4m and the CCG's balanced budget.

- The NWL Financial strategy has provided support to the CCG in 14/15 to enable a) the retention of the 2.5% headroom b) an offset for the repayments of 13/14 and 14/15 in-year deficits and c) provision for investment in Out of Hospital services.

- At Month 5 the CCG is forecasting to break even at year end on both its Programme and Running Cost budgets, despite some budgetary pressures particularly relating to Acute Contracts.

- A shortfall of £2.4m is currently forecast against the CCG's £10.4m QIPP plan . Most of the shortfall relates to non-elective activity scheme reductions at THH.

- The CCG is currently able to balance its position in 2014/15 because of underspends on other non-Acute budgets and from its contingency reserves.

- The CCG is currently putting in place a recovery plan in conjunction with its main provider to address the issues regarding the levels of activity.

HCCG 14/15 financial plan- reconciliation

	£m	£m
CCG Underlying Deficit @ 31.3.14	(15.4)	(15.4)
Sources of Funds 14/15		
Allocation Resource Growth	12.1	
Less Continuing Care Provision	(1.1)	
Impact of NWL financial strategy	25.6	
Total Sources of Funds 14/15		**36.6**
Application of Funds 14/15		
Demographic/Non-Demographic Growth	(11.5)	
In-Year Acute Risk Reserve & Contingency	(8.4)	
New Service Developments/Investments	(4.6)	
QIPP	**10.4**	
Repayment of 13/14 Deficit	(5.0)	
Other Cost Pressures	(2.1)	
Total Application of Funds		**(21.2)**
2014/15 PLAN		**0.0**

Conclusion

- The CCG has made good progress in addressing its underlying financial position but significant risks and challenges remain if this improvement is to be sustained in the remainder of 14/15 and beyond.

- Key issues include:-
  - QIPP savings of c4% per annum are delivered (in line with national expectations).
  - The CCG in conjunction with its Partners is able to successfully reduce levels of Acute activity (e.g through the Better Care Fund).
  - THH and other key local providers are sustainable in medium term

- To achieve the medium term plan, the CCG will need to continue the process of ensuring that all opportunities to commission more cost-effective services are pursued (including the opportunities arising from joint working with LA partners) whilst maintaining and improving quality of care.

Appendix

Overview of NHS Finances

September 2014

BHH Brent Harrow Hillingdon Clinical Commissioning Groups

Jonathan Wise CFO for BHH Clinical Commissioning Groups

1. What is the projected national financial challenge for the NHS?
2. How is funding distributed nationally and to CCGs?
3. How are CCG finances governed?
4. How are CCG allocations budgeted and spent?
5. How are North West London CCGs working together to respond to the current financial context?

1. **National financial context**
   - Distribution of national resources
   - Projected funding gap
   - Joint health and care spending
2. NHS funding flows
3. CCG financial governance
4. CCG allocations: budgeting and spending
5. Working across NWL CCGs

Distribution of national resources

- Resources for the NHS are decided as part of Government spending reviews.
- The Spending Review 2010 set Departmental Budgets for 2011/12 – 2014/15.
- The NHS budget was prioritised as part of this, but other departmental budgets (excluding overseas aid) were cut by an average of 19% over the four-year period to 2014/15.
- The Department of Health (DH) budget allocation was set as follows:

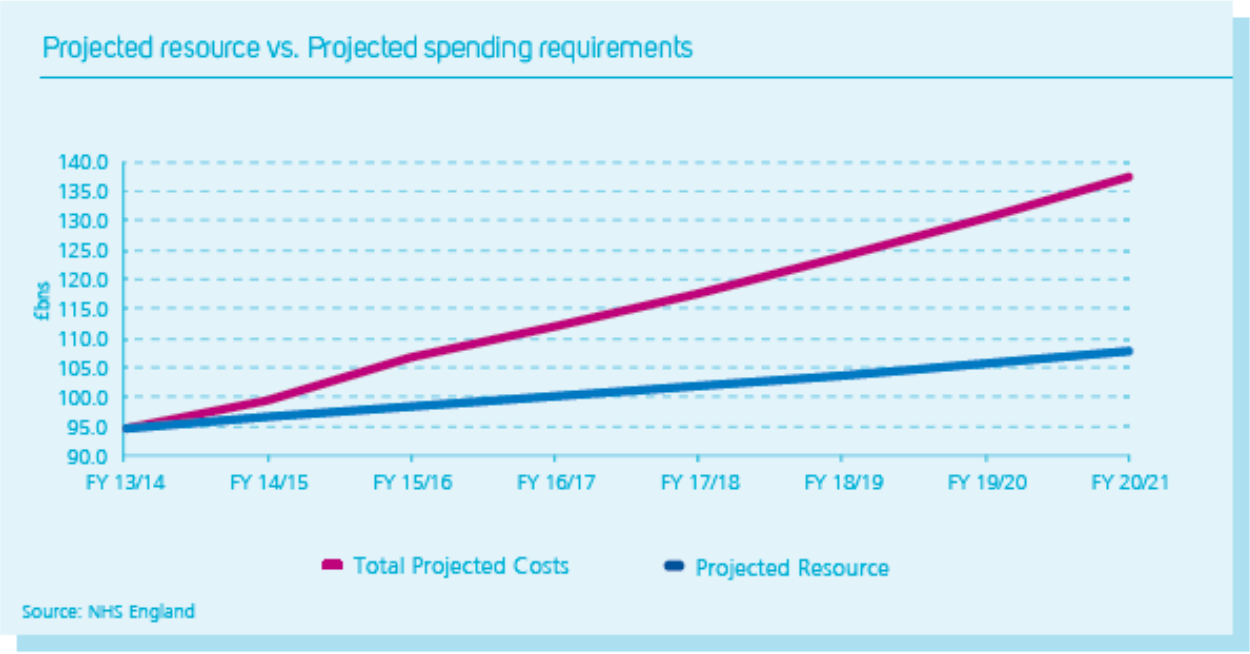
	2010-11	2011-12	2012-13	2013-14	2014-15
	£ billion				
Total	**103.8**	**105.9**	**108.4**	**111.4**	**114.4**

- In 2013, the latest Spending Review was announced for 2015/16 (covering one year only) and includes ring-fenced NHS funding at £115.1bn (increase of 0.6%)

Source: Government Spending Review 2010 and Spending Review 2013

National context: Projected funding gap

- NHS England have stated that continuing with the current model of care will result in the NHS facing a funding gap between projected spending requirements and resources available of around £30bn between 2013/14 and 2020/21 (approximately 22% of projected costs in 2020/21).



- This estimate is before taking into account any productivity improvements and assumes that the health budget will remain protected in real terms.
- Unlike NHS funding, social care funding is not ring-fenced; councils decide how much of their budget to spend on services based on local need.

Source: NHS England: NHS A Call to Action (2013)

1 National financial context

2 **NHS funding flows**

- Distribution of national resources
- CCG allocations – fair shares formula
- Target allocations
- Actual allocations
- Pace of change policy

3 CCG financial governance

4 CCG allocations: budgeting and spending

5 Working across NWL CCGs

How funding flows: Distribution of national resources (1)

Treasury / Government Spending Review

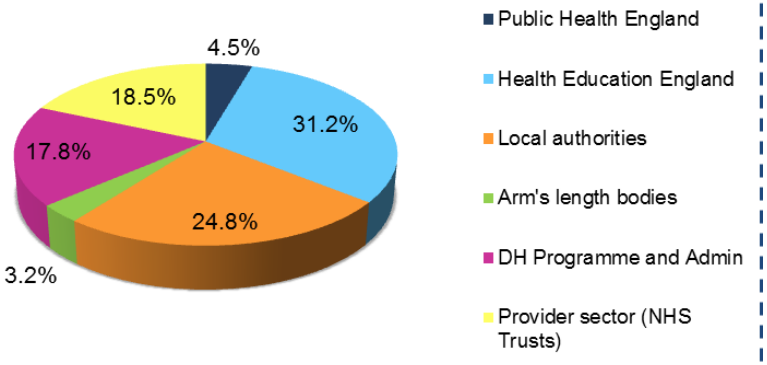
Set Departmental Expenditure Limits (DEL) for every Government department

Department of Health
(Total DEL **£114.4bn** for 2014/15)

Set Capital and Revenue Resource Limits

NHS England
(allocated **£98.4bn** for 2014/15 in Government's Mandate)

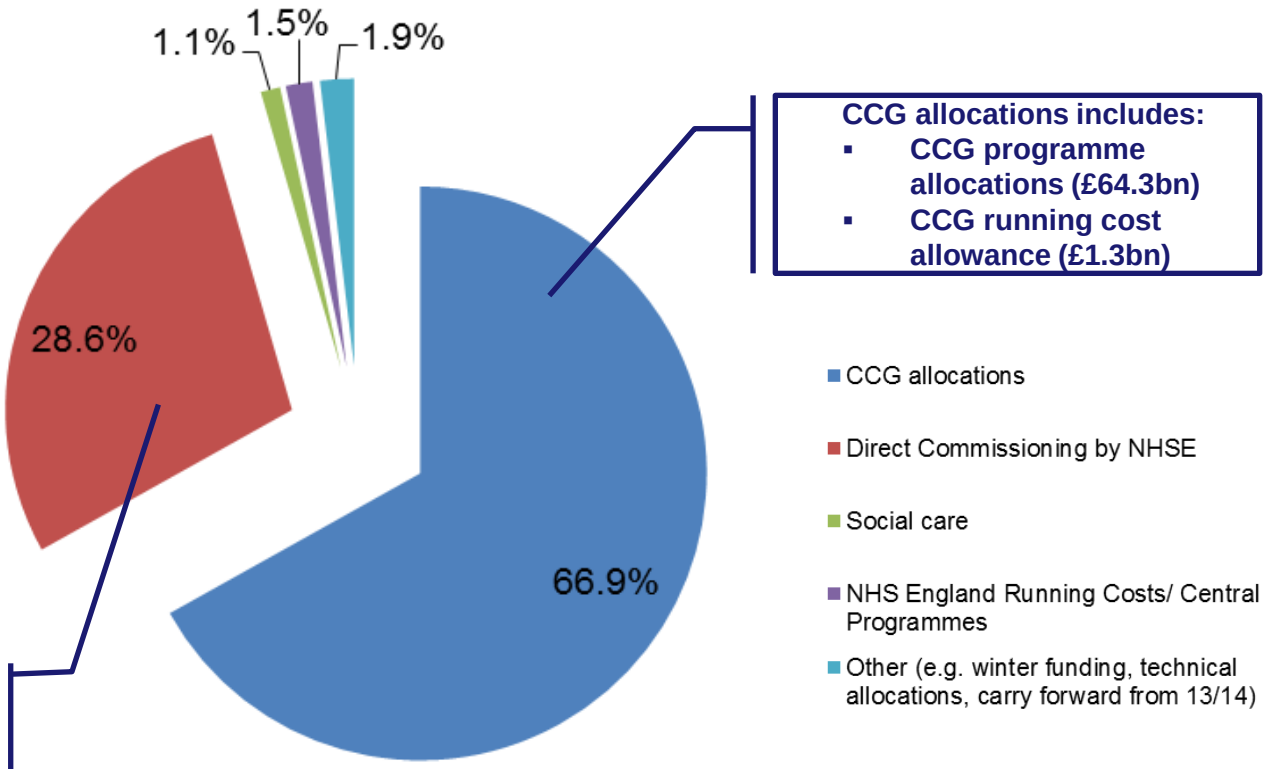
Distribution of remaining DH budget
(split based on 13/14 distribution)



How funding flows: Distribution of national resources (2)

- In December 2013, the NHS England Board approved the distribution of these resources for 2014/15 (and 2015/16):

Total: £98.4bn

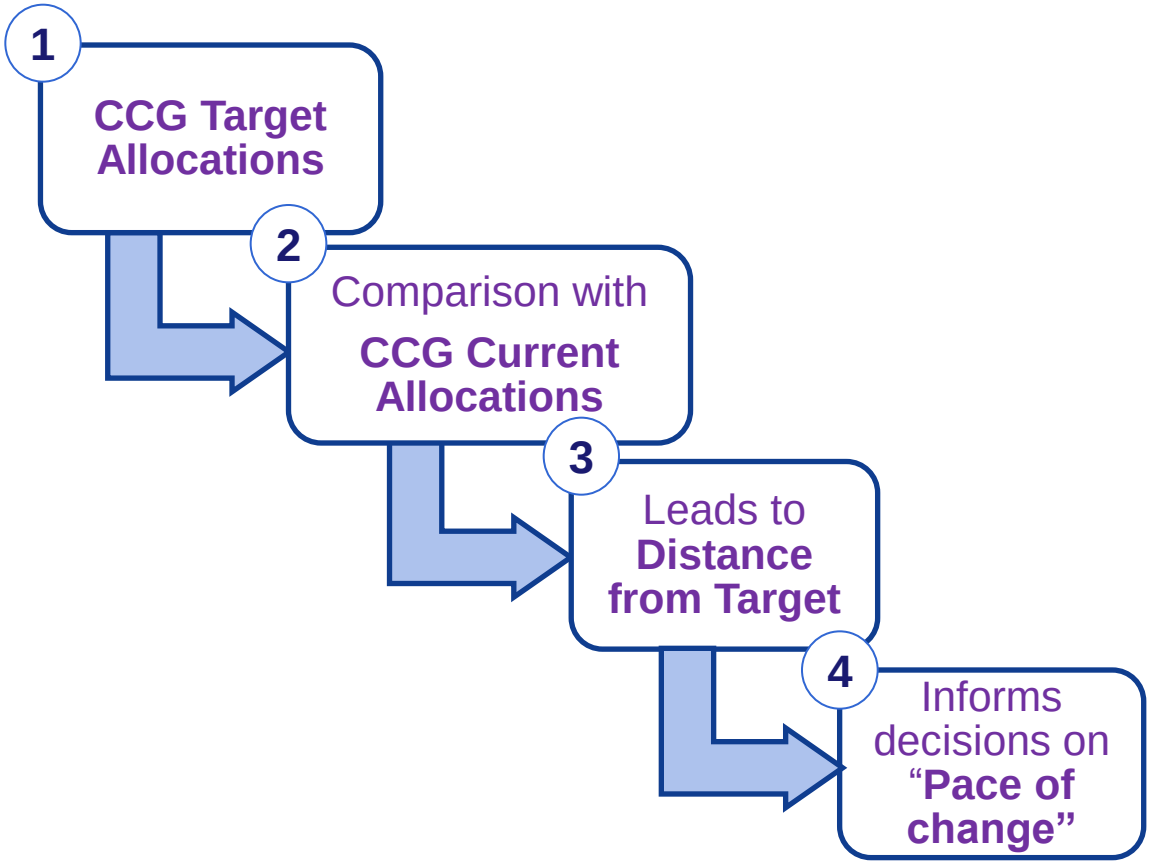


CCG allocations includes:
- **CCG programme allocations (£64.3bn)**
- **CCG running cost allowance (£1.3bn)**

NHS England Direct Commissioning includes
- **Primary Care (£12.3bn)**
- **Specialised Services (£13.5bn)**

How funding flows: How funding is allocated to CCGs

- Decisions on allocation of resources between CCGs is also the responsibility of NHS England



Step 1: Target (Fair Share) CCG allocations are calculated

The overall objective of the formula is to give equal opportunity of access for equal need

CCG populations calculated
(based on GP practice registrations)

↓

Need weighting for Hospital and Community Health Services (HCHS) applied
General and Acute need (79%);
Mental Health need (16%);
Maternity need (5%)

Note: Need indices seek to measure relative need and not absolute need

↓

Market Forces Factor
(higher costs due to geographical location)

↓

Prescribing need weighting applied

↓

Adjustment for unmet need
(e.g. mortality rates)

The formula includes a deprivation measure (unmet need) with the specific aim of tackling health inequalities

↓

CCG need weighted population calculated

↓

Each CCG as % of national total = target allocation

Steps 2 and 3: CCG target allocations vs. current allocations

- Target allocations were published for all CCGs on the 20 December 2013.
- Comparison with actual (current) allocations lead to the Distance from targets

	Current allocation per head	**Target allocation** per head	**Distance from target**
	£	£	%
NHS Brent CCG	1036	962	7.67% over target
NHS Harrow CCG	898	996	-9.87% under target
NHS Hillingdon CCG	949	1041	-8.81% under target

Step 4: Pace of change

- Pace of change is how quickly current allocations move towards the target allocations
- Over the last 20 years, movement towards 'fair shares' targets has been through application of differential levels of growth (i.e. most under-target receive higher levels)
- In December 2013, NHS England agreed for 2014/15:
  - CCGs that are over target have their total growth limited to 2.14%
  - Under target CCGs receive an above-average increase

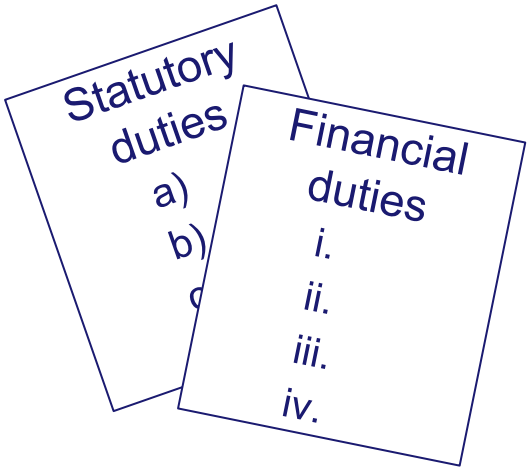
	Distance from target	Total growth on prior year
	%	%
NHS Brent CCG	7.67%	2.14%
NHS Harrow CCG	-9.87%	4.20%
NHS Hillingdon CCG	-8.81%	4.36%
National average	-	2.54%

Note: Growth levels also take into account population growth levels

1. National financial context
2. NHS funding flows
3. **CCG financial governance**
   - CCG statutory and financial duties
   - Role and responsibilities of the CFO
   - CCG financial accountability arrangements
4. CCG allocations: budgeting and spending
5. Working across NWL CCGs

Financial governance: CCG financial duties (1)

CCG constitutions set out both statutory and other Financial duties which the CCG must comply with, including:



- **Financial balance -** Ensuring expenditure does not exceed total allocation for the financial year
- **NHS England directions** - Taking account of any directions issued by NHS England in respect of specified types of resource use (programme costs, running costs)
- **CCG Governing Body oversight and assurance** of:
  - CCG's **robust financial procedures** and systems which supports effective financial planning, management and reporting
  - Detailed **financial plan that is consistent with its commissioning strategy**, also setting out how it will manage within its management allowance
  - Measures to embed **awareness of financial governance** within the CCG
- **Audit Committee** (accountable to the Governing Body) to ensure that there are effective arrangements in place for internal audit, external audit and counter fraud

Financial governance: CCG financial duties (2)

Roles and responsibilities of the Chief Finance Officer

- Member of the **Governing Body**, as **professional finance expert** to advise on effective, efficient and economic use of CCG's allocation to deliver required financial targets
- Responsible for providing financial advice and for supporting and **supervising financial control** and accounting systems.
- Oversee robust **audit and governance arrangements** leading to propriety in the use of the CCG's resources
- Responsible for producing the **financial statements** for audit and publication in accordance with the statutory requirements to demonstrate effective stewardship of public money and **accountability to NHS England**; and
- Supporting the process of mutual accountability for financial performance of **practices and localities within the CCG**.

CCG financial accountability arrangements

Internal

CCG Governing Body

CCG Audit Committee

CCG Executive

CCG Finance Committee

Internal Audit

Accountable Officer

Chief Finance Officer

Budget Holders

GP or other healthcare professionals acting on behalf of member practices.

Membership:

- Chair
- Clinical members representing GP practices e.g. practicing GPs or practice nurse
- Clinical member – secondary care doctor
- Clinical member – registered nurse
- Accountable officer
- 2< lay members (champions for

External

Taxpayers and the public

NHS England

- Allocate resources
- Set planning guidance and business rules for CCGs
- Performance manage CCG delivery of plans

Health and Wellbeing Board

- Sign off local Better Care Fund plan on behalf of constituent councils and CCGs
- Contribute to development of Shaping a healthier future plans as key stakeholder (specific role in NWL)

Independent External Auditors

- Review the regularity and value for money of CCG's finances

1 National financial context

2 NHS funding flows

3 CCG financial governance

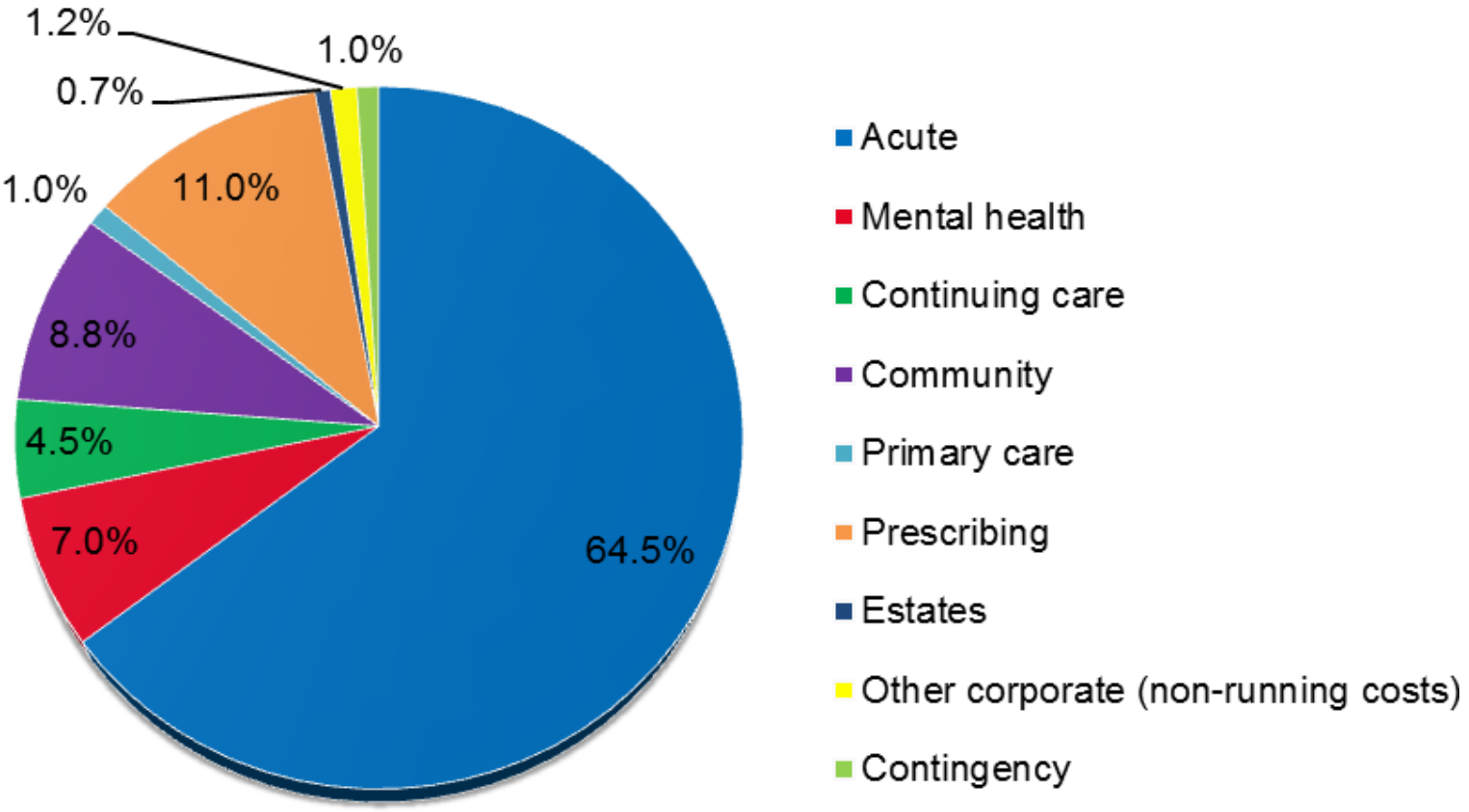
4 **CCG allocations: budgeting and spending**

- CCG Budget setting
- Contracts with providers
- QIPP plans

5 Working across NWL CCGs

Budget setting: What does the CCG spend its allocation on?

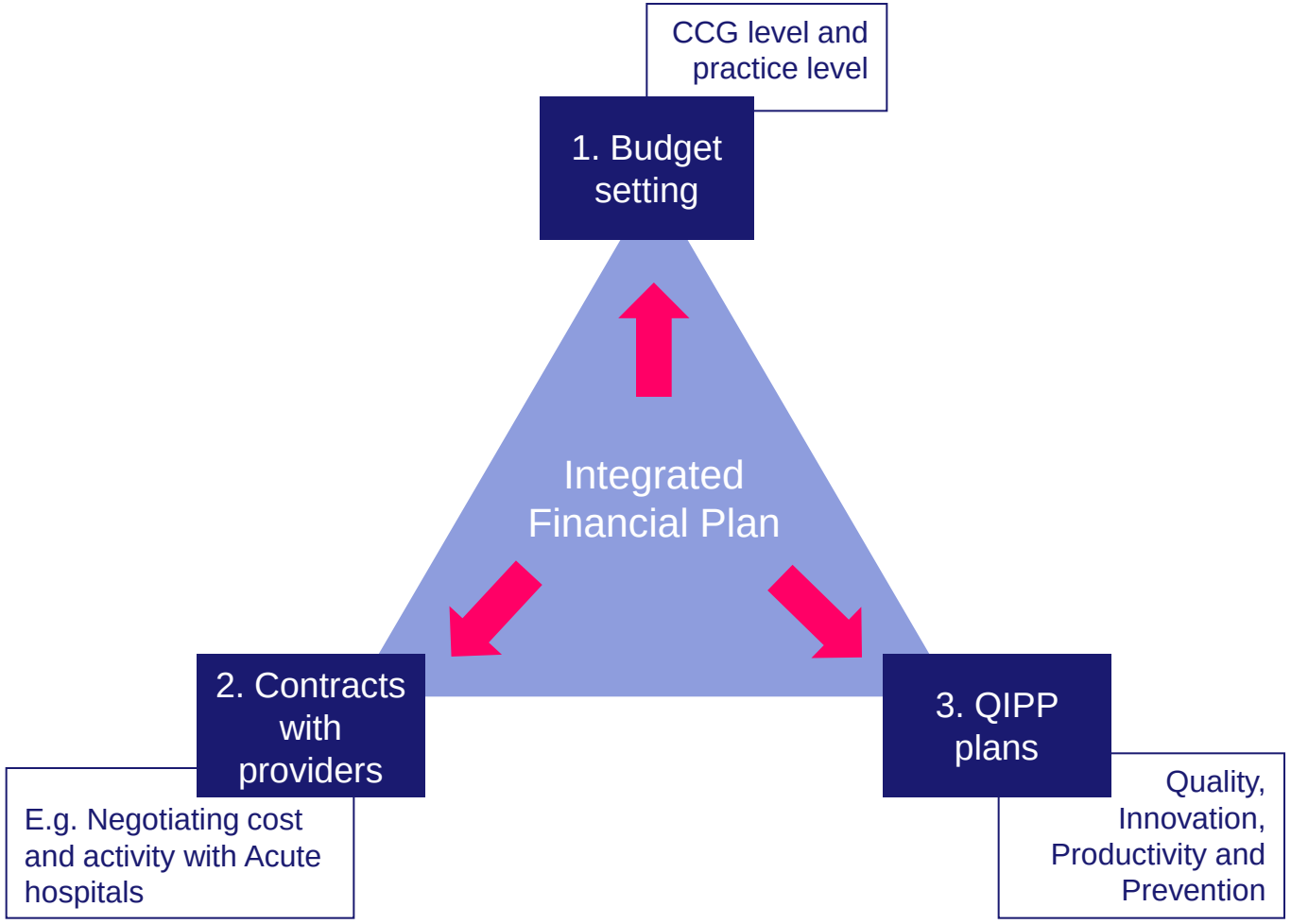
Programme Costs[1]



Note (1) - Budget for **CCG running costs** separate to programme costs budget.
Total amount available for CCG running cost is £25 per head with planning assumption for 2015/16 of 10% reduction.
(Example: Hillingdon CCG 2014/15 running cost allowance is £6.8m (£24.73 per head), reducing to £6.2m in 2015/16 (£22.07m per head)).

Budget setting: Triangulation of budgets, contracts and QIPP

Key role in ensuring budgets, contracts and QIPP plans are aligned:



Contracts with providers: Payment by Results (PbR)

- Payment by Results is the payment system under which commissioners pay healthcare providers for each patient seen or treated, taking into account the complexity of the patient's healthcare needs.
- The two fundamental features of PbR are nationally determined currencies and tariffs.
- PbR covers the majority of acute healthcare provided in hospitals, and there are over 1000 national tariffs for admitted patient care (based on Healthcare Resource Groups), outpatients and A&E
- The contract sets out planned activity levels and costs – commissioners pay based on actual activity

Mental Health

- Currently not subject to national tariff
- However, a tariff is being developed based on a Mental Health Clustering Tool (MHCT) – a cluster is global description of a group of people with similar characteristics.

Other commissioned services

- Not curently subject to a national tariff – locally negotiated contract values

Provider financial regime: NHS Trusts vs NHS Foundation Trusts

NHS Trusts

- Trust Board (EDs & NEDs)
- Accountable to NHS Trust Development Authority
- Can not access external funds (except PFI)
- Can not retain surplus
- Can not retain cash

NHS Foundation Trusts

- Board of Directors & Board of Governors
- Regulated by Monitor
- Access to external funds
- Can retain surplus (and deficit)
- Can retain cash

QIPP plans

- QIPP is the NHS approach to reform and redesign services in light of the current economic climate.
- The four components – **Quality, Innovation, Productivity and Prevention** are designed to ensure better quality services are delivered in the most productive and cost effective way.
- Planned efficiency savings nationally total up to £20bn (2010/11-2014/15)
- QIPP programmes typically include a number of workstreams which savings are identified against, including for example:

a) Care pathways

- Planned care
- Long term conditions
- Urgent care
- End of life care

b) Medicines management

c) Contractual levers

- Provider productivity

1. National financial context
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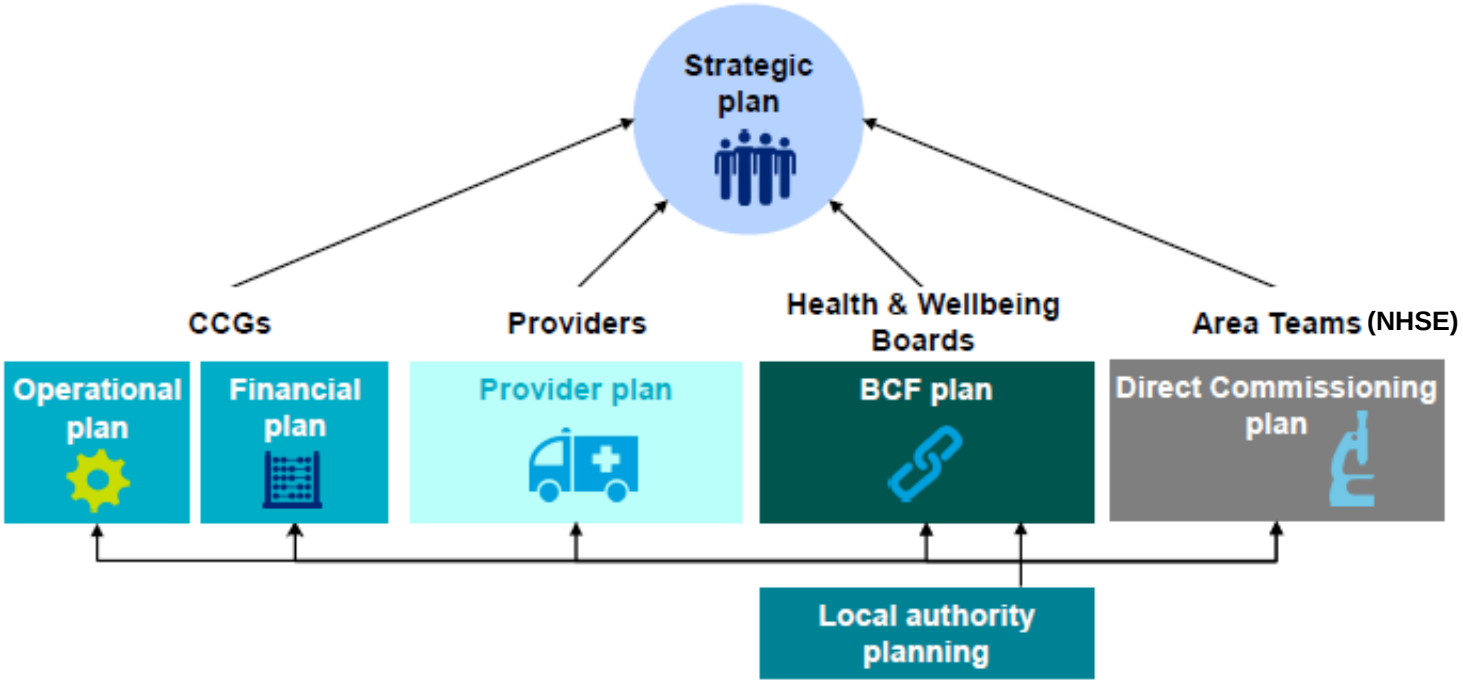
5. **Working across NWL CCGs**
   - Strategic planning
   - Shaping a healthier future programme
   - NWL financial strategy
   - Whole systems integrated care programme

Working across NWL: Strategic planning

- **CCGs are required to lead the production of five year** strategic plans (within which are **two year** operating plans)



Source: NHS England Support for Strategic and Operational Planning Pack, December 2013

Working across NWL: *Shaping a healthier future (SaHF)*

- The NWL five year strategic plan sets out how local organisations will work collaboratively to transform and improve the NWL health and social care landscape

- For NWL, ***Shaping a healthier future*** (agreed in February 2013), is a key building block. A key principle that underpins SaHF is the centralisation of emergency specialist services (such as A&E, Maternity, Paediatrics, Emergency and Non-elective care) into five major hospitals

- On the remaining NWL sites there will be further investment in **Local hospitals** (for example specialist and elective hospitals) and more services will be available **out of hospital**, in settings closer to patients' homes. Each NWL CCG has an Out of Hospital strategy.

- Programme investment analysis was included in the SaHF Decision Making Business Case (DMBC) – this is being updated to reflect ongoing CCG and provider plans

- Investments anticipated over the five year period included:

    - **Out of Hospital services** - £190m recurrently
    - **Capital investment in Out of Hospital hubs** - £112m
    - **Capital investment in primary care** - £74m

Working across NWL: NWL Financial Strategy

- **The <u>business rationale</u> for a NWL-wide financial strategy is:**

  - SaHF is a NWL-wide programme and the probability of successful implementation would be significantly enhanced by a NWL-wide financial strategy.
  - Individual CCGs are in radically different financial positions with surpluses/deficits which are predominantly the result of inherited PCT positions, and surpluses/deficits correlate with under/over funding positions.
  - If the wide disparity in CCG financial positions is not addressed through a NWL-wide financial strategy, SaHF implementation as a whole could be compromised.
  - A NWL-wide financial strategy provides resilience to all CCGs in the light of potential future funding changes, and also in facing provider issues together.

- **Strategy agreed by all 8 CCGs plus NHSE**

Working across NWL: Whole systems integrated care