

Medium Term Financial Strategy 2009/10-2013/14 and WCC Financial Assessment

Board 30th July 2009

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Part 1 – Revised World Class Commissioning Assurance System Year 2

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**PART 1 – WORLD CLASS
COMMISSIONING
ASSURANCE SYSTEM
YEAR 2**

WCC ASSURANCE SYSTEM

2009/10 REQUIREMENTS

Details of the revised Governance assessment of the WCC Assurance System have been recently published by DH, as well as details of WCC competency 11.

The 3 components of Governance consist of:-

- Strategy
- Finance
- Board

The assessment of the Finance component for 2009/10 has been extended to cover the following areas:-

- Historical Financial Management
- Robust Financial Management
- Robustness of Planning Assumptions
- Sustainable financial position – base case
- Sustainable financial position – all funding scenarios

NHS Brent's current position against each of the above measures has been RAG risk assessed in the following 2 slides.

WCC Finance Component – Low Risk Areas (Green/Amber)

In a number of areas of the Finance component NHS Brent has made good progress and with further development in the coming submission can be confident of at least an amber rating. These include:-

- Historical Financial management - financial surplus achieved 2007/8 and 2008/9
- Robust Financial Management:-
 - The Board reviews and challenges performance against key financial metrics at every Board meeting
 - The PCT can demonstrate savings achieved through robust invoice auditing/debt and asset management processes
- Robust Planning Assumptions:-
 - PCT assumptions for inflation, incidence, activity and population are consistent with latest external guidance
 - Funding scenarios align with SHA guidance
 - Plan builds incidence assumptions by disease groups
 - Assumptions on contingency are appropriate

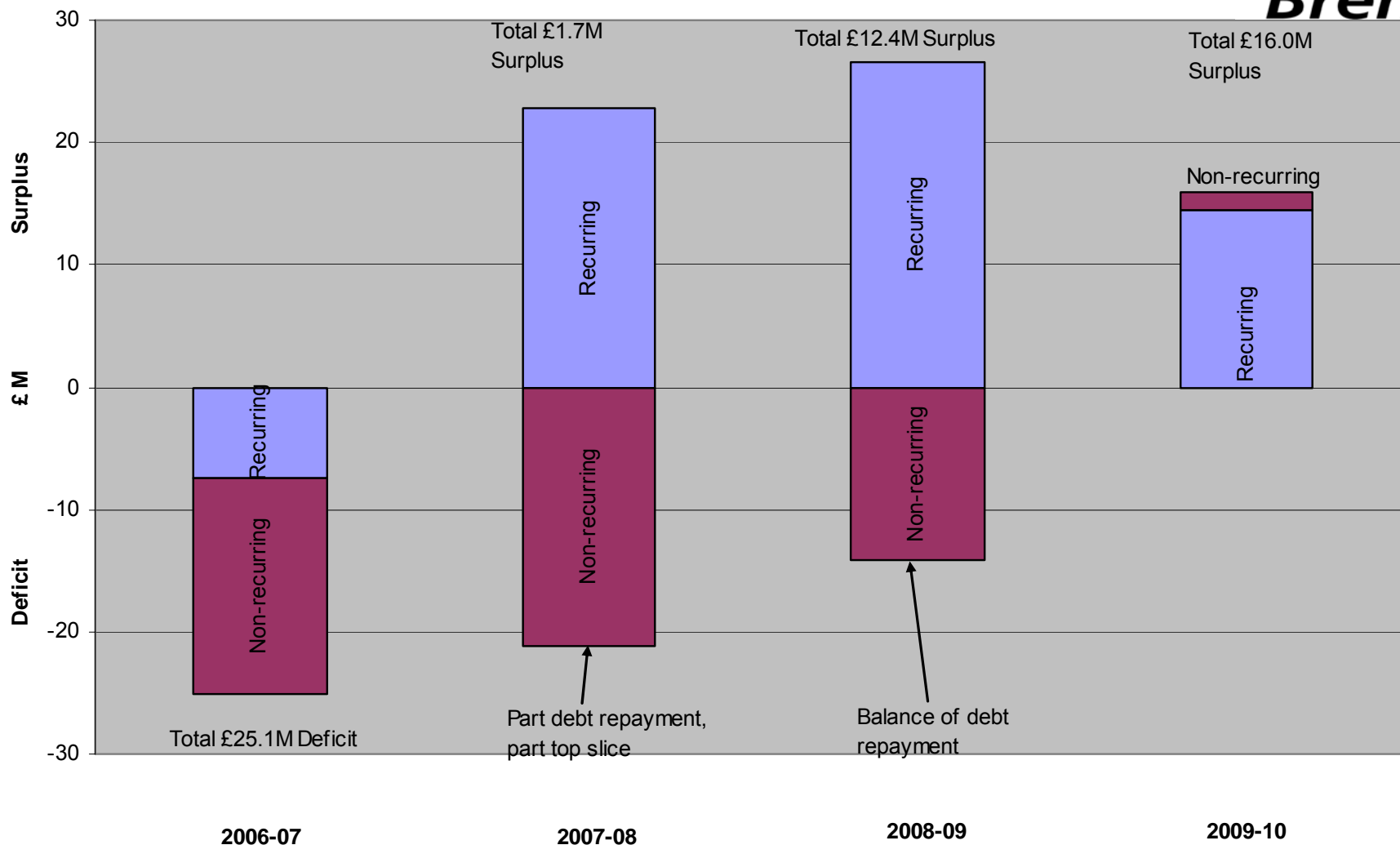
WCC Finance Component – High Risk Areas (Red)

The key areas of high risk for NHS Brent in relation to Finance component consist of:-

- Historical Financial Management - Financial Deficit in 2006/07
- Robust Planning Assumptions - Assumptions on savings/demand management backed up by justifiable evidence and a credible delivery plan
- Sustainable financial position (base case) 2009/10 -2013/14 (see part 2 of presentation)
- Credible Plan to address all significant financial challenges and major risks over the planning period arising from base case
- Sustainable Financial Position (differing funding scenarios) 2009/10 -2013/14 (see part 2 of presentation)
- Credible Plan to address all significant financial challenges and major risks over the planning period arising from differing funding scenarios

PART 2 – FINANCIAL CONTEXT / OUTLOOK AND PROJECTIONS

Analysis of Underlying Financial Position 2006/07 - 2009/10



PLANNING FOR 10/11 ONWARDS - FINANCIAL CONTEXT

Initial indications are that the financial outlook for the PCT for 10/11 onwards could be significantly tighter than projected in the CSP due to a combination of :-

- Cost of some CSP initiatives appear to be rising
- No plans yet in place to deliver CSP savings /disinvestment assumptions
- Tighter economic climate
- Changes in national resource allocation (NHS Brent is currently spending £37m above its weighted capitation target)
- Impact of revised Planning Assumptions 2010/11-2013/14 recently published by SHA
- Impact of HRG4
- Lack of ownership by PBC of CSP projections for transfers of activity out of acute setting
- Emerging pressures in 09/10 on acute contracts

The medium term financial strategy is being reviewed to incorporate and address the issues above.

KEY FINANCIAL ASSUMPTIONS - OVERVIEW

Projections have been modelled under a number of key financial assumptions:-

- The focus of the financial projections in the following slides is on the PCT's recurrent financial position
- 2009/10 financial outturn forecast has been modelled under the following 3 scenarios:-

Scenarios	Forecast OutturnUnderspending		
	Rec	Non-Rec	Total
	£m	£m	£m
Scenario 1- Base case	10.0	6.0	16.0
Scenario 2- Upside	14.5	1.5	16.0
Scenario 3- Downside	8.0	4.0	12.0

- Resource Limit and Cost pressure Uplifts applied from 2010/11-2013/14 as set out in following slides
- All financial scenarios have been developed on a PCT 'do nothing' basis i.e. no further investment and, initially no savings after 2009/10

KEY ASSUMPTIONS 1 – EXPENDITURE UPLIFT 2010/11-2013/14

Forecast Expenditure % Increases 20010/11-2013/14				
Cost Driver Category	2010/11 %	2011/12 %	2012/13 %	2013/14 %
Population	0.8	0.5	0.4	0.4
Ethnicity/Prevalence	0.4	0.3	0.4	0.4
Other activity	1.5	1.0	1.0	1.0
Other Cost	1.0	0.5	0.5	0.5
Prescribing uplift	0.7	0.7	0.7	0.7
Inflation including Quality	1.7	0.0	0.0	0.0
Net cost uplift	6.1	3.0	3.0	3.0
Uplift in CSP	7.1	5.5	5.5	
Reduction	1.0	2.5	2.5	

The majority of the reduction in % expenditure uplift is due to the lower inflation levels in revised Planning Assumptions recently issued by the SHA

The inflationary uplifts assume that providers of commissioned services achieve efficiency gains of 3.5% in 2010/11 and 4% per annum 2011/12-2013/14 in order to accommodate forecast cost inflation levels

KEY ASSUMPTIONS 2 – INCOME UPLIFT 2010/11-2013/14

Planning Assumptions Resource Uplift 2010/11-2013/14				
Planning Assumption Scenarios:-	2010/11	2011/12	2012/13	2013/14
	%	%	%	%
Base case	5.5	0	0	0
Upside	5.5	0.75	0.75	0.75
Downside	3.5	-2.3	-2.3	-2.3
Basecase in CSP	5.5	4.0	4.0	
Reduction compared to CSP:-				
Basecase	0.0	4.0	4.0	
Upside	0.0	3.3	3.3	
Downside	2.0	6.3	6.3	

FINANCIAL SCENARIOS

Projections have been modelled on the following scenarios for the period 2010/11-2013/14 :-

- Scenario 1 (Base Case)

- 2009/10 outturn as in slide10
- Income uplift 10/11: 5.5% and 11/12 -13/14: nil
- Expenditure uplifts 10/11: 6.1% and 11/12-13/14: 3%

- Scenario 2 (Upside)

- 2009/10 outturn as in slide10
- Income uplift 10/11:5.5% and 11/12 -13/14 : 0.75%
- Expenditure uplifts 10/11-13/14 (as scenario 1)

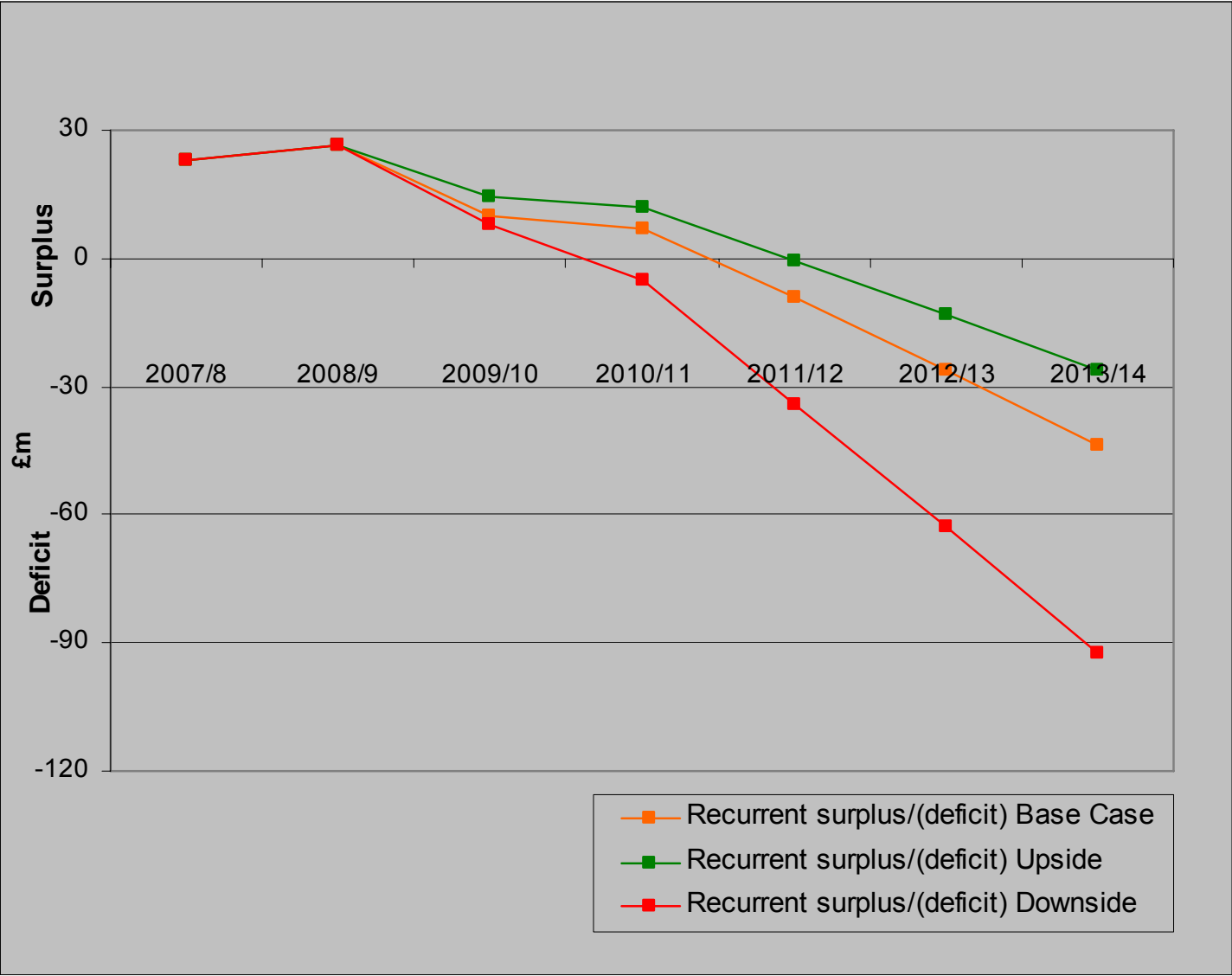
- Scenario 3 (Downside)

- 2009/10 outturn as in slide10
- Income uplift 10/11:3.5% and reduction in 11/12 -13/14: - 2.30%
- Expenditure uplifts 10/11-13/14 (as scenario 1)

FINANCIAL SCENARIOS

- The financial impact of each scenario covering the period 2010/11- 2013/14 is set out in the graph on slide 15
- The analysis reflects the PCT's recurrent financial position under each scenario.
- This excludes both the potential mitigation of the PCT's financial position by the use of non-recurrent surpluses carried forward and also the additional pressure of any deficits on the total financial position as a consequence of the need to repay deficits.
- All 3 scenarios have been built on a 'do nothing' basis from 2010/11 i.e., no further investment and no savings programme

FINANCIAL SCENARIOS – RECURRENT SURPLUS/(DEFICIT) (DO NOTHING)



LEVEL OF SAVINGS /DISINVESTMENT – SCENARIO 1 – BASE CASE

- From slide 15, the Base case scenario demonstrates a requirement to save recurrently £60m (approx) over the three year period 2011/12 – 2013/14 in order to maintain a sustainable financial position and to allow investment in key priorities (equivalent to an average of £20m p.a.)
- Given the size of the challenge, it would be prudent for the PCT to plan to spread the requirement over 4 years rather than 3 years to reflect the lead time associated with major savings/disinvestment programmes
- An annual additional savings profile for 2010/11-2013/14 to meet the above objectives is summarised below:
 - 2010/11 - £10m
 - 2011/12 - £15m
 - 2012/13 - £15m
 - 2013/14 - £20m
- In the Base case scenario the PCT maintains a sustainable financial position with some headroom for additional investment throughout the review period.
- The impact of the savings programme on the base case scenario is illustrated graphically in slide 20

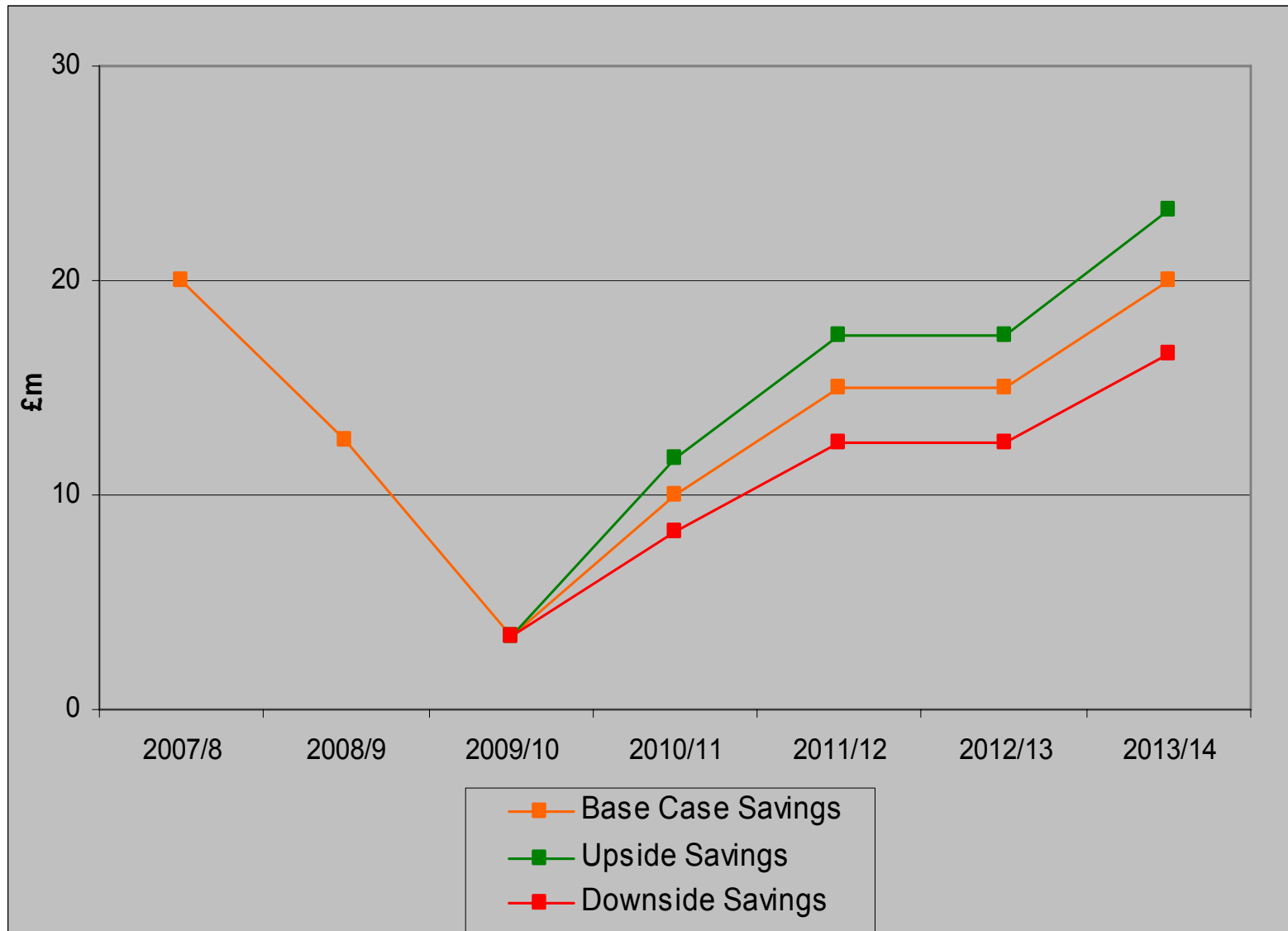
LEVEL OF SAVINGS /DISINVESTMENT – SCENARIO 2 - UPSIDE

- The Upside scenario demonstrates a requirement to save recurrently £45m (approx) over the three year period 2011/12 – 2013/14 in order to maintain a sustainable financial position (equivalent to an average of £15m p.a.)
- As with the base case scenario the additional savings programme should be spread over 4 years from 2010/11.
- Compared with the savings target of £45m, the Upside scenario assumes an additional 0.5% per annum savings can be achieved over and above the base case scenario (i.e. £70m)
- In the Upside scenario the PCT is able to reinvest additional surpluses compared to the base case.
- The impact of the savings programme on the Upside scenario is illustrated graphically in slide 20

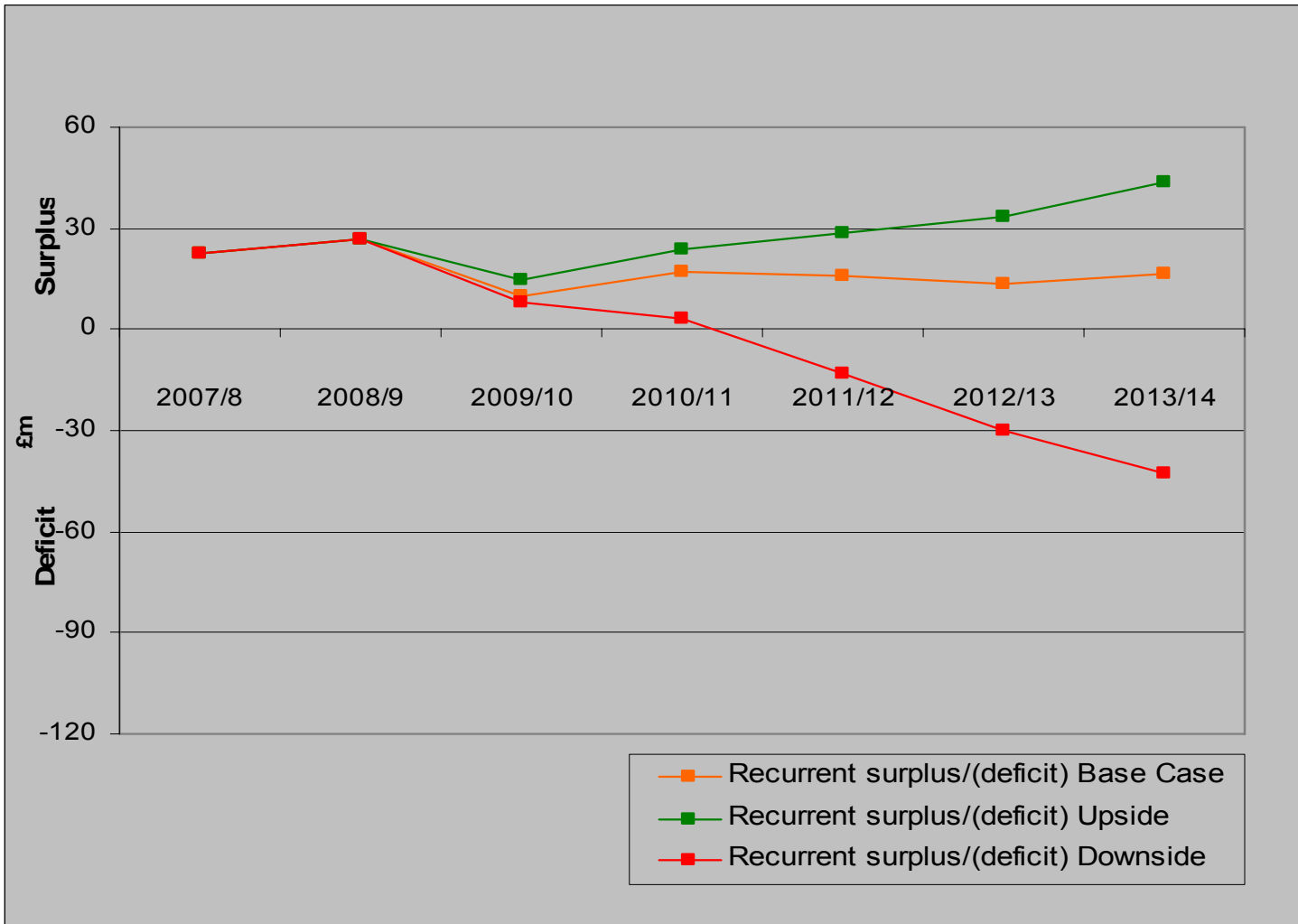
LEVEL OF SAVINGS /DISINVESTMENT – SCENARIO 3 - DOWNSIDE

- The Downside case scenario demonstrates a requirement to save recurrently £105m (approx) over the three year period 2011/12 – 2013/14 in order to maintain a sustainable financial position (equivalent to an average of £35m p.a.)
- As with the base case scenario the additional savings programme should be spread over 4 years from 2010/11 with an annual savings requirement of approximately £25m p.a.
- Compared with the savings target of £105m, the Downside scenario assumes a reduction of 0.5% per annum in the base case savings programme (i.e. £50m)
- In the Downside scenario the PCT moves into substantial recurrent deficit from 2011/12 onwards
- The impact of the savings programme on the Downside scenario is illustrated graphically in slide 20

NHS Brent - Savings Programme 2007/08-2013/14



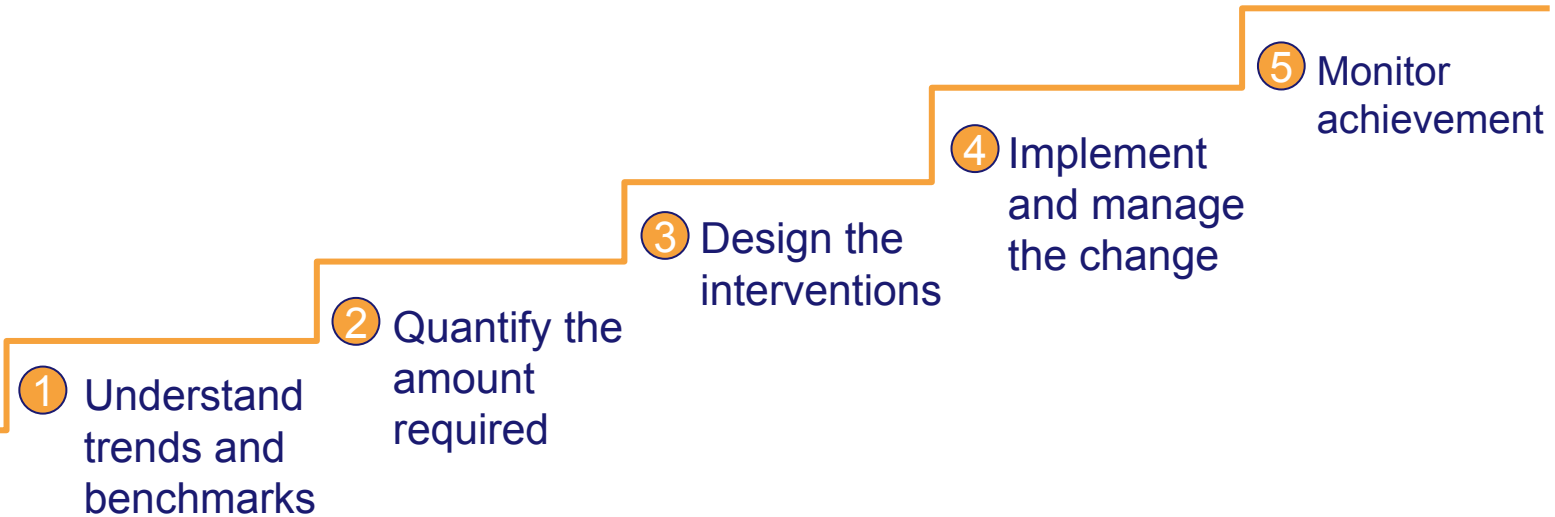
IMPACT OF SAVINGS PROGRAMME ON UNDERLYING RECURRENT POSITION



- The base case and upside scenarios provide surplus for sustainable investment
- The downside scenario requires additional savings to ensure a sustainable position

PART 3
DEVELOPING A SAVINGS /
DISINVESTMENT PLAN

Developing and implementing a savings / disinvestment programme



Description

- Collect data and analyse
 - time series
 - Benchmarking
 - Key drivers
- Choose priority areas to address and quantify target savings from each area
- Decide the delivery strategies and the levers and actions to be taken
- Implement the changes and ensure actions are taken to ensure sustainability
- Ensure the changes and actions result in real savings

Timeline

May/June

June/July

July onwards

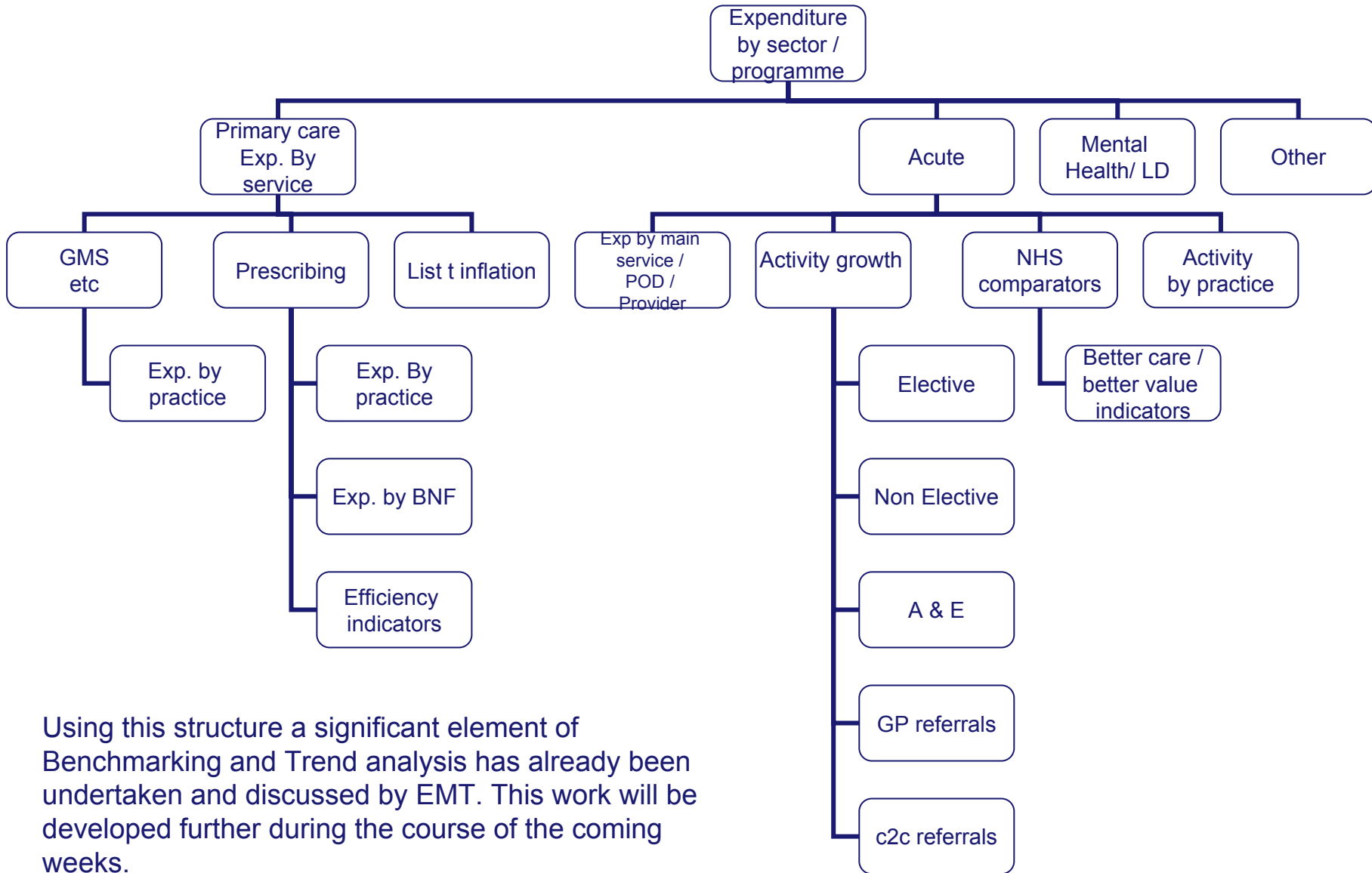
September onwards

October onwards

Progress



Benchmarking / trend analysis - structure



Using this structure a significant element of Benchmarking and Trend analysis has already been undertaken and discussed by EMT. This work will be developed further during the course of the coming weeks.

THREE BROAD ACTIONS FOR COMMISSIONERS TO TAKE

Description

1

Shift to lower cost setting

- Reduce unit price for those services that can be safely and more cost effectively provided through a different pathway out of the hospital and closer to home
-

LTC and case management

- Provide care proactively for people outside of hospital to prevent use of hospital services
-

2

Prevention

- Reduce demand for healthcare services by addressing health behaviours to reduce risk of ill-health and by improving screening to detect ill health at an earlier stage
-

De-commissioning

- Stop commissioning and providing low value added interventions (e.g., grommets, some joint replacements, some OP follow-ups)
-

3

Reduced unit costs in the non acute sector

- Reduce unit price of non-acute services to be delivered within a polysystem setting (which will also deliver activity shifted from acute, as well as activity from LTC and prevention)
- Eliminate unnecessary and costly service overlaps (e.g., out-of-hours, extended hours, urgent care, A&E)

IDENTIFICATION OF POTENTIAL SAVINGS AREAS (1)

AREA

Prescribing

Elective activity management

- GP referrals
- Consultant to consultant referrals
- Out-patient follow-ups
- Surgical thresholds

Non-elective activity management

- Intermediate care strategy (admission avoidance)
- Length of stay
- Case management

High intensity users

Care pathway review

IDENTIFICATION OF POTENTIAL SAVINGS AREAS (2)

AREA

Acute Claims validation

Primary Care

- QOF payments validation
- List size validation

Estates utilisation

- Income
- K&C SLA
- Utilisation review

HQ

- 3% /3.5% target
- FHSA services
- SBS /e procurement

Continuing care Procurement

Community services

- unit cost reductions
- decommissioning

Mental Health

- CNWL productivity
- Whole system review

DEVELOPING THE SAVINGS / DISINVESTMENT PLAN

NEXT STEPS

The following actions were agreed at the EMT on 24th June

- Establish a set of strategic EMT dates
- Reshape the current CSP initiatives including PC strategy, Intermediate Care and Vascular Health in the light of changed economic climate
- Align the development of the disinvestment plan with CSP refresh
- Review the broad areas for action identified for consideration by EMT (previous 2 slides) and confirm which fit into current projects and agree SRO's
- Agree role of PBC
- Continue to develop the benchmarking and trend analysis as a working document

Action

ME

JO/TS/JC

TS/JW

TS/JO

JO

JW

At its meeting on the 1st July EMT considered the changes required to the PCT's investment processes to meet WCC competency 11 (see slides 28-32)

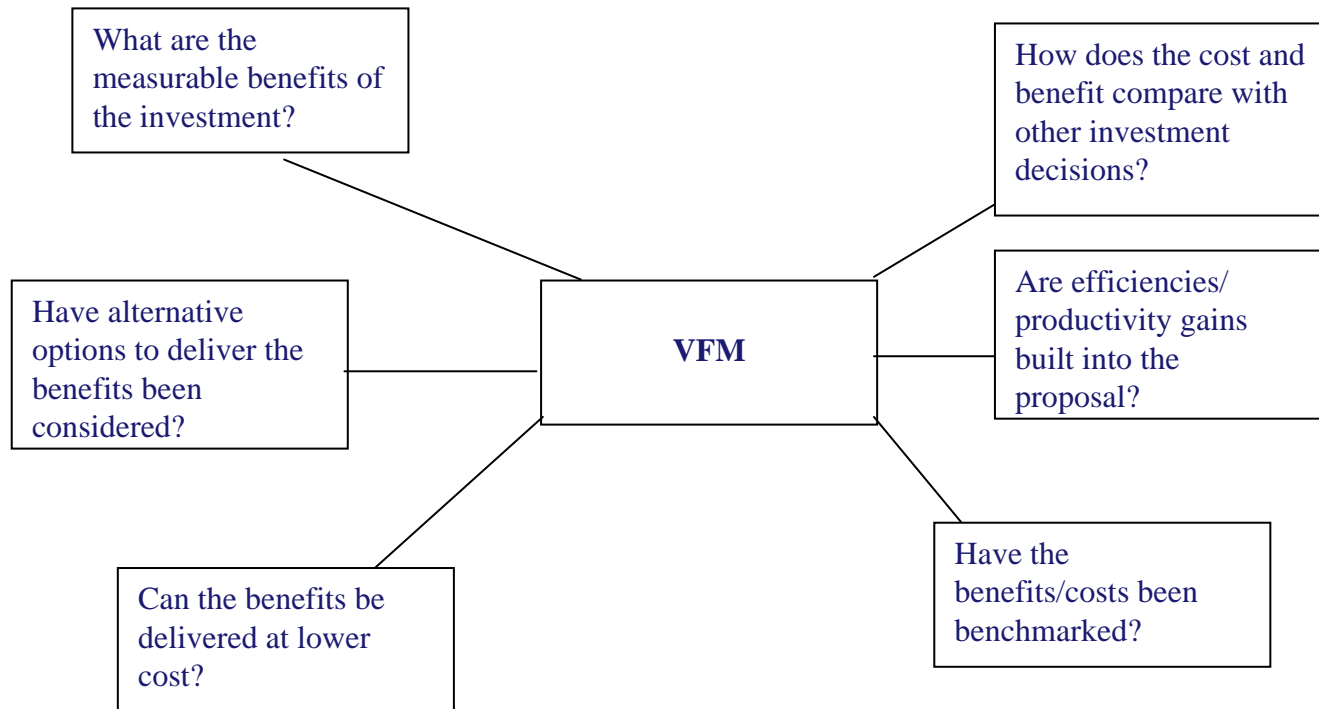
WORLD CLASS COMMISSIONING COMPETENCY 11

- New WCC competency defined for the 09/10 review
- Competency 11 – Ensuring efficiency and effectiveness of spend
- *“A core purpose of commissioners is to make sustainable trade off decisions and sound investments across all spend to deliver the highest level of health benefit for a given level of spend along each care pathway. Robust analysis of spend and its impact on health benefit enables PCTs to make well informed investment decisions. By identifying and unlocking efficiency and productivity improvements across all its commissioned activity, PCTs will deliver both better health outcomes and greater value for money”*

WCC COMPETENCY 11 CONT'D

- a) Measuring and understanding efficiency and effectiveness of spend
 - b) Identifying opportunities to maximise efficiency and effectiveness of spend
 - c) Delivering efficiency and effectiveness of spend sustainably
- Level 2 assessment means that pathways for priority outcomes have been analysed (for outputs, spend, £ per output, relevant outcomes), benchmarked nationally, opportunities identified and a set of initiatives defined
 - Level 3 additionally requires review of all pathways, calculation of health benefits per £ spent for priority outcomes, benchmarked against international best practice, in delivering initiatives milestones are set, performance reviewed and re-directed to capture greatest level of efficiency and effectiveness

CURRENT FRAMEWORK FOR ASSESSING VFM



CURRENT INVESTMENT PROCESS – ASSESSMENT OF VFM

Five of the six questions are in theory covered in the Business Case required for the Investment Panel. The relevant Business Case guidance is set out below. However in practice, the extent to which each of the areas is covered adequately is variable.

1. What are the measurable benefits of the investment?
 - This makes up the tangible benefits table in the business case and is referenced in the benefits guidance
2. Have alternative options to deliver the benefits been considered?
 - This is covered by the Options section and is referenced in the options guidance
3. Can the benefits be delivered at lower cost?
 - This is covered by the Options section and is referenced in the options guidance
4. How does the cost and benefit compare with other investment decisions?
 - Investment panel role, not included in business case
5. Are efficiencies/ productivity gains built into the proposal?
 - Covered in tangible benefits guidance
6. Have the benefits/ costs been benchmarked?
 - Covered by a combination of the benefits and benchmarking guidance

NEXT STEPS: DEVELOPING INVESTMENT / DISINVESTMENT FRAMEWORK AND PROCESSES TO WCC STANDARDS (I.E. WCC COMPETENCY 11)

- Develop framework for measuring costs and benefits / outcomes
- Extend and align PCT investment process to include:
 - disinvestment proposals
 - whole system reviews, including baseline spend
 - WCC investment tools / techniques, including programme / marginal analysis
 - Market analysis
- Communicate across the PCT and agree training / development plan
- Align implementation of Commissioning Intelligence Information Strategy to support above.
- Agree how (and by who) VFM is assessed prior to submission to Investment Panel