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| **Report To:** | Governing Body | **For decision** | ☐ |
| **Report Title:** | Financial position at month 2 (May 2013) | **For discussion** | ☒ |
| **Report From:** | Paul Jarvis – Chief Finance Officer | **For information** | ☐ |
| **Date:** | 17 July 2013 | **Confidential** | ☐ |

**Purpose of the Report:**

To advise the Governing Body on financial performance of the CCG.

**Key Points:**

- The CCG is reporting achievement of financial targets at month 2 but this position in dependant on resolution of resource shortfall arising from changes in allocations associated with nationally agreed changes to the specialised services portfolio. A resource transfer of £7m from NHS England to the CCG is estimated as the requirement to restore cost neutrality to the process. In the event that this cannot be achieved the CCG will be at high risk of not achieving financial targets and of incurring a potential deficit in 2013/14. The CCG is participating in a process initiated by NHS England area team to identify a solution to this problem, which affects not just this CCG but many CCG locally and beyond.

- In addition to securing the above resource transfer, to deliver the financial plan as outlined, the CCG must identify £1.4m to close its QIPP gap or must utilise contingency reserves for this purpose. This latter course is NOT recommended as it limits the CCG ability to mitigate against unplanned in year events such as contract over-performance or non delivery of other QIPPs. Discussions will take place via the CCG confirm and challenge and other processes to identify additional schemes, though opportunities may be somewhat limited by the nature of many of the CCG contracts which are block arrangements.

- In the event that neither of the above are achieved, the CCG faces a potential deficit of £5.6m, rather than the planned surplus of £2.8m.

**Recommendation (s):**

- Critical action 1 - A requirement to achieve a resolution in respect of specialised services resulting in a resource transfer of c£7m from NHS England to the CCG.
- Critical action 2 – A requirement to identify and deliver £1.4m of additional QIPP schemes in 2013/14.

| **Previously Considered By:** | **Date:** |
|---|---|
| Performance Committee | 12 June 2013 |

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|---|---|
| **Financial Implications:** | Ability to achieve financial targets including breakeven duty. |
| **Performance Implications:** | |
| **Quality Implications:** | Impact on CCG ability to commission high quality services for local people. |
| **Equality and Diversity Considerations:** | |
| **Patient and Public Engagement:** | |
| **Risk Assessment:** | Extreme Risk |

## 1. Revenue position

1.1. At month 2, the CCG is forecasting achievement of its planned £2.8m surplus for 2013/14 however this position is predicated on two critical actions.

- Action 1 – secure a corrective resource transfer of c£7m to the CCG from NHS England in respect of unvalidated allocation deductions previously made in support of changes to the specialised services commissioning portfolio.

- Action 2- The identification and delivery of an additional £1.4m QIPP savings to close a QIPP gap arising during the contract agreement process.

1.2. The first of these assumptions represents an extreme risk for the CCG but is made on the basis that a process (outlined in appendix 2) has been initiated by NHS England Birmingham, Solihull and Black Country area team to further explore/resolve this problem.

1.3. The second assumption is high risk given the limited scope within contracts, many of which are block, to effect in year savings.

**Key Point -** In the absence of these two corrective actions being successful, the CCG would at this point have a **forecast deficit for 2013/14 of £5.6m** rather than the planned surplus of £2.8m

1.4. Members of the committee should note that this specialised service allocation issue is not unique to this CCG but is affecting many health systems. It is understood that the scale of the issue across Arden, Worcestershire and Herefordshire based CCGs may be in excess of £30m.

1.5. A year to date revenue position is not being reported in detail at month 2 due to there being very limited data in respect of contract performance due to a delay nationally in the completion of the 2013/14 contract process until 30th April.

## 2. Impact of specialised services allocation deduction on CCG

2.1. During 2012/13 NHS England approved changes that saw a significant expansion in the portfolio of services that would be commissioned as 'specialised' e.g. cancer services. In order to implement these changes, an exercise was undertaken by NHS England in conjunction with Specialised Commissioning Groups to calculate the level of resource to be transferred from CCG allocations to NHS England to fund this expanded portfolio.

2.2. On the basis of this exercise, £47.6m was identified as being the transfer value from Warwickshire revenue allocations, of which £23.7m or 49.8% was subsequently indentified as being the SWCCG element.

2.3. No PCT/CCG engagement/involvement took place as part of this process, no opportunity was given to verify or validate the transfer values prior to them being actioned.

2.4. During the early part of 2013, work began within the Arden Cluster to try to ascertain the extent to which this transfer represented an accurate assessment of the actual level of costs that would move from CCG contracts with providers to specialised services i.e. the extent to which the exercise resulted in a cost neutral outcome. At this point it became apparent that there was a very significant gap that impacted adversely on The CCG. The size of this gap across Warwickshire is currently estimated to be in the region of £14.7m.

2.5. At this point we do not have a CCG specific gap value, but on the basis of the relative share, a shortfall of c£7m would exist within the CCG's available resource as compared to contract commitments. Now that contract values have become available, this gap appears to be of the correct magnitude.

2.6. There have subsequently been numerous iterations of the gap analysis undertaken by Arden Commissioning Support, but bottoming out the problem remains an elusive end point. This is largely due to limitations in the underlying data (or access to date) which it is impossible in certain cases to determine who is the responsible commissioner e.g. the costs of a drug used to treat cancer would fall to a specialised services contract but the same drug used to treat a rheumatology condition would be commissioned by a CCG.

2.7. One further complication relates to where the money may have gone. Presently, the West Midlands Specialised Services team also believe that they are sitting on a financial problem.

2.8. At first sight this seems counterfactual but it is understood that responsible commissioner arrangements for specialised services may have changed such that the West Midlands based Specialised Commissioners are now responsible for purchasing all of the activity undertaken by providers within the region e.g. UHCW, whereas in the past they would have done so for West Midlands residents only.

2.9. To fund this change, resource flows from non West Midland based specialised service commissioners would be required. We understand that this process may not have transferred enough funding into the region thus creating a funding gap for the West Midlands based team that has in effect been 'plugged' with local CCG money. Committee members should note that this at present remains 'a view' rather than a confirmed fact, but if correct implies that the funding gap is one that exists between various specialised services commissioners across the country, rather than a being a CCG issue.

2.10. The specialised services team also make the point that after the point they had calculated the level of resource to transfer from CCGs, the financial position on the 2012/13 specialised contracts worsened/over-performed and this has added to their funding pressures. It is the view of the CCG that such pressures should be addressed using growth funding directly allocated for this purpose nationally to specialised services, supplemented where necessary by QIPP programs and not via the current approach of a non cost neutral transfer from local CCGs.

**Key point –** The complexity of the issues involved, and the quality and paucity of data available mean that it is presently not possible to confidently assert that the CCG view of the world is entirely correct, thus direct dialogue has been ongoing with specialised services finance colleagues to ensure common understanding. In addition, Arden CSU have been challenged on a number of occasions to validate and revalidate the estimates they have provided to the CCG of the gap. Having said this, now that contracts have been agreed, the scale of the financial gap appears to be in line with the gap predicted within the modelling thus far undertaken. The following table summarised the key areas where differences exist between resource and cost transfer.

Table – Warwickshire wide resource v cost transfer gap for specialised services

| | |
|---|---|
| Inpatient / outpatients | £5.0m |
| HIV | £3.0m |
| Neuro. Rehab. | £1.2m |
| Chemo/High Cost Drugs | £4.4m |
| All other | £1.1m |
| Total | £14.7m |

2.11. Considerable dialogue on these issues has taken place with other local CCGs' and with the Arden, Worcestershire & Herefordshire Area team. The Area Team, recognising the need to resolve this critical issue, have taken steps to initiate a process whereby they, CCGs' and also Birmingham, Solihull and Black Country Area Team (who host the West Midlands specialised service team) will carry out further analysis which 'may' result in a 'cost neutral' movement of resources.

2.12. Correspondence in respect of this process is included to inform members of the actions proposed by the group. Members should however note that the tone of correspondence from Birmingham, Solihull and Black Country area team does not presently suggest any acceptance that there were any flaws in the methodology or approach used to derive the original allocation deductions.

2.13. Following completion of the process (outlined in Appendix 2), the CCG will review and revise the financial position and will determine a best course of action.

**Key Point -** In the event that this process fails to secure agreement to a corrective resource transfer, the CCG will have little choice other than to forecast a deficit for 2013/14.
In addition, this situation will leave the CCG without any available reserves to mitigate against unexpected in year events or resources to invest in service change. This situation will :

a) Impact on services for patients going forward as savings may be required through disinvestment and
b) Threaten the viability of clinical commissioning within South Warwickshire and impact adversely on local providers.
c) Unfairly move resources permanently from general to specialised commissioning.

## 3. Impact of contract agreements

### South Warwickshire Foundation Trust (SWFT)

3.1. The final 2012/13 out-turn expenditure against SWFT acute services contract was £119.9m. The contract agreed for 2013/14 prior to specialised services transfer adjustments was £122.3m. This represents a cost pressure of £2.4m and relates primarily to increases in the value of the emergency element of the contract which it was not possible to offset using QIPPs as had originally been planned.

3.2. The CCG has invested c£1.6m in increasing the level of emergency activity paid for at 100% rate rather than at the 30% emergency marginal rate (EMR) and a further £0.7m in reducing the abatement for unpaid readmissions within 30 day. i.e. More money for the same activity thus bolstering the emergency services within SWFT. These agreements formed part of an overall settlement that resulted in a block emergency contract for 2013/14. This arrangement reduces in year financial risk for the CCG.

3.3. No contract monitoring has yet been received for month 1. It is understood that SWFT have had delays in preparing this information. In addition, no national data is yet available

from the secondary user service (SUS) system; the system used to collate and process Trust data for contracting purposes.

3.4. Verbal feedback from the Trust indicates that there has been underperformance against the elective elements of this contract and the emergency elements are block. We can therefore be reasonably confident that the contract is not over-performing; the risk area being high cost drugs.

**University Hospital Coventry & Warwickshire**

3.5. The CCG contract with UHCW was agreed at £14.4m. As part of this agreement, a number of uplifts were agreed with the Trust that have resulted in a significant additional financial pressure for the CCG.

3.6. Analysis of these funded pressures have been identified for removal of unbundled diagnostics block in 12/13 contract £235k, improving outpatient procedure coding £290k, emergency marginal rate £374k. Together these total £899k, however our analysis indicates that the total cost pressure over and above the CCG budget envelope approaches £1.6m. Given the actual size of the CCG contract with UHCW , this is somewhat disappointing.

3.7. Further work is being carried out to compare the CCG share of total contract values calculated by the trust, against the assumptions made by the CCG as part of last year's baseline exercise to 'carve up' the PCT revenue allocations. In the event that there is a significant variance between these two values, a jointly agreed corrective 'handling strategy' for 2013/14 will be required with other Arden based CCGs and a permanent solution required from 2014/15.

3.8. Discussions are ongoing with Coventry & Rugby CCG on this matter.

**Worcester Acute**

3.9. The CCG is still chasing the final position on this contract which currently remains unsigned due to delays relating to an arbitration process between Worcester Acute and Worcestershire CCGs. It is understood that the CCG was successful in its arbitration case but at this point we remain unclear on the final contract value. This represents a risk for the CCG as this is the third largest acute contract by value. The situation is being closely monitored.

**Other Acute Contracts**

3.10. Further work is required to evaluate the impact of other out of county acute contract agreements, the impact of which is somewhat obscured by the specialised services problem.

**Community Services Contract**

3.11. This contract was agreed at the level of 2012/13 minus deflator which was as planned. A comparison of 'CCG share' compared to 'baseline resource share' will be undertaken to ensure alignment.

**Coventry and Warwickshire Partnership trust**

3.12. To be updated.

## 4. QIPP Program

4.1. The CCG QIPP target for 2013/14 is £7.0m. At month 2, the CCG has £5.6m of QIPP schemes which are implemented/ being implemented. An unidentified gap of £1.4m currently exists. This relates to shortfall in schemes related to emergency admissions linked to the SWFT contract as discussed above.

4.2. A detailed report on QIPP progress will be prepared and presented at month 3.

4.3. The CCG has implemented its Confirm and Challenge process and is meeting with QIPP leads to review progress. Selection of projects for review is prioritised on basis of the assessed impact of the scheme on the CCG financial position.

**Key Point -** The CCG must identify and implement plans to close the £1.4m QIPP gap in order to deliver financial targets. Alternately, the CCG will need to utilise most of the remaining contingency reserve to close this gap. This latter course would expose the CCG to greater financial risk in the event of either a) other QIPPs deliver below target or b) there is in year contract over-performance.

4.4. The confirm and challenge and other forums will be used to assess the potential for further in year QIPPs though opportunities are limited by the nature of the CCG contracts, many of which are block arrangements.

## 5. Running Costs

5.1. The CCG is currently operating within the running cost allowance.

## 6. Capital

6.1. No capital resource limit has as yet been notified to the CCG. The extent to which capital will be made available remains unclear but is currently anticipated to be minimal.

## 7. Conclusion and Recommendations

7.1. The Executive is asked to note the following :

- The CCG faces an extreme financial risk due to specialised service resource transfers. This risk jeopardises the ability of the CCG to achieve financial targets and to effectively commission non-specialised services for South Warwickshire patients going forward.
- Note that the CCG is participating in a time limited process, initiated by NHS England area teams to resolve this problem but that there currently appears to be no acceptance that the original process of resource realignment was fundamentally flawed.
- Note the risks in relation to the outstanding contract agreement with Worcestershire Acute.
- Note that the CCG must identify an additional £1.4m of QIPP savings to achieve financial targets via in 2013/14, or will need to approve the utilisation of contingency reserve to offset this QIPP gap. The confirm and challenge and other forums will be used to assess the potential for further in year QIPPs though opportunities are limited by the nature of the CCG contracts, many of which are block arrangements.

**End of Report**

# Appendix A

## Revised Plan At Month 2

| | | £000's | |
|---|---|---|---|
| **Resources** | | | |
| Approved | | 284,644 | |
| Share of surplus b/fwd | | 69 | |
| Anticipated (agreed technical changes) | | (1,406) | |
| **Total** | | | **283,307** |
| **Expenditure** | | | |
| Acute | | 158,520 | |
| Mental Health & LD | | 33,978 | |
| Continuing Health Care | | 21,515 | |
| Community | | 26,072 | |
| Prescribing | | 36,678 | |
| Out of hours | | 2,616 | |
| LES | | 1,361 | |
| Other | | 1,616 | |
| **Reserves** | | | |
| Contingency 1% | 2,846 | | |
| Less - offset contract pressures | (1,037) | | |
| Available contingency | | 1,809 | |
| Strategic change reserve (QIPP Investments) | | 2,859 | |
| Earmarked e.g. IT | | 1,849 | |
| **Total** | | | **288,873** |
| **Net Surplus / (Deficit) before critical action** | | | **(5,566)** |
| **Critical Actions** | | | |
| (1) Identify and deliver additional QIPP programs | | | (1,400) |
| (2) Secure corrective allocation adjustment re specialised services | | | 7,000 |
| **Net Surplus / (Deficit)** | | | **2,834** |