NHS
Birmingham and Solihull
Clinical Commissioning Group

# Draft 2019/20 Financial Plan

Introduction

1. NHS England (NHSE) planning guidance requires CCGs to develop and approve a financial plan each year, alongside an operational plan, for approval prior to the start of the financial year (1st April).

2. An outline financial plan for 2019/20 was considered by the Governing Body at its meeting in October 2018. NHSE has subsequently issued funding allocations and financial planning guidance to CCGs for the 2019/20 financial year on 11th January 2019.

3. The purpose of this report is therefore, to provide an updated briefing to the Finance & Performance Committee and the Governing Body on the CCG's projected financial plan for 2019/20 based on the latest planning guidance and allocations published by NHSE.

4. The report sets out the CCG's position regarding:

   - The NHSE 'control total' for 2019/20;
   - The financial allocations available to the CCG in 2019/20;
   - The NHSE 'Business Rules' which set the framework within which the CCG must develop its 2019/20 financial plan;
   - The impact of activity growth, price inflation and tariff efficiency in developing the financial plan;
   - The Quality, Innovation, Productivity and Prevention (QIPP) savings programme necessary to deliver the financial plan.

5. The report also sets out the next steps for updating and subsequently approving the 2019/20 financial plan by 31 March 2019.

NHS England 'Control Total'

6. Each year, NHS England determines a financial 'control total' for the CCG which must be reflected in the financial plan submitted to NHSE and approved by the CCG's Governing Body.

7. The control total is determined by reference to the CCG's financial performance in previous years. This is measured by the CCG's cumulative surplus, or under-spend against its allocation. NHSE requires CCG's to have a cumulative surplus equivalent to at least 1% of its financial allocation. There are 3 control total scenarios, as follows:

   - If the CCG's existing cumulative surplus meets the 1% requirement, the CCG's in-year control total will normally be set as break-even i.e. it is permitted to spend its allocation for the year in full.

   - If the existing cumulative surplus exceeds the 1% requirement, the CCG may be set a negative control total i.e. it is permitted to over-spend its allocation for the year and therefore 'draw-down' or reduce its cumulative surplus back down towards the 1% requirement.

- If the cumulative surplus is below the 1% requirement, the CCG may be set a positive control total i.e. it must under-spend its allocation for the year and therefore 'draw-up' or increase its cumulative surplus back up towards the 1% requirement.

8. In the current financial year (2018/19), the CCG brought forward a cumulative surplus of £37.6m which was £21m above the 1% requirement. The CCG was permitted to have a negative control total in 2018/19 which was set by NHSE at £3.6m. The CCG will therefore close the year with a cumulative surplus of £34m which is £17.6m above the 1% target level.

9. NHSE has recently set the CCG's control total for 2019/20 at break-even. This means that in 2019/20, the planned cumulative surplus will remain unchanged at £34m and so will remain above the 1% target level. This is set out in table 1 below.

**Table 1 : CCG Cumulative Surplus and Control Total**

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Cumulative Surplus brought forward | 37.6 | 34.0 |
| In-Year Control Total | -3.6 | 0 |
| Cumulative Surplus carried forward | 34.0 | 34.0 |
| 1% Cumulative Surplus target | 16.4 | 17.4 |
| Excess above target level | 17.6 | 16.6 |

10. The CCG can, in principle, access the £16.6m headroom above the 1% target to fund non-recurrent investment plans, but this is subject to approval of a business case by NHSE. Planning guidance states that NHSE has limited capacity to grant access to cumulative surpluses in 2019/20 so accessing the cumulative surplus should be viewed as a potential means of pump priming investments over a longer period, as part of 5-year financial strategy.

NHSE Business Rules

11. In developing the financial plan for 2019/20, the CCG is expected to comply with 'business rules' determined by NHSE, as set out in the table below. Where a CCG is unable to approve a plan that meets all of the business rules, it will be reflected in the CCG's assurance rating and may result in further interventions.

Table 2: NHSE Business Rules

| | |
|---|---|
| 1. Plan triangulation | Commissioner financial plans must triangulate with efficiency plans, activity plans and agreed contracts.<br><br>Finance, efficiency and activity assumptions must be consistent between commissioners and providers. |
| 2. Minimum cumulative/ historic under-spend | The CCG must plan to under-spend its financial allocation (excluding co-commissioning) by a sum equivalent to the higher of 1% of its financial allocation or, the prior year surplus less any agreed drawdown. |
| 3. Minimum in-year financial position | All commissioners are required as a minimum to break even, subject to prior agreement of drawdown of historic underspends. |
| 4. Local contingency | The CCG must set-aside a contingency budget within its |

| | |
|---|---|
| | financial plan to mitigate against risks arising during the year. This must be a minimum level of 0.5% of total allocation. |
| 5. Administration costs (running costs) | The CCG must limit its expenditure on running costs so as not to exceed its running costs financial allocation. Running costs include pay costs, CSU charges and other costs associated with the day-to-day running of the CCG. |
| 6. Mental Health Investment Standard (MHIS) | The CCG must increase expenditure on mental health by a minimum of the overall programme growth % plus an additional percentage increment to reflect the additional mental health funding included in CCG allocations. Compliance with the MHIS will be subject to independent auditor review. |
| 7. Better Care Fund (BCF) | The CCG must ensure that the minimum financial contribution into the BCF, as specified by NHSE, is met. |
| 8. Quality Premium | The CCG must ensure that any Quality Premium funding received is applied to healthcare expenditure and not running costs. |

2019/20 Financial Allocations

12. Financial allocations represent the funding envelope within which the CCG must frame its annual expenditure plans. There are three elements to the CCG's in-year financial allocations:

    (1) a 'programme' allocation to fund expenditure on healthcare services from provider organisations;
    (2) a 'primary care' allocation to fund expenditure on primary care co-commissioning delegated by NHSE; and
    (3) a 'running costs' allocation to fund staff costs and other costs associated with the operation of the CCG.

13. The CCG allocations published on 11th January are part of the deployment of NHSE's five-year revenue funding settlement, averaging 3.4% a year in real terms and reaching £20.5bn extra a year by 2023/24. CCG allocations are being set on the basis of NHSE's five-year real terms revenue funding profile, which has now been set by Government as 3.6%, 3.1%, 3.0%, 3.0%, and 4.1%. The published allocations are subject to approval by the Board on NHSE on 31 January 2019.

14. Each CCG has a programme 'target allocation' based on a needs based funding formula. For 2019/20, the formula has been updated to reflect changes to the way population data is used, new need-indices for community, mental health and learning disability services, and changes in the approach to health inequalities, making the formula more responsive to extremes of health inequalities and un-met need, and increasing the fair share of resources targeted at those areas.

15. As set out in the table below, the CCG's baseline programme allocation in 2019/20 is 2.23% or £38.06m lower than the target allocation. NHSE operates a 'pace of change' policy to move CCG allocations closer to their target level over time. However, CCG's between -2.5% and +5% from target in 2019/20 are deemed to be close to target and receive equal funding growth per capita.

| Table 3A : CCG 'Target' Programme Allocations | | |
|---|---|---|
| | 2018/19 | 2019/20 |
| | £m | £m |
| Baseline allocation (£m) | 1,615.78 | 1,706.83 |
| Distance from target % | -2.04% | -2.23% |
| Distance from target (£m) | -32.96 | -38.06 |

16. The actual uplift to the CCG's baseline programme allocation in 2019/20 is set out in the table below. This is an uplift of 5.63% or £90.9m before pace of change and other funding adjustments and 5.77% overall.

| Table 3B : CCG Programme Allocation Growth 2019/20 | | |
|---|---|---|
| | 2019/20 | |
| | £m | % |
| Baseline allocation | 1,615.78 | |
| Allocation uplift | 90.90 | 5.63% |
| Pace of change adjustment | 0.15 | |
| Other funding adjustment | 2.17 | |
| Final allocation | 1,709.00 | 5.77% |

17. The uplift in programme allocations is expected to fund a number of cost pressures in 2019/20, including:

- Acute activity growth including non-elective growth and elective growth consistent with meeting the requirements set out in the planning guidance.

- NHS national tariff inflation net of 1.1% efficiency factor, including pay, non-pay, tariff drugs and medical indemnity costs. Tariff inflation includes funding for 2018/19 pay deals previously funded to trusts directly.

- Medicines expenditure including the expected impact of agreement between the Department of Health and Social Care and the Association of British Pharmaceutical Industries in respect of branded medicines.

- Other changes to NHS national tariff prices as reflected in NHSE planning guidance, including increased non-elective prices (reflecting inclusion of £1bn of provider sustainability funding previous passed direct to providers, changes to CQUIN (half now within prices), adjustment for the overhead costs of centralised procurement arrangements, indemnity costs and transfers between commissioners (NHSE specialised services and CCGs).

18. The other funding adjustment in table 3B above is for ambulance resilience funding, ambulance paramedic re-banding and health and social care network (HSCN) costs for CCGs and GPs.

19. Without the increase in urgent and emergency care prices and inclusion of 2018/19 pay deal (both of which have a one-off impact on 2019/20 tariff prices), overall CCG programme growth in 2019/20 would be 3.4%.

20. Primary care allocations have been updated to take account of data and population changes but NHSE has made no changes to the formula used to determine CCG target allocations for primary care.

21. As set out in the table below, the CCG's baseline primary care allocation in 2019/20 is 0.48% or £0.9m lower than the target allocation.

**Table 3C : CCG 'Target' Primary Care Allocations**

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Baseline allocation (£m) | 176.77 | 187.79 |
| Distance from target % | -0.32% | -0.48% |
| Distance from target (£m) | -0.57 | -0.90 |

22. The actual uplift to the CCG's baseline primary care allocation in 2019/20 is set out in the table below. This is an uplift of 6.23% or £11.01m before the pace of change adjustments.

**Table 3D : CCG Primary Care Allocation Growth 2019/20**

| | 2019/20 | |
|---|---|---|
| | £m | % |
| Baseline allocation | 176.77 | |
| Allocation uplift | 11.01 | 6.23% |
| Pace of change adjustment | 0.01 | |
| Other funding adjustment | - | |
| Final allocation | 187.79 | |

The uplift in primary care allocations is expected to fund a number of cost pressures in 2019/20, including: GP national contract pay award; primary care networks investment at £1.50 per head; and GP indemnity costs (previously paid centrally). However, the details of the GMS contract uplift for 2019/20 (determined nationally) and specific other requirements have not yet been confirmed in order to fully clarify application of the increased funding.

23. The running costs allocation is based on the list size of GP practices which are members of the CCG. In 2019/20, individual CCG running cost allocations have been maintained in cash terms at the same amount as in 2018/19. This is £21.36 per head or £25.97m in total. A flat cash position means that the CCG's spending power on running costs will erode over time relative to inflation.

24. In 2020/21, all CCG running cost allocations will be reduced by 20% in real terms compared to 2017/18 after adjusting for the estimated additional pressure from the three-year Agenda for Change pay deal. CCGs are expected to make plans to realise running cost savings during 2019/20 in preparation for this funding reduction, including shared management structures with neighbouring CCGs and formal mergers in order to realise running cost savings.

25. This policy will impact adversely on CCGs like BSOL that have already merged and realised the benefit of savings in running costs. For BSOL this will create a £3m allocation reduction/cost pressure in 2020/21; the CCG has already invested this saving within programme (healthcare) expenditure because it already underspends against its running cost allocation.

Expenditure Projections and Assumptions

26. The expenditure projections used in the draft financial plan are based on the forecast level of recurrent expenditure for 2018/19, adjusted for a range of assumptions about levels of activity growth, inflation, tariff changes, efficiency savings and investments in 2019/20. The key expenditure planning assumptions that have been used are outlined in the table below.

**Table 4: Expenditure Assumptions**

| Expenditure Categories | Activity Growth (Population) % | Activity Growth (Other) % | Provider Inflation % | Provider Efficiency % | Total Uplift % |
|---|---|---|---|---|---|
| Acute | 0.7% | 2.8% | 5.5% | -1.1% | **7.9%** |
| Community | 0.7% | 2.3% | 3.8% | -1.1% | **5.7%** |
| Continuing Healthcare | 0.7% | 3.3% | 3.0% | - | **7.0%** |
| Mental Health | 0.7% | 2.9% | 3.8% | -1.1% | **6.3%** |
| Learning Disabilities | 0.7% | 2.9% | 3.8% | -1.1% | **6.3%** |
| Primary Care Co-Commissioning | 0.7% | 5.5% | - | - | **6.2%** |
| Primary Care Prescribing | 0.7% | - | 2.3% | - | **3.0%** |
| Non-Operational Property Charges | - | - | 5.0% | - | **5.0%** |
| Programme Pay Spend | - | - | 3.0% | - | **3.0%** |
| Running Costs | - | - | 3.0% | - | **3.0%** |

27. As set out in the table above, differential levels of activity growth are assumed across the CCG's expenditure portfolio. There is an underlying assumption of 0.7% demographic growth per annum as derived from ONS population projections. The CCG's planned activity growth is subject to assurance by NHSE. However, unlike last year, no uplifts have been specified nationally.

28. The above activity growth uplifts in the table above are based on the following assumptions:

- Acute – based on prior year national growth requirements, albeit that national requirements have not been mandated for 2019/20.
- Community – set at a level that ensures the CCG's overall increase in expenditure on community services is in line with the increase in programme allocation funding.
- Continuing Healthcare – based on prior year trends, although this will be based on a bottom-up projection of costs in subsequent iterations of the plan.
- Mental Health and Learning Disability – set at a level that ensures the CCG will meet the Mental Health Investment Standard. A bottom-up projection of costs in relation to high-cost LD packages will be incorporated into subsequent iterations of the plan.
- Primary Care - set at a level that ensures the CCG's overall increase in expenditure is in line with the increase in the primary care allocation.

29. Decisions on the prioritisation and investment of these resources e.g. against specific mental health 5 year forward view requirements and in respect of primary care Universal Offer and special educational needs and disability requirements in response to the recent CQC/Ofsted inspection will be managed through CCG Governance. Final decisions on investments will also need to be considered in the context of progress in closing the 'unidentified' gap in the QIPP savings plan (referred to in paragraph 42 below).

30. Inflation and efficiency assumptions are informed from information published by NHS Improvement and NHSE. For 2019/20, the uplift in the national tariff (price inflation) has been set at 3.8%. This includes the costs of national Agenda for Change pay awards funding which was paid non-recurrently to providers in 2018/19. A further uplift is required to reflect

the transfer of £1bn Provider Transformation Funding from direct award into 2019/20 tariff prices for emergency care. Prices will be reduced to reflect the cost of new centralised procurement arrangements.

31. In October 2018, both regulators published proposals for reform of the payment system between NHS commissioners and provider organisations. The main changes are:

- A 'blended payment' model for non-elective admissions, A&E attendances and ambulatory/same day emergency care. Payment will comprise a fixed element (80%) based on locally agreed activity levels and a variable element, set at 20% of tariff prices.
- Removal of the marginal rate emergency tariff and the 30-day re-admission rule on a financially neutral basis between providers and commissioners.
- Implementation of an updated market forces factor within prices to reflect regional cost pressures

32. At the time of writing, we are still awaiting the launch of the national tariff consultation and supporting detailed guidance (expected by the end of January).

33. The impact of these changes will become clearer as contract negotiations with Providers progress during February and remain a potential financial risk until contract agreements are concluded.

34. An efficiency reduction of 1.1% has been applied to healthcare contract expenditure in line with NHSE guidance. This will either be reflected in the tariff price (where tariff applies) or otherwise reflected in local contract negotiations. Those expenditure areas that are not subject to an efficiency adjustment via tariff will be targeted for efficiency savings through the QIPP programme e.g. continuing healthcare and prescribing.

35. The expenditure projection assumptions set out in table 4 are subject to changes arising from the 2019/20 contracting process with provider organisations, which remains ongoing to the end of March 2019.

Summary Financial Plan for 2019/20

36. A summary of the CCG's draft financial plan for 2019/20 is set out in table 5 below. The draft plan complies with the NHSE business rules outlined above and incorporates the changes to allocations and the expenditure assumptions set out above.

37. The key points that should be noted from the plan summary in table 5 are as follows:

- The draft plan is to deliver an in-year break-even position. This control total has been formally notified to the CCG by NHSE.

- In order to deliver the 2019/20 plan to break-even, the CCG will need to deliver QIPP savings totalling £56.2m (2.9% of allocation). An outline of the proposed QIPP savings plan is detailed later in the report.

- The aggregate uplift in the CCG's recurrent financial allocations (£103.4m) is insufficient to offset anticipated growth in patient activity (£61.8m) and the anticipated cost of inflation, tariff and other cost pressures (£72.6m).

- Nearly half (47%) of planned expenditure is on acute services.

- Activity growth in acute services has been set at 3.5% on outturn to reflect the anticipated level of growth in 2019/20.

- The plan assumes delivery of all known NHSE planning requirements, for example delivery of the mental health investment standard.

- The plan includes a contingency reserve equivalent to 0.5% of allocation. This is in line with NHSE 'business rules' and is required to mitigate adverse movements in contracted activity with providers and other cost pressures arising during the year.

- The plan does not include a reserve to pump-prime investments at this stage. Access to non-recurrent investment funding from the cumulative surplus may be possible, as outlined in paragraph 10.

**Table 5: Summary 2019/20 Draft Financial Plan**

| | 18/19 Forecast Outturn £m | % | 18/19 Non Recurrent £m | 18/19 Recurrent Baseline £m | 19/20 Activity Growth £m | 19/20 Activity Inflation £m | 19/20 Activity Other £m | 19/20 Non Recurrent £m | 19/20 Gross Total £m | 19/20 QIPP Plan £m | 19/20 Net Total £m | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial Allocations** | | | | | | | | | | | | |
| Programme | 1,630.9 | | 14.3 | 1,616.6 | 92.3 | | | | 1,708.9 | | 1,708.9 | |
| Co-commissioning | 177.2 | | 0.4 | 176.8 | 11.0 | | | | 187.8 | | 187.8 | |
| Running Costs | 26.1 | | 0.0 | 26.1 | 0.0 | | | | 26.1 | | 26.1 | |
| **Total Allocation Income** | **1,834.1** | | **14.7** | **1,819.4** | **103.4** | | **0.0** | **0.0** | **1,922.8** | | **1,922.8** | |
| **Expenditure** | | | | | | | | | | | | |
| Acute contracts | 858.7 | 47% | 5.4 | 864.1 | 30.2 | 37.3 | 1.4 | 0.0 | 933.1 | (22.7) | 910.4 | 47% |
| Community contracts | 203.8 | 11% | 0.5 | 204.2 | 6.1 | 5.5 | 0.3 | 0.0 | 216.1 | (0.6) | 215.5 | 11% |
| Continuing Healthcare | 133.4 | 7% | 5.2 | 138.6 | 5.4 | 4.1 | 0.0 | 0.0 | 148.0 | (5.9) | 142.1 | 7% |
| Mental Health contracts | 157.0 | 9% | (1.9) | 155.1 | 5.6 | 4.2 | 2.5 | 0.0 | 167.4 | (2.5) | 164.9 | 9% |
| Learning Disability contracts | 49.6 | 3% | (2.1) | 47.5 | 1.7 | 1.3 | 0.0 | 0.0 | 50.5 | 0.0 | 50.5 | 3% |
| Primary Care | 214.9 | 12% | (2.1) | 212.8 | 11.3 | 0.5 | 0.8 | 0.0 | 225.3 | 1.6 | 226.9 | 12% |
| Prescribing | 187.2 | 10% | 0.3 | 187.5 | 1.4 | 4.3 | 0.0 | 0.0 | 193.1 | (7.6) | 185.5 | 10% |
| Other Programme | 12.1 | 1% | 0.2 | 12.3 | 0.0 | 0.5 | 0.0 | 0.0 | 12.8 | (1.1) | 11.7 | 1% |
| Reserves | 0.8 | 0% | (0.8) | 0.0 | 0.0 | 0.0 | 9.2 | 0.0 | 9.2 | (16.8) | (7.7) | 0% |
| CCG Running Costs | 20.3 | 1% | 2.3 | 22.6 | 0.0 | 0.7 | 0.0 | 0.1 | 23.4 | (0.5) | 22.9 | 1% |
| **Total Expenditure** | **1,837.7** | **100%** | **6.9** | **1,844.6** | **61.8** | **58.4** | **14.1** | **0.1** | **1,978.9** | **(56.2)** | **1,922.8** | **100%** |
| **In-Year Surplus/(Deficit)** | **(3.6)** | | | | | | | | | | **0.0** | |
| | | | | | | | | | | | | |
| Prior Year Surplus/(Deficit) | 37.6 | | 37.6 | 0.0 | | | | | | | 34.0 | |
| **Cumulative Surplus/(Deficit)** | **34.0** | | | | | | | | | | **34.0** | |
| | | | | | | | | | | | | |
| Memo: 1% Surplus Requirement | 16.6 | | | | | | | | | | 17.3 | |
| Headroom vs 1% Requirement | 17.4 | | | | | | | | | | 16.7 | |

38. The table below summarises the movement between the 2018/19 forecast outturn and the 2019/20 planned position. This more clearly shows the need to deliver QIPP savings in order to deliver the financial control total.

**Table 6: Movement between 2018/19 and 2019/20 Forecast Surplus**

| | Sources | Applications | Total |
|---|---|---|---|
| | £m | £m | £m |
| **2018/19 Forecast Surplus** | | | **34.0** |
| | | | |
| Allocation Growth | 104.3 | | |
| Movement in Non-Rec Allocations | | 19.3 | |
| QIPP Savings Plan | 56.2 | | |
| Activity Growth | | 61.8 | |
| Tariff Uplift (inflation less efficiency) | | 58.4 | |
| Contingency | | 8.7 | |
| | | | |
| Non-Rec Movements | | 6.9 | |
| Recurrent Investment | | 5.5 | |
| | 160.5 | 160.5 | (0.0) |
| **2019/20 Forecast Surplus** | | | **34.0** |

QIPP Savings Requirement and Plan

39. As set out above, the QIPP savings requirement for 2019/20 implied by the draft financial plan is £56.2m, approximately 2.9% of the financial allocation for the year. This is over and above the assumed level of provider efficiency saving (1.1%) embedded in tariff prices.

40. The draft QIPP plan for 2019/20, summarised by programme areas, is set out in the table below. The QIPP plan has been developed from an assessment of: the full year effects of 2018/19 QIPP schemes; opportunities for roll-out of QIPP schemes promoted by NHSE from other CCGs; other known developments due to come on-stream in 2019/20; and reference to wider opportunities for example from the NHSE Menu of Opportunities and the 'Right Care' programme.

41. There is a higher level of risk to the delivery of planned and urgent care schemes which need to be agreed as part of acute contracts for 2019/20.

42. As indicated in the table below, there remains £5.2m of the £56.2m QIPP savings target to be identified. £1m of the schemes are non-recurrent and as such this saving requirement will need to be met again in the following year.

**Table 7: 2019/20 QIPP Plan Summary**

| | FYE Existing Schemes | New Schemes | Total |
|---|---|---|---|
| | £m | £m | £m |
| Medicines Management | 6.47 | 4.75 | **11.22** |
| Urgent Care Schemes | 2.10 | 5.19 | **7.29** |
| Planned Care Schemes | 3.04 | 5.03 | **8.08** |
| Mental Health and CYP | 0.56 | 3.27 | **3.83** |
| Continuing Healthcare | 0.00 | 4.60 | **4.60** |
| CPAG | 0.18 | 1.00 | **1.18** |
| Non-Operational Property | 0.00 | 1.10 | **1.10** |
| Running Costs | 0.00 | 0.50 | **0.50** |
| Other | 0.00 | 13.18 | **13.18** |
| **Total QIPP Schemes** | **12.36** | **38.61** | **50.97** |
| QIPP Savings Requirement | | | **56.18** |
| **Unidentified Shortfall** | | | **-5.21** |

43. The LDP process which includes QIPP planning is being managed through the Programme Review Group (PRG) which reports to the Executive Management Team (EMT). PRG is meeting weekly to oversee all aspects of the planning round including contract negotiation, QIPP, strategy development, operational plan and financial plan completion until the end of the financial year. Specific tasks/actions will be tasked to the relevant groups (such as Contract Review Group) as required.

44. The delivery of individual QIPP schemes during the year will be reported to and monitored by individual Programme Boards. In-year performance management and oversight will then be undertaken by PRG via a formal monthly review. This will be reported with any matters for escalations to the EMT prior to onward reporting to F&P Committee and Governing Body.

45. The Medical Director is also leading on the CCG approach to clinical prioritisation and investment/disinvestment. This is integral to the QIPP planning.

46. Any shortfall against the savings programme will need to be mitigated in-year, either through the roll-out of new schemes, dis-investments and reductions to other budgets or use of reserves.

Running Costs

47. As set out in the financial allocations section above, the CCG receives a separate running costs financial allocation and NHSE's business rules require the CCG to manage its aggregate running cost expenditure within that allocation. The CCG's forecast position in 2019/20 is set out in the table below.

| Table 8: 2019/20 Running Costs Position | |
|---|---|
| | |
| **CCG Running Costs Position** | **2019/20 £m** |
| | |
| Forecast Running Costs Allocation | 25.97 |
| | |
| Forecast Running Costs Expenditure | 23.35 |
| less QIPP Plans | -0.50 |
| | |
| Forecast Running Costs Underspend | 3.12 |

48. The level of forecast under-spend against the running costs allocation (£3.1m) is committed to funding planned expenditure on healthcare and cannot be committed without making matching QIPP savings in other areas.

49. In 2020/21, there will be a national real terms 20% reduction in CCG running costs allocations, which is £3.06m in BSOL. Work will be undertaken in 2019/20 to assess the scope to make further running costs savings to mitigate this cost pressure.

Risks and Mitigations

50. There are a number of inherent risks to be considered in the draft financial plan, which can be summarised as follows:

- There is a risk that the expenditure planning assumptions outlined above prove to be inaccurate. This risk will become clearer as contract negotiations with providers are finalised and the impact of the revised NHS tariff is assessed.

- There is a risk that QIPP plans are not realised from contract discussions with providers or that the implementation of schemes is delayed resulting in a reduced part year rather than full year saving being realised in 2019/20.

- The impact that a no-deal EU exit may have on the supply of goods across borders with a risk that goods go into short supply, resulting in an increase in prices. This risk mainly impacts on the cost of drugs.

51. Given these risks, the timing of the approval of recurrent investments planned in 2019/20 will need to be managed to ensure that the impact of the above risks is clear and can be mitigated, before investments are committed.

52. The main mechanism the CCG has available to mitigate financial risks arising in-year is the Contingency set aside in the financial plan which totals £8.7m. Non-recurrent mitigations may also be available from slippage in investments, provisions no longer required and excess accruals brought forward from the prior year.

Conclusion and Next Steps

53. The draft financial plan for 2019/20 reflects growth in the CCG's core financial allocation of 5.63% and growth in the primary care allocation of 6.24%. However, the anticipated growth in activity in contracts, together with the impact of price inflation, particularly in the national tariff used by NHS providers, means that financial pressure will remain in 2019/20 and estimated savings of £56.2m will need to be delivered to achieve the financial plan.

54. The draft financial plan as summarised in table 5 is subject to change over the next two months as the CCG moves towards the signing of provider contracts for 2019/20 by the national deadline of 21 March 2019.

55. The draft financial plan will be updated further during February as contract negotiations progress. As the Governing Body does not have a meeting scheduled in March, it is proposed that the final plan is approved by the Finance and Performance Committee at the end of March and reported to the Governing Body for assurance at the April meeting.

**Phil Johns**
**Chief Finance Officer**