Five Year Financial Plan

2014/15 to 2018/19

1. NHS Grampian expects to meet its three key financial targets by 31st March 2014. These are operating within; revenue resource limit; capital resource limit; and cash requirement. In doing so, the organisation will begin the 2014/15 financial year in a position of accumulated revenue break even.

2. The purpose of this plan is to set out the

   - Key planning assumptions
   - High level financial plan for the year ended 31 March 2015
   - A summary of the five year financial plan in the context of the national 2020 vision and the Healthfit 2020 vision for Grampian
   - Capital Investment Plan
   - Key financial risks and mitigation action

Plan Assumptions

3. Key assumptions underpinning the financial plan are set out in detail in the appendices to the financial templates accompanying this narrative. Some of the more significant assumptions include:

3.1 **Core allocation funding uplifts.** 2.69% in 2014/15 and 1.8% thereafter excluding further additional movements towards National Resource Allocation Committee (NRAC) parity for NHS Grampian. We have assumed uplifts in NRAC parity in line with those agreed with the Scottish Government Health and Social Care Directorates (SGHSCD) which will bring us to within 1% of parity by 2016/17.

3.2 **A pay increase** of up to 1% for staff and continued full incremental pay increases for all eligible staff are forecast for each year. We have also assumed uplifts to reflect the outcome of the current actuarial valuation of the pension scheme and the impact of ending Contracting Out arrangements from April 2016. In respect of the pension revaluation we are planning for a 2% increase in employer’s pension contribution rates from April 2015 and for the impact of ending Contracting Out arrangements an additional 2% of pensionable pay from 1 April 2016.

3.3 **Non-pay costs.** Provision has been made for non pay uplifts based on best available data.
3.4 **Community and Hospital Drugs.** Assumed potential for significant and less predictable growth in secondary care drugs budget, with primary care drug volumes assumed to follow prior year trends. No provision has been made in our financial plans for any recurring costs of drugs which may be initially supported through the national rare drugs fund.

3.5 **Family Health Service (FHS) uplifts.** Assumed that current funding arrangements will continue over the next 5 years with funding uplifts sufficient to cover cost increases.

3.6 **Efficiency savings.** Assumed that the majority of savings will be made recurrently, being removed from expenditure budgets, to allow investment to be retained in key priority areas.

3.7 **HEAT targets.** Assumed that the current set of targets in the public domain will not be extended. Any substantial increase in delivery targets would probably lead to an increase in costs to deliver with a compensating impact on the efficiency savings requirement.

4. In terms of the five year financial plan we have set out below how NHS Grampian will continue to operate within its revenue resource limit and capital resource limit and achieve the 3% efficiency saving requirement set by Scottish Government.

**High level financial plan – year ending 31 March 2015**

**New Resources**

5. NHS Grampian’s core revenue allocation uplift for 2014/15 has been confirmed at 2.69% of our Revenue Resource Limit (RRL). Our base funding uplift plus the additional move to NRAC parity amounts to a £36.8 million increase compared to 2013/14. The £15.5m of NRAC parity funding, combined with the planned uplifts in future years will make a significant and valuable contribution to our investment plans.

**Cost pressure and new expenditure commitments**

6. In terms of our financial plan for 2014/15, we have allocated these new resources to meet known unavoidable cost pressures (£33.8m) and targeted investments (£14.0m).
Cost pressures

7. The key unavoidable cost pressures are in relation to:

Pay and Non Pay Uplift £12.4m
GP and Hospital Drugs £7.6m
Targeting cost pressure funding £8.0m
Infrastructure and depreciation £2.0m
Other (incl contingency) £3.8m
Total £33.8m

8. Pay and non pay uplift and increases in GP and Hospital prescribing costs have been provided in accordance with planned assumptions stated above. We have also included provision for continued use of medical locums in recognition of the ongoing challenges of filling essential medical vacancies. Given the buoyant economy in Aberdeen City and rising cost of living and property costs, we are facing significant challenges in recruiting to posts, particularly in specialties where there are demand and supply gaps within the Scottish NHS.

9. Anticipated cost pressures identified by each operational sector and corporate directorate as part of our budget setting process have been scrutinised by the Board’s budget steering group against a set of agreed criteria. Consequently a total of £8m will be allocated into operational budgets to meet these unavoidable commitments.

10. The increase in infrastructure costs relate partly to the revenue element of our focused programme of backlog maintenance and partly to the increase in depreciation following the ongoing investment made in replacement of essential medical equipment.

Targeted investment

11. The targeted investments approved for 2014/15 are in line with national health priorities and/or local priorities reflected with the Grampian Healthfit 2020 vision:

<table>
<thead>
<tr>
<th></th>
<th>Acute</th>
<th>Primary Care / Mental health</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Waiting times</td>
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</tr>
<tr>
<td>Cancer oncology</td>
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<td>CAHMS regional service</td>
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<tr>
<td>Research &amp; Development</td>
<td>1.4</td>
<td>HMP Grampian</td>
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<tr>
<td>HAI compliance</td>
<td>0.5</td>
<td>New primary care facilities</td>
</tr>
<tr>
<td>AAA screening</td>
<td>0.2</td>
<td>Immunisation programme</td>
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<tr>
<td></td>
<td>11.3</td>
<td>2.7</td>
</tr>
</tbody>
</table>
12. The Board has committed to investing £8.0m\(^1\) in recurring additional capacity to meet the requirements of the Government’s Treatment Time Guarantee. This investment will support the three new additional theatres – two on the Health Campus at Foresterhill and one at Woodend Hospital. The theatres are expected to be commissioned during March 2014 and available to treat patients from April 2014. This investment will enable the Board to increase its capacity to meet the requirements of the Treatment Time Guarantee and treat patients within Grampian. We anticipate a significant reduction in our use of the independent sector, other than in exceptional patient cases.

13. Other strategic investments within the Acute Sector in 2014/15 will include £1.2m to increase the resilience of our cancer oncology service, £1.4m within research and development in line with the plan agreed with the Chief Scientist Office and £0.5m to address actions agreed with Health Improvement Scotland in relation to compliance with Healthcare Associated Infection (HAI) standards.

14. Investment in primary care and mental health services will also be made during 2014/15. The main areas targeted for investment will include:

- Resources to meet insulin pump and immunisations targets;
- Establishment of a regional specialist network for Child Adolescent Mental Health Services; and
- The investment in additional health services required to support the increased prison population following the opening of the new HMP Grampian. HMP Grampian (which replaces Peterhead and Craiginches Aberdeen) will house 550 prisoners consisting of c490 male and c60 female prisoners (indigenous to the Grampian Area) and these will be both Young Offenders and Adult prisoners. In addition there will be dependent children theoretically up to the age of 5, but more likely to the age of 2 yrs.

15. We would also highlight the strategic investment in three new primary care facilities under the hub procurement process – Aberdeen Health Village, Woodside Health Centre and Forres Health Centre. The Health Village has facilitated the closure of Woolmanhill Hospital and established a range of diagnostic and outpatient services under the management of the Community Health partnership. The Woodside and Forres Health Centres will enable the local practices to redesign services to meet the needs of the local populations.

\(^1\) During 2013/14, the cost of the additional capacity was funded on a non-recurring basis
16. Whilst there is no uplift in the Change Fund allocation the funding will be targeted at supporting community expenditure plans prepared jointly by the NHS, Local Authorities and third sector. Funding will be released only on evidence and approval of plans which can demonstrate shifts in health and care spend towards anticipatory care and preventative services that will support older people to stay in their own homes.

17. In prioritising investment between primary and secondary care, our focus will continue to be towards ensuring that we are providing the right care in the right place. Our Healthfit 2020 vision has integrated care at its core, with a determined focus in removing the boundaries between primary and secondary care. If we are to meet future demographic challenges, all elements of our health and social care system will require to be co-ordinated in an integrated manner.

**High Level Financial Plan – 2015/16 to 2018/19**

18. Our high level five year financial plan is set out within the pro-forma schedules within the local delivery plan.

19. In setting out revenue plans over these years, we have applied conservative assumptions in terms of funding in line with the allocations advised by Scottish Government Health and Social Care Directorate (SGHSCD). We have also assumed relatively low growth in pay costs, with the exception of provisional sums of £6.7m and £8.0m in 2015/16 and 2016/17 respectively to reflect the impacts of the outcome of the current actuarial valuation of the pension scheme and the ending of Contracting Out arrangements from April 2016. With changes to the process for access to new drugs we are anticipating the potential for significant and turbulent variations in our secondary care drugs budget for the foreseeable future.

20. The main risk to our planning assumptions is that the financial environment becomes more turbulent and health inflation (increased costs and additional activity) in general take an upward turn beyond what has been assumed.

21. The framework for the allocation of resources over the next few years will reflect the national 2020 priorities, the requirements of community planning (with reference to the forthcoming Community Empowerment and Renewals Bill), health and social care integration and our own local priorities as summarised below:
2020 vision for Health and Social care

22. The route map for the 2020 vision for health and social care has three broad areas of focus

- Improving the Quality of Care;
- Improving the health of the population; and
- Securing the value and sustainability of health services

23. In the following paragraphs we set out how resources will be aligned to these broad areas of focus:

**Improving the Quality of Care**

*Person Centred Care*

24. We have a number of initiatives aimed at transforming the way we organise our services around patient requirements. Priority areas for the Board are the implementation of the national initiative “Transforming Outpatients” and our significant investment in additional theatre capacity to treat the majority of patients locally within the Treatment Time Guarantee.

25. We are working with a number of specialties to transform approaches to outpatient care and reduce attendance at hospital clinics using the No Delays ‘platform which has been developed with a private sector partner.

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**No Delays** will transform the relationship that patients have with services and clinicians in planned care. During the last year, the platform has been implemented in a number of specialties within Grampian and we are in advanced discussions with other health authorities to support its implementation in other geographical regions through a joint venture with a private sector partner.

26. The financial commitment made in 2014/15 will ensure that we meet our requirement to treat patients within the Treatment Time Guarantee which came into effect in October 2012. Whilst delivering access targets places significant additional demands on the organisation’s financial resources, we recognise the importance of ensuring that patients have access to care in line with the principles endorsed by our Board and enshrined within the Patient Rights (Scotland) Act 2011. Beyond 2014/15, we will continue to work with surgical specialties to ensure that we redesign pathways to address changes in future demand.
Safe Care

27. Patient safety and all its related topics have always been considered by NHS Grampian as the fundamental responsibility for all staff in the organisation. Decisions on resource deployment are taken only after safety, quality of patient care and affordability has been considered together using the resource allocation tool developed within NHS Grampian.

28. Efforts continue across the organisation to improve the physical environment in which staff work and patients are treated. As noted below within the capital plan we are committing further significant investment in new facilities and upgrading existing buildings to meet statutory requirements and HAI standards, in addition to improving the environment for our patients. We will also be commencing our future planning dialogue with Scottish Government in respect of the replacement of the main planned care admission and theatre block and maternity hospital which will require to be replaced with the next 10-15 years.

29. Keeping patients out of hospital when there is no need for them to be there remains a key objective in improving patient safety and we are working with local authority and third sector partners to ensure that we are jointly developing alternatives to ensure patients can stay well longer at home or in a homely setting.

Integrated (primary and secondary) and unscheduled care redesign

30. Everything we do must promote the health and wellbeing of the population of Grampian. A huge amount of work is in progress across NHS Grampian to modernise what we do with the aim of improving the health of the population and changing the way we deliver services to patients. Over the next 5 years we anticipate challenges relating to population demographics and a further period of financial restraint.

31. The Board’s strategy as set out in Healthfit 2020 sets out in practical terms how the NHS in Grampian could change by becoming more person centred, applying best practice, improving efficiency, developing our staff, using technology effectively, re-organising our facilities and working as one with local authorities and the third sector. The strategy is focused around the following key themes:

- Planned care - focused on the transformation of NHS Grampian’s approach to outpatients, ambulatory care and elective inpatient care
- Unscheduled care - focused on avoiding unnecessary admission and attendance at hospital by supporting professionals and patients
in the community, and improving the flow of patients who require healthcare

- Integration - our vision is to ensure that care is delivered at the right time, in the most suitable environment by staff who are most appropriately trained and skilled to fulfil the patient’s needs. This will involve improved integration of services within health (locally, nationally and regionally) and through integration with local authority partners.

**Improving the health of the population**

32. Whilst the Grampian region enjoys relatively good health in a Scottish context there are areas of deprivation and disadvantage where the health of the population is well below acceptable standards. We are committed to targeting resources to addressing inequalities within our health board area and ensuring that we are taking proactive steps to support health improvement.

33. Government policy sets out to increase healthy life expectancy in Scotland, to break the link between early life adversity and adult disease, to reduce health inequalities particularly in the most deprived communities and to reduce smoking, excessive alcohol consumption and other risk factors to a healthier life. Protecting the public’s health is equally a top priority and NHS Grampian is well placed to take forward this whole agenda.

34. The Government continues to offer targeted funding in addition to core allocations to support health improvement and we must ensure that we make most effective and efficient use of such funds in innovative and imaginative ways.

35. We have a number of preventative health programmes which we will commit to invest in to support the outcome for longer and healthier lives. In addition to working are also working with communities to identify needs, and then collaborate effectively to meet these needs. This process will recognise and build on the strengths and resources that communities already have (an ‘asset-based’ approach).

- **Childhood Obesity** - we will continue to embed ‘Grow Well Choices’ our child healthy weight programme in primary schools into routine practice. Working with Education partners we will progress the long term sustainability of this school based intervention.

- **Adult Obesity** - we will continue to implement our integrated care pathway which identifies support for weight management in our communities and within a health care setting for those who need it.
• **Smoking cessation and prevention** – we continue to allocate funding to specific and targeted projects through our formal resource allocation framework which allows us to evaluate each bid and prioritise funding accordingly. Our Tobacco Control Strategy Action Plan guides the targeted implementation of programmes and projects preventing tobacco use, supporting people to stop smoking and controlling environmental tobacco smoke.

• **Alcohol brief intervention (ABI)** – this preventative programme, mainly delivered through general practice, will continue to expand. Increased numbers of ABIs targeting hazardous and harmful drinkers across Grampian will reduce the harm from excessive alcohol consumption. Local implementation of this programme also aims to provide support and clinical management to those identified as dependent drinkers by referring them to the appropriate specialist service when required. This part of the pathway addresses tertiary prevention aspects of alcohol misuse.

• **Health and Work** – we will continue to work with over 170 organisations registered with Healthy Working Lives National Award in Grampian providing support for policy development and practice including health promotion, occupational health and safety and employability. The initiative is also targeted at raising awareness of how a healthy workforce contributes to healthy business and productivity. We will continue our work to embed ‘employability’ into our pathways of care to ensure that patients are supported in their journey towards work.

**Securing the value and sustainability of health services**

*Innovation through digital technology*

36. The term digital health applied to actions, initiatives and services which support people to manage their own health and/or support the NHS to use information to deliver services more efficiently and effectively. The following paragraphs summarise where we plan to target investment in digital health:

• Supporting delivery of clinical services: Examples include the development of the Clinical Guidance Intranet and the systems and technology will supports our approach to Clinical Decision Support which is already been rolled out within the Emergency Department.

• Supporting patients to live at home: Teledmedicine and telecare will become increasingly sophisticated with remote monitoring and support systems. There are specific initiatives to develop telecare for respiratory patients and ensure that there is a consistent approach across Grampian
• Supporting population health and wellbeing: A number of initiatives are being taken forward which have the aim of providing information for the public to be proactive in maintaining good health. Increasingly this information will be conveyed by television and the targeting of individuals will become more sensitive as the use of smart televisions increases (there are now 10 million smart televisions in homes in the UK). These initiatives also require the use of individual and population health data to support the targeting of individuals and specific groups – this is sometimes difficult for the NHS to do given the high standards of information governance as it often involves providing third parties with access to information.

Workforce – Fit for Purpose and Affordable

36. NHS Grampian, as other boards, spends around 70% of its core revenue expenditure on its directly employed staff. It is therefore essential that staff employed are suitable in terms of numbers and skills and that the cost of employing them is contained within available financial resource. NHS Grampian has focused much attention in recent months and years on modelling the future of health service demands and the staff profiles that will be best suited to meeting them.

37. In terms of the application of professional workforce tools we are building on the work undertaken through the Safe and Affordable Nursing Establishment (SANE) project concluded in 2011/12. The SANE project enabled us to identify a consistent profile of nursing establishments in all areas of the organisation; and the Safe Affordable Workforce (SAW) process which covers all 16,000 staff in the organisation and aims to refine our efforts in matching supply and demand of workforce skills and competencies within available financial resource.

38. As part of the planning processes for 2014/15, all areas have been reviewing their nursing establishment and agreeing with line management the configuration of staffing taking cognisance of professional guidance, bed capacity, patient requirements and projections in respect of nurse staff recruitment and retention. This will enable staffing levels to be agreed and monitored in line with the safe and affordable principles agreed by the Board, in partnership with staff.

39. The introduction of auto-enrolment for all staff in 2013/14 brought all staff into a superannuation scheme. The auto-enrolment requirements have a recurring cost of £3m. We have assumed uplifts to reflect the outcome of the current actuarial valuation of the pension scheme and the impact of ending Contracting Out arrangements from April 2016. In respect of the pension revaluation we are planning for a 2% increase in employer’s pension contribution rates from April 2015 and for the
impact of ending Contracting Out arrangements an additional 2% of pensionable pay from 1 April 2016.

Efficiency and productivity

40. All territorial Health Boards are required to meet a 3% efficiency savings target comprising a need to deliver cash releasing savings and efficiencies which will be used to support the redesign of services consistent with the Board’s strategic priorities.

41. Our financial plans and requirement for recurring efficiencies is reflected within the redesign proposals set out within our Healthfit 2020 vision. These plans will require difficult decisions around the way services are delivered – it is recognised and accepted that continuation of current models of care are not sustainable given known demographic and service pressures.

42. NHS Grampian is fully committed to deliver efficiency benefits and for 2014/15 has set a 3% efficiency target of £23.2m in line with the expectations set by Scottish Government.

43. For the years 2015/16 and beyond, we will be refreshing the Grampian clinical services strategy and undertaking scenario planning around the provision of tertiary, acute and primary care services. This will involve engagement through North of Scotland planning, local engagement with clinical staff, patients and the wider community and working with key partners, particularly within local government and the third sector.

44. We are also evaluating a number of opportunities to develop relationships with the commercial and business sector within the North East. We are already in detailed discussions on a number of developments, including commercialisation opportunities, maximising the utilisation of our infrastructure and joint venture arrangements based on the exploitation of innovation developed by our clinical staff.

Community planning

45. The Christie Commission, published in June 2011, sets a context for the modernisation of Public Services. The recommendations of the Commission placed emphasis on the role of public services to protect the vulnerable and disadvantaged and reduce inequalities. Christie identified four key principles that should underpin future reform:

• Reforms must aim to empower individuals and communities receiving public services by involving them in the design and delivery of the services they use.
• Public service providers must be required to work much more closely in partnership, to integrate service provision and thus improve the outcomes they achieve.
• We must prioritise expenditure on public services which prevent negative outcomes from arising; and
• Our whole system of public services - public, third and private sectors – must become more efficient by reducing duplication and sharing services wherever possible.

46. The Community Empowerment and Renewal which is in the process of consultant will embed community participation in the design and delivery of services. The development of the role of community planning, the commitments made under the Single Outcome Agreements and Health and Social Care Integration will be important in delivering the reforms highlighted by the Commission.

47. During 2014/15, we will be actively working with our local authority partners during the shadow period leading up to the full implementation of integrated health and social care partnerships from 1 April 2014.

48. Whilst we await national guidance on the transitional financial arrangements that will support the implementation new Health & Social Care Partnerships, we have established Transitional Leadership Groups within our three local authority areas to lead on the planning for integration.

49. The use of the Change Fund continues to provide opportunities for partners to work together effectively and we continue to plan forward on this basis. Within our financial plan we have assumed that the Change Fund for elderly services will continue until 31 March 2015, with the Board expected to have identified plans to fund any continuing service developments on a recurring basis from resource release generated by Change Fund projects.

50. Beyond 2014/15, we expect that further non-recurring investment will be available to support other priorities on a similar basis to that afforded to the care of the elderly.
Operating within capital resource limit

51. The Property and Asset Management Plan sets out the Board’s priorities for managing the infrastructure that supports the delivery of patient care and associated services across NHS Grampian and is integral to the delivery of the NHS Grampian Healthfit 2020 vision.

52. The plan is focused on actions across four main areas:

- Investment in infrastructure consistent with our strategic health priorities including initiatives to reduce carbon emissions;
- Reduction in high and significant risk backlog maintenance in clinical areas and compliance with statutory requirements;
- Replacement of essential equipment; and
- Disposal of assets declared surplus to requirements.

53. The supporting financial plan incorporates the resources aligned against these areas of expenditure financed from revenue operating budgets, the capital programme and through asset disposals.

54. We have assumed a formula capital allocation over the five years of the plan consistent with that outlined in the NHS Scotland Chief Executive letter of 7 February 2014. This is in addition to previously approved brokerage and funding for legally committed schemes and other nationally agreed investment programmes such as the Carbon Energy Fund, hub initiative, the National Radiotherapy equipment replacement programme and the National PET replacement programme.

55. Beyond the five year period of the plan reflected in this local delivery plan, we will be taking forward the initial steps in planning for how we replace the Aberdeen Maternity Hospital and the planned care in patient and theatre block. The significant backlog maintenance investment we are committed to making over the next 3 years will only enable us to maintain existing infrastructure on the Aberdeen Royal Infirmary site for a further 10-15 years, without major re-investment.

56. Our five year plan is summarised as follows :-
### NHS GRAMPIAN SUMMARY INFRASTRUCTURE AND BACKLOG MAINTENANCE PROGRAMME

<table>
<thead>
<tr>
<th>Year</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>Total 5 Year Plan</th>
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<tr>
<td><strong>FUNDING</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td>Sub Total Core CR</td>
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<td>14354</td>
<td>14103</td>
<td>14242</td>
<td>14092</td>
<td>74439</td>
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<tr>
<td>Withdrawal of NBV benefit by SGHSCD</td>
<td>(2,748)</td>
<td>(5,992)</td>
<td>(2,630)</td>
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<td>(11,370)</td>
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<td>Net CR</td>
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<td>14242</td>
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<td>Sub Total Non Core CR</td>
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<td>10,100</td>
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<td>Total Gross CR</td>
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<td>8,362</td>
<td>21,573</td>
<td>14,242</td>
<td>14,092</td>
<td>82,726</td>
</tr>
</tbody>
</table>

| OTHER FUNDING SOURCES - CAPITAL |       |       |       |       |       |                  |
| Total Actual NBV benefit on disposal - property | 2,748 | 5,992 | 2,630 | 0 | 0 | 11,370          |

| OTHER FUNDING SOURCES - CHARITABLE CONTRIBUTIONS |       |       |       |       |       |                  |
| Endowments - ARI Theatres Construction - Robotic surgery | 400 | 0 | 0 | 0 | 0 | 400          |
| Endowments - “The Space” - quiet area | 398 | 0 | 0 | 0 | 0 | 398          |
| Therapeutic Roof Garden - ECC | 400 | 0 | 0 | 0 | 0 | 400          |
| Endowments - East End 2 enhanced patient accommodation | 671 | 0 | 0 | 0 | 0 | 671          |
| Endowment - Phase 2 | 991 | 962 | 641 | 0 | 0 | 2,594        |
| Endowment - Equipment | 500 | 500 | 500 | 500 | 500 | 2,500        |

| OTHER FUNDING SOURCES - REVENUE |       |       |       |       |       |                  |
| Estimated Net Surplus on Disposal of Property | 2,457 | 6,268 | 5,180 | 0 | 0 | 13,905        |
| Estates Maintenance operational budget | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 6,000        |
| Non Value added Infrastructure budget | 250 | 250 | 250 | 250 | 250 | 1,250        |
| TOTAL FUNDING AVAILABLE FOR INFRASTRUCTURE AND BACKLOG MAINTENANCE | 34,473 | 23,534 | 31,974 | 16,192 | 16,042 | 122,214 |

### PLANNED EXPENDITURE

<table>
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<tr>
<th>Plan</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>Total 5 Year Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hub schemes on balance sheet</td>
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<td>15,150</td>
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<td>19,907</td>
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<td>Backlog (Maintenance/Blockley)</td>
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</tbody>
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### Investment in strategic health priorities

57. During 2013/14 we committed £55m of capital expenditure. This investment was targeted partly at backlog maintenance (£11.2m) and essential equipment purchases (£5m) and partly at a range of strategic investments including an increase in theatre capacity at ARI and Woodend Hospitals (£9m), completion of the first stage of a new cancer centre with replacement of radiotherapy equipment (£6m), the final stage of development of the Emergency Care Centre (£4m), rationalisation of cook chill catering provision (£0.9m) to ensure future service sustainability, modernisation of primary care facilities in Aberdeen with completion of the new Health and Care Village (£16m), improved access to diagnostic services in the community with the development of plain xray facilities at Aboyne Hospital (£0.5m) and provision of new community dental premises in Fraserburgh (£1m).

58. Our investment in modern new build facilities continues to be recognised in 2014/15 - Woodside Health Centre and Forres Health and Care Centre; and beyond with the replacement of the health centre and establishment of the community maternity unit in Inverurie and relocation of the Denburn Medical Practice.
59. The Board are committed to reduce the level of carbon emissions across our property base and all new developments are now delivered with integral technology designed to reduce energy use and consequently carbon emission levels. We continue to explore options including the Carbon Energy Fund and a business case is under development to implement new technology at our largest hospital sites which will contribute towards a reduction in energy usage/carbon emissions in the coming years.

Reduction in backlog maintenance statutory compliance

60. Our planned investment programme in respect of backlog maintenance fits clearly with NHS Grampians strategic theme of delivering high quality care in the right place through providing safer, effective and sustainable services. In addition the plans fit national and local strategy as follows :-

- The Scottish Government’s “Policy for Property and Asset Management in NHSS” issued in September 2010 (CEL 35(2010)) requires all NHS Boards to target backlog maintenance reduction as an integral part of their Property and Asset Management Strategy.

- Our backlog maintenance costs estimated at £171.9m\(^2\) are the second highest of all the Scottish Health Boards, of which £68.4m was high or very high risk.

- A large part of the planned programme to address backlog will focus on East End 2 and Phase 2 at Aberdeen Royal Infirmary (ARI). Both buildings will remain as inpatient facilities for the next 10-15 years. Beyond this period the Foresterhill Development Framework has identified an area to the east of the ECC for the construction of a new inpatient facility to replace both buildings. This requirement has been recognised by the Scottish Government and the major investment required has featured in the Government’s long term infrastructure plans.

- The planned work at ARI, although focused on backlog maintenance reduction, will enable the reconfiguration of services consistent with the Health Campus Programme Initial Agreement and the Foresterhill Development Framework approved by the NHS Grampian Board in 2008.

- The reprovision of clinical services from Denburn Health Centre and Woolmanhill Hospital will enable estate rationalisation and an overall reduction in our building footprint.

\(^2\) The values used to quantify backlog maintenance risk are stated net of VAT, fees and other on costs which means that the actual project costs necessary to deliver the required works are often well in excess of these values.
61. Firm plans now exist to progress a programme of targeted expenditure initiatives, asset disposals and site rationalisation that will result in an overall reduction in backlog maintenance against this target of £52.2m (30%) by March 2018. Within this overall figure very high risk backlog will reduce by £11.3m (63%) and high risk by £22.5m (44%).

62. The following extract from our financial plans summarises the budgeted expenditure on backlog maintenance (inclusive of VAT fees and other on costs) and the anticipated sources of funding available to support the programme over the 5 years 2014/15 to 2018/19.

**APPENDIX 4**

**NHS Grampian**

**Backlog Maintenance Programme**

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan £000s</th>
<th>Available Funding £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>14/15</td>
<td>11,584</td>
<td>4,135</td>
<td>15,719</td>
</tr>
<tr>
<td>15/16</td>
<td>11,982</td>
<td>12,954</td>
<td>24,936</td>
</tr>
<tr>
<td>16/17</td>
<td>6,170</td>
<td>7,247</td>
<td>13,417</td>
</tr>
<tr>
<td>17/18</td>
<td>11,209</td>
<td>8,172</td>
<td>19,381</td>
</tr>
<tr>
<td>18/19</td>
<td>9,622</td>
<td>8,172</td>
<td>17,794</td>
</tr>
</tbody>
</table>

**TOTAL FUNDING AVAILABLE FOR BACKLOG MAINTENANCE**

16,126 18,817 11,899 9,622 9,622 66,085

**SURPLUS / (-)DEFICIT** 0 0 0 0 0 0

**TOTAL FUNDING AVAILABLE FOR INFRASTRUCTURE INVESTMENT**

24,916 23,534 2,187 16,192 16,042 102,557

**PROPORTION APPLIED TO BACKLOG MAINTENANCE**

60% 54% 59% 60% 64%

63. A major element of this programme is the planned package of works to be undertaken in the East End 2 and Phase 2 blocks at ARI. The work associated with the East End 2 block (target price £5.452m) was approved by the Board in September 2013. The majority of the work is expected to be complete with services operational in their new accommodation by May 2014 with one remaining ward due to be occupied in September 2014.

64. The remaining scope of the works programme for ARI Phase 2 is now agreed with the affected services and detailed design planning underway. The works package will be delivered in 3 separate stand alone stages with detailed designs and a final target price for the first stage expected to be available by 28th February 2014. Work will start on site shortly thereafter. The budgetary estimate for this first stage is
£10.6m with a contingency of £1m provided within the financial plan to cover risk/optimism bias. It is assessed that the east End 2 and Phase 2 programmes will contribute £14.89m (net of VAT, fees and other on costs) to the above target reduction in backlog maintenance.

65. The overall programme at ARI is underpinned by a complex series of service moves, a “decant plan”, which is agreed on a stage by stage basis by both clinical leadership within the affected service areas and the Acute sector Management Team. The decant plan is aimed at ensuring that services are only required to move once to allow the work to complete prior to occupying their permanent accommodation

66. By March 2018 there will still be a sizeable backlog risk in our estate. The largest remaining areas with a planned future clinical use and high levels of backlog are the Phase 1 block and Theatres at ARI. The Foresterhill site rationalisation plan identifies Phase 1 as the future location for ambulatory care services in the medium term. The service plans to deliver this are at a very early stage of development and a firm works programme for this area cannot be agreed until the service configuration is finalised (the current backlog risk categorisation reflects use as in patient accommodation and this will change significantly, potentially requiring less intervention, if we change the use to out patient only). Our 5 year financial plan identifies additional resource to be targeted at Phase 1 and other additional backlog priorities from 2017/18 onwards.

67. The proposed programme of works is affordable within our overall financial plans and will target the significant areas of risk within our estate. The dependency on asset disposals is a key risk to the affordability of the programme and to mitigate this the major programme of works planned at ARI Phase 2 will be delivered in 3 distinct stages with Board approval requested prior to the commencement of each stage.

Replacement of essential equipment

68. A key element of our capital programme is the replacement of essential equipment and critical assets within our clinical and non clinical services. We have had significant engagement with clinical services in order to assess and prioritise available funding to target at essential equipment replacement.

69. In terms of planning within a five year context, we are developing a more detailed equipment replacement strategy, informed by a comprehensive assessment of risk. Given the commitment to the backlog maintenance within the Aberdeen Royal Infirmary over the next three financial years, the funding available for supporting a rolling replacement programme will be limited. During this period the focus will be on prioritising funding to those areas of highest priority. From
2016/17 onwards, resources will be allocated to support the delivery of a higher level of investment which will be informed by risk assessment within the equipment replacement strategy.

Disposal of surplus assets

70. A key element of the delivery of our capital plan is achievement of our programme of disposals of surplus assets. This programme has now been agreed with Scottish Government and delivery of the required actions is monitored closely by the Board’s Asset Management Group.

71. Clearly our planning must remain realistic regarding expectation of additional resource availability to support new service development over the period of the plan and this is a key consideration when addressing strategic priorities locally. We continually refine our expenditure proposals to achieve the correct balance and shape our programme to achieve maximum benefit across the range of funding sources available to us.
Financial Risks and Managing Them

72. This paper touches throughout on financial risks to the organisation but this section is intended to focus on summarising key risks and how we can eliminate or reduce them to tolerable levels.

Policy and Legislative change

73. The policy and legislative landscape in which Boards operate is continually evolving and requires adjustments to made in terms of our operating and planning framework. We had the recent enactment of the Patient Rights (Scotland) Act, with the Public Bodies (Joint Working) (Scotland) Bill and Community Empowerment and Renewal Bill shortly due to be enacted in the near future. The Board’s local delivery plan acknowledges the new legislation and work is progressing to identify the resource and financial implications (costs and opportunities) of the changes to health and social care integration and in community planning. We have also undertaken a review of the arrangements within the Board for assessing continuing care requirements.

Resource Gap

74. We acknowledge the positive and constructive discussions we have had with the SGHSCD Finance Directorate and the commitment to further progression towards NRAC parity. Due to the anticipated increase in the Grampian population and the our position relative to NRAC parity our ability to appropriately resource services to deliver national targets and address local health priorities (in a growing population) will continue to represent a significant challenge.
Access to new drugs

75. The Grampian Medicines Management Group performs a critical role in ensuring that the organisation is effective in its management of prescription drugs in both primary care and hospital settings. The Group’s report to the Budget Steering Group suggests an increase of the annual drugs budget by £7.2m million in 2014/15. Over the last few years, NHS Grampian’s drugs’ costs have been kept to a reasonable level assisted in part by national pricing negotiations with drug companies. The introduction of the Scriptswitch prescribing tool within our GP practices continues to benefit us both financially and in terms of providing effective service and advice to patients. The new approach by Scottish Medicines Consortium on medicines for end of life and very rare conditions has the potential to increase the secondary care drugs expenditure. Whilst provision has been made in our financial plans to reflect a recurring additional for drugs supported through the new process the full extent of any cost may have to be met from a re-prioritisation of service funding. We will also continue to monitor the position in respect of access to the national rare drugs fund which will be available during 2014/15 to meet the cost of ivacaftor3.

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3 This is a drug approved for patients with a certain mutation of cystic fibrosis.
Capital

75. Reductions in capital funding will adversely impact on our ability to ensure that our infrastructure (buildings, equipment and technology) remain fit for purpose and in compliance with required legislation. The Asset Management Group (AMG) advises the NHS Grampian Board on the prioritisation of available capital, and other sources of funding, in line with agreed service strategy and assessed high risk areas for infrastructure replacement and improvement. All capital expenditure proposals are subject to robust scrutiny and challenge by the AMG on an ongoing basis to ensure that all available funding is targeted in the most appropriate manner and phased to maximise impact on reducing known risks.

Managing demand pressures

76. Changing demographics, with an increasing and aging population, will place additional pressures on existing health resources. The population in Grampian continues to rise at a faster rate than other parts of Scotland, with new and emerging communities reflected in the local development plans in Aberdeen City and Aberdeenshire in particular. These challenges are reflected in gaps in primary care health provision (current and predicted) and rising levels of activity and patient acuity in our major hospital sites. Our Property and Asset Management Plan will set out the challenges we face in relation to location of our infrastructure and the need for transformation in relation to the provision of primary and social care. NHS Grampian in conjunction with local authority partners have made very good progress in discharging more elderly patients to suitable care environments. This is not only much better for patients but frees up much needed bed space to allow a faster throughput of activity which in turn improves access for new patients. There is growing concern, however, that local authorities will find it difficult in future to allocate sufficient funding to support patients discharging into the community, leading once again to “delayed discharge” difficulties. Effective use of the Change Fund should prove to be instrumental in avoiding any reversal of outcomes. The reintroduction of a more challenging target for reducing delayed discharges will further focus attention.

Workforce

77. The employment market within the Grampian area is particularly challenging given the buoyancy of the local market, rising property costs and availability of affordable rental accommodation. In addition we are facing similar challenges to other Boards in Scotland in terms of recruitment of consultants and other clinicians within certain medical specialties and sub-specialties. These challenges have manifest
themselves in increases in medical locum costs and higher levels of nursing vacancies.

78. **As a Board we are reviewing all aspects of our recruitment arrangements to ensure that we are maximising the potential to attract and retain staff in the Grampian area. We remain ambitious in our aims for the delivery of healthcare and to building on our position as a high quality teaching and research establishment.**

**Pay and pension costs**

79. The current actuarial valuation of the pension scheme and the ending of Contracting Out arrangements from April 2016 will present a significant cost pressure in 2015/16 and 2016/17 respectively. **We are planning for a 2% increase in employer’s pension contribution rates from April 2015 and for the impact of ending Contracting Out arrangements an additional 2% of pensionable pay from 1 April 2016.**

**Summary and Conclusion**

80. NHS Grampian is projecting that it will meet its key revenue targets in 2013/14 and during the five years of this plan, will remain within financial balance. In doing so, it must achieve recurring cost reductions in each of these years. This will be a very substantial challenge in an environment where demand for health services will continue to grow exponentially.

81. The capital programme in 2013/14 will also be met and will deliver very significant benefits to the organisation, to staff and to patients.

82. The Board continues to drive forward our 2020 vision and ensuring that we are able to make the necessary changes required to support our ambitions.

83. Demography will demand a different way of service delivery and this is likely to involve significant change rather than tinkering at the edges. Robust methodology and its effective application in such turbulent circumstances are essential.

84. Funding allocations over the next five years are likely to present NHS Grampian with significant challenges. We do however acknowledge the agreement to accelerate the funding of NRAC parity and we expect to be within 1% of parity by 2016/17, with further progression towards parity thereafter.
85. There has been an enormous and effective collective effort in 2013/14 to restrict expenditure to budgeted levels. There will be no rest from such efforts in the immediate future. No service will be exempt from the financial pressure so it follows that working collectively to achieve the organisation’s aims is likely to have most chance of success and to bring everyone together in morale boosting planning and delivery.

Alan Gray
Director of Finance
NHS Grampian

17th March 2014