

NHS Education for Scotland

Board Paper Summary

1. **Title of Paper**

The development of a draft NES budget for 2016/17.

2. **Author(s) of Paper**

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3. **Purpose of Paper**

To present an update on the development of the draft Budget for 2016/17.

4. **Key Issues**

As a result of the timing of the UK spending review, the draft Scottish Budget was not made available until 16th December 2015. However, we are required to submit our first draft Financial Plan to Scottish Government Health and Social Care Directorate (SGHSCD) by Friday 4th March, with a revised plan submitted by Tuesday 31st May 2016.

NES has received confirmation of a 1% uplift to our baseline for 2016/17 (£4.0 million). Against this we have identified pay cost pressures of £9.3m resulting in an initial funding gap of £5.2 million that we will need to close to produce a balanced budget.

NES also receives a substantial element of its funding in the form of 'earmarked' and 'non-recurrent' funding. These sums are allocated in year. Based on our normal planning assumptions we would anticipate £16m in the form of continuing in-year funding and an additional £23m in bids for new or continuing work that has been the subject of detailed discussions with SGHSCD policy leads.

SGHSCD have announced that the Special NHS Boards should anticipate that their in-year allocations will be subject to a reduction of 10%. They have also indicated that they intend to adopt a bundling approach to these funds, whereby Boards would have flexibility about how they use the funds across different priorities, but working to a set of clear outcomes. As yet there is no detail about what will be included in the bundles, or how the outcome frameworks will be developed.

Given the level of challenge associated with producing a balanced budget for 2016/17 this paper is being presented to the Board to provide a briefing concerning the financial position, and to give Board members the opportunity to understand the measures being considered to help us to produce a balanced budget. This discussion will inform the detailed proposals that

will be developed for consideration by the Finance and Performance Management Committee in February and by the full Board in March.

5. Educational Implications

The draft budget will underpin the activities that we will include in the draft local delivery plan (LDP). Our LDP has been drafted based on Directorate submissions to the planning system however this work cannot be completed until we have agreed the measures we will need to take to balance the budget and we have clarity about the in-year funding which supports significant levels of activity.

6. Financial Implications

This paper sets out, for discussion, options that would enable NES to close the funding gap identified on our baseline funding. Once we have clarity on the impact of reductions on our in year funding we will need to consider what adjustments we need to make to planned activity in order to manage within the revised funding.

7. Which NES Strategic Objective(s) does this align to?

The budget underpins the achievement of all our strategic objectives

8. Impact on the Quality Ambitions

The education and training that NES provides/commissions, and which is supported by this budget, is designed to impact on all the Quality Ambitions.

9. Key Risks and Proposals to Mitigate the Risks

The gap between our anticipated recurrent income for 2016/17 and our initial planned expenditure, including pay cost pressures, creates an initial funding gap of £5.3 million. This creates a risk that the measures we will need to take to close that gap will have a lasting impact on the ability of the organisation to deliver across our strategic objectives. This is why we are bringing some of the options to the Board for discussion at this stage, prior to working through the detail of the full draft budget.

In addition we do not yet have sufficient clarity about the level of in year funding that we will receive next year. This is a particular risk because a significant proportion of this funding supports on-going key activity, where it will be difficult to achieve cost reductions (for example the funding to support pre-registration pharmacy trainees is included in this category). We are continuing to work with SGHSCD to get clarity on the detail of our in year allocations.

10. Equality and Diversity Impact Assessment

The funding settlement may result in a decision to cease activity in some areas. Where this is necessary we will need to carry out an equality impact assessment.

11. Recommendation(s) for Decision

The Board is requested to consider the information contained in this paper, and to discuss the measures under consideration to enable NES to produce a balanced budget for 2016/17.

A McColl
20/1/2016

DRAFT NES BUDGET FOR 2016/17

1 Introduction

The purpose of this paper is to:

- Brief Board members with regard to the budget for NHS Scotland for 2016/17 and in particular, the anticipated allocation for NES.
- Describe the process by which the draft budget for NES for 2016/17 has been developed to date.
- To set out for the Board some of the measures currently being considered to achieve a balanced budget for 2016/17 and to invite some early discussion on these measures,

2 Key budget planning parameters for 2016/17

2.1 The Scottish Budget and NES allocation

The draft Scottish Budget was published on 16th December 2015.

The draft budget included uplifts for Territorial Health Boards of 5.5% for 2016/17. Board members should note that this total uplift included a baseline increase of 1.7%, plus any additional NRAC allocations, and that the most significant element of the 5.5% total was the sum of £250million which has been included in NHSBoard allocations but which is badged as being for social care and which is required to be passed to the IJBs. As a result, most Territorial Health Boards will receive an uplift of only 1.7% to cover cost and demand pressures in the acute sector.

The headline uplift for Special Health Boards was 3.3%, however, this includes existing funding that was previously in-year funding but has been moved into baselines, and an additional allocation of £5million to the Scottish Ambulance Service. The standard uplift for Special Health Boards, excluding these items was 1%.

Details of the allocations and % changes in RRL for Special Health Boards are shown in the table below.

Special Boards	2014/15 £m	2015/16 £m	2016/17 £m	% change 2014/15 - 2015/16	% change 2015/16 - 2016/17
NHS Waiting Times Centre	45.2	46.0	46.5	1.77%	1.09%
NHS Scottish Ambulance Service	209.7	212.1	218.5	1.14%	3.02%
NHS State Hospital	33.9	34.2	34.3	0.88%	0.29%
NHS 24	62.1	62.7	64.6	0.97%	3.03%
NHS National Services Scotland	280.5	283.3	293.4	0.99%	3.57%
Healthcare Improvement Scotland	15.2	15.2	15.5	0.00%	1.97%
NHS Health Scotland	17.7	18.0	18.2	1.69%	1.11%
NHS Education for Scotland	391.3	392.6	408.7	0.33%	4.10%

The 2016/17 NES baseline allocation includes £12.0m of funding which was previously allocated in-year but has been moved to the baseline. This includes £10.1m for Modernising Medical Careers and £1.6m for Leadership giving a true uplift of £4m or 1%.

2.2 Income assumptions

	Total £'000s	Uplift/(reduction) £'000s
Baseline Budget (1% uplift included)	408,657	4,046
Anticipated Allocations *	15,950	(???)
NES Total SGHSCD income	424,607	4,046
Future in-year allocations **	22,795	(???)

*The anticipated allocations of £16m shown in this table are amounts of in year funding which support on-going recurrent expenditure. These are not new funding lines, they have all been received year on year and they include items such as additional ACT funding (Calman), funding for the pharmacy pre-registration trainees and the funding stream for optometry. SGHSCD have indicated plans to reduce in-year allocations by 10%, however they have subsequently acknowledged that many of these items should be included in our baseline. We do not know yet which items will be transferred to our baseline, or if any reduction will be applied to these amounts, if there is it will create an additional cost pressure.

** In addition to the in year funds shown above, we have anticipated additional allocations of £23m built into our planning system. These funds are for new and continuing activities where required funding has been discussed with SGHSCD policy leads. Included here is funding of £6m for NMAHP activities and £5.8m in Psychology. It also includes the funding that we require to support a number of initiatives in medicine, including the continuing expansion of foundation posts and other posts, and the establishment of an additional 100 GP Training places. This area of our outline budget is in most doubt. We anticipate that some aspects of this funding will not be received at all, and that others will be significantly cut. Once we have clarity on the funding available we will need to consider what the implications are for delivery.

2.3 Pay cost assumptions

In approaching budget planning for 2016/17 all Boards were advised to plan on the basis of a uplift on pay costs arising from an anticipated 1% cost of living award, plus the impact of the removal of the employer's national insurance contribution rebate for contracted out pension schemes. The national insurance impact for NES equates to a cost of 2% which means that our total pay cost pressures amount to 3%.

The Board will be aware of the significant amount of the NES budget which is committed to paying the salaries of doctors, dentists, pharmacists, clinical psychologists and others while they are in training. These commitments represent 64% of our budget spend, with our own payroll costs adding a further 7%. As a result the increases in pay and employers costs create a cost pressure of £9.3m on the NES budget, which we need to manage against a total increase in income of £4.0m.

	Total Expenditure £'000s	Cost pressure included £'000s
Trainee related pay expenditure	270,104	8,236
NES staff payroll	30,531	881
Other pay (Training Programme Directors and Practice Education Facilitators)	5,615	153
TOTAL NES PAY BILL	306,250	9,270

3 Budget Preparation for 2016/17

The pay cost pressure described above, offset by the £4m uplift received on our baseline, results in an initial budget gap of £5.2 million. This comes on top of the budget settlements over the last few years where NES has, year on year, been required to deliver savings through a reduction in its baseline funding.

We released indicative budgets to Directorates in November 2015, to enable them to start planning and allocating resources, including staffing, to key deliverables for 2016/17. In preparing these operational budgets, we recognised that we would need to adopt a careful approach to identifying savings which would not disadvantage those Directorates with predominately staffing costs and very low non pay budgets. We therefore took the following approach:

- The full anticipated cost of pay and national insurance increases were allocated to Directorates to ensure that Directorates with little resourcing flexibility were not disadvantaged by having to identify efficiencies to meet these costs.

We then sought to balance the cost of providing funding for the increased pay costs by:

- Adjusting indicative pay budgets for each Directorate; to remove the pay costs associated with long term vacancies, and non recurrent posts with no funding commitment beyond March 2016.
- Applying a 3.4% savings target against all Directorates budgets (excluding the trainee and staff pay elements)

This has been a challenging process because within the indicative budgets are significant elements which, at present, are recurrently committed. These include elements such as: Medical and Dental ACT (£93m); Dental Outreach (£5.7m); eSubscriptions (£2.5m) and office and infrastructure costs (£5m). It is therefore extremely hard to identify areas where savings can be made without impacting on activity.

Directorates have been unable to deliver the required level of savings in their initial operational plans although the funding gap has been reduced to £3.4m, as shown in the following table:

Progress made in closing the budget gap	Recurrent £'000	Non-recurrent £'000	Balance £'000
Savings required to balance budget	5,224		5,224
Pay budgets adjusted for vacancy and other WTE adjustments	(442)		4,782
Savings from 2015/16 VS Scheme	(200)		4,582
Efficiencies achieved in operational plans	(1,142)		3,440

£3.4 million is a large gap to close and the Executive team have agreed criteria against which all submitted activities can be prioritised to give us a basis to consider those activities that should be continued; those that can be scaled back and those that should be discontinued. An exercise is underway to map all planned activities against the criteria agreed.

However, we need to be mindful that it is our commitment to paying Training Grade salaries that is driving the cost pressures that we face. Over the last couple of years we have managed cost pressures on these budget lines which have been greater than the uplift on budget that we have received. We are now at the stage that we can no longer reasonably expect to cover cost pressures on Training Grades by identifying reductions in all other areas of our budget. We are therefore considering additional measures. These include identifying reductions that can be made on the Training Grade budgets to cover an element of the cost pressures on these budgets. Our consideration of these measures is at different stages in relation to producing reliable estimates of savings and assessing all the risks. Details are contained at Appendix One.

4 Additional Cost Pressures

This paper highlights the significant cost pressure that arises from the 3% increase in pay costs. However, this is not the only cost pressure that we will need to take account of in developing our budget for 2016/17. The most significant of these (in relation to financial or strategic impact) are set out below:

4.1 Creation of an additional 100 GP Training Places

The £23m additional in-year allocations which we anticipate (see 2.2) includes £3.7m which was the anticipated part year cost of the expansion of GP Training Posts. We are in continuing discussions with Scottish Government about the additional funding that will be required to support this commitment. We are also considering ways in which this commitment could be delivered without funding. This would be likely to include our requiring to remove hospital based training posts in order to create the salaries necessary to deliver new hospital and practice training posts capable of producing balanced training programmes that will meet General Medical Council requirements for GP training. This challenge would be exacerbated by the around 1.5 hospital medical posts are needed to create 1 GPST post.

4.2 Healthcare Support Workers

Part of the funding which supports the healthcare support worker activity in NES is funded by us on a non recurrent basis. This is a relatively small amount (approximately £150k) but given the other constraints on the budget it will be challenging to identify funding for this priority.

4.3 Property Strategy

The Board is aware of the requirement to consider our options given the approaching break point for the lease of one of our properties in Aberdeen. Whatever option finally emerges as preferred will require some non recurrent funding during 2016/17.

4.4 Digital Strategy

NES has made huge progress with the digital strategy and it has the potential to strategically strengthen the contribution that we make to NHSScotland; and to enhance our offer in relation to education and training across NHS Scotland and the wider public sector. Increasingly it is also seen by us and NHS Boards as critical in supporting our strategic objective of improving the experience of trainees through addressing their employment arrangements. We will continue to make progress if available resource is restricted to the current digital team capacity, but much more can be achieved if we have the potential to invest on a non recurrent basis in additional developer resources.

5.0 Conclusion and Recommendation

Although progress has been made we still have a significant gap to close in order to present a balanced budget for 2016/17. The Board is invited to note the current position and to comment on this and the options being considered to manage this.

Appendix One

Options under consideration	Potential Saving - Recurrent	Potential Saving – Non-recurrent	Commentary
<p>Reducing the funding to NHS Boards for full time vacancies in medical training by 10%</p>		(1,481)	<p>Unlike in other disciplines, NES continues to fund NHS Boards for medical training posts in hospitals even when vacant. This approach originated on the introduction of Modernising Medical Careers (MMC) in 2007 to reflect the move to annual national recruitment of Specialty trainees. At the same time the new short term one year Fixed Term Specialty Training Appointments were introduced . Candidates perceived these to be service rather than training posts which left many unfilled. This also reduced NHS Boards ability to recruit to these posts locally in year.</p> <p>Withdrawal of the vacancy factor funding would re-inforce the principle that NES funding is to support training. However it would impact on the ability of Boards to fund locum or other cover for unfilled posts. We would need to consider the differential impact on Boards as vacancies are not evenly distributed across Scotland. In addition, due to curriculum requirements and the training level of posts, not all specialties are able to recruit to Locum Appointments and the funding for these remains with the Boards year on year.</p> <p>The saving is currently defined as non-recurrent as the post could subsequently be filled.</p>
<p>Revising the payment rate to NHS Boards for core/specialty medical trainees</p>	(1,688)		<p>NES provides funding to NHS Boards at a rate midway between the 2nd and 3rd increment point of the specialty trainee scale for all core and specialty trainees in hospital medicine. If we moved to a mechanism whereby trainees were funded based on their year of training (i.e. year 1 trainee funded at bottom point of the scale; year 2 trainee funded at 1st increment point and so on) the potential funding released is around £1.7m. This also assumes that vacancies are funded at the minimum of the scale.</p>

Consider a reduction in trainee establishment across all professions to cover cost pressures.	(100) Broad estimate only		Options 1 & 2 above focus on medical training budgets and the bulk of the cost pressure we face is driven by this item of expenditure. However we also face 3% cost pressures on other training grade budget lines where we do not have the option of considering vacancy factor or payment rates. In these areas to meet cost pressures we could look at reducing the number of trainees. The risk of this would need to be assessed in each area.
Applying a 1% reduction to ACT funding provided to NHS Boards	(500)		ACT funding is paid towards the direct teaching cost of undergraduates within the NHS. NES reduced funding by 1% in the 2015/16 financial year and a further 1% reduction this year would release £0.93m. However, Government have advised that the earmarked allocation we receive for retaining 165 St Andrews students in Scotland will be cut by £0.43m leaving a potential net saving of £0.5m (if we were to contain the reduction to 1%).
ACT levy on overseas students	-		Scottish Government has announced the introduction of an ACT levy for overseas students of £10,000 from 2017 with an intention to impose a transition levy (still in discussion) from 2016. This funding will be routed through NES, however we should not assume that this will bring any revenue benefit to us.
Reduction in the budget for subscriptions in the e-library	(100) Broad estimate only		This budget has been protected for the past few years and before that was increased. Some savings have been delivered through procurement activity and have been available for re-investment to date. We could now look to make a modest reduction to this budget.
Introduction of an estimated recruitment lag for staff turnover		(500) Broad estimate only	Our budgets are currently based on our approved staffing establishment being fully occupied throughout the year. As a result we see underspend emerging through the year where staff leave and it takes some time to recruit to the vacancies. Even without introducing a deliberate delay in this area it would be possible to estimate some savings and to build these into our budget.

Introduction of an unidentified savings target	(500) Broad estimate only		To date we have budgeted based on what we expect to spend and although we continue to focus on improvement and efficiencies, we have not targeted any savings to be delivered in year. We could introduce a general savings target into the budget which would drive us to identify and deliver additional savings in year. This might include targeting reductions in staffing levels during the year driven by enhanced sharing of infrastructure across Directorates.
Consideration of significant areas of expenditure eg Teach and Treat and CPD	Not yet quantified		
Opportunities for income generation	(200) Broad estimate only		Further income generation potential that could include sponsorship of events and conferences; charging for CPD delivery across professions; charging for Quality Improvement and Leadership courses and licensing of digital solutions developed by NES.

