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| Board Meeting: | 12 September 2018 | GJF RGB WITHOUT STRAPLINE |
| Subject: | Finance update |
| Recommendation: | Board members are asked to:  |  |  | | --- | --- | | Discuss and Note | X | | Discuss and Approve |  | | Note for Information only |  | | |

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#### Introduction/Key Issues

The month 4 year to date (YTD) results show a total surplus of £0.895m. This includes both core and non-core expenditure. This is in line with the forecast in the finance plan of £0.9m underspend by the end of July 2018 against core Revenue Resource Limit (RRL). This surplus is made of the following:

* Income – above target by £780k YTD;
* Core Expenditure – underspend of £125k YTD; and
* Non-core Expenditure – overspend of (£9k) YTD.

It is anticipated that the Board will achieve the target agreed with the Scottish Government Health and Social Care Directorate.

Given 2018/19 discussions on pay awards and pay progression, expansion approvals and other potential developments, detailed financial forecasts commenced from month three onwards for both revenue and capital expenditure and associated funding streams.

#### 2018/19 Scottish Government Pay funding model

Scottish Government (SG) has confirmed funding for Agenda for Change (AfC) staffing above initial 1% equating to £77m for Territorial Boards and £8m for National Boards on the basis of staff headcount modelling.

It was agreed that a Short Life Working Group (SLWG) would be created to review the Scottish Government pay funding modelling compared to Boards’ own local models to understand any gaps between the £85m earmarked by Scottish Government and NHS Boards own funding calculations.

The final SLWG meets on 16 August and will inform Scottish Government of the final outcome, with plans to allocate AfC pay policy funding via the August RRL letter. We continue to plan that this will be fully funded with the modelling costs for the Board in the region of £910k assumed within the Board forecast plan.

#### Annual Managed Expenditure – Provisions (CNORIS)

Members will note that legal claims have increased in the first four months of this year and this is reflected in the adjustments in the non core forecasts. There are no underlying trends in this position but in assessing this we thought it useful for the Board to understand the adjustments and processes in place to account and manage this on a monthly basis.

The extract below from the annual accounts describes this position

“The Clinical Negligence and Other Risks Scheme (CNORIS) has been in operation in NHS Scotland since 2000. Participation in the scheme is mandatory for all NHS boards in Scotland. The scheme allows for risk pooling of legal claims in relation to clinical negligence and other risks and works in a similar manner to an insurance scheme. CNORIS has an agreed threshold of £25k and any claims with a value less than this are met directly from within boards’ own budgets. Participants e.g. NHS boards contribute to the CNORIS pool each financial year at a pre-agreed contribution rate based on the risks associated with their individual NHS board. If a claim is settled the board will be reimbursed by the scheme for the value of the settlement, less a £25k “excess” fee. The scheme allows for the risk associated with any large or late in the financial year legal claims to be managed and reduces the level of volatility that individual boards are exposed to.

“When a legal claim is made against an individual board, the board will assess whether a provision or contingent liability for that legal claim is required. If a provision is required then the board will also create an associated receivable recognising reimbursement from the scheme if the legal claim settles.

“As a result of participation in the scheme, the Board also recognises that they will be required to make contributions to the scheme in future years. Therefore a second provision that recognises the board’s share of the total CNORIS liability of NHSScotland has been made and this is reflected in the above.

“Therefore there are two related but distinct provisions required as a result of participation in the scheme.”

**CNORIS claims update as at July 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Clinical & Medical** | **Participation in CNORIS** | **Other** | **Total** |
|  | **£’000** | **£’000** | **£’000** | **£’000** |
|  |  |  |  |  |
| **As at April 2018** | **3,881** | **1,633** | **35** | **5,549** |
| Arising during the year | 971 | - | - | **971** |
| Utilised during the year | (18) | - | - | **(18)** |
| Unwinding | (25) | - | - | **(25)** |
| Reversed unutilised | - | - | (5) | **(5)** |
|  |  |  |  |  |
| **At 31 July 2018** | **4,808** | **1,633** | **30** | **6,472** |

From the above table it can be seen that the level of provision for claims within the Board has increased from that reported at year-end. This is primarily due to an increase in the number of claims in year and an increase in the value and/or risk rating of other claims. This is reviewed on a monthly basis by the Finance team.

In assessing the impact of potential claims the following risk rating is used by the Central Legal Office (CLO) are as follows:

**Level one** – insufficient information available to allow an estimate of settlement, therefore accounted for as a contingent liability.

**Level Two** – further information available but still insufficient to provided a firm estimate, however more certainty is available,

**Level Three –** the likelihood of settlement is confirmed and the value of the claim has been ascertained with a degree of certainty

The amount included in the above table for claims arising during the year to date relates to the following:

* New claims – four, all risk rating of 2, Claims that risk rating has increased – five, (four moved from risk rating of 1 to 2 and one moved from risk rating of 2 to 3), those which were a one at year end were not provided for but were accounted for as a contingent liability in the accounts; and
* Claims that the risk rating has decreased – one moved from level 3 to level 2.

All risk ratings and valuations used to calculate the above figures are provided on a monthly basis by the Central Legal Office.

**Funding Claims/Provisions**

As noted in the description above funding and costs for claims are met from the following sources:

**Costs**

**Provisions** - The costs of each claim are included with the Board’s balance sheet with this being the full value of the provision as advised by the CLO. This number will vary on a monthly basis dependent on the movement in the claims.

**Revenue –** the costs for legal fees and associated costs are billed monthly from the CLO and are expensed on a monthly basis. The Board has an annual budget to cover these costs and is monitored closely.

The costs noted above are funded be the sources below.

**Funding**

**Non-core funding (annually managed expenditure)** – this is the funding that is provided via non-core expenditure to cover the £25k excess for all claims processed via the CLO. The figure reported on a monthly basis is only the movement in the funding with this being re -calculated on a monthly basis. The budget included in the non-core funding is £40k, however this is currently sitting at £115k due to the movements noted above.

**Debtor**

The other source of funding for the cost of the claims is the CLO Debtor which is the debtor that the Board creates for each claim made, the value of the Debtor will be the total value of the claim minus the £25k excess referred to above.

**Settlement**

On settlement of any claim, a claim form is submitted to the CLO which will cover all costs associated with the claim including the settlement value. This settlement value covers all costs incurred by the Board minus the £25k which has already been provided for. The aim of the scheme is that no Board should incur a cost for the settlement of claims.

1. **Efficiency Savings**

At month four efficiency savings delivered were £0.874m against an LDP target of £0.807m, reporting a phasing surplus of £67k at this early stage. This is in line with the forecast trajectory within the financial year.

This savings achieved to date are split with recurring efficiency savings achieved £531k and non recurring savings of £343k. Details of this are included in Appendix 1, page 5.

#### 5. Conclusion

Members are asked to note this finance report for the period ended 31 July 2018.

## Julie Carter

**Director of Finance**

**15 August 2018**

(Lily Bryson – Assistant Director of Finance – Governance and Financial Accounting, Elizabeth O’Brien – Assistant Director of Finance – Financial Management)