

Meeting:	NHS Grampian Board
Meeting date:	1st December 2022
Item Number:	6
Title:	Update on NHS Grampian Financial Position
Responsible Executive/Non-Executive:	Alex Stephen (Director of Finance)
Report Author:	Alan Sharp (Deputy Director of Finance)

1 Purpose

This is presented to the Board for:

- **Assurance** – The Board is asked to review and scrutinise the information provided in this paper and confirm that it provides assurance that:
 - steps are being taken to manage NHS Grampian’s financial position in 2022/23 to deliver a level of overspend in line with the Board’s original financial plan submission to the Scottish Government.
 - detailed financial planning is underway to set the revenue budget for 2023/24 and refresh the Medium Term Financial Framework, noting the scale of the financial challenge facing the Board in 2023/24 and beyond.
- **Decision** – The Board is asked to agree that the key principles outlined at the end of section 2.3 should be adopted in setting the revenue budget for 2023/24.

This report relates to:

- Annual Operation Plan
- Emerging issue
- Financial Sustainability

This aligns to the following NHS SCOTLAND quality ambitions:

- Effective
- Person Centred

2 Report summary

2.1 Situation

NHS Grampian is facing an overspend in the current financial year and is taking action to reduce the level of overspend to £20 million in line with our original financial plan submitted to the Scottish Government in March 2022. Some of the actions are non-

recurring which means that NHS Grampian will enter the new (2023/24) financial year with a significant underlying financial deficit.

Work has now been done to establish a baseline financial projection for 2023/24. The combination of the underlying deficit brought forward from 2022/23 together with new commitments in 2023/24 likely to exceed new resources mean that NHS Grampian will be facing a financial challenge of circa £45 - 70 million in 2023/24.

It now appears likely that even with significant service transformation and delivery of higher levels of efficiency savings than have been achieved in previous years that it will be the medium to longer term before NHS Grampian returns to a position of underlying financial balance.

2.2 Background

NHS Grampian has reported an overspend against the revenue budget of £21.5 million at the end of October 2022. This is due to a range of operational pressures which have led to overspends in areas such as supplementary staffing, hospital drugs and energy. Without corrective action, an overspend of over £40 million is projected. At the request of the Scottish Government, a Local Value & Sustainability Plan has been prepared on a whole system basis. It outlines a range of mitigating actions which will improve our financial position during the second half of the year and deliver a forecast overspend for the year of circa £20 million, which is the level outlined in our original financial plan submission of March 2022. Brokerage funding will need to be requested from the Scottish Government to meet the £20 million overspend. It is expected that this funding will need to be repaid to the Scottish Government at a point in the future when the Board returns to a financially balanced position.

The measures outlined in the Value & Sustainability Plan have been designed to minimise any impact on critical services. Some are focussed on improving efficiency and will deliver recurring savings (e.g. improving the way we use high cost locum and agency staffing). However, some are also non-recurring technical accounting adjustments which will provide a one off saving for this year only (e.g. returning to the pre Covid policy on the carry forward of untaken annual leave).

2.3 Assessment

The initial financial projection for 2023/24 is based on assumptions of 2% for funding uplift, pay awards and efficiency savings. The Scottish Government budget is scheduled for 15th December 2022. The Director of Finance will provide a briefing to Board members following its publication on the impact for NHS Grampian.

A range of financial scenarios for 2023/24 are shown in the table below:-

	Worst Case	Current Estimate	Best Case
Item	£m	£m	£m
Underlying Deficit – Portfolios & Other Services	(23.0)	(23.0)	(23.0)
Underlying Deficit - Board Reserves	(18.5)	(18.5)	(18.5)
Underlying Deficit	(41.5)	(41.5)	(41.5)
<u>New Resources</u>			
Baseline Uplift	10.7	21.4	32.2
Less IJB Share of Baseline	(3.9)	(7.7)	(11.6)
Other Income	(1.5)	(1.3)	(1.0)
Total Resources	5.3	12.4	19.6
<u>Commitments</u>			
Pay (Agenda for Change and Medical & Dental)	(11.4)	(11.4)	(11.4)
Non Pay (Hospital Drugs, Inflation, Energy, Rates)	(21.8)	(22.0)	(22.2)
Other Commitments (Anchor Centre, 22/23 Developments, HEPMA, National Services)	(6.9)	(6.9)	(6.9)
Budget provision for prioritised service requirements	(0.0)	(0.0)	(0.0)
Total Commitments	(40.1)	(40.3)	(40.5)
Gap Before Savings	(76.3)	(69.4)	(62.4)
Savings	5.5	11.0	16.5
Gap After Savings	(70.8)	(58.4)	(45.9)

The “current estimate” projection is based on 2.0% for baseline funding uplift, pay awards and efficiency savings. This would produce a £58.4 million deficit in 2023/24.

The “worst case” projection is based on 1.0% for baseline funding uplift, pay and efficiency savings, with 2.0% for pay awards. This would produce a £70.8 million deficit in 2023/24.

The “best case” projection is based on 3.0% for baseline funding uplift, pay and efficiency savings, with 2.0% for pay awards. This would produce a £45.9 million deficit in 2023/24.

A 1% change in the level of funding uplift changes our funding by +/- £7.2 million. A 1% change in pay awards changes our pay costs by +/- £5.7 million.

The process for developing the budget for 2023/24 and refreshing the Medium Term Financial Framework is continuing through the Budget Setting Group with a deadline for completion of the end of February 2023. Given the projected financial position, the following key principles are proposed:-

1. No recurring commitments should be made against non-recurring funding allocations given the current reassessment of a number of funding streams at a national level by the Scottish Government.
2. Financial planning is required on a whole system basis with improved alignment of the financial resources of NHS Grampian and the Health & Social Care Partnerships in order to obtain maximum value and efficiency in the delivery of services.
3. Any service redesign or transformation should be delivered at a reduced cost compared to the existing cost of services being redesigned.
4. Financial resources should support a renewed focus on dealing with delays to patient flow and redesign of urgent & unscheduled care which will enable planned care capacity to be delivered.

2.3.1 Quality/ Patient Care

The impact of financial decisions on the quality of care and delivery of services are assessed at an individual scheme level.

2.3.2 Workforce

Workforce implications are considered in detail as part of the revenue budget setting process. There is both a direct and indirect link between the financial position and staff resourcing and health and wellbeing.

2.3.3 Financial

The Board's financial performance is reported in detail to each meeting of the Performance Assurance, Finance & Infrastructure Committee. An update on the 2022/23 position is set out at appendix 1. Scottish Government recognise the financial challenge on all Boards for 2022/23 and 2023/24. We will continue to work closely with them in seeking to balance operational, financial and workforce pressures.

2.3.4 Risk Assessment/Management

Risk assessment and subsequent management of these risks relating to financial performance are recorded on NHS Grampian's risk management system.

2.3.5 Equality and Diversity, including health inequalities

Equality and diversity factors will be considered as part of development of the revenue budget in cognisance of NHS Grampian's strategic intent.

2.3.6 Other impacts

All are outlined above.

2.3.7 Communication, involvement, engagement and consultation

The Board has carried out its duties to involve and engage both internal and external stakeholders where appropriate through the following meetings:

Chief Executive Team – weekly update on financial position.

Performance Assurance, Finance & Infrastructure Committee – financial update to each meeting.

Monthly financial reporting to Scottish Government.

2.3.8 Route to the Meeting

The report was requested for the Board by the Chief Executive Team as a result of the weekly updates on the financial position provided by the Director of Finance to the Chief Executive Team.

2.4 Recommendation

The Board is asked to:

- **Assurance** –review and scrutinise the information provided in this paper and confirm that it provides assurance that :-
 - steps are being taken to manage NHS Grampian's financial position in 2022/23 to deliver a level of overspend in line with the Board's original financial plan submission to the Scottish Government.
 - detailed financial planning is underway to set the revenue budget for 2023/24 and refresh the Medium Term Financial Framework, noting the scale of the financial challenge facing the Board in 2023/24 and beyond.
- **Decision** –agree that the key principles outlined at the end of section 2.3 should be adopted in setting the revenue budget for 2023/24.

3 List of appendices

The following appendices are included with this report:

- Appendix 1 – October 2022 Financial Position Update

Financial Performance

MUSC Portfolio
£5.34m

ISCS Portfolio
£5.30m

Family Portfolio
£1.54m

Dr Grays (Moray Portfolio)
£3.37m

Mental Health & Learning Disabilities
£0.75m

Non Clinical Services
£154k

For the first time NHS Grampian was not able to set a balanced revenue budget for this financial year.

- An actual deficit of £21.5 million has been recorded at the end of October, exceeding the level of deficit in our expected plan.
- The pressures experienced for the year to date have continued in of October. The operational overspend in October was £3.6 million, higher than the £2 million monthly overspend for the year to date.
- Supplementary staffing costs remain high, overspends continue on junior medical banding payments and hospital drugs and increased spend on TAVI service due to level of activity.
- Difficulties achieving savings without impacting on service delivery.
- Our forecast for the year remains a £30 million deficit, revised from £20 million in financial plan. This will be kept under constant review with aim of reducing once we have assurance the Local Value and Sustainability Plan is having the desired financial impact.

A Local Value and Sustainability plan has now been submitted to the Scottish Government to help stabilise the financial position. Actions proposed in the plan aim to save money with minimal impact on frontline services, recognising the level of operational pressures experienced across the system.

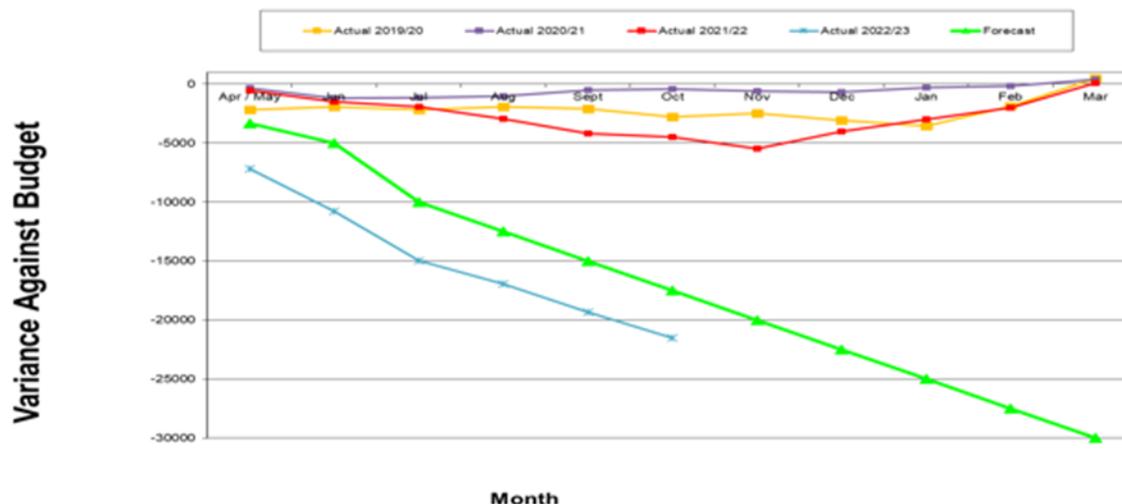
- During October considerable work has been undertaken to agree policy regarding the carry forward of untaken annual leave. A return to the pre-Covid 19 AFC policy for the carry forward of untaken annual leave was agreed with the Grampian Area Partnership Forum and communicated to staff across the organisation.
- A review of provisions has provided one-off savings during October.
- Work needs to accelerate on how we can reduce the use of high cost agency staff for the remainder of the financial year.

Capital Programme:

Programme for 2022/23 - £105.45 million.

Spend to date - £42.4 million (Baird and Anchor).

Movement in Actual Positions & Projections



Pay budgets:

- Overspent by £15.99 million (5%).
- Medical staffing £6.02 million overspent (6%).
- Locum expenditure £7.4million (excluding HSCPs) – 23% increase.
- Nursing £3.8 million overspent (3%) with nursing staff in post exceeding funded establishments.
- Agency nurse expenditure (excluding HSCPs) increased by £3.9 million from spend to October 2021/22. Spend in October increased, after a fall in September, and was 8% above April-September average spend.

Non Pay budgets:

- Significant pressure on energy budgets.
- £2.75 million overspend on hospital drugs budgets: increasing activity and vaccination catch up.
- High level of inflation proving challenging.

Risks and Opportunities:

- Continuing service pressures over winter with impact of COVID and cost of living crisis resulting in additional spend.
- High levels of inflation and recruitment challenges impacting on spend.
- Access funding has now been confirmed and will result in estimated £4 million cost pressure for NHS Grampian.
- Integration: No provision for funding contributions to meet HSCP overspends.
- Pay awards yet to be agreed.
- Additional financial pressure likely in 2023/24, with annual budget process underway.