

Meeting:	NHS Grampian Board
Meeting date:	6 April 2023
Item Number:	9
Title:	Medium Term Financial Framework
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 the Revenue Budget for 2023/24 and refresh the Medium Term Financial Framework has been prepared, noting the scale of the financial challenge facing the Board in 2023/24 and beyond.
- **Decision** – The Board is asked to agree the Medium Term Financial Framework, including the 2023/24 Revenue Budget.

This report relates to:

- Annual Delivery 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 required to approve its budget for 2023/24 and its Medium Term Financial Framework each year. On the 1 December 2022, the Board received a report providing information on the financial challenges facing the organisation in the financial years 2022/23 and 2023/24.

A significant amount of work has been undertaken on the preparation of the Medium Term Financial Framework, which is currently unbalanced in all five years of the framework due to inflationary pressures and significant pressure on operational services.

2.2 Background

In April 2022 the Board agreed its budget for 2022/23 along with its Medium Term Financial Framework. At this point it was anticipated that at the end of the financial year a deficit of £19.9 million would be delivered. This was the first time NHS Grampian had indicated that it would not be able to return a breakeven position.

During the financial year it became apparent that the level of operational pressure and financial deficit was increasing above the initial estimate. NHS Grampian, along with all other NHS Boards in Scotland, were asked to develop plans to recover the financial position back to the initial estimate of £19.9 million. This plan was developed and as advised to the Board throughout the financial year relied on significant one-off savings which are not available in 2023/24.

On the 12th September 2022, a letter from the Director of Health Finance and Governance indicated that the brokerage scheme would be re-established to support Boards who were unable to breakeven. The letter indicated that the brokerage would require to be repaid in future financial years, although the arrangements are still to be confirmed. A further letter of 11th November 2022 advised that Scottish Government are now returning to the position whereby they will review a Board's financial position and consider appropriate escalation criteria, recognising the changed financial landscape compared to before the pandemic.

During the financial year the underlying recurring financial deficit on operational services has continued to increase and has now reached the level of £54 million. This is largely due to increased spend on supplementary staffing and high inflation levels impacting on non-pay costs such as drugs, energy and medical supplies.

On 15 December 2022, the Director of Health Finance and Governance wrote to the Chief Executives advising on the financial allocations for 2023/24. The letter stated

- *where Boards are indicating that financial support is required in 2022-23, we have asked Boards to submit financial recovery plans in the new year, setting out a return to financial balance in the next three years. I expect that Boards are taking proactive steps to develop these plans.*
- *As noted in my letter on 12 September, all Boards are expected to be engaging with the Sustainability and Value (S&V) programme, reflecting this work at a local level to support delivery of a cost reduction target of 3% per annum and productivity and related improvements in line with the four aims.*

- *Boards will receive a 2% uplift in their baseline funding.*

Given the level of deficit facing NHS Grampian, work had already begun considering what the approach to budget savings would be in 2023/24 and beyond. It should be noted that in recent times NHS Grampian has never delivered recurring efficiency savings at a level of 3%.

2.3 Assessment

In relation to the financial year 2022/23 the forecast year end position is still being finalised. We are evaluating the actions that were outlined in the Board's 2022/23 Value & Sustainability Plan to deliver one off savings and we are also still working to assess the implications of earmarked funding received the Scottish Government.

On the 1 December 2022, the Board received three scenarios in relation to the 2023/24 budget and deficit. Following further review and clarification of the figures and the budget announcement the figures have been revised. The current estimate is shown below, along with the position presented to the Board in December.

	To Board 1 st Dec	As at 22nd March
Item	£m	£m
Underlying Deficit – Portfolios & Other Services	-23.0	-36.0
Underlying Deficit - Board Reserves	-18.5	-18.1
Underlying Deficit	-41.5	-54.1
New Resources		
Baseline Uplift	21.4	22.2
Less IJB Share of Baseline	-7.7	-7.8
Other Income	-1.3	12.6
Total Resources	12.4	27.0
Total Commitments	-40.3	-50.0
Gap Before Savings	-69.4	-77.1
Savings	11.0	16.5
Gap After Savings	-58.4	-60.6

The MTFF details the financial position for the next 5 years, reflects our route map to recovering the deficit position, provides some sensitivity analysis on inflationary pressures and future funding settlements. The deficit position currently forecast over the next 5 years is as follows:

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
B/F Underlying Deficit	-54.1	-60.6	-59.4	-52.9	-41.0
Scottish Govt Funding Uplift (net of transfer to HSCPs)	14.4	14.8	15.1	15.4	15.7
Budget Pressures					
Pay Inflation	-7.4	-11.6	-11.8	-12.1	-12.3
Non Pay Pressures	-18.2	-12.0	-12.0	-12.0	-12.0
Local Pressures	-24.4	-10.9	-9.0	-4.0	-4.0
Income Uplift	12.6	1.0	1.0	1.0	1.0
Total Budget Pressures	-37.4	-33.5	-31.8	-27.1	-27.3
Gross Financial Challenge	-77.1	-79.3	-76.1	-64.6	-52.6
Savings					
Efficiency (3%)	16.5	16.9	17.2	17.6	18.0
Sustainable Pathways of Care	0.0	3.0	6.0	6.0	6.0
Total Savings	16.5	19.9	23.2	23.6	24.0
Net Financial Challenge	-60.6	-59.4	-52.9	-41.0	-28.6

As a result of the operational pressures currently being experienced and the high level of inflation it is not possible to start reducing the annual deficit until year 2 (2024/25) of the plan. If it is possible to go faster in terms of the financial recovery then this will need to be carefully balanced against the operational pressures and performance against key service targets. Without something changing significantly in the fiscal environment it is not possible to significantly reduce the deficit by year 3, without impacting adversely on operational services and performance.

Every budget is a set of risks and assumptions and in the case of these financial projections there are two high risks in particular for which we have no or minimal coverage is in relation to:

- non recurring funding (£198 million received in 2022/23) and whether we receive similar levels of funding going forward, and
- the Integration Joint Boards where no provision has been added to cover any overspends on the Integration Joint Boards. Provision has been made in each year to pass across to the Integration Joint Boards their share of any uplift provided by the Scottish Government.

It has been possible to collate a list of efficiency savings totalling the £16.5 million (3%), these savings have been developed following consultation and engagement with the wider health and social care system. A Lead Executive and Lead Officer has been allocated against each saving and performance management/assurance frameworks are in place to support delivery and highlight any implications to staff, patients and clinical care. The savings have been risk assessed and it is important that the challenge of delivering savings of this scale is not underestimated. There will be slippage and corrective action will be required by the Chief Executive Team throughout the financial year.

Whilst the focus in the first couple of years are efficiency savings to reduce spend, in future years there will be a requirement for transformation work to create sustainable services and pathways of care. This work would be undertaken through a cross system lens, involving staff and patients in the process or redesigning where and how services are 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 and an assurance framework has been established to escalate any concerns.

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. The assurance framework for efficiency savings also contains escalation of staffing issues.

2.3.3 Financial

The Board's financial performance is reported in detail to each meeting of the Performance Assurance, Finance & Infrastructure Committee and also monthly to the Scottish Government. The 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.

All cost saving proposals will be subject to a Budgetary Impact Assessment. This will:

- Help to identify savings which have the least impact on patient care,
- Identify any savings which will impact disproportionate on patients and staff with a "protected characteristic" or who live in a socio-economically deprived area.

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. An assessment of the major financial risks is contained in the Medium Term Financial Framework.

2.3.5 Equality and Diversity, including health inequalities

Equality and diversity factors will be considered as a key part of the efficiency savings work. The MTFF has been subject to an Equality and Diversity Impact Assessment using the Rapid Impact Assessment Checklist methodology.

The Impact Assessment comprises:

- The Rapid impact Assessment Checklist (RIC)
- The RIC Summary Sheet
- The detailed Comments Sheet

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 relevant 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

This report has been discussed by the Chief Executive Team and is the accumulation of the budget process. The agreement of the budget is a reserved decision of the Board.

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 based on the information available:-
 - It is not currently possible to return to financial balance within the next three financial years as requested by the Scottish Government, without impacting adversely on operational services and performance.
- **Decision** – agree the Medium Term Financial Framework, including the 2023/24 Revenue Budget.

3 List of appendices

The following appendix is included with this report:

- Appendix 1 – Medium Term Financial Framework