

<b>Meeting:</b>	<b>NHS Grampian Board Meeting</b>
<b>Meeting date:</b>	<b>7 December 2023</b>
<b>Item Number:</b>	<b>8</b>
<b>Title:</b>	<b>Update on NHS Grampian Financial Position</b>
<b>Responsible Executive/Non-Executive:</b>	<b>Alex Stephen, Director of Finance</b>
<b>Report Author:</b>	<b>Alan Sharp, Deputy Director of Finance</b>

## 1 Purpose and recommendations:

### **This paper is presented to the Board for:**

- **Assurance** – steps are being taken to manage NHS Grampian’s financial position in 2023/24 to deliver a level of overspend in line with the Board’s financial plan submission to the Scottish Government.
- **Note** - that a range of recovery actions have now been agreed with the Chief Executive Team and are now being implemented to reduce the level of overspending in the second half of the financial year and enable the revenue target to be achieved.
- **Note** - that detailed financial planning is underway to set the revenue budget for 2024/25 and refresh the Medium Term Financial Framework, noting the potential scale of the financial challenge facing the Board in 2024/25 and beyond. This planning will be informed by the Scottish Government budget announcement on 19<sup>th</sup> December.

### **This report relates to a:**

- 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

This report is presented to enable discussion on the NHS Grampian financial position at month 7 2023/24 (October 2023) and to provide an update on NHS Grampian’s Value & Sustainability Plan.

The report also presents a brief update at NHS Grampian's projected financial position in 2024/25.

## **2.2 Background**

NHS Grampian submitted a financial plan to Scottish Government for the 2023/24 financial year in March 2023. An initial budget gap of £60.6 million was projected after reflecting 3% recurring efficiency savings instructed by the Scottish Government of £16.5 million. Since the start of the year the Scottish Government has allocated extra funding to Health Boards which has reduced the projected budget gap to £42.9 million. This report summarises the position at Month 7, provides a forecast through to the end of the financial year and highlights the current and ongoing service pressures. The report also summarises progress with the Value & Sustainability Plan.

The report also provides a high level forward look to the 2024/25 financial year. The size of the overspend being incurred in the current financial year means that NHS Grampian will enter the 2024/25 financial year with a significant underlying financial deficit.

## **2.3 Assessment**

Revenue results to the end of October show an overspend of £33.1 million. This is £8.1 million above the level of our revised financial plan target. A summary of the financial results for October is contained at Appendix 1.

The financial results for the period from July - October have deteriorated compared to the trend from April – June. An average level overspend of £5 million per month has been recorded over the last four months, although the position did improve slightly in October compared to August and September. The underlying position for most Portfolios remains extremely challenging with both pay and non-pay pressures showing little sign of slowing down.

NHS Grampian will also require to meet a share of overspends incurred by Integration Joint Boards (IJBs). Both Aberdeenshire and Moray IJBs are now forecasting revenue overspends for this financial year. Under the Integration Scheme risk share arrangements NHS Grampian and the partner Council will need to meet a share of these overspends. The share to be met by NHS Grampian is forecast to be between £4.0 – 5.0 million this year.

The continuing level of financial pressure has meant that the projected deficit forecast for the year has been revised upwards from £42.9 million to £49.9 million. This is above the level agreed with Scottish Government who have asked NHS Grampian to implement additional measures to recover the financial position back to £42.9 million.

To do this, a number of short term financial recovery measures have been agreed by the Chief Executive Team in addition to the Value & Sustainability Programme that was put in place at the start of the financial year. The Chief Executive has written to all members of the Chief Executive Team asking them to implement the new measures across their areas of responsibility for the remainder of the financial

year. The impact of each measure will now be closely monitored on a monthly basis. An update on the Value & Sustainability Programme is included at Appendix 2.

The budget process for 2024/25 has started and will include a refresh of our Medium Term Financial Framework. Scottish Government have now written to all Health Boards outlining their expectations for 2024/25. These are:

- A clear programme of work and supporting actions to achieve the target of 3% recurring savings on baseline budgets;
- An improved forecast outturn position compared to the forecast outturn position at the start of 2023/24. For NHS Grampian this is a £60.6 million deficit target.

A range of initial financial projections for 2024/25 have been prepared but these cannot be confirmed until the publication of the Scottish Government's revenue budget for 2024/25 on December 19<sup>th</sup>. This will confirm funding uplifts and other key financial information. The Director of Finance will provide a briefing to Board members on the impact of the budget for NHS Grampian following its publication.

Given NHS Grampian's current level of overspending it is not expected that the financial position in 2024/25 will be any less challenging than in the current year. Pressures will still exist around the Board's use of supplementary staffing, adoption of new drugs and inflationary price increases for medical supplies and other goods. There will still need to be a sharp focus on using our resources in an efficient way to drive savings and in redesigning services to make sure they can operate effectively within the financial and staffing resources allocated to them.

The process for developing the budget for 2024/25 and refreshing the Medium Term Financial Framework is continuing through the Budget Setting Group with a deadline for completion of the end of February 2024. Financial projections will continue to be updated as new information becomes available.

### **2.3.1 Quality/ Patient Care**

The impact of all financial decisions and proposed savings schemes is assessed at the level of individual services.

### **2.3.2 Workforce**

There are both direct and indirect links between the financial position and staff resourcing. Where relevant, the impact of savings schemes on staffing resources is assessed at an individual service level.

### **2.3.3 Financial**

Scottish Government has recognised the financial pressures on all Boards for 2023/24 and beyond and are providing national support to develop initiatives to reduce the overall cost base. NHS Grampian undertakes a full review of all initiatives proposed at a national level. We will continue to work closely with Scottish Government in seeking to balance operational, financial and workforce pressures.

### **2.3.4 Risk Assessment/Management**

There are a number of financial risks which are being currently managed and mitigated. If these risks crystallise during the financial year this may mean that NHS Grampian will overspend by more than the £42.9 million revised financial plan figure. The Board continues to look for opportunities both locally and nationally to bring the recurrent cost base down.

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**

An impact assessment has not been completed because it is not applicable.

### **2.3.6 Other impacts**

None.

### **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 – finance update is a standing item.
- Monthly reporting to the Scottish Government.

### **2.3.8 Route to the Meeting**

This has been previously considered by the following groups as part of its development. The groups have either supported the content, or their feedback has informed the development of the content presented in this report.

- Performance Assurance Finance & Infrastructure Committee – 14<sup>th</sup> November 2023.

## 2.4 Recommendation

The Board is asked to:

- **Assurance** – steps are being taken to manage NHS Grampian’s financial position in 2023/24 to deliver a level of overspend in line with the Board’s financial plan submission to the Scottish Government.
- **Note** - that a range of recovery actions have now been agreed with the Chief Executive Team and are now being implemented to reduce the level of overspending in the second half of the financial year and enable the revenue target to be achieved.
- **Note** - that detailed financial planning is underway to set the revenue budget for 2024/25 and refresh the Medium Term Financial Framework, noting the potential scale of the financial challenge facing the Board in 2024/25 and beyond. This planning will be informed by the Scottish Government budget announcement on 19<sup>th</sup> December.

## 3 Appendix/List of appendices

The following appendices are included with this report:

- Appendix 1 – Finance Report for Month 7 2023/24
- Appendix 2 – Update on Value & Sustainability Plan

## **APPENDIX 1**

<b>Meeting:</b>	<b>NHS Grampian Board Meeting</b>
<b>Meeting Date:</b>	<b>7<sup>th</sup> December 2023</b>
<b>Title:</b>	<b>Finance Report - Month 7 2023/24</b>
<b>Responsible Executive:</b>	<b>Alex Stephen, Director of Finance</b>
<b>Report Author:</b>	<b>Alan Sharp, Deputy Director of Finance</b>

### **1 Financial Plan**

- 1.1 NHS Grampian submitted a financial plan to Scottish Government for the 2023/24 financial year in March 2023. An initial budget gap of £60.6 million was projected after reflecting 3% efficiency savings instructed by the Scottish Government of £16.5 million on the budget for NHS Grampian non-delegated services. Scottish Government have now allocated further funding for 2023/24 of £17.7 million to the Board to support the financial position and reduce the projected deficit. The restated projected deficit for the year agreed with the Scottish Government is £42.9 million.
- 1.2 Meetings have continued in the last two months between NHS Grampian and Scottish Government officials to review the Board's financial position following the reporting of the quarter 2 results. The Scottish Government expectation is that the Board will take steps to improve its financial position in the second half of the year in order to reduce the deficit forecast from the current level of £49.9 million to the level agreed with the Scottish Government of £42.9 million.

### **2. Year to Date Financial Position & Forecast**

- 2.1 For the seven months to the end of October 2023 NHS Grampian has overspent against the year to date budget by £33.1 million. This is £8.1 million above the level of our revised financial plan target. The continuing level of



- Pay budgets are overspent by £23.2 million (6.0%).
- Nurse staffing continues to show a significant overspend, with £11.1 million (8.1%) recorded for the year to date. October saw an increase in permanent Nurse staffing levels as new graduates took up posts in services. Although, there was a small reduction in the level of agency nursing, this was lower than the increase in permanent nursing numbers. For NHS Grampian as a whole this led to an increase of 85 WTE in October. For the year to date, overall nurse staffing levels have been 296 posts over establishment (6,568 WTE in post against an establishment of 6,272 WTE). The over establishment has mainly been in the area of unregistered staffing and work is now being undertaken to address the issue in the areas with the largest variances between actual staffing levels and funded staffing levels.
- Agency nursing costs fell slightly in October but still remain at a high level, although other Boards across Scotland are experiencing greater levels of agency spend. For the seven months to date we have spent £8.95 million on agency nursing which is 43% higher (£2.7 million) than for the same period in 2022/23. The increase has mainly been in Dr Gray's which has now spent more on agency nursing this year than for the whole of 2022/23 (£2.36 million spent for the year to date). There have also been increases in the Medicine & Unscheduled Care and Integrated Specialist Care Portfolios.
- Medical staffing costs also continue to be a pressure area with an overspend of £9.2 million (8.5%) recorded for the year to date. The main pressures continue to be the cost of agency locum staff and the cost of banding payments for non-compliant junior medical rotas. On a positive note, medical locum costs fell in October compared to earlier months (£324k reduction on September figure) but we continue to spend more on agency medical locum costs than any other Board in Scotland. For NHS Grampian services we have spent £8.4 million for the year to date which is a 14% increase on the same period in 2022/23. The increases have been predominantly in Medicine & Unscheduled Care and Dr Gray's. Encouragingly there have been reductions in agency locum spend in Mental Health, Radiology and the Integrated Family Portfolio.
- Banding payments for non-compliant rotas increased in October compared to earlier in the year and it has recently been confirmed that a further 12 rotas have moved to a non-compliant status and will attract 100% banding supplements with an estimated additional cost this year of £1.2 million. £3.18 million have been paid to date, which is a 28% increase on the level in 2022/23.
- There are also continuing pressures on medical supplies budgets and maintenance & service contract costs which have continued from previous years, with a £6.97 million overspend for the year to date. The high level of inflation is continuing to have an impact on non-pay costs.
- Income budgets are over recovered by £2.2 million. This is mainly due to recoveries of VAT and cross boundary service agreements.
- An underspend of £0.2 million (0.5%) has been recorded on Hospital Drug budgets for the year to date, although there was actually an overspend for the

month of October. We are now seeing drug costs increasing compared to earlier in the year, with increasing levels of spend in Cancer, Respiratory, Rheumatology and Gastroenterology although savings are being achieved from the switch to a generic version of Abiraterone which is used in the treatment of prostate cancer.

- Areas that have recorded the largest overspends after the first seven months are:-
  - Medicine & Unscheduled Care Portfolio - £10.8 million year to date with a £1.5 million overspend in October. The main elements are high agency nursing spend (£2.87 million year to date), Nursing numbers being over establishment (132 WTE average for the year to date), high activity within the TAVI Cardiology service and unachieved savings targets.
  - Dr Gray's Hospital - £7.2 million year to date with a £1.0 million overspend in October. Mainly on medical staffing (agency locums) and Nursing (high levels of agency and actual staffing 39 WTE over funded establishment). Increase in permanent nursing seen in October due to new graduates and international recruits without a corresponding reduction in bank and agency use.
  - Integrated Specialist Care Services Portfolio - £5.6 million year to date. Mainly due to pressure on medical supplies budgets, agency nursing spend and junior medical banding payments.
  - Family Portfolio - £3.5 million year to date. Overspends mainly on medical staffing and unachieved efficiency savings.
  - Infrastructure & Sustainability - £2.4 million to date with main pressures related to Domestic staffing costs and Estates supplies.

### **3 Financial Risks**

3.1 There are three potential uncovered financial risks that are not fully reflected in our financial plan. They are being monitored and managed as the year progresses. The details are:-

- Savings Achievement – based on progress to date, there is a major risk that we will not be able to achieve a 3.0% level of savings this year. Agreement has been given to establish a Programme Management Team to support the delivery of planned savings this year and the Programme Manager has now been appointed. Given the risk of under achievement against the Value & Sustainability Plan, a number of shorter term cost control measures have now been agreed by the Chief Executive Team and are currently being implemented.
- IJB Overspends – as mentioned earlier in this report. IJBs are now flagging up financial pressures and a risk of overspending. IJBs have some volatile cost elements in their budgets (e.g. the costs of GP Prescribing) which means that the level of IJB overspends can be difficult to accurately forecast.

- Continuing Service Pressures – if we continue to experience the current levels of service pressure then this is likely to translate into high levels of supplementary staffing and other non-recurring costs which will put pressure on our financial position.

#### **4 Infrastructure & Backlog Maintenance Programme**

4.1 The total programme for 2023/24 is £111.7 million.

4.2 The main capital allocation is £13.4 million but we also have additional sources of capital funding from specific Government funding for the Baird & Anchor and National Treatment Centre projects (£85.0 million), Radiotherapy Equipment (£4.3 million) and a range of other smaller funding sources (£9.0 million).

4.3 Significant planned commitments for 2023/24 are £84.5 million on the Baird Family Hospital & Anchor Centre, £8.4 million on medical and other equipment and £5.3 million on backlog maintenance projects. The programme is fully committed for this financial year.

4.4 £61.7 million of expenditure has been incurred up to the end of October. This has been mainly on the Baird & Anchor project, equipment replacement and sustainability loans for GP Premises.

4.5 At this stage of the financial year it is estimated that the Board will spend the capital allocation in full.

## **APPENDIX 2**

<b>Meeting:</b>	<b>NHS Grampian Board Meeting</b>
<b>Meeting Date:</b>	<b>7<sup>th</sup> December 2023</b>
<b>Title:</b>	<b>Update on Value &amp; Sustainability Programme</b>
<b>Responsible Executive:</b>	<b>Alex Stephen, Director of Finance</b>
<b>Report Author:</b>	<b>Alan Sharp, Deputy Director of Finance</b>

### **1. Introduction**

- 1.1 The Value and Sustainability Group was set-up during 2022 to help support the organisation deliver the 2022/23 value and sustainability plan. The group continues to meet in relation to the 2023/24 efficiency savings target of 3% as mandated by the Scottish Government.

### **2. Background**

- 2.1 The Scottish Government instructed that NHS Grampian plan to achieve 3% recurring efficiency savings in our Medium Term Financial Framework (MTFF) and financial projections for this financial year. The Chief Executive Team worked together to identify £16.5 million of savings to meet this request. An assurance and performance framework was developed to support delivery of these savings and approval was provided by CET to develop a small team to help support the Executive Leads deliver the savings.
- 2.2 The NHS Board agreed the efficiency savings as part of the MTFF and the scale and challenge of delivering savings of this level in the current operating environment was recognised.

### **3 Programme Update**

- 3.1 For the period up to October there has been progress in savings achievement in the areas of:-
- Agency medical locum costs, through the use of Direct Engagement which avoids the VAT charge.
  - Hospital drug costs, through switching from branded medicines to generic alternatives.

- Procurement through savings on contracts.
- Central management of resources, by delaying some planned commitments.
- Cross Boundary Service Level Agreements, by renegotiation and identifying costs that should be recharged.
- Overtime - a reduction on 2022/23 levels.

3.2 There has been less evidence of progress in the following areas:-

- Junior Medical payments for Non-Compliant rota bandings.
- Agency nursing expenditure.
- Management costs and vacancy control.
- Taxi and travel & subsistence costs are both recording higher levels than was the case in 2022/23.

3.3 At the end of October NHS Grampian should have achieved savings of £9.63 million in order to be in line with target. Our estimate is that we have achieved actual savings of £7.56 million. This is £2.07 million short of our target and is a contributory factor for the year to date overspend position.

3.4 Of the savings made to date, £4.54 million are on a recurring basis and £3.02 million are non-recurring (i.e. one-off).

3.5 The biggest challenge is achieving the Value & Sustainability Plan has been around the use of supplementary staffing. Savings were planned in the areas of agency medical locum costs, agency nursing expenditure and non-compliant rota bandings. Unfortunately, expenditure for each of these three areas continues to be above the levels incurred at the same point in the 2022/23 year. This is mainly due to the continuing pressure on many services and the need to cover for gaps and maintain safe staffing levels.

3.6 At the beginning of the financial year agreement was made to establish a Programme Management Office (PMO) to support the Value & Sustainability Plan. The PMO have now been successfully filled and staff have now commenced in post. The PMO will provide NHS Grampian with more dedicated support to work with services to identify areas where both quality and efficiency can be improved.

## **4 Conclusion**

4.1 Reasonable progress has been made in the delivery of savings for the financial year to date but there is a high risk that the full 3% recurring saving will not be fully achieved.

4.2 The area of planned savings where progress is slower than hoped relates to the use of supplementary staffing. This very much reflects continuing service

pressures across many areas which drive the need for the use of supplementary staff.

- 4.3 The Value & Sustainability Group meets on a monthly basis to monitor progress and agree new initiatives for delivering savings.
- 4.4 NHS Boards and the Scottish Government are working together on the national Sustainability and Value Programme to ensure best practice is shared to develop value based healthcare, improve operational performance and deliver financial sustainability. NHS Grampian is fully participating in all work being undertaken at a national level.