

Meeting:	NHS Grampian Board Meeting
Meeting date:	5 October 2023
Item Number:	7
Title:	Finance Report 2023/24 and Value & Sustainability Plan Update
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:

- **Assurance** –review and scrutinise the information provided in this paper and confirm that it provides assurance that the Board’s financial position is being adequately managed for 2023/24.
- **Note** – that a range of recovery actions have now been agreed with the Chief Executive Team to reduce the level of overspending in the second half of the financial year and enable the revenue forecast to be maintained.
- **Note** – a report will be brought back in December providing initial information on the 2024/25 budget.
- **Note** - the progress with the Value & Sustainability Plan and the achievement of savings of £4.99 million for the year to date.

This report relates to a:

- Annual Delivery Plan

This aligns to the following NHS SCOTLAND quality ambitions:

- Effective

2 Report summary

2.1 Situation

This report is presented to enable discussion on the NHS Grampian financial position at month 5 2023/24 (August 2023) and to provide an update on NHS Grampian’s Value & Sustainability Plan.

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. Work is ongoing within the Board and nationally to look at options to further reduce this gap. This report summarises the position at Month 5, 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.

2.3 Assessment

For the period to end of August 2023 (Month 5) an overspend of £22.1 million has been incurred. This is £4.2 million above the level of our revised financial plan target. The overspend incurred in July and August has been at a higher rate than earlier in the year. This is because of the continued high use of supplementary staffing, increasing costs of hospital drugs, the continuing impact of general inflation on non-pay costs (e.g. medical supplies) and the challenge of making the 3.0% savings target given continuing operational pressures across a number of services. The overspend for the year as a whole is still forecast to be £42.9 million although this will be kept under close review given continued operational pressures in many areas. The forecast assumes full delivery of the 3.0% savings target.

A number of short term actions have now been agreed with the Chief Executive Team to reduce the level of overspending in the second half of the financial year and to make up the shortfall in savings achieved for the financial year to date. If these actions are successful they will enable the forecast overspend to be maintained at £42.9 million in line with the revised financial plan.

The budget process for 2024/25 has started and will include a refresh of our Medium Term Financial Framework. Given the financial pressures being faced by NHS Grampian a significant level of financial savings will be required to reduce the level of overspend. An initial report highlighting the position with regard to the 2024/25 budget will be presented to the Board in December.

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.

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.

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 – 30th August 2023.

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 the Board’s financial position is being adequately managed for 2023/24.
- **Note** – that a range of recovery actions have now been agreed with the Chief Executive Team to reduce the level of overspending in the second half of the financial year and enable the revenue forecast to be maintained.
- **Note** – a report will be brought back in December providing initial information on the 2024/25 budget.
- **Note** - the progress with the Value & Sustainability Plan and the achievement of savings of £4.99 million for the year to date.

3 Appendix/List of appendices

The following appendix/appendices are included with this report:

- Appendix 1 – Finance Report for Month 5 2023/24
- Appendix 2 – Value & Sustainability Plan Update

APPENDIX 1

Meeting:	NHS Grampian Board Meeting
Meeting Date:	5th October 2023
Title:	Finance Report - Month 5 2023/24
Responsible Executive:	Alex Stephen, Director of Finance
Report Author:	Alan Sharp, Deputy Director of Finance

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 is now £42.9 million.

1.2 Recognising the size of the financial challenge the Board faces the Scottish Government met with senior Finance officers in August to review the Board's financial position. Following the meeting, the Scottish Government Director of Health and Social Care Finance and Governance has written to the Interim Board Chief Executive setting out the Scottish Government's assessment of the Boards financial position, risks to the delivery of the forecast outturn for the year and further actions that will be followed up during the review of the Board's financial position at the end of Quarter 2.

2. Year to Date Financial Position & Forecast

2.1 For the five months to the end of August 2023 NHS Grampian has overspent against the year to date budget by £22.1 million. This is £4.2 million above the level of our revised financial plan target. The overspend for the year as a whole is still forecast to be £42.9 million although this will be kept under close review given continued operational pressures in many areas. The forecast assumes full delivery of the 3.0% savings target or delivery of alternative savings and cost reductions.

2.2 Given the overspending pattern of July and August a number of short term actions have been agreed with the Chief Executive Team to slow the rate of overspend in the second half of the financial year. These actions should enable the forecast overspend for the year to be maintained at a £42.9 million

overspend as per the revised financial plan. These will be reported to the next meeting of the Performance, Assurance, Finance and Infrastructure Committee once they are fully worked up and communicated to staff.

2.3 A breakdown of the year to date position and the year-end forecast is detailed in Table 1.

Table 1 – Summary Income and Expenditure Report as at August 2023

FINANCIAL PERFORMANCE AUGUST 2023							
INCOME & EXPENDITURE ACCOUNT FOR THE FIVE MONTHS ENDED 31 AUGUST 2023							
			FINANCIAL YEAR			REVISED ANNUAL BUDGET	FULL YEAR FORECAST
			BUDGET	ACTUAL	VARIANCE	BUDGET	FORECAST
			£'000	£'000	£'000	£'000	£'000
NHS Directly Controlled							
	Pay		270,668	286,856	(16,188)	631,088	661,118
	Non - Pay		121,845	129,120	(7,275)	335,194	348,064
	FHS Expenditure		32,701	32,583	118	75,274	75,274
	Other Income		(53,306)	(54,534)	1,228	(120,295)	(120,295)
	Total Costs		371,908	394,025	(22,117)	921,261	964,161
H&SCP Delegated Budgets							
	Pay		103,012	103,012		222,287	222,287
	Non - Pay		47,860	47,860		116,108	116,108
	FHS Expenditure		94,668	94,668		215,489	215,489
	Other Income		(5,428)	(5,428)		(10,522)	(10,522)
	Total Costs		240,112	240,112		543,362	543,362
Total Resources							
	SEHD Allocation		(610,260)	(610,260)		(1,464,623)	(1,464,623)
	Net Surplus / (Deficit)		1,760	23,877	(22,117)		(42,900)

2.4 Key points to note from performance to the end of August are:-

- Most Portfolios are continuing to experience operational pressures which are reflected in financial overspends. Many areas are still recording overspends on both pay and non-pay areas relating to the use of high levels of supplementary staffing and the impact of inflation on non-pay costs.
- Pay budgets are overspent by £16.2 million (6.0%).
- Nurse staffing continues to show a significant overspend of £7.5 million (7.8%) recorded for the year to date. The overspend for the month of August 2023 itself was £1.9 million. For the year to date, overall nurse staffing levels have been 290 posts over establishment (6,540 WTE in post against an

establishment of 6,250 WTE). The over establishment has mainly been in the area of unregistered staffing.

- Agency nursing costs continued at a very high level. For the five months to date we have spent £6.5 million on agency nursing which is 42% higher (£1.9 million) than for the same period in 2022/23. In August there were an average of 183 WTE agency nurses in post. 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 (£1.74 million spent for the year to date).
- Medical staffing costs also continue to be a pressure area with an overspend of £6.2 million (8.8%) 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. Encouragingly though, we actually saw a fall in the level of medical locum spend in August compared to the level recorded for June and July. For NHS Grampian services we have spent £5.9 million for the year to date which is a 13% increase on the same period in 2022/23. The increases have been spread across Medicine & Unscheduled Care, the Family Portfolio and Dr Gray's.
- Banding payments for non-compliant rotas actually increased in August compared to earlier in the year. £2.07 million have been paid to date, which is a 12% 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 £4.9million overspend for the year to date. The high level of inflation is continuing to have an impact on non-pay costs, although the recent fall in the headline rate of inflation should have an effect of easing some of these pressures.
- Income budgets are over recovered by £1.2 million. This is mainly due to recoveries of VAT and cross boundary service agreements.
- An underspend of £1.0 million (2.8%) has been recorded on Hospital Drug budgets for the year to date, although there was actually an overspend for the month of August as spend on Cancer drugs increased towards budgeted levels.
- Areas that have recorded the largest overspends after the first five months are:-
 - Medicine & Unscheduled Care Portfolio - £7.2 million year to date. The main elements are high agency nursing spend (£2.09 million year to date), Nursing numbers being over establishment (126 WTE average for the year to date), high activity within the TAVI Cardiology service and unachieved savings targets.
 - Dr Gray's - £4.95 million year to date. Overspends mainly on medical and nurse staffing. Agency locum spend of £2.89 million year to date with continuing vacancies in General Medicine, Anaesthetics and A&E. Nursing position has shown a significant worsening compared to 2022/23 with numbers now showing 37 WTE over establishment and a large increase in agency usage of £1.47 million.

- Integrated Specialist Care Services Portfolio - £4.3 million year to date. Mainly due to pressure on medical supplies budgets, agency nursing spend and junior medical banding payments.
- Family Portfolio - £2.5 million year to date. Overspends mainly on medical staffing and unachieved efficiency savings.

3 Financial Risks

3.1 There are a number of potential uncovered financial risks that are not fully reflected in our financial plan. They are being monitored and managed as the year progresses. The top ones are:-

- Savings Achievement – based on progress to date, there is a risk that we will not be able to fully achieve a 3.0% level of recurring savings this year. To date £4.99 million of savings have been made up to the end of August. Of these, £2.5 million are recurring and £2.49 million non-recurring.
- Confirmation of Funding Streams – Scottish Government has yet to confirm the level of a number of significant earmarked funding streams for the current financial year.
- Integration Joint Board (IJB) Overspends – IJBs are now flagging up financial pressures and a risk of overspending. Any required contribution from the Board to meet overspends has not yet been fully reflected in our forecast.
- Continuing Service Pressures – if areas 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 the 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 £45.1 million of expenditure has been incurred for the first five months. 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

Meeting:	NHS Grampian Board Meeting
Meeting Date:	5th October 2023
Title:	Update on Value & Sustainability Programme
Responsible Executive:	Alex Stephen, Director of Finance
Report Author:	Alan Sharp, Deputy Director of Finance

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 August there has been progress in savings achievement in the areas of:-

- Hospital drug costs, through savings on national contracts.
- Procurement, through savings on contracts, challenging invoices and correcting orders.
- 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 medical locum expenditure.
- 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 August NHS Grampian should have achieved savings of £6.88 million in order to be in line with target. Our estimate is that we have achieved actual savings of £4.99 million. This is £1.89 million short of our target and is a contributory factor for the year to date overspend position.

3.4 Of the £4.99 million of savings achieved to date, £2.5 million have been made on a recurring basis and £2.49 million on a non-recurring basis. The non-recurring savings have been made by delays in the implementation dates of some planned investments (i.e. the opening date of the new Anchor Centre) and a cleansing of old orders on the Procurement system.

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 is 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. Most of the posts in the PMO have now been successfully filled and staff will commence in their new roles shortly. 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 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.