

Meeting:	Shetland NHS Board
Date:	18 August 2020
Report Title:	Budget Setting 20-21 and medium term plan
Reference Number:	Board Paper 2020/21/24
Author / Executive Lead/ Job Title:	Colin Marsland, Director of Finance

Decisions / Action required:

The Board are asked to agree:

- 2020-21 budget proposal set out in [Appendix A](#) and [Appendix B](#); and
- Planning assumptions under pinning the financial plan, [Appendix C](#).

The Board is asked to note:

- the projected five year medium term planning assumption as [outlined](#) in Appendix D that projects a gap in funding of £7.3m to address
- impact of Covid-19 is not included within the base line 2020-21 budget as Scottish Government plan is to fund these non-recurrently based upon the mobilisation an remobilisation plan submissions for actual costs incurred.

High Level Summary:

The Board is required to agree a financial plan that takes account of our statutory obligations and reflects both the priorities of the Scottish Government as [set out](#) in the Health and Social Care Medium Term framework and our local objectives in the Joint Strategic Commissioning Plan for 2019-22 and the annual operating plan (AOP).

The board agreed the 2019-20 budget and a five year financial plan on 16 April 2019. The majority of assumptions made in that five year financial plan are still relevant.

As outlined in Appendix A, in 2020-21 the budgeted cost are greater than the income of the Board from Scottish Government Funding and expected trading income from other sources. Therefore new savings in 2020-21 is due to 3% uplift in Scottish Government funding only being applied to the core budget. This uplift of £1,567,900 is less than the inflationary impact upon costs.

In 2020-21 the increase in pay inflation alone amounted to £1,271,273, funding attributed to cost press amounted to £563,797, with invested £403,670 in respect of drugs to cover both underlying inflation and growth in items prescribed and £400,713 for inflation on contracts.

The net total overall difference between income and expenditure growth causes a new savings gap in 2020-21 of £1,228,000.

As not all savings in 2019-20 were achieved recurrently these still need to be addressed in 2020-21. However after review of non-recurring savings and funds held in reserves the total gap to address in 2020-21 is £2,012,390.

The budgets do not include Scottish Government Funding in respect of the Covid19 pandemic additional unavoidable costs. Scottish Government planning assumption in respect of Covid19 pandemic is that Boards will part fund these costs due to costs not incurred as a result of the Pandemic on service provided and redeployment of staff. Additional costs for Covid-19 will be received during 2020-21 based upon submission.

The Board submitted a mobilisation plan for the initial responses to the Covid-19 pandemic that the Scottish Government has approved, The latest remobilisation plan was submitted on 31 July to out-line our proposals to 31 March 2020. The submission for additional Covid-19 in respect of Quarter 1 on 2020-21 was due on 14 August 2020.

Corporate Priorities and Strategic Aims:

This paper address two of the Boards corporate objectives:

- To provide quality, effective and safe services, delivered in the most appropriate setting for the patient
- To ensure sufficient organisational capacity and resilience
- To provide best value for resources and deliver financial balance

Key Issues:

The budget for 2020-21 requires to be approved and costs will exceed the budget if efficiency savings are not delivered in 2020-21. Appendix B highlights the gap between funding and costs and proposal for Directorate efficiency savings targets in 2020-21 to address this funding gap. Once again External Audit in their review of the Board's overall performance have highlighted the concern about delivering recurring savings.

The review of service patient centred pathways to establish sustainable staffing model that are not contingent on high cost locums are also essential to meeting organisation objectives set out in Joint Strategic Commissioning Plan 2019-22 [agreed](#) at April 2019 Board meeting.

The pay budget has been set on a zero base for the Board's approved permanent staff establishment. However the pay budget does not include additional funding to support the use of locums to fill gaps in service caused by vacancies. New posts created from redesign of pathways will normally be funded from cost savings generated.

The budget still retains £250k investment reserve for use on a non recurrent basis to support pathway redesign proposals.

The contingency reserve held centrally by the Board has been rebased and reduced in value to only £323,911 in 2020-21.

Although the Board's core baseline budget has been confirmed at £53,831,486 per plan after allowing for the transfer to AME Depreciation that the Scottish Government will make during 2020-21 the other elements of Scottish Government are still to be confirmed but are normally stable. Although Covid-19 pandemic may impact funding for new service proposals in 2020-21 existing service funding is likely not to be materially affected. However including in the Annual Operating Plan is £1.2m in respect of additional funding for Primary Care and this has been assumed in the IJB base budget. This funding has been received for the last two years and discussions on this issue have yet to be finalised on a recurring basis.

Covid-19 will also have an impact upon the delivery of the Board's performance targets in 2020-21 and patient activity levels including non Shetland residents treated by the Board. The Covid-19 submissions to the Scottish Government in addition to additional

costs will also include lost income and impact on the ability to deliver upon the agreed transformational change redesigns that will deliver efficiency savings.

The five year plan in year 2 to 5 assumptions are set out in Appendix C. It makes provision for local investment fund each year to address either agreed service developments or underlying costs pressures. In respect of 2021-22 there is one pre-commitment already made by the Board to fund local Forensic Service that the Scottish Government has provided initial 2 year funding to support. The service is part of the obligation of the Board under the Islands (Scotland) Act 2018 via the National Islands Plan [published](#) in December 2019.

The increase in funding for the IJB in 2020-21 more than complies with the Board's obligation. Total budget baseline [delegated](#) to the IJB will be £26,657,273 in 2020-21 as noted by the IJB at their respective board meeting on 28 May 2020.

Implications:	
Service Users, Patients and Communities:	The level of efficiencies required will inevitably require a significant redesign of service delivery. Direct implications for patients and service users will need to be developed as part of this redesign work. The required level of efficiencies will not be achievable without impacting on service users.
Human Resources and Organisational Development:	No specific issues identified. The delivery of individual savings schemes may impact on individual staff or teams and this impact is assessed within each scheme
Equality, Diversity and Human Rights:	No implications for the Board's overall compliance. However any significant action plans to address either short-term or underlying issues to deliver the financial plan will require an EQIA to be undertaken.
Partnership Working	The budget is being set in tandem with Shetland Island Council and Shetland Islands Health and Social Care Partnership (IJB).
Legal:	None identified
Finance:	Highlights potential financial risks associated with the board's recurring revenue position.
Assets and Property:	None identified
Environmental:	None identified
Risk Management:	Organisation has reputational damage if financial balance is not achieved at year end through the development of a fiscally sound financial plan that can be delivered.

Policy and Delegated Authority:		
Previously considered by:	Executive Management Team	29 July 2020
"Exempt / private" item		

Appendix A:

NHS Shetland

2020-21 Budget Setting

	Opening Budget 2019-20	Out-turn Expenditure 2019-20	Proposed Opening Budget 2020-21
<u>Funding Sources</u>			
Core RRL	51,098,135	50,805,196	52,375,949
Earmarked	3,628,112	8,426,465	8,919,839
Non Recurrent	7,254,753	3,821,776	1,886,888
AME Depreciation	1,450,000	1,458,000	1,455,537
AME Other	44,000	388,000	144,000
Other Operating Income	2,215,121	2,974,255	2,392,135
Gross Funding Source	<u>65,690,121</u>	<u>67,873,692</u>	<u>67,174,347</u>
<u>Resource Allocations</u>			
Pay	34,136,411	36,904,522	35,506,798
Drugs & Medical supplies	7,467,150	7,571,148	7,843,412
Depreciation	1,450,000	1,458,495	1,455,537
Healthcare Purchases	12,522,273	12,213,906	13,142,068
FMS Expenditure	1,164,999	1,179,293	1,208,965
AME Other Expenses	44,000	357,000	144,000
Other Costs	12,246,737	8,120,328	9,885,957
Gross Expenditure	<u>69,031,570</u>	<u>67,804,693</u>	<u>69,186,737</u>
Funding Surplus or Gap	<u>-3,341,449</u>	<u>69,000</u>	<u>-2,012,390</u>

Appendix A continued:

NHS Shetland

2020-21 Budget Setting Split Per Financial Management Structure

Directorate	Gross Annual Budget	External Income	Net Annual Budget
Acute and Specialist Services on Island	15,821,047	-862,097	14,958,950
43 Community Health and Social Care	22,922,984	-603,882	22,319,102
Off Island Treatment Costs and Travel	14,611,859	0	14,611,859
Public Health	970,008	-27,458	942,550
Medical Director	47,000	0	47,000
Human Resources and Support Services	2,733,727	-205,002	2,528,725
Chief Executive including Estates and Facilities	6,980,626	-503,691	6,476,935
Finance Directorate	1,140,392	-190,004	950,388
Board Reserves	1,946,704	0	1,946,704
Net 2020-21 Budget	67,174,347	-2,392,134	64,782,213

Note 1: Gross Annual Budget for 2020-21 is stated after deduction of savings targets as outlined in Appendix B.

Appendix B

NHS Shetland

2020-21 Budget Setting Summary

Gross Total SG Funding and Other Income Sources	67,174,347
Gross Total Expenditure and Reserves	69,186,737
Funding Gap	<u><u>-2,012,390</u></u>

Funding Gap Proposed Split in Opening Budgets

Acute and Specialised Services	Note 1	-1,079,454
Community Health & Social Care	Note 2	-853,181
Medical Director		0
Public Health	Note 3	0
Chief Executives (including Estates)	Note 3	-26,585
Finance		-26,585
Human Resources	Note 3	-26,585
		<u><u>-2,012,390</u></u>

Note 1: Savings of circa £350k taken last year non-recurrently in respect of clinical services repatriation to Shetland are being reviewed as to assess the sustainability of the service re-provision to evaluate if they can be taken recurrently in 2020-21.

Note 2: Savings gap balance has been recalculated since yearend out-turn position as some savings taken last year non-recurrently are now being treated as recurrent after further review.

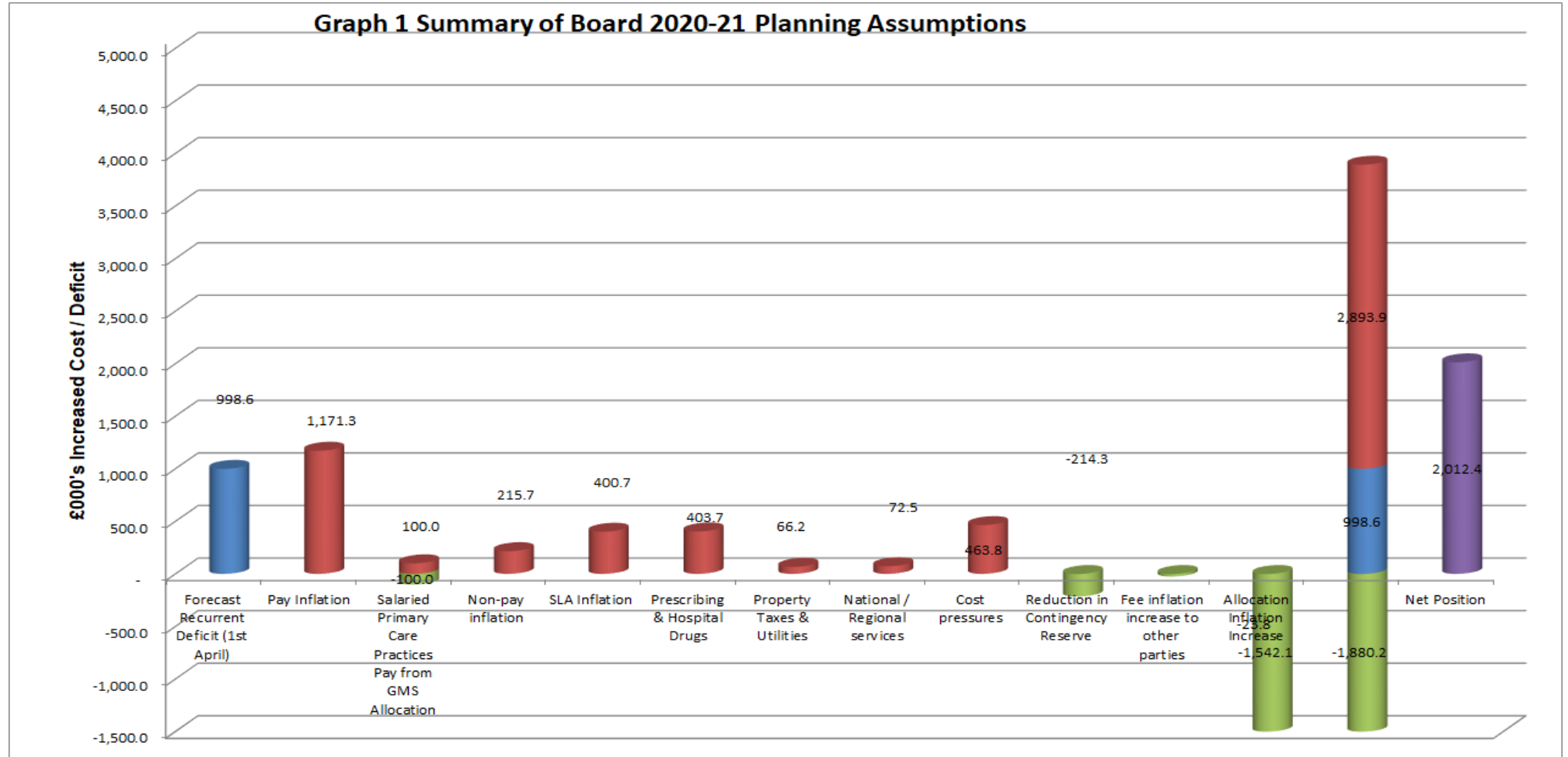
Note 3: Reduction in contingency from 1% has been used to reset Public Health target to £0, with Support Services target being reset to match original value set for Finance and remaining balance split evenly between Acute Services and Community Health to reduce target.

Note 4: Commissioning savings £1m balance has been reset to £0 with funds used to reduce Acute Services and Community Health saving gap by £500k respectively.

Note 5: Plans in respect of 2020-21 redesign proposals are still being evaluated.

Appendix C

Planning Assumptions



Appendix C

Planning Assumptions Continued:

	2020/21	2021/22	2022/23	2023/24	2024/25
Uplift to Core Budget	3.00%	3.00%	3.00%	3.00%	3.00%
Uplift to Bundle Funding	0.00%	0.00%	0.00%	0.00%	0.00%
Pay Inflation	4.00%	3.75%	3.75%	3.75%	3.75%
General Prescribing Inflation and Growth Net Uplift	4.00%	4.00%	4.00%	4.00%	4.00%
High Cost Medicine Inflation and Growth Net Uplift	10.20%	10.20%	10.20%	10.20%	10.20%
General Inflation	2.00%	2.00%	2.00%	2.00%	2.00%
Non Domestic Rates	2.00%	2.00%	2.00%	2.00%	2.00%
Water	3.00%	3.00%	3.00%	3.00%	3.00%
Utilities	8.00%	8.00%	8.00%	8.00%	8.00%
Income	3.00%	3.00%	3.00%	3.00%	3.00%

	2020/21	2021/22	2022/23	2023/24	2024/25
Local Investment Fund	463.8	478.2	492.9	508.2	523.8
Laboratory Managed Services Contracts	30.0	30.0	30.0	30.0	30.0
High Cost New Drugs Investment	216.0	238.0	262.3	289.0	318.5
National: Risk Share/New Developments	72.5	30.0	30.0	30.0	30.0
Total	796.7	882.8	899.0	915.1	932.5

Appendix C

Planning Assumptions Continued:

Table 3: Use Local Investment Fund in 2020-21		
	Recurring	Non-Recurring
Obstetrics Medical Staff Redesign Approved by Board at June 2019 meeting	£92,788	£-
Information Technology Windows Modernisation	£34,500	£56,500
North of Scotland, Hospital Electronic Prescribing and Medicines Administration (HEMPA)	£223,513	£101,527
Medical Equipment Service Contracts	£17,000	
Other Miscellaneous Items	£18,623	£19,346
Total Investment	£ 386,424	£177,373
Overall Total Investment in 2020-21	£563,797	

Appendix D

Outline Draft 5 Year Financial Plan

	2020/21	2021/22	2022/23	2023/24	2024/25
	£000's	£000's	£000's	£000's	£000's
RECURRING POSITION					
Recurring Financial Position at start of year	998.6	0.0	0.0	0.0	0.0
Overall Total for Estimated Recurring Growth	(1,542.1)	(1,589.1)	(1,637.6)	(1,687.5)	(1,738.9)
Inflation Uplifts					
Pay Awards	1,171.3	1,144.4	1,187.3	1,231.8	1,278.0
Non-pay	171.1	173.7	177.7	181.8	184.0
Utilities	66.2	70.8	75.9	81.2	87.1
External Providers	356.3	367.6	379.3	391.3	403.8
Primary Care	0.0	0.0	0.0	0.0	0.0
External income	(23.8)	(24.5)	(25.2)	(26.0)	(26.7)
Pre-Commitments					
New Investments	44.6	45.1	45.6	46.1	46.6
Commissioning investments	72.5	30.0	30.0	30.0	30.0
Prescribing & Hospital Drugs	403.7	433.2	465.3	500.1	538.1
nGMS	0.0	0.0	0.0	0.0	0.0
Cost of Capital	0.0	90.9	66.8	39.3	10.2
Reduction in Reserves Brought Forward	(214.3)				
Cost Pressures					
Allow for new cost pressures	463.8	478.2	492.9	508.2	523.8
New In Year Financial Gap to Address	2,012.4	1,266.0	1,305.0	1,345.0	1,386.0
Projected Gap in Funding to Address 2020-25			7,314.4		