

SUBJECT: FINANCE REPORT FOR THE PERIOD ENDED 31 MAY 2021

1. PURPOSE

This paper is coming to the Board:

For approval	<input type="checkbox"/> For endorsement	<input type="checkbox"/> To note	<input checked="" type="checkbox"/>
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2. ROUTE TO THE BOARD

As agreed, this report comes straight to the Board from the Director of Finance. The Acute Governance Committee and Health and Social Care Partnership Management Teams receive financial reports for their own area.

3. SUMMARY OF KEY ISSUES

The Board's financial plan reflected the costs of normal operating and assumed any additional Covid-19 costs would be funded by the Scottish Government. To balance, it relied on £30.693m of savings. An estimated £25.773m of savings had still to be identified when submitting the plan giving a trajectory for the year which starts with costs exceeding income, aspiring to have identified sufficient measures by November 2021 to climb back to break-even at the year end. Pressures on services have meant no further progress has been made in closing the gap in the first quarter.

The NHS will remain on an emergency footing due to the Covid-19 pandemic until at least 30 September. Services are not yet at full capacity due to the need to maintain distancing and greater time between each patient. Although inpatient numbers in hospitals are, at time of writing, under ten per site, additional costs such as those associated with staff isolation, additional cleaning and separate Covid-19 pathways remain alongside the costs of testing, tracing, outbreak control and vaccination. An estimated £6.263m has been incurred in the first two months. These are being logged and will be reported to SGHSCD quarterly through an agreed national process. 50% of our forecast costs are expected to be issued in July with the remainder subject to ongoing monitoring.

At the end of May 2021 the Board is reporting a £4.865m over spend which is £0.846m worse than the financial plan year to date trajectory. This includes a reported over spend within the Acute Division of £0.312m.

There are still some key uncertainties over income and expenditure, most notably on drugs. Reasonable assumptions have been used in preparing the month 2 figures but the degree of estimation means a high level of caution is required.

The costs of some of the projects in the capital plan have increased and there is an early indication that many of the schemes will be affected by a general increase in construction costs. This, and potential sources of funding for the increase in costs in projects are being explored and will be subject of further reports to the Board.

4. STRATEGIC CONTEXT

This paper links to the following:

Corporate objectives	<input checked="" type="checkbox"/>	LDP	<input checked="" type="checkbox"/>	Government policy	<input type="checkbox"/>
Government directive	<input checked="" type="checkbox"/>	Statutory requirement	<input checked="" type="checkbox"/>	AHF/local policy	<input type="checkbox"/>
Urgent operational issue	<input type="checkbox"/>	Other	<input type="checkbox"/>		

5. CONTRIBUTION TO QUALITY

This paper aligns to the following elements of safety and quality improvement:

Three Quality Ambitions:

Safe	<input type="checkbox"/>	Effective	<input checked="" type="checkbox"/>	Person Centred	<input type="checkbox"/>
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Six Quality Outcomes:

Everyone has the best start in life and is able to live longer healthier lives; (Effective)	<input type="checkbox"/>
People are able to live well at home or in the community; (Person Centred)	<input type="checkbox"/>
Everyone has a positive experience of healthcare; (Person Centred)	<input type="checkbox"/>
Staff feel supported and engaged; (Effective)	<input type="checkbox"/>
Healthcare is safe for every person, every time; (Safe)	<input type="checkbox"/>
Best use is made of available resources. (Effective)	<input checked="" type="checkbox"/>

6. MEASURES FOR IMPROVEMENT

Achievement of AOP agreed position for revenue resource limit, capital resource limit and efficiency target.

7. FINANCIAL IMPLICATIONS

As set out in the paper.

8. RISK ASSESSMENT/MANAGEMENT IMPLICATIONS

As set out in the paper.

9. FIT WITH BEST VALUE CRITERIA

This paper aligns to the following best value criteria:

Vision and leadership	<input type="checkbox"/>	Effective partnerships	<input type="checkbox"/>	Governance and accountability	<input checked="" type="checkbox"/>
Use of resources	<input checked="" type="checkbox"/>	Performance management	<input checked="" type="checkbox"/>	Equality	<input type="checkbox"/>
Sustainability Management	<input checked="" type="checkbox"/>				

10. EQUALITY AND DIVERSITY IMPACT ASSESSMENT

An E&D Impact Assessment has not been completed

Yes
No

This is a factual position report prepared from information in the financial ledger. It contains no proposals with an equality and diversity impact.

11. CONSULTATION AND ENGAGEMENT

This is a largely factual position report prepared from information in the financial ledger. The investment proposals are linked back to previous Board strategic priorities, action plans or business cases and have been checked for suitability with the officers of the IJB.

12. ACTIONS FOR THE BOARD

The Board is asked to note the contents of the report.

Approve	<input checked="" type="checkbox"/>	Accept the assurance provided	<input checked="" type="checkbox"/>	Note the information provided	<input checked="" type="checkbox"/>
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13. FURTHER INFORMATION

For further information about any aspect of this paper, please contact *Laura Ace, Director of Finance*
Telephone: 01698 752774.

Laura Ace
Director of Finance

22 June 2021

NHS LANARKSHIRE

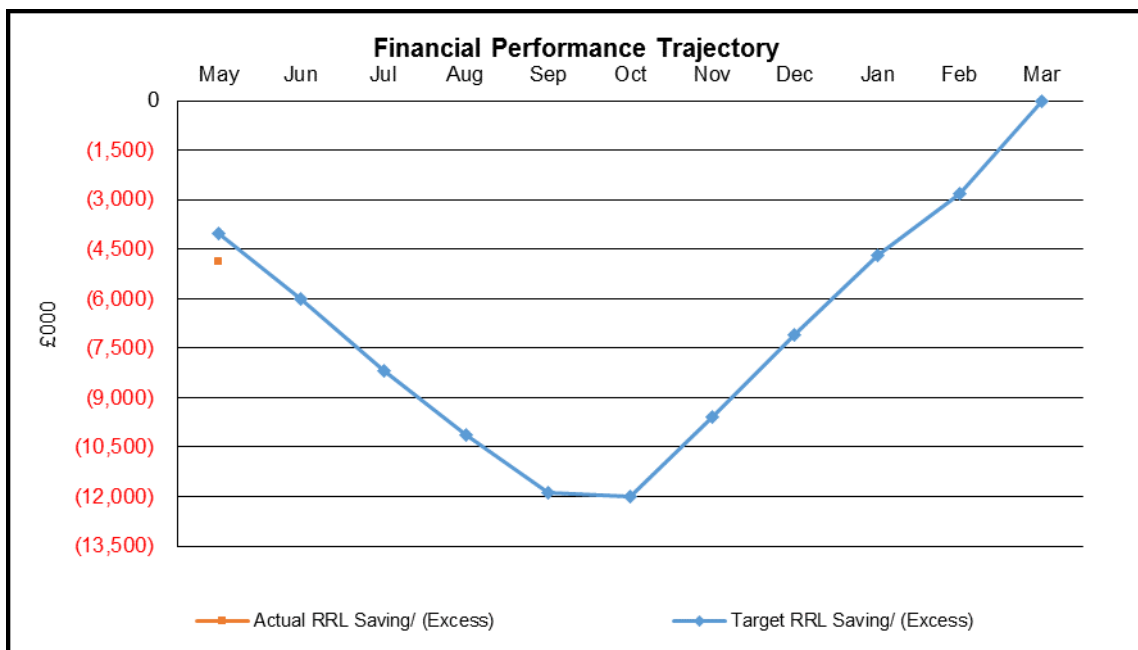
FINANCE REPORT FOR THE PERIOD ENDED 31 MAY 2021

1. Introduction

- 1.1. The purpose of this report is to provide the Board with a summary of revenue and capital financial performance for the first two months of 2021/22. Month 2 figures require a degree of estimation and caution is always advised in interpreting them. The unusual level of uncertainty due to the continuing impact of Covid-19 on services means these figures are more heavily caveated than usual.

2. Overview

- 2.1. The 2021/22 financial plan was submitted to the Scottish Government Health and Social Care Department (SGHSCD) in March 2021 reflecting the Board's plans in response to the Covid-19 pandemic. The 2021/22 allocation letter provided a £19.006m (1.5%) uplift to the whole system's base revenue budget, which is shared between the 3 bodies by applying the 1.5% to the relevant recurring budgets resulting in a split of £4.219m for North, £2.910m for South and £11.877m for the rest of the health.
- 2.2. 2020/21 was the final year of a 3 year Agenda for Change pay deal. One of the objectives of that pay deal was to reduce the number of incremental points between the bottom and top of the pay grade and there is still a legacy impact of that across bands 5, 6 and 7 in 2021/22 which is forecast to cost over 1% of the AFC pay budget and is to be met from the general allocation uplift. The original public sector pay deal (since uplifted in the March SG budget) has also to be funded from our base budget. Together those were estimated to cost approximately 2.8% .Combined with an opening gap (previously covered non-recurrently) of £17.365m, a hospital drugs forecast to increase by 8.41%, a range of national commitments to be funded and local cost pressures, it was estimated there would be a gap between the allocation uplift (1.5%) and cost rises of £30.693m. Efficiency savings were required to close this gap and at the time of submitting the plan £25.773m of those efficiency savings still had to be identified.
- 2.2 As the £25.773m had not been identified at 31 March 2021 it was assumed expenditure would exceed income until October 2021 at which point that Board would have implemented plans for financial balance and would see an improvement in the second half of the year. The assumed trajectory was as set out below.



- 2.3 To the end of May 2021, Acute and Corporate have recorded a total of £5.862m as being attributable to Covid-19 and the health element of the Health and Social Care Partnerships £0.401m. It has been assumed that these costs will be funded either directly from SG or from reserves held by IJBS from funding issued by SG in 2020/21 therefore for this purpose there is no impact on the bottom line reported at this stage.
- 2.4 The financial sustainability programme is still suspended so all service focus can be on the impact of the pandemic. No inroads have been made into the initial £25.773m gap.
- 2.5 Table 1 below shows the split by Division, further explained in sections 4 to 7. The negative balance against Area wide reflects the fact budgets have been handed out to cover pay rises and other cost increases agreed in the financial plan but the cash releasing efficiency savings needed to fund these budgets have not been made.

Table 1 - Summary Financial Position 2021/22

	YTD Budget £M	YTD Actual £M	YTD Variance £M
Acute Operating Division	66.206	66.518	(0.312)
North Lanarkshire Health & Social Care Partnership	49.513	49.423	0.090
South Lanarkshire Health & Social Care Partnership	71.965	72.051	(0.086)
Estates, E health and Other Corporate Functions	30.044	29.924	0.120
Service Level Agreements / Other Healthcare Providers	31.537	31.564	(0.027)
NHSL - wide	(14.940)	(10.294)	(4.646)
Net operating costs	234.325	239.186	(4.861)
Remove IJB Position	(121.478)	(121.474)	(0.004)
Revised Net operating costs	112.847	117.712	(4.865)

3. Revenue Resources

- 3.1. At the end of May 2021, the Core Revenue Resource Limit (RRL) for NHS Lanarkshire was £1,285.937m, details of which are noted in Annex A.
- 3.2. The May 2021 allocation letter sets out our starting point in terms of core revenue resources with no further allocations confirmed as yet.
- 3.3. As well as funding for Covid-19, we are anticipating at least an additional £116m of specific allocations, the largest component of which would be approximately £104m in standard primary care allocations.

4. Acute Division

- 4.1. The Acute Division is reporting an over spend of £0.312m for the period to the end of May 2021, as detailed in Table 2. Budget has been released to match the £1.591m of costs attributed to Covid-19 up to the end of May. The over spend is £0.372m less than at the same point in the previous year.

	Budgeted Operating Costs 31/05/2021 £M	Actual Operating Costs 31/05/2021 £M	Actual saving / (excess) 31/05/2021 £M
Pay	54.464	54.882	(0.418)
Non Pay	16.358	16.252	0.106
Healthcare Purchases	0.167	0.167	0.000
Gross operating costs	70.989	71.301	(0.312)
Less: miscellaneous income	(6.374)	(6.374)	0.000
Net operating cost	64.615	64.927	(0.312)
Covid-19 Spend	1.591	1.591	0.000
Revised Net operating cost	66.206	66.518	(0.312)

- 4.2. The estimated overspend is driven by pay costs in excess of budget (nursing £0.141m, Medical £0.263m and Healthcare scientists £0.052m). Non pay costs are underspent but this has largely been seen as Covid-19 impact due to reduced elective activity.
- 4.3. In calculating the additional costs of Covid-19 no offsetting cost reductions have been assumed at this early stage.
- 4.4. At £8.869m, the first 2 month's Lanarkshire hospitals drug spend is 20% more than at the same point last year and 4% more than the same point in 2019/20. At this stage nothing is known about the out of area high cost drugs which now make up approximately one third of our hospital drug spend. The financial plan uplift for drugs growth in 2021/22 has been held back and not issued to budget until more is known.

5. Health and Social Care Partnerships

- 5.1. Across the Health and Social Care Partnerships, there is an under spend of £0.004m for the period to the end of May 2021 (North IJB - £0.090m under spent; South IJB

- £0.086m over spent). Budget has been released to match the costs attributed to Covid-19 (North IJB - £0.234m; South IJB - £0.167m) up to the end of May.

- 5.2. Prescribing figures for this year are not yet available therefore a neutral break-even position has been assumed for both IJBs.
- 5.3. A proportion of the planned savings have been deducted from the opening budgets (North £1.186m out of the original £2.082m, South £0.682m out of the original £2.172m). The balance remains a risk.
- 5.4. Tables 3 and 4 show the position in each partnership.

	Budgeted Operating Costs 31/05/2021 £M	Actual Operating Costs 31/05/2021 £M	Actual saving / (excess) 31/05/2021 £M
Pay	22.967	22.664	0.303
Non Pay	13.543	13.744	(0.201)
Prescribing	11.707	11.707	0.000
Sub Total	48.217	48.115	0.102
Primary Care Transformational Fund	0.000	0.000	0.000
Share of Primary Care Other Services	1.296	1.308	(0.012)
Family Health Services	0.000	0.000	0.000
Net operating cost	49.513	49.423	0.090
Less: Covid-19 spend	(0.234)	(0.234)	0.000
Revised net operating cost	49.279	49.189	0.090

	Budgeted Operating Costs 31/05/2021 £M	Actual Operating Costs 31/05/2021 £M	Actual saving / (excess) 31/05/2021 £M
Pay	11.198	11.335	(0.137)
Non Pay	11.102	11.040	0.062
Prescribing	11.054	11.054	0.000
Sub Total	33.354	33.429	(0.075)
Primary Care Transformational Fund	1.319	1.319	0.000
Share of Primary Care Other Services	1.245	1.256	(0.011)
Family Health Services	36.047	36.047	0.000
Net operating cost	71.965	72.051	(0.086)
Less: Covid-19 spend	(0.167)	(0.167)	0.000
Revised net operating cost	71.798	71.884	(0.086)

6. Estates, e-Health and Other Corporate Functions

- 6.1. Corporate functions are reporting an under spend of £0.120m for the period to the end of May 2021, as detailed in Table 5. Budget has been released to match the £4.271m of costs attributed to Covid-19 up to the end of May.

	Budgeted Operating Costs 31/05/2021 £M	Actual Operating Costs 31/05/2021 £M	Actual saving / (excess) 31/05/2021 £M
Pay	11.492	11.415	0.077
Non Pay	15.681	15.638	0.043
Gross operating costs	27.173	27.053	0.120
Less: miscellaneous income	(1.400)	(1.400)	0.000
Net operating cost	25.773	25.653	0.120
Covid-19 Spend	4.271	4.271	0.000
Revised Net operating cost	30.044	29.924	0.120

6.2. The under spend sits largely within Occupational Health (Salus) whose income generating activities are pre-planned to make a contribution to other Board overheads. Typically this will be assessed part way through the year and if guaranteed, transferred to our efficiency total.

7. Service Level Agreements/Other Healthcare Providers

7.1. Service Level Agreements and Other Healthcare Providers are reporting an over spend of £0.027m for the period to the end of May 2021, as detailed in table 6.

	Budgeted Operating Costs 31/05/2021 £M	Actual Operating Costs 31/05/2021 £M	Actual saving / (excess) 31/05/2021 £M
Service Level Agreements	30.234	30.200	0.034
Unpacs and Oats	1.209	1.234	(0.025)
Independent Sector	0.094	0.130	(0.036)
Net operating cost	31.537	31.564	(0.027)

7.2. The under spend of £0.034m being reported against service level agreements is based on the continuation of the 2020/21 position. National discussions on how inter Board SLA's should be calculated are to continue through July. Apart from Glasgow who operate two years in arrears, most Boards would have been expected to revise their charges based on a three year rolling average of activity to 2020/21. However there is widespread agreement that 2020/21 was so atypical due to Covid-19 that the previous 3 year rolling average will be retained. It is expected, as well as passing on the allocation uplift, any specific uplift provided for the AFC pay deal will be factored in to the SLAs. If SLAs are uplifted for other pressures this will become a cost pressure on the Board. A financial risk of circa £1.076m has been noted from the tenor of current national discussions.

8. CRES/Efficiency

8.1. The financial plan was prepared on the basis of historic budgets and agreed developments. It was assumed any additional Covid-19 costs would be funded. Taking account of the opening gap of £17.635m and modelling the pay and supplies price increases and the previous trend on high cost drugs produced a cost increase

£30.693m greater than the income increase. To balance this the Board would have needed to release £30.693m of cash from budgets through efficiency savings (CRES). At the time of submitting the financial plan the Board had identified proposals for all but £25.773m of this total. Due to Covid-19 no inroads have been made into that gap in the first 2 months.

- 8.2. In 2020/21 NHS Lanarkshire, unlike other Boards did not claim any compensatory funding for savings unable to be delivered due to Covid-19. The Board may have to make a claim this year although this can only be a short term proposition and the need to look for future efficiencies remains.
- 8.3. As services are still unable to resume normal operating, cost and growth patterns may deviate from the financial plan assumptions. The intention is to review this once the first quarter's results are available and more is known of the progress with remobilisation and the Covid-19 impact. This may lead to the level of in year gap being revised.
- 8.4. Table 7 below gives a provisional assessment of month 2 performance against the opening financial plan submission. Savings to date include rebates on drug list prices, small property or equipment savings and the estimated impact of the HSCP prescribing efficiency plans.

Financial Plan description	Annual Operating Plan £m	Revised Annual Plan £m	Plan to date £m	Actual to Date £m
Service redesign	0.147	0.147	-	-
Drugs & prescribing	0.617	0.617	-	-
Workforce	-	-	-	-
Procurement	2.250	2.250	0.113	0.112
Infrastructure	1.906	1.906	0.059	0.093
Other	-	-	-	-
Financial Management / Corporate Initiatives	-	-	-	-
Unidentified Savings	25.773	25.773	-	-
Total Core NHS Board Savings	30.693	30.693	0.172	0.205
Savings delegated to Integration Authorities	4.254	4.254	0.311	0.807
Total Savings Required	34.947	34.947	0.483	1.012

9. Capital

- 9.1 The Scottish Government has confirmed the initial NHS Lanarkshire Capital Formula Allocation for 2021/22 at £12.392m, no change from the previous year. NHS Lanarkshire will also be allowed to retain an estimated £0.535m property receipts to support capital plans and will receive £5.0m towards the Monklands replacement or refurbishment business case and £0.232m regional support for the Vascular Surgery Theatre. We also anticipate £0.450m from partners for West of Scotland Laundry

improvements and our revenue plans already identify £1.979m of revenue funding to transfer to capital.

- 9.2 £0.440m of the £0.535m property receipts has already been secured. The others are not yet guaranteed, though the overall exposure this year is low.
- 9.3 £0.900m of funding had been identified in the opening plan for new CAMHS accommodation, the building element of which was expected to cost £0.800m. The tenders received are being evaluated but are indicating a cost potentially double initial estimates. Solutions are being worked through at the local capital investment group including any potential of a contribution from revenue. Until resolved, this puts the forecast capital plan out of balance.
- 9.4 A number of smaller requests for immediately necessary work or equipment have come forward and being approved, also worsening the position.
- 9.5 Early indications in other projects are that there may be a widespread impact of increased construction costs. The risk is being evaluated. Although a prioritised list for medical equipment replacements has been drawn up elements may need to be deferred if there is insufficient funding to do both these and essential building works.
- 9.6 The cost of e health projects put forwards exceeds the initial budget. Those relating to security and business continuity have been approved. Those relating more to service improvement have had a decision deferred until the overall capital position and other solutions can be assessed.
- 9.7 Expenditure to the value of £0.897m has been incurred in the first two months as detailed in Annex B.

10. Development and Approvals

- 10.1 SG have indicated they will release 50% of the Covid-19 funding sought in the original plan in July although specific elements such as the professional support to care homes and the test and protect service have been given specified guaranteed funding. SG will collect and review Covid-19 costs quarterly with further funding to be agreed later in the year.
- 10.2 Table 8 summarises the Covid-19 costs to 31 May 2021. Costs continue to be incurred to respond to Covid-19. The test and protect initiative, care home support and the Covid-19 vaccination programme sit within the corporate functions as does any system wide e health or estates support.

Table 8 - Covid-19 Revenue & Capital Spend

Area	Revenue 2021/22 £m
Acute Operating Division	1.591
Estates, E-health and Other Corporate Functions	4.271
Total Board	5.862
North Lanarkshire Health & Social Care Partnership	0.234
South Lanarkshire Health & Social Care Partnership	0.167
Total Health & Social Care Partnership	0.401
Total Board and Health & Social Care Partnership	6.263
Capital Spend	0.000
Total Revenue and Capital	6.263

11. Risk Assessment

The overall financial risk has been assessed as very high. Risks are from multiple sources starting with the underlying £25.773m of unidentified savings but compounded by uncertainties over funding, significant additional Covid-19 costs and the potential for the SLA uplift to include an allowance for cost pressures for which there is no SG funding. As the year progresses uncertainties can begin to be defined into more meaningful ranges.

12. Conclusion

The Board is asked to note:

- the actual revenue over spend of £4.865m as at 31 May 2021;
- Acute and Corporate Covid-19 expenditure as at 31 May 2021 is £5.862m and continued expenditure against the Covid-19 response;
- the initial assessment that month 2 is behind trajectory;
- the significant risks highlighted in section 11;
- early pressure on the capital plan.

LAURA ACE
DIRECTOR OF FINANCE
22 June 2021

REVENUE RESOURCE LIMIT 2021/22	
	Baseline Recurring £M
Baseline Revenue Resource Limit 2020/21	1,267.058
Add: 2021/22 Standard Uplift @ 1.5%	19.006
Adjusted Baseline Revenue Resource Limit 2021/22	1,286.064
<u>Adjustments to Baseline:</u>	
Less: Craniofacial Surgery (top slice)	(0.086)
Less: RPLND (top slice)	(0.033)
Less: Therapeutic Drug Monitoring (top slice)	(0.032)
Less: Prostrate Cryotherapy (reverse top slice)	0.025
Initial Core Revenue Resource Limit 2020/21	<u>1,285.937</u>

NHS LANARKSHIRE
CAPITAL EXPENDITURE TO 31st May 2021

	2021/22 A.O.P £M	2021/22 Forecast £M	Actual £M
Initial Capital Formula Allocation:	12.392	12.392	0.457
Capital Resource limit adjustments:			
ADJUSTED NET ALLOCATION	£12.392	£12.392	£0.457
Anticipated Capital Resource Limit Adjustments :			
Additional Central Resource Allocation	5.000	5.000	
West of Scotland Laundry - Transfer from other boards	0.300	0.450	
Regional Capital Contribution - Vascular Surgery Theatre	0.232	0.232	
Revenue to Capital Transfers	1.550	1.979	
GP Sustainability	0.000	1.624	
Dental Education Pods	0.000	0.143	
	£7.082	£9.428	£0.000
Other Income Adjustments:			
Other Income	0.018	0.018	
	£0.018	£0.018	£0.000
Disposal Programme:			
Property Disposals	0.535	0.515	0.440
	£0.535	£0.515	£0.440
	£20.027	£22.353	£0.897
<u>CAPITAL EXPENDITURE:</u>			
<u>Business Cases</u>			
Monklands general business continuity	5.500	5.699	0.161
Acute Property Works	1.750	1.155	0.194
New Monklands Fees	5.000	5.000	0.518
	12.250	11.854	0.873
<u>Medical Equipment</u>	3.977	3.613	0.015
	3.977	3.613	0.015
<u>Other Service Developments</u>			
Northern Corridor	1.000	1.000	0.009
METC	0.400	0.800	0.000
CAMHS	0.800	1.500	0.000
	2.200	3.300	0.009
<u>Other Expenditure</u>			
CHP HM	0.100	0.100	0.000
PSSD Equipment	0.750	1.150	0.000
GP Sustainability	0.000	1.624	0.000
Dental Education	0.000	0.143	0.000
CAFM Replacement	0.000	0.275	0.000
Clydesdale	0.000	0.020	0.000
<i>subtotal</i>	0.850	3.312	0.000
I.M.&T Projects	0.750	1.015	0.000
	1.600	4.327	0.000
TOTAL CAPITAL EXPENDITURE	£20.027	£23.094	£0.897
(OVER) / UNDER COMMITTED	£0.000	-£0.741	£0.000