

Borders NHS Board**DRAFT FINANCIAL SETTLEMENT 2018/19****Aim**

The purpose of this report is to provide the Board with an update on the financial outlook for NHS Borders for 2018/19 as a result of the draft national financial settlements for the public sector. A detailed financial plan for 2018/19 and estimates for the following two years will be provided to the Board at its meeting on the 5th April 2018.

Background

The Scottish Government (SG) draft budget for 2018/19, as presented to the Scottish Parliament on the 14th December 2017, includes an additional investment of £354.5m for health as detailed in the table below:

	£m
Territorial Health Boards	139.4
Special Health Boards	10.1
NRAC Parity Funding	30.0
Transformational Change Funding	<u>175.0</u>
Total	<u>354.5</u>

The transformational change funding will provide support to the regional delivery plans for the implementation of new service models, improved elective performance and investment in our digital capability. The key priority areas for investment will continue to be primary care, mental health, cancer and trauma networks. Direction on how this additional investment is to be utilised will emerge in year.

A central component of the settlement is that “it will allow for progress to be made in delivering the commitment that more than half of frontline spending will be in community health services by the end of the parliament” and “to support a further shift in the share of the frontline NHS budget dedicated to mental health and to primary, community and social care”.

The Scottish Government has also set out its pay policy for 2018/19. The recommendation is a 3% increase for public sector workers earning £30,000 or less and 2% for staff earning between £30,000 and £80,000. For staff earning more than £80,000 the maximum cash increase will be £1,600 per annum.

Draft Allocation 2018/19

The SG draft budget was announced on the 14th December 2017 and draft allocations based on this information have been issued to Boards. It is expected that the 2018/19 Scottish budget will be agreed early in February and although not finalised, no or only

limited change to the draft figures is anticipated. The key points to note from the draft allocation letter for NHS Borders and a summary of the level of baseline resources are detailed below:

	£m
2017/18 Recurring Allocation	197.6
Base Uplift 1.5%	<u>3.0</u>
2018/19 Draft Recurring Allocation	<u>200.6</u>

- The baseline allocation is uplifted by 1.5% (£3.0m) to deal with pay increases, non pay inflation, developments and activity pressures. Attached in Appendix A is a trend of the level of uplift the Board has received in recent years.
- As NHS Borders remains above its NRAC share of resources it will not receive any of the funding available nationally to move Boards to parity.
- Funding related to national transformational change has been announced but NHS Borders has not as yet been advised on the availability of this funding or given direction regarding its use.
- £7.3m social care funding will continue to be allocated to NHS Borders to be provided to the IJB to support social care. This is the same level as in 2017/18 and included in the Board's recurring allocation.
- Further funding (£5m across NHS Scotland) will be allocated in due course to Boards for transfer to Integration Joint Boards (IJBs) in relation to war pensions and guaranteed income payments.
- NHS Borders will receive in a ring fenced allocation a share of the additional £20m to be invested across NHS Scotland linked to a renewed focus on alcohol and drugs.
- The Board will be required to produce an annual plan which will replace the Local Delivery Planning process which will link to the regional and national delivery plan.

Draft Financial Plan 2018/19

The Board's approach to the financial plan is based on the following principles:

- Patient safety is NHS Borders number one corporate objective and the provision of safe services will not be compromised.
- Budgets will be set and resources provided based on funding available.
- The financial challenge will be shared across all areas of the organisation.

This approach recognises the Board's role in relation to the provision of resources to the Integration Joint Board and to the non delegated functions of the organisation.

The Board needs to recognise a number of costs pressures for 2018/19 which include the following:

- Pay uplift
- National and regional service developments
- Agreed activity pressures
- Drugs increases
- The revenue impact of the capital programme
- Non recurring funding issues

Currently, although detailed work is still underway, the shortfall in funding is estimated to be £10.2m.

NHS Borders recurring efficiency requirement for 2017/18 was £12.9m and based on current forecasts the Board will deliver £4.1m of recurring efficiencies during 2017/18. This means NHS Borders will carry forward a deficit of £8.8m into 2018/19.

Taking account of the draft allocation for 2018/19 and the estimated recurring deficit carried forward from 2017/18 NHS Borders will have a total financial gap in 2018/19 of £19m (9.5% of NHS Borders recurring baseline allocation), which must be addressed in order for the Board to meet its pressures and break even financial target in 2018/19.

It should be noted that in addition to this there are a number of operational issues across the organisation. If these operational pressures are not managed they may have an adverse impact on the financial position in 2018/19. These pressures include issues related to clinical risk and service provision, as well as demographic and activity increases. Work is currently underway with Senior Managers and Directors in the Board to consider potential, and necessary, actions to address these pressures. The Board will receive an update on this work including quantification of the impact over the coming months.

Work is currently being undertaken to produce a detailed financial plan for both revenue and capital expenditure for 2018/19. Alongside this work to establish the financial challenge there continues to be in depth discussions to identify savings to offset this gap.

The financial gap in 2018/19 is unprecedented and is significantly higher than previously experienced by NHS Borders.

Summary

Based on current information NHS Borders financial gap for 2018/19 is £19.0m (9.5% of the recurring baseline allocation) with the potential to increase if the operational pressures cannot be managed. Work is ongoing to finalise the financial outlook and agree with managers on how this gap and the operational pressures can be addressed.

The size of the deficit is significantly greater in 2018/19 than in previous years and the Board has never achieved delivery of this level of efficiency in one year before. The Board will be updated on progress at development sessions and a financial plan for 2018/19 will be presented to the board at its meeting on the 5th April 2018.

Recommendation

The Board is asked to **note** the update on the draft financial outlook for 2018/19.

Policy/Strategy Implications	Based on draft Scottish Budget & draft allocation letter. Takes account of financial planning/horizon scanning undertaken by the Board
Consultation	Ongoing presentations across the organisation
Consultation with Professional Committees	Ongoing presentations across the organisation
Risk Assessment	The range in the paper gives an indication

	of the risk
Compliance with Board Policy requirements on Equality and Diversity	Complete
Resource/Staffing Implications	As detailed in the paper

Approved by

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Appendix A

