

NHSBT Board Meeting - 25 March 2021

NHSBT Budget 2021/22

Status – Public

1. Purpose of the Paper

- 1.1 To seek approval for the 2021/22 budget.

2. Ask of the Board

- 2.1 The Board is asked to **approve** the NHSBT budget for 2021/22, subject to **noting** that:
- Programme funding for ODT, stem cells and tissues reflects verbal agreement with DHSC but has not yet been formally confirmed.
 - Similarly, the increase in the income envelopes proposed for blood components (+9.0%) and specialist services (+4.0%) are yet to be formally approved by DHSC. There is no reason, however, to expect that confirmation will not be forthcoming.

3. Executive Summary

- 3.1 The operating income envelope for NHSBT in any budget year is generally established in advance of the budget, and shared with the Board, as a result of continuous planning and periodic stakeholder engagement. This has resulted in:
- The Board approving an uplift in the income envelope for blood components of 9.0% and 4.0% for specialist services.
 - Funding expectations that have been established from the four UK Health Departments (mostly for ODT, but with funding also from DHSC in support of the UK Stem Cell strategy).
- 3.2 The associated cost budgets for 2021/22 have now been generated. Taken together with income, the budget is in line with income / cost planning assumptions, and results in a budget with **an underlying operational surplus of £7.3m**, which becomes a **deficit of £18.4m after expenditure on non-recurring revenue projects (transformation)**. As in previous years the deficit is a planned income/expenditure deficit that is funded from cash reserves.
- 3.3 The budget, however, can only be understood with regard to the outcomes implied for Blood/Group, ODT and specialist services (summarised in the table below – at point of spend level, pre-activity based cost allocation). In this respect:
- The budget in **Blood / Group** is in line with expectations, is consistent with the 9.0% increase in the income envelope proposed to NCG and provides a £17.0m budget for non-recurring investments in resilience and transformation.
 - The **ODT** budget assumes that operating costs are fully funded and that cash reserves of £7.0m can be carried forward from 2020/21 with £5.0m used to fund transformation spend activity. The other ring-fenced activities (Opt Out, DCD Hearts and Donor Characterisation) have balanced income/cost positions.

- **Specialist services** (including Clinical Services and TES) is also in line with expectations, and is consistent with the overall 4.0% increase in the income envelope proposed to NCG. This includes conservative assumptions for demand, especially in TES, although this implies an operating deficit of £4m+ (post ABC allocation). Additional programme funding from DHSC for stem cells and TES (skin) has been verbally agreed and has been assumed in the budget.

Budget 2021/22 - £m	Blood/Group	ODT	Specialist Services	TOTAL
Invoiced income ("prices")	288.3		81.0 ⁽³⁾	369.3
Funded income	10.6 ⁽¹⁾	87.5 ⁽²⁾	6.0 ⁽⁴⁾	104.1
Other	11.9			11.9
Total Income	310.8	87.5	87.0	485.3
Direct Operating Costs	-156.6	-66.2	-73.4 ⁽⁵⁾	-296.2
Group Services	-156.2			-156.2
Transformation / ring fenced	-17.0	-15.3 ⁽²⁾	-3.7 ⁽⁶⁾	-36.0
Other	-15.3 ⁽¹⁾			-15.3
Total Costs	-345.1	-81.5	-77.1	-503.7
Gross I&E pre ABC allocation	-34.3	6.0	9.9	-18.4

Notes: 1. Funding for employer's pension costs (offsetting the cost that is included in Other)

2. Funding for operational costs and ring fenced activities (eg Opt Out, DCD Hearts). In the transformation line below, £5.0m is for transformation spend (funded from cash reserves).

3. £66.7m for Clinical Services and £14.3m for TES.

4. £5.5m for stem cells and £0.5 for skin in TES.

5. Includes £0.8m for stock movement in TES.

6. All Clinical Services.

3.4 The primary issue to note with regard to the budget outcome (and latest forecast) is the impact on cash reserves in Blood/Group. Due to unplanned costs (eg. sales of annual leave) and conservative assumptions, with regard to demand in TES, cash reserves fall to a worst case position of ca. £3m at the end of 2021/22 (versus a preferred reserve position of £10m). Mitigating actions are being planned.

4. Link to Risk, Strategic Priority or Regulatory Requirement

4.1 Income and costs are at a level that are consistent with current strategies and business plans. **Note that the budget excludes any income or costs for Plasma for The Manufacture of Medicines (PMM), the funding of which is subject to business case approval.** The costs for the Convalescent Plasma Programme are assumed to be charged to the separate funding for the project as provided by Treasury.

5. Equality, Diversity and Inclusion Impact

- 5.1 The budget provides funding for the planned investments in support of improving diversity and inclusion across NHSBT.

6. Detail

- 6.1 NHSBT operates on a rolling plan basis with periodic planning discussions and indicative budgets established in advance of the budget year. Based on this process, the Board has therefore previously approved the proposals to NCG for a 9.0% and 4.0% income uplift for blood and specialist services respectively. In addition, funding requirements for ODT in 2021/22 have been frequently shared and discussed with the DHSC and the Devolved Governments.
- 6.2 The associated cost budgets for 2021/22 have now been generated and, as expected, these broadly align with the indicative budgets that had previously been established, and the pricing/funding proposals discussed with stakeholders. The budget is around £1.5m higher than our projections, mostly in People (restructuring and transformation) and Estates (service contracts pricing), but this will not be material to NHSBT's forward financial position.
- 6.3 Driven by the new Operating Model there have been numerous transfers of functions between Directorates that have now been built into a revised budget structure. In support of this, historic data has been adjusted to provide consistent compares and hence the ability to understand spending trends. Comparison to the existing management accounts (at the point of spend level) is now therefore difficult. In support of this a schedule of the transfers has been provided and was considered during the review by the Finance & Performance Committee. This is in addition to the impact of Covid-19, convalescent plasma and Opt Out which also make comparatives difficult to follow.
- 6.4 The budget in **Blood/Group** is consistent with the 9.0% increase in income that has been proposed to NCG. The increase included 3.5% for additional Covid-19 related costs with the balance due to underlying cost growth and the funding required for transformation project plans. The budget is consistent with the observations made by the Finance & Performance Committee, whereby underlying growth in group services expenditure, rather than operational costs, is the key factor behind the recent above inflation increases in income (blood prices).
- 6.5 An assumption behind the income proposal for Blood/Group was that £17.0m would be made available for non-recurring revenue (transformation) investments. The finalised budget continues to support this assumption, albeit further work on prioritisation and the planning and approval of projects is required (in line with the business plan).
- 6.6 The underlying budget for **Organ Donation and Transplantation** is sound with baseline operational costs fully funded and £5.0m of transformation spending funded from retained cash reserves. The operational budget for 2021/22 has now been established as a new baseline with DHSC to reflect the step change in resourcing levels that now apply post implementation of Opt Out. This baseline will then be flexed in for future inflation and activity levels as appropriate, plus any step changes required through implementation of the new strategy.
- 6.7 The budget in **Specialist Services** (Clinical Services and TES) is consistent with the 4.0% uplift in the income envelope proposed to NCG. Following discussion with DHSC it now also includes an increase in programme funding of £1.3m for the Cord Blood Bank / British Bone Marrow Registry, and £0.5m for a strategic national stock of skin. As such the budget is balanced with the primary risk relating to the underlying £4m+ deficit that has been assumed for TES on the back of a conservative demand estimate. TES profitability will be reviewed and monitored during 2021/22 to ensure it is capable of operating at a sustainable surplus post Covid-19, and at a level that can fund future investment in transformation.

- 6.8 A **capital budget** of £22.5m for 2021/22 will be submitted to DHSC (versus £20m included in the Spending Round 2020 submission). This remains much higher than the historic norm of ca. £10m pa, but is starting to reduce as the Barnsley and CBC builds and IT infrastructure replacement are completed. Future requirements will be driven by the emerging donor footprint strategy, PMM infrastructure needs, other strategic estates investments (Colindale and Oxford in the short term) and potentially investments in digital (ie. applications rather than equipment).

Capital funding - £m	2020/21 Budget	2020/21 Fcast	2021/22 Budget
Minor capital – asset replacement	7.0	4.8	7.5
Estates	3.5	0.8 ⁽ⁱ⁾	4.5
Barnsley completion	0.9	0.9	-
CBC - Filton	6.2	5.6	0.9
ICT	12.8	10.8	9.6
Total	30.4	22.5	22.5

(i) lower spend due to delay on Colindale investment and timing of donor centre refurbishments.

7. Risk and Uncertainties

- 7.1 The primary uncertainty within the budget itself is that confirmation from DHSC is required with respect to income ie.
- That the increases in the income envelope proposed for blood and specialist services are approved and communicated out to NHS Trusts.
 - That the programme funding assumed in the budget, that has been verbally accepted by DHSC is formally confirmed.
- There is no reason at this stage to expect that confirmation will not be forthcoming.
- 7.2 Costs have been built into the budget re Covid-19 with respect to ongoing deep cleaning of facilities and additional blood collection capacity. Ongoing risk continues, however that unidentified costs could emerge and that demand reduction could adversely impact specialist services income. This is mitigated by a £2m Covid-19 contingency within the budget (£1.2m unallocated) and conservative assumptions around specialist services demand, especially in TES.
- 7.3 A real concern, however, exists in respect of the development of our cash reserves. Latest plans indicate that, worst case, cash reserves in Blood/Group will fall to ca. £3m end 2021/22 versus our £10m preferred planning level. This is driven by unplanned cash outgoings (eg. purchase of annual leave, both this year and next year) and the conservative assumptions made with regard to specialist services demand (TES and stem cells especially). Mitigating plans are being developed with some items already secured (eg additional DHSC funding for stem cells and TES) and revenue to capital transfers, especially in ICT. In addition, it is recommended that a conservative approach is applied to the mobilisation of projects in in the first 6 months of 2021/22, in order to constrain cash reserves, pending a mid-year review of risk and updated cash flow forecasts.

8. Committee / NED Scrutiny

- 8.1 The budget was reviewed by the Finance & Performance Committee (FPC) on 25 February 2021 and is also consistent with the indicative budget (and cost analysis) that was presented during the December meeting. The changes to the budget since the FPC include:
- Confirmation that ODT should be fully funded at operational cost level

- Cash reserves in ODT can be utilised to fund £5m of transformation projects (and generating a related I&E deficit of £5m).
- Restatement of the income/cost in respect of the ring fenced projects within ODT (Opt Out, DCD Hearts and Donor Characterisation) to reflect the treatment of brought forward cash.
- Additional income secured from DHSC for stem cells and skin (£1.8m)
- Increased costs in the People Directorate (£0.4m).

8.2 Full Board approval of the budget is, however, required.

9. Appendices

9.1 A small pack of budget schedules is submitted alongside this paper.

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