Greater Glasgow NHS Board

Board Meeting

18th February 2003 **Board Paper No. 03/15**

Director of Finance

2002/03 Financial Monitoring Report for nine months ended December

Recommendation:

The Board is asked to:

- note the results reported for the nine months ended 31 December 2002.

Summary

The January 2003 Finance Report to the Board set out in some detail the 2002/3 forecast out-turn against which the financial performance in the remaining months of the year would be monitored.

This report updates the Board by providing details of the financial position for the nine months ended 31 December.

Trusts are reporting a £2.165m deficit against the break-even target for the nine months to December 2002. This is a slight improvement of £370k on the November 2002 position.

Overall therefore, the position remains in line with that forecast. As indicated in the table below, it is still anticipated that the total estimated £2m overspend against Trusts' startpoint allocations can be offset by reserves available at the year end.

	Year to Date December 2002 [All figures £'000]				
	Allocation	**Interest**	**Total Income**	**Expenditure**	**Variance**
North	344,403	580	344,983	345,057	(74)
South	155,046	228	155,274	155,236	38
Yorkhill	68,487	55	68,542	68,838	(296)
Primary Care	376,070	357	376,427	378,260	(1,833)
Sub total					(2,165)
Health Promotion/Other Services			91,262	91,151	111
Board Headquarters			6,584	6,801	(217)
Reserves			29,541	27,270	2,271
TOTALS			1,072,613	1,072,612	0

The following sections give fuller details of the position in each Trust.

North Glasgow

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	343,936	344,403	467
Expenditure	344,320	345,057	(737)
Surplus	(384)	(654)	(270)
Interest	338	580	242
Surplus/(Deficit)	(46)	(74)	(28)

The financial position for the nine month period to December 2002 shows a net adverse variance of £28k from plan. The financial results are summarised as follows.

The December accounts show a deficit of £74k against the financial breakeven target. This represents a favourable movement of £32k in comparison with the November position.

The Trust continues to be dependant on non recurring relief to offset new cost pressures (i.e. not funded within the Financial Plan). It is estimated that approximately £6m (Full Year Forecast £8m) of non recurring relief has been accumulated throughout the divisions over the nine month period to December.

Income shows a favourable variance primarily due to a higher level of funds from the Post Graduate Dean than planned.

The Pay Budget shows a favourable cumulative variance of £556k. This, however, represents a decrease of £173k in comparison with the November position. The adverse movement is currently being reviewed, however, the increased banding payments for Junior Doctors, effective from 1 December 2002, may have been a factor. Again it should be emphasised that no provision has been made in the accounts to cover potential material costs in respect of pay issues currently under review e.g.Admin & Clerical and Ancillary Staff. (potential cost approx. £500k).

The main contributor to the overspend position on Non Pay continues to be Pharmacy Supplies. High expenditure levels have been recorded in general against Drugs, Dressings and Surgical Instruments (which has been influenced by the increasing requirement for single use instruments). Each division has established an Action Plan with the aim of minimising the overspend position.

Other significant contributors to the overall Non Pay overspend include Equipment Repairs and Advertising/Recruitment costs. Again detailed work is underway with budget holders to better understand and establish action plans where appropriate.

Financial Forecast

The Trust continues to forecast a breakeven position for the 2002/03 financial year. It should be emphasised, however, that this forecast is dependant on achieving a significant level of non recurring relief to offset the unfunded cost pressures encountered throughout the divisions this year. The details of the individual cost drivers have been shared with the Health Board in each of the last three months and will be updated on a monthly basis.

Consistent with other parts of the Acute sector the Trust is currently experiencing and anticipates ongoing pressure in Pharmacy, Junior doctor rota compliance, various workforce and pay issues and

delivery of internal efficiencies. As indicated above, the Trust will still achieve its financial targets but is reliant on non recurring relief to do so.
The main source of non recurring relief comes through unfilled posts (despite best endeavours), stock management and use of specific non recurring income streams.

There are also some significant in year risks that have not been played into the forecast at this stage on the basis they are not definite at this point. It is important however that we do not lose sight of either the short or longer term implication of these :

- Pay issues associated with A&C and Ancillary staff which are still part of an ongoing process
- Unresolved activity issues with surrounding NHS Boards , principally Lanarkshire.
- Winter activity growth above available planned and agreed clinical capacity
- Potential necessity to deliver waiting list activity above current agreed plan.
- Accounting treatment of specific site disposals.

With regard to 2003/04, work continues with the Divisions to highlight the impact of the pressures in 2002/03 and an update on the 2003/04 forecast position should be available in February.

South Glasgow

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	155,046	155,046	0
Expenditure	155,274	155,236	38
Surplus	(228)	(190)	38
Interest	228	228	0
Surplus/(Deficit)	0	38	38

The December accounts show a £38k surplus against the break-even target, an improvement of £144k on the November position.

Pay

At the end of December there was an underspend of £430k in relation to salaries. There were no major areas that could be attributed to the increase in December.

There were under spends in Nursing (£168k), Paramedical (£202k) and Admin (£66k) which were offset by an overspend of £69k within Medical salaries. In medical salaries the main causes of this out-turn were junior doctor mid-point funding and consultants discretionary points. Staff vacancies accounted for the majority of the underspend within the other areas.

Non-Pay

The non-pay overspend at the end of December at £391k which was significantly reduced due to the allocation of budget from finance reserves in respect of the month 6 divisional performance meetings.

In Clinical Support there were small overspends in Anaesthetics, Pharmacy and Radiology that accounted for the month 9 out-turn. In month 9, additional budgets were allocated to both labs and medical records in relation to the discussions at the divisional performance meeting.

The Medical Services division showed an overall underspend following the allocation of winter funds from finance reserves.

In Regional Services, the two main area continued to be interventional radiology costs albeit reduced following the allocations from reserves in respect of both interventional radiology and also ENT theatre costs.

As with previous months the out-turn in Surgical Division primarily due to pharmacy supplies was spread over a number of directorates although Orthopaedics continues to be significantly underspent and this is reducing the impact of the pressures being shown within other directorates. In respect of Westmarc there is still an overspend within supplies but the directorate are currently reviewing this position with a view to achieving break-even within supplies at the year-end.

The Operational Support division is at break-even following the allocation of budgets in respect of the additional laundry costs.

As for Corporate divisions there continued to be almost a break-even out-turn although Human Resources costs in relation to advertising and recruitment remained well over budget.

Financial Forecast

The out-turn at the end of December is after taking account of the following assumptions: -

1. Due to a change in protocol in relation to the prescribing of Beta Interferon additional costs for NHS Greater Glasgow patients of £150k (£250k FYE) have been included on the basis that additional funds will be provided by the board.

2. There is a current income shortfall of £620k in respect of funding for Neurosciences by West of Scotland/Forth Valley Health Boards. The month 9 out-turn has assumed that this shortfall will be covered by additional income from health boards.

3. At the end of December expenditure of £405k (£600k FYE) in respect of WLI has been incurred which to date no income has been received. It has been assumed at month 9 that this expenditure will be matched by additional income. It should also be noted that an additional WLI with BUPA at a cost £650k is also assumed as being funded by NHS Greater Glasgow.

The Trust continues to forecast a break-even position for the full year, again based on the above assumptions.

If the above assumptions are not achieved there is a potential year-end out-turn of approximately £1.8m.

Yorkhill Trust

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	68,677	68,487	(190)
Expenditure	68,676	68,838	(162)
Surplus	1	(351)	(352)
Interest	55	55	0
Surplus/(Deficit)	56	(296)	(352)

The December accounts show a £296k deficit against the break-even target, an improvement of £288k on the November position.

Income

During the month NHS Glasgow has settled all income under discussion. The only remaining forecast shortfall remains with NHS Lanarkshire (£95k for year, £71k at nine months). Cost per case activity remains under plan but is still expected to break-even at the year-end.

Expenditure

An overspend of £162k is reported after nine months, an improvement of £195k during December. This is a direct result of non-recurring funding received from NHS Glasgow for ongoing high legal fees and purchase of ventilators. The remaining overspending relates to pharmacy pressures (cancer drugs and instrumentation) although in year these have been partially offset by high staff turnover and recruitment difficulties.

Financial Forecast

A Cost Improvement Programme (CIP) of £942k has been agreed with all budget holders and is reflected in the period's result.

A funding shortfall exists with NHS Lanarkshire of £100k for the year. This covers agreed investments and inflationary uplifts, which have been secured from all other members of the West of Scotland Consortium.

The Trust will endeavour to manage in year all other service pressures and the Cost Improvement Plan. Other major risks include: -

Ventilation service – nursing costs within hospital, community and further equipment purchases. A bid had been made to Glasgow City Council to jointly fund the community service. If successful this would considerably reduce the risk in this area.

Increasing cancer drugs and single use instrumentation costs out-stripping staff vacancy gains.

Ongoing junior doctors banding pressures (although NHS Glasgow has allocated non-recurring funding for £200k to offset back-dated payments expected to be made in the Jan-March period).

A shortfall in the high cost/low volume West of Scotland Consortium fund of over £200k exists for commercial blood products. This will likely need £500k by the year-end. The high costs/low volume arrangements allow for the Board's to share this risk in the pre-agreed proportion – but a risk will pass to the Trust should any of the members be unable to honour this agreement.

The Trust continues to forecast break-even for the full year and is working with the Board to achieve this.

Primary Care Trust

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	376,202	376,070	(132)
Expenditure	376,427	378,260	(1,833)
Surplus	(225)	(2,190)	(1,965)
Interest	225	357	132
Surplus/(Deficit)	0	(1,833)	(1,833)

Overview for Period to December 2002

The Trust reported a deficit of £1.833m for the period to December 2002, a deterioration of £350k on the November position. This reflects the current trend of primary care prescribing expenditure which continues to run at a level some 3% above budget.

Projected annual prescribing costs, based on the first seven months figures, remain at some £4.5m above budget. In percentage terms, this represents a 13% growth in expenditure relative to 2001/02, and compares with an anticipated 10% growth rate, the assumed growth factor on which the Trust's 2002/03 budget was based. The growth in expenditure experienced within Greater Glasgow is consistent with that experienced by most other health boards, and is reflected in an overall pan-Scotland growth rate of around 13%.

Opportunities for cost containment and virement have been investigated and it is anticipated that in total these will be capable of absorbing up to £2m of the additional prescribing expenditure, leaving a residual forecast deficit of around £2.5m. It is planned to cover this in 2002/03 by utilising £2.5m of retained surplus brought forward from prior years. This is consistent with Scottish Executive guidance and will enable the Trust to remain within its overall revenue resource limit at 31st March 2003.

It should be noted that the sources of funds which have been used to achieve financial balance in 2002/03 are largely non-recurrent in nature. The Trust has developed and is implementing an action plan aimed at addressing those areas of prescribing practice where it is believed there is scope for achieving appropriate reductions in expenditure. In addition, other opportunities for cost containment and virement of resources in 2003/04, both of a recurrent and non-recurrent nature, are being investigated.

The requirement for additional funding for primary care prescribing is also being explored with NHS Greater Glasgow in the context of agreeing an appropriate allocation of funds within Greater Glasgow's financial framework for 2003/04.

Divisional Review

(i) Mental Health Division

Overall expenditure for the period to December was within plan. Expenditure on acute in-patient services, particularly nursing costs, continued to exceed plan, however this was balanced by a reduced level of expenditure, due to timing factors, in other areas of the Division's budget.

Containing expenditure within plan remains an ongoing challenge for the Divisional Management team, who are currently evaluating options for addressing areas of cost pressure within the Divisional budget, recognising that the timing factors which contributed towards maintaining financial balance in 2002/03 may not recur in 2003/04.

(ii) Learning Disabilities

Expenditure within the Learning Disabilities Division continued to run in line with plan during the period to December.

Current projections of annual expenditure indicate that service costs should remain within planned levels for the remainder of the year.

(iii) Primary Care

Expenditure trends within the Primary Care Division are overshadowed by the out-turn of prescribing expenditure. Excluding expenditure on prescribing, other areas of Divisional expenditure remain within budget.

The key factor explaining the growth in prescribing expenditure experienced in 2002/03 is the significant growth in prescribing of those drug categories associated with chronic disease management (CDM) within primary care, in particular heart disease. Increased prescribing of lipid lowering drugs (reducing cholesterol levels), anti-hypertensives (lowering blood pressure) and anti-platelets (thinning the blood) together accounted for over 80% of the additional expenditure incurred in 2002/03. This growth in prescribing activity, insofar as it is consistent with established guidelines and protocols supporting CDM, represents a demonstrable improvement in the quality of prescribing carried out within primary care. It is envisaged that the requirement for additional resource to support these prescribing growth areas will feature in discussions with NHS Greater Glasgow to agree an appropriate allocation of funds for primary care prescribing for 2003/04.

As explained above, the Trust has developed and is now in the process of implementing an action plan aimed at achieving appropriate cost improvements in specific areas of prescribing practice. Through a range of focussed interventions, it is forecast that annual cost savings of £1.4m can be achieved to offset, in part, the rising trend in prescribing expenditure. The impact of these interventions will be closely monitored by the Trust's Medicine Resource Management Group, with progress reported to future TMT meetings.

Financial Forecast

(i) The Trust is forecasting a deficit of £2.5m on its income and expenditure account for 2002/03. It plans to offset this with £2.5m of retained surplus brought forward from prior years, in order to remain within its revenue resource limit at 31st March 2003, resulting in a break even out-turn.

(ii) The Trust is forecasting that it will remain within its capital resource limit for 2002/03.