EMBARGOED UNTIL DATE OF MEETING

Greater Glasgow NHS Board

Board Meeting

19 March 2003 **Board Paper No. 03/21**

Director of Finance

2002/03 Financial Monitoring Report for ten months ended January

Recommendation:

The Board is asked to:

- note the results reported for the ten months ended 31 January 2003.

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 ten months ended 31 January 2003.

Trusts are reporting a £1.019m deficit against the break-even target for the ten months to January 2003.

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 January 2002 [All figures £'000]				
	Allocation	**Interest**	**Total Income**	**Expenditure**	**Variance**
North	385,523	640	386,163	386,228	(65)
South	175,895	262	176,157	176,155	2
Yorkhill	77,935	74	78,009	77,020	989
Primary Care	418,014	412	418,426	420,443	(2,017)
Sub total					(1,091)
Health Promotion/Other Services			95,577	94,999	(189)
Board Headquarters			7,388	7,577	702
Reserves			29,196	28,494	1,302
TOTALS			1,190,916	1,190,916	0

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

North Glasgow

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	383,864	385,523	1,659
Expenditure	384,294	386,228	(1,934)
Surplus	(430)	(705)	(275)
Interest	375	640	265
Surplus/(Deficit)	(55)	(65)	(10)

The financial position for the ten months to January, 2003 shows a deficit of £65k against the financial breakeven target. This represents a modest favourable movement of £9k in comparison with the December 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 £6.7m (Full Year Forecast £8m) of non recurring relief has been accumulated throughout the divisions over the ten month period to January.

Income shows a substantial favourable variance primarily due to a high level of cost per case activity. This centres mainly on Defibrillators and BMT-MUDs on behalf of the West of Scotland Health Boards.

The Pay Budget shows a favourable cumulative variance of £434k. This, however, represents a decrease of £122k in comparison with the December position. The increased expenditure level was expected, however, due to activity on the funded Waiting List Initiatives. 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). In comparison with the equivalent period for last year Pharmacy expenditure overall has increased by approximately 13%.

Other significant contributors to the cumulative Non Pay overspend include Equipment Repairs, Advertising/Recruitment, Telephones and Printing and Stationery.

Capital Expenditure

Total capital expenditure for the period to January 2003 is £5,876k.

Expenditure on ‘pool schemes’ (e.g. ERCPB and Linaccs Phase 1), amounts to £2,685k in the ten month period. Occupancy of the new ERCPB building has now commenced and should be finalised over the next few months.

The remaining spend of £3,191k has been incurred on various IT schemes (£1,084k), medical equipment (£2,059k) and minor works (£48k).

GGNHSB continues to review slippage and subsequently carry forward requirements in conjunction with Trusts. The likelihood is that the Trust will have a total capital allocation of approximately £20m for this financial year.

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 HB in each of the last three months and updates will continue to be provided 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 we believe that 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 HB's , principally Lanarkshire.
- Winter activity growth above available planned and agreed clinical capacity.
- Potential necessity to deliver waiting list activity above current agreed plan.

Discussions are currently progressing with GGNHSB on the financial allocation for 2003/04.

South Glasgow

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	175,925	175,895	(30)
Expenditure	176,187	176,155	32
Surplus	(262)	(260)	2
Interest	262	262	0
Surplus/(Deficit)	0	2	2

The January accounts show a £2k surplus against the break-even target.

Pay

There is an increase in the underspend of some £220k in month 10 which derives the YTD underspend of £650k. The main drivers within this are:

1. Medical Services Division - £183k movement. Within Month 9 all funding relating to winter pressures was incorporated within non-pays. This was corrected and Month 10 saw £128k being transferred from Non Pay to Pays and hence accounts for the majority of the increase. Further to this, the trend of underspend within A&E and DME have continued to produce underspends due to vacancies.

2. Regional Services Division – Within ENT/OMF the underspend has increased by £71k to £74k as at month 10. This is manly due to medical pays underspends and the payment of an outstanding debt for an SPR. Around £16k is attributable to nursing underspend in total for the division.

3. Within Corporate Services, the Human Resources Directorate has had budget amended from Pay to Non Pay in respect of development funding which was clearly ring fenced against Advertising costs. These additional funds were input against pays pressures that were raised at the same time and a correction has been made in the month 10 reports. The total Pay overspend for the directorate is £71k and this will be subject to detailed review with the department in the coming weeks.

In total, the breakdown of the £650k underspend by pays category is broadly: - Medical 37k under, Nursing £301k under, Paramedical £220k under and A&C £92k under. Staff vacancies remain the prime reason for the current financial position within pays and, as stated last month, there remains some issues with Medical Salaries relating to discretionary points and junior doctors' mid point funding which will be analysed as part of the current budget build process.

Non-Pay

There is an increase to the overspend of £227k in month 10, which derives the YTD overspend of £618k. The main areas of impact are: -

1. Medical Services Division - £239k adverse movement. Part of this is attributable to the transfer to pays informed above as £183k. Further to this it has been recognised that the original amount input for winter monies was higher than the values accounted for by the DGM. Hence this factor resulted in a return to finance schemes of £70k, which identifies the remainder of the movement.

2. Regional Services – The overspend has increased by £67k in total for the division, which is predominantly attributable to expenditure within Radiography supplies and radioactive chemicals.

In general the variances being experienced are within a similar trend to that reported in previous months. In short these included overspends within Clinical Support directorates amounting to £132k, an overspend in Medical Services of £185k which is predominantly drugs related, the Regional Services overspend of £122k, being mainly due to Interventional Radiography and a General Surgery overspend of £59k.

Within the corporate functions it remains the case that overspends continue for Advertising £76k and Removal Expenses at £29k.

Cost of Capital [Capital Charges]

The projected Cost of Capital has increased in the month to reflect the revised year end forecast. Capital Charges have not only increased during the year as a result of funded developments such as Oral Maxillo Facial, but also as a result of the increased capital allocations received from NHS Greater Glasgow and the high levels of indexation to be applied to building values. As a result of such items, capital charges currently exceed the corresponding level of funding received.

The figures included within this month's return assume that additional funding will be available to cover the increased costs. This additional funding will require to be generated both internally within the Trust, and through additional funding received from NHS Greater Glasgow. The Trust's Director of Finance has raised this matter with the Director of Finance at NHS Greater Glasgow.

Summary

The Trust continues to forecast break-even for the year and incorporates the following assumptions:

1. Due to a change in protocol in relation to the prescribing of Beta Interferon additional costs for NHSGG patients (£250,000 FYE) have been included on the basis that additional funds will be provided by the board.

2. There is a current income shortfall of £563,000 in respect of funding for Neurosciences by West of Scotland/Forth Valley Health boards. The month 10 out-turn has assumed that this shortfall will be covered by additional income from Health Boards.

3. The Trust is committing to a FYE spend of £600,000 in respect of WLI and although the income has not yet been received it can be reported that this funding has been agreed to be released to the Trust in a forthcoming contract amendment.

4. It has been agreed that NHS patients sent to BUPA Manchester at a cost of £700k will be funded in full.

5. Funding can be identified to cover the increased level of Capital Charges being incurred by the Trust.

Yorkhill Trust

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	78,141	77,935	(206)
Expenditure	76,992	77,020	(28)
Surplus	1.149	915	(234)
Interest	83	74	(9)
Surplus/(Deficit)	1,232	989	(243)

The January accounts show a £989k surplus against the break-even target.

Income

The Trust is forecasting an income shortfall of £0.095m (£0.079m after 10 months) due to our SLA with NHS Lanarkshire. This covers service investments and inflationary uplifts, which have been secured from all the other members of the West of Scotland Paediatric Consortium. Cost per case activity remains under plan but it is hoped that break-even can be achieved at the year-end.

Expenditure

An over spend of £28k is reported after ten months an improvement of £134k during January. This is the result of non-recurring funding received from NHS Glasgow for junior doctors banding issues. Pharmacy costs remain a pressure although the impact in year has been largely offset by high staff turnover and recruitment difficulties.

Forecast Out-Turn 2002/2003

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

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

Payment of the 'low pay' arrangements, backdated to December 2002 will result in increased costs of £70k this year. No funding has been secured to cover this cost.

Notification of a recent 'permanent injury benefit' award to an ex-employee may result in a capitalised provision being required of £250k. No funding is in place to offset this.

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-year.

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

A shortfall in the high cost/low volume West of Scotland Consortium fund of over £0.500m is expected by the year end. This arrangement allows for the Boards to share this risk in pre-agreed proportions. Risk will pass to the Trust however, 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	418,176	418,014	(162)
Expenditure	418,426	420,443	(2,017)
Surplus	(250)	(2,429)	(2,179)
Interest	250	412	162
Surplus/(Deficit)	0	(2,017)	(2,017)

The January accounts show a £2.017m deficit against the break-even target.

Overview for Period to January 2003

The Trust reported a deficit of £2.017m for the period to January 2003. 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 eight 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 NHSGG 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 January 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 January.

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 NHSGG 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.

Capital Expenditure

NHS GG has now approved the funding for all planned capital schemes in 2002/03. NHS GG has also confirmed that the level of capital to revenue virement applied for in respect of these schemes has been approved by the Scottish Executive.

Approximately 50% of planned capital expenditure has been incurred with the majority of remaining expenditure related to the Sandy Road Clinic and East City Centre Resource Centre schemes.

Opening Balances

In order to comply with new SHED financial regulations, monies due from Health Boards and monies paid in advance from Health Boards must be excluded from debtors and creditors respectively and reallocated to/from the General Fund. These adjustments have been processed in January removing approximately £25m from debtors and £3m from creditors (and the corresponding reduction in interest payable and resources available - £1.3m).

Financial Forecast

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.

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