Greater Glasgow NHS Board

Board Meeting

15 April 2003 **Board Paper No. 03/29**

Director of Finance

2002/03 Financial Monitoring Report for eleven months ended February

Recommendation:

The Board is asked to:

- note the results reported for the eleven months ended 28 February 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 eleven months ended 28 February 2003.

Trusts are reporting a £2.557m deficit against the break-even target for the eleven months to February 2003.

It is still forecast that a break-even position will be achieved for the full year. The reported overspend at the Primary Care Trust will be funded from brought forward reserves.

	Year to Date February 2003 [All figures £'000]				
	Allocation	**Interest**	**Total Income**	**Expenditure**	**Variance**
North	429,044	709	429,753	429,831	(78)
South	196,538	291	196,829	196,980	(151)
Yorkhill	84,983	74	85,057	85,137	(80)
Primary Care	460,755	481	461,236	463,484	(2,248)
Sub total					(2,557)
Health Promotion/Other Services			102,195	101,512	683
Board Headquarters			7,369	8,342	(973)
Reserves			8,135	5,288	2,847
TOTALS			1,290,574	1,290,574	0

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

North Glasgow

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	427,336	429,044	1,708
Expenditure	427,804	429,831	(2,027)
Surplus	(468)	(787)	(319)
Interest	413	709	296
Surplus/(Deficit)	(55)	(78)	(23)

The February accounts show a deficit of £78k against the financial break-even target. This represents a modest adverse movement of £13k in comparison with the January position.

The Trust continues to be dependent on non recurring relief to offset new cost pressures (i.e. not funded within the Financial Plan). It is estimated that approximately £7.4m (Full Year Forecast £8m) of non recurring relief has been accumulated throughout the divisions over the eleven month period to February.

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 NHS Boards. Note, discussions continue with GGNHSB on the level of funding to be allocated in respect of HIV costs and Cancer Development Drugs.

The Pay Budget shows a favourable cumulative variance of £332k. This, however, represents a decrease of £102k in comparison with the January position, i.e. an adverse movement in the month. 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% as against a budgeted level of 9%.

Other significant contributors to the cumulative Non Pay overspend include Equipment Repairs, Advertising/Recruitment, Telephones, Printing & Stationery, Laundry Charges and Labs & CSSD Supplies.

Capital Expenditure

Total capital expenditure for the period to February 2003 is £7,739k.

Expenditure on ‘pool schemes’ (e.g. ERCPB and Linaccs Phase 1), amounts to £2,828k in the eleven month period. Occupancy of the new ERCPB building has now commenced and should be finalised over the next few months.

The remaining spend of £4,911k has been incurred on various IT schemes (£1,711k), medical equipment (£3,145k) and minor works (£55k).

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 break-even position for the 2002/03 financial year. It should be emphasised, however, that this forecast is dependent 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 GGNHSB in each of the last four months and we will continue to update them 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) 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.

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

South Glasgow

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	196,659	196,538	(121)
Expenditure	196,894	196,980	(86)
Surplus	(235)	(442)	(207)
Interest	235	291	56
Surplus/(Deficit)	0	(151)	(151)

Overview

The Trust for the period to 28 February 2003, month 11, is reporting a deficit of £151k against the break-even target.

Pay

The underspend on pay for the eleven months to February was £670k. The increase in the underspend from month 10 does not reflect previous trend due to an accrual being actioned in month, relating to the back dated element of the link grade claim within radiology, which amounts to approximately £122k.

In total the breakdown of the £670k underspend by pays category is broadly: - Medical (16k) Over, Nursing £296k under, Paramedical/P&T £284k under and A&C £106k under. Staff vacancies remain the prime factor 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 are being addressed as part of the budget build process for 2003/04.

Non Pay

There is an increase to the overspend of £138k in month 11 which derives the YTD overspend of £756k. The main areas of impact are: -

1. Clinical Support Division - £164k adverse movement. The movement can be identified as Anaesthetics £98k and Radiology £66k. Within Anaesthetics the movement mainly relates to charges for Spinal Cord Stimulators £44k and Xigris £32k, with the latter being progressed with GGNHSB to secure income as part of a CAM next month, as an in year hit of some £60k is anticipated. The movement within Radiology is part due to the ongoing spend within films, however the trend of expenditure for X-Ray drugs, radioactive Chemicals & Isotopes and other radiology supplies has accelerated greatly in month 11 and is therefore currently under detailed review. The movement also includes a significant hit in month of £14k relating to repairs and replacements.

2. Corporate - £55k adverse movement shown within the finance directorate is twofold and relates to an increase from anticipated spend relating to compensation payments where the provision held was less than the actual settlement value and an overspend within the Legal fees lines relating to CLO charges.

3. General Surgery – Westmarc is reporting a sharp increase in spend within non-pays amounting to an additional overspend in month 11 of £122k. This area was targeted to break even, however recent information would show that this now appears unlikely. A meeting with the dept /division and finance has been arranged to progress this matter.

4. Conversely, the trust is phasing in budget above expenditure within finance schemes pending the formal release of income from NHSGG relating to radiology link grade and Xigris which effectively has a favourable impact of around £154k for the in month position and is an offset to the items mentioned above.

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 £295k, an overspend in Medical Services of £82k, which is predominantly drugs related and incorporates anticipated income of £90k relating to Hep C and Infliximab, the Regional Services overspend of £136k, being mainly due to Interventional Radiography and a General Surgery overspend of £200k, which incorporates the Westmarc swing.

Within the corporate functions it remains the case that overspends continue for Advertising and Removal Expenses, which are the predominant reasons for the £124k overspend in HR, and in Finance the aforementioned compensation payments and legal fees are currently impacting to the overspend by approximately £55k.

Cost of Capital [Capital Charges]

The Capital Charge figure as been adjusted to reflect the following:

An increase that results from the requirement to include assets under construction within the calculation of the cost of the capital figure. As this change results from a change in national accounting policy the additional cost of £401k has been fully funded from the SEHD.

Agreement has been reached with GGNHSB to cancel the existing loan payable by the Trust. Subject to final audit agreement, and in line with SEHD guidance, it is proposed that this will be treated as an opening balance adjustment. As such, the Trust's cost of capital shall increase as a result of its higher asset base and the budget for capital costs has been increased to reflect this. Conversely, the cost of capital of GGNHSB shall reduce as a result of the loan adjustment and consequently a resource transfer is expected to occur from GGNHSB to the Trust to cover the increased costs.

Summary

The position at Month 11, February 2003, incorporates the following assumptions as previously reported:

1. Due to a change in protocol in relation to the prescribing of Beta Interferon, additional costs for NHSGG patients (£260k 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 NHS Boards. The month 11 out-turn has assumed that this shortfall will be covered by additional income from NHS Boards.

3. The Trust is committing to a FYE spend of £600k 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 approx £680k will be funded in full.

5. The Trust continues to discuss with NHSGG partial cover of the capital charges shortfall.

6. The month 11 position does not incorporate the in year effect of the low pay agreement as it is assumed that this is a central provision held by GGNHSB.

Yorkhill Trust

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	85,145	84,983	(162)
Expenditure	85,241	85,137	104
Surplus	(96)	(154)	(58)
Interest	96	74	(22)
Surplus/(Deficit)	0	(80)	(80)

The February accounts show a £80k deficit against the break-even target.

Income

The Trust is forecasting a year end income shortfall of £57k (£48k after 11 months) due to our SLA with NHS Lanarkshire. This covers 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 under-spending of £104k is reported after eleven months. This is an improvement of £132k during February. This is the result of non-recurring income received from Highland and other Health Boards for additional activity undertaken this year. Pharmacy costs remain a pressure although the impact in year has been 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 being achieved.

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.

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 £500k 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.

Primary Care Trust

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	460,748	460,755	7
Expenditure	461,023	463,484	(2,461)
Surplus	(275)	(2,729)	(2,454)
Interest	275	481	206
Surplus/(Deficit)	0	(2,248)	(2,248)

Overview for Period to February 2003

The Trust reported a deficit of £2.248M for the period to February 2003. This was attributable to the current trend of primary care prescribing expenditure, which continues to run at a level of approximately 3% above budget.

Projected annual prescribing costs, based on the first nine months figures, have eased slightly relative to the position reported in January 2003 and are now forecast to outturn at between £3.5M and £4M above budget, compared with a previous projection of £4.5M above budget.

It is anticipated that £1M - £1.5M of this additional expenditure will be absorbed through a combination of cost containment and virement measures with the residual deficit of around £2.5M covered by utilising retained surplus brought forward from prior years. This will enable the Trust to remain within its overall revenue resource limit at 31st March 2003.

Looking forward, the Trust continues to work with NHSGG to develop a financial plan for 2003/04. From discussions to date, it is clear that the scope for allocation of new resources to match the current level of increase in primary care prescribing expenditure will be limited. Accordingly, it will be necessary to identify additional measures, over and above those currently being implemented within the Trust's prescribing action plan, in an effort to contain primary care prescribing expenditure within available funds in 2003/04. The sheer magnitude of this task means that it will almost certainly feature as the key risk area affecting the Trust's ability to manage within its revenue resource limit in 2003/04.

Divisional Review

(i) Mental Health Division

Overall expenditure for the year to date remains just within plan.

The Divisional Management Team continue to direct their attention at areas of cost pressure within the divisional budget, in particular in-patient nursing costs within the South sector, with a view to maintaining a balanced financial position into 2003/04.

(ii) Learning Disabilities

Overall expenditure continued to run in line with plan.

Looking forward, the Trust continues to work with its partner agencies, in particular Glasgow City Council, to establish a joint financial plan for service provision in 2003/04. From the Trust's perspective, there are a small number of outstanding issues where service funding levels remain to be clarified. These will be discussed further in forthcoming weeks with a view to firming up the financial plan for 2003/04.

(iii) Primary Care

Expenditure trends within the Primary Care Division are overshadowed by the outturn of prescribing expenditure. Other areas of the Division's expenditure remain within budget.

As highlighted above, there has been some easing of the trend of projected annual costs for prescribing expenditure. The reasons for this are currently being investigated. An initial review of high level indicators suggests that there may have been some slowing down of the current rate of prescription volume growth, although further information/analysis is required to confirm whether this is simply a temporary blip or indicative of a longer term change in the expenditure trend. The timing of the change is in advance of implementation of the Trust's prescribing action plan, which was implemented during the final quarter of 2002, and so this can be ruled out as a potential contributory factor to the reduction in the annual cost projection which is reported at this stage.

As explained in previous months, 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.

Sourcing the additional resources necessary to fund the growth in prescribing in these areas in 2002/03 and further anticipated growth in 2003/04 will be a stiff challenge. In order to address this, it will be necessary for the Division, in addition to seeking to extend the scope of the Trust's current prescribing action plan, to review the full spectrum of its current service budgets to identify alternative opportunities for releasing internal resources to contribute towards funding this particular area of expenditure growth.

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 65% 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.

Conclusion

(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.

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