

**REVENUE PLANNING 2003\04 AND FINANCIAL STRATEGY 2003\04**

**1. Context**

- 1.1 The Board has been progressing consideration of this year's allocations and the financial strategy through a series of seminar discussions in recent months. Discussions of the update of the Local Health Plan and of its financial implications have formed part of the Board Seminars held on 2<sup>nd</sup> March, 15<sup>th</sup> April, 6<sup>th</sup> May and 9<sup>th</sup> June, 2003. In addition to these internal discussions, three of the Board's Directors met in late April with the Health Department's Director of Finance in order to get as much clarity as possible about the Board's revenue allocation position in future years. The Board is now in a position to finalise allocations and a financial plan for 2003\04.
- 1.2 In taking forward this update of the Local Health Plan, there have been 3 key objectives: to continue the major task involving a 2-year approach begun last year to return the acute sector Trusts to recurrent balance; to maintain the commitments to invest across all care programmes set out in the existing health plan; and to position the Board to build up, from 2004\05, the revenue which is required to fund implementation of the Board's Acute Services Plan, the Local Forensic Psychiatric Unit and other key strategies.
- 1.3 As the detailed paper from the Director of Finance describes, the Board's allocation position for 2003\04 has moved adversely, reflecting the impact within the Arbuthnott formula of the ongoing reduction in the Greater Glasgow resident population. As the loss of revenue sustained this year is not recovered in subsequent years, it is necessary to overhaul the financial plan for future years: the reasons for this are amplified below. The effect of the loss of revenue in this financial year also has to be addressed. The conclusion from the discussions at the seminars is that the Board should deploy the totality of the resources – both recurrent and non-recurrent - available to it in 2003\04 in order to deliver the key objectives set out in paragraph 1.2.
- 1.4 The overall objective of the in-year financial strategy is to ensure break-even. Given the challenges inherent in Trust Startpoints, it will be essential that the monthly financial performance is closely monitored. The timing of the review of the financial plan for future years needs, therefore, to be carefully co-ordinated with any issues that may arise from the emerging in-year position.

**2. Finalising Revenue Startpoint Allocations and a Financial Plan for 2003\04**

- 2.1 The Director of Finance's more detailed accompanying paper sets out proposals for including Startpoint Allocations for this financial year and then addresses the process, and potential financial consequences, of finalising decisions on planned investments within each of the expenditure programmes.

**EMBARGOED UNTIL DATE OF MEETING.**

- 2.2 There already has been significant time and effort spent in overhauling the investments which it was initially hoped the revenue plan would be able to support in 2003\04. First, a joint review of expenditure commitments with each of the major programmes was undertaken by the Directors and senior staff within the Board's Planning and Finance Teams.
- 2.3 More recently, the Chief Executive, together with the Director of Finance and the Director of Planning and Community Care and the Assistant Directors of Planning spent half a day in overhauling, line by line, the opportunities for either re-phasing or deleting elements of investment originally planned for this year. The outcome of those exercises has brought about a reduction in planned expenditure across the four major programmes (Mental Health, Child and Maternal Health, Acute and Primary Care and Community Services) of almost £7 million in 2003\04. This is a significant reduction and, while most of the expenditure commitments have simply been re-phased at this stage, there already have been some difficult choices made in arriving at this point.
- 2.4 The outcome of the discussion at our recent seminar was that the recommendation to the NHS Board should ask the Board to agree to deploy the totality of its resources available in 2003\04, both recurrent and non-recurrent, in order to take forward the key objectives set out in paragraph 1.2 above, but to make clear that we need now to overhaul the entire financial plan and cannot thus commit to expenditure levels set out against future years' programmes. The outcome of the overall review will determine the shape of the plan in future years.

3. The reasons why a review of the financial plan is necessary

- 3.1 During the life of the current financial plan, a number of important changes have occurred. In terms of resource allocation, the Board's position under the Arbutnott Formula has moved from that of a 'gaining' Board in the 3 previous financial years to a 'losing' Board in the current financial year. Secondly, the cost of pay and pay-related inflation experienced over the past 2 years has run ahead of the levels within the current financial framework albeit that the costs of non-pay inflation have been lower than expected, but this only modestly offsets the pressure on salaries budgets. Thirdly, the actual impact of the cost of the Junior Doctors' "New Deal" agreement currently stands at a cost which is several millions of pounds higher than the early years' estimates assessed.
- 3.2 Fourthly, after a period of 3 years around the turn of the millennium during which inflation on GP prescribing was managed below a growth figure of 10%, there is evidence across NHS Scotland now of growth of 12% - 13%, while levels of prescribing cost pressures obtain also within the acute sector, including those new products recommended either nationally or locally for introduction.

Finally, a re-statement during the last 3 years of national clinical and service priorities, including an increasingly sharpening focus on improvements in waiting times for treatment and diagnosis, requires a fresh appraisal of the medium term financial plan.

4. Taking Forward the Overall Review of the Financial Plan

- 4.1 At the NHS Board meeting on 20<sup>th</sup> May, 2003 the Board agreed as part of its arrangements in taking forward the White Paper "Partnership for Care" to establish a Performance and Resource Monitoring Group; key element of this Group's responsibility is to oversee the Board's revenue and capital planning processes and decision making. This overall review of the financial plan is an early priority for the Monitoring Group. In addition the major pieces of work on Junior Doctors' Hours (led by Tim Davison) and on Prescribing (led by Dr. Iain Wallace) both of which are significant cost drivers in the current plan will also be driven forward over the coming months.

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