Greater Glasgow NHS Board

Board Meeting

Tuesday 17 June 2003 **Board Paper No. 03/39c**

Director of Finance

2003/4 REVENUE STARTPOINTS

Recommendations:

The Board is asked to:

- **Note the complexities of the 2003/04 and beyond revenue position for NHS Greater Glasgow.**
- **Agree that for 2003/04 the Board should deploy the totality of the resources available to it in order to meet startpoint revenue allocations as set out in this report [Steps 1 – 3, Section I], and the reduced commitments on all programme proposals set out in Section F, mindful of the need to continue to validate ongoing investments in-year.**
- **Recognise the challenge in these startpoints and in the programme investments and agree that the Performance and Resources Monitoring Group monitors in-year performance rigorously to ensure that financial break-even for the year is achieved.**
- **Remit to the Performance and Resources Monitoring Group the task of overseeing the review of the entire financial plan for future years, with this work beginning in August, 2003.**

A INTRODUCTION

Progress with agreeing both startpoint allocations and new investment plans for 2003/04 has been complex, challenging and both nationally and locally protracted.

This paper, therefore, seeks to confirm:

- Inflation and related "unavoidable" uplifts to Trust baseline allocations, as previously set out in "first" and "second" cut discussion papers and summarised in the Chief Executive's papers of 15 April and 6 May 2003.

- The deployment of the totality of the resources both recurrent and non-recurrent available to the Board in 2003\04 to meet the key objectives described in the Chief Executive's covering paper.

- Risk management of the overall 2003/04 financial strategy.

B FINANCIAL CONTEXT

The 'First Cut' analysis, discussed by the Board on 4 March 2003, confirmed the new monies available to NHS Greater Glasgow in 2003/04 as £67.4m. This disappointingly differed from that expected by £11.1m as a result of:

- £7m – change in Arbuthnott reflecting reduction in population identified by the census, whereby NHS Greater Glasgow is no longer a "gaining" Board.

- £4.1m – no additional funding for increased National Insurance Contributions.

There remains, however, an expectation of "earmarked" monies to reflect specific National priorities, including:

	£m
Coronary Heart Disease	2.5
Modernisation Fund*	5.0

The first call on new monies in any year is to uplift existing budgets for the costs of inflation: significant detailed work has been undertaken to interpret requirements summarised as follows:

	£'000	**£'000**
2003/04 New Funding Available		67.4
Reduced by cost of inflation:		
– Pay @ 6% average	25.1	
– Supplies @ 2%	4.1	
– Non Trust Services	8.9	
– GP Prescribing @ 10% only	14.3	
		52.4
Funds remaining for investment		15.0

* Waiting Time targets will also be supported by access to Golden Jubilee Hospital and bids yet to be agreed by SEHD.

C PAY INFLATION

With the planned implementation of 'Agenda for Change', there is some uncertainty inherent in the calculation of the proposed 6% inflation uplift on pay. Details have been provided to Trusts of the assumptions made in respect of each staff group.

The Senior Medical Staff/Consultants New Contract has been costed @ 10.74% with effect from 1 April 2003. National negotiations are ongoing and any delay, with no back dating, will release non-recurring funds locally. It is difficult to predict precisely, but if the Consultants' Contract implementation is delayed and staff are awarded only the assumed average of 3.225% in 2003/04, this might reduce inflation requirements in year by (at most) £4m. These revised requirements have also been modelled on a Trust-by-Trust basis.

D PRIORITISING INVESTMENT DECISIONS

In agreeing 2002/03 Trust startpoints this time last year, the Board gave priority to "stabilising" the Acute Trusts before April 2004 so that the affordability of the Acute Services Reconfiguration would not be compromised: this in effect meant that the Acute programme funding requirements were committed for the next 2 years, leaving a recurrent balance to be met as a "first call" in 2003/04.

The full year effect of the schedule of service developments agreed in 2002/03 to achieve breakeven in the Acute Trusts, North and South has been agreed with Trusts. The analysis has been revised to reflect:

- Funding not fully taken up in year, particularly nurse staffing, where recruitment and retention remain issues.

- New pressures, including:
  - Waiting time targets, estimated @ £4m per annum.
  - Beta interferon, up to £1.2m per annum.
  - Junior doctor rota compliance, estimated at £3m and, hopefully, non recurrent as rationalisation proposals are implemented.

The overall net effect, is a requirement of £22.46m funding for the North and South Acute Trusts, over and above the inflation uplift indicated in the previous section, with a further £445,000 commitment to Yorkhill.

Even at this figure, all Glasgow Trusts have consistently argued that substantial in year, non recurrent, cost savings (roughly equivalent to a 2-3% efficiency saving) will be required to achieve breakeven.

Most significant of these risk factors affecting all Trusts are:

- New drug approvals and new oncology treatments implemented in 2002/03 are not included in 2003/04 uplifts (the only exception is beta interferon, which is proposed to be "capped" at the current number of patients treated).

  Such new approvals require additional funds of at least £2m.

- West of Scotland service developments; specifically, failure to agree cross-subsidisation proposals on neurosciences, will require £700,000 in new funds for Glasgow and National Paediatric Intensive Care agreements will again cost Glasgow £300,000. Both these issues being over and above familiar risks associated with West of Scotland income.

- Decontamination, Clean Hospitals, single use instruments and related initiatives have added significantly to costs in each of the Trusts.

- Increases in capital charges have resulted from a combination of revaluations, changes in the definition of "assets under construction" and the increase in capital funds available.

Consequently, the overall position becomes:

		£m	£m
2003/04 Funds remaining for investment			15.0
Add Modernisation Fund identified against Wait Time targets			5.0
			20.0
Confirm Acute Trust Startpoints:			
	North and South		(22.46)
	Yorkhill		(0.45)
	Over-commitment		(2.91)
Recognise additional risk factors?			
• New drugs		2.00	
• West of Scotland		1.00	
		3.00	
	Over-commitment		(5.91)

E USING THE TOTALITY OF THE BOARD'S RESOURCES: THE AVAILABILITY OF NON RECURRENT FUNDING

It remains a key objective for the Board to continue to invest across all care programmes in 2003\04.

What "room" the Board has to "manoeuvre" in year is determined by:

- Whether any funding to the Acute Programmes can be further reduced.
- The extent to which non acute programmes can be rephased/delayed/reprioritised.
- What non recurrent monies are available to offset any deficit recurrent budget proposed for 2003/04.
- How Glasgow's overall Arbuthnott position affects the risk associated with covering recurrent commitments with non recurrent funds in year.

F OTHER PROGRAMME PROPOSALS

The Chief Executive's paper describes the processes of review undertaken across all of the care programmes and the extent to which it has proved possible to re-phase commitments. From that review, service developments for the non-acute programmes which are commitments in 2003\04 can be summarised as follows:

		£m
Mental Health	@	3.018
Child and Maternal Health	@	4.728
Primary Care and Community* Services	@	9.404
		17.150

* Reduces, if:

– £2m for asylum seekers and interpreter costs can be switched to PMS funding.	(2.00)	
– £2m for GP Prescribing over 10% uplift not required, propose retain as contingency.	(2.00)	
		13.150

G NON RECURRENT FUNDING AVAILABLE

Reference has already been made to the possibility that the Consultant Medical Staff New Contract start date may slip. A preliminary estimate suggests that a 12 month delay could release £4m funds non recurrently.

Beyond this, non recurrent funding will have to come from capital funds, including receipts for sales of surplus accommodation. Again, such a strategy is reliant on:

- SEHD agreement that exceptionally an underpinning capital to revenue transfer can be agreed beyond the 20% cap likely to be enforced in 2003/04.
- Receipts becoming available: the best guess estimate is approximately £14m sales in 2003/04 from the sale of Canniesburn Hospital.
- Further capital slippage on the existing programme.

Overall, non recurrent funding that could be made available in 2003/04 is in the range of £16 – 20m, but arguably, such underwriting of the revenue position with capital can only be used exceptionally once.

H ARBUTHNOTT POSITION

Discussions with SEHD gave some indication of prospects beyond 2003/04: however, planning assumptions need to be interpreted with some caution as many uncertainties remain.

A pragmatic view of 2004/05 suggests that, after meeting commitments to the ASR, but with no further investment in the Acute Programme, overall the Board will remain with a recurrent deficit starting at £10m. This figure would be added to by any deficit brought forward from 2003/04. So, two difficult years, 2003/04 and 2004/05, before any prospect of a budget in recurring balance.

I SUMMARY OF 2003/04 REVENUE POSITION

The following 8 point "step through" the issues is therefore recommended:

		£m	£m
①	Against the overall new monies available in 2003/04 of:		67.40
	Confirm inflation uplift:		
	• Pay @ 6% average	25.10	
	• Supplies @ 2%	4.10	
	• Other	8.90	
	• GP Prescribing @ 10%	14.30	
			52.40
	Balance available		15.00
②	Assume Modernisation Funds released by SEHD		5.00
	Balance available		20.00
③	Confirm Acute Trust startpoints as per 2002/03 agreements:		
	North and South		(22.46)
	Yorkhill		(0.45)
	Recognise additional risk factors:		
	New Drugs		(2.00)
	West of Scotland		(1.00)
	Over-commitment		(5.91)
④	Make financial provision (assuming no relief as itemised above is forthcoming) required for commitments shown for:		
		£m	
	Mental Health @	3.018	
	Child & Maternal Heath @	4.728	
	Primary Care and Community Services @	9.404	
		17.150	
	Thereby increasing over-commitment to:		(23.06)
⑤	Confirm availability of non-recurring funds in 2003/04 as		
	Delay in Consultants' Contract	4.00	
	Land sales	14.00	
	Other slippage on capital schemes	5.00	
			23.00
	Balance available, assume breakeven		(0.06)
⑥	Finalise CHD and Stroke requirements against funding available, which may release non-recurring in year to max.		

	£m	£m

£1m.

⑦ Finalise funding requirements to achieve 2003/04 Wait Time targets.

⑧ Monitor Trusts' in-year financial position at Month 3 (June) and Month 6 (September) to reassess likelihood of achieving breakeven at year end.

J RISK ASSESSMENT

Clearly, the next two years will be challenging, requiring difficult judgements to be made between continuing to match the pace of planning proposals against shortfall in funding expectations.

The change in the overall Arbuthnott position has significant short-term implications: recurrent funding is less than previously assumed. As a result of decisions made last year, 2002/03, there is limited non-recurrent flexibility to call on and certainly insufficient to cover any level of deficit budget beyond 2003/04.

The recommendation to the Board is, therefore, to manage risk by:

- Monitoring closely the in-year financial performance to ensure that financial break-even is achieved in 2003\04.
- Embarking without delay in the fundamental review of the financial plan for future years.
- Exploring the possibility with the SEHD of releasing non-recurrent funding from other sources, in both 2003/04 and beyond.
- Considering, within the context of modernising services, how efficiency can be improved through cost reducing service rationalisation proposals.