

## Greater Glasgow NHS Board

### Board Meeting

Board Paper No. 02/80

Director of Finance

## 2002/03 Financial Monitoring Report for six months ended September

### Recommendation:

The Board is asked to:

- note the results reported for the first six months ended 30 September 2002.

### Summary

The financial performance for the six months ended 30 September 2002 has been reported by each Trust and summarised as follows:

#### TRUST FINANCIAL MONITORING

#### APRIL - SEPTEMBER 2002

	<u>North</u> £000	<u>South</u> £000	<u>Yorkhill</u> £000	<u>PCT</u> £000	<u>Total</u>
INCOME	226,239	102,496	44,641	247,889	621,265
EXPENDITURE	226,701	102,789	44,943	248,092	622,524
SURPLUS BEFORE INTEREST	(462)	(293)	(302)	(203)	(1,259)
INTEREST (NET)	355	127	37	203	722
SURPLUS/(DEFICIT)	(107)	(166)	(265)	0	(538)
FORECAST	(65)	0	37	0	(28)

Trusts are reporting a £537k deficit against the break-even target for the six months to September, against a planned deficit of £28k. Given the degree of risk inherent in Trust startpoint revenue allocations, the results for the first six months remain encouraging.

The overall forecast for the year-end remains break-even, but there are issues emerging that will be more fully analysed in the Mid Year Review, due to be presented to the December 2002 meeting of the Board.

The commitment of Trusts to monitoring the overall balanced results through a series of individual and specific initiatives is acknowledged.

## 2002/03 Financial Monitoring Report for six months ended September 2002

### Introduction

At its May 2002 meeting, the Board approved the 2002/3 Startpoint Revenue Allocations and thereby confirmed the distribution of new monies available to the Trusts and other relevant healthcare organisations.

Those new funds have now been added to Trusts' existing baseline allocations to produce the 2002/3 startpoint budgets against which their performance will be monitored in year. This report therefore:

- reports on performance against those baselines for the six months ended 30 September 2002.

In agreeing the allocation of new funds, the Board acknowledged the degree of risk inherent in Trust startpoint allocations. In this context, the results for the first six months are encouraging as all Trusts continue to forecast break-even by the year end. However, concern exists around:

- difficulties in agreeing uplifts to existing service contracts with some West of Scotland NHS Boards;
- the impact of increased spending on GP Prescribing on the Primary Care Trust's overall financial balance, and the resultant implications for next year and beyond;
- difficulties in delivering agreed waiting times targets within the funding available;
- associated difficulties arising from delayed discharges and uncertainty over in year funding available.

It remains the intention to present a more extended Mid Year Review to the December 2002 Board meeting. This timing allows strategy to be agreed in line with the SEHD's request for full and final year forecast out-turns to be submitted based on the November (Month 8) position.

This paper therefore updates the Board on some relevant emerging issues at each of the Trusts.

### Additional Funding Available

Additional funds have been allocated in year by the SEHD for specific initiatives as follows:

<u>Waiting Times Targets</u>	<b>£'000</b>	
Included in 2002/3 startpoints	2,700	Allocated to Trusts
Additional non-recurring	811	Allocated to Trusts
Additional bids and cases dealt with at National Wait Times Unit	tba	
 <u>Delayed Discharges/Winter Pressures</u>		<b>Allocated to Trusts for:</b>
Included in 2002/3 startpoints	3,800	Delayed Discharges
Additional non-recurring	230	Winter
Additional non-recurring	tba	Delayed discharges

Confirmation of the further tranches of non-recurring funding is awaited. This has led to some uncertainty in Trusts, particularly:

- South Trust has agreed cases to be undertaken by private sector in anticipation of further funding becoming available.
- North Trust is exploring proposals to help relieve "bed blocking", again in anticipation of additional funding.

The following paragraphs give fuller details of the overall position in each Trust:

<b>North Glasgow</b>	<b>BUDGET</b> £000	<b>ACTUAL</b> £000	<b>VARIANCE</b> £000
Income	226,214	226,239	25
Expenditure	226,504	226,701	(197)
Surplus	(290)	(462)	(172)
Interest	225	355	130
Surplus/(Deficit)	(65)	(107)	(42)

The financial position for the six-month period to September 2002 shows a net adverse variance of £42k from plan. The financial results are summarised as follows:

The September figures show a deficit of £107k against the financial breakeven target. This is reasonably consistent with the planned position for this stage in the financial year.

A range of new cost pressures (i.e. not funded within the Financial Plan) has been encountered throughout the divisions in the six-month period. The resultant increase to expenditure is approximately £2.5m. The Trust has been able to sustain this pressure entirely due to non-recurring relief accumulated over the period. This relief is primarily due to staff vacancies and slippage in projects such as MRI/Radiology and Linacs.

Income shows a modest surplus of £25k for the six-month period. A review of cost per case activity is currently underway to ensure appropriate invoicing to the respective NHS Boards.

The Pay Budget continues to show a favourable trend with the cumulative underspend now totalling £606k. As previously stated, this is primarily due to staff vacancies throughout the divisions. It should be emphasised that no provision has been made in the figures to cover potentially significant costs in respect of pay issues currently under review e.g. Admin & Clerical grading and Lab Harmonisation issues.

The main contributor to the overspend position on Non Pay continues to be Pharmacy Supplies with, in particular, relatively high expenditure levels recorded against Orthopaedics Supplies, Oncology Drugs and Laparoscopic Sundries. Other significant contributors to the overall Non Pay overspend include Equipment Repairs and Advertising/Recruitment costs.

Overall, the Trust continues to forecast break-even at the year end, albeit with considerable reliance on non-recurring savings to achieve that position.

## **South Glasgow**

	<b>BUDGET</b> £000	<b>ACTUAL</b> £000	<b>VARIANCE</b> £000
Income	102,496	102,496	0
Expenditure	<u>102,623</u>	<u>102,789</u>	<u>(166)</u>
Surplus	(127)	(293)	(166)
Interest	<u>127</u>	<u>127</u>	<u>0</u>
Surplus/(Deficit)	<u>0</u>	<u>(166)</u>	<u>(166)</u>

The financial position for the six-month period to September 2002 shows a deficit of £166K against the break-even target.

### **Pay**

At the end of September there was an over spend of £11k in relation to pay.

This was due to under spends in Nursing (£238k), Paramedical (£102k) and Admin (£19k) which was offset by an overspend of £370k within Medical salaries. In medical salaries, this was due to continued pressures in respect of junior doctors' mid-point funding, consultant discretionary points and also the cost of non-compliant junior doctors' rotas which accounted for £131k of the out-turn. In each of the areas under spent the main cause was the number of vacancies held within directorates.

### **Non-Pay**

In non-pay, the overspend at the end of September was £186k, this being less than previous months but as before caused mainly by pharmacy and paramedical supplies in the following divisions - Clinical Support, Medical Services, Regional Services and Surgical Services.

In Clinical Support the main directorates were laboratories and Anaesthetics. with reagents and instruments and sundries being the key areas.

The overspend in Medical Services is mainly in admin and pharmacy supplies, with both DME and General Medicine showing significant pressures in pharmacy supplies.

In Regional Services, the two main areas continued to be ENT theatre costs and the interventional radiology costs within neurosciences.

In line with previous months, the out-turn in Surgical Services was spread over a number of directorates, however, both General Surgery and Orthopaedics are significantly underspent.

### **Year End Forecast**

Although a year end break-even position is still being forecast at the end of September 2002, as in previous months, there are several potential risks which may affect this out-turn such as additional costs incurred in Waiting List Initiatives, potential non-recurring costs in relation to termination of Sodexo contract at Victoria Infirmary and the loss of income from Forth Valley in respect of Neurosciences at the Southern General.

**Yorkhill Trust**

	<b>BUDGET</b> £000	<b>ACTUAL</b> £000	<b>VARIANCE</b> £000
Income	44,740	44,641	(99)
Expenditure	<u>44,740</u>	<u>44,943</u>	<u>(203)</u>
Surplus	0	(302)	(302)
Interest	<u>37</u>	<u>37</u>	<u>0</u>
Surplus/(Deficit)	<u>37</u>	<u>(265)</u>	<u>(302)</u>

The financial position for the six-month period to September 2002 shows a deficit of £265K against the break-even position.

**Income**

Service Agreements have been concluded with nine Health Boards and the National Services Division. Discussions are continuing with the remaining three Boards. The year to date adverse variance is due to low ECMO activity.

**Expenditure**

An overspending of £203k is reported after six months. The pharmacy pressures are now £306k over budget, a deterioration of £57k in the month. This overspending includes high cancer costs, hormone and metabolic drugs and antibiotics. The instrumentation supplies are also materially overspent including surgeons gloves, needles/syringes, feeding tubes, oxygen masks and ventilator sundries. These areas are materially impacted by 'single use' guidelines. In addition ongoing high central legal fee costs result in an overspending of over £80k. The impact of these two main pressure areas have been offset by high staff turnover and recruitment difficulties throughout the Trust.

**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.

While it is not unusual for the Trust to report an adverse position at this stage of the financial year, the extent of the current position raises serious concern. Vigorous effort will be required to allow budget expenditure targets to be delivered and major reviews of practice area already underway.

The successful delivery of the agreed £942k Cost Improvement Programme and the management of cost pressures including pharmacy costs will provide a significant challenge in 2002/03. Any material shortfall in the funding received from the NHS Boards is likely therefore to prove to be beyond the scope of internal management control and may result in financial targets not being met. This risk is currently estimated at a maximum of £250k based on current offers received. This is not included in the result reported above.

All winter funding has now been confirmed and no financial risk is now expected in this area.

Non-recurring funding received in 2001/02 for single use instruments for tonsillectomies and adenoidectomies will shortly run out. No recurring funding has been secured to continue this practice resulting in a further risk of £50k.

Overall the Trust continues to forecast a break-even position for the year-end and progress with the initiatives outlined will be closely monitored.

## Primary Care Trust

	BUDGET £000	ACTUAL £000	VARIANCE £000
Income	247,942	247,889	(53)
Expenditure	248,092	248,092	0
Surplus	(150)	(203)	(53)
Interest	150	203	53
Surplus/(Deficit)	0	0	0

The Trust reported a breakeven for the period to September 2002.

## Divisional Review

### (i) Mental Health Division

Overall expenditure for the period to September was within plan. Expenditure on mainstream acute inpatient services continued to exceed plan, however this continued to be offset by a reduced level of expenditure, due to timing factors, in other areas of the Division's budget. Prescribing expenditure remained in line with plan for the year to date.

### (ii) Learning Disabilities

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

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

### (iii) Primary Care

Overall expenditure for the year to date is reported in line with plan, with additional expenditure on prescribing offset by a lower level of expenditure in other areas of the Division's budget, particularly community services. Reduced expenditure in these areas, which can be attributed for the most part to phasing, masked a significant increase in prescribing expenditure which could potentially affect the Trust's ability to achieve its financial targets in 2002/03.

The Trust has now received data on its prescribing expenditure for the first four months of the year. This confirmed that overall expenditure exceeded available funding by some £900K for the period to July. This is reflected in the results reported at the end of September.

Projected annual prescribing costs, based on the figures for the first four months, indicate an annual overspend of between £1m and £4.5m in 2002/03. In percentage terms, this equates to a growth in expenditure of between 11% and 14% relative to 2001/02, and compares with a forecast growth rate of 10%, the assumed growth rate on which the Trust's funding allocation for 2002/03 was based. This is consistent with the experience of most other health boards, indicating an overall pan-Scotland growth rate of around 13%.

Drug categories showing particularly high growth rates relative to expected levels include lipid lowering drugs, anti-hypertensive therapy, anti-platelet drugs and ulcer healing drugs. Current projections for these categories indicate an annual outturn significantly above the maximum of the range forecast at the beginning of the year.

The Trust's special task group is progressing the detailed review of specific areas of prescribing activity, covering those areas identified above together with levels of generic prescribing, nursing home prescribing and prescribing of Cox II drugs.

### **Forecast Out-turn**

The Trust's financial position remains unchanged from that reported last month. The projected outturn for primary care prescribing costs continues to present a significant risk that the Trust will be unable to achieve a breakeven position in terms of income and expenditure in 2002/03.

The special task group will identify the scope for offsetting some of this additional expenditure through appropriate cost improvement initiatives. In addition, opportunities for cost containment and virement across all divisional budgets are currently being explored, albeit the scope for virement is already limited through the release of £1m to bridge the funding gap associated with providing services to asylum seekers.

In the event of an outturn in prescribing costs at the lower end of the current range of projections, achievement of a breakeven position remains possible, based on an initial high level assessment of cost containment/virement opportunities.

In the event of an outturn within the middle to upper end of the current range of projections, achievement of a breakeven position would be unlikely, without the injection of additional resource or "utilisation" of retained surplus brought forward from prior years.

At this stage, no adjustment is made to the year end forecast position which remains breakeven. As previously reported, the requirement to revise this will be considered within the context of a comprehensive pan Glasgow mid year financial review which is currently underway.

### **Capital Expenditure**

Funding has now been approved for almost all planned schemes, albeit the start dates for many of these will be later than originally envisaged. As reported in October, the most significant change is the Goldenhill Resource Centre scheme. The preferred option is now a new build costing £1.3M, which will not commence until early 2003/04. Accordingly, the Trust has written to GGNHSB board, advising of the related slippage in expenditure and requesting allocation of the required level of funds in 2003/04.