Greater Glasgow NHS Board

BOARD

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Acting Director of Finance

MID YEAR REVIEW OF FINANCIAL PLAN FOR 2005/06

A OVERVIEW

A review of the Board's Financial Plan for 2005/06 has recently been completed. This confirms that it is reasonable for the Board to continue to forecast that it will manage its total expenditure within a total available resource envelope of £1.8 billion in 2005/06, and thereby remain within its revenue resource limit for 2005/06. A summary of the main elements of this review, including a review of key assumptions and risks is provided below:

B BACKGROUND

The Board approved its Annual Financial Plan in May 2005. At that stage an overall deficit of £10.4 million was projected. In addition, a potential cost pressure of up to £12.2 million relating to the implementation of the new GMS Contract was identified. The Annual Financial Plan has subsequently been updated to take account of the following:

i In July 2005, SEHD confirmed the level of funding which was being made available to Boards to cover expenditure on new GMS Contract implementation in 2005/06. This was higher than had been anticipated and enabled the Board to cover all additional planned expenditure in 2005/06.

ii Following discussion with SEHD, the Board agreed to revise its Annual Financial Plan to incorporate an additional cost improvement target of £10.4 million for 2005/06. Within the context of a total expenditure budget of £1.8 billion, this was accepted as a reasonable change to make to the Annual Financial Plan.

The outcome of the above is that the Board's Financial Plan for 2005/06 now shows a breakeven outturn for the year rather than a deficit of £10.4 million with monthly financial reporting against Plan during 2005/06 carried out on this basis.

The Mid Year Financial Review which has recently been completed and which is summarised below, assesses the Board's ability to achieve a breakeven outturn in 2005/06.

C SUMMARY OF MID YEAR REVIEW

The key points arising from the mid year review of the 2005/06 Financial Plan are summarised below:

i **Sources of Income**

The Board's updated forecast of total income for 2005/06 is £1.802 billion. This includes:

- The general funding uplift received from SEHD for 2005/06. This was in line with Plan.
- The funding uplift received for new GMS contract implementation in 2005/06. As explained above, this enabled the Board to cover all additional planned expenditure in 2005/06.
- A realistic assessment of additional income recoverable from other Health Boards related to specific areas of increased patient activity carried out in 2005/06 (ie Bone Marrow Transplant, Haemodialysis etc). This offsets additional treatment costs which are being incurred on behalf of other Boards and are reflected in Divisional expenditure outturns, particularly North Glasgow, in 2005/06.
- A revised assessment of the increase in income which can be anticipated from West of Scotland Boards in 2005/06 related to general cross boundary patient flow. The financial model which is used to calculate the values of West of Scotland cross boundary patient flows, has now been updated to incorporate 2004/05 patient activity levels. As a result, the net level of additional income attributable to NHS Greater Glasgow reduces from £6 million to £4.8 million. The annual income forecast has been updated to reflect this.
- Forecast profit from planned land sales of £7.5 million. Approximately £1 million has been received to date, with the balance of receipts anticipated through the Kirkintilloch Initiative (ie disposal of surplus land at the former Woodilee Hospital site) and/or disposal of surplus land at the former Belvidere Hospital site. A number of key milestones remain to be achieved by March 2006 for these receipts to crystallise, however, the Board's property advisors have confirmed that it continues to be reasonable to forecast that this level of receipt can be realised in 2005/06.
- Forecast additional funding of £1.5 million to offset additional costs currently being incurred in providing services to Asylum Seekers living within the Greater Glasgow area. It is disappointing that engagement with SEHD to secure additional funding for this patient group has thus far not succeeded in bearing fruit. The Board will continue to pursue this matter with SEHD, and so has retained £1.5 million within its income forecast for 2005/06, albeit the risk of non-achievement can be regarded as high.
- A realistic assessment of additional income recoverable from the National Waiting Times Unit (NWTU) and other Health Boards related to the provision of the necessary capacity to secure the achievement of National Waiting Times targets in 2005/06. The forecast level of additional income closely matches the forecast of additional expenditure which is anticipated, at this stage, to carry out the work required to secure achievement of the targets.

The Mid Year Review indicates that income reductions in the following areas are highly likely:

• General West of Scotland Cross Boundary Flow Income	£1.2 million
• Additional Funding for Asylum Seekers services	£1.5 million
	£2.7 million

As a result, the updated Financial Plan makes provision for these to be covered by releasing funds from prior year expenditure provisions which have now been revised to reflect more realistic expenditure estimates.

In addition, there remains some risk that income forecasts in the following areas may not be fully achieved:

- Land Sales £7.5 million
- General West of Scotland Cross Boundary Flow Income £4.8 million

At this stage, no provision is made within the Board's Financial Plan to cover the eventuality of a partial non-achievement of these income forecasts. This is deliberate and reflects the action plans currently in place to secure their achievement. Both areas will be maintained under close review during the remaining months of the financial year, with regular progress updates provided within routine financial monitoring reports.

ii **Expenditure**

The Board's updated forecast of total expenditure for 2005/06 is £1.802 million. This includes:

1 An Updated Forecast of Divisional Expenditure

Divisional expenditure, including expenditure on Family Health Services, accounts for almost 90% of total Board expenditure. Planned expenditure in 2005/06 is £1.592 billion. This includes provision for additional expenditure on pays inflation (excluding Agenda for Change implementation) supplies inflation, prescribing, capital charges, waiting times and other approved Local Health Plan service commitments currently underway. It also includes cost savings targets established as part of the Corporate Recovery planning process for those projects which are currently underway.

At the mid year point, Divisions are reporting overall expenditure to be some £1.3 million in excess of Plan, after netting off additional income associated with an increased volume of patient activity, and are forecasting an outturn some £2 million in excess of Plan for the full year. This can be attributed, in the main, to additional expenditure on energy and on nursing.

The increased spend on energy can be attributed to a significant increase in energy prices of approximately 40%. Understandably, Divisions have been unable to contain the full impact of this within energy budgets, with the result that expenditure is currently running some £2 – 3 million per annum above Plan.

The increased spend on nursing is still being investigated to clarify the main contributory factors and understand the scope for reversing the trend in the second half year. It is possible that the additional expenditure can, at least in part, be attributed to the requirement to cover for additional backfill associated with Agenda for Change implementation. When investigation of the increased spend is complete, this will determine whether it is appropriate, or necessary, to release some funding from the provision set aside for Agenda for Change implementation to mitigate these additional costs.

In summary, it is forecast that Divisional expenditure will outturn at no greater than £2 million in excess of Plan, with any excess being managed through compensating cost containment measures and/or by the release of funding provisions, if appropriate, as described above.

2 A Comprehensive Review of the Corporate Recovery Plan

A comprehensive review, encompassing all projects forecast to contribute cost savings to the Corporate Recovery Plan during 2005/06, has been carried out during September/October 2005. Almost every project is now fully underway with savings targets integrated into Divisional expenditure budgets, nevertheless, it is still useful to review project progress as this provides additional insight into Divisional performance in the year to date.

An "Executive Summary" is provided below:

PROJECT NUMBER	PROJECT DESCRIPTION	PLANNED SAVINGS £'000	UPDATED FORECAST SAVINGS £'000	SAVINGS +/(-)	COMMENTS
1	Reconfiguration of In-patient Beds (Derm/Gyn/ Vascular	225	225	-	In line with target.
2	Care of the Elderly: Various Projects, Service Re-engineering	747	747	-	In line with target.
3	Reconfiguration of In-patient Beds (Yorkhill)	185	185	-	In line with target.
4	Clinical Workforce Redesign – Review use of Junior Doctors Hours	1,550	1,550	-	In line with target.
5	Prescribing Savings				
	i Acute Therapeutic Interventions etc	202	192	(10)	In line with target.
	ii Primary Care Therapeutic Interventions etc	1,760	3,190	1,430	Reduced use of COX2 drugs following introduction of tighter prescribing protocols.
	iii Pan Glasgow Pharmacy Procurement	561	1,461	900	Improved volume discounts negotiated on oncology and antiviral drugs.
6.1	Shared Financial Services	1,000	583	(417)	Reduced savings level due to transitional costs.
6.4	Shared Communications Service	55	55	-	
9	General procurement, excluding drugs and estates	864	1,277	413	Procurement savings plan updated to incorporate wider product range.

PROJECT NUMBER	PROJECT DESCRIPTION	PLANNED SAVINGS £'000	UPDATED FORECAST SAVINGS £'000	SAVINGS +/(-)	COMMENTS
11.1	Estates Revaluation (2004/05)	825	825	-	In line with target.
11.2	Estates Best Practice	206	139	(67)	Savings forecast to be confirmed.
12	Local Savings Plan – North	(1,123)	(1,123)	-	In line with target
13	Local Savings Plan - South	345	345	-	In line with target.
19.2	Shared Operating Arrangements – Laboratories	650	200	(450)	Implementation timescale extended
19.2	Shared Catering Arrangements	650	650	-	In line with target.
20	Primary Care – Service Re-engineering Initiative(s)	450	300	(150)	Implementation timescale extended
21	Agency Nursing/Bank Nursing	1,000	Tbc	Tbc	Current trend(s) in nursing expenditure under review to confirm whether savings target can be achieved.
22	Clinical Waste Services Reconfiguration	-	71	71	New project.
23	Telecomms Contract Renegotiation	-	24	24	New project
	OVERALL TARGET	**10,152**	**10,896**	**744**	

The above summary conveys a number of important messages. These are:

i The overall level of forecast savings is slightly ahead of Plan.

ii There are a small number of projects which are generating significantly higher levels of cost savings than Plan. These additional savings are helping to offset increased expenditure in other areas of Divisional activities. This is evident from Divisional outturns for the first half year.

iii A small number of projects are achieving reduced level of savings within 2005/06 relative to Plan, due to delayed start dates or extended implementation timescales. These are still forecast to achieve targeted savings, albeit at a later date than planned.

iv The level of savings which is achievable by the agency/bank nursing project remains to be confirmed. The monitoring report, submitted by the project team at the mid year point, simply reflects the expenditure pattern experienced in the first 6 months, and forecasts non achievement of planned savings in 2005/06. This is reflected in the summary above. A review of nursing expenditure, currently underway, will confirm whether this trend can be reversed in the second half year and whether this project is likely to contribute savings in 2005/06.

3 An Updated Forecast of Other Expenditure, Including "Approved Funding to be Allocated".

All other areas of the Board's expenditure plan have been reviewed and updated to reflect a current forecast of annual outturn. This review has focussed on actual expenditure incurred to date, factoring in an assessment of likely spend on approved commitments in the second half year. At this stage, £73.46 million of approved funding remains to be committed. This broadly represents the total of funding commitments made within the 2004/05 and 2005/06 Local Health Plans where expenditure has yet to get fully underway. This includes provision for additional expenditure where there is little discretion on implementation dates (eg Agenda for Change back pay provision of £18m), provisions for additional expenditure on a range of expenditure commitments, both national and local, where implementation dates are not yet firmed up or are delayed relative to original expectations and there remains scope to manage expenditure levels in the current year, and provisions where actual expenditure is now forecast to be less than originally envisaged.

The Mid Year Review process has included an assessment of likely spend on all individual expenditure commitments of £250k and above within this category to arrive at a forecast of the level of funding which is likely to be "released", either through slippage or because it is no longer required, to contribute towards achieving financial balance in 2005/06. This has indicated that it is reasonable to anticipate that between £20 m - £25 m will be "released" in 2005/06. This enables the Board to cover the "planned" level of funding slippage of £11 million which has been incorporated into its Financial Plan from the outset of the financial year, and also cover its additional non recurring savings target of £10.4 million which was incorporated into the Annual Financial Plan at a later date.

A total amount of "slippage" of £21.4m, or 1.1% of total Board expenditure, can also be regarded as reasonable and realistic in the light of previous years experience.

D OTHER ISSUES

Implementation of the Acute Services Review programme, in particular entering into contracts for the establishment of two new ACADs, will demand that the values of the buildings which are currently used to provide services on the Stobhill and Victoria sites be adjusted to reflect a shorter remaining useful life. This can be expected to produce a significant increase in capital charge costs which will last for the duration of the residual lives of these buildings, due to the "impairment" of the buildings. SEHD typically set aside a funding provision each year within the National NHS funding plan aimed at covering additional costs of this nature, accordingly it is planned to bid for funding cover as/when this is required. It is anticipated that impairment will feature as an issue within the 2006/07 Financial Plan, therefore, it is planned to submit a bid for funding in tandem with submitting our annual capital charges return, which is due in November 2005. The purpose of commenting on this issue within the context of this Mid Year Review of the 2005/06 Financial Plan is twofold:

i There remains a risk, albeit assessed as low, that impairment will begin to impact in 2005/06 in advance of funding cover being put in place.

ii Advance warning is provided to PRG members of a new issue which will almost certainly feature in the context of the Auditors' review of the 2005/06 Accounts and the Board's Financial Plan for 2006/07.

E CONCLUSION

This Mid Year Review of the 2005/06 Financial Plan confirms that the Board continues to forecast the achievement of financial breakeven in 2005/06 and explains the key points and assumptions on which this conclusion is based.