

Greater Glasgow and Clyde NHS Board

Board

Tuesday 24 October 2006



Director of Finance

Board Paper No. 06/54

FINANCE REPORT TO 31 JULY 2006 AND CLYDE FINANCIAL PLAN – 2006-07

RECOMMENDATIONS:

The NHS Board is asked to:

1. to note the Finance Monitoring Report for the four month period to 31 July 2006;
2. to approve the adoption of the Financial Plan for Clyde for 2006/07 (page 8).

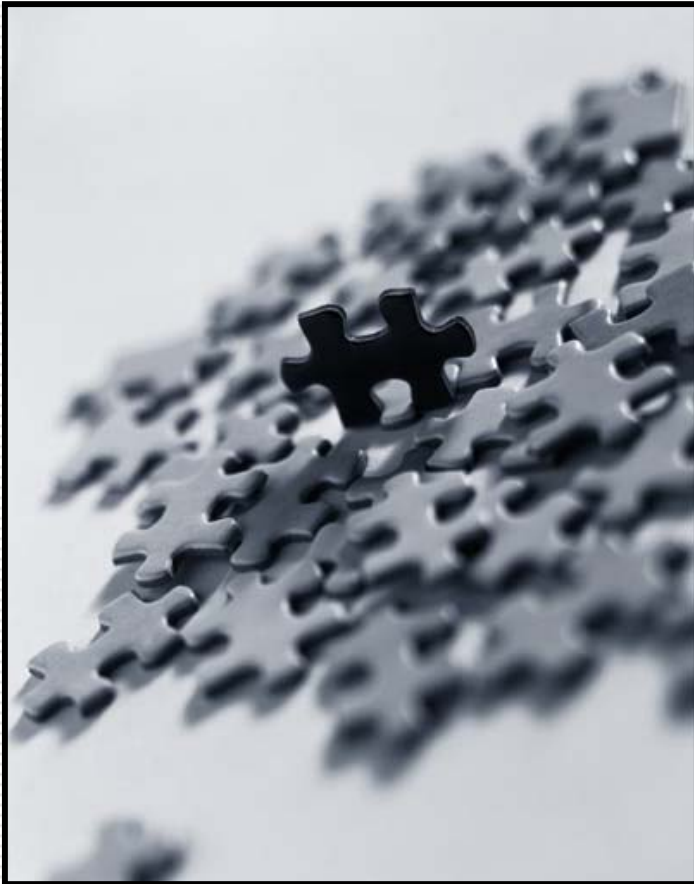
Background

The attached Finance Monitoring Report has been developed to mirror the new organisational structure and is designed to provide an overview of financial out-turn across of all the Board's main operating divisions and directorates.

The Financial Plan for Clyde for 2006/07 was discussed in draft form at the Performance Review Group on 4 July 2006, then approved by Performance Review Group on 19 September 2006 as being a reasonable basis for setting operational service budgets for 2006/07.

Douglas Griffin
Director of Finance
0141 201 4612

NHS Greater Glasgow & Clyde



**Summary
Finance
Report for
the 4 month
period to
31 July 2006**

Introduction

The financial monitoring report which follows has been developed to mirror the new organisational structure which was introduced with NHSGG&C during the latter part of 2005/06. It is designed to provide an overview of financial outturn across all the Board's main operating Divisions and Directorates, replacing the summary analysis which was provided during the transitional period.

The new financial monitoring report comprises the following:

- 1) General overview, including key figures and key comments.
- 2) Overall income and expenditure summary.
- 3) Summary of Acute Services expenditure.
- 4) Summary of CHCP/CHP expenditure.
- 5) Summary of expenditure within other NHS partnerships.
- 6) Overview of "Clyde" financial outturn.
- 7) Overview of capital expenditure outturn.
- 8) Glossary of terms.

The overview of Clyde financial outturn is a "supplementary" report, which has been prepared by extracting the "Clyde" elements from each of the different Divisional and Directorate reports to form a consolidated picture of outturn for this geographical area of the Board's activities. This will continue to be provided for an initial period of 3 years and will assist with tracking progress in resolving the recurrent financial gap of around £28M which currently exists between funding and expenditure within the "Clyde" area of the Board's operations.

The summary of CHCP/CHP expenditure will be further adapted during the year to incorporate a "memo" report of CHCP expenditure for those services managed by CHCP's which sit within Local Authority Service budgets. This will enable a picture of CHCP expenditure outturn across all directly managed services, both NHS and Local Authorities, to be provided.

Key Figures and Comments

	Annual Budget £m	YTD Budget £m	YTD Actual £m	YTD Variance £m
Income	2,311.2	732.0	732.7	0.7
Expenditure	2,311.2	732.0	732.7	(0.7)
Surplus / (Deficit)	0.0	0.0	0.0	0.0
Capital Expenditure	143.3	13.6	13.6	0.0

The outturn for the period to July 2006 shows overall expenditure closely in line with available funding, confirming that the Board continues to manage expenditure levels in line with budget.

Expenditure on acute services was £0.9M (0.2%) above budget for the year to date. Sustaining this position through to the year end will be a stiff challenge for the Divisional Management Team.

Key risks to be managed include:

- (i) The potential for energy prices to rise again this winter, pushing expenditure levels above available funds.
- (ii) The potential for expenditure levels associated with the achievement of waiting times targets in 2006/07, particularly the achievement of targeted waiting times for those patients with ASC codes, to exceed available funds. Initial cost estimates prepared by Divisional Management indicate that a significant level of additional investment will be required during 2006/07 and 2007/08 to secure the achievement of targeted waiting times for patients with ASC codes by December 2007. Much of this additional work and related investment will be of a non-recurring nature. During the next 2/3 months, cost estimates will be firmed up and potential funding sources investigated to confirm available funding. The scale of investment required dictates that income from landsales is likely to feature as the primary source of additional funding.

Expenditure on NHS partnerships was also closely in line with budget, with minor overspends and underspends offsetting to produce an overall position of financial breakeven.

Expenditure on primary care prescribing, historically an area of risk in terms of cost management was in line with expectations at this early stage of the year. When 6 months actual spend data becomes available in November, it will be possible to estimate a firm projection of full year costs.

The financial outturn for the "Clyde" area of the Board's activities was also closely in line with expectations. This means that the "Clyde" area continued to operate with an expenditure budget of some £28M in excess of recurrent available funds. Work has now commenced on the development of a cost savings plan aimed at addressing this funding gap with a scheduled completion date of December 2006/January 2007.

In the meantime, the process of engagement with SEHD continues to identify how the necessary level of additional funding required to bridge the remaining gap between funding and expenditure will be sourced in 2006/07. Previous discussions with SEHD colleagues had identified a residual funding risk of between £4.9M and £7.4M in 2006/07. Since then, a small number of additional funding issues have crystallised which the Board intends to raise with SEHD. These include an additional cost pressure of around £1.5M associated with GMS contract implementation (see page 8 for full details), and the additional costs associated with securing the achievement of targeted waiting times for "Clyde" patients on an ongoing basis.

Income & Expenditure Report

Income Resources	Annual Budget £m	YTD Budget £m	YTD Actual £m	YTD Variance £m
SEHD Income	1,912.6	612.1	612.1	0.0
Other Health Boards	208.1	69.3	69.3	0.0
National Services Division (NSD)	16.2	5.4	5.4	0.0
Additional Cost of Teaching (ACT)	18.6	6.2	6.2	0.0
NHS Education	53.9	18.0	18.0	0.0
Other Income	101.8	21.0	21.7	0.7
Total Income	2,311.2	732.0	732.7	0.7
Expenditure	Annual Budget £m	YTD Budget £m	YTD Actual £m	YTD Variance £m
Acute	1,247.5	414.0	414.9	(0.9)
CHCPs/CHPs	653.2	212.0	212.0	(0.0)
Other NHS Partnerships	133.4	43.9	43.9	(0.0)
Corporate Departments	26.0	8.6	8.3	0.3
Resource Transfer	113.1	36.7	36.8	(0.1)
Other Healthcare Providers	48.9	16.1	16.4	(0.3)
UNPACS	2.2	0.7	0.4	0.3
Approved Funding for Expenditure Commitments not yet underway	86.9	0.0	0.0	0.0
Total Expenditure	2,311.2	732.0	732.7	(0.7)
Surplus / (Deficit) for the Period	0.0	(0.0)	0.0	0.0

- ❑ At 31 July 2006 NHS Greater Glasgow and Clyde is reporting a financial position close to breakeven.
- ❑ At this stage service agreements with other Health Boards remain to be finalised. Annual budgets are based on prior year agreed values together with agreed inflationary uplifts and provisions for agreed service developments. Accordingly, annual income budgets can be regarded as achievable.
- ❑ The exercise to update the West of Scotland Cross Boundary Flow model for 2005/2006 patient activity, is currently under way. The output of this is planned to be available in October/November and will confirm whether the assumed level of income is realistic.
- ❑ Overall expenditure levels are also running close to budget with a small level of additional expenditure on Acute Services offset by reduced expenditure in other areas.

Acute Services

Directorate	Annual Budget £m	YTD Budget £m	YTD Actual £m	YTD Variance £m
Surgery & Anaesthetics	178.5	60.4	61.2	(0.8)
Emergency Care & Medical	129.2	43.6	44.0	(0.4)
Rehabilitation & Assessment	83.1	29.0	29.4	(0.5)
Diagnostics Directorate	118.2	39.4	39.5	(0.1)
Oral Health	12.5	4.3	4.3	(0.0)
Regional Services	110.2	38.5	38.8	(0.3)
Women & Childrens Services	107.7	36.6	37.0	(0.3)
Facilities Directorate	99.0	34.7	34.7	(0.0)
Capital Charges	55.1	18.3	18.3	0.0
Acute Divisional Services	58.7	19.6	19.6	0.0
Approved Funding for Expenditure Commitments not yet underway	40.6	7.0	5.2	1.8
Greater Glasgow Acute Services	992.9	331.4	332.1	(0.7)
Clyde Acute Services	254.6	82.6	82.8	(0.2)
Total Acute Services	1247.5	414.0	414.9	(0.9)

- At 31 July 2006 Acute Services are reporting additional expenditure relative to budget of £0.9m.
- This arises mainly within the Surgery and Anaesthetics, Rehabilitation & Assessment and Emergency Care and Medical Directorates. Much of this can be attributed to the timing of expenditure on drugs, dressings and instruments and is covered by approved funding which will be made available to Directorates in due course. (e.g. Surgery & Anaesthetics, Emergency or Medical).
- Additional expenditure being incurred within Rehabilitation & Assessment Directorate does not fall into this category as it is mainly pay related. The Directorate Management Team are currently reviewing proposals to contain expenditure within budget for the remainder of the year.
- Overall expenditure within Clyde Acute Services is running within £0.2m of budget at this stage of the year.

CHCPs and CHPs - NHS Budgets

Service	Initial Approved Budget £000	Virement £000	Supplementary Approvals £000	Revised Annual Budget £000	YTD Budget Total £000	YTD Actual Total £000	Variance YTD £000
East Glasgow CHCP	96.5			96.5	31.7	31.6	0.1
North Glasgow CHCP	57.3			57.3	18.9	18.9	0.0
South West Glasgow CHCP	57.9			57.9	18.9	18.9	0.0
South East Glasgow CHCP	61.9			61.9	20.0	20.1	(0.1)
West Glasgow CHCP	90.6			90.6	29.4	29.4	0.0
Total Glasgow CHCPs	364.2	0.0	0.0	364.2	118.9	118.9	0.0
East Renfrewshire CHCP	35.0			35.0	10.6	10.6	0.0
East Dunbartonshire CHP	41.0			41.0	13.4	13.4	0.0
South Lanarkshire CHP	26.2			26.2	8.6	8.6	0.0
North Lanarkshire CHP	6.9			6.9	2.2	2.2	0.0
West Dunbartonshire CHP	54.0			54.0	17.3	17.0	0.3
Inverclyde CHP	42.8			42.8	13.7	13.8	(0.1)
Renfrewshire CHP	83.2			83.2	27.3	27.5	(0.2)
Total CHPs/CHCPs	653.3	0.0	0.0	653.3	212.0	212.0	0.0

- ❑ Expenditure levels within CHCPs and CHPs are overall in a breakeven position at 31 July 2006. In addition, individual partnerships are all reporting expenditure levels close to breakeven.
- ❑ The columns for virement and supplementary approvals are consistent with the agreed format which will be used to report both NHS and Local Authority expenditure against budget over the course of the year. As the year progresses changes to initial approved budgets will be tracked through these columns.
- ❑ At this stage Local Authority budgets are still being finalised and so reported expenditure relates only to the NHS component of CHP budgets. Future reports will show both NHS and Local Authority expenditure separately and in a consolidated format.
- ❑ Within Greater Glasgow, expenditure on GMS contract is running at an annual level of £0.5m in excess of available funds. This is currently being reviewed to assess how this can be managed within the envelope of available funding in 2006/07. Comments on GMS expenditure and funding issues related to Clyde are included in a separate section covering the Clyde financial position on page 8.
- ❑ At this early stage of the year, Primary Care prescribing spend is running closely in line with expectations. It will be possible to get a firmer projection against annual outturn when details for first 6 months expenditure become available in early November.
- ❑ The financial implications in 2006/07 associated with implementing a new Pharmacy contract, remain to be fully understood. It was anticipated based on Scottish Executive Health Department projections that implementation would be cost neutral for the service and this remains our assumption in forecasting the year end outturn at this stage. Our experience of managing the implementation of the GMS Contract where costs exceeded initial expectations, suggests that we require to carefully monitor progress with the implementation of the new payment arrangements for Pharmacists. We will continue to monitor this closely as the year progresses.

Other NHS Partnerships

NHS Greater Glasgow & Clyde	Annual Budget £'000	YTD Budget £'000	YTD Actual £'000	YTD Variance £'000
Mental Health Services	99.4	32.7	32.8	(0.1)
Learning Disabilities Services	15.1	5.2	5.3	(0.1)
Addictions Services	14.6	4.6	4.5	0.1
Services for Homeless People	4.3	1.4	1.3	0.1
Total Partnerships	133.4	43.9	43.9	(0.0)

- Expenditure levels within other NHS Partnerships are running close to financial breakeven. At this stage the financial out-turn is not highlighting any cost pressures of significant proportions with compensating overspends and underspends levelling out to a breakeven position.

Clyde Financial Position

	Annual Budget £m	YTD Budget £m	YTD Actual £m	YTD Variance £m
Acute (including Facilities)	254.6	82.6	82.8	(0.2)
CHPs	197.3	62.6	62.7	(0.1)
Other NHS Partnerships	28.3	9.5	9.6	(0.1)
Corporate Functions and Approved Funding for Expenditure Commitments not yet underway	56.5	11.3	10.9	0.4
Total Clyde Expenditure	536.7	166.0	166.0	(0.0)

- ❑ At 31 July 2006 Clyde reported an overall breakeven position against budget.
- ❑ The total Clyde expenditure budget is set at a level £28m in excess of available recurring funding. The Board is at the early stages of developing a cost savings plan to address this gap on a recurring basis.
- ❑ Within Clyde expenditure on GMS Contract is running at £1.5m per annum in excess of available funds. This is attributable to the approach taken by Scottish Executive Health Department in making available additional funding for enhanced services provision in 2006/07. The additional funding has been targeted specifically at DES (Direct Enhanced Services) limiting any flexibility for this to be used to cover cost pressures associated with GMS Contract implementation in Clyde. This particular issue will be discussed further with Scottish Executive Health Department colleagues in addressing the residual funding gap which exists in 2006/07.
- ❑ The underlying level of additional expenditure on GMS relative to budget which is being offset by reduced expenditure in other areas at this stage of the year.
- ❑ **Clyde Financial Plan 2006/07** – A Financial Plan for Clyde for 2006/07 was approved by the Performance Review Group on 19 September 2006. A copy of the Financial Plan is enclosed at Appendix 1. This has been established following a process of review by Divisional/Directorate management teams, which confirmed that the Financial Plan is a reasonable basis for setting initial operational service budgets for 2006/07. Clearly, there remain a number of points to be ironed out in discussion with SEHD colleagues in terms of gap funding for 2006/07 and future years, however, there is a need to agree on a base financial position to enable service budgets to be established for Clyde operational services within a consolidated financial plan for NHSGG&C for 2006/07. Accordingly, it is now proposed to formally adopt the Financial Plan at Appendix 1 as the financial plan for the Clyde area of NHSGG&C for 2006/07.

Capital Expenditure Summary

	Annual Allocation £m	YTD Expenditure £m
Greater Glasgow	122.5	12.0
Clyde	20.7	1.6
Total	143.2	13.6

- After the first 4 months of the financial year total expenditure is £13.6m against an annual capital allocation of £143.2m.
- The Capital Planning Group is currently conducting a review of forecast expenditure against all capital schemes. This will be completed in early October and will enable the Board to firm up its capital funding requirements for 2006/07 identifying any schemes where funding will require to be carried forward to 2007/08.
- The Scottish Executive Health Department are also keen to have this information available as it is required to inform their own capital planning process across the NHS in Scotland for 2006/07 and beyond.

Glossary of Terms

Income:

- **SEHD Income** - This represents the funding allocation received directly from the SEHD for the treatment of Greater Glasgow & Clyde patients and is based on the Arbutnott formula. This can also be described as the Greater Glasgow & Clyde NHS Board's Revenue Resource Limit (RRL).
- **Income from other Scottish NHS Boards** - This represents income received from other Scottish Health Board areas for the treatment of their patients in Greater Glasgow & Clyde hospitals.
- **National Services Division** – This represents income received for national services provided by Greater Glasgow & Clyde hospitals.
- **Additional Cost of Teaching (ACT)** - This represents funding received from the SEHD to recognise the additional costs incurred by Boards that have responsibilities for training junior doctors.
- **NHS Education** - This represents funding received from NHS Education to cover the basic salary of doctors in training.
- **Other** - This includes all other Hospital and Community Services income sources and miscellaneous income.

Expenditure:

- **Acute** – This represents expenditure on the Acute Division clinical and management support services.
- **CHCPs/CHPs** – This represents expenditure on services provided within CHCPs including services provided by Primary Care practitioners.
- **Other NHS Partnerships** – This includes expenditure on Mental Health and Learning Disabilities inpatient services and also services for patients with addictions and for homeless persons.
- **Corporate Departments** – This represents expenditure on area wide and support services and other costs where budgets are not devolved to operational service areas, for example Payroll, Corporate Planning and Public Health.
- **Other NHS Providers** - This represents expenditure on services provided by hospitals within other Health Board areas for the treatment of Greater Glasgow & Clyde patients where service agreements are in place.
- **Unplanned Activity (UNPACS)** - This is a provision for expenditure on services provided by hospitals within other Health Board areas for the treatment of Greater Glasgow & Clyde patients, which are not embraced within service agreements.
- **Resource Transfer** - This represents funding transferred to local authorities under partnership arrangements for the provision of care in the community and related services.
- **Other Healthcare Providers** - This represents the cost of services provided by other healthcare providers to Greater Glasgow & Clyde patients, including Independent Hospices and HIV/AIDS & Drugs Misuse.
- **Approved Funding for Expenditure Commitments not yet Underway** - This represents the total of provisions made within the Board's Revenue Plan where expenditure estimates remain to be firmed up. It is anticipated that this will reduce over the remainder of the year and expenditure estimates are firmed up and funding is released to service providers.

NHS GREATER GLASGOW AND CLYDE

2006/07 FINANCIAL PLAN (CLYDE)



1 INTRODUCTION AND BACKGROUND

A financial plan has been prepared for 2006/07 for the Clyde area of the former NHS Argyll and Clyde. It is intended that this will be consolidated with the financial plan for NHS Greater Glasgow to form the financial plan for NHS Greater Glasgow and Clyde (NHSGG&C) for 2006/07. For 2006/07, and for a further two year period beyond 2006/07, the “Clyde” part of the consolidated financial plan will be set up as a discrete section within the overall plan for NHSGG&C, with outturn monitored accordingly. This will facilitate close comparison between actual outturn and the funding/expenditure assumptions on which the “Clyde” section of the plan was based, and will also inform future discussion with the Scottish Executive Health Department (SEHD) on the 2006/07 financial plan and the development of a financial plan for succeeding years beyond 2006/07.

The 2006/07 financial plan has been established following a series of meetings with colleagues from NHS Highland (NHSH) and the former NHS Argyll and Clyde (NHSAC). These meetings have provided NHSGG with a clear picture of 2005/06 outturn and related expenditure pressures, service development commitments and aspirations relevant to 2006/07, cost savings plans and other key assumptions including cost inflation which are pertinent to the 2006/07 financial year. This has enabled NHSGG to construct an updated financial plan for Clyde incorporating each of these factors and use this to engage with SEHD to reach agreement on the extent of the financial challenge faced by NHSGG&C with regard to the Clyde area in 2006/07. This is now acknowledged as being £19.6m. SEHD have already made arrangements to cover a significant proportion of this, leaving a residual amount of £4.9m - £7.4m to be covered by further SEHD funding support and/or early cost savings opportunities to be identified by local management during 2006/07.

The key elements of the 2006/07 Financial Plan and the main underlying assumptions are explained below:

2 OPENING FINANCIAL POSITION

The starting point for establishing the opening financial position going into 2006/07 was the 2005/06 financial plan. A high level overview of the 2005/06 financial plan, split into “Clyde” (now Greater Glasgow management responsibility) and “Argyll and Bute” (now Highland responsibility) is provided below. This shows funding and expenditure separated into “recurring” and “non recurring” elements and gives a comparison to the latest forecast outturn for 2005/06.

TABLE 1

	2005/06 Budget			2005/06 Outturn		
	Total £m	GG(C) £m	H(A&B) £m	Total £m	GG(C) £m	H(A&B) £m
Recurring						
Funding	642.2	494.5	147.7	644.1	496.0	148.1
Expenditure	670.5	522.9	147.6	672.6	526.1	146.5
	(28.3)	(28.4)	0.1	(28.5)	(30.1)	1.6
Non recurring						
Funding	31.1	24.3	6.8	29.9	23.3	6.6
Expenditure	25.8	20.9	4.9	24.2	19.9	4.3
	5.3	3.4	1.9	5.7	3.4	2.3
Net(Deficit)/Surplus	(23.0)	(25.0)	2.0	(22.8)	(26.7)	3.9
2004/05 Deficit Carry Forward				(59.5)		
SEHD Funding Support				82.3		
Net(Deficit)/Surplus				(0.0)		

Key points are:

- The overall outturn for 2005/06 was a deficit of £22.8m before SEHD funding support. This was closely in line with plan.
- Discounting non recurring funding and expenditure, the underlying recurring deficit in 2005/06 was £28.5m. this was also closely in line with plan.
- The recurrent deficit of £28.5m is struck after achieving recurring cost savings of £10m in 2005/06.
- The split of funding and expenditure between “Clyde” and “Argyll and Bute” is the outcome of a detailed exercise, involving staff from NHSGG, NHSH and the former NHSAC. The split of funding is largely governed by the Arbuthnott formula shares applicable to Greater Glasgow and Highland, with the split of expenditure budgets determined by an agreed split of management responsibility between NHSGG and NHSH. For a range of specific services, there is a notional recharge of costs for 2005/06 by NHSGG to NHSH, in anticipation of the establishment of service level agreements (SLAs) for 2006/07 and beyond. The assumptions and calculations used to determine the split of funding and expenditure are being independently audited by Deloitte and Touche, NHSGG and NHSH current internal auditors, who have yet to submit their final report. Deloitte and Touche, however, have confirmed informally at this stage, that the division of funding and expenditure budgets which have been used to develop this initial financial plan is appropriate and reasonable.
- The recurrent budget deficit relating to those services which will pass to the management responsibility of NHSGG&C with effect from 1 April 2006, is £28.4m. This, in a nutshell, represents the financial challenge which NHSGG&C is expected to address through the development of a cost savings plan during the course of 2006.
- A “bottom line” breakeven financial outturn was achieved after taking SEHD funding support of £82.3m into account to clear the accumulated NHSAC deficit of £22.8m for 2005/06 and £59.5m from prior years.

A further summary of the 2005/06 financial plan, is provided below at Table 2. This focuses on the “Clyde” section of the 2005/06 financial plan and shows the 2005/06 outturn compared to plan, split by major operational areas. This highlights some of the key financial issues, particularly existing cost pressures within the overall expenditure budgets. Details of specific areas of cost pressure are described within the notes which accompany the table..

TABLE 2

	2005/06 Budget £m	2005/06 Outturn £m	Notes
Recurring Funding			
SEHD	466.0	466.0	
Other	28.5	30.0	
	494.5	496.0	
Recurring Expenditure			
Clyde Acute	240.0	245.0	1
Renfrewshire CHP	77.6	76.5	2
East Renfrewshire CHCP	8.1	8.0	2
Inverclyde CHP	38.4	37.7	2
West Dunbarton CHP	25.5	25.0	2
Clyde Partnerships (MH, LD, Addictions)	32.7	33.2	3
Clyde Facilities	39.6	40.5	4
Clyde Corporate	123.6	123.5	5
Less SLA rechart to Highland	(62.6)	(63.3)	6
Total	522.9	526.1	
SEHD funding support			
Net(deficit)/Surplus	(28.4)	(30.1)	

Notes:

- 1 Review of Argyll and Clyde financial plan identified range of cost pressures associated with clinical staffing, which may be due, in part, to pressure to achieve waiting times targets. Pressure funding set aside in 2006/07 of £3.5m (see Table 3).
- 2 CHPs are underspent in 2005/06.
- 3 Clyde Partnerships currently have cost pressures within Medical and Nursing costs = pressure funding set aside in 2006/07 of £0.5m (see Table 3)
- 4 Cost pressures within utilities (ie energy costs) has resulted in an overspend in 2005/06. This was funded non recurrently in 2005/06. Additional funding of £900k is provided for in 2006/07 (see Table 4).
- 5 Clyde corporate services show a financial breakeven position, reflecting the implementation of a corporate reorganisation process during 2005/06, including voluntary redundancies scheme. This achieved its targeted saving in 2005/06 and will enable achievement of the corresponding cost savings target for 2006/07.
- 6 SLA recharges to NHS Highland – notional figures for 2005/06.

The joint review of the former NHSAC financial plan, which was conducted with colleagues from NHSH and the former NHSAC, identified a total of circa £4.0m of ongoing cost commitments which were being funded by applying non recurrent funding. These arose predominantly within Acute Services, £3.5m, with £0.5m related to Mental Health Services, and are highlighted in the notes above.

Table 3 establishes the opening financial position for 2006/07 by “converting” the 2005/06 “Clyde” expenditure budget into the revised organisational structure which will apply in managing “Clyde” services within the context of an expanded NHSGG&C.

TABLE 3: Greater Glasgow (Clyde): Reconfiguration of 2005/06 Budget to Revised Organisational Structure

	2005/06 Total Expenditure Budget	Acute Division	Facilities	Mental Health Partnership Learning Disability Partnership Addictions Partnership	Renfrewshire CHP	Inverclyde CHP	East Renfrewshire CHP	West Dunbartonshire CHP	Corporate (See Note 1)
	£'m	£'m	£m	£'m	£'m	£'m	£'m	£'m	£'m
Recurring Base Brought Forward	585.5	240.0	39.6	32.7	77.6	38.4	8.1	25.5	123.6
Add:									
Recurring commitments, funded non recurrently in 2005/06									
1 Renal at RAH/IRH and Glasgow	0.1	0.1							
2 Lomond Integrated Care Pilot	0.1	0.1							
3 Specific NHSGG service commitments (drugs costs) outwith XBF cost model	0.4	0.4							
4 Rheumatology repatriation	0.2	0.2							
5 Additional 2005/06 costs, covered by SLA with NHS Highland	0.7	0.7							
	587.0	241.5	39.6	32.7	77.6	38.4	8.1	25.5	123.6
Additional provision for identified cost pressures	4.0	3.5		0.5					
FYE of 2005/06 cost savings	(1.6)	-							(1.6)
Adjusted recurrent base position	589.4	245.0							
Less:									
Budgeted SLA recharge to NHS Highland	(62.6)	(37.3)	(1.2)						(24.1)
Additional SLA recharge to NHS Highland	(0.7)	(0.7)							
Opening expenditure budget 2006/07	526.1	207.0	38.4	33.2	77.6	38.4	8.1	25.5	97.9

Note 1:

“Corporate” includes the following budgets at this stage. Resource Transfer (£27.6m), Primary Care non cash limited spend, GOS, GDS, GPS (£30.9m), Capital Charges (£21.9m), Corporate HQ support (£4.4m), IM&T (£7.9m), Finance, including Highland and Islands Travel Scheme and Clinical Negligence (£4.6m), HR (£3.3m), Public Health/Health Promotion (£3.6m), Primary Care Prescribing Management (£2.1m), GMS OOH (£0.6m), Primary Care Practitioner Services (£0.9m), Planning (£1.4m), Occupational Health (£0.7m), Nurse Management (£0.7m) – **Total £110.6m**. “Corporate” also includes a number of expenditure provisions where budgets have yet to be allocated to Directorates – **Total £13.0m**. This represents expenditure commitments where expenditure is not yet underway, including a provision for £8.3m related to the estimated cost of Agenda for Change implementation up to 1 April 2006, and a limited number of service commitments which were approved prior to 1 April 2006. A list of those commitments exceeding £100k per annum is provided below.

	£'000
Drug Misuse Treatment Service	191
CHD/Stroke	114
CHD/Stroke Strategy	624
Funding to Tackle Alcohol Problems	561
Delayed Discharges	543
Waiting Times	1,189
Local Renal Services	579
Yorkhill Ventilated Patients	185
	3,986

Table 3 shows how the 2005/06 expenditure budget has been recast to reflect the new organisational structure. It also shows how expenditure budgets brought forward from 2005/06 have been updated to incorporate provision for:

- a the full year effect of cost savings plans implemented during 2005/06;
- b cost pressures as described within the notes following Table 2; and
- C FYE of recurrent commitments made in 2005/06.

The outcome of the above is an opening expenditure budget which takes account of identified cost pressures and other items in arriving at an opening financial position for “Clyde” at 1 April 2006.

3 PLANNED USE OF NEW REVENUE RESOURCES

This section contains an overview of the financial plan for 2006/07, showing how new resources both recurring and non recurring, which are available to NHSGG&C, might prospectively be allocated in respect of service provided within the Clyde area of NHSGG&C.

Table 4

2006/07 Financial Plan – Clyde

	RECURRING £M	NON RECURRING £M	TOTAL £M
<u>Opening Financial Position</u>			
Funding: Original 2005/06 Funding Budget	494.5		494.5
Funding: Additional 2005/06	1.5		1.5
	496.0		496.0
Adjusted Expenditure Budget	526.1		526.1
Deficit Brought Forward (A)	(30.1)		(30.1)
<u>Additional Revenue Resources</u>			
General Uplift	26.2		26.2
Additional NWTU funding	0.7	2.0	2.7
Profit on Land Sales		10.0	10.0
Other Health Boards/Other income (note 1)	1.2	0.5	1.7
Total Additional Resources (B)	28.1	12.5	40.6
<u>Additional Expenditure</u>			
<u>Inflation and Other Pressures</u>			
Pay Costs	10.0		10.0
General Supplies	0.8		0.8
Energy Costs	0.6	0.3	0.9
Capital Charges	0.8		0.8
Prescribing Growth (PC)	4.0		4.0
Prescribing Growth (Acute)	0.8		0.8
Impact of withdrawal of capital-revenue virement facility		1.0	1.0
Non Clyde Cost Inflation	2.7		2.7
	19.7	1.3	21.0
<u>New Service Commitments</u>			
Prior Year Commitments Brought Forward		4.8	4.8
Acute (Waiting Times – managed within Clyde Acute Division)	0.9	2.5	3.4
Acute (excluding waiting times)	2.6	0.1	2.7
Primary Care and Other		2.0	2.0
Mental Health		0.8	0.8
National, Regional and Other Boards etc	4.5		4.5
Forecast Commitments Carried Forward		(4.6)	(4.6)
Total	8.0	5.6	13.6
Cost Savings Target	(1.4)	(3.1)	(4.5)
Total Additional Expenditure (C)	26.3	3.8	30.1
Net (deficit)/surplus (A+B-C)	(28.3)	8.7	(19.6)

Note 1: Other Health Boards/Other Income

Includes £1.2m (recurring) and £0.5m (non recurring) funding, representing assumed increase in income from NHS Highland related to Argyll patients treated within “Clyde” using NWTU funding in 2006/07; an equivalent provision for expenditure is made within “new expenditure commitments”.

The financial plan for 2006/07 incorporates a realistic assessment of the likely level of cross charge to NHSH with regard to those services which will be provided under the terms of an SLA. This work will be substantially completed by end June 2006 and will confirm the reasonableness of initial provisions.

Key points and assumptions are:

- The financial plan provides for the estimated net additional costs associated with accelerating the achievement of a 18 week waiting time target from the original target date of December 2007 to December 2006, and includes the “Clyde” share of additional costs estimated by NHSGG&C for treating “Clyde” patients.

A summary of total planned additional commitments in 2006/07, related to the achievement of acute waiting times, is provided below:

	Recurring £'000	Non Recurring £'000	Total £'000
Expenditure Commitments carried forward from 2005/06	1.2		1.2
New Commitments			
1 Managed within Clyde Acute Division	0.9	2.5	3.4
2 Managed within Greater Glasgow Acute Services	2.0		2.0
	4.1	2.5	6.6
Funding Sources			
General Funding Uplift	3.2		3.2
NWTU Funding	0.9	2.5	3.4
	4.1	2.5	6.6

- The financial plan provides for an additional £1.6m of expenditure related to cross boundary patient inflow to Greater Glasgow Hospitals, bringing the total recurrent funding transfer to £4m. This compares with a “target” of £6m, the current total annual additional payment due to Greater Glasgow as calculated by the West of Scotland model used to establish the cost of patient flows between West of Scotland Health Boards leaving a residual amount of £2m to be made good in 2007/08.
- The financial plan provides for other service commitments planned for 2006/07, including the “Clyde” share of new regional service commitments (eg Beatson). These are identified individually within Appendix 1.
- The financial plan incorporates a cost savings target for 2006/07. This has been significantly amended from the original cost savings target which had been established by the former NHS Argyll and Clyde Health Board and now stands at £8m. The “Clyde” share of this is £6.1m and divides between recurring and non recurring savings: £1.6m of **recurrent** savings represents the full year effect of savings initiatives implemented during 2005/06 and can, therefore, be regarded as fully achievable in 2006/07. These have been taken into account in establishing opening expenditure budgets for 2006/07 (see table 3). The residual £4.5m is partly recurrent (£1.4m) and partly non recurrent (£3.1m), and remains to be identified against specific individual schemes. It is anticipated that a significant proportion of this will arise from the release of funding from provisions, including provisions for service commitments which are not fully expended in 2006/07. Further detail is provided within section 4 below.

- Provision is made for non recurring expenditure of £1.0m on minor works/equipment in 2006/07. This represents the financial impact of the facility to convert a proportion of the annual capital funding allocation into revenue, to cover expenditure on minor equipment, building refurbishment, repairs etc, no longer being available. This level of provision can be considered realistic relative to the historical expenditure, within the former NHS Argyll and Clyde Health Board, however, it appears light relative to the equivalent provision made within the Greater Glasgow financial plan for 2006/07. This will be monitored closely during the course of 2006/07.
- Land sales income is forecast to come from the disposal of surplus land on the Hawkhead Hospital site, where conclusion of a sales contract is now anticipated during 2006/07.
- A proportion of the significant growth in energy costs forecast for 2006/07 is classified as non recurrent expenditure at this stage. This is consistent with the approach taken within Greater Glasgow, albeit both the overall level of provision and the non recurrent element of this appear relatively light compared to the equivalent provisions made by Greater Glasgow. It is recognised that forecasting future energy expenditure trends at this point in time is not an exact science, accordingly it is not proposed to adjust the provision which has been made at this stage, but to carefully monitor expenditure trends over the course of the year and recalibrate energy expenditure budgets if this proves necessary.
- Inflation and other pressures.
An analysis of the total provision for inflation and other pressures is provided below in Table 5.

Table 5

Inflation and Other Pressures

	Percentage increase	2006/07 Cost
	%	£m
Pay	4.3	10.0
General Supplies	1.0	0.8
Energy Costs	-	0.9
Prescribing	6.1	4.8
Capital Charges	-	0.8
Non Clyde cost inflation	5.0	2.7

The summary shows pay costs rising by 4.3% in 2006/07. This takes account of the forecast impact of Agenda for Change on pay progression in 2006/07 together with a provision of £0.5m to cover the potential impact of Modernising Medical Careers (MMC) implementation during 2006/07.

A 1% increase in non pay costs is assumed, reflecting the current trend of general cost inflation excluding energy and prescribing. A specific additional provision of £0.9m has been made for additional expenditure on energy in 2006/07, taking account of recent price movements associated with the supply of gas and electricity.

The forecast growth in prescribing spend for 2006/07 is based on projections of prescribing costs provided by prescribing advisers for Acute and Primary Care for 2006/07.

A general provision of £0.8m is made to cover the forecast impact of fixed asset revaluation on capital charge within 2006/07. On the face of it, this level of provision appears relatively high compared to the equivalent level of provision made within Greater Glasgow, however, taken together with the provision made to cover the impact of withdrawal of the capital to revenue virement facility, is considered to provide a reasonable level of cover for additional capital charge costs in 2006/07.

There is no specific provision made for impairment at this stage, however, this area will be kept under review during 2006/07. Where service integration leads to change(s) in buildings use which leads to “impairment”, it will be necessary to engage with SEHD to secure the funding cover for this.

4 COST SAVINGS PLAN

The original financial plan prepared by the former Argyll and Clyde NHS Board incorporated a savings plan of £15m for 2006/07. This was subject to a detailed review as a key element of the process of reviewing the overall financial plan with colleagues from NHS Highland. The outcome of this review was a significantly reduced cost savings target for 2006/07, on account of the exclusion of these elements relating to Community Care (ie Mental Health, Learning Disabilities, Older People’s services), on the basis that these were unsupported by any coherent plan which had been worked through and agreed with Local Authority colleagues to secure their achievement.

An analysis of the revised cost savings target for “Clyde” for 2006/07, is provided below. This was used in arriving at an agreed financial baseline for “Clyde” with SEHD for 2006/07:

Table 6.

Cost Savings Plan

	2006/07 Targeted Savings £m	Cost Savings Embedded £m	Targeted Cost Savings: Identified Schemes £m	Targeted Cost Savings: Schemes to be Identified £m
Management and Administration/ Corporate Services Review	1.6	1.6		
GP Prescribing	0.5	0.0	0.5	
Junior Doctors	0.5	0.0	0.5	
Rebandings				
Cost Savings to be Identified	3.5	0.0		3.5
Total	6.1	1.6	1.0	3.5

Key points are:

- The above table identifies £6.1m of targeted cost savings in 2006/07, of which £1.6m are “embedded” within opening service budgets as explained within section 2 above.
- Of the residual savings challenge of £4.5m, £3.5m remains to be identified against specific schemes; £1.0m has been identified against the specific schemes as shown above. It is planned to carry out this piece of work in tandem with finalising service budgets for operational Directorates.

The development of a comprehensive savings plan to address the recurring deficit which exists between funding and current expenditure budgets on an ongoing basis will be a key task for NHSGG&C management during 2006. It is anticipated that during the remainder of 2006, a comprehensive in depth review of all service areas will be carried out, particularly looking at opportunities for achieving synergies through integrating service provision across the expanded geographical area. It is planned to complete this work by the autumn 2006 with a view to finalising a plan to be agreed with SEHD by end December 2006.

It has been agreed with SEHD that during 2006, NHSGG&C will work to identify opportunities to achieve savings which can be made during 2006/07, to contribute towards offsetting the residual deficit of £4.9m - £7.4m which was highlighted in section 1. The scope for achieving this will only become apparent in the light of completing the review described above. Recognising the potential for implementation of service reconfiguration to get underway during the later part of 2006/07, a provision of £2.8m has been set aside within the 2006/07 financial plan to offset transitional costs which may be incurred in this regard. This provision also “doubles up” as a general contingency which may be used, if required, to address unforeseen cost pressures which become apparent during the course of integrating “Clyde” within an expanded NHSGG&C organisational structure during 2006/07.

SERVICE COMMITMENTS 2006/07

SERVICE COMMITMENT	RECURRENT £'m	NON RECURRENT £'m	TOTAL £'m	NOTES
Acute				
Renal at RAH/IRH and Glasgow		0.1	0.1	Development at IRH
Maintenance costs of new capital equipment	0.2		0.2	Revenue costs of SEHD capital funds in 2005/06
Stoma nurses at RAH and IRH	0.1		0.1	New HDL committing Boards to fund these posts
Hospital at Night	1.5		1.5	Service starting in April 2006.
ICU at RAH/Vale full year effect of 05/06	0.3		0.3	Agreed development funds from 05/06
Lomond Integrated Care Pilot	0.2		0.2	To support services transfer into RAH.
Cleaning Services	0.3		0.3	To maintain cleaning standards
	2.6	0.1	2.7	
Primary Care and Other				
Learning Disabilities		1.2	1.2	Transitional/bridging funding (Clyde share of £1.5m)
Elderly Services		0.8	0.8	Transitional/bridging funding (Clyde share of £1.0m)
		2.0	2.0	
Mental Health				
Mental Health Services		0.8	0.8	Transitional/bridging funding (Clyde share of £1.0m)
		0.8	0.8	
Other Boards etc				
NHS Greater Glasgow Cross Boundary Flow	1.6		1.6	Clyde share of WOS XBF exercise
Hospices	0.3		0.3	HDL 50% funding requirement
National Shared Services	0.2		0.2	Clyde share of new national services
Beatson Development	0.4		0.4	Clyde share of Beatson development
NHS Greater Glasgow Capacity Plans	2.0		2.0	Clyde share of Glasgow's capacity plan
	4.5		4.5	
TOTAL	7.1	2.9	10.0	