Paper 16/64

NHS Greater Glasgow and Clyde

Financial Monitoring Report for the 5 month period to 31 August 2016

Introduction

The financial monitoring report comprises the following:

1. Summary and Options
2. Key Figures
3. Capital Expenditure
4. Glossary of Terms

1. Summary and Options

- The purpose of this report is to provide the Board with an updated financial position at Month 5 (31 August 2016), an assessment of the year end projection, and details of the actions required to deliver the best option to improve this situation.

- The key points for the Board to note can be summarised as follows;

  - **Operational Performance**

    The Corporate Division and HSCPs are operating broadly within operational budget. However, the Acute Division continues to exceed its operational budget by £1.8m per month.

    Emerging additional in-year financial pressures have further increased the level of risk around achieving break even at 31 March 2017.

  - **Cash Releasing Efficiency Savings**

    As at Month 5, the National Initiatives which were to contribute savings to close the £10m gap identified in the Financial Plan have yet to yield any efficiencies.

    While the Board still anticipates achieving £50-55m of the savings outlined in the Financial Plan, a number have slipped and it is estimated this may require an £10m of additional non-recurring/reserves in-year.

  - **Use of non-recurring/reserves**

    The Financial Plan included £29.5m non-recurring cash in-year.

    However, given the issues highlighted above, break-even for 2016/17 will now be challenging and it is estimated that achieving this may require an additional £27m of non-recurring/reserves.

- The position at Month 5 suggests three possible responses to this situation.

  - **Option 1 – Status quo**

    If expenditure continues at the current run rate, the Board will return a deficit of £27m at the 2016/17 year-end.

    Without reducing the overspend by £1.8m per month and delivering an additional £10m of recurring CRES in 2016/17, the underlying recurring gap may not be manageable and will add to the challenge of delivering a balanced budget in 2017/18.

    This option has been rejected.

  - **Option 2 – Use non-recurring**

    The Financial Plan highlighted the need (and availability) of £29.5m non-recurring cash in-year. Break-even for 2016/17 could be achieved (at current run rates) if an additional £27m of non-recurring/reserves are used.

This will result in depletion of the non-recurring/reserves that maybe available. The Board will then be unable to provide in-year funding to support the development and delivery of the 2017/18 efficiency/change programme beyond Quarter 1 of 2017/18.

This option has been rejected.

- **Option 3 – Operate within budget and identify new savings**

The Acute Division must operate within budget in the remaining part of 2016/17 and into 2017/18. This will involve reducing/eradicating discretionary spend. This is likely to reflect adversely on current levels of performance in some areas.

In addition, £10m of new, recurring CRES schemes will need to be identified.

Even if successful, some additional non-recurring funding will still be required in-year to cover the time lag of CRES and an element of the deficit. However, this should leave some reserves for the future to support the early part of 2017/18.

This option is being taken forward.

The Acute Directors, supported by Finance colleagues and the data and planning teams, are currently assessing the risks and impacts of this option.

The output from this programme of work will be presented to the Board at an Away Day on the 1st and 2nd November 2016, with formal approval at the December Board Meeting and changes being implemented in the final quarter of the financial year.

Colleagues in the Scottish Government are aware of the emerging financial position of NHSGGC and we are discussing the possible allocation of additional funding to improve the situation.

In the meantime, the Acute Services Committee and the six Integrated Joint Boards will monitor ongoing performance and financial issues. The Board's Finance & Planning sub-committee will continue to support the management of the budget as appropriate across NHSGGC.

2. Key Figures

Background

- The Board approved the 2016/17 Financial Plan on 28 June 2016. This highlighted a requirement to deliver savings and efficiency schemes to address the £69m shortfall between the funds allocated (including the year on year uplift) and the forecast increase in expenditure due to rising costs, increased demand and delays in introducing planned efficiencies.

- The Financial Plan was approved with an unallocated financial gap of £10m. Based on consultation with the Scottish Government, it was expected this gap would be bridged through the outcome of the National Workstreams involving Chief Executives, Directors of Finance and Scottish Government.

- Due to the timing of the implementation of cost savings schemes in-year, and non-recurring savings brought forward from 2015/16, the Board recognised the need to cash manage the difference between the in year and recurring effect of these savings. This required the including £29.5m of non-recurring provisions and reserves in the Plan.

Financial Position at Month 5 (August 2016)

The financial position and projection is outlined in the tables below.

- **Figure 1** describes the year to date operational performance at Month 5.

- **Figure 2** describes the annual operational budget, including the allocation of the £29.5m non-recurring outlined in the Financial Plan, and the projected operational position at the 31 March 2017.

- **Figure 3** describes the CRES position at Month 5 and the projected variance on CRES at the 31 March 2017.

FIGURE 1 - OPERATIONAL PERFORMANCE AT MONTH 5

Income/Expenditure by Division	YTD Budget £m	YTD Actual £m	YTD Variance £m
Acute	366.9	379.6	(12.7)
HSCPs	462.2	462.2	-
Corporate	200.2	200.2	-
Total Operational Net Income/Expenditure	**1,029.3**	**1,042.0**	**(12.7)**

- Figure 1 highlights that the Corporate Division and HSCPs are broadly in operational balance.

- The Acute Division remains the real pressure point for the Board, with a gross operational deficit at month 5 of £12.7m. There are two key reasons for the overruns;

  - Acute Cost Containment – the Acute Division continues to experience operational and financial challenges, with the pressures around increasing demand for services, staff vacancies driving locum agency spend, and sickness absence rates driving nurse bank and agency spend.

  - Additional Unscheduled Care - the Board made the decision to keep some of the 181 Winter Beds open through spring and summer, pending the completion of the Board's internal review of Unscheduled Care. Whilst the number remaining open has been reduced to 110, the average monthly cost for 2016/17 is £1m per month.

FIGURE 2 – ANNUAL OPERATIONAL BUDGET

	Annual Budget £m	**Annual Non-Recurrent Available £m**	**Total Annual Available £m**	**Projected Y/E Variance £m**
Acute	850.2	7.5	857.7	(12)
HSCPs	1135.3	-	1135.3	-
Corporate	557.7	-	557.7	(5)
TOTAL	**2543.2**	**7.5**	**2550.7**	**(17)**

- Figure 2 highlights that if the current operational run rates continue with Acute continuing to overspend, the Acute Division is projecting an operational deficit of £12.7m at 31 March 2017.

- In addition, the Corporate Division is predicting a £5m year end overspend due to emerging additional in-year pressures, the majority of which consists of a reduction in the New Medicines Fund national allocation from £60m to £45m, reducing NHSGGC's share of this by £4.5m.

FIGURE 3 – CRES AT MONTH 5 AND PROJECTED Y/E, TOGETHER WITH NON-RECURRENT SUPPORT ALLOCATION

	Amount per Financial Plan £m	Available Annual Non-Recurrent Relief £m	YTD Variance £m	Projected Y/E Variance £m
CRES per Financial Plan	59	12	(12.1)	(10)
Gap (National Initiatives)	10	10	(6.4)	(10)
TOTAL	**69**	**22**	**18.5**	**(20)**

- Due to the timing of the Board's 2016/17 planning process, the achievement of CRES was always heavily loaded into the last quarter of the financial year. While a number of schemes are currently going through IJB Boards for approval, Directors and Chief Officers have experienced difficulties in implementing CRES across all areas of the Board. This includes implementing some of the "red rated" schemes described in the Financial Plan and the uncertainty around the outcome of the engagement and consultation on the proposed service changes in the Local Delivery Plan.

- Slippage has meant there is a variance of £18.5m to expected levels at Month 5. This includes the failure so far of the National Initiatives to contribute the profiled £6.4m savings to close the £10m gap identified in the Financial Plan. Directors are currently working to bring forward CRES and identify additional CRES to fill the gap.

3. Capital Expenditure

The Capital Expenditure position at Month 5 and the end of year projection is outlined in the table below.

FIGURE 4 – CAPITAL ALLOCATION AND SPEND TO MONTH 5

	£m
Sources of Funds	
Anticipated Gross Capital Resources at 31 August	87.7
Total Capital Resources for 2016/17	**87.7**
Expenditure to Date	
Expenditure to 31 August	15.2
Balance to be spent by 31 March 2017	72.5
Total Forecast Expenditure for 2016/17	**87.7**

- The Board's capital Plan for 2016/17 was approved by the Board on 28 June 2016.

- The level of capital resources available to the Board increased by £1.7m in July and August. The Scottish Government confirmed that £3.5m of Capital Stimulus funding has been awarded to the Board for investment at Glasgow Royal Infirmary and Inverclyde Royal Hospital. Additional funding of £0.6m has been received from National Services Division for various items of equipment, principally a heart and lung bypass machine. Finally Brokerage amounting to £2.4m into 2017/18 has been agreed with the Scottish Government in respect of Section 75 agreements associated with QEUH.

- The revised level of gross capital resources for 2016/17 currently amounts to £87.7m.

- The main areas of expenditure in 2016/17 are:

    - QEUH and RHC campus completion - £28.2m;
    - Gartnavel General Hospital - £10m;
    - Mental Health schemes – £5.4m; and
    - Formula capital/backlog maintenance - £12.5m

- These allocations account for 64% of the total allocation for the year.

- There remains a small balance of unallocated general capital in 2016/17 of £66k and an unallocated amount of £589k in 2017/18. An indicative unallocated balance of £0.9m is also reflected in 2018/19.

- Gross capital expenditure to 31 August 2016, amounted to £15.2m, which was incurred chiefly in respect of continuing works at the QEUH and RHC campus. Regular programme reviews will be undertaken throughout the year in order to identify the extent to which revised plans need to be put in place to ensure that the 2016/17 capital position remains in balance.

4. Glossary of Terms

Expenditure:

- Acute – This represents expenditure on the Acute Services clinical and management support services.
- HSCPs – This represents expenditure on services within the scope of Health and Social Care Partnerships including services provided by Primary Care practitioners, expenditure on Mental Health and Learning Disabilities inpatient services, services for patients with addictions and also services 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, Facilities, Corporate Planning and Public Health.
- Healthcare Purchases - This represents the cost of services provided by other healthcare providers to Greater Glasgow and Clyde patients, including Independent Hospices and HIV/AIDS & Drugs Misuse.
- Impairments – This represents the accelerated depreciation required to write off the net book value of an asset over its remaining life.
- Provisions - This represents the total of provisions made within the Board's Revenue Plan where which have not yet been distributed to divisions.
- Other – This represents funds received which have not yet been allocated to an expenditure budget.