

NHS LANARKSHIRE

FINANCE REPORT FOR THE MONTH ENDED 31 JULY 2006

1. Introduction

The purpose of this report is to provide the NHS Board with the summary financial position for the four months ended 31 July 2006.

2. Overview

The five year Financial Plan 2006-11 was approved by the NHS Board in February 2006. This identified an underlying recurrent deficit of £21.659m as at 1 April 2006, with a forecast year end surplus of £0.121m.

The actual financial position to the end of July shows an overspend of £0.412m compared with an overspend of £0.433m at the end of June. This reflects a slight improvement in the overall position, which is mainly due to the transfer of funding from the financial plan into pay budgets, to support the backfill costs associated with additional annual leave for Agenda for Change.

Table 1 below provides further details:

	Budgeted Operating Costs 31/07/2006 £M	Actual Operating Costs 31/07/2006 £M	Actual saving / (excess) 31/07/2006 £M
Acute Operating Division	92.075	92.669	(0.594)
North CHP	28.285	28.039	0.246
South CHP	13.318	13.197	0.121
Primary Care Other Services	76.882	76.957	(0.075)
Headquarters / Corporate Functions	5.066	4.926	0.140
Service Level Agreements / Other Healthcare Providers	33.146	33.105	0.041
NHSL - wide	14.467	14.758	(0.291)
Net Operating Costs	263.239	263.651	(0.412)

Work has progressed on the assessment of the likely year end outturn in comparison to the planned surplus particularly to agree contingency plans around the sale of the Law site and to ensure emerging pressures are managed. It is anticipated that an early indication of this position will be reported to the NHS Board at the September meeting, with a full report provided at the Board Seminar in early November, following the formal mid year review process.

At this time, the key issues of concern remain consistent with those highlighted previously; namely:

- Recurring shortfall against the Corporate Recovery Programme
- Completion of the sale of the Law Hospital site
- Extent of the projected roll-out of Herceptin
- Energy prices
- Beatson development
- Waiting times

Further work is required to review and quantify a range of other risks and / or benefits which may further impact on the position, including completion of the Agenda for Change assimilation process and payment of arrears; and the national uplift for service agreements with other NHS Boards.

As a priority, measures must be identified to offset cost pressures and the shortfall on the Corporate Recovery Programme. This should include:

- Management of pressures by both the Acute Division and CHPs
- Potential slippage on all developments to be identified
- Further savings targets to be applied to headquarters / corporate functions

Other options to manage the likely year-end position will be considered through the mid year review process.

3. Revenue Resources

At the end of July 2006, the revenue resource limit for NHS Lanarkshire was £765.574m. The details of the movements from June are noted in Annex A. Any potential benefit of slippage on additional allocations received during the year will be assessed on an ongoing basis.

4. Acute Division

The Acute Division is reporting an overspend of £0.594m for the year to date, as detailed in Table 2.

	Budgeted Operating Costs 31/07/2006 £M	Actual Operating Costs 31/07/2006 £M	Actual saving / (excess) 31/07/2006 £M
Pay	62.718	62.649	0.069
Non Pay	38.052	38.718	(0.666)
Gross operating costs	100.770	101.367	(0.597)
Less: miscellaneous income	(8.695)	(8.698)	0.003
Net operating cost	92.075	92.669	(0.594)

Overall, the main area of concern lies within non pay expenditure, although a number of pay underspends are masking a high overspend on nursing within the Surgical, Anaesthetics and Critical Care Division. Issues on non pay are related to family planning supplies, laboratories, surgical sundries, Oncology drugs, and drug costs associated with O.P.D. (Original Pack Dispensing).

In line with last month, approximately £0.300m of the overspend relates to the costs of Original Pack Dispensing (OPD). There is an assessment underway of the impact of this service across NHS Lanarkshire and any offsetting benefits will be taken into account through the mid year review process.

5. Primary Care

Across the Community Health Partnerships and other Primary Care services, there is an overall underspend of £0.292m for the period to the end of July 2006.

The North Community Health Partnership shows an underspend of £0.246m for the period, as highlighted in Table 3. This reflects underspends across the majority of localities, with the exception of Motherwell, where there are pressures with the Dietetics service and continuing care beds.

	Budgeted Operating Costs 31/07/2006 £M	Actual Operating Costs 31/07/2006 £M	Actual saving / (excess) 31/07/2006 £M
Pay	24.631	24.406	0.225
Non Pay	3.654	3.633	0.021
Net operating cost	28.285	28.039	0.246

The South Community Health Partnership shows an underspend of £0.121m, as highlighted in Table 4. Underspends within the Hamilton and East Kilbride localities are offset by a cost pressure within the Clydesdale locality, which hosts the Out of Hours service. As highlighted previously, this is a result of the change in the overall funding of Primary Medical Services by the SEHD.

	Budgeted Operating Costs 31/07/2006 £M	Actual Operating Costs 31/07/2006 £M	Actual saving / (excess) 31/07/2006 £M
Pay	11.441	11.497	(0.056)
Non Pay	1.877	1.700	0.177
Net operating cost	13.318	13.197	0.121

Other Primary Care services are overspent by £0.075m to the end of July, as highlighted in Table 5 on the following page. The main areas of overspend are eHealth and Health Promotion, which have historically been underspent. Work to further review these areas is continuing to ensure any potential risks are addressed and costs are contained within the budget available. Family Health Service expenditure reflects a breakeven position, and includes expenditure on prescribing.

Table 5- Primary Care Other Services 2006/07

	Budgeted Operating Costs 31/07/2006 £M	Actual Operating Costs 31/07/2006 £M	Actual saving / (excess) 31/07/2006 £M
Pay	3.068	3.205	(0.137)
Non Pay	7.655	7.775	(0.120)
Family Health Services	35.823	35.823	0.000
Prescribing	37.301	37.301	0.000
Gross operating costs	<u>83.847</u>	<u>84.104</u>	<u>(0.257)</u>
Less: Family Health Service income	(2.564)	(2.746)	0.182
Less: miscellaneous income	(4.401)	(4.401)	0.000
Net operating cost	<u>76.882</u>	<u>76.957</u>	<u>(0.075)</u>

6. Headquarters/Area Wide Departments

At the end of July the Headquarters Departments show an underspend of £0.140m as detailed in table 6 below. This is mainly reflected across non pay expenditure. In light of the shortfall on the overall Corporate Recovery Programme, consideration must be given to the application of a further savings target across these budgets.

Table 6 - Headquarters / Area Wide Departments 2006/07

	Budgeted Operating Costs 31/07/2006 £M	Actual Operating Costs 31/07/2006 £M	Actual saving / (excess) 31/07/2006 £M
Pay	3.928	3.916	0.012
Non Pay	1.138	1.010	0.128
Net operating cost	<u>5.066</u>	<u>4.926</u>	<u>0.140</u>

7. Service Agreements/Other Health Care Providers

As noted last month, a proposal setting out a national standard uplift to be applied to the NHS Scotland Service Agreements was issued to the National Directors of Finance group in late June. No final decision has yet been made at a national level. Internally, work has begun to quantify the impact of this proposal and to assess this against the level of funding provided for both pay and prices uplifts within the Financial Plan. This may present a financial risk.

In addition to pressures relating to the pay and prices uplift, there is an issue in relation to activity levels within both acute and primary care sectors in Lothian. A meeting has been held with Lothian University Hospitals to discuss the apparent increase in activity and a further assessment of the financial impact of this is required. Activity pressures with the Lothian Primary Care Division are related to the use of the Orchard House facilities, and a critical review of the use of this is required.

Expenditure on Unplanned Activity (UNPACs) and the Independent Sector are subject to fluctuations in expenditure from month to month and will be monitored closely to ensure robust financial control is maintained.

Table 7 below shows a year to date underspend of £0.041m against these budgets but does not yet reflect the potential cost pressure arising from the service agreement uplifts or the activity issues within NHS Lothian.

	Budgeted Operating Costs 31/07/2006 £M	Actual Operating Costs 31/07/2006 £M	Actual saving / (excess) 31/07/2006 £M
Service Level Agreements	21.920	21.845	0.075
Unpacs and Oats	1.364	1.358	0.006
Resource Transfer and Bridging	6.793	6.791	0.002
Independent Sector	3.385	3.451	(0.066)
HIF and SIP's	0.351	0.333	0.018
Gross operating cost	33.813	33.778	0.035
Less: miscellaneous income	(0.667)	(0.673)	0.006
Net operating cost	33.146	33.105	0.041

8. Corporate Recovery Programme (CRP)

The CRP remains a key component of the approved Financial Plan, in order to meet the financial target for the year, to move toward a recurring balanced position, and to achieve the Efficient Government Targets set out by the Scottish Executive.

The Financial Plan includes a target of £8.000m against the CRP. The detailed summary is shown in Table 8. Early indications show a forecast recurring shortfall against this target of £2.162m offset by £0.610m additional non recurring savings, leaving an in-year shortfall of £1.552m to be addressed. This has been recognised in the year to date position.

	Annual Plan			Savings withdrawn			Balance
	Rec £M	Non-Rec £M	Total £M	Rec £M	Non-Rec £M	Total £M	£M
Estate Rationalisation	1.000	0.000	1.000	0.000	0.000	0.000	1.000
Non Clinical Support Services	0.713	0.000	0.713	0.613	0.030	0.643	0.070
Ward Rationalisation	0.200	0.000	0.200	0.200	0.000	0.200	0.000
Headquarters Departments	0.250	0.250	0.500	0.250	0.250	0.500	0.000
Workforce Cost Reductions	0.329	0.000	0.329	0.329	0.000	0.329	0.000
CRES	0.346	3.360	3.706	0.346	3.360	3.706	0.000
Total Savings Identified	2.838	3.610	6.448	1.738	3.640	5.378	1.070
Shortfall against original plan	2.162	(0.610)	1.552	0.000	0.000	0.000	1.552
Total Savings Planned	5.000	3.000	8.000	1.738	3.640	5.378	2.622

At the end of July all planned savings have been removed from the overall funding levels for the Acute Division and Primary Care and Corporate areas.

9. Capital

The capital plan for 2006/07 was approved by the NHS Board in April 2006. The rate of actual expenditure in the first four months of the year has been low, although this is often the case with capital investment. Many of the major projects are still at planning stage and it is anticipated that expenditure will pick up over the coming months. To date, capital expenditure of £1.505m has been incurred against the net allocation of £31.687m. However it should be noted that £11.5m of planned spend relates to repayment of brokerage.

Table 9 provides a summary of the planned investment for the year and expenditure to date.

	Annual Plan £M	Actual Expenditure to 31/7/06 £M
Net Capital Allocation	31.687	1.505
Capital Investment		
Hospital Infrastructure	5.340	0.430
Community Infrastructure	3.714	0.338
Medical Equipment	3.250	0.353
IM&T	2.150	0.000
Repayment of Brokerage	11.506	0.000
Other	4.590	0.384
	30.550	1.505
Anticipated Property Receipts (Capital element)	5.750	0.000

10. Conclusion

The Board is asked to note:

- *the actual revenue overspend of £0.412m as at 31 July 2006*
- *further cost saving measures will be required to achieve in year financial balance*
- *an early assessment of the likely year end forecast will be outlined at the September meeting, with a robust mid year review exercise completed for the Board Seminar in November.*

Susan Goldsmith
Director of Finance
17 August 2006

Annex A – Revenue Resources

<u>Revenue Allocations 2006/07</u>	
	£M
Revenue Resource Limit as at 30 June 2006	765.479
Scottish Dental Access Initiative	0.007
Eye Care Redesign and Cataract Delivery Programme	0.079
Flying Start Initiative - 6th Round	0.005
Scottish Primary Care Collaborative Programme	0.005
Revenue Resource Limit as at 31 July 2006	765.574