

NHS LANARKSHIRE

FINANCE REPORT FOR THE MONTH ENDED 30 JUNE 2006

1. Introduction

The purpose of this report is to provide the NHS Board with the summary financial position for the three months ended 30 June 2006.

As highlighted in the previous report, there have been significant challenges for the finance department during the first few months of the new financial year, as a result of changes in organisational structures across NHS Lanarkshire. Trend analysis has proved difficult due to lack of available comparators for previous years, however progress is being made and the finance team are working closely with managers in their new roles to ensure financial management reports reflect the revised structures and that sound financial control is maintained.

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 June shows an overspend of £0.433m compared with an overspend of £0.255m at the end of May. Table 1 below provides further details:

<i>Table 1 - Summary Financial Position</i>			
	Budgeted Operating Costs 30/06/2006 £M	Actual Operating Costs 30/06/2006 £M	Actual saving / (excess) 30/06/2006 £M
Acute Operating Division	67.538	67.993	(0.455)
North CHP	21.303	21.125	0.178
South CHP	9.896	9.906	(0.010)
Primary Care Other Services	59.025	59.125	(0.100)
Headquarters / Corporate Functions	3.720	3.567	0.153
Service Level Agreements / Other Healthcare Providers	26.809	26.790	0.019
NHSL - wide	12.218	12.436	(0.218)
Net Operating Costs	200.509	200.942	(0.433)

Work is progressing to provide a robust assessment of the likely year end outturn in comparison to the planned surplus. The in year position is not as favourable as would have been expected, the key issue being a £2.162m recurring shortfall against the Corporate Recovery Programme.

A number of risks to the financial plan have already been identified and present significant challenges for the year ahead. These are noted below:

Law Hospital - Outline planning permission has been granted for the Law hospital site which is a positive step toward completion of the sale. Until there is absolute certainty over the date of title transfer, however, there remains a significant financial risk to achievement of the in year planned surplus and repayment of the cumulative deficit. At this point in time, further statutory planning consents remain outstanding and every effort is being made by all parties involved to ensure these are progressed timeously and there is no unnecessary delay in completion of the sale.

Corporate recovery programme (CRP) - Early indications show that there is a recurring shortfall of £2.162m against the CRP. This is offset by an anticipated over achievement of non recurring savings of £0.610m, resulting in a balance of £1.552m to be addressed in year. This has been recognised in the year to date position and it is essential that other measures are identified to offset this shortfall. This will be progressed as a matter of priority over the coming months.

Out of hours funding - The Primary Medical Services allocation includes full funding for the Global Sum and Correction Factor. To fund this level of investment, resources were transferred nationally from the Out of Hours Development Fund. This has resulted in a shortfall of funding for the Out of Hours service within NHS Lanarkshire and is causing a cost pressure within the South Community Health Partnership. At this point in time, other areas of underspend are offsetting this pressure, however this is not expected to continue and further work is required to assess the full year impact.

Other issues - A number of issues which have arisen and may emerge as pressures not provided for in the financial plan include:

- Extent of the projected roll-out of Herceptin
- Energy prices
- Beatson development
- Glasgow waiting times

With financial balance as an imperative, other measures must be identified to offset these costs and work is ongoing to quantify the impact of these.

3. Revenue Resources

At the end of June 2006, the revenue resource limit for NHS Lanarkshire was £765.479m. The details of the movements from May 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 £0.455m for the year to date, as detailed in Table 2.

Table 2 - Acute Division 2006/07

	Budgeted Operating Costs 30/06/2006 £M	Actual Operating Costs 30/06/2006 £M	Actual saving / (excess) 30/06/2006 £M
Pay	46.321	46.122	0.199
Non Pay	27.812	28.460	(0.648)
Gross operating costs	74.133	74.582	(0.449)
Less: miscellaneous income	(6.595)	(6.589)	(0.006)
Net operating cost	67.538	67.993	(0.455)

The main areas of concern within the pay budgets are medical staffing in the Women and Diagnostics Division where there has been recent recruitment of staff into Radiologist posts whilst locums complete their contracts, and nursing in the Emergency and Medical Division particularly within Theatres, Day Surgery, General Surgery and ITU. Issues on non pay are related to family planning supplies, laboratories, surgical sundries, Oncology drugs, drug costs associated with O.P.D. (Original Pack Dispensing) and increased costs in the Cardiac Catheterisation Laboratory.

Within the reported overspend to date, approximately £0.225m of this 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.

The Division is working toward achievement of a £2.7m savings target as part of the Corporate Recovery Programme. Approximately £2.4m savings have been identified to date.

The potential cost pressures in year are recognised to be significant and the management accounting teams for the new Clinical Divisions will continue to work closely with the General Managers and Service Managers to assess those areas where intervention is required and to manage the financial position toward the breakeven target

5. Primary Care

Across the Community Health Partnerships and other Primary Care services, there is an overall underspend of £0.068m for the period to the end of June 2006.

The North Community Health Partnership shows an underspend of £0.178m for the period, as highlighted in Table 3, although this masks an overspend on pays offset by lower than expected levels of expenditure on supplies.

Table 3 - North CHP 2006/07

	Budgeted Operating Costs 30/06/2006 £M	Actual Operating Costs 30/06/2006 £M	Actual saving / (excess) 30/06/2006 £M
Pay	17.884	17.989	(0.105)
Non Pay	3.419	3.136	0.283
Net operating cost	21.303	21.125	0.178

The South Community Health Partnership shows a slight overspend of £0.010m, as highlighted in Table 4. The Clydesdale locality hosts the Out of Hours service and as a result of a change in the overall funding of Primary Medical Services by the SEHD, a cost pressure has arisen within this service. Work is ongoing to quantify the full year impact of this, and although other areas of underspend are offsetting this pressure at this point in time, it is not anticipated that this can be absorbed as the year progresses.

Table 4 - South CHP 2006/07

	Budgeted Operating Costs 30/06/2006 £M	Actual Operating Costs 30/06/2006 £M	Actual saving / (excess) 30/06/2006 £M
Pay	8.291	8.500	(0.209)
Non Pay	1.605	1.406	0.199
Net operating cost	9.896	9.906	(0.010)

Other Primary Care services are overspent by £0.159m to the end of June, as highlighted in Table 5 below. 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.

Table 5- Primary Care Other Services 2006/07

	Budgeted Operating Costs 30/06/2006 £M	Actual Operating Costs 30/06/2006 £M	Actual saving / (excess) 30/06/2006 £M
Pay	2.314	2.193	0.121
Non Pay	6.094	6.374	(0.280)
Family Health Services	28.381	28.381	0.000
Prescribing	27.976	27.976	0.000
Gross operating costs	64.765	64.924	(0.159)
Less: Family Health Service income	(2.406)	(2.465)	0.059
Less: miscellaneous income	(3.334)	(3.334)	0.000
Net operating cost	59.025	59.125	(0.100)

Savings withdrawn from Primary Care budgets as part of the Corporate Recovery Programme have been allocated to specific areas within each of the CHPs. Each locality has a target and in total the savings target is being achieved.

Family Health Service expenditure reflects a breakeven position. This includes expenditure on prescribing.

6. Headquarters/Area Wide Departments

At the end of June the Headquarters Departments show an underspend of £0.153m. This is mainly reflected across non pay expenditure. To date, planned savings have not yet been withdrawn from the Headquarters budgets. As the Corporate Recovery Plan has an expected level of savings on these areas in order to deliver the approved financial plan, this underspend

cannot be extrapolated to the year end. Work is ongoing with budget holders to manage expenditure levels, agree withdrawal of savings and provide a robust assessment of any potential financial risks or benefits.

	Budgeted Operating Costs 30/06/2006 £M	Actual Operating Costs 30/06/2006 £M	Actual saving / (excess) 30/06/2006 £M
Pay	2.846	2.892	(0.046)
Non Pay	0.874	0.675	0.199
Net operating cost	3.720	3.567	0.153

7. Service Agreements/Other Health Care Providers

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. Work is underway 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.

Resources to support agreed service developments in specific areas such as the Beatson Oncology Centre and Glasgow waiting times have been factored into the approved Financial Plan. Early indications suggest the North Glasgow Division of NHS Glasgow and Clyde will be seeking an increase to the agreed investment in the Beatson Oncology Centre. A further issue for concern is the potential level of funding for Glasgow Waiting Times, particularly in relation to ASC investment. Further clarity is being sought on both of these issues. Any such requests will be scrutinised and highlighted to the Corporate Management Team prior to any decision being taken.

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.

	Budgeted Operating Costs 30/06/2006 £M	Actual Operating Costs 30/06/2006 £M	Actual saving / (excess) 30/06/2006 £M
Service Level Agreements	16.45	16.386	0.064
Unpacs and Oats	1.023	0.994	0.029
Resource Transfer and Bridging	6.731	6.731	0.000
Independent Sector	2.560	2.634	(0.074)
HIF and SIP's	0.045	0.045	0.000
Net operating cost	26.809	26.790	0.019

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		
	Rec £M	Non-Rec £M	Total £M
Estate Rationalisation	1.000	0.000	1.000
Non Clinical Support Services	0.713	0.000	0.713
Ward Rationalisation	0.200	0.000	0.200
Headquarters Departments	0.250	0.250	0.500
Workforce Cost Reductions	0.329	0.000	0.329
CRES	0.346	3.360	3.706
Total Savings Identified	2.838	3.610	6.448
Shortfall against original plan	2.162	(0.610)	1.552
Total Savings Planned	5.000	3.000	8.000

At the end of June the planned savings have been removed from the overall funding levels for the Acute Division and Primary Care. Any movement against these will be monitored during the year. Work to remove the target savings from the Headquarters budgets has not yet been completed. Any areas of potential risk or offsetting benefit will be highlighted over coming months.

A series of meetings with key Directors and other Senior Managers have been set up in early August to consider options to address the shortfall both in year and on a recurring basis, given the impact this has on the overall achievement of a balanced financial position.

9. Capital

The capital plan for 2006/07 was approved by the NHS Board in April 2006. During the year this expenditure will be reported within the overall finance report to the NHS Board, with management and monitoring of capital expenditure carried out by the Capital Investment Group. The level of capital investment is significant and it is recognised that the approved developments must be progressed without any unnecessary delay.

Table 9 provides a summary of the planned investment for the year.

Table 9 - Capital Expenditure Budget 2006/07

	Annual Plan £M
Net Capital Allocation	31.687
Capital Investment	
Hospital Infrastructure	(5.340)
Community Infrastructure	(3.714)
Medical Equipment	(3.250)
IM&T	(2.150)
Repayment of Brokerage	(11.506)
Other	(4.590)
	<u>(30.550)</u>
Anticipated Property Receipts (Capital element)	5.570
Forecast Under / (Over) Spend	<u>6.707</u>

10. Conclusion

The Board is asked to note:

- *the actual revenue overspend of £0.433m as at 30 June 2006*
- *further cost saving measures will be required to achieve in year financial balance.*

**Susan Goldsmith
Director of Finance
18 July 2006**

Annex A – Revenue Resources

<u>Revenue Allocations 2006/07</u>	
	£M
Revenue Resource Limit as at 31 May 2006	686.476
Scottish Ambulance Service	(0.251)
Doctors in Training	0.168
Stoma Appliances	0.278
NSD Services	(0.699)
Change & Innovation	1.190
Audiology	0.389
Water Rates for Hospices	0.004
CHD / Stroke	1.488
PET Scanning	(0.108)
Dental Practice Improvements	0.268
HAI	0.139
Primary Medical Services	63.076
Scottish Dental Access Initiative	0.080
Prevention 2010	1.020
Distinction Awards	0.485
R&D Funding	0.377
CHI Number Programme	0.045
Unscheduled Care Collaborative Programme	0.132
Smoking Cessation	0.936
BBV Prevention	0.502
Sexual Health Strategy	0.483
Diagnostics Collaborative Programme	0.089
eHealth	0.262
Mental Health Act	0.477
Primary Care Collaborative Programme	0.055
National Waiting Times - tranche 1	4.306
Nurse Education & Training	0.327
Dental Health Plan - Oral Health	0.854
Drug & Alcohol Treatment Services	2.595
Other	0.036
Revenue Resource Limit as at 30 June 2006	<u>765.479</u>