

NHS LANARKSHIRE

FINANCE REPORT FOR THE MONTH ENDED 31 OCTOBER 2006

1. Introduction

The purpose of this report is to provide the NHS Board with the summary financial position for the seven months ended 31 October 2006 and a view on the forecast position for the year end. This builds on the presentation at the NHS Board Seminar on 8 November 2006.

2. Overview

The actual financial position to the end of October shows an overspend of £0.430m compared with an overspend of £0.901m at the end of September. This is a significant improvement and reflects the move towards financial balance for the year.

Following the mid year review, additional funding has been allocated to the Acute Division, North and South CHPs and corporate budgets to recognise a number of cost pressures highlighted earlier in the year, including clinical compensation claims, original pack dispensing, out of hours funding shortfall, waiting times, stoma appliances and the shortfall in the delivery of CRP. This has only been possible through the release of provisions within the financial plan, where assumed funding levels and approved commitments have not been required at the levels anticipated in year.

The financial position remains extremely tight and it is imperative that the management actions outlined previously continue and are reinforced across the system, to ensure the position is brought into line with the year end forecast per the mid year review.

However, the assessment of financial performance undertaken through the mid year review process is sufficiently robust to give a degree of confidence on the delivery of financial balance in 2006/07. Current estimates place the year end position at a surplus of £0.219m.

Table 1 below provides further details of the overall year to date position and year end forecast:

	Budgeted Operating Costs 31/10/2006 £M	Actual Operating Costs 31/10/2006 £M	Actual saving / (excess) 31/10/2006 £M	Forecast saving / (excess) 31/03/2007 £ 000
Acute Operating Division	160.484	161.335	(0.851)	0.000
North CHP	41.610	41.648	(0.038)	0.000
South CHP	21.186	21.154	0.032	0.000
Primary Care Other Services	139.857	139.799	0.058	0.000
Headquarters / Corporate Functions	10.420	10.176	0.244	0.000
Service Level Agreements / Other				
Healthcare Providers	61.235	61.537	(0.302)	(0.511)
NHSL - wide	34.222	33.795	0.427	0.730
Net Operating Costs	469.014	469.444	(0.430)	0.219

3. Financial Plan – Year end forecast

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 mid year review was undertaken to provide a robust and detailed assessment of the likely year end outturn in comparison to the planned surplus and was completed in October. An overview of the results was presented at the NHS Board seminar on 8 November.

The outcome of this review has seen the year end forecast revised to reflect a potential surplus of £0.219m for 2006/07. The table below provides an analysis of this forecast:

<i>Table 2 - Potential Year End Position 2006/07</i>	
	£M
Approved financial plan	0.121
Initial financial plan adjustments	0.558
Remove items included in original plan:	
- Sale of Law Land	(15.000)
- Repayment cumulative deficit	10.042
Revised in year surplus/ (deficit) per Financial Plan	(4.279)
Financial Plan Adjustments	4.053
Income Adjustments	(2.000)
Release of Provision	4.564
National and Regional Issues	(0.259)
Divisional Pressures	0.077
Further Potential Risks	(1.713)
Corporate Recovery Plan Shortfall	(1.785)
Resource Transfer Slippage	1.561
Forecast surplus / (deficit) 2006/07	0.219

Financial Plan Adjustments – there are a significant number of areas within the financial plan where the approved funding requirement has slipped or the sums involved are lower than anticipated. The key components include funding for high cost low volume drugs.

Income – due to uncertainty around the roll out of the national tariffs project, the anticipated additional income relating to inflow activity is now assumed as unlikely to be achieved in year. Furthermore, the financial plan included an expectation of slippage against new allocations from the Scottish Executive Health Department, and this estimate has now been removed from the income assumptions.

Release of Provisions – in recognition of the risk around the sale of the Law Hospital site, recurring provision was held within existing reserves from the previous financial year and not released as new resources into the financial plan for the year. This funding was held to cover the potential in year benefit that would be lost if the sale was not complete before 31 March

2007. Through the mid year review exercise the decision was taken to release this funding into the overall position to support the achievement of the balanced year end forecast.

National & Regional Issues – the key areas of concern at a regional and national level are related to the service agreement with NHS Lothian Acute Division and the forensic medicine service provided by NHS Lothian and the independent sector. NHS Lothian are seeking additional recurring funding for increases in activity and cost at the Royal Infirmary of Edinburgh in particular. In relation to the forensic medicine service, provision has been made in the year end expenditure forecast for increases in the unplanned activity in this area.

Divisional Issues – the main cost pressure within the Acute Division and CHPs was the impact of Original Pack Dispensing and the treatment of Stoma supply costs at a national level. A number of offsetting benefits were identified, including slippage against the Prevention 2010 ‘Keep Well’ allocation, underspends across a number of budgets within the CHPs, and additional savings against corporate budgets.

Further Risks – medical and clinical compensation claims present a high financial risk for all NHS organisations. During recent months a small number of claims have come to light which are deemed ‘residual’ and are outwith the scope of the Clinical Negligence and Other Risks (CNORIS) scheme and thus attract a higher financial impact for NHS Lanarkshire. The Central Legal Office (CLO) have advised that summons have only recently been received and in line with existing accounting policy the impact of these have been recognised in full in arriving at the year end forecast.

Corporate Recovery Plan – the risks around delivery of the overall Corporate Recovery Plan targets for the year have been highlighted throughout the period to date. The shortfall brought forward from the previous financial year has also had an impact.

Resource Transfer – due to slippage in the Learning Disability and Mental Health resource transfer programmes, there is a non recurring financial benefit.

It is worth noting that there are other factors which may have an impact on the potential surplus at the year end, although further work is required to accurately quantify this. The significant unknowns include Agenda for Change, agreement on uplifts for SLAs with other Health Boards, the impact of the new Pharmacy contract and the funding pressures arising in relation to the delivery of waiting times targets both locally and for NHS Lanarkshire residents being treated in NHS Greater Glasgow.

To offset these risks, there are a number of potential benefits, which also require further time and work to assess the likely effect. These include the ongoing management actions highlighted in previous months, the impact of the payment of arrears on Agenda for Change for 2005/06, technical accounting adjustments such as capital charges estimates, and income from other NHS Boards.

A further detailed assessment of the year end position will be undertaken following the month 9 results, including a review of the potential risks and benefits highlighted above.

4. Revenue Resources

At the end of October 2006, the revenue resource limit for NHS Lanarkshire was £767.476m. The details of the movements from September are noted in Annex A. Potential benefit of slippage on any new allocations will be reviewed on an ongoing basis for the remainder of the year.

5. Acute Division

The Acute Division is reporting an overspend of £0.851m for the year to date, as detailed in Table 3, a decrease of £0.409m from the previous month.

	Budgeted Operating Costs 31/10/2006 £M	Actual Operating Costs 31/10/2006 £M	Actual saving / (excess) 31/10/2006 £M
Pay	115.960	115.546	0.414
Non Pay	61.929	63.245	(1.316)
Gross operating costs	177.889	178.791	(0.902)
Less: miscellaneous income	(17.405)	(17.456)	0.051
Net operating cost	160.484	161.335	(0.851)

The improved position during the month is the result of the release of some of the additional funding to support Original Pack Dispensing. There remains significant pressure on non pay budgets particularly in relation to activity and there is a need to maintain tight financial control across the Division.

The Division is forecasting a balanced financial position at the year end. This takes into account the full benefit of the OPD funding, as well as additional funding earmarked to support the achievement of waiting times targets.

6. Primary Care

Across the Community Health Partnerships and other Primary Care services, there is an underspend of £0.052m for the period to the end of October 2006, a reduction of £0.352m from the previous month.

The North Community Health Partnership shows an overspend of £0.038m for the period, as highlighted in Table 4, a decrease of £0.389m from the previous month.

	Budgeted Operating Costs 31/10/2006 £M	Actual Operating Costs 31/10/2006 £M	Actual saving / (excess) 31/10/2006 £M
Pay	35.805	35.535	0.270
Non Pay	5.805	6.113	(0.308)
Net operating cost	41.610	41.648	(0.038)

The South Community Health Partnership shows an underspend of £0.032m, as highlighted in Table 5, a decrease of £0.052m from the previous month.

	Budgeted Operating Costs 31/10/2006 £M	Actual Operating Costs 31/10/2006 £M	Actual saving / (excess) 31/10/2006 £M
Pay	18.108	17.887	0.221
Non Pay	3.078	3.267	(0.189)
Net operating cost	21.186	21.154	0.032

The Other Primary Care Services budgets show an underspend of £0.058m to the end of October, as highlighted in Table 6. This position has improved from the £0.031m overspend reported in September.

	Budgeted Operating Costs 31/10/2006 £M	Actual Operating Costs 31/10/2006 £M	Actual saving / (excess) 31/10/2006 £M
Pay	12.655	12.645	0.010
Non Pay	4.260	4.347	(0.087)
Family Health Services	68.300	68.300	0.000
Prescribing	65.637	65.637	0.000
Gross operating costs	150.852	150.929	(0.077)
Less: Family Health Service income	(4.658)	(4.793)	0.135
Less: miscellaneous income	(6.337)	(6.337)	0.000
Net operating cost	139.857	139.799	0.058

A number of areas within the CHP budgets have contributed to the overall year end forecast surplus. Following the mid year review exercise, non recurring budget adjustments have been actioned to remove a number of underspends within both pay and non pay budgets, as well as slippage on the Prevention 2010 'Keep Well' allocation. This has resulted in a reduction in the year to date underspends within the CHP budgets as this funding has been allocated to the overall NHS Lanarkshire position.

The CHPs and other Primary Care services are forecasting a balanced financial position at the year end. Further work will continue during the remainder of the year to ensure the underspends are maintained at the level anticipated for the year and to assess any potential for savings within the prescribing budget.

7. Headquarters/Area Wide Departments

At the end of October the Headquarters Departments show an underspend of £0.244m as detailed in Table 7, a reduction of £0.099m from the previous month. A year end forecast underspend of £0.149m was reported through the mid year review exercise and this funding has been removed from the Corporate budgets during the month. Any further underspends will be assessed as the year continues to determine whether there is any potential for additional non recurring budget adjustments.

	Budgeted Operating Costs 31/10/2006 £M	Actual Operating Costs 31/10/2006 £M	Actual saving / (excess) 31/10/2006 £M
Pay	7.223	7.136	0.087
Non Pay	3.197	3.040	0.157
Net operating cost	10.420	10.176	0.244

8. Service Agreements/Other Health Care Providers

Table 8 below shows a year to date overspend of £0.302m against service agreements and other healthcare providers, an adverse movement of £0.322m from the £0.020m underspend reported at the end of September.

This reflects the risk around the service agreement with NHS Lothian Acute Division, additional expenditure on forensic medicine both within NHS Lothian and the independent sector and the impact of increases to the 'top slicing' allocation for national services.

	Budgeted Operating Costs 31/10/2006 £M	Actual Operating Costs 31/10/2006 £M	Actual saving / (excess) 31/10/2006 £M
Service Level Agreements	38.645	38.831	(0.186)
Unpacs and Oats	2.615	2.608	0.007
Resource Transfer and Bridging	14.299	14.243	0.056
Independent Sector	5.866	6.103	(0.237)
HIF and SIP's	0.551	0.531	0.020
Mental Health	0.021	0.021	0.000
Gross operating costs	61.997	62.337	(0.340)
Less: miscellaneous income	(0.762)	(0.800)	0.038
Net operating cost	61.235	61.537	(0.302)

9. Corporate Recovery Programme (CRP)

A target of £8.000m was set for 2006/07 and savings identified to date total £6.448m. At the end of October all planned savings have been removed from the overall funding levels for the Acute Division and Primary Care and Corporate areas (£6.418m in total); including £1.0m estates rationalisation identified within the capital charges budget which has now been removed from the budget to date. A balance of £0.030m remains outstanding and relates to car leasing income. This will be followed up during November.

Table 9 below summarises the position to date.

	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	1.000	0.000	1.000	0.000
Non Clinical Support Services	0.713	0.000	0.713	0.613	0.070	0.683	0.030
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	2.738	3.680	6.418	0.030
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	2.738	3.680	6.418	1.582

10. Capital

The Capital Plan for 2006/07 was approved by the NHS Board in April 2006. The rate of actual expenditure to date has been low. Many of the major projects are still at planning stage and although it is anticipated that expenditure will pick up over the coming months, it is unlikely that the full capital allocation will be utilised this year. Capital expenditure of £3.293m has been incurred against the net allocation of £21.063m, with a year end underspend forecast at £20.616m taking account of potential capital receipts of £13.700m

A major factor influencing the potential year end position is the disposal of surplus property and the corresponding capital receipt on completion of sale. The capital plan for the year assumed receipts for Birkwood Hospital, Stonehouse Hospital and the site of the former Law Hospital. As has been highlighted throughout the year, the sale of the Law site has major revenue implications for NHS Lanarkshire, as a result of the potential profit on sale if completed during 2006/07.

Work remains ongoing to ensure title transfer is achieved before 31 March 2007, however the Scottish Executive Health Department has asked that the year end capital underspend be modelled assuming neither the Law or Stonehouse sales are completed this year. This would reduce the potential year end underspend from £20.161m to £8.416m.

Table 10 provides a summary of expenditure to date and an indication of the year end forecast:

<i>Table 10 - Capital Expenditure 2006/07</i>			
	Revised Annual Plan £M	Actual Position to 31/10/06 £M	Year end Forecast to 31/03/07 £M
Capital Allocation	21.063	3.293	21.063
Capital Expenditure			
Hospital Infrastructure	3.429	0.570	2.008
Community Infrastructure	2.758	0.324	2.181
Medical Equipment	4.326	0.377	4.338
IM&T	2.164	0.436	2.125
Other	5.640	1.586	3.495
	18.317	3.293	14.147
Capital Receipts	(13.700)	0.000	(13.700)
Net under / (over) spend	16.446	0.000	20.616
Impact if Stonehouse and Law sale not complete before 31/3/07			12.200
Potential net underspend			8.416

11. Conclusion

The Board is asked to note:

- *the actual revenue overspend of £0.430m as at 31 October 2006*
- *the forecast revenue underspend of £0.219m at 31 March 2007*
- *the forecast capital underspend of £20.616m at 31 March 2006 assuming all anticipated capital receipts are achieved*
- *the ongoing risks affecting the year end position*
- *a further assessment of the year end forecast will be prepared following the month 9 results*

Susan Goldsmith
 Director of Finance
 17 November 2006

Annex A – Revenue Resources

<u>Revenue Allocations 2006/07</u>	
	£M
Revenue Resource Limit as at 30 September 2006	767.030
Scottish Dental Access Initiative	0.040
Community Pharmacy Placements	0.072
Dental Practice Rent Reimbursement	0.215
Flying Start Initiative - 9th Round	0.006
Mental Health Review Implementation	0.025
Diagnostics Collaborative Programme	0.089
Revenue Resource Limit as at 31 October 2006	<u>767.476</u>