

NHS LANARKSHIRE

FINANCE REPORT FOR THE MONTH ENDED 30 SEPTEMBER 2006

1. Introduction

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

2. Overview

The actual financial position to the end of September shows an overspend of £0.901m compared with an overspend of £0.606m at the end of August. This represents a considerable increase from the trend seen in previous months. The main explanation for the movement in the net overspend to date is the impact of the introduction of the pneumococcal vaccines for children and expenditure on theatre supplies across the three acute hospital sites. Although this is a disproportionate increase in the overspend seen in earlier months, the year end forecast remains one of break even.

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

<i>Table 1 - Summary Financial Position</i>			
	Budgeted Operating Costs 30/09/2006 £M	Actual Operating Costs 30/09/2006 £M	Actual saving / (excess) 30/09/2006 £M
Acute Operating Division	136.470	137.730	(1.260)
North CHP	36.011	35.660	0.351
South CHP	17.838	17.754	0.084
Primary Care Other Services	117.523	117.554	(0.031)
Headquarters / Corporate Functions	8.635	8.292	0.343
Service Level Agreements / Other Healthcare Providers	54.135	54.086	0.049
NHSL - wide	34.599	35.036	(0.437)
Net Operating Costs	405.211	406.112	(0.901)

3. Financial Plan – Year end forecast

The mid year review work to provide a robust and detailed assessment of the likely year end outturn in comparison to the planned surplus is nearing completion.

The emerging pressures during the first half of the year include the recurring shortfall against the Corporate Recovery Programme, the risk around the completion of the sale of the Law Hospital site, expenditure on service agreements with other Boards in particular NHS Lothian and the impact of the roll out of Original Pack Dispensing across NHS Lanarkshire.

The initial assessment outlined in the August finance report remains extant at this time and there are no major changes to note following the September results. A detailed report will be provided to the NHS Board at the November Seminar, following a robust review of these mid year results and where feasible any further risks and / or benefits will be quantified.

For information, the high level summary of the potential year end position, showing the best case / worst case scenarios, per the August finance report, is detailed in Table 2 below.

<i>Table 2 - Potential Year End Position 2006/07</i>		
	Worse Case £M	Best Case £M
Forecast Financial Position per Financial Plan V15	0.679	0.679
Remove items included in original plan:		
- Sale of Law Land	(15.000)	(15.000)
- Repayment cumulative deficit	10.042	10.042
Revised In year surplus/ (deficit) per Financial Plan	(4.279)	(4.279)
Slippage against Financial Plan	2.155	2.155
Income Adjustments	(2.000)	(2.000)
Contingency re Law Sale	4.564	4.564
National and Regional Issues	(0.378)	(0.378)
Divisional Pressures	(1.030)	0.092
Further Potential Risks	(1.237)	(1.237)
Further Potential Benefits	0.000	1.250
Corporate Recovery Plan Shortfall	(1.785)	(1.785)
Resource Transfer Slippage	1.620	1.620
Forecast surplus / (deficit) 2006/07	(2.370)	0.002

It is worth noting again that without the Law sale delivery of break even at the year end will be extremely challenging. In addition, there continues to be significant unknowns including Agenda for Change, agreement on uplifts for SLAs with other Health Boards, and the impact of the new Pharmacy contract.

The following management actions were identified last month and in order to address the ongoing risks around achievement of the break even position, these are now being formally implemented across the system, with measures to monitor progress.

- **Management of any new and existing pressures by both the Acute Division and CHPs** – ongoing management action is in place.
- **Potential slippage on all developments to be identified** – this will be considered through the formal mid year review process.
- **Delay in release of new allocations** – this will be ongoing during the remainder of the year.
- **Further savings targets to be applied to headquarters / corporate functions** – taking account of the underspend position reported to date, budget reductions will be considered following the mid year review.
- **Delay in minor works schemes** – this has already been taken forward and controls will remain in place for the remainder of the year to minimise spend in this area.

- **Tighter control and management of vacancies for non clinical posts** – the Workforce Cost Reduction project remains focussed on this area and any filling of posts will remain the subject of close scrutiny.

4. Revenue Resources

At the end of September 2006, the revenue resource limit for NHS Lanarkshire was £767.030m. The details of the movements from August are noted in Annex A. Any potential benefit of slippage on additional allocations received so far this year will be assessed through the mid year review and 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 £1.260m for the year to date, as detailed in Table 3, an increase of £0.299m from the previous month.

This is a continuation of the pressure arising through Original Pack Dispensing, Care of the Elderly beds and a number of other areas within non pay budgets.

Table 3 - Acute Division 2006/07

	Budgeted Operating Costs 30/09/2006 £M	Actual Operating Costs 30/09/2006 £M	Actual saving / (excess) 30/09/2006 £M
Pay	98.720	98.434	0.286
Non Pay	52.446	54.014	(1.568)
Gross operating costs	151.166	152.448	(1.282)
Less: miscellaneous income	(14.696)	(14.718)	0.022
Net operating cost	136.470	137.730	(1.260)

The ongoing issues on non pay are related to laboratories, oncology drugs and stenting rates in the Cardiac Catheterisation Laboratory.

The most significant movement in the overspend during the month is in theatres across all three sites, where there has been a reported overspend of £0.205m during the month of September. The cause of this is being investigated further and as assessment of the likely full year impact will be made through the mid year review process.

Pressures are also noted in relation to the funding required to support delivery of waiting times targets and this area also requires further detailed review.

Actions to address these and other ongoing issues are being pursued as a matter of priority, including the potential use of any available non recurring slippage within existing Divisional budgets, with an ongoing commitment to the delivery of a balanced year end position.

6. Primary Care

Across the Community Health Partnerships and other Primary Care services, there is an underspend of £0.404m for the period to the end of September 2006, a reduction of £0.109m from the previous month.

The North Community Health Partnership shows an underspend of £0.351m for the period, as highlighted in Table 4, an increase of £0.036m from the previous month. The underspend in pay budgets is continuing, offset slightly by an adverse movement on non pay expenditure.

	Budgeted Operating Costs 30/09/2006 £M	Actual Operating Costs 30/09/2006 £M	Actual saving / (excess) 30/09/2006 £M
Pay	31.008	30.571	0.437
Non Pay	5.003	5.089	(0.086)
Net operating cost	36.011	35.660	0.351

The South Community Health Partnership shows an underspend of £0.084m, as highlighted in Table 5, an increase of £0.21m from the previous month. In line with the North CHP, this is mainly due to underspends against pay budgets.

	Budgeted Operating Costs 30/09/2006 £M	Actual Operating Costs 30/09/2006 £M	Actual saving / (excess) 30/09/2006 £M
Pay	15.198	15.079	0.119
Non Pay	2.640	2.675	(0.035)
Net operating cost	17.838	17.754	0.084

The Other Primary Care Services budgets show an overspend of £0.031m to the end of September, as highlighted in Table 6. This position has worsened from the £0.135m underspend reported in August. The main explanation for this adverse movement is the introduction of the pneumococcal vaccine programme for children. The likely full year cost of this has been estimated at circa £0.250m and is currently being managed within the position across all Primary Care budgets. It is not anticipated that this will adversely affect the projected year end position for NHS Lanarkshire as a whole, as set out in section 3 above.

	Budgeted Operating Costs 30/09/2006 £M	Actual Operating Costs 30/09/2006 £M	Actual saving / (excess) 30/09/2006 £M
Pay	11.071	10.850	0.221
Non Pay	3.543	3.930	(0.387)
Family Health Services	57.190	57.190	0.000
Prescribing	55.951	55.951	0.000
Gross operating costs	127.755	127.921	(0.166)
Less: Family Health Service income	(3.895)	(4.030)	0.135
Less: miscellaneous income	(6.337)	(6.337)	0.000
Net operating cost	117.523	117.554	(0.031)

Family health service and prescribing expenditure both reflect a break even position for the period. Prescribing expenditure is subject to considerable scrutiny throughout the year. Data is consolidated nationally and there is a significant time delay in receiving detailed analysis. Actual prescribing data has now been received for the first four months of the year and there is an emerging pressure relating to stoma costs. This was not anticipated and would appear to relate to a VAT issue. Through the mid year review and over the coming months further investigation will be carried out and measures identified to mitigate any impact of this. The current year end forecast remains one of break even.

7. Headquarters/Area Wide Departments

At the end of September the Headquarters Departments show an underspend of £0.343m as detailed in Table 7, an improvement of £0.172m from the previous month. This is mainly reflected across non pay expenditure and largely relates to a technical accounting adjustment in respect of injury benefit payments.

	Budgeted Operating Costs 30/09/2006 £M	Actual Operating Costs 30/09/2006 £M	Actual saving / (excess) 30/09/2006 £M
Pay	6.062	5.991	0.071
Non Pay	2.573	2.301	0.272
Net operating cost	8.635	8.292	0.343

8. Service Agreements/Other Health Care Providers

Table 8 below shows a year to date underspend of £0.049m against service agreements and other healthcare providers. This does not yet reflect the potential cost pressure arising from the national standard uplift on service agreements or the activity issues within NHS Lothian, particularly in relation to forensic services, as highlighted previously.

	Budgeted Operating Costs 30/09/2006 £M	Actual Operating Costs 30/09/2006 £M	Actual saving / (excess) 30/09/2006 £M
Service Level Agreements	32.914	32.826	0.088
Unpacs and Oats	2.245	2.240	0.005
Resource Transfer and Bridging	14.286	14.239	0.047
Independent Sector	5.033	5.147	(0.114)
HIF and SIP's	0.398	0.378	0.020
Mental Health	0.021	0.021	0.000
Gross operating costs	54.897	54.851	0.046
Less: miscellaneous income	(0.762)	(0.765)	0.003
Net operating cost	54.135	54.086	0.049

9. 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 towards a recurring balanced position, and to achieve the Efficient Government Targets set out by the Scottish Executive.

A target of £8.0m was set for 2006/07 and savings identified to date total £6.5m. At the end of September all planned savings have been removed from the overall funding levels for the Acute Division and Primary Care and Corporate areas (£5.4m in total); the balance of £1.1m identified for the current year relates predominantly to a capital charges budget reduction which has not yet been removed from the budget to date but will be actioned over the coming month.

As we move forward, plans to identify areas to cover the shortfall continue to focus on Estates Rationalisation, now that Picture of Health is agreed, and ward rationalisation where occupancy levels suggest this is possible.

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	0.000	0.000	0.000	1.000
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	1.738	3.680	5.418	1.030
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	1.738	3.680	5.418	2.582

10. Conclusion

The Board is asked to note:

- *the actual revenue overspend of £0.901m as at 30 September 2006*
- *the ongoing risks affecting the year end position*
- *the necessary management action to support a break even position*
- *a detailed report on the mid year review will be presented to the November Board Seminar.*

Susan Goldsmith
Director of Finance
18 October 2006

Annex A – Revenue Resources

<u>Revenue Allocations 2006/07</u>	
	£M
Revenue Resource Limit as at 31 August 2006	766.390
Scottish Dental Access Initiative	0.092
Flying Start Initiative - 8th Round	0.005
Planned Care Programme	0.106
Cancer Improvement and Support Programme	0.051
Mental Health Review Implementation	0.013
Flying Start Nurses and Midwives Implementation	0.047
Practice Education Facilitators	0.219
Scottish Primary Care Collaboratives	0.003
Audiology Funding	0.070
Palliative Care Model Schemes	0.038
Community Health Index (CHI)	0.005
ICU Bed Bureau	(0.010)
Revenue Resource Limit as at 30 September 2006	767.030