

NHS LANARKSHIRE

FINANCE REPORT FOR THE MONTH ENDED 31 AUGUST 2006

1. Introduction

The purpose of this report is to provide the NHS Board with the summary financial position for the five months ended 31 August 2006 and an early indication of the likely year end position.

2. Overview

The actual financial position to the end of August shows an overspend of £0.606m compared with an overspend of £0.412m at the end of July. This represents an increase from the trend seen in previous months. The transfer of the Care of the Elderly budgets between the Community Health Partnerships and the Acute Division has resulted in considerable movements within these areas, although the net impact on the overall position remains consistent. The main explanation for the movement in the net overspend to date is the reduction in the underspend position within the CHPs. Early indications suggest that this will improve in future months and may relate to the level of funding released to date within the CHPs to support the costs associated with the assimilation of staff onto Agenda for Change.

An exercise to assess the overall impact of Agenda for Change across NHS Lanarkshire has begun. Initial estimates suggest that the costs are in line with the funding set aside within the Financial Plan, although the costs associated with backfill for sickness absence are higher than expected, with sickness rates increasing in Acute nursing in particular. This work will continue as the assimilation process is completed, with further detailed analysis required as and when payment of arrears is rolled out.

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

	Budgeted Operating Costs 31/08/2006 £M	Actual Operating Costs 31/08/2006 £M	Actual saving / (excess) 31/08/2006 £M
Acute Operating Division	120.163	121.124	(0.961)
North CHP	29.799	29.484	0.315
South CHP	14.707	14.644	0.063
Primary Care Other Services	105.068	104.933	0.135
Headquarters / Corporate Functions	6.216	6.045	0.171
Service Level Agreements / Other Healthcare Providers	39.784	39.749	0.035
NHSL - wide	17.764	18.128	(0.364)
Net Operating Costs	333.501	334.107	(0.606)

3. Financial Plan – Year end forecast

Work has progressed on the assessment of the likely year end outturn in comparison to the planned surplus.

As reported previously a number of pressures have emerged during the first few months of the year, including the recurring shortfall against the Corporate Recovery Programme, the risk around the completion of the sale of the Law Hospital site and expenditure on service agreements with other Boards in particular NHS Lothian.

A detailed report will be provided to the NHS Board in October following a robust review of the mid year results. Based on the position to 31 August, however, an initial assessment of the year end has been considered, and where feasible both risks and / or benefits have been quantified. A high level summary of the potential year end position, showing the best case / worst case scenarios, 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

This initial review has highlighted that, without the Law Sale, delivery of break even at the year end will be extremely challenging. Further, even at mid year stage, 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.

As a consequence it is necessary to plan for the worst case and following management action has been identified. However if the Law sale is successful this year benefits of this action would be carried forward to next year.

- Management of any new and existing pressures by both the Acute Division and CHPs
- Potential in-year slippage on selected developments to be identified to re-phase the spend profile into next financial year
- In-year Delay in release of new allocations
- Further savings targets to be applied to headquarters / corporate functions/ non-clinical areas
- In-year re-phasing of minor works schemes
- Tighter control and management of vacancies for non clinical posts

4. Revenue Resources

At the end of August 2006, the revenue resource limit for NHS Lanarkshire was £766.390m. The details of the movements from July are noted in Annex A. Any potential benefit of slippage on additional allocations received during the year will be assessed on an ongoing basis.

5. Acute Division

The Acute Division is reporting an overspend of £0.961m for the year to date, as detailed in Table 3, an increase of £0.367m from the previous month.

This is a continuation of the pressure arising through Original Pack Dispensing and a number of other areas within non pay budgets. The most significant movement, however, relates to the overspend of £0.218m on the Care of the Elderly beds, following a transfer from the CHPs. This service is now managed on an area-wide basis by the Emergency and Medical Services Clinical Division.

	Budgeted Operating Costs 31/08/2006 £M	Actual Operating Costs 31/08/2006 £M	Actual saving / (excess) 31/08/2006 £M
Pay	82.177	82.018	0.159
Non Pay	49.223	50.336	(1.113)
Gross operating costs	131.400	132.354	(0.954)
Less: miscellaneous income	(11.237)	(11.230)	(0.007)
Net operating cost	120.163	121.124	(0.961)

The ongoing issues on non pay are related to laboratories, surgical sundries and Oncology drugs, as well as theatre supplies across all three sites, cardiology pacemaker activity and stenting rates in the Cardiac Catheterisation Lab.

Actions to address these 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 balance year end position.

6. Primary Care

Across the Community Health Partnerships and other Primary Care services, there is an underspend of £0.513m for the period to the end of August 2006.

The North Community Health Partnership shows an underspend of £0.315m for the period, as highlighted in Table 4. With the transfer of the Care of the Elderly beds, and corresponding overspend to the Acute Division the movement in the underspend for the period is not as favourable as would have been expected. Further work is required to assess the explanation for this, although it is likely that this relates to the impact of Agenda for Change on the pay budgets and the treatment of the funding that has been released from the provision available to support these costs.

Table 4 - North CHP 2006/07

	Budgeted Operating Costs 31/08/2006 £M	Actual Operating Costs 31/08/2006 £M	Actual saving / (excess) 31/08/2006 £M
Pay	25.608	25.404	0.204
Non Pay	4.191	4.080	0.111
Net operating cost	29.799	29.484	0.315

The South Community Health Partnership shows an underspend of £0.63m, as highlighted in Table 5. This position has worsened from July and may also relate to the phasing of the funding released for Agenda for Change.

Table 5 - South CHP 2006/07

	Budgeted Operating Costs 31/08/2006 £M	Actual Operating Costs 31/08/2006 £M	Actual saving / (excess) 31/08/2006 £M
Pay	12.539	12.520	0.019
Non Pay	2.168	2.124	0.044
Net operating cost	14.707	14.644	0.063

Other Primary Care services shows an underspend of £0.135m to the end of August, as highlighted in Table 6. This is an improvement from previous months although this may relate to the release of funding to support Agenda for Change and partly offsets the position within the CHP budgets.

Family Health Service expenditure reflects a breakeven position, and includes expenditure on prescribing. This area of expenditure is subject to considerable scrutiny throughout the year and a further assessment of the likely year end outturn will be undertaken through the mid year review process, although the current forecast continues to be one of break even.

Table 6 - Primary Care Other Services 2006/07

	Budgeted Operating Costs 31/08/2006 £M	Actual Operating Costs 31/08/2006 £M	Actual saving / (excess) 31/08/2006 £M
Pay	9.209	9.126	0.083
Non Pay	9.725	9.774	(0.049)
Family Health Services	48.074	48.074	0.000
Prescribing	46.626	46.626	0.000
Gross operating costs	113.634	113.600	0.034
Less: Family Health Service income	(3.199)	(3.300)	0.101
Less: miscellaneous income	(5.367)	(5.367)	0.000
Net operating cost	105.068	104.933	0.135

7. Headquarters/Area Wide Departments

At the end of August the Headquarters Departments show an underspend of £0.171m as detailed in Table 7 on the following page. 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.

	Budgeted Operating Costs 31/08/2006 £M	Actual Operating Costs 31/08/2006 £M	Actual saving / (excess) 31/08/2006 £M
Pay	4.975	4.952	0.023
Non Pay	1.241	1.093	0.148
Net operating cost	6.216	6.045	0.171

8. Service Agreements/Other Health Care Providers

Table 8 below shows a year to date underspend of £0.035m 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, as highlighted previously.

A critical review is underway on the use of the Orchard Clinic in NHS Lothian. This facility provides low secure care and has seen an increase in activity from NHS Lanarkshire over the past few years. In addition, referrals are being made to independent sector providers for similar services. Given the nature of the service provided, a small change in activity can result in a large shift in expenditure. A wider review of forensic services across the West of Scotland is being led by the Regional Planning Group, in light of the development of a new regional facility. At present, when these type of facilities are deemed necessary by clinicians / courts, there is no alternative available and NHS Lanarkshire must meet the statutory obligations of the Mental Health Care and Treatment Act. The level of spend will continue to be monitored closely, and will be set in the context of the overall financial framework for Mental Health services.

	Budgeted Operating Costs 31/08/2006 £M	Actual Operating Costs 31/08/2006 £M	Actual saving / (excess) 31/08/2006 £M
Service Level Agreements	27.436	27.357	0.079
Unpacs and Oats	1.705	1.699	0.006
Resource Transfer and Bridging	6.793	6.791	0.002
Independent Sector	4.188	4.263	(0.075)
HIF and SIP's	0.396	0.378	0.018
Gross operating cost	40.518	40.488	0.030
Less: miscellaneous income	(0.734)	(0.739)	0.005
Net operating cost	39.784	39.749	0.035

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 toward a recurring balanced position, and to achieve the Efficient Government Targets set out by the Scottish Executive. Plans to identify the balance 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 - Corporate Recovery Programme 2006/07

	Annual Plan			Savings withdrawn			Balance £M
	Rec £M	Non-Rec £M	Total £M	Rec £M	Non-Rec £M	Total £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	0.050	0.663	0.050
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	3.660	5.398	1.050
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	3.660	5.398	2.602

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

10. Capital

The Capital Plan for 2006/07 was approved by the NHS Board in April 2006. The rate of actual expenditure in the first five 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 £2.433m has been incurred against the planned spend of £31.273m. It should be noted that £11.5m of planned spend relates to repayment of brokerage.

Table 10 provides a summary of expenditure to date.

Table 10 - Capital Expenditure Budget 2006/07

	Annual Plan £M	Actual Expenditure to 31/8/06 £M
Capital Investment		
Hospital Infrastructure	4.929	0.395
Community Infrastructure	2.508	0.210
Medical Equipment	4.326	0.508
IM&T	2.164	0.272
Repayment of Brokerage	11.506	0.000
Other	5.840	1.048
	31.273	2.433

The capital investment programme for 2006/07 and beyond is considerable, both in terms of the existing planned developments in Primary Care premises and on the Acute sites in light of 'A Picture of Health'. Taking account of the business case process, disposal of surplus land and buildings, and the complex technical accounting arrangements around all of this, the task ahead is challenging.

It is anticipated that many of these issues will be highlighted in more detail at the Board Seminar in November 2006, however in advance of then a detailed review of the capital investment programme will be undertaken in October and presented to the Board at the October meeting. This review will cover as a matter of priority the current level of capital spend, likely capital receipts and resultant year end forecast, as well as capital charges, impairments and valuation issues as necessary. In addition, work to assess the phasing of future years capital investment will be taken forward.

11. Conclusion

The Board is asked to note:

- *the actual revenue overspend of £0.606m as at 31 August 2006*
- *the planned management action to support a break even position*
- *a robust assessment of the year-end capital position will be presented to the October Board meeting.*

Susan Goldsmith
Director of Finance
19 August 2006

Annex A – Revenue Resources

<u>Revenue Allocations 2006/07</u>	
	£M
Revenue Resource Limit as at 31 July 2006	765.574
Hard to Fill Posts	0.003
Nurse Bank	0.052
Flying Start Initiative - 7th Round	0.008
Diagnostic Waiting Times	0.753
Revenue Resource Limit as at 31 August 2006	766.390