

NHS LANARKSHIRE

FINANCE REPORT FOR THE YEAR ENDED 31 MARCH 2007

1. Introduction

The purpose of this report is to provide the NHS Board with the summary financial position for the year ended 31 March 2007, subject to external audit review.

2. Overview

The detailed finance reports presented to the NHS Board over recent months highlighted a potential range for the forecast surplus of between £5.5m and £7.7m, taking account of the sale of the Law Hospital site and the cumulative deficit.

The actual financial position to the end of March is in line with these projections, and shows an in year underspend of £15.465m, equating to a £7.072m carry forward surplus after clearing the brought forward deficit of £8.393m.

Throughout the year, the Board have been advised of the various factors resulting in the movement from the financial plan, which originally set a planned carry forward surplus of £0.121m for the year. These are a combination of benefits and cost pressures and include:

- areas within the financial plan where approved developments / investments have slipped or the sums involved were lower than expected;
- additional income relating to inflow activity from neighbouring NHS Boards;
- release of provisions held to recognise the risk around the sale of the Law Hospital site;
- underspends across mental health and learning disability budgets, as well as GP prescribing;
- the impact of additional provisions for residual medical and clinical compensation claims and pensions in line with recommended accounting practice;

A further adjustment has been seen in March in relation to a reduction in the anticipated cost of capital.

As a result of the favourable year end position, it has been possible to make provision in respect of Agenda for Change reviews, and premature retirements / voluntary severance payments as part of the Redeployment Policy. Both of which are included in the year end surplus reported.

The most significant issue to note in relation to the year end position is that NHS Lanarkshire has now cleared the cumulative deficit brought forward from previous financial years. The cumulative position peaked at £20.400m as at 1 April 2004, reducing slightly to £20.042m as at 1 April 2005, and to £8.393m as at 1 April 2006. This is a huge achievement for the organisation. The financial plan for 2007/08 sees the organisation returning to recurring balance at a time when we are embarking on a period of significant strategic change and the financial consequences are likely to be significant. Ongoing robust financial management across the system is essential.

Table 1 below provides further details of the overall position:

<i>Table 1 - Summary Financial Position</i>			
	Budgeted Operating Costs 31/03/2007 £M	Actual Operating Costs 31/03/2007 £M	Actual saving / (excess) 31/03/2007 £M
Acute Operating Division	290.913	290.913	0.000
North CHP	75.598	74.672	0.926
South CHP	38.399	38.363	0.036
Primary Care Other Services	240.915	237.630	3.285
Headquarters / Corporate Functions	29.046	28.927	0.119
Service Level Agreements / Other Healthcare			
Providers	105.176	102.378	2.798
NHSL - wide	28.309	32.025	(3.716)
Net Operating Costs	808.356	804.908	3.448
Sale of Law Hospital Land			11.780
Sale of Stonehouse Land			0.237
In year surplus for the year ended 31 March 2007			15.465
Cumulative deficit b/fwd			(8.393)
Revenue carry forward surplus 2006/07			7.072

3. Revenue Resources

At the end of March 2007, the revenue resource limit for NHS Lanarkshire was £762.711m. The details of the movements from February are noted in Annex A.

At the time of writing a number of allocations from the Scottish Executive Health Department remain outstanding, including:

- Accelerated depreciation £1.761m
- Directly Enhanced Services £0.651m

Capital charges returns were submitted to the SEHD on 13 April, confirmed the funding required for accelerated depreciation. The sum of £1.761m has been requested and is in line with earlier submissions. It is understood that the SEHD are reviewing all funding requests and confirmation of the amount to be allocated is awaited.

Funding of £12.6m for Directly Enhanced Services has been held centrally by the SEHD for allocation across Scotland at the year end. Actual expenditure in this area for NHS Lanarkshire is £0.651m for the year. It is assumed that full funding will be received to cover this spend.

4. Acute Division

The Acute Division achieved its planned breakeven position with £2.700m worth of non recurring savings contributing to the overall NHS Lanarkshire financial position, per the CRES programme for the year. Pressures were high across the non pay budgets throughout the year, in particular laboratories, drugs and theatres, with costs driven by patient activity both in terms of numbers and complexity. There have also been significant medical staffing related pressures across all three hospitals within A&E.

	Budgeted Operating Costs 31/03/2007 £M	Actual Operating Costs 31/03/2007 £M	Actual saving / (excess) 31/03/2007 £M
Pay	208.926	206.120	2.806
Non Pay	116.662	119.734	(3.072)
Gross operating costs	325.588	325.854	(0.266)
Less: miscellaneous income	(34.675)	(34.941)	0.266
Net operating cost	290.913	290.913	0.000

5. Primary Care

The Community Health Partnerships and other Primary Care services achieved a net underspend of £4.247m for the year, in addition to the £2.357m of mid year review savings withdrawn earlier and also £2.023m worth of non recurring savings, per the NHS Lanarkshire CRES programme for 2006/07.

The year end position is primarily due to a £2.610m underspend on Prescribing, exceeding the forecast underspend of £1.900m included in last months best case year end position. This is a result of the revised forecast cost of the new Pharmacy contract.

In addition, the position of the Quality and Outcomes Framework (QOF) was finalised this month and has resulted in an underspend of £0.800m, this was not anticipated. The balance of underspend relates to further slippage within Mental Health and Other CHP budgets.

The year end movement on Prescribing is currently being factored into the 2007/08 financial plan and the recurring commitment for QOF will also require review.

Tables 4 – 6 below set out the summary position for the CHPs and Other Primary Care Services respectively.

	Budgeted Operating Costs 31/03/2007 £M	Actual Operating Costs 31/03/2007 £M	Actual saving / (excess) 31/03/2007 £M
Pay	65.117	63.228	1.889
Non Pay	10.481	11.444	(0.963)
Net operating cost	75.598	74.672	0.926

Table 5 - South CHP 2006/07

	Budgeted Operating Costs 31/03/2007 £M	Actual Operating Costs 31/03/2007 £M	Actual saving / (excess) 31/03/2007 £M
Pay	33.151	32.541	0.610
Non Pay	5.248	5.822	(0.574)
Net operating cost	38.399	38.363	0.036

Table 6 - Primary Care Other Services 2006/07

	Budgeted Operating Costs 31/03/2007 £M	Actual Operating Costs 31/03/2007 £M	Actual saving / (excess) 31/03/2007 £M
Pay	23.546	22.961	0.585
Non Pay	8.211	9.361	(1.150)
Family Health Services	117.300	116.459	0.841
Prescribing	112.480	109.875	2.605
Gross operating costs	261.537	258.656	2.881
Less: Family Health Service income	(11.870)	(11.870)	0.000
Less: Miscellaneous income	(8.752)	(9.156)	0.404
Net operating cost	240.915	237.630	3.285

6. Headquarters/Area Wide Departments

Headquarters and Area wide departments achieved an underspend of £0.119m for the year as detailed in Table 7, in addition to £0.575m worth of non recurring savings, per the NHS Lanarkshire CRES programme for the year. This is predominantly due to underspends within the Public Health function £0.071m, which includes Dental and Pharmaceutical projects, slower than anticipated spends within the PFPI strategy and also changes within Regional Planning £0.033m.

Table 7 - Headquarters / Corporate Functions 2006/07

	Budgeted Operating Costs 31/03/2007 £M	Actual Operating Costs 31/03/2007 £M	Actual saving / (excess) 31/03/2007 £M
Pay	12.859	12.976	(0.117)
Non Pay	16.187	15.951	0.236
Net operating cost	29.046	28.927	0.119

7. Service Agreements/Other Health Care Providers

Table 8 highlights the underspend of £2.798m against service agreements and other healthcare providers for the year. Movements in March include further underspends within the areas of Health Improvement and Social Inclusion Projects of £0.229m and also additional underspends within service level agreements related to expenditure with NHS Greater Glasgow and Clyde primarily, waiting times £0.489m and Cross Boundary Flow Exercise £0.246m combined with unplanned activity and out of area treatments of £0.328m again primarily around expenditure with NHS Greater Glasgow and Clyde.

The year end position also reflects the underspend identified per the mid year review within Resource Transfer and Bridging, particularly Learning Disabilities and Mental Health programmes. However the position also reflects the additional expenditure on service level agreements with NHS Lothian and forensic medicine both within NHS Lothian and the independent sector.

	Budgeted Operating Costs 31/03/2007 £M	Actual Operating Costs 31/03/2007 £M	Actual saving / (excess) 31/03/2007 £M
Service Level Agreements	75.269	74.395	0.874
Unpacs and Oats	5.946	5.612	0.334
Resource Transfer and Bridging	30.324	28.662	1.662
Independent Sector	9.518	9.838	(0.320)
HIF and SIP's	1.090	0.839	0.251
Mental Health	0.088	0.085	0.003
Gross operating costs	122.235	119.431	2.804
Less: miscellaneous income	(17.059)	(17.053)	(0.006)
Net operating cost	105.176	102.378	2.798

8. Corporate Recovery Programme (CRP)

The Corporate Recovery Programme was 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 target set by the Scottish Executive. A target of £8.000m was set for 2006/07 through the financial planning process. Actual savings achieved against this plan totalled £6.418m, and were withdrawn from budgets at the start of the financial year, as set out in Table 9 below.

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	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

In achieving the overall year end surplus, substantial savings have been achieved beyond the specific targets set. Work is now underway to assess the recurring component of these additional unplanned savings and the impact on the 2007/08 financial plan.

The Scottish Executive set an Efficient Government target of £20.389m to be achieved by the end of 2007/08. Performance against this target is set out below in Table 10.

Table 10 - Efficient Government Target

	Recurring savings against target £M
Actual 2005/06	10.655
Actual 2006/07 - per CRP (table 9 above)	2.738
Additional 2006/07 - Prescribing	2.610
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	16.003
Planned 2007/08	3.000
Additional 2007/08 tbc	2.000
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	21.003
Target	20.389
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Anticipated Over / (Under) Achievement	<hr/> 0.614

9. Capital

Capital expenditure of £15.620m has been incurred against the net allocation of £21.927, with a year end underspend of £18.507m, taking account of the capital receipts for the land at the former Law and Stonehouse Hospitals of £12.200m. Table 11 provides a summary of expenditure to the year end:

Table 11 - Capital Expenditure 2006/07

	Actual Position to 31/3/2007 £M
Capital Allocation	21.927
Capital Expenditure	
Hospital Infrastructure	1.360
Community Infrastructure	1.126
Medical Equipment	5.455
IM&T	3.573
Other	4.106
	15.620
Capital Receipts	(12.200)
Net under / (over) spend	18.507

As highlighted in the February finance report, the Scottish Executive Health Department has confirmed a capital carry forward of £12.554m to 2007/08. This was based on the forecast position as at January 2007, less the receipt for the Stonehouse sale. Both the sale of the Stonehouse Hospital land and the Law Hospital site were 'booked' by 31 March 2007, thus resulting in the higher underspend for the year. In view of the extensive and complex capital investment programme over the coming years, it is essential that the full carry forward of £18.507m is agreed by the SEHD, and a formal request will be made on this basis as part of the year end process.

10. Conclusion

The Board is asked to note:

- *The in year surplus of £15.465m,*
- *The revenue carry forward of £7.072m, taking account of the £8.393m cumulative deficit brought forward,*
- *The capital underspend of £18.507m,*
- *Final confirmation of performance against the revenue and capital resource limits will be reported in the Annual Accounts for 2006/07 to be presented to the Audit Committee on 27 June 2007, following External Audit review.*

Susan Goldsmith
Director of Finance
23 April 2007

Annex A – Revenue Resources

<u>Revenue Allocations 2006/07</u>	
	£M
Revenue Resource Limit as at 28 February 2007	761.465
Implementation of CHP Toolkit for Long Term Conditions	0.020
Enhancing Self Care in People with Diabetes	0.016
Prevention 2010 / Keep Well	0.044
AHP Support and Development (on costs)	0.012
AHP Support and Development	0.007
Waiting Times Funding	0.150
Scottish Dental Access Initiative	0.061
OHSXtra NHS Scotland Staff	0.062
Waiting Times Funding	0.146
Waiting Times Funding	0.262
HAI: Infection Control Manager	0.040
HAI: Mandatory C diff monitoring (Monklands Lab Funding)	0.012
Waiting Times Funding	0.414
Revenue Resource Limit as at 31 March 2007	762.711