

NHS LANARKSHIRE

FINANCE REPORT FOR THE MONTH ENDED 31 JANUARY 2007

1. Introduction

The purpose of this report is to provide the NHS Board with the summary financial position for the ten months ended 31 January 2007 and an update on the forecast position for the year end.

2. Overview

The actual financial position to the end of January shows an underspend of £2.038m compared with an underspend of £0.215m at the end of December.

Following the December results a further assessment of financial performance for the year was undertaken. This work is sufficiently robust to give further confidence on the delivery of financial balance in 2006/07.

There have been a number of movements since the mid year review was completed in October, when the year end position was forecast at a surplus of £0.219m.

Progress on the assimilation of staff onto Agenda for Change and the payment of arrears has enabled us to provide an assessment of our provision for these costs within the approved financial plan. In addition, further progress has been made on agreeing the value of service level agreements with other NHS Boards.

The impact of these factors, along with others detailed in section 3 below, is sufficient to place the forecast year end surplus within the range £2.9m - £5.1m.

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

<i>Table 1 - Summary Financial Position</i>				
	Budgeted Operating Costs 31/01/07 £M	Actual Operating Costs 31/01/07 £M	Actual saving / (excess) 31/01/07 £M	Forecast saving / (excess) 31/03/2007 £ 000
Acute Operating Division	237.195	237.452	(0.257)	0.000
North CHP	60.318	59.921	0.397	0.000
South CHP	31.167	30.969	0.198	0.000
Primary Care Other Services	196.958	197.537	(0.579)	0.000
Headquarters / Corporate Functions	15.402	15.349	0.053	0.000
Service Level Agreements / Other				
Healthcare Providers	95.157	95.079	0.078	(0.284)
NHSL - wide	29.902	27.754	2.148	3.130
Net Operating Costs	666.099	664.061	2.038	2.846

3. Financial Plan – Year end forecast

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 put the year end forecast at a potential surplus of £0.219m.

In light of the December results further detailed work was undertaken. This included an assessment of the Divisional positions for the year to date, a review of allocations received, potential additional income from other NHS Boards for cross boundary activity flows into Lanarkshire, as well as consideration of other likely risks and benefits. The table below provides an analysis of this forecast:

	Low £M	High £M
Mid Year Review forecast surplus / (deficit)	0.219	0.219
Financial Plan Adjustments	2.238	2.238
Income Adjustments	0.858	1.158
National & Regional Issues	(0.033)	(0.033)
Other Healthcare Providers	0.061	0.061
Divisional Issues	0.382	0.382
Allocation Slippage	0.526	0.526
Glasgow Issues	0.377	0.908
Technical Accounting Provisions	(0.207)	(0.207)
Further Benefits	0.500	1.900
Further Risks	(2.075)	(2.075)
Updated forecast surplus / (deficit)	2.846	5.077

Financial plan adjustments – This relates entirely to Agenda for Change and work continues on the likely full year costs of AfC. An assessment of the funding required to support the in year position, including the non recurring impact of arrears, has been undertaken and will continue to be updated as payment of arrears is rolled out across staff groups.

Income – following the release of the revised national tariffs in December, further additional income relating to inflow activity is now assumed. The update of the service level agreement values has also recognised the impact of increased activity from surrounding NHS Boards.

National and regional issues/other healthcare providers – a number of small adjustments has been made to the ‘top sliced’ allocations which were not previously anticipated within the approved financial plan. Increased activity within the independent sector, particularly in relation to addictions services, has resulted in a cost pressure. Offsetting these costs are a number of underspends on agreements with other Boards and on the social inclusion partnerships.

Divisional Issues – additional pressure was experienced across the system during the Christmas and New Year period, with a high number of emergency admissions arising as a result of a respiratory virus. Other cost pressures are arising in relation to the laundry service and the ongoing expenditure levels within theatres across all three acute hospitals. It is anticipated that these costs will be managed within the existing budgets available and there is

an expectation that underspends across a number of areas within the CHPs will be maintained to the year end.

Allocation slippage – a number of allocations received from the Scottish Executive Health Department are likely to be available to offset the overall financial position this year. This relates to specific projects and will require to be reinstated in the next financial year.

Glasgow issues – investment beyond that set aside within the financial plan for the Beatson Oncology Centre and the neuroradiology service has been requested. To offset these pressures there is recurring slippage on other areas of funding set aside for Glasgow issues in the financial plan, including waiting times funding and the impact of the Glasgow cross boundary flow costing exercise. In addition, there is a contribution from NHS Greater Glasgow and Clyde to the costs of the South Community Health Partnership. The extent of the benefit of the overall slippage is dependent upon the additional waiting times funding required to achieve the ASC target. Further confirmation is awaited from NHSGG&C.

Provisions – following the interim audit work by our new external auditors, Price Waterhouse Coopers (PwC), an adjustment has been made to the methodology for the calculation of the pensions provision. The impact of this is significant but has been offset by a number of other provisions which have been released into the overall position. This includes a number of technical accounting provisions relating to previous years' accruals and the annual contribution to the Clinical Negligence and Other Risks (CNORIS) scheme, which is being managed nationally for all NHS Boards in the current financial year.

Further benefits – although further detailed work is required, a further emerging issue is the national position with the Pharmacy Contract. Indications suggest that the additional costs may not be as high as expected and as a result there may be slippage on the funding set aside locally. The actual position with regard the Pharmacy Contract and overall prescribing expenditure is unlikely to be finalised until after the year end.

Further risks – the results of the Agenda for Change assimilation exercise have seen a release of funding from the financial plan, as detailed above. This assessment has been made on the basis of the actual bandings staff have been assimilated to. It is apparent that a number of banding reviews have been requested and a sum has been set aside in recognition of the potential risk of this to the overall financial position.

It is worth noting that the recurring impact of these issues has been assessed and appropriate adjustments made to the financial plan for 2007/08. Ongoing financial control is essential during the last two months of this financial year and work will continue within the finance department to ensure a robust and detailed approach is taken to the forecasting and management of the year end position.

4. Law Hospital Sale

Further discussions have taken place with the Developers on the early transfer of title and given the progress on planning approvals both parties have agreed the engagement of lawyers to work on the required change to the missives.

In parallel, discussion is taking place with both PwC our external auditors, and the SEHD about the possibility of 'booking' the Law Sale at 31st March 2007 if title transfer has not yet concluded. PwC are currently exploring this with their technical department.

The ability to book the sale would have a significant impact on the year end outturn, increasing the range for the in year position to a surplus of £5.5m - £7.8m.

5. Revenue Resources

At the end of January 2007, the revenue resource limit for NHS Lanarkshire was £761.189m. The details of the movements from December 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.

6. Acute Division

The Acute Division is reporting an overspend of £0.257m for the year to date, as detailed in Table 3, a decrease of £0.150m from the previous month. Pressures remain across a number of non pay budgets, as highlighted previously. However, a few areas of concern have improved during the month and as a result the additional staffing costs arising from the increased admissions in the early part of January have been managed.

	Budgeted Operating Costs 31/01/2007 £M	Actual Operating Costs 31/01/2007 £M	Actual saving / (excess) 31/01/2007 £M
Pay	171.572	168.886	2.686
Non Pay	92.293	95.263	(2.970)
Gross operating costs	263.865	264.149	(0.284)
Less: miscellaneous income	(26.670)	(26.697)	0.027
Net operating cost	237.195	237.452	(0.257)

7. Primary Care

Across the Community Health Partnerships and other Primary Care services, there is an underspend of £0.016m for the period to the end of January 2007.

The North Community Health Partnership shows an underspend of £0.397m for the period, as highlighted in Table 4, an increase of £0.082m from the previous month, reflecting the ongoing trend for this year. As previously noted, this is the result of the gradual introduction of the Community Nursing review and is apparent in the South Community Partnership as well, where the underspend has increased by £0.032m to £0.198m during the month, highlighted in table 5.

Table 4 - North CHP 2006/07

	Budgeted Operating Costs 31/01/2007 £M	Actual Operating Costs 31/01/2007 £M	Actual saving / (excess) 31/01/2007 £M
Pay	52.115	51.345	0.770
Non Pay	8.203	8.576	(0.373)
Net operating cost	60.318	59.921	0.397

Table 5 - South CHP 2006/07

	Budgeted Operating Costs 31/01/2007 £M	Actual Operating Costs 31/01/2007 £M	Actual saving / (excess) 31/01/2007 £M
Pay	26.565	26.282	0.283
Non Pay	4.602	4.687	(0.085)
Net operating cost	31.167	30.969	0.198

The Other Primary Care Services budgets show an overspend of £0.579m to the end of January, as highlighted in Table 6. The non recurring underspends seen across the CHP budgets through the year have been withdrawn from the central primary care reserves and have resulted in an increase to the overspend in this area.

Table 6 - Primary Care Other Services 2006/07

	Budgeted Operating Costs 31/01/2007 £M	Actual Operating Costs 31/01/2007 £M	Actual saving / (excess) 31/01/2007 £M
Pay	17.369	17.713	(0.344)
Non Pay	5.986	6.399	(0.413)
Family Health Services	96.826	96.826	0.000
Prescribing	93.617	93.617	0.000
Gross operating costs	213.798	214.555	(0.757)
Less: Family Health Service income	(9.941)	(9.941)	0.000
Less: Miscellaneous income	(6.899)	(7.077)	0.178
Net operating cost	196.958	197.537	(0.579)

8. Headquarters/Area Wide Departments

At the end of January the Headquarters Departments show an underspend of £0.053 as detailed in Table 7. This position has improved from the breakeven position reported in December and is mainly due to small underspends on pay budgets.

	Budgeted Operating Costs 31/01/2007 £M	Actual Operating Costs 31/01/2007 £M	Actual saving / (excess) 31/01/2007 £M
Pay	10.515	10.473	0.042
Non Pay	4.887	4.876	0.011
Net operating cost	15.402	15.349	0.053

9. Service Agreements/Other Health Care Providers

Table 8 below shows a year to date underspend of £0.078m against service agreements and other healthcare providers, this position has improved from the £0.309m overspend reported at the end of December.

The year to date position continues to reflect 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. However, the position now reflects the expected impact of slippage identified within a number of specific areas of expenditure.

	Budgeted Operating Costs 31/01/2007 £M	Actual Operating Costs 31/01/2007 £M	Actual saving / (excess) 31/01/2007 £M
Service Level Agreements	62.209	62.079	0.130
Unpacs and Oats	4.094	4.088	0.006
Resource Transfer and Bridging	21.561	21.478	0.083
Independent Sector	7.386	7.550	(0.164)
HIF and SIP's	0.627	0.607	0.020
Mental Health	0.088	0.085	0.003
Gross operating costs	95.965	95.887	0.078
Less: miscellaneous income	(0.808)	(0.808)	0.000
Net operating cost	95.157	95.079	0.078

10. Capital

Capital expenditure of £6.549m has been incurred against the net allocation of £21.927m, with a year end underspend forecast at £19.544m, taking account of potential capital receipts of £13.700m.

As noted last month, significant effort has to be made to ensure that the projected level of expenditure is achieved for the year. Expenditure in January was around £1.5m leaving a balance of around £9.5m to be expended in the remainder of the financial year. Significant commitments have been made to ensure that this will be achieved, particularly around medical and IM&T equipment and under DDA compliance and other statutory schemes.

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 31/01/07 £M	Year end Forecast to 31/03/07 £M
Capital Allocation	21.927	6.549	21.927
Capital Expenditure			
Hospital Infrastructure	2.365	1.005	2.838
Community Infrastructure	2.608	0.722	1.839
Medical Equipment	4.431	1.936	4.433
IM&T	3.313	1.570	3.313
Other	6.626	1.316	3.650
	19.343	6.549	16.073
Capital Receipts	(13.700)	0.000	(13.700)
Net under / (over) spend	16.284	0.000	19.554

11. Conclusion

The Board is asked to note:

- *The year to date underspend of £2.038m*
- *The forecast year end revenue surplus of £2.9m - £5.1m, excluding the impact of the sale of the Law Hospital site*
- *The forecast year end revenue surplus would increase to £5.6m - £7.8m if the sale of the Law Hospital site is 'booked' by 31 March 2007*
- *The forecast year end capital underspend of £19.554m.*

Susan Goldsmith
Director of Finance
21 February 2007

Annex A – Revenue Resources

<u>Revenue Allocations 2006/07</u>	
	£M
Revenue Resource Limit as at 31 December 2006	760.718
Senior Charge Nurse Review Pilot in 2007/08	0.060
Round Two Additional Waiting Times Money	0.100
Adjustment Recombinant Factors VIII and IX - Transfer from NSS	0.215
Two Tier Working	0.086
Scottish Dental Access Initiative	0.010
Revenue Resource Limit as at 31 January 2007	761.189