

Meeting of
Lanarkshire NHS Board
28 November 2007

Lanarkshire NHS Board
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SUBJECT: FINANCE REPORT FOR THE MONTH ENDED 31 OCTOBER 2007

1. PURPOSE

The attached report provides the NHS Board with an update on the financial position for period April – October 2007/08.

2. CONTENT/SUMMARY OF KEY ISSUES

The financial position to the 31 October 2007 shows an underspend of £7.305m. The LDP includes both the planned in year position of £3.971m and the carry forward from 2006/07 of £7.961m, bringing the original forecast per the LDP to £11.932m. The outcome of the mid year review exercise has confirmed that the potential surplus will be in the range of £11.5m - £19.5m.

Capital expenditure of £2.871m has been incurred to date, against the updated plan of £22.647m for the year.

3. ACTIONS

As advised last month, agreement is required that appropriate management action is taken to minimise the likely year end under spend and to seek, as far as possible, to contain the surplus within the forecast set out in the LDP. In particular, agreement is required to further progress proposals to reinvest underspends up to £9m in premises and infrastructure particularly in Primary Care.

4. CONCLUSIONS

The NHS Board are asked to note the contents of the report.

5. FURTHER INFORMATION

For further information or clarification of any issues in this paper, please contact Carol Potter, Deputy Director of Finance, 01698 206355

Susan Goldsmith
Director of Finance
21 November 2007

NHS LANARKSHIRE

FINANCE REPORT FOR THE MONTH ENDED 31 OCTOBER 2007

1. Introduction

- 1.1. The purpose of this report is to provide the NHS Board with the summary financial position for the seven months ended 31 October 2007 and the outcome of the Mid Year Review.

2. Summary

- 2.1. The financial position to the end of October shows an under spend of £7.305m, as detailed in Table 1 below.

	Budgeted Operating Costs 31/10/2007 £M	Actual Operating Costs 31/10/2007 £M	Actual saving / (excess) 31/10/2007 £M
Acute Operating Division	126.710	126.710	0.000
North CHP	45.689	43.703	1.986
South CHP	23.389	22.809	0.580
Primary Care Other Services Headquarters / Corporate Functions	143.690	142.791	0.899
Service Level Agreements / Other Healthcare Providers	56.547	56.547	0.000
NHSL - wide	64.269	64.840	(0.571)
	26.509	22.098	4.411
Net Operating Costs	486.803	479.498	7.305

- 2.2. The mid year review exercise was undertaken during the last month, to provide a robust and detailed assessment of the likely year end outturn and is summarised on Table 2 on the following page. Work has been undertaken to critically review operational budget performance to date, as well as planned commitments within the approved Financial Plan, income assumptions, the impact of activity outwith Lanarkshire including national tariff issues, accruals and provisions from the 2006/07 accounts and further potential costs and benefits as we move through the second half of the year.
- 2.3. The approved financial plan and LDP included both the planned in year position of £3.971m and the carry forward from 2006/07 of £7.961m, bringing the original planned surplus to £11.932m at 31 March 2008. The outcome of the mid year review exercise has now confirmed that the potential

surplus may be in the range of £11.5m - £19.5m. A summary of the movements from plan are set out in the table below.

Table 2 - Mid Year Review		
	Low £M	High £M
Opening Position:		
Forecast in year surplus per Approved Financial Plan	3.971	3.971
Cumulative surplus b/fwd 2006/07	7.961	7.961
Forecast Cumulative Surplus per Approved LDP	11.932	11.932
Mid Year Review Adjustments:		
Divisional Performance	7.827	8.837
Investment in Premises and Infrastructure	(9.000)	(9.000)
CMT Approved Schemes	(4.654)	(4.654)
Schemes under discussion	(1.462)	(1.462)
Financial Plan	2.203	4.224
SLAs / Resource Transfer / Independent Sector	1.926	1.926
Technical Accounting	2.678	7.678
Revised forecast surplus / (deficit) 2007/08	11.450	19.481

- 2.4. **Divisional Performance / Investment in Premises and Infrastructure** – this is the most significant contribution to the improved position across NHS Lanarkshire with underspends across Primary Care, Mental Health and Prescribing generating a significant contribution to the financial position this year. This relates to a high level of vacancies across Primary Care and Mental Health and although there has been ongoing recruitment, this has been matched with a high level of turnover. The position is also exacerbated by the move to implement strategic change in Mental Health services, which is currently being delivered using internal resource - generated largely by vacancies.

In addition there has been the benefit from Category M Savings across Scotland of which our "share" is in excess of £3m.

In order to ensure that these resources are retained within NHS Lanarkshire it is proposed to undertake a programme of general refurbishment, including investment in Health and Safety, and the patient environment. This will be prioritised for Primary Care premises, recognising that the financial position from next year and beyond may limit our scope to invest the level of capital required. There will also be some investment in Monklands, particularly around the "front door".

Proposals are currently being prioritised and assessed to determine the feasibility of taking forward each individual proposal by 31 March 2008. This work will be predominantly led by the Property and Support Services Department, although there is a key role for the Procurement and Finance

Departments. For the purposes of monitoring this programme, regular reports will be provided to the Capital Investment Group as well as the CMT and NHS Board. Given the size of the proposed investment, the complexities of capital / revenue accounting, the level of input required from Property Services, Procurement and Finance staff, and the logistical implications for any operational areas mean that this will be extremely challenging for all concerned.

- 2.5. **CMT approved schemes** – some priority proposals have already been agreed by the Corporate Management Team, through the work undertaken over the last few months on non recurring proposals and ‘invest to save’ schemes. This was reported to the NHS Board last month.
- 2.6. **Schemes under discussion** – there are a number of schemes which were included in the work on the non recurring proposals, but have been held for the time being pending further discussion and consideration by the Corporate Management Team.
- 2.7. **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, including funding for high cost low volume drugs, IM&T funding and the Keep Well programme.
- 2.8. **SLAs / Resource Transfer / Independent Sector** – the key areas of concern at a regional and national level are related to the service agreement with NHS Lothian Acute Division arising through the roll out of national tariffs and forensic medicine activity within both NHS Lothian and the independent sector. These cost pressures have been offset by lower than expected funding requirements for waiting times in NHS Greater Glasgow & Clyde, resource transfer underspends due to slippage in the Learning Disability and Mental Health programmes, and an anticipated increase in SLA inflow funding due to the impact of national tariffs.
- 2.9. **Technical Accounting** – the majority of the technical accounting benefit is linked to the review of accruals and provisions held in the 2006/07 annual accounts. This offsets a slight increase to provisions for pensions, injury benefits and medical negligence claims. The major movement from the low to high estimate relates to Agenda for Change and there remains significant uncertainty around this at present. This is an area which will required further work as we progress toward the year end, and early discussions have been held with our external auditors, Price Waterhouse Coopers, in relation to this.
- 2.10. A further detailed assessment of the year end position will be undertaken following the month 9 results, including a review of any further potential risks and benefits.
- 2.11. As highlighted last month, recent correspondence from the Scottish Government Health Department (SGHD) indicated that any surplus beyond that set out in our approved LDP is unlikely to be honoured in future financial years. These needs to be set against the context of an increasingly difficult

financial climate and therefore the imperative to ensure that underspends are reinvested in a way that supports future years.

3. Revenue Resources

- 3.1. At the end of October 2007, the revenue resource limit for NHS Lanarkshire was £815.992m. Changes to the allocation during the month are highlighted in Annex A.

4. Acute Division

- 4.1. The Acute Division is reporting a breakeven position for the period to the end of October 2007, as detailed in Table 3, an improvement of £0.108m from the previous month.
- 4.2. The under spend against the pay budgets shows a slight decrease of £0.006m from the previous month mainly due to the continuing impact of vacancies within Admin and Clerical, Allied Health Professionals and Senior Medical staffing, particularly Radiology and Microbiology being offset against increasing overspends in Nursing and Midwifery and the additional cost of sickness absence levels particularly within the Elderly Care Directorate.
- 4.3. The over spend against non pay budgets shows an decrease of £0.054 from the previous month mainly due to non recurring funding from reserves being released through the mid year review to cover cost pressures within the Division.
- 4.4. Despite the on going cost pressures including £0.750m for the additional incremental cost of Agenda for Change for the year, the forecast year end position for the Division remains break even.

Table 3- Acute Division 2007/08

	Budgeted Operating Costs 31/10/2007 £M	Actual Operating Costs 31/10/2007 £M	Actual saving / (excess) 31/10/2007 £M
Pay	116.513	115.324	1.189
Non Pay	30.844	32.001	(1.157)
Gross operating costs	147.357	147.325	0.032
Less: miscellaneous income	(20.647)	(20.615)	(0.032)
Net operating cost	126.710	126.710	0.000

5. Primary Care

- 5.1. Across the Primary Care sector, there is a net under spend of £3.465m for the period to the end of October 2007. This includes an under spend of £1.986m within the North Community Partnership (as detailed in Table 3), an under spend of £0.580m within the South Community Health Partnership (as detailed in Table 4) and an under spend of £0.899m within the Primary Care Other Services budgets (as detailed in Table 5).

- 5.2. The North CHP under spend for October, again shows a significant increase of £0.383m from the previous month. The under spend continues to be predominantly across pay budgets as there remains many vacancies particularly within Mental Health in the Coatbridge locality. As a consequence of staffing vacancies, training and development budgets within non pay areas remain unspent.

	Budgeted Operating Costs 31/10/2007 £M	Actual Operating Costs 31/10/2007 £M	Actual saving / (excess) 31/10/2007 £M
Pay	39.346	37.618	1.728
Non Pay	6.343	6.085	0.258
Net operating cost	45.689	43.703	1.986

- 5.3. The South CHP under spend shows an increase of £0.177m from the previous month. The increase in under spend is across both pay and non pay headings and is largely as a result of staff vacancies within each locality and also the impact of training and development budgets remaining unspent.

	Budgeted Operating Costs 31/10/2007 £M	Actual Operating Costs 31/10/2007 £M	Actual saving / (excess) 31/10/2007 £M
Pay	20.411	19.944	0.467
Non Pay	2.978	2.865	0.113
Net operating cost	23.389	22.809	0.580

- 5.4. Primary Care Other Services under spend shows an increase of £0.271m from the previous month. This is predominantly due to prescribing and the continuing impact of additional category M price reductions .

	Budgeted Operating Costs 31/10/2007 £M	Actual Operating Costs 31/10/2007 £M	Actual saving / (excess) 31/10/2007 £M
Pay	13.354	13.171	0.183
Non Pay	4.080	4.283	(0.203)
Family Health Services	70.094	70.094	0.000
Prescribing	67.489	66.649	0.840
Gross operating costs	155.017	154.197	0.820
Less: Family Health Service income	(6.741)	(6.741)	0.000
Less: Miscellaneous income	(4.586)	(4.665)	0.079
Net operating cost	143.690	142.791	0.899

6. Headquarters/Area Wide Departments

- 6.1. The Headquarters and Area Wide Departments are reporting a breakeven position for the period to the end of October 2007, as detailed in Table 6, a decrease of £0.012m from the previous month.
- 6.2. The recurring savings target of £0.285m previously identified has now been withdrawn from budgets across a number of Headquarters and Area Wide departments.

	Budgeted Operating Costs 31/10/2007 £M	Actual Operating Costs 31/10/2007 £M	Actual saving / (excess) 31/10/2007 £M
Pay	17.846	17.578	0.268
Non Pay	38.701	38.969	(0.268)
Net operating cost	56.547	56.547	0.000

7. Service Level Agreements/Other Healthcare Providers

- 7.1. At the end of October 2007, there is an over spend of £0.571m against the service level agreements and other healthcare providers, as detailed in table 7, a significant increase of £0.446m from the previous period.
- 7.2. Following the mid year review the year to date position now reflects the risk around unplanned expenditure with NHS Lothian in relation to Acute activity. This area is currently showing an over spend of £0.117m, driven by the impact of the roll out of national tariffs.

- 7.3. The over spend of £0.597m within the Independent Sector shows an increase of £0.178m from the previous month and continues to be within Mental Health particularly Forensic services and Eating Disorders.

	Budgeted Operating Costs 31/10/2007 £M	Actual Operating Costs 31/10/2007 £M	Actual saving / (excess) 31/10/2007 £M
Service Level Agreements	42.417	42.346	0.071
Unpacs and Oats	3.113	3.183	(0.070)
Resource Transfer and Bridging	14.846	14.836	0.010
Independent Sector	5.204	5.801	(0.597)
HIF and SIP's	0.411	0.391	0.020
Mental Health	0.050	0.050	0.000
Gross operating costs	66.041	66.607	(0.566)
Less: miscellaneous income	(1.772)	(1.767)	(0.005)
Net operating cost	64.269	64.840	(0.571)

8. Capital

- 8.1. Capital expenditure of £2.871m has been incurred against the net capital allocation of £37.887m, with a year end under spend forecast at £15.240m. Details of the actual expenditure position for the seven months ended 31 October 2007 are set out in table 8 below. Annex B provides a more detailed analysis by scheme.
- 8.2. The low level of expenditure to date is extremely concerning. There is a forecast spend of £22.647m for the year and considerable action is required to progress this. Through the work required to manage the proposed revenue investment in the estate (as highlighted in paragraph 2.10) and the ongoing work of the Capital Investment Group, this will be given immediate priority.

Table 8 - Capital Expenditure 2007/08

	Annual Plan £M	Actual Position to 31/10/2007 £M	Year end Forecast to 31/3/2008 £M
Capital Allocation	37.887	2.871	37.887
Capital Expenditure			
B/fwd from 2006/07	1.530	0.066	1.283
Primary Care Premises	7.144	0.925	4.682
Modernising Psychiatric Services	2.033	0.326	1.564
Picture of Health - Acute & Mental Health	0.499	0.024	0.026
Rationalise Accommodation	1.000	0.033	0.019
Statutory	1.326	0.000	1.326
Ring Fenced	11.872	1.313	11.280
Car Parking	3.100	0.000	3.100
Other	1.367	0.184	1.367
Transfer to Revenue	(2.000)	0.000	(2.000)
	27.871	2.871	22.647
Net under / (over) spend	10.016	0.000	15.240

9. Conclusion

The Board is asked to note:

- the actual revenue under spend of £7.305m as at 31 October 2007;
- the range for the forecast year end surplus between £11.5m and £19.5m as identified per the Mid Year Review;
- the forecast capital under spend of £15.240m for the year.

The Board is asked to approve:

- proposals to invest up to £9m of revenue funding in premises, minor works and non medical equipment are further progressed by CMT and CIG, for future reporting back to the Board.

Susan Goldsmith
Director of Finance

21 November 2007

ANNEX A

REVENUE RESOURCE LIMIT 2007/08

	Rec £M	Non-Rec £M	Total £M
Revenue Resource Limit as at 30 September 2007	735.959	86.093	822.052
Adjustments to Allocations Confirmed:			
Bowel Cancer Screening Programme	0.000	(0.333)	(0.333)
Cochlear Implant Service	0.000	(0.033)	(0.033)
Managed Clinical Networks (6)	0.000	(0.013)	(0.013)
Dental Action Plan Delivery Support Costs and Childsmile	0.594	0.000	0.594
SALUS for evaluation work Dundee Vocational Rehab Pilot	0.000	0.015	0.015
Scottish Dental Access Initiative - Mrs Fi and Mrs Fo	0.000	0.001	0.001
Recall Delayed Discharge Funding paid twice	0.000	(3.121)	(3.121)
Recombinant Factors VIIa, VIII and IX	0.000	(2.821)	(2.821)
Temporary Project Manager - Taylor Report	0.000	0.040	0.040
Bloodborne Virus	0.532	0.000	0.532
HIB Booster catch up campaign	0.000	0.079	0.079
Paediatric Intensive Care	0.000	(1.131)	(1.131)
Ist year outputs - July and August returns	0.000	0.010	0.010
HNC Year 1	0.000	0.051	0.051
HNC Years 2 and 3	0.000	0.070	0.070
Revenue Resource Limit as at 31 October 2007	737.085	78.907	815.992