

## FINANCIAL PLANS 2008/09

### 1. Purpose of the Report

1.1 The purpose of the report is to:

- Advise the Board of the financial resources available in 2008/09.
- Assure the Board that the commissioning plans of the PCT are confined to the resources available.
- Assure the Board that the provider expenditure budgets are within the constraints of anticipated income.
- Ensure that the capital expenditure plans for 2007/08 are within the anticipated available resource.

### 2. Sources of Funds

2.1 Since notifying the Board in December about the anticipated resources available in 2008/09, many assumptions have now been confirmed.

2.2 The table below shows the planned revenue resource limit for the PCT in 2008/09:

	Initial Paper	March Position
	£000	£000
<b>2007-08 recurrent allocation for the relevant population</b>	<b>606,916</b>	<b>606,916</b>
Growth	32,596	33,150
Confirmed adjustments to allocation	(3,282)	(14,314)
Recurrent funding allocated non-recurrently	(10,499)	
Recurrent IATs	388	123
Return of 2007/08 surplus	3,200	3,200
Non-recurrent IATs		2,053
Return of part of 2006/07 top slice		1,790
Carry forward adjustments		(1,086)
Central allocations		803
<b>Total Resource Limit 2008/09</b>	<b>629,319</b>	<b>632,635</b>

2.3 There are a number of changes to the numbers presented to the Board in December. It was originally assumed for planning purposes that the level of growth allocated in 2008/09 would be 5.3%; it has since been confirmed at 5.4%, giving an additional resource of £554K. Also, several items of funding allocated on a non-recurrent basis in each year have now been added to the PCT's baseline. This is the reason for the large change in the confirmed adjustments to allocation and recurrent funding allocated non-recurrently lines.

2.4 The PCT has also received confirmation from NHS West Midlands that part of the 2006/07 top slice from PCT budgets will be returned in 2008/09. This will increase the overall funds available by £1,790K.

### 3. Application of Funds

The broad application of funds is summarised in the table below:

<b>Summary Expenditure Plans 2007/08</b>	<b>£000</b>
Commissioning	456,355
Prescribing	73,690
GMS/PMS	54,352
Management	25,267
Dental	15,318
Provider developments	2,391
Earmarked reserves	1,849
Contingency	1,520
<b>Total Expenditure</b>	<b>630,742</b>
Planned Surplus	1,893
<b>Total</b>	<b>632,635</b>

#### 3.1 Commissioning

3.2 Underpinning the commissioning plans are a series of contracts with providers, which are both NHS and non-NHS. For the majority of these, contract values have been agreed and where these are with Acute providers, contracts were signed at the end of February. The exception is Heart of England Foundation Trust, where the PCT has an existing three year legally binding contract and is currently agreeing with HEFT a timescale for implementing the revised contract.

3.3 The PCT has made the following assumptions with regards to the commissioning portfolio and contracts have been agreed on this basis:

- Inflation - 2.3% inflation was applied to all contracts.
- Volume - all contracts were based on forecast outturn level, assessed and agreed at Month 6.
- 18 Weeks - additional capacity in order to meet 18 Weeks was commissioned in 2007/08. This capacity has been rolled forward into 2008/09 and remains in the Acute contracts.
- Reserves - all contracts were settled within the resources provided; therefore an acute reserve has been set aside to fund any over performance.

#### 3.4 Prescribing

3.5 Based on information from Keele University, the PCT has assessed the level of growth in the primary care prescribing portfolio and applied a gross 7% uplift to the 2007/08 forecast outturn to arrive at the start point budget for 2008/09. This uplift takes into account the impact of NICE, PCT developments, general volume growth and inflation at 2.3%.

### 3.6 Management

3.7 After discussions with directors, start point management budgets have been set in order to fund the signed off and agreed structure. Specific new investments in the PCT management structure are in:

- Emergency planning.
- Infection control.
- Process improvement and World Class Commissioning.
- Safeguarding adults.
- Clinical governance.

### 3.8 Inflation/Efficiency

3.9 In line with national guidance inflation has been applied at 5.3%, with 3% cash releasing efficiency requirement across the entire PCT portfolio, with the exception of prescribing as mentioned previously, and GMS/PMS, which has been given a 1% uplift.

### 3.10 Contingency

3.11 The PCT is currently holding an uncommitted contingency of £1.5 million. This contingency is to act as a buffer to ensure the PCT meets its planned surplus target. Some of the contingency might also be used in the final few weeks of budget setting to fund any identified unavoidable cost pressures that have so far not materialised.

### 3.12 Overall Position

3.13 The NHS as a whole has been asked to plan for a surplus in 2008/09 equivalent to the surplus achieved in 2007/08. At the start of the current financial year the PCT planned a 0.3% surplus on total resources available. This has therefore been used as the planned surplus figure for 2008/09, which equals £1,893K.

## 4. Provider Side Budget

4.1 The provider arm will be subject to the same 5.3% uplift less 3% efficiency as the rest of the PCT. The start point budget for the provider arm is laid out in the table below:

Provider Arm Budget 2008/09	£000
2007/08 recurrent baseline	38,664
Inflation (net of efficiency)	889
Slipped planned surplus group investments 2007/08	130
<b>Total Start Point Provider Arm Budget 2008/09</b>	<b>39,683</b>

4.2 The investments shown are the planned surplus group investments identified in 2007/08, where commencement has slipped into 2008/09; the funding for the

projects that commenced in 2007/2008 has already been added into the recurrent baseline.

## 5. Capital Side Budget

5.1 The PCT receives streams of funding for capital and revenue and is required to manage within these capital and revenue resource limits separately. One of the challenges facing the PCT in terms of financial management is that the source of funds does not always match the type of expenditure incurred e.g. funding for IT hardware received as revenue where the expenditure is capital and funding for LIFT project costs received as capital where the expenditure is revenue.

5.2 Below are details of the capital funds the PCT is anticipating in 2008/09 and the investment plans for them:

Source of Capital Funds	£000
Block Capital	500
Additional Capital Schemes	2,100
Sale of LD Properties	4,500
<b>Total sources of capital</b>	<b>7,100</b>

5.3 Proposed application of capital funds for 2008/09:

Site	Works	£000
PCT Wide Properties	Maintenance of Existing Capital Stock	500
Proctor St	Car Park	300
Waterlinks	2 <sup>nd</sup> & 3 <sup>rd</sup> Floor Office Refurbishment	750
Waterlinks	IT	500
LIFT	Sub Debt	150
LIFT Properties	Health Centre Fit Out	400
Strategic Investment Fund	Available to invest in PCT infrastructure	4,500
<b>Total application of Funds</b>		<b>7,100</b>

5.4 It should be noted that this forms part of the PCT's investment in its estate; the PCT also makes revenue grants to General Practices to improve their premises and manages investment on the maintenance of its premises.

## 6. Risk Management Strategy

6.1 The PCT is currently holding an uncommitted contingency of £1,500K, which together with the planned surplus of £1,893K, gives a £3,393K buffer against the statutory duty to breakeven.

6.2 The main risks forecast in 2008/09 are:

- Continuing care legislation - a reserve has been allocated to mitigate against this risk but the current lack of information about the outcome of the assessments makes accurate forecasting difficult.
- GP prescribing growth - the PCT has assessed overall growth (price and volume) in GP prescribing of 7%. This is based on information provided by Keele University. A 1% variance against this figure would equate to a risk of £700k.
- Slippages on planned developments - three major investment programmes are planned for 2008/09: End of Life Care (£2.5 million), Intermediate Care (£1.5 million) and Birmingham OwnHealth (£4 million). The risk is that there is significant slippage on planned developments, generating an in-year under spend.
- Acute activity – now that acute contracts have been agreed the PCT has a reserve to offset against acute over performance. Modelling of the possible level of over performance will be carried out in order to provide assurance that it will not exceed the earmarked reserve.
- Provider arm position - historically the provider arm has under spent as a result of high levels of vacancies. The PCT has been recruiting to the full establishment but any slippage in this process will generate an under spend.

6.3 The risks outlined above are both downside and upside risk, with any slippage on developments being available to offset any areas of unplanned overspending. However, the PCT plans to continue to closely monitor and evaluate risks in order to arrive at the forecast yearend position.

## **7. Cash Management Strategy**

The planned Cash Limit for the PCT for 2008/09 is £632,527k. This will be drawn down and managed in line with the following strategy.

### **7.1 Introduction**

- 7.2 As Exchequer bodies, the funding for NHS Bodies must take account of both local cash requirements and the cost to the Public Sector Borrowing Requirement overall. Cash funding and banking arrangements for NHS bodies must therefore be cost effective, efficient and involve the minimum costs for the Exchequer overall.
- 7.3 Cash requirements for NHS bodies form part of Her Majesty's Treasury (HMT) overall borrowing. To borrow cost effectively HMT require all Exchequer bodies (including NHS bodies) to manage cash throughout each month. They require advance notice of cash needs.
- 7.4 Cash funding requisitions for each month therefore take account of the entire cash needed for the month, taking account of both anticipated month end balances carried forward, together with payments and receipts for the month. Efficient cash management and cash requisitioning should result in minimal month end balances and no supplementary cash advances in month. Supplementary cash advances and significant month end balances are a reflection of poor cash management and are kept to a minimum by the PCT.

7.5 There is a real cost to the NHS as a result of poor cash management and forecasting. Failure to properly estimate cash requirements for the month and to forecast cash needed for the following month means that DH forecasts to HMT will be poor. HMT impose a financial penalty on DH where the actual cash used in any month varies by more than 5% from the forecast made at the start of the month. The PCT endeavours to ensure that the 5% limit is not breached in any month.

## **7.6 Operation of cash funding arrangements**

7.7 All NHS Bodies are required to have Office of the Paymaster General (OPG) accounts for the receipt of funds from DH, other health bodies and for the settlement of transactions with other OPG users i.e. NHS Trusts and Foundation Trusts. For the PCT, cash should not leave the OPG earlier than needed to settle transactions with individuals and private companies.

7.8 All cash advances are made to OPG accounts in round thousands so requisitions are made in round thousands by the PCT. Cash requirements for the month are transferred to OPG accounts on the first working day of the month. This simplifies the cash funding process for NHS bodies and minimises costs to the Exchequer as HMT gets the benefit of the balances until they leave the OPG system.

7.9 The PCT does not include contingency sums in the main funding request. If additional funds are required during the month, because initial funding requests failed to accurately forecast payments and receipts, one supplementary request will be made per month, in accordance with the DH rules on weekly funding. Such requests will only be made in exceptional circumstances as HMT will already have planned their borrowing on the basis of PCT requisitions.

7.10 As the main requisition for the month should have covered all cash needs for the month, it is unlikely that the PCT will need to request more than one supplementary advance in the month. If the PCT needs to submit more than one request per month a business case will be prepared and submitted to DH to justify the reason for the request.

7.11 Good cash forecasting and management applies to requisitions for both discretionary and non discretionary funding. It is important that all requisitions record the most realistic assessment of cash needs for the funding month with a realistic forecast of cash needed for the next month.

7.12 The PCT will ensure that the cash limit for the financial year, as notified by DH, is not exceeded and that bank balances are kept to a minimum.

7.13 As part of regular reporting to the PCT Board, current cash requisitioning status and forecast cash requirements will be included in the Finance report.

## **8. Conclusion**

8.1 The PCT is planning for a surplus for the second year running in order to maintain robust financial health and ensure continuity of investment in new and

improving services. The financial plans fully support the PCT in meeting nationally determined objectives, locally determined objectives and PCT priorities.

- 8.2 The PCT is finalising detailed budgets for the year and these will be set within the parameters and assumptions outlined within this report. The PCT is currently undertaking a budget setting exercise and detailed financial plans, including plans for realising the cash releasing efficiency savings, will be presented to the May board.

## **9. Recommendation**

The Board is requested to approve the:

- Commissioning budget as set out in Section 3.
- Provider side budget as set out in Section 4.
- Capital side budget as set out in Section 5.
- Risk management plans outlined in Section 6.
- Cash management strategy as set out in Section 7.