

FINANCIAL PLANS 2009/10

1. Purpose of the Report

1.1 The purpose of the report is to:

- Advise the Board of the financial resources available in 2009/10.
- 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 2009/10 are within the anticipated available resource.

2. Sources of Funds

2.1 The table below shows the planned revenue resource limit for the PCT in 2009/10.

Planned Revenue Resource Limit (RRL) 2009/10	£'000
2008-09 recurrent allocation for the relevant population	640,065
Confirmed adjustments to allocation	(1,103)
Anticipated non-recurrent adjustments	11,138
Anticipated recurrent adjustments	(245)
Return of 08/09 surplus	1,900
Growth (5.5%)	35,145
Total Resource Limit 2009/10	686,900

2.2 There have been two significant changes to the planned resource limit.

- The level of growth has been confirmed at £5 million lower than anticipated in the financial strategy. The PCT will receive growth of 5.5%, not 6.3% as planned.
- The treatment of Market Forces Factor (MFF). In previous years, the MFF element of tariff payments has been handled as a central adjustment with the Department holding funds on behalf of PCTs and reimbursing providers through a central mechanism. From 1 April 2009, PCTs will retain the responsibility and funding to enable them to pay the relevant MFF directly to providers. For planning purposes, MFF is assumed to be £25 million, in line with adjustments in previous years, and is included in the figure above.

3. Application of Funds

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

Summary Expenditure Plans 2009/10	£'000
Commissioning	506,556
Prescribing	76,369
GMS/PMS	55,901
Management	28,759
Dental	15,881
Contingency	987
Total Expenditure	684,453
Planned Surplus	2,447
Total	686,900

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 will be signed by the end of March.

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

- Inflation – 1.7% inflation was applied to all contracts. An additional 0.5% quality element was applied to all contracts.
- Volume - all contracts are based on forecast outturn level, assessed and agreed at Month 6, adjusted to reflect the planned impact of the PCT's strategic initiatives. The value of these reductions is shown below.

Demand Management Scheme	£'000
Orthopaedic Triage	768
Anti-Coagulation	47
Birmingham Own Health	3,245
Assertive Case Managers	1,032
End of Life Care	1,364
Reduction in length of stay	400
Total	6,856

3.4 Prescribing

3.5 The PCT has applied a 6% uplift on the 08/09 forecast outturn of prescribing. Budgets for the pharmacy contract have been set using forecast outturn expenditure plus 2.5%.

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:

- PRIME.
- Communications.
- Professional Services.
- Resources.

3.8 Inflation/Efficiency

3.9 In line with national guidance inflation has been applied at 1.7%, which includes a 3% cash releasing efficiency requirement, across the PCT's portfolio, with the exception of prescribing, as mentioned above.

3.10 Contingency

3.11 The PCT is currently holding an uncommitted contingency of £987k. 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 Strategic Health Authority has set surplus targets across the health economy in line with its strategy to bring all PCTs to a planned surplus of 0.5% of turnover by 2011/12. The PCT's surplus target for 2009/10 is £2.447 million. This represents 0.35% of the PCT's planned RRL.

4. Provider Arm Budget

4.1 The provider arm will be subject to the same 1.7% uplift plus 0.5% quality element as the rest of the PCT. The start point budget for the provider arm is laid out in the table below.

Provider Arm Budget 2009/10	£'000
2008/09 recurrent baseline	42,340
Inflation (net of efficiency)	931
Provider arm developments	303
Total Start Point Provider Arm Budget 2009/10	43,574

5. Capital 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 2009/10 and the investment plans for them.

Source of Capital Funds	£'000
Block Capital	650
Additional Capital Schemes	3,809
Sale of LD Properties	890
Total sources of capital	5,349

- 5.3 The table below sets out the proposed application of capital funds for 2009/10.

Capital Investment Plan	£'000
Maintenance of Existing Capital Stock	650
Refurbishment	250
IT	500
Sub Debt	290
Health Centre Fit Out	468
Available to invest in PCT infrastructure	3,191
Total application of funds	5,349

- 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 £987k, which together with the planned surplus of £2,447k, gives a £3,434k buffer against the statutory duty to breakeven.
- 6.2 The main risks forecast in 2009/10 are:
- Continuing care – the impact of the change in legislation in 2008/09 was in the region of £10 million. There is a risk of a similar impact in 2009/10.
 - GP prescribing growth – the PCT has assessed overall growth (price and volume) in GP prescribing of 6%. A 1% variance against this figure would equate to a risk of £700k.

- Acute activity – over performance on acute contracts was more than £10 million in 2008/09. Contracts have been set at outturn less the impact of the PCT’s strategic initiatives. Any slippage on the implementation of these schemes will lead to an over performance against the contract.
- Vacancy factor – the forecast underspend on pay across the PCT in 08/09 is in excess of £2 million; £1.4 million in the provider arm and £0.8 million in corporate budgets.
- Slippage on investments – slippage on investments may result in savings not being delivered, affecting the ability of the PCT to meet its planned surplus.

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

7. Cash Limit

7.1 The planned Cash Limit for the PCT for 2009/10 is £691,738k. This will be drawn down and managed in line with the PCT’s cash management strategy.

Planned Cash Limit (CL) 2009/10	£'000
Total Revenue Resource Limit	686,900
Total Capital Resource Limit	5,349
Less Forecast Depreciation	(1,401)
Add Forecast Cost of Capital	890
Total Cash Limit 2009/10	691,738

8. Conclusion

8.1 The PCT is planning for a surplus 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 priorities, 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 arm budget as set out in Section 4.
- Capital budget as set out in Section 5.
- Risk management plans outlined in Section 6.