

FINANCE AND ACTIVITY REPORT **PERIOD ENDING 30th June 2008**

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1. Executive Summary

The PCT has identified eight key financial indicators (KFIs) which will be used, alongside the three statutory duties, as a framework to report the financial position as the year progresses.

A summary of performance against the eight KFIs is shown in the table below:-

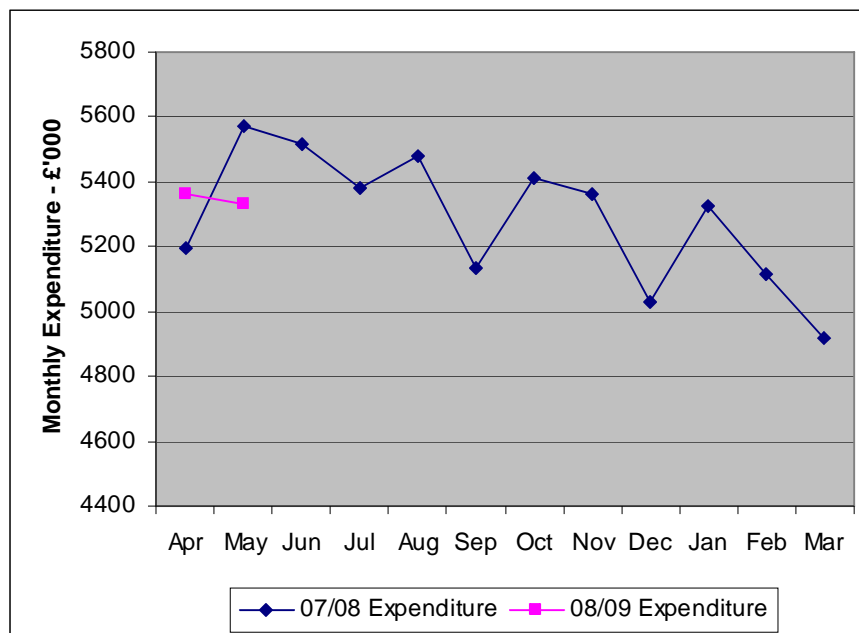
KFI Name and Measurement	Period	Absolute Performance Year to Date	Absolute Forecast Year End Performance	RAG Rating Performance Year to Date	RAG Rating Forecast Year End Performance
GP Prescribing (Over)/ underspend compared to previous year (£000)	Apr to May	Breakeven	Breakeven	GREEN	GREEN
Provider arm position (Over)/ underspend against budget (£000)	Apr to June	626	1,914	AMBER	AMBER
HEFT Contract (Over)/ underspend against budget (£000)	Apr to May	(2,030)	(12,182)	AMBER	RED
New investments (Over)/ underspend against plan (£000)	Apr to June	918	4,725	AMBER	RED
Unplanned allocations Net (decrease)/ increase to RRL (£000)	Apr to June	(435)	N/A	GREEN	N/A
Financial Risks Value of identified unmitigated risks (£000)	Apr to June	N/A	N/A	N/A	N/A
Reserves Funds being held in reserve (£000)	Apr to June	2,252	1,019	GREEN	GREEN
Year End Surplus (Lower)/ higher than plan (£000)	Apr to June	1,079	0	AMBER	GREEN

A summary of performance against the three statutory duties is shown in the table below:-

Statutory Duty and Measurement	Period	Absolute Performance Year to Date	Absolute Forecast Year End Performance	RAG Rating Performance Year to Date	RAG Rating Forecast Year End Performance
Revenue Resource Limit (Over)/ under spend against RRL (£000)	Apr to June	1900	1900	GREEN	GREEN
Capital Resource Limit (Over)/ under spend against CRL (£000)	Apr to June	333	Breakeven	GREEN	GREEN
Cash Resource Limit (Over)/ under drawing against cash profile (£000)	Apr to June	Breakeven	Breakeven	GREEN	GREEN

2. Key Financial Indicators

- a. **GP Prescribing** - This is a volatile budget which can affect the PCT position and over which the PCT has little control .



Year to date the GP prescribing spend is 0.7% lower than the same period last year.

Position year to date

GREEN

Forecast position to year end

GREEN

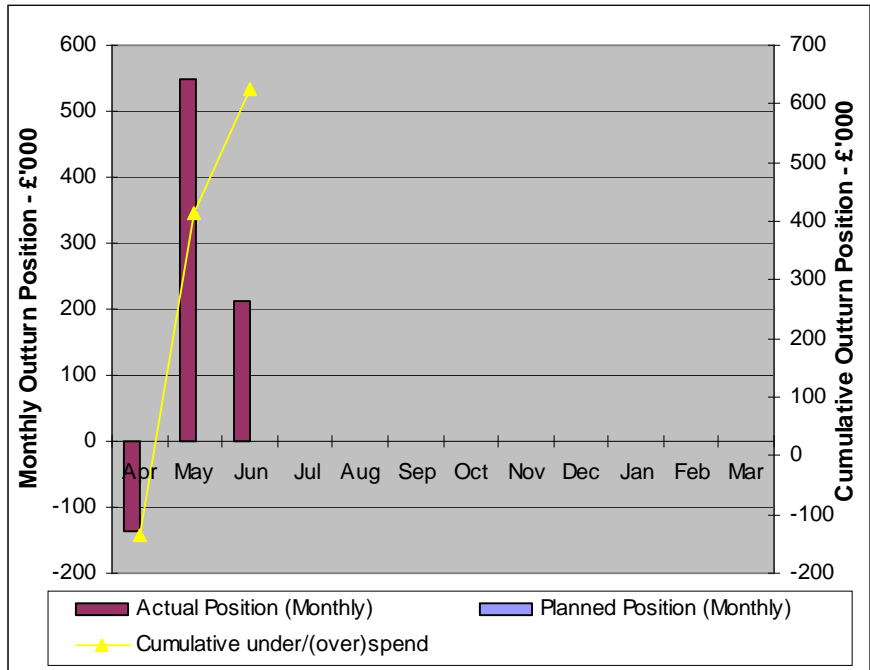
In May, the expenditure on GP prescribing was 4.3% lower than in May 2007 and the year to date position is 0.7% lower than the same period in 2007/08.

The prescribing budget was set at 07/08 forecast outturn plus 4.3%, which suggests that there may be an underspend on the prescribing budget this year.

However, as no forecasting data has been received from the PPA, it is prudent to report a breakeven figure against this budget at this point in the financial year. Forecasting data should be made available with the month three expenditure report from the PPA.

The position against prescribing, however, will be closely monitored due to the material impact that a small over or underspend can make to the PCT financial position.

b. Provider Arm - *The provider function must demonstrate full cost recovery against provider functions.*



Since month two the provider arm has posted large monthly under spends.

Position year to date

AMBER

Forecast position to year end

AMBER

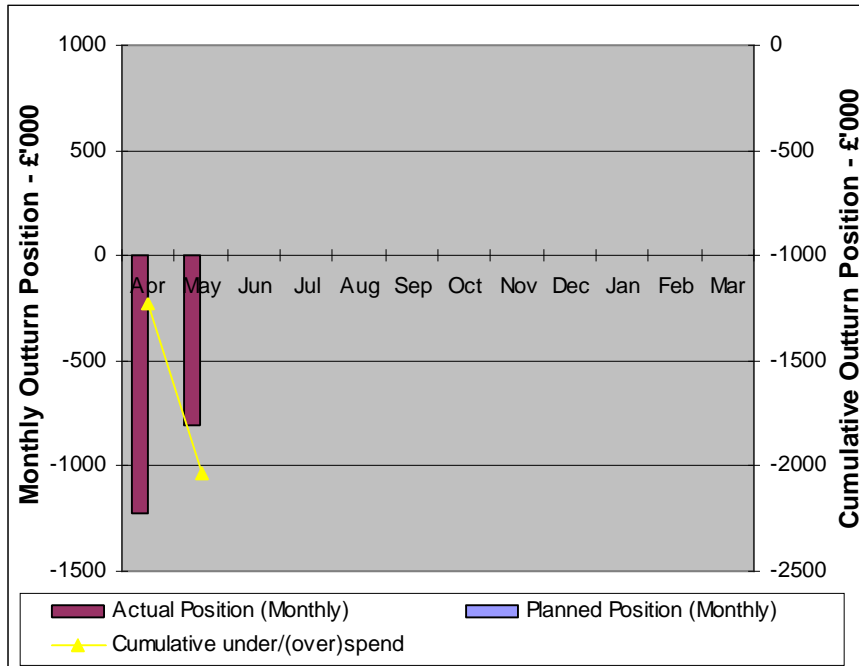
The provider arm has reported an in-month underspend in each of the last two months; with a year to date cumulative underspend of £0.6 million. This will impact on the ability of the PCT to meet the planned surplus target.

Investigative work suggests that due to the large number of vacant posts in the provider arm, the surplus level may be sustained for some time.

Plans are currently being drawn up to use some of the slipped expenditure on works related to infection control, patient safety and patient experience. This is similar to an exercise undertaken in 2007/08.

Plans to invest any surplus generated by the provider arm must proceed with caution, as this must not compromise the PCT position against its planned surplus.

c. Heart of England FT (HEFT) Contract - This is the largest PCT contract and can therefore have a large effect on the PCT position.



For the first two months of the year there is a cumulative overspend of £2,030k.

Position year to date

AMBER

Forecast position to year end

RED

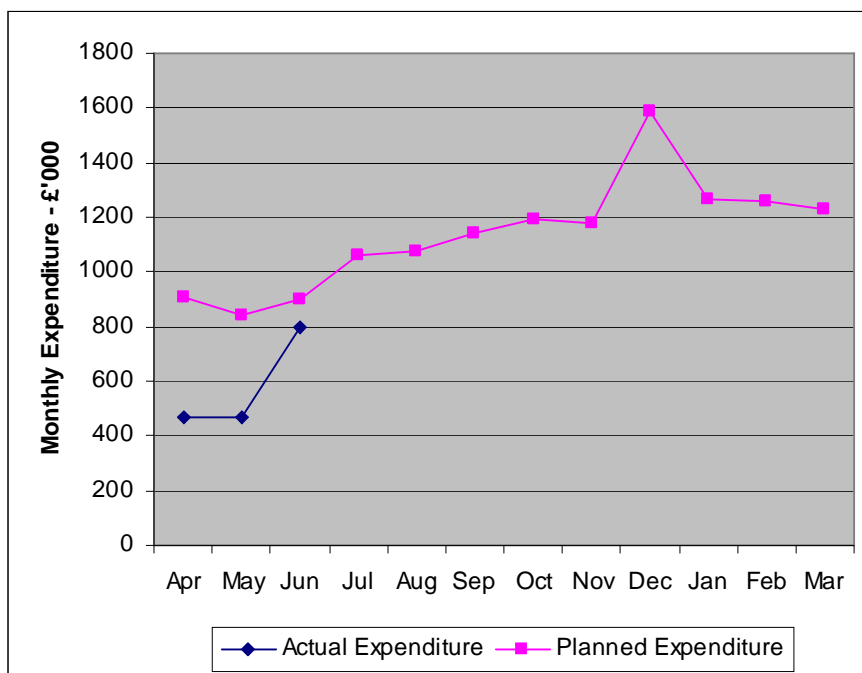
The over performance on the HEFT contract was £2 million in April and May. This indicates a full year forecast outturn position of £12.2 million over budget.

The PCT has commissioned a revised target of meeting 18 weeks referral to treatment (RTT) by September 2008, rather than December 2008, which is an SHA-wide revision. This has resulted in an increase in the numbers of elective admissions and out patient appointments. Work is continuing to assess the impact of this and the reduction in activity that will occur once waiting lists have stabilised after September. This should lead to an under performance in the second half of the year.

The position was reviewed at the Directors meeting on 21st July 2008, with a set of actions to be taken agreed. These will be presented back to Directors on 11th August 2008.

These actions will also be escalated through PMG to the Tripartite group and monitored within that performance monitoring arrangement.

d. New Investments - The PCT has set out plans for £17.7 million of investment in 2008/09. Slippage against this plan will impact on the ability to deliver the required surplus.



Slippage equal to 35% of the year to date budget has occurred on new investments

Position year to date

AMBER

Forecast position to year end

RED

Commissioning intentions of nearly £17.7 million were outlined to the Board in May. Of these, the PCT is tracking and monitoring the expenditure against £13.7 million; with the remaining £4 million being related to pick ups from 2007/08 and, in the case of the continuing care investment, the impact of changes in legislation.

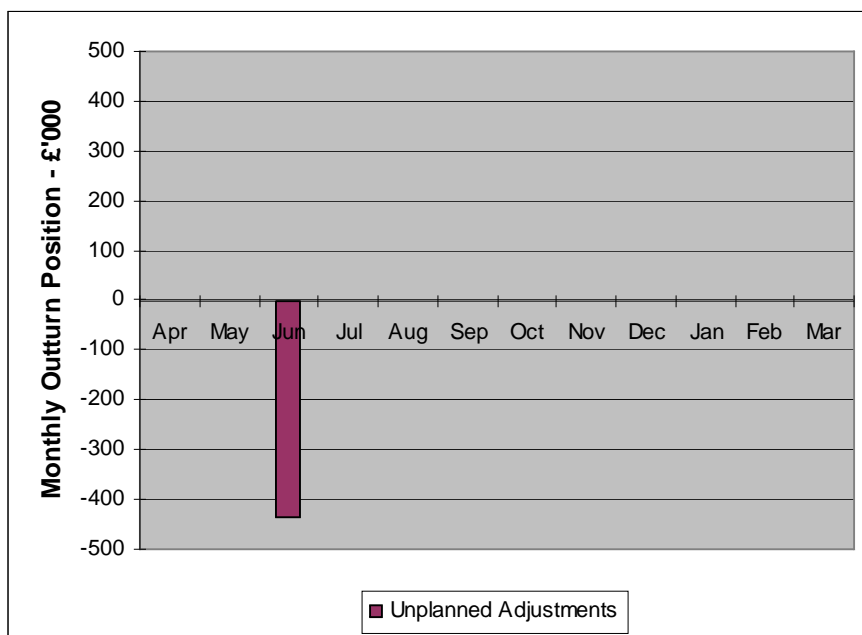
Of the £2.7 million planned to be committed year to date, only £1.7 million has been. This gives a level of slippage of 35%.

The full year effect of this level of slippage would be £4.7 million, which would prove a challenge to the PCT hitting the planned surplus target.

Over £1 million of the committed expenditure relates to where contracts have been signed and mandate payments set up. The outstanding slippage relates to areas where further commissioning work is to be carried out. This increases the likelihood that the slippage level will increase further as the year goes on.

Directors have discussed areas in which expenditure can be accelerated and this will continue to be discussed and monitored.

- e. **Unplanned Allocation Adjustments** – Any unplanned changes in the PCT revenue resource limit (RRL) can materially affect the financial position.



Some unplanned allocation adjustments occurred in month three.

Position year to date

GREEN

Forecast position to year end

N/A

An unplanned adjustment to the RRL occurred in June, due to a change in the commissioning arrangements for the Drug and Alcohol Team.

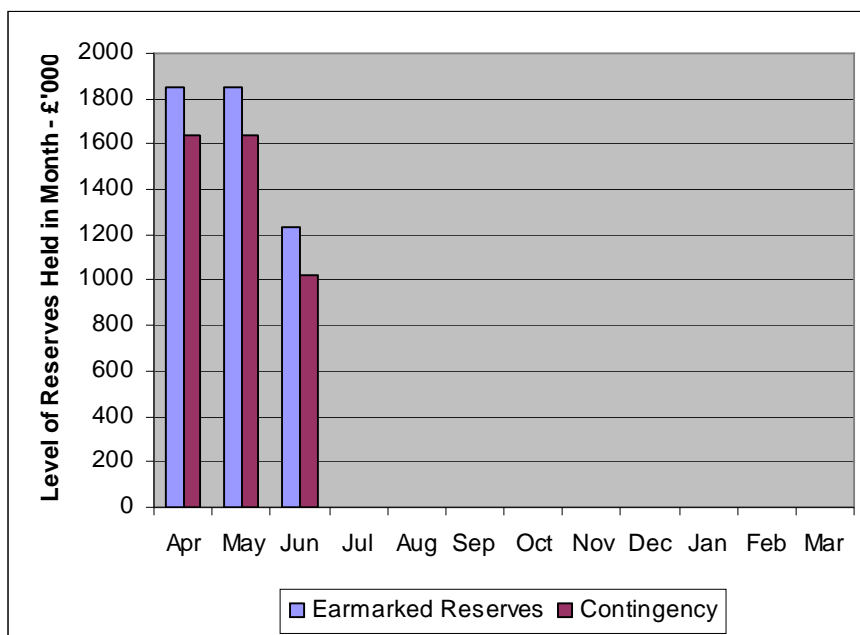
This change has been offset against the PCT general contingency fund, and is not considered to be at a level which will affect the PCT planned position.

- f. **Financial Risks** - The PCT identifies and tracks risks on a monthly basis. The value shown here is the unmitigated level of risk to which the PCT is currently exposed.

The PCT is currently carrying out an exercise to identify all of the items which might prove a risk to achieving the planned year end position. These risks will then be monitored on a monthly basis and the cumulative value of risks faced by the PCT will be reported here.

If the PCT overshoots the surplus target in 2008/09 it will be deemed as a failure in financial management, therefore risks will include both “upside” and “downside” items.

- g. Reserves** – *The PCT holds reserves for earmarked projects and a general contingency. A large reserve might affect the ability of the PCT to achieve its surplus target.*



The current total reserve is £2.3 million, which is 0.3% of the RRL.

Position year to date

GREEN

Forecast position to year end

GREEN

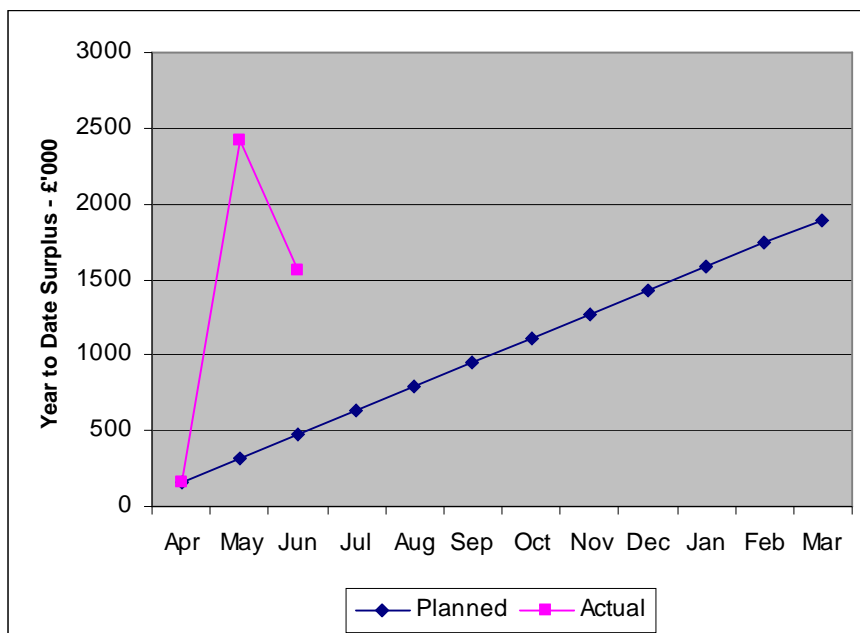
The current total PCT reserve is £2.3 million; of which £1.2 million relates to earmarked projects.

In month three, funding was allocated out of reserves and put towards the costs for the Call Connect project and the increase in CBSA subscriptions. These were planned items of expenditure and the budget was earmarked within reserves at the beginning of the year.

The reduction in the contingency is related mainly to the unanticipated reduction in revenue resource limit, as described above.

The largest item in reserves is £0.8 million for funding the PBC incentive scheme.

h. Surplus Target 2008/09 - The PCT has set a surplus target of £1.9 million underspent at the year end.



The PCT is currently above target to achieve the planned surplus.

Position year to date

AMBER

Forecast position to year end

GREEN

The PCT is above target to achieve the year to date planned surplus. This position takes into account the year to date overspend on the HEFT contract, which is largely offset by significant levels of slippage on commissioning intentions and recruitment.

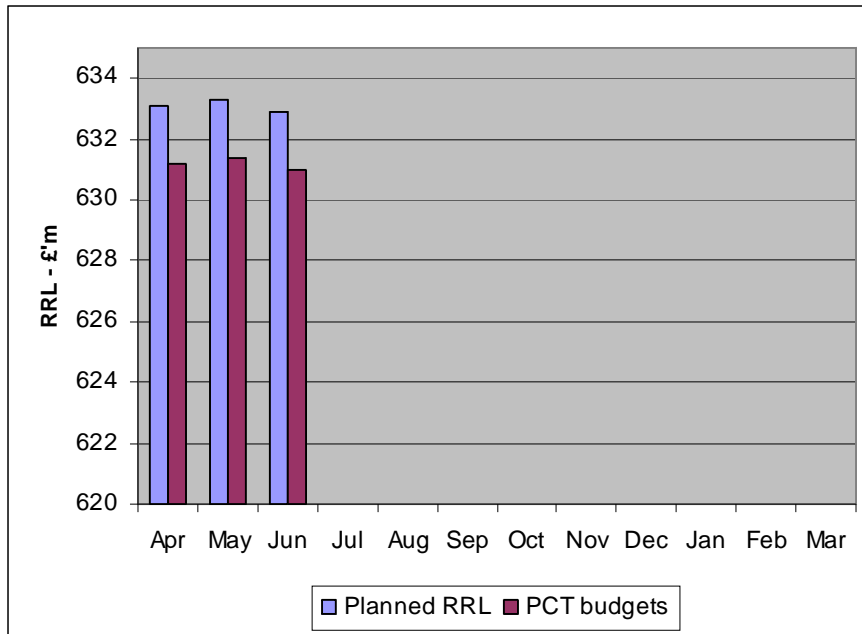
The current levels of over performance on the HEFT contract will, if sustained, compromise the PCT year end surplus target. It is therefore vital that work continues to map through the effect of the movement in the 18 week RTT target, and how this will impact on activity in the later stages of the year. Alongside this, the PCT will continue to challenge and validate over performance in other areas of the contract.

The table below shows the make-up of the year to date surplus:-

	Target Variance (YTD) £'000	Actual Variance (YTD) £'000	Distance from Target (YTD) £'000
Position against PCT budgets	-	453	453
Under spend/(overspend) on provider arm	-	626	626
YTD Position Against Budgets	-	1,079	1,079
Surplus target not issued	475	475	-
Operational Financial Balance	475	1,554	1,079

3. Statutory Duties

- i. **Revenue Resource Limit (RRL)** – *The PCT has a statutory duty to keep revenue expenditure within the resource limit.*



The PCT has set budgets up to the value of the RRL and current expenditure is within budget.

Position year to date

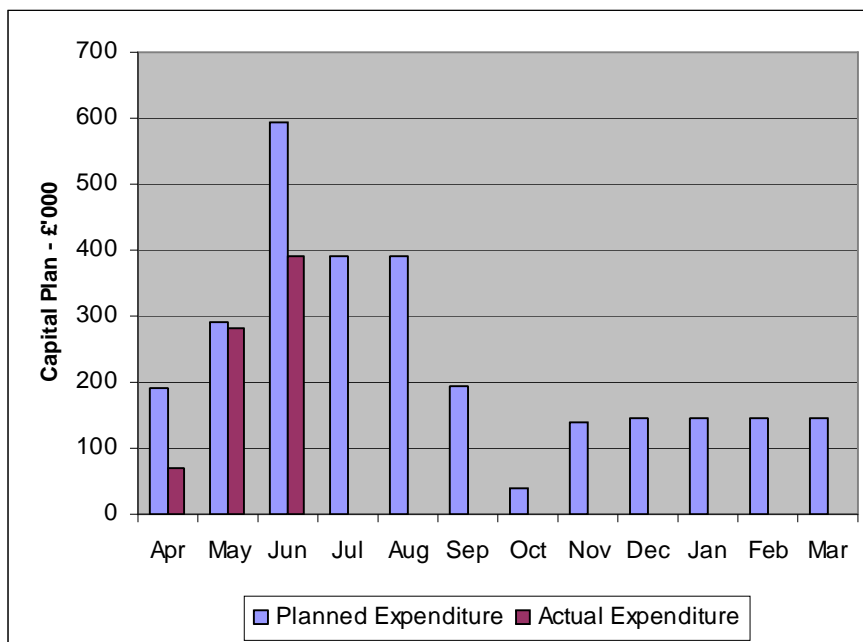
GREEN

Forecast position to year end

GREEN

Some planned and some unanticipated adjustments have been made to the RRL during month 3. The unanticipated changes were outlined above.

- j. **Capital Resource Limit (CRL)** – *The PCT has a statutory duty to keep capital expenditure within the resource limit.*



The PCT has set budgets up to the value of the CRL, however current expenditure is below budget.

Position year to date

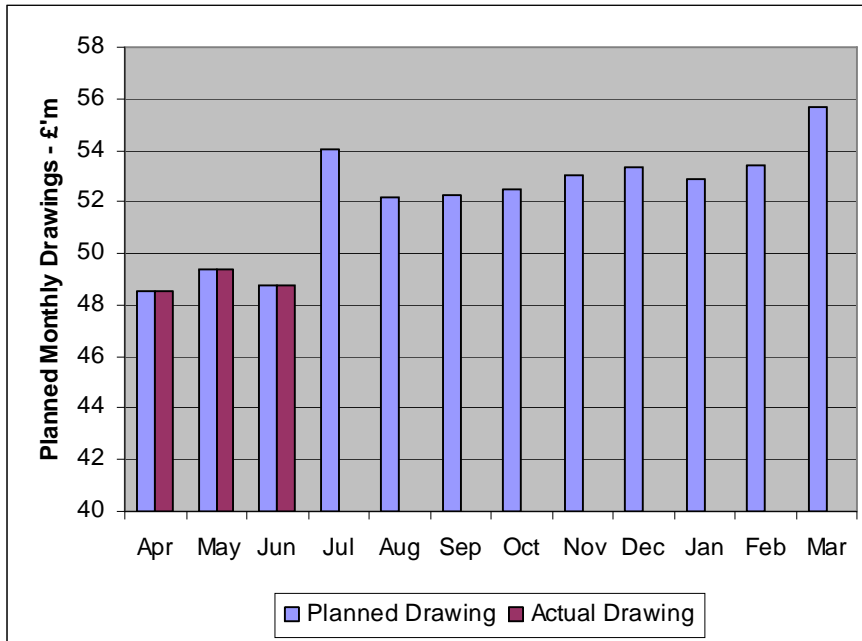
GREEN

Forecast position to year end

GREEN

Expenditure to date has slipped against the plan, but the PCT is forecasting that all expenditure will be committed within the financial year.

k. Cash Limit – *The PCT has a statutory duty to remain within the set cash limit.*



The PCT has set a cash drawing profile for the year and remains within this profile year to date.

Position year to date

GREEN

Forecast position to year end

GREEN

4. Commissioning

The table below shows the breakdown of the financial performance of the commissioning arm to 30th June 2008:-

	Annual	Budget	Expenditure	Variance	Change in Month
	Budget	To Date	To Date	To date	
	£'000	£'000	£'000	£'000	£'000
Commissioning					
Acute Services	223,749	55,937	58,352	(2,415)	(2,506)
Specialised Services	83,971	20,993	21,005	(12)	(12)
Community Services	74,008	18,247	18,888	(641)	(844)
Mental Health	47,267	11,671	11,118	554	555
Learning Difficulties	22,133	5,533	5,533	(0)	(0)
Other Commissioning	5,594	1,399	816	583	583
Commissioning Reserve	3,511	878	0	878	679
Sub-Total	460,233	114,657	115,712	(1,055)	(1,546)
Primary Care Services					
GMS	40,056	9,167	9,167	0	0
PMS	14,293	3,526	3,526	0	0
Prescribing	71,031	17,758	17,758	0	0
Pharmacy Contract	2,659	665	665	0	0
Dental Contracts	15,318	3,830	3,830	0	0
Sub-Total	143,357	34,946	34,946	0	0
Public Health					
Health Promotion	2,506	594	426	168	(5)
Smoking Cessation	850	213	133	80	20
Sub-Total	3,356	807	559	248	15
Organisational Costs					
Management costs	21,018	5,054	3,950	1,104	206
Capital charges	936	234	78	156	156
Sub-Total	21,954	5,288	4,028	1,260	362
Reserves					
Specific	1,233	0	0	0	0
Contingency	1,019	0	0	0	0
Sub-Total	2,252	0	0	0	0
Total BEN PCT	631,152	155,698	155,245	453	(1,169)
Surplus Target	1,900	475	0	475	158
Total BEN PCT RRL	633,052	156,173	155,245	928	(694)

The PCT has issued expenditure budgets of £631.2 million. There is an additional £1.9 million surplus target that has not been issued into the main PCT budgets.

4.1 Areas not Covered by KFI

The large over performance on the HEFT contract has been discussed elsewhere in this report. The cumulative position against all other acute contracts, when extrapolated to month three, is an underspend of over £0.5 million.

There is a large overspend against community services, which in the main relates to complex care commissioning. A provision was made in 2007/08 during the year end exercise for complex care costs arising during 2008/09 that were actually related to previous years. Once four months of commissioning data is available for the year, an assessment will be made about how much of the costs relate to prior years and hence how much of the provision is required to offset this.

The large underspend on other commissioning is due to slippage on commissioning intentions, including the rollout of the Birmingham OwnHealth project. Work is being undertaken to identify new areas, in line with local and national priorities, in which to invest this slippage.

There is a significant year to date underspend on core management budgets and public health budgets of £1.35 million. This is made up of slippage on the following items:-

- Pay – there are currently 34 vacancies in the management structure. This has generated a £0.5 million underspend year to date.
- Non-pay – significant slippage of £0.4 million has occurred against non-pay budgets. This is due to smaller levels of slippage across several commissioning intentions which sit in public health and corporate.
- IT – no expenditure has been committed against the £1 million additional funding for IT in 2008/09. Plans have been drawn up for all of this funding; however the year to date slippage is £0.25 million.
- Accommodation move – due to the slippage on the accommodation move a large underspend of £0.15 million has built up on this budget.

5. Balance Sheet

The balance sheet for month three is shown in the table below:-

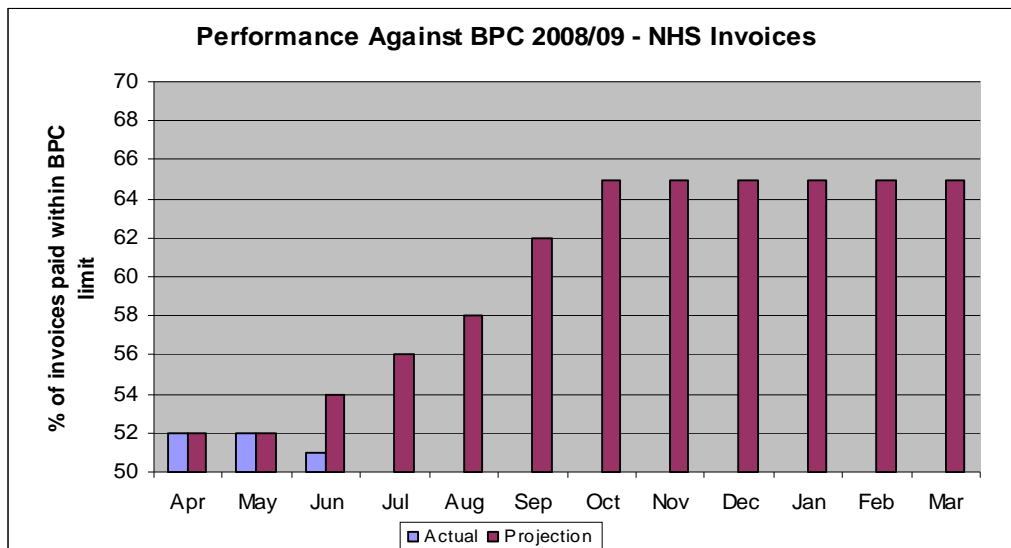
Balance Sheet as at 30th June 2008

BALANCE SHEET	Opening Balance £000 01/04/08	Closing Balance £000 30/06/08	Forecast Year End £000 31/03/09
Total Fixed Assets	32,324	33,646	27,920
Current Assets			
Debtors	25,457	8,324	25,457
Cash at bank	11	198	11
Total Current Assets	25,468	8,522	25,468
Current Liabilities			
Creditors due < 1 year	(72,137)	(58,269)	(68,825)
Total Current Liabilities	(72,137)	(58,269)	(68,825)
Net Current Assets	(46,669)	(49,747)	(43,357)
Total Assets Less Current Liabilities	(14,345)	(16,101)	(15,437)
Provisions for Liabilities & Charges	(4,847)	(4,724)	(4,847)
Total Assets Employed	(19,192)	(20,825)	(20,284)
Financed by:			
Tax Payers' Equity			
General fund	(25,268)	(27,960)	(27,722)
Revaluation Reserve	2,993	3,945	3,947
Donated Reserve	3,036	3,141	3,071
Government Grant Reserve	47	49	420
Total Taxpayers' Equity	(19,192)	(20,825)	(20,284)

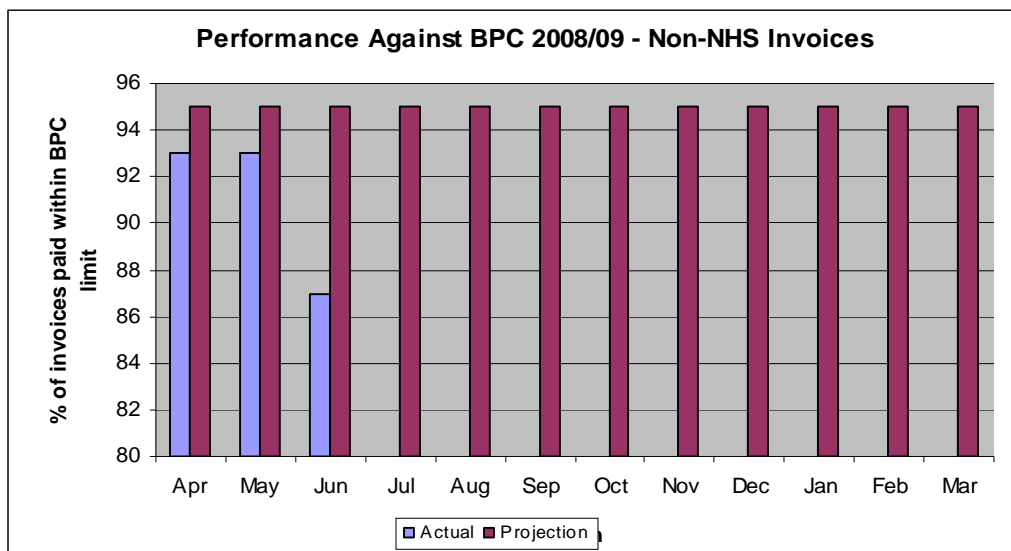
6. Better Payment Code

The PCT must meet the target of paying 95% of NHS and non-NHS invoices within 30 days.

The performance against this target for NHS invoices is shown in the graph below:-



The performance against this target for non-NHS invoices is shown in the graph below:-



The level of payment of NHS invoices is low due to the volume of non-contracted activity (NCA) invoices which the PCT deals with. Often the activity cannot be validated until six weeks after the event and therefore the invoices miss the 30 day target. This issue could be resolved if the PCT paid all NCA invoices and then claimed back the money if the activity is not be validated, however, this would be a difficult and timely system to administer.

7. Conclusion

The PCT financial position year to date is robust; with the large over performance at HEFT more than offset by slippage on the planned commissioning intentions and year to date underspend in the provider arm.

The PCT needs to continue to challenge HEFT to ensure that there is agreement on the likely levels of activity and costs for the year, whilst at the same time continuing to press ahead with the large planned investment programme.

8. Recommendations

The Trust Board are asked to note the content of this report.