

**FINANCE AND ACTIVITY REPORT**  
**PERIOD ENDING 31 AUGUST 2008**

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## 1. Executive Summary

The PCT has identified eight key financial indicators (KFIs) which, alongside the three statutory duties, form a framework to report the financial position.

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

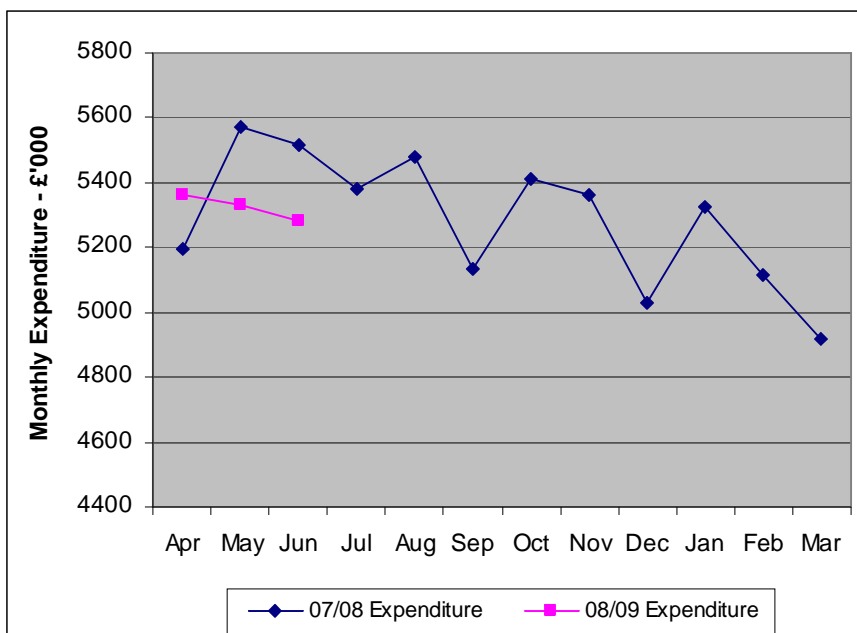
KFI Name and Measurement	Period	Absolute Performance Year to Date	Absolute Forecast Year End Performance	RAG Rating Performance Year to Date	RAG Rating Forecast Year End Performance
GP Prescribing (Over)/ underspend compared to plan (£000)	Apr to Jun	1,192	4,760	AMBER	AMBER
Provider arm position (Over)/ underspend against budget (£000)	Apr to Aug	939	2,085	AMBER	AMBER
HEFT Contract (Over)/ underspend against budget (£000)	Apr to Jul	(3,566)	(10,699)	RED	RED
New investments (Over)/ underspend against plan (£000)	Apr to Aug	1,499	4,329	AMBER	AMBER
Unplanned allocations Net (decrease)/ increase to RRL (£000)	Aug	122	N/A	GREEN	N/A
Financial Risks Value of identified unmitigated risks (£000)	Aug	1,047	N/A	GREEN	N/A
Reserves Funds being held in reserve (£000)	Aug	2,234	0	GREEN	GREEN
Year End Surplus (Lower)/ higher than plan (£000)	Apr to Aug	1,016	(1,964)	AMBER	AMBER

A summary of performance against the three statutory duties is 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 Aug	1,900	1,900	GREEN	GREEN
Capital Resource Limit (Over)/ under spend against CRL (£000)	Apr to Aug	666	Breakeven	AMBER	GREEN
Cash Resource Limit (Over)/ under drawing against cash profile (£000)	Apr to Aug	4,203	Breakeven	AMBER	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.*



**The PPA has not yet made prescribing data available for month four.**

**Position year to date**

**AMBER**

**Forecast position to year end**

**AMBER**

The PPA has not yet made available prescribing data for month four. The data is not necessarily late, rather, the Trust Board meeting is taking place relatively early in the month.

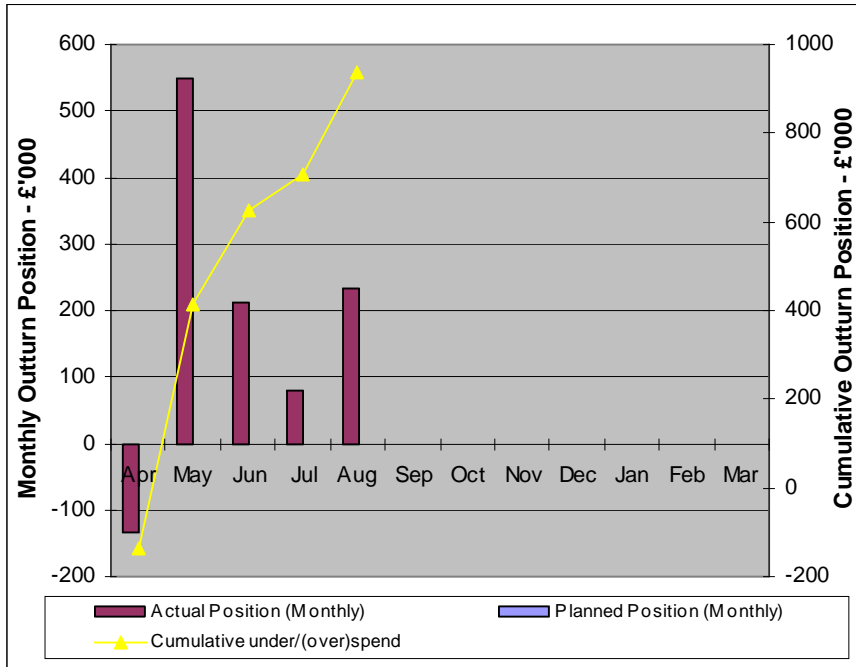
The last set of information received by the PCT, which related to month three, included the first forecast outturn data for the year. The forecast, based on the actual activity in the first three months, is for the prescribing budget to underspend by £4.8 million in the financial year.

It is generally accepted that forecasts made in the early part of the year are unreliable due to the small amount of data on which the prediction is based. Analysis has shown that the month three forecast has been between £0.5 million and £4 million adrift from the actual outturn position in each of the last four years.

However, as the prescribing budget has been up to £0.5 million underspent each month, it has been considered sensible to factor the full forecast underspend into the PCT overall forecast outturn.

Adjustments are due on the drug tariff in September and the medicines management team expect that this will be an upward revision. If this occurs the forecast may be altered to take into account the higher prices for the second half of the year. This will be reported to the next Trust Board meeting.

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



**The provider arm continues to post large monthly under spends.**

**Position year to date**

**AMBER**

**Forecast position to year end**

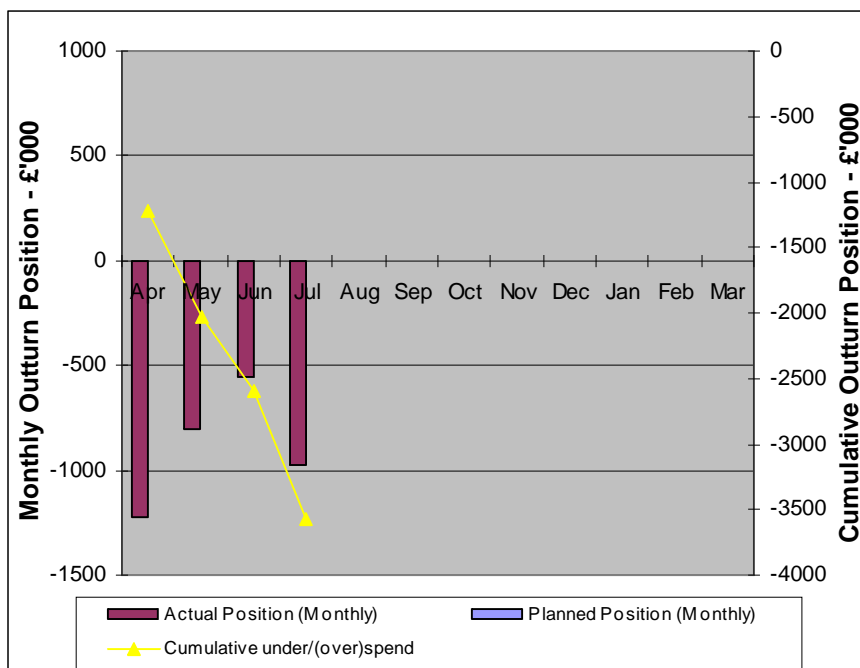
**AMBER**

The provider arm continues to underspend each month. During month four an accrual was made for the cost of living increase related to the first quarter of the year which was actually paid in August.

The provider arm is working to an agreed final outturn position of £2 million surplus. This surplus level should not adversely affect the ability of the PCT to reach the planned position at the end of the financial year.

The provider arm will report all risks to the financial position through a central risk register held in finance. This will ensure that the position of the provider arm at the end of the year does not affect the PCT's 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 four months of the year there is a cumulative overspend of £3,566k.**

**Position year to date**

**RED**

**Forecast position to year end**

**RED**

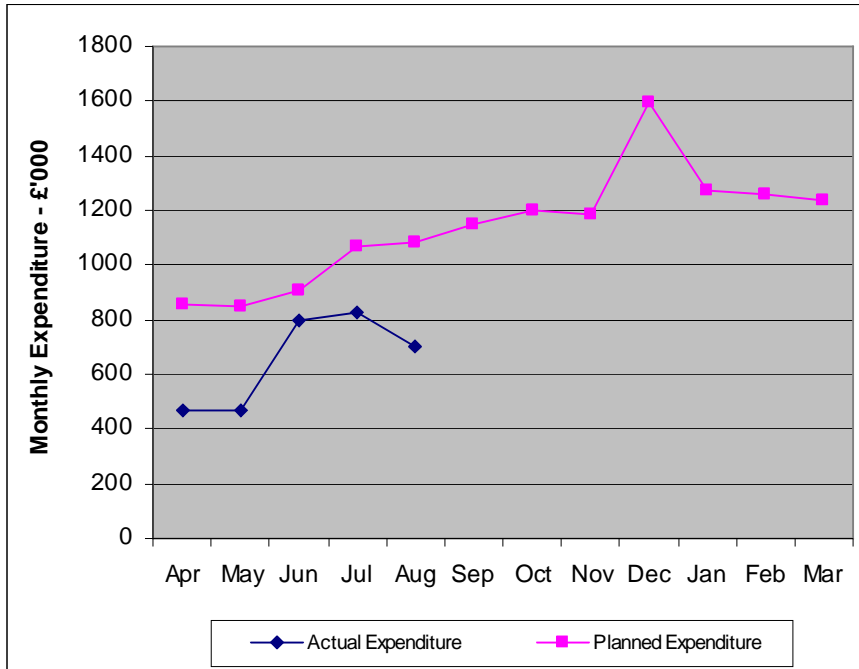
The forecast outturn on this contract, as reported by HEFT, has fallen to a £10.7 million overspend. Discussions have been ongoing through the Tripartite arrangements and the fall in the forecast outturn has been reached due to agreement on the following three issues:-

- The PCT challenged HEFT on the profiling of gastroenterology, which appears incorrect due to system changes when the Trusts merged. This has reduced the forecast overspend by circa £500k.
- Not all of the diagnostic clinics run by HEFT are excluded from the activity monitoring, which they should be under PbR. HEFT estimate that this will have a full year effect of reducing the over performance by circa £1m.
- HEFT are currently over forecasting outpatients and under forecasting inpatients to the net effect of a £500k reduction to the forecast outturn figure.

Discussions are ongoing around several other elements of the contract. The PCT believes there is potentially a further £2.5 million reduction in the forecast outturn of the contract to take into account, however, agreement on this has not been reached with HEFT at this time.

PCT directors are also focusing on nine key actions areas for containing activity levels. Individuals tasked with these responsibilities report on these areas at the regular directors' meetings.

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



**Slippage equal to 31% of the year to date budget has occurred on new investments**

**Position year to date**

**AMBER**

**Forecast position to year end**

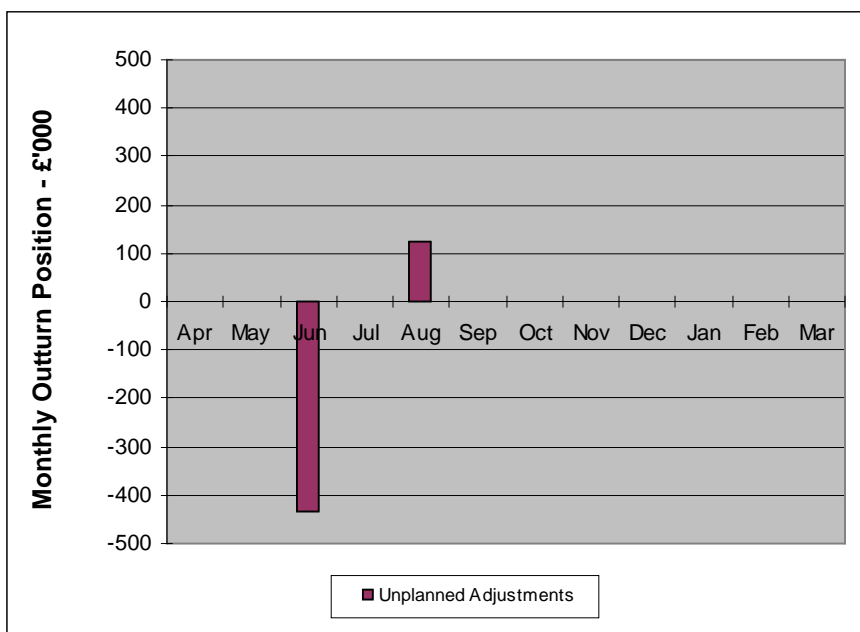
**AMBER**

The year to date budget for new commissioning intentions is £4.8 million, of which only £3.3 million has been committed. This gives a level of slippage of 31% year to date, which is a small increase compared to month four.

If this level of slippage is sustained, the forecast underspend at the end of the year will be £4.3 million.

Plans are being draw up to pull forward into this financial year some of the commissioning intentions for 2009/10. These plans are being sent through the same Gateway approval process as all other commissioning proposals in order to ensure that the PCT continues to commit funds in line with local and national priorities.

- e. Unplanned Allocation Adjustments - Any unplanned changes in the PCT Revenue Resource Limit (RRL) can materially affect the financial position.



**A number of unanticipated changes to the RRL occurred in August.**

**Position year to date**

**GREEN**

**Forecast position to year end**

**N/A**

Several unanticipated, relatively small changes were made to the PCT allocation during August. The largest of these was a £91k increase to fund the HPV catch-up for 18 and 19 year olds. A corresponding expenditure budget has been set for this allocation.

- 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.

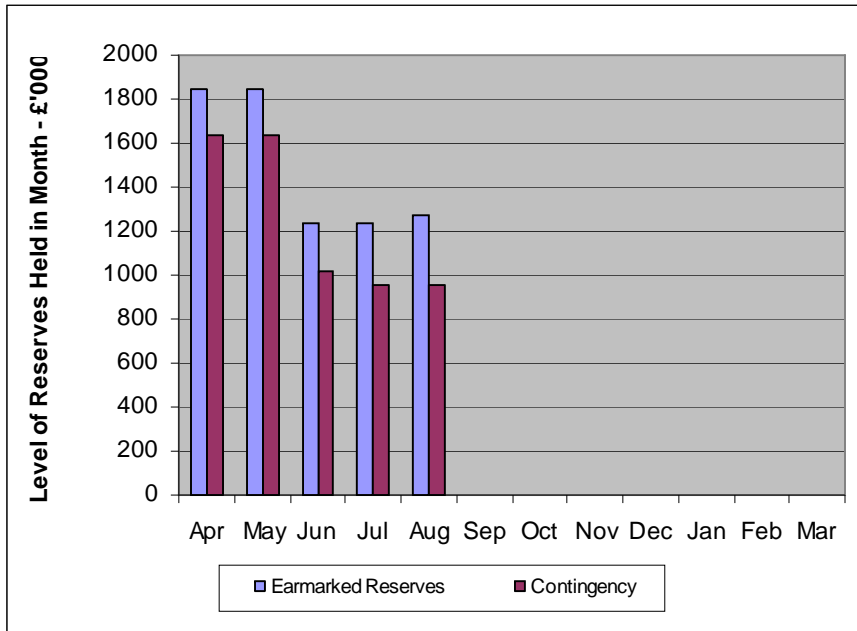
**Current value of risks logged = £1,047k**

**RAG rating is GREEN**

The most significant risks are:-

- The potential costs of the NICE decision on the use of Lucentis to treat wet AMD above the level of reserves held by the PCT for NICE drug decisions in year (£1 million).
- Local Authority refusing to pick up the increase costs for tendering for LD care that have arisen as a result of the South Birmingham PCT notice to quit (£0.5 million).
- Provider arm vacancy factor (£0.25 million).

- 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 £2.2 million, which is 0.3% of the RRL.**

**Position year to date**

**GREEN**

**Forecast position to year end**

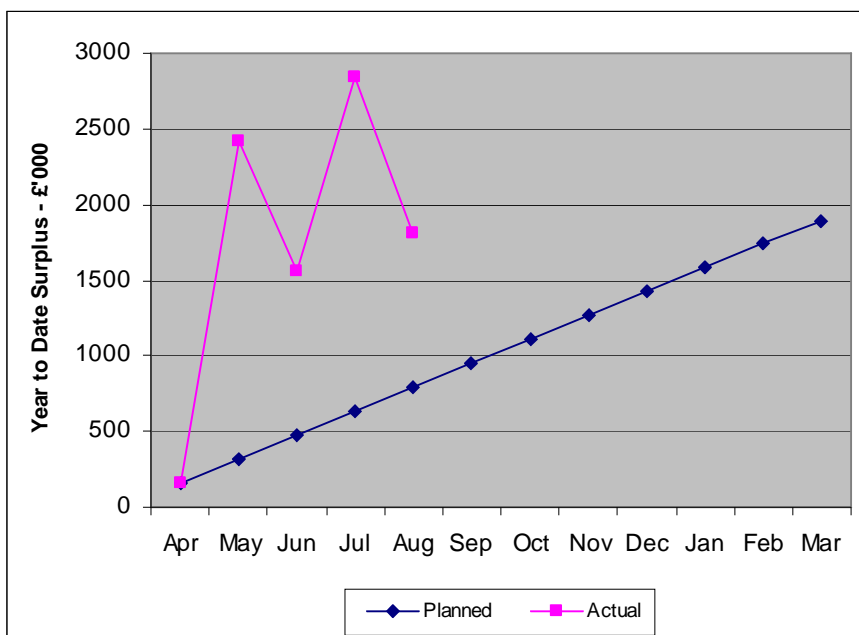
**GREEN**

The current total PCT reserve is £2.2 million, of which £1.3 million relates to earmarked projects.

The small increase in earmarked reserves is due to the previously mentioned unexpected allocation changes. If resources are altered, but no corresponding expenditure budget is identified, an adjustment is made in reserves.

The PCT is still holding a large reserve of £0.8 million to fund the costs of practice based commissioning, including the GP incentive scheme.

- h. Surplus Target 2008/09 - The PCT has set a surplus target of £1.9 million 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 currently above target against the year end planned surplus position. The above target position does take into account the large overspend against the HEFT contract, which is then offset against slippage on commissioning intentions, the prescribing underspend and the provider arm underspend.

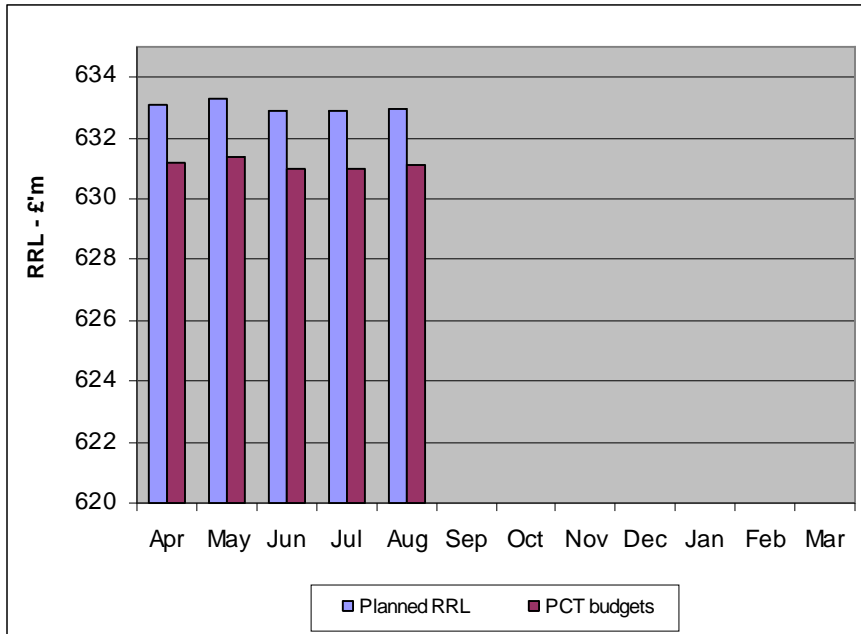
The table below shows the make-up of the year to date surplus:-

	Target Variance (YTD) £'000	Actual Variance (YTD) £'000	Distance from Target (YTD) £'000
Position against commissioning budgets	0	77	77
Under spend/(overspend) on provider arm	0	939	939
YTD Position Against Budgets	0	1,016	1,016
Surplus target not issued	792	792	0
Operational Financial Balance	792	1,808	1,016

The year to date surplus of £1.8 million is over £1 million above the surplus target at this point in the financial year. However, there are items of expenditure that the PCT is planning to commit in the latter part of the year that will bring the surplus back into line with plan.

### 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 less the £1.9 million planned surplus.

Position year to date

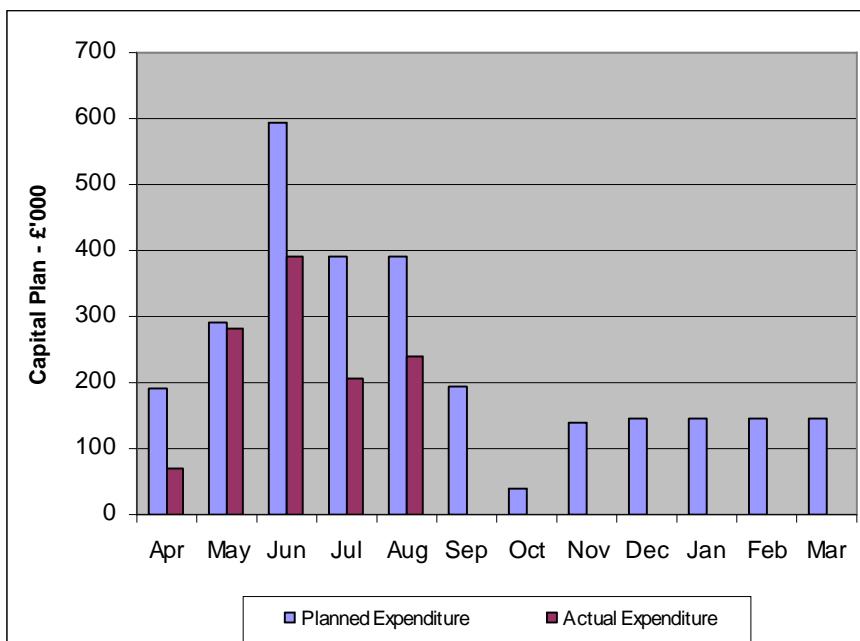
**GREEN**

Forecast position to year end

**GREEN**

Some previously mentioned changes were made to the resource limit in August. The cumulative affect of these changes was an increase to the limit of £122k.

- 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

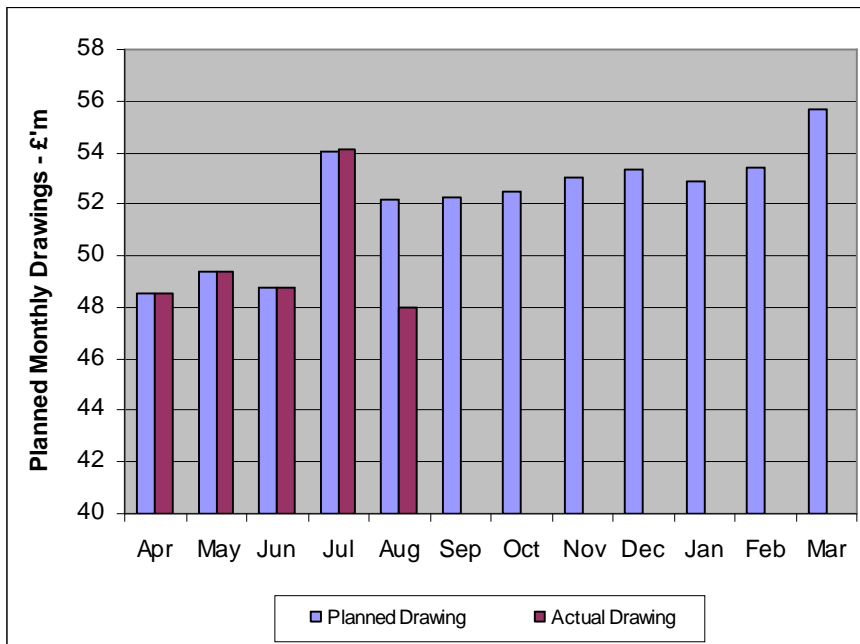
**AMBER**

Forecast position to year end

**GREEN**

For the third month in a row the planned expenditure against the capital resource limit has not been committed. There is now a cumulative year to date underspend of £0.7 million against the capital resource limit.

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



**For the first time this year, the PCT drew down less cash than planned.**

**Position year to date**

**AMBER**

**Forecast position to year end**

**GREEN**

The PCT drew down significantly less cash in August than was planned. This is due to the high level of accruals making up the PCT position, as opposed to actual cash expenditure.

As the year goes on and the accruals turn into real expenditure the PCT will draw down the cash required.

#### 4. Commissioning

The table below shows the breakdown of the financial performance of the commissioning arm to 31<sup>st</sup> August 2008:-

	Annual	Budget	Expenditure	Variance	Change in Month
	Budget	To Date	To Date	To date	
	£'000	£'000	£'000	£'000	
Commissioning					
Acute Services	223,762	93,234	97,764	(4,529)	(1,489)
Specialised Services	83,971	34,988	35,012	(24)	(5)
Community Services	73,881	30,427	32,381	(1,954)	(1,656)
Mental Health	47,445	19,557	19,033	524	743
Learning Difficulties	22,133	9,222	9,222	0	0
Other Commissioning	5,496	2,290	932	1,358	873
Commissioning Reserve	3,250	1,354	0	1,354	187
Sub-Total	459,939	191,073	194,344	(3,272)	(1,346)
Primary Care Services					
GMS	40,089	15,292	15,292	-	0
PMS	14,293	5,873	5,873	-	0
Prescribing	71,030	29,596	27,594	2,002	418
Pharmacy Contract	2,659	1,108	1,108	-	0
Dental Contracts	15,318	6,382	6,382	-	0
Sub-Total	143,389	58,251	56,249	2,002	418
Public Health					
Health Promotion	2,703	1,093	798	295	108
Smoking Cessation	850	355	263	92	35
Sub-Total	3,553	1,448	1,061	387	143
Organisational Costs					
Management costs	20,978	7,434	6,739	695	(703)
Capital charges	936	390	125	265	74
Sub-Total	21,914	7,824	6,864	960	(629)
Reserves					
Specific	1,275	0	0	0	0
Contingency	959	0	0	0	0
Sub-Total	2,234	0	0	0	0
Total BEN PCT	631,029	258,596	258,518	77	(1,414)
Surplus Target	1,900	792	0	792	158
Total BEN PCT RRL	632,929	259,388	258,518	869	(1,255)

### Areas not Covered by KFIs

The overspend on the acute commissioning line is mainly made up of the HEFT position. Most other variances are relatively small and net each other off.

The overspend against the community services budget reflects the outcome of an exercise to determine the full extent of the financial impact on the change in the continuing care legislation. The forecast overspend on this is £5.8 million, which will partly be offset by a £2.5 million provision made at the end of last year. Therefore, the total impact will be an increase in PCT expenditure of £3.3 million. As the provision made does not cover the entire impact of the legislation, this has contributed to a deterioration of the PCT position.

## 5. Balance Sheet

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

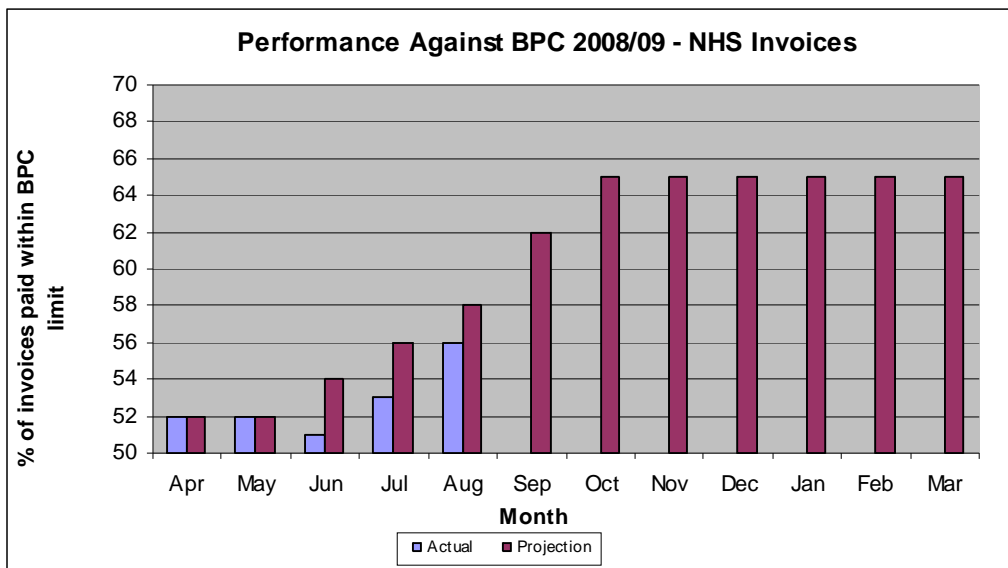
Balance Sheet as at 31<sup>st</sup> August 2008

BALANCE SHEET	Opening Balance £000 01/04/08	Closing Balance £000 31/08/08	Forecast Year End £000 31/03/09
Total Fixed Assets	32,324	33,876	27,920
Current Assets			
Debtors	25,457	8,436	25,457
Cash at bank	11	(526)	11
Total Current Assets	25,468	7,910	25,468
Current Liabilities			
Creditors due < 1 year	(72,137)	(51,261)	(68,825)
Total Current Liabilities	(72,137)	(51,261)	(68,825)
Net Current Assets	(46,669)	(43,351)	(43,357)
Total Assets Less Current Liabilities	(14,345)	(9,475)	(15,437)
Provisions for Liabilities & Charges	(4,847)	(4,800)	(4,847)
Total Assets Employed	(19,192)	(14,275)	(20,284)
Financed by:			
Tax Payers' Equity			
General fund	(25,268)	(21,800)	(27,722)
Revaluation Reserve	2,993	3,945	3,947
Donated Reserve	3,036	3,158	3,071
Government Grant Reserve	47	422	420
Total Taxpayers' Equity	(19,192)	(14,275)	(20,284)

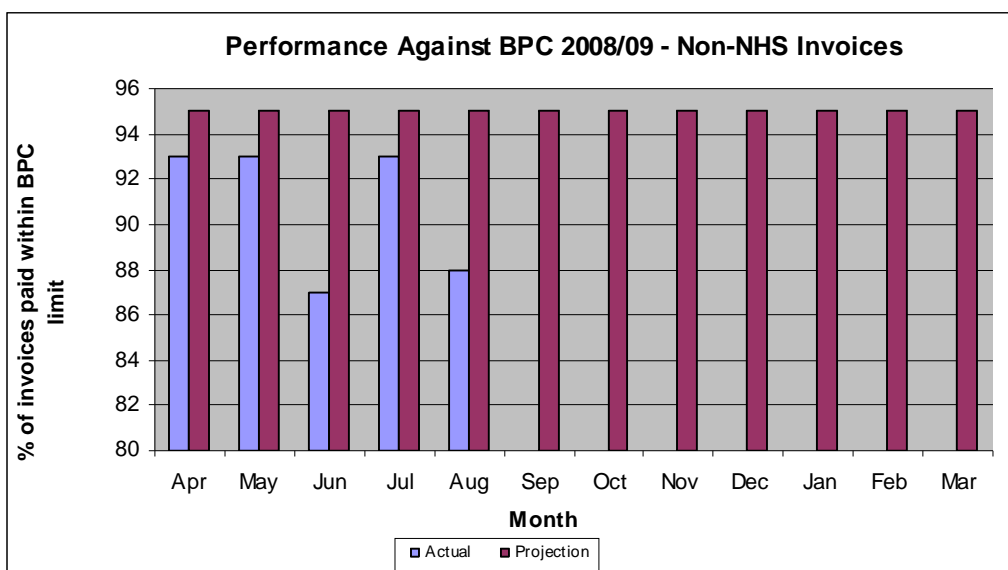
6. Better Payment Code

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:-



## 7. Conclusion

The PCT position year to date is a significant underspend of £1.8 million. There are however plans to commit large levels of additional spend during the remainder of the year. Because of this the PCT is currently forecasting a year end overspend of £64k.

The table below shows the forecast position at the end of the financial year:-

	Target Variance Year End £'000	Forecast Variance Year End £'000	Distance from Target Year End £'000
Position against commissioning budgets	0	(4,049)	(4,049)
Under spend/(overspend) on provider arm	0	2,085	2,085
YTD Position Against Budgets	0	(1,964)	(1,964)
Surplus target not issued	1,900	1,900	0
Operational Financial Balance	1,900	(64)	(1,964)

This forecast position includes a £10.7 million overspend with HEFT, a £4.7 million underspend on prescribing, £1.5 million slippage against commissioning intentions and a £2 million surplus on the provider arm.

The PCT financial position is largely influenced by the small number of items described above that have significant variances, both positive and negative, from budget. It is very difficult to confidently forecast the outturn in areas like these at this point in the financial year, therefore significant movements are likely to occur. For example, it is expected that the prescribing forecast underspend is too high, whilst the HEFT overspent position is likely to come down considering the number of inconsistencies that the PCT is presenting to the Trust.

This position also assumes all reserves, including the unallocated contingency of £1 million, are committed during the year. It is areas such as this, however, which provide the PCT with enough flexibility to deliver a £1.9 million surplus as planned.

## 8. Recommendations

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