

FINANCE AND ACTIVITY REPORT
PERIOD ENDING 30th SEPTEMBER 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:-

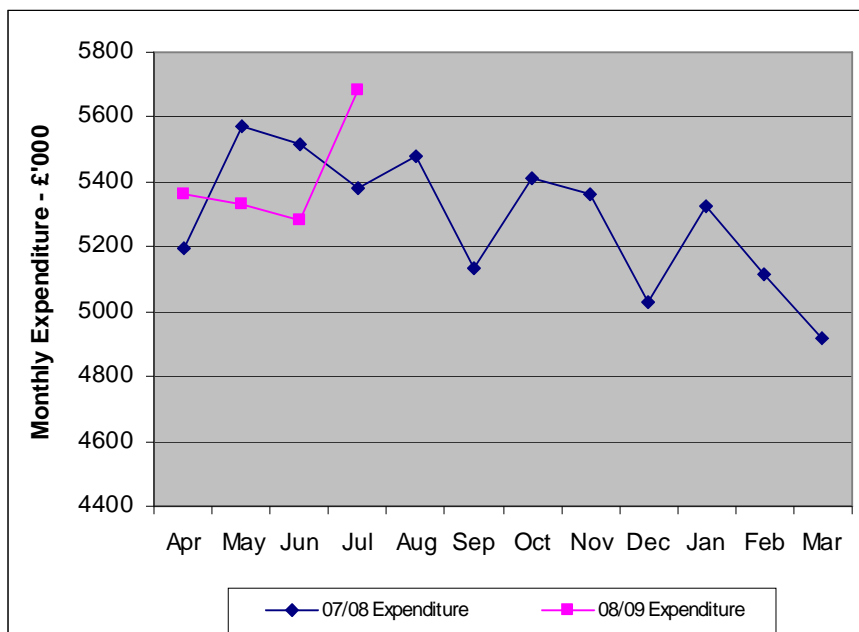
KFI Name and Measurement	Period	Absolute Performance Year to Date	Absolute Forecast Year End Performance	RAG Rating Performance Year to Date	RAG Rating Forecast Year End Performance
GP Prescribing (Over)/ underspend compared to plan (£000)	Apr to Jul	1,317	3,950	AMBER	AMBER
Provider arm position (Over)/ underspend against budget (£000)	Apr to Sept	1,135	2,175	AMBER	AMBER
HEFT Contract (Over)/ underspend against budget (£000)	Apr to Aug	(4,317)	(10,360)	RED	RED
New investments (Over)/ underspend against plan (£000)	Apr to Sept	2,083	4,813	AMBER	AMBER
Unplanned allocations Net (decrease)/ increase to RRL (£000)	Sept	(51)	N/A	GREEN	N/A
Financial Risks Value of identified unmitigated risks (£000)	Sept	1,047	N/A	GREEN	N/A
Reserves Funds being held in reserve (£000)	Sept	1,983	0	GREEN	GREEN
Year End Surplus (Lower)/ higher than plan (£000)	Apr to Sept	290	0	AMBER	GREEN

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 Sept	1,900	1,900	GREEN	GREEN
Capital Resource Limit (Over)/ under spend against CRL (£000)	Apr to Sept	814	Breakeven	AMBER	GREEN
Cash Resource Limit (Over)/ under drawing against cash profile (£000)	Apr to Sept	7,715	Breakeven	RED	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 PCT received data for month four prescribing indicating a fall in the forecast outturn surplus.

Position year to date

AMBER

Forecast position to year end

AMBER

Prescribing data is not yet available for month five because the Trust Board meeting is again relatively early in the month. Therefore, the month six position is based on an extrapolation of month four data.

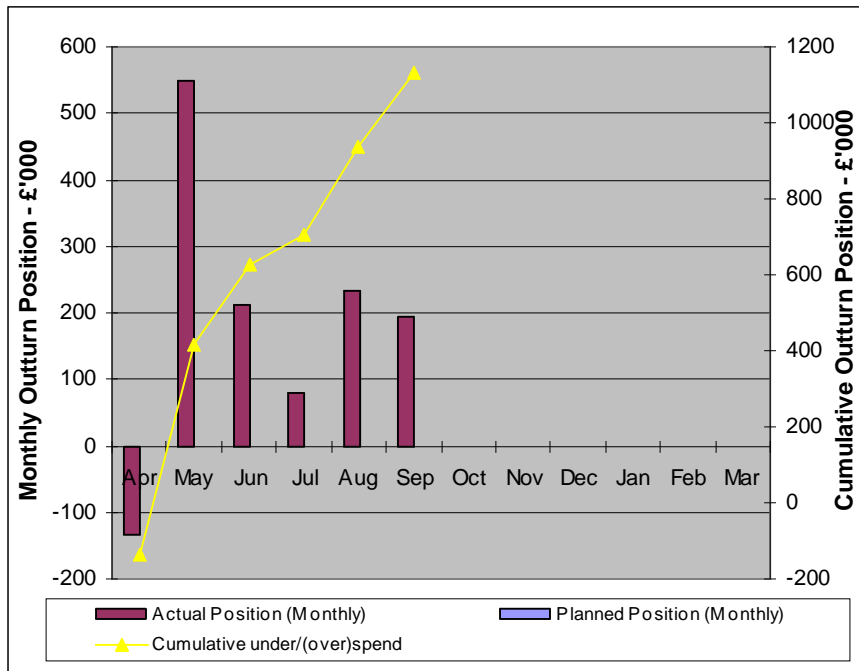
Month four expenditure on prescribing grew by 5.6% compared with the same month last year. As the graph above shows, this is a large increase in expenditure when viewed against previous months.

The cumulative position for the first four months of the year is a fall in expenditure of 0.5% compared with last year. This is significant as the PCT budgeted for volume growth in this area of 4.7%.

The year to date underspend is reflected in the latest PPA forecast outturn which is an underspend against budget of £3.95 million. This is a deterioration of nearly £1 million which is included in the forecast outturn and prorated into the PCT year to date position.

There is also a significant cost pressure to the PCT on the pharmacy budget because of a national agreement to change certain elements of the contract. The forecast outturn in this area is £4.4 million on a budget of only £2.2 million. The PCT has only recently become aware of this issue and is working to manage this cost pressure in a way that means there is not a negative impact on the ability to deliver the planned surplus target.

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



The provider arm is planning to deliver a year end surplus of £2 million.

Position year to date

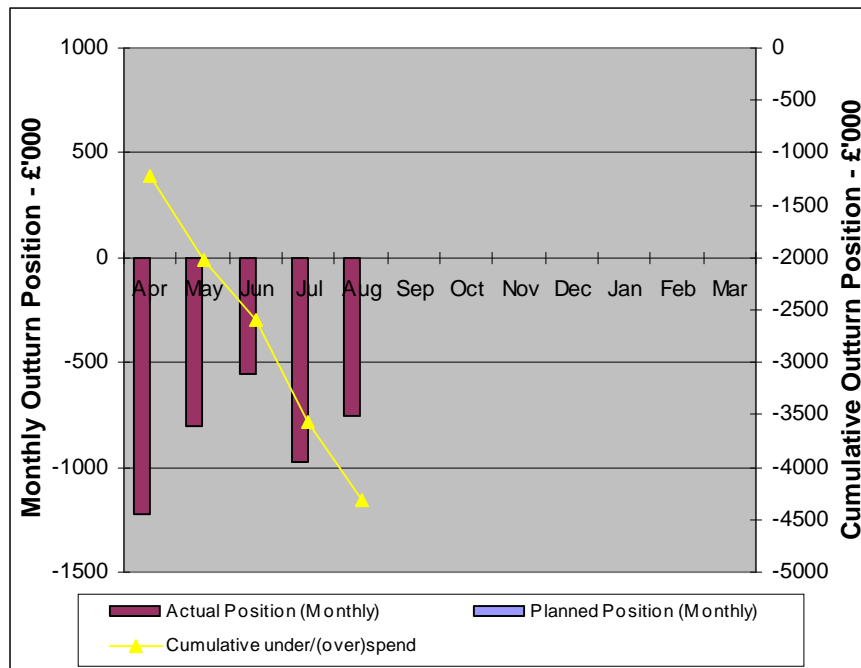
AMBER

Forecast position to year end

AMBER

The provider arm is continuing to plan to deliver a £2 million surplus. There are currently no risks to this position.

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 five months of the year there is a cumulative overspend of £4,317k.

Position year to date

RED

Forecast position to year end

RED

Based on data for April to August this year the forecast year end overspend, as reported through HEFT contract monitoring, is £10.4 million. This has fallen from the £10.7 million forecast last month and discussions with the Trust are continuing through the formal performance monitoring process.

An agreement reached on the profiling of gastroenterology is reflected in the most recent HEFT contract monitoring.

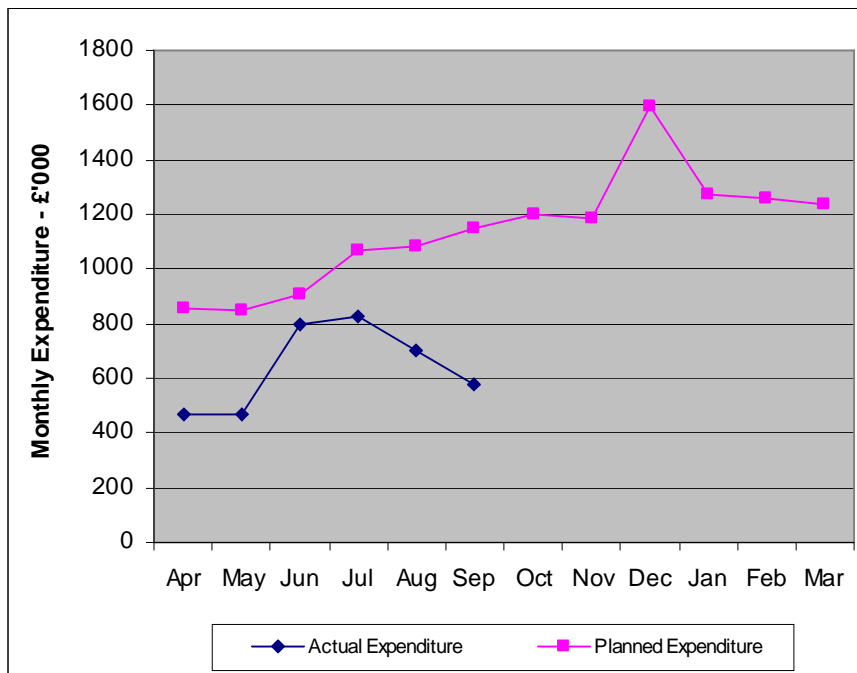
Further agreements have also been made on: -

- The recording of activity for the day hospitals on both sites.
- The coding of a cohort of mental health patients.

These agreements will lead to an additional reduction of the forecast outturn in future contract monitoring of £400k.

As previously reported, PCT directors are taking action in nine areas to bring down the HEFT overspend. These are reported through the weekly directors' meetings.

c. New Investments - The PCT has set out plans for £17.7 million of investment in 2008/09. Of this new investment, £13.7 million is being monitored proactively as any slippage will affect 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

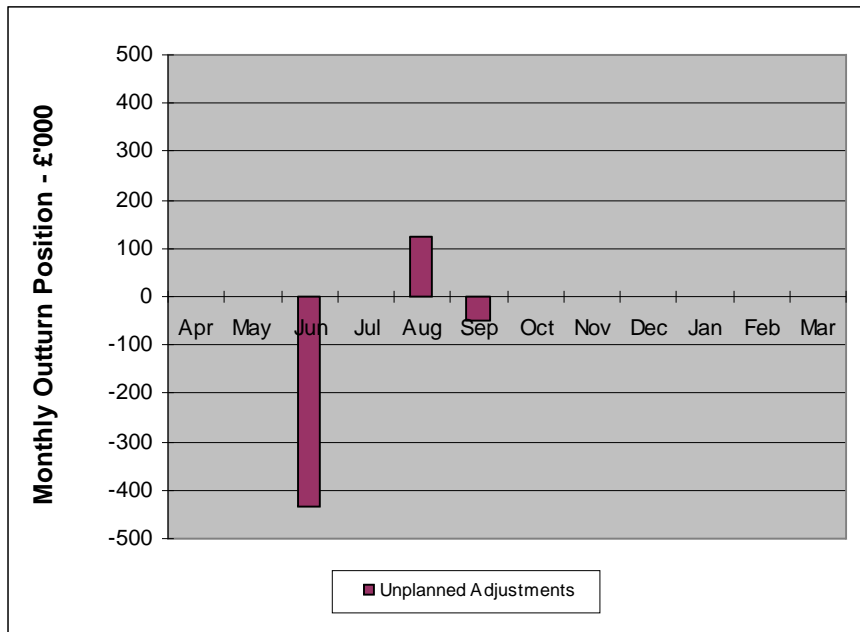
AMBER

The commissioning budget for new investments is £5.9 million for the first six months of the year. Of this budget, only £3.8 million has actually been committed, giving a rate of slippage of 35% year to date.

This level of slippage is slowly increasing month on month. The graph above demonstrates that the gap between the planned expenditure and the actual expenditure is also getting larger each month.

If the slippage continues at the current level the total uncommitted funding at the end of the year will be £4.8 million which is a large underspend on a £13.7 million budget.

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



One unanticipated change to the RRL occurred in September.

Position year to date

GREEN

Forecast position to year end

N/A

An adjustment was made to the RRL in September for the cost of Charge Exempt Overseas Visitors (CEOV). This adjustment is made each year, although it is always for a different amount. The PCT estimated that the 2008/09 allocation deduction would be £250k, whilst it actually amounted to £301k. The shortfall in the adjustment has been funded from the contingency reserve.

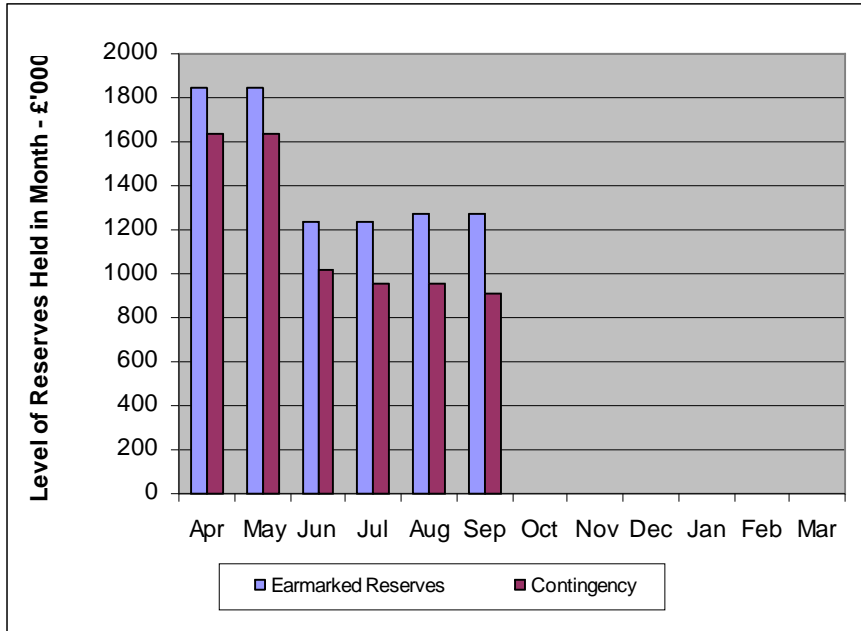
- e. **Financial Risks** - The PCT identifies and tracks risks on a monthly basis. The value shown here is the unmitigated level of risk to which the PCT is currently exposed.

Current value of risks logged = £1,047k

RAG rating is GREEN

No changes have been made to the risk register since month five.

- f. **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

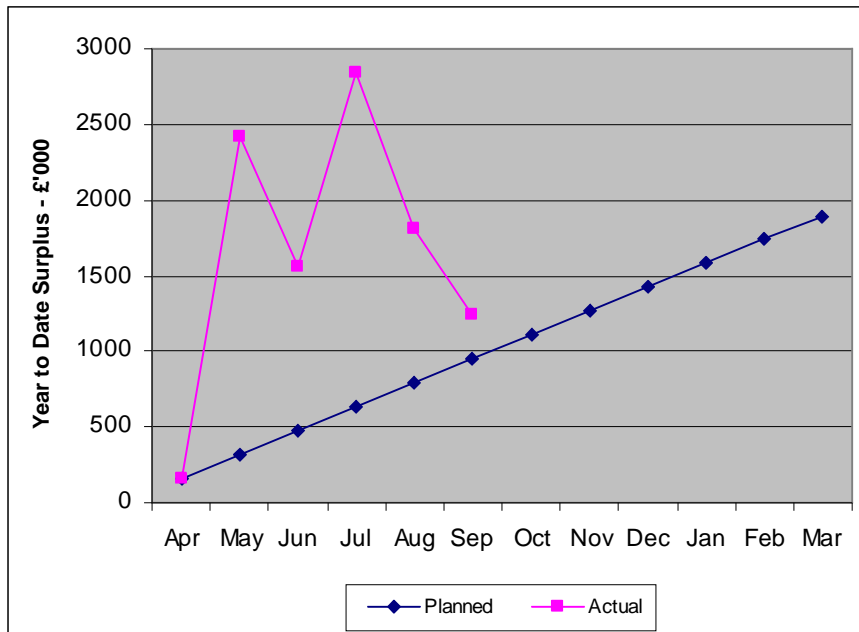
GREEN

Forecast position to year end

GREEN

The contingency reserve has fallen by £51k due to the unanticipated allocation change for CEOV previously mentioned.

g. 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

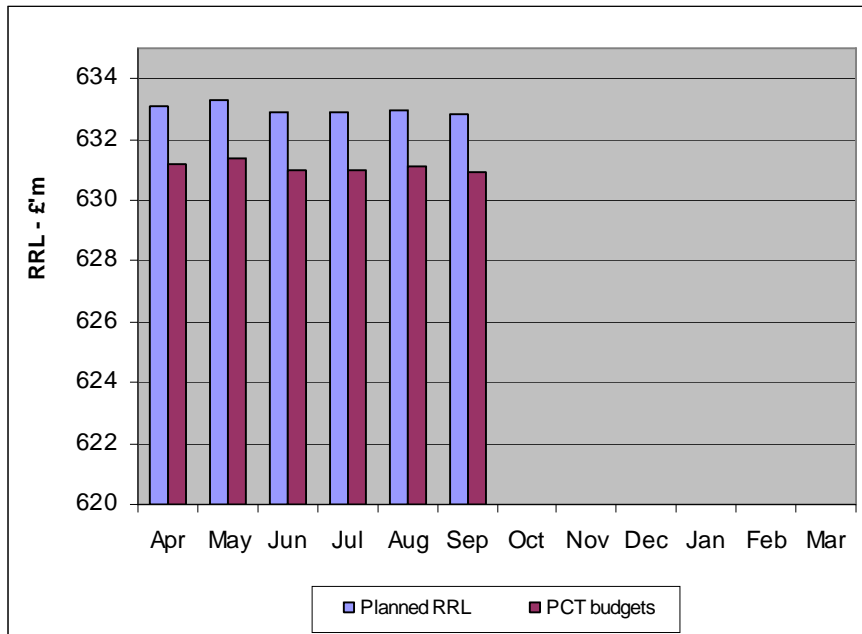
The PCT is still reporting a year to date underspend above the target position for this point of the year. The breakdown of this under spend is shown below:-

	Target Variance (YTD) £'000	Actual Variance (YTD) £'000	Distance from Target (YTD) £'000
Position against commissioning budgets	0	(845)	(845)
Under spend/(overspend) on provider arm	0	1,135	1,135
YTD Position Against Budgets	0	290	290
Surplus target not issued	950	950	0
Operational Financial Balance	950	1,240	290

The year to date surplus has fallen much further into line with plan during month six. This is mainly as a result of the PCT applying the previous months underspends to planned areas of expenditure, as outlined in the Trust Board report last month.

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

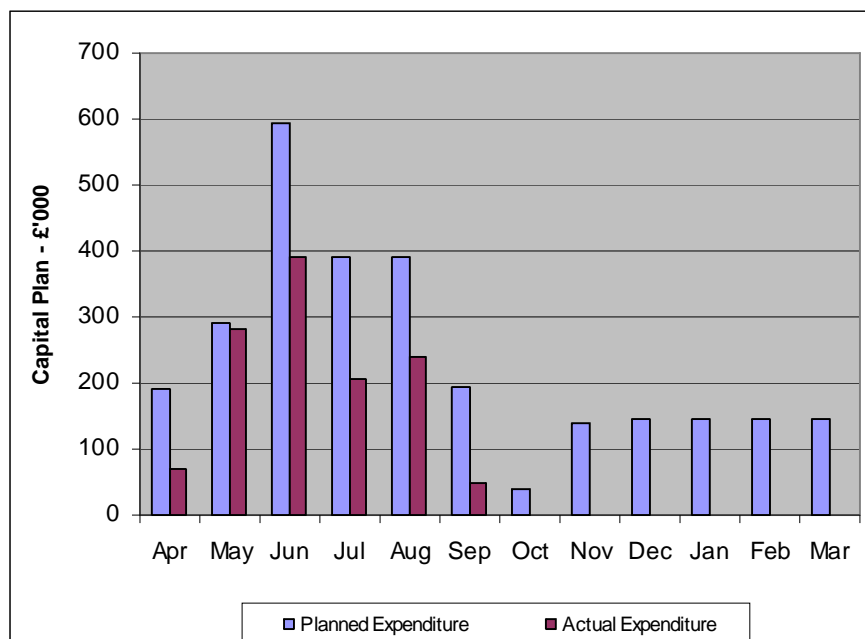
GREEN

Forecast position to year end

GREEN

The only change to the RRL in August was the £51k reduction in allocation previously mentioned.

- 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

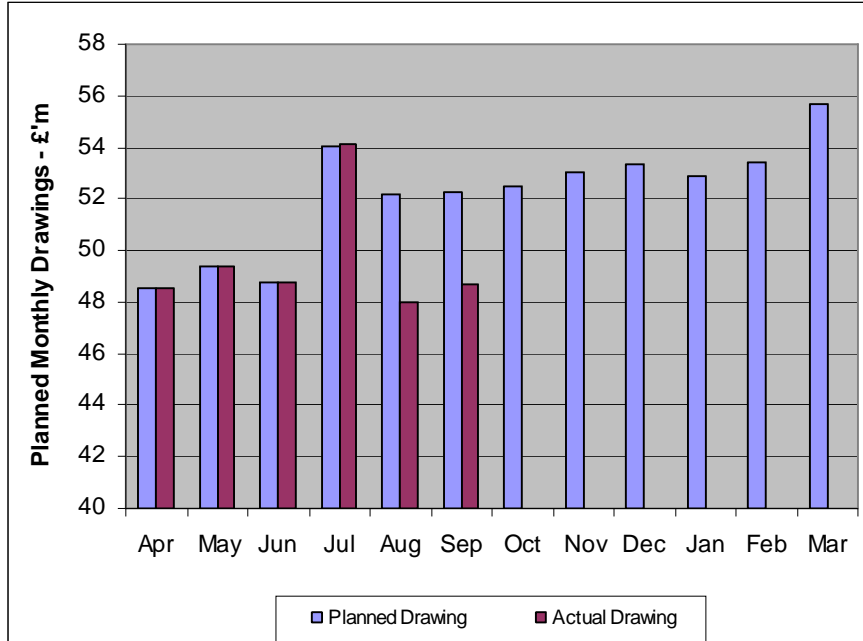
AMBER

Forecast position to year end

GREEN

The cumulative year to date under spend against the capital resource limit is £867k.

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



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

Position year to date

AMBER

Forecast position to year end

GREEN

For the second consecutive month the PCT drew down significantly less cash than plan. The reasons for this under drawing are the same as those outlined in the month five Trust Board report.

4. Commissioning

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

	Annual	Budget	Expenditure	Variance	Change in Month £'000
	Budget	To Date	To Date	To date	
	£'000	£'000	£'000	£'000	
Commissioning					
Acute Services	223,762	111,881	115,941	(4,060)	469
Specialised Services	83,971	41,986	42,021	(35)	(11)
Community Services	73,881	36,551	38,686	(2,136)	(182)
Mental Health	47,445	23,528	23,371	158	(366)
Learning Difficulties	22,133	11,066	11,181	(115)	(115)
Other Commissioning	6,008	3,004	2,043	961	(397)
Commissioning Reserve	3,250	1,625	0	1,625	271
Sub-Total	460,451	229,642	233,244	(3,602)	(331)
Primary Care Services					
GMS	40,088	18,349	18,349	0	
PMS	14,293	7,048	7,048	0	
Prescribing	71,031	35,515	33,566	1,949	(53)
Pharmacy Contract	2,659	1,330	2,437	(1,107)	(1,107)
Dental Contracts	15,318	7,658	7,658	0	0
Sub-Total	143,389	69,900	69,058	842	(1,160)
Public Health					
Health Promotion	2,605	1,226	1,011	215	(80)
Smoking Cessation	851	425	289	136	44
Sub-Total	3,456	1,651	1,300	351	(36)
Organisational Costs					
Management costs	20,760	9,395	8,204	1,191	496
Capital charges	936	468	95	373	108
Sub-Total	21,696	9,863	8,299	1,564	604
Reserves					
Specific	1,075	0	0	0	0
Contingency	908	0	0	0	0
Sub-Total	1,983	0	0	0	0
Total BEN PCT	630,975	311,056	311,901	(845)	(923)
Surplus Target	1,900	950	0	950	158
Total BEN PCT RRL	632,875	312,006	311,901	105	(764)

Areas not Covered by KFI

Acute Commissioning

The improvement in the year to date variance figure on the acute contracts is due to both a reduction in the HEFT position and other smaller less significant downturns in activity at other Trusts.

Mental Health

There has been a small overspend on the contract with Birmingham and Solihull Mental Health Trust. This over performance has also been experienced by the other Birmingham PCTs and is being investigated in partnership with the Trust.

Organisational Costs

The increasing underspend on organisational budgets is due to:-

- Applying a provision made last year to restitution costs in this year (£100k)
- Unexpected income for practice placement managers (£100k)
- Slippage on IT additional investment budgets (£120k)
- General vacancy factor (£100k)
- Fall in forecast capital charges for the year (£110K)

5. Balance Sheet

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

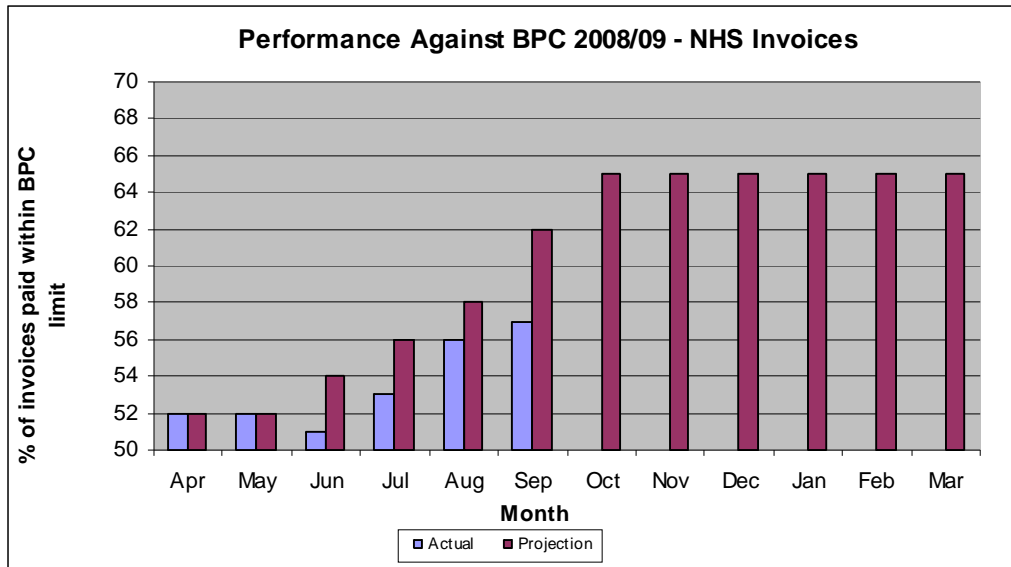
Balance Sheet as at 30th September 2008

BALANCE SHEET	Opening Balance £000 01/04/08	Closing Balance £000 30/09/08	Forecast Year End £000 31/03/09
Total Fixed Assets	32,324	33,751	27,920
Current Assets			
Debtors	25,457	11,928	25,457
Cash at bank	11	10	11
Total Current Assets	25,468	11,938	25,468
Current Liabilities			
Creditors due < 1 year	(72,137)	(67,570)	(68,825)
Total Current Liabilities	(72,137)	(67,570)	(68,825)
Net Current Assets	(46,669)	(55,632)	(43,357)
Total Assets Less Current Liabilities	(14,345)	(21,881)	(15,437)
Provisions for Liabilities & Charges	(4,847)	(4,650)	(4,847)
Total Assets Employed	(19,192)	(26,531)	(20,284)
Financed by:			
Tax Payers' Equity			
General fund	(25,268)	(33,797)	(27,722)
Revaluation Reserve	2,993	3,712	3,947
Donated Reserve	3,036	3,135	3,071
Government Grant Reserve	47	419	420
Total Taxpayers' Equity	(19,192)	(26,531)	(20,284)

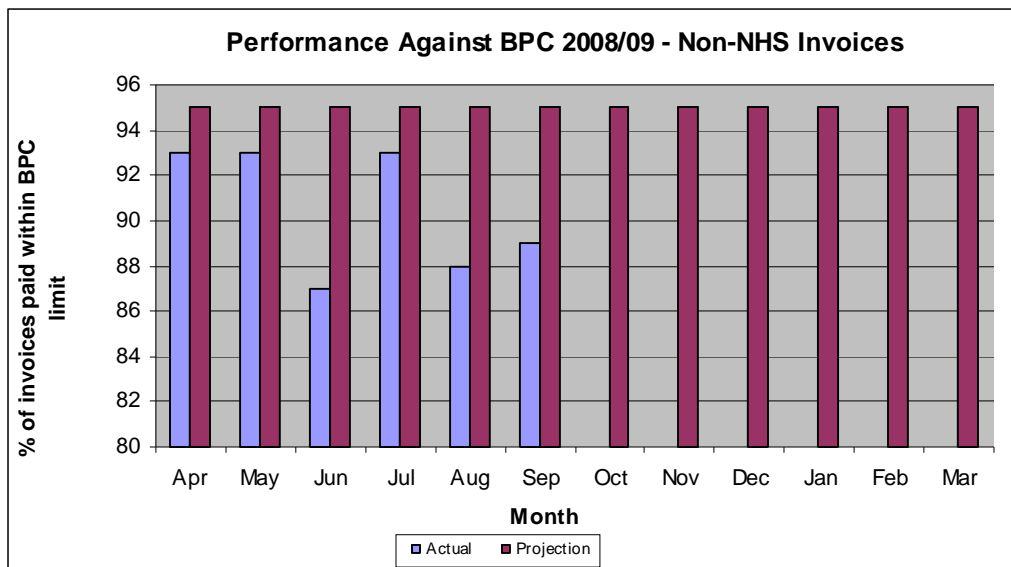
6. Better Payment Code

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. Outlook for the Year

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	(5,190)	(5,190)
Under spend/(overspend) on provider arm	0	2,175	2,175
YTD Position Against Budgets	0	(3,015)	(3,015)
Surplus target not issued	1,900	1,900	0
Operational Financial Balance	1,900	(1,115)	(3,015)

As previously reported, there are significant variances forecast on several key budgets, such as the HEFT contract, prescribing, the provider arm and the commissioning intentions, which have resulted in the forecast overspend outlined above.

It is anticipated that these large variances will stabilise over the year. The prescribing forecast underspend has reduced in month six and work is ongoing with HEFT to manage the forecast over performance. Indeed first cut September monitoring from the Trust does indicate a fall in the forecast outturn position in line with our expectations.

The PCT is confident that there is enough flexibility across its entire portfolio to ensure it will not be necessary to put any investment plans on hold, nor to take any other non-recurrent actions in year in order to meet the planned surplus target of £1.9 million at the end of the year.

Therefore, the PCT is continuing to urge commissioners to commit the new investment monies agreed at the beginning of the year in order to ensure there is not a large uncommitted surplus at the end of the year.

NHS West Midlands has recently issued further guidance around PCT planned surplus positions, giving a tolerance of £0.5 million below and £0.1 million above target. This therefore means for the PCT that the surplus at the end of the year must be between £1.4 million and £2 million.

8. Recommendations

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