

2011/12 FINANCIAL OUTLOOK

1.0 Introduction

This report covers the current financial outlook for 2011-12 considering the implications of the 2011/12 Operating Framework. The financial outlook will be presented in conjunction with the known commitments of the PCT to give an indication of the size of the financial challenge faced and the actions required to meet statutory financial duties.

2.0 2011/12 NHS Operating Framework

The 2011/12 Operating Framework was published on 15th December 2010; alongside this detail of PCT allocations were released. The key financial elements are summarised below.

2.1 Funding Allocation and Financial Control

- Average growth in recurrent allocations for PCTs is 2.2%
- 2% of PCT recurrent budgets will be withheld by the SHA to create financial flexibility and headroom to support change; access to these funds for non-recurrent purposes will be via business case and will require support from the SHA Directors of Finance group
- 2011/12 allocations includes funding for reablement; this funding will be increased going into 2012/13
- A separate allocation will be received to support social care
- GP consortia will be responsible for resolving any legacy debt arising from 2011/12 onwards until they have their own budgets from 2013/14
- There will be an increasing focus on PCT clusters maintaining strong financial control and good governance during transition

2.2 Running Costs and GP Consortia Allowances

- The reporting of management costs will be replaced by a requirement to report on overall running costs in order to prepare for the new system
- Detailed guidance and a trajectory for the release of running cost savings by region will be included in the financial planning guidance due to be released during January 2011
- GP consortia will receive an expected running cost allowance in the range of £25 to £35 per head of population

2.3 2011/12 Tariff

- National efficiency requirement of 4%
- Uplift for pay and price inflation assessed as 2.5%
- Net position is overall tariff reduction between 2010/11 and 2011/12 of 1.5%.
- This tariff reduction of 1.5% will apply to non-tariff services
- PCT's are no longer required to reimburse for emergency readmissions within 30 days of discharge following an elective admission.
- All other readmissions within 30 days of discharge will be subject to locally agreed thresholds, set to deliver a 25% reduction, where possible.

- Savings made from the non-payment of emergency readmissions are to fund reablement and post discharge support
- Appropriate tariff increases will be identified to take effect from 2012/13 to reimburse providers for the cost of reablement and post-discharge support
- Change to the scope and level of specialised service top-up payments mean that specialist children's and orthopaedic services top-ups have been reduced and payments have been introduced for spinal and neurosciences
- The marginal rate of tariff payment for emergency admissions above baseline, will be maintained to support delivery of local QIPP plans
- Providers are now able to offer commissioners less than the published mandatory tariff price

2.4 CQUIN, QIPP and Capital

- CQUIN remains at 1.5% on top of actual outturn value
- QIPP reporting and monitoring of efficiencies will focus on several key areas including those savings driven by changes in demand and those which are cash releasing
- There will be no automatic capital allocation for PCTs with necessary capital funding being granted on a case-by-case basis; maintenance and essential smaller improvement schemes should not be affected this reduction

3.0 Local Implications

The headline implications of the Operating Framework on the PCT are summarised here:

- 2.2% baseline growth has been awarded, circa. £15m
- The 2% top-slice will be circa. £14m
- Non-recurrent funding has been awarded to support social care; this funding is to be transferred to the local authority, £6m
- Non-recurrent funding will be received for primary dental services, general ophthalmic services and the pharmaceutical services global sum of £27.9m

In addition the SHA have also requested that PCTs in the West Midlands plan for the following in 2011/12:

- Minimum £1m underspend
- 1% contingency

This contingency would be circa. £7m for the PCT and the SHA have advised that QIPP targets should not be too ambitious as a consequence of holding this contingency. The contingency should only be used for in-year financial management.

4.0 Size of Challenge

The size of the financial challenge presented by the recurrent and on-going commitments of the PCT, shown in conjunction with the implications of the 2011/12 Operating Framework, is presented in the following table:

	2011/12 £m	Recurrent Position £m
Changes to allocations		
Growth in allocation	15	15
Social Care Allocation	6	6
2% Non Recurrent top-slice	(14)	
Sub Total changes to allocations	7	21
Changes to Expenditure		
Recurrent Deficit	12	12
Demand Growth	18	18
Non Acute Inflation	4	4
Non recurrent Exp	11	
Investments	2	2
1% contingency	7	7
Tariff Deflator (inc changes to tariff)	(8)	(8)
Social Care	6	6
Sub Total Changes to Expenditure	52	41
Size of Challenge	45	20

The table above demonstrates the need to identify £20m of recurrent savings to get back into recurrent financial balance; this will leave a non-recurrent deficit of £25m in 2011/12. Discussions have already taken place at a cluster level and with the SHA to explain this position and seek approval to access the 2% top slice to resolve this timing issue. In addition, the PCT will be seeking to use the 1% contingency (non-recurrently) to manage the financial position in 2011/12.

There are a number of key actions that are currently being undertaken:

- Assessing the impact of the new tariff on current levels of activity
- Contract negotiation with HEFT
- Identifying QIPP plans
- Agreeing a cluster approach to disinvestment
- Detailed budget setting (including GP Consortia budgets)

An update to the Board will be provided in February

5.0 Recommendations

The Board are asked to note the contents of this report and to approve the actions suggested.