

**TO:** West Gloucestershire Primary Care Trust Board

**FROM:** Mike Theelke, Director of Finance

**DATE:** 13<sup>th</sup> July 2006

**SUBJECT: FINANCE REPORT**

## **1.0 PURPOSE**

1.1 To update the PCT Board on the financial position of the PCT as at 30<sup>th</sup> June 2006.

## **2.0 BACKGROUND**

- 2.1 The PCT has agreed a budget for 2006-07 which includes an assumption that the PCT will achieve a Financial Recovery Plan of £19,604,000 during the year. At the 30<sup>th</sup> June the PCT has an anticipated resource limit of £274,115,000 of which £266,132,000 is recurrent. The savings plans have been phased across the months to reflect the planned start dates for implementation and delivery. A separate report is available to the Board on the delivery of the required savings.
- 2.2 The savings plans are part of a Health Community wide programme in Gloucestershire. Including Cash Releasing Efficiency Savings (CRES) of 2.5% the three PCTs in Gloucestershire need to deliver savings of £43,639,000, of which £30,676,000 is recurrent, to deliver financial balance.
- 2.3 Plans are being implemented to deliver the CRES of £15,386,000 and a consultation process has started to implement service change which will deliver savings of £6,750,000 in 2006/07, in addition to further savings already identified of £10,496,000. The remaining gap for which plans have not yet been identified is £9,935,000. West Gloucestershire PCT's share of this is £4,215,000. The Community Change programme which is leading the countywide work on savings is continuing to review further plans to meet the gap of £9,935,000. Until plans are in place, the three PCTs in Gloucestershire are assuming in their forecast outturn that these savings will not be delivered.
- 2.4 The three PCT's plans in aggregate forecast financial balance for 2006/07. West Gloucestershire PCT plan is based on delivering a deficit of £3,134,000 with Cheltenham & Tewkesbury PCT producing a surplus sufficient to achieve financial balance across the three PCTs.
- 2.5 The three PCTs will submit a draft position for Month 3 to the Community Change Steering Group as follows.

	Year to date £'000	Forecast outturn variance £'000	Variance Against Plan £'000
Cheltenham & Tewkesbury	540	1,143	4,453
Cotswold & Vale	1,689	5,220	5,044
West Gloucestershire	2,815	9,698	6,564
	<b>5,044</b>	<b>16,061</b>	<b>16,061</b>

### 3.0 DISCUSSION

#### 3.1 Overview

At this stage of the year the PCT has limited activity information for the majority of our commissioning budgets but based on information available to date the PCT is forecasting a deficit of £9,698,000 which represents the level of unidentified savings required within the PCT's plans, slippage on agreed plans and variances against baseline budgets. This is £6,564,000 higher than the PCT's planned deficit of £3,134,000. There is an overspend of £2,815,000 at the end of June. £2,888,000 of this overspend relates to unidentified savings noted above. The overspend of £2,815,000 is £981,000 higher than the planned 'run rate' at month 3 of £1,834,000. The balance of the £2,815,000 relates to underspends across a range of budgets (£73,000) including savings plans and is in part due to phasing of savings in the latter part of the year.

#### 3.2 NHS Trusts

The PCT has agreed a contract sum in principle with the majority of providers where we act as county lead. Service Level Agreements (SLA) with the three in county trusts are signed. At this stage we have insufficient activity information on which to base forecasts for most SLAs, and for some SLAs plans are still being finalised. All acute trusts are working within the full Payment by Results (PbR) regime from 2006/07 which will increase the variability of performance against plan.

Based on the limited information available at month 3 the PCT has a year to date underperformance of £215,000 and forecast overspend of £27,000.

#### 3.3 GHT

**Gloucestershire Hospitals NHS Foundation Trust (GHNHSFT)** –At the end of May the PCT expenditure against the plan is £229,000 underspent. At this stage of the year we have assumed no further saving. Unvalidated information suggests that activity levels have increased since May and we are therefore forecasting an underspend for the year of £229,000. Annexe 2 provides an analysis of the key variances –the largest relating to savings on non elective activity of £300,000, offset by a pressure on elective activity of £139,000

#### 3.4 Out of County

As noted earlier we have limited information on performance against SLAs with Out of County Providers. The information at this stage of the year is not normally

sufficient to establish a forecast. There are a number of contracts where we are definitely experiencing pressures and forecasts have been included in these areas. These include Oxford Radcliffe NHS Trust and Fromeside.

Oxford Radcliffe performs a cardiac procedure recently approved by the National Institute of Clinical Excellence (NICE). Although the SLA was increased to accommodate this decision, activity to date suggests that a larger number of these procedures are being undertaken. West Gloucestershire, as lead for the SLA, is negotiating with Oxford Radcliffe to manage overall activity within the contract sum.

Fromeside is a NHS hospital providing a Medium Secure environment for Mental Health Patients. The hospital has notified Gloucestershire PCTs that there will be an overspend against plan of which West Gloucestershire's share is £150k for 2006/07.

### **3.5 Non NHS Providers**

Non NHS Provider budgets include private sector placements for clients with learning disabilities and mental health, continuing care and Registered Nursing Care Contributions. These areas will be monitored carefully as they pose potential financial risk to the organisation.

At the end of June this area is overspent by £155,000 and is forecast to overspend by £636,000. £439,000 relates to Private Sector Placements and a further £266,000 to continuing care costs.

### **3.6 Primary Care**

Primary Care budgets have been set based upon GMS and PMS (Personal Medical Services) contract values plus central developments, enhanced services, Out of Hours and prescribing Budgets. The PCT anticipates that these budgets will underspend by £108,000 in 2006/07. At this stage there is an underspend year to date of £68,000. This largely relates to Out of Hours services and the Pharmacy contract.

### **3.7 Prescribing**

Practice budgets were issued to practices during May. We have received expenditure details to May 2006 from the Prescription Pricing Authority but it is too early in the year to use this information to forecast the likely outturn. The year to date position is £13,000 underspent. Details by practice are shown at Annexe 3. The average rolling growth of the PCT is 0.2% (See Annexe 4).

### **3.8 Programme Costs**

Programme budget expenditure is very close to budget at the end of June and is forecast to breakeven at the end of the year.

### **3.9 Administration Costs**

Administration Budgets are £56,000 underspent at the end of June.

**3.10 Provider Services**

The PCT provider budgets are underspent year to date by £14,000. The PCT anticipates a small overspend this year.

**3.11 Efficiency Savings /Financial Recovery Plan**

As noted above the PCT's Financial Recovery Plan (FRP) requires savings of £19,604,000. Plans have been identified to deliver £12,067,000. This includes delivery of 2.5% efficiency savings. Plans have not yet been identified to deliver the remaining £7,349,000 and this is being addressed by the Community Change steering group.

The PCT has ceased all unavoidable expenditure and is freezing vacancies in both clinical and non clinical areas.

From June FRP savings have been monitored against the individual budget lines appropriate to the scheme.

**3.12 HCHS Unallocated funds**

This area includes funding set aside for developments as part of this year's financial planning process plus new allocations received during the year. These will be vired to individual budgets once formally released by Directors; where possible, non-recurring contributions to the Recovery Plan will be made.

**3.13 Balances**

This includes funding set aside to repay the 2005/06 deficit including a 10% premium, (£4,235,000) and anticipated slippage to fund budgets carried forward from 2005/06 (£1,012,000).

**3.14 Cash**

The PCT's Revenue and Capital Cash limit is currently £262,837,000. To date we have drawn down £72,362,000 which is 27.5% of our allocation. This includes payment of significant sums (£2,100,000) to GPs in settlement of the 2005/06 Quality and Outcomes Framework. The resource for this was allocated in 2005/06 but the cash allocation, due in 2006/07 has not yet been received. The PCT also made significant payments in April paying creditors arising from the year end cash management process in 2005/06. These payments totalled £4,793,000. Again the PCT is awaiting return of the 2005/06 brokerage from the SHA of £2,852,000.

In an effort to improve cash management in the NHS, the Department of Health is changing the rules on drawing down cash. In future, only one supplementary request will be allowed during the month without SHA approval and advance notice will need to be given. This emphasises the seriousness which the department is now placing on cash management issues.

The PCT will be under pressure in 2006/07 in managing within its cash limit but is developing plans with the health community to manage creditors at the year end.

**3.15 Capital**

In line with other work streams in the PCT in preparation for a merged organisation from October, management of the capital programme is being led by two county wide groups within the PCTs. The IT aspects are being led by Mike Theelke as part of the IM&T programme and premises and other equipment issues are being led by Howard Oddy.

The PCT has received a Capital Resource and Cash limit this year of £321k and is bringing forward an underspend from 2005/06 of £108k giving a total available of £429k. Against this sum provision has been made for £103k relating to Decontamination funding received in 2005/06 and completion of the works on the hot water system at Lydney Hospital. This project is now 85% complete and is due to come in on budget (set at £80k last year).

The draft proposals for this year's capital programme are attached at Annexe 5. An amount of £150k has been set aside to cover the PCT's own IT requirements and its contribution to the ongoing national schemes (NPFIT). A nominal amount of £60k is proposed to address issues arising from the DDA reports carried out on the PCT's premises. The balance remains unallocated at present.

**3.16 Conclusion**

The PCT is carrying considerable financial risk during 2006/07. It is working collaboratively with its partners in Gloucestershire to deliver the identified savings plans but based largely upon the level of savings required for which plans have yet to be identified it is forecasting a deficit at the end of the year of £9,698,000. It will continue to work with its partner organisations to reduce this.

**4.0 RECOMMENDATION**

- 4.1 The PCT Board are asked to note the contents of this report in respect of the PCT's financial position as at 30<sup>th</sup> June 2006.