

Agenda Item	
Paper	Delivery Committee
Meeting Date	29 September 2010

FINANCE REPORT - MONTH 5, AUGUST 2010

Decision Discussion Information

Report author: Jonathan Tymms, Director of Finance & IT

Report signed off by: Jonathan Tymms, Director of Finance & IT

Purpose of the report:

The report summarises the current financial position and forecast year-end of the PCT at month 5 of the financial year 2010/11. This informs the Delivery Committee of the PCT's performance against its financial duties.

Recommendations to the Committee:

1. To note the current financial position of the PCT at month 5 which is a £5.5m variance from plan compared to the month 4 position of a deficit of £2.9m.
2. To note the high level of risk associated with the deliverability of the PCT's financial plan with a potential deficit of £15.9m by the year-end based on current expenditure trends and past year trend analysis. This figure takes account of the PCT's revised assessment of the outcome its savings plans and the recommendations within the KPMG report regarding the basis for extrapolating acute activity.
3. To note that the PCT in conjunction with the sector is pursuing an approach to managing the Acute SLA position for the rest of the year with agreement targeted in time for M6 reporting. In addition the PCT is seeking to consolidate a further action plan to address its deficit and in conjunction with the NWL Sector agree an approach to manage the residual risk within the PCT's financial position for 2010/11.
4. To note that pending the outcome of this work the PCT has submitted a forecast year-end break-even position at Month 5.

Related PCT objectives:

- Be the lead for health in Harrow by working with partners & engaging public
- Be a model employer Ensure our systems are robust and used appropriately by staff
- Improve health in Harrow & reduce health inequalities Be a highly performing, innovative organisation
- Provide the people of Harrow with accessible & efficient care of the highest quality

Related "Standards for Better Health":	Related "Use of Resources" 1.1, 1.2 and 1.3
Reference to risk on Board Assurance	Related "Links to World Class Commissioning"

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Framework/ Risk Register	Competencies”
4.11, 4.16	6 & 11

Report history:

The report will be considered by the PCT Delivery Committee on 29th September

Contact name: J Tymms
Contact no: 020 8966 1064

1. Purpose of the report

1.1 The report summarises the current and forecast year-end financial position of the PCT as at month 5 of the 2010/11 year. This informs the Board of the PCT’s performance against its statutory financial duties.

2. Terms/ acronyms used in the report.

2.1 Committee members are asked to note that positive variances indicate a favourable position, i.e. budgets under spent or income in excess of plan and that negative variances show an adverse position.

- 2.2 SLA= Service Level Agreement
RRL= Revenue Resource Limit
PPA= Prescription Pricing Authority
CIP= Cost Improvement Plan
PBR= Payment by Results (Generic name for acute activity tariff system)
UCC= Urgent Care Centre
CAS= Clinical Assessment Service
CAU= Community Assessment Unit
NWLCP= North West London Commissioning Partnership
FOT= Forecast outturn Position
POD= Point of Delivery

Current Financial Position at Month 5

3 Summary

3.1 The PCT’s overall position for the year to date is now a negative variance of £5.5m against plan. This compares with an adverse of £2.9m at month 4, an in-month change of c£2.6m. The main driver behind this shift in adverse variance relates to Acute SLA overperformance which has shifted from c£2m reported last month to £4.3m. These figures are based on the month 4 Provider reports which have been extrapolated to month 5 to take account of last year’s seasonal trend.

3.2 The year-to-date variance consists of a shortfall of £5.2m on its Commissioning

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budgets and £300k on the provider-side. Of the £5.5m variance, c£2.4m relates to shortfalls on the PCT's savings plans with the balance of £3.1(net) relating to new cost pressures in 2010/11 offset by underspends. The analysis of variance in Appendix 13 details this by main expenditure heading.

3.3 The shortfall in the savings plan ytd comprises mainly of Demand Management initiatives £1.4m, Prescribing £522k and Provider Services £218k. The additional overspends relate to other Acute SLA pressures particularly at NWLH, Imperial, Royal Brompton and Barnet & Chase Farm as well as on-going pressures relating to Intermediate Care, Prescribing and Mental Health cost per case.

3.4 Based on current expenditure trends for the year-to-date and the PCT's latest forecast assessment of the deliverability of its savings plan, the PCT has highlighted a potentially significant year-end forecast deficit of £15.9m compared to £11.7m last month. This reflects the change in SLA performance between month 3 and month 4 but also a change in methodology regarding the extrapolation of Acute SLA performance to take account of past year seasonal trends.

3.5 The PCT's forecast figures has been reviewed by KPMG during the last month and they have concluded based on the PCT's month 4 position (Month 3 SLA position), there is an upside and downside range of £10-£16.8m deficit. Subsequently based on the month 5 numbers (Month 4 SLA activity) they have identified a further £2.3m of risk relating to Acute activity and management restructuring costs to give a total downside risk of £19.1m for 2010/11. The PCT has subsequently undertaken an updated forecast outturn risk assessment for month 5 which shows a range of between £12m and £19m. This assessment is shown in Appendix 14.

3.6 As highlighted above the downturn in the acute SLA forecast reflects the shift in Trust performance during the last month, the limited success in prosecuting challenges to date and experience and trajectory of the last two financial years. The PCT's view is that although the forecast may reflect a pessimistic view it is nevertheless a realistic assessment of the likely outturn position.

3.7 The overall position is summarized in the Table 1 below and in Appendix 1:-

Table 1

Heading	M5 Variance YTD (£k)	FOT Variance (£k)
Commissioning	(5,201)	(15,480)
Provider	(296)	(388)
Additional savings requirement		15,868
Total PCT	(5,497)	0

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3.8 A more detailed analysis of the month 5 year-to date and FOT variances are shown below in Table 2 and reflect the relative impact of savings plan shortfalls and other pressures:-

Table 2

Area	YTD Position	FOT Position
	£k	£k
1 Shortfall on Savings	(2,386)	(6,933)
2 Additional Pressures:-		
Mental Health CPC	(106)	(174)
Intermediate Care	(422)	(898)
Specialist Consortia	(204)	(233)
Additional Prescribing	(952)	(1,301)
Acute SLA	(3,989)	(12,015)
Other	(543)	
3 Gross Pressure	(8,602)	(21,931)
Offset by:-		
4 Community SLA underspend	422	914
5 Acute SLA Underspend	1,088	2,523
6 Contingency & Other U/S	1,595	2,119
7 Net Variance	(5,497)	(15,868)

3.6 A more detailed analysis of the variances by main budget headings is highlighted in the attachment " Analysis of Variance-Month 4" in Appendix 13. This analysis also demonstrates that the overall acute SLA variance represents c78% of the total variance from plan ytd and FOT.

3.7 Given the deterioration in the PCT's ytd position last month and the potential FOT deficit that the PCT initially reported to NWL sector and SHA, NHS NWL and the PCT jointly commissioned an external assignment from KPMG to further develop an understanding of the PCT's financial position for 2010/11 and the robustness of the PCT's forecast outturn position. The remit of the review was to establish, inter alia, whether the month 4 forecast produced by the PCT was robust.

3.8 The main findings of the report with regards to the FOT were that, based on their high level review of the PCT's savings programmes, they identified a potential range of outcomes for the delivery of the Financial Recovery Programme ranging from a possible further shortfall of £1.7m to a possible further delivery of £1.7m against the PCT's then forecast outturn of £10.9m savings achievement . However overall their view was that

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the £10.9m was an appropriate assessment of likely delivery.

- 3.9 The other major area of review by KPMG related to acute activity where the current run rate for 2010/11 financial year was extrapolated and then adjusted for the seasonal trends seen in the prior year. The extrapolation assumed that the run rate for the first three months (an average of 7% above the prior year) is applied to the remainder of the financial year. The impact of this was to identify a potential additional acute spend of £3.4m in excess of the amount included by the PCT in the month 4 FOT.
- 3.10 Subsequently the PCT has applied this methodology to the month 4 SLA activity data which has increased the FOT for acute spend by a further £1.4m so that the overall FOT for acute is now £4.8m higher than last month.
- 3.11 As a result of the on-going pressures within Acute activity particularly at NWLH and the need to achieve financial balance within the wider health economy it is planned to seek agreement with the Trust and other stakeholders to manage over-performance for the year within an overall financial envelope.
- 3.12 In addition the PCT is seeking to consolidate a further action plan to address its deficit and in conjunction with the NWL Sector agree an approach to manage the residual risk within the PCT's financial position for 2010/11.
- 3.13 Pending the outcome of these actions the PCT submitted a forecast break-even by year-end to NHSL at month 5, however at the current time this is dependent on an additional £15.9m of unidentified savings/cost avoidance measures.

4 Allocation Changes

4.1 The anticipated RRL for the PCT for 2010/11 remains at £343.2m as reported last month.

4.2 The anticipated RRL still assumes receipt of the net £7.9m of non-recurring financial support that was included within the NWL short-term financial strategy for 2010/11 that has now been agreed by the JCPCT. However it should be noted that the support is conditional on the PCT achieving milestones still to be determined by the Sector's own 'Challenged Organisation Process'.

5 Commissioning Performance

5.1 Acute Service Level Agreements

5.1.1 The Acute SLA budget is now showing an overall year-to-date variance of £4.3m (Appendix 3) compared to the £2m reported last month. This figure is based largely on the reported month 4 position of Trusts extrapolated to month 5 on the basis of the past year's seasonal trend. The shift in variance is largely caused by the adverse movement on the NWLH which has shifted from £1m reported at month 3 to £1.6m at month 4. The extrapolated figure at month 5 is £2.1m overspend. There are a number of increases in overperformance at other providers in particular The Royal Brompton and Barnet and Chase Farms. In addition some of the SLAs where previously underperformance had been reported have either seen a reduction in the level of underperformance or reverted to overperformance e.g. Chelsea and Westminster. A detailed analysis of SLA performance by Trust and Point of Delivery is attached in Appendices 15 and 16.

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- 5.1.2 The variances shown against the NHS Providers in Appendix 3 are largely based on the Month 4 information received by Trusts at the beginning of September. A number of the technical issues relating to the reporting of performance have now been resolved and so it is now considered that the month 4 figures reflect more accurately the underlying performance and trends within Acute SLAs and now reflect a similar pattern to that experienced in 2009/10. As a result of this the methodology calculating for the Acute SLA activity has been refined this month to take more explicit account of last year's seasonal trend. This is in line with the recommendations in the KPMG report.
- 5.1.3 With regards to NWLHT, the initial reported position at month 4 was an overspend of £2.5m which is subject to adjustment in respect of the non-elective threshold adjustment (£500k) and out patient ratio cap not being applied (£400k). This reduces the reported overperformance to c£1.6m for NWLHT at month 4. A potential £293k is being followed up with the Trust as a post Month 1 data refresh issue. However the PCT has not factored this last issue into either its year-to-date or forecast position.
- 5.1.4 The £1.6m ytd over performance represents a c5% variance from plan. The PCT in conjunction is seeking to understand the causes of overperformance for those areas where the PCT has not applied any demand management reductions to the contract e.g. direct access, elective day cases and Non-elective surgery and Paediatrics.
- 5.1.5 As a result of the deterioration of the month 4 position with NWLHT, the PCT has adjusted its FOT with this provider from £2.9m last month to £5.5m. Following discussion with NWL sector and the Trust and the need to achieve financial balance within the wider economy, the PCT is seeking to accelerate agreement with the Trust relating to performance to date and to agree a financial envelope to manage the SLA for the remainder of the year.
- 5.1.6 The PCT has also identified a number of pressures at other Trusts in particular Imperial (£400k at month 4), Brompton (£218k at month 4) and Barnet & Chase Farm (£249k at month 4). The overspends relate to Critical Care and Renal services at Imperial, Cardiac Implants at Brompton and Drugs and Devices at B&CF. The PCT has written to the Partnership seeking further explanation around the causes and proposed remedial actions to address these overspends.
- 5.1.7 The PCT has been notified that the NWLCP has raised data and other challenges with Trusts for Q1 in excess of £2m. However success in prosecuting these challenges has been limited so far with only 1% converted into credit notes so far. The PCT has not assumed within its figures any further benefits relating to these challenges but will continue to seek via NWLCP improved payback on these issues.
- 5.1.8 In light of the deterioration in its SLA position the PCT has instigated a number of actions in conjunction with NWLCP to seek further explanations relating to the causes of its overperformance as well as working with the Trust(s) to undertake appropriate remedial action.
- 5.1.9 In addition the PCT has now established an Acute Recovery Board which the CEO will chair to strengthen the existing arrangements. This will include senior representation from the ACV as well as GP representation. The remit of the group will be to establish a much better understanding of our acute spend leading on to identification of steps the PCT and its partners can take to improve the effectiveness

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of its existing demand management measures as well any other measures that can be taken to reduce overall acute spend.

5.1.10 In light of the expenditure trend to date and expected outcome of its demand management plans, the PCT has assessed its FOT as a deficit of £12.5m on its overall acute sla budget of which £3m relates to demand management shortfalls and c£9.5m to net new cost pressures within the acute budget.

5.2 Prescribing

5.2.1 The overspend shown on Prescribing budgets for the year to date is based on the Month 1-4 prescribing figures received from the PPA. Based on an extrapolation of this the overspend at month 5 is now £1.4m compared to £980k last month.

5.2.2 Based on this performance, the PCT cannot yet evidence any impact of the savings measures identified to date. This represents c£522k of the variance to date with the balance of £900k relating to new cost pressures. As a result of this the PCT has revised its forecast outturn which is now showing an overspend by the year end of £2.5m. This assumes a savings shortfall of £1.3m against the target of £1.7m.

5.2.3 A more detailed comparison has been undertaken of the changes in drug expenditure between Apr-July 09 and Apr-July 10. This is summarized in Appendix 17 but this analysis reveals a significant increase in costs of drugs for diabetics which have increase by c£200k (22%) from last year as a result of an additional 750 patients receiving medication compared to a year ago.

5.2.4 The PCT has recently been notified in prices relating to category M drugs from October. The impact of this is currently being assessed and will be reflected in the FOT position next month.

5.3 Continuing Care

5.3.1 Continuing Care is showing a comparatively small overspend for the year to date of £188k, however it should be noted there is a significant savings programme of £1.7m which is phased later in the year. The PCT has now reached a conclusion to a number of its disputes with the London Borough of Harrow and the impact of this is now reflected in the FOT.

5.4 Mental Health

5.4.1 The budget is currently showing an overspend of £151k relating to a number of high-cost out-of-area Mental Health placements. The contract with CNWL still remains unsigned and the PCT requires savings from the contract of £845k in 2010/11 from October onwards to achieve the budgeted contract value for the year. The PCT has identified that these savings are at significant risk, although this shortfall may be offset partially by not paying the CQUINS payment to the Trust this would still leave the PCT short on its savings plans by £628k. In addition the projected overspend on its CPC activity will add an expected £174k to the overall variance to give an overspend of £0.8m against the Mental health budget.

5.5 Community Services Agreements

The SLA with the PCT's own provider is predominantly a block Contract, however the UCC activity at Northwick Park is now paid on a tariff basis for 2010/11. An additional

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£1.1m was included within the contract value to pay the increased activity required by the PCT to achieve its demand management savings for reduced A&E attendances at Northwick Park. To date the activity targets set are not being achieved and the PCT has now issued a Performance Notice to the Provider with regards to both UCC and CAU. The lower activity has resulted in an underspend on the Community SLA of £283k for the year-to-date with a projected underspend of £898k by year-end, however there is a net additional cost to the PCT as the activity is being undertaken in A&E at Northwick Park at increased cost. In addition the savings expected from the Hillingdon Community Contract are no longer anticipated.

6 Provider Performance

- 6.1. The financial performance of the provider-arm is still the responsibility of the PCT and will continue to be reported within the overall PCT financial position.
- 6.2. The provider's budgets are based on deriving a £200k surplus for the year, however at the end of period 5 there is a year to date deficit of £213k compared to a planned surplus of £83k for the year to date, a variance of £296k.
- 6.3. The actual year to date deficit reduced by £23k as a reduction in the usage of bank and agency staff within the Provider,
- 6.4. A further meeting was held involving the CEOs of the Provider and PCT and a further set of actions agreed to reduce the overspend.
- 6.5. However based on the performance to date, the provider is still forecasting a variance from plan of £388k by the year-end.

7 Savings Performance

- 7.1 The phasing of the PCT budgets reflects the trajectory included within the PCT's savings plans for each Programme Board. More detail regarding the savings plans is included in a separate report, however performance to date shows a c£2.4m adverse variance from plan for the year-to date with an adverse variance of £6.9m by year-end compared to £7.3m last month.
- 7.2 The table below shows the main variances by Programme Board:-

Table 3

Programme Board	Target (£k)	Variance To Date (£k)	FOT Variance (£k)
Care Closer to Home	2,089	(508)	(1,334)
Unscheduled Care	5,823	(858)	(3,399)
Non-Acute	5,210	(967)	(3,068)
Acute Contracting	4,395	21	(931)
Mental Health	2,393	(68)	(966)
Other	1,156		
Balance to £18.3m	(2,797)		2,797
Total	18,300	(2,386)	(6,933)

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- 7.3 Overall the PCT has now identified target savings within all Programme Boards totaling £21m for the year with the requirement that of this £18.3m needs to be delivered in-year to achieve its financial plan. However the PCT's latest forecast is that only £11.3m of these savings will be achieved.
- 7.4 KPMG have undertaken a high level review of the robustness of the PCT's savings plans and concluded that the forecast was realistic and identified a range between £9.6m and £12.9m as being achievable.
- 7.5 A more detailed assessment of the PCT's current shortfall on its savings plans and assumptions behind the FOT are included within the Recovery Programme Papers. Given the current shortfall against trajectory and the high level of risk associated with the delivery of the plan by the end of the year, each Programme Board Director is actively identifying scope for additional savings plans.

8 Contingency

- 8.1 The PCT has retained within its budget an initial contingency reserve of £1.6m (0.5% of its RRL). The PCT has now phased in £940k into its year-to date position to support the current financial position. With regards to the FOT, the PCT has assumed £750k of the contingency will be required to support management cost changes during 2010/11 and 2011/12. As a consequence of this £1.5m will currently be available to support the overall PCT position. KPMG have also reviewed the robustness of the £750k provision and concluded that the PCT's assumptions appeared appropriate on the basis of the information available, however noted the reliance on the assumption of 50% redeployment of staff which if not founded would increase the downside deficit by a further £750k.

9 Risks and Mitigating Actions

- 9.1 As highlighted in the PCT's financial plan for the year, the largest risks facing the PCT relate to:-

The key risks going forward relate to the delivery of the PCT savings plan and the management of its additional cost pressures in particular its Acute SLA overperformance.

The main areas of risk relate to:-

- Underperformance of unscheduled care demand management in particular A&E and admissions avoidance schemes. Performance notice issued to Community provider supported by a revised activity trajectory. Engagement with Acute provider and GPs to ensure revised pathways.
- Underperformance of referral management service. More active GP engagement to improve compliance.
- Prescribing savings- further pharmacy technical support to ensure best practice across all GP practices
- Mental health savings:- Mental Health Board established to review and agree approach to savings. CEO/CEO discussions to resolve contractual disputes

The PCT is undertaking/ has undertaken a number of actions to resolve the deficit which include:-

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- Strengthened Turnaround and Programme Management arrangements
- Reporting arrangements to the PCT Delivery Committee and Board have been strengthened through the Executive Scorecard and Fortnightly Reports
- Weekly Turnaround Boards chaired by a PCT Director have been established to monitor and track savings performance
- Establishment of Acute Recovery Board to be chaired by PCT CEO with input from Acute Commissioning Vehicle to oversee and address reasons for acute-overperformance
- Seeking in conjunction with NWLCP and other local PCTs to apply a cap to SLA overperformance particularly at NWLHT
- Commissioned further financial review of PCT financial position

10 Capital

The PCT has recently been notified of its Capital allocation for 2010/11. This totals £1.5m and covers the following elements:-

- Estate Infrastructure and IT replacement £566k
- Community developments at NWLHT £500k
- Clinic Refurbishment £200k
- GP Improvements £234k

The PCT is required to spend this capital money by 31.03.11. However the PCT has recently been advised by NHSL that the ability to transfer CRL to acute Trusts has been rescinded by DH which would undermine the PCT's ability to proceed with the capital development at NWLHT.

11 Conclusion

On current trends the PCT has identified risk of a year end deficit of £15.9M. This forecast is £4.2m worse than the risk to the FOT position identified in month 4. This reflects the increased exposure around Acute SLA expenditure and change in methodology around forecasting acute activity for the rest of the year.

12. Equality impact assessment

11.1 There are no Equality implications from this report.

13. Recommendations

- 13.1 To note the current financial position of the PCT at month 5 which is a £5.5m variance from plan compared to the month 4 position of a deficit of £2.9m.
- 13.2 To note the high level of risk associated with the deliverability of the PCT's financial plan with a potential deficit of £15.9m by the year-end based on current expenditure trends and past year trend analysis. This figure takes account of the PCT's revised assessment of the outcome its savings plans and the recommendations within the KPMG report regarding the basis for extrapolating acute activity.
- 13.3 To note that the PCT in conjunction with the sector is pursuing an approach to managing the Acute SLA position for the rest of the year with agreement targeted in time for M6 reporting. In addition the PCT is seeking to consolidate a further action plan to address its deficit and in conjunction with the NWL Sector agree an approach to manage the residual risk within the PCT's financial position for 2010/11.
- 13.4 To note that pending the outcome of this work the PCT has submitted a forecast year-end break-even position at Month 5.

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Appendices

Appendix 1 – Summary Financial Position
Appendix 2 – Allocation Changes & Budget Transfers
Appendices 3-12 – Detailed Financial Schedules
Appendix 13- Analysis of Variance-Month 5
Appendix 14- Forecast Outturn Risk Assessment
Appendix 15- SLA Performance by Trust
Appendix 16- SLA Performance by POD
Appendix 17- Prescribing Expenditure Analysis

Background documents

The report is based on the budget statements from the PCT's General Ledger System.

Board Report Executive Director sign off

This report has been approved by the accountable Executive Director and satisfied that the implications for the following areas have been adequately considered.

Financial

Equalities

Name: Jonathan Tymms

Job Title: Director of Finance & IT

September 2010