

Finance Director's Report

Board Meeting

1 September 2009

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| Author(s)/Presenter and title | Wayne Lugton, Deputy Director of Finance Brian Richards, Head of Finance (Performance Management) |
| Sponsor Director | Julia Newton, Director of Finance |
| Purpose of Paper | |
| <p>This report is intended to provide:</p> <ul style="list-style-type: none"> • a summary of the 2009/10 financial position for the period to 31 July 2009, including an assessment of current risks to achieving the financial plan for the year; • an update on the Q1 position against budgets delegated to PBC consortia • an initial overview of the recently published 2007/08 programme budgetary data • an update on work with the commercial procurement collaborative | |
| Key Messages | |
| <p>Based on month 4 information the PCT has an adverse £3.5m year to date position against plan, but is continuing to forecast a revenue surplus of £4.5m for the financial year in line with plan. The PCT faces a significant challenge to be able to deliver this position, as activity levels with a number of service providers are significantly above plan. As a result a range of actions are being implemented by the Executive Team in conjunction with PBC consortia colleagues.</p> | |
| Strategic/Performance implications including links to Achieving Balanced Health | |
| <p>The budgets for 2009/10 include resources for investment in the priorities identified in Achieving Balanced Health. The actions taken to mitigate the current financial pressures could require review of planned investment in priority areas.</p> | |
| Resource Implications (including Revenue, Capital, Staffing etc.) | |
| N/A | |
| Links to Targets eg Business Plan, UoR, WCC, SfBH, NHSLA, IG Toolkit, and BAF | |
| <ul style="list-style-type: none"> • Achievement of financial targets is a key objective within the business plan. • The Use of Resources assessment will reflect financial performance during the year. | |

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|---|
| Associated Risks to the PCT |
| Risks to achieving financial targets are highlighted in the body of the report. |
| Consultation Requirements |
| None |
| Equality/Diversity Impact |
| No specific issues associated with this report. |
| Recommendations |
| <p>The Board is asked to:</p> <ul style="list-style-type: none"> • Section 1: Financial Position <p>Consider the year to date and forecast financial outturn positions for 2009/10 and approve the action plan which is being pursued to address current challenges to delivery of the planned position; and</p> <p>Endorse the budget changes which have been actioned in Month 4;</p> <ul style="list-style-type: none"> • Section 2: Endorse the approach which is being taken to monitor PBC budgets and note the results based on quarter 1 data; • Section 3: Note the initial analysis of Programme Budgeting data and planned next steps • Section 4: Note the achievements and planned work with the CPC |

Section 1: Financial Position as at 31 July 2009 and Forecast Out-turn

Executive Summary

| Target | To date | Forecast | Key Issues |
|---|--------------------------|------------------------|--|
| Remain within Revenue Resource Limit (See section 1.1 of report) | £2.2m Over | £4.5 m Under | Key risks are highlighted in the main narrative of this report. Contingency and risk management arrangements are currently being implemented with the objective of mitigating the cost pressures which have arisen. |
| Remain within Capital Resource Limit (See section 1.2 of the report) | £balance | £balance | No major issues are envisaged at this stage. |
| Remain within Cash Limit (See section 1.3 of the report) | £13.0m Over | £balance | No major issues are envisaged at this stage. The cash flow implications of the cost pressure and mitigating action are being assessed. |
| Provider Full Cost Recovery (See section 1.4 of the report) | £0.1m Under | £0.5m Under | The Provider Services Arm is planning for a surplus of £0.5m. This surplus forms part of the overall £4.5m planned under spend against RRL. Provider Arm has a significant CIP to deliver, and whilst good progress is being made, full delivery at this stage is rated at amber. |
| Better payment code - Non NHS payments Target 95% (See section 1.5 of the report) | No. 95.0% Value 95.3% | Not possible to assess | |
| Better Payment code - NHS payments Target 95% | No. 84.5% Value 99.4% | Not possible to assess | |

Key:

| | |
|--------------|--|
| Red | Significant risk of non delivery. Additional actions need to be urgently pursued. |
| Amber | Medium risk of non delivery which requires additional management effort to ensure success. |
| Green | Low risk of non delivery – current management effort should deliver success. |

1.1 Position against the Revenue Resource Limit (Financial Balance)

Table A below provides a high level analysis of the position.

Table A: Summary Position at 31 July 2009

| Category | Year-to - Date Over/(under) spend | Forecast Over/(under) spend | Movement in FOT Performance |
|----------------------------|--|-----------------------------------|-----------------------------------|
| | £'000 | £'000 | |
| Secondary & Community Care | 5,182 | 13,181 | |
| Primary Care | (171) | (555) | |
| Prescribing | 193 | 538 | |
| Provider Services | (268) | (500) | |
| Public Health | (436) | (232) | |
| Corporate Infrastructure | (464) | (893) | |
| Reserves | (1,859) | (16,039) | N/A |
| Over/(Under)spend | 2,177 | (4,500) | |

Key:

| | |
|--------|---|
| Worse | Forecast position has moved significantly further away from plan |
| Better | Forecast position is broadly on plan or better where this is relevant |

Appendix B provides a detailed analysis across all budget headings for year to date expenditure and forecast out-turn for the financial year. The anticipated resources limits available for the year are detailed in **Appendix D**.

Year to Date (YTD) Position

The PCT is reporting at month 4 a year to date overspend of £2.2m, compared to a planned under spend of £1.3m – so a total adverse variance of £3.5m (or 0.4% of total resources). This is primarily as a result of the current overtrades on secondary care contracts with Sheffield Teaching Hospitals NHS Foundation Trust (STH) and two other providers through the Extended Choice arrangements, along with the exceptional and unexpected pressure on the specialised mental health commissioning budget. These pressures and other risks are discussed in further detail below.

All other secondary and primary care budgets are either broadly at a break even position or under spending. Corporate and Public Health budgets are under spent which reflect staff vacancies and projects starting later than originally planned. **Appendix F** provides further detailed analysis of the position with regard to staff in post numbers and costs against funded establishment.

Forecast Out-turn Position

At this stage, the PCT is continuing to forecast delivery of the planned £4.5m year end surplus. It is very important that we continue to work to deliver this position and maintain recurrent financial balance, particularly given the expected much lower or no additional real terms resources for the NHS from 2011/12.

It is, however, important to highlight that whilst at this stage in the financial year there are inevitably a number of risks/uncertainties which it is difficult to quantify, if year to date cost pressures are allowed to continue these could extrapolate to around a £10m adverse variance against plan and hence a deficit as opposed to the planned surplus. This would clearly be an unacceptable position and as a result the PCT's Executive Team over the last month has been engaging with staff, PBC consortia colleagues and our key local providers to start to put together a range of actions. These actions are intended to bring the financial position "back on track" whilst not adversely impacting on NHS services to patients. By looking to bring forward certain business cases, in these areas we should in fact see improvements in the quality of care to patients and/or patient experience, as well as more cost effective services. The areas of action can broadly be summarised as follows:

- Actions to address the over spending areas

There is considerable work ongoing with PBC consortia to address the overall level and variation in referrals and unscheduled care admissions. Based on M3 data we had already written to all consortia requesting action plans, which will be a key focus of the September formal review meetings with them.

A further strand of work is following up the formal contractual queries raised with local providers at Q1, where increase in spend may be due to different interpretations of the payment by results guidance for 2009/10 and potentially instead should form part of the previously agreed HRG4 risk sharing arrangements.

We met recently with the SCG team responsible for low/medium mental health services case management to explore why Sheffield is an outlier (ie £2m projected overspend on £16m budget based on 08/09 out-turn) and we are now investigating the potential for more effective movement of patients through the care pathway.

Q1 data for prescribing is showing volume increases of over 5% which is under investigation, with the medicines management team are considering possibilities to extend the current £0.5m efficiency programme.

- Review of Discretionary Spend

Confirmation of all uncommitted specific reserves and budgets within both the commissioning and provider arms of the PCT is currently nearing completion. An assessment is being made as to where we have discretion to stop or defer spend, without adversely impacting on the delivery of key targets and services. The initial assessment indicates £3 to £4m such spend can be halted. This would, however, defer certain new projects in support of our long term strategic objectives. The reported position, already takes into account action over the last 2 weeks to hold recruitment to a small number of posts and defer other corporate spend.

- Actions to accelerate or extend in year savings proposals

We have an exercise underway to refocus organisational effort in relation to the Improvement Plan for Clinical Services (IPCS). The PCT has 69 projects within IPCS and we are looking to ensure that maximum effort is focussed upon those schemes which are planned to deliver the original £5m productivity savings and to add schemes which can accelerate achievement of savings. A range of the recent publications in support of the national Quality, Innovation, Productivity & Prevention (QIPP) initiative are being reviewed to identify if there any further "early wins".

Further update on progress against these actions will be provided to the Board each month.

Key risks to delivery of the forecast year end financial position

There are a number of key areas of risk which will need to be managed throughout the year as follows:

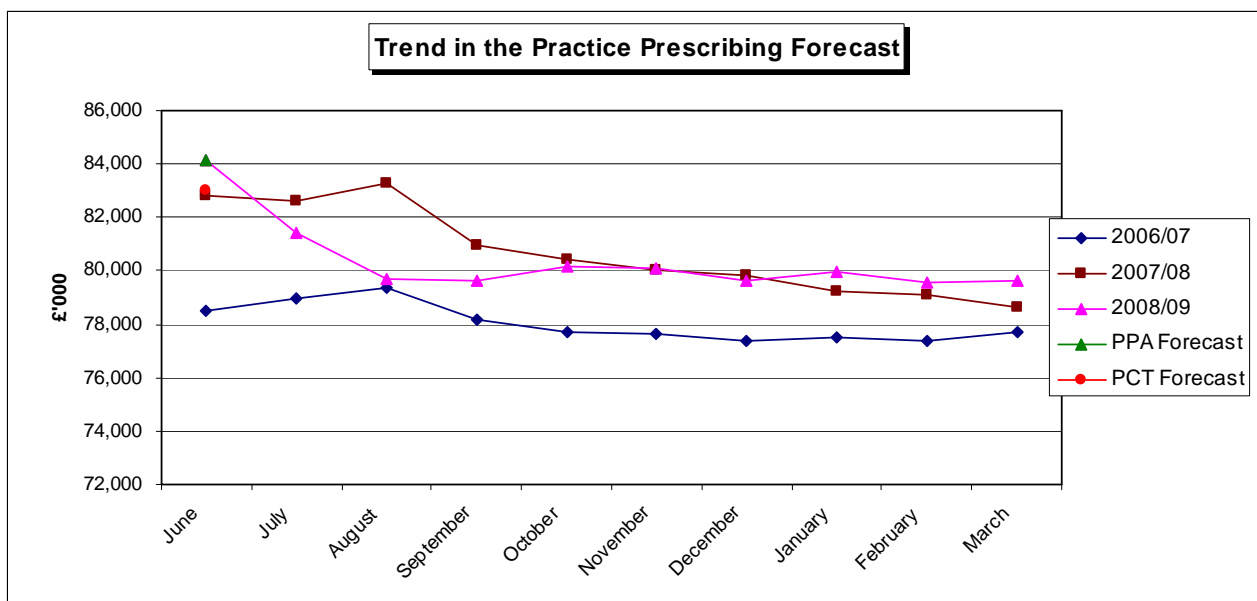
Activity Levels at STH– The year to date position is shown at **Appendix L**. This shows an over spend of £3.5m for the first 4 months based on the PCT's profile incorporating the performance efficiency target. All elements of the contract are currently over performing and the forecast outturn is for an overall overspend of £8.5m. The most significant areas are on Outpatient and Non-elective Inpatient activity. There is considerable work ongoing with PBC colleagues as noted above to consider care pathways and prevent hospital admissions where care could be provided more effectively for the patient and more cost efficiently closer to home.

Extended Choice allows patients to choose from a range of providers for elective referrals for certain conditions/procedures. Throughout 08/09 the level of spend increased and in 2009/10 we budgeted for a further 50% increase in activity diverting from STH, but this appears an under estimate based on current projections with an overspend of £1.9m forecast. Similarly the cost of activity with "Other NHS Trusts" is currently forecast to overspend by £0.6m, primarily at Rotherham FT. The PCT is working to understand if we can expect a consequent reduction in spend at STH or whether some or all of this additional spend is due to the overall higher referral rates being experienced.

Specialised Services – The PCT has still not received any monitoring information on the acute services element of this budget. Until this data is available the PCT will not be able to make a full first assessment of whether there is a risk against the £44m budget for 2009/10. Given the potential for volatility on this area of expenditure there is a significant degree of related risk. The budget for Mental Health Services via SCG is currently forecast to overspend by £2m largely in relation to low secure services as discussed above.

Continuing Health Care and Individual Funding Requirements (formerly cost per case) continue to be areas where there is potential for significant financial pressures to arise. The budget for individual funding requests is currently forecast to overspend by £0.5m, whilst CHC/FNC is under spending against budget for the year to date but always remains an area of high volatility and uncertainty.

Prescribing - the PPA has now produced the 2009/10 expenditure profile and first projection of forecast out-turn spend for PCTs. This must be treated with caution as early forecasts from the PPA in previous years have not proved to be necessarily reliable as shown in the chart below. Simply using the PPA profile would suggest a £1.2m (or 1.4%) overspend for the PCT for the year. However, the profile of expenditure has a greater weighting towards the latter part of this financial year than previously which it is difficult to understand. Further the PPA profile does not take into account the additional PPRS savings due from February 2010 nor our local knowledge on the phasing of our £0.5m efficiency programme. Hence we are reporting a c£0.6m overspend. Nevertheless, this first national forecast has increased the risk assessment on prescribing spend.



Pandemic Flu – The potential costs associated with the response to the flu pandemic continue to be reviewed and will clearly be dependant on the level of severity of the epidemic and any “knock on” impact on other activities. The PCT has set aside reserves to cover antiviral and vaccination distribution. Drugs costs for both are being met centrally by the Department of Health.

Recurrent Financial Balance

The £4.5m overall planned surplus, incorporated a recurrent financial surplus (or uncommitted baseline resources) of £5m to carry forward into 2010/11 as part of our longer term financial planning. **Appendix C** provides details of how this was calculated. In addition it shows an assessment of the impact of the current forecast over/under spends against plan on this recurrent position. It shows a scenario that unless we take the actions discussed above to bring spend “back on track”, we could end the year with a £5m recurrent deficit as opposed to the £5m recurrent planned surplus. This means that because we are assessing most of the current pressures to have the potential to be recurrent in nature, we must take actions and find solutions which will also give us a recurrent improvement, as it would be exceptionally challenging for financial stability in future years to end this year out of recurrent balance.

Income Assumptions

Whilst most of the PCT’s resources come from the Department of Health and are included in the notified revenue resource limit as summarised at Appendix D, the PCT also receives income direct from other parties. It is important that the PCT achieves these budgeted levels of income as it covers planned expenditure during the year. **Appendix G** provides an analysis of the position for both the PCT Commissioning and Provider Arms.

Changes to Budgets since previous Board Report

Appendix E provides an audit trail of the budget changes since the previous report to the Board. The moves reflect the release of resources from reserves into budgets to support approved investments and amendments to budgets to reflect latest identified

requirements, changes in allocations received and virement between budgets. The Board is asked to endorse these changes.

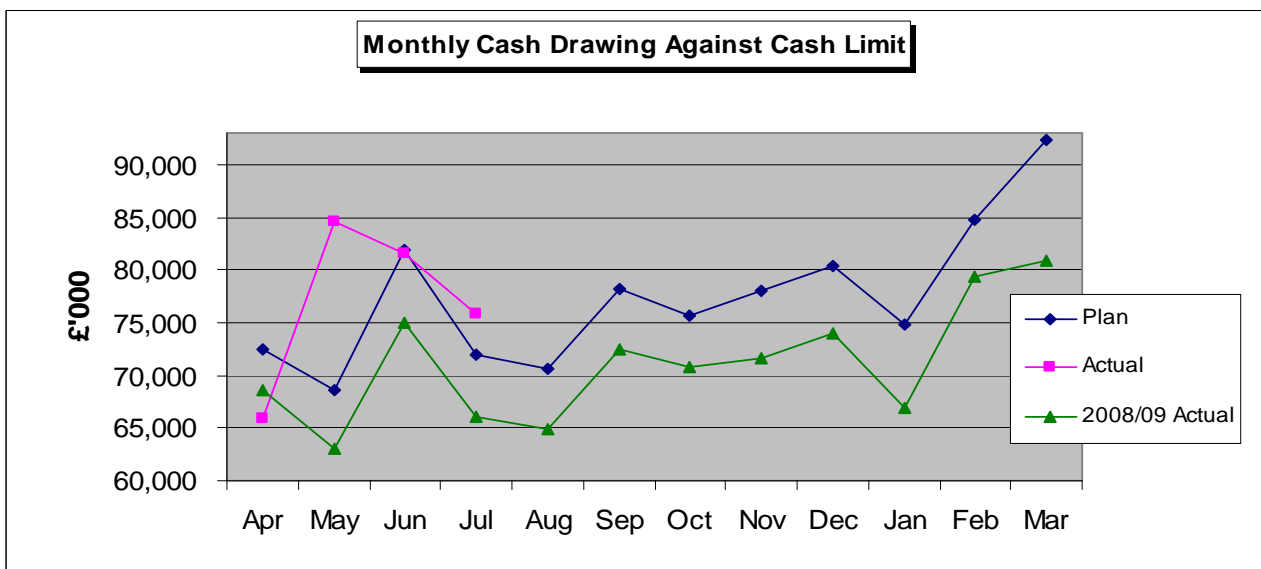
1.2 Position against the Capital Resource Limit

The PCT is underspent by £58k against the £800k budget for the first 4 months of the year. The Capital Planning Group has recently reviewed the capital programme and suggested amendments to reflect the latest available information on individual schemes. This has resulted in certain schemes being removed from the programme as they are no longer required and the addition of new schemes which are now identified as being necessary. The intention is that the PCT fully utilises the capital resources available to it and the constant review and amendment of the capital programme will enable achievement of this. The recommended changes will be implemented post Board approval. A separate paper detailing proposed changes is being presented to this meeting.

1.3 Position against the Cash Limit

The PCT's anticipated cash limit at M4 stands at £929.7m (**Appendix D**).

A combination of the 2008/09 actual drawdown values per month and assumptions in relation to 2009/10 investments were used to determine the profile of requirements for 2009/10.



The total cash drawn down to the end of July was £307.8m, giving a notional over drawing on cash of £13.0m against the July profile, which is largely attributable to the fact that the budget profile assumed too significant a “back loading” of investment. It is anticipated that the PCT will remain within its cash resource limit, as we have flexibility to determine the level of cash return from the SHA up to the level of our prior year resource deposits in the strategic investment fund. However, revenue pressures do present a key risk to managing the cash position and detailed forecasting and cash planning will continue throughout the year.

1.4 Provider Full Cost Recovery

The PCT Provider arm has a planned surplus of £0.5m for the financial year. The detailed expenditure by service area is presented in **Appendix H**.

Cost reduction requirements have been applied across service areas and close monitoring of achievement is being undertaken during the year. Indications are that the cost improvement plan will be delivered for the year, but the challenge will be to ensure the cost improvement plan delivers savings on a recurrent basis rather than being met by non recurrent methods.

1.5 Better Payment Practice Code (BPPC)

The performance against the BPPC target is set out in **Appendix K**. This shows compliance with the 95% target on a cumulative basis except for NHS invoices by volume which is at nearly 85%. This represents a major improvement.

Since the report to July Board, the PCT has re-assessed its approach. As the Board is aware we have over the last 12 months had a major action plan to improve performance and one of these work streams has been significant action with both staff and suppliers to ensure invoices are received in the first instance by the Financial Services Agency (FSA) responsible for making our creditor payments. This action significantly improves the efficiency of the overall process. As a result, it has now been deemed fair to treat invoices (other than those sent via the Safehaven system) as valid for reporting purposes when recorded onto the payments system by our FSA. We are working very closely with key suppliers to ensure that this efficiency is maintained, with the ultimate sanction being that the PCT may, in future, return invoices not received directly by the Financial Services Agency. A range of other actions are still being pursued to ensure greater efficiencies.

1.6 Balance Sheet

The PCT Balance Sheet as at 31 July 2009, together with the year end 31 March 2009 comparator, is attached as **Appendix J**. There are no major issues to report.

Section 2: Practice Based Commissioning (PBC) Budgets

The budgets devolved to Practice Based Commissioners show an overspend at the end of quarter 1 of £3.5m (2.7%) after the nominal allocation of the risk pool. The year to date position by consortia prior to allocation of the risk pool is shown in Table 1.

The year to date overspend of £3.5m chiefly relates to an over-performance on Non-Elective admissions and Outpatient Firsts at Sheffield Teaching Hospitals Foundation Trust (STHFT) in the first quarter.

Table 1: Year to Date Financial Position for Period Ending 30 June 2009 by Consortia

| | 2009/10 Full Year Budget £000's | 2009/10 Budget to M3 £000's | 2009/10 Spend to M3 £000's | 2009/10 variance to M3 £000's | % Variance to M3 |
|---------|---------------------------------|-----------------------------|----------------------------|-------------------------------|------------------|
| Central | 132,939 | 33,007 | 34,851 | 1,844 | 5.59% |
| HASC | 151,087 | 37,411 | 39,188 | 1,776 | 4.75% |

| | | | | | |
|---|----------------|----------------|----------------|--------------|--------------|
| North | 127,072 | 31,560 | 32,728 | 1,168 | 3.70% |
| West | 73,866 | 18,304 | 19,024 | 720 | 3.93% |
| GP Access centre (registered patients) | 0 | 0 | 2 | 2 | |
| Crookes Valley | 2,227 | 553 | 605 | 52 | 9.45% |
| Valley | 9,153 | 2,269 | 2,397 | 128 | 5.65% |
| Greenhill | 3,593 | 880 | 846 | -34 | -3.84% |
| | 499,937 | 123,984 | 129,641 | 5,657 | 4.56% |
| Prescribing Risk Pool | 2,041 | 498 | - | -498 | |
| Healthcare Risk Pool | 6,810 | 1,699 | - | -1,699 | |
| | 508,788 | 126,180 | 129,641 | 3,461 | 2.74% |

Table 2 below shows a breakdown of the £5.7m overspend by expenditure type prior to allocation of the risk pool.

Table 2: Year to Date Financial Position for Period Ending 30 June 2009 by Expenditure Type

| | Variance to M3 £000's | % Proportion of variance |
|------------------------------------|----------------------------------|-------------------------------------|
| Outpatient First Attendance | 1,775 | 31.4% |
| Outpatient Follow-up | (1,066) | (18.8%) |
| Outpatient Procedures | 64 | 1.1% |
| Diagnostic Imaging | 99 | 1.8% |
| Elective Inpatient | 935 | 16.5% |
| Planned Same Day | 632 | 11.2% |
| Non-Elective Inpatient | 2,466 | 43.6% |
| Inpatient Unbundled Rehabilitation | 21 | 0.4% |
| Inpatient Palliative Care | 8 | 0.1% |
| Move to fair Shares | (94) | (1.7%) |
| Prescribing | 549 | 9.7% |
| Accident and Emergency | 241 | 4.3% |
| Primary Care Enhanced Services | 27 | 0.5% |
| | 5,657 | 100.0% |

PBC Budgets Adjustments

In Month 2, PBC Budgets were reduced by approximately £18.5m to remove budgets for low volume but high cost specialised services which are now commissioned via the Yorkshire & Humber Specialised Commissioning Group. This will have a neutral impact for practices and consortia, as this activity and the related costs will also be excluded from PBC reports.

Further adjustments have been applied to the budgets in Month 3 to reflect the revised contract values for STHFT, Sheffield Children's FT and community services, the net impact of these adjustments was a further reduction of £1.2m to PBC budgets.

Sharing Information with PBC Consortia

Detailed financial information and an overarching summary continues to be provided to consortia and practices each month, with dedicated finance leads available to explain information in more detail. PBC clinicians are seen as central to addressing the significant activity pressures and related financial pressures currently facing the PCT and the issues will be major items on the formal reviews in September. Business cases to improve services to patients and at the same time ensure more cost effective services continue to be developed and consortia are being encouraged and supported to bring forward those which can deliver financial savings in the current year.

Section 3: Programme Budgeting 2007/08 Analysis

Programme Budgeting is currently an annual retrospective appraisal of how resources allocated to PCTs have been utilised. The key benefit of the analysis is that instead of seeing investment in a particular hospital or drugs budget, it switches the focus to specific health objectives or medical conditions. PCTs should be looking to maximise health gain through deploying available resources to best effect and Programme Budgeting analysis is intended to assist with this process. Nationally there is an expectation that PCTs will use the information to influence their commissioning investment decisions. Programme Budget information is one of the tools recommended for use as part of "World Class Commissioning" guidance.

The Department of Health was late publishing 2007/08 data requesting further data validation and the results have only been available since August 2009. As a result, for this Board meeting, it has only been possible to undertake a first high level review. Summarised at **Appendix M** is Sheffield's spend for the last 2 years and how this ranks in terms of £/100,000 weighted population with the other 151 PCTs in England and our spend per 100,000 population against our cluster group average.

Our spend per 100,000 population puts us in the top quartile for the following:

Rank 20 – Dental
Rank 24 – Problems of Respiratory System
Rank 26 - Mental Health

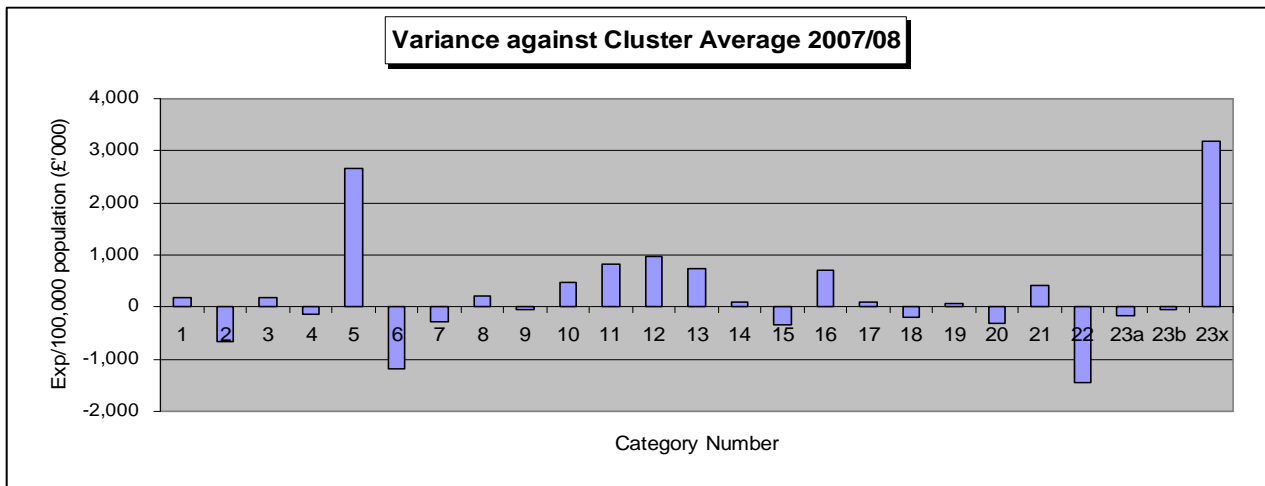
And puts us in the bottom quartile for the following:

Rank 115 – Learning Disabilities

Sheffield has traditionally high spend on dental with good NHS access in the community and with the presence of a specialist dental hospital in the city. A higher than average spend on respiratory disease is also not unexpected given the traditional industrial base of the city which will still impact on particularly some older peoples' health.

The increase in spend in Mental Health / decrease in Learning Disabilities could partly be explained by a re-analysis of costs by the Care Trust for 07/08 and also re. Mental Health as a result of our local approach to analysing the significant increase in continuing care spend. Where this relates to elderly mental health patients we have attributed to mental health spend but other PCTs may have chosen to show under social care needs. There has also been a steady increase in spend on low/medium secure placements and specialist care requirements through individual funding requests.

The graph below also shows the variance in spend per 100,000 weighted population between Sheffield and the cluster average. Cluster PCTs are as determined by Office of National Statistics and do not fully correlate to the 8 core cities of England group with Sheffield usually benchmarks with.



Cluster PCTs:
 Brighton & Hove, Bristol, Leeds, Liverpool, Newcastle, Plymouth, Portsmouth City, Salford and Southampton City.

Sheffield's spend is relatively high/low in the following areas:

| | | £/Head of population | | | |
|-------------------|---------------------------------|----------------------|-----------|-----------------|---------------------------------|
| | | Rank | Sheffield | Cluster average | Difference from cluster average |
| High spend | | | | | |
| 5 | Mental Health Disorders | 26 | £214 | £187 | £27 |
| 23x | Miscellaneous Other | 50 | £106 | £74 | £32 |
| Low spend | | | | | |
| 2 | Cancer and Tumours | 86 | £86 | £92 | £-6 |
| 6 | Problems of Learning Disability | 115 | £43 | £56 | £-13 |
| 22 | Social Care Needs | 103 | £207 | £353 | £-146 |

As discussed above, the difference on Social Care Needs could be due to how other PCTs have treated the costs in relation to Continuing Care. The guidance says that PCTs should allocate continuing care spend based on local records and knowledge but if the treatment is not for a specific medical condition it should be allocated to Social Care Needs. Sheffield PCT used its local knowledge to allocate £12m to Mental Health and £2m to Learning Disabilities.

This is an initial review of the figures and over the coming weeks Public Health will undertake a more detailed analysis linked to for example the health atlas which looks at

health outcomes against these areas of spend. This analysis will be presented to the Board in due course and is intended to be used to support future investment/disinvestment decisions as appropriate.

Section 4: Y&H Commercial Procurement Collaborative Update Report

The level of verified savings from the Commercial Procurement Collaborative (CPC) for the year to date totals c£43k eg on cognitive therapy software and uplift for certain out of town care homes. There are a number of ongoing projects where significant savings have been identified and/or delivered but have not yet been verified totalling c£115k.

The CPC is playing a key role in delivering the role of a Commercial Support Unit (CSU) as defined in 'Necessity not Nicety – a new commercial operating model for the NHS'. The CPC will be working with the Commercial Professional Network (CPN) that is made up of representatives of all 14 PCTs across Yorkshire and the Humber to support collaborative procurements. A number of potential procurement projects have already been identified.

In addition to the above, at NHS Sheffield's request, the CPC is working on developing a consistent approach to sustainable procurement. This work will help to support delivery of the PCT's Carbon Reduction Plan. This will also be taken forward as a CPN project.

Recommendations

The Board is asked to:

- Section 1: Financial Position

Consider the year to date and forecast financial outturn positions for 2009/10 and approve the action plan which is being pursued to address current challenges to delivery of the planned position; and

Endorse the budget changes which have been actioned in Month 4;

- Section 2: Endorse the approach which is being taken to monitor PBC budgets and note the results based on quarter 1 data;
- Section 3: Note the initial analysis of Programme Budgeting data and planned next steps
- Section 4: Note the achievements and planned work with the CPC.

Julia Newton
Director of Finance
August 2009