

Report

To: TPCT Board
From: Director of Finance and Clinical Services Procurement
Date: 27 September 2006
Topic: Update on New 2006/07 Cost Pressures and Financial Risks

1 Background

The financial position of the TPCT reported at month 4 shows a balanced year-to-date position with overspends on commissioning due to slippage on demand management offset by underspends on Directly Managed services and Primary Care. The cost savings reserve held by the TPCT has reduced from £1,149k to £541k following notification from the SHA that they would be making an additional top-slice of £600k. At month 4 the TPCT was therefore forecasting that overall, pressures notified to that stage could be met from within the original buffer agreed by the Board.

However, since month 4 a number of additional budget pressures have been identified by both the Department of Health and the TPCT that exceed the reserve originally set. The cause of the major new cost pressures is identified below. The new net financial position is made up of changes to both income and expenditure giving a revised net total cost pressure for the TPCT, which is also detailed below.

The TPCT was on track to meet the original savings target, and was also able to accommodate some new cost pressures from within the reserve buffer, applying it against the new cost pressures as intended. However, the further cost pressures identified since month 4 exceed the total available reserve. The analysis in this Report indicates the extent to which there is now a budget shortfall, and also indicates the financial risk in this forecast.

The TPCT will need to consider ways of closing this new financial gap. Monthly financial returns to the Department of Health have so far shown that the TPCT is committed to achieving breakeven by year-end. It is anticipated that we will continue to show this commitment whilst working through the implications in more detail. The Finance Committee is proposing to have a new interim meeting in October, with the intention of reporting back to the Board in November.

2 Revised Income and Budget Assumptions

The table below shows the revised 2006/07 income and budget assumptions for the TPCT:

Table 1: Revisions to Income and Budget Assumptions				
Description	Recurrent	Non- Recurrent	Total	Source
	(Deficit)/Surplus £'000s	(Deficit)/Surplus £'000s	(Deficit)/Surplus £'000s	
Opening Cost Saving Reserve / Buffer	1,149	0	1,149	PCT
Additional Top-Slice		(600)	(600)	SHA
Revised b/fwd surplus		(8)	(8)	SHA
Sub-Total: M4 Finance Report	1,065	(608)	541	
Revised MPET Funding	(84)	0	(84)	SHA
Centrally Funded Budget Shortfall Anticipated Allocation	(847)			DoH
Allocations Received	(897)			
Other Allocations at Risk	(945)			
Total	(2,689)	0	(2,689)	
Teaching PCT Funding Shortfall	0	(15)	(15)	PCT
Reduce Investment in MH LES for PYE	0	57	57	PCT
Net Budget Shortfall	(1,624)	(566)	(2,190)	

In the month 4 Report, the TPCT included a cost savings reserve buffer of £541k.

Given movements after the month 4 position, the PCT now has a budget shortfall of £2,190k. The majority of the movements in income assumptions have resulted from:

- the recent notification from the SHA that they will be making an additional top slice of £600k, over and above the top slice of 3% of turnover made previously, and
- the announcement that there is a national shortfall in budgets for centrally-funded initiatives. A significant amount of recurrent TPCT expenditure has previously been funded from recurring allocations that are not part of the baseline income of the TPCT. These monies have been held centrally in the Department of Health and released against specific initiatives. The largest 2 items for Haringey TPCT, are expenditure against the Quality Outcomes Framework (QOF), being a part of GP practice income, and funding of the North Middlesex Hospital Walk in Centre, although there are also a number of other budgets included in the overall "bundle". PCTs in London were notified in September of an indicative allocation against the total bundle, against which we have been asked to estimate our likely shortfall. There are a number of risks and uncertainties associated with estimating the shortfall which are detailed in the table above. There is a total risk on income of £2,689k, offset by an identified expenditure reduction of £773k included in the table below. Overall therefore, there is a net new cost pressure of £1,916k identified against the centrally-funded initiatives. This is a worst case analysis, but it is the one that we have been asked to plan against pending responses to further queries that we have raised.

There are other budgets that have been previously funded from monies held centrally by the Department of Health which are also at risk, and which are not included in any of the above since they are not directly apportioned to PCTs. The item of most direct concern to Haringey TPCT in this residual "bundle", is TILT funding: this is money that is used to support mental health patients discharged from high to medium secure forensic services, and is operated on a dowry basis. It is a specialist services hosted allocation: Haringey TPCT received £1,000k TILT money in 2005/06, £250k of which related to our own patients. The 2006/07 allocation has not yet been announced.

3 Revised Expenditure Projections

The table below shows updated year-end expenditure projections for 2006/07:

Table 2: Revised Expenditure Projections				
Description	Recurrent	Non- Recurrent	Total	Source
	Under/ (Over)spend £'000s	Under/ (Over)spend £'000s	Under/ (Over)spend £'000s	
Forecast Year-end Position as at Month 4	0	0	0	PCT
IPCT DMS SLA Shortfall	(85)	0	(85)	PCT
Redundancy Costs	0	(40)	(40)	PCT
Underspend on Directly Managed Services and Management Cost Budgets	0	500	500	PCT
Slippage on Primary Care Initiatives	0	500	500	PCT
Year-End Specialist Commissioning	0	(1,100)	(1,100)	Other PCTs
EPCT SLA Additional Costs	(333)	0	(333)	PCT
GST SLA Underperformance	0	273	273	PCT
Remove Centrally Funded Choose and Book Budget	773	0	773	PCT
Continuing Care overperformance	(400)	0	(400)	PCT
Trust overperformance	(1,154)	0	(1,154)	PCT
CAMHS Overspend	(100)	0	(100)	PCT
Specialist Commissioning Overspend	(70)	0	(70)	PCT
Reduction in Palliative Care Expenditure	100	0	100	PCT
Net Overspend	(1,269)	133	(1,136)	

In the month 4 Report, the TPCT forecast break even to year end, in line with the plan and in line with the TPCT's statutory duty.

As part of the year-to-date position, the TPCT has notified the Board of a number of overspends and underspends, totalling £151k net to month 4. There is a risk of these variances carrying forward to year end, and in some cases increasing. The risk

is analysed in more detail in the table above: it is comprised of a number of possible cost pressures offset by a number of possible gains due to underspending. The assumptions are broadly those reflected in the text of the Month 4 Finance Report: for instance, that the year to date underspend on Directly Managed services will continue but not increase, since the planned savings phase into the budgets from July onwards and therefore reduce the capacity for further savings to be made. On the other hand, there is a risk that the acute trust overspend will increase, but not to the extent reported at month 4, due to the impact of demand management savings and due to aggressive data validation being carried out. One additional risk is included above but not factored fully into the month 4 Report: this is the risk of a net loss on the final year end specialist services costs. This is a new negative impact because of the very recent assessment of final year end figures, carried out in line with established policy, which is to rebalance prior year specialist services expenditure within the following year. This is still a risk because the impact needs to be confirmed across the organisations Haringey TPCT is host to.

The risk quantified in detail, is of a further overspend of £1,136k to year end. This is in line with the risk identified in the month 4 Report. The TPCT could take the line that this in year risk needs to be managed down to year end, however it is also prudent to take it into account in determining what other steps are required, being part of the overall cost pressure currently being addressed.

4 Net Financial Position

The above analysis shows that the TPCT now has a net income and budget imbalance of £2,190k plus the risk of a forecast overspend against its budgets of £1,136k. The net effect of these is that the TPCT has an outstanding financial pressure of £3,326k. This position is after fully utilising the cost savings reserve buffer set-up at the beginning of the year. It is, however, before the identification of additional potential savings/income from new and existing plans.

The TPCT will need to take a view of the extent to which it needs to identify additional actions in order to close this gap by the end of the financial year.

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