

Financial Plan 2008/09

1 Allocation

The PCT's headline growth in funding for 2008/09 is a 5.46% increase on its recurrent allocation (£37.1m). This % increase has been applied to all PCTs across the country, with no move being made towards weighted capitation shares until 2009/10. This is c.1% higher than the 2% real terms growth assumed in the business case for "Delivering quality health care for Hertfordshire" and presented to the Board in November.

As previously reported, there is additional funding of £27.1m available in 2008/09 because the historic accumulated debt has now been paid off. However, a number of non recurrent allocations such as QOF have either been reduced, or allocated with no inflation uplift, which has the effect of reducing the real rate of growth available. The primary dental service allocation has not been notified yet so is assumed at the same level as 2007/08, although the expectation is that the increase will be c.11%. Once notified, budgets will be adjusted accordingly.

After taking account of other adjustments to non recurrent allocations (mainly related to PbR), the net effect is an increase of 8.85% as calculated below in Table 1.

Table 1: 2008-09 Revenue Allocation

	£'000
Allocation 2007/08 incl non recurrent	653,130
2006/7 debt repaid in 2007/08	27,146
2008/09 increase	37,123
Non recurrent allocation changes expected:	
Purchaser Parity Adj & MFF	(3,874)
Other	(2,576)
Total allocation 2008/09	710,949
Total increase over 2007/08	8.85%

The East of England Commissioning Framework proposes the establishment of a strategic reserve to ensure each PCT in the SHA has its growth smoothed over the next three years to ensure a more sustainable approach to new investment. This is because, as in Hertfordshire, a number of PCTs have

received high levels of growth because the recurrent funding used during 2007/08 for debt repayment is now available for spending on services. The potential drawback of the one-off increase in 2008/09 is that there will be high levels of growth that year and then much more modest uplifts (funded solely by the Comprehensive Spending Review settlement) in 2009/10 and 2010/11. This means that there is likely to be a mismatch between funding availability across the three year period and the need to make steady and sustainable investments across the three years. The Framework proposes a deposit into the SHA reserve from West Hertfordshire PCT of £15.6m.

2 Budget Setting

A first draft of budgets has been calculated based largely on the assumptions built into the business case for "Delivering quality health care for Hertfordshire". Further changes have been made to take account of:

- Actual allocation notified
- Projected 2007/08 expenditure based on Month 8 figures
- Additions for non recurrent underspends or savings in 2007/08
- Reductions for non recurrent expenditure in 2007/08
- Additions/reductions to take account of the full year effect of investments or savings in 2007/08
- National tariff uplift of 2.3% (5.3% less 3% efficiency)
- Inflation assumptions of
 - Prescribing 2.5% (+5% growth)
 - GMS 1.5% (+1% list growth)
 - Pay 2%
 - Non pay 2.7%
- Updated information about cost pressures and investments in 2008/09 (additional c.£2.7m more than Business Case).

A contingency reserve of 1% (£7.1m) has been set aside.

Work is ongoing to finalise budgets and needs to be linked to PbC group plans for investment (see 3) below). Final budget proposals will be presented for approval to the Board meeting in March.

The East of England requires a first draft of the PCT's financial plan to be submitted on 24th January. It is intended that this will be based on the first draft of budgets, which is set out in this paper. Assuming the SHA proposed deposit of £15.6m, the position is as set out in Table 2 below. The balance of funds uncommitted currently stands at £5.284m.

Table 2 : Draft Financial Plan 2008/09 assuming deposit of £15.6m

	£'000
Total Allocation 2008/09	710,949
Draft Expenditure Plans	
Forecast Outturn 2007/08	653,130
Remove non recurrent	(1,100)
Inflation	14,613
Full year effect 07/08 costs & savings	1,230
Investments	
Acute services	(1,687)
Mental Health/LD	2,978
Other non acute	(1,644)
Prescribing	3,458
Primary Care	7,385
Provider Services	2,906
Corporate services/Capital Charges	608
Choosing Health	1,079
Contingency reserve 1%	7,108
Total committed funds	690,066
Uncommitted before deposits	20,884
Proposed deposit	(15,600)
Balance uncommitted	5,284

3 PBC Budgets

3.1 Assuming no deposit with SHA

A "Fair Shares Plan for Practice Based Commissioners' Budgets" paper was approved by the Board in September 2007. This proposed moving PBC groups' budgets to weighted capitation shares by allocating a minimum level of growth of 4.5% to all PBC groups, with an addition of the lesser of :

- the growth required to bring them to their fair shares level of funding,
- or additional growth of 4.5%.

In addition, any growth funding left would be shared by those PBC groups still receiving less than their fair share, pro-rata to their distance from fair shares.

The funding available for distribution to PBC groups in 2008/09, if the PCT was not required to deposit funds with the SHA, is shown below in Table 3.

Table 3 : Funding available assuming no deposit with SHA

	2007/08 £'000	Growth %	2008/09 £'000
Total funding	653,130	8.85%	710,949
Contingency reserve	(5,528)		(7,108)
Not at PBC Level	(2,331)		(2,399)
Top slice			
Total for PBC	645,270	8.71%	701,442

The funding has been allocated to PBC groups using the following assumptions.

- 1 2007/08 PBC budgets have been updated to Month 8 figures.
- 2 Provider services budgets have been apportioned on the basis of recent work undertaken to identify actual budget by PBC group (rather than capitation).
- 3 The 2008/09 budgets for **Items excluded from the scope** have been calculated using the draft budgets as described in 2) above. More detail is given in Appendix 1 attached.
- 4 The 2008/09 budgets for **Items included in the scope** have been calculated by applying a minimum uplift of 4.5% to all PBC groups' budgets.
- 5 The balance has been allocated to bring PBC groups to their capitation share.

The results are shown in Table 4 below.

Table 4 : Calculation of Proposed PBC Budgets if no deposit with SHA

	Excluded from scope			Included in scope			Budget 2008/09 £'000	Fair Share £'000	Difference	
	07/08 £'000	08/09 £'000	%inc	07/08 £'000	08/09 £'000	%inc			£'000	%
WatCom	64,288	67,403	4.85%	149,074	164,360	10.25%	231,763	231,763	0	0
DatCom	52,915	55,337	4.58%	120,771	134,787	11.61%	190,124	190,124	0	0
St A & H	45,945	48,112	4.72%	102,940	112,232	9.03%	160,344	160,344	0	0
Hertsmere	33,378	34,912	4.59%	77,739	84,300	8.44%	119,212	119,212	0	0
Total	196,526	205,764	4.70%	450,524	495,679	10.02%	701,442	701,442	0	0

The average increase on items excluded from the scope is 4.7% compared with a range of 8.44% to 11.61% on items included within the scope.

3.2 Assuming deposit with SHA

As described in 1) above, the SHA has proposed a deposit from West Herts PCT of £15.6m to ensure steady and sustained investment, and therefore an alternative scenario has been modelled. If the maximum uplift on items included in the scope is limited to 6.55%, this would release the required sum of £15.6m. However, for the purposes of initial budgets it has been assumed that a lower figure of £13.7m can be negotiated with the SHA, which would be achieved by capping growth on items included in the scope to 7%. PBC groups will need to consider whether the uplift is sufficient or, possibly, too much funding to meet their requirements in 2008/09.

The advantages of depositing this sum with the SHA are that:

- 1 The growth funding is smoothed out over three years ensuring a more sustainable approach to new investment. This also makes it possible to fund one off commitments in future years, eg premises development.
- 2 The business case for "Delivering quality health care for Hertfordshire" identified a steadily increasing level of commitment each year over the period to 2013/14. This means that if the full allocation is spent recurrently in 2008/09 an overspend will occur in all future years to meet that commitment and therefore savings in future years will need to be identified. It would therefore be prudent to plan to underspend in 2008/09 by at least the amount of the reduction over the period to 2013/14, ie £6.1m.
- 3 Under the present capitation formula West Herts PCT is funded 3% higher than its weighted capitation fair share. Assuming any new formula does not materially change this position, future growth will

be less than the national average as all PCTs are moved towards their fair share of funding. It would therefore be prudent to plan an underspend in 2008/09 to fund future reductions in growth.

- 4 It is possible that unplanned underspends in 2008/09 will not be available to be carried forward into 2009/10, whereas the deposits with the SHA will be returnable.

It is therefore proposed that draft PBC budgets be set on the assumption of a deposit with the SHA of £13.7m. PBC groups will need to review their investment plans to assess whether the funding is more or less than required before a meeting with the SHA planned for mid February when the amount of the deposit will be finalised. In the meantime, the assumptions shown in Table 5 below will be used to submit the first draft of the financial plan due with the SHA on 24th January 2007.

Table 5 : Calculation of Proposed PBC Budgets £13.7m deposit with SHA

	Excluded from scope			Included in scope			Budget 2008/09 £'000
	07/08 £'000	08/09 £'000	%inc	07/08 £'000	08/09 £'000	%inc	
WatCom	64,288	67,384	4.82%	148,074	159,509	7.00%	226,893
DatCom	52,915	55,322	4.55%	120,771	129,225	7.00%	184,546
St A & H	45,945	48,099	4.69%	102,940	110,146	7.00%	158,245
Hertsmere	33,378	34,902	4.56%	77,739	83,181	7.00%	118,083
Total	196,526	205,706	4.67%	450,524	482,061	7.00%	687,767

4 Summary

It is proposed that draft PBC budgets be set on the basis of a £13.7m deposit with the SHA, as laid out in Table 4 above.

This would have the following advantages:

- Moves PBC groups significantly towards capitation shares
- Protects underspend for future years which would be returned to the PBC groups from whom it was taken
- Smooths funding over three years and reserves sums for future years to fund:
 - Lower growth in future years as PCT moved towards capitation
 - Increased spend identified in ASR Business Case to 2013/14
 - One off commitments in future years, eg premises development

- Provides an uplift on budgets within the scope of PBC of 7% compared with national growth of 5.46%

5 Next Steps

- PBC groups to review items in and out of scope to assess whether any changes should be made.
- PBC groups to prepare and submit commissioning plans for items in scope of PBC budgets which deliver national and local priorities. This will be with the support of the PCT especially on activity modelling, prescribing and mental health services.
- PBC groups to assess, based on their commissioning plans, whether the proposed funding levels are in line with their plans.
- Budgets for items outside the scope to be finalised.
- Agreement reached with SHA re the level of deposit.
- Budgets submitted to March Board for approval.

Alan Pond
Director of Finance
16th January 2007

West Herts PCT
Appendix 1

Budget Setting 2008/09 : Items outside of the scope of Pbc budgets

	2007/08 £'000	2008/09 £'000	Difference £'000	%
Commissioning of Acute Services				
Acute dental	2,947	3,120	173	5.9%
Ambulance Services	13,726	15,581	1,855	13.5%
Specialist Commissioning	14,459	15,363	904	6.3%
A&E	8,850	9,365	515	5.8%
Commissioning of Non Acute Services				
Non-Acute Patient Services				
JCPB Learning Disability	9,912	10,121	209	2.1%
JCPB Joint Commissioning Team	185	180	5	2.7%
Other mental health (outside JCPB)	818	928	111	13.6%
Continuing Care excluding MH	11,910	12,642	732	6.1%
RNCC/Funded nursing care	4,930	5,236	306	6.2%
Resettlements	15,915	16,486	571	3.6%
Integrated equipment service	510	532	22	4.4%
Hospices and palliative care	2,045	2,102	57	2.8%
Partnership funding/Voluntary Sector	1,352	1,571	219	16.2%
Secure Services	762	780	18	2.3%
other	876	1,493	617	70.4%
Primary Healthcare				
Other Prescribing	182	264	82	45.2%
Centrally charged drugs	1,303	1,187	(116)	(8.9%)
Pharmacy contract	3,893	3,285	(608)	(15.6%)
Dispensing fees		188	188	
Dental contract	21,797	21,083	(714)	(3.3%)
GMS, PMS, PCTMS:				
Global Sum	28,856	29,999	1,143	4.0%
Quality Payments	11,544	12,122	579	5.0%
Enhanced services out of scope	544	574	30	5.5%
Enhanced Services - PBC underspend 06/07		608	608	
PCT administered funds GP Allocated	974	1,038	64	6.6%
PCT administered funds seniority	1,648	1,756	109	6.6%
PCT administered funds capitation	329	350	22	6.6%
Premises - rent and rates	6,896	7,284	388	5.6%
IM&T	780	816	36	4.6%
OOH Services (including OOHDF)	4,213	4,319	105	2.5%
Balance of PMS expenditure	6,495	6,660	165	2.5%
Balance of PCTMS expenditure	557	668	111	19.9%
Planning Gain Income	(91)	0	91	(100.4%)
Other		105	105	
Corporate Services				
Total corporate services	15,897	14,786	(1,111)	(7.0%)
Capital charges (propn to tfer to In Scope)	1,779	2,305	526	29.6%
Reserves				
Choosing Health		1,079	1,079	
Total	196,793	205,989	9,196	4.7%
includes non capitation services (dermatology)	(267)	(283)	(15)	5.8%
Grand Total	196,526	205,706	9,181	4.5%

*Dental contract includes non recurrent grant funding in 2007/08