Portsmouth Hospitals NHS
NHS Trust

TRUST BOARD PART I - SEPTEMBER 2011

Agenda Item Number: 145/11
Enclosure Number: (3)

Subject:	
Prepared by: **Sponsored by:** **Presented by:**	Steve Gooch, Deputy Director of Finance Robert Toole, Director of Finance & Investment Steve Gooch, Deputy Director of Finance
Purpose of paper *Why is this paper going to the Trust*	Regular Reporting For Information / Awareness
Key points for Trust Board members *Briefly summarise in bullet point format the main points and key issues that the Trust Board members should focus on including conclusions and proposals*	• The Trust is reporting a £(1.7)m deficit at the end of July. This is £0.1m ahead of the planned position of £(1.8)m deficit. • Savings achieved at the end of month 4 total £7.6m compared to the planned position of £7.7m. • The Trust has anticipated income above plan totalling £2.7m at the end of month 4. The annual cap on the NHS Hampshire PCT contract has now been breached with an effective free of charge activity of c.£0.7m minimum.
Options and decisions required *Clearly identify options that are to be considered and any decisions required*	Board Members are asked to note and review the issues highlighted in the report.
Next steps / future actions: *Clearly identify what will follow the Trust Board's discussion*	
Consideration of legal issues (including Equality Impact Assessment)?	Considered but not applicable
Consideration of Public and Patient Involvement and Communications Implications?	Considered but not applicable

Director of Finance and Investment:Finance Report

Income and Expenditure			
Financial Position (£k)			
	Budget	Actual	Variance
Current Month	176	60	(116)
Year to Date	(1,768)	(1,665)	103

The financial report appendices attached to this report detail the Trust's financial performance at the end of the July. The major issues to note at the end month 4 of the 2011/12 financial year are as follows:

- **Income and Expenditure "I&E" position (in-month and year to date position)**

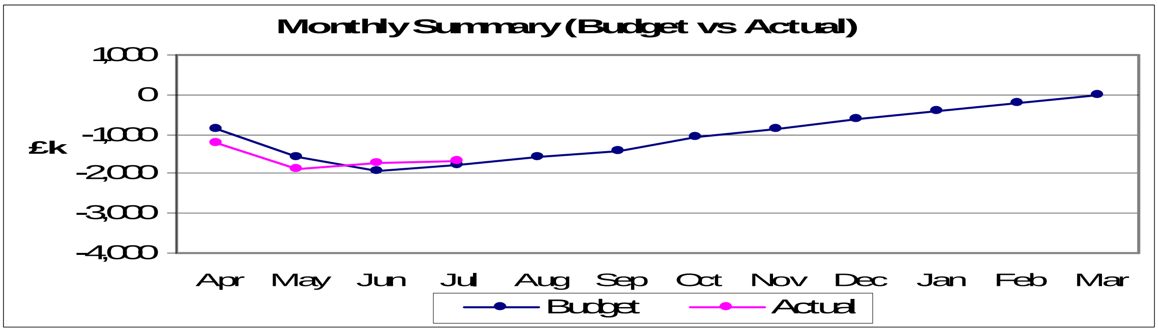
  At the end of month 4 of the 2011/12 financial year, the Trust is reporting a year to date positive variance to plan of £0.1m. This consists of an actual position of £(1.67)m deficit compared to a planned deficit of £(1.77)m. The current month movement is adverse to plan principally due to additional activity undertaken for NHS Hampshire residents above the agreed purchased healthcare contract – value minimum of £0.7m.

  The Trust's financial plan for 2011/12 has a deficit profile in the early months of the financial year. This is because the major reductions in income the Trust has incurred this year (due to tariff deflation, loss of non-recurrent income and demand management plans and projections) have an immediate impact from 1st April 2011 whereas the Trust's savings plan for 2011/12 of £30.5m will not be delivered in equal instalments and will increase throughout the year.

  This has been reflected in the Trust's operating plan submission made to the Department of Health via the Strategic Health Authority as shown in the table below. This shows the Trust is anticipating to be recording a monthly run rate deficit for the first quarter of the financial year before returning to a surplus position from month 4 onwards.

  One of the major reasons the Trust's financial position at the end of July remains in line with plan is that the Trust is assuming it will be paid for the activity performed above base-line contract plan levels. However as part of the contractual agreement reached with NHS Hampshire and NHS Portsmouth for 2011/12, activity above plan is capped at a maximum value of £2.75m. If this level of activity is breached for whatever reason including under delivery of demand management schemes then the Trust risks being underfunded. This is due to existing recurrent and non-recurrent arrangements agreed locally under the auspices of South Central SHA. Any unpaid additional activity will have a negative impact on the Trust's income and expenditure and cash position. This is the major financial risk to the Trust at present.

Table 1: Trust planned I&E profile as per Operating plan submission.



- **Expenditure Trends:** The Trust's overall paybill for the month of July was £19.9m. This is broadly in line with the average paybill seen in the first three months of the year indicating that the Trust despite additional activity demands has managed to keep its paybill under control.

- **Temporary Staffing (Locum, Bank & Agency):** Expenditure on temporary staffing for the month of July stayed constant with £1.4m being spent in total. The major areas of expenditure continue to be medical staffing (£650k) and nursing and midwifery staffing (£510k).

- **Activity and Income:** The Trust's SLA performance is shown one month in arrears. Activity performance at the end of month 3 (June) for the Trust's two major contracts is shown in appendix 3.

  This shows that at the end of month 3 the Trust is reporting activity levels above plan to the value of £3,490k against the NHS Hampshire contract and £1,249k against the NHS Portsmouth City contract. It should be noted however that these figures represent "gross" over-performance and will not be representative of the final payable value with adjustments needing to be made to reflect the following items:

  - Emergency activity above 2008/09 outturn. National rules dictate that this is only paid at a 30% marginal rate causing a greater impact of reduced income to actual 100% cost incurred.
  - Outpatient follow up activity above agreed ratios. The PCT have only commissioned follow up activity at national average ratios and any work performed above these ratios will not be paid. A key focus is on correct coding and counting particularly for outpatient procedures. This is part of monthly performance reviews.
  - Procedures of Limited Clinical Value. A prior approval system is in operation and any procedures performed without prior approval will not be paid.
  - Contract challenges. The PCT's have significant resource deployed to challenge areas of the Trust's counting and coding practice and this has to be managed in an effective pragmatic way given the Trust's constant need to minimise (finance & Admin) non patient centred resource.

  After adjustments have been made for the above items and extrapolating for the month of July, the Trust anticipates that it should be due additional income above plan of £2.2m for NHS Hampshire and £1.2m for NHS Portsmouth.

  However as highlighted above, The Trust has an upper limit "cap" on over-performance of £1.5m on the NHS Hampshire contract and £1.25m on the NHS Portsmouth contract. Therefore the implication of the month 3 SLA performance figures means that the annual cap has now been breached for Hampshire and is very close to being breached for Portsmouth. As a consequence, there is circa £700k of activity that the Trust has performed in the first four months in the year that it may not receive payment for. Within the month 4 financial position, the Trust has therefore assumed payment of £1.5m (equal to cap) for NHS Hampshire and £1.2m for NHS Portsmouth.

It should be noted that this cap was agreed in the context of a broader contractual solution for the 2011/12 financial year which has included significant levels of non-recurrent financial support to cover the stranded costs associated with demand management schemes and an agreement that any financial deductions associated with nationally mandated contract penalties such as readmissions would be reinvested with the Trust.

The Trust is working closely with commissioners to take steps to reduce activity levels back in line with contracted levels. A system wide recovery action plan has been produced detailing the specific actions to help achieve this outcome.

- **Cost Improvement Plans:** The Trust faces a challenging cost improvement target for 2011/12 of £30.5m. This can be broken down into two components. £25m of this relates to the Trust internal savings programme and a further minimum £5.5m relates to the potential cost reductions associated with the PCT's demand management schemes.

  Appendix 3 summarises the Trust's savings performance for the 2011/12 financial year by Clinical Service Centre. This shows that in total the Trust currently has plans totalling £29.3m (including £5.5m of PCT led demand management schemes) meaning there is now an overall shortfall of £1.2m in terms of fully identifying the £30.5m of savings required for the year. This shortfall has arisen as CSC plans have been validated as part of the constant review process resulting in some schemes being removed from the plan. The PMO and finance teams are working hard with CSC's to develop additional schemes to close this gap as well as developing additional Trust wide schemes that can be seen in appendix 3.

  At the end of month 4, the Trust has achieved total savings of £7.6m compared to planned savings of £7.7m, meaning that the Trust is behind target by £100k. A further breakdown of this performance shows that in terms of its internal savings plans the Trust is £1.4m ahead of target. This is however offset by a shortfall in performance against the cost reductions associated with demand management schemes which is currently £1,1m adrift of plan. This reflects the additional activity over-heat position referred to in the previous section of this report. The remaining offsetting item relates to the fact highlighted above that the Trust has a £1.2m shortfall in its overall plans which is being reflected in the position in equal 12ths and therefore means a £400k shortfall for the year to date.

- **Capital and Cash:** The details on the Trust's capital programme and cash flow for 2011/12 have been included as appendices to this report.

  The Trust's capital programme for the year totals £9.1m. The bulk of this allocation centres around the following three items:

  - MDMC allocation for replacement medical equipment £2.8m
  - ICT services capital allocation £2.8m
  - Trust Planning Committee allocation for business cases and developments £1.5m

  At the end of July, the Trust is significantly behind the straight-line plan in respect of the capital programme with expenditure totalling £652k compared to a planned position of £3.7m. As previously discussed the major reason for this actual spend falling behind the planned profile is that the three major allocations highlighted above have only recently concluded the prioritisation of projects. It is still anticipated that once these prioritisations are finalised that the annual programme will be concluded in line with plan subject to ongoing review and priorities including overall Trust financing requirements.

The Trust’s cash balance at the end of July is £11.4m. This is ahead of the planned cash position at this point in the year which reflects the slippage on the capital programme identified above

- **St Mary’s Hospital Planning:** The Trust has received outline planning consent on the 17th August for the St Mary’s Hospital west wing.

- **Forecast Outturn:** The Trust is reviewing its year end forecast position of break-even. This is due to the increasingly significant risk to the achievement of this position given the continued levels of activity above plan seen in the first quarter of the financial year. The cap on the payments that the Trust receives means there is now a significant risk that the Trust will continue to perform activity on an ongoing basis this year for which no income may be received. The Trust will however incur the costs of treating these patients and the likelihood is that this will cause an adverse variance to the Trust’s break-even plan. These issues have been raised formally with the local PCT Cluster Chief Executive for review with both local Commissioners. The Trust has also met with senior finance staff at the South Central SHA.

Robert D Toole
Director of Finance and Investment
August 2011