Portsmouth Hospitals NHS
NHS Trust

TRUST BOARD PART I – NOVEMBER 2011

Agenda Item Number: 179/11
Enclosure Number: (3)

Subject	Finance Report – Half Year – 6 Months to 30/09/2011
Prepared by: **Sponsored by:** **Presented by:**	Steve Gooch, Deputy Director of Finance Robert D Toole. Director of Finance & Investment Robert D Toole, Director of Finance & Investment
Purpose of paper *Why is this paper going to the Trust Board?* *Tick as many as appropriate or provide text*	 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 has a £(1.46)m deficit at the end of September a £(0.05)m adverse position compared to the planned position of £(1.41)m deficit. • Cost Reduction efficiency "Savings" achieved at the end of month 6 total £11.2m compared to the gross planned position of £12.0m including demand management schemes. • The Trust has provisionally agreed a recovery plan with local commissioners that includes £3.7m of additional income from PCT's.
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?	Yes – public information

Director of Finance and Investment: **Finance Report**

Financial Position (£k)			
	Budget	**Actual**	**Variance**
Current Month	178	362	184
Year to Date	-1,411	-1,461	-50

The financial report appendices attached to this report detail the Trust's financial performance at the end of the September. The major issues to note at the end of month 6 of the 2011/12 financial year are as follows:

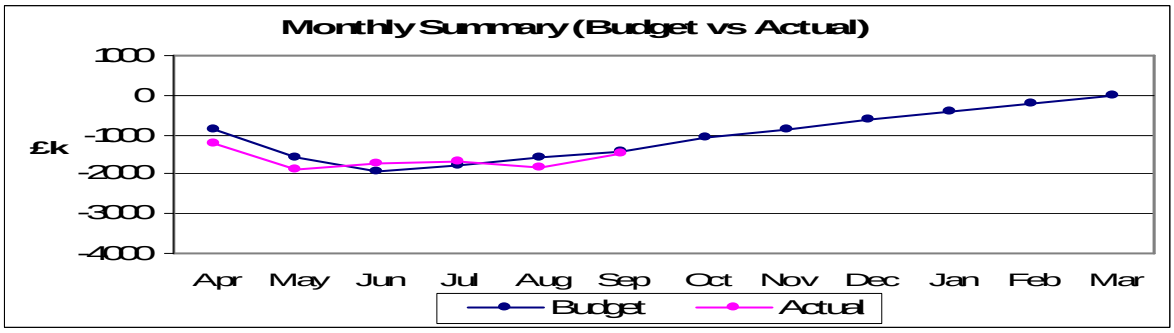
- **Income and Expenditure "I&E" position (in-month and year to date position)**

  At the end of September (month 6) of the 2011/12 financial year, the Trust has a deficit on income and expenditure of £(1.46)m. This compares to a planned deficit of £(1.41)m, meaning the Trust is currently behind its planned profile by £(0.05)m.

  The Trust has a deficit plan (and actual) position for the year to date. The major reason for this is that the Trust's £30.5m cost improvement programme is weighted more heavily towards the second six months of the financial year.

  This profiling of the Trust's financial plan is shown in the table below together with actual performance for months 1 to 6

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



  The key issue with regards to the Trust's finances this year has been its contractual arrangements and performance with its two main commissioners. For the 2011/12 financial year the Trust has an upper limit "cap" on its contracts with NHS Hampshire (value £1.5m) and NHS Portsmouth (value £1.25m). This means that the Trust will not be paid for any activity performed beyond this level.

  As raised in previous months reports, the Trust has experienced activity levels significantly above plan in the initial months of the financial year. This has meant that at the end of month 6 the Trust has performed approximately £1.8m of activity "free of charge". The risk facing the Trust is that if demand and activity continue at similar levels this would jeopardise the delivery of the Trust's year end break-even target as the Trust would be incurring the costs of treating these patients but receiving no payment because of the cap on the contract.

  As a result of this financial risk the Trust has agreed a financial recovery plan for the remainder of the year that will see an additional £3.7m paid by NHS Hampshire and NHS Portsmouth in these two contracts. The impact of this additional payment has been reflected in the month 6 financial position and has enabled the Trust to maintain a year to date position that is broadly in line with plan.

- **Expenditure Trends:** The Trust's overall paybill for the month of September was £19.7m which represents the second lowest month of the year so far. This is adrift of the plan that the Trust set itself at the start of the year but this plan was based on significant reductions in activity that have not yet materialised. In light of the significant activity above plan that have been seen in the first six months of the year the Trust has managed to maintain a good level of control on total pay costs.

- **Temporary Staffing (Locum, Bank & Agency):** Temporary staffing charts showing both in-month and year to date expenditure are included in appendix 2. Expenditure on temporary staffing for the month of September totalled £1.3m. This represents a slight dip on recent months when temporary staffing spend has peaked at £1.5m. The major areas of expenditure continue to be medical staffing (£497k) and nursing and midwifery staffing (£580k) which accounted for 75% of temporary staffing spend in the month.

- **Activity and Income:** The Trust's SLA performance is shown one month in arrears. Activity performance at the end of month 5 (August) for the Trust's two major contracts is shown in appendix 3.

  This shows that at the end of month 5 the Trust is reporting activity levels above plan to the gross value of £6.1m against the NHS Hampshire contract and £1.9m against the NHS Portsmouth 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.
  - 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 will challenge areas of the Trust's counting and coding practice.

  After adjustments have been made for the above items and extrapolating for the month of September, the Trust anticipates that it should be due additional income above plan of £3.2m for NHS Hampshire and £1.3m for NHS Portsmouth.

  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. As a consequence, there is circa £1.8m of activity that the Trust has performed in the first six months in the year that it will not receive payment for. As highlighted above the volume of activity that the Trust has performed above the cap has resulted in the two commissioners investing an additional £3.7m in these contracts as part of a recovery plan aimed at ensuring that the Trust achieves it break-even target by year end.

  It should be noted that this cap was agreed in the context of a broader financial framework 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 contract penalties would be reinvested with the Trust.

- **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 4 summarises the Trust's savings for the 2011/12 financial year by Clinical Service Centre. In total the Trust has identified savings plans for the year totalling £30.5m but it should be noted that £5.5m of these savings are dependent on the successful implementation of PCT QIPP ("Quality Innovation Productivity & Prevention) [Demand Management] schemes (and costs being removed).

  At the end of month 6, the Trust has achieved total savings of £11.2m compared to planned savings of £12.0m, meaning the Trust is behind target by £0.8m. A further breakdown of this performance shows that in terms of its internal savings plans the Trust is £1.1m ahead of target. This is however offset by the significant shortfall in performance against the cost reductions associated with demand management schemes which is currently £1.9m adrift of plan. This is reflected in the additional activity position referred to in the previous section of this report.

  The over-achievement on the Trusts savings plans primarily relates to two of the corporate workstreams that operate across all areas of the Trust's business. The Estates rationalisation workstream is currently £0.5m ahead of plan which relates to some schemes in this area delivering earlier than anticipated in the plan. The non-pay workstream is also ahead of plan at the end of month 6 by £0.9m. This relates primarily to some one-off (non-recurrent) savings being additionally delivered ahead of plan.

- **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 £9.3m. 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 September, the Trust is significantly behind the straight-line plan in respect of the capital programme with expenditure totalling £1.3m compared to a planned position of £5.1m. This position has been a cause for concern in terms of providing assurance that the Trust will spend its entire capital allocation and the planning process is being reviewed to address this issue going into 12/13 annual plan. A review of all capital schemes and associated procurement timetables has now been undertaken and this has resulted in the Trust revising its year end capital requirement and forecast to £7.8m. The Trust has requested approval from the Strategic Health Authority to change its Capital Resource Limit (CRL) to reflect this revised likely outcome.

  The Trust's cash balance at the end of September is £3.3m. This remains ahead of the planned cash position at this point in the year.

- **Forecast Outturn:** The Trust's planned year end position is to achieve break-even on income and expenditure. The major risk to the Trust achieving this position is the levels of activity the Trust has been performing above contract and the associated contract cap.

  As a result of this risk, the Trust has supported the production of a recovery action plan with local commissioners, local community health providers and the ambulance service. The principal aim of the recovery action plan has been to develop a range of measures to

reduce hospital activity and relieve some of the pressures being experienced by the Trust at both an operational and financial level.

In conjunction with this, a financial recovery plan has been produced that aims to ensure the Trust achieves a break-even position by year end. Measures within the plan include the additional £3.7m of PCT investment into the Trust's contracts that has been mentioned above and some of the additional demand management schemes from the recovery action plan. These demand management schemes are aimed at reducing workload and hence costs in the hospital. In the event that these schemes are unsuccessful then the financial risk will be shared dependent on which local health organisation had the key responsibility for delivery.

The major risk to the Trust's financial position moving forward continues to be levels of activity (especially emergency) being performed throughout the hospital. The system wide recovery plan is still dependent on material reductions in activity being achieved through demand management and this will be challenging as we enter the winter period.

Robert D Toole
Director of Finance and Investment
23 October 2011