Portsmouth Hospitals NHS Trust

TRUST BOARD PART I – DECEMBER 2011

Agenda Item Number: 196/11
Enclosure Number: (3)

Subject	Finance Report
Prepared by: **Sponsored by:** **Presented by:**	Steve Gooch, Deputy Director of Finance Robert D Toole. Director of Finance & Investment Steve Gooch, Deputy Director of Finance
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 £(1.1)m deficit at the end of October which is in line with the planned position. • Cost Reduction efficiency "Savings" achieved at the end of month 7 total £13.0m compared to the gross planned position of £14.6m including demand management schemes. • The Trust is still targeting a break-even year end position in line with the recovery plan agreed with PCT's but significant risks remain against the achievement of this plan.
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	321	369	48
Year to Date	(1,091)	(1,091)	0

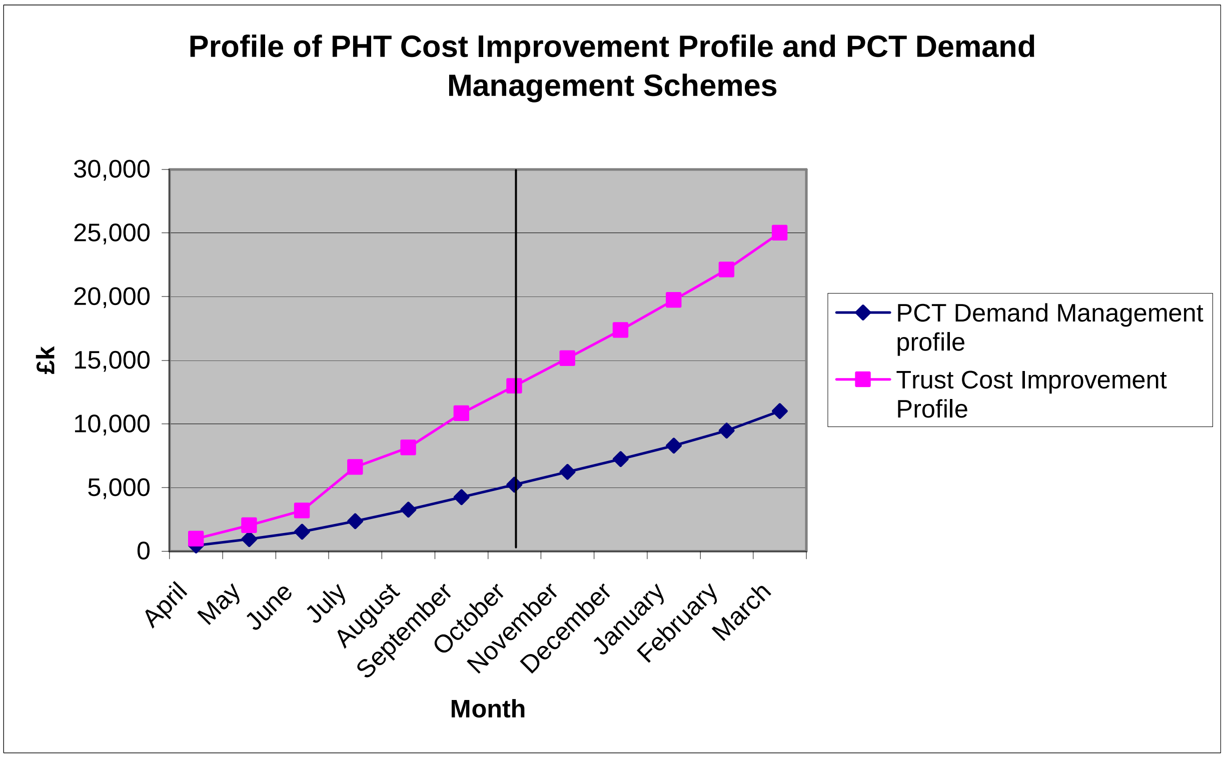
The financial report appendices attached to this report detail the Trust's financial performance at the end of October. The major issues to note at the end of month 7 of the 2011/12 financial year are as follows:

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

  At the end of October (month 7), the Trust has a deficit on income and expenditure of £(1.1)m. This is in line with the planned position anticipated for this point of the financial year.

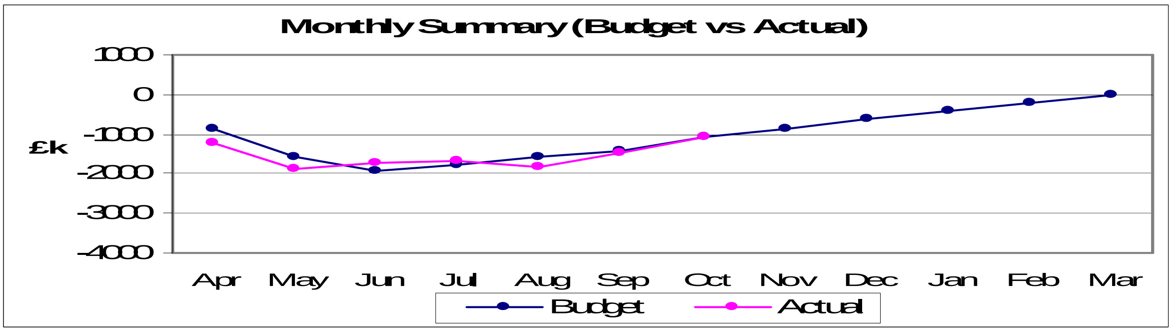
  The Trust has a deficit plan (and actual) position for the year to date. The major reason for this is that the Trust's overall £30.5m cost improvement programme (including commissioner £5.5m demand management (QIPP) schemes) is weighted more heavily towards the second six months of the financial year.

Table 1



This profiling of the Trust's financial plan is shown in the table below together with actual performance for months 1 to 7.

Table 2: 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 raised the risk of the Trust incurring costs for treating patients but receiving no additional income because of the cap arrangements. This in turn would jeopardise the Trust achieving its break-even year-end forecast.

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. It has been agreed that this additional income will increase the baseline value of each of these contracts with the cap of £2.75m still in place albeit now on a higher activity baseline. Therefore The Trust remains exposed to the risk of activity levels exceeding the cap however the risk is partially reduced through this additional contribution.

- **Expenditure Trends:** The Trust's overall paybill for the month of October was £19.8m which is broadly in line with the average paybill seen in the last three months. This is adrift of the plan that the Trust set itself at the start of the year. Note this plan was based on significant reductions in activity levels 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 October totalled £1.4m. This represents a slight increase on last month's expenditure of £1.3m. The major areas of expenditure continue to be medical staffing (£540k) and nursing and midwifery staffing (£593k).

- **Activity and Income:** The Trust's SLA performance is shown one month in arrears. Activity performance at the end of month 6 (September) for the Trust's two major contracts is shown in appendix 3. All figures reflect the contracts agreed at the start of the financial year and are therefore shown prior to the additional £3.7m of investment highlighted earlier in the report. This is pending agreement on exactly which areas of the contract the £3.7m investment should be applied to.

  The reports show that at the end of month 6 the Trust is reporting activity levels above plan to the gross value of £7.3m against the NHS Hampshire contract and £2.5m 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, extrapolating for the month of October, and taking account of the additional £3.7m of baseline investment, the Trust anticipates that it should be due additional income above plan of £1.7m for NHS Hampshire and £0.8m for NHS Portsmouth. This illustrates that the Trust even with the increased baseline is continuing to be required to undertake work in excess of contract to meet patient needs. Additionally the activity is close to the limit of the overall cap of £2.75m which is likely to be breached in November without significant reduction in demand.

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 7, the Trust has achieved total savings of £13.0m compared to planned savings of £14.6m, meaning overall that the Trust is behind target by £1.6m. A further breakdown of this performance shows that in terms of its internal savings plans the Trust is £0.8m 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 £2.4m 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 7 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 October, the Trust is significantly behind the straight-line plan in respect of the capital programme with expenditure totalling £1.4m compared to a planned position of £5.8m. 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's cash balance at the end of October is £5.5m. This remains ahead of the planned cash position at this point in the year principally reflecting the slippage in the capital programme.

- **Forecast Outturn:** The Trust's planned year end position is to achieve break-even on income and expenditure. The financial recovery plan and subsequent additional investment from commissioners is designed to support the Trust in achieving this aim.

  The major risks to the achievement of this plan remain as follows:

  i) Success of Demand Management schemes over the remaining months of the year. *The recovery plan is based on demand management schemes successfully reducing activity over coming months and enabling the Trust to reduce costs accordingly.*

  ii) Achievement of the Trust's internal cost improvement target. *The Trust's must continue to ensure that existing CIP schemes within its own control are delivered ensuring the £25m target is reached.*

  iii) Activity levels increasing beyond those modelled in the plan. *There is a risk that if activity levels rise over coming months then this could push the Trust's contractual performance beyond the cap which would again have a detrimental impact on the Trust's financial position. This risk is linked to both the onset of winter and the potential impact on emergency activity and the potential growth in elective activity as waiting list backlogs are targeted.*

Robert D Toole
Director of Finance and Investment
November 2011