Portsmouth Hospitals NHS
NHS Trust

TRUST BOARD PART I – OCTOBER 2011

Agenda Item Number: 161/11
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 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 with a £(1.8)m deficit at the end of July a £(0.2)m adverse position that is behind the planned position of £(1.6)m deficit. • Cost Reduction efficiency "Savings" achieved at the end of month 5 total £9.4m compared to the planned position of £9.5m. • The Trust has anticipated income above plan totalling £2.75m at the end of month 5. This is in line with the annual cap on the Trust's two main contracts.
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?	

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

Income and Expenditure			
Financial Position (£k)			
	Budget	**Actual**	**Variance**
Current Month	179	(159)	(338)
Year to Date	(1,589)	(1,823)	(234)

The financial report appendices attached to this report detail the Trust's financial performance at the end of the August (month 5) of the 2011/12 financial year.
The major issues to note are as follows:

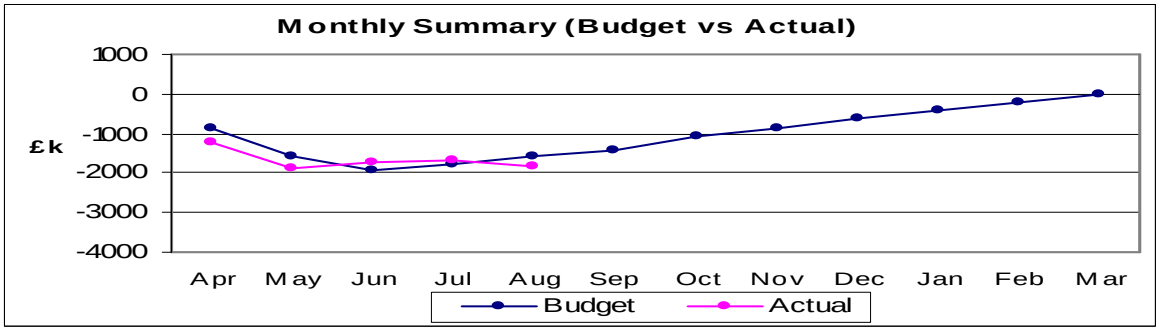
- **Income and Expenditure "I&E" position (in-month and year to date position)**

  At the end of August (month 5) of the 2011/12 financial year, the Trust has a deficit on income and expenditure of £(1.82)m. This compares to a planned deficit of £(1.59)m, meaning the Trust is currently behind its planned profile by £(0.23)m.

  The Trust has a deficit plan (and actual) position for the year to date. This reflects the phasing of the Trust's financial plan for 2011/12. The position is principally because major reductions in income impacting on the Trust this year (due to tariff deflation, loss of non-recurrent income and contracted demand management) have had 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 indeed increase throughout the year.

  This profiling of the Trust's financial plan is shown in the table below together with actual performance for months 1 to 5. 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.

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



  At the end of month 5 the Trust is now starting to deviate from its planned position and this is primarily explained by the excess non elective unpaid activity as determined under the service level agreement the Trust reached with its two main commissioners (NHS Hampshire and NHS Portsmouth) for 2011/12 under the auspices of the South Central SHA . For this year, the Trust has agreed a "cap" which represents an upper limit on the payments that can be made for activity that is performed above plan. The value of the cap is £1.5m for NHS Hampshire and £1.25m for NHS Portsmouth.

For month 5 , based on an extrapolation of April to July activity, demand on the Trust has now exceeded the activity cap supported by both principal PCT's and has now effectively provided approximately £1.2m of activity free of charge. This presents significant financial risk to the Trust in the remaining months of the financial year. Should demand and thus activity continue at levels similar to those seen in the early part of the year then the Trust will incur the costs of treating these patients but not receive any additional income. Unless dramatic corrective action is taken by all partners including Primary Care, GPs, the South Central Ambulance Service ("**SCAS**") and community providers across the local NHS community and the Trust to reduce demand for activity and thus costs, this will cause the Trust's income and expenditure position to significantly deviate from plan in the coming months.

- **Expenditure Trends:** The Trust's overall paybill for the month of August was £19.9m. This is broadly in line with the average paybill seen in the first four months of the year meaning the Trust has managed to keep its paybill under control and offset the inflationary impact associated with incremental pay progression and items such as clinical excellence awards.

- **Temporary Staffing (Locum, Bank & Agency):** Expenditure on temporary staffing for the month of August totalled £1.5m. This has continued to rise over recent months reflecting the very considerable operational pressures throughout the organisation as reflected in the significant amount of excess plan activity particularly non-elective (unscheduled). The major areas of expenditure continue to be medical staffing (£656k) and nursing and midwifery staffing (£632k) which accounted for 85% 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 4 (July) for the Trust's two major contracts is shown in appendix 3.

  This shows that at the end of month 4 the Trust is reporting activity levels above plan to the value of £4,476k against the NHS Hampshire contract and £1,468k 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 208/09 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 August, the Trust anticipates that it should be due additional income above plan of £2.6m for NHS Hampshire and £1.3m 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. As a consequence, there is circa £1.2m of activity that the Trust has performed in the first five months in the year that it will not receive payment for. Within the month 5 financial position, the Trust has therefore assumed payment equal to annual cap for both NHS Hampshire and NHS Portsmouth.

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.

The Trust is working closely with the two major PCT commissioners (NHS Hampshire and NHS Portsmouth [City]) and the other local NHS Community providers /ambulance "**SCAS"** and GP consortia to take steps to reduce activity levels back in line with Service Level Agreement levels. A system wide unscheduled care recovery plan has been developed with a financial evaluation being undertaken with the aim of ensuring all organisations in the local health system can maintain financial balance by the end of the year. Note the key financial impact of demand management failure currently lies with the Trust as the system default provider of care especially if other appropriate care settings are not readily accessible.

- **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 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 5, the Trust has achieved total savings of £9.3m compared to planned savings of £9.4m, meaning the Trust is marginally behind target by £0.1m. A further breakdown of this performance shows that in terms of its internal savings plans the Trust is £1.5m 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 £1.6m 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 £0.6m 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 5 by £0.8m. 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 August, the Trust is significantly (and will remain) behind the straight-line plan in respect of the capital programme with expenditure totalling £858k compared to a planned position of £4.4m. This position is 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 is therefore currently being undertaken with a view to providing a revised assessment of the year end capital spend. This will enable contingency actions to be taken such as potentially accelerating items from the 2012/13 programme.

The Trust's cash balance at the end of August is £9.3m. This is ahead of the planned cash position at this point in the year which principally reflects the slippage on the capital programme identified above.

- **Forecast Outturn:** The Trust is maintaining a planned year end position of break-even position at year end. However there is clearly a major risk to the achievement of this position given the continued adverse levels of activity above plan seen in the early months 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 for which no income will 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. As detailed above the Trust is working with local NHS providers as part of the South East Hampshire sustainability programme and the South Central SHA to review how this position can be managed across this challenged health economy.

Robert D Toole
Director of Finance and Investment
September 2011