Portsmouth Hospitals NHS
NHS Trust

TRUST BOARD PART I – FEBRUARY 2011

Agenda Item Number: 21/12
Enclosure Number: (3)

Subject	Finance Report – December 2011 Month 09 2011/12
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 £(1.5)m deficit at the end of December which is £(0.9)m adrift of the planned position. • Cost reduction efficiency "Savings" achieved at the end of month 9 total £18.1m compared to the planned position of £21.0m. Internal Trust savings are £0.5m 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 £(3.4)m adrift of plan. • The Trust is still targeting a break-even year end position in line with the recovery plan and subsequent additional investment agreed with PCT's. There remain significant risks regarding 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	224	172	(52)
Year to Date	(629)	(1,491)	(862)

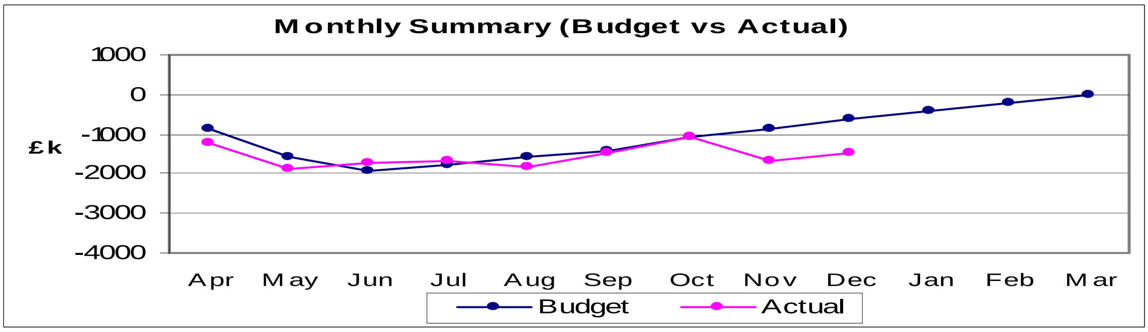
The financial report appendices attached to this report detail the Trust's financial performance at the end of December. The major issues to note at the end of month 9 of the 2011/12 financial year are as follows:

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

  At the end of December (month 9), the Trust has a deficit position on income and expenditure of £(1.5)m. This means the Trust is adverse the planned position for this point of the year by £(0.9)m.

  This profiling of the Trust's financial plan for the year together with actual performance for the first nine months of the year is shown in the table below. This illustrates the slight improvement in the actual income and expenditure during December but shows that the cumulative position is still adrift of the plan.

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



  The context behind the Trust's financial performance for the first nine months of the year has been the Trust's contractual arrangements with commissioners for 2011/12. At the start of the financial year, the Trust agreed a "capped" contract with its two major commissioners, NHS Hampshire and NHS Portsmouth. The cap being based on a monetary value of £2.75m which in effect meant the Trust would not receive payment for activity beyond this point. This cap was part of a much broader agreement that saw additional investment in the Trust's contract baselines and any potential penalties associated with contract performance being reinvested within the Trust.

  Activity levels throughout the year have continued to significantly exceed the contract cap and as such it has been necessary for the Trust and commissioners to agree a joint strategy to deal with the excess costs incurred by the Trust in treating these additional patients. Earlier in the year this resulted in the commissioners agreeing an additional £3.7m into particularly non elective (urgent) contract baselines, with the cap still in place albeit on a higher level of baseline activity.

  Despite this additional investment into contract baselines, activity has continued to exceed both the plan and the cap. In recent months this has been further complicated by the commitment of both the Trust and commissioners to improve performance against the Elective Referral to Treatment (RTT) target which has resulted in extra elective and outpatient work being undertaken.

This month therefore, the Trust has reached agreement with commissioners to ensure that the costs associated with any RTT backlog clearance work are funded, these costs are currently estimated at £2m. Further to this commissioners have also agreed to fund the costs of payment by results drug exclusions. These are typically high cost drugs that are excluded from normal tariff prices and which are normally treated as a pass through cost between provider and commissioner. Owing to the cap arrangements in place this year, this pass through arrangement has not happened and therefore the commissioners have agreed to fund these additional costs currently up to an amount of £2m.

The overall impact of the above agreements is that this has caused a marginal improvement in the Trust's financial position with the Trust's income and expenditure position improving from the £(1.7)m deficit reported at month 8 to a £(1.5)m deficit at the end of month 9. The Trust's target a break-even position at year end and the risks around this are considered later in this report.

- **Expenditure Trends:** The Trust's overall paybill for the month of December was £20.2m which represents a significant decrease on the very high levels of pay expenditure seen in November (£20.6m). This drop is explained by the fact that November was an exceptional month in terms of the volume of payments made in respect of RTT backlog clearance and whilst this work continued in December it was not at same level.

- **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 December totalled £1.5m which represents a £150k drop on figures seen in November. The major areas of expenditure continue to be medical staffing (£505k) and nursing and midwifery staffing (£693k).

- **Activity and Income:** The Trust's SLA performance is shown one month in arrears. Activity performance at the end of month 8 (November) 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 now include the extra £3.7m of investment made into contract baselines by NHS Hampshire and NHS Portsmouth during October meaning variance figures are not directly comparable with reports prior to this date.

  The reports show that at the end of month 8 the Trust is reporting activity levels above plan to the value of £7.9m against the NHS Hampshire contract, and £2.9m 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, extrapolating for the month of December, the Trust anticipates that it should be due additional income of £6.0m Year To Date above plan of £4.1m for NHS Hampshire and £1.9m for NHS Portsmouth. This illustrates the point that even with the additional investment the Trust is still exceeding the overall cap of £2.75m. As highlighted above, in order to recognise this situation the Trust has agreed further funding this month in respect of RTT backlog clearance (£2m) and PbR drug exclusions (£2m) of which £2.4m has been reflected with the year to date position. This leaves potential income shortfall remaining of £0.9m YTD all other issues being equal.

- **Cost Improvement Plans:** The Trust's cost improvement target for 2011/12 is £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 9, the Trust has achieved total savings of £18.1m compared to planned savings of £21.0m, meaning the Trust is behind target by £2.9m.

  A further breakdown of this performance shows that in terms of its internal savings plans the Trust is £0.5m 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 £3.4m 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 £0.4m 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 9 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 December, the Trust is significantly behind the straight-line plan in respect of the capital programme with expenditure totalling £1.8m compared to a planned position of £7.2m. 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 has been reviewed to address this issue going into 12/13 annual plan. The Trust is still planning for a year end capital expenditure forecast of £6.8m which reflects a significant number of capital schemes concluding in the final quarter.

  The Trust's cash balance at the end of December is £3.3m. 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. However, the last two months have seen significant pressure placed on the Trust's financial position as the impact of additional workload (both planned and unplanned) materialises on the Trust's cost base.

  Therefore the major risks to the achievement of this plan are as follows:

  i) The Trust and commissioners managing the costs associated with RTT improvement and associated workload. At present £2m has been set aside to cover these costs but there is a risk that costs could exceed this level.
  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) The costs of emergency workload during the Winter period. The Trust's financial projections assume a projected level of expenditure associated with the bed capacity required to manage Winter pressures. If costs exceed these projections then this will put pressure on the Trust's projected year end forecast.

Robert D Toole
Director of Finance and Investment
January 2012