Portsmouth Hospitals NHS
NHS Trust

TRUST BOARD PART I – MARCH 2012

Agenda Item Number: 36/12
Enclosure Number: (3)

Subject	Finance Report – February 2012 (Month 11)
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 £(1.35)m deficit at the end of Febuary which is £(1.15)m adrift of the planned position. • Cost reduction efficiency "Savings" achieved at the end of month 11 total £22.4m compared to the planned position of £27.2m. This figure includes demand management schemes. Internal Trust savings are £22.1m vs £22.4m adverse by £(0.3)m year to date. This is however offset by the significant shortfall in performance against the cost reductions associated with demand management schemes which is currently £(4.5)m. • The Trust is still targeting a break-even year end position in line with the ongoing 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	206	128	(78)
Year to Date	(197)	(1,357)	(1,160)

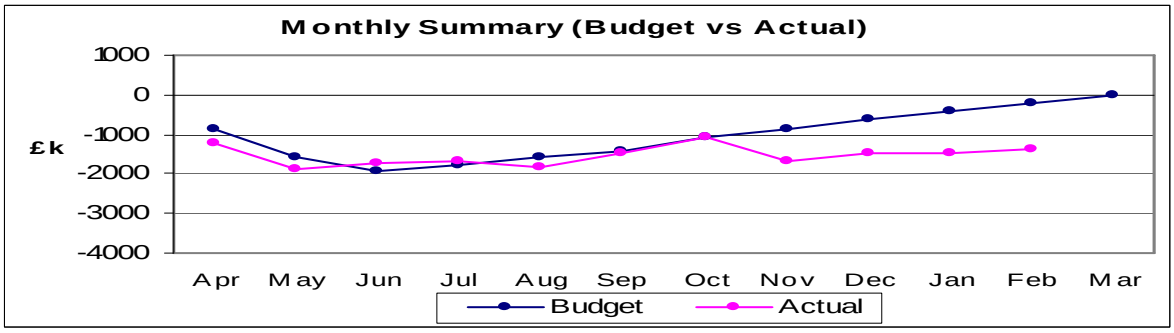
The financial report appendices attached to this report detail the Trust's financial performance at the end of February. The major issues to note at the end of month 11 of the 2011/12 financial year are as follows:

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

  At the end of February (month 11), the Trust has a deficit position on income and expenditure of £(1.35)m. This means the Trust is adrift of the planned position for this point of the year by £(1.15)m.

  This profiling of the Trust's financial plan for the year together with actual performance for the first eleven months of the year is shown in the table below. This illustrates that the cumulative position remains adrift of the plan.

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



The context behind the Trust's financial performance this 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 contract baselines, with the cap still in place albeit now operating 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 Referral to Treatment (RTT) target which has resulted in extra elective and outpatient work

being undertaken at the same price (tariff) though at greater cost due to the resources required to ramping up activity.

In January, the Trust reached agreement with commissioners to ensure that the costs associated with any RTT backlog clearance work are funded although only at national tariff rates. The latest estimate of the potential cost to commissioners of delivering this extra activity is between £3m and £3.5m. Further to this commissioners 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 which amount to £2m.

Despite the additional sums agreed above, the Trust's contracted activity levels have continued to exceed plan and the costs associated with this additional work has continued to put pressure on the Trust's finances. As a result of this the Trust has agreed with commissioners that a further £1.7m will be paid to reflect contract performance above plan. Half of this £1.7m extra income has been reported within the February position with the balance to be reported in March. Even allowing for this additional funding the Trust's cumulative deficit position remains £1.35m at the end of February reflect the excess costs incurred in performing this activity.

- **Expenditure Trends:** The Trust's overall pay-bill for the month of February was £20.9m which represents the highest level of monthly expenditure seen this financial year. This continues the recent trend of growth in the Trust's pay costs which can be correlated with the aforementioned RTT backlog work and also additional capacity that has been opened to deal with winter pressures. It is critical that now the Trust has come through the winter period and as the RTT backlog eases that workforce costs are quickly reduced back to previous levels otherwise the Trust will face a significant additional financial pressure going into 2012/13.

- **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 February totalled £1.8m which again is the highest month of the year to date and can also be linked to both the RTT work and the continuing non elective activity being seen. The major areas of expenditure continue to be medical staffing (£606k) and nursing and midwifery staffing (£818k).

- **Activity and Income:** The Trust's SLA performance is shown one month in arrears. Activity performance at the end of month 10 (January) 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 additional investment made into contract baselines by NHS Hampshire and NHS Portsmouth in respect of non-electivity activity (£3.7m), high cost drug exclusions (£2m) and RTT backlog clearance (£2m). This means the contract variance figures are not directly comparable with those reported in earlier months.

  The reports show that at the end of month 10 the Trust is reporting activity levels above plan gross £9.7m to the value of £7.5m against the NHS Hampshire contract, and £2.2m 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 February, the Trust anticipates that it should be due additional income above plan of £4.9m across both contracts. Allowing for a broadly consistent final month of the year then the Trust is heading for year-end payable contract performance above plan of c.£5.5m. Once the contract cap (£2.75m), final instalment of RTT monies (£1.2m) and final contract payment from PCT's are taken into account (£1.7m) it can be seen that the Trust will in all likelihood be paid in respect of this activity. However a significant proportion will only have been paid at a 30% marginal rate in line with national rules.

- **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 11, the Trust has achieved total savings of £22.4m compared to planned savings of £27.2m, meaning the Trust is behind target by £4.8m.

  A further breakdown of this performance shows that in terms of its internal savings plans the Trust is £0.3m adrift of target. This is however exacerbated by the significant shortfall in performance against the cost reductions associated with demand management schemes which is currently £4.5m adrift of plan. This is reflected in the additional activity position referred to in the previous section of this report.

- **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 February, the Trust remains significantly behind the straight-line plan in respect of the capital programme with expenditure totalling £3.6m compared to a straight line planned position of £8.5m (against the total programme at £9.3m). The forecast underspend against the programme as at the end of February is £2.8m compared with £2.5m reported in the previous month. The increase in the level of underspend is attributable to further 'slippage' against the ICT element of the programme (£0.8m) offset by an improved position in respect of equipment replacement (£0.5m).

  Although at the end of February there remains £3.0m to be spent during March against the forecast outturn of £6.6m, ongoing close monitoring of the programme provides a level of

confidence that this level of expenditure will be achieved. It should be noted that although the forecast underspend is identified at £2.8m, only £0.6m will be carried forward to next year in respect of outstanding commitments.

The Trust's cash balance at the end of February is £6.5m. This remains ahead of the planned cash position at this point in the year principally reflecting the slippage in the capital programme described above.
.

- **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 four 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 £3.2m 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 remaining weeks of the year. The Trust's financial projections assume a projected level of expenditure associated with the bed capacity and staff resources required to manage emergency 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
March 2012