

TRUST BOARD PART I – MAY 2012

Agenda Item Number: 72/12
Enclosure Number: (3)

Subject	Finance Report – March 2012 (Month 12)
Prepared by:	Steve Gooch, Deputy Director of Finance
Sponsored by:	Robert D Toole. Director of Finance & Investment
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Purpose of paper <i>Why is this paper going to the Trust Board? Tick as many as appropriate or provide text</i>	Regular reporting For information/awareness
Key points for Trust Board members <i>Briefly summarise in bullet point format the main points and key issues that the Trust Board members should focus on including conclusions and proposals</i>	<ul style="list-style-type: none"> • The Trust has ended the year with a small surplus on income and expenditure of £148k thus achieving the year end target of break-even. • Break-even was achieved primarily through the negotiation of additional contracts payments of £13.25m, significantly above the cap agreed at the start of the year, and the delivery of a £25m internal cost improvement programme.
Options and decisions required <i>Clearly identify options that are to be considered and any decisions required</i>	Board Members are asked to note and review the issues highlighted in the report.
Next steps / future actions: <i>Clearly identify what will follow the Trust Board's discussion</i>	
Consideration of legal issues (including Equality Impact Assessment)?	Considered but not applicable
Consideration of Public and Patient Involvement and Communications Implications?	Yes – public information

Financial Position (£k)			
	Budget	Actual	Variance
Current Month	197	1,503	1,306
Year to Date	0	148	148

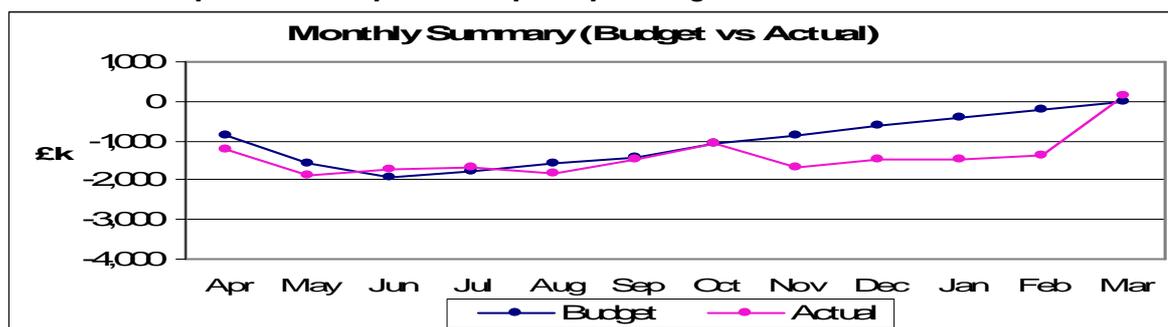
The financial report appendices attached to this report detail the Trust’s financial performance at the end the 2011/12 financial year. This report was previously submitted to April Trust Board as a provisional report pending the submission of the Trust’s annual accounts. As a result of deadline for the accounts being later than the deadline for Trust Board some appendices were not available in April. This report therefore provides a full set of appendices in the usual format.

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

At the end of March (month 12), the Trust has a recorded a small surplus on income and expenditure of £148k. This position is after removing the impact of technical items such as impairments which are excluded from the Trust’s reported position in terms of how financial performance is assessed by the NHS.

The table below shows the profile of the Trust’s income and expenditure performance throughout the year.

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



The key theme throughout the 2011/12 financial year has been that of the Trust dealing with the consequences of a contractual framework that effectively “capped” contract over-performance at a maximum value of £2.75m. Early on in the year it became clear that activity levels were significantly in excess of contracted levels and the £2.75m cap was going to be significantly exceeded.

As a result the Trust has been required to maintain significantly greater levels of capacity than planned and incur the associated costs of this additional work. Throughout the year the Trust has been required to re-open negotiations with commissioners regarding payment for additional activity performed above cap. This has resulted in several additional payments being made by commissioners throughout the year to fund additional activity included the costs of improving performance against referral to treatment (RTT) targets. In total these additional payments amounted to £13.6m. This is £10.85m higher than the cap agreed at the start of the year.

In addition to the contractual performance outlined above, the Trust has been managing a significant internal cost improvement programme of £25m. At the end of the year, the Trust has successfully delivered against this £25m target albeit some of these savings have only been delivered on a non-recurrent basis which increases the size of the financial challenge in 2012/13.

As a result of the hard work in delivering a £25m savings target and the additional contract payments in respect of extra activity completed the Trust has managed to achieve its year end target position of break-even.

- **Expenditure Trends:** The Trust's overall pay-bill for the month of March was £20.8m which represents a small £100k reduction on the figures reported for the preceding month of February. The Trust's overall paybill for the whole year is £242.3m which represents a 1.1% increase on the equivalent level seen in 2010/11 (£239.7m) indicating that the Trust has managed to contain pay expenditure growth between the two years.
- **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 March totalled £1.9m which is the highest month of the year to date and can be linked to continuing work to improve RTT performance and the ongoing non elective activity pressures. The major areas of expenditure continue to be medical staffing (£582k) and nursing and midwifery staffing (£833k).
- **Activity and Income:** The Trust's SLA performance at the end of month 12 (March) 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 some (£7.7m) of Variation Orders to contract relating to 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 12 the Trust reported activity levels above plan to the gross value of £12.1m. **(Note- Discounting the variation orders above the original plan variance is the equivalent of £19.8m).** The £12.1m is made up of £8.9m against the NHS Hampshire contract, and £3.2m against the NHS Portsmouth contract. It should be noted however that these figures represent "gross" over-performance and are 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 challenge areas of the Trust's counting and coding practice.

As described earlier in the report, after adjustments have been made for the above items and extrapolating for the month of March the Trust agreed a year end funding settlement across both main contracts of £13.6m which represents a £10.85m increase on the cap agreed at the start of the year. Table 2 shows a breakdown of all the additional payments made by commissioners throughout the year that reconcile with the £13.6m figure highlighted above. These are shown in relation to the original contract value for consistency although in several cases a variation was made to the original contract plan value.

Table 2: Summary of additional payments made by commissioners above contract

	Hampshire £m	Portsmouth £m	Total £m
2011/12 original contract value	189.1	114.2	303.3
Contract Cap	1.5	1.2	2.7
Mid Year Non-Elective activity plan variation	3.0	0.7	3.7
Mid Year RTT & Drugs plan variation	2.5	1.5	4.0
RTT activity payment (SHA pass through)	0.0	1.3	1.3
Year End Over-performance payment	0.5	1.2	1.7
Hep C service variation	0.0	0.2	0.2
2011/12 paid outturn (excluding non-activity items)	196.6	120.3	316.9
Activity paid above original plan	7.5	6.1	13.6

The Gross value of work was £19.8m an increase of 6.53% of plan and net £13.6m is 4.48%

Now that month 12 SLA monitoring reports are available this can be compared to a likely assessment of what the Trust might have been paid had the Trust been operating under a fully variable payment by results contract. This is shown in table 3 and indicates that the Trust was potentially due a further £800k in respect of actual outturn activity performed in 2011/12. This is the difference between the £14.4m figure calculated in table 3 and the £13.6m actually paid in table 2. It should be noted however that in the scenario of a normal payment by results contract the Trust would have been exposed to significant loss of income through contract penalties and levers being applied by commissioners.

Table 3: Summary of potential payments due based on actual 11/12 outturn activity

Gross Over-Performance at Month 12	8.9	3.2	12.1
Less adjust for 30% NEL threshold	-3.2	-0.1	-3.3
Less adjust for disputed follow up's above ratio	-0.5	-0.2	-0.7
Less adjust for disputed prior approval procedures	-0.9	-0.5	-1.4
Add back Non-Elective plan variation	3.0	0.7	3.7
Add back RTT & Drugs plan variation	2.5	1.5	4.0
Potential payment for over-performance at Month 12	9.8	4.6	14.4

- **Cost Improvement Plans:** The Trust's cost improvement target for 2011/12 was £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. This shows that at the end of the financial year, the Trust has achieved total savings of £25m meaning that it has delivered its required savings target for the year. Within this position it should be noted that approximately £6m of these savings have been delivered on a non-recurrent basis which effectively adds to the annual efficiency target the Trust faces in 2012/13.

- **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 the financial year, the Trust has spend £6.5m against this capital programme. Whilst this represents a £2.8m undershoot against the programme outlined at the start of the year, this figure is in line with the revised projections outlined in this report through the latter half of the financial year. Of the items that have “slipped” £928k will be carried forward as a commitment against the 2012/13 programme.

The Trust’s cash balance at the end of March was £0.4m which is £0.3m higher than planned but in line with the Trust’s requirement not to exceed its external financing limit (EFL).

Robert D Toole
Director of Finance
May 2012