Portsmouth Hospitals NHS
NHS Trust

TRUST BOARD PART I – JANUARY 2011

Agenda Item Number: 7/12
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 a £(1.7)m deficit at the end of November which is £(0.8)m adrift of the planned position. • Cost reduction efficiency "Savings" achieved at the end of month 8 total £14.7m compared to the planned position of £17.1m. This figure includes 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 gap and 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	239	(571)	(810)
Year to Date	(852)	(1,662)	(810)

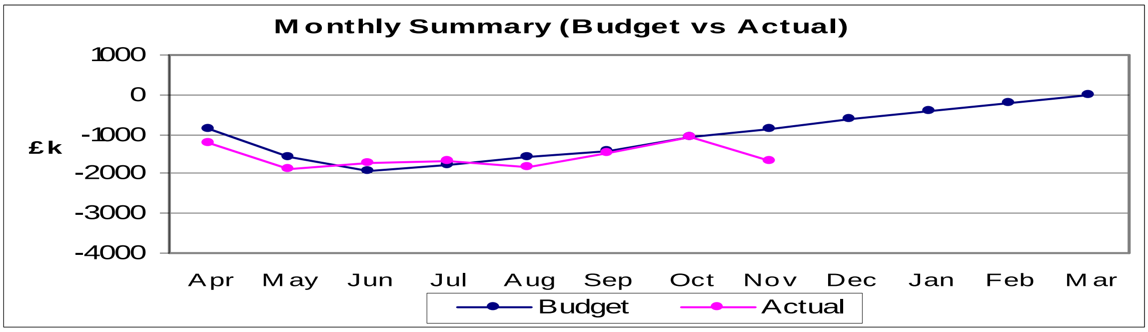
The financial report appendices attached to this report detail the Trust's financial performance at the end of November. The major issues to note at the end of month 8 of the 2011/12 financial year are as follows:

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

  At the end of November (month 8), the Trust has a deficit position on income and expenditure of £(1.7)m. This means the Trust is adrift of the planned position for this point of the year by £800k and represents a deterioration from the financial position reported last month.

  This profiling of the Trust's financial plan for the year together with actual performance for the first eight months of the year is shown in the table below. This illustrates the adverse movement to plan in November.

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



  The principal impact is due to an excess of unfunded activity being necessarily undertaken to meet national requirements in respect of delivering referral to treatment targets and to continue to meet patient needs in respect of acute / emergency work above contracted baseline.

  The impact of the activity and an estimated year to date income shortfall is c£2m. Combined with the increased staffing resource this has led despite some additional support of £0.5m from commissioners to the estimated backlog work undertaken to an in-month deterioration in the income & expenditure position.

  Correspondingly the Trust's monthly paybill for November is significantly above plan. Typically the Trust's paybill has averaged around £19.9m per month however in November this figure has increased to £20.6m. The major reasons for this are twofold. Firstly, this is linked to additional activity being performed to help reduce waiting list backlogs and improve performance against the referral to treatment (RTT) standard. Secondly, this is due to additional bed capacity being opened as part of the start of the winter period. This increase in the Trusts cost base has consequently put pressure on the Trust's overall financial position because of the contractual arrangements the Trust has been operating under for this financial year as outlined.
  For the 2011/12 financial year the Trust has agreed 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. Throughout the year the Trust has experienced activity levels significantly above plan and the cap. This has raised the risk of the Trust incurring costs for treating patients but receiving no additional income because of the cap arrangements.

As a result of this financial risk the Trust agreed a financial recovery plan with commissioners for the remainder of the year that agreed an additional £3.7m would be invested by NHS Hampshire and NHS Portsmouth into the baseline value of these contracts. This means the cap of £2.75m is still in place but now operates on a higher activity baseline. Therefore the Trust still remains exposed to the risk of activity levels exceeding the cap.

- **Expenditure Trends:** As highlighted above, the Trust's overall paybill for the month of November was £20.6m which represents a significant increase on pay expenditure seen in the first seven months of the year. The in month increase compared to October pay expenditure was £800k and this increase can be broken down across four main headings:

    - Medical staffing (substantive) £229k increase
    - Nursing staffing (substantive) £172k increase
    - Medical staffing (temporary) £177k increase
    - Nursing staffing (temporary) £210k increase

  This breakdown shows that the increase during November was a combination of both increased spend on substantive staff coupled with additional payments to temporary staff such as bank, locum and agency. The substantive increase includes payments made to staff (both medical and nursing) to cover additional work performed to help clear activity backlogs. Early indications show that elective activity was 20% higher in November than the average of April to October. In addition to this the substantive nursing increase will reflect the recent recruitment of newly qualified nurses to ensure the Trust has a sustainable nursing workforce through the winter months ahead.

  The increase in temporary staffing costs includes £130k of additional costs associated the opening of winter (extra) bed capacity during the month which is linked to both the backlog clearance and emerging traditional winter demand and acuity pressure issues.

- **Temporary Staffing (Locum, Bank & Agency):** Temporary staffing charts showing both in-month and year to date expenditure are included in appendix 2. As reported above expenditure on temporary staffing for the month of November totalled £1.65m which represents the highest month of the year so far. The major areas of expenditure continue to be medical staffing (£621k) and nursing and midwifery staffing (£806k).

- **Activity and Income:** The Trust's SLA performance is shown one month in arrears. Activity performance at the end of month 7 (October) 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 meaning variance figures are not directly comparable with previous months reports.

  The reports show that at the end of month 7 the Trust is reporting activity levels above plan to the gross value of £6.6m 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 November, the Trust anticipates that it should be due additional income above plan of £3.5m for NHS Hampshire and £1.7m for NHS Portsmouth. This illustrates that even with the additional investment the Trust is still exceeding the overall cap of £2.75m. Both commissioners have recognised that the reduction of activity backlogs have further contributed to this position and have therefore agreed to fund the Trust for an additional £0.5m estimated in respect of this work for November. This as detailed above still leaves a gap of c.£2m.

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 has benefitted financially from penalties (e.g. for emergency re-admissions) not being applied.

- **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 8, the Trust has achieved total savings of £14.7m compared to planned savings of £17.1m, meaning the Trust is behind target by £2.4m.

  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 £2.9m 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 8 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 November, the Trust is significantly behind the straight-line plan in respect of the capital programme with expenditure totalling £1.6m 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.

An initial review of all capital schemes and associated procurement timetables resulting in the Trust revising its year end capital requirements and forecast to £7.8m. However a further review has indicated that there may now be further slippage of up to £1.6m in respect of the following three items:

- Renal Dialysis Machines £465k
- Core and Edge Data Network £540k
- Trust Planning Committee unallocated reserve funds £630k

The Trust's cash balance at the end of November is £4.2m. 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 November has seen significant pressure placed on the Trust's financial position as the impact of additional workload materialises on the Trust's cost base.

  Therefore 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. *Provisional activity figures for November show a 20% increase in elective activity compared to levels seen earlier in the financial year. The risk remains that if elective activity is sustained at these levels coupled with the onset of winter and the associated impact on emergency activity then this could jeopardise delivery of the required income and expenditure position.*

Robert D Toole
Director of Finance and Investment
December 2011