

FINANCE DIRECTOR REPORT – MONTH 05
TRUST BOARD – 27th SEPTEMBER 2012

1. **Introduction**

The Trust is required to deliver a balanced Income and Expenditure position in the year. This paper provides a description of the performance over the period April – August and provides a forecast outturn for the year.

In addition, in constructing the paper a series of scenarios have been provided to indicate the risks associated with the delivery of the plan for the 2012/13 year.

Recognising the impact such plans has upon the working capital of the Trust, the paper also contains a description of how the cash position is expected to alter through the year and the impact upon the level of debtor and creditor working balances.

2. **Month 05 Cumulative Position**

The Income and Expenditure position of the Trust is presented in the table below:

	Months 1- 5 Budget £000s	Month 1-5 Actual £000s	Variance £000s	Planned Forecast Outturn £000s	Forecast Outturn £000s	Variance £000s
Income	121,776	122,094	318	299,809	297,784	(2025)
Expenditure						
Pay	(82,135)	(84,109)	(1,974)	(192,601)	(202,119)	(9518)
Non Pay	(36,679)	(35,875)	804	(90,586)	(86,325)	4261
Reserves				(5,215)	1198	6413
Finance Cost	(6,203)	(6,144)	-	(14,408)	(14,331)	77
Total Expenditure	(125,017)	(126,128)	(1,111)	(301,590)	(301,577)	13
Under / Over spend	(3,241)	(4,034)	(793)	(3,000)	(3,793)	(793)
Transitional support	2,967	2,967	-	4,900	4,900	0
Phased spending – to agree with SHA Finance Plan	266	266	-			
Surplus(deficit) before management actions				1,900	1,107	(793)
Actions to address overspend				-	793	793
	(8)	(801)	(793)	1,900	1,900	-

As can be seen from the above at the end of August the Trust had recorded a cumulative deficit amounting to £801,000. The Trust had planned to record a cumulative deficit at the end of August amounting to £8,000. It is forecast that by the year end, without management actions the Trust will record a surplus amounting to £1.107 million. Management actions enable the Trust to return a surplus for the year of £1.9 million.

3. Monthly Analysis – August

The “in month” position for the month of August is presented in the table below.

	Budget Position £000s	Actual £000s	Variance £000s
Income	24,929	24,977	48
Expenditure			
Pay	16,008	16,742	(734)
Non Pay	7,664	7,342	322
Reserves	(217)	(196)	(21)
Finance Cost	1,451	1,392	59
Phased spend	38	(266)	(304)
Total Expenditure	24,945	25,014	(69)
Planned surplus	(16)	(37)	(21)

The Trust planned to deliver a deficit in the month of £16,000 and actually recorded a deficit of £37,000.

4. Month by Month analysis

The table below provides a description of the Income and Expenditure position of the Trust on a monthly basis.

	April £000s	May £000s	June £000s	July £000s	Aug £000's	Total April - Aug £000s
Income	22,817	24,667	24,191	25,833	24,586	122,094
Expenditure						
Pay	17,033	16,869	16,567	16,898	16,742	84,109
Non Pay	7,241	7,162	6,919	7,211	7,342	35,875
Reserves				196	(196)	-
Phased spend		(266)	140	126	(266)	(266)
Finance Cost	1,291	1,212	1,163	1,086	1,392	6,144
Total Expenditure	25,565	24,977	24,789	25,517	25,014	125,862
	(2,748)	(310)	(598)	316	(428)	(3,768)
Transitional Funding	774	709	643	450	391	2,967
Under / Over spend	(1,974)	399	45	766	(37)	(801)
Planned Position	(1,566)	332	33	1,209	(16)	(8)
Variation from plan	(408)	67	12	(443)	(21)	793

Income and Expenditure Position – Key Messages

- *The Trust recorded a deficit at the end of August amounting to £801,000; the Trust had planned to record a deficit at this stage in the financial year of £8,000.*
- *In the month of August a deficit of £37,000 was recorded, the budget for the month of August was to present a deficit of £8,000.*
- *The financial position at the end of August is made possible because of the release of transitional funding in the first five months of the year amounting to £2.967 million.*

5. Explanation of Position recorded to date

5.1 Income

The Income generated by the Trust in the months of April – August is presented in the table below.

	Budget Months 1- 5	Actual Months 1- 5	Variance
	£000s	£000's	£000s
Shropshire County PCT	53,742	53,645	(97)
Telford and Wrekin PCT	38,454	38,009	(445)
Powys LHB	9,395	9,000	(395)
Other PCTs	3,135	2,951	(184)
Specialised services	5,919	7,019	1,100
Non Contracted Activity	928	1,232	304
Other Clinical Income	1,676	1,654	(22)
Total Clinical Income	113,249	113,510	261
Non Clinical Income	8,527	8,584	57
Transitional support	2,967	2,967	0
Total Income	124,743	125,061	318

In the period April - August the level of Income received was greater than planned by £318,000. The over recovery of Income is explained as follows:

£'s	YTD Planned	YTD Actual	Variance	Volume	Price
A&E	£4,178,762	£4,296,657	£117,896	£72,660	£45,236
Welsh A&E	£254,002	£266,439	£12,437	£50,729	-£38,292
Consultant Led/Responsible First Attendance	£7,561,772	£7,361,727	-£200,045	-£245,537	£45,498
Consultant Led/Responsible Follow Up Attendance	£6,940,600	£6,921,645	-£18,955	-£72,804	£53,850
Consultant Led/Responsible Outpatient Procedure	£4,670,263	£5,020,055	£349,792	£272,504	£77,285
Elective DC	£11,039,786	£10,708,180	-£331,606	-£480,933	£149,329
Elective IP	£8,610,173	£7,726,223	-£883,950	-£513,018	-£370,932
Emergency	£33,095,776	£35,024,588	£1,928,812	£3,071,968	-£1,143,157
Maternity	£4,884,345	£4,533,247	-£351,098	-£311,024	-£40,075
Other Services	£33,086,667	£33,048,651	-£38,016	-£38,016	
Contingency		-£301,814	-£301,814	-£301,814	
SaTH Total	£114,322,146	£114,605,599	£283,453	£1,504,715	-£1,221,258

As can be seen the over recovery is attributable to:

- Volume variation – increased activity beyond planned levels has led to a volume over recovery of Income amounting to £1.505 million. This over recovery is particularly noticeable within Emergency Care.
- Price variation – conversely despite increasing activity levels, the unit price of activity performed is much lower than planned resulting in an adverse price variation of £1.221 million. This price variation is mainly attributable to Emergency Care and is a reflection of the rules relating to increased emergency activity, where the level of payment for over performance is set at 30% of tariff, and a case mix change arising as a consequence of revised ambulatory care practice introduced during the 2011/12 year.

The levels of activity recorded in the months April – August are shown in the table below:

Activity Volumes

Activity	YTD Planned	YTD Actual	Variance	% Variance
A&E	44,063	44,829	766	2%
Welsh A&E	2,502	3,032	530	21%
Consultant Led/Responsible First Attendance	44,613	42,914	-1,699	-4%
Consultant Led/Responsible Follow Up Attendance	77,539	76,699	-840	-1%
Consultant Led/Responsible Outpatient Procedure	31,563	39,211	7,648	24%
Elective DC	16,397	15,730	-667	-4%
Elective IP	3,418	3,087	-331	-10%
Emergency	18,556	19,264	708	4%
Maternity	2,874	2,772	-102	-4%
SaTH Total	241,524	247,538	6,014	

As can be seen in this period the level of emergency activity has exceeded planned levels by 4%, and the volume of Accident & Emergency attendances has increased beyond contracted levels by 2%. Significantly the volume of Elective Inpatient work is 10% below planned levels.

Income – Key Messages

- At the end of August the Trust had recorded an over recovery of Income, across both Clinical and Non Clinical areas amounting to £318,000.
- Over performance of activity as compared with contracted activity has occurred predominantly within Emergency Care. If the Trust had received full compensation for the activity performed an additional £3.072 million would have been received in the period April – August.
- Despite the existence of substantial levels of activity over performance the level of additional Income received in respect of the increased activity has been reduced by £1.221 million.
- In the period Shropshire County PCT, Telford and Wrekin PCT and Powys LHB are each under performing, this is being compensated by Specialised Services activity which is over performing significantly as compared to plan..

5.2 Pay Budgets

In the opening five months of the year the Trust has committed spending amounting to £84.109 million, and had planned to commit funds during the period amounting to £82.135 million.

In setting the Budget for the 2012/13 financial year, the Trust put in place a Cost Improvement Programme to substantially reduce the monthly Pay run rate.

	April		May		June		July		August	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
£000s	17,033	17,013	16,869	16,674	16,567	16,272	16,898	16,169	16,742	16,008
WTE	4,937.31	4870.23	4,840.66	4773.26	4,836.64	4658.03	4,804.61	4628.59	4851.13	4582.45
Variance £000's		20		195		295		729	734	
Variance WTE		67.08		67.40		178.61		176.02		268.86

The above workforce numbers are distorted however by the effect of “rotation” in respect of Medical trainees taking place in the month of August. In particular during the month of August the number of WTE Medical staff working in the Trust increased by 30 posts, reflecting parallel running (12 posts) and an increase in the number of staff employed (18 posts). Significantly given the increase in the number of Medical staffing trainees, it is expected that in future months this will have the effect of reducing the level of spending associated with temporary medical staff.

An examination of the movement of staffing levels between Month 10 (the base month for the construction of budgets) and actual staffing levels in Month 5 has been undertaken to provide an indication of the progress made in reducing the levels of staffing within the Trust.

Month 10 2011/12								
Trust	Contracted wte	Contracted Not Worked wte	Net Contracted wte	Bank wte	Agency wte	Add'l Hours wte	Overtime wte	Worked wte
Consultants	(196.80)	(9.45)	(206.25)		(10.70)			(216.95)
Medical Staff	(310.41)	2.60	(307.81)		(31.44)			(339.25)
Nursing	(1,985.08)	68.70	(1,916.38)	(119.27)	(51.52)	(39.77)	(17.15)	(2,144.09)
Other Clinical	(680.09)	29.87	(650.22)	(16.77)	(5.87)	(7.00)	(2.12)	(681.98)
Non Clinical	(1,348.63)	27.50	(1,321.13)	(101.22)	(28.06)	(22.06)	(8.08)	(1,480.55)
Total	(4,521.01)	119.22	(4,401.79)	(237.26)	(127.59)	(68.83)	(27.35)	(4,862.82)

Month 5								
Trust	Contracted wte	Contracted Not Worked wte	Net Contracted wte	Bank wte	Agency wte	Add'l Hours wte	Overtime wte	Worked wte
Consultants	(206.30)	(2.34)	(208.64)		(14.25)			(222.89)
Medical Staff	(329.56)	6.87	(322.69)		(43.74)		(0.20)	(366.63)
Nursing	(1,938.73)	54.34	(1,884.39)	(170.59)	(43.70)	(36.56)	(12.80)	(2,148.04)
Other Clinical	(684.76)	25.46	(659.30)	(14.97)	(2.00)	(4.59)	(1.76)	(682.62)
Non Clinical	(1,301.63)	17.84	(1,283.79)	(107.44)	(14.73)	(18.23)	(6.76)	(1,430.95)
Total	(4,460.98)	102.17	(4,358.81)	(293.00)	(118.42)	(59.38)	(21.52)	(4,851.13)

The variation between these two periods is then shown in the table below.

Month 10 to 5 Movement								
Trust	Contracted wte	Contracted Not Worked wte	Net Contracted wte	Bank wte	Agency wte	Add'l Hours wte	Overtime wte	Worked wte
Consultants	(9.50)	7.11	(2.39)		(3.55)			(5.94)
Medical Staff	(19.15)	4.27	(14.88)		(12.30)		(0.20)	(27.38)
Nursing	46.35	(14.36)	31.99	(51.32)	7.82	3.21	4.35	(3.95)
Other Clinical	(4.67)	(4.41)	(9.08)	1.80	3.87	2.41	0.36	(0.64)
Non Clinical	47.00	(9.66)	37.34	(6.22)	13.33	3.83	1.32	49.60
Total	60.03	(17.05)	42.98	(55.74)	9.17	9.45	5.83	11.69

As can be seen the total level of staffing reduction achieved by comparison with the budget amounts to 11.69 WTE posts. During this period the number of permanent staff reduced by 60.03 posts, the level of Agency staff by 9.17 WTE posts. Payments in respect of additional hours and overtime reduced staffing levels by the equivalent of 15.38 posts. The volume of staff employed through the Trust Bank however increased by 55.74 posts.

In order to have achieved the Trust Cost Improvement Programme, the Trust was required to:

- reduce the number of nursing posts as a consequence of removing escalation beds by approximately 100 WTE's; and
- reduce overall staffing levels by a further 130 posts, through the removal of temporary and Fixed Term employees.

In the month of August, the number of nursing posts had however increased by comparison with Budget by 3.95 posts, and the level of staffing reductions excluding nursing staff had reduced by 15.64 posts.

Agency Spending

A key area targeted for greater financial control over the past twelve months has been with regard to Agency spending.

The table below shows that in the period between Month 3 and Month 5, the level of Agency spend increased by £135,000. Significantly Agency spending in respect of both Medical Staff and Nursing staff has risen progressively since April.

	Average – April – June 2011 £000s	Average July – Sept 2011 £000s	Average Oct – Dec 2011 £000's	Average Jan – March 2012 £000's	April 2012 £000's	May 2012 £000's	June 2012 £000s	July 2012 £000's	Aug 2012 £000's
Consultants	302	267	288	204	182	134	147	210	163
Medical staff	538	583	394	428	424	492	456	462	516
Nursing	375	206	109	178	115	109	140	140	182
Other Clinical	54	72	51	52	28	12	14	7	3
Other	26	60	86	130	77	45	43	75	72
Total Agency staff spending	1,295	1,188	927	993	826	793	800	894	935

Waiting List Initiative Payments

The Trust has also sought to introduce greater control over the level of WLI Payments.

WLI Payments	2011/12	Average Mthly spd	2012/13					Total	Average Mthly spd
			Mth1	mth 2	mth3	mth4	mth5		
Womens and children	49707	4142	2485	773	-11		3381	6628	1326
Emergency	-				683	670	0	1353	271
Ophthalmology	95921	7993	12833	16525	13327	11465	16515	70665	14133
Head and Neck	590483	49207	25548	-72365	-9559	11053	3697	-41626	-8325
Oncology	974	81						0	0
Medicine	296467	24706	20428	26948	5038	97023	6920	156357	31271
Surgical	1457939	121495	144099	11667	50622	95958	91356	393702	78740
MSK	709505	59125	109289	114236	82462	70058	29264	405309	81062
Diagnostics	238792	19899	22673	17227	7591	12787	20170	80448	16090
	3439788	286649	337355	115011	150153	299014	171303	1072836	214567

As can be seen the average monthly level of WLI spending is presently £215,000 as compared with £287,000 in the previous financial year. Whilst good progress has been made the Trust in setting its budget for the year had assumed a level of spending equivalent to £190,000 per month. Responding to the requirement to address a waiting list backlog has meant that increased WLI costs have been incurred by the MSK Centre.

Pay Expenditure – Key Messages

- Pay has over spent in the months April – August by £1.974 million.
- In the month of August Pay overspending amounted to £735,000.
- The overspend in Month 5 has occurred because the Trust had failed to reduce its staffing levels at a rate consistent with its CIP Programme, and has increased costs in respect of particularly Medical and Nursing Agency spending.
- In the month of August the Trust planned to employ 4,582 WTE staff and instead employed 4851 posts, a difference of 269 posts, though this is in part distorted by the effect of Junior Medical staff rotation..
- The inability to close escalation beds has meant that whilst the Trust had planned to reduce Nursing staffing levels by circa 100 WTE posts, over the period Month 10 to Month 4, the actual number increased by reduced to date amounts to 3.95 WTE posts.,
- In the month of August Agency spending amounted to £935,000 a rise of £135,000 when

- compared with the month of June.*
 - Average monthly spending in respect of WLI payments is presently exceeding budgeted levels, as a consequence of increased spending within the MSK Clinical Centre.*

5.3 **Non Pay**

Spending in respect of Non Pay over the last eight months has reduced significantly.

	Total Non Pay Spend £000s
November	7,523
December	7,518
January	7,607
February	7,917
March	7,826
April	7,257
May	7,162
June	6,919
July	7,211
August	7,342

The budget for the month of August assumed spending at a rate of £7.664 million, as can be seen in the month the actual level of spending amounted to £7.342 million. Over the period April – August Non Pay budgets underspent by £804,000.

In setting the budget for the year, the Trust adopted an approach based upon the use of a three month moving average. In particular budgets for the 2012/13 year were based upon a three month moving average based upon the period Month 8 – 10 in the 2011/12 year. The table below provides a description of spending across key spending areas, by applying a moving average to the period Month 3 – Month 5 and then comparing with the period used as part of budget setting.

	Sum of Moving Average M8, 9 & 10	Sum of Moving Average M3, 4 & 5	Variance
Centre			
Chief Executive	(65,644)	(40,358)	25,286
Clinical Coding	(1,509)	(1,033)	477
Contracting	(362)	(727)	(366)
Diagnostics	(653,034)	(639,555)	13,480
DISUSED COST CENTRES	21,826	(325)	(22,150)
Emergency and Critical Care	(205,827)	(250,239)	(44,412)
Estates and Facilities Centre	(1,057,523)	(1,000,282)	57,241
Financial Accounting	(53,473)	(62,640)	(9,168)
Financial Performance	(1,141,880)	(873,107)	268,773
Financial Planning	(22,142)	(19,733)	2,409
Flow Management and Unscheduled Care	33	(130)	(163)
Head and Neck	(131,739)	(120,251)	11,487
Information Management and Technology	(98,300)	(109,493)	(11,193)
Innovation, Research and Development	(1,865)	(8,701)	(6,836)
Legal Services and Security	(45,121)	(39,025)	6,095
Medical Education and Training	(48,322)	(54,112)	(5,789)
Medical Staffing	(5,055)	(4,693)	362
Medicine Centre	(772,964)	(896,881)	-123,916
Musculoskeletal	(216,784)	(195,081)	21,703
Oncology & Haematology Centre	(1,004,201)	(1,017,224)	(13,022)
Ophthalmology and Patient Access Centre	(275,957)	(268,939)	7,018
Pharmacy	36,437	88,993	52,556
Professional Leadership and Development for the Medical Workforce	(60)	(929)	(869)
Quality and Safety/Chief Nurse	(98,104)	(56,348)	41,756
Risk and Compliance	(25,729)	(38,583)	(12,854)
Service Delivery Director	(11,623)	(27,961)	(16,338)
Shared Services.	(7,568)	(7,551)	17
Strategic Workforce Planning	(44,428)	(49,687)	(5,259)
Strategy Centre	(1,138)	(8,363)	(7,225)
Surgical	(1,287,359)	(1,136,892)	150,467
Therapy Centre	(28,415)	(19,833)	8,582
Womens and Childrens	(295,409)	(313,355)	(17,946)
Workforce Development, Redesign and Management	(6,044)	(241)	5,804
Grand Total	(7,549,285)	(7,173,279)	376,006

As can be seen over the period the level of spending, has reduced substantially, when compared with the Month 8 – 10 period. This is to be expected because, the Month 8 -10 period incorporated significant non recurrent sums in respect of professional advisors and also energy and utility costs, amounting to approximately £390,000 per month. That said, it appears that a number of areas across the Trust have altered their spending over the last three months, notably Surgery where costs on average per month have reduced by £150,467 whereas Medicine has increased costs by £123,916.

Non Pay Expenditure – Key Messages

- *Non Pay under spent against the Budget in the month of August by £322,000.*
- *Over the period April – August Non Pay budgets underspent collectively by £804,000,*
- *The three month average spending covering the period June – August has reduced by comparison with the base period used for setting budgets.*

6. Cost Improvement Programme - progress

Expected level of savings from the CIP schemes

In order to gauge an understanding of the level of risk associated with the CIP programme, each element of the programme has been considered based upon the three scenarios *Most Likely*, *Worst Case* and *Best Case* the results of which are summarised in the table below:

Revised CIP Plan	REC	NREC	TOTAL	Most Likely Case		Worst Case		Best Case	
				Most Likely Case		Worst Case		Best Case	
				Rec	In year	Rec	In Year	Rec	In year
Medical Consultants	1000		1000	300	100	0	0	300	100
WLI Payments	1000		1000	1000	0	500	0	1000	0
Nursing	1100	-1100	0	1100	-200	1100	-200	1100	0
Bed Reductions	3500	-3500	0	3500	0	1500	-300	3500	0
Theatres	1000	-500	500	1000	400	1000	200	1000	500
Admin and outpatients	1700	-1700	0	1700	0	1000	0	1700	200
Pathology reconfiguration	1300	-1300	0	0	0	0	0	0	0
Allied Health Professionals	700	-700	0	700	0	300	0	700	100
On Call Payments	1000	-500	500	1000	200	300	0	1000	300
Estates and Corprate services	800	-400	400	800	400	800	400	800	400
Temporary staff reduction	3828	-740	3088	1200	700	200	0	1200	700
Temporary staff reduction - Medical	1212		1212	1212	1212	1212	1212	1212	1212
Diagnostic tests	600	-600	0	600	0	200	0	600	100
Coding alterations	1000		1000	1000	800	1000	300	1000	1000
Procurement	2000	-1000	1000	2000	1000	1500	500	2000	1000
Centre identified Non Pay savings	1019		1019	1019	1019	1019	1019	1019	1019
VAT Changes - Locum Doctors		300	300	0	450	0	100	0	450
Reduce Non Pay to Month 10 level	1325		1325	1325	1325	1325	1325	1325	1325
Nuffield / Prof Fees Redn	700		700	700	700	700	700	700	700
MARS Scheme	1200	-500	700	500	300	500	0	500	300
Inflation Reserves				2200	2200	2200	2200	2200	2200
Slippage 2011/12 CIP		-670	-670		-670		-670		-670
Total	25984	-12910	13074	22856	9936	16356	6786	22856	10936
Revised CIP Level				25984	13074	25984	13074	25984	13074
Variance				-3128	-3138	-9628	-6288	-3128	-2138

As can be seen it is presently estimated (in the *Most likely* scenario) that the level of savings achieved in the 2012/13 year will amount to £9.936 million, and in doing so this underachieves against the in year targeted position by £3.138 million. Recurrently based upon this scenario the level of savings amounts to £22.856 million a shortfall when compared with Plan of £3.128 million.

7. Scenario Analysis

Given the Income and Expenditure position in the month of August and an analysis of the progress of the Cost Improvement Programme, as a basis for describing the risk within the Trust, scenario analysis has been undertaken to enable a *best* and *worst* case position to be plotted against the forecast balanced Income and Expenditure position. The results of which are presented below

	Planned Outturn £000s	Forecast Outturn £000s	Best Case Scenario £000s	Worst Case £000s
Income	304,709	302,684	302,884	301,184
Expenditure				
Pay	(192,601)	(202,119)	(201,319)	(204,569)
Non Pay	(90,586)	(86,325)	(86,325)	(86,525)
Reserves	(5,215)	1198	1198	1198
EBITDA	16,308	15,438	16,438	11,288
Finance charges	(14,408)	(14,331)	(15,331)	(14,331)
Surplus / (deficit) without Management Actions		1,107	2,107	(3,043)
Management Actions	-	793	-	-

	Planned Outturn £000s	Forecast Outturn £000s	Best Case Scenario £000s	Worst Case £000s
Surplus / deficit	1,900	1,900	2,107	(3,043)
Probability		50%	10%	40%

Within the *Most Likely*, *Best* and *Worst Case* scenarios, the following assumptions are made:

7.1 *Most Likely Case scenario*

The key assumptions contained within the Most Likely scenario are as follows:

- Income – Income in the year under achieves by £1.5 million, as a consequence of Penalties (£1.5 million).
- Pay – Overspends as a consequence of failing to achieve the CIP plan as described in the Most Likely scenario and Pay budgets overspend in the year by £2.4 million.
- Non Pay – Spending levels as recorded in the months of April to August continue, generating an underspend in the year of £2.5 million.
- Reserves – the Trust is able to write off from the Balance sheet reserves generating a gain of £1.2 million.
- Management Actions – Controls are put in place to reduce spending based upon recovery plans as produced by the MSK, General Medicine, General Surgery and Emergency and Critical Care Centres.

7.2 *Best Case scenario*

- Income – Income in the year under achieves by £1.5 million, as a consequence of Penalties (£1.5 million).
- Pay – Overspends as a consequence of failing to achieve the CIP plan as described in the Best Case scenario and Pay Budgets overspend in the year by £2.4 million.
- Non pay - Spending levels as recorded in the months of April to August continue, generating an underspend in the year of £2.5 million.
- Reserves – the Trust is able to write off from the Balance sheet reserves generating a gain of £1.2 million.

7.3 *Worst Case scenario*

- Income – Income in the year under achieves by £3.0 million, as a consequence of QIPP achievement (£1.0 million), Penalties (£1.5 million) and transfer of Orthopaedic activity in respect of Powys Patients (£0.5 million).
- Pay – Overspends as a consequence of failing to achieve the CIP plan as described in the Worst Case scenario and Pay Budgets overspend in the year by £2.4 million.
- Non Pay – Spending levels as recorded in the months of April to August continue, generating an underspend in the year of £2.5 million.
- Reserves – the Trust is able to write off from the Balance sheet reserves generating a gain of £1.2 million

Adopting these assumptions, the *most likely* scenario, following the implementation of management actions, leads to a surplus in the year amounting to £1.9 million, in the *Best Case* scenario a surplus for the year is presented amounting to £2.1 million. In the *Worst case* scenario a deficit amounting to £3.0 million occurs.

It is important to note that when setting the budget the Trust had assumed an ability to achieve a surplus of £1.9 million, based upon a reduction in activity levels consistent with the Local Health QIPP programme. Accordingly, in circumstances where the Local Health QIPP failed to result in activity level reductions, it was believed that the level of surplus achievable in the year would amount to £150,000.

Revised Financial Recovery Plan

A revised Income and Expenditure profile has been constructed based upon the *Most Likely* scenario.

	b/fwd	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Income		25,062	26,238	25,579	24,556	25,413	24,419	26,574	302,684
Expenditure									
Pay		(16,761)	(16,780)	(16,893)	(16,923)	(16,921)	(16,870)	(16,863)	(202,119)
Non Pay		(7,102)	(7,062)	(7,204)	(7,231)	(7,257)	(7,284)	(7,310)	(86,325)
Reserves		52	135	150	150	150	150	150	1,198
Total Expenditure		(23,811)	(23,706)	(23,947)	(24,004)	(24,028)	(24,003)	(24,024)	287,246
EBITDA		1,251	2,531	1,632	552	1,385	416	2,551	15,438
Capital Charges / Dividends		(1,202)	(1,202)	(1,202)	(1,202)	(1,202)	(1,202)	(1,202)	(14,331)
In Month Surplus / (deficit)		49	1,330	431	(650)	184	(786)	1,349	1,107
Cumulative Surplus / (deficit)	(801)	(751)	578	1,009	360	543	(243)	1,107	

As can be seen based upon this profile the Trust expects to have recovered the existing deficit position and record a surplus position for the first in the financial year in the Month of October.

Forecast Outturn – Key Messages

- *The Trust is required to deliver a surplus for the year amounting to £1.9 million,*
- *A review of the status of the Cost Improvement Programme, suggests that the Trust will underachieve against the targeted level of savings by £3.138 million,*
- *A most likely forecast outturn position that recognises the under achievement of CIP savings and the impact of financial penalties arising as a consequence of failure to achieve National Performance levels and a continuation of existing budgetary performance is expected to result in the delivery of a surplus for the year amounting to £1.1 million. Corrective actions improve the forecast Outturn position, resulting in a surplus for the year of £1.9 million.*

8. Service Line Reporting

The Trust is, through the use of its Patient Level Costing system, now able to provide Income and Expenditure positions for each of the Clinical Centres. In producing this information, because of time constraints associated with the apportionment of service charges and central overheads is presently producing this information in arrears by one month. The table below therefore produces a Clinical Centre financial position reconciled to the deficit as presented at Month 4.

Metrics	Surgical	Musculo-skeletal	Head and Neck	Ophthalmology and Patient Access	Women and Childrens	Emergency and Critical Care Centre	Medicine	Oncology	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Total Income	£18,248	£9,021	£4,152	£4,019	£16,752	£8,012	£27,540	£9,762	£97,508
Direct Pay Costs									
Nursing	£1,956	£833	£253	£215	£5,095	£2,365	£6,584	£604	£17,905
Consultants	£1,847	£1,140	£773	£639	£1,431	£1,007	£1,983	£425	£9,245
Other Clinical	£2,358	£1,495	£912	£620	£2,285	£1,453	£3,760	£646	£13,528
Non-clinical	£593	£160	£259	£206	£589	£439	£921	£402	£3,569
Total: Direct Pay Costs	£6,754	£3,627	£2,197	£1,680	£9,399	£5,264	£13,248	£2,076	£44,246
Direct Non Pay Costs									
Drug Costs	£997	£221	£69	£116	£431	£129	£2,570	£3,706	£8,239
Supplies	£237	£169	£343	£103	£427	£368	£1,257	£333	£3,237
Other Direct Costs	£112	£249	£48	£129	£221	£178	£440	£53	£1,430
Total: Direct Non Pay Costs	£1,347	£639	£460	£347	£1,079	£674	£4,267	£4,092	£12,906
Total: Direct Costs	£8,101	£4,266	£2,657	£2,027	£10,479	£5,938	£17,516	£6,168	£57,152
Indirect Costs									
Allied Healthcare Professionals	£262	£223	£39	£43	£100	£68	£1,080	£224	£2,039
Radiology	£572	£628	£85	£22	£132	£1,225	£1,003	£162	£3,830
Pathology	£832	£297	£200	£202	£581	£475	£1,386	£246	£4,219
Theatre	£2,335	£1,271	£660	£432	£586	£0	£36	£1	£5,322
Other Services	£1,580	£533	£265	£478	£435	£257	£863	£180	£4,590
Prosthetics	£20	£151	£6	£5	£5	£1	£4	£0	£193
Hotel Services	£0	£0	£0	£0	£0	£0	£0	£0	£0
Pharmacy	£195	£67	£29	£23	£224	£17	£546	£241	£1,343
Other Costs	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total: Indirect Costs	£5,797	£3,171	£1,284	£1,205	£2,062	£2,043	£4,918	£1,054	£21,535
Total: Total Direct/Indirect Cost	£13,898	£7,437	£3,941	£3,233	£12,541	£7,981	£22,433	£7,222	£78,687
Contribution	£4,349	£1,584	£212	£787	£4,211	£31	£5,107	£2,540	£18,821
Contribution %	24%	18%	5%	20%	25%	0%	19%	26%	19%
Overhead Costs									
Site Costs	£1,235	£648	£382	£425	£1,260	£820	£1,923	£576	£7,270
Corporate Costs	£1,238	£809	£457	£425	£1,392	£847	£2,262	£619	£8,048
CNST Contribution	£267	£145	£34	£32	£1,398	£141	£64	£10	£2,092
Total: Overhead Costs	£2,739	£1,602	£873	£882	£4,051	£1,808	£4,250	£1,205	£17,410
Cost	£16,638	£9,039	£4,814	£4,115	£16,591	£9,789	£26,683	£8,427	£96,097
EBITDA	£1,610	£-18	£-662	£-95	£161	£-1,777	£857	£1,335	£1,411
EBITDA %	9%	0%	-16%	-2%	1%	-22%	3%	14%	1%
Finance Costs	£830	£425	£284	£208	£847	£558	£1,147	£453	£4,752
Total Profit	£780	£-443	£-946	£-303	£-686	£-2,335	£-289	£82	£-3,341
Profitability	4.28%	-4.91%	-22.78%	-7.54%	-4.10%	-29.14%	-1.05%	9.03%	-3.43%
SHA Support									2,576
Trust Surplus/(Deficit)									(765)

Service Line Reporting – Key Messages

- Six centres recorded a loss in the period April – July, these being Musculoskeletal, Head and Neck, Ophthalmology and Patient Access, Women and Children, Emergency and Critical Care and Medicine.
- Collectively the Centres generated a contribution percentage of 19% of Income. In order to achieve a break even position (without SHA support) requires this percentage to increase to 23%. Benchmarked data recommends a percentage achievement of 25%.
- Emergency and Critical Care achieved a small contribution of less than 1 per cent, whilst Head and Neck achieved less than 6 per cent.
- The logic has been revised from last year for the recharging of Pharmacy and Therapy costs. The format has also changed to allow the separate identification of CNST costs.

9. Underlying financial sustainability

In order to understand the underlying financial sustainability of the Trust it is necessary to be aware of the recurrent financial position of the Trust. The table below provides a summary of the financial position of the Trust over the period 2012/13 to 2017/18 updated to reflect:

- amendments made to the 2012/13 budget and incorporated within the most recent Long Term Financial Model (LTFM)
- the month 5 Income and Expenditure position; and
- the Most Likely scenario view of delivering the 2012/13CIP Programme

The updated financial model is compared with the position as presented within the most recent LTFM for the 2012/13 year and is presented below.

	LTFM Revised Budget Recurrent Surplus /(deficit) £000s	LTFM Budget Non Recurrent Surplus/(deficit) £000s	LTFM Budget Total Surplus /(deficit) £000s	Revised Recurrent Surplus /(deficit) £000s	Revised Non Recurrent Surplus/(deficit) £000s	Revised Total Surplus /(deficit) £000s
2010/11	(14,400)	14,426	26	(14,400)	14,426	26
2011/12	-	-	-	200	(200)	-
2012/13	15,700	(13,800)	1,900	10,200	(8,300)	1,900
2013/14	8,600	(2,300)	6,300	3,100	(2,300)	800
2014/15	8,900	(600)	8,300	3,400	(600)	2,800
2015/16	8,900	(600)	8,300	3,400	(600)	2,800
2016/17	7,600	(600)	7,000	2,100	(600)	1,500
2017/18	3,300	(1,300)	2,000	(2,200)	(1,300)	(3,500)

As can be seen incorporating the assumptions contained within *Most Likely* scenario, has the effect of reducing the level of:

- recurrent surplus carried forward into the 2013/14 year by £5.5 million from £15.7 million to £10.2 million, and
- Cumulative surpluses generated over the period 2012/13 to 2017/18 by £27.5 million.

The above position however continues to assume that:

- the Health Economy QIPP savings amounting to £8.0 million will occur in the 2013/14 year. Such an assumption is however questionable given the level of activity presently being performed by the Trust; and
- Schemes delivering recurrent savings amounting to £7.8 million are progressed for implementation in the first quarter of the 2013/14 year.

10. Impact upon the External Financing Limit (EFL)

The Trust had a £2m drawdown of PDC within 2011/12 to support the initial stages of the reconfiguration programme with a further drawdown of £33m planned for 2012/13 and 2013/14. The timing and phasing of this drawdown has been clarified with the SHA to enable a phasing in-line with the capital expenditure profile of the capital works over the two years of 2012/13 and 2013/14. This phasing has been updated for the latest cash flow forecast received from the principle supply chain partner (Balfour Beatty) and has been submitted to the treasury team of the Department of Health to facilitate the drawdown of PDC. This drawdown will commence from September 2012.

As detailed last month, the cash position remains under pressure due to the depressed position within the I&E statement. This will increase significantly over the coming months as the Trust has confirmed the PDC dividend payment of £2,885k will be made on 17 September 2012. This pressure is being partially offset by a cash receipt of £1,500k in the last week of August representing 50% of the financial support from Shropshire County PCT with discussions ongoing to secure the same 50% portion from Telford and Wrekin PCT (c£900k).

The Trust is taking further action to mitigate this situation through the slow-down of capital expenditure and through the management of working capital to grow the cash position.

Although the Better Payment Practice Code (BPPC) performance remains strong and consistent with prior year performance it has declined in August given the position highlighted above.

Within the month the overall cash balance decreased by £1,148k to £401k, with a forecast outturn closing balance of £2,200k in line with the EFL.

11. Statement of Financial Position

	March 12 £000	July 12 £000	August 12 £000	Variance to March 12 £000	Variance to July 12 £000
Total Non Current Assets	170,545	169,400	170,502	(43)	1,102
Inventories	5,349	5,376	5,440	91	64
Current Trade and Other Receivables	12,827	17,310	16,476	3,649	(834)
Cash and Cash Equivalents	1,202	1,549	401	(801)	(1,148)
Total Current Assets	19,378	24,235	22,317	2,939	(1,918)
Current Trade and Other Payables	(29,735)	(32,708)	(31,539)	(1,804)	1,169
PDC dividend Payable accrual	(111)	(1,960)	(2,422)	(2,311)	(462)
Provisions	(434)	(362)	(360)	74	2
Total Current Liabilities	(30,280)	(35,030)	(34,321)	(4,041)	709
Net Current Liabilities	(10,902)	(10,795)	(12,004)	(1,102)	(1,209)
Total Assets less Current Liabilities	159,643	158,605	158,498	(1,145)	(107)
Provisions	(512)	(388)	(388)	124	0
Total Assets Employed	159,131	158,217	158,110	(1,021)	(107)
Total Taxpayers' Equity	159,131	158,217	158,110	(1,021)	(107)

Total Assets Employed

The in month movement of Total Assets Employed is a negative £107k, with net current liabilities increasing by £1,209k.

Total Non Current Assets

The increase in non-current assets relates to an increase of £945k within fixed assets and an increase in long term receivables of £157k.

Limited capital expenditure has occurred to date (as forecast) with the table below detailing the position for month 5 with forecasts for 2012/13 and future years.

	Total authorised	Pre 12/13 expenditure	Budget 12/13	Forecast				Forecast final cost
				13/14	14/15	15/16	16/17	
Projects ≥£250k								
Reconfiguration	35,000	1,654	15,985	17,315				34,490
Patient monitoring	1,500	306	300	350	200			1,156
Telecoms	516	430	86					516
Acute Surgery (Bed Reconfiguration)	2,176	492	1,684					2,176
Linac	2,810	2,277	535					2,812
Mammography	1,862	629	524					966
PSAG	500	453	30					483
Contingency Funds								
Vitalpac	126		126	100	100	100	100	
Medical Equipment	300		300	350	350	500	500	
Other Equipment Replacement Fund	100		100	100	100	100	100	
Estates	500		500	250	250	250	250	
IT Contingency	325		325	325	325	325	325	
Corporate General	1,000		1,000	925	925	925	925	
Capitalised O/H	500		500	500	500	500	500	
Capital additions identified	625		625	625	625	625	625	
Projects ≤ £250k								
Outstanding from previous year			370					
Other			145	6,275	6,125	6,175	6,175	
TOTAL			23,135	27,115	9,500	9,500	9,500	

	Total Authorised		Expenditure				Expenditure and Commitments 2012/13	Estimated Final cost	Forecast Expenditure 12/13
	Pre 12/13	12/13	Pre 12/13	12/13 budget	12/13 actual	Total to date			
Projects ≥£250k									
Reconfiguration	2,000	15,985	1,654	15,985	550	2,204	3,612	34,490	15,521
Patient monitoring	300	300	306	307	0	306	320	1,156	320
Telecoms	430	86	430	86	1	431	31	516	86
Acute Surgery (Bed Reconfiguration)	492	1,684	492	1,684	1,208	1,700	1,376	2,176	1,684
Linac	2,277	535	2,277	664	0	2,277	533	2,812	664
Mammography	1,338	524	629	524	3	632	328	966	337
PSAG	470	30	453	30	10	463	10	483	30
Projects ≤ £250k									
Vitalpac				126	0	0	0		126
Medical Equipment				293	156	156	173		293
Other Equipment Replacement Fund				100	44	44	44		100
Estates				500	37	37	113		500
IT Contingency				325	184	184	217		325
Corporate General				1,000	0	0	0		1,000
Capitalised O/H				500	230	230	233		500
Capital additions identified				625	64	64	236		625
Projects ≤ £250k									
Outstanding from previous year				320	51	51	311		342
Other				66	103	103	258		523
TOTAL				23,135	2,641	8,882	7,795		22,976

As consistent with the previous year the capital plan has been prepared on the basis of generating a further £1m cash release from under-spending against internally generated funds.

Total Current Assets

Inventories remained relatively static within the month.

Debtors have decreased by £704k in the areas of NHS accrued revenue.

Total Current Liabilities and the Better Payment Practice Code

Non-NHS – Year to date performance has worsened slightly in month, with cumulative performance continuing to be in line with 2011/12.

The areas of non-compliance primarily relate to:

- Over 60 days - £16k Mattress Contract; £10k pacemakers; £9k estates contracts.
- All other categories – £179k radiotherapy equipment; £51k boiler house scheme at PRH; £48k scanner. In addition, the Trust is still experiencing delays within the internal approval process of agency staffing invoices.

Following work with the Finance team and central procurement teams the temporary staffing department are aiming to move locum/agency booking onto the Oracle iProc solution for electronic purchase order and goods receipting, This process change has been delayed from the initial schedule date of end July 2012 to 1 September.

Non NHS Spend	YTD 2010/11	YTD 2011/12	M1 2012/13	M2 2012/13	M3 2012/13	M4 2012/13	M5 2012/13	YTD 2012/13
By Volume								
Total Volume	29,678	39,811	7,245	7,465	8,159	6,891	6,540	36,300
BPPC compliant volume	9,287	32,238	6,173	6,493	6,639	6,283	5,048	30,636
BPPC compliant %	31%	81%	85%	87%	81%	91%	77%	84%
By Value								
Total value (£000)	30,005	39,592	10,174	9,878	8,590	7,761	8,593	44,996
BPPC compliant value (£000)	11,316	30,502	8,890	8,402	6,530	6,894	6,719	37,435
BPPC compliant %	38%	77%	87%	85%	76%	89%	78%	83%

Current Month	Quantity	Quantity %	Value	Value %
Payment made				
0-30 days	5,048	77%	£6,719	78%
31-35 days	881	13%	£939	11%
36-40 days	282	4%	£434	5%
41-45 days	109	2%	£215	2%
46-50 days	43	1%	£50	1%
51-55 days	18	0%	£25	0%
56-60 days	30	0%	£75	1%
over 60 days	129	2%	£136	2%
Total invoices paid	6,540	100%	£8,593	100%

NHS – In month performance has been exceptional and has worsened the year to date performance, this remains below the 2011/12 year end position.

The areas of non-compliance primarily relate to:

- Over 60 days - £55k Wrekin Commissioning Clinic qtr 4
- All other categories - £65k Laundry contract

NHS Spend	YTD	YTD	M1	M2	M3	M4	M5	YTD
	2010/11	2011/12	2012/13	2012/13	2012/13	2012/13	2012/13	2012/13
By Volume								
Total Volume	775	870	209	152	211	187	244	1,003
BPPC compliant volume	176	736	143	135	161	177	146	762
BPPC compliant %	23%	85%	68%	89%	76%	95%	60%	76%
By Value								
Total value (£000)	8,655	8,174	684	961	644	1,704	1,027	5,020
BPPC compliant value (£000)	3,235	7,412	414	635	489	1,692	655	3,885
BPPC compliant %	37%	91%	61%	66%	76%	99%	64%	77%

Current Month	Quantity	Quantity %	Value	Value %
Payment made				
0-30 days	146	60%	£655	64%
31-35 days	48	20%	£223	22%
36-40 days	0	0%	£0	0%
41-45 days	9	4%	£20	2%
46-50 days	10	4%	£28	3%
50-55 days	0	0%	£0	0%
56-60 days	1	0%	£0	0%
over 60 days	30	12%	£101	10%
Total invoices paid	244	100%	£1,027	100%

Provisions have moved as expected within the month.

12. Statement of Cash flow

The cash flow, as detailed below, demonstrates significant pressure will be felt over the coming months through the delay in making creditor payments (a net positive movement within working capital). The PDC dividend payment is due for payment on the 17 September 2012 of £2,885k but as the I&E position continues to put pressure on the cash position the following additional actions are being taken to mitigate the effects of the dividend payment:

- Closer management of working capital positions to create a cash 'buffer'. As mentioned previously although the BPPC is still performing when compared to prior year performance this is expected to reduce significantly over the coming months.
- Confirmation gained of a cash receipt of £1,500k in the last week of August representing 50% of the financial support from Shropshire County PCT with discussions ongoing to secure the same 50% portion from Telford and Wrekin PCT (c£900k). The remaining 50% from both PCTs will be pursued within the coming weeks.
- The Trust is taking further action to slow-down the commitments of the capital expenditure programme.
- Continued monitoring of the rolling 13 week cash flow forecast and sensitised against any deviations in the forecast outturn position. Significant deviations will be reviewed with the Finance Director and appropriate cash management actions will take place.

Within the month the overall cash balance decreased by £1,148k to £401k, with a forecast outturn closing balance of £2,200k in line with the EFL.

Analysis of Cashflow Actual and Forecast as at 31st August 2012 (Month 5 2012/13)

	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	Apr 12 £000	May 12 £000	June 12 £000	July 12 £000	Aug 12 £000	Sep 12 £000	Oct 12 £000	Nov 12 £000	Dec 12 £000	Jan 13 £000	Feb 13 £000	Mar 13 £000
Opening Balance	1,202	871	251	938	1,549	401	48	1,303	1,676	1,296	1,569	813
EBITDA	(644)	1,982	1,268	1,853	1,074	1,388	2,781	1,844	629	1,326	221	2,456
Fixed Asset Impairments & Reversals												
Sub - total	(644)	1,982	1,268	1,853	1,074	1,388	2,781	1,844	629	1,326	221	2,456
Movement in working capital:												
Inventories	(49)	(94)	29	87	(64)							
NHS Receivables - Revenue	1,152	(371)	(1,096)	(1,920)	252							
Non- NHS Receivables - Revenue	(1,642)	636	(535)	237	307							
Prepayments and Accrued Income	(761)	(32)	29	(477)	202							
VAT	298	43	63	(108)	130							
Trade and Other Receivables (Non Current)	1,335	(140)	(90)	(201)	(157)							
NHS Payables - Revenue	553	(457)	374	(209)	377							
Non -NHS Trade Payables - Revenue	2,743	(1,036)	121	393	(851)							
Accruals and Deferred Income	(1,263)	31	843	2,262	(925)							
Tax and Social Security Costs	141	(126)	(121)	(38)	56							
Payments on Account	(32)	9	(2)	16	13							
Working Capital Movement	2,475	(1,537)	(385)	42	(660)	2,660	(789)	(790)	(322)	(290)	(290)	2,114
Capex spend	(698)	(422)	(629)	(1,072)	(1,723)	(2,357)	(1,928)	(3,182)	(2,688)	(2,664)	(2,788)	(6,100)
Capital Creditors	(1,425)	(514)	433	(191)	161							1,000
Capital expenditure transferred to revenue												
Cash receipt from asset sales												
Movement in Provisions	(41)	(131)	(2)	(22)	(2)	(10)	(10)	0	0	0	0	(330)
Interest (paid) on loans and leases												
Interest received	2	2	2	1	2	1	1	1	1	1	1	1
Loans received from DH												
Repayment of loans												
Repayment of leases												(4)
Public Dividend Capital received						850	1,200	2,500	2,000	1,900	2,100	5,135
Public Dividend Capital repaid												
Dividends paid						(2,885)						(2,885)
Net cash inflow/outflow	(331)	(620)	687	611	(1,148)	(353)	1,255	373	(380)	273	(756)	1,387
Closing Balance	871	251	938	1,549	401	48	1,303	1,676	1,296	1,569	813	2,200

Statement of Financial Position – Key Messages

- *Cash position decreased £1,148k to £401k.*
- *Pressure within the cash position to be experienced over the coming months and mitigated through working capital management and deferrals within the capital programme*
- *PDC dividend confirmed as £2,885k and to be paid 17 September 2012.*
- *Reconfiguration funding phasing agreed with SHA and submitted to DH Treasury team.*
- *Capital expenditure plan is limited to generate cash surplus of £1.0m.*
- *BPPC for the year to date remains strong and consistent with prior year performance.*
- *The in month movement of Total Assets Employed is a negative £107k, with net current liabilities increasing by £1,209k.*

Neil Nisbet
Finance Director
20th September 2012