

FINANCE DIRECTOR REPORT – MONTH 03
TRUST BOARD – 26th JULY 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 – June 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 03 Cumulative Position**

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

	Months 1- 3 Plan £000s	Month 1- 3 Actual £000s	Variance £000s	Planned Forecast Outturn £000s	Forecast Outturn £000s	Variance £000s
Income	71,937	71,675	(262)	302,879	301,379	(1,500)
Expenditure						
Pay	(49,979)	(50,469)	(490)	(192,601)	(197,471)	(4,870)
Non Pay	(21,745)	(21,322)	423	(88,756)	(86,756)	2,000
Reserves				(5,215)	(3,200)	2,015
Finance Cost	(3,666)	(3,666)	-	(14,408)	(14,408)	-
Total Expenditure	(75,390)	(75,457)	(67)	(300,979)	(301,835)	(856)
Under / Over spend	(3,453)	(3,782)	(329)	1,900	(456)	(2,356)
Transitional support	2,126	2,126	-			
Phased spending – to agree with SHA Finance Plan	126	126	-			
Actions to address overspend				-	2,200	2,200
	(1,201)	(1,530)	(329)	1,900	1,744	(156)

As can be seen from the above at the end of June the Trust had recorded a cumulative deficit amounting to £1.53 million. The Trust had planned to record a cumulative deficit at the end of June amounting to £1.201 million. It is forecast that by the year end, without management actions the Trust will record a deficit amounting to £0.456 million. Management actions enable the Trust to return a surplus for the year of £1.744 million.

3. **Monthly Analysis – June**

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

	Planned Position £000s	Actual £000s	Variance £000s
Income	24,842	24,834	(8)
Expenditure			
Pay	16,272	16,567	(295)
Non Pay	7,234	6,919	315
Reserves			
Finance Cost	1,163	1,163	-
Phased spend	140	140	-
Total Expenditure	24,809	24,789	(27)
Planned surplus	33	45	12

The Trust planned to deliver a surplus in the month of £33,000 and actually recorded a surplus of £45,000.

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	Total April - June £000s
Income	22,817	24,667	24,191	71,675
Expenditure				
Pay	17,033	16,869	16,567	50,469
Non Pay	7,241	7,162	6,919	21,322
Reserves				
Phased spend		(266)	140	(126)
Finance Cost	1,291	1,212	1,163	3,666
Total Expenditure	25,565	24,977	24,789	75,331
	(2,748)	(310)	(598)	(3,656)
Transitional Funding	774	709	643	2,126
Under / Over spend	(1,974)	399	45	(1,530)
Planned Position	(1,566)	332	33	(1,201)
Variation from plan	(408)	67	12	(329)

Income and Expenditure Position – Key Messages

- The Trust recorded a deficit at the end of June amounting to £1.530 million; the Trust had planned to record a deficit at this stage in the financial year of £1.201 million.
- In the month of June a surplus of £45,000 was recorded, the plan for the month of June was to present a surplus of £33,000.
- The financial position at the end of June is made possible because of the release of transitional funding in the first three months of the year amounting to £2.126 million.

5. Explanation of Position recorded to date

5.1 Income

The Income generated by the Trust in the months of April - June is presented in the table below.

	Plan Months 1- 3 £000s	Actual Months 1- 3 £000s	Variance £000s
Shropshire County PCT	31,416	31,963	547
Telford and Wrekin PCT	22,468	22,283	(185)
Powys LHB	5,508	5,289	(219)
Other PCTs	2,066	1,568	(498)
Specialised services	3,670	3,842	172
Non Contracted Activity	548	640	92
Other Clinical Income	1,121	924	(197)
Total Clinical Income	66,797	66,509	(288)
Non Clinical Income	5,140	5,166	26
Transitional support	2,126	2,126	0
Total Income	74,063	73,801	(262)

In the period April - June the level of Income received was less than planned by £262,000. The under recovery of Income is explained as follows:

Income Variance by Point of Delivery

£'s	April - June			Previous Months (Cumulative Variance)		
	Variance	Volume	Price	Variance	Vol	Price
A&E	187,463	174,430	13,033	135,379	127,251	8,128
Consultant Led/Responsible First Attendance	45,835	(6,165)	52,000	70,620	35,711	34,909
Consultant Led/Responsible Follow Up Attendance	296,263	120,417	175,846	113,613	62,055	51,559
Consultant Led/Responsible Outpatient Procedure	633,995	970,573	(336,578)	60,332	58,989	1,343
Contingency	(107,688)	(107,688)		(259,373)	(259,373)	0
Elective DC	137,950	132,871	5,079	97,838	48,210	49,628
Elective IP	(322,250)	(91)	(322,159)	(311,055)	(222,511)	(88,544)
Emergency	62,107	1,638,203	(1,576,096)	202,223	1,277,938	(1,075,715)
Maternity	(176,857)	(77,694)	(99,163)	(141,427)	(74,050)	(67,377)
Other Services	(996,925)	(996,925)		(140,177)	(140,177)	
Private Patients / RTA / Overseas Visitors	(48,750)	(48,750)		8,124	8,124	
SaTH Total	(288,857)	1,799,182	(2,088,039)	(163,903)	922,167	(1,086,069)

By the end of June the level of under recovery of clinical Income is £288,857.

- Volume variation – increased activity beyond planned levels has led to a volume over recovery of Income amounting to £1,799,182. This over recovery is particularly noticeable within emergency care and A and E attendances.
- 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 £2.088 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.

The levels of activity recorded in the months April – June is shown in the table below:

Activity Volumes

Activity	YTD Planned	YTD Actual	Variance	% Variance
A&E	26,492	28,331	1,839	6.94%
Consultant Led/Responsible First Attendance	25,739	25,505	-234	-0.91%
Consultant Led/Responsible Follow Up Attendance	44,734	45,960	1,226	2.74%
Consultant Led/Responsible Outpatient Procedure	17,306	18,501	1,195	6.90%
Elective DC	9,460	9,602	142	1.50%
Elective IP	1,972	1,881	-91	-4.61%
Emergency	11,150	11,638	488	4.38%
Maternity	1,727	1,694	-33	-1.92%
SaTH Total	138,579	150,766	12,187	

As can be seen in this period the level of emergency activity has exceeded planned levels by 4.38%, and the volume of Accident & Emergency attendances has increased beyond contracted levels by 6.94%.

Income – Key Messages

- *At the end of June the Trust had recorded a under recovery of Income, across both Clinical and Non Clinical areas amounting to £262,000.*
- *Over performance of activity as compared with contracted activity has occurred predominantly within Emergency Care. The under recovery of Income appears attributable to the pricing rules relating to excess Emergency Care*
- *In the period Shropshire County PCT is over performing significantly, whereas Powys UHB is showing a contract under performance.*

5.2 Pay Budgets

In the opening three months of the year the Trust has committed spending amounting to £50.469 million, and had planned to commit funds during the period amounting to £49.979 million.

In setting the plan for the 2012/13 financial year, the Trust has put in place a Cost Improvement Programme that is expected to substantially reduce the monthly Pay run rate. A key first milestone in the delivery of this financial plan is the achievement of a sizeable reduction in Pay spending between the months of April and June. In order to do so requires the levels of staff employed within the Trust to reduce substantially over this three month period.

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 3 has been undertaken to provide an indication of the progress made in reducing the levels of staffing within the Trust.

	Month 10 WTE	Actual June WTE	Movement between June and Month 10
Substantive staff	4482.42	4,466.37	(15.05)
Bank –Nursing	119.27	152.63	33.36
Bank – Other	117.99	125.68	7.69
Total Bank staff	237.26	278.31	41.05
Agency – Medical	42.14	53.71	11.57

	Month 10 WTE	Actual June WTE	Movement between June and Month 10
Agency – Nursing	51.52	25.22	(26.30)
Agency – Other	33.93	13.03	(23.90)
Total Agency	127.59	91.96	(35.63)
Total	4862.82	4836.64	(26.18)

As can be seen the Trust has reduced staffing levels by comparison with month 10 (the budget period) by 26.18 posts. To assess the Trust's ability to achieve savings consistent with the Cost Improvement Programme it is necessary to consider the extent to which staffing level reductions are progressing at a rate congruent with the Trust's Plans.

The table below compares the number of staff employed with the estimated numbers of staff expected to be employed in the months of April to June 2012.

	Plan April WTE	Plan May WTE	Plan June WTE	Actual April WTE	Actual May WTE	Actual June WTE	Variance between the months of May and June Actual WTE	Variance between the plan June Plan and June actual WTE
Substantive staff	4537.40	4523.67	4512.50	4,546.48	4,492.46	4,466.37	(26.09)	(46.13)
Bank – Nursing	135.27	105.08	75.28	165.03	142.00	152.63	10.63	77.35
Bank – Other	117.99	117.99	44.99	139.95	114.00	125.68	11.68	80.69
Total Bank staff	253.26	223.07	120.27	304.98	256.00	278.31	22.31	158.04
Agency – Medical	42.14	32.14	22.14	41.66	52.00	53.71	1.71	30.57
Agency – Nursing	11.14	11.14	11.14	22.88	24.00	25.22	1.22	14.08
Agency – Other	33.93	23.93	-	19.87	16.00	13.03	(2.97)	13.03
Total Agency	87.21	67.21	33.28	84.41	92.00	91.96	(0.04)	58.68
Total	4877.87	4813.95	4666.05	4,935.87	4840.66	4836.64	(4.02)	170.59
Pay Run rate £000's	17,029	16,678	16,272	17,033	16,869	16,567	(302)	295

From the above table it can be seen that during the month of June the numbers of staff employed (either as Permanent or Temporary Bank or Agency staff) when compared with May staffing levels reduced by only 4.02 WTE posts. As a result when compared with the planned levels the number exceeded the targeted level for the month of June by 170.59 posts.

In order to gain an understanding of the actions being taken to address Pay spending it is necessary to analyse pay spending into greater detail. To do so an exercise has been undertaken that compares Pay spending in Month 10 (the base period for the 2012/13 budget) with Pay spending in Month 3. This analysis is summarised in the table below.

	Contracted WTE	Additional Hours WTE	Overtime WTE	Bank WTE	Agency WTE	Total WTE
Consultants	8.94	-	-	-	(1.94)	7.00
Medical Staff	(9.82)	-	-	-	13.51	3.69
Nursing	(24.97)	(3.39)	(0.84)	33.36	(26.30)	(22.14)
Other Clinical	12.00	(1.01)	(1.00)	(1.91)	(3.91)	4.17
Non Clinical	(7.78)	(3.92)	0.19	9.60	(16.99)	(18.90)
Total	(21.63)	(8.32)	(1.65)	41.05	(35.63)	(26.18)

As can be seen since Month 10:

- the numbers employed within the Trust has reduced by 26.18 WTE posts,
- the number of Agency staff has reduced by 35.63 WTE posts, principally within Nursing and Non Clinical staff,
- the number of Bank staff has however increased by 41.05 posts, and is attributable to Nursing and Non Clinical staff.

Observations from this data however are :

- In setting the plan for the year, Nursing staffing levels were expected to reduce substantially, circa 100 WTE posts, as a consequence of the closure of Escalation beds – the total number of Nursing input has however reduced by 22.14 WTE posts,
- A further key action required reductions in staffing levels within Other Clinical and Non Clinical areas, (estimated as circa 100 posts) from the decision to cease with Fixed Term posts and reduce temporary Bank staffing levels – across these areas the level of staffing reduction amounts to 14.73 posts.
- After allowing for vacancies, the number of temporary Medical staff has increased by 3.69 WTE posts. These posts are covered through the use of Agency staff and as such introduce a substantial cost pressure when compared with the month 10 position.
- During this period the number of Consultants and Medical staff has increased by 10.69 WTE posts. Nursing staff employed has reduced by 22.14 posts and Non Clinical posts by 18.90 WTE posts.

A key area targeted for greater financial control over the past twelve months has been with regard to Agency spending. The table below illustrates that the Trust has through a programme of recruitment and scrutiny over usage, been able to significantly reduce its level of spending per month. In the opening two months of the 2012 year, levels of spending reduced further, in Month 3 agency expenditure is broadly in line with Month 2, with reductions in medical staff costs being offset by an increase in nursing.

	Average – April – June 2011	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
Consultants	302	267	288	204	182	134	147
Medical staff	538	583	394	428	424	492	456
Nursing	375	206	109	178	115	109	140
Other Clinical	54	72	51	52	28	12	14
Other	26	60	86	130	77	45	43
Total Agency staff spending	1,295	1,188	927	993	826	793	800

The growth in Agency Medical staffing has occurred in the following areas:

	Month 10 WTE	Month 3 WTE	INCREASE / (Decrease) WTE
Ophthalmology	3.40	0.50	(2.90)
Emergency and Critical Care	10.01	11.74	1.73
Head and Neck	1.15	0.23	(0.92)
Surgery	5.41	6.75	1.34
Medicine	7.67	20.98	12.31
Musculoskeletal	2.70	8.74	6.04
Women's and Children	1.15	0.59	(0.56)
Oncology	3.11	3.38	0.27
Diagnostics	0.84	0.80	(0.04)

As can be seen five Centres have increased Agency Medical support since Month 10 with the most notable increases being in Medicine and Musculoskeletal.

How the Whole Time equivalent data reconciles with the level of spending.

In presenting the Whole Time equivalent data, a picture has been presented where limited levels of staff reductions has occurred since Month 10, and that the level of reduction between May and June is insignificant.

	Month 10 £000's	Month 1 £000's	Month 2 £000's	Month 3 £000's
Consultants	2,905	2,997	2,782	2,834
Medical staffing	2,291	2,145	2,269	2,191
Nursing	6,302	6,400	6,366	6,282
Other Clinical	2,138	2,192	2,155	2,129
Non Clinical	3,126	3,299	3,257	3,134
Total	16,763	17,033	16,869	16,567
Number of WTE	4,862.82	4,935.87	4,840.66	4,836.64

As can be seen from the above:

- spending between Months 3 and 2 showed a monthly pay spending reduction amounting to £302,000 yet staffing levels declined by 4.02 WTE posts, whereas
- spending between the Months 2 and 1 showed a monthly pay spending reduction amounting to £164,000 yet staffing levels declined by 95.21 WTE posts

This somewhat anomalous position has occurred because the number of days worked as premium time (particularly weekend working) in Month 2 was greater than in Month 3. This therefore means that the recurrent level of pay spending reduction that occurred in Month 2 as a consequence of reducing staffing numbers by 95.21 posts is understated and similarly the level of Pay spending in Month 3 is recurrently understated.

The level of savings arising from a reduction in posts from Month 10 and Month 1, is therefore best determined by taking average across Months 2 and 3. Doing so, would then suggest that the average Pay spend is £16.718 million. On that basis the level of monthly Pay savings as compared with Month 10 is then £45,000. To achieve the Trust Cost Improvement trajectory, the Trust was required to reduce spending at the end of June when compared with Month 10 by £491,000.

It is now therefore clear that if the Trust is to avoid ongoing financial difficulties in this year, then it is crucial for :

- The plan to close escalation beds by the end of June to be effected immediately, and supported by actions to remove associated levels of nursing staff,

- Temporary staffing levels, from Fixed Term posts and Bank, to be reduced.

Pay Expenditure – Key Messages

- *Pay has over spent in the months April – June by £490,000*
- *In the month of June Pay overspending amounted to £295,000.*
- *The overspend in month 3 has occurred because the Trust had planned to employ 4,666.05 WTE staff and instead employed 4836.64 posts, a difference of 170.61 posts.*
- *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 3, the actual number reduced to date amounts to 22.14 WTE posts,*
- *Similarly in the period Month 10 to Month 3, the Trust had planned to reduce its level of Temporary staff by a further 100 posts and has been able to reduce staffing levels by 14.73 WTE posts.*
- *By comparison with Month 10 (the period used for setting the 2012/13 budget) total staffing levels have reduced by 26.18 posts..*
- *In order for the Trust to deliver Pay savings consistent with the Cost Improvement Plan, the Trust is required to reduce monthly Pay spending (when compared with Month 10) by £491,000. At the end of June monthly Pay costs had reduced by £45,000.*

5.3 Non Pay

Spending in respect of Non Pay over the last six 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

The budget for the month of June assumed spending at a rate of £7.234 million, as can be seen in the month the actual level of spending amounted to £6.919 million. Over the period April – June Non Pay budgets underspent by £423,000.

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 1 – Month 3 and then comparing with the period used as part of budget setting.

Centre	Moving	Moving	Variance From Month 10
	Average M8, 9 & 10	Average M1, 2 & 3	
	£s	£s	£s
Chief Executive	(65,644)	(42,244)	23,399
Finance	(1,325,234)	(1,035,757)	289,477
Diagnostics	(653,034)	(663,570)	(10,535)
DISUSED COST CENTRES	21,826	(2,761)	(24,587)
Emergency and Critical Care	(205,827)	(237,093)	(31,266)
Estates and Facilities Centre	(1,057,523)	(1,026,797)	30,726
Flow Management and Unscheduled Care	33	(97)	(130)
Head and Neck	(131,739)	(114,744)	16,994
Medical Director	(55,302)	(55,856)	(553)
Risk and Compliance	(70,849)	(70,780)	69
Medicine Centre	(772,964)	(872,781)	(99,817)
Musculoskeletal	(216,784)	(147,550)	69,234
Oncology & Haematology Centre	(1,004,201)	(1,028,975)	(24,774)
Ophthalmology and Patient Access Centre	(275,957)	(257,258)	18,699
Pharmacy	36,437	12,426	(24,011)
Quality and Safety/Chief Nurse	(98,104)	(49,356)	48,748
Service Delivery Director	(11,623)	(22,179)	(10,556)
Workforce	(50,472)	(56,454)	(5,982)
Strategy Centre	(1,138)	(12,912)	(11,774)
Surgical	(1,287,359)	(1,126,044)	161,315
Therapy Centre	(28,415)	(25,843)	2,572
Womens and Childrens	(295,409)	(292,083)	3,327
Grand Total	(7,549,285)	(7,128,709)	420,576

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 £161,315 whereas Medicine has increased costs by £99,817.

Non Pay Expenditure – Key Messages

- *Non Pay under spent against the Budget in the month of June by £315,000.*
- *Over the period April – June Non Pay budgets underspent collectively by £423,000,*
- *The three month average spending covering the period April – June has reduced by comparison with the base period used for setting budgets, at a rate that appears consistent with expectations.*

6. Cost Improvement Programme - progress

The delivery of the financial position for the 2012/13 is dependant upon the successful achievement of the Cost Improvement Programme. Since approving the Budget for the 2012/13 year a number of adjustment have needed to be made to the CIP programme, to reflect more fully developed observations in respect of the level of savings capable of being achieved through such a programme. Contained as annex to this board paper is a reconciliation statement that illustrates how the level of savings to be achieved through the CIP Programme has altered from the levels previously approved. The key changes to the Programme are however summarised as follows :

	Recurrent £000's	Non Recurrent £000's	Description of change
Medical staffing	(2,500)		An examination of the Job Planning methodology suggests that the achievable level of savings should be reduced from £3.5 million to £1.0 million

	Recurrent £000's	Non Recurrent £000's	Description of change
Nursing staffing	(500)		Following review of Nurse Ward establishment requirements the level of savings reduced from £1.6 million to £1.1 million.
Procurement and Non Pay reductions	564		A review of spending requirements in respect of Professional fees and the cost of services provided through the Nuffield Hospital has identified opportunity to reduce costs by a further £564,000.
MARS	1,200	(500)	The Trust has identified an opportunity to reduce costs recurrently through a local MARS scheme, estimated at £1.2 million. £700,000 to be achieved in year.
Ward Closures		(875)	The Trust has committed to a further phase of bed closures expected to reduce recurrent costs by £3.5 million. It had been assumed that £875,000 would be released from this programme in the 2012/13 year. Upon review it has been concluded that such savings should be earmarked to support the cost of escalation over the winter period.
Delay of Programmes		(409)	A review of three schemes concluded that it would not be possible to release savings in respect of Diagnostic tests (150k), Allied Health Professionals (117k) and Booking (142k) in the 2012/13 financial year.
Theatres		333	The Theatre service has committed to delivering further non recurrent savings from consumables and stock management in the 2012/13 year amounting to £333,000.

Progress in respect of the Programme is summarised in the table below:

	Board Approved Savings in year	Revised Planned Savings in year	Most Likely savings	Best Case	Worst Case
2011/12 Schemes					
Bed Closures	3,080	3,080	1,500	1500	1,500
Agency Medical spend	750	750	500	750	500
Total 2011/12 schemes	3,830	3,830	2,000	2,250	2,000
2012/13 Schemes					
Medical staffing	1,000	1000	500	500	500
Waiting List Initiative	1,000	1,000	1,000	1,000	500
Nursing Ward staffing arrangements	900	400	400	400	-
Non Pay savings – Theatres	167	500	500	500	500
Temporary staffing – Medical	1,100	1,100	1,100	1,100	1,100
Temporary staffing – Non Medical	3,200	3,200	600	600	600
Coding changes	1,000	1,000	1,000	1,000	1,000
Procurement savings	1,000	1,000	1,000	1,000	1,000
Centre identified	1,080	1,019	1,019	1,019	1,019

	Board Approved Savings in year	Revised Planned Savings in year	Most Likely savings	Best Case	Worst Case
Non Pay					
Non Pay savings – remove excess Month 11 budget	1,325	1,975	1,975	1,975	1,975
On Call Payments / Unsocial hours	500	500	300	500	100
Corporate Services and Estates	400	400	400	400	400
STAFFflow– Medical Agency	300	300	200	300	-
Ward closures	875				
Allied Health Professionals review	117		110	110	-
Administration and Outpatients	142			200	-
Pathology reconfiguration			200	200	-
Diagnostic Tests	150		50	50	-
Agency medical		-	-	-	-
Staff Reduction – MARS Scheme		700	700	1000	500
Total 2012/13 schemes	14,256	14,094	11,054	11,854	9,194
Total Savings	18,086	17,924	13,054	14,104	11,194
Under achievement			(4,870)	(3,820)	(6,730)

Based upon an assessment of progress to date in respect of the CIP schemes and also spending practices in the months April to June, the most likely position is that the Trust will under achieve against the Cost Improvement target by £4.87 million unless corrective action is put into place. An analysis of a *worst case* position would see the under achievement increase to £6.73 million.

7. **Scenario Analysis**

Given the Income and Expenditure position in the month of June 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	302,879	301,379	302,879	301,379
Expenditure				
Pay	(192,601)	(197,471)	(196,421)	(199,331)
Non Pay	(88,756)	(86,756)	(86,756)	(88,756)
Reserves	(5,215)	(3,200)	-	(5,900)
EBITDA	16,308	13,952	19,702	7,392

	Planned Outturn £000s	Forecast Outturn £000s	Best Case Scenario £000s	Worst Case £000s
Finance charges	(14,408)	(14,408)	(14,408)	(14,408)
Management Actions	-	2,200		2,900
Surplus / deficit	1,900	1,744	5,294	(4,116)
Probability		50%	10%	40%

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

7.1 *Most Likely Case scenario*

- Income – The Trust Income position at the end of June continues throughout the year, and in addition penalties amounting to £500k for Under performance against National Targets are imposed.
 - Pay – Overspends as a consequence of failing to achieve the CIP plan as described in the Most Likely scenario.
 - Non Pay – Spending levels as recorded in the months of April to June continue, generating an underspend in the year of £2 million.
 - Reserves – the Trust is required to cover Income losses amounting to £3.2 million.
 - Management Actions – Controls are put in place in respect of Nursing Bank and Agency usage to reduce spending by £500k, Controls are put in place to deliver a further £200k in respect of Overtime and On Call Payments, Controls are enforced to deliver further Non Pay savings £1 million. Actions are taken to ensure Penalties for under performance against National Targets are avoided (£500k)

7.2 *Best Case scenario*

- Income – The Trust is able to recover in full the under achievement recorded in quarter 1 over the remaining nine months of the year.
- Pay – Overspends as a consequence of failing to achieve the CIP plan as described in the Best Case scenario.
- Non pay - Spending levels as recorded in the months of April to June continue, generating an underspend in the year of £2 million.

7.3 *Worst Case scenario*

- Income – The Trust Income position at the end of June continues throughout the year, and in addition penalties amounting to £500k for Under performance against National Targets are imposed.
- Pay – Overspends as a consequence of failing to achieve the CIP plan as described in the Worst Case scenario.
- Non Pay – Spending levels as recorded in the months of April and May are unsustainable,
- Reserves – the Trust is required to cover Income losses amounting to £4.9 million and also to cover costs associated with the MARS scheme (£1 million)
- Management Actions – , Controls are put in place in respect of Nursing Bank and Agency usage to reduce spending by £400k, Actions are taken to ensure Penalties for under performance against National Targets are avoided (£500k), Controls are enforced to deliver Non Pay savings £2 million.

Adopting these assumptions, the most likely scenario, following the implementation of management actions, leads to a surplus in the year amounting to £1.744 million, in the *Best Case* scenario a surplus for the year is presented amounting to £5.294 million. In the *Worst case* scenario a deficit amounting to £4.116 million occurs.

It is important to note that in reporting to the SHA, the Trust continues to present an outturn forecast surplus for the year amounting to £1.9 million.

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 £4.87 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 is expected to result in the delivery of a deficit for the year amounting to £456,000. Corrective actions improve the forecast Outturn position, resulting in a surplus for the year of £1.744 million.*

8. 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 2 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	14,500	(12,800)	1,700
2013/14	8,600	(2,300)	6,300	7,400	(2,300)	5,100
2014/15	8,900	(600)	8,300	7,700	(600)	7,100
2015/16	8,900	(600)	8,300	7,700	(600)	7,100
2016/17	7,600	(600)	7,000	6,400	(600)	5,800
2017/18	3,300	(1,300)	2,000	2,100	(1,300)	800

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 from £15.7 million to £14.5 million, and
- Cumulative surpluses generated over the period 2012/13 to 2017/18 by £6.2 million.

9. Impact upon the External Financing Limit

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.

The Better Payment Practice Code (BPPC) performance remains strong and consistent with prior year performance. Agency approvals are yet to achieve tangible benefits although the scheduled change in process due end July 2012 should result in a marked improvement within the approvals and payment process.

However, as detailed last month pressure is being felt within the cash position due to the depressed position within the I&E statement. This is currently offset by the slow start within capital expenditure and the fact that the payment of the first tranche of PDC dividend is due in September 2012.

Within the month the overall cash balance increased by £687k to £938k.

10. Statement of Financial Position

	March 12 £000	May 12 £000	June 12 £000	Variance to March 12 £000	Variance to May 12 £000
Total Non Current Assets	170,545	168,946	168,903	(1,642)	(43)
Inventories	5,349	5,492	5,463	114	(29)
Current Trade and Other Receivables	12,827	13,504	15,258	2,431	1,754
Cash and Cash Equivalents	1,202	251	938	(264)	687
Total Current Assets	19,378	19,247	21,659	2,281	2,412
Current Trade and Other Payables	(29,735)	(28,827)	(30,691)	(956)	(1,864)
PDC dividend Payable accrual	(111)	(1,036)	(1,498)	(1,387)	(462)
Provisions	(434)	(262)	(384)	50	(122)
Total Current Liabilities	(30,280)	(30,125)	(32,573)	(2,293)	(2,448)
Net Current Liabilities	(10,902)	(10,878)	(10,914)	(12)	(36)
Total Assets less Current Liabilities	159,643	158,068	157,989	(1,654)	(79)
Provisions	(512)	(512)	(388)	124	124
Total Assets Employed	159,131	157,556	157,601	(1,530)	45
Total Taxpayers' Equity	159,131	157,556	157,601	(1,530)	45

Total Assets Employed

The in month movement of Total Assets Employed is a positive £0.045m, with net current liabilities increasing by £0.036m.

Total Non Current Assets

The majority of the movement relates to the decrease within fixed assets (depreciation charge being higher than the levels of capitalisation) of £0.133m against an increase in long term debtors of £0.90m.

Limited capital expenditure has occurred to date (as forecast) with the table below detailing the position for month 3 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					2,810
Mammography	1,862	629	524					1,153
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	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	29	1,683	602	34,490	15,521
Patient monitoring	300	300	306	300	0	306		1,156	300
Telecoms	430	86	430	86		430	1	516	86
Acute Surgery (Bed Reconfiguration)	492	1,684	492	1,684	200	692	1,410	2,176	1,690
Linac	2,277	535	2,277	535	0	2,277	438	2,812	535
Mamography	1,338	524	629	524	3	632	3	1,153	524
PSAG	470	30	453	30	2	455	21	483	30
Projects ≤ £250k									
Vitalpac				126	0	0	0		126
Medical Equipment				300	98	98	121		300
Other Equipment Replacement Fund				100	7	7	44		100
Estates				500	0	0	61		500
IT Contingency				325	16	16	31		325
Corporate General				1,000	0	0	0		1,000
Capitalised O/H				500	127	127	129		500
Capital additions identified				625		0	0		625
Projects ≤ £250k									
Outstanding from previous year				370	42	42	288		386
Other				164		0	11		432
TOTAL				23,154	524	6,765	3,160		22,980

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.

Discussions with the SHA have concluded on the phasing and allocation of the reconfiguration project and associated drawdown of PDC funding to support this scheme. It is planned that the amount of funding will be 'in line' with the expenditure profile of the capital spend and will require a reduction in expenditure in the current year to follow the actual expenditure profile of the capital works completed ie the funding will follow the expenditure planned for 2012/13 and 2013/14.

Total Current Assets

Inventories remained relatively static within the month.

Debtors have increased by £1,754k in the areas of NHS and Non-NHS debtors. This increase has been offset by an equivalent increase in trade payables and other creditors.

Total Current Liabilities and the Better Payment Practice Code

Non-NHS – Year to date performance has deteriorated slightly due to the in month performance. However, performance continues to be in line with 2011/12.

The areas of non-compliance primarily relate to:

- Over 60 days - £72k IT System Server Support; £90k accommodation partner invoice; £158k power.
- All other categories – £357k for IT managed service support; £70k Radiology managed service. 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 is still scheduled for end July 2012 and should improve the compliance within the approvals process.

Non NHS Spend	YTD 2010/11	YTD 2011/12	M1 2012/13	M2 2012/13	M3 2012/13	YTD 2012/13
By Volume						
Total Volume	79,843	89,887	7,245	7,465	8,159	22,869
BPPC compliant volume	28,605	75,177	6,173	6,493	6,639	19,305
BPPC compliant %	36%	84%	85%	87%	81%	84%
By Value						
Total value (£000)	77,157	98,915	10,174	9,878	8,590	28,642
BPPC compliant value (£000)	33,104	78,743	8,890	8,402	6,530	23,822
BPPC compliant %	43%	80%	87%	85%	76%	83%

Current Month Payment made	Quantity	Quantity %	Value	Value %
0-30 days	6,639	81%	£6,530	76%
31-35 days	294	4%	£596	7%
36-40 days	500	6%	£385	4%
41-45 days	245	3%	£185	2%
46-50 days	132	2%	£92	1%
51-55 days	51	1%	£56	1%
56-60 days	46	1%	£130	2%
over 60 days	252	3%	£615	7%
Total invoices paid	8,159	100%	£8,590	100%

NHS – Year to date performance remains static but remains under-performing against 2011/12 year end position.

The areas of non-compliance primarily relate to:

- Over 60 days – £36k Wrekin Community Clinic
- 41-45 days £69k Laundry and £12k pathology related services.

NHS Spend	YTD	YTD	M1	M2	M3	YTD
	2010/11	2011/12	2012/13	2012/13	2012/13	2012/13
By Volume						
Total Volume	2,259	2,170	209	152	211	572
BPPC compliant volume	798	1,921	143	135	161	439
BPPC compliant %	35%	89%	68%	89%	76%	77%
By Value						
Total value (£000)	22,361	19,505	684	961	644	2,289
BPPC compliant value (£000)	9,412	17,716	414	635	489	1,538
BPPC compliant %	42%	91%	61%	66%	76%	67%

Current Month				
Payment made	Quantity	Quantity %	Value	Value %
0-30 days	161	76%	£489	76%
31-35 days	9	4%	£12	2%
36-40 days	4	2%	£2	0%
41-45 days	30	14%	£96	15%
46-50 days	0	0%	£0	0%
50-55 days	0	0%	£0	0%
56-60 days	2	1%	£8	1%
over 60 days	5	2%	£37	6%
Total invoices paid	211	100%	£644	100%

Provisions have moved as expected within the month including reclassifications within short and long term.

11. Statement of Cash flow

There are two forecast cash flow statements (i) the forecast flows based on the forecast outturn position and (ii) the forecast flows based on the worst case position. In addition, the following points should be noted:

- Cash flows relating to donated assets have been excluded from I&E and capital expenditure on the assumption they are neutral.
- Reconfiguration will have an in year spend of £15,685k and will be fully funded by PDC.
- The cash flow forecast based on the worst case scenario does not include the effect of any possible management actions ie management of working capital or slow down within core capital programme expenditure. This position indicates significant cash shortages following the payment of the PDC dividend in September and after this date would become unmanageable.

Cash flow based on forecast outturn:

Forecast Outturn	Actual	Actual	Actual	Forecast	Forecast	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	645	865	244	441	609	561	983	1,438
EBITDA	(644)	1,982	1,268	2,242	1,146	1,324	2,682	1,762	571	1,248	164	2,406
Sub - total	(644)	1,982	1,268	2,242	1,146	1,324	2,682	1,762	571	1,248	164	2,406
Working Capital Movement	1,141	(1,396)	(294)	(750)	(750)	1,000	(1,750)	(1,500)			1,000	2,379
Non Current Asset Movement	1,335	(140)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)
Capex spend	(2,123)	(936)	(196)	(1,686)	(2,076)	(2,073)	(2,136)	(2,005)	(2,530)	(2,737)	(2,620)	(3,017)
Movement in Provisions	(41)	(131)	(2)	(10)	(10)	(10)	(10)					(330)
Interest (paid) on loans and leases												
Interest received	1	1	1	1	1	1	1	1	1	1	1	1
Public Dividend Capital received					2,000	2,000	1,500	2,000	2,000	2,000	2,000	2,185
Public Dividend Capital repaid												
Dividends paid						(2,773)						(2,773)
Net cash inflow/outflow	(331)	(620)	687	(293)	221	(621)	197	168	(48)	422	455	761
Closing Balance	871	251	938	645	865	244	441	609	561	983	1,438	2,200

Cash flow based on worst case scenario:

Worst case	Actual	Actual	Actual	Forecast	Forecast	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	(325)	(600)	(1,794)	(2,758)	(3,352)	(3,647)	(3,765)	(3,380)
EBITDA	(644)	1,982	1,268	1,272	650	751	1,521	1,000	324	708	94	1,365
Sub - total	(644)	1,982	1,268	1,272	650	751	1,521	1,000	324	708	94	1,365
Working Capital Movement	1,141	(1,396)	(294)	(750)	(750)	1,000	(1,750)	(1,500)			1,000	2,379
Non Current Asset Movement	1,335	(140)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)
Capex spend	(2,123)	(936)	(196)	(1,686)	(2,076)	(2,073)	(2,136)	(2,005)	(2,530)	(2,737)	(2,620)	(3,017)
Movement in Provisions	(41)	(131)	(2)	(10)	(10)	(10)	(10)					(330)
Interest (paid) on loans and leases												
Interest received	1	1	1	1	1	1	1	1	1	1	1	1
Public Dividend Capital received					2,000	2,000	1,500	2,000	2,000	2,000	2,000	2,185
Public Dividend Capital repaid												
Dividends paid						(2,773)						(2,773)
Net cash inflow/outflow	(331)	(620)	687	(1,263)	(275)	(1,194)	(964)	(594)	(295)	(118)	385	(280)
Closing Balance	871	251	938	(325)	(600)	(1,794)	(2,758)	(3,352)	(3,647)	(3,765)	(3,380)	(3,660)

Statement of Financial Position – Key Messages

- Cash position increased by £687k to £938k
- Cash flow based on worst case scenario becomes unmanageable at end September 2012.
- Capital expenditure is limited with process and principles of reconfiguration funding phasing agreed with SHA
- 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.
- Total assets employed increased by £0.045m with net current liabilities increasing by £0.036m

Neil Nisbet
Finance Director
18th July 2012