

FINANCE UPDATE

TRUST BOARD
Thursday 30th June 2011

1. Introduction

At the previous Board meeting a paper was presented which recorded a forecast outturn deficit for the year amounting to £10.556 million. This paper provides:

- a description of the actions being taken forward to address the forecast deficit
- the position recorded in Month 2 and how this position reconciles to the actions being taken to address the financial imbalance.

In constructing the paper a series of scenarios have been constructed to provide an indication of the risks associated with the delivery of the plan for the 2011/12 year.

Recognising the impact such plans have 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. Revised Budgetary position

Since constructing the Budgetary position of the Trust a number of changes have been introduced that enable the Trust to deliver financial balance in the 2011/12 financial year. These changes are summarised in the table below.

	£000s	Estimated Outturn £000s	Financial recovery Plan £000s	Additional Pending and waiting list Income and Costs £000s	£000s
Income	276,950		6,500	4,219	287,669
Expenditure					
Pay	194,198	1,984	(3,478)	1,140	193,844
Non Pay	75,917	1,134			77,051
Reserves	(3,073)	3,439	2500		2,866
EBITDA	9,908	(6,557)	7,478	3,079	13,908
Depreciation	13,908				13,908
Dividends					
Surplus / deficit	(4,000)	(6,557)	7,478	3,079	-

3. **Estimated Outturn**

In constructing the estimated outturn position as presented in the previous Board paper, allowance was made for:

- Nuffield Hospital – Increased costs to deliver the waiting list target for Orthopaedic activity through work undertaken at the Nuffield Hospital amounting to £834,000,
- Endowment funds – Reducing the level of training costs charged against Trust endowment funds; and
- Pay overspending – Increased pay costs to reflect staffing levels as recorded in the month of April 2011. This has been estimated to increase pay cost beyond budgeted levels by £5.5 million.

4. **Financial Recovery Plan**

The Trust has constructed a recovery plan to enable:

- the estimated forecast outturn deficit to be recovered; and
- National Performance Targets to be achieved.

The actions to be taken forward by the Trust include:

5. **Cost savings to address forecast outturn deficit**

- SHA External Funding – Secure non recurrent transition funding amounting to £6.5 million, the Cluster has confirmed that funding equivalent to this sum will be made payable to the Trust in the 2011/12 year.
- Review Developments – Re-examination of development funding with the intention to reduce costs by 20 per cent and generate recurrent cost savings in the 2011/12 year amounting to £1.1 million and non recurrently by £500,000.
- Ward closures – Reduce capacity through the closure of four wards, resulting in costs savings in the year amounting to £1.6 million, and recurrently £3.8 million.
- Theatre Productivity – Implementation of the Productive ward programme resulting in savings in the 2011/12 financial year of £83,000 and full year costs savings amounting to £1 million.
- Price Waterhouse Review – Implementation of schemes developed through the independent review by PriceWaterhouseCoopers and reduce costs by £250,000 in the 2011/12 financial year increasing to £1 million recurrently.

6. **Cost Pressures**

- Cost of Re-organisation – Support the cost of implementing revised management arrangements across the Trust, estimated at £1 million.
- Performance Targets – Funding to enable the Trust to achieve key targets in respect of Accident and Emergency and Cancer care – estimated at £500,000; and
- Contingency Reserve – Establish a contingency reserve amounting to £2.0 million.

7. Pending and Waiting List Targets

The Trust has recently signed the contract for the 2011/12 financial year with the two Local Primary Care Trusts. In doing so this contract allows for increased activity to deliver improved waiting list performance and reduce the numbers of patients awaiting treatment as part of a Pending List. The local Primary Care Trusts estimate the value of this activity, using Payment by Results Tariff, to be £3 million. The Trust believes that the level that will be delivered in the year amounts to £5.7 million.

Agreement has been reached with the PCTs that funding amounting to £1.5 million will be made available in respect of the PCT's estimated activity levels and that Full Tariff will be paid for activity that exceeds those levels. The Trust accordingly expects to receive Income in the 2011/12 in respect of Waiting List and Pending activity, amounting to £4.2 million.

The marginal cost of the activity performed is estimated to amount to £1.974 million, being:

- £740,000 – Pending List activity,
- £834,000 – Orthopaedic activity subcontracted to the Nuffield Hospital,
- £200,000 – Gastroenterology – waiting list activity; and
- £200,000 – Ophthalmology – increased waiting list activity.

This then enables the Trust to receive excess funds amounting to £2.2 million, to support the cost of increased capacity that has been introduced within the Trust to address waiting list problems.

8. Month 2 Position

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

	Month 2 Plan	Month 2 Actual	Variance	Planned Forecast	Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s	£000s
Income	44,995	44,505	(10)	287,669	287,669	-
Expenditure						
Pay	32,525	32,722	197	193,844	193,844	-
Non Pay	12,780	12,782	2	77,051	77,051	-
Reserves				2,866		
Finance Cost	2,366	2,366	-	13,900	13,900	-
Total Expenditure	47,659	47,868	199	287,700	287,700	-
	(2,664)	(2,863)	189	-	-	-
SHA Funding	1,083	1,083				
Under / Over spend	1,581	1,780	189	-	-	-

As can be seen from the above at the end of May the Trust had recorded an overspend amounting to £1.78 million. This represents a deficit of £189,000 when compared to the planned position. It is forecast that by the year end the Trust will deliver a balanced financial position.

9. Explanation of Overspend recorded to date

The overspend in the period to date has occurred because of overspending within Pay budgets. This overspend is explained more fully below.

Analysis of Pay overspending in the Trust in the period April – May

	Actual April – May £000s	Budgeted April – May £000s	Variance £000s
Core Pay	30,879	31,307	(428)
Premium costs			
Escalation	54	31	23
Agency Medical	908	470	438
Agency nursing	330	177	153
Agency – Other	46	16	30
Waiting List Initiative	505	414	91
	32,722	32,525	197

In the above table “core spend” is defined as the costs associated with the appointment of staff (either permanently as substantive staff or temporary as Agency or Bank staff). As can be seen, based upon the number and mix of staff employed in the opening two months of the year, the Trust has recorded an underspend when actual costs are compared with the anticipated or budgeted level.

Significantly, however, in the the engagement of Agency staff as opposed to appointment to substantive positions or the use of Bank staff, the Trust incurs substantial Premium costs. The effect of these premium costs is to generate an overall overspend in Pay budgets during this period amounting to £197,000.

Analysis of staffing levels in the period April – May

In order to understand the Cost position as presented within Pay budgets it is necessary to understand the numbers of staff employed during this period.

	Actual April WTE	Actual May WTE	Budget April WTE	Budget May WTE	Variance in the month of May
Substantive staff	4344.91	4300.64	4344.91	4325.97	(25.33)
Bank –Nursing	140.70	122.43	140.70	141.13	(18.70)
Bank – Other	95.80	98.94	95.80	95.80	3.14
Agency – Medical	59.62	66.37	59.62	59.47	6.90
Agency – Nursing	102.82	129.37	102.82	97.62	31.75
Agency – Other	21.55	15.71	21.55	21.51	(5.80)
Total	4765.40	4733.46	4765.40	4741.50	(8.04)

An examination of staffing levels shows that the total number of people working within the Trust has reduced from 4765.40 posts in April to 4733.46 posts in May. When compared with Budgeted levels the overall number of staff working within the Trust was 8.04 Whole time equivalents less than budgeted.

A closer examination of the whole time equivalent numbers into Permanent and Temporary staff shows:

	Actual WTE in April	Actual WTE in May	Budget WTE in April	Budget WTE in May
Permanent staff	4344.91	4300.64	4344.91	4325.97
Temporary staff	420.49	432.82	420.49	415.53

- A reduction in the number of Permanent Posts from 4344.91 WTEs in April to 4300.64 WTEs in May,
- A compensating increase in the number of staff employed temporarily in the Trust either as Bank or Agency staff

Given the reduced numbers of staff employed within the Trust, to understand the basis for the overspend in the period it is necessary to distil the analysis of temporary employed staff still further into the numbers employed as either Bank staff or Agency staff.

	Actual WTE in April	Actual WTE in May	Budget WTE in April	Budget WTE in May
Bank Nursing	140.70	122.43	140.70	141.13
Bank Other	95.80	98.94	95.80	95.80
Total Bank staff	236.50	221.37	236.50	236.93
Agency – Medical	59.62	66.37	59.62	59.47
Agency – Nursing	102.82	129.37	102.82	97.62
Agency – Other	21.55	15.71	21.55	21.51
Total Agency staff	183.99	211.45	183.99	178.60

The analysis then identifies that during the period the numbers of staff employed as Agency staff has increased, principally within the nursing staff group. Further a comparison with budgeted staffing levels shows Agency staffing exceeding budgeted levels by 32.85 posts whereas Bank staffing levels in May are 15.57 whole time equivalents lower than expected.

From the above analysis it can be seen then that whilst the numbers of staff employed within the Trust has declined, the increased use of Agency staff has resulted in a substantial level of overspending.

Analysis of Pay overspending by Division

As a basis for improving understanding of pay budgets, the Pay analysis has also extended to incorporate a review of Pay spending at both a Divisional and speciality level. The results of this analysis are presented in the tables below.

	April – May Actual spend £000s	Budget – April – May £000s	Variance £000s	% as compared with budget £000s
Division 1	11,611	10,765	846	7.85
Division 2	9,651	9,859	(208)	(0.21)
Division 3	7,481	7,327	154	2.10
Corporate Services	2,323	2,221	(102)	(4.59)
Facilities	1,656	1,669	(13)	(0.78)
Reserves		677	(677)	

It can be seen from the table above that Pay overspending is occurring predominantly within Division 1 of the Trust. The overspending within Division 1 has therefore been disaggregated to speciality level.

	Critical Care £000s	Emergency Care £000s	General Medicine £000s	Management £000s	Total £000s
Core Pay	21	86	182	(19)	271
Agency – Medical	155	172	99		426
Agency – Nursing	25	34	39		98
Agency – Other		1	(4)		(3)
Waiting List Initiative Payments	25	21	9		55
Total	226	314	324	(19)	846

Staffing levels within Division 1 – May 2011

	Critical Care Actual wte	Budget wte	Emergency Care wte	Budget wte	General Medicine wte	Budget wte	Management wte	Budget wte	Total wte	Budget wte
Substantive staff	460.79	469.08	412.47	423.57	422.79	424.83	4.40	4.40	1300.69	1332.96
Agency – Medical	10.80	10.33	22.92	13.16	16.78	13.12			55.50	36.61
Agency – Nursing	18.80	6.28	24.30	17.61	61.71	22.55			104.81	46.44
Agency – Other					(4)					
Bank - Nursing	17.98	18.25	28.15	23.98	31.53	39.53			77.70	77.93
Bank - other	1.59	2.74	2.23	2.76	3.26	1.75				
Total	509.96	506.68	490.07	481.08	536.07	501.78	(4.40)	4.40	1538.70	1493.94

An examination of spending and whole time equivalents in the Month compared with budgeted levels reveals:

- the total number of staff working within Division 1 exceeded budgeted levels by 44.76 staff, during this period the number of Agency Medical staff exceeded budgeted levels by 18.89 posts and Agency Nursing exceeded budget by 58.37 posts. The level of vacancies within substantive posts amounted to 32.27.
- within Division 1, General Medicine employed 35.29 staff in excess of budget, of which 31.22 of these staff were attributable to Nursing staff employed either as Agency or Bank Nurses,
- Emergency care in the month of May employed 22.92 Agency medical staff as compared with a budgeted level of 13.16 staff.

10. **Scenario Analysis**

At the previous Board meeting the Trust were presented with a forecast deficit for the year amounting to £10.556 million. As stated previously the combination of actions being taken within the Trust and non recurrent financial support enables the Trust to produce a revised forecast for the year, which shows a balanced Income and Expenditure position for the year.

That said, it is clear that within the financial position of the Trust there exist substantial risks to the delivery of the Income and Expenditure position. 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.

	Forecast Outturn £000s	Best Case Scenario £000s	Worst Case £000s
Income	287,669	288,169	284,619
Expenditure			
Pay	193,844	193,844	196,844
Non Pay	77,051	77,051	77,701
Reserves	2,866	2,666	1,366
EBITDA	13,908	16,408	8,708
Finance charges	13,908	13,908	13,908
Surplus / deficit	-	2,500	(5,200)
Probability	60%	10%	30%

Within the *Best* and *Most likely* scenarios, the following assumptions are made:

10.1 *Best Case scenario*

- Income – the Trust is able to secure a surplus arising from negotiations in respect of the Sterile services Unit
- Reserves – Plans are delivered within the Trust that enable contingency funds to be unused and the level of cost associated with the management reorganisation to be contained within a sum of £500,000.

10.2 *Worst Case scenario*

- Income – the Trust is unable to deliver activity beyond a level presently assumed by the PCTs and as a consequence total Income reduces by £2.7 million and in addition further Private Patient Income, amounting to £250,000, planned for the year is undelivered and delays in the decision to increase charges for non clinical services by two months reduce Income by £100,000.
- Pay – Despite allowing for increased pay costs in the year of £5.5 million, overspending levels as recorded in the month of May continue throughout the year generating a further deficit of £2.0 million. Additionally Ward closures scheduled for August and January are delayed by three months resulting in a loss of cost savings amounting to £1.0 million.
- Non Pay – Delays in ward closures result in an inability to secure non pay savings amounting to £150,000. Cost Improvement Targets amounting to £1.6 million, fail to deliver savings amounting to £500,000.

Based upon these assumptions, in the *Best Case* scenario a surplus for the year is presented amounting to £2.5 million. In the *Worst case* scenario a deficit amounting to £5.2 million occurs.

11. **Impact upon the External Financing Limit**

The cash position of the Trust is forecast to grow by c£1M by the end of 2011/12. This is achieved through a breakeven income and expenditure position and a planned reduction in the capital programme by c£1M. The cash received at the start of the financial year relating to 2010/11 deferred income has now been exhausted but does explain the good performance within the BPPC (see below). However, when reviewing the forecast and due to monthly phasing and the assumed timing of the cash backed SHA support it is anticipated that an element of creditor 'smoothing' will have to occur until the end of July. The Trust is planning to minimise the impact of this smoothing to NHS creditors only, with the mid-June smoothing position at £400,000 and affecting NHS creditors only.

	2010/11	2011/12												2011/12
	M12 £000	M1 £000	M2 £000	M3 £000	M4 £000	M5 £000	M6 £000	M7 £000	M8 £000	M9 £000	M10 £000	M11 £000	M12 £000	Net Movement £000
Fixed Assets	157,193	156,491	155,868	154,940	154,984	155,242	155,760	155,602	155,128	155,110	154,913	154,400	154,703	(2,490)
Current Assets	16,837	14,329	14,176	14,176	14,176	14,176	14,176	14,176	14,176	14,176	14,176	14,176	14,176	(2,661)
Current Liabilities	(26,102)	(23,637)	(24,014)	(21,839)	(21,639)	(24,014)	(24,014)	(24,014)	(24,014)	(24,014)	(24,014)	(24,014)	(24,014)	2,088
Cash pre creditor smoothing	233	140	353	(690)	(834)	1,917	392	699	828	1,187	1,166	1,042	1,200	967
Creditor smoothing				800	1,000									
Cash	233	140	353	110	166	1,917	392	699	828	1,187	1,166	1,042	1,200	967

NON NHS				
	YTD 2010/11	M1 2011/12	M2 2011/12	YTD 2011/12
By Volume				
Total Volume	79,843	7,781	6,254	14,035
BPPC compliant volume	28,605	6,994	5,261	12,255
BPPC compliant %	36%	90%	84%	87%
By Value				
Total value (£000)	77,157	7,997	6,437	14,434
BPPC compliant value (£000)	33,104	7,039	4,943	11,982
BPPC compliant %	43%	88%	77%	83%
Payment made in month	Quantity	Quantity %	Value	Value %
0-30 days	5,261	84.1%	4,943	76.8%
31-35 days	223	3.6%	274	4.3%
36-40 days	257	4.1%	431	6.7%
41-45 days	179	2.9%	196	3.0%
46-50 days	133	2.1%	145	2.2%
51-55 days	32	0.5%	52	0.8%
56-60 days	39	0.6%	69	1.1%
over 60 days	130	2.1%	328	5.1%
Total invoices paid	6,254	100%	6,437	100%

The performance of compliance shows a significant increase against the prior year. This has been achieved through the utilisation of the cash received at the start of the year relating to the 2010/11 deferred income. The 'non-compliance' elements relate purely to the Trust's internal approval process specifically within Agency supplier invoice approval. The current approval process is inefficient and the Finance team have placed specific resource onto this area to ensure all agency spend is processed using the standard purchase order process.

NHS				
	YTD	M1	M2	YTD
	2010/11	2011/12	2011/12	2011/12
By Volume				
Total Volume	2259	179	188	367
BPPC compliant volume	798	166	180	346
BPPC compliant %	35%	93%	96%	94%
By Value				
Total value (£000)	22361	1196	3034	4230
BPPC compliant value (£000)	9412	1125	3007	4132
BPPC compliant %	42%	94%	99%	98%
Payment made in month	Quantity	Quantity %	Value	Value %
0-30 days	180	95.7%	£3,006	99.1%
31-35 days	3	1.6%	£4	0.1%
36-40 days	2	1.1%	£1	0.0%
41-45 days	1	0.5%	£5	0.2%
46-50 days	1	0.5%	£5	0.2%
50-55 days	1	0.5%	£12	0.4%
56-60 days	0	0.0%	£0	0.0%
over 60 days	0	0.0%	£0	0.0%
Total invoices paid	188	100%	£3,034	100%

The performance of compliance shows a significant increase against the prior year. This is has been achieved through the utilisation of the cash received at the start of the year relating to the 2010/11 deferred income. As commented within the cash forecast slide there is an anticipated and planned drop in performance until the end of July. The monthly improvement is likely to be seen in September relating to payments of August invoices.

Neil Nisbet
Finance Director
22nd June 2011