

## 2011/12 Budget Update

### Introduction

The Trust is required to ensure that key financial targets are met; notably:

- Achievement of a balanced Income and Expenditure position; and
- Achievement of its External Financing Limit.

This paper provides a description of the performance at the Trust in responding to these financial targets.

### Planned Income and Expenditure position 2011/12

In setting the plan for the 2011/12 financial year, the Trust has presented the following Income and Expenditure profile:

	Quarter 1 £000s	Quarter 2 £000s	Quarter 3 £000s	Quarter 4 £000s	Total £000s
Income	68,614	70,161	70,328	70,166	279,270
Expenditure					
Pay	47,625	48,725	48,775	48,951	194,076
Non Pay	19,155	19,137	18,628	18,565	75,485
Finance Cost	3,436	3,436	3,434	3,404	13,708
Unidentified savings	-	-	(2,000)	(2,000)	(4,000)
Total Expenditure	70,216	71,298	68,836	68,919	-
Under / Over spend	(1,602)	(1,137)	1,492	1,247	-
Cumulative Under / Overspend	(1,602)	(2,739)	1,247	-	-

As can be seen in the first quarter of the financial year the Trust is planning to record a deficit amounting to £1.6 million. At the end of second quarter the deficit increases to £2.739 million. The Trust then returns into a balanced position by the end of the financial year. In constructing this plan the Trust delivers savings amounting to £4.0 million in the last two quarters of the year.

### Month 1 financial position

The position at the end of month 1 is presented in the table below.

	Month 1 Plan £000s	Month 1 Actual £000s	Variance £000's	Planned Forecast Outturn £000s	Forecast Outturn £000s	Variance £000's
Income	21,998	22,078	(80)	279,270	279,270	-
Expenditure						
Pay	15,862	16,244	382	194,076	199,499	5,423
Non Pay	6,463	6,613	150	75,485	76,619	1,134
Finance Cost	1,146	1,146	-	13,708	13,708	-
Unidentified savings	-	-	-	(4,000)	-	4,000
Total Expenditure	23,471	24,003	532	-	289,826	10,556
Under / Over spend	(1,473)	(1,925)	452	-	(10,556)	10,556

As can be seen at the end of month 1 the Trust had overspent by £532,000 and without management action this would increase to an overspend of £10.556 million by the year end. Actions are being pursued to enable the Trust to deliver a break-even position by the year-end.

### Income

In the 2011/12 financial year the Trust is presently assuming the existence of a block contract with the two main commissioners Shropshire County PCT and Telford and Wrekin PCT.

In order to provide a basis for computing an underlying "run rate" for the Trust instead of presenting the Income from these two commissioners as a fixed monthly sum, the Income from these two parties has been phased. The basis for the phasing being:

- Non elective activity, A and E attendances – average percentage distribution of activity – based upon performance over the period 2008/9 – 2010/11; and
- Elective activity and outpatient attendances – working days per month.

Using this methodology the performance across commissioners is as follows :

	Plan £000s	Actual £000s	Variance £000s	% over performance £000s
Shropshire County PCT	9,925	9,925	-	-
Telford and Wrekin PCT	6,877	6,877	-	-
Powys Teaching LCB	1,612	1,528	(84)	(5.21)
Other PCT's	444	496	52	11.71
Non Contracted Activity	106	189	83	78.30

Specialised services	844	874	30	3.56
Other Income	2,190	2,190	-	-
	21,998	22,078	80	0.36

As can be seen from the above the Trust has over achieved as compared with the Income budget for Month 1 by £80,000.

## Expenditure Budgets

### Pay Costs

In setting the pay budget for the 2011/12 financial year, the Trust has done so by assumed:

- a gradual monthly increase in the number of staff employed from 4704.37 wte staff employed in April to 4770 wte posts by the year end; and
- a change in the mix of staff employed on a permanent and temporary basis from 292 wte posts to 136 posts by July and thereafter.

	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March
Fixed pay element	4582.96	4598.87	4641.15	4723.70	4793.77	4804.99	4825.99	4823.94	4823.94	4821.94	4823.94	4823.94
Disestab posts	-171.00	-171.00	-171.00	-171.00	-171.00	-171.00	-171.00	-171.00	-171.00	-171.00	-171.00	-171.00
<b>Permanent Post</b>	<b>4411.96</b>	<b>4427.87</b>	<b>4470.15</b>	<b>4552.70</b>	<b>4622.77</b>	<b>4633.99</b>	<b>4654.99</b>	<b>4652.94</b>	<b>4652.94</b>	<b>4650.94</b>	<b>4652.94</b>	<b>4652.94</b>
Agency - medical	51.71	51.71	47.71	44.11	28.22	28.17	26.91	26.91	26.91	26.91	26.91	26.91
Agency - nursing	59.40	51.77	45.23	6.76	6.76	6.76	6.76	6.76	6.76	6.76	6.76	6.76
Agency - other	13.97	13.97	13.57	9.57	9.37	4.91	4.41	4.41	4.41	4.41	4.41	4.41
Bank Nursing	108.56	108.56	103.40	21.33	20.10	20.10	30.10	30.10	30.10	30.10	30.10	30.10
Bank other	58.77	58.77	56.47	53.99	48.98	48.98	48.98	48.98	48.98	48.98	48.98	48.98
<b>Temporary posts</b>	<b>292.41</b>	<b>284.78</b>	<b>266.38</b>	<b>135.76</b>	<b>113.43</b>	<b>108.92</b>	<b>117.16</b>	<b>117.16</b>	<b>117.16</b>	<b>117.16</b>	<b>117.16</b>	<b>117.16</b>
<b>Permanent and Temporary</b>	<b>4704.37</b>	<b>4712.65</b>	<b>4736.53</b>	<b>4688.46</b>	<b>4736.20</b>	<b>4742.91</b>	<b>4772.15</b>	<b>4770.10</b>	<b>4770.10</b>	<b>4768.10</b>	<b>4770.10</b>	<b>4770.10</b>

The actual position recorded in the month of April is as follows:

	April Plan	April Actual	Variance
<b>Permanent Post</b>	<b>4411.96</b>	<b>4344.91</b>	<b>(67.05)</b>
Agency - medical	51.71	59.62	7.91
Agency - nursing	59.40	102.82	43.42
Agency - other	13.97	21.55	7.58
Bank Nursing	108.56	140.70	32.14
Bank other	58.77	95.80	37.03
<b>Temporary posts</b>	<b>292.41</b>	<b>420.49</b>	<b>128.07</b>
<b>Permanent and Temporary</b>	<b>4704.37</b>	<b>4765.40</b>	<b>61.03</b>

As can be seen during the month the number of whole time equivalent posts worked through a combination of permanent and temporary posts in the month exceeded the budgeted level by 61.03 posts. Further, the number of permanently employed staff within the Trust was 67.05 whole time equivalent posts less than expected whilst the number of temporary staff exceeded planned levels by 128.07 posts.

The effect of this actual staffing profile is to generate an overspend in the month of £382,000.

	April Plan	April Actual	Variance
Permanent Post and Bank staff	15,277	15,667	390
Agency – medical – premium	220	143	(77)
Agency – nursing – premium	104	154	50
Agency – other – premium	15	37	22
Escalation	31	28	(3)
Temporary posts – premium	370	362	(8)
Waiting list Initiative	215	215	-
<b>Permanent and Temporary</b>	<b>15,862</b>	<b>16,244</b>	<b>382</b>

Given the differences in both the numbers employed and the mix of staff employed as temporary and permanent as compared with the plan, in constructing a forecast outcome it has been assumed that :

- the pace of change of transferring from temporary to permanently employed staff will be less aggressive; and
- the numbers employed across the year will be maintained at the levels of staff actually employed in the month of April.

Doing so, produces a revised a revised staffing profile for the year as shown below:

	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March
Agency - medical	59.62	59.47	56.49	53.52	44.60	44.60	35.68	35.68	35.68	35.68	35.68	35.68
Agency - nursing	102.82	97.62	97.62	92.49	77.07	61.66	51.38	41.10	41.10	41.10	41.10	41.10
Agency – other	21.55	21.51	21.51	19.36	16.14	12.91	10.76	8.61	8.61	8.61	8.61	8.61
Bank Nursing	140.70	141.13	134.07	127.02	105.85	84.68	70.56	56.45	56.45	56.45	56.45	56.45
Escalation							10.00	10.00	10.00	10.00	10.00	10.00
Bank other	95.80	95.80	91.01	86.22	81.43	81.43	81.43	81.43	81.43	81.43	81.43	81.43
Number of substantive	4344.91	4352.12	4365.82	4389.86	4441.12	4487.64	4512.34	4536.83	4536.83	4534.83	4536.83	4536.83
Total number worked	4765.40	4767.65	4766.53	4768.46	4766.20	4772.91	4772.15	4770.10	4770.10	4768.10	4770.10	4770.10

And results in a cost pressure for the year amounting to £1.923 million.

	Cost Pressure £000s
Permanent Post and Bank staff	496
Undelivered Cost Improvement – disestablished posts	500
Agency – medical – premium	316
Agency – nursing – premium	579
Agency – other – premium	33
Escalation	-
Temporary posts – premium	370
Waiting list Initiative	-
<b>Permanent and Temporary</b>	<b>1,923</b>

Significantly, in computing the overspend this does not allow for a planned further increase in staff arising from the appointment to a number of planned development posts. The Trust is presently expecting to employ a further 140 staff.

Assuming that such staff are employed progressively over the remaining months of the year this could be expected to increase costs by a further £3.5 million.

### Non Pay budgets

In the month of April the Trust recorded an overspend across non pay budgets amounting to £150,000. This overspend has arisen because the Trust has incurred excess costs associated with waiting list activity performed at the Nuffield hospital. A review of existing spending commitments suggests that this will continue and result in an overspend in the year of £834,000.

Additionally a review of the conditions relating to charitable funds indicates that it would not be possible to recharge the full level training costs as indicated in the previous board paper. This then increases non pay overspending by a further £300,000.

### Cost Improvement Programme

In presenting the financial position, the Trust has committed to the achievement of a cost improvement programme as summarised in the table below:

The total level of funding to be recovered as cost improvements in the 2011/12 year are summarised in the table below.

	Target £000s	Forecast savings £000s	Recurrent £000s	Non Recurrent £000s
Disestablishment of Posts	5,000	4,500	1,800	2,700
Planned Slippage in development Posts	1,300	1,300		1,300
Waiting list Initiative payments – reduction	1,747	1,747	1,747	
Agency cost - reduction	901	901	901	
Divisional Improvement Programme	1,800	1,800	1,800	
	10,748	10,248	6,248	4,000

As can be seen, the Trust is presently working towards the delivery of a cost Improvement Programme amounting to £10.748 million and is presently projecting that £10.248 million of this target will be achieved in this financial year.

#### - Disestablishment of posts

In setting the budget for the 2011/12 financial year, the Trust committed to delivering cost savings through the disestablishment of posts amounting to £5.0 million. In setting the budget for the year the Trust had originally planned, excluding the disestablishment of posts, for the employment of 4,960 whole time equivalent posts. In profiling pay spending for the year the Trust is planning to increase staffing levels from 4765.00 posts to 4,915.00 posts by the year end, and in doing so recurrently disestablish 45 whole time equivalent posts. Adopting this strategy enables the Trust to deliver recurrent savings amounting to £1.8 million and total savings throughout the year of £4.5 million.

#### - Planned slippage of developments

The Trust has budgeted for the introduction of a series of developments, costing £7.04 million, that will improve the quality of care and safety of services provided by the Trusts and reduce spending in relation to waiting times and premium Agency costs. In setting the budget for the 2011/12 year it was recognised that a significant level of savings would be generated through slippage in the appointment of these posts. The level of slippage assumed amounted to

£1.3 million and it is estimated that this sum will be achieved in full.

- Waiting List Initiative Payments

In the 2010/11 financial year the Trust spent £3.491 million in respect of Waiting List Initiative payments. The decision to employ a further 148 whole time equivalent development posts will enable the level of spending in respect of Waiting list activities to be reduced in the year to £1.744 million, so generating savings by comparison with the previous year of £1.747 million.

- Premium Agency Costs

In the 2010/11 financial year the Trust spent £9.112 million in respect of Agency Nursing, Medical and Clinical staff. The premium cost contained within this sum is estimated at £3.645 million. The budget for the 2011/12 financial year reduces Agency cost premiums to £2.744 million, generating savings of £901,000.

- Divisional Improvement Programme

At the April Trust board a revised improvement programme for the year was presented, delivering savings in the year amounting to £1.3 million. In addition to this sum it is planned to deliver further procurement savings amounting to £500,000. It is presently believed that savings amounting to £1.8 million will be achieved in the 2011/12 year.

### **Actions to improve the Forecast Outturn**

- Whole time Equivalent controls – The Trust has committed to ensuring that the numbers of staff employed (excluding development posts) either as permanent or temporary (bank or agency) on a monthly basis will not exceed the levels as recorded in the month of April. In addition activities will be put into effect to enable the conversion of the numbers of staff working as Agency staff into permanently employed or bank staff more quickly. Accelerating the rate by 10% reduces overall costs by approximately £100,000 in the year.
- Re-examine development posts – The sum that the Trust expects to expend in support of development posts in the remaining months of the financial year are estimated at £3.5 million, a comprehensive review of the development posts is to be undertaken to determine whether posts can be deferred in the year or withdrawn. A 10% cost reduction would deliver savings amounting to £350,000 in the year.
- Funding to cover the cost of delayed discharges – Discussions are taking place with the local commissioners to enable the Trust to be compensated outside of the existing block contract arrangements for the excess costs incurred by the Trust associated with the costs being incurred as a consequence of delayed discharges. Estimated additional Income - £750,000,
- Funding to cover the cost Rehabilitation beds at the Princess Royal Hospital site – Discussions are to take place with local commissioners to secure funding to enable the Trust to be appropriately compensated at a rate consistent with the PBR tariff for patients provided with a Rehabilitation service provided at the Princess Royal Hospital site.- potential further funding amounting to £150,000
- Funding to cover the cost of Escalation – The unprecedented levels of activity across the two hospital sites has meant that it has been necessary to maintain escalation levels in place. An application for funding from the PCT's outside of the contract is being sought to cover the cost of escalation. Estimated Income - £100,000
- Waiting list and Pending – The Trust is expecting to receive full funding as an adjustment to the existing contract value for the cost of delivering increased capacity to address the Pending list and ongoing issues associated with capacity shortfalls associated with Waiting times. On this basis the funding required to cover the cost of the increased activity would enable the Non pay overspend associated with the waiting list Initiative activity delivered through the Nuffield to be fully recovered. Cost savings - £834,000.

The effect of these actions is to reduce the forecast outturn by approximately £2.284 million and in doing so result in a revised forecast outturn deficit for the year amounting to £8.272 million.

Beyond these activities, further work is being undertaken by the Trust to enable a break-even position to be delivered by the year-end.

Further, the Trust has also recognised a need to put into effect a managed programme of cost reduction. PricewaterhouseCoopers commenced working within the Trust on the 17<sup>th</sup> May 2011 and have been charged with the task of identifying realisable cash backed savings in the year amounting to £10 million. An initial diagnostic is to be completed by mid-June 2011, with the final operational plan constructed by the end of July 2011.

### **Impact upon longer term financial plans**

A critical element of the Trust financial strategy is to introduce changes to bring about a sustainable position measured by reference to the recurrent (or normalised) financial position. The table below presents a comparison of the revised recurrent financial position of the Trust as compared with the budgeted position.

	Recurrent £millions	Non Recurrent £millions	Total £millions
Planned Budgetary position	(3.3)	(0.7)	(4.0)
Revised forecast Outturn	(8.5)	(2.1)	(10.6)
Variance	(5.2)	(2.4)	(6.6)

In setting the budget for the 2011/12 year the Trust had assumed the disestablishment of 200 wte posts. The full year effect of delivering such a reduction is to reduce expenditure by £7 million. The Trust has identified recurrent staffing reductions that generate pay cost savings amounting to £1.8 million. The effect is that the underlying strength of the Trust has deteriorated by £5.2 million.

### **Impact upon the Trust External Financing Limit**

The Forecast Income and Expenditure deficit will have a significant impact upon the cash resources of the Trust. The table below provides a summary of the impact the deficit has upon the cash position of the Trust on a monthly basis.

	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 £001
Fixed Assets	157,117	156,714	156,311	155,908	155,505	155,390	155,275	155,160	154,757	154,643	154,529	154,415	156,029	(1,088)
Current Assets	16,837	14,637	14,637	14,637	14,637	14,637	14,637	14,637	14,637	14,637	14,637	14,637	14,637	(2,200)
Current Liabilities - before	(26,102)	(24,827)	(23,902)	(23,402)	(23,402)	(23,402)	(23,402)	(23,402)	(23,402)	(23,402)	(23,402)	(23,402)	(23,402)	2,700
Cash - before creditors	233	141	(1,366)	(956)	(1,103)	(2,140)	(4,933)	(4,318)	(3,386)	(3,289)	(3,382)	(3,888)	(6,450)	
Creditor smoothing			1,500	1,000	1,200	2,200	4,950	4,450	3,650	3,450	3,450	3,950	6,750	
Cash *	233	141	134	44	97	60	17	132	264	161	68	62	300	67

As can be seen in order for the Trust to ensure that it has sufficient cash resources in place to support its activities, it would be necessary to reduce payments to suppliers progressively over the period. In the event that the Trust were to fail to achieve a break-even position this would require the Trust to increase Creditors by £6.75 million.

### **Conclusion**

The Trust has overspent in the first month of the 2011/12 financial year by a sum amounting to £450,000. This overspent being attributable to a Pay overspend of £382,000 and a Non Pay overspend amounting to £150,000. During the month the Trust exceeded its Income budget by £80,000.

In setting the plan for the year Income has been phased based upon a combination of the historical distribution of activity and the number of working days in the month. Phasing Income in this way suggests that the Trust will record an increasing level of deficit in the first two quarters of the year and then recover the deficit in the last six months of the year.

The planned position for the first month of the year is to present a deficit of £1.473 million. Accordingly after allowing for the variations from budget recorded in the month, the Trust presents a deficit at the end of April amounting to £1.925 million. This is forecasted to increase to a deficit, without management actions, of £10.556 million by the year end.

The forecast deficit has arisen because the Trust presently has a budget imbalance of £ 4 million and in addition to the budget imbalance:

Pay budgets are estimated to overspend in the year by £5.423 million as a consequence of :

- the Trust employing greater levels of staff in each of the months of the year than assumed in setting the budget; and
- the conversion rate from Agency staffing into Permanent staff being slower than anticipated.

Further, the Trust has entered into discussions with the Nuffield hospital to increase activity to achieve waiting list targets. In doing so this will result in an overspend within Trust Non pay budgets in the year of £834,000.

Given the overspend the Trust is presently undertaking work to reduce the scale of the deficit, this work comprises:

- the reviewing of planned developments,
- improving the conversion rate of Agency staff into permanent posts; and securing additional income as a consequence of the activity pressures being handled by the Trust

The effect of this work could be expected to generate savings amounting to £2.3 million. Further work is being undertaken to enable the Trust to achieve a break-even position by the year end.

The Trust has also engaged PricewaterhouseCoopers to develop a cash releasing efficiency savings programme. The task is to deliver a programme that releases savings of £10 million and is to be completed by the end of July.

The Trust has also modelled the impact of the forecast outturn overspend upon the cash resources of the Trust. This exercise has identified that in the event that the Trust were to overspend, the Trust could be required to reduce the level of payments to suppliers by £6.75 million.

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26<sup>th</sup> May 2011