Corporate Monitoring Report

Report to: Trust Board - 6th January 2009
Report from: Alastair Matthews, Director of Finance
Sponsoring Executive:


Review History to Date: The Trust Board has previously agreed the income and expenditure budgets for 2008/2009 with a full year plan surplus of £13.3m.

A paper was taken to the Board in October confirming that, following a review of the financial position, a surplus of £13.3m is still likely.

Recommendation: The Board is asked to note:

(1) In November, the Trust made a surplus of £2.0m, compared to a planned surplus of £1.7m. Pressures on pay expenditure and unfound CIPs were offset by high levels of income and uncommitted reserves.
(2) Performance Improvement Programmes (PIPs) delivered were still below Plan, although just under a half of the shortfall relates to profiling. 100% of schemes have now been identified, although just 51% of savings had been delivered by the end of November.
(3) There are still expenditure pressures within the Divisions. The principal areas of concern are currently in Women’s & Childrens services (principally obstetrics) and Surgery, where 18 week pressures are particularly intense. The Women's and Childrens’ division is meeting weekly with the Chief Executive and Director of Finance in order to address the emerging issues.
(4) Division 2 continues under “special measures” and, whilst the situation is stabilising, significant “winter pressures” remain a concern.

Summary

The Trust had a satisfactory month financially in November, delivering a surplus of £2.0m, a slightly higher surplus than planned. Cumulatively the Trust has made a surplus of £8.3m, compared to a planned surplus of £7.6m.

Central income is based on activity for the first seven months plus forecast month 8 activity generally in line with the Production Plan. After taking account of some residual benefit from 2007/08 (£0.7m) there is a cumulative positive variance of £0.2m. Levels of activity being delivered rose again in October. Discussions are currently being held with local PCTs about the affordability of this activity, both this year and in the future. A joint view of the likely year end position and opening baseline for next year has been agreed with Hampshire PCT, although no such agreement has yet been reached with Southampton City PCT.

There are continuing spend pressures within the Hospitals, partially offset by uncommitted reserves. The Divisions and Headquarters functions overspent by £0.9m in the month. The underlying expenditure position continues to be difficult due to continuing agency and locum cost pressures particularly in Division 2 (Unscheduled Care), Division 1 (18 weeks) and Division 3, and the phasing of delivery of identified PIPs.
Savings delivered (PIPs) were £2.7m short of their budgeted level although £1.2m of this was due principally to phasing budgets in twelfths; the shortfall against what the Divisions had said they would deliver in terms of savings was £1.5m.

At the end of November the Trust had £25.0m in the bank. This is £3.1m lower than last month and is £4.7m higher than Plan, due mainly to early receipt of block payments from Southampton City PCT (£5m) and to drawing down PDC (for the Haematology and BRU schemes) from the Department of Health earlier than was previously anticipated (£3m), offset by overperformance invoices to the PCTs that have not yet been paid, although the cashflow forecast assumed that they would have been paid by this stage.

Key Messages for November:

Delivery of the Trust’s financial targets in 2008/2009 will be determined by performance in four areas, as follows:

a) Divisional and Headquarters Directorates controlling expenditure to within their budgetary ‘runrate’ targets.

b) Delivery of in-year financial savings of at least £17.7m.

c) Achievement of sufficient activity levels to secure the income levels planned.

d) Development of a contingency reserve to offset any unexpected variations on the above and to manage the risks associated with performance related fines, Demand Management and the Independent Sector Treatment Centre. (ISTC).

This report provides an update on these four areas.

a) Controlling of expenditure to within the agreed ‘runrate’ budget targets

In overall terms the Trust is cumulatively overspent against its planned expenditure by £1.4m, as shown on schedule 6. In total Clinical Directorates are £5.1m above Plan (£3.7m last month) and Headquarters Directorates and central areas are £3.7m below. Of the cumulative variance, there is a £1.3m underspend against “runrate” budgets, offset by slipped and unidentified savings of £1.5m. A further £1.2m variance is due to the fact that PIP targets are phased in twelfths. Divisional performance is analysed on Schedule 6.

Division 1 (Surgery) overspent against its budgets by £515k in November (cumulatively £2,135k overspent). Pay overspent by £321k due in part to continuing efforts to hit 18-week targets and unmet CIP targets. In November the Division has ceased all weekend work apart from ENT and orthopaedics, and 8 beds have been closed. Based on cumulative activity the Division has delivered activity £2.9m over Production Plan levels, albeit the Division has received £2.2m of additional funding to cover this activity, which mainly relates to delivering 18 week targets.

In November Division 2 (Unscheduled Care) overspent by £171k (cumulatively £1,557k overspent), in line with the Division’s forecast; To date the Division has received £1,217k of devolved income budget; if this funding had not been issued the reported position would have been a cumulative overspend of £2,774k. The main pressures continue to arise from premia on agency and locum staff and overtime, unfunded bed capacity and unfound savings. There were also pressures relating to medical staffing costs in November.

The Division had delivered activity £1.5m over Production Plan as at month 7, albeit £1.2m has been funded by devolving IPPD income budget as noted above.

Due to the Division’s ongoing problems with capacity and recruitment, the Division remains under “Special Measures” to ensure that the current problems, which are showing signs of improvement, continue to be addressed as rapidly as possible.

Division 3 (Women and Children), overspent by £457k in October, due to unfound
CIPs, recruitment of additional midwives and use of agency in Obstetrics and Gynaecology (cumulatively £975k overspent). Although activity to month 7 was above target the financial value of this was £650k below Production Plan. The Division is being reviewed weekly by the Chief Executive and Finance Director, with particular focus on Obstetrics, to address the emerging issues. The new DDO took up post on 8th December.

Division 4 overspent by £406k in November due to high agency usage and outsourcing costs, and it is now £296k overspent cumulatively. Cumulatively the Division’s activity is £1.3m ahead of Production Plan.

Division 5 (diagnostics and therapies) underspent by £145k due mainly to a rebate from NBS of £196k. Cumulatively the Division is £0.1m overspent.

Divisional income had an adverse variance of £97k in November mainly as a result of low private patient income.

Headquarters and central budgets collectively underspent by £1.2m in November; unspent uncommitted reserves (£631k) and increasing underspends on Trust HQ budgets (£290k) contributed to this.

All Divisions were tasked by the Chief Executive to produce Plans aimed at returning to financial balance by the end of the year. These have been reviewed and, where deliverable, have been reflected in revised forecasts.

b) Delivering an in-year financial saving of £17.7m

At the end of November savings of £9.0m (last month £7.8m) had been delivered, compared to the Plan of £11.7m. Of the variance of £2.7m, £1.2m relates to differences in profiling between budgets and the savings profile the Divisions are working to. The balance relates to unidentified schemes and slippage in delivery of savings identified.

Schedule 7 shows the analysis of firm plans by Divisions, Headquarters Directorates and central schemes and Schedule 8 shows the detail of the overall savings programme of £17.7m. 100% of schemes have now been identified with 85% rated as green and 15% as amber in terms of delivery of milestones.

Significant efforts are underway in divisions, facilitated by the PMO, to improve the situation, with particular focus on (i) driving timely delivery of identified schemes. On average the Trust needs to deliver 12% (£2.2m) of savings per month to deliver the overall savings target by the year end (ii) reducing the gap between savings included in Level Cs and those included in Divisional forecasts. At 30th November the gap stood at £2.1m (being the difference between red rated schemes of £0.1m and the shortfall on CIPs within the year end forecast of £2.2m).

c) Achieving the agreed volumes of activity to deliver the income plan

Activity figures for October are now available and show a busy month. Assuming Production Plan levels of income in month 8, cumulative overperformance compared to the Production Plan is £2.8m (overperformance of £15.0m compared to the Sales Plan).

Overall NHS clinical income is showing a positive variance of £0.2m – the overperformance mentioned above is offset by the issue of devolved income budget to Divisions which is not flowing through as actual overperformance against the Production Plan (£3.0m). The numbers include additional activity from the 2007/08 financial year, which was not identified in time to be billed in the old year (£0.6m).
Non NHS Clinical Income shows an adverse variance of £491k cumulatively, due to lower than Plan private patient income. Other Central Income includes education, research and Market Forces Factor (MFF) funding and cumulatively to November income exceeded budget by £1,151k, mainly due to higher than anticipated MFF and education funding.

Detailed variances by commissioner are shown on Schedule 3. The Trust has agreed a likely year end planning assumption with Hampshire PCT and work on securing a similar agreement with Southampton City PCT is ongoing. The CMR now also includes a Schedule 4a, showing income by type (elective, nonelective etc), and a Schedule 4b showing income split by defining and contestable services.

d) Creation of a contingency to cover unexpected variations on the above

The approach for 2008/09 has been based on identifying contingency reserves to cover the likely risk from variations in costs against Plan, contractual fines, the ISTC, Extended Choice and Demand Management. If risks are successfully managed out, these reserves will become available to put into the central “bank” to which bids for funding to improve services, quality and the hospital environment, can be made. In June £2.4m of funding was issued to Division 2 to fund the additional costs they will incur in nursing agency costs, assuming the Division achieves its recruitment plan; this has left a balance on contingency reserves the year to date element of which has been released.

Cash and liquidity

Schedules 9a and 10 show the Trust’s current balance sheet and cashflow. The Trust’s cash position has improved considerably over the last 18 months, although this was only achieved by taking out a £25m working capital loan from the Department of Health last year and £10.5m of capital loan in 2007/08, on which interest is payable. A further capital loan of £8m has been taken out in September 2008.

At the end of November the Trust had £25.0m in the bank, a decrease of £3.1m compared to October and £4.7m more than Plan, due mainly to early receipt of block payments from Southampton City PCT (£5m) and to drawing down PDC (for the Haematology and BRU schemes) from the Department of Health earlier than was previously anticipated (£3m), offset by overperformance invoices to the PCTs that have not yet been paid, although the cashflow forecast assumed that they would have been paid by this stage.

Assuming a 30 day working capital facility was in place, the current financial position would result in a liquidity rating of 4 and an overall Monitor risk rating of 4. (Schedule 2a).

Schedule 2a also shows some key balance sheet indicators which are being developed.

Schedule 11 shows capital expenditure for the year to date compared to Plan. Thus far, £18.0 has been spent against a Plan of £16.6m. This is due to budget phasing and is not currently a cause for concern.

Year-end forecast

The Trust’s year-end forecast is reviewed on a monthly basis. This exercise has confirmed that despite additional pressures in some areas the target surplus of £13.3m is currently expected to be delivered.

Risks

The Trust’s main financial risks are summarised below. The approach this year has been to identify contingency reserves to manage the risks associated with
performance related fines, Demand Management and the Independent Sector Treatment Centre (ISTC) as well as general cost pressures and non-delivery of the Production Plan. Currently, reserves of £7.4m are being held to cover these risks, after the issue of £2.4m of funding to Division 2.

<table>
<thead>
<tr>
<th>Risks identified</th>
<th>Description</th>
<th>Potential value £m</th>
<th>Likelihood</th>
<th>Weighted value £m</th>
<th>Current situation and mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income &amp; Contracts</td>
<td>The level of contracted income is lower than that assumed in the Production Plan</td>
<td>10.0</td>
<td>M – 50%</td>
<td>5.0</td>
<td>Monitor to ascertain whether work flows to the Trust as expected. Have clear mechanisms for cost reduction should the income not flow. Significant concerns about collectability of income due to pressures on PCT budgets in local health economy.</td>
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<td></td>
<td>Potential for challenges to SUHT coding on zero length of stay beyond the £1m held in Reserves</td>
<td>1.0</td>
<td>L – 25%</td>
<td>0.25</td>
<td>Risk capped under the contract at £1m per PCT for &lt; 1 day length of stay. Need a robust process to identify and prevent inappropriate zero length of stay admissions. Coding audit now completed by BUPA confirms low risk for SUHT.</td>
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<td>MFF – Lower than planned due to “MFFable” income under PbR being lower</td>
<td>1.0</td>
<td>Nil</td>
<td></td>
<td>0</td>
<td>Not likely to happen due to high activity levels</td>
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<td>Penalty regime under mandated national contracts</td>
<td>6.5</td>
<td>M – 50%</td>
<td>3.25</td>
<td>Currently achieving c. difficile targets and close to trajectory for 18 weeks. Ensure the Trust complies with service performance (C difficile, 18 weeks) and information provision requirements; increase CIPS; utilise contingency reserves</td>
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<td>Lose more activity than anticipated due to Choice/ISTC</td>
<td>2.5</td>
<td>L – 25%</td>
<td>0.625</td>
<td>Seek other clinical income by increasing market share in targeted areas; increase CIPs</td>
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<td>CIPs</td>
<td>Non-delivery of CIPs</td>
<td>5.0</td>
<td>M – 50%</td>
<td>2.5</td>
<td>100% of CIPs now identified but there is slippage in delivery. Seek CIPs in other areas; slip developments</td>
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<td>Demand Management</td>
<td>Cost reduction required in response to successful Demand Management</td>
<td>3.0</td>
<td>L – 25%</td>
<td>0.75</td>
<td>PCT led schemes are only emerging slowly, so risk is reducing. Model and understand costs which can be removed; increase CIPs; develop new income streams to compensate</td>
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<td></td>
<td>Subcontracting required if Demand Management fails</td>
<td>2.0</td>
<td>M – 50%</td>
<td>1.0</td>
<td>Work with PCTs to develop robust Demand Management plans which enable the Trust to move to optimal capacity</td>
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<td>ISTC</td>
<td>Inability to reduce costs</td>
<td>2.5</td>
<td>L – 25%</td>
<td>0.625</td>
<td>Model and understand costs which can be removed; increase CIPs; develop new income streams to compensate</td>
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<tr>
<td>Divisional overspending</td>
<td>Pressures experienced in 07/08, principally in Division 2, flow through into 08/09</td>
<td>4.0</td>
<td>M – 50%</td>
<td>2.0</td>
<td>Significant pressures in Divisions 1, 2 and 3 highlight the ongoing risk in this area. Set budgets at outturn run rate levels and based on a realistic capacity plan</td>
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<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>16.0</strong></td>
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