SOUTHAMPTON UNIVERSITY HOSPITALS NHS TRUST

Corporate Monitoring Report

Report to: Trust Board 24th May 2011

Report from: Andrew Wood, Deputy Director of Finance

Sponsoring Executive: Alastair Matthews, Director of Finance & Investment

Purpose of Report: To update the Trust Board on the financial, activity and savings performance of the Trust for April 2011.

Review History to Date: The Trust Board has previously agreed the income and expenditure budgets for 2011/2012 with a full year plan pre-impairment surplus of £5.2m.

Recommendation: The Board are asked to note:

(1) In April, the Trust has delivered a pre-impairment loss of £0.8m, £0.1m worse than Plan.
(2) Cost Improvement Programmes (CIPs) delivered were £0.4m below Plan, which is now phased based on a historic delivery profile rather than twelfths as in previous years. The target is 95% identified at 30th April 2011.
(3) Divisions and headquarters underspent against Plan by £1m, with a further £0.3m of underspending on reserves. Some of this underspend relates to low spend matched by deferred income on hosted services and R&D (£0.7m).
(4) The April position is based on a number of assumptions on income and activity management.

Summary

The Trust suffered a deficit overall in April as expected, delivering a loss of £0.8m, £0.1m worse than Planned. EBITDA was £1.5m compared to a Plan of £1.6m.

Despite shortfalls in delivery against planned CIPs, divisions and headquarters functions underspent against Plan by £1m, with a further £0.3m of underspending on reserves. Some of this underspend relates to low spend matched by deferred income on hosted services and R&D (£0.7m).

Due to the time lag in activity information being available (1 month in arrears); activity numbers for April are not yet available. However, given the size of the activity management programmes required this year, and the fact that many of the plans are not yet fully worked up, a level of overperformance has been assumed in April's income budgets. For Hampshire and Southampton PCTs, one twelfth of the income for the year has been brought into April's actual position, together with an adjustment to reflect estimated activity management phasing. Planned levels of income have been assumed on all other clinical contracts.

There is a significant (£242k) underrecovery of non - NHS clinical income due primarily to continuing low levels of private patient income.

The underlying runrate position within Divisions and THQ combined was £1,384k favourable, compounded by underspendings in Trust HQ, corporate and reserve budgets to give a £1,698k positive runrate variance overall. However, delivery of CIPs in April was disappointing. Divisions planned to deliver £226k more than the Trust's profiled plan but fell short of this by £598k.

Savings required (CIPs) total £27.8m, being the 10/11 target of £25.2m plus £5.7m of 10/11 savings which were not found or only found non-recurringly but are largely offset by £3.1m full year effect of the 2010/11 CIPs which are included in the 2010/11 identified CIPs. In April, savings of £0.6m were delivered, leading to a variance against Plan of £0.4m. As the Divisions had said they would deliver more than the Trust profile, they fell short of their own plans by a further £0.2m.

The cash balance at the end of April at £18.6m is £9.5m higher than plan, this is due mainly to higher receipts of R&D funding and a lower than plan level of NHS trade receivables.

The cash flow projections for 2011/12 assume an additional working capital loan of £20m is drawn down in September and as a result the forecast shows increased cash balances in the second half of the year. The year end forecast of £30m is in line with plan.

Key Messages for April:

Delivery of the Trust's financial targets in 2011/2012 will principally be determined by performance in four areas:

a) Divisional and Headquarter Directorates controlling expenditure to within their budgetary targets
b) Delivery of in-year financial savings of at least £27.4m plus activity management savings of a further £12m. Activity Management cost savings are phased into the corporate budget from 1st July 2011.
c) Delivery of activity levels in line with contracts and the Capacity Plan.
d) Development of a contingency reserve to offset any unexpected variations on the above, and to manage the risks associated with Demand Management and other unforeseen risks emerging.

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 was cumulatively underspent on operating expenditure by £1.3m at the end of April. Unlike previous years, when they were phased in twelfths, Cost Improvement Programmes are now phased broadly accordingly to a historic delivery profile.

The Trust is cumulatively underspent against its forecast 'runrate' expenditure by £1.7m, as shown on schedule 6. In total Clinical Directorates were £0.1m below agreed 'runrates' and Headquarters Directorates and central areas were £1.6m below. This latter number includes £1.2m which is the impact of adding back the adverse variance on divisional income, to give a true expenditure variance. Divisional performance is analysed on Schedule 6.

Division A

In the month the Division spent £8.7m which was £0.1m less than March. The monthly variance was an overspend of £0.2m. The in month position related to CIP shortfall due to both slippage and un-identified together with some run rate pressures.

The Division experienced continued pressures in Surgery and Critical Care nursing due to continuing agency usage due to vacancies, unfunded beds and higher sickness levels. Medical staff spend was adverse due to additional lists to support 18week recovery plans. There was an increase in non pay spend in Cancer Care on drugs due to some one-off high cost drugs and high blood product spend in Critical care. The Division saw under-achievement of £40k in Cancer Care private patient Income, which is likely to be a temporary variation to a generally improved private patient income trend.

In terms of workforce the general trend downward of the paybill has continued, however the wtes used in month for the Division were 1,649 compared with 1,642 in the previous month due to high sickness levels in theatres. Overtime usage continues to fall and the total reduction in the monthly Pay bill was £40k compared with last month.

Activity information is not yet available for April and so no IPPD funding was devolved.

Division B
The Division underspent by £7k in April and spent £8.9m in total.

The key points are: drug overspends, mainly in Specialist Medicine & Ophthalmology, on biologics and AMD; pathology income was low for the month linked to the number of bank and school holidays in April, although there is an offset in non-pay expenditure; underspends in most pay areas have recovered the position and pay will be an area of focus for the Division until its CIP is 100% identified and is being delivered.

Workforce numbers highlight a worked position of 1,751 wtes which is a decrease of 5 wtes from March 2011. The Division is currently finalising its workforce plan.

Month 1 activity is not available, however bed occupancy remains unchanged from March.

The ongoing focus of the Division is to hold and try to improve this financial position through increasing delivery of CIPs and working with partners to achieve the agreed activity management schemes.

Division C
Division C over spent by £0.2m in April; 90% of the over spend is in the Child Health Care Group. Activity trends are rising although CIP delivery against plan is the most significant contributory factor to the position.

Service issues surrounding the ongoing Safe & Sustainable review of Paediatric Cardiac Surgery and the transfer in of Paediatric Neuro and Paediatric Spines, allied to the activity rises have lead the Division to take urgent action to bolster leadership within the Care Group, by recruiting an additional Matron and an additional Operations Manager.

Maternity is experiencing significant pressures against capacity - particularly impacted is PAH Theatres as the caesarean section rate has risen from 21% to 27% this month.

The Divisional pay bill has increased by £0.1m this month to £6.5m whilst headcount in absolute terms has fallen from 1915 wte to 1883 wte due to the transfer of Clinical Engineering staff to the Estates Department this month. The reason for this apparent contradiction is that the Division did not have the one off financial benefit from the reduction in the holiday pay accrual this month. Agency spend has fallen back below the £100k target threshold again this month.

The Division has identified 84% of its £6.6m CIP target for financial year 2011/12, and actioned 11% in month 1.

Division D
Division D is £7k favourable at month 1.

The main issues in the month were unidentified CIP and low Private Patient Income which has been offset by vacancies across all staff groups and low MSSE spend, relating to low activity due to the low number of working days in the month. The

Division has identified 100% of its £4.3m CIP target, although a number of schemes still need to be finalised and implemented.

The Division spent £6.3m in April with agency expenditure at £0.1m. Headcount was 1,051 wte which is 11 wte down on March.

THQ

THQ budgets underspent by £0.2m in April.

Pay underspent by £0.2m as a result of vacancies. Non-pay underspent by £0.8m. There were significant underspendings in R&D (£0.4m) and South-West Public Health (£0.3m) due to the sporadic nature of much of the expenditure.

Income under-recovered by £0.8m as a result of deferring income as a result of underspendings in the South-West Public Health Organisation (£0.3m) and R&D (£0.4m). In Other Services RTA income was £0.1m under budget, but this income fluctuates widely each month and this is not expected to be a persistent trend.

b) Delivering an in-year financial saving of £27.4m

At the end of April savings of £0.6m had been delivered, compared to the Trust Plan of £1.0m. Divisions had planned to deliver £1.2m by this stage.

		Month			YTD	
Variance due to:	Actual	Plan	Variance	Actual	Plan	Variance
	£m	£m	£m	£m	£m	£m
Trust profile	0.6	1.0	(0.4)	0.6	1.0	(0.4)
Unidentified	0	0	(0.0)	0	0	(0.0)
	0.6	1.0	(0.4)	0.6	1.0	(0.4)
Divisional profile	0	0.2	(0.2)	0	0.2	(0.2)
Total	**0.6**	**1.2**	**(0.6)**	**0.6**	**1.2**	**(0.6)**

At 30th April 2.2% (£0.6m) of CIP schemes had been delivered. This compares to 1.8% (0.6m) at 30th April 2010.

Schedule 7 shows the analysis of plans by Divisions, Headquarters Directorates and central schemes and Schedule 8 shows the detail of the overall savings programme.

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

Due to the time lag in activity information being available (1 month in arrears); activity numbers for April are not yet available. However, given the size of the activity management programmes required this year, and the fact that many of the plans are not yet fully worked up, a level of overperformance has been assumed in April's income budgets. For Hampshire and Southampton PCTs, one twelfth of the income for the year has been brought into April's actual position, together with an adjustment to reflect estimated activity management phasing. Planned levels of income have been assumed on all other clinical contracts.

There is a significant (£242k) underrecovery of non - NHS clinical income due primarily to continuing low levels of private patient income.

There was an underrecovery of £937k on Divisional and THQ income budgets this month due to a variety of factors including low R&D and hosted services income.

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

The approach for 2011/12, as in previous years, is based on identifying contingency reserves to cover the likely risk from variations in costs against Plan, and additional workload due to unsuccessful activity 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.

The level of identified contingency reserves at the start of the year is £2.5m and the Trust will be seeking to increase this to provide more resilience to its financial position during the year.

Cash and liquidity

Annex 3 and Schedule 9 show the Trust's current Statement of Financial Position and Cashflow.

The cash balance at the end of April at £18.6m is £9.5m higher than plan, this is due mainly to higher receipts of R&D income and a lower than plan level of NHS trade receivables.

The cash flow projections for 2011/12 assume an additional working capital loan of £20m is drawn down in September and as a result the forecast shows high cash balances in the second half of the year. The year end forecast of £30m is in line with plan.

Assuming a 30 day working capital facility was in place, the current financial position would result in a liquidity rating of 2 and an overall Monitor risk rating of 2, due mainly to the year to date loss and non-achievement of Plan. (Schedule 1). This is forecast to rise to a 3 by the year end. Of key note is that the liquidity position has, as anticipated, fallen to within 0.4 days of a 1 rating.

Schedule 1 also shows some key balance sheet indicators.

Risks

Annex 4 shows capital expenditure for the month compared to Plan. £2.6m was spent, compared to Plan of £2.6m. £2.2m of this related to 2 major finance leases for endoscopy equipment and a CT scanner.

Risks Identified	Description	Potential Value £m	Likeli hood	Weighted value £m	Mitigation
Income & Contracts	"Over performance" above contract levels not paid for (gross value)	£20m	M – 50%	£10m	Ensure that the Trust works to capacity and thresholds etc and complies with contractual terms.
CIPs	Non-delivery of CIPs	£5m	M-50%	£2.5m	Strong performance management
Activity Management	Cost reduction required in response to successful Activity Management. (NB: This risk and the risks regarding "over performance" above cannot be compounded).	£12m	M – 50%	£6m	Ensure full engagement in Activity Management, ensure costs which can be removed are removed.
Divisional overspending	Risks of overspending due to operational pressures etc	£10m	M-50%	£5.0m	Strong performance management.