Our vision: "To be amongst the best"

East and North Hertfordshire NHS Trust

Agenda Item: 9a

TRUST BOARD – 30th JANUARY 2013

FINANCE REPORT MONTH 9

PURPOSE	To set out the Trust's financial position compared with the year to date plan for the period ending 31st December 2012.
PREVIOUSLY CONSIDERED BY	Finance & Performance Committee, 23rd January 2013
Objective(s) to which issue relates *	☑ 1. To improve continuously the quality of all aspects of our services ☐ 2. To consolidate acute services for complex or serious conditions onto a single site ☐ 3. To work with colleagues in primary care to expand local access to specialist acute services ☐ 4. To maintain the pre-eminence of Mount Vernon as a tertiary Cancer Centre, and to provide more cancer care locally
Risk Issues (Quality, safety, financial, HR, legal issues, equality issues)	Financial risks are described in the main report
Healthcare/ National Policy (includes CQC/Monitor)	Financial and contractual compliance with Department of Health policies including the Operating Framework for 2012/13. Monitor's Financial Risk Rating metrics are used within the report and appendices.
CRR/Board Assurance Framework *	☐ **Corporate Risk Register** ☑ **BAF**
ACTION REQUIRED *	For approval ☐ For decision ☐ For discussion ☑ For information ☐
DIRECTOR:	Director of Finance
PRESENTED BY:	Director of Finance
AUTHOR:	Director of Finance
DATE:	17th January 2013

We put our patients first We work as a team We value everybody We are open and honest
We strive for excellence and continuous improvement

***** tick applicable box

Finance Report for Month 9
(to the end of December 2012)

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1. Purpose of report

To set out the financial position of the Trust at the end of December 2012. The attached appendices provide details of the financial position to this point; the key issues are highlighted in this report.

2. Summary position

The position for the month of December 2012 is shown in Appendix 2 and summarised in the following table:

£000	Plan December	Actual December	Variance	Plan YTD	Actual YTD	Variance
Income	27,625	26,717	(909)	258,588	256,492	(2,096)
Expenditure	(27,380)	(27,356)	24	(245,506)	(247,607)	(2,101)
EBITDA	**245**	**(640)**	**(885)**	**13,082**	**8,884**	**(4,198)**
Depreciation and PDC	(915)	(839)	76	(8,237)	(7,557)	680
Interest	(187)	(146)	41	(1,685)	(1,312)	373
Net surplus/deficit	**(858)**	**(1,625)**	**(768)**	**3,159**	**16**	**(3,144)**

The Trust is reporting a deficit of £1,625k in the month of December against a planned deficit of £858k, creating an adverse in-month variance of £768k. The year to date surplus is now £16k which is £3,144k behind the original plan.

In terms of performance against the revised surplus trajectory the deficit for December is £776k worse than the forecast, as illustrated at Appendix 12. The November position was £587k better than forecast, so cumulatively to December the position is £189k worse than forecast. At this stage the year end revised net surplus of £0.5m remains.

The adverse variance from forecast is mainly due to a combination of low non clinical income in the month due to the Christmas period and higher expenditure due to winter pressures and the impact of Norovirus. Some additional winter pressure funding is expected to offset the expenditure position, but this has not been included in the reported position until the outcome of the bids is known.

Many other indicators are positive in month 9: there has been continued good performance on CIPs (93% in month) and improved pay cost control including the reducing use of agency staff. The Trust is reporting a Financial Risk Rating of 2 in month 9, as shown at Appendix 1, although this is still forecast to improve to a 3 by the year end.

3. Key issues - Month 9 income and expenditure

Clinical Income

Clinical activity overall in December was in line with plan although income was slightly (£65k) below the revised plan/forecast. Non-elective income, after allowing for provisions for readmissions penalties and the emergency threshold adjustment, was £174k under plan and there were also shortfalls on elective activity (-£112k) and Maternity (-£165k). However, these negatives were offset by stronger outpatient activity (+£182k) and a range of positive variances on our other cost & volume areas (in particular, ITU, NICU, Direct Access Radiology and Ward Attenders). Mount Vernon income was slightly below plan overall but still shows an improvement track versus performance in the first half of the year.

Of all Divisions, only Cancer and Clinical Services delivered income in excess of plan in the month of December. Surgical Division income reflected a relatively weak performance on elective activity and Women & Children the low number of births recorded in the month. Clinical income in Medicine was only slightly below plan.

Divisional Position against forecast

The Clinical Divisions are collectively reporting an adverse variance of £658k from forecast in month as shown in the table below:

Division	**M9 Forecast Variance £000s**	**M9 Actual Variance £000s**	**Variance from Forecast £000s**
Medical	6	(243)	(249)
Surgical	57	(109)	(166)
Women's & Childrens	14	(15)	(29)
Clinical Support	(41)	(111)	(70)
Cancer	31	(113)	(144)
Total	**67**	**(591)**	**(658)**

Of this variance, £285k relates to a shortfall in private patient income, cyberknife income and other non clinical income. Much of this variance relates to lower activity/income during the Christmas period. The other main reason for the adverse variance, particularly in the Medical and Surgical Divisions, relates to the cost of opening additional capacity due to winter pressures and the Norovirus outbreak. Although bids have been submitted for winter pressures funding, no additional income has been assumed in the month 9 position until the outcome of the bids is known.

Agency expenditure

Agency expenditure was £400k in December compared with a target of £500k. The Trust has an agreed trajectory of a 20% reduction in agency expenditure this year, equating to a £1.6m reduction. On this basis, at this point in the year the Trust's planned spend on agency staff was £5m (April to December). The actual year to date spend is £4.5m.

Cost Improvement Programme

The Trust has delivered £1,332k against a target of £1,433k (93%) in month and £10,118k (95%) year to date. All Divisions are forecasting 100% delivery by year end.

4. Cashflow – year to date and forecast

The graphs contained within Appendix 8 show that actual cash at the end of December is £0.8m, being £10m below plan and £5.2m below the revised forecast.

The net income received for December was £935k below forecast and payments to creditors and payroll were £4,083k and £389k above forecast respectively. The payment to suppliers was accelerated prior to the Christmas break to avoid causing suppliers cashflow difficulties, owing to the unavailability of a payment processing facility during the Christmas period. The forecast for January payments to suppliers has been reduced to compensate for the accelerated payments in December. The Trust's cumulative BPPC performance has slipped by 1% to 76%, whilst non-NHS supplier payments remain at 77%.

The QEII land sale of £2.7m appears unlikely to be completed this financial year. Further, capital expenditure will be incurred on the Theatres scheme prior to the loan being received in March. The Trust has therefore applied via the Strategic Health Authority for a £4.9m temporary loan to cover the revised payments scheduled from January to March for the Theatres scheme. This is because the DH has confirmed that the Trust is unable to draw down loans earlier than March, which causes cashflow difficulties in the final quarter of the year. The investment loan application for March has been adjusted for the revised payments for the Theatres scheme. This will allow the Trust to achieve its forecast cash balance of £4.9m.

5. Capital

The Trust's capital programme is summarised in Appendix 9. At the end of December the year to date capital expenditure of £7,671k is below the plan of £10,254k.

Projected capital expenditure for the year is £22,912k and currently indicates an under-commitment of £176k. This is as a result of £1,076k slippage identified from the 2012/13 Trust and OCH programme. The effect of the slippage on the Trust Capital programme will represent a first call of £1,076k on the 2013/14 capital programme.

The OCH capital profile has been updated based on current knowledge regarding the status of the Theatres and Emergency Department schemes.

6. Action plan to achieve revised net surplus

Last month's finance report highlighted the main actions in place to support the delivery of the revised surplus of £0.5m. An update on the recovery actions is as follows:

i) **Ensure the appropriate level of Transformation Funding is received in 2012/13**

The Trust has submitted bids totalling £7.186m but at this stage has only been successful to the sum of £1.610m. A decision is still awaited on the status of the two outstanding bids, totalling £4.9m. This continues to be discussed regularly at Chief Executive level and currently poses a risk to the delivery of the revised forecast, as the Trust has assumed £4.5m of transformation funding.

Action Lead; Chief Executive
Resolution now expected end January 2013 (then Regional mediation if necessary)

ii) **Review and maximise Mount Vernon Income**

The outcome of a detailed review of the activity and income position at Mount Vernon was presented to the December FPC. Most of the actions presented in the paper have been implemented and are subject to ongoing monitoring. The income position for Mount Vernon has seen an improvement in both November and December from the trend reported in the first six months of the year.

Action Lead; Divisional Director, Cancer Services
Actions are the subject of ongoing monitoring through the weekly PMO process (DoF/DoOps)

iii) **Minimise contractual risks/penalties with the PCT/CCG**

The key negotiations under this heading relate to the Readmissions Policy and a potential change to the Emergency threshold. Both Directors of Finance have exchanged several pieces of correspondence regarding this and an update can be provided at the January Board. The SHA is aware of the ongoing discussions and, without satisfactory resolution by the end of January 2013, this will be escalated for mediation.

Action Lead; Director of Finance
Resolution expected end January 2013 (then Regional mediation if necessary)

iv) **Divisions' financial recovery plans**

All Divisions have been set a challenging year end target and have an agreed monthly trajectory of how this target will be delivered, which is outlined in appendix 15. Progress is monitored regularly against Divisions' forecast trajectory, and mitigating actions will need to be developed where adverse variances from forecast are not supported by additional income.

Actions are the subject of ongoing monitoring through the weekly PMO process (DoF/DoOps)

v) **Review opportunities for technical adjustments**

A full review of the asset base of the organisation has resulted in an opportunity to reduce the level of depreciation and public dividend capital in the financial year. The impact of this has been brought into the reported position.

A detailed review of the potential to classify revenue more appropriately as capital, especially when it relates to OCH, has now been undertaken and has been brought into the reported position.

Action Lead; Deputy Director of Finance – now complete

vi) **Winter Pressures Funding (New action)**

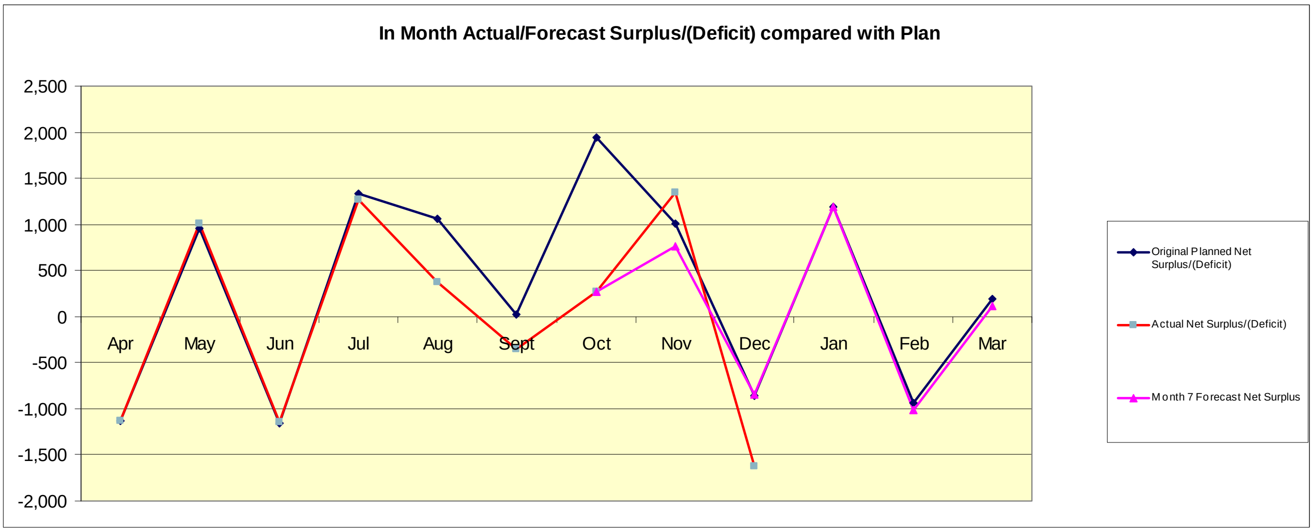
Bids for additional winter pressure funding to the value of £2.5m were submitted in early January and a decision is expected later in January regarding the outcome of the bids. The Trust would expect to receive approximately £1.5m of winter pressure funding based on receiving a 'fair share' of the national allocation. No winter pressure funding has been assumed in the month 9 financial position, although some additional expenditure has been incurred.

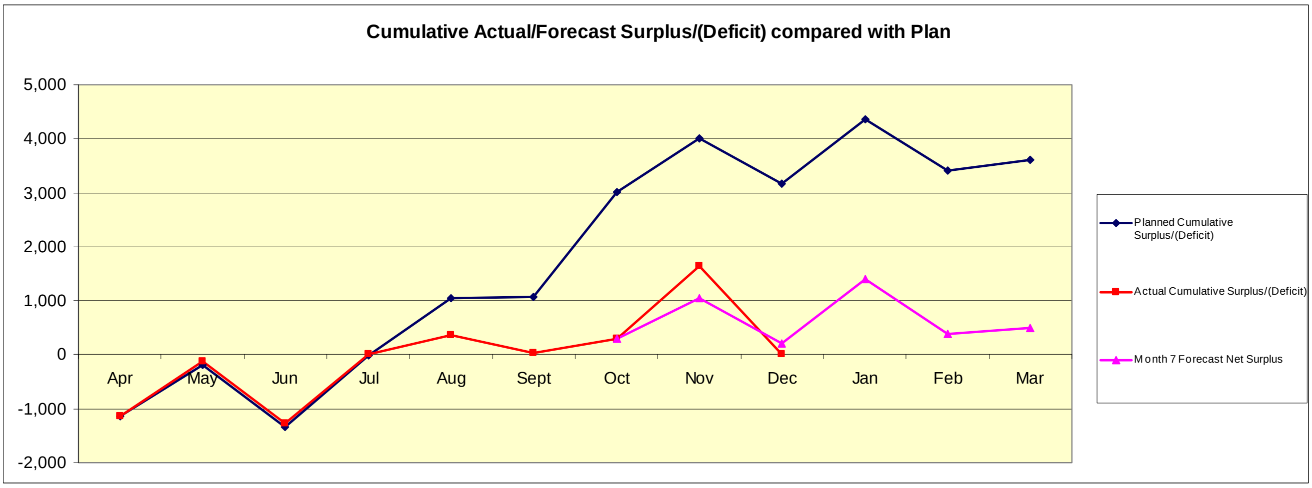
Action Lead; Director of Finance
Resolution expected end January 2013

7. Summary

Although the December position was £776k worse than the forecast for the month, this has been mainly offset by a positive month in November, to give a cumulative position of £189k worse than forecast. It is expected that with the inclusion of winter pressure funding in the final months of the year, the Trust will achieve its revised forecast trajectory of £500k, subject to satisfactory negotiations with the PCT/CCG regarding outstanding contractual risks and transformation funding.

The two graphs below illustrate the planned monthly and cumulative performance for the remaining periods in 2012/13.





They show that the Trust will remain in surplus between December and March 2013, although there will be two months (December and February) when an in month deficit will be reported.

In addition Appendix 13 tracks the forecast Financial Risk Rating over the remaining months based on these revised figures. This shows that the Trust will deliver a Financial Risk Rating of 3 at the end of financial year, although this is a weakened position and more susceptible to being downgraded to a 2 than was previously the case.

Members of the Board are asked to note the month 9 financial position, the revised year end forecast trajectory and the actions required to ensure the revised target is achieved

Paul Traynor
Director of Finance
January 2013