Agenda Item: 10b

TRUST BOARD – 23 OCTOBER 2013

FINANCE REPORT MONTH 6

PURPOSE	To set out the Trust's financial position for the period ending 30 September 2013
PREVIOUSLY CONSIDERED BY	Finance and Performance Committee
Objective(s) to which issue relates *	✓ 1. To continuously improve the quality of our services in order to provide the best care and optimise health outcomes for each and every individual accessing the Trust's services ☐ 2. To excel at customer service, achieving outstanding levels of communication and patient, carer and GP satisfaction ☐ 3. To provide and support the best standards of integrated care for the elderly and those with long term conditions by developing key partnerships and services ☐ 4. To consolidate services and enhance local access to specialist services in order to deliver high quality, safe, seamless, innovative and integrated services which are sustainable ☐ 5. To support the continued development of the Mount Vernon Cancer Centre and provision of leading local and tertiary cancer services ☐ 6. To improve our staff engagement and organisational culture to be amongst the best nationally
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 2013/14. 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:	14 October 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

East and North Hertfordshire NHS Trust

Finance Report for Month 6
(to the end of September 2013)

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1. Purpose of report

To set out the financial position of the Trust at the end of September 2013. 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 September 2013 is shown in Appendix 2 and summarised in the following table:

£000	Plan September	Actual September	Variance	Plan YTD	Actual YTD	Variance
Income	29,870	29,347	(523)	176,136	176,448	312
Expenditure	(28,419)	(28,642)	(224)	(170,402)	(171,918)	(1,516)
EBITDA	**1,451**	**705**	**(746)**	**5,734**	**4,530**	**(1,204)**
Depreciation and PDC	(1,014)	(1,014)	0	(5,398)	(5,398)	0
Interest	(195)	(195)	0	(1,169)	(1,166)	3
Net surplus/deficit	**243**	**(504)**	**(746)**	**(833)**	**(2,034)**	**(1,201)**
Net surplus/deficit (excl Treatment Centre)	**243**	**(11)**	**(253)**	**(833)**	**(1,324)**	**(491)**

The Trust delivered a £504k deficit in September against a planned surplus of £243k, creating an adverse in-month variance of £746k. There is a year to date deficit of £2,034k, which is £1,201k behind the plan.

Of the £746k adverse in month variance, £493k relates to the mobilisation of the Treatment Centre and the first two week's operating losses. The remaining variance is mainly in the Surgical Division, which had a poor CIP performance as well as a high non pay overspend in the month.

A more detailed analysis of the financial impact of the Treatment Centre is included as an annex. Discussions are still ongoing with the NHS Trust Development Authority (NTDA) regarding additional funding to cover the expected £2m shortfall as a result of mobilising and operating the Treatment Centre this year. Whilst this is ongoing, the Trust's year end forecast has been reduced by £2m to £0.1m, to reflect the issue. The graph in appendix 1 demonstrates the revised trajectory post take over of the Treatment Centre, assuming no additional funding is received.

CIP performance has improved to 94% delivery in month, with a year to date variance of £1,166k (83% delivery). The Financial Risk Rating for the month remains at 2 as expected and shown at Appendix 1.

3. Key issues - Month 6 income and expenditure

Income

Clinical Income for September was £434k below plan but this includes a shortfall of £338k on activity from the Treatment Centre which was very much in start-up mode during the month. Excluding the Treatment Centre the underlying variance in month was £96k below plan. Reported results were affected by a detailed review of the impact of the 30% payment threshold on emergency admissions where the amount set aside for the penalty liability has been increased by £408k to reflect the latest position of the CCG. Elsewhere, Mount Vernon and outpatient services contributed positive variances of £165k and £275k respectively but these gains were partly offset by performance in A&E where activity levels fell slightly and by the fact that adult and neonatal intensive care facilities, which have both been running well ahead of plan up to end August, have been much quieter in September.

From a Service Line Reporting perspective the best performance was delivered by the Cancer Division where direct expenditure was in line with plan despite the income over-performance. The Surgical Division results (an in-month net deficit of £805k) includes the impact of the Treatment Centre (£493k adverse - covered in more detail in a separate appendix) but would otherwise still have been £312k versus plan due to expenditure variances. The Medical Division was £436k in deficit versus plan with a combination of income underachievement and expenditure overrun. The two remaining divisions, Womens and Children's and Clinical Support services were at and slightly above plan respectively.

Pay Expenditure

The pay overspend in month was £305k, of which £126k relates to costs due to the treatment centre. A summary of the pay variance in month and year to date by Division is summarised below.

Division	**Pay Variance in month £000s**	**Pay Variance year to date £000s**
Medical	(65)	(808)
Surgical	(175)	(522)
Cancer	33	144
Clinical Support	(73)	(361)
Womens & Childrens	(10)	(43)
ISTC	72	370
Corporate	39	36
Treatment centre	(126)	(176)
Total Pay Variance	**(305)**	**(1,360)**

The most significant pay variance (£175k) is within the Surgical Division, £171k of which relates to slippage on various pay CIP schemes. The Division incurred £110k of NHSP costs relating to previous months, due to medical staff shifts for some specialties being entered onto the NHSP system retrospectively. This cost pressure was partially offset by underspends in anaesthetic medical staff due to lower agency expenditure due to less vacancies.

The Medical Division has an adverse pay variance of £65k in month, which is an improvement on recent months. The variance is all due to operational reasons with the opening of additional bed capacity at the Lister site (£25k) and the use of a ward at the QEII site for delayed transfers of care patients (£54k).

Clinical support is the only other Division with a significant pay overspend in month (£72k), of which the majority (£53k) relates to the costs of supporting additional outpatient clinics and also an increase in radiology GP direct access activity, for which the Trust receives income.

The reasons for the pay overspend in the Treatment centre are detailed in appendix 13.

The in month variances have been categorised in the table below as variances due to operational, CIP and other reasons. The operational category includes variances due to changes in activity, the agreed opening of additional capacity and authorised extra staffing for quality/patient safety.

Division	**Operational (Capacity/ Activity) £000s**	**CIP £000s**	**Other £000s**	**Pay Variance in month £000s**
Medical	(79)	0	13	(65)
Surgical	(19)	(171)	15	(175)
Cancer		27	6	33
Clinical Support	(53)	(10)	(10)	(73)
Womens & Childrens	(28)	(4)	22	(10)
ISTC			72	72
Corporate		(50)	89	39
Treatment centre			(126)	(126)
Total Pay Variance	**(179)**	**(208)**	**81**	**(305)**

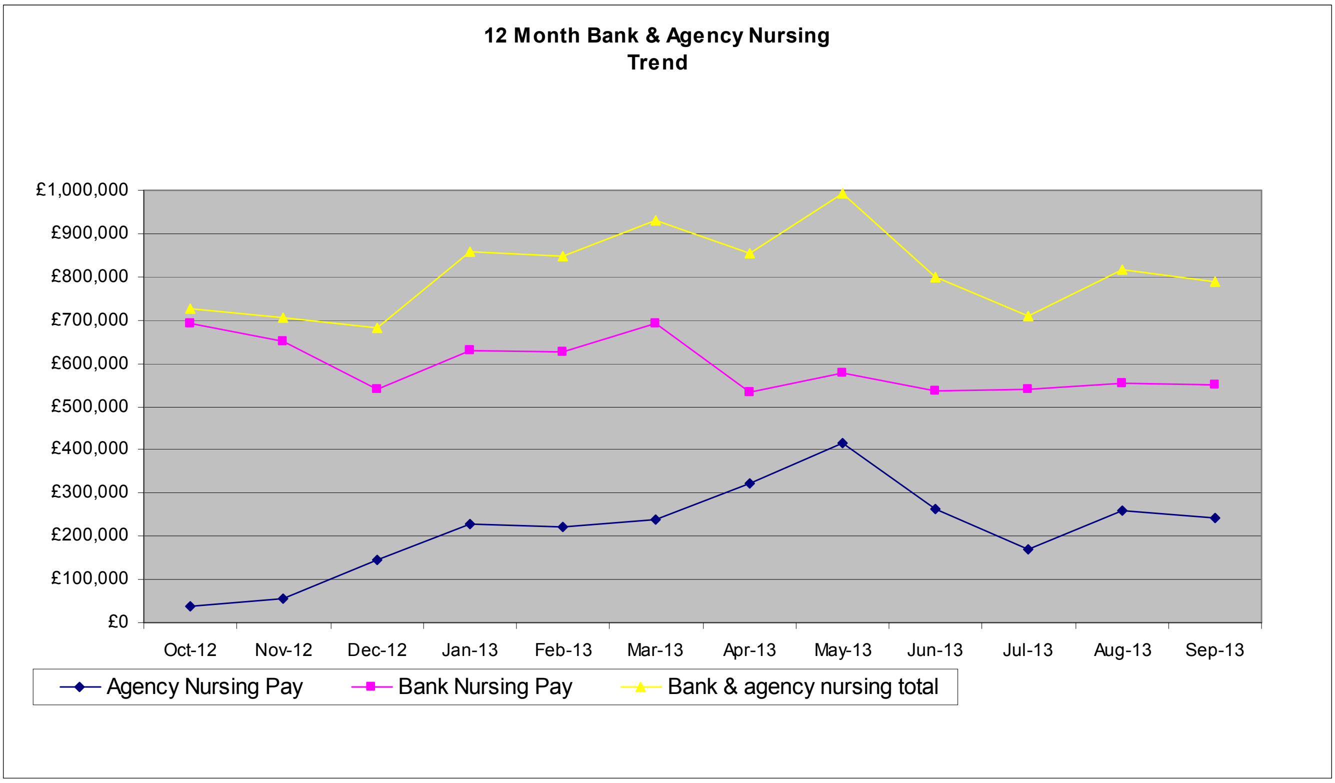
<u>Agency expenditure</u>

Total agency expenditure was £810k in September, which is an increase of £101k from August. However, £117k relates to agency costs relating to mobilising the treatment centre and for the first two weeks of operating. Of the £693k non Treatment Centre agency expenditure £395k is for medical staff, £241k nursing staff and £57k is for technical and non clinical staff.

The estimated premium cost of the £693k agency expenditure is £218k. That means that if the same hours which were worked by agency staff in the month, were undertaken by substantive staff, then the overall paybill would have been less by £218k for the month. The agency premium is not necessarily a cost pressure against budget in the month, as areas with a historically high reliance on agency staff, for example, emergency department middle grades and anaesthetists have a budget for this premium. The estimated impact on the reported overspend is £114k.

The graph below shows the trend for bank and agency <u>nursing</u> expenditure for the last twelve months. For comparative purposes, any agency expenditure for the Treatment Centre has been excluded from the graph below. This shows that agency nursing has reduced slightly from the previous month, but is still higher than the previous calendar year.

The recent cohort recruitment initiatives are expected to reduce reliance on agency usage over the next few months. The daily review meetings to monitor and agree next 24 hour agency usage requests continue to take place.



Non Pay Expenditure

The non pay overspend in month was £586k, of which £30k relates to the treatment centre. A summary of the non-pay variance in month and year to date by Division is summarised below.

Division	**Non-pay Variance in month £000s**	**Non-pay Variance year to date £000s**
Medical	(128)	(527)
Surgical	(308)	(595)
Cancer	(11)	(247)
Clinical Support	(56)	(99)
Womens & Childrens	(2)	(16)
ISTC	(14)	0
Corporate	(38)	(341)
Treatment Centre	(30)	(197)
Total non-pay Variance	**(586)**	**(2,023)**

The in month non-pay variances have been categorised in the table below as variances due to operational, CIP and other reasons.

Division	Operational (Capacity/ Activity) £000s	CIP £000s	Other £000s	Non-pay Variance in month £000s
Medical	(3)	(102)	(23)	(128)
Surgical	(167)	(44)	(97)	(308)
Cancer	(15)	(60)	64	(11)
Clinical Support	(62)	5	1	(56)
Womens & Childrens	(2)	(3)	3	(2)
ISTC			(14)	(14)
Corporate		(21)	(17)	(38)
Treatment centre			(30)	(30)
Total non-pay Variance	**(249)**	**(225)**	**(113)**	**(586)**

£225k of the adverse variance on non-pay is due to non achievement/slippage of CIP schemes. £249k of the overspend relates to costs incurred to deliver additional activity, £167k of which is within the Surgical division. £67k of this overspend relates to late invoices received for spinal patients who have been treated by a private provider from April to September due to lack of Consultant capacity within the Trust. This cost of this is covered by tariff income. The remaining overspends in this category relates to theatre consumables and use of theatre 'loan kit' supported by higher activity, hire of specialist beds (£30k) and hearing aids (£28k). The Clinical Support Division incurred additional non pay costs for pathology sendaway tests and radiology and pathology consumables, due to extra outpatient clinics/activity.

The majority of the £113k 'other' overspend is within the Surgical Division (£97k). £79k of this is on general theatre consumables and specific high cost theatre consumables for General Surgery and Urology. Initial reviews indicate that this isn't due to overall higher activity, although a further review of case-mix needs to be undertaken. The theatre managers have indicated that some of the overspend is due to an overall increase in stock levels, due to the consolidation of General Surgery on the Lister site. No financial adjustment has been made for this until this view has been verified.

Cost Improvement Programme

The Trust has delivered £1,590k against a target of £1,684k (94%) in month, and £5,707k year to date (83%). The phasing of the CIP programme is summarised in appendix 10.

Several pay and non pay CIP schemes have continued to slip, particularly in the Surgical and Medical Divisions, however this has been partially offset by an over delivery of Trustwide CIP schemes.

4. Cashflow

The 2013/14 External Financing Limit (EFL) was set with the TDA at £46,670k per the table below.

2013/14	Plan EFL
FIMs headings	**£000's**
Net cash inflow from activities	8,474
Interest received	0
Capital expenditure	(57,844)
Receipts from sale of assets	2,700
Net cash outflow (EFL)	**(46,670)**
New loans received	23,165
Loan repayments	(2,135)
New PDC	19,562
Opening bank balance	10,099
Closing bank balance	**4,021**

The cash balance at the end of September was £4.440m against a target of £13.579m.

The Month 5 Report highlighted two significant problems relating to the cash position, the final £10.386m of Phase 4 financing and the £5.1m ISTC transitional relief, when it became apparent that neither would be received in September as had originally been assumed. These problems were mitigated in Month 6 by securing £5.1m temporary PDC to replace the transitional relief (repayable in December), and by bringing forward a Phase 4 Capital investment Loan instalment of £5.4m that was originally scheduled for December.

This short-term solution allowed us to catch up with supplier payments which had been allowed to slip until funding had been secured, but this has had an adverse impact on BPPC which has fallen to 72.4% for the year to date (75.8% at Month 5).

Whilst obtaining the £10.5m has been helpful it is still well short of the financing expected in September and so there will continue to be pressure on cash for at least the next three months. This pressure can be alleviated if the Trust is able to secure transformation funding from the CCG.

Work continues with the TDA to resolve these issues, and a satisfactory conclusion is needed by December to allow the temporary PDC to be repaid and to allow payments on Phase 4 to continue without delay.

Subject to the successful resolution of the issues outlined above, it is still anticipated that the cash balance at year end will be around £4m as planned and required to deliver the Trust's EFL target.

5. Capital

The table below provide the makeup of the 2013/14 Capital Resource Limnit (CRL) of £55.654m as agreed with the Trust Development Agency (TDA).

Capital Resource Limit	**2013/14**
	£000's
Depreciation (excluding donated dep'n)	8,500
Loan – Phase 4	23,165
Additional PDC	10,386
Other internally generated resources	1,727
Disposal Proceeds for QE11	2,700
Birthing Environment	186
HPT Transfer PDC	8,990
Total CRL	**55,654**

In addition there is another £1.2m of funding provided by Macmillan for the new Cancer Treatment centre on the Lister site.

The Trust's capital programme is summarised in Appendix 10. It totals £56.9m of which £9m relates to transfers from Hertfordshire Partnership FT for the land and buildings it occupies on the QE11 and Lister sites. However, HPFT have recently informed us that their Board does not wish to transfer the assets until they have been vacated so the transfer date will now need to be reset with the HPFT and the NTDA.

Capital spend at the end of September is £12.959m, which is a £3.8m underspend against plan of which £2.2m relates to the Phase 4 OCH programme, primarily theatres, and £1.6m relates to a variety of Trust schemes including 2012/13 b/fwd schemes £263k, medical equipment £400k, IM&T £218k and Maintenance £322k.

It has been agreed with the OCH team that they will underspend by £1.7m at year end. Other project leads across the Trust have indicated that, despite current underspends, expenditure on their schemes will catch up and they will spend in line with their allocations by year end. The finance team will be reviewing expenditure plans with project managers to confirm that their forecasts are robust and also to identify any flexibility should there be a requirement to delay schemes in order to maintain the Trust's cash position.

6. Summary

The month 6 financial position is behind plan in the month, of which the majority is due to the mobilisation and first two weeks operating losses for the Treatment Centre. As reported in the previous months finance report, the year end forecast has been revised to £0.1m (previously £2.1m) to reflect the anticipated £2m shortfall this year as a result of mobilising and operating the Treatment centre. This is pending confirmation from the NHS England, NTDA and/or CCG as to whether additional funding will be received. CIP performance has improved in the month, and it is expected that this will continue to improve in the second half of the year.

There are significant financing issues which are affecting the cash position. Whilst a temporary solution is providing some mitigation, cash management will continue to be a challenge until the expected funding is received.

In line with the financial plan, a FRR of 2 is reported in month.

Paul Traynor
Director of Finance
October 2013