Agenda Item: 20

The Queen Elizabeth Hospital NHS
King's Lynn
NHS Foundation Trust

REPORT TO TRUST BOARD

SUBMITTED BY:	REPORT FOR:		IMPACT:		
David Stonehouse	Decision		High	Med	Low
CONSULTATION:	Information	√	√		
	REPORT TYPE:		RELATED WORK:		
	Strategic	√			
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Meeting Date: 29th August 2012
Report Title: Finance Report – July 2012

Purpose: To provide an update of the Trust's financial position

Summary: Please see the first page of the report

Financial Implications / Efficiency Savings:

Risk Assessment (cross-reference with Risk Register where appropriate):

Strategic / External	Operational/ Organisational	Financial	Clinical	Legal/ Regulatory	Reputation / Patient Experience
		√			

Recommendations: The Trust Board are asked to note the content of the report and consider actions.

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Date: 17th August 2012

Version; v1

1.0 SUMMARY INCOME & EXPENDITURE POSITION (Appendices 1 and 2)

1.1 For the month the Trust achieved an EBITDA of £983k against a planned EBITDA of £1,175k, an adverse variance of £192k. For the month the Trust reported a surplus of £317k against a planned surplus of £538k, an adverse variance of £221k. The Trust EBITDA margin was 6.9% against a planned EBITDA margin of 8.2%, 1.3% below plan. For the month the Trust has scored an FRR of 4 against an expected FRR of 4.

For the month, whilst expenditure is reporting a minor variance against last months' forecast, (i.e. An over-spend predicated on the revised BSP trajectory) and the overall EBITDA position is also in line with last months' forecast, there have been movements on income as follows:

- NHS clinical income was £94k under plan with under-performance primarily within planned care activity. However both inpatient and out-patient activity has partially been off-set by increased direct access income for radiology.
- The negotiated settlement of the S.I.F.T and L.D.A contracts for education, training and research resulted in a cumulative improvement in July of £118k.

Given this catch-up on Education and training revenue is unlikely to be replicated in future months, the focus is clearly on returning to plan for core clinical income. Recovery actions agreed with the clinical divisions have been factored into the forecast for future months.

1.2 Year to date the Trust achieved £2,246k EBITDA against a plan of £2,294k an adverse variance of £48k. Year to date the Trust reported a deficit of £167k against a planned surplus of £9k, an adverse variance of £176k. Year to date the Trust EBITDA margin is 4.1% against a plan of 4.2%, now 0.1% below plan. Year to date the Trust scored an FRR of 2 against an expected FRR of 2.

The shortfall on plan on ITDA is principally due to timing differences in bringing on donated assets i.e. the N.I.C.U development, which will crystallize later in the financial year.
As predicted last month, the previous over-performance on plan has been offset by the month four position.

1.3 An FRR of 3 by quarter 2 is currently marginal (forecast cumulative EBITDA of £351k below plan at September). To deliver the FRR of 3 by Quarter 2 it is essential that:

- The revised Elective Divisions' income plan is delivered and further re-scheduling of activity is under-taken where possible at a minimum cost.
- For all areas to maximise vacancy savings (ensuring appropriate staffing levels for patient safety).
- For POD leads to deliver their BSP savings as forecast for quarter 2 and that there is no further deterioration of forecast BSP savings.
- Whilst the variance against the operational budgets are not yet significant, the management action that has been identified in areas of concern are put into place and deliver further improvement.

1.4 The Trust plan aims to deliver an EBITDA margin of 5.0%, an FRR score of 3, by Quarter 2. Current EBITDA forecasts indicate an EBITDA Margin of 4.58% by Quarter 2 which when combined with the other factors in the overall FRR calculation indicates that it remains possible to achieve an overall FRR of 3.

1.5 Overall the Trust is forecasting to deliver planned EBITDA by year-end. This includes the full utilisation of the Trust's contingency. The year-end forecast assumes BSP delivery as per the latest assessments. This is currently going through a further rag-rating assessment as the delivery curve escalates in Quarter 2 in order to ensure additional risk can be appropriately mitigated.

2.0 BUSINESS SUSTAINABILITY PROGRAMME (Appendix 3)

2.1 The Trust's financial plan was based on the Business Sustainability Programme (BSP) delivering £10.2m of savings for 2012/13. The Board approved the financial plan on the basis of £8.3m coming from known & identified projects/schemes (PODs), £1.5m was unidentified and £0.4m was to be achieved by staff vacancies in the first four months of 2012.

2.2 At the time of preparing, the detailed Trust forecast cumulative verified savings were £1,311k, £911k associated with PODs and £400k from the planned vacancy factor. As forecast in previous months the BSP has delivered in line with the revised profile in the month and is forecast to under achieve by £1.6m by year end. By the end of quarter 2 the Trust plan requires £2,913k of savings to have been achieved. Current forecasts indicate that £2,363k will be delivered, an under achievement of £550k. Mitigating actions are constantly being reviewed in the weekly BSP meeting and are focusing on maximising and bringing forward the delivery of existing schemes, rather than identifying new opportunities for additional savings.

2.3 Verified savings in the month (completed after the month-end close down) have increased as operational over performance on clinical income has been re-categorised. Whilst the overall Trust financial position remains the same, the achievement of BSP has increased by £55k to £390k for the month. The latest PMO report indicates that the forecast gap remains significant at £1.5m. Further information is included within the PMO dashboard. (Separate agenda item)

2.4 Rag-rating of additional BSP risk is currently being reviewed with project leads.

3.0 TRUST INCOME

3.1 For the month the Trust under delivered against planned clinical income by £94k. Year to date the Trust has under delivered against planned clinical income by £374k

3.2 For the month elective inpatient activity is under plan by 64 cases, generating an adverse variance of £152k. The specialties of Trauma and Orthopaedics, Urology and General Surgery were together 55 cases below plan creating an adverse variance of £160k. Year to date, however, activity is 81 cases under plan, generating an adverse variance of £343k, which reflects the impact of specialty and case-mix. Elective inpatient work is the most significant area of under-performance to date and is a result of a combination of scheduling issues, including the management of annual leave together with managing the peaks of emergency demand.

3.3 For the month, day-case activity was 63 cases below plan, generating an adverse variance of £15k. Year to date day-case activity is 65 cases below plan generating an adverse variance of £40k.

3.4 For the month non elective activity is 40 cases below plan, which has generated a favourable variance of £174k due to speciality case mix variations. Year to date non elective activity is 152 cases over plan generating a favourable variance of £42k. After the effects of excess bed days and the emergency threshold cap the adverse variance year to date becomes £88k.

3.5 For the month outpatient activity is 1,376 attendances below plan, which generated an adverse variance of £115k.
The specialties below plan in July were predominantly E.N.T (220 attendances and £21k adverse variance), Ophthalmology (365 attendances and £35k adverse variance), Urology (133 attendances and £16k adverse variance), General Surgery (155 attendances and £21k adverse variance) and Midwifery (184 attendances and £15k adverse variance).

Year to date outpatient activity is 405 attendances below plan generating a small adverse variance of £58k. In a couple of specialty areas i.e. Ophthalmology and E.N.T, the year to date the value of the adverse variance is significant £203k. This is due to actual demand being lower than planning assumptions. However, this is being mitigated by activity within specialties performing above plan year to date, notably Midwifery at £78k, Obstetrics at £46k and General Medicine at £73k. Dialogue is on-going with specialties to support further improvements.

3.6 Recovery actions being under-taken are detailed below.

4.0 DIVISIONAL FINANCIAL PERFORMANCE

4.1 The Elective Division is reporting a £736k adverse variance against plan. Operational budgets are reporting a £603k adverse variance and BSP is showing an adverse variance of £133k to date. Excluding BSP variance, the under recovery of clinical income is the main issue for the Division. A six-week rolling schedule of activity is being reviewed on a week-by-week basis with the division to track improvements on planned activity. The current forecast by the division based upon scheduled activity to 30th September recovers £110k of income through a combination of increased day-cases and elective in-patient work. Dialogue is on-going at specialty level to secure further improvements.

4.2 The Medicine & Emergency Division is reporting a £54k adverse variance against plan. Operational budgets are reporting a £5k adverse variance and BSP is showing an adverse variance of £49k. The forecast for the division assumes that the Division will be overspent by circa £200k due to the planned investment in additional nursing posts as per the skill mix review (POD 20). The additional investment in nursing establishment is to be funded from the contingency.

4.3 The Women and Children Division is reporting a £349k positive variance against budget. Operational budgets are reporting a £365k positive variance and BSP is reporting a £16k adverse variance to date. The favourable operational variance is associated with additional clinical income and pay vacancies. The forecast for the division is a favourable variance of £352k on operational budgets and an adverse variance of £202k against the BSP plan reflecting the position to date.

4.4 The Clinical Support Division is reporting a £403k positive variance against plan. Operational budgets are reporting a £455k positive variance and BSP is showing a £52k adverse variance to date. The favourable operational variance is associated with staff

vacancies and an increase in clinical income received as direct access. The forecast for the division is an adverse variance of £767k which includes £800k for pathology transformation costs. These costs will be funded from the Pathology Transformation reserve. If this was excluded the forecast operational variance for the Division would be a favourable £424k primarily as a result of the continuation of staff vacancies. Non-pay costs within the division are forecast to increase primarily as a result of the costs of the MRI scanner and the managed service consumables and are currently being reviewed.

4.5 The Hotel Services Department is reporting a £137k adverse variance against plan. Operational budgets are £112k overspent and BSP is also £25k over plan. Excluding the BSP variance, the main area of concern is associated with cleaning consumables. Management control processes have been enhanced and the team is preparing to implement a revised stock control system. The impact of management action will be factored into the August forecasts.

5.0 FINANCIAL RISK (Appendix 4)

5.1 The risks identified in Appendix 4 have been listed and assessed as a best and worst case variance from the current forecast EBITDA.

5.2 Currently the key risks can be divided between delivery of the Trust BSP, contract income and penalties.

5.3 If each risk were to occur (adverse and positive) then the EBITDA range is £9,185k as best case and worst case of £5,560k.

5.4 BSP risk is mitigated by comprehensive management of the programme via the BSP group and Contract risk is mitigated via monitoring of targets reporting through to the TEC. At this point we anticipate managing these risks within the current financial forecast. As highlighted earlier, further risk assessments are being under-taken as schemes approach planned delivery.

6.0 CAPITAL

6.1 For the month the Trust achieved capital expenditure of £0.7m against a plan of £0.3m, an over spend of £0.4m. Expenditure was ahead of plan due to the Itanium hardware being received and installed a month earlier on the PAS Roadmap project than anticipated. A credit VAT adjustment of £0.2m relating to quarter 4 of the previous financial year is included in this month's actual figure of £0.7m.

6.2 Year to date the Trust achieved capital expenditure of £2.5m against a plan of £2.4m, an over spend of £0.1m. Expenditure is now ahead of plan due to the over spend on MRI Scanner and the Itanium hardware being received and installed a month earlier than planned on the PAS Roadmap project. These two project overspends have been partially offset by delays of projects within Estates, IM&T, Medical Equipment and the VAT reclaim.

6.3 The Full year forecast is expected to achieve capital expenditure of £9.3m against a plan of £10.1m, an under spend of £0.8m. Expenditure is forecast to be below plan due to the slippage into next year of the replacement combined heat and power plant (CHP) project (the loan drawdown of £1m for the CHP project will be deferred until 2013/14).

7.0 BALANCE SHEET AND CASHFLOW (Appendix 5)

7.1 The main variances to date are associated with fixed assets, finance lease liabilities and cash balances. The cash balance variance of £9m is due to the early receipt of planned income from NHS Norfolk.

7.2 The variance from plan for fixed assets and finance leases has come about due to the accounting required for the revised bed lease. The Trust's bed lease is categorised as a finance lease under International Financial Reporting Standards (IFRS) and expired at the end of June 2012 with a balloon payment of £0.5m due. The lease has been refinanced and an extension period negotiated. The asset value of the beds has increased accordingly with a book value of £0.5m.

7.3 The forecast balance sheet is generally expected to be as per plan with the exceptions of the aforementioned bed lease, slippage in CHP project expenditure and related loan drawdown.

8.0 CONCLUSIONS AND RECOMMENDATION

8.1 Note the financial performance to date and the cumulative FRR of 2.70 (an FRR of 2 after the application the override rule, as per plan).

8.2 Note that the FRR of 3 from Quarter 2 onwards is still forecast together with year-end EBITDA of £8,760k.