

Trust Board (Part 1)

Subject: December 2014 Financial Position and Impact on 2014/15
Forecast Outturn
Date: 29th January 2015
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Executive Summary:

The Trust's deficit at December 2014 is £24.6m.

Though this is £0.9m less than the December deficit assumption in the £30.9m year-end forecast deficit, concerns have been raised by Division's following the December closedown that the £30.9m forecast deficit may be exceeded.

A review of the forecast has therefore been undertaken which concludes that the outturn deficit will increase to £32.7m.

The attached report considers:

- The reasons behind the increased forecast deficit
- An analysis of each category of income and expenditure
- Activity analysis to December (Appendix 1)
- Q3 CIP update (Appendix 2)

Recommendation:

Trust Board members are recommended to:

- Note the December financial outturn.
- Consider the impact of the December outturn and the risks to the delivery of the Trust's £30.9m deficit forecast.
- **Note the likely increased forecast deficit of £32.7m.**

Relevant Strategic Objectives (please mark in bold)	
Achieve the best patient experience	Achieve financial sustainability
Improve patient safety and provide high quality care	Build successful relationships with external organisations and regulators
Attract, develop and motivate effective teams	

Links to the BAF and Corporate Risk Register	Financial sustainability
Details of additional risks associated with this paper (<i>may include CQC Essential Standards, NHSLA, NHS Constitution</i>)	Not applicable
Links to NHS Constitution	Not applicable
Financial Implications/Impact	Opportunities to reduce costs
Legal Implications/Impact	Not applicable
Partnership working & Public Engagement Implications/Impact	Not applicable
Committees/groups where this item has been presented before	Not applicable
Monitoring and Review	Not applicable
Is a QIA required/been completed? If yes provide brief details	Not applicable

December 2014 Financial Position

The Trust's financial position to the end of December is summarised in the table below:

	Annual Plan	December In-Month			Year to Date		
		Plan	Actual	Variance	Plan	Actual	Variance
	£m	£m	£m	£m	£m	£m	£m
Clinical Income	217.20	18.21	17.89	(0.32)	163.73	164.65	0.92
Other Operating Income	40.97	3.30	3.45	0.15	30.87	31.45	0.59
Total Operating Income	258.17	21.51	21.34	(0.17)	194.59	196.10	1.51
Pay	(163.60)	(13.60)	(14.41)	(0.81)	(123.04)	(129.04)	(5.99)
Non Pay	(94.98)	(7.71)	(8.26)	(0.55)	(72.85)	(72.79)	0.06
Operating Costs Excl. from EBITDA	(8.10)	(0.68)	(0.63)	0.05	(6.08)	(5.31)	0.77
Total Operating Expenditure	(266.68)	(21.99)	(23.30)	(1.31)	(201.97)	(207.13)	(5.16)
Profit/(Loss) from Operations	(8.51)	(0.48)	(1.96)	(1.48)	(7.38)	(11.04)	(3.66)
Non Operating Income	0.49	0.00	(0.04)	(0.04)	0.01	(0.11)	(0.11)
Non Operating Expenditure	(18.35)	(1.52)	(1.52)	(0.00)	(13.46)	(13.48)	(0.02)
Surplus/(Deficit)	(26.37)	(2.00)	(3.52)	(1.52)	(20.83)	(24.63)	(3.80)

£30.9m Deficit Forecast Update

The Trust has agreed a forecast deficit outturn of £30.9m which is £4.5m worse than plan.

	Cumulative October	November	December	Cumulative December	January	February	March	Forecast Total
	£000	£000	£000	£000	£000	£000	£000	£000
Internal plan	(16,319)	(2,515)	(1,996)	(20,830)	(2,011)	(2,039)	(1,490)	(23,269)
£30.9m deficit forecast	(18,096)	(3,534)	(3,892)	(25,522)	(2,115)	(1,510)	(1,728)	(30,875)
Actual to Dec	(18,096)	(3,015)	(3,515)	(24,626)				
Required Jan to Mar					(2,083)	(2,083)	(2,083)	(30,875)

The Trust's overall deficit at Q3 is £24.63m; this means that to achieve a year end deficit of £30.9m the average monthly deficit in Q4 cannot exceed £2.08m.

The actual average run rate to December is £2.74m per month however the November and December deficits have been £3.02m and £3.52m respectively.

In forecasting the year end position the following also needs to be taken into account:

- Insurance payments to the NHS Litigation Authority and Business Rates are paid over the first 10 months of the year therefore against run rate there is a saving of £0.7m per month in February and March.
- Following closure of the December position the 3 clinical divisions have reviewed their forecasts and concluded that a deterioration of £1.25m is expected. This is

driven by the impact of excess emergency activity which is leading to the cancellation of elective work.

Using average deficit run rate as the basis the latest year end forecast is therefore £32.7m as outlined in the table below:

	£m
Actual deficit at December	(24.63)
Q4 - Average run rate to Dec £2.74m x 3 months	(8.22)
Forecast deficit based on current run rate	(32.85)
NHS LA and Business Rates Feb & Mar	1.40
Divisions review of forecast	(1.25)
Revised Forecast Deficit	(32.70)

Activity

Activity has reduced in December in the following areas:

- Elective In patients – the reduction reflects the fewer working days in December compared with October and November.
- Out – patient attendances – again due to reduced working days.
- Regular attenders – reduction is significant in November and December, it is suspected that this activity is not being correctly captured on Medway PAS, investigation is underway. Reduction in activity in November and December is circa 240 cases worth £0.12m.
- Other activity has reduced significantly in November and December; this is GP Direct Access work and reflects a reduction from a peak seen in October. The December reduction is due to the number of working days.

An activity summary is included at Appendix 1.

Analysis of Income and Expenditure Categories

An analysis of each section of the Trust finances has been undertaken, considering:

- The Trust's internal financial plan and its phasing.
- The assumptions included within our £30.9m deficit forecast based on the October financial position.
- Actual financials at December and the required position in Q4 to achieve the previous £30.9m deficit forecast.
- An assessment of risk of achieving the previous £30.9m deficit forecast.

Clinical Income

	Cumulative October £000	November £000	December £000	Cumulative December £000	January £000	February £000	March £000	Forecast Total £000
Internal plan	127,924	17,592	18,211	163,727	18,210	17,134	18,130	217,201
£30.9m deficit forecast	129,391	17,726	17,726	164,843	18,892	18,892	18,892	221,519
Actual to Dec	129,391	17,366	17,888	164,645				
Required Jan to Mar					18,958	18,958	18,958	221,519

Cumulatively at December actual income of £164.6m, £0.9m above plan but marginally £0.2m below the £164.8m assumed within Trust forecast.

Average monthly income to M9 is £18.3m, to achieve forecast, monthly income needs to average £19.0m per month in Q4 an increase of £2.1m over the quarter compared to average actual run rate to December.

- The Trust has received £2.7m of System Resilience funding in Q4.
- Following M9 closedown Planned Care Division has indicated that their previous income forecast is likely to reduce by £1.5m.

The above suggests that of the £2.1m increase required over Q4 £1.2m will be achieved, i.e. Clinical Income will miss the previous forecast by £0.9m.

It should be noted that the agreed plan phasing in 2014/15 does not fully reflect the impact of working days, holidays and bank holidays. This learning will be reflected in the phasing of the 2015/16 plan.

Other Operating Income

Other operating income is on track to meet previous forecast.

	Cumulative October	November	December	Cumulative December	January	February	March	Forecast Total
	£000	£000	£000	£000	£000	£000	£000	£000
Internal plan	23,930	3,636	3,299	30,865	3,318	3,353	3,432	40,968
£30.9m deficit forecast	24,367	3,266	3,308	30,941	3,349	3,320	3,380	40,990
Actual to Dec	24,366	3,637	3,449	31,452				
Required Jan to Mar					3,179	3,179	3,179	40,990

Pay Costs

Actual pay costs increased marginally in December compared to November by £0.15m.

- Medical staff £0.04m increase
- Nursing £0.19m increase
- Other clinical £0.02m decrease
- Non clinical £0.06m decrease (cost includes non-recurrent £0.06m severance)

Nursing pay costs increased in December due to:

- £0.06m fixed pay increase, the increase is due to weekend enhancements, with 4 weekends in October paid November and 5 weekends in November paid December.
- £0.13m variable pay increase, this is a technical adjustment - a non recurrent balance sheet release of £0.13m was made in November.

	Cumulative October	November	December	Cumulative December	January	February	March	Forecast Total
	£000	£000	£000	£000	£000	£000	£000	£000
Internal plan	(95,860)	(13,580)	(13,600)	(123,040)	(13,504)	(13,524)	(13,536)	(163,604)
£30.9m deficit forecast	(100,363)	(14,681)	(14,632)	(129,676)	(14,590)	(14,497)	(14,556)	(173,319)
Actual to Dec	(100,363)	(14,262)	(14,410)	(129,035)				
Required Jan to Mar					(14,761)	(14,761)	(14,761)	(173,319)

Whilst actual pay to December of £129.0m is £6.0m above plan, it is less than the £129.7m assumed in the forecast. Pay expenditure to December has averaged £14.3m, which is c. £0.6m less than the assumed run rate of £14.8m per month in Q4 in the Trust forecast.

Non Pay Costs

	Cumulative			Cumulative			Forecast	
	October	November	December	December	January	February	March	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Internal plan	(57,128)	(8,014)	(7,708)	(72,850)	(7,850)	(6,961)	(7,319)	(94,980)
£30.9m deficit forecast	(56,849)	(7,733)	(8,182)	(72,764)	(7,654)	(7,113)	(7,326)	(94,857)
Actual to Dec	(56,849)	(7,680)	(8,256)	(72,785)				
Required Jan to Mar					(7,357)	(7,357)	(7,357)	(94,857)

Overall non-pay costs variance against plan was £0.55m adverse in December following a £0.34m favourable variance in November. This deterioration was caused by significant in month adverse variances on Drug costs and Other non-pay.

Drug costs

Costs fluctuate considerably on a month by month basis and April to November monthly spend averaged £0.74m per month with a range £0.65m to £0.88m. The November actual was £0.69m (relatively low) with the December actual £0.87m (relatively high). There is no reason therefore to assume that drug costs will continue at the level seen in December over Q4. The average spend to December is £0.76m per month.

Other non-pay

The December actual expenditure in month of £2.86m is consistent with November of £2.83m, the November position included a non-recurrent benefit of £0.25m related to prior months.

Average overall non-pay costs to December are £8.1m per month.

If expenditure remains at £8.1m per month through Q4, the year end forecast will be exceeded by £2.2m, however:

- Divisional review of their forecasts following M9 close suggests an improvement to forecast of £0.3m.
- Business rates and CNST insurance are paid over 10 months (April to January) therefore run rate expenditure will reduce by £0.7m in February and March

Overall the above mean that the previous forecast is projected to be exceeded by £0.5m.

Operating costs excluded from EBITDA

The significant item here is depreciation which continues below plan due to the extension of building lives by the District Valuer after the plan had been agreed. Actual cost at M9 is marginally below forecast by £0.05m and is therefore on track to meet the year end forecast.

	Cumulative October	November	December	Cumulative December	January	February	March	Forecast Total
	£000	£000	£000	£000	£000	£000	£000	£000
Internal plan	(4,716)	(681)	(682)	(6,079)	(668)	(670)	(681)	(8,098)
£30.9m deficit forecast	(4,079)	(641)	(641)	(5,361)	(641)	(641)	(643)	(7,286)
Actual to Dec	(4,079)	(605)	(629)	(5,313)				
Required Jan to Mar					(658)	(658)	(658)	(7,286)

Non-operating income and expenditure

Net expenditure of £13.6m at Q3 is above plan and deficit forecast.

The additional expenditure is due to non budgeted losses on disposal of fixed assets of £0.13m. There are likely to be further non budgeted losses on disposal of fixed assets through the remainder of the year as the asset verification programme is concluded, however the high value areas e.g. radiology and pathology have already been verified and accounted for.

PFI interest and interest receivable on cash balances are expected to be £4.40m in Q4, which when added to the Q3 actual of £13.59m means an outturn of £17.99m plus the value of any further non budgeted losses on disposal of fixed assets. Therefore an adverse movement of £0.2m on the forecast deficit is expected.

	Cumulative October	November	December	Cumulative December	January	February	March	Forecast Total
	£000	£000	£000	£000	£000	£000	£000	£000
Internal plan	(10,469)	(1,468)	(1,516)	(13,453)	(1,516)	(1,371)	(1,516)	(17,856)
£30.9m deficit forecast	(10,563)	(1,471)	(1,471)	(13,505)	(1,471)	(1,471)	(1,475)	(17,922)
Actual to Dec	(10,564)	(1,469)	(1,557)	(13,590)				
Required Jan to Mar					(1,444)	(1,444)	(1,444)	(17,922)

Recommendation

Finance Committee members are recommended to:

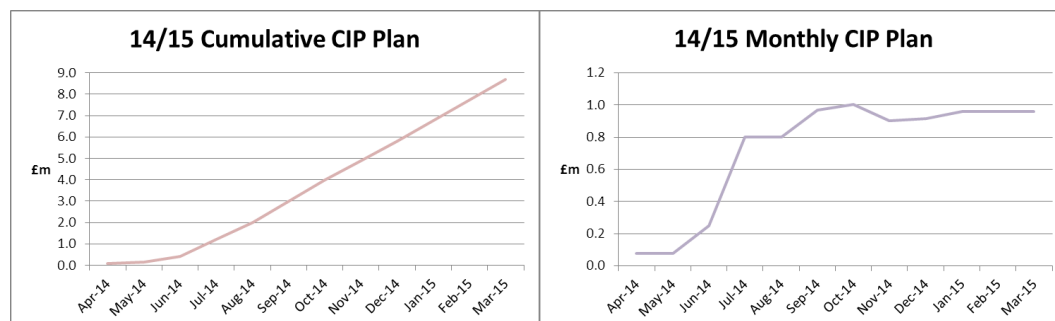
- Note the December financial outturn.
- Consider the impact of the December outturn and the risks to the delivery of the Trust's £30.9m deficit forecast.
- Note the likely increased forecast deficit of £32.7m.

Activity Report Q3 2014/15

POD	Activity Mth1	Activity Mth2	Activity Mth3	Activity Mth4	Activity Mth5	Activity Mth6	Activity Mth7	Activity Mth8	Activity Mth9
Elective I/P	511	487	486	578	497	496	602	551	458
Day cases	2,195	2,136	2,231	2,598	1,950	2,395	2,200	2,051	2,151
Non Elective I/P	3,390	3,517	3,390	3,632	3,360	3,556	3,539	3,437	3,594
OP Attends	36,756	36,397	38,185	41,719	32,315	39,749	38,084	35,772	34,366
Regular attenders	216	258	285	293	257	269	286	180	111
A+E	9,468	10,112	10,033	10,668	9,233	9,667	9,496	9,201	9,263
Others (GPDA/ XBDs / Non PbR)	105,209	106,704	112,915	117,590	98,188	115,676	122,121	108,097	96,279
Total	157,745	159,611	167,525	177,078	145,800	171,808	176,328	159,289	146,222

CIP Report Q3 2014/15**1. 2014/15 CIP Plan**

The Trust has a CIP plan of £8.7m. The timing of this was assumed to build up during the year as outlined in the graphs below:



These illustrate a low plan for Q1 with CIPs substantially delivering from Q2 onwards. If achieved on a recurrent basis the benefit would have been a recurrent saving of £11.5m in 15/16.

The CIP plan included pay, non pay and income elements; these are outlined in the table below:

	Monitor	Monitor Plan	Actual	Variance
£m	Plan	To M9	M9	M9
Pay	6.76	4.48	0.56	(3.92)
Non pay	1.20	0.82	0.47	(0.35)
Income	0.73	0.50	0.17	(0.33)
Total	8.69	5.81	1.20	(4.61)

A limited amount of Income CIP was included within our plan; in year the Trust has debated whether or not this should be counted towards overall CIP achievement and it has been decided as previously reported to Finance Committee and Board that income schemes should not be counted in CIP delivery, only those schemes that deliver cost savings/reduction, to ensure rigour in delivery.

2. 2014/15 CIP Forecast Outturn

Though CIP is a subset of the Trust's overall forecast and delivery of the CIP in itself does not mean delivery of the overall Trust plan, it is never the less an important part of achieving the overall plan. Based on CIP schemes currently implemented forecast delivery is £2.5m in 14/15, £6.2m less than plan. This shortfall is included within the Trust's overall £30.9m deficit forecast for 14/15.

This shortfall is partially offset by the mitigating items (in particular £3.6m contract over performance and £1.5m winter funding) included within the deficit forecast.

The phasing of the forecast outturn of £2.5m is:

£m	Actual YTD @ M08	Forecast M09	Forecast M10	Forecast M11	Forecast M12	Forecast Outturn	Plan	Variance
Division								
PCS	0.12	0.11	0.07	0.07	0.25	0.62	2.82	(2.20)
ECM	0.09	0.13	0.06	0.10	0.14	0.52	2.71	(2.19)
D+R	0.17	0.12	0.12	0.12	0.12	0.66	1.71	(1.05)
Newark	0.16	0.02	0.02	0.02	0.02	0.25	0.33	(0.09)
Corporate	0.31	0.03	0.03	0.03	0.03	0.42	1.13	(0.71)
	0.85	0.41	0.30	0.34	0.56	2.45	8.69	(6.24)

At Month 9 the variance against the forecast outturn is:

£m	Forecast	Actual	Variance
Division	YTD@M9	YTD@M9	M9
PCS	0.23	0.23	(0.00)
ECM	0.22	0.21	(0.01)
D&R	0.29	0.20	(0.09)
Newark	0.18	0.19	0.01
Corporate	0.34	0.37	0.03
Total	1.26	1.20	(0.06)

3. CIP Monitoring Information

The CIP achievement and forecasts have been provided by the Finance Department based on CIP schemes that have been implemented. Plan and year to date achievement is calculated from data held in the Trust's General Ledger.

4. PMO Information

As reported in the Finance Committee action log, the chairman of the Finance Committee has tasked the PMO with reconciling the PMO CIP reporting with the Finance CIP information as included above. Pending completion of this work the Scheme Status report charts that are normally presented in this report have not been included.

5. £2.5m CIP achievement projected within £30.9m overall deficit

- Procurement savings £0.39m
- Newark staffing £0.24m
- Dermatology Consultant £0.10m
- Ward 35 to DTOC non acute ward £0.10m
- Acute Kidney Service £0.08m
- Service line transformation in PCS £0.19m
- Pathology review £0.22m
- Medical equip maintenance £0.08m
- GRN Accrual write backs £0.10m
- Dilapidation provision write back £0.10m
- Other small schemes £0.90m