Board of Directors		
Agenda Item	7.1.2	
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Date of Meeting	26 November 2014	
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Accountable Executive	Alistair Mulvey, Director of Finance	
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Level of Assurance	Full	Board confirmation

1. Executive Summary

Income and Expenditure Position

The planned income and expenditure position for Month 7 is an in month surplus of £586k. Against this plan, an actual surplus of £494k was delivered, resulting in an adverse variance of £92k in month.

The cumulative position for the first 7 months shows a cumulative deficit of £4,652k against a planned deficit of £3,976k; this represents an adverse variance against plan of £676k. This now means that in order for the Trust to operate within its plan for the year – which is a deficit of £4.2m, it will be necessary for there to be no further deterioration in the position for the remaining months of the year; and furthermore that the adverse variance reported in the first 7 months is recovered. Thus in months 8 to 12 it will be necessary for the Trust to deliver a surplus in order to achieve the plan.

In overall terms NHS Clinical income is above plan for October, which includes non recurrent increases in income from commissioners to support referral to treatment times and urgent care, together with associated costs to support delivery.

A clear message, through the Chief Executive Forum, has been provided within the organisation that given the financial position it is required that:

- There is a cessation of all non-essential expenditure
- Where possible necessary expenditure should be delayed
- Increases in pay costs to be curtailed wherever possible and
- The generation and delivery of further ideas to close the financial gap this year and into the new financial year

Cash Position & Continuity of Service Ratios (COS)

The cash position is £15.2m, £11.2m better than plan, this is largely due to:

- Increase in net of trade creditors and trade debtors, including specific cash management actions.
- Payments received early (ahead of terms)
- Capital spend below plan
- Draw down of first tranche of the loan
- Positive movements offset by delayed sale of Springview

The overall Continuity of Service rating at month 7 is a 2, which is in line with the planned COS rating. However the Capital Service metric did not increase to a 2 as planned for month 7 due to operational income & expenditure performance. The year-end forecast is forecast to be a 2 as the fall in EBITDA position is offset by the planned sale of Springview (the sale of which was originally scheduled for August). The liquidity position will also benefit from the drawdown of a loan from the ITFF to support the capital programme.

The headline financial position is summarised as follows:

SUMMARY FINANCIAL STATEMENT MONTH 7 2014/15 (OCT)							Comparative 2013/14 Position (Month 7)		
	In Month			Year to Date			Year to Date		
	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance
Operating Revenue	25,791	26,237	446	173,774	175,994	2,220	172,685	171,146	(1,539)
Employee Expenses	(16,943)	(17,381)	(438)	(118,431)	(121,625)	(3,194)	(111,387)	(119,132)	(7,745)
All Other Operational Expenses	(7,116)	(7,506)	(390)	(47,500)	(50,098)	(2,598)	(43,154)	(46,719)	(3,565)
Reserves	12	262	250	(3,896)	(1,120)	2,776	(9,014)	(804)	8,210
EBITDA	1,744	1,612	(132)	3,947	3,151	(796)	9,130	4,491	(4,639)
Post EBITDA Items	(1,158)	(1,118)	40	(7,923)	(7,803)	120	(7,336)	(7,352)	(16)
Net Surplus/(Deficit)	586	494	(92)	(3,976)	(4,652)	(676)	1,794	(2,861)	(4,655)
EBITDA %	6.8%	6.1%	(0.6%)	2.3%	1.8%	(0.5%)	5.3%	2.6%	(2.7%)
CIP as % Op Expense	4.9%	4.7%	(0.2%)	3.5%	2.6%	(0.9%)	4.9%	1.5%	(3.4%)

Cost Improvement Programme (CIP)

The Trust has an annual CIP target of £13.0m this was extracted from the budget at the start of the year. Identified CIP plans (c. £8.5m) were extracted according to the profile of the schemes identified (including cost avoidance), with the balance extracted in a flat profile (12 ths). At the time of the plan the balance was £4.5m so under £0.4m was unidentified each month.

As at month 7 schemes have delivered £3.7m, a shortfall of £2.3m against the year to date target of £6.0m and the latest CIP forecast is £10.5m compared with a £13m target. Please see table below for detail by Division/Executive theme leads.

Month 7 CIP Position

£000	YTD Actual	YTD Budget	YTD Variance	Full Year Forecast Actual	Full Year Forecast Budget	Full Year Forecast Variance	Recurrent Forecast Actual	Recurrent Forecast Budget	Recurrent Forecast Variance
Exec Lead									
Sharon Gilligan	387	895	(508)	1,484	1,950	(466)	3,946	2,600	1,346
Jill Galvani	205	585	(380)	567	1,275	(708)	1,167	1,700	(533)
Alistair Mulvey	499	1,101	(603)	1,549	2,400	(851)	2,576	3,200	(624)
Mark Blakeman	665	1,308	(643)	2,215	2,850	(635)	3,774	3,800	(26)
Anthony Hassall	1,268	1,251	18	2,994	2,725	269	3,389	6,300	(2,911)
Evan Moore	665	826	(161)	1,667	1,800	(133)	2,733	2,400	333
TOTAL	**3,689**	**5,966**	**(2,277)**	**10,476**	**13,000**	**(2,524)**	**17,586**	**20,000**	**(2,414)**
Division									
Medicine & Acute	946	1,652	(706)	2,836	3,600	(764)	5,589	5,500	89
Surgery, W&C	1,421	1,652	(231)	3,112	3,600	(488)	3,135	5,500	(2,365)
Clinical Support - AF	232	964	(731)	915	2,100	(1,185)	2,502	3,200	(698)
Clinical Support - MW	180	688	(508)	786	1,500	(714)	1,791	2,300	(509)
Corporate Support	910	1,010	(100)	2,827	2,200	627	4,570	3,500	1,070
TOTAL	**3,689**	**5,966**	**(2,277)**	**10,476**	**13,000**	**(2,524)**	**17,586**	**20,000**	**(2,414)**
Adjustment for Risk	0	0	0	(706)	0	(706)	(2,386)	0	(2,386)
Risk Adjusted Total	**3,689**	**5,966**	**(2,277)**	**9,769**	**13,000**	**(3,231)**	**15,200**	**20,000**	**(4,800)**

2. Background

The Trust began the year with a deficit plan of £4.2m, which provided a risk rating of 2. The position for the first 7 months of the year translates into;

- a planned deficit of £4.0m, against which an actual deficit of £4.7m has been delivered (£0.7m adverse variance); and
- A COS rating of 2 in line with the planned COS rating of 2, although the Capital Service metric did not increase to a 2 as planned for month 7 due to operational income & expenditure performance.

The cash position is £15.2m, £11.2m better than plan; this is largely due to early settlement of debtors, delays in the payment of creditors, slippage in the capital programme, specific actions taken to improve cash management and the draw down of the first tranche of the loan. The positive variance in cash balances is offset in part by the poor income and expenditure position, and the delay in the sale of Springview.

3. Key Issues

The Trust has a deficit of £4.7m at Month 7 against a plan of £4.0m; this position is not sustainable going forward. The Trust has continued to work closely in order to assist in improving the financial performance and in embedding deeper transformational change.

For the Trust to achieve its plan for the year it will be necessary for there to be no further deterioration in the position for the remaining months of the year; and furthermore that the adverse variance reported in the first 7 months is recovered.

Divisional Analysis
The following table shows the summary Divisional position (cumulative to Month 7). The senior management teams within the Divisions have provided further explanation and context to the respective positions, and this is included in further detail (attached to this document).

Divisional Analysis of Income & Expenditure Position

Detail	Medicine & Acute £000	Surgery & W&C £000	Clinical Support £000	Op & Lab Medicine £000	Corporate £000	Central £000	Total £000
NHS Clinical Income							
Planned Income	66,341	77,236	5,463	3,967	504	3,653	157,164
Actual Income	68,939	75,662	6,266	4,053	439	3,678	159,037
Variance	2,598	(1,574)	803	86	(65)	25	1,873
Net Expenditure							
Planned Expenditure	45,915	43,136	25,170	16,178	19,288	3,530	153,217
Actual Expenditure	48,493	44,320	26,429	16,778	19,136	730	155,886
Variance	(2,578)	(1,184)	(1,259)	(600)	152	2,800	(2,669)
Variance EBITDA	20	(2,758)	(456)	(514)	87	2,825	(796)
Post EBITDA							
Planned Post EBITDA						7,923	7,923
Actual Post EBITDA						7,803	7,803
Variance	0	0	0	0	0	120	120
Total Variance to Plan	20	(2,758)	(456)	(514)	87	2,945	(676)

Pay Analysis

The most significant area of expenditure for the Trust in October, relates to pay. The total pay spend for October was £17.4m, this is comparable to the costs incurred in August and September, although the preceding period incurred costs of £17.2m. The following figure provides further detail of the monthly and cumulative position in the year to date, and also splits expenditure between permanent (core) spend and other (non-core) spend types.

Analysis of Pay Spend

Detail	April £000	May £000	June £000	July £000	August £000	September £000	October £000	YTD £000
Budget	**16,789**	**16,922**	**16,901**	**16,933**	**16,944**	**16,999**	**16,943**	**118,431**
Pay Costs								
Permanent	15,950	16,081	15,944	15,776	15,785	15,897	15,870	95,433
Bank Staff	299	326	297	355	347	342	330	2,296
Agency Staff	318	357	311	379	537	449	504	2,855
Overtime	318	208	209	162	174	229	195	1,495
Locum	418	336	301	374	435	380	339	2,583
WLI (In Year)	180	138	170	164	171	125	143	1091
Total	**17,484**	**17,444**	**17,234**	**17,210**	**17,449**	**17,422**	**17,381**	**121,624**
Variance	**(695)**	**(522)**	**(333)**	**(277)**	**(505)**	**(423)**	**(438)**	**(3,193)**
Pay Reserves	495	205	70	122	50	60	170	1172
Variance (after reserves)	**(200)**	**(317)**	**(263)**	**(155)**	**(455)**	**(363)**	**(268)**	**(2,021)**

4. Next Steps

The Trust has continued to work closely in order to assist in improving the financial performance and in embedding deeper transformational change. The financial performances of the divisions are being closely monitored through the monthly performance review process. A clear message has been provided within the organisation, emphasing the necessity for the financial position to be improved, both in terms of delivery of activity and control of costs.

5. Conclusion

The in month position shows a surplus of £494k, against a plan of £586k, resulting in an adverse variance of £92k. The year to date position shows a deficit of £4,652k, which is £676k worse than planned. In order for the Trust to operate within its plan it will be necessary that the position does not deteriorate any further in the remaining months of the year; and furthermore that the Trust recovers the adverse performance for the first 7 months of the year. A clear message has been provided within the organisation as to the importance of delivering against activity plans, and in controlling and minimising costs.

6. Recommendations

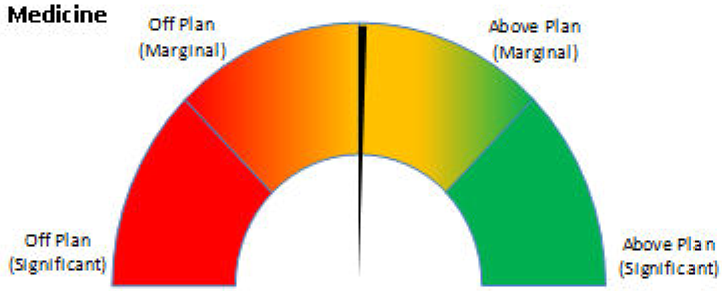
The Trust Board is asked to note the contents of this report.

Alistair Mulvey
Director of Finance
November 2014

Attachment – Divisional Overview & Narratives

Divisional Overview (Month 7)

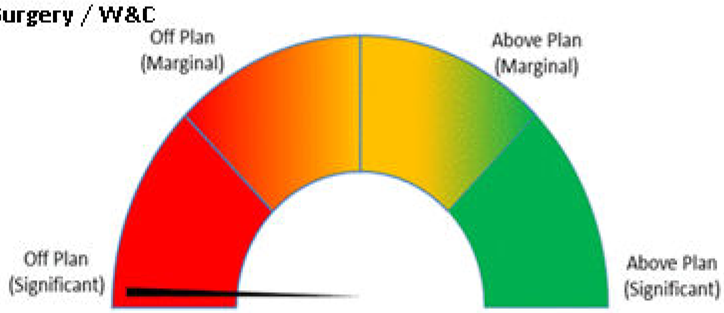
Medicine



Medicine - Key issues

- ***Clinical Income over plan by £2.6m.***
- ***Net Expenditure exceeds budget by £2.6m .***
- ***Overall position is on plan.***

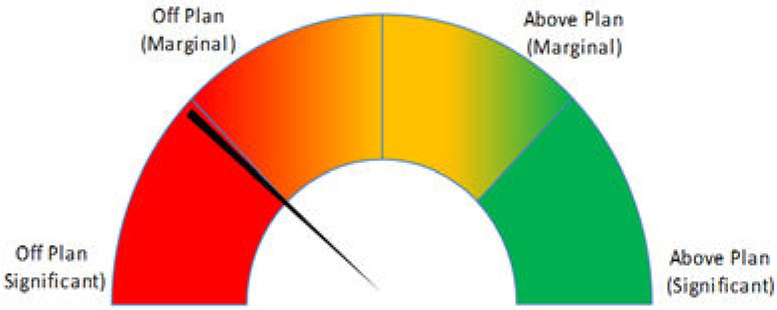
Surgery / W&C



Surgery / W&C - Key issues

- ***Clinical Income behind plan by £1.6m.***
- ***Net Expenditure exceeds budget by £1.2m.***
- ***Overall position £2.8m off plan.***

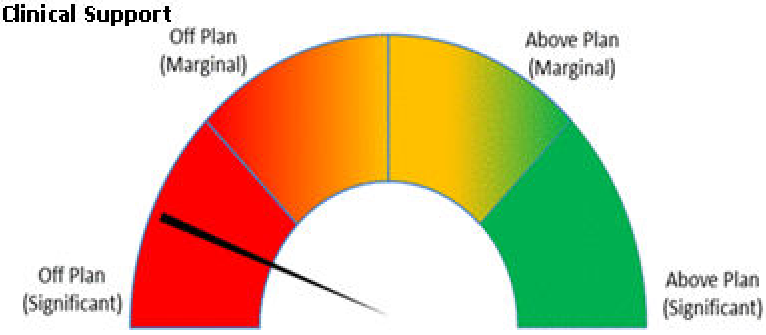
Ops & Lab Medicine



Ops & Lab Medicine - Key issues

- ***Clinical Income ahead of plan by £0.1m.***
- ***Net Expenditure over plan by £0.6m.***
- ***Overall position £0.5m off plan.***

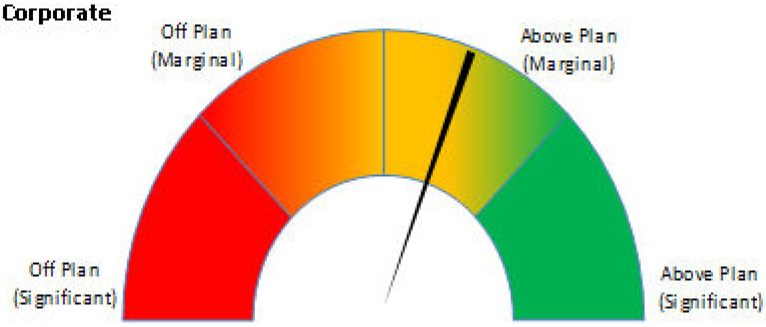
Clinical Support



Clinical Support - Key issues

- ***Clinical Income over plan by £0.8m—additional activity.***
- ***Net Expenditure exceeds budget by £1.3m, driven by additional activity and CIP shortfall.***
- ***Overall position £0.5m off plan.***

Corporate



Corporate - Key issues

- ***Divisional income below plan by £0.2m.***
- ***Expenditure under spent by £0.4m .***
- ***Overall position £0.2m better than plan.***

Medicine & Acute I&E

The division reported a £315k surplus in month 7, the fourth successive month within which a surplus was reported and has resulted in the cumulative position having a surplus against plan of £20k. A concern for the forthcoming months is the shortage of therapy support staff and the pressures this may cause with the additional activity anticipated for the winter months and also the shortcomings of schemes from external providers to aid reductions to length of stay.

Clinical Income within the division is over achieving by c£2.6m, the main drivers of this include additional volumes of activity within planned care work streams both out-patients and in-patient care (£135k and £762k respectively relating to 930 out-patient and 1,374 in-patients) and increased volumes of patients from a non elective care perspective. Non elective activity (net of re-admissions) has over performed against plan by 1,127 patients equating to £1,738k. The Division has generated this additional non elective activity within a reduced bed base of 40 funded beds. However, Emergency Department attendances are up against plan by 626, but due to penalties imposed relating to the 4-hour breaches, the net income position for ED is down against plan by £419k.

The net costs of service delivery have exceeded the planned budget by £2.6m. The most significant element of pressure relates to staff costs, c£2.2m with the balance being slippage against CIP plans and over spending against clinical supplies.
From a pay perspective, the cumulative deficit relates to;

- ED staffing, £0.6m - the current level of overspending has reduced per month as expected rather than the previous £100k per month. The excess costs which will persist relate to the use of temporary/locum staff whilst awaiting substantive staff to be appointed. The department has, in the last month appointed another substantive consultant which reduces the current consultant gap to two wte.
- Gastro currently has overspending of c£534k as locum staff are required to fulfill vacant posts. It should be noted that the current over recovery of income within gastro is £370k and therefore partially off sets these costs. Recruitment processes are underway to fill posts substantively. However, the over-recovery of income is not expected to continue as the speciality planned activity assumptions increase significantly in the latter part of the financial year and there will be additional gaps due to Nurse Endoscopists leaving in December.
- Nursing costs – nursing budgets are currently £920k overspending, keay areas of this are;

    - £200k relates to staffing of additional beds opened through the preceding 6 months as patient demand and infection control and prevention measures have impacted on the core bed stock
    - £285k relates to staff sickness cover. Sickness levels were at 5.6% at their height in 14/15 and through a programme of work have been reduced to under 4% in September
    - £292k relates to the provision of additional staff for Specialing of patients as a function of their acuity needs. A revised process of agreement for the use of additional staff has been implemented and seen favourable financial results in the last two months although is likely to remain a pressure moving forwards.

Pressures through non pay subjective lines include variable costs associated with clinical supplies of c£471k which are in the main driven by over activity and therefore covered by income secured. To ensure controls and best practice processes for ordering goods is in place the divisional teams are working closely with procurement colleagues.

The division continues to work closely with the PMO and FTI to maximize delivery of CIP. Whilst the division is confident that it will achieve its target on a recurrent basis, in year the division is facing a c£706k year to date pressure, which includes slippage on income schemes not being realised. All efforts continue to be focused on bridging the in year gap.

A detailed forecast outturn position based on current performance levels and run rates has been completed, which has the Division delivering a deficit of £1.2m, which has been reduced from a forecast earlier in the year of over £3m and is anticipated to be achieved through additional income, investment in staffing and cost reduction schemes.

Surgery, Women's & Children's I&E

The divisions overall financial position deteriorated in month 7 by £252k generating a cumulative year to date deficit of £2.76m. Within the overall deficit position expenditure variances are £1.2m year to date deterioration in month of £110k and income under performance is currently £1.57m of which £142k was in month.
The key cumulative drivers of the overall year to date expenditure variance of £1.2m include;

- £249k to support additional bed capacity, of which £108k relates to the provision of the Trust CPE cohort ward;
- £350k relates to Non-PBR excluded devices and high cost drugs, which are pass through costs and attract additional income;
- £435k relates to Park Suite underperformance, against which there is strategic agreement to identify a different PP provision, this will be supplemented with in year price changes where available. Agreement was reached at the beginning of the year that whilst this service sat within the Surgical division any associated pressure would be centrally managed;
- £521k of CIP underperformance and
- Underspend of £300k on Trauma & Orthopaedics costs which is due to Income under performance.

The above costs, which reflect the cumulative position, were also incurred on a proportionate basis in month 7.

From an income perspective the division has a cumulative under performance of £1,574k of which £142k was in month 7.

Whilst there are variations in income across several points of delivery and specialties the key feature within the division both cumulatively and in month relates to orthopaedic activity. Year to date orthopaedics is £1,209k behind its elective plan which includes £109k in Month 7. However, there has been additional work done from Wales in T&O which offset this under performance. The division has also seen year to date under performance against neonatal activity of £278k. Favourable variances, most notably against RTT income and income streams associated with Wales go some way to mitigate these gross income pressures. The Division has seen an improvement in its First Appointment outpatient activity and Non-Elective activity in Month 7 relating to an over performance of £22k and £44k.

The division continues to scrutinise the detail of the orthopaedic position from both a retrospective and prospective perspective increasingly focusing on a daily and weekly basis on the volume of operations booked to ensure slots are filled and resource utilisation maximised and available capacity used for alternative services where appropriate.

The PBR orthopaedic plan was set this year based on available capacity to treat patients. Within the year there has been a significant casemix shift which means that higher volume, lower casemix cases are no longer being received into the Trust thus affecting the ability to deliver the plan.

To help mitigate the impact of this the Division approached Betsi Cadwaladr LHB to undertake cases to help with Welsh waiting time targets for both orthopaedics and ophthalmology to backfill the loss of English activity. These activities are now developing although there were some initial operational anomalies to over come. Good working between the respective organisational teams have resolved these issues and it is hoped that this will support a longer term strategic alliance for future service delivery and it is forecast that the financial benefits of this service provision will flow into future periods and within September the Division has secured another 116 orthopaedic cases to be undertaken from Betsi. The Division is now starting to see an increase in the number of elective cases coming through for Wales and hopefully this will continue for the rest of the financial year and beyond.

Whilst the overall divisional position remains significantly challenging the focus has been and continues to be on;

- Minimising costs where possible with engagement and support with the PMO and more recently FTI who are specifically supporting changes within theatre use and utilisation;
- Exploring, with success, new markets for the provision of services, specifically within north Wales and potential collaboration with Chester
- Delivering additional RTT volumes where possible to underpin loss of core income and
- Ensuring prospective systems are in place for the booking of patients to allow the divisional management teams can support the maximisation of use of clinics and available in-patient resources.

Ops & Lab Medicine

The Division reported a cumulative overspend of £513k to Month 7 with an adverse movement of £121k in month, however, the month 7 position was slightly better than forecast by £30k. By Directorate the main areas of overspend are within Labs and Hotel Services.

From an income perspective the only area that generates Clinical Income is Pathology which is performing slightly ahead of plan (£86k year to date); this increase being largely driven by direct access income with Blood Sciences and Cellular Pathology being cumulatively ahead of plan whilst Microbiology income is slightly behind. However performance against plan has dipped across Pathology for the last four months and as a result we are now projecting a small adverse variance for the remaining year. There remains an overarching concern around the affordability risk across the economy if these levels of diagnostic demand continue.

The Division is reporting a favourable pay variance £190k year to date with only Patient Flow showing a cumulative overspend owing in the main to sickness cover and pay protection.

Non pay budgets are £670k overspent year to date but this is offset by £382k in associated income. Pathology non pay overspend is £296k offset by £136k income, the bulk of lab costs vary with both GP & Trust activity however Pathology is experiencing a significant cost pressure in the provision of blood products to the broader organisation (£113k year to date net of income recovery – further to last month's comment updated reports were available this month resulting in increased volumes being recharged). Hotel Services non pay overspend is £359k offset by higher associated income of £188k, within this area is the impact of accommodation guarantee (£119k adverse ytd),

The division remains £502k behind its year to date CIP target and this remains the biggest risk to delivering a balanced budget. All service areas are actively seeking to identify further opportunities to bridge any remaining gaps in CIP delivery.

The full year unmitigated position based on current activity levels and run rates is forecast to be £1.3m adrift of budget, a slight deterioration on the P6 forecast mainly as a CIP slippage.

Clinical Support

The Division reported an overspend of £458k year to date to month 7, with an adverse movement of £115k in month. However, the month 7 position was £81k better than forecast. Year to date Radiology remains underspent by £30k, AHP's £75k underspent and outpatients, £66k underspent. Theatres are £665k overspent and moved adversely by £168k in month. This was predominantly due to an increase in clinical supplies expenditure and locum costs.

From an income perspective the Division is performing well and is £801k ahead of plan year to date. This is largely driven by direct access income from Radiology. Radiology has experienced an 18% increase in activity resulting in £567k income over achievement with high demand continuing in areas such as Ultrasound. Whilst these income gains generate a contribution there is an affordability risk across the economy if these levels of diagnostic demand continue.

The Division is reporting an adverse pay variance £328k year to date with Theatres £477k overspent (£207k of which relates to 16RTT work) and Radiology £125k, however, encouragingly Outpatients is in surplus £108k and Therapies is also in surplus by £160k.

Non pay budgets are £331k overspent year to date but this is offset by £147k in associated income. Theatres non pay overspend is £135k offset by £87k income and radiology non pay overspend is £197k but there is a shortfall on income of £12k - the bulk of these costs being variable costs associated with direct access volumes.

The Division remains £748k behind its year to date CIP target. Specifically Theatres and Anaesthetics are £351k behind plan, Radiology £202k behind, Therapies £143k behind and Outpatients £52k behind. This is the biggest risk to delivering a balanced budget. Every service is actively in consultation/implementation to introduce new structures which will reduce cost. The division is working closely with PMO in exploring further opportunities to bridge any remaining gaps in CIP delivery.

The full year unmitigated position for Diagnostics & Clinical Support is forecast to be £1.0m adrift of budget, an improvement of the P6 forecast of £0.2m mainly as a result of the inclusion of benefits associated with the remedial plan to address Direct Access waiting times and the realignment of 16wk RTT from Surgery.