APPENDIX 9
BOARD OF DIRECTORS
18 JANUARY 2012

Report to: **Board of Directors**

Report from: **Director of Finance**

Subject: **Finance Report for the Period Ending 30 November 2011**

Date: 18 January 2012

1.0 Key Risks

The income and expenditure position at the end of November 2011 is a surplus of £217,000 which remains as an adverse variance of £60,000 from the plan. The key financial risks for 2011/12 continue to be:

- Delivery of the £4.8 million cost improvement programme (CIP). It is forecast that the CIP will be delivered in full by the end of the financial year but there are currently £93,000 of savings still to be identified. Work is progressing to identify savings for the remaining target.
- Vacancies in the Emergency Department not being filled substantively increasing the forecast expenditure on agency costs. This risk has increased as one of the two new consultant appointments is now unable to accept the post. There remains a high number of middle grade vacancies.
- Bed capacity being greater than planned increasing nursing costs.
- Ability to manage activity related non-pay costs.

2.0 Income and Expenditure

The income and expenditure position at the end of November is a surplus of £217,000 which represents an adverse variance of £60,000 year to date as detailed in Appendix 2.

Clinical income increased in the month by £28,000 due to an increase in critical care patients from outside of the Dorset and Somerset area which attract additional tariff payments.

Operating income was underachieved in month by £27,000 due to reduced mortuary income, vacant residences and an underperformance on the day nursery income.

Pay expenditure is £82,000 less than planned in the month and is £179,000 under budget for the year to date. Nursing costs were favourable in month by £11,000 reducing the year to date cost pressure to £32,000. The Associate Directors of Nursing are continuing to deliver plans to reduce nursing expenditure.

Activity related non-pay expenditure remains overspent by £171,000 year to date. The two main areas of pressure relate to consumable costs in orthopaedics and surgery due to the increase in complexity of patients. Drug costs have increased in the month due a continued increased usage of high cost drugs in paediatrics.

As part of the budget setting process some central contingency risk provisions were made. At the 30 November £98,000 of this provision has been utilised to support the position.

3.0 Divisional Risks

Family Health and Clinical Support: At the end of month 8 they are £2,000 overspent against budget. The change in the position is due to high cost paediatric drug costs exceeding the budget. The division have identified their cost improvement plan with the exception of the increase in Private Patient income however activity is now starting to increase. The most significant financial risks for the Division are containing the additional pathology costs, SCBU staffing levels, continuing to increase private patient income, managing paediatric drug costs and improving the financial contribution of each of its specialties.

Surgery: At the end of month 8 they are £81,000 overspent against budget. The financial risks relate to improving productivity to negate the need for high cost temporary capacity being created; managing activity related non-pay costs in Orthopaedics.

Medicine: At the end of month 8 they are £156,000 overspent against budget. Staffing issues within the Emergency Department and across nursing are creating a significant financial risk and need to continue to be monitored closely. The Division still needs to identify a further £31,000 of cost improvement savings which remains high risk. The Division is forecasting significant financial risk due to high ED medical staff costs and nursing costs for the remainder of the year, which will have an adverse impact on the Trust's financial performance. Work is being undertaken with the Division to identify alternative plans to mitigate this risk.

4.0 Cost Improvement Plan

The cost improvement programme (CIP) has a target of £4.8 million in 2011/12 with a stretch target of £5.7 million. At the end of November £3.0 million has been achieved of which £2.5 million is recurring. There are currently £4.4 million of robust plans in place with a further £247,000 of outline plans. The outline plans include work to increase private patient income which as yet has not increased as fast as anticipated. Work is underway to identify the remaining plans and it is anticipated that the CIP will be achieved in full by the end of the financial year.

5.0 Forecast

The Trust has set an external plan to deliver an income and expenditure surplus of £300,000 by the 31 March 2012 and an internal stretch target of £1 million. A contingency of £700,000 was planned to enable the stretch target to be delivered assuming the CIP is achieved in full and expenditure is managed within delegated budgets. However there are a number of financial risks within the Divisions that require further action in order to mitigate them. Meetings are being held with the Divisions in order to fully understand these risks and ensure actions plans are in place to mitigate them. The main risks being:

- Family Health Division – Pathology consumable expenditure higher than planned and paediatric drug costs
- Surgery Division – Intensive Care Unit increased costs due to severity of patients
- Medicine Division – Nursing costs continue to overspend within the division and also the risk regarding the recruitment of medical staffing into the emergency department

Following an assessment of these risks the forecast surplus for 2011/12 is £690,000. This assumes that all of the remaining gap on the CIP plan will be closed and that the risks in the Divisions cannot be mitigated against in full. If plans can be actioned to alleviate these risks then the forecast will increase.

6.0 Cash Flow

The Trust has £5.2 million in the bank at the end of November 2011 which is £265,000 below plan. The main reasons for the cash balance being less than planned is due to an increase in debtors. Debtors are £1.5 million higher than planned, which is offset in part by capital expenditure being below plan and creditors and accruals being above plan. There has been progress in collecting outstanding balances from NHS debtors and accrued income is being converted to invoiced debt to allow collection of cash to proceed.

As at 30 November 2011 the Trust's cash investments were as follows:

Investment	Value at 30 November 11	Interest Rate at 30 November 11	Access Terms
Government Banking Service Accounts	£94,911	0.25%	Instant
Natwest Main Account	£0	0.00%	Instant
Natwest Special Interest	£42,625	0.30%	Instant
Natwest 90 day notice acc	£3,000,000	1.30%	Instant (90 day notice expired)
Bank of Scotland	£2,009,442	0.75%	Instant
Barclays	£2,292		
Add Cash in Transit	£50,661		
TOTAL	**£5,199,931**		

7.0 Capital

The capital programme for 2011/12 totals £5.6 million. Expenditure on the 2011/12 capital programme to the 30 November is £1.3 million against a plan to date of £2.7 million, this variance represents a timing issue for expenditure on projects and not an under spend.

Completed projects in the year include Combined Heat and Power, Pharmacy/ Pathology reconfiguration, Macmillan refurbishment, Artillery Road shelving and IT Wireless Network upgrade.

Projects in progress include the Equipment Library, IT Clinical Encoding and Women's Hospital Main entrance, reception and coffee shop works.

8.0 Commercial Strategy

A Commercial Strategy is being implemented in order to identify additional income sources for the Trust. An outline plan identified a target of an additional £6.5 million of income increasing the financial contribution by £2.9 million over the next 3 financial years. At the end of November £773,000 of additional income has been secured for 2011/12 with a full year impact of £1.5 million. The majority of this income is due to the winning of the tender for providing a Community Pharmacy Service in Dorset.

Work is continuing on the commercial strategy and a number of initiatives are proceeding. Soft market testing has been undertaken for the Cheverton Project and is in progress for the Private Patient Project. The ophthalmology service is now out to tender and a feasibility study for opening a private physio unit has been approved. Further work is being undertaken with Boots Plc. to look at other partnering opportunities in order to respond to a number of new community pharmacy tenders. Clinics are now taking place in South Petherton and a marketing plan has been implemented in order to market these services with local GPs. Further detail will be provided on these services as they are developed. Appendix 10 summaries the Commercial Strategy plans and progress.

9.0 Financial Risk

The financial risk rating at the end of November 2011 is 3.2 as shown in the following table:

Metric	Value	Risk Rating	Weighting	Weighted Risk Rating
EBITDA achieved % of plan	99.20%	4	0.10	0.40
EBITDA margin	5.04%	3	0.25	0.75
Return on assets (Forecast)	4.38%	3	0.20	0.60
I&E surplus	0.31%	2	0.20	0.40
Liquidity days	25.5	4	0.25	1.0
Total				**3.2**

The following table highlights the major financial risks facing the Trust currently and the mitigating action that is in place:

Risk	**Mitigating Action**
Inability to deliver a CIP of £4.8 million in 2011/12.	Recurring savings plans are being developed and will be managed through the Divisions. Lead Directors have been identified for each scheme.
Increased cost of temporary staffing with the Emergency Department .	A recruitment plan is in place to ensure that these high costs can be minimised. The Division are currently identifying plans for a more sustainable solution.
18 week performance targets are not delivered resulting in additional capacity being required.	Continual monitoring of the 18 week performance targets to ensure that any additional capacity is delivered within recurrent budgets or the risk budgets that the divisions agreed during the budget setting process.
Increase in high cost drugs that cannot be afforded by Commissioners.	Close contract monitoring of drugs costs through the Somerset Prescribing Forum.
Inability to reduce bed capacity to planned levels and consequently incurring additional costs.	Director of Nursing and Director of Operations reviewing plans and managing the costs.
Increase in the cost of orthopaedic consumables.	A review is underway to understand this further and additional controls have been put in place.

10.0 Recommendations

The Board of Directors is requested to:

- NOTE the Finance Report for the period ending 30 November 2011.

Appendices:

Executive Summary	Appendix 1
Income and Expenditure Report	Appendix 2
Division Budgetary Performance	Appendix 3
Activity and Income Report	Appendix 4
Cost Improvement Dashboard	Appendix 5
Balance Sheet	Appendix 6

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