
Public Board Meeting, 26 July 2012

Forecast financial outturn 2012/13

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1. Purpose

- 1.1 This paper describes our plan to meet key financial management targets and Monitor requirements, both in the short term, by year end, and thereafter on a permanent basis. Table 1 attached shows how the Trust can achieve its financial plan for the current year.

2. Contextual comment

2.1 Current overall position

- At the end of Q1, the Trust has a surplus of £0.9m which gives an risk rating of 3 for I&E surplus margin and enables the Trust to report an overall FRR of 3. This is a considerable improvement on the first two months of the year.

2.2 Current Year CIPs

- The Cost Improvement Programme (CIP) is well advanced as Table 2 shows. Our progress with what remain high levels of savings, and high levels of constraints in achieving them, remains at least satisfactory and probably good. We have made earlier and faster progress in finalising savings schemes than last year and that continues a trend of earlier, faster and more rigorous achievement year by year.
- We are confident of achieving £8.6m of savings by the year end and work is ongoing to increase this number to achieve a minimum of 90% of the target. This should be achievable despite the pressure we are facing from very high levels of demand. In the light of work on the LTFM and the increased Monitor efficiency requirement, the savings target for the year and the target surplus have both been increased by £0.3m to £11.9m and £3.1m respectively.

2.3 Income

- The Trust has been affected by an unprecedented (once in a generation) increase in emergency admissions, which we have no alternative but to accept, but on which we make a large loss as we are only paid at a marginal tariff of 30%. Our contractual agreement with the PCT acknowledges this problem and the PCT undertook to review it after Q1. Up to now, our I&E account has reflected the initial contractual position relating to the rate of payment for extra emergency activity. In recent, very positive, discussions the PCT Chief Executive and Herts Valley CCG have acknowledged this is a real problem which needs a positive response so as not to unreasonably penalise us. We expect the joint work on this issue to result in an increase in the 30% threshold by at least £0.8m over and above the estimated adjustment built into the initial contract and the likelihood that this could be higher.

We are also engaged in discussions to secure confirmation of the continuation of the £2.2m pa funding agreed last year for the higher costs of running the Hemel site until the LGH is developed, and excess land and buildings can be disposed of.

- As the Board knows, one of the major consequences of the surge in emergency admissions has been the impact on elective activity, creating cost inefficiencies (i.e. available staff unable to treat patients because those patients could not be admitted) with significant costs associated with rescheduling surgical activity that has been cancelled. The Board took early and decisive action to deal with this problem by agreeing to purchase our 36 bedded extension and in the very short term the two six-bedded pods which will be available from August. This should mean that surgical capacity can be used more efficiently from then on to deliver the expected volume of activity with fewer cancellations and less weekend working. This is reflected in our projections.

2.4 Expenditure

- The increase in activity has led to increased costs to treat additional patients, it has also made it harder to achieve some savings. We will revise budgets to reflect these higher levels of activity. Going forward, the development of SLR, with the devolution of income and direct patient care costs during the year, will help to ensure that each division looks at its overall trading position in a more holistic way each month. This will include their utilisation of theatre, diagnostic, therapy and bed capacity and it will enable divisions to assess whether the contribution being generated is more or less than planned.

2.5 Future Year CIPs

- The Board can be assured that there are CIP plans in place for 2013/14 and 2014/15. These are to the required level of detail for a successful FT application and show plans for the future based on Board agreed assumptions in the LTFM. A summary is included in the IBP and detailed plans are accessible on the shared drive. Inevitably these plans will evolve over coming months as they are developed further.

3. So where are we?

Table 1 shows the forecast run rate by month from now until the year end, this is also summarised in the table below.

It shows that income is expected to be £10m above plan which reflects:

- The fact that the Hertfordshire contract was set using a baseline activity level that was too low
- The impact of the change in patient flows resulting from the run down of services at Welwyn, and the general growth in emergency activity which is much higher than expected
- QIPP initiatives to reduce hospital referrals are not having the impact anticipated by the PCT
- The forecast includes some income CIPs e.g. better coding and best practice tariffs

It will be important to pursue discussions about all aspects of funding with the PCT as quickly as possible to minimise funding risks to the Trust.

Expenditure is also above plan by £10m due to:

- Increased costs of treating a higher volume of patients, including loss of efficiency and investment in extra beds
- Delivery of £8.6m of savings, compared to the revised target of £11.9m
- A benefit of £2m from a review of reserves
- An intention to increase savings by at least £1.3m, though we are aiming for £2m. Details will be worked up over the next 6 weeks and reported to the board in September. One of the areas we will focus on is reducing the very high cost of extra activity which is currently not generating any contribution. As part of this work we will also seek to finalise agreement with the PCT about securing fair remuneration for emergency work.

The forecast shows that we should have a cumulative 1% surplus every month except August and February, a satisfactory surplus margin and EBITDA at the end of Q2 and at the year end.

The variation in surplus margin from month to month is primarily due to seasonal variations in patient activity with August and December being particularly low months, and this is the pattern in most other hospitals. Income varies much more than expenditure, which is largely fixed.

We believe that with the improvement in bottom line surplus shown at the end of Q1, and with the plans in place for further delivery of savings and investment in extra bed capacity we are in a reasonable position given the pressures we have faced. We believe we have a credible projected pathway to achieve our year end financial targets. We also believe that our way of dealing with these and our progress towards them accords with the rigor demanded of Foundation Trusts and would be perceived as such by Monitor. We have a commitment in the tripartite agreement between the Trust, the DoH and the SHA that this is satisfactory and will not prevent us moving forward to Foundation Trust authorisation in early 2013.

Summary of run rate by month

	April £'m	May £'m	June £'m	July £'m	Aug £'m	Sept £'m	Oct £'m	Nov £'m	Dec £'m	Jan £'m	Feb £'m	Mar £'m
Forecast Income	21.1	23.2	23.0	23.4	22.6	23.5	23.7	23.8	22.3	23.1	22.7	24.7
Forecast expenditure	18.3	19.2	18.6	19.5	19.5	19.4	19.4	19.5	19.3	19.4	19.4	19.6
EBITDA	0.5	1.6	1.8	1.4	0.5	1.6	1.7	1.8	0.4	1.1	0.7	2.0
Financing costs	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Monthly Surplus (deficit)	(0.5)	0.6	0.8	0.4	(0.5)	0.6	0.7	0.8	(0.6)	0.1	(0.3)	1.0
Cumulative Surplus	(0.5)	0.1	0.9	1.2	0.8	1.4	2.1	2.9	2.3	2.5	2.2	3.2
Surplus margin %	-2.4%	0.2%	1.3%	1.4%	0.7%	1.0%	1.3%	1.6%	1.1%	1.1%	0.9%	1.1%
EBITDA %	2.4%	4.7%	5.7%	10.0%	8.5%	8.2%	8.1%	8.0%	7.3%	7.1%	7.2%	7.1%

4. Conclusion

- 4.1 The Board is invited to review and endorse the above analysis.
- 4.2 The Board is asked to support the overall plan. Progress against this, and in particular progress on increasing the delivery of savings, will be reported in September. Budgets will also be updated by then.
- 4.3 The Board is invited to note and confirm the satisfactory progress that is being made in terms of income recovery, budgetary control and CIP achievement, all as part of achievement of the Trust's key financial targets for 2012/13.

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July 2012