Dorset County Hospital NHS
NHS Foundation Trust

Report to Directors for the period ending July 2010	
Subject	**Finance Report**
Purpose	Report to Board on key financial and performance indicators for July 2010
Responsible Executive	Director of Finance
Author of attached Report	Deputy Director of Finance
	Finance • YTD cumulative deficit of £1,184k against plan deficit of £1,668k • Income £0.8m ahead of plan in total • Operating expenditure £0.34m higher than plan • EBITDA £0.46m ahead of plan • Normalised cash position is £1.9m adverse • Financial Risk Rating is 2 for the month, but also a forecast of 2 for the year • Forecast I&E deficit £3.5m as per annual plan
Paper Seen By	Finance and Performance Committee
Strategic Impact	Current financial performance threatens future of organisation and requires action to bring back into balance.
Risk Evaluation	Significant risk: underlying financial performance continues to be weak. The year end deficit is planned at £3.5m, projected figures for 2011/12 indicates high continued financial deficits. There is significant challenge in delivering the identified savings and further savings are required. It is important to ensure that service quality is maintained and overall performance is carefully managed.
Impact on Standards for Better Health	Key element of compliance with Standard C7d. Compliance with that standard will not be achieved with a Financial Risk Rating of 2 for the month.
Legal Implications	Compliance with Monitor Terms of Authorisation.
Financial Implications	Cash is challenging this year and as deficits continue will be an increasing problem. Our Prudential Borrowing Limit is low and planned capital expenditure must be minimised. A savings plan is in place and further actions are being developed. Cash position continues to be a critical issue, however NHS Dorset are advancing cash until March 2011.
Recommendation	Focus management on turnaround plan. Ensure existing CIPs will be delivered to avoid deterioration in year end position.
Action Required by Board of Directors	• To note and advise actions on the financial performance • To note that our risk rating is forecast 1 and we are non-compliant with Monitor's terms of authorisation. • To note the serious cash position

	• To note the 18 week impact.

FINANCE REPORT JULY 2010

1. EXECUTIVE SUMMARY – KEY RISKS AND ISSUES

The key risks and issues to be noted and addressed by the Board are summarised in the table below.

Target	Key Issue/Risk	Status
Cost Improvement Program	Non delivery of the target of £6.0m for 2010/11 is a major risk at approx £1.75m. Also program for 2011/12 needs robust development by September 2010.	Red
Consultancy and turnaround costs	Costs already forecast to exceed budget by £350k due to continued use of PWC and appointment of Interim Turnaround Director.	Red
Elective performance	The current over performance for the4 months against contract is an issue that needs to be closely monitored, due to the upper threshold contained within the contract, as there is no payment for activity above this threshold.	Amber
Elective activity backlog	It is not clear how much more activity has to be provided above core capacity for the rest of the financial year to maintain 18 weeks keeping to the IMAS model and whether costs can be contained within the £3.5m budget that has been set aside for backlog and sustainability investment.	Amber
Cash	The underlying cash position continues to remain very difficult and challenging for March 2010/11.	Red
Vacancy Freeze	The current holding of vacancies may not be sustainable, due to service pressures within the hospital, which is a risk. Also a major concern is that posts are not being recurrently identified to be removed from budgets, which will reduce financial impact into 2011/12, if not addressed.	Red

Key Risk Status: Red	Significant risk of non-delivery. Additional actions need to be identified urgently.
Amber	Medium risk of non-delivery which requires additional management effort to ensure success.
Green	Low risk of non-delivery – current management effort

	should deliver success.

2. OVERVIEW

	Plan YTD £m	Actual YTD £m	Var YTD £m	Plan FOT £m	Fcst FOT £m	Var FOT £m
Income	48.9	49.7	0.8	146.2	147.6	1.4
Expenditure	(50.6)	(50.9)	(0.3)	(149.7)	151.1	(1.4)
Surplus (Deficit)	**(1.7)**	**(1.2)**	**0.5**	**(3.5)**	**(3.5)**	**0.0**

The results for the 4 months are better than plan by £0.5m.

The key indicators of WTE have been broadly flat for the last 3 months and have moved in the correct direction, but pay cost is moving in the wrong direction due to increasing agency and WLI spend. The utilisation of staff in July was again below the WTE budget figures, however pay costs themselves were above the budgeted pay, which can be accounted for by increasingly excessive agency usage, and the Waiting list Initiative (WLI) payments, where the WTE is not counted. The current holding of vacancies is not sustainable due to service pressures within the hospital, which is a concern and risk.

The key indicators of normalised expenditure run rate is still relatively flat taken across the forecast year and clearly this is still an unsustainable level.

The normalised cash flow key indicator shows that we are continuing to manage our cash well. Our PDC has been deferred from March 2010 and we have applied to the DoH for a further deferral of this repayment date to September 2011.

The current over performance for the first 4 months against the main NHS Contract for 2010/11, is an issue that needs to be closely monitored throughout the year, due to the upper threshold contained within the contract, because we will not be able to charge for activity above this threshold.

In addition, the Trust has spent £1.4m on additional activity to clear the backlog for achieving the 18 weeks target. Clearly analysis still needs to be completed to understand how much more activity has to be provided above core capacity for the rest of the year and whether costs can be contained within the £3.5m budget, that has been set aside for backlog and sustainability investment.

We are managing closely the operational performance of the hospital on key targets:

- 4 hour A&E target marginally delivered at 98.0%, against the 95% contracted target.

- Non admitted 18 weeks delivered at 97.3%, against the 95%contracted target.

- Admitted 18 weeks delivered at 90.5% against the 90% contracted target.

The year end forecast remains at a £3.5m deficit despite the favourable month 4 position, mainly due to the risks of delivering the CIP savings programme, which is weighted heavily to the back end of the year, continuing consultancy costs for turnaround and the uncertainty around 18 weeks delivery in terms of overachievement of the contract. What is clearly demonstrated is that further work is needed and that we have a critical dependency on staff turnover to enable pay savings, which represent the major portion of overall savings, to be delivered. The focus has to be maintained not just on 2010/11, but on 2011/12 as well, which will also be impacted by the contract agreed with NHS Dorset. The Trust has a long way to go yet to bring the deficit down and move towards financial stability.

3. MONTH AND YEAR TO DATE

3.1 The cumulative position at the end of July is a deficit of £1,184k versus a planned deficit of £1,668k, a favourable position of £485k against plan.

3.2 In July month, we incurred a deficit of £101k against a planned deficit of £106k, a favourable performance of £5k.

The key drivers in July were as follows:

a) **£284k** income was higher than plan for the month mainly due to:

- Favourable: NHS contract including associates over performance at £385k, mainly caused by higher elective activity than planned;
- Adverse: ICD cardiology devices £42k lower than plan;
- Adverse: NCAs £106k lower than plan;
- Favourable: Other income £47k higher than plan.

b) **£302k** operating expenditure was higher than plan for the month mainly due to:

- Pay costs £76k adverse to plan, mainly due to excessive agency costs being incurred at premium rates and Waiting list Initiative (WLI) payments.
- Non pay costs were £226k adverse to plan, the main movements were:
  - Adverse: Clinical supplies £130k, of which : £38k was general non Orthopaedics MSE, £52k for orthopaedic prosthesis and £29k of unachieved CIP;
  - Adverse: External provider costs £34k, due to use of BMI, Nuffield and Spire private hospitals £85k above budget to meet 18 weeks RTT, offset by delay in the mobile MRI of £56k being required on site for the permanent MRI

replacement scheme, however this cost will be incurred later in the year;

- Adverse: Other Costs £60k, mainly due to higher than planned consultancy costs with PWC of £36k and £18k of audit fees for the quality accounts.

3.3 EBITDA was £19k adverse against plan for the month.

4. FORECAST OUTTURN

4.1 The outturn forecast is a **deficit of £3.5m**, which is as per the Annual Plan.

4.2 The costs for additional short term private providers and WLI capacity due to potential target breaches, and sustainability in Orthopaedics, have been included in the forecast at approximately £3.5m.

4.3 Identified risks & opportunities are detailed in Schedule R, with the greatest risk to the forecast being CIP delivery.

5. CASH

5.1 At the end of July, the Trust held a cash balance of £14.9m. This was, however, driven by a deferment of the PDC dividend due in March 2010 of £1.3m and a PCT advance of £15.5m, the underlying position is therefore **£1.9m adverse**. We still have to reach formal agreement over the long term cash funding and this means cash still requires careful day to day management.

5.2 Creditor days were 48 days for July. There has been a decrease in the July debtors at £514k over 60 days, compared to June £589k.

5.3 The underlying cash position continues to remain very difficult and challenging for 2010/11. We continue to discuss with NHS Dorset how we can meet our cash requirement in the most optimal way.

6. CAPITAL

6.1 Capital expenditure for the 4 months was minimal at £0.5m, which is lower than plan by £0.8m.

6.2 We are still refining the detail of our capital requirements for 2010/11 within the overall budget set by the Board which has delayed the production of Schedule I and this will be provided next month.

6.3 The detailed Balance Sheet position is shown in **Schedule B.**

7. COST IMPROVEMENT PROGRAMME

7.1 The Trust is currently forecasting delivery of £6.0m of CIP savings against the CIP target of £6.0m. However, delivery of this level of CIP savings remains a major financial risk, with the programme weighted heavily to the back end of the year and a monthly profile of real delivery still not available. Non delivery of the plan could be as high as £1.75m.

7.2 For the first 4 months to date, £1,348k (Rec £403k, Non Rec £945k) has been delivered against a plan of £1,182k, due to vacancy control being £409k overachieved in total, but disappointingly mostly on a non recurrent basis only.

7.3 A detailed Schedule M will be provided next month and is still being developed with the PMO.

8. RUN RATE

8.1 The run rate schedule is given in **Schedule E**. We have completed work to 'normalise' the run rate, i.e. take out the exceptional items, which distort an understanding of the underlying run rate. The schedule and the background work shows that the forecast expenditure run rate is a small improvement on the level of the start of the year.

8.2 The run rate schedule shows how critical it is to focus on all aspects of expenditure to drive the costs down. It also reinforces the need to commence actions for financial recovery as soon as possible..

9. RECOVERY PLAN

9.1 Work continues to progress on core schemes, including Theatres, Outpatients and Emergency Care pathways, to deliver the savings detailed in project plans. PWC continue to work alongside us to further refine and develop the plans and to support us in the early stages of implementation.

9.2 The Turnaround Director has been appointed to deliver a robust plan by September 2010 for 2011/12.

9.3 The Directors of Nursing/Operations and Resources will be reviewing the post vacancies to identify and agree posts to be permanently removed from the budget, due to the very low recurrent savings identified so far against the vacancy control work stream.

9.4 The revaluation exercise on Land and Buildings concluded in March 2010 has resulted in a reduction in the value of the estate, which has had a favourable impact on depreciation and PDC in 2010/11.