Ashford and St. Peter's Hospitals NHS
NHS Foundation Trust

Council of Governors
11th December 2013

TITLE	**Finance Briefing Paper**
EXECUTIVE SUMMARY	In October the Trust revised its projected 2013/14 financial position from a surplus of £3m down to a surplus of £1.5m. This paper, which was presented to the October Open Board meeting, provides background information as to the factors driving this, in the context of the strategic issues facing the Trust and the NHS generally. This paper is intended to be pre-reading only, prior to a presentation, which will be given at the Council of Governors meeting over the planned actions to improve the Trust's financial position.
The council of Governors is asked to:	Note the projected financial position of the Trust at the half year point.
Submitted by:	Simon Marshall, Director of Finance and Information
Date:	4th December 2013
Decision	For Discussion

Ashford and St. Peter's Hospitals NHS
NHS Foundation Trust

Finance Briefing Paper

1. INTRODUCTION

This paper sets out the financial position of the Trust at the half way point of the 2013/14 financial year. It reviews the six month results, the forecast for the year and the Monitor compliance finance projections in the context of the strategic issues facing the Trust and the NHS generally.

2. NATIONAL CONTEXT

In its review of the foundation trust sectors performance for the first quarter Monitor set out common issues that were being felt throughout the FT sector. At Q1 these issues included: -

- 31 FT's which had failed the 4 hour target, compared to 13 in the same period last year;
- Although overall net surpluses exceed plan by £9m, around a third of FT's reported deficits with half of all acute FT's reporting a deficit;
- EBITDA margins have reduced from 5.6% to 5.1% year on year, with the 82 acute FT's recording an average 4.7% margin (ASPH achieved 6.9% at Q1);
- CIP's were 19% below plan;
- Capital programmes were 16% behind plan;
- The average financial risk rating was 3.1, with acute FT's recording an average of 2.7 (ASPH achieved 3.3); and
- 20 FT's were the subject of enforcement action by Monitor.

Further analysis of the financial performance of acute FT's, shows that EBITDA margins reduce, the smaller the turnover of the organisation.

Type of Trust	Number	EBITDA %	FRR
Teaching	18	5.48%	3.1
Large (>£400m)	6	5.79%	3.3
Medium (£200m-£400m)	38	4.08%	2.8
Small (<£200m)	20	3.30%	2.5
Total	82	4.72%	2.7

3. TRUST FINANCES

Income and Expenditure

Like the acute foundation trust sector as a whole, the Trust's finances have come under increased pressure during quarter 2. Our position at month 6 and a year on year comparison are set out below:

	YTD Plan	YTD Act	YTD Var	13/14 YTD Actual	12/13 YTD Actual	YoY Change	
	£'000	£'000	£'000	£'000	£'000	£'000	%
Income	116,080	120,493	4,413	120,493	115,788	4,705	4.06%
Pay	(71,388)	(73,663)	(2,275)	(73,663)	(70,161)	(3,502)	4.99%
Non-Pay	(36,138)	(39,449)	(3,311)	(39,449)	(36,042)	(3,407)	9.45%
EBITDA	8,554	7,381	(1,173)	7,381	9,585	(2,204)	
Below the Line	(6,621)	(6,524)	97	(6,524)	(6,409)	(115)	1.79%
Surplus/(Deficit)	1,933	857	(1,076)	857	3,176	(2,319)	

Despite the tariff reduction and CCG QIPP programme, overall Trust income has increased by 4.1%, however this is being outstripped by cost increases. Please note the year on year non-pay increase above includes outsourced work where we have not had the internal capacity to meet demand.

The following table sets out our most significant cost and income drivers which contribute to the year to date adverse variance to budget of £1.1m:

INCOME AND COST DRIVERS 2013/14

	Non-Elective Activity			Other Activity		Non-Activity Related Factors		
	A&E	Capacity & Investment	Acuity	Excluded Drugs & Devices	Planned Activity	Workforce - Vacancy/Turnover/Sickness	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Income								
- activity based	0.2	1.9		1.2	1.8		0.1	5.2
- NEL Cap		(0.6)						(0.6)
- other income							(0.2)	(0.2)
Direct Costs								
- pay (Substantive)		0.2				2.2		2.5
- pay (Temporary)	(0.6)	(0.7)	(0.2)		(0.4)	(2.8)		(4.7)
- non-pay	(0.1)	(0.9)		(1.4)	(1.1)		0.1	(3.3)
EBITDA	(0.5)	(0.1)	(0.2)	(0.1)	0.3	(0.6)	0.0	(1.2)
Below the line							0.1	0.1
Deficit	**(0.5)**	**(0.1)**	**(0.2)**	**(0.1)**	**0.3**	**(0.6)**	**0.1**	**(1.1)**

As can be seen from the above table, the key current issues for the Trust revolve around our temporary staffing costs both within A&E (middle grades) and across other areas of the hospital. The Trust has had a significant nursing recruitment programme in place for some time, including looking overseas, and consequently is nearing full establishment. However, we continue to incur significant medical agency

costs across a relatively small number of hard to recruit to positions. Actions to address / minimise this are underway but due to the recruitment time-lag a material reversal of these trends can no longer be expected within this financial year.

CIP's, Capital and Cash

CIP delivery is behind target at month 6 by £1.4m. This is due to continuing activity and staffing issues, resulting in agency and capacity reduction schemes to be delayed, as well as delays in implementing some procurement schemes. CIP's are forecast to recover in the second half of the year, but still be underachieved by £1.2m.

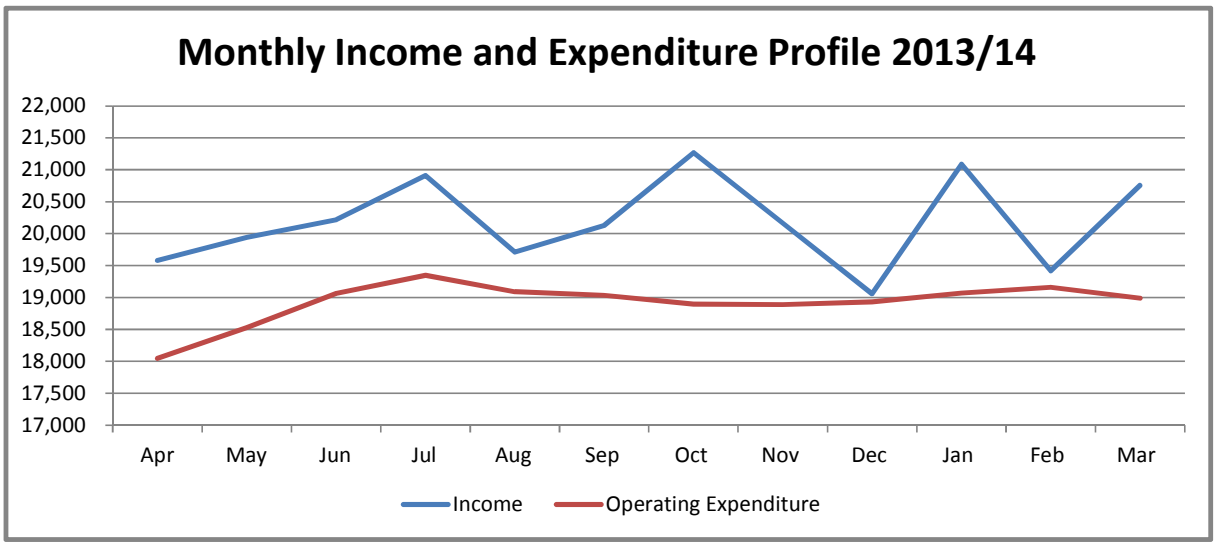
The capital programme is currently £3.2m behind the initial plan set for 2013/14. This is mainly due to some slippage in our larger schemes, however it is anticipated that the full programme amount will be spent by the end of the financial year. Some projects will slip into 2014/15, whilst other schemes have been brought forward to replace them in 2013/14.

Cash balances have been adversely affected by a combination of the current deficit, issues, around who is actually paying for certain services following commissioning changes, and currently unpaid over-performance, partially offset by the slippage on the capital programme.

Forecast and Risks

Our forecast for the year is set out in the table below, along with a graph showing the monthly movement in income and operating expenditure.

	Annual Plan £'000	Forecast Actual £'000	Variance £'000
Income	232,320	242,248	9,928
Pay	(143,013)	(148,009)	(4,996)
Non-Pay	(71,953)	(79,045)	(7,092)
EBITDA	17,354	15,194	(2,160)
Below the Line	(14,354)	(13,694)	660
Surplus/(Deficit)	3,000	1,500	(1,500)



As can be seen from the table our forecast for 2013/14 has been revised downwards to £1.5m - a significant change for the Trust that we will communicating to key stakeholders over the coming weeks.

The main remaining risks to the forecast include: -

- CQUIN achievement and hence the planned income recovered;
- support in the community to either avoid admissions altogether or support earlier discharge;
- Commissioner affordability – we have assumed that the Trust will hold all commissioners to our contract terms; and
- Unexpected system pressures – e.g. ward or bay closures for infection control purposes.

Mitigations to the forecast include: -

- Delivery of additional savings;
- Further actions to reduce agency spend and increase our permanent or bank workforce;
- Actions to address contract requirements and reduce financial penalties;
- Additional actions to support CQUIN delivery; and
- Actions to further reduce below the line costs.

It is important to note that without determined corrective action and securing the expected enabling funding, the Trust could potentially slip back from our revised forecast of £1.5m. Every effort is of course being taken internally to improve on this forecast.

4. MONITOR

As at month six the Trust achieved a financial risk rating of '3'. With the implementation of the new Risk Assessment Framework from 1st October 2013 the Trust will now be measured against the continuity of services risk rating (COSRR). This is forecast to be:

Shadow Monitor Metrics			
Debt Service Cover	50%	2.5x	4
Liquidity	50%	-2.7	3
Continuity of Service Risk Rating			**4**

Note that ‘4’ is the highest score that can be achieved.