York Teaching Hospital NHS
NHS Foundation Trust

Health, Housing and Adult Social Care
Policy & Scrutiny Committee 13 September 2017

July 2017 (Month 4) Financial Position for York Teaching Hospital NHS Foundation Trust

From: Andrew Bertram, Finance Director

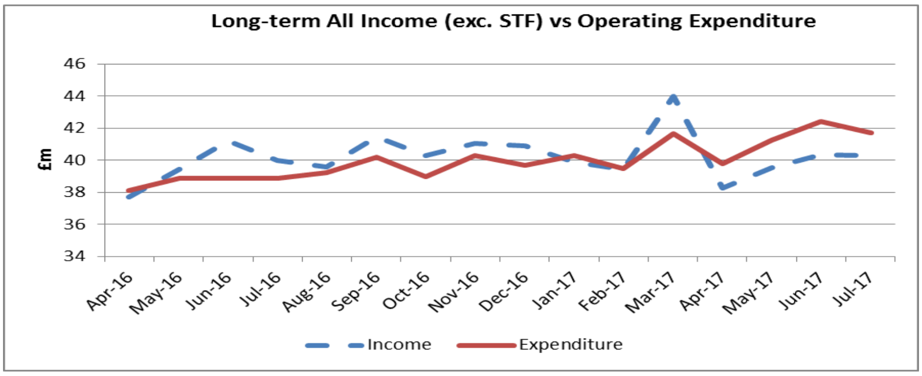
Summary Reported Position for July 2017

The deterioration in the Trust’s financial position has continued into July. There is a small reduction in the overall expenditure trend line but this has not been of the required size necessary to recover the adverse June position. As a result the Trust continues to lose out on its share of the nationally available sustainability funding and the reported position continues to exclude this.

The profile of the current plan assumed a year-to-date deficit of £3.3m and we are currently reporting a £13.8m deficit, therefore an adverse variance to plan of £10.5m. The significant components of the variance are the lost sustainability funding of £2.6m and a shortfall against operational income and expenditure control total of £7.9m.

This continues to be a very worrying position but has occurred early enough in the financial year for corrective action to be considered and taken where possible and where appropriate. Corporate Directors are preparing a financial recovery plan that will now become the focus of attention over the coming months. If the position can be corrected then it is possible to recover the lost sustainability funding in subsequent months should financial control total performance be brought back on track.

The chart below looks at long term income and operational expenditure (above the EBITDA line) trend. The chart shows income above operational expenditure for Q1, Q2 and Q3 of 2016/17 and shows the difficulty encountered in Q4 last year with poor performance in months 10 and 11 and some degree of recovery in month 12. During 2017/18 operational expenditure is shown as routinely exceeding income. This position was expected in the early months of the year with a deficit plan but the early indications are that the trend lines are diverging at an unplanned rate. This chart has been adjusted to exclude all sustainability funding.



Operational expenditure peaked in May at £41.2m, representing a significant increase on April at £39.9m. Worryingly June expenditure was higher still at £42.4m. July saw some reduction down to £41.7m. Of note is the 2016/17 monthly average was £39.5m.

The month 4 CIP position shows £6.4m removed from budget in full year terms against the £22.8m target. There remains a material gap of £5.8m against the planning requirement and has not reduced this month. This will need to be carefully monitored as we progress through the financial year. The relentless nature of the efficiency programme delivery requirements does mean that even though progress is comparable to last year the month 4 income and expenditure account is impacted by a profile shortfall of £2.5m. Clearly, if ultimately the Trust's CIP is delivered by the end of the financial year then the in-year adverse variance impact is eventually removed.

Income Analysis

Overall, income is showing as £4.7m behind plan. £2.6m of this adverse variance relates to lost sustainability funding. The balance of £2.1m relates to shortfalls in expected income levels in non-elective care, outpatients and some areas classified as "other". Work to assess whether HRG4+ has impacted on the position is not suggesting there is a material impact beyond that predicted in our financial planning work. However, despite being busy with non-elective patients we appear to be receiving less income than planned as pathways continue to change with increased use of ambulatory care, assessment areas and consistently increasing management of patients via a short stay pathway. Each of these pathway redesigns have been clinically and operationally necessary and fully supported through the review work by ECIP, ECIST, NHSI, UM and our own internal improvement work. We are currently evaluating whether the changes have adversely impacted income. Outpatient income is also down against plan and this is being reviewed at individual directorate level.

Excluded from tariff drug income is running ahead of plan and is compensating for the expenditure pressure of £2.1m. This income is reported under other clinical income.

Expenditure Analysis

Pay costs continue to cause a significant spend pressure on the Trust's financial position. At the end of month 4 the reported adverse variance stands at £2m. Of note is that the position has not deteriorated further this month.

In relation to total agency expenditure we have seen significant pressure continue into July, with even higher in month spend. The analysis shows that overall the Trust has spent year-to-date £7.0m against a £5.8m target. Of note is last month the overspend was 15% but this has now risen to 20%. Fortuitously, there has been some compensating pay underspends this month to hold the overall pay variance at the same level. The analysis shows that the pressure has come in the main from consultant medical staff, although June and July also saw a growing pressure emerging from nursing agency staff. This is an area where continued efforts to negotiate rates downwards continues alongside continued recruitment efforts to reduce the need for locums and agency staff.

A full analysis of pay pressure against individual directorate operational budgets has been undertaken. This shows pressure of £0.5m relating to the provision of unplanned 1:1 patient supervision, exceptional additional staffing requirements above plan totalling £0.5m (£0.25m in additional ED doctor cover as the main component), demand driven pressures totalling £0.25m (additional Radiology reporting at £122k being the most significant), exceptional sickness and maternity cover effecting consultant and junior medical staffing and pressure from the need for the Trust to operationally maintain escalation beds open at a time in the year when these would not normally be necessary.

This work will help to inform the financial recovery plan as each of these component pressures is discussed in detail with directorate management teams.

Drugs spend has remained higher than plan but this pressure relates almost exclusively to pass through high costs drugs outside of normal tariff arrangements. In this instance the Trust recharges the full additional cost direct to commissioners and therefore this pressure is directly compensated by an over recovery of income.

A £0.9m pressure with clinical supplies and services and other costs has emerged in July. This is currently being investigated with the directorates to assess the recurrent nature of the pressure. Of note is an increase in subcontracting healthcare arrangements as the Trust continues to source capacity to manage delivery of the RTT standards.

Cash Forecasting

The Trust's cash position has now become critical. Since the last Board meeting NHSE have, at a national level, obliged all CCGs to revoke any agreements whereby cash was not paid in twelve monthly instalments. The Trust had contractually agreed payment in tenths from its three main commissioners. NHSE have issued direction that any local deviation from the standard contract terms in this area is not permissible; the standard contract terms take precedence over any local agreement.

This is disappointing given the agreement the Trust had in place. This change has already been fully implemented with the August payment cut back to the nationally dictated level. No time has been given for organisations to assess the impact or to negotiate revised payment profiles.

The Financial Recovery Plan prepared for the Board includes revised cash flow modelling assessing the impact of this immediate change. It is clear from this work that we will require formal working capital support from as early as October this year. We are now discussing the distressed cash process with NHSI and are preparing our formal application. Essentially the process requires a monthly loan application to be made that covers immediate cash requirements. Whilst we are not alone amongst the provider community in finding ourselves in this position, clearly this is a first in the long history of York Teaching Hospital NHS Foundation Trust.

Annexes

Annex 1 – Finance Performance Report August 2017