

## Board of Directors

## Meeting

## Report

**Subject:** Board Performance Report  
**Date:** 27 November 2014  
**Author:** Sandra Chapman, Head of Management Accounts  
**Lead Director:** Margaret Ashworth, Interim Chief Financial Officer

### Executive Summary

The key headlines are:

- The summary I & E position is a £18.10m deficit. This is £1.78m worse than plan of £16.32m and pay pressures remain high. The Executive is identifying and delivering at pace actions to support delivery of the 2014/15 Plan.
- A review of discretionary spend has produced a one off benefit of £0.30m from the release of accruals.
- The CIP forecast for 2014/15 is £2.4m in year against the in year target of £8.7m. The full year effect saving is £5.7m (£4.8m risk adjusted). The actual CIP delivered at month 7 stands at £0.7m against Monitor phased plan of £4.0m.
- The CIP forecast which has been initiated through the Programme Management Office, for 2014/15 is £3.8m in year against the year target of £8.7m. Reconciliation between the Programme Management Office and the Finance & Performance Managers in reporting the risk adjusted CIP will be delivered by January 2015 and reported to the Finance Committee in January.
- The capital programme spend at the end of period 7 is £3.76m (£3.80m including donated) against a plan of £5.75m (£5.90 including donated), however, the Q3 and Q4 forecasts predict full delivery of the capital plan.
- As at M07 we have drawn down £21.8m Capital and Revenue support which is in line with the planned profile. This is 69.9% of the total support of £31.2m. (£23.7m as at 3/11/14) Delivery of the CIP programme and planned over-performance remain key to ensuring a balanced liquidity position throughout 2014/15.
- Summary monthly financial tables for M07 have yet to be submitted to Monitor as we are currently awaiting the updated template. The accompanying narrative will be submitted by the 28<sup>th</sup> November.

## Recommendation

The Board of Directors are asked to

- Note the current financial position in terms of trading, liquidity and capital.
- Be aware of the key financial risks and the actions being taken particularly in respect of pay spend and achievement of the cost improvement programme.
- Note that summary monthly financial tables for M07 have yet to be been submitted to Monitor as we are currently awaiting the updated template. The accompanying narrative will be submitted by the 28<sup>th</sup> November.

Relevant Strategic Objectives (please mark in bold)	
Achieve the best patient experience	<b>Achieve financial sustainability</b>
Improve patient safety and provide high quality care	<b>Build successful relationships with external organisations and regulators</b>
Attract, develop and motivate effective teams	

<b>Links to the BAF and Corporate Risk Register</b>	BAF - Strategic Objective 4: Financial and commercial sustainability.  Risk Register – Financial Risks
<b>Details of additional risks associated with this paper</b> ( <i>may include CQC Essential Standards, NHSLA, NHS Constitution</i> )	Not applicable
<b>Links to NHS Constitution</b>	Not applicable
<b>Financial Implications/Impact</b>	Not applicable
<b>Legal Implications/Impact</b>	Not applicable
<b>Partnership working &amp; Public Engagement Implications/Impact</b>	Not applicable
<b>Committees/groups where this item has been presented before</b>	None
<b>Monitoring and Review</b>	Report is standing item each month
<b>Is a QIA required/been completed? If yes provide brief details</b>	Not applicable

## 1.0 Overview and Key Risks

- **Income and Expenditure (I&E) statement (Appendix A)** – The financial position for the Trust at Month 07 is an overall Income and Expenditure deficit of £18.10m which is worse than the Trust's internal plan by £1.78m. The key factors to highlight are:

- Clinical income has improved in month by £0.45m to a position of £1.47m above plan at the end of October.

There is nothing to indicate that there has been a material impact on income due to the migration to Medway PAS, however the activity is being reviewed to provide additional assurance, as this is the first month of processing.

Finance is continuing to review and improve the process for calculating the Trust's clinical income. An Access based system to input to SLAM has been fully implemented for M07 which reduces the requirement for manual intervention.

The review process is continuing over the next quarter to:

- Use the SLAM system rather than external spreadsheets to calculate New to Follow Up ratios and any associated penalties.
- Review the process for invoicing Maternity Pathway activity and agree apportionment of tariff between provider Trust's and CCGs.
- Review the process for the recording and coding of Best Practice Tariff activity to ensure we are receiving the correct tariff.

The above will give greater certainty, resilience and confidence in our collection and reporting of clinical income.

- The level of pay overspend continues to remain high, and is £4.51m above plan at the end of month 7 (**Appendix B**).

As previously reported the key drivers for this continued pressure are:

- Whilst pay CIP continues to be identified and transacted a balance of £4.80m of the original operational plan remains unidentified, of this £1.86m is included in the current pay overspend. CIP delivery is subject to a detailed weekly review in order to ensure that over the year the full value of the CIP is delivered. The latest CIP forecast is attached at **Appendix C**.

- Planned medical locum usage to address increased demand and case complexity presenting at the front door to achieve the 4-hour wait target.
  - This increased demand has impacted on the ability to close the 'winter' capacity which is staffed at premium pay levels.
  - Planned premium rate pay to deliver referral to treatment (RTT) targets in surgery, which is reflected in the YTD activity and income over performance. This will reduce during quarter 3 with the aim to minimise by quarter 4.
  - Increased premium pay costs to deliver Cancer two week wait targets, due to increased referrals and patients choosing to wait beyond 14 days.
  - The levels of non-clinical variable pay have increased due to difficulty in recruiting substantive project management resource and increased resources linked to the implementation of the Medway system (replacement of PAS).
- Escalation meetings have taken place to focus on the financial risks associated with pay costs and a series of actions have been agreed and are now being taken forward at pace.
  - YTD non pay expenditure is £0.28m below plan, however there remains a risk around increased drugs and consumables cost linked to increased activity to deliver RTT targets in surgery.

A review of discretionary spend has undertaken which has produced a one off benefit of £0.30m from the release of accruals.

- **Cost Improvement Programme (CIP). (Appendix C)** – The in-year CIP target of £8.7m remains a high financial risk.
  - The CIP forecast for 2014/15 is £2.4m in year against the in year target of £8.7m. The full year effect saving is £5.7m (£4.8m risk adjusted). The actual CIP delivered at month 7 stands at £0.7m against Monitor phased plan of £4.0m.
  - The CIP forecast which has been initiated through the Programme Management Office, for 2014/15 is £3.8m in year against the year target of £8.7m. It has been agreed that the reconciliation between the Programme Management Office and the Finance & Performance Managers in reporting the risk adjusted CIP, will be achieved by January 2015.
  - The CIP target for 2015/16 is £10.9m, which will be allocated to the divisions. The divisions have commenced the work on next year's schemes, and to date have identified schemes totalling £3.8m.
- As at M07 we have drawn down **£21.8m** Capital and Revenue support which is in line with the planned profile. This is 69.9% of the total support of £31.2m. (£23.7m as at 3/11/14) Delivery of the CIP programme and planned over-performance remain key to ensuring a balanced liquidity position throughout 2014/15 (see separate slide for 22 week forecast).

- **Capital programme** - Capital spend at M07 is **£3.76m** (£3.80m including donated) against a plan of £5.75m (£5.90 including donated). This is outside the Monitor tolerance of +- 15% however, the Q3 and Q4 forecasts predict full delivery of the capital plan.

## **2.0 Monitor update**

**Discretionary requirements** - Monitor has informed the Trust that their Discretionary Requirements in relation to monthly reporting will change. As we are still awaiting a formal response we have included the existing table at **Appendix E**.

Monitor requires the Trust to produce external assurance of the deliverability of the Financial Plan. Baker Tilley have been hired to undertake this work; their first report will be due in early December.

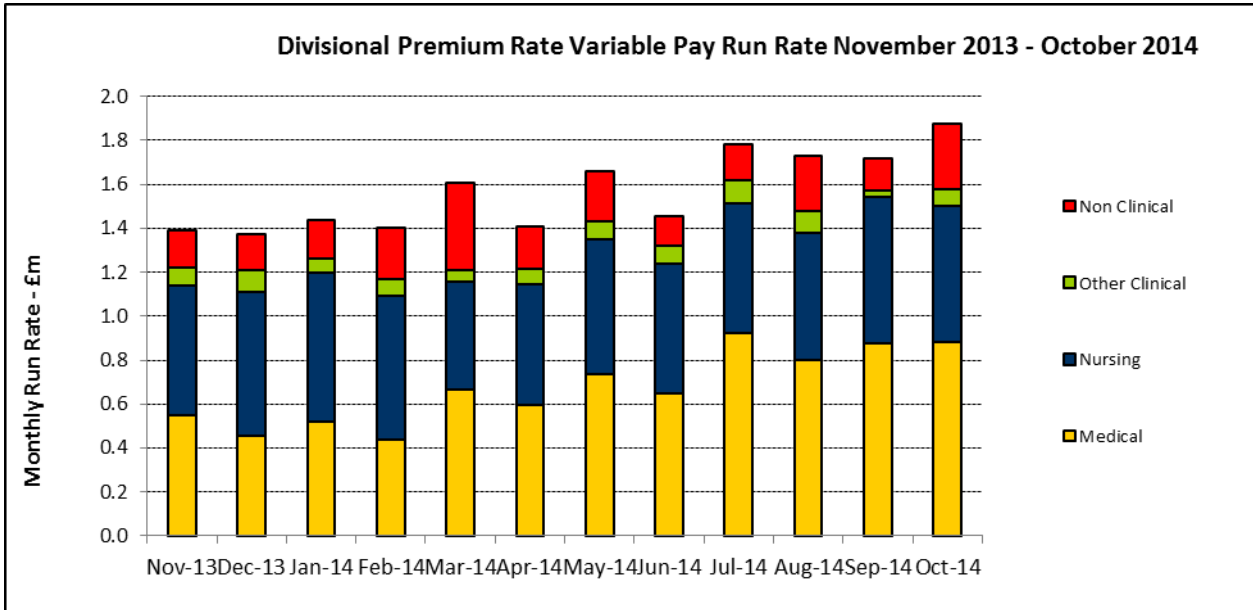
## Appendix A – Month 7 Income and Expenditure statement (Trust Internal Plan)

	Annual Plan	October In-Month			Year to Date		
		Plan	Actual	Variance	Plan	Actual	Variance
	£m	£m	£m	£m	£m	£m	£m
Clinical Income	217.20	18.99	19.44	0.45	127.92	129.39	1.47
Other Operating Income	40.87	3.66	3.80	0.15	23.93	24.37	0.44
<b>Total Operating Income</b>	<b>258.07</b>	<b>22.64</b>	<b>23.24</b>	<b>0.60</b>	<b>151.85</b>	<b>153.76</b>	<b>1.90</b>
Pay	(163.47)	(13.41)	(14.74)	(1.33)	(95.86)	(100.36)	(4.51)
Non Pay	(95.01)	(8.14)	(8.07)	0.06	(57.13)	(56.85)	0.28
Operating Costs Excl. from EBITDA	(8.10)	(0.68)	(0.60)	0.08	(4.72)	(4.08)	0.64
<b>Total Operating Expenditure</b>	<b>(266.58)</b>	<b>(22.22)</b>	<b>(23.41)</b>	<b>(1.19)</b>	<b>(157.70)</b>	<b>(161.29)</b>	<b>(3.59)</b>
<b>Profit/(Loss) from Operations</b>	<b>(8.51)</b>	<b>0.42</b>	<b>(0.18)</b>	<b>(0.59)</b>	<b>(5.85)</b>	<b>(7.53)</b>	<b>(1.68)</b>
Non Operating Income	0.49	0.00	0.00	0.00	0.01	(0.07)	(0.08)
Non Operating Expenditure	(18.35)	(1.52)	(1.51)	0.01	(10.48)	(10.49)	(0.02)
<b>Surplus/(Deficit)</b>	<b>(26.37)</b>	<b>(1.10)</b>	<b>(1.68)</b>	<b>(0.58)</b>	<b>(16.32)</b>	<b>(18.10)</b>	<b>(1.78)</b>

### M7 Detailed Pay statement

Pay Category	Internal Annual Plan £'000	In Month			Year to Date		
		Plan £'000	Actual £'000	Variance £'000	Plan £'000	Actual £'000	Variance £'000
Medical Fixed Pay	(37,105)	(3,064)	(3,040)	(24)	(21,774)	(21,011)	(763)
Medical Variable Pay	(6,165)	(472)	(1,081)	609	(3,703)	(6,928)	3,225
<b>Medical Pay</b>	<b>(43,270)</b>	<b>(3,536)</b>	<b>(4,121)</b>	<b>585</b>	<b>(25,477)</b>	<b>(27,939)</b>	<b>2,462</b>
Nursing Fixed Pay	(64,613)	(5,295)	(5,014)	(281)	(37,399)	(34,794)	(2,605)
Nursing Variable Pay	(1,576)	(91)	(809)	718	(1,122)	(5,328)	4,206
<b>Nursing Pay</b>	<b>(66,189)</b>	<b>(5,386)</b>	<b>(5,823)</b>	<b>437</b>	<b>(38,521)</b>	<b>(40,122)</b>	<b>1,601</b>
Other Clinical Fixed	(20,442)	(1,723)	(1,665)	(58)	(12,023)	(11,478)	(545)
Other Clinical Variable	(661)	(40)	(175)	135	(463)	(1,262)	799
<b>Other Clinical Pay</b>	<b>(21,103)</b>	<b>(1,763)</b>	<b>(1,840)</b>	<b>77</b>	<b>(12,486)</b>	<b>(12,740)</b>	<b>254</b>
Non Clinical Fixed	(31,917)	(2,654)	(2,535)	(119)	(18,659)	(17,340)	(1,319)
Non Clinical Variable	(993)	(73)	(422)	349	(715)	(2,223)	1,508
<b>Non Clinical Pay</b>	<b>(32,910)</b>	<b>(2,727)</b>	<b>(2,957)</b>	<b>230</b>	<b>(19,374)</b>	<b>(19,563)</b>	<b>189</b>
<b>Total Pay</b>	<b>(163,472)</b>	<b>(13,412)</b>	<b>(14,741)</b>	<b>1,329</b>	<b>(95,858)</b>	<b>(100,364)</b>	<b>4,506</b>

## Appendix B – Premium rate pay spend analysis



## Appendix C – Cost improvement Programme position statement from PMO

Trust Total	Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
		R	NR	Total	FYE	FYE
		£000	£000	£000	£000	£000
	Initiated	1,855	251	2,106	4,632	3642
	Developed	0	0	0	0	145
	Implemented	950	725	1,676	1,246	0
	Total (Developed & Implemented)	950	725	1,676	1,246	145
	Total (All Schemes)	2,805	976	3,782	5,878	3,787
	Savings Target			8,692	8,692	0
	To be Identified	0	0	4,910	2,814	(3,787)

Planned Care & Surgery	Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
		R	NR	Total	FYE	FYE
		£000	£000	£000	£000	£000
	Initiated	423	111	534	455	1,587
	Developed	0	0	0	0	0
	Implemented	97	41	138	112	0
	Total (Developed & Implemented)	97	41	138	112	0
	Total (All Schemes)	520	152	672	566	1,587
	Savings Target			2,816	2,816	0
	To be Identified			2,144	2,249	(1,587)

Emergency Care & Medicine	Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
		R	NR	Total	FYE	FYE
		£000	£000	£000	£000	£000
	Initiated	910	13	923	3,067	233
	Developed	0	0	0	0	0
	Implemented	191	25	215	250	0
	Total (Developed & Implemented)	191	25	215	250	0
	Total (All Schemes)	1,100	38	1,138	3,317	233
	Savings Target			2,708	2,708	0
	To be Identified			1,570	(609)	(233)

Diagnostics & Rehabilitation	Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
		R	NR	Total	FYE	FYE
		£000	£000	£000	£000	£000
	Initiated	465	27	492	941	1,572
	Developed	0	0	0	0	0
	Implemented	313	378	691	447	0
	Total (Developed & Implemented)	313	378	691	447	0
	Total (All Schemes)	778	405	1,183	1,388	1,572
	Savings Target			1,709	1,709	0
	To be Identified			527	321	(1,572)

Newark	Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
		R	NR	Total	FYE	FYE
		£000	£000	£000	£000	£000
	Initiated	53	81	134	63	0
	Developed	0	0	0	0	0
	Implemented	162	0	162	250	0
	Total (Developed & Implemented)	162	0	162	250	0
	Total (All Schemes)	215	81	296	313	0
	Savings Target			333	333	0
	To be Identified			37	20	0

Corporate Services	Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
		R	NR	Total	FYE	FYE
		£000	£000	£000	£000	£000
	Initiated	5	18	23	107	251
	Developed	0	0	0	0	145
	Implemented	187	282	469	187	0
	Total (Developed & Implemented)	187	282	469	187	145
	Total (All Schemes)	192	300	492	294	396
	Savings Target			1,126	1,126	0
	To be Identified			634	833	(396)



## Appendix C (continued) - Risk Adjusted CIP Delivery

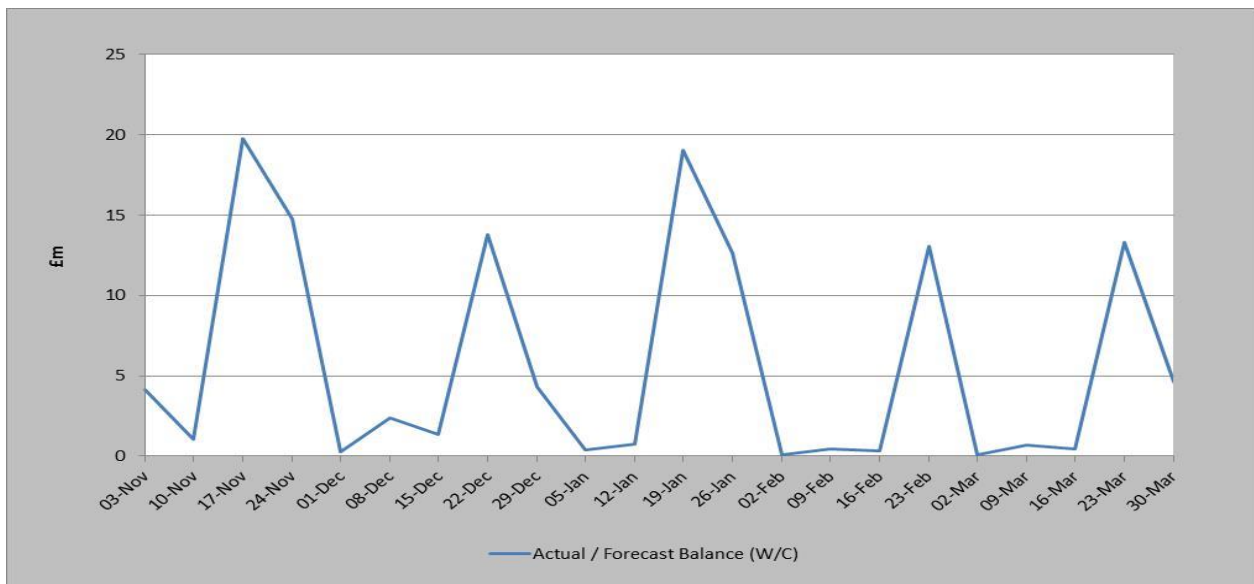
		2014/15 In-Year Savings			2014/15	2015/16	Initiated	Developed	Implemented	Total	
		R	NR	Total	FYE	FYE					
		£000	£000	£000	£000	£000	£000	£000	£000		
●	High Confidence (CIP will deliver in full on time)	1691	822	2513	3219	205	●	922	0	1591	2513
●	Medium Confidence (CIP will deliver at 70% of total)	289	7	296	1335	825	●	275	0	21	296
●	Low Confidence (Significant risk to delivery CIP will deliver at 30% of total CIP)	209	43	252	226	0	●	236	0	17	252
		2189	872	3061	4779	1030		1433	0	1628	3061

●	High Confidence (CIP will deliver in full on time)	77.26%	94.25%	82.10%	67.34%	19.90%	●	64.38%		97.70%
●	Medium Confidence (CIP will deliver at 70% of total)	13.18%	0.80%	9.65%	27.94%	80.10%	●	19.16%		1.29%
●	Low Confidence (Significant risk to delivery CIP will deliver at 30% of total CIP)	9.56%	4.95%	8.24%	4.72%	0.00%	●	16.46%		1.01%

DIVISIONAL RISK ADJUSTED CIP DELIVERY						
		Recurrent	Non Recurrent	Total	2014/15	2015/16
		£000	£000	£000	£000	£000
<b>Emergency Care and Medicine</b>						
	Risk Adjusted Total CIP Delivery	667	38	705	2463	35
	Target			2708		
	Revised to be Identified			2003		
<b>Planned Care &amp; Surgery</b>						
	Risk Adjusted Total CIP Delivery	482	108	590	528	271
	Target			2816		
	Revised to be Identified			2226		
<b>Diagnostics and Rehabilitation</b>						
	Risk Adjusted Total CIP Delivery	675	402	1077	1226	724
	Target			1709		
	Revised to be Identified			633		
<b>Newark</b>						
	Risk Adjusted Total CIP Delivery	178	24	203	269	
	Target			333		
	Revised to be Identified			130		
<b>Corporate</b>						
	Risk Adjusted Total CIP Delivery	187	300	487	294	0
	Target			1126		
	Revised identified over target			639		

Total 2189 872 3061 4779 1030

## Appendix D – 22 week cash flow forecast



The above forecast was agreed by the Board of Directors October 2014 and assumes delivery of agreed cost reductions, delivery of planned over-performance and additional non recurrent income in quarter 4.

## Appendix E – Monitor discretionary requirements

Metric		Annual Plan	YTD Plan	YTD Actual	YTD Variance
Revenue	£m	254.89	148.65	153.76	5.10
EBITDA	£m	(0.76)	(1.31)	(3.46)	(2.15)
Net Surplus/(Deficit)	£m	(26.37)	(16.42)	(18.10)	(1.68)
Underlying Surplus/(Deficit)	£m	(28.72)	(17.91)	(18.75)	(0.84)
Underlying Surplus/(Deficit) excluding £18.85m PFI premium impact	£m	(9.87)	(6.91)	(7.75)	(0.84)
Total CIP/Revenue Generation	£m	8.69	3.92	0.71	(3.21)
Recurrent CIP/Revenue Generation	£m	7.13	3.23	0.43	(2.80)
Cash	£m	0.64	0.65	0.11	(0.54)
Impact of PFI on EBITDA	£m	21.66	12.64	12.64	0.00
EBITDA adjusted for £18.85m PFI Premium Income	£m	20.90	11.32	9.17	(2.15)
Revenue plus £18.85m PFI Premium	£m	273.74	159.65	164.70	5.05
Revised EBITDA Return	%	7.6%	7.1%	5.6%	-1.5%

The PFI premium is the Trust's assessment of the additional cost burden of the PFI.

It should be noted that the calculation of these metrics reflect the detailed Monitor reporting templates and as such they cannot be calculated from the summary financial monitoring information shown in Appendix A of this report.