

Board of Directors

Meeting

Report

Subject: Board Performance Report
Date: 25 September 2014
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Lead Director: Margaret Ashworth, Chief Financial Officer

Executive Summary

The key headlines are:

- The summary I & E position is a £14.08m deficit. This is £1.11m worse than plan of £12.97m and pay pressures remain high. The Executive is identifying and delivering at pace actions to support delivery of the 2014/15 Plan.
- CIP programme remains at risk. The agreed profile of CIP shows that delivery of c. £6.5m is to happen in the second six months of the year, leaving limited time to implement mitigating actions against threats to delivery. Rigorous management of CIP and forecast outturn delivery lead by the Project Management Office is in place to minimise this risk.
- The increased focus on service lines continues to gain momentum. This is a key part of our strategy and a service line maturity assessment has been undertaken. Work has been commissioned to close the gap between present and future state that will include developing a framework for assessing the relative performance of service lines and different treatment strategies to be adopted.
- Cash and liquidity remain in line with our forecast, with revenue PDC requirements being agreed via Monitor on a monthly basis (Full year Capital requirement was agreed July). It should be noted that Monitor has prepared the business case for our revenue liquidity support (PDC), which is being submitted to Treasury for approval on the 19th September.
- The capital programme spend at the end of period 5 is £2.65m against a plan of £3.67m.
- Monitor was made aware of the month 5 I&E position on 16th September and the supporting narrative is due by 30th September.

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.

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

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

1.0 Overview and Key Risks

- **Income and Expenditure (I&E) statement (Appendix A)** – The financial position for the Trust at Month 05 is an overall Income and Expenditure deficit of £14.08m which is worse than the Trust's internal plan by £1.11m. The key factors to highlight are:

- Clinical income at the end of August is above plan by £0.60m a deterioration of £0.46m in the month.

Analysis is being undertaken to understand the clinical income plan phasing and whether this fully explains the underperformance in month.

Finance is continuing to review the process for calculating the Trust's clinical income including the SLAM system. Further issues have been resolved this month (including identification of CDU activity) and processes updated for future months.

The review process is continuing and it is planned by quarter 2 to:

- Work with the Information Department to improve the activity data flow to Finance, to remove as far as possible the need for manual intervention to generate the Trust's clinical income position.
- Use the SLAM system rather than external spreadsheets to:
 - Calculate New to Follow Up ratios and any associated penalties.
 - Adjust for the 30% Marginal Rate Emergency Tariff.
- Ensure that the SLAM system becomes the definitive source for clinical activity and income, containing the contract value, actuals and forecast outturn.
- 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 despite active recruitment, and is £2.42m above plan at the end of month 5 (**Appendix B**).

Key drivers for this continued pressure are as previously reported, in particular:

- Whilst pay CIP continues to be identified and transacted a balance of £5.05m remains unidentified, of this £1.03m 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 case complexity presenting at the front door to achieve the 4-hour wait target.
 - Planned premium rate pay to deliver referral to treatment (RTT) targets in surgery, which is reflected in the YTD activity and income over performance.
 - Increased nurse requirements across a number of areas, with EAU continuing to face particular cost pressures.
 - As expected the levels of non-clinical variable pay have increased in part due to difficulty in recruiting substantive project management resource.
 - 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.
 - A Project Manager is now in place and a new process for nurse agency and bank usage has been implemented across the Trust from 1st September.
 - Baker Tilly have begun their cost control review with a specific focus on decision making in respect of locum, agency and interim spend. A draft report (including key actions) will be completed for review by the Trust in late September.
 - YTD non pay expenditure is £0.15m below plan, however risks remain around:
 - Increased drugs and consumables cost linked to increased activity to deliver referral to treatment (RTT) targets in surgery.
 - Increased costs due to outsourcing activity to other providers in hard to recruit areas, specifically Radiology.
- **Cost Improvement Programme (CIP). (Appendix C)** – The in-year CIP target of £8.7m remains a high financial risk the Board needs to be made aware of the following changes since the last meeting:
 - Monitor recognises that delivery of our CIP is critical to achieving both our forecast deficit and managing within our agreed liquidity support. Following receipt of a detailed update on the deliverability of the 14/15 and 15/16 CIP in early September Monitor has now requested that we report CIP delivery to them on a weekly basis.
- The **cash balance** at the end of August was £0.10m in line with expected balance following the receipt of Public Dividend Capital cash support. **(Appendix D - 26 week cash forecast)**. The Trust has drawn down £16.33m Capital and Revenue support at the end of M05 (£19.17m as at 1st September) which is in line with the planned profile. Cash and cashflow continues to be closely monitored as part of delivering the planned financial outturn.
- **Capital programme** - Capital spend at M05 is £2.65m against a plan of £3.67m. The Trust is forecasting achievement of the quarter 2 plan within the Monitor +/- 15% tolerance.

- The Trust has refined its **2014/15 forecast outturn** position and process which now includes active participation from Divisions. Whilst the Trust's forecast outturn is under pressure, close monitoring is underway to ensure that the Trust achieves its planned outturn of £26.4m.
- **Trust Flexibility Supporting the Trust Financial Position at August 2014**

Finance has reviewed central provisions and reserves which has identified flexibility arising from:

- Items accrued to the Trust's balance sheet at 31st March 2014 which are no longer required and
- Revenue budgets allocated in the financial plan which are not currently being used.

For August reporting:

- Balance sheet flexibilities of £0.98m have been identified; these are being released to offset expenditure on a 12ths basis with £0.41m cumulative benefit included at August.
- Revenue budget flexibilities of £4.26m have currently been identified; these are being released in accordance with the original budget phasing.

Work is taking place in September to review the above and where appropriate reserves will be allocated out to divisions, e.g. where a specific cost is being incurred which the reserve budget was created to cover.

2.0 Monitor update

Discretionary requirements - Monitor has informed the Trust that their Discretionary Requirements will change, and have committed to confirm to us by September the revised requirements. As we have not yet had a formal response we have included the existing table at **Appendix E**.

3.0 Recommendations

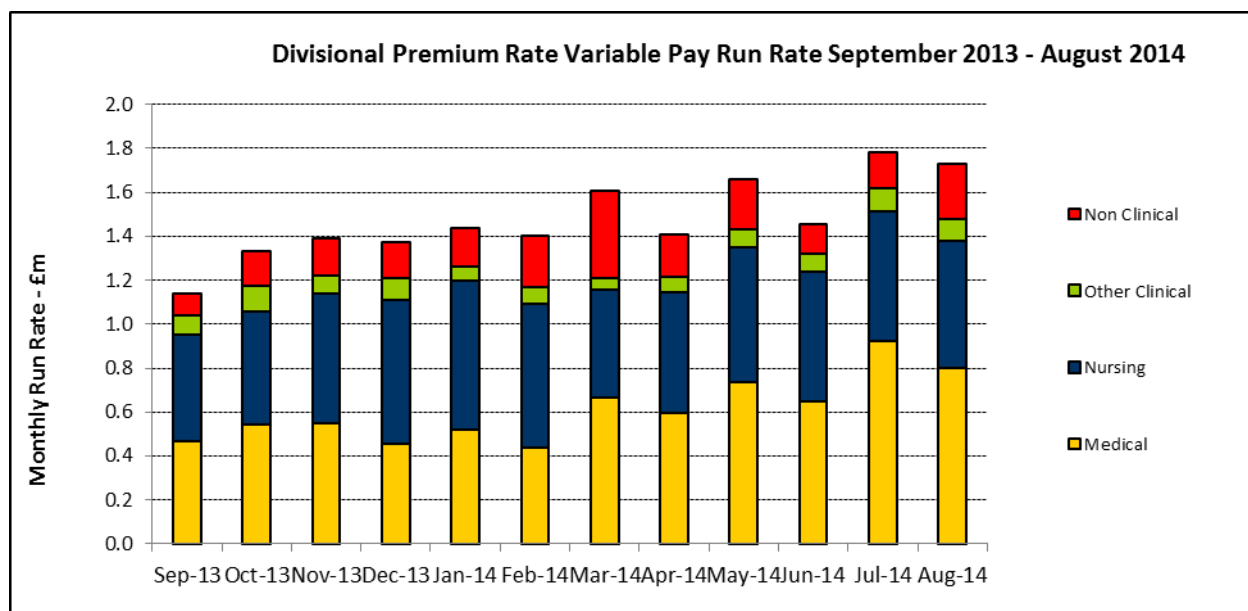
The Board of Directors are asked to:

- 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 the cost improvement programme.
- Note that in accordance with Monitor's request, summary financial tables have been submitted to Monitor on 16th September, and this narrative (but with the income and expenditure analysis reflecting the Monitor plan) will be submitted by 30th September 2014.

Appendix A – Month 5 Income and Expenditure statement (Trust internal Plan)

	Annual Plan	Year to Date		
		Plan	Actual	Variance
	£m	£m	£m	£m
Clinical Income	217.28	90.56	91.16	0.60
Other Operating Income	40.35	16.67	16.85	0.18
Total Operating Income	257.63	107.23	108.00	0.78
Pay	(163.57)	(69.00)	(71.42)	(2.42)
Non Pay	(94.47)	(40.35)	(40.20)	0.14
Operating Costs Excl. from EBITDA	(8.10)	(3.37)	(2.87)	0.49
Total Operating Expenditure	(266.14)	(112.71)	(114.49)	(1.79)
Profit/(Loss) from Operations	(8.51)	(5.48)	(6.49)	(1.01)
Non Operating Income	0.49	0.00	(0.08)	(0.08)
Non Operating Expenditure	(18.35)	(7.49)	(7.51)	(0.02)
Surplus/(Deficit)	(26.37)	(12.97)	(14.08)	(1.11)

Appendix B – Premium rate pay spend analysis



Appendix C – Cost improvement Programme position statement from PMO

2014/15 Cost Improvement Programme				Sherwood Forest Hospitals		
Scheme Status Report				Last Updated: 1st September		
Trust Total	Scheme Status	2014/15 In-Year Savings			2014/15 FYE £000	2015/16 FYE £000
		R £000	NR £000	Total £000		
	Initiated	3,793	300	4,093	7,475	1024
	Developed	0	0	0	0	145
	Implemented	1,454	1,763	3,217	2,005	0
	Total (Developed & Implemented)	1,454	1,763	3,217	2,005	145
	Total (All Schemes)	5,246	2,064	7,310	9,480	1,169
	Savings Target			8,692	8,692	0
To be Identified	0	0	1,382	(788)	(1,169)	
Planned Care & Surgery	Scheme Status	2014/15 In-Year Savings			2014/15 FYE £000	2015/16 FYE £000
		R £000	NR £000	Total £000		
	Initiated	1,358	193	1,551	1,829	10
	Developed	0	0	0	0	0
	Implemented	446	41	487	468	0
	Total (Developed & Implemented)	446	41	487	468	0
	Total (All Schemes)	1,804	234	2,038	2,298	10
	Savings Target			2,816	2,816	0
To be Identified			778	518	(10)	
Emergency Care & Medicine	Scheme Status	2014/15 In-Year Savings			2014/15 FYE £000	2015/16 FYE £000
		R £000	NR £000	Total £000		
	Initiated	1,432	33	1,466	3,711	350
	Developed	0	0	0	0	0
	Implemented	457	1,135	1,592	770	0
	Total (Developed & Implemented)	457	1,135	1,592	770	0
	Total (All Schemes)	1,889	1,168	3,057	4,481	350
	Savings Target			2,708	2,708	0
To be Identified			(349)	(1,773)	(350)	
Diagnostics & Rehabilitation	Scheme Status	2014/15 In-Year Savings			2014/15 FYE £000	2015/16 FYE £000
		R £000	NR £000	Total £000		
	Initiated	779	73	852	1,341	320
	Developed	0	0	0	0	0
	Implemented	313	378	691	442	0
	Total (Developed & Implemented)	313	378	691	442	0
	Total (All Schemes)	1,092	451	1,543	1,782	320
	Savings Target			1,709	1,709	0
To be Identified			166	(73)	(320)	
Newark	Scheme Status	2014/15 In-Year Savings			2014/15 FYE £000	2015/16 FYE £000
		R £000	NR £000	Total £000		
	Initiated	173	0	173	543	0
	Developed	0	0	0	0	0
	Implemented	162	0	162	250	0
	Total (Developed & Implemented)	162	0	162	250	0
	Total (All Schemes)	335	0	335	793	0
	Savings Target			333	333	0
To be Identified			(2)	(460)	0	
Corporate Services	Scheme Status	2014/15 In-Year Savings			2014/15 FYE £000	2015/16 FYE £000
		R £000	NR £000	Total £000		
	Initiated	51	0	51	51	344
	Developed	0	0	0	0	145
	Implemented	75	210	285	75	0
	Total (Developed & Implemented)	75	210	285	75	145
	Total (All Schemes)	126	210	336	126	489
	Savings Target			1,126	1,126	0
To be Identified			790	1,000	(489)	

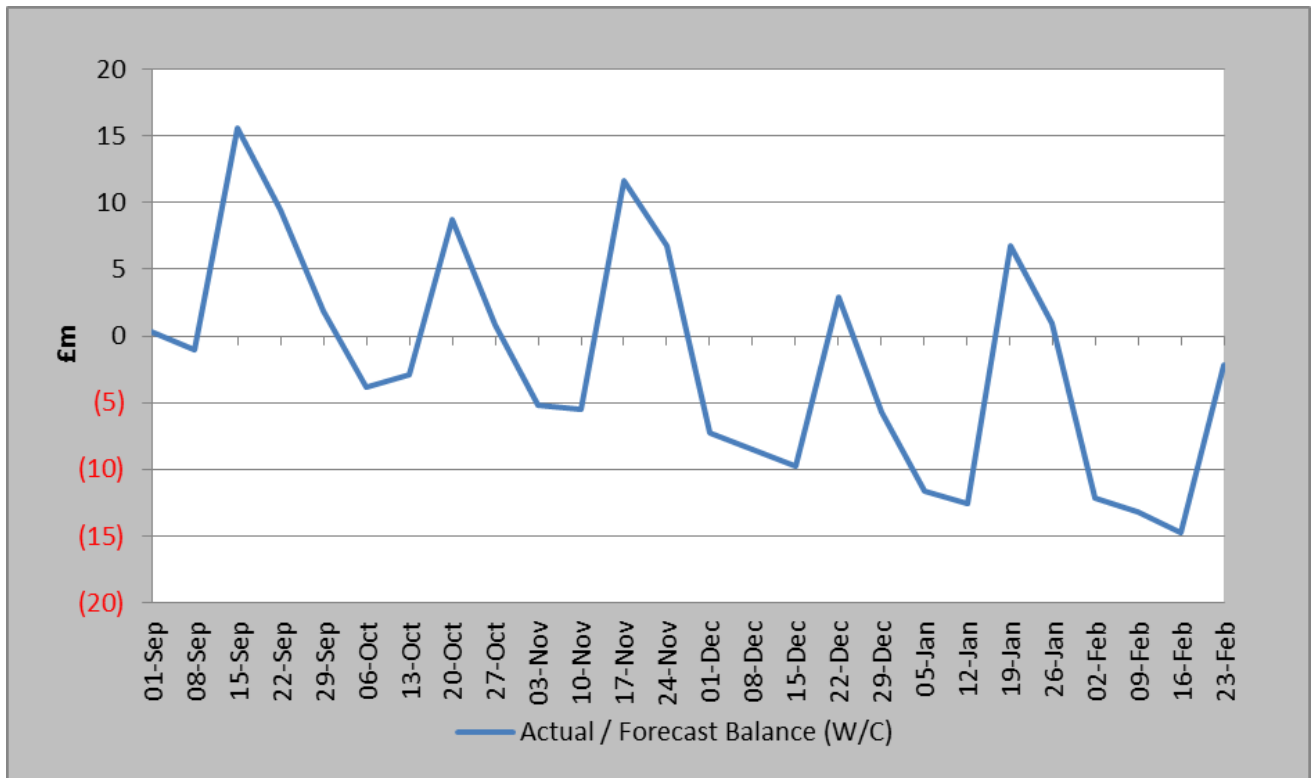
Appendix C (continued) - Risk Adjusted CIP Delivery

		2014/15 In-Year Savings			2014/15	2015/16	Initiated	Developed	Implemented	Total	
		R £000	NR £000	Total £000	FYE £000	FYE £000					£000
●	High Confidence (CIP will deliver in full on time)	2682	1840	4522	5193	35	●	1747	0	2775	4522
●	Medium Confidence (CIP will deliver at 70% of total)	1106	139	1245	1158	0	●	935	0	310	1245
●	Low Confidence (Significant risk to delivery CIP will deliver at 30% of total CIP)	265	8	273	760	0	●	273	0	0	273
		4053	1986	6039	7111	35		2955	0	3084	6039

●	High Confidence (CIP will deliver in full on time)	66.17%	92.62%	74.87%	73.03%	100.00%	●	59.12%	#DIV/0!	89.96%
●	Medium Confidence (CIP will deliver at 70% of total)	27.28%	7.01%	20.61%	16.29%	0.00%	●	31.64%	#DIV/0!	10.04%
●	Low Confidence (Significant risk to delivery CIP will deliver at 30% of total CIP)	6.55%	0.38%	4.52%	10.69%	0.00%	●	9.24%	#DIV/0!	0.00%

DIVISIONAL RISK ADJUSTED CIP DELIVERY						
		Recurrent	Non Recurrent	Total	2014/15	2015/16
		£000	£000	£000	FYE	FYE
		£000	£000	£000	£000	£000
Emergency Care and Medicine						
	Risk Adjusted Total CIP Delivery	1480	1125	2605	3421	35
	Target			2708		
	Revised to be Identified			103		
Planned Care & Surgery						
	Risk Adjusted Total CIP Delivery	1491	217	1708	1880	0
	Target			2816		
	Revised to be Identified			1108		
Diagnostics and Rehabilitation						
	Risk Adjusted Total CIP Delivery	742	434	1176	1271	0
	Target			1709		
	Revised to be Identified			533		
Newark						
	Risk Adjusted Total CIP Delivery	214	0	214	413	
	Target			333		
	Revised to be Identified			119		
Corporate						
	Risk Adjusted Total CIP Delivery	126	210	336	126	0
	Target			1126		
	Revised identified over target			790		
Total		4053	1986	6039	7111	35

Appendix D – 26 week cash flow forecast



The above graph excludes planned PDC drawdown from September onwards, and assumes full cash benefit of the CIP programme for 14/15.

The cash balance at the end of August was £0.10m after the receipt of £16.33m in liquidity support.

Appendix E – Monitor discretionary requirements

Metric		Annual Plan	YTD Plan	YTD Actual	YTD Variance
Revenue	£m	254.89	105.48	107.92	2.44
EBITDA	£m	(0.76)	(2.10)	(3.62)	(1.52)
Net Surplus/(Deficit)	£m	(26.37)	(12.93)	(14.08)	(1.15)
Underlying Surplus/(Deficit)	£m	(28.72)	(14.02)	(14.73)	(0.71)
Underlying Surplus/(Deficit) excluding £18.85m PFI premium impact	£m	(9.87)	(6.17)	(6.88)	(0.71)
Total CIP/Revenue Generation	£m	8.69	2.10	0.45	(1.65)
Recurrent CIP/Revenue Generation	£m	7.13	1.74	0.27	(1.47)
Cash	£m	0.64	(7.22)	0.10	7.33
Impact of PFI on EBITDA	£m	21.66	9.03	9.03	0.00
EBITDA adjusted for £18.85m PFI Premium Income	£m	20.90	6.93	5.41	(1.52)
Revenue plus £18.85m PFI Premium	£m	273.74	113.34	115.78	2.44
Revised EBITDA Return	%	7.6%	6.1%	4.7%	-1.4%

The PFI premium is the Trust's assessment of the additional cost burden of the PFI for which central support is being sought.

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.