Quality for all

Sherwood Forest Hospitals NHS
NHS Foundation Trust

Agenda Item:

Board of Directors

Meeting Report

Subject:	**Board Performance Report**
Date:	**31 July 2014**
Author:	**Sandra Chapman, Head of Management Accounts**
Lead Director:	**Fran Steele, Chief Financial Officer**

Executive Summary

The key headlines are:

- The summary I& E position is an £8.7m deficit. This is slightly ahead of plan but pay pressures remain high
- CIP programme delivery remains a high risk. Programme Board agreed a series of actions to continue to mitigate against shortfalls .
- The increased focus on service lines continues to gain momentum. This is a key part of our strategy and a service line maturity assessment is being shaped
- Cash and liquidity plans are on track with our PDC requirements being agreed via Monitor on a monthly basis
- The capital programme spend at quarter 1 is £1.32m against a plan of £1.49m and is within the +/- 15% tolerance levels.
- Monitor were made aware of the summary I&E position on 14th July but formal Q1 submission is due by 4pm on 31st July

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.
- Agree to the Q1disclosures to Monitor and that they need to be submitted as part of our Q1 submission by 4pm on 31st July 2014

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 *(may include CQC Essential Standards, NHSLA, NHS Constitution)*	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 03 is an overall Income and Expenditure deficit of £8.37m which is ahead of the Trusts internal plan by £640k. The key factors to highlight are:

    - Clinical income re phasing has been undertaken with the Divisions and this together with all the additional elective work means at the end of Q1 the Trust is above plan by £462k.

    - The level of pay overspend continues to remain high despite active recruitment, and is £675k above plan at the end of month 3 **(Appendix B**). The agency element is having a significant impact on invoice processing and liquidity was tight at the end of the month.

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

        - Medical locum usage in addressing increased case complexity presenting at the front door, achieving the 4-hour wait target and seeking to sustainably deliver referral to treatment (RTT) targets in surgery. The Trust is expecting funding from NHS England to support waiting time targets.

        - Increased nurse requirement across all areas, with NICU and Critical Care facing particular cost pressures.

        - The levels of non-clinical variable pay have seen a reduction since the peak in March however the Trust is having difficulty in recruiting substantive project management resource, particularly to support delivery of CIP schemes. This category of spend may see increases in future months.

    - 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.

        - An external review has resulted in new tracking and sign of process for nurse agency and bank spend. A weekly task and finish group, chaired by the Executive Director of HR is now in place to drive the changes forward.
        - Action to review the use of 1:1 overfills by the Executive Director of Nursing has been undertaken and assurance provided.
        - Control mechanisms for the management of all forms of leave for medical staff are being reviewed and a project manager has been assigned to escalate and complete this work.
        - Priority review of the Keogh nursing project to enable the reduction of HCA overnight by potentially strengthening the daytime RGN shifts, to be completed by 31st July.

    - Cost control tender has been issued which has a specific focus on decision making in respect of locum, agency and interim spend. It also seeks to focus on other areas of control weakness particular in respect of off system ordering and single tender actions.

- **Cost Improvement Programme (CIP). (Appendix C)** – The in-year CIP target of £8.7m remains a high financial risk and there are several aspects the Board needs to be made aware of since the last meeting

    - There was increasing frustration in respect of the harsh approach being adopted to report the full value of CIP initiatives. Significant change initiatives have been implemented but limited financial value was being recognised because of the need to seek cash releasing improvements to support the Trusts liquidity position. In order to make the reporting more reflective a lot of work has been done in respect of the theatre efficiency and outpatient efficiency projects which are well advanced in terms of benefits realisation.

    - Divisions were also of the view that they should not be seeking income schemes as whilst these clearly add value in year it is hard to consider them as delivering on a recurrent basis. Clarity has now been provided in respect of the recording of CIP and the need to incentivise income schemes where appropriate.

    - Following the Board decision (as part of the strategic plan submission in June) to return the CIP planning assumption to 100% recurrent, the £800k held centrally for non recurrent schemes has been redistributed across the Divisions. This increased financial challenge has reinforced the need to revisit some sensitive issues and 5 areas were discussed and actions agreed at programme board

        - Lessons learned that cheaper project management resource may provide capacity but leads to variable capability - Agreement to buy capability at higher cost.

        - Agency nurse spend and the period where parallel costs are being incurred between the old staffing model and the new Keogh model. Work is underway to identify the tipping points when full transition can be made and the risk of double costs mitigated

        - Newark initiatives – consideration of how the new strategic direction can be driven forward at optimum costs. Any ideas to be presented through programme Board

        - Waiting list initiatives – a focus on reducing reliance on these payments whilst ensuring high productivity is maintained. The Medical Director provided a detailed update on the way forward through Finance and Performance Committee

        - A refocus of the Programme Board agenda to ensure it is discharging its full accountability. The strategic financial advisor to the Board is working with the PMO to drive this work forward in earnest.

- Service line management. The Quarter 1 service line reports were presented in summary form to Finance and Performance committee **(Appendix.D)** There continue to be some service lines that fail to earn sufficient income to cover their direct and indirect costs (ie before Trust overheads and PFI. As the service lines are the key underpin for the Trusts performance management approach and it's longer term strategy it has been agreed to undertake a maturity assessment of all 37 service lines with a view to clarify the ongoing improvement journey. This will also include considering the information and data sets currently provided which need further refinement and the new PAS should provide a great platform to enable this to happen

- The **cash balance** at end of June was £0.63m, in line with expected balance following the receipt of Public Dividend Capital cash support. **(Appendix E - 26 week cash forecast).** The Trust has drawn down £8.28m Capital and Revenue support at the end of M03 (£12.39m as at 7th July) which is in line with the planned profile.

- **Capital programme** - Capital spend at M03 is £1.32m against a plan of £1.49m and is within the Monitor tolerance of +/- 15%.

- **2014/15 forecast outturn** - an initial detailed forecast outturn shows a range of deficit from **(£22.07m)** best case**, (£25.25m)** most likely **to (£28.43m)** worst case.

    - This increases risk as the plan for activity and therefore income increases during the latter half of the year, along with the impact of significantly higher CIPs. Whilst we are confident regarding total income there remain concerns about the detailed classifications. An external review is being initiated to provide further assurance.

2.0 Monitor update

Monthly reporting - Following the disclosure last month that Monitor want to receive monthly reporting information from the Trust before it has been through our governance bodies, we submitted our I&E position on 14th July. The Company Secretary continues to discuss how we can meet Monitor requirements whilst maintaining the integrity of our Board governance processes

Discretionary requirements – We raised with Monitor at the Performance Review meeting (18th July 2014) whether we needed to continue to present the discretionary requirements table agreed as part of our license conditions. We have not yet had a formal response so have included the table at **Appendix F).**

Quarter 1 submission – In line with the requirement for the Board of Directors to sign off the quarterly disclosure we are proposing

- We submit this narrative to Monitor but with the income and expenditure analysis in Appendix A to reflect the Monitor plan

- A continuity of service rating of 1 in line with our annual plan submission

- The capital programme spend is within the Monitor tolerances

3.0 Recommendations

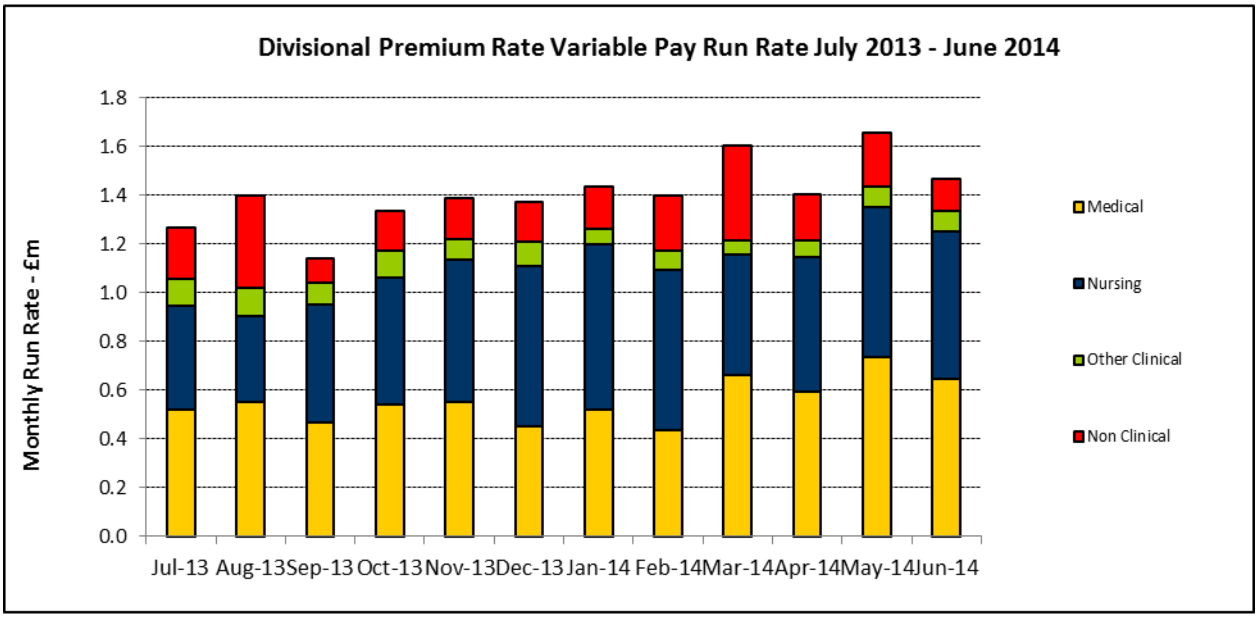
The Board of Directors are asked to:

- 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.
- Agree to the Q1disclosures to Monitor and that they need to be submitted as part of our Q1 submission by 4pm on 31st July 2014.

Appendix A – Month 3 Income and Expenditure statement (Trust internal Plan)

	Annual Plan	Year to Date Plan	Year to Date Actual	Year to Date Variance
	£m	£m	£m	£m
Clinical Income	216.99	53.43	53.89	0.46
Other Operating Income	40.36	10.08	10.47	0.39
Total Operating Income	257.34	63.51	64.37	0.85
Pay	(163.68)	(41.94)	(42.61)	(0.68)
Non Pay	(94.08)	(24.11)	(23.88)	0.23
Operating Costs Excl. from EBITDA	(8.10)	(2.03)	(1.71)	0.31
Total Operating Expenditure	(265.86)	(68.08)	(68.21)	(0.13)
Profit/(Loss) from Operations	**(8.51)**	**(4.56)**	**(3.84)**	**0.72**
Non Operating Income	0.49	0.00	(0.08)	(0.08)
Non Operating Expenditure	(18.35)	(4.45)	(4.45)	0.01
Surplus/(Deficit)	**(26.37)**	**(9.01)**	**(8.37)**	**0.64**

Appendix B – Premium rate pay spend analysis



Appendix C – Cost improvement Programme position statement from PMO

2014/15 Cost Improvement Programme

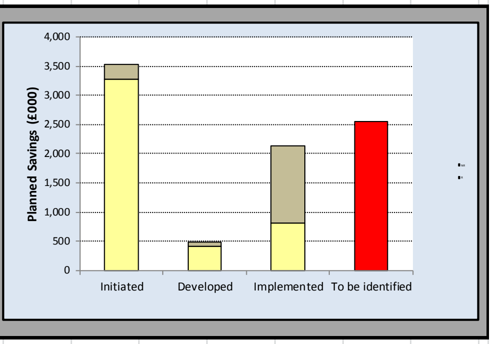
Sherwood Forest Hospitals NHS
NHS Foundation Trust

Scheme Status Report

Last Updated: **21 July 2014**

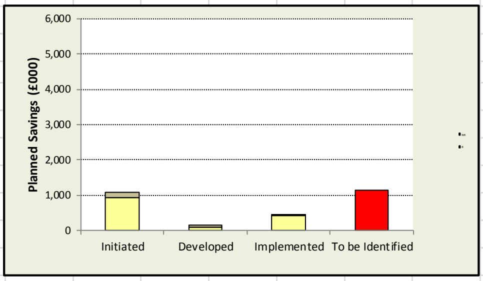
Trust Total

Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
	R	NR	Total	FYE	FYE
	£000	£000	£000	£000	£000
Initiated	3,282	244	3,526	5,908	880
Developed	408	82	490	507	0
Implemented	802	1,332	2,134	888	0
Total (Developed & Implemented)	1,210	1,414	2,624	1,395	0
Total (All Schemes)	4,492	1,658	6,150	7,303	880
Savings Target			8,700	8,700	0
To be Identified	0	0	2,550	1,397	(880)



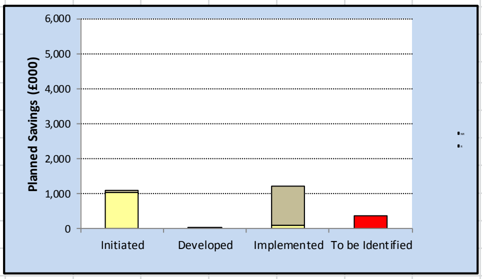
Planned Care & Surgery

Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
	R	NR	Total	FYE	FYE
	£000	£000	£000	£000	£000
Initiated	932	141	1,074	1,421	10
Developed	90	72	162	91	0
Implemented	413	17	430	443	0
Total (Developed & Implemented)	503	89	592	533	0
Total (All Schemes)	1,435	230	1,665	1,954	10
Savings Target			2,816	2,816	0
To be Identified			1,151	862	(10)



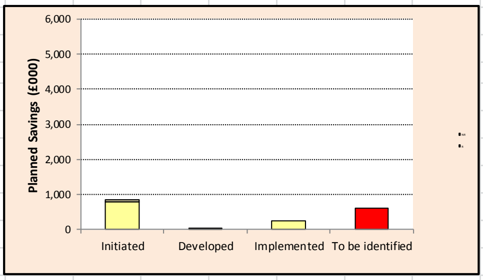
Emergency Care & Medicine

Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
	R	NR	Total	FYE	FYE
	£000	£000	£000	£000	£000
Initiated	1,050	53	1,103	2,541	350
Developed	15	0	15	15	0
Implemented	104	1,115	1,219	116	0
Total (Developed & Implemented)	119	1,115	1,234	131	0
Total (All Schemes)	1,169	1,168	2,337	2,672	350
Savings Target			2,708	2,708	0
To be Identified			371	36	(350)



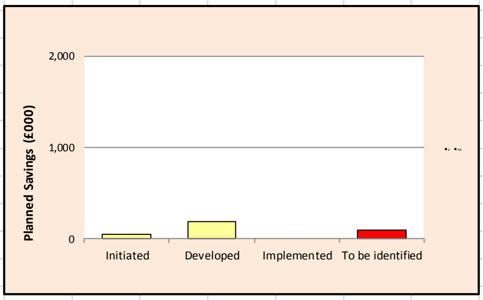
Diagnostics & Rehabilitation

Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
	R	NR	Total	FYE	FYE
	£000	£000	£000	£000	£000
Initiated	787	49	837	1,423	320
Developed	7	10	17	7	0
Implemented	250	0	250	295	0
Total (Developed & Implemented)	257	10	267	301	0
Total (All Schemes)	1,044	59	1,103	1,724	320
Savings Target			1,709	1,709	0
To be Identified			606	(15)	(320)



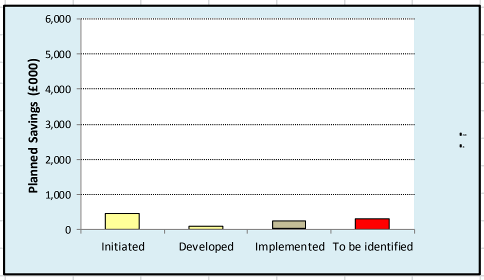
Newark

Scheme Status	2014/15 In-Year Savings			2014/15	2015/16
	R	NR	Total	FYE	FYE
	£000	£000	£000	£000	£000
Initiated	53	0	53	63	0
Developed	188	0	188	250	0
Implemented	0	0	0	0	0
Total (Developed & Implemented)	188	0	188	250	0
Total (All Schemes)	240	0	240	313	0
Savings Target			333	333	0
To be Identified			93	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	460	0	460	460	200
Developed	109	0	109	145	0
Implemented	35	200	235	35	0
Total (Developed & Implemented)	144	200	344	180	0
Total (All Schemes)	604	200	804	640	200
Savings Target			1,126	1,126	0
To be Identified			322	486	(200)



Appendix C (continued) - Risk Adjusted CIP Delivery

	2014/15 In-Year Savings R £000	NR £000	Total £000	2014/15 FYE £000	2015/16 FYE £000
High Confidence (CIP will deliver in full on time)	1744	1381	3125	4203	35
Medium Confidence (CIP will deliver at 70% of total)	1016	164	1180	969	0
Low Confidence (Significant risk to delivery CIP will deliver at 30% of total CIP)	187	8	195	288	0
	2947	1553	4500	5460	35

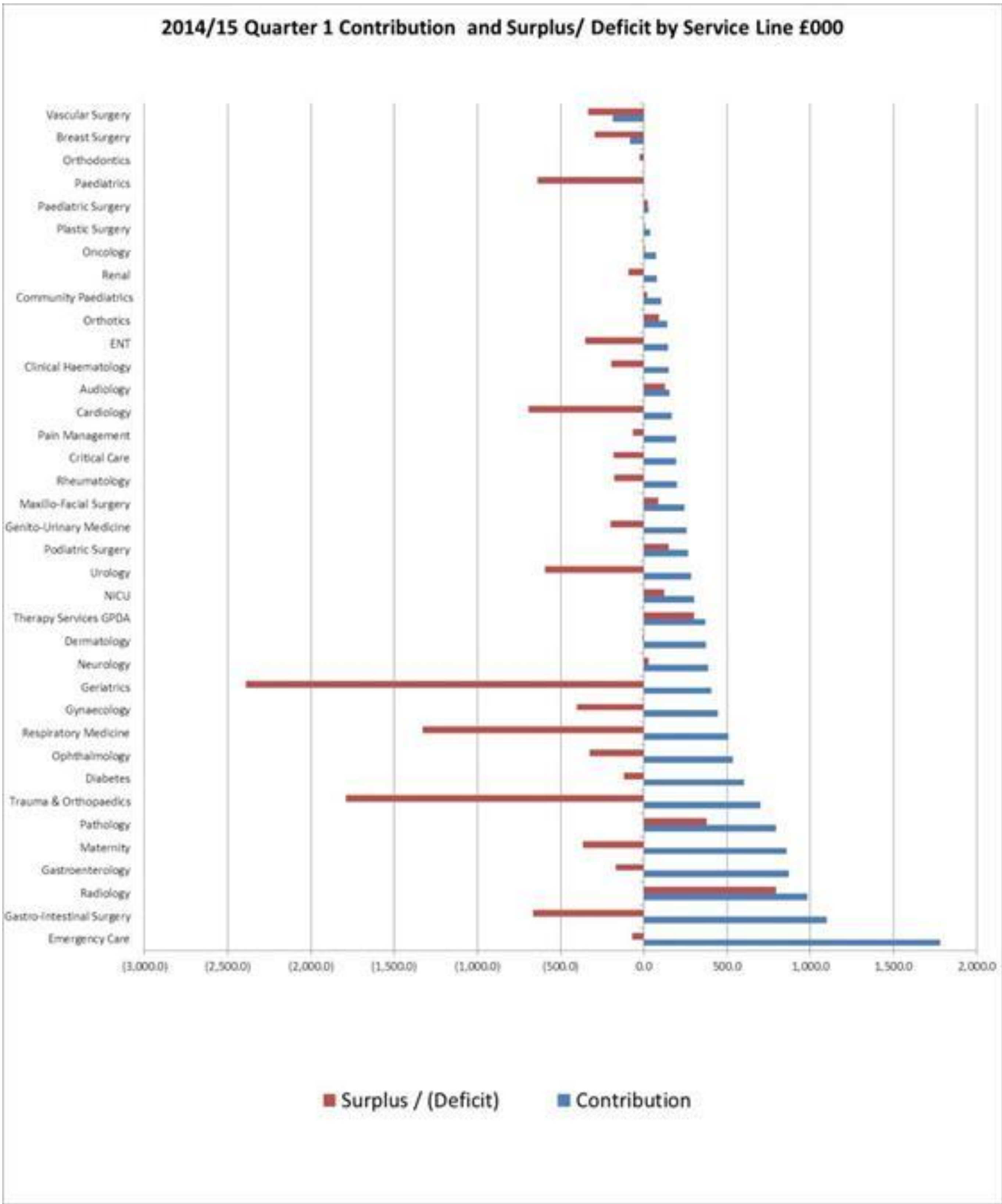
	Initiated £000	Developed £000	Implemented £000	Total £000
High Confidence	1199	365	1749	3312
Medium Confidence	1214	12	100	1325
Low Confidence	178	33	0	211
	2590	409	1849	4848

	R	NR	Total	2014/15 FYE	2015/16 FYE
High Confidence (CIP will deliver in full on time)	59.17%	88.93%	69.44%	76.98%	100.00%
Medium Confidence (CIP will deliver at 70% of total)	34.47%	10.59%	26.23%	17.75%	0.00%
Low Confidence (Significant risk to delivery CIP will deliver at 30% of total CIP)	6.36%	0.48%	4.33%	5.27%	0.00%

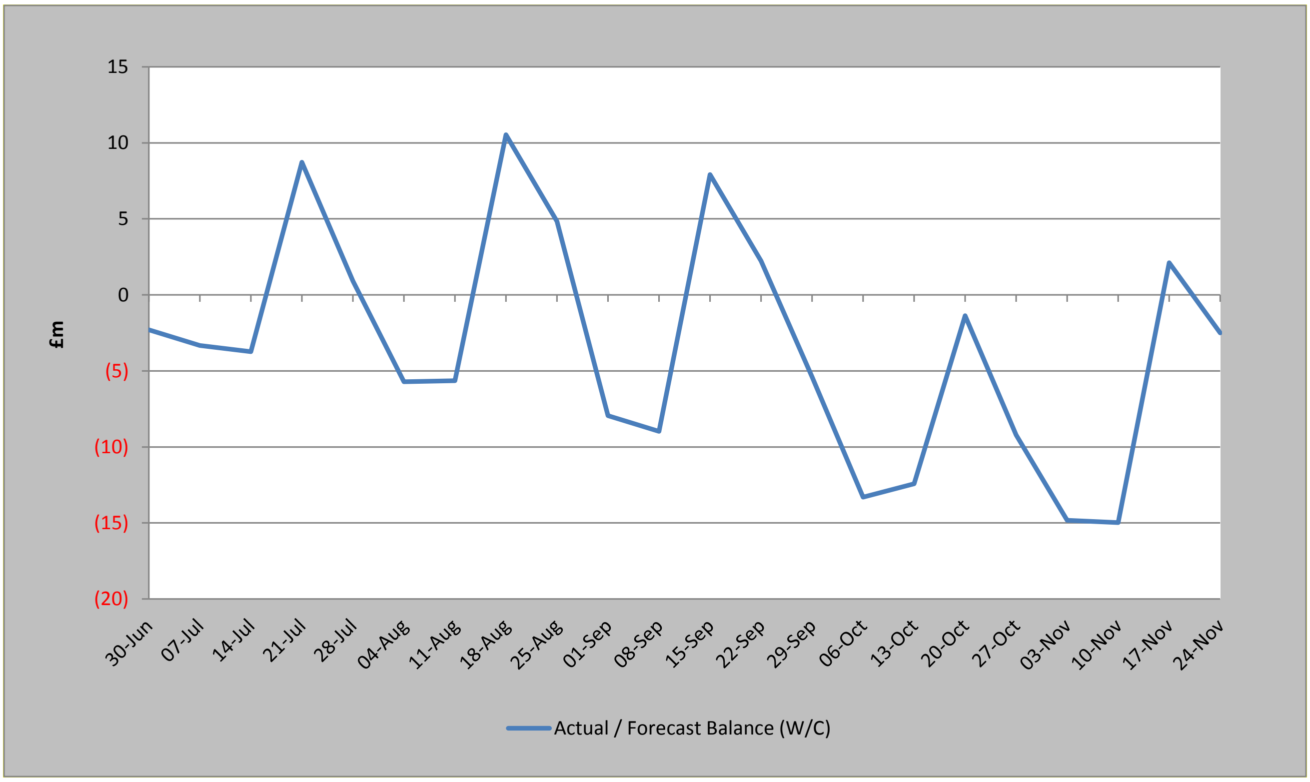
	Initiated	Developed	Implemented
High Confidence	46.27%	89.19%	94.60%
Medium Confidence	46.86%	2.83%	5.40%
Low Confidence	6.87%	7.99%	0.00%

DIVISIONAL RISK ADJUSTED CIP DELIVERY	Recurrent £000	Non Recurrent £000	Total £000	2014/15 FYE £000	2015/16 FYE
Emergency Care and Medicine					
Risk Adjusted Total CIP Delivery	929	1115	2044	2573	35
Target			2708		
Revised to be Identified			664		
Planned Care & Surgery					
Risk Adjusted Total CIP Delivery	652	196	848	1180	0
Target			2816		
Revised to be Identified			1968		
Diagnostics and Rehabilitation					
Risk Adjusted Total CIP Delivery	789	42	831	1307	0
Target			1709		
Revised to be Identified			879		
Newark					
Risk Adjusted Total CIP Delivery	203	0	203	269	
Target			332		
Revised to be Identified			129		
Corporate					
Risk Adjusted Total CIP Delivery	390	200	590	401	0
Target			1823		
Revised identified over target			1233		
Total	2963	1553	4516	5729	35

Appendix D – Q1 service line summary



Appendix E – 26 week cash flow forecast



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

The cash balance at end of June was £0.63m after the receipt of £8.28m in liquidity support.

Appendix F – Monitor discretionary requirements

Metric		Annual Plan	YTD Plan	YTD Actual	YTD Variance
Revenue	£m	254.89	63.42	64.29	0.87
EBITDA	£m	(0.76)	(1.78)	(2.13)	(0.35)
Net Surplus/(Deficit)	£m	(26.37)	(8.24)	(8.37)	(0.13)
Underlying Surplus/(Deficit)	£m	(28.72)	(8.90)	(9.02)	(0.13)
Underlying Surplus/(Deficit) excluding £18.85m PFI premium impact	£m	(9.87)	(4.19)	(4.31)	(0.13)
Total CIP/Revenue Generation	£m	8.69	0.41	0.23	(0.18)
Recurrent CIP/Revenue Generation	£m	7.13	0.35	0.09	(0.26)
Cash	£m	0.64	(4.03)	0.62	4.65
Impact of PFI on EBITDA	£m	21.66	5.42	5.42	0.00
EBITDA adjusted for £18.85m PFI Premium Income	£m	20.90	3.64	3.29	(0.35)
Revenue plus £18.85m PFI Premium	£m	273.74	68.13	69.00	0.87
Revised EBITDA Return	%	7.6%	5.3%	4.8%	-0.6%

Please note that the plan reported here refers to the Annual Plan submitted to Monitor in April 2014.

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.