Board of Directors

Subject: **Board Performance Report**
Date: **27 February 2014**
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Lead Director: **Fran Steele, Chief Finance Officer**

Executive Summary

The key headlines are:

- The year to date financial deficit is £19.3m.

- Our year end forecast remains in line with plan (£23.3m deficit). This includes a clinical contract outturn assumption of £216m with our commissioners, encompassing all penalties and activity issues. This agreement is still being finalised.

- Pay expenditure run rate is £13.9m per month, a consistent trend as we continue to incur significant levels of premium rate variable pay expenditure despite proactive workforce recruitment.

- CIP savings delivery to January was £11.0m and the PMO risk adjusted forecast outturn as at 14 February is £15.4m. The inability to deliver some of the premium pay reduction schemes means that a significant proportion of the CIP savings are non-recurrent and the full year effect forecast is £12.7m.

- For 2014/15 CIP schemes with a value totalling £3.2m have already been initiated through the PMO process and Procurement has also agreed a £0.5m target which has yet to be initiated. Further 'ideas' for cost improvements through the delivery of the Integrated Improvement Programme are being developed to achieve the remaining £5.2m target.

- The cash balance at January was £6.8m but includes cash payments in advance of expenditure being incurred (including contract payments from our commissioners). Taking these payments into account, the underlying cash balance is now minus £23.1m. Public Dividend Capital support is now being received and the Trust expects to achieve a year end cash balance not exceeding £0.5m as agreed with the DoH.

- A liquidity support application has been submitted to Monitor for our 14/15 requirements. Feedback is still awaited and this will be key to informing our year end accounts view from external audit. As in 12/13 a letter of support for the preparation of the Trust's 13/14 accounts on a going concern basis is being discussed with DoH.

- Following the withdrawal of the integrated care record (ICR) programme funding by commissioners in January, Commissioners have now re-funded £1m to the Trust to offset costs incurred and discussions are on-going regarding the balance of £2.5m.

- The clinical contract discussions are on-going and there are almost-daily meetings to progress key items in order to try to meet the national deadline for contract signature of 28th February 2014.

Recommendation

Board members are recommended to note the key headlines and risks and the actions being taken.

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

- The year to date financial deficit is £19.3m, which is £1.6m better than plan and consequently our EBITDA is also better than plan. **(Appendix A)** Our year-end forecast remains in line with plan (£23.3m deficit). This includes a clinical contract outturn assumption of £216m with our commissioners, encompassing all penalties and activity issues. This agreement is still being finalised.

- Pay expenditure is above plan by £0.8m in-month and £2.3m cumulatively. The expenditure run rate is running at £13.9m per month, a consistent trend as we continue to incur significant levels of premium rate variable pay expenditure despite proactive workforce recruitment. **(Appendix B)**

- CIP savings delivery to January was £11.0m, which is £0.9m above plan. The PMO risk adjusted forecast outturn as at 14 February is £15.4m. The inability to deliver some of the premium pay reduction schemes means that a significant proportion of the CIP savings are non- recurrent and the full year effect forecast is £12.7m. **(Appendix C).** This is an improvement from what was reported last month but on-going identification of recurrent CIP schemes remains a priority.

  For 2014/15 CIP schemes with a value totalling £3.2m have already been initiated through the PMO process and Procurement has also agreed a £0.5m target which has yet to be initiated. Further 'ideas' for cost improvements through the delivery of the Integrated Improvement Programme are being developed to achieve the remaining £5.2m target. The detail behind these schemes must be developed quickly to ensure savings accrue from the beginning of the 2014/15 financial year.

- The cash balance at December was £6.8m, better than Monitor Plan by £4.0m. The cash balance includes cash payments in advance of expenditure being incurred (including contract payments from our commissioners). Taking these payments into account, the underlying cash balance is now minus £23.1m. Public Dividend Capital support is now being received and the Trust's expects to achieve a year end cash balance not exceeding £0.5m as agreed with the DoH. **(Appendix D - 26 week cash forecast and available cash graph)**

- A liquidity support application has been submitted to Monitor for our 2014/15 requirements (see below). Feedback is still awaited and this will be key to informing our year end accounts view from external audit. As in 12/13 a letter of support for the preparation of the Trust's 13/14 accounts on a going concern basis is being discussed with DoH.

- Following the withdrawal of the integrated care record (ICR) programme funding by commissioners in January, we have provided an update to the original business case used to seek Transformation funding. Commissioners have now re-funded £1m to the Trust to offset costs incurred to date and positive discussions are on-going regarding the balance of £2.5m. We expect to hear imminently the outcome of those discussions.

- The finance transformation continues to move forward although there have been direct impacts on sickness absence rates and a number of vacancies remain to be filled. We are continuing to mitigate key risks and since the departure of the Deputy Director of Accounting and Compliance have introduced shared cover arrangements for the next 6 months from the Financial Planning and Strategy Manager and the Head of Financial Services. On a more positive note there has been a national launch from Monitor, DH and the NTDA for a 'Future Focused Finance' initiative which is timely in supporting the direction of travel we have been following. **(Appendix E)**

- The clinical contract discussions are on-going and there are almost-daily meetings to progress key items in order to try to meet the national deadline for contract signature of 28th February 2014. A separate presentation will be provided to the Board of Directors with the latest status and how closely we are aligned with the Board Mandate provided at the end of January.

- HMRC have notified Trusts that VAT will no longer be recoverable on agency administrative staff with effect from April 2014. This is a direct cost pressure of £0.1m per year if we consume the same level of agency start in 14/15 as we have in 13/14. A cost pressure is being captured as part of updating assumptions for the April annual plan submission.

<u>Board Assurance Framework – Financial sustainability Risks</u>

The Finance and Performance Committee meets the day before the Board of Directors and will be discussing the 7 key BAF risks as listed below. Verbal update will be provided following those discussions.

BAF risk on financial sustainability	Action update
Failing to find a solution to the PFI excess burden	4 way discussion being put in place between Monitor, NHSE, CCG and the Trust to further explore options
Insufficient cash liquidity	PDC brokerage in place for 13/14. Application submitted for 14/15. Monitor driving forward on our behalf.
Failure to have an agreed financial improvement plan	Updated plan to be submitted in April, on-going CIP delivery continues to be a key element (see below). 4 way discussion referenced above will be key to Trust's response
Failure to adequately performance manage the agreed operational and financial plan	Performance management framework continues to evolve, currently re-aligning with new meeting and committee cycle.
Reduced funding from commissioners	14/15 clinical contract finalisation underway. Performance issues and MRET investment outside of the Trust remain significant risks
Failure of delivery of year on year CIP's	Integrated Improvement Programme approach is right way forward but as at February value of CIPs identified is well below requirement. Monitor has suggested 75% recurrent element may be more realistic. Need to model in updated plan
Lack of financial management across the Trust	Key individuals have still not attended training sessions therefore 4 additional dates arranged February / March. For the future finance training requirements to being reviewed and will tailored to customers' specific needs.

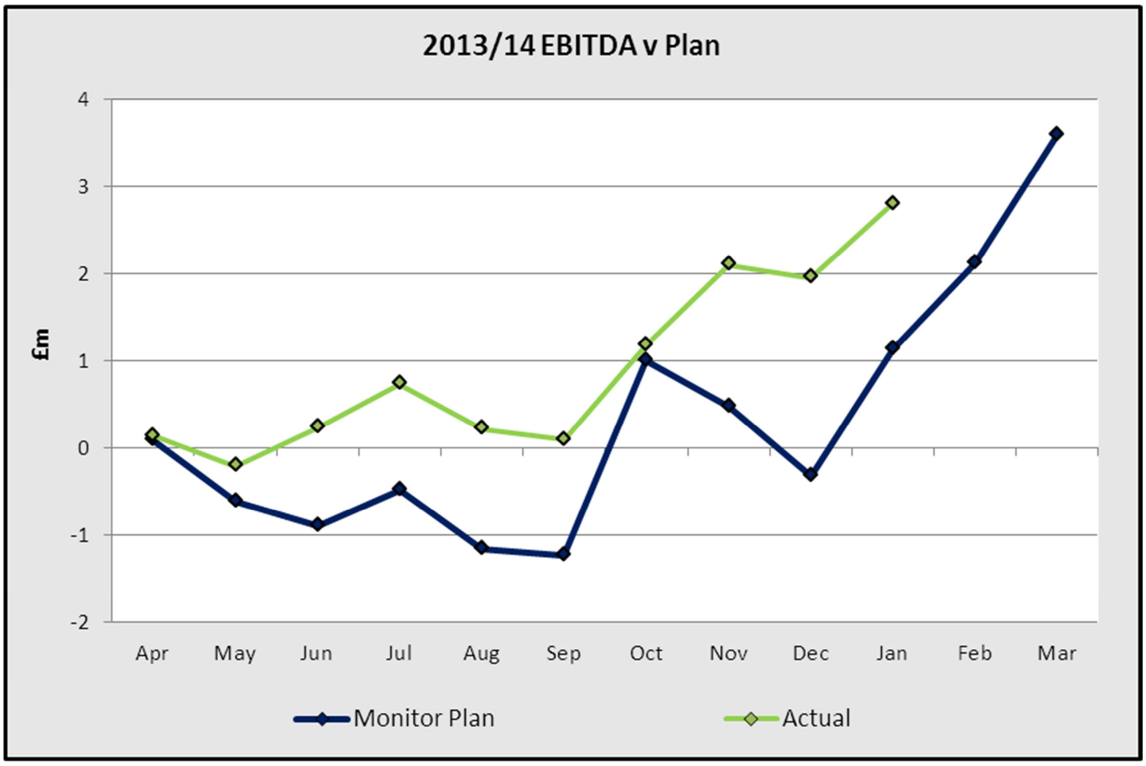
2.0 Monitor update

Discretionary requirements – these are provided at **Appendix F.** This information forms part of the monthly information set required by Monitor to support our license conditions.

Other updates are included in the BAF update table above.

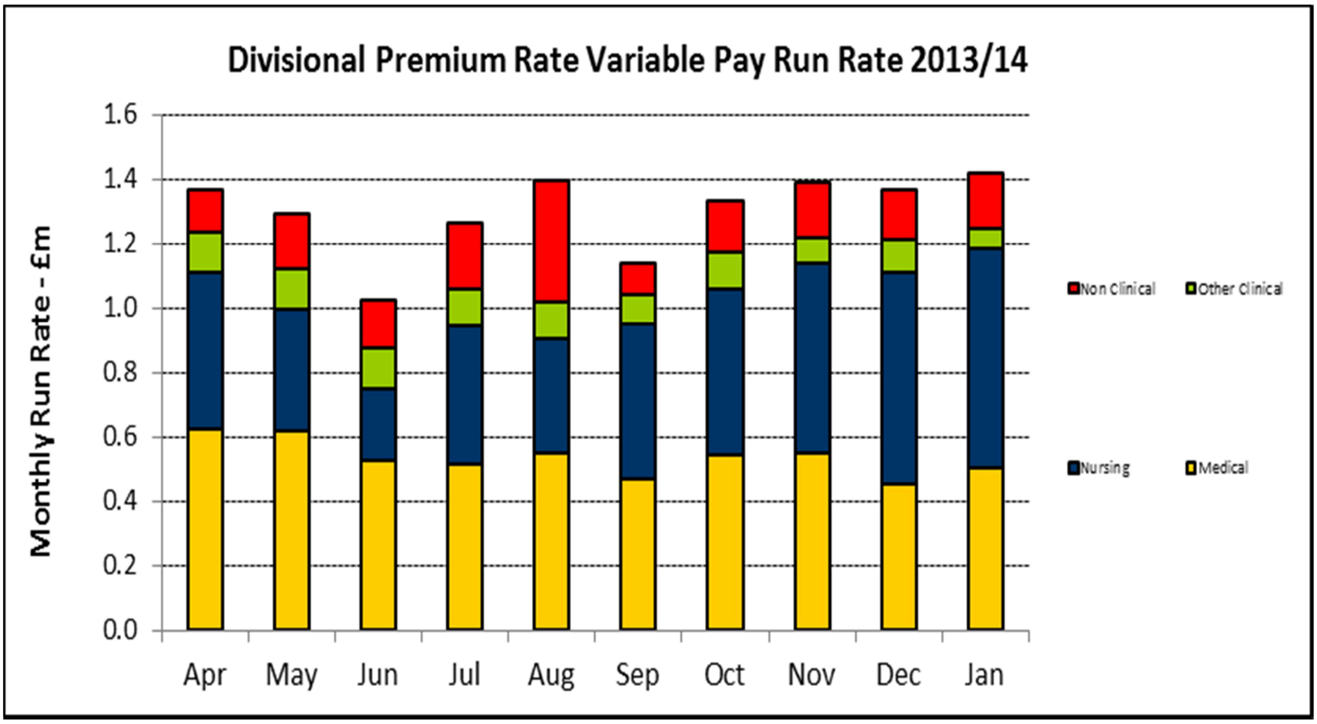
Appendix A – Month 10 Income and Expenditure statement and EBITDA trend

	Annual Plan	January In-Month			Year to Date		
		Plan	Actual	Variance	Plan	Actual	Variance
	£m	£m	£m	£m	£m	£m	£m
Clinical Income	215.63	19.10	17.93	(1.17)	179.85	181.69	1.84
Other Operating Income	45.72	3.54	3.34	(0.20)	38.23	38.07	(0.16)
Total Operating Income	261.35	22.64	21.27	(1.37)	218.08	219.76	1.68
Pay	(163.00)	(13.21)	(14.02)	(0.81)	(136.72)	(138.98)	(2.26)
Non Pay	(94.16)	(8.08)	(6.40)	1.68	(79.47)	(77.42)	2.05
Operating Costs Excl. from EBITDA	(9.39)	(0.67)	(0.71)	(0.04)	(7.71)	(7.65)	0.06
Total Operating Expenditure	(266.55)	(21.96)	(21.13)	0.83	(223.90)	(224.05)	(0.15)
Profit/(Loss) from Operations	**(5.20)**	**0.68**	**0.14**	**(0.54)**	**(5.82)**	**(4.29)**	**1.53**
Non Operating Income	0.63	0.01	0.00	(0.01)	0.13	0.14	0.01
Non Operating Expenditure	(18.67)	(1.54)	(1.54)	0.00	(15.26)	(15.16)	0.10
Surplus/(Deficit)	**(23.24)**	**(0.85)**	**(1.40)**	**(0.55)**	**(20.95)**	**(19.31)**	**1.64**



Year-to-date EBITDA is £2.80m, which is better than the internal plan EBITDA of £1.60m and better than Monitor plan by £1.65m. Year to-date EBITDA margin is 1.26% and when adjusted for the PFI premium of £18.3m increases to 8.4%.The Foundation Trust medium acute sector EBITDA margin average is 4.3%.

Appendix B – Premium rate pay spend analysis



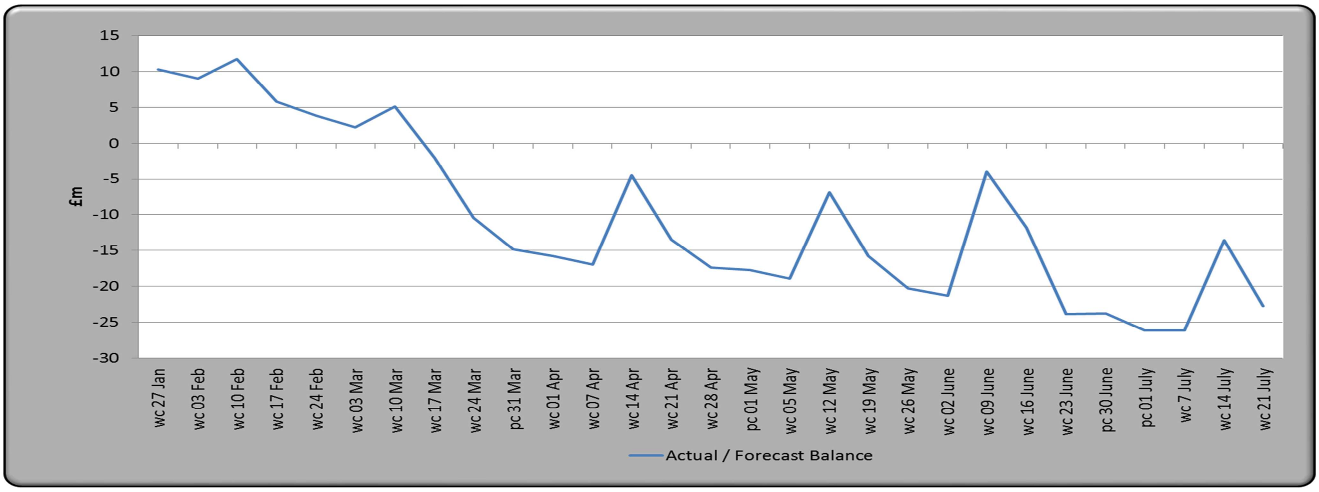
Appendix C – Cost improvement Programme position statement from PMO

At 14 February 2014 the risk adjusted total of 2013/14 CIP schemes is £15.4m in year savings, realising a full year effect of £12.7m. Recurrent savings have reduced due to the reallocation of Income schemes as Non-recurrent and the replacement of some recurrent schemes with non-recurrent schemes. Divisions have been tasked with identifying those projects where the RAG rating can improve in order to achieve the full year recurrent savings. This has been achieved for a number of projects and is on-going.

			2013/14 In-Year Savings			2013/14 FYE
			R £000	NR £000	Total £000	£000
● (green)		High Confidence (CIP will deliver in full on time)	7,599	5,744	13,343	10,148
● (amber)		Medium Confidence (CIP will deliver at 70% of total)	1,558	262	1,820	1,990
● (red)		Low Confidence (Significant risk to delivery CIP will deliver at 30% of total CIP)	59	153	212	549
			9,216	**6,159**	**15,375**	**12,687**

For 2014/15 schemes with a value totalling £3.2m have already been initiated through the PMO process and Procurement has also agreed a £0.5m target which has yet to be initiated. Further 'ideas' for cost improvements through the delivery of the Integrated Improvement Programme are being developed to achieve the remaining £5.2m target. The detail behind these schemes must be developed quickly to ensure savings accrue from the beginning of the 2014/15 financial year.

Appendix D – 26 week cash flow forecast



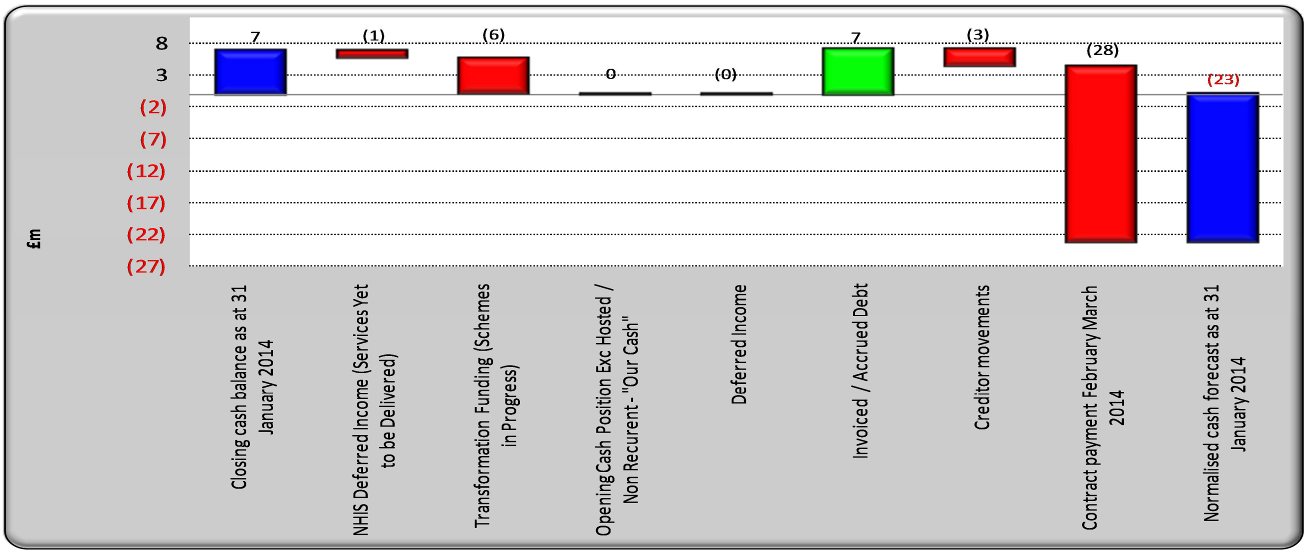
The above graph excludes the PDC drawdown in March 14, and the cash impact of the CIP programme for 14/15.

The cash balance was £6.8m at January, better than our Monitor plan by £4.0m primarily due to the:

- Treatment of the insurance risk share payment from our PFI partner received in May £1.52m.
- Lower than plan capital expenditure however, the Trust did meet the quarter 3 Monitor compliance target (+/- 15%) to plan. Significant expenditure was incurred in quarter 3; however, a number of invoices fell for payment in quarter 4 which increased capital creditor balances above plan.
- ICRS (PAS) expenditure now planned for 2014/15, c. £2.2m.

PDC has been agreed with the Department of Health and formal requests for draw down submitted for February and March 2014. The first receipt of £0.8m was received 17 February. An initial update regarding 2014/15 PDC support was submitted to Monitor on 15 February 2014, which outlined requirements for c. £30.7m of capital and revenue cash support. Confirmation is still awaited, which will be required for March in preparation of the 17 March submission for PDC drawdown on 1 April.

Normalised /Available Cash



Appendix E – Future Focussed Finance

Pdf Document

FFF1[1].pdf

Link

http://www.leadershipacademy.nhs.uk/support/future-focused-finance-making-people-count/

Appendix F – Monitor discretionary requirements

Metric		Annual Plan	Year-to-Date Plan	Year-to-Date Actual	Variance
Revenue	£m	258.86	215.78	219.90	4.12
EBITDA	£m	3.59	1.13	2.76	1.62
Net Surplus/(Deficit)	£m	(23.26)	(20.56)	(19.31)	1.26
Underlying Surplus/(Deficit)	£m	(21.78)	(20.08)	(17.87)	2.21
Underlying Surplus/(Deficit) excluding £18.3m PFI premium impact	£m	(3.48)	(4.83)	(2.62)	2.21
Total CIP/Revenue Generation	£m	13.30	10.11	11.02	0.91
Recurrent CIP/Revenue Generation	£m	12.39	9.24	5.18	(4.06)
Cash	£m	(27.19)	3.35	6.81	3.46
Impact of PFI on EBITDA	£m	20.31	16.92	16.92	0.00
EBITDA adjusted for £18.3m PFI Premium Income and PFI Impact on EBITDA	£m	23.90	18.06	19.68	1.62
Revenue plus £18.3m PFI Premium	£m	277.16	231.03	235.15	4.12
Revised EBITDA Return	%	8.6%	7.8%	8.4%	0.6%

Please note that the plan reported here refers to the Annual Plan submitted to Monitor at the end of May 2013. 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.