Financial Performance Report
M9: April - December 2013

Sherwood Forest Hospitals NHS
NHS Foundation Trust

1.0 Overview and Key Risks

- The year to date financial deficit is £17.91m, which is a £2.19m better than plan and consequently our EBITDA is also better than plan **(Appendix A).** However we are still forecasting a year-end forecast more aligned with our plan of £23.3m as we continue to work through some clinical income details with our commissioners. One of the key areas where further work is being undertaken is the coding approach for the Clinical Decision Unit (CDU) implemented in A&E at Kings Mill hospital. Operationally and clinically this is proving successful however national guidelines are unclear and the details are taking time to finalise as we need to get this right for 14/15. Other significant elements include the re-investment of sanctions and the level of winter funding being made available.

- Clinical income is above plan by £3.02m. Outpatient performance continues to be strong on trend. Other income streams, including Critical Care, HDU and CQUINs are performing above plan. However some service lines are below plan on elective activity and we are still incurring significant sanctions (£780k year to date) and being impacted by the Non elective Threshold adjustment (£980k). This over performance of contract is particularly impacting Mansfield and Ashfield/Newark and Sherwood CCG's **(Appendix B)** and we have a meeting in place to discuss this in more detail, particularly as the position with Hardwick CCG seems to have swung in the opposite direction.

- Pay expenditure is above plan by £0.47m in-month and £1.45m cumulatively. The expenditure run rate is running at £13.90m, a consistent trend as we continue to incur significant levels of premium rate variable pay expenditure but intensive activity continues on workforce recruitment. **(Appendix C)**

- CIP savings delivery to December was £8.16m, which is £1.65m less than plan but a lot of work has been undertaken to drive achievement of the in year position. The PMO forecast outturn as at 23Jan14 is £14.29m. However, the inability to deliver some of the premium pay reduction schemes means that the full year effect forecast has reduced to £11.52m and the likelihood of achieving full recruitment to these posts remains a high risk. Further schemes are being pursued on an on-going basis but we will need to continue to revisit this issue as we update our 14/15 plan for submission in early April. **(Appendix D)**

  For 2014/15 schemes with a value totalling £1,025,000 have already been initiated through the PMO process with further 'ideas' for cost improvements through the delivery of the Integrated Improvement Programme totalling in the region of £4million. 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 £9.19m, better than Monitor Plan by £5.41k. However, 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 negative at £20.49m. The latest year-end forecast cash position is negative at £26.28m. We have agreed Public Dividend Capital support with the Dept. of Health to support our Quarter 4 cash position. **(Appendix E)**

- In terms of key risks a sub group of the finance and performance committee met to update the financial sustainability risks within the BAF which is included as a separate item on the Board agenda. In addition there are 4 particular risks to bring to the Boards attention

- A liquidity support application has been submitted to Monitor for our 14/15 requirements (see below). We are awaiting feedback and this will also be key to informing our year end accounts view from external audit

- We have provided an update to the original business case used to seek Transformation funding for the integrated care record programme (ICR). The CCG's will be discussing this through their governing bodies in February but there is a risk some of the original funding may be retained which will have implications on our 14/15 plan in particular

- The restructuring under the finance transformation is almost complete and by the end of January a further 5 staff will have left the department. We continue to actively recruit to the new model but have a number of key vacancies and are needing to utilise interim support in the meantime

- The national timetable for agreeing the 14/15 clinical contract has been bought forward a month to the end of February 14. The key debating point is likely to be the level and impact of QIPP schemes assumed in year as a result of the Mid Notts blueprint. As the detailed business cases are still going through the CCG governance processes the timings and part year effects of any implementations still remain uncertain. We may need to consider an extraordinary Board meeting during February to ensure we have sufficient time to consider these issues as a Board before contract signature.

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

Distressed funding – liquidity support - As requested on 15 January the Trust submitted to Monitor an early view of its likely financial position for 2014/15. This concentrates on the expected cash shortfall and required liquidity support as in order to receive liquidity support from the Department of Health a formal application and agreement must be in place. Excluding any PFI premium support which is not yet agreed the Trust forecasts required liquidity support of £30.7m in 2014/15 (£9.4m Q1, £11.2m Q2, £6.6m Q3 and £3.5m Q4).

Progress review meeting -A Progress review meeting has been arranged with Monitor on 29 January. Specifics to be discussed at the meeting will include:

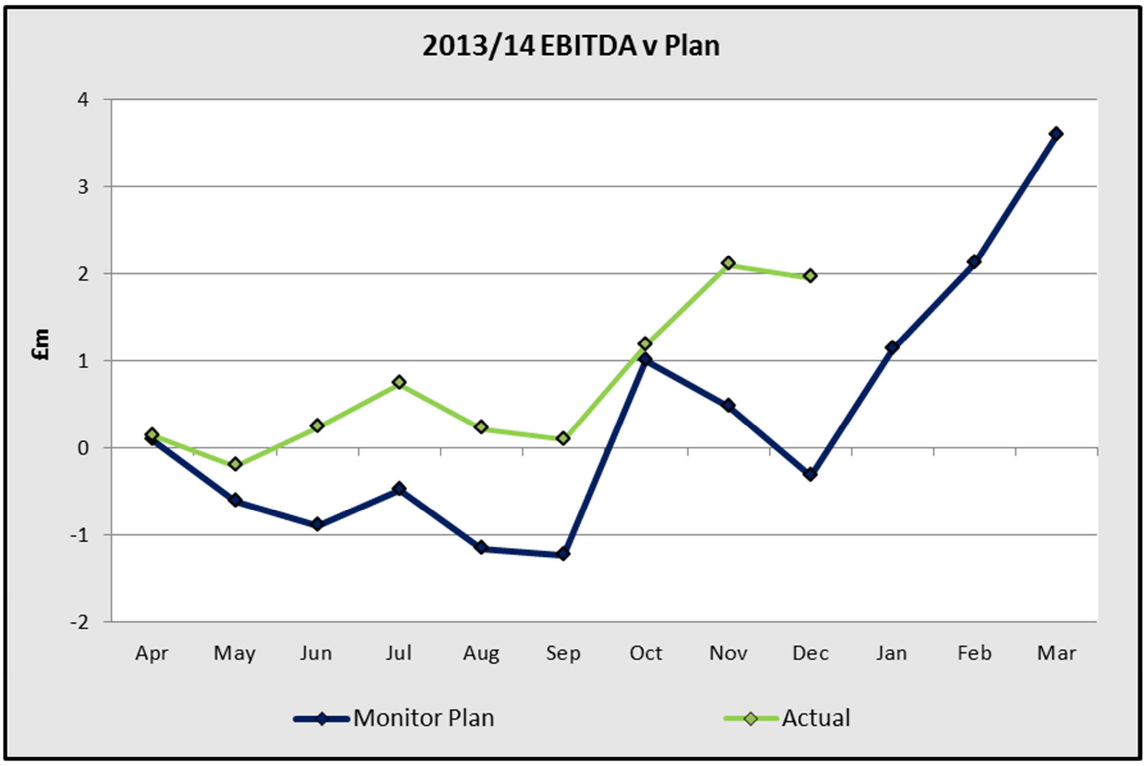
- Q3 performance and forecast outturn 2013/14, including the following risks:
  - Keogh costs
  - Non elective threshold
  - CIP delivery
- Current view of 2014/15 in particular the required distressed funding cash support
- Process to agree level of PFI Premium support
- Update on convergence with Commissioner Plans, following the Board to Board with the CCGs on 22 January.

Risk Assessment Framework

As part of the Q3 monitoring submission to Monitor the Trust's Continuity of Services Rating (CoSRR) has been calculated. Due to our large deficit and poor liquidity our CoSRR rating is 1 (significant risk).

Appendix A – Month 09 Income and Expenditure statement and EBITDA trend

	Annual Plan	December In-Month			Year to Date		
		Plan	Actual	Variance	Plan	Actual	Variance
	£m	£m	£m	£m	£m	£m	£m
Clinical Income	215.34	16.78	16.81	0.04	160.75	163.77	3.02
Other Operating Income	45.84	3.96	3.95	(0.01)	34.69	34.73	0.03
Total Operating Income	261.18	20.74	20.76	0.02	195.44	198.50	3.06
Pay	(162.93)	(13.29)	(13.76)	(0.47)	(123.51)	(124.96)	(1.45)
Non Pay	(94.02)	(8.46)	(7.15)	1.31	(71.39)	(71.02)	0.38
Operating Costs Excl. from EBITDA	(9.45)	(0.73)	(0.77)	(0.04)	(7.04)	(6.95)	0.10
Total Operating Expenditure	(266.40)	(22.48)	(21.68)	0.80	(201.94)	(202.92)	(0.98)
Profit/(Loss) from Operations	**(5.22)**	**(1.74)**	**(0.91)**	**0.83**	**(6.50)**	**(4.42)**	**2.08**
Non Operating Income	0.63	0.01	0.01	(0.00)	0.11	0.13	0.02
Non Operating Expenditure	(18.67)	(1.54)	(1.53)	0.01	(13.72)	(13.62)	0.10
Surplus/(Deficit)	**(23.25)**	**(3.27)**	**(2.44)**	**0.83**	**(20.10)**	**(17.91)**	**2.19**

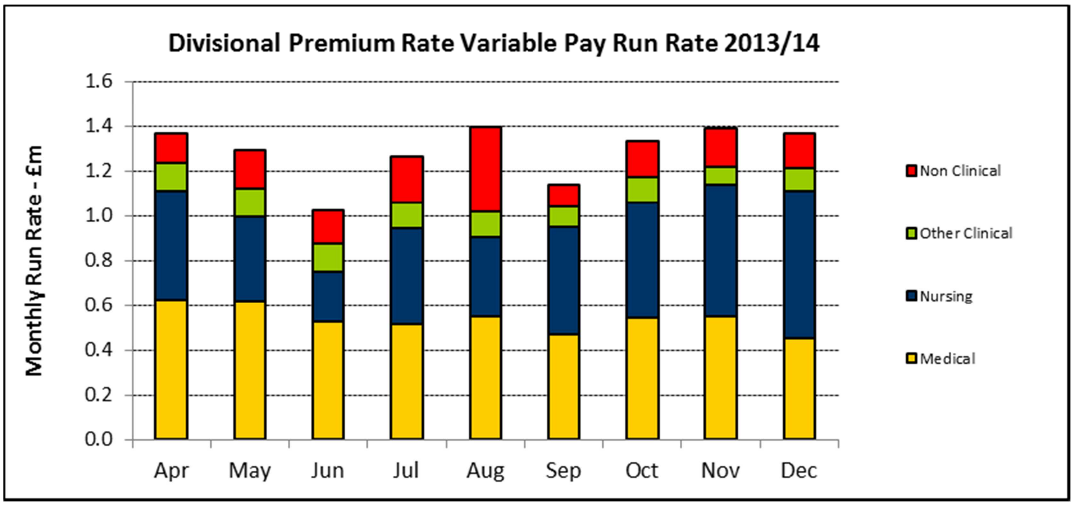


Year-to-date EBITDA is £1.95m, which is better than the internal plan EBITDA of £0.96m and better than Monitor plan of (£0.32m). Year to-date EBITDA margin is 0.99% and when adjusted for the PFI premium increases to 8.1% at the higher valuation and 5.3 at the lower valuation. The Foundation Trust medium acute sector EBITDA margin average at 4.3%

Appendix B – Month 09 Commissioner position against the Sherwood Forest 13/14 Clinical Contract

CCGS	INCOME VARIANCE £
BASSETLAW COUNCIL	94
DERBY CITY COUNCIL	185
DERBYSHIRE AND NOTTINGHAMSHIRE AREA TEAM	127,408
DERBYSHIRE COUNTY COUNCIL	35,891
LEICESTERSHIRE AND LINCOLNSHIRE AREA TEAM	202,696
LINCOLNSHIRE COUNTY COUNCIL	3,742
Military	21,653
NHS BASSETLAW CCG	70,643
NHS EREWASH CCG	16,449
NHS HARDWICK CCG	(417,778)
NHS LINCOLNSHIRE EAST CCG	(9,176)
NHS LINCOLNSHIRE WEST CCG	(353,543)
NHS MANSFIELD AND ASHFIELD CCG	5,963,790
NHS NEWARK & SHERWOOD CCG	3,697,554
NHS NORTH DERBYSHIRE CCG	40,046
NHS NOTTINGHAM CITY CCG	195,447
NHS NOTTINGHAM NORTH AND EAST CCG	(478,121)
NHS NOTTINGHAM WEST CCG	(355,377)
NHS RUSHCLIFFE CCG	(330,226)
NHS SOUTH LINCOLNSHIRE CCG	2,895
NHS SOUTH WEST LINCOLNSHIRE CCG	(103,768)
NHS SOUTHERN DERBYSHIRE CCG	9,315
NOTTINGHAM CITY COUNCIL	2,190
NOTTS COUNTY COUNCIL	103,392
DERBY COUNTY COUNCIL	(160,071)
Grand Total	**8,285,330**

Appendix C – Premium rate pay spend analysis



Variable pay costs are very slightly down this month but this is primarily due to a reduction in medical pay costs as there has been a continued increase in the level of nursing pay spend.

Appendix D – Cost improvement Programme position statement from PMO

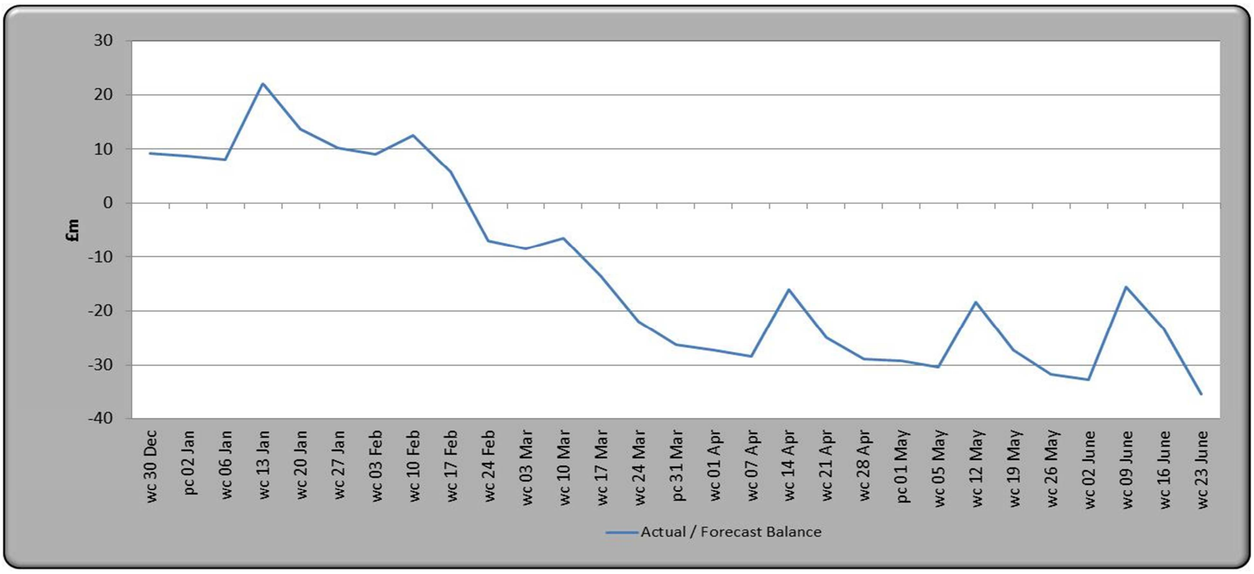
		2013/14 In-Year Savings R £000	NR £000	Total £000	2013/14 FYE £000
🟢	High Confidence (CIP will deliver in full on time)	6,920	5,430	12,349	8,480
🟡	Medium Confidence (CIP will deliver at 70% of total)	1,250	348	1,597	2,503
🔴	Low Confidence (Significant risk to delivery CIP will deliver at 30% of total CIP)	212	137	349	537
	Total	**8,381**	**5,914**	**14,295**	**11,521**

The table above details the confidence risk ratings of all CIP schemes together with an identification of recurrent, non-recurrent, total in year savings and full year effect, as at 22nd January 2014.

The PMO has tasked the divisions with identifying the support required to improve the confidence ratings of amber and red schemes, however it is recognised that a number of these schemes relate to a reduction in variable pay as substantive staff are recruited. There have been significant delays with these schemes due to the difficulties in recruiting medical and nursing staff locally, nationally and internationally. Emergency Care and Medicine Division are now pursing the possibility of recruiting doctors from Pakistan. It is anticipated these staff will be in post prior to the year end
Divisions are exploring all further opportunities to implement additional schemes to close the shortfall. The Finance Team are working with Ian Hall and Newton Europe to evidence the in-year benefits for the Theatres and Outpatient schemes.

The focus and priority must now turn to the identification of 2014/15 CIP schemes. A total of £1,025,000 schemes have already been initiated through the PMO process with further 'ideas' for cost improvements through the delivery of the Integrated Improvement Programme totalling in the region of £4million, the detail behind these schemes must be developed quickly to ensure savings accrue from the beginning of the 2014/15 financial year..

Appendix E – 26 week cash flow forecast



The cash balance was £9.19m at December, better than our Monitor plan by £5.41m 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 (£0.92m) however, the Trust did meet the quarter 3 Monitor compliance target (+/- 15%) to plan
- ICRS (PAS) expenditure now planned for 2014/15, c.£2.20m

Public Dividend Capital has been agreed with the Department of Health and formal requests for draw down are required to be submitted 2 weeks in advance of need. The February submission is planned for 31 January 2014. 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 revenue support.

Appendix F – Monitor discretionary requirements

Metric		Annual Plan	Year-to-Date Plan	Year-to-Date Actual	Variance
Revenue	£m	258.86	193.65	198.62	4.97
EBITDA	£m	3.59	(0.32)	1.95	2.27
Net Surplus/(Deficit)	£m	(23.26)	(19.79)	(17.91)	1.88
Underlying Surplus/(Deficit)	£m	(21.78)	(19.36)	(18.35)	1.01
Underlying Surplus/(Deficit) excluding £18.3m PFI premium impact	£m	(3.48)	(5.63)	(4.62)	1.01
Total CIP/Revenue Generation	£m	13.30	8.51	8.16	(0.35)
Recurrent CIP/Revenue Generation	£m	12.39	7.67	5.04	(2.63)
Cash	£m	(27.19)	4.34	9.19	4.85
Impact of PFI on EBITDA	£m	20.31	15.23	15.23	0.00
EBITDA adjusted for £18.3m PFI Premium Income and PFI Impact on EBITDA	£m	23.90	14.91	17.18	2.27
Revenue plus £18.3m PFI Premium	£m	277.16	207.38	212.35	4.97
Revised EBITDA Return	%	8.6%	7.2%	8.1%	0.9%

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.