

Finance Report to the Board of Directors
Period Ending 31.1.18

Presented for:	Information
Presented by:	Matthew Horner, Director of Finance
Author	Chris Smith, Deputy Director of Finance
Corporate objective:	Delivery of the agreed financial plan
Previously considered by:	Not applicable

Key points	For Decision, Discussion or Information
1. The reported YTD deficit is £-4.7m, which is £-5.4m behind plan and generates a Use of Resources Risk Rating of 3 .	Information
2. The EBITDA position of £8.4m is behind plan.	Information
3. Finance Risk Register – The main risks are:	Information
a) Delivery of Budgetary Control Totals and CIP Targets in 2017/18.	Information
b) Delivery of obligations / indicators with contracts with Commissioners and their ability to pay for contract overtrades in 2017/18.	Information
4. Cash position of £21.1m is behind plan.	Information
5. Capital Expenditure is £16.1m, which is £-4.4m behind plan.	Information

The following papers make up this report:

1. Finance Report to the Board of Directors

Regulatory Relevance	
NHSI	Financial Sustainability Risk Rating
CQC Registration	None
Equality Impact/Implications	None
Other	None

Report Contents

1. Financial Scorecard & Overview
 2. Statement of Comprehensive Income
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- Annex 1 - Monitor Financial Risk Ratings
Annex 2 - Forecast Outturn scenarios

1. Financial Scorecard & Overview (1)

Jan-18

Key Financial Indicators As at 31.1.18	YTD Plan £m	YTD Actual £m	YTD Var £m	YTD Var %	RAG
Statement of Comprehensive Income (I & E)					
Operating Revenue	333.44	323.22	-10.22	-3%	
Operating Expenditure	-318.35	-314.82	3.53	1%	
EBITDA	15.10	8.40	-6.69	0%	
Non-Operating Items	-14.39	-22.84	-8.45	-59%	
Net Surplus	0.71	-14.44	-15.15	0%	
Impairments / Donations	0.00	9.78	9.78	-	
Control Total Surplus / (Deficit)	0.71	-4.66	-5.37	0%	
Other Indicators					
CIP Delivery	17.11	18.48	1.37	8%	
Net Current Assets (NCA)	7.23	2.31	-4.92	-68%	
Capital Expenditure	20.52	16.13	-4.39	-21%	
Monitor Financial Sustainability Risk Rating (FSRR)		Plan YTD	Actual YTD	Last Month	RAG
As at 31.1.18					
Capital Servicing Capacity		2	4	4	
Liquidity		1	2	1	
I & E Margin		3	4	4	
Variance from plan (I & E Margin)		1	4	4	
Agency Spend		2	2	2	
Combined UoR (after triggers)		2	3	3	
Commentary					
The tables on this page set out the Finance and Use of Resources Metric which superseded the Financial and Sustainability Risk Ratings in October 2016.					
These metrics are used by NHSI as high level indicators of an organisation's financial health. The higher the rating, the higher the risk to the organisation's financial stability.					
At month 10, the Trust has an overall rating of 3 with three of the five metrics being rated 4, denoting significant risk in that area. The annual plan was to maintain a risk rating of 2 for each month of the financial year.					

Commentary

Statement of Comprehensive Income

The I & E position at the end of January is a £4.66m deficit which is behind the planned £0.23m surplus. This figures includes £9.78m of impairment charges and charitable donations that NHSI exclude from their control total calculations. On a control total basis, the bottom line deficit is £14.44m which is £15.152m behind plan. This adverse variance is due to the loss of 15% STF funding related to the A&E target in Quarter 1 and failing to meet the planned surplus for Quarter 3.

Operating revenue is behind plan for clinical activities. Pay expenditure is overspent by £5.65m with agency costs exceeding vacancy savings. Operating Non-pay items in total are underspent by £9.24m which comprises a drugs underspend of £3.51m and a £5.90m underspend on other supplies.

The has been reprofiled to factor in Improvement Plan requirements. The YTD position is ahead of the reprofiled plan but there are major risks to full year delivery.

Agency Expenditure is £12.44m against a YTD ceiling of £10.11m.

Capital Expenditure

Capital expenditure up to the end of January is £16.13m which is £4.39m behind plan.

Key Financial Risks & Mitigations

The on-going financial risks relate to the delivery of contracted activity and income levels and divisional budgetary control targets (including CIP targets). It may be necessary to re-assess the affordability of committing to reserves in 2017/18 if underlying run-rates are not controlled and CIP targets are not achieved.

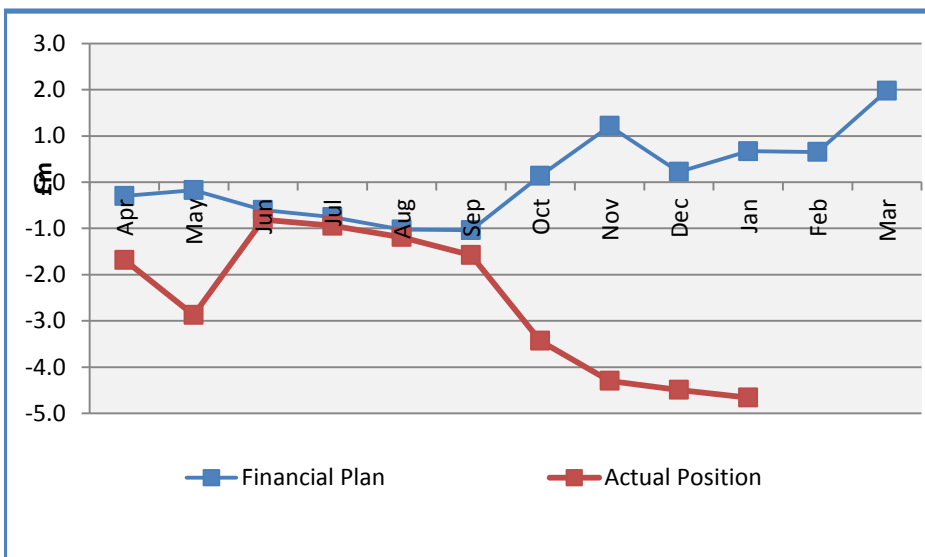
The economic outlook heightens the risk to the organisation of maintaining the balance between quality, performance and finances.

Budgetary performance is monitored on a monthly basis with necessary escalations and requiring the formulation of recovery plans. Regular discussions are held with Commissioners regarding activity volumes and in respect of potential contract penalties.

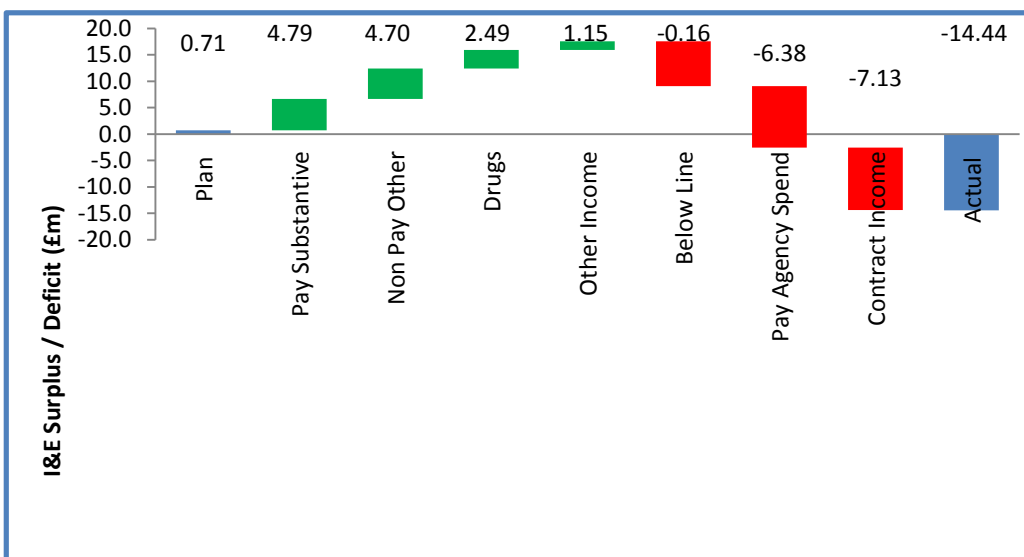
1. Financial Scorecard & Overview (2)

Jan-18

Surplus Trend January 2018



Income & Expenditure Bridge January 2018



Director of Finance Conclusions & Recommendations

The Trust reported a pre-STF deficit of £7.8m at the end of Month 10 which is £1.0m behind the pre-STF control total. A YTD pre-STF deficit £7.9m was forecast in the revised Improvement Plan, which means the Trust is in line with the Improvement Plan trajectory at Month 9. None of the £4.1m STF can be recovered for Qtr 3 / Month 10. The YTD post-STF position is a deficit of £4.6m against a planned £0.7m surplus, meaning the Trust is £5.3m behind the cumulative post-STF control total. The in-month position is in line with the Improvement Plan trajectory, reflecting non-recurrent flexibility deployed. The FYE forecast formally presented to NHSI is full delivery of the pre-STF control total, although there remain unmitigated risks to this forecast. The Month 10 position results in a Use of Resources Risk Rating of 3 compared to the planned rating of 2 and is therefore behind plan.

It must be recognised that the cumulative Month 10 position was only delivered by the deployment of significant levels of non-recurrent measures which will not be available in Quarter 4. The outlook for Quarter 4 delivery in light of current run rates remains worrying. The deteriorating run rate and removal of expected delivery from a number of Improvement Plan initiatives is forecast to result in a £4.8m year-end shortfall against the recovery plan trajectory unless further mitigating actions or non-recurrent measures can be identified. All balance sheet flexibility has been deployed to arrive at this forecast position, including assumptions around delivery from the following in Quarter 4:

- o Further provisions to be reviewed
- o Contribution to Trust bottom line from allocated Tranche 2 winter funding
- o A £1.3m incidental I&E benefit from site revaluation to Modern Equivalent Value
- o Estimated benefit from reviewing all capital asset economic life durations

Each of the above items carries a degree of risk to actual delivery in Quarter 4 but also reflects actions recommended in NHSI's grip and control checklist.

Balance sheet flexibility has therefore been exhausted and the Trust's ability to deploy further non-recurrent measures in 2017/18 is limited. The remaining options to address the current £4.8m control total gap mostly relate to agreeing more favourable year end income positions with key commissioners and a review of other non-recurrent opportunities.

2. Statement of Comprehensive Income (I & E) Jan-18

Period Ending 31.1.18	Annual Plan £m	YTD Plan £m	YTD Actual £m	YTD Var £m
Budget v Actual				
NHS Clinical Revenue				
Elective Revenue	28.07	22.99	18.98	-4.01
Planned Same Day Revenue	29.24	24.15	20.71	-3.43
Non Elective Revenue	68.36	57.46	65.55	8.10
Outpatient Revenue	52.43	43.55	39.74	-3.81
Other Activity Revenue	136.19	113.87	106.31	-7.55
Community Services Revenue	12.03	10.02	10.02	-0.00
A&E Revenue	16.69	13.99	13.22	-0.77
CQUINS	5.20	4.33	4.00	-0.34
Contract Penalties	0.00	0.00	-0.03	-0.03
Sub-Total NHS Clinical Revenue	348.20	290.35	278.51	-11.84
Other Operating Revenue				
Private Patients	1.40	1.16	1.26	0.10
Education & Training	14.15	11.74	12.48	0.73
Research & Development	12.14	10.12	9.25	-0.87
Sustainability & Transformation Fund	9.78	7.50	3.21	-4.30
Other Income	24.82	12.57	18.52	5.95
Sub-Total Other Operating Rev.	62.28	43.09	44.71	1.62
TOTAL OPERATING REVENUE	410.48	333.44	323.22	-10.22
Operating Expenses				
Employee Expenses - Permanent	-243.26	-203.47	-197.50	5.97
Employee Expenses - Agency	-0.85	-0.82	-12.45	-11.63
Drugs	-45.13	-37.65	-34.15	3.51
Clinical Supplies	-41.72	-35.03	-35.19	-0.16
Non-Clinical Supplies	-50.49	-41.37	-35.53	5.90
Sub-Total Operating Expenses	-381.45	-318.35	-314.82	3.59
EBITDA	29.03	15.10	8.40	-6.63
Non-Operating Items				
Depreciation	-12.12	-10.10	-8.59	1.51
Impairment	0.00	0.00	-10.40	-10.40
Interest Payable	-0.70	-0.58	-0.49	0.09
Interest Receivable	0.15	0.13	0.09	-0.04
PDC Dividend	-4.60	-3.83	-3.36	0.47
Profit / Loss on Asset Disposal	0.00	0.00	-0.09	-0.09
Unwinding of Discounts on Provisions	0.00	0.00	0.00	0.00
Sub-Total Non-Operating Items	-17.27	-14.39	-22.84	-8.45
NET SURPLUS/(DEFICIT)	11.76	0.71	-14.44	-15.15
Impairments / Donations	0.00	0.00	9.78	9.78
Control Total Surplus / (Deficit)	11.76	0.71	-4.66	-5.37

Commentary
<p>NHS Clinical Revenue</p> <p>The contract income position at the end of January is £11.84m behind plan. Elective Inpatient, Daycase and Outpatient activity are behind plan by £4.00m, £3.43m and £3.81m respectively and Other income is behind plan by £7.55m. This "other" category includes Pass Through Drugs which is offset by expenditure budget underspends and elements of commissioner QIPP which will be allocated across other activity areas once the CCGs communicate their detailed QIPP plans. Emergency work is £7.55m ahead of plan, however A&E is behind plan by £0.77m.</p>
<p>Other Operating Revenue</p> <p>Other operating income is ahead of plan by £1.62m. Unplanned CQUIN Risk Reserve income of £1.2m is included in this position. YTD STF recovery is £4.30m behind plan due to A&E performance in Quarter 1 and failure to achieve the planned surplus for Months 7-10.</p>
<p>Operating Expenses - Employee Expenses</p> <p>The net pay position is overspent by £5.65m comprising a favourable variance of £5.97m due to vacancies and an adverse variance of £11.63m on agency staff costs. It is highly unlikely that the Trust will not exceed the full year ceiling of £12.30m.</p>
<p>Operating Expenses - Drugs</p> <p>The drugs budget is underspent at the end of January by £3.51m which is offset by a shortfall in pass through drugs income.</p>
<p>Operating Expenses - Clinical Supplies</p> <p>Overall expenditure on clinical supplies is overspent by £0.22m at the end of September.</p>
<p>Operating Expenses - Non-Clinical Supplies</p> <p>Non-Clinical supplies expenditure is underspent by £5.90m at the end of January which largely reflects the allocation of non-recurrent benefits into the I&E account.</p>
<p>Non-Operating Expenses</p> <p>At the end of January non-operating items are £1.9m under spent, excluding the Impairment which NHSI do not include in control total assessments. This largely reflects the impact of Asset Live revaluations and the estimated impact of the MEAV exercise.</p>
<p>Variance Key: Favourable / (Adverse)</p>

3. Divisional Performance

Jan-18

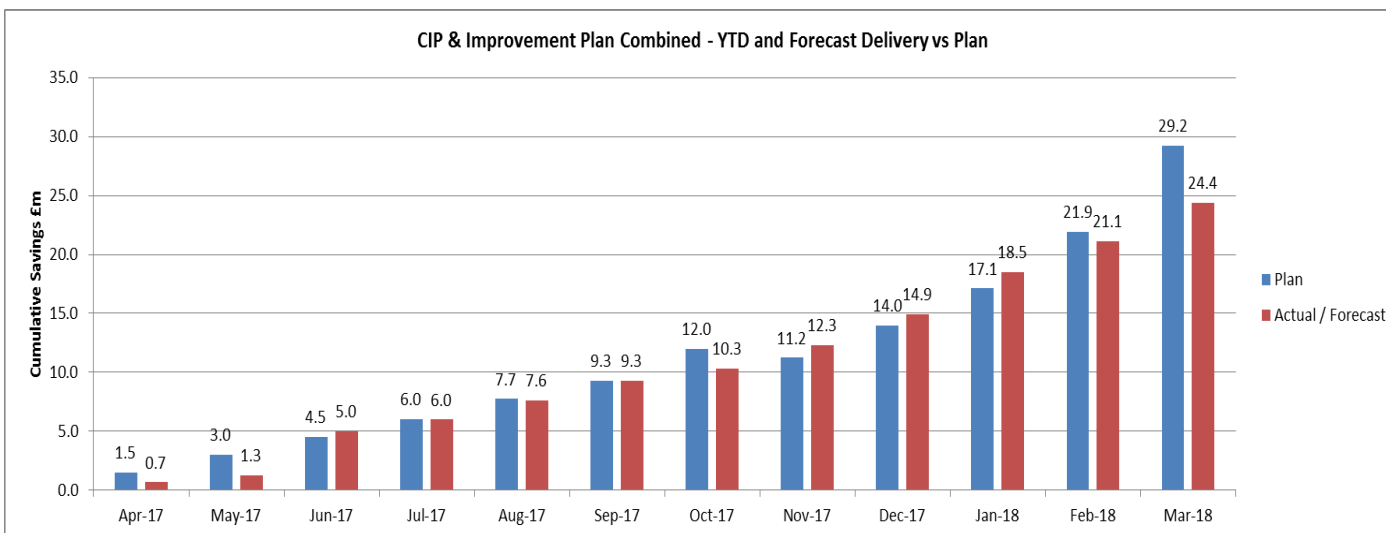
Division/Directorate	YTD Plan	YTD Actual	YTD Variance	YTD Pay Variance	YTD Non-Pay Variance	YTD Income Variance	YTD Total Variance	Income Allocation	Contract Penalties	Revised Variance	% Variance to Plan	Financial Risk Rating
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
Clinical Divisions												
Surgery	-96.78	-104.10	-7.32	-2.80	-4.70	0.18	-7.32	-9.96	0.00	-17.28	-17.9%	1
Medicine	-88.08	-94.85	-6.77	-3.73	-2.77	-0.28	-6.77	2.75	-0.03	-4.05	-4.6%	2
Women's & Children's	-33.30	-35.04	-1.75	-0.79	-0.96	0.00	-1.75	1.46	0.00	-0.29	-0.9%	4
Sub-Total Clinical Divisions	-218.16	-234.00	-15.84	-7.32	-8.43	-0.09	-15.84	-5.76	-0.03	-21.62	-9.9%	
Support Divisions												
Pharmacy	-3.42	-3.43	-0.02	0.10	-1.01	0.89	-0.02	-0.02	0.00	-0.04	-1.2%	3
Estates & Facilities	-20.33	-20.44	-0.11	0.13	-0.14	-0.10	-0.11	0.00	0.00	-0.11	-0.5%	4
Sub-Total Support Divisions	-23.74	-23.87	-0.13	0.23	-1.15	0.79	-0.13	-0.02	0.00	-0.15	-0.6%	

Variance Key: Favourable / Adverse

FRR Rating	On Plan or Better	<1% over Plan	<3% over Plan	<5% over Plan	>5% over Plan
Rating	5	4	3	2	1

4. CIP Delivery

Jan-18



CIP Summary

The forecast delivery from the original CIP programmes have been amalgamated with the £12.2m Improvement Plan requirement and run rate deterioration to arrive at a projected combined efficiency requirement of £29.2m in 2017/18.

This target reflects deteriorations in the income and expenditure run rate in recent months and additional unplanned cost pressures arising in the year, as well as the reliance on non-recurrent measures to deliver the improvement plan trajectory in Quarters 1-4.

At present, plans are in place to deliver £24.4m of efficiencies against this target, resulting in a shortfall of approximately £4.8m.

Even this forecast contains a significant degree of risk and the actual outturn may be even less favourable.

CIP Delivery by Programme and Project

Programme / Project	In Month Plan	In Month Actual	In Month Variance	YTD Plan	YTD Actual	YTD Variance	Annual Target	Forecast Actual	Forecast Variance
Carter	354	52	-302	2,586	839	-1,747	3,294	1,032	-2,262
Divisional	82	-1	-83	771	42	-729	1,144	178	-966
EPR	89	0	-89	77	0	-77	786	170	-616
Outpatients	17	0	-17	98	90	-9	133	245	112
Urgent Care	4	57	53	211	574	363	219	574	355
Workforce	338	98	-240	3,370	1,719	-1,651	5,065	2,770	-2,295
Housekeeping	140	178	38	2,352	2,125	-227	2,632	2,908	275
Elective Care	228	0	-228	1,233	-112	-1,345	2,269	142	-2,126
In Year Additions	35	0	-35	139	0	-139	208	0	-208
Non Recurrent Items	0	0	0	0	5,267	5,267	0	5,267	5,267
Improvement Plan	1,872	3,167	1,295	6,275	7,937	1,661	13,454	11,122	-2,331
Grand Total	3,160	3,552	393	17,112	18,480	1,368	29,205	24,408	-4,796

CIP Delivery by Programme and Project

This table shows the contribution from the original CIP schemes in more detail.

There is some cross-over between the original CIP schemes and the Improvement Plan measures. This is addressed presentationally by transferring both targets and projected benefits from the original CIP schemes to the Improvement Plan. In practice, to ensure appropriate governance, the Improvement Plan schemes have each been allocated to one of the existing programmes and are being managed and monitored in this way via the Trust Improvement Committee (TIC).

The individual Improvement Plan schemes are discussed in more detail in the accompanying Finance summary report for Month 10.

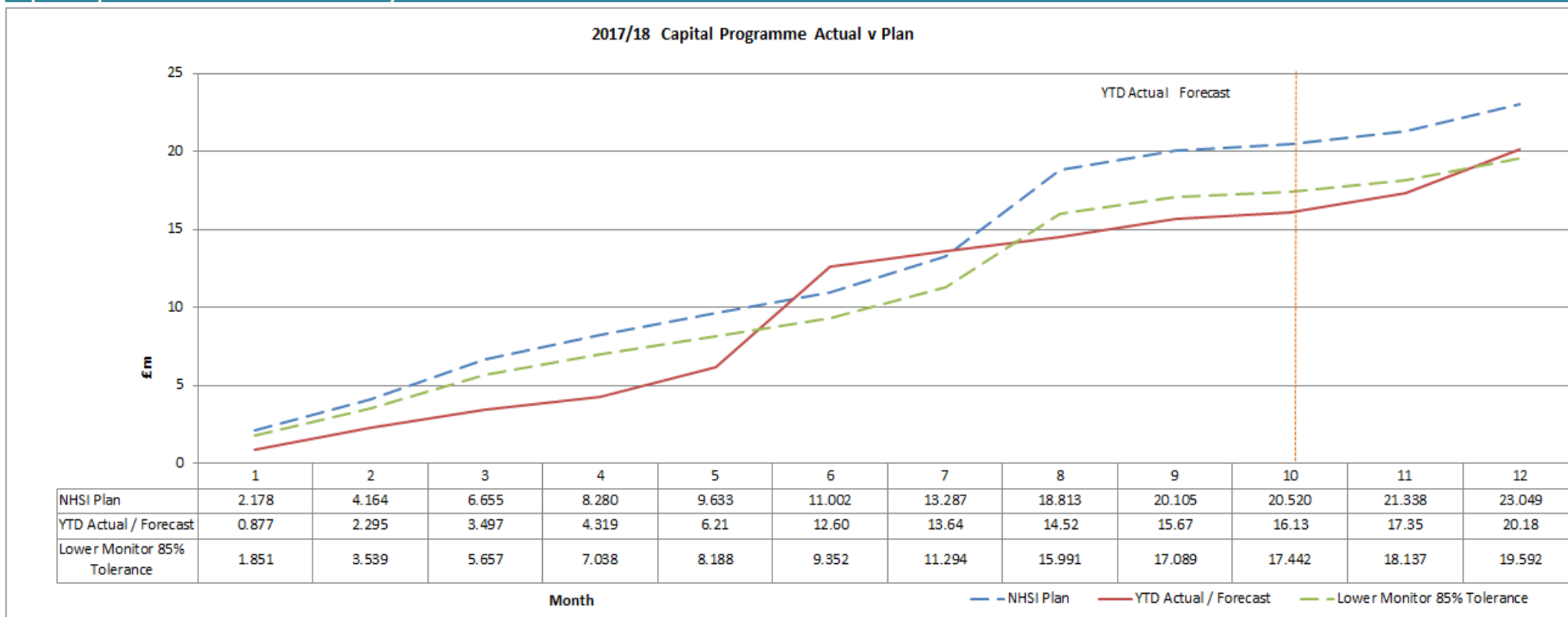
5. Statement of Financial Position, Cashflow and Liquidity

Jan-18

Summary Statement of Financial Position as at 31.10.16	Actual Performance					Planned Movement				
	Year to date Actual £m	In month movement		Year to date movement		Year to date		Year end forecast		
		Dec 17 £m	Variance £m	Jan 18 £m	Variance £m	Plan £m	Variance £m	Plan £m	Actual £m	Variance £m
Intangible assets	8.432	18.271	(9.839)	12.282	(3.850)	11.022	(2.590)	10.660	8.850	(1.810)
Property, plant and equipment	192.270	192.515	(0.245)	191.262	1.008	190.705	1.565	191.439	191.542	0.103
Trade and other receivables	1.138	0.852	0.286	0.893	0.245	0.893	0.245	0.893	0.852	(0.041)
Total Non-Current Assets	201.840	211.638	(9.798)	204.437	(2.597)	202.620	(0.780)	202.992	201.244	(1.748)
Inventories	4.834	5.010	(0.176)	4.670	0.164	5.063	(0.229)	4.670	4.670	0.000
Cash	21.081	23.407	(2.326)	50.366	(29.285)	33.639	(12.558)	36.140	31.073	(5.067)
NHS Receivables	13.904	14.635	(0.731)	14.443	(0.539)	15.586	(1.682)	14.443	11.443	(3.000)
Trade and other receivables	13.892	12.657	1.235	6.649	7.243	8.896	4.996	6.649	7.151	0.502
Total Current Assets	53.711	55.709	(1.998)	76.128	(22.417)	63.184	(9.473)	61.902	54.337	(7.565)
NHS Payables	(6.512)	(9.494)	2.982	(10.051)	3.539	(7.423)	0.911	(10.051)	(7.423)	2.628
Trade and other payables	(29.979)	(27.132)	(2.847)	(29.076)	(0.903)	(33.468)	3.489	(27.181)	(26.865)	0.316
Capital payables	(2.406)	(2.635)	0.229	(2.955)	0.549	(2.255)	(0.151)	(2.255)	(2.000)	0.255
Borrowings	(4.052)	(4.052)	0.000	(4.090)	0.038	(4.052)	0.000	(4.052)	(4.052)	0.000
Deferred Income	(7.422)	(7.224)	(0.198)	(6.396)	(1.026)	(6.396)	(1.026)	(6.396)	(7.422)	(1.026)
Provisions	(1.027)	(1.038)	0.011	(2.362)	1.335	(2.362)	1.335	(2.362)	(1.027)	1.335
Total Current Payables	(51.398)	(51.575)	0.177	(54.930)	3.532	(55.956)	4.558	(52.297)	(48.789)	3.508
Total Net Current Assets	2.313	4.134	(1.821)	21.198	(18.885)	7.228	(4.915)	9.605	5.548	(4.057)
Borrowings	(29.370)	(29.870)	0.500	(32.896)	3.526	(29.370)	0.000	(28.844)	(28.844)	0.000
Deferred Income	0.000	0.000	0.000	(0.577)	0.577	(0.577)	0.577	(0.577)	0.000	0.577
Provisions	(3.449)	(4.382)	0.933	(6.516)	3.067	(6.516)	3.067	(6.516)	(3.449)	3.067
Total Non-Current Payables	(32.819)	(34.252)	1.433	(39.989)	7.170	(36.463)	3.644	(35.937)	(32.293)	3.644
Total Assets Employed	171.334	181.520	(10.186)	185.646	(14.312)	173.385	(2.051)	176.660	174.499	(2.161)
Public Dividend Capital	121.085	121.085	0.000	121.085	0.000	121.085	0.000	121.085	121.085	0.000
Revaluation Reserve	55.221	55.221	0.000	55.089	0.132	55.089	0.132	55.089	55.221	0.132
Income and Expenditure Reserve	(4.972)	5.214	(10.186)	9.471	(14.443)	(2.789)	(2.183)	(1.514)	(1.807)	(0.293)
Total Taxpayers Equity	171.334	181.520	(10.186)	185.645	(14.311)	173.385	(2.051)	174.660	174.499	(0.161)

6. Capital Expenditure Jan-18

Capital Expenditure Trends & Commentary



Commentary

Year to date capital expenditure has reached £16.1m. This is £4.4m behind planned expenditure which represents 79% of the plan submitted to NHSI. This is primarily a result of an underspend on EPR capital showing a £1.8m shortfall against plan and slippages to Women's and Children's Improvements (£1.7m) and medical equipment replacement (£0.9m).

The full year capital expenditure forecast is £20.1m. This is £2.8m below the original planned capital expenditure of £23m and £4.4m below the revised budget of £24.5m which includes £1.3m of extra funding from the STF bonus. Major variances include slippages of £1.6m for the Works to Women's & Children's, £0.7m on medical equipment replacement, £0.2m for PACs 3 implementation, £0.3m on Estates Asset Maintenance, £0.3m on Renal Self Care and a forecast underspend of £1.6m for EPR implementation.

Annex 1 (1)

Single Oversight Framework - Finance and Use of Resource Metrics

Metric	Calculation	Individual Metric Rating Categories				Weighting	Metric Score	Rating
		1	2	3	4			
Capital Servicing Capacity (times)	<u>Revenue available for capital service 1</u> Annual Operating Expenses 2	>2.5x	1.75 - 2.5x	1.25 - 1.75x	<1.25x	20%	1.09X	4
Liquidity (days)	<u>Working Capital Balance 3 x 360</u> Annual Debt Service 4	>0	(7) - 0	(14) - (7)	<(14)	20%	-2 days	2
I & E Margin	<u>I & E Operating Surplus/(Deficit)</u> Total Operating Income	> 1%	1 - 0%	0 - (1)%	< (1)%	20%	-1.55%	4
Variance from Plan - I & E	<u>Var in I & E Operating Surplus/(Deficit)</u> Total Operating Income	> 0%	(1) - 0%	(2) - (1)%	< (2)%	20%	-1.63%	4
Agency Spend	<u>Agency spend - Agency Ceiling</u> Agency Ceiling	<0%	0%-25%	25%-50%	>50%	20%	19.24%	2

Finance and Use of Resource Metric Ratings before overrides (Weighted average rounded to the nearest whole number) **3**

Trigger for individual metric scores of 4 **Trigger**

Overall Finance and Use of Resource Risk Rating **3**

Finance and Use of Resources Metrics Explained			Commentary
* scoring '4' on any metric gives a minimum UoR rating of 3, leading to potential investigation or enhanced monitoring			The tables on this page set out the Finance and Use of Resources Metric which superseded the Financial and Sustainability Risk Ratings in October 2016.
1 Surplus/(Deficit) for the fin.year (pre-div)+dep'n+annual interest+re-structuring costs+other exceptionals			
2 All interest + principal payable on borrowings + annual PDC dividend payable			
3 Current Assets less Inventories - Current Liabilities + wholly committed lines of credit			
4 Operating Expenditure excluding depreciation			These metrics are used by NHSI as high level indicators of an organisation's financial health. The higher the rating, the higher the risk to the organisation's financial stability.
Regulatory Implications of Overall Rating			
Overall Rating	Description		At month 10, the Trust has an overall rating of 3 due to the I & E margin now being 4. The annual plan was to maintain a risk rating of 2 for each month of the financial year. Deviating from plan after 7 months may be seen by NHSI as a significant cause for concern.
1	Maximum autonomy	Universal support offered	
2	Offered targeted support	Targeted support offered	
3	Mandated support for significant concerns	Mandated support required	
4	Special measures	Mandated support required plus increased scope of data requested	