

Board of Directors

Agenda Item: Bo.11.18.19

Finance Report to the Board of Directors Period Ending 30.09.18

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 £-5.9m, which is £-1.1m behind plan and generates a Use of Resources Risk Rating of 3 .	Information
2. The EBITDA position of £-1.6m is behind plan.	Information
3. Finance Risk Register – The main risks are:	Information
a) Delivery of Budgetary Control Totals and BIP Targets.	Information
b) Delivery of obligations / indicators with contracts with Commissioners and their ability to pay for contract overtrades.	Information
4. Cash position of £21.1m is behind plan.	Information
5. Capital Expenditure is £2.4m, which is £-1.4m 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
 3. Divisional Performance
 4. BIP Delivery
 5. Statement of Financial Position & Cashflow
 6. Capital Expenditure
- Annex 1 - Monitor Financial Risk Ratings
Annex 2 - Forecast Outturn scenarios

1. Financial Scorecard & Overview (1) Sep-18

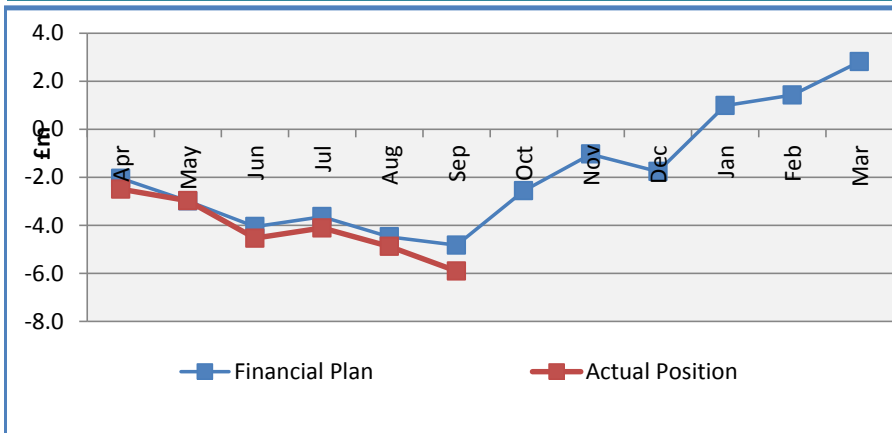
Key Financial Indicators As at 30.09.18	YTD Plan £m	YTD Actual £m	YTD Var £m	YTD Var %	RAG
Statement of Comprehensive Income (I & E)					
Operating Revenue	204.6	199.6	-5.0	-2%	
Operating Expenditure	-199.6	-196.2	3.3	2%	
EBITDA	5.0	3.4	-1.6	-	
Non-Operating Items	-9.8	-9.3	0.6	6%	
Net Surplus	-4.8	-5.9	-1.1	-	
Impairments / Donations	0.0	0.0	0.0	-	
Post-PSF Surplus / (Deficit)	-4.8	-5.9	-1.1	-	
Other Indicators					
BIP Delivery	9.5	6.4	-3.1	-33%	R
Net Current Assets (NCA)	8.3	8.2	-0.1	-1%	
Capital Expenditure	3.7	2.4	-1.3	-36%	
Monitor Financial Sustainability Risk Rating (FSRR)					
	Plan YTD	Actual YTD	Last Month		RAG
As at 30.09.18					
Capital Servicing Capacity	4	4	4		
Liquidity	1	1	1		
I & E Margin	4	4	4		
Variance from plan (I & E Margin)	1	2	2		
Agency Spend	2	2	2		
Combined UoR (after triggers)	3	3	3		
Commentary					
<p>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.</p> <p>At month 6, the Trust has an overall rating of 3 which is in line with the plan.</p>					

Commentary	
Statement of Comprehensive Income	
The bottom line I & E position at the end of September is a £5.9m deficit which is off plan by £1.1m.	
NHSI performance manages Trusts against the pre-PSF control total , performance against which is in line with the £8.4m pre-PSF plan.	
Operating revenue is behind plan for clinical activities. Pay expenditure is slightly behind plan with vacancy savings not adequately offsetting agency costs and premium rate activity. Operating Non-pay items in total are underspent by £3.1m which comprises a drugs underspend of £1.9m and a £1.2m underspend on other supplies.	
Agency Expenditure is £5.7m against a YTD ceiling of £6.3m.	
Capital expenditure up to the end of September is £2.4m which is £1.3m below plan.	
BIP efficiency delivery year to date is £6.4m which is £3.1m behind the £9.5m phased YTD plan and £6.4m behind the internal target of delivering the BIP in even 12ths.	

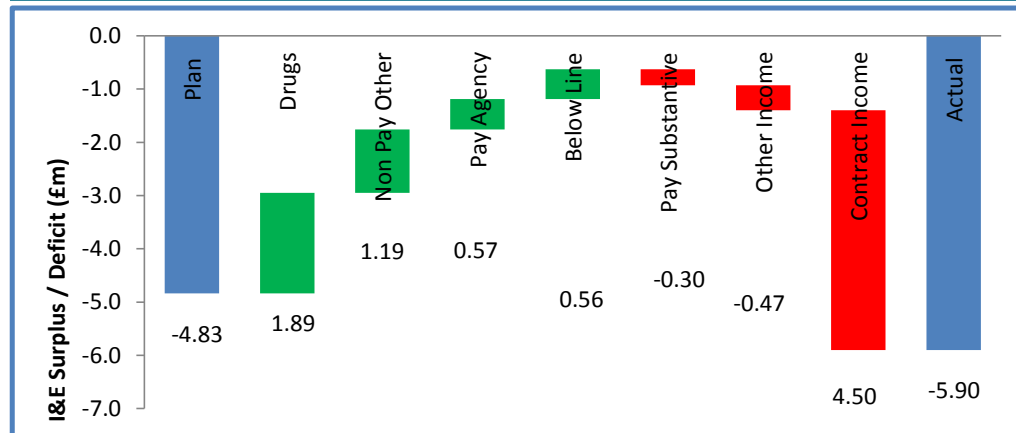
1. Financial Scorecard & Overview (2)

Sep-18

Surplus Trend September 2019



Income & Expenditure Bridge September 2019



Director of Finance Conclusions & Recommendations

The month 6 position is a pre-PSF deficit of £8.4m which is in line with the planned deficit of £8.4m. 70% of the PSF available for quarter 1 and quarter 2, equating to £2.5m is reported in the position. £1.1m of PSF available for quarter 1 and quarter 2 cannot be recovered due to A&E performance shortfalls. This results in a post-PSF deficit of £5.9m which is £1.1m behind the post-PSF plan.

In line with NHSI's 2017/18 guidance (no updated guidance for 2018/19) the year end forecast submitted to NHSI on 15th October 2018 was full delivery of the £7.5m pre-PSF control total deficit and recovery of £9.2m of the £10.3m PSF available to achieve a post-PSF control total surplus of £1.1m (£1.1m behind plan) for 2018/19.

However, internal modelling suggests that based on current run rates and the BIP efficiency plans currently in place, the Trust will fall short of its control total in Quarter 4 and will not recover this position in 2018/19. There are three major variables which will have a significant bearing on the Trust's income, expenditure and cash forecasts for the remainder of 2018/19. These variables are not yet resolved and consequently the Trust cannot at present produce a definitive forecast for 2018/19.

The key variables impacting on the 2018/19 forecast are:

1. The pause on implementing the Wholly Owned Subsidiary mandated by NHSI.
2. The ongoing data quality exercise and commissioner negotiations regarding income and activity datasets.
3. The organisation's ability to increase the rate at which BIP efficiency opportunities are implemented in practice, particularly with regard to cost reduction plans.

At present, the most optimistic best case forecast results in a year end deficit of £8.6m which is a £1.1m shortfall against the pre-PSF control total of £1.1m. The worst case forecast is a pre-PSF deficit of £29m which is £21.5m below the control total. Without urgent additional BIP delivery, the final outturn is likely to be somewhere between these two extremes, depending on the impact of the three key variables.

All of the forecast scenarios currently being reviewed will result in the Trust's cash balances becoming increasingly pressured and the reality of cash flow problems is becoming increasingly likely in the near future.

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

Period Ending 30.09.18	Annual Plan £m	YTD Plan £m	YTD Actual £m	YTD Var £m
Budget v Actual				
NHS Clinical Revenue				
Elective Inpatient Revenue	26.2	12.9	10.9	-2.0
Planned Same Day Revenue	30.6	15.0	13.9	-1.1
Non Elective Revenue	82.7	40.2	45.0	4.8
Outpatient Revenue	49.3	22.8	21.7	-1.1
Other Activity Revenue	86.5	46.4	45.9	-0.5
Community Services Revenue	12.1	6.0	6.1	0.0
A&E Revenue	16.0	8.4	8.4	-0.0
CQUINS	6.9	3.4	2.5	-1.0
Cost per Case items	41.6	19.4	17.2	-2.2
Contract Penalties	0.0	0.0	0.0	0.0
Plan Income Phasing	0.0	0.2	0.0	-0.2
BIP Target unidentified	3.6	1.2	0.0	-1.2
Sub-Total NHS Clinical Revenue	355.5	176.0	171.5	-4.5
Other Operating Revenue				
Private Patients	1.6	0.8	0.5	-0.3
Education & Training	15.1	7.8	7.8	0.1
Research & Development	11.7	5.8	6.0	0.2
Provider Sustainability Fund	10.3	3.6	2.5	-1.1
Other Income	20.7	10.5	11.2	0.7
Sub-Total Other Operating Rev.	59.4	28.6	28.1	-0.5
TOTAL OPERATING REVENUE	415.0	204.6	199.6	-5.0
Operating Expenses				
Employee Expenses - Permanent	-247.4	-123.9	-124.2	-0.3
Employee Expenses - Agency	-11.9	-6.3	-5.7	0.6
Drugs	-44.1	-22.0	-20.1	1.9
Clinical Supplies	-43.2	-21.6	-21.4	0.2
Non-Clinical Supplies	-45.9	-25.7	-24.8	0.9
Sub-Total Operating Expenses	-392.5	-199.6	-196.2	3.3
EBITDA	22.5	5.0	3.4	-1.6
Non-Operating Items				
Depreciation	-13.9	-6.9	-6.4	0.5
Impairment	0.0	0.0	0.0	0.0
Interest Payable	-0.5	-0.3	-0.3	0.0
Interest Receivable	0.1	0.0	0.1	0.1
PDC Dividend	-5.3	-2.7	-2.7	0.0
Profit / Loss on Asset Disposal	0.0	0.0	0.0	0.0
Sub-Total Non-Operating Items	-19.7	-9.8	-9.3	0.6
NET SURPLUS/(DEFICIT)	2.8	-4.8	-5.9	-1.1
Impairments / Donations	0.0	0.0	0.0	0.0
Control Total Surplus / (Deficit)	2.8	-4.8	-5.9	-1.1

Commentary

NHS Clinical Revenue

The contract income position at the end of September is £4.5m behind the plan including unmet BIP expectations. Elective Inpatient and Daycase activity is behind plan by £3.1m and Outpatient income is £1.1m behind plan. Cost er case items are £2.2m behind plan, this includes Pass Through Drugs which is offset by expenditure budget underspends. Non Elective activity is £4.8m ahead of plan and A&E is online.

Other Operating Revenue

Other operating income is behind plan by £1.3m. YTD PSF recovery is £1.1m behind plan due to the A & E target being missed resulting in a 30% reduction of PSF income for Quarters 1 & 2.

Operating Expenses - Employee Expenses

The net pay position is underspent by £0.3m.

Operating Expenses - Drugs

The drugs budget is underspent at the end of September by £1.9m, including reduced expenditure on pass though drugs.

Operating Expenses - Clinical Supplies

This is slightly below plan by £0.2m at the end of September

Operating Expenses - Non-Clinical Supplies

Non-Clinical supplies expenditure is underspent by £0.9m at the end of September

Non-Operating Expenses

Are broadly in line with plan with depreciation being slightly underspent.

Variance Key: Favourable / (Adverse)

3. Divisional Performance Sep-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	-59.8	-60.2	-0.4	-0.4	0.1	-0.1	-0.4	-4.8	0.0	-5.2	-8.7%	1
Medicine	-58.5	-59.6	-1.0	0.0	-1.0	0.0	-1.0	3.4	0.0	2.3	4.0%	5
Women's & Children's	-21.0	-21.0	0.0	0.3	-0.3	0.0	0.0	-0.2	0.0	-0.2	-0.7%	4
Sub-Total Clinical Divisions	-139.3	-140.8	-1.4	-0.1	-1.2	-0.1	-1.4	-1.6	0.0	-3.0	-2.2%	
Support Divisions												
Pharmacy	-2.1	-2.3	-0.2	0.0	-0.3	0.1	-0.2	0.0	0.0	-0.2	-9.7%	1
Estates & Facilities	-12.8	-12.9	-0.2	0.1	-0.2	0.0	-0.2	0.0	0.0	-0.2	-1.3%	3
Sub-Total Support Divisions	-14.8	-15.2	-0.4	0.1	-0.5	0.1	-0.4	0.0	0.0	-0.4	-2.5%	

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. BIP Delivery (Efficiency Programme)

Sep-18

YTD Performance vs Original Target and Submitted Plans - by Division / Dept

Division / Corporate Depts	Annual Target	YTD Divisional Plans	YTD Actual	YTD Variance to divisional plans	Original Target - even 12ths	YTD Actual	YTD Variance to Original Target
DADS	9,314	3,283	2,160	-1,122	4,657	2,160	-2,497
DOMIC	5,361	1,412	1,238	-174	2,681	1,238	-1,443
W&C	2,220	888	885	-3	1,110	885	-226
E&F	379	40	35	-6	189	35	-155
Corporate Depts	8,341	3,845	2,062	-1,783	4,171	2,062	-2,109
Grand Total	25,616	9,467	6,380	-3,088	12,808	6,380	-6,428

Full Year Forecast vs Targets by Division

Division / Corporate Depts	Annual Target	Total Forecast 18/19	Sum of Forecast Variance 18/19
DADS	9,314	7,005	-2,308
DOMIC	5,361	3,674	-1,687
W&C	2,220	2,181	-39
E&F	379	92	-286
Corporate Depts	8,341	9,742	1,401
Grand Total	25,616	22,695	-2,921

In Month Performance vs Original Target and Submitted Plans - by BIP Programme

BIP Programme	Annual Target	YTD Divisional Plans	YTD Actual	YTD Variance to divisional plans	Original Target - even 12ths	YTD Actual	YTD Variance to Original Target
Better Notes, Better Care	4,030	1,848	1,920	72	2,015	1,920	-95
Delivering Efficient Care	1,358	0	0	0	679	0	-679
Divisional	2,911	2,466	1,361	-1,105	1,456	1,361	-95
Elective Care	5,683	1,411	277	-1,134	2,841	277	-2,564
Estates & Facilities	1,951	70	710	640	976	710	-265
Going Digital	1,620	480	367	-114	810	367	-443
Outpatients	1,675	136	98	-38	838	98	-740
Procurement	140	62	67	4	70	67	-3
Technical accounting	0	1,600	800	-800	0	800	800
Workforce Efficiency	4,668	1,165	591	-574	2,334	591	-1,743
Workforce Improvement	0	20	20	0	0	20	20
Medicines Spend	1,580	197	169	-28	790	169	-621
Grand Total	25,616	9,457	6,380	-3,077	12,808	6,380	-6,428

Commentary

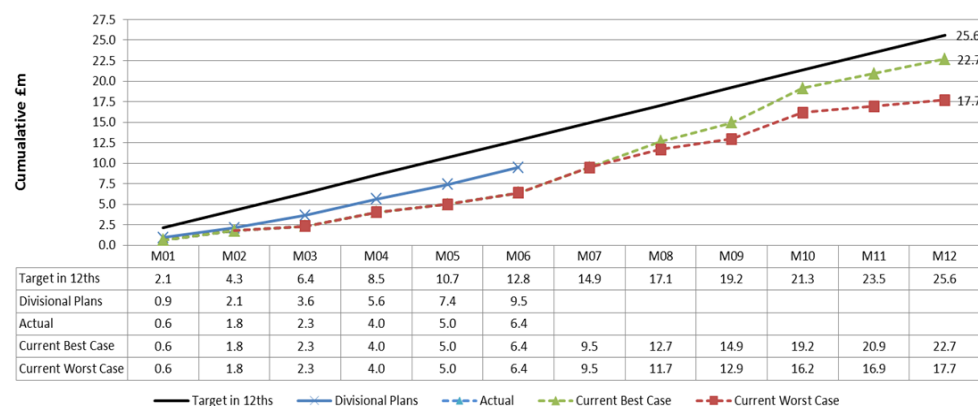
The Trust has delivered £6.4m of efficiencies at the end of Month 6. This is £3.1m behind the phased plans submitted by the divisions and corporate departments and £6.4m behind an even monthly apportionment of the annual target, which would have required £12.8m of savings to be delivered by Month 6. A total of £0.8m of the YTD efficiencies were delivered via technical non-recurrent adjustments and a further £0.7m relates to accrued benefits from the ADM implementation which are now subject to NHSI consultation.

The divisions and corporate depts are currently forecasting delivery of £22.7m efficiencies, which would leave the Trust £2.9m short of the required £25.6m annual savings. A very substantial element of these divisional plans requires significant additional work to be implemented, and there is therefore a high degree of risk in this best case scenario forecast. Removing some of the riskier plans from this forecast results in total projected savings of £17.7m, which would leave the Trust £8.6m short of its target.

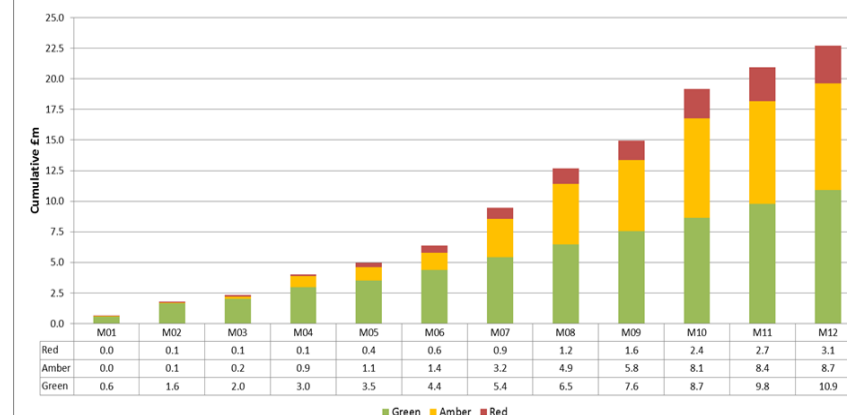
However, even this lower forecast does not fully reflect the degree of risk to delivery of the 2018/19 efficiency programme. The table below allocates a RAG rating to each line in the efficiency plan based on an assessment of the current state of maturity and implementation. This shows that the £22.7m efficiencies forecast by budget holders at the end of Month 6 are risk stratified as follows:

1. Low risk to delivery = £10.9m
 2. Medium risk to delivery = £8.7m
 3. High risk to delivery = £3.1m
- Should some of the high and medium risk plans not deliver, the actual delivery may be lower than £17.0m.

BIP Efficiency Savings Forecast at Month 6



BIP Forecast RAG Rated



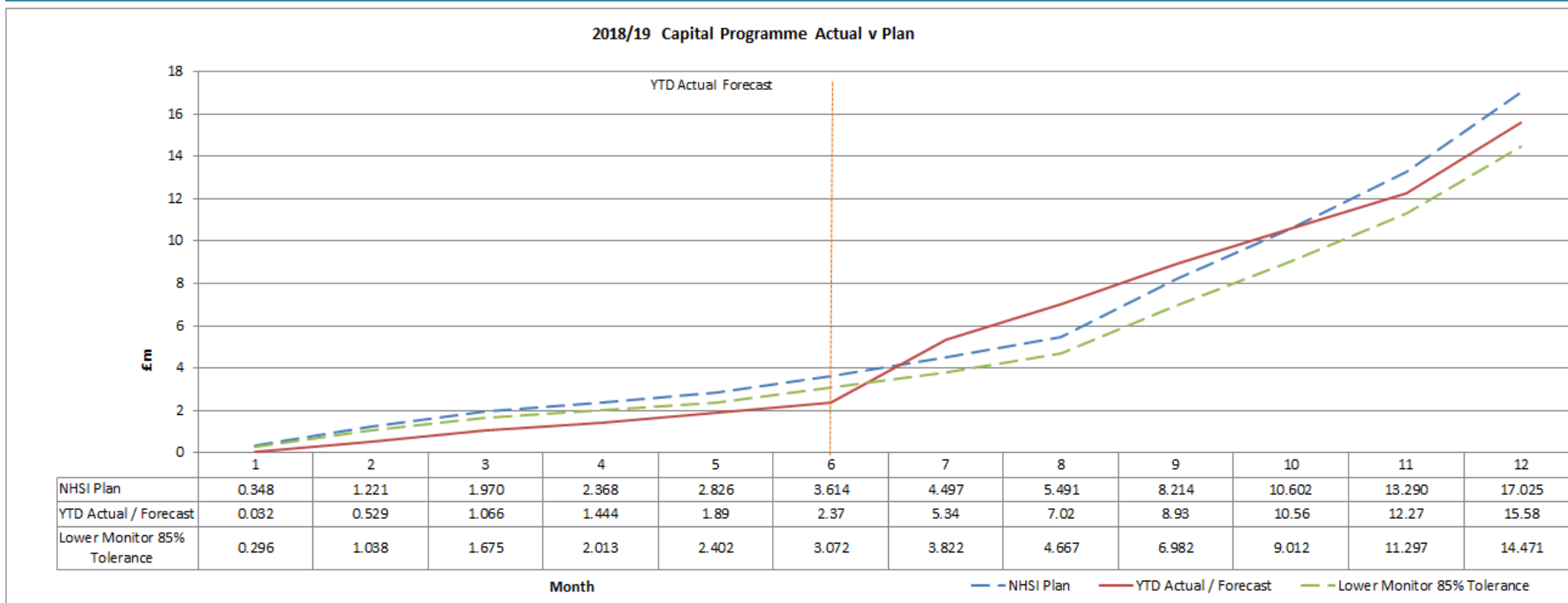
5. Statement of Financial Position, Cashflow and Liquidity

Sep-18

Summary Statement of Financial	Actual Performance					Planned Movement				
	Year to date Actual £m	In month movement		Year to date movement		Year to date		Year end forecast		
		Aug 18 £m	Variance £m	Jan 18 £m	Variance £m	Plan £m	Variance £m	Plan £m	Actual £m	Variance £m
Intangible assets	10.401	10.414	(0.013)	11.257	(0.856)	10.821	(0.420)	11.425	11.425	0.000
Property, plant and equipment	202.962	203.527	(0.565)	206.181	(3.219)	203.479	(0.517)	209.128	211.697	2.569
Trade and other receivables	1.345	1.345	0.000	1.254	0.091	1.254	0.091	1.254	6.854	5.600
Total Non-Current Assets	214.708	215.286	(0.578)	218.692	(3.984)	215.554	(0.846)	221.807	229.976	8.169
Inventories	6.652	6.742	(0.090)	6.588	0.064	6.588	0.064	6.588	6.588	0.000
Cash	21.083	22.295	(1.212)	25.646	(4.563)	27.737	(6.654)	28.386	17.023	(11.363)
Trade and other receivables	27.428	26.751	0.677	30.453	(3.025)	21.582	5.846	23.131	27.531	4.400
Total Current Assets	55.163	55.788	(0.625)	62.687	(7.524)	55.907	(0.744)	58.105	51.142	(6.963)
Trade and other payables	(36.678)	(37.497)	0.819	(39.935)	3.257	(37.474)	0.796	(40.468)	(41.334)	(0.866)
Borrowings	(3.552)	(3.552)	0.000	(4.052)	0.500	(3.552)	0.000	(3.052)	(3.052)	0.000
Deferred Income	(6.239)	(5.636)	(0.603)	(5.741)	(0.498)	(5.290)	(0.949)	(5.290)	(6.239)	(0.949)
Provisions	(0.489)	(0.489)	0.000	(1.311)	0.822	(1.311)	0.822	(1.311)	(0.489)	0.822
Total Current Payables	(46.958)	(47.174)	0.216	(51.039)	4.081	(47.627)	0.669	(50.121)	(51.114)	(0.993)
Total Net Current Assets	8.205	8.614	(0.409)	11.648	(3.443)	8.280	(0.075)	7.984	0.028	(7.956)
Borrowings	(27.318)	(27.318)	0.000	(28.844)	1.526	(27.318)	0.000	(25.792)	(25.792)	0.000
Deferred Income	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	(3.070)	(3.070)	0.000	(3.070)	0.000	(3.070)	0.000	(3.070)	(3.070)	0.000
Total Non-Current Payables	(30.388)	(30.388)	0.000	(31.914)	1.526	(30.388)	0.000	(28.862)	(28.862)	0.000
Total Assets Employed	192.525	193.512	(0.987)	198.426	(5.901)	193.446	(0.921)	200.929	201.142	0.213
Public Dividend Capital	121.244	121.244	0.000	121.244	0.000	121.244	0.000	121.244	122.523	1.279
Revaluation Reserve	75.333	75.333	0.000	75.332	0.001	75.332	0.001	75.332	75.332	0.000
Income and Expenditure Reserve	(4.052)	(3.065)	(0.987)	1.850	(5.902)	(3.130)	(0.922)	4.353	3.287	(1.066)
Total Taxpayers Equity	192.525	193.512	(0.987)	198.426	(5.901)	193.446	(0.921)	200.929	201.142	0.213

6. Capital Expenditure Sep-18

Capital Expenditure Trends & Commentary



Commentary

Year to date capital expenditure is £2.372m. This is £1.306m behind planned expenditure which represents 65% of the plan submitted to NHSI. This is primarily a result of slippages on the Radiology Replacement Programme, Network Refresh and wayfinding Improvements. These programmes are expected to be completed over the next couple of months.

The full year capital expenditure forecast is £15.547m. This is behind plan with the original planned capital expenditure of £17.025m which includes £5m of extra funding from the STF bonus, £518k PDC funding for Aluminium Cladded Material works. A further £760k of PDC funded works have been added to the budget for the Urgent Care Centre scheme. Forecast slippage against the revised budget is £2.735m with the telephony exchange, ophthalmology/ENT Expansion, ward 22 refurbishment and command centre GE all expected to be incomplete at year end.

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%	0.65x	4
Liquidity (days)	<u>Working Capital Balance 3 x 360</u> Annual Debt Service 4	>0	(7) - 0	(14) - (7)	<(14)	20%	1.7 days	1
I & E Margin	<u>I & E Operating Surplus/(Deficit)</u> Total Operating Income	> 1%	1 - 0%	0 - (1)%	< (1)%	20%	-0.29%	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%	-0.20%	2
Agency Spend	<u>Agency spend - Agency Ceiling</u> Agency Ceiling	<0%	0%-25%	25%-50%	>50%	20%	10.30%	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			
Regulatory Implications of Overall Rating			
Overall Rating	Description		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.
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	
			At month 6, the Trust has an overall rating of 3 due to the I & E margin now being 4 and the Capital Servicing Capacity also being a 4.