Northern Lincolnshire and Goole NHS

NHS Foundation Trust

NLG(16)332

DATE	**26 July 2016**
REPORT FOR	**Trust Board of Directors**
REPORT FROM	**Marcus Hassall, Director of Finance**
CONTACT OFFICER	**Marcus Hassall, Director of Finance**
SUBJECT	**Finance Update Report – Month 3**
BACKGROUND DOCUMENT (IF ANY)	**-**
REPORT PREVIOUSLY CONSIDERED BY & DATE(S)	**Resources Committee, 20 July 2016**
EXECUTIVE COMMENT (INCLUDING KEY ISSUES OF NOTE OR, WHERE RELEVANT, CONCERN AND / OR NED CHALLENGE THAT THE BOARD NEED TO BE MADE AWARE OF)	**This report highlights the financial position for the first three months of the 2016/17 financial year, identifying key variances and risks, and presenting a forecast for the year end.**
HAVE THE STAFF SIDE BEEN CONSULTED ON THE PROPOSALS?	**N/A**
HAVE THE RELEVANT SERVICE USERS/CARERS BEEN CONSULTED ON THE PROPOSALS?	**N/A**
ARE THERE ANY FINANCIAL CONSEQUENCES ARISING FROM THE RECOMMENDATIONS?	**Contained within the report**
IF YES, HAVE THESE BEEN AGREED WITH THE RELEVANT BUDGET HOLDER AND DIRECTOR OF FINANCE, AND HAVE ANY FUNDING ISSUES BEEN RESOLVED?	**-**
ARE THERE ANY LEGAL IMPLICATIONS ARISING FROM THIS PAPER THAT THE BOARD NEED TO BE MADE AWARE OF?	**-**
WHERE RELEVANT, HAS PROPER CONSIDERATION BEEN GIVEN TO THE NHS CONSTITUTION IN ANY DECISIONS OR ACTIONS PROPOSED?	**-**
WHERE RELEVANT, HAS PROPER CONSIDERATION BEEN GIVEN TO SUSTAINABILITY IMPLICATIONS QUALITY & FINANCIAL) & CLIMATE CHANGE?	**-**
THE PROPOSAL OR ARRANGEMENTS OUTLINED IN THIS PAPER SUPPORT THE ACHIEVEMENT OF THE TRUST OBJECTIVE(S) AND COMPLIANCE WITH THE REGULATORY STANDARDS LISTED	**-**
ACTION REQUIRED BY THE BOARD	**The Trust Board is requested to review the reported financial position, identify key areas for challenge and review, and suggest further actions that they consider appropriate.**

Finance Update Report:
Month 3: Year to 30th June 2016

Report Outline:

This report covers the Trust's financial performance for the first quarter of the 2016/17 financial year. The variances, trends and forecasts outlined in this report are assessed against the detailed financial plans contained within the current Forward Plan submissions made to Monitor.

The financial report contains the following sections:

1) Financial Headlines – Including Forecast Position and Cash Projection
2) Income & Expenditure Account at Month 3
3) Contracting & Income
4) Expenditure & Savings Programme Delivery
5) Capital Programme Expenditure
6) Balance Sheet and Working Capital
7) Budget Management Performance
8) Reserve Drawings and Plan Changes
9) Conclusion - Key Themes, Key Risks & Key Actions

This report is supplemented by separate reports, as required by the Committee, covering the following areas:

- Developments in the Healthy Lives Healthy Futures strategic review process;
- Performance, Activity and Contracting;
- Delivery of the Trust's Sustainability Programme;
- Updates on the Capital Investment Programme and other strategic developments;
- Progress on the Trust's Business Governance review.

1. Financial Headlines

Month 3 Headline Financial Position:

	Month 3 £mil
I & E Account Surplus/(Deficit)	**(4.66)**
Plan I & E Surplus/(Deficit)	(4.83)
Variance From Plan – I&E Surplus/(Deficit)	**0.17**
Cash Balance at 30th June	**6.51**
Set Minimum Cash Balance (after IRSL support)	1.90
Variance From Minimum Cash Balance	**4.61**
Financial Sustainability Risk Rating	**2**

The **deficit for the first quarter of the year was £4.66m**. This remains slightly ahead of the plan for this point in the year.

Income and contracting showed some improvement, reflecting improved activity delivery. Capacity building and activity recovery were key elements of the plan, given the need to meet waiting time trajectories for RTT performance, Cancer waiting times, and A&E response.

Expenditure increased in June, partly on the back of activity pressures, but also highlighting the difficulties in controlling clinical pay spend under such circumstances.

This position assumes full receipt of Sustainability and Transformation income, and also that the Trust will be able to control any fines and penalties that CCGs might attempt to levy for the quarter. This income remains at some risk, therefore

The headline end of year I&E forecast remains outside the control total limit, reflecting the service and financial risks we face. We have assumed within our forward projections that recovery actions on activity, performance, income and cost controls can and will be improved These **recovery actions must bring the Trust into a fully compliant position by the end of the year.**

The cash position is stable, but we still have to secure a fully defined liquidity support package from regulators to cover our capital and cash plans. This is still unconfirmed at the point of writing. In the meantime, we **continue to restrict discretionary spend**, particularly on the capital programme.

Cash will be tight throughout the service this year, and the Trust can anticipate further action from regulators to drive us to manage and mitigate all risks effectively.

Income and Expenditure Summary and Full Year Forecast:

The summary I&E shows a reduced income shortfall compared to month 2. However, the expenditure underspend against plan is also reduced, primarily because activity levels have pushed up key non pay costs – drugs and diagnostic capacity support being key drivers of non-pay variance.

	M3 Plan £mil	M3 Actual £mil	M3 Variance £mil
Income - NHS Clinical	79.16	78.52	(0.63)
Income - Other	8.90	8.68	(0.22)
Expenditure – Pay	(62.30)	(60.94)	1.36
Expenditure – Non Pay	(27.68)	(28.34)	(0.66)
EBITDA	**(1.93)**	**(2.07)**	**(0.14)**
Post EBITDA items	(2.90)	(2.59)	0.31
Surplus/(Deficit)	**(4.83)**	**(4.66)**	**0.17**

Forecast – Scenario Analysis:

The "best case/worst case" analysis reflects variance against the provisional plan, adjusted for latest projections, based upon outline assessment of risks. The initial updated forecast for I&E is as follows:

	Worst Case Forecast £m	Primary Forecast £m	Best Case Forecast £m
16/17 Plan Surplus/(Deficit)	**(11.8)**	**(11.8)**	**(11.8)**
Income - Securing Base Contract/Plan	(3.5)	(1.0)	1.4
Income - S&T Income	(8.6)	0.0	0.0
Income - Other	0.0	0.5	0.6
Expenditure Commitments linked to Activity	0.0	(0.8)	(1.0)
Savings Plan Delivery - Pre Recovery Action	(3.8)	(3.2)	(3.2)
Savings Plan Delivery - Recovery Action	0.0	1.6	3.2
Inflation - Pay	(0.3)	0.0	0.0
Inflation - Non Pay	(0.4)	0.0	0.0
Release of Earmarked Funds	0.0	0.0	0.2
Other	(2.5)	0.0	0.0
Forecast Surplus/(Deficit)	**(30.9)**	**(14.7)**	**(10.6)**
Variance to Plan	**(19.1)**	**(2.9)**	**1.2**

The projected most likely deficit at this point, without recovery action, is £14.7m - £2.9m adrift of plan. Key variances are:

1) Contract Income Risks – through failure to deliver activity or through non-payment by CCGs using penalties or other claw back mechanisms - this is reduced as activity levels have started to recover;

2) Activity pressures on expenditure – increased as activity levels have started to recover;

3) Savings delivery risks, against an ambitious programme.

The overall gap to plan is reduced further in June, primarily as a result of improved activity information which gives greater assurance over income levels. This forecast assumes full receipt of S&T income of £11.5m. This remains a potential area of further risk.

Overall, we must commit to recovery actions on savings delivery and on income to maintain a forecast at plan:

- Ensuring activity levels are appropriately increased;
- Meeting performance trajectories;
- Delivering savings mitigation to secure the full in year value of £13.85m;
- Controlling or mitigating all other cost pressures.

Cash Forecasting:

At this point, cash forecasting remains subject to confirmation of plan – still under consideration by regulators. **We may well need to significantly change our capital and working capital management plans** significantly once we get a clear view from regulators.

At that point we will be able to take stock of changes to plan, and reset cash management arrangements to match that plan. This will allow us to start to map out any remaining liquidity risks.

Assuming release of S&T income, the current emergency working capital loan should last until at least October.

2. Income & Expenditure Account for period ending 30th June (Month 3)

The table below summarises the key I&E headings:

	Annual Plan £m	YTD Plan £m	YTD Actual £m	Variance Fav/(Adv) £m
INCOME:				
Clinical Income	317.88	79.15	78.52	(0.63)
Other Income	35.72	8.85	8.68	(0.17)
Donations Income	0.40	0.05	0.00	(0.05)
TOTAL INCOME	**354.00**	**88.05**	**87.20**	**(0.85)**
PAY EXPENDITURE:				
Medical Staff	(67.08)	(17.27)	(16.69)	0.58
Nursing Staff	(90.35)	(23.02)	(22.18)	0.84
Scientific Therapeutic & Technical Staff	(39.12)	(9.78)	(9.74)	0.04
Total Clinical Pay	**(196.54)**	**(50.07)**	**(48.61)**	**1.46**
Total Other Pay	**(48.93)**	**(12.24)**	**(12.33)**	**(0.10)**
TOTAL PAY	**(245.47)**	**(62.31)**	**(60.94)**	**1.36**
NON PAY EXPENDITURE:				
Drugs	(33.20)	(8.18)	(8.53)	(0.35)
Clinical Supplies & Services	(29.96)	(7.40)	(7.24)	0.16
Total Clinical Non Pay	**(63.16)**	**(15.58)**	**(15.77)**	**(0.19)**
Total Other Non Pay	**(48.07)**	**(12.10)**	**(12.57)**	**(0.47)**
TOTAL NON PAY	**(111.23)**	**(27.68)**	**(28.34)**	**(0.66)**
OPERATING EXPENDITURE	**(356.71)**	**(89.99)**	**(89.28)**	**0.71**
EBITDA	**(2.71)**	**(1.93)**	**(2.07)**	**(0.14)**
POST EBITDA ITEMS	**(9.12)**	**(2.90)**	**(2.59)**	**0.31**
I&E SURPLUS/(DEFICIT)	**(11.82)**	**(4.83)**	**(4.66)**	**0.17**

Key points:

- Income – reduced shortfall but still an area of risk.
- Clinical pay spend – favourable variances are reduced;
- Non Clinical Pay – close to plan, but now drifting upwards – we need to be wary of non-clinical staffing cost control slippage;
- Clinical Non Pay – pressures on drugs costs are accelerating– this signals a difficult control challenge, but the majority of pressure arises from rechargeable drugs;
- Other Non Pay - bought in healthcare services are the main variance area, driven by the need to enhance diagnostic capacity;
- The post EBITDA variance reflects a short term benefit on depreciation and our cashflow actions to reduce PDC charges.

The position is slightly ahead of plan, but not at the required run rate for the year, particularly given the need to accelerate activity levels further to hit performance targets. **A straight line projection of the deficit would be £18.6m.**

3. Activity, Contracting and Income:

The Trust plan for the year assumed some degree of demand growth on outturn levels, and also included a requirement to increase planned care activity levels to counter increases in waiting times seen in 2015/16.

Underlying demand levels continue to track these assumptions reasonably closely. Emergency admissions may have dropped slightly below the forecast level, but the drift is small, and activity remains increased on last year.

Planned care demand continues to exceed activity delivery, reflected in further waiting list increases in month. The Trust plan remains to deliver the majority of planned care activity increases over Q2 and Q3, following work to improve administrative and job planning systems, finish work to refurbish theatres, and throw off the adverse impact of industrial action.

The activity position is summarised below:

	2015/16 Full Year Outturn	2015/16 Outturn to M03	2016/17 Outturn to M03	Variance vs 2015/16	%
Non Elective Spells (exc Maternity)	37,518	9,211	9,295	84	0.9%
Non Elective Spells (Maternity)	8,405	2,099	1,841	(258)	(12.3%)
Elective & Daycase Spells	59,035	14,852	15,027	175	1.2%
Outpatient Attendances (F2F) - New	122,317	30,517	32,234	1,717	5.6%
Outpatient Attendances (F2F) - Review	260,513	65,106	63,322	(1,784)	(2.7%)
Critical Care Days	21,516	4,996	5,794	798	16.0%
A&E Attendances	150,290	37,715	38,631	916	2.4%

Further catch up on planned care activity remains critical over the next two quarters, to manage the waiting time position. The Trust 18 Week RTT position remains adrift of target.

Contract agreements are based on cap and floor limited PbR contracts with our two principal CCGs, and full PbR contracts with others. Activity throughput is therefore critical to deliver planned income levels. Affordability remains a concern for local CCGs – this may have an impact on Trust income, but at this stage the contractual position is most vulnerable to data disputes, penalties or CQUINs claw back.

The Trust will need to significantly increase the focus on contract process issues to help fend off any such attacks by CCGs.

4. Expenditure and Savings Delivery:

The year to date position remains ahead of plan, but the plan has a significant weighting towards the tail end of the year. The forecast position is therefore important. We still project a significant shortfall, updated to £3.17m. There is no plan contingency, so we need to recover this shortfall in year through recovery, pipeline schemes, or mitigation.

Savings Projection As At Month 03:

WORKSTREAM	2016/17 PLAN	2016/17 YTD PLAN	2016/17 YTD DELIVERY	2016/17 YTD VARIANCE	2016/17 FORECAST DELIVERY	2016/17 FORECAST VARIANCE
Capacity & Demand	2,905	163	568	405	1,522	(1,382)
Medical Staffing	401	37	94	57	385	(16)
Nursing	2,200	110	590	480	1,866	(334)
Operations	694	134	97	(37)	408	(286)
Non Pay & Procurement	2,750	504	496	(7)	2,754	4
Estates & Facilities	750	139	168	30	685	(65)
HR	800	32	45	13	312	(488)
Central Corporate & Commercial	2,000	367	444	78	1,586	(414)
Contracting & Service Development	800	152	84	(68)	611	(189)
Programme Controls	550	138	138	0	550	0
Grand Total	**13,850**	**1,775**	**2,724**	**950**	**10,679**	**(3,171)**

Major issues still cluster around the work to improve governance systems around clinical pay, and effective use of clinical workforce to deliver optimum activity levels. This has a far more robust structure to it than last year, as we planned, but there are still significant challenges to bring to fruition the plan to reset and refocus medical staff job plans. This work is significantly behind schedule, but must not be done in a slapdash way – it has to be correct.

Key issues elsewhere are:

- Capacity and Demand – productivity improvement plans for theatres, outpatients, and endoscopy are developing, but still have a long way to go. Medstaff recruitment, for substantive, training grade and locum staff, will remain challenging;

- Medical Staffing – setting in place the necessary policy and pay rate changes is facing anticipated push back from the BMA;

- Nursing – reconfiguration changes are moving forward, but controls over staffing deployments remain incomplete, with issues locking down rosters to give a full record;

- Commercial Projects – these have been downgraded following a review of forecasts, prior to the new commercial manager taking up post.

- HR/T&C Changes – this remains only part worked up as a plan.

There is still an elevated delivery risk on the Programme. Shortfall against the plan must be recovered, as will be discussed at the next CEO Challenge review.

5. Capital Programme Expenditure:

The capital programme again shows slippage in month 3. The capital programme remains in restricted commitment phase, pending agreement of liquidity support for the Trust for 2016/17. Spend was as follows, against a revised plan for this point of £5.06m:

Capital Programme at Month 3:

	YTD Actual £mil	Full Year Forecast £mil
Major Schemes		
Major Equipment Replacement	0.00	0.00
DPoW Reconfiguration Programme	1.12	2.80
SGH & GDH Reconfiguration Programme	0.12	2.33
DPOW Estates Rationalisation	0.00	0.54
Residences Development	0.28	2.93
Energy Phase 2	(0.01)	0.45
Planning and Feasibility Fees	0.00	0.19
Facilities Maintenance Programme	0.04	1.49
IM&T Programme	0.18	2.15
Equipment Renewal Programme	0.37	1.60
Donated Assets	0.00	0.00
Capital Programme Total	**2.11**	**14.47**

The Trust will continue to restrict capital spend until liquidity agreements are in place. We have submitted a revised plan inclusive of significant slippage in timescales for the residential accommodation redevelopment project, and await formal response from the regulator as to the parameters for capital and cash for 2016/17.

6. Balance Sheet and Working Capital:

Balance Sheet at 30th June 2016:

	Last Month £mil	This Month £mil	Variance From Plan £mil
Total Fixed Assets	**143.64**	**144.46**	**(2.83)**
Stocks & WIP	2.64	2.60	0.16
Debtors	13.38	15.28	1.92
Prepayments	3.32	3.69	0.25
Cash	4.61	6.51	4.61
Total Current Assets	**23.95**	**28.08**	**6.94**
Creditors : Revenue	20.62	20.49	(1.17)
Creditors : Capital	3.35	3.29	(1.18)
Accruals	10.68	11.62	2.57
Deferred Income	1.38	1.34	(0.03)
Finance Lease Obligations	0.10	0.08	(0.00)
Loans < 1 year	1.20	1.20	0.00
Provisions	2.84	3.05	0.76
Total Current Liabilities	**40.16**	**41.07**	**0.94**
Net Current Assets/(Liabilities)	**(16.21)**	**(12.99)**	**5.99**
Debtors Due > 1 Year	0.01	0.01	0.00
Creditors Due > 1 Year	0.00	0.00	0.00
Loans > 1 Year	39.00	44.46	2.87
Finance Lease Obligations > 1 Year	0.16	0.16	0.12
Provisions - Non Current	5.49	5.49	0.00
TOTAL ASSETS/(LIABILITIES)	**82.80**	**81.37**	**0.17**
TOTAL CAPITAL & RESERVES	**82.80**	**81.37**	**0.17**

Debtors are above plan, and increased given the improved income projection pushing up income accruals. We will continue to work with commissioners and provider to provider contract customers to secure prompt payment.

Creditors and accruals are slightly increased, and a little above plan at this stage, reflecting work to maximise cash and minimise PDC charges.

Fixed asset values remain lower then plan given capital programme restrictions slowing the process of asset construction and purchase.

Loans drawdown is slightly ahead of plan, but so are cash balances.

7. Budget Management Performance:

Having set budgets through a thorough review process, **there is no excuse for material adverse budgetary variances.**

Budget Position at Month 3:

Directorate	Sub-Directorate	YTD Budget £m	YTD Actual £m	YTD Variance £m
Operations	Operations – Central Directorate	(0.18)	(0.26)	(0.08)
	Surgery and Critical Care	(17.72)	(17.69)	0.02
	Medicine	(25.28)	(24.54)	0.74
	Women and Children's Services	(8.29)	(8.24)	0.05
	Therapy & Community Services	(6.79)	(6.68)	0.11
	Clinical Support Services	(8.09)	(8.28)	(0.19)
Operations Total		**(66.36)**	**(65.70)**	**0.66**
Path Links		**(3.36)**	**(3.40)**	**(0.04)**
Corporate Functions	Trust Management	(0.10)	(0.10)	(0.00)
	Deputy CEO Office	(0.32)	(0.33)	(0.01)
	Medical Directors Office	(0.58)	(0.58)	0.00
	Governance and Performance	(0.50)	(0.50)	0.00
	Finance	(0.83)	(0.83)	0.00
	Chief Nurses Office	(0.76)	(0.79)	(0.03)
	Human Resources	(0.56)	(0.56)	0.00
	Strategy & Planning	(1.67)	(1.66)	0.01
	Estates and Facilities	(4.52)	(4.60)	(0.08)
Corporate Total		**(9.84)**	**(9.95)**	**(0.11)**
Technical & Capital Charges	Capital Charges	(2.65)	(2.38)	0.27
	Central Non Recurrent	(0.00)	(0.00)	(0.00)
	Facilities Central Control	(0.67)	(0.73)	(0.06)
	Financial & Technical Controls	(0.14)	(0.24)	(0.10)
	Governance & Licencing Controls	(3.17)	(3.20)	(0.03)
	IM&T Central Controls	(0.35)	(0.43)	(0.08)
	Non Recurrent Programme	(0.33)	(0.33)	0.00
	Patient Travel	(0.01)	(0.01)	0.00
	Postage	(0.11)	(0.11)	(0.00)
	Web V Solutions	0.00	0.00	0.00
Technical & Capital Charges Total		**(7.43)**	**(7.43)**	**0.00**
Total Department Budget Expenditure		**(86.99)**	**(86.48)**	**0.51**
Reserves		**(0.51)**	**0.00**	**0.51**
Central Income		**82.65**	**81.82**	**(0.83)**
TOTAL		**(4.83)**	**(4.66)**	**0.17**

Aside from the income position, this remains a very stable budget position. It also reflects closely the overall I&E variances.

Activity increases have most significantly affected diagnostic areas to date, with capacity expansion costs a feature of the first quarter. We are working with the Groups concerned to review budget flexing arrangements for this area.

Corporate directorates show a range of small variances, up and down, but Estates and Facilities show the most material overspend. This can be linked to staff sickness issues, an area of joint work already under the Sustainability Programme. We need to have more robust corporate policies in place to properly tackle this.

Loans interest charges are higher on Technical and financial costs, but are offset by PDC savings under capital charges.

8. Reserve Drawings and Plan Changes:

The Trust plan includes a number of specific earmarked reserves. These are not contingencies, but are allocated to specific purposes in the plan. It is important that clear oversight is provided for commitments made against those reserves, to identify potential risks (or opportunities) early. Also, a transparent reporting process will support effective sign off of material changes to plan by the Trust Board.

The reserve analyses attached below show the latest position. We are starting to see potential activity pressures related to drugs costs, which should be linked to additional income receipts. This may require a flexing of budget parameters.

Other variations will be subject to regular Executive Team and Trust Management Board reprioritisation discussions.

2016-17 Reserve Summary Mth 3.xlsx

9. Conclusion – Key Themes, Key Risks, Key Actions:

Though the year to date position is slightly ahead of plan, the position still contains some material and potentially difficult risks:

- Income risks arising from CCG affordability;
- Maintaining activity throughput;
- Costs of increased activity demand;
- Difficulties in managing savings delivery;
- Vulnerability of S&T income.

We forecast to the regulator an I&E outturn in line with plan – this requires the Trust to deliver the following key recovery actions:

1) Increase activity levels in planned care to secure base income and S&T income;
2) Maintain a strong contracting front to CCGs, to fight of challenges;
3) Control the urge to commit to further expenditure unless absolutely necessary for patient care;
4) Deliver full replacement schemes or mitigation for any shortfall in savings delivery.

At this stage this is still achievable.

We also quickly need to clarify with regulators the position for capital and cash availability in year – this will set further challenges for the organisation.

Marcus Hassall
Director of Finance
July 2016

Appendix 1: Corporate Finance Information Pack:

Corporate Finance
Pack June 2016.xlsx

Appendix 2: High Value Commitment Sign Offs:

Register - Contract
Commitments.xlsx