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| **NLG(18)307** | |
| DATE OF MEETING | 28 August 2018 |
| REPORT FOR | **Trust Board of Directors – Public** |
| REPORT FROM | **Marcus Hassall, Director of Finance** |
| CONTACT OFFICER | **Marcus Hassall, Director of Finance** |
| SUBJECT | **Finance Report 2018/19 – M04** |
| BACKGROUND DOCUMENT (IF ANY) | **-** |
| PURPOSE OF THE REPORT: | **For discussion** |
| EXECUTIVE SUMMARY **(PLEASE INCLUDE: A SUMMARY OF THE REPORT, KEY POINTS & / OR ANY RISKS WHICH NEED TO BE BROUGHT TO THE ATTENTION OF THE TRUST BOARD AND ANY MITIGATING ACTIONS, WHERE APPROPRIATE)** | **This report highlights the reported financial position at Month 04 of the 2018/19 reporting period.** |
| TRUST BOARD ACTION REQUIRED | **The 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 2018/19: Month 04**

**Report Outline:**

This report covers the Trust’s financial performance to the end of month 4 (July 2018). It covers the following areas:

* Financial Position Overview;
* I&E Position – including Full Year Forecast;
* Activity, Contracting and Income;
* Expenditure and Savings Programme;
* Budgetary Management;
* Capital Programme;
* Balance Sheet, Cash and Working Capital;
* Reserve Drawings and Plan Changes;
* Financial Special Measures Update;
* Conclusion - Key Themes, Key Risks & Key Actions

This report is based upon the revised plan target, agreed with NHSI and submitted by the Trust on the 20th June. This plan is compliant with the control total which the Trust Board formally adopted in June.

1. **Financial Position – Overview M04:**

|  |  |
| --- | --- |
|  | **M4 £m** |
| **YTD Actual I&E Surplus** | **(19.18)** |
| **YTD Target I&E Account Surplus/(Deficit)** | **(15.77)** |
| **YTD Variance From Target – I&E Surplus/(Deficit)** | **(3.41)** |
|  |  |
| **Cash Balance at 31st July** | **11.96** |
| Set Minimum Cash Balance (after IRSL support) | 1.90 |
| **Variance From Minimum Cash Balance** | **10.06** |
|  |  |
| **In Month Net Loans (Drawdown)/Repayment** | **(4.61)** |
| **YTD Net Loans (Drawdown)/Repayment** | **(19.05)** |
| **Total Loans Balance** | **(136.43)** |

The deficit for the first four months of the year is **£19.18m**. Though the Trust’s plan, revised for the 20th June resubmission, anticipated an increased deficit in the first quarter, with activity and income planned to improve, and savings delivery to increase later in the year, the position is now **£3.41m** adrift of plan.

There are three key factors:

* Failure to earn Provider Sustainability Fund payments;
* Activity driven income shortfalls, although this has seen signs of recovery after a difficult start to the year in April;
* Pressures on non pay expenditure, linked to savings delivery in Orthopaedic prosthesis, increased Estates Maintenance costs and continued outsourced diagnostic capacity.

The deficit run rate has improved somewhat in month but is still falling behind plan. This is still recoverable at this stage of the year – with focus on the critical expenditure variables, and on increasing planned care productivity – a critical service and quality objective, as well as a key part of the financial delivery plan. There are signs of progress on both these fronts, but at this stage clearly significant risks remain.

Though cash balances are appear high and above minimum cash balance requirements, this reflects the slight delays in payments for major capital expenditure and the significantly increased creditor payment times and balances.

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**2. I&E Position Month 04:**

**Outline I&E Position:**

|  |  |  |
| --- | --- | --- |
|  | **YTD Actual** | **Variance from Plan** |
|  | **£mil** | **£mil** |
| Income (excluding PSF) | 115.08 | (1.08) |
| PSF | 0.00 | (1.56) |
| Expenditure – Pay, Clinical | (69.89) | 0.21 |
| Expenditure – Pay, Other | (18.13) | (0.26) |
| Expenditure – Non Pay, Clinical | (22.89) | (0.50) |
| Expenditure – Non Pay, Other | (19.44) | (0.43) |
| Technical Savings Programme | 0.10 | 0.10 |
| **EBITDA** | **(15.17)** | **(3.52)** |
| Post EBITDA Items | (4.01) | 0.11 |
| **Trading Surplus/(Deficit)** | **(19.18)** | **(3.41)** |

The key variances from the revised plan target are:

1. Failure to qualify for PSF income, due to an A&E performance below 90% and noncompliance with financial control total (£1.56m);
2. Income shortfalls linked to activity delivery (£0.99m);
3. Continued pressures on medical and nursing staff pay (£0.35m);
4. Increased admin and management staff spend (£0.26m);
5. Savings delivery shortfalls on clinical non pay budgets (£0.50m);
6. Additional capacity for imaging services (offset by staff savings against plan) (£0.19m).
7. Increased Estates Maintenance and Utilities Costs (0.23m)

PSF income may be recoverable later in the year in the light of more general performance improvement – though the rules as set would restrict the Trust’s ability to claim the full allocation.

Income delivery depends upon improving planned care output which is only currently partially offset with increased emergency demand. Activity reporting is now available at Specialty and point of delivery level to help focus corrective action for those areas behind plan.

Clinical pay is favourably balanced overall, but pressures on medical staff and nursing, despite a slow start to savings delivery anticipated within the plan, are generating small but significant overspends. This reflects some of the systemic issues highlighted in the NHSI review of temporary staffing management. This will be a key area for control improvements this year – without tight grip on nursing and medical staffing costs, the plan we have agreed cannot be delivered.

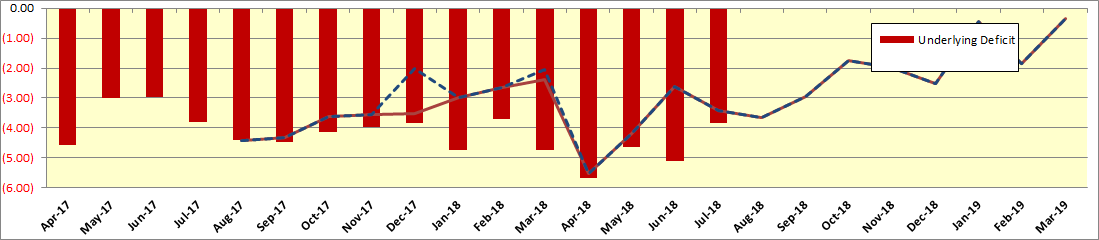
Increased clinical supplies costs exceed the pressures anticipated in plan for increased activity – even though activity has increased in urgent care, and some recovery has been delivered in planned care. Pressures are focussed on surgical activity, which, though increased, remains below plan. 30% of this pressure is related to the standardisation of the Orthopaedic Prosthesis savings programme.

Increased Estates maintenance costs, particularly at Goole and increased utilities costs due to failing partnership systems are a key pressure area and need immediate review.

Additional bought in capacity for Imaging is the final notable expenditure pressure – though there is an offset with underspends on clinical staffing for imaging for the year to date.

**I&E Run Rate Position:**

The following graph sets out the run rate by month, showing the I&E position against target. 17/18 shows the underlying position, excluding technical and exceptional items, for comparison:



The deterioration in April, as the Trust’s underperformance on planned care activity was no longer protected by the 2017/18 block contract agreement, highlights the most significant variable – activity driven income.

However, July did see improvement in activity and income performance following a disappointing June resulting in an improvement in the run rate back in line with plan. This will need to be continued over the remaining months given the expectation in plan that serious progress is made on expenditure reduction during Q2 and Q3.

This highlights again the fundamental issues facing the organisation:

1. The chronic productivity issues affecting many areas of planned care, which we have only started to resolve;
2. The difficulties managing clinical staffing deployments to minimise operational risk and support wider cost control of agency staffing;
3. The pressures derived from not yet having completed the review of Operational management teams;
4. The difficulties in controlling capacity expansion costs for both unplanned and planned care without a fully approved clinical strategy.

The Trust will continue to mitigate these risks, but step change improvement will need to see clear agreement on clinical strategy, and fundamental review of management systems, particularly in respect of clinical staffing.

In year technical support will be limited in 2018/19, balance sheet opportunities having been exhausted in 2017/18. Any available flexibility will be required to offset additional interest costs related to shortfalls on plan delivery in 2018/19.

**Full Year Forecast as at M04:**

Having submitted a reset plan in June, the Trust’s formal forecast is tied to that projection:

Control Total Deficit (excluding PSF and donated asset transactions): (£39.6m)

Donated Asset Transactions: £1.1m

Provider Sustainability Fund: £7.2m

**Headline Plan Deficit: (£31.3m)**

At this stage, it is difficult to establish a robust detailed forecast, but a broad outline of the likely position can be extrapolated from the month 4 position:

Key Variances – Full Year Projection from M04:

PSF (assumes nil delivery): (£7.2m)

Income shortfalls (straight line of existing variance from plan): (£3.2m)

Expenditure Pressures (straight line of existing variance from plan): (£2.9m)

Forecast Savings Shortfall (£2.4m)

**Calculated Deficit Forecast: (£47.0m)**

This is very crude approach - but gives some idea of the makeup and full year scale of the current position, if maintained through the remainder of the year.

Possible variation might include some degree of catch up on income, as capacity and productivity are improved through current plans.

Though variation on PSF income would normally be largely discounted by NHSI in assessing Trust variation from plan (the money still being retained centrally), this overall level of variance would be likely to lead to maintenance of Financial Special Measures status for the Trust, as it would mark a further deterioration on the previous year.

**3. Activity, Contracting and Income:**

**Activity Trends**

The below table represents the year to date performance for the core Points of Delivery (POD) against the Trusts activity plan and also gives comparative 17/18 data for reference:

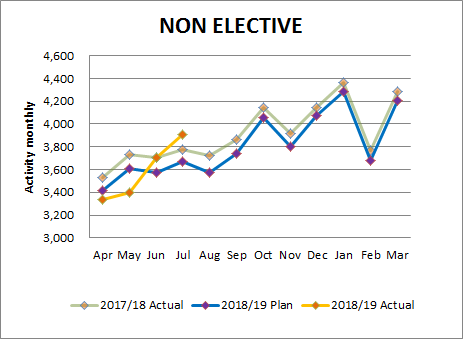
|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **POD Group** | **1819 YTD Planned Activity Numbers** | **1819 YTD Actual Activity Numbers** | **1819 Activity Variance** | **1718 YTD Outturn Activity Numbers** | **Year on Year Activity Variance** |
| NON ELECTIVE | 14,270 | 14,348 | 78 | 14,740 | (392) |
| ELECTIVE | 2,520 | 2,257 | (263) | 2,265 | (8) |
| DAYCASE | 18,068 | 17,230 | (838) | 18,170 | (940) |
| OUTPATIENT NEWS | 32,251 | 30,906 | (1,345) | 32,347 | (1,441) |
| OUTPATIENT REVIEWS | 69,065 | 62,347 | (6,718) | 67,144 | (4,797) |
| OUTPATIENT PROCEDURES | 24,342 | 26,573 | (2,231) | 19,846 | 6,727 |
| A&E | 46,079 | 48,222 | 2,143 | 46,269 | 1,953 |
| ASSESSMENTS | 1,527 | 2,752 | 1,225 | 0 | 2,752 |

**Activity Monitoring:**

We now have resolved the core elements of activity reporting. There are still requirements for further refinement work will to be undertaken but core activity reporting is now available at Divisional, Specialty and POD levels against plan and against prior year performance.

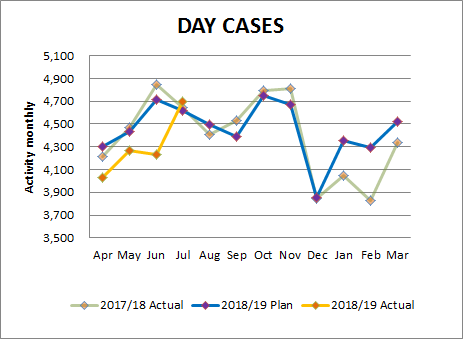
Significant delays in inpatient coding, resulting in a high levels of uncoded spells still remain which is affecting the ability for accurate pricing. However, the coding backlog clearance is now well underway with additional support in place and the financial impact is mitigated through the use of average case mix costing.

The Increased A&E attendances and Non Elective admissions continued in July, above 17/18 equivalent levels, the 2018/19 Trust plan and national planning assumptions increasing the pressure on emergency services and limiting planned care improvements.



In light of the above emergency pressures, we have seen planned elective activity remain stable at 17/18 levels but unable to keep pace with the additional requirements planned.

After a disappointing first Quarter, daycase activity has shown a significant improvement in July. This level of activity will be required to continue over the remaining periods of the year and particularly over the winter period to achieve planned targets.



Planned capacity expansion plans have been slow to mobilise resulting in Outpatient activity remaining broadly in line with 17/18. These have now been agreed for the eight fragile specialties with the remaining specialities to be completed by mid-September. Rapid implementation and increased efficient use of existing capacity will be required to keep pace with demand and to achieve planned levels.

**Contracting and Income:**

The Trust and local CCGs have been required to develop more closely aligned plans by regulators. At the System Improvement Board at the start of July, a gap between CCG and Trust Plans was discussed, and a follow on session to develop mitigation plans was held on 13th July.

NLAG’s income under this plan would be £10.2m below plan (£6.0m of QUIPP, and £4.2m of residual differences in forecasting assumptions), partially offset by £2.4m of expenditure reduction.

The contracting workplan agreed in April continues to develop. The current contract value has been reset at the end of July to reflect the technical and pricing changes agreed to date, with a further variation to follow in August to allow for any further repricing work to be completed.

At this stage QUIPP plans remain in large part aspirational, and do not meet the thresholds set for incorporation into the contract:

1. Is the change in line with clinical best practice?
2. Is it agreed by both Commissioners and Providers?
3. Is the impact robustly quantified in activity and income terms?
4. Is there a robust implementation plan and timeline?

QUIPP remains a high risk for Commissioners – but one that we have committed to help them with, given that this will assist with capacity issues, waiting list reductions, and reducing the whole community financial gap (even if it may compromise NLAG’s income levels).

The principal income risk remains the difficulties in increasing planned care productivity and capacity to meet demand.

The contract income shortfall against plan to date was £0.93m (exl PSF), partly offset by £0.13m of other non NHS clinical income (Injury Recovery Scheme income).

The current Commissioner position against plan is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Commissioner** | **YTD Plan £000’s** | **YTD Actual £000’s** | **YTD Variance £000’s** |
| NHS North East Lincolnshire | 34,453 | 35,045 | 592 |
| NHS North Lincolnshire | 36,752 | 36,700 | (52) |
| NHS East Riding of Yorkshire | 5,658 | 5,332 | (326) |
| NHS Lincolnshire (Various) | 14,784 | 15,235 | 451 |
| NHS England - Specialist | 7,626 | 6,861 | (765) |
| Other Contracted CCGs | 473 | 400 | (73) |
| Non Contract Activity | 732 | 592 | (140) |
| Other Healthcare Contracts | 845 | 914 | 69 |
| Cancer Drugs Fund | 479 | 617 | 138 |
| NRCG | 729 | 569 | (160) |
| Additional Capacity Funding Request | 1,235 | 0 | (1,235) |
| AfC Pay Award Funding | 333 | 334 | 1 |
| PSF | 1,560 | 0 | (1,560) |
| Unallocated Technical Adjustments | 0 | 564 | 564 |
| **TOTAL** | **105,659** | **103,163** | **(2,496)** |

The Trusts revised plan submission in June included the receipt of additional Capacity funding to go further than planning guidance on Waiting List reduction. At this point this is still unconfirmed and is the material variance to plan.

**Provider Sustainability Fund (PSF):**

Having agreed to the revised control total, NLAG is now eligible to earn PSF income – with a full year allocation of £7.2m. However, with the financial position adrift of plan, and A&E delivery only slightly below the 90% target level, NLAG does not qualify to receive PSF funding support.

The year to date variance of the fund is £1.56m.

**Non Clinical Income:**

The Trust has shortfalls on Non Clinical Contract Agreements (primarily Pathlinks related) of £0.26m, car parking income shortfalls has seen some recovery but still stands adverse to plan of £0.07m. Other variations on income lines add up to £0.59m ahead of plan.

**4. Expenditure and Savings Plan Delivery:**

**Total Operating Expenditure:**

Operating expenditure in July was slightly increased on the June level. An element of this can be attributed to the Agenda for Change Pay award (circa £334k), however once this is normalised the run rate is still an increase on previous periods.

**Medical Staffing – YTD Pressure: £0.29m:**

Medical staffing spend in July returned to pre-June levels and remained marginally above plan. Run rate levels remain relatively flat lined despite seeing an improvement in underlying vacancy rates by over 12 wte’s on the 2017/18 average vacancy position. Non vacancy booking reasons have increased by over £1ook per month in June and July compared to April and May.

The sharp increase in savings reductions required, particularly in Q3 through recruitment aided control over temporary staffing commitments, make this a critical area of risk. Significant issues were identified by the NHSI temporary staffing team through their recent review. This highlighted issues in terms of rota planning, and underneath that individual and team job planning.

The re-invigoration of the savings workstream in this area to build a coherent modernisation agenda for medical staffing workforce and management systems is a critical action.

**Nurse Staffing – YTD Pressure: £0.07m:**

July saw further elevated levels in nursing spend once the AfC pay arears are adjusted for and continues the high levels seen in June. Although currently close to plan, the savings delivery requirements are significantly tail ended towards the latter periods of the year and therefore require improvement on the current run rate trend.

The Trust must progress with corrective actions to address areas of concern highlighted by the NHSI temporary staffing in terms of adherence to rostering and temporary staffing procedures.

Though the Trust has set a very cautious plan for net spend reductions in nursing, given the experience in 2017/18, where we witnessed improved vacancy fill but no resultant reduction in total spend, this does remain an area of potential high risk.

Vacancies, sickness rates, rostering efficiency in areas such as additional duties and annual leave, and line management and escalation approval processes have all been highlighted as in need of improvement.

Again, a re-mobilisation of the workstream project team for nursing will help turn the modernising ideas of the New Deal for Nursing into a coherent workforce programme, supported by effective management controls.

**AHP Staffing: YTD Positive Variance: £0.57m:**

AHP spend has run largely flat, without the ability to commit additional resources to substantive staff to meet capacity expansion needs, as ideally planned. Instead, expenditure has been directed towards outsourced imaging capacity.

Vacancies in Therapy and Pathology services also contribute to the positive variance against plan.

Planning assumptions assumed increased reliance on internal staffing to deliver increased diagnostic demand and therefore this positive variance should be seen in conjunction with the outsourced diagnostic over spend in non pay of £0.38m.

**Pay, Non Clinical: YTD Pressure: £0.26m:**

Administration and Management expenditure continues to run at an elevated level above average 17/18 levels.

The work to rework and tighten Operations management and admin structures is ongoing, and is critical to get right.

Nevertheless, the current spend level is unsustainable given the Trust’s plan commitments, which hold management and admin spending reduction to the trustwide savings rate of 4%.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Clinical Non Pay: YTD Pressure: £0.50m:**

The increase in clinical supplies spend witnessed over Q1 continued into July resulting in the highest spend seen in the last seven months. Activity levels have not across all services reached plan levels so does not correlate with the level of expenditure witnessed in full.

Surgery and Critical Care still accounts for the majority of the total variance, with both general and orthopaedic implant costs standing out as variance outliers. In terms of implants, the savings plan for prosthesis standardisation is still to be agreed by clinicians.

**Other Non Pay: YTD Pressure: £0.33m:**

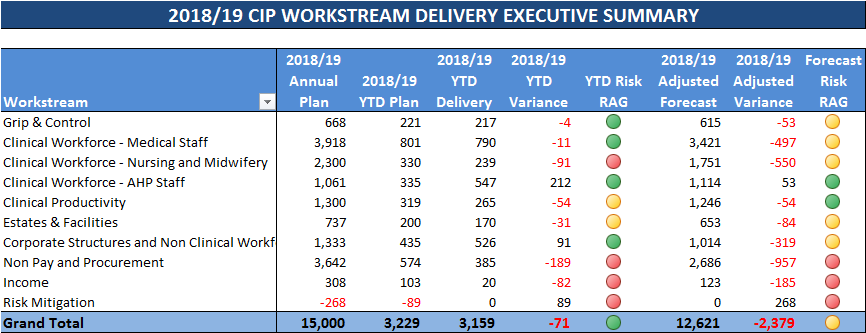
Though additional costs for imaging outsourced capacity has driven a £0.38m overspend as outlined previously, and estates maintenance pressures have further deteriorated resulting in a £0.23m overspend on premises costs, other underspending on non pay have continued to mitigate pressures.

The possibility for further pressure later in the year on energy, maintenance, IM&T, consultancy support and bought in capacity do mean that current underspends cannot be taken for granted, however.

**Savings Plan:**

Savings delivery has now marginally fallen behind plan for the year to date overall as the savings requirments start to increase as planned. Shortfalls on non pay projects (primarily through the delay on agreeing the Orthopaedic Prosthesis changes) and Nurse Staffing controls providing the key adverse variances.

However, the previous crude risk adjusted view of full year delivery has been replaced with forecast savings delivery that is mapped closely to proposed actions and known interventions specifically those linked to Recruitment and Retention inititiaves within Medical Staffing and the New Deal for Nursing. These interventions are still not without risk and will require close monitoring and corrective actions if they fail to materilaise as currently forecast.



The main areas for action through the savings programme remain as;

* Re-focus activity on nursing workforce, making the most of the “New Deal” ideas;
* Re-mobilise the medical staffing workstream, to provide a tighter project management grip for these project areas;
* Reinforce the procurement team (ongoing), and develop better linkages with management teams and clinicians on non pay savings projects.

These are all esential areas for immediate action.

**“GIRFT” Savings:**

The Trust plan includes £1.3m of late year savings from GIRFT and Strategic Review changes to services. This was explicitly a speculative figure – the underpinning scoping work has not been completed (and the trust has always maintained will be completed by the end of September at best). This target does though have to be borne in mind as “additional” savings required if we are to fully hit plan.

**Technical Balance Sheet Release Programme:**

Last year the Trust supported savings with £4.8m of support from Balance Sheet review and releases.

This year, no material support is available through this route – though at for the opening four month period, a total of £0.10m had been released from residual provisions.

**5. Budgetary Management - Overview:**

The summary table highlights budget variances by area, reconciled to the variance on I&E:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Annual Budget** | **YTD Budget** | **YTD Actual** | **Variance Fav/(Adv)** |
|  | **£m** | **£m** | **£m** | **£m** |
| **Central Income:** |  |  |  |  |
| NHS Clinical Income | 324.32 | 104.43 | 102.26 | (2.18) |
| Other Clinical Income | 1.60 | 0.53 | 0.67 | 0.14 |
| Education Income | 8.45 | 2.93 | 2.98 | 0.05 |
| Other Agreement Income | 4.43 | 1.46 | 1.46 | (0.01) |
| Other Income | 0.11 | 0.04 | 0.02 | (0.02) |
| **Total Central Income** | 338.92 | 109.39 | 107.38 | (2.01) |
| **Corporate Directorates:** |  |  |  |  |
| Trust Management | (0.83) | (0.29) | (0.28) | 0.01 |
| Medical Director's Office | (2.90) | (1.02) | (0.96) | 0.06 |
| Governance and Performance Assurance | (1.43) | (0.48) | (0.44) | 0.04 |
| Finance and Procurement | (3.74) | (1.24) | (1.16) | 0.09 |
| Human Resources | (4.21) | (1.41) | (1.47) | (0.06) |
| Chief Nurse's Office | (3.78) | (1.22) | (1.27) | (0.05) |
| Strategy and Planning | (8.02) | (2.61) | (2.61) | (0.00) |
| **Total Corporate Directorates** | (24.90) | (8.26) | (8.19) | 0.07 |
| **Facilities Management & Soft Services:** |  |  |  |  |
| Facilities Management | (0.56) | (0.19) | (0.18) | 0.00 |
| Estates Services | (9.25) | (2.97) | (3.19) | (0.22) |
| Commercial Services | (0.52) | (0.17) | (0.20) | (0.03) |
| Compliance | (0.53) | (0.14) | (0.13) | 0.01 |
| Facilities Services | (13.44) | (4.47) | (4.62) | (0.15) |
| **Facilities Management & Soft Services** | **(24.30)** | **(7.94)** | **(8.33)** | **(0.39)** |
| **Operations:** |  |  |  |  |
| Operations Directorate | (4.07) | (1.94) | (2.02) | (0.08) |
| Surgery & Critical Care | (75.08) | (25.19) | (26.19) | (1.00) |
| Medicine | (98.37) | (33.48) | (34.70) | (1.22) |
| Women & Childrens Services | (35.55) | (11.78) | (11.88) | (0.09) |
| Therapy & Community Services | (26.12) | (8.57) | (8.52) | 0.06 |
| Clinical Support Services incl Pathlinks | (51.60) | (17.26) | (17.45) | (0.19) |
| **Total Operations** | (290.78) | (98.22) | (100.75) | (2.53) |
| **Corporate & Capital Charges:** |  |  |  |  |
| Corporate and Capital Charges Budgets: | (24.12) | (9.35) | (9.30) | 0.05 |
| Trust Earmarked Reserves Not Yet Drawn | (6.12) | (1.39) | 0.00 | 1.39 |
| **Total Corporate & Capital Charges** | **(30.23)** | **(10.74)** | **(9.30)** | **1.44** |
| **TRUST TOTAL** | **(31.29)** | **(15.77)** | **(19.18)** | **(3.41)** |

**Operations Directorate - Surgery and Critical Care:**

The Division is overspent at M04 by £998k (4.0%) The overall breakdown of the Division’s position by spend category is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure Category** | **YTD Budget £000s** | **YTD Actual £000s** | **Variance £000s** |
| Clinical Supplies & Services | 3,306.7 | 3,852.7 | (546.1) |
| Medical Staff | 9,102.5 | 9,494.2 | (391.7) |
| Drugs | 1,829.4 | 1,925.4 | (96.0) |
| Admin & Clerical Staff | 1,541.4 | 1,635.0 | (93.5) |
| Premises and Fixed Plant | 25.3 | 33.3 | (7.9) |
| Purchase of Healthcare Services | 214.7 | 220.1 | (5.4) |
| General Supplies & Services | 190.1 | 191.4 | (1.3) |
| Miscellaneous Expenditure | 0.0 | 1.2 | (1.2) |
| Non Patient Care Contracts & Agreements | (7.1) | (6.1) | (0.9) |
| Education Expenditure | 15.4 | 13.4 | 2.0 |
| Support Staff | 60.6 | 57.4 | 3.2 |
| Establishment Expenses | 79.4 | 59.6 | 19.8 |
| Scientific, Therapeutic & Technical Staff | 1,007.3 | 974.7 | 32.6 |
| Nursing Staff | 7,829.1 | 7,740.5 | 88.6 |
| **Total** | **25,194.8** | **26,192.8** | **(998.0)** |

Material variances are:

**Medical Staffing:**

* Ophthalmology additional activity: £157k (business case not approved by Ops)
* General Surgery vacancy cover: £166k (extended capacity and premium cost)
* ENT vacancy cover: £141k
* Division anticipates £242k of YTD WLI funding – if approved

**Admin and Management:**

* Management Team – Interim premia: £98k (to be managed out through restructure)

**Clinical Non Pay:**

* Drugs spend – Ophthalmology: £44k
* Drug spend – Theatres: £15k
* Drug spend – General Surgical: £32k
* Orthopaedic Implants: £205k (savings slippage)
* Ophthalmic Implants: £58k (business case not approved by Ops)
* Theatres consumables: £304k (activity driven)

**Savings Delivery - Major Variances:**

* Procurement Programme Slippage: £1774k

**Operations Directorate – Medicine:**

The Division is overspent by £1.22m - 3.6%. Expenditure category breakdown is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure Category** | **YTD Budget £000s** | **YTD Actual £000s** | **Variance £000s** |
| Medical Staff | 8,557.7 | 9,483.0 | (925.3) |
| Nursing Staff | 11,463.9 | 11,693.4 | (229.5) |
| Admin & Clerical Staff | 1,751.0 | 1,807.0 | (55.9) |
| Clinical Supplies & Services | 1,518.2 | 1,535.7 | (17.5) |
| Drugs | 8,807.5 | 8,823.9 | (16.3) |
| Scientific, Therapeutic & Technical Staff | 311.8 | 327.3 | (15.5) |
| Establishment Expenses | 64.3 | 67.3 | (3.0) |
| Premises and Fixed Plant | 56.9 | 57.0 | (0.1) |
| Education Expenditure | 10.9 | 10.9 | 0.0 |
| Miscellaneous Expenditure | 10.4 | 8.1 | 2.3 |
| Services From Other NHS Bodies | 318.1 | 313.0 | 5.2 |
| General Supplies & Services | 160.2 | 146.7 | 13.5 |
| Purchase of Healthcare Services | 447.9 | 424.5 | 23.5 |
| **Total** | **33,479.0** | **34,697.6** | **(1,218.6)** |

Major Variances:

**Medical Staffing:**

* A&E vacancy cover: £163k;
* Acute Medicine vacancy cover: £244k;
* Cardiology vacancy cover: £143k;
* Goole cover: £163k.
* WLI funding of £134k anticipated (endoscopy, neurology) if approved.

**Nursing:**

* SGH Ward vacancies: £50k;
* GDH Vacancies: £35k
* DPoW Escalation Beds: £62k;
* DPoW A&E: £51k;
* ACP’s £79k
* Offset by specialist nurse vacancies

**Admin and Management:**

* Management Team premium: £55k

**Savings Delivery – Material YTD Variances:**

* CNS Nurse shifts not implemented: £81k;
* Agency Management – Med staffing: £82k.

**Operations Directorate – Women and Children’s Services:**

The Division are overspent by £93k (0.8%), broken down as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure Category** | **YTD Budget £000s** | **YTD Actual £000s** | **Variance £000s** |
| Medical Staff | 3,235.6 | 3,315.3 | (79.7) |
| Establishment Expenses | 77.4 | 92.6 | (15.2) |
| Nursing Staff | 6,478.1 | 6,483.6 | (5.4) |
| Purchase of Healthcare Services | 87.6 | 91.3 | (3.7) |
| Premises and Fixed Plant | 27.6 | 30.5 | (2.9) |
| Miscellaneous Expenditure | 0.0 | 2.8 | (2.8) |
| General Supplies & Services | 44.0 | 45.1 | (1.1) |
| Education Expenditure | 8.1 | 8.0 | 0.0 |
| NHS Clinical Income | (0.5) | (0.5) | 0.0 |
| Other Income | (2.0) | (2.7) | 0.7 |
| Admin & Clerical Staff | 849.0 | 848.1 | 0.9 |
| Drugs | 378.3 | 372.0 | 6.3 |
| Clinical Supplies & Services | 599.3 | 589.3 | 10.0 |
| **Total** | **11,782.5** | **11,875.4** | **(93.0)** |

Material Variances:

**Medical Staffing:**

* Gynaecology: £35k
* Maternity: £29k

**Nursing and Midwifery:**

* Maternity: £98k
* Offset by Paediatric underspends

**Establishment Expenses:**

* Travel costs £10k

**Savings Delivery – Material Variances:**

* Nursing/Midwife Recruitment: £26k
* Agency Management – med staffing: £31k

**Operations Directorate – Clinical Support Services including Pathlinks:**

The Directorate is £194k overspent (1.1%), with the following expenditure breakdown:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure Category** | **YTD Budget £000s** | **YTD Actual £000s** | **Variance £000s** |
| Medical Staff | 2,122.6 | 2,243.0 | (120.4) |
| Non Patient Care Contracts & Agreements | (4,264.4) | (4,183.7) | (80.7) |
| Purchase of Healthcare Services | 2,100.8 | 2,177.0 | (76.3) |
| Clinical Supplies & Services | 4,382.5 | 4,434.2 | (51.6) |
| Establishment Expenses | 214.0 | 244.2 | (30.2) |
| Nursing Staff | 1,627.4 | 1,650.6 | (23.3) |
| Other Income | (39.5) | (29.6) | (9.9) |
| General Supplies & Services | 162.1 | 167.4 | (5.2) |
| Chargeable Patients Income | (159.2) | (154.8) | (4.4) |
| Education Income | (3.4) | (0.0) | (3.4) |
| R&D Income | (28.0) | (28.0) | 0.0 |
| Miscellaneous Expenditure | 36.9 | 36.7 | 0.2 |
| Support Staff | 6.4 | 6.1 | 0.3 |
| Services From Other NHS Bodies | 283.1 | 277.5 | 5.6 |
| Education Expenditure | 21.9 | 14.0 | 8.0 |
| Admin & Clerical Staff | 2,196.7 | 2,181.1 | 15.5 |
| Drugs | 460.2 | 429.3 | 31.0 |
| Premises and Fixed Plant | 282.8 | 246.0 | 36.8 |
| Scientific, Therapeutic & Technical Staff | 7,854.6 | 7,740.3 | 114.2 |
| **Total** | **17,257.4** | **17,451.4** | **(194.0)** |

**Medical Staffing:**

* Imaging vacancy cover: £137k;

**Income:**

* Pathology Activity Backlog: £101k;

**Purchase of Healthcare Services:**

* Imaging capacity: £47k
* Pathology External Referrals: £32k

**Clinical Non Pay:**

* Blood Sciences and Cellular Pathology: £138k
* Offset by Microbiology underspend: £98k

**Establishment Expenses:**

* Stationary: £20k

**Savings Delivery – Material Variances:**

* AHP Vacancies: £89k Positive

**Operations Directorate – Therapy and Community Services:**

The Division is underspent by £56k, as broken down below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure Category** | **YTD Budget £000s** | **YTD Actual £000s** | **Variance £000s** |
| NHS Clinical Income | (686.4) | (570.5) | (115.9) |
| Other Income | (5.2) | (0.4) | (4.9) |
| Purchase of Healthcare Services | 26.8 | 30.1 | (3.3) |
| Education Income | (34.8) | (32.3) | (2.5) |
| Clinical Supplies & Services | 727.4 | 728.7 | (1.3) |
| General Supplies & Services | 26.6 | 27.0 | (0.5) |
| Education Expenditure | 12.4 | 12.2 | 0.2 |
| Other Establishment Costs | 5.9 | 5.2 | 0.7 |
| Miscellaneous Expenditure | 1.2 | 0.0 | 1.2 |
| Premises and Fixed Plant | 61.8 | 59.1 | 2.7 |
| Admin & Clerical Staff | 915.7 | 904.5 | 11.2 |
| Drugs | 67.0 | 55.6 | 11.5 |
| Establishment Expenses | 283.6 | 270.4 | 13.2 |
| Nursing Staff | 2,654.7 | 2,631.6 | 23.1 |
| Support Staff | 191.8 | 166.6 | 25.2 |
| Medical Staff | 360.4 | 327.7 | 32.6 |
| Scientific, Therapeutic & Technical Staff | 3,964.1 | 3,901.4 | 62.7 |
| **Total** | **8,572.9** | **8,516.9** | **56.0** |

Material variances:

**NHS Clinical Income:**

* NRC Goole – Core bed base and also expansion income slippage: £115k
* Partly offset by vacancies held for expansion

**Staffing (cross Division and groups):**

* Vacancies held: £155k Positive

**Savings Programme – Material Variances:**

* NRCG Expansion Income: £82k

**Estates and Facilities**

The Directorate is £389k over budget, equivalent to 4.9% of expenditure allocation. The breakdown across the Directorate is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Subdirectorate** | **YTD Budget £000s** | **YTD Actual £000s** | **Variance £000s** |
| Estates Services | 2,973.2 | 3,193.0 | (219.8) |
| Facilities Services | 4,469.6 | 4,618.3 | (148.7) |
| Commercial Services | 172.8 | 202.2 | (29.4) |
| Facilities Management | 185.8 | 183.3 | 2.5 |
| Compliance | 139.1 | 132.7 | 6.4 |
| **Total** | **7,940.5** | **8,329.6** | **(389.1)** |

The equivalent expenditure category breakdown is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure Category** | **YTD Budget £000s** | **YTD Actual £000s** | **Variance £000s** |
| Premises and Fixed Plant | 3,338.0 | 3,623.9 | (285.9) |
| Support Staff | 3,458.4 | 3,550.4 | (92.0) |
| Car Parking Income | (765.5) | (699.4) | (66.1) |
| Establishment Expenses | 392.3 | 411.9 | (19.6) |
| Miscellaneous Expenditure | 38.8 | 53.8 | (15.0) |
| Other Income | (26.7) | (16.1) | (10.6) |
| Scientific, Therapeutic & Technical Staff | 181.2 | 182.5 | (1.3) |
| Non Patient Care Contracts & Agreements | (15.6) | (15.4) | (0.3) |
| Other Establishment Costs | 0.9 | 0.6 | 0.3 |
| Purchase of Healthcare Services | 10.2 | 9.8 | 0.4 |
| Clinical Supplies & Services | 1.6 | 0.6 | 0.9 |
| Education Expenditure | 9.4 | 7.7 | 1.7 |
| Catering Income | (7.7) | (10.2) | 2.5 |
| Rental Income | (550.9) | (557.9) | 7.0 |
| Admin & Clerical Staff | 498.7 | 487.1 | 11.7 |
| General Supplies & Services | 912.6 | 894.1 | 18.5 |
| Maintenance Staff | 464.9 | 406.1 | 58.8 |
| **Total** | **7,940.5** | **8,329.6** | (**389.1)** |

Material variances:

* Car Parking Income (shortfall/Northside permits): £66k;
* Rent recharges £49k;
* Support Staff (HSA costs) £92k;
* Utilities: £94k;
* Building and Equipment Maintenance £151k;

**Savings Delivery – Material Variances:**

* Car Parking Income: £66k;
* Estates rationalisation: £32k;

**Corporate Directorates:**

The budgetary position of Corporate Directorates is shown below – overall variances from budget are £75k underspent:

|  |  |  |  |
| --- | --- | --- | --- |
| **Directorate** | **YTD Budget £000s** | **YTD Actual £000s** | **Variance £000s** |
| Trust Management | 288.1 | 275.9 | 12.2 |
| Medical Directors Office | 1,018.2 | 959.8 | 58.4 |
| Chief Nurses Office | 1,219.6 | 1,271.1 | (51.5) |
| Finance | 1,241.6 | 1,156.5 | 85.0 |
| Governance | 478.7 | 443.1 | 35.6 |
| Directorate of People and OE | 1,407.6 | 1,469.3 | (61.7) |
| Strategy & Planning | 2,608.7 | 2,612.2 | (3.5) |
| **Total** | 8,262.5 | 8,188.0 | 74.5 |

Material variances:

**Directorate of People and OE:**

* Staffing costs: £18k;
* CRB checks: £27k;

**Chief Nurse Office:**

* Income shortfalls: £16k;
* Staffing costs: £25k

Savings delivery is reflected in the budget envelopes set for Corporate Directorates.

**6. Capital Programme:**

Capital expenditure is now only slightly behind plan, as the Residencies scheme now nears completion.

However, capital creditors remain high, this is helping mitigate the cashflow position – until the programme and creditor levels get back on track and the additional funding required for the Residencies is confirmed.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Current Full Year Plan** | **YTD Plan** | **YTD Actual** | **YTD Variance** |
| **£mil** | **£mil** | **£mil** | **£mil** |
| **Major Schemes** |  |  |  |  |
| Major Equipment Replacement | 2.29 | 0.13 | 0.04 | (0.09) |
| DPoW Reconfiguration Programme | 1.19 | 0.84 | 0.85 | 0.01 |
| SGH & GDH Reconfiguration Programme | 0.88 | 0.30 | 0.04 | (0.26) |
| DPOW Estates Rationalisation | 0.71 | 0.71 | 0.39 | (0.32) |
| Residences Development | 10.08 | 6.20 | 6.60 | 0.40 |
|  |  |  |  |  |
| Facilities Maintenance Programme | 1.58 | 0.14 | 0.18 | 0.04 |
| IM&T Programme | 1.70 | 0.05 | 0.04 | (0.01) |
| Equipment Renewal Programme | 1.64 | 0.19 | 0.17 | (0.02) |
|  |  |  |  |  |
| Donated | 1.34 | 0.09 | 0.00 | (0.09) |
| **Capital Programme Total** | **21.40** | **8.65** | **8.31** | **(0.34)** |
| Net Shift In Capital Creditors | 3.48 | (0.98) | (1.14) | (0.17) |
| **Total Cash Impact Of Investment programme** | **(17.92)** | **7.67** | **(9.45)** | **(0.50)** |

Current priorities for capital outside the original programme include expansion of NRC at Goole, bed replacement, hoist replacement, and endoscopy equipment. Pressure on the programme to meet all of the demands would exceed £1.0m.

The Trust is pursuing all avenues to secure additional capital, for these pressures, for the scanner replacement programme, for the DPoW ward refurbishment programme, and to commence the reconfiguration of accommodation on the SGH site. At this point no additional funds are confirmed.

**7. Balance Sheet, Cash and Working Capital:**

The balance sheet summary is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Last Month** | **This Month** | **Variance From Plan** |
| **£mil** | **£mil** | **£mil** |
| **Total Fixed Assets** | **162.84** | **166.05** | **(0.02)** |
| Stocks & WIP | 2.62 | 2.70 | (0.02) |
| Debtors | 17.95 | 16.88 | 0.77 |
| Prepayments | 3.28 | 4.75 | 0.66 |
| Cash | 10.13 | 11.96 | 10.07 |
| **Total Current Assets** | **33.99** | **36.30** | **11.48** |
| Creditors : Revenue | 31.49 | 33.20 | 7.55 |
| Creditors : Capital | 2.25 | 3.87 | (0.17) |
| Accruals | 15.70 | 16.87 | 7.28 |
| Deferred Income | 0.19 | 0.29 | 0.17 |
| Finance Lease Obligations | 0.03 | 0.03 | (0.01) |
| Loans < 1 year | 1.43 | 1.43 | 0.00 |
| Provisions | 1.07 | 1.10 | 0.21 |
| **Total Current Liabilities** | **52.17** | **56.88** | **15.04** |
|  |  |  |  |
| **Net Current Assets/(Liabilities)** | **(18.18)** | **(20.58)** | **(3.57)** |
| Debtors Due > 1 Year | 0.00 | 0.00 | 0.00 |
| Creditors Due > 1 Year | 0.00 | 0.00 | 0.00 |
| Loans > 1 Year | 130.39 | 135.00 | (0.18) |
| Finance Lease Obligations > 1 Year | 0.00 | 0.00 | 0.00 |
| Provisions - Non Current | 4.70 | 4.70 | 0.00 |
| **TOTAL ASSETS/(LIABILITIES)** | **9.58** | **5.74** | **(3.41)** |
| **TOTAL CAPITAL & RESERVES** | **9.58** | **5.74** | **(3.41)** |

* NHS debtors continued to improve in month but still remain high – but contracting agreements are moving forward to encourage cleaner and quicker payments.
* Cash levels on the face of it appear comfortable, but with much of this cash balance set aside for capital commitments, little is available for creditor payments which are now at an unacceptably high level. As loan drawdowns can only be in line with planned deficit levels this is further compounding the strain on Creditor balances. The Trust has applied for exceptional working capital to help reduce its creditor balances.
* Loans levels continue to increase, with the linked interest burden.

The balance sheet reflects the dependence on external support to maintain operations.

**8. Reserve Drawings and Financial Plan Changes:**

The Trust plan included specific earmarked reserves. The original planning assumptions have been adjusted for the following:

* Pay and Inflation Reserve has been increased by £4.01m following the recently agreed Agenda for Change Pay Awards which is income backed.
* Activity Reserve has been reduced by £0.83m following the 20th June plan resubmission to which reduced the initial Winter Resilience envelope linked to improved length of stay and reduced dependence of escalation beds
* Non Clinical Investments has been increased by £0.66m linked to additional support requirements to deliver additional savings above the Core £15.0m programme relating to Service transformation and GIRFT programmes.

Commitments made against these reserves are monitored closely, to identify potential risks early. Also, a transparent reporting process supports effective sign off of material changes to plan by the Trust Management Board.

The table below shows the current clinical and non-clinical investments committed or forecast:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Adjusted Opening Value** | **Pay and Inflation:** | **Activity Above Outturn:** | **Clinical Investments** | **Non-Clinical Investments** | **Total** |
| **14,584.6** | **7,419.5** | **1,210.0** | **1,738.0** | **24,952.1** |
|  |  |  |  |  |  |
| **Total Commitments** | **(16,128.8)** | **(7,262.8)** | **(1,174.4)** | **(2,303.1)** | **(26,869.1)** |
|  |  |  |  |  |  |
| **Surplus/Deficit** | **(1,544.2)** | **156.7** | **35.6** | **(565.1)** | **(1,917.0)** |
|  |  |  |  |  |  |
| **Recurrent Surplus/Deficit** | **(1,544.2)** | **287.5** | **(207.9)** | **426.1** | **(1,038.5)** |
|  |  |  |  |  |  |
| **Further Requests (PYE)** | **0.00** | **0.00** | **(403.0)** | **(282.4)** | **(685.4)** |

The overall reserve position is currently overcommitted in year – with non recurrent suggested expenditure proposals exceeding the Non Clinical Investment reserve by £0.57m. This will need to be addressed through tight prioritisation of commitments by Trust Management Board.

Some offset is currently available from the clinical investment reserve, but at this stage of the year there remains a significant risk that additional commitments will emerge.

Inflation and pay reserves are overcommitted primarily linked to forecast Interest payment pressures above plan.

Activity and capacity reserves are currently assumed fully committed, subject to finalising the remaining business cases for capacity and variable costs and Winter resilience requirements.

In addition to the already committed investments, additional Business Cases have also been presented for further consideration. These will need to be reviewed as part of the prioritisation process.

**9. Financial Special Measures:**

The current month four year end forecast deficit of £47.0m will currently not deliver the Trusts planned deficit of £31.3m. After excluding the Provider Sustainability funding variance of £7.2m the Trust would still be adrift of the control total by £8.5m. This would represent deterioration in headline year on year deficit which would make it extremely difficult to exit Financial Special Measures.

To re-cap from last month;

Though full achievement of this plan would not be an essential prerequisite to exiting FSM, improving on last year’s equivalent deficit of £43.0m would be – it is hard for a regulator to remove an organisation from FSM whilst it has a still deteriorating financial position.

The key factors are therefore likely to be:

1. Does our end of year forecast deficit remain ahead of £43.0m for 2018/19?
2. Have we improved our position to demonstrate at least 6 months of delivery in line with plan?
3. Do NHSI have confidence we have a grip on all the key financial issues?

In terms of the last point, the most critical issues facing the Trust are:

* Robust activity and capacity plans, demonstrated by significantly improved planned care activity delivery;
* A material improvement on the management of agency and locum costs across clinical care;
* A robust non pay/procurement savings programme, delivering material savings month by month;
* Continued control over non clinical staffing and discretionary spend costs.

There are signs of significant improvements in planned care throughput which are starting to demonstrate both stabilisation of Waiting Lists and improved Income flows. It will be critical to protect planned care through the remainder of the year and continue to improve productivity and build capacity where we still have shortfalls.

In terms of expenditure, the most critical area of potential risk remains clinical staffing. The savings targets in this area for the remainder of the year are challenging but deliverable given the control improvements that can be made by following through the key recommendations from the NHSI temporary staffing team.

The Trust must also maintain discipline on non clinical staff spend and non pay.

**10. Conclusion:**

The Trust can now see the storylines for 2018/19 emerging, and there is still significant work to do to deliver assurance that a reasonable outturn can be delivered in 2018/19. The main year to date variances are still recoverable at this point of the year.

Activity and income monitoring has now been established but will require further refinement and is compromised by coding backlogs, so a totally robust picture is not yet available. It is critical that this is corrected as planned.

Evidence we now have does suggest that significant planned care activity improvement has been delivered, that underlying demand across urgent and planned care is now ached of the Trust’s and therefore Commissioner projections. The primary risk therefore is the pace at which productivity and capacity improvements can be delivered to continue to tackle waiting lists. Looking further forward, we also need to ensure that planned care activity is better protected through the winter.

Waiting list control remains the primary objective – linked to effective management of clinical harm risks. Income projections should be delivered if the necessary waiting list and times objectives are hit. Early signs are that Waiting lists are holding stable so far.

QUIPP remains a risk to Trust income, but a net benefit to the wider health economy. The trust therefore must support QUIPP schemes which adopt better streamlined pathways.

Expenditure controls across clinical pay areas will need to be sufficiently improved if the savings plan is to be delivered. Re-focussing efforts on the critical risks highlighted by the NHSI temporary staffing review for both Medical staff, Nursing and AHP staff groups.

Non pay savings targets still have huge opportunity for in year delivery. The rebuilding management teams, and clinical leaders, are showing enthusiasm to get more engaged – we need to build on this quickly.

Underpinning financial performance in year is the longer term strategic and workforce redesign process which is taking shape as part of the Humber Review. This will set the groundwork for a more sustainable service framework for NLAG.

**Marcus Hassall**

**Director of Finance**

**August 2018**

**Appendix I: Corporate Finance Information Pack:**

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**Appendix II: Reserves Summary:**

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**Appendix III: Summary Report Submitted to NHSI:**

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