

Board of Directors (Public)

Item 5.3

Subject: Quarter 3 Monitor return
Date of meeting: 25th January 2016
Prepared by: Ian Cartwright, Head of Financial Accounts
Presented by: David Jago, Chief Financial Officer

BAF Ref	Impact on BAF risk Rating
6	n/a

1. Executive Summary

This paper incorporates the third quarter's narrative report to accompany the quarter three performance report to Monitor. The Board of Directors are asked to note the content of the report and recommend approval for submission to Monitor.

2. Background

The Board of Directors approved the financial plan for 2015/16 as part of the operational plan presented at the March 2015 Board meeting that was subsequently submitted to Monitor.

3. Issues

The Trust has delivered an overall Financial Sustainability Risk Rating (FSRR) of 3 at the end of quarter two, driven by the year to date reported deficit of £0.906m. In terms of the respective metrics Capital Service Cover is behind plan at 3, liquidity is behind plan at 2, I&E Margin rating is on plan at 2 and the I&E Margin variance is on plan at 3.

The Governance Rating is also on plan and reported as Green for the end of the third quarter. RTT for 18 weeks in aggregate in respect of incomplete pathways is below plan at 90.0% and therefore non-compliant in quarter three due to failure of target in December.

A year to date net deficit has been reported of (£0.906m), £0.874m above the plan figure of (£0.032m). This is driven largely by underperformance against activity, combined with below plan performance against CIP targets totalling £0.781m to the end of quarter three and the impact of premium pay costs in respect of agency and waiting list initiatives.

The liquidity rating is behind plan at 2 compared to plan of 3, with liquid days 0.9 behind plan; cash balances at quarter three are reported as £0.031m below plan.

4. Conclusion

The key risk indicators, set out under the Risk Assessment Framework are being met at the end of the third quarter of 2015/16, despite not all of the individual metrics being on plan.

5. Recommendations

The Board of Directors are asked to consider and approve submission of the quarter three return ahead of the submission deadline to Monitor of 29th January 2016.

1.0 Overview Year To Date (YTD) Performance

- 1.1** The Trust's financial performance to 31st December 2015, delivers a capital service cover rating of 3, a liquidity rating of 2, I&E margin rating of 2 and an I&E margin variance rating of 3. These ratings are combined and weighted to give an overall Financial Sustainability Risk Rating (FSRR) of 3 which is on plan at the end of the quarter, despite some individual metrics falling below plan. It should be noted that the overall rating which can be achieved by the Trust is capped so that if the Trust scores a "1" on any metric except variance in capital expenditure, the overall rating will be capped at a 2. The Trust income & expenditure margin (-0.99%) is at the lowest level it can be without triggering this cap (-1.00%) – which would in turn lower the overall FSRR metric to a 2.
- 1.2** Inpatient activity (NHS) is below plan cumulatively to the end of December by 48 spells (4.32%). For the year to date, Cardiology is below plan by 16 spells (2.11%), with below plan performance on catheters, EPS, pacing and respiratory activity being partly offset by above plan performance against angioplasty and cardiac disorders. Surgery is below plan cumulatively by 37 spells (11.93%), with under performance on thoracic surgery, cardiac surgery and upper GI.
- 1.3** The financial performance for the year to date is a net deficit of (£0.906m), which compares to a planned net deficit of (£0.032m).
- 1.4** The closing cash position for quarter three is £7.495m and is marginally below plan by (£0.031m). This is driven largely by adverse operating cashflows, offset by favourable working capital movements and capital investment.

2.0 Comments on the Statement of Comprehensive Income (SoCI)

- 2.1** Table 1 below summarises the high level SoCI variances against plan.

Table 1: Key SoCI Variances by Category

SoCI Variances: Actual vs Plan	Qtr 1 (Apr - Jun)	Qtr 2 (Jul - Sep)	Qtr 3 (Oct - Dec)	Qtr 4 (Jan - Mar)	YTD Variance	In Quarter Variance	YTD Variance
Operating Revenue for EBITDA Variance	-0.487	-0.220	1.097		0.391	Favourable	Favourable
Pay Variance	-0.094	-0.267	-0.438		-0.799	Adverse	Adverse
Non Pay - Direct Costs Variance	-0.132	-0.045	-0.537		-0.714	Adverse	Adverse
Non Pay - Overheads Variance	0.455	-0.224	-0.164		0.067	Adverse	Favourable
EBITDA Variance	-0.258	-0.756	-0.041	0.000	-1.056	Adverse	Adverse
Operating Expenses excluded from EBITDA	0.000	0.043	0.080		0.123	Favourable	Favourable
Non Operating Income	0.001	-0.001	-0.001		-0.001	Adverse	Adverse
Donations and Grants received	0.140	-0.015	-0.023		0.101	Adverse	Favourable
Non Operating Expenses	0.004	-0.033	-0.013		-0.041	Adverse	Adverse
Net Surplus/(Deficit) Variance	-0.113	-0.762	0.001	0.000	-0.874	Favourable	Adverse

- 2.2** The Trust has reported a surplus in the quarter of £0.147m, which compares to a planned surplus of £0.145m, resulting in a balanced variance.
- 2.3** Operating revenue for the purposes of calculating EBITDA is **£1.097m** favourable in the quarter at £31.623m set against a plan of £30.525m and is discussed in more detail in the following paragraphs.
- NHS Clinical Revenue is above plan by **£0.763m** for the quarter at £28.475m compared to a plan of £27.712m.

- Private patient revenue is **(£0.118m)** below plan for the quarter at £0.871m compared to a plan of £0.989m.
- Other Operating Revenue is above plan in the quarter by **£0.430m** at £2.278m compared to a plan of £1.848m.

2.4 Total pay costs are above plan by **(£0.438m)** for quarter three at £16.891m compared to a plan of £16.453m. Substantive pay costs were behind plan by **£0.326m** in quarter three, at £16.116m against a plan of £16.442m. At the end of December, there were 95.91WTE vacancies, which are being covered at premium rates with locum and agency spend in the quarter above plan by **(£0.764m)**, totalling £0.775m against the planned figure of £0.011m.

There is an adverse variance against pay CIP schemes to quarter one at £0.463m, with slippage against job planning and sickness review schemes.

2.5 Direct non-pay costs are **(£0.537m)** adverse for the quarter at £10.784m compared to a plan of £10.247m despite activity underperformance, reflecting changes in casemix.

- There is an adverse variance on drugs expenditure of **(£0.189m)** in quarter three. This is driven by activity, with increases in pass through costs such as Ivacaftor, which will be offset by increases in clinical income.
- Clinical supplies are **(£0.285m)** above plan in the quarter. This is driven by activity and case mix performance.
- General supplies costs are **(£0.062m)** above plan in the quarter.

2.6 Operating expenses (excluded from EBITDA) are **£0.080m** favourable for the quarter at (£1.319m). This is driven largely by slippage on the profiling of the capital schemes, which is resulting in lower than planned depreciation.

3.0 Comments on the Statement of Financial Position (SoFP)

3.1 The table which follows summarises high level SoFP variances against plan:

Table 2: Key SoFP Variances by Category

SoFP Variances: Actual vs Plan	Qtr 1 (Apr - Jun)	Qtr 2 (Jul - Sep)	Qtr 3 (Oct - Dec)	Qtr 4 (Jan - Mar)	YTD Variance	In Quarter Variance	YTD Variance
Non Current Assets	-0.133	-0.044	-0.672		-0.848	Adverse	Adverse
Current Assets	1.499	-0.084	-1.112		0.304	Adverse	Favourable
Current Liabilities	-1.476	-0.637	1.787		-0.326	Favourable	Adverse
Non Current Liabilities	-0.004	0.001	-0.003		-0.005	Adverse	Adverse
Total Assets Employed	-0.113	-0.763	0.001	0.000	-0.874	Favourable	Adverse
Retained Earnings	-0.113	-0.763	0.003		-0.873	Favourable	Adverse
Revaluation Reserve	0.000	0.000	-0.002		-0.002	Adverse	Adverse
Public Dividend Capital	0.000	0.000	0.000		0.000	Favourable	Favourable
Total Taxpayers Equity	-0.113	-0.763	0.001	0.000	-0.874	Favourable	Adverse

3.2 Non-Current assets are **£0.848m** below plan to the end of quarter two which is largely due to:

- The capital programme is underspent year to date by **(£0.953m)** against an original plan of £3.881m;
- Depreciation is below plan by **£0.123m**.

3.3 Current assets are **£0.304m** above plan at the end of quarter three, the key variances include:

- 3.3.1** Inventories are **£0.292m** above plan, mainly within Cath Labs, Theatres and Pharmacy reflecting which is largely as a result of lower than planned activity, combined with stocking up over the holiday period.
- 3.3.2** NHS Trade receivables are **(£1.269m)** behind plan. The level of aged debt with RLBUHT has now been significantly reduced. This also includes an offsetting below plan variance for the reversal of impaired receivable of £0.543m.
- 3.3.3** Non NHS receivables are **£0.585m** above plan. This is largely relates to invoices amounts owed by Welsh Commissioners £0.499m. Work continues to reduce the levels of aged debt with Private Medical Insurance companies back in line with the target of 5% by the end of quarter four.
- 3.3.4** Other receivables are **£0.273m** above plan, relating to amounts due to be transferred from Charitable Funds, amounts due from the ICMS Joint Venture, VAT reclaims and amounts remaining on salary sacrifice schemes.
- 3.3.5** Current prepayments are above plan by **£0.528m**, at £1.203m compared to plan of £0.675m. The variance is due to differences in the timing of maintenance contract invoices for 2015/16.
- 3.3.6** Impairment of receivables has reduced by **£0.543m** following the agreement of the year end settlement with NHS England at £0.575m, the provision was released in quarter one.
- 3.3.7** Accrued income is below plan by **(£0.616m)**. This largely relates to variances in levels of contractual performance against cash payments to quarter three.
- 3.3.8** Cash balances at £7.495m are **(£0.031m)** below plan. This is driven by the following:
 - Below plan operating cash flows (£1.598m)
 - Favourable Working Capital movements £1.031m;
 - Favourable variance on Capital Investment and movement on Capital Payables of £0.457m;
 - Above plan Financing Costs £0.082m due to higher than planned donated additions;

3.4 Current Liabilities are **(£0.326m)** above plan at the end of quarter three. The key variances within this are outlined below:

- 3.4.1** Provisions are **(£0.121m)** above plan, utilisation of provision has been lower than planned for the year to date.
- 3.4.2** Deferred income is **£0.050m** below plan.
- 3.4.3** Capital Payables are **£0.496m** below plan, driven by the lower then planned plan capital investment.
- 3.4.4** PDC Dividend payable is **(£0.019m)** above plan, based on the month 6 forecast for net relevant assets.
- 3.4.4** Accruals are **£0.633m** below plan, which is offset by the increase in payables.

- 3.4.5** Trade and Other Payables are above plan by (£1.366m) at the end of quarter three. Delays in payments of agency invoices are currently being reviewed and payments have been made in January for the Informatics Merseyside service which had been held in query.

4.0 Comments on the Statement of Cashflow

- 4.1** The table below summarises high level SoCF variances against plan.

Table 3: Key SoCF Variances by Category

SoCF Variances: Actual vs Plan	Qtr 1 (Apr - Jun)	Qtr 2 (Jul - Sep)	Qtr 3 (Oct - Dec)	Qtr 4 (Jan - Mar)	YTD Variance	In Quarter Variance	YTD Variance
Opening Cash	0.000	0.000	0.000		0.000	Favourable	Favourable
Operating Cashflows	-0.801	-0.756	-0.041		-1.598	Adverse	Adverse
Increase/(Decrease) in Working Capital	-0.305	2.139	-0.803		1.031	Adverse	Favourable
Capital Investment	0.140	-0.287	0.604		0.457	Favourable	Favourable
Financing Costs	0.145	-0.049	-0.020		0.076	Adverse	Favourable
Total Cashflow Variance	-0.821	1.047	-0.260	0.000	-0.034	Adverse	Adverse

5.0 Governance

- 5.1** Under its licence conditions the Trust is required to prepare and submit a quarterly return to Monitor, detailing its financial and governance risk ratings.

For the Quarter 3 submission to Monitor, the Trust is forecasting the following ratings:
Governance Rating: **Green**

The Board also confirms:-

- For governance, that the Board of Directors are satisfied that plans in place are sufficient to ensure on-going compliance with all existing targets (after the application of thresholds) as set out in Appendix A of the Risk Assessment Framework; and a commitment to comply with all known targets going forwards.

However based on the draft plan, driven by the significant financial challenges faced in 2016/17, the Board is unable confirm that:

- The Board anticipates that the Trust will continue to maintain a financial sustainability risk rating of at least 3 over the next 12 months.

The Board are asked to note and recommend the above declaration prior to submission to Monitor.

6.0 Membership

- 6.1** There have been no elections during quarter three.

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In Year Governance Statement from the Board of Liverpool Heart and Chest Hospital NH

The board are required to respond "Confirmed" or "Not confirmed" to the following statements (see notes below)

Board Response

For finance, that:

The board anticipates that the trust will continue to maintain a financial sustainability risk rating of at least 3 over the next 12 months.

Not Confirmed

The Board anticipates that the trust's capital expenditure for the remainder of the financial year will not materially differ from the amended forecast in this financial return.

Confirmed

For governance, that:

The board is satisfied that plans in place are sufficient to ensure: ongoing compliance with all existing targets (after the application of thresholds) as set out in Appendix A of the Risk Assessment Framework; and a commitment to comply with all known targets going forwards.

Confirmed

Otherwise:

The board confirms that there are no matters arising in the quarter requiring an exception report to Monitor (per the Risk Assessment Framework, Table 3) which have not already been reported.

Confirmed

Consolidated subsidiaries:

Number of subsidiaries included in the finances of this return. This template should not include the results of your NHS charitable funds.

0

Signed on behalf of the board of directors

Signature



Name

Jane Tomkinson

Capacity

Chief Executive

Date

20/10/2015

Signature



Name

David Jago

Capacity

Deputy Chief Executive/Chief Finance Officer

Date

20/10/2015

Responses still to complete:

0

Notes:

Monitor will accept either 1) electronic signatures pasted into this worksheet or 2) hand written signatures on a paper printout of this declaration posted to Monitor to arrive by the submission deadline.

In the event that an NHS foundation trust is unable to confirm these statements it should NOT select 'Confirmed' in the relevant box. It must provide a response (using the section below) explaining the reasons for the absence of a full certification and the action it proposes to take to address it.

This may include any significant prospective risks and concerns the foundation trust has in respect of delivering quality services and effective quality governance.

Monitor may adjust the relevant risk rating if there are significant issues arising and this may increase the frequency and intensity of monitoring for the NHS foundation trust.

The board is unable to make one of more of the confirmations in the section above on this page and accordingly responds:

A

B

C