

Board of Directors (Public)

Item 15a

Subject: Quarter 3 Monitor return
Date of meeting: 22nd January 2015
Prepared by: Ian Cartwright, Head of Financial Accounts
Presented by: David Jago, Chief Financial Officer

Board Report

Data Quality Rating	BAF Ref	Impact on BAF Risk Rating
Bronze	4,7	None

1. Executive Summary

This paper constitutes the third quarter's narrative report to accompany the quarter 3 performance report to Monitor. Members of the Board are asked to note the content of the report prior to submission to Monitor.

2. Background

The Board of Directors approved the financial plan for 2014/15 – 2015/16 within the 2 year operational plan presented at the March 2014 Board meeting that was subsequently submitted to Monitor.

3. Issues

The Trust has delivered a Continuity of Services Risk Rating (CoSRR) of 4 which is above plan at the end of quarter three. The Governance Rating is also on plan and reported as Green for the end of the second quarter, with a planned breach (agreed with Commissioners) of the RTT 18 week target for admitted patients at 85.3% compared to a target of 90.0%. Non-compliance due to reductions in backlog numbers following discussion held with Monitor colleagues and formally confirmed is unlikely to result in regulatory action being taken.

A year to date net deficit has been reported of (£0.50m). However, this includes restructuring costs of £0.44m incurred under the Trust MARS scheme. After normalising for this exceptional item, a net deficit position of (£0.06m) has been achieved. The main cause of the below plan performance is driven by underperformance against CIP targets totalling £0.80m to the end of quarter 3.

The liquidity rating is above target with liquid days 8.0 ahead of plan; however cash balances at quarter three are reported as £2.15m behind plan.

4. Conclusion

The key risk indicators, set out under the Risk Assessment Framework continue to be achieved against planned levels to the end of the third quarter. Despite the risks set out above, with continued financial control and management, the Trust remains on target to achieve the 2014/15 plan.

5. Recommendations

The Board of Directors are advised to approve of the quarter three return ahead of the submission deadline to Monitor of 31st January 2015.

1.0 Overview Year To Date (YTD) Performance

- 1.1** The Trust's financial performance to 31st December 2014 delivers a capital service cover rating of 4 and a liquidity rating of 3. These ratings are combined and weighted to give an overall Continuity of Service Risk Rating (CoSRR) of 4 which is above plan at the end of the quarter.
- 1.2** Inpatient activity (NHS) is marginally behind plan cumulatively to the end of December by 58 spells (0.6%). In the quarter, activity is 36 spells (1.1%) above plan. For the year to date, Cardiology is behind plan by 57 spells (0.89%), with over-performance against EBUS, EP Studies and Pacing, offsetting below plan performance against PCI Cardiac Disorders and Catheters. Surgery is above plan cumulatively by 17 spells (0.63%), with over-performance on complex thoracic surgery in addition to over-performance on CABG & Valve and Cardiac Valve activity. Planned procedures not carried out are lower than planned by 17 spells (7.2%).
- 1.3** The financial performance for the year to date is a net deficit of (£0.50m), which compares to a planned net deficit of (£0.20m). This deficit position includes restructuring costs of £0.44m. This relates to payments made under a Mutually Agreed Resignation Scheme (MARS) (a key enabler for a Cost Improvement Scheme). Excluding this payment, a normalised net deficit of (£0.06m) has been delivered.
- 1.4** The closing cash position is £9.38m and is behind plan by (£2.15m) driven largely by adverse movements in working capital as a result of higher than planned levels of inventories and above plan levels of accrued income from contractual over-performance.

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	2014/15					
	Qtr 1 (Apr-Jun)	Qtr 2 (Jul-Sep)	Qtr 3 (Oct-Dec)	YTD Variance	In Quarter Variance	YTD Variance
	£m	£m	£m	£m		
Operating Revenue for EBITDA Variance	0.422	1.076	2.741	4.239	Favourable	Favourable
Pay Variance	-0.324	-0.439	-0.887	-1.650	Adverse	Adverse
Non Pay - Direct Costs Variance	-0.175	-0.728	-1.334	-2.237	Adverse	Adverse
Non Pay - Overheads Variance	-0.019	-0.099	-0.213	-0.331	Adverse	Adverse
EBITDA Variance	-0.096	-0.190	0.307	0.021	Favourable	Favourable
Operating Expenses Excluded from EBITDA	-0.252	-0.001	0.140	-0.113	Favourable	Adverse
Non Operating Income	0.000	-0.002	0.001	-0.001	Favourable	Adverse
Donations and Grants Received	-0.030	0.023	-0.192	-0.199	Adverse	Adverse
Non Operating Expenses	-0.002	0.005	0.002	0.005	Favourable	Favourable
Net Surplus/(Deficit) Variance	-0.380	-0.165	0.258	-0.287	Favourable	Adverse

- 2.2** The Trust has reported a surplus in the quarter of **£0.07m**. This is a surplus of £0.08m after normalising for the impact of the MARS restructuring costs, which compares to a planned deficit of (£0.19m).
- 2.3** Operating revenue for the purposes of calculating EBITDA is **£2.74m** favourable in the quarter at £29.57m set against a plan of £26.82m and is discussed in more detail in the following paragraphs.
- 2.4** NHS clinical revenue is above plan by **£2.21m** for the quarter at £26.67m compared to a plan of £24.46m.
- 2.5** Private patient revenue is **£0.29m** above plan for the quarter at £0.98m compared to a plan of £0.69k. Activity continues to exceed plan, indicating signs of an improvement in the economy and subsequent improvement in the private healthcare market. The Trust's Private Patient service is currently under review to identify scope for increasing market share.
- 2.6** Miscellaneous Other Operating Revenue is above plan in the quarter by **£1.14m** at £1.91m compared to a plan of £0.76m, as a result of the continuing increase in the number of Radiology tests provided to other Trusts and diagnostic tests provided in the Community as part of the CVD and COPD services.
- 2.7** Pay costs are above plan by **(£0.88m)** for the quarter at £15.78m compared to a plan of £14.9m. For the year to date, pay costs are £1.64m above plan. At the end of December there were 79.01WTE vacancies, some of which are being covered at premium rates with bank, locum and agency spend in the quarter totalling £0.80m. However, the main driver of the pay overspend is slippage against CIP schemes. The variance against the pay CIP target is £1.05m for the year to date. Whilst schemes have been identified to recover the shortfall there are delays in the lead time to implement the schemes. The Trust has recruited a Programme Management Officer in month 7 to assist with driving forward the Cost Improvement Programme.
- 2.8** Direct non-pay costs are **£1.33m** adverse for the quarter at £10.22m compared to a plan of £8.88m.
- There is an adverse variance on drugs expenditure of **(£0.12m)** in quarter 3 (£0.2m for the year to date). This is driven by slippage against a CIP scheme in Cath Labs, where there has been a delay in changing from an existing drug to a cheaper alternative, combined with above plan surgical activity.
- Clinical supplies are **(£1.13m)** above plan in the quarter (£1.90m above for the year to date). This is driven by activity and case mix performance, particularly within the cardiac and thoracic surgery and pacing service lines.
- 2.9** Operating expenses (excluded from EBITDA) are **£0.13m** below plan for the quarter. This is due to a reduction in the quarter's depreciation charge following an asset re-living exercise undertaken by the District Valuer, which has had the impact of reducing the depreciation charge in the quarter, combined with the slippage against the capital programme.
- 3.0 Comments on the Statement of Financial Position (SoFP)**
- 3.1** The table below summarises high level SoFP variances against plan:

Table 2: Key SoFP Variances by Category

SoFP Variances: Actual vs Plan	2014/15					
	Qtr 1 (Apr-Jun)	Qtr 2 (Jul- Sep)	Qtr 3 (Oct- Dec)	YTD Variance	In Quarter Variance	YTD Variance
	£m	£m	£m	£m		
Non Current Assets	-0.916	-0.774	-1.172	-2.862	Adverse	Adverse
Current Assets	0.801	0.064	2.849	3.714	Favourable	Favourable
Current Liabilities	0.001	0.565	-1.193	-0.627	Adverse	Adverse
Non Current Liabilities	-0.486	-0.013	-0.013	-0.512	Adverse	Adverse
EBITDA Variance	-0.600	-0.158	0.471	-0.287	Favourable	Adverse
Retained Earnings	-0.346	-0.163	0.256	-0.253	Favourable	Adverse
Revaluation Reserve	-0.030	0.000	0.000	-0.030	Favourable	Adverse
Public Dividend Capital	-0.224	0.000	0.224	0.000	Favourable	Adverse
Net Surplus/(Deficit) Variance	-0.600	-0.163	0.480	-0.283	Favourable	Adverse

3.2 Non-Current assets are **£2.86m** below plan to the end of Quarter 3 which is due to:

- The capital programme is underspent year to date by £3.09m against an original plan of £4.47m. The main areas of slippage include: Medical Equipment £0.64m, IT Infrastructure £0.866m and Estates Infrastructure £1.079m, offset in part by utilisation of the Contingency budget of (£0.29m);
- There has also been a year to date saving on the level of depreciation, due to an exercise to re-life assets based on figures provided by the District Valuer, combined with the cumulative slippage on the capital programme totalling £0.31m.

3.3 Current assets are **£3.71m** above plan at the end of quarter 3, the key variances include:

3.3.1 Inventories are reported £0.78m above plan, of which Theatres are £0.50m above plan (£0.24m relates to TAVI's); Cath Labs £0.15m above plan; Drugs £0.13m above plan. This is partly due to above plan Surgical activity and partly due to ensuring sufficient stock levels over the Christmas period.

3.3.2 Non NHS receivables are £0.83m above plan. This largely comprises above planned debt with Health Insurance Companies, mainly BUPA and AXA. The Trust is liaising with Shared Business Services to resolve as much of the outstanding debt as possible. It should be noted that an element of bad debt was provided for as a bad debt provision at 2013/14 year end.

3.3.3 Accrued income is above plan by £2.64m. This is primarily due to quarter three contractual over-performance on the NHS England Tertiary Contract £1.13m and North West Secondary Contracts £0.49m. Rebates due on purchases of ICD and pacing devices £0.65m; NCA over-performance £0.27m and radiology activity recharges £0.19m.

3.3.4 Cash balances at £9.38m are (£2.14m) behind plan. This is driven by the following:

- Payment for restructuring costs (MARS) (£0.44m);
- Adverse Working Capital movements (£4.21m);
- This is offset against slippage on Capital Investment and movement on Capital Payables of £2.53m;
- Above plan Financing Costs (£0.08m) due to lower than planned donated additions, partly offset by a variance on the forecast outturn for 2013/14 PDC Dividend;

3.4 Current Liabilities are **£1.19m** below plan at the end of quarter 3. The key variances within this are outlined below:

- 3.4.1** Provisions are £0.97m below plan. The plan was based on a forecast outturn position. However, following a review at the end of the previous financial year some provisions were reversed as they were no longer required, most notably a potential legal claim provision of £0.888m.
- 3.4.2** Deferred income is (£0.36m) above plan. This is largely due to the difference between the forecast (plan) and actual outturn for 2013/14. Actual outturn includes a potential repayment of CQUIN income of (£0.39m), an overpayment against Oncology clinics (£0.42m) and ICD box changes with Welsh Commissioners without prior approval (£0.28k). This has been offset during the year by utilisation against Research, Apprenticeship and Clinical Fellow funding.
- 3.4.3** Revenue trade and other payables are £0.62m above plan. This is largely due to invoices from RLBUHT not yet received (Blood Products; SLA and energy and utilities). In addition other payables (tax and superannuation), is above plan, driven by above plan employee expenses;
- 3.4.4** Capital Payables are £0.68m below plan. This is consistent with the underperformance against the capital programme and slippage against various schemes.
- 3.4.5** Accruals are (£1.80m). A large proportion of the variance is in respect of SLA, blood and energy invoices from RLBUHT not yet received.

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

Cashflow Variances: Actual vs Plan	2014/15					
	Qtr 1 (Apr-Jun)	Qtr 2 (Jul-Sep)	Qtr 3 (Oct-Dec)	YTD Variance	In Quarter Variance	YTD Variance
	£m	£m	£m	£m		
Opening Cash	0.023	0.000	0.000	0.023	Favourable	Favourable
Operating Cashflows	-0.412	-0.299	0.304	-0.407	Favourable	Adverse
Increase/(Decrease) in Working Capital	-2.497	-0.192	-1.519	-4.208	Adverse	Adverse
Capital Investment	0.555	0.910	1.069	2.534	Favourable	Favourable
Financing Costs	-0.309	0.181	0.047	-0.081	Favourable	Adverse
Total Cashflow Variance	-2.640	0.600	-0.099	-2.139	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 finance, that the Committee anticipates that the Trust will continue to maintain a Continuity of Service risk rating of at least 3 over the next 12 months;
- For governance, that the Committee 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.
- That it will deliver a revised capital programme of £4.8m some £0.6m (11.67%) below the re-forecast submitted at the end of quarter 2 and £0.8m (14.5%) below the original capital plan.

6.0 Membership

6.1 No governor elections were held during the quarter.