

Board of Directors

Item 5.4

Subject: Quarter 4 Monitor return
Date of meeting: 28th April 2015
Prepared by: Ian Cartwright, Head of Financial Accounts
Presented by: David Jago, Chief Financial Officer

Board Report

Report	Data Quality Rating	BAF Ref	Impact on BAF Risk Rating
Quarter 4 Monitor return	Silver	4,7	N/A

1. Executive Summary

This paper constitutes the fourth quarter's narrative report to accompany the quarter 4 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 on plan at the end of quarter four. The Governance Rating is also on plan and reported as Green for the end of the fourth quarter, with breaches of the RTT 18 week target for admitted patients at 84.8% against a target of 90%, the RTT 18 week target for non-admitted patients at 93.7% against a target of 95% and the RTT 18 week target for incomplete pathways at 90.0% against a target of 92%.

A year to date net surplus has been reported of £3.17m however, this includes restructuring costs of £0.42m incurred under the Trust MARS scheme and net reversal of impairments of (£3.50m) following an estate revaluation exercise at 31st March 2015. After normalising for these exceptional items, a net surplus position of £0.09m has been achieved, compared to a plan of £0.48m. The main cause of the below plan performance is driven by underperformance against CIP targets totalling £0.9m to the end of quarter 4.

The liquidity rating is on target with liquid days 1.4 ahead of plan; cash balances at quarter four are reported as £3.63m above 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 fourth quarter.

5. Recommendations

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

1.0 Overview Year To Date (YTD) Performance

- 1.1** The Trust's financial performance to 31st March 2015 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 on plan at the end of the quarter.
- 1.2** Inpatient activity is above plan cumulatively for 14/15 by 101 spells (0.76%). In the quarter, activity is 62 spells (1.8%) above plan. For the year to date, Cardiology is above plan by 76 spells (0.85%), with over-performance against EBUS, EP Studies and Pacing, offsetting below plan performance against PCI, Cardiac Disorders, Respiratory and Catheters. Surgery is above plan cumulatively by 22 spells (0.6%), with over-performance on complex thoracic surgery in addition to over-performance on CABG & Valve and Cardiac Valve activity.
- 1.3** The financial performance for the year to date is a net surplus of (£3.17m), which compares to a planned net surplus of (£0.48m). This surplus position includes restructuring costs of £0.42m, which relates to payments made under a Mutually Agreed Resignation Scheme (MARS) (a key enabler for a Cost Improvement Scheme). In addition following the estate revaluation exercise to 31st March a reversal of previous year's impairments has been reported at £3.5m. Excluding these items, a normalised net surplus of £0.09m has been delivered.
- 1.4** The closing cash position is £12.33m and is ahead of plan by £3.62m driven largely by year end cash settlements arising 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	Qtr 2	Qtr 3	Qtr 4 (Jan	YTD	In Quarter	YTD
	(Apr-Jun)	(Jul-Sep)	(Oct-Dec)	Mar)			
	£m	£m	£m	£m	£m		
Operating Revenue for EBITDA Variance	0.422	1.076	2.741	2.070	6.309	Favourable	Favourable
Pay Variance	-0.324	-0.439	-0.880	-1.926	-3.569	Adverse	Adverse
Non Pay - Direct Costs Variance	-0.175	-0.728	-1.334	-0.419	-2.656	Adverse	Adverse
Non Pay - Overheads Variance	-0.019	-0.099	-0.213	-0.694	-1.025	Adverse	Adverse
EBITDA Variance	-0.096	-0.190	0.314	-0.969	-0.941	Favourable	Adverse
Operating Expenses Excluded from EBITDA	-0.252	-0.001	0.128	3.685	3.560	Favourable	Favourable
Non Operating Income	0.000	-0.002	0.001	-0.032	-0.033	Favourable	Adverse
Donations and Grants Received	-0.030	0.023	-0.192	0.376	0.177	Adverse	Favourable
Non Operating Expenses	-0.002	0.005	0.002	-0.081	-0.076	Favourable	Adverse
Net Surplus/(Deficit) Variance	-0.380	-0.165	0.253	2.979	2.687	Favourable	Favourable

- 2.2** The Trust has reported a positive variance against the planned surplus in the quarter of **£2.98m**. This includes the impact of an impairment reversal, which when normalised out of the position provides an adverse variance against plan in the quarter of £0.5m, against the planned surplus of £0.69m.

- 2.3** Operating revenue for the purposes of calculating EBITDA is **£2.07m** favourable in the quarter at £30.59m set against a plan of £28.52m and is discussed in more detail in the following paragraphs.
- 2.4** NHS clinical revenue is above plan by **£1.4m** for the quarter at £27.5m compared to a plan of £26.1m.
- 2.5** Private patient revenue is **£0.2m** above plan for the quarter at £0.94m compared to a plan of £0.74k. 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 further increasing market share.
- 2.6** Miscellaneous Other Operating Revenue is above plan in the quarter by **£0.31m** at £1.07m 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 **(£1.92m)** for the quarter at £16.83m compared to a plan of £14.9m. For the year to date, pay costs are £3.57m above plan. At the end of March there were 84.99WTE vacancies, some of which are being covered at premium rates with bank, locum and agency spend in the quarter totalling £1.24m. However, the main driver of the pay overspend is slippage against CIP schemes. The variance against the pay CIP target is £1.57m for the year to date. Whilst schemes have been identified to recover the shortfall there have been delays in the lead time to implement the schemes. The Trust has recruited a Programme Management Officer to assist with driving forward the Cost Improvement Programme.
- 2.8** Direct non-pay costs are **£0.42m** adverse for the quarter at £9.95m compared to a plan of £9.54m.

There is an adverse variance on drugs expenditure of **(£0.20m)** in quarter 4 (£0.40m 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 **(£0.27m)** above plan in the quarter (£2.18m 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 **£3.69m** below plan for the quarter. This is driven by a continuing reduction in the quarter's depreciation charge following a review of asset lives undertaken by the District Valuer in 2013/14, and slippage against the 2014/15 capital programme. In addition there has been a net reversal of impairments of £3.50m following the estate revaluation exercise at 31st March 2015.

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	Qtr 2	Qtr 3	Qtr 4 (Jan	YTD Variance	In Quarter Variance	YTD Variance	
	(Apr-Jun)	(Jul-Sep)	(Oct-Dec)	Mar)				
	£m	£m	£m	£m				
Non Current Assets	-0.916	-0.774	-1.172	8.318	5.456	Adverse	Favourable	
Current Assets	0.801	0.064	2.849	2.294	6.008	Favourable	Favourable	
Current Liabilities	0.001	0.565	-1.193	-5.233	-5.860	Adverse	Adverse	
Non Current Liabilities	-0.486	-0.013	-0.013	0.004	-0.508	Adverse	Adverse	
Total Assets Employed	-0.600	-0.158	0.471	5.383	5.096	Favourable	Favourable	
Retained Earnings	-0.346	-0.163	0.256	3.030	2.777	Favourable	Favourable	
Revaluation Reserve	-0.030	0.000	0.000	2.050	2.020	Adverse	Favourable	
Public Dividend Capital	-0.224	0.000	0.224	0.299	0.299	Favourable	Favourable	
Taxpayers Equity	-0.600	-0.163	0.480	5.379	5.096	Favourable	Favourable	

3.2 Non-Current assets are **£5.46m** above plan to the end of Quarter 4 which is due to:

- The capital programme is underspent year to date by £0.56m against an original plan of £5.06m;
- 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 £0.48m.
- The asset revaluation exercise undertaken by the District Valuer at 31st March 2015 has resulted in an increase in the value of the estate and a reversal of prior year impairments totalling £5.6m.

3.3 Current assets are **£6.00m** above plan at the end of quarter 4, the key variances include:

- 3.3.1 NHS Trade receivables are £2.20m above plan, largely as a result of invoicing commissioners for over-performance .
- 3.3.2 Non NHS receivables are £1.08m above plan. This largely comprises above planned debt with Health Insurance Companies. 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 below plan by £1.30m. This is largely as a result of finalising year end activity to be invoiced, that will now either be reflected in cash or in receivables.
- 3.3.4 Cash balances at £12.33m are £3.63m above plan. This is driven by the following:
- Payment for restructuring costs (MARS) (£0.42m);
 - Below plan operating cashflows (£0.49m)
 - Favourable Working Capital movements £1.24m;
 - This is offset against slippage on Capital Investment and movement on Capital Payables of £2.69m;
 - Below plan Financing Costs £0.60m due to higher than planned donated additions, and additional unplanned PDC cash funding as part of a capital bid.

3.4 Current Liabilities are **£5.86m** above plan at the end of quarter 4. The key variances within this are outlined below:

3.4.1 Provisions are £0.45m above plan, due to working time directive payments provision.

3.4.2 Deferred income is £0.56m above plan. This is largely due to a contract overpayment from Wales, which will be corrected in April.

3.4.3 Capital Payables are £2.01m above plan. A significant portion of the capital programme was incurred in March, therefore equipment and works have been delivered/completed, but cash payments will follow in April/May.

3.4.5 Accruals are £2.25m above plan. A large proportion of this relates to delays in receiving invoices from RLBUHT, which were either raised late in March or form part of the accruals statement on the agreement of balances exercise.

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)	Qtr 4 (Jan Mar)	YTD Variance	In Quarter Variance	YTD Variance
	£m	£m	£m	£m	£m		
Opening Cash	0.023	0.000	0.000	0.000	0.023	Favourable	Favourable
Operating Cashflows	-0.412	-0.299	0.304	-0.509	-0.916	Favourable	Adverse
Increase/(Decrease) in Working Capital	-2.497	-0.192	-1.519	5.443	1.235	Adverse	Favourable
Capital Investment	0.555	0.910	1.069	0.152	2.686	Favourable	Favourable
Financing Costs	-0.309	0.181	0.047	0.685	0.604	Favourable	Favourable
Total Cashflow Variance	-2.640	0.600	-0.099	5.771	3.632	Adverse	Favourable

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 4 submission to Monitor, the Trust is forecasting the following ratings:
Governance Rating: **Green**

The Board also confirms:-

- For finance, that the Board 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 Board 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.

6.0 Membership

- 6.1** There was one election held during the quarter for the North Wales public constituency. One candidate was elected.