

Board of Directors (Public) Item 5.3a (Supplementary Paper)

Subject: 2015/16 Forecast Position & Mitigations
Date of meeting: 19th October 2015
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Presented by: David Jago, Chief Finance Officer

Board Report

Report	Data Quality Rating	BAF Ref	Impact on BAF risk Rating
2015/16 Forecast Position & Mitigations	Silver	6	n/a

1. Executive Summary

This paper is a supplement to the Month 6 Finance Report, and provides an overview of the current forecast position, together with a sensitivity analysis which highlights the best and worst case positions alongside the forecast. The paper also identified actions being taken to mitigate the current position.

The current forecast position shows a deficit of £1.2m against a planned deficit of £0.3m. As part of the forecasting exercise it has been established that deficit position would still deliver a risk rating of 3 as planned, however would be extremely close to the threshold at which the rating would fall to a 2, and particularly as the modelling contains assumptions of how the income and expenditure position would flow through to the balance sheet.

The Board of Directors are asked to note the contents of the paper, together with actions being taken to bring the current forecast position as close to plan as is possible.

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. The actual position for the first 6 months of the year shows a deficit of £1,053k which is £875k worse than planned.

A detailed forecast was undertaken at Month 5 and updated to reflect the Month 6 position, showing a forecast deficit position for the year of £1,200k which would be £900k away from plan.

The Divisions and key budget holders are actively reviewing the forecast position (with the support of the Finance team) to identify measures to bring the forecast as close to plan as is possible.

3. Issues

i. Forecast position

The forecast position is summarised as follows, together with the in month and year to date actual positions. The table also shows a straight line pro rata of the year to date position to illustrate what the position would look like if the second 6 months of the year followed the same pattern as the first 6 months. This is included purely as a comparator, and to provide some context to the forecast position.

Description	Month 6			Year to Date			2015/16	2015/16	2015/16	Pro Rata *
	Plan £'000	Actual £'000	Variance £'000	Plan £'000	Actual £'000	Variance £'000	Plan version	Forecast £'000	Variance £'000	
Direct Patient related Revenue	9,234	9,755	521	54,907	54,464	(443)	109,814	111,184	1,370	(887)
Private Patients Revenue	330	282	(47)	1,978	1,635	(343)	3,957	3,518	(439)	(687)
Non Patient Related Revenue	608	633	25	3,647	3,727	80	7,294	7,305	11	159
Total operating income	10,172	10,670	498	60,533	59,826	(707)	121,065	122,007	942	(1,697)
Employee Expenses	(5,504)	(5,556)	(51)	(33,020)	(33,382)	(361)	(65,935)	(66,780)	(846)	(723)
Drugs	(555)	(628)	(73)	(3,298)	(3,595)	(298)	(6,585)	(7,122)	(537)	(595)
Clinical supplies	(2,672)	(2,799)	(127)	(15,902)	(16,019)	(117)	(31,635)	(32,615)	(980)	(234)
Non-clinical supplies	(222)	(228)	(6)	(1,322)	(1,083)	239	(2,630)	(2,470)	160	478
Total Direct Costs	(8,953)	(9,211)	(258)	(53,542)	(54,079)	(537)	(106,784)	(108,987)	(2,202)	(1,289)
Gross Profit	1,219	1,459	240	6,991	5,746	(1,244)	14,281	13,021	(1,260)	(2,986)
Gross Profit Margin	0	0		11.5%	9.6%		11.8%	10.7%	-133.8%	0.0%
Overheads										
Establishment expense	(105)	(146)	(41)	(633)	(703)	(70)	(1,267)	(1,341)	(75)	(141)
Premises & Fixed Plant expense	(343)	(377)	(34)	(2,059)	(2,040)	19	(4,120)	(4,083)	37	38
Consultancy fees expense	(29)	(41)	(12)	(175)	(280)	(106)	(350)	(529)	(180)	(211)
CNST Contributions	(61)	(61)	(0)	(364)	(363)	0	(727)	(726)	2	1
Misc. other Operating Expenses	(52)	(194)	(141)	(313)	73	386	(588)	(135)	452	773
CIP	-	0	0	-	0					0
Total overhead expenses	(591)	(819)	(228)	(3,544)	(3,314)	230	(7,051)	(6,814)	237	552
EBITDA	628	640	12	3,447	2,432	(1,014)	7,230	6,206	(1,024)	(2,435)
EBITDA Margin	6.2%	0		5.7%	4.1%		6.0%	5.1%	-108.7%	0.0%
Depreciation and amortisation	(435)	(392)	43	(2,570)	(2,527)	43	(5,422)	(5,422)	0	86
Profit (loss) on asset disposal	0	0	0	0	0	0	0	0	0	0
Interest Receivable	3	3	(0)	18	18	0	36	36	0	0
Taxation	0	0	0	0	0	0	0	0	0	0
Interest Payable on Loans & Leases	(4)	(2)	2	(24)	(15)	9	(48)	0	48	18
PDC dividend	(183)	(220)	(37)	(1,098)	(1,135)	(37)	(2,195)	(2,195)	0	(75)
Reversal Previous Impairment	0	0	0	0	0	0	0	0	0	0
Impairments & Restructuring	0	0	0	0	0	0	0	0	0	0
Other non-operating items	0	0	0	0	0	0	0	0	0	0
Income from Donated Assets	8	0	(8)	50	175	125	100	175	75	249
Net Surplus / (Deficit)	18	29	11	(177)	(1,053)	(875)	(300)	(1,200)	(901)	(2,101)
EBITDA	628.1	640	12.3	3,446.8	2,432.4	(1,014.4)	7,229.8	6,206.1	(1,023.7)	(2,434.7)
Net Surplus Margin	0.2%	0.3%		-0.3%	-1.8%		-0.2%	-1.0%	-95.6%	0.0%
Normalised Net Surplus / (Deficit)	18	29	11	(177)	(1,053)	(875)	(300)	(1,200)	(901)	(1,751)

* What the position would look like on a pure straight line basis

ii. Key Assumptions Underpinning the Forecast Position

The overall position shows a forecast deficit of £1,200k, this is based firmly on the substantial exercise undertaken at Month 5, updated to reflect key movements to the Month 6 position. Further work is scheduled with the divisions to enhance the forecast, and to test the accuracy of assumptions – which will in turn improve the planning and management of the position.

The forecast is predicated on a number of key agreed assumptions;

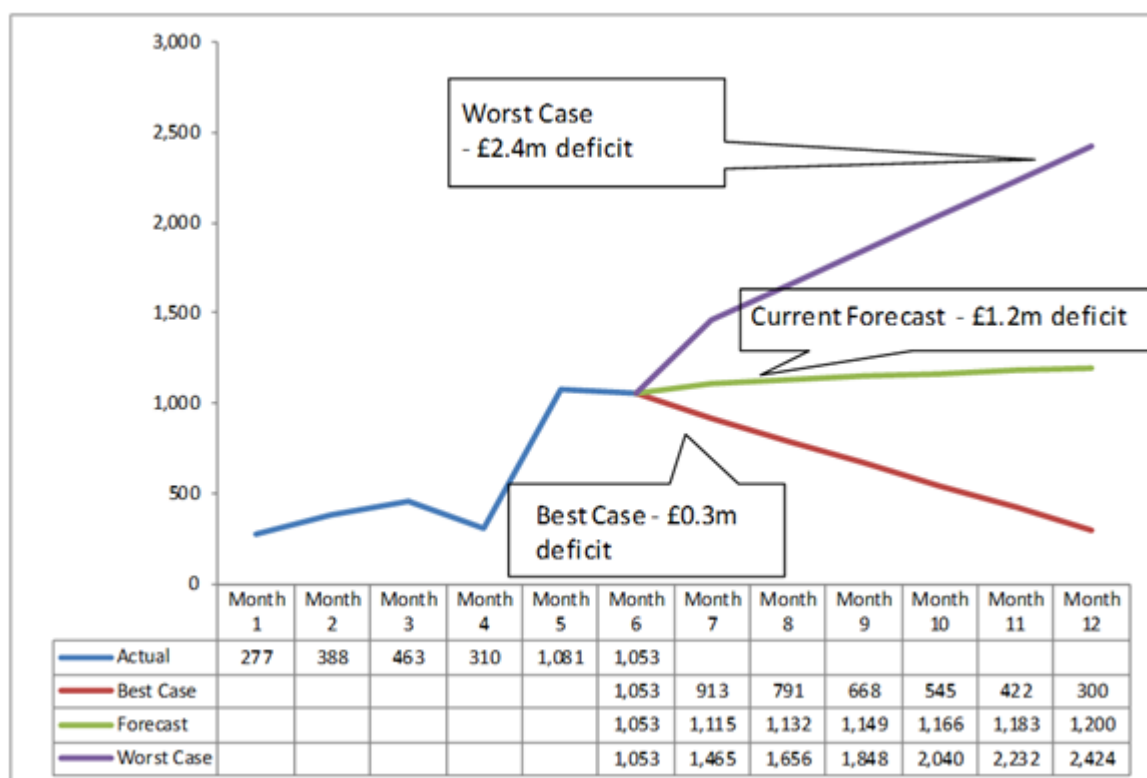
- Additional contribution in Medicine through increased throughput of device activity, reflected in year to date trends and supported by detailed activity plans;
- A planned recovery of clinical income within the Surgical Division to improve from circa. £1m under plan to circa. £600k under achievement, it is further assumed that this will incur activity related costs. As with above, the assumption is supported by detailed

plans;

- Assumed that Agency spend on SICU will reduce by £300k (£250k through reduced premium associated with agency, and £50k through reduced sickness levels included in specific SICU forecast paper);
- 32 additional PCIs in Medicine, net contribution of £60k;
- The month 5 position showed an off trend reduction to outpatient income. It was assumed that this would recover in the remaining 7 months of the year. An update following the month 6 position would indicate this as a reasonable assumption;
- Assumed that Upper GI activity loss to the Royal Liverpool will be partially mitigated through a combination of replacement activity, reduced cost and agreed commissioner support of £50k. The total forecast income loss assumed at Month 5 was £600k and it is assumed that £400k is mitigated. The in month position for Month 6 shows a continuation in income flow for Upper GI and specifically with some of the more complex work at the Trust, resulting in a £60k income position against a plan of £78k.
- CIP slippage mitigated by release of contingency reserve.

iii. Scenario Analysis: Current Forecast Together With Best and Worst Case Positions

The following graph shows the current forecast position, together with the best and worst case positions. The worst case position shows a deficit of some £2.4m, while the best case position shows delivery of the original plan i.e. a £0.3m deficit.



Notes to the Scenario Analysis

- A detailed forecast was undertaken at Month 5 which has been updated to reflect the Month 6 position.
- Iterative work will be undertaken to review the forecast in more detail, and to review accuracy of assumptions made at Month 5 on a monthly basis going forward.

- The worst case scenario assumes;
 - X No additional income profiled into second half of year for outpatients;
 - X No improvement in SICU nursing;
 - X No compensating income / mitigating action to offset reduced upper GI work;
 - X No additional income currently assumed in respect of ablations;
 - X No additional contribution for PCIs.
- The best case scenario assumes;
 - ✓ Additional income profiled into second half of the year i.e. recognising distorting dip in August—and the 5 bank holidays in first 5 months;
 - ✓ Further improvements to reflect various recovery work being undertaken, and again removing some emphasis from month 5 in month position.

i. Further Actions Being Undertaken

The Divisions and key budget holders continue to work closely with the Finance Team in identifying further actions to bring the position as close to the plan as is possible, the following provides a list of key actions being reviewed / undertaken (this is not an exhaustive list);

- Continuation of review of vacancies through the Executive Scrutiny Panel;
- Enhanced scrutiny of discretionary expenditure;
- Additional income opportunities through additional activity, and also through ensuring the trust receives all income it is due through appropriate coding and recording of activity;
- Continued review of opportunities re. Administrative Review and Job Planning;
- Enhanced attention to procurement costs and stockholding to ensure best possible prices are secured, and stockholding minimised (while this does not directly impact on I&E it does enhance the cash position which directly impacts on the Financial Sustainability Risk Rating);

Actions to improve the current forecast position are a key priority, and further updates will be provided through the Executive Team, IPC and Trust Board.

4. Conclusion

This paper has provided a supplement to the Month 6 Finance Report, and has provided an overview of the current forecast position, together with a sensitivity analysis highlighting the best and worst case positions alongside the forecast. The paper has also identified actions being taken to mitigate the current position.

5. Recommendations

The Board of Directors are asked to note the current forecast position of the Trust at the end of month 6 and the on-going work to identify restorative actions.