

Council of Governors (in Public)

Item 8.2

Subject: Finance report for the period ending 30th June 2019
Date of meeting: Monday 23rd September 2019
Prepared by: Frankie Morris, Deputy Chief Finance Officer
Presented by: Claire Wilson, Chief Finance Officer
Purpose of the report: To note

1. Executive Summary

The year to date overall financial position for quarter 1 is a surplus of £81k, against a planned surplus of £79k; a favourable variance of £2k. However, this position has been supported by a £50k non-recurrent benefit from the delayed transfer of high cost devices to the zero cost national procurement programme. Without this, funding from reserves would have been required to support the financial position given lower than planned levels of activity.

Key issues to note are as follows:

- **Inpatient spells** are below plan in both Medicine and Surgery (60 and 93 spells respectively), resulting in a significant reduction in income (£1.439m overall). This has been partially compensated by overperformance in Critical Care, Outpatient attendances, and by a delayed transition of ICD devices to the national procurement programme (Zero Cost Model).
- **CIP** – there is an in month recurrent shortfall of £353k, partially offset by £88k of non-recurring schemes. The year-end position forecasts a recurrent shortfall of £1.333m, currently offset with non-recurrent schemes of £448k, leaving an in year gap of £885k. Full delivery remains a risk which is a key focus of the Operational Board and Executive Team.
- **Welsh contract** – agreement on the application of National Tariff has been reached and the contract has been signed by both parties. The £3m risk associated with the disputed element of the contract by Welsh commissioners is now no longer a risk.
- **Capital** – All NHS organisations have been asked to reduce their capital plan further to bring the capital spend within the national Capital budget constraints. The Executive team have discussed the requirement and the Trust has reduced its capital plan in 2019/20 by a further £1m, from £12.3m to £11.3m.

Future risks:

- **Pension taxation**
The adverse pension tax implications are currently having an impact on the numbers of consultants who are willing to undertake additional work. This is creating operational pressure across the NHS and is currently generating national publicity. There is a risk that without resolution, this could result in more senior clinical staff opting out of additional sessions to reduce their pension tax liability which would have a negative impact on capacity and waiting times.

The Council of Governors are asked to note the financial position of the Trust for the period ending 30th June 2019







2. Background

The Trust has agreed a financial plan to deliver a surplus of £2.779k. This surplus position includes £1.762m of Provider Sustainability Fund (PSF), which is national funding received on the condition of delivering the financial plan each quarter.

The Cost Improvement Programme (CIP) required to deliver this surplus is £3.8m (2.6%).

3. Key Financial Performance Indicators

The Key Performance Indicators (KPI) for the period are set out below:

KPI	RAG rating	Comments
Overall Financial position		Reported surplus of £81k against a planned surplus £79k
Income		Total income is £266k above plan by the end of Month 3. However, this includes £2.6m of non-recurrent device income.
Agency & Bank costs		Agency costs are £190k in month 3 (£74k above plan), and £352k cumulatively (£4k above plan). The full year agency plan is £1.394m and it is not expected that this will be exceeded. Bank costs are £233k in month (£31k above plan) and £609k cumulatively (£4k below plan).
Cash		Cash balances of £17.2m are £1m behind the planned position of £18.2m. This is primarily due to phasing of Provider Sustainability Funding which will be received in month 4.
CIP		The year to date recurring CIP delivered is £531k against a plan of £884k, a shortfall of £353k. This is partly offset by non-recurring CIPs of £88k, leaving a gap of £182k.
Capital expenditure		Capital expenditure is £1,534k, this is £665k ahead of the month 3 plan of £869k. This is mainly due to changes in expected phasing of the CT/MR scheme. The year end forecast remains in line with plan.

4. Financial Position for the period ending 30th June (Quarter 1)

The financial position for the period to the end of June 2019 is a surplus of £81k, against a planned surplus of £79k, showing a favourable variance of £2k. The Income and Expenditure statement for the period is summarised in Table 1 below:

Table 1: Income and Expenditure Statement for the period ending 30th June 2019

Description	2019/20 Plan version	Month			Year to Date		
		Plan £'000	Actual £'000	Variance £'000	Plan £'000	Actual £'000	Variance £'000
Total operating income	147,699	11,849	12,006	158	35,792	36,058	266
Employee Expenses	(84,577)	(7,050)	(6,885)	165	(21,313)	(20,553)	760
Drugs	(8,615)	(718)	(739)	(20)	(2,154)	(2,101)	53
Clinical supplies	(30,621)	(2,438)	(2,615)	(177)	(7,375)	(8,289)	(914)
Non-clinical supplies	(3,006)	(250)	(273)	(22)	(751)	(768)	(17)
Total Direct Costs	(126,820)	(10,456)	(10,511)	(54)	(31,594)	(31,712)	(118)
Gross Surplus	20,879	1,392	1,496	103	4,198	4,346	148
Total overhead expenses	(9,861)	(726)	(837)	(111)	(2,182)	(2,372)	(189)
EBITDA	11,018	666	659	(7)	2,016	1,975	(41)
Depreciation and Technical	(8,239)	(646)	(637)	8	(1,937)	(1,893)	44
Net Surplus / (Deficit)	2,779	21	21	1	79	81	2
Net Surplus / (Deficit)	2,779	21	21	1	79	81	2
Normalised Net Surplus / (Deficit)		26	26	0	94	95	1

5. Divisional Performance

Table 2 below provides a summary of the budgetary performance of each division at the end of May.

Table 2: Divisional performance against financial plan

	Total YTD			Surgery			Medicine			Clinical Svs			Corporate			Financing & Reserves		
	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance	Plan	Actual	Variance
Total Operating Income	35,792	36,058	266	12,050	10,930	(1,119)	16,740	18,275	1,534	5,501	5,572	70	1,536	1,464	(72)	-35	-183	(148)
Operation Expenditure	-35,713	-35,977	(264)	-7,368	-6,949	420	-11,735	-12,602	(867)	-7,845	-7,659	186	-6,502	-6,527	(26)	-2,264	-2,240	24
Net Plan Performance	79	81	2	4,681	3,982	(700)	5,005	5,673	667	-2,343	-2,087	256	-4,966	-5,063	(97)	-2,299	-2,423	(124)

5.1 Surgery (£700k net budget deficit)

Underperformance in income resulting from being 93 spells behind plan cumulatively (10%), 38 spells behind in month (13%); this has been partially mitigated by a reduction in activity related costs.

5.2 Medicine (£667k net budget surplus)

This includes ICD income and expenditure of £1.595m, relating to English ICDs not yet transitioned to national procurement. Note that the unplanned benefit on devices of £1.074m has been transferred to reserves, with £50k used to support the overall Trust financial position.

5.3 Clinical Services (£256k net budget surplus)

Over- performance of critical care income compared to plan has contributed to a positive budgetary position for the period.

5.4 Corporate (£97k net budget deficit)

Education & Training and R&D Income are £35k and £50k respectively behind plan. Energy costs from the Royal Liverpool Hospital are £9k in month and £65k adverse year to date. This is due to late notification of the increase in rate per unit charge and is being investigated by the Estates and Finance teams.

5.5 Financing and reserves (£124k net budget surplus)

Includes £50k unplanned profit relating to the delay in moving devices to central procurement.

6. Income

6.1 Trust level Income performance

Table 3 below provides a breakdown of the overall income performance for the period.

Table 3: Overall income performance for the period ending 30th June 2019

Total Income (Excl. Financing Income)	In Month				YTD			
	Plan	Actual	Variance	Variance	Plan	Actual	Variance	Variance
	£000's	£000's	£000's	%	£000's	£000's	£000's	%
NHS Income	10,631	10,887	256	2.4%	32,143	32,864	721	2.2%
Private Patients Income	269	341	72	26.9%	799	870	71	8.9%
Non Patient Related Income	950	779	-171	-18.0%	2,850	2,324	-525	-18.4%
Total	11,849	12,006	158	1.3%	35,792	36,058	266	0.7%

6.2 Divisional income performance

Table 4 below provides an analysis of income for the period. Underperformance on Surgical activity remains the single biggest income risk for the Trust.

Table 4 - Income by Division at month 3

Division	In Month				YTD			
	Plan	Actual	Variance	Variance	Plan	Actual	Variance	Variance
	£000's	£000's	£000's	%	£000's	£000's	£000's	%
Medicine	5,460	6,107	647	11.9%	16,701	18,182	1,482	8.9%
Surgery	3,968	3,510	-458	-11.5%	11,971	10,848	-1,122	-9.4%
Clinical Services	1,731	2,148	417	24.1%	5,501	5,572	70	1.3%
Other	557	70	-487	-87.5%	1,485	1,282	-202	-13.6%
Total Income	11,715	11,835	120	1.0%	35,657	35,885	228	0.6%

6.2.2 The key points to note are:

- **The Medicine Division are £1,482k above plan year to date**
This is mainly due to over-performance on high cost devices (£1,496k) which is offset with the corresponding device expenditure. These are ICD devices which were expected to have transitioned to NHS England under the zero cost model on 1 April 2019 but transfer has been delayed. The Trust therefore continues to generate an income for these costs which was not anticipated in the plan.
- **The Surgery Division are £1,122k below plan year to date**
The Surgery division have under-performed against plan by 93 inpatient spells in the year to date. Particular areas of under-performance to note are CABG & Valve procedures which together are 76 cases behind plan, equating to £1,065k in income terms. This is driven by:
 - a) a shortage of additional sessions provided by consultants given the pension tax issues referenced in section 1 above
 - b) pathway and casemix pressures given the specialist nature of patients waiting for surgery which are heavily weighted to procedures carried out by a small number of surgeons. Training is actively underway to address this by the end of the calendar year.
- **The Clinical Services Division are £70k above plan year to date**
Driven by an over performance in Critical Care activity (£213k) offset by under-performance in outpatient and provider to provider radiology income (-£134k).
- **Other income** comprises CQUIN, Education and Training, Research and Development, Provider Sustainability Funding and other adjustments (e.g. reserves). The under-performance of £202k is mainly due to Research & Development (-£50k), Education & Training (-£35k) and ACHD network income (-74k), which are all down to timing of transactions and are matched with underspends in expenditure.

6.3 Expenditure

Expenditure overall has a variance in month of £165k (1.5%) and a year to date deficit variance of £307k (1%). This is due to high cost devices in Medicine being significantly above plan, as ICD devices have not yet transitioned into the Zero Cost Model. This is offset by activity being under plan in Surgery and slippage, mainly pay, on a number of developments in Medicine

The key issues are as follows:

- **Pay (£165k underspent spent in month, £760k underspent year to date)**
 - Lower than planned activity levels have resulted in a £85k favourable variance in surgery, mainly within nursing and Theatres.
 - Due to the reduced surgical activity, Clinical Services pay is also £285k underspent cumulatively (£141k in month). This is mainly due to the Anaesthesia Medical Staff costs being lower than planned.
 - Radiology staffing is underspent by £112k due to activity not yet commenced on the planned business cases (including Inherited Cardiac Conditions).
- 6.3.1 Non pay expenditure (£330k overspent in month, £1,067k year to date)**
- Clinical supplies costs are £177k adverse in month, £914k adverse year to date. This is mainly the result of ICD devices which have not yet transferred to the Zero Cost Model, offset by lower than planned activity which has resulted in a favourable variances for Radiology (£45k), Perfusion (£43k) and Theatres (£78k)
 - Premises cost are £33k overspent in month mainly due to increase in energy prices, which are being investigated.

7. CIP Performance

The position at month 3 shows recurrent CIP delivery of £531k against a target of £884k, providing a shortfall of £353k (60% achievement) this is offset by £88k of non-recurrent schemes, leaving a gap of £266k.

Performance against the annual CIP target is currently forecasted to be £2.9m against a plan of £3.8m, of this, £448k is non-recurrent. Identifying the remaining gap is a priority for the divisions Operational Board. The current CIP position is further illustrated in Tables 5.1 and 5.2 below.

Table 5.1: Year to Date CIP delivery by Category & Directorate

YTD Performance by Category	Plan	R & NR Actual	In Year Recurrent CIPs		In Year Non-Recurrent CIP's		Current in year Gap		Current in year Recurring Gap	
	£'000	£'000	£'000	%	£'000	%	£'000	%	£'000	%
Income	87	88	67	77%	21	24%	1	1%	-20	-23%
Pay	308	208	185	60%	23	7%	-100	-33%	-123	-40%
Non Pay	489	322	279	57%	44	9%	-166	-34%	-210	-43%
Total	884	618	531	60%	88	10%	-266	-30%	-353	-40%

YTD Performance by Directorate	Plan	R & NR Actual	Recurrent CIPs		Total Actual Non-recurrent		Current in year Gap		Current in year Recurring Gap	
	£'000	£'000	£'000	%	£'000	%	£'000	%	£'000	%
Medicine	247	170	130	53%	40	16%	-78	-31%	-117	-47%
Surgery	163	151	131	80%	20	12%	-12	-7%	-32	-20%
Clinical Services	231	128	102	44%	27	11%	-102	-44%	-129	-56%
Corporate	243	169	168	69%	1	1%	-74	-30%	-75	-31%
Total	884	618	531	60%	88	10%	-266	-30%	-353	-40%

Table 5.2: Forecasted CIP delivery by Category & Directorate

Forecast Performance by Category	Plan	R & NR Actual	In Year Recurrent CIPs		In Year Non-Recurrent CIP's		Current in year Gap		Current in year Recurring Gap		Full Year Effect of Recurring CIP's	
	£'000	£'000	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Income	406	441	356	88%	85	21%	35	9%	-50	-12%	356	88%
Pay	1,439	997	808	56%	189	13%	-442	-31%	-631	-44%	862	60%
Non Pay	1,955	1,477	1,302	67%	175	9%	-478	-24%	-653	-33%	1,452	74%
Total	3,800	2,915	2,467	65%	448	12%	-885	-23%	-1,333	-35%	2,671	70%

Forecast Performance by Directorate	Plan	R & NR Actual	In Year Recurrent CIPs		In Year Non-Recurrent CIP's		Current in year Gap		Current in year Recurring Gap		Full Year Effect of Recurring CIP's	
	£'000	£'000	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Medicine	959	742	583	61%	159	17%	-217	-23%	-376	-39%	640	67%
Surgery	943	816	638	68%	178	19%	-127	-14%	-305	-32%	643	68%
Clinical Services	926	566	460	50%	106	11%	-361	-39%	-467	-50%	542	59%
Corporate	972	792	787	81%	5	1%	-181	-19%	-186	-19%	846	87%
Total	3,800	2,915	2,467	65%	448	12%	-885	-23%	-1,333	-35%	2,671	70%

Operational delivery of the CIP plan is being overseen through the Business Transformation Steering Group, chaired by the Chief Finance Officer.

8. Conclusion

The year to date overall financial position for quarter 1 is a surplus of £81k, against a planned surplus of £79k, showing a favourable variance of £2k. However, this position has been supported by a £50k non-recurrent benefit from the delayed transfer of high cost devices to the zero cost national procurement programme. Without this, funding from reserves would have been required to support the month 3 position given lower than planned levels of activity in Surgery; recovery of this position is the subject of series of actions being instigated by the Surgical Division and is being monitored closely.

9. Recommendations

The Council of Governors are asked to note the financial position of the Trust for the period ending 30th June 2019 (Quarter 1).