The Queen Elizabeth Hospital NHS
King's Lynn
NHS Foundation Trust

REPORT TO THE BOARD OF DIRECTORS (IN PUBLIC)

RESPONSIBLE DIRECTOR:	REPORT FOR:		IMPACT ON BUSINESS:		
David Stonehouse Director of Finance	Decision	√	High	Med	Low
	Discussion			√	
	Information	√			
LEAD MANAGER:	**REPORT TYPE:**		**BAF REFERENCES & RAG:**		
	Strategic				
	Operational	√			
	Governance		**RELATED WORK: (PREVIOUS PAPERS TO COMMITTEE)**		
PEER ASSIST:	**PEER REVIEW:**				
CQC Domain: (safe, caring, effective, responsive, well-led)	Effective & Well-led				

Meeting Date: 26 July 2016
Report Title: Finance Exception Report

PURPOSE:

To update the Board on the financial position to the end of June 2016.

SUMMARY:

Excluding the Sustainability and Transformation Fund, the Trust has made a loss of £0.836m in June 2016, which is £0.198m favourable to plan. Year to date, the Trust has made a loss of £4.168m, which is £0.333m adverse to plan.

The Trust has not attained the level of financial performance required to access the Sustainability and Transformation Fund in Q1 2016/17. The consequence of this is that the Trust's Q1 adverse variance increases by £1.625m, from £0.333m to £1.958m.

The Q1 Sustainability and Transformation Fund will be available to the Trust when year to date performance (measured at each quarter-end) is back on plan.

FINANCIAL IMPLICATIONS / EFFICIENCY SAVINGS / QUALITY IMPROVEMENT:

RISK ASSESSMENT (CROSS-REFERENCE WITH RISK REGISTER WHERE APPROPRIATE):

Strategic / External	Operational/ Organisational	Financial	Clinical	Legal/ Regulatory	Reputational / Patient Experience
		√			

RECOMMENDATIONS:

The Board of Directors

a) To note the financial position.

FINANCE REPORT

1.0 Introduction

The purpose of this report is to inform the Board of the Trust's financial position as at 30 June 2016

2.0 Sustainability and Transformation Fund

NHS Improvement (NHSI) has issued guidance as to the performance standards (financial and non-financial) that NHS Trusts need to achieve in order to gain access to the Sustainability and Transformation Fund (the Fund).

The NHSI has set access criteria to the Fund which sends a very clear signal that financial performance is a key priority for NHS providers. In brief, to access any of the Fund, an NHS Trust must achieve its year to date financial control total. NHSI have termed this measure a "binary on/off switch".

If an NHS Trust is successful in achieving its year to date financial control total, 70% of the year to date fund becomes payable. How much of the remaining 30% is payable is dependent on performance against agreed trajectories for Referral To Treatment (12.5%), A&E 4 hour waits (12.5%) and cancer 62 days (5%).

NHSI have set aside £6.5m from the Sustainability and Transformation Fund in 2016/17 to be available as income for the Trust based on performance. The Trust's financial plan assumes that both financial and non-financial performance standards meet the criteria to release the full £6.5m.

3.0 Financial Position June 2016 and Year to Date

Excluding the Sustainability and Transformation Fund, the Trust has made a loss of £0.836m in June 2016, which is £0.198m favourable to plan. The favourable variance is due to a positive month in terms of clinical income earned.

An increase of 6.4% in the number of emergency patients in quarter 1 2016/17, compared to quarter 1 2015/16, has led to higher than plan clinical staffing costs.

Year to date, the Trust has made a loss of £4.168m, which, excluding planned income from the Sustainability and Transformation Fund, is £0.333m adverse to plan.

To establish eligibility for income from the Sustainability and Transformation Fund, NHSI compare actual year to date financial performance with the APR plan (the profile of the APR plan differs to the Trust's budget profile as detailed budget setting was finalised after submission of the APR).

The financial performance measure used by NHSI is slightly different to the "bottom line" deficit as the measure excludes donated income, donated asset depreciation and profit / loss on asset disposals. Taking account of these adjustments, the Trust is £0.881m adverse to the financial control total. This

means the Trust will not be allowed access to any of the £1.625m available as at Q1 (£6.5m is available to the Trust in total in 2016/17).

The consequence of not having access to the Fund is that the Trust's Q1 deficit remains at £4.168m but is £1.958m adverse to plan as the plan assumed receipt of £1.625m from the Fund.

The Trust's short term cash flow is also impacted with assumed £2.7m of cash receipts (for the 5 months April to August) no longer available.

The Q1 Sustainability and Transformation Fund will be available to the Trust when year to date performance (measured at each quarter-end) is back on plan.

4.0 Clinical Revenue (excluding pass through items) June 2016 and Year to Date

In June, clinical revenue is £1.003m **favourable** to plan. Year to date the position is £0.654m **favourable** to plan .

Performance by POD is currently being monitored against the plan agreed with commissioners which was finalised after the APR plan was submitted to NHS Improvement. The commissioner plan in total is a higher value than the APR plan which means that a reconciling adjustment is made (described as Alignment Adjustment in the table below). As the commissioner plan is higher in value this line will always record a positive variance.

The table below presents a summary of the main variances recorded in June and Year to Date:

Patient category	Variance June £ 000s	Variance Year to Date £ 000s
Day-cases	(44)	(285)
Elective Inpatients	(3)	(149)
Outpatients	(31)	121
Non-elective	651	174
A&E Attendances	(36)	20
Alignment Adjustment	90	569
Other Items Combined	374	203
Grand Total	**1,001**	**653**

5.0 Pay and Non-Pay Operating Costs

Total expenditure is £0.497m adverse to budget in June 2016. Year to date expenditure is £0.657m adverse to budget.

Pay expenditure is £0.310m adverse to budget in June 2016. The adverse variance is due to;

- increases in medical agency staff spend required to improved rota fill rates in response to the 6.4% increase in emergency patients plus new pressures due to sickness absence and vacancies;
- Increases in doctors temporary work payments and waiting list initiatives.

Year to date, pay costs are £0.119m (0.4%) adverse to plan.

NHSI have issued NHS Trusts with an upper limit for 2016/17 agency staff expenditure. The upper limit for our Trust has been set at £10.040m (Trust spend in 2015/16 was £10.327m). In June the Trust has spent £0.123m more than the value set by NHSI. However, year to date, the Trust is £0.355m favourable to the NHSI profile.

Non-pay costs in June 2016 are £0.187m adverse to budget. The main components of the variance are;

- Combined heat and power plant maintenance costs,
- Clinical supplies including day case staple guns, endoscopy and theatre general stores, instrument repairs, radiology send away reporting and wheel chairs.
- A financial contribution to the system resilience programme
- CIPs shortfall

Year to date, non-pay costs are £0.538m (5.8%) adverse to budget.

6.0 Restructuring Costs

Restructuring costs in June 2016 are £0.222m adverse to budget. The adverse variance is due to the costs of short term investments, which are expected to generate long term benefits. These costs are partly offset by additional income from the 2015/16 financial year.

Year to date restructuring costs are £0.286m adverse to budget.

7.0 2% Cost Reduction Programme

The 2016/17 2% cost reduction target is £2.6m of recurrent savings. The programme comprises £0.3m revenue generation, £0.9m pay and £1.4m non pay savings.

The value of savings delivered each month this financial year has continued on an upward trend. In June £0.166m of savings were delivered, being 83% of

target (May £0.126m, 63% of target, April £0.103m, 52%of target). The savings delivered in June were close to the forecast of £0.171m.

8.0 Forecast Out-turn

The forecast out-turn for 2016/17 is for the Trust to deliver its deficit control total of £5.386m. The forecast assumes;

- Non-financial, as well as financial criteria are met, ensuring the Trust qualifies for the full £6.5m of income available in 2016/17 from the Sustainability and Transformation Fund.
- Delivery to plan for elective, day case and outpatient activity.
- Successful recruitment to executive and senior clinical posts
- Full delivery of 2% CIPs
- Recovery of year to date overspends and
- Finding alternative savings to offset the delayed service transformation programme in Women and Children's services.

9.0 Capital and Cash

The size of the 2016/17 capital expenditure budget has yet to be confirmed by NHSI. The capital plan submitted as part of the APR assumed a budget of £14.5m however indications are that the budget will be lower, possibly as low as £7m.

With the uncertainty surrounding the size of the capital budget, spending is being deferred, in particular the CT scanners until later this financial year and the telephony system until next financial year.

Projects carried over from the previous year continue to achieve key milestones in a timely fashion.

During July the Trust will reassess its monthly cashflow profiles and discuss with NHSI the proposed process to address the potential cash shortfall associated with reduced receipts in Q1 & Q2 from the Sustainability & Transformation fund.