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 and Deputy Chief Executive	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: 27 September 2016

Report Title: Finance Exception Report

PURPOSE:

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

SUMMARY:

- The Trust has made a loss of £2.180m in August 2016, which, excluding the Sustainability and Transformation Fund, is £1.538m adverse to plan.
- Clinical income in August is £0.902m below the original APR plan, although when compared to the divisional trajectories developed in the subsequent SLAM plan, clinical income is £0.140m above plan.
- August financial performance is £0.520m adverse to the forecast deficit of £1.660m. An upward shift in agency staff costs is of particular concern.
- Year to date, the Trust has made a loss of £7.480m, which, excluding the Sustainability and Transformation Fund, is £1.887m adverse to plan.
- As explained in the June 2016 finance report, the APR monthly spend profile differs from the Trust's detailed budget. As at month 5, the year to date difference in profile is £1.055m, which means Trust performance, excluding Sustainability and transformation Fund income, is £2.942m adverse to APR plan.
- Failing to achieve the financial control total means the Trust is not entitled to

Sustainability and Transformation Funding as planned. This adds a further £2.708m to the above year to date adverse variances, bringing the adverse variance to Trust budget to £4.595m and to £5.650m against APR.

- The forecast is still to achieve the £5.3m deficit control total but this will require intense effort to deliver recovery measures.

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

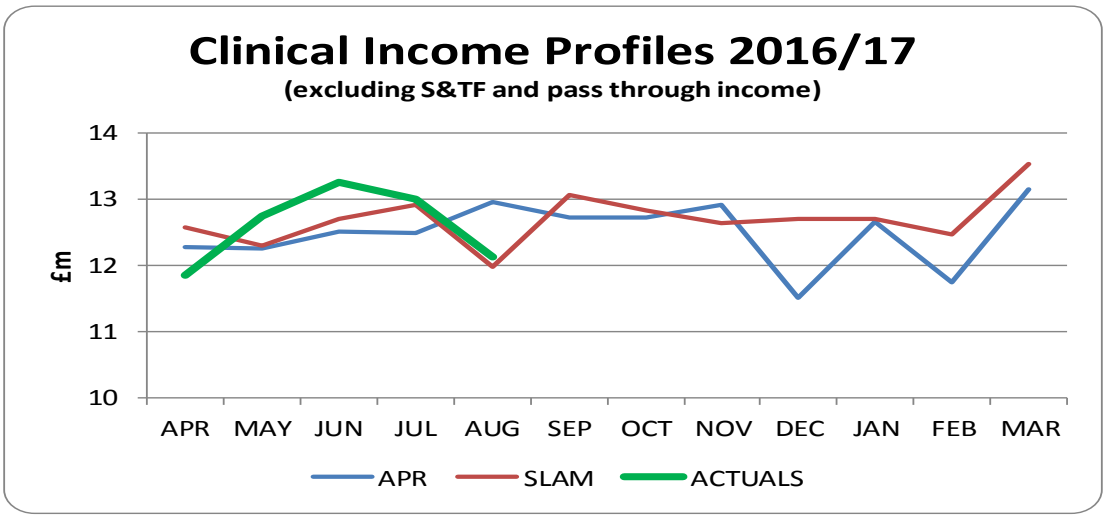
The purpose of this report is to inform the Board of the Trust's financial position as at 31 August 2016

2.0 Financial Position August 2016 and Year to Date

The Trust has made a loss of £2.180m in August 2016. The loss incurred in August is the biggest loss in a single month since the Trust was authorised as a Foundation trust. Excluding the Sustainability and Transformation Fund (S&T Fund), financial performance in August is £1.538m adverse to plan. The adverse variance consists of income £0.880m adverse, expenditure £0.518m adverse and items below EBITDA £0.157m adverse.

The adverse income variance is due to the monthly profiling of the income budget rather than unexpected poor performance. The variance is measured by comparing actual income against the income plan submitted as part of the APR. However, subsequent to the APR submission, revised clinical income plans were agreed with commissioners (and internally with Clinical Divisions). The commissioner agreed plan (SLAM plan) is higher in value and has a different monthly profile. For August, the difference in value between the APR plan and commissioner plan/SLAM plan is £1.042m, which accounts for the £0.902m reported adverse variance.

The difference in monthly profiling between the APR submission and the commissioner agreed plan is shown in the graph below (the red line described as "SLAM" is the commissioner agreed plan) alongside the monthly actuals year to date. Assuming performance continues in line with the commissioner agreed plan, we will see significant favourable income variances to APR plan in December 2016 and February 2017.



When comparing actual income with the commissioner agreed plan, Trust performance is £0.140m favourable in August and £0.492m favourable year to date. If actual performance continues to exceed the commissioner plan, the 2016/17 income objectives of the Trust will be met.

With clinical income being ahead of the commissioner plan, the Trust's deteriorating financial performance is due to the escalating cost of treating and caring for an increasing number of patients whilst maintaining and improving on key access waiting time standards. Year to date the deficit now stands at £7.480m. Excluding the planned income from the S&T Fund, financial performance is £1.887m adverse to plan.

With the Trust not meeting its control total, access to the S&T Fund is not permitted. This adds a further £2.708m deviation from plan, bringing the total year to date adverse variance to plan to £4.595m.

In terms of forecast for the month of August, a deficit of £1.660m had been expected for the month. The adverse variance of £0.5m to forecast is split £0.2m on income and £0.3m on cost.

3.0 Clinical Revenue (excluding pass through items) August 2016 and Year to Date

Year to date, clinical revenue (excluding sustainability funding and pass-through payments) is £0.160m favourable to the plan. In August clinical income is £0.183m adverse to the forecast position.

The table below presents a summary of the main variances recorded in August and year to date. The table also shows the variance between actuals and forecast (totalling £0.183m adverse).

Patient category	Variance In August £000	Variance To Forecast £000	Variance YTD £000
Day-cases	(98)	(205)	(499)
Elective Inpatients	110	65	(40)
Outpatients	168	(195)	289
Non-elective Inpatients Long Stay	69	53	201
Non-elective Inpatients Short-stay	170	167	341
A&E Attendances	47	(10)	183
Plan Re-alignment	(1,042)	0	(286)
Other Items Combined	(326)	(58)	(29)
Grand Total	**(902)**	**(183)**	**160**

The variance recorded in August is £0.902m adverse to plan. However as described in Section 2 of this report, this figure includes an adverse variance of £1.042m which is the difference in value in August between the APR plan submitted to NHSI and the subsequent activity and income plan agreed with

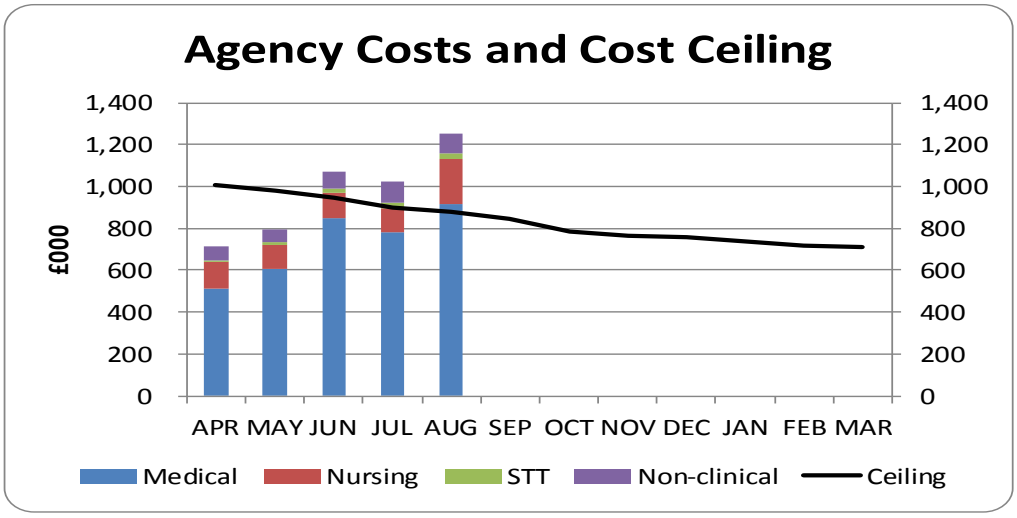
commissioners (and internally with Clinical Divisions). Performance in August has actually been above the plan in the majority of PODS with day-cases and critical care (within other items) being the exceptions.

The adverse variance against forecast in August is within the day case and outpatient PODs.

4.0 Pay and Non-Pay Operating Costs

In August, total expenditure is £0.518m adverse to plan. The August variance comprises pay £0.339m adverse and non pay £0.179m adverse.

- The cost of agency staff in August is £0.472m above plan whilst substantive pay expenditure was £0.133m below the plan. This makes total pay expenditure £0.339m above plan and is a significant cause of concern as the agency run rate has increased by 74% from £0.714m in April to £1.240m in August.
- Within the agency expenditure variance;
  - medical staff costs were £0.267m above plan consisting of obstetrics and gynaecology £0.088m, Respiratory Medicine £0.060m with smaller adverse variances in Geriatrics, Haematology, Radiology, Urology and ENT but together amounting to £0.119m.
  - With a concerted effort to increase nurse staffing on the wards, nursing agency staff increased by 84% in August compared to July. Nursing agency spend was £0.111m above plan however with underspends against substantive and bank budgets, overall nursing spend was on budget.
  - Other staff group's agency spend was £0.094m above plan.
- The increase in agency cost is driven chiefly by medical staffing as the graph below demonstrates.



- £2.810m (77%) of the year to date medical agency spend of £3.664m is to cover vacant posts, £0.455m (12%) has been spent on additional posts to help improve patient flow, £0.172m (5%) covers sickness absence with the remaining £0.227m (6%) driven by other factors.
- Year to date agency costs of £4.845m exceed the ceiling set by NHS Improvement by £0.129m.
- Non-pay expenditure in August was £0.179m above plan (though non pay spend was £0.088m lower than that for July). The primary variances are as follows:
    - £0.151m above plan for clinical supplies, particularly within the Surgical Division.
    - Other non-pay variances net to £0.028m above plan.

Year to date expenditure is £1.425m adverse to plan, comprising pay £0.481m and non-pay £0.944m.

5.0 Restructuring Costs

Restructuring costs in August 2016 are £0.152m 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.

The patient flow work has been completed in August so monthly restructuring costs will reduce in value.

Year to date restructuring costs are £0.621m adverse to budget.

6.0 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.

In August, £0.182m of savings were delivered (81% of target). This compares to the 73% of target achieved in July. The savings delivered in August were close to the forecast of £0.188m.

Savings delivered year to date of £0.741m are 71% of target.

Savings to the value of £2.413m (92%) have been identified but that leaves £0.224m as yet unidentified which needs attention.

7.0 Forecast Out-turn

The forecast out-turn for 2016/17 is for the Trust to deliver its deficit control total of £5.3m which assumes;

a) receipt of £6.5m of Sustainability and Transformation Funds i.e. a pre-Sustainability and Transformation Fund deficit control total of £11.8m and

b) Successful delivery of recovery actions (see section 8 below).

8.0 Recovery Actions

Latest Divisional forecasts indicate that, without recovery measures, the Trust will end the financial year £1.8m adrift of the deficit control total. It is therefore imperative that;

- CIPs are delivered in full.
- Discretionary spend is minimised, opportunities are currently being reviewed with Divisional teams.
- Agency spend is committed only when all other options have been exhausted and is essential in the context of providing safe services. Guidance issued by NHSI, "Reducing reliance on medical locums: a practical guide for medical directors", is currently being implemented.
- Delivery in full of the forecast clinical income.
- Non-pay expenditure is committed in the most economical way without compromising patient safety.
- 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.

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.

The Trust has submitted a revised capital budget of £11.2m to NHSI. NHSI are in the process of scrutinising the Trust's proposed capital programme and we await their feedback.

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

The Trust has reassessed its monthly cashflow profiles and is in discussions with NHSI as to the process to address the cash shortfall associated with reduced receipts from the Sustainability & Transformation Fund.