SOUTH TYNESIDE NHS FOUNDATION TRUST

QUARTERLY FINANCIAL COMMENTARY

Quarter 3 - 2015-16

1 Summary

The Trust is reporting a deficit on the statement of comprehensive income of £1.593m for the third quarter of the year, compared to a planned deficit of £0.344m for the quarter, an adverse variance from plan of £(1.249m).

The year to date position is a deficit of £7.572m, which is an adverse variance of £15.621m compared to the planned surplus of £8.049m. £12.657m of this variance is due to the transfer of St Benedict's Hospice not yet completing. The underlying adverse variance to plan excluding the pending transfer is £2.964m.

Cash balances 31 December 2015 stood at £11.261m, an adverse variance of £1.877m compared to plan. Cash outflow in the quarter was £1.793m compared to planned outflow of £2.317m.

2 Trading in the last reporting period

Income

Operating income is £4.086m above plan for the third quarter and £5.890m above plan for the year to date (adjusting for the impact of the non-transfer of St Benedict's Hospice).

Community cost & volume PbR revenue and community block and other revenue are £0.975m favourable to plan in the quarter.

Acute activity income, including elective, elective day-case, non-elective, outpatients, A&E and other national price income, is above plan by £1.846m in the third quarter. This is driven by favourable variances in non-elective, A&E income and outpatient income totalling £1.086m and other NHS activity income of £1.104m (mainly additional income sources not included in the Annual Plan). These favourable variances are partially offset by adverse variances in elective inpatients and elective day-patients totalling £(0.344m).

There are adverse variances in contract penalties of £(0.046m), CQUIN income of £(0.004m) and private patient income of £(0.001m) offset by favourable variances in respect of pass-through drug costs of £0.225m and other non-NHS clinical income £0.004m.

This brings the total favourable variance in clinical income in the third quarter to £2.999m.

There is a favourable variance of £1.087m in non-clinical income. The largest variances are within services to other NHS bodies and other operating income.

Expenses

Operating expenses are £(5.532m) above plan in the third quarter.

Employee expenses are adverse by £(3.749m) for the quarter. This is a continuation of the trend for the year to date and the biggest drivers behind this variance continue to be pressures within medical staffing and the requirement to cover sickness and vacancies. The variance is made up of £(2.820m) within substantive, bank and overtime costs, which in is in part funded by additional income for services not originally included within the plan and partly relates to CIP under achieved in the quarter. There is also variance of £(0.929m) in the quarter within locum and agency staff due to issues with sickness and recruiting to vacancies in some areas.

Raw materials and consumables are showing an adverse variance of £(0.728m) in the third quarter. This is made up of drugs costs of £(0.393m) (of which £0.171m is the variance on pass through drugs), clinical supplies and services of £(0.339m) and a small underspend in other raw materials and consumables of £0.003m.

Other non-pay expenses within EBITDA are £(1.006m) adverse to plan. An overachievement of CIP of £0.301m is offset by adverse variances totalling £(1.307m) comprising overspends mainly in relation to the impact of additional funding not included in the Annual Plan of £(0.851m) and higher than planned Pathology costs £(0.223m).

Operating expenses excluded from EBITDA are showing a small adverse variance of £(0.049m) with lower than planned depreciation of £0.056m offset by restructuring costs of £(0.105m).

Non-Operating Items

There is a small adverse variance of £(0.011m) in the quarter within non-operating income as a result of interest income being below plan. This is offset by a favourable variance in non-operating expenses of £0.207m; mainly due to lower than planned PDC dividend expense.

Working capital

Overall there is an adverse variance for the third quarter of £(0.799m).

There is an adverse variance of £(2.068m) within current receivables mainly as a result of NHS trade receivables and prepayments being higher than planned.

The movement in deferred income is £0.430m favourable to plan in the quarter.

The movement in Payables is £0.997m favourable to plan.

Other variances making up the total include inventories £(0.180m) and provisions £0.022m.

Cash flows

Cash outflow in the quarter was £(1.793m) resulting in cash being below plan by £(1.877m) at the end of the third quarter.

The key drivers of the year to date cash flow position are as follows:

- Lower than planned drawdown of loans £(3.273m).
- A higher than planned deficit from operations (excluding the impact of the St Benedict's transfer) of £(3.243m)
- Higher than planned creditors totalling £3.216m (including capital creditors).
- Higher debtors – mainly within trade payables totalling £(3.971m).
- Lower than planned capital expenditure of £3.889m (excluding the impact of the St Benedict's transfer).
- Higher than planned deferred income of £1.557m.
- Lower than planned PDC dividend paid of(£0.054m)

Statement of Financial Position

Total assets employed as at 31 December are £62.158m, compared to a plan of £77.778m.

Non-current assets are £(16.501m) lower than plan. Property plant and equipment is below plan by £(16.506m) of which £12.657m is due to the delay in the transfer of St Benedict's Hospice. The remaining variance is mostly due to the current underspend on the capital programme.

Net current assets are £(2.366m) lower than plan. Payables £(2.964m) and deferred income £(1.557m) are higher than planned; combined with cash £(1.877m) lower than planned. This is partly offset by higher than planned receivables £4.052m. There are smaller variances within inventories of £(0.055m) and provisions £0.031m and borrowings £0.004m.

Non-current liabilities are £3.247 lower than planned mainly as a result of the borrowings from the ITFF being less than planned (£3.272m). The remainder is the result of non-current provisions being lower than planned.

3 Risk ratings

The Trust's rating under the Financial Sustainability Risk Rating (FSRR) for the quarter is a 2. This comprises:

- Liquidity – 4
- Capital servicing capacity – 1
- I&E margin rating – 1
- I&E margin variance from plan rating – 1

The overall rating is line with the FSRR that has been calculated based on the figures included in the Annual Plan.

There was one case of clostridium difficile in the quarter due to lapses in care. This brings the year to date total up to six; the same number as the year to date target.

Performance for the quarter against the target for the cancer 31 day wait for second or subsequent drug treatment was 97.4% compared to the target of 98%. The Trust had 39 cases in the quarter and one patient breached the target. In accordance with the Risk Assessment Framework Monitor does not consider there to be a breach where trusts fail individual cancer thresholds but only report a single patient breach over the quarter.

The A&E Clinical Quality – Total Time in A&E under 4 hours achievement in the quarter was 94%. Monitor and NHS England colleagues have met with South Tyneside System Resilience Group members on a number of occasions to monitor the Trust's progress in implementing the agreed SRG action plan that was developed in line with guidance from Monitor and with on-going support from NHS England. The action plan has been fully implemented by the Trust. Weekly meetings are held with a key subgroup of the SRG and monthly meetings are in place with the full SRG membership to continually review progress and continuous improvement.

The Service Performance Score for the quarter is 1.0. This is the second breach of the A&E target in a four-quarter period and as a result a governance concern has been triggered. The Trust is satisfied that plans in place are sufficient to ensure ongoing compliance with all existing targets and has confirmed this in the Governance Statement sheet on the template.

4 Cost improvement programme

The 2015-16 cost improvement requirement in the annual plan amounts to £12.743m or approximately 6.4% of planned operating expenditure. The achievement for the year to date is £6.341m of which £3.483m has been achieved recurrently. The annual impact of the delivery to date is £8.294m, which is 65% of the annual target, with 56% of this delivery being recurrent.

Forecast delivery of CIP for 2015-16 now stands at £9.344m. The Trust has re-established its Programme Management Office and the governance arrangements surrounding it. The function has been working closely with the Trust's clinical and non-clinical services to provide support in identifying, developing CIP schemes for inclusion within the 2016-17 Annual Plan to be submitted in February.

5 Forecast Outturn

The forecast outturn is a surplus of £2.923m including the transfer of St. Benedict's Hospice. Excluding this the normalised deficit is £9.734m, this is a deterioration of £0.312m on the forecast deficit position at month 8 of £9.422m. This reflects a potential provision for redundancy payments of £1.611m from the Trust's programme of voluntary redundancy and a £1.300m increase in revenue from the proposed capital to revenue transfer.

The forecast CIP achievement for the year is £9.344m based upon current plans.

Cash balances are forecast to decrease to £8.285m by the year end.

The Trust has reviewed the proposed financial improvements detailed in the letter from Stephen Hay to NHS Foundation Trusts on 15 January 2016; the action being taken is detailed in the table below:

Description	Action
Local capital to revenue transfers	The Trust has reviewed its capital programme and originally proposed a figure of £1.3m that could be safely deferred from the capital programme.
Accurate monthly capital forecasting	The capital programme is reviewed on a monthly basis by the Capital Sub Groups and reported on a quarterly basis to the Capital Governance Group which consists of Executive Directors. Any non-essential spend is currently being deferred.
Accurate provision reporting	A full review of provisions has been undertaken by the Director of Finance and the remaining provisions are deemed

	necessary.
Workforce	The Trust is reviewing ways of implementing this whilst maintaining the safety of patients.
Agency staffing	The Trust is working to reduce the number of shifts worked above the cap rate by negotiating with agencies. There is also a drive to encourage more bank work and recruit permanently to vacant posts to reduce the need to cover shifts with agency workers. It is also exploring the option of setting up a bank resource to be shared with other local providers.
Reviewing in-year priorities	The Trust is reviewing ways of maximising revenue and controlling costs. As part of this work is being undertaken on behalf of other local hospitals where the Trust has capacity. Clinical Divisions are working closely with the PMO function and their Divisional Accountants to review areas where expenditure can be reduced.
Balance sheet review: prudence	A full review of the balance sheet is undertaken on a monthly basis and a realistic rather than overly prudent view of balances has been adopted.
Bad debt provisions	The Trust has applied this approach and the current bad debt provision is minimal.
VAT changes	The Trust appointed Ernst and Young as a VAT advisor early this year and has been working closely with them to ensure any VAT eligible for recovery is being recovered.
Annual leave	The Trust has stipulated that all staff take their full annual leave in the financial year in which it is accrued unless there are exceptional circumstances. There is a robust process in place for collecting details of outstanding annual leave at the end of the financial year.
Asset valuations	All building assets were valued using an alternative site methodology in 2014/15. The Trust is expecting the transfer of St Benedict's Hospice to go ahead this financial year and is also expecting to complete construction of two new buildings during 2016/17. These will both be incorporated into the merged block valuation
Asset lives review	A review of all building lives is undertaken on an annual basis. In addition a review of the assets lives of equipment is also undertaken and wherever safe to do so lives will be extended to obtain the maximum benefit from the asset.

6 Lord Carter Programme

Work on the Lord Carter Programme is continuing and the Trust met with the Lord Carter team on 22 December 2015.

The Safer Care tool from Allocate has now been implemented across the pilot wards and the Trust is developing ways of integrating this into its working practices.

The Trust has also recently approved a business case to implement electronic rostering for medical staff and will use this to develop more efficient and safe rosters.

7 St. Benedict's Hospice

The Trust has been informed by the Department of Health that the transfer of St Benedict's has again been delayed. The transfer is now expected to take place on 29 February 2016.

8 South Tyneside Integrated Care Hub

There has been a slight delay in building work due to the bad weather, however, the care hub, which has officially been named as Haven Court, is due to open in the summer of 2016.

Following a recruitment process a manager has been selected and is due to commence towards the end of the financial year. Work will begin in the final quarter of 2015/16 to recruit staff (some staff will be transferring from a care home under TUPE arrangements).

9 Capital Programme

Capital expenditure to date is 65% of the Annual Plan excluding the impact of the transfer of St Benedict's Hospice. This is 98% of the revised plan submitted as part of the Q1 return. The Trust has deferred any non-essential spend to aid the proposed capital to revenue transfer and now expects to deliver a capital programme of £22.926m a reduction of £5.006m from the programme submitted in the Annual Plan.

10 Operational Plan 2016/17

The Trust is currently in the process of producing the first draft of its Operational Plan for 2016/17 which is due to be submitted on 8 February. Whilst initial draft planning indicates that the Trust will retain positive cash balances throughout the year there are a number of assumptions that have been made that still need to be finalised. It is therefore possible that the Trust may require Financial Distress funding during the year and, in accordance with the planning guidance, Monitor has been notified of this.

11 Changes to Boards

Mr Peter Davidson retired at the end of his term as Chairman of the Trust on 31 December 2015 and was replaced by Mr Neil Mundy from 1 January 2016. Mr Mundy was appointed by the Council of Governors at their meeting on 21 October 2015.

Lorraine Lambert retired from her position as Chief Executive on 30 September 2015 and was replaced by Steve Williamson on 1 October 2015. Steve was previously the Trust's Chief Operating Officer.

Michelle Arrowsmith joined the Trust on 5 October 2015 as the new Chief Operating Officer.

Dr Shahid Wahid was appointed as Medical Director from 1 December 2015. Dr Wahid takes over from Dr Alan Rodgers who has recently retired from the position.

Following elections for public and staff governors held in December Eleanor Dawson, David Donohue and Terry Haram have been appointed as public governors representing South Tyneside replacing Pat Anthony, Steven Burnell and Jim Perry. Katharine Nicholson has been appointed as a public governor representing Gateshead. In addition, James Hughes has been appointed as non-clinical staff governor replacing Kevin McBride.

12 CQC Inspection Visit

The report from the Trust's CQC inspection was published on 1 December 2015 following the Quality Summit. The Trust required an overall rating of 'requires improvement'. Ratings for the individual areas were as follows:

- Safe – Requires improvement
- Effective – Requires improvement
- Caring – Outstanding
- Responsive – Requires improvement
- Well-led – Requires improvement

The Trust has an agreed improvement plan in place with CQC and all actions are due to be completed by June 2016. As such the Trust has declared CQC compliance action outstanding within the Target and Indicators sheet.

13 Conclusions

Financial performance for the quarter continues to be adverse to plan. Additional income streams have been offset by associated increases in expenditure. The Trust remains committed to achieving financial sustainability and is implementing CIP schemes, via the PMO function, in order to deliver a robust plan for 2016/17. In addition actions will be undertaken (as indicated in section 5) to drive down costs and grow income for the remainder of 2015/16 and beyond.

The Trust's Financial Sustainability Risk Rating under the Risk Assessment Framework is a 2. The forecast FSRR for the financial year is also a 2.

Mr M P Robson
Executive Director of Finance and Corporate Governance
26 January 2016