Choose South Tyneside NHS NHS Foundation Trust

SOUTH TYNESIDE NHS FOUNDATION TRUST

QUARTERLY FINANCIAL COMMENTARY

Q1 2015-16

1 Summary

The Trust is reporting a deficit on the statement of comprehensive income of £3.698m for the quarter, compared to a planned surplus of £9.970m for the quarter, an adverse variance from plan of £13.668m.

The majority of this variance is due to the transfer of St Benedict's Hospice to the Trust not completing as planned in the first quarter at a value of £12.657m. There have been significant delays in the property transferring to the Trust, however, it is now expected the transfer will completed during the second quarter of the financial year. Adjusting for this the normalised variance to plan stands at £1.011m adverse.

The cash balance at 30 June 2015 stood at £15.299m, a favourable variance of £0.094m compared to plan. Cash outflow in the quarter was £0.940m compared to planned outflow of £1.032m.

2 Trading in the last reporting period

Income

Operating revenue is £12.060m below plan for the quarter of which £12.657m relates to the delay in the transfer of St Benedict's Hospice. Excluding this there was a favourable variance of £0.597m

Variances within community cost & volume PbR revenue and community block and other revenue are £(0.147m) below plan. Tariff variances including elective inpatients, elective day-cases, non-elective patients, outpatients and A&E amount to an adverse variance of £(0.226m) and there is a favourable variance of £0.117m within other NHS national price income. Other NHS clinical income is showing a favourable variance of £0.382m which includes resilience funding for the first quarter and an adjustment for 2014/15 CQUIN partly offset by penalties arising from the A&E underperformance.

There are also favourable variances of £0.156m within other non-NHS clinical income, Research and development income £0.073m, education and training income £0.052m and other non clinical income £0.190m.

Expenses

Operating expenses are £(1.631m) above plan for the quarter.

Employee expenses are adverse by £(0.815m) for the quarter. The variance comprises medical staffing £(0.261m), nursing £0.095m and additional pay costs associated with activity not included in the Annual Plan and resilience funding (£0.439m). CIP has been under achieved by (£0.068m) in the quarter and other adverse variances amount to £(0.142m).

There is an adverse variance of £(0.094m) within raw materials and consumables used mainly related to drugs and clinical supplies and services costs.

Other non-pay expenses within EBITDA are £(0.721m) adverse to plan. This mainly comprises miscellaneous other operating expenses £(0.601m), premises £(0.082m) and consultancy costs £(0.060m) together with other minor variances totalling £0.022m. The main variances included within miscellaneous other operating expenses were £(0.146m) for pathology services and an under achievement of CIP £(0.324m). Consultancy includes £(0.121m) in relation to PwC fees for PERFORM phase 3.

Operating expenses excluded from EBITDA are in line with plan for the quarter.

Non-Operating Items

There is a small adverse variance of £(0.010m) 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 £0.032m mainly as a result of lower than planned interest incurred on the ITFF loan (£0.028m).

Working capital

Working capital has decreased by £0.380m in the quarter compared to a planned decrease of £3.007m, a favourable variance of £2.627m. This is mainly driven by the movement in trade payables being lower than planned.

Current receivables are £(0.955m) higher than the planned increase of £0.080m. The main movements are in NHS Trade receivables and accrued income where there is an outstanding insurance claim which was expected to be settled in the first quarter of the year.

Deferred income is £0.333m higher than plan at the end of the first quarter.

Payables are £3.111m higher than plan at 30 June. The planned movement in the first quarter was a decrease of £2.953m whilst the actual position was a small increase of £0.158m. The main variance relates to invoices on hold for NHS Property Services due to lease agreements not being finalised. The Trust is continuing its discussions with NHS Property Services in order to agree upon a payment figure.

Other key variances making up the £2.627m total include inventories £0.183m and provisions (£0.045m).

Cash flows

The favourable variance of £0.094m in cash inflow for the quarter comprises adverse variances in operating cash flows of £(13.694m), financing activities of £(3.117m) offset by favourable variances in working capital of £2.627m, investing activities of £14.212m, interest £0.028m and non-current provisions of £0.036m.

The large variances in operating cash flows and investing activities are mainly as a result of the delay in the transfer of St Benedict's Hospice of £12.657m.

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

- underspends in the capital programme (mainly as a result of delays in progressing schemes) and capital creditors are contributing towards £1.565m of the variance in investing activities.
- Higher creditors mainly due to balances held with NHS Property Services £3.111m
- lower than planned drawdown of loans £(2.930m) (Trust is awaiting formal approval from the DH for a loan supported by the ITFF in May)
- higher than planned deficit £(1.011m)

Statement of Financial Position

Total assets employed as at 30 June are £66.030m, compared to a plan of £79.698m.

Non-current assets are £(13.385m) lower than plan. The capital programme is below plan by £(13.526m) (£12.657m due to the delay in the transfer of St Benedict's Hospice).

Net current assets are £(3.178m) lower than plan. Payables £(3.887m) and deferred income £(0.333m) are higher than planned and are partly offset by higher than planned receivables £1.088m and cash £0.094m. Other variances in inventories and provisions amount to £(0.140m).

3 Risk ratings

The Continuity of Services risk rating is 3 for the quarter which comprises a Capital Service Cover rating of 1 and a Liquidity rating of 4. The plan for the quarter was a rating of 3.

The A&E Clinical Quality – Total Time in A&E under 4 hours achievement in the quarter was 92.5%. This is a significant improvement on the 84.2% reported in Q4 2014/15 but is still below the target threshold of 95%. The Trust moved staff from a small community ward onto the District Hospital site at the start of the quarter to enable an additional larger winter contingency ward to be opened and daily system conference calls were also in place to provide South Tyneside system-wide co-ordination and support. This is the 3rd breach of this target and failure of this target twice in any two quarters indicates a governance concern in accordance with the Risk Assessment Framework. Monitor and NHS England colleagues have met with South Tyneside System Resilience Group members to understand the pressures over the winter period and a system-wide action plan has been developed. The plan continues to be refined in line with guidance and on-going support from NHS England, and the key System Resilience Group members are now meeting weekly to discuss progress.

Following discussions with South Tyneside CCG the Trust will be contracted to provide the walk in centre currently sited at Palmer Community Hospital in Jarrow with effect from 1 July 2015. The activity from the walk in centre will be counted within the Trust's activity from that date. It is expected that service will move from its current location onto the South Tyneside District Hospital site in quarter 3.

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 in the quarter is £1.290m of which £0.913m has been achieved recurrently. The annual impact of the delivery to date is £4.367m, which is 34% of the annual target, with 83% of this delivery being recurrent.

The Trust is continuing to work with PricewaterhouseCoopers LLP on the development of the "Perform" methodology which is continuing to be rolled out across the Trust. The Trust's Community Services are now involved in the initiative and the work will play a significant part in the achievement of the CIP.

Cost Improvement Programme plans are reviewed monthly by the Finance Risk Management Group (FRMG). Quarterly meetings are held with Divisions regarding progressing their CIP plans.

5 Forecast Outturn

The forecast outturn is a surplus of £5.536m including the transfer of St. Benedict's Hospice. Excluding this the normalised deficit is £7.121m.

The forecast CIP achievement for the year is £12.083m based upon current plans.

Cash balances are forecast to reduce by £(0.847m) due to the increase in deficit from the plan of £(2.121m) and a reduced loan value due to slippage on the capital programme £(3.5m). This has been partly offset by a decrease in asset values from capital slippage of £4.773m.

The forecast income and expenditure outturn has been calculated based upon an extrapolation of performance in income and expenditure to the year end adjusted for identified CIP plans. The Finance Risk Management Group is now meeting twice monthly to review performance and agree action plans for financial recovery. The key areas of focus for financial recovery are:

- Recovering the income position for elective and day case activity
- Addressing medical staffing issues to reduce the spend on agency
- Recruitment campaign for qualified nursing staff and focus on better utilisation of the workforce to reduce overtime/bank/agency costs
- Holding discretionary spend (including training)
- Targeting non pay overspend areas such as Pathology, postage and photocopying
- Ensuring that identified CIP plans are robust and plans are in place to recover the gap
- Reviewing balances held in reserves and the balance to identify any that can be released

In addition to the above the Trust has volunteered to join the Lord Carter's Programme. As well as influencing the work programme, by joining at this stage, the Trust will join with the full cohort of 32 Trusts and work across a range of workstreams to identify what a productive service looks like. The basic premise of the work is that it is possible to define productive time and processes and that by standardising on processes, adopting best practices and modern systems and exercising strong management "grip" it is possible to deliver significant efficiencies.

8 workstreams have been identified as follows:-

Metrics and Model Hospital
Workforce (Nursing initially)
Radiology
Pathology

Estates
Pharmacy

Procurement
Clinical Specialties – Trauma & Orthopaedic

The Trust is currently collating data which is due to be submitted at the end of July. Representatives from the Lord Carter's team will be visiting the Trust on 5th August to learn more about the Trust, the key efficiency initiatives currently in place and have a discussion about the programme, metrics and model.

6 St. Benedict's Hospice

As stated in the Q4 report for 2014/15 the transfer of the St. Benedict's Hospice building to the Trust did not complete in 2014/15 as the Department of Health confirmed in March that it is tied to other unrelated property transfers so that one scheme can be drafted.

The Trust was informed in March that the transfer was expected to happen around June and therefore it had been included in the 2015/16 annual plan for Q1. Unfortunately the transfer did not happen as planned and the latest information the Trust has is that the transfer is due to be completed during the second quarter of the year. The Trust will continue to occupy the premises under the lease arrangement until the transfer is completed

7 South Tyneside Integrated Care Hub

The Integrated Care Services Hub is scheduled to open in June 2016. Building work is now well underway and work to produce plans and procedures for delivering this new model of care continues at a pace.

8 Capital Programme

Capital expenditure for the quarter is 60% of the plan excluding the impact of the transfer of St Benedict's Hospice. The plan has been reforecast using the forecast outturn column in the template.

The reforecast of the plan has resulted in an overall reduction in planned capital expenditure of £4.680m. The majority of this reduction is due to delays in progressing the new boilerhouse and CHP scheme (£3.855m) and the surgical centre scheme (£1.084m).

9 Changes to Boards

Keith Tallintire was appointed as a non-executive director on 1 April 2015 replacing David Fleetwood. Keith will also be chairman of the Audit Committee.

Professor Andrew Husband was appointed as a nominated governor for education on 16 June 2015. Professor Husband replaces Professor Greg Rubin who resigned on 5 January 2015.

10 CQC Inspection Visit

The Trust underwent a CQC inspection visit between 5 and 8 May 2015. The initial feedback from the visit was positive, however, the Trust are awaiting a copy of the draft report for comment.

11 Conclusions

Financial performance for the quarter is adverse to plan, however, financial recovery plans are in place and are being monitored twice monthly by the Finance Risk Management Group.

The Continuity of Services Risk Rating is 3 for the quarter and whilst liquidity is below plan it remains strong.

The Board remains committed to delivery of planned targets and has therefore confirmed all governance statements within the return.

Mr M P Robson
Executive Director of Finance and Corporate Governance
21 July 2015