Calderdale and Huddersfield NHS
NHS Foundation Trust

MONTH 3 JUNE 2017, NHS IMPROVEMENT COMMENTARY ON THE FINANCIAL RETURN

The notes below provide a management commentary on the financial position of Calderdale & Huddersfield NHS Foundation Trust at the end of June 2017.

The report is structured into three sections to describe:

- Key messages;
- Detailed commentary for the period with variance analysis against the annual plan as submitted to NHSI;
- Use of Resources rating and forecast.

1. Key Messages

The Month 3 planned position is a deficit of £8.00m on a control total basis, including year to date Sustainability and Transformation funding (STF) of £1.52m.

The final planning submission made to NHSI on 30th March 2017 was an indicator of the Trust's commitment to do all within its power to deliver the £15.9m control total deficit. However, as was communicated from January when the control total was appealed, the Board had a number of concerns regarding the scale of this challenge. Whilst appreciating the overall NHS Provider sector position, it was hoped that a revised control total could be considered. The key risks to delivery were outlined as the abnormal costs of implementation or short term loss of income as a result of EPR implementation and the scale of the CIP challenge at £20m, 5.3%.

As at Month 3 these concerns have not abated. Whilst the Trust is able to report delivery of the financial plan, there are a number of assumptions of a material value that have been made in order to deliver this position. The implementation of EPR continues to have a significant impact on both productivity and the capture of activity data and is driving a material clinical income variance year to date. In addition the year to date position is reliant upon a number of non-recurrent income and expenditure benefits which cannot be replicated going forwards plus the use of 50% of the total contingency reserve available for this financial year.

There is now a significant risk that the Trust will not be able to achieve the 17/18 control total due to a combination of slower than expected recovery following EPR implementation and remaining unidentified CIP of £3.2m. A recovery action plan has been implemented which aims to tackle: the recovery of clinical income at risk due to issues with capture and coding in EPR, the development of Divisional financial recovery plans, a Trust wide establishment review and further tightening of budgetary controls. Every effort will be made to deliver the financial plan, but a continuation of the current situation may make full recovery impossible. Delivery of the financial plan is now the highest risk on the Trust risk register scoring the maximum of 25.

Month 3, June Position (Year to date)

The year to date position at headline level is illustrated below:

Income and Expenditure Summary	Plan £m	Actual £m	Variance £m
Income	92.91	88.68	(4.24)
Expenditure	(94.82)	(90.41)	4.41
EBITDA	**(1.90)**	**(1.74)**	**0.17**
Non-Operating items	(20.09)	(6.29)	13.80
Surplus / (Deficit)	**(22.00)**	**(8.03)**	**13.97**
Less: Items excluded from Control Total	13.98	0.02	(13.95)
Surplus / (Deficit) Control Total basis	**(8.02)**	**(8.00)**	**0.02**

- Delivery of CIP of £2.15m against the planned level of £2.32m.
- Contingency reserves of £1.00m have been released against pressures.
- Capital expenditure of £4.62m, this is below the planned level of £5.43m.
- Cash balance of £1.90m, in line with the plan.
- Use of Resources score of level 3, in line with the plan.

2. Detailed Commentary for the Reporting Period

Statement of Comprehensive Income (SOCI)

Operating Income

Operating Income is £4.24m below plan year to date.

NHS Clinical Income

The year to date NHS Clinical income position is £74.33m, £3.81m below the planned level.

The Clinical Contract income position for Month 3 based upon activity coded and captured within EPR is £6.2m below plan. There are a number of areas where activity is either not captured within EPR or a change to patient data is required in order to accurately price the activity. There are also a large number of un-coded spells for which an estimate has had to be made as to the expected price of that activity. EPR implementation also resulted in a temporary decrease in the depth of coding and capture of co-morbidities, impacting across both Emergency Long Stay and A&E income, a reduction in the capture of Best Practice Tariff activity and a resulting impact on the Emergency Threshold. Following discussions with external experts from Cymbio, the Trust's own Health Informatics and Divisional teams, £2.4m of income has been calculated as an estimate of the value of this missing data. The receipt of this income will be reliant on the activity being added or corrected within EPR and an action plan is in place to address a list of issues with this aim.

Following these adjustments, clinical income is still below plan and this appears to be driven by both case mix and activity volumes following implementation of EPR. Further work is being undertaken to identify the impact of HRG4+

The reported position assumes full receipt of STF funding including the 30% linked to A&E performance targets. Performance in the year to date is 90.58% of patients seen within the 4 hour target. This is below the very high levels reported in Quarter 4 of 16/17 and against which our current performance is being compared. The deterioration is as a direct result of both the implementation of EPR and the

adherence to IR35 guidance, and as such should be considered to be exceptional. The Trust is submitting a letter seeking exception for Quarter 1 on this basis. Performance in May dipped to 85.1% but has recovered significantly in June to 92.03%. It is assumed that NHSI will recognise the exceptional nature of the impact of EPR upon A&E performance in Quarter 1 against the backdrop of the Trust's underlying strong A&E performance in 2016/17. Receipt of full STF monies are assumed within the year to date and forecast position.

The Delivery Board sections have not been completed as the Trust is seeking further clarity on this; we are not aware of any requirement or agreement of performance at this level. If this could be clarified we can then review with the delivery Board Chair and respond.

Other income

Overall other income is below plan by £0.42m year to date. This variance is primarily due to lower than planned Cancer Drugs fund income (offset within High Cost Drugs expenditure), slippage in recovery of the Apprentice Levy compared to plan and lower than planned income from ICRU, offset to some extent by increased sales activity within our commercial operations.

Operating expenditure

There is a cumulative £4.41m favourable variance from plan within operating expenditure across the following areas:

Pay costs	£1.65m favourable variance
Drugs costs	£0.31m favourable variance
Clinical supply and other costs	£2.45m favourable variance

Achieving the control total for Month 3 has relied on the release of one half (£1.00m) of our total Contingency Reserve, and a £3.5m credit relating to a negotiated non recurrent refund of PFI facilities management costs, offset by a provision of £1.95m against contract income risks in the year to date position. This is in addition to the non-recurrent benefit of £0.57m relating to prior year creditors and £0.36m of prior year benefits that were released within the Month 2 position and £0.2m non-recurrent income received in Month 1. The total of non-recurrent benefits in the year to date position is £2.69m.

Employee benefits expenses (Pay costs)

Pay costs are £1.65m lower than the planned level in the year to date, primarily due to the release of Contingency Reserves. The Trust has seen a reduction in Agency costs, particularly in Medical Staffing, where IR 35 has resulted in number of doctors transferring onto the payroll, although in some cases this has not resulted in a reduction in cost.

The Trust comfortably achieved the agency ceiling of £4.92m year to date, with total Agency expenditure of £3.95m.

Drug costs

Expenditure year to date on drugs is £0.31m below the planned level. The income and corresponding spend on 'pass through' high cost drugs is £0.70m below plan. Underlying drug budgets are therefore overspent by £0.39m, largely due to additional activity in the Pharmacy Manufacturing Unit which is a commercial operation.

Clinical supply and other costs

Clinical Support costs are £0.89m lower than planned. This underspend reflects some activity related underspend in clinical supplies, as well as a non-recurrent benefit of £0.57m relating to prior year creditors as described above.

Other costs are £1.56m lower than planned due to the £3.5m non recurrent benefit mentioned above offset by an increase in provisions of £2.08m year to date.

Non-operating Items and Restructuring Costs

Non-operating expenditure is £13.80m lower than plan in the year to date. This variance includes the impact of the delay of a planned £14m impairment that is now forecast to be accounted for later in the year. The Trust has also seen higher than planned Depreciation of £0.20m following year end asset revaluations and an increase in PFI Contingent Rent due to March's high level of RPI on which the PFI contract uplift is based.

Cost Improvement Programme (CIP) delivery

In December 2016, the control total for 2017/18 of £15.9m was accepted, which drove the need for a challenging £17m (4.5%) CIP. At that point, the Trust had not agreed the two year 2017 – 2019 contract with its main commissioners. The successful resolution of the contractual position contributed to a further £3m challenge to the Trust's financial position as a result of a compromise reached. The revised income plans drove the need for a further £3m of efficiency savings, bringing the total CIP to £20m (5.3%), a position which the Board believes is extremely challenging.

£2.15m of CIP has been delivered this year against a plan of £2.32m, an under performance of £0.17m. The Trust has now identified £16.8m of savings, a significant improvement compared with that reported in Month 2 and continues to push hard for full delivery of the £20m target. The forecast assumes full delivery of the £20m target, but this remains extremely challenging with £3.2m of savings yet to be identified.

During June, colleagues from NHSI visited to review the process of CIP identification and governance. The governance in place has been commended and as yet no further CIP opportunities have been identified by NHS I following the CIP deep dive.

Statement of Financial Position and Cash Flow

At the end of June 2017 the Trust had a cash balance of £1.90m as planned.

The key cash flow variances for the year to date compared to plan are shown below:

Cash flow variance from plan		**Variance £m**
Operating activities	Deficit including restructuring	13.97
	Non cash flows in operating deficit	(13.74)
	Other working capital movements	(2.90)
	Sub Total	**(2.67)**
Investing activities	Capital expenditure	0.81
	Movement in capital creditors / Other	(2.11)
	Sub Total	**(1.30)**
Financing activities	Drawdown of external DoH cash support	3.86
	Other financing activities	0.06

Sub Total	**3.92**
Grand Total	**(0.04)**

Operating activities

Operating activities show an adverse £2.90m variance against the plan. The adverse cash impact of £2.90m working capital variances is offset to some extent by the cash benefit of higher than planned Depreciation charges. The large variance in both the deficit position and non-cash flows is linked to a planned impairment which will now take place later in the year. The working capital variance reflects an increase in receivables, particularly accrued income, due to a delay in receiving the Quarter 4 Sustainability and Transformation funding and the accounting of the £3.5m PFI credit described above. The cash benefit of this credit is likely to fall at least in part into the next financial year and this combined with an increase in Creditors and an increased provisions liability is likely to create a cash pressure for the organisation later in the year. As described in the plan commentary, cash support over and above the level of the planned deficit will be required to settle these liabilities over the next few months.

Investing activities (Capital)

Capital expenditure year to date is £0.81m lower than planned and the resulting cash benefit has offset some of the pressure on working capital described above. Capital creditors have reduced significantly in month with a number of EPR related invoices falling due for payment.

Financing activities

Borrowing to support capital expenditure is £2.5m year to date as planned. In addition the Trust has received £13.69m of Revenue Support linked to deficit funding requirements, this is £3.86m more than planned due to delays in receiving Quarter 4 Sustainability and Transformation funding planned for Month 3.

3. Use of Resources (UOR) rating and forecast

Against the UOR the Trust stands at level 3 in line with plan in year to date and forecast terms.

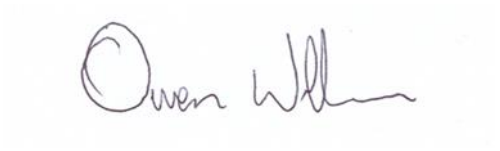
The forecast continues to assume that the Trust will achieve its Control Total and secure the £10.1m STF allocation. However, the risk of failing to achieve our target deficit of £15.94m which was high from the outset, has now increased further despite the Trust taking action to stabilise the financial position.

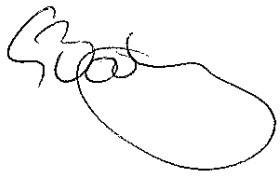
The forecast assumes:

- That the Trust is able to recover the £2.4m of estimated income in the year to date position.
- That EPR data capture issues are resolved quickly and that clinical activity returns to the planned level from Month 4 or income is recovered by the year end.
- Full achievement of the £20m Cost Improvement programme including the £3.2m currently unidentified.
- Divisional recovery plans can be put in place to maintain the position in line with control total from month 4 to month 12.
- Full achievement of CQUIN targets.
- Securing STF income in full for both the finance (70%) and A&E performance (30%) elements of the target.

- That any further costs relating to EPR implementation, including those to address data capture and booking issues, can be either capitalised or offset by additional savings.
- That a programme of additional budgetary grip and control is successfully implemented as planned.

The scale of the challenge is evident from the above but the Trust continues to seek to maximise opportunities and do all within its power to secure delivery of the control total.





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