

**BOARD MEETING**

**26 January 2017**

Paper Title:	NHS Improvement Quarterly Return and Declaration
Section:	Public
Lead Director:	Liz Romaniak, Director of Finance
Paper Author:	Liz Romaniak, Director of Finance
Agenda Item:	<b>10</b>
Presented For:	Information

**1. Purpose of this Report:**

NHS Foundation Trusts are required to make quarterly submissions to NHS Improvement to confirm their Risk Rating under the Single Oversight Framework (SOF). The Risk Assessment Rating now only incorporates one rating which is for the Use of Resources (UoR).

This paper considers the UoR, and outlines key issues which the Board is specifically asked to formally consider in endorsing the risk assessment and to be taken into account when it considers the NHSI submission. This paper follows detailed discussion at an Extra-Ordinary FBIC meeting on 16 January at which the year-to-date position, forecast, risks and mitigating actions were discussed in detail. As a consequence of agreeing to a formal re-forecast that deviates from the Board approved plan the Board now needs to provide specific Assurance statements to NHSI regarding controls and recovery actions. These are set out in Appendix 1.

**2. Summary of Key Points**

In October 2017 the FSRR metrics changed to UoR metrics under the new Single Oversight Framework and included an additional metric in relation to agency spend. The new ratings change the scoring from FSRR (4= best and 1= worst) to the Use of Resources ratings being a 1 for the best score and 4 for the lowest score. The Trust planned to achieve a Financial Sustainability Risk Rating (FSRR) of 3 for the first 2 quarters of 2016/17 and has achieved the target. The UoR planned ratings for Quarters 3 and 4 were '1' for all metrics; actual performance for Quarter 3 was 2 and is projected to be 1 overall for Quarter 4.

The Trust projects to achieve the following FSRR/ UoR for 2016/17:

	<b>Q1 actual 2016/17 FSRR</b>	<b>Q2 actual 2016/17 FSRR</b>	<b>Q3 actual 2016/17 UoR</b>	<b>Q4 Forecast 2016/17 UoR</b>
Capital Service Cover rating	2	3	2	1
Liquidity rating	4	4	1	1

I&E Margin rating	2	2	3	2
I&E Margin Variance From Plan rating	2	2	3	2
Agency rating	N/A	N/A	1	1
Overall Financial Sustainability Risk Rating	3	3	2	1

### 3. Board / Committee Consideration

The Board is asked to approve the current and projected Use of Resources ratings and approve the Quarterly templates for submission to NHS Improvement.

### 4. Financial Implications

There are no direct financial implications / costs associated with this paper.

### 5. Legal Implications

There are no direct legal implications/costs associated with this paper.

### 6. Assurance

	Assurance provided?
Board Assurance Framework	Yes
CQC Themes (see below)	No
Monitor Risk Assessment Framework	Yes – Financial Sustainability Risk Rating
Other (please specify):	No

### 7. Equality Impact Assessment

There are no direct equality implications/costs associated with this paper.

### 8. Previous Meetings/Committees Where the Report Has Been Considered:

Audit Committee	<input type="checkbox"/>	Quality & Safety Committee	<input type="checkbox"/>	Remuneration Committee	<input type="checkbox"/>	FB&I Committee	<input checked="" type="checkbox"/>
Executive Management Team	<input checked="" type="checkbox"/>	Directors' Meeting	<input type="checkbox"/>	Chair of Committees' Meeting	<input type="checkbox"/>	MH Legislation Committee	<input type="checkbox"/>

### 8. Risk Issues Identified for Discussion

The Trust has experienced significant and sustained financial challenges throughout 2016/17, with recovery planning being a key focus during the year. Following rigorous assessment of actions already in train, new controls introduced, further measures agreed during November, December and into January, the Trust made the difficult decision to submit a forecast that presents a £500k potential shortfall against the Trust Control Total of £1,352k plan surplus. The ramifications of the re-forecast are serious and include:

- Immediately developing recovery actions that target achievement of the Control Total (the Trust was already doing this but this will now be a formal, scrutinised and supported process via NHSI);

- Loss of £790k Sustainability and Transformation Funding (STF) unless the position can be fully recovered during quarter 4;
- Re-segmentation;
- Restrictions on access to national transformation funding;
- Consequences for the wider Provider Sector if full recovery cannot be achieved in the final 2.5 months.

The capital plan is under spent at quarter 3 by £884k but fully committed. Re-prioritisation to support enabling schemes has been necessary, including bringing forward estates rationalisation savings.

The cash position is behind plan at quarter 3 which reflects the variance from plan on the SOCI offset by the capital underspend at quarter 3.

## 9. Links to Strategic Drivers

Patient Experience	Quality	Value for Money	Relationships
The revised RAF is incorporates Capital servicing, liquidity, planned surplus and variance from plan metrics, with additional <b>Value for Money</b> measures signaled for the future.			

## 10. Publication under Freedom of Information Act

This paper will not be made available under the Freedom of Information Act because the release of this information is likely to prejudice the commercial interests of the Trust at this point in time.

## 11. Recommendations:

That the Board:

- **Approves** the current and projected UoR Risk Rating
- **Approve** the UoR and Quarterly Template for submission to NHS Improvement
- **Note** the recommendation of the FBIC to undertake a 'deep dive' into (to be confirmed following FBIC meeting)

The Board is also asked to

- **Consider and Agree** any additional exception reporting requested by Board via 'deep dives' at FBIC

# NHS IMPROVEMENT QUARTERLY RETURN

## 1 INTRODUCTION

NHS Foundation Trusts are required to make quarterly submissions to NHS Improvement to confirm their Risk Rating under the Single Oversight Framework (SOF). The Risk Assessment Rating now only incorporates one rating which is for the Use of Resources (UoR).

This paper considers the UoR, and outlines key issues which the FBIC is specifically asked to formally consider in endorsing the risk assessment and to be taken into account when the Board considers the NHSI submission. This paper follows detailed discussion at an Extra-Ordinary FBIC meeting on 16<sup>th</sup> February at which the year to date position, forecast, risks and mitigating actions were discussed in detail. As a consequence of agreeing to a formal re-forecast the Board now needs to provide specific Assurance statements to NHSI regarding controls and recovery actions. These are set out in Appendix 1.

In October 2017 the FSRR metrics changed to UoR metrics under the new Single Oversight Framework and included an additional metric in relation to agency spend. The new ratings change the scoring from FSRR (4= best and 1= worst) to the Use of Resources ratings being a 1 for the best score and 4 for the lowest score. The Trust planned to achieve a Financial Sustainability Risk Rating (FSRR) of 3 for the first 2 quarters of 2016/17 and has achieved the target. The UoR planned ratings for Quarters 3 and 4 were '1' for all metrics; actual performance for Quarter 3 was 2 and is projected to be 1.

## 2 YEAR TO DATE POSITION

The Trust has achieved the following UoR Risk Ratings as at 31<sup>st</sup> December 2016 (Quarter 3 submission).

Rating	Score
Capital Servicing Cover	2
Liquidity Cover	1
I&E Margin	3
I&E Margin Variance	3
<b>Agency rating</b>	1
<b>OVERALL RATING</b>	2

Full details of year to date performance are provided in the Financial Performance Dashboard for Quarter 3. The cash balance at 31<sup>st</sup> December 2016 is behind plan by £880k, which reflects the I&E adverse variance from plan, netted off by the year to date capital underspend.

The planned surplus for the year is behind plan by £2,016k. Mitigating action plans are already in place that are expected to reduce the variance to plan to £850k against the control total of £1,350k, resulting in a change to forecast of £500k. Further work is still underway to scope additional measures that would i) mitigate the residual gap and ii) mitigate any other adverse movements.

Target	Q3 Performance
Planned Surplus:	£2,016k behind plan
Planned Cash Balance:	£880k behind plan
Planned Capital Expenditure:	£884k underspend against plan

### 3 KEY FINANCIAL RISKS AND MITIGATIONS

This paper follows detailed discussion at an Extra-Ordinary FBIC meeting on 16<sup>th</sup> February at which the year to date position, forecast, risks and mitigating actions were discussed in detail.

#### Internal Risk Factors

There are a number of financial risks that require close monitoring and mitigations plans where costs deviate from planned forecast, including:

- Delivery of the Estates recovery plan
- Controls on bank and agency spend in all areas
- Delivery of agreed discretionary non pay reductions in costs
- Sustaining tight control of OOA placements – no budget for 2016/17
- CQUIN Targets have been forecast to fully deliver for 2016/17
- Management of Medical Locum Costs including junior doctor rota pressures and failure to achieve medical price or wage cap rates

#### External Risk Factors

- National announcement of Public Health Budget Cuts and uncertain risk share liabilities, impact for future planning rounds
- NHS Property services move to Market Rents
- The impacts of social care, voluntary care sector and acute pressures on our community teams
- Service tenders by commissioners

#### Mitigations

- Meridian Inpatient Project to target reductions in agency spend for 13 inpatient areas
- CQUIN Action plan monitored via Locality Performance Meeting
- Limited uncommitted reserves
- Moor Lane Overage clause – £700k included in the 2016/17 financial plan, £768k achieved
- VAT review by KMPG has secured additional non recurrent reduction in expenditure
- Use of Capital contingency reserves and re-profiling plan
- Estates recovery plan to identify target cost reductions and maximum weekly spend by service line
- Full review of revenue expenditure to identify opportunities to capitalise
- Review of asset disposals and opportunities to bring forward where processes in train and potential for surplus on disposal
- Commissioner funding streams
- Expansion of internal nursing staff bank
- Strict controls on annual leave carried forward, with only staff on long term sick/ maternity having permission to carry forward annual leave
- Non Medical NHSI agency price cap/ wage cap requirements are being actively managed. Initial focus has been to ensure that staff paid over the price cap are

actively managed to ensure that end dates are negotiated where safe to do so. The managed service provider has supported the trust to ensure price cap compliance with agencies and from 9<sup>th</sup> January is supporting the same controls for wage caps.

- Medical price/wage cap progress has been limited. Despite negotiations with individual locums lower pay rates have not been agreed. The Trust is now working with an alternative supplier to target replacement, lower priced locum staff.
- Downside Mitigation plans including detailed discretionary expenditure controls and plans, bringing forward 2017/18 Planned CIPs
- Mitigations to be discussed with peer Finance Directors and Estates teams

EMT, FBIC and Board are aware of the elevated level of risk that was discussed at Month 8 and subsequently at Quarter 3. In doing so, FBIC has conducted a detailed reviewed of the risks and mitigation plans on behalf of the Board. Additional schemes have been suggested by EMT and are being scoped urgently, with some further potential flagged at the January Business Unit Meetings.

After assessing the balance of risk and probability a recommendation was reluctantly made to and agreed unanimously by FBIC to revise the forecast position to reflect the probable unmitigated financial risk of £500k. All were agreed that this was consistent with Trust values of openness and transparency and did not signal a reduction in attention or diligence.

The Trust has followed the necessary steps, as outlined in NHS Improvement guidance, that are required to revise the forecast outturn position.

The Trust has been clear in conversations with NHSI that this does not signal any lack of Board commitment or determination, but the balance of probability at the end of quarter 3 and with no uncommitted reserves or balance sheet flexibility. The Trust assured NHSI that further detailed activities will continue to target an outturn that is as close as possible to the Board Approved control total but understands that any adverse revision to forecast has serious repercussions and inevitably drives increased external scrutiny and support.

# Appendix 1

## Adverse Changes to Forecast Protocol - Board Assurance Statement

*The board are required to respond "Confirmed" or "Not confirmed" to the following statements (notes below)*

**Board Response**

*Where a provider plans to make an adverse change to an in-year forecast it must be reported through the national reporting process and accompanied with this Board Assurance Statement which has been signed by the Trust Chair, Chief Executive and Director of Finance*

**For finance:**

The Board has been fully briefed on the planned adverse change to forecast and has adhered to the NHS Improvement protocol for '**Adverse Changes to the In-Year Forecasts**' prior to requesting the change

Confirmed

All reporting revisions are accompanied with detailed actions to confirm how the position will be recovered and the original financial plan will be delivered

Confirmed

The Board is full committed to the delivery of the Trust recovery plan and will actively monitor the recovery plan milestones

Confirmed

In advance of formally reporting a forecast outturn variance from plan the Trust has discussed the financial deterioration and remedial actions with the NHS Improvement Regional Managing Director and Regional Director of Finance

Confirmed

**For governance:**

Relevant commissioners have been informed of the position and all opportunities for support have been explored and the recovery actions agreed

Confirmed

The senior clinical decision making body within the Trust has been engaged with and are party to the identification and delivery of the recovery actions

Confirmed

The Trust Executive Committee, Finance Committee and Board have considered and agree the proposed financial forecast revision and recovery actions

Confirmed

**Board Declaration**

*I can confirm that in my capacity as a member of the Trust Board, I understand the financial forecast, its key drivers and where there has been a variance signalled, I can confirm that additional actions to deliver the original plan that was signed off by this Trust Board have been considered in full by Clinical Decision Making Groups the Finance Committee and the Board as a minimum*

**Signed on behalf of the board of directors**

Signature \_\_\_\_\_

Name Nicola Lees

Capacity Chief Executive

Date 24/01/2017

Signature \_\_\_\_\_

Name Michael Smith

Capacity Chair

Date 24/01/2017

Signature \_\_\_\_\_

Name Liz Romaniak

Capacity Finance Director

Date 24/01/2017

Signature \_\_\_\_\_

Name David Banks

Capacity Audit Committee Chair

Date 24/01/2017