A lifetime of specialist care

Royal Brompton & Harefield NHS
NHS Foundation Trust

Finance Overview Report

Month 3 2020/21 – period ended 30th June 2020

Key Headlines Year-to-Date Month 3 2020/21

Key Headlines

	Plan £000	Actual £000	Variance	Variance %	RAG	Trend
I&E	(237)	(428)	(191)	-81%		↔
Control Total	0	0	0			↔
Control Total exc. Covid 19 Top-Up	(9,624)	(29,097)	(19,474)	-202%		↓
Cash	36,167	49,983	13,817	-38%		↑
Capex non-Covid 19	7,836	4,430	(3,406)	43%		↔
Capex Covid 19	3,357	1,159	(2,198)			↔
Agency	(1,909)	(1,614)	295	15%		↔
Single Oversight Framework	2	2	0			↔

The Trust's financial position for month 3 will depend on the amount of "Retrospective Top-up" provided by NHSE/I. Reflecting NHSE/I guidance our figures above assume approval of the £19.5m Retrospective Top-up YTD in full, (YTD M2 £13.1m), which we claimed and enables the Trust to achieve break-even on a Control Total basis.

Of the £13.1m claimed YTD month 2 the Trust has received £10.7m, the balancing £2.4 relates purely to the Private Patient increased bad debt provision.

- Our claim for increased drug expenditure following NICE guidance for Orkambi has now been agreed.
- Increased Bad Debt Provision £2.4m - NHSE/I guidance has been updated to say *"Write off of significant levels of bad debt from previous years will not routinely be funded via the retrospective top up. If larger values are included in months 1-4 these values will be withheld from top up payments and will be subject to detailed review"*. The YTD impact of increased bad debt provision at month 3 is £2.4m, and is at present a non-cash pressure.

Our Month 3 submission (and request for Retrospective Top-Up) is currently being reviewed by NHSE/I and NWL STP to assess whether they accept it as reasonable. It should be noted that the Retrospective Top-Up requested by the Trust is higher than most other providers, and we are being asked to justify our spend whilst activity remains low, especially on the Brompton site.

Subsequent payments for the Retrospective Top-up are expected on a monthly basis on the 15th of the month.

The current funding mechanism is summarised in Appendix A. It was initially envisaged there would be a new funding mechanism from August 20, based on a fixed allocation each month, without the ability to recoup additional financial support through a Retrospective Top-Up. With talks on-going between DHSC and Treasury, this change has been deferred for 1 or 2 months, until August, or possibly September; until then we will continue to be paid under the current system of Block Payment, Initial Top-Up, and Retrospective Top-up.

Variance to "Budget"

Summary I&E									Month 3 / 2020/20
	M3			YTD Against Plan			YTD Against Prior Year		
£m	Budget	Actual	Variance	Budget	Actual	Variance	PY	Actual	Variance
Total Nhs Clinical Income	**28.5**	**28.0**	**(0.5)**	**87.6**	**86.5**	**(1.0)**	**82.2**	**86.5**	**4.4**
Total Non Nhs Income	**5.013**	**1.9**	**(3.2)**	**13.0**	**5.7**	**(7.3)**	**11.5**	**5.7**	**(5.9)**
Provider Sustainability Funding	0	0	0	0	0	0	1.2	0	(1.2)
Financial Recovery Funding	0	0	0	0	0	0	2.2	0	(2.2)
MRET Funding	0	0	0	0	0	0	0.1	0	(0.1)
Non Clinical Income	2.1	1.5	(0.6)	6.2	4.5	(1.6)	5.5	4.5	(1.0)
Covid-19 Retrospective Top-Up	0	6.4	6.4	0	19.5	19.5	0	19.5	19.5
Covid-19 Projected Top-Up	3.2	3.2	0.0	9.6	9.6	0.0	0	9.6	9.6
Total Non Clinical Income	**5.3**	**11.1**	**5.8**	**15.8**	**33.6**	**17.8**	**9.0**	**33.6**	**24.6**
Total Income	**38.8**	**41.0**	**2.2**	**116.3**	**125.8**	**9.5**	**102.7**	**125.8**	**23.1**
Pay Costs	(20.5)	(20.8)	(0.3)	(61.5)	(64.5)	(3.1)	(58.9)	(64.5)	(5.6)
Total Pay	**(20.5)**	**(20.8)**	**(0.3)**	**(61.5)**	**(64.5)**	**(3.1)**	**(58.9)**	**(64.5)**	**(5.6)**
Drugs	(4.9)	(7.0)	(2.1)	(14.7)	(20.9)	(6.2)	(12.8)	(20.9)	(8.1)
Clinical Supplies	(5.8)	(4.9)	1.0	(17.4)	(12.9)	4.5	(15.9)	(12.9)	2.9
Other Costs	(5.2)	(6.0)	(0.8)	(15.6)	(19.9)	(4.2)	(13.5)	(19.9)	(6.4)
Total Non Pay	**(15.9)**	**(17.8)**	**(1.9)**	**(47.8)**	**(53.7)**	**(5.9)**	**(42.2)**	**(53.7)**	**(11.6)**
Total Expenditure	**(36.4)**	**(38.6)**	**(2.2)**	**(109.3)**	**(118.3)**	**(9.0)**	**(101.1)**	**(118.3)**	**(17.2)**
EBITDA	**2.3**	**2.3**	**(0.0)**	**7.0**	**7.5**	**0.5**	**1.6**	**7.5**	**5.9**
EBITDA Margin %	**6.0%**	**5.7%**		**6.0%**	**6.0%**		**1.6%**	**6.0%**	
Central Costs	(2.4)	(2.5)	(0.1)	(7.3)	(8.0)	(0.7)	(7.7)	(8.0)	(0.3)
Net Surplus/(Deficit)	**(0.1)**	**(0.1)**	**(0.1)**	**(0.2)**	**(0.4)**	**(0.2)**	**(6.1)**	**(0.4)**	**5.6**

Please note, due to Covid-19 the planning and contracting processes for 2021 were not completed. The budgets included in the table above reflect the expected income and expenditure used to calculate the £3.2m initial Top-Up, and therefore reflect the variances we need to explain to receive Retrospective Top-Up.

The adverse variance reported bottomline is solely explained by the financial impact from donated assets, depreciation and income.

It should be noted, YTD the methodology for calculating Initial Top-Up assumed non-Commissioning contracted income and expenditure (including Private Patients) would remain at historic levels, with any justifiable variation reclaimed through Retrospective Top-Up.

NHS Clinical Income: in-month adverse variance (£0.5m), YTD adverse variance (£1.0m)
An adverse variance is expected, as the Block Payment only covers income received from commissioning contracts, with the Prospective Top-Up assuming non-contracted activity, provider to provider recharges, and overseas patients with reciprocal agreements would remain at historic levels – all have significantly reduced due to Covid.

The slight increase against trend in month is because the pressure was reduced in May due to two high income overseas patients.

Non-NHS Clinical Income: in-month adverse variance (£3.2m), YTD adverse variance (£7.3m)

An adverse variance is expected, with reduced PP ambulatory activity, and inpatient admissions limited to those meeting the same criteria as an NHS admission. From the end of March all PP beds have been converted to NHS.

The increase against trend in month is because the pressure was reduced in April & May due a gain on invoices relating to the prior financial year. In reality PP activity, outpatients and diagnostics, increased in June.

Non-Clinical Income without Retrospective Top-Up: in-month adverse variance (£0.6m), YTD adverse variance (£1.6m)

The most significant pressure has been R&D income, with recruitment to trials significantly impacted by Covid.

Pay: in-month adverse variance (£0.3m), YTD adverse variance (£3.1m):

The adverse pay variance improved against trend in June, linked to reductions in staff absence and ECMO/Critical Care activity compared to April & May. All non-substantive pay expenditure is being investigated, as though non-Covid activity increased in June, it remains significantly below historic levels, especially on the Brompton site.

Non-Pay: in-month adverse variance (£1.9m), YTD adverse variance (£5.9m):

The adverse non-pay variance improved against trend in June due to reduced ECMO/Critical Care expenditure, linked to activity, and a minimal movement in-month on the PP bad debt provision, linked to our age profile of debt and increased embassy payments received in June.

The bridge below identifies the financial implications for which the Trust is expecting support through the Retrospective Top-Up.

Covid 19 Income and Expenditure Bridge	Month 3 / 2020/21

Description	In-Month Financial Impact £m	YTD Financial Impact £m
Income		
Reduced NHS Income not included within Block or Initial Top-Up	0.4	1.0
Reduced non-NHS patient income inc. Private Patients	3.2	7.3
Reduced non-patient income	0.6	1.6
Sub-Total Income	4.2	10.0
Pay		
Additional staffing Critical Care and ECMO beds	0.0	1.5
Additional staff absence	0.9	4.7
Additional Bank Holiday enhancements	0.0	0.2
Other Covid increased staffing	0.4	1.3
Staff for Nightingale Hospital	0.0	0.2
Net Saving Staff Expenditure - redeployment	(1.1)	(4.7)
Sub-Total Pay	0.1	3.1
Non-Pay and Central Costs		
Additional Tariff Excluded Drug expenditure	2.5	6.8
Additional non-pay Critical Care and ECMO beds	0.1	2.4
Additional PPE expenditure	1.5	4.2
Increased Bad Debt Provision	0.0	2.4
Other direct Covid 19 non-pay expenditure	0.5	1.2
Net reduction Other non-pay	(2.8)	(10.6)
Sub-Total Non-Pay & Central Costs	1.9	6.4
Deficit exclusive of Retrospective Top-Up funding	**6.2**	**19.5**

The table demonstrates YTD cost savings of c. £15.3m associated with cessation of business as usual activity, netted off against direct costs of delivering care to Covid-

19 patients. It should be noted, for staff, this is not reflected as an expenditure reduction, but by an ability to offset some of the Covid-19 pressures by redeployment of staff.

It should further be noted, overall expenditure, excluded the increased spend on drugs following NICE guidance for Orkambi, would have been under-plan for June.

This would compare against, under normal contracting arrangements, under-performance of (£18.9m) inpatients, (£4.7m) outpatients, and (£1.7m) Transplant/VADs; partially offset by over-performance for expanded ECMO £3.9m. The ability to reduce costs in full alignment with the income reduction is restricted by a number of factors:

- Covid-19 is not properly reflected in tariffs, therefore income generated under PbR/Local Tariffs are significantly understated.
- There are fixed costs that cannot be released
- Where possible staff and resources have been redeployed, but there was a significant change in the patient cohort and this can only be done to the extent it allows safe patient care. Also the Trust still needs to employ and pay staff whose skills and experience are not suitable for redeployment with the current patient cohort, as they will be required as the Trust moves towards more usual activity.

Cash and Capital Trustwide Overview

The plan for cash has been set based on the draft plan submitted to NHSE/I in March, and capital based upon the updated capital plan submitted to NHSE/I on 29th May, (£50.4m 2020/21 non-Covid). Once financial flows for the remainder of the year have been clarified we will finalise a revised plan.

Note, the assumption is all Covid-19 related capital expenditure will be funded subject to review for reasonableness by NHSE/I. It was anticipated the process for receiving confirmation of additional capital funding would be short, but the quantity of bids and the level of scrutiny at a national level has caused the process to be slower than anticipated, and we still await a definitive response on the majority of our Covid-19 capital submissions.

To the end of May we had submitted £5.4m of cases to NHSE/I for support, £3.8m committed at risk, and have received confirmed support for only £0.4m so far. A further update is expected before the end of July, with any remaining cases to be responded to before the end of August.

Cash, at £50.0m, was £13.8m higher than plan, but note within the draft plan it had been assumed the remaining £35m of the bridging loan for the Imaging Centre would be drawn down in May, and this has not needed to happen yet. Taking this into account

the Trust has self-generated £48.8m more cash than planned, primarily driven by receipt of both the Block and Initial Top-Up one month in advance, and receipt of £9.1m incentive FRF in May. A cash flow statement for M1-3 is shown in Appendix C.

The Trust also received in May £7.2m quarter 4 PSF/FRF 2019/20 and £3.1m for 2019/20 Covid-19 revenue expenditure.

Provided advance payment from commissioners continues, the Trust is reimbursed fully for the Retrospective Top-Up (as assumed in the June position), and fully funded for capital expenditure undertaken at risk to support care to Covid-19 patients, we do not anticipate a cash pressure associated with the Covid-19 funding flows. We assume we will be reimbursed in full for both revenue and capital, otherwise we will need to take measures to maintain our cash position, as we started the year with a cash balance of only £7.3m.

Capital expenditure to date is £5.6m, of which £950k is Covid-19 related. There is slippage on non-Covid-19 capital expenditure, due to focus on Covid-19. Should Covid-19 capital expenditure not be funded in full, it will not only generate a cash pressure, but it will also generate a pressure against the system CDEL allocation.

The key movement on the Balance Sheet is the accrual for Retrospective Top-Up. It should be noted, though Private Patient debtors has decreased by £0.5m (£2.7m increase embassies, £3.3m decrease insurance companies), there has been significant ageing of debt generating the increase bad debt provision – debt under 30 days has reduced by £4.7m, debt over 90 days has increased by £5.55m, of which debt over 1 year has increased by £1.65m (Appendix B). Our debt provision matrix starts to generate a provision after 90 days, the level of provision increases with age in stages, including a step change increased provision for debt over 1 year.

Richard Guest — Trevor Mayhew

Chief Financial Officer — Deputy Director of Finance

21st July 2020

Appendix A

There are 4 key funding flows whilst Payment by Results (PbR), Control Totals, and Financial Recovery Funding (FRF) are suspended during Covid-19. As a minimum this, or a similar arrangement, will be in place between April and October, though amended payment processes are liable to continue for all of this financial year. Figures quoted below only cover the period April to July, with values expected to be adjusted from August onwards.

1. Monthly Block payment of £28.6m across all commissioners with whom we had a contract during 2019/20, based on average income received month 1-9 2019/20 uplifted by 2.8% to cover inflation and growth. The Trust will receive no other funding for the provision of healthcare to patients from English commissioners during this period.

   Payment is received one month in advance, which supports our cash position.

2. Initial Top-up of £3.2m estimated as the requirement for the Trust to deliver a break-even financial position on a Control Total basis under the following assumptions:
   a. Receipt of the Block payment

   b. Excluding flows covered by the Block payment, average income and expenditure for the period November to January 2019/20 uplifted for inflation, and without an assumption of CIP delivery.

      A key factor for the Trust is the initial Top-Up assumes the Trust maintains the level of non-NHS patient income generated during this period 2019/20, £3.8m Private Patients and £250k from overseas visitors from countries without a reciprocal agreement (typically, but not exclusively, non-EU and non-Commonwealth).

      Payment is received one month in advance.

3. On-going income from non-English commissioners.

   Note, Wales have agreed a block payment for April-July and Education & Training income has been maintained, otherwise income is generated as before, which is often linked to the delivery of patient activity.

   Payment is received as previously

4. Retrospective Top-Up. Funding provided to bring the Trust back to break-even on a Control Total basis, provided the Trust is able to demonstrate reasonable movements of income & expenditure generated by Covid-19. Under NHSE/I guidance the Trust has assumed full receipt of this funding within our month 2 reported figures.

   Payment received 2 months after the lost income or additional expenditure is incurred

Appendix C

Cash Flow Statement (£m)	Actual as at 30-06-20
Cash flows from operating activities	
Operating income	125.8
Operating expenses of continuing operations	(123.8)
Operating surplus/ (deficit)	**2.0**
Non-operating and non-cash items in operating surplus/ (deficit)	
Depreciation & amortisation	5.6
Impairments	0.0
Reversals of impairments	0.0
(Gain)/ loss on disposal	0.0
Other movements in operating cash flows	0.0
	5.6
Operating cash flows before movements in working capital	**7.5**
(Increase)/ decrease in working capital	
(Increase)/ decrease in inventories	(1.2)
(Increase)/ decrease in trade & other receivables	7.0
(Increase)/ decrease in prepayments	(2.7)
(Increase)/ decrease in accrued income	45.0
(Increase)/ decrease in other debtors	1.0
Increase/ (decrease) in trade & other payables	(7.8)
Increase/ (decrease) in pay creditors	0.2
Increase/ (decrease) in deferred income	0.1
Increase/ (decrease) in accruals	1.7
Increase/ (decrease) in other payables	(2.1)
Increase/ (decrease) in provisions	2.7
	43.8
Net cash inflow/ (outflow) from operating activities	**51.3**
Cash flows from investing activities	
Interest received	0.0
Purchase of tangible & intangible assets	(5.6)
Sales of tangible & intangible assets & investment property	0.0
	(5.6)
Net cash inflow/ (outflow) before financing	**45.7**
Cash flows from financing activities	
Public dividend capital received	0.0
Loans received from Dept of Health	0.0
Other loans received	0.0
Loans repaid to Dept of Health	(2.4)
Other loans repaid	(0.4)
Interest paid	(0.3)
PDC dividend paid	0.0
Net cash generated from/ (used in) financing activities	**(3.1)**
Increase/ (decrease) in cash and cash equivalents	**42.7**
Cash & cash equivalents - 1 April	**7.3**
Cash & cash equivalents - 30 June	**50.0**

Appendix D

Debtors

£m	Jun-20	May-20	Apr-20	Opening Balance
NHS England	1.1	(1.2)	0.4	1.3
CCGs	0.8	2.0	2.9	2.0
Other NHS	1.5	2.1	1.8	3.1
Total NHS	**3.4**	**2.9**	**5.2**	**6.4**
Embassies & Overseas Patients	22.2	22.2	20.5	19.6
Insurance Companies	4.7	5.9	9.4	8.0
Other Private Patients	1.0	0.9	1.1	1.0
Total Private Patients	**28.0**	**29.0**	**31.0**	**28.5**
Other Debtors	4.8	4.9	5.0	5.0
Total Non NHS Debt	**32.7**	**33.9**	**36.0**	**33.4**
Total Trade Debtors	**36.1**	**36.7**	**41.2**	**39.9**
Less Provisions	(14.0)	(13.9)	(13.4)	(11.5)
Total Debtors (Net of Provision)	**22.1**	**22.8**	**27.8**	**28.4**