The Whittington Hospital NHS
NHS Trust

**ITEM: 8**

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| **MEETING:** | Trust Board<br>21st November 2007 |

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| **TITLE:** | Financial Position – Month 7 (October) 2007 |

**SUMMARY:**


Financial performance for the period up to 31st October 2007 (Month 7) is attached.

Headline I&E performance is that a favourable Income & Expenditure variance of £1,102k has been achieved to date. This is measured against a planned surplus of £900k to date, so the Trust had performed £202k better than originally planned at this stage in the year.

The year-end forecast remains on target to deliver a 1% surplus (£1.4m) and to fully deliver the CIP.


**ACTION: For information / discussion**

**REPORT FROM:** Trish Donovan, Deputy Director of Finance

**SPONSORED BY:** Richard Martin, Director of Finance

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| **Financial Validation**<br>Lead: Director of Finance | |
| **Compliance with statute, directions, policy, guidance**<br>Lead: All directors | **Standing Orders & Standing Financial Instructions ; Accounting Standards ; ALE** |
| **Compliance with Healthcare Commission Core/Developmental Standards**<br>Lead: Director of Nursing & Clinical Development | **Reference:**<br><br>**N/A** |
| **Compliance with Auditors' Local Evaluation standards (ALE)**<br>Lead: Director of Finance | **Reference: Various** |
| **Compliance with requirements of FT application and monitoring regime**<br>Lead: Director of Strategy & Performance | **Reference:**<br><br>**N/A** |

## 1.0 2007/08 Financial Plan

The Trust's financial plan, as previously published, is to deliver a surplus of £1.4m in 2007/08 (approx 1% of budget). The plan as agreed by the Trust Board was finalised and agreed with NHS London in March.

In terms of phasing, across the year, the plan submitted to NHS London includes a target surplus to date of £900k at the end of month 7, as show at 2.0 below.

## 2.0 Month 7 Income & Expenditure Performance

Reported performance within the month is an overall surplus of £287k (£159K last month) taking the year to date position to a surplus of £1,102k when measured against detailed Income and Expenditure budgets.
In addition to the detailed budgets, the Trust plans to deliver a year-end surplus of £1.4m. This is phased across the year such that the target to date is a surplus of £900k, as summarised in the table below.

Table 1 – Variances

| Month | In Month Variance against I&E budgets £000 | Cumulative Variance against I&E budgets £000 | Target Surplus to date £000 | Cumulative Variance from Target Surplus £000 |
|---|---|---|---|---|
| April | 0 | 0 | 0 | 0 |
| May | 245 | 245 | -200 | 445 |
| June | 119 | 364 | 100 | 264 |
| July | 146 | 510 | 500 | 10 |
| August | 145 | 655 | 400 | 255 |
| September | 159 | 815 | 600 | 215 |
| **October** | **287** | **1102** | **900** | **202** |
| November | | | 900 | |
| December | | | 900 | |
| January | | | 1,200 | |
| February | | | 1,200 | |
| March | | | 1,400 | |
| **Total** | | | **1,400** | |

The variance at the end of October (£1,102k) exceeds the level of surplus originally planned (£900k) for this stage in the year by £202k.

### 2.1 Income – £1,934k favourable (£20k adverse in the month) - Appendix 1 Pages 2-5

The Trust's income budget is currently in excess of £146m in total, the majority of which relates to patient care activity contracts (SLA, NICU, NCA). Performance reported against SLA targets is based on coded activity up to the end of September and performance for one further month is estimated to be on plan (ie meeting the SLA plus over-performance targets for the month).

For the first time this year, income for patient care activity is reported below the combined target for SLAs plus over-performance, a shortfall of £113k in the month.

Activity against the agreed SLA values for the majority of PCTs is in excess of the target to date (as detailed in appendix 1, page 4). The most significant variances are Islington PCT £1,249K, Haringey PCT £1,191Kk and Barnet PCT £581k.

In terms of patient category, there are favourable variances across all except excess bed days with the most significant variances to date against SLA targets for Critical Care £1136k (HDU £350k and ITU £1,256k), emergency activity £853k (ED attendances £762k and admissions £91k) and out-patients £647k (firsts £500k, follow-ups £97k and procedures £50k). This is detailed on page 4 of appendix 1.

As previously noted, Critical Care income is currently recognised and billed when patients are discharged. Whilst the overall value of this activity remain in excess of the values included in SLAs, income levels have reduced compared to earlier months, as expected as we see the impact of lower levels of occupancy during the summer months and the end of the impact of long stay patients that were billed in the first quarter.

In addition to agreed SLA values, the income budget includes a target for additional activity / over-performance of £3,556k (incorporating £2.17m in terms of demand management and activity growth assumptions plus £1.3m as a result of the increased critical care capacity plus £77k in respect of initial cost pressures associated with meeting the 18 week target). The additional income target to date, resulting from these items is £2m.
As described above, income reported in the first six months of the year was sufficient to exceed both the SLA target plus this additional target, there remains a surplus on a year to date basis (£1,429k) but there was a shortfall this month of £113k.

Other major contracts for income (SIFT, Madel, R&D etc) are reported on plan. There is a surplus of £137k to date (£11k shortfall in the month) against the target for RTA income and smaller surpluses or deficits against other income targets across operational areas.

Income is summarised on page 2 of appendix 1, with performance by PCT, patient type and specialty is detailed in pages 3 to 5.

### 2.2 Expenditure £866k adverse variance (£295k favourable in the month)

Performance by Division / Directorate is summarised on page 6 of appendix 1, followed by analysis by pay (page 7) and non-pay areas (page 8). The overall expenditure variance includes the Cost Improvement Programme (CIP) and the reserve representing the planned surplus. The favourable variance reported in the month largely represents a release from reserves (£261k) with underspending on pay budgets offsetting non-pay overspends plus slippage on the CIP.

### 2.2.1 Pay - Appendix 1 Page 7 and Appendix 2

An overall under-spend of £800k is reported against pay budgets to date of which £180k is in the current month. Some of this under-spend represents posts being held vacant to contribute towards achievement of the CIP. On a cumulative basis, most pay groups remain within budget, the exception being medical pay. The level of overspend against budget on medical pay (£22k this month, £86k last month) has significantly reduced. This staff group is now £451k above budget on a cumulative basis. Some of this is as a result of agency use, there were some double running costs for junior medical staff in August and savings targets have now impacted in respect of anticipated banding changes.
The executive team reviews staffing levels on a weekly basis, including staff in post plus bank and agency usage.

Pay awards have recently been agreed for Agenda for Change staff, these will be processed in November, with arrears (to April 2007) paid in December. Funding for this pressure is currently held in central reserves.

The current pay flash report is shown at Appendix 2.

### 2.2.2 Non Pay & Reserves – £866k adverse - Appendix 1 Page 8

Performance against non-pay budgets is shown on page 8 of appendix 1. The level of overspend has reduced compared to previous months (£180k overspent this month compared to £477k overspent last month). The most significant areas of spend above budget are for Clinical Supplies and Services (notably drugs and MSSE) however this is largely offset by income above target as a result of high levels of activity as described at 2.1 above.

In terms of non-clinical expenditure, the non-pay group continues to review and analyse these areas and additional control measures will be recommended where appropriate.

Some savings targets are held within the overall non pay budget and these account for an adverse variance of £454k to date, and whilst this is being met within the overall financial position it is not currently being delivered from within the specified non pay areas.

### 2.2.3 Cost Improvement Programme – £402k adverse - Appendix 1 Page 10

As detailed in the financial plan, the new CIP target for 2007/08 is £6.6m. In addition the full year effect of 2006/07 schemes amounts to £1.8m, giving a total CIP of £8.4m, as detailed on page 10 of appendix 1.

The year to date target is £5,026k, against which £4,623k has been achieved and validated, leaving a shortfall to date of £402k (or 8%).

Regular review meetings with executive team leads for each CIP continue to be held and replacement schemes are being implemented to offset any slippage against the original programme. The most significant is the development of information to improve recovery of drug expenditure, where allowable within PbR guidance.

Current slippage is offset within the overall financial performance reported, mainly as a result of the additional activity and favourable income position.

### 2.2.4 Year-End I&E Forecast & Risks

The current year-end forecast is to deliver the required surplus of £1.4m as detailed in the Trust's financial plan. Performance reported to date is better than target (by approx £200k) based on the original phasing of the plan.

The forecast remains dependent on maintaining ongoing controls that ensure spend is managed within a combination of available budget plus any additional income earned.

Key risks that need to be managed to ensure achievement of the plan include fully delivering the CIP, with replacement schemes where appropriate and the potential impact on expenditure and income of meeting the 18 week target.

### 2.2.5 External Reporting

Reporting against Annual Plan

The Trust was allocated a risk rating of 4, by NHS London, following the quarter 1 performance reporting exercise and as a result has been places on quarterly, rather than monthly, reporting against plan.
The quarter 2 submission was completed by the deadline 31st October.

There is still a requirement to report monthly performance in the FIMS exercise and performance as described in this report will be reported for October, which is due to be submitted to NHS London on 15th November.

A year-end forecast surplus of £1.4m (in line with plan) continues to be reported to NHS London.

### 2.2.6 Development of Patient Level Costing and Service Line Reporting

<u>Patient Level Costing</u>

As reported last month, implementation of the new Patient Level Information and Costing System (PLICS) is progressing to plan.

Software has been installed on site and training of key team members is underway. Initial data has been extracted from all feeder systems, although some improvement in terms of data quality is required as this is key to ensuring a successful implementation. Detailed work is now underway to map data from cost centre to patient level.

The system will be tested with June 2007 data later this year, and will be rolled out by March 2008.

Service Line Reporting

A London-wide project on service line reporting is being undertaken in parallel with PLICS, with a strong emphasis on clinical engagement and the importance of board-level commitment. Monitor requires all FTs and aspiring FTs to demonstrate considerable progress in this area.

The Whittington is one of the earlier trusts implementing PLICS, and is also part of a new costing standards group that will seek to improve the way in which costing is undertaken and how the tariff is calculated.

## 3 Balance Sheet Performance

The Trust's balance sheet is shown on page 11 of appendix 1.

Fixed Assets account for £87m, comprising land, buildings & equipment. Changes in the period relate to capital expenditure and depreciation estimates.

Net current Assets (current assets less current liabilities) are reported at £28.8m, however this includes a deferred asset within other debtors (27.7m) in relation to the PFI, when this is excluded the net position is assets of approx £1.7m. This indicates that the Trust has sufficient current assets to settle all current liabilities and is represented by significant cash balances (£4m) plus debtors (£19.5m) and stocks £1.2m).

### 3.1 Cash & EFL

The cash balance at the end of October was £4m, forecast cash balances for the remainder of the year are summarised on page 15.
The format of the cash-flow forecast has been expanded to show some detail within both receipts and payments. It has also been amended to show a rolling 12 month forecast in line with monitor requirements.

The year-end cash target is currently estimated as £415k, which will be met by managing working capital balances including the use of temporary PDC and allowing for required dividend payments (September and March).

The variance shown against the forecast for October cash is as a result of late receipt of payment from NHS London that was agreed for October but did not reach the Trust's bank account until 1st November.

The Trust's EFL, including forecast performance for the year, is detailed on page 14 of appendix 1.

### 3.2 Debtors

Total debtors are shown on the balance sheet are £46.7m, within this the balance shown as other (£27m) includes the PFI. The remainder relates to invoiced debt of £15m and accrued/estimated items of £4m.

Invoiced debt is £15m as detailed on pages 12 and 13 of appendix 1. These pages detail the largest debtors and detail monthly movement in debt plus recently introduced performance indicators.

Total invoiced debt currently represents 10.34% of turnover and average debtor days are 38, based on the level of outstanding debts at the end of October. Two significant items settled in the first few days of November (payment from NHS London of £1.2m and settlement of the impairment debtor £3.4m) impact on these indicators – if these were received within October, the position would have remained similar to last month, with total debt at just over 7% of turnover and average debtor days of 26.

### 3.3 Creditors

Total creditors shown on the balance sheet are £23m of which approximately £0.8m relates to invoiced debt, the remainder representing estimated / accrued amounts.

Performance against the Better Payment Practice code is shown on page 11 of Appendix 1. Achievement to date (based on invoice value) is 92% for NHS invoices and 82% for non-NHS invoices.

### 3.4 Provisions for Liabilities and Charges

Provisions on the balance sheet relate to back-to-back arrangements with the host PCT, in respect of early retirement and clinical negligence items. There is an equal offsetting item within debtors.

### 3.5 Total Assets Employed

The net total assets of the organisation are represented by the capital and reserves section of the balance sheet. This comprises the revaluation and donation reserves representing specific balances relating to fixed asset movements ; Public Dividend Capital representing the outstanding public debt of the organisation and the I&E reserve representing cumulative financial performance.

## 4 Capital Expenditure – Appendix 3

Financial performance against the Trust's capital expenditure programme is shown at Appendix 3.

## 5 Notes from the Finance & Performance Committee – Appendix 4

Notes from the Finance & Performance Committee meeting held in October are attached at Appendix 4.

## 6 Recommendations

The Board is asked to :

- **Note the financial performance for the seven months to 31st October 2007 and the year-end forecast ;**
- **Note the level of income in excess of targets and the change compared to earlier months ;**
- **Note the cash position and requirement to meet the year-end target ;**
- **Note the position in terms of implementing the patient level information system**
- **Note the minutes of the Finance & Performance Committee, which are appended**
- **Ensure all possible action is taken to on an ongoing basis to contain expenditure within available budget ;**
- **Ensure all agreed Cost Improvements are implemented and alternatives identified to offset any slippage ;**
- **Ensure recurrent CIPs are maximised to replace any non-recurrent measures currently in place.**