The Whittington Hospital NHS
NHS Trust

ITEM: 08/102	
DOC: 5	

Meeting:	Trust Board
Date:	18th June 2008

Title:	**Financial Performance – Month 2**

Executive Summary:	Two key areas are reported : **1. Financial performance – Month 2 (May 2008) (Section 1)** **2. Forecast / Financial Plan for 2008/09 and 2009/10 (Section 2)**

Action:	For information / Discussion

Report from:	Trish Donovan, Deputy Director of Finance

Sponsor:	Richard Martin Director of Finance

Financial Validation Lead: Director of Finance	Trish Donovan
Compliance with statute, directions, policy, guidance Lead: All directors	**Reference:** Best Practice-financial Assurance standards ; ALE ; Accounting standards ; Monitor financial regime ;
Compliance with Healthcare Commission Core/Developmental Standards Lead: Director of Nursing & Clinical Development	**Reference:**
Compliance with Auditors' Local Evaluation standards (ALE) Lead: Director of Finance	**Reference:** ALE – Financial Management & Financial Reporting domains
Evidence for self-certification under the Monitor compliance regime Lead: All directors	**Compliance framework reference:**

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Executive Summary

1) Month 2 Financial Performance

Income & Expenditure

Overall I&E performance reported is £12k better than plan.

In terms of actual income & expenditure, this is a deficit to date of £855k, against a planned deficit to date of £867k.

The reason there is a planned deficit to date is that income for SLA activity and for additional DTC activity is not phased in 12ths, but is phased to reflect the anticipated timing of activity, where as most expenditure items are phased in 12ths.

There are in-month surpluses planned for later months in the year and the overall plan remains a target surplus of £2m.

Cash

The closing cash balance for May was £3.465m compared to a forecast balance of £3.1m. The higher balance was achieved as a result of the impact of higher year-end cash balances, as described last month. The rolling cashflow forecast is shown in section 1.5

2) 2008/09 Forecast & 2009/10 Plan and Forecast

2.1 The overall plan remains to deliver a surplus of £2m, as previously agreed. Within this, detailed budgets have been further refined this month, with non pay budgets now reflecting 2007/08 out-turn adjusted for known items and a proposed vacancy factor included against pay areas.

2.2 Forecast delivery of the planned level of surplus is subject to the management of risks and cost pressures, with a forecast Income & Expenditure out-turn of £4.0 surplus as best case, £0.9m surplus likely case and £5.3m deficit worst case as described in sections 2.4 and 2.5

2.3 Plans for 2009/10 remain under development and the key challenge is to develop a detailed CIP to fully meet the forecast requirement, as described in sections 2.6 to 2.8

4) Recommendations

The Trust Board is asked to :

- ***Note the reported financial performance for the two months, including the planned deficit as a result of budget phasing ;***
- ***Confirm agreement to the updated budgets for 2008/09, reflecting out-turn where possible and including the proposed vacancy factor , with the overall plan remaining £2m surplus ;***
- ***Note the ongoing work on the evaluation of cost pressures and assessment of financial risks and the impact on the 2008/09 plan (and beyond)***
- ***Note the range (best, likely and worst case) forecast for 2008/09***

1) Performance for Month 2 (May) 2008/09

1.1 Income & Expenditure is summarised in the table below. Performance overall is £12k better than plan at this stage in the year.

TABLE 1 – I&E SUMMARY

Description	Current Month			Year To Date			Annual
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	Budget £'000
PCT Service Agreements	10,135	10,073	62	21,248	21,186	62	133,339
Other Income For Patient Care	227	191	37	418	381	37	2,286
Other Non-patient Income	1,939	1,705	234	3,573	3,339	234	19,799
Total Income	**12,302**	**11,969**	**333**	**25,238**	**24,906**	**333**	**155,424**
Pay	9,088	8,874	(214)	17,769	17,545	(224)	104,172
Non-Pay	3,456	3,404	(51)	6,825	6,772	(53)	40,716
Centrally Held Savings 08/09	0	(23)	(23)	0	(56)	(56)	(437)
Total Expenditure	**12,543**	**12,255**	**(289)**	**24,594**	**24,261**	**(333)**	**144,451**
EBITDA	**(242)**	**(286)**	**44**	**644**	**644**	**(0)**	**10,973**
Add Interest Receivable	1	34	(33)	51	39	12	355
Less Interest Payable	0	0	0	0	0	0	50
Less Depreciation	450	449	(1)	914	914	(0)	5,462
Less PDC Dividend	318	318	0	636	636	0	3,816
Net surplus / (deficit)	**(1,008)**	**(1,019)**	**10**	**(855)**	**(867)**	**12**	**2,000**

- EBITDA of £644k to date is reported, which is on plan ; an I&E deficit to date of £855k is reported against a planned deficit of £867k, giving an overall favourable variance from plan of £12k.
- The reason a deficit is planned at this stage in the year is that income is phased to recognise the anticipated timing of activity both for SLA activity targets and for additional activity targets relating to the DTC. Expenditure budgets are mainly phased in 12ths and estimates are accrued on this basis. This phasing means that there is a planned deficit in the earlier months of the year and as higher income targets impact in later months there are planned in-month surpluses.
- Coded activity data is not yet available for May. Income for this period has therefore been estimated on plan. The surplus of £62k reported relates to month 1 activity where the value of SLA activity was approx £100k above target however this is reduced by NCA activity being below target).
- Expenditure estimates / accruals have been included for items of expenditure yet to be finalised, including pay awards, yet to be settled but anticipated to be 2.75% for Agenda for Change Staff. The variance against pay budgets is approximately equivalent to 2/12ths of the vacancy factor. Expenditure variances are offset by the favourable income position and continual refinement of budgets to recognise this is planned.
- There is some slippage against specific CIPs planned for this period, however as overall I&E performance in total is slightly better than planned for this stage in the year this slippage has been offset by favourable items elsewhere.

1.2 Income

At the time of writing, coded activity data for May is not yet available, income performance is therefore estimated to be on plan for the month, with variances from plan for April reported. Performance by patient type against PCT SLAs is summarised below. Costed activity was £102k above SLA target for April. The most significant variance was for Islington where activity was £205k above plan offset by adverse variances for other PCTs including Haringey £45k and City & Hackney £40k.

TABLE 2 - SLA PERFORMANCE – April Activity

Patient/SLA Category	Activity			£000 Costed Activity		
	Plan	Actual	Variance	Plan	Actual	Variance
Ad Hoc Items	0	0	0	1,493	1,493	0
All Critical Care Activity	1,011	832	(179)	855	746	-109
All Elective Activity	396	290	(106)	560	456	-103
All Non Elective Activity	2,499	2,983	484	1,576	1,770	194
All Outpatient Activity	16,077	17,909	1,833	1,740	1,898	159
Day Case Activity	1,163	1,100	(63)	720	690	-31
Direct Access Activity	51,391	59,665	8,274	571	628	57
ED Attendances	6,796	5,957	(839)	499	434	-65
Non Chargeable Activity	0	149	149	0	0	0
Grand Total	**79,333**	**88,885**	**9,553**	**8,014**	**8,116**	**102**

1.3 Expenditure

Expenditure budgets as summarised in table 1 above are also mainly phased in 12ths. Where actual information is not yet available, estimates or accruals are included – eg. for pay awards (anticipated at 2.75% to be backdated to April for Agenda for Change staff) is included on an accruals basis, until actual settlement.

Non pay budgets have been refined so that they reflect as far as possible out-turn for 2007/08 adjusted for full year effects and non recurrent items plus known changes and agreed cost pressures.

Pay budgets now include a proposed vacancy factor of £1.3m, which is phased equally across the year – this is further described in section 2 below. There are vacancies across pay areas and there is flexible use of temporary staff (bank and agency) in most staff groups but most significantly in nursing, ancillary and admin staff groups. Actual WTE in post for the week ended 1 June was 3.8 WTE below establishment (including bank & agency staff), representing a reduction on levels in earlier weeks where total staff in post was above establishment (52.3 above in the week ended 18th May or 28.7 WTE above establishment in the week ended 25th May).

1.4 Cost Improvement Programme (CIP)

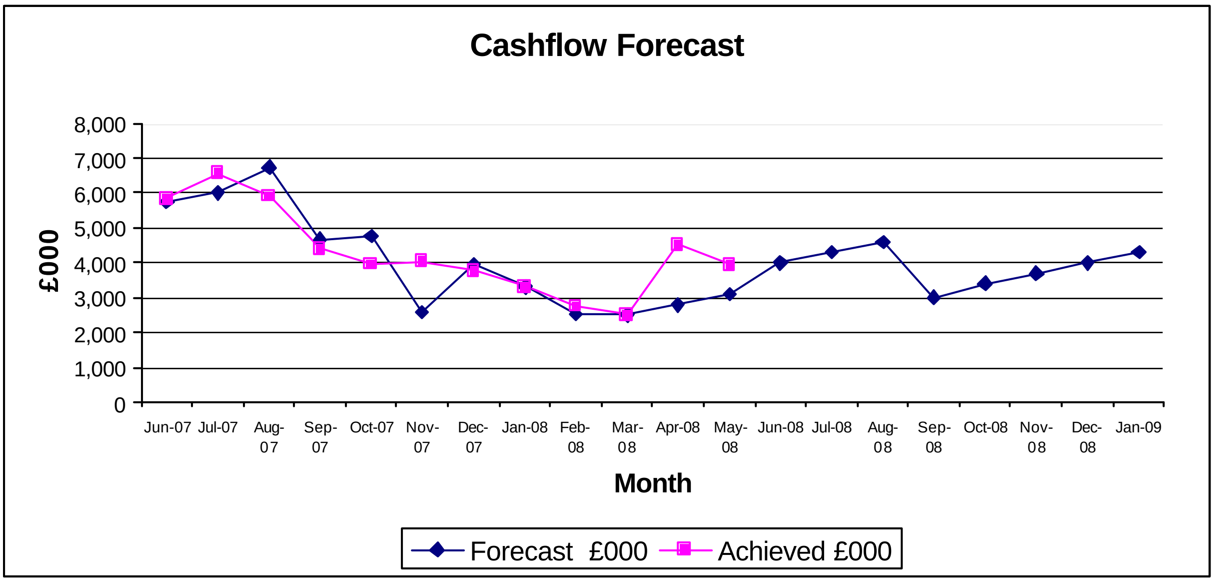
Implementation of the Cost Improvement Programme continues, with performance regularly reviewed by the Executive team. The total target for the year is £4.2m of which £3.8m relates to new schemes, the balance representing full year effects of prior year schemes. The target to date is £554k against which £375k has been validated, leaving a shortfall of £179k to date. Phasing of the plan remains under review and the target is updated with replacement / additional items as these are agreed.

1.5 Cashflow Forecast

The cash balance at the end of May was £3.944m against a forecast of £3.1m. This higher balance was achieved as a result of changes in the cash regime for Trusts, announced in March (Trusts were allowed to hold higher year-end cash balances) as reported last month.

The rolling forecast, shown below, has been updated to reflect the revised regime and is consistent with the cash plan included in the provider agency financial plan, submitted in May. Some items remain estimated in terms of timing (eg. payment of pay awards and arrears) and the forecast will be further updated once these are known.

TABLE 3 – CASHFLOW FORECAST



1.6 Risk Rating

Using the Monitor methodology, an indicative risk rating is shown below. This indicates a rating of 2 on a year to date basis and of 3 for the year-end forecast. The reason the rating is a 2 for the year to date calculation is because there is an I&E deficit at this stage in the year as described above.

TABLE 4 – RISK RATING

Weighting	Metric Description	Metric Value	Rating	Month 2 Weighted Value	Forecast Weighted Value
10%	EBITDA achieved (% of plan)	100.0	4	0.4	0.50
25%	EBITDA margin (%)	2.6	2	0.5	0.75
20%	Return on Assets (%)	-0.2	2	0.4	0.80
20%	I&E surplus margin (%)	-3.4	1	0.2	0.60
25%	Liquid ratio (days)	16.0	3	0.8	0.75
	Overall rating			**2.25**	3.40

2. Forecast of revenue surplus 2008/09 and 2009/10

2.1 The current plan as agreed with NHS London is for a surplus of £2m and budgets have been assembled to match this target. A review of baseline budgets and anticipated cost pressures/developments has been undertaken and the following key changes have been made.

- A significant number of pressures (£3m) have been approved for incorporation in budgets and along with a review of the detailed budgets; a release of provisions to compensate is now planned.
- An £1.3m Trust wide vacancy factor has been assumed in order to balance back to the approved budget, which broadly reflects last year's out-turn adjusted for known items. (described at 2.5.7 below)
- A contingency of £0.8m has been included within the plan which can effectively be added back to form a higher surplus. Furthermore, it is possible to release an additional £0.7m from provisions following a review of future likely liabilities.

2.2 There are 32 cost pressures included within the £3m value at this stage and an additional number are awaiting a formal decision on their inclusion in the plan. The largest items included relate to a higher than expected pay award offer which has yet to be accepted (£0.75m), a higher than expected business rates assessment for the new PFI building (£0.4m) and additional cleaning / infection control and screening costs (£0.3m). The remainder relates to smaller items with average individual values of £25k to £50k.

The process for evaluating cost pressures/business cases requires a submission to the Business Planning Group and if supported by the group, formal confirmation by the Executive Team.

2.3 The table below provides a summarised audit trail from the IBP submission to Monitor:

	£m
Integrated Business Plan/LTFM – 2008/09 Surplus	2.8
Add non-recurrent release of provisions	2.3
Less new pressures approved	-3.0
Less net effect of base budget adjustments	-0.1
Approved Annual Plan surplus	**2.0**
Add back unallocated contingency	0.8
Add further release of non-recurrent provisions	0.7
Baseline forecast surplus 2008/09	**3.5**

2.4 There are a number of risks and opportunities that can be applied against this baseline forecast and the following table shows a potential best case, likely case and worst case:

Risk Assessment 2008/09	**Best Case**	**Likely Case**	**Worst Case**
	£m	**£m**	**£m**
Baseline forecast surplus/(deficit)	3.5	3.5	3.5
Risks & Opportunities			
Debtor Management	0.6	0.3	0
DTC Activity contribution - variance	0.5	-1.0	-1.9
Lower achievement of CIP	0	0	-0.5
Higher drug inflation 12.5% v 2%	0	-0.3	-0.8

C. Difficile target missed	0	0	-0.7
Legal Claims	0	0	-0.4
18 weeks penalty	0	0	-1.7
Non achievement of vacancy factor 1.6%	0	-0.8	-1.7
Awaiting ET decision – cost pressures	-0.6	-0.8	-1.1
Risk assessed forecast surplus/(deficit)	**4.0**	**0.9**	**-5.3**

2.5 The above table presents three potential scenarios around a forecast revenue outturn. The issues that surround these nine identified variables are as follows:

2.5.1 There is potentially a benefit to be realised in respect of disputed debtor balances that have been provided for. These items are assessed on an ongoing basis and a current estimate of the value to be realised is quantified above.

2.5.2 The contribution from additional DTC activity, assumed in the 2008/09 plan is £2.5m of which approximately £0.6m is associated with Ophthalmology. The balance is a combination of repatriated activity and market share growth. The facility has been operational from the end of April and activity is being monitored weekly against a profile of expected demand and cost.

2.5.3 The Cost Improvement programme is constantly under review and the value that has been included within the opening planned surplus of £2m, is a target of £3.8m. This value is slightly lower than the IBP assumption, but does include a revised ward closure programme offset by additional savings elsewhere.

2.5.4 Monitor assumes a12.5% uplift in drug pressures, whereas only 2% has been included for inflation within the current plan. Factors that support the use of a lower rate are the separate recovery of high cost drugs from PCTs and a reduced exposure to specialist drugs. Budgets have also been increased to reflect the actual spend in 2007/08.

2.5.5 The C.Difficile target is spread over three years and therefore the exposure to the maximum penalty of £2m is also phased. Even though the Trust is currently on trajectory to remain within the prescribed target, an outbreak in the last month could trigger a financial charge. Consequently, assessing the size of the risk during the year will be difficult.

2.5.6 The December 2008 target for achieving 18 weeks is currently expected to be delivered. Good performance at this stage suggests a lower level of risk may apply.

2.5.7 A Trust wide vacancy factor has currently been included against pay budgets. This is the proposed treatment that has been necessary in order to achieve the opening planned surplus of £2m and is therefore contributing towards the size of the forecast outturn. It equates to 1.2% or £1.3m or approximately 28 posts.

Pay budgets are based upon approved establishments plus the full year effects of 2007/08 approvals less any identified 2008/09 CIP that applies. The higher pay award offer has been budgeted in full.

Pay budgets were under-spent for much of 2007/08 and only the additional 18 week expenditure absorbed the under-spend, for which a formal budget adjustment was not made. Consequently, whilst there has to be a degree of risk associated with any pay budget, there is an opportunity for managing the overall bottom line through careful management of vacancies.

2.5.8 The final key variable is the approval of cost pressures that are in the pipeline or on the horizon. Most of these pressures are recurrent and have a full year effect and so decisions made will have consequences for 2009/10. The value that is being considered amounts to £1.1m in the current year and includes, higher energy costs, higher cost of opening the Paediatric ED, opening theatre 5 and a Critical Care Outreach team.

2.5.9 Overall, the forecast surplus under the likely case scenario is only £0.9m and whilst there is limited evidence to support a really firm forecast at this stage, there is sufficient volatility and range of outcomes to justify vigorous and firm performance management.

2.6 Looking towards 2009/10, the key changes/issues include the following:

- Non-recurrent release of £3m from provisions cannot be repeated.
- PCTs will tender minor ED attendances with an expectation of a 40% price reduction – bottom line impact of a further £0.7m reduction in income.
- CIP of only £1.4m of the 09/10 target of £3.9m has been identified to date.
- Monitor would risk assess a tariff increase of 1.5% v 2.3% assumed in planning – value £1.0m
- C.Difficile target reduces further- another £0.7m risk
- Cost pressures/developments awaiting approval - £3.5m

2.7 A number of these points are risks and will not necessarily be included in the base plan for 2009/10, although mitigations will need to be demonstrated. Assembling a realistic 2009/10 plan will specifically require the following to take place:

- Achievement of the 2008/09 planned surplus of £2m
- Careful consideration of the pending cost pressures/developments
- Evidence of the DTC achieving the expected activity level.
- Detailed appraisal of the potential ED tender and its impact/mitigating measures.
- Fully worked up project plans for the achievement of the original target of £3.9m CIP. Ideas and themes could be treated as a project, not dissimilar to the transformation arrangements in 2006/07.
- Continued management of C.Difficile and 18 weeks during 08 /09
- A review of the number of additional junior doctor posts required to achieve the working time directive requirements.
- Achievement of the Trust-wide vacancy factor.

2.8 Clearly, 2009/10 will be challenging given the new pressures/developments and at this stage an increase in the CIP that is being sought for 2009/10 appears likely and related to the above points.

2.8.1 The assembly of the long term financial model is progressing to timetable and may provide a further update on the current information. In order, to maximise the acceptability and viability of any plan, the key task is to complete the detail of the 2009/10 CIP as a priority.