The Whittington Hospital NHS Trust

ITEM: 08/152 **Doc 8**

MEETING:	Trust Board 15th October 2008

TITLE:	Financial Position – Month 6 (September 2008)

SUMMARY:

1. In-month actual Income & Expenditure performance is a surplus of £881k. This is £791k better than planned primarily due to a £411k favourable variance on depreciation and reflecting (for the first time) anticipated in-month over-performance before coded activity is available.
2. Year to date surplus is £1,106k (overachievement of £607k against plan)
3. The cash position remains strong with a balance of £2.5m held at 30th September
4. A revised 'bottom-up' forecast has been prepared in conjunction with operational management, which projects a £2,025k year-end surplus.
5. This performance indicates a year-to-date risk rating (using the Monitor methodology) of 3.

Financial performance is described in more detail in the following sheets & tables.

ACTION:	For information / discussion

REPORT FROM:	Tim Jaggard, Deputy Director of Finance

SPONSORED BY:	Richard Martin, Finance Director

Financial Validation Lead: Director of Finance	Tim Jaggard

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 and Financial Reporting Domains

Compliance with requirements of FT application and monitoring regime Lead: Director of Strategy & Performance	**Reference:**

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Executive Summary

1. Month 6 Income and Expenditure

1.1. The overall I&E position to 30th September 2008 is a surplus of £1,106k, which is £607k better than planned. This year-to-date position is an improvement upon previous months due to an in-month surplus of £881k. This has resulted from a £411k reduction in depreciation, and reflecting (for the first time) anticipated in-month over-performance before coded activity is available.

1.2. The Month 6 surplus is largely due to a £411k reduction in depreciation resulting from a change in indexation and Quarter 2 recalculation, and reflecting (for the first time) anticipated in-month over-performance before coded activity is available, using raw activity data for September.

1.3. Pay expenditure remains significantly above plan (£1.33m variance to date). Of particular concern is the underachievement against the vacancy factor target (£586k) and large overspend on medical staff (now £774k). Overall non-pay expenditure is below plan by £586k to date – this is composed of an overspend in directorates and an underspend against central budgets, as in previous months

2. Month 6 Balance Sheet and Cash

2.1. The cash balance fell significantly in September due to the payment of the half-yearly Public Dividend Capital (PDC) dividend.

2.2. The closing cash balance for September was £2.5m, around £500k above the forecast position. This was due to a combination of factors such as unanticipated payment of 2007/08 outstanding debts and additional R&D funding from the Clinical Research Network. The rolling cashflow forecast is shown in Section 10.

3. 2008/09 Forecast

3.1. A detailed bottom-up forecasting exercise has been undertaken in Month 6, indicating that the Trust is projecting a ‘likely case’ £2.03m surplus for 2008/09. Further details of this forecast are given in Section 14.

3.2. The five previously identified key risks / priorities remain:

- Achievement of CIP target (or ensuring additional activity income covers CIP shortfall e.g. for Reckitt and Eddington wards)
- Achievement of DTC income target
- Maintenance of income levels sufficiently above SLA plan to cover other targets/pressures
- Reduction of overspend on pay, including achievement of vacancy factor
- Resolution of long-standing Whittington Facilities Ltd. (WFL) debt

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** the financial performance for the first six months of 2008/09
- **Note** the revised year-end forecast of £2.03m
- **Note** the continued importance of the five key risks / priorities in achieving this planned £2m surplus

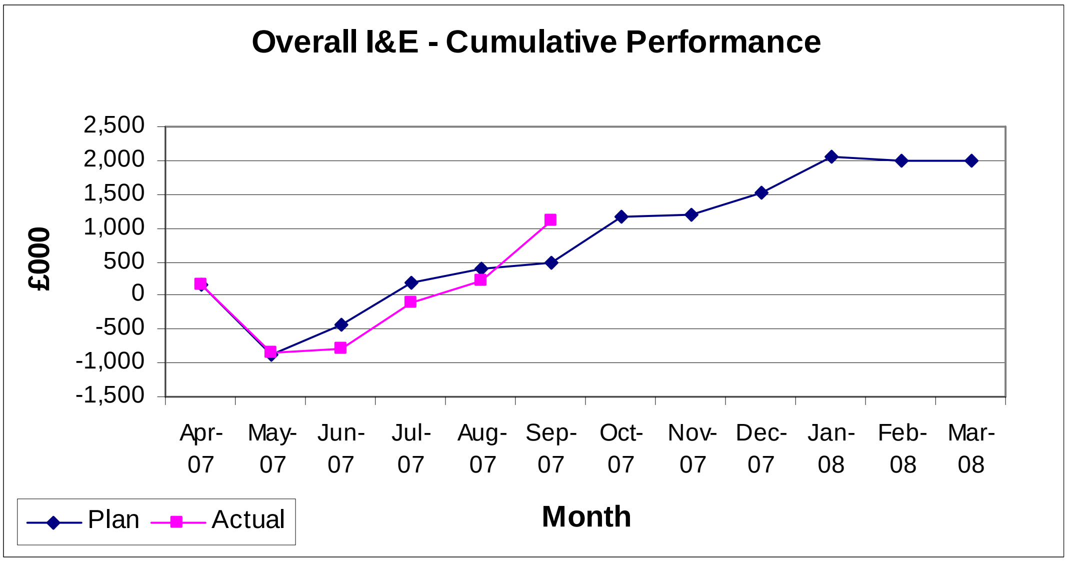
Month 6 Finance Report

5. Income and Expenditure Summary

5.1. Income and Expenditure is summarised in the table and chart below:

FIGURE 1 Description	Current Month Actual £'000	Current Month Budget £'000	Current Month Variance £'000	Year To Date Actual £'000	Year To Date Budget £'000	Year To Date Variance £'000	Annual Budget £'000
NHS Clinical Income	12,466	11,854	612	70,325	69,357	968	137,865
Non NHS Clinical Income	56	64	(8)	369	384	(15)	769
All Other Non Clinical Income	1,843	1,777	65	10,773	10,642	131	21,136
Total Income	**14,364**	**13,695**	**669**	**81,467**	**80,384**	**1,083**	**159,770**
Pay	9,428	9,259	(169)	55,179	53,847	(1,332)	107,202
Non Pay	3,726	3,631	(95)	21,139	21,725	586	42,031
Centrally Held Savings	0	(28)	(28)	0	(169)	(169)	(437)
Total Expenditure	**13,154**	**12,862**	**(292)**	**76,318**	**75,403**	**(915)**	**148,797**
EBITDA	**1,210**	**833**	**377**	**5,149**	**4,980**	**169**	**10,973**
Plus Interest Receivable	32	30	3	186	158	29	355
Less Interest Payable	0	0	0	1	0	(1)	50
Less Depreciation	44	455	411	2,320	2,731	411	5,462
Less PDC Dividend	318	318	0	1,908	1,908	0	3,816
Net Surplus / (Deficit)	**881**	**90**	**791**	**1,106**	**499**	**607**	**2,000**

FIGURE 2



5.2. EBITDA of £5,149k to date is reported, which is £169k better than planned. An overall I&E surplus of £1,106k to date is reported, which is £607k better than planned.

5.3. The strong in-month performance is due to a number of factors:

- A £411k favourable variance on depreciation, partially due to a change in indexation rules to allow zero inflation of asset values, and partially due to a lower level of assets than expected as a result of capital programme slippage.
- Recognition of anticipated September over-performance against SLAs. This estimate has been calculated for the first time in Month 6 using raw, un-coded activity data (see section 6 below).
- Recognition of £125k of the £500k maternity funding from Islington PCT, with the assumption that this will remain unspent or expenditure is already accounted for within directorates.
- Unanticipated payment of a number of 2007/08 outstanding debts of around £400k relating largely to SLA over-performance for Haringey and Enfield PCTs.
- An overall underspend of £586k against non-pay – although this comprises a £1,163k overspend in directorates (primarily relating to clinical supplies such as drugs and patient appliances that are showing higher expenditure due to increased activity) and £1.7m underspend relating to central unallocated and uncommitted budgets (after estimated accruals for cost pressures).

5.4. Monthly performance, if adjusted to reflect the first four items above, would be a deficit of around £300k.

6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (August 2008), with September income performance accounted for as follows:

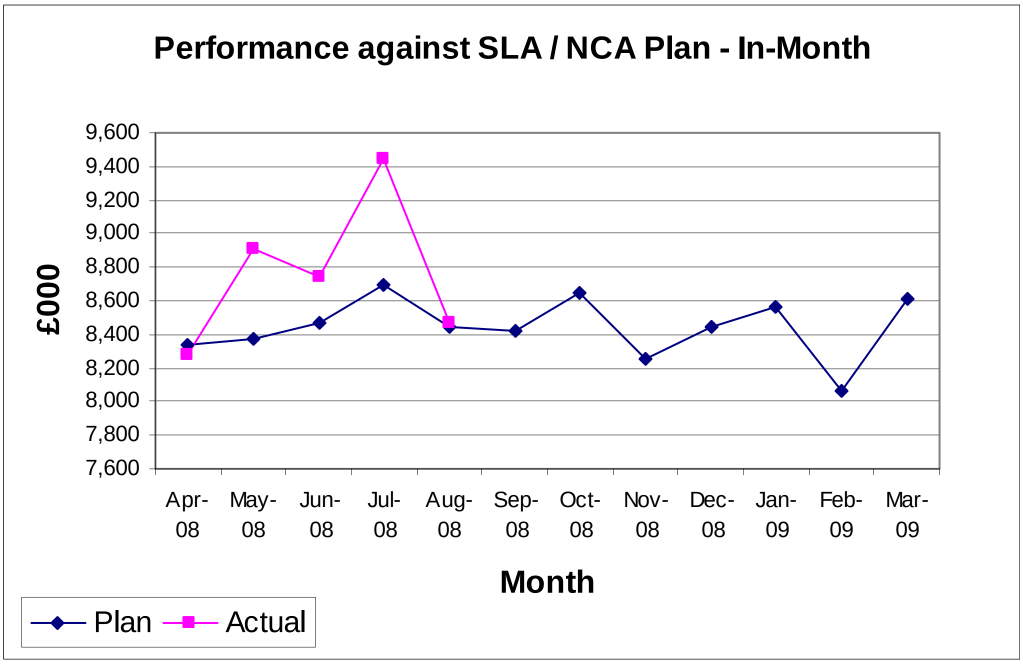
- For inpatient and outpatient activity, raw, un-coded activity data was used to estimate the total chargeable activity that will be billed to PCTs. This accrual includes DTC activity undertaken in September.
- For other areas, income is assumed to be equal to the SLA plan
- Decrease in reported income of a further £171k relating to follow-up outpatient attendances above the level agreed with PCTs for August (over and above the £127k reported in Month 5)
- Decrease in reported income of £80k due to disputes received from PCTs relating to Quarter 1 activity. The assumption is that 10% of total value of queries will be disputed – a lower figure than reported in Month 5 due to a smaller than expected number of PCT queries for Quarter 1.

6.2. Performance against SLAs (including non-contract activity) was much weaker in August, with an in-month over-performance (before non-SLA income targets) of just £23k (compared to £750k in-month in July). The year-to-date position is summarised below by patient type:

FIGURE 3

POD	Activity			Finance £000s		
	Plan To M5	Actual To M5	Variance To M5	Plan To M5	Actual To M5	Variance To M5
Block Contract/Emergency Threshold	0	0	0	7,330	7,330	0
Adult High Dependancy Beddays	1,050	999	(51)	821	781	(40)
Adult Intensive Care Beddays	1,328	1,572	244	2,521	2,985	464
Day Cases	5,861	6,475	614	3,598	3,933	335
Direct Access	256,957	279,570	22,613	2,856	2,973	117
ED Attendances	34,319	31,798	(2,521)	2,519	2,352	(167)
Elective Inpatients	1,407	1,138	(269)	2,652	2,412	(240)
Excess Beddays	5,498	5,840	342	911	895	(17)
NICU High Dependancy Beddays	522	452	(70)	504	436	(67)
NICU Intensive Care Beddays	369	360	(9)	498	486	(12)
NICU Special Care Beddays	2,956	2,746	(210)	1,180	1,108	(72)
Non-Elective Inpatients	9,771	9,978	207	8,428	8,397	(31)
Other Activity	5,931	8,444	2,513	233	334	101
Outpatient 1st Attends	22,118	24,736	2,618	3,835	4,309	475
Outpatient Follow Ups	48,983	56,793	7,810	4,104	4,668	564
Outpatient Procedures	1,595	2,161	566	339	450	111
Grand Total				**42,329**	**43,850**	**1,522**

FIGURE 4



6.3. The trend in over-performance from previous months has slowed, despite the fact that the SLA plan was seasonally profiled (see figure 4). Favourable in-month variances in adult critical care (£114k) and day case activity (£120k) and outpatients (£171k) were cancelled out by adverse variances in ED attendances (£102k) and non-elective inpatients (£197k) with small adverse variances elsewhere.

6.4. Day case performance against SLA is favourable due to additional DTC activity. The combined performance of day cases and elective inpatients – i.e. total elective activity - is now £95k above SLA plan (before meeting additional DTC income targets).

6.5. It is important to note that the Trust must also meet additional income targets over and above the SLA plan in order to deliver the planned £2m surplus. As reported in Month 5, the SLA over-performance is substantially higher than the reported NHS Clinical Income variance due to these additional targets (e.g. £170k CIP, £355k risk-adjusted demand management).

6.6. As detailed in the Month 5 finance report, Work in Progress (i.e. income due on patients still in hospital at the month-end) is being reported on a monthly basis. The treatment in Month 6 is the same, resulting in no impact on I&E in-month.

7. Expenditure Performance

7.1. Pay expenditure remains significantly above plan in August, by £1.33m – an increase of £169k in the month. This is due to the following:

- Vacancy factor not met - £586k to date
- Historical over-establishment in the early part of the year
- Higher expenditure on agency staff
- Higher than expected levels of activity

7.2. Spend on agency staff this month was £485k and some £2.4m to date. A substantial proportion of this relates to nursing pay (which as a whole is now £226k over budget), and there is significant overspend in medical staffing, A&C and other support staff.

7.3. Medical staffing continues to be overspent, by £774k to date. An overspend of £566k on locum medical staffing is contributing to this.

7.4. Non-pay expenditure is £586k below plan – a decrease of £95k compared to August. This, as in previous months, is composed of an overspend in directorates and an underspend against central budgets due to cost pressure budgets not claimed.

8. Cost Pressures

8.1. There were relatively few claims in September for central cost pressure budgets - around £50k in total, mainly relating to the Maternity Day Unit (MDU).

8.2. Other central budgets are released into the overall financial position, mainly phased in twelfths and with matching estimated expenditure accruals where appropriate. In Month 6 the decision was taken to reduce the expenditure accrual against pay cost pressures, as it is now unlikely that the full central budget will be claimed by the end of the financial year.

9. Cost Improvement Programme (CIP)

9.1. Performance against the CIP is summarised in the charts below. The target to the end of September was £1.6m, against which £1.7m has been validated. In-month performance was £255k higher than planned, primarily as a result of the following items being validated:

- Reduction in CNST premium (£55k to date)
- Rebate on rates (£116k)
- Backdated estimate of community midwifery income target achievement (£49k)

9.2. The total target for the year remains at £4.2m, with a forecast shortfall of recurrent CIP of £1.3m (overall shortfall £0.9m). Of this, £866k relates to the closure of Reckitt and Eddington wards. The year-end forecast assumes the likely scenario that Reckitt will remain open and that Eddington will re-open, with additional income due to increased activity offsetting the CIP underachievement.

9.3. However, there is a further £564k forecast likely underachievement of CIP targets that will not have associated additional income to offset. This is composed of a number of smaller schemes such as sickness management, procurement savings and outpatient department remodelling. At present the Trust is relying on strong income performance at Month 1-5 levels in order to forecast a £2m surplus.

9.4. Developing the CIP for 2009/10 (a minimum target of £8.6m recurrent savings) remains a priority, with Directors involved in forming detailed plans for achieving this target, managed by the Efficient Services Collaborative headed by Fiona Elliott, Director of Planning and Performance.

9.5. The target is high, partly due to the normal requirement for annual CIP of around £4m, but also due to additional investment in services and a number of cost pressures – some of which are being implemented in 2008/09 with significant full year effects in 2009/10. Examples include MRSA screening and cleaning, DTC facilities costs, a higher than expected pay award, midwifery-led birthing unit, maternity day unit, Paediatric ED, chemotherapy manufacturing unit and increased energy prices.

FIGURE 5

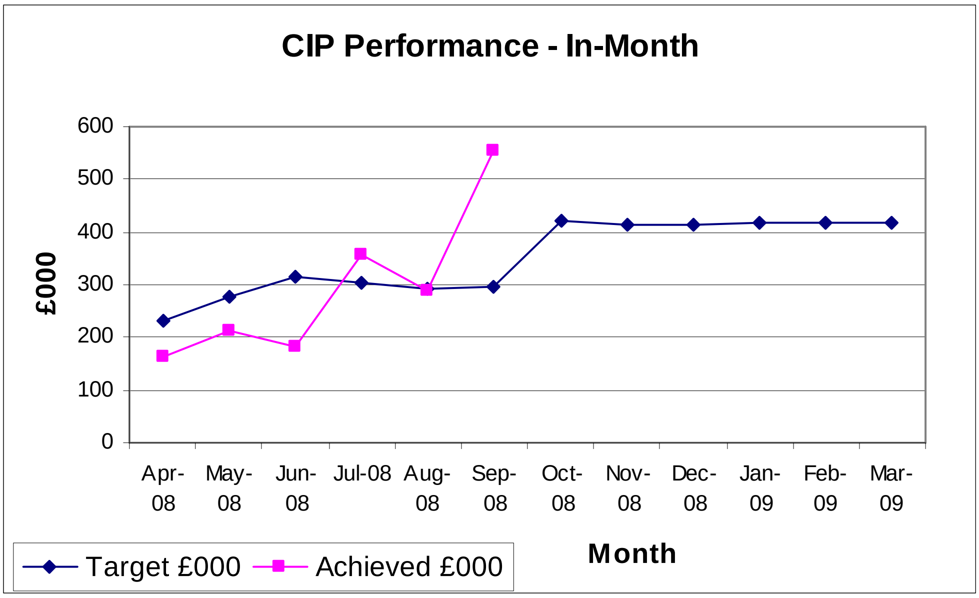
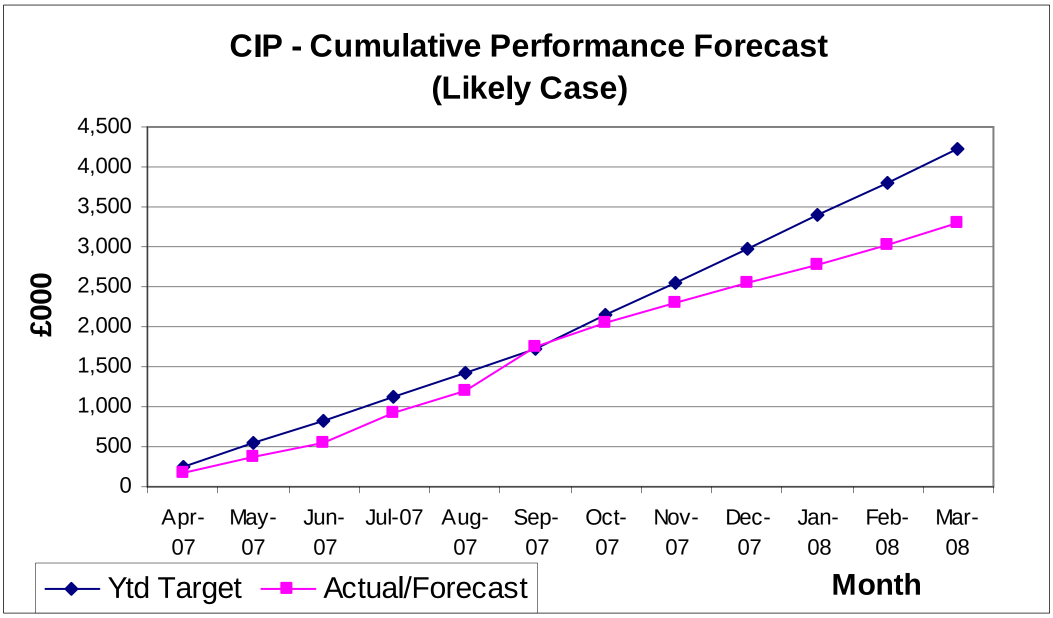


FIGURE 6

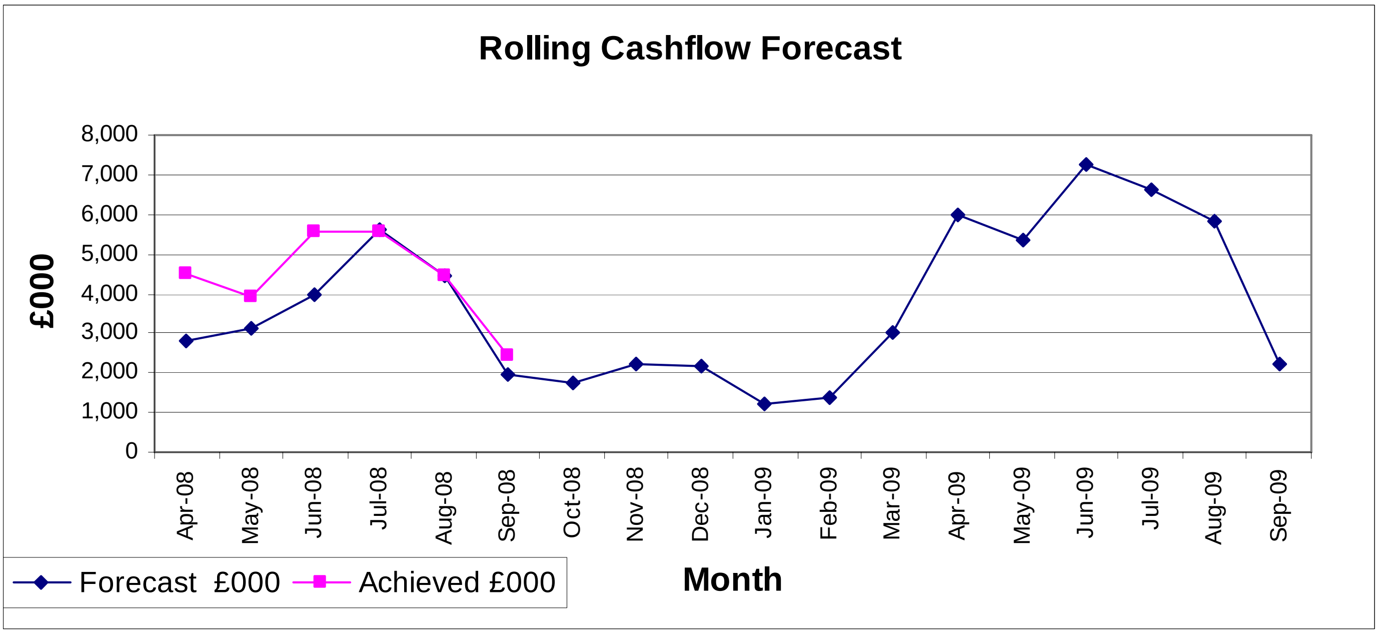


10. Cash

10.1. The cash balance at the end of August was £2.5m, around £500k higher than the previously published forecast. The higher than anticipated cash balance was due to abnormally high cash receipts relating to prior-year outstanding debts, primarily from PCTs. In addition, the Trust received £69k additional R&D funding from the Clinical Research Network.

10.2. The rolling twelve-month cashflow forecast is shown below:

FIGURE 7



10.3. Where exact timings are unknown, estimates have been included. The reduction in the cash balance that occurred in September is due to the half-yearly Public Dividend Capital payment of £1.9m.

11. Risk Rating

11.1. An indicative risk rating is shown below, based upon the Monitor methodology. Due to the revised year-end forecast that has been carried out in Month 6, this now indicates an overall rating of 3 for the forecast year-end position.

11.2. The year-to-date risk rating remains at a score of 3.

FIGURE 8

Weighting	Metric Description	Month 5 Rating	Weighted	Forecast Year-end Rating	Weighted
10%	EBITDA achieved (% of plan)	5	**0.50**	5	**0.50**
25%	EBITDA margin (%)	3	**0.75**	3	**0.75**
20%	Return on Assets (%)	2	**0.40**	2	**0.40**
20%	I&E surplus margin (%)	3	**0.60**	3	**0.60**
25%	Liquid ratio (days)	5	**1.25**	3	**0.75**
	Overall rating		**3.50**		**3.00**

12. Balance Sheet

12.1. The balance sheet is summarised below, showing the opening, current month and year-end forecast position. The year-end forecast has been updated following the detailed forecasting exercise that has been undertaken for Month 6:

FIGURE 9

Description	As at 1st April 2008	End of Month Actual	2008/09 Year End Forecast
	£'000	£'000	£'000
Fixed Assets	**92,504**	**91,376**	**93,683**
Stock	1,230	1,435	1,215
Debtors	7,457	10,848	7,468
Debtors - Deferred Asset	24,933	24,441	23,591
Cash in hand & at Bank	2,515	2,463	3,030
Total Current Assets	**36,135**	**39,188**	**35,304**
Creditors - Revenue	11,468	14,011	10,840
Creditors - Capital	3,150	1,027	2,200
Total Current Liabilities	**14,618**	**15,038**	**13,040**
Net Current Assets	**21,517**	**24,149**	**22,264**
Provisions for Liabilities & Charges	**3,289**	**3,193**	**2,444**
Total Assets Employed	**110,732**	**112,332**	**113,503**
Public Dividend Capital	47,258	47,809	48,084
Revaluation Reserve	40,426	40,297	40,297
Donated Asset Reserve	1,221	1,164	1,108
Income & Expenditure Reserve	21,827	23,062	24,014
Total Capital & Reserves	**110,732**	**112,332**	**113,503**
Capital Cost Absorption Rate		**1.76%**	**3.51%**

12.2. As described in the Month 5 finance report, figures for debtors and creditors have increased over previous months by around £1.4m due to the accounting treatment for Work In Progress introduced in August.

12.3. Average invoiced debtor days are currently 15 (an increase from 12 in the previous month) against a target maximum of 30 days. The invoiced debt at the end of September represents 4.05% of the Trust's turnover (target maximum of 5%).

12.4. As at 30th September, 88.3% of NHS Creditors and 86.4% of Non-NHS Creditors were paid within the target 30 days.

13. In-Year Forecasting Process

13.1. A detailed forecast has been produced in September in conjunction with operational management to develop a forecast for financial performance in the second half of the year. This has resulted in a forecast surplus of £2.03m, replacing the £0.8m forecast surplus previously reported to NHS London prior to recent months' increases in reported income.

13.2. A key priority identified in the recent KPMG Review of the Finance Function was to develop a more robust forecasting process. A substantial amount of work has been undertaken in September to develop a methodology and set of assumptions that can be used to forecast as accurately as possible, utilising operational managers' knowledge to build a 'bottom-up' forecast that is owned by the organisation (rather than a top-down forecast owned by finance).

13.3. Crucially, the new forecasting process focuses on *actual* income and expenditure (ignoring budgets), compared to the previous methodology of extrapolating variance from plan to the year-end and applying high-level adjustments.

13.4. A forecasting procedure and action plan has been produced with operational management input. This details the underlying assumptions behind the 'base case' forecast together with the methodology for adjusting for known future events, and will be published when finalised. Specific developments are as follows:

- Ensuring that management accountant meetings with budget holders are forward-looking, with service changes identified at an early stage
- Producing summary level forecasts within each directorate, which are then signed off and fed into the Trust-wide forecast reported to Executive Committee and Trust Board
- Including updated forecasts on the budget statement packs that are sent to operational managers and budget holders
- Where possible, using available data on referrals and recent medical and surgical inpatient activity to forecast future activity (and therefore income) in conjunction with operational management.

13.5. Key to the success of improving forecasting is the need for finance staff to be fully engaged with operational areas of the Trust. This requires work within and outside of the finance department – for example, finance staff should be involved in directorate and departmental meetings and are included in the early stages of any service development plans. It is also recommended that a senior finance representative should attend regular General Managers' meetings.

13.6. The new forecasting methodology will be developed and refined over time, improving the accuracy of the projected I&E position of the Trust.

14. 2008/09 Forecast Income and Expenditure

14.1. The table below summarises the forecast I&E position for 2008/09. The starting point is the result of the bottom-up forecasting process undertaken by finance/operational management, with very limited high-level adjustments. Additional memorandum notes as to the assumptions in the forecast are described below.

FIGURE 10

	Year end forecast 2008/09		
	Likely scenario	Worst case scenario	Best case scenario
Total income from bottom-up forecast	**162,994**	**156,653**	**166,597**
Total expenditure from bottom-up forecast	**152,600**	**148,529**	**154,828**
Interest (net receivable)	**-385**	**-365**	**-405**
Depreciation	**4,938**	**4,938**	**4,938**
PDC Dividend	**3,816**	**3,816**	**3,816**
NET FORECAST I&E BEFORE HIGH-LEVEL ADJUSTMENTS	**162,994**	**-265**	**3,419**
High-Level Adjustments:			
Potential additional WFL Benefit (in addition to £300k assumed)	0	0	192
18 Weeks Penalty (for missing December 2008 target)	0	-1,700	0
Full achievement of CIP (excluding Reckitt/Eddington)	0	0	564
NET FORECAST INCOME/EXPENDITURE POSITION 2008/09	**2,025**	**-1,965**	**4,175**

14.2. The broad methodology for deriving the forecast income is as follows:

- 'Baseline' likely case assumes over/underperformance continuing at current levels (measured as percentage above or below profiled SLA plan).
- 'Baseline' best and worst cases derived by extrapolating best and worst historical monthly performance against plan, at the specialty level.
- Adjustments made to the 'baseline' forecasts where further detail is available (e.g. DTC and elective activity – see below).

14.3. For expenditure, the methodology is as follows:

- 'Baseline' likely case takes previous two months' actual expenditure and projects this forward to the year-end.
- 'Baseline' best and worst cases assume a marginal cost percentage of 70% applied to the income changes identified as part of the income forecast.
- Adjustments and variations are made to these forecasts at the individual cost centre level through meetings between operational management, budget holders and management accountants to establish predicted future changes in expenditure (e.g. cost pressures).

14.4. **DTC Activity** – the table below summarises the assumptions within the forecast above relating to DTC activity:

FIGURE 11		Variance from Plan			
	TOTAL PLAN £	Current	Likely	Worst	Best
Ophthalmology – shown against original planned income of £954k from Royal Free. Likely case is income of £350k, best case is £716k and worst case is £175k.	954	N/A	-604	-779	-238
All other DTC activity	11,146	-97	-182	-1,196	551
TOTAL:	12,100		-786	-1,975	313

14.5. **Elective Activity** – likely and best case forecast based on operational management predicted activity for the remainder of the year, to help bring performance back to SLA plan. Worst case assumes that underperformance will continue at the current rate.

14.6. **Reckitt and Eddington Wards** – the forecast assumes that Reckitt will remain open and that Eddington will re-open, generating income that is sufficient to offset the shortfall in CIP that will result (as per calculations in previous papers).

14.7. **CIP** – the implicit assumption within the likely case forecast is that CIP will underachieve by £0.9m at the year-end, as described in Section 9 above.

14.8. **Release of Provisions** – the forecast assumes that £250k will be released from provisions per month, to reach a total of £3m by the end of the year. This is in addition to the £400k additional income recognised in Month 6 as a result of the better than expected settlement of 2007/08 PCT invoices.

14.9. Whilst the likely case forecast is projecting a £2m surplus, this is contingent upon high levels of overperformance continuing for the remainder of the year. To mitigate the risk of activity not being sustained at these levels, it remains essential to focus on the five key risks / priorities previously identified:

- **Achievement of CIP** - as detailed in Section 9 above, the CIP is currently projecting a £0.9m shortfall at year-end, with significant and challenging increases in monthly targets from October onwards.
- **Achievement of DTC Income Target** – DTC income is currently £97k below plan, *not including* the probable reduction relating to Ophthalmology day case work undertaken for the Royal Free – discussions are ongoing to finalise the financial arrangement for 2008/09. As elective activity was underperforming by £240k to July, it is possible that DTC activity is higher due to conversion of activity from elective work, and the two are now being monitored together as part of the weekly flash report.
- **Maintenance of income levels sufficiently above SLA plan to cover other targets/pressures** – in-month over-performance against SLA plans in August was low. In addition, the reported over-performance against SLAs is likely to be reduced by the requirement to reimburse PCTs for excessive follow-ups (see section 6 above).
- **Reduction of overspend on pay -** including achievement of vacancy factor. Current pay overspend is £1.33m, with agency use a significant contributory factor. The vacancy factor adjustment to budgets is not being met, with the majority of vacancies being covered by agency or bank staff.
- **Resolution of long-standing Whittington Facilities Ltd. (WFL) debt** – no benefit has been assumed in the actual figures to date, although the likely case forecast assumes a benefit of £300k.

Appendix 1: Result of Month 6 Bottom-up Forecast Income and Expenditure 2008/09

Description	Forecast Year End Actual		
	Worst £'000	Likely £'000	Best £'000
NHS Clinical Income	132,055	138,396	141,999
Non NHS Clinical Income	738	738	738
All Other Non Clinical Income	23,860	23,860	23,860
Total Income	**156,653**	**162,995**	**166,597**
Pay	108,925	110,644	111,712
Non Pay	41,304	41,956	42,360
Centrally Held Savings	0	0	0
Total Expenditure	**150,229**	**152,600**	**154,072**
EBITDA	**6,424**	**10,395**	**12,524**
Plus Interest Receivable	(385)	(405)	(405)
Less Interest Payable	20	20	0
Less Depreciation	4,938	4,938	4,938
Less PDC Dividend	3,816	3,816	3,816
Net Surplus / (Deficit)	**(1,965)**	**2,025**	**4,175**