ITEM: 09/010
Doc 9

MEETING:	Trust Board 21st January 2009

TITLE:	Financial Position – Month 9 (December 2008)

SUMMARY:

1. The year-to-date Income & Expenditure position is a surplus of £1.5m – around £500k from the planned year-end surplus of £2m, and £30k better than the year-to-date plan.
2. In-month actual Income & Expenditure performance is a deficit of £60k. This is £383k lower than planned, primarily due to a) the likely reimbursement for some 'N12' maternity activity and follow-up outpatient attendances and b) early un-coded December activity indicating little or no over-performance in-month
3. Pay expenditure in Month 9 is overspent by £6k – an improvement on previous months due to lower numbers of bank and agency staff employed over the Christmas period and lower elective activity levels. Non-pay expenditure was overspent by £75k.
4. The cash position remains strong with a balance of £2.5m held at 31st December
5. The forecast has been updated for Month 9 – the planned £2m surplus remains the likely case, although this is reliant upon strong income performance over and above the current rate of activity over-performance
6. This performance indicates a year-to-date risk rating (Monitor methodology) of 3.

Financial performance is described in more detail in the following report.

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:**

Executive Summary

1. Month 9 Income and Expenditure

1.1. The overall I&E position to 31st December 2008 is a surplus of £1,522k, which is £30k better than planned. This year-to-date position has weakened from previous months primarily due to a) a provision being made for the probably reimbursement of 'N12' maternity activity (ante-natal admissions), and b) estimated activity in December (as yet not coded) showed an underperformance against SLA plans.

1.2. Pay expenditure reduced in December – reflecting the known decrease in bank and agency staff in the two-week period over Christmas. This compensated for the increased levels of agency required to meet higher non-elective activity in December. Year-to-date pay expenditure remains £1.55m overspent, with the vacancy factor not achieved and bank and agency expenditure much higher than planned.

1.3. Non-pay expenditure was £75k higher than planned in December – this is an improvement upon November, primarily due to lower expenditure on drugs and clinical supplies that reduced as a result of lower activity levels.

1.4. The year-to-date position includes several non-recurrent items, which when removed show an underlying financial deficit. The current forecast remains at £2m although it is likely that a higher than expected use of provisions will be required.

2. Month 9 Balance Sheet and Cash

2.1. The cash balance increased in December with a closing cash balance of £2.5m, £0.9m above the forecast position due to unanticipated receipts relating to old UCL debt and the current provider-to-provider SLA with Camden PCT, and reduced capital payments.

2.2. Capital payments were £218k below forecast in December and there is a risk that the capital programme allocation, although full, will not be entirely utilised by the end of March unless projects are actively managed and slippage prevented.

3. 2008/09 Forecast

3.1. The detailed bottom-up forecasting exercise that was undertaken in previous months has been updated for Month 9. This indicates that the Trust is projecting a 'likely case' £1,988k surplus for 2008/09 – this is contingent upon strong income over-performance in the final three months of the year and the release of further provisions no longer required. Further details of this forecast are given in Section 13.

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

- Achievement of CIP target (or ensuring additional activity income covers CIP shortfall for Reckitt and Eddington wards) – currently on target with over-achievement by the year-end
- Achievement of DTC income target – currently below plan but consistent with forecast
- Maintenance of income levels sufficiently above SLA plan to cover other targets and cost pressures – these targets were not met this month
- Reduction of overspend on pay, including achievement of vacancy factor – overspend has been close to zero for the second month running
- Resolution of long-standing Whittington Facilities Ltd. (WFL) debt – dispute over what is included in the settlement agreement

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** the financial performance for the first nine months of 2008/09
- **Note** the year-end forecast of £2m and the reliance upon non-recurrent items and final quarter activity levels
- **Note** the continued importance of the five key risks / priorities outlined above

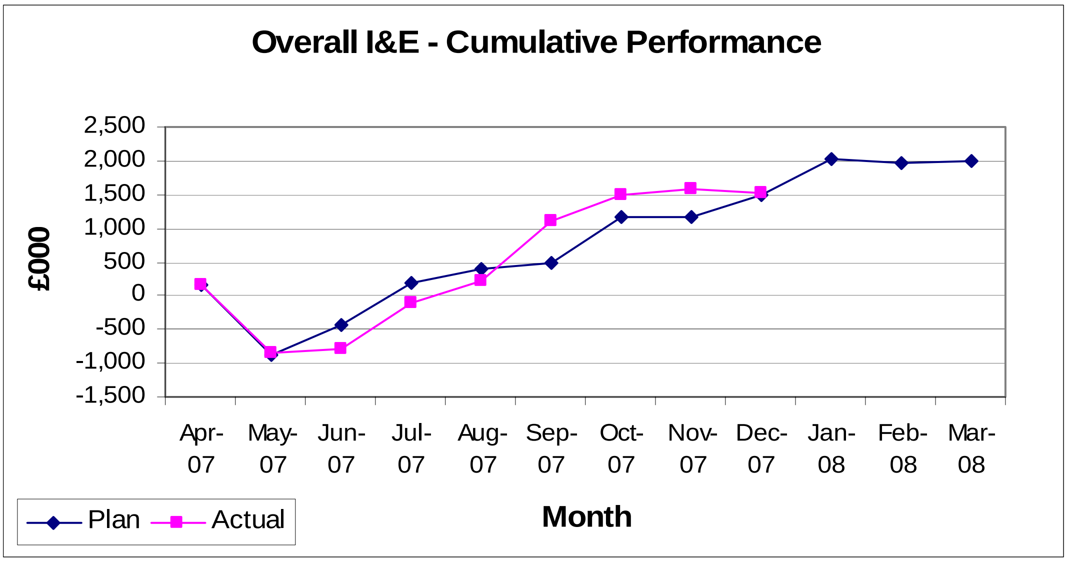
Month 9 Finance Report

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	10,791	11,607	(816)	104,350	104,144	207	138,518
Non NHS Clinical Income	63	64	(2)	688	577	111	769
All Other Non Clinical Income	2,560	2,101	459	17,972	16,866	1,106	22,454
Total Income	**13,414**	**13,772**	**(358)**	**123,010**	**121,586**	**1,424**	**161,741**
Pay	9,283	9,277	(6)	83,205	81,652	(1,553)	108,679
Non Pay	3,504	3,428	(75)	32,132	31,730	(402)	42,089
Total Expenditure	**12,787**	**12,706**	**(81)**	**115,338**	**113,382**	**(1,956)**	**150,768**
EBITDA	**627**	**1,066**	**(439)**	**7,672**	**8,204**	**(532)**	**10,973**
Plus Interest Receivable	12	30	(18)	235	246	(11)	355
Less Interest Payable	0	0	0	1	0	(1)	50
Less Depreciation	381	455	74	3,522	4,097	575	5,462
Less PDC Dividend	318	318	0	2,862	2,862	0	3,816
Net Surplus / (Deficit)	**(60)**	**323**	**(383)**	**1,522**	**1,492**	**30**	**2,000**

FIGURE 2



5.2. EBITDA of £7,672k to date is reported, which is £532k worse than planned as this is calculated before the depreciation underspend that is contributing to the overall I&E surplus.

5.3. The apparent strong financial performance to date is due to a number of factors:

- Planned release of provisions – totalling £3m for the year. Provisions are reviewed each month and released if no longer required
- Additional Market Forces Factor (MFF) payment from the Department of Health relating to 2007/08 - £50k higher than expected
- A favourable variance on depreciation (£575k total to Month 9), partially due to a change in indexation rules and partially due to a lower level of assets as a result of capital programme slippage
- Recognition of the year-to-date proportion of a) £500k maternity funding and b) £400k waiting list funding from Islington PCT, with the assumption that 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 – over and above planned provision release
- Review of creditor balances held (i.e. amount owing to other organisations) - £341k released in November
- Reduced credit note provisions following an assessment of outstanding claims – in November and December these reductions together amounted to £429k above the planned £250k per month provision release

5.4. The total of the non-recurrent items above is around £4.5m at Month 9. At the same time as reviewing and releasing old provisions, new provisions are also added where necessary (new credit note provisions total £1.8m at Month 9)

5.5. The Trust had a number of provisions at the start of 2008/09 that have subsequently been assessed as not being required – this is unlikely to be the case at the start of 2009/10 and as a result the Trust's income and expenditure position next year cannot be reliant upon significant provision releases on a similar scale to 2008/09.

6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (November 2008). December un-coded activity (where available) indicated that performance was in line with plan and income has been accounted for as being equal to SLA plan (compared to most previous months where an accrual for over-performance has been made).

6.2. As in previous months, adjustments have been made to reduce income based on anticipated non-payment for certain items:

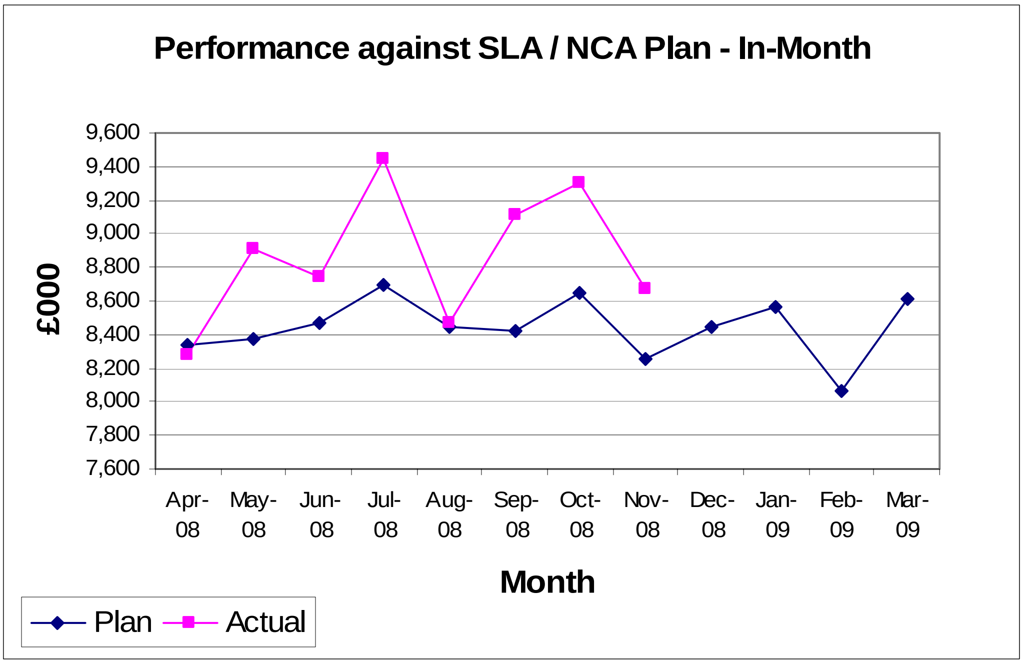
- Follow-up outpatient attendances above the PCT target. Discussions are ongoing with the PCTs but agreement has been reached for the penalty not to be applied to Maternity and Diabetic Medicine. Attention must be given to the remaining specialties that are above target to avoid a potential large reimbursement to PCTs at the end of the financial year
- Glucose tolerance test activity – currently coded as outpatient activity. Agreed to be charged at a lower rate from December onwards – possible reimbursement to PCTs
- N12 Maternity activity – a recent audit has highlighted that a number of women admitted post-natally may not meet the Payment by Results definition of an admission. Work has yet to be completed on this audit, but an initial prudent estimate of potential reimbursement to the PCT has been included
- Quarter 2 and 3 disputed activity – as in previous months, a provision has been made for estimated disputes from PCTs.

6.3. Over-performance against SLAs (including non-contract activity) increased by £420k in November, although as described above initial data for December indicates no additional over-performance. Achievement of the £2m surplus is highly dependent upon increased over-performance against SLA plans in the remainder of the year – an additional £1.1m over and above the current *rate* of over-performance has been included in the 'likely case' forecast based upon high-level discussions with operational management.

6.4. The year-to-date position is summarised below by patient type:

FIGURE 3	Activity			Finance £000s		
Patient Type	**Plan To M8**	**Actual To M8**	**Variance To M8**	**Plan To M8**	**Actual To M8**	**Variance To M8**
Block Contract/Emergency Threshold	0	0	0	11,728	11,728	0
Adult High Dependancy Beddays	1,675	1,796	121	1,309	1,404	94
Adult Intensive Care Beddays	2,117	2,378	261	4,020	4,516	495
Day Cases	9,455	11,048	1,593	5,804	6,799	995
Direct Access	411,131	454,650	43,519	4,570	4,832	263
ED Attendances	54,020	50,589	(3,431)	3,965	3,725	(240)
Elective Inpatients	2,269	1,898	(371)	4,279	4,008	(271)
Excess Beddays	8,670	8,100	(570)	1,409	1,280	(129)
NICU High Dependancy Beddays	832	683	(149)	803	659	(144)
NICU Intensive Care Beddays	588	531	(57)	794	717	(77)
NICU Special Care Beddays	4,714	4,597	(117)	1,881	1,816	(65)
Non-Elective Inpatients	15,568	16,093	525	13,361	13,468	107
Other Activity	9,568	14,750	5,182	376	636	260
Outpatient 1st Attends	35,681	40,601	4,920	6,186	7,076	890
Outpatient Follow Ups	79,019	92,098	13,079	6,620	7,559	939
Outpatient Procedures	2,573	3,415	842	547	713	166
Grand Total				**67,653**	**70,936**	**3,283**

FIGURE 4



6.5. Significant favourable in-month variances were in outpatient attendances, with follow up appointments showing a £939k variance to date (before the 851k provision in respect of the follow up ratio), and day cases.

6.6. As in previous months, day case performance against SLA is favourable due to additional DTC activity that is not included within the SLA plan. The combined performance of day cases and elective inpatients – i.e. total elective activity - is now £724k above SLA plan. However, this is before meeting additional DTC income targets which at Month 9 totalled some £1.7m (before MFF). After factoring in the anticipated year-to-date ophthalmology income from the Royal Free (£410k) this brings total elective income to £586k below target.

6.7. The Trust was notified in December of an additional £372k that will be added to the MPET (multi-professional education and training) income for 2008/09. The year-to-date proportion of this has been included within the Month 9 position.

7. Expenditure Performance

7.1. Pay expenditure was close to being within budget for a second month in a row – this is an encouraging sign of slowing expenditure on staffing, although it is likely that in December this was due to low bank and agency usage (as reported in the weekly ‘flash report’) as a result of lower activity over the Christmas period. The reasons for the year-to-date overspend of £1.5m remain as follows:

- Vacancy factor not fully met across the Trust – £851k to date
- Historical over-establishment in the early part of the year
- Higher expenditure on agency staff – £3.7m to the end of November compared to 2007/08 full year expenditure of £3.8m
- Higher than expected levels of activity, particularly in the early part of the year

7.2. A substantial proportion of the agency spend of £3.7m to date relates to nursing pay – in recent weeks due to a London-wide shortage of agency nurses, and there is significant overspend in medical staffing, A&C and other support staff.

7.3. Medical staffing continues to be overspent, by £885k to date. An overspend of £742k on locum medical staffing is contributing to this, which is not sufficiently offset by an underspend against permanent medical staff.

7.4. Non-pay expenditure is lower than in November, with an in-month overspend of £75k, almost entirely incurred within directorates (central budgets hold no further non-pay budget for the remainder of the year). The lower actual expenditure this month is due to a lower drugs and clinical supplies expenditure related to lower levels of elective activity. An adjustment to actual and budget figures was made to a previous month’s over-accrual for drug expenditure (as a result of late information from the Royal Free), which reduced drug expenditure in-month by around £200k. This will not happen in the future as the Whittington’s pharmacy manufacturing unit is now open, eliminating the need to buy in these drugs from the Royal Free.

8. Cost Pressures and Central Budgets

8.1. Claims against central budgets totalled £244k, relating to non-recurrent 18-weeks activity and the drugs adjustment described above.

8.2. The total value of central budgets relating to cost pressures that have not yet been claimed is around £1.35m. This effective underspend is already included within the pay and non-pay lines in Figure 1.

9. Cost Improvement Programme (CIP)

9.1. Performance against the CIP is summarised in the charts below. The target to the end of December was £3m, against which £3.3m has been validated. In-month performance was £100k above target.

9.2. The total target for the year remains at £4.2m, with no forecast shortfall of recurrent CIP and with an additional non-recurrent CIP of £0.6m predicted over and above this value. The year-end forecast assumes the likely scenario that both Reckitt and Eddington are open, with additional income due to increased activity offsetting the CIP underachievement.

9.3. As reported in previous months, the CIP for 2009/10 is being developed (a minimum target of a challenging £7.5m recurrent savings plus non-recurrent CIP of £0.5m), with Directors involved in forming detailed plans for achieving this target.

Figure 5

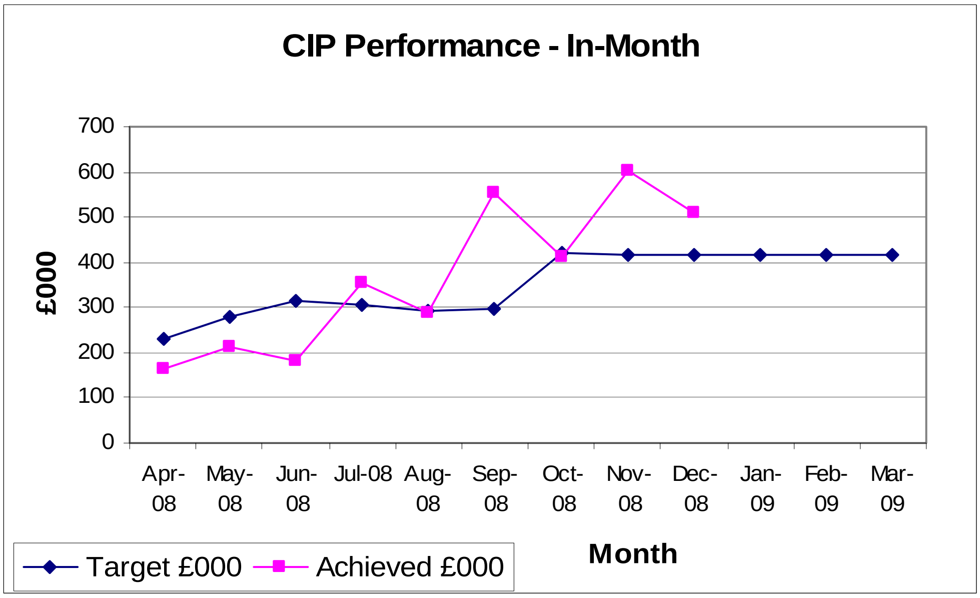
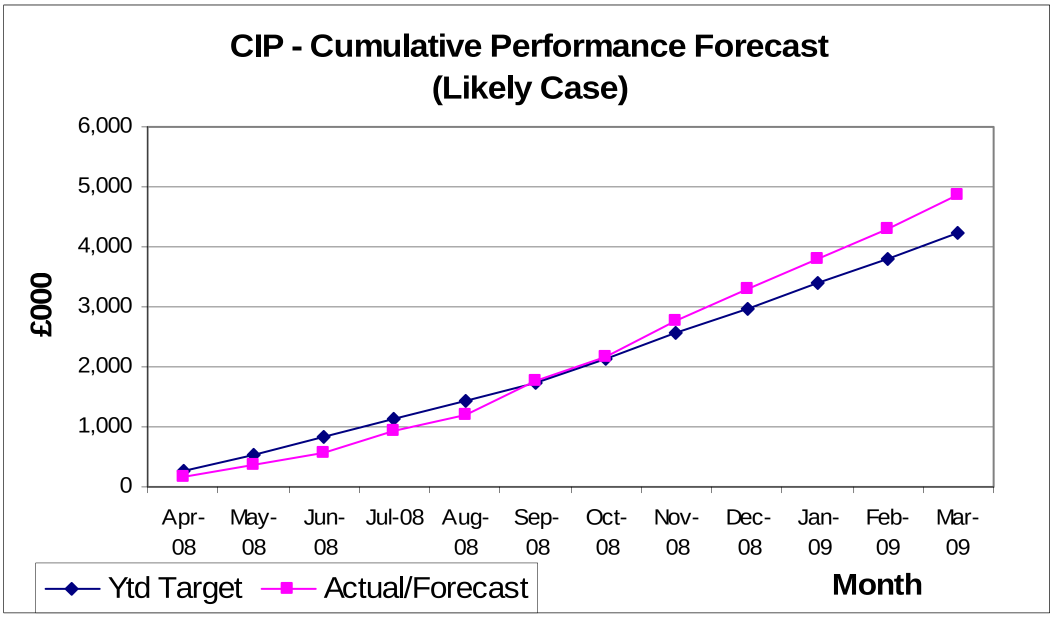


Figure 6

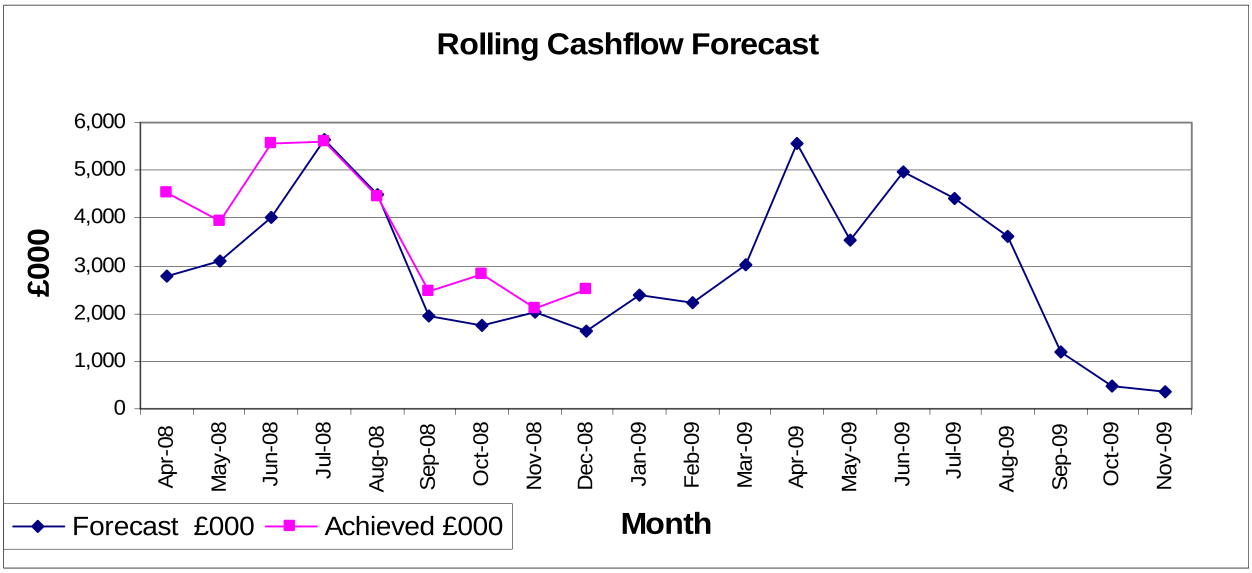


10. Cash

10.1. The cash balance at the end of November was £2.5m, around £0.9m higher than the previously published forecast. The higher than anticipated cash balance was due, as in previous months, to a lower level of capital payments and unexpected payment of outstanding invoices relating to old UCL debt and the current provider-to-provider SLA with Camden PCT.

10.2. It will be important in the coming months to ensure that the capital programme for 2009/10 is fully committed by the end of the financial year – the impact upon this has been included within the cash flow forecast 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. The capital programme is expected to impact more in the second half year with a final dividend payment due in March offset by substantial payment of debts as PCTs seek to achieve their year-end cash targets.

11. Risk Rating

11.1. An indicative risk rating is shown below, based upon the Monitor methodology. The year-to-date and forecast risk ratings remain at a score of 3. It should be noted that the Monitor methodology takes into account the overdraft facility of £11m and this helps the liquid ratio part of the rating. The NHS London approach does not take this into account – however, a score of 3 is still predicted under either methodology.

FIGURE 8

Weighting	Metric Description	Month 9 Rating	Weighted	Forecast Year-end Rating	Weighted
10%	EBITDA achieved (% of plan)	4	**0.40**	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)	4	**1.25**	3	**0.75**
	Overall rating		**3.15**		**3.00**

12. Balance Sheet

The balance sheet is summarised below, showing the opening, current month and year-end forecast position. The year-end forecast has been updated.

FIGURE 9

Description	As at 1st April 2008	End of Month Actual	2008/09 Year End Forecast
	£'000	£'000	£'000
Fixed Assets	**92,504**	**91,205**	**93,932**
Stock	1,230	1,369	1,266
Debtors	7,457	10,850	7,653
Debtors - Deferred Asset	24,933	24,195	23,949
Cash in hand & at Bank	2,515	2,503	3,030
Total Current Assets	**36,135**	**38,917**	**35,898**
Creditors - Revenue	11,468	13,433	11,633
Creditors - Capital	3,150	643	2,210
Total Current Liabilities	**14,618**	**14,076**	**13,843**
Net Current Assets	**21,517**	**24,841**	**22,055**
Provisions for Liabilities & Charges	**3,289**	**3,081**	**2,484**
Total Assets Employed	**110,732**	**112,964**	**113,503**
Public Dividend Capital	47,258	48,084	48,084
Revaluation Reserve	40,426	40,268	40,297
Donated Asset Reserve	1,221	1,134	1,102
Income & Expenditure Reserve	21,827	23,478	24,020
Total Capital & Reserves	**110,732**	**112,964**	**113,503**
Capital Cost Absorption Rate		**2.63%**	**3.51%**

12.1. As described previously, figures for debtors include around £1.4m in respect of uncompleted spells of patient care.

12.2. Average invoiced debtor days are currently 17 against a target maximum of 30 days. The invoiced debt at the end of December represents 3.66% of the Trust's turnover (target maximum of 5%).

12.3. Debtors have increased over the year due largely to a change in the accounting treatment for work in progress and accruals for over-performance, which are not settled on a monthly basis. NHS debt is projected to fall towards the end of the year, in line with previous years, as organisations seek to reduce their cash balances.

12.4. As at 31st December, 92.5% of NHS Creditors and 86.9% of Non-NHS Creditors were paid within the target 30 days.

13. 2008/09 Forecast Income and Expenditure

13.1. The table below summarises the forecast I&E position for 2008/09 – the result of the bottom-up forecasting process undertaken by finance/operational management, with limited high-level adjustments. The full summary forecast is shown in Appendix 1.

Description	Forecast Year End Actual		
	Worst £'000	Likely £'000	Best £'000
NHS Clinical Income	134,907	136,950	136,634
Non NHS Clinical Income	959	959	959
All Other Non Clinical Income	27,753	27,753	27,753
Total Income	**163,620**	**165,662**	**165,347**
Pay	111,455	110,926	110,177
Non Pay	44,492	44,281	43,982
Total Expenditure	**155,948**	**155,207**	**154,158**
EBITDA	**7,672**	**10,455**	**11,188**
Plus Interest Receivable	248	269	269
Less Interest Payable	20	1	1
Less Depreciation	4,909	4,909	4,909
Less PDC Dividend	3,816	3,816	3,816
Net Surplus / (Deficit)	**(825)**	**1,998**	**2,731**

13.2. Forecast income is based upon average performance against SLA plan in previous months. In Month 10 this will be updated (as at Month 7) through detailed conversations with General Managers about expected activity levels.

13.3. The expenditure forecast has been derived as in previous months but refreshed for Month 9, with new adjustments made at a detailed level from meetings with operational management and budget holders.

13.4. CIP – the forecast implicitly assumes that CIP will overachieve by £0.6m at the year-end (including non-recurrent items): therefore no CIP adjustments have been made to the forecast.

13.5. Release of Provisions – the forecast assumes that £250k per month will be released from provisions for the remainder of the year. However, as described in Section 5, due to lower than expected levels of income in recent months, the likely case forecast assumes an *additional* £570k of provisions to be released by the end of the financial year in order to achieve the £2m planned surplus. It should also be noted that whilst amounts are being released as and when they are no longer required, new provisions are being created where necessary.

13.6. Whilst the likely case forecast is still projecting a £2m surplus, this is contingent upon activity over-performance increasing by £1.1m over the current rate of over-performance 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 identified in Section 3 above.

Appendix 1: Summary of Month 9 Forecast Income and Expenditure 2008/09

Income

Board Report rollup	Year end forecast - from summary sheet: Worst case scenario	Likely scenario	Best case scenario
Adult High Dependancy Beddays	2,227,446	2,244,336	2,261,227
Adult Intensive Care Beddays	7,006,427	7,057,256	7,108,085
Block Contract/Emergency Threshold	17,474,095	17,591,371	17,708,647
Day Cases	10,190,760	10,261,501	10,332,241
Direct Access	7,175,550	7,223,708	7,271,866
ED Attendances	5,454,822	5,489,991	5,525,159
Elective Inpatients	5,934,952	5,974,287	6,013,622
Excess Beddays	2,134,511	2,150,812	2,167,114
NICU High Dependancy Beddays	978,796	985,321	991,846
NICU Intensive Care Beddays	1,064,917	1,072,020	1,079,124
NICU Special Care Beddays	2,791,181	2,811,823	2,832,466
Non-Elective Inpatients	20,292,286	20,432,332	20,572,378
Other Activity	929,427	935,427	941,428
Outpatient 1st Attends	10,573,693	10,645,587	10,717,480
Outpatient Follow Ups	11,265,764	11,341,540	11,417,315
Outpatient Procedures	1,063,291	1,070,450	1,077,608
Total SLAM income	**106,557,919**	**107,287,763**	**108,017,607**
MFF @ 37.2016%	**27,492,455**	**27,805,037**	**27,869,061**
Education & Training Income	**17,357,331**	**17,357,331**	**17,357,331**
Devolved Income (from Expenditure section)	**4,619,509**	**4,619,509**	**4,619,509**
Tariff + Non-Tariff less SLAM	**1,706,773**	**1,706,773**	**1,706,773**
Other Income/Accruals/Adjs	**6,735,521**	**6,735,521**	**6,735,521**
TOTAL INCOME BEFORE HIGH-LEVEL ADJUSTMENTS	**164,469,508**	**165,661,934**	**166,305,802**
High-Level Adjustments			
Adjustment to provisions based on SLA performance	250,000	0	-500,000
Non-achievement of additional overperformance in Months 10-12	-1,100,000	0	0
TOTAL INCOME AFTER HIGH-LEVEL ADJUSTMENTS	**163,619,508**	**165,661,934**	**165,805,802**

Expenditure

Division	Year end forecast: Worst case scenario	Likely scenario	Best case scenario
Diagnostics	17,645,256	17,545,850	17,562,317
Facilities	16,759,977	16,804,977	16,759,977
Finance	3,328,979	3,328,979	3,328,979
HR & Corporate Affairs	2,274,463	2,380,463	2,271,463
IM&T	3,237,588	3,237,588	3,237,588
Medical Education	895,495	895,495	895,495
Medicine & Therapy	37,354,386	37,308,742	36,903,443
Nursing & Clinical Development	3,327,315	3,327,315	3,327,315
Operations	781,243	779,243	777,243
Pharmacy	3,727,575	3,727,575	3,727,575
Primary Care	409,389	409,389	409,389
Strategy & Performance	7,974,719	7,974,719	7,974,719
Surgery & Cancer	36,527,964	36,243,214	35,972,391
Womens & Children	23,585,771	23,379,581	23,246,270
Total Expenditure in Directorates	**157,830,120**	**157,343,131**	**156,394,164**
50% MARGINAL COST ADJUSTMENT DUE TO ACTIVITY CHANGES	**-596,213**	**0**	**321,934**
Reserves	**0**	**0**	**0**
Other Trust Finance	**-2,115,149**	**-2,115,149**	**-2,115,149**
TOTAL EXPENDITURE	**155,118,758**	**155,227,981**	**154,600,949**
High-Level Adjustments			
18 Weeks Penalty (50% of maximum penalty)	850,000	0	0
Potential additional WFL Benefit	0	0	-192,000
TOTAL EXPENDITURE AFTER HIGH-LEVEL ADJUSTMENTS	**155,968,758**	**155,227,981**	**154,408,949**
Interest	**-268,812**	**-288,812**	**-288,812**
Depreciation	**4,909,147**	**4,909,147**	**4,909,147**
PDC Dividend	**3,816,000**	**3,816,000**	**3,816,000**
NET FORECAST INCOME/EXPENDITURE POSITION 2008/09	**-805,585**	**1,997,618**	**2,960,518**