ITEM: 10/049
Doc: 4

MEETING:	Trust Board – Part 1 21st April 2010

TITLE:	Provisional Financial Position – Month 12 (March 2010)

Executive Summary

1. Month 12 Income and Expenditure

1.1. The provisional I&E position for the year before impairments and after adding back the impact of IFRS (the relevant figure for the Trust's break-even duty) is a surplus of £141k. This is a provisional figure that may move following further review of the financial position prior to submission of draft accounts to external audit on 23rd April.

1.2. February clinical activity was £100k below the Trust's internal income plan. Other adjustments for late data corrections, an increase in patients in the hospital at the month-end and a reduction in the goodwill payable to PCTs total in-month favourable variance on NHS clinical income was £309k.

1.3. Pay expenditure was £89k above budget in March, which is in line with recent months. However, within this there was an increase in agency staffing costs of £300k compared to February, with agency bookings particularly high for nursing staff. This was offset by a reduction in the amount of annual leave carried over (which under IFRS must be accrued for in the year in which it was earned).

1.4. Non-pay expenditure was some £1.1m higher than planned in March. This was caused by a number of factors - £240k increase in bad debt provision, a £400k late invoice from the Royal Free for drugs, and large overspends on many clinical supplies lines. This has been absorbed by the annual leave adjustment, capital charges saving from revaluation, and reduction in goodwill payable to PCTs.

2. Month 12 Balance Sheet and Cash

2.1. The total adverse impact of IFRS on the Trust's PFI remains as last month, at £846k. A revaluation of the Trust's buildings was carried out in March and has resulted in a further impairment of £3.7m, and a resulting capital charges saving of around £200k.

2.2. The closing cash balance at the end of March was £1.1m – in line with the forecast presented last month.

3. 2010/11 Financial Plan and Budget-Setting

3.1. The Trust has submitted its annual plan to NHS London, which shows a break-even position (after adding back IFRS loss) for 2010/11 and 2011/12. This plan is heavily dependent upon full achievement of £14.5m and £10.2m recurrent cost improvement programmes.

3.2. Contracts have been agreed with commissioners, which are broadly in line with 2009/10 out-turn – composed of a significant tariff reduction (£4m due to lower market forces factor and structural tariff changes) offset by anticipated activity growth. There are many KPIs and CQUINs that have been agreed within the contract.

3.3. Budgets are close to being finalised. At present there are around £5.7m of unapproved cost pressures, and the Executive Committee will be reviewing and scrutinising these to ensure that only essential cost pressures are budgeted for.

3.4. Currently, around £4.5m of the total 2010/11 CIP remains unidentified - £3.3m of Type A (strategic, major work-streams) and £1.2m of Type B (3.5% reductions to budgets).

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** the reported provisional financial position for the year of a £141k surplus (after adding back the IFRS impact of £846k)
- **Note** that this position is provisional, and that draft accounts will be submitted on 23rd April
- **Note** the 2010/11 and 2011/12 annual plan figures and the fact that a break-even position is dependent upon full achievement of cost improvement programmes in both years (totalling £24.7m per year recurrently by the end of 2011/12)

ACTION:	For information / discussion

REPORT FROM:	Tim Jaggard, Deputy Finance Director

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:**

Month 12 Finance Report

5. Month 12 Income and Expenditure Summary

5.1. The Income and Expenditure position is summarised in the table and chart below. 2009/10 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, with the £846k impact of IFRS on Private Finance Initiatives (PFIs) excluded from the Trust's break-even duty.

5.2. The impairment has increased by a further £3.7m in March as a result of a revised valuation of the Trust's buildings. This impairment, which is a charge to expenditure, continues to be excluded for the purposes of the Trust achieving its break-even duty.

FIGURE 1	Current Month			Year To Date			Annual
Description	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	Budget £'000
NHS Clinical Income	13,334	13,025	309	152,013	149,477	2,536	149,477
Non NHS Clinical Income	106	51	55	664	609	54	609
All Other Non Clinical Income	2,301	1,884	417	24,119	22,547	1,572	22,547
Total Income	**15,741**	**14,960**	**780**	**176,795**	**172,633**	**4,162**	**172,633**
Pay	9,998	9,909	(89)	121,964	118,468	(3,496)	118,468
Non Pay	4,584	3,435	(1,149)	42,120	39,934	(2,186)	39,934
Centrally Held Savings	0	(65)	(65)	0	(710)	(710)	(710)
Total Expenditure	**14,582**	**13,279**	**(1,303)**	**164,085**	**157,692**	**(6,392)**	**157,692**
EBITDA	**1,158**	**1,681**	**(523)**	**12,711**	**14,941**	**(2,230)**	**14,941**
Plus Interest Receivable	1	8	(7)	11	100	(89)	100
Less Interest Payable	400	365	(35)	2,660	3,888	1,228	3,888
Less Depreciation	628	646	18	7,616	7,777	160	7,777
Less PDC Dividend	77	264	187	3,151	3,164	13	3,164
Net Surplus / (Deficit) - excluding Impairments	**54**	**415**	**(361)**	**(705)**	**212**	**(917)**	**212**
Net Surplus / (Deficit) before IFRS (relevant for break-even duty)	124	575	(451)	141	2,138	(1,997)	2,138
Less Impairments	3,667	0	(3,667)	4,850	212	(4,638)	212
Net Surplus / (Deficit) - including Impairments due to Revaluation of Fixed Assets	(3,613)	415	(4,028)	(5,555)	(0)	(5,555)	(0)

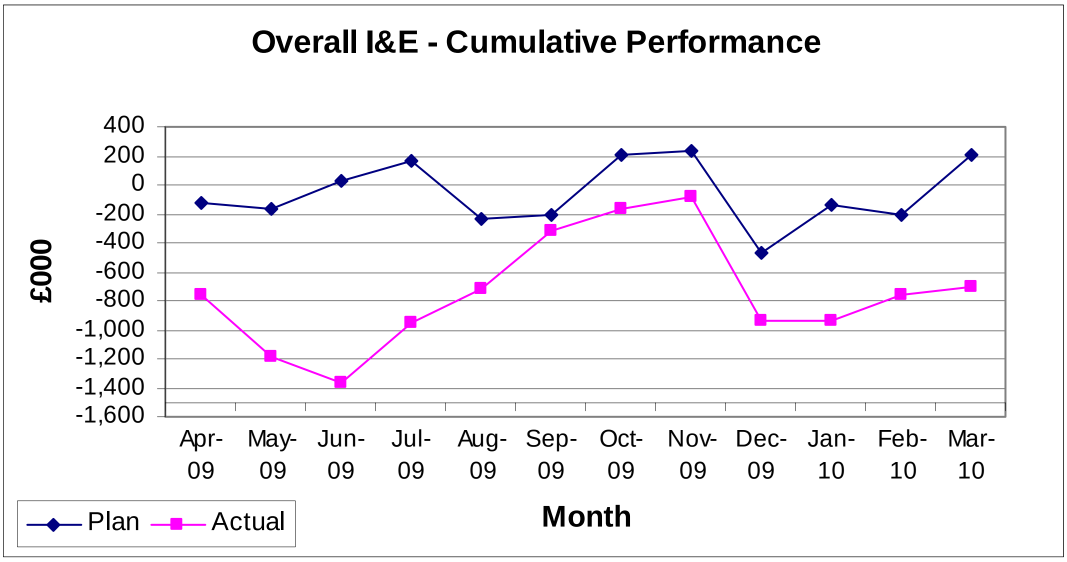
5.3. Year-to-date EBITDA of £12.7m is reported, which is £2.2m worse than planned due to the year-to-date overspend on pay and non-pay expenditure being in excess of income over-performance. Interest receivable is lower than planned due to continuing low interest rates.

5.4. The favourable variance on depreciation is primarily due to the revaluation of Trust fixed assets. The PDC dividend and interest payable variances are primarily due to revaluation and the implementation of IFRS in line with revised Department of Health guidance. The recent revaluation of buildings has resulted in capital charges savings of around £200k.

5.5. The Trust's plan was to achieve a £212k surplus at the year-end (before impairments). The provisional year-end position is a deficit of £705k. After adding back the £846k impact of IFRS on PFI this results in a £141k surplus against which break-even duty is measured. Although this is broadly in line with previous months' forecasts, this represents a £2m adverse variance from the NHS London control target for the Whittington.

5.6. As reported previously, the Trust offered commissioners a payment of £1.25m to cover all 2009/10 outpatient pricing and follow-up ratio issues, which included an element of goodwill that was offered to PCTs on the condition that all outstanding cash payments were made within 10 days of the agreement. As many of the payments remained outstanding, the Trust has now reached agreement with commissioners to reduce the goodwill payable to £857k.

FIGURE 2



6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (January 2009) which showed an in-month adverse variance against plan of £100k.

6.2. Late corrections to January data reduced income by a further £120k – this was as a result of the wrong year of admission being entered on PAS which resulted in the Trust incorrectly recording 365 additional days' stay. The error has been corrected but this emphasises the importance of accurate data.

6.3. The work in progress figure increased by £100k in the month (as the hospital was very full at the end of March) and as described above the goodwill payment to PCTs was reduced by around £400k. The total in-month favourable variance on NHS clinical income was £309k.

6.4. Figure 3 below shows income performance by patient type:

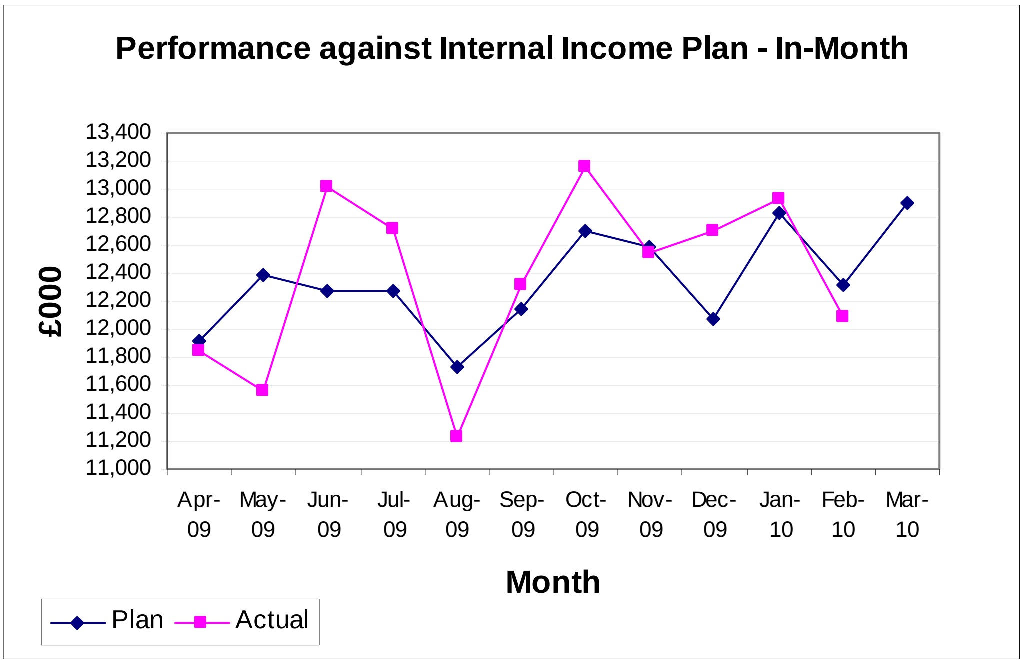
FIGURE 3 Point of Delivery	YTD Plan To M11	YTD Actual To M11 Flex	YTD Variance To M11 Flex	In Month Variance M11	M10 Late Data Added (Freeze)
Block Contract/Adjustments	6,962	6,108	(854)	(78)	0
Elective Inpatients	7,553	7,873	320	96	8
Non-Elective Inpatients	43,785	44,104	319	(197)	70
Excess Beddays	3,832	2,977	(855)	(147)	(226)

Planned Same Day (Day Case)	12,742	12,516	(226)	18	2
Outpatient Procedures	3,343	5,225	1,882	305	1
Outpatient 1st Attends	11,391	10,349	(1,043)	(118)	1
Outpatient Follow Ups	12,506	13,226	721	111	2
Adult High Dependancy Beddays	3,220	2,534	(686)	(110)	1
Adult Intensive Care Beddays	6,488	5,106	(1,382)	(171)	(0)
Paediatrics High Dependency	143	134	(9)	(13)	0
NICU High Dependancy Beddays	1,075	1,685	610	14	0
NICU Intensive Care Beddays	952	770	(182)	(23)	1
NICU Special Care Beddays	2,594	3,600	1,006	62	4
ED Attendances	7,073	7,523	450	25	3
Direct Access	7,282	7,952	670	100	13
Unbundled Imaging	2,098	2,183	86	22	1
Other Activity	2,159	2,222	63	3	1
Grand Total	**135,199**	**136,088**	**889**	**(100)**	**(120)**

6.5. The pattern of previous months has continued, with ITU activity remaining low. However, the table above does not include ITU activity for patients not yet discharged. A review of this activity ('work in progress') has shown that there is around £2.5m worth of unbilled activity relating to inpatients in the hospital at 31st March – up from £1.7m at the same time last year. Excess bed days continue to be lower than plan – a result of the continuing efforts to reduce length of stay across the Trust.

6.6. Non-clinical income is showing a favourable variance of £417k in-month. £156k is due to a re-classification from a provision on income to a bad debt provision (which is reported as an expense). The remainder is predominantly due to increased training and education income, mainly for postgraduate medical training.

FIGURE 4



7. Expenditure Performance

7.1. Pay continued to be overspent in March. Total pay expenditure was £89k over budget in the month (£3.5m year-to-date). However, within this figure is an adjustment to reflect the reduction in annual leave owed to employees at the end of the year – a requirement of IFRS accounting rules. This masks the fact that agency costs were around £300k higher than in February.

7.2. Total expenditure on bank and agency was high in March (£1.8m, of which £0.9m was agency) – remaining particularly high in areas such as ITU. Total agency costs for the year were £8.4m – a key part of the 2010/11 CIP is to reduce agency staffing costs, which can typically attract a premium of at least 100% compared to the equivalent permanent staff.

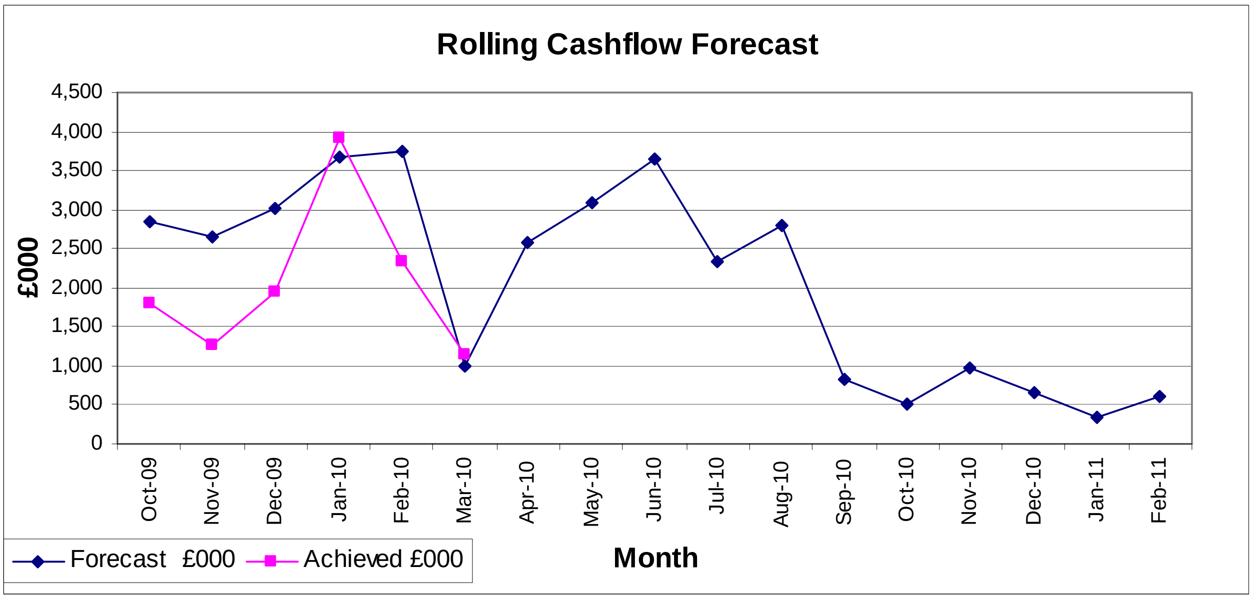
7.3. Non-pay expenditure was dramatically higher than in previous months, and was £1.1m overspent in March – some of the reasons for the overspend are described below:

- £400k of drugs invoices received from the Royal Free in March for thalassaemia drugs issued by their pharmacy department relating to Whittington patients, many from several months ago. The seriousness of this delay has been raised with the Royal Free and should not now recur
- £240k of provisions for bad debt – of which £156k is a reclassification of a provision from non-clinical income reported in previous months (see above)
- £30k of additional expenditure for ophthalmology day case work
- Some £160k of external tests from other NHS organisations (compared to £40k in February) – this is likely to be the result of other organisations catching up with billing. The IM&T department is actively looking into using the Anglia ICE system to order external tests so that expenditure can be more accurately reported in the future
- £30k of additional theatres non-pay expenditure

8. Cash

8.1. The closing cash balance at the end of March was £1.1m, which was slightly more than forecast. This is in line with the Trust's revised External Financing Limit (EFL). After finance leases are taken into account, the Trust expects to be within its EFL, which is a limit on the external financing that the Trust may bring in during the year.

FIGURE 6



9. Balance Sheet / Statement of Financial Position

9.1. The adverse I&E impact of IFRS accounting on the Trust's PFI scheme remains at £846k for the full year, as reported last month. As described above, this impact is excluded for the purposes of performance against statutory break-even duty.

9.2. The large increase in fixed assets, current and non-current liabilities is as a result of the IFRS requirement to bring PFI onto the balance sheet. It is now treated as the Trust's asset with a finance arrangement (and associated liability) to pay for the asset over the life of the PFI agreement. The balance sheet is summarised below.

9.3. In March, 92.3% of NHS creditor invoices and 88.9% of Non-NHS creditor invoices were paid within the target 30 days as set out in the Better Payment Practice Code, a further improvement upon the performance in earlier months of the year.

FIGURE 7

Description	As at 1st April 2009 (restated)	31st March 2010 (Provisional)
	£'000	£'000
Property, plant and equipment	148,080	132,801
Intangible assets	757	1,186
Trade and other receivables	2,000	2,346
Non-current assets	**150,837**	**136,333**
Inventories	1,241	1,122
Trade and other receivables	5,293	10,283
Cash and cash equivalents	3,030	1,146
Current assets	**9,564**	**12,551**
Trade and other payables	14,391	17,714
Borrowings	1,676	1,786
Provisions	562	1,258
Other liabilities	1,245	1,299
Current liabilities	**17,874**	**22,057**
Borrowings	39,800	39,032
Provisions	2,033	1,946
Non-current liabilities	**41,833**	**40,979**
Total assets employed	**100,694**	**85,849**
Public dividend capital	48,084	48,134
Retained earnings	16,232	10,769
Revaluation reserve	35,268	25,738
Donated asset reserve	1,109	1,207
Government grant reserve	0	0
Total taxpayers' equity	**100,694**	**85,849**

10. 2010/11 Financial Plan and Budget-Setting

10.1. The Trust has recently submitted the final version of its Annual Plan to NHS London. This is showing a break-even position (after adding back IFRS loss on the PFI hospital) for both 2010/11 and 2011/12. The plans are contingent upon full achievement of a £14.5m and £10.2m CIP for each year respectively.

10.2. Contracts with commissioners have now been signed for 2010/11. The Trust is not planning for any over-performance against these contracts – although if additional activity materialises this will be paid for by PCTs in line with PbR rules. There are a number of areas where the Trust will be subject to monitoring against Key Performance Indicators – some of which are mandatory and some of which have been locally agreed. These include:

- Outpatient follow-up ratios – several specialties will be subject to challenging reductions in the number of follow-ups per first attendance. It is essential that the Trust manages this activity to reduce the impact of the partial non-payment by PCTs that will result if these targets are missed
- Consultant-to-consultant referrals – the Trust has undertaken to reduce the proportion of intra-hospital referrals by 1% of the total number of referrals
- Length of stay – the Trust has agreed to equal incentives and penalties (totalling £50k per quarter) dependent upon the Trust's own length of stay plan being achieved. We must reduce the number of beds open by 20 in 2010/11 to achieve the incentive payment and avoid the penalty
- Single sex accommodation breaches – the Trust will now not get paid for any patient who was in a ward that breached the single sex accommodation plan. For example, if one male patient stays in a 6-bedded female bay for one day, this would result in a fine of around £20k for just one breach (assuming average income for emergency admission of around £3.5k)
- The Trust will be also fined if it does not meet cancer, 18-week, MRSA, C-Diff or Emergency Department targets

10.3. The budget-setting process is now close to completion. Detailed meetings have been held with most areas that have failed to identify savings against the 3.5% Type B CIP target (£1.2m remains unidentified). Draft devolved budgets are currently indicating an increase over 2009/10 forecast out-turn (*before* CIPs and inflation are taken into account) of around £3.8m. This figure increases to £6m once expected future incremental drift and approved business cases are included, with inflation in addition to this.

10.4. Executive Committee will be scrutinising the £6m requested increase to budgets at its next meeting. The aim will be to review where these unfunded cost pressures (most of which relate to expenditure incurred in 2009/10 and considered likely to continue into 2010/11) can be removed without having an unduly adverse impact on patient care and quality.

10.5. There are significant risks to the Trust achieving its break-even duty in 2010/11. The annual plan includes provision for a small number of contracting risks (e.g. relating to key performance indicators), and for a £0.3m contingency for cost pressures not yet known. However, any of the following risks would result in the Trust failing to achieve its plan if they materialised:

- Risk of over-spending on budgets. Any net overspend on budgets will result in the Trust failing to achieve the break-even plan
- Risk of non-achievement of any proportion of the £14.5m CIP (see update below)
- Additional cost pressures beyond the £0.3m identified contingency
- Failure to achieve the Trust's length of stay plan (potential £0.2m penalty from PCTs in addition to the shortfall in the CIP)
- Risk of not winning any potential contract to re-provide community outpatient and diagnostic services when they are tendered by PCTs (particularly Haringey PCT) – the plan assumes that the Whittington will re-provide in the community at 85% of the current tariff (commencing in July 2010)
- Risk of non-payment of activity by commissioners. There is no provision for non-payment in the financial plan

10.6. The table below illustrates the amount of CIP that has been identified to date (it should be noted that significant work is required from the very start of the financial year to ensure that the identified CIPs are delivered):

Description	Target	Identified	Unidentified
CIP A - Strategic Schemes	9,488	6,183	(3,305)
CIP B - 3.5% Budget Reductions	5,012	3,769	(1,243)
TOTALS:	**14,500**	**9,952**	**(4,548)**

10.7. Further work is required to identify the remaining CIP required to achieve the planned break-even position in 2010/11. This process will include the following:

- Development of key CIP A schemes
- Review of areas that have not yet identified their 3.5% Type B CIP plans
- Review of potential achievement of CQUIN over and above the 1% of contract income (£2.5m) that is assumed within the Trust's financial plan (a maximum 1.5% can be earned if every CQUIN target is met
- Review of unfunded cost pressures currently in budgets (see above), and of budgeted business cases approved some time ago that have not yet been implemented