The Whittington Hospital NHS Trust

ITEM: 10/064
Doc 04

MEETING:	Trust Board – Part 1 23rd June 2010

TITLE:	Financial Position – Month 2 (May 2010)

Executive Summary

1. Month 2 Income and Expenditure

1.1. The I&E position including the impact of IFRS is an actual in-month surplus of £360k, which is £167k better than this plan. The year-to-date surplus is £148k, £86k worse than planned. Once the impact of IFRS is excluded the surplus achieved to date rises to £226k compared to a target surplus of £311k.

1.2. April clinical activity was £577k above the Trust's internal income plan. Activity in May is estimated to be £94k worse than the internal plan.

1.3. Pay expenditure was £217k above budget in May. There has been a reduction in agency spend, £544k in May compared with £669k in April.

1.4. Non-pay expenditure was £64k less than planned in May across a number of areas including clinical supplies, £31k under, actual electricity bills being less than estimated, £44k.

2. Month 2 Balance Sheet and Cash

2.1. The impact of IFRS on the Trust relating to PFI is £463k, which is excluded from break-even duty performance.

2.2. The Trust's cash balance at the end of May was £3.2m and this reflects the reduced dependency on SLA over-performance this year and movements in working capital balances. It is not assumed at this stage that the year end cash balance will be materially different to the opening balance of £1.1m. Achievement of the External Financing Limit (EFL) would require a year end cash balance that is not less than the opening value.

3. Recovery Plans and Forecast

3.1. The Top 10 overspending areas will be the focus of monthly financial performance review meetings.

3.2. The year-end forecast deficit is currently equivalent to the unidentified savings target of £3.2m. Despite the very encouraging position on both income and expenditure to date, it has not yet been assumed that income will continue to over-perform. There are numerous risks and having only April data is not sufficiently meaningful for extrapolation purposes. The approach to reducing this forecast deficit will include a)Robust monitoring of budgets and cost pressures b) Management of the CIP C) Non-recurrent opportunities and d) Minimisation of any performance metric penalties e) Review of budgets. The NHS London control target is to break even after excluding IFRS.

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** the reported financial position in Month 2 of a £399k surplus after excluding IFRS
- **Note** the unidentified savings target and forecast deficit of £3.2m and support the approach to managing the achievement of a break even position.

ACTION:	For information / discussion

REPORT FROM:	Richard Martin, Finance Director

SPONSORED BY:	Richard Martin, Finance Director

Financial Validation Lead: Director of Finance	Chris Daniells

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 2 Finance Report

5. Month 2 Income and Expenditure Summary

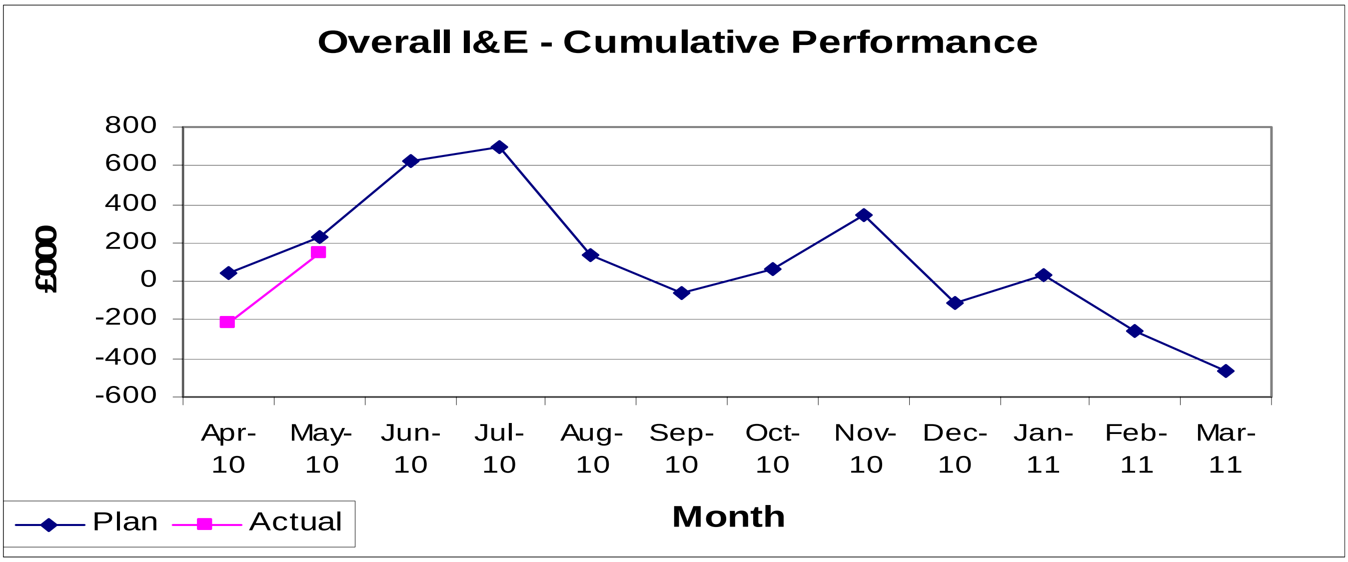
5.1. The Income and Expenditure position is summarised in the table and chart below. 2010/11 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, although the £463k impact of IFRS on Private Finance Initiatives (PFIs) is excluded from the Trust's break-even duty.

5.2. Year-to-date EBITDA of £2.3m is reported, which is £143k worse than planned due to the year-to-date overspend on pay and non-achievement of centrally held savings £355k.

5.3. The Trust's plan is to incur a £463k deficit at the year-end on an IFRS basis. The forecast year-end position assumes at this stage that the unidentified savings target of £3.2m remains unidentified and therefore a forecast deficit of £3.2m appears in the table below.

FIGURE 1 Description	Current Month Actual £'000	Budget £'000	Variance £'000	Year To Date Actual £'000	Budget £'000	Variance £'000	Annual Budget £'000	Year-end Forecast £'000
NHS Clinical Income	13,501	12,978	523	26,289	25,712	577	152,667	152,667
Non NHS Clinical Income	38	54	(16)	115	107	8	642	693
All Other Non Clinical Income	1,807	1,841	(34)	3,701	3,779	(79)	22,272	22,204
Total Income	**15,346**	**14,873**	**473**	**30,105**	**29,599**	**507**	**175,582**	**175,564**
Pay	10,563	10,346	(217)	20,904	20,568	(337)	123,546	124,403
Non Pay	3,319	3,383	64	6,853	6,896	43	41,091	41,295
Centrally Held Savings	0	(178)	(178)	0	(355)	(355)	(2,133)	0
Total Expenditure	**13,882**	**13,552**	**(331)**	**27,757**	**27,108**	**(649)**	**162,504**	**165,698**
EBITDA	**1,463**	**1,321**	**142**	**2,349**	**2,491**	**(143)**	**13,709**	**9,866**
Plus Interest Receivable	1	2	(1)	2	3	(1)	20	12
Less Interest Payable	211	224	13	420	447	27	2,683	2,683
Less Depreciation	641	654	13	1,277	1,308	31	7,849	7,849
Less PDC Dividend	253	252	(0)	505	505	0	3,030	3,030
Net Surplus / (Deficit)	**360**	**193**	**167**	**148**	**234**	**(86)**	**(463)**	**(3,684)**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**399**	**232**	**167**	**226**	**311**	**(86)**	**0**	**(3,221)**

FIGURE 2



6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (April 2010) which showed an in-month over-performance against plan of £523k.

6.2. In-month un-coded raw activity data has been used to estimate in-month income performance. This analysis gives a preliminary indication that May NHS clinical income was around £94k below plan – this is reflected in Month 2 accrued income.

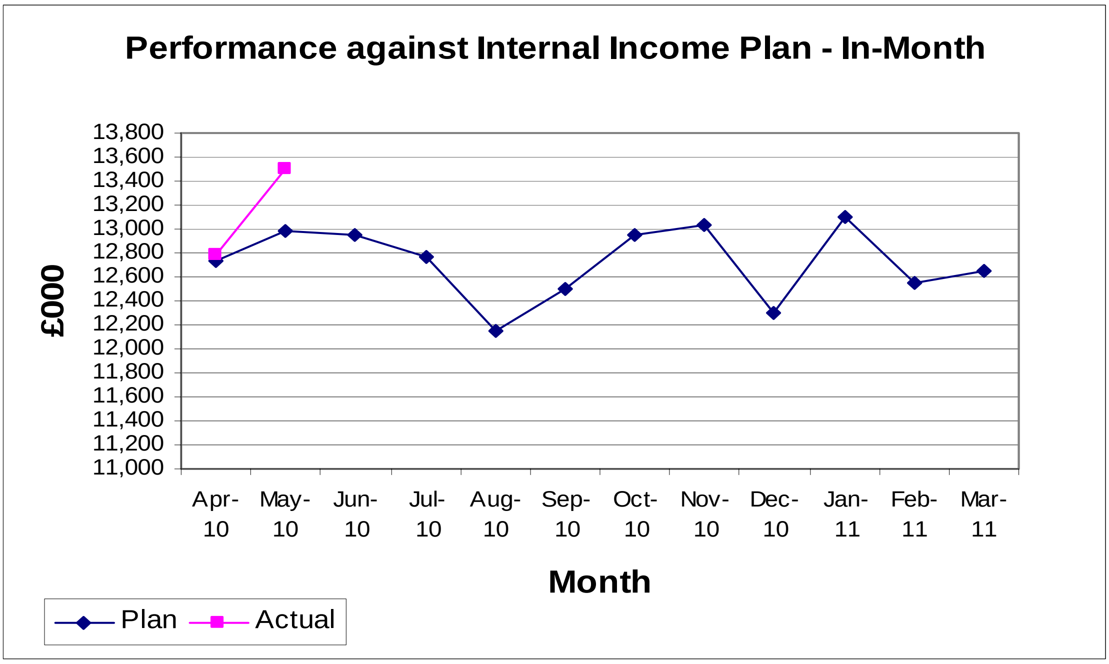
6.3. Figure 3 below shows income performance by patient type:

FIGURE 3

Point of Delivery	YTD SLA To M1	YTD Actual To M1	YTD Variance To M1	In Month Variance M1	M1 Late Data Added
Block Contract/Adjustments	534	551	17	17	0
Elective Inpatients	669	686	17	17	0
Non-Elective Inpatients	3,824	4,127	303	303	0
Excess Bed days	248	494	246	246	0
Planned Same Day (Day Case)	1,212	1,172	(40)	(40)	0
Outpatient Procedures	211	217	6	6	0
Outpatient 1st Attends	1,069	1,027	(42)	(42)	0
Outpatient Follow Ups	1,385	1,292	(93)	(93)	0
Adult High Dependency Bed days	235	317	82	82	0
Adult Intensive Care Bed days	473	632	159	159	0
Paediatrics High Dependency	66	43	(23)	(23)	0
NICU High Dependency Bed days	136	108	(27)	(27)	0
NICU Intensive Care Bed days	50	75	25	25	0
NICU Special Care Bed days	328	287	(41)	(41)	0
ED Attendances	703	737	33	33	0
Direct Access	718	713	(5)	(5)	0
Unbundled Imaging	62	102	40	40	0
Other Activity	353	356	3	3	0
Grand Total	**12,276**	**12,936**	**660**	**660**	**0**

6.4. Day cases, outpatient first attendances and follow ups, Paediatric HDU & NICU activity are low against the phased plan.

FIGURE 4



7. Expenditure Performance

7.1. Pay continued to be overspent in May by £217k, an increase of £97k on April. The CIP savings lines within pay total £522k for the year to date. The cumulative overspend to date on pay is £337k of which £183k relates to the unidentified savings target of £1.1m being allocated to those departments which did not fully identify their 3.5% category B

CIP target. The Trust wide unidentified savings target of £3.2m includes this £1.1m, with the balance of £2.1m being held centrally and this can be seen in figure 1. Figure 5 lists departments/divisions with an overspend on pay of £10k or more in the month.

7.2. Figure 5 below shows the in month pay variance for each Directorate and how much of that variance is attributable to CIP savings.

7.3. ED is £33k overspent in month on medical staff, £16.5k on nursing staff and £4k on admin & clerical, a total of £54k overspent in month.

FIGURE 5

Directorate	Mth 2 Pay actuals	Mth 2 Pay Budget	Mth 2 Variance	Pay CIP Mth 2
DOSS	1,256,527	1,230,476	(26,051)	(13,737)
Director Of Operations	54,280	(18,825)	(73,105)	(80,025)
Director Of Primary Care	22,488	20,744	(1,744)	0
Medicine & Therapies	2,736,732	2,621,368	(115,364)	(60,205)
Surgery & Cancer	2,435,073	2,401,153	(33,920)	(23,338)
Women & Children Services	2,024,594	2,040,652	16,058	(9,802)
Pharmacy	340,985	340,743	(241)	(1,311)
Facilities	974,785	924,369	(50,416)	(14,674)
Finance	232,553	243,719	11,166	0
Human Resource Directorate	119,963	112,070	(7,893)	0
Information Mgmt & Tech	166,098	183,540	17,442	(9,112)
Medical Education	14,031	15,237	1,205	(125)
Nursing & Clinical Develop	102,195	129,902	27,707	0
Planning & Performance	58,450	65,812	7,362	0
Clinical Trials	6,962	6,962	0	0
Reserves	9,600	60,897	51,297	0
Trust Finance	7,685	(33,000)	(40,685)	(33,000)
Grand Total	**10,563,000**	**10,345,817**	**(217,183)**	**(245,328)**

7.4. Total expenditure on bank and agency increased by £126k compared to April, but the spend on agency reduced by £125k, this movement in the use of bank staff as opposed to agency is significant in ITU.

7.5. Non-pay expenditure was £64k less than planned in May. This includes a £10k underspend on drugs and a £21k underspend on other clinical supplies and services, this may reflect the reduced activity reflected in the May accrual for clinical income.

8. Cost Improvement Programme (CIP)

8.1 The validated level of savings delivered to date represents 45 % of the target for identified savings to month 2, and 29% of the total target. The total target to date is £2.02m, of which £1.29m represents identified savings projects and £728k is as yet unidentified. Savings achieved to date value £587k.

8.2 **Summary of under-delivering savings schemes**

8.2.1 **Drugs and therapeutics workstream**

Progress is being made with each of the projects, but some of the savings will not be able to be validated until a retrospective audit is carried out later in the year.

8.2.2 **Procurement workstream**

Progress is being made on a wide range of projects. The financial savings target has been profiled in throughout the year in twelfths, whereas the pace of savings will pick up as the year progresses. It is anticipated therefore that the under-achievement in the early months of the year will be compensated by over-achievement as savings come on-stream in later months.

8.2.3 **Estates management workstream**

Further work needs to be undertaken to validate these savings.

8.2.4 **Staff Utilisation & Effectiveness workstream**

Progress is being made with implementation of a number of schemes, but savings have yet to be delivered against the evenly-profiled target. The single largest scheme in the workstream is the Zero Agency Project. Expenditure on agency staff has reduced for the second month in a row, and in May was back down to the level it was at before the winter, overspends against pay budgets (including in ITU and ED) mean that we cannot claim this target to have been met in full. More detailed analysis of agency costs, in the context of the total pay bill, will be undertaken for the next finance report.

8.2.5 **Length of Stay workstream**

The financial impact of this project is measured in terms of the costs of staffing all the hospital's acute wards (medical and surgical). Ward staffing costs were lower in May than they had been in April, and were, in aggregate, within the budget for the month. However, the cumulative position as at the end of May is an overspend of more than £110k against the budget, so we cannot yet claim that this target has been achieved.

8.2.6 **Income Maximisation**

It is too early to measure whether this target is being achieved.

8.2.7 **"CIP B" savings**

These represent savings that were identified by managers as part of the budget-setting process and which have been adjusted in opening budgets. Where actual expenditure is not being managed within budget as at month 2, these savings cannot be claimed to have been achieved. 38% (by value) of these savings are not being achieved to date, i.e. their cost centres are currently overspent. These will be monitored as part of the monthly performance management process to be led by the Business Planning Group.

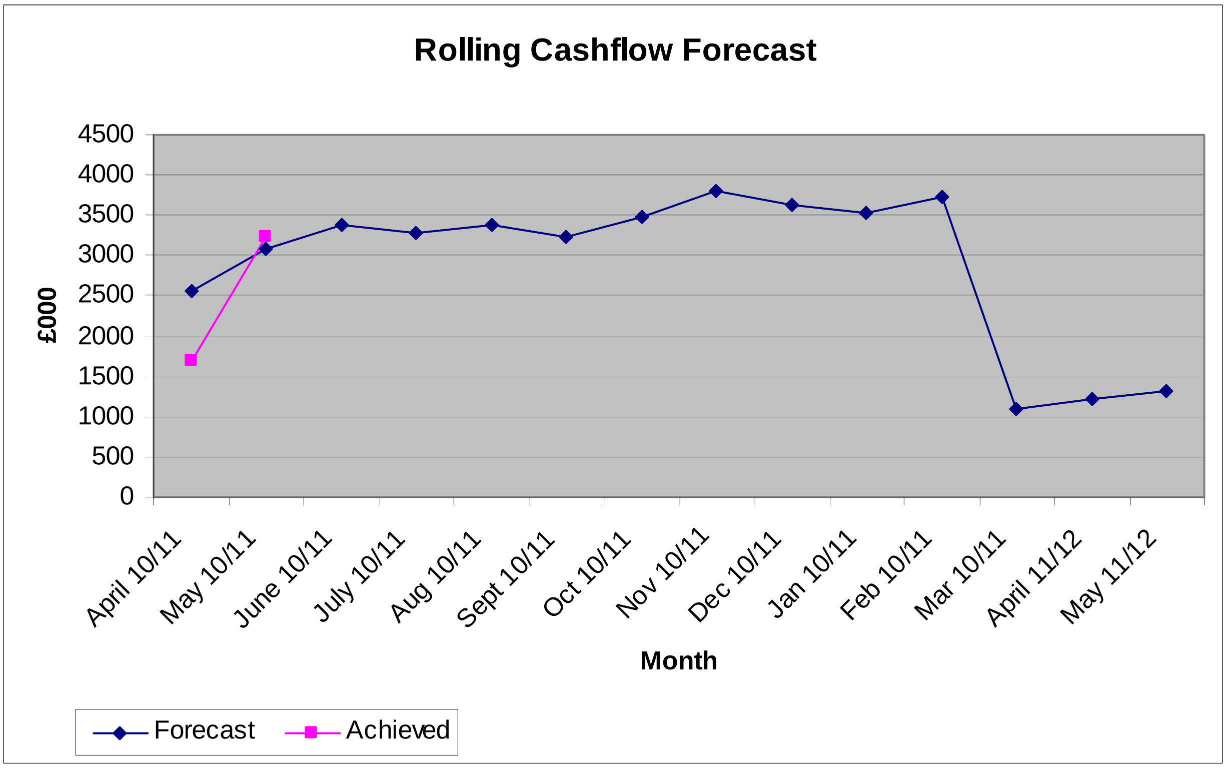
9. Cash

9.1. The chart below provides a summarised cash flow forecast. The Trust's cash balance at the end of May was £3.22m. Higher levels of balance will be possible this year as SLAs have been set at a more realistic level and this is equivalent to approximately

£1m per month in cash that was not seen in the early months last year. Some movement in working capital balances have also assisted the position.

9.2. The year end target is £1.1m and there is no penalty to over-achieving this value although failure would result in a breach of a statutory duty (EFL). An improvement in the cash balance would require either a surplus or an improved working capital position relative to the values held at the start of the year. Neither is assumed at this stage.

FIGURE 6



10. Balance Sheet / Statement of Financial Position

10.1. The adverse I&E impact of IFRS accounting on the Trust's PFI scheme remains at £463k 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.

10.2. 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:

FIGURE 7

Description	As at 1st April 2010	31st May 2010	2010/11 Year-end Forecast
	£'000	£'000	£'000
Property, plant and equipment	132,801	131,730	132,659
Intangible assets	1,186	1,138	903
Trade and other receivables	2,346	2,382	2,592
Non-current assets	**136,334**	**135,251**	**136,154**
Inventories	1,122	1,144	1,144
Trade and other receivables	7,089	4,998	5,203
Cash and cash equivalents	1,146	3,221	1,104
Current assets	**9,357**	**9,363**	**7,451**
Trade and other payables	15,543	14,672	15,252

Borrowings	1,964	1,964	1,964
Provisions	1,424	1,393	1,290
Current liabilities	**18,930**	**18,030**	**18,506**
Borrowings	38,838	38,586	37,557
Provisions	1,946	1,900	1,717
Non-current liabilities	**40,784**	**40,486**	**39,274**
Total assets employed	**85,976**	**86,098**	**85,825**
Public dividend capital	48,134	48,134	48,134
Retained earnings	10,658	10,808	10,660
Revaluation reserve	25,904	25,901	25,901
Donated asset reserve	1,280	1,255	1,130
Total taxpayers' equity	**85,976**	**86,098**	**85,825**

11. 2010/11 Forecast and Risks

11.1. NHS Clinical income is not assumed to be different from plan at this stage, despite an encouraging April position. It is too early to be clear about May performance and there are numerous variables which can impact upon the monthly income position. Overall the plan and forecast can be considered at this stage to be prudent. Expenditure levels have also been reviewed with budget holders and reflects both month 1 and month 2 along with expected trends. The non-achievement of the £3.2m unidentified savings target has also been incorporated within this exercise. The key difference between the month two position and the forecast position is that the expenditure is assumed to continue to overspend, largely as a consequence of the savings target, whilst the income has not been assumed to continue to over-perform.

11.2. In order to improve the likely forecast, the focus will be on the delivery of the CIP, robust budgetary control and the identification of opportunities to reduce the unidentified savings target. Income levels do fluctuate and it is not possible to be certain over the likely year end position at this point. Monthly financial performance meetings continue to be held with all budget holders/managers responsible for each of the over spending areas and information around both income, CIP and budgetary performance will be reviewed by the Business Planning Group and the Executive Committee. At these meetings financial performance is scrutinised, action plans are presented, and forecasts challenged.

11.3. The year to date position does not include any significant non-recurrent items and there are a number of significant risks remaining and these are described below:

- Increased non-achievement of CIP targets – the forecast implicitly assumes the current expenditure CIP achievement percentage remaining constant for the remainder of the year, but there is a risk of further non-achievement
- Activity is lower than planned from June to March
- Increased validation queries from commissioners and disputes requiring use of the resolution process
- Legal costs are higher than anticipated
- Cost pressures materialise that were not anticipated in budget-setting
- Data is not input onto PAS and other information systems in a timely way
- Penalty and performance metrics
- Recruitment problems and increased use of Agency staff