

Trust Board Meeting**ITEM: 10**
Doc: 06**DATE:** 25th April 2012**TITLE:** Provisional Financial Position – Month 12 (March 2012)**SPONSOR:** Richard Martin, Finance
Director**REPORT FROM:** Jim Davies, Deputy
Director of Finance**PURPOSE OF REPORT:**

The purpose of the report is to provide an overview of the provisional Month 12 and year end financial position .

EXECUTIVE SUMMARY:**1. Month 12 Income & Expenditure**

- 1.1. The I&E position including the impact of IFRS is an actual in month deficit of £21k, which is £200k worse than the original planned position. The year to date surplus is £540k, which is £40k better than the planned position. Once the impact of IFRS and depreciation on donated assets is excluded the position shows a cumulative surplus position of £1,196k.
- 1.2. The clinical income position is £90k above the Trust plan, this includes both acute and community services and is based on eleven months worth of fully coded activity.

2. Month 12 Balance Sheet & Cash

- 2.1. The impact of IFRS on the Trust relating to PFI is £555k, and depreciation on donated assets £101k, both of which are excluded from break-even duty performance.
- 2.2. The cash balance at the end of March was £9,933k, which reflects an improved position when compared against the forecast position.
- 2.3. The reported position does not include the impact of impairments, the value for which has yet to be finalised. While impairments will have a direct impact on the bottom line position, they are not included as part of the break even position against which the Trust is monitored.

3. 2012/13 & 2013/14 Financial Plan

- 3.1. Further to the *2012/13 Budget Proposal* paper presented to the March Trust Board and in line with the latest submission of the Operating Plan to NHS London, the Trust is projecting a surplus position of £3,120k for 2012/13 (which equates to £3,747k after excluding the impact of IFRS and depreciation on donated assets). This plan is dependent on the full achievement of a £13.1m (4.8%) CIP within the year.
- 3.2. The proposed basis of the contract for NCL commissioners is a two year block contract, if the use of a block contract is not permitted by the Department of Health then a “cap” and “collar” mechanism will be used.
- 3.3. The total value of the contract agreed with NCL is £220.3m plus a risk share against the gap value of £1.46m of which 50% is guaranteed as a further reimbursement from NCL making £221.03m the full income value, against an income requirement of £221.75m. The maximum potential risk to the organisation is therefore £0.73m in 2012/13. The gap will potentially be mitigated through additional conditional income opportunities with NCL. It has been assumed within the plan that the additional income opportunities will be realised in full, and that the total income position for NCL will



£221.75m.

- 3.4. Similar arrangements are in place for 2013/14 with a contract offer of £215.2m plus a risk share against the gap value of £1.29m of which 50% is guaranteed as a further reimbursement from NCL making £215.85m the full income value. The maximum potential risk to the organisation is therefore £0.65m. This follows the same approach as above with the potential to close the gap in full.
- 3.5. The financial position is dependent on the delivery of a £13.1m CIP target, it is essential the Trust operates within budgets and delivers against identified CIP schemes.

PROPOSED ACTION:

The Trust Board is asked to

- **Note:** the provisional financial position for the year of a £580k surplus after excluding IFRS and depreciation on donated assets.
- **Note:** that this position is provisional, and that draft accounts will be submitted on 23rd April.
- **Note:** the financial position is dependent on the delivery of a £13.1m CIP target, it is essential the Trust operates within budgets and delivers against identified CIP schemes.

APPENDICES:

DECLARATION

In completing this report, I confirm that the implications associated with the proposed action shown above have been considered – any exceptions are reported in the Supporting Information:

Implications for the NHS Constitution, CQC registration

Financial, regulatory and legal implications of proposed action

Risk management, Annual Plan/IBP

Moving Ahead – how does this report support any of the Trust's 5 Strategic Goals

Month 12 Finance Report

4. Month 12 Financial Update

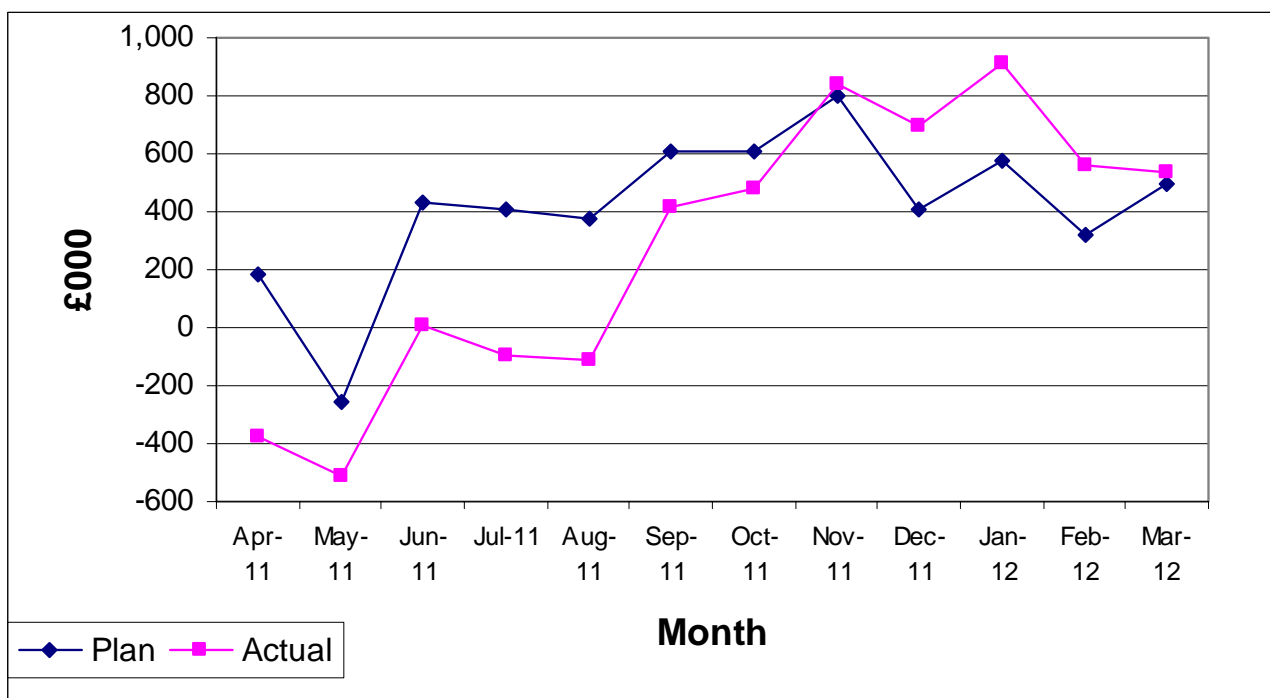
- 4.1. The provisional Income and Expenditure position is summarised in Figure 1 below. 2011/12 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, although the £555k impact of IFRS on Private Finance Initiatives (PFIs) and depreciation on donated assets of £101k is excluded from the Trust's break-even duty.
- 4.2. Year to date EBITDA of £14.3m is reported, which is £0.3m less than planned.
- 4.3. The reported position does not include the impact of impairments, the value for which has yet to be finalised. While impairments will have a direct impact on the bottom line position, they are not included as part of the break even position against which the Trust is monitored.
- 4.4. The income and expenditure position is illustrated as follows:

FIGURE 1: Income & Expenditure Summary – Consolidated Position

Description	Current Month			Year To Date			Annual Budget £'000
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	
NHS Clinical Income	20,905	20,815	90	241,048	241,049	(1)	241,049
Non NHS Clinical Income	632	545	87	6,633	6,422	210	6,422
All Other Non Clinical Income	3,079	2,457	622	30,555	29,272	1,283	29,272
Total Income	24,616	23,817	799	278,235	276,743	1,492	276,743
Pay	17,744	16,898	(846)	199,229	201,748	2,519	201,748
Non Pay	5,708	5,560	(148)	64,695	63,654	(1,041)	63,654
Centrally Held Savings	-	(10)	(10)	-	(3,304)	(3,304)	(3,304)
Total Expenditure	23,452	22,448	(1,004)	263,924	262,099	(1,826)	262,099
EBITDA	1,164	1,369	(205)	14,311	14,644	(333)	14,644
Loss on Disposal of Assets	-	-	-	-	-	-	-
Plus Interest Receivable	4	2	2	40	20	20	20
Less Interest Payable	274	223	(51)	2,695	2,677	(18)	2,677
Less Depreciation	679	716	37	8,302	8,457	155	8,457
Less PDC Dividend	235	252	17	2,813	3,030	217	3,030
Net Surplus / (Deficit)	(21)	179	(200)	540	500	40	500
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	57	257	(200)	1,196	1,156	40	1,156

- 4.5. The Trust's plan was to show a £500k surplus at the year-end on an IFRS basis. The provisional year end position is a surplus of £540k. After adding back the £555k impact of IFRS on PFI. and £101k depreciation on donated assets this results in a £1,196k surplus, against the planned break-even target of £1,156k.
- 4.6. The income and expenditure performance in the year to date is further illustrated in the following figure.

FIGURE 2: Overall Income & Expenditure Position – Cumulative Performance



5. Income Performance

- 5.1. NHS Clinical Income is reported based upon the latest coded activity (February 2011), together with an initial estimate for the March position. On this basis the in month position shows an over performance against plan of £90k.
- 5.2. The assessment of the March NHS clinical income position is based primarily on activity data which has yet to be fully coded, this early assessment indicates that there is likely to be an adverse variance of £263k, which is included in the in month position.
- 5.3. Figure 3 below shows income performance by patient type:

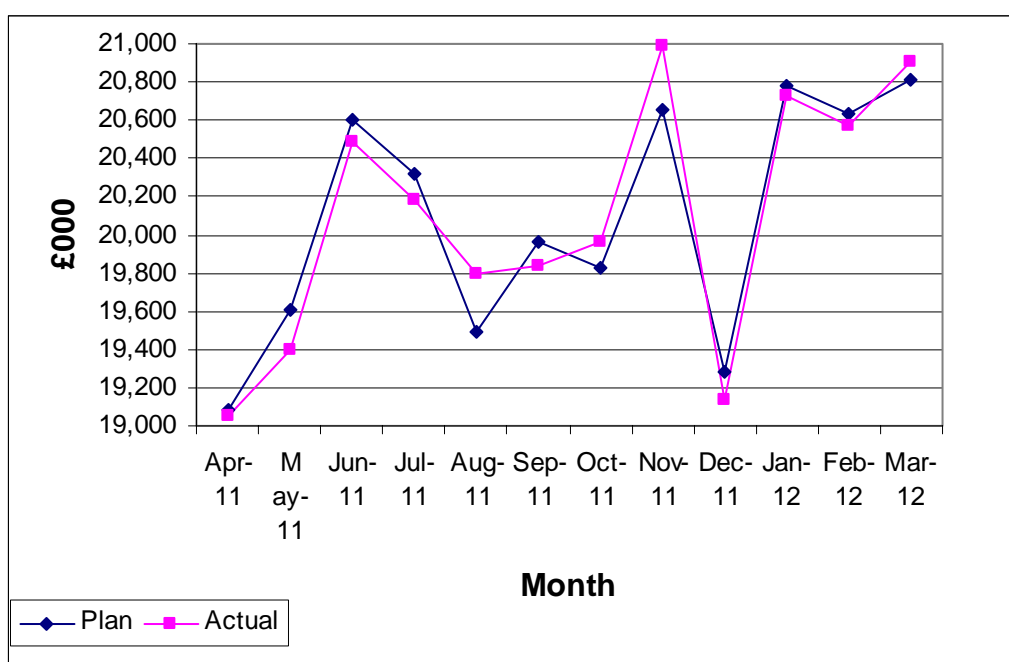
FIGURE 3: Income Performance by Patient Type

Point of Delivery	YTD SLA To M11	YTD Actual To M11	YTD Variance To M11	In Month Variance M11	M10 Late Data Added
Block Contract/Adjustments	6,681	6,538	(143)	6	2
Elective Inpatients	8,022	7,968	(54)	14	0
Non-Elective Inpatients	44,008	43,649	(360)	12	(6)
Excess Beddays	3,591	3,219	(372)	(62)	(85)
Day Cases	11,445	11,528	83	(2)	23
Outpatient Procedures	3,357	3,469	112	15	4
Outpatient 1st Attends	11,323	11,188	(134)	(10)	(10)
Outpatient Follow Ups	14,814	14,724	(90)	(31)	28
Adult Critical Care	9,826	9,378	(448)	(10)	1
Paediatrics High Dependency	411	357	(54)	(8)	0
NICU High Dependency Beddays	1,309	1,348	39	(5)	1
NICU Intensive Care Beddays	727	615	(112)	0	(1)
NICU Special Care Beddays	4,018	4,223	205	(28)	16
ED Attendances	7,947	8,086	139	30	(1)
Direct Access	8,797	9,039	242	52	0
Maternity Ultrasound	1,221	1,300	80	6	0
Other Activity	3,831	3,627	(204)	(38)	8

Grand Total	141,326	140,256	(1,070)	(59)	(19)
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- 5.4. The year to date variance to Month 11 is shown net of the marginal tariff adjustment for non elective activity.
- 5.5. Key points to note from the analysis of income (year to date variance to Month 11) are summarised as follows:
- The main areas of over performance relate to NICU special care (£205k) and Direct Access (£242k).
 - The main areas where income is below the planned level include excess beddays (£372k), adult critical care (£448k) and non elective inpatients (£360k).
- 5.6. Performance against the internally set income plan is further illustrated in the following figure:

FIGURE 4: Performance Against Internal Clinical Income Plan – In Month



- 5.7. The total value of all other non clinical income highlighted in Figure 1 is £3,079k in Month 12 and £30,555k cumulatively. This is further illustrated in the following figure:

FIGURE 5: All Other Non Clinical Income

Description	Current Month			Year To Date			Annual Budget £'000
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	
Service Increment for Teaching & Research (SIFT)	798	741	58	9,110	8,876	234	8,876
Medical & Dental Education Levy (MADEL)	449	444	5	5,345	5,340	5	5,340
Non Medical Education & Training (NMET)	75	49	26	2,100	2,130	(30)	2,130
Income from Service Level Agreements	(1,479)	(1,076)	(402)	3,914	4,177	(263)	4,177
Excellence Award Income	25	57	(33)	598	690	(92)	690
Income Generation e.g. car park, accommodation, canteen	115	104	11	1,069	1,208	(140)	1,208
Research & Development	(24)	46	(70)	720	602	118	602
Other	3,119	2,092	1,028	7,700	6,248	1,452	6,248
Total	3,079	2,457	622	30,555	29,272	1,283	29,272

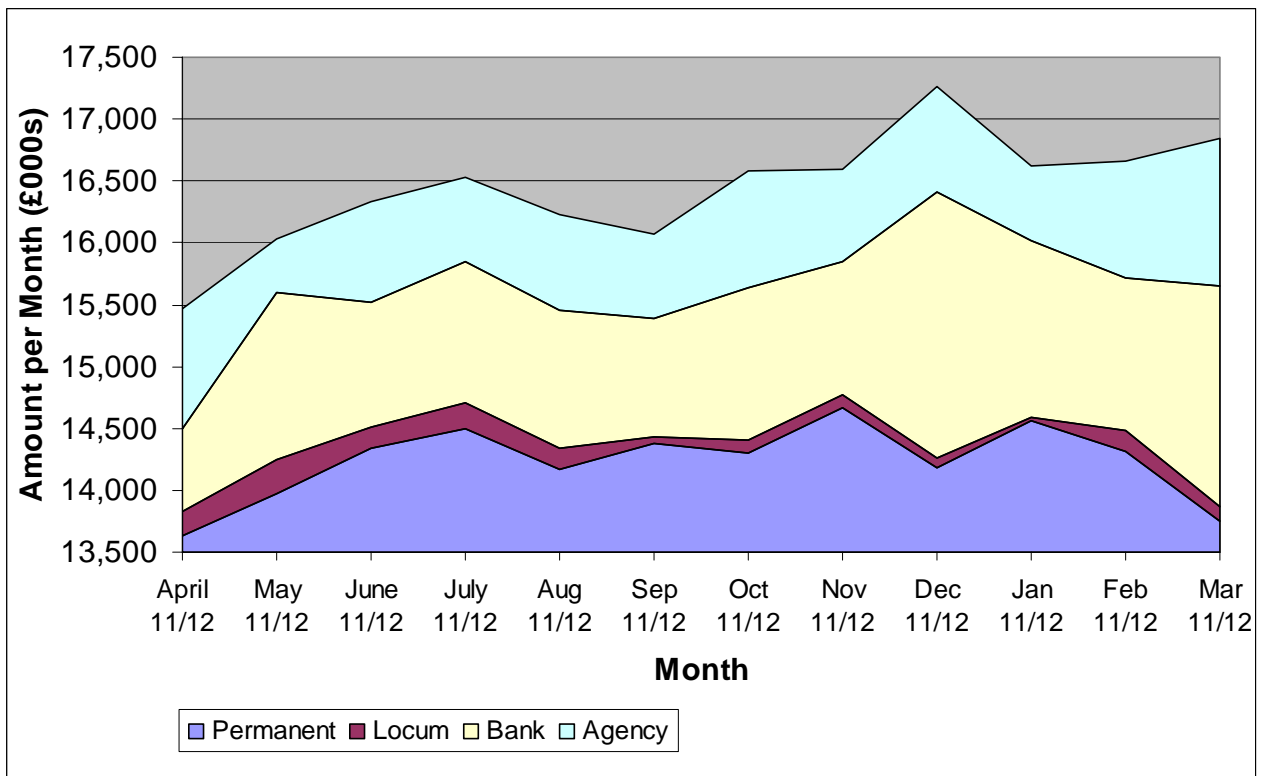
6. Expenditure Performance

- 6.1. Overall performance against the expenditure budget shows an over spend in month of £1,004k, with a cumulative over spend of £1,826k.

Pay Expenditure

- 6.2. The in month position shows an over spend of £846k and a cumulative under spend position of £2,519k for the year to date. Specific areas of over spend in Month include additional agency expenditure in Accident & Emergency (£132k), Midwives (£103k) and Victoria Ward (£73k). In addition to which there have been increase to provisions made such in respect of FT and restructuring.
- 6.3. Pay expenditure trends are further illustrated in the following figure:

FIGURE 6: Whittington Health Staffing Expenditure Trends April 2011- March 2012



Non Pay Expenditure

- 6.4. The overall non pay position shows an over spend of £148k, with a cumulative over spend of £1,041k, which is further illustrated in the following figure:

FIGURE 7: Summary Analysis of Month 12 Non Pay Expenditure

Expenditure type	Annual Budget £000	Current Month			Year to Date		
		Actual £000	Budget £000	Variance £000	Actual £000	Budget £000	Variance £000
Clinical Supplies & Services	30,236	3,214	2,555	(659)	33,092	30,236	(2,856)
General Supplies & Services	11,142	234	909	674	10,160	11,142	982
Establishment Expenses	2,425	217	202	(16)	2,572	2,425	(147)
Premises & Fixed Costs	6,536	738	538	(200)	6,864	6,536	(328)
Other	13,315	1,303	1,356	53	12,007	13,315	1,308
Total	63,654	5,708	5,560	(148)	64,695	63,654	(1,041)

- 6.5. The overall position for the year to date shows an over spend of £1,041k, there are specific areas of over spend, the most significant of which being clinical supplies and services. Increases in expenditure have been largely attributable to changes in activity and inflationary increases. This is largely offset by other expenditure, the most significant element of which relates to reserve adjustments.

7. Cash and Balance Sheet / Statement of Financial Position

- 7.1. The cash balance at the end of March was £9,933k, which reflects an improved position when compared against the forecast position this is largely due to a lower than expected outflow of cash on capital expenditure, and higher than expected values of capital creditors. 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.
- 7.2. The balance sheet is summarised below, showing the opening position for April 2011, and the provisional year end position as at the 31st March 2012.

FIGURE 8: Balance Sheet / Statement of Financial Position

Description	As at 1st April 2011 £'000	2011/12 Year-end Forecast £'000
Property, plant and equipment	132,685	138,929
Intangible assets	1,008	823
Trade and other receivables	2,800	2,022
Non-current assets	136,493	141,773
Inventories	1,064	1,115
Trade and other receivables	6,966	10,235
Cash and cash equivalents	3,199	9,933
Current assets	11,229	21,282
Trade and other payables	17,028	28,583
Borrowings	1,477	1,247
Provisions	3,633	3,596
Current liabilities	22,137	33,426
Borrowings	38,101	36,596
Provisions	1,937	1,771
Non-current liabilities	40,038	38,367
Total assets employed	85,548	91,262
Public dividend capital	48,206	53,206
Retained earnings	8,858	9,417
Revaluation reserve	27,315	28,639
Donated asset reserve	1,168	0
Total taxpayers' equity	85,548	91,262

8. Payment of Creditors

- 8.1. The Department of Health requires that Trusts pay creditors in accordance with the Better Payments Practice Code. The target is to pay creditors within 30 days of receipt of goods or a valid invoice, whichever is later, unless other terms have been agreed.
- 8.2. The Trust's performance, which is measured both in terms of volume and value, is illustrated below, a comparison to the performance in the previous year shows that there has been significant improvements in each of the areas.

FIGURE 9: Better Payments Practice Code

Detail	NHS Payables Number	Non NHS Payables Number	NHS Payables £000	Non NHS Payables £000
<i>Current Year to Date Performance</i>				
Total bills paid	5,841	66,238	23,045	58,971
Total paid within target	5,401	57,963	21,676	52,705
Percentage paid within target	93%	88%	94%	89%
<i>2010/11 Performance</i>				
Total bills paid	5,816	49,858	13,447	48,604
Total paid within target	5,368	42,397	12,065	41,923
Percentage paid within target	92%	85%	90%	86%

9. 2012/13 & 2013/14 Financial Plan

2012/13 Financial Plan

- 9.1. Further to the *2012/13 Budget Proposal* paper presented to the March Trust Board and in line with the latest submission of the Operating Plan to NHS London, the Trust is projecting a surplus position of £3,120k for 2012/13 (which equates to £3,747k after excluding the impact of IFRS and depreciation on donated assets). This plan is dependent on the full achievement of a £13.1m (4.8%) CIP within the year.
- 9.2. Contracts with the Trusts main commissioners have been agreed, however at the time of writing this report contracts have not yet been formally signed off. Due to the delay in agreeing contracts with the main commissioner, this has had a consequent delay on agreeing contracts with associate commissioners.
- 9.3. The proposed basis of the contract for NCL commissioners is a two year block contract, if the use of a block contract is not permitted by the Department of Health then a "cap" and "collar" mechanism will be used. The details of the contract are summarised as follows;
- A total income requirement in 2012/13 from NCL of £221.75m.
 - Against this requirement the 2012/13 contract offer represents £220.3m plus a risk share against the gap value of £1.46m of which 50% is guaranteed as a further reimbursement from NCL making £221.03m the full income value.
 - The maximum potential risk to the organisation is therefore £0.73m in 2012/13.
 - The gap of £1.46m will potentially be mitigated through readmissions funding that is not yet included in the offer, community reprovision investment not yet included in the offer and acute service developments. Any residual shortfall will be shared 50:50 with NCL making up therefore the maximum risk to the Trust of £0.73m in 2012/13.
 - 2012/13 includes additional £1.3m of (non - recurrent) bariatric income with 50% marginal costs included as a Trust cost pressure associated with delivery of the additional activity. We agreed this item as a way of getting to a more favourable

end point - the gap would have been £0.650m bigger without it. By making allowance for the costs - we have checked that this work can feasibly be undertaken with the Surgery Division.

- 2012/13 includes 6 months funding for the current readmission schemes to continue (with 50% marginal costs included associated with delivery of the additional activity). With CCG support this may be extended to the full year and this second six months would offset the £1.46m gap as described above.
- 2012/13 - £0.95m non recurrent funding included against our request of £2.15m support for specific initiatives.
- It is proposed that if the contract is agreed on a “cap” & “collar” basis, that thresholds are set above and below the baseline position with a marginal rate of 30% to be applied within these thresholds.

2013/14 Financial Plan

- 9.4. The 2013/14 contract offer of £215.2m plus a risk share against the gap value of £1.29m of which 50% is guaranteed as a further reimbursement from NCL making £215.85m the full income value. The maximum potential risk to the organisation is therefore £0.65m. This follows the same approach as above with the potential to close the gap in full. 2013/14 - £4.3m non recurrent funding included against our request of £2.3m for specific initiatives.

Contract Mechanism

- 9.5. The block / “cap” and “floor” mechanism applies only to NCL Commissioners, under and over performance for other commissioners will be reimbursed / paid as per normal Payment by Results rules. The benefits of a “cap” and “floor” arrangement include:
- Risk of lower income related to reduced activity minimised.
 - Some reward for higher than baseline levels of activity.
 - Relatively stable basis for care pathway redesign.
- 9.6. Potential risks associated with a “cap” and “floor” arrangement include:
- Additional income would not be received for increases in Trust activity above the cap
 - CIP to be delivered wholly by reduction in cost base
 - Requirement for improvements in productivity e.g. first to follow up ratio and consultant to consultant referrals (upper quartile by the end of Quarter 4 2012/13).

Key next Steps

- 9.7. Key next steps required to support the delivery of the financial plan as outlined above are summarised as follows:
- Conclude associate SLA's with non NCL commissioners.
 - As identified above the financial position is dependent on the delivery of a £13.1m CIP target, it is essential the Trust operates within budgets and delivers against identified CIP schemes.
 - Wherever possible under spend against budget to offset centrally help unidentified CIP
 - Ensure capture of high quality data to ensure that all income due to the Trust is identified and recovered.
 - Management organisational change
 - Review of vacancies, temporary staffing and recruitment
 - Reconsider all cost pressures and minimise new ones

- Service review using Service Line Reporting to remove duplication and generate economies of scale
- Consider decisions in respect of first to follow up ratio and consultant to consultant referrals in view of requirements for improved productivity.