Whittington Health NHS

## Trust Board Meeting

**ITEM: 11**

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|---|---|
| **DATE:** | 25 July 2012 |

| | |
|---|---|
| **TITLE:** | Financial Position – Month 3 (June 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 Month 3 financial position.

**EXECUTIVE SUMMARY:**

### 1. Month 3 Income & Expenditure

1.1. The I&E position including the impact of IFRS is an actual in month surplus of £250k, which is £205k better than plan. The year to date surplus is £198k, which is £465k worse than the planned position. Once the impact of IFRS is excluded the year to date position shows a cumulative surplus position of £318k.

1.2. The clinical income position is £258k above the Trust plan, this includes both acute and community services and is based on two months worth of fully coded activity and an estimate for June.

1.3. Included within the month 3 position are non recurrent adjustments which have improved the position by approximately £750k, this includes a favourable movement on income of £349k as reported in month 2, together with adjustments to expenditure provisions no longer required which total £400k. Without these non recurrent adjustments, both the in month and year to date position would show a deficit.

### 2. 2012/13 CIP Position

2.1. The overall plan is dependent on the full achievement of a £13.1m (4.8%) CIP within the year. The most upto date assessment of schemes highlights the level of risk associated with non achievement as ranging between a best case position of £1.65 million and a worst case position of £3.9 million shortfall. The income & expenditure position as at month 3 includes estimated under achievement of £974k. Where slippage / non achievement against schemes occurs it is essential to the delivery of the financial plan that compensating schemes are identified.

### 3. Month 3 Balance Sheet & Cash

3.1. The impact of IFRS on the Trust relating to PFI is £305k, and donated assets is £79k, both of which are excluded from break-even duty performance.

3.2. The cash balance at the end of June was £13,186k. Strong cash management will continue to be essential throughout this year to ensure that the Trust has sufficient cash balances to meet ongoing operating expenses and obligations. The year end forecast cash position is £9,924k, which reflects the opening balance together with the planned surplus position and other movements in working capital balances and the profile of commitments. Achievement of the forecast cash position is dependent on the delivery of cost improvements, effective cost control and income recovery. Achievement of the External Financing Limit (EFL) would require a year end cash balance that is not less than the opening value.

## 4. 2012/13 Forecast and Risks

4.1. The year to date position shows a surplus of £198k, which is £465k worse than planned at this stage of the year, although this position includes approximately £750k of non recurrent adjustments which have a favourable impact on the position. A risk based approach has been taken in developing the forecast, which uses a number of assumptions to show the best, worst and most likely forecast position. On this basis the worst case position shows a deficit of £628k, a best case surplus position of £3,775k, with the most likely case consistent with the current planning assumptions of delivering a £3,120k surplus.

4.2. The delivery of the planned position will depend on progress made in delivering the CIP programme, avoiding further cost pressures and over spends, and in maintaining income and activity levels in line with plan. This position will continue to be monitored over the coming months, and if progress is not made across these areas it will be necessary to adjust the likely forecast position accordingly.

4.3. Significant restraint should be exercised in the consideration of future cost pressures, unless absolutely unavoidable. Without exercising this level of control the delivery of the planned position, and control total will be at further risk (see paragraph 7.11).

4.4. **To achieve the forecast position, the focus of attention will need to be on the delivery of the CIP, robust budgetary control and restraint around the agreement of new cost pressures. Financial performance will be monitored closely both within the Divisional teams and by the Executive team and Trust Board. To date unavoidable cost pressures of £918k have been agreed.**

**PROPOSED ACTION:**

The Trust Board is asked to

- **Note:** An in month surplus of £250k, which is £205k better than planned.
- **Note:** A year to date surplus of £198k, which is £465k worse than planned.
- **Note:** The year date position include non recurrent adjustments of approximately £750k, which has a favourable impact on the financial position. Without these adjustments the in month and year to date position would be showing a deficit.
- **Note:** The risk based approach to the forecast surplus position, which is dependent on achievement of CIP plans, avoidance of further cost pressures and for income to be maintained within plan
- **Note:** The 2012/13 CIP position which shows estimated underperformance of £974k in the year to date. In order to deliver the planned position the CIP will need to be delivered in full.
- **Note:** Significant restraint should be exercised in the approval of further cost pressures, unless absolutely unavoidable

**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 3 Finance Report

## 5. Month 3 Financial Update

5.1. 2012/13 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, although the £305k impact of IFRS on Private Finance Initiatives (PFIs) and the impact of donated assets (£79k) are excluded from the Trust's break-even duty. Impairments would also be excluded although none have been forecast at this stage.

5.2. An in month EBITDA position of £1.4m is reported, which is £0.2m better than the planned position.

5.3. A risk based approach to the forecast position has been undertaken, which identifies the worst, best and most likely positions. This is covered in further detail within the section "*2012/13 Forecast and Risks*". At this stage the most likely position has been applied as the forecast position, which is consistent with current planning assumptions of delivering a £3,120k surplus at the year-end on an IFRS basis. **This forecast position is dependent on effective management of key risks identified, which require full delivery of CIP programme, containment of cost pressures and maintaining income at or above the planned position. Any adverse performance against the risks identified will need to be mitigated in full for the Trust to deliver against it's planned position.**

5.4. The income and expenditure position is illustrated as follows:

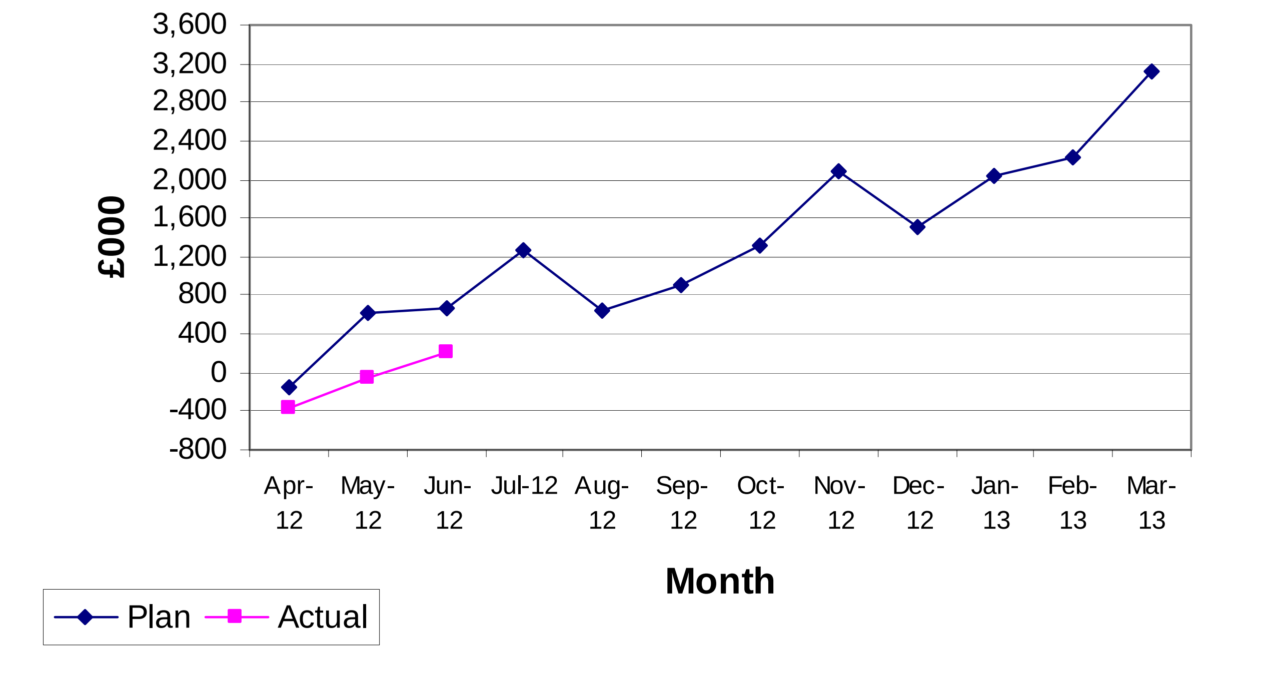
**FIGURE 1: Income & Expenditure Summary – Consolidated Position**

| Description | Current Month | | | Year To Date | | | Annual Budget £'000 | Year End Forecast £'000 |
|---|---|---|---|---|---|---|---|---|
| | Actual £'000 | Budget £'000 | Variance £'000 | Actual £'000 | Budget £'000 | Variance £'000 | | |
| NHS Clinical Income | 19,478 | 19,440 | 38 | 59,682 | 59,425 | 258 | 239,925 | 240,957 |
| Non NHS Clinical Income | 526 | 594 | (68) | 1,612 | 1,768 | (156) | 7,076 | 6,451 |
| All Other Non Clinical Income | 2,544 | 2,498 | 45 | 7,119 | 6,897 | 222 | 27,200 | 28,088 |
| **Total Income** | **22,548** | **22,533** | **16** | **68,413** | **68,089** | **324** | **274,202** | **275,497** |
| Pay | 16,140 | 16,173 | 33 | 49,294 | 48,313 | (981) | 192,823 | 194,182 |
| Non Pay | 4,978 | 5,134 | 156 | 15,414 | 15,605 | 190 | 63,885 | 63,821 |
| Centrally Held Savings | - | - | - | - | - | - | - | - |
| **Total Expenditure** | **21,118** | **21,306** | **189** | **64,708** | **63,918** | **(790)** | **256,707** | **258,003** |
| **EBITDA** | **1,430** | **1,226** | **204** | **3,705** | **4,172** | **(467)** | **17,494** | **17,494** |
| Loss on Disposal of Assets | - | - | - | - | - | - | - | 0 |
| Plus Interest Receivable | 3 | 2 | 2 | 10 | 7 | 3 | 20 | (20) |
| Less Interest Payable | 214 | 214 | (1) | 656 | 655 | (1) | 2,651 | 2,648 |
| Less Depreciation | 740 | 740 | 0 | 2,170 | 2,170 | 0 | 8,975 | 8,975 |
| Less PDC Dividend | 230 | 230 | (0) | 691 | 691 | (0) | 2,771 | 2,771 |
| **Net Surplus / (Deficit)** | **250** | **45** | **205** | **198** | **663** | **(465)** | **3,117** | **3,120** |
| **Net Surplus / (Deficit) excluding PFI IFRS** (*relevant for break-even duty*) | 290 | 85 | 205 | 318 | 784 | (465) | 3,501 | **3,504** |

5.5. The income and expenditure position before adjusting for IFRS shows a net year to date surplus position of £198k, which is £465k worse than planned. This includes the in month surplus of £250k which is £205k better than plan.

5.6. The overall income & expenditure position is further summarised as follows:

**FIGURE 2: Overall Income & Expenditure Position – Cumulative Performance**




## 6. Divisional Analysis

6.1. The Divisional analysis which follows provides an overview of performance against budget at a divisional level.

6.2. The key purpose of this analysis is to identify key variances against budget. It should be noted that not all income and expenditure is devolved to budget holders, and that the income & expenditure position for each division should be viewed within this context. Key elements of the income & expenditure position not devolved include:

- PbR income which can span across a number of areas depending on nature of treatment.
- Non-operating expenditure such as depreciation, PDC and interest

**FIGURE 3: Divisional Budget Analysis**

| Division | | Current Month | | | Year To Date | | |
|---|---|---|---|---|---|---|---|
| | | **Actual £'000** | **Budget £'000** | **Variance £'000** | **Actual £'000** | **Budget £'000** | **Variance £'000** |
| **Integrated Care & Acute Medicine** | Income | 834 | 949 | (115) | 2,938 | 2,850 | 88 |
| | Expenditure | 6,880 | 6,776 | (104) | 21,316 | 20,436 | (880) |
| | **Total** | **(6,046)** | **(5,827)** | **(219)** | **(18,378)** | **(17,586)** | **(792)** |
| **Surgery, Cancer & Diagnostics** | Income | 228 | 275 | (47) | 785 | 819 | (34) |
| | Expenditure | 4,661 | 4,609 | (52) | 14,367 | 13,864 | (503) |
| | **Total** | **(4,432)** | **(4,334)** | **(99)** | **(13,581)** | **(13,044)** | **(537)** |
| **Women, Children & Families** | Income | 1,175 | 1,208 | (33) | 3,275 | 3,432 | (157) |
| | Expenditure | 5,197 | 5,297 | 100 | 15,733 | 15,605 | (128) |
| | **Total** | **(4,022)** | **(4,089)** | **67** | **(12,458)** | **(12,173)** | **(285)** |
| **Corporate** | Income | 20,311 | 20,100 | 210 | 61,415 | 60,988 | 427 |
| | Expenditure | 4,380 | 4,624 | 244 | 13,293 | 14,013 | 721 |
| | **Total** | **15,931** | **15,476** | **455** | **48,122** | **46,975** | **1,148** |
| **Total** | Income | 22,548 | 22,533 | 16 | 68,413 | 68,089 | 324 |
| | Expenditure | 21,118 | 21,306 | 189 | 64,708 | 63,918 | (790) |
| | **EBITDA** | **1,430** | **1,226** | **204** | **3,705** | **4,172** | **(467)** |

6.3. Key variances identified are summarised as follows;

**IC&AM**

6.4. The overall divisional income & expenditure position shows an in month adverse variance of £219k (£792k YTD). The most significant variances within the division include:

- A&E (£88k overspend in month, £179k YTD): This is due to a combination of additional use of agency to cover sickness/absence/maternity and delays in achieving CIP.
- Pharmacy medicine (£102k overspend in month, £169k YTD): This relates to non-pay efficiency targets, which have not been achieved, together with over spends on drugs.
- IC&AM Management (£53k overspend in month, £141k YTD): This relates to slippage / non achievement of the Divisional CIP target.
- Acute Assessment Unit wards (£26k overspend in month, £102k YTD). This relates to temporary staffing usage to cover long-term sickness, vacancies and maternities and higher dependency patients "specials" requiring more intensive care.
- District Nursing & TB Services (£50k under spend in month, £37k overspend YTD) Agency expenditure was significantly reduced within month and recruitment was put on hold whilst a restructure of all teams was confirmed. It should be noted that there is an ongoing cost pressure in respect of the out of hours telephony service.
- Long Term Conditions (Community) (£15k under spend in month, £59k YTD) This is due to unfilled vacancies.

**Surgery & Diagnostics:**

6.5. The overall divisional income & expenditure position shows an in month adverse variance of £99k (£537k YTD). The most significant variances within the division include:

- Surgical Wards (£7k under spend in month, £192k overspend YTD): Overspends reported in previous months have stopped due to the closure of surgical beds previously occupied with medical outlier patients. This has contributed to the in month under spend, together with reductions in agency usage.
- SC&D Management (£70k overspend in month, £144k YTD): This relates to slippage / non achievement of the Divisional CIP target..
- Imaging (£10k in month overspend, 104k YTD): The overspend in month is due to admin staff bank usage partially offset by additional income received through MRI trial research.
- Integrated Blood Sciences (£16k in month overspend, £42k YTD): This is due to delay in achieving CIP's and overspend on non-pay consumables.
- ITU (£86k under spend in month, £133k under spend YTD): The under spend is largely due to reduced levels of agency staff, together with changes to skill mix and improved efficiency in matching staff to activity levels.

**Women & Children's**

6.6. The overall divisional income & expenditure position shows an in month positive variance of £67k (£285k adverse variance YTD). The most significant variances within the division include:

- Midwifery (£23k expenditure overspend in month £162k YTD): This relates to high levels of agency/bank pay expenditure resulting from high levels of sickness/absence.

– Women's Health (Obstetrics & Gynaecology) (£15k overspend in month £118k YTD): Despite reduced levels of medical outliers in month 3 there are still cost pressures relating to agency expenditure, particularly in respect of medical staffing.

– WC&F Management (£43k under spend in month, £95k overspend YTD): The year to date overspend relates to slippage / non achievement of the Divisional CIP target. The improved in month position relates to a reassessment of cost pressures, and a recalibration of the budget profile to match.

– Community Children's Services (Integrated Care, Universal Services & SLT), (£4k overspent in month, £89k under spend YTD): The year to date under spend relates to a number of unfilled vacancies across these services, although recruitment is in progress.

– Nursing & Paediatric Medical (£9k under spend in month, £52k overspend YTD): The year to date over spend reflects higher levels of agency usage.

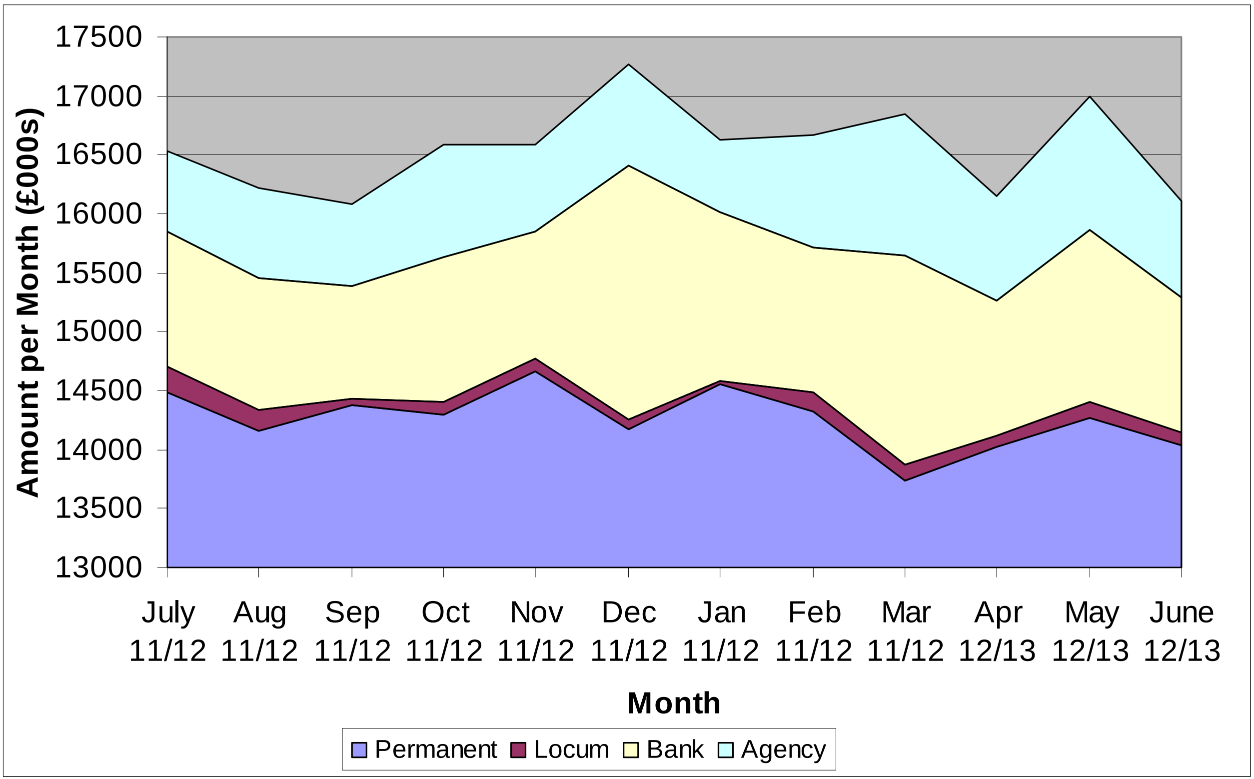
**Corporate Directorates**

6.7. The overall divisional income & expenditure position for corporate services shows an in month positive variance of £456k (£1,149k YTD). This relates largely to additional income and central reserves and a non-recurrent benefit resulting from release of provisions described in the report.

**Pay Expenditure**

6.8. In terms of the overall year to date expenditure position £981k of the over spend relates to pay costs. The following figure provides a further analysis of staffing costs, providing the trend for the last 12 months.

**FIGURE 4: Whittington Health Staffing Expenditure Trends July 2011- June 2012**




## 7. Income Performance

7.1. NHS Clinical Income is reported based upon the latest coded activity (May 2012), together with an initial estimate for the June position. On this basis the in month position shows an over performance against plan of £38k. This reflects the consolidated position including Whittington Hospital, Islington and Haringey community services and Haringey children's services.

7.2. The assessment of the June 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 a positive variance of £22k, which is included in the in month position.

**FIGURE 5: Comparison of NHS Clinical Income Against the Planned Position**

| Description | Amount £000 |
|---|---|
| May NHS income compared to Month 2 estimate | £206k |
| Estimated June adverse variance on NHS income | £22k |
| Income Relating to Prior Year | (£31k) |
| Work in Progress – Critical Care | (£17k) |
| Other | (£142k) |
| **Total in-month variance against NHS income plan** | **£38k** |

7.3. Included within the cumulative position to month 3 is a favourable movement on income of £349k, which relates to the 2011/12 income position, the final outturn for which was higher than originally forecast.

7.4. The contract with NCL (the Trusts main commissioning agency) is based on a block arrangement. Included within this contract is the 2012/13 base contract offer which represents £220.3m, plus a risk share against the gap value of £1.46m. Of the risk share value 50% is guaranteed as a further reimbursement from NCL making £221.03m the full income value. The maximum potential risk to the organisation in respect of NCL income is therefore £0.73m in 2012/13. Over performance in 2012/13 relates to non NCL commissioners.

7.5. Over performance against income targets in the year to date relate to non NCL commissioners.

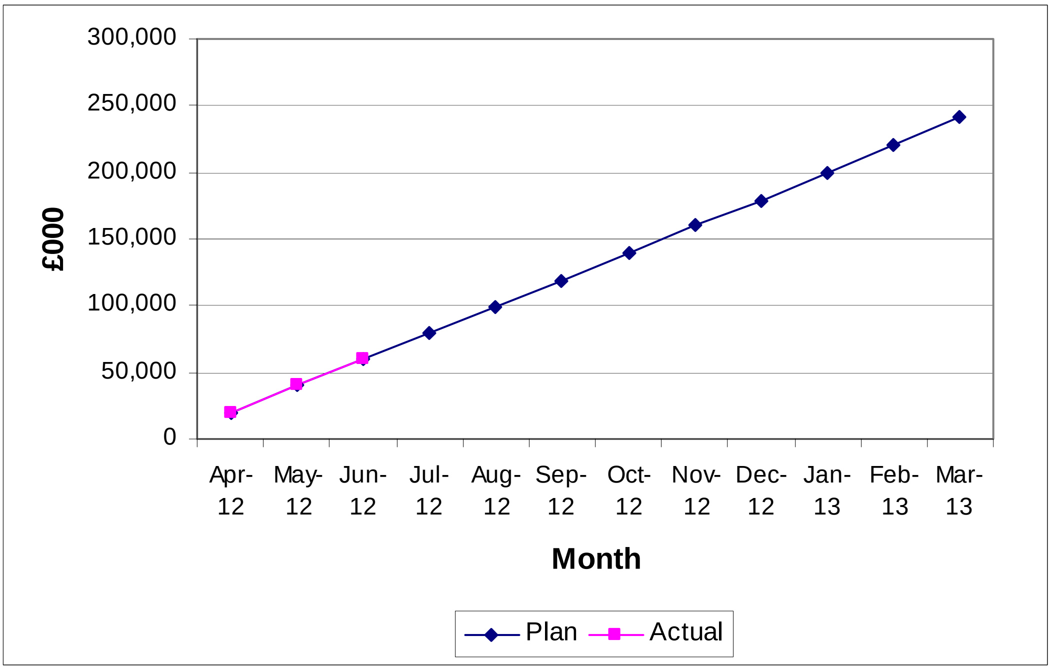
7.6. Figure 6 below shows income performance by patient type:

**FIGURE 6: Income Performance by Patient Type**

| | Year to date (to Month 2) | Year to Date | | In Month | |
|---|---|---|---|---|---|
| Point of Delivery | Plan £000 | Actual £000 | Variance £000 | Variance £000 | Late Data Added £000 |
| Block Contract/Adjustments | 1,648 | 1,661 | 13 | (6) | (139) |
| Elective Inpatients | 1,427 | 1,469 | 41 | 18 | 0 |
| Non-Elective Inpatients | 7,719 | 7,752 | 33 | 14 | (5) |
| Excess Beddays | 474 | 487 | 13 | 16 | 2 |
| Day Cases | 2,035 | 2,049 | 15 | 5 | 12 |
| Outpatient Procedures | 498 | 502 | 4 | 1 | 1 |
| Outpatient 1st Attends | 2,049 | 2,043 | (5) | (2) | 4 |
| Outpatient Follow Ups | 2,462 | 2,481 | 20 | 11 | 6 |
| Adult Critical Care | 1,662 | 1,732 | 71 | 72 | 0 |
| Paediatrics High Dependency | 51 | 48 | (4) | (2) | 2 |
| NICU High Dependancy Beddays | 251 | 335 | 84 | 53 | 3 |
| NICU Intensive Care Beddays | 94 | 142 | 49 | 7 | 2 |
| NICU Special Care Beddays | 791 | 752 | (38) | 21 | 37 |
| ED Attendances | 1,677 | 1,673 | (4) | 2 | 49 |
| Direct Access | 1,666 | 1,671 | 5 | 3 | 14 |
| Maternity Ultrasound | 271 | 264 | (7) | (5) | (2) |
| Other Activity | 606 | 608 | 3 | 2 | 8 |
| **Grand Total** | **25,380** | **25,670** | **290** | **212** | **(5)** |

7.7. The figure illustrates the variance against plan after applying adjustments to reflect the block contract arrangement with NCL, which makes up the largest part of the clinical income position. The position in terms of NCL is broadly in line with the planned position. The over performance of £290k relates to non NCL commissioners.

**FIGURE 7: Performance Against Internal Clinical Income Plan – In Month**




7.8. The total value of all other non clinical income highlighted in Figure 1 is £2,544k in Month 3 and £7,119k cumulatively. This is further illustrated in the following figure:

**FIGURE 8: All Other Non Clinical Income**

| 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 |
|---|---|---|---|---|---|---|---|
| Service Increment for Teaching & Research SIFT) | 790 | 790 | (0) | 2,253 | 2,253 | (0) | 9,012 |
| Medical & Dental Education Levy MADEL) | 469 | 468 | 1 | 1,406 | 1,404 | 2 | 5,616 |
| Non Medical Education & Training NMET) | 102 | 136 | (34) | 363 | 409 | (47) | 1,673 |
| Income from Service Level Agreements | 461 | 350 | 110 | 1,142 | 1,051 | 91 | 4,205 |
| Excellence Award Income | (28) | 40 | (68) | 64 | 155 | (91) | 621 |
| Income Generation e.g. car park, accommodation, canteen | 94 | 88 | 6 | 273 | 263 | 9 | 1,054 |
| Research & Development | (27) | 15 | (42) | 130 | 45 | 86 | 179 |
| Other | 683 | 611 | 73 | 1,488 | 1,316 | 172 | 4,841 |
| **Total** | **2,544** | **2,498** | **45** | **7,119** | **6,897** | **222** | **27,200** |

### Cost pressures

7.9. It has been agreed by the Executive Committee that only cost pressures which are absolutely unavoidable will be agreed, in these instances Executive team approval and Chief Executive sign off is required. In 2012/13 unavoidable cost pressures which total £918k have been approved, the equivalent value for 2013/14 being £484k. This is further illustrated in the following figure:

**FIGURE 9: Unavoidable Cost Pressures Approved in 2012/13**

| Division / Service | Description | 2012/13 Cost Pressure £000's | 2013/14 Cost Pressure £000's |
|---|---|---|---|
| Chief Operating Officer | Business Manager to Chief Operating Officer | 15 | 7 |
| Chief Operating Officer | Performance Manager Operations | 75 | 75 |
| Estates and Facilities | Accommodation | 16 | 16 |
| Estates and Facilities | UCLP | 50 | 50 |
| Estates and Facilities | NCL Transport | 40 | 40 |
| Estates and Facilities | Non Clinical risk and premises management | 70 | 70 |
| Facilities | Dartmouth Park House rent loss | 16 | 16 |
| HR | Band 7 ESR Employee Rollout | 47 | 4 |
| IC&AM | Additional 7/7 working | TBC | TBC |
| IC&AM | Finsbury Health Centre refurbishment | 50 | 0 |
| Medical Director | GMC revalidation support system | 16 | 28 |
| Nursing and Patient Experience | NHSLA Temporary Staffing Requirements | 58 | 87 |
| Nursing and Patient Experience | Health Assure system CQC | 61 | 36 |
| S,C&D | Emergency Planning and Business Continuity Management | 48 | 72 |
| S,C&D | Orthogeriatrician | 47 | 62 |
| S,C&D | SC&D staff development | 20 | 0 |
| S,C&D | Endoscopy suite equipment | 131 | 36 |
| Strategy | Fundraising officer | 33 | 50 |
| Trust-wide | Staff Conference/Nursing Event/Jubilee BBQ | TBC | TBC |
| Trust-wide | Board Development Programme | TBC | TBC |
| Trust-wide | CBRN replacement equipment | 25 | 4 |
| Trust-wide | WEALTH evaluation report | 25 | 14 |
| W,C&F | Simmonds house - additional beds | 75 | (183) |
| Trust-wide | Additional non recurrent programme staff | TBC | TBC |
| **Total** | | **918** | **484** |

## 8. Cost Improvement Programme (CIP)

8.1. The table below reports on progress made with implementation of the savings identified to date.

8.2. Across the organisation as a whole, savings have been delivered to the level of 69% of the profiled year to date target, an improvement from last month's 62%. The main reasons for the improvement are two-fold;

– Progress has been made towards the bed closure plans included in the CIP, although actual bed numbers are still running at a higher level than planned.

– Further progress has been identified in terms of non-pay expenditure, and specifically against the "management of consumables" target.

**FIGURE 10: CIP Monthly Performance**

| Workstream | Full Year Target £'000 | Target to Month 3 £'000 | Proportion of annual target planned to date % | Actual saving delivered to date £'000 | Proportion of profiled target delivered % |
|---|---|---|---|---|---|
| Productivity : Acute | 1,881 | 378 | 20% | 166 | 44% |
| Productivity : Community | 2,080 | 455 | 22% | 438 | 96% |
| Productivity : integration | 424 | 84 | 20% | 84 | 100% |
| Agency staff | 580 | 145 | 25% | 0 | 0% |
| Medicines management | 200 | 50 | 25% | 54 | 109% |
| Procurement | 849 | 209 | 25% | 85 | 41% |
| Management of consumables | 581 | 145 | 25% | 85 | 58% |
| Estates / soft FM | 700 | 125 | 18% | 65 | 52% |
| Corporate overheads & management costs | 448 | 102 | 23% | 102 | 100% |
| LEAN projects | 800 | 25 | 3% | 0 | 0% |
| Service transformation : acute bed base | 2.093 | 513 | 24% | 311 | 61% |
| CNST | 342 | 86 | 25% | 86 | 100% |
| Other service transformation | 79 | 20 | 25% | 0 | 0% |
| Income generation | 605 | 146 | 24% | 33 | 23% |
| Bal to fye of 11/12 programme | 1,447 | 705 | 49% | 705 | 100% |
| **TOTAL** | **13.108** | **3,187** | **24%** | **2,213** | **69%** |

8.3. The major reasons for shortfall against the year-to-date target are :

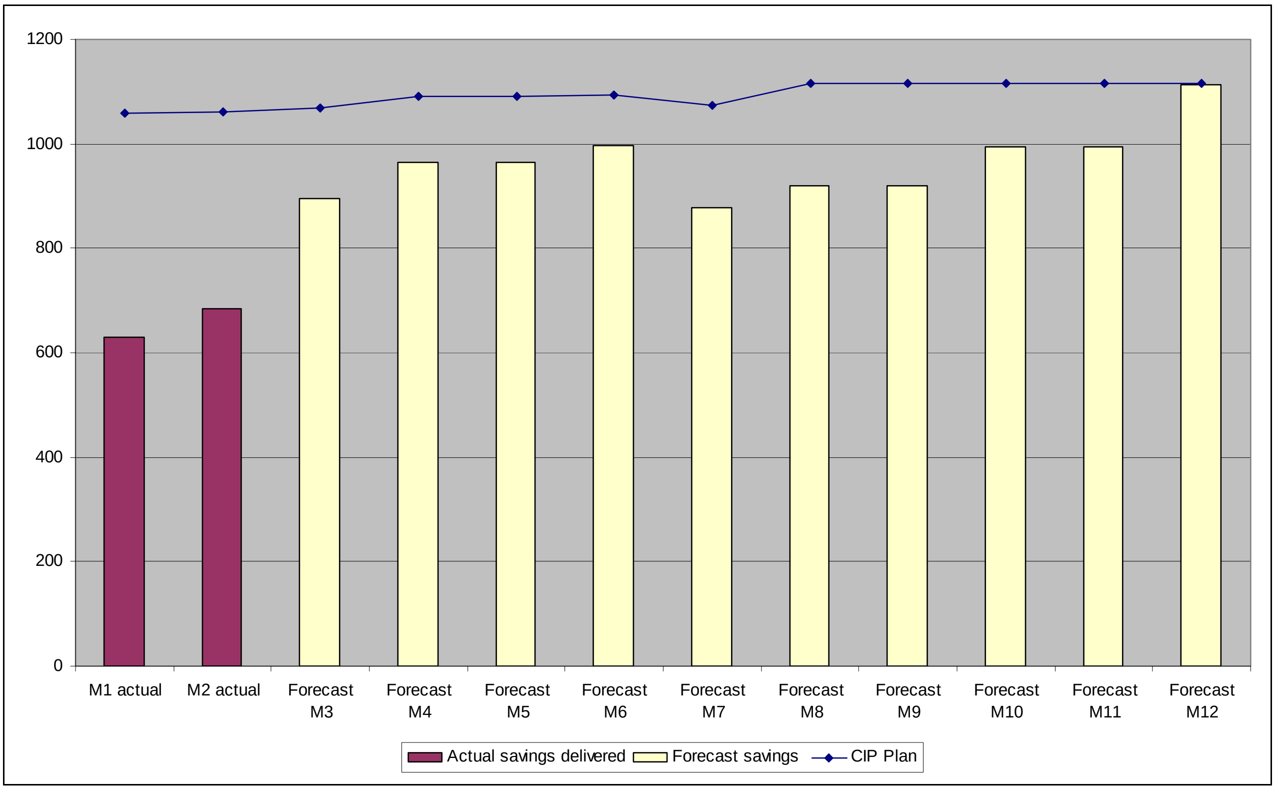
- Acute bed base reduction : although one medical ward was closed from mid-April, and some surgical beds have been closed from the end of June, the continuing pressure on beds from emergency medical admissions has prevented the surgical ward reconfiguration from proceeding in full.
- Nursing agency : the CIP target was to halve last year's level of expenditure, but in quarter 1 (April-June), nursing agency expenditure has been running above the level of 2011/12 expenditure, although there has been some reduction in June compared to the first 2 months.
- Not all of the planned staffing reductions have been delivered, due to activity and other pressures (eg in ED);
- A number of organisational change processes are underway currently or are scheduled to commence later in the year, however the associated savings targets relate to a full financial year, so these are reporting a non-recurrent YTD shortfall;
- Delays in implementing some change management projects eg. The transition to paperless communications with patients and GPs.
- The "management of consumables" target remain challenging in some parts of the organisation, where stock control and management is already well developed.

### Forecast

8.4. At this relatively early stage in the year, there is a wide range of possible outcomes for many of the CIP schemes. Therefore the forecast has been compiled on the basis of a "best case" and "worst case" scenario for each scheme. The aggregate best case is a shortfall of £1.65m against the £13.1m target (assuming no mitigating actions or substitute savings are identified) and the worst case is a £3.9 m shortfall. These shortfalls relate to the CIP programme as originally identified and do not yet take account of mitigations and substitute savings (see section 8.6. below).

8.5. The month-by-month "mid-case" forecast savings (assuming no mitigations) are presented in the graph below.

**FIGURE 11: CIP Performance to Date / Forecast**




8.6. The Executive Team have put in place a range of measures and governance arrangements to ensure that the CIP programme is brought back in track as quickly as possible :

- Five major CIP work-streams (Procurement, Agency and Bank staffing, E-communications, Acute Care Pathway (making best use of beds), Transformation : Care Pathways) are each to be headed up by an Executive Director. Performance on these projects will be reported direct to the Executive Committee (EC).

- The CIP Board has been re-constituted with wider clinical membership (all of the clinical directors, as well as the clinical Divisional Directors) and its frequency increased to weekly. Its remit is CIP development and monitoring. It will focus on all the small-medium sized CIP projects, and will review a summary of the major projects which are reporting to EC.

- A review of the project management and support arrangements has taken place, and project management for the major projects has been strengthened, through a combination of re-aligning the priorities of existing staff and through some new appointments. Additional management resource will be on a non-recurrent basis.

- A review of all vacant posts and the need to cover them with temporary staff has been put in place, to be reported to a panel of executives on 27 July.

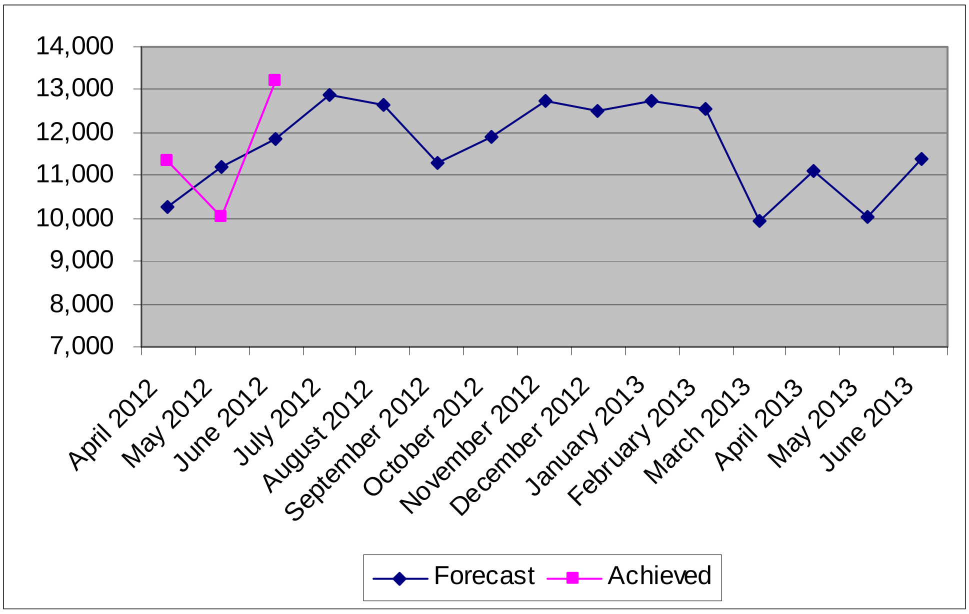
- A review of all posts and the need to fill them on either a temporary or permanent basis, to be completed by the end of August.

- Short-term measures to minimise all avoidable expenditure.

## 9. Cash and Balance Sheet / Statement of Financial Position

9.1. The cash balance at the end of June was £13,186k against a planned balance of £11,861k.

**FIGURE 12: Rolling Cash flow Forecast 2012/13**




9.2. The cash balance at the end of June was £13,186k. The improvement in the cash position is attributable to higher than expected receipts in month.

9.3. Good cash management and the ability to maintain positive cash balances over the course of the year will depend on strong budgetary control and delivery of the cost improvement programmes which underpin the financial plan, together with a focus on the following areas:

- Prompt collection of cash from PCTs.
- Use of leasing as a mechanism for purchasing capital equipment where possible, to spread the cash outflow over a number of years.
- Regular cash flow forecasts based upon estimated income and expenditure and non-cash items.
- Significant old year debts with NCL continue to remain outstanding, and prudent provisions have been made within the accounts. In order to maintain liquidity, a similar value of NCL creditors in respect of “old year” are being held in respect of estates pass through costs. Efforts continue to be made by the Trust to effect a resolution.

9.4. The balance sheet is summarised below, showing the opening position for the year, the closing position for June 2012 and the forecast outturn for the year.

**FIGURE 13: Balance Sheet / Statement of Financial Position**

| Description | As at 1st April 2012 £'000 | As at 30th June 2012 £'000 | As at 31st March 2013 £'000 |
|---|---|---|---|
| Property, plant and equipment | 136,944 | 134,980 | 138,651 |
| Intangible assets | 1,360 | 1,347 | 995 |
| Trade and other receivables | 2,022 | 2,032 | 2,623 |
| **Non-current assets** | **140,325** | **138,359** | **142,269** |
| Inventories | 1,115 | 1,269 | 1,269 |
| Trade and other receivables | 12,044 | 10,864 | 10,278 |
| Cash and cash equivalents | 9,933 | 13,186 | 9,924 |
| **Current assets** | **23,092** | **25,319** | **21,471** |
| Trade and other payables | 30,394 | 30,992 | 31,168 |
| Borrowings | 1,209 | 1,209 | 1,209 |
| Provisions | 3,403 | 3,045 | 183 |
| **Current liabilities** | **35,007** | **35,246** | **32,560** |
| Borrowings | 36,834 | 36,705 | 36,582 |
| Provisions | 1,771 | 1,724 | 1,673 |
| **Non-current liabilities** | **38,606** | **38,429** | **38,255** |
| **Total assets employed** | **89,805** | **90,002** | **92,925** |
| | | | |
| Public dividend capital | 53,206 | 53,206 | 53,206 |
| Retained earnings | 6,930 | 7,144 | 10,116 |
| Revaluation reserve | 29,669 | 29,652 | 29,602 |
| **Total taxpayers' equity** | **89,805** | **90,002** | **92,925** |

## 10. Payment of Creditors

10.1. 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.

10.2. The Trust's performance, which is measured both in terms of volume and value, is illustrated below. The deterioration in performance in respect of NHS payables relates to pass through payments payable to NCL which are currently on hold. Payments are currently being withheld because of the level of outstanding debts owed by NCL to the Trust, and to maintain some equilibrium in terms of cash balances. The deterioration in Non NHS payables compared to last year have coincided with the roll out of e-procurement, and it is anticipated that this performance will improve over the coming months.

**FIGURE 14: Better Payments Practice Code**

| Detail | NHS Payables Number | Non NHS Payables Number | NHS Payables £000 | Non NHS Payables £000 |
|---|---|---|---|---|
| *Current Year to Date Performance* | | | | |
| Total bills paid | 1,288 | 17,857 | 3,989 | 12,447 |
| Total paid within target | 1,197 | 14,959 | 2,473 | 9,745 |
| **Percentage paid within target** | 93% | 84% | 62% | 78% |
| | | | | |

| | | | | |
|---|---|---|---|---|
| 2011/12 Performance | | | | |
| 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% |

## 11. Financial Risk Rating

11.1. Financial risk ratings are used as part of the assessment and monitoring process for Foundation Trusts, and are used to assess the level of risk for Trusts delivering against plan. In terms of the ratings a score of 1 indicates the highest level of risk, and a score of 5 indicates the lowest level of risk. A score of 3 is considered to be an acceptable level of risk. The financial risk ratings for both the year to date and forecast positions have been calculated as a 3, which as outlined above is considered to be acceptable. As part of the calculation it is necessary to incorporate the value of working capital facility required, whilst this is not applicable to non Foundation Trusts, and as such the Trust does not have a working capital facility in place, inclusion is necessary for the purpose of calculating the risk rating. The assumed level of the working capital facility is £22m.

11.2. The overall financial risk rating, is calculated through a weighted average of 5 metrics, which are summarised as follows – together with the relevant weightings;

- EBITDA achieved (% of plan) – 10%
- EBITDA margin (%) – 25%
- Net return after financing – 20%
- I&E Surplus Margin – 20%
- Liquid ratio days – 25%

11.3. The following figure illustrates the method by which ratings for each of the metrics are assessed, so for example in order to achieve a rating of 4 for ***EBITDA achieved % of plan*** the Trusts EBITDA would need to be 85% or more of the plan. The actual score is 88.82%, so the Trust rating equals 4;

**FIGURE 15: Better Payments Practice Code**

| Metric Description | YTD Trust Score | Rating Categories | | | | |
|---|---|---|---|---|---|---|
| | | 5 | 4 | 3 | 2 | 1 |
| **EBITDA achieved (% of plan)** | 88.82% | 100% | 85% | 70% | 50% | <50% |
| **EBITDA margin (%)** | 5.42% | 11% | 9% | 5% | 1% | <1% |
| **Net return after financing (%)** | 0.16% | 3% | 2% | -0.5% | -5% | <-5% |
| **I&E surplus margin (%)** | 0.29% | 3% | 2% | 1% | -2% | <-2% |
| **Liquid ratio (days)** | 15.24 | 60 | 25 | 15 | 10 | <10 |

11.4. A review of the ratings identifies that all of the ratings are at 3 or greater, the scores re at the bottom end of the range, so for example a reduction of just 0.25 on the Liquid Ratio (days) would reduce that rating to a 2 – as the score would fall below 15. This would bring the overall rating down to a 2.

11.5. The following figure illustrates the risk ratings for both the year to date and the forecast outturn.;

**FIGURE 16: Better Payments Practice Code**

| | | | Metric Value / Rating | | | |
|---|---|---|---|---|---|---|
| | | | Year to Date Position | | Forecast Position | |
| **Metric Description** | **Financial Criteria** | **Metric Methodology** | **Metric Value** | **Rating** | **Metric Value** | **Rating** |
| **EBITDA achieved (% of plan)** | **Achievement of plan** | =(EBITDA actual less Donated Asset Income) / (EBITDA budget less Donated Asset Income) | **88.82%** | **4** | **100%** | **4** |
| **EBITDA margin (%)** | **Underlying performance** | =(EBITDA actual less Donated Asset Income) / (Total Operating Revenue less Donated Asset Income) | **5.42%** | **3** | **6.32%** | **3** |
| **Net return after financing (%)** | **Financial efficiency** | =(EBITDA less Donated Asset Income add depreciation add Interest add PDC add Tax) / (Average of opening & closing Total Assets Employed add back PFI liability, Finance Lease liability & loans) | **0.16%** | **3** | **2.36%** | **4** |
| **I&E surplus margin (%)** | **Financial efficiency** | =(Net surplus add back Impairments add back profit/loss on disposal) / Total Operating Revenue | **0.29%** | **2** | **1.13%** | **3** |
| **Liquid ratio (days)** | **Liquidity** | =((Current Assets less Inventory less Current Liabilities add WC Facility - (£22m)) / Total Costs)*365 | **15.24** | **3** | **13.64** | **2** |
| | | **Overall Rating** | | **2.90** | | **3.05** |

## 12. 2012/13 Forecast and Risks

12.1. The year to date position shows a surplus of £198k (IFRS basis), which is £465k worse than the planned position. This position includes £750k of non recurrent adjustments which have had a favourable effect on the position, without these adjustments the year to date position and variance would be worse by the equivalent value. In view of this, a risk assessed forecast outturn position has been developed providing an assessment of the worst case position, the best case position and the most likely position. The basis for each of these scenarios is set out as follows:

**Worst Case Position**

12.2. The key risks which are characterised within the worst case position include:

- Slippage / non delivery against CIP Plans: Within the CIP section of the report a scale of forecast slippage/non delivery as at Month 3 is identified, which ranges between £1.65m and £3.9m. For the purpose of the worst case position an assessment of £2.2m slippage/non delivery as the most probable unmitigated risk has been identified;
- Additional unavoidable cost pressures: Within the worst case position it is assumed that additional unmitigated cost pressures of £918k are included in the financial position, which reflects the latest estimate of approved in year cost pressures;
- Underachievement against NCL income plans: Within the contract agreement with NCL, there is a risk share of which the Trusts maximum exposure is £730k. This has been partially mitigated by additional income relating to the previous year, as a result the unmitigated risk position included in the downside position is £330k.
- Underachievement against Non NCL income plans: A further risk has also been included of £300k which essentially relates to different assumptions relating to activity and income growth. This risk has been lowered in Month 3 (the risk value in months 1 & 2 was shown as £600k) as a result of favourable variances against non NCL contracts in the first quarter of the year.

**Likely Case**

12.3. The likely case forms the basis of the current forecast included within the report, and assumes that a surplus of £3,120k to be made which increases to £3,504k after excluding the effect of IFRS. It is important to emphasise that the continued viability of the likely case is dependent on the mitigation of the worst case scenarios i.e.

- Identification of CIPs in full;
- Income levels maintained to plan; and
- Strong budgetary control and avoidance of further cost pressures.

**Best Case**

12.4. The best case scenario assumes the delivery of the planned position, together with delivery over plan on CIP of 5% (£655k). This would provide for a best case surplus position of £3,775k, which equates to £4,159k after excluding the effect of IFRS.

12.5. To achieve the best case scenario it would be necessary for:

- Identification of CIPs in full, together with an over achievement of 5%.
- Income and expenditure to be otherwise maintained in line with the planned position for the remainder of the year.

12.6. A risk based value has been calculated for each, and is summarised as follows:

**FIGURE 17: Risk Assessed Forecast Outturn Position**

| Detail | Worst £000 | Likely £000 | Best £000 |
|---|---|---|---|
| Income | 274,867 | 275,497 | 275,497 |
| Operating Expenditure | 261,121 | 258,003 | 257,348 |
| EBITDA | 13,746 | 17,494 | 18,149 |
| Non Operating Items | 14,374 | 14,374 | 14,374 |
| Net Surplus / (Deficit) | (628) | 3,120 | 3,775 |
| Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty) | (244) | 3,504 | 4,159 |

12.7. The forecast positions outlined are consistent with the methodology used in completing FIMs returns submitted to the SHA, and show an unmitigated worst case deficit position of £628k, which equates to a £244k deficit after excluding the effect of IFRS.

12.8. As outlined above, at this stage the Trust forecast position is based on the most likely position outlined i.e. that the Trust complete the year broadly in line with the planned position. Given that there has been slippage in the first two months of the year – mitigations will need to be identified to bring the cumulative position back into line with the plan. The position for the remaining months of the year will continue to be monitored, and the likely forecast position will be updated accordingly.

12.9. In addition to the key risks identified and included in the worst case position (above) the following key risks remain and will need to be managed during the course of the year:

- Activity exceeds the agreed cap with NCL commissioners, incurring additional costs with no additional income through activity, although expected levels of cost have been reflected in the forecast.
- Increased non-achievement of CIP targets beyond the assessment made in the worst case position.
- Legal costs are higher than anticipated.
- Additional unavoidable cost pressures materialise.
- Data is not input onto PAS and other information systems in a timely way.
- Recruitment problems and increased use of Agency staff.
- Further upward trends in expenditure forecasts.
- Further restructuring proposals which generate severance costs which are not covered by the in year savings, and thus generating further cost pressures.

**Mitigations**

12.10. Delivery of the Trust CIP target of £13.1m: The Trust has identified schemes which will deliver the full value of the CIP programme. The Trust has established a strong governance process, the focal point of which is the Trust Operating Board which reviews the CIP programme on a regular basis, assessing savings on a scheme by scheme basis, agreeing RAG rated assessments of each. Where slippage is identified the Trust Operating Board will agree specific and measurable actions, to bring the position back into line. As outlined above, the Trust position assumes that the total CIP will be delivered in full, and that where slippage occurs – specific and timely remedial action will be taken to bring the position back into line.

12.11. Underachievement against activity and income targets: It is too early in the year to identify key income trends, however the Month 3 position shows an over performance, which relates largely to additional income relating to 2011/12. This goes someway in mitigating the risk of income falling below planned levels. The Trust has a block contract in place with NCL – the main commissioner, which limits the extent to which under performance translates into lost income, with the maximum exposure relating to the risk share arrangement within the contract which places conditions on the receipt of £730k of income. The Trust is working with NCL in order to secure this income through agreement of schemes such as developing integrated care and increasing market share. The drive within the sector to improve productivity and to move to upper quartile against a number of measures means the Trust is more aware and proactive in the management of activity, and any real / material reduction of activity will be managed in part through the flexing of variable and semi fixed costs. As a further mitigation the trust would also seek to utilise spare capacity through negotiations with commissioners. In summary, the risk of material income loss to the overall position in 2012/13 in considered to be low.

12.12. Additional cost pressures: In the same way that the trust would manage slippage on cost improvements, remedial action would be taken to mitigate the effect of additional and unexpected cost pressures. The Trust has taken an extremely robust position in terms of cost pressures, with executive agreement required for discretionary initiatives. Where unfunded cost pressures are agreed, further remedial measures will be required in order to bring the financial position back within plan.