Whittington Health NHS

Trust Board

ITEM: 10
Paper : F

DATE:	26 September 2012

TITLE:	**Financial Position – Month 5 (August 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 5 financial position.

EXECUTIVE SUMMARY:

1. Month 5 Income & Expenditure

1.1. The I&E position including the impact of IFRS is an actual in month surplus of £145k, which is £43k better than plan. The year to date surplus is £1,289k, which is £352k worse than the planned position. Once the impact of IFRS is excluded the year to date position shows a cumulative surplus position of £1,371k.

1.2. The clinical income position is £1,388k above the Trust plan and is based on four months worth of fully coded activity and an estimate for August.

1.3. Included within the month 5 position are non recurrent adjustments which have improved the position by £1,653k, this includes a favourable cumulative movement on income of £1,249k, together with adjustments to expenditure provisions no longer required which total £404k. The underlying cumulative position at month 5 which excludes the effect of non recurrent adjustments is a deficit of £282k, which is £2,055k worse than plan. **For the trust to achieve the planned surplus set out at the beginning of the year, this underlying position is not sustainable and it is imperative that recovery actions are fully implemented, and further mitigations identified together with clearly identified action plans**.

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 likely case position of full delivery and a worst case position of £2.5 million shortfall. The income & expenditure position as at month 5 includes estimated under achievement of £1,072k. Where slippage / non achievement against schemes occurs it is essential to the delivery of the financial plan that compensating schemes are identified.

3. Month 5 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 August was £13,861k. 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. 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 £1,289k, which is £352k worse than planned at this stage of the year, although this position includes approximately £1,653k 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 £612k, 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. This is however dependent on full implementation of recovery plans, and full mitigation of future cost pressures.

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 £931k have been agreed.**

PROPOSED ACTION:

The Trust Board is asked to

- **Note:** An in month surplus of £145k, which is £43k better than planned.
- **Note:** A year to date surplus of £1,289k, which is £352k worse than planned.
- **Note:** The year date position include non recurrent adjustments of £1,653k. The underlying position which excludes non recurrent adjustments shows a deficit of £282k which is £2,055k worse than plan. This position is not sustainable and it is imperative that recovery plans / mitigations are fully implemented.
- **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 £1,072k 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 5 Finance Report

5. Month 5 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 £1.3m is reported, which is in line with 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	20,105	19,558	547	100,554	99,167	1,388	239,705	241,682
Non NHS Clinical Income	627	601	26	2,817	2,979	(162)	7,149	7,004
All Other Non Clinical Income	2,647	2,474	172	12,261	11,755	507	27,870	28,446
Total Income	**23,378**	**22,633**	**745**	**115,632**	**113,900**	**1,732**	**274,724**	**277,132**
Pay	16,491	15,996	(496)	81,908	80,161	(1,747)	191,783	193,730
Non Pay	5,583	5,367	(216)	26,589	26,239	(350)	65,399	65,860
Centrally Held Savings	-	-	-	-	-	-	-	-
Total Expenditure	**22,074**	**21,363**	**(712)**	**108,497**	**106,400**	**(2,097)**	**257,182**	**259,590**
EBITDA	**1,304**	**1,270**	**33**	**7,135**	**7,500**	**(365)**	**17,542**	**17,542**
Loss on Disposal of Assets	-	-	-	-	-	-	-	-
Plus Interest Receivable	5	2	3	19	10	9	20	20
Less Interest Payable	220	225	4	1,103	1,105	2	2,651	2,651
Less Depreciation	708	711	3	3,589	3,591	3	8,975	8,975
Less PDC Dividend	235	235	0	1,173	1,173	0	2,816	2,816
Net Surplus / (Deficit)	**145**	**102**	**43**	**1,289**	**1,641**	**(352)**	**3,120**	**3,120**
Net Surplus / (Deficit) excluding PFI IFRS (***relevant for break-even duty***)	67	24	43	1,371	1,723	(352)	3,504	**3,504**

5.5. The income and expenditure position before adjusting for IFRS shows a net year to date surplus position of £1,289k, which is £352k worse than planned. This includes the in month surplus of £145k which is £43k better than plan.

5.6. An analysis of the underlying position, which excludes the effect of non recurrent adjustments of £1,653k shows a deficit position of £282k, which is £2,005k worse than planned, and a deterioration on the month 4 position.

FIGURE 2: Month 5 Underlying Financial Position

Detail	Reported Position £000	Underlying Position £000	Non Recurrent Adjustments £000
Income	115,632	114,383	1,249
Operating Expenditure	108,497	108901	(404)
EBITDA	7,135	5482	1,653
Non Operating Items	5,846	5846	-
Net Surplus / (Deficit)	1,289	(364)	1,653
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	1,371	(282)	-
Variance from Plan	(352)	(2,055)	1,653

5.7. Based on the current run rate, a straight line forecast of the underlying position would show a net deficit position of £1,265k, which would be £4,303k worse than planned. In terms of the overall unmitigated forecast position, the non recurrent adjustments would be added back in to provide a surplus position of £388k, which would be £2,732k worse than planned. It is therefore essential that the run rate is significantly improved in the remaining months of the year, to avoid further deterioration in the underlying position. As part of this it is essential that recovery plans and mitigating actions identified are fully implemented. The figure below illustrates the consequence of no improvement in the run rate. It should be noted that this position is unmitigated, and does not form the basis for the actual trust forecast position.

FIGURE 3: Unmitigated Forecast Position Based on Current Run Rate

Detail	Underlying Position £000	UNMITIGATED Underlying Forecast Position £000	Non Recurrent Adjustments £000	Unmitigated Forecast Position £000
Income	114,383	274,519	1,249	275,768
Operating Expenditure	108,901	261,362	(404)	260,958
EBITDA	5,482	13,157	1,653	14,810
Non Operating Items	5,846	14,422	-	14,422
Net Surplus / (Deficit)	(364)	(1,265)	1,653	388
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	(282)	(1,183)	-	772
Variance from Plan	(2,055)	(4,303)	1,653	(2,732)

5.8. It is important to note that future year plans are dependent on the 2012/13 plan being delivered recurrently and in full. Any shortfall in the recurrent 12/13 plan will undermine the ability of the Trust to deliver future year plans (i.e. 13/14 onwards), without increasing the level of CIP required. Any shortfall at the year end could also be perceived by external assessors as a lack of capacity by the Trust to deliver against plans, and could in turn undermine confidence in future year plans.

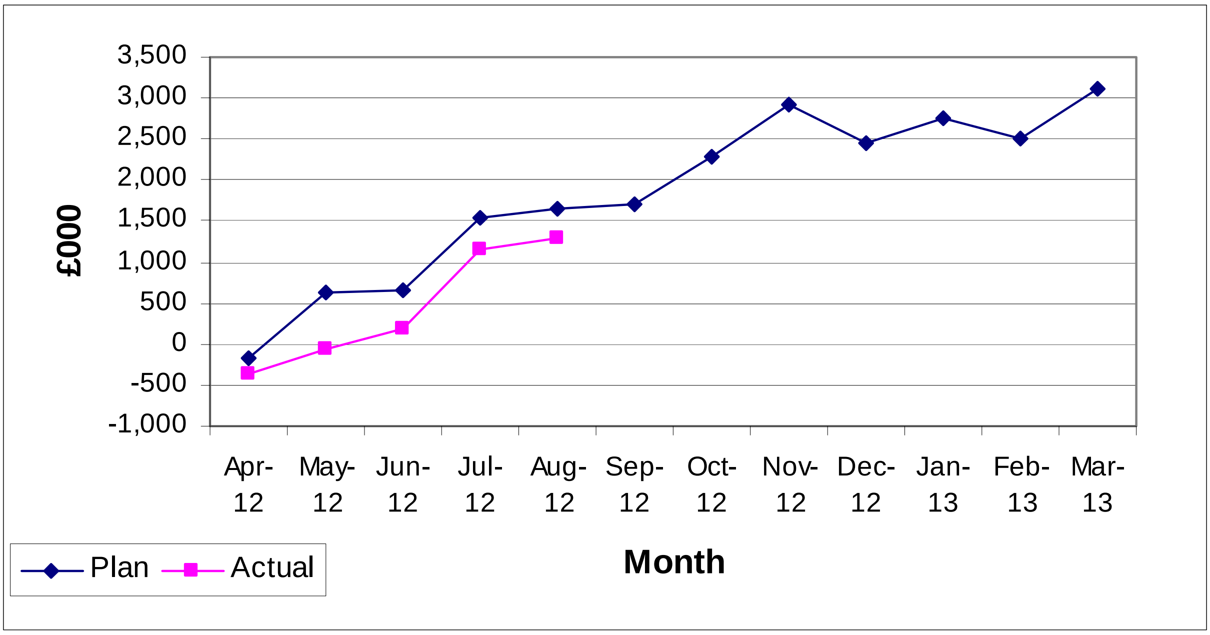
5.9. The underlying position highlighted above shows an adverse run rate equating to circa £400k per month for the first 5 months of the year. In order to deliver the planned surplus by the year end it will be necessary to;

- Deliver an improved run rate for the remainder of the year, which as minimum on a monthly basis eliminates in full the £400k adverse variance which has been evident in the first five months of the year i.e. the month 6 to 12 positions would need to be in line with plan.

- Restoring the run rate in line with plan for the remainder of the year will prevent further deterioration in the position, however it will still be necessary to recover the adverse variance reported for the first five months i.e. £352k.
- As highlighted above future year plans are dependent on the delivery of this years plan – recurrently and in full. Therefore where non recurrent items are included in the 12/13 position, recurrent solutions will need to be identified in full, to prevent any compromise to the 13/14 plan.

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

FIGURE 4: 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 5: Divisional Budget Analysis

Division		Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000
Integrated Care & Acute Medicine	Income	1,021	938	83	4,952	4,730	222
	Expenditure	7,223	6,916	(307)	35,511	34,029	(1,482)
	Total	**(6,202)**	**(5,978)**	**(224)**	**(30,559)**	**(29,299)**	**(1,260)**
Surgery, Cancer & Diagnostics	Income	337	277	60	1,418	1,372	46
	Expenditure	4,580	4,551	(29)	23,456	22,728	(728)
	Total	**(4,243)**	**(4,274)**	**31**	**(22,038)**	**(21,356)**	**(682)**
Women, Children & Families	Income	1,231	1,128	103	5,684	5,680	4
	Expenditure	5,191	5,103	(87)	26,123	25,815	(308)
	Total	**(3,960)**	**(3,975)**	**15**	**(20,439)**	**(20,135)**	**(303)**
Corporate	Income	20,789	20,290	499	103,578	102,119	1,459
	Expenditure	5,081	4,793	(288)	23,406	23,828	421
	Total	**15,709**	**15,497**	**212**	**80,172**	**78,291**	**1,881**
Total	Income	23,378	22,633	745	115,632	113,900	1,732
	Expenditure	22,074	21,363	(712)	108,497	106,400	(2,097)
	EBITDA	**1,304**	**1,270**	**33**	**7,135**	**7,500**	**(365)**

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 £224k (£1,260k YTD). The most significant variances within the division include:

– A&E (£158k overspend in month, £389k YTD): This is due to a combination of additional use of medical agency to cover junior doctors induction period, sickness / absence / maternity over and above budgeted levels and delays in achieving CIP due to the pressure of high activity levels and meeting the 4 hour target.

– IC&AM Management (£5k overspend in month, £235k YTD): This relates to slippage / non achievement of the Divisional CIP target as all targets not applied to specific areas are held here. Details of the remedial action plans for bringing CIP back in line with the planned position is provided in section 8.

– COOP Wards (£21k overspend in month, £233k YTD): This relates to temporary staffing usage above budgeted levels to cover long-term sickness, vacancies and maternities and higher dependency patients “specials” requiring more intensive care.

– Pharmacy medicine (£43k overspend in month, £151k YTD): The YTD overspending position relates to non-pay efficiency targets, which have not been achieved, together with over spends on drugs due to higher than planned volumes used.

– District Nursing (£4k overspend in month, £61k overspend YTD) The overspend for this area relates to an ongoing cost pressure in respect of an out of hours telephony service. Agency expenditure has been controlled and recruitment has been limited as the service underwent a restructure.

– Rehabilitation Service – Cavell Ward (Greentrees) (YTD £3k overspend): The overspend previously reported within this service was part of non recurrent costs incurred during the transfer of the Stroke Services to the Homerton and the movement of Non Stroke Rehab from the St Anns site to the Whittington. The income for this has been identified and the month five position was corrected.

Surgery & Diagnostics:

6.5. The overall divisional income & expenditure position shows an in month positive variance of £31k (£682k adverse YTD). The most significant variances within the division include:

- Surgical Wards (£20k overspend in month, £254k overspend YTD): The rate of overspending reported in previous months has reduced due to the closure of surgical beds previously occupied with medical outlier patients. The in month overspend relates to non delivery of specific CIP plans.
- SC&D Management (£39k overspend in month, £223k YTD): This relates to slippage / non achievement of the Divisional CIP target. Details of the remedial action plans for bringing CIP back in line with the planned position is provided in section 8.
- Imaging (£20k in month overspend, £155k YTD): The overspend in month is due to admin staff bank usage partially offset by additional income received through MRI trial research. The YTD overspend is due to non-delivery of CIP target and SPR bank usage above budgeted levels to cover the waiting list initiative.
- Integrated Blood Sciences (£1k in month overspend, £46k YTD): A consultation on reorganisation planned to deliver CIP is experiencing delays therefore CIP isn't being delivered in line with plans. Additionally there are overspends on non-pay consumables due to activity levels above plan.
- ITU (£75k underspend in month, £243k underspend YTD): The underspend is largely due to reduced levels of agency staff, together with changes to skill mix and improved efficiency in matching staff to activity levels.
- Community Dental Services (£2k overspend in month, £17k underspend YTD): Community Dental Services has a continued surplus due to fully achieving all of its KPI and UDA (Units of Dental Activity) targets for the first quarter of 12/13.

Women & Children's

6.6. The overall divisional income & expenditure position shows an in month positive variance of £15k (£303k adverse YTD). The most significant variances within the division include:

- Midwifery (£8k expenditure overspend in month £245k YTD): There continues to be high levels of agency and bank pay as a result of high levels of sickness / absence above budgeted levels. This has reduced from previous months and expenditure relating to maternity cover has now been transferred from central WC&F budgets.
- Women's Health (Obstetrics & Gynaecology) (£32k overspend in month £161k YTD): The three extra medical outlier beds that were closed in month 3 were reopened in month 5 and this is where a large element of agency spend is incurred.
- Acute Paediatric Wards & NICU (£1k overspend in month, £74k YTD). The YTD overspend is due to a combination of high levels of activity, an increase in the use of agency nurses above budgeted levels and the inability of the service to achieve all of its staff productivity CIP.
- Universal Services (£41k underspend in month, £48k YTD). Included within this area is Newborn Hearing Screening. Income for the first quarter has been confirmed and this has reflected the increased establishment in NHSP which has enabled us to achieve a high level of performance.
- Speech & Language Therapy (£32k underspend in month, £66k YTD). In addition to a number of vacancies within the Camden SLT service income for the Michael Palin Stammering centre from outside of North Central London is high for the first five months of the year.

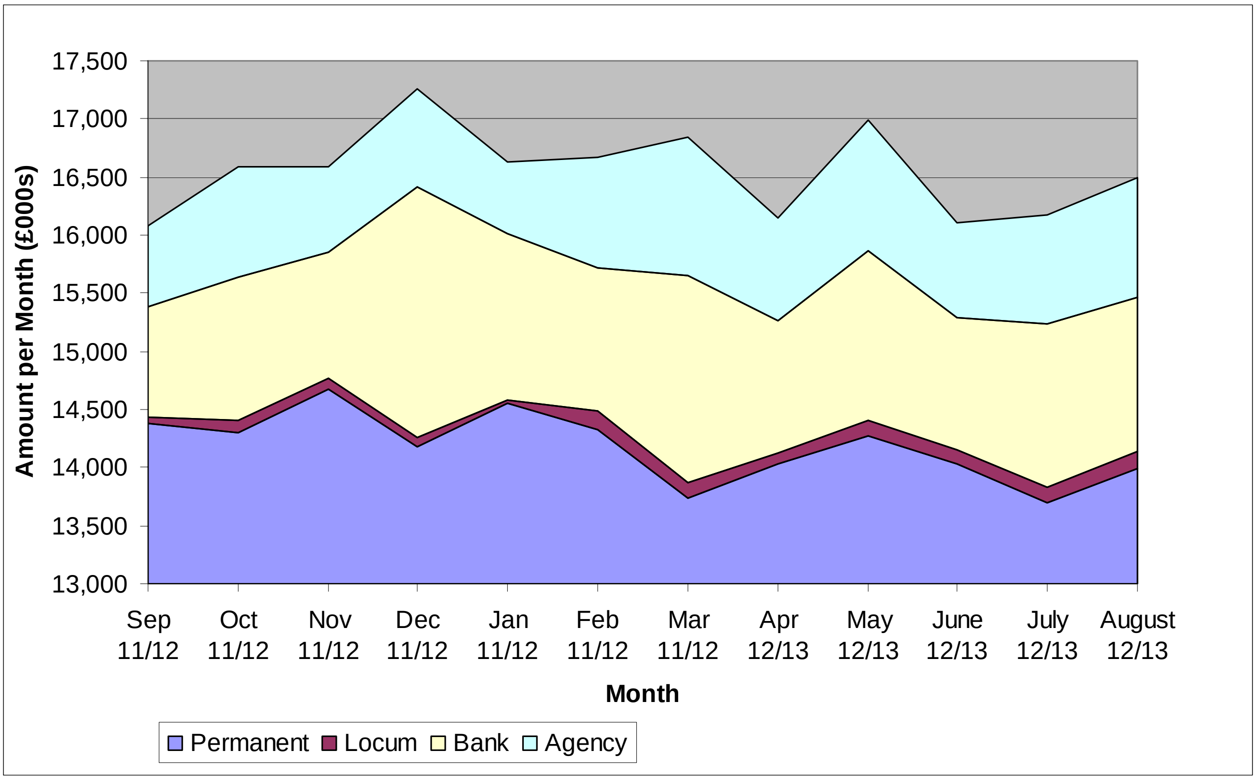
Corporate Directorates

6.7. The overall divisional income & expenditure position for corporate services shows an in month positive variance of £212k (£1,881k YTD). This relates largely to additional income and central reserves and a non-recurrent benefit resulting from release of provisions described in the report. Significant variances worth highlighting within the Corporate position include ICT (£125k overspend in month, £309k YTD) which is predominantly due to external staff recharges and a further update will be provided following investigation.

Pay Expenditure

6.8. In terms of the overall year to date expenditure position £1,747k 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 6: Whittington Health Staffing Expenditure Trends September 2011- August 2012



7. Income Performance

7.1. NHS Clinical Income is reported based upon the latest coded activity (July 2012), together with an initial estimate for the August position. On this basis the in month position shows an over performance against plan of £547k.

7.2. The assessment of the August 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 £94k, which is included in the in month position.

FIGURE 7: Comparison of NHS Clinical Income Against the Planned Position

Description	Amount £000
July NHS income compared to Month 4 estimate	15
Estimated August positive variance on NHS income	94
Income Relating to Prior Year	282
Work in Progress – Critical Care	113
Other	42
Total in-month variance against NHS income plan	**547**

7.3. Included within the cumulative position to month 5 is a favourable movement on income of £1,249k which relates to the previous year.

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. This risk has to a large extent been mitigated as a result of additional income identified and reported relating to the previous year. Over performance in 2012/13 relates to non NCL commissioners.

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

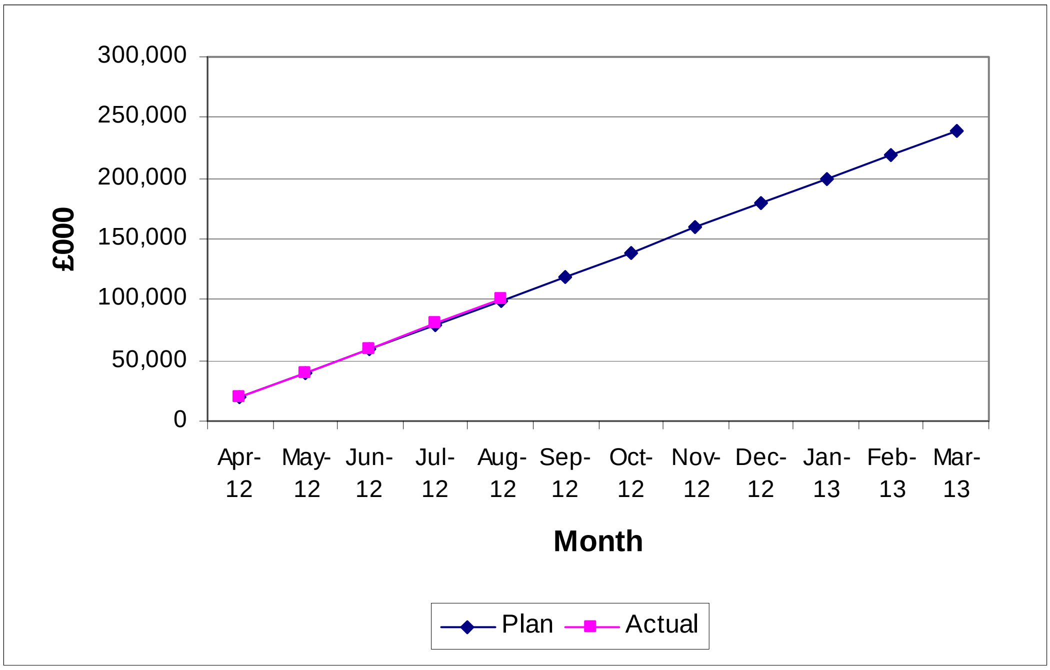
7.6. Figure 5 provides an overview of total clinical income for Month 5, and contains a combination of actuals and estimates. Figure 6 provides an overview of actuals, based on month 1 – 3 activity, relating specifically to acute activity, and showing income performance by patient type:

FIGURE 8: Income Performance by Patient Type

	Year to date (to Month 4)	Year to Date		In Month	
Point of Delivery	**Plan £000**	**Actual £000**	**Variance £000**	**Variance £000**	**Late Data Added £000**
Block Contract/Adjustments	3,275	3,306	31	11	0
Elective Inpatients	2,805	2,862	57	17	3
Non-Elective Inpatients	15,322	15,394	73	70	1
Excess Beddays	926	931	5	8	(0)
Day Cases	3,998	4,028	30	4	1
Outpatient Procedures	978	982	4	(1)	(0)
Outpatient 1st Attends	4,025	4,013	(12)	(8)	(28)
Outpatient Follow Ups	4,837	4,879	43	9	28
Adult Critical Care	3,607	3,635	28	(37)	0
Paediatrics High Dependency	103	98	(4)	(1)	0
NICU High Dependancy Beddays	502	590	88	5	0
NICU Intensive Care Beddays	187	273	86	34	(1)
NICU Special Care Beddays	1,581	1,478	(103)	(41)	9
ED Attendances	3,343	3,342	(1)	5	0
Direct Access	3,332	3,334	2	(2)	1
Maternity Ultrasound	533	530	(3)	0	(0)
Other Activity	1,193	1,190	(3)	(4)	7
Grand Total	**50,548**	**50,867**	**319**	**69**	**19**

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 £319k relates to non NCL commissioners.

FIGURE 9: Performance Against Internal Clinical Income Plan – In Month



7.8. The total value of all other non clinical income highlighted in Figure 1 is £2,647k in Month 5 and £12,261k cumulatively. This is further illustrated in the following figure:

FIGURE 10: All Other Non Clinical Income

Description	Current Month			Year To Date			Annual
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	Budget £'000
Service Increment for Teaching & Research SIFT)	751	751	(0)	3,755	3,755	(0)	9,012
Medical & Dental Education Levy MADEL)	471	471	0	2,363	2,360	3	5,621
Non Medical Education & Training NMET)	158	143	15	733	717	15	1,685
Income from Service Level Agreements	325	350	(25)	1,779	1,752	27	4,205
Excellence Award Income	40	52	(11)	145	259	(114)	621
Income Generation e.g. car park, accommodation, canteen	85	88	(2)	446	439	7	1,054
Research & Development	216	198	18	391	257	133	557
Other	600	421	179	2,649	2,215	434	5,115
Total	2,647	2,474	172	12,261	11,755	507	27,870

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 £931k have been approved, the equivalent value for 2013/14 being £498k. This is further illustrated in the following figure:

FIGURE 11: 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
Corporate	Information Governance	14	14
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		**931**	**498**

8. Cost Improvement Programme (CIP)

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

Across the organisation as a whole, savings have been delivered to the level of 80% of the profiled year to date target, an improvement from last month's 74%.

8.2. This improvement is due to the identification of substitute CIP schemes and other financial recovery measures, which have gone some way towards off-setting slippage and under-delivery within the original CIP programme. In month 5 the position has improved due to the release of an unallocated pay reserve, and the release of an unused pay reserve which was provided to cover the costs of additional activity which is not now required as the forecast activity is not now likely to materialise. Overall the SLA remains on track with no over-or under-performance so the reserve has proved surplus to requirements, and is prudently being released over the remaining eight months of the year.

FIGURE 12: CIP Monthly Performance

Workstream	Original 12/13 Target £'000	Target to Month 5 £'000	Proportion of annual target planned to date %	Actual saving delivered to date £'000	Proportion of profiled target delivered %
Productivity : Acute	1,881	652	35%	546	84%
Productivity : Community	2,080	760	37%	755	99%
Productivity : integration	424	159	38%	282	177%
Agency staff	580	242	42%	0	0%
Medicines management	200	83	42%	99	119%
Procurement	849	348	41%	168	48%
Management of consumables	581	242	42%	80	33%
Estates / soft FM	700	208	30%	122	59%
Corporate overheads & management costs	448	179	40%	195	109%
LEAN project	700	0	0%	0	0%
E-communications	100	42	42%	0	0%
Service transformation : acute bed base	2,093	854	41%	629	74%
CNST	342	143	42%	143	100%
Other service transformation	79	33	42%	0	0%
Income generation	605	248	41%	102	41%
Bal to fye of 11/12 programme	1,447	1,175	81%	1,175	100%
TOTAL	**13,108**	**5,369**	**41%**	**4,297**	**80%**

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

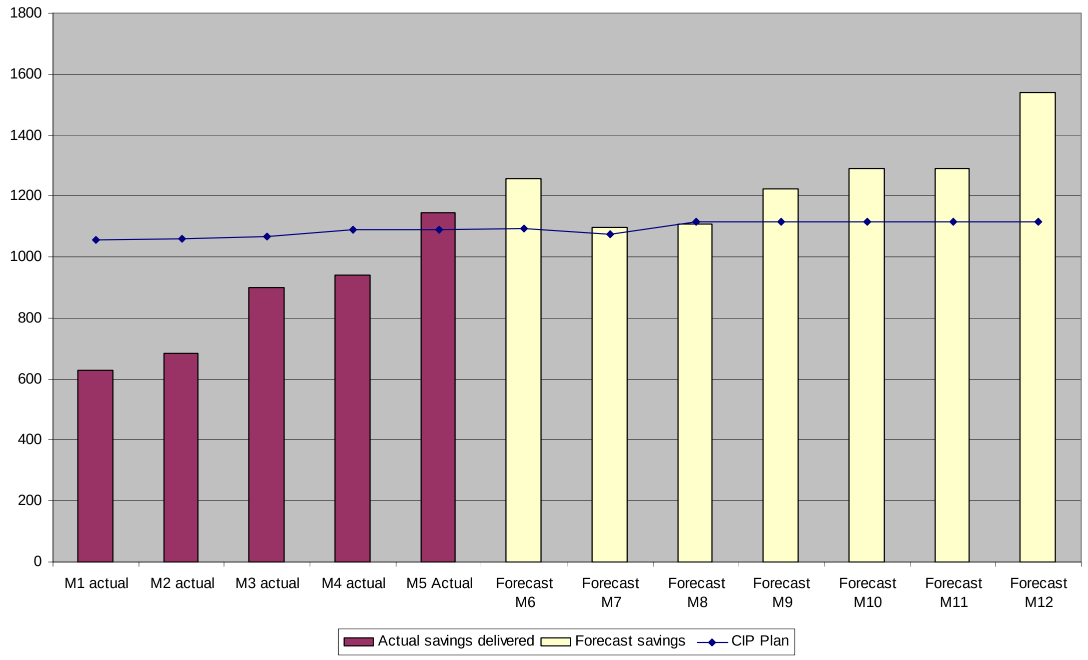
- Acute bed base reduction : although one medical ward was closed from mid-April, and some surgical beds have been closed from the end of June, the continuing pressure on beds from emergency medical admissions has prevented the surgical ward reconfiguration from proceeding in full.
- Nursing agency : the CIP target was to halve last year's level of expenditure, but in the period April-August 2012, actual nursing agency expenditure has been running above the level of 2011/12 expenditure, although the run-rate is on a downward trend.
- Not all of the planned staffing reductions have been delivered, due to activity and other pressures;
- 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, compared to the timescales in the original CIP plan;
- 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. The forecast has again been compiled on the basis of a "best case" and "worst case" scenario for each scheme. The aggregate best case is that the £13.1 m target will be achieved in full. The aggregate worst case is a £2. 5 m shortfall against the target. These shortfalls reflect all of the mitigations and substitute savings identified to date.

8.5. The month-by-month "mid-case" forecast savings (including substitutes and mitigations identified to date) is presented in the graph below.

FIGURE 13: 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.

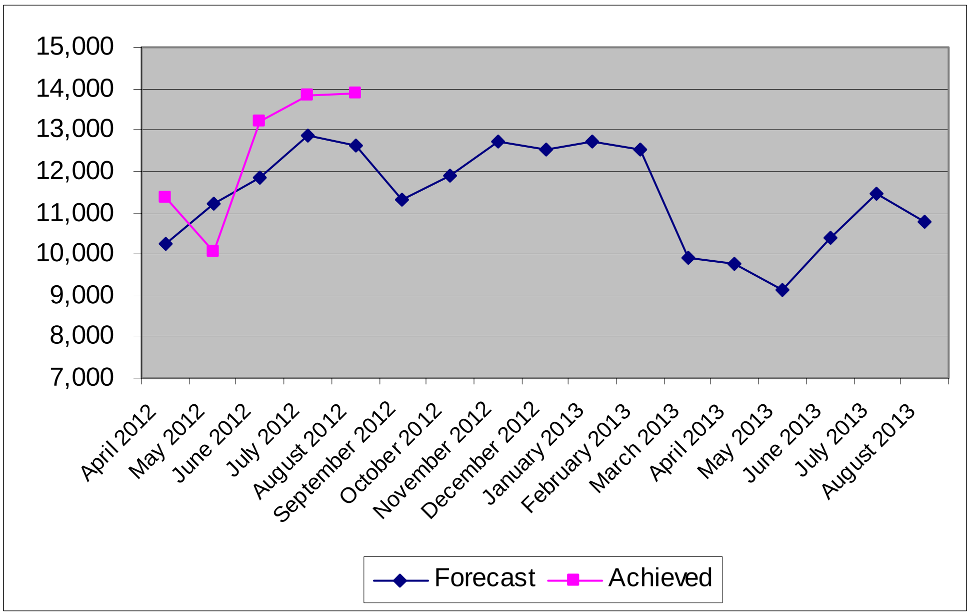
- The Vacancy Scrutiny Panel has been re-instated, as was used in 2011/12 to maintain tight control over permanent and temporary recruitment.

- 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 August was £13,861k against a planned balance of £12,627k.

FIGURE 14: Rolling Cash flow Forecast 2012/13



9.2. The cash balance at the end of August was £13,861k.

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 August 2012 and the forecast outturn for the year.

FIGURE 15: Balance Sheet / Statement of Financial Position

Description	As at 1st April 2012 £'000	As at 31st August 2012 £'000	As at 31st March 2013 £'000
Property, plant and equipment	136,944	134,533	138,263
Intangible assets	1,360	1,298	1,000
Trade and other receivables	2,022	2,065	2,516
Non-current assets	**140,325**	**137,897**	**141,778**
Inventories	1,115	1,266	1,266
Trade and other receivables	12,044	11,096	10,340
Cash and cash equivalents	9,933	13,861	9,924
Current assets	**23,092**	**26,223**	**21,531**
Trade and other payables	30,394	31,269	30,381
Borrowings	1,209	1,209	1,209
Provisions	3,403	2,698	143
Current liabilities	**35,007**	**35,176**	**31,734**
Net Current Liabilities	**11,915**	**8,953**	**10,203**
Borrowings	36,834	36,174	36,981
Provisions	1,771	1,675	1,669
Non-current liabilities	**38,606**	**37,849**	**38,650**
Total assets employed	**89,805**	**91,094**	**92,925**
Public dividend capital	53,206	53,206	53,206
Retained earnings	6,930	8,244	10,111
Revaluation reserve	29,669	29,643	29,607
Total taxpayers' equity	**89,805**	**91,094**	**92,925**

10. Capital Plan

10.1. Total planned capital expenditure for 2012/13 is £10,438k. This represents a charge of £10,320k against the Trusts capital resource limit (CRL) plus a donated asset of £118k for the sensory gardens, paid for by charitable funds.

10.2. Total planned expenditure for the year to date is £1,427k, against which £999k has been spent, a variance of £428k. While expenditure is lower than plan for the first five months of the year, it is expected that the year end position will be in line with plan, and the variance highlighted will be offset over the remaining months of the year.

10.3. Total capital payments in the year to date total £3,579k, of which £2,999k relate to payments to offset 11/12 creditors.

11. Payment of Creditors

11.1. 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.

11.2. 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 16: 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	2,338	35,032	7,975	25,150
Total paid within target	2,184	27,417	5,056	18,784
Percentage paid within target	93%	78%	63%	75%
2011/12 Performance				
Total bills paid	5,841	66,238	23,045	58,971
Total paid within target	5,381	57,963	14,817	52,705
Percentage paid within target	92%	88%	64%	89%

12. Analysis of Debtors and Aged Debt

12.1. As at Month 5, the total value of debtors was £7,359k, an improvement on the Month 4 position (£9,895k), and is illustrated in the following figure. (This is a lower value than the line within the Balance Sheet (Figure 13), "Trade & Other Receivables", which shows a figure of £11,090k. The figure within the balance sheet includes accruals and prepayments as well as debtors).

12.2. The table below highlights the value of outstanding Debtors that have been raised by way of an invoice. Separate provision has been made for credit notes and therefore the net exposure is a lower sum.

FIGURE 17: Analysis of Debtors and Aged Debt

	Number of Days Range					
NHS Debtors	**30 Days & Under**	**30 - 60 Days**	**60 - 90 Days**	**> 90 Days**	**> 365 Days**	**Grand Total**
NHS Islington	133	141	316	1,484	377	**2,450**
NHS London	81	1,348	-	-	-	**1,429**
NHS Haringey	(399)	19	157	782	120	**680**
The Royal Free & Hampstead FT	136	191	3	6	-	**335**
City & Hackney pct	104	126	62	4	-	**296**
Central & East London CLRN	-	69	-	106	-	**175**
Camden & Islington FT	169	-	-	1	-	**169**
NHS Richmond	2	7	19	48	17	**92**
West Sussex Primary Care Trust	11	7	66	-	-	**84**
UCLH NHS FT	16	47	13	7	-	**84**
Other NHS	135	358	242	(615)	(3)	**117**
Subtotal NHS Debtors	389	2,313	877	1,820	511	5,911
Other Non NHS Debtors	341	865	25	93	123	**1,448**
NHS Total:	**730**	**3,179**	**903**	**1,913**	**635**	**7,359**

12.3. An analysis of the aged debt position illustrates that of the £7,359k, £730k has been outstanding for less than 30 days. Outstanding debts within 30 days would not be considered a cause for concern, unless specific issues / disputes have been raised, particularly as this category of debtors will include invoices which are not yet due for payment.

12.4. The key areas for concern within the analysis above are those invoices which have been outstanding for longer than 60 days, the total value for which is £3,451k. The most significant element of this outstanding debt relates to NHS Islington and NHS

Haringey, which totals £3,236k, and reflects ongoing issues which the Trust have had over the last 12-18 months. While no formal disputes have been raised for any of the invoices, securing payment for outstanding debts continues to require significant effort. Work is ongoing, to secure all outstanding debts, and while payments are expected in full, a prudent level of provisions has been made to mitigate risk of non payment.

13. Financial Risk Rating

13.1. 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.

13.2. 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%

13.3. 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 %, so the Trust rating equals 4;

FIGURE 18: Risk Rating Scoring

Metric Description	YTD Trust Score	Rating Categories				
		5	4	3	2	1
EBITDA achieved (% of plan)	93.60%	100%	85%	70%	50%	<50%
EBITDA margin (%)	6.32%	11%	9%	5%	1%	<1%
Net return after financing (%)	0.90%	3%	2%	-0.5%	-5%	<-5%
I&E surplus margin (%)	1.24%	3%	2%	1%	-2%	<-2%
Liquid ratio (days)	16.23	60	25	15	10	<10

13.4. The risk rating of 3 overall has been influenced by the inclusion of a £22m working capital facility as required by the Monitor risk rating methodology and financial regime. This adjustment improves the liquidity component to a rating of 3 for the YTD position and a 2 forecast for the year end. At present the Monitor risk rating calculation does not exclude non-recurrent credits from the measurement, although the NHS London / DoH mechanism now collects this further analysis on a monthly basis. Given the substantial reliance on non-recurrent sources in the YTD position, the risk rating when "normalised" will show an inferior score.

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

FIGURE 19: Overall Risk Rating

Metric Description	Financial Criteria	Metric Methodology	Metric Value / Rating			
			Year to Date Position		Forecast Position	
			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)	**95.13%**	**4**	**100.00%**	**5**
EBITDA margin (%)	**Underlying performance**	=(EBITDA actual less Donated Asset Income) / (Total Operating Revenue less Donated Asset Income)	**6.17%**	**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)	**1.02%**	**3**	**2.36%**	**4**
I&E surplus margin (%)	**Financial efficiency**	=(Net surplus add back Impairments add back profit/loss on disposal) / Total Operating Revenue	**1.11%**	**3**	**1.13%**	**3**
Liquid ratio (days)	**Liquidity**	=((Current Assets less Inventory less Current Liabilities add WC Facility - (£22m)) / Total Costs)*365	**16.51**	**3**	**14.72**	**2**

Overall Rating	**3.10**	**3.15**

14. 2012/13 Forecast and Risks

14.1. The year to date position shows a surplus of £1,289k (IFRS basis), which is £352k worse than the planned position. This position includes £1,653k of non recurrent adjustments which have had a favourable effect on the position, without these adjustments the year to date position would show the an underlying deficit of £282k, £2,055k worse than plan. 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

14.2. 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 5 is identified, which identifies the worst case position of slippage/non delivery of £2.5m;
- Additional unavoidable cost pressures: Within the worst case position it is assumed that additional unmitigated cost pressures of £931k 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 largely mitigated by additional income relating to the previous year, and as such is no longer included as a specific risk.
- 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

14.3. 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

14.4. 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.

14.5. 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.

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

FIGURE 20: Risk Assessed Forecast Outturn Position

Detail	Worst £000	Likely £000	Best £000
Income	276,832	277,132	277,132
Operating Expenditure	263,022	259,590	258,935
EBITDA	13,810	17,542	18,197
Non Operating Items	14,422	14,422	14,422
Net Surplus / (Deficit)	(612)	3,120	3,775
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	(228)	3,504	4,159

14.7. 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 £612k, which equates to a £228k deficit after excluding the effect of IFRS.

14.8. 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. **However, for the Trust to achieve this position, it is imperative that recovery actions are fully implemented, and further mitigations identified together with clearly identified action plans.** The position for the remaining months of the year will continue to be monitored, and the likely forecast position will be updated accordingly.

14.9. 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

14.10. 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.

14.11. Underachievement against activity and income targets: It is too early in the year to identify key income trends, however the Month 5 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, and as highlighted above this risk has been largely offset by additional income relating to the previous year. 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.

14.12. 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.