Whittington Health NHS

Guy Dentith
Direct Line: 020 7288 3844
www.whittington.nhs.uk

The Whittington Hospital NHS Trust
Magdala Avenue
London N19 5NF

Whittington Health Trust Board Meeting

28th November 2012

Title:	**Financial Position – Month 7 (October 2012)**		
Agenda item:	**9**	**Paper**	**D**
Action requested:	For information & discussion.		
Executive Summary:	**This paper provides an overview of the year to date and year end forecast financial position. Key headlines include;** – In month surplus of £497k (£1,231k YTD) on an IFRS basis. – The in month position is £19k better than plan (£38k adverse variance YTD). – The underlying position shows a deficit of £1,237k (£2,506k worse than plan). – Estimated CIP underperformance of £985k (YTD). – Significant restraint should be exercised in the approval of further cost pressures, unless absolutely unavoidable. – The in month position has benefited by £358k of non-recurrent adjustments. When normalised the underlying position shows an adverse variance of £339k, which represents a deterioration of £177k from the M6 position.		
Summary of recommendations:	That the Trust Board note the contents of this report.		
Fit with WH strategy:	– This report fits with the strategic objective to deliver efficient, effective services that improve outcomes for patients and service users, while providing value for every pound spent. – This report is also required to update the Trust Board of progress in achieving statutory financial requirements.		
Reference to related / other documents:			
Date paper completed:	14th November 2012		

Author name and title:		**Guy Dentith Head of Finance**		**Director name and title:**		**Richard Martin Director of Finance**	
Date paper seen by EC		**Equality Impact Assessment complete?**		**Risk assessment undertaken?**		**Legal advice received?**	

Month 7 Finance Report

1 Introduction

- The purpose of this paper is to provide an overview of the year to date financial and year end forecast position.
- This report fits with the strategic objective to deliver efficient, effective services that improve outcomes for patients and service users, while providing value for every pound spent.
- This report is also required to update the Trust Board of progress in achieving statutory financial requirements.

2 Description of the proposals/ requirement

The Trust Board is asked to;

- **Note**: An in month surplus of £497k, which is £19k better than planned.
- **Note**: A year to date surplus of £1,231k, which is £38k worse than planned.
- **Note**: The year date position include non recurrent adjustments of £2,468k. (Fig 6) The underlying position which excludes non recurrent adjustments shows a deficit of £1,237k which is £2,506k 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 £985k in the year to date. In order to deliver the planned position the CIP will need to be delivered in full.

3 Impact on the work of Whittington Health

- The Trust is monitored against its planned position by NHS London, failure to achieve this control total with NHS London, which result in closer performance management, and could also jeopardise the Trusts Foundation trust application.
- The Trust has a statutory requirement to meet its financial obligations, failure to do so could lead in direct intervention / imposition of turnaround arrangements by external bodies.

4 Next steps

- The Trust needs to improve the monthly run rate, in order to achieve the financial plan recurrently by the year end.
- An integral part of restoring the run rate is to get the CIP back in line with plan.

Month 7 Finance Report

5. Month 7 Financial Update

5.1. 2012/13 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, although the £383k impact of IFRS on Private Finance Initiatives (PFIs) and the impact of donated assets (£59k) 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 £1.7m is reported, which is consistent 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	20,362	20,389	(27)	139,941	138,950	991	239,486	240,807
Non NHS Clinical Income	590	601	(11)	3,963	4,221	(257)	7,246	7,286
All Other Non Clinical Income	2,384	2,346	38	17,112	16,430	682	28,335	28,491
Total Income	**23,336**	**23,336**	**-**	**161,016**	**159,600**	**1,416**	**275,067**	**276,584**
Pay	16,431	16,169	(262)	113,964	112,502	(1,462)	192,139	195,379
Non Pay	5,249	5,524	275	37,670	37,643	(26)	65,397	63,674
Centrally Held Savings	-	-	-	-	-	-	-	-
Total Expenditure	**21,679**	**21,693**	**13**	**151,633**	**150,145**	**(1,488)**	**257,536**	**259,053**
EBITDA	**1,657**	**1,643**	**14**	**9,383**	**9,455**	**(72)**	**17,531**	**17,531**
Loss on Disposal of Assets	-	-	-	-	-	-	-	-
Plus Interest Receivable	4	2	3	39	14	26	20	58
Less Interest Payable	221	225	3	1,543	1,548	5	2,651	2,689
Less Depreciation	707	707	-	5,006	5,008	2	8,964	8,964
Less PDC Dividend	235	235	-	1,643	1,643	-	2,816	2,816
Net Surplus / (Deficit)	**497**	**478**	**19**	**1,231**	**1,269**	**(38)**	**3,120**	**3,120**
Net Surplus / (Deficit) excluding PFI IFRS (***relevant for break-even duty***)	544	525	19	1,440	1,477	(38)	3,562	3,562

5.5. The income and expenditure position before adjusting for IFRS shows a net year to date surplus position of £1,231k, which is £38k worse than planned. This includes the in month surplus of £497k which is £19k better than plan.

5.6. An analysis of the underlying position, which excludes the effect of non recurrent adjustments of £2,468k shows a deficit position of £1,237k, which is £2,506k worse than planned. While the adverse run rate in month 7 of £358k is a slight improvement on the month 6 year to date performance (£361k) the position reflects a deterioration against the in month position for month 6 of £162k.

FIGURE 2: Month 6 Underlying Financial Position

Detail	Reported Position £000	Underlying Position £000	Non Recurrent Adjustments £000
Income	161,016	159,742	1,274
Operating Expenditure	151,633	152,827	(1,194)
EBITDA	9,383	6,915	2,468
Non Operating Items	8,152	8,152	-
Net Surplus / (Deficit)	1,231	(1,237)	2,468
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	1,440	(1,028)	2,468
Variance from Plan	(38)	(2,506)	2,468

5.7. Based on the current run rate, a forecast based on the year to date run rate would show a net underlying deficit position of £1,233k, which would be £4,354k 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 £1,235k, which would be £1,886k worse than planned. While there has been some improvement in the in month run rate, it continues to be 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 further 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.

5.8. It is still expected that the target surplus of £3.1m will be achieved and non recurrent measures are available.

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	159,742	275,310	1,274	276,584
Operating Expenditure	152,827	262,133	(1,194)	260,939
EBITDA	6,915	13,177	2,468	15,645
Non Operating Items	8,152	14,411	-	14,411
Net Surplus / (Deficit)	(1,237)	(1,233)	2,468	1,235
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	(1,028)	(791)	2,468	1,677
Variance from Plan	(2,506)	(4,354)	2,468	(1,886)

5.9. 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 or using the budget set aside as part of the implied efficiency assumptions. 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.

5.10. The underlying position highlighted above shows an adverse run rate equating to £358k per month for the year to date, which is an improvement from the Month 6 position which showed an average YTD adverse run rate of £361k, however it is a deterioration on the underlying adverse variance in month for M6 of £162k. 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 £358k adverse variance which has been evident in the first seven months of the year i.e. the month 8 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 seven months i.e. £38k.
- 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.

FIGURE 4: Summary of Underlying position August 2012 – October 2012

Detail	**Month 5 £000's**	**Month 6 £000's**	**Month 7 £000's**
In month net surplus / (deficit) planned as per financial ledger	102	(850)	478
In month net surplus / (deficit) actual as per financial ledger	145	(555)	497
Variance as per financial ledger	43	295	19
Remove non-recurrent items	(400)	(457)	(358)
Underlying variance from planned position.	(357)	(162)	(339)

5.11. A key contributory factor to the run rate deterioration is an increase in temporary staffing expenditure in month 7 as per figure 5 below.

FIGURE 5: Temporary Staffing Summary by Division Sep 2012 – Oct 2012

Temporary staffing	Division	Month 6 £000's	Month 7 £000's	Variance £000's
Agency	Corporate	113	92	(21)
	IC&AM	365	576	210
	SC&D	80	167	87
	WC&F	154	216	63
Agency Total		711	1,050	339
Bank	Corporate	354	368	14
	IC&AM	414	359	(55)
	SC&D	302	421	120
	WC&F	228	245	17
Bank Total		1,297	1,394	96

5.12. Specific operational issues and remedial actions for the high levels of temporary staffing expenditure are covered in detail in section 6.

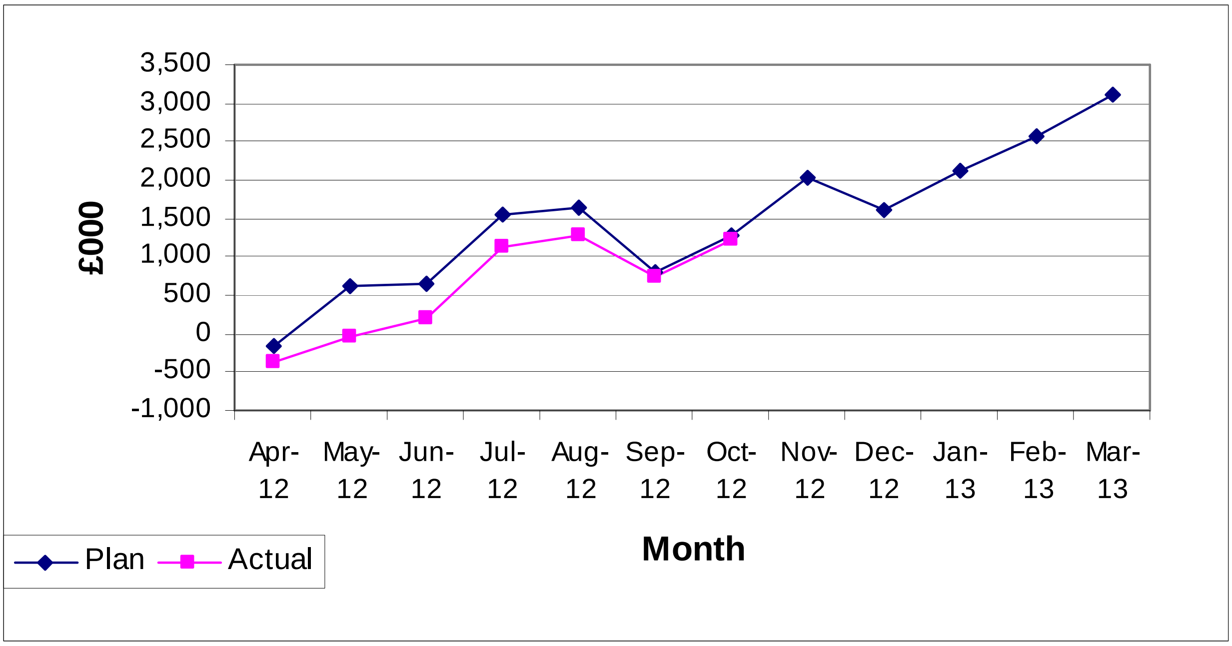
5.13. Prudent provisions have been made within the accounts in respect of aged debt, it is however expected that for the most part invoices will be paid in full. Where invoices are paid in this way, it will enable release of the provisions which provides non-recurrent benefits. A breakdown of the non-recurrent benefits released within the year to date position is shown below:

FIGURE 6: Non-Recurrent Provision Release

Detail	Type	Amount Released £000's	Basis for release
Credit Note Release	Income	1,409	Invoices paid, credit notes no longer required
Bad Debt provisions release	Expenditure	315	Agreement reached for payment of invoices, provision no longer required.
Expedition of Employment Tribunal Case Provisions	Expenditure	188	Cases settled at lower value or not materialised.
Accruals no Longer Required	Expenditure	278	Agreements reached, so no longer necessary to accrue
Net Release of Redundancy Provisions	Expenditure	26	Cases settled at lower value or not materialised.
Unipart Redundancy Provision Release	Expenditure	104	Total number and cost of redundancies less than provided for. Release of provision is in line with slippage in proposed savings as part of the original scheme.
Sensory Garden	Expenditure	118	Under new accounting guidance, charitable income is reported in the period received. This is shown as non recurrent income, and is not provision related.
Other	Expenditure	30	A combination of multiple smaller non-recurrent benefits
Total		**2,468**	

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

FIGURE 7: 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 8: Divisional Budget Analysis

Division		Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000
Integrated Care & Acute Medicine	Income	**903**	**897**	**6**	**6,795**	**6,515**	**281**
	Expenditure	7,177	6,923	(254)	49,996	48,177	(1,819)
	Total	**(6,274)**	**(6,026)**	**(248)**	**(43,201)**	**(41,662)**	**(1,538)**
Surgery, Cancer & Diagnostics	Income	263	281	(18)	2,011	1,973	38
	Expenditure	4,936	4,619	(317)	33,277	31,912	(1,365)
	Total	**(4,673)**	**(4,338)**	**(335)**	**(31,266)**	**(29,939)**	**(1,327)**
Women, Children & Families	Income	1,118	1,126	(8)	7,888	7,930	(42)
	Expenditure	5,135	5,219	84	36,210	36,020	(190)
	Total	**(4,016)**	**(4,093)**	**77**	**(28,323)**	**(28,090)**	**(232)**
Corporate	Income	21,051	21,031	20	144,323	143,183	1,140
	Expenditure	4,431	4,931	500	32,150	34,037	1,886
	Total	**16,620**	**16,100**	**520**	**112,172**	**109,146**	**3,026**
Total	Income	23,336	23,336	0	161,016	159,600	1,416
	Expenditure	21,679	21,693	13	151,633	150,145	(1,488)
	EBITDA	**1,657**	**1,643**	**14**	**9,383**	**9,455**	**(72)**

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 £248k (£1,538k YTD). The most significant variances within the division include:

- A&E (£128k overspend in month, £531k YTD): This is due to a combination of in month additional usage of medical / nursing temporary staffing 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.
- Pharmacy medicine (£67k overspend in month, £314k 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.
- COOP Wards (£9k overspend in month, £277k YTD): This relates to temporary staffing usage above budgeted levels to cover long-term sickness, vacancies and maternities and higher dependency patients "specials" on Meyrick ward requiring more intensive care.
- IC&AM Management (£21k overspend in month, £197k YTD): This relates to slippage / non achievement of the Divisional CIP target as all targets not applied to specific areas are held within this budget.
- Long Term Conditions – Community (£7k underspend in month, £122k YTD): The favourable year to date position was due to vacancies within IAPT service. There are also a number of vacancies and lower than expected Non Pay expenditure within the Dietetics service.
- Rehabilitation – Community (£31k underspend in month, £155k YTD): Continued vacancies within the ICTT service in Haringey and the Community Rehabilitation service in Islington. Pharmacy expenditure on Cavell Ward

(formerly known as Greentrees) has been confirmed and is lower than had been recorded whilst the service was based on the St Anns site.

Surgery & Diagnostics:

6.5. The overall divisional income & expenditure position shows an in month negative variance of £335k (£1,327k adverse YTD). The most significant variances within the division include:

- Surgical Wards (£150k overspend in month, £455k overspend YTD): The rate of overspending reported in previous months has increased due to the requirement to open surgical beds occupied with medical outlier patients. In addition to the additional beds there was additional usage of medical / nursing temporary staffing to cover sickness / absence / maternity over and above budgeted levels.
- SC&D Management (£6k overspend in month, £226k YTD): This relates to slippage / non achievement of the Divisional CIP target.
- Imaging (£18k in month underspend, £99k overspend YTD): The underspend in month represents a cumulative correction and is due to the capitalised costs and transfer of unidentified CIP target to SC&D Management. The YTD overspend is due to increased levels of admin and SPR bank usage above budgeted levels to ensure the Trust meets the 18 week RTT target.
- Integrated Blood Sciences (£3k in month overspend, £54k YTD): The overspend is due to slippage on delivering planned CIP. Additionally there are overspends on non-pay consumables due to activity levels above plan.
- ITU (£23k overspend in month, £148k underspend YTD): The overspend in month is due to a combination of an increase in patient intensity of care and a staff training requirement with subsequent temporary staffing demand. The YTD 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.

Women & Children's

6.6. The overall divisional income & expenditure position shows an in month positive variance of £77k (£232k adverse YTD). The most significant variances within the division include:

- Midwifery (£18k expenditure underspend in month £256k overspend YTD): In year actions to reduce the high levels of agency and bank expenditure are taking effect contributing towards an in month underspending position. This has resulted in reduced sickness / absence above budgeted levels from previous months and expenditure.
- Women's Health (Obstetrics & Gynaecology) (£29k overspend in month £178k YTD): The in month overspend is largely due to a YTD adjustment being made for Clinical Excellence Award Income that is no longer receivable. The balance is the medical outlier beds that were reopened in month 5 as this is where a large element of agency spend is incurred.
- Acute Paediatric Wards & NICU (£40k overspend in month, £136k 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. In month there were

a number of very high dependency children, with one requiring two to one specialist mental healthcare which was provided by agency staff.

– Universal Services (£33k underspend in month, £105k YTD). The year to date position is primarily due to continuing Health Visitor vacancies although recruitment is going ahead and will enable the service to fully achieve newborn visit targets.

– Speech & Language Therapy (£20k underspend in month, £81k YTD). The underspend relates to robust management of staffing levels within the Camden SLT service and high levels of income for the Michael Palin Stammering centre from outside of North Central London.

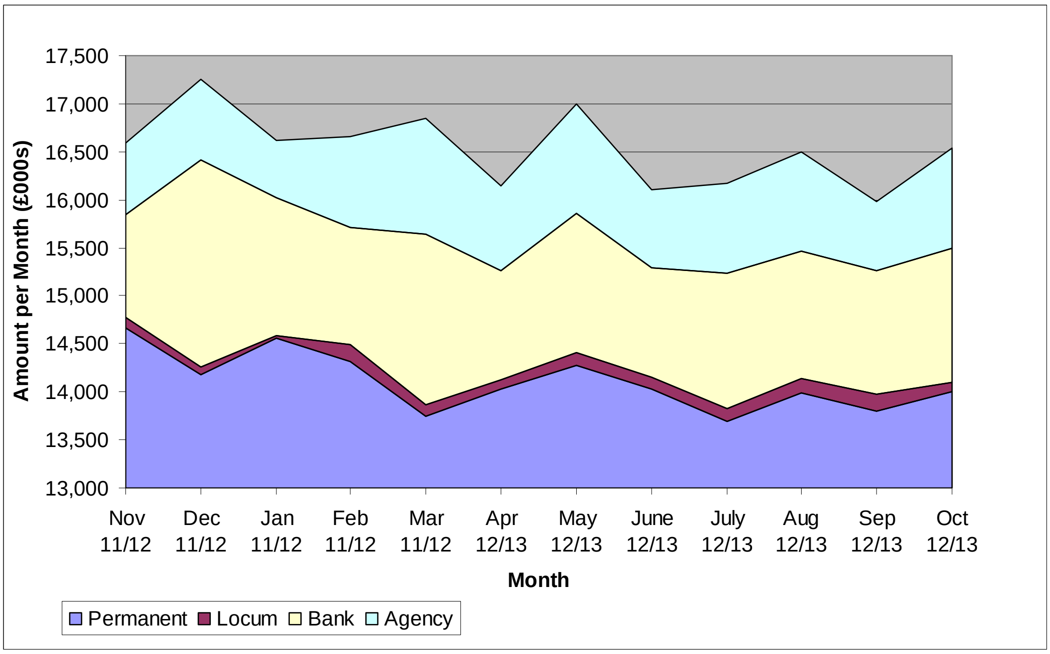
Corporate Directorates

6.7. The overall divisional income & expenditure position for corporate services shows an in month positive variance of £520k (£3,026k 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 (£4k underspend in month, £259k overspend YTD) which predominantly reflect external staff recharges the value of which are currently under dispute, but the full value has been accrued as a prudent measure within the expenditure position.

Pay Expenditure

6.8. In terms of the overall year to date expenditure position £1,462k 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 9: Whittington Health Staffing Expenditure Trends November 2011-October 2012



Expenditure Remedial Actions

6.9. Based on the underlying adverse run rate equating to £358k per month, specific remedial action plans have been agreed by the Trust's Executive committee in order to bring the position back in line with plan on a recurrent basis by year end. Specific projects included as part of this are as follows:

- A pool of 22 WTE band 5 nurses is being recruited to the general medical and surgical wards in order to deliver agency premium costs savings.
- Recruitment days have been arranged for nurses and midwives to reduce the requirement for agency / bank expenditure with subsequent agency premium costs savings.
- A number of cost pressures have been identified as non-recurrent within the year to date position i.e. the cost associated with training staff on ITU, therefore the run rate will improve when the non recurrent pressures cease to exist.

7. Income Performance

7.1. NHS Clinical Income is reported based upon the latest coded activity (September 2012), together with an initial estimate for the October position. On this basis the in month position shows an under performance against plan of £27k.

7.2. A key variance contained within the underperformance relates to the fully coded clinical income position for September differing from the previous early assessment included within the M6 position by £35k. This is due to the timing of when data is fully coded on the PAS system which can affect the initial value estimated.

7.3. The assessment of the October 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 £29k, which is included in the in month position.

FIGURE 10: Comparison of NHS Clinical Income Against the Planned Position

Description	Amount £000
September NHS income compared to Month 6 estimate	(35)
Estimated October variance on NHS income	29
Income Relating to Prior Year	73
Work in Progress – Critical Care	(42)
Other	(53)
Total in-month variance against NHS income plan	**(27)**

7.4. Included within the cumulative position to month 7 is a favourable movement on income of £1,274k which relates to the previous year.

7.5. 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.

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

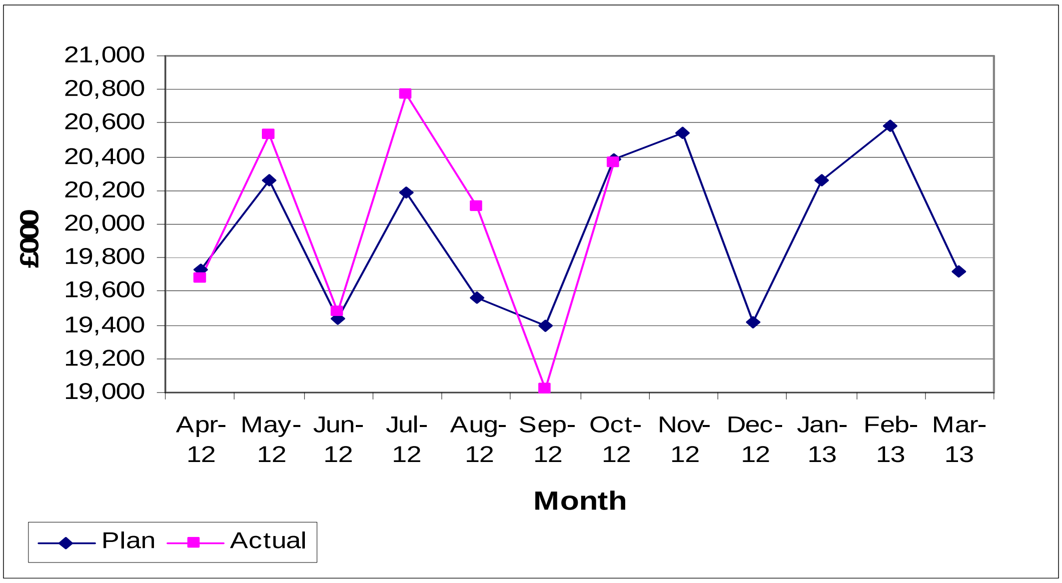
7.7. Figure 10 provides an overview of total clinical income for Month 7, and contains a combination of actual income and estimates. Figure 11 provides an overview of actual income, based on month 1 – 6 activity, relating specifically to acute activity, and showing income performance by patient type:

FIGURE 11: Income Performance by Patient Type

	Year to date (to Month 6)			In Month	
Point of Delivery	**Plan £000**	**Actual £000**	**Variance £000**	**Variance £000**	**Late Data Added £000**
Block Contract/Adjustments	5,130	5,156	26	(0)	57
Elective Inpatients	4,617	4,640	23	(2)	1
Non-Elective Inpatients	22,583	22,710	127	67	(10)
Excess Beddays	1,349	1,355	6	5	(2)
Day Cases	5,749	5,775	26	(1)	3
Outpatient Procedures	1,455	1,459	4	1	0
Outpatient 1st Attends	6,000	5,976	(24)	(10)	7
Outpatient Follow Ups	7,214	7,259	44	(1)	1
Adult Critical Care	4,932	4,944	13	14	105
Paediatrics High Dependency	154	148	(6)	(2)	0
NICU High Dependancy Beddays	753	827	73	(33)	(3)
NICU Intensive Care Beddays	281	361	80	(2)	(2)
NICU Special Care Beddays	2,372	2,223	(149)	(15)	7
ED Attendances	4,886	4,888	3	(3)	(0)
Direct Access	4,998	4,997	(1)	(3)	0
Maternity Ultrasound	792	786	(6)	(2)	0
Other Activity	1,778	1,767	(11)	(4)	(7)
Grand Total	**75,043**	**75,272**	**229**	**10**	**157**

7.8. 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 £229k relates to non NCL commissioners.

FIGURE 12: Performance Against Internal Clinical Income Plan – In Month



7.9. The total value of all other non clinical income highlighted in Figure 13 is £2,384k in Month 7 and £17,112k cumulatively. This is further illustrated in the following figure:

FIGURE 13: All Other Non Clinical Income

	Current Month			Year To Date			Annual
Description	**Actual £'000**	**Budget £'000**	**Variance £'000**	**Actual £'000**	**Budget £'000**	**Variance £'000**	**Budget £'000**
Service Increment for Teaching & Research SIFT)	751	751	(0)	5,257	5,257	(0)	9,012
Medical & Dental Education Levy MADEL)	470	473	(3)	3,305	3,304	1	5,656
Non Medical Education & Training NMET)	176	215	(38)	1,089	1,082	7	2,037
Income from Service Level Agreements	306	350	(44)	2,408	2,453	(44)	4,205
Excellence Award Income	6	52	(46)	191	362	(171)	621
Income Generation e.g. car park, accommodation, canteen	96	88	8	623	615	8	1,054
Research & Development	157	43	114	673	343	330	557
Other	422	374	48	3,566	3,014	552	5,194
Total	**2,384**	**2,346**	**38**	**17,112**	**16,430**	**682**	**28,335**

Cost pressures

7.10. 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 £1,065k have been approved, the equivalent value for 2013/14 being £623k. This is further illustrated in the following figure:

FIGURE 14: 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	MSK relocation to Somerset Gardens	35	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
S,C&D	Point of Care Testing	26	52
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
Trust-wide	HCA bank rate increase	50	0
Trust-wide	Bed escalation plan - winter pressures	TBC	TBC
W,C&F	Cell Saver CATS machine	(2)	(2)
W,C&F	Simmonds house – additional beds	75	(183)
Trust-wide	Additional non recurrent programme staff	TBC	TBC
Trust-wide	Patient administration process support and implementation	74	74
Total		**1,065**	**623**

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 86% of the profiled year to date target, the same as in month 6, meaning that the rate of month-on-month improvement we have been reporting over the past few months has stabilised this month.

8.2. The profiling of the target has been amended this month so as to more accurately reflect the phasing of the costs and savings associated with the Transforming the Patient Experience (LEAN) project. Previously, the costs, gross savings and net savings had all been profiled into the second half of the year. This has now been amended to reflect that fact that the costs have been incurred from the start of the financial year, but the savings are being delivered in the second half of the year.

FIGURE 15: CIP Monthly Performance

Workstream	Latest 12/13 Target £'000	Target to Month 7 £'000	Proportion of annual target planned to date %	Actual saving delivered to date £'000	Proportion of profiled target delivered %
Productivity : Acute	1,866	912	49%	708	78%
Productivity : Community	2,012	1,122	56%	1,150	102%
Productivity : integration	678	255	38%	661	260%
Agency staff	580	338	58%	0	0%
Medicines management	200	117	58%	142	121%
Procurement	849	490	58%	300	61%
Management of consumables	581	339	58%	81	24%
Estates / soft FM	708	301	42%	155	51%
Corporate overheads & management costs	481	273	57%	306	112%
LEAN project	500	(250)	(50%)	(354)	142%
LEAN project mitigation	0	0	0	104	-
E-communications	100	58	58%	0	0%
Service transformation : acute bed base	2,093	1,203	57%	875	73%
CNST	342	200	58%	200	100%
Other service transformation	79	46	58%	0	0%
Income generation	605	350	58%	198	57%
Bal to fye of 11/12 programme	1,447	1,417	98%	1,417	100%
Non recurrent financial mitigations against programme slippage	0	0	0	244	-
TOTAL	**13,122**	**7,170**	**55%**	**6,185**	**86%**

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

– Acute bed base reduction : it is not possible to recover the financial impact of the delays in closing medical and surgical beds at the start of the year, and the planned surgical bed base reduction has not yet been fully achieved, due to continuing levels of medical patient activity.

– Nursing agency : the original CIP target was to halve last year's level of expenditure. From October this project was reviewed and a number of agency reduction measures have been implemented. However the planned reductions in spend have yet to materialise and October's expenditure is £104k above the revised target and £245k above the original target.

– Transforming the Patient Experience (LEAN) project : the original project plan scheduled phase 1 savings to be delivered by October. Thus the profile of the project year-to-date reflects planned costs of £350k and gross savings of £100k (as at the end of October), giving the negative target of £250k. Slippage against the project timescales means that savings will not start to be delivered until January. However, this slippage will be mitigated by the fact that the level of redundancies arising from the project now seems likely to be lower than was initially thought (due to the availability of redeployment opportunities), so the full value of the severance cost provision is unlikely to be required. In the year-to-date position, £104k of the severance provision has been released to offset the delay in realising savings

- 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 extent to which additional financial mitigations will be needed to address a shortfall in delivery against the CIP targets is illustrated in Figure 11 below. This illustrates how the likely case forecast of project delivery has improved by a net £370k since last month. This is largely due to better identification of actual and potential delivered savings in a number of areas (including Health Centre administration, procurement, skill-mix changes in ITU, agency nursing).

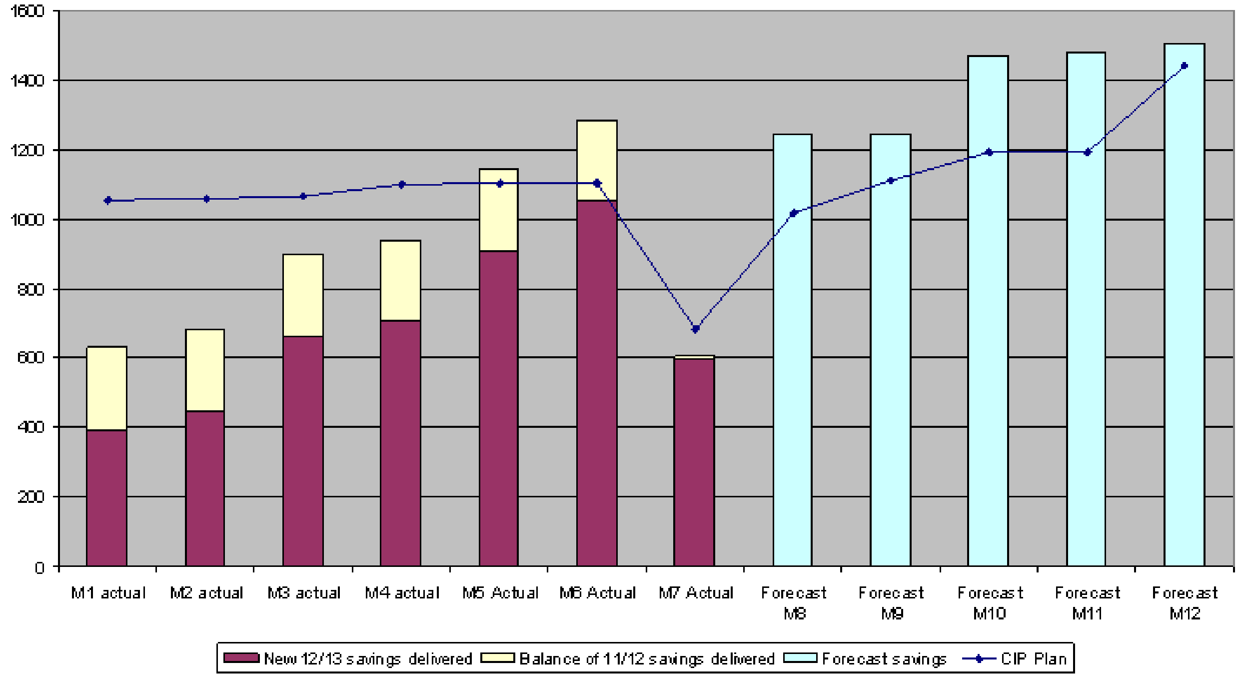
FIGURE 16 : CIPs and Mitigations : range of year-end forecasts

	Month 6 Likely Case £m	Month 7 Likely Case £m	Month 7 Best Case £m	Month 7 Worst Case £m
CIP projects	10.92	10.18	10.61	9.44
Bariatric reserve	0.65	0.65	0.65	0.0
Pay reserve	0.785	0.785	0.785	0.0
Vacancy Scrutiny Panel	0.331	0.70	0.0	0.0
Severance provision not required	0.435	0.80	1.08	0.5
Total benefit	13.12	13.12	13.12	9.94

8.5. The "likely case" forecast is that the £13.1 m target will be met in full.

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

FIGURE 17: CIP Performance to Date / Forecast

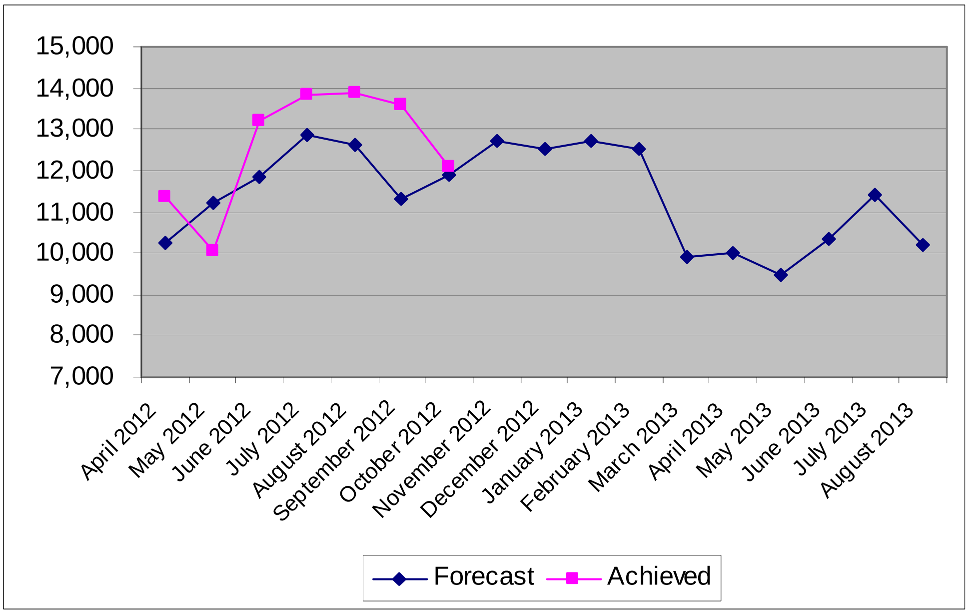


Note : the low Planned and Actual figures in M7 are due to the re-phasing of the bulk of the TPE(LEAN) project costs into the early months of the year; this adjustment has taken place in the month of October, as it is not possible to re-state the profile in earlier months.

9. Cash and Balance Sheet / Statement of Financial Position

9.1. The cash balance at the end of October was £12,074k against a planned balance of £11,306k.

FIGURE 18: Rolling Cash flow Forecast 2012/13



9.2. The cash balance at the end of October was £12,074k.

9.3. While the cash position is broadly in line with the planned position in month, the reduction in cash between September and October is largely attributable to an earlier than planned payments run, which fell in October rather than November as planned.

9.4. 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.

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

FIGURE 19: Balance Sheet / Statement of Financial Position

Description	As at 1st April 2012 £'000	As at 31st October 2012 £'000	As at 31st March 2013 £'000
Property, plant and equipment	136,944	135,015	138,681
Intangible assets	1,360	1,384	1,188
Trade and other receivables	2,022	2,141	2,479
Non-current assets	**140,325**	**138,540**	**142,347**
Inventories	1,115	1,253	1,253
Trade and other receivables	12,044	10,654	8,536
Cash and cash equivalents	9,933	12,074	9,924
Current assets	**23,092**	**23,980**	**19,712**
Trade and other payables	30,394	30,694	29,586
Borrowings	1,209	1,209	1,209
Provisions	3,403	2,208	178
Current liabilities	**35,007**	**34,111**	**30,973**
Net Current Liabilities	**11,915**	**10,131**	**11,261**
Borrowings	36,834	35,747	36,541
Provisions	1,771	1,626	1,620
Non-current liabilities	**38,606**	**37,373**	**38,161**
Total assets employed	**89,805**	**91,036**	**92,925**
Public dividend capital	53,206	53,206	53,206
Retained earnings	6,930	8,196	10,107
Revaluation reserve	29,669	29,634	29,611
Total taxpayers' equity	**89,805**	**91,036**	**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 £2,794k, against which £2,872k has been spent, a variance of £78k. While expenditure is lower than plan for the first seven 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 £4,824k, of which £3,070k 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 20: 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	3,157	50,078	11,919	35,358
Total paid within target	2,916	37,119	6,738	26,330
Percentage paid within target	92%	74%	57%	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 7, the total value of debtors was £8,155k, a worsening of the Month 6 position (£3,533k), with the most significant element of the increase relating to debts outstanding for 30 days or under as 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 £10,654k. 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 21: Analysis of Debtors and Aged Debt

NHS Debtors	Number of Days Range					Grand Total
	30 Days & Under	30 - 60 Days	60 - 90 Days	> 90 Days	> 365 Days	
London Strategic Health Authority	3,594					**3,594**
NHS Islington	413	105	49	(184)	477	**859**
NHS Haringey	(663)	49	197	705	420	**708**
The Royal Free And Hampstead NHSFT	263	132		5		**399**
West Sussex PCT	9	7	11	72		**100**
Camden & Islington NHSFT	42		50	1		**93**
Barts - Central & East London CLRN	77					**77**
NHS Brent	59	3	7	3		**72**
The UCL Hospitals NHSFT	33	20	3	8		**65**
NHS Hillingdon	5	5		46		**57**
Other NHS	(13)	228	144	(405)	103	**57**
Subtotal NHS Debtors	3,819	549	461	251	1,000	6,081
Other Non NHS Debtors	1,027	145	118	796	(12)	**2,074**
NHS Total:	**4,845**	**695**	**580**	**1,047**	**988**	**8,155**

12.3. An analysis of the aged debt position illustrates that of the £8,155k, £4,845k 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 and the most material item relates to invoices to the SHA which reflect their mandated payment mechanism as opposed to any risk associated with 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 £2,615k. The most significant element of which relates to NHS Islington and NHS Haringey, which totals £1,664k, 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 99.2%, so the Trust rating equals 4;

FIGURE 22: Risk Rating Scoring

Metric Description	**YTD Trust Score**	**Rating Categories**				
		5	**4**	**3**	**2**	**1**
EBITDA achieved (% of plan)	99.24%	100%	85%	70%	50%	<50%
EBITDA margin (%)	5.83%	11%	9%	5%	1%	<1%
Net return after financing (%)	0.97%	3%	2%	-0.5%	-5%	<-5%
I&E surplus margin (%)	0.76%	3%	2%	1%	-2%	<-2%
Liquid ratio (days)	14.91	60	25	15	10	<10

13.4. The forecast 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. 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. The year to date position shows a risk rating of 2, which is consistent with the risk rating in Month 6.

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

FIGURE 23: 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)	**99.24%**	**4**	**100.00%**	**5**
EBITDA margin (%)	**Underlying performance**	=(EBITDA actual less Donated Asset Income) / (Total Operating Revenue less Donated Asset Income)	**5.83%**	**3**	**6.30%**	**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)	**0.97%**	**3**	**2.34%**	**4**
I&E surplus margin (%)	**Financial efficiency**	=(Net surplus add back Impairments add back profit/loss on disposal) / Total Operating Revenue	**0.76%**	**2**	**1.13%**	**3**
Liquid ratio (days)	**Liquidity**	=((Current Assets less Inventory less Current Liabilities add WC Facility - (£22m)) / Total Costs)*365	**14.91**	**2**	**13.37**	**2**

Overall Rating	**2.65**	**3.15**

14. 2012/13 Forecast and Risks

14.1. The year to date position shows a surplus of £1,231k (IFRS basis), which is £38k worse than the planned position. This position includes £2,468k 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 £1,028k, £2,056k 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 7 is identified, which identifies the worst case position of slippage/non delivery of £3.2m;
- Additional unavoidable cost pressures: Within the worst case position it is assumed that additional unmitigated cost pressures of £1,065k 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 £3,562k 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 £4,219k 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 24: Risk Assessed Forecast Outturn Position

Detail	Worst £000	Likely £000	Best £000
Income	276,884	276,584	276,241
Operating Expenditure	263,298	259,053	258,055
EBITDA	13,586	17,531	18,186
Non Operating Items	14,411	14,411	14,411
Net Surplus / (Deficit)	(825)	3,120	3,775
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	(383)	3,562	4,219

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 £825k, which equates to a £383k 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: The Month 7 year to date clinical income 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.