Whittington Health NHS

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Whittington Health Trust Board

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Title:	Financial Position – **Month 5 (August 2013)**		
Agenda item:	**13/121**	**Paper**	**6**
Action requested:	For agreement.		
Executive Summary:	**This paper provides an overview of the year-to-date and year end forecast financial position. Key headlines:** • At the end of August, the Trust reports a deficit of £418k, an adverse movement from last month's reported break even. • The in-month deficit is £569k. • Focussed action is required to return the Trust to financial balance in order to achieve the forecast break even at year-end.		
Summary of recommendations:	That the Trust Board note the contents of this report.		
Fit with WH strategy:	This report updates the Trust Board of progress in achieving statutory financial requirements. Successful delivery of financial plan in 2013/14 is necessary to underpin progression towards foundation trust status.		
Date paper completed:	17 September 2013		
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Month 5 Finance Report

1. Introduction

1.1. This paper summarises the Trust's financial results for the period to August 2013 (Month 5) and sets out the latest forecast to year end.

1.2. Performance in August shows a return to deficit (£0.4m deficit, 1% of turnover). Whilst this is a disappointing result, our focus must return to tight cost control and delivery of savings plans if we are to recover the position by year end.

2. Key Information

2.1. The year-to-August 2013 shows a £0.4m deficit. This is £1.9m adverse compared to the plan for the same period.

2.2. The in-month result for August is a £0.6m deficit. This is a £0.5m adverse against the plan for August. This is also adverse to the M1-4 average, which was break-even.

2.3. Total income is 1.6% above plan but the combined impact of shortfalls on the cost improvement plans alongside the need to invest to recover Referral to Treatment (RTT) and Emergency Department (ED) targets have led to costs in excess of plans. This has resulted in a drop in the EBITDA margin to 4.5% (compared to a plan of 7.0%).

2.4. Cash balances grew by £1.1m compared to the previous month. This was driven by reducing debtor balances following settlement of prior year debts. Capital spending is £2.2m year to date, compared to a plan to date of £3.4m.

2.5. Summary of Divisional performance.

2.5.1. Integrated Care and Acute Medicine (ICAM) - £0.5m adverse in month and £2.3m adverse year to date (YTD). CIP underperformance of £0.7m YTD

2.5.2. Surgery, Cancer and Diagnostics (SCD) - £0.5m adverse in month and £2.0m adverse YTD. CIP underperformance of £0.7m YTD

2.5.3. Women, Children and Families (WCF) - £0.2m adverse in month and £0.8m adverse YTD. CIP underperformance of £0.2m YTD

2.5.4. Corporate - £0.5m favourable in month and £2.2m favourable YTD. CIP underperformance of £0.4m YTD. The favourable position is underpinned by £4.2m non-recurrent benefit from reserves.

3. Income Statement

3.1. The Statement of Comprehensive Income for the period to August 2013 is set out below:

Figure 1 – Month 5 Income and Expenditure Position

	Current Month			Year To Date			Annual
	Actual	Budget	Variance	Actual	Budget	Variance	Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
NHS Clinical Income	19,479	19,875	(396)	102,500	101,940	560	243,726
Non NHS Clinical Income	580	647	(66)	3,202	3,443	(241)	8,222
All Other Non Clinical Income	3,734	2,659	1,075	13,564	11,995	1,569	29,023
Total Income	**23,793**	**23,180**	**612**	**119,265**	**117,377**	**1,888**	**280,971**
Pay	17,149	15,961	(1,188)	84,335	80,392	(3,943)	191,998
Non Pay	6,049	5,931	(118)	29,610	28,839	(771)	72,896
Centrally Held Savings	-	(13)	(13)	-	(57)	(57)	(155)
Total Expenditure	**23,199**	**21,879**	**(1,320)**	**113,945**	**109,174**	**(4,771)**	**264,739**
EBITDA	**594**	**1,301**	**(707)**	**5,320**	**8,203**	**(2,883)**	**16,232**
Loss on Disposal of Assets	-	-	-	-	-	-	-
Plus Interest Receivable	3	6	(3)	15	30	(14)	71
Less Interest Payable	233	232	(1)	1,157	1,159	2	2,808
Less Depreciation	716	908	192	3,511	4,541	1,030	10,899
Less PDC Dividend	217	216	(1)	1,084	1,082	(2)	2,596
Net Surplus / (Deficit) - before Impairments	**(569)**	**(49)**	**(520)**	**(418)**	**1,451**	**(1,868)**	**(0)**
Less Impairments	-	-	-	-	-	-	-
Net Surplus / (Deficit)	**(569)**	**(49)**	**(520)**	**(418)**	**1,451**	**(1,868)**	**(0)**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**(565)**	**(45)**	**(520)**	**(422)**	**1,447**	**(1,868)**	**782**

3.2. The year-to-August 2013 shows a £0.4m deficit. The key reasons underpinning the YTD deficit are detailed in the following paragraphs.

3.2.1. Income is £1.8m favourable against plan due mainly to the application of reserves to support waiting list reduction activity. If this non-recurrent benefit is removed, clinical income would show a £0.5m (0.5%) year-to-date underperformance against contracted levels. The under performance mostly relates to activity in critical care and neonatal special care. In addition, the Trust continues to carry a risk around the transfer of services to local authorities of c£7m (previously funding resided with Primary Care Trusts). The contracting team is working with clinical commissioning groups (CCGs) and the commissioning support unit (CSU) to seek resolution on this issue.

3.2.2. Pay costs are £3.9m adverse to budget driven by shortfalls in the delivery of savings programmes, which, in turn, have been hampered by investments to return patient waiting times to correct levels. While permanent and bank expenditure remains largely in line with 2012/13 levels, overall spending has increased, with some increase in agency and locum spending, to support activity levels and cover vacancy levels (c.14%), sickness absence and specialing (one-to-one nursing care for high acuity patients). Pay costs have also increased this month due to the cost of pension auto-enrolment and August being a five-week month.

3.2.3. Non-pay is £0.8m adverse to budget driven to some degree by shortfalls against savings targets and unplanned activity relating to waiting list targets. Further investigation is underway to establish the reasons behind the spending levels for both drugs and clinical supplies.

4. Forecast

4.1. The Trust continues to forecast the delivery of break-even position, consistent with the annual plan. However, to achieve break even the Trust is required to reduce operational costs compared to current levels. The break even outturn also assumes the risks relating to transfer of community services and local authority commissioned services will be resolved with formal agreement to payment. Targets have been set with Divisions to establish control totals to drive achievement of the forecast position on a recurrent basis – recovery plans are now being developed by Divisions.

5. Divisional Performance

Figure 2 – Month 5 Income and Expenditure by Division

Division		Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000
Integrated Care & Acute Medicine	Income	1,237	951	286	5,632	4,729	903
	Expenditure	7,524	6,729	(795)	36,648	33,424	(3,224)
	Total	**(6,286)**	**(5,777)**	**(509)**	**(31,016)**	**(28,695)**	**(2,321)**
Surgery, Cancer & Diagnostics	Income	285	288	(4)	1,439	1,470	(30)
	Expenditure	5,006	4,489	(517)	24,501	22,505	(1,996)
	Total	**(4,722)**	**(4,201)**	**(521)**	**(23,062)**	**(21,035)**	**(2,027)**
Women, Children & Families	Income	1,175	1,203	(27)	5,553	5,746	(193)
	Expenditure	5,459	5,273	(186)	27,013	26,435	(578)
	Total	**(4,284)**	**(4,071)**	**(213)**	**(21,461)**	**(20,689)**	**(771)**
Corporate	Income	21,095	20,738	357	106,641	105,433	1,208
	Expenditure	5,210	5,388	178	25,783	26,810	1,027
	Total	**15,886**	**15,350**	**536**	**80,858**	**78,623**	**2,235**
TOTAL	Income	**23,793**	**23,180**	**612**	**119,265**	**117,377**	**1,888**
	Expenditure	**23,199**	**21,879**	**(1,320)**	**113,945**	**109,174**	**(4,771)**
	EBITDA	**594**	**1,301**	**(707)**	**5,320**	**8,203**	**(2,883)**

Divisional summary – YTD

5.1. ICAM - £2.3m adverse of which the CIP underperformance is £0.7m. Further drivers of the adverse position include the pharmacy overspend, high agency usage, additional expenditure to meet both A&E and RTT targets and cost pressures such as insulin pumps.

5.2. SCD - £2.0m adverse of which the CIP underperformance is £0.7m. Further drivers of the adverse position include high agency and clinical supplies usage, additional beds opened on Victoria and Coyle, and underachievement of the divisional overseas visitors' income target.

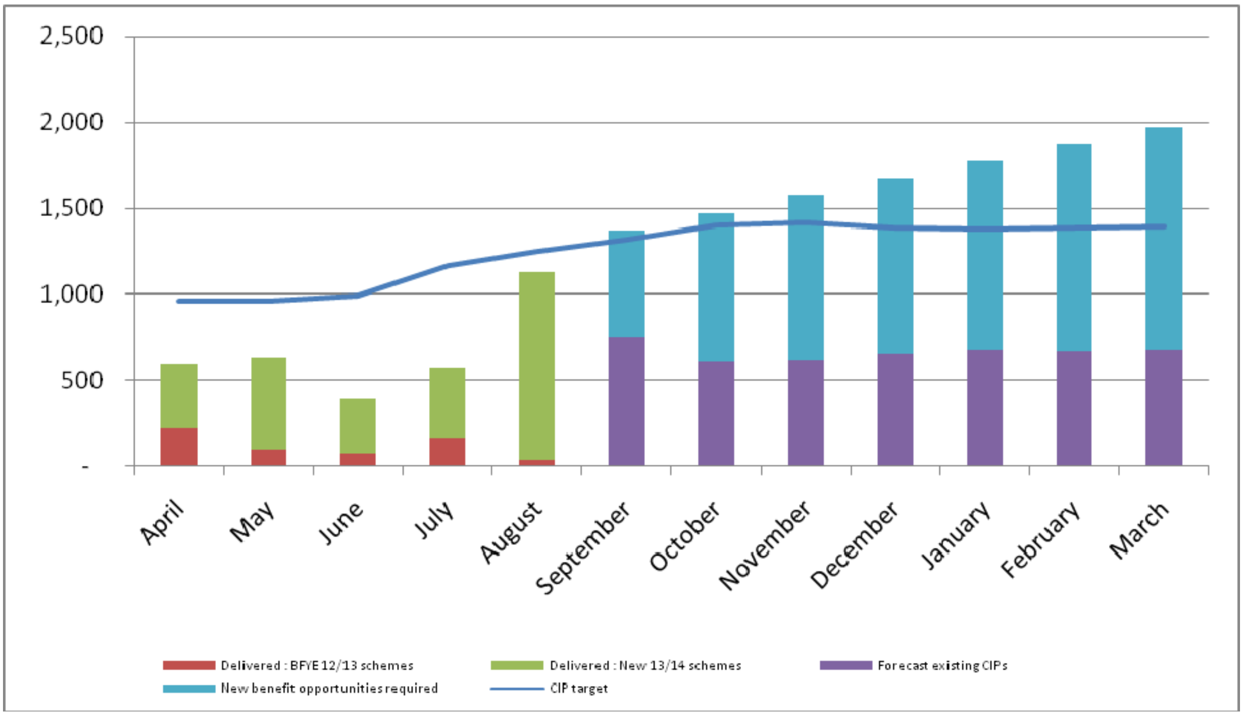
5.3. WCF - £0.8m adverse of which the CIP underperformance is £0.2m relating mainly to savings targets not being achieved due to sickness levels. Further drivers of the adverse position relate to agency expenditure (to cover sickness absence) and clinical consumables as well as lower than expected audiology screening income due to commissioning changes.

5.4. Corporate - £2.2m favourable driven by the release of reserves to offset waiting list investments and some under-delivery of savings targets. This masks pressures within the division relating to under-delivery against both the transforming patient experience (TPE) and bed management projects (reported centrally) within the corporate division as a Trust-wide initiative. Various areas within the acute estates and facilities as well as high temporary staff expenditure within IT (supporting the EPR go-live) also contribute to the adverse underlying position.

6. Cost Improvement Programme

6.1. Our delivery of CIP was 38% lower than plan, delivering £3.3m (3% of operating costs). This includes a one-off £604k non-recurrent provision release (to underpin the waiting list initiative which prevents delivery of some original plans).

Figure 3 - CIP YTD performance and forecast



6.2. The key reasons behind the year-to-date shortfall:

- costs associated with meeting ED and RTT access targets conflicting with delivering cost reductions in these areas;
- The planned date for the ambulatory care centre to become operational has been delayed;
- Some savings plans have been halted to avoid adverse impact on service quality and target delivery;
- Some estimates of savings in some plans have proved unrealistic.

7. Cash and Statement of Financial Position (formerly known as the Balance Sheet)

Figure 4 – Statement of Financial Position

Description	As at 1st April 2013 £000	As at 31st August 2013 £000	As at 31st March 2014 £000
Property, plant and equipment	137,747	135,462	168,412
Intangible assets	1,411	2,413	2,477
Trade and other receivables	635	862	1,534
Non-current assets	**139,792**	**138,738**	**172,423**
Inventories	1,290	1,392	1,202
Trade and other receivables	11,042	16,491	10,117
Cash and cash equivalents	15,088	7,853	16,141
Current assets	**27,420**	**25,736**	**27,460**
Trade and other payables	32,107	32,481	29,368
Borrowings	1,146	1,146	3,431
Provisions	4,292	2,443	2,063
Current liabilities	**37,545**	**36,071**	**34,862**
Net Current liabilities	**10,124**	**10,334**	**7,402**
Borrowings	38,593	37,845	42,671
Provisions	1,764	1,664	1,438
Non-current liabilities	**40,356**	**39,509**	**44,109**
Total assets employed	**89,312**	**88,894**	**120,912**
Public dividend capital	53,344	53,344	53,994
Retained earnings	5,299	4,898	39,299
Revaluation reserve	30,668	30,652	27,619
Total taxpayers' equity	**89,312**	**88,894**	**120,912**

7.1. The Trust's Balance Sheet for August is demonstrating some weakness. Following settlement of 2012/13 outstanding balances with PCTs, the Trust's receivables balance has reduced from £23.5m to £16.5m However, this masks the key issue which relates to income for the transfer of community services and local authority income – the non-payment to date for these services results in a diminution of cash, translating into outstanding debtors.

7.2. Cash balances did grow by £1.1m compared to the previous month, driven by reducing debtor balance due to settlement of previous year debts as previously described**.** But the month end cash balance, at £7.9m against a planned balance of £17.9m, demonstrates the importance of early resolution of this outstanding issue.

8. Capital Plan

8.1. Capital spending is £2.2m year-to-date, compared to a plan-to-date of £3.4m.The forecast for year-end is for the Trust to spend £12.2m consistent with the capital resource limit (CRL) and the Trust's planned position.

9. Other financial performance

9.1. As an aspirant foundation trust, we are monitoring performance against Monitor's risk ratings. The tables below show our performance against the current FRR and the Continuity of Services rating (to replace the FRR from Q3 2013/14).

Figure 5 – Monitor FRR

FINANCIAL RISK RATING				Rating Categories (YTD)					Metric Value / Rating: Year to Date Position		Metric Value / Rating: Forecast Position	
Metric Description	Financial Criteria	Weighting (%)	Metric Methodology	5	4	3	2	1	Metric Value	Rating	Metric Value	Rating
EBITDA achieved (% of plan)	Achievement of plan	10%	=(EBITDA actual less Donated Asset Income) / (EBITDA budget less Donated Asset Income)	100.0%	85.0%	70.0%	50.0%	< 50%	64.61%	2	103.83%	5
EBITDA margin (%)	Underlying performance	25%	=(EBITDA actual less Donated Asset Income) / (Total Operating Revenue less Donated Asset Income)	11.0%	9.0%	5.0%	1.0%	< 1%	4.44%	2	6.00%	3
Net return after financing (%)	Financial efficiency	20%	=(EBITDA less Donated Asset Income, less depreciation, less Interest, less PDC, less Tax) / (Average of opening & closing Total Assets Employed add back PFI liability, Finance Lease liability & loans)	3.0%	2.0%	-0.5%	-5.0%	< -0.5%	-0.82%	2	0.42%	3
I&E surplus margin (%)	Financial efficiency	20%	=(Net surplus add back Impairments add back profit/loss on disposal) / Total Operating Revenue	3.0%	2.0%	1.0%	-2.0%	< -2%	-0.35%	2	0.23%	2
Liquid ratio (days)	Liquidity	25%	=((Current Assets less Inventory less Current Liabilities add WC Facility) / Total Costs)*360	60	25	15	10	<10	14.15	2	17.86	3
OVERALL RATING		100%								2.00		3.00

Figure 6 – Monitor Continuity of Services

CONTINUITY OF SERVICES RISK RATING			Rating Categories (YTD)				Metric Value / Rating: Year to Date Position		Metric Value / Rating: Forecast Position	
Metric Description	Weighting (%)	Metric Methodology	1	2	3	4	Metric Value	Rating	Metric Value	Rating
Liquidity Ratio (Days) with notional Working Capital Facility	50%	Working Capital Balance x 360 / Annual Operating Expenses	<-12	-12	-7	-2	14.15	4	17.86	4
Capital Service Capacity (Times)	50%	Revenue available for Debt Service / Annual Debt Service	<1.25	1.25	1.75	2.50	1.79	3	2.31	3
OVERALL RATING	100%							3.50		3.50

9.2. The financial risk ratings (FRR) for the YTD position is calculated as a 2 and forecast position has been calculated as a 3. This performance is consistent with the Month 4 position reported.

9.3. The position highlighted by Figure 5 demonstrates the need to improve our income and expenditure position, which in turn will improve our liquidity position.