Whittington Health NHS

Guy Dentith,
Finance department,
guydentith@nhs.net

The Whittington Hospital NHS Trust
Magdala Avenue
London N19 5NF

Whittington Health Trust Board

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Title:	Financial Position – **Month 6 (September 2013)**		
Agenda item:	**13/138**	**Paper**	**6**
Action requested:	For agreement.		
Executive Summary:	**This paper provides an overview of the first half year financial performance and year end forecast financial position. Key headlines:** • At the end of September, the Trust reports a deficit of £136k, a favourable movement against the £417k deficit reported last month. • The in-month surplus is £281k. • However, reserves have been applied to the support the position, underpinning cost pressures relating to waiting times activity and non-delivery of savings targets. Further savings initiatives will need to be delivered in the second half of the year since reserves remaining are limited. • The use of reserves results in a deteriorating cash position.		
Summary of recommendations:	The Trust Board to 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:	23rd October 2013		
Author name and title:	Guy Dentith Deputy Director of Finance	**Director name and title:**	Simon Wombwell Interim Chief Financial Officer

Month 6 Finance Report

1. Introduction

1.1. This paper summarises the Trust's financial results for the period to September 2013 (Month 6/Quarter 2) and sets out the latest forecast to year end.

1.2. Performance in September shows a slight improvement in the deficit position (£0.1m deficit). In order to address additional costs for waiting times activity, reserves continue to be utilised. As a result, the Trust still has a significant challenge to ensure a break-even position is achieved at year-end, and our focus must continue to tighten cost control and deliver additional, recurrent savings to achieve the year end target and avoid increased savings targets in 2014/15.

2. Key Information

2.1. The year-to-September 2013 shows a £0.1m deficit. This is £1.5m adverse compared to the plan for the same period.

2.2. The in-month result for September is a £0.3m surplus. This is £0.3m favourable against the plan for September.

2.3. Total income is 2.1% 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 also resulted in a drop in the EBITDA margin to 4.8% (compared to a plan of 7.0%).

2.4. Cash balances reduced by £2.5m compared to the previous month. This was driven by reducing creditor balances following settlement of Trust debts such as capital creditors. As a result of a historically weak balance sheet and the use of reserves the short term cash position requires attention. We have begun discussions with the NHS Trust Development Authority (NHS TDA) to seek a long term solution to address the historical problem.

2.5. Capital spending is £2.5m year to date, compared to a plan to date of £4.5m.

2.6. Summary of divisional performance.

2.6.1. Integrated Care and Acute Medicine (ICAM) - £1.0m adverse in month and £3.0m adverse year to date (YTD). CIP underperformance of £0.9m YTD

2.6.2. Surgery, Cancer and Diagnostics (SCD) - £0.6m adverse in month and £2.5m adverse YTD. CIP underperformance of £0.4m YTD

2.6.3. Women, Children and Families (WCF) – Break-even in month and £0.8m adverse YTD. CIP underperformance of £0.4m YTD

2.6.4. Corporate - £1.4m favourable in month and £3.6m favourable YTD. CIP underperformance of £0.8m YTD. The favourable position is underpinned by £6.1m non-recurrent benefit from reserves.

3. Income Statement

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

Figure 1 – Month 6 Income and Expenditure Position

FIGURE 1: Income and Expenditure Summary - Consolidated Position	Current Month			Year To Date			Annual
	Actual	Budget	Variance	Actual	Budget	Variance	Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
NHS Clinical Income	21,230	20,021	1,210	123,730	121,960	1,770	243,777
Non NHS Clinical Income	696	686	10	3,897	4,129	(231)	8,228
All Other Non Clinical Income	2,350	2,444	(94)	15,914	14,438	1,475	29,176
Total Income	**24,276**	**23,150**	**1,126**	**143,541**	**140,527**	**3,013**	**281,181**
Pay	16,868	16,033	(834)	101,203	96,426	(4,777)	192,187
Non Pay	5,895	5,820	(75)	35,505	34,659	(846)	72,917
Centrally Held Savings	-	(13)	(13)	-	(70)	(70)	(155)
Total Expenditure	**22,763**	**21,840**	**(922)**	**136,708**	**131,014**	**(5,693)**	**264,949**
EBITDA	**1,513**	**1,310**	**203**	**6,833**	**9,513**	**(2,680)**	**16,232**
Loss on Disposal of Assets	-	-	-	-	-	-	-
Plus Interest Receivable	3	6	(3)	19	36	(17)	71
Less Interest Payable	226	232	6	1,384	1,391	7	2,808
Less Depreciation	795	908	114	4,306	5,450	1,143	10,899
Less PDC Dividend	214	216	2	1,298	1,298	(0)	2,596
Net Surplus / (Deficit) - before Impairments	**281**	**(41)**	**322**	**(136)**	**1,410**	**(1,546)**	**(0)**
Less Impairments	-	-	-	-	-	-	-
Net Surplus / (Deficit)	**281**	**(41)**	**322**	**(136)**	**1,410**	**(1,546)**	**(0)**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**296**	**(26)**	**322**	**(121)**	**1,425**	**(1,546)**	**1,091**

3.2. The year-to-September 2013 shows a £0.1m deficit. The key reasons underpinning the position are detailed in the following paragraphs.

3.2.1. Income is £3.0m 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 (0.4%) year-to-date underperformance against contracted levels. The under performance mostly relates to activity in critical care and neonatal special care (the billing of this activity is under review to ensure activity is captured in full). In addition, the Trust continues to carry risks around the payment for the transfer of services to local authorities and transfer of estates of c.£15m (previously funding resided with primary care trusts). The contracting team is working with clinical commissioning groups (CCGs), the commissioning support unit (CSU) and, now escalated to the NHS TDA (also talking to NHS England) to seek resolution on these issues.

3.2.2. Pay costs are £4.8m 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. Agency expenditure is £2.2m above 2012/13 levels driven by admin (£1m), nursing (£0.6m) and medical (£0.5m) staffing and bank expenditure is £0.6m higher driven by nursing (£0.6m) and admin (0.2m). Other reasons for the temporary staffing expenditure include Trust-wide vacancy levels (c.12%), sickness absence and specialing (one-to-one nursing care for high acuity patients).

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.

4.2. Targets have been set with divisions and corporate services to establish control totals to drive achievement of the forecast position on a recurrent basis, recovery plans are now being developed. Due to the timing of the papers, a summary of progress against recovery plans will be tabled as an appendix to the main report.

5. Divisional Performance

Figure 2 – Month 6 Income and Expenditure by Division

		Month 4			Year to Date		
		Actual	Budget	Variance	Actual	Budget	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Integrated Care & Acute Medicine	Income	1,122	952	170	6,754	5,681	1,073
	Expenditure	7,545	6,719	(826)	44,193	40,144	(4,049)
	Total	**(6,423)**	**(5,767)**	**(656)**	**(37,439)**	**(34,462)**	**(2,976)**
Surgery, Cancer & Diagnostics	Income	286	297	(11)	1,725	1,767	(41)
	Expenditure	4,977	4,507	(470)	29,478	27,012	(2,466)
	Total	**(4,691)**	**(4,210)**	**(481)**	**(27,753)**	**(25,245)**	**(2,507)**
Women, Children & Families	Income	1,269	1,162	107	6,822	6,908	(86)
	Expenditure	5,454	5,318	(136)	32,467	31,753	(714)
	Total	**(4,185)**	**(4,156)**	**(28)**	**(25,646)**	**(24,846)**	**(800)**
Corporate	Income	21,598	20,739	859	128,239	126,172	2,068
	Expenditure	4,787	5,295	509	30,569	32,105	1,536
	Total	**16,812**	**15,443**	**1,368**	**97,670**	**94,066**	**3,604**
TOTAL	Income	**24,276**	**23,150**	**1,126**	**143,541**	**140,527**	**3,013**
	Expenditure	**22,763**	**21,840**	**(922)**	**136,708**	**131,014**	**(5,693)**
	EBITDA	**1,513**	**1,310**	**203**	**6,833**	**9,513**	**(2,680)**

Divisional summary – YTD

5.1. ICAM - £3.0m adverse of which the CIP underperformance is £1.0m. Further drivers of the adverse position include additional expenditure to meet both A&E and RTT targets, a higher than planned volume of drug prescriptions leading to a pharmacy overspend, high agency usage, and cost pressures such as backfill for EPR training.

5.2. SCD - £2.5m adverse, of which the CIP underperformance is £0.6m. Further drivers of the adverse position include a stepped increase in Orthopaedic theatre activity, additional beds opened for medical patients, high agency and clinical supplies usage and underachievement against the divisional overseas visitors' income target.

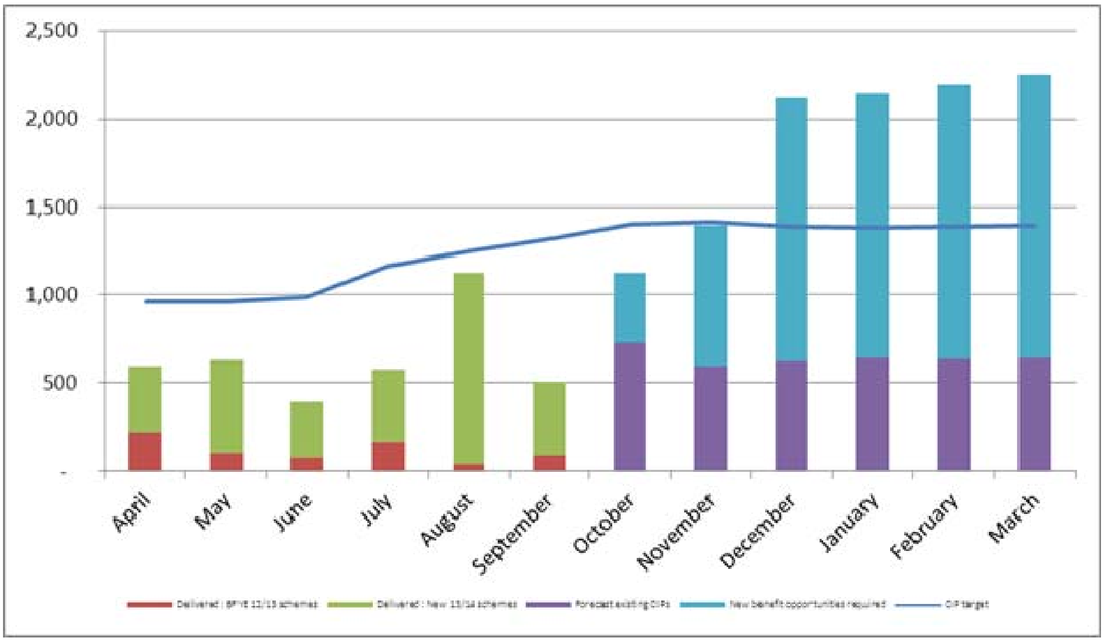
5.3. WCF - £0.8m adverse, of which the CIP underperformance is £0.4m. Drivers of the adverse position relate to agency expenditure (to cover sickness absence and EPR training) and clinical consumables as well as lower than expected audiology screening income due to commissioning changes.

5.4. Corporate - £3.6m favourable, including CIP underperformance of £0.8m, driven by the release of reserves to offset waiting list investments and some under-delivery of savings targets. Various areas within the acute estates and facilities as well as high temporary staff expenditure across a range of corporate functions including IT (supporting the EPR go-live) contribute to the adverse underlying position.

6. Cost Improvement Programme

6.1. Our delivery of CIP was 43% lower than plan, delivering £3.8m (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 opening of the ambulatory care centre 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 unrealisable.

6.3 All areas of the Trust are working on identifying further in year savings measures to underpin the current use of reserves.

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 Sept 2013 £000	As at 31st March 2014 £000
Property, plant and equipment	137,747	135,088	170,741
Intangible assets	1,411	2,327	1,743
Trade and other receivables	635	927	646
Non-current assets	**139,792**	**138,342**	**173,130**
Inventories	1,290	1,415	1,315
Trade and other receivables	11,042	16,553	13,366
Cash and cash equivalents	15,088	5,267	15,796
Current assets	**27,420**	**23,236**	**30,478**
Trade and other payables	32,107	30,527	27,700
Borrowings	1,146	1,146	1,146
Provisions	4,292	1,397	304
Current liabilities	**37,545**	**33,071**	**29,150**
Net Current liabilities	**10,124**	**9,835**	**(1,328)**
Borrowings	38,593	37,668	51,521
Provisions	1,764	1,664	1,382
Non-current liabilities	**40,356**	**39,332**	**52,903**
Total assets employed	**89,312**	**89,175**	**121,555**
Public dividend capital	53,344	53,344	53,994
Retained earnings	5,299	5,185	36,914
Revaluation reserve	30,668	30,647	30,647
Total taxpayers' equity	**89,312**	**89,175**	**121,555**

7.1. The Trust's Balance Sheet for September is demonstrating a further deterioration. As outlined previously, the cash position is an area we need to address. In addition to the fact that the Trust has a historically weak balance sheet, the use of non-cash backed reserves to support the Income and expenditure position means a steady deterioration to historic weak levels. This is being addressed directly with the NHS TDA with a view to identifying both a short and longer term solution.

7.2. Cash balances dropped by £2.5m compared to the previous month, driven by a reducing creditor balance due to settlement of capital creditors and trade credits as previously described. The month end cash balance at £5.3m, against a planned balance of £16.3m, demonstrates the importance of resolution of outstanding issues. Note: the high cash balance assumed a working capital loan to support the FT application, allowing us to achieve regulatory requirements for FT status. This has not been received to date.

8. Capital Plan

8.1. Capital spending is £2.5m to September, compared to a plan of £4.5m. 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 Financial Risk Rating (FRR) and the Continuity of Services rating (to replace the FRR from Q3 2013/14).

Figure 5 – Monitor FRR

FIGURE 5 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%	71.51%	3	94.07%	4
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%	4.74%	2	5.32%	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%	-0.26%	3	0.63%	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%	-0.09%	2	0.34%	2
Liquid ratio (days)	Liquidity	25%	=((Current Assets less Inventory less Current Liabilities add WC Facility) / Total Costs)*360	60	25	15	10	<10	14.78	2	29.61	4
OVERALL RATING		100%								2.00		3.00

Figure 6 – Monitor Continuity of Services

FIGURE 6 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	14.78	4	29.61	4
Capital Service Capacity (Times)	50%	Revenue available for Debt Service / Annual Debt Service	<1.25	1.25	1.75	2.50	1.96	3	1.93	3
OVERALL RATING	100%							3.50		3.50

9.2. The financial risk ratings (FRR) for the YTD position is calculated as a two and forecast position has been calculated as a three. This performance is consistent with the Month 5 position reported. Please note: in both instances the calculations include the use of a working capital facility to deliver the liquidity ratios – this will need to be addressed formally as we move towards FT status.

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