Whittington Health NHS

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Whittington Health Trust Board

27 November 2013

Title:	Financial Position – **Month 7 (October 2013)**		
Agenda item:	**13/154**	**Paper**	**5**
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 October, the Trust reports a break even position, a favourable movement against the £136k deficit reported last month. • The in-month surplus is £124k. • However, reserves have been applied to the support the position, underpinning cost pressures relating to waiting times activity and non-delivery of savings targets. The delivery of in-year savings initiatives is underway, but this will require further work to deliver year end break even.		
Summary of recommendations:	The Trust Board is asked 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:	18th November 2013		
Author name and title:	Guy Dentith Deputy Director of Finance	**Director name and title:**	Simon Wombwell Interim Chief Financial Officer

Month 7 Finance Report

1. Introduction

1.1. This paper summarises the Trust's financial results for the period to October 2013 (Month 7) and sets out the latest forecast to year end.

1.2. Performance in October shows a slight improvement to a breakeven position from the £0.1m deficit position reported last month. 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-October 2013 shows a breakeven position. This is £2.0m adverse compared to the plan for the same period. The in-month result for October is a £0.1m surplus. This is £0.4m below the planned surplus for October.

2.2. In order to address the in year financial position and deliver break even at year end, the Trust has developed additional in-year savings. Performance against these planned recovery actions in October shows that the Trust is delivering £0.3m less than target. This will need to be recovered by year end to achieve break even.

2.3. Total income is 2.5% 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 6.9%).

2.4. Cash balances reduced by £0.4m compared to the previous month. This was driven by reducing creditor balances following settlement of Trust debts such as capital creditors. As reported previously, the use of reserves exposes the historically weak balance sheet. The finance team are at an advanced stage of discussion with the NHS Trust Development Authority (NHS TDA) to seek a long term solution to address this problem.

2.5. Capital spending is £3.5m year to date, compared to a plan to date of £5.5m.

2.6. Summary of divisional performance against budget.

2.6.1. Integrated Care and Acute Medicine (ICAM) - £0.5m adverse in month and £3.5m adverse year to date (YTD). CIP underperformance of £1.2m YTD

2.6.2. Surgery, Cancer and Diagnostics (SCD) - £0.7m adverse in month and £3.2m adverse YTD. CIP underperformance of £0.6m YTD

2.6.3. Women, Children and Families (WCF) – Break-even in month and £0.8m adverse YTD. CIP underperformance of £0.5m YTD

2.6.4. Corporate - £0.6m favourable in month and £4.2m favourable YTD. CIP underperformance of £0.9m YTD. The favourable position is underpinned by £7.2m non-recurrent benefit from reserves.

3. Income Statement

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

Figure 1 – Month 7 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	17,961	20,718	(2,757)	141,691	142,678	(987)	243,777
Non NHS Clinical Income	3,817	663	3,154	7,714	4,792	2,923	8,177
All Other Non Clinical Income	3,386	2,593	793	19,300	17,031	2,269	29,324
Total Income	**25,164**	**23,974**	**1,191**	**168,705**	**164,501**	**4,204**	**281,278**
Pay	17,797	16,085	(1,712)	119,000	112,511	(6,489)	192,417
Non Pay	6,040	6,013	(27)	41,545	40,672	(873)	72,785
Centrally Held Savings	-	(13)	(13)	-	(83)	(83)	(155)
Total Expenditure	**23,838**	**22,085**	**(1,753)**	**160,545**	**153,099**	**(7,446)**	**265,047**
EBITDA	**1,327**	**1,889**	**(562)**	**8,160**	**11,402**	**(3,242)**	**16,232**
Loss on Disposal of Assets	-	-	-	-	-	-	-
Plus Interest Receivable	2	6	(4)	21	41	(21)	71
Less Interest Payable	235	232	(4)	1,619	1,623	4	2,808
Less Depreciation	722	908	186	5,028	6,358	1,330	10,899
Less PDC Dividend	248	216	(32)	1,546	1,514	(32)	2,596
Net Surplus / (Deficit) - before Impairments	**124**	**538**	**(415)**	**(12)**	**1,948**	**(1,961)**	**0**
Less Impairments	-	-	-	-	-	-	-
Net Surplus / (Deficit)	**124**	**538**	**(415)**	**(12)**	**1,948**	**(1,961)**	**0**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**136**	**550**	**(415)**	**14**	**1,974**	**(1,961)**	**1,091**

3.2. The year-to-October 2013 shows a £0.01m deficit. The key reasons underpinning the position are detailed in the following paragraphs.

3.2.1. Income is £4.2m 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 £0.6m (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).

3.2.2. Income continues to reflect payment for the transfer of services to local authorities and transfer of estates of c.£15m (previously funding resided with Primary Care Trusts). Final agreement to payment is not yet confirmed, so this remains a risk. The contracting team is working with clinical commissioning groups (CCGs), the commissioning support unit (CSU), now escalated to the NHS TDA (also talking to NHS England) to seek resolution on these issues.

3.2.3. Pay costs are £6.5m adverse to budget linked to shortfalls in the delivery of savings programmes as well as the need to invest in returning patient waiting times to correct levels. A key component is the high use of flexible workers. Agency expenditure is £2.8m above 2012/13 levels to underpin vacancy levels (c.12%), sickness absence and specialing (one-to-one nursing care for high acuity patients). The increased agency cost is split across admin (£1.2m), medical (£1.0m) and nursing staffing (£0.5m); bank staffing is £0.8m higher driven by nursing (£0.7m) and admin (0.2m).

3.2.4. Non-pay is £0.9m 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. Underlying position

4.1. An analysis of the underlying position, which excludes the use of reserves shows an underlying deficit of £7.3m. Included within the annual budget is £1m relating to non-recurrent provision release which has been profiled equally throughout the year. This position is detailed within figure 2 below.

4.2. The in-year plans required to address this underlying deficit form part of the £4.2m new savings target.

Figure 2 - Year to date Underlying Financial Position

	Recurrent £m	**Non-Recurrent £m**	**Total £m**
YTD planned surplus / (deficit)	1.4	0.6	1.9
YTD actual surplus / (deficit)	(7.3)	7.3	(0)
YTD variance from plan	**(8.6)**	**6.6**	**(1.9)**

5. New savings target - £4.2m

5.1. In order to achieve the planned breakeven position in 2013/14, as well as recurrent break even by March 2014, further savings plans are required to be developed. A £4.2m target has been set and allocated to divisions and corporate areas, profiled to achieve from October onwards.

5.2. The Trust has currently identified plans to deliver £2.1m of the £4.2m target. Further work is on-going led by the Chief Operating Officer and Chief Finance Officer to deliver the target in full.

5.3. The YTD achievement against the profiled savings target shows £232k identified against a £551k target, with £228k of savings delivered in October. The £323k shortfall against target will need to be recovered by year end in order to deliver the forecast breakeven position.

Figure 3 - Performance against £4.2m savings requirement

Division	13/14 Savings target £000's	13/14 Savings identified £000's	YTD Savings target £000's	YTD Savings identified £000's	YTD Savings £000's	YTD delivery Over/ (under) vs ID'd £000's	YTD delivery Over/ (under) vs target £000's
ICAM	801	801	113	137	151	14	38
SCD	737	451	104	31	27	(4)	(77)
WCF	960	312	135	4	4	0	(131)
Corporate	704	287	99	46	46	0	(52)
Agency	1,000	260	100	13	0	(13)	(100)
Total	**4,202**	**2,111**	**551**	**232**	**228**	**(3)**	**(323)**

5.4. Delivery of the £4.2m savings target represents a key component of the forecast in order for the Trust to achieve the planned outturn breakeven position. Other components of the forecast include an assumption that the run rate will not further deteriorate due to increased operating expenditure and expectations surrounding levels of winter pressure funding and costs.

5.5. The Trust performance against target levels in October show £0.3m negative variance. This is consistent with the YTD shortfall against the profiled £4.2m savings target as detailed in Figure 3.

6. Forecast

6.1. The Trust continues to forecast the delivery of break-even position, consistent with the annual plan. The Trust Board have agreed to formally review this position following publication of the December (month 9) financial position to allow new in year savings to demonstrate delivery.

6.2. There remains significant risk to achieving the forecast position including achievement of the £4.2m additional savings target; continued achievement of the original CIP plans and containment of expenditure to forecast levels. There are also the income risks outlined in Section 12. A risk assessment based on current performance not being improved upon values this risk at £2.5m.

Figure 4 - October performance against October forecast position by division

Division	Variance against M7 forecast £000's
ICAM	(59)
SCD	(283)
WCF	120
Corporate	(60)
Total	**(282)**

6.3. Key variances against the previously forecasted October position within each division are as follows:

6.4. ICAM - £59k adverse position due to income over performance in pharmacy through chemotherapy drugs offset by additional locum consultants' pay to ensure achievement of RTT targets.

6.5. SCD - £283k adverse variance due to a combination of additional medical agency to cover one-off general surgery work, additional vascular sessions booked above planned levels and associated additional clinical consumables spend.

6.6. WCF - £120k positive variance predominantly due to increased expectations in levels of income associated with sexual health and child and adolescent mental health services (CAMHS).

6.7. Corporate - £60k adverse, due to a combination of previously unanticipated invoices above previously forecasted levels.

7. Divisional Performance

Figure 5 – Month 7 Income and Expenditure by Division

Division		Month 7			Year to Date		
		Actual	Budget	Variance	Actual	Budget	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Integrated Care & Acute Medicine	Income	1,506	987	519	8,260	6,668	1,592
	Expenditure	7,802	6,821	(981)	51,995	46,965	(5,030)
	Total	**(6,296)**	**(5,834)**	**(462)**	**(43,735)**	**(40,296)**	**(3,438)**
Surgery, Cancer & Diagnostics	Income	331	288	44	2,057	2,054	2
	Expenditure	5,262	4,562	(700)	34,740	31,574	(3,166)
	Total	**(4,930)**	**(4,274)**	**(656)**	**(32,683)**	**(29,520)**	**(3,163)**
Women, Children & Families	Income	1,252	1,132	120	8,074	8,039	34
	Expenditure	5,495	5,362	(133)	37,963	37,116	(847)
	Total	**(4,244)**	**(4,231)**	**(13)**	**(29,889)**	**(29,076)**	**(813)**
Corporate	Income	22,075	21,567	508	150,315	147,739	2,576
	Expenditure	5,279	5,339	60	35,848	37,445	1,596
	Total	**16,797**	**16,228**	**569**	**114,467**	**110,294**	**4,172**
TOTAL	Income	**25,164**	**23,974**	**1,191**	**168,705**	**164,501**	**4,204**
	Expenditure	**23,838**	**22,085**	**(1,753)**	**160,545**	**153,099**	**(7,446)**
	EBITDA	**1,327**	**1,889**	**(562)**	**8,160**	**11,402**	**(3,242)**

Divisional summary – YTD

7.1. ICAM - £3.5m adverse of which the CIP underperformance is £1.2m. 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 and extended hours working. Winter pressure costs are being offset by additional funding from commissioners.

7.2. SCD - £3.2m adverse, of which the CIP underperformance is £0.7m. Further drivers of the adverse position include a stepped increase in orthopaedic theatre activity, additional beds opened for medical and surgical outliers, high agency and clinical supplies usage and underachievement against the divisional overseas visitors' income target.

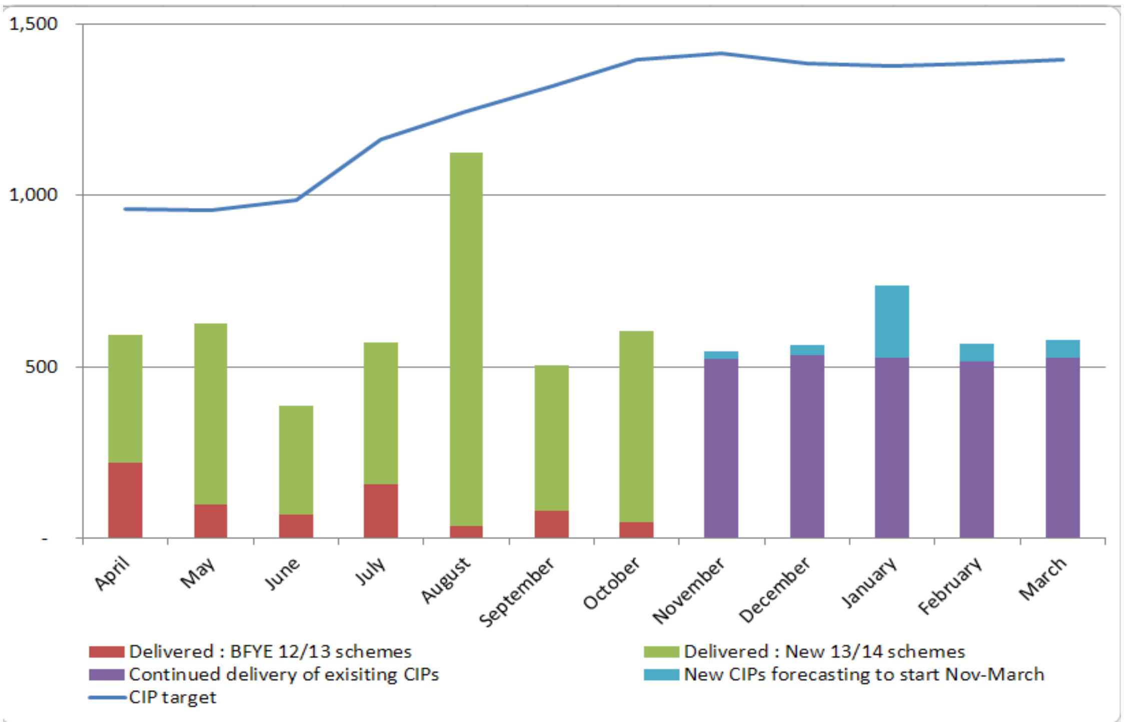
7.3. WCF - £0.8m adverse, of which the CIP underperformance is £0.5m. Drivers of the adverse position relate to agency expenditure (to cover sickness absence and EPR training) and clinical consumables as well as lower than expected audiology screening and GUM income due to commissioning changes.

7.4. Corporate - £4.2m favourable, including CIP underperformance of £0.9m, linked to 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 administration improvements 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 across a range of corporate functions including IT (supporting the EPR go-live) also contribute to the adverse underlying position.

8. Cost Improvement Programme – original target £15m

8.1. Our delivery of CIP was 45% below plan, delivering £4.4m (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 6 - CIP YTD performance and forecast



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

- Priority to meet A&E 4 hour 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.

8.3 All areas of the Trust are working on identifying and delivering further in year savings measures to underpin the current use of reserves (as per Section 5).

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

Figure 7 – Statement of Financial Position

Description	As at 1st April 2013 £000	As at 31st October 2013 £000	As at 31st March 2014 £000
Property, plant and equipment	137,747	134,888	170,741
Intangible assets	1,411	2,780	1,743
Trade and other receivables	635	1,018	646
Non-current assets	**139,792**	**138,686**	**173,130**
Inventories	1,290	1,449	1,315
Trade and other receivables	11,042	18,704	13,740
Cash and cash equivalents	15,088	4,897	15,796
Current assets	**27,420**	**25,050**	**30,852**
Trade and other payables	32,107	33,049	27,700
Borrowings	1,146	1,146	1,146
Provisions	4,292	1,362	304
Current liabilities	**37,545**	**35,558**	**29,150**
Net current assets / (liabilities)	**(10,124)**	**(10,508)**	**1,702**
Borrowings	38,593	37,495	51,895
Provisions	1,764	1,384	1,427
Non-current asset / (liabilities)	**(40,356)**	**(38,879)**	**(53,322)**
Total assets employed	**89,312**	**89,299**	**121,510**
Public dividend capital	53,344	53,344	53,994
Retained earnings	5,299	5,314	36,869
Revaluation reserve	30,668	30,641	30,647
Total taxpayers' equity	**89,312**	**89,299**	**121,510**

9.1. The Trust's Balance Sheet for October 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 (I&E) position means a steady deterioration towards historic weak levels. In the short term, a solution is being agreed with the NHS TDA with a view to both a short and long term solution.

9.2. Cash balances dropped by £0.4m 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 £4.9m against a planned balance of £16.3m, demonstrates the importance of resolution of outstanding issues. Note: the planned high cash balance assumed a working capital loan to support the foundation trust (FT) application, allowing us to achieve regulatory requirements for FT status.

9.3. The short term cash solution is to receive temporary borrowing. This borrowing would not attract interest but would be repayable on the 10th March 2014. At that point a permanent borrowing advance is expected to be substituted. These advances should be sufficient to meet the Trust's obligations, provided that a) the I&E recovery actions amounting to £4.2m are achieved in a way that delivers a cash benefit b) Payments to Property Co and Barnet Enfield and Haringey Mental Health Trust are delayed pending a conclusion on community estate funding c) Progress is made on collecting GP rents/service charges and d) The Trust manages its debtors and creditors in a way that maximises the cash balance appropriately. The current proposal is to draw £4.7m and £3.8m on the 25th November and 23rd December respectively.

9.4. Note: in order to minimise borrowing the Trust is forecast to end the year with a bank balance of circa £0.5m and a permanent public dividend capital (PDC) advance of c£8.5m. The balance sheet included within this report does not yet reflect this as the final agreement has yet to be received, but will be adjusted in due course.

9.5. The planned actions mean the Trust will operate with appropriate levels of cash; however in order to prevent the situation deteriorating next year it is important that:

- A lower expenditure run rate is delivered by March 2014, such that no underlying deficit position impacts upon 2014/15
- Secure the SLA income appropriate for 2014/15 planned expenditure levels.
- Secure the full missing funding for the transfer of community estates and avoid any other legacy cash liabilities from PCTs.
- Avoid cash liabilities associated with the transfer of residual Primary Care Trust balance sheet items.

9.6. The requirement to borrow cash does raise our risk profile. This will be improved through medium term actions to improve performance in I&E terms and produce cash surpluses.

10. Capital Plan

10.1. Capital spending is £3.5m to October, compared to a plan of £5.5m. 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.

11. Other financial performance

11.1. 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 8 – Monitor FRR

FINANCIAL RISK RATING				Rating Categories (YTD)					Metric Value / Rating			
									Year to Date Position		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%	71.30%	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%	4.82%	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%	-0.06%	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%	-0.01%	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	13.95	2	30.10	4
OVERALL RATING		100%								2.00		3.00

Figure 9 – Monitor Continuity of Services

CONTINUITY OF SERVICES RISK RATING			Rating Categories (YTD)				Metric Value / Rating			
							Year to Date Position		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%	$\frac{\text{Working Capital Balance x 360}}{\text{Annual Operating Expenses}}$	<-12	-12	-7	-2	13.95	4	30.1	4
Capital Service Capacity (Times)	50%	$\frac{\text{Revenue available for Debt Service}}{\text{Annual Debt Service}}$	<1.25	1.25	1.75	2.50	2.06	3	1.93	3
OVERALL RATING	100%							3.50		3.50

11.2. 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 6 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 i.e. we will need to correct out historically weak liquidity position.

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

12. Other risks

12.1 Transfer of Community Estates and IT: The funding being sought from the CCGs (the risk) remains at £8.3m i.e. a total of £15.7m less what is already included within the SLAs of £7.3m. The matter remains with the NHS TDA who are discussing with NHS England. Our next step is to raise invoices to the relevant CCGs for the outstanding balance. In addition, there is an income target for GP tenants in respect of rent and service charges that is also being progressed, although virtually no leases were inherited from the PCTs. In reporting the month 7 this income has been accrued and is expected to be paid.

12.2 Baseline SLA transfers: following the transfer of funds from PCTs/CCGs to NHS England and local authorities, there continues to be difficulties in finalising the revised SLAs. This is partly due to the lack of a joined up approach to reconciling transfers and a unilateral alteration by the CSU of what was previously agreed. The Local Authorities, particularly Haringey Council, have changed the contract type and monetary value, proposing an (arbitrary) cap representing a 25% reduction in an open access sexual health service. The financial risk to the Trust is estimated at £1m. The overall shortfall that needs to be resolved is as follows:

Figure 10 – SLA funding risk

	£m
L.B. Haringey Sexual health services	1.0
NHS England Hanley Rd GP practice	0.8
CCG baseline items not included by CSU in offer that was previously provided	1.0
Latest switches by CSU impacting multiple parties	1.2
Total Income needing to be included within agreed SLAs	**4.0**

12.3 Transfer of residual Primary Care Trust (PCT) balances: As part of the dissolution of the PCTs, NHS England have allocated outstanding PCT balance sheet values to successor bodies, including Whittington Health. Initial estimates were a liability of c£3.5m; these have now been addressed and we are currently discussing debtors of £58k (likely to require bad debt action), creditors payable of £241k and provisions for dilapidations on properties £960k. Our position remains the same in that liabilities will not be accepted without the cash to settle them. Further work and discussion is ongoing to establish the true nature of proposed transfers and the means to meet any obligations.

12.4 Note: the above risks are not reflected in the forecast. If these risks crystallise this would worsen the forecast break even position.