The Whittington Hospital NHS Trust
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Whittington Health Trust Board

5th February 2014

Title:	**Financial Position – Month 9 (December 2013)**		
Agenda item:	**14/025**	**Paper**	**5**
Action requested:	For agreement.		
Executive Summary:	**This paper provides an overview of the financial performance to 31st December 2013 (Month 9) and year end forecast financial position. Key headlines:** • Financial results to the end of December show a break even position, maintaining the position reported last month and consistent with the target to deliver break even at the year end. • The December in-month position is a small deficit of £15k. • Approximately £8m reserves have been used to support the position to date. However, none were used in December due to a combination of cost reduction across the Trust and extra income from additional winter pressure and emergency re-admission funding. The use of reserves underpins cost pressures relating to waiting times activity and related non-delivery of savings targets. • The delivery of further in-year savings initiatives is underway, but this continues to require focussed effort to deliver a year end recurrent 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 essential to underpin financial sustainability and progression towards foundation trust status.		
Date paper completed:	24th January 2014		
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Month 9 Finance Report

1. Introduction

1.1. This paper summarises the Trust's financial results for the period to December 2013 (Month 9) and sets out the latest forecast to year end.

1.2. Performance in December shows a breakeven position, which maintains break even against the year to date position to December. Approximately £8m of reserves has been used to underpin the position to date in order to address additional costs for waiting times' activity and under-delivery of the original savings plan. There was, however, no further draw down on reserves in December due to a combination of cost reduction across the Trust and additional income through winter pressure and emergency re-admission funding. December can often be a quieter month in terms of activity, therefore, the Trust must maintain focus on tight cost control and the delivery of 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-December 2013 shows a breakeven position. This is £1.8m adverse compared to the plan. The in-month result for December is also a break-even position, £0.5m favourable to the planned deficit for December. The forecast for the year end remains break even.

2.2. Total income is 3.7 per cent above plan but the combined impact of shortfalls on the cost improvement plans and the need to spend to recover Referral to Treatment (RTT) and Emergency Department (ED) targets, has led to costs being 5 per cent in excess of plans. This has also resulted in a drop in the EBITDA margin to 4.9 per cent (compared to a plan of 6.6 per cent).

2.3. In order to address the in year financial position and deliver break even at year end the Trust has applied reserves to support increased spending levels compared to plan. Since these reserves are a non-recurrent solution, the Trust has been developing further in-year savings over and above those set in the April 2013 Plan. The original target of £15m will deliver savings of £7.3m; hence a further target of £4.2m has been set. Performance against these planned recovery actions in December shows that the Trust is delivering £1.0m less than target. Improvement on this for the remainder of the year will be required to achieve break even. The closure of this gap is being addressed with Clinical Commissioning Groups (CCGs) to increase the contract value to reflect activity levels above those set in the original contract.

2.4. The Trust's Balance Sheet for December has increased since November by £34m. Of this, £30m is due to the transfer of assets from Islington and Haringey PCTs.

2.5. Cash balances increased by £1.9m compared to the previous month, reflecting the further draw down of £3.8m Short Term PDC in December in addition to the £4.7m drawn down in November. As reported previously, the use of reserves exposes the historically weak balance sheet. Current discussions with the NHS Trust Development Authority (NHS TDA) concern the funding of community estates costs and the outcome will influence the requirement for longer term borrowing.

2.6. Summary of divisional performance against budget.

2.6.1. Integrated Care and Acute Medicine (ICAM) - £0.6m adverse in month and £4.9m adverse year to date (YTD). CIP underperformance of £1.5m YTD

2.6.2. Surgery, Cancer and Diagnostics (SCD) - £0.3m adverse in month and £3.8m adverse YTD. CIP underperformance of £0.8m YTD

2.6.3. Women, Children and Families (WCF) – £0.1m favourable and £0.7m adverse YTD. CIP underperformance of £0.6m YTD

2.6.4. Corporate - £1.3m favourable in month and £6.3m favourable YTD. CIP underperformance of £0.8m YTD. The favourable position is underpinned by £8.1m non-recurrent benefit from reserves.

2.6.5. The balance of CIP under performance of £1.5m relates to the residual CIP target against which schemes have not been identified.

3. Income Statement

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

Figure 1 – Month 9 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	18,295	19,737	(1,443)	180,339	182,962	(2,623)	243,777
Non NHS Clinical Income	3,563	678	2,884	12,819	6,146	6,673	8,169
All Other Non Clinical Income	3,439	2,536	904	25,804	22,089	3,715	29,422
Total Income	**25,297**	**22,951**	**2,345**	**218,962**	**211,197**	**7,765**	**281,368**
Pay	17,698	16,040	(1,657)	154,376	144,594	(9,782)	192,551
Non Pay	6,230	6,086	(144)	53,797	52,817	(979)	72,741
Centrally Held Savings	-	(13)	(13)	-	(110)	(110)	(155)
Total Expenditure	**23,928**	**22,113**	**(1,815)**	**208,172**	**197,302**	**(10,871)**	**265,137**
EBITDA	**1,369**	**839**	**531**	**10,790**	**13,895**	**(3,106)**	**16,232**
Loss on Disposal of Assets	-	-	-	-	-	-	-
Plus Interest Receivable	2	6	(4)	25	53	(28)	71
Less Interest Payable	214	238	24	2,061	2,093	32	2,808
Less Depreciation	853	908	56	6,699	8,174	1,475	10,899
Less PDC Dividend	320	216	(104)	2,095	1,947	(148)	2,596
Net Surplus / (Deficit) - before Impairments	**(15)**	**(518)**	**503**	**(40)**	**1,735**	**(1,774)**	**0**
Less Impairments	-	-	-	-	-	-	-
Net Surplus / (Deficit)	**(15)**	**(518)**	**503**	**(40)**	**1,735**	**(1,774)**	**0**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**0**	**(503)**	**503**	**(12)**	**1,762**	**(1,774)**	**1,091**

3.2. The year-to-December 2013 shows a break-even position. The key reasons underpinning the position are detailed in the following paragraphs.

3.2.1. **Income** is £7.8m 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 underperformance against contracted levels (because the majority of the contract is on a block i.e. fixed sum basis). 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. Key risk: 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 remains unconfirmed, so this remains a risk. The contracting team continues to work with clinical commissioning groups (CCGs), the commissioning support unit (CSU), as well as previous escalation to the NHS TDA (also talking to NHS England). We are awaiting confirmation of a meeting with the NHS TDA and NHS England.

3.2.3. A recent issue creating some risk is the inability to extract complete activity information from the new Electronic Patient Record (EPR) system. Since month 6 activity and consequently income has been estimated based on activity in months 1-5. This means the income reflected in the Trust financial position will not be 100% accurate and could either be under or overstated. This income risk however only applies to activity outside of the main NCL block contract. The further risk is that non-contract commissioners will not pay for late reported activity. A fix is expected to be completed in February.

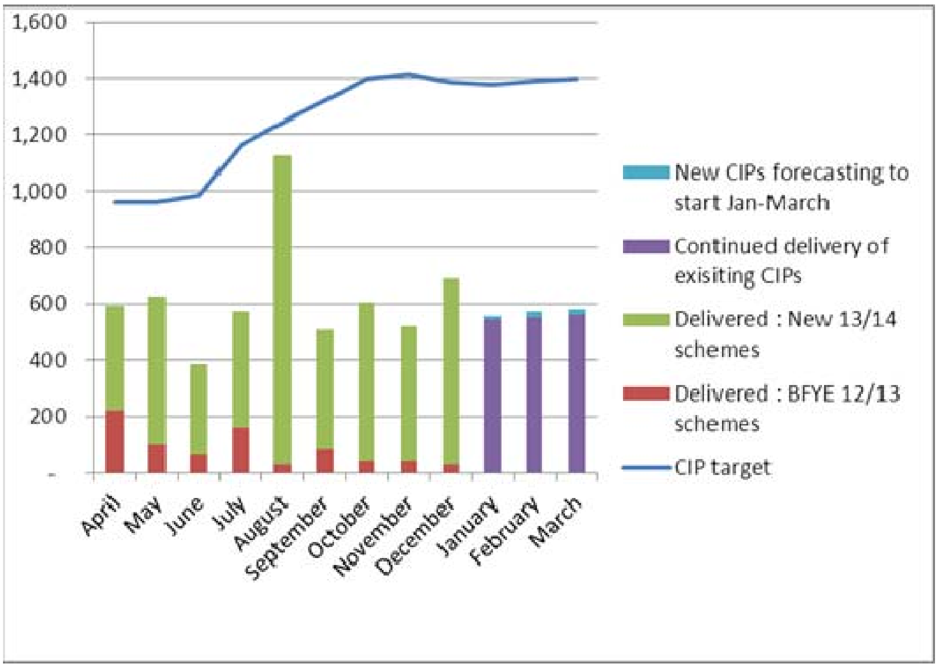
3.2.4. **Pay** costs are £9.8m adverse to budget due to shortfalls in the delivery of savings programmes, as well as the need to invest in returning patient waiting times to correct levels. A key component is the high use of flexible workers. Agency expenditure is £4.6m above 2012/13 levels to underpin vacancy levels (c.11%), sickness absence and specialing (one-to-one nursing care for high acuity patients). The increased agency cost is split across admin (£1.6m), medical (£1.6m) and nursing staffing (£1.0m); bank staffing is £1.3m higher driven by nursing (£1.0m) and admin (0.4m). HR has been implementing changes to the recruitment process to reduce the reliance upon agency staff in favour of substantive post holders.

3.2.5. **Non-pay** is £1.0m adverse to budget caused by shortfalls against savings targets and unplanned activity relating to waiting list targets.

4. Cost Improvement Programme (CIP) – original target £15m

4.1. Our delivery of CIP to month 9 was 48% below plan, delivering £5.6m (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 2 - <u>CIP YTD performance and forecast</u>



4.2 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 subsequently unrealistic.

4.3 As a direct result of the shortfall, 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 6).

4.4 Note: the CIP performance does not reflect any impact of additional activity over and above the contract value. Indicative activity performance suggests we are doing more activity than contract, particularly in A&E and non-electives areas. Under a cost and volume contract such activity would result in an increased income driven through these increased volumes. However, since the Trust is on a block contract we do not benefit and therefore have not included this impact. Once the reporting issues linked to EPR are resolved we will do some work to assess this linking to next year's contract to ensure that productivity improvement through volume increases is reflected.

5. Underlying position

5.1. An analysis of the underlying position, which excludes the use of reserves shows an underlying deficit of £8.1m – see Figure 3 below.

Figure 3 - Year to date Underlying Financial Position

	Plan £m	Actual £m	Variance £m
Month 9 / Dec results	1.7	0.0	(1.7)
Reserves – non recurrent	0.0	(8.1)	(8.1)
Month 8 underlying	**1.7**	**(8.1)**	**(9.8)**

5.2. As a result of this underlying position, the Trust has developed in-year plans to deliver further in-year savings of £4.2m i.e. in addition to the savings identified at the beginning of the year. The target is to improve the run rate by £1m per month by April 2014.

6. Additional savings target - £4.2m

6.1. In order to achieve the planned breakeven position in 2013/14, as well as recurrent break even by March 2014, further in year savings plans are required. A £4.2m target has been set and allocated to divisions and corporate areas, profiled to achieve from October onwards, with a target to deliver £1m per month improvement by April 2014.

6.2. The Trust has currently identified plans to deliver £2.1m of the £4.2m target (including plans to reduce bank and agency staffing costs). Further work is on-going led by the Chief Operating Officer and Chief Finance Officer to deliver the target in full, including holding discussions with CCGs to increase the value of the 2013/14 contract.

6.3. The month 9 YTD achievement against the profiled savings target shows £776k identified against a £1,502k target, with £474k of savings delivered to December. The shortfall against target will need to be recovered by year end in order to deliver the forecast breakeven position.

Figure 4 - Performance against the additional £4.2m savings requirement

Division	13/14 Savings target £000's	13/14 Savings target YTD £000's	13/14 Savings identified £000's	YTD Savings identified £000's	YTD Savings achieved £000's	YTD delivery Over/ (under) vs ID'd £000's	YTD delivery Over/ (under) vs target £000's
ICAM	509	130	395	142	180	38	50
SCD	737	254	442	122	15	-106	-239
WCF	960	330	340	114	170	560	-160
Agency	1,292	546	622	248	0	-248	-622
Corporate	704	242	302	150	109	-41	-133
Total	**4,202**	**1,502**	**2,101**	**776**	**474**	**-302**	**-1,028**

6.4. 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.

7. Forecast

7.1. In spite of the adverse variances reported above, the Trust continues to forecast the delivery of break-even position, consistent with the annual plan. The Trust Board will formally review this position following publication of the January (month 10) financial position, which allows new in year savings to demonstrate delivery.

7.2. There remains significant risk to achieving the forecast position including achievement of the £4.2m additional savings target and containment of expenditure to forecast levels. A risk assessment based on current performance not being improved upon values this risk at £3.2m.

7.3. In addition there are also the income risks outlined in Section 11. These are expected to be resolved in full by year end.

7.4. Our monthly monitoring of divisional positions now incorporates monthly targets (control totals) which, if met, will deliver break even at year end. With the exception of the Integrated Care and Acute Medicine Division (ICAM), divisions are meeting their control totals.

Figure 5 – December actual performance against forecast by division

Division	Variance against forecast control total £000's
ICAM	(77)
SCD	105
WCF	322
Corporate	(1)
Total	**349**

7.5. Key variances against the previously forecasted December position within each division are as follows:

7.5.1. ICAM - £77k adverse due to high levels of medical specialty agency and on-going A&E pressures.

7.5.2. SCD - £105k favourable variance due to lower levels of agency and theatre non-pay.

7.5.3. WCF - £322k favourable variance. Improved sickness within midwifery leading to reduced agency costs combined with various increases in increased income including sexual health and speech and language therapy.

7.5.4. Corporate - £1k adverse where costs have been broadly in line with expectations.

8. Divisional Performance

Figure 6 – Month 9 Income and Expenditure by Division

Division		Month 9			Year to Date		
		Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000
Integrated Care & Acute Medicine	Income	1,465	948	517	11,239	8,582	2,657
	Expenditure	7,780	6,669	(1,111)	67,840	60,311	(7,529)
	Total	**(6,314)**	**(5,720)**	**(594)**	**(56,601)**	**(51,729)**	**(4,872)**
Surgery, Cancer & Diagnostics	Income	345	291	54	2,775	2,632	143
	Expenditure	4,888	4,526	(362)	44,636	40,644	(3,992)
	Total	**(4,543)**	**(4,234)**	**(309)**	**(41,861)**	**(38,012)**	**(3,849)**
Women, Children & Families	Income	1,327	1,170	157	10,631	10,353	278
	Expenditure	5,345	5,332	(14)	48,857	47,879	(977)
	Total	**(4,018)**	**(4,162)**	**143**	**(38,226)**	**(37,526)**	**(700)**
Corporate	Income	22,159	20,541	1,618	194,318	189,630	4,688
	Expenditure	5,915	5,587	(328)	46,840	48,467	1,627
	Total	**16,245**	**14,955**	**1,290**	**147,478**	**141,163**	**6,315**
TOTAL	Income	**25,297**	**22,951**	**2,345**	**218,962**	**211,197**	**7,765**
	Expenditure	**23,928**	**22,113**	**(1,815)**	**208,172**	**197,302**	**(10,871)**
	EBITDA	**1,369**	**839**	**531**	**10,790**	**13,895**	**(3,106)**

Divisional summary – YTD

8.1. ICAM - £4.9m adverse of which the CIP underperformance is £1.5m. Further drivers of the adverse position include additional expenditure to meet both A&E and RTT targets, high agency usage across both acute and community, and cost pressures such as backfill for EPR training and extended hours working. Winter pressure costs are being offset by additional funding from commissioners.

8.2. SCD - £3.8m adverse, of which the CIP underperformance is £0.8m. 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.

8.3. WCF - £0.7m adverse, of which the CIP underperformance is £0.6m. Drivers of the adverse position relate to agency expenditure (mainly in midwifery to cover sickness absence and EPR training) and clinical consumables as well as lower than expected audiology screening and Genito Urinary Medicine (GUM) income due to commissioning changes.

8.4. Corporate - £6.3m favourable, including CIP underperformance of £0.8m, 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.

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 December 2013 £000	As at 31st March 2014 £000
Property, plant and equipment	137,747	162,584	168,217
Intangible assets	1,411	5,811	5,435
Trade and other receivables	635	1,119	610
Non-current assets	**139,792**	**169,514**	**174,262**
Inventories	1,290	1,471	1,290
Trade and other receivables	11,042	24,962	30,424
Cash and cash equivalents	15,088	8,813	876
Current assets	**27,420**	**35,245**	**32,590**
Trade and other payables	32,107	36,212	36,926
Borrowings	1,146	1,146	1,131
Provisions	4,292	672	578
Current liabilities	**37,545**	**38,030**	**38,634**
Net Current liabilities	**10,124**	**2,785**	**6,044**
Borrowings	38,593	36,594	36,813
Provisions	1,764	2,344	2,342
Non-current liabilities	**40,356**	**38,938**	**39,155**
Total assets employed	**89,312**	**127,791**	**129,062**
Public dividend capital	53,344	63,682	64,605
Retained earnings	5,299	18,570	18,918
Revaluation reserve	30,668	45,539	45,539
Total taxpayers' equity	**89,312**	**127,791**	**129,062**

9.1. The Trust's Balance Sheet for December has increased since November by £34m. Of this, £30m is due to the transfer of assets from Islington and Haringey PCT's. This comprises the following:

Figure 8 – Analysis of Assets transferred from PCT's

Description	£000
Properties	31,036
Provision for Dilapidations	-962
Working Capital	-71
Total	**30,003**

9.2. Apart from the PCT assets transfer, the main reason for the increase in the Balance Sheet is the drawdown of a further £3.8m of short term borrowing in December. As outlined previously, 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 has further weakened the cash position. The solution agreed with the NHS TDA is short term borrowing (repayable on 10 March).

9.3. Current discussions with the NHS TDA concern the funding of community estates costs and the outcome will influence the requirement for longer term borrowing. A paper covering cash requirements was presented to the Resources and Planning Committee in January. We have drafted an application for a permanent public dividend capital (PDC) advance of c£8.5m. However, we are updating income forecasts and anticipate successful resolution of the £8.3m Transforming Community Services (TCS) estates issue (see paragraphs 9.5b and 10.1) and this may result in a reduced borrowing requirement. Board approval would be sought before any application for borrowing is submitted. Subject to further analysis, if this is required, it would come to the February Board.

9.4. Cash balances as at December increased by £1.9m compared to the previous month, following the drawdown of £3.8m referred to in paragraph 9.2.

9.5. The forecast cash position is contingent upon a) the I&E recovery actions amounting to £4.2m being achieved in a way that delivers a cash benefit; b) Payments to NHS Property Services and Barnet Enfield and Haringey Mental Health Trust being delayed pending a conclusion on community estate funding; c) Progress being 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.

9.6. 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 (this factor is reflected in the high level of debtors in the balance sheet - £25m).

- Avoid cash liabilities associated with the transfer of residual Primary Care Trust balance sheet items.

10. Income risks explained

10.1 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 £7.4m. The matter has been escalated to the NHS TDA who is meeting with NHS England. In reporting the month 9 position, this income has been accrued and is expected to be paid.

10.2 Baseline SLA transfers: following the transfer of funds from PCTs/CCGs to NHS England and local authorities, there was £3m in outstanding issues last month which have now been resolved.

10.3 Transfer of residual Primary Care Trust (PCT) balances: As part of the dissolution of the PCTs, NHS England has allocated outstanding PCT balance sheet values to successor bodies, including Whittington Health. Initial estimates were a liability of c£3.5m. This risk has now reduced to £NIL.