Whittington Health NHS

The Whittington Hospital NHS Trust
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Whittington Health Trust Board

5th March 2014

Title:	**Financial Position – Month 10 (January 2014)**		
Agenda item:	**14/058**	**Paper**	**6**
Action requested:	For agreement.		
Executive Summary:	**This paper provides an overview of the financial performance to 31st January 2013 (Month 10) and year end forecast financial position. Key headlines:** • Financial results to the end of January 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 January in-month position is a small deficit of £1k. • Approximately £8.3m reserves have been used to support the position to date - this includes £200k used in January. Additional income from winter pressure and emergency re-admission funding also supported the position. 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 progressing, however, this requires increasingly focussed effort on cost control to deliver a year end recurrent break-even position.		
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:	21st February 2014		
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Month 10 Finance Report

1. Introduction

1.1. This paper summarises the Trust's financial results for the period to January 2014 (Month 10) and sets out the latest forecast to year end.

1.2. Performance in January shows a break-even position, which maintains break even against the year-to-date position to January. Approximately £8.3m 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. However, due to extra income from additional winter pressure and emergency re-admission funding, only £200k was required in January. The Trust must maintain focus on tight cost control and the delivery of additional, recurrent savings to achieve the year-end target to benefit both the current year as well as 2014/15.

2. Key Information

2.1. The year-to-January 2014 shows a break-even position. This is £2.0m adverse compared to the plan. The in-month result for January is also a break-even position, £0.3m adverse to the planned surplus for January. The forecast for the year end remains break even.

2.2. Total income is 3.9% 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 4.9% in excess of plans. This has also resulted in a drop in the EBITDA margin to 4.9% (compared to a plan of 6.6%).

2.3. -n order to address the inyear 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 £7m with a further contribution from the additional target of £4.2m. Of this combined delivery (£11.2m), there remains a gap (risk) of £1m relating to contract income for performance above contracted levels, which is being addressed with CCGs.

2.4. Since November cash has increased by £2.4m to £10.9m. The majority of this balance will be applied in repaying £8.5m short term public dividend capital (PDC) and £1.5m PDC dividend in March.

2.5. 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. The risk relating to funding for the transfer of community estates to Whittington Health remains unresolved. This has now been escalated to a request for arbitration in order to seek resolution before 31 March. The impact of this risk is £8.3m.

2.7. Summary of divisional performance against budget.

2.7.1. Integrated Care and Acute Medicine (ICAM) - £0.8m adverse in month and £5.7m adverse year-to-date (YTD). CIP underperformance of £1.5m YTD

2.7.2. Surgery, Cancer and Diagnostics (SCD) - £0.1m adverse in month and £3.9m adverse YTD. CIP underperformance of £0.6m YTD

2.7.3. Women, Children and Families (WCF) – Break even in month and £0.7m adverse YTD. CIP underperformance of £0.3m YTD

2.7.4. Corporate - £0.5m favourable in month and £6.8m favourable YTD. CIP underperformance of £0.5m YTD. The favourable position is underpinned by £8.3m non-recurrent benefit from reserves.

2.7.5. The balance of CIP under performance relates to £1.5m of Trust-wide schemes and £1.9m of unidentified schemes.

3. Income Statement

3.1. The Statement of Comprehensive Income for the period to January 2014 is set out below:

Figure 1 – Month 10 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	20,560	20,467	93	200,899	203,429	(2,530)	243,777
Non NHS Clinical Income	751	675	76	13,570	6,821	6,749	8,169
All Other Non Clinical Income	3,824	2,500	1,324	29,628	24,589	5,039	29,461
Total Income	**25,134**	**23,642**	**1,493**	**244,097**	**234,839**	**9,258**	**281,407**
Pay	17,945	17,238	(707)	172,321	161,832	(10,488)	194,136
Non Pay	5,942	4,796	(1,146)	59,739	57,613	(2,126)	71,195
Centrally Held Savings	-	(13)	(13)	-	(123)	(123)	(155)
Total Expenditure	**23,887**	**22,020**	**(1,866)**	**232,059**	**219,322**	**(12,737)**	**265,176**
EBITDA	**1,248**	**1,621**	**(374)**	**12,037**	**15,517**	**(3,479)**	**16,232**
Loss on Disposal of Assets	-	-	-	-	-	-	-
Plus Interest Receivable	2	6	(4)	27	59	(32)	71
Less Interest Payable	233	238	5	2,294	2,331	37	2,808
Less Depreciation	777	908	131	7,476	9,083	1,606	10,899
Less PDC Dividend	241	216	(25)	2,336	2,163	(173)	2,596
Net Surplus / (Deficit) - before Impairments	**(1)**	**264**	**(266)**	**(41)**	**1,999**	**(2,040)**	**0**
Less Impairments	-	-	-	-	-	-	-
Net Surplus / (Deficit)	**(1)**	**264**	**(266)**	**(41)**	**1,999**	**(2,040)**	**0**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**14**	**280**	**(266)**	**30**	**2,071**	**(2,040)**	**1,091**

3.2. The year-to-January 2014 shows a break-even position. The key reasons underpinning the position are detailed in the following paragraphs.

3.2.1. **Income** is £9.3m 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 the transfer of services to local authorities and the transfer of estates of c£15m from commissioners (previously funding resided with Primary Care Trusts). Settlement of this debt remains unconfirmed, so this remains a risk. The NHS TDA and NHS England (NHSE) are currently considering whether to conduct an arbitration process on this matter. The Trust has indicated it is prepared to participate in this process and is preparing the case in readiness for arbitration.

3.2.3. An on-going issue creating some risk is the inability to extract complete activity information from the new Electronic Patient Record (EPR) system. Since month six, activity and consequently income, has been estimated based on activity in months one to five.. This means the income reflected in the Trust's 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 North Central London (NCL) block contract. The further risk is that non-contract commissioners will not pay for late reported activity. The Trust is working with the EPR supplier to implement a fix with an anticipated completion date in March.

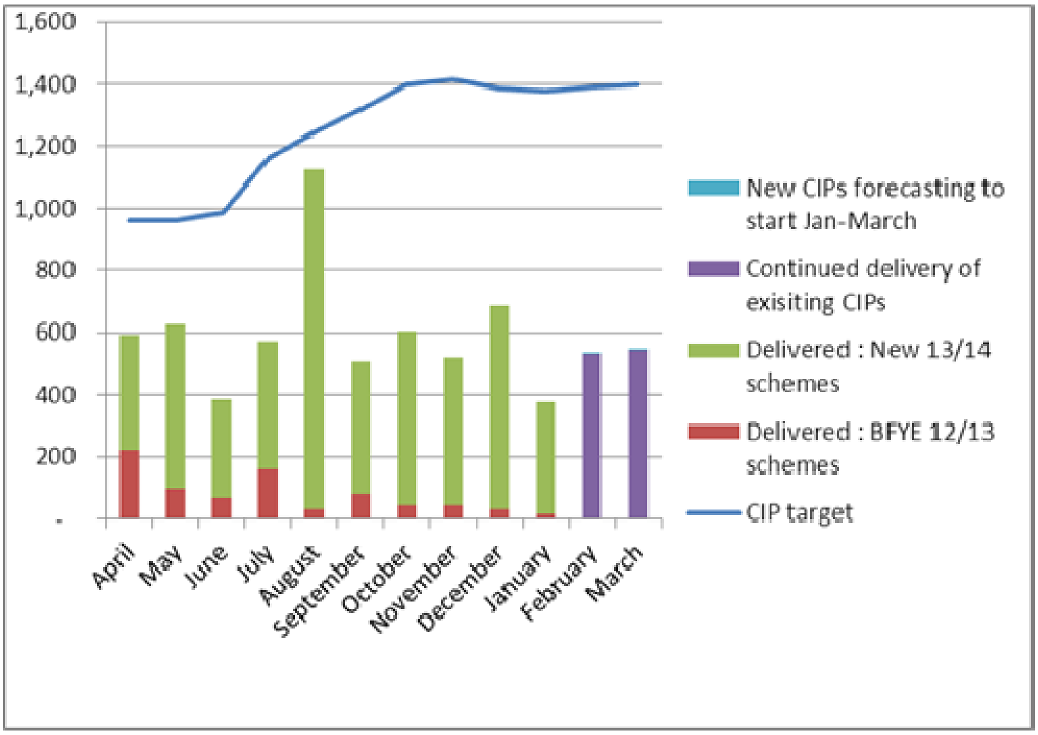
3.2.4. **Pay** costs are £10.5m adverse to budget due to shortfalls in the delivery of savings programmes, as well as the need to invest in returning patient waiting times to correct levels. A key component is the high use of flexible workers. Agency expenditure is £5.1m above 2012/13 levels to underpin 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 (£1.8m), medical (£1.8m) and nursing staffing (£1.1m); bank staffing is £1.4m higher driven by nursing (£1.1m) 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 £2.1m 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 10 was 51% below plan, delivering £6.0m (2.5% 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 - CIP YTD performance and forecast



4.2 The key reasons behind the year-to-date shortfall:

- Priority to meet ED four-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 ED and non-elective areas. Under a cost and volume contract, such activity would result in 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 £8.3m – see Figure 3 below.

Figure 3 – Year-to-date Underlying Financial Position

	Plan £m	Actual £m	Variance £m
Month 10 / Jan results	2.1	0.0	(2.1)
Reserves – non recurrent	0.0	(8.3)	(8.3)
Month 9 underlying	**2.1**	**(8.3)**	**(10.4)**

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 cost savings plans were identified as required. A £4.2m cost reduction target was set and allocated to divisions and corporate areas, profiled to achieve from October onwards, with a target to deliver £1m per month reduction in the cost run-rate by April 2014.

6.2. The Trust has currently identified cost reduction plans to deliver £2.1m of the £4.2m target (including plans to reduce bank and agency staffing costs). Further plans are in place 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 as per paragraph 6.4.

6.3. The month 10 YTD achievement against the profiled savings target shows £1,123k identified against a £2,202k target, with £659k of savings delivered to January.

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	207	395	227	154	-72	-52
SCD	737	369	442	228	63	-165	-306
WCF	960	480	340	230	286	56	-194
Agency	1,292	794	622	248	0	-248	-794
Corporate	704	352	302	190	155	-35	-196
Total	**4,202**	**2,202**	**2,101**	**1,123**	**659**	**-464**	**-1,543**

6.4. Delivery of the full £4.2m savings target represents a key component of the forecast in order for the Trust to achieve the planned outturn breakeven position. The plan to address the current shortfall as part of delivering the forecast breakeven position is through: (i) forecast achievement against the £4.2m cost reduction target - £2.1m (Fig 4); (ii) emergency readmissions income - £1.1m; and (iv) further income recognising contract overperformance (not confirmed) - £1m. Total - £4.2m (risk: £1m). This includes an assumption that the run rate will not further deteriorate due to increased operating expenditure.

7. Forecast

7.1. In spite of the adverse variances reported above, the Trust continues to forecast the delivery of a break-even position, consistent with the annual plan. The Trust Board will formally review this position following publication of the February (month 11) financial position, which allows new in-year savings to demonstrate delivery.

7.2. There remains a 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 £1.1m.

7.3. In addition, there are also the income risks outlined in Section 10. 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 – YTD January actual performance against forecast by division

Division	Variance against forecast control total £000's
ICAM	(781)
SCD	151
WCF	630
Corporate	361
Total	**361**

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

7.5.1. ICAM - £781k adverse due to high levels of medical specialty agency and on-going pressures in district nursing and ED.

7.5.2. SCD - £151k favourable variance due to lower levels of theatre medical staffing and non-pay.

7.5.3. WCF - £630k favourable variance. Improved sickness within midwifery leading to reduced agency costs combined with various increases in increased income including sexual health and Child and Adolescent Mental Health Services (CAMHS).

7.5.4. Corporate - £361k favourable where costs have been less than expected across a range of areas as well as unexpected additional income in catering and medical education.

8. Divisional Performance

Figure 6 – Month 10 Income and Expenditure by Division

Division		Month 10			Year to Date		
		Actual	Budget	Variance	Actual	Budget	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Integrated Care & Acute Medicine	Income	1,538	950	588	12,777	9,532	3,245
	Expenditure	8,104	6,685	(1,419)	75,944	66,997	(8,948)
	Total	**(6,566)**	**(5,736)**	**(830)**	**(63,167)**	**(57,465)**	**(5,702)**
Surgery, Cancer & Diagnostics	Income	629	286	342	3,403	2,918	485
	Expenditure	4,961	4,536	(425)	49,596	45,180	(4,416)
	Total	**(4,332)**	**(4,249)**	**(82)**	**(46,193)**	**(42,261)**	**(3,932)**
Women, Children & Families	Income	1,351	1,150	201	11,982	11,503	479
	Expenditure	5,526	5,361	(165)	54,383	53,241	(1,143)
	Total	**(4,176)**	**(4,212)**	**36**	**(42,401)**	**(41,738)**	**(663)**
Corporate	Income	21,617	21,256	361	215,934	210,885	5,049
	Expenditure	5,296	5,438	142	52,135	53,905	1,770
	Total	**16,321**	**15,818**	**503**	**163,799**	**156,981**	**6,818**
TOTAL	Income	**25,134**	**23,642**	**1,493**	**244,097**	**234,839**	**9,258**
	Expenditure	**23,887**	**22,020**	**(1,866)**	**232,059**	**219,322**	**(12,737)**
	EBITDA	**1,248**	**1,621**	**(374)**	**12,037**	**15,517**	**(3,479)**

Divisional summary – YTD

8.1. ICAM - £5.7m adverse of which the CIP underperformance is £1.5m. Further drivers of the adverse position include additional expenditure to meet both ED 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 - £3.9m 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 and surgical outliers, high agency and clinical supplies usage and underachievement against the divisional overseas visitors' income target. Winter pressure costs are being offset by additional funding from commissioners.

8.3. WCF - £0.7m adverse, of which the CIP underperformance is £0.3m. 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 - £5.8m favourable, including CIP underperformance of £0.5m, 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 January 2014 £000**	**As at 31st March 2014 £000**
Property, plant and equipment	137,747	163,417	178,183
Intangible assets	1,411	5,686	5,435
Trade and other receivables	635	1,046	610
Non-current assets	**139,792**	**170,149**	**184,228**
Inventories	1,290	1,401	1,290
Trade and other receivables	11,042	24,503	21,924
Cash and cash equivalents	15,088	10,910	876
Current assets	**27,420**	**36,815**	**24,090**
Trade and other payables	32,107	38,647	36,926
Borrowings	1,146	1,146	1,131
Provisions	4,292	583	578
Current liabilities	**37,545**	**40,376**	**38,634**
Net Current liabilities	**10,124**	**3,562**	**14,544**
Borrowings	38,593	36,504	36,813
Provisions	1,764	2,293	2,342
Non-current liabilities	**40,356**	**38,797**	**39,155**
Total assets employed	**89,312**	**127,790**	**130,528**
Public dividend capital	53,344	63,682	56,105
Retained earnings	5,299	18,574	18,918
Revaluation reserve	30,668	45,534	55,505
Total taxpayers' equity	**89,312**	**127,790**	**130,528**

9.1. Since November, cash has increased by £2.4m to £10.9m. The majority of this balance will be applied in repaying £8.5m short term PDC and £1.5m PDC dividend in March.

9.2. On-going discussions with the NHS TDA concerning the funding of costs and the outcome will influence the requirement for longer term borrowing. The NHS TDA and NHSE are currently considering whether to conduct an arbitration process on this matter. The Trust is preparing the case in readiness for arbitration.

9.3. 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. If the Trust is unsuccessful in securing the shortfall in community estates funding identified, and is, nevertheless, required to settle the related liabilities, permanent borrowing will be required. We are updating income forecasts 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 March Board.

9.4. The forecast cash position is contingent upon a) the income and expenditure 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.

9.5. 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
- the Trust secures the SLA income appropriate for 2014/15 planned expenditure levels.
- the Trust secures the full missing funding for the transfer of community estates and avoids any other legacy cash liabilities from PCTs (this factor is reflected in the high level of debtors in the balance sheet - £25m).
- the Trust avoids 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 Trust is seeking to recover from commissioners the funding for estates and IT services transferred from PCT's, which is not included in contracts. The NHS TDA and NHSE are currently considering whether to conduct an arbitration process on this matter. The Trust is preparing the case in readiness for arbitration. In reporting the month 10 position, this income has been accrued and is expected to be paid.

10.2 Transfer of residual Primary Care Trust (PCT) balances: As part of the dissolution of the PCTs, NHSE 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.