The Whittington Hospital NHS Trust
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Whittington Health Trust Board

2nd April 2014

Title:	**Financial Position – Month 11 (February 2014)**		
Agenda item:	**14/069**	**Paper**	**5**
Action requested:	For agreement.		
Executive Summary:	**This paper provides an overview of the financial performance to 28th February 2014 (Month 11) and year end forecast financial position. Key headlines:** • Financial results to the end of February 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 February in-month position is a small surplus of £50k. • Approximately £8.3m reserves have been used to support the position to date. Additional income from winter pressures emergency re-admission funding and further income negotiated with commissioners also support the position. The use of reserves underpins cost pressures relating to waiting times activity and related non-delivery of savings targets. • The Trust has secured the £8.3m funding for Community Estates and IT costs for 2013/14 and, subject to resolution of some queries on IT, will receive this on a recurrent basis from 2014/15.		
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:	26th March 2014		
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Month 11 Finance Report

1. Introduction

1.1. This paper summarises the Trust's financial results for the period to February 2014 (Month 11) and sets out the latest forecast to year end.

1.2. Performance in February shows a small surplus, which maintains break even against the year-to-date position to February. 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 negotiated from commissioners no further reserves were required in February.

2. Key Information

2.1. The year-to-February 2014 shows a break-even position. This is £1.6m adverse compared to the plan. The in-month result for February is a small surplus, £0.4m favourable to the planned deficit for February. The forecast for the year end remains break even.

2.2. Total income is 4.0% 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 5.6% in excess of plans. This has also resulted in a drop in the EBITDA margin to 5.0% (compared to a plan of 6.4%).

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 £7.1m with a further contribution from the additional target of £4.2m (some of which has now been delivered through additional income). This combined delivery (£11.3m) together with the utilisation of reserves should ensure the Trust achieves a break-even position in 2013/14.

2.4. Since November cash has increased by £0.9m to £11.8m. The majority of this balance will be applied in repaying £8.5m short term public dividend capital (PDC) in March.

2.5. As reported previously, the use of reserves exposes the historically weak balance sheet. Islington and Haringey CCG's have agreed to fund the full £8.3m in community estates and IT costs in 2013/14. They have also agreed to fund these costs recurrently subject to resolution of some queries. As a result of the successful resolution of this issue, the request for arbitration has been dropped and there is not a requirement for long term borrowing. However, there is pressure on the cash position and as a result the finance department are placing greater emphasis on cash management.

2.6. Summary of divisional performance against budget.

2.6.1. Integrated Care and Acute Medicine (ICAM) - £0.4m adverse in month and £6.1m adverse year-to-date (YTD). CIP underperformance of £1.6m YTD

2.6.2. Surgery, Cancer and Diagnostics (SCD) - £0.3m adverse in month and £4.3m adverse YTD. CIP underperformance of £0.6m YTD

2.6.3. Women, Children and Families (WCF) – Break even in month and £0.7m adverse YTD. CIP underperformance of £0.5m YTD

2.6.4. Corporate - £1.0m favourable in month and £7.8m favourable YTD. CIP underperformance of £0.6m YTD. The favourable position is underpinned by £8.3m non-recurrent benefit from reserves.

2.6.5. The balance of CIP under performance relates to £1.7m of Trust-wide schemes and £2.0m of unidentified schemes.

3. Income Statement

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

Figure 1 – Month 11 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	18,390	19,822	(1,432)	219,289	223,251	(3,962)	243,777
Non NHS Clinical Income	1,488	674	815	15,058	7,495	7,563	8,169
All Other Non Clinical Income	4,276	2,481	1,795	33,904	27,070	6,834	29,472
Total Income	**24,154**	**22,977**	**1,177**	**268,251**	**257,816**	**10,435**	**281,418**
Pay	17,543	16,081	(1,462)	189,864	177,913	(11,951)	194,131
Non Pay	5,287	5,914	627	65,026	63,527	(1,499)	71,211
Centrally Held Savings	-	(13)	(13)	-	(137)	(137)	(155)
Total Expenditure	**22,831**	**21,982**	**(849)**	**254,890**	**241,304**	**(13,586)**	**265,186**
EBITDA	**1,324**	**995**	**328**	**13,361**	**16,512**	**(3,151)**	**16,232**
Loss on Disposal of Assets	-	-	-	-	-	-	-
Plus Interest Receivable	4	6	(2)	32	65	(33)	71
Less Interest Payable	210	238	28	2,504	2,569	65	2,808
Less Depreciation	837	908	71	8,313	9,991	1,678	10,899
Less PDC Dividend	231	216	(15)	2,567	2,380	(187)	2,596
Net Surplus / (Deficit) - before Impairments	**50**	**(361)**	**412**	**9**	**1,637**	**(1,628)**	**0**
Less Impairments	-	-	-	-	-	-	-
Net Surplus / (Deficit)	**50**	**(361)**	**412**	**9**	**1,637**	**(1,628)**	**0**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**79**	**(333)**	**412**	**109**	**1,738**	**(1,628)**	**1,091**

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

3.2.1. **Income** is £10.4m favourable against plan due to largely 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. The previously reported risk relating to the transfer of community estates of £8.3m has now has been resolved and agreement has been reached for the Trust to receive the full amount due for 2013/14.

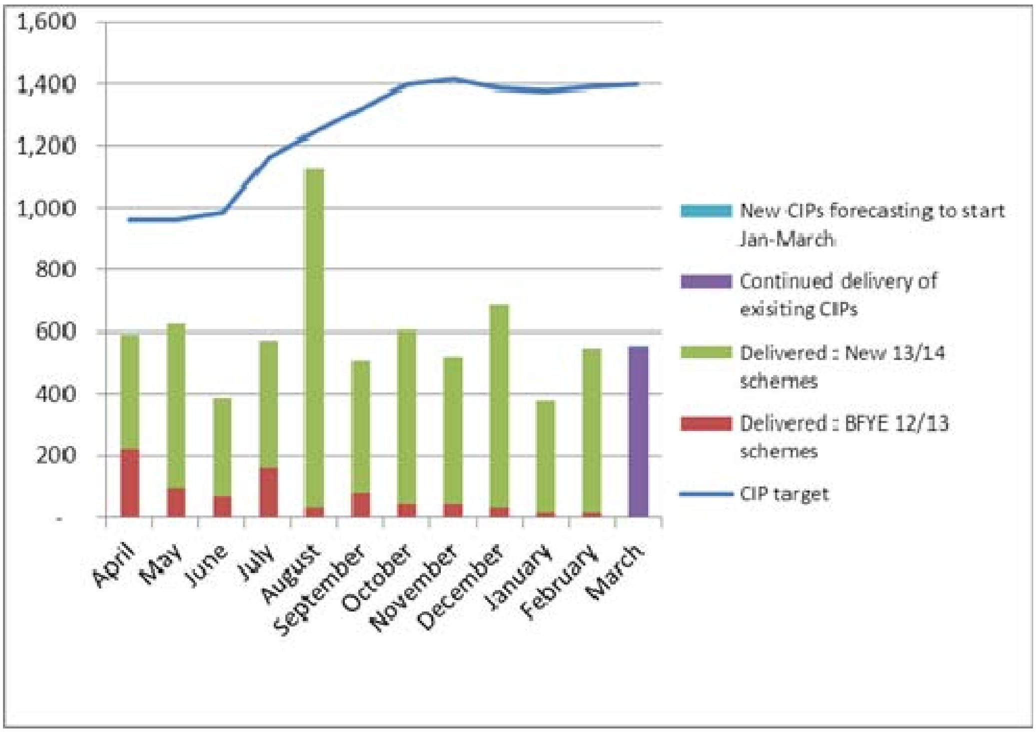
3.2.3. **Pay** costs are £12.0m adverse to budget due to shortfalls in the delivery of savings programmes, as well as the need to invest in returning patient waiting times to correct levels. A key component is the high use of flexible workers. Forecast agency expenditure in 2013/14 is c £17m (£5.5m above 2012/13 levels). This is being used to underpin increased activity, 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 (£1.7m), medical (£2.1m) and nursing staffing (£1.3m); bank staffing is £1.7m higher driven by nursing (£1.3m) and admin (0.5m). HR has been implementing changes to the recruitment process to reduce the reliance upon agency staff in favour of substantive post holders.

3.2.4. **Non-pay** is £1.5m 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 11 was 52% below plan, delivering £6.5m (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 11 / Feb results	1.6	0.0	(1.6)
Reserves – non recurrent	0.0	(8.3)	(8.3)
Month 11 underlying	**1.6**	**(8.3)**	**(9.9)**

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). To partly bridge the gap an additional £2.1m funding has been agreed with CCGs to reflect over-performance against the 2013/14.

6.3. The month 11 YTD achievement against the profiled savings target shows £1,634k identified against a £3,102k target, with £843k of savings delivered to February.

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	Forecast benefit by 31.3.14 £'000	Forecast shortfall against target £'000
ICAM	509	333	395	311	159	243	-266
SCD	737	530	442	335	180	287	-450
WCF	960	690	340	254	306	328	-632
Agency	1,292	1,043	622	487	0	9	-1,292
Corporate	704	506	302	246	198	250	-454
Total	**4,202**	**3,102**	**2,101**	**1,634**	**843**	**1,108**	**-3,094**

6.4. Delivery of the full £4.2m savings target was a key component of the forecast in order for the Trust to achieve the planned outturn breakeven position. However, based on performance in delivering the required savings as at the end of February, the forecast benefit to be achieved by 31st March has been revised down to £1.1m.

6.5. The plan to address the shortfall as part of delivering the forecast breakeven position is through: (i) forecast achievement against the £4.2m cost reduction target - £1.1m (Fig 4); (ii) emergency readmissions income - £1m; income to support winter costs - £1.1m and (iv) further income recognising contract over-performance - £1m (now confirmed). 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.

7.2. 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 February actual performance against forecast by division

Division	Variance against forecast control total £000's
ICAM	(616)
SCD	213
WCF	771
Corporate	50
Total	**418**

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

7.3.1. ICAM - £616k adverse due to high levels of medical specialty agency and on-going pressures in district nursing and ED.

7.3.2. SCD - £213k favourable variance due to lower levels of theatre medical staffing and non-pay.

7.3.3. WCF - £771k favourable variance. Improved sickness within midwifery leading to reduced agency costs combined with various non-recurrent increases in income including sexual health and Child and Adolescent Mental Health Services (CAMHS).

7.3.4. Corporate - £50k favourable due mainly to unexpected additional non-recurrent income in catering and medical education.

8. Divisional Performance

Figure 6 – Month 11 Income and Expenditure by Division

Division		Month 11			Year to Date		
		Actual	Budget	Variance	Actual	Budget	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Integrated Care & Acute Medicine	Income	1,562	948	614	14,340	10,480	3,860
	Expenditure	7,635	6,652	(983)	83,580	73,649	(9,931)
	Total	**(6,073)**	**(5,704)**	**(369)**	**(69,240)**	**(63,169)**	**(6,071)**
Surgery, Cancer & Diagnostics	Income	469	286	184	3,872	3,204	668
	Expenditure	5,055	4,548	(507)	54,651	49,728	(4,923)
	Total	**(4,585)**	**(4,262)**	**(324)**	**(50,779)**	**(46,523)**	**(4,255)**
Women, Children & Families	Income	1,255	1,108	146	13,237	12,611	626
	Expenditure	5,437	5,293	(144)	59,821	58,534	(1,287)
	Total	**(4,183)**	**(4,185)**	**2**	**(46,584)**	**(45,922)**	**(661)**
Corporate	Income	20,868	20,635	233	236,802	231,521	5,282
	Expenditure	4,703	5,489	786	56,839	59,393	2,555
	Total	**16,165**	**15,146**	**1,018**	**179,964**	**172,127**	**7,837**
TOTAL	Income	**24,154**	**22,977**	**1,177**	**268,251**	**257,816**	**10,435**
	Expenditure	**22,831**	**21,982**	**(849)**	**254,890**	**241,304**	**(13,586)**
	EBITDA	**1,324**	**995**	**328**	**13,361**	**16,512**	**(3,151)**

Divisional summary – YTD

8.1. ICAM - £6.1m adverse of which the CIP underperformance is £1.6m. Further drivers of the adverse position include additional expenditure to meet both ED and RTT targets, increased district nursing activity, 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 - £4.3m 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 £0.5m. 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 income due to commissioning changes.

8.4. Corporate - £7.8m favourable, including CIP underperformance of £0.6m, linked to the release of reserves and additional income from CCGs 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 28th February 2014 £000**	**Forecast as at 31st March 2014 £000**
Property, plant and equipment	137,747	165,436	178,539
Intangible assets	1,411	5,561	5,435
Trade and other receivables	635	1,295	610
Non-current assets	**139,792**	**172,291**	**184,584**
Inventories	1,290	1,366	1,290
Trade and other receivables	11,042	22,617	18,824
Cash and cash equivalents	15,088	11,760	3,976
Current assets	**27,420**	**35,743**	**24,090**
Trade and other payables	32,107	39,999	36,926
Borrowings	1,146	1,146	1,131
Provisions	4,292	543	578
Current liabilities	**37,545**	**41,689**	**38,634**
Net Current liabilities	**10,124**	**5,946**	**14,544**
Borrowings	38,593	36,212	36,813
Provisions	1,764	2,293	2,342
Non-current liabilities	**40,356**	**38,505**	**39,155**
Total assets employed	**89,312**	**127,840**	**130,884**
Public dividend capital	53,344	63,682	56,461
Retained earnings	5,299	18,629	18,918
Revaluation reserve	30,668	45,528	55,505
Total taxpayers' equity	**89,312**	**127,840**	**130,884**

9.1. Since November, cash has increased by £0.9m to £11.8m. The majority of this balance will be applied in repaying £8.5m short term PDC in March.

9.2. A paper covering cash requirements was presented to the Resources and Planning Committee in March. Now that the Trust has been successful in securing the shortfall in community estates funding, permanent borrowing will not be required. There may be a reduced borrowing requirement in early April. The TDA has agreed that the Trust may borrow short term PDC as required. However, the Board will recognise that the Trust's ability to avoid borrowing cash is directly related to the future delivery of breakeven.

9.3. 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 from April 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 avoids cash liabilities associated with the transfer of residual Primary Care Trust balance sheet items

9.4. Retained earnings increase by £13.6m and Revaluation Reserve increases by £24.8m from 1/4/13 to 31/3/14. This is due to way the NHS has accounted for the acquisition of former PCT assets of £28.5m and the forecast increase in revaluation of the estate at 31/3/14 of £10m.