The Whittington Hospital NHS Trust
Magdala Avenue
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Whittington Health Trust Board

7th May 2014

Title:	**Financial Performance – pre-audited Final Accounts for the year ended 31st March 2014**		
Agenda item:	**14/087**	**Paper**	**6**
Action requested:	For agreement.		
Executive Summary:	**This paper provides an overview of the financial performance for the year ended 31st March 2014. Key headlines:** • The financial performance for the year ended 31st March 2014 shows a break-even position before impairments of £3.1m. Our accounts show an adjusted surplus of £1.1m, after a (technical accounting) adjustment for the cost of the PFI. • This is a creditable performance but the Board will be aware that the position was supported by the application of reserves. • The Trust delivered savings of £8m against a target of £15m. • The Trust agreed an £8.3m increase in funding for community estates and IT costs for 2013/14, and, subject to resolution of some queries on IT, is expected to receive this on a recurrent basis from 2014/15. • £30m of legacy assets were transferred to the Trust from Islington and Haringey Primary Care Trusts (PCTs) on 1/4/13. • Cash balance is £5m at year end.		
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.		
Date paper completed:	29th April 2014		
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Finance Report - pre-audited Final Accounts for the year ended 31st March 2014

1. Introduction

1.1. This paper summarises the Trust's pre-audited financial results for the year ended 31st March 2014.

1.2. Performance in March and for the full year shows break-even. Approximately £8.3m of reserves has been used during the year to underpin the position in order to address additional costs for waiting times' activity and under-delivery of the original savings plan. Due to extra income negotiated from commissioners, no further reserves were required in March.

2. Key Information

2.1. The year ended 31st March 2014 shows a break-even position in line with the plan.

2.2. The net position before adjustments is a deficit of £(3.1m) (see Net Surplus/(Deficit) before adjustments in Figure 1). This is after charging £3.1m of impairments on revaluation of fixed assets to the income and expenditure account.

2.3. Performance against the break even duty is shown by adding back the impairments of £3.1m and making adjustments for the PFI and donated assets of £1.1m ("technical adjustments"). This shows that the Trust meets the target agreed with the NHS Trust Development Authority (TDA) of a £1.1m surplus (see Adjusted Net Surplus/(Deficit) in Figure 1).

2.4. Total income is 5.6 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 5.6 per cent in excess of plans. The EBITDA margin is 5.3 per cent compared to a plan of 5.8 per cent.

2.5. In order to address pressures on the financial position, the Trust has applied £8.3m reserves to support required spending levels. The Trust has delivered savings of £8m from a combination of the original Cost Improvement Programme (CIP) of £15m and the development of £4.2m additional savings schemes in-year. Additional income of £3.2m was agreed giving a total benefit of £11.2m. The above measures have ensured the Trust achieved a break-even position in 2013/14.

2.6. Cash has decreased by £10m in April 2013 to £5m at year end. £8.5m of short term public dividend capital (PDC) was drawn down in November/December to cover working capital cash flow requirements and repaid in March. The reduction in cash balance reflects the operational overspend. Additionally, the Trust paid off £2m in capital creditors brought forward in April 2013.

2.7. The use of reserves has weakened the balance sheet. The Trust has made provisions for known and expected liabilities. However, there is not the capacity within the balance sheet to provide support to the operational cost base in future.

2.8. Islington and Haringey Clinical Commissioning Groups (CCGs) provided £8.3m in 2013/14 to bring funding of community estates and IT costs to the full requisite amount. They have also agreed to fund these costs recurrently subject to resolution of some queries.

Statement of Comprehensive Income (SOCI)

2.9. The Statement of Comprehensive Income for the Year Ended 31st March 2014 is set out below:

Figure 1 – Statement of Comprehensive Income

Description	Year Ended 31st March 2014			Y/E 31/3/13
	Actual £'000	Budget £'000	Variance £'000	Actual £'000
NHS Clinical Income	247,615	243,777	3,837	241,664
Non NHS Clinical Income	16,481	8,169	8,312	7,048
All Other Non Clinical Income	33,302	29,677	3,625	32,631
Total Income	**297,397**	**281,623**	**15,774**	**281,343**
Pay	208,501	194,356	(14,145)	197,537
Non Pay	74,224	71,191	(3,033)	66,633
Centrally Held Savings	-	(155)	(155)	0
Total Expenditure	**282,725**	**265,391**	**(17,333)**	**264,170**
EBITDA	**14,673**	**16,232**	**(1,559)**	**17,173**
Loss on Disposal of Assets	-	-	-	79
Plus Interest Receivable	35	71	(36)	60
Less Interest Payable	2,783	2,808	24	2,673
Less Depreciation & Impairments	12,228	10,899	(1,329)	13,583
Less PDC Dividend	2,854	2,596	(258)	2,666
Net Surplus / (Deficit) before adjusting for Impairments, IFRS & Donated assets (relevant for break-even duty)	**(3,158)**	**0**	**(3,158)**	**(1,768)**
Add back Impairments & adjust for IFRS & Donated assets	4,286	1,091	3,195	5,382
Adjusted Net Surplus / (Deficit) - including Impairments due to Revaluation of Fixed Assets	**1,128**	**1,091**	**37**	**3,614**

2.10. The net position before adjustments is a deficit of £(3.1m) (see Net Surplus/(Deficit) before adjustments in Figure 1). This is after charging £3.1m of impairments on revaluation of fixed assets to the income and expenditure account.

2.11. Performance against the break even duty is shown by adding back the impairments of £3.1m and making technical adjustments for the PFI and donated assets of £1.1m. This shows that the Trust meets the target agreed with the TDA of a £1.1m surplus (see Adjusted Net Surplus/(Deficit) in Figure 1).

2.12. The key reasons under-pinning the position are detailed in the following paragraphs.

2.12.1. **Income** is £15.8m favourable against plan due to the following:

Figure 2 - Income

Description	£m
Reserves	8.3
Winter pressures	3.4
Over performance	2.0
Re Admissions	1.1
Maternity Pathway & other	1.0
Total	**15.8**

2.12.2. The Trust has applied £8.3m reserves largely to support waiting list reduction activity and under achievement of savings targets. Within clinical income, there is underperformance against contracted levels in critical care and neonatal special care (the billing of this activity is under review pending robust activity information from Electronic Patient Record (EPR) and Service Level Agreement Monitoring (SLAM) systems). £3.4m of winter pressures monies was received. The Trust negotiated c£3.5m further income from commissioners and received a one-off benefit with the introduction of the new maternity tariff.

2.12.3. The risk relating to the transfer of community estates of £8.3m in 2013/14 has now has been resolved and agreement has been reached for the Trust to receive the full amount due for 2013/14.

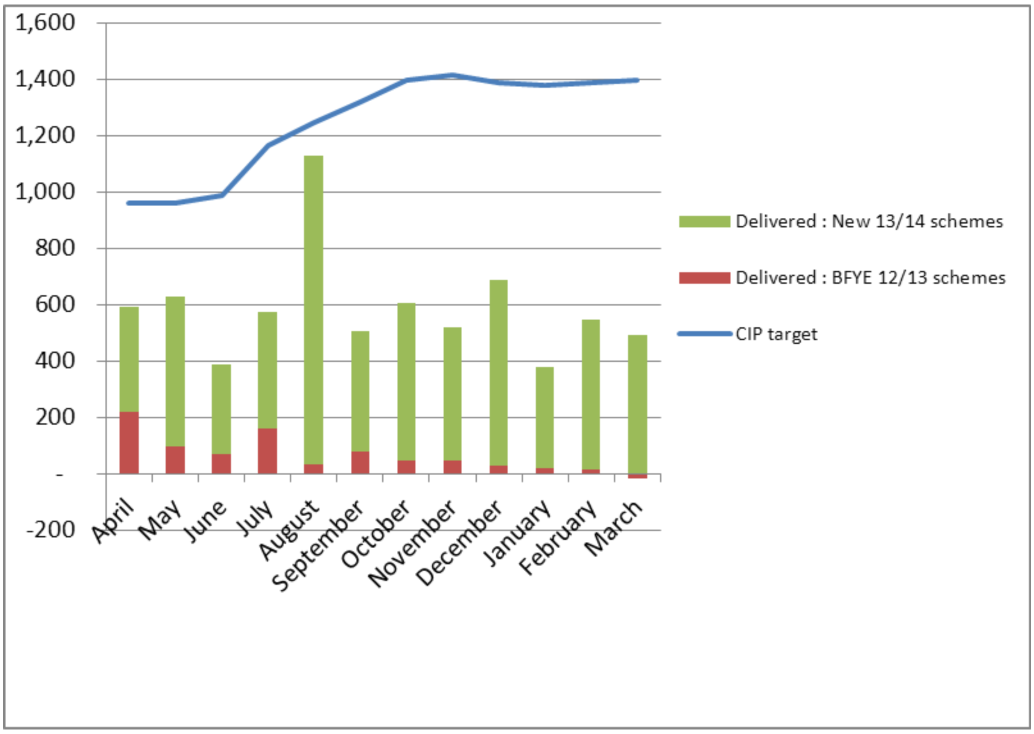
2.12.4. Pay costs are £14.1m adverse to budget due to shortfalls in the delivery of savings programmes, as well as the need to invest in returning patient waiting times to correct levels. A key component is the high use of flexible workers. Agency and locum expenditure in 2013/14 is c£18m (£6.4m above 2012/13 levels). This was used to underpin increased activity in the Emergency Department (ED), vacancy levels (around 11 per cent), sickness absence and specialling (one-to-one nursing care for high acuity patients). HR has been implementing changes to the recruitment process to reduce the reliance upon agency staff in favour of substantive post holders.

2.12.5. Non-pay is £3m adverse to budget - £2m is caused by shortfalls against savings targets and unplanned activity relating to waiting list targets. £1m is a non-operational technical adjustment relating to the PFI asset.

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

3.1. The Trust achieved £7m of the original £15m CIP target – 47 per cent of plan. This is 2.6 per cent of operating costs and includes a one-off £0.6m non-recurrent provision release (to underpin the waiting list initiative which prevents delivery of some original plans).

Figure 3 - <u>CIP year end performance</u>



3.2 The key reasons behind the shortfall:

- Priority to meet ED four-hour and RTT access targets conflicting with delivering cost reductions in these areas;
- Delay of the planned date for the ambulatory care centre to become operational;
- Some savings plans halted to avoid adverse impact on service quality and target delivery;
- Some estimates of savings in plans proved subsequently unrealistic.

3.3 As a direct result of the shortfall, all areas of the Trust identified further in year savings measures to underpin the use of reserves (as per paragraph 2.5).

3.4 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 was on a block contract we did not benefit and, therefore, have not included this impact. Once the reporting issues linked to EPR are resolved, it will possible to assess this linking to the 2014/15 contract to ensure that productivity improvement through volume increases is reflected.

4. Additional savings target - £4.2m

4.1. In order to achieve the breakeven position in 2013/14 further in-year cost savings plans were identified. 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.

4.2. The Trust identified cost reduction plans to deliver £1m of the £4.2m target. To bridge the gap an additional £3.2m funding was agreed with CCGs to reflect over-performance.

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

Figure 4 – Statement of Financial Position

Description	As at 1st April 2013 £000	As at 31st March 2014 £000
Property, plant and equipment	137,747	182,004
Intangible assets	1,411	5,428
Trade and other receivables	635	702
Non-current assets	**139,792**	**188,134**
Inventories	1,290	1,295
Trade and other receivables	11,042	17,527
Cash and cash equivalents	15,088	5,123
Current assets	**27,420**	**23,945**
Trade and other payables	32,107	36,048
Borrowings	1,146	1,376
Provisions	4,292	1,238
Current liabilities	**37,545**	**38,662**
Borrowings	38,593	36,758
Provisions	1,764	2,015
Non-current liabilities	**40,356**	**38,773**
Total assets employed	**89,312**	**134,643**
Public dividend capital	53,344	56,461
Retained earnings	5,299	15,240
Revaluation reserve	30,668	62,942
Total taxpayers' equity	**89,312**	**134,643**

5.1. Property, plant and equipment (PPE) assets increased by £44m in the year. On the dissolution of PCTs on 31st March 2013, NHS England co-ordinated a process of allocating PCT balance sheet values to successor bodies. Whittington Health acquired £31m of community property assets from Islington and Haringey PCT's on 1/4/13.

5.2. A mandatory interim asset revaluation was commissioned as at 31/3/14. PPE asset values increased by £13.4m. A full mandatory five-yearly asset revaluation will be performed as at 30th June 2014. The changes will be reflected in 2014/15 financial reporting and will affect depreciation and dividend charges.

5.3. Intangible assets increased by £4m in the year. The majority of this relates to software for the EPR system which was capitalised during the year.

5.4. Trade and other receivable balances increased by £6.5m. £1m was transferred from Islington and Haringey PCTs. £2.1m relates to Haringey CCG's settlement of the £8.3m 2013/14 community estates and IT funding (Islington paid in March).

5.5. Cash has decreased by £10m from £15m in April 2013 to £5m at year end. £8.5m of short term public dividend capital (PDC) was drawn down in November/December to cover working capital cash flow requirements and repaid in March. The reduction in cash balance reflects the operational overspend (supported partly by non-cash backed reserves). Additionally, the Trust paid off £2m capital creditors brought forward in April 2013.

5.6. The cash balance at year end is £5.1m and the Trust has received further non recurrent receipts in April of £2m giving a positive cash position early in the new year.

5.7. The April Board Report discussed the potential for a borrowing requirement in the new year and the TDA has agreed that the Trust may borrow short term PDC as required. Although the current, positive position obviates any immediate borrowing requirement, the Board will recognise that the Trust's ongoing ability to avoid borrowing cash is directly related to the future delivery of breakeven.

5.8. In order to prevent the situation deteriorating it is important that:

- a lower expenditure run rate is delivered in 2014/15, such that no underlying deficit position impacts the position going forward;
- the Trust secures the SLA income appropriate for 2014/15 planned and actual activity levels; and
- the Trust avoids cash liabilities associated with the transfer of residual Primary Care Trust balance sheet items.

5.9. Trade and other payable balances increased by £4m. £3m was transferred from Islington and Haringey PCTs. Of the closing balance, £2.8m relates to liabilities for rent etc on the Islington and Haringey community estates properties – owned by the two NHS property companies, Community Health Partnerships and NHS Property Services. The Trust is seeking to agree leases for these properties to establish with greater certainty its legal and financial commitments going forward.

5.10. Provisions decreased by £3m in the year. The majority of the decrease relates to a restructuring provision of which £2.1m was reversed and £0.4m was utilised.

5.11. Borrowings decreased by £1.6m in the year. The majority of this relates to the paying down of PFI and finance lease liabilities.

5.12. PDC increased by £3.1m due to:

Figure 5 - Movements in PDC 2013/14

Description	£000
Cash paid by NHS Legacy Team for inherited PCT liabilities	1,838
Maternity Capital - Improving birthing environment	650
IT Capital - Safer Hospitals, Safer Wards	273
IT Capital - Nursing Technology Fund	356
Total	**3,117**

5.13. Retained earnings increased by £9.9m and the Revaluation Reserve increased by £32.3m in the year. This is due to way the NHS has accounted for the acquisition of former PCT net assets transferred of c £29m and the increase in revaluation of the estate at 31/3/14 of £13.4m.

6. Final Accounts completion

6.1. Process for accounts completion:

- Draft accounts sent to auditors and TDA — 23rd April
- Audit commences — 6th May
- Draft accounts to Audit Committee — 12th May
- Audit completed — 16th May
- Audited accounts to Audit Committee — 4th June
- Audited accounts to Board — 4th June
- Audited accounts sent to DoH — 10th June

6.2 There are no anticipated risks to cause a material change in the draft and audited accounts.