

Whittington Health Trust Board

7th May 2014

Title:		Financial Plan for 2014-15					
Agenda item:		14/092		Paper		10	
Action requested:		For agreement					
Executive Summary:		<p>This paper outlines the annual Financial Plan for 2014/15 covering:</p> <ul style="list-style-type: none"> • Income and Expenditure • Balance Sheet • Income and Contracting • Savings 					
Summary of recommendations:		The Trust Board is asked to agree the content of the paper, and approve the Trust financial plan and budget for 2014/15.					
Fit with WH strategy:		The Plan underpins the delivery of all strategic goals.					
Reference to related / other documents:		TDA Planning Guidance 2014-19 (23/12/13) Trust Board Reports (January, March and April 2014)					
Reference to areas of risk and corporate risks on the Board Assurance Framework:		<p>Risk Register ID 93 – Risk of non-achievement of (cost improvement programme (CIP)).</p> <p>BAF: Delivering efficient and effective services, Ref 3.2.</p>					
Date paper completed:		30 April 2014					
Author name and title:		Paul McAuliffe Interim Deputy Director of Finance		Director name and title:		Simon Wombwell Interim Chief Financial Officer	
Date paper seen by EC	6/5/14	Equality Impact Assessment complete?	N/A	Risk assessment undertaken?	N/A	Legal advice received?	N/A

1. Introduction

This is the final draft of 2014/15 Financial Plan, which has been prepared in line with TDA planning guidance. The plan has been informed by discussions with senior managers across the Trust to review identified pressures and developments.

The Trust Board and the Resources and Planning Committee have reviewed and discussed previous drafts of the plan and enabled the completion of the papers for final submission to the TDA and upload to the Trust's finance ledger.

The 2014/15 Financial Plan is consistent with the two-year plan submitted to the Trust Development Agency (TDA) on 4th April 2014, and will form year one of the Trust's five year Long Term Financial Model (LTFM). The five year plan, to include the Integrated Business Plan (IBP) and LTFM, is due on 20th June 2014, followed by a Development Support Plan in September 2014.

2. Income and Expenditure Budget

2.1 Progress and principles

Budget setting is complete and a final budget statement for each directorate has been sent for agreement and sign off by the responsible director. It is expected that budget holders will sign off their budget statements with appropriate reference to risks. Each Directorate statement sets out the financial value, number of WTE's, assumptions and risks for the budget. These are being uploaded to the finance ledger.

2.2 Key assumptions

Baseline

Actual income and expenditure in 2013/14 for months one to six multiplied by two (to give a forecast of current expenditure levels) and then adjusted for projected, known cost pressures, service developments, inflation, tariff (price) deflation and savings plans.

Income

Income was adjusted from months one to six multiplied by two to include the outcome of contract agreements or, where agreement has not yet been finalised, our assessment of where contract negotiations will conclude with Clinical Commissioning Groups (CCGs), NHS England (NHSE) and Local Authorities.

Savings

A Trust-wide target of £15m (5 per cent) has been set and plans to achieve this will be delivered.

Reserves

A contingency reserve of £1.4m (0.5 per cent) is included within the budget.

Cost Inflation

Pay inflation budget set in line with the recent 1 per cent NHS Pay Award and non-pay inflation budget set to cover main areas of Clinical Negligence Scheme for Trusts (CNST), drugs and utilities.

2.3 Summary schedules

- Appendix 1 shows the income and expenditure account and balance sheet for 2014/15.
- Appendix 2 shows the income and expenditure account phased by month.
- Appendix 3 shows the monthly phasing of the savings programme.

3. Key elements of the 2014/15 Financial Plan

- 3.1. The plan delivers break even by the end March 2015 i.e. break even for the year overall.
- 3.2. During the year the Trust is planning small deficits in each of the first six months, followed by surpluses in the second six months (this is mainly linked to the profile of the delivery of savings plans).
- 3.3. The savings target is £15m.
- 3.4. The delivery of savings plans is profiled to deliver 40 per cent in the first half of the year (which means project milestones will need to be carefully monitored for those projects expected to be delivered in the second half of the year).

Summary Income and Expenditure Statement 2014/15

Description	2014/15
	Plan £'000
NHS Clinical Income	246,903
Non NHS Clinical Income	15,945
All Other Non Clinical Income ^{Note 1}	25,971
Total Income	288,819
Pay	204,954
Non Pay	67,024
Total Expenditure	271,978
EBITDA	16,841
Loss on Disposal of Assets	0
Plus Interest Receivable	30
Less Interest Payable	2,820
Less Depreciation & Impairments	9,725
Less PDC Dividend	4,326
Net Surplus / (Deficit) before adjusting for Impairments	0

4 Income and contracting

4.1 Clinical Commissioning Groups

Contracts with our main commissioners, Islington and Haringey CCGs, have been agreed. The key elements of the contract:

- Contract is split into two elements: payment by results for acute activity (quarter two onwards) and block contract for community services.
- Contract value based on 2013/14 outturn with activity growth in demand assumed for acute at c. three per cent and for community services at five per cent.
- Funding included for the Ambulatory Care Centre and TB hub.
- Payment by Results Contract includes a “Cap and Collar” arrangement to maximize over or underpayments for changes in activity compared to the original plan.
- Impact of productivity metrics including first to follow up ratios to be deducted from the contract value.
- CQUINs will be paid in line with delivery, and penalties for missed targets will be applied in full (acute).
- Commissioners take the risk on delivery of QIPP schemes, which will be monitored jointly by the trust and the CCGs.

The same principles will apply to the other CCGs, and to the local authorities that are associates¹ to the CCG contract; these contract values are still subject to final contract sign-off.

4.2. Other key contracts

NHS England and local authorities:

Contract discussions with NHS England are largely agreed and are likely to be concluded shortly, with contract values agreed at or above 2013/14 outturn values.

- Mix of block (non-specialist elements) and Payment by Results (PbR) for specialist elements.

Local authorities:

Local authority contract discussions are largely concluded with values remaining at last year's levels. Contract discussions with London Borough of Haringey (LBH) for sexual health services have proved very challenging due to the significant reduction in contract value that LBH originally proposed; negotiations have now been concluded and contract signature is expected shortly (this was one area where we accepted a reduction in the contract value from £3.2m to £2.99m, with adjustments if activity levels are above contract).

¹ CCGs in north central London agreed that they would share/adopt the contract form agreed by the host commissioner. This means CCGs do not have to negotiate separately with every provider.

Clinical Commissioning Groups – non-commissioned activity (NCA):

The Trust does not have a formal contract with every CCG in England. If a patient is treated from 'out of area' this activity is charged under Payment by Results.

Education and Training:

Contract signed with initial value below last year's levels (in line with expectations). This was expected following policy changes around the allocation of education and training money nationally.

5. Savings Plan

The Trust has plans to deliver a savings totalling £15m. As described in previous planning papers to the Board, this is made up of:

1. Value Improvement Projects
2. Trust-wide initiatives
3. Two per cent targets across all divisions

The April Board paper described a shortfall ('planning gap') against the savings target of c£5m i.e. plans in place totalled £10m against the £15m target.

CIP Programme	2014/15 £m
CIP Target	(15.0)
Transformational projects	3.1
High level efficiencies	2.7
2% schemes	3.8
Sub total Plans	9.6
Planning Gap @ 2 April	(5.4)
2% schemes to be found	1.5
Variance	(3.9)

Further development of CIP Plans

The Executive were requested by the Board to develop further proposals to close the gap and target the delivery of £15m savings. The new schemes reflect further focus on reducing agency spend (c£17m in 2013/14), increasing the challenge to save on the non-front line functions and the closure of shortfalls against original targets.

Development of Savings Plans	Rec £m	Non Rec £m
Planning Gap to close	(5.4)	
1 Temporary Staffing reduction	2.0	
2 Further (+1.5%) target on Corporate	0.8	
3 Close 2% Schemes	1.3	
Income related initiatives (margin only):		
4 Waiting List initiative (UCLH, BCF etc)		0.2
5 Develop private activity	0.03	
6 Transformation schemes stretch	0.3	
7 Technical adjustments		0.95
Total	4.33	1.1
Revised Planning Gap @ 15 April	(1.1)	1.1

6 Risks and contingencies

A review and assessment of risk to the financial plan has been conducted. Risks have been split into two:

- Substantive financial risks
- Process risks

6.1 Substantive risks

The substantive risks are summarised below. This is analysed in terms of 100 per cent of the risk crystallising and then abated to an estimated (more realistic) 50 per cent impact. Further consideration is given to the contingencies that we may employ to manage the risks if they occur in year.

The largest risks identified are:

1. Delivery of the CIP programme (£4m)
2. The estimated cost of implementing the seven-day service initiative.

Key Risks		
Description	100% Value (£m)	50% Value (£m)
1 Islington and Haringey PbR contract	(2.50)	(1.25)
2 Community Estates (£8.3m)	(0.70)	(0.35)
3 CQUIN underperformance	(0.50)	(0.25)
4 Penalties	(0.04)	(0.02)
5 CIP slippage	(4.00)	(3.00)
6 Cost of 7 day services without funding		
Total estimated Risk	(7.74)	(4.87)
<u>Contingencies:</u>		
1 Corporate Contingency Reserve	1.40	1.40
2 CCG Risk Pool application	2.50	2.50
3 Expenditure freeze	0.34	0.25
4 Negotiate CCG or TDA support		0.72
Residual Risk	(3.50)	0.00

6.2 Process Risk

In support of the delivery of the targets the Trust will be required to maintain and improve in the following areas to enable the financial plan to deliver:

Pressure/Risk	Impact	Mitigation
EPR reporting is further delayed	Unable to invoice CCGs and NHSE for PbR activity. Reputational risk	Block contract for first three months of 2014/15. Upgrade is planned for early May, allowing time to correct if any issues arise.
Contracted income is less than expected	Increased savings requirement	Contract in line with previous year. Reduce capacity in line with activity. New CIP savings to be identified. Further new business opportunities to be explored.
Inability to execute CIP plans	Reduced in-year savings	Planning documentation in place with designated lead officer. Additional schemes will need to be identified to make up any shortfall due to late implementation. CIP Board to monitor progress.
Manage quality impact of CIP programme	Patient care	Quality Impact Assessments for all CIP schemes reviewed by Medical and Nurse Directors.

Appendix 1 – Income Statement

Statement of Comprehensive Income	2013/14 Full Year FOT £000s	2014/15 Full Year £000s
Gross Employee Benefits	(206,910)	(204,954)
Other Operating Costs	(80,899)	(76,748)
Revenue from Patient Care Activities	259,154	262,845
Other Operating Revenue	34,556	25,973
OPERATING SURPLUS/(DEFICIT)	5,901	7,116
Investment Revenue	31	30
Other Gains and Losses	0	0
Finance Costs (including interest on PFIs and Finance Leases)	(2,783)	(2,820)
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR	3,149	4,326
Dividends Payable on Public Dividend Capital (PDC)	(2,803)	(4,326)
Net gains/ (loss) on transfers by absorption	0	0
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR	346	0
Prior Period Adjustment	0	
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR PER ACCOUNTS	346	0
Reported NHS Financial Performance		
	2013/14 Full Year FOT £000s	2014/15 Full Year £000s
Retained surplus/(deficit) for the year	346	0
Prior Period adjustment to correct errors and other performance adjustments	0	
Impairments IFRIC12	0	0
Other: IFRIC12	32	83
IFRIC 12 adjustment including impairments	32	83
Impairments excluding IFRIC12 impairments	641	0
Donated/Government grant assets adjustment (include donation/grant receipts and depreciation of donated/grant funded assets)	94	204
Adjustments - other Net gains / (losses) on transfers by absorption	0	0
Adjusted Financial Performance Retained Surplus/(Deficit)	1,113	287
Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA)		
	2013/14 Full Year FOT £000s	2014/15 Full Year £000s
Retained Surplus / (Deficit) for the Year per Accounts	346	0
Depreciation	8,024	8,584
Amortisation	1,078	1,140
Impairments (including IFRIC 12 impairments)	641	0
Interest Receivable	(31)	(30)
Finance Costs (including interest on PFIs and Finance Leases)	2,783	2,820
Dividends	2,803	4,326
Donated/Government grant assets adjustment (donation income element of SC 380)	(92)	0
EBITDA Sub Total	15,552	16,841
Restructuring costs	0	0
Normalised EBITDA	15,552	16,841

Appendix 1 – Balance Sheet

Statement of Financial Position	Opening Balance at 01/04/2014 £000s	Plan Year ending 31/03/2015 £000s
NON-CURRENT ASSETS:		
Property, Plant and Equipment	182,004	182,889
Intangible Assets	5,428	4,031
Investment Property	0	0
Other Financial Assets	0	0
Trade and Other Receivables	702	610
TOTAL Non Current Assets	188,134	187,530
CURRENT ASSETS:		
Inventories	1,294	1,294
Trade and Other Receivables	17,527	10,366
Other Financial Assets	0	0
Other Current Assets	0	0
Cash and Cash Equivalents	5,123	5,123
Sub Total Current Assets	23,944	16,783
Non-Current Assets Held For Sale	0	0
TOTAL Current Assets	23,944	16,783
TOTAL ASSETS	212,078	204,313
CURRENT LIABILITIES		
Trade and Other Payables	(36,048)	(28,715)
Other Liabilities	0	0
Provisions	(1,238)	(1,200)
Borrowings	0	0
Other Financial Liabilities	0	0
Liabilities arising from PFIs / LIFT / Finance Leases	(1,212)	(1,178)
DH Working Capital Loan - FT Liquidity	0	0
DH Working Capital Loan - Revenue Support	0	0
DH Capital Loan	(164)	(164)
Total Current Liabilities	(38,662)	(31,257)
NET CURRENT ASSETS/(LIABILITIES)	(14,718)	(14,474)
TOTAL ASSETS LESS CURRENT LIABILITIES	173,416	173,056
NON-CURRENT LIABILITIES:		
Trade and Other Payables	0	0
Other Liabilities	0	0
Provisions	(2,014)	(2,188)
Borrowings	0	0
Other Financial Liabilities	0	0
Liabilities arising from PFIs / LIFT / Finance Leases	(33,811)	(33,231)
DH Working Capital Loan - FT Liquidity	0	0
DH Working Capital Loan - Revenue Support	0	0
DH Capital Loan	(2,948)	(2,784)
Total Non-Current Liabilities	(38,773)	(38,203)
ASSETS LESS LIABILITIES (Total Assets Employed)	134,643	134,853
TAXPAYERS EQUITY		
Public Dividend Capital	56,461	56,671
Retained Earnings reserve	15,240	15,240
Revaluation Reserve	62,942	62,942
Other Reserves	0	0
Total Taxpayers Equity	134,643	134,853

Appendix 2 – Phasing of Income and Expenditure account

Whittington Health Phased I&E Budget - 2014/15

Income & Expenditure Account - Monthly Profile

Description	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	2014/15 Final Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
NHS Clinical Income	20,575	20,575	20,575	20,575	20,575	20,575	20,575	20,575	20,575	20,575	20,575	20,576	246,903
Non NHS Clinical Income	1,329	1,329	1,329	1,329	1,329	1,329	1,329	1,329	1,329	1,329	1,329	1,329	15,945
Non Clinical Income	2,164	2,164	2,164	2,164	2,164	2,164	2,164	2,164	2,164	2,164	2,164	2,164	25,971
Total Income	24,068	24,068	24,068	24,068	24,068	24,068	24,068	24,068	24,068	24,068	24,068	24,069	288,819
Pay Costs	(17,371)	(17,425)	(17,525)	(17,348)	(17,329)	(17,326)	(16,815)	(16,815)	(16,813)	(16,728)	(16,728)	(16,728)	(204,954)
Non Pay Costs	(5,602)	(5,602)	(5,602)	(5,588)	(5,588)	(5,588)	(5,576)	(5,576)	(5,576)	(5,576)	(5,576)	(5,576)	(67,024)
Total Expenditure	(22,973)	(23,028)	(23,127)	(22,936)	(22,917)	(22,914)	(22,391)	(22,391)	(22,389)	(22,304)	(22,304)	(22,304)	(271,978)
Financing Costs	(1,403)	(1,403)	(1,403)	(1,403)	(1,403)	(1,403)	(1,403)	(1,403)	(1,403)	(1,403)	(1,403)	(1,403)	(16,841)
Net Surplus/(Deficit)	(309)	(363)	(463)	(271)	(252)	(249)	274	274	276	361	361	362	0

Appendix 3 – Phasing of Income and Expenditure account

**Whittington Health
Phased Savings - 2014/15**

Monthly CIP Profile

Description	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	2014/15 Final Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
NHS Clinical Income	36	36	36	36	36	36	36	36	36	36	36	36	437
Non NHS Clinical Income	1	1	1	1	1	1	1	1	1	1	1	1	17
Non Clinical Income	4	4	4	4	4	4	4	4	4	4	4	4	50
Total Income	42	42	42	42	42	42	42	42	42	42	42	42	504
Pay Costs	(561)	(561)	(571)	(748)	(767)	(770)	(1,043)	(1,043)	(1,045)	(1,130)	(1,130)	(1,130)	(10,500)
Non Pay Costs	(316)	(316)	(316)	(330)	(330)	(330)	(343)	(343)	(343)	(343)	(343)	(343)	(3,995)
Total Expenditure	(877)	(877)	(887)	(1,079)	(1,098)	(1,100)	(1,386)	(1,386)	(1,388)	(1,473)	(1,473)	(1,473)	(14,496)
Financing Costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Total CIPs	(919)	(919)	(929)	(1,121)	(1,140)	(1,142)	(1,428)	(1,428)	(1,430)	(1,515)	(1,515)	(1,515)	(15,000)