Whittington Health NHS

The Whittington Hospital NHS Trust
Magdala Avenue
London N19 5NF

Whittington Health Trust Board

2nd July 2014

Title:	**Financial Performance – May 2014 (Month 2)**		
Agenda item:	**14/120**	**Paper**	**9**
Action requested:	For agreement.		
Executive Summary:	**This paper provides an overview of the financial performance to 31st May 2014 (Month 2). Key headlines:** • The financial performance to the end of May shows a disappointing £0.9m deficit against a planned deficit of £0.45m. This is £0.45m worse than planned for May. Our year-to-date (YTD) performance is £1.5m deficit against a planned deficit of £0.8m, £0.7m worse than plan. • The key drivers of the adverse performance is a slow start to the delivery of the cost improvement programme and the limit on contract income reported (block contract in quarter one). • The Chief Finance Officer (CFO) has met with operational managers to ensure action plans are put in place to mitigate the spending above budgeted levels.		
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. The successful delivery of the financial plan in 2014/15 is essential to underpin financial sustainability.		
Date paper completed:	23rd May 2014		
Author name and title:	Paul McAuliffe Interim Deputy Director of Finance	**Director name and title:**	Simon Wombwell Interim Chief Financial Officer

May 2014 / Month 2 Finance Report

1. Introduction

1.1. This paper summarises the Trust's financial results for the first two months of the new financial year (period to 31 May 2014).

2. Key Information

2.1. The in-month position is a deficit of £0.9m against a planned deficit of £0.45m, i.e. an adverse variance against plan of £0.45m.

2.2. At the end of the first two months of the year, the overall deficit is extended to £1.5m, £0.7m worse than planned. This adverse position is a combination of income below plan (due to income plans being set at higher levels than the block contract value in quarter one) and pressures arising on expenditure (a combination of cost improvement programme (CIP) under delivery and cost pressures linked to recruitment challenges).

2.3. As a result our EBITDA margin (earnings before interest, taxation, depreciation and amortisation, a measure of our ability to generate cash) is only 2.7 per cent compared to a target of 5.8 per cent. Our ability to generate cash is critical to underpin the capital programme and maintain a healthy cash balance.

2.4. The Trust has delivered year-to-date savings of £1.1m (£0.6m recurrently) against a plan of £1.8m. Significant improvement in CIP delivery is essential for the Trust to achieve its break-even target for 2014/15 and generate momentum for delivering the higher proportion of CIP target in the second half of the financial year.

2.5. Cash decreased by £2.2m in the month to £2.9m at 31st May. This is mainly due to the paying down of creditors under normal business terms.

2.6. The successful delivery of our financial targets will require tighter controls over expenditure and delivery of savings plans. There is ongoing work with divisions and corporate areas to improve the delivery of efficiency improvements as well as tightening financial controls.

2.7. As outlined previously, the financial challenges facing the NHS will result in a challenging year for all organisations and Whittington Health is no exception. The May financial result is disappointing and reinforces our need to tighten expenditure controls, particularly around high cost agency and locum staffing, and support all areas to deliver savings plans. Following the implementation of our activity reporting systems (in May), we will review activity levels relative to the contract value, incorporating any risks around potential contract penalties e.g. Clostridium difficile rates.

3. Statement of Comprehensive Income (SOCI)

3.1 The Statement of Comprehensive Income for May 2014 is set out below:

Figure 1 – Statement of Comprehensive Income

Description	Full Year	May			Year to Date		
	Budget (£'000)	Budget (£'000)	Actuals (£'000)	Variance (£'000)	Budget (£'000)	Actuals (£'000)	Variance (£'000)
Nhs Clinical Income	246,499	20,542	19,912	(630)	(41,083)	(40,576)	(507)
Non-Nhs Clinical Income	16,258	1,383	1,377	(6)	(2,720)	(2,710)	(10)
Other Non-Patient Income	25,781	2,092	2,304	212	(4,257)	(4,426)	169
Total Income	**288,538**	**24,017**	**23,593**	**(424)**	**(48,061)**	**(47,713)**	**(348)**
Non-Pay	(71,272)	(6,076)	(5,593)	482	12,110	11,572	538
Pay	(208,346)	(17,680)	(17,521)	159	35,301	34,856	444
Savings	7,920	660	0	(660)	(1,320)	0	(1,320)
Total Expenditure	**(271,697)**	**(23,096)**	**(23,114)**	**(19)**	**46,090**	**46,428**	**(337)**
EBITDA	**16,840**	**921**	**479**	**(442)**	**(1,970)**	**(1,285)**	**(685)**
Interest Payable	(2,820)	(235)	(240)	(5)	470	475	(5)
Interest Receivable	30	3	4	1	(5)	(6)	1
Depreciation	(9,724)	(810)	(810)	0	1,621	1,621	0
Dividends Payable	(4,326)	(361)	(361)	0	721	721	0
Net Surplus / (Deficit) - before adjusting for impairments, IFRS and donated assets (relevant for break-even duty	(0)	(483)	(928)	(446)	837	1,525	(689)
Add back impairments and adjust for IFRS & donated assets	285	24	24	0	0	0	0
Adjusted Net Surplus / (Deficit) - including Impairments due to Revaluation of Fixed Assets	285	(459)	(905)	(446)	837	1,525	(689)

3.2 Income is £0.4m (2 per cent) adverse to plan. This is because, at the time the plan was agreed, the income plan was set above the clinical commissioning group (CCG) contracted level to reflect the cost and volume contract i.e. performance was expected to exceed the contracted level by circa £400k per month (3 per cent). Following the delay in upgrading the Electronic Patient Record (EPR) information reporting, a block contract was agreed for quarter one. We should be prepared for this target to underperform in the June figures for the same reason. Note: the underperformance in April did not show up because of the one month extension to the prison contract.

3.3 Expenditure is £20k adverse against plan in month, and £0.3m year to date. The key component is the failure to deliver against savings plans, as well as continued use of locums and agency in some hard to recruit areas. Agency expenditure in May was £1.2m, which is a continuation of the average monthly expenditure in 2013/14. Plans are in place across divisions to address the cost pressures, and proposals to improve recruitment in nursing areas.

3.4 Figure 2 (below) shows a breakdown of performance by functional area which highlights the key area of overspend in the Integrated Care and Medicine Division (ICAM).

Figure 2 – <u>I&E by division</u>

Income/Expenditure	Division	In Mth Bud £'000	In Mth Act £'000	In Mth Var £'000	YTD Bud £'000	YTD Act £'000	YTD Var £'000
Income	Central	22,309	21,914	(396)	44,700	43,795	(906)
	Integrated Care & Acute Medici	714	713	(1)	1,428	1,996	568
	Surgery, Cancer & Diagnostics	226	235	9	452	465	13
	Women, Children & Families	767	731	(35)	1,479	1,457	(22)
Income Total		**24,017**	**23,593**	**(424)**	**48,061**	**47,713**	**(348)**
Expenditure - Operations	Integrated Care & Acute Medici	(6,913)	(7,374)	(461)	(13,823)	(15,207)	(1,384)
	Surgery, Cancer & Diagnostics	(4,935)	(5,087)	(152)	(9,929)	(10,143)	(214)
	Women, Children & Families	(5,480)	(5,475)	6	(10,942)	(11,058)	(116)
Expenditure - Operations Total		**(17,329)**	**(17,936)**	**(607)**	**(34,694)**	**(36,408)**	**(1,714)**
Expenditure - Corporate Departments	Corporate	(5,430)	(5,369)	61	(10,863)	(10,811)	52
Expenditure - Corporate Departments Total		**(5,430)**	**(5,369)**	**61**	**(10,863)**	**(10,811)**	**52**
Financing and Reserves	Financing and Reserves	(1,741)	(1,217)	524	(3,340)	(2,020)	1,320
Financing and Reserves Total		**(1,741)**	**(1,217)**	**524**	**(3,340)**	**(2,020)**	**1,320**
Grand Total		**(483)**	**(928)**	**(446)**	**(837)**	**(1,525)**	**(689)**

3.5 <u>Integrated Care and Acute Medicine (ICAM):</u> Expenditure is £461k overspent in month 2, and £1,384k overspent year-to-date. This is largely due to high agency spend within the division involving middle grade agency spend in the emergency department (extra shifts); four agency consultants (three in Gastroenterology and one in Rheumatology) covering vacancies, a suspension and sickness; agency to support specialing (one-to-one nursing care for high acuity patients) on acute wards and district nursing vacancies. In addition, overspends on admin bank staff due to delays in the Transforming Patient Experience (TPE) administration restructure project and shortfalls on the CIP plans.

3.6 <u>Surgery, Cancer and Diagnostics:</u> £152k overspent in month 2, and £214k overspent year-to date. This overspend is driven by high agency nursing and non-pay within theatres. As within ICAM, there is an overspend on admin bank staff due to the TPE restructure.

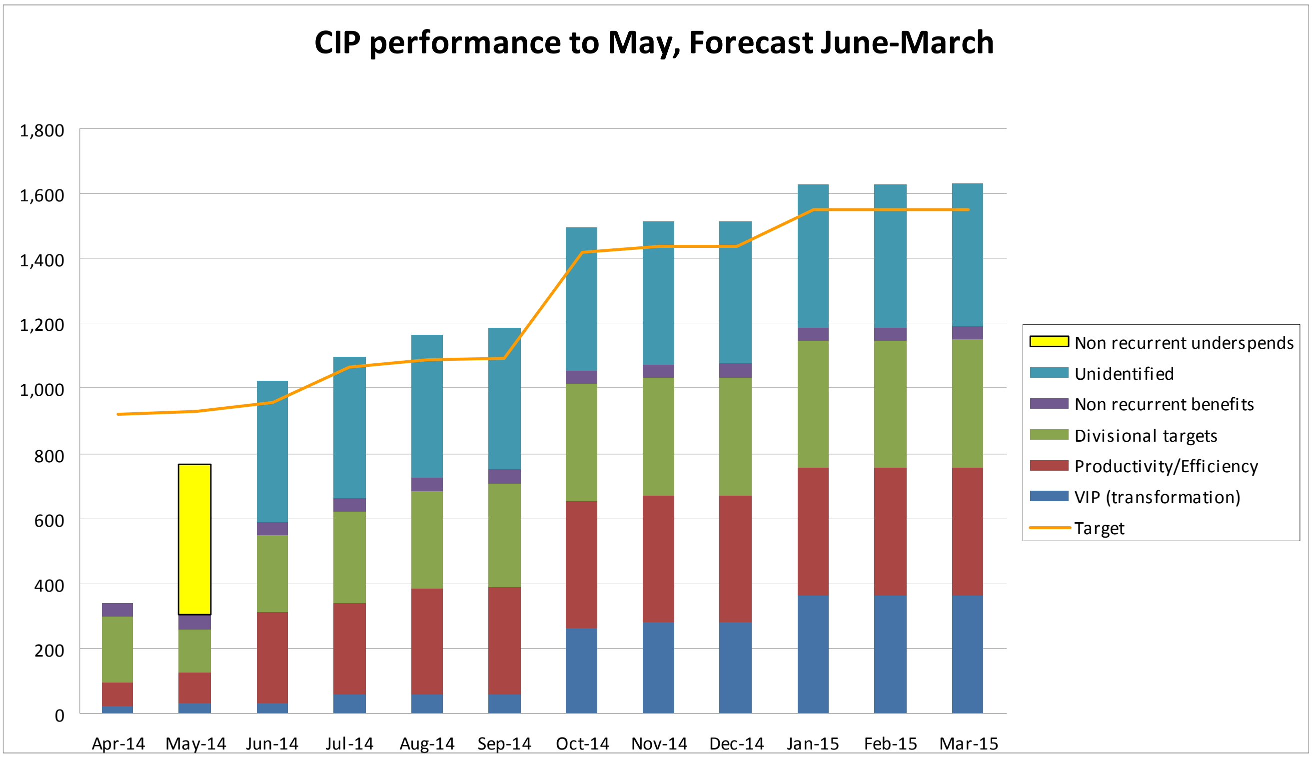
3.7 <u>Women, Children and Families:</u> £6k underspent in month 2, and £116k overspent year to date. There is overspend in Midwifery due to agency and bank covered vacancies.

3.8 <u>Corporate Services:</u> £61k underspent in month 2, and £52k underspent year to date. This is due to underspends within facilities and IT.

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

4.1. The Trust delivered £0.8m (83 per cent) CIP delivery in month against a plan of £0.9m; however, this includes the benefit of £0.5m non-recurrent under spends, including unallocated contingency reserve. The recurrent CIP delivery in month is £0.3m (33 per cent).

Figure 3 - CIP May 14 performance and forecast to March 15



4.2 The key reasons behind the shortfall:

- Divisional two per cent targets (3.5 per cent in corporate areas) £0.5m adverse against plan. This is due to some shortfalls of plan and under delivery on identified plans.
- Trust-wide productivity and efficiency savings £0.6m adverse against plan. This predominately relates to the agency and bank reduction scheme which has not yet delivered any savings.
- The Trust's transformation schemes (VIP) are £0.1m adverse against plan. The last transformation target was allocated this month and focus is now on implementing the schemes to achieve full delivery of the £3.4m target savings. These schemes deliver mainly in the second half of the year.

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

Figure 4 – Statement of Financial Position

Description	As at 1st April 2014 £000	As at 31st May 2014 £000	Forecast as at 31st March 2015 £000
Property, plant and equipment	179,975	179,086	180,105
Intangible assets	5,428	5,180	4,295
Trade and other receivables	702	702	610
Non-current assets	**186,105**	**184,968**	**185,010**
Inventories	1,295	1,298	1,290
Trade and other receivables	17,527	15,787	6,930
Cash and cash equivalents	5,123	2,952	3,976
Current assets	**23,945**	**20,037**	**12,196**
Trade and other payables	36,010	33,825	27,154
Borrowings	1,377	1,377	2,542
Provisions	1,238	560	198
Current liabilities	**38,625**	**35,762**	**29,894**
Net Current liabilities	**14,680**	**15,725**	**17,698**
Borrowings	36,758	36,152	34,028
Provisions	2,015	1,965	2,190
Non-current liabilities	**38,773**	**38,117**	**36,218**
Total assets employed	**132,652**	**131,126**	**131,094**
Public dividend capital	56,461	56,461	56,671
Retained earnings	15,277	13,797	18,918
Revaluation reserve	60,914	60,868	55,505
Total taxpayers' equity	**132,652**	**131,126**	**131,094**

5.1. The above forecast balance sheet is based on the assumption the Trust performs to plan.

5.2. Trade and other receivable balances decreased by £1.7m as balances agreed at year-end are settled.

5.3. Cash decreased by £2.2m in the month to £2.9m at 31st May. This is mainly due to the corresponding settlements with trade creditors.

5.4. There was a transfer between revaluation reserve and retained earnings of £46k. This reflects the difference between historic and revalued depreciation and is adjusted monthly.

6. Cash

6.1 Based on the assumption the Trust performs to plan (as in the balance sheet above cash is forecast to be circa £4m at 31st March 2015.

6.2 In the period April to May, cash has decreased by circa £2m, driven largely by the reduction in capital creditors.

6.3 A detailed analysis of the cash position is underway, including some scenario analysis to ensure the Trust is able to maintain a positive cash flow and seek any short term borrowing in advance of need. Based on the year to date income and expenditure performance, the Trust is under recovering income at £0.4m per month and over spending on operational expenditure at £0.6m per month. If these trends continue, the Trust will be forced to seek short term borrowing. This analysis will follow in the June financial report.

7. Key actions

7.1 A number of actions have been taken to arrest the current position:

i. Vacancy control processes are being tightened with additional scrutiny around non-clinical appointments. (SP/LM)

ii. The CIP Steering Group is meeting fortnightly to agree actions to underpin delivery of savings schemes and the closure of any planning gaps. Monitoring reports now incorporate milestone monitoring to test the successful delivery of schemes starting in the second half of the year. (SW)

iii. Action plans are being signed off for the mitigation of cost pressures. (SW/LM)

iv. A review of income levels and activity is underway to assess the risk against current contracted levels. (SMH)

v. Forecast data is being compiled to ensure we monitor run rates with a view to influencing a reduction. (SW)

vi. The Trust will also bid for the additional funding (announced June 2014) to support waiting times delivery and winter pressures. (LM/SW)