The Whittington Hospital NHS
NHS Trust

ITEM: 3

MEETING: **Trust Board**
19th July 2006

TITLE: Financial Position – Months 1 and 2 2006/07

SUMMARY:

Attached is an update on the 2006/07 financial plan and details of performance for the first two months. The plan currently demonstrates compliance with the London Financial Strategy, however this incorporates a significantly challenging Cost Improvement Programme.

Headline performance for the first two months is an adverse variance from plan of £45k, however this needs to be considered in the context of the overall plan, which is a year to date deficit of £1.3m, to be recovered via improved performance as the year progresses.

Attached :
Finance Report – Months 1&2
Appendix 1 – Overall Financial Performance Tables
Appendix 2 – Summary Activity Performance
Appendix 3 – Cost Improvement Programme
Appendix 4 - Capital Expenditure Report
Appendix 5 – Minutes from the June and July meetings of the Finance & Performance Committee

ACTION: **Information**

REPORT FROM: Trish Donovan, Deputy Director of Finance

SPONSORED BY: Susan Sorensen, Director of Finance

Financial details supplied/checked by:
(Name of finance officer)

Recommendations contained within this paper have been checked for compliance with relevant statute and regulations/directions/policy as follows:

None applicable

1.0 2006/07 Financial Plan

A financial plan for 2006/07, compliant with the London Financial Strategy has been submitted to the SHA. The target for the Trust is to produce a surplus of Income over Expenditure in 2006/07 of £1.3m, representing approximately 1% of turnover. The plan demonstrates the required position but includes a significant Cost Improvement Programme (CIP) and makes some assumptions that additional income as a result of increased activity, will be earned. A risk assessment has been completed on an item by item basis for the CIP and is attached at Appendix 3.

Although the plan is to generate a surplus of £1.3m by the end of 2006/07, the phasing of the plan is such that the Trust expects to be in deficit for the early part of the year, improving as the CIP is implemented and income is generated as a result of additional capacity (eg. new critical care beds and additional NICU cots) to achieve a surplus in the closing months of the year.

2.0 Months 1 & 2 Performance

2.1 Overall Income & Expenditure Performance

Performance for the first two months is an overall deficit of £1,345k to date, which is a variance from plan of £45k for the Trust. Performance is measured against the plan which, taking account of budget phasing, is a deficit of £1.3m at this stage of the year, which needs to be recovered as the year progresses.

There are significant adverse variances at Directorate level (detailed in appendix 1 page 4), however there are a number of cost pressures that have not yet been funded, which will in part be offset by funding currently held in central reserves.
An overall adjustment to recognise funding available from reserves to offset these pressures has been made and as individual pressures are agreed funding will be devolved to operational budgets.

The level of funding released from central reserves to offset cost pressures to date is £1.1m comprising two main items :

(i) £733k being 2/12ths of the value available to fund cost pressures (£4.3m overall for the year)

(ii) £371k as a result of slippage on specific items for which reserves are held – in this case the unitary payment for the PFI and Imaging MES

The same level of release from central reserves is unlikely to be available for the remainder of the year, therefore requiring improved performance in order to continue to deliver the plan.

2.2 Income

A surplus to date of £153k is reported against the overall income target. The surplus includes RTA income above target and income in operational areas which largely offset spend on non-pay lines.

At the time of writing, detailed financial performance against SLAs was not available as activity data had not yet been fully coded, however activity performance at summary level, by specialty, is shown in appendix 2. It should be noted that the activity shown at appendix 2 is activity that is chargeable against SLA targets, which is not exactly the same as total hospital activity as is reported in the activity & performance report (item 6). The main differences being spells associated with well babies and home births.

Inpatient activity overall (Appendix 2 page 1) is significantly below the activity target in SLAs (5,977 spells against a target of 7,561) but out-patient activity and ED attendances (Appendix

2 page 2) are both above target (out-patients 417 attendances above target to date and ED attendances 215 above target to date).

SLA targets are currently profiled in equal 12ths in line with payment arrangements from PCTs, however, further work to investigate a profiling that reflects activity trends over the year is underway and targets for internal monitoring will be flexed in future where a more representative profiling of the activity target can be agreed.

In terms of the reported income position, SLAs and other major contracts (SIFT, Madel etc) are currently reported at break-even. Variances for over or under-performance will be reported once fully costed activity data is available.

2.3 Expenditure

Expenditure is detailed in appendix 1 for pay areas on page 5 and non pay page 6.

In terms of pay, there is an overspend of £453k against Medical staff, which is a continuation of the position seen during 2005/06 where significant levels of locum staff continue to be booked and also reflects the fact the budgets have not yet been amended for known pressures (although this is largely offset by central reserves).

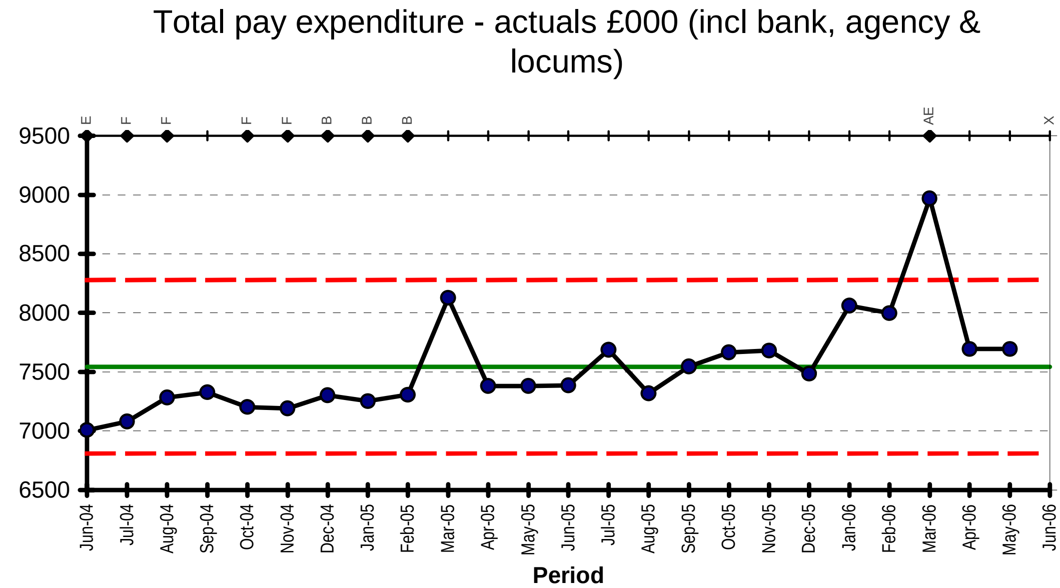
There is an overspend of £44k to date on nursing staff, which is in midwifery, theatres and ED but nursing staff in all other areas has broken even overall and planned savings have been achieved. The reported position is after budgets for nursing pay have been reduced for planned savings of over £100k against which £70k has been achieved, mainly as a result of closures, over the first two months.

All other pay groups are under-spent to date.

Changes as a result of pay awards and Agenda for Change are funded in budgets as additional costs are incurred.

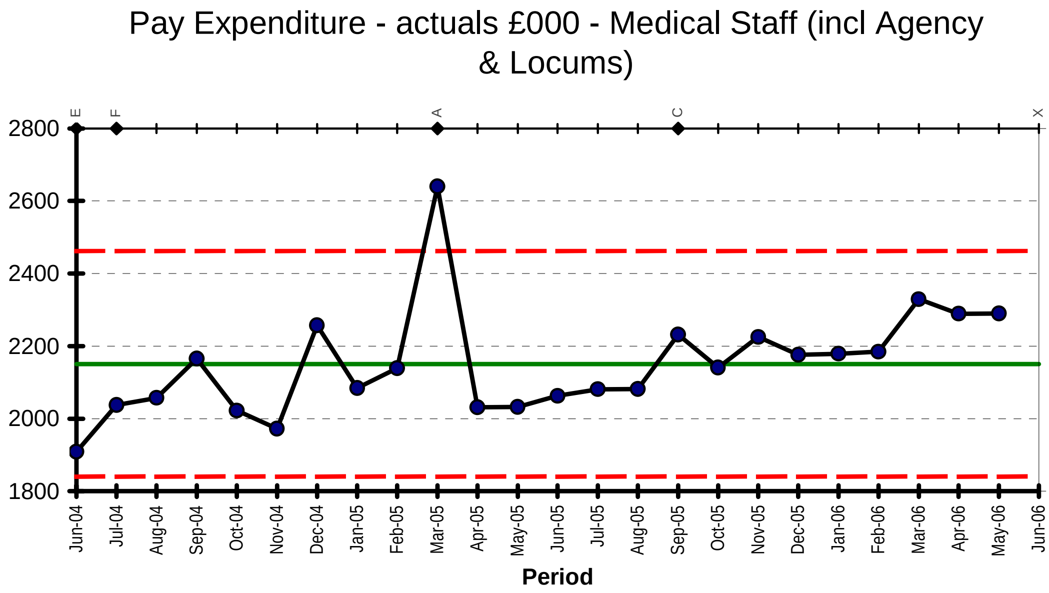
The charts below show actual expenditure levels for total staff, Medical Staff, Nursing Staff and Agency staff on a monthly basis.

CHART 1



Significant expenditure in respect of assimilation to Agenda for Change pay bands and associated pay arrears were incurred in the closing months of 2005/06.

CHART 2



The main areas of locum usage remain Anaesthetics (503 locum hours over April and May) and the Emergency Department (1,366 locum hours over April and May of which approximately half related to covering vacant posts).

CHART 3

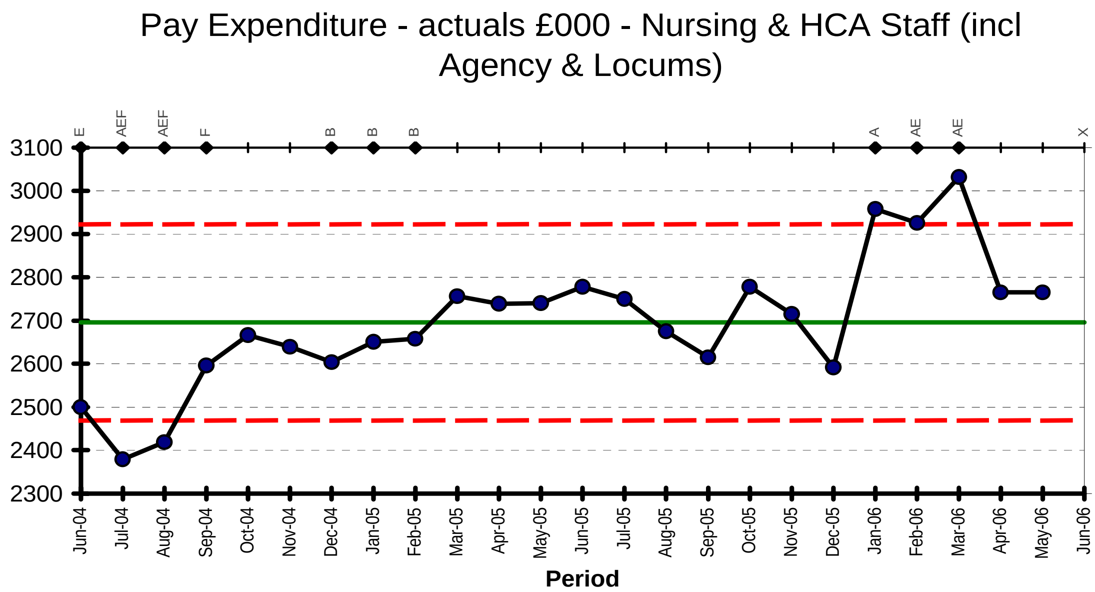
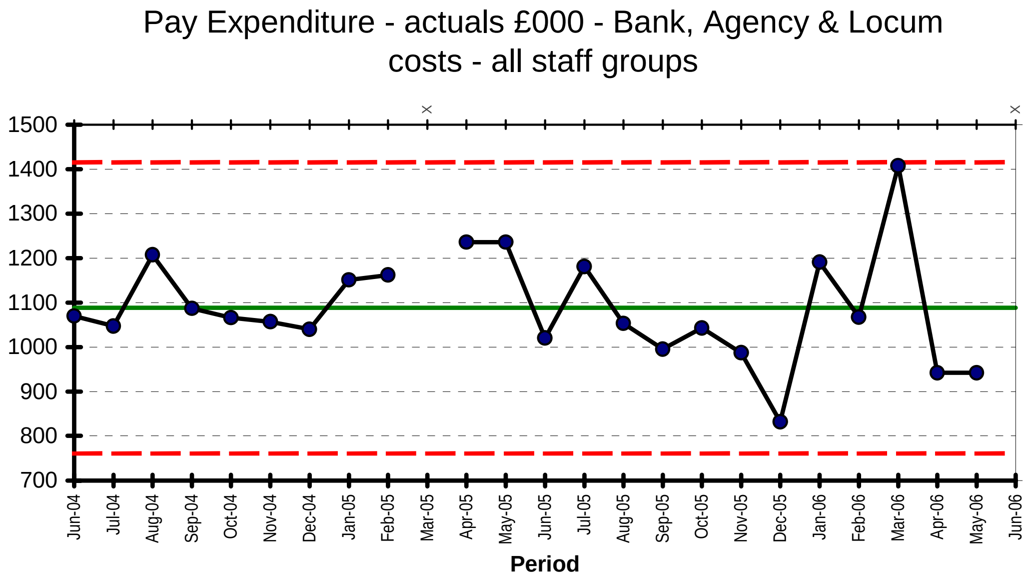


CHART 4



Details by staff group are shown in appendix 1 page 5.

In non-pay areas there were overspends across many subjective areas, the largest being the impact of savings targets currently allocated to non pay areas and there are significant cost pressures in facilities that are currently offset by central reserves – namely utilities (£71k) rates (£27k) and engineering maintenance (£23k).

2.4 Cost Improvement Programme (CIP)

The total CIP for 2006/07 is almost £10m. This includes targets brought forward from previous years that need to be achieved again and ultimately converted into recurrent savings. Micro monitoring of the CIP is planned from August onwards.
The additional target introduced in 2006/07 amounts to £7.9m.

The CIP target is not equally phased throughout the financial year, with many schemes weighted towards later months as the overall programme remained under development and it was not possible to implement all items identified from 1st April. The target to date is £648k against which £323k has been achieved, as summarised by Directorate on page 7 of appendix 1.

A detailed risk assessment against the CIP was been completed, by Directors, in early July on an item by item basis. This has resulted in an expected value of approximately £7.5m achievable against the overall savings target, leaving £2.5m currently at risk. This assessment assumes targets brought forward from previous years (estimated at £2m) will be fully achieved and that targets currently held centrally will be 75% achieved. The detailed assessment is contained in Appendix 3.

2.5 Balance Sheet Items

- **Cash**

The cash balance at the end of May was in excess of £8m. Interest is earned on the balance held in the Trust's bank account (£44k to date).

- **Creditor Payments**

Performance against the Better Payment Practice Code was 91% (based on value) for NHS invoices and 89% for non NHS invoices. Performance is measured against a target to pay all valid invoices within 15 days for NHS items and 30 days for non NHS items.

- **Debtors**

Outstanding, invoiced, debt at the end of May was £2,315k, comprising £897k owed to the Trust by NHS organisations and £1,418k by non-NHS organisations.

2.6 Capital

The Trust's Capital Resource Limit is £8,211k. This includes the initial capital allocation for the year plus a number of large schemes including commissioning the new building and works on the Highgate Wing as detailed on page 13 of appendix 1. The detailed Capital Expenditure Programme is shown at Appendix 4.

3.0 Recommendations

The Trust Board is asked to

- **Note the latest financial plan to deliver a £1.3m surplus in line with the London Financial Strategy ;**
- **Note the deficit position reported for the first two months , including the release of funding from central reserves and the requirement to recover this over the remainder of the year ;**
- **Note the extent of the CIP required in order to deliver the 2006/07 plan and achievement to date ;**
- **Note the expected value achievable against the current savings programme as set out in Appendix 3 ;**
- **Note the risk assessment of the CIP including the value currently at risk;**
- **Ensure sufficient CIPs to fully meet the target are identified and are implemented ;**
- **Continue to take action that ensures expenditure is contained within available budgets, in all areas for 2006/07.**