The Whittington Hospital NHS Trust

ITEM: 08/134
Doc: 5

MEETING:	Trust Board 17th September 2008

TITLE:	Financial Position – Month 5 (August 2008)

SUMMARY:

1. In-month actual Income & Expenditure performance is a surplus of £345k (£137k better than planned) giving a year to date surplus of £225k (underachievement of £184k against plan)
2. The cash position remains strong with a balance of £4.5m held at 31st August
3. This performance indicates a year-to-date risk rating (using the Monitor methodology) of 3.

Financial performance is described in more detail in the following sheets & tables.

ACTION:	For information / discussion

REPORT FROM:	Tim Jaggard, Deputy Director of Finance

SPONSORED BY:	Richard Martin, Finance Director

Financial Validation Lead: Director of Finance	Tim Jaggard
Compliance with statute, directions, policy, guidance Lead: All directors	**Reference:** Best Practice – financial assurance standards; ALE; Accounting Standards; Monitor financial regime
Compliance with Healthcare Commission Core/Developmental Standards Lead: Director of Nursing & Clinical Development	**Reference:**
Compliance with Auditors' Local Evaluation standards (ALE) Lead: Director of Finance	**Reference:** ALE – Financial Management and Financial Reporting Domains
Compliance with requirements of FT application and monitoring regime Lead: Director of Strategy & Performance	**Reference:**

Executive Summary

1. Month 5 Income and Expenditure

1.1. The overall I&E position to 31st August 2008 is a surplus of £225k, which is £184k worse than planned. This year-to-date position is an improvement upon previous months due to an in-month surplus of £345k against a planned surplus of £208k.

1.2. The Month 5 surplus is largely due to higher than planned income (variance of £129k) as a result of overpeformance against SLAs in excess of the additional income targets for Day Treatment Centre (DTC) activity, risk-adjusted demand management and the Cost Improvement Programme (CIP).

1.3. Pay expenditure remains significantly above plan (£1.16m variance to date), partially as a result of underachievement against CIP (£230k) and vacancy factor (£546k) targets and a large overspend on medical staff (£611k). Overall non-pay expenditure is below plan by £681k to date – this is consistent with previous months and is composed of an overspend in directorates and an underspend against central budgets.

1.4. The Month 5 I&E position includes, for the first time, explicit recognition of Work In Progress (WIP) – this is £1.4m of income due to the Trust relating to patients that are in hospital at the month end. This had previously been accounted for as part of the phased £3m release of provisions and this change in treatment has no impact on overall I&E or variance against plan. This is described further in section 8.

2. Month 5 Balance Sheet and Cash

2.1. The change in accounting treatment for WIP has resulted in a £1.4m increase in debtors (PCTs effectively owe the Trust for this activity at the month-end) and a corresponding increase in creditors (as the previous treatment of the £1.4m as part of the provision release has ceased).

2.2. The closing cash balance for August was £4.5m, in line with the forecast position. The rolling cashflow forecast is shown in section 11.

3. 2008/09 Forecast

3.1. The overall plan remains to deliver a £2m surplus. However, the current year-end forecast remains a £0.8m surplus as reported to the July Trust Board. This forecast will be reviewed in detail at Month 6 (for October Trust Board).

3.2. The five previously identified key risks / priorities remain:

- Achievement of CIP target
- Achievement of DTC income target
- Maintenance of income levels sufficiently above SLA plan to cover other targets/pressures
- Reduction of overspend on pay, including achievement of vacancy factor
- Resolution of long-standing Whittington Facilities Ltd. (WFL) debt

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** the financial performance for the first five months of 2008/09
- **Note** the importance of the five key risks / priorities in achieving the planned £2m surplus

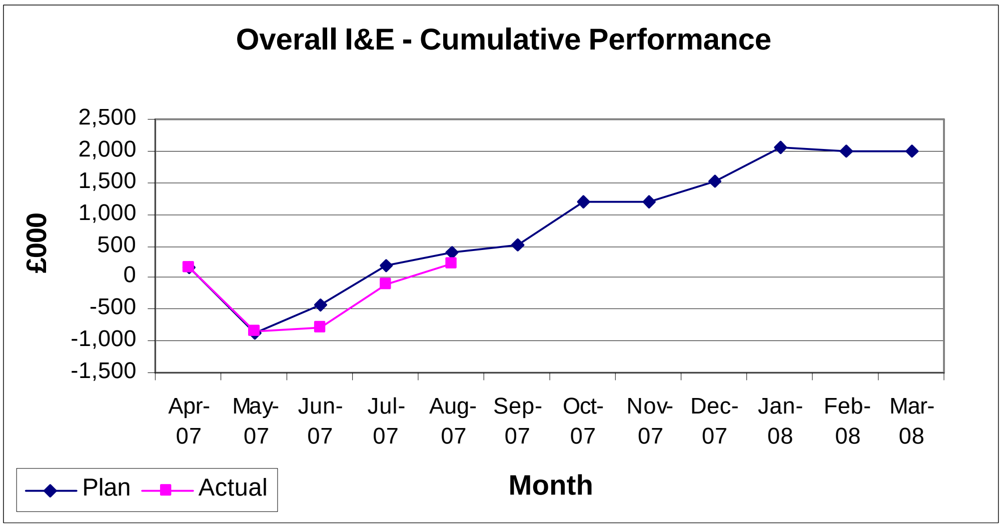
Month 5 Finance Report

5. Income and Expenditure Summary

5.1. Income and Expenditure is summarised in the table and chart below:

FIGURE 1 Description	Current Month (August)			Year To Date			Annual
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	Budget £'000
NHS Clinical Income	12,817	12,714	103	57,428	57,208	220	136,334
Non NHS Clinical Income	121	123	(2)	744	615	129	1,477
All Other Non Clinical Income	1,772	1,744	28	8,931	8,865	66	21,095
Total Income	**14,710**	**14,581**	**129**	**67,103**	**66,688**	**415**	**158,906**
Pay	9,100	8,929	(171)	45,751	44,587	(1,164)	106,753
Non Pay	4,526	4,728	202	17,413	18,094	681	41,617
Centrally Held Savings	0	(28)	(28)	0	(140)	(140)	(437)
Total Expenditure	**13,627**	**13,629**	**3**	**63,164**	**62,541**	**(623)**	**147,933**
EBITDA	**1,084**	**951**	**132**	**3,939**	**4,147**	**(208)**	**10,973**
Plus Interest Receivable	36	30	6	154	128	26	355
Less Interest Payable	1	0	(1)	1	0	(1)	50
Less Depreciation	455	455	0	2,276	2,276	0	5,462
Less PDC Dividend	318	318	0	1,590	1,590	0	3,816
Net Surplus / (Deficit)	**345**	**208**	**137**	**225**	**409**	**(184)**	**2,000**

FIGURE 2



5.2. EBITDA of £3,939k to date is reported, which is £208k worse than planned. An overall I&E surplus of £225k to date is reported, which remains £184k worse than planned despite a surplus for the month of £345k (£137k better than planned). This £184k needs to be recovered over the remaining months of the year in addition to meeting increasingly challenging in-month targets resulting from higher CIP and DTC requirements.

5.3. The strong in-month performance is due to:

- Activity levels for July significantly above SLA planned levels such that additional income targets are met
- Additional income from Islington PCT for waiting list reduction and palliative care (but excluding agreed maternity funding of £500k which will be used for cost pressures within maternity).
- An overall underspend of £681k against non-pay – although this comprises a £776k overspend in directorates (primarily relating to clinical supplies such as drugs and patient appliances that are showing higher expenditure due to increased activity) and £1.5m underspend relating to central unallocated and uncommitted budgets (after estimated accruals for cost pressures).

6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (July 2008), with August income performance assumed to be on-plan (i.e. no over- or under-performance) subject to the following adjustments:

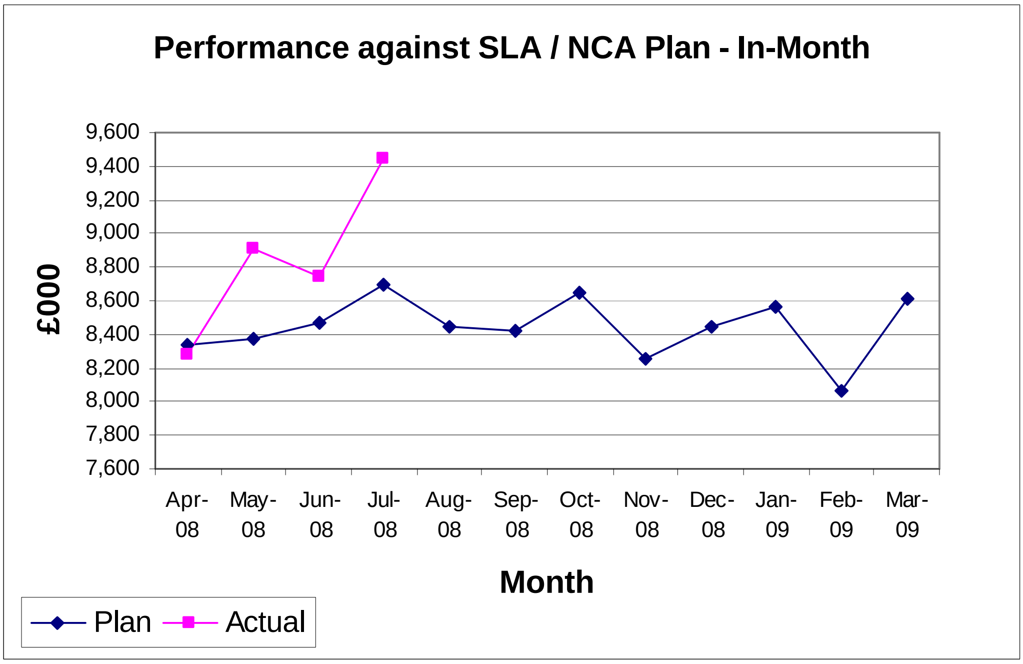
- Increase in reported income of £120k due to additional DTC activity above SLA plan in August (taken from weekly flash report data)
- Decrease in reported income of £127k relating to follow-up outpatient attendances above the level agreed with PCTs for July (the Trust has agreed a specialty-by-specialty target for the first to follow-up ratio, which some specialties are currently missing)
- Decrease in reported income of £159k due to disputes received from PCTs relating to Quarter 1 activity. The assumption is that 20% of total value of queries will need reimbursement.

6.2. Performance against SLAs (including non-contract activity) remains strong, with a total over-performance of £1.5m at the end of July (up from £748k in June). This is summarised below by patient type:

FIGURE 3

	Activity			Finance £000s		
Patient Type	**Plan To M4**	**Actual To M4**	**Variance To M4**	**Plan To M4**	**Actual To M4**	**Variance To M4**
Block Contract/Emergency Threshold	0	0	0	5,864	5,864	**0**
Adult High Dependancy Beddays	838	815	(23)	655	637	**(18)**
Adult Intensive Care Beddays	1,059	1,231	172	2,010	2,338	**327**
Day Cases	4,755	5,180	425	2,919	3,135	**215**
Direct Access	205,566	228,725	23,159	2,285	2,438	**153**
ED Attendances	27,799	25,818	(1,981)	2,041	1,976	**(65)**
Elective Inpatients	1,141	914	(227)	2,152	1,920	**(232)**
Excess Beddays	4,203	4,683	480	708	728	**20**
NICU High Dependancy Beddays	416	343	(73)	402	331	**(71)**
NICU Intensive Care Beddays	294	307	13	397	414	**17**
NICU Special Care Beddays	2,357	2,067	(290)	941	844	**(97)**
Non-Elective Inpatients	7,664	8,032	368	6,607	6,773	**166**
Other Activity	4,812	6,561	1,749	189	249	**59**
Outpatient 1st Attends	17,947	20,352	2,405	3,111	3,528	**417**
Outpatient Follow Ups	39,745	46,912	7,167	3,330	3,844	**514**
Outpatient Procedures	1,294	1,759	465	275	366	**91**
Grand Total				**33,885**	**35,384**	**1,498**

FIGURE 4



6.3. The trend in over-performance from previous months has continued, with favourable variances in adult critical care (£310k), general medicine (£403k) and dermatology (£298k). Outpatient attendances (both first and follow-up) and non-elective activity remain significantly above plan. ED attendances continue below plan, but in-month performance was above plan by £49k.

6.4. Day case performance against SLA is favourable due to additional DTC activity. However, the combined performance of day cases and elective inpatients is £17k below SLA plan (before meeting additional DTC income targets).

6.5. It is important to note that the Trust must also meet additional income targets over and above the SLA plan in order to deliver the planned £2m surplus. The table below explains why the reported year-to-date NHS clinical income variance is just £220k above plan compared to the £1.5m over-performance against SLAs:

FIGURE 5

Description of Item	Value (£000s)
Over-performance against SLA plan	**1,498**
Additional income target for CIP	(142)
Additional income target for DTC	(607)
Additional income target for Demand Management	(296)
Additional income target for 18 Weeks above SLA	(221)
Total Additional Income Targets (to Month 5)	**(1,266)**
Waiting list funding from Islington PCT (£400k FYE)	167
Actual additional activity in DTC (August accrual)	120
NHS Income separate to SLAs (e.g. eye screening)	(39)
Market Forces Factor (not in PCT SLAs)	26
Provision for Quarter 1 Disputes (see above)	(159)
Provision for Outpatient Follow-ups (see above)	(127)
Total = NHS Clinical Income in Figure 1	**220**

6.6. Actual income reported in Month 5 has increased by a further £1.4m due to the Work In Progress accrual described in section 8 below.

7. Expenditure Performance

7.1. Pay expenditure remains significantly above plan in August, by £1.16m – an increase of £171k in the month. This is due to the following:

- CIP targets not fully met – currently pay CIP is £230k below plan (year-to-date)
- Vacancy factor not met - £546k to date
- Historical over-establishment in the early part of the year
- Higher expenditure on agency staff
- Higher than expected levels of activity

7.2. Spend on agency staff this month was £338k and some £1.96m to date. Although a substantial proportion of this relates to nursing staff (which as a whole is within budget), there is significant overspend in medical staffing, A&C and other support staff.

7.3. Medical staffing continues to be overspent, by a further £152k in August (£611k to date). This was compounded by the changeover of junior medical staff in the month, and the payment of annual leave owing to those leaving the Trust.

7.4. Non-pay expenditure is £681k below plan – up by £202k in August. This is consistent with previous months and is composed of an overspend in directorates and an underspend against central budgets.

8. Work In Progress (WIP) – Incomplete Inpatient Spells

8.1. The Month 5 financial position includes, for the first time, an explicit recognition of the income that the Trust is due relating to the care that patients still in hospital at the month-end have received to that point. This amounts to £1.4m and will be assumed to be this level at the end of each subsequent month this financial year.

8.2. This recognition of income replaces the treatment in previous months, where the £1.4m relating to WIP was part of the general release of £3m of provisions from the balance sheet. The impact of this change is summarised below – *these changes are one-off for this month and are purely due to a change in accounting treatment*:

Area Affected	Change on M4	Notes
Actual / Budget Income	Increase of £1.4m	Due to recognition of income. Budget changed so no impact on variance.
Actual / Budget Non-Pay Expenditure	Increase of £1.4m	No longer releasing WIP benefit into non-pay expenditure position.
Overall I&E Position	**No Impact**	
Debtors	Increase of £1.4m	Recognising income due to the Trust.
Creditors	Increase of £1.4m	No longer reducing through release of provisions
Working Capital / Risk Rating	**No Impact**	

8.3. The release of remaining provisions that are no longer required will continue in Month 6.

9. Cost Pressures

9.1. Budget changes in August included devolving cost pressure funding of around £150k to operational budgets. Significant items included £35k to deliver the Ophthalmology service to the Royal Free and £115k relating to the Asteral unitary payment for the Imaging Managed Equipment Service.

9.2. Other central budgets are released into the overall financial position, mainly phased in twelfths and with matching estimated expenditure accruals where appropriate.

10. Cost Improvement Programme (CIP)

10.1. Performance against the CIP is summarised in the charts below. The target to the end of August was £1.4m, against which £1.2m has been validated. In-month performance was £5k lower than planned. The shortfall to date of £218k represents 15% of the target of which £230k relates to pay.

10.2. The total target for the year remains at £4.2m. Of this, £560k relates to the closure of Reckitt and Eddington wards. Work is underway to update the CIP assumptions in light of higher than anticipated activity levels, with the likely scenario that at least one ward will remain open and that additional income due to increased activity will offset the lack of reduction in expenditure that this will cause.

10.3. Developing the CIP for 2009/10 (a minimum target of £8.6m recurrent savings) remains a priority, with Directors involved in forming detailed plans for achieving this target, managed by the Efficient Services Collaborative headed by Fiona Elliott, Director of Planning and Performance.

10.4. The target is high, partly due to the normal requirement for annual CIP of around £4m, but also due to additional investment in services and a number of cost pressures – some of which are being implemented in 2008/09 with significant full year effects in 2009/10. Examples include MRSA screening and cleaning, DTC facilities costs, a higher than expected pay award, midwifery-led birthing unit, maternity day unit, Paediatric ED, chemotherapy manufacturing unit and increased energy prices.

FIGURE 6

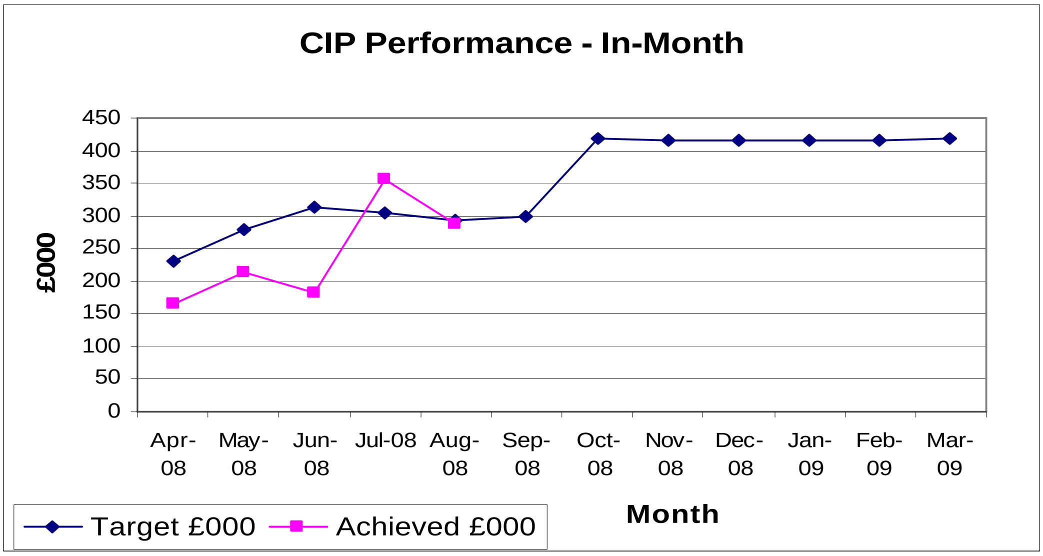
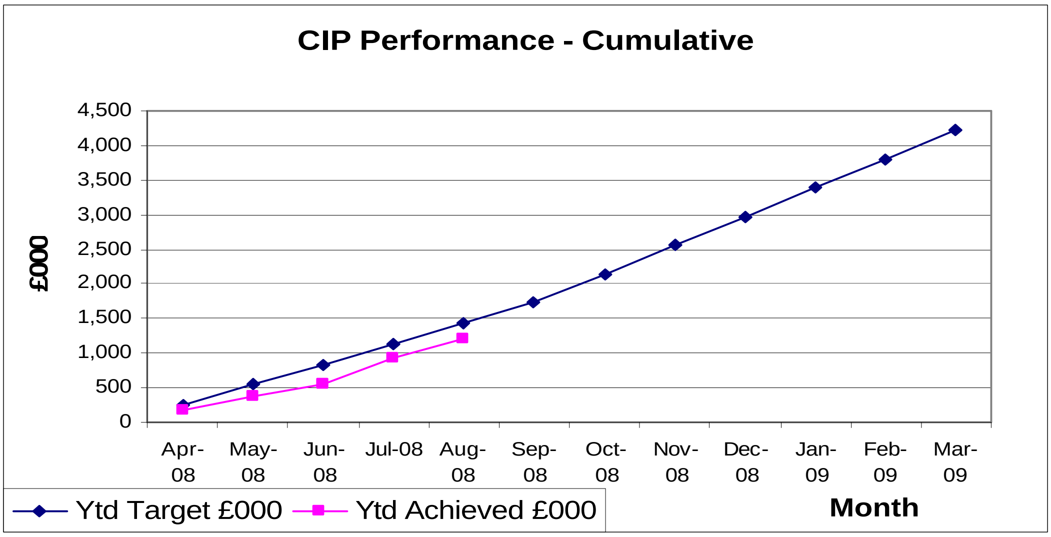


FIGURE 7

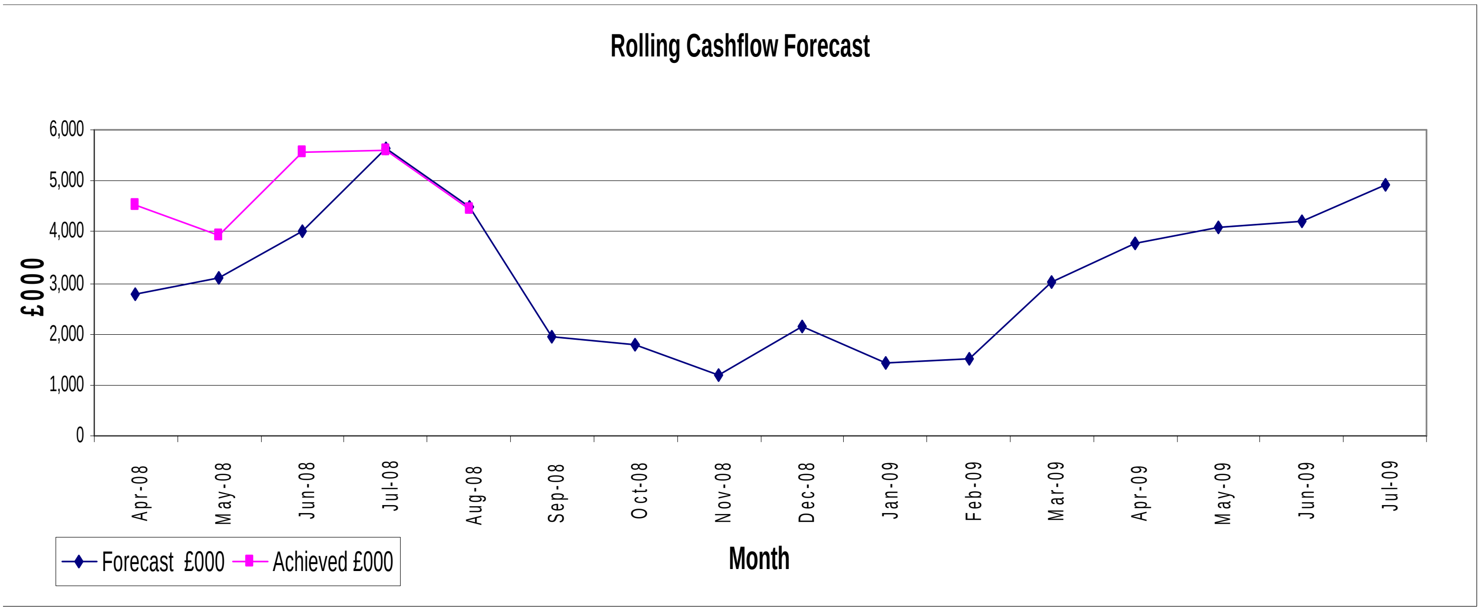


11. Cash

11.1. The cash balance at the end of August was £4.5m, in line with the previously published forecast. Within this, income was £200k lower than forecast due to the taking of credit notes relating to SLA performance and payroll cash outflow was higher than forecast due to payment of junior doctor annual leave owing and the payment of pay arrears. However, capital payments were lower than forecast due to a delay in the certification of a large project.

11.2. The rolling twelve-month cashflow forecast is shown below:

FIGURE 8



11.3. Where exact timings are unknown, estimates have been included. The reduction in the cash balance in September is due to the half-yearly Public Dividend Capital payment of £1.9m.

12. Risk Rating

12.1. An indicative risk rating is shown below, based upon the Monitor methodology. As reported to the July Trust Board, this indicates an overall rating of 2 for the forecast year-end position (rounded down) due to the reduced surplus of £0.8m currently being forecast.

12.2. However, the year-to-date risk rating has improved to a score of 3, due to the improved EBITDA and I&E surplus margin.

FIGURE 9

Weighting	Metric Description	Metric Value	Rating	Month 5	Forecast Year-end
10%	EBITDA achieved (% of plan)	94.97	4	**0.40**	**0.40**
25%	EBITDA margin (%)	5.87	3	**0.75**	**0.75**
20%	Return on Assets (%)	-1.21	2	**0.40**	**0.20**
20%	I&E surplus margin (%)	0.34	2	**0.40**	**0.40**
25%	Liquid ratio (days)	45.754	5	**1.25**	**0.75**
	Overall rating			**3.20**	**2.50**

13. Balance Sheet

13.1. The balance sheet is summarised below, showing the opening, current month and year-end forecast position:

FIGURE 10

Description	As at 1st April 2008 £'000	End of Month Actual £'000	2008/09 Year End Forecast £'000
Fixed Assets	**92,504**	**94,302**	**96,629**
Stock	1,230	1,313	1,200
Debtors	6,575	11,292	6,628
Debtors - Deferred Asset	25,816	25,413	24,866
Cash in hand & at Bank	2,515	4,468	3,030
Total Current Assets	**36,135**	**42,487**	**35,724**
Creditors - Revenue	11,468	17,556	12,237
Creditors - Capital	3,150	1,287	2,200
Total Current Liabilities	**14,618**	**18,843**	**14,437**
Net Current Assets	**21,517**	**23,644**	**21,287**
Provisions for Liabilities & Charges	**3,289**	**3,193**	**2,389**
Total Assets Employed	**110,732**	**114,752**	**115,527**
Public Dividend Capital	47,258	47,809	47,800
Revaluation Reserve	40,426	43,553	44,000
Donated Asset Reserve	1,221	1,209	1,100
Income & Expenditure Reserve	21,827	22,181	22,627
Total Capital & Reserves	**110,732**	**114,752**	**115,527**
Capital Cost Absorption Rate		**1.49%**	**3.55%**

13.2. As described in Section 8 above, figures for debtors and creditors have increased over previous months by around £1.4m due to the accounting treatment for Work In Progress introduced in August.

13.3. Average invoiced debtor days are currently 12 (a reduction from 14 in the previous month) against a target maximum of 30 days. The invoiced debt at the end of August represents 3.27% of the Trust's turnover (target maximum of 5%).

13.4. As at 31st August, 86.5% of NHS Creditors and 86.7% of Non-NHS Creditors were paid within the target 30 days.

14. Update on Capital Programme

14.1. The Capital Programme has been adjusted following the August meeting of the Capital Monitoring Committee, to ensure that the programme is not over-committed for 2008/09 or 2009/10. The Trust's Capital Resource Limit for 2008/09 is £6.1m, of which £1.1m relates to the building up of residual interest in the PFI.

14.2. There has been some slippage of minor projects to 2009/10. In addition to this, the planned extension and development of the Mary Seacole Ward is being discussed by the Executive Committee. The original plan was to use £250k of capital in 2008/09 and a further £1.5m in 2009/10 – however, a detailed business case will be required to demonstrate that this development is viable. The 2009/10 capital programme is balanced without this project – therefore if it is to be included the Trust will need to cancel other projects (or let them slip into 2010/11) or obtain a loan to cover the work.

15. Forecast Out-turn 2008/09 and Forecasting Process

15.1. The likely case out-turn I&E forecast of £0.8m has been submitted to NHS London, although it has been stated that a £2m surplus remains the aim and is still possible. The Trust has been given a 'control total' indicating that the lowest surplus that should be delivered is £1.6m, with £2.1m being the highest surplus that is acceptable. Missing this target range would adversely affect the Trust's risk rating and would mean greater intervention by NHS London, as well as adversely affecting the Trust's application to become a Foundation Trust.

15.2. A formal review of the forecast position will be undertaken for Month 6, as a result of the development of an improved approach to forecasting described below.

15.3. The five key risks / priorities remain in order to achieve the planned £2m surplus:

- **Achievement of CIP** - as detailed in Section 10 above, the CIP is currently £218k below plan, with a significant and challenging increase in monthly targets from October onwards (as shown in figure 6)
- **Achievement of DTC Income Target** – DTC income is currently £286k below plan, inclusive of the £238k reduction in expected income relating to Ophthalmology day case work undertaken for the Royal Free – discussions are ongoing to finalise the financial arrangement for 2008/09. As elective activity was underperforming by £232k to July, it is possible that DTC activity is higher due to conversion of activity from elective work, and it is recommended that the two are monitored closely together.
- **Maintenance of income levels sufficiently above SLA plan to cover other targets/pressures** – in-month over-performance against SLA plans in July was high at £750k, although August is expected to be a much quieter month when coded activity data becomes available. In addition, the reported over-performance against SLAs is likely to be reduced by the requirement to reimburse PCTs for Quarter 1 activity validations and excessive follow-ups (see section 6 above).
- **Reduction of overspend on pay -** including achievement of vacancy factor. Current pay overspend is £1.16m, with agency use a significant contributory factor. The vacancy factor adjustment to budgets is not being met, with the majority of vacancies being covered by agency or bank staff.
- **Resolution of long-standing Whittington Facilities Ltd. (WFL) debt** – no benefit has been assumed in the actual figures to date.

15.4. A key priority identified in the recent KPMG Review of the Finance Function was to develop a more robust forecasting process. Whilst acknowledging that forecasts have been developed, the report suggested that there is room for improvement in this area and the finance team, in conjunction with operational management, is developing a Forecasting Policy and plan to address this.

15.5. Specific planned developments are as follows:

- Ensuring that management accountant meetings with budget holders are forward-looking, with service changes identified at an early stage

- Producing summary level forecasts within each directorate, which are then signed off and fed into the Trust-wide forecast reported to Executive Committee and Trust Board
- Focusing on *actual* income and expenditure rather than on budgets, and projecting this forward
- Including updated forecasts on the budget statement packs that are sent to operational managers and budget holders
- Using available data on referrals and recent medical and surgical inpatient activity to forecast future activity (and therefore income) in conjunction with operational management.

15.6. Key to the success of improving forecasting is the need for finance staff to be fully engaged with operational areas of the Trust. This requires work within and outside of the finance department – for example, finance staff should be involved in directorate and departmental meetings and are included in the early stages of any service development plans. It is also recommended that a senior finance representative should attend regular General Managers' meetings.
