Whittington Health NHS

Trust Board Meeting

ITEM: 13
Doc: 09

DATE:	23 May 2012

TITLE:	Financial Position – Month 1 (April 2012)

SPONSOR: Richard Martin, Finance Director	**REPORT FROM:** Jim Davies, Deputy Director of Finance

PURPOSE OF REPORT:

The purpose of the report is to provide an overview of the provisional Month 1 financial position, and update of the 2012/13 budget position.

EXECUTIVE SUMMARY:

1. 2012/13 Budget Update

1.1. This report provides an update on the budget position reported to the Board in March. The trust is planning for a surplus position of £3,120k for 2012/13, which equates to £3,504k after excluding the impact of IFRS and depreciation on donated assets.

1.2. The total planned income position for the Trust is £274,519k.

1.3. All expenditure budgets and all assumptions underlying income budgets have been produced in full consultation with budget holders, general managers and directors.

1.4. No impairments have been forecast at this stage, although they too would be excluded from the NHS London control total.

2. 2012/13 CIP Position

2.1. The overall plan is dependent on the full achievement of a £13.1m (4.8%) CIP within the year. The most upto date assessment of schemes highlights the level of risk associated with non achievement as ranging between a best case position of £593k and a worst case position of £2,843k. Where slippage / non achievement against schemes occurs it is essential to the delivery of the financial plan that compensating schemes are identified.

3. Month 1 Financial Update

3.1. This report details the financial position for Month 1, together with a summary of 2012/13 budgets. Detailed CIP, income and forecasting sections and EC approved cost pressures will be reported from Month 2 onwards.

3.2. The I&E position for Month 1 2012/13 is a deficit of £444k, which is £285k worse than planned.

3.3. The cash balance at the end of April was £11,362k. This position is higher than the planned balance, largely due to the receipt of additional cash payments which were not anticipated for receipt in April, a specific example being VAT receipts received early (£465k).

PROPOSED ACTION:

The Trust Board is asked to

- **Note:** The budget position which shows a planned surplus of £3,120k.
- **Note:** The 2012/13 CIP position which shows a level of risk against slippage / non achievement which ranges between £593k and £2,843k.
- **Note:** Further risks to the budget identified including identification of additional cost pressures and underachievement against income plans.
- **Note:** An in month deficit of £444k, which is £285k worse than planned.

APPENDICES:

DECLARATION

In completing this report, I confirm that the implications associated with the proposed action shown above have been considered – any exceptions are reported in the Supporting Information:

Implications for the NHS Constitution, CQC registration
Financial, regulatory and legal implications of proposed action
Risk management, Annual Plan/IBP
Moving Ahead – how does this report support any of the Trust's 5 Strategic Goals

Month 1 Finance Report

4. 2012/13 Budget Position & Key Risks

Overview

4.1. Further to the *2012/13 Budget Proposal* presented to the March Trust Board, for which an update was provided as part of the Month 12 Finance Report, there have been no significant changes to the 2012/13 budget position. A summary of the budget position shows that the Trust is projecting a surplus position of £3,120k for 2012/13, which equates to £3,504k after excluding the impact of IFRS and depreciation on donated assets. It is the latter figure of £3,504k against which the Trusts is monitored by NHS London, and while this figure has reduced from the position previously reported (£3,747k); it should be noted that this does not reflect a deterioration in performance, but rather reflects technical adjustments in the calculation of the IFRIC12 adjustment and assessment of adjustments required in respect of donated assets. A summary of the key details included within the contract with the Trusts main commissioning agency – North Central London (NCL) is summarised as follows;

Contract Summary

- A total income requirement in 2012/13 from NCL of £221.75m.
- Against this requirement the 2012/13 contract offer represents £220.3m plus a risk share against the gap value of £1.46m of which 50% is guaranteed as a further reimbursement from NCL making £221.03m the full income value.
- The maximum potential risk to the organisation is therefore £0.73m in 2012/13.
- The gap of £1.46m will potentially be mitigated through readmissions funding that is not yet fully included in the offer, community reprovision investment not yet included in the offer and acute service developments. Any residual shortfall will be shared 50:50 with NCL making up therefore the maximum risk to the Trust of £0.73m in 2012/13.
- 2012/13 includes additional £1.3m of (non - recurrent) bariatric income with 50% marginal costs included as a Trust cost pressure associated with delivery of the additional activity. We agreed this item as a way of getting to a more favourable end point - the gap would have been £0.650m bigger without it. By making allowance for the costs - we have checked that this work can feasibly be undertaken with the Surgery Division.
- 2012/13 includes 6 months funding for the current readmission schemes to continue (with 50% marginal costs included associated with delivery of the additional activity). With CCG support this may be extended to the full year and this second six months would offset the £1.46m gap as described above.
- 2012/13 - £0.95m non recurrent funding included against our request of £2.15m support for specific initiatives.
- It was proposed that if the contract is agreed on a “cap” & “collar” basis, that thresholds are set above and below the baseline position with a marginal rate of 30% to be applied within these thresholds. The current understanding is that a 2 year block deal has been agreed by NHS London.

Contract Mechanism

4.1. The block mechanism applies only to NCL Commissioners, under and over performance for other commissioners will be reimbursed / paid as per normal Payment by Results rules. The benefits of a block arrangement include:

- Certainty around income levels including CQUIN.
- Stable financial environment for evaluating care pathway redesign.
- Any volatile community services remain on cost per case.

- Allowance for activity growth included.
- Pass through costs for estates to be concluded as an adjustment.
- Some non recurrent transitional support included.
- Shifts to the value of the contract would be managed as a variation.
- Transformation Board to oversee delivery of savings and activity changes.

4.2. Potential risks associated with a block arrangement include:

- If activity over performs, the Trust cannot achieve the £212m exit requirements.
- If the Transformation board is not effective, change may be delayed.
- If residual funding gap remains the target surplus would be at risk.

Key next Steps

4.3. Key next steps required to support the delivery of the financial plan as outlined above are summarised as follows:

- Conclude associate SLA's with non NCL commissioners.
- As identified above the financial position is dependent on the delivery of a £13.1m CIP target, it is essential the Trust operates within budgets and delivers against identified CIP schemes.
- Wherever possible under spend against budget to offset additional pressures and the risk of CIP slippage.
- Establish Transformation Board and appoint membership.
- Trust to ensure delivery of transformation programme.
- Agree with commissioners future years indicative funding.
- Develop detailed CIP programme for 2014/15 onwards.
- Develop market share growth strategy.
- Rework IBP and LTFM for submission to NHS London in June.
- Deliver against Accountability Agreement milestones.

Key Risks

4.4. The key risks to the delivery of the planned position are summarised as follows:

- Slippage / non delivery against CIP Plans: The overall plan is dependent on the full achievement of a £13.1m (4.8%) CIP within the year. The most upto date assessment of schemes highlights the level of risk associated with non achievement as ranging between a best case position of £593k and a worst case position of £2,843k. Failure to deliver the CIP plan in full will undermine the Trusts position to deliver against its plan, it is essential therefore that slippage / non achievement against CIP schemes is minimised, and where this is unavoidable alternative schemes will need to be identified to compensate. Delivery against the CIP programme will be reported and monitored regularly through the Trust Operational Board, Executive team and Trust Board.
- New cost pressures: The identification of additional unavoidable cost pressures will undermine the ability of the Trust to deliver against the plan, there will therefore need to be restraint in the agreement of new cost pressures, and where this is unavoidable compensating savings will need to be identified if the trust is to deliver against plan.
- Underachievement against NCL income plans: The Trust has a "cap & collar" agreement with the main commissioner, which allows for a maximum of £500k variance from the agreed baseline position after the application of a 30% marginal

rate. This to a large extent mitigates the risk of income loss in year from NCL. There is a further risk element to the contract highlighted in the sections above, this relates to a risk share of £1.46m, of which a minimum of 50% is guaranteed by NCL, leaving a residual risk of £0.73m. It is has been agreed with NCL that this additional income will be based on a range of opportunities, and that achievement of the income will be conditional on performance.

– Underachievement against Non NCL income plans: The Month 12 report highlighted that the delay in agreement of the NCL contract had a consequent delay on agreeing associate contracts. It is anticipated that associate contracts will be agreed in the near future, however there is an overall difference between the value the Trust has planned for, and that to which commissioners are prepared to agree, the total exposure to the Trust in this respect is estimated to be in the region of £600k, and this essentially relates to different assumptions relating to activity and income growth. The Month 1 position has been developed on a prudent basis and includes the equivalent of 1 month under performance in this respect. The position will continue to be monitored, and updates will be provided to the Trust Board.

5. Month 1 Financial Update

Overview

5.1. The financial position for April is presented within the context that the level of information available in Month 1 is typically less detailed than would normally be the case for the rest of the year. This is linked to the timetable for the agreement of 2011/12 accounts, the consolidation and agreement of SLA information and is consistent with previous years. The most detailed level of information has been used where available, in the absence of which – reasonable estimates have been made.

Overall Financial Position

5.2. 2012/13 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, although the £305k impact of IFRS on Private Finance Initiatives (PFIs) and the impact of donated assets (£79k) are excluded from the Trust's break-even duty. Impairments would also be excluded although none have been forecast at this stage.

5.3. An in month EBITDA position of £0.7m is reported, which is £0.3m less favourable than the planned position.

5.4. The income and expenditure is illustrated as follows:

FIGURE 5a: Income & Expenditure Summary – Consolidated Position

Description	Current Month			Year To Date			Annual
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	Budget £'000
NHS Clinical Income	19,672	19,730	(58)	19,672	19,730	(58)	240,946
Non NHS Clinical Income	470	553	(83)	470	553	(83)	6,655
All Other Non Clinical Income	2,207	2,123	84	2,207	2,123	84	26,918
Total Income	**22,349**	**22,407**	**(57)**	**22,349**	**22,407**	**(57)**	**274,519**
Pay	16,228	16,009	(219)	16,228	16,009	(219)	193,041
Non Pay	5,418	5,408	(10)	5,418	5,408	(10)	64,214
Centrally Held Savings	-	-	-	-	-	-	-
Total Expenditure	**21,646**	**21,417**	**(229)**	**21,646**	**21,417**	**(229)**	**257,255**
EBITDA	**703**	**989**	**(285)**	**703**	**989**	**(285)**	**17,264**
Loss on Disposal of Assets	-	-	-	-	-	-	-
Plus Interest Receivable	4	4	(0)	4	4	(0)	20
Less Interest Payable	(214)	(215)	1	(214)	(215)	1	(2,677)
Less Depreciation	(699)	(699)	(0)	(699)	(699)	(0)	(8,457)
Less PDC Dividend	(238)	(238)	(0)	(238)	(238)	(0)	(3,030)
Net Surplus / (Deficit)	**(444)**	**(159)**	**(285)**	**(444)**	**(159)**	**(285)**	**3,120**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**(404)**	**(118)**	**(285)**	**(404)**	**(118)**	**(285)**	**3,504**

5.5. Key areas of variance are summarised as follows:

ICAM

- £174k adverse variance in month, consisting of £195k overspend on expenditure and £21k over-recovery of income.
- **Pay overspend (£110k):** The overspend on pay occurred largely across medical wards and A&E. The closure of Cavell Ward was delayed causing a £42k overspend, Cloudsley Ward had more complex patients than usual (£33k overspend) and the A&E overspent due to use of temporary nursing staff and slippage against CIP targets.
- **Non-Pay overspend (£80k):** The over spend on non pay is largely attributable to slippage against CIP targets within Pharmacy.
- Total over spend within ICAM offset in part by ongoing vacancies across community services.

Surgery, Cancer & Diagnostics

- £136k adverse variance in month, consisting of £142k overspend on expenditure and £6k over recovery of income.
- **Pay overspend (149k):** Coyle ward overspent by £64k relating to medical outlier patients, specialist nursing and slippage against CIP schemes (£42k). Imaging over spent by £34k in month; which was due to slippage against CIP schemes and additional out of hours sessions undertaken to clear waiting lists.

Women's, Children's & Families

- £31k negative variance in month, consisting of an under spend against expenditure budgets of £13k, combined with an under recovery of income - £43k.

Corporate Budgets

- Corporate budgets make up the balance of the position as outlined above.

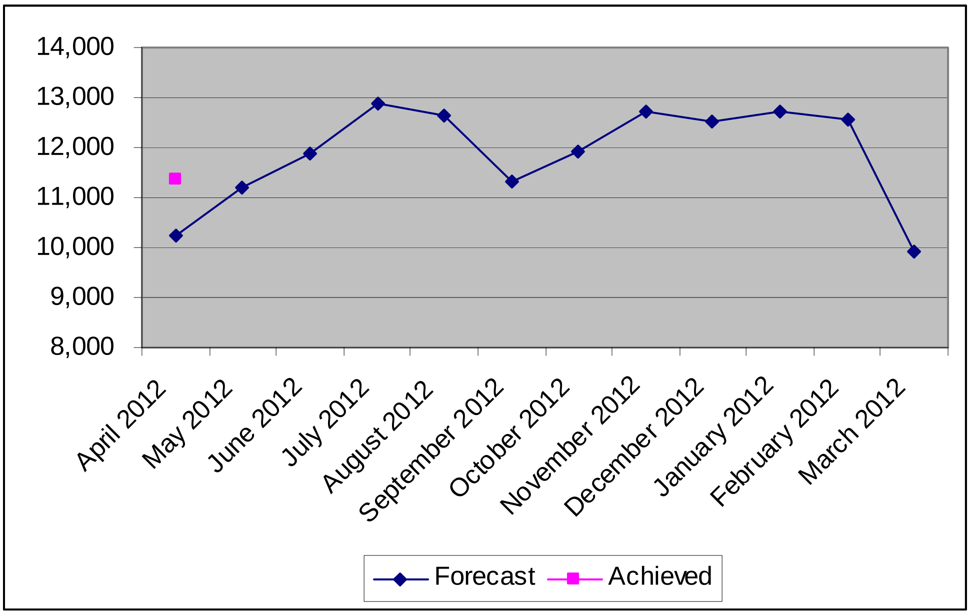
6. Income Performance

6.1. The assessment of NHS clinical income performance for April is based primarily on activity data which has yet to be fully coded. It should also be noted that the finance and activity schedule which forms the basis for monthly planning has not yet been finalised, it is expected that this will be complete for inclusion within the Month 2 report. On this basis the April position has been estimated to show an underperformance of £58k, which reflects the estimated risk of underperformance against non NCL contracts. The full year risk has been estimated at circa £600k and is based on differences in expectation between the Trust and commissioners of activity levels during 2012/13. Recognition of this risk reflects a prudent approach in managing income levels, and will continue to monitored and reported on a monthly basis.

7. Cash and Balance Sheet / Statement of Financial Position

7.1. The cash balance at the end of April was £11,362k against a planned balance of £10,249k.

FIGURE 9: Rolling Cash flow Forecast 2012/13



7.2. The cash balance at the end of April was £11,362k. This position is higher than the planned balance, largely due to the receipt of additional cash payments which were not anticipated for receipt in April, one specific example being VAT receipts received early (£465k).:

7.3. Good cash management and the ability to maintain positive cash balances over the course of the year will depend on strong budgetary control and delivery of the cost improvement programmes which underpin the financial plan, together with a focus on the following areas:

- Prompt collection of cash from PCTs
- Use of leasing as a mechanism for purchasing capital equipment where possible, to spread the cash outflow over a number of years
- Regular cash flow forecasts based upon estimated income and expenditure and non-cash items

7.4. The balance sheet is summarised below, showing the opening and closing positions for April 2012.

FIGURE 10: Balance Sheet / Statement of Financial Position

Description	As at 1st April 2012 £'000	As at 30th April 2012 £'000	As at 31st March 2013 £'000
Property, plant and equipment	137,124	136,484	137,385
Intangible assets	1,180	1,148	501
Trade and other receivables	2,022	1,998	1,998
Non-current assets	**140,325**	**139,631**	**139,884**
Inventories	1,115	1,326	1,078
Trade and other receivables	12,044	9,269	8,989
Cash and cash equivalents	9,933	11,362	9,924
Current assets	**23,092**	**21,957**	**19,991**
Trade and other payables	30,311	28,956	26,956
Borrowings	1,209	1,209	2,224
Provisions	3,487	3,478	561
Current liabilities	**35,007**	**33,643**	**29,741**
Borrowings	36,834	36,812	35,216
Provisions	1,771	1,771	2,043
Non-current liabilities	**38,606**	**38,584**	**37,259**
Total assets employed	**89,805**	**89,361**	**92,875**
Public dividend capital	53,206	53,206	53,206
Retained earnings	6,930	6,491	10,979
Revaluation reserve	29,669	29,663	28,690
Total taxpayers' equity	**89,805**	**89,361**	**92,875**

8. Capital Programme

8.1. The annual capital plan for the trust was approved by the trust board in January 2012. The agreed plan is now operational and was set against an original Capital Resource Limit of £8.71 million.

8.2. Since April there has been an increase to the CRL of £1.4 million to take into account changes made in the way that PFI and MES life-cycle costs are accounted for. This means that at the end of month 2 a total of £9.24 million was allocated to the approved list of projects, leaving £872k as yet unallocated.

8.3. Two schemes have been identified that will need additional funding. These are; the Electronic Patient Records (EPR) project, and a project to replace the Picture Archiving Computer System (PACS).

8.4. The programme remains in balance, and on target to deliver the identified schemes to time and to budget.

9. Year-End Submission of Accounts

9.1. External auditors are currently reviewing the Trust's draft accounts for 2010/11, which were submitted on 23rd April 2012. To date the audit has progressed well and no major problems are anticipated. The final accounts will be presented to the Audit Committee on Monday 1st June, and to Trust Board on Wednesday 27th June.