The Whittington Hospital NHS
NHS Trust

ITEM: 3

MEETING:	**Trust Board** **20 September 2006**

TITLE: Financial Position – Month 4 2006/07

SUMMARY:

Financial performance for the four months to July 2006 is attached.

Headline performance is an Income & Expenditure deficit of £1,659k to date, which is an adverse variance from plan of £267k.

Attached :
Finance Report – Months 4
Appendix 1 – Overall Financial Performance Tables
Appendix 2 – Capital Expenditure Report

ACTION: **Information**

REPORT FROM: Chris Daniells, Deputy Director of Finance

SPONSORED BY: Trish Donovan, Director of Finance

Financial details supplied/checked by:

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

As previously reported, the Trust's financial plan for 2006/07 in compliance with the London Financial Strategy requires a surplus of Income over Expenditure for the year of £1.3m (approx 1%). In August, the Strategic Health Authority informed the Trust of a reduction in it's Medical & Professional Education & Training allocation (MPET) of £935k, and that it expects the Trust to maintain it's position of a surplus of Income over Expenditure of £1.3m. In order to deliver this position the Cost Improvement Programme (CIP) needs to be increased to almost £11m.

The I&E plan is phased across the financial year 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 in line with the activity plan plus additional capacity (e.g. new critical care beds and additional NICU cots) to achieve an in-month surplus in most months up to the required level of overall surplus by year-end.

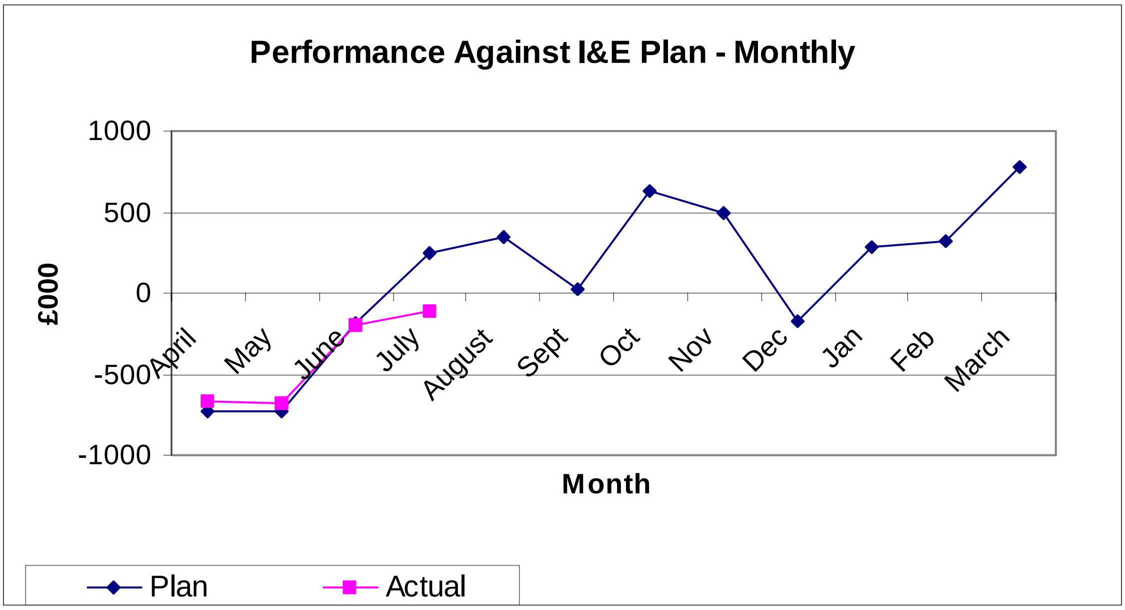
The phased plan, as shown in the chart below, has been refined this month and now reflects SLA income profiled in line with activity plans for elective and out-patient work and in line with 2005/06 activity for non-elective work. In addition the MPET income reduction of £935k has been reflected.

This plan is also detailed in the Trust's monthly reports (FIMS Returns) to the SHA and performance is monitored both in terms of the actual I&E position and any variance from plan.

2.0 Income & Expenditure Performance at Month 4

2.1 Overall Income & Expenditure Performance (Appendix 1 page 1)

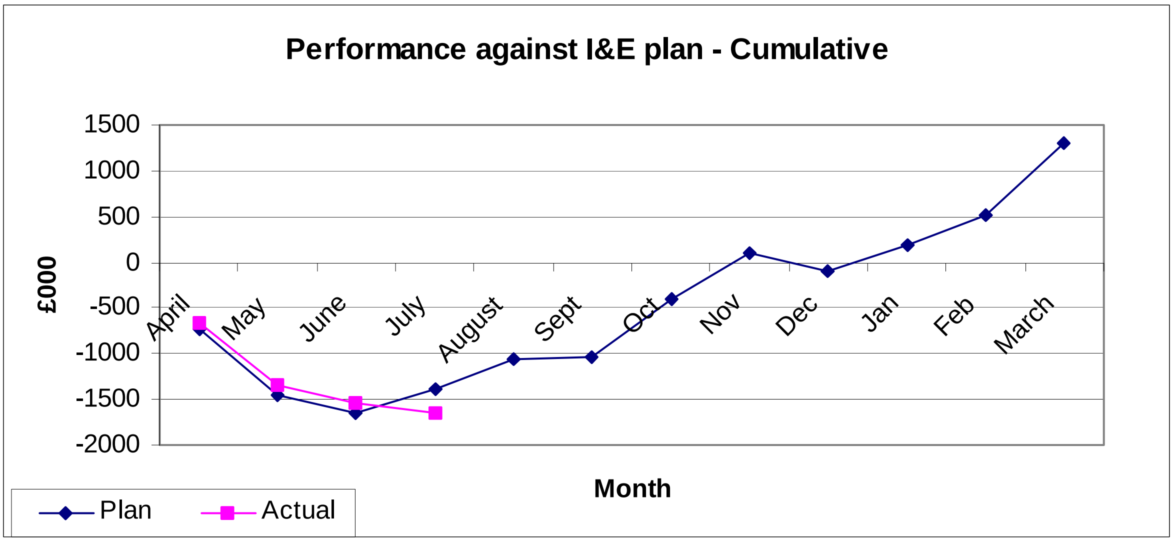
Chart 1



Following the re-profiling of the plan, as described above, performance for the first three months is reported broadly on plan. Values for the first two months were reported on a combined basis and are shown equally across April and May in the chart above. In June there was a variance of about £20k from plan. In July, the overall plan was to achieve an in-month surplus but the actual result achieved was a deficit of £114k so performance was an adverse variance of £362k against the plan for the month.

Cumulative performance to date is detailed below.

Chart 2



Performance up to the end of July (month 4) is an I&E deficit of £1,659k (£1,547k at month 3). The plan to date is a deficit of £1,392k.

Whilst in month deficits were anticipated in the early part of this year, as demonstrated in the charts above, it was further anticipated that recovery would commence with an in-month surplus in Month 4, however this was not achieved and the position worsened with a deficit variance of £117k in month to an overall deficit of £1,659k which is £267k adrift of plan.

As in the first three months, the position includes a release of funding from central reserves to offset pressures in operational budgets that have not currently been funded. The release from reserves in Month 4 was £789k. This incorporates funding for specific pressures including utilities, rates and a number of pay items plus a further tranche of the cost pressure/contingency funding adjustment that is being phased in equally across the year.

The phasing of the income budget for SLAs with PCTs has been changed from straight twelfths to reflect work patterns, this is outlined in more detail in paragraph 2.3. This phasing has improved the position on PCT income in Quarter 1 from £206k based on a plan profiled in straight twelfths to £336k, using the plan based on work patterns.

Key considerations in terms of delivering the plan as the year progresses are :

- The phasing of the plan, as shown in chart 1 above, requires achievement of an in-month surplus most months from July onwards with a significant surplus in the closing month of the year, reflecting assumptions on the timing of additional income and implementation of the CIP, both of which are weighted towards the end of the year.
- The current level of funding released from central reserves will not be available throughout the remainder of the year.
- The proportion of savings required each month increases as the year progresses.
- The risk assessment of the savings plan, as reported to the July meeting of the Trust Board indicated that up to 25% may not be achieved (£2.5m); in addition the MPET reduction of £935k for which additional savings are required gives a current value at risk in the region of £3.5m.
- There is slippage in terms of implementation of the CIP to date that now needs to be replaced/recovered over the remaining months.

2.2 Expenditure (Appendix 1 pages 2-5)

The overall expenditure plan is profiled across the year reflecting the anticipated timing of combined spending and savings plans. Whilst the majority of expenditure is profiled fairly equally across the year, reductions in the level of expenditure as a result of the CIP are required as the year progresses and there are increases for major commitments like the unitary payment associated with opening the new building, which commences part way through the year. The increased expenditure shown in the chart below in the final month of the year relates to the costs associated with additional capacity In critical care and NICU and this is offset by an increase in income that is phased in the same period.

Chart 3

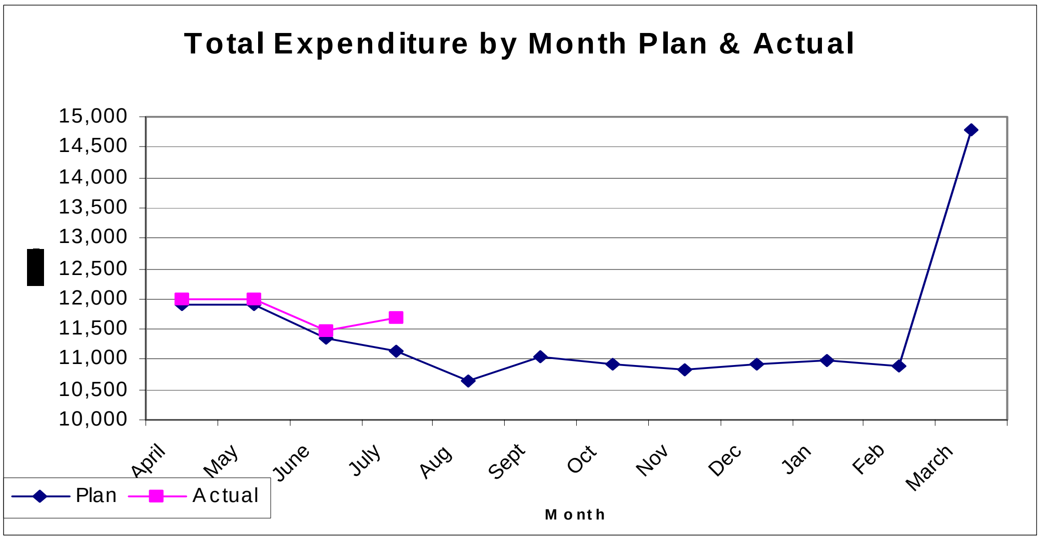
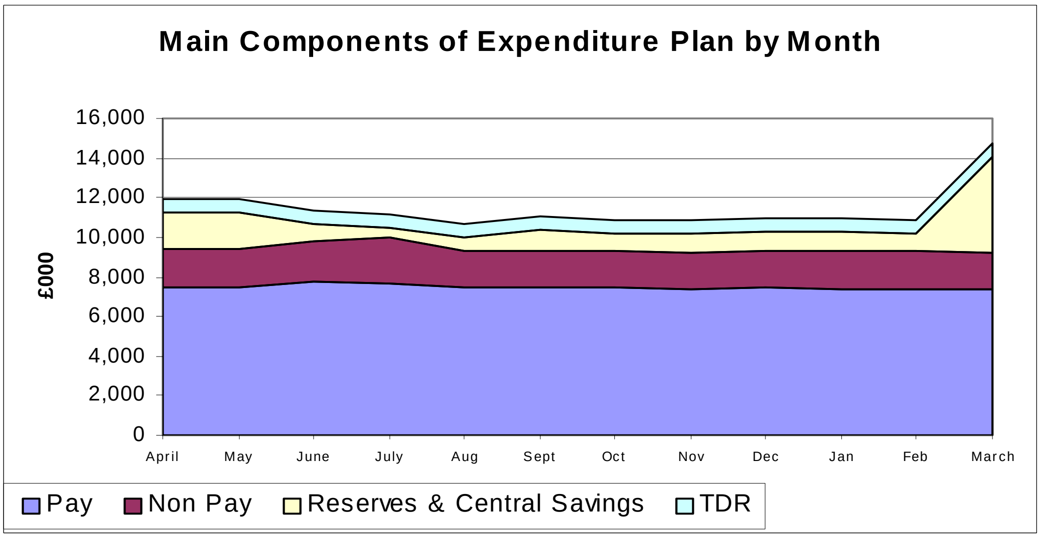


Chart 4 below, shows the main components of the overall expenditure plan, with pay accounting for over 65% of the total.

Chart 4



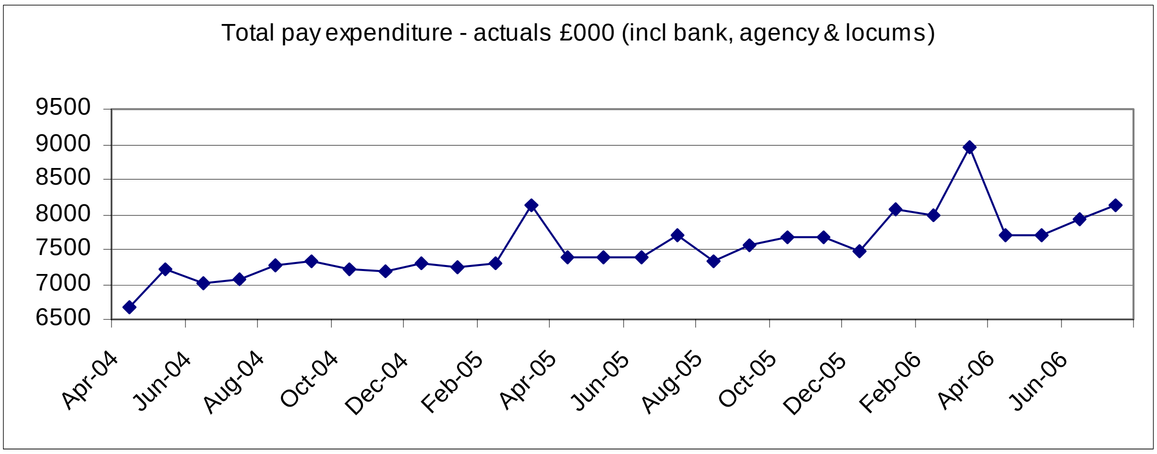
2.2.1 Pay (Appendix 1 page 3)

Pay is overspent by £1,164k to date against budget, of which £492k is in the current month, a deterioration of the position in the month of £353k. Year-to-date the following headings are over-spent - Senior Managers, Medical Staff, Nursing Staff & Admin & Clerical. Nurse Bank spend rose by £82k between June & July, (an additional £40k in Medicine on June expenditure, £15k in Surgery & £21k in Women & Children).

The variances against individual pay groups are in part offset by the release of cost pressure funding from reserves. Requests to fund pay pressures are being reviewed on an individual basis and where agreed funding is then allocated to the appropriate operational area, in the meantime the cost pressure reserve is being released centrally in recognition of these pressures.

Chart 5, below, shows actual expenditure for all staff, on a monthly basis, including all temporary staff (bank, locum and agency) costs.

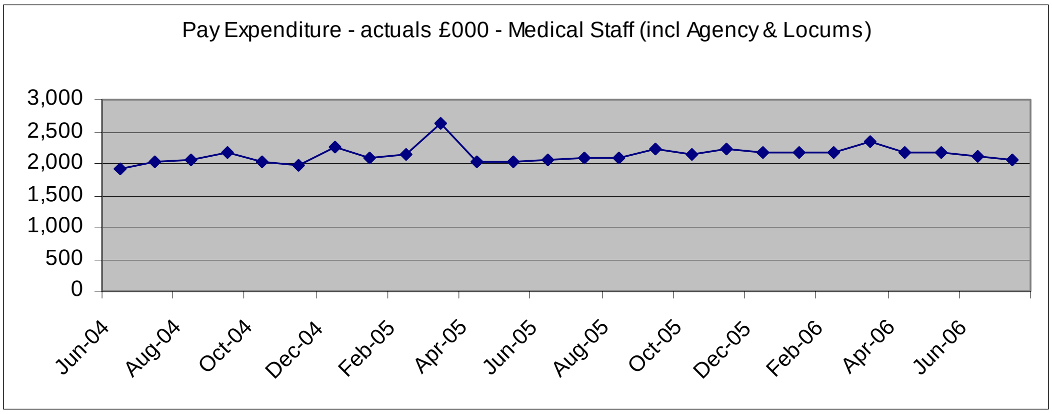
Chart 5



Pay awards for 2006/07 were paid to most staff groups in month 3, with arrears paid in month 4, this increase in cost was funded from reserves.

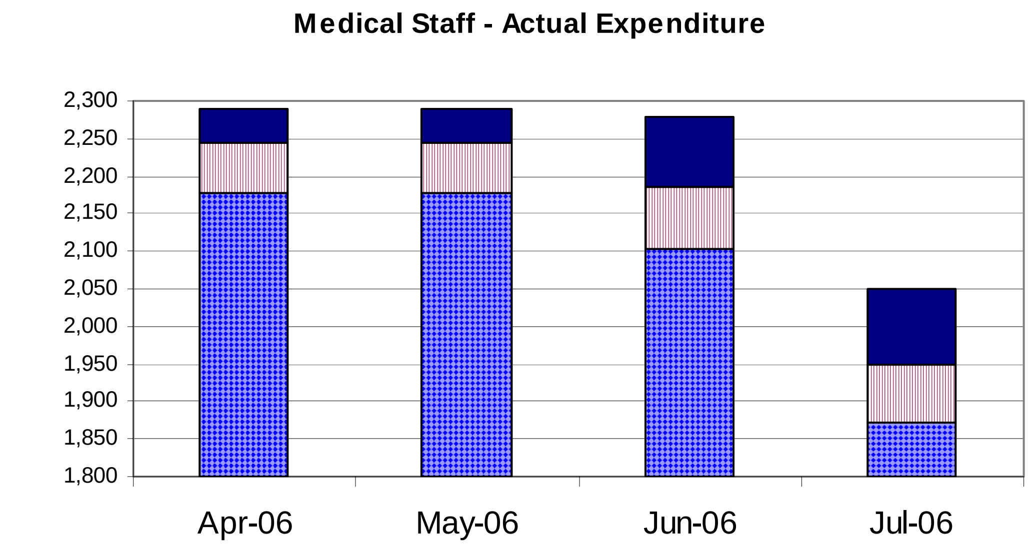
Charts 6 & 7, below, detail monthly expenditure on Medical Staff. This is a key area of overspend against budget, however it is recognised that a number of budgets do not reflect the agreed establishment. As described above, these pressures are being reviewed on an individual basis. Funding for Anaesthetic consultant posts was adjusted in month 4 to reflect the agreed staffing level, recently reviewed.

Chart 6



This expenditure is split to separately show expenditure on payroll, bank or locum and agency staff in chart 7, below. This shows a reduction in July of over £200k, which relates to staff on the payroll. Locum and agency spend is broadly in line with last month.

CHART 7



	Apr-06	May-06	Jun-06	Jul-06
Agency	46	46	95	101
Bank/Locum	66	66	81	76
Pay	2,178	2,178	2,104	1,872

Revised controls in terms of authorising all temporary staff bookings, management of the Trust's temporary staffing office and a vacancy control process have been agreed by the Executive Team and are being implemented during September.

2.2.2 Non Pay (Appendix 1 page 4)

There is an overspend of £1,631k across non-pay areas, at the end of July, of which £541k was in the month. 68% of the in-month deficit relates to savings allocated to non-pay areas. Clinical Supplies overspend has increased to £260k from £82k in June, however £78k of this is due to re-classification of NHS expenditure per DH Manual of Accounts – the change being to show NHS expenditure under the type of expenditure rather than as a line "NHS Expenditure" summarising to the "Other Expenditure" line e.g. blood contract is now shown in Clinical Services instead of Other Expenditure. £86k of the change in month relates to Patient Appliances, this movement is due to lack of information to accrue expenditure, Management Accounts will pick this up with appropriate Service Managers, drugs overspend increased by £53k, £15k of which will be reimbursed by PCTs . Premises & Fixed Plant has moved into under-spend of £167k in month and £26k year-to-date due to funding of £160k for rates and £177k for utilities from the Generic Cost Pressure and Inflation reserve.

The Trust's non-pay group continues to focus on identifying potential areas for saving ; items identified via the Procurement Consortium are being explored to ensure all possible benefits are achieved.

Increased controls in terms of authorisation of all non-pay requisitions and restrictions on non-essential spend have been agreed by the Executive Team and are being implemented from September.

2.3 Income (Appendix 1 Pages 6 - 9)

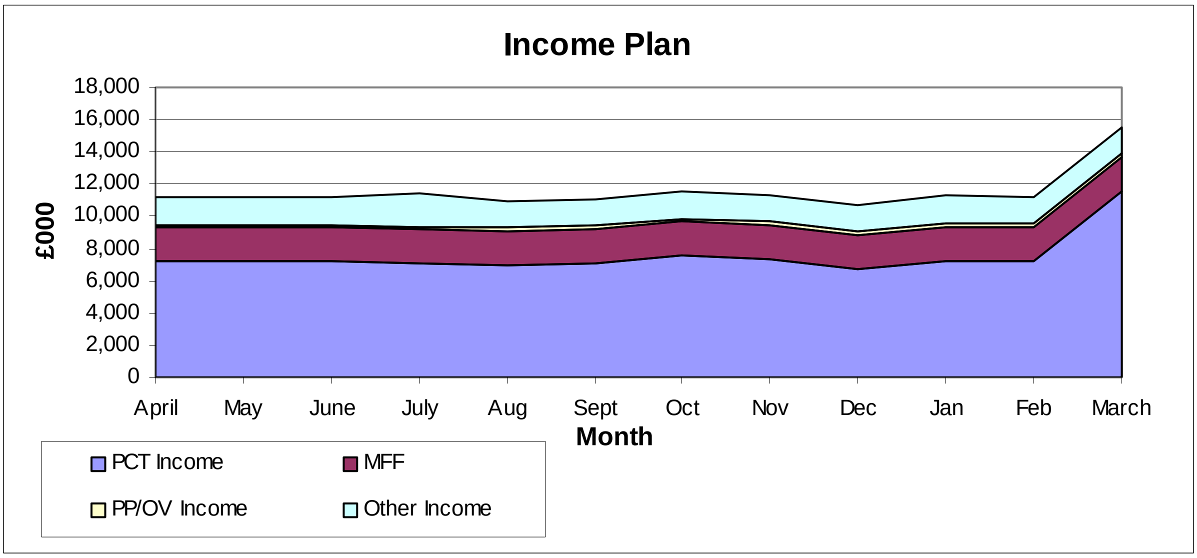
Overall, there is a surplus of £567k to date against income targets, which is an improvement of £419k from last month. This is due to over-performance on patient activity to Quarter 1. This over-performance is against targets for Critical Care and ED attendances and an increase in excess beddays over plan. Over-performance for elective work is not currently assumed as elective work is expected to match SLA targets overall for this year. As previously mentioned, actual performance is now measured against a plan phased for work-flow patterns. The phasing as shown in chart 8, below, is based on:

1 Outpatients – phasing based on the number of available working days per month.

2 Surgical Elective work – phasing based on activity plans incorporating theatre and ward closures.

3 All other work – phasing based on 2005-06 actual activity per month.

CHART 8



Although targets have been refined to reflect work patterns, income targets remain similar on a monthly basis, except towards the end of the year where the plan recognises an increased target in relation to additional critical care and NICU capacity.

PCT SLA income represents the majority of Trust income, as demonstrated in the chart above.
Performance against SLAs, as described above, is shown on page 7(by PCT) and page 8 & 9 (by patient category) of Appendix 1.

Total Income is detailed on page 6 of appendix 1.

2.4 Cost Improvement Programme (CIP)

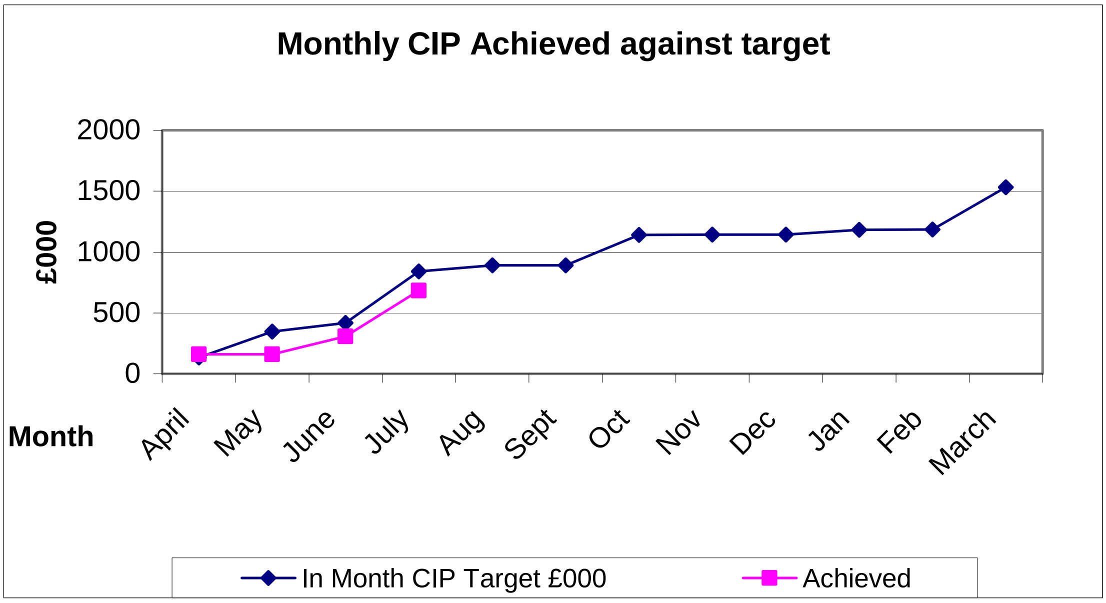
2.4.1 Target

The total CIP for 2006/07 has been increased this month by £955k as a result of reductions in expected income levels for MPET (£935k) and RAB (£20k). This brings the total target for the year to almost £11m (£10,851k). Work continues in order to compile a plan to achieve the total savings required, but at this stage sufficient schemes to deliver the £11m plan have not been identified.
The Director of Strategy and Performance will be micro monitoring the CIP from September.
The CIP target is not equally phased throughout the financial year, with many schemes weighted towards later months, as shown in the charts below. This makes achievement of the monthly target increasingly challenging as the year progresses.

2.4.2 Performance to Date

Monthly performance against the CIP target to date is shown in the chart below.

Chart 9



The target brought forward from previous years (approx £2m) is held within operational budgets and is phased fairly equally across the year. Other elements of the target are phased in accordance with anticipated start dates.

Of the additional target for 2006/07 (£8.851k), £1734k is planned during the first four months, against which £1,313k has been achieved, leaving a shortfall to date of £421k.
Due to the phasing of CIP plans, the target increases as the year progresses (as evident in the chart above). One of the main increases in the second half of the year relates to the MPET income reduction for which savings are yet to be developed – this target has been phased across months 7-12, following notification of the reduction during August.

A summary of performance by Directorate is on page 10 of appendix 1.

As reported to the July Trust Board, a detailed risk assessment against the CIP was completed by Directors and resulted in an expected value of approximately £7.5m achievable against the overall savings target (£10m at that stage), leaving £2.5m at risk. The target has now been revised for the income reductions advised during August to almost £11m overall which leaves approximately £3.5m at risk and requiring alternative plans to be developed.

Overall performance aginst the CIP is below plan and represents significant risk in terms of delivering the I&E plan.

3. Balance Sheet Items (Appendix 1 pages 11-14)

1 Creditor Payments (Appendix 1 page 12)

Performance against the Better Payment Practice Code was 92% (based on value) for NHS invoices and 85% 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.

2 Debtors (Appendix 1 Page 12)

Outstanding, invoiced, debt at the end of July was £4.4m. Previous month's figures included a payment in advance by Haringey PCT, which deflated the outstanding debt figures by £2.4m. An invoice hads now been raised to offset this payment.

There has been a drop of £267k in debt outstanding over 90 days between June and July.

3 Cash (Appendix 1 Page 14)

The cash balance at the end of July remains in excess of £8m. Receipts were roughly in line with the forecast, payments were higher than forecast, however cash management plans remain under development. Interest is earned on the balance held in the Trust's bank account and is £115k to date against a plan of £67k. The level of cash held is expected to reduce significantly from September following the payment of PDC Dividends . The current cash-flow forecast is shown on page 14 of Appendix 1)

4. Capital

The Trust's notified Capital Resource Limit is £8,211k (no changes in the month). 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.

Components of the CRL are shown on page 15 of Appendix 1, the capital expenditure Programme is detailed at Appendix 2.

The Trust plans to deliver the capital programme within the notified CRL.

5. Recommendations

The Trust Board is asked to

- **Note the required financial plan to deliver a £1.3m surplus in line with the London Financial Strategy and the phasing of the plan over the year ;**
- **Note the deficit position reported for the first four months, including the release of funding from central reserves and the requirement to recover this deficit over the remainder of the year ;**
- **Note the extent of the CIP required in order to deliver the 2006/07 plan, achievement to date and the expected value identified via the recent risk assessment ;**
- **To identify additional items to offset the significant proportion of the CIP currently considered at risk ;**
- **To identify additional items to offset the reductions in income notified this month;**
- **To identify additional controls that can be implemented in order to reduce all non-essential expenditure;**
- **Continue to take action that ensures expenditure is contained within available budgets, in all areas for 2006/07.**