

ITEM: 4

**Meeting:** Trust Board  
**Date:** 16<sup>th</sup> April 2008

**Title:** Financial Performance

**Executive Summary:** Three key areas are reported :

**1. 2007/08 Financial performance (Section 1)**

This was finalised as an I&E surplus of £1.421m, as planned. All financial duties were met. The (draft) annual accounts were submitted to the Department of Health by the 12 noon deadline on 1<sup>st</sup> May.

**2. Financial Plan /Budgets budgets for 2008/09 (Section 2)**

As agreed at the March meeting budgets have now been updated to reflect the agreed income position. Further detailed work continues in order to finalise cost pressures and to develop an updated financial model for the Foundation Trust application that is informed by the latest available information. This is further detailed in section 2.

**3. Performance for Month 1 (April) 2008/09 (Section 3)**

I&E performance is reported in line with plan. Coded activity data is not yet available so the position includes estimated values at this stage.

**Action:** For information

**Report from:** Trish Donovan,  
Deputy Director of Finance

**Sponsor:** Richard Martin  
Director of Finance

**Financial Validation**  
Lead: Director of Finance

Trish Donovan

**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, Financial Reporting , Internal Control & Financial Standing

**Evidence for self-certification under the Monitor compliance regime**

Lead: All directors

**Compliance framework reference:**

## Executive Summary

### 1) 2007/08 Financial Performance

1.1 The annual accounts are currently being audited. Following audit, a complete set will be presented for approval at the Audit Committee on 10<sup>th</sup> June with reports from both the Director of Finance and the External Auditor. The outcome of this discussion will then be reported to the full Trust Board meeting in June before the audited accounts and certificates are submitted to the Department of Health by the 23<sup>rd</sup> June.

1.2 All financial targets were met for 2007/08.

- The planned Income & Expenditure surplus of £1.4m was delivered.
- The closing cash balance of £2.5m was as previously forecast
- The Capital expenditure programme was delivered within the CRL
- The savings programme of £8.4m was fully delivered

### 2) 2008/09 Financial Plan / Budgets

2.1 An updated corporate budget, reflecting latest available information is included. This incorporates agreed SLA values and latest estimates for the DTC.

2.2 The overall plan remains to deliver a surplus of £2m, subject to mitigation / management of risks identified

### 3) Performance for Month 1 (April) 2008/09

3.1 Performance is reported on plan, with a surplus of £152k reported for the month and a year- end forecast surplus of £2m, subject to the risks detailed in section 2.

### 4) Recommendations

The Trust Board is asked to :

- ◆ ***Note the 2007/08 year-end financial performance and that the planned position has been delivered for I&E, Cash, CIP, Capital (CRL) and External Financing (EFL).***
- ◆ ***Confirm agreement to the updated budgets for 2008/09***
- ◆ ***Note the ongoing work on the evaluation of cost pressures and assessment of financial risks and the impact on the 2008/09 plan (and beyond)***
- ◆ ***Note the position reported for month 1***

## 1) 2007/08 Financial Performance

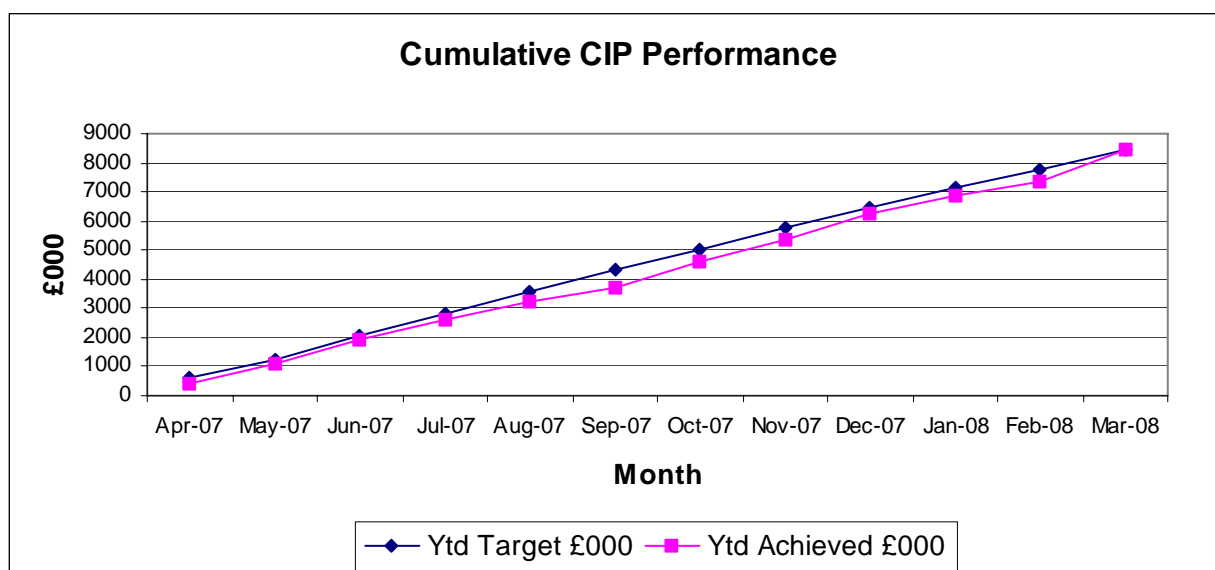
### 1.1 2007/08 Final Income & Expenditure Position

The income and expenditure position at the end of 2007/08, which was a surplus of £1.421m as planned, is summarised below. Cumulative performance for the year against existing budgets is shown and in addition, the final (shaded) columns indicate the potential impact of attributing central budgets and adjustments in respect of income over-performance to offset related expenditure variances across operational areas :

Description	Year To Date Performance			Annual Budget £'000	Potential Budget Changes £000	Revised Annual Budget £000	Revised Variance £000
	Actual £'000	Budget £'000	Variance £'000				
PCT Service Agreements	122,497	118,195	4,302	118,195	4,302	122,497	(0)
Specialised Services	1,947	1,886	62	1,886	62	1,947	(0)
Other Income For Patient Care	3,831	3,031	800	3,031	800	3,831	(0)
Other Non-patient Income	25,055	24,525	530	24,525	530	25,055	(0)
<b>Total Income</b>	<b>153,330</b>	<b>147,637</b>	<b>5,693</b>	<b>147,637</b>	<b>5,693</b>	<b>153,330</b>	<b>(0)</b>
Gross Pay Expenditure	102,284	102,263	(21)	102,263	21	102,284	(0)
Gross Non Pay Expenditure	41,127	32,547	(8,579)	32,547	8,579	41,127	(0)
Central Budgets	0	4,402	4,402	4,402	(4,402)	0	(0)
Savings 07/08	0	(502)	(502)	(502)	502	0	(0)
<b>Total Expenditure</b>	<b>143,411</b>	<b>138,711</b>	<b>(4,700)</b>	<b>138,711</b>	<b>4,700</b>	<b>143,411</b>	<b>0</b>
<b>EBITDA</b>	<b>9,919</b>	<b>8,926</b>	<b>993</b>	<b>8,926</b>	<b>993</b>	<b>9,919</b>	<b>0</b>
Add Interest Receivable	369	300	69	300	69	369	(0)
Less Interest Payable	67	50	(17)	50	17	67	(0)
Less Depreciation	5,223	5,599	376	5,599	(376)	5,223	(0)
Less PDC Dividend	3,577	3,577	0	3,577	0	3,577	(0)
<b>Net surplus / (deficit)</b>	<b>1,421</b>	<b>0</b>	<b>1,421</b>	<b>0</b>	<b>1,421</b>	<b>1,421</b>	<b>0</b>

### 1.2 Cost Improvement Programme

- ◆ The target of £8.4m was fully achieved, as summarised below



Savings of £1.1m were recognised in March, against a plan of £661k for the month. This is because productivity gains and income recovery adjustments, whilst known earlier, were finalised in the final month when the closing activity position for the year became available.

### 1.3 Balance Sheet

The Balance Sheet as included in the draft annual accounts (currently subject to audit) is summarised below.

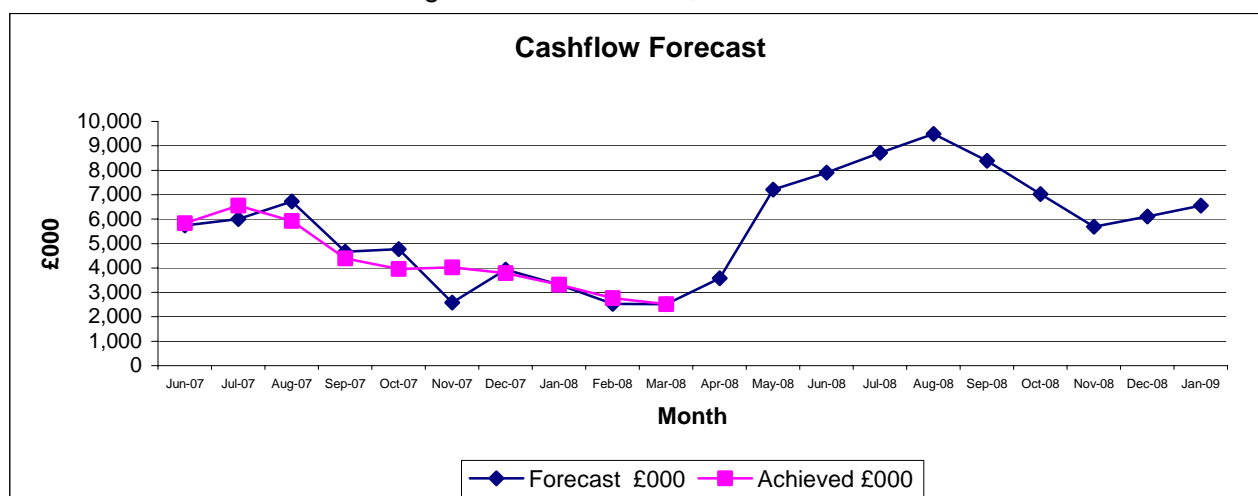
	31 March 2008 £,000	31 March 2007 £,000
Intangible fixed assets	867	0
Tangible fixed assets	91,636	83,471
<b>Total fixed assets</b>	<b>92,503</b>	<b>83,471</b>
<b>Current assets</b>		
Stocks and work in progress	1,290	1,324
Debtors	32,391	37,709
Cash at bank and in hand	2,515	415
<b>Total current assets</b>	<b>36,391</b>	<b>39,448</b>
<b>Creditors: falling due within one year</b>	<b>(14,679)</b>	<b>(13,693)</b>
<b>Net current assets</b>	<b>21,517</b>	<b>25,755</b>
<b>Total assets less current liabilities</b>	<b>114,020</b>	<b>109,226</b>
<b>Provision for liabilities</b>	<b>(3,289)</b>	<b>(2,415)</b>
<b>Total assets employed</b>	<b>110,731</b>	<b>106,811</b>
<b>Taxpayers' equity</b>		
Public dividend capital	47,258	49,915
Revaluation reserve	40,425	35,323
Donated asset reserve	1,221	1,432
Income and expenditure reserve	21,827	20,141
<b>Total taxpayers' equity</b>	<b>110,731</b>	<b>106,811</b>

Further detail, including a complete set of accounts, will be reported to the June Audit Committee

### 1.4 Cashflow Forecast

The current rolling cash-flow forecast is shown in the chart below.

- ◆ The cash balance at the end of March was £2.516m which was as planned. This was based on the revised cash regime for NHS Trusts, as advised in March.



## 1.5 Risk Rating

- ◆ The Trust's risk rating, calculated using the Monitor methodology, indicates a year-end rating of 3, as shown below. Whilst the Trust is operating under the NHS Trust financial regime, the working capital facility is not currently available, however a facility of £11m is assumed for the liquidity calculation below.

Weighting	Metric Description	Metric Value	Rating	Weighted Value
10%	EBITDA achieved (% of plan)	111.1	5	0.50
25%	EBITDA margin (%)	6.5	3	0.75
20%	Return on Assets (%)	4.6	3	0.60
20%	I&E surplus margin (%)	0.9	2	0.40
25%	Liquid ratio (days)	18.1	3	0.75
	<b>Overall rating</b>			<b>3.00</b>

## 1.6 Patient Level Costing & Information System (PLICS) Update

Information on performance for the first 6 months of 2007/08 is detailed in a separate report.

## 2. Financial Plan / Budgets for 2008/09

### 2.1 Development of forecasting

The existing financial plan reported to NHS London is largely based upon the assumptions included within the Integrated Business Plan and long-term financial model (LTFM) as submitted to Monitor in February 2008. The entire financial plan is currently being reviewed and updated in line with the latest assumptions and new information such as the 2008/09 pay award.

A key part of this review is the scrutiny and approval or rejection of any cost pressures/service developments and the consequential impact on the current year and the recurrent financial position. An exercise on re-assessing cost pressures, service developments and financial risks is in progress as a way of both informing the new long-term financial model and the potential outlook for 2008/09 and 2009/10.

The preliminary findings suggest that the base case would produce a surplus of £3.9m and £3.1m respectively. This position contrasts with the base case that was submitted to Monitor of £2.8m and £2.7m respectively. This favourable movement results from a reassessment of provisions held at the end of 2007/08 along with specific adverse and favourable changes, for example newly identified costs and higher net SLA income. This replaces the previous assumed general inflationary uplift of 5%.

The base case represents a realistic plan based upon a reasonable set of assumptions. Monitor will test for a number of risks within the plan and the Trust will need to demonstrate the mitigating strategies that could be employed.

The risks identified to date include:

- General tariff increase lower than expected
- Changes in demand
- DTC capacity not utilised as expected
- Unanticipated case mix changes
- Lower Emergency Department tariff income following tendering by the PCT
- Lower CIP achievement
- Higher drug inflation
- Cost pressures/service developments - awaiting clarification/approval
- C.Difficile fines
- 18 weeks target fines

The preliminary findings indicate that the worst case scenario is a significant deficit in both years if mitigating strategies are unsuccessful.

The Board should be reassured that each of these risks are being scrutinised through the Business Planning Group and Executive Team with a view to minimising, where possible, any cost pressures/developments. As part of this monitoring arrangements and mitigating strategies are being developed and will be reported to the Board at a later stage.

In conclusion, the Trust's achievement of the planned £2m surplus in 2008/09 is contingent upon the successful mitigation of a significant proportion of the risks identified and reducing any additional cost pressures/developments.

## **2.2 Updated Corporate Budget**

2.2.1 The financial plan, as reported in the FIMS return to NHS London, is summarised below. This plan has been refined to reflect the following main items that have changed since the initial budgets were agreed by the Board :

- signed SLA values, and associated MFF income and the estimated impact on expenditure
- the Trust's assessment of the likely impact of PCT demand management plans compared to the values adjusted within agreed SLAs – an income increase of £0.9m
- revised estimates for the DTC costs and income, based on updated activity and timescales assumed – an income reduction of £0.8m

Overall income (and expenditure) is £1.4m higher than the previous version of the plan

2.2.2 The overall plan remains to deliver a surplus of £2m for the year. This is phased fairly equally across the year, with a target surplus between £150k and £175k per month.

2.2.3 A contingency reserve of £0.8m, as required by NHS London is included within the expenditure budget and were this not required, the overall surplus would have been higher, however the recent agreement of a 2.75% pay award for staff paid on Agenda for Change (AfC) bandings represents a pressure approximately equivalent to the contingency reserve.

2.2.4 Cost Improvements totalling £4m have been identified and specific schemes are being implemented.

Income and Expenditure Plan	Full Year Plan £000	
Income from activities	134,011	<b>155,320</b>
Other operating income	21,309	
<b>Total Income</b>		
Less Operating expenses :		
Pay - including Bank & Agency	103,678	<b>144,217</b>
Non Pay	40,539	
<b>Subtotal Operating Expenses</b>		
<b>EBITDA</b>		<b>11,103</b>
Add Interest Receivable	249	<b>(9,103)</b>
Less - Depreciation / Amortisation / Impairments	(5,536)	
Less - Interest Payable & Financing Costs	0	
Less - PDC Dividends Payable	(3,816)	
<b>RETAINED SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR</b>		<b>2,000</b>

### 3. Performance for Month 1 (April) 2008/09 (Section 3)

#### 3.1 Income & Expenditure

3.1.1 At the time of writing, coded activity data for April is not yet available, performance is therefore estimated to be on plan, which in terms of income is 1/12<sup>th</sup> of the annual value. Performance by patient type and against PCT SLAs will be included from month 2 onwards, with data currently reported a month in arrears based on the coding timetable for activity.

3.1.2 Expenditure budgets as summarised in the plan in section 2 above are also mainly phased in 12ths and performance reported for April is on target, as summarised in the table below.

Within the expenditure position, centrally held items including the contingency reserve of £800k are accrued equally across the year. The contingency reserve is required to meet the AfC pay award which was recently agreed at a rate higher than previously assessed by Monitor in the IBP.

3.1.3 There are vacancies across pay areas and there is some bank and agency usage mainly against nursing and ancillary staff groups. Actual WTE in post at the end of April was 24 above establishment (per the pay flash report), which is a 1% variance. A similar level of variance against the expenditure budget would be £86k, however as establishment has not yet been fully updated for cost pressures and activity data is not available, half of this variance has been assumed in April on the assumption that the remainder will be met via updated budgets.

- 3.1.4 Interest receivable is estimated above budget for the month as a result of the higher than originally anticipated cash balance
- 3.1.5 Implementation of the Cost Improvement Programme (CIP) is on track, with performance regularly reviewed by the Executive team.

Once activity information becomes available a more detailed analysis will be reported.

Income and Expenditure Plan	Month 1 - April 2008		
	Plan £000	Actual £000	Variance £000
Income from activities	11,163	11,163	
Other operating income	1,773	1,773	
<b>Total Income</b>	<b>12,936</b>	<b>12,936</b>	<b>0</b>
Less Operating expenses :			
Pay - including Bank & Agency	8,639	8,682	-43
Non Pay	3,369	3,369	
<b>Subtotal Operating Expenses</b>	<b>12,008</b>	<b>12,051</b>	<b>-43</b>
<b>EBITDA</b>			
Add Interest Receivable	5	50	45
Less - Depreciation / Amortisation / Impairments	465	465	0
Less - Interest Payable & Financing Costs	0	0	0
Less - PDC Dividends Payable	318	318	0
<b>RETAINED SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR</b>	<b>150</b>	<b>152</b>	<b>2</b>

### 3.2 Year End I&E Forecast

The forecast is to deliver the planned surplus of £2m by year-end, subject to the risks identified in section 2.1 above.

### 3.3 Cashflow Forecast

The cash balance at the end of April was £4.526m, which is higher than originally estimated. This was as a result of the Trust paying a higher number of creditor invoices in March than usual and this was possible due to the level of cash receipts (from PCTs) in March.

The original rolling cash-flow forecast is shown below, however this remains under review and will be updated to reflect latest available information as part of the review of the LTFM and as the timing of specific cash commitments becomes known – the most significant example currently being the pay award, where the timing of actual payments and arrears is as yet unknown.

