ITEM: 08/119	
DOC: 6	

Meeting:	Trust Board Part 1
Date:	18th June 2008

Title:	**Financial Performance – Month 3**

Executive Summary:	Two key areas are reported : 1. **Financial performance – Month 3 (June 2008) (Section 1)** 2. **Forecast & Financial Plan for 2008/09 and 2009/10 (Section 2)**

Action:	For information / Discussion

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 domains
Evidence for self-certification under the Monitor compliance regime Lead: All directors	**Compliance framework reference:**

Executive Summary

1) Month 3 Financial Performance

Income & Expenditure

Overall I&E performance reported is £370k worse than plan.
In terms of actual income & expenditure, this is a deficit to date of £790k, against a planned deficit to date of £420k.

The phasing of the plan, as described last month, is such that a deficit was planned for the first 2 months and a surplus of £447k was planned for June, reflecting the anticipated timing of items that are not equally phased across the year, including activity and associated income for the DTC and THE Cost Improvement Programme (CIP).

Whilst a small in-month surplus has been achieved (£65k) in the month, this is £382k less than originally planned for the month. The adverse variance from plan is a result of a combination of underachievement against the CIP and vacancy factor targets to date plus the impact of increased income targets.

The overall plan remains to deliver a surplus of £2m, however with performance to date below plan the current year-end forecast (likely case) has been refined and whilst a surplus should be achieved, by year-end, it is likely to be in the region of £0.8m, as described in table 7 on page 9.

Cash

The closing cash balance for June was £5.5m compared to a forecast balance of £4m. The rolling cash-flow forecast is shown in section 1.5

2) 2008/09 Forecast

2.1 The overall plan remains to deliver a surplus of £2m, as previously agreed. Further internal transfers to operational budgets have been made this month, reflecting the funding of agreed cost pressures at operational level. Some items remain held in central budgets and estimated expenditure is accrued against these.

2.2 Forecast delivery of the planned level of surplus is subject to the management of risks and cost pressures, with a forecast Income & Expenditure out-turn of £5m surplus as best case, £0.8m surplus likely case and £5.1m deficit worst case as described in section 2. The forecast (likely) has moved from £0.9m surplus to £0.8m surplus as detailed in the table on page 9.

2.3 Plans for 2009/10 remain under development and the key challenge is to develop a detailed CIP to fully meet the forecast requirement.

4) Recommendations

The Trust Board is asked to :

- ***Note*** *the reported financial performance for the three months ;*
- ***Note*** *the ongoing work on the evaluation of cost pressures and assessment of financial risks and their impact ;*
- ***Note*** *the updated range (best, likely and worst case) forecast I&E position for 2008/09 and to* ***agree*** *the corrective actions required to return to the planned level of surplus ;*

1) Performance for Month 3 (June) 2008/09

1.1 Income & Expenditure is summarised in the table below. Performance overall is £370k worse than planned at this stage in the year.

TABLE 1 – I&E SUMMARY

Description	Current Month			Year To Date			Annual
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	Budget £'000
NHS Clinical Income	11,840	11,637	203	33,088	32,822	265	134,565
Non NHS Clinical Income	(12)	(12)	(0)	421	369	51	1,477
All Other Non Clinical Income	1,768	1,932	(164)	5,326	5,271	55	20,898
Total Income	**13,596**	**13,557**	**39**	**38,834**	**38,463**	**372**	**156,940**
Pay	9,608	9,197	(410)	27,377	26,743	(634)	106,411
Non Pay	3,189	3,202	13	10,014	9,974	(40)	39,993
Centrally Held Savings	0	(28)	(28)	0	(84)	(84)	(437)
Total Expenditure	**12,797**	**12,371**	**(426)**	**37,391**	**36,633**	**(758)**	**145,967**
EBITDA	**799**	**1,186**	**(387)**	**1,444**	**1,830**	**(387)**	**10,973**
Plus Interest Receivable	35	30	(5)	86	69	(17)	355
Less Interest Payable	0	0	0	0	0	0	50
Less Depreciation	451	451	0	1,366	1,366	0	5,462
Less PDC Dividend	318	318	0	954	954	0	3,816
Net Surplus / (Deficit)	**65**	**447**	**(382)**	**(790)**	**(420)**	**(370)**	**2,000**

- EBITDA of £1,444k to date is reported, which is less than planned ; an I&E deficit to date of £790k is reported against a planned deficit to date of £420k, giving an overall adverse variance from plan of £370k.
- The reason a year-to-date deficit is planned at this stage is that income is phased to recognise the anticipated timing of activity both for SLA activity targets and for additional activity targets relating to the DTC. Expenditure budgets are mainly phased in 12ths and estimates are accrued on this basis. This phasing means that there is a planned deficit in the earlier months of the year and as higher income targets impact in later months there are planned in-month surpluses.
- Whilst an in month deficit was planned for the first two months of the year, and performance was largely on plan, a surplus was planned for June as a result of increasing income targets and the planned level has not been achieved.
- The surplus reported for the month was £65k against a planned surplus of £447k for the month. The shortfall being a combination of underachievement against CIP and vacancy factor targets.
- Coded activity data is not yet available for June. Income for this period has therefore been estimated as described in section 1.2 below.
- Expenditure estimates / accruals have been included for items of expenditure yet to be finalised, including pay awards, yet to be settled but anticipated to be 2.75% for Agenda for Change Staff. The variance against pay budgets includes CIP targets plus 3/12ths of the vacancy factor target.
- There is slippage of £286k against specific CIPs planned to date. The timing/phasing of some items is not as originally planned and this slippage needs to be replaced over the remaining months of the year, either via additional measures or by ensuring the original planned values are delivered to a revised timescale.

1.2 Income

At the time of writing, coded activity data for June is not yet available.

Income performance against SLA targets, is therefore estimated to be on plan for the month, with variances from plan for May reported. In addition to SLA targets, there are a number of additional income targets that are phased to impact on the position for June. These include new targets for DTC activity, additional income as a result of CIPs, an assessment of PCT demand management plans plus cost pressures that are specifically funded via additional income. With the exception of the additional DTC activity, no accruals are included against these additional targets as these should be met via increases in activity which cannot be assessed until June activity becomes available.

In terms of performance against SLA, income was £473k above target at the end of May. Performance by patient type is summarised below.

TABLE 2 - SLA PERFORMANCE – Activity to end of May

Patient/SLA Category	Activity			£000 Costed Activity		
	Plan	Actual	Variance	Plan	Actual	Variance
Ad Hoc Items	0	0	0	2,932	2,932	0
All Critical Care Activity	2,482	2,140	(342)	2,202	2,207	4
All Elective Activity	781	600	(181)	1,102	958	(143)
All Non Elective Activity	5,698	6,517	819	3,525	3,801	276
All Outpatient Activity	31,152	34,988	3,836	3,372	3,740	368
Day Case Activity	2,322	2,303	(19)	1,426	1,404	(22)
Direct Access Activity	102,783	115,143	12,360	1,142	1,222	79
ED Attendances	13,908	12,789	(1,119)	1,021	931	(89)
Non Chargeable Activity	0	283	283	0	0	0
Grand Total	**159,125**	**174,763**	**15,638**	**16,721**	**17,195**	**473**

By PCT, the most significant variances were for Islington where activity was £457k above plan, Barnet £93k above plan and Haringey £61k above plan.

The most significant under-performance against target was for City & Hackney PCT at £83k below plan to date.

1.3 Expenditure

Expenditure budgets as summarised in table 1 above are also mainly phased in 12ths. Where actual information is not yet available, estimates or accruals are included – eg. for pay awards (anticipated at 2.75% to be backdated to April for Agenda for Change staff) is included on an accruals basis, until actual settlement.

Non pay budgets, as previously reported, were refined so that they reflect, as far as possible, 2007/08 out-turn (adjusted for full year effects and non recurrent items plus known changes and agreed cost pressures). Expenditure to date against non-pay is £40k above budget, however spend during June remained within budget. This includes CIP items attributed to non-pay areas.

Pay budgets now include a vacancy factor of £1.3m, which is phased equally across the year, so amounting to over £300k to date. There are vacancies across pay areas, however in many cases these are being covered via flexible / temporary staff (both bank and agency). The most significant spend above budget is in Medical (£335k to date) and Nursing (£260k to date) staff groups, where the cost of locum & agency staff exceeds available budget. Significant

commission costs are incurred in some areas, including theatre nursing where a premium of 70% is currently being paid.
Actual WTE in post for the week ended 29th June was 24.7 WTE above establishment (including bank & agency staff).

1.4 Cost Improvement Programme (CIP)

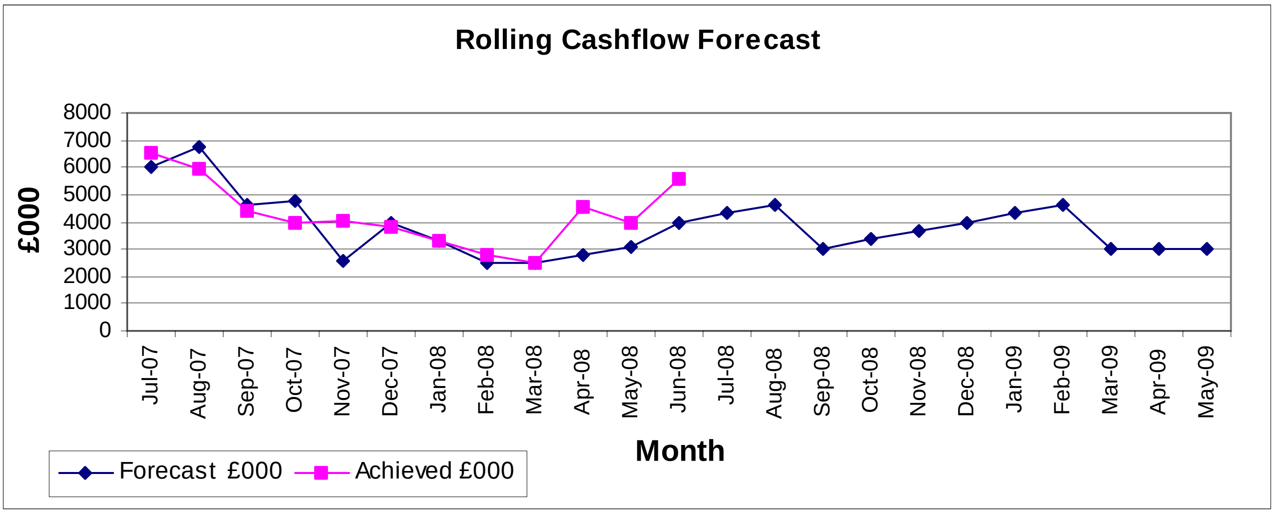
Implementation of the Cost Improvement Programme continues, with performance regularly reviewed by the Executive team. The total target for the year is £4.2m of which £3.8m relates to new schemes, the balance representing full year effects of prior year schemes. The target to date is £830k against which £544k has been validated, leaving a shortfall of £286k (34%) to date. Phasing of the plan remains under review and the target is updated with replacement / additional items as these are agreed.

1.5 Cashflow Forecast

The cash balance at the end of June was £5.5m against an original forecast of £4m.
This higher balance is a continuation of the position seen last month and was achieved as a result of changes in the cash regime for Trusts, announced in March (Trusts were allowed to hold higher year-end cash balances).

The rolling forecast, shown below, has been updated to reflect the revised regime and is consistent with the cash plan included in the provider agency financial plan, submitted in May. Some items remain estimated in terms of timing (eg. payment of pay awards and arrears, capital expenditure, cost pressures) and the forecast will be further updated as these become known.

TABLE 3 – CASHFLOW FORECAST



1.6 Risk Rating

Using the Monitor methodology, an indicative risk rating is shown below. This currently indicates an overall rating of 2 on both a year to date and a forecast year-end basis (rounded downwards). The reason the rating is a 2 is because there is an I&E deficit at this stage in the year - leading to both the “return on assets” and the “I&E surplus margin” being negative values and, as described above, performance is not on plan for both the year to date and the forecast year-end I&E position. If a higher year-end surplus is achieved the rating will improve.

TABLE 4 – RISK RATING

Weighting	Metric Description	Metric Value	Rating	Month 3 Weighted Value	Forecast Weighted Value
10%	EBITDA achieved (% of plan)	78.9	3	0.3	0.40
25%	EBITDA margin (%)	3.7	2	0.5	0.75
20%	Return on Assets (%)	-1.6	2	0.4	0.20
20%	I&E surplus margin (%)	-2.0	1	0.2	0.40
25%	Liquid ratio (days)	56.8	5	1.3	0.75
	Overall rating			**2.65**	2.50

1.7 Balance Sheet

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

TABLE 5 – BALANCE SHEET

Description	As at 1st April 2008 £'000	End of Month Actual £'000	2008/09 Year End Forecast £'000
Fixed Assets	**92,504**	**94,755**	**96,629**
Stock	1,230	1,281	1,200
Debtors	6,575	6,234	5,189
Debtors - Deferred Asset	25,816	25,592	24,866
Cash in hand & at Bank	2,515	5,561	3,000
Total Current Assets	**36,135**	**38,669**	**34,255**
Creditors - Revenue	11,468	15,389	10,768
Creditors - Capital	3,150	1,592	2,200
Total Current Liabilities	**14,618**	**16,981**	**12,968**
Net Current Assets	**21,517**	**21,688**	**21,287**
Provisions for Liabilities & Charges	**3,289**	**3,234**	**2,389**
Total Assets Employed	**110,732**	**113,209**	**115,527**
Public Dividend Capital	47,258	47,258	47,800
Revaluation Reserve	40,426	43,553	44,000
Donated Asset Reserve	1,221	1,233	1,100
Income & Expenditure Reserve	21,827	21,166	22,627
Total Capital & Reserves	**110,732**	**113,209**	**115,527**
Capital Cost Absorption Rate		**0.90%**	**3.55%**

- This reflects the likely case I&E forecast (£800k surplus) and current assumptions about debtors, creditors and cash
- Average invoiced debtor days are currently 14 (internal target to achieve less than 30 days) ; invoiced debt at the end of June represents approximately 4% of annual turnover (internal target to maintain below 5% of turnover).
- Based on invoiced values, 84% of NHS Creditors and 87% of non NHS creditors (on a year to date basis) have been paid within the target 30 days.

2. Forecast of revenue surplus 2008/09

2.1 The original plan as submitted to NHS London included assumptions around cost pressures. These assumptions reflected pressures that had been submitted to the Business Planning Group for scrutiny and support in accordance with the approved investment policy.

2.1.1 In addition a general assumption of 5% including inflation was made to pick up unknown pressures that might result. Since the completion of the original plan, a number of new pressures were submitted or were on the horizon or had been approved elsewhere. Consequently, an extensive review of all potential pressures was undertaken and this included new information around pay awards, business rates, and energy costs etc. These pressures were reviewed by both the Business Planning Group and the Executive Committee and a number were incorporated within the opening financial plan.

2.1.2 In order to afford a higher than expected level of investment, a review of provisions held on the balance sheet was undertaken and the potential to release a sum was reflected in the opening budgets which in turn equate to the £2m surplus plan as agreed with the NHS London.

2.1.3 The significance of this is that a) The provisions are no longer available to mitigate the risks and hence the deterioration in the forecast position b) A number of cost pressures were not included in the original plan as either they had not been submitted to the Business planning group or were not known or had been agreed elsewhere. c) That cost pressures must proactively be both sought and submitted on an ongoing basis to a single point for both current and future periods in order to ensure that the financial plan is updated on a regular basis.

2.1.4 In order to ensure scrutiny and control and minimise the chance of any surprises, all cost pressures are expected to be submitted to the Business Planning Group with approval by the Executive Committee where appropriate. Adherence to this approach should reduce the scope for unplanned fluctuations in the financial position.

2.2 The forecast as presented in the previous month's Board report indicated a "likely case" surplus of £0.9m. The audit trail of adjustments between this forecast and the £2.0 surplus plan as submitted to NHS London can be seen in the table below.

The following new information has been reflected this month in reaching a revised set of forecast scenarios

- Additional funding from Islington PCT has been agreed in respect of Palliative care and Waiting lists for which no additional increase in expenditure is required. The value is £0.6m for the full year although this is expected to be non-recurrent.
- Additional maternity funding of £0.5m is also available and this could be applied to the additional cost pressures associated with maternity (also £0.5m for 2008/09). It is not yet clear if this is to be recurrent and at this stage it has not been assumed for 2009/10.

- The cost of the Paediatric Emergency Department has been approved (£0.2m part year effect) and the earlier value for pending cost pressures has been removed from the forecast.
- The key change is in reflecting the adverse variance from plan as at month 3. The value of the shortfall is £370k, which on a straight line basis would suggest a £1.5m deviation from the surplus plan of £2.0m. This residual surplus of £0.5m can be improved upon with the debt management opportunity of £0.3m (not reflected at qtr 1), thereby making a likely case surplus of £0.8m.

2.2.1 The reasons behind the deterioration in the position at month 3 are as follows:

- Shortfall against DTC income £73k to date, Ophthalmology target commenced in June with significant target increases from July.
- CIP shortfall circa £250k across schemes, mainly affecting pay budgets. Eddington ward closure £60k monthly target commenced in June and the ward is currently open due to levels of activity being experienced.
- The number of staff employed during June was significantly higher than May and was above the budgeted establishment. In order to achieve the £1.4m vacancy target, approximately 32 posts need to remain vacant (below establishment) across the Trust on average. The pay over-spend includes the pay element of the CIP shortfall.

Income has remained buoyant and is exceeding the agreed SLA, Demand management target and any additional targets that are linked to recently approved cost pressures. The income figures quoted for June include the DTC actual activity but not any potential over-performance on the SLA. Consequently, there is likely to be a favourable income value that could be accrued into the month 3 position. An estimate of the missing benefit could be in the order of £200k.

2.3 The table below provides a summarised audit trail from the IBP submission to Monitor:

TABLE 6 – IBP AUDIT TRAIL – PART 1

	£m
Integrated Business Plan/LTFM – 2008/09 Surplus	2.8
Add non-recurrent release of provisions	2.3
Less new pressures approved	-3.0
Less net effect of base budget adjustments	-0.1
Approved Annual Plan surplus	**2.0**
Add back unallocated contingency	0.8
Add further release of non-recurrent provisions	0.7
Baseline forecast surplus 2008/09	**3.5**

2.4 There are a number of risks and opportunities that can be applied against this baseline forecast and the following table shows a potential best case, likely case and worst case:

TABLE 7 – FORECAST AUDIT TRAIL – PART 2

Risk Assessment 2008/09	Best Case	Likely Case	Worst Case
	£m	£m	£m
Baseline forecast surplus/(deficit)	3.5	3.5	3.5
Risks & Opportunities			
Debtor Management	0.6	0.3	0
DTC Activity contribution - variance	0.5	-1.0	-1.9
Lower achievement of CIP	0	0	-0.5
Higher drug inflation 12.5% v 2%	0	-0.3	-0.8
C. Difficile target missed	0	0	-0.7
Legal Claims	0	0	-0.4
18 weeks penalty	0	0	-1.7
Non achievement of vacancy factor	0	-0.8	-1.7
Awaiting ET decision – cost pressures	-0.6	-0.8	-1.1
Risk assessed forecast surplus/(deficit) @Month 2	**4.0**	**0.9**	**-5.3**
Additional Palliative care & waiting list funding	0.6	0.6	0.6
Additional maternity funding	0.5	0.5	0.5
Cost pressures in pipeline-maternity	-0.5	-0.5	-0.5
Cost pressure approved – Paediatric ED	-0.2	-0.2	-0.2
Remove awaiting ET decision – pressures as above	0.6	0.8	1.1
Sub total	**5.0**	**2.1**	**-3.8**
Recovery actions to focus on risk areas and returning to plan	1.3	0	0
Straight line projection of variance at qtr1 from plan adjusted for items not reflected at month 3 but assumed at year end – Debt management	-1.3	-1.3	-1.3
Risk assessed forecast surplus/(deficit) @Month 3	**5.0**	**0.8**	**-5.1**

2.5 The above table presents three potential scenarios around a forecast revenue outturn. The issues that surround these nine identified variables are as follows:

2.5.1 There is potentially a benefit to be realised in respect of disputed debtor balances that have been provided for. These items are assessed on an ongoing basis and a current estimate of the value to be realised is quantified above. Advice is currently being sought on options for a resolution.

2.5.2 The contribution from additional DTC activity, assumed in the 2008/09 plan is £2.5m of which approximately £0.6m is associated with Ophthalmology. The balance is a combination of repatriated activity and market share growth. The facility has been operational from the end of April and activity is being monitored weekly against a profile of expected demand and cost. There is a shortfall to date of £73k and the target is due to increase significantly from July. A satisfactory conclusion to the Ophthalmology negotiation with the Royal Free would assist with this risk.

2.5.3 The Cost Improvement programme is constantly under review and the value that has been included within the opening planned surplus of £2m, is a target of £4.2m. The shortfall in achievement at month 3 is contributing to the forecast surplus of only £0.8m at the year end. All leads are currently confirming the budget phasing and the year end forecast as part of the review of performance by the Executive Committee. A key issue is the extent to which the ward closures can take place with activity levels being at the current level. Additional income will compensate for the CIP target provided that the average length of stay is optimised and slack periods of activity are matched with reduced levels of staffing.

2.5.4 Monitor assumes a12.5% uplift in drug pressures, whereas only 2% has been included for inflation within the current plan. Factors that support the use of a lower rate are the separate recovery of high cost drugs from PCTs and a reduced exposure to specialist drugs. Budgets have also been increased to reflect the actual spend in 2007/08. Current levels of spending are not indicating a significant inflationary pressure at this stage.

2.5.5 The C.Difficile target is spread over three years and therefore the exposure to the maximum penalty of £2m is also phased. Even though the Trust is currently on trajectory to remain within the prescribed target, an outbreak in the last month could trigger a financial charge. Consequently, assessing the size of the risk during the year will be difficult.

2.5.6 The December 2008 target for achieving 18 weeks is currently expected to be delivered. Good performance at this stage suggests a lower level of risk may apply.

2.5.7 A Trust wide vacancy factor (budget reduction) has currently been included against pay budgets. This is the proposed treatment that has been necessary in order to achieve the opening planned surplus of £2m and is therefore contributing towards the size of the forecast outturn.

2.5.8 Pay budgets are based upon approved establishments plus the full year effects of 2007/08 approvals less any identified 2008/09 CIP that applies and less the vacancy factor. The higher pay award offer has been budgeted in full.

Pay budgets were under-spent for much of 2007/08 and when setting the plan for 2008/09 it was assumed that the level of net vacancies would continue. The extent to which approved establishment levels are exceeded along with the extent to which the historical level of vacancies is not repeated, will have a direct impact upon the achievement of the surplus.

2.5.9 The final key variable is the approval of cost pressures that are in the pipeline or on the horizon. Most of these pressures are recurrent and have a full year effect and so decisions made will have consequences for 2009/10. The value that is being considered includes, opening theatre 5, a Critical Care Outreach team, Mary Seacole Isolation facilities and replacement Medical systems.

2.5.10 Overall, the forecast surplus under the likely case scenario is only £0.8m and the position at quarter 1 is a deterioration in the key risk areas of DTC, CIP and Pay costs. The risk rating of the Trust will be adversely impacted by the continued deficit and the forecast of a £0.8m surplus instead of the original £2m. A switch to monthly monitoring by NHS London should be expected. The risk areas remain as before and it is stressed that both the CIP and the DTC are not phased evenly across the year. A potentially volatile financial position will develop if a firm grip is not obtained on these three key risk areas.

2.6 In terms of corrective action, the approach could potentially include:

- Understand reasons for usage of all temporary staff i.e. Clinical safety, Income generation, Unavoidable key task etc and return to approved establishment/vacancy Target where feasible.
- Review any approved cost pressures that have yet to be committed for the scope to delay.
- Achieve a resolution to the Ophthalmology arrangement with the Royal Free.
- Recheck capacity and activity plans for DTC target activity and market extensively.
- Understand variances on the CIP in terms of both quarter 1 and the year end forecast and assess potential for bringing forward the ideas for 2009/10.
- Review existing budgets for areas of expenditure that could be slipped into 2009/10.
- Flex temporary staffing to match any quieter periods of patient activity.
- Higher levels of approval for non-pay orders, agency/bank staffing
- Minimise any new cost pressure approvals.
- Resolve the debt management issue and ensure income is reflected in the current year.
- Review revenue costs for scope to capitalise.
- Focus on the key variables outlined in the above table and work towards the “best case”