ITEM: 09/079
Doc: 08

MEETING:	Trust Board 20th May 2009

TITLE:	Financial Position – Month 1 (April 2009) Appendix 1 – Directorate Summary Income and Expenditure Positions

Executive Summary

1. 2009/10 Budget-Setting

1.1. The Trust is budgeting for a break-even Income and Expenditure position in 2009/10. To deliver this it is of paramount importance that expenditure remains within budget.

1.2. All expenditure budgets and all assumptions underlying income budgets have been signed off by General Managers and Directors. There remained a £710k gap between planned income and expenditure, which has been added as an unidentified CIP target to reach a balanced plan.

1.3. There are a number of significant risks to achieving the 2009/10 planned break-even position, with no contingency available to cover these. These are detailed in section 5.9.

2. Month 1 Income and Expenditure

2.1. This report details the financial position for Month 1, together with a summary of 2009/10 budgets. Detailed CIP, income and forecasting sections will be reported from Month 2 onwards.

2.2. The I&E position for Month 1 2009/10 is a deficit of some £816k, which is £686k worse than planned. The trend of high agency usage has continued, with agency expenditure of £1.1m in April (compared with an average of £990k per month from January to March).

2.3. A detailed analysis of overspends against budgets has been undertaken, focussing on agency expenditure and the top 10 overspending cost centres. These cost centres account for substantially all of the Month 1 variance. Details are in section 8 of this report.

2.4. Non-pay expenditure was £169k higher than planned in April – including an overspend on utilities (£45k), orthopaedic prostheses (£60k) and building and engineering equipment (£43k).

3. Month 1 Balance Sheet and Cash

3.1. There have been significant increases to both fixed assets and long-term liabilities as a result of bringing the PFI scheme onto the balance sheet, as expected

3.2. The Trust's cash balance at the end of April was £764k – this is low due to the Month 1 deficit and also the fact that SLA over-performance, expected to be significant, is settled in arrears. The reduced cash balance has resulted in some delayed payments to suppliers, with a resulting impact upon performance against the Better Payment Practice Code (BPPC).

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** that 2009/10 budgets have been agreed by General Managers and Directors following the detailed budget-setting exercise
- **Note** that there remains a £710k unidentified CIP, required to ensure the 2009/10 plan balanced
- **Note** the large reported deficit in Month 1 of £816k
- **Discuss** actions to reduce the continuing increases in expenditure, particularly on agency staff

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 Auditors' Local Evaluation standards (ALE) Lead: Director of Finance	**Reference:** **ALE – Financial Management and Financial Reporting Domains**

5. 2009/10 Budgets

5.1. The Trust is budgeting for a break-even Income and Expenditure position in 2009/10. To deliver this it is of paramount importance that expenditure remains within budget.

5.2. All 2009/10 expenditure budgets have now been signed off at divisional or directorate level by the relevant General Manager or Director. All assumptions behind NHS Clinical Income budgets have also been signed off by General Managers as follows:

- For elective, day case and most outpatient activity - activity included exactly as per detailed modelling exercise undertaken by GMs, Helen Brown and the Information Team
- For new areas under HRG version 4 (e.g. unbundled imaging, maternity ultrasounds) use SLA baseline activity – based on the period October 2007 to September 2008
- For all other activity, 2008/09 out-turn activity used (as estimated at Month 11) with population growth figures included as per the IBP
- Specific adjustments for a) income CIP totalling £3m, and b) estimated increase in maternity activity and paediatric ED activity - £0.9m in total

5.3. This is a change in practice from 2008/09 budgets, which were broadly set in line with SLA planned activity with minor adjustments for DTC and CIP activity. Therefore a continuation of the 2008/09 trend which saw clinical income budgets deliver a positive variance of £2.7m is unlikely. There cannot therefore be reliance placed upon increased income to cover adverse expenditure variances.

5.4. To enable the financial plan to balance, an unidentified CIP target of £710k has been included in central budgets, phased from May onwards (therefore not contributing to the April variance from budget). This brings the total CIP requirement for 2009/10 to £9.2m, of which £3.7m relates to pay schemes, £1.7m to non-pay and £3m to income schemes. This represents a challenging 5.3% of Trust turnover.

5.5. Some CIP schemes (such as vacancy factor budget reductions) are budgeted centrally – therefore an underspend on individual cost centre budgets will be necessary to ensure these central CIP targets are met.

5.6. A summary of 2009/10 budgets are shown in the final column of Figure 1 under section 6.

5.7. There are non-recurrent items totalling £950k within the 2009/10 budget – relating to £700k Maternity Matters funding and £250k potential provision release. Therefore the balanced plan has an underlying deficit of around £1m (assuming that the £0.7m unidentified CIP is found recurrently).

5.8. Service Level Agreements have been agreed with PCTs totalling £135m. In addition, an expected £2.5m will be received from PCTs with whom we have no contract. The remaining difference between budgeted income and SLA values totals some £11m, reflecting the anticipated over-performance against SLAs. This is partly due to the PCT wishing to show a lower baseline and partly due to differing assumptions as follows:

- The Trust has included the effect of population growth on activity
- The Trust has not reduced activity plans as a result of Independent Sector Treatment Centres or PCT demand management plans
- The Trust has significant income CIPs that are not included in SLA baselines
- SLA baselines have been based on historical data and do not include the full year effect of the opening of the DTC, and the associated increase in activity

5.9. As the SLA baseline is significantly lower than planned activity, future Trust Board reports will focus upon the performance of actual activity against the Trust's *internal* activity and income plan rather than focussing solely on over-performance against the SLA plan.

5.10. There remain significant risks to the achievement of a break-even position in 2009/10:

- There is a deficit of £816k reported in April (see section 6 below) – this means that to achieve break-even at the year-end there must be additional reductions in expenditure in the remainder of the year to counteract the April overspend (and any further overspend in May and until recruitment plans are implemented)
- Minimal agency expenditure budgets have been included – therefore a continuation of 2008/09 levels of agency expenditure will result in significant over-spends against budgeted establishments
- No contingency has been made for the general risk of over-spending against expenditure budgets or failing to deliver the levels of activity that have been planned in the income budgets
- Income of £900k from the Royal Free has been included in plans. However, there is a risk that the Royal Free will try to reduce this payment if activity is lower than expected
- There has been no contingency made for the risk around late data entry and coding now that activity is validated on a monthly basis within tighter timescales than 2008/09. However, a data project has been underway for some time to mitigate this risk
- No contingency has been made for the risk of reimbursement if follow-up ratios are too high (maximum of £300k), or for re-grading of medical posts to associate specialist grade (around £400k)
- No contingency has been made for non-payment of over-performance by PCTs, which may be higher than in 2008/09 due to PCT affordability issues
- No contingency has been set aside for in-year unanticipated cost pressures over and above those modelled in the budget-setting process
- There is a risk that the £710k unidentified CIP target will not be met

5.11. The capital programme for 2009/10 is £4.8m, funded by cash generated internally from depreciation (a non-cash item). A bid for an additional £1.6m of Capital Resource Limit has been submitted to cover additional capital expenditure as a result of IFRS rule changes for leases. This additional CRL, if used for finance leases, will count as borrowing against the Trust's Prudential Borrowing Limit (PBL).

5.12. The Trust's planned risk rating for 2009/10 is 2 (compared to level 3 obtained in 2008/09). This is primarily due to the fact that no surplus is planned.

6. Income and Expenditure Summary

6.1. The Month 1 Income and Expenditure position is summarised in Figure 1 below. For the first time, in 2009/10 accounts are prepared on an International Financial Reporting Standards (IFRS) basis. The total budgeted impact on income and expenditure of IFRS is a deterioration of £2m – this has been included in the budget-setting process described above.

6.2. Appendix 1 shows the directorate summary Income and Expenditure positions for April.

FIGURE 1 Description	Current Month Actual £'000	Budget £'000	Variance £'000	Year To Date Actual £'000	Budget £'000	Variance £'000	Annual Budget £'000
NHS Clinical Income	12,132	12,132	0	12,132	12,132	0	149,366
Non NHS Clinical Income	108	51	57	108	51	57	609
All Other Non Clinical Income	1,818	1,808	10	1,818	1,808	10	21,888
Total Income	**14,058**	**13,991**	**67**	**14,058**	**13,991**	**67**	**171,863**
Pay	10,317	9,741	(576)	10,317	9,741	(576)	118,112
Non Pay	3,397	3,228	(169)	3,397	3,228	(169)	40,426
Unidentified Savings	0	0	0	0	0	0	(710)
Total Expenditure	**13,714**	**12,968**	**(745)**	**13,714**	**12,968**	**(745)**	**157,828**
EBITDA	**344**	**1,022**	**(678)**	**344**	**1,022**	**(678)**	**14,035**
Plus Interest Receivable	0	8	(8)	0	8	(8)	100
Less Interest Payable	331	331	0	331	331	0	3,968
Less Depreciation	548	548	0	548	548	0	6,789
Less PDC Dividend	282	282	0	282	282	0	3,378
Net Surplus / (Deficit)	**(816)**	**(130)**	**(686)**	**(816)**	**(130)**	**(686)**	**0**

6.3. EBITDA of £344k to date is reported, which is £678k worse than planned. Interest receivable has been less than £1000 in April due to the low cash balance as described in section 10 and continuing low interest rates.

7. Income Performance

7.1. As in previous years, NHS Clinical Income has been accrued to budget for Month 1 in the absence of coded data, which will continue to be completed a month in arrears throughout 2009/10. Raw data to estimate actual performance against planned activity is not yet available due to the change to HRG Version 4, but as income budgets have been set through recent discussions with operational managers it is unlikely that there will be a significant variance from plan.

7.2. No in-year provisions relating to Month 1 income have been made – therefore any PCT disputes or non-payment would result in a deterioration of the position reported above.

7.3. There are small positive variances on income other than NHS Clinical Income, totalling £67k. The majority of this relates to Road Traffic Act income being higher than planned - this is additional income that the Trust receives for treating patients that are claiming RTA compensation which due to low volumes can vary significantly from month to month.

8. Expenditure Performance

8.1. Pay expenditure in April has continued at the high levels seen in the final few months of 2008/09, and is over budget by £576k in the month. In particular, agency expenditure has continued at high levels despite the expected reduction in activity at this time of year. Total agency expenditure across all staff groups was £1.1m in April (compared with an average of £990k per month from January to March).

8.2. Non-pay expenditure was £169k higher than planned in April – including an overspend on utilities (£45k), orthopaedic prostheses (£60k), and building and engineering equipment (£43k, due to natural fluctuation of costs related to specific projects such as lift repairs).

8.3. Agency expenditure in the top ten cost centres is shown below. These cost centres account for around 72% of total agency expenditure in April:

FIGURE 2 Division/Directorate	Cost Centre	Medical	Nurses & Midwives	Other Staff Groups	Grand Total
Medicine & Therapies	Emergency Department	80,529	127,774		**208,303**
Surgery & Cancer	ITU Nursing		187,596		**187,596**
Women's & Children's	Midwives		157,129		**157,129**
Medicine & Therapies	Reckitt		47,155		**47,155**
Medicine & Therapies	Eddington Ward		41,299		**41,299**
Surgery & Cancer	Theatres General		34,748		**34,748**
Hotel Services	Generic Workers			34,582	**34,582**
Surgery & Cancer	Theatre Anaesthetics		33,658		**33,658**
Information Mgmt & Tech	IM & T Comp Services			30,392	**30,392**
Medicine & Therapies	Cloudesley		29,446		**29,446**
	All other areas	100,891	132,967	80,080	**313,938**
	TOTALS:	**181,419**	**791,773**	**145,055**	**1,118,247**

8.4. An ED recovery plan has been put together to address high expenditure in ED. Recruitment into the new establishment has commences which will start to reduce agency expenditure from June onwards. The challenge will be to ensure that over the whole year expenditure has remained within budget.

8.5. ITU has been relatively busy in April, explaining part of the agency expenditure in this area. Further investigation is being undertaken into this, although part of the problem relates to ongoing recruitment issues.

8.6. Reckitt and Eddington wards have significant agency expenditure, partly related to the de-canting of patients from Cavell ward during refurbishment. Section 8.9 explains this is more detail.

8.7. The use of agency for generic workers (porters, cleaners etc.) is usual – this cost centre is underspent by £83k so this use of agency is not of concern.

8.8. The table below shows the ten most overspent cost centres in April (this shows total overspend on both pay and non-pay):

FIGURE 3 Cost Centre Description	Actual Expenditure	Budget	Variance
Emergency Department	652,688	468,398	-184,290
Midwives	832,817	703,127	-129,690
ITU	480,476	362,700	-117,776
Orthopaedics	302,640	193,695	-108,945
Reckitt	137,000	79,183	-57,817
Environment (Utilities)	161,993	104,244	-57,750
IM & T Comp Services	116,840	65,116	-51,724
Eddington Ward	48,054	0	-48,054
Anaesthetics & ITU Medical	470,961	433,355	-37,606
Meyrick	127,703	90,517	-37,186
All other cost centres (234)			144,680
TOTAL OVERSPEND:			**-686,158**

8.9. There is a clear correlation between the most overspent cost centres and those with high expenditure in figure 2 above, suggesting that control of agency expenditure is a major component in addressing expenditure overspends more generally. This is particularly important as agency staff cost around 60% more than permanent staff.

8.10. Reckitt Ward was significantly overspent in April, by around £60k. This is partially as a result of the decision, made by the Hospital Management Board, to keep Reckitt Link open for the foreseeable future to be used as a de-cant ward (along with Eddington) whilst JKU wards are being refurbished. This decision was made subsequent to the budget-setting process, and there will be an associated unbudgeted cost pressure if Reckitt Link cannot be covered through redeployment of existing staff.

8.11. The majority of the Reckitt Ward overspend is due to agency staff usage (£47k in April), which was particularly high in April as the JKU closure only occurred part way through the month. However, if this continues at April levels the potential overspend for the year will be in excess of £0.5m. This should be reviewed urgently with an emphasis on recruiting permanent staff and redeploying existing staff (without backfilling where possible) to reduce agency expenditure.

8.12. The majority of the orthopaedics overspend is due to high expenditure on orthopaedic prostheses in April, totalling £92k (compared with a budget of around £30k). This is being investigated in detail – if this is found to be the result of accumulating stock of prostheses then there will be a subsequent reduction in expenditure in future months.

9. Cost Improvement Programme (CIP)

9.1. The planned CIP for 2009/10 is £9.2m. This is broken down as follows:

Type of Scheme	**2009/10 £m**
Pay	3.7
Non-pay	1.7
Income	3.0
Unidentified schemes	0.7
Total CIP:	**9.2**
As a % of total income	5.3%

9.2. Detailed monitoring of the CIP will be reported from Month 2 onwards.

10. Cash

10.1. The cash balance at the end of February was £794k. This is lower than in recent months primarily as a result of the following:

- Deficit of £0.8m reported in April
- Cash receipts from PCTs at the level of the SLA baseline, which is significantly lower than the internal income budget. Over-performance will be paid by PCTs at least a month in arrears of coded data becoming available

10.2. For the first time in a number of years, the Trust held back payment of some approved invoices in April due to the low cash balance. This will have a resulting effect on the achievement of the Better Payment Practice Code target of paying invoices within 30 days.

10.3. In order to ensure that the Trust has enough cash to pay the September half-yearly PDC dividend, it may become necessary to ask for payment of estimated over-performance from PCTs in advance of formal validation of this activity.

11. Balance Sheet

The balance sheet is summarised below, showing the opening and closing positions for April 2009.

FIGURE 7

Description	As at 1st April 2009 (prior to IFRS)	30th April 2009
	£'000	£'000
Fixed Assets	**85,249**	**126,336**
Stock	1,241	1,290
Debtors	7,883	13,408
Debtors - Deferred Asset	22,965	22,883
Cash in hand & at Bank	3,030	764
Total Current Assets	**35,120**	**38,344**
Creditors - Revenue	11,032	21,237
Creditors - Capital	2,384	1,202
Total Current Liabilities	**13,415**	**22,439**
Net Current Assets	**21,704**	**15,905**
Non Current Liabilities	**2,595**	**44,530**
Total Assets Employed	**104,359**	**97,711**
Public Dividend Capital	48,084	48,084
Revaluation Reserve	31,130	31,130
Donated Asset Reserve	1,109	1,100
Income & Expenditure Reserve	24,035	17,398
Total Capital & Reserves	**104,359**	**97,711**
Estimated 2009/10 Capital Cost Absorption Rate		**3.44%**

11.1. The large increase in fixed assets, current and non-current liabilities is as a result of the IFRS requirement to account for the PFI scheme by bringing it onto the balance sheet rather than accounting for the unitary payment as an operating expense. This means it is treated as the Trust's asset with a finance arrangement (and associated liability) to pay for the asset over the life of the PFI agreement. The reduction in the income and expenditure reserve is due to backdating the impact of IFRS on previous years' income and expenditure positions.

12. Year-End Submission of Accounts

12.1. External audit is currently reviewing the Trust's draft accounts for 2008/09, which were submitted on time on 23rd April 2009. To date the audit has progressed well and no problems are anticipated. The final accounts will be presented to the Audit Committee on Tuesday 9th June, and to Trust Board on Wednesday 17th June.

Appendix 1

Income & Expenditure Summary By Division / Directorate - April 2009

Description	Current Month				Year To Date				Annual
	Actual £'000	Budget £'000	Variance £'000	Variance %	Actual £'000	Budget £'000	Variance £'000	Variance %	Budget £'000
Director of Operations	76	39	(37)	(94.31)	76	39	(37)	(94.31)	470
Director of Primary Care	27	31	4	11.60	27	31	4	11.60	374
Diagnostic	1,466	1,458	(7)	(0.50)	1,466	1,458	(7)	(0.50)	17,498
Medicine	3,021	2,741	(281)	(10.25)	3,021	2,741	(281)	(10.25)	33,370
Surgery & Cancer	3,066	2,696	(370)	(13.73)	3,066	2,696	(370)	(13.73)	32,606
Women's & Children's Services	2,114	1,973	(141)	(7.15)	2,114	1,973	(141)	(7.15)	23,677
Pharmacy	669	733	64	8.67	669	733	64	8.67	8,796
Operations	**10,441**	**9,671**	**(769)**	**(7.95)**	**10,441**	**9,671**	**(769)**	**(7.95)**	**116,792**
Facilities	**1,253**	**1,252**	**(2)**	**(0.12)**	**1,253**	**1,252**	**(2)**	**(0.12)**	**15,019**
Human Resources	152	155	3	1.80	152	155	3	1.80	1,920
Nursing & Clinical Development	344	366	22	6.06	344	366	22	6.06	4,422
Medical Education	36	33	(3)	(7.80)	36	33	(3)	(7.80)	405
Finance	204	211	7	3.33	204	211	7	3.33	2,545
Information Management & Technology	275	262	(14)	(5.19)	275	262	(14)	(5.19)	3,163
Planning & Performance	95	107	12	11.21	95	107	12	11.21	940
Corporate Directorates	**1,106**	**1,134**	**28**	**2.45**	**1,106**	**1,134**	**28**	**2.45**	**13,396**
Non-Devolved Income & Expenditure	11,984	11,927	57	0.48	11,984	11,927	57	0.48	145,206
Total Income & Expenditure	**(816)**	**(130)**	**(686)**	**528.83**	**(816)**	**(130)**	**(686)**	**528.83**	**0**