ITEM: 09/143
Doc: 06

MEETING:	Trust Board – Part 1 18th November 2009

TITLE:	Financial Position – Month 7 (October 2009)

Executive Summary

1. Month 7 Income and Expenditure

1.1. The I&E position for Month 7 2009/10 (before impairments) is a surplus of £150k, which is £269k worse than planned, giving a year-to-date deficit of £166k, £373k worse than planned.

1.2. The underlying financial position after removing non-recurrent items is a deficit of £2m.

1.3. September clinical activity was £83k above the Trust's internal income plan compared with an estimate of £108k below plan that had been included in the Month 6 report. Activity in October is estimated to be £347k worse than the internal plan.

1.4. Pay expenditure was £262k worse than planned in October – both bank and agency costs rose significantly from September levels following a reduction over the summer months.

1.5. Non-pay expenditure was £53k higher than planned in October due primarily to an accrual of £100k to cover the estimated Whittington contribution towards the North Central London provider landscape review bill of £2.5m.

2. Month 7 Balance Sheet and Cash

2.1. A revision to the Department of Health PFI model has resulted in a further change to the impact of IFRS on the Trust – the total value is now £846k.

2.2. The Trust's cash balance at the end of October was £1.8m with the majority of overdue invoices now paid following significant receipts in the month including payment for PCT over-performance totalling £1.75m.

3. Recovery Plans and Forecast

3.1. The Top 25 overspending areas continue to be the focus of monthly financial performance review meetings.

3.2. The year-end forecast before further recovery actions has deteriorated from a surplus of £212k to a deficit of £231k following a provision made in response to guidance from NHS London that may result in the Trust foregoing some of its outpatient over-performance income.

3.3. This year-end position would not breach the Trust's break-even duty as the £846k impact of IFRS on PFI is excluded from this calculation. The forecast position represents a surplus against break-even duty of £615k, compared to the revised NHS London control target of £2.1m.

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** the reported financial position in Month 7 of a £150k surplus
- **Note** the revised 2009/10 forecast deficit of £231k and the risks to achieving the planned £212k surplus and the revised NHS London control target

ACTION:	For information / discussion

REPORT FROM:	Tim Jaggard, Deputy Finance Director

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

Month 7 Finance Report

5. Month 7 Income and Expenditure Summary

5.1. The Income and Expenditure position is summarised in the table and chart below. 2009/10 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, although the £846k impact of IFRS on Private Finance Initiatives (PFIs) is excluded from the Trust's break-even duty.

5.2. The impairment of £1.055m s shown 'below the line' and is not relevant for the purposes of the Trust achieving its break-even duty.

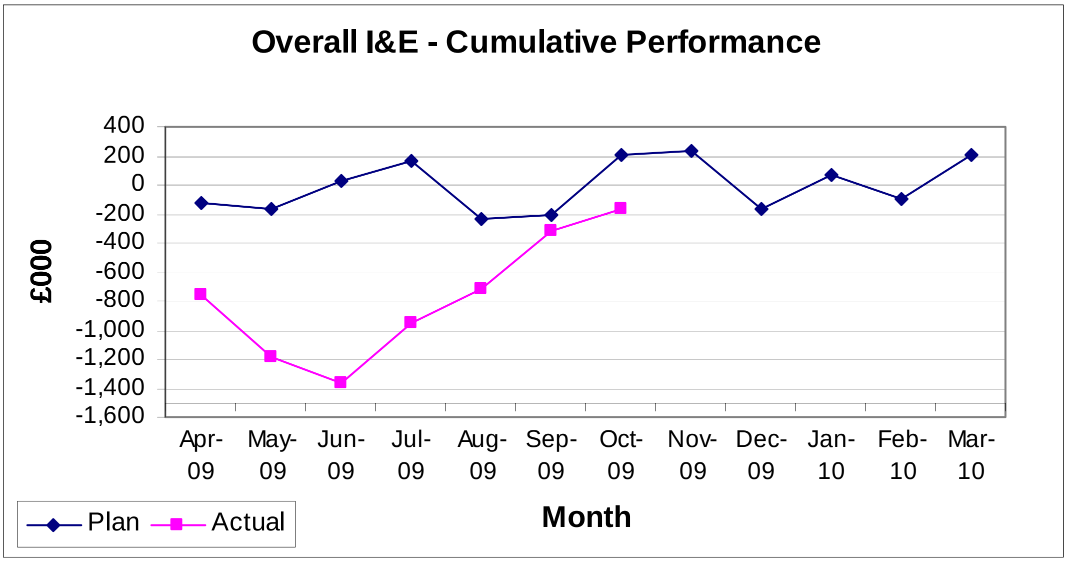
5.3. Year-to-date EBITDA of £7.5m is reported, which is £1.2m worse than planned, predominantly due to the continuing overspend on pay. Interest receivable is lower than planned due to continuing low interest rates and cash balances.

5.4. The favourable variance on depreciation is primarily due to the revaluation of Trust fixed assets. The PDC dividend and interest payable variances are primarily due to revaluation and the implementation of IFRS in line with revised Department of Health (DH) guidance.

5.5. As described last month, the Trust's control target has recently changed from £212k (before impairments) to a surplus of £2.1m as a result of notification from DH that the IFRS impact on PFI (originally calculated as £1.9m) should be excluded from break-even duty. However, following further revision of DH guidance this impact has been recalculated at just £846k, with the benefit from the change in calculation (i.e. improvement from £1.9m to £846k) taken to support the Trust's bottom-line position. Therefore the Trust is forecasting to miss the new control target of £2.1m.

FIGURE 1	**Current Month**			**Year To Date**			**Annual**	**Year-end**
Description	**Actual £'000**	**Budget £'000**	**Variance £'000**	**Actual £'000**	**Budget £'000**	**Variance £'000**	**Budget £'000**	**Forecast £'000**
NHS Clinical Income	12,799	12,815	(17)	87,364	86,186	1,177	149,477	150,633
Non NHS Clinical Income	49	51	(1)	340	355	(15)	609	609
All Other Non Clinical Income	1,886	1,870	16	13,750	12,974	775	22,256	23,553
Total Income	**14,733**	**14,736**	**(2)**	**101,454**	**99,516**	**1,938**	**172,343**	**174,796**
Pay	10,044	9,782	(262)	70,715	68,465	(2,249)	118,122	121,106
Non Pay	3,444	3,391	(53)	23,239	22,742	(497)	40,132	40,753
Centrally Held Savings	0	(65)	(65)	0	(387)	(387)	(710)	0
Total Expenditure	**13,488**	**13,109**	**(380)**	**93,954**	**90,820**	**(3,134)**	**157,544**	**161,859**
EBITDA	**1,245**	**1,627**	**(382)**	**7,501**	**8,697**	**(1,196)**	**14,798**	**12,937**
Plus Interest Receivable	1	8	(7)	6	58	(52)	100	20
Less Interest Payable	202	324	122	1,442	2,227	785	3,888	2,542
Less Depreciation	616	629	13	4,304	4,474	171	7,634	7,342
Less PDC Dividend	279	264	(15)	1,927	1,846	(81)	3,164	3,304
Net Surplus / (Deficit) - excluding Impairments	**150**	**419**	**(269)**	**(166)**	**208**	**(373)**	**212**	**(231)**
Less Impairments	0	0	0	1,055	212	(843)	212	1,055
Net Surplus / (Deficit) including Impairments	150	419	(269)	(1,221)	(4)	(1,217)	(0)	**(1,286)**

FIGURE 2



6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (September 2009) which showed an in-month favourable variance against plan of £83k.

6.2. In-month un-coded raw activity data has been used to estimate in-month income performance. This analysis gives a preliminary indication that October NHS clinical income was around £347k below plan – this is reflected in Month 7 accrued income.

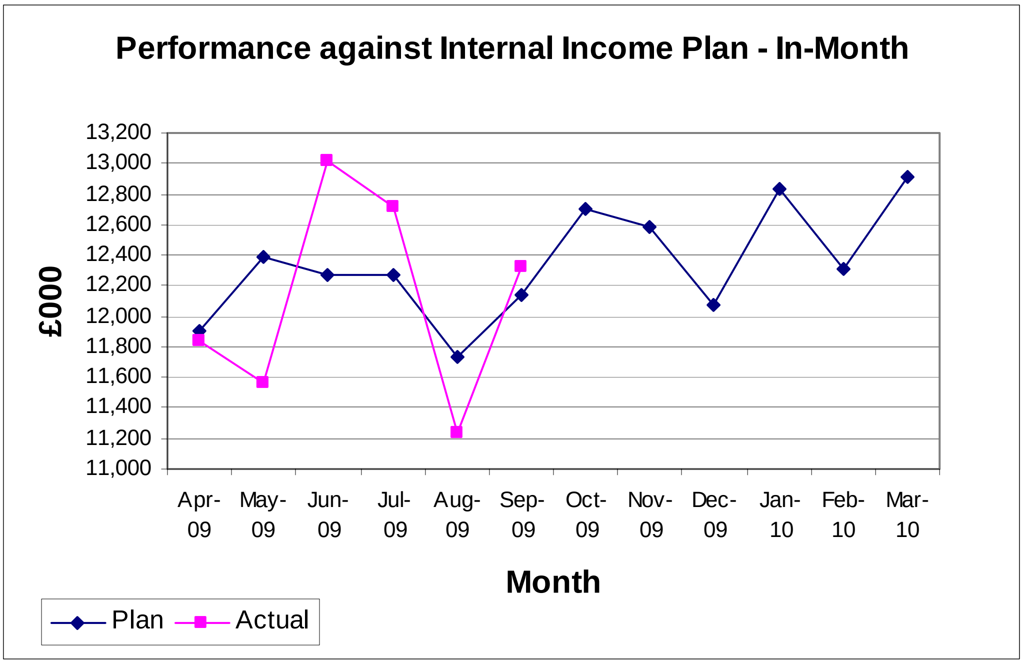
6.3. Figure 3 below shows income performance by patient type:

FIGURE 3

Patient Type	YTD Plan To M6 (£000)	YTD Actual To M6 (£000)	YTD Variance To M6 (£000)	In Month Variance M6 (£000)	M5 Late Data Added (£000)
Block Contract/Adjustments	3,798	3,332	(466)	(78)	0
Elective Inpatients	4,027	4,146	119	47	0
Non-Elective Inpatients	23,459	23,548	88	(57)	22
Excess Beddays	2,066	1,591	(475)	(103)	0
Planned Same Day (Day Case)	6,851	6,724	(127)	4	1
Outpatient Procedures	1,788	2,425	637	248	4
Outpatient 1st Attends	6,154	5,863	(291)	(47)	(3)
Outpatient Follow Ups	6,691	7,167	476	136	5
Adult High Dependancy Beddays	1,788	1,219	(569)	(66)	3
Adult Intensive Care Beddays	3,603	2,928	(675)	(169)	2
NICU High Dependancy Beddays	572	899	326	44	0
NICU Intensive Care Beddays	507	416	(91)	8	3
NICU Special Care Beddays	1,381	1,837	456	58	51
ED Attendances	3,902	4,096	194	43	16
Direct Access	3,972	4,315	343	44	23
Unbundled Imaging	952	948	(5)	(33)	(28)
Other Activity	1,177	1,218	40	5	1
Grand Total	**72,688**	**72,670**	**(18)**	**83**	**101**

6.4. Although in-month performance in September was £83k higher than the internal plan, there is some risk attached to the outpatient over-performance.

FIGURE 4



7. Expenditure Performance

7.1. Pay continued to be overspent in October, by £262k – the year to date overspend is now £2.2m. Permanent staffing costs increased, demonstrating success in recruitment – but this was not offset by bank and agency reductions.

7.2. Agency prices have increased recently, contributing to the deteriorating financial performance. These are being reviewed by Malcolm Dorman, Head of Procurement, with a view to obtaining better value for money from agencies.

7.3. Nursing pay in total remains broadly speaking on budget for the fourth month in a row following excellent management particularly in general ward nursing areas. However, continuing high locum and agency costs in ED are a major contributor to the pay overspend and it must remain a Trust priority to reduce agency and locum spend across the hospital.

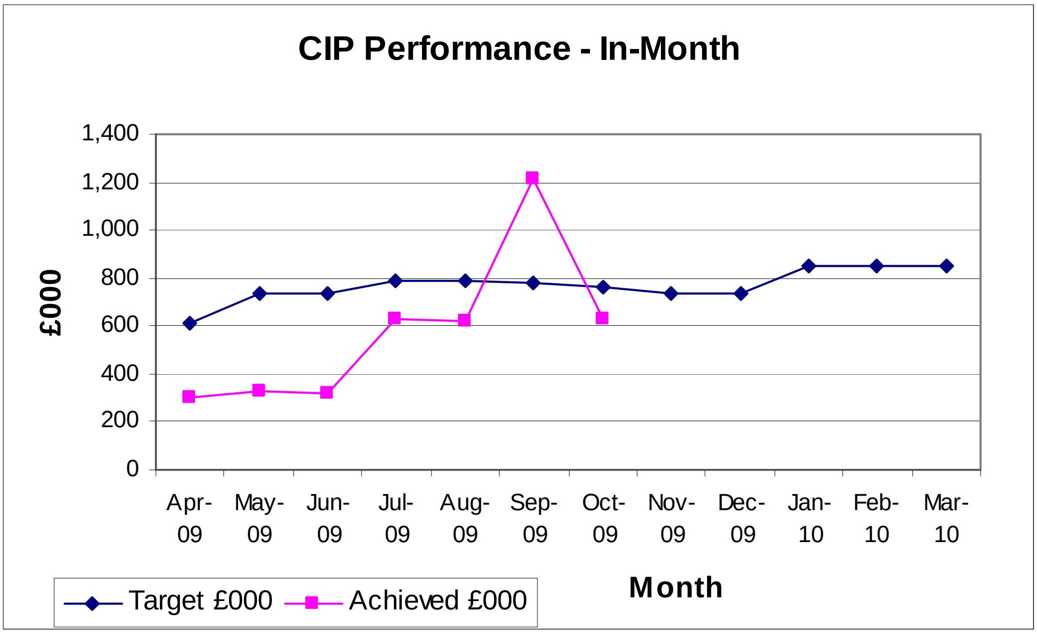
7.4. Non-pay expenditure was £53k higher than planned in October, despite continued excellent work by pharmacy to keep drug expenditure well within budget. £100k of over-spend relates to an accrual to cover the estimated Whittington contribution to the North Central London provider landscape work. Orthopaedic prosthesis expenditure is also a contributor.

8. Cost Improvement Programme (CIP)

8.1. The validated level of savings delivered to date represents 76.5% of the target to month 7 (£4.05m validated as achieved, against a target of £5.3m). This is an improvement in the achievement rate compared to month 6.

8.2. Under-delivering savings projects include ward nursing budgets, ED nursing establishment savings and about 20 smaller projects which have suffered delays or where the objectives are not being fully met, or there are obstacles to the achievement and validation of the planned savings

FIGURE 5



8.3. **Year-end forecast:** Based on currently available information and knowledge, the assessed year-end forecast is £6.92m.

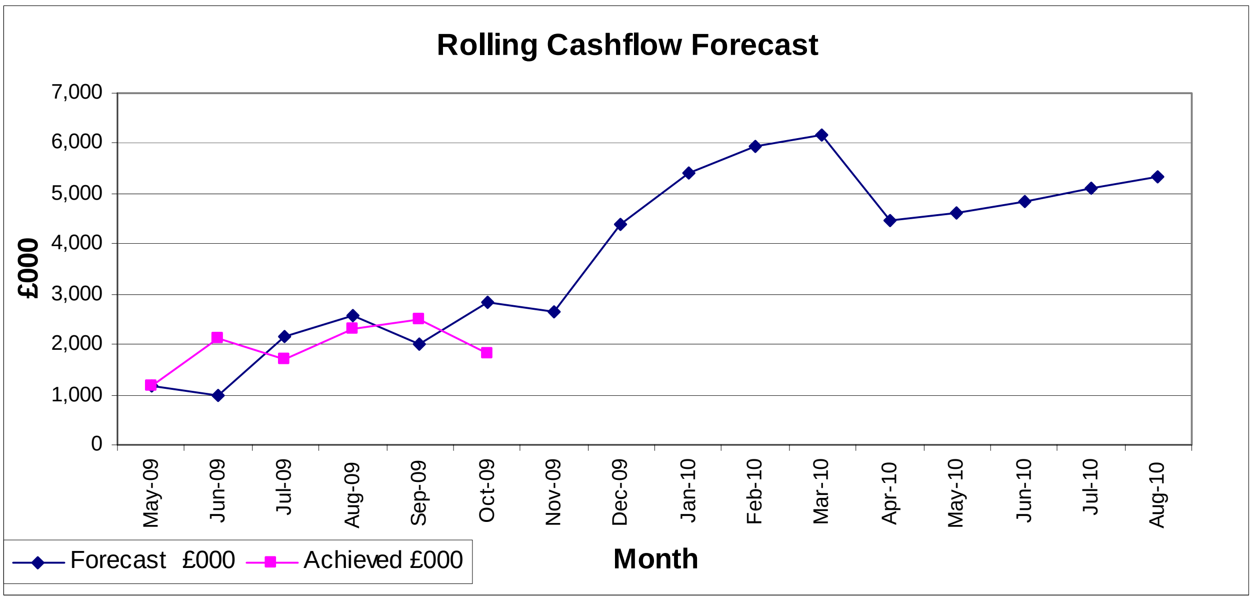
9. Cash

9.1. Figure 6 provides a summarised cash flow forecast. The cash balance at the end of October was £1.8m. Cash receipts allowed clearance of most overdue invoices.

9.2. To date the Trust has been experiencing delays to the expected settlements to PCTs debt and this is directly impacting upon the ability to maintain a satisfactory creditor settlement period. This in turn is affecting the performance metrics that are reported quarterly. Efforts to secure payment are continuing.

9.3. The cash-flow forecast below assumes that PCTs will pay for all over-performance within this financial year, in line with the signed contract. In the light of recent meetings with PCTs a discussion with NHS London will follow later this month to discuss revision of the Trust's £6.2m year-end cash target.

FIGURE 6



10. Balance Sheet / Statement of Financial Position

FIGURE 7

Description	As at 1st April 2009 (IFRS-restated)	31st October 2009	2009/10 Year-end Forecast
	£'000	£'000	£'000
Property, plant and equipment	147,415	145,504	144,303
Intangible assets	757	684	623
Trade and other receivables	2,523	2,703	2,730
Non-current assets	**150,695**	**148,891**	**147,656**
Inventories	1,241	2,043	1,943
Trade and other receivables	5,435	8,657	5,806
Cash and cash equivalents	3,030	1,811	6,179
Current assets	**9,706**	**12,511**	**13,927**
Trade and other payables	14,391	17,903	18,669
Borrowings	1,676	1,979	1,869
Provisions	562	562	562
Other liabilities	1,245	1,291	1,291
Current liabilities	**17,874**	**21,734**	**22,391**
Borrowings	39,800	38,828	38,437
Provisions	2,033	1,950	1,947
Non-current liabilities	**41,833**	**40,779**	**40,384**
Total assets employed	**100,694**	**98,890**	**98,808**
Public dividend capital	48,084	48,134	48,134
Retained earnings	16,232	15,011	14,947
Revaluation reserve	35,268	34,549	34,549
Donated asset reserve	1,109	1,196	1,179
Total taxpayers' equity	**100,694**	**98,890**	**98,808**
Capital cost absorption rate		**3.43%**	**3.52%**

10.1. As described in section 5 above, the Month 7 accounts include the impact both of the recent revaluation of the Trust's fixed assets, and of the revised modelling of PFI following DH's new 'universal model'. The adverse I&E impact of IFRS accounting on the Trust's PFI scheme now totals £846k. As described above, this impact is excluded for the purposes of performance against statutory break-even duty.

10.2. 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.

10.3. As at 31st October, 81.2% of NHS creditor invoices and 55.5% of Non-NHS creditor invoices had been paid within the target 30 days as set out in the Better Payment Practice Code. This is significantly below performance levels in previous years due to the tight cash position as described above.

11. 2009/10 Forecast and Risks

11.1. A revised year-end forecast has been prepared for Month 7. The result of the provision for outpatient income following the NHS London email is a worsening of the year-end forecast from last month by £443k. This leads to a forecast deficit of £231k on an IFRS basis (before impairments). After adding back the impact of IFRS on PFI this moves to a £615k surplus against the Trust's break-even duty (compared to a control target from NHS London of £2.1m).

11.2. Monthly financial performance meetings are being held with each of the Top 25 overspending areas, where financial performance is scrutinised and action plans are required to recover the financial position. This approach has seen successful reductions in expenditure in, for example, most general nursing ward areas. The year-end forecast for all devolved cost centre areas not in the Top 25 has improved from last month following continued reductions in expenditure in many areas.

11.3. As described above, the year-to-date position contains non-recurrent items totalling £1.85m. The forecast reflects this fact but also assumes the following:

- Breast screening bid – revenue funding from PCTs / CELBSS
- TB contract income - £114k
- Additional contribution from swine flu - £200k

11.4. Significant risks remain and these are described below:

- Increased non-achievement of CIP targets (current forecast is for percentage achievement to continue at current levels)
- Activity is lower than planned from October to March
- Increased validation queries from commissioners - however, we do have assurances in writing from commissioners that they will pay for all over-performance in line with PbR rules
- Legal costs are higher than anticipated
- Cost pressures materialise that were not anticipated in budget-setting
- Data is not input onto PAS and other information systems in a timely way