

ITEM: 10/010
Doc: 06

MEETING: Trust Board – Part 1
20th January 2010

TITLE: Financial Position – Month 9 (December 2009)

Executive Summary

1. Month 9 Income and Expenditure

- 1.1. December is typically a month with reduced planned activity and this is reflected in the planned deficit of £710k in Month 9. The I&E position (before impairments but including the impact of IFRS) is an actual in-month deficit of £858k, which is £147k worse than this plan. The year-to-date deficit is £939k, £463k worse than planned.
- 1.2. The underlying position after removing non-recurrent items is a deficit of £3m. This has deteriorated by £500k due to a settlement reached with PCTs on a number of disputes and the agreed reimbursement being £500k higher than provisions held for these.
- 1.3. November clinical activity was £128k below the Trust's internal income plan. Activity in December is estimated to be £370k worse than the internal plan.
- 1.4. Pay expenditure was £262k above budget in December – however, this includes a provision for the implementation of Agenda for Change guidance for clinical staff on preceptorship. Excluding this, pay was within budget.
- 1.5. Non-pay expenditure was £196k higher than planned in December across a number of areas including clinical supplies (£103k), increased bad debt provision (£59k) and increased cost of non-emergency patient transport due to adverse weather (£25k).

2. Month 9 Balance Sheet and Cash

- 2.1. The impact of IFRS on the Trust relating to PFI remains at £846k, which is excluded from break-even duty performance.
- 2.2. The Trust's cash balance at the end of December was £1.94m with the majority of overdue invoices now paid. Following discussions with NHS London the Trust will deliver against a revised External Financing Limit (EFL) which brings the year-end cash target to £2.3m (from £6.2m).

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 has deteriorated in line with the £500k additional reimbursement to PCTs - a deficit of £731k is projected. 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. Therefore this forecast position represents a surplus against break-even duty of £115k, 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 9 of a £147k adverse variance from plan
 - **Note** the revised 2009/10 forecast deficit of £731k and the reasons for this deterioration

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 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 and Financial Reporting Domains
Compliance with requirements of FT application and monitoring regime Lead: Director of Strategy & Performance	Reference:

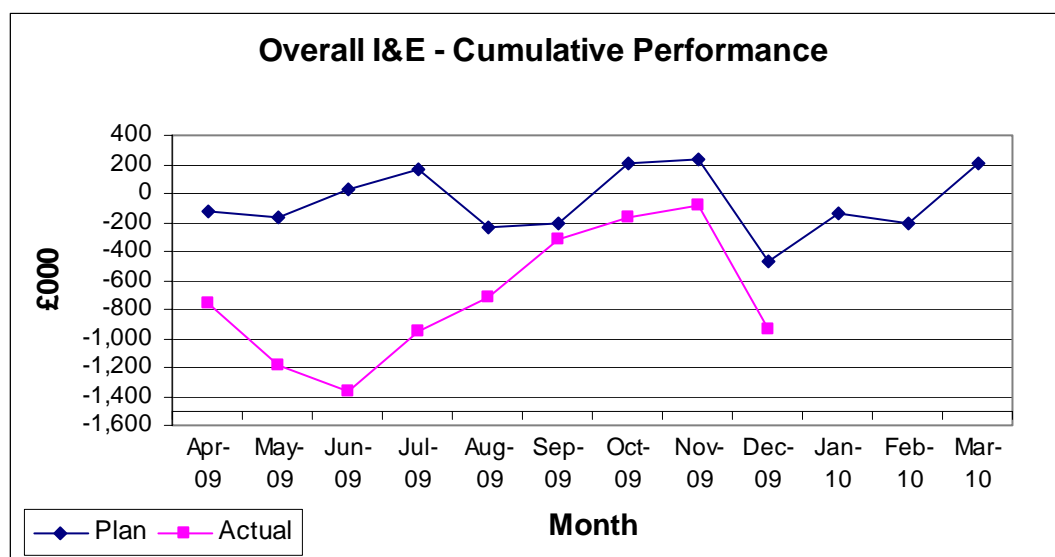
Month 9 Finance Report

5. Month 9 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 is 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 £9.1m is reported, which is £1.5m worse than planned due to the year-to-date 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 Department of Health guidance.
- 5.5. As described in previous months, the Trust's control target is now a surplus of £2.1m following changes to the way IFRS impacts upon break-even duty.
- 5.6. The Trust's plan was to achieve a £212k surplus at the year-end (before impairments). The forecast year-end position is now a deficit of £731k – this is a deterioration of £500k from Month 8 following agreement to reimburse PCTs for a number of disputes that had not been provided for previously. As part of the agreement, PCTs have guaranteed immediate payment of Months 4-7 over-performance. After adding back the £846k impact of IFRS on PFI this results in a £115k surplus against which break-even duty is measured.

FIGURE 1 Description	Current Month			Year To Date			Annual Budget £'000	Year-end Forecast £'000
	Actual	Budget	Variance	Actual	Budget	Variance		
	£'000	£'000	£'000	£'000	£'000	£'000		
NHS Clinical Income	12,189	12,191	(2)	112,417	111,077	1,340	149,477	150,505
Non NHS Clinical Income	63	51	12	456	457	(1)	609	609
All Other Non Clinical Income	2,182	1,916	267	17,871	16,807	1,063	22,386	24,075
Total Income	14,435	14,158	277	130,744	128,341	2,402	172,473	175,190
Pay	10,194	9,966	(228)	91,417	88,523	(2,894)	118,267	122,278
Non Pay	3,941	3,745	(196)	30,254	29,795	(458)	39,975	40,268
Centrally Held Savings	0	(65)	(65)	0	(516)	(516)	(710)	0
Total Expenditure	14,135	13,646	(489)	121,670	117,801	(3,869)	157,532	162,546
EBITDA	300	512	(212)	9,073	10,540	(1,466)	14,941	12,644
Plus Interest Receivable	1	8	(7)	9	75	(66)	100	20
Less Interest Payable	204	324	120	1,849	2,875	1,026	3,888	2,520
Less Depreciation	679	643	(36)	5,694	5,842	148	7,777	7,579
Less PDC Dividend	276	264	(12)	2,478	2,373	(105)	3,164	3,295
Net Surplus / (Deficit)	(858)	(710)	(147)	(939)	(475)	(463)	212	(731)
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	(787)	(710)	(77)	(304)	(475)	171	2,138	115
Less Impairments	0	0	0	1,055	212	(843)	212	1,055
Net Surplus / (Deficit) - including Impairments	(858)	(710)	(147)	(1,994)	(687)	(1,307)	(0)	(1,786)

FIGURE 2



6. Income Performance

- 6.1. NHS Clinical Income is reported based upon the latest coded activity data (November 2009) which showed an in-month adverse variance against plan of £128k.
- 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 December NHS clinical income was around £370k below plan – this is reflected in Month 9 accrued income.

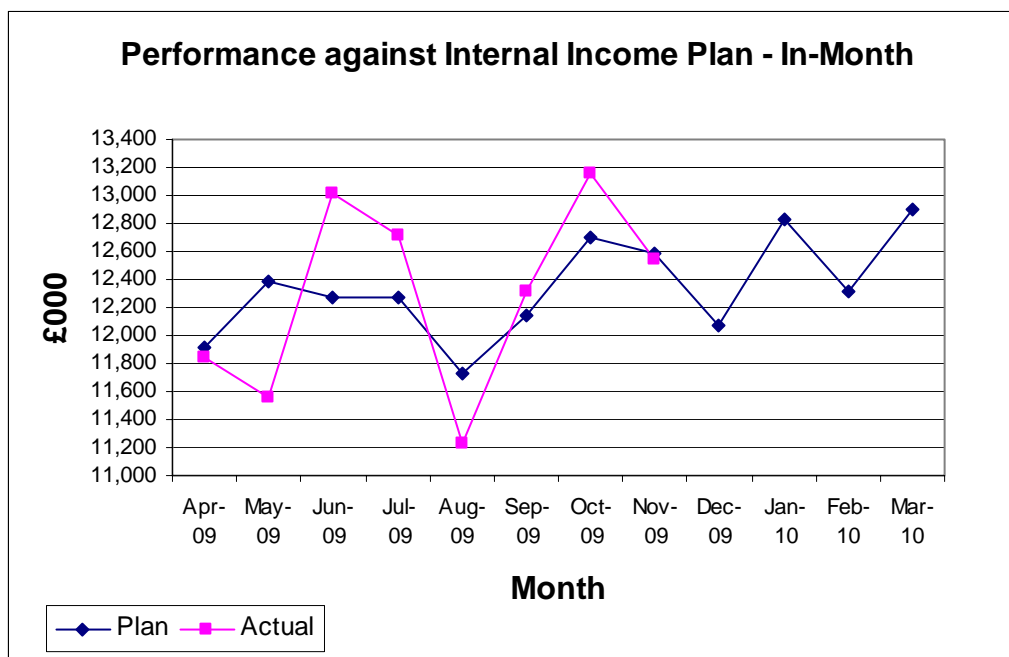
6.3. Figure 3 below shows income performance by patient type:

FIGURE 3

Point of Delivery	YTD Plan To M8	YTD Actual To M8	YTD Variance To M8	In Month Variance M8	M7 Late Data Added
Block Contract/Adjustments	5,064	4,442	(621)	(78)	0
Elective Inpatients	5,598	5,759	162	(75)	(3)
Non-Elective Inpatients	31,502	31,699	198	(63)	34
Excess Beddays	2,650	2,121	(529)	(64)	(1)
Planned Same Day (Day Case)	9,357	9,140	(217)	(55)	3
Outpatient Procedures	2,440	3,548	1,107	230	1
Outpatient 1st Attends	8,340	7,736	(604)	(162)	1
Outpatient Follow Ups	9,122	9,641	520	73	9
Adult High Dependency Beddays	2,322	1,824	(498)	29	15
Adult Intensive Care Beddays	4,680	3,548	(1,132)	(237)	6
Paediatrics High Dependency	57	68	11	(3)	0
NICU High Dependency Beddays	784	1,244	461	66	0
NICU Intensive Care Beddays	694	584	(111)	(31)	7
NICU Special Care Beddays	1,890	2,544	653	88	0
ED Attendances	5,199	5,503	305	55	0
Direct Access	5,296	5,869	573	70	21
Unbundled Imaging	1,427	1,447	21	4	(3)
Other Activity	1,571	1,651	80	24	2
Grand Total	97,990	98,368	378	(128)	91

6.4. The pattern of previous months has continued, with outpatient first attendances and ITU activity remaining low. In addition, there are adverse variances totalling £130k for elective and day case activity.

FIGURE 4



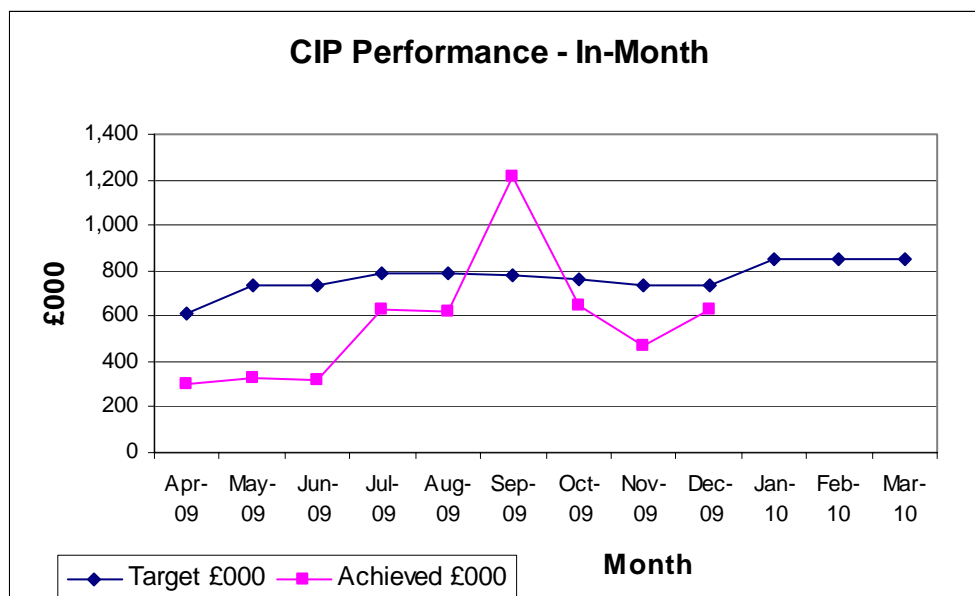
7. Expenditure Performance

- 7.1. Pay continued to be overspent in December, by £228k. However, the primary reason for the overspend is provision for £276k to cover the maximum expected cost of implementing recent Agenda for Change guidance on accelerated pay increments for Band 5 clinical staff. Excluding this, pay was within budget for the first month this year, which indicates real improvements from recent financial performance reviews.
- 7.2. Total expenditure on bank and agency reduced by £400k compared to November, partly as a result of the reduced activity in December.
- 7.3. The Emergency Department financial position has improved in Month 9 following a reduction in the amount of medical agency staffing used, but remains £71k overspent in-month. Midwifery has deteriorated further and is now £1.1m overspent to Month 9 (a deterioration of £89k in the month).
- 7.4. Non-pay expenditure was £196k higher than planned in December. This includes a £103k overspend on clinical supplies and services, a £59k increase in the provision for bad debt (provisions are entered when debts become 3 months' overdue) and £25k for higher than expected non-emergency patient transport journeys

8. Cost Improvement Programme (CIP)

- 8.1. The validated level of savings delivered to date represents 76.3% of the target to Month 9 (£5.16m validated as achieved, against a target of £6.77m). Of the £5.16m achieved to date, £1.47 million relates to income generation and £3.7m relates to cost reduction. £322k of the year-to-date achievement is non-recurrent.
- 8.2. The majority of under-delivering projects are income-related rather than expenditure-related.
- 8.3. Under-delivering savings projects include ward-based HDU activity, 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

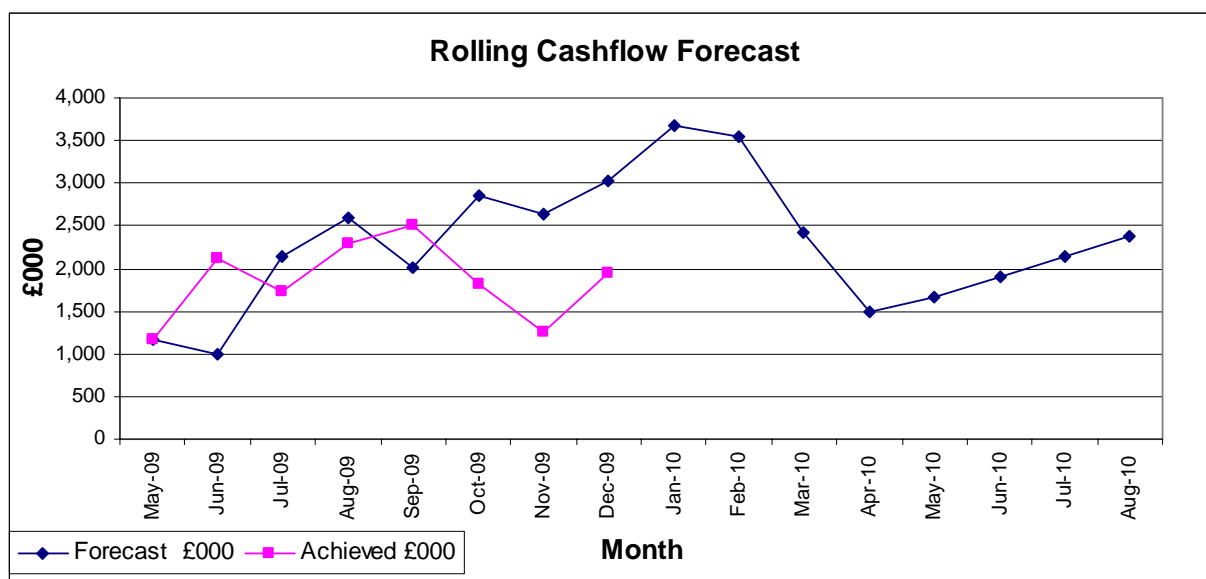


- 8.4. **Year-end forecast:** Based on currently available information and knowledge, the assessed year-end forecast is £6.8m achievement.

9. Cash

- 9.1. The chart below provides a summarised cash flow forecast. The Trust's cash balance at the end of December was £1.94m.
- 9.2. Most overdue invoices have been paid, and PCTs have agreed to pay £3m of outstanding invoices by the end of January as part of the agreement that was reached to avoid arbitration. This will assist the cash position.
- 9.3. Discussions have been held with NHS London to request a change to the Trust's External Financing Limit (EFL) as it had become clear that due to non-payment by PCTs and the extent to which the income and expenditure position is supported by non-recurrent measures that the year-end cash target of £6.2m would not be hit. The EFL has been adjusted downwards by £3.9m giving an approximate year-end cash target of £2.3m.

FIGURE 6



10. Balance Sheet / Statement of Financial Position

- 10.1. The adverse I&E impact of IFRS accounting on the Trust's PFI scheme remains at £846k for the full year, as reported last month. 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 bring PFI onto the balance sheet. It is now 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 balance sheet is summarised below:
- 10.3. As at 31st December, 82.6% of NHS creditor invoices and 58.9% 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, but is an improvement upon last month.

FIGURE 7

Description	As at 1 st April 2009 (restated)	31 st December 2009	2009/10 Year-end Forecast
	£'000	£'000	£'000
Property, plant and equipment	148,080	145,470	145,177
Intangible assets	757	660	625
Trade and other receivables	2,000	2,292	2,343
Non-current assets	150,837	148,422	148,146
Inventories	1,241	1,296	1,296
Trade and other receivables	5,293	6,482	5,912
Cash and cash equivalents	3,030	1,937	2,423
Current assets	9,564	9,715	9,631
Trade and other payables	14,391	15,084	14,378
Borrowings	1,676	1,755	1,786
Provisions	562	695	695
Other liabilities	1,245	1,275	1,275
Current liabilities	17,874	18,808	18,133
Borrowings	39,800	38,798	38,839
Provisions	2,033	2,440	2,461
Non-current liabilities	41,833	41,238	41,299
Total assets employed	100,694	98,092	98,344
Public dividend capital	48,084	48,134	48,134
Retained earnings	16,232	14,238	14,447
Revaluation reserve	35,268	34,549	34,549
Donated asset reserve	1,109	1,170	1,214
Total taxpayers' equity	100,694	98,092	98,344

11. 2009/10 Forecast and Risks

- 11.1. A revised year-end forecast has been prepared for Month 9. The result of the additional reimbursement to PCTs is a worsening of the forecast year-end position of a further £500k. This leads to a forecast deficit of £731k on an IFRS basis (before impairments). After adding back the impact of IFRS on PFI this moves to a £115k 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 continue to be held with all budget holders/managers responsible for each of the Top 25 areas. At these meetings financial performance is scrutinised, action plans are presented, and forecasts challenged. This approach has seen successful reductions in expenditure in, for example, most general nursing ward areas. However, there are two areas in particular that remain a cause for concern – Emergency Department and Midwifery.
- 11.3. As described above, the year-to-date position contains non-recurrent items totalling £2m. The forecast reflects this fact but also assumes additional income from the TB service (£85k). Significant risks remain and these are described below:
- Increased non-achievement of CIP targets – the forecast implicitly assumes the current expenditure CIP achievement percentage remaining constant for the remainder of the year, but there is a risk of further non-achievement
 - Activity is lower than planned from January to March
 - Increased validation queries from commissioners - however, we do have assurances from commissioners that they will pay for all over-performance in line with PbR rules, and the risk associated with outpatient income has been removed due to the recent agreed settlement with respect to outpatient issues
 - 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