ITEM: 10/082
Doc: 05

MEETING: Trust Board – Part 1
28 July 2010

TITLE: **Financial Position – Month 3 (June 2010)**

Executive Summary

1. Month 3 Income and Expenditure

1.1. The I&E position including the impact of IFRS is an actual in-month surplus of £1,095k, which is £716k better than plan. The year-to-date surplus is £1,243k, £631k better than planned. Once the impact of IFRS is excluded the surplus achieved to date rises to £1,321k compared to a target surplus of £690k.

1.2. May clinical activity was £748k above the Trust's internal income plan. Activity in June is estimated to be £112k higher than the internal plan.

1.3. Pay expenditure was £129k above budget in June, an improvement on last month of £88k. Agency spend has continued to decrease, £507k in June compared with £544k in May.

1.4. Non-pay expenditure is £2k over plan in June, the main area of increase being drugs.

2. Month 3 Balance Sheet and Cash

2.1. The impact of IFRS on the Trust relating to PFI is £463k, which is excluded from break-even duty performance.

2.2. The Trust's cash balance at the end of May was £3.5m and this reflects the reduced dependency on SLA over-performance this year and movements in working capital balances. It is not assumed at this stage that the year end cash balance will be materially different to the opening balance of £1.1m. Achievement of the External Financing Limit (EFL) would require a year end cash balance that is not less than the opening value.

3. Recovery Plans and Forecast

3.1. The Top 10 overspending areas will be the focus of monthly financial performance review meetings.

3.2. The year-end forecast is to break even and this assumes that the unidentified savings target is achieved by the year end. The value of this target was previously reported as being £3.2m in May and following the identification of further savings, this position has improved to £1.9m. Specific improvements relate primarily to obtaining clarification upon the correct accounting treatment for single sex and breast screening funding along with a review of historic provisions. There has also been an improvement in the forecast for both expenditure and non-clinical income.

3.3. Despite the very encouraging position on both income and expenditure to date, it has not been assumed that income will continue to over-perform. There are numerous risks and having only two months data is not sufficiently meaningful for extrapolation purposes. The approach to reducing this forecast deficit will include a) Robust monitoring of budgets and cost pressures b) Management of the CIP c) Non-recurrent opportunities and d) Minimisation of any performance metric penalties e) Review of budgets. The NHS London control target is to break even after excluding IFRS.

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** the reported financial position in Month 3 of a £1,243k surplus after excluding IFRS
- **Note** the unidentified savings target that still needs to be achieved of £1.9m and support the approach to managing the achievement of a break even position on a recurrent basis.

ACTION:	For information / discussion

REPORT FROM:	Richard Martin, Finance Director

SPONSORED BY:	Richard Martin, Finance Director

Financial Validation Lead: Director of Finance	Chris Daniells

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 3 Finance Report

5. Month 3 Income and Expenditure Summary

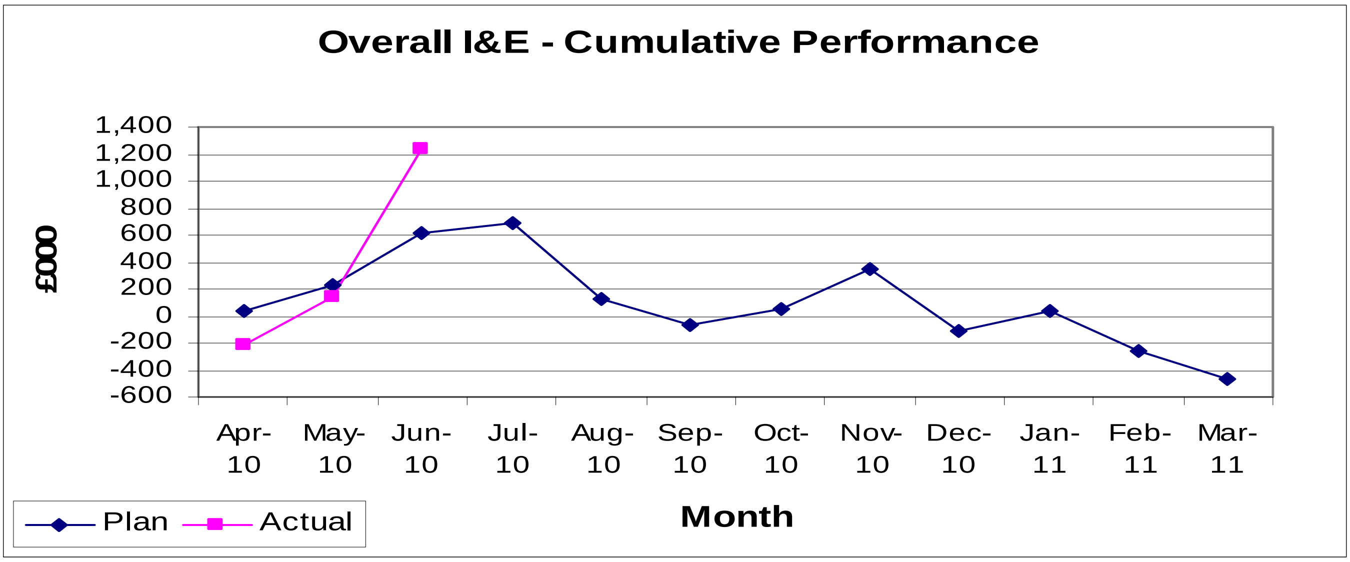
5.1. The Income and Expenditure position is summarised in the table and chart below. 2010/11 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, although the £463k impact of IFRS on Private Finance Initiatives (PFIs) is excluded from the Trust's break-even duty.

5.2. Year-to-date EBITDA of £4.6m is reported, which is £557k better than planned due to the higher levels of clinical and non clinical activity, revised accounting treatment of two specific items, release of provisions, relatively contained levels of expenditure offset by the unidentified and unallocated savings target held within the opening budget of £2.1m.

5.3. The Trust's plan is to incur a £463k deficit at the year-end on an IFRS basis. The forecast year-end position assumes at this stage that the "forecast" value of the unallocated and unidentified savings target of £1.9m remains achievable and therefore a balanced forecast outturn appears in the table below.

FIGURE 1 Description	Current Month			Year To Date			Annual	Year-end
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	Budget £'000	Forecast £'000
NHS Clinical Income	13,122	12,951	171	39,411	38,663	748	152,661	152,661
Non NHS Clinical Income	116	54	63	231	161	71	642	693
All Other Non Clinical Income	2,745	1,970	775	6,446	5,750	696	22,355	23,504
Total Income	**15,984**	**14,975**	**1,009**	**46,089**	**44,574**	**1,515**	**175,659**	**176,858**
Pay	10,366	10,236	(129)	31,270	30,804	(466)	123,600	123,978
Non Pay	3,411	3,409	(2)	10,264	10,305	40	41,113	41,654
Centrally Held Savings	0	(178)	(178)	0	(533)	(533)	(2,133)	(1,859)
Total Expenditure	**13,777**	**13,468**	**(331)**	**41,534**	**40,575**	**(958)**	**162,580**	**163,773**
EBITDA	**2,207**	**1,507**	**(309)**	**4,555**	**3,998**	**557**	**13,709**	**13,085**
Plus Interest Receivable	1	2	(0)	3	5	(2)	20	13
Less Interest Payable	219	224	4	639	671	31	2,683	2,683
Less Depreciation	641	654	13	1,918	1,962	44	7,849	7,849
Less PDC Dividend	253	252	(0)	758	757	(0)	3,030	3,030
Net Surplus / (Deficit)	**1,095**	**379**	**716**	**1,243**	**613**	**631**	**(463)**	**(463)**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**1,172**	**456**	**716**	**1,321**	**690**	**631**	**0**	**0**

FIGURE 2



6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (May 2010) which showed an in-month over-performance against plan of £171k.

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 June NHS clinical income was around £112k above plan – this is reflected in Month 3 accrued income.

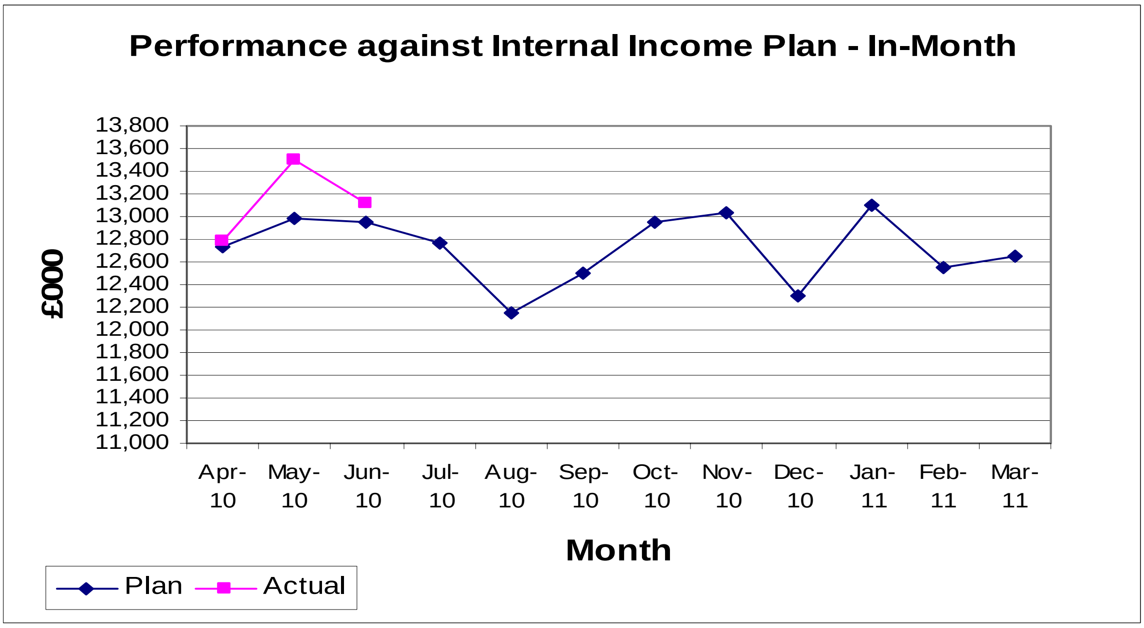
6.3. Figure 3 below shows income performance by patient type:

FIGURE 3

Point of Delivery	YTD SLA To M2	YTD Actual To M2	YTD Variance To M2	In Month Variance M2	M1 Late Data Added
Block Contract/Adjustments	1,068	1,102	33	17	0
Elective Inpatients	1,336	1,482	146	126	3
Non-Elective Inpatients	7,839	8,241	402	106	(0)
Excess Bed days	532	673	142	(13)	(91)
Planned Same Day (Day Case)	2,421	2,353	(69)	(39)	3
Outpatient Procedures	422	424	2	(3)	(0)
Outpatient 1st Attends	2,137	2,080	(57)	(18)	3
Outpatient Follow Ups	2,767	2,585	(183)	(90)	0
Adult High Dependency Bed days	470	626	156	75	(2)
Adult Intensive Care Bed days	945	1,358	412	255	(2)
Paediatrics High Dependency	132	112	(20)	3	0
NICU High Dependency Bed days	262	270	8	41	(6)
NICU Intensive Care Bed days	109	107	(2)	(14)	(13)
NICU Special Care Bed days	639	704	65	82	24
ED Attendances	1,447	1,529	82	49	(0)
Direct Access	1,436	1,434	(2)	11	(7)
Unbundled Imaging	124	203	78	38	0
Other Activity	707	667	(40)	(23)	(20)
Grand Total	**24,796**	**25,950**	**1,154**	**602**	**(108)**

6.4. Day cases, outpatient first attendances and follow ups are low against the phased plan.

FIGURE 4

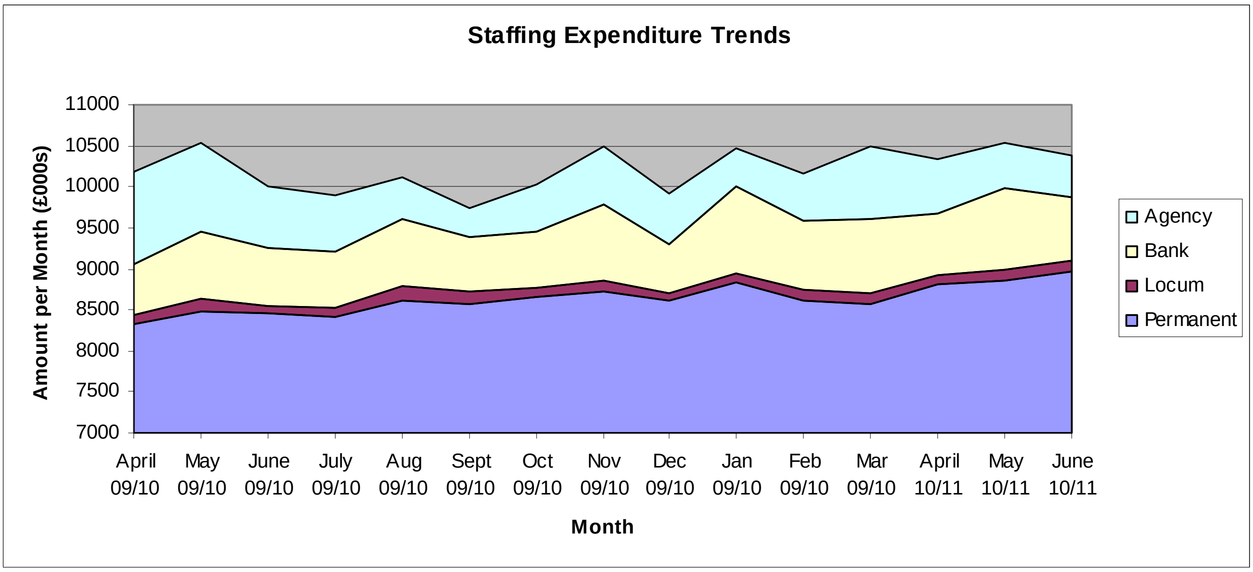


7. Expenditure Performance

7.1. Pay continued to be overspent in June by £129k, a reduction in the overspend of £88k on May. The CIP savings lines within pay total £764k for the year to date. The cumulative overspend to date on pay is £466k of which £275k relates to the unidentified savings target of £1.1m being allocated to those departments which did not fully identify their 3.5% category B CIP target. The Trust wide unidentified savings target of £3.2m includes this £1.1m, with the balance of £2.1m being held centrally and this can be seen in figure 1.

7.2. Figure 5 shows the split between agency, bank, locum and permanent staff.

Figure 5



7.3. Figure 6 below shows the in month pay variance for each Directorate and how much of that variance is attributable to CIP savings.

7.4. ED is £51k overspent in month on medical staff, £20k on nursing staff and underspent £5k on admin & clerical, a total of £66k overspent in month.

FIGURE 6

Directorate	Mth 3 Pay actuals	Mth 3 Pay Budget	Mth 3 Variance	Pay CIP Mth 3
AD&PC	1,265,740	1,248,751	(16,989)	(18,737)
Director Of Operations	56,125	(18,825)	(74,950)	(80,025)
Director Of Primary Care	31,114	30,468	(646)	0
Medicine & Therapies	2,713,780	2,580,938	(132,842)	(45,910)
Surgery & Cancer	2,421,705	2,374,960	(46,745)	(25,580)
Women & Children Services	1,997,899	2,104,643	106,744	(12,783)
Pharmacy	323,280	340,743	17,464	(1,311)
Facilities	797,979	792,944	(5,035)	(15,424)
Finance	228,528	243,719	15,191	0
Human Resource Directorate	105,775	112,070	6,295	0
Information Mgmt & Tech	200,440	183,540	(16,900)	(9,112)
Medical Education	15,221	15,237	16	(125)
Nursing & Clinical Develop	133,683	129,902	(3,781)	0
Planning & Performance	57,588	65,812	8,224	0
Clinical Trials	5,581	6,962	1,381	0
Reserves	(19,200)	57,574	76,774	0
Trust Finance	30,313	(33,000)	(63,313)	(33,000)
Grand Total	**10,365,550**	**10,236,437**	**(129,113)**	**(242,007)**

7.5. Total expenditure on bank and agency reduced from £1,541k in May to £1,287 in June, spend on agency reduced by £37k, the remaining reduction of £217k being on bank staff.

7.6. Non-pay expenditure was £2k more than planned in June. This includes a £199k overspend on drugs, partly offset by a £61k over-recovery of income. Pharmacy & Finance are reviewing the coding structure to identify potential timing issues.

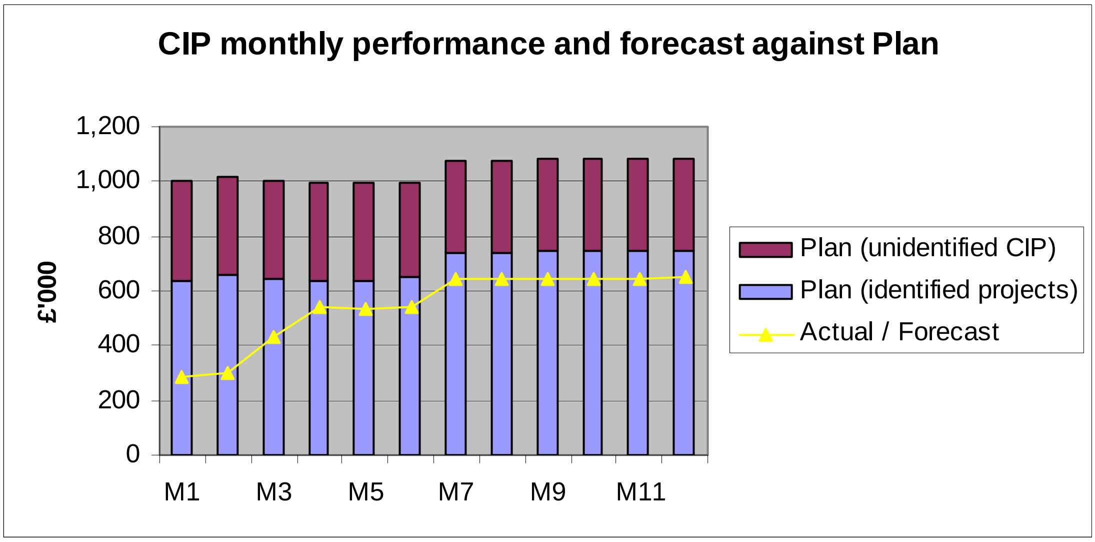
8. Cost Improvement Programme (CIP)

8.1 The original CIP expenditure reduction target was £12.5m with £8m being identified by way of specific initiatives. The level of unidentified savings has reduced to under £4.2m this month, following agreement by TEC of an additional package of cost reduction measures. Although these have obviously not yet impacted on the year-to-date figures, they have been included in the forecast. The residual target of £4.2m is intended to be attributed to a combination of staffing measures, procurement savings and other non-pay improvements. Whilst this will reclassify the unidentified element that is included within the CIP target, specific proposals around further expenditure reduction are to be approached via a series of meetings to explore the consequences and options of reducing actual levels of spend still further.

The validated level of savings delivered to date represents 53% of the target for identified savings to month 3, and 34% of the total target. The total target to date is £3.025m, of which £1.933m represents identified savings projects and £1.092k is as yet unidentified. Savings achieved to date value £1.017mk.

This represents a significant improvement on last month's report. The main reasons for this improvement are (a) medical and surgical wards' pay expenditure has been held within budget this month, (b) expenditure on agency staff is continuing to fall, and (c) data has become available this month to validate achievement of several of the Staff Utilisation and Effectiveness workstream projects.

FIGURE 7



8.2 **Summary of under-delivering savings schemes**

8.2.1 **Drugs and therapeutics workstream**

Good progress is being made with each of the projects, with the projection being these projects will fully deliver the savings that have been identified. For a number of schemes, however it is not possible to validate the savings until a retrospective audit is carried out later in the year.

8.2.2 **Procurement workstream**

Progress is being made on a wide range of projects. The financial savings target has been profiled in throughout the year in twelfths, whereas the pace of savings will pick up as the year progresses. It is anticipated therefore that the under-achievement in the early months of the year will be compensated by over-achievement as savings come on-stream in later months.

8.2.3 **Estates management workstream**

Again, the under-performance against this target in the first quarter is not anticipated to continue for the remainder of the year.

8.2.4 **Staff Utilisation & Effectiveness workstream**

Progress is being made with implementation of a number of schemes, but savings have yet to be delivered against the evenly-profiled target. The single largest scheme in the workstream is the Zero Agency Project. Expenditure on agency staff has reduced for the third month in a row, with reductions in most departments contributing to the overall decrease. However, some overspends against total pay budgets (predominantly in ED) mean that we cannot claim this target to have been met in full, as it would be misleading to claim savings from reductions in agency costs whilst other pay categories had risen above the budgeted level.

8.2.5 **Length of Stay workstream**

The financial impact of this project is measured in terms of the costs of staffing all the hospital's acute wards (medical and surgical). The 2010/11 budgets have been set with a built-in assumption of length-of-stay reductions and consequent savings in the total bed-base. Aggregated ward staffing costs were within budget in June, ie the project's financial target has been met for the second month in a row. However, because of the large overspend in April, the cumulative position as at the end of June is an overspend of £106k against the budget, so we cannot report this target as being fully achieved. Winter pressure ward capacity was closed in May, despite non elective admissions remaining high. Work is underway to facilitate the ward moves required to enable the Acute Admissions Unit to expand in October. This will have a positive impact upon our length of stay, bed usage and staff costs.

8.2.6 **Income Maximisation**

It is too early to measure whether this target is being achieved.

8.2.7 **"CIP B" savings**

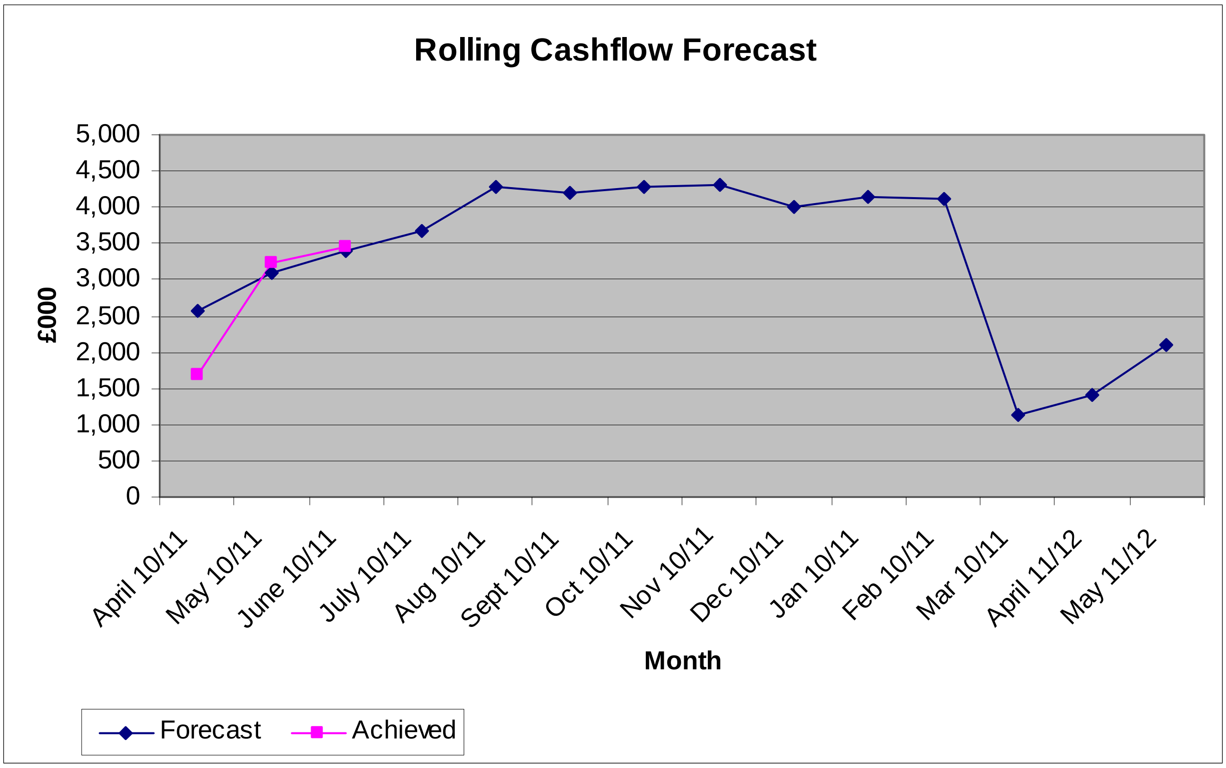
These represent savings that were identified by managers as part of the budget-setting process and which have been adjusted in opening budgets. Where actual expenditure is not being managed within budget as at month 3, these savings cannot be claimed to have been achieved. 44% (by value) of these savings are not being achieved to date, i.e. their cost centres are currently overspent. This is being monitored robustly with overspending areas meeting with Directors of Finance and Operations on a monthly basis to review performance and agree a recovery plan.

9. Cash

9.1. The chart below provides a summarised cash flow forecast. The Trust's cash balance at the end of June was £3.5m. Higher levels of balance will be possible this year as SLAs have been set at a more realistic level and this is equivalent to approximately £1m per month in cash that was not seen in the early months last year. Some movement in working capital balances have also assisted the position.

9.2. The year end target is £1.1m and there is no penalty to over-achieving this value although failure would result in a breach of a statutory duty (EFL). An improvement in the cash balance would require either a surplus or an improved working capital position relative to the values held at the start of the year. Neither is assumed at this stage.

FIGURE 8



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 £463k 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:

FIGURE 9

Description	As at 1st April 2010	As at 30th June 2010	2010/11 Year-end Forecast
	£'000	£'000	£'000
Property, plant and equipment	132,801	131,431	132,613
Intangible assets	1,186	1,114	889
Trade and other receivables	2,346	2,428	2,596
Non-current assets	**136,334**	**134,973**	**136,098**
Inventories	1,122	1,092	1,092
Trade and other receivables	7,089	6,331	5,227
Cash and cash equivalents	1,146	3,460	1,131
Current assets	**9,357**	**10,883**	**7,450**
Trade and other payables	15,543	14,985	15,345
Borrowings	1,964	1,963	1,964
Provisions	1,424	1,403	1,353
Current liabilities	**18,930**	**18,351**	**18,662**
Borrowings	38,838	38,423	37,609
Provisions	1,946	1,900	1,852
Non-current liabilities	**40,784**	**40,323**	**39,461**
Total assets employed	**85,976**	**87,182**	**85,425**
Public dividend capital	48,134	48,134	48,206
Retained earnings	10,658	11,904	9,732
Revaluation reserve	25,904	25,901	26,363
Donated asset reserve	1,280	1,243	1,124
Total taxpayers' equity	**85,976**	**87,182**	**85,425**

11. Top 10 Overspending Areas, 2010/11 Forecast and Risks

11.1. NHS Clinical income is not assumed to be different from plan at this stage, despite an encouraging April and May position. It is too early to be clear about the forecast outturn performance and there are numerous variables which can impact upon the monthly income position. Overall the plan and forecast can be considered at this stage to be prudent. Expenditure levels have also been reviewed with budget holders and the forecast reflects actual levels along with expected trends. The assumed achievement of the forecast residual £1.9m unidentified savings target has also been incorporated within this exercise. The key difference between the month three position and the forecast position is that the expenditure is assumed to continue to overspend, largely as a consequence of the savings target, whilst the income has not been assumed to continue to over-perform.

11.2. In order to improve the likely forecast, the focus will be on the delivery of the CIP, robust budgetary control and the identification of opportunities to reduce the unidentified savings target. Income levels do fluctuate and it is not possible to be certain over the likely year end position at this point. Monthly financial performance meetings continue to be held with all budget holders/managers responsible for each of the over spending areas and information around both income, CIP and budgetary performance will be reviewed by the Business Planning Group and the Executive Committee. At these meetings financial performance is scrutinised, action plans are presented, and forecasts challenged.

Figure 10

Top 10 Overspending areas	Month 3 Variance		Year End variance	
	In-month	**Year-to-date**	**Straight-line projection**	**Forecast**
Operations Managers	(73)	(219)	(878)	(901)
Accident & Emergency	(79)	(211)	(842)	(829)
ITU	(26)	(192)	(769)	(946)
Medical Wards	(102)	(166)	(665)	(846)
Pharmacy Medicine	(56)	(160)	(640)	(592)
Director Facilities	(42)	(114)	(457)	(439)
Surgery Ops Managers	(29)	(73)	(291)	(268)
Surgical Wards	1	(71)	(283)	(151)
Security	(23)	(46)	(184)	(162)
Resus officer	(15)	(41)	(166)	(81)
Total	**(444)**	**(1,294)**	**(5,175)**	**(5,216)**

11.3. The year to date position now includes £995k of non-recurrent credits that were not planned for in the original budget and do it is stressed that a recurrent solution to balancing the budget remains a priority. There are a number of significant risks remaining 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 July to March
- Increased validation queries from commissioners and disputes requiring use of the resolution process
- 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
- Penalty and performance metrics
- Recruitment problems and increased use of Agency staff
- Any decision to reduce service prices that is not covered by either additional savings or existing budgets.
- Changing the contract currency to that of a block fixed arrangement

Overall, the position for the first quarter has demonstrated a stronger than expected level of activity, combined with a relatively modest level of expenditure overspend, considering the level of unidentified savings incorporated into the original budget. Non recurrent solutions and improvements in the forecast for non clinical income and expenditure areas have helped to reduce the in year risk to £1.9m from the original £3.2m. Additional ideas complete the CIP and continued efforts to deliver the existing CIP would place the Trust in a stronger position going forward.