ITEM: 10/103
Doc: 04

MEETING: Trust Board
22 September 2010

TITLE: Financial Position – Month 5 (August 2010)

Executive Summary

1. Month 5 Income and Expenditure

1.1. The I&E position including the impact of IFRS is an actual in-month deficit of £557k, which is £71k better than plan. The year-to-date surplus is £1,204k, £1,070k better than planned. Once the impact of IFRS is excluded the surplus achieved to date rises to £1,397k compared to a target surplus of £327k.

1.2. Year to date clinical activity is £872k above the Trust's internal income plan. Activity in August is estimated to be £301k lower than the internal plan.

1.3. Pay expenditure was £31k below budget in August, although it should be noted that this includes additional budget relating to increased levels of activity for the first four months of the year. Agency spend has decreased slightly, £551k in August compared with £579k in July.

1.4. Non-pay expenditure is £207k under plan in August, although as with pay expenditure this includes the effect of additional activity funding.

2. Month 4 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 August was £7,677k and this reflects the reduced dependency on SLA over-performance this year, movements in working capital balances and the receipt of cash relating to SLA over performance for 2009/10 and April 2010. 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. All spending areas are being reviewed in turn on a weekly basis by the Chief Executive and Director of Finance.

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 is £0.9m which is an shows an improvement from the July position of £1.4m. Further work is required to ensure unidentified savings are identified during the remainder of the year.

3.3. Despite the encouraging position on both income and expenditure to date, it has not been assumed that income will continue to over-perform at the same rate. It should also be noted that the expenditure forecast for the full year is now highlighting potential future pressures. In order to deliver a break even position at year end the approach 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 5 of a £1,397k surplus after excluding IFRS
- **Note** the unidentified savings target that still needs to be achieved of £0.9m and support the approach to managing the achievement of a break even position on a recurrent basis.

ACTION: For information / discussion

REPORT FROM: Jim Davies, Deputy Director of Finance

SPONSORED BY: Richard Martin, Finance Director

Financial Validation Lead: Director of Finance	Jim Davies

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 5 Finance Report

5. Month 5 Income and Expenditure Summary

5.1. The Income and Expenditure position is summarised in Figure 1 overleaf. 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 £6.7m is reported, which is £899k better than the planned position for the period. Performance above plan on EBITDA relates largely to the first four months of the year (£867k), resulting from higher levels of clinical and non clinical activity, revised accounting treatment of two specific items, release of provisions and relatively constrained levels of expenditure. The in month position shows a more modest level of over performance (£32k), which reflects:

- Initial clinical income estimates for August which show a lower than planned position.
- Increased levels of expenditure in August.

5.3. It should be noted that the expenditure forecast for the full year is now highlighting potential future pressures.

5.4. Within the Month 5 position an adjustment has been made to reflect the cumulative impact of additional activity on expenditure, which means that expenditure budgets more accurately reflect the level of activity undertaken. The effect of the adjustment has been to increase the income plan and expenditure budgets by corresponding amounts. Because the changes to the income plan and expenditure budget effectively offset each other, there is no overall impact on the bottom line income and expenditure position. It should be noted however that because the adjustment has been undertaken based on the cumulative activity and income position to Month 4, that there is a distorting effect on the in month position, which reflects positively within the expenditure budget variance (+£497k) and negatively against the income plan variance (-£497k). Income and expenditure plans will continue to be reviewed, and further adjustments will be undertaken where continued trends of over performance are evident. The addition to expenditure budgets described above, have been allocated primarily against CIP lines. This reflects the fact that despite higher than planned levels of activity, expenditure to date has been relatively constrained and also recognises improved productivity in delivering higher levels of activity.

5.5. 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 £0.9m remains achievable and therefore a balanced forecast outturn has been assumed excluding the effect of IFRS. A forecast of break even is prudent given the achievement to date, and the limited assumption around forecast clinical income levels.

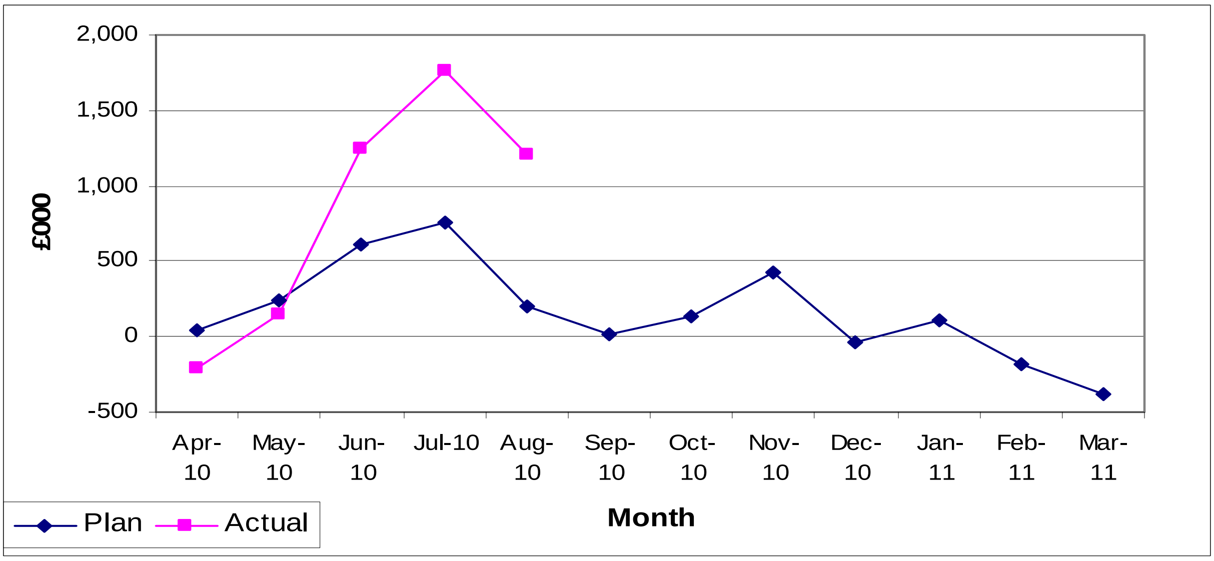
5.6. The income and expenditure is illustrated as follows:

FIGURE 1: Income & Expenditure Summary

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	12,437	12,738	(301)	65,164	64,292	872	153,540	154,818
Non NHS Clinical Income	141	54	88	584	268	316	642	1,058
All Other Non Clinical Income	2,084	1,895	189	10,448	9,483	965	22,555	23,673
Total Income	**14,662**	**14,687**	**(24)**	**76,195**	**74,042**	**2,153**	**176,737**	**179,048**
Pay	10,699	10,730	31	52,138	51,722	(417)	124,400	124,935
Non Pay	3,431	3,637	207	17,381	17,436	55	41,353	42,627
Centrally Held Savings	0	(181)	(181)	0	(892)	(892)	(2,095)	(899)
Total Expenditure	**14,129**	**14,186**	**57**	**69,519**	**68,265**	**(1,254)**	**163,659**	**166,163**
EBITDA	**533**	**501**	**32**	**6,676**	**5,777**	**899**	**13,079**	**12,885**
Plus Interest Receivable	2	2	0	7	8	(2)	20	16
Less Interest Payable	207	224	16	1,061	1,118	57	2,683	2,564
Less Depreciation	643	654	11	3,214	3,270	56	7,849	7,911
Less PDC Dividend	241	252	12	1,204	1,262	58	3,030	2,890
Net Surplus / (Deficit)	**(557)**	**(628)**	**71**	**1,204**	**134**	**1,070**	**(463)**	**(463)**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	**(518)**	**(589)**	**71**	**1,397**	**327**	**1,070**	**0**	**(0)**

5.7. While the year to date surplus shows reduction from the month 5 position, this largely reflects the planned income and expenditure profile, which is illustrated as follows:

FIGURE 2: Overall Income & Expenditure Position – Cumulative Performance



5.8. As highlighted in the sections above the expenditure forecast for the full year is now highlighting potential future pressures. This is further illustrated in the following figure:

Figure 3: Comparison of Forecast Expenditure Position Against Budget

Division	Forecast Outturn Pay £000	2010/11 Budget £000	Outturn (above)/below budget £000
Access/Diagnostics/Planned Care	15,077	14,800	(277)
Director Of Operations	668	-248	(916)
Director Of Primary Care	417	324	(94)
Facilities	10,053	10,076	22
Finance	2,773	2,925	152
Human Resource Directorate	1,298	1,345	47
Information Mgmt & Tech	2,141	2,206	65
Medical Education	251	239	(12)
Medicine & Therapies	32,369	30,858	(1,512)
Nursing & Clinical Develop	1,605	1,577	(29)
Pharmacy	3,877	4,089	212
Planning & Performance	668	790	122
Surgery & Cancer	28,288	27,885	(402)
Women & Children Servs	24,820	25,778	958
Clinical Trials	117	97	(20)
Business Cases/Reserves	513	1,661	1,148
Total Pay	**124,935**	**124,400**	**(535)**

5.9. The ongoing review of the areas which show forecasts above the budgeted position concentrates on pressures that are absolutely unavoidable, as cost containment and productivity improvement is a key theme in securing and maintaining a viable organisation. Consideration has been given to 'locking' in under spending positions in order to contain overall expenditure.

6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (July 2010), together with an initial estimate for the August position. On this basis the in month position shows an underperformance against plan of £301k.

6.2. The assessment of the August NHS clinical income position is based primarily on activity data which has yet to be fully coded, this early assessment indicates a negative variance against plan of £207k, which is included in the in month position.

6.3. Figure 5 below shows income performance by patient type:

FIGURE 4: Income Performance by Patient Type

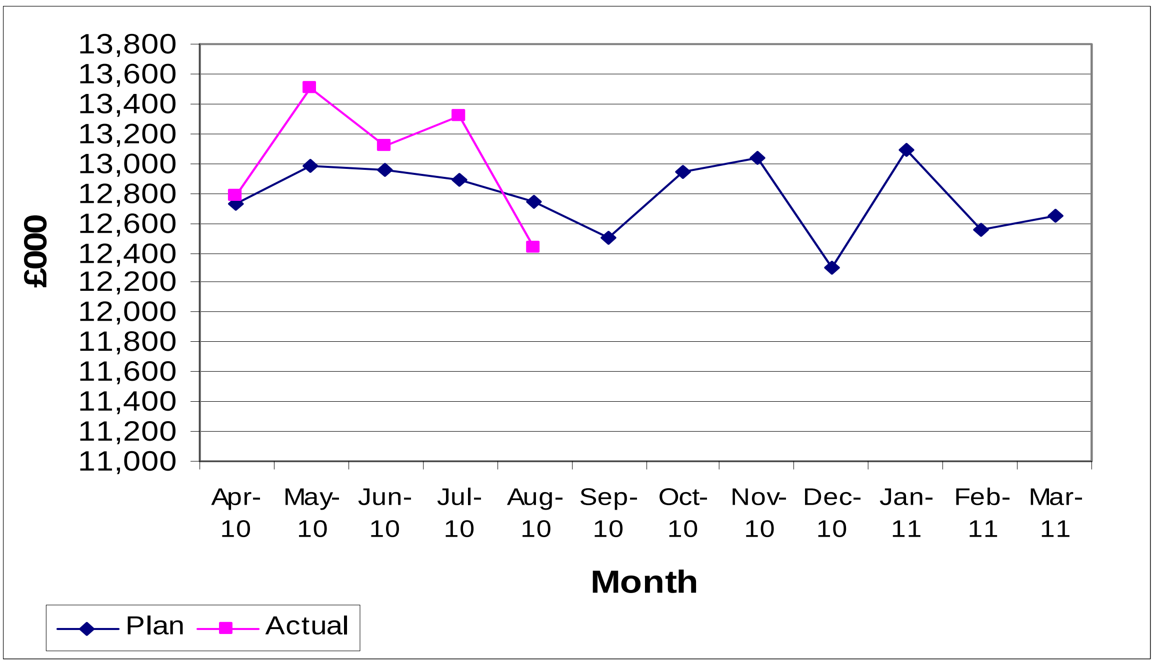
Point of Delivery	YTD SLA To M4	YTD Actual To M4	YTD Variance To M4	In Month Variance M4	M3 Late Data Added
Block Contract/Adjustments	2,131	2,198	67	17	0
Elective Inpatients	2,771	3,025	254	65	0
Non-Elective Inpatients	15,383	16,569	1,186	567	4
Excess Bed days	1,057	1,411	355	75	(2)
Planned Same Day (Day Case)	5,027	4,934	(93)	(12)	4
Outpatient Procedures	876	910	34	12	0
Outpatient 1st Attends	4,439	4,393	(46)	(3)	(6)
Outpatient Follow Ups	5,748	5,526	(222)	(56)	7
Adult High Dependency Bed days	912	1,421	510	235	1
Adult Intensive Care Bed days	1,834	2,574	740	44	0
Paediatrics High Dependency	264	238	(26)	(16)	0
NICU High Dependency Bed days	498	467	(31)	4	0
NICU Intensive Care Bed days	209	312	103	72	3
NICU Special Care Bed days	1,263	1,400	137	57	3
ED Attendances	2,919	3,038	119	39	0
Direct Access	2,872	3,084	212	97	1
Unbundled Imaging	258	433	174	47	0
Other Activity	1,460	1,382	(78)	(32)	3
Grand Total	**49,921**	**53,315**	**3,395**	**1,212**	**18**

6.4. Key points to note from the analysis of income (year to date variance to Month 4) are summarised as follows:

- The main areas of over performance relate to non elective inpatients (£1,186k), together with high dependency (£510k) and intensive care bed days (£740k).
- The main areas where income is below the planned level include outpatients (first appointments £46k and follow up appointments £222k), and day cases (£93k).

6.5. Performance against the internally set income plan is further illustrated in the following figure:

FIGURE 5: Performance Against Internal Income Plan – In Month

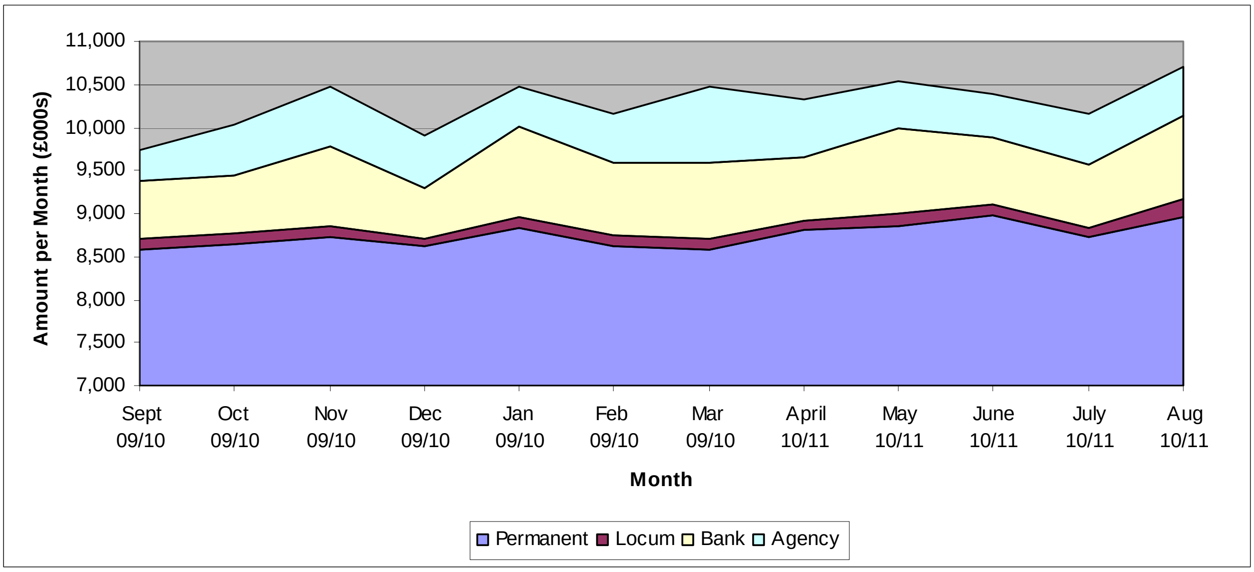


7. Expenditure Performance

7.1. Overall expenditure has increased in month, despite the fact that the activity and income profile for August is significantly lower than previous months. The in month position shows an under spend of £57k, this position includes a budget adjustment which has been allocated against CIP lines reflecting improved productivity in delivering higher levels of activity. The residual areas of over spend relate largely to medical staffing. The over spend on medical staff in month is £144k, of this amount £100k relates to previous months expenditure which has now been validated but which had not previously been booked on the bank and agency system, and therefore had not previously been accrued for.

7.2. Pay expenditure has increased in month. The following figure illustrate staffing expenditure trends, together with the split between agency, bank, locum and permanent staff.

Figure 6: Staffing Expenditure Trends



7.3. A comparison of expenditure against the budgeted position shows an under spend of £31k, although this includes additional funding primarily against pay CIP lines referred to above. The following figure further illustrates the in month pay variance for each Directorate and how much of that variance is attributable to CIP savings.

7.4. ED is £53k overspent in month on medical staff, £25k on nursing staff, a total of £84k, this is an increase against the previous months over spend of £32k.

FIGURE 7: Comparison of Pay Expenditure Against Budget by Directorate

Directorate	Mth 5 Pay actuals (£)	Mth 5 Pay Budget (£)	Mth 5 Variance (£)	Pay CIP Mth 5 (£)
Access/Diagnostics/Planned Care	1,296,509	1,281,348	(15,161)	37,714
Director Of Operations	49,338	(18,825)	(68,163)	(80,025)
Director Of Primary Care	27,806	40,107	12,301	9,639
Medicine & Therapies	2,723,150	2,738,377	15,227	104,555
Surgery & Cancer	2,430,851	2,437,472	6,621	(7,633)
Women & Children Servs	2,184,534	2,192,234	7,700	(12,783)
Pharmacy	324,294	340,743	16,449	5,245
Facilities	894,982	933,619	38,638	(5,424)
Finance	231,437	243,719	12,282	0
Human Resource Directorate	112,058	112,070	12	0
Information Mgmt & Tech	181,465	183,931	2,466	(9,112)
Medical Education	22,506	19,896	(2,610)	(125)
Nursing & Clinical Develop	130,287	132,527	2,240	0
Planning & Performance	56,695	65,812	9,118	0
Clinical Trials	20,880	20,880	(0)	0
Reserves	0	39,415	39,415	0
Trust Finance	11,984	(33,000)	(44,984)	(33,000)
Grand Total	**10,698,775**	**10,730,325**	**31,550**	**9,052**

7.5. Total expenditure on bank and agency increased from £1,324k in July to £1,521k in August. Expenditure on agency during this period increased by £224k, the remaining reduction of £28k being on bank staff. A significant element of the increase in month relates to previous months expenditure as highlighted in the above section.

7.6. Non-pay expenditure was £207k below budget in August.

7.7. Excluding the impact of the budget adjustment relating to additional activity, the in month expenditure position would have shown an over spend of £440k.

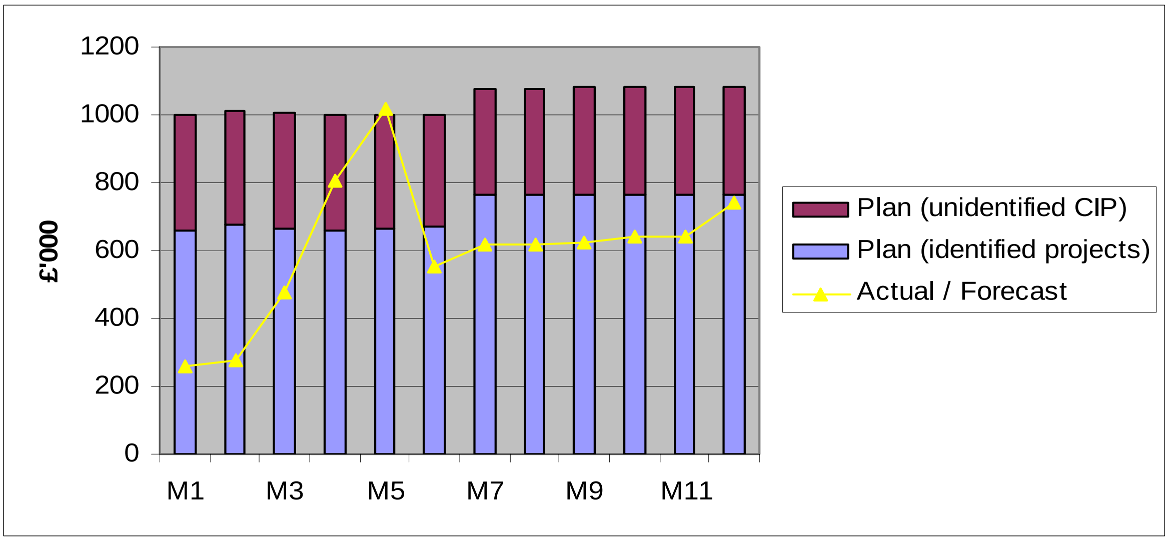
8. Cost Improvement Programme (CIP)

8.1. Of the £12.5 million initial CIP target, savings schemes have been identified to the value of £8.6 million, leaving £3.9 million yet to be identified. The identified schemes have been profiled month by month, and the target for the five months to August is £3,326k.

8.2. The validated level of savings delivered to date is £2,935k. This represents 88% of the identified savings target of £3,326k and 59% of the total target to date of £5,016m.

8.3. This represents an improvement on last month's report, due mainly to the recognition for the first time this month of the productivity savings which have been delivered in the first four months of the year. (see below for more details).

FIGURE 8: CIP Monthly Performance and Forecast Against Plan



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

8.4.1 **Drugs and therapeutics workstream**

Progress is being made with each of the projects, but some of the savings will not be able to be validated until retrospective audits are carried out later in the year.

8.4.2 **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.

8.4.3 **Staff Utilisation & Effectiveness workstream**

Progress is being made on of a number of projects, but there have been delays in implementation of some of the projects included within this workstream. The single largest project in the workstream is the Zero Agency Project. The rate of reduction in expenditure on agency staff has slowed this month; whereas in April-July we spent less on agency staff than in each equivalent month in 2009/10, in August we spent slightly more than in August 2009. In some departments, particularly ED, there is still a greater reliance on agency than was assumed in setting the budget, but there are recruitment plans in place to address this.

8.4.4 **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 August, ie. the project's financial target has been met for the third month in a row. Moreover, the underspend in August has now offset the impact of the large overspend that occurred in April.

8.4.5 **Income Maximisation**

This target relates to full achievement of the CQUIN objectives. Early indications are that this target is being achieved.

8.4.6 **"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, these savings cannot be claimed to have been achieved. 53% (by value) of these savings are being achieved to date, which is an improvement from last month's figure of 44%. These will be monitored as part of the monthly performance management process to be led by the Business Planning Group.

8.4.7 **Activity-related Productivity Improvements**

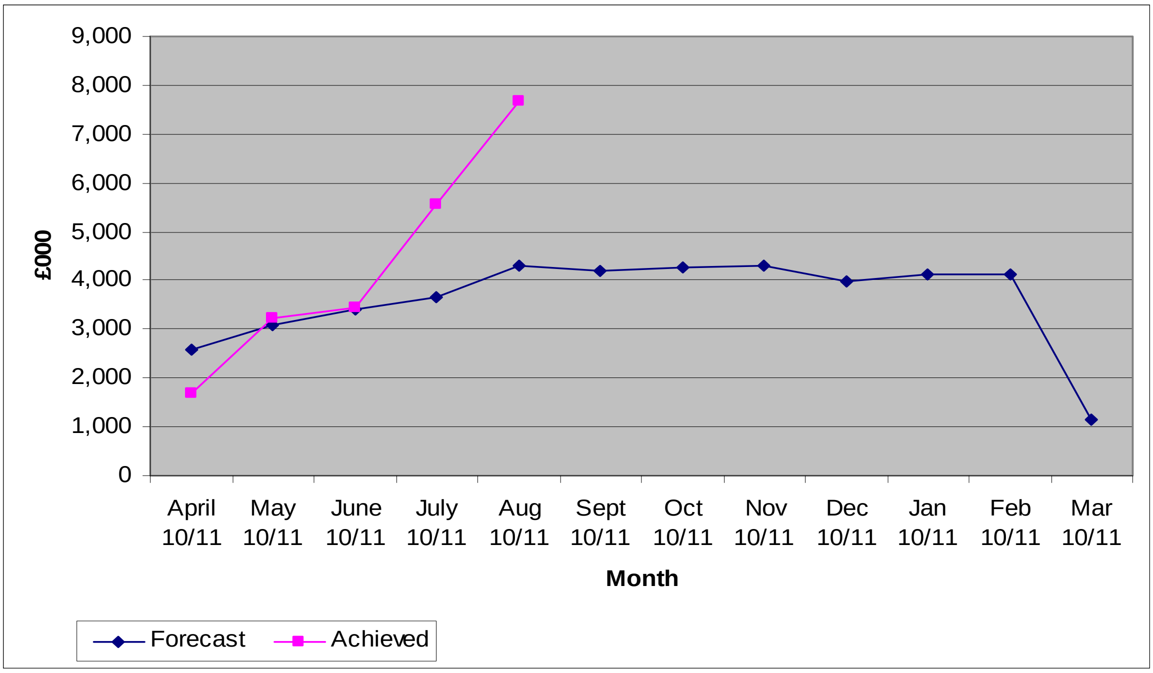
In the first four months of the year, clinical activity has been running significantly higher than the planned levels. The marginal costs associated with this activity (calculated as £497k) had not previously been allocated within budgets. A budget adjustment has been included in month against CIP lines to reflect productivity improvements in delivering additional activity.

9. Cash

9.1. The chart below provides a summarised cash flow forecast. The Trust's cash balance at the end of August was £7,677k. 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. In addition to which the trust has received payment for invoices relating to SLA over performance for 2009/10 and April 2010, against which provisions had previously been made.

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 9: Rolling Cashflow Forecast



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 10: Balance Sheet / Statement of Financial Position

Description	As at 1st April 2010	As at 31st August 2010	2010/11 Year-end Forecast
	£'000	£'000	£'000
Property, plant and equipment	132,801	130,983	131,489
Intangible assets	1,186	1,067	868
Trade and other receivables	2,346	2,540	5,641
Non-current assets	**136,334**	**134,590**	**137,998**
Inventories	1,122	1,039	1,039
Trade and other receivables	7,089	3,745	4,080
Cash and cash equivalents	1,146	7,677	1,145
Current assets	**9,357**	**12,461**	**6,265**
Trade and other payables	15,543	16,582	16,184
Borrowings	1,964	1,964	1,964
Provisions	1,424	1,391	1,341
Current liabilities	**18,930**	**19,936**	**19,489**
Borrowings	38,838	38,149	37,485
Provisions	1,946	1,853	1,868
Non-current liabilities	**40,784**	**40,002**	**39,353**
Total assets employed	**85,976**	**87,113**	**85,421**
Public dividend capital	48,134	48,134	48,206
Retained earnings	10,658	11,866	10,430
Revaluation reserve	25,904	25,899	25,664
Donated asset reserve	1,280	1,213	1,121
Total taxpayers' equity	**85,976**	**87,113**	**85,421**

11. Payment of Creditors

11.1. The Department of Health requires that Trusts pay creditors in accordance with the Better Payments Practice Code. The target is to pay creditors within 30 days of receipt of goods or a valid invoice, whichever is later, unless other terms have been agreed.

11.2. The Trust's performance, which is measured both in terms of volume and value, is illustrated below, a comparison to the performance in the previous year shows that there has been significant improvements in each of the areas.

FIGURE 11: Comparison of Pay Expenditure Against Budget by Directorate

Detail	NHS Payables Number	Non NHS Payables Number	NHS Payables £000	Non NHS Payables £000
Current Year to Date Performance				
Total bills paid	2,571	20,529	5,697	17,320
Total paid within target	2,328	15,651	4,810	13,703
Percentage paid within target	**91%**	**76%**	**84%**	**79%**
2009/10 Performance				
Total bills paid	5,064	50,163	10,439	52,150
Total paid within target	4,320	33,253	6,252	35,096
Percentage paid within target	**85%**	**66%**	**60%**	**67%**

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

12.1. The forecast position for NHS Clinical income is not assumed to be materially different from plan at this stage, despite an encouraging start to the year. 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 been reviewed with budget holders and the forecast reflects actual levels along with expected trends for the remainder of the year. While the overall income and expenditure forecast shows a balanced position, the expenditure trend based on the month 4 and month 5 positions and discussions with budget holders indicates an upward trend. Clearly for the Trust to achieve a balanced position it is essential that costs are controlled effectively for the remainder of the year. For areas where has been an upward trend in expenditure and in the forecast position, the expenditure position should be reviewed and where possible brought back into line. Cost containment and productivity improvement continues to be a key theme in securing and maintaining a viable organisation.

12.2. The assumed achievement of the forecast residual £0.9m unidentified savings target has also been incorporated within this exercise. The key difference between the month four 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.

12.3. 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. 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 Chief Executive and Director of Finance, and the Executive Committee. At these meetings financial performance is scrutinised, action plans are identified, and forecasts challenged.

Figure 12: Top 10 Overspending Areas and year End Forecasts

Top 10 Overspending areas	Month 5 Variance		Year End variance	
	In-month £000	Year-to-date £000	Straight-line projection £000	Forecast £000
Operations Managers	(67)	(359)	(861)	(888)
Emergency Department	(27)	(292)	(700)	(742)
Director Facilities	(35)	(188)	(452)	(473)
Acute Medicine Admin	81	(126)	(303)	(483)
Surgical Wards	(29)	(124)	(299)	(239)
Itu	120	(98)	(235)	(276)
Surgery Ops Managers	(1)	(97)	(233)	(282)
Orthopaedics	1	(77)	(185)	37
Pharmacy Medicine	113	(73)	(175)	(111)
Histopathology	(24)	(68)	(164)	(130)
Total	134	(1,503)	(3,606)	(3,587)

12.4. It should be noted that CIP targets that have not been allocated to specific budget lines or service areas, and are instead held centrally, are showing a shortfall. It is the intention to agree a method to reallocate to those areas where the savings will be achieved.

12.5. 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 September 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
- Further upward trends in expenditure forecasts
- Loss of income form revised charging methodology for readmission within 30 days.

Overall, the position for the first five months of the year has demonstrated a stronger than expected level of activity, this has been accompanied however by an increase and upward trend in the forecast expenditure position, along with 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 £0.9m from the original £3.2m. A prudent approach has been taken to the assessment of risk around the collection of income to date. Additional ideas complete the CIP and continued efforts to deliver the existing CIP would place the Trust in a stronger position going forward.