ITEM: 10/135
Doc: 03

MEETING: **Trust Board**
24th November 2010

TITLE: Financial Position – Month 7 (October 2010)

Executive Summary

1. Month 7 Income and Expenditure

1.1. The I&E position including the impact of IFRS is an actual in-month deficit of £126k, which is £137k worse than plan. The year-to-date surplus is £480k, £964k better than planned. Once the impact of IFRS is excluded the surplus achieved to date rises to £750k compared to a target deficit of £213k.

1.2. Year to date clinical activity is £236k above the Trust's internal income plan. Activity in October is estimated to be £16k lower than the internal plan.

1.3. Pay expenditure was £372k over spent in October. Agency spend has increased slightly in month to £602k compared with £551k in September.

1.4. Non-pay expenditure is over spent by £280k in October.

2. Month 7 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 October was £5,364k 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. A weekly budget review process has been established whereby the financial performance of key Directorates is reviewed on a cyclical basis. Review meetings involve the lead budget holder together with 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 £0.7m which is line with the position reported for September. Further work is required to ensure unidentified savings are identified during the remainder of the year.

3.3. In order for the Trust to deliver a break even position at year end it will be necessary for the Trust to ensure 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 7 of a £750k surplus after excluding IFRS
- **Note** the unidentified savings target that still needs to be achieved of £0.7m 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 7 Finance Report

5. Month 7 Income and Expenditure Summary

5.1. The Income and Expenditure position is summarised in Figure 1 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 £8.2m is reported, which is £738k 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 reduction in the level of EBITDA (£167k), which is largely attributable to the over spending against pay and non pay budgets in month.

5.3. The income and expenditure forecast for the full year reflects the year to date position, together with known changes and estimates for the remainder of the year. As part of this process consideration is also given to the risk of a) the potential for future cost pressures b) risks associated with the recovery of income due to the Trust. On this basis the Trust's plan continues to show 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 £0.7m 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.

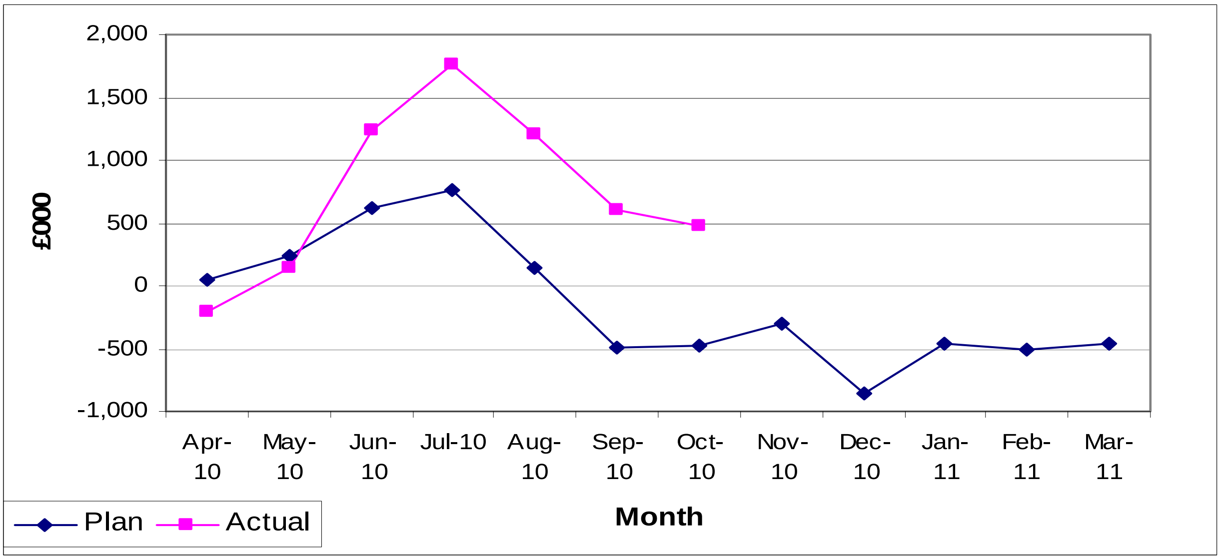
5.4. The income and expenditure is illustrated as follows:

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	13,313	12,910	403	90,822	90,586	236	154,980	156,643
Non NHS Clinical Income	56	54	3	731	375	356	642	1,008
All Other Non Clinical Income	2,069	1,905	165	14,330	13,232	1,099	22,647	23,466
Total Income	**15,439**	**14,868**	**570**	**105,884**	**104,193**	**1,691**	**178,269**	**181,117**
Pay	10,758	10,386	(372)	73,163	73,570	406	125,685	126,100
Non Pay	3,708	3,428	(280)	24,567	24,357	(210)	41,510	42,796
Centrally Held Savings	0	(86)	(86)	0	(1,150)	(1,150)	(2,004)	(662)
Total Expenditure	**14,466**	**13,728**	**(737)**	**97,731**	**96,777**	**(954)**	**165,191**	**168,234**
EBITDA	**973**	**1,140**	**(167)**	**8,153**	**7,416**	**738**	**13,079**	**12,883**
Plus Interest Receivable	2	2	0	11	12	(1)	20	19
Less Interest Payable	214	224	10	1,488	1,565	78	2,683	2,564
Less Depreciation	646	654	8	4,511	4,578	67	7,849	7,911
Less PDC Dividend	241	252	12	1,686	1,767	81	3,030	2,890
Net Surplus / (Deficit)	**(126)**	**11**	**(137)**	**480**	**(484)**	**964**	**(463)**	**(463)**
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	(87)	50	(137)	750	(213)	964	0	0

5.5. The year to date income and expenditure position shows a net surplus position which is £964k better than the planned position. This includes the in month deficit of £126k, which is £137k worse than the planned position for the month. This is further reflected in the following figure which illustrates the cumulative income and expenditure performance for the year to date.

FIGURE 2: Overall Income & Expenditure Position – Cumulative Performance



5.6. 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	15,163	14,926	(236)
Director Of Operations	626	85	(541)
Director Of Primary Care	338	340	2
Facilities	10,268	10,156	(112)
Finance	2,753	2,925	171
Human Resource Directorate	1,360	1,345	(16)
Information Mgmt & Tech	2,193	2,219	25
Medical Education	253	243	(10)
Medicine & Therapies	32,510	31,155	(1,355)
Nursing & Clinical Develop	1,614	1,603	(12)
Pharmacy	3,965	4,089	124
Planning & Performance	745	790	45
Surgery & Cancer	28,225	28,237	12
Women & Children Servs	25,524	25,853	329
Clinical Trials	107	97	(10)
Business Cases/Reserves	455	1,624	1,169
Total Pay	**126,100**	**125,685**	**(415)**

5.7. 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. Health Economy Context

6.1. It was noted in the last finance report that as a result of the potential for a significant deficit position within the North Central London sector, the Trust had been approached to discuss risk sharing arrangements. Discussions have taken place, but at this stage no arrangements have been agreed between this Trust and the sector. An update will be made to the next Trust Board of further progress in this respect.

7. Income Performance

7.1. NHS Clinical Income is reported based upon the latest coded activity data (September 2010), together with an initial estimate for the October position. On this basis the in month position shows an over performance against plan of £403k.

7.2. The assessment of the October 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 £16k, which is included in the in month position.

7.3. Figure 4 below shows income performance by patient type:

FIGURE 4: Income Performance by Patient Type

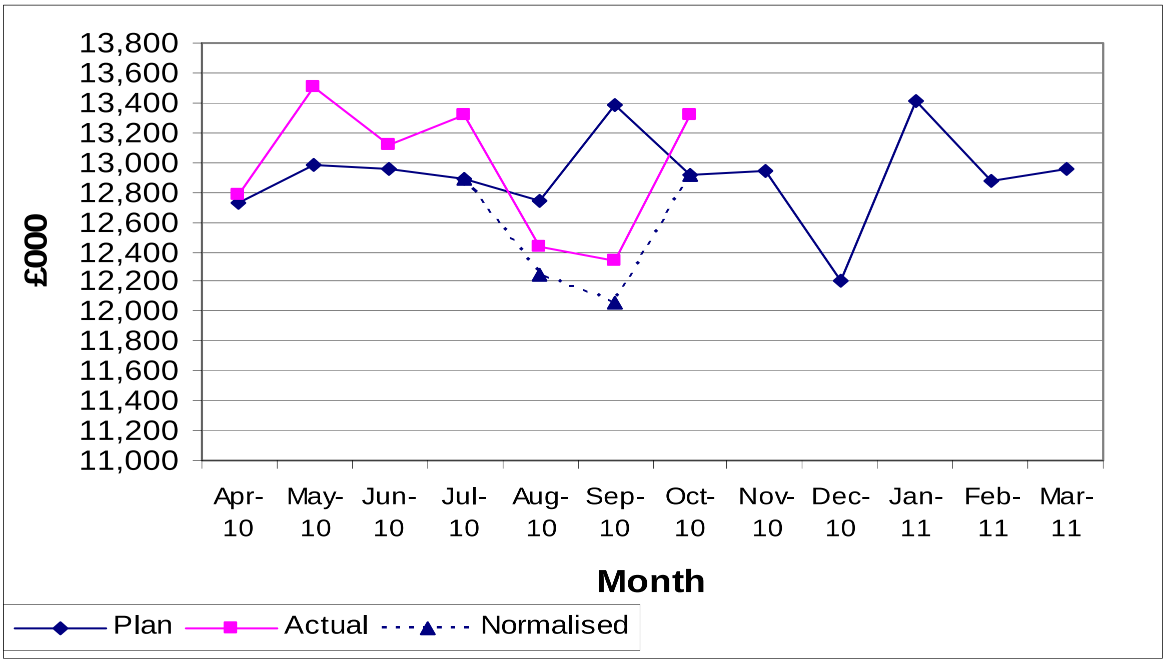
Point of Delivery	YTD SLA To M6	YTD Actual To M6	YTD Variance To M6	In Month Variance M6	M5 Late Data Added
Block Contract/Adjustments	3,201	3,301	100	17	0
Elective Inpatients	4,131	4,367	236	32	7
Non-Elective Inpatients	22,963	23,572	609	(2)	4
Excess Bed days	1,554	1,917	363	13	0
Planned Same Day (Day Case)	7,494	7,410	(84)	(16)	33
Outpatient Procedures	1,306	1,401	95	35	3
Outpatient 1st Attends	6,617	6,450	(167)	(78)	(9)
Outpatient Follow Ups	8,569	8,249	(319)	(22)	16
Adult High Dependency Bed days	1,354	1,926	572	2	(9)
Adult Intensive Care Bed days	2,723	3,119	396	(228)	0
Paediatrics High Dependency	396	330	(67)	8	0
NICU High Dependency Bed days	734	702	(32)	(10)	0
NICU Intensive Care Bed days	322	423	101	4	0
NICU Special Care Bed days	1,893	2,200	307	84	0
ED Attendances	4,277	4,475	198	58	(0)
Direct Access	4,309	4,616	307	96	(1)
Unbundled Imaging	385	654	269	55	(1)
Other Activity	2,178	2,038	(140)	(39)	6
Grand Total	**74,405**	**77,149**	**2,744**	**8**	**49**

7.4. Key points to note from the analysis of income (year to date variance to Month 6) are summarised as follows:

- The main areas of over performance relate to non elective inpatients (£609k), together with high dependency (£572k) and intensive care bed days (£396k).
- The main areas where income is below the planned level include outpatients (first appointments £167k and follow up appointments £319k), and day cases (£84k).

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

FIGURE 5: Performance Against Internal Income Plan – In Month



7.6. As well as the planned and actual position a further line is included to show the income plan excluding the effect of activity related budget adjustments relating to August and September.

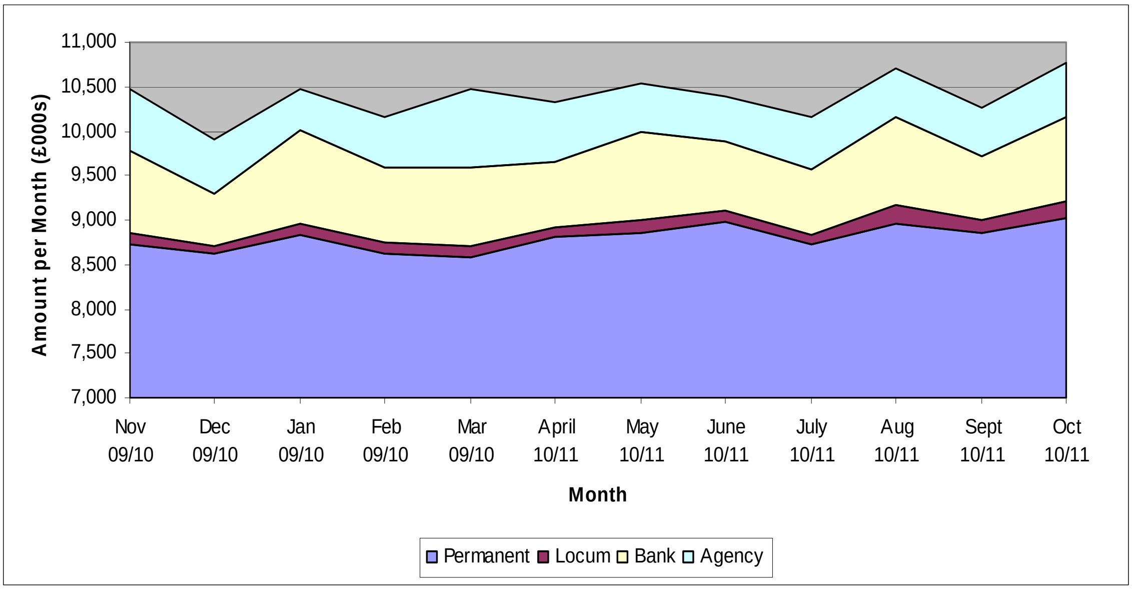
8. Expenditure Performance

8.1. Overall expenditure has increased in month. The in month position shows an over spend of £737k. The key areas of over spend areas can be summarised as follows:

- Medicine & Therapies (£345k): This largely relates to the Emergency Department (£142k), non achievement of CIP (£54k) and the use of additional staffing where patients require specialist / one to one care. The over spend within the Emergency Department reflects the continued use of temporary and agency medical and nursing staff.
- Surgery & Cancer (£211k): The over spend within surgery and cancer is split across staffing (£132k), which is attributable to increased levels of temporary and agency staffing and a shortfall in the CIP achievement for the month. Non staff expenditure is also over spent (£79k) and this relates in the main to theatre consumables and prostheses which reflects an increased number of lists and level of activity in month.
- Women & Childrens Services (£135k): This relates in the main to staffing, and in particular high levels of agency and temporary staffing to cover sickness and absence.
- Access, Diagnostics and Planned Care (£97k): This relates to the provision of additional capacity to meet higher activity levels in order to deliver waiting list and access targets, together with a shortfall in the CIP achievement in the month and additional temporary and agency staffing to cover sickness and absence.

8.2. 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



8.3. A comparison of expenditure against the budgeted position shows an over spend of £372k. The following figure further illustrates the in month pay variance for each Directorate and how much of that variance is attributable to CIP savings.

FIGURE 7: Comparison of Pay Expenditure Against Budget by Directorate

Directorate	Mth 7 Pay actuals (£)	Mth 7 Pay Budget (£)	Mth 7 Variance (£)	Pay CIP Mth 7 (£)
Access/Diagnostics/Planned Care	1,282	1,253	(29)	(24)
Director Of Operations	57	(23)	(79)	(80)
Director Of Primary Care	30	29	(1)	0
Medicine & Therapies	2,789	2,522	(267)	(58)
Surgery & Cancer	2,379	2,254	(125)	(98)
Women & Children Servs	2,237	2,123	(115)	(11)
Pharmacy	317	341	24	0
Facilities	887	928	41	(15)
Finance	234	244	10	0
Human Resource Directorate	125	112	(13)	0
Information Mgmt & Tech	199	187	(12)	(55)
Medical Education	21	22	1	(0)
Nursing & Clinical Develop	150	136	(14)	0
Planning & Performance	45	66	21	0
Clinical Trials	6	7	1	0
Reserves	0	260	260	0
Trust Finance	1	(75)	(76)	(75)
Grand Total	**10,758**	**10,386**	**(372)**	**(415)**

8.4. Total expenditure on bank and agency increased from £1,274k in September to £1,552k in October. Expenditure on agency during this period increased by £51k, the remaining reduction of £227k being on bank staff.

8.5. Non-pay expenditure was £280k over spent in October. The most significant element of which relates to clinical supplies and services (£146k over spent in month), of which consumables and prostheses within theatres make up the largest part reflecting an increase in the number of lists and throughput of activity in month. A further element of the reported over spend in month relates to an adjustment which has been made to reflect the cumulative achievement of CIP within HR (£80k) the offset being against the central CIP, while this does not effect the overall bottom line position, it increases the level of over spend on non staff and reduces the level of outstanding CIP reported in month.

9. Cost Improvement Programme (CIP)

9.1. 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.

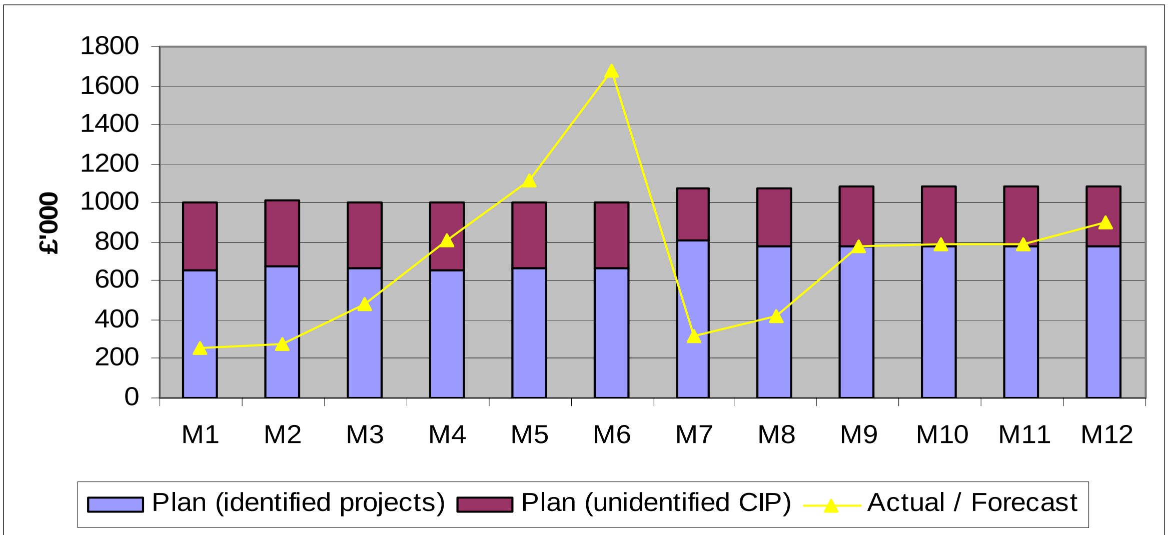
9.2. Performance against the year-to-date proportion of CIP target of £12.5 million is summarised in the table below.

FIGURE 8: CIP Monthly Performance and Forecast Against Plan

Category	Initial full year target £'000	Target to month 7 £'000	Savings achieved at month 7 £'000	Proportion of Year-to-date target achieved £'000	Year-to-date shortfall £'000
"CIP A" workstreams	4,982	2,657	1,698	64%	(959)
"CIP B" savings identified through budget-setting	3,676	2,116	1,329	63%	(787)
Year-to-date underspends locked into budgets	0	0	216		216
Activity-related productivity improvements	0	0	1,687		1,687
Unidentified savings	3,842	2,320	0		(2,320)
Total	**12,500**	**7,094**	**4,930**	**69%**	**(2,164)**

9.3. Month by month savings delivered against the target, and forecast, are represented in the graph below.

FIGURE 9: CIP Monthly Performance and Forecast Against Plan



9.4. Year-to-date cumulative performance has deteriorated from 77% as at month 6, to 69% as at month 7. The reasons for this movement are explained as follows.

9.5. **CIP A Projects**

64% of the year-to-date target has been delivered; this is a significant deterioration from the month 6 performance which stood at 77%. There are two main reasons for this; (a) activity- and associated cost-pressures have rendered some of the planned expenditure reduction targets unachievable, for example, the bed-base reduction targets have become increasingly impossible to achieve as the year has progressed; (b) some targets were profiled into the back half of the year and have therefore only started to be monitored this month. In particular, the community pharmacy project has been delayed from a planned start date of October 2010, which explains the deterioration in the performance of the drugs and therapeutics workstream from 90% at month 6 to 65% at month 7.

9.6. **CIP B Projects**

The rate of achievement overall has not changed significantly from last month (a slight improvement from 62% to 63%). The shortfall against targets is due to difficulties that managers are encountering in delivering the savings that were agreed within their initial budgets. These are under review as part of the monthly financial performance management process. In some cases, activity pressures have rendered the original cost reduction targets difficult to deliver. Year-to-date under-spends in non-clinical budgets are helping to offset the under-achievement of these targets.

9.7. **Activity-related Productivity Improvements**

As described last month, in the first five months of the year, clinical activity has been running significantly higher than the planned levels. The marginal costs associated with this activity have now been funded within budgets, to offset against those budgets which have not been able to deliver their “CIP B” savings or their activity-related “CIP A” savings. Effectively, the marginal cost of additional activity has therefore been absorbed within existing budget levels through the delivery of productivity improvements. In the most recent month, no new benefit has been claimed, ie. the month 7 position reflects productivity gains only up to month 5’s clinical activity.

9.8. **Activity-related Productivity Improvements**

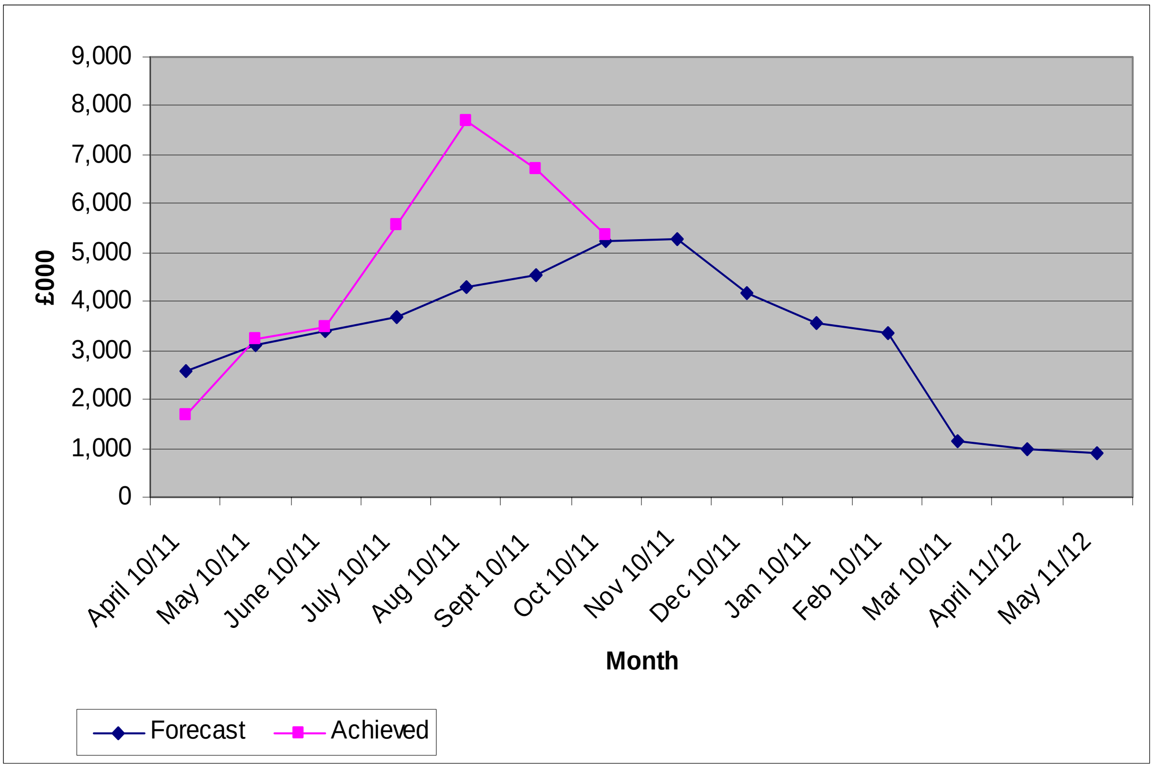
The forecast CIP achievement by year-end is £8.6m. In light of continuing activity and expenditure trends, the likelihood of the Trust being able to deliver its cost-reduction CIPs in the remaining months of the year has been re-assessed, as has the likely year-end activity over-performance and associated potential for productivity gains. Following this review, the £8.6m forecast now comprises £2.7m to be delivered by the CIP “A” workstreams, £2.7m by the CIP “B” savings identified by budget holders, and £3.2m through activity-related productivity improvements.

10. Cash

10.1. The chart below provides a summarised cash flow forecast. The Trust’s cash balance at the end of October was £5,364k. 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.

10.2. 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 10: Rolling Cashflow Forecast



11. Balance Sheet / Statement of Financial Position

11.1. 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.

11.2. 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 11: Balance Sheet / Statement of Financial Position

Description	As at 1st April 2010	As at 31st October 2010	2010/11 Year-end Forecast
	£'000	£'000	£'000
Property, plant and equipment	132,801	130,960	133,443
Intangible assets	1,186	1,043	874
Trade and other receivables	2,346	2,580	2,758
Non-current assets	**136,334**	**134,583**	**137,075**
Inventories	1,122	1,113	1,113
Trade and other receivables	7,089	4,304	4,103
Cash and cash equivalents	1,146	5,364	1,143
Current assets	**9,357**	**10,781**	**6,359**
Trade and other payables	15,543	15,964	15,476
Borrowings	1,964	1,895	1,895
Provisions	1,424	1,386	1,386
Current liabilities	**18,930**	**19,244**	**18,757**
Borrowings	38,838	37,847	37,858
Provisions	1,946	1,853	1,816
Non-current liabilities	**40,784**	**39,700**	**39,675**
Total assets employed	**85,976**	**86,419**	**85,002**
Public dividend capital	48,134	48,134	48,206
Retained earnings	10,658	11,144	10,195
Revaluation reserve	25,904	25,897	25,427
Donated asset reserve	1,280	1,244	1,174
Total taxpayers' equity	**85,976**	**86,419**	**85,002**

12. Payment of Creditors

12.1. 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.

12.2. 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 12: 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	3,351	28,299	7,809	25,324
Total paid within target	3,069	22,704	6,837	21,132
Percentage paid within target	**92%**	**80%**	**88%**	**83%**
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%**

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

13.1. 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. There are a number of risks which make it difficult to be clear about the forecast outturn performance, not least the current financial position within the North Central London sector as a whole. In overall terms the plan takes into considerations such risks can be considered at this stage to be prudent. Expenditure levels have been, and continue to be reviewed with budget holders and the forecast reflects actual levels along with expected trends for the remainder of the year. Clearly for the Trust to achieve a balanced position particularly within the context of the current economic environment it is essential that costs are controlled effectively for the remainder of the year. Cost containment and productivity improvement continues to be a key theme in securing and maintaining a viable organisation.

13.2. The assumed achievement of the forecast residual £0.7m unidentified savings target has also been incorporated within this exercise. The key difference between the month six 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.

13.3. 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, 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 13: Top 10 Overspending Areas and year End Forecasts

	Month 7 Variance		Year End variance	
Top 10 Overspending areas	**In-month £000**	**Year-to-date £000**	**Straight-line projection £000**	**Forecast £000**
Emergency Department	(137)	(464)	(795)	(738)
Operations Managers	(78)	(167)	(287)	(514)
Histopathology	(25)	(123)	(210)	(257)
Director Facilities	(41)	(119)	(204)	(323)
Orthopaedics	(21)	(108)	(185)	(171)
Im & T Comp Services	(40)	(83)	(142)	(54)
Residences	(12)	(68)	(116)	(8)
Health Records	(1)	(68)	(116)	(133)
Ear Nose & Throat	(9)	(63)	(108)	(17)
Obstetrics & Gynae	(42)	(62)	(106)	(138)
Total	**(405)**	**(1,324)**	**(2,269)**	**(2,354)**

13.4. 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.

13.5. The year to date position now includes £767k of non-recurrent credits that were not planned for in the original budget and so 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:

- Loss of income as a result of the current economic position of the North Central London sector.

- 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 four months of the year has demonstrated a stronger than expected level of activity, while the last two months has shown activity to be broadly in line with plan and potentially slightly below in September. Non recurrent solutions and improvements in the forecast for non clinical income and expenditure areas have helped to reduce the in year risk to £0.7m 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 to complete the CIP and continued efforts to deliver the existing CIP would place the Trust in a stronger position going forward.