

MEETING: Trust Board – Part 1
27th July 2011

TITLE: Financial Position – Month 3 (June 2011)

Executive Summary

1. Month 3 Income & Expenditure

- 1.1. The I&E position including the impact of IFRS is an actual in month surplus of £515k, which is £172k less favourable than the plan. The year to date surplus is £6k, which is £427k worse than the planned position. Once the impact of IFRS is excluded the cumulative surplus position is increased to £144k.
- 1.2. The clinical income position is £352k below the Trust plan, this includes both acute and community services and is based on two months worth of fully coded activity. It should be noted that while the overall SLA baseline values have been agreed the activity quantum which supports these values is yet to be finalised (it is expected that this will be settled with NCL by the 20th July), on this basis the income position reported reflects a prudent assessment of the position which will be further reviewed on an ongoing basis.

2. Month 3 Balance Sheet & Cash

- 2.1. The impact of IFRS on the Trust relating to PFI is £555k, which is excluded from break-even duty performance.
- 2.2. The cash balance at the end of June was £7,432k. Strong cash management will continue to be essential throughout this year to ensure that the Trust has sufficient cash balances to meet ongoing operating expenses and obligations. The year end forecast cash position is £5,553k, which reflects the opening balance together with the planned surplus position and other benefits arising from working capital balances and the profile of commitments. Achievement of the forecast cash position is dependent on the delivery of cost improvements, effective cost control and income recovery. Achievement of the External Financing Limit (EFL) would require a year end cash balance that is not less than the opening value.

3. 2011/12 Forecast and Risks

- 3.1. While the year to date position shows a small surplus this is £427k less than planned at this stage of the year. The Trust continues to forecast the delivery of a £500k surplus, which is consistent with the planned position. The extent to which this position is deliverable will depend on progress made in delivering the CIP programme, the avoidance of further cost pressures and over spends, and in maintaining income and activity levels in line with plan. This position will continue to be monitored over the coming months, and if progress is not made across these areas it will be necessary to adjust the likely forecast position accordingly.
- 3.2. It is assumed as part of the forecast that the forecast £6.9m unidentified savings target will be achieved in full. It is also assumed that there is no deterioration in the income and expenditure position from plan. This will require strong budgetary management and financial control. Progress has been made in identifying additional savings, and the most upto date position reflected in the Trust's operating plan as submitted to NHS London indicates a remaining value of £1.2m savings still to be identified.

- 3.3. To achieve the forecast position, the focus of attention will need to be on the delivery of the CIP, robust budgetary control and the identification of opportunities to reduce the unidentified savings target. Financial performance will be monitored closely both within the Divisional teams and by the Executive team and Trust Board.

4. Recommendations

4.1. The Trust Board is asked to:

- **Note:** An in month surplus of £515k, which is £172k worse than planned.
- **Note:** The forecast surplus position which is consistent with the planned position, and which is dependent on achievement of CIP plans, avoidance of further cost pressures and for income to be maintained within plan.
- **Note:** The 2011/12 CIP position which shows a balance of £6,978k to be identified. Progress has been made in identifying additional savings, and the most upto date position reflected in the Trust's operating plan as submitted to NHS London indicates a remaining value of £1.2m savings still to be identified.

ACTION: For information / discussion

REPORT FROM: Jim Davies, Deputy Director of Finance
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SPONSORED BY: Richard Martin, Finance Director

Financial Validation Lead: Director of Finance	Jim Davies
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Compliance with statute, directions, policy, guidance Lead: All directors	Reference: Best Practice – financial assurance standards; ALE; Accounting Standards; Monitor financial regime
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Compliance with Healthcare Commission Core/Developmental Standards Lead: Director of Nursing & Clinical Development	Reference:
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Compliance with Auditors' Local Evaluation standards (ALE) Lead: Director of Finance	Reference: ALE – Financial Management and Financial Reporting Domains
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Compliance with requirements of FT application and monitoring regime Lead: Director of Strategy & Performance	Reference:
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Month 3 Finance Report

5. 2011/12 Budget Update

- 5.1. In terms of contract agreements all acute contract Service Level Agreements (SLA) have now been agreed and signed off with, this includes North West London (NWL) Commissioning Partnership, which had previously been reported as being unresolved.

6. Month 3 Financial Update

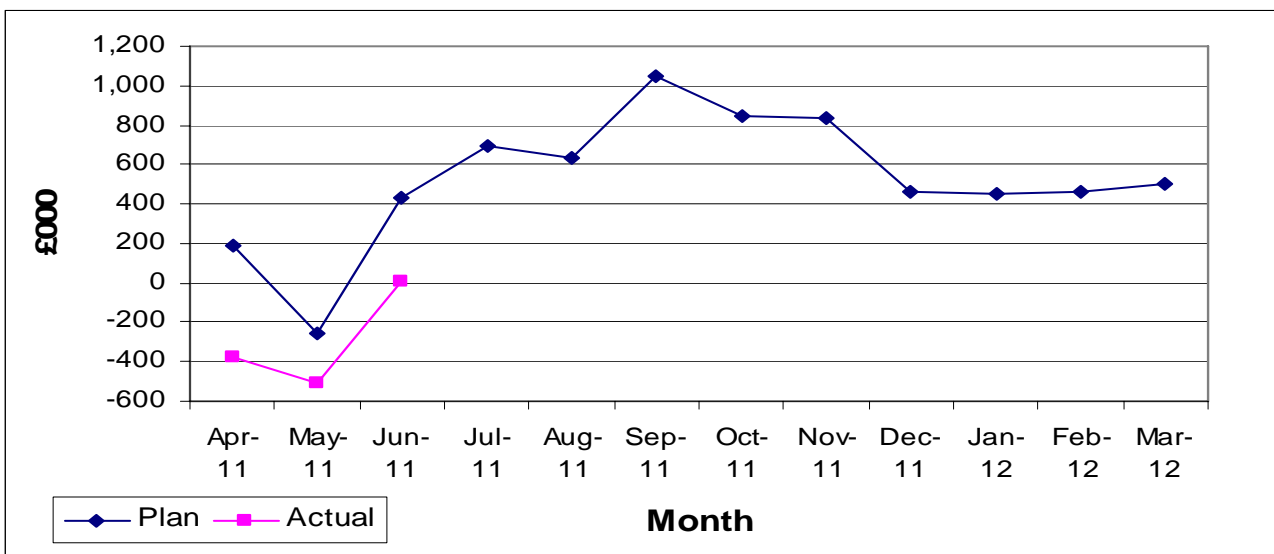
- 6.1. 2011/12 accounts are prepared on an International Financial Reporting Standards (IFRS) basis, although the £555k impact of IFRS on Private Finance Initiatives (PFIs) is excluded from the Trust's break-even duty.
- 6.2. An in month EBITDA position of £1.6m is reported, which is £0.2m less favourable than the planned position.
- 6.3. At this stage the Trust continues to forecast a surplus of £500k on an IFRS basis, which is consistent with the planned position. This forecast position 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. The forecast year-end position assumes at this stage that the "forecast" value of the unallocated and unidentified savings target of £6.9m remains achievable.
- 6.4. The income and expenditure position is illustrated as follows, showing the consolidated Whittington Health position, together with the individual positions for the Whittington Hospital, Islington and Haringey community services and Haringey children's services:

FIGURE 1: Income & Expenditure Summary – Consolidated Position

Description	Current Month			Year To Date			Annual Budget £'000	Year End Forecast £'000
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000		
NHS Clinical Income	20,488	20,599	(111)	58,937	59,288	(352)	240,869	240,869
Non NHS Clinical Income	570	598	(28)	1,495	1,614	(119)	6,785	6,785
All Other Non Clinical Income	2,163	2,095	68	6,448	6,344	104	25,004	25,004
Total Income	23,221	23,291	(71)	66,880	67,246	(366)	272,657	272,657
Pay	16,332	16,892	560	47,832	49,259	1,427	200,872	200,872
Non Pay	5,264	5,141	(124)	15,607	15,823	216	64,119	64,119
Centrally Held Savings	-	(597)	(597)	-	(1,765)	(1,765)	(6,978)	(6,978)
Total Expenditure	21,597	21,436	(161)	63,438	63,317	(121)	258,013	258,013
EBITDA	1,624	1,855	(231)	3,441	3,929	(487)	14,644	14,644
Loss on Disposal of Assets	-	-	-	-	-	-	-	-
Plus Interest Receivable	4	2	2	8	5	3	20	20
Less Interest Payable	219	223	4	663	668	4	2,677	2,677
Less Depreciation	694	695	1	2,075	2,076	1	8,457	8,457
Less PDC Dividend	200	252	52	705	757	52	3,030	3,030
Net Surplus / (Deficit)	515	687	(172)	6	433	(427)	500	500
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	561	733	(172)	144	571	(427)	1,055	1,055

- 6.5. The income and expenditure position shows a net year to date surplus position, although this is £427k worse than planned. This includes the in month surplus of £515k which is £172k less favourable than plan.
- 6.6. The key factor contributing to the deficit in the year to date relates to the central targets which have yet to be identified, although a proportion of the potential CIP schemes are already being reflected within the overall year to date position.
- 6.7. A detailed analysis of staff costs has highlighted that additional costs associated with maternity leave cover has totalled circa £162k for the first 3 months of the year. As part of the budget setting process a reserve has been established, it should be noted however that the resource available within this reserve is limited, and that in the first 3 months of the year £120k funding has been added to budgets.
- 6.8. The income and expenditure performance in the year to date is further illustrated in the following figure:

FIGURE 2: Overall Income & Expenditure Position – Cumulative Performance



- 6.9. A more detailed analysis of financial position is provided in the following tables and supporting narrative.

Whittington Hospital

FIGURE 3a: Income & Expenditure Summary – Whittington Hospital

Description	Current Month			Year To Date			Annual Budget £'000	Year End Forecast £'000
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000		
NHS Clinical Income	13,421	13,636	(215)	39,038	39,390	(352)	157,177	157,177
Non NHS Clinical Income	52	54	(2)	141	161	(20)	642	642
All Other Non Clinical Income	1,992	1,874	118	5,835	5,684	151	22,621	22,621
Total Income	15,465	15,564	(99)	45,013	45,235	(221)	180,440	180,440
Pay	10,596	10,812	216	31,874	32,333	459	129,635	129,635
Non Pay	3,446	3,462	15	10,333	10,699	366	43,267	43,267
Centrally Held Savings	-	(597)	(597)	-	(1,765)	(1,765)	(6,978)	(6,978)
Total Expenditure	14,043	13,677	(365)	42,207	41,268	(940)	165,924	165,924
EBITDA	1,422	1,886	(464)	2,806	3,967	(1,161)	14,516	14,516
Loss on Disposal of Assets	-	-	-	-	-	-	-	-
Plus Interest Receivable	4	2	2	8	5	3	20	20
Less Interest Payable	219	223	4	663	668	4	2,677	2,677
Less Depreciation	694	695	1	2,075	2,076	1	8,457	8,457
Less PDC Dividend	200	252	52	705	757	52	3,030	3,030
Net Surplus / (Deficit)	313	718	(404)	(630)	471	(1,100)	373	373
Net Surplus / (Deficit) excluding PFI IFRS (relevant for break-even duty)	360	764	(404)	(491)	610	(1,100)	928	928

6.10. As previously noted, the key factor contributing to the year to date deficit position relates to the central targets which have yet to be identified. It should also be noted that while in overall terms the pay and non pay lines show an under spending position for the year to date, there are some significant areas of over spend. The most significant area being the Emergency Department, which is showing an in month over spend of £35k (£149k year to date) the key issues are summarised as follows:

- Additional use of bank staff to cover microfilming and reception duties.
- Twilight shifts agreed for registrars in June which is scheduled to continue through until August.
- Nursing over spend, which is largely due to use of additional agency and bank staff to cover vacancies and sickness.
- In terms of non pay, use of laundry services and clinical consumables are also over spent

Islington Community Services

FIGURE 3b: Income & Expenditure Summary – Islington Community Services

Description	Current Month			Year To Date			Annual Budget £'000	Year End Forecast £'000
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000		
NHS Clinical Income	3,867	3,758	109	11,684	11,648	36	46,592	46,592
Non NHS Clinical Income	231	254	(23)	701	763	(62)	3,051	3,051
All Other Non Clinical Income	130	153	(23)	434	459	(26)	1,662	1,662
Total Income	4,228	4,166	63	12,818	12,870	(52)	51,304	51,304
Pay	3,131	3,265	135	9,489	9,923	434	39,402	39,402
Non Pay	1,041	921	(120)	3,189	2,968	(221)	11,874	11,874
Centrally Held Savings	-	-	-	-	-	-	-	0
Total Expenditure	4,172	4,187	15	12,678	12,891	213	51,276	51,276
EBITDA	57	(21)	77	140	(21)	161	29	29
Loss on Disposal of Assets	-	-	-	-	-	-	-	0
Plus Interest Receivable	-	-	-	-	-	-	-	0
Less Interest Payable	-	-	-	-	-	-	-	0
Less Depreciation	-	-	-	-	-	-	-	0
Less PDC Dividend	-	-	-	-	-	-	-	0
Net Surplus / (Deficit)	57	(21)	77	140	(21)	161	29	29
	57	(21)	77	140	(21)	161	29	29

- 6.11. Islington has a reported surplus at month 3 of £140k. This surplus is fairly evenly split across Adults, Children's and Non Clinical Services.
- 6.12. The surplus across Adult Services is £72k. There are a number of vacancies that have now been identified as part of the 2011/12 CIP targets. These will now be transferred to the relevant budgets for future months.
- 6.13. The overall position within Children's services shows a surplus of £42k. As with adult services there are a number of positions which are currently being recruited to, and which have not been wholly covered by Bank/Agency within the short term.
- 6.14. The CAMHS service (Children's services element) includes Simmons House, for which the level of activity and income for the first quarter has been below target without an equivalent reduction in expenditure. In view of this position the levels of activity and occupancy have been reviewed, admissions are planned in advance, and it is anticipated that activity for the coming months will be above target, which should mitigate underperformance in the early months of the year.
- 6.15. With the exception of services such as Simmons House, most income is received through block contracts, and on this basis income reported is in line with the planned position.

Haringey Community Services

FIGURE 3c: Income & Expenditure Summary – Haringey Community Services

Description	Current Month			Year To Date			Annual Budget £'000	Year End Forecast £'000
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000		
NHS Clinical Income	2,472	2,414	58	7,268	7,241	27	28,965	28,965
Non NHS Clinical Income	184	187	(3)	524	560	(37)	2,042	2,042
All Other Non Clinical Income	41	68	(27)	179	200	(21)	721	721
Total Income	2,696	2,668	28	7,971	8,002	(31)	31,729	31,729
Pay	1,867	2,004	137	5,510	5,972	462	23,510	23,510
Non Pay	685	665	(19)	1,978	2,050	71	8,141	8,141
Centrally Held Savings	-	-	-	-	-	-	-	0
Total Expenditure	2,552	2,670	117	7,488	8,022	533	31,652	31,652
EBITDA	144	(1)	145	483	(20)	503	77	77
Loss on Disposal of Assets	-	-	-	-	-	-	-	0
Plus Interest Receivable	-	-	-	-	-	-	-	0
Less Interest Payable	-	-	-	-	-	-	-	0
Less Depreciation	-	-	-	-	-	-	-	0
Less PDC Dividend	-	-	-	-	-	-	-	0
Net Surplus / (Deficit)	144	(1)	145	483	(20)	503	77	77
	144	(1)	145	483	(20)	503	77	77

- 6.16. Haringey Community (Adult) Services has a favourable cumulative variance at month 3 of £503k. This is split between a £349k surplus on Adult Clinical Services and a £154k under spend on Non Clinical/Overhead budgets.
- 6.17. The large under spend on Clinical Services are due to a large number of vacancies that are currently being recruited to but have not been fully covered through the use of agency / bank. As part of an overall vacancy review these posts have been reviewed with the decision to continue with recruitment.
- 6.18. Under spends against overhead budget lines reflect efficiencies which have been made following the formation of Whittington Health.
- 6.19. Income relating to GUM services which has previously shown an under performance against plan has shown an improvement in the current months position.
- 6.20. With the exception of services such as GUM, most income is received through block contracts, and on this basis income reported is in line with plan.

Haringey Children's Services

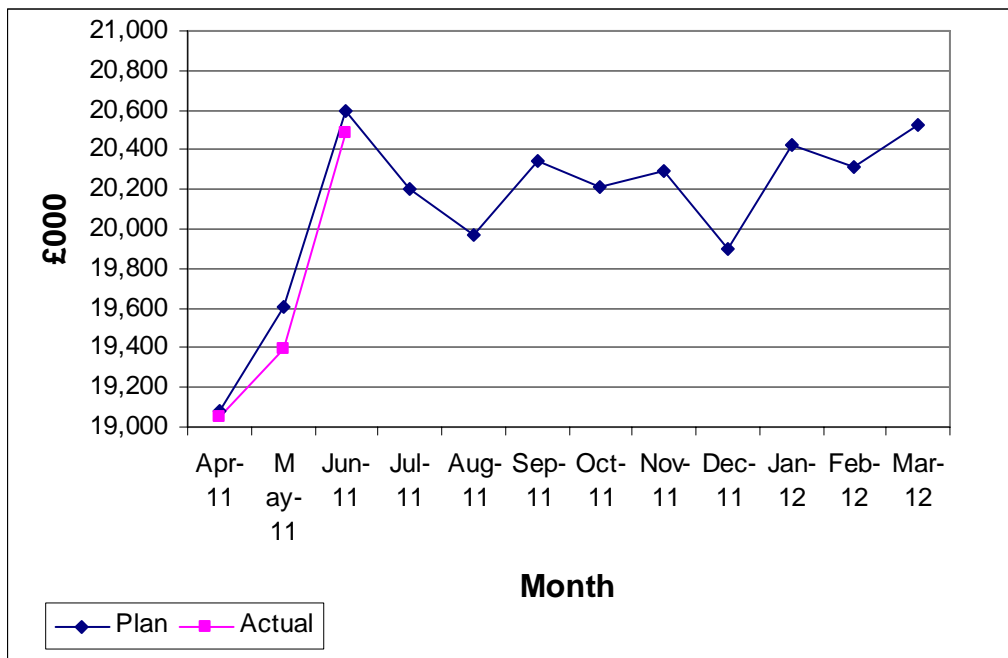
FIGURE 3d: Income & Expenditure Summary – Haringey Children's Services

Description	Current Month			Year To Date			Annual Budget £'000	Year End Forecast £'000
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000		
NHS Clinical Income	728	791	(62)	947	1,009	(62)	8,135	8,135
Non NHS Clinical Income	103	103	0	130	130	0	1,049	1,049
All Other Non Clinical Income	-	-	-	-	-	-	-	(0)
Total Income	832	894	(62)	1,077	1,139	(62)	9,184	9,184
Pay	738	810	72	959	1,031	72	8,325	8,325
Non Pay	92	92	0	106	106	0	837	837
Centrally Held Savings	-	-	-	-	-	-	-	0
Total Expenditure	830	903	72	1,065	1,137	72	9,162	9,162
EBITDA	1	(9)	10	12	2	10	22	22
Loss on Disposal of Assets	-	-	-	-	-	-	-	-
Plus Interest Receivable	-	-	-	-	-	-	-	-
Less Interest Payable	-	-	-	-	-	-	-	-
Less Depreciation	-	-	-	-	-	-	-	-
Less PDC Dividend	-	-	-	-	-	-	-	-
Net Surplus / (Deficit)	1	(9)	10	12	2	10	22	22
Net Surplus / (Deficit) before IFRS (relevant for break-even duty)	1	(9)	10	12	2	10	22	22

7. Income Performance

- 7.1. NHS Clinical Income is reported based upon the latest coded activity (May 2011), together with an initial estimate for the June position. On this basis the in month position shows an under performance against plan of £111k. This reflects the consolidated position including Whittington Hospital, Islington and Haringey community services and Haringey children's services
- 7.2. The assessment of the June NHS clinical income position is based primarily on activity data which has yet to be fully coded, this early assessment indicates an adverse variance against plan of £223k for acute services, together with estimated over performance of £105k on community services, which are included in the in month position.
- 7.3. While the overall North Central London (NCL) SLA baseline value has been agreed at £140.75m, the activity quantum which supports this figure is yet to be finalised and will be settled with NCL by the 20th of July. This means that the over/underperformance figures reported for NCL PCT's are only indicative of what the Whittington SLA team estimate is likely, but there remains the possibility that this figure will change to reflect an adjusted baseline position.
- 7.4. The basis for the acute contract with NCL is based on a "cap" and a "floor" arrangement (the term "floor" is also referred to as "collar" i.e. "cap" and "collar" arrangement) which provides a baseline position of £140.75m, with an allowance for under and over performance to be recognised at 30% limited to a "floor" of £139m, and a "cap" of £142.5m. Contracts with commissioners outside NCL are based on national Payments by Results guidance. Contracts for community services are largely based on block arrangements, with the exception of a limited number of service areas such as GUM and CAMHS (Simmons House) where activity based contracts are in place.
- 7.5. Performance against the internally set clinical income plan is further illustrated in the following figure.

FIGURE 4: Performance Against Internal Clinical Income Plan – In Month



7.6. The total value of all other non clinical income highlighted in Figure 1 is £2,163k in month 3 and £6,448k cumulatively. This is further illustrated in the following figure:

FIGURE 5: All Other Non Clinical Income

Description	Current Month			Year To Date			Annual Budget £'000
	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	
Service Increment for Teaching & Research (SIFT)	733	733	0	2,199	2,199	0	8,796
Medical & Dental Education Levy (MADEL)	449	449	0	1,348	1,348	0	5,393
Non Medical Education & Training (NMET)	80	102	(22)	335	357	(22)	1,582
Income from Service Level Agreements	252	270	(18)	1,056	983	73	3,844
Excellence Award Income	53	56	(3)	166	169	(3)	676
Income Generation e.g. car park, accommodation, canteen	86	72	14	231	273	(42)	1,208
Research & Development	139	109	29	164	139	25	557
Other	371	303	68	948	875	73	2,947
Total	2,163	2,095	68	6,448	6,344	104	25,004

8. Expenditure Performance

8.1. Overall performance against the expenditure budget shows an over spend in month of £161k and a cumulative over spend of £121k.

Pay Expenditure

8.2. The in month position shows an under spend of £560k and a cumulative under spend position of £1,427k for the year to date. The in month position is further illustrated in the following figure:

FIGURE 6: Summary Analysis of Month 3 Pay Expenditure

Description	Current Month							Annual Budget £'000
	Budget £000	Permanent £000	Bank £000	Locum £000	Agency £000	Total £000	Under / (Over) Spend £000	
Whittington								
Medical	2,877	2,472	63	128	144	2,807	70	33,794
Dental	0	0	0	0	0	0	0	0
Nursing	4,174	3,526	351	0	205	4,082	92	48,196
Scientific, Therapeutic & Tech.	1,415	1,227	44	0	37	1,308	107	16,327
Admin. & Clerical	1,408	1,152	170	0	21	1,343	64	16,191
Other	938	944	53	0	59	1,056	(118)	15,127
Subtotal	10,812	9,321	681	128	466	10,596	216	129,635
Islington								
Medical	251	147	0	9	87	243	8	3,008
Dental	128	128	0	0	4	133	(6)	1,331
Nursing	1,135	1,072	57	0	171	1,300	(165)	14,090
Scientific, Therapeutic & Tech.	1,178	982	1	0	(4)	979	198	14,133
Admin. & Clerical	416	251	38	0	11	301	115	4,633
Other	159	174	0	0	0	174	(16)	2,208
Subtotal	3,265	2,755	96	9	270	3,131	135	39,402
Haringey								
Medical	90	80	0	5	0	85	5	1,081
Dental	63	50	0	0	0	50	12	753
Nursing	727	511	113	0	4	628	99	8,492
Scientific, Therapeutic & Tech.	696	551	17	0	72	640	55	8,252
Admin. & Clerical	340	307	96	0	0	403	(63)	3,891
Other	90	60	0	0	0	60	29	1,041
Subtotal	2,004	1,559	226	5	76	1,867	137	23,510
Haringey Children's								
Medical	111	75	0	28	0	103	8	1,145
Dental	(1)	1	0	0	(0)	0	(1)	0
Nursing	165	139	1	0	1	141	24	1,698
Scientific, Therapeutic & Tech.	412	373	5	0	0	378	34	4,235
Admin. & Clerical	79	73	12	0	1	85	(6)	827
Other	44	32	0	0	(1)	31	13	419
Subtotal	810	692	18	28	0	738	72	8,324
Total								
Medical	3,329	2,774	63	170	231	3,238	92	39,028
Dental	190	179	0	0	4	183	7	2,084
Nursing	6,201	5,248	522	0	381	6,151	51	72,476
Scientific, Therapeutic & Tech.	3,701	3,133	67	0	105	3,305	396	42,947
Admin. & Clerical	2,243	1,783	316	0	33	2,132	111	25,542
Other	1,228	1,212	53	0	58	1,323	(97)	18,795
Total	16,892	14,329	1,021	170	812	16,332	560	200,872

8.3. The key over spending areas on staffing highlighted in the figure above are summarised as follows.

- Whittington Other (£118k): This relates to central reserves to cost centres to fund incremental movement, and the additional costs associated with national insurance.
- Islington Nursing (£165k): This largely relates to non NHS nursing, and fairly evenly spread across adult and children's services. In overall terms the staffing budget for Islington is under spent.

Non Pay Expenditure

- 8.4. The overall non pay position shows an under spend of £381k (£340k cumulative), which is further illustrated in the following figure:

FIGURE 7: Summary Analysis of Month 3 Non Pay Expenditure

Description	Annual Budget £'000	Current Month			Cumulative Position		
		Actual £'000	Budget £'000	Under / (Over) Spend £'000	Actual £'000	Budget £'000	Under / (Over) Spend £'000
Whittington							
Clinical supplies & services	23,484	2,068	1,840	(228)	6,154	5,894	(260)
Supplies & services – general	2,558	187	213	26	573	640	67
Establishment expenses	1,292	112	106	(6)	325	323	(2)
Premises & fixed costs	5,855	387	484	97	1,308	1,471	163
Other expenditure	10,167	692	819	126	1,973	2,371	398
Subtotal	43,356	3,446	3,462	15	10,333	10,699	366
Islington							
Clinical supplies & services	3,582	262	253	(9)	891	895	4
Supplies & services – general	6,067	440	451	11	1,491	1,517	26
Establishment expenses	391	26	33	7	62	98	36
Premises & fixed costs	256	29	23	(6)	71	64	(7)
Other expenditure	1,578	284	161	(123)	674	394	(280)
Subtotal	11,874	1,041	921	(120)	3,189	2,968	(221)
Haringey							
Clinical supplies & services	2,409	224	203	(21)	623	602	(21)
Supplies & services - general	3,810	277	309	32	845	967	122
Establishment expenses	466	61	32	(29)	139	117	(22)
Premises & fixed costs	207	8	18	10	44	52	8
Other expenditure	1,249	115	103	(11)	327	312	(16)
Subtotal	8,141	685	665	(19)	1,978	2,050	71
Haringey Children's							
Clinical supplies & services	17	2	2	0	3	3	0
Supplies & services - general	1	1	1	0	(1)	(1)	0
Establishment expenses	181	20	18	(2)	25	22	(3)
Premises & fixed costs	110	7	10	3	11	13	2
Other expenditure	528	62	62	0	69	69	0
Subtotal	837	92	92	0	106	106	0
Total							
Clinical supplies & services	29,492	2,556	2,298	(258)	7,671	7,394	(277)
Supplies & services - general	12,436	905	974	69	2,908	3,123	215
Establishment expenses	2,330	219	189	(30)	551	560	9
Premises & fixed costs	6,428	431	535	104	1,434	1,600	166
Other expenditure	13,522	1,153	1,145	(9)	3,043	3,146	103
Total	64,208	5,264	5,141	(124)	15,607	15,823	216

- 8.5. The key over spending areas on non staffing highlighted in the figure above are summarised as follows.

- Whittington Clinical Supplies & Services (£228k): This relates to an increase in the level of expenditure, and in particular relating to over spends on drugs (£86k), MSSE (£44k) and other clinical expenditure (£26k).
- Islington other (£280k): This primarily relates to expenditure across adult services, and in particular Adult Services Management, and Adult Nursing and Therapy services.

9. Cost Improvement Programme (CIP)

- 9.1. As previously identified the total balance of CIP to be identified is £6,978k. The financial plan submission to NHS London includes a target CIP of £19.6m, with £1.2m unidentified at present.
- 9.2. Significant progress has been made towards closing the gap, and the unidentified CIP requirement has been reduced to £1.2 million. Of the £5.8 m newly identified CIPs, £3.1 m has been assessed as being low risk and £2.7 m as being medium risk.
- 9.3. The table below reports on progress made with implementation of the savings identified during the budget-setting process plus the additional savings which have been identified as part of the “second CIP round”.
- 9.4. The majority of savings identified are being delivered according to plan; the overall achievement rate is 92%.
- 9.5. The profiling of the target, however, reflects the fact that many of the “round 2” savings will not deliver cost reductions until the second half of the year. Overall, in the first quarter we have only achieved 16.5% of the full £19.6 million cost improvements required to achieve the financial target at year-end.

FIGURE 8: CIP Monthly Performance

Division	Full Year Target £'000	Target to Month 3 £'000	Proportion of annual target planned to date %	Actual saving delivered to date £'000	Proportion of profiled target delivered %	Proportion of annual target delivered to date %
Integrated Care & Acute Medicine	4,092	778	19%	748	96%	18%
Surgery & Diagnostics	3,469	584	17%	391	67%	11%
Women Children & Families	1,088	255	23%	226	89%	21%
Estates, Facilities & Corporate	4,373	579	13%	533	92%	12%
Community Savings (identified before April)	4,400	1,100	25%	1,100	100%	25%
Other savings / benefits	976	244	25%	255	100%	25%
Total Identified CIPs	18,399	3,539	19%	3,242	92%	17.6%
Unidentified CIPs	1,201	300	25%	0	0	0
TOTAL	19,600	3,839	20%	3,242	84%	16.5%

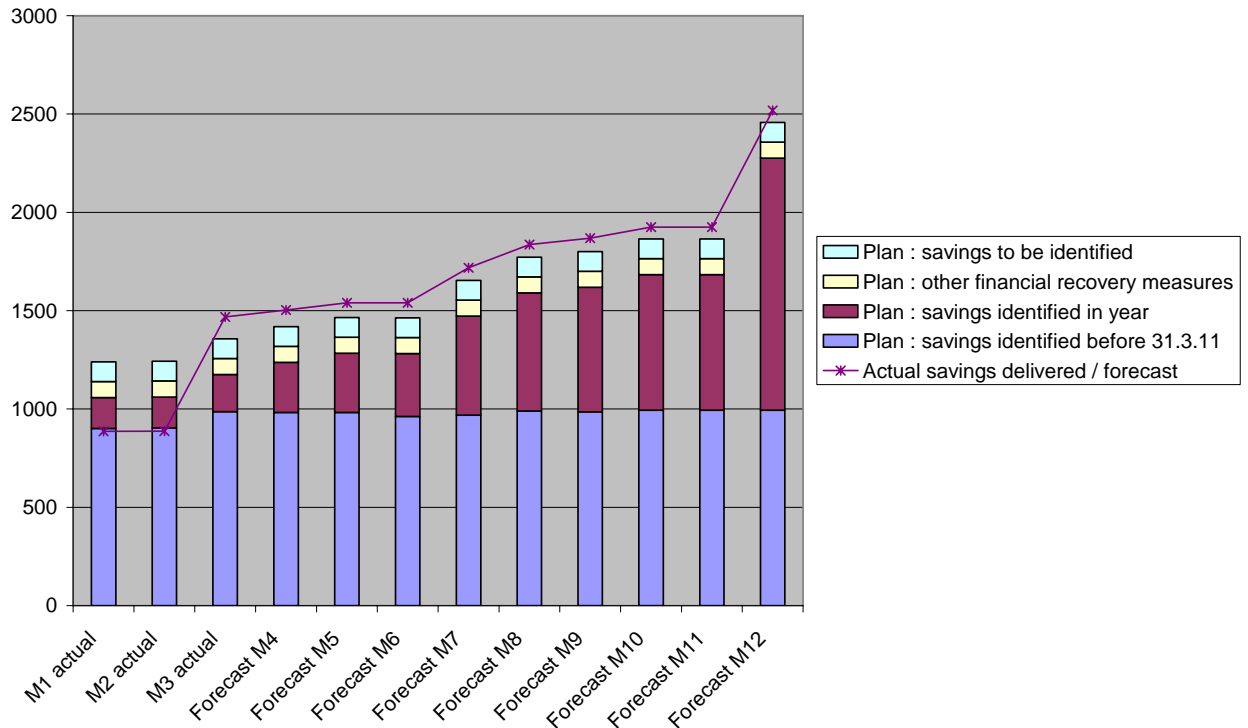
Under-delivering savings schemes

- 9.6. The reasons for reported under-achievement include:
- Cost centres which offered up a budget reduction as a saving, but which are now overspent in the first two months of this year;
 - Delays in implementation of projects, for a variety of reasons;
 - Some proposed savings were referred back by managers for additional work, and have in some cases become part of a more wide ranging review of the service;
 - Activity levels in some areas have prevented cost reductions from being achieved.
 - Continued reliance on high cost agency staff in specific service areas.

Forecast

- 9.7. The effective delivery of the CIP under pins the Trust’s financial plans, and as such further work is continuing to identify further savings and to address the performance issues with the under-achieving projects, so as to bring the CIP back into balance by year-end. The forecast position is summarised as follows:

FIGURE 10: CIP Performance to Date / Forecast



10. Cash and Balance Sheet / Statement of Financial Position

- 10.1. The cash balance at the end of June was £7,432k. The in month cash balance therefore provides a more realistic position at this stage of the year. Maintaining positive cash balances over the course of the year will depend on the delivery of the cost improvement programmes which underpin the financial plan.
- 10.2. Good cash management will be essential in 2011/12, with a focus on the following.
- Prompt collection of cash from PCTs
 - Use of leasing as a mechanism for purchasing capital equipment where possible, to spread the cash outflow over a number of years
 - Regular cash flow forecasts based upon estimated income and expenditure and non-cash items
- 10.3. The year end forecast cash position is £5,553k, which reflects the opening balance together with the planned surplus position and other benefits arising from working capital balances and the profile of commitments during the year. As with the income and expenditure position, the achievement of this forecast position is dependent on the delivery of cost improvements, and effective cost control and income recovery during the year. Achievement of the External Financing Limit (EFL) would require a year end cash balance that is not less than the opening value.
- 10.4. The balance sheet is summarised below, showing the opening and closing positions for April 2011.

FIGURE 11: Balance Sheet / Statement of Financial Position

Description	As at 1st April 2011 £'000	As at 30 th June 2011 £'000	2011/12 Year-end Forecast £'000
Property, plant and equipment	132,685	131,056	132,459
Intangible assets	1,008	931	698
Trade and other receivables	2,800	2,824	3,081
Non-current assets	136,493	134,811	136,238
Inventories	1,064	1,015	1,015
Trade and other receivables	6,966	11,623	4,646
Cash and cash equivalents	3,199	7,432	5,553
Current assets	11,229	20,070	11,213
Trade and other payables	17,028	24,648	20,462
Borrowings	1,477	1,477	1,477
Provisions	3,633	3,576	1,592
Current liabilities	22,137	29,700	23,530
Borrowings	38,101	37,736	36,066
Provisions	1,937	1,892	1,819
Non-current liabilities	40,038	39,628	37,885
Total assets employed	85,548	85,553	86,036
Public dividend capital	48,206	48,206	48,206
Retained earnings	8,858	10,044	10,562
Revaluation reserve	27,315	27,303	27,268
Donated asset reserve	1,168	0	0
Total taxpayers' equity	85,548	85,553	86,036

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 12: Better Payments Practice Code

Detail	NHS Payables Number	Non NHS Payables Number	NHS Payables £000	Non NHS Payables £000
<i>Current Year to Date Performance</i>				
Total bills paid	1,316	12,498	2,681	11,513
Total paid within target	1,237	11,160	2,424	9,996
Percentage paid within target	94%	89%	90%	87%
<i>2010/11 Performance</i>				
Total bills paid	5,816	49,858	13,447	48,604
Total paid within target	5,368	42,397	12,065	41,923
Percentage paid within target	92%	85%	90%	86%

12.2011/12 Forecast and Risks

- 12.1. The forecast position for NHS Clinical income is not assumed to be materially different from plan. This is consistent with the nature of contracts agreed with commissioners, the variability of which is limited by a “cap and collar” arrangement on acute contracts, while with the exception of a limited range of service areas, all community services are agreed on a block basis. 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, and the CIP which is as yet unidentified is achieved in full. 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 £6.9m unidentified savings target has also been incorporated within this exercise. Progress has been made in identifying additional savings, and the most upto date position reflected in the Trust’s operating plan as submitted to NHS London indicates a remaining value of £1.2m savings still to be identified. This reflects a prudent assumption of what is realistically achievable as part of the current budget setting exercise.
- 12.3. In order to achieve the forecast position, the focus of attention will be on the delivery of the CIP, robust budgetary control and the identification of opportunities to reduce the unidentified savings target. Financial performance will be monitored closely both within the Divisional teams and by the Executive team and Trust Board.
- 12.4. There are a number of significant risks remaining and these are described below:
 - Activity exceeds the agreed cap with NCL commissioners, incurring additional costs with no additional income through activity, although expected levels of cost have been reflected in the forecast.
 - 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.
 - 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.
 - Recruitment problems and increased use of Agency staff.
 - Further upward trends in expenditure forecasts.