ITEM: 3

MEETING: **Trust Board**
15th March 2006

TITLE: Financial Position – Month 10

SUMMARY:

1 2005/06 I&E Position and Year-End Forecast

Overall, a surplus of £108k is reported for January, taking the year to date deficit to £2,677k. This is an improvement on the position reported at the end of December and is mainly as a result of a release of funding from reserves, being a transfer of a proportion of the balance available to offset expenditure in operational areas ; a reduction in the cumulative level of over-performance income reported ; the impact of funding adjustments for specific cost pressures (drugs, PFI, Utilities and Agenda for Change) and the implementation of headcount reductions and other controls across operational areas

1.1

1.2 The current forecast is that a best-case of break-even remains achievable, however there is risk estimated at a deficit in the region of £1m. (comprising income at risk of £0.5m and a deficit against budgets of £0.5m). The best case assumes improved performance over the closing weeks of the year as a result of the recently increased controls, achievement of savings and assumptions around the potential income to be withdrawn as a result of under-performance against contracts. This forecast remains under review and is consistent with the position reported to the SHA

2006/07 Budgets

The Trust's Income & Expenditure plan is detailed in the PSP (item 5). Included in this report is the proposed approach so that interim detailed budgets can be issued for operational areas in April.

Attachments
The following are attached :

Month 10 (January 2006) Finance Report

Appendix 1 – Financial Tables
Appendix 2 – Performance against SLAs
Appendix 3 – Capital Expenditure
Appendix 4 – Minutes from the February and March Finance & Performance Committee meetings
Appendix 5 – 2006/07 Income & Expenditure budgets

ACTION: **Information & Discussion**

REPORT FROM: Trish Donovan, Deputy Director of Finance

SPONSORED BY: Susan Sorensen, Director of Finance

1.0 2005/06 Income & Expenditure Plan.

As reported previously a balanced Income and Expenditure plan for 2005/06 was finalised in agreement with the Strategic Health Authority (SHA) at the beginning of September. Delivery of this plan remains dependent upon delivery of a savings target totalling £6.5m (in excess of 5% of overall budget) as well as containing expenditure within available budgets and achievement of income in excess of SLA values.

Even at this stage of the year, significant risks remain in terms of delivering this plan and mitigating actions continue to be sought in order to deliver the required balanced position by year-end.

2.0 Financial Position – Month 10

2.1 Overall I&E Position

At the end of January there was an adverse variance (deficit) to date of £2,677k. This is an improvement compared to the position reported at the end of December (when there was a deficit to date of £2,781k) as a result of achieving an overall surplus of £108k for the month of January.

This in month improvement was mainly as a result of the impact of implementing agreed headcount reductions plus the release of funds from reserves to offset the central savings target and to fund specific cost pressures in operational areas (agenda for change, drugs, utilities and PFI fees).

At Divisional level, the variance is summarised as :

	This Month Variance (Month 10) £000	Year to Date Variance (10 months) £000	Previous Average Monthly Variance £000	Change - Current month's Variance compared to previous average £000
Operations	-378	-4,508	-459	81
Facilities	-41	26	7	-48
Corporate Directorates	-58	-77	-2	-56
Central Income	-113	241	40	-153
Other Central Items	698	1,641	105	593
TOTAL	**108**	**-2,677**	**309**	**417**

Subjective performance is summarised at Trust level below.

	This Month Variance (month 10) £000	Year to Date Variance (10 months) £000	Previous Average Monthly Variance £000	Change – current month's variance compared to previous average £000
Pay	-276	-1,433	-129	-147
Non Pay	-164	-2,783	-291	126
Central Savings	0	0	0	0
Income	-129	241	41	-170
Other	677	1,298	68	608

TOTAL	**108**	**-2,677**		**-309**	**417**

2.2 Income

On a year to date basis, there is over-achievement of £241k (£372k last month) in total against income targets, for the Trust. This comprises SLA income, other large income sources (eg. SIFT, R&D, Merit Award funding etc) and other income targets held within operational budgets. In month there is an overall shortfall of £129k against income targets.

- **SLA Income**

The position includes SLA activity up to the end of December, being the latest available, at the time of writing. There is a surplus to date of £229k (£324k last month) against SLA income targets (both the agreed SLA values plus the additional annual target of almost £2m for over-performance). The level of surplus has reduced again this month compared to previous months as a result of the increased income targets phased over the later months of the year. There remain surpluses against the targets for critical care (£109k to date), Direct Access (£196k to date) and £60k for other SLA activity but there is a shortfall against the cost and volume target for ED attendances (£136k), where although there is overall growth in the number of attendances, much of this is recovered at the lower tariff, representing casemix.

In addition to PCT SLAs, the contract with the NICU consortium is currently reported at break-even, although activity is significantly below target. This contract is based on a rolling three year average and the estimated value of income at risk is just under £500k.

Overall, there remains significant risk to achievement of financial balance by year-end as a result of activity levels and case-mix being insufficient to meet the overall income target. The risk included in the year-end forecast is a current estimate of £0.5m.

- **Other Patient Care Income**

Non Contracted Activities (NCAs) are billed monthly and relate to activity from PCTs with whom the Trust does not have an SLA. The annual target is based on performance in previous years rolled forward. To date, there is under-performance of £115k against this target. There are surpluses against the targets for RTA income (£59k to date) and non-patient SLAs (anticipated increase for pharmacy services) £60k.

- **Private Patient and Overseas Visitors income**

Underachievement of £283k to date is reported for this category, of which £112k is in the current month. This mainly results from the increased target introduced this year as part of developing final plan. This position includes the initial weeks of operation of the Highgate Treatment Centre and it has been agreed that a review will be undertaken and brought to the Board after a six month operating period.

Income is detailed in Appendix 1 page 3, and SLA performance in Appendix 2.

2.3 Expenditure

- **Pay**

An in month over-spend of £276k is reported for January, taking the year to date pay overspend to £1,433k. In terms of the current month, the over-spends are across Medical staff (£149k), nursing staff (£59k) and Admin & Clerical staff (£40k). This is largely as a result of bank and agency usage in early January reflecting holiday and other absence cover. The overspend against the Admin and Clerical budget includes the additional payroll staff required to implement Agenda for Change and is largely offset by income from clients to whom a payroll service is provided.

The over-spend against Medical staff budgets includes locum and agency cover with the highest usage in ED, Anaesthetics and Radiology. Recent work on rotas and recruitment has yet to impact on the financial position.

Against nursing budgets, the main overspend was in the Women & Children's division (£80k in month) and relates to cover for vacant Neo-Natal ICU and Midwifery posts.

Expenditure by staff group, at Trust level, is detailed in Appendix 1 page 5.

- **Non Pay**

An over-spend of £2,783k to date (£164k in month) demonstrating an improvement compared to last month (overspend of £384k). Performance for the month includes a funding adjustment of £140k to offset the deficit to date on drugs. Of the in month over-spend, £222k relates to under-achievement against recurrent savings targets that have been allocated to non-pay areas.
The most significant overspend (£322k) on a cumulative basis, other than savings, relates to services purchased from other NHS organisations (which includes tests, blood transfusion service, ambulance services etc) and a project is underway to investigate key items and increase controls over this spend. An improvement has been seen in this area over the last couple of months (December £15k under-spent, January overspent by £7k) compared to the average monthly overspend from April to November (approx £37k per month) although this may mainly result from the closure programme and Christmas holiday period.

In order to minimise non-pay expenditure, over the closing months of the year, additional controls including increased authorisation levels and a requirement to commit all expenditure via the EROS system have been implemented.

Non Pay expenditure, at Trust level, is detailed in Appendix 1 page 6

2.4 Savings

The total savings target included in the 2005/06 plan is £6.5m. Of this £2.4m is centrally held and the balance has been allocated to operational budgets. The total target includes £2.8m brought forward from previous years (which was achieved non-recurrently last year) and an additional target of £3.7m in 2005/06.

Detailed schemes were identified to meet targets allocated to individual departments and a number of Corporate schemes were also agreed in order to meet the total savings target, including the review agreed with Green and Kassab ; implementation of the revised nursing establishment which has resulted in a reduced level of expenditure ; savings generated as a result of procurement initiatives (both local and sector) and most recently the agreed headcount reduction that is now being implemented.

Savings resulting from the recently agreed headcount reduction are being implemented across the organisation. These additional savings were developed in order to address the estimated shortfall against the original savings plan for the year (eg. savings generated via the Green & Kassab review and sector procurement initiative are significantly less than the original targets). Plans that were agreed by the Executive team are expected to generate savings of approx £1.4m in 2005/06 with a full year effect of an additional £3.5m expected in future years, based on a reduction of about 150 posts.

The year to date reported position includes a saving target of £5,344k, representing approximately 82% of the total savings target, which is approximately equal 10/12 of the annual target. Of the target to date £2,333k relates to prior year targets and £3,011k relates to the current year. Achievement against the target to date is £3,648k which is almost 70% of the overall target or represents achievement of the current year's target to date plus a contribution of over £600k towards the target brought forward from last year.

Achievement against savings targets is summarised in Appendix 1 page 7.

3.0 Year-End Forecast

As detailed at 1.0 above, a balanced I&E plan was agreed in September and a forecast of break-even at year-end is considered the absolute best case achievable.
Risks are currently estimated at £1m comprising a deficit against budgets (over-spend) of £0.5m plus a potential income loss of £0.5m (on the basis that activity levels are insufficient to meet income targets and commissioners withdraw funds).

A forecast deficit of £1m has been reported to the SHA for the month 10 monitoring report submitted in February.

Work continues to refine the forecast, which is updated for changes as they become known. Delivery of the required balanced position is predicated upon managing all pressures that arise within current budgets, delivery against savings plans including headcount reductions anticipated plus maintaining income levels sufficient to meet the current plan. All possible actions to restore the forecast to balance continue to be explored.

4.0 Balance Sheet *(Appendix 1 pages 9 - 12)*

4.1 Debtors

Outstanding invoiced debt was £12,781k at the end of January. This is detailed in Appendix 1 page 10 and comprises NHS (£11,465k) and non NHS (£1,316k) items.
Total debt, as shown on the balance sheet is £3,977k, this includes accrued/estimated items in addition to invoiced debt and reflects timing adjustments to reduce the level of invoiced debt to reflect the fact the SLA invoices need to be raised in advance. In addition this total includes provisions for bad debt (non NHS) and credit notes (NHS) amounting to over £650k overall.
Monitoring and reporting systems remain under development and as part of the cash management strategy for the year includes an increased focus on debt collection so that the average outstanding balance can be reduced as far as possible.

4.2 Creditors

The Better Payment Practice Code incorporates targets for payment of both NHS and non NHS invoices. These are 15 and 30 days respectively and are measured both in terms of invoice volumes and values. Cumulative performance at the end of December was :

88.9% (volume) and 90.1% (value) for NHS invoices
and
78.7% (volume) and 88.7% (value) for non NHS invoices

The outstanding balance (authorised invoices) on the creditor payments system at the end of January was £680k, comprising £120k NHS, £535k non-NHS and £26k capital.

Total current liabilities on the balance sheet amount to £15,558k, the main difference between invoiced creditors and this total on the balance sheet relates to adjustments representing items where invoices are anticipated but have not yet been received.

4.3 Cash & EFL

The cash balance at the end of December was in excess of £14m. As previously reported, this level of cash is mainly as a result of the requirement (sector guidance) for PCTs to make a payment for two months of SLA values, in advance, at the beginning of the financial year. In addition there was very little expenditure on capital throughout the earlier months of the year. A significant proportion of this balance is required to meet PDC payments in the final month of the year.
The Trust has recently been informed via the SHA of the target year-end cash balance, which is £384k and of a requirement to make a repayment of Public Dividend Capital (PDC) of £4.6m during March. This repayment is in addition to the planned Dividend payment of £1.5m, also due in mid March. The cash-flow forecast has been updated to reflect these requirements and the Debtor and Creditors positions will need to be carefully managed over the remaining months of the year to ensure the required position is delivered.

The Trust's EFL has been notified as –£4,631k and will be met, as detailed in the cash-flow forecast by a change in the cash balance (£386k at 01/04/2005 to £384k at 31/03/2006) and the PDC repayment of £4.6m in March.

The current cash-flow forecast is detailed at Appendix 1 page 12.

5.0 Capital Expenditure *(Appendix 1 page 13 and Appendix 3)*

The Trust's notified Capital Resource Limit (CRL) at the end of January was £5,146, (no change in month).

Although actual cash expenditure on capital during the earlier months of the year was low, most projects/schemes are now underway. The detailed programme is reviewed monthly at the Capital Monitoring Committee and is also reported to the Finance & Performance Committee and is shown in the appendices to the report.

The current programme is detailed at appendix 3.

6.0 2006/07 Budgets. *(Appendix 5)*

The overall financial plan for 2006/07 to 2009/10 is detailed in the PSP (item 5), however, following the recent withdrawal of the 2006/07 tariff, by the DH, it is anticipated that this reflects an interim income position and a further iteration will need to be calculated once the tariff is re-issued.
On this basis, budgets for 2006/07 cannot yet be finalised, however it is proposed that 2005/06 recurrent allocations be rolled forward with adjustments for likely items so that operational areas have an initial budget for 2006/07. Further updates will then be processed as more information becomes available.

The proposed process is detailed in appendix 5. Updates will be brought to future meetings.

7.0 Recommendations

The Board is asked to

- **Note the financial performance for the ten months to the end of January including the improved performance reported over the last couple of months and noting the reasons for this;**
- **Note the requirement to deliver a balanced year-end position;**
- **Continue to take urgent action to review existing savings plans and to develop and implement additional schemes to fully meet the £6.5m target, including the recently agreed establishment reductions so that the maximum possible impact is achieved over the remaining weeks of the year;**
- **Identify areas where non-recurrent savings can be converted to recurrent budgetary reductions;**
- **Continue to take immediate action to ensure expenditure is contained within available budgets, in all possible areas;**
- **Note the increased controls over non pay introduced for the closing months of the year and ensure these are implemented across all areas ;**
- **For all areas with a favourable variance, to maintain this performance and maximise it by year-end:**
- **To note the current position in terms of finalising budgets for 2006/07 and to agree to proposed approach for setting initial budgets as detailed in Appendix 5.**