ITEM: 3

MEETING: **Trust Board**
18th January 2006

TITLE: **Financial Position – Month 8 (November)**

SUMMARY:

1.1.1.1 Year to Date I&E Position

The Trust's Income & Expenditure position at the end of month 8 is a deficit against plan of £2,991k to date. Of this, £660k was an in month deficit. In summary, the in-month deficit comprises overspends against pay £238k, non-pay £354k and underachievement against centrally held savings targets £237k. Overall this was partly offset by overachievement against income targets.

1.1.1.2 Year-End Forecast

Based on the current Income and Expenditure plan, agreed with the SHA, the current year-end forecast is an absolute best case of break-even. Risks estimated at £3m have been identified and following discussions with the SHA, a year-end forecast of £1.5m deficit is currently considered likely and has been reported externally. All possible measures to restore this to balance remain under review.

Performance is detailed in the following items which are attached :
Finance Report
Appendix 1 – Financial Tables, Income & Expenditure and Balance Sheet areas
Appendix 2 – Performance against SLAs
Appendix 3 – Capital Expenditure report
Appendix 4 – Draft Financial Risk Rating
Appendix 5 – Summary of Establishment Reduction Plans
Appendix 6 – Notes from the Finance & Performance Committee

ACTION: **Information and 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 to previous meetings a balanced Income and Expenditure plan for 2005/06 was agreed 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 targets. Substantial risks remain in terms of delivering this plan and these are being discussed with the SHA and all possible actions both to meet the entire savings target and to deliver a balanced year-end position continue to be sought.

2.0 Financial Position – Month 8

2.1 The position at the end of November is an adverse variance of £2,991k (£2,331k at month 7) an in month deficit of £660k. This represents a substantial deterioration in performance compared to the last few months. (overall surplus of £6k in month 7) and is approximately double the average variance to date (simple average monthly deficit over months 1 to 7 is £333k).

Recent months have included a number of non-recurrent benefits that improved in month performance but which were not available this month. These were mainly releases from central reserves or additional funding and included increasing budgets to reflect the revised nursing establishment, funding of PFI fees, utilities and drugs cost pressures and adjustments to central savings to reflect agreed funding. In addition there have been a number of high cost non-recurrent items this month eg. blood and x-ray costs for a small number of high usage patients and continuing pressures on Medical staff budgets.

The position to date includes over-performance income against SLAs up to the end of October, based on the latest available activity detail. In reaching a balanced plan, income targets were increased above SLA values in anticipation of over-performance continuing throughout the year. Current performance has exceeded these increased targets to date in overall terms and includes income of £177k for growth in ED attendances (£90k below target), £255k for growth in Direct Access services (£221k above target), £507k for critical care beds (£298k above target) and £466k against other elements of SLAs (£80k above target).

No adjustment have been made for potential over or under-performance in November at this stage. At the time of writing, performance against SLA targets for November is awaited.

Income performance is summarised in appendix 1 page 3 and performance against SLAs is shown in Appendix 2.

2.2 At Divisional level, the variance is summarised as :

	This Month Variance (Month 8) £000	Year to Date Variance (8 months) £000		Previous Average Monthly Variance £000	Change - Current month's Variance compared to previous average £000
Operations	-623	-3,780		-451	-171
Facilities	90	80		-1	89
Corporate Directorates	-67	-41		4	-70
Central Income	88	553		66	22
Other Central Items	-148	197		49	-197
TOTAL	**-660**	**-2,991**		**-333**	**-327**

Subjective performance by Division/Directorate is detailed in Appendix 1 pages 8 to 14 and is summarised at Trust level below.

	This Month Variance (month 8) £000	Year to Date Variance (8 months) £000		Previous Average Monthly Variance £000	Change – current month's variance compared to previous average £000
Pay	-238	-1,293		-151	-87
Non Pay	-354	-2,238		-269	-86
Central Savings	-237	-675		-63	-174
Income	105	652		78	27
Other	64	563		70	-7
TOTAL	**-660**	**-2,991**		**-333**	**-327**

- **Pay**

An over-spend of £238k in the month compared to an average overspend across earlier months of £151k. Two main items account for the in month deficit, namely the savings target and locum medical staff expenditure. A savings target of £575k to date is allocated to pay areas (accounting for £62k of the pay overspend this month). There was an overspend in month against Medical Staff budgets of £212k as a result of a continuing requirement for locum staff with pressures mainly in Anaesthetics and ITU. Most other pay groups were under-spent and controls implemented over recent months remain in place.

Expenditure by staff group, at Trust level, is detailed in Appendix 1 page 6 and at Divisional level in pages 8 to 14

- **Non Pay**

An overspend of £2,238k to date (£354k in month). This is largely as a result of savings targets (£1,752k to date, £219k in month) allocated to non-pay areas that have not been recurrently identified and there are overspends against clinical supplies £68k in month (patient appliances and lab equipment) and tests sent to other organisations £89k in month.

In order to minimise non-pay expenditure, additional controls including increased authorisation levels and a requirement to commit all expenditure via the EROS system have been implemented for the remaining months of the year. Instruction detailing the revised requirements was issued to all authorised signatories at the beginning of January. In addition, a summary report detailing non-pay commitments is now being reviewed, weekly, by the Executive team.

Non Pay expenditure, at Trust level, is detailed in Appendix 1 page 7 and Divisional level in pages 8 to 14

- **Income**

  Overall there is a surplus of £652k to date (£105k this month) against income targets. This is mainly as a result of over-performance against SLAs (£509k to date) ; a surplus of £60k for additional income anticipated for the pharmacy SLA and a surplus of £99k to date against targets held in operational areas. Within this position there is a deficit of £21k to date against the combined target for Private Patient and Overseas visitors income, where £184k has been achieved against a target of £205k to date.

  (income is summarised in Appendix 1 page 3 ; performance against targets in Operational areas on pages 8-14 ; performance against SLAs is shown in Appendix 2)

- **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 have been identified both within individual departments across the Trust as well as a number of Corporate schemes, against the total savings target. Plans have also been agreed with Green and Kassab and implementation progress is reviewed at the Business Planning Core Team (BPCT) meetings on a monthly basis (from October). Savings generated as a result of the Green & Kassab review are not as high as originally hoped, creating additional pressure in terms of delivering the required balanced position.

  Establishment reductions have been agreed across the organisation in order to address the likely shortfall against the original savings plan for the year. Plans have been agreed by the Executive team and are being implemented, these will impact part year in 2005/06 with a full year effect next year. Establishment reductions are summarised in Appendix 5. The target reduction in workforce expenditure over the closing months of this year is £1.4m and represents a full year effect in the region of 150 posts.

The year to date reported position includes a saving target of £3,882k, representing approximately 60% of the total savings target, which is £469k (or 7%) lower than if the target were equally phased across the year. Of the target to date £1,867k relates to prior year targets and £2,015k relates to the current year. Achievement against the target to date is £2,085k which (54%of the total target or just over full achievement of the current year's target with a small contribution towards the target brought forward from last year).

Achievement against savings targets is summarised in Appendix 1 page 5.

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. Risks in the region of £3m have been identified and discussed with the SHA and a year-end deficit of £1.5m has currently been reported as the most likely position. Work continues to refine the forecast which is updated for changes as they become known.
Delivery of the required balanced position requires a significant improvement over the remaining months of the year and all possible actions to restore the forecast to balance continue to be explored

4.0 Balance Sheet *(Appendix 1 pages 17 – 20)*

4.1 Debtors

Outstanding invoiced debt was £12,973k at the end of Npvember. This is detailed in Appendix 1 page 18 and comprises NHS (£12,014k) and non NHS (£959k) items. Total debt, as shown on the balance sheet is £3,000k, this includes accrued/estimated items in addition to invoiced debt and reflects timing adjustments where SLA invoices need to be raised in advance. 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 substantially reduced.

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 November was :

87.7% (both volume and value) for NHS invoices
and
86.2% (volume) and 90% (value) for non NHS invoices

The outstanding balance (authorised invoices) on the creditor payments system at the end of November was £1,179k.

4.3 Cash

The cash balance at the end of November was just over £12m. 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 has been very little expenditure to date on capital. Significant pressure in terms of cash is anticipated over the final months of the year as the Trust will be required to manage the position without brokerage, which has previously been available from the SHA. Brokerage of £3.5m was carried forward from last year, the Trust is required to manage without this cash in 2005/06 which may mean delaying payment to creditors and will require prompt collection of outstanding debt as the year progresses. Implementation of the capital programme will also remain under close review.

The current cash-flow forecast is detailed at Appendix 1 page 20.

5.0 Capital Expenditure *(Appendix 1 page 21 and Appendix 3)*

The Trust's notified Capital Resource Limit (CRL) at the end of November was £3,119k (no changes in month). An adjustment of £2m is anticipated in respect of the retail development taking the forecast total to £5,119k.

There has been very little expenditure on capital to date, and the overall programme has been reduced to match available funding although many projects/schemes are now underway. This is in line with SHA requirements that the Trust aims to generate a cash surplus by year-end. The detailed programme is reviewed at the Capital Monitoring Committee and is also reported to the Finance & Performance Committee.

The current programme is detailed at appendix 3.

6.0 Draft Financial Risk Rating

A financial risk rating is calculated by Monitor for Foundation Trusts and determines the frequency and depth of monitoring and intervention. As the Trust is exploring the possibility of moving forward to Foundation status financial information/reports will be developed in line with FT reporting requirements and style.

A draft financial risk rating has been calculated for the first time this month and details are attached at appendix 4, including definitions, assumptions and detailed calculations for two potential scenarios, namely that break-even is achieved in 2005/06 or that a deficit of £1.5m is incurred.

This draft is based on current year values, including some estimates and is for illustrative purposes. Further information/updates will be brought to future meetings.

7.0 Recommendations

The Trust Board is asked to

- **Note the financial performance for the first eight months of the year and that the improved performance reported in recent months included large non-recurrent elements that were not available this month;**

- **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;**

- **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 remaining months of the year ;**

- **For all areas with a favourable variance, to maintain this performance and work towards delivering the maximum possible under-spend by year-end.**