

**MEETING:** Trust Board  
21<sup>st</sup> March 2007

**ITEM: 3**

**TITLE:** Financial Position – Month 11 (February) 2006/07

**SUMMARY:**

Financial performance for the eleven months to January 2007 is attached.

Headline performance is that at this stage in the year Expenditure exceeded Income by £483k to date, which is an adverse variance from plan of £996k (£1,739k adverse last month).

There was an improvement in the month, with an overall surplus of £744k against plan reported, largely as a result of the application of reserves as we progress towards the end of the year and commitments and liabilities are re-assessed. On a comparable basis to previous months the run rate for February was £120k. (£335k last month).

Forecast performance for year-end is that a surplus will be delivered in line with the original plan (£1.3m or 1%) and whilst a number of risks need to be carefully managed, this should be achieved. This is the position reported to NHS London.

**Attached :**

Finance Report – Month 11  
Appendix 1 – Overall Financial Performance Tables  
Appendix 2 – Capital Expenditure Report

**ACTION:** Information

**REPORT FROM:** Trish Donovan, Deputy Director of Finance

**SPONSORED BY:** Richard Martin, Director of Finance

Financial details supplied/checked by:

Recommendations contained within this paper have been checked for compliance with relevant statute and regulations/directions/policy as follows:

**None applicable**

## 1.0 2006/07 Financial Plan

As reported throughout the year the Trust's financial plan for 2006/07, in compliance with the London Financial Strategy, is to deliver a surplus of Income over Expenditure for the year of £1.3m (approx 1%). This plan required an initial Cost Improvement Programme (CIP) of £10m, which was further increased (to £11m) as a result of a reduction of almost £1m in Educational funding advised in August.

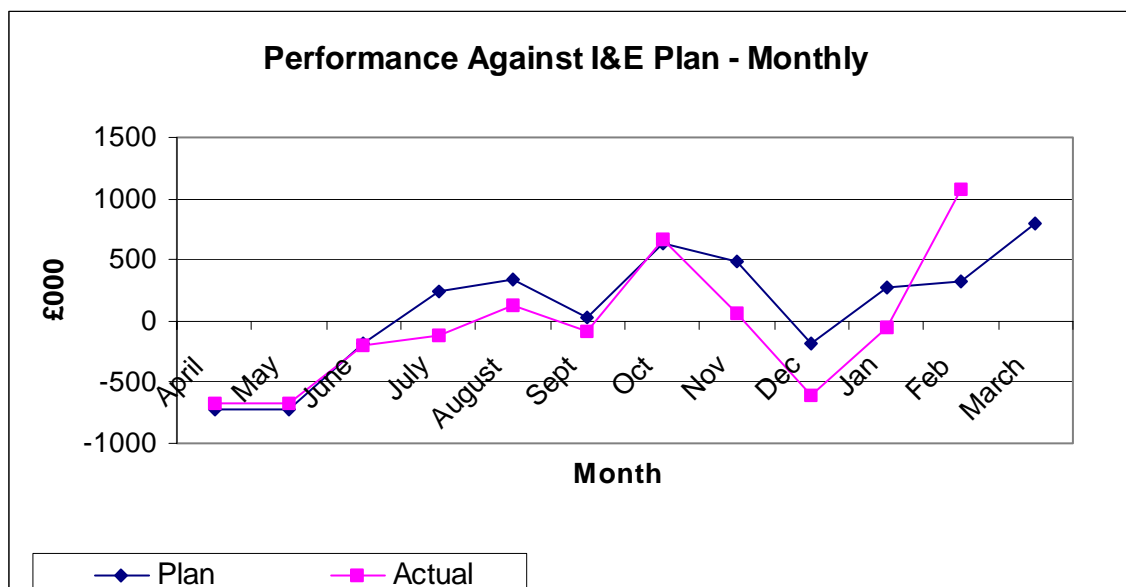
The plan is phased across the financial year such that the Trust expected to be in deficit for the early part of the year and this would be recovered over the second half of the year as the CIP is implemented and income is generated in line with the activity plans.

In addition to delivering the required position in order to contribute towards the London strategy, achievement of the surplus means that the Trust would be able to make a further significant repayment of the cumulative deficit brought forward from three years ago (overall £1.48m remaining) thus meeting the cumulative break-even duty, which is key in terms of demonstrating stable financial performance.

## 2.0 Income & Expenditure Performance at Month 11

### 2.1 Overall Income & Expenditure Performance (Appendix 1 page 1)

Chart 1



As described in section 1 above, the plan is phased such that expenditure was expected to exceed income in the early months of the year, with in-month balance or surplus required in most months from July onwards.

The monthly profile is shown in chart 1 (above) and the cumulative position in chart 2 (below).

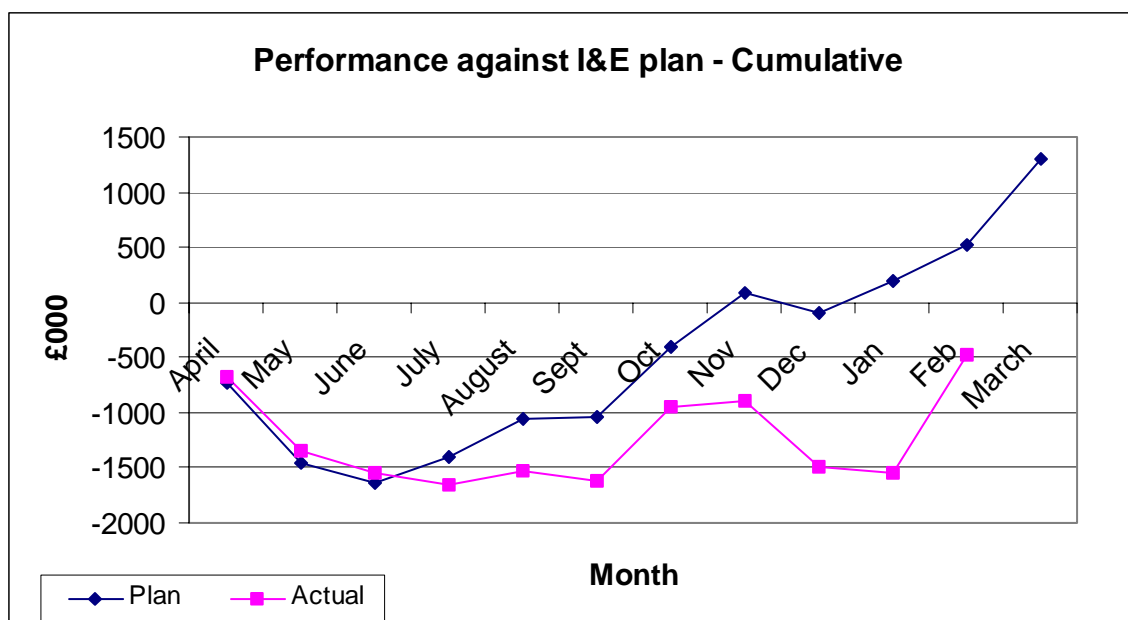
Performance for February was £744k better than planned (combining variances against operational budgets, offset by releases from central reserves and income above targets), this significantly improves the cumulative position as year-end approaches.

The year-to-date position is now an adverse variance of £996k (£1,739k adverse last month) from the original plan.

As a result of the introduction of replacement schemes to deliver the required level of CIP, and some re-profiling, it is anticipated that the position will be fully recovered over the remaining weeks of the year, as described in the year-end forecast at point 2.2 below. A number of key risks remain and need to be carefully managed to ensure this position is delivered, namely :

- Ensuring the required level of activity to meet SLA targets is delivered
- Minimising any income loss resulting from data validation queries in relation to the final quarter of the year
- Maintaining the level of funding earmarked for release from reserves to offset pressures against operational budgets, potential cost pressures and replacement CIP schemes
- Delivering the significant level of savings required in the closing weeks of the year, whilst maintaining activity levels and meeting other key targets

**Chart 2**



## 2.2 Year-End Forecast

Based on performance to the end of February and the current assessment to the year-end the forecast is that a break-even I&E position will be delivered, with achievement the planned level of surplus now looking likely. A detailed analysis, supporting this position, is separately tabled for discussion at the meeting.

This forecast remains contingent upon a number of key items, mainly those described in 2.1 above.

## 2.3 External Reporting

A year-end forecast, consistent with the original plan, of £1.3m surplus has been reported to NHS London in the Month 11 FIMS return.

## 2.4 Expenditure (Appendix 1 pages 2-5)

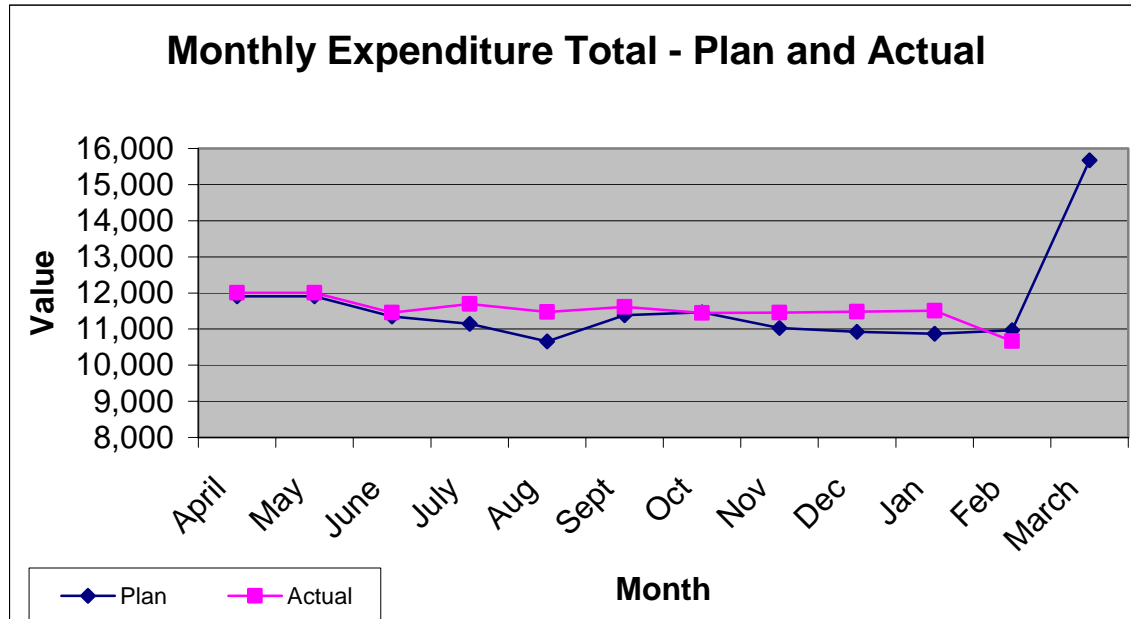
Monthly expenditure, both plan and actual are shown in the chart below. This incorporates net spending and savings plans. Whilst the majority of expenditure is profiled fairly equally across the year, reductions in the level of expenditure as a result of the CIP are required as the year progresses and there are increases for major commitments like the unitary payment associated with opening the new building, where payment started in November.

The increased expenditure level shown in the chart below in the final month of the year relates to the costs associated with additional capacity (eg. critical care) and assumptions in the original plan about activity growth which are offset by an increase in the level of income planned. Both the income and expenditure plans will be reduced to reflect the actual position as the year draws to a close.

The position includes monthly releases of funding from central reserves to offset pressures in operational budgets that have not currently been funded and estimated (accruals) liabilities as appropriate. An average value of £312k has been released to offset monthly cost pressures throughout the year. The level of funding released from central reserves is phased such that it significantly increases in the final months of the year, with an additional £863k released in February.

Significant recent changes to the expenditure profile include the commencement of unitary charge payments in relation to both the new building and the Imaging MES (Managed Equipment Service). Despite these increases, the chart below demonstrates that actual spend levels have reduced compared to the monthly average at the beginning of the year.

Chart 3



Increased patient activity continues to generate income above plan. The Trust is taking a prudent attitude towards this and only counting income over-performance on non-elective inpatient activity and outpatients in the financial position. A number of income disputes with Haringey TPCT were recently resolved and are reflected in the forecast.

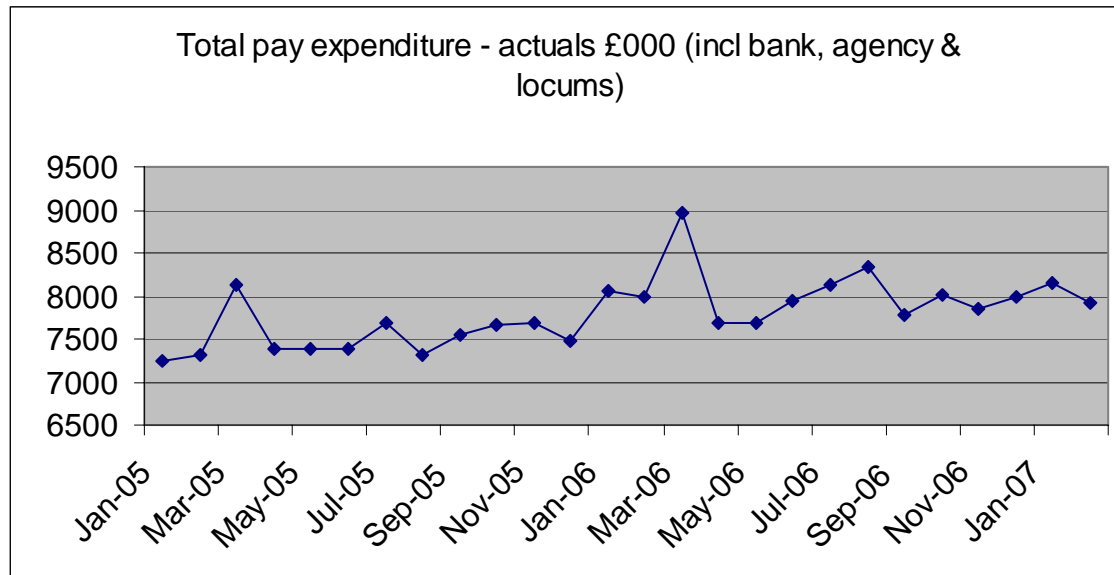
#### 2.4.1 Pay (Appendix 1 page 3)

Pay is overspent by £2,361k to date against budget. Controls remain in place and pay spend was contained within available budget for the month (£42k under-spent during February).

As previously reported and discussed, a detailed review of pay budgets is underway as it is recognised that there are a number of agreed posts that are not correctly reflected in budgets. A detailed exercise to resolve these and make amendments to budgets is progressing. Amendments to budgets will be made in 2007/08. Reserves that are currently released and reported centrally offset this pressure.

Actual expenditure for all staff, on a monthly basis, including all temporary staff (bank, locum and agency) costs is shown in the chart below. For February, expenditure on pay was £7,909k (£8,159k for January).

Chart 5



#### 2.4.2 Non Pay (Appendix 1 page 4)

There is an over-spend against budget of £5,009k across non-pay areas at the end of February, (£633k in the month). In month performance reflects a shortfall against the savings target based on the original profiling of schemes in the plan.

Increased controls in terms of authorisation of all non-pay requisitions and restrictions on non-essential spend were implemented from September and further improvements continue to be sought on an ongoing basis.

#### 2.4.3 Reserves & Budget Changes

Reserves are centrally held budgets that are released to operational areas as the year progresses. In addition to reserves that are released to fund specific pressures as they are incurred, the general cost pressure reserve is released into the overall I&E position on a monthly basis. This release of reserves offsets overspends against individual pay and non-pay areas and budgets will be refined to reflect some of these recurrent pressures in 2007/08.

Notable adjustments to budgets this month included a release of £863k from reserves to offset unfunded pressures in operational areas and £172k being the cost of Agenda for Change appeals processed in the month.

## **2.5 Income (Appendix 1 Pages 6 - 9)**

Overall, there is a surplus of £2m to date against income targets, of which £433k was in the current month. This is mainly due to over-performance on patient activity and incorporates activity up to the end of January (both SLA and NCA). Over-performance for elective work is not currently assumed as elective work is expected to match SLA targets overall for this year.

By PCT there is significant over-performance for Haringey PCT and over-performance across Barnet, Enfield, Camden plus City & Hackney PCTs. There is under-performance for Islington PCT.

Total Income is detailed on page 6 of appendix 1 and performance by PCT is summarised on page 7.

## **2.6 Cost Improvement Programme (CIP)**

### **Target**

A previously reported, the total CIP target for 2006/07 is £11m. This target is not equally phased throughout the financial year with many schemes weighted towards later months. This makes achievement of the monthly target increasingly challenging as the year progresses.

Savings plans continue to be implemented, as detailed in the transformation update and many replacement schemes have / are being implemented where original plans were not delivering the required level of saving.

Appendix 1 Page 10 shows CIP achieved verified by the Transformation Team.

In summary, this is a target to date of £9.3m against which £8.8m has been achieved (via a mix of recurrent & non-recurrent measures) leaving underachievement against plan of £551k to date.

Overall, the forecast for the year is that the CIP will be met, as part of delivering the planned surplus for the year, with replacement schemes, including additional income and reserve balances compensating for slippage on items originally planned.

## **3.0 Balance Sheet Items (Appendix 1 pages 11-14)**

### **3.1 Creditor Payments (Appendix 1 page 12)**

Performance against the Better Payment Practice Code was 91.9% (based on value) for NHS invoices and 85.8% for non-NHS invoices. Performance is measured against a target to pay all valid invoices within 15 days for NHS items and 30 days for non-NHS items.

The total value of outstanding creditors, authorised but not yet paid, at the end of February was £809k.

### 3.2 Debtors (Appendix 1 Page 12)

Outstanding, invoiced, debt at the end of December was £7.2m (£5.4m last month). Over £5m of this relates to NHS Debt.

### 3.3 Cash (Appendix 1 Page 14)

The cash balance at the end of January was £3,159k which is significantly above the value previously forecast largely as a result of un-anticipated payment in advance from NHS London and prompt settlement of large outstanding items from Haringey PCT.

Interest is earned on the balance held in the Trust's bank account and is £270k to date against a plan of £167k.

The Trust's cash target for 31<sup>st</sup> March is £415k. Daily monitoring of all cash movements is underway for the final weeks of the year to ensure that cash is managed so that this target is met.

The current cash-flow forecast is shown on page 14 of Appendix 1.

## 4.0 Capital

The Trust's anticipated Capital Resource Limit is £9,256k, as shown on page 15 of appendix 1.

Components of the CRL and the capital expenditure programme are detailed in Appendix 2.

The Trust plans to deliver the capital programme within the notified CRL.

## 5.0 Recommendations

The Board is asked to

- **Note the required financial plan to deliver a £1.3m surplus in line with the London Financial Strategy and the phasing of the plan over the year;**
- **Note the deficit position reported for the eleven months to the end of February, including the improved performance and increased release of funding from central reserves in the current month;**
- **Note the extent of the CIP required in order to deliver the 2006/07 plan and the level of achievement to date;**
- **Note the current year-end forecast I&E position and key considerations in delivering the required surplus.**