FINANCIAL REPORT FOR YEAR TO 30 NOVEMBER 2006
EXECUTIVE SUMMARY

This paper reports the financial position of the Trust for the eight months to 30th November 2006.

The Trust cannot have a deficit of more than £11.5 million at the end of 2006/07 on a planned operating income of £220 million. The budget was set to achieve this control total, which includes a savings programme designed to deliver £15.8 million, subsequently increased to £16.6 million to recover overspends on the operating budgets in the first eight months of the year.

During 2006/07 risks of £9.3 million have been identified which means that the Trust now has to deliver up to £26 million of turnaround initiatives to deliver the agreed control total.

To deliver the monthly run rate targets and manage the in year risks the Trust Board is mandating action across the Trust to control vacancies, reduce temporary staff and restrict non-pay expenditure. In addition the Trust has identified some non-recurrent balance sheet measures. Improving productivity has been a key feature of the turnaround programme with an initial focus on reducing theatre sessions. The Trust will secure some additional Primary Care Trust (PCT) income based upon SLA over performance and is in discussion with the Hertfordshire PCTs as part of a Health System financial recovery programme.

At the end of November the Trust had a deficit of £13.6 million, broadly in line with the revised plan of £13.4 million. At the end of November savings amounting to £4.8 million had been achieved and removed from budgets and this is forecast to increase to £10 million by the end of March. Additional measures and initiatives totalling £16 million are identified during the remaining months of the year.

A detailed year end forecasting process will take place during January however the Trust is likely to have a deficit of between £11.5 and £17 million at the end of the financial year based on different approaches to assessing the likely position. A number of factors are within the Trust control e.g. management of expenditure, other factors are subject to negotiation with funding partners hence the large range at this time. The Trust continues to formally report to the Strategic Health Authority (SHA) that it will meet the control total on the basis that it is possible to deliver this.

I have identified some issues about the accuracy of financial reporting within the Finance Department. High-level reconciliation work has been undertaken and this indicates that the key conclusions of this report are broadly accurate. However it is vital that reporting is accurate and as a consequence an action plan is being implemented to rectify the problems. This work will lead to an improved Board report for the position to the end of December 2006.

The Board needs to ensure delivery of the action plan in the Finance Department and maintain the momentum of the turnaround plan to minimise the deficit in 2006/07.

Sandy Hogg
Director of Finance and Turnaround
January 2007

1 Overview of the Trust's Corporate Financial Duties

Table 1: Summary of Financial Duties, position at 30 November 2006 and forecast year-end position

Financial duties	Position at the end of November 2006	Forecast position at the end of March 2007	Achievement of target?
Financial Management Year end income and expenditure position not to exceed a deficit of £11.5m	Deficit increased to £13.6 broadly in line with the revised plan	Range of £11.5 to £17 million. It is possible to deliver target of £11.5 million	✓
Cash Management External financing limit (cash management)*	EFL £11,730 Confirmed by the SHA	EFL will be achieved but this will require robust cash management	✓
	Cash balance £6,231m	Cash balance nil	
Better Payments Practice Code (target 95% minimum)	Payments – Number 15% Value 29%	At current performance this is Payments – Number 37% Value 45% Cash strategy is bringing about some improvement in position.	✗
Capital Management Capital cost absorption rate of 3.5% & Capital resource limit (CRL)*	CRL at 31/11/06 is estimated to be £10,145k	To be managed to £10,145k	✓
		Capital cost absorption rate 3.5%	✓

**The capital resource limit (CRL) is the amount of capital funding allocated to the Trust for each financial year; the external financing limit (EFL) is the amount of cash available for the Trust to fund the CRL (CRL less planned depreciation)*

2 Corporate Financial Duty 1 – Financial Management

Outturn income and expenditure position not to exceed £11.5m deficit

2.1 Summary of the Position

The Trust cannot have a deficit of more than £11.5 million for 2006/07 on a planned operating income of £220 million - note that the income target has been revised during the last few months due to changes in service provision for plastic and burns services, paediatrics and R&D funding. A full reconciliation of the impact of these issues will be provided next month.

At the end of November the Trust had a deficit of £13.6 million, this is in line with the revised plan agreed by the Board in September 2006. A number of significant one off benefits in the month 8 position have helped to achieve the run rate position.

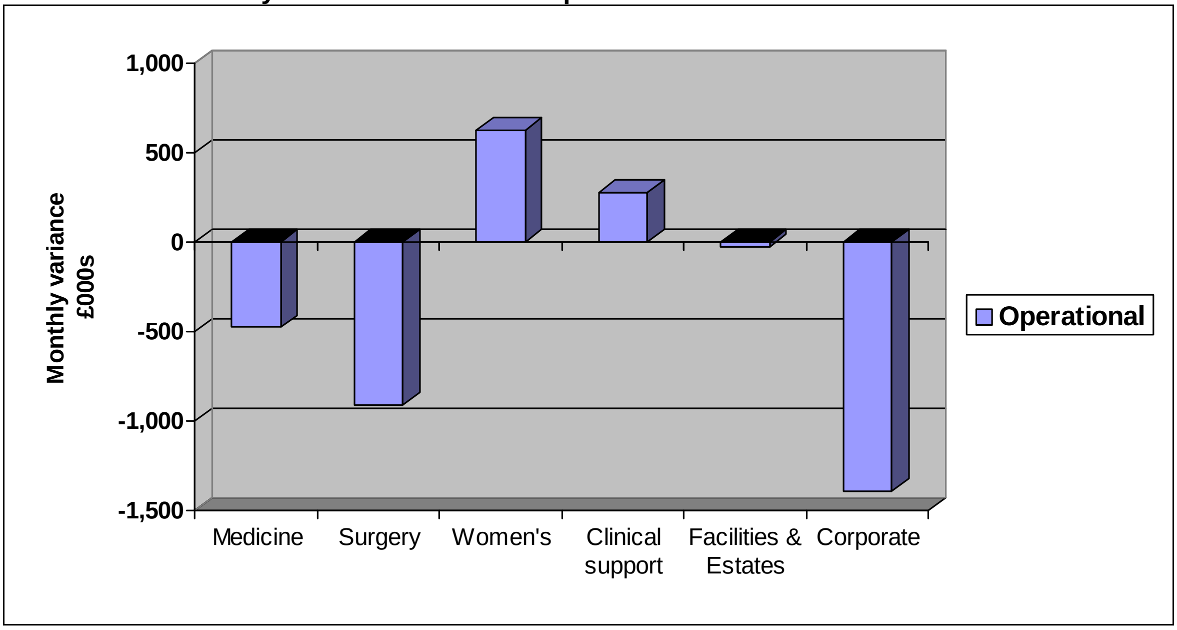
Table 2 shows a summary of performance against the original budgets including the income and expenditure position on both an annual basis and the year to the end of November 2006. Additional detail is attached in appendices 2 and 3.

Table 2: Summary Income and Expenditure Position – Annual and Year to Date

	Annual 2006/07			Year to 30/11/06		
	Plan £m	Forecast £m	Variance £m	Budget £m	Actual £m	Variance £m
Income	220.1			147.1	145.1	-2.0
Expenditure	-214.0			-149.5	-147.3	2.2
Depreciation	-9.8			-6.5	-6.2	0.3
Operating Deficit	-3.7			-8.9	-8.4	0.5
Public Dividend	-8.1			-5.4	-5.4	0.0
Interest Receivable	0.3			0.2	0.2	0.0
Deficit for the year	**-11.5**	**-11.5**	**0.0**	**-14.1**	**-13.6**	**0.5**
Deficit b/fwd from previous years	-37.3	-37.3	0.0			
Total deficit c/fwd	-48.8	-48.8	0.0			

Chart 1 show the overall position analysed by management division within the Trust.

Chart 1: Variances by Division – cumulative position end of November 2006



2.2 Activity

Actual activity has been reported against agreed annual activity with even distribution to month 8. This does not take account of the planned reduction in activity due in the later part of the year. It cannot therefore, be assumed that any additional activity for Hertfordshire PCTs will generate additional income. Work is taking place by Chief Executives across Hertfordshire to agree how to deliver control totals and the impact on activity for the remainder of the year.

There have been some minor amendments to the Payment by Results rules for 2006/07 which have an impact on the individual levels of activity when analysed by PCT, but the total emergency and elective spells are consistent across years. The amendments are:

- Most emergency spells are now shown by Healthcare Resource Group (HRG) rather than specialty
- A&E attendances are charged against the PCT in which the A&E department is located, in previous years the Trust has reported on the basis of the location of the patient's GP.

The significant points to note on activity as at the end of November are that the Trust had:

- Admitted 1.4% more emergency patients than plan to month 8.
- Elective (planned) admissions were 12.5% above plan to month 8.
- First outpatient attendances were 6.9% above plan to month 8.
- Follow up out patient attendances were 24.8% above plan to month 8
- A&E first attendances were 4.5% above plan to month 8
- A&E follow up attendances were 2.0% above plan to month 8

The plan was set based on the assumption that patients would be treated in equal number throughout the year (ie monthly plans are the annual plan divided by 12) Additional analysis of activity is attached in Appendix 4.

2.3. Income

Table 3: Analysis of Income – Annual and Year to Date

	Annual 2006/07	Year to 30/11/06		
	Plan £m	Budget £m	Actual £m	Variance £m
Income from PCTs				
per SLAs	174.4	116.3	116.7	0.4
Non contracted activity	4.7	3.1	3.1	0.0
Inter Trust Income	10.5	7.4	7.8	0.5
Private Patients	3.3	2.2	2.1	-0.1
Other Divisional Income	14.5	9.7	9.2	-0.4
Other Income	12.7	8.5	6.2	-2.3
Total Income	**220.1**	**147.1**	**145.2**	**-2.0**

Actual income is included up to Quarter 1 and this includes an over performance against the West Herts PCT's SLA of £1.4m. Income for the period July to November for West Herts PCT's has been accrued to budget as the reconciliation for activity at the end of Quarter 2 has not yet been completed and agreed.

2.4 Expenditure

The overall position across the Trust shows:

- An under spending on pay budgets increasing by £390k to £1,768k as a result of turnaround measures and a one off reduction in Women's services due to the release of accruals of approximately £300k
- Non pay has moved from an £1,019k overspend to a £710k under spend, a movement of £1,729k in the month. The movements are due to the removal of an accrual of £470k for rent at Mount Vernon Hospital that is no longer required, release of central budgets of £1,000k and reduction in cost of leases of £265k. Within the Divisions there is a one off reduction in Women's services non pay due to the release of accruals of over £200k. These positive benefits are offset by some adverse variances in the Surgery Division and invest to save initiatives.

Devolved income is some £2,079k short of budget related to two issues:

- an initial budgeting error on Research & Development and MADEL income related to Cancer Services, which is no longer due to the Trust
- a national reduction in MADEL funding notified to the Trust in late October 2006.

The one off benefit in the Women's Services Division as a result of accruals will be shown corporately in future months as this could not have been anticipated and must not detract from the focus of identifying and delivering recurrent turnaround initiatives.

2.4.1 Division of Medicine

Table 4: Summary of expenditure and wte

	Annual	Month 8		
	Plan £m	Plan £m	Actual £m	Variance £m
Pay	39,244	26,496	26,371	125
Non Pay	11,859	8,104	8,638	(534)
"Divisional" income	(1,909)	(1,272)	(1,203)	(69)
Net Divisional Position	49,194	33,328	33,806	(478)
Whole Tme Equivalents		Plan wte	Actual wte	Vacancies wte
Medicine		1,075	1,021	54
Actual wte includes overtime and Bank staff				

Bank, Agency, & Overtime	November-06		November-05	
	Month £000	Cumulative £000	Month £000	Cumulative £000
Administration	37	293	25	203
Medical	136	847	109	1,184
Nursing	108	1,684	177	2,119
Other	15	169	29	185
Total	296	2,993	340	3,691
Average per month		374		462

The Division of Medicine has overspent against budget by £478k which is a deterioration of £47k on the previous months position. In addition the Division is still required to identify £1.579m in savings to meet target of £4.6m.

Pay: Budget over-spend on Medical staff has been off set by under-spends on Nursing and Administration staff. There is a net under-spend of £125k on Pay year to date.

The Division continues to make provision of £100k for Junior doctor non compliant rotas.

Non-Pay: The key areas of budget overspends are:

- Drugs
- Healthcare from Other Bodies (mainly tests)
- Medical & Surgical Supplies

The Division is taking steps to control & reduce expenditure on agency, bank & overtime as well as exercising very tight control on non-pay expenditure

In order for the Division to meet its control total the average required expenditure run rate is £3,596k for the period to the end of the year. This represents a decrease in expenditure over the final four months of the year of £425k per month.
The Division is making every effort to identify cost drivers and take appropriate action to control levels of expenditure.

2.4.2 Division of Surgery

Table 5: Summary of expenditure position and wte

	Annual	Month 8		
	Plan £m	Plan £m	Actual £m	Variance £m
Pay	41,960	29,097	29,304	(207)
Non Pay	11,164	7,709	8,311	(602)
"Divisional" income	(1,461)	(991)	(890)	(101)
Net Divisional Position	51,663	35,815	36,725	(910)
Whole Tme Equivalents		Plan wte	Actual wte	Vacancies wte
Surgery		953	865	89
Actual wte includes overtime and Bank staff				

Bank, Agency & Overtime	November-06		November-05	
	Month £000	Cumulative £000	Month £000	Cumulative £000
Administration	16	159	15	188
Medical	69	1,163	98	1,227
Nursing	160	2,203	332	2,016
Other	0	73	57	666
Total	245	3,598	502	4,097
Average per month		720		819

The Division of Surgery has overspent against budget by £910k to the end of November which is a deterioration of £45k on the previous month.

The key variances against the budget are: -

- Pay - £37k underspent in month (£207k overspent YTD)
- Non Pay - £86k overspent in month (£602k overspent YTD)
- Income – £4k up on budget in month (£101k below budget YTD)

The Division must ensure that the agreed budget net of savings is delivered and as such the following actions have been agreed: -

- stop all spend on overtime and agency & bank staff
- all non pay spend must be authorised by the Chief Executive

This situation will monitored monthly through the Trust performance review process and will be reflected in the monthly management accounts.

2.4.3 Division of Women and Children

Table 6: Summary of expenditure position and wte

	Annual	Month 8		
	Plan £m	Plan £m	Actual £m	Variance £m
Pay	17,375	10,677	10,152	525
Non Pay	3,128	1,596	1,469	127
"Divisional" income	(783)	(522)	(493)	(29)
Net Divisional Position	19,720	11,751	11,128	623
Whole Tme Equivalents		Plan wte	Actual wte	Vacancies wte
Womens		525	460	65
Actual wte includes overtime and Bank staff				

Bank, Agency & Overtime	November-06		November-05	
	Month £000	Cumulative £000	Month £000	Cumulative £000
Administration	2	27	0	25
Medical	27	37	0	60
Nursing	61	1,065	187	1,939
Other	1	4	1	3
Total	91	1,133	188	2,027
Average per month		227		405

The Division is £623k underspent against the year to date budget, which reflects a favourable movement in the month of £425k.

The key variances against the budget are: -

- Pay - £233k underspent in month (£525k underspent YTD)
- Non Pay - £190k underspent in month (£127k overspent YTD)
- Income – £3k up on budget in month (£29k below budget YTD)

The Division must ensure that the agreed budget net of savings is delivered and as such the following actions have been agreed: -

- stop all spend on overtime and agency & bank staff
- all non pay spend must be authorised by the Chief Executive

This situation will monitored monthly through the Trust performance review process and will be reflected in the monthly management accounts.

2.4.4 Division of Clinical Support Services

Table 7: Summary of expenditure position and wte

	Annual Plan £m	Month 8 Plan £m	Actual £m	Variance £m
Pay	23,760	15,893	15,563	330
Non Pay	9,903	6,617	6,631	(14)
"Divisional" income	(6,076)	(4,050)	(4,009)	(41)
Net Divisional Position	27,587	18,460	18,185	275

Whole Tme Equivalents		Plan wte	Actual wte	Vacancies wte
Clinical Support		644	681	-36
Actual wte includes overtime and Bank staff				

Bank Agency & Overtime	November-06 Month £000	November-06 Cumulative £000	November-05 Month £000	November-05 Cumulative £000
Administration	8	49	8	53
Medical	0	37	27	154
Nursing	4	20	6	39
Other	69	747	116	942
Total	81	853	157	1,188
Average per month		107		170

The Division is £275k underspent against the year to date budget, which reflects a favourable movement in the month of £14k.

Key variances against the budget are:

Pay - £70k underspent in month (£330k underspent YTD)

- Consultants - £4k underspent in month (£58k underspent YTD)
- MLSO - £34k underspend in month (£105k underspent YTD)
- Nursing - £1k underspent in month (£54k YTD)
- PAMS - £21K underspent in month (£61k YTD)
- Other -£6K underspent in month (£65K YTD)

Non Pay - £37k overspent in month (£14k overspent YTD)

- Blood Products – £9k overspent in month (£6k overspent YTD)
- Equipment & Maintenance – £3k overspent in month (£5k overspent YTD)
- Healthcare from other NHS Bodies – £2k underspent in month (£14k overspent YTD)
- Medical Surgical – £6k overspent in month (£36k overspent YTD)

Income – £19K below budget in month (£41k below budget YTD)

2.4.5 Division of Estates and Facilities

Table 8: Summary of expenditure position and wte

	Plan £m	Plan £m	Actual £m	Variance £m
Pay	4,092	2,726	2,578	148
Non Pay	22,459	14,870	14,949	(79)
"Divisional" income	(4,839)	(3,227)	(3,134)	(93)
Net Divisional Position	21,712	14,369	14,393	(24)
Whole Tme Equivalents		Plan wte	Actual wte	Vacancies wte
Facilities and Estates		129	119	10
Actual wte includes overtime and Bank staff				

Bank Agency & Overtime	November-06		November-05	
	Month £000	Cumulative £000	Month £000	Cumulative £000
Administration	0	12	0	8
Total	0	12	0	8
Average per month		2		1

The Division of Estates and Facilities has an over spend against budget of £24k year to date an improvement in month of £3k.

Estates has an under spend of £66k, an increase of under spend in the month of £22k. Facilities has an over spend against budget of £90k, an increase in overspend of £19k in month. The Facilities overspend is mainly due to one off costs for 'deep cleans' which are not in the contract value and for which Medirest had not historically invoiced, during November the contract cost with Medirest was increased in line with national inflation and this increase against budget is yet to be funded. Without these additional costs Facilities would have recorded an underspend in month.

2.5 Manpower expenditure

The Strategic Health Authority set a target for a 5% reduction in establishment by the end of the year. An analysis of vacancies and agency staffing is shown in table 10. Agency expenditure incurred in 2005/06 is shown for information.

Table 9: Vacancies and Agency expenditure as at 30th November 2006.

Division	Budget wte	Actual wte	Vacancies wte	Agency, Bank Expenditure 01/04/06-30/11/06 £000s	01/04/05-30/11/05 £000s
	Whole Time Equivalents				
Medicine	1,075	1,021	54	2,993	3,691
Surgery	953	865	88	3,598	4,097
Women's Services	525	460	65	1,113	2,027
Clincial Support	644	681	-37	853	1,188
Estates & Facilities	129	119	10	12	8
Corporate	547	514	33	1,015	613
Total	**3,873**	**3,660**	**213**	**9,584**	**11,624**

The actual whole time equivalent (wte) also includes overtime and payments to bank staff. Temporary staffing would have been used to cover some of the vacancies, especially in clinical areas. The expenditure to date on temporary staff totals £9.6m i.e. an average of £1.19m per month compared with an average spend of £1.45m per month last year to date. Note that the 2005/06 comparative expenditure on Corporate has been amended as figures reported for previous months were found to be erroneous.

Chart 3 below shows agency expenditure analysed by type each month for 2006/07 and chart 4 shows the agency expenditure by staff group to 30th November 2006/07 compared to 2005/06.

Agency expenditure in Corporate has increased mainly due to backdated costs as a result of £100k of invoices submitted late that refer to previous months but were not included in earlier reports.

Chart 2: Agency expenditure by month 2006/07

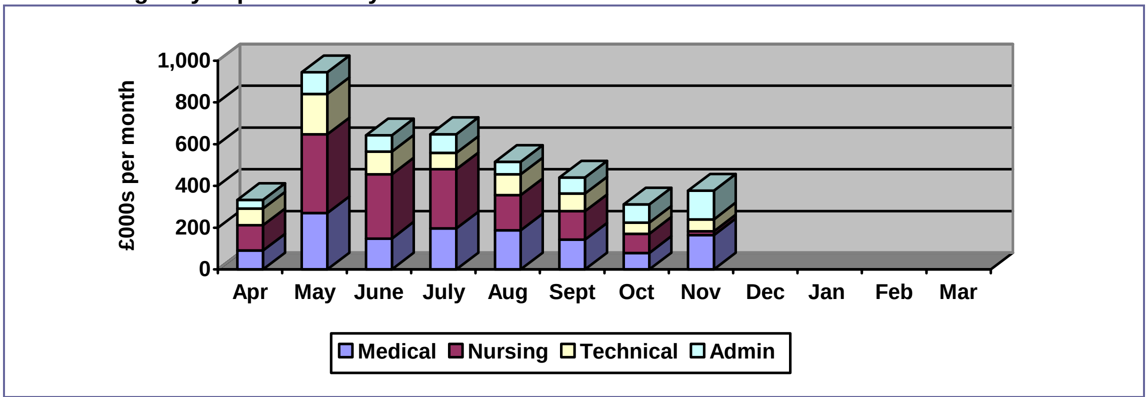
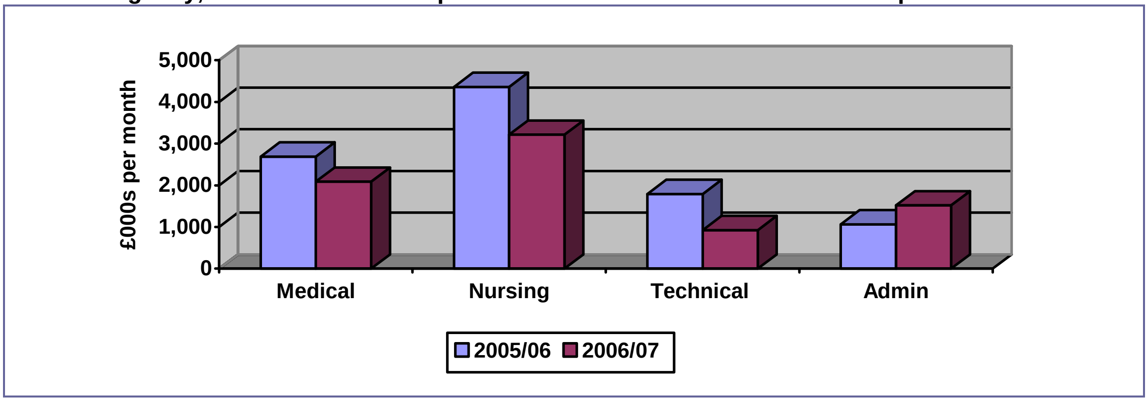


Chart 3:Agency, Locum and Bank expenditure to 30th November 2006/07 compared to 2005/06



The Trust Board agreed to stop all temporary staffing expenditure from 20th November other than when an adverse clinical incident would occur.

2.6 Year End Forecast and Turnaround Programme

The Trust cannot have a deficit of more than £11.5 million for 2006/07 on a planned operating income of £220 million. The operational budgets were set in September to achieve a deficit of £12 million this being the SHA control total at the time. Savings of £15.3 million were targeted to deliver this control total. The SHA subsequently revised the control total to a maximum deficit of £11.5 million and the savings target was increased to £15.8 million.

The review of the financial plan in August 2006 identified reserves of £14.4 million to fund inflationary costs during 2006/07 and Agenda for Change costs. An assessment by the Trust Finance Department in September 2006 highlighted that £5 million of these reserves would be available to offset a number of risks highlighted to the Board in September including in year service transfers.

During the first eight months of the year the Operating Divisions had an over spend on operating budgets of £800k and the savings programme was therefore increased to £16.6 million to recover these overspends. The turnaround team have been working with Operating Divisions to reduce these overspends for the remainder of the year to minimise any further risk. Revised run rates were set for all Divisions taking account of this.

The following table summarises the revised plan for the year received by the Board in September to deliver the control total.

Table 10 Run Rate Performance

	M5 £m	M6 £m	M7 £m	M8 £m	M9 £m	M10 £m	M11 £m	M12 £ m	Aggregate £m
Planned Deficit (FIMs)	**(7.2)**	**(8.3)**	**(9.1)**	**(9.9)**	**(10.6)**	**(11.1)**	**(11.6)**	**(12.0)**	**(12.0)**
Revised Trust Plan	**(8.2)**	**(9.9)**	**(11.3)**	**(13.4)**	**(14.9)**	**(15.1)**	**(14.8)**	**(14.7)**	**(14.7)**
NRec								**3.2**	**3.2**
FIMs								**(11.5)**	**(11.5)**
Actual	**(8.2)**	**(9.9)**	**(11.3)**	**(13.6)**					
Original Planned Monthly Run Rate	(1.6)	(1.1)	(0.8)	(0.8)	(0.7)	(0.5)	(0.5)	(0.4)	
Projected Monthly Run Rate	**(1.9)**	**(1.7)**	**(1.4)**	**(2.1)**	**(1.6)**	**(0.1)**	**0.3**	**3.3**	
Actual run rate	**(1.9)**	**(1.7)**	**(1.4)**	**(2.3)**					

During 2006/07 risks of £9.3 million have been identified (Appendix 1) which means that the Trust now has to identify up to £26 million of turnaround initiatives to deliver the agreed control total.

To deliver the control total the Trust Board has mandated action across the Trust to control vacancies, reduce temporary staff and restrict non-pay expenditure. In addition the Trust has identified some non-recurrent measures. Improving productivity has been a key feature of the turnaround programme with an initial focus on reducing theatre sessions. The Trust will secure some additional PCT income based upon SLA over performance and is in discussion with the Hertfordshire PCTs as part of a Health System financial recovery programme. The Chief Executive, Medical Director and Director of Finance and Turnaround meet with Operating Divisions fortnightly to review performance and agree key turnaround actions.

At the end of November savings amounting to £ 4.8 million had been achieved and removed from budgets and this is forecast to increase to £10 million by the end of March. A summary of the savings programme by division is attached in Appendix 6i. Additional measures and initiatives totalling £16 million are identified during the remaining months of the year. A detailed analysis of these proposals, including the expected phasing of the additional measures is included at appendix 6ii.

A detailed year end forecasting process will take place during January however the Trust is likely to have a deficit of between £11.5 and £17 million at the end of the financial year based on different approaches to assessing the likely position. A number of factors are within the Trust control e.g. management of expenditure. Other factors are subject to negotiation with funding partners. Appendix 5 shows the range of forecasts.

The following table summarises an assessment of the risk in delivering turnaround initiatives which shows potential risk of £5.6 million, giving a potential deficit of £17 million.

Table 11 Risk assessment of delivery of turnaround measures

	FIMs Month 8 £ million	Probability of Delivery %	Level of Risk £ million
Delivery of identified savings in Divisional work streams	10.2	90	1.0
Reduction in bad debt provisions	0.4	100	Zero
Further reduction in temporary staffing costs	1.6	25%	1.2
Control of vacancies	0.4	50	0.2
Further reduction in non pay expenditure	3.4	50	1.7
Non-recurrent balance sheet measures	0.8	100	Zero
Review of Trust Wide budgets	5.0	80	1.0
Partnership Trust to share deficit of service transfer	0.5	Uncertain	0.5
Additional Hertfordshire PCT income	3.8	100	Zero
Total turnaround initiatives	**26.1**		**5.50**

3 Corporate Financial Duty 2 – Cash Management

Meet the External Financing Limit (EFL)
Pay at least 95% of invoices within 30 days
(Better Payments Practice Code)

3.1 Cash management to meet the External Financing Limit

As reported last month the Trust has received £10 million funding to cover its reported deficit to Month 6 (£9.9 million) and further funds to clear the backlog of creditor payments. It should be noted that a new loans regime will come into force on 15th February 2007 and that the £11.5 million deficit funding received to date, and any further funding, will have to be converted into interest-bearing loans. The net cost of such loans, after taking into account a reduction in capital charges, will be in the order of 3.5%pa.

The table below shows the cash funding position alongside the original funding proposals from the Strategic Health Authority in July 2006. This assumed a deficit of £18 million that was the estimate from the Trust Executive team at the time. The East of England SHA will only receive cash from the Department of Health to support the agreed control totals which in the case of the Trust is £11.5 million. The Trust will incorporate this assumption onto the detailed cash plan. This will result in cash support of £29.1 million instead of £35.6 million.

Table 12: Summary of Funding

Summary of Additional PDC	EFL £000's	*Reconciliation to SHA letter* £000's
Depreciation	-9,003	
Operational Capital	5,696	
OPENING EFL 1/4/06	**-3,307**	
Miscellaneous Capital	250	
PACS Capital Funding	3,887	
Repay NHS Bank	-6,600	
Funding for NHS Bank Repayment	6,600	*6,600*
Repay Local Economy Funding	-6,100	
Funding for Cumulative Creditors	11,000	*11,000*
Funding 06/07 Deficit to M4	6,000	*6,000*
EFL AT 30/11/06	**11,730**	
EFL Call down		
CASH RECEIVED ON 25/8/06	8,093	
CASH RECEIVED ON 22/9/06	3,400	
Balance of EFL to call-down	237	
	11,730	
CASH RECEIVED ON 23/10/06(TBL)	4,000	*4,000*
CASH RECEIVED ON 22/12/06(TBL)	1,500	*1,500*
Additional EFL related to discussions about control total in June 2006		*6,500*
		35,600

Ongoing Creditor Payments (from Month 8)

The finance department has instigated a weekly review of cash flow to accelerate the collection of debtors and to move towards paying trade and NHS creditors in a timelier manner. As a result the improvements in payment times means the Trust will in future be able to take advantage of prompt payment discounts where offered.

As a result of this process invoices are being raised more quickly and on a monthly basis and in the short term this will have the effect of raising the value of outstanding debtors. As these sums are paid the money will be used to further reduce creditors.

Table 13: Management of cash position

	Original Plan £m	Actual 30/11/06 £m	Forecast 31/03/07 £m
Deficit per I&E forecast	-12.0	-13.6	-11.5
Plus:			
Capital funding b/fwd 2005/06	-3.6	-3.6	-3.6
Repayment of brokerage via PDC	-12.7	-12.7	-12.7
Less:			
PDC to fund 2006/07 control plan	12.0	10.0	11.5
PDC contr to 05/06 deficit (for creditors)	11.0	11.0	11.0
PDC funding of brokerage repayment	6.6	6.6	6.6
Additional PDC (Depreciation I/E v EFL)	0.2	0.0	0.2
Cash Balance	1.5	-2.3	1.5
Managed by:			
Capital programme delay to 2007/08	3.6	5.2	3.6
Increase/(Decrease) in Creditors	-8.9	7.8	-8.9
(Increase)/Decrease in Debtors	3.8	-4.5	3.8
Forecast balance	0.0	6.2	0.0

A cashflow report is attached as appendix 7 and balance sheet as appendix 8.

<u>Cash Forecast to 31/3/07</u>

The cash-flow schedule reflects the forecast I/E deficit of £11.5m and assumes funding of a similar amount. Table 12 shows reconciliation from the forecast I/E deficit to the required EFL nil cash balance at 31/3/07.

Contingency measures are being considered to ensure payments can continue to be made in the event of the Trust not fully achieving the saving programme. This may involve short term cash measures at the year end but in the longer term, the interest-bearing loans will be required unless other cash-raising measures e.g. sale of assets, can be found.

A summary of the options considered along with recommendations will be presented to the Finance and Performance committee.

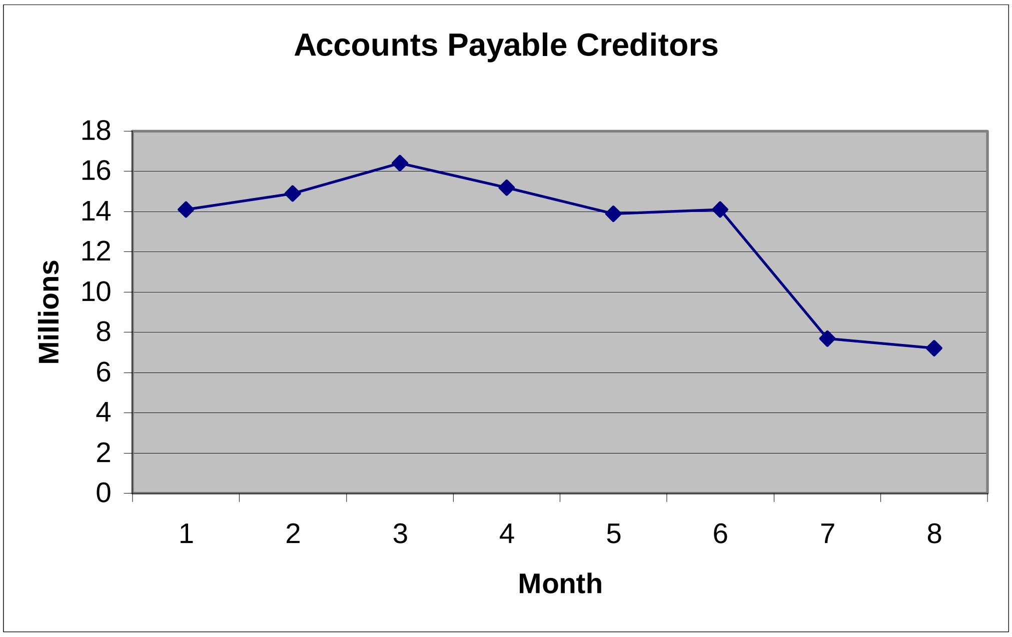
3.2 Pay at least 95% of invoices within 30 days

At the end of November 2006 the cumulative **number** of invoices paid within 30 days was 6,893 representing 15.49% of the total bills paid. The national target is 95%. The cumulative **value** of invoices paid within 30 days was £11,316m equating to 28.51% of all bills paid against the national target of 95%.

This small improvement in the Better Payments Practice Code from 26% to 29% for the eight months ending November represent a significant improvement in the speed with which the Trust is settling traders accounts in the month. In the month of November the Trust settled some 46% in value of traders within the 30 day target but this still falls a long way short of the 95% the Trust is aiming to achieve. Finance managers are striving to improve cash flow and to make further improvements in the speed of settling payments

The Trust is still falling short of this target however, the improvements in cash management referred to earlier have improved the overall performance reducing the value of outstanding creditors as is illustrated in chart 5 below:

Chart 4 Reduction in Creditors



4 Corporate Financial Duty 3 – Capital Management

To manage capital expenditure to meet the capital resource limit (CRL) and achieve a capital cost absorption rate of 3.5%

The Trust's CRL has not been issued from the SHA, as a consequence the Trust is operating on an assumed EFL based on the indicative block allocation and the funding for PACs already agreed. The full extent of the capital programme could be significantly higher when the funding is agreed for all schemes, in particular interim measures.

The details of the planned capital programme for £9.5m and spend to date 5.7m by heading/scheme can be found at appendix 9.

Sandy Hogg
Director of Finance and Turnaround
January 2007

Appendices

1 Risk Analysis
2 Summary Income and Expenditure Account
3 Divisional analysis – pay, non-pay and income
4 Summary of activity by Service Level Agreement
5 Year End Forecasts
6 Savings programme
7 Cash Flow
8 Balance Sheet
9 Capital programme

Appendix 1

Additional Financial Risks

The following table includes a summary of each of the major financial risks facing the Trust in delivery of control total over and above delivery of the planned savings

	£ Million	Comments
Shortfall in MADEL funding	1.5	National policy to reduce local funds
Shortfall in MFF income (21% of direct income)	0.7 (50% of total risk)	Related to planned withdrawal of activity (£6.7 m) by PCTs at start of 2006/07
Budget setting issue related to R&D income	2.7	Related to Mount Vernon
Burns and Plastics service transfer to Royal Free	1.8	Overheads not covered following service transfer to Royal Free – Service made a surplus prior to transfer
Burns and Plastics service transfer to Royal Free	1.2	Loss of Market Forces Factor income
Burns and Plastics service transfer	0.4	Write off of service redesign fees following transfer of service to Royal Free – would have been charged to capital if assets remained
Paediatrics service transfer from Herts Partnership Trust	1.0	PbR income does not cover costs of transferred service
Additional Risk	**9.3**	

Appendix 5 Range of Year End Forecasts

	FIMs Month 8 11th December £ million	Best Case 8th January £ million	Worst Case 8th January £ million	Comments
Risks to be managed				
Baseline savings target	16.6	16.6	16.6	
Shortfall in MADEL funding	1.5	1.5	1.5	National policy to reduce local funds
Shortfall in MFF income (21% of direct income)	0.7 (50% of total risk)	Zero	0.7 (50% of total risk)	Related to planned withdrawal of activity (£6.7 m) by PCTs at start of 2006/07
Budget setting issue related to R&D income	2.7	2.7	2.7	Related to Mount Vernon
Burns and Plastics service transfer to Royal Free	1.8	1.8	1.8	Overheads not covered following service transfer to Royal Free – Service made a surplus prior to transfer
Burns and Plastics service transfer to Royal Free	1.2	1.2	1.2	Loss of Market Forces Factor income
Burns and Plastics service transfer	0.4	0.4	0.4	Write off of service redesign fees following transfer of service to Royal Free – would have been charged to capital if assets remained
Paediatrics service transfer from Herts Partnership Trust	1.0	1.0	1.0	PbR income does not cover costs of transferred service
Total Risks	**26**	**25.2**	**26**	
Management actions to deliver control total				
Delivery of identified Divisional	(10.2)	(10.2)	(9.2)	

savings				
Reduction in bad debt provisions	(0.4)	(0.4)	(0.4)	To be agreed by Trust Audit Committee
Reduction in temporary staffing costs	(1.6)	(0.4)	(0.4)	
Control of vacancies	(0.4)	(0.4)	(0.2)	Executive Directors agreed “deep freeze” on 7th December, based on circa 40 staff leaving Trust per month
Reduction in non pay expenditure	(3.4)	(1.7)	(1.7)	Executive Directors agreed significant restrictions on 7th December
Non-recurrent balance sheet measures	(0.8)	(0.8)	(0.8)	To be agreed by Trust Audit Committee
Review of Trust Wide budgets	(5.0)	(5.0)	(4.0)	Under spend on budget provision
Partnership Trust to share deficit of service transfer	(0.5)	(0.5)	Zero	Chief Executives discussing transfer currently
Hertfordshire PCTs	(3.8)	(6.5)	(3.8)	
Total of management actions	**26**	**(25.9)**	**(20.5)**	
NET RISK	**Zero**	**(0.7)**	**5.5**	
PLANNED DEFICIT	**11.5**	**11.5**	**11.5**	
NET FINANCIAL POSITION	**11.5 million deficit**	**10.8 million deficit**	**17 million deficit**	