

## FINANCE DIRECTOR'S REPORT Month 3 to June 2007

### Executive Summary

This report provides a summary of the finances of the Trust and highlight the risks and contingencies surrounding the current forecast out-turn financial position. At month 3 the Trust has moved into a small surplus position £0.024m, the first in the Trust's history. The in month run rate is a positive £0.517m due to increased SLA income.

During June the Divisions have revisited their savings plans and revised them. The Trust now has a single system for recording and updating all savings schemes. £16m of savings have been identified, with project plans to support them. A £1.0m list of additional savings schemes is also being worked up to cover any slippage. If the £16m of savings is achieved then the £5m surplus target will be met.

The table below summarises the key performance indicators (KPI's) used by the Strategic Health Authority (SHA) in monitoring the Trust.

| Section | Target   | To date            | Forecast          | Key Issues   | Risk Status |
|---------|--|--------------------|-------------------|--|-------------|
| 1       | Deliver a surplus Income & Expenditure position                  | £0.024m surplus    | £5m surplus       | <ul style="list-style-type: none"> <li>The SHA has set a control total of £5m surplus for 2007/8.</li> <li>At M3 the Trust is in surplus of £0.024m.</li> </ul>  | Amber       |
| 3       | Remain within External Financing Limit                           | £0.130m            | £0.130m           | <ul style="list-style-type: none"> <li>The Trust's expected External Financing Limit of £0.13m will be achieved.</li> </ul>  | Green       |
| 4       | Remain within the Capital Resource Limit for Operational Capital | £12.773m           | £12.773m          | <ul style="list-style-type: none"> <li>The approved Capital Programme was allocated in detail at the 17<sup>th</sup> July meeting of the CPG.</li> <li>Allocation confirmed by the SHA.</li> </ul>                                 | Green       |
| 5       | Turnaround Plan  | £1.12m             | £16.0m            | <ul style="list-style-type: none"> <li>The Trust has a target of £16.0m cost improvement</li> <li>To date savings of £1.12m have been achieved</li> <li>£3m is rated Red, £9.4m is rated Amber and £3.6m is rated Green</li> </ul> | Amber       |
| 6       | Better payment code - Non NHS payments Target 95%                | No. 56 % Value 61% | No. 60% Value 75% | <ul style="list-style-type: none"> <li>Through weekly cash management we are aiming to achieve forecast</li> </ul>   | Amber       |
| 6       | Better Payment code - NHS payments Target 95%                    | No. 65% Value 76%  | No. 60% Value 75% | <ul style="list-style-type: none"> <li>Through weekly cash management we are aiming to achieve forecast</li> </ul>   | Amber       |

### Key Risk Status:

|       |   |
|-------|---|
| Red   | Significant risk of non-delivery. Additional actions need to be identified urgently       |
| Amber | Medium risk of non delivery which requires additional management effort to ensure success |
| Green | Low risk of non delivery – current management effort should deliver success               |

## 1 Deliver a balanced Income & Expenditure position

### 1.1 Summary Results

The year to date and forecast out-turn position at Month 3, is attached in **Appendix 1**. The Appendix highlights the best and worst case scenarios derived from views expressed by Divisional Managers and the Finance team.

The summary results for the year to date are as follows: -

|     | Category                      | Budget M3 | Actual M3 |
|-----|-------------------------------|-----------|-----------|
|     |                               | £m        | £m        |
| 1.2 | Income                        | 56.2      | 56.0      |
| 1.3 | Expenditure                   |           |           |
|     | Pay                           | (34.8)    | (34.3)    |
|     | Non-pay                       | (15.2)    | (17.0)    |
|     | Depreciation                  | (2.6)     | (2.6)     |
|     | Operating Surplus / (Deficit) | 3.6       | 2.1       |
|     | Dividend Payable              | (2.0)     | (2.0)     |
|     | Finance Costs                 | 0.0       | (0.1)     |
|     | (Over)/Under Spend            | 1.6       | 0.0       |

At M3 the Trust was £(1.6)m overspent compared to its budgeted target.

### 1.2 Income

#### Service Level Agreements (SLAs)

Income reflects 3/12ths of Contract Value adjusted for known changes. Known changes include £0.8m relating to the Quarter 4 2006-07 actual activity compared with that accrued in the 2006-07 annual accounts. The loss of £(0.391)m on MFF reflects recognition of actual MFF income as against the year-end estimate for 2006-07. Additionally the Trust has accrued £0.030m and £0.050m against Harrow and Hillingdon respectively to account for increased activity.

#### Other Income variances

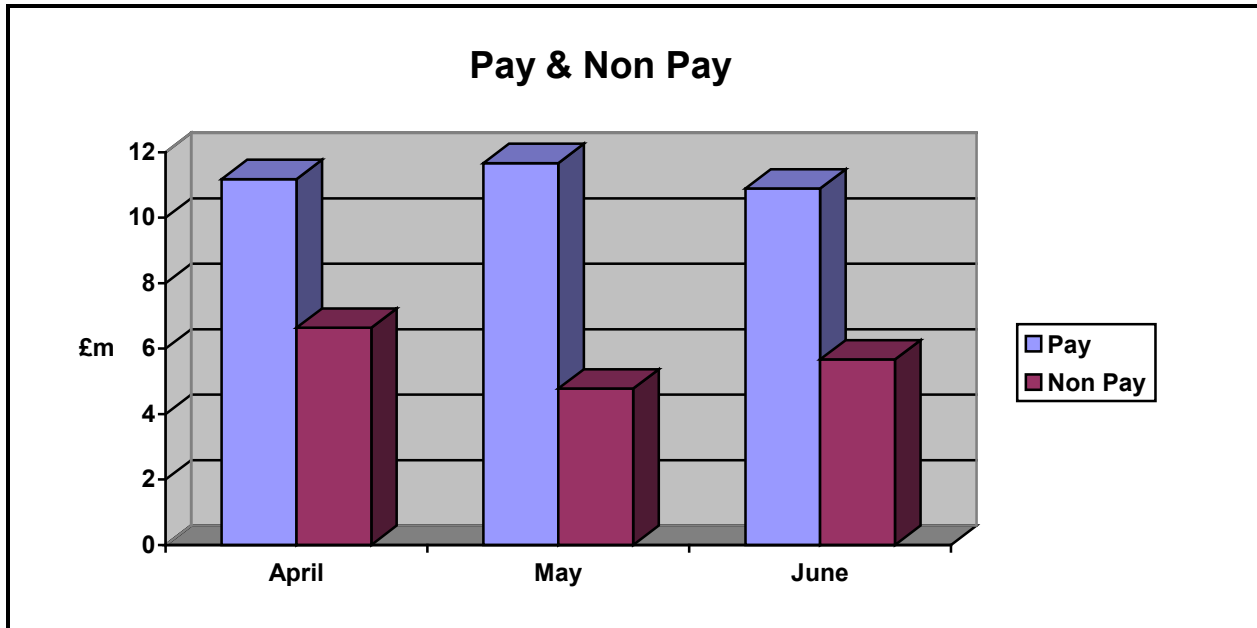
Other NHS Income is showing a shortfall of almost £(0.9)m reflected in a number of variances:

- Design Team income is down £(0.05)m reflecting lower commissioning from the PCTs.
- There was a shortfall in Herts Partnership income of £(0.33)m caused by over budgeting for the year of £(1.239)m for Paediatrics.
- ILYH and LIS are down by £(0.5)m against budget but so are the related expense lines as the expenditure reflects the income received.
- Tablet packing remains £(0.05)m below budget but has improved on previous months performance.
- Income from Accommodation is also £(0.055)m down reflecting the number of rooms closed due to the condition of accommodation.

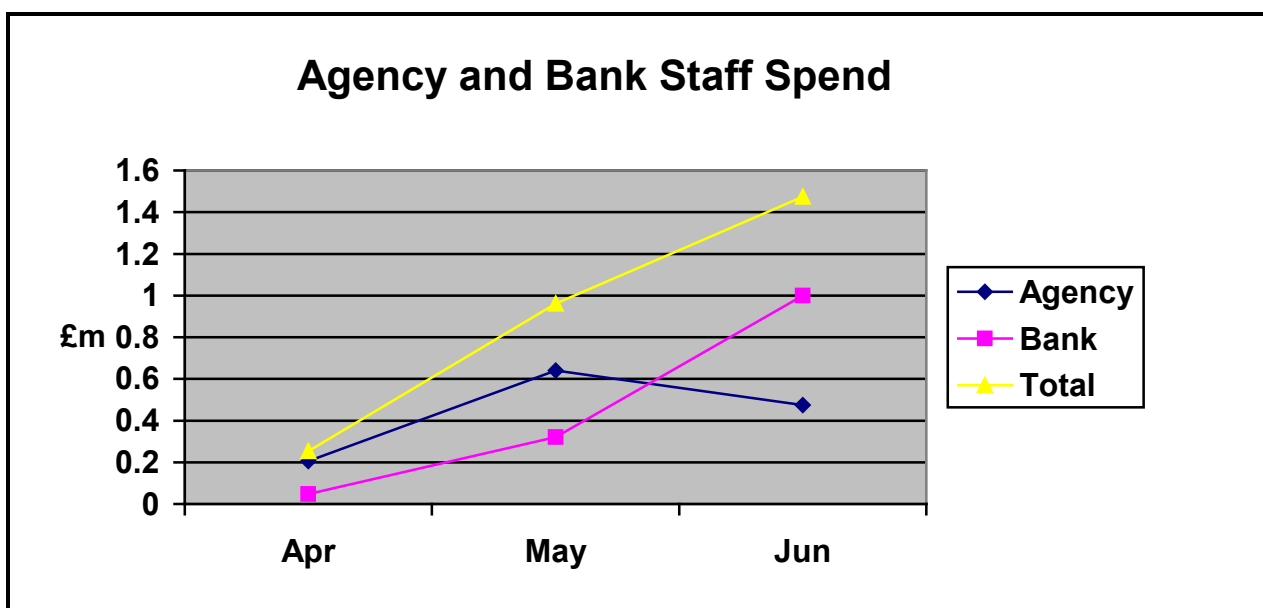
- Other Directorate Income is over budget by almost £(0.1)m reflecting some one off unbudgeted income.

### 1.3 Expenditure

Payroll expenditure has decreased but this is partially offset by increased Agency and bank costs. The overall June pay bill is £0.2m lower than May's. Tighter controls over staff hire and weekly reporting of Agency spend to the Executive have been implemented.



Agency and Bank costs represent 4.3% of total wages bill.



Non pay is over spent at the end of June by £(1.8)m. The significant variances are:

- Blood Products £(0.06)m overspend reflecting higher costs.
- Computer Equipment £(0.04)m overspend caused by radiology imaging system maintenance costs.
- Consulting services £(0.27)m over budget reflecting work on Trading Accounts and Turnaround shortly to be finished.
- Drugs, Medical and Surgical supplies are £(0.48)m over budget. Drug expenditure reflects cost pressures due to NICE approvals, especially in Rheumatology, Nephrology and Gastroenterology. Medical and Surgical supplies expenditure has also increased following a shift of cardiac activity to the Trust in 2006-07; this has increased Catheter Laboratory and cardiac costs.
- Other non pay variance to budget of £(1.3)m reflects savings adjustments to budget that are still to be achieved. Variance against this line will reduce from M4 as savings are profiled against the budget lines targeted to realise these savings.
- Cleaning costs were £(0.03)m over budget reflecting improved infection control and a deep clean operation.
- A £(0.048)m overspend on prostheses reflects work to reduce orthopaedic waiting lists.

#### 1.4 Forecast

The table below shows the current forecast outturn taking account of known changes to the M3 position.

|            | Category                           | Budget Outturn | Forecast Outturn | Variance   |
|------------|------------------------------------|----------------|------------------|------------|
|            |                                    | £m             | £m               | £m         |
| <b>1.2</b> | <b>Income</b>                      | 224.8          | 224.3            | (0.5)      |
| <b>1.3</b> | <b>Expenditure</b>                 |                |                  |            |
|            | Pay                                | (133.5)        | (137.5)          | (4.0)      |
|            | Non-pay                            | (60.1)         | (66.8)           | (6.7)      |
| <b>2.1</b> | <b>Reserves</b>                    | (7.6)          | (4.6)            | 3.0        |
|            | Depreciation                       | (10.4)         | (10.4)           | 0.0        |
|            | Turnaround exc CIPs                |                | 8.5              | 8.5        |
|            | <b>Operating Surplus / Deficit</b> | 13.2           | 13.5             | 0.3        |
|            | Dividend Payable                   | (8.2)          | (8.2)            | 0.0        |
|            | Interest Payable / Receivable      | 0.0            | (0.3)            | (0.3)      |
|            | <b>Surplus</b>                     | <b>5.0</b>     | <b>5.0</b>       | <b>0.0</b> |

Forecast income allows for an estimated increase in PCT SLA and Out of Area income of around £0.5m which partially offsets the £(1.239)m shortfall on HPT income.

## **2 Reserves**

**2.1** From the General Reserve of £2m, budgeted at the beginning of the year, we have utilised £0.456m in funding for Agenda for Change and forecast a further £1.044m given current rates of approved appeals, leaving a General Reserve of £0.5m at year end.

**2.2** The pay reserve is being released monthly to cover the anticipated 1.5% pay increase from 1/04/07.

## **3 Remain within External Financing Limit (EFL)**

**3.1** This is the amount of cash available for the Trust to fund external additions to the Capital Resource Limit (CRL) for the current year. The Trust is currently forecasting an EFL for 07/08 of £0.130m which has been confirmed by the SHA.

## **4 Remain Within Capital Resource Limit (CRL)**

**4.1** The Trust is forecasting a CRL of £12.7m to cover operational capital expenditure i.e. excluding Delivering a Healthy Future. This has been confirmed by the SHA.

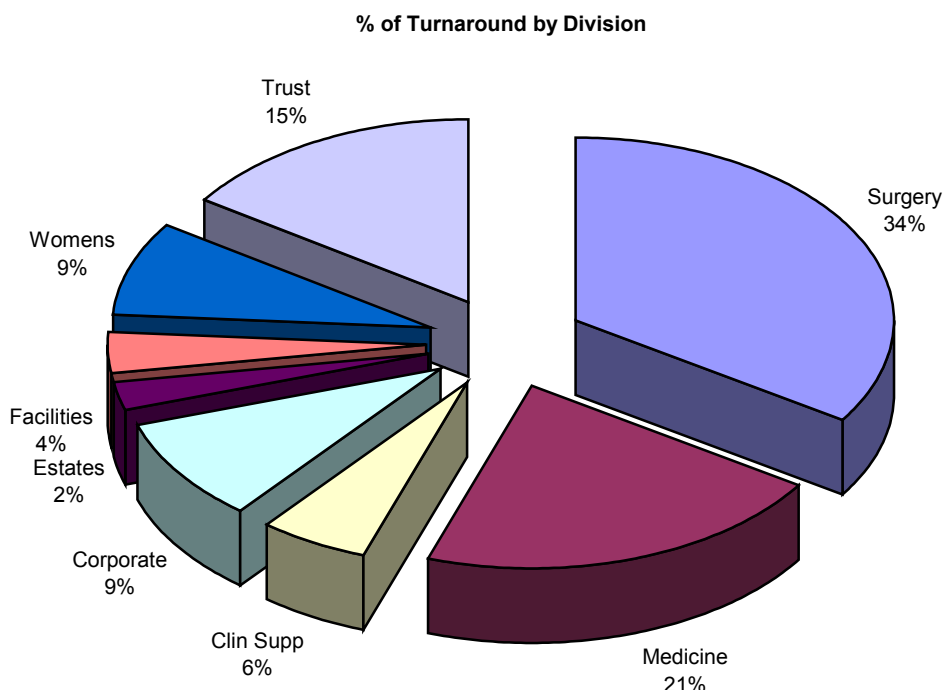
## **5 Turnaround Plan**

**5.1** The objective of the Plan is to return the Trust to overall financial surplus by the end of 2007/08.

**5.2** The Divisions have allocated detailed savings work streams. Actual savings for the year to date total £1.12m.

|                          | <b>Annual<br/>Planned<br/>Savings<br/>(£m)</b> | <b>Forecast<br/>Savings<br/>(£m)</b> | <b>Actual M1-M3<br/>(£m)</b> | <b>Still to be<br/>Achieved<br/>(£m)</b> |
|--------------------------|--|--------------------------------------|------------------------------|--|
| <b>Scheme</b>            |  |                                      |                              |  |
| Pay Reductions CIP       | 3.60   | 5.00                                 | 0.72                         | 4.28                                     |
| Non-Pay CIP              | 1.80   | 2.80                                 | 0.19                         | 2.61                                     |
| Realignment of Workforce | 0.80   | 2.50                                 | 0.00                         | 2.50                                     |
| Procurement              | 3.00   | 1.40                                 | 0.00                         | 1.40                                     |
| Length of Stay           | 0.95   | 1.20                                 | 0.00                         | 1.20                                     |
| Roster Management        | 0.50   | 0.30                                 | 0.00                         | 0.30                                     |
| Theatre Shutdown         | 0.40   | 0.20                                 | 0.00                         | 0.20                                     |
| Theatre Efficiency       | 0.55   | 0.70                                 | 0.00                         | 0.70                                     |
| E-Auctions               | 0.00   | 0.20                                 | 0.00                         | 0.20                                     |
| Corporate                | 0.00   | 0.60                                 | 0.15                         | 0.45                                     |
| Other                    | 5.00   | 1.10                                 | 0.06                         | 1.04                                     |
| <b>Total</b>             | <b>16.60</b>                                   | <b>16.00</b>                         | <b>1.12</b>                  | <b>14.88</b>                             |

**5.3** The pie chart below shows the share of the savings plan allocated to each Division.



**5.4** Risk scoring and detailed work streams have been developed, a summary of which can be seen below.

| Red (£m) | Amber (£m) | Green (£m) | Total (£m)  |
|----------|------------|------------|-------------|
| 3.0      | 9.4        | 3.6        | <b>16.0</b> |

## **6 Better Payment Practice Code**

**6.1** The target of achieving payment of 95% of invoices received within a month has not been achieved. Current figures are Non NHS 61% by value and NHS 76% by value. Although this is a considerable improvement on last year, delays in processing are due to the time required for departments to check and authorise invoices for payment. The ongoing development of electronic authorisation will speed up the authorisation process and assist the Trust in meeting its BPPC obligations.

## 7 Balance Sheet

7.1 The forecast Balance Sheet movements as at 31<sup>st</sup> March 2008 reflect the following:

06/07 funding expended in 07/08

|   |            |
|---|------------|
|   | £m         |
| Capital funding (used to pay creditors at 31/03/07)         | 2.6        |
| AfC provision reduction (used to pay creditors at 31/03/07) | <u>3.7</u> |
|   | <u>6.3</u> |
| Funded by:  |            |
| Reduction in debtors  | 1.0        |
| Increase in creditors                                       | 2.5        |
| I/E net surplus (£5.0m less loan repayments £2.2m)          | <u>2.8</u> |
|   | <u>6.3</u> |

It is forecast that the complete Capital programme will be spent within the year.

## 8 Cash Flow

8.1 At 30<sup>th</sup> June the Trust had a net cash balance of £7.1m made up as follows:

|                                     |            |
|-------------------------------------|------------|
|                                     | £m         |
| Dividend reserve (3.5 months)       | 2.4        |
| Loan repayment reserve (3.5 months) | 0.7        |
| Loan Interest reserve (3.3 months)  | 0.2        |
| Creditor payment runs (to 15 July)  | <u>3.8</u> |
|                                     | <u>7.1</u> |

Currently the Trust has no cash-flow problems and supplier invoices are being paid within 30 days, or as soon as authorised for payment.

The detailed cash flow statement **Appendix 3** provides a reconciliation between the operating surplus of 2.1m and the cash balance of £7.1m.

## 9 Capital Spending

9.1 The Capital Programme Group (CPG) have an approved total budget for 2007/08 for operational capital expenditure i.e. excluding Delivering a Healthy Future, of £12.773m. At the end of Month 3 £0.94m had been expended. Detailed allocations are currently being formulated and were approved at the CPG meeting on 17<sup>th</sup> July.

## 10 Financial Systems

10.1 The project to upgrade the capabilities of the Finance System has commenced. The main elements are:

- Supplier Invoice Scanning. This has been implemented from 1<sup>st</sup> June. In addition all April & May invoices have been scanned to provide a full year's scanned records. All managers will be able to drill-down to invoice level, saving time and the need for copy invoices.

- Electronic Invoice Authorisation. Scanned invoices will be sent via e-mail for authorisation, thus saving time and improving the BPPC payment record. Escalation of unauthorised invoices will occur automatically. The authorisation hierarchy is currently being installed and training is planned. It is planned to go live during August.
- e-Procurement. Theatres and Radiology have been identified as the pilot departments and the electronic catalogues for these departments are currently being finalised. It is planned to commence e-procurement from 1<sup>st</sup> August. A rollout programme across the Trust will be implemented following a successful pilot.
- Electronic Sales Invoice Requests. Managers will be able to request sales invoices electronically and attach supporting documentation. Sales ledger staff will electronically adapt the requests into invoices. It is planned to pilot this during August.
- e-Manager. This will enable managers to drill-down to any document held on the system and to generate local reports. Access will be rolled-out to managers following completion of current training programme.

In addition to the above developments, the requirement for full detailed Trading Accounts will necessitate a substantial re-structuring of the ledger coding structure and hierarchy for the commencement of the 2008/09 year. An initial meeting with the system supplier has been arranged for 13<sup>th</sup> July to discuss the work programme required. Following this meeting, a working group will be set up to progress this task as a matter of urgency.

## **11 Recommendations**

**11.1** The Board is asked to note the content of this report.

***Stephen Day***  
***Director of Finance and Turnaround***  
***July 2007***