

Report to:	Trust Board	Agenda item:	10(ii)
Date of Meeting:	9 November 2011		

Title of Report:	Finance report
Status:	Discussion
Board Sponsor:	Catherine Phillips, Director of Finance
Author:	Lisa Thomas, Deputy Director of Finance
Appendices	None

1. Purpose of Report (Including link to objectives)
<p>The purpose of this report is to set out the Trust's financial performance for the period to 31st October 2011, including:</p> <ul style="list-style-type: none"> • Income and expenditure; • Savings plans; • Capital expenditure; <p>This report is linked to the Trust's priority objective for 2011/12 of improving value for money and the key standard of delivering financial balance.</p>

2. Summary of Key Issues for Discussion
<p>This report details the current and forecast performance against each of the Trust's main financial duties and the key risks and assumptions in the delivery of those financial targets, and includes recommendations where further action is required.</p>

3. Recommendations (Note, Approve, Discuss etc)
<p>The Board should note the Trust's financial forecasts including the planned surplus (see section 2). Action: All</p> <p>The Board should note the Trust's income for October 2011 is based on the agreed contract quantum. The over performance against plan is based on actual activity information for April to October and an estimate for penalty risks. Action: All</p> <p>The Board should note that the adverse variances on Pay and Non Pay as at the end of October are primarily due to unachieved savings (see section 2 and 4). Action All</p> <p>Savings plans need to be fully identified and implemented (5). Action – Divisions/Director of Operations</p> <p>The Board should note the forecast for capital expenditure, which is provisional and includes required additional funding. Action – All</p>

Author: Lisa Thomas, Deputy Director of Finance Document Approved by: Catherine Phillips, Director of Finance	Date: 09 November 2011 Version:1.0
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To understand the key risks and the actions being taken to mitigate them. **Action – All.**

4. Care Quality Commission Regulations (which apply)

Care Quality Commission Regulation 13: Financial position

‘People can be confident that the provider has the financial resources needed to provide safe and appropriate services.’

5. Legal / Regulatory Implications (NHSLA / Value for money conclusion)

Not achieving financial duties will impact on the ability and sustainability to achieve the Value for money conclusion.

6. NHS Constitution

Not applicable

7. Risk (Threats or opportunities link to risk on register etc)

As captured in board assurance framework

8. Resources Implications (Financial / staffing)

Not applicable

9. Equality and Diversity

Not applicable

10. Communication

Not applicable
















11. References to previous reports

Standing item

12. Freedom of Information

Public

Financial Performance to 31st October 2011 (Month 7)

Income and Expenditure				
	In Month	£1,856 A	Main issues in month are unachieved savings, under performance against income	4
	Year to Date	£4.6m A	Main issues are shortfall against saving target £4.6m offset with overperformance Income	5
	Outturn Position	£6.2m F	Assume at this stage we will achieve £6.2m surplus position at year end	6
	Risks to forecast		Risks to achieving Demand Management Capacity reductions and full year CIP plans	6
Cost Improvement Programme				
	YTD (CYE)	£5.8m shortfall	YTD £3.2m achieved against target of £7.8m	9
	Forecast (CYE)	Shortfall £5.8m	£11.5m identified against £17.3m target	9
	FYE 2011/12	Shortfall £2.0m	£15.3m identified against full £17.3m target	9
	Key risks		Divisions fail to identify the full savings required	9
Statement of Financial Position (Formerly the Balance Sheet)				
	Year to Date		No material movements in month	10
	Full Year forecast			
Cash				
	In month movement	£0.7m	Cash above plan however risks remain with I&E position and delay on capital loan decision	11
	Risks		Need to monitor cash carefully, any shortfall on CIP schemes will leave a cash flow shortfall.	
Capital				
	year to date	£5.2m spend	Currently behind plan awaiting decision on additional PDC loan	12
	Risks		Forecast to achieve capital plan in full £17.7m. Risk depends on receiving additional PDC	
Monitor Risk Ratings				
	year to date	FRR2	Minimum requirement for authorisation, risk to ratings are liquidity and surplus margin.	13

Key: A = adverse variance; F = favourable variance

Financial Performance to 31st October 2011 (Month 7)

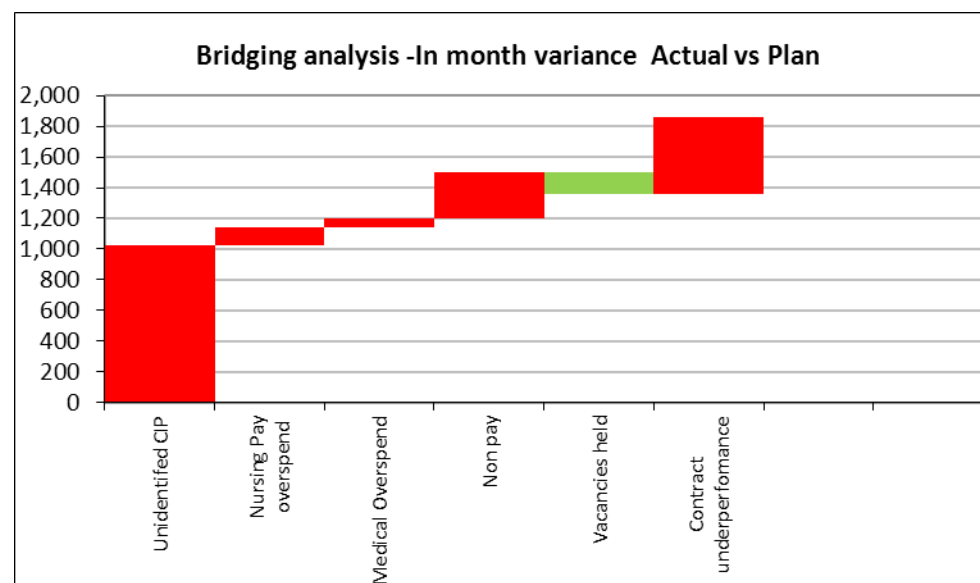
1. Statement of Comprehensive Income– In month position for October 2011 (formerly I&E Statement)

Table 1 Statement of Comprehensive Income Trust Position 31 October 2011	Budget £'000	In-Month Position Actual £'000	Variance £'000	Last Month Actual £'000
SLA Performance Income	(15,058)	(14,586)	472	(15,357)
Other Income	(2,830)	(2,805)	25	(2,757)
Income Total	(17,888)	(17,391)	498	(18,113)
Pay	10,942	11,468	526	11,849
Non Pay	4,294	5,109	814	5,235
Expenditure Total	15,237	16,577	1,340	17,084
Operating (Surplus)/Deficit	(2,652)	(814)	1,837	(1,029)
Depreciation	665	663	(2)	665
Dividend Payment & Interest	463	483	19	463
Finance Charges	1,128	1,146	18	1,128
(Surplus)/Deficit	(1,523)	332	1,855	99
Margin	0	0		0

1.1. The financial plan for October was to deliver a surplus of £1.5m. The Trust actually reported a deficit of £0.3m (£1.9m adverse against Plan).

1.2. The in- month variance is illustrated in the bridging diagram opposite; the main area of adverse performance relates to savings shortfalls £1m, and under performance on income £0.5m

in month.



1.3. The October position is a continuation of previous month's trends of unachieved savings combined with budget pressures of nursing pay (escalation costs) and medical and surgical equipment is causing significant concern to achieving the year end surplus target. Performance on income this month is below plan by £0.5m.

1.4. The SLA performance income is based on the first draft of October activity, which includes an estimate for un-coded spells.

2. Statement of Comprehensive Income– Year to date position for 31st October 2011 (formerly I&E Statement)

Table 2 Statement of Comprehensive Income 31 October 2011	Year to date Budget £'000	Year to date Actual £'000	Year to date Variance £'000	Last Year Actual £'000
SLA Performance Income	(102,061)	(105,842)	(3,780)	(107,877)
Other Income	(18,938)	(18,603)	335	(19,452)
Income Total	(121,000)	(124,445)	(3,445)	(127,330)
Pay	77,105	81,021	3,916	78,942
Non Pay	31,114	35,262	4,148	34,824
Expenditure Total	108,219	116,283	8,064	113,766
Operating (Surplus)/Deficit	(12,781)	(8,162)	4,619	(13,563)
Depreciation	4,655	4,648	(7)	4,512
Dividend Payment & Interest	3,243	3,263	20	3,235
Finance Charges	7,897	7,911	14	7,748
(Surplus)/Deficit	(4,884)	(251)	4,633	(5,815)
Margin	0	0	0	0

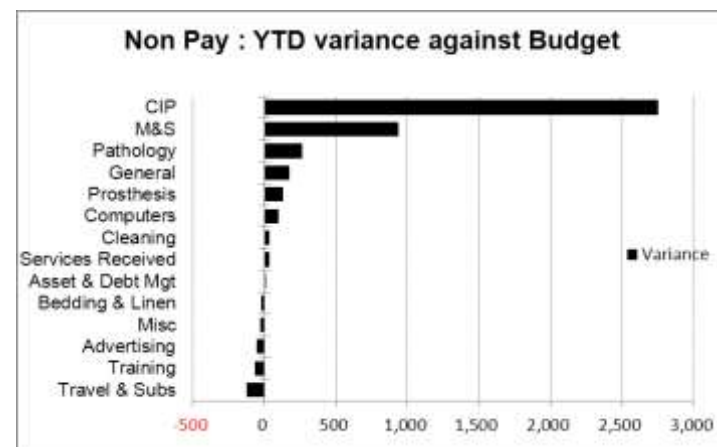
2.1. Our year to date position is a £0.2m surplus, but shows an adverse variance of £4.6m, against a surplus plan of £4.9m.

2.2. Slippage against savings targets accounts for £6.4m of the total £8.1m (79%) adverse variance in expenditure. Of this underachieved savings £1m relates to PCT QIPP which is offset by over performance income.

2.3. Excluding the savings targets, pressures remain on the nursing budget which is now showing an adverse variance of £1.2m

(4.6% over plan) of which £451k is agency spend. Of this £146k relates to the costs of the additional escalation beds.

2.4. Non pay spend has decreased in October and is £0.1m below the September spend. The main change is in Surgery where the Blood products spend has been reduced based on revised activity information by £98k.



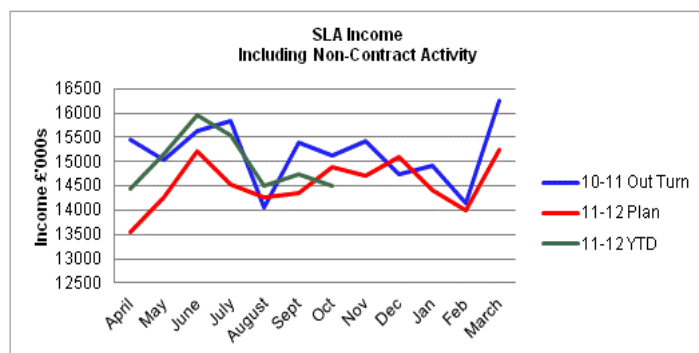
3. Total Trust Detailed Analysis

The detailed analysis provides a breakdown of performance by both income and expenditure types

Income

Table 3 SLA Performance PCT	Annual Plan £'000	YTD Plan £'000	YTD Actual £'000	YTD Variance £'000
Banes PCT	(69,905)	(40,607)	(42,099)	(1,492)
Bristol PCT	(813)	(462)	(435)	26
Gloucestershire PCT	(241)	(149)	(177)	(28)
Non Contract Activity	(1,822)	(1,128)	(572)	557
Other South West PCT's	(27,498)	(15,954)	(16,755)	(801)
SW Specialised Commissioning	(4,641)	(2,868)	(2,771)	97
Wiltshire PCT	(70,779)	(40,893)	(43,033)	(2,140)
Income Total	(175,699)	(102,062)	(105,842)	(3,780)

Table 4 Income performance 31st October 2011	Annual Plan £'000	YTD Plan £'000	YTD Actual £'000	YTD Variance £'000
A & E	(6,522)	(3,864)	(4,043)	(179)
Elective	(33,372)	(19,647)	(19,448)	199
Non-Elective	(60,165)	(34,167)	(36,455)	(2,288)
Outpatients	(32,533)	(18,929)	(20,134)	(1,205)
Other	(42,376)	(24,719)	(25,023)	(304)
High Cost Drugs & Devices	(735)	(735)	(739)	(4)
Income Total	(175,704)	(102,062)	(105,842)	(3,780)



3.1. The tables opposite highlight the main areas of over-performance against contracts. Within the Trusts main commissioners, over performance is being driven, in the main, by the need to deliver the 18 week target and slippage of PCT QIPP targets. The overperforming trend has dipped in month as non-elective activity did not increase in line with planned expectations, although this may be recovered in future months. Furthermore daycase rates remain lower than the first quarter of the year.

3.2. The income position is based on the first draft of performance information for April to October.

3.3. Work remains on-going for both the Trust and the PCT's to recognise a realistic outturn that not only reflects current activity levels but can also be used to inform recurrent activity levels in the future and be used to enable effective capacity planning.

3.4. Non-delivery of key national targets for both performance and quality remains a significant contract income risk. The most significant potential risks being: fining for non-achievement of 18-week referral to treat targets; non-delivery of CQUIN and income loss due to data quality and recording issues. Robust risk monitoring remains in place to enable early warning of performance and quality issues and corrective action to be implemented where required.

Pay

3.5. The table below identifies the number of staff employed (using a “worked” WTE measure) for October. The Trust plan in September was 3,201 WTE versus an actual headcount of 3358 WTE (actual includes agency) i.e. an adverse variance of 160 WTE. An estimate for reduction of WTE has been included to match the unidentified savings target; this is based on the Trust’s average salary cost.

by Staff Group	Plan WTE	Actual WTE	Locum /Agency WTE	Variance WTE
Admin and Clerical	632	606	5	-21
Allied Health Professionals	577	543	4	-30
Consultants	168	164	5	1
Other Medical Staff	289	276	2	-11
Nursing	1294	1307	6	19
Other	2	0		-2
Management	97	88		-9
Support Staff	354	354	0	0
Unallocated Savings	-212			212
Total WTE	3201	3338	23	160

3.6. Pay expenditure is above budgeted levels (the plan includes all savings targets). Excluding the year to date pay savings target of £3.6m the current overspend against plan is £0.3m.

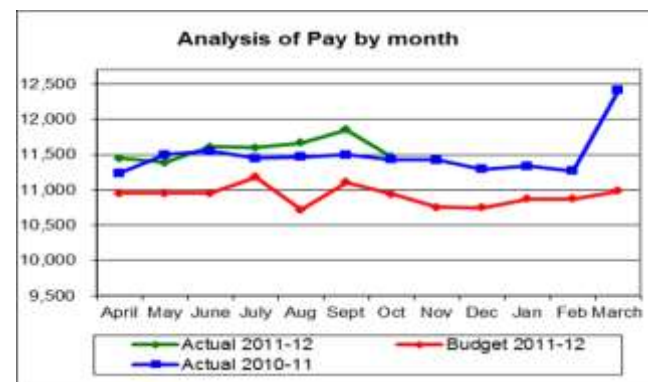
3.7. This includes

- Nursing £1.2m above plan (£0.4m relates to agency spend)
- Medical staffing costs are £0.2m above plan. Waiting lists payments are £489k year to date.

- Admin and senior manager posts underspent against plan £0.3m
- Scientific & Technical staff and PAMs underspent against plan £0.5m

3.8. Of the £1.2m nursing overspend; £0.9m (75%) relates to supporting the continued additional escalation beds being open. To be able to fully achieve the capacity savings associated with reductions in length of stay these beds must be closed.

by Staff Group	Annual Plan £000's	YTD Plan £000's	YTD Actual £000's	YTD Locum /Agency £000's	Total Variance £000's
Admin and Clerical	14,894	9,203	8,896	262	-44
Allied Health Professionals	20,909	12,145	11,550	132	-463
Consultants	23,858	13,854	13,639	267	53
Other Medical Staff	18,275	10,730	10,494	400	164
Nursing	45,514	26,442	27,216	451	1,226
Other	54	31	31		0
Management	6,029	3,560	3,276		-283
Support Staff	7,707	4,484	4,402	2	-81
Unallocated	442	254	2		-253
Unidentified Savings	-6,361	-3,597			3,597
Total Pay Costs	131,322	77,105	79,506	1,515	3,915



3.9. To achieve a balanced position against the pay budgets, the Trust would need to reduce the pay bill by £1.3m a month, for the next five months. To achieve this agency spend must be the first target for reduction, the current rate is £0.2m in the month of the £1.3m requirement.

Non Pay

3.10. The Non Pay table overleaf shows the Trust's position to date, which is £4.2m adverse to plan. Of this £1.7m relates to the shortfall against the Savings target.

3.11. Excluding savings and QIPP the Trust is overspent against plan by £1.5m year to date. The main overspend includes Drugs £0.2m, Medical and surgical supplies £1m, Premises costs £0.2m.

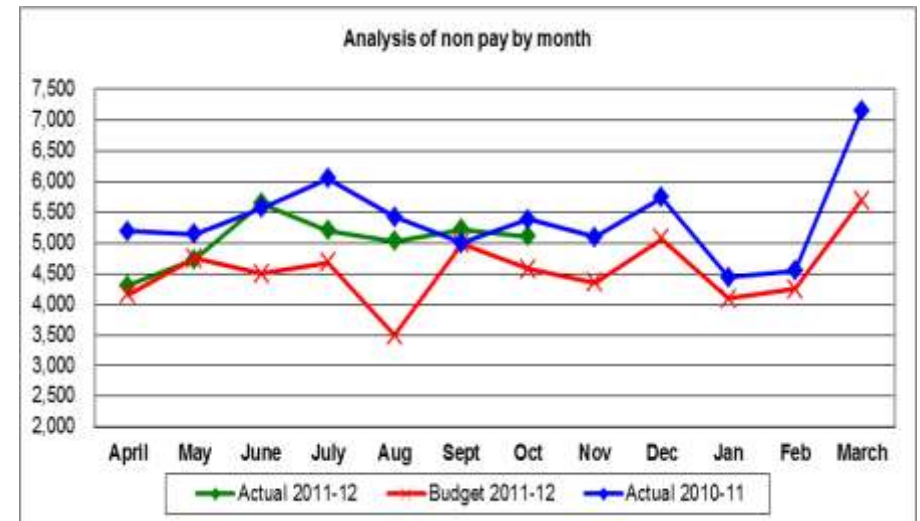
3.12. Pathology remains a cost pressure £0.4m year to date; this pressure comprises of blood, HPA contract and pathology reagent contracts.

3.13. In the Medicine division Cardiology and Gastroenterology are overspent as a result of increased activity £0.4m. Radiology is overspent £0.1m on external services including MRI.

3.14. Non pay controls have been implemented to ensure division are limiting expenditure within control totals. The YTD position on Non pay is currently £0.4m higher than the same period last year.

Table 7

Non Pay Category	Annual Plan £(000's)	YTD Plan £(000's)	YTD Actual £(000's)	YTD Variance £(000's)
Clinical Supplies & Services	34,243	19,481	22,471	2,990
Consultancy Services	730	418	366	(52)
Depreciation & Impairments	8,219	4,795	4,795	
Establishment Expenditure	3,067	1,779	1,710	(70)
General Supplies & Services	2,994	2,040	3,263	1,223
Miscellaneous	6,339	3,573	3,403	(170)
Premises & Fixed Plant	11,821	6,925	7,166	241
Total Non Pay Costs	67,413	39,011	43,173	4,162

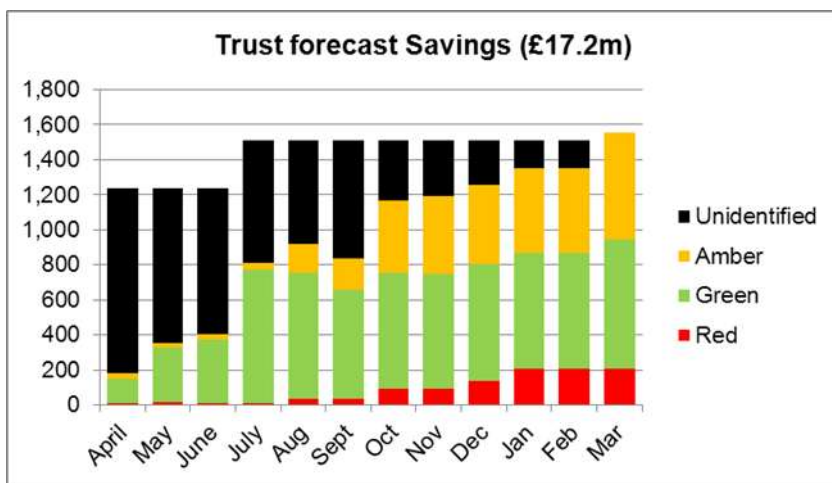


4. Cost Improvement Plans (CIPs)

4.1. The Trust total savings target for 2011/12 is £17.3m.

4.2. This is a combination of internal efficiencies related to 2011/12 (£8.3m) and capacity reductions associated with Demand Management schemes (£5m). In addition the Trust had £4m unidentified CIP brought forward from 2010/11.

Table 8 Savings delivery 2011/12	Annual Target			FYE Identified £'000	FYE Gap £'000
	£'000	Identified £'000	Gap £'000		
Trust CIP Target	14,810	9,004	5,806	12,846	1,964
Disinvestment linked to PCT QIPP	2,500	2,500	0	2,500	
	17,310	11,504	5,806	15,346	1,964



4.3. The current shortfall against the savings target of £5.8m is being offset through non recurrent measures and the over performance against SLA income.

4.4. The year to date performance is outlined in table below, £9.4m savings were profiled for delivery in the first seven months of 2011/12, of which £4m were achieved (43%).

4.5. Action plans are currently being developed in conjunction with a review of divisional performance against forecast for September and October to close the current gap; including mitigating schemes for non-recurrent savings.

Table 9 Savings delivery YTD	YTD Target £'000	YTD Actual £'000	YTD Variance £'000
Trust CIP target	8,281	2,902	5,379
Disinvestment linked to PCT QIPP	1,087	1,087	0
	9,368	3,990	5,379

5.5. It is unlikely the Trust will close the full £5.4m in year savings gap this year; the focus is to ensure that the full year gap of £2m is closed to ensure the Trust is in the best position next financial year. Schemes which have slipped in year are currently being reviewed to ensure maximum impact of savings for 2011/12 Any shortfall against savings is being mitigated through income over performance from SLA contracts.

5. Statement of Financial Position (Formerly Balance Sheet)

As per 2010/11 £'000	Table 10 Statement of Financial Position as at 31st October 2011	Last Month balance £'000	Actual to date £'000	Movement YTD In Month £'000 £'000	
	Non-Current Assets				
154,245	Property, Plant and Equipment	155,366	155,992	1,747	626
789	Intangible Assets	839	839	50	0
82	Other Financial Assets	121	82	0	(39)
1,626	Trade and Other Receivables	1,762	1,507	(119)	(255)
156,741	Total Non-Current Assets	158,088	158,420	1,678	332
	Current Assets				
3,182	Inventories	2,972	2,819	(363)	(153)
9,331	Trade and Other Receivables	12,008	10,478	1,147	(1,530)
82	Other Financial Assets	43	82	(0)	39
2,000	Cash and Cash Equivalents	5,167	5,877	3,877	710
14,595	Total Current Assets	20,190	19,256	4,661	(934)
	Current Liabilities				
(12,483)	Trade and Other Payables	(18,279)	(17,544)	(5,060)	735
0	Other Liabilities	0	0	0	0
(7,200)	DH Working Capital Loan	(6,772)	(6,772)	428	0
(231)	Borrowings	(152)	(132)	99	20
(1,049)	Provisions for Liabilities and Charges	(830)	(1,373)	(325)	(543)
(20,963)	Total Current Liabilities	(26,033)	(25,821)	(4,858)	212
(6,367)	Net Current Assets/(Liabilities)	(5,843)	(6,564)	(197)	(721)
	Non-Current Liabilities				
(345)	Borrowings	(345)	(345)	0	0
(6,500)	DH Working Capital Loan	(6,500)	(6,500)	0	0
(2,066)	Provisions for Liabilities and Charges	(2,066)	(2,066)	0	0
0	Other Liabilities	0	0	0	0
(8,911)	Total Non-Current Liabilities	(8,911)	(8,911)	0	0
141,463	Total Assets Employed	143,334	142,944	1,481	(390)
	Finance by taxpayers' equity				
(135,545)	Public Dividend Capital	(135,545)	(135,545)	0	0
39,237	Prior Year Retained Earnings	39,237	39,237	0	0
0	Current Year Retained Earnings	(583)	(251)	(251)	332
(38,957)	Revaluation Reserve	(38,957)	(38,957)	0	(0)
(6,198)	Donated Asset Reserve	(7,486)	(7,428)	(1,230)	58
(141,463)	Total Taxpayers' Equity	(143,334)	(142,944)	(1,480)	390

5.1. **Non-Current Assets** have increased year to date by £1.7m, as a result of capital expenditure of £2.9m (CHP project and Millennium IM&T project), offsetting the depreciation charge.

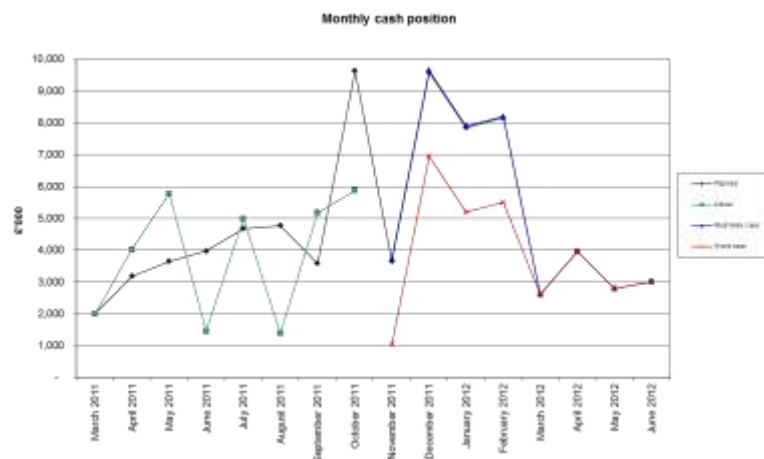
5.2. **Current Assets:** year to date have increased by £4.7m, debtors have increased by £0.9m, mainly related to NHS income for contract over performance. The Trust is having on-going discussion with our main commissioners to resolve outstanding queries.

5.3. **Current Liabilities:** year to date have increased by £4.9m mainly because invoices accrued, this reflects the difference between timing of receipt of invoices and payment.

5.4. **Capital and Reserves:** Within reserves, retained earnings have changed in line with the surplus earned for the year-to-date. The Donated Asset reserve has increased by £1.2m which reflects new assets donated to the Trust of £1.3m to fund the NICU development and a transfer to income to reflect depreciation charges on previously donated assets.

6. Cash

Statement of cash flows			
	YTD Plan	YTD Actual	YTD Variance
	£'000	£'000	£'000
Operating surplus/(deficit)	10,129	7,348	(2,781)
Movements in:			
Inventories	0	249	249
Receivables	(1,643)	(2,813)	(1,170)
Payables	2,806	5,520	2,714
Provisions	(219)	(219)	0
Reversal of accrued finance costs			0
Cashflow from operations	11,073	10,085	(988)
Capital expenditure	(6,348)	(3,361)	2,987
Asset disposals	0	0	0
Cashflow before financing	4,725	6,724	1,999
Net interest paid	144	(144)	(288)
Dividend paid	(2,349)	(2,636)	(287)
Repayment of borrowings	(936)	(777)	159
PDC Received		0	0
Net in/(out)flow	1,584	3,167	1,583
Opening cash balance	2,000	2,000	0
Closing cash balance	3,584	5,167	1,583



6.1. The current cash balance is £5.2m i.e. £3.6m above the planned balance of £1.6m. The cash position has improved in the month due to improved debt collection and prioritisation of payments to suppliers.

6.2. At this stage of the financial year we remain confident that the cash forecast will be achieved at year end; however given the risk to the I&E forecast outlined in section 3, the requirement to pay back the loan, and the options regarding capital outlined below, the cash position will need careful monitoring to ensure we can meet our cash commitments.

7. Capital

Capital Report as at 31 October 2011	Annual Budget 2011/12			Trust YTD position		
	Total	Donated	Trust	Spend	Commitments	Outstanding under/(over)
Capital theme	£'000	£'000	£'000	£'000	£'000	£'000
Source of Funding						
Depreciation (Purchased Assets)	7,000	0	7,000			
Loan Repayment	(1,000)	0	(1,000)			
Additional DH capital	10,000	0	10,000			
Charitable funds	1,700	1,700	0			
Total source of Funding	17,700	1,700	16,000	5,193	2,810	7,997
Estates Five year programme	1,000	0	1,000	466	251	283
IM&T	1,658	0	1,658	537	150	971
Medical equipment	3,498	505	2,993	231	118	2,644
Leased Assets	53	0	53	41	12	0
Strategic capital schemes	11,863	1,195	10,668	3,918	2,279	4,471
Planned (deferral)/underspend	(372)	0	(372)	0	0	(372)
Total Capital Plan 2011/12	17,700	1,700	16,000	5,193	2,810	7,997

7.1. This year's Capital Resource Limit (CRL) is £17.7m, which consists of a depreciation reserve of £7.7m, plus an additional £10m. It has been confirmed that the £10m will not be coming from the DoH in the form of PDC; therefore other options are currently being considered. The Trust also anticipates £1.7m of its capital programme to be funded from charitable funds.

7.2. The capital plan has been through a prioritisation process to identify where capital funds should be allocated. In addition £1m of the capital plan has been identified to enable the Trust to meet its loan repayment.

7.3. The year to date capital spend is £4m, the capital plan has been produced on the basis of the receipt of the £10m PDC from the DoH, therefore as the decision has been delayed some of the strategic capital work has not started.

7.4. The main schemes that have progressed to date are the CHP energy scheme £2.3m year to date, £0.5m on the IM&T programme incorporating the Millennium upgrade and £0.2m on the Victoria Ward upgrade scheme.

8. Financial Risk ratings

Financial risk ratings	Criteria	Metric	Weight	Scoring Criteria					YTD Plan rating 2011/12	YTD Score 2011/12	YTD Risk 2011/12
				5	4	3	2	1			
Underlying Performance		EBITDA Margin %	25%	11%	9%	5%	1%	<1%	5	6%	2
Achievement of Plan		EBITDA achieved %	10%	100%	85%	70%	50%	<50%	4	63%	3
Financial Efficiency		Return on assets %	20%	6%	5%	3%	-2%	<-2%	5	2%	3
Financial Efficiency		I&E surplus margin	20%	6%	5%	3%	-2%	<-2%	5	0.0%	2
Financial Efficiency		Liquid days ratio	25%	35	25	15	10	<10	2	4	1
Overriding rules		Overriding rules	FRR= 2 if two financial criteria scored 2								
Overall rating		Overall Rating						3		2	

8.1. The current monitor risk rating shows we would achieve a 2 as at the end of October. This is the below the minimum risk rating level for the Trust to be authorised as a Foundation Trust.

8.2. The Trust has a level 2 in two areas and liquidity is 4 days which is level 1 (excluding the assumed working capital facility of £15m available as FT). The Trust is not delivering a large enough surplus, year to date to achieve above of 2. This is in part driven by the lower than plan I&E surplus.

8.3. To improve this ratio for the rest of the year the Trust will need to significantly improve its income and expenditure surplus, and achieve further cost improvement plans.

8.4. The risk remains if the Trust does not deliver a year end £6.2m surplus position both its I&E risk ratings and cash rating mean the Trust cannot proceed to Foundation Trust authorisation.

8.5. In addition to Monitors ratings the Trust plans to achieve the key statutory duties for a Trust namely, breakeven duty, capital absorption rate and better practice payment practice code.

9. Key and Abbreviations

Throughout the report:

Income, surpluses and favourable variances are expressed as negative values, denoted by figures in brackets e.g. (25). Figures expressed in £k means £1000s; so, £25k = £25,000. Expenditure and adverse variances are expressed as positive values.

In simple, brackets equal good, no brackets equal bad.

Capex	Capital Expenditure
CIP	Cost Improvement Programme (see CIP below)
CNST (Insurance policy)	Clinical Negligence Scheme for NHS Trusts
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
Financing	Capital Charges and Depreciation
FRP	Financial Recovery Plan
I&E	Income and Expenditure Account
NESC	Non Medical Education Funding
PGMC	Post Graduate Medical Centre
CIP	Cost Improvement Plan (savings target)
WTE	Whole time equivalent (measure for headcount)
YTD	Year to Date
BPPC	Better Practice Payment Code