Report to Directors for the period ending August 2010	
Subject	**Finance Report**
Purpose	Report to Board on key financial and performance indicators for August 2010
Responsible Executive	Director of Finance
Author of attached Report	Deputy Director of Finance
	Finance • YTD cumulative deficit of £1,438k against plan deficit of £2,685k • Income £1.7m ahead of plan in total • Operating expenditure £0.5m higher than plan • EBITDA £1.2m ahead of plan • Normalised cash position is £2.7m adverse • Financial Risk Rating is 1 for the month, but a forecast of 2 for the year • Forecast I&E deficit £3.5m as per annual plan
Paper Seen By	Finance and Performance Committee
Strategic Impact	Current financial performance threatens future of organisation and requires continued action to bring back into balance.
Risk Evaluation	Significant risk: underlying financial performance continues to be weak. The year end deficit is planned at £3.5m, projected figures for 2011/12 indicates high continued financial deficits without significant CIP delivery. The delivery of the identified savings will be very challenging. It is important to ensure that service quality is maintained and overall performance is carefully managed.
Impact on Standards for Better Health	Key element of compliance with Standard C7d. Compliance with that standard will not be achieved with a Financial Risk Rating of 1 for the month.
Legal Implications	Compliance with Monitor Terms of Authorisation.
Financial Implications	Cash is challenging this year and as deficits continue will be an increasing problem. Our Prudential Borrowing Limit is low and planned capital expenditure must be minimised. A savings plan is in place and further actions are being developed. Cash position continues to be a critical issue, however NHS Dorset are advancing cash until March 2011.
Recommendation	Focus management on turnaround plan. Ensure existing CIPs will be delivered to avoid deterioration in year end position.
Action Required by Board of Directors	• To note and advise actions on the financial performance • To note that our risk rating is forecast 1 and we are non-compliant with Monitor's terms of authorisation. • To note the serious cash position • To note the 18 week impact.

FINANCE REPORT AUGUST 2010

1. EXECUTIVE SUMMARY – KEY RISKS AND ISSUES

The key risks and issues to be noted and addressed by the Board are summarised in the table below.

Target	Key Issue/Risk	Status
Cost Improvement Program	Non delivery of the target of £6.0m for 2010/11 is a risk at approx £0.4m. Program for 2011/12 has been identified with support from PWC and needs robust development to deliver in 2011/12.	Amber
Consultancy and turnaround costs	Costs forecast to exceed budget by £350k due to continued use of PWC and appointment of Interim Turnaround Director.	Red
Elective performance	The current over performance for the 5 months against contract is an issue that needs to be controlled operationally, due to the upper threshold contained within the contract. as there is no payment for activity above this threshold. ***In month 5, the Trust lost £163k due to breaching this upper threshold.***	Red
Elective activity backlog	It is not clear how much more activity has to be provided above core capacity for the rest of the financial year to maintain 18 weeks keeping to the IMAS model and whether costs can be contained within the £3.5m budget that has been set aside for backlog and sustainability investment.	Amber
Cash	The underlying cash position continues to remain difficult for March 2010/11.	Red
Vacancy Freeze	The current holding of vacancies is not sustainable, due to service pressures within the hospital, which is a risk. Also a concern is that posts are not being recurrently identified to be removed from budgets, which will reduce financial impact into 2011/12, if not addressed.	Red

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.

2. OVERVIEW

	Plan YTD £m	Actual YTD £m	Var YTD £m	Plan FOT £m	Fcst FOT £m	Var FOT £m
Income	60.3	62.0	1.7	146.2	147.9	1.7
Expenditure	(63.0)	(63.4)	(0.4)	(149.7)	(151.4)	(1.7)
Surplus (Deficit)	**(2.7)**	**(1.4)**	**1.3**	**(3.5)**	**(3.5)**	**0.0**

The results for the 5 months are better than plan by £1.3m.

The key indicators of WTE had been broadly flat for the last 3 months prior to August and had moved in the correct direction, but August has seen a sharp increase (**Schedule P**). Pay costs have remained flat but the increasing agency spend is concerning. The utilisation of staff in August was again below the WTE budget figures, however pay costs themselves were above the budgeted pay, which can be accounted for by increasingly excessive agency usage, and the Waiting list Initiative (WLI) payments (where the WTE is not counted). The current holding of vacancies is not sustainable due to service pressures within the hospital, which is a concern and risk.

The key indicators of normalised expenditure run rate is still relatively flat taken across the forecast year and clearly this is still an unsustainable level.

The normalised cash flow key indicator shows that we are continuing to manage our cash well. Our PDC has been deferred from March 2010 has been deferred to a repayment date of September 2011.

The current over performance for the first 5 months against the main NHS Contract for 2010/11, is an issue that needs to be closely monitored and controlled throughout the year, due to the upper threshold contained within the contract, because we will not be able to charge for activity above this threshold. In August, the Trust breached this threshold and has currently lost £163k of income against work it has completed.

In addition, the Trust has spent £1.4m on additional activity to clear the backlog for achieving the 18 weeks target. Clearly analysis still needs to be completed to understand how much more activity has to be provided above core capacity for the rest of the year and whether costs can be contained within the £3.5m budget, that has been set aside for backlog and sustainability investment.

We are managing closely the operational performance of the hospital on key targets:

- 4 hour A&E target marginally delivered at 97.3%, against the 95% contracted target.

- Non admitted 18 weeks delivered at 98%, against the 95%contracted target.
- Admitted 18 weeks delivered at 96% against the 90% contracted target.

The year end forecast remains at a £3.5m deficit despite the favourable month 5 position, mainly due to the risks of delivering the CIP savings programme, which is weighted heavily to the back end of the year, continuing consultancy costs for turnaround and the uncertainty around 18 weeks delivery in terms of overachievement of the contract. What is clearly demonstrated is that we have a critical dependency on staff turnover to enable pay savings, which represent the major portion of overall savings, to be delivered. The focus has to be maintained on both 2010/11 and on 2011/12, which will also be impacted by the contract agreed with NHS Dorset. Although the Trust has identified and developed outlines for a considerable number of savings plans supported by PWC, it still has a long way to go to deliver these savings to bring the deficit down and to move towards financial stability.

3. MONTH AND YEAR TO DATE

3.1 The cumulative position at the end of August is a deficit of £1,438k versus a planned deficit of £2,685k, a favourable position of £1,247k against plan (**Schedule A**).

3.2 In August month, we incurred a deficit of £254k against a planned deficit of £1,016k, a favourable performance of £762k.

The key drivers in August were as follows:

a) **£876k** income was higher than plan for the month mainly due to:

- Favourable: NHS contract including associates over performance at £993k, mainly caused by higher elective activity than planned;
- Adverse: NHS contract loss of income above upper threshold of £163k;
- Favourable: Non Contracted Activity (NCA) £113k higher than plan;
- Adverse: Other contracted income losses of £72k;

b) **£136k** operating expenditure (**Schedule D**) was higher than plan for the month mainly due to:

- Pay costs £94k adverse to plan, mainly due to excessive agency costs being incurred at premium rates and Waiting list Initiative (WLI) payments.
- Non pay costs were £42k adverse to plan, the main movements were:
  - Adverse: £41k of unachieved CIP;
  - Adverse: £33k due to activity over performance;
  - Favourable: External provider costs £80k, due to reduced use of private hospitals to meet 18 week RTT target;

- Adverse: Consultancy costs with PWC £79k higher than planned;
- Favourable: training cost budgets £25k under spent,

3.3 EBITDA was £741k favourable against plan for the month.

4. FORECAST OUTTURN

4.1 The outturn forecast is a **deficit of £3.5m**, which is as per the Annual Plan.

4.2 The costs for additional short term private providers and WLI capacity due to potential target breaches, and sustainability in Orthopaedics, have been included in the forecast at approximately £3.5m.

4.3 Identified risks & opportunities are detailed in Schedule R, with the greatest risks to the forecast being CIP delivery and resolution of the funding arrangements for cancer drugs with the PCT and Poole hospital.

5. CASH

5.1 At the end of August, the Trust held a cash balance of £10.3m. This was, however, driven by a deferment of the PDC dividend due in March 2010 of £1.3m and a PCT advance of £11.7m, the underlying position is therefore **£2.7m adverse**. We still have to reach formal agreement over the long term cash funding and this means cash still requires careful day to day management.

5.2 Creditor days were 40 days for August. There has been a decrease in the August debtors at £451k over 60 days, compared to July £514k.

5.3 The underlying cash position continues to remain very difficult and challenging for 2010/11. We continue to discuss with NHS Dorset how we can meet our cash requirement in the most optimal way.

6. CAPITAL

6.1 Capital expenditure for the 5 months was minimal at £0.5m, which is lower than plan by £1.1m.

6.2 We are still refining the detail of our capital requirements for 2010/11 within the overall budget set by the Board which has delayed the production of Schedule I and this will be provided once the detailed program is confirmed.

6.3 The detailed Balance Sheet position is shown in **Schedule B.**

7. COST IMPROVEMENT PROGRAMME

7.1 The Trust is currently forecasting delivery of £6.0m of CIP savings against the CIP target of £6.0m. However, delivery of this level of CIP savings remains a major financial risk, with the programme weighted heavily to the back end of

the year and a monthly profile of real delivery still not available. Non delivery of the plan could be as high as £0.4m.

7.2 For the first 5 months to date, £1,799k (Rec £514k, Non Rec £1,285k) has been delivered against a plan of £1,547k, due to vacancy control being £592k overachieved in total, but disappointingly mostly on a non recurrent basis only.

7.3 The Directors of Nursing/Operations and Resources will be reviewing the post vacancies to identify and agree posts to be permanently removed from the budget, due to the very low recurrent savings identified so far against the vacancy control work stream.

7.4 A detailed Schedule M will be provided next month and is still being developed with the PMO.

8. RUN RATE

8.1 The run rate schedule is given in **Schedule E**. We have completed work to 'normalise' the run rate, i.e. take out the exceptional items, which distort an understanding of the underlying run rate. The schedule and the background work shows that the forecast expenditure run rate is a small improvement on the level of the start of the year.

8.2 The run rate schedule shows how critical it is to focus on all aspects of expenditure to drive the costs down. It also reinforces the need to commence actions for financial recovery as soon as possible..

9. RECOVERY PLAN

9.1 The PMO has produced a financial recovery program for 2010/11 which includes 'plans in development' and 'stretch' targets that result in identified savings totalling £6.6m. This program has been risk assessed by the PMO using RAG methodology and has a risked value of £6.3m.

9.2 The Turnaround Director has been appointed to deliver a robust plan by 23 September 2010 for 2011/12. PWC have supported the process to identify potential saving schemes for 2011/12 totalling £8.4m.

9.3 The identified plans will require considerable further work to implement and achieve at these levels of savings.