

	<p>In terms of expenditure the following issues are relevant :</p> <p>(f) The cost of Waiting List Initiative payments continue to impose increasing financial pressure in specific areas, particularly MSU which is utilising the Nuffield Hospital to deliver required activity. We await clarification re the possible use of Northumbria.</p> <p>(g) Pay expenditure is accelerating due to the filling of vacancies, incremental growth and split year pay awards.</p> <p>(h) There remains a balance of undelivered cost improvements which present as a cost variance in the accounts.</p> <p>(i) The full year cost of Agenda for Change requires clarification, in particular in relation to the cost of reviews and outstanding payments.</p> <p>(j) Cost pressures approved to date total are £3,819k (£3,699k recurrent). This exceeds the full year provision of £3m.</p> <p>(k) As the 'UPMC' agreement concludes the associated cost consequence requires to be recognised. Given the forecast position the opportunity to absorb costs in this financial year rather than future periods will be taken wherever possible.</p> <p>(l) The financial consequence of International Reporting Standards will soon become apparent as the Treasury have recently published guidance (although PFI guidance remains outstanding).</p>
<p>b) <u>Cost Improvement Programme</u></p> <ul style="list-style-type: none"> • 2007/08 CIP requirement = £14.2m • +c/f from prior years = <u>£4.6m</u> £18.8m 	<p>The proportion of both Corporate and Directorate savings identified to January 2008 is £17.1m (91% of target). This is a further improvement upon last month (£15.6m). The increase is entirely down to improvements within the directorates. Overall the target is still felt to be out of reach (particularly recurrently), although it is being compensated by other I&E benefits.</p>
<p>c) <u>Capital Expenditure</u></p> <ul style="list-style-type: none"> • 2007/08 Initial capital plan = £22.3m • 2007/08 Latest capital plan = £22.6m • 2007/08 Latest forecast = £22.6m 	<p>At January 2008, capital expenditure was £13.2m which is continuing its convergence towards the planned expenditure profile. The Trust has been advised of some additional PDC from the Department of Health and consequently the forecast outturn has been increased marginally to £22.6m (which is seen as a minimum target). The remaining spend requirement of £9.4m for the remainder of the financial year is still felt to be achievable.</p>
<p>d) <u>Financial Risk Ratio</u></p> <ul style="list-style-type: none"> • Consolidated Risk Rating, measures on a range of 1 (lowest rating) to 5 (highest rating). 	<p>The Trust Risk rating at the end of January 2008 was 4.5. This is a very acceptable result which demonstrates above satisfactory performance.</p>
<p>e) <u>Forecast Outturn Position</u></p>	<p>A forecast financial position to the 31st March 2007 is reported. This predicts the Trust will deliver to all Financial Targets, i.e. reporting an EBITDA and I&E surplus. We believe that this should be rounded up to 5.0.</p>

f) Liquidity	The Trust cash balance on 31 st January 2008 was £68.9m of which £18.9m was invested in the PGO with an interest rate of 5.25% and £50m in commercial banks at a rate of 5.51%.
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3. **Income and Expenditure to 31st January 2008 (Month 10)**

The summary of the financial position for the year end is shown below:

	F.T. Plan to Month 10 £'000	Actual to Month 10 £000	Variance £'000	Forecast £'000	
Income	513,279	529,558	16,279	636,437	F
Expenditure	467,950	484,116	16,166	588,975	A
EBITDA*	45,329	45,442	113	47,462	F
Depreciation	18,202	19,179	977	23,000	A
Dividends and Interest	9,231	7,978	1,253	10,015	F
Net Surplus/(Deficit)	17,896	18,285	389	14,447	F

*(Earnings before Interest, Tax, Depreciation and Amortisation)

A = Adverse, F = Favourable

The Trust reports an 'EBITDA' surplus of £45.4m and an I&E surplus of £18.3m at the close of Month 10 accounts. This slightly exceeds planned targets for the period and will reduce over the remaining months of the year.

4. **Cost Improvement**

The annual plan requires savings of £18.8m (which is made up from £14.2m new savings in 07/08 in addition to £4.6m not achieved recurrently during 06/07). The plan and current forecasts are as denoted in the table below.

	Annual Plan £m	Latest Forecast £m	% Recurrent	% Non Recurrent	% Total
Directorate	16.5	10.8	38.5%	27.2%	65.7%
Corporate	2.3	6.2	229.8%	41.8%	271.7%
Total	18.8	17.1	61.7%	29.0%	90.7%

There has been an increase in the forecast CIPs this month (of £1.5m). This is entirely due to a £1.5m improvement within the directorates. The Directorates savings forecast continues to increase as further savings and income gains are identified and agreed with managers. However, as some of the additional savings identified are non-recurrent more recurrent savings still need to be determined, particularly as unachieved targets will be carried forward into future years.

Based upon the latest forecast it is still unlikely that the target will be achieved in full, although the shortfall is being compensated by other I&E benefits.

5. **Liquidity**

The Trust cash balance on 31st January 2008 was £68.9m of which £18.9m was invested in the PGO with an interest rate of 5.25% and £50m in commercial banks at a rate of 6.12%.

6. Debtors

Debtors overall are higher than Plan due principally to accrued income for SLA flexing and specialised services. Agreement has been reached with NoT Commissioners and Northumbria NHS FT in relation to audiology debtors, which has lessened the uncertainty around these debts. There is still approximately £200k of other rechargeable invoices overdue with Northumbria, however, which will be the subject of a further meeting with the Trust. The Month 9 NHS Agreements Exercise also highlighted a small number of other disagreements with organisations – these are being investigated and will be reported further next month if necessary.

7. Capital

Capital Expenditure is now planned to be £22.6m due to additional PDC anticipated to be received from the Department of Health.

At January 2008, capital expenditure was £13.2m which is continuing its convergence towards the planned expenditure profile. The remaining spend requirement of £9.4m for the remainder of the financial year is still felt to be achievable.

8. Forecast Outturn Position

A forecast financial position to the 31st March 2007 is reported. This predicts the Trust will deliver to all Financial Targets, i.e. reporting an EBITDA and I&E surplus.

As discussed at previous Board meetings the Trust is considering how it can make best use of the reported surplus. This has been discussed with Monitor and included in the last quarterly submission.

The objective would be to

- Ensure that the Trust reports a risk rating of 4.0 recognising that any result > 3.5 would be rounded up. (See table attached).
- That any spend is
 - Essential in the current year
 - Designed to relieve the financial pressure in subsequent years

The Board will recognise that once the year end position is reported it will not be possible to capitalise on this year's excellent performance and indeed failure to 'invest' this year's surplus as described above will exacerbate the I&E difference from one year to the next. Funding this course of action has been strongly encouraged by Monitor. (See FT Sector Overview Quarter Two 2007/08 and NHS FT Review of Six Months, 30th September 2007 page 5).

9. Recommendation

To receive the financial position for the period 1st April 2007 – 31st January 2008 and i) acknowledge a satisfactory position and ii) authorise the Director of Finance to manage the year end in line with section 8 above.

Brian Steven
Finance Director
19th February 2008

SUMMARY OF RISK RATINGS AT DIFFERENT SPEND LEVELS

	<u>Plan</u>	<u>January Forecast</u>	<u>Additional Spend</u>	<u>Additional Spend</u>	<u>Additional Spend</u>	<u>Additional Spend</u>	<u>Additional Spend</u>	<u>Additional Spend</u>
	<u>£'000</u>	<u>£'000</u>	<u>£ 1 million</u>	<u>£ 2 million</u>	<u>£ 7 million</u>	<u>£ 8 million</u>	<u>£ 9 million</u>	<u>£ 14 million</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Additional Spend			1.00	2.00	7.00	8.00	9.00	14.00
Income	615.93	636.44	636.44	636.44	636.44	636.44	636.44	636.44
EBITDA	47.36	47.46	46.46	45.46	40.46	39.46	38.46	33.46
Surplus	14.45	14.45	13.45	12.45	7.45	6.45	5.45	0.45
Risk Rating	4.3	4.30	4.20	4.00	4.00	3.90	3.7	3.7