

# THE NEWCASTLE UPON TYNE HOSPITALS NHS FOUNDATION TRUST

## DRAFT FINANCIAL POSITION : 2007/08

### 1. Executive Summary

This paper sets out the draft financial position of the Trust for the 2007/08 financial year. The final outturn position was completed on Friday, 25<sup>th</sup> April 2008, when the NHS Debtors agreement exercise was finalised. The accounts are subject to final audit.

### 2. Summary of Financial Position for 2007/08 Financial Year

A summary of the financial position is reported below:

<p>a) <b><u>Income and Expenditure</u></b></p> <ul style="list-style-type: none"><li>Financial Targets</li></ul>	<p>The Trust reports an overall Risk Rating of 4.0 and this demonstrates satisfactory performance.</p> <p>It also reports an 'EBITDA' surplus of £43,152k and an I&amp;E surplus of £7,679k (estimate). This is less than the required target though this is by design. It follows the recommendation of 'Monitor' who advise that Foundation Trusts should look to utilise I&amp;E surplus for the benefit of the organisation.</p>
<ul style="list-style-type: none"><li>Income Position</li></ul>	<p>Income exceeds financial plan by £20,103k and the following issues are noted.</p> <p>(a) A net over performance against Service Level Agreement of £12.9m is reported. The high levels of activity reflect efforts within Directorates to achieve the 18 week waiting time.</p> <p>In arriving at this position and March activity is based on estimates. The final activity position will be known on Friday, 25<sup>th</sup> April 2008.</p> <p>(b) The level of the 'emergency activity adjustment' removes less income from PCOs than was anticipated in FT Plan [Plan: (£4,367k) Actual (£3,886k)]. The effect is to increase the amount of income from PCOs.</p> <p>(c) Specialist Services report an annual overperformance of £446k. There are two additional SCID's patients outwith the contract over and above planned expectations and this generates additional income of £440k. This position is also influenced by income and expenditure on high cost drugs, particularly Haemophilia Blood Products.</p> <p>(d) Excluded drugs are high cost drugs for which the Trust charges on a cost/case basis over and above the national tariff. Income has continued to increase all year as new drugs have been approved by NICE and the Cancer network and been implemented by the Trust. The forecast outturn for such drugs is now reported to be £440k but will be matched by additional expenditure.</p> <p>(e) A £950k increase in NHS R&amp;D income is reported. This relates to new programme income attracted by the Trust. It is matched by expenditure and offers minimal contribution to the bottom line.</p> <p>(f) Education and training income reports an adverse variance of £795k (Plan £23,125: Actual £22,330k). This reflects SHA reductions to the MPET income stream which will be effected retrospectively in 2008/09 and 2009/10.</p>

	<p>(g) Prior year income was significant at £3.5m. A high proportion of this is directly matched by expenditure.</p> <p>(h) There is notable over recovery against planned Category C income targets, including a legal claim credit of £1.1m.</p>								
<ul style="list-style-type: none"> <li>• Expenditure Position</li> </ul>	<p>In terms of expenditure the following issues are relevant :</p> <p>(a) The cost of Waiting List Initiative payments totalled £5,595k:</p> <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">£'000</td> </tr> <tr> <td>In house costs</td> <td style="text-align: right;">4,595</td> </tr> <tr> <td>Nuffield</td> <td style="text-align: right;"><u>1,000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>5,595</u></td> </tr> </table> <p>(b) Pay expenditure has accelerated as the year has progressed due to the filling of vacancies, incremental growth and split year pay awards. Flexibility to cover overspends from underspends in this area is now restricted.</p> <p>(c) The Trust has invested £5.4m in technology and infrastructure and a further £6.8m in equipment and assets.</p> <p>(d) There remains a balance of undelivered cost improvements and a high element of non recurrent CIP. This presents as a cost variance in the accounts and creates a challenge for next year.</p> <p>(e) Cost pressures approved to date total are £3,819k (£3,699k recurrent). This exceeds the full year provision of £3m.</p> <p>(f) As the 'UPMC' EPR agreement has concluded a proportion of the associated cost consequence has been recognised in 2007/08. In line with 'Monitor' guidance. This includes the investment in the JV which, as there is currently no underlying value it is deemed prudent to write off in the current year.</p> <p>(g) A further expenditure provision of £1.1m for the future removal of asbestos has also been included in the 2007/08 accounts.</p> <p>(h) The need to accommodate the requirements of International Reporting Standards has been delayed for a year and so no consequence is anticipated for the 2007/08 accounts.</p>		£'000	In house costs	4,595	Nuffield	<u>1,000</u>		<u>5,595</u>
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<p>b) <b><u>Cost Improvement Programme</u></b></p> <ul style="list-style-type: none"> <li>• 2007/08 CIP requirement = £14.2m</li> <li>• +c/f from prior years = <u>£4.6m</u> £18.8m</li> <li>• Provisional savings achieved = £18.3m</li> </ul>	<p>The proportion of both Corporate and Directorate savings identified to March 2008 is provisionally £18.3m (97.3% of target). Although this is marginally below the £18.8m target it is still quite a good performance overall. However the recurrent savings amount to £13.2m, which leaves a sizeable balance of unachieved savings targets within Directorates to be carried forward into 2008/09.</p>								
<p>c) <b><u>Capital Expenditure</u></b></p> <ul style="list-style-type: none"> <li>• 2007/08 Initial capital plan =£22.3m</li> <li>• 2007/08 Minimum capital plan=£22.6m</li> <li>• 2007/08 Provisional outturn =£24.9m</li> </ul>	<p>At March 2008, capital expenditure was provisionally £24.9m, including £7.9m incurred during March 2008. As the Trust had been advised of some additional PDC from the Department of Health during the course of the financial year a minimum target of £22.6m had been agreed to protect the additional cash that had been made available. The provisional outturn of £24.9m is seen as a satisfactory achievement.</p>								

<p>d) <b><u>Financial Risk Ratio</u></b></p> <ul style="list-style-type: none"> <li>Consolidated Risk Rating, measures on a range of 1 (lowest rating) to 5 (highest rating).</li> </ul>	<p>The Trust Risk rating at the end of March 2008 was 4.0. This is a very acceptable result which demonstrates above satisfactory performance.</p>
<p>e) <b><u>Liquidity</u></b></p>	<p>The Trust cash balance on 31<sup>st</sup> March 2008 was £33.9m of which £9.9m was invested in the PGO with an interest rate of 5.00% and £17m in commercial banks at a rate of 5.54% and £7m was invested in the National loans fund at a rate of 5.09%.</p>

### 3. **Recommendation**

To receive the draft financial position for the period 1<sup>st</sup> April 2007 – 31<sup>st</sup> March 2008 and to acknowledge a satisfactory position.

**Brian Steven**  
**Finance Director**  
**22<sup>nd</sup> April 2008**