ITEM: 09/092
Doc: 4

MEETING: Trust Board
17th June 2009

TITLE: Financial Position – Month 2 (May 2009)
Appendix 1 – Cash Flow Forecast

Executive Summary

1. Month 2 Income and Expenditure

1.1. This report details the financial position for Month 2, together with an update on the recovery plans that were put in place midway through May to reduce or eliminate overspends in the five top problem areas identified to the Trust Board in Month 1.

1.2. The I&E position for Month 2 2009/10 is a deficit of £431k, which is £401k worse than planned. High agency usage has continued in May with agency expenditure of £1.1m, although the last two weeks of May have seen a notable reduction as a result of recovery plan implementation. The new top five overspending areas in Month 2 are described in section 7.

1.3. April activity has now been coded and shows income of £147k above plan. However, this includes non-recurrent planned provision release of £270k related to 2008/09. Over-performance against SLAs was £650k, £130k lower than planned.

1.4. Non-pay expenditure was £134k lower than planned in May – this was predominantly due to a VAT refund relating to 2008/09 (£132k), with other adverse and favourable variances offsetting to be within budget overall.

2. Month 2 Balance Sheet and Cash

2.1. The Trust's cash balance at the end of April was £1.2m – this is low due to the Month 1 and 2 deficits and also the fact that SLA over-performance, expected to be large, is settled in arrears. This significant cash flow issue has resulted in the Trust delaying payments to some suppliers, with a resulting impact upon performance against the Better Payment Practice Code (BPPC).

2.2. An updated 12-month cash flow forecast has been produced. This shows cash balances significantly below the £3m that was held at the beginning of April, and withholding payment to some suppliers until July when 2009/10 over-performance begins to be settled. It will be essential to the Trust's cash flow position for PCTs to pay over-performance invoices promptly.

3. Recovery Plans and Forecast

3.1. Recovery plans have been developed and put in place for ITU, ED, medical wards, midwifery and orthopaedics. These initial plans are projected to reduce total adverse variances for the period June – March to £2.1m (including unidentified CIP of £0.7m and Reckitt Link cost pressure of £0.3m). Added to the £1m year-to-date variance, this gives a total projected year-end deficit of £3.1m before further mitigating actions.

3.2. There are further opportunities for reducing this – including funding from PCTs to meet European Working Time Directive (EWTD) targets, a capital charge saving from revaluation of the estate and lower interest payable on the PFI scheme, potential release of £1m of provisions if they are not required, and funding to achieve single-sex ward accommodation.

3.3. There are, however, significant risks that are not reflected in the 'likely case' break-even forecast (see section 12).

4. Recommendations

4.1. The Trust Board is asked to:

- **Note** the recovery plans that have been developed
- **Note** the reported deficit in Month 2 of £431k
- **Note** the 2009/10 forecast and the risks to achieving a break-even position

ACTION:	For information / discussion

REPORT FROM:	Tim Jaggard, Deputy Director of Finance

SPONSORED BY:	Richard Martin, Finance Director

Financial Validation Lead: Director of Finance	Tim Jaggard

Compliance with statute, directions, policy, guidance Lead: All directors	**Reference:** Best Practice – financial assurance standards; ALE; Accounting Standards; Monitor financial regime

Compliance with Auditors' Local Evaluation standards (ALE) Lead: Director of Finance	**Reference:** **ALE – Financial Management and Financial Reporting Domains**

Month 2 Finance Report

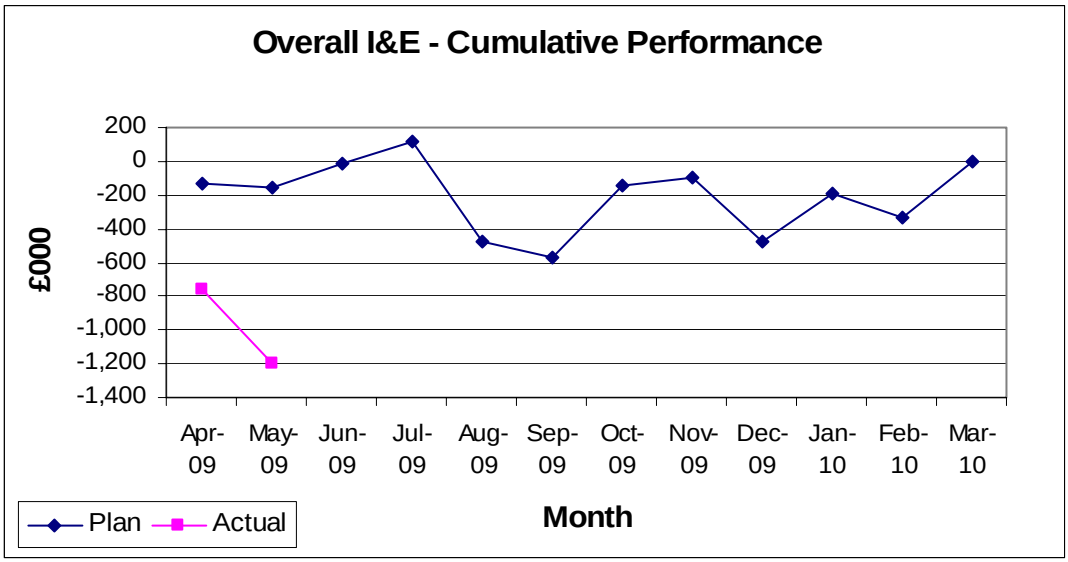
5. Month 2 Income and Expenditure Summary

5.1. The Income and Expenditure position is summarised in the table and chart below. 2009/10 accounts are prepared on an International Financial Reporting Standards (IFRS) basis. The chart shows the planned monthly income and expenditure profile for the year – with forecast deficits in months such as August and December due to the large amount of leave taken and the corresponding reduction in planned activity.

5.2. The Month 1 income and expenditure position improved by £54k since it was reported to Trust Board in May, due to an audit requirement to adjust 2008/09 accounts to reflect a pre-payment – this has had the effect of reducing April expenditure.

FIGURE 1	Current Month			Year To Date			Annual
Description	Actual £'000	Budget £'000	Variance £'000	Actual £'000	Budget £'000	Variance £'000	Budget £'000
NHS Clinical Income	12,501	12,354	147	24,633	24,486	147	149,327
Non NHS Clinical Income	79	51	28	187	102	85	609
All Other Non Clinical Income	1,801	1,868	(66)	3,619	3,676	(56)	21,979
Total Income	**14,382**	**14,273**	**109**	**28,439**	**28,263**	**176**	**171,915**
Pay	10,448	9,876	(573)	20,765	19,616	(1,149)	117,784
Non Pay	3,189	3,323	134	6,531	6,551	20	40,694
Centrally Held Savings	0	(65)	(65)	0	(65)	(65)	(710)
Total Expenditure	**13,637**	**13,134**	**(503)**	**27,297**	**26,103**	**(1,194)**	**157,769**
EBITDA	**745**	**1,139**	**(394)**	**1,143**	**2,161**	**(1,018)**	**14,147**
Plus Interest Receivable	1	8	(7)	1	17	(16)	100
Less Interest Payable	290	290	0	621	621	0	3,968
Less Depreciation	605	605	(0)	1,153	1,153	(0)	6,901
Less PDC Dividend	282	282	0	563	563	0	3,378
Net Surplus / (Deficit)	**(431)**	**(30)**	**(401)**	**(1,193)**	**(159)**	**(1,034)**	**(0)**

FIGURE 2



5.3. Year-to-date EBITDA of £1.1m is reported, which is £1m worse than planned, predominantly due to the overspend on pay in the first two months of the year. Interest receivable is lower than planned due to continuing low cash balances and low interest rates.

5.4. An adjustment has been made in May to reflect the anticipated reduction in IFRS interest payable charges as a result of the expected lower unitary payment from 2010/11 (as the retail prices index becomes negative). This has reduced interest payable by around £20k per month and the budget has also been adjusted accordingly.

5.5. The Trust's plan is to achieve a break-even position at the year-end, and this remains the likely case forecast. This budgeted break-even position includes £710k of unidentified CIP. It also assumes that the April and May adverse variance from plan can be offset by recovery plans for poor performing areas and other mitigating actions (see sections 11 and 12).

6. Income Performance

6.1. NHS Clinical Income is reported based upon the latest coded activity data (April 2009). Due to the recent move to HRG4 it is not yet possible to accurately accrue based upon raw activity data (although a methodology is being developed for future months) - therefore May income has been accrued to plan with the exception of:

- Assumption that the internal income target for HDU activity in May will not be met - £108k
- Additional income recognised for increased level of critical care 'work in progress' (activity completed but with the patient remaining in hospital) - £113k
- A provision has been made to reflect the risk to income from other NHS Trusts

6.2. As in previous months, adjustments have been made to reduce income based on anticipated non-payment for certain items. These credit note provisions are reviewed each month, and in Month 2 include a prudent provision for non-payment of a small proportion of PCT over-performance.

6.3. Other provisions remain as at the year-end with the exception of:

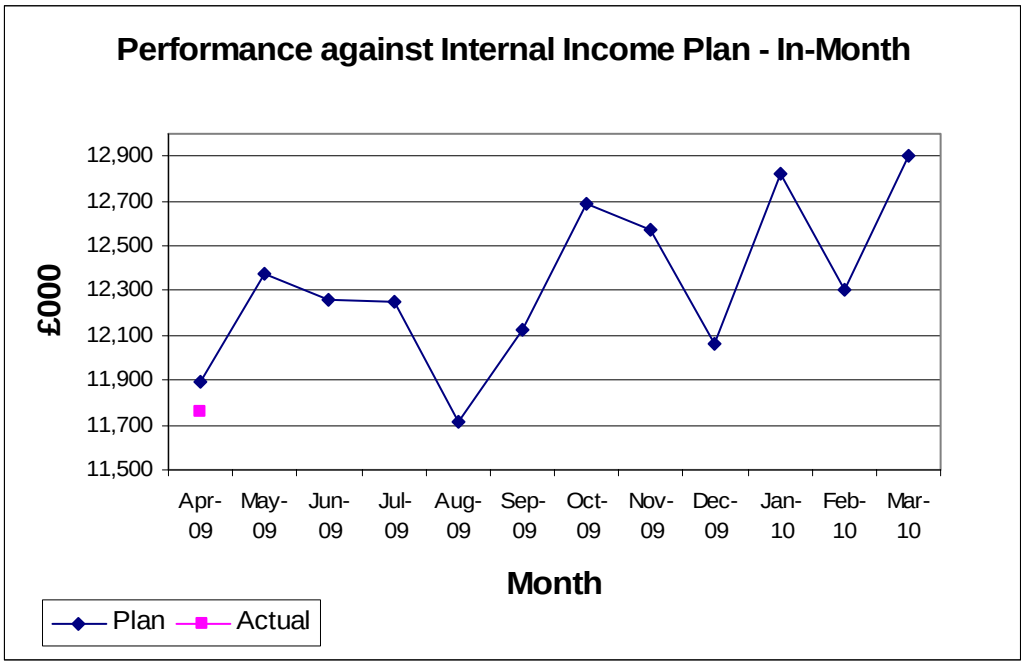
- Release of £270k provision relating to incentive payment from Islington PCT for achieving the 18-week target in 2008/09. This has now been paid
- Release of £51k provision relating to Quarter 3 2008/09 over-performance, which has now been paid by Barnet PCT

6.4. Credit note provisions for all receivable income (NHS and non-NHS) now total £2.3m. The forecast likely case break-even assumes that provisions totalling £1m will become unnecessary over the remainder of the year and will be released.

6.5. Income over-performance in 2009/10 will be reported to Trust Board as variance from the total profiled Trust plan for NHS clinical income, rather than against SLA plans – this is a more relevant measurement due to SLAs being set at a lower level than anticipated activity for 2009/10. In April, there was under-performance of £133k against this plan:

FIGURE 3	Activity			£000s		
Point of Delivery (POD)	**Plan To M1**	**Actual To M1**	**Variance To M1**	**Plan To M1**	**Actual To M1**	**Variance To M1**
Block Contracts / Targets	0	0	0	620	555	(65)
Elective Inpatients	194	222	28	588	694	106
Non-Elective Inpatients	2,027	2,071	44	3,889	3,900	11
Excess Beddays	1,194	989	(205)	344	273	(71)
Planned Same Day (Day Case)	1,388	1,542	154	1,036	1,102	65
Outpatient Procedures	896	979	83	276	316	40
Outpatient 1st Attends	5,070	4,799	(271)	1,014	945	(69)
Outpatient Follow Ups	11,202	12,517	1,315	1,051	1,182	131
Adult High Dependancy Beddays	442	237	(205)	345	185	(160)
Adult Intensive Care Beddays	360	233	(127)	695	450	(245)
NICU High Dependancy Beddays	101	201	100	99	197	98
NICU Intensive Care Beddays	64	17	(47)	88	23	(64)
NICU Special Care Beddays	589	686	97	239	279	39
ED Attendances	6,298	6,835	537	633	648	16
Direct Access	56,467	59,390	2,923	630	647	17
Other Activity	4,230	4,353	123	343	361	18
Grand Totals:				**11,891**	**11,758**	**(133)**

FIGURE 4



6.6. Income performance was strong in elective and day case activity, and in outpatients – however, within outpatients there was over-performance against follow-ups but under-performance against first attendances. This suggests an increase in the follow-up ratios, and therefore the existing provision for reimbursement to PCTs has been maintained.

6.7. Critical care performance was well below plan in April (£405k). However, this is partially due to: a) non-achievement of the ward-based HDU CIP target as this data was only captured from the beginning of June, and b) an increase in 'work in progress' (critical care bed days relating to un-discharged patients) – the £113k accrual is not included in the above table and would reduce critical care under-performance to £292k

7. Expenditure Performance

7.1. Pay expenditure in May has continued at the high levels seen in the last few months, and is over budget by £573k in the month. In particular, agency expenditure has continued at high levels in May. Total agency expenditure across all staff groups was £1.1m.

7.2. However, weekly agency trends have shown a large reduction in the last half of May, and June agency expenditure is expected to be much lower. The average number of agency hours per week across all staff groups booked in the first seven weeks of the financial year was 7,000 – this reduced to 3,700 in the final two weeks of May.

7.3. Non-pay expenditure was £134k lower than planned in April – this included VAT recovery relating to 2008/09 (£132k). Utilities were underspent by £74k due to warmer weather and a lower than expected April bill. Orthopaedic prosthesis expenditure was lower in May - £56k compared to £92k in April, suggesting that there was an element of stock build-up in April.

7.4. Agency expenditure in the top seven areas is shown below. These cost centres account for around 76% of total agency expenditure in May. Bookings data is used to accrue for agency expenditure not yet invoiced. This has been shown to be the most accurate data available in terms of predicting actual expenditure – however, where there are many shifts cancelled subsequent to bookings, it may over-estimate expenditure. It is recommended that we carry out testing assure the Trust that this methodology is the best available.

FIGURE 5 **Area**	**Month 2 Agency Expenditure**
ITU	294,664
ED / Isis / Paediatric ED	164,820
Midwives	102,334
Generic Workers	81,739
Obstetrics & Gynae	80,837
Theatres (General + Anaesthetics)	55,934
Histopathology	49,481
All other areas	259,367
TOTALS:	**1,089,177**

7.5. An action plan to reduce agency expenditure in ITU is already in place, and the number of hours booked dropped by about 50% in the last two weeks of May. However, this was partially due to a reduction in bed occupancy in ITU, and the recovery plan and forecast section below details the risk to the Trust's break-even plan of this overspend.

7.6. The table below shows the May and year-to-date expenditure variances for a) the top five areas for which recovery plans have been drawn up, and b) the new top five overspent areas. The net variance of all other areas in the Trust was an underspend of £350k.

FIGURE 6 Cost Centre Description	M1 Overspend	M2 Overspend	Year-to-date Overspend
ITU	(117,776)	(224,017)	(341,793)
ED / Isis / Paeds ED	(122,900)	(100,436)	(223,336)
Midwifery	(129,690)	(88,513)	(218,203)
Medical Wards	(192,437)	(79,594)	(272,031)
Orthopaedics	(108,945)	57,261	(51,684)
Sub-Total:	**(671,749)**	**(435,298)**	**(1,107,047)**
Obstetrics & Gynae	(19,232)	(75,341)	(94,573)
Histopathology	7,211	(39,477)	(32,266)
General Surgery	(34,430)	(36,020)	(70,450)
Anaesthetics & Itu Medical	(37,606)	(34,961)	(72,567)
Coyle	(14,853)	(27,629)	(42,483)
Sub-Total:	**(98,911)**	**(213,428)**	**(312,338)**
All other devolved cost centres	69,871	349,790	419,661
TOTAL DEVOLVED COST CENTRE OVERSPEND:	**(700,789)**	**(298,936)**	**(999,725)**

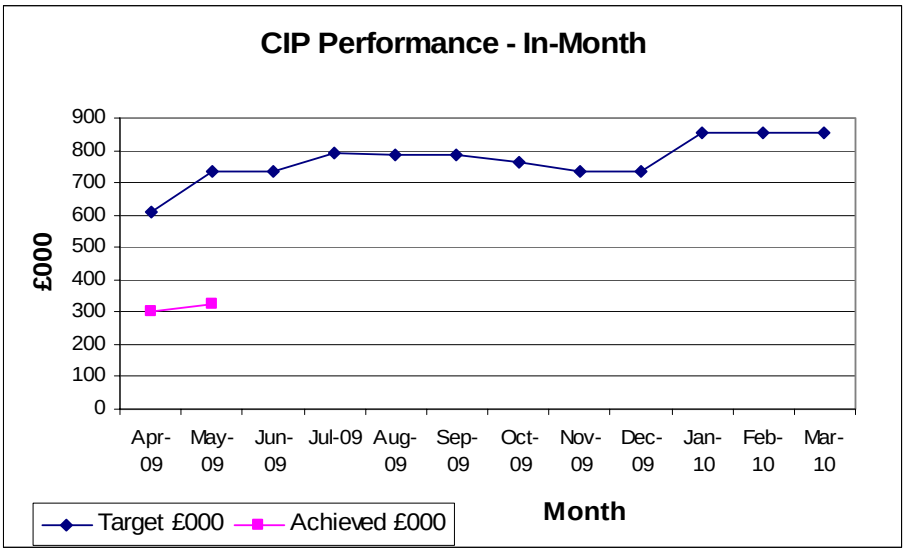
7.7. In the next two weeks, a recovery plan will be developed for the new five 'problem areas', in the same way as the top five from April already have recovery plans in place. The top overspending areas are reported each month to Executive Committee and to Trust Board, so that prompt corrective action can be taken if there are overspends in areas other than the five that have to date been the focus of action

8. Cost Improvement Programme (CIP)

8.1. Of the total CIP target of £9.2m, the phased target to the end of May was £1.343m. This is less than 1/6th of the full-year target, as some of the projects are planned to commence later in the financial year.

8.2. Against the £1.3m year-to-date target, £628k of savings / additional income has been validated to date, which represents 47% of the target, as shown in the chart below:

FIGURE 7



8.3. Of the £715k that is not being reported as achieved, £229k relates to projects for which monitoring data is not yet available, or which requires further investigation before we can categorically state that the target is being achieved. As the financial year progresses, data will become available to validate all of the CIP projects. These include, for example :

- Increased clinical income arising from improvements in systems of data capture and clinical coding, which can only be measured through retrospective audits
- Cost savings arising from reduced levels of staff sickness; quantifying the financial benefit from a reduced rate of sickness absence requires detailed retrospective analysis of HR and financial data
- Productivity savings to be delivered by reducing the number of patient episodes where planned procedures are not carried out - activity data for April indicates a reduction, but the historical trend is erratic and the data does not yet demonstrate a sustained reduction.

8.4. There are also a number of projects that are *not* achieving their year-to-date targets; the aggregated under-performance to date is £486k. In some cases this represents short-term slippage against plans, which can be made up before the end of the year. However there are a number of high risk areas, which may put full achievement of the CIP programme at risk :

- ITU/HDU configuration : the £1.3 million additional income target relates to the designation of a number of high dependency beds on Victoria, Mary Seacole and Reckitt wards. The initial implementation date of April has slipped into June, and the delivery of this target is dependent upon our assumptions about the level of demand – and the associated marginal costs - being correct
- Reduction in ward bed-base during May – October: the staged closure of the JKU wards to enable the refurbishment programme was planned to release savings, but in May there have been pressures on the remaining ward budgets.
- ED establishment review: the target is phased to be achieved from April, but the savings to be achieved through reduced reliance on agency staff premiums, (by recruiting to vacant posts and recruiting more staff to work bank shifts), will not start to materialise until later in the year.

8.5. The table below shows the outcome of a recent risk-assessment to the CIP programme:

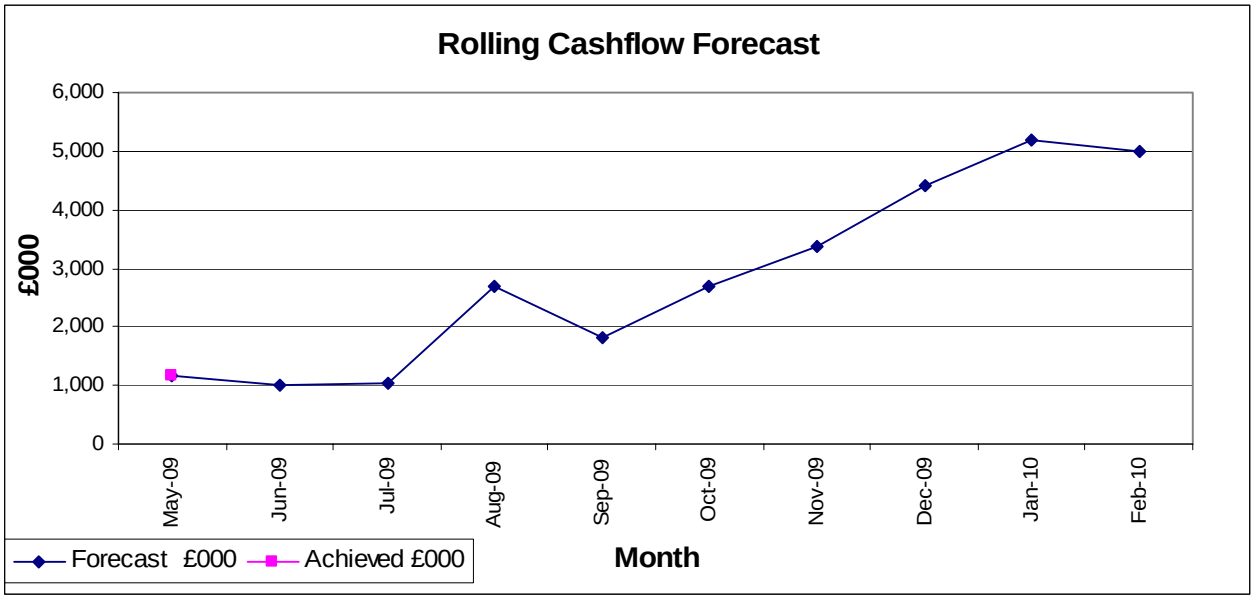
Risk category	Risk Assessment June 2009
Project completed	6%
Low	22%
Medium	55%
High	17%
	100%

8.6. There are currently no new projects identified to meet the £710k unidentified CIP target, which was phased in from month 2 onwards to balance the budget. However, a number of potential opportunities for improving the financial position have been identified (see section 12.1)

9. Cash

9.1. The attached appendix 1 provides a summarised cash flow forecast for the period April 2009 to May 2010, summarised in the chart below. The cash balance at the end of May was £1,178k, with creditor levels being approximately £2m higher than would normally be expected due to the withholding of payment.

FIGURE 8



9.2. A key factor in the cash flow profile is the time taken to collect cash from PCTs for past over-performance. Quarter 4 2008/09 over-performance is not officially invoiced until the first week of July with payment no earlier than July itself. Consequently, January 2009 over-performance will not be settled for at least six months. For 2009/10, invoicing is monthly but two months in arrears, reducing the settlement delay – however, July will be the earliest that April over-performance will be paid, reflecting the time allowed to make changes to the data. The cash flow assumes receipts in July and August in respect of 2008/09 invoices. In addition regular receipts of in–year over-performance are forecast from July 2009. The other key factor in explaining the low cash balance is the deficit incurred by the end of May 2009.

9.3. The cash flow and balances improve as the year progresses and the build up of creditors referred to above is planned to be repaid between June and August so that normal levels of invoice payment can return.

9.4. Key assumptions within the plan are as follows:

- A break –even position is achieved in income and expenditure terms
- In-year over-performance is paid this year (from July onwards) with a cash surge of £2.5m in March based upon previous practice of PCTs managing their cash, with the exception of £1.4m remaining owing at the year end
- All outstanding 2008/09 invoiced debtors are collected by August 2009 – Islington PCT have agreed to pay all agreed outstanding debt, together with 2009/10 maternity funding, within the next two weeks
- EWTD funding and Single sex accommodation funding is received
- Dividend payments are made on time
- Creditors rise by £1.1m in March in order to achieve the current cash target of £6.9m. This is necessary because some recovery actions are not cash backed.
- No temporary borrowing
- Capital programme cash payments of £5.2m with any extra being funded via finance leases

9.5. In order to manage the cash position and achieve acceptable levels of invoice payment performance, the above assumptions need to be actively monitored and escalated, if necessary, at the soonest appropriate point. In addition, it would be prudent to discuss with NHS London the scope to reduce the year-end cash target to, say, £3m and finish the year with a higher level of debtors/lower level of creditors. This would constitute a change to the current External Financing Limit (EFL) and would reduce the reliance upon PCTs paying in-year. Such a move would not adversely affect the risk rating as it effectively substitutes cash with debtors.

9.6. Temporary borrowing for cash flow purposes is restricted by the Prudential Borrowing Limit (PBL), which is in turn limited by the size of the balance sheet and the risk rating. The Trust is likely to have a borrowing limit of approximately £4.5m and this would also need to cover any new finance leases that are planned for this year. Any such borrowing would need to have a robust plan for repayment and be repaid by the year end. The ability to repay is directly related to the above assumptions.

9.7. In summary, subject to the assumptions above that are being closely managed, the cash-flow plan will allow the Trust to achieve an acceptable level of invoice performance and the year end cash target. It would, however, be prudent to discuss with NHS London a revision to the year end cash target

10. Balance Sheet

The balance sheet is summarised below:

FIGURE 9

Description	As at 1st April 2009 (prior to IFRS)	31st May 2009
	£'000	£'000
Fixed Assets	**85,249**	**126,006**
Stock	1,241	1,281
Debtors	7,829	11,599
Debtors - Deferred Asset	22,965	22,801
Cash in hand & at Bank	3,030	1,179
Total Current Assets	**35,066**	**36,860**
Creditors - Revenue	11,032	20,493
Creditors - Capital	2,384	934
Total Current Liabilities	**13,415**	**21,427**
Net Current Assets	**21,650**	**15,433**
Provisions for Liabilities & Charges	**2,595**	**44,158**
Total Assets Employed	**104,305**	**97,281**
Public Dividend Capital	48,084	48,084
Revaluation Reserve	31,207	31,207
Donated Asset Reserve	1,109	1,101
Income & Expenditure Reserve	23,904	16,890
Total Capital & Reserves	**104,305**	**97,281**
Estimated 2009/10 Capital Cost Absorption Rate		**3.45%**

10.1. The large increase in fixed assets, current and non-current liabilities is as a result of the IFRS requirement to account for the PFI scheme by bringing it onto the balance sheet rather than accounting for the unitary payment as an operating expense. This means it

is treated as the Trust's asset with a finance arrangement (and associated liability) to pay for the asset over the life of the PFI agreement. The reduction in the income and expenditure reserve is due to backdating the impact of IFRS on previous years' income and expenditure positions.

11. Recovery Plans

11.1. Detailed recovery plans were drawn up in the third week of May, covering the five areas identified as contributing the most to the April overspend – ITU, ED, medical wards, midwifery and orthopaedics.

11.2. The total forecast deficit for the year based on those actions that have been able to be quantified, and before the further actions identified in section 2 below, is £3.1m of which £1m represents the overspend in April and May. The remainder is composed of the unidentified CIP and Reckitt Link cost pressure.

11.3. The purpose of the recovery plans is to ensure that Trust expenditure between June and March is equal to the budget for the same period – the current quantified action plans are £0.9m short of this target, although general measures across the Trust to, for example, reduce agency expenditure will reduce this figure.

11.4. The table below highlights the top five overspent areas in April and how the position as at the end of May is expected to change by the year end in relation to the overall Trust position. Potential opportunities and a way forward on this projected deficit are then discussed.

11.5. It is stressed that the robustness of any such projection is heavily dependant upon the effectiveness and accuracy of the recovery plans and the avoidance of further previously identified risks. In addition, it is assumed that there will be no further adverse variance on the Trust's income performance by the year end.

FIGURE 10

Projected Variances for Top 5 overspending areas	April Variance	May Variance	Total April + May Variance	June to March Forecast Variance	Likely Case Forecast Variance 2009/10
	£000	£000	£000	£000	£000
ED/Isis/PED	(123)	(100)	(223)	20	(202)
ITU	(118)	(224)	(342)	(636)	(978)
Midwifery	(130)	(89)	(218)	18	(200)
Eddington/JKU/ Reckitt	(150)	(94)	(244)	(17)	(261)
Orthopaedics	(109)	57	(52)	(300)	(352)
Other Devolved Cost Centres	(2)	5	3	0	(3)
Sub total	**(632)**	**(445)**	**(1,076)**	**(915)**	**(1,996)**
Unidentified CIP		(65)	(65)	(645)	(710)
Reckitt Link cost pressure				(300)	(300)
April Activity Performance		(133)	(133)	0	(133)
Other Income		242	242	(242)	0
TOTAL VARIANCE BEFORE MITIGATING ACTIONS	**(632)**	**(401)**	**(1,033)**	**(2,102)**	**(3,139)**
Potential EWTD, Single sex funding, Revaluation & IFRS savings					1,100
Potential provision release					1,000
Residual Deficit					**(1,039)**
Less final ITU recovery plan					
Less vacancy review and / or headcount reduction					
Less effect of reducing other over-spending areas whilst keeping current under-spending areas					
Target break–even position					**0**

11.6. It can be seen that the majority of the projected expenditure variance from June to March is within ITU. A number of measures are being employed to reduce expenditure on agency staffing although permanent recruitment remains the key challenge in this case. Recruitment plans are also in place.

11.7. The net variance in April and May of all areas apart from the five identified above was close to zero, and the forecast assumption is that by the year end these areas do not collectively over-spend their approved budgets. This assumption will require confirmation and rigorous management so that overspending areas return to budget whilst under-spending areas continue to remain within their budgets.

11.8. The total shortfall in the table above is based upon the key assumption that recovery actions reduce expenditure as planned. A summary of each of the recovery plans is presented below:

ITU Recovery Plan Summary

11.9. ITU is the main area that is not projected to be within budget for the period June – March (projected overspend of £0.6m for this period). This is predominantly due to ongoing recruitment difficulties for ITU nurses resulting in high agency expenditure. However, recruitment plans are in place and a total of 11 new staff (around half of the total current vacancies) will be in post by the end of August. Any improvement on this will improve upon the £0.6m June-March overspend.

11.10. In addition, agency usage is being reduced through other means – for example, by tracking agency bookings in real-time, ensuring that ITU runs within its budgeted establishment with authorisation required if this is to be breached, paying increased bank rates to encourage staff to work on the internal bank rather than for agencies. The impact in the last two weeks of May was a halving of the number of agency hours booked.

Medical Ward Recovery Plan Summary

11.11. April overspend across these areas was £192k – this reduced to £80k in May, partially due to the shutting of Meyrick ward for the refurbishment programme. Agency bookings decreased very significantly since the action plan was initiated in the final two weeks of May, contributing to a reduction in agency spend from £146k in April to just £51k in May.

11.12. Recruitment plans are in place to fill 25 general nursing vacancies within the medical wards. A successful recruitment day was held on 8th June, which resulted in 42 offers being made (across all nursing areas in the hospital) – once in post, these nurses will result in a large reduction in agency expenditure.

Emergency Department Recovery Plan Summary

11.13. ED (together with Isis Ward and Paediatric ED) was overspent in April by £123k. Again, this was predominantly due to high levels of agency usage, particularly for medical staff. May expenditure was £100k above budget.

11.14. Actions have been identified which total around £110k of savings per month compared to the April level of overspend. These are composed of a number of short-term actions to bring expenditure into line by the end of July (for example, reducing numbers of nursing and medical staff on each shift), followed by longer-term strategies to fill nursing and middle-grade doctor vacancies.

11.15. The recovery plan assumes that 20 more nurses will be in post by the end of September (currently there are 23 vacancies), and 3 more middle grade doctors by the end of October (4 vacancies). There remains some uncertainty around the latter, as it may depend upon the successful outcome of the proposed India recruitment plan.

Midwifery Recovery Plan Summary

11.16. Midwifery was overspent by around £130k in April, reducing to £89k in May. Actions to reduce the overspend in midwifery centre around recruitment and the reduction of agency expenditure by, for example, relaxing EWTD rules for bank staff. In addition, the number of midwives per shift has been reduced by one.

11.17. Recruitment of midwives is more advanced than in some of the other areas identified in recovery plans. It is likely that there will be 24 vacancies filled by the end of September, reducing net expenditure (agency saving offset by permanent salary) by around £60k per month.

Orthopaedics Recovery Plan Summary

11.18. Orthopaedics expenditure was £120k above budget in April, reducing to £57k underspend in May. The April figure was due to a number of different, smaller overspends. The biggest overspending area was prosthesis – around £60k overspent in the month – but this expenditure has reduced significantly in May, suggesting that there was an element of stock building in April

11.19. Philip Ient, Director of Facilities, is investigating the cost of prostheses, which is around 40% higher per patient in 2008/09 compared to the previous year. Any strategy to improve the procurement of these high-cost items is likely to be long-term but could result in significant savings. These are not modelled into the quantified recovery plan.

12. 2009/10 Forecast and Risks

12.1. Figure 10 above shows that the likely case variance from plan is projected to be around £3.1m after the recovery plans detailed above have been implemented, but before further mitigating actions. There are then further opportunities for achieving a break-even position in 2009/10, together with further risks. The opportunities are as follows, and are assumed in the likely case forecast to bring the Trust to a break-even position:

- Funding for single sex accommodation - £425k. Potential revenue funding is available from PCTs. Receipt is dependent upon the works being completed by June and compliance being confirmed along with a site inspection
- EWTD funding of £230k has been included within Islington PCT's funding allocation and there is a direction from the Department of Heath/SHA that this is over and above the tariff and must be paid to Trusts. The PCT has to date not released this funding
- There is potential for a capital charges saving relating to the revaluation of the Trust's estate – this could exceed the £500k in the CIP by a further £200k with a larger saving in 2010/11. The aim is to reach an agreed position by the end of June following a site inspection. The impact would take effect from July.
- The PFI unitary payment and the managed equipment service charge are linked to the retail price index. This is likely to be low or negative for the coming few years and as a consequence it is estimated that a £223k benefit in lower Interest charges will be possible
- There is the potential for approximately £1m of provisions to become available across the year if they are no longer needed, with the first indications being available from July onwards as to whether these may be released
- A review of vacant posts is currently underway, led by Fiona Elliott, with a view to identifying posts which could be left vacant without temporary staff cover and with acceptable service/risk consequences
- The final plan around ITU is still to be concluded but there remains the potential for an improved position from the one included within the forecast deficit

- Aside from the top overspending cost centres detailed in section 7 above, there are a number of underspending cost centres offsetting overspends elsewhere – given the focus on reducing expenditure across the Trust, and general actions that have been put in place, it is likely that there will be a reduction in the overspending areas whilst still maintaining a degree of under-spend in those areas that are currently under-spent
- A head-count reduction across the Trust remains an option. Clearly any such exercise would require a careful assessment of the impact upon patient service and safety levels as well as any income loss or governance risk.

12.2. There are also a number of risks that have not been taken into account in the likely case forecast:

- Non-achievement of CIP targets – several CIP schemes are weighted towards the end of the year. Whilst some non-achievement is implicitly assumed within the likely case (as it is based upon April and May projected), there is a risk that the £9.2m CIP will not be achieved. Worst case – April and May proportions of validated achievement do not increase, resulting in a £1.1m deterioration of the likely case
- Activity is lower than planned – for example, some theatres are closing for refurbishment in the summer. This means that it will be necessary to undertake additional activity above plan for other months in the year. Worst case – April under-performance against plan could continue for the rest of the year = £1.46m
- Increased validation queries from commissioners, resulting in a number of challenges that the Trust does not have capacity to change within the revised timescales. However, we do have assurances from commissioners that they will pay for all over-performance in line with PbR rules. Worst case – 10% of over-performance is disputed (£1.1m)
- Recovery plans (as detailed in section 11) are not wholly successful. Worse case – only 50% of the planned actions are successful = £1.1m
- The potential EWTD, mixed sex accommodation and revaluation savings do not materialise. Worst case - £0.9m
- The Trust is unable to release provisions if the risks that they are covering materialise.
- Legal costs are higher than anticipated (for example, if a larger number of employment tribunals are brought against the Trust and result in compensation payments)
- Cost pressures materialise that were not anticipated in budget-setting. There is little or no contingency for unanticipated cost pressures in 2009/10
- Data is not input onto PAS and other information systems in a timely way. Due to the compressed timetable for reporting activity in 2009/10, there is a risk that the Trust will not receive payment for activity carried out but recorded late. Worst case - £1.5m

12.3. To summarise, a break-even position is achievable if there is concerted effort to ensure that recovery plans are successfully implemented, that expenditure in other areas is controlled, that income and CIP targets are fully met, that the above risks are minimised and that other potential opportunities for reducing the current variance materialise. Any lapse in controlling expenditure and achieving activity targets will jeopardise the likely case break-even.