1. **FINANCIAL POSITION**

1.1 **Overview**

The Trust is still unable to adopt a formal budget and continues to operate within the provisional budget agreed by the Trust Board in April. A revised financial plan has been submitted to the Cheshire & Merseyside SHA, incorporating an extended recovery plan of £10.2M over the financial years 2006/07 and 2007/08. At this stage, the plan has not been ratified by the SHA and, therefore, this report explains performance against the provisional budget, i.e. a budgeted in-year deficit of £6.4M.

The financial performance at the end of May is an under-spend of £88K against the provisional budget deficit. Appendix 1 contains the high level Income & Expenditure Account for the month.

1.2 **Income**

<table>
<thead>
<tr>
<th>Oper'nal Budget £000</th>
<th>INCOME</th>
<th>CURRENT MONTH</th>
<th>YEAR TO DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Budget £000</td>
<td>Actual £000</td>
</tr>
<tr>
<td>105,682</td>
<td>PCT SLA</td>
<td>8,854</td>
<td>8,853</td>
</tr>
<tr>
<td>7,175</td>
<td>Specialised Services income</td>
<td>604</td>
<td>604</td>
</tr>
<tr>
<td>2,821</td>
<td>Other income for patient care</td>
<td>229</td>
<td>234</td>
</tr>
<tr>
<td>9,277</td>
<td>Non patient care income</td>
<td>884</td>
<td>837</td>
</tr>
<tr>
<td>14,260</td>
<td>Debt repayment</td>
<td>(1,189)</td>
<td>(1,189)</td>
</tr>
<tr>
<td>20,660</td>
<td>Uncovered Risk</td>
<td>1,723</td>
<td></td>
</tr>
<tr>
<td>131,555</td>
<td>Sub-Total Income</td>
<td>11,105</td>
<td>9,339</td>
</tr>
<tr>
<td>150</td>
<td>Interest receivable</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>131,505</td>
<td>Total Income</td>
<td>11,117</td>
<td>9,356</td>
</tr>
</tbody>
</table>

The table above highlights the performance on income, but a more detailed breakdown of income is provided in Appendix 1A.

As I reported last month, I am assuming income against the budget set for PCTs. This is on the basis of discussions that have taken place to date. The West Lancashire PCT issue reported in April is not yet resolved and has been escalated to the Cheshire & Merseyside SHA for resolution.

Specialised Services income of £7.2M relates to spinal injuries and the main SLAs in relation to this service are close to completion.
Other income from patient care is favourable by £5,000 and is due to private patient income.

The loss of £47,000 on 'non patient care income' relates to an arbitration decision with Lancashire Care in respect of the Estates SLA provided to them on the Ormskirk site.

The interest receivable budget is £150,000 for the full year. At month 2 we have overachieved this by £12,000, mainly due to the land sale receipts received at the end of 05-06.

1.3 Expenditure

Expenditure budgets have under spent by £72,000 in month as depicted below. However, a number of non pay budget lines are showing overspends within this favourable variance and it is important that the groups bring these areas back into line to help with the I&E shortfall that hasn’t been addressed by the recovery plan. Without the under-spend on pay, the Trust would be over-spending on the provisional deficit of £6.4M.

<table>
<thead>
<tr>
<th>Oper'nal Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>CURRENT MONTH</th>
<th></th>
<th>YEAR TO DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
<td>Variance</td>
</tr>
<tr>
<td>EXPENDITURE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay</td>
<td>91,372</td>
<td>7,464</td>
<td>7,285</td>
</tr>
<tr>
<td>Non Pay</td>
<td>29,368</td>
<td>2,428</td>
<td>2,509</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,201</td>
<td>517</td>
<td>546</td>
</tr>
<tr>
<td>Recovery Plan</td>
<td>(829)</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>126,112</td>
<td>10,412</td>
<td>10,340</td>
</tr>
</tbody>
</table>

1.3.1 Pay

Pay budgets are under spent in month by £179,000 . With the vacancy freeze, proposed VER’s and redundancies in the system this line will need to be monitored closely to ensure consitency. As posts are frozen these will need to be actioned in the ledger so that an accurate and timely position is reported. Details of variances by staff group are identified at Appendix 1B and a subjective summary is provided below.

Medical staff is underspent and this is driven by vacancies and also by the new tranche of SHOs who have commenced on a lower salary than the previous incumbents.

Nursing staff has 88 WTE vacancies in May, which is the highest number of vacancies recorded for some time. This is contributing to the £113K under-spend to date although there is a classification issue with professional & technical staff. Despite this issue nursing staff underspends are the main driver for the performance to date.

Professionals Allied to Medicine are also under-spent, driven by 10 WTE vacancies.
Professional and technical staff is £32,000 overspent. £22,000 of this is for theatre staff whose budget is in nursing, these are staff which will be classed as nursing once they are converted to the Agenda for Change pay rates. The balance of £10,000 is within pathology which is currently being offset with vacancies within medical and clerical posts.

Ancillary staff has overspent in month by £13,000. Ancillary posts have formed part of the vacancy freeze posts in May and backdated to April, this has had an in month adverse effect of £7,000. Overtime payments to catering, porters and domestics accounts for a further £4,000 for the reasons previously reported. This is being addressed by the Facilities Director and has reduced from the previous month.

Maintenance staff has over spent in month by £4,000 this is due to vacant posts going to the vacancy freeze and being backdated to April.

1.3.2 Non Pay

This area is £78,000 over spent in month and is causing concern as two main areas are beginning to show an adverse trend. Details are provided at Appendix 1B.

Regarding supplies & services clinical, we are overspent by £9,000 on drugs in May. This is all in one area:- the medical day unit. Although most of the expensive drugs used on this unit are excluded from PbR and recharged directly to the PCT, other expensive drugs are used on the unit and we are currently investigating the reason for this in month increase. Medical & surgical supplies are overspent by £25,000 in month, £15,000 of this is in Gynaecology where three pieces of equipment have been condemned and replaced (2 laser vacs and wall mounted suction £8,000) and supplies for new procedures (twizzle electrodes and verascope sheaths £7,000). Theatres are overspent by £10,000 in month mainly on expensive orthopaedic cases. Provided these procedures are rewarded appropriately in tariff, then there may be a corresponding increase in income to off-set this.

Premises and fixed plant expenses show an in month deficit of £31,000 and all of this relates to the cost of energy. The 2006-07 budget for gas and electricity has been increased by 30% to take account of expected price increases. However, prices have increased beyond the predicted budget setting position by 50%. The Facilities Director has been instructed to contain expenditure within budget and he is in discussion with Dalkia regarding the current invoices received.

The miscellaneous line contains a number of small areas. However bad debts are over budget in month by £11,000 although this is a timing issue and I expect this budget to come back into balance during the course of the year. Courses and conferences for medical staff is over spent by £14,000 in month.

The depreciation budget is overspent this month and this relates to the SGI site. We have once again revalued the SGI site after discussions involving both the District Valuer and our auditors and this overspend reflects the new valuation on this asset. Previous depreciation forecasts had assumed that the SGI site would have been disposed of by now.

1.3.3 Clinical Service Group Performance
This is the first finance committee that each group director is expected to attend and explain their performance. This reintroduces the format of the committee from two years ago. Appendix 2 provides an analysis of each CSG’s performance in both income and expenditure.

Three groups are reporting an over spend in month in May.

Planned Services has achieved financial balance in month, although benefits on pay are masking the problems on non pay with drugs and medical and surgical supplies the main issues as stated above.

Specialist & Emergency Services has an in month over spend on medical and surgical supplies, however, cumulatively non pay is in balance and is not a concern at the moment. The group also has a large benefit on pay, this is due to a number of consultant vacancies £30,000 and nursing vacancies £50,000. These vacancies are contributing to the balance between pay and non pay budgets.

Medical management has a £13,000 deficit on medical courses and conferences and this is of particular concern at such an early stage in the year.

Finance has an in month deficit of £9,000 as a result of a back dated CRES actioned in May and bad debts as mentioned earlier in the report. Cumulatively the finance group is now almost in balance.

The Capital and Facilities has deteriorated since April and again the problems centre around energy costs together with overtime in certain areas as stated earlier in this report.

2. **AGENDA FOR CHANGE**

Details of assimilation onto the new pay scales are in Appendix 2B. 83.86% of staff have been assimilated at the end of May 2006. In the 2006-07 budget setting process the pay budget has been set by forecasting agenda for change bandings for those staff who had not been assimilated. Therefore, at this stage, I am not reporting any further financial pressures generated by the agenda for change process.

3. **RECOVERY PLAN**

The Trust set a Recovery Plan target of £4m at the start of the year and it is this figure that is contained within the provisional budget. Good progress has been made against this target to date with £3.4M actioned in 2006/07 (FYE £3.7M) (see Appendix 3).

As mentioned earlier in the report the Trust has drafted a further version of the Recovery Plan (see Appendix 3A). This has not yet been adopted by the SHA, but the executive directors are now concentrating on working to the higher target. Appendix 3A highlights those areas that are still to be actioned in this financial year and weekly monitoring of the plan is occurring within Cabinet.
4. **CASH MANAGEMENT**

A detailed cashflow analysis is provided in Appendix 4. Some of the main points to note are as follows:-

**CASH INFLOW**

The Trust receipted £11.8m in cash inflows. This amount is £1.7m more than originally forecast, due to the following factors:

- Southport & Formby PCT settled £700k of invoices as they moved finance transaction processing to Shared Services in Wavertree;
- A double payment from the Workforce Development Confederation of £500k to make up for not paying the Trust in April;
- Payments from West Lancs PCT and Lancashire Care for prior year capital recharges totalling £275k.

**CASH OUTFLOW**

Total cash outflows amounted to £10.8m. Of this £7.1m was spent on salaries and the balance of £3.7m was spent on creditors.

Cash outflows were increased £400k over the original target to ensure supplier payments were in line. This was achievable due to the additional £1.7m cash inflows.

**CASHFLOW FORECAST**

There is now a better understanding around the land disposal amounts and timings.

With the additional cash in May it has been possible to smooth out the cashflow in future months so that, for example, in September, payments to suppliers will not need to be curbed in order to make the Trust Debt Remuneration payment of £2.6m.

The adjustment to the land disposal values means the loan value has now marginally increased to £16.264m. Note, however, the Strategic Health Authority is considering another option to provide cash support which would involve the settlement in cash of 05/06 unplanned financial support of £14.26m.

Better Payment Practice Code:

The Better Payment Practice Code requires the Trust to aim to pay all undisputed invoices by the due date or within 30 days of receipt of goods or a valid invoice, whichever is later.

At the end of May 2006, 99% of non NHS invoices and 97% of non NHS invoices were paid within the Trust terms.
5. **CAPITAL**

The provisional capital programme for 2006/07 is identified in Appendix 5. A formal budget will not be available until we have received SHA approval and this will then be presented to the Trust Board. Until then the provisional budget is appended although capital is effectively frozen except for the medical equipment funded from the legacy.

It is noticeable that capital expenditure has fallen significantly, with only £145K spent in April and May. This will begin to increase now that the medical equipment review panel has met and decided on those schemes which will be funded from the legacy. A plan of £700K is identified, by scheme, at Appendix 5, and I expect these budgets to be utilised over the next few months.

6. **FINANCIAL OUTLOOK**

The Trust is on target to achieve a provisional planned in-year deficit of £6.4M based on the performance in the first two months of the year. An extended version of the recovery plan is still to be endorsed by the SHA and, if this is delivered, the planned deficit will be set at £5.2M although all efforts will be made to reduce this figure further wherever possible.

Until SLA discussions have been finalised, it is difficult to estimate the effect of activity performance under the Payment by Results framework. However, I expect this information to be available soon and will update the Finance Committee next month on this issue.

The cumulative debt of the Trust is £14.26M at 31 March 2006. The Cheshire & Merseyside SHA are currently working up a strategy for historic debt write off for organisations within its boundaries, utilising PCT growth top-slicing and SHA resources. It remains unclear at this stage how much of the £14.26M will be targeted and the effect on the financial plans of the Trust. I expect a decision on this in the next few weeks and will provide the July committee with an updated position.

Mr C. E. Throp,
Director of Finance
20th June 2006