**Financial Director's Report**
**Period 10 07/08**

The summary of results attached shows the underlying deficit of £3.0 million for the 11 months to February. After one off adjustments the reported deficit is £1.2 million, a reportable loss of £0.2m in the month, largely due to costs underlying fleet and communication costs incurred in the month. Accruals for some of these items were missed in January and corrective actions are taking place.The reason the results appear £4.3m behind budget on the FR1b summary is principally to do with the way the budget timing was calculated. The majority of call connect expenditure was phased in March 08 which gives an unrealistic measure. Adjusting for this brings the adverse variance deficit against budget closer to the adverse variance of £2.3 against the plan. (The plan was the official document submitted before the full budget was created)

During February the cumulative effect of unreconciled items which require to be written off was £0.2million; these are shown as a one-off adjustment, "net write offs re cash/payroll/ESSA". The final adjustment is expected in March. In February a £142k of disconnected entries in the purchase ledger previously reported was completely solved.
Continued action to support the fleet manager in Bedford is needed and there are ongoing staff issues there.

## Outlook for 20007/08

The forecast underlying deficit for 2007/08 is now estimated to be breakeven as can be seen from the attached schedule. The CIPS programme is delivering good results but in the month of March arrestment has occurred due to the new drive to increase spend on overtime and private ambulances to achieve T4 target by the year end. Reimbursement arrangements from commissioners have been put in place but until the final account of March is in their adequacy must remain a risk. There is a risk for the March CIPS and the weak accounting process during the systems implementation in the early part of the year. There will remain a risk of audit qualification up until the accounts are signed. PWC have assigned a second partner to review the accounts, an indication of the seriousness of the situation.

## Commissioning

The SLA for 2008/9 was finally signed on 14 March 08 which was a success. First of all no arbitration was needed like last year and secondly an increase of £13.4m, analysed below is 10% up on this year's income. This gives the Trust a chance to improve its fortunes if the monies are spent **wisely**. The not so good news is that the commissioners did little to correct the activity baseline (£0.6m below and funding of CSD calls, see £0.5m below). The bulk of the extra money, an increase in call connect of £3m is expected to be spent on performance improvement rather than fund existing expenditure.
Management of expectations is crucial, and operating within a financial envelope at all times must be the focus.

| £ | |
|---|---|
| 0.2M | Over activity – 0708 variance |
| 3.1M | Inflation (6.5% minus 3.4% CRES = net 3.1%) |
| 0.9M | Development in West Herts due to reconfiguration/ CAMS/CBRN vehicles |
| 1.8M | Over activity (if it occurs) |
| 0.6M | Repricing of 08/09 activity from 50% to 65% |
| 0.5M | CSD calls |
| 6.3M | Call Connect (original plan was for £3.3M) |

This is expected to still leave the Trust with a CIPS programme requirement of £6 to £7m in 0809, and a plan for dealing with this is urgently needed. April costs are expected to bulge as the temporary stopping of cost items in the CIPS programme comes back.

**Budget 0809**

1. **Process**

Most budget meetings have now been held. The process was/is extremely compressed into late Feb/ March and has issues as a result of:

- The 2007 systems crisis which meant that most planning didn't start till January 08.
- Concurrent work on resolution of the systems problems for audit
- Concurrent work on commissioning
- Concurrent work on improving the finance function generally
- Concurrent work on CIPS to try and achieve financial balance

The net effect of this is that there have been diary issues and some complaints about the level of consultation, however there is some good news:

1. We have a budget model that compares costs to a reasonable degree with 0708 projections for the first time.
2. We have a budget model with the final signed A&E SLA values in it for the first time. As this represents three quarters of our income it is crucial.
3. On the cost centre review many were deleted but there was no wholesale restructure.
4. We have a responsibility summary by person over around fifteen people for the first time that allows us to coordinate the conversations at the top level. These have been abbreviated due to timescales but are a big step forward. The structure can be seen on the £183m budget income schedule attached. (this excludes ESSA incidentally)
5. Overactivity income and related expenditure (both of which can vanish) have been treated not as discretionary executive items but as separate budget lines.The budget for them will not be allocated unless it happens, and if it does and the budget is allocated it will be immediately be treated as spent (on wages and fuel mainly!)

6. The call connect budget will be tightly controlled in one cost centre by the Ops director and call connect project manager. Any spend in local cost centres will be matched by monthly credits released from this cost centre. This financial envelope process means that the regular budget variance reviews should remain viable with a net nil effect of call connect in the regular cost centre.

**2. Outcome**

The first cut of the budget showed and £11m deficit (**after** the new A & E SLA is incorporated) though this is not a meaningful figure. The main reason was that there are double counts, poor modelling, and rounded NAI 'new aspirational items' in there. At a very high level it was established that £4-£5m of double counts and NAI expenditure related to training and payroll costs were the main issues. The information on this has come from finance staff **and is confirmed by the process of 0708 comparison above.** In one case the spend on grade 5 ambulance staff was being forecast to rise from £5.1 to £6.9m, comparing year on year, **excluding call connect**. This came from an over-conservative manning model. The 0708 pay figures for the whole Trust are incidentally at the pre - CIPS level of overtime of £10m.

Budget meetings have been principally aimed at removing the double counting etc. **The process of fully allocating and developing plans to achieve the £6-7m CIPS has not been done.**
**Abbreviated budget papers will be issued in the next few days for the Board to consider.**

**<u>Other issues</u>**
.

1. <u>Fixed asset register</u>

The work on setting up the new register at 1 April is finished but the deadline for this year's transactions was missed. The auditors are being kept informed.

2. <u>Bank reconciliations</u>

Regarding unreconciled items from earlier in the year, further progress has been made, last month resource was put into looking back at more of the early year items. A major fuel account reconciliation problem (Arval) was solved.

3. <u>Stock</u>

As reported before there is no change in the IT problems over the stock module. Reversion to counts at the year end is planned.

4. <u>Financial software development</u>

No change here .A new Agresso licence is to be bought in April 08 which will avoid upgrade distractions over the year end.

5. Financial procedures

No change here. The issuing of new procedures needs to move forward faster. A boost to this will be given when the remapping of document flows is done in April by PWC.

6. Recruitment

Support is needed for recruitment of a number of staff on an urgent basis.

John Brebner
20 March 2008