

To: WHHT Board

Date: 2 December 2004

From: Director of Finance

Subject: **FINANCIAL REPORT FOR THE PERIOD
TO THE END OF OCTOBER 2004**

Action: **For Noting**

Executive summary:

This paper reports the financial position of the Trust based on information available after the first seven months of the financial year and looks forward to the forecast position of the Trust at the year-end.

At the end of October the Trust has an income and expenditure deficit of £6.4m.

The forecast year-end deficit, as reported to the Strategic Health Authority on 18th November, is £11.5m. However, there are a number of actions to be followed up and assumptions to be confirmed if the deficit is to be contained to this level.

It is anticipated that the Trust's other financial duties will be achieved but the cash position will have to be reviewed if the deficit is confirmed at the level currently anticipated.

The financial position is to be discussed by the Trust's Finance and Planning Committee on 24th November and the Trust Board will be updated as to the outcome of this meeting.

Carolyn Hughes
Director of Finance

1 Corporate Financial Duties

1.1 Statutory and other duties

The Trust has three statutory financial duties:

- To breakeven in terms of income and expenditure
- To meet its external financing limit (a target related to cash management)
- To achieve a 3.5% capital cost absorption rate (rate of return on assets used)

In addition the Trust has two other financial targets:

- To keep within its capital resource limit (a limit on what the Trust can spend on capital items)
- To pay all valid invoices within 30 days (Better Payments Practice Code). Current minimum target 95%.

1.2 Current position and year end forecast

The Trust's corporate financial duties can be grouped under three headings:

- Financial management
- Cash management
- Management of capital expenditure

The targets are inter-related and cannot be measured in isolation from one another (or for that matter in isolation of other targets and duties of the Trust) but these three headings are a practical way to monitor and report on financial progress through the year.

Table 1: Summary of Financial Duties, position at 31 October 2004 and forecast year-end position

Financial duties	Position at the end of October 2004	Forecast position at the end of March 2005	Achievement of target?
Financial Management			
Income and expenditure breakeven	£6.4m deficit	£11.5m deficit	✗
Cash Management			
External financing limit (cash management)*	EFL at 31/10/04 is £225,000 Cash balance £2.8m	EFL achieved Cash balance c£100,000	✓
Better Payments Practice Code (target 95% minimum)	Payments – Number 94.99% Value 93.38%	Payments – Number 95% Value 95%	✓
Capital Management			
Capital cost absorption rate of 3.5% & Capital resource limit (CRL)*	CRL at 31/10/04 is £11,247,000	To be managed to £11,247,000 Capital cost absorption rate 3.5%	✓ ✓

*The capital resource limit (CRL) is the amount of capital funding allocated to the Trust for each financial year; the external financing limit (EFL) is the amount of cash available for the Trust to fund the CRL (CRL less planned depreciation, less capital underspend 2003/04)

2 Corporate Financial Duty 1 – Financial Management Income and Expenditure Breakeven

2.1 Financial position as at the end of October 2004

The financial position as at the end of October shows a deficit of £6.4million. A summary analysis of this position is shown in table 2 below.

Table 2: Summary of the financial position as at the end of October 2004

	Annual Budget	Year to 31/10/04 Budget	Year to 31/10/04 Actual	Year to 31/10/04 Variance
	£m	£m	£m	£m
"Central" Income	199.8	116.6	116.4	-0.2
Centrally managed funding plans	9.5	5.5	0.0	-5.5
Expenditure:				
Medicine	-41.4	-23.9	-25.0	-1.1
Surgery	-53.8	-31.5	-32.8	-1.3
Cancer	-15.8	-9.4	-9.6	-0.2
Women's services	-15.1	-8.8	-9.0	-0.2
Clinical support	-24.9	-14.5	-14.7	-0.2
Facilities, estates & corporate	-35.6	-22.1	-22.5	-0.4
Depreciation	-7.3	-4.2	-4.2	0.0
Other	-9.6	-1.8	-1.8	0.0
Total expenditure	-203.5	-116.2	-119.6	-3.4
Operating surplus/(deficit)	5.8	5.9	-3.2	-9.1
Dividends/interest	-5.8	-3.4	-3.2	0.2
Trust surplus/(deficit)	0.0	2.5	-6.4	-8.9

Significant points to note are:

- All the Trust's service level agreements have been finalised, although the Barnet SLA remains provisional whilst the protocol for prescribing new drugs is being agreed.
- Private patient income improved significantly in the month and is now £120,000 more than budget.
- With regard to expenditure, the October position shows a pay overspend of £2.1m and non-pay £2.4m. The overspending increased by £132,000 and £473,000 respectively in the month.
- Expenditure on medical staffing agency costs was £2,168,000 in the seven months to 31 October 2004. These costs have risen by 44% from last year due to the need to use locums to meet the A&E waiting time targets and the revised junior doctor rotas to ensure compliance with the European Working Times Directive.

Financial position – forecast to the end of March 2005

In the last month there have been a number of significant changes to the year-end forecast. The revised year-end forecast is summarised in table 3 below.

Table 3: Year End Forecast 2004/05

	Year end forecast October 2004
	£m
INCOME:	
Operational & other income	231.4
Financial Recovery Plan - additional income **	1.0
2003/04 planned support & deficit	-4.6
Asset sales transferred to revenue	1.9
Total income	229.7
EXPENDITURE:	
Operational & other expenditure	-230.4
Forecast shortfall on planned savings	-2.5
Additional Divisional savings plans	0.2
Operational overactivity/additional expenditure	-2.0
Net unfunded superannuation shortfall	-0.6
Emergency Care Task Force costs	-0.7
Capitalisation of revenue items	0.6
Total expenditure	-235.4
OPERATING SURPLUS/(DEFICIT)	-5.7
Dividends and interest	-5.8
TRUST SURPLUS/(DEFICIT)	-11.5

The reasons for the movement in the year-end forecast in the last month can be summarised as follows:

	£m	£m
Deficit position based on September information reported to October Trust Board:		7.5
Financial Recovery Plan - additional income not available	2.5	
Emergency Task Force funding - not yet agreed	0.7	
2003/04 deficit b/wd	0.5	
Savings plans not anticipated to be achieved/ increase in operational costs	1.3	
Unfunded Agenda for Change costs ex from forecast(Quadrant consistent)	-1.0	
		4.0
Revised forecast deficit reported to the Strategic Health Authority 18/11/04		11.5

The assumptions used in the year-end forecast are being reviewed. Currently, it would appear that the year-end deficit is likely to be higher than £11.5m, particularly as the £1m income from the West Herts Quadrant Financial Recovery Plan (**in table 3) now appears to be very uncertain.

Carolyn Hughes
Director of Finance
 22nd November 2004

3 Corporate Financial Duty 2 – Cash Management

Meet the External Financing Limit (EFL)

Pay at least 95% of invoices within 30 days (Better Payments Practice Code)

3.1 Cash management to meet the EFL

The Trust had £2.7m net cash balances at the end of October. Given the potential size of the year end deficit, the Trust's cash flow is being reviewed.

3.2 Pay at least 95% of invoices within 30 days

The cumulative **number** of invoices paid within 30 days was 48,372, representing 94.99% of the total bills paid. The national target is 95.00%. The cumulative **value** of invoices paid within 30 days was £39.8m representing 93.4% of all bills paid against the national target of 95%.

4 Corporate Financial Duty 3 – Capital Management

To manage capital expenditure to meet the capital resource limit (CRL) and achieve a capital cost absorption rate of 3.5%

Significant points:

- The planned capital programme for 2004/05 totals £12.3m. Currently there is a forecast over- commitment of £918,000. However, it is likely that elements of some schemes will slip from 2004/05 into 2005/06 so reducing the over-commitment. The Capital Planning Group consider that that the current 2004/05 programme represents an appropriate balance of risk between under and over-spending.
- The capital expenditure for April-October 2004 amounts to £4.2m.
- A summarised notification of the Trust's CRL has been received from the Strategic Health Authority. There are minor differences when compared with the Trust's planning assumptions but not sufficient to require re-prioritisation of expenditure.

5 Action by the Trust Board

The Trust Board members are requested to:

- 5.1 Review this report and in particular the forecast income and expenditure position at the year-end.
- 5.2 Agree any additional actions to be taken to reduce the forecast year-end deficit.