West Hertfordshire Hospitals NHS
NHS Trust

TRUST BOARD 26th JANUARY 2006 FINANCIAL REPORT FOR THE YEAR TO 31st DECEMBER 2005

This paper reports the financial position of the Trust for the nine months to 31st December 2005.

At the end of December, the Trust had budgeted for a cumulative deficit of £13.8m as part of an annual plan to restrict the deficit to not more than £19.3m. The actual deficit incurred after nine months was £19.7m, a negative variance for the period of £5.9m.

The year-end forecast is a deficit in the range of £27m to £30m; based on current information it is thought realistic to try and hold this figure to a deficit of not more than £28.6m.

With regard to the Trust's other financial duties, the cash position associated with the income and expenditure deficit will be very difficult to manage to the year-end. The achievement of the Better Payments Practice Code was at 37.26% at the end of December and the Trust is carefully managing all payments to ensure the organisation can continue to meet its obligations.

1 Overview of the Trust's Corporate Financial Duties

Table 1: Summary of Financial Duties, position at 31 December 2005 and forecast year-end position

Financial duties	Position at the end of December 2005	Forecast position at the end of March 2006	Achievement of target?
Financial Management Year end income and expenditure position not to exceed a deficit of £19.3m	£19.7m deficit against plan of £13.8m deficit	£28.6m deficit	✗
Cash Management External financing limit (cash management)*	EFL at 31/12/05 is £8,674k	EFL achieved	✓
Better Payments Practice Code (target 95% minimum)	Cash balance £25,547k Payments – Number 37.26% Value 35.97%	Cash balance c£100,000 Payments – Number 30% Value 30%	✗
Capital Management Capital cost absorption rate of 3.5% & Capital resource limit (CRL)*	CRL at 31/12/05 is £8,142k	To be managed to £5,059k	✓
		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)

2 Corporate Financial Duty 1 – Financial Management

Outturn income and expenditure position not to exceed a deficit of £19.3m

2.1 Summary of the Position

Table 2 shows a summary of the income and expenditure position on both an annual basis and the year to the end of December 2005. Additional detail is attached in appendices 1 and 2.

Table 2: Summary Income and Expenditure Position – Annual and Year to Date

	Annual 2005/06			Year to 31/12/05		
	Plan £m	Forecast £m	Variance £m	Budget £m	Actual £m	Variance £m
Income	211.0	212.2	1.2	158.9	159.1	0.2
Expenditure	-214.5	-224.5	-10.0	-160.8	-166.6	-5.8
Depreciation	-8.0	-8.5	-0.5	-6.0	-6.3	-0.3
Operating Deficit	-11.5	-20.8	-9.3	-7.9	-13.8	-5.9
Public Dividend	-7.8	-7.8	0.0	-5.9	-5.9	0.0
Deficit for the year	**-19.3**	**-28.6**	**-9.3**	**-13.8**	**-19.7**	**-5.9**
Deficit b/fwd from previous years	-14.6	-14.6	0.0			
Total deficit c/fwd	-33.9	-43.2	-9.3			

Chart 1 shows the cumulative income and expenditure position and the variances between the original plan, revised forecast (as reported to September 2005 Trust Board) and actual positions month-by-month.

Chart 1: Cumulative income and expenditure position – plan, actual and forecast

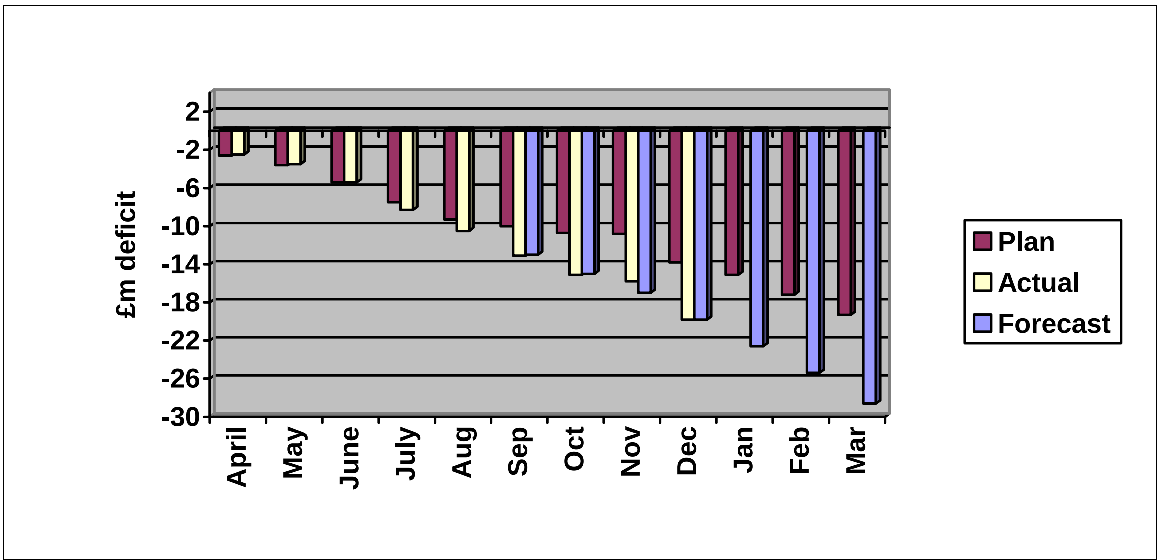

Table 3 and chart 2 show the overall position analysed by management division within the Trust.

Table 3: Summary of the financial position – Annual & Year to Date by Division

	Annual Plan £m	Annual Forecast £m	Annual Variance £m	Year to 31/12/05 Budget £m	Year to 31/12/05 Actual £m	Year to 31/12/05 Variance £m
Income	186.2	186.9	0.7	137.6	137.4	-0.2
Expenditure net of "Divisional Income":						
Medicine	46.1	48.8	2.7	35.3	36.8	1.5
Surgery	55.6	58.1	2.5	41.8	43.2	1.4
Women's services	15.1	15.5	0.4	11.4	11.5	0.1
Clinical support	25.1	26.5	1.4	19.0	19.7	0.7
Facilities, estates & corporate	36.1	38.3	2.2	27.4	29.0	1.6
Depreciation	7.7	8.1	0.4	5.8	6.1	0.3
Other	12.3	12.7	0.4	5.2	5.4	0.2
Total expenditure	198.0	208.0	10.0	145.9	151.7	5.8
Operating surplus/(deficit)	-11.8	-21.1	-9.3	-8.3	-14.3	-6.0
Dividends/interest	-7.5	-7.5	0.0	-5.6	-5.5	0.1
Trust surplus/(deficit)	-19.3	-28.6	-9.3	-13.9	-19.8	-5.9

Chart 2: Variances by Division – cumulative position end of December 2005

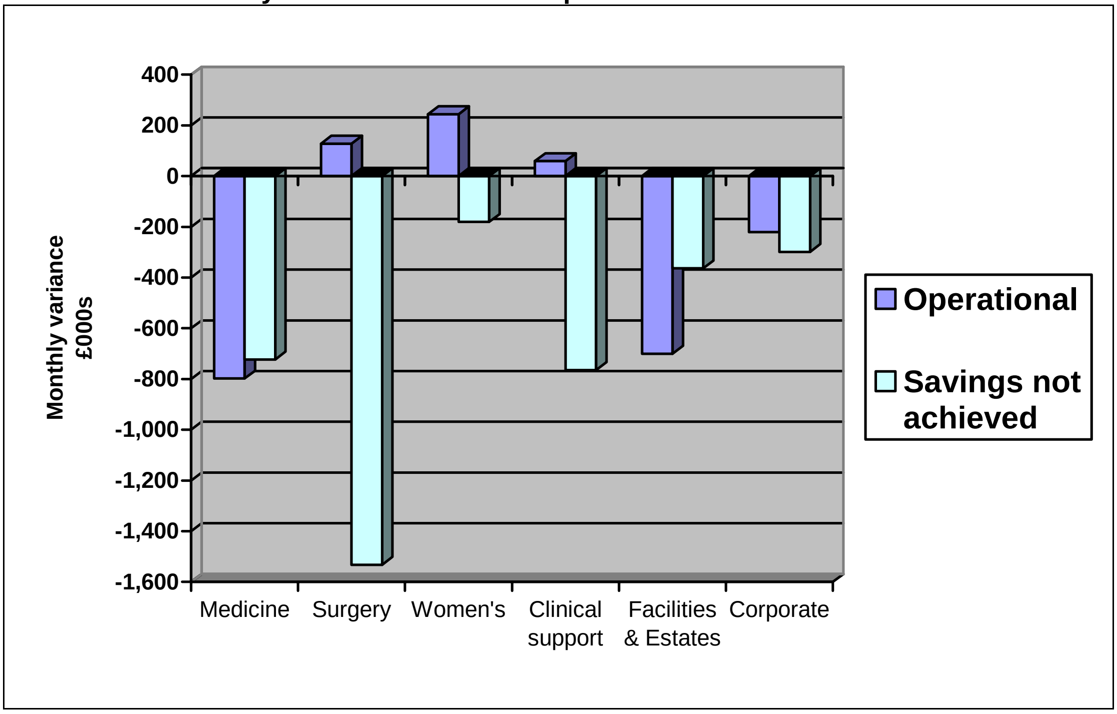

Chart 2 analyses the cumulative variance between savings and operational variances. As can be seen this would appear to show that some of the divisions would have been in balance on their baseline budgets if they had not been required to meet savings targets. The Surgical Division is in balance because of the recovery of backdated private patient income. The position for Womens' Services is also favourable due to better than expected income.

Where savings have been achieved by closing beds elsewhere e.g. to reduce bank and agency expenditure by transferring staff to other wards, these have been counted as savings rather than operational gains. There is a strong argument that when divisions are overall not living within their budgets they cannot therefore be meeting savings targets. However, where there are definite plans that have been actioned, e.g. bed closures, it would seem inappropriate not to recognise this. Furthermore, where activity pressures since December onwards have required additional beds to be opened, the costs of these will be reported as operational pressures rather than a reduction in savings achieved.

The implementation and monitoring of divisional budgets in the new financial year will move towards a more explicit link between activity and income and expenditure so that monitoring of baseline budgets or savings will be seen within that context.

2.2 Activity

Significant points to note:

- As at the end of December the Trust had admitted 12.8% more emergency patients than planned.
- Elective (planned) admissions were 3.2% above plan.
- First outpatient attendances were 12.5% above plan.

Additional analysis of activity is attached in appendix 3.

The Trust's income does not vary directly with activity. For 2005/06 only elective admissions are part of the Payment by Results (PbR) system where the Trust is paid a standard amount for each admission. For emergency and outpatient treatments, income varies with over and under performance only when agreed tolerances – written into agreements with each Primary Care Trust (PCT) - have been exceeded.

Only a proportion of the Trust's expenditure varies with activity. A large proportion of the Trust's expenditure is fixed in the short term e.g. the costs of running buildings and equipment and most staffing costs, but some costs e.g. drugs and diagnostic tests, do vary with patient activity.

The Trust is continuing to work to obtain more clarity in information linking activity to income and expenditure and this will be increasingly important to the organisation in managing its income and expenditure under the full PbR regime in 2006/07.

2.3 Income

Table 4: Analysis of Income – Annual and Year to Date

	Annual 2005/06			Year to 31/12/05		
	Plan £m	Forecast £m	Variance £m	Budget £m	Actual £m	Variance £m
Income from PCTs						
per SLAs	166.4	167.1	0.7	124.8	124.5	-0.3
Non contracted activity	1.3	1.3	0.0	1.0	1.0	0.0
Inter Trust Income	11.1	11.3	0.2	8.4	8.8	0.4
Private Patients	3.3	3.4	0.1	2.4	2.5	0.1
Other Divisional Income	13.2	13.5	0.3	9.9	10.1	0.2
Other Income	15.7	15.6	-0.1	12.1	11.8	-0.3
Total Income	**211.0**	**212.2**	**1.2**	**158.6**	**158.7**	**0.1**

A more detailed analysis of income by Primary Care Trust (PCT) service level agreements (SLA) and activity covered by Payment by Results (PbR) and non PbR activity and income is attached as appendix 4.

Significant points to note include:

- All Quarter 1 and 2 invoices have been raised for non-contracted activity (previously known as ECRs – Extra Contractual Referrals or more recently OATs – Out of Area Treatments).

- £1.5m of expected income related to prescribing savings as part of the Trust's savings programme (see section 2.5) will not be forthcoming from the West Herts PCTs. Additionally a further £1.5m of income from Dacorum PCT remains at risk. The PCT has stated they expect to put in place systems and processes to manage emergency and GP out patient referral demand, reduce elective operations and A & E attendances. No firm plans have been put to the Trust and activity year to date exceeds plan. The Trust is therefore assuming that this income is received. Negotiations have been on going with the PCT around these issues and over performance.

- At the end of September 2005, there were in excess of 12,000 emergency admissions uncoded. At c.£2,000 per case this represented up to £24m of financial risk. The Health Economy's Business Rules state that uncoded activity does not have to be paid for. There is a 5% tolerance on uncoded activity within the SLAs. At the quarter freeze date the Trust was within this tolerance level having caught up on its coding, leaving c1,600 uncoded episodes at the Q2 freeze date of 15th December, 2005

2.4 Expenditure

Significant points to note include:

- It has become apparent that a considerable amount of thallium testing has been carried out for the Division of Medicine by the Harefield Hospital. This was not planned and accounts of approx £104,000 of the Division's deficit to date and is forecast to be £140,000 for the year. This is due to changes in clinical practice. Activity pressures are also driving an over spend in blood products with a forecast adverse variance of £150,000 against an annual budget of £1,001,000.

- The Surgical Division is experiencing pressures on medical pay due to rotas being found not to be compliant, triggering claims for additional pay over the last two years (£200,000 for the year). The Division continues to recover more income than budgeted (£353,000 to date). A considerable effort has been made over the last few months to review private patient prices and the scope of charging and this is beginning to come through as additional income – forecast to be £470,000 more than planned at the year end.

- Within the Clinical Support Division costs for the period to the end of December there are £118,000 excess costs of using agency therapists to cover sickness. The sickness is now over and the additional costs are not expected to rise further.

- The position for the Estates and Facilities Division worsened by a further £188,000 in the month mainly attributable to the need to make emergency repairs to equipment etc. Overall such repairs are £118,000 more than budget to date and are forecast to be £150,000 by the year end.

Manpower expenditure

The Strategic Health Authority have set a target for a 5% reduction in establishment by the end of the year. However, it should be noted that as the Trust seeks to reduce its usage of agency staff, actual establishment would increase making the target reduction impossible to achieve. An analysis of vacancies and the agency cost incurred in covering them is shown in table 5. Agency expenditure incurred in 2004/05 is shown for information.

Table 5: Vacancies and Agency expenditure as at 31st December 2005.

	Whole Time Equivalents			Agency Expenditure	
Division	Budget wte	Actual wte	Vacancies wte	1/4/05 - 1/12/05 £000s	2004/05 £000s
Medicine	1,080	1,019	61	1,970	3,054
Surgery	1,190	1,041	149	2,592	3,636
Women's Services	410	362	48	1,302	2,018
Clincial Support	674	609	65	943	1,519
Estates & Facilities	144	137	7	8	68
Corporate	565	526	39	284	303
Total	**4,063**	**3,694**	**369**	**7,099**	**10,598**

The actual whole time equivalent (wte) also includes overtime and payments to bank staff. Agency staffing would have been used to cover some of the vacancies, especially in clinical areas. The expenditure to date on such staff totals £7m i.e. £789k per month compared with an average spend of £883k per month last year, excluding cancer services.

The major elements of the agency expenditure to the end of December of £7m, were:

- Medical agency costs in the Accident and Emergency Departments of £462,000 (£18,000 in the month of December)

- Nursing agency costs in the Accident and Emergency Departments of £448,000 (£39,000 in the month of December)

- Anaesthetics agency costs of £568,000 (£13,800 in the month of December)

- Other nursing agency of £2,511,000 (£465,000 in the month of December)

2.5 Cost Improvement Programmes – Savings Plans

At the beginning of the 2005/06 financial year the Trust endeavoured to construct a savings programme to deliver the control total set by the Strategic Health Authority of £19.3m. The original savings programme totalled £14.1m but it was highlighted from the outset that there were high risks attached to the delivery of large elements of the programme and by the summer of 2005 the forecast deliverable savings from these original programmes were reassessed at less than 25% of the £14.1m.

The Trust Board considered it essential to continue to press to identify additional cost improvement programmes (CIPs) to replace those that could not be delivered in 2005/06 and this work continues throughout the year and is now incorporated into the "Turnaround Plan" which was prepared with support from PricewaterhouseCoopers over the October to December 2005 period.

Table 6 below is a summary showing the original savings programme, the revised forecast (as incorporated into the forecast outturn of £28.6m deficit) and actual savings for the nine months to the end of December 2005. Further detail can be found in appendix 5.

Table 6: Savings Programme

	Full Year			
Review area	Initial assessment £m	Forecast outturn £m	Year to 31/12/05 actual £m	Comments
Theatre utilisation & rationalisation of surgical services	1.9	0.1	0.0	Savings being followed-up as part of "lean" project
Medical bed closures & alternative provision	1.2	1.5	1.1	
Outpatients	3.5	0.0	0.0	Not possible to realise fixed cost changes. Activity over plan.
Corporate management	2.5	1.3	1.0	Slipped - additional savings in full year
Supplies & other "housekeeping"	0.9	0.1	0.0	Has proved difficult to identify within Divisional expenditure. Some may be within other savings
Quadrant wide pharmacy savings	1.6	0.0	0.0	Savings realised outside Trust in Primary Care
Other savings	2.5	0.5	0.8	Numerous categories
Jnr Drs & locums		0.2		Turnaround Plan workstream
	14.1	3.7	2.9	

2.6 Year End Forecast

The year-end forecast included the Financial Recovery Report to the September 2005 Trust Board was in the range £26.6m deficit to £32.9m deficit, with the most likely position, based on the information available at that time, being a deficit for the year of £29.5m.

The Trust worked with PricewaterhouseCoopers over the period October to December 2005 to produce a Turnaround Plan and as part of this work the year-end forecast was updated to be in the range of £27m deficit to £30m deficit with the most likely position being £28.6m.

A summary of the year-end forecast position is shown in table 7. This includes information discussed under sections 2.1 to 2.5 above.

Table 7: Year end forecast

	Plan £m	Annual Forecast £m	Variance £m
Income			
SLA income	167.7	168.4	0.7
Non contracted activity	12.2	12.2	0.0
Inter Trust Income	10.6	11.3	0.7
Private Patients	3.3	3.4	0.1
Other Divisional Income	17.2	16.9	-0.3
Total income	211.0	212.2	1.2
Expenditure			
Medicine	48.6	51.5	2.9
Surgery	56.8	59.8	3.0
Women's services	15.8	16.3	0.5
Clinical support	31.4	32.9	1.5
Facilities, estates & corporate	52.4	54.1	1.7
Depreciation	8.0	8.5	0.5
Other	9.8	10.2	0.4
Total expenditure	222.8	233.3	10.5
Operating deficit	-11.8	-21.1	-9.3
Dividends/interest	-7.5	-7.5	0.0
Trust deficit	-19.3	-28.6	-9.3

The Trust is continuing to make every effort to reduce this forecast deficit position but there remain significant risks that may change the year-end position. These risks include:

- It has been assumed that the West Herts PCTs will pay the expected level of funding within the SLA and not withhold funding in respect of uncoded episodes of care (see section 2.3 above).

- The overall cost of Agenda for Change remains unclear. Whilst all staff had been assimilated in December, there were a significant number who were given provisional grades. In addition it would appear that there may be in excess of 20% of staff seeking to appeal against the grades they have been assigned. The appeals will take some time to resolve.. The back pay, where applicable, is currently being calculated together with the entitlements of leavers since October 2004. The final cost should be clearer by March 2006.

- The current activity pressures have required additional beds to be opened and this will impact on savings and expenditure to the year-end.

- In order to reduce the current activity pressures being experienced by the Trust additional activity control measures are required including an increase in intermediate care provision. It is unclear at what scale and pace such measures are being implemented by the PCTs and what impact may be felt by the Trust before the year-end.

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

As can be seen from appendix 6 the Trust had £ 25.5m net cash balances at the end of December.

Attached as appendix 7 is the Trust's latest cash-flow forecast showing actual cash balances to 31st December, together with forecast cash receipts and payments to 31st March 2006. The position is based upon the Trust's latest forecast of an income and expenditure deficit of £28.6m and includes a reconciliation between this figure and the forecast cash break-even.

The Trust's cash balance at the 31st December included £14.8m of advance SLA funding from local PCTs and funding from the NHS Bank funding of £6m.

In order to reach the forecasted break-even figure, the Trust has:

- Reviewed the capital programme and agreed payment for two major schemes to be made in 2006/07;
- Is discussing with the local tax office the timing of monthly payments;
- Ensuring all income due to the Trust is received as quickly as possible; unfortunately other NHS organisations across the country are experiencing similar cash flow problems and so are not in a position to settle their bills from us.
- Is carefully managing its creditor payments.

3.2 Pay at least 95% of invoices within 30 days

At the end of December 2005 the cumulative **number** of invoices paid within 30 days was 19,256 representing 37.3% of the total bills paid. The national target is 95%. The cumulative **value** of invoices paid within 30 days was £16.463m equating to 36.0% 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%

The planned capital programme and spend to date (£5.2m) by heading/scheme can be found at appendix 8.

The Trust's capital programme has been reviewed several times during the year and there has been a total reduction of £2,160,000 in the programme over the year. It is considered unlikely that any additional reduction can be made in the forecast capital expenditure to the year end.

- £11,411,000 – Capital Programme approved in April 2005
- £9,251,000 – Revised Capital Programme as at December 2005

A breakdown of the key changes by sub programme is attached as appendix 9.

5 Action by the Trust Board

The Trust Board members are requested to:

5.1 Review this report, note the financial performance for the first nine months of the year and 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 and manage the associated cash position.

Carolyn Hughes
Director of Finance
20th January 2006

Appendices

1 Summary Income and Expenditure Account
2 Divisional analysis – pay, non-pay and income
3 Summary of activity by Service Level Agreement
4 Income analysis
5 Savings programme
6 Balance sheet
7 Cash flow
8 Capital programme
9 Capital programme – key changes by sub programme