REPORT TO DAVID LAW CHIEF EXECUTIVE WEST HERTFORDSHIRE HOSPITALS NHS TRUST
REPORT ON FINANCIAL POSITION OF WEST HERTFORDSHIRE HOSPITALS NHS TRUST IN 2006/07

The Trust Chief Executive has asked me to provide advice about the financial position of the Trust and to help identify ways to improve the run rate from month 6 to 12, to deliver the control total agreed with the SHA. This report has summarises the work undertaken to date and the run rate analysis. The work is based upon information from the Trust Finance Department and has been undertaken in my capacity leading performance management work for the East of England Chief Executive and Director of Finance.

The Acting Director of Finance reported to the Finance and Performance Committee on 25th September, 2006, that the Trust had a deficit of £8.2 million at the end of August. This compared to the expected position of £7.2 million as part of a profiled annual plan to deliver the year end target of no more than a £12 million deficit.

The Finance and Performance Committee approved budgets for 2006/07 on 6th September, based on information provided by the Trust Finance Department. Income budgets were based upon on actual levels for 2006/07 and expenditure levels were based upon 2005/06 actual levels plus known changes for 2006/07 e.g. inflation.

It has become clear that there are a number of income related issues that were not adjusted within these budgets and which now need to be managed if the Trust is to deliver the control total agreed with the Strategic Health Authority. These could total £3 million:

1. The local PCTs have set plans to reduce demand and spend £6.7 million less with the Trust in 2006/07. This loss is accounted for in the financial plan and services are starting to reduce capacity accordingly. Over and above this loss the Trust will lose the market forces factor funding (MFF) which is 21.5% of the direct income. The worst case loss of MFF is therefore £1.4 million. It is important to understand the actual performance on the Service Level Agreements (SLAs) during the year to assess whether this loss will actually occur. To date the activity reductions in Watford Three Rivers and Dacorum PCTs have not materialised and if this trend continues the Trust will not only retain the MFF it will secure additional income over and above the financial plan. The Trust has a corporate NHS responsibility to help the Health Economy deliver financial recovery and it would therefore be imprudent to assume a significant gain over and above the financial plan at this stage however it would be appropriate to work on the basis that the

£1.4 million of MFF loss is likely to be offset by some additional income in year. This position should be reviewed in November.

2. From 1st October the Trust will no longer provide Plastics and Burns services which transfer to Royal Free Hospital Trust as a result of the resignation of three Consultant staff. The loss of income in 2006/07 associated with this transfer is £6.6 million and the planned reduction in cost is £4.8 million. As it will be difficult to reduce overheads costs immediately there will be a net loss of £1.8 million assuming that all other costs are removed from 1st October. Over and above the risk associated with removal of costs, there will be a loss of market forces factor funding (MFF) of £1.2 million. – There is therefore a minimum risk of £3 million in 2006/07 as a result of this transfer.
3. Risk of planned transfer of paediatrics (for clinical safety reasons) as a result of proposed budgetary arrangements – worst case of £1.1 million however following discussion with the East of England Chief Executive the Trust will be not accepting transfer of budgets that are known to be inadequate and further discussion will take place on the financial arrangements associated with transfer. This risk is therefore not included in the run rate analysis.

In addition to the above there are three additional in year risks to be managed:

1. Ensuring that coding of activity is timely and accurate so as to ensure receipt of income – in the first quarter of the year the Trust has incurred a loss of £100,000 as a result of incomplete coding
2. Ensuring that Outpatient Clinics in Plastics and Burns and Ante natal maternity attendances that are subject to manual coding practices are transferred to the relevant Payment by Results income collection systems – in the first quarter the Trust has incurred a loss of £400,000 as a result of this issue
3. Ensuring that budgets are managed to agreed levels and that the over spend in the first six months of the year is not repeated.

The review of the financial plan in August identified reserves of £14.4 million to fund inflationary costs during 2006/07 and Agenda for Costs changes. Initial assessment indicated that at least £4 million of these reserves would be available to offset the risks highlighted above. A further £1 million has been used to offset risk in discussion with the Trust Chief Executive and based on a further review of anticipated costs.

Significant time has been spent with Divisional teams to assess the likely run rate position in the last six months of the year based upon current savings plans. Initial monthly expenditure profiles have been agreed with Divisions and these are attached as an appendix. These and the aggregate for the Trust will be used for performance management purposes with the East of England and the Turnaround team at the Department of Health.

Most recent work with the Divisions demonstrates that there is still considerable development required to ensure that budgets are being managed effectively. A management checklist is being developed as a tool for managers to be used on a weekly and monthly basis. A draft of the tool currently being developed is attached for information.

The big issues that will impact further on the run rate from October 2006 to March 2007 are:

1. Improved management of non-pay **see below for examples*
2. Reduction of theatre sessions and associated spend
3. Further reduction of temporary staffing costs to ensure in line with cap set by Finance and Performance Committee
4. Further reduction of capacity to reflect SLAs and associated costs
5. Support to deliver the planned reduction in Consultant SPA sessions
6. Implementation of capital based, invest to save initiatives, with capital supported by the East of England if a business case is demonstrated and approved
7. Maximise “good” income and ensure collection e.g. private patients
8. Additional income from PCTs related to PbR income where activity exceeds planned levels, this is particularly likely to be the case for Watford Three Rivers PCT
9. Look at external funding for areas such as WDD etc and see how Trust could secure financial benefit
10. Corporate finance initiatives - Ernst and Young are advising Trust to ensure that all opportunities for non-recurrent balance sheet options, accounting treatment options and broader service planning options are being maximised (this work is being done jointly with East and North Herts Trust).

**Examples of non-pay improvement*

- *Procurement management support and performance reporting to Divisions to be enhanced*
- *Ensuring that the Supplies Agency deliver agreed savings*
- *Pharmacy support to Divisions will yield drugs savings*
- *Analysis by Divisions on activity information and how it directly relates to expenditure & income to enhance understanding of cost behaviour and management of spend*
- *Standardisation of equipment & consumables*
- *Ensure high cost non pay items are constrained to budgeted levels and below*
- *NICE related items – ensure controls in place and information provided on financial and activity position to deliver budgeted levels and below*
- *Non-stock requisitions must be authorised by Divisional Managers*

The implementation plans to deliver improvements in all of the above areas will be finalised by the end of October. This will include detail of targeted run rate improvement from November. The most significant issue to be addressed within the Trust is the reduction of costs in accordance with SLAs including theatres and the improved management of non-pay expenditure. In these areas alone it should be possible to target at least £3 million of benefit towards meeting the control total. This will require significantly improved Divisional management and accountability at service levels. Project management in selected areas will be provided as part of the Chief Executives plan to improve delivery within the Organisation.

Based on the assumptions and programmed work outlined in this paper the Trust is most likely to deliver a deficit at year end of approximately £15 million. This is based on the validation of Divisional savings schemes, further initiatives that are being targeted and the changes being made by the Chief Executive to improve delivery. The monthly run rate will improve to a breakeven position at year end with delivery of a £15 million deficit which will be a very significant achievement when compared to the £2 million run rate at the start of the year.

Delivery of a £15 million deficit would have been the result of £12 million of savings (5%). Delivery of a £12 million deficit would be the result of £15 million of savings (6.7%).

Work to strengthen the Finance Department has been given a priority as the support to Divisions and financial recovery more generally is current very weak. Attached is my current advice and action about the structural issues and also a proposed work plan to ensure delivery of key objectives. The interim Associate Finance Director and two Divisional Finance Directors start on 3rd October and interviewing for the interim Head of Finance takes place on 3rd October. The current Turnaround Director will continue in post. Implementation of the revised permanent arrangements will commence once agreed.

Sandy Hogg
Director of Finance Bedfordshire and Hertfordshire
East of England NHS
29th September, 2006.

SUMMARY OF RUN RATE AND FINANCIAL POSITION BASED ON PROJECTIONS AT 29TH SEPTEMBER, 2006.

		Month 5 £m	Month 6 £m	Month 7 £m	Month 8 £m	Month 9 £m	Month 10 £m	Month 11	Month 12 £ m	Aggregate £m
Planned Deficit (FIMs)	**A**	**(7.2)**	**(8.3)**	**(9.1)**	**(9.9)**	**(10.6)**	**(11.1)**	**(11.6)**	**(12.0)**	**(12.0)**
Medicine		(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(2.4)
Surgery		(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(4.2)
Women's		0.1	0.1							0.2
Clinical Support		0.2	0.2	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	0.1
Facilities				(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.3)
Estates										0.0
Corporate				(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.2)	(1.4)
Divisions net I&E position	**B**	**(0.6)**	**(0.6)**	**(1.1)**	**(1.1)**	**(1.1)**	**(1.2)**	**(1.2)**	**(1.1)**	**(8.0)**
Potential MFF loss as result of Demand Mgt Schemes	C	(0.4)	(1.0)							(1.4)
Potential additional income from SLAs Q1	D		1.4							1.4
Net impact of Burns & Plastics	E	N/A	N/A	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(3.0)
Loss of income Q1	F	N/A	(0.45)							(0.4)
Reserves release	G	N/A	N/A	0.83	0.83	0.83	0.83	0.83	0.83	5.0
Impact of cumulative overspend	H		(1.0)	(1.6)	(2.4)	(3.2)	(4.0)	(4.8)	(5.6)	
SUB-TOTAL	**A+B+C+D+E+ F+G+H = I**	**(8.2)**	**(9.9)**	**(11.5)**	**(13.1)**	**(14.6)**	**(16.0)**	**(17.3)**	**(18.4)**	**(18.4)**
Further run rate initiatives (monthly impact)		N/A	N/A		0.2	0.5	0.5	1.0	1.4	3.6
Cumulative impact on bottom line	**J**				**0.2**	**0.7**	**1.2**	**2.2**	**3.6**	
TRUST POSITION	**I+J**	**(8.2)**	**(9.9)**	**(11.5)**	**(12.9)**	**(13.9)**	**(14.8)**	**(15.1)**	**(14.8)**	**(14.8)**

Original Planned Monthly Run Rate		1.6	1.0	1.0	0.8	0.8	0.8	0.5	0.5	0.4
Projected Monthly Run Rate		**1.9**	**1.5**	**1.7**	**1.6**	**1.4**	**1.0**	**0.9**	**0.3**	**(0.3)**

West Hertfordshire Hospitals NHS Trust Monthly Run Rate