

**FINANCE AND PERFORMANCE 25th AUGUST 2006****FINANCIAL REPORT FOR YEAR TO 31<sup>st</sup> AUGUST 2006****INTRODUCTION**

This paper reports the financial position of the Trust for the five months to 31<sup>st</sup> August 2006.

At the end of August, the Trust had budgeted for a cumulative deficit of £7.2m as part of an annual plan to restrict the deficit to not more than £12.0m. The actual deficit incurred after five months was £8.2m a variance of £1.0m.

The majority of the required £15.3m savings required to reach the £12m control total are planned to be delivered in the later months of the year with further step changes in savings targets occurring in October and January to reduce the monthly run rate, so to be behind the phased target at this point of the year is extremely concerning.

The position at the end of August is £1.0m adverse compared to the planned run rate agreed by the Board at the meeting on 29<sup>th</sup> June 2006. It should be noted that if the spend continued at the current rate then the Trust would be forecasting a year end deficit of £19.7m, being a breach £7.7m breach against the agreed control total.

On the basis of the performance at the end of August the achievement of the control total deficit of £12m is in serious jeopardy, as the Trust now not only needs to deliver all savings planned for the second half of the year, but would also need to recover the additional deficit incurred in the first part of the year. It would be unacceptable to now forecast a higher deficit than the £12m control total, but the Board must urgently sign up to plans to remedy the position.

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 29.5% at the end of August and the Trust is carefully managing all payments to ensure the organisation can continue to meet its obligations. A revised cash management plan is under development and will be included as part of the report to the Board next month

# 1 Overview of the Trust's Corporate Financial Duties

**Table 1: Summary of Financial Duties, position at 31st August 2006 and forecast year-end position**

Financial duties	Position at the end of August 2006	Forecast position at the end of March 2007	Achievement of target?
<b>Financial Management</b>			
Year end income and expenditure position not to exceed a deficit of £18m	£8.2m deficit against plan of £7.2m deficit	£12m deficit would be exceeded at the present rate of spending	✗
<b>Cash Management</b>			
External financing limit (cash management)*	EFL still awaited	EFL will be achieved but this will require robust cash management	✓
	Cash balance £7,862k	Cash balance c£100,000	✗
Better Payments Practice Code (target 95% minimum)	Payments – Number 14% Value 34%	At current performance this is Payments – Number 25% Value 25%  However a cash strategy is under development to improve the position.	
<b>Capital Management</b>			
Capital cost absorption rate of 3.5% & Capital resource limit (CRL)*	CRL at 31/07/06 is estimated to be £9,496k	To be managed to £9,496k  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 £18m

### 2.1 Summary of the Position

The Trust has an agreed control total of a £12m deficit for 2006-07. The budget has been set to achieve this control total, which includes a savings programme of £15.3m. At month 5 £8.5m had been allocated to budgets at cost centre level and identified potential schemes for a further £4.8m. It is planned that savings for the whole of the programme will have been allocated into budgets at cost centre level in month 6.

Table 2 shows a summary of the income and expenditure position on both an annual basis and the year to the end of August 2006. Additional detail is attached in appendices 1 and 2.

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

	Annual 2006/07			Year to 31/08/06		
	Plan £m	Forecast £m	Variance £m	Budget £m	Actual £m	Variance £m
Income	223.0	223.0	0.0	92.8	91.2	-1.6
Expenditure	-217.7	-217.7	0.0	-92.8	-92.2	0.6
Depreciation	-9.5	-9.5	0.0	-4.0	-4.0	0.0
Operating Deficit	-4.2	-4.2	0.0	-4.0	-5.0	-1.0
Public Dividend	-8.1	-8.1	0.0	-3.4	-3.4	0.0
Interest Receivable	0.3	0.3	0.0	0.1	0.1	0.0
<b>Deficit for the year</b>	<b>-12.0</b>	<b>-12.0</b>	<b>0.0</b>	<b>-7.3</b>	<b>-8.3</b>	<b>-1.0</b>
Deficit b/fwd from previous years	-37.3	-37.3	0.0			
Total deficit c/fwd	-49.3	-49.3	0.0			

Chart 1 shows the cumulative income and expenditure position and the variances between the original plan, revised target and actual positions set against the agreed cumulative monthly run rate.

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

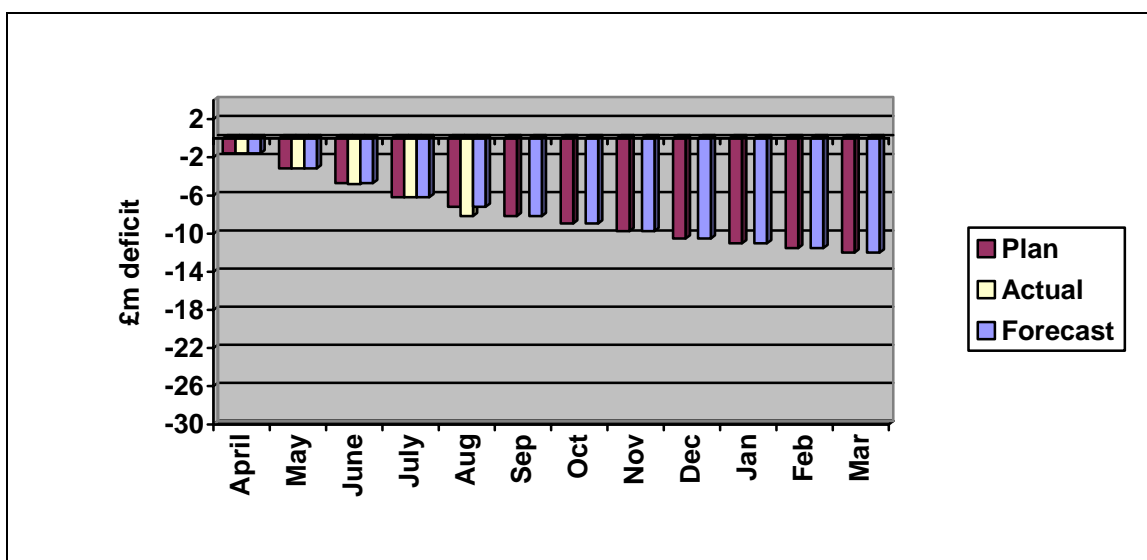
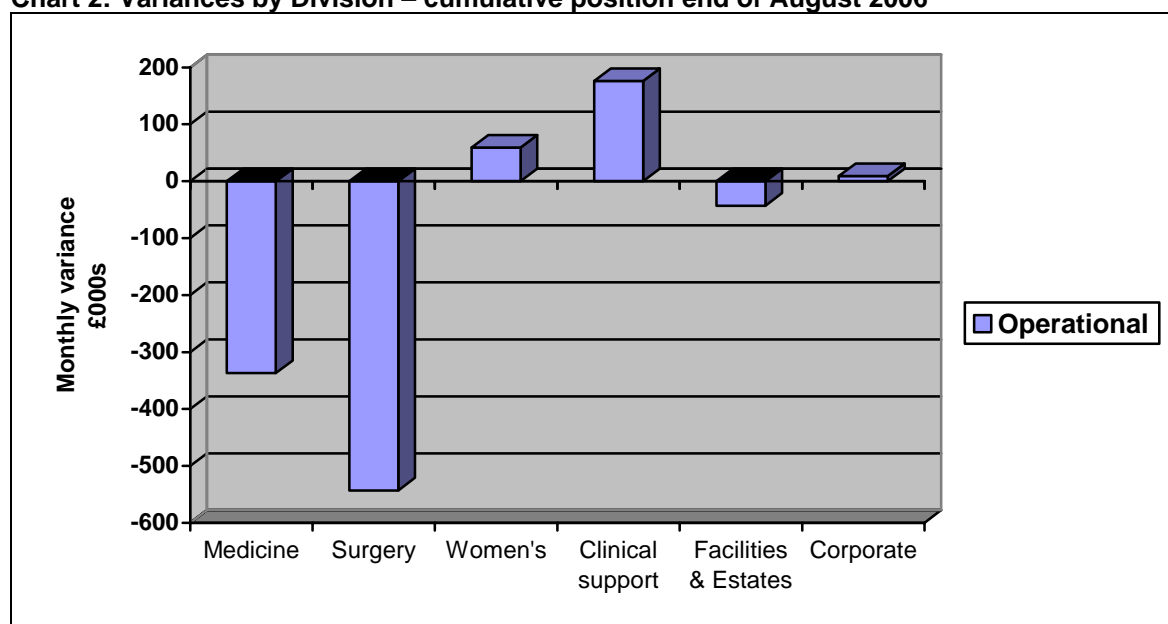


Table 3 and chart 2 show the overall position analysed by management division within the Trust.

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

	Annual			Year to 31/08/06		
	Plan	Forecast	Variance	Budget	Actual	Variance
	£m	£m	£m	£m	£m	£m
Income	199.6	199.6	0.0	83.1	82.5	-0.6
Expenditure net of "Divisional Income":						
Medicine	48.0	47.8	-0.2	21.1	21.4	-0.3
Surgery	53.0	52.7	-0.3	23.3	23.9	-0.6
Women's services	14.6	14.5	-0.1	6.4	6.3	0.1
Clinical support	27.1	27.0	-0.1	11.7	11.5	0.2
Facilities, estates & corporate	40.5	40.4	-0.1	18.0	18.0	0.0
Depreciation	9.5	9.5	0.0	4.0	4.0	0.0
Other	11.1	11.9	0.8	2.5	2.3	0.2
Total expenditure	203.8	203.8	0.0	87.0	87.4	-0.4
Operating surplus/(deficit)	-4.2	-4.2	0.0	-3.9	-4.9	-1.0
Dividends/interest	-7.8	-7.8	0.0	-3.3	-3.3	0.0
Trust surplus/(deficit)	-12.0	-12.0	0.0	-7.2	-8.2	-1.0

**Chart 2: Variances by Division – cumulative position end of August 2006**



## 2.2 Summary of Risks

At the August Board meeting questions were asked about any further issues that could impact upon the Trusts ability to meet the £12m control total. The Acting Director of Finance has met with the Chief Executive to go through a list of potential risks in achieving the control total. The areas of risk are detailed below with a monetary value, where there is no monetary value a date is shown when this will be available;

**Market Forces Factor (MFF)** – the Trust receives a monthly payment direct from the Department of Health for the MFF relating to Payment by Results. In effect this pays us 21.5% on top of the published tariff for all PbR activity undertaken. The sum received in 2006 / 07 was calculated via the PbR Stage 3 returns submitted last autumn.

Each year there is a year end adjustment to reflect actual activity whereby if you've over performed the Trust will receive additional MFF, conversely if it has underperformed you have to give back MFF income. With the change in SLA commissioning the Trust will be required to give back to the DH the MFF relating to the £6.7m of West Herts PCTs commissioning intentions, this equates to **£1.4m**, additionally half a years worth of Burns and Plastics MFF equates to **£1.0m**.

Mitigation of this risk can be derived from additional approved PCT activity and from the transfer of Paediatrics into the Trust, **c£0.5m**.

The impact of the Burns and Plastics transfer on MFF will be known at the November Board meeting. The remaining impact will be carefully monitored and will feature as a separate section of this report from October.

**Savings targets** – there are currently £6.8m of savings to be applied at cost centre expense code level. There is a risk that these may not all be achieved. In order to ensure that all savings are met the Chief Executive is chairing weekly meetings reviewing progress against key areas. From 18<sup>th</sup> September, 2006, only agency / locum staff approved by the CEO and Medical Director will be employed in the Trust. Each Division has now been given a financial cap on spend for temporary staff as a means to further monitor and remove c.£500k of monthly spend.

**Impact of service transfers** – financial impact work continues on the transfer out of Burns and Plastics and the transfer in of Paediatrics. The Burns and Plastics impact should be clarified in October, once all the activity coding has been completed, and will be available for the November Board meeting.

Any loss of contribution to the Trusts overheads will be mitigated in part by the transfer in of Paediatrics. Again a financial update will be available for the November Board.

**Activity coding / recording** – in order for the Trust to receive income for its activity undertaken, a full contract data set needs to be shared with the commissioners electronically. If this data set is incomplete we will not be paid. Additionally we need to ensure that all manual data is computerised. Large strides have been made in this area over the last 12 months but we are not there yet.

In quarter 1 we failed to code 131 admitted patients (0.62%), we won't be able to charge for these episodes now. Additionally we struggled to computerise fully the manual community midwifery and plastics dressing station attendances. We are also not geared up to administer the PbR process and need to urgently establish an SLA team to champion and ensure that all data sets are complete.

Quarter 2 data must be complete and steps are progressing to ensure this happens. The financial loss in Q1 of incomplete data will be provided in October.

**Reserves** – the Trust was c.£4.0m of uncommitted reserves to support these risks.

### 3. Activity

The activity levels within each SLA for 2006/07 were finalised at the beginning of June for those PCTs within the Bedfordshire and Hertfordshire boundary. However, the phasing of the activity has not yet been finalised. In appendix 4 actual activity has been reported against agreed annual activity with even distribution to month 5. This does not take account of the planned reduction in activity due in the later part of the year. It cannot therefore be assumed that any additional activity for Hertfordshire PCTs will generate additional income.

There have been some minor amendments to the Payment by Results rules for 2006/07 which have an impact on the individual levels of activity when analysed by PCT, but the total emergency and elective spells are consistent across years. The amendments are:

- Most emergency spells are now shown by Healthcare Resource Group (HRG) rather than specialty
- A&E attendances are charged against the PCT in which the A&E department is located, in previous years the Trust has reported on the basis of the location of the patient's GP.

The significant points to note on activity as at the end of August are that the Trust had:

- admitted 13.75% more emergency patients than plan to month 5.
- Elective (planned) admissions were 2.04% below plan to month 5.
- First outpatient attendances were 3.41% below plan to month 5.
- Follow Up out patient attendances were 7.98% above plan to month 5
- A&E first attendances were 10.64% above last year.
- A&E follow up attendances were 9.21% above last year

Additional analysis of activity is attached in appendix 4.

## 2.3 Income

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

	Annual 2006/07			Year to 31/07/06		
	Plan £m	Forecast £m	Variance £m	Budget £m	Actual £m	Variance £m
Income from PCTs						
per SLAs	174.4	174.4	0.0	72.7	71.7	-1.0
Non contracted activity	4.7	4.7	0.0	2.0	1.9	-0.1
Inter Trust Income	11.8	11.8	0.0	4.9	4.9	0.0
Private Patients	3.5	3.5	0.0	1.4	1.4	0.0
Other Divisional Income	15.9	15.9	0.0	6.6	6.1	-0.5
Other Income	12.7	12.7	0.0	5.3	5.3	0.0
<b>Total Income</b>	<b>223.0</b>	<b>223.0</b>	<b>0.0</b>	<b>92.9</b>	<b>91.3</b>	<b>-1.6</b>

Income has been accrued to budget as the reconciliation for activity at the end of Quarter 1 has not yet been completed and agreed with purchasers. The “stop date” for Quarter 1 activity is 15<sup>th</sup> September so the Trust will have a more accurate position for the next report. The current indications are that activity for “Other Trust” is significantly down and this had been reflected in the income figures.

As the Trust has now completed the negotiations on activity levels with the PCTs the PbR activity for 2006-07 will be significantly below that of previous years. The impact of this will be to reduce the payment due for MFF when the consolidation of MFF is undertaken at the year end. The Trust does not know the exact amount of the reduction but has made an estimate based on the reduced level of activity and this had been factored into the income position.

The combined impact of these is that the Trust is anticipating a reduced income of £1.6m to date, a reduction of 1.7%.

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 5.

### Unpicking the Block Contract

Currently there are a number of services (including ITU, SCBU, direct access radiology and pathology) provided by West Herts NHS Trust which are paid for by the PCTs as a block. This means that the income is fixed and not dependant on the level of activity provided by the Trust. The level of income is often based on historical activity levels and has not in many cases been updated to take account of current level of trust activity for many a year.

A process has begun to unpick the block income with the intention of producing a 06/07 plan for activity and income based on 05/06 outturn activity for all PCTs. The Trust performance will then be monitored against the plan.

This process involves the following stages:

- 1) Identify services in the block.
- 2) Calculate the 05/06 activity level of each of the services by PCT.
- 3) Agree the activity level with service managers.
- 4) Price service using 05/06 reference costs.
- 5) Agree 06/07 activity plan with PCTs.
- 6) Monitor 06/07 actual activity against agreed PCT plans.

Once the process has been completed, due to be completed by end of September, the Trust will be well positioned to move to cost and volume contracts for all the services currently in the block agreement from 2007 / 08.

## 2.4 Expenditure

Net Divisional Expenditure across the Trust has exceeded budget by £0.5m to date. Underspend on pay of £0.63m, largely due to reduced training costs which are offset by reduced income levels within Corporate, off set by an overspend of £0.53m in non pay. These variances are detailed in the following analysis by division.

### 2.4.1 Division of Medicine

**Table 5: Summary of expenditure position and wte**

	Annual	Month 5		
	Plan £m	Plan £m	Actual £m	Variance £m
Pay	39,553	16,778	16,766	12
Non Pay	11,958	5,081	5,443	(362)
"Divisional" income	(1,909)	(795)	(808)	13
<b>Net Divisional Position</b>	<b>49,602</b>	<b>21,064</b>	<b>21,401</b>	<b>(337)</b>
<b>Whole Tme Equivalents</b>				
		Plan wte	Actual wte	Vacancies wte
Medicine		1,092	1,045	47
Actual wte includes overtime and Bank staff				

Bank and Agency	August-06		August-05	
	Month £000	Cumulative £000	Month £000	Cumulative £000
Administration	61	153	21	106
Medical	120	575	205	861
Nursing	98	759	141	934
Other	-4	112	28	104
<b>Total</b>	<b>275</b>	<b>1,599</b>	<b>395</b>	<b>2,005</b>
Average per month		320		401

**The Division of Medicine has overspent against budget by £337k the end of August. In addition the Division requires to identify £1.641m in savings to meet target.**



The underspend on pay has principally been reduced spend on nursing and administration off set by over spending on medical and therapy staff.

The overspend on non pay continues to be principally been relating to

- Drugs £139k, 7.1% of budget
- Blood products £45k, 8.7% on budget

In both of these areas increased costs have anticipated and an analysis is being prepared to detail whether the overspending is price or activity related for funding from committed reserves.

- Medical & Surgical Supplies £226k, 22% on budget.

The reason for this variance is under investigation.

## 2.4.2 Division of Surgery

**Table 6: Summary of expenditure position and wte**

	Annual	Month 5		
	Plan £m	Plan £m	Actual £m	Variance £m
Pay	45,030	18,860	19,184	(324)
Non Pay	12,027	5,089	5,213	(124)
"Divisional" income	(1,498)	(631)	(536)	(95)
<b>Net Divisional Position</b>	<b>55,559</b>	<b>23,318</b>	<b>23,861</b>	<b>(543)</b>
<b>Whole Tme Equivalents</b>		<b>Plan wte</b>	<b>Actual wte</b>	<b>Vacancies wte</b>
Surgery		1,102	1,019	83
Actual wte includes overtime and Bank staff				
Bank and Agency	August-06		August-05	
	Month £000	Cumulative £000	Month £000	Cumulative £000
Administration	13	86	21	102
Medical	161	798	163	845
Nursing	166	1,104	191	777
Other	-12	62	101	428
<b>Total</b>	<b>328</b>	<b>2,050</b>	<b>476</b>	<b>2,152</b>
Average per month		410		430

**The Division of Surgery has overspent against budget by £543k to the end of August. In addition the Division requires to identify £2.353m in savings to meet target.**

The overspending on pay of £324k (1.7%) has principally been over spending on junior medical staff of £256k (5.3%) and nursing £205k (2.4%), offset by under spends on administration and managers £137k, (36%).

The overspending on medical staff is principally due to the rebanding of SpRs to band 3 on appeal based on reported hours work due to intensity. The removal of vacant posts from Nursing budgets to achieve savings targets has highlighted a number of unplanned overspends that are being investigated.

Non pay costs are overspending by £124k, (2.4%) principally due to

- Medical & Surgical supplies £155k, (6.1% on budget)
- Drugs £30k (3.5%)
- Prosthesis £12k, (1.6% on budget)

In all areas the rate of overspend has decreased from previous months although this may be due to reduced volume of activity.

### 2.4.3 Division of Women's Services

**Table 7: Summary of expenditure position and wte**

	Annual Plan £m	Month 5		
		Plan £m	Actual £m	Variance £m
Pay	14,534	6,136	5,961	175
Non Pay	1,374	578	638	(60)
"Divisional" income	(783)	(326)	(270)	(56)
<b>Net Divisional Position</b>	<b>15,125</b>	<b>6,388</b>	<b>6,329</b>	<b>59</b>
<b>Whole Tme Equivalents</b>		<b>Plan wte</b>	<b>Actual wte</b>	<b>Vacancies wte</b>
Womens Services		413	362	51
Actual wte includes overtime and Bank staff				

Bank and Agency	August-06		August-05	
	Month £000	Cumulative £000	Month £000	Cumulative £000
Administration	1	8	3	23
Medical	0	10	7	50
Nursing	73	516	186	1,059
Other	0	0	0	0
<b>Total</b>	<b>74</b>	<b>534</b>	<b>196</b>	<b>1,132</b>
Average per month		107		226

**The Division of Women's Services has underspent against budget by £59k (1%) to the end of August. In addition the Division requires to identify £0.557m in savings to meet target.**

The underspend on pay £175k (2.9%) has principally been reduced spend on nursing £82k (1.8%), medical staff £56k (2.0%) and Administration staff £33k (11.8%).

The overspend on non pay was an overspend on drugs of £53k, (61.6%) medical and surgical of £44k, (19.0%) and blood products of £30k (48.4%) offset by an underspend on ambulance expenses of £76k.

This increase in costs of drugs and medical supplies was anticipated and an analysis is being prepared to detail whether the overspending is price or activity related for funding from committed reserves.

#### 2.4.4 Division of Clinical Support Services

**Table 8: Summary of expenditure position and wte**

	Annual	Month 5		
	Plan £m	Plan £m	Actual £m	Variance £m
Pay	24,015	10,006	9,850	156
Non Pay	10,090	4,204	4,183	21
"Divisional" income	(6,085)	(2,535)	(2,533)	(2)
<b>Net Divisional Position</b>	<b>28,020</b>	<b>11,675</b>	<b>11,500</b>	<b>175</b>
<b>Whole Tme Equivalents</b>		<b>Plan wte</b>	<b>Actual wte</b>	<b>Vacancies wte</b>
Clinical Support		653	604	49
Actual wte includes overtime and Bank staff				

Bank and Agency	August-06		August-05	
	Month £000	Cumulative £000	Month £000	Cumulative £000
Administration	3	14	3	20
Medical	-23	28	16	101
Nursing	1	10	6	26
Other	130	492	109	630
<b>Total</b>	<b>110</b>	<b>542</b>	<b>134</b>	<b>776</b>
Average per month		108		155

**The Division of Clinical Support Services has underspent against budget by £175k to the end of August. In addition the Division requires to identify £0.750m in savings to meet target.**

The underspend on pay of £157k (1.6%) has principally been spend on nursing, medical, administration, MLSO and MTO staff offset by overspending on PAMs and Pharmacists

The underspend on non pay has principally been relating to drugs 317k (1.5%) and patient appliances £10k (7.8%) offset by overspending on medical and surgical supplies £25k, (3.3%), where the increased costs were anticipated and an analysis is

being prepared to detail whether the overspending is price or activity related for funding from committed reserves.

### 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 9. Agency expenditure incurred in 2005/06 is shown for information.

**Table 9: Vacancies and Agency expenditure as at 31st August 2006.**

Division	Whole Time Equivalents			Agency Expenditure	
	Budget	Actual	Vacancies	01/04/06-30/06/06	01/04/05-30/06/05
	wte	wte	wte	£000s	£000s
Medicine	1,092	1,045	47	1,599	2,005
Surgery	1,102	1,019	83	2,050	2,152
Women's Services	413	362	51	196	1,132
Clinical Support	653	604	49	542	776
Estates & Facilities	130	124	6	5	5
Corporate	545	514	31	326	445
<b>Total</b>	<b>3,935</b>	<b>3,668</b>	<b>267</b>	<b>4,718</b>	<b>6,515</b>

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 £4.7m i.e. £0.99m per month compared with an average spend of £1.30m per month last year to date.

Chart 3 below shows agency expenditure analysed by type each month for 2006/07 and chart 4 shows the agency expenditure by staff group to 31<sup>st</sup> August 2006/07 compared to 2005/06.

**Chart 3: Agency expenditure by month 2006/07**

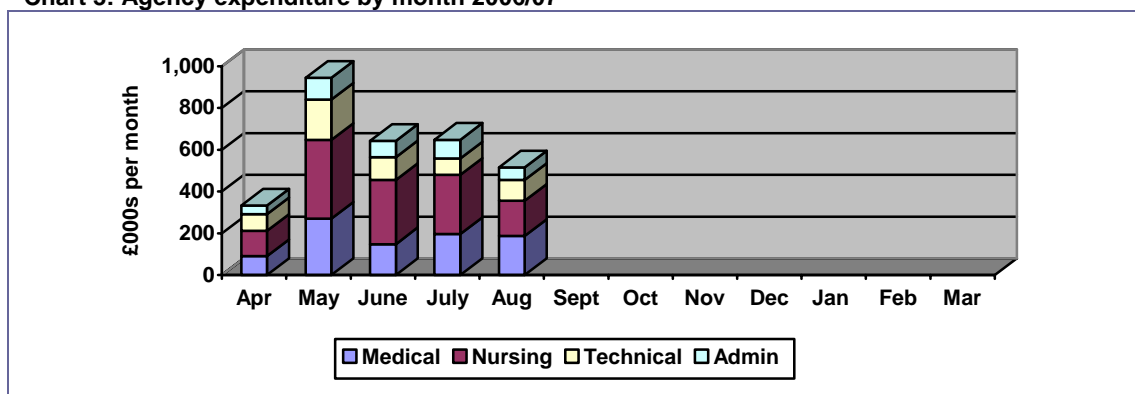
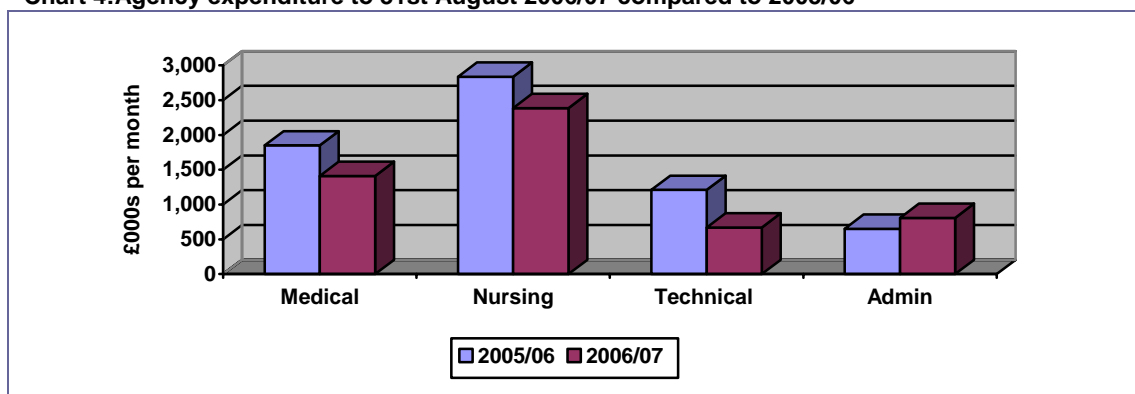


Chart 4: Agency expenditure to 31st August 2006/07 compared to 2005/06



## 2.4 Cost Improvement Programmes – Savings Plans

In order to achieve the control total the Trust will be required to achieve savings of £15.3m in 2006-07. Within the Turnaround programme schemes have been identified totalling £15.3 m but a number of these schemes have not been identified as specific programmes and put into action. Details of the Turnround programme are reported in a separate report on the agenda. A summary of the savings programme by division is attached in appendix 6.

## 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 has experienced severe cash-flow difficulties due to cumulative I/E deficits. This situation has been compounded by other local Trusts also having similar cash difficulties resulting in an increase in NHS debtors.

**Table 11: Management of cash position**

	Original Plan	Actual	Forecast
	£m	30/08/06 £m	31/03/07 £m
<b>Deficit per I&amp;E forecast</b>	-12.0	-8.2	-12.0
Plus:			
Capital funding b/fwd 2005/06	-3.6	-3.6	-3.6
Repayment of brokerage via PDC	-12.7	-12.7	-12.7
Less:			
PDC to fund 2006/07 control plan	12.0	6.0	12.0
SHA contribution to 2005-06 deficit	11.0	11.0	11.0
Additional PDC funding	6.6	6.6	6.6
Additional PDC (Depreciation I/E v EFL)	0.2	0.2	0.2
<b>Cash Shortfall</b>	<b>1.5</b>	<b>-0.7</b>	<b>1.5</b>
<b>Managed by:</b>			
Capital programme delay to 2006/07	3.6	2.8	3.6
Increase/(Decrease) in Creditors	-8.9	6.2	-8.9
Increase/(Decrease) in Debtors	3.8	-0.4	3.8
<b>Forecast balance</b>	<b>0.0</b>	<b>7.9</b>	<b>0.0</b>

To provide short-term funding to enable vital payments to be made the Trust has taken, or considered taking, the following actions:

- arranging advance funding from PCTs
- extending credit terms to creditors
- delaying capital spend
- utilising cash set aside for the six-monthly dividend
- delaying tax & NI payments
- arranging short-term funding from the NHS Bank (via SHA)
- arranging short-term local economy funding (via SHA)
- arranging additional permanent PDC funding (SEE BELOW)

### **Additional Funding via PDC**

Following discussions with the SHA, it was agreed that the Trust would receive funding of £35.6m via its EFL enabling cash to be called-down in the form of PDC. These funding arrangements were formally agreed by exchange of letters between the SHA and the Trust. The first tranche of this funding was received by the Trust on 25<sup>th</sup> August as follows:

**Table 12 Summary of Additional PDC**

<b>Summary of Additional PDC</b>		
	<b>EFL £000</b>	<b>SHA Agreed Funding £000</b>
Depreciation	-9,003	
Operational Capital	5,696	
<b>OPENING EFL 1/4/06</b>	<b>-3,307</b>	
PACS Capital Funding	500	
Repay NHS Bank	-6,600	
Funding for NHS Bank Repayment	6,600	6,600
Repay Local Economy Funding	-6,100	
Funding for Cumulative Creditors	11,000	11,000
Funding 06/07 Deficit to M4	6,000	6,000
<b>CASH RECEIVED ON 25/8/06</b>	<b>8,093</b>	
<b><u>Forecast Additional EFL:</u></b>		
Funding for Deficit to £12m	6,000	6,000
<b><u>Agreed Additional EFL:</u></b>		
Funding for Deficit to £18m	6,000	6,000
		<b>35,600</b>

**Ongoing Creditor Payments (from Month 6)**

The funding immediately available for creditor payments is £4.9m (£11.0m less £6.1m local funding repaid). This has enabled the Trust to reduce payment terms from 70 days to 50 days. The balance of the funding required to reduce payment terms to 30days is forecast to come from a reduction in debtors, primarily from E&N Herts Trust and local PCTs who have been instructed to clear debtor and creditor balances as soon as the Month 5 funding became available.

Although progress is being made with most local Trusts with regard to the reduction in debtor balances, the E&N Herts Trust have indicated that, in spite of receiving their Month 5 funding, they will not be in a position to pay any monies to this Trust for the foreseeable future. They currently owe a net £3m which will increase by £400k per month due to ongoing recharges for services provided to them (MVH SLA, MVH blood and drugs, SACH Renal Unit, Pathology Services at SACH and QE2, recharge for the Supplies service etc.). Assistance from the SHA may be needed to resolve this situation. A thorough review of services still provided to E& N Herts is recommended.

In order to manage the current cash balances, the Finance Directorate produces a daily cash analysis report showing actual bank balances, cash book balances, forecasted income, priority payments for the month and cash available for general creditors. Weekly creditor payment runs are only made after payment projection reports are compared to the cash available. Actual payments are released on a priority basis.

A cashflow report is attached as appendix 4 and balance sheet as appendix 5.

### **Cash Forecast to 31/3/07**

The cash-flow schedule reflects the forecast I/E deficit of £12m and assumes funding of a similar amount. The agreed funding of £35.6m included funding of an £18m deficit and it is believed that the additional funding of £6m will still be available if required. Table 11 shows a reconciliation from the forecast I/E deficit to the required EFL nil cash balance at 31/3/07.

#### **3.2 Pay at least 95% of invoices within 30 days**

At the end of August 2006 the cumulative **number** of invoices paid within 30 days was 3,118 representing 12.56% of the total bills paid. The national target is 95%. The cumulative **value** of invoices paid within 30 days was £6.798m equating to 29.49% 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 Trust's CRL has not been issued from the SHA, as a consequence the Trust is operating on an assumed EFL based on the indicative block allocation and the funding for PACs already agreed. The full extent of the capital programme could be significantly higher when the funding is agreed for all schemes, in particular interim measures.

The details of the planned capital programme for £9.5m and spend to date £0.9m by heading/scheme can be found at appendix 9.

### **5 Action by the Board**

The Board is requested to review this report, note the financial performance for the first four months of the year and the forecast income and expenditure position at the year-end.

**Phil Bradley**  
**Acting Director of Finance**  
**19<sup>th</sup> September 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