West Hertfordshire Hospitals NHS
NHS Trust

Paper 54/07

FINANCE REPORT FOR TEN MONTHS TO 31ST JANUARY 2007

1 INTRODUCTION

This report describes the financial position of the Trust for the ten months ended 31st January 2007.

The month 9 report described in some detail the work done to build a 'bottom-up' forecast based on the latest information on SLA and other income and expenditure projections made by Divisions in the PMO meetings (including scrutiny by the SHA). This report is a continuation of that approach and provides explanation for any changes since last month.

2 KEY MESSAGES

The Trust has a number of key financial targets. Performance in the period of the ten months to the end of January 2007 is summarised below:

- **Deliver a balanced Income and Expenditure position** – the SHA agreed that a balanced I&E is not feasible in the current year and set a control total of a £11.5m deficit. Based on known income and costs at the time, the Month 9 report forecast a deficit of £14.7m with a commitment to achieving the SHA control total of £11.5m. At the end of Month 10 some of these additional measures have had an effect and the forecast is now for a deficit of £13.5m. Balance sheet savings of £0.8m are planned to reduce this to a gap of £1.2m. The Trust remains focussed on reducing this down to the control total and with the assumptions stated in this report, a deficit of £11.5m remains the planned outturn but this will require additional cost reduction, over and above that already in place, to secure.

- The Trust's **External Financing Limit** has changed from £8.95m last month to £7.0m, which will be met.

- The Trust has a revised **Capital Resource Limit** of £11.1m (gross CRL of £14.7m less 05/06 funding of £3.6m used to fund creditors) which it will undershoot by £1.5m relating to schemes only partially complete at the year-end. The related cash will be called-down in 2006/07 and be available to fund the completion of these schemes in 2007/08.
- We have a target of paying 95% of creditors within the terms of the **Better Payments Practice Code** and we will fail on this target.

3 INCOME AND EXPENDITURE

3.1 Corporate

Appendix 1 sets out the Corporate Income and Expenditure position for the Trust. This confirms that the Trust is £1m adrift of the budgeted deficit at this point in the year. This is summarised below:

Table 1: Corporate Income and Expenditure Position

	Annual Budget Income/ Expend. £'000	Forecast Out Turn Income/ Expend. £'000	Proportion of Budget to 31.01.07 £'000	Actual Income/ Expenditure to 31.01.07 £'000	Variance Adverse(-)/ Favourable to 31.01.07 £'000
TOTAL INCOME	**218,758**	**218,547**	**181,645**	**182,573**	**928**
EXPENDITURE					
Pay	144,107	140,459	120,792	117,593	3,199
Non-Pay	72,059	73,900	60,790	62,066	-1,276
Unallocated Savings Targets	-4,323		-4,323		-4,323
Agenda for Change	800	346			0
Depreciation	9,815	9,427	8,179	7,827	352
Total Expenditure	**222,458**	**224,132**	**184,437**	**187,486**	**-2049**
OPERATING SURPLUS	**-3,700**	**-5,825**	**-3,793**	**-4,913**	**-1,120**
Dividend Payable	-8,100	-8,026	-6,750	-6,693	57
Interest Receivable	300	347	250	313	63
Profit/Loss (-) on Disposal & Impairments	0	0	0	-1	-1
SURPLUS / DEFICIT (-)	**-11,500**	**-13,504**	**-10293**	**-11,294**	**-1,001**

Further action is being taken to reduce the projected forecast deficit of £13.5m to the £11.5m control total deficit – see section 3.6.

3.2 Income

Reconciliation

Attached, as Appendix 2.1 is a reconciliation of the income postings for patient related income. Discussions are on-going over a number of issues, in particular aspects of block. There are still unknown factors for some sizeable issues, for example MIU funding and critical care.

Appendix 2.2 reflects the changes to National Levies.

West Herts PCTs

The PCT have written to confirm that they acknowledge that activity levels and income were removed from the SLA and that activity has in fact not reduced in line with these assumptions. They state that for the purposes of reporting the position to the SHA they will be using a figure of an additional payment to the

Trust of £8m. They also state that they want to continue to verify the actual activity and the financial implications of this.

For the purposes of this report, we continue to plan on the assumption of £8m. It remains our view that this is a prudent position. The Trust values future over performance at over £12m.

Hillingdon PCT

Budgeted income has been reduced by £800k to reflect loss from the transfer of Burns and Plastics services. The forecast outturn identifies that we will broadly meet the remaining SLA targets.

National Levies

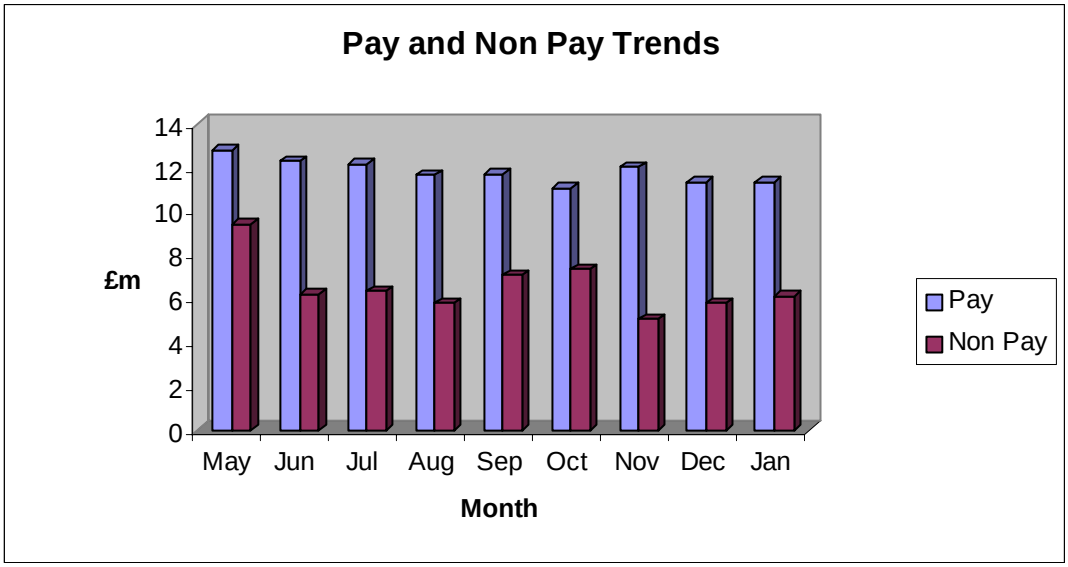
The shortfall in forecast outturn against budget reflects loss of income on R&D Funding and Junior Doctors top slice (Appendix 2.2). Funding received for merit awards is less than expected but this is offset by lower payments to consultants.

Other Income variances

Other SLA and Income amounts reflect the known position as at Month 10. Further work has been undertaken to gain greater certainty on the year-end forecast. In all cases a prudent view has been taken so as not to overstate any income receivable at 31 January 2007.

3.3 Expenditure

Overall expenditure and non-pay trends are shown in the graph below:



Detailed reviews of the expenditure positions continued throughout the month and both a ‘bottom up’ and ‘top down‘ forecast were completed. The spend positions are believed to be accurate and reflect the impact of work stream savings over the past few months.

We have identified over £3m reduction in spend on non pay over the period November to year end with further work being undertaken to further improve these savings. All spend has been accounted for and all known commitments over the last 2 months included in the forecast.

Non-pay spend is forecast to be £1.8m over budget by year-end whilst pay is forecast to be £3.6m below budget. This is a direct result of continued controls over expenditure.

3.4 Ledger reconciliation

Detailed work has been undertaken to ensure that the balances on the ledger are consistent with those set out in this report.

As reported last month, work has been undertaken to ensure that all the actual income and expenditure figures reported in Appendix 1 are actual postings on the ledger. This is now the case and Internal Audit will be asked to verify this.

Budget figures are not yet consistent with the ledger, however this report includes the budget figures agreed by the Board in Month 9. Changes to these for Agenda for Change and any other relevant matters will be reported monthly from Month 11.

3.5 Divisional performance

Divisional performances are shown on the attached appendices 3.1 to 3.6.

In summary the divisions have delivered work stream savings to date of £7.0m and forecast further savings of £4.0m to year-end.

- **Surgery & Anaesthetics Division** shows an overspend position of £785k at Month10 with a favourable variance in the month of £32k. This is the second positive variance from the M8 position.
- **Women's and Children's Division** is expected to maintain an under spend position through to the end of the year.
- **Medicine Division** has overspent by £474k at month 10 with a favourable variance in the month of £18k.
- **Clinical Support Division** is £462k under spent against the budget for the year to date reflecting a favourable movement in the month of £104k.
- **Facilities Division** is overspent by £23k at the end of the period, which reflects a favourable movement in the month of £3k.
- **Estates Division** is £160k under spent against year to date budgets which reflect a favourable movement in the month of £48k.
- **Corporate Services Division** is overspent against the budget of £1,582k mainly due to exceptional items for R&D (Cancer) and the Burns and Plastics transfer.

3.6 Year-end Forecast and Remaining Risks

The forecast now shows a reduced projected deficit of £13.5m. Balance sheet flexibility is to be used to reduce the gap from the control total. The Audit Committee will be asked to consider these measures and it is considered that the risk to successful delivery is low risk. This reduces the deficit as follows:

		£m
M 10 forecast deficit		13.5
Review of Balance Sheet		
Reduce provisions	(0.2)	
Extended life of assets	(0.1)	
Revised treatment of IT assets	(0.2)	
Add to accounting stocks	(0.1)	
Capital equipment from revenue	(0.2)	(0.8)
Deficit after balance sheet measures		12.7
Further cost reduction required		1.2
Control Total		**11.5**

In addition to this, there are two further significant risks to be considered:

- The forecast is built on a set of assumptions over the success rate of future Agenda for Change appeals. Evidence for January shows that the success rate has increased to 81% - the provision is based on a success rate of 35%. This leaves the Trust open to a risk of £500k which needs to be managed
- The forecast assumes that there are no referrals to the private sector for waiting list cases. Up to 50 cases at a cost of £500k. This too needs to be managed.

Therefore in addition to the further cost reduction of £1.2mthe Trust faces possible additional risks of £1m.

The management intent is to manage these risks down to the control total and the support of the Board in taking the tough decisions needed over the last few weeks of the year is requested.

4 OTHER SUPPORTING INFORMATION

4.1 Balance Sheet

This is attached as Appendix 4. This shows that the Trust has total Net Assets of £224m at the end of Month 10. There are no material changes to report.

4.2 Cash Flow

The cash-flow statement (Appendix 5) shows that the Trust has a forecast cash balance of NIL at 31st March 2007 which will enable it to meet its EFL, and also provides a reconciliation between the I/E forecast of £11.5m deficit and the NIL cash balance. The detailed cash-flow can be summarised as follows:

	£000
Opening Cash Balance	0
Add:	
Income Receipts	229
PDC	9
Less:	
Pay Expenditure	(138)
Non-Pay Expenditure	(92)
Dividends	(8)
Closing Cash Balance	**0**

The Trust had cash balances of £10.5m at 31st January consisting of the following:

Three payment runs to 15th February (when SLA cash received)	£4.4m
5 months dividends (payable mid-March)	£3.3m
Capital funds not yet spent	£2.8m

The EFL has reduced from £8.953m in Month 9 to £7.003m this month on account of:

- An increase of £300k for HAI Challenge Money Funding
- A reduction of £2m for SOC funding
- A reduction of £250k for cancer funding transfer to East and North Herts

The fall in expenditure during recent months has enabled creditor payment terms to be reduced to 30 days in January which meets the BPPP requirements. With careful cash management to the year-end we are confident that the External Finance Limit will be met.

4.3 Turnaround Summaries

These are attached as Appendix 6.1 and 6.2 and show:

- Divisional work streams savings totalling £11m are forecasted.
- Further schemes of £10m are forecasted to deliver the total savings target of £21m.

4.4 Capital Spending

Appendix 7 shows that of the gross £11.1m allocation for 2006/07 called-down, £5.7m has been spent to date. The Capital Programme Team are closely monitoring the progress of current schemes and forecast that further works with a value of £3.9m will be completed by the year-end, leaving a sum of £1.5m to carry forward relating to partly-completed schemes.

4.5 Manpower

Appendix 8 provides details on manpower information. The Trust has achieved a reduction in staff in post of over 8% against the SHA target of 5%. Agency and bank spending continue on a downward trend.

5 SUMMARY

The positive news is that costs continue to reduce due to the measures taken, despite the increased activity required to meet the 20-week waiting time target and increased emergency admissions.

The Trust is trying all measures possible to reduce expenditure further to ensure that the £11.5m control total is achieved. This is in light of increased costs above income received resulting from over performance against the main SLA. The adjustments effected as a result of the balance sheet review and further spending reductions are required to ensure that the control total is met. However at M10 there is still the possibility that it will be exceeded.

Ross Dunworth
Interim Director of Finance and Turnaround