

FINANCE DIRECTOR'S REPORT

Month 10 to January 2008

Executive Summary

This report provides a summary of WHHT finances as at M10. At month 10, the Trust has maintained its surplus with a year to date under spend of £1.846m. This is an increase of £0.01m compared to M9's position of £1.836m.

The Trust continues to forecast a year-end surplus of £2.4m. Although the Trust continues to face financial issues, particularly around sustaining the improvement in financial performance, achievement of a £2.4m surplus would represent a significant improvement over previous years.

The table below summarises the key performance indicators (KPI's) used by the Strategic Health Authority (SHA) in monitoring the Trust.

Section	Target	To date	Forecast	Key Issues	Risk Status
1	Deliver a surplus Income & Expenditure position	£1.846m surplus	£2.4m surplus	<ul style="list-style-type: none"> The SHA has revised its control total for the Trust to £2.4m Although risks to this forecast are set out in section 1.6, the Trust appears on course to achieve this target. 	Green
3	Remain within the External Financing Limit	£7.855	£7.855	<ul style="list-style-type: none"> The Trust anticipates that it will achieve its External Financing Limit. 	Green
4	Remain within the Capital Resource Limit (CRL)	£14.465m	£21.968m	<ul style="list-style-type: none"> The Trust now anticipates a "technical overshoot" of (£1.899)m in excess of the CRL because of work which will have been completed for the Delivering a Health Future project at 31/3/08. Payment for this will not become due until 2008/09. This target is still shown as achievable because the SHA has agreed that this will be managed within the health economy. 	Green
5	Turnaround Plan	£6.27m	£7.67m	<ul style="list-style-type: none"> At the start of 2007/08, the Trust targeted £16m cost improvements. This target was from the outset substantially beyond the Trust's requirements and very ambitious. To date, savings of £6.27m have been achieved. 	Amber
6	Better payment code - Non NHS payments Target 95%	No. 48% Value 53.5%	No. 60% Value 75%	<ul style="list-style-type: none"> The Trust is aiming to achieve the forecast target through weekly review and management. 	Amber
6	Better Payment code - NHS payments Target 95%	No. 59% Value 80.2%	No. 70% Value 85%	<ul style="list-style-type: none"> The Trust is aiming to achieve the forecast target through weekly review and management. 	Amber

Table 1

Key Risk Status:

Red	Significant risk of non-delivery. Additional actions need to be identified urgently
Amber	Medium risk of non delivery which requires additional management effort to ensure success
Green	Low risk of non delivery – current management effort should deliver success

1 Deliver a balanced Income & Expenditure position

1.1 Summary Results

The year to date and forecast out-turn position at Month 10 is attached in **Appendix 1**. The summary results for the year to date are as follows:

Category	Budget M10 (£m)	Actual M10 (£m)	Variance (£m)
SLA Income	137.5	141.1	3.6
MFF / Transitional charge	22.6	22.1	(0.5)
Other Income	27.7	27.5	(0.3)
<u>Expenditure</u>			
Pay	(114.2)	(107.8)	6.4
Agency	(0.7)	(2.7)	(2.0)
Bank	(0.3)	(3.9)	(3.6)
Blood	(1.7)	(1.8)	(0.1)
Drugs	(7.8)	(8.9)	(1.1)
MSSE	(8.3)	(9.7)	(1.5)
H'care from Other Bodies	(3.5)	(4.6)	(1.1)
Reserves	(3.6)	0.0	3.6
Cost Improvements	5.4		(5.4)
Other non-pay	(33.9)	(34.0)	(0.1)
EBITDA	19.3	17.2	(2.1)
Depreciation	(8.6)	(8.6)	0.0
Dividend Payable	(6.8)	(6.8)	0.0
Finance Costs	(0.1)	(0.0)	0.0
(Over)/Under Spend	3.8	1.8	(2.0)

Table 2

At M10, the Trust has a surplus of £1.846m. However, it should be noted that, without the inclusion of £3.7m non-recurrent income, the Trust would be showing a deficit. An analysis of the Trust's "run rate" (monthly financial performance) is included at **Appendix 1b**. This gives more detail about the effect of non-recurrent income and accounting adjustments.

The fact that the Trust is not currently achieving recurrent financial balance lends urgency to the continuing efforts to achieve cost improvements and improve productivity. Although the Trust is delivering significant financial savings in some areas, as shown by the achievement of almost £6.3m cost improvements in 2007/08, it is facing considerable challenges in the delivery of all planned cost improvements and income required to deliver the planned financial surplus. This will impact on budget setting for 2008/09 as the Trust is required to set a balanced budget.

1.2 Income

Service Level Agreements (SLAs)

Income reflects 10/12ths of Contract Value adjusted for 2006/07 Quarter 4 activity adjustments and in-year underperformance and over performance against contracts. The table below sets out performance against key Service Level Agreements:

Commissioner	Plan (£m)	Actuals (£m)	Variance (£m)	Explanation
Hertfordshire	129.3	131.4	2.1	Estimated income has been agreed with West Herts PCT. It includes £0.33m for additional High Cost Drug costs and £0.25m re: the cost of outsourcing complex back cases.
Harrow	1.4	2.0	0.7	Activity levels are in line with previous years'.
Hillingdon	3.5	3.4	(0.0)	
Other PCTs	2.1	3.2	1.1	£0.758m of this relates to 2006/07. The balance relates to 2007/08 overperformance.
Total	136.3	140.1	3.8	

Table 3

£2.2m relating to the Quarter 4 2006/07 actual activity has been included in income figures. The Trust has allowed £0.5m for 2007/08 over performance against its contract with Harrow PCT and £1m over performance against other PCT contracts.

There is a loss of £0.47m on MFF (Market Forces Factor – a “top up” on tariff income paid by the Department of Health to pay for unavoidable costs related to the Trust’s location). This is substantially due to £0.39m lower 2006/07 actual MFF income compared against the year-end estimate.

Other Income variances

Other NHS Income is £0.172m over budget. This reflects the receipt of £0.315m central funds to support infection control initiatives.

Other Non-NHS Income is £0.35m below budget. Key reasons for this are:

- Income from Accommodation is £0.17m lower than budget reflecting the closure of a number of rooms due to the condition of the accommodation.
- Income from insurers in respect of Road Traffic Accidents is £0.2m below budget.

1.3 Expenditure

Pay costs increased in January. Although staff numbers have increased slightly, this was mostly due to the payment of Agenda for Change arrears.

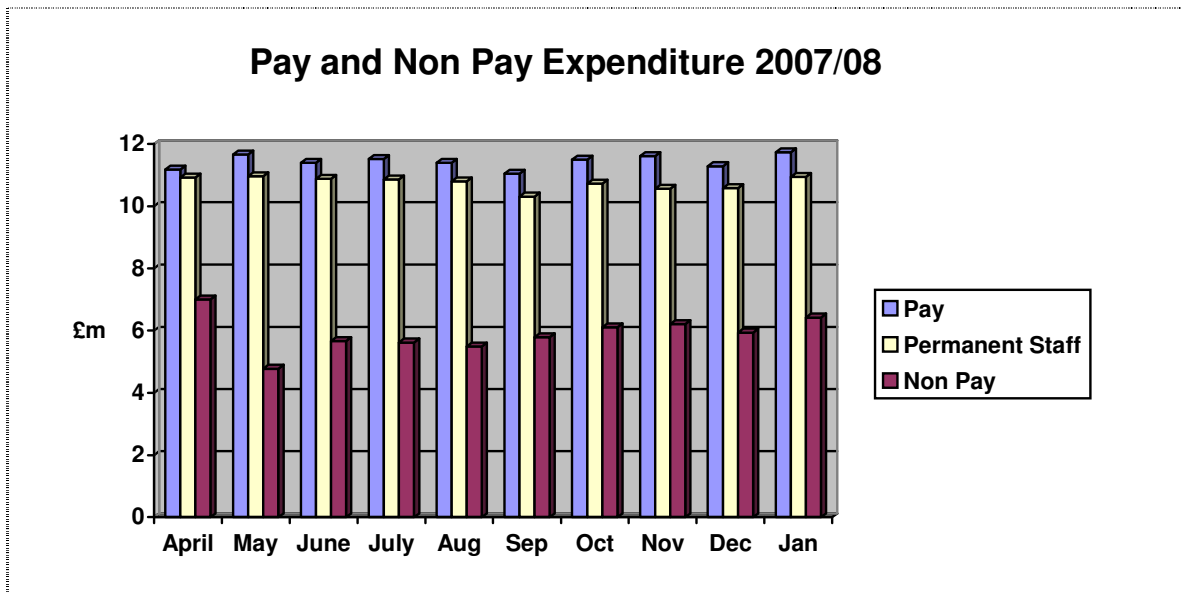


Table 4

Agency, bank and overtime costs for January represent 8.58% of total pay costs. National comparators suggest that it is good practice for these costs to be less than 3% of the pay bill. The Trust has recently established a working group to address the levels of staff absence due to sickness which contributes to the use of temporary staffing.

Financial year 07/08	Bank, Agency and Overtime use as % of total Pay
Quarter 1	6.13
Quarter 2	7.74
Quarter 3	8.70
Month 10	8.58

Table 5

Temporary Staffing Expenditure Q4 2006/07 and 2007/08

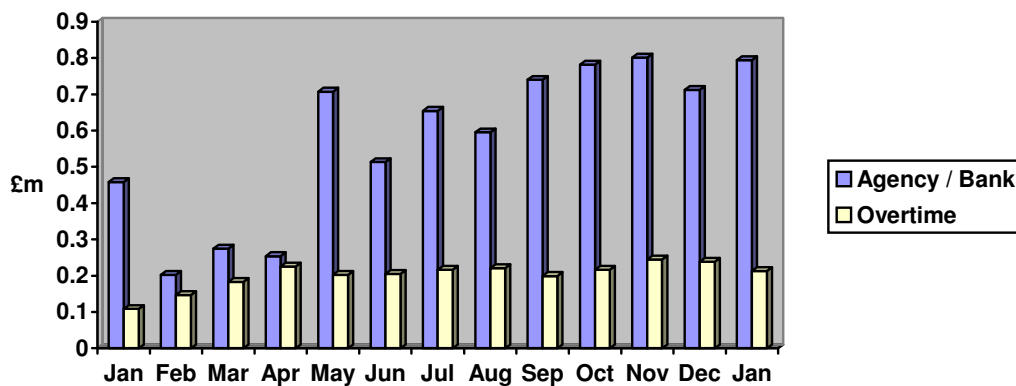


Table 6

Temporary staffing use is on an upward trend. Given that achievement of financial balance depends on the management of staff costs, this is an issue of concern for the Trust. **Appendix 1a** provides an analysis by Division and staff group of cumulative costs and average worked whole time equivalents for months 1 to 10.

Non-pay is overspent against budget at the end of January by £9.3m. The significant variances are:

- Blood Products are £1.3m overspent reflecting higher costs.
- Computer Equipment is £0.33m overspent because of unbudgeted PACS radiology imaging system maintenance costs.
- Consulting services are £0.43m over budget reflecting work on Turnaround and workforce planning and moves to strengthen the management of the Surgical Division.
- Drug costs are £1.1m over budget. Expenditure reflects cost pressures due to NICE approvals.
- The cost of Healthcare from other bodies is £1.15m over budget which is due to the cost of work outsourced to a private provider to achieve waiting list targets for surgery and gynaecology.
- Medical and Surgical supplies (MSSE) are £1.46m over budget. MSSE expenditure has increased following a shift of cardiac activity to the Trust in 2006/07; this has increased Catheter Laboratory and cardiac costs. Associated costs are offset by an increase in Trust income.
- Prostheses are £0.4m over budget to date. This cost is driven by the casemix of activity in theatres.

- The variance of £5.4m on “Cost Improvements” reflects savings adjustments to the non-pay budget that have not been achieved. **Section 5.1** gives further information about targeted savings. Although Divisions are continuing to target the delivery of efficiencies and are continuing to be monitored on efficiencies achieved at PMO performance review meetings, it is now unrealistic to assume that all targeted savings will be achieved, and the forecast reflects this.

An analysis of key movements between M9 and M10 is set out below:

Type	M9 Position (£m)	M10 Position (£m)	Variance (£m)	Explanation
Staff costs	(10.578)	(10.938)	(0.36)	Increased agency use and payment of Agenda for Change arrears.
Agency costs	(0.253)	(0.369)	(0.116)	
Drug costs	(0.864)	(1.026)	(0.162)	Prescribing pressures.

Table 7

1.4 Divisional Position

The table below analyses the Trust's M10 position by Division:

Division	Budget to date	Actuals to date	Variance	Reason for Variance
Acute Medical Care	(38,414)	(40,393)	(1,980)	Slippage against planned savings, use of agency and high cost drug pressures.
Clinical Support	(21,015)	(20,255)	760	
Corporate	(9,928)	(13,221)	(3,293)	Issues with the delivery of cost savings.
Education	(1,275)	(840)	435	
Estates	(8,273)	(7,880)	393	Savings arising from withdrawal of services from Mount Vernon site
Facilities	(7,850)	(7,876)	(26)	
Surgery	(35,152)	(38,943)	(3,791)	Costs associated with outsourcing work and failure to deliver CIP.
Womens & Children	(16,488)	(17,186)	(697)	Activity pressures and failure to deliver CIP
Capital Charges	(15,381)	(15,203)	178	
Reserves	(3,422)	0	3,422	
Trust Income	160,979	163,645	2,665	2006/07 Overperformance
TOTAL	3,781	1,846	(1,936)	

Table 8

1.5 Forecast

The table below shows the current forecast outturn:

<u>Category</u>	<u>Budget Outturn (£m)</u>	<u>Forecast Outturn (£m)</u>	<u>Variance (£m)</u>
Income	225.8	229.8	4.0
Expenditure			
Pay	(138.1)	(137.3)	(0.8)
Non-pay	(59.8)	(70.5)	(10.7)
Reserves	(4.3)	(1.0)	3.3
EBITDA	23.6	20.9	(2.7)
Depreciation	(10.4)	(10.4)	0
Dividend Payable	(8.2)	(8.2)	0
Interest	(0.1)	(0.0)	0.1
Surplus	5.0	2.4	(2.6)

Table 9

1.6 Risks and Opportunities

The table below sets out possible risks and contingencies which have not been included in the current position along with an analysis of the likelihood that they will materialise:

<u>Issue</u>	<u>Financial Benefit / (Cost) £m</u>	<u>Likelihood</u>	<u>Notes</u>
Additional income re Mount Vernon recharge services etc	0.45	Possible	Discussions are ongoing with Hillingdon Hospitals Trust to deliver this income.
Write back from AfC provision	0.45	Likely	Provision will not be required.
Potential further use of Reserves	0.5	Possible	Although a prudent level of calls on expenditure reserves has been assumed, it is possible that not all will materialise.
Income re: Child Care Co-ordinator	0.15	Possible	Under discussion with West Herts PCT
2 nd tranche of infection control money	0.315	Possible	Income is contingent on achieving infection control targets in Q4.
Penalty re failure to meet waiting list target	(1.7)	Unlikely	Both Trust and PCT agree that this penalty is unlikely to be incurred.
Risk that equipment library costs need to be charged to revenue.	(0.15)	Possible	This issue is currently being discussed with the Trust's auditors.

<u>Issue</u>	<u>Financial Benefit / (Cost) £m</u>	<u>Likelihood</u>	<u>Notes</u>
Recovery of contract income	(0.2)	Possible	Risks remain around operational issues in the Surgical Division and variations in activity levels. However an agreed position has been negotiated with the Trust's main commissioner.
Premium cost of outsourcing Activity	(0.3)	Possible	Further outsourcing of surgical activity may be required in order to meet waiting list targets.
Movement on Stock Levels	(0.25)	Likely	Stock levels have been reduced in Theatres.
Deep Cleaning	(0.1)	Possible	Possible costs in excess of estimate.
Recruitment to vacant posts	(0.1)	Possible	The process for recruitment has recently been streamlined in order to reduce the usage of temporary staff. While this should generate savings, this may increase short-term costs as staff are employed on a "supernumerary" basis during induction periods.
Bad debt provision	(0.125)	Likely	Based on non-NHS write-offs in 2007/08
TOTAL	(1.06)		

Table 10

Although this gives a net financial risk of £1.06m, the £1.7m risk in respect of a potential penalty for failure to achieve waiting list targets appears unlikely.

2 Reserves

2.1 The following budget transfers have been charged against the General Reserve in 2007/08:

	Amount (£m)
Opening Balance	2.0
Agenda for Change Costs	(2.1)
Backdated pay claim	(0.1)
Additional training funding	1.1
Infection Control costs	(0.3)
Junior doctor training posts	(0.1)
East of England Procurement hub	(0.1)
Balance at 31/1/8	0.4

Table 11

2.2 The charge of £0.57m against this reserve represents the cost of any final Agenda for Change determinations.

2.3 From the total reserves still available of £5.3m, it is forecast that £3.2m will be available at year-end to support the overall financial position.

3 Remain Within External Financing Limit (EFL)

- 3.1** This is a cash amount receivable based on the Trust's capital cash requirements, including the Delivering a Healthy Future (DAHf) scheme. The Trust forecasts that it will manage spend within its 07/08 EFL of £7.855m.

4 Remain Within Capital Resource Limit (CRL)

- 4.1** The Trust is forecasting a total CRL of £21.968m. £13.525m relates to the DAHF scheme. £8.443m relates to other operational schemes. The Trust anticipates that it will incur a technical deficit of £1.899m in 2007/08. This represents work completed as at 31/3/8, which will not become payable until 2008/09. The SHA has agreed that this is acceptable and can be funded from within the SHA health economy.
- 4.2** It is therefore likely that Trust will exceed its planned CRL of £21.968m by £1.899m in 2007/08 but will undershoot its 2008/09 CRL by a corresponding amount of £1.899m. After allowing for timing differences, capital expenditure will equal the Capital Resource Limit funding allocated to the Trust by the Department of Health.
- 4.3** As in previous months, the CRL reported here is lower than that reported to the SHA as the Trust is taking a prudential view of likely funding.

5 Turnaround Plan

5.1 Table 10 summarises progress against the savings schemes below.

Scheme	Annual Planned Savings (£m)	Actual M1-M10 (£m)	Forecast Savings (£m)
Pay Reductions CIP	5.08	3.10	3.22
Non-Pay CIP	2.55	1.04	1.23
Realignment of Workforce	2.49	0.46	0.78
Procurement	1.57	0.40	0.75
Length of Stay	1.26	0.00	0.00
Roster Management	0.26	0.02	0.04
Theatre Shutdown	0.16	0.00	0.03
Theatre Efficiency	0.82	0.11	0.20
E-Auctions	0.19	0.00	0.00
Corporate	0.58	0.49	0.59
Other	1.04	0.40	0.52
Total	16.00	6.02	7.35
Other New Schemes	0.40	0.26	0.32
Revised Total	16.40	6.27	7.67

Table 12

5.2 The forecast savings figure takes a prudent view and is based on those schemes where work streams are fully in place to deliver savings.

5.3 The performance of each scheme is reviewed and risk scored at Divisional meetings. Schemes which now appear unlikely to be achieved in 2007/08 will be re-evaluated for inclusion in the 2007/08 cost improvement programme.

Red (£m)	Amber (£m)	Green (£m)	Total (£m)
8.0	0.3	7.7	16.0

Table 13

5.4 A split of savings achieved to date by Division is set out below:

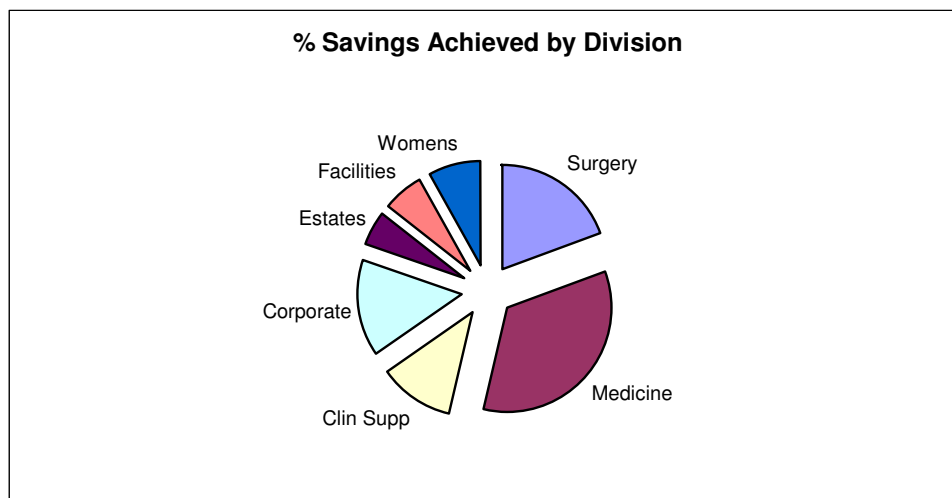


Table 14

6 Better Payment Practice Code

- 6.1** The target of paying 95% of invoices received within a month has not been achieved and now cannot be achieved for the financial year 2007/08. Current figures are Non NHS 53.5% by value and NHS 80.2% by value. Delays in processing are due to the time required for departments to check and authorise invoices for payment. Electronic authorisation, which will speed up the authorisation process for invoices, continues to be rolled out. Invoices are now being authorised electronically for the Estates, Clinical Support and Finance departments. Staff training and IT implementation continues so this facility can be used more widely.

7 Balance Sheet

- 7.1** The forecast Balance Sheet as at 31st March 2008 reflects the following cash movements:

2006/07 funding expended in 2007/08:	£m
Capital funding (used to pay creditors at 31/03/07)	1.8
AfC provision reduction (used to pay creditors at 31/03/07)	<u>4.2</u>
	<u>6.0</u>
2007/08 Capital expenditure funded in 2008/09	<u>2.3</u>
	<u>8.3</u>
Funded by:	
Reduction in debtors	1.0
Increase in creditors	7.1
I/E net surplus (£2.4m less loan repayments £2.2m)	<u>0.2</u>
	<u>8.3</u>

8 Cash Management

- 8.1** At 31st January the Trust had a net cash balance of £15.501m made up as follows:

	£m
Capital unspent	5.531
Dividend provision	2.719
Loan repayment provision	0.747
Loan interest provision	0.276
Creditor payments	6.228
Total Cash Balance	15.501

Table 15

- 8.2** Currently the Trust has no cash-flow problems and supplier invoices are being paid within 30 days, or as soon as authorised for payment.
- 8.3** The detailed cash flow statement **Appendix 3** provides a reconciliation between the current operating surplus before financing costs of £8.675m and the cash balance of £15.501m.

9 Capital Spending

- 9.1** Forecast capital spend for 2007/08 is £23.867m. This represents £8.443m on operational capital expenditure and £15.424m in respect of Delivering a Healthy Future (DAHF). **Appendix 4** gives more detail about capital expenditure.
- 9.2** Due to finalisation of the project timetable, a technical deficit of £1.899m on DAHF work is now forecast for 2007/08. This has been agreed by the SHA and will be repaid in 2008/09. Further information is given about this in **Sections 4.1** and **4.2**.

10 Auditors Local Evaluation (ALE)

- 10.1** The Trust continues to populate its ALE plan with evidence of achievement against the Key Lines of Enquiry (KLOEs).
- 10.2** An interim audit of achievement has been undertaken by the Trust's External Auditors and will be discussed at the February Audit Committee.
- 10.3** A weekly exception report is now being produced and shared with the Executive Team and the SHA. Any actions required are followed up with individuals by the Deputy Director of Finance.

11 Conclusion

- 11.1** This report outlines the financial position of the Trust as at M10. The Board is asked to comment / discuss its implications.

Prepared by:
Vicky Flanagan
Corporate Reporting Accountant

Presented by:
Ken Sharp
Interim Director of Finance

February 2008