

## FINANCE REPORT

### Financial Performance as at 31 July 2008

#### Executive Summary

At 31 July, the Trust has achieved a surplus of £1.8m. This is £0.5m lower than the planned surplus, reflecting the fact that £2.1m savings have yet to be identified. The table below summarises the Trust's performance against key indicators.

| Section | Target  | To Date               | Forecast              | Key Issues  | Performance Status |
|---------|---|-----------------------|-----------------------|---|--------------------|
| 1       | Deliver a surplus Income & Expenditure position | £1.8m                 | £4.4m                 | <ul style="list-style-type: none"> <li>The Trust has achieved a surplus of £1.8m to date.</li> <li>However this surplus is lower than the planned amount and reflects the fact that not all required cost improvements have yet been identified.</li> </ul>   | Amber              |
| 3       | Remain within the External Financing Limit      | £22.699m              | £22.699m              | <ul style="list-style-type: none"> <li>The Trust anticipates that it will contain expenditure within its allocated External Financing Limit.</li> </ul>   | Green              |
| 4       | Remain within the Capital Resource Limit        | £8.8m                 | £36.1m                | <ul style="list-style-type: none"> <li>The Trust anticipates that capital expenditure will be contained within the CRL.</li> </ul>  | Green              |
| 5       | Savings Plan                                    | £3.2m                 | £11.6m                | <ul style="list-style-type: none"> <li>The Trust has set a target of £11.6m financial savings.</li> <li>£9.5m savings schemes have been approved. Work is ongoing to deliver these savings.</li> <li>Proposals amounting to a further £0.9m are being verified, leaving £2.2m to be identified (including a £1m contingency to cover possible slippage against schemes).</li> </ul> | Amber              |
| 6       | Better Payment code - Cumulative target 95%     | No: 62%<br>Value: 64% | No. 70%<br>Value: 80% | <ul style="list-style-type: none"> <li>This continues to be a challenge for the Trust, although work is ongoing to improve payment times.</li> </ul>  | 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.               |

## Financial Risk Metrics

The Trust's financial risk rating is set out below:

| Financial Risk Ratings |                      |                                      | July 2008 |    |    |    |     |                          |             |                    |                            |                    |
|------------------------|----------------------|--------------------------------------|-----------|----|----|----|-----|--------------------------|-------------|--------------------|----------------------------|--------------------|
| Criteria               | Metric               | Weight                               | 5         | 4  | 3  | 2  | 1   | Annual Plan rating 08/09 | Actual YTD  |                    | Full year outturn forecast |                    |
|                        |                      |                                      |           |    |    |    |     |                          | Score 08/09 | Risk ratings 08/09 | Score 08/09                | Risk ratings 08/09 |
| Underlying performance | EBITDA margin %      | 25%                                  | 11        | 9  | 5  | 1  | <1  | 4                        | 10.3%       | 4                  | 10.3%                      | 4                  |
| Achievement of plan    | EBITDA achieved %    | 10%                                  | 100       | 85 | 70 | 50 | <50 | 5                        | 101.0%      | 5                  | 99.9%                      | 4                  |
| Financial efficiency   | Return on assets %   | 20%                                  | 6         | 5  | 3  | 2  | <-2 | 4                        | 5.5%        | 4                  | 5.5%                       | 4                  |
|                        | I&E surplus margin % | 20%                                  | 3         | 2  | 1  | -2 | <-2 | 3                        | 2.2%        | 4                  | 1.9%                       | 3                  |
| Liquidity              | Liquid ratio days    | 25%                                  | 35        | 25 | 15 | 10 | <10 | 2                        | 26.5        | 4                  | 26.5                       | 4                  |
| Average                |                      |                                      |           |    |    |    |     | 3.4                      |             | 4.1                |                            | 3.8                |
| Overriding rules       | Overriding rules     | At least one criteria on Plan 1 or 2 |           |    |    |    |     | 3                        |             | 0                  |                            | 0                  |
| Overall rating         | Overall rating       |                                      |           |    |    |    |     | 3                        |             | 4                  |                            | 4                  |

Table 2

The Monitor scores, on which this reporting is based, range from 5 "Lowest risk" to 1 "Highest risk". Achievement of overall averages of 4 is therefore positive.

## 1 Deliver a surplus Income & Expenditure position

### 1.1 Summary Results

Summary results to July are shown below. **Appendix 1** gives a more detailed statement of Income and Expenditure.

| Category             | Apr - Jul Budget (£m) | Apr - Jul Actuals (£m) | Variance (£m) |
|----------------------|-----------------------|------------------------|---------------|
| <u>Income</u>        |                       |                        |               |
| SLA Income           | 59.5                  | 60.5                   | 1.0           |
| Market Forces Factor | 10.1                  | 10.3                   | 0.3           |
| Other Income         | 9.1                   | 8.9                    | (0.3)         |
| <u>Expenditure</u>   |                       |                        |               |
| Pay                  | (48.3)                | (48.4)                 | (0.1)         |
| Non-pay              | (22.5)                | (22.5)                 | (0.0)         |
| Reserves             | 0.0                   | (0.5)                  | (0.5)         |
| Unidentified savings | 0.9                   |                        | (0.9)         |
| <b>EBITDA</b>        | <b>8.8</b>            | <b>8.2</b>             | <b>(0.5)</b>  |
| Depreciation         | (3.5)                 | (3.5)                  | (0.0)         |
| Dividend Payable     | (3.0)                 | (3.0)                  | 0.0           |
| Interest             | (0.0)                 | 0.0                    | 0.0           |
| <b>Surplus</b>       | <b>2.3</b>            | <b>1.8</b>             | <b>(0.5)</b>  |

Table 3

To date, the Trust has achieved a surplus of £1.8m. The shortfall of £0.5m against the planned £2.3 m surplus is due to:

- savings targets which have not yet been identified or achieved, and
- a provision for costs associated with the Delivering a Healthy Future (DAHF) programme.

The effect of these pressures has been partially offset by the recovery of more SLA income than planned. The Trust continues to target delivery of planned savings through the Intelligent Savings Programme.

The Trust is in the process of identifying how additional savings required to fund DAHF will be achieved. For 2008/09, these are likely to be in the region of £3.3m. Total savings required will therefore be £14.9m. A date of the end of August has been set for the identification of all required 2008/09 savings.

## 1.2 Income

### Service Level Agreements (SLAs)

Income is based on provisional July 2008/09 activity. Activity has not yet been fully coded so figures contain an element of estimation. The table below sets out key variances against Service Level Agreement income:

| SLA                  | Apr – Jul Plan (£m) | Apr – Jul Actuals (£m) | Over / (Under) (£m) | Reason  |
|----------------------|---------------------|------------------------|---------------------|---|
| Herts PCTs           | 54.7                | 55.8                   | 1.1                 | Overperformance on outpatient and elective activity to meet waiting list targets. |
| Market Forces Factor | 10.1                | 10.4                   | 0.3                 | Reflects higher activity on the Hertfordshire contract.                           |

Table 4

## 1.3 Expenditure

2008/09 pay and non-pay costs are shown in **Table 4** below. For comparison, expenditure from previous months of 2007/08 has also been included:

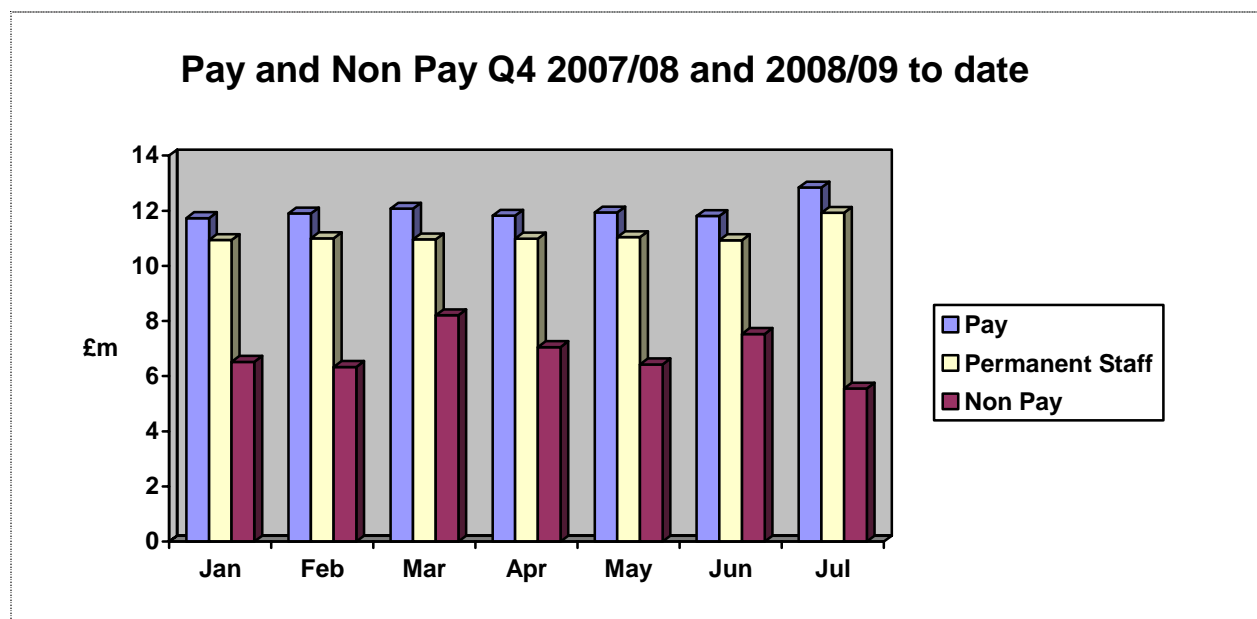


Table 5

The 2008/09 wage inflation award of 2.75% for staff on Agenda for Change contracts (all non-medical staff excluding Directors) was paid in July, with arrears for April to June 2008 to be paid in August 2008.

Pay costs for April to July were £0.15m over budget. This overspend has increased from June and staff costs have shown an upward trend over 2008/09. Continued management and control of costs against budget will be critical to the achievement of the Trust's planned surplus.

In total, 9.4% of the Trust's staff costs to 31 July represented overtime, agency or bank staff usage. The use of agency and overtime staffing is inefficient as it incurs premium costs.

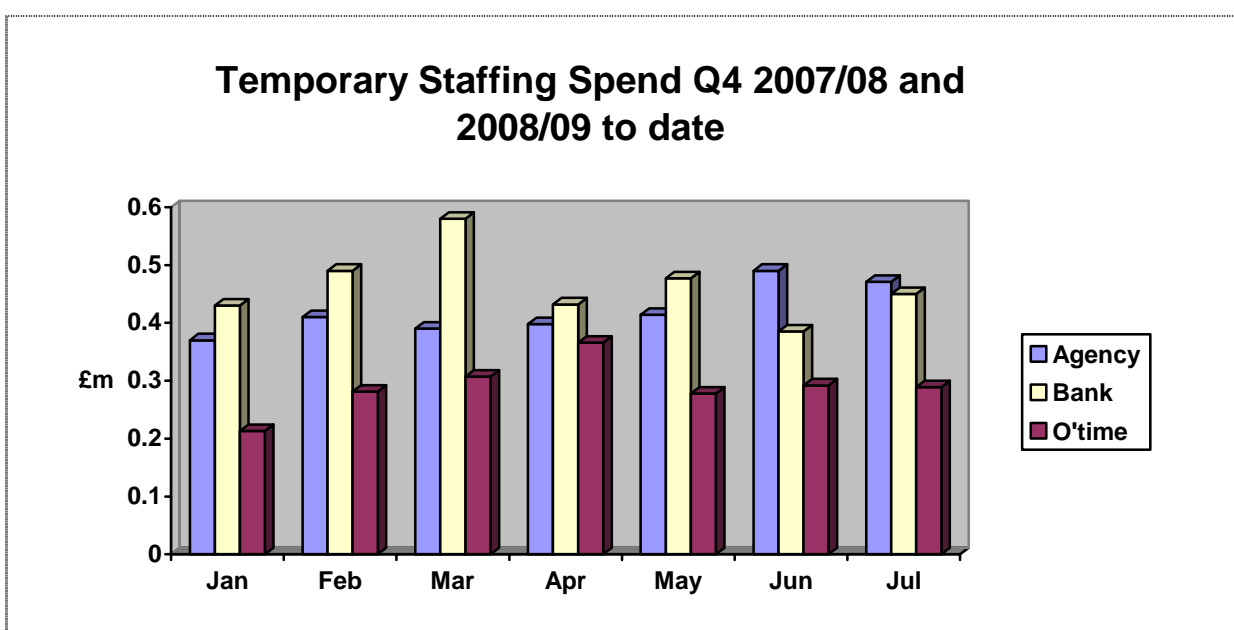


Table 6

**Appendix 1a** provides an analysis by Division and staff group of cumulative staff costs and average paid whole time equivalents for April to July.

The non-pay budget is over spent at the end of July by £0.03m.

### Divisional Position

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

## Financial Performance April to July 2008 by Division

| Division         | Budget M1-4<br>(£m) | Actuals M1 -4<br>(£m) | Variance<br>(£m) | Reason  |
|------------------|---------------------|-----------------------|------------------|---|
| Medicine         | (15.1)              | (15.7)                | (0.6)            | Unidentified cost improvements  |
| Surgery          | (15.6)              | (16.2)                | (0.6)            | Unidentified cost improvements  |
| Women's          | (7.7)               | (7.7)                 | (0.0)            |   |
| Clinical Support | (8.7)               | (8.7)                 | 0.1              |   |
| Facilities       | (3.3)               | (3.2)                 | 0.1              |   |
| Estates          | (2.9)               | (3.1)                 | (0.1)            | Higher energy costs   |
| Corporate        | (6.4)               | (6.5)                 | (0.1)            |   |
| Income           | 68.3                | 69.7                  | 1.4              | Elective and outpatient activity to meet waiting list targets.Increases in maternity and paediatric activity. |
| Other            | (6.3)               | (6.9)                 | (0.6)            | Provision for service reconfiguration   |
| <b>TOTAL</b>     | <b>2.2</b>          | <b>1.8</b>            | <b>(0.5)</b>     |   |

Table 7

### 1.5 Forecast Position

The Trust's forecast outturn is set out below. **Section 1.6** discusses the risks and contingencies which could affect this forecast. Forecasts are based on an extrapolation of the current position, adjusted for planned changes.

## Forecast Trust Position April 2008 to March 2009

| Category                  | Budget<br>(£m) | Forecast Outturn<br>(£m) | Variance<br>(£m) |
|---------------------------|----------------|--------------------------|------------------|
| <u>Income</u>             |                |                          |                  |
| SLA Income                | 176.7          | 179.8                    | 3.0              |
| MFF                       | 30.0           | 30.7                     | 0.7              |
| Other Income              | 27.4           | 26.6                     | (0.8)            |
| <u>Expenditure</u>        |                |                          |                  |
| Pay                       | (144.7)        | (144.8)                  | (0.1)            |
| Non-pay                   | (67.2)         | (67.4)                   | (0.2)            |
| Reserves                  | (0.4)          | (0.4)                    | 0.0              |
| Unidentified savings      | 2.5            |                          | (2.5)            |
| <b>EBITDA</b>             | <b>24.3</b>    | <b>24.5</b>              | <b>0.1</b>       |
| Depreciation              | (10.5)         | (10.5)                   | (0.1)            |
| Dividend Payable          | (8.8)          | (8.8)                    | 0.0              |
| Interest                  | (0.6)          | (0.7)                    | (0.1)            |
| <b>(Over)/Under Spend</b> | <b>4.4</b>     | <b>4.4</b>               | <b>(0.0)</b>     |

Table 8

## 1.6 Risks and Opportunities

The table below sets out possible risks and contingencies:

| Issue  | Benefit / (Cost) (£m) | Likelihood | Notes   | Risk included in Forecast |
|--|-----------------------|------------|---|---------------------------|
| Delivery of planned savings programme                      | (£2.1m)               | Possible   | Delivery of planned savings is being pursued at Divisional and Corporate level. However, currently, a significant level of savings remain unidentified or fully worked up.  | Yes                       |
| Income related savings                                     | (£1.7m)               | Possible   | Achievement of this income is subject to negotiation with commissioners. Discussions have been constructive however final agreement has not been secured.   | Yes                       |
| Outsourcing  | (£0.5m)               | Possible   | It is possible that the Trust will need to outsource some activity beyond quarter 1 in order to achieve waiting list targets. The value quoted as at risk here is prudent. However, work is ongoing to minimise the level of outsourcing that will be required.                 | No                        |
| Delivery of DAHF savings                                   | (£3.3m)               | Possible   | Delivery of 2008/09 DAHF savings will become more challenging due to the revised timetable for opening of the Acute Admissions Unit (AAU). Planned savings arising from the transfer of services from the Hemel site will not now be achievable in 2008/09.                     | No                        |
| SLA penalties  | (£5.5m)               | Possible   | The Trust will potentially be subject to contractual penalties of up to 5% of its Elective income for failure to achieve waiting list targets and 2% of its total income for failure to achieve infection control targets.  | No                        |
| Fuel costs   | (0.75m)               | Possible   | There is a cost pressure on the Trust due to the increase in global energy prices.  | Partially                 |
| WIP adjustment   | (£0.15m)              | Likely     | A move to an AAU model of care will reduce the hospital's number of beds. This is likely to result in a charge to the Trust as part of the 2008/09 accounts process.  | No                        |
| Transfer of upper GI, urology & gynaecology cancer to WHHT |                       |            | The Trust's cancer casemix will alter as the Trust becomes a specialist centre for upper GI, urological and gynaecological cancers. Work is ongoing to cost the financial impact of this however it represents both a financial opportunity and a financial risk for the Trust. | No                        |
| Development of contingency savings                         | £1m                   | Possible   | Delivery of savings additional to the planned £11.6m will be targeted in order to manage possible slippage.   | No                        |
| DAHF transitional costs                                    | Not known             | Possible   | Funding has been agreed in principle with Herts PCTs to cover "double running" and also transitional costs necessitated by DAHF implementation.   | No                        |
| Income from higher activity                                | £4.2m                 | Possible   | Contracted activity and income exceeds plan for April to July. There is a risk that this will not continue.   | No                        |

Table 9

## 2 Remain Within External Financing Limit (EFL)

**2.1** This is a cash amount receivable based on the Trust's capital cash requirements. The Trust's EFL for 2008/09 is £22.699m. As in previous years, the Trust anticipates that it will contain expenditure within this limit.

### 3 Remain Within Capital Resource Limit (CRL)

- 3.1** The Trust has set a capital budget which is in line with its CRL. There remains considerable pressure on the capital budget but 2008/09 expenditure will be held in line with the CRL.

### 4 Intelligent Savings Plan

- 4.1** In order to achieve its planned surplus of £4.4m, the Trust needs to make savings of £11.6m. It is also targeting an additional £1m contingency saving to cover any delay in achieving the £11.6m amount.

| Division             | Savings Target (£m) | Firm Proposals (£m) | Other Proposals (£m) | Balance to Find (£m) |
|----------------------|---------------------|---------------------|----------------------|----------------------|
| Surgery              | 3.8                 | 3.2                 | 0.1                  | 0.5                  |
| Medicine             | 3.6                 | 1.8                 | 0.8                  | 1.0                  |
| Clinical Support     | 0.7                 | 0.75                |                      | 0                    |
| Corporate            | 1.7                 | 1.6                 |                      | 0.1                  |
| Estates / Facilities | 0.8                 | 0.9                 |                      | (0.1)                |
| Women's              | 1.0                 | 1.3                 |                      | (0.3)                |
| <b>Total</b>         | <b>11.6</b>         | <b>9.5</b>          | <b>0.9</b>           | <b>1.2</b>           |

Table 10

- 4.2** To date, schemes totalling £9.5m have been identified. This leaves a shortfall of £2.1m. Additional schemes are being developed and will amount to £0.9m if agreed. The Executive team monitors progress weekly.
- 4.3** Achievement of the savings targets continues to be pursued. **Appendix 5** sets out the achievement of savings targets to date by Division.

## 5 Better Payment Practice Code (BPPC)

- 5.1** The target of paying 95% of invoices received within 30 days has not been achieved. Current figures are 62% by number and 64% by value. This is an improvement on performance earlier in the year.
- 5.2** An action plan has been developed to improve performance against this target. The charts below set out planned trajectories to bring payments to target.

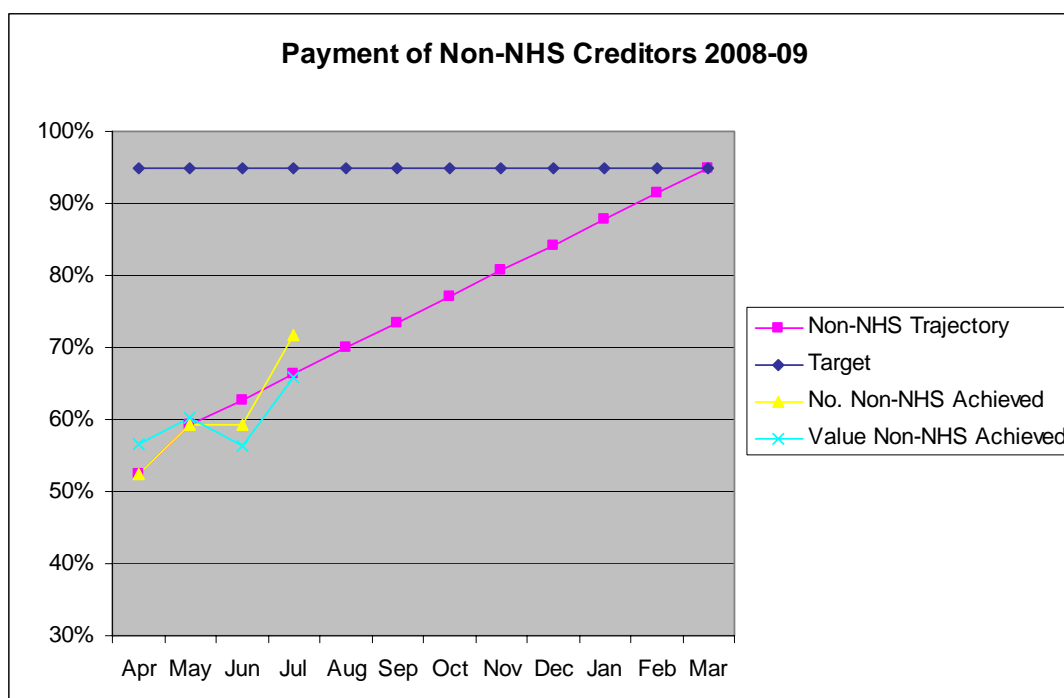


Table 11

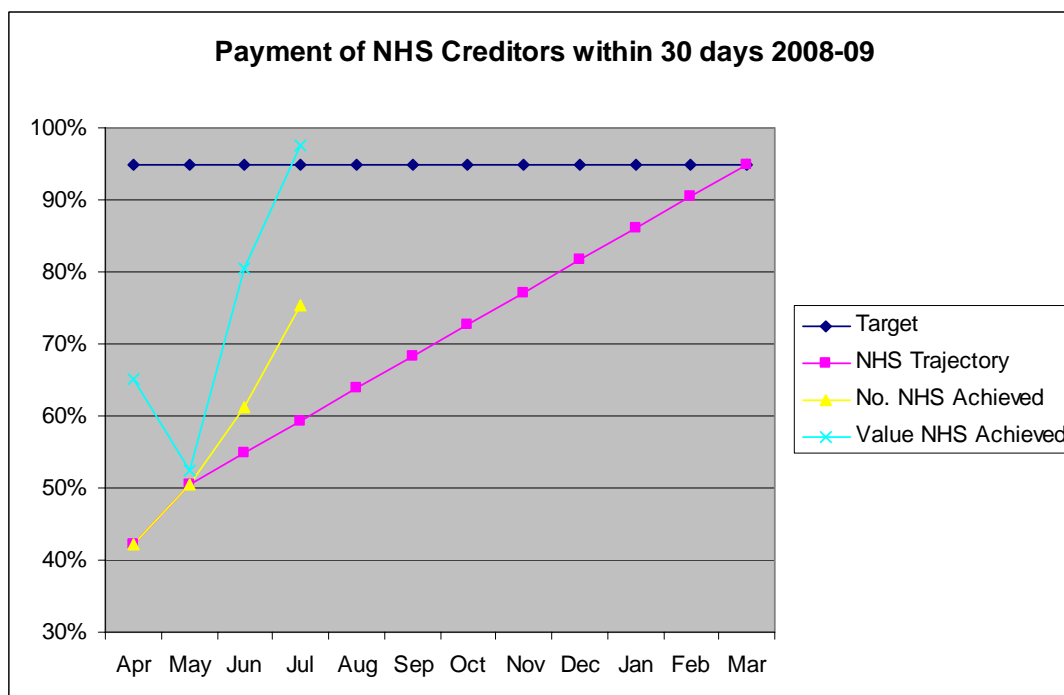


Table 12

- 5.3** To date, payment performance has improved in line with, or more than, plans.



## 6 Cash Management

6.1 At 31 July, the Trust had a cash balance of £17.644m made up as follows:

|                             | £m            |
|-----------------------------|---------------|
| Capital unspent             | 9.302         |
| Creditor payments           | 2.429         |
| Dividend provision          | 2.950         |
| Loan interest provision     | 0.163         |
| Loan repayment provision    | 0.747         |
| Revenue payments in advance | (1.643)       |
| Revenue receipts in advance | 3.696         |
| <b>Total Cash Balance</b>   | <b>17.644</b> |

Table 13

6.2 As was the case earlier in the year, the Trust is not experiencing significant cash management issues. Invoices are paid within 30 days or as soon as authorised for payment.

## 7 Capital Spending

7.1 Capital spend to the end of July totalled £8.785m, of which £7.318m related to DAHF. **Appendix 4** gives further detail about capital expenditure.

## 8 Conclusion

8.1 At 31 July, the Trust has achieved a surplus and a positive run rate (that is, a recurrent surplus). However, the level of surplus achieved is lower than budgeted because of the shortfall against savings required from the Intelligent Savings Programme and because of savings required to fund DAHF.

8.2 The Board is asked to note that the following will be critical to the achievement of the planned financial surplus:

- Continued management of expenditure against budget.
- Further savings of £2.1m need to be identified as part of the Savings Programme.
- 2008/09 savings of £3.3m will be required to fund DAHF service changes as the AAU opens in Watford.

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**14 August 2008**