

WEST HERTFORDSHIRE HOSPITALS NHS TRUST

2009 / 10 Budget Setting

1. Executive Summary

This report has been prepared to provide the Trust Board with an update on the budget setting progress for 2009/10, in preparation for formal sign off by the Board at its March 2009 meeting.

The paper summarises:

- The Financial Strategy for 2009/10
- Where the Trust is in the budget setting process
- Assumptions made
- Assumptions outstanding
- Risks
- Next steps

2. Financial Strategy for 2009/10

The Trust's financial strategy for 2009/10 is based on:

1. Continued delivery of an in year surplus
2. Management of working capital to ensure sufficient cash to repay loans and interest
3. Implementation of the AAU model of care
4. Investment of capital funds to support delivery of Trust's objectives
5. Achievement of Foundation Trust status

2.1 In year surplus

All NHS Trusts are required to break even over a three year cycle. At the start of 2007/08 the Trust had a cumulative deficit of £11.4m to repay. The table below shows planned breakeven in 2009/10.

Planned achievement of breakeven

Year	2006/07	Actual 2007/08	Plan 2008/09	Plan 2009/10
In year surplus/(deficit)	£(11.4m)	£2.4m	£4.4m	£4.6m
Cumulative surplus/(deficit)	£(11.4m)	£(9.0m)	£(4.6m)	£0m

2.2 Management of working capital

The Trust is required to repay a principal of £5m and interest of £1.6m in relation to working capital and capital loans, in 2009/10.

2.3 Implementation of the AAU model of care

The opening of the AAU will provide the Trust with the opportunity to:

- Deliver savings from site rationalisation
- Realise financial efficiencies from the provision of an improved service model.

2.4 Investment of capital funds

The Trust's operational capital allocation is equal to the cash the Trust can generate to fund capital expenditure (i. e. depreciation plus I & E surplus adjusted for repayment of capital loans). Capital funding in addition to operational capital will usually be in the form of interest-bearing loans. Attached at Appendix 2 is the latest iteration of the proposed capital programme. The Capital Programme Group is working through a prioritisation process to provide a balanced programme for inclusion in the March Board paper.

2.5 Achievement of Foundation Trust status

The Trust is on a timeline to become a Foundation Trust during 2009. Achievement of Foundation Trust status will mean that the Trust will be able to develop and implement an investment strategy that is not limited by its level of depreciation.

3. The Budget setting process

Budget setting principles, approach and timetable for 2009/10, finalised in October 2008, inform the budget development process. The timetable was presented to the Audit Committee in November 2008, and is attached at Appendix 5.

By means of this paper, the Board receives a high level summary of the likely income and expenditure for 2009/10 at the January Trust Board. Detailed work is under way, managed through the savings plan project team, to finalise the savings plan for 2009/10.

Capital budgets are based on a prioritised plan of capital investment, are subject to approval by the Capital Programme Group and to the submission and approval of a detailed business case, which includes associated revenue consequences.

The Balance Sheet iteration, Appendix 3, reflects the latest budget iteration, as does the budgeted cash flow, Appendix 4. It must be noted that uncommitted cash of £6.6m is required to enable repayment of loans and interest.

4. Assumptions made

The following assumptions are currently included within the figures being presented:

- Activity levels remain at the 2008/09 plan
- The full year effect of part year savings in 2008/09 have been included in the baseline
- Current non recurrent savings have been made recurrent wherever possible. The working assumption is £1.7m from non-recurrent to recurrent.
- A 3% efficiency target has been applied
- The impact of the introduction of HRG4 and the new Market Forces Factor (MFF) % will be cost neutral
- Transition funding of £890K will be provided by the PCT relating to the AAU
- The £4.4m surplus for 2008/09 will be achieved

5. Assumptions outstanding

The following issues are outstanding and will be detailed in the March Board paper:

- Final negotiated SLA with the PCTs
- The full impact of HRG4 and MFF changes. Note the final tariff for 2009/10 will be issued week commencing 12th January 2009
- Final costs and savings from the opening of the AAU
- Site rationalisation savings at Hemel Hempstead General Hospital
- Impact of any negotiated transition costs from the PCT and CNST uplift
- Any agreed Business Planning developments
- Capital charge impact of the 2009/10 Capital programme

6. Risks

Mitigation of the following risks forms part of the finalisation of the budget for 2009/10:

Income – PCT commissioning intentions present a challenge to the Trust. SLA negotiations will seek to maximise income levels.

CQUIN – the new quality regime means that a small amount of funding will; be dependent on the delivery of agreed quality standards.

Penalties – strict penalties in relation to performance, including completeness of coding, come into force in 2009/10.

Activity – capacity to be managed to ensure that contracted levels of delivery will be delivered. Early winter pressures, as has occurred in 2008/09, make this a challenging risk to mitigate fully.

Savings – non recurrent savings in 2008/09 put pressure on the 2009/10 position. Non-recurrent savings in 2009/10 will add to this pressure. Non

cash releasing savings will affect the Trust's working capital position and the ability to repay loans when required.

Transitional support – PCT proposed funding falls far short of the amount of transitional funding sought.

AAU – realisation of the planned efficiencies, and delivery of the savings associated with the reconfiguration of the Hemel Hempstead site are essential to support delivery of the I & E position.

Recruitment and retention – pay budget overspend in 2008/09 must not recur in 2009/10.

7. Next Steps

Budget 2009/10 related activities will continue in line with the timetable. The current iteration, which is attached as Appendix 1, will continue to be updated so that a detailed final version will be presented for Board approval at the March 2009 Board meeting.

Risk mitigation forms a key part of the development and finalisation of the budget.

8. Recommendation

The Board is asked to note the work in progress for setting the 2009/10 budget, and to raise any points for discussion.

Margaret Ashworth
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13th January 2009