West Hertfordshire Hospitals NHS Trust

Finance Report

Period 9

December 2009

Contents

Presented by

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21 January 2010

Financial Overview as at 31 December 2009

Summary | Income & Expenditure | Balance Sheet

Year To Date Income & Expenditure

£m	Plan	Actual	Variance
Surplus / (deficit)	2.4	2.0	(0.4)

Forecast Income & Expenditure

£m	Plan	Actual	Variance
Surplus / (deficit)	4.6	4.6	0.0

Risks & Assumptions

Risks:	Shortfall against planned savings. Continued overspend against budget. Income overperformance may not continue.
Assumptions:	The w hole of the benefit of the revaluation exercise, dividends and depreciation, w ill be used to deliver the plan.

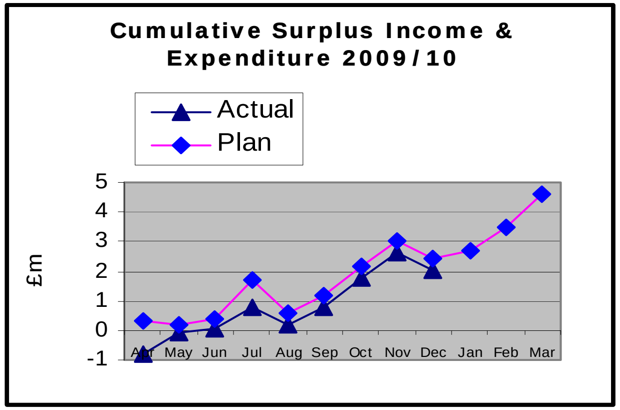
	SHA YTD	SHA Forecast	Monitor YTD	Monitor Forecast
Financial Risk Rating	2	3	2	2

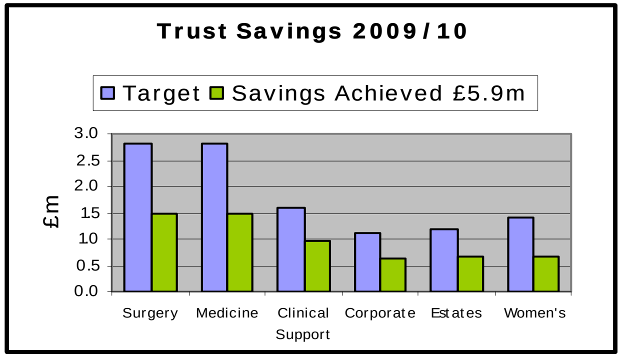
Staffing

	Plan	Actual	Variance	
WTE	3,779	3,478	301	8%

Activity

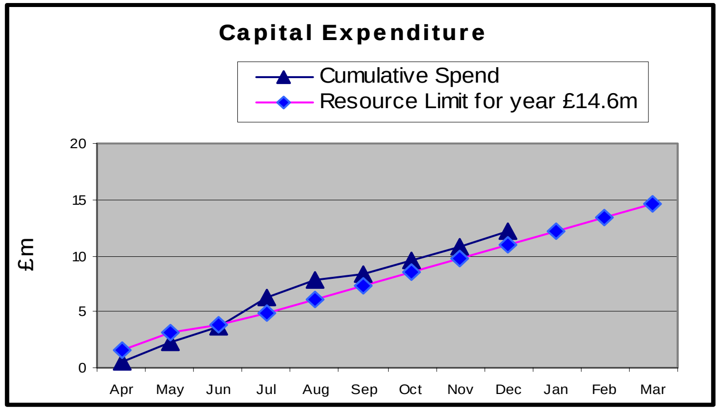
	Plan	Actual	Variance	
Elective	25,623	27,615	1,992	8%
Non-elective	31,505	33,390	1,885	6%
Outpatient	257,282	279,798	22,516	9%

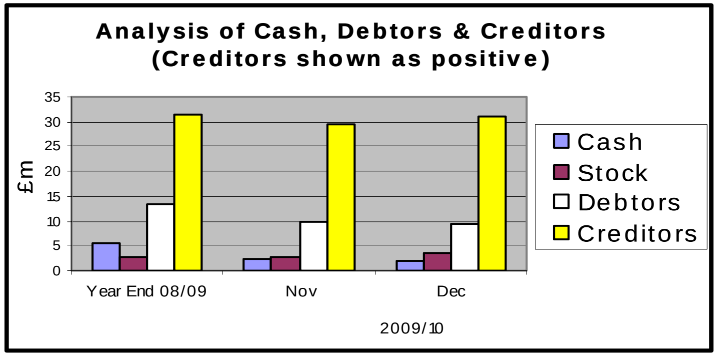




Variance By Division - Adjusted for Activity

£'000	YTD (£m)	% Budget
Medicine	(1.6)	(4.2)
Surgery	(2.0)	(5.7)
Women's	(0.6)	(3.5)
Clinical Support	0.0	(0.0)
Estates & Facilities	(0.1)	(0.8)
Income / Other	3.7	2.5
Corporate	0.2	1.2
Total Variance	**(0.4)**	





Cumulative Better Payment Performance

	M9	Avg M1 - M9	Target	Cumulative Variance
By Value	88%	75%	95%	(20)%
By No	88%	75%	95%	(20)%

Debtor Days	10
Creditor Days	18

Introduction

At Month 9, the financial position is a deficit of £0.4m compared to budget. This is the same as in the previous four months.

The material variances are: a £5.9m overspend on pay and non-pay which is partially offset by £2.6m increased income, use of £1.2m of the depreciation gain and £1.7m from lower dividend payments as a result of the revaluation exercise.

Overspends are mainly due to:

- Overspends in Surgery Division – theatre staff, medical locums, prostheses, medical and surgical supplies and equipment (£3.9m)
- Higher spend than budgeted for medical staff (£0.3m)
- The cost of agency midwifery staff (£1.1m).

Based on current Income and Expenditure performance, the Trust continues to forecast a surplus of £4.6m. However delivery of this target will require:

- Continued avoidance of the premium costs of outsourcing
- Recovery of the overspend to date.
- Full use of the revaluation benefit unless the overspend reduces.

The Board is asked to note that the non recurrent income for single sex accommodation and the reductions in depreciation and dividends following the revaluation of the Trust's estate were not budgeted for and have offset significant overspends. Please see section 1.9 for further details.

1 Income & Expenditure

Summary Results

1.1 Summary results (excluding the effect of the impairment) to the end of December are shown below. Appendices 1 to 3 give more detail.

	Budget YTD £m	Actual YTD £m	Variance YTD £m	Budget FOT £m	Actual FOT £m	Variance FOT £m
Income	187.7	190.2	2.5	250.6	254.9	4.3
Expenditure	(185.3)	(188.2)	(2.9)	(246.0)	(250.3)	(4.3)
Surplus (Deficit)	2.4	2.0	(0.4)	4.6	4.6	0.0

Table 1

Key Issues

1.2 At month 9, contract income shows over performance compared to plan of £1.8m. This is linked to levels of elective and non-elective admissions and outpatient referrals. Appendix 4 gives a breakdown of contract income.

1.3 The over recovery on other authorities income relates to funding received for meeting the eliminating single sex accommodation target. This income is to cover the cost of the capital spend.

1.4 The under recovery of Non-NHS clinical income is linked to fluctuations in the receipt of road traffic accident income and a reduction in private patient income due to delays in the full functioning of the Cardiac Catheter Laboratory and the Knutsford Suite.

1.5 Pay costs to the end of December are £2.1m over budget. Key areas of overspend are: medical staffing and theatres, where the use of agency staff to cover vacancies attracts premium costs. Midwifery agency spend has continued to overspend as the department has recruited agency staff to cover the posts of supernumerary midwives who are being inducted into the Trust.

1.6 10.3% of the Trust's December staff costs represented overtime, agency or bank staff usage. This is a modest improvement over previous months but still high. Appendices 2 and 5 give more information on staff costs.

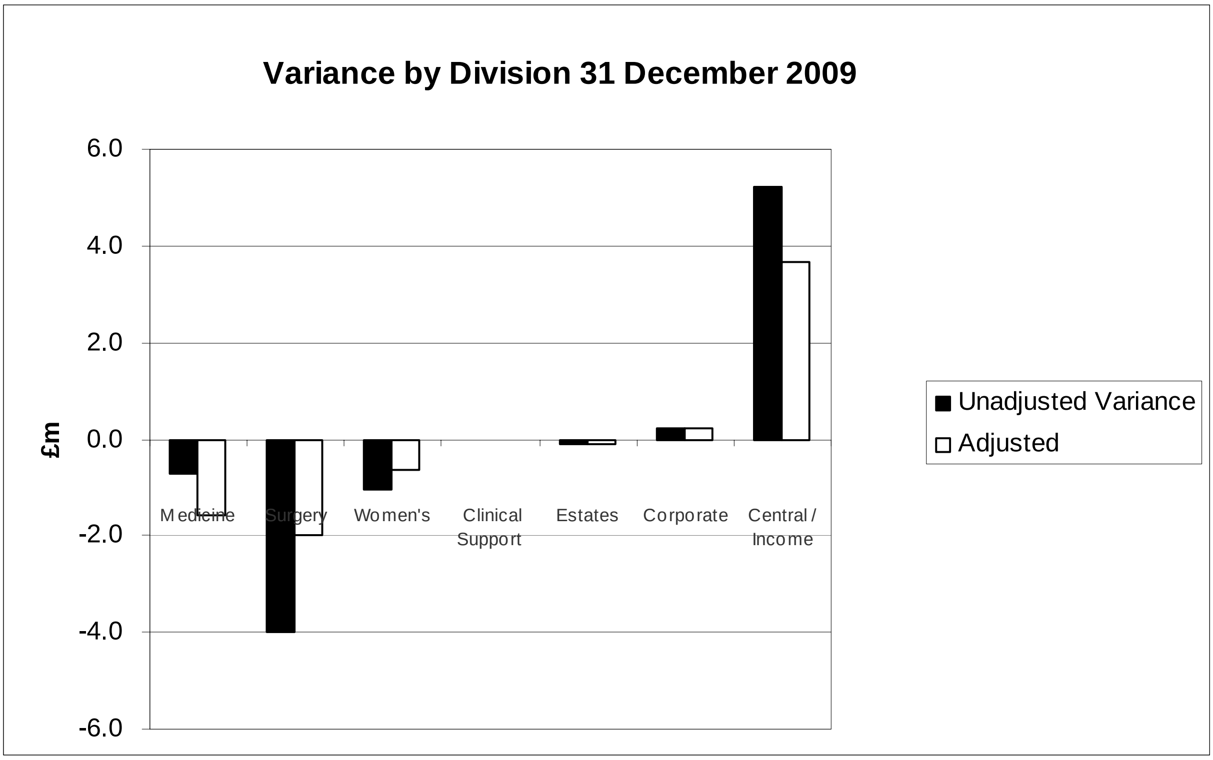
1.7 Overall, non-pay is overspent by £3.8m. Significant variances are:

- £0.8m overspend on surgical outsourcing to achieve waiting targets
- £0.4m on drug costs, especially in Paediatrics, Ophthalmology, and Rheumatology. This is partially offset by the recovery of £0.1m income for specialist drugs.
- £1.3m on medical and surgical supplies in theatres and cardiology
- £0.3m on consultancy services
- £0.7m on other non-pay which is linked to estates costs, the outsourcing of MRI activity to achieve waiting list targets and a redundancy following the re-organisation of therapy services
- £0.3m spend on transport costs following the introduction of additional services between sites.

The Trust's second MRI machine has now opened and, following a review of usage, many of the additional transport services have now been discontinued.

Divisional Position

1.8 The graph that follows shows the Trust's performance to December by division (excluding the effect of the asset impairment). The black bars show variance compared to budget. The white bars allocate an income contribution to costs from over / under performance income to show the impact of activity variances. Appendix 6 analyses divisional performance in more detail.



Graph 1

Recurrent Financial Position

1.9 Appendix 7 shows the Trust's baseline "run-rate", or underlying financial position. After allowing for the effect of non-recurrent savings and the non-recurrent funding in respect of achieving the single sex accommodation target, the Trust has a year-to-date surplus of £0.2m. The run rate in December was (£0.83m).

1.10 The 2009/10 forecast relies to a significant extent on unplanned support to offset expenditure overspends:

	£m	£m	
Budgeted Surplus 09/10	**4.6**		
Benefits not in the original plan			
Single Sex Accommodation		1.5	Support for budgeted works
Reduction in Depreciation		2.7	Arising from revaluation
Reduction in Dividends Payable		2.4	Arising from revaluation
Over Performance Income		2.8	Activity in excess of budget
Total Benefits	**9.4**		
Offset by			
Pay Overspend		(3.3)	Spend in excess of budget
Non-pay Overspend		(5.9)	Spend in excess of budget
Interest Overspend		(0.2)	Spend in excess of budget
Total Spend Offset	**(9.4)**		
Forecast Surplus 09/10	**4.6**		

Table 2

Overspends on pay and non-pay have significantly exceeded additional income from activity. This has been mitigated by non-recurrent income to address the single sex accommodation target and reductions in depreciation and dividend costs linked to the revaluation.

1.11 The reduction in depreciation does not save cash as the capital budget is linked to budgeted depreciation. So on its own the depreciation change worsens the balance sheet position.

The Trust Board is asked to note that there is an urgent need to reduce spend:

- in order to improve the Trust' s liquidity (cash position)
- in order to prepare the Trust for the next financial year. In line with the wider economic situation, this will be challenging financially for the Trust.

All budget holders have been tasked by the Chief Executive with reducing spend wherever this is clinically acceptable. In addition, divisional plans to reduce spend and deliver savings will be monitored on a fortnightly basis by the Director of Delivery and the Director of Finance.

Financial Risk Ratios

1.12 The Trust reviews its financial position using risk ratios developed by the East of England Strategic Health Authority and Monitor. These are set out in Appendix 8. The Trust has a current rating of “2” using the SHA and Monitor ratings. This reflects the Trust’s liquidity position in 2008/09 and current liquidity issues.

1.13 The Trust’s current SHA rating has decreased from “3” in November to “2” in December. This is due to a deterioration in the Trust’s liquidity from 11.9 liquidity days to 9.7. The Trust’s creditor levels have increased which is linked to the shortfall in cash due to the I&E deficit and the use of non-cash backed savings to deliver the Trust’s surplus.

1.14 The Trust has applied for a £7m working capital loan to strengthen its balance sheet. This loan has not yet been received but it has been supported by the SHA.

2 Forecast Position

2.1 The Trust’s forecast outturn is as follows. Forecasts are based on a detailed review by operations and finance. Further information is set out in Appendix 1.

2009/10 Forecast Outturn

	Budget £m	Forecast £m	Variance £m
SLA Income	222.5	225.7	3.2
Other Income	28.1	29.2	1.1
Pay	(154.1)	(157.4)	(3.3)
Non-Pay	(70.2)	(75.5)	(5.2)
Reserves	(0.9)	(1.6)	(0.7)
EBITDA	25.4	20.4	(4.9)
Depreciation	(11.5)	(8.8)	2.7
Dividend	(7.8)	(5.4)	2.4
Interest	(1.5)	(1.7)	(0.2)
(Over)/ Under spend	**4.6**	**4.6**	**0.0**

Table 3

2.2 Planned activity has now been booked until March and current income trends have been assumed to continue. The financial surplus improves in the final quarter as the balance of the forecast under spend on depreciation is profiled into the position.

2.3 In order to achieve its forecast surplus of £4.6m, the Trust needed to make savings of £10.8m. To date, the Trust has achieved savings of £5.9m. This is in line with the planned phasing of savings schemes. The forecast assumes that £8.6m is achieved by the end of the year.

2.4 The Trust continues to review the delivery of savings through BRIGHT monitoring meetings and divisional performance review meetings which are attended by members of the Trust Executive.

3 Better Payment Practice Code (BPPC)

3.1 Cumulatively, the Trust has paid 75% of invoices on time at the end of December. This is a slight improvement compared to the previous month and reflects work to streamline payment processes. Further improvement will be dependent on improvements to the overall liquidity position.

3.2 The payment target for Small and Medium Enterprises (SMEs) has increased to 80% of invoices payable within 10 working days. The Trust paid 40% of December SME invoices within 10 days. The Trust has developed an action plan to improve the proportion of invoices paid and, as systems to streamline these payments become embedded, it is anticipated that the proportion of invoices paid within the 10 day target will improve.

4 Financial Accounting

4.1 A statement summarising the cash effect of 2009/10 operating activities is set out in Appendix 10. At 31 December, the Trust's cash balance is £2.1m.

4.2 As noted in 1.11, use of the under spend against depreciation to deliver an income and expenditure surplus will worsen the Trust's liquidity position. The Trust has implemented urgent measures to reduce spend and so increase cash through greater efficiency.

4.3 The opening, current and forecast Statement of Financial Position (Balance Sheet) as at 31 December is set out in Appendix 11.

5 Capital Spending

5.1 Capital spend to the end of December totalled £12.1m. A summary of capital expenditure is set out in Appendix 12.

5.2 The Trust's Capital Resource Limit figure assumes the return of a £1.3m Public Dividend Capital allocation from 2008/09. The Department of Health have confirmed this will be returned to the Trust at the end of January 2010.

6 Assumptions

6.1 The following table sets out key income and expenditure assumptions included in the forecast outturn:

Issue	Benefit / (Cost) (£m)	Notes	Amount included in Forecast
Recovery of deficit to M9	£0.4m	Continued scrutiny and management of spend will be required.	Yes
Revaluation benefit	£5.1m	The whole of the benefit of the revaluation exercise, dividends and depreciation, will be used to deliver the plan.	Yes
Delivery of Income	£4.3m	Forecasts have been based on current levels of activity over performance.	Yes

Table 4

7 Conclusion

7.1 At 31 December, for the fifth month, the Trust has a variance compared to budget of £0.4m. Actions are underway to recover this and so fulfil the Trust's statutory requirements.

7.2 The Trust continues to forecast delivery of the targeted surplus. Actions have also been put in place to reduce reliance on the capital charge under spends to achieve the planned surplus. The goal is to reduce spend by £2m which would improve the bottom line and also bring liquidity up to a more adequate level and provide a better baseline for 2010/11.

7.3 The Trust Board is asked to note this report and raise any comments for discussion.

Anna Anderson
Director of Finance
21 January 2010