Trust Board meeting – 28 January 2010

Financial outlook 2010/11

1. Introduction

1.1 This paper summarises the factors that will determine the level of resources available to the Trust next year, internal issues and the actions that the Trust will need to take to achieve a sustainable financial position. The paper covers the income statement, liquidity and capital.

1.2 The Board has previously considered the Integrated Business Plan (IBP), as part of the Foundation Trust (FT) application process which has set out earlier views on the resource outlook for the Trust. This paper updates earlier forecasts and builds in the impact of the Operating Framework and Hertfordshire PCTs' commissioning intentions.

2. Context – 2009/10 forecast outturn

2.1 The Trust is anticipating a year end surplus of £4.6m as in the original plan. However, this is after taking account of income for single sex accommodation and a recurrent benefit from reduced capital charges as a result of the revaluation of assets. These factors equate to nearly £7m and have offset expenditure pressures in a number of areas and helped to deliver the surplus shown. A number of actions are being taken in the remaining months of the year to improve the surplus position and liquidity.

2.2 Members of the Board will remember that the planned surplus is required to achieve the statutory breakeven duty.

2.3 The revaluation exercise has reduced the value of land and buildings by £125m and the associated impairment, not covered by reserves, appears below the line in the income statement and reduces the surplus by £58m. This is a technical adjustment and does not impact on the Trust's breakeven duty or the financial target agreed with the SHA.

3. Target surplus in 2010/11

3.1 The current target for next year, as shown in the IBP, is a surplus of £6.6m. This is required to cover the principal repayments relating to the three loans expected to be in place. Sufficient cash needs to be generated through the Income Statement to cover these.

3.2 The target needs to be reviewed in the light of current liquidity.

4. Income in 2010/11

4.1 Income from PCTs will be affected by changes in the national tariff and PCT commissioning intentions.

Payment by results tariff

4.2 The PbR tariff has been revised with the main changes, and the estimated impact on the Trust, being:

- A 3.5% efficiency requirement offset by a 3.5% uplift for pay and prices.
- A small reduction in the emergency tariff and a 30% marginal rate for admissions above 2008/09 outturn - loss of £1.4m
- Changes in obstetrics for non admitted patients – loss of £1.3m
- A gain on income for elective admissions where the tariffs for inpatients and day cases have been recombined - £2.4m gain
- Best practice tariffs for four elective procedures which provide a marginal gain of £0.1m
- A loss on outpatients, out patient diagnostics and outpatient procedures where diagnostic tests have been added back to outpatient attendance prices and there is now a mandatory tariff for a smaller range of procedures – loss of £0.6m
- A gain of £0.3m on A&E

4.3 The total impact of these tariff changes in cash terms, and based on current activity levels, is a modest gain of £0.4m.

4.4 The Trust has raised with the PCT the issue of the emergency marginal rate which seems inappropriate in view of the implementation of the jointly agreed new model of care last year.

4.5 Funding for quality through CQUIN will increase next year from 0.5% of contract to 1.5% and part of this will be based on patient experience. For planning purposes it is assumed that the Trust will secure half to three quarters of this, ie £1.1m - £1.5m.

PCT commissioning intentions

4.6 The PCTs have shared high level assumptions about activity changes they want to achieve next year as set out in their draft Commissioning Strategic Plans. After allowing for demographic change, these are intended to deliver £7m of savings from this Trust next year through a number of measures including:

- Reducing new outpatient attendances, follow up attendances, elective and emergency admissions in a staged way to achieve best decile performance in most areas in 4 years time.
- Reducing procedures of limited clinical value,

- More rigorous validation of charges with input from Humana who have a contract to do similar work for other East of England PCTs.

4.7 These changes are driven by the desire to provide some healthcare closer to home and the need to reduce expenditure overall. Whilst the financial pressures on the PCT are understood, the practical plans to deliver these changes are still embryonic and are unlikely to be in place from the start of April. Therefore it is unlikely that the full reduction planned by the PCT will be achieved next year. Discussions have started with the PCT to determine realistic levels of activity by specialty.

Other income

4.8 The assumption is that an efficiency gain equivalent to inflation, ie 3.5%, will be required on all other income.

5. Expenditure

5.1 The budget setting process is underway and a key part of that is the review of cost pressures flagged up by divisions. A process has been started to do this. An important part of this is an assessment of capacity, especially in theatres and outpatients, to ensure that there is sufficient capacity to meet expected activity levels whilst also achieving a high level of productivity.

5.2 Trust expenditure plans have to provide £1m for the full year costs of the Acute Admissions Unit (AAU), a large part of this relates to the costs of maintaining equipment.

5.3 The IBP contains savings plans totalling £9.8m, these are being worked on to develop project plans to aid implementation and to identify any variations from the original list. In addition, to this £2m of non recurrent savings in the current year need to be replaced by other measures.

6. Further savings required

6.1 In order to achieve the planned £6.6m surplus, and reflecting the factors outlined above, the Trust will need to identify further savings above those in the IBP because:

- There were non recurrent savings and also non recurrent income in 2009/10 totalling c£4m
- Additional costs of the AAU and some new cost pressures that have been flagged up
- The PCT intends to reduce the volume of service it commissions from the Trust

Clearly this will be a challenging task and one that will face all NHS organisations in 2010/11.

7. Working capital and liquidity

7.1 This is a key factor as the Trust has, as a minimum, to achieve a level of liquidity sufficient to cover 10 days requirements ie c £6.6m. As identified above spend needs to be reduced in the last months of 2010/11 to achieve this.

8. Capital

8.1 It is anticipated that the capital programme will be contained within the depreciation charge, currently estimated at £8.6m, but this may come down further when assets are valued at the end of this year. Spending proposals need to be prioritised within this sum. A reduction in spend would assist with liquidity.

9. Risks to be managed

9.1 The main risks to be managed as part of the financial planning process are: liquidity, uncertainty about activity levels and matching the capacity required to meet them, control of costs and the impact of invoice challenges from PCTs.

10. Summary

10.1 The Board is asked to note the current position on financial planning and the issues to be addressed. A further progress report will be provided in February in advance of the Board agreeing the budget for 2010/11 at the March meeting.

Anna Anderson
Finance Director
20 January 2010