

# **West Hertfordshire Hospitals NHS Trust**

## **Agenda 35/10**

### **Finance Report**

#### **Period 11**

#### **February 2010**

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Narrative report

Appendices

**Presented by**

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Director of Finance  
16 March 2010**

# Financial Overview as at 28 February 2010

## Summary

## Income & Expenditure

## Balance Sheet

### Year To Date Income & Expenditure

£m	Plan	Actual	Variance
Surplus / (deficit)	2.4	4.0	1.6

### Forecast Income & Expenditure

£m	Plan	Actual	Variance
Surplus / (deficit)	4.6	5.2	0.6

### Risks & Assumptions

**Risks:** Shortfall against planned savings.  
Continued overspend against budget.  
Income overperformance may not continue.

**Assumptions:** The whole of the benefit of the revaluation exercise, dividends and depreciation, will be used to deliver the plan.

### SHA

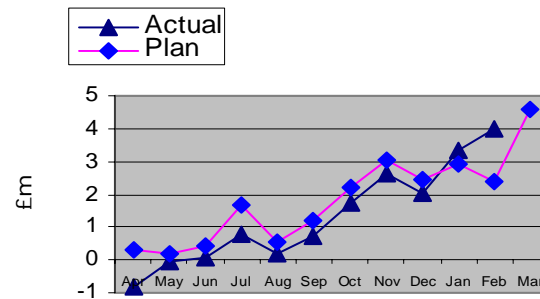
YTD	Forecast
3	3

### Monitor

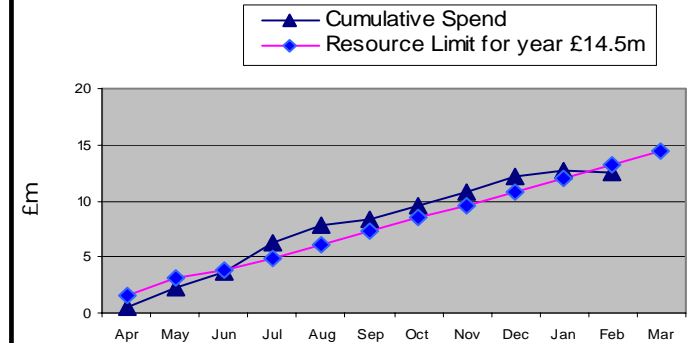
YTD	Forecast
2	2

**Financial Risk Rating**

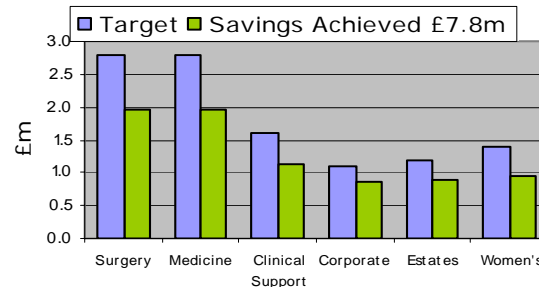
### Cumulative Surplus Income & Expenditure 2009/10



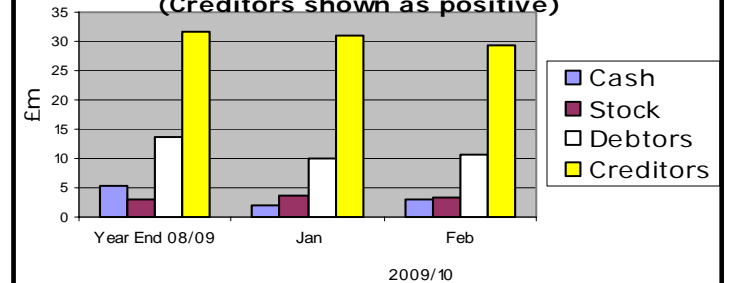
### Capital Expenditure



### Trust Savings 2009/10



### Analysis of Cash, Debtors & Creditors (Creditors shown as positive)



### Staffing

	Plan	Actual	Variance	
WTE	3,778	3,484	294	8%

### Activity

	Plan	Actual	Variance	
Elective	31,112	33,523	2,411	8%
Non-elective	38,267	40,577	2,310	6%
Outpatient	312,060	339,138	27,078	9%

### Variance By Division - Adjusted for Activity

£'000	YTD (£m)	% Budget
Medicine	(2.1)	(4.4)
Surgery	(1.2)	(2.7)
Women's	(0.8)	(3.7)
Clinical Support	0.2	0.8
Estates & Facilities	(0.3)	(1.9)
Income / Other	5.4	3.0
Corporate	0.4	1.6
<b>Total Variance</b>	<b>1.6</b>	

### Cumulative Better Payment Performance

	M11	Avg M1 - M11	Target	Cumulative Variance
By Value	73%	76%	95%	(19)%
By No	84%	77%	95%	(18)%
Trade Debtor Days		10		
Trade Creditor Days		21		

## Introduction

At Month 11, the financial position is a surplus of £1.6m compared to budget. This is an improvement of £1.2m compared to Month 10.

The material variances are: a gain from £4.2m increased income, use of £2.5m of the depreciation gain and £2.2m from lower dividend payments as a result of the revaluation exercise, which are partially offset by an overspend of £7.1m on pay and non-pay, including reserves, and an overspend of £0.2m on interest.

Overspends are mainly due to:

- Overspends in Surgery Division – theatre staff, medical locums, prostheses, medical and surgical supplies and equipment (£4.5m)
- Higher spend than budgeted for medical staff (£0.4m)
- The cost of agency midwifery staff (£1.8m).

Based on current Income and Expenditure performance, the Trust is forecasting a surplus of £5.2m. This is an increase of £0.2m compared to January and reflects the current assessment of trends to the end of March. However delivery of this target will require:

- Continued management of spend
- Full use of the revaluation benefit.

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 February 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	228.4	232.6	4.2	250.9	255.5	4.6
Expenditure	(226.1)	(228.7)	(2.6)	(246.3)	(250.3)	(4.0)
Surplus (Deficit)	2.3	3.9	1.6	4.6	5.2	0.6

Table 1

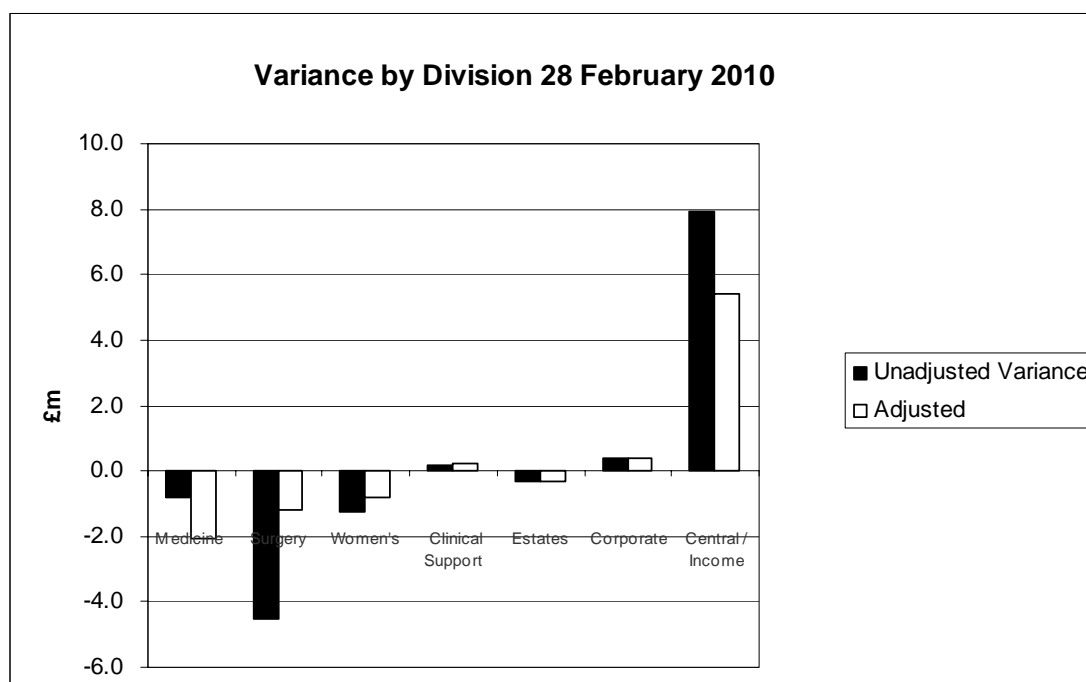
## Key Issues

- 1.2** At month 11, contract income shows over performance compared to plan of £3.0m. This is linked to levels of elective and non-elective admissions and outpatient referrals. The contract income position has improved partly due to “catch up” of work which was postponed in January due to adverse weather conditions. 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 February are £2.7m 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 continues to overspend as the department completes the induction process required for newly recruited staff.
- 1.6** 10.4% of the Trust's February staff costs represented overtime, agency or bank staff usage. This remains high and there is no evidence that agency staff usage is reducing despite recruitment to posts over the year. Appendices 2 and 5 give more information on staff costs.
- 1.7** Overall, non-pay is overspent by £4.9m. Significant variances are:
- £0.8m overspend on surgical outsourcing to achieve waiting time targets
  - £0.9m on high cost drugs. This is offset by the recovery of income for specialist drugs.
  - £1.4m on medical and surgical supplies in theatres and cardiology
  - £0.3m on consultancy services
  - £0.5m 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 February 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 £1.5m. The run rate in February was £0.3m positive.
- 1.10** The 2009/10 forecast relies to a significant extent on unplanned support to offset expenditure overspends:

	£m	£m
<b>Budgeted Surplus 09/10</b>		<b>4.6</b>
<b>Benefits not in the original plan</b>		
Single Sex Accommodation	1.2	Support for budgeted works
Reduction in Depreciation	2.8	Arising from revaluation
Reduction in Dividends Payable	2.6	Arising from revaluation
Over Performance Income	3.4	Activity in excess of budget
<b>Total Benefits</b>		<b>10.0</b>
<b>Offset by</b>		
Pay Overspend	(2.6)	Spend in excess of budget
Non-pay Overspend	(6.7)	Spend in excess of budget
Interest Overspend	(0.2)	Spend in excess of budget
<b>Total Spend Offset</b>		<b>(9.4)</b>
<b>Forecast Surplus 09/10</b>		<b>5.2</b>

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 was based on budgeted depreciation. So on its own the depreciation change worsens the balance sheet position.

The Trust Board is asked to note that steps have been taken to reduce spend:

- in order to improve the Trust's liquidity (cash position)
- in order to prepare the Trust for the next financial year.

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 are being 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 and forecast rating of "2" using the Monitor rating. This reflects the Trust's liquidity position in 2008/09.
- 1.13** Looking forward, the rating for 2010/11 is forecast to reflect a stronger liquidity position, due to an the assumption of a higher level of working capital facility and the increased surplus planned for 2009/10.
- 1.14** The Trust's current and forecast SHA rating remains at "3" in February.

## 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	222.7	226.1	3.4
Other Income	28.2	29.5	1.3
Pay	(154.3)	(156.9)	(2.6)
Non-Pay	(70.7)	(75.7)	(5.0)
Reserves	(0.5)	(2.1)	(1.6)
<b>EBITDA</b>	<b>25.4</b>	<b>20.8</b>	<b>(4.6)</b>
Depreciation	(11.4)	(8.6)	2.8
Dividend	(7.8)	(5.2)	2.6
Interest	(1.6)	(1.7)	(0.1)
<b>(Over)/ Under spend</b>	<b>4.6</b>	<b>5.2</b>	<b>0.6</b>

Table 3

- 2.2 March activity has been forecast in line with historic activity patterns. The financial surplus is forecast to improve in March reflecting the profile of forecast income and seasonally driven non-pay.
- 2.3 To date, the Trust has achieved savings of £7.8m. This is in line with the planned phasing of savings schemes. The forecast assumes that £8.8m is achieved by the end of the year.

### **3 Better Payment Practice Code (BPPC)**

- 3.1 Cumulatively, the Trust has paid 76% of invoices on time at the end of February. This is a slight improvement compared to the previous month. Further improvement will be dependent on improvements to the overall liquidity position.
- 3.2 The payment target for Small and Medium Enterprises (SMEs) is 80% of invoices payable within 10 working days. The Trust paid 53% of February SME invoices within 10 days. This is an improvement compared to January. The Trust continues to implement its action plan to improve performance against this target.

### **4 Financial Accounting**

- 4.1 A statement summarising the cash effect of 2009/10 operating activities is set out in Appendix 10. At 28 February, the Trust's cash balance is £2.8m. The opening, current and forecast Statement of Financial Position (Balance Sheet) as at 28 February is set out in Appendix 11.
- 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.
- 4.3 The Trust has received a £7m working capital loan in mid March. This will support the Trust's cash position and should enable the Trust to maintain its BPPC performance.

### **5 Capital Spending**

- 5.1 Capital spend to the end of February totalled £12.6m. A summary of capital expenditure is set out in Appendix 12. Spend for the year is forecast to be in line with the revised plan.
- 5.2 The capital budget has been slightly revised from £14.6m to £14.5m to reflect a revision to forecast depreciation.

### **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
Revaluation benefit	£5.2m	The whole of the benefit of the revaluation exercise, dividends and depreciation, will be used to deliver the plan.	Yes
Forecast outturn income	£0.4m	Forecasts have been based on current levels of activity over performance.	Yes

Table 4

## **7 The Big Ask – Savings Target 2010/11**

- 7.1** As set out in the Budget Setting paper, the Trust will need to deliver significant savings in 2010/11, currently estimated at £21m based on the Trust's activity proposals to the PCT. Hertfordshire PCTs have offered a lower level of funding.
- 7.2** The Trust has set up a project team, lead by Sarah Wiles, Director of Planning, with Russell Harrison, the Director of Delivery, and Anna Anderson, Director of Finance, to drive and co-ordinate a savings plan to deliver these savings in 2010/11 and beyond. The Trust will continue to use the "Gateway" process to ensure that savings proposals are backed with clear delivery plans and do not cause service quality to deteriorate.
- 7.3** Meetings have been held with staff at different levels across the Trust to identify ideas and an online "suggestion box" has been set up. Ideas to the value of £18m are currently being developed.
- 7.4** The Board is asked to note the scale of the challenge for delivering savings next year. The quantum of savings required is in excess of twice the forecast 2009/10 amount. In addition, many of the savings schemes are complex and will require detailed project management.

## **8 Conclusion**

- 8.1** At 28 February, the Trust has a positive variance compared to budget of £1.6m.
- 8.2** The Trust expects to achieve a year end surplus of £5.2m which is £0.6m above target. The focus now needs to be on ensuring that this is achieved and on finalising plans for the new financial year.
- 8.3** The Trust Board is asked to note this report and raise any comments for discussion.

**Anna Anderson**  
**Director of Finance**  
**16 March 2010**