West Hertfordshire Hospitals NHS Trust

Finance Report Month 5 (August) 2010/11

Key Financial Indicators

	Year to Date (Month 5)		Page
		RAG rating compared to plan	
Financial performance	Actual surplus £2.8m below plan	R	2
Monitor Financial Risk Rating	3	A	8
CIP performance	£4.9m delivered; £1.9m behind plan	R	3
Liquidity (Net Current Liabilities)	£6.9m	A	6

Commentary

The planned surplus to the end of Month 5 is £3.7m. An actual surplus of £0.9m has been delivered, giving a shortfall against plan of £2.8m. This is a deterioration of £0.4m against the month 4 deficit of £2.4m.

The cash balance at the end of month 5 is £5.6m and the Trust will be able to meet its loan repayments due in September.

Pay is overspent due to the continued use of high cost temporary staff in theatres and midwifery. Clinical non-pay costs continue to run above budget mainly due to drugs (for which there is some offsetting of income for high cost drugs) and medical and surgical consumables. “Big Ask” savings are running £1.9m behind plan year to date (£1.7m at M4) and the annual total of green schemes is £9.1m (£7.95m at M4) against the target of £19.3m.

Clearly a further deterioration in the financial position makes the achievement of the year end surplus target of £8.1m even more challenging. However the Trust must achieve this in order to meet the agreed plan and to generate sufficient cash to meet loan repayments and payments to staff and creditors. Failure to deliver this would put the Foundation Trust application at risk. During August some additional central controls have been added to contain spending. These include a list of prohibited non clinical non pay spend items and a Director led Vacancy Approval Panel reviewing all posts prior to advert. For the Big Ask, Director leadership of key planned savings which have not yet delivered to plan has been strengthened.

A detailed forecast out turn exercise has been undertaken, based on the August figures, with each budget holder. This will be used to inform the Board of the likely out turn position and the scale of further actions needed. Discussions with NHS Hertfordshire are taking place to ensure that any risks relating to the level of contract income are known early and enable the Trust to take action if demand is reduced / capped or activity is challenged.

The Trust has to report on financial performance to the SHA through the FIMS process and a number of assumptions about the profiling of income and expenditure have changed since the FIMS plan was submitted. Currently the Trust’s adverse variance from the FIMS plan is some £2m less than what is reported internally. Discussions on month end performance with the SHA now include references to both internal and FIMS figures.

Anna Anderson, Finance Director

West Hertfordshire Hospitals NHS Trust

Statement of Comprehensive Income (Income & Expenditure)[1] for the period 1 April 2010 to 31 August 2010

Annual Plan £'000		Budget to Date £'000	Actuals to Date £'000	Variance[2] £'000	Variance %
	NHS Acute Activity Revenue				
48,063	Elective revenue (long and short stay)	20,354	19,717	(637)	(3.1)
79,130	Non-Elective revenue	32,889	32,584	(305)	(0.9)
19,082	Outpatient	21,259	21,964	705	3.3
8,769	A&E	3,642	3,804	162	4.4
68,720	Other NHS	16,344	17,158	814	5.0
223,764	NHS Clinical Revenue, Total	**94,488**	**95,227**	**741**	0.8
	Non NHS Clinical Revenue				
2,320	Private patient revenue	964	1,057	93	9.6
2,320	Non NHS Clinical Revenue, Total	**964**	**1,057**	**93**	**9.6**
	Other Operating income				
8,682	Education and Training income	3,632	3,640	8	0.2
17,442	Other Operating Income	6,908	7,161	253	3.7
26,124	Other Operating income, Total	**10,540**	**10,801**	**261**	**2.5**
252,208	**Operating Revenue and Income, Total**	**105,992**	**107,085**	**1,093**	**1.0**
	Operating Expenses				
161,905	Employee benefits expense	66,869	68,116	(1,247)	(1.9)
12,267	Drug expense	5,111	5,843	(732)	(14.3)
22,983	Clinical supplies	9,281	9,672	(391)	(4.2)
25,773	Non Clinical Supplies	10,634	10,695	(61)	(0.6)
17,587	Other Operating expenses	6,555	6,084	471	7.2
240,515	**Operating Expenses, Total**	**98,450**	**100,410**	**(1,960)**	**(2.0)**
10,190	**Savings yet to be finalised**	1,871		(1,871)	(100.0)
	EBITDA				
21,883	*Surplus (Deficit) from Operations margin*	9,413	6,675	(2,738)	(29.1)
	Non-Operating expenses				
1,570	Interest	654	700	(46)	(7.0)
8,611	Depreciation and Amortisation	3,587	3,587	0	0.0
3,600	PDC Dividend	1,500	1,500	0	0.0
13,781	**Non-Operating expenses, Total**	5,741	5,787	(46)	(0.8)
8,100	**Surplus/(Deficit)**	3,672	886	(2,786)	
	Net margin				
	Analysed by Division[3]				
51,882	Medicine	21,886	22,065	(179)	(0.8)
48,884	Surgery	20,386	22,147	(1,761)	(8.6)
26,164	Women's	10,900	11,094	(194)	(1.8)
27,577	Clinical Support	11,541	11,317	224	1.9
17,472	Estate & Facilities	7,170	8,297	(1,127)	(15.7)
26,154	Corporate	10,925	11,619	(694)	(6.4)
(219,760)	Central Income	(92,737)	(92,950)	213	0.2
13,526	Other	6,257	5,525	732	11.7
(8,100)		(3,672)	(886)	(2,786)	

Income and Spend Variances

Clinical income year to date exceeds plan by £0.7m. As in Month 4, elective income is below plan. Key specialties where income is below plan are: general surgery, paediatrics, urology and cardiology. This is linked to lower activity levels. Non-elective income is lower than planned due to a less intensive casemix.

The main areas of income over recovery relate to: first outpatient attendances, critical care and high cost drugs. There is still a risk of income loss due to PCT challenge, late coding of activity, and administrative issues relating to low priority treatments.

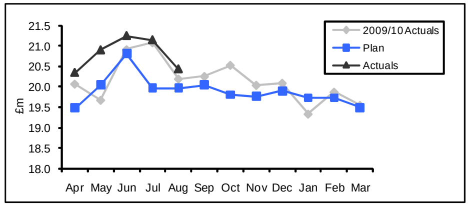
Use of high cost agency staff continues to exceed the budget available from vacant posts. Staffing is discussed more fully on page 5. £0.42m of the overspend on drugs relates to high cost drugs which is offset by income from NHS Hertfordshire.

"Big Ask" savings are £1.9m behind plan year to date. Fortnightly meetings are taking place with each division to ensure savings schemes are fully worked up, delivered and divisional targets are met.

Performance by Contract

	Year to date Actual £'000	Year to date Variance £'000
NHS Harrow	1,512	70
NHS Hertfordshire	88,324	793
NHS Hillingdon	2,295	118
Other Primary Care Trusts	2,188	(113)
Non-Contract Activity	908	(127)
	95,227	741

Actual Spend compared to Plan



Divisional Positions

The divisional analysis shows concerns in four divisions.

The Surgical division, which was funded for 2010/11 at 2009/10 outturn, has overspent by £1.8m in the 5 months to the end of August. A plan has been agreed to address some aspects of the theatres overspend. Further actions are being developed to address other issues in the division.

For the Women's & Children's division, the main issues are an overspend on midwifery pay, and also an under recovery on private patient income. Plans are being developed to reduce the use of agency staff through overseas recruitment and other measures.

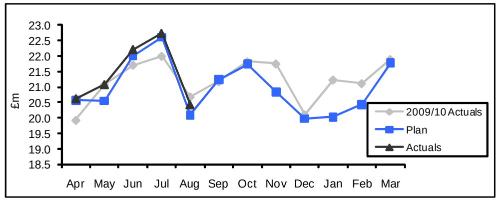
The main issue for Estates & Facilities and the Corporate divisions is the non-delivery of savings schemes.

All divisions with adverse variances will continue to attend monthly PMO performance management meetings to discuss the variances and agree the actions required to turn around the situation.

SLA Income Variances by Division

	£'000	%
Medicine	(523)	(2.0)
Surgery	812	3.0
Women's	(148)	(0.9)
Clinical Support	(75)	(1.8)
High Cost Drugs	414	19.8
Other	261	20.6
	741	

Actual Income compared to Plan

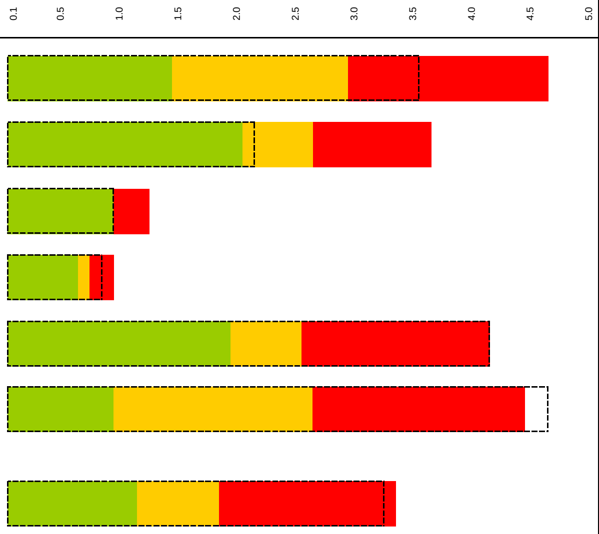


[1] Red, greater than 1% variance from budget or greater than £0.5m negative variance; Amber negative variance of less than 1% or £0.5m. Variances less than £0.1m will not be highlighted as they are less material.
[2] A negative variance (shown in brackets) denotes an under recovery of income or an overspend compared to plan
[3] Divisional variances exclude SLA income variances, which are shown under "Central Income"

West Hertfordshire Hospitals NHS Trust

Delivery of Big Ask Savings

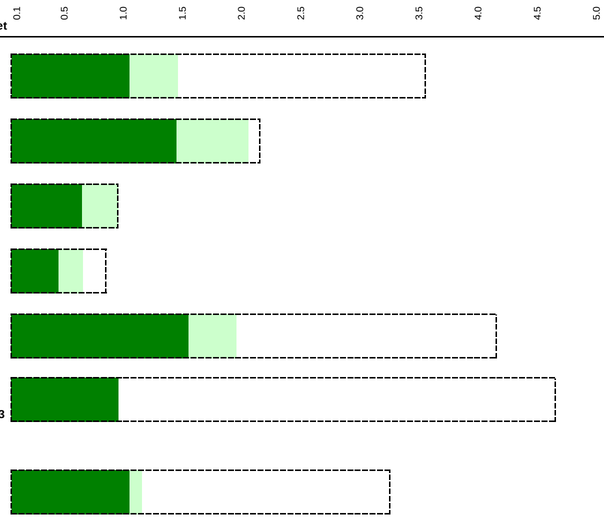
Divisional Savings Plans by Risk Rating as at 31st August 2010



Division	£'m Target	£'m Planned Gateway 3	£'m Planned Gateway 2	£'m Planned Gateway 1
Surgery	3.5	1.46	1.51	1.71
Medicine	2.1	2.03	0.66	0.94
Clinical Support	0.9	0.93		0.29
Women's & Children	0.8	0.62	0.09	0.26
Corporate	4.15	1.96	0.56	1.60
Trust wide	4.63	0.96	1.68	1.80
Estates & Facilities	3.19	1.14	0.74	1.48
Total Target	19.3	9.10	5.22	8.08

KEY: TARGET, GATEWAY 3, GATEWAY 2, GATEWAY 1

Finalised Savings Plans as at 31st August 2010



Division	£'m Target	£'m Big Ask savings	£'m Vacancy Savings
Surgery	3.5	1.03	0.43
Medicine	2.1	1.46	0.57
Clinical Support	0.9	0.62	0.31
Women's & Children	0.8	0.40	0.22
Corporate	4.15	1.55	0.41
Trust wide	4.63	0.96	0.00
Estates & Facilities	3.19	1.07	0.07
Total Target	19.3	7.07	2.02

KEY: TARGET, Vacancy savings, Big Ask savings

The "Big Ask" target remains at £19.30m. The "Divisional Savings Plan" table shows the current value of schemes and their Gateway rating. Gateway 3 (Green) schemes have been fully implemented. Gateway 2 (Amber) schemes are being developed. Gateway 1 (Red) schemes are being scoped.

Plans total £22.40m. Divisions continue to identify new schemes and it is good practice to identify contingency schemes at a value above the target to cover any shortfall or delay in starting schemes.

The "Finalised Savings Plan" shows the value of all Gateway 3 schemes, which is £9.10m at the end of month 5 (compared to £7.95m at month 4), and includes the £2.02m vacancy savings taken in months 1 to 5.

£4.94m of savings have been delivered in Months 1 to 5.

Divisional savings positions continue to be reviewed fortnightly, alongside a monthly Big Ask Management Board meeting, which is attended by all directors and divisions.

West Hertfordshire Hospitals NHS
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Activity and Income by Division for the five months ended 31 August 2010

Income by Division

Division	Inpatient Budget Spell	Inpatient Actuals Spell	Inpatient Variance Spell	Inpatient Variance (£'000)	Outpatient Budget Attendance	Outpatient Actuals Attendance	Outpatient Variance Attendance	Outpatient Variance (£'000)	A&E Budget Attendance	A&E Actuals Attendance	A&E Variance Attendance	A&E Variance (£'000)	Other Variance (£'000)	Total Variance (£'000)
Medicine	11,524	11,689	165	(667)	53,221	53,494	273	2	29,708	30,887	1,179	138	4	(523)
Surgery	10,721	11,044	323	63	61,571	66,678	5,107	491			0		256	812
Women's	10,628	10,657	29	(339)	46,562	49,173	2,611	215	8,590	8,613	23	24	(48)	(148)
Clinical Support													(75)	(75)
High Cost Drugs													414	414
Other													261	261
Total	**32,873**	**33,390**	**517**	**(943)**	**161,354**	**169,345**	**7,991**	**708**	**38,298**	**39,500**	**1,202**	**162**	**812**	**741**

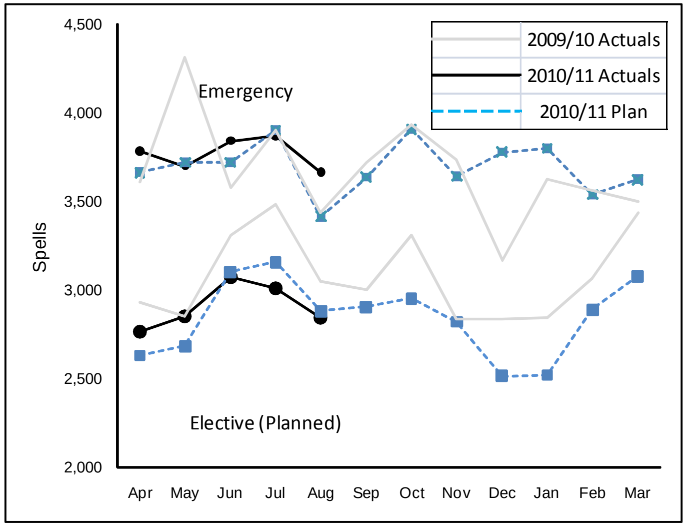
Analysis of variances

Income from elective activity is £0.6m below plan. This is linked to activity levels. Key speciaties which are underperforming are: urology, general surgery and paediatrics.

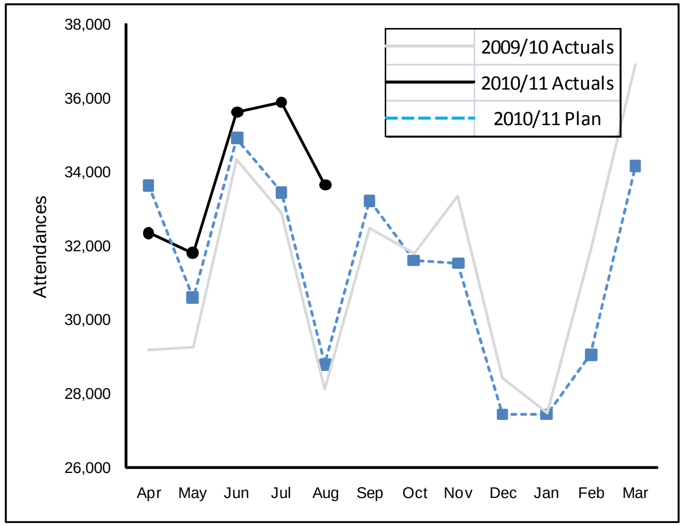
Emergency activity is higher than planned however, due to the 30% marginal value in the contract for overperformance, income is below plan by £0.3m.

Outpatient first appointments continue to be over plan, especially in general surgery, ophthalmology and orthopaedics.

2010/11 Inpatient Activity Actuals compared to Plan



2010/11 Outpatient Activity Actuals compared to Plan

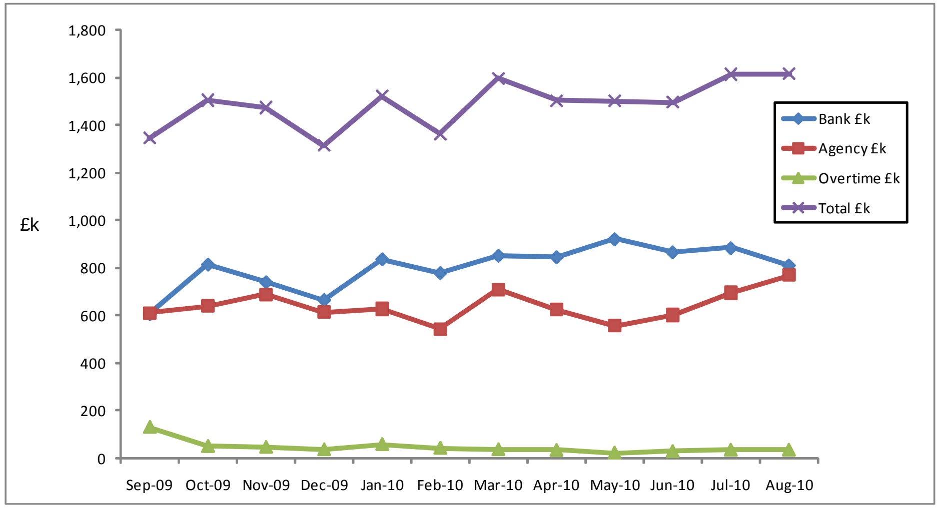


Workforce spend and Whole Time Equivalents for the five months ended 31 August 2010

Divisional Pay Spend compared to Budget

Division	Permanent Staff £'000	Bank £'000	Agency £'000	Total Staff Costs £'000	Budget £'000	Variance £'000	Budget WTE	Actuals WTE	Variance WTE
Medicine	16,881	1,595	574	19,050	18,750	(300)	1,045.7	1,057.5	(11.8)
Surgery	15,526	843	1,139	17,508	16,762	(746)	836.9	830.6	6.3
Women's	8,936	779	1,025	10,740	10,513	(227)	548.4	503.3	45.1
Clinical Supp.	9,843	72	382	10,297	10,271	(26)	582.5	551.0	31.5
Estates	1,419	15	13	1,447	1,430	(17)	94.9	89.8	5.0
Corporate	8,713	320	99	9,074	9,144	70	625.6	600.9	24.7
Total	**61,318**	**3,624**	**3,232**	**68,116**	**66,870**	**(1,246)**	**3,733.9**	**3,633.1**	**100.8**

Temporary staffing spend on a 12 month rolling period



Analysis of Pay Variances

Whole Time Equivalent (WTE) actuals include estimated hours for agency staff. WTE worked is lower than budgeted due to vacancies across the Trust.

Spend has exceeded budget due to the premium costs of paying for agency staff and for additional clinics and sessions.

This is especially concerning because total spend on temporary staffing appears to be on an increasing trend. Use of agency midwives and theatres staff remains a key area of concern.

A working group of senior medical staff has been established to review the use of locum medical staffing.

West Hertfordshire Hospitals NHS
NHS Trust

Cash and Capital Management

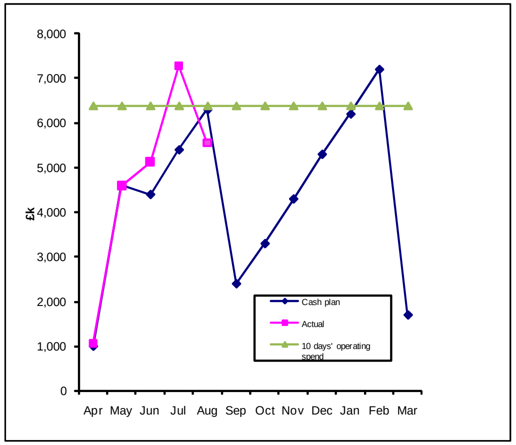
Cash Balance

	£m
Opening balance 01/04/10	1.8
Surplus to 31/08/10	0.8
Cash received ahead of activity	1.1
Movement in working capital	0.5
Capital spend	(2.2)
Depreciation	3.6
	5.6

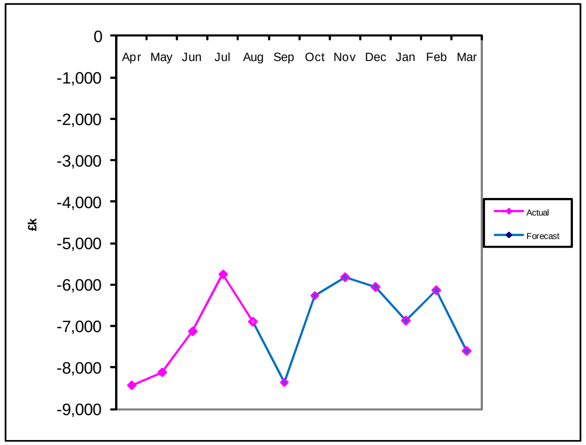
BPPC Performance[4]

	M1 - 5 Actuals	Target	Cumulative Variance
By number of invoices	87%	95%	-9%
By value of invoices	82%	95%	-16%

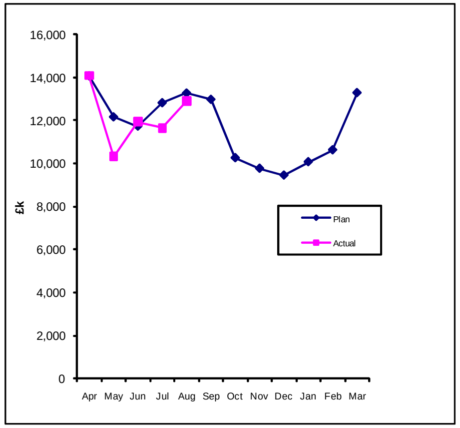
Cash Balances



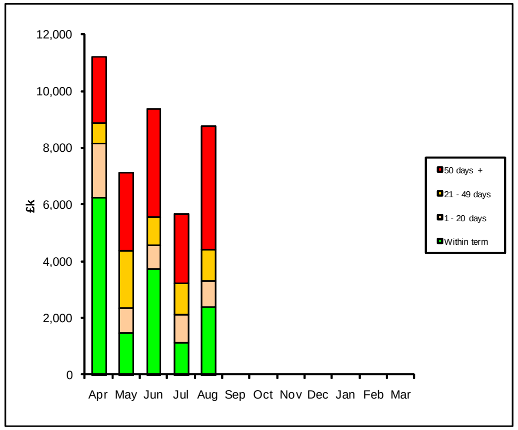
Liquidity as measured by Net Current Liabilities



Receivables against Plan



NHS and Trade Receivables by Age Profile



Capital Programme

	Opening Full Year Budget	Revised Full Year Budget	Revised Budget to 31 August 2010	Actuals to 31 August 2010	Variance from Revised Budget
	£m	£m	£m	£m	£m
Estates	3.7	3.23	2.05	0.98	1.07
Decontamination	1.9	1.56	1.32	0.03	1.29
Information Technology	3.3	3.38	0.54	0.87	-0.33
Equipment	0.5	0.57	0.10	0.27	-0.17
Other schemes	1.0	0.62	-	-	-
Expected slippage	-1.8	-0.76	-	-	-
Total	**8.60**	**8.60**	**4.01**	**2.15**	**1.85**

Liquidity / cash - The cash balances graph shows: i) actual cash balance at the end of each month ii) planned month end balances as reported to the Board as part of the May financial position, except the March figure, this has been adjusted from nil to £1.7m and iii) the level of cash to cover 10 days of operating expenditure. Cash balances are manageable provided the Trust delivers its Income and Expenditure (I&E) plan. Contingency actions to manage cash in the event of an I&E shortfall have been reviewed by the Finance Committee.

Net Current Liabilities - this shows the extent to which the payables due within a year exceed the value of the Trust's cash, inventories (stocks) and receivables. If the Trust does not achieve its planned surplus, the Trust's net current liabilities will increase, so worsening the Trust's liquidity.

Receivables - have increased as income accruals were invoiced in month 5.

Capital - at the end of Month 5, capital spend is £1.9m below plan. Three large projects: decontamination compliance, a new pathology computer system, and theatres refurbishment have slipped by a few months from the timetable envisaged but are expected to be complete by the end of the financial year. The revised full year budget allocates £1m of slippage against elements of the programme. Outturn is forecast in line with the available funding of £8.6m.

[4]Under the Better Practice Payment Code, the Trust has a duty to pay 95% of its invoices within 30 working days of receipt.

Statement of Financial Position (Balance Sheet)

	Opening Bal as at 01 Apr 2010	Actual as at 31 August 2010	Forecast as at 31 Mar 2011
Non Current Assets			
Property Plantand Equipment	131,615	130,642	135,479
Intangible Assets	3,325	2,985	3,352
Trade and Other Receivables	1,575	1,803	1,758
Total non current assets	**136,515**	**135,430**	**140,589**
Current assets			
Inventories	3,530	3,969	3,530
Trade and Other Receivables	5,835	8,544	5,835
Other Assets	7,471	4,346	7,471
Cash and Cash equivalents	1,776	5,556	1,700
Total current assets	**18,612**	**22,415**	**18,536**
Non Current Assets held for sale	**260**	**0**	**0**
Total Non current assets	**18,872**	**22,415**	**18,536**
Total Assets	**155,387**	**157,845**	**159,125**
Current liabilities (amounts due in less than one year)			
NHS Trade Payables	2,102	3,659	2,116
Non NHS Trade Payables	8,173	8,174	8,786
Other Liabilities	10,505	10,507	8,273
DH Working Capital Loan Principal Repayments	3,640	3,640	3,640
DH Capital Loan Principal Repayments	2,772	2,772	2,772
Provisions for Liabilities and Charges	550	556	549
Total current liabilities	**27,742**	**29,308**	**26,136**
Net current assets (liabilities)	**(8,870)**	**(6,893)**	**(7,600)**
Total assets less current liabilities	**127,645**	**128,537**	**132,989**
Non Current Liabilities (Due > 1 Year)			
DH Working Capital Loan Principal Repayments	7,840	7,840	4,200
DH Capital Loan Principal Repayments	19,395	19,395	16,623
Provisions for liabilities and charges	5,430	5,397	5,161
Total Non current liabilities	**32,665**	**32,632**	**25,984**
Total assets employed	**94,980**	**95,905**	**107,005**
Financed by Taxpayers Equity			
Public Dividend Capital	173,668	173,668	173,668
Retained Earnings	(100,168)	(98,985)	(91,784)
Revaluation reserve	20,545	20,372	24,295
Donated asset reserve	935	850	826
Total funds employed	**94,980**	**95,905**	**107,005**

Intangible assets mainly relate to computer system development. The reduction between 1 April 2010 and 31 August 2010 reflects depreciation. The increase to 31 March 2011 is the forecast additions, mainly the new pathology system.

The movement in inventories relates to cardiology consumables. Inventory levels are forecast to return to March 2010 levels by the end of the year. An increase in inventories deteriorates the Trust's liquidity but does not affect spending until the inventory is used.

Trade and Other Receivables relate to invoices raised by the Trust but not yet paid. Other assets relate to income accrued but not yet invoiced. The levels of these two are similar across the year although at certain times the level of invoices raised increases, as is the case at 31 August 2010.

Cash balances are in line with plan but supported by £3m from NHS Hertfordshire as a result of the payments for the Trust's main contract being phased differently to the activity to which it relates.

NHS trade payables have increased due to the Trust building up an accrual in respect of the Trust's dividend due for payment in mid September.

Other Liabilities are forecast to reduce at year end due to reduced capital accruals.

Financial Risk Ratings[5]

Monitor

Financial Risk Ratings — Month: *Aug-10*

Criteria	Metric	Weight	5	4	3	2	1	Risk rating ytd	Forecast rating 10/11
Underlying performance	EBITDA margin %	25%	11	9	5	1	<1	3	3
Achievement of plan	EBITDA achieved %	10%	100	85	70	50	<50	4	4
Financial efficiency	Return on assets %	20%	6	5	3	2	<-2	5	5
	I&E surplus margin %	20%	3	2	1	-2	<-2	2	5
Liquidity	Liquid ratio days	25%	60	25	15	10	<10	2	2
Average								3.05	3.65
Overriding rules	Overriding rules							3	3
Overall rating	Overall rating							3	3

SHA

Financial Risk Ratings — Month: *Aug-10*

Criteria	Metric	Weight	5	4	3	2	1	Annual Plan rating10/11	*Actual YTD* Score 10/11	*Actual YTD* Risk ratings 10/11	*Full year outturn forecast* Score 10/11	*Full year outturn forecast* Risk ratings 10/11
Underlying performance	EBITDA margin %	25%	11	9	5	1	<1	3	5.5%	3	8.8%	3
Achievement of plan	EBITDA achieved %	10%	100	85	70	50	<50	5	57.1%	2	99.9%	4
Financial efficiency	Return on assets %	20%	6	5	3	2	<-2	5	11.9%	5	11.9%	5
	I&E surplus margin %	20%	3	2	1	-2	<-2	5	0.1%	2	3.2%	5
Liquidity	Liquid ratio days	25%	60	25	15	10	<10	3	21.3	3	21.3	3
Average								4.00		3.10		3.9
Overriding rules	Overriding rules	At least one criteria on Plan 1 or 2						0		3		0
Overall rating	Overall rating							4		3		4
	Additional Financial Risks									4		NO

On the Monitor ratios, the I&E surplus margin is "2" "concerning". This is lower than the "5" "good" planned for year-end because of the current deficit compared to plan. On the SHA ratings, EBITDA achieved and the I&E surplus margin rate are lower than planned for year-end, also because of the deficit.

As shown in the SHA table above, under "Additional Financial Risks", the East of England Strategic Health Authority (SHA) has revised its financial risk model to include consideration of a wider range of financial risks. The 4 financial risks flagged on the SHA return are: unplanned decreases in EBITDA margin in two consecutive quarters due to the I&E deficit against plan, cash balance less than 10 days operating expenses (£5.6m, which is £0.8m less than the £6.4m 10 days' spend), debtors more than 90 days old (36% at month 5) exceed 5% of the total debtor balance, and capital spend is lower than 75% of plan (54% at month 5). According to the SHA model, these risks do not currently rate as a material risk to the year-end position.

The Trust's performance is also measured using Department of Health ratios for NHS Trusts. Ratings are allocated on a scale of 1 to 3, with "1" being underperforming and "3" being "performing acceptably". In August the Trust had a rating of "3".

[5] **Monitor calculations for liquidity and EBITDA achieved are based on 2009/10 performance. The SHA ratings are based on 2010/11 for all ratings. Monitor also excludes the value of inventories (stocks) from the liquidity calculation.**