West Hertfordshire Hospitals NHS
NHS Trust

**Agenda Item: 93/13**

**Trust Board – 28 November 2013**

***Finance Report – Month 7***

**Presented by: Malcolm Dennett, Interim Director if Finance**

# 1. Purpose

1.1 To report on the month 7 financial position.

# 2. Overview

**Director of Finance's Message**

**Month 7 deficit against plan is £1.3m**

1 In month seven (October) the Trust delivered an in-month actual surplus of £0.5m; however, this is an adverse variance of £1.3m against plan. The £1.3m deficit against plan is due to a shortfall against the delivery of planned savings and pay and non-pay overspends.

**YTD the Trust has a deficit of £5.6m against plan**

2 The Trust has an actual deficit of £3.3m and a variance against plan of £5.6m. Key factors driving the deficit are £2.3m slippage against the phased savings target of £6.0m, i.e. 38% slippage, increased nursing costs due specialling, agency premium and surge (£1.0m) and medical pay overspends within Medicine and Surgery (£1.0m). There continues to be a cumulative over-performance on non-elective activity and under performance on elective which contributes to the adverse financial performance caused by application of the marginal tariff for non-elective activity above the baseline set.

**The Trust is revising the forecast for the year**

3 In the light of performance to date and forward projections, there is likely to be a significant forecast variance from plan. This is currently under discussion with the Board, CCG and TDA. A separate report detailing the Trust year end forecast will be issued subsequently on the outcome of those discussions.

**Savings plan concerns**

4 In October, £0.9m of savings was delivered against a plan of £1.7m. The year to date phased plan is £6.0m and actual performance shows a £2.3m (38%) slippage. More than 70% of the target is currently phased into the second half of the year and based on performance against savings plans in the first six months, there are serious concerns about the Trust's ability to deliver the £15m target. Increased focus is required to improve delivery against the target in the four months remaining.

**Cash holding**

5 The Trust cash balance at month end was £6.3m. This is lower than the 10 days'

**at month-end was £6.3m - 8 days' operating expenditure**

operating expenditure that Trusts are required to hold by the Department of Health. The Trust is in discussions with the Trust Development Authority (TDA) to manage its cash levels which will need to recognise the forecasting work currently being undertaken.

# Financial Overview as at 31 October 2013

### Month 7 Income & Expenditure

| £m | Plan | Actual | Variance |
|---|---|---|---|
| Surplus / (deficit) | 1.8 | 0.5 | (1.3) |

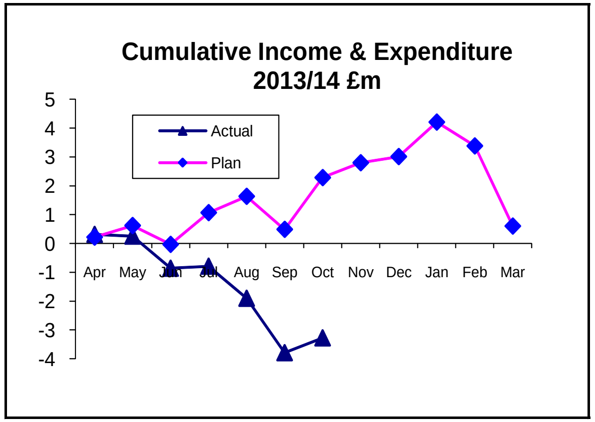
### YTD Income & Expenditure

| £m | Plan | Actual | Variance |
|---|---|---|---|
| Surplus / (deficit) | 2.3 | (3.3) | (5.6) |

### Statutory Duties

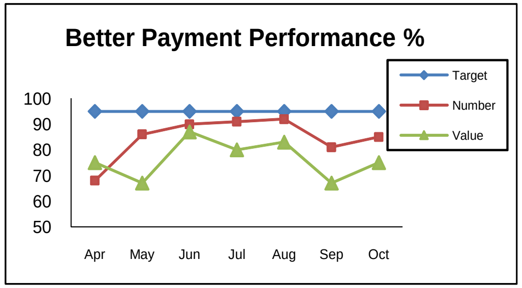
| | | |
|---|---|---|
| Breakeven | Significant concern given current position and impact of future projections. | R |
| CRL | The Trust is planning to manage capital spend within its allocated Capital Resource Limit. | G |
| EFL | The Trust is planning to manage spend within its External Financing Limit. | G |
| 10 Days' Cash | Cash holding equated to 8 day's operating spend. | R |
| BPPC | Month 7 performance - 85% by number and 75% by value (95% target) | R |

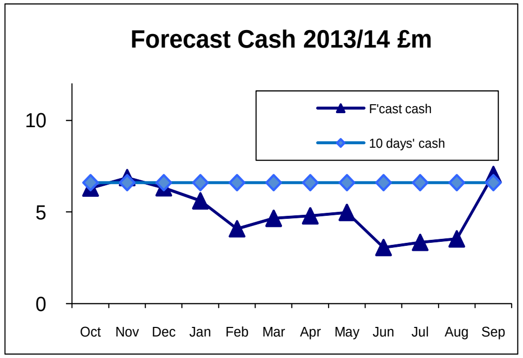
| | TDA | | Monitor | |
|---|---|---|---|---|
| | **YTD** | **Forecast** | **YTD** | **Forecast** |
| **Financial Risk Rating** | **1** | **2** | **2** | **2** |

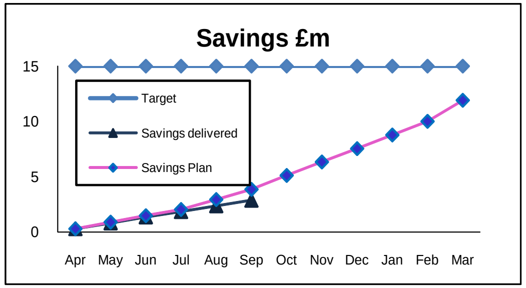



### YTD Variance by Division

| | £m | % Budget |
|---|---|---|
| Medicine | (2.01) | (17.1) |
| Surgery | (2.38) | (16.3) |
| Women's | (0.50) | (3.8) |
| Clinical Support | 0.00 | 0.0 |
| Estates & Facilities | (0.05) | (0.5) |
| Corporate | (0.13) | (0.1) |
| Income / Other | (0.49) | 11.1 |
| **Total** | **(5.56)** | |



### In-Month Performance

| | | |
|---|---|---|
| **Actual surplus of £0.5m - £1.3m worse than plan** | 6 | The Trust delivered an in month surplus of £0.5m and an adverse variance of £1.3m against plan. |
| **SLA Income £0.2m above plan** | 7 | Over performance in non-elective activity (£0.3m) and outpatients (£0.1) is partially offset by contract penalties (£0.2m). Non-elective over performance is mainly driven by two hundred additional non-elective discharges in Medicine Division for October, compared to the previous month. |
| **Other Income £0.3m above plan** | 8 | Other income is £0.3m above plan and includes £0.3m of non-recurrent transformation funding and £0.1m of additional rental income partially offset by under recovery against other historical income targets. |
| **Pay is overspent by £1.8m - £0.2m higher than September and £1.0m higher than Quarter 1** | 9 | Pay expenditure continues to increase, with the October pay bill being 7% (£1.0m) higher than the average for first quarter and £0.5m higher than average for second quarter. Specialling, activity pressures, delay in recruiting additional substantive staff following the review of ward staffing levels and agency premium are the key factors driving the pay overspend. Included in the pay variance is £0.4m slippage against savings plans and £0.4m of unidentified savings target. |
| **Non-Pay overspent by £0.3m** | 10 | Adverse non-pay variance of £0.3m is driven by £0.1m over spend on Drugs which is linked to activity and £0.2m against establishment costs such as recruitment fees, postage and printing services across the Trust. |
| **Financing charges – favourable variance of £0.3m** | 11 | Interest payable is £0.3m lower than plan because the Trust has not drawn down additional loans which were assumed in the original budget. |

### Year to Date Performance

| | | |
|---|---|---|
| **Year to date deficit of £3.3m; £5.6m adverse against plan** | 12 | The Trust reported a year to date actual deficit of £3.3m and an adverse variance of £5.6m against plan. The year to date position is mainly driven by underperformance against savings and expenditure above budgeted levels within nursing and medical pay and on drugs / clinical supplies. There continues to be a cumulative over-performance on non-elective activity and under performance on elective which contributes to the adverse financial performance caused by application of the marginal tariff for non-elective activity above the baseline set. |
| **YTD Income £1.1m above plan** | 13 | SLA income is £0.9m below plan. Elective underperformance of £0.9m and a £1.3m provision for contract penalties is offset by over performance in non-elective (£0.7m including A&E and critical care) and outpatient activity (£0.6m). Elective under performance is mainly in cardiology (£0.3m), orthopaedics (£0.3m), clinical haematology (£0.2m) |

and general surgery (£0.2m). The loss of elective capacity to non-elective has an adverse financial impact on the bottom line, as current tariff principles do not fully compensate the Trust for delivering non-elective activity. Impact of contract penalties and increased readmissions reflected on SLA income is offset by £2.1m of transformation funding.

**YTD Pay overspent by £5.0m – slippage against savings target of £2.0m**

14 Slippage on savings target of (£2.0m), specialling (£0.5m), medical pay (£1.0m) and theatres nursing (£0.9m) are the key drivers for the pay overspend. Also contributing to the pay position is the increased usage of agency staffing. This has increased from 6% of total staffing costs in April 2013 to 13% of total staffing costs in October 2013. Use of agency staffing results in additional costs to the Trust because of the premium paid.

**YTD Non-Pay overspent by £2.0m – overspend in MSSE is £0.7m**

15 The non-pay overspend includes drugs spend of £0.7m offset by income, clinical supplies overspend of £0.7m partly offset by over performance on income and a shortfall against the planned delivery of savings of £0.1m.

**Forecast**

**The Trust is Reviewing its forecast**

16 In the light of performance to date and forward projections, there is likely to be a significant forecast variance from plan. This is currently under discussion with the Board, CCG and TDA. A separate report detailing the Trust year end forecast will be issued subsequently on the outcome of the discussions.

**Savings**

**Year to date shortfall of £2.3m**

17 In October, £0.9m of savings was delivered against a plan of £1.3m giving an in month shortfall of £0.4m. Year to date, £3.7m has been delivered against a plan of £6.0m which gives a shortfall year to date of £2.3m. This represents 38% slippage against a lightly phased first seven months.

**Expected to deliver £7.6m of savings - only 50% of the target**

18 The Trust is currently forecasting to deliver £7.6m of savings against a target of £15m. This equates to only 50% of the target and less than 3% of its expenditure base. This is similar to the level of performance in the past two years, although 2011/12 reflected a higher savings achievement due to the level of vacancies held.

**Financial Risk Rating (FRR)**

**Ratios indicate serious concern**

19 Due to the liquidity and income and expenditure deficit positions, the Trust scores 2 on the Monitor rating and 1 on the Trust Development Authority rating year to date. This indicates that the Trust would, as a minimum, be on monthly reporting and could require performance management intervention.

| | YTD | Forecast |
|---|---|---|
| Monitor | 2 | 2 |
| Trust Development Authority | 1 | 2 |

**Ratios will be revised to reflect agreed forecast**

20 Forecast ratios currently reflect delivery of the planned surplus of £0.6m. This will be updated following discussion and agreement of the forecast outturn.

## Capital

**Capital plans now £30.7m**

26 Following confirmation by the Trust Development Authority of £14.8m Public Dividend Capital funding, including £12.7m for critical infrastructure works, the Trust's capital plans now total £30.7m. Note that this total includes the £5m grant to Watford Borough Council in relation to the link road.

**Expenditure committed YTD £11m**

27 The contracted capital spend to date is £11.0m. Additional projects planned for 2013/14 are now being initiated following confirmation of funding by the TDA.

## Cash Management

**Excluding money owed for the link road, the Trust held cash to cover 3 days' operating expenses**

28 The Trust's current cash holding is £6.3m which equates to 8 days of operating expenses. This includes £5m of public dividend capital provided by the Department of Health for the link road. Excluding this £5m, the cash balance would be £1.3m which is equivalent to 3 days' operating costs. A minimum of 10 days' is required to meet Department of Health cash management requirements.

**The Trust is in discussion with the TDA regarding cash support**

29 It should be noted that Trust is planning to have a working capital facility by the end of the financial year. The application for the working capital loan has to be submitted to the TDA by 6 December 2013. The amount required will be dependent on the outcome of the clinical strategy modelling currently being undertaken by BDO. The Trust is managing its cash balances through weekly review of creditor payments. If necessary, it will seek an additional temporary borrowing facility.

## Recommendations

**Recovery plan**

30 Following review and agreement of the forecast, the Trust Board and Executive team will need to give consideration to the form and scope of recovery plan actions dependent upon the outcome of discussions with the CCG and TDA.

**Expenditure controls**

31 In advance of this, the Executive team have already identified further controls for example on agency spend (Nursing and Locums) whilst not compromising the quality agenda, and change of authorisation level for

non-pay expenditure (including Executive review of orders more than £1,000) will be implemented.

**Focus on savings programme** 32 The Trust needs to deliver savings at a faster rate than in previous months to approach the target for the year of £15m. The extent to which the organisation is capable of driving forward improvements to meet this target is part of the review of the forecast outturn. Current indications are that this will not be achieved.

**Impact of Long Term Financial Modelling (LTFM)** 33 The Board should be aware that the deteriorating financial position to date, will, unless recovered, have a fundamental impact on the work being undertaken by BDO, in partnership with the Trust, on the long-term financial modelling that will underpin the clinical strategy and the future of the Trust. The position poses an even more challenging impact on the LTFM due to the scale of non-recurrent support included in the figures for the current financial.

**Financial position** 34 The Trust Board is asked to note the seriousness of the financial position and the impact this is likely to have on future years.

## 3. Recommendation

3.1 The Board is asked to note further actions being taken by the Management Team to manage the Trust's financial position.