CAMBRIDGE UNIVERSITY HOSPITALS NHS FOUNDATION TRUST

BOARD OF GOVERNORS

FINANCIAL REPORT – 31 OCTOBER 2008

Report of: David Smith, Executive Director of Finance

1. Income & Expenditure:

- Surplus for the five months to October is £4.2m which is adverse to our internal plan by £0.6m.
- We remain at a Financial Risk Rating (FRR) of 4 (rounded up from 3.55).
- NHS Protected Clinical Income is higher than anticipated (£3.7m) this however is balanced by overspend on expenditure across the Trust of £4.8m.
- Interest income is favourable to plan by £0.7m – primarily due to extra cash holdings as described under section 3 – Cash & Liquidity. However, interest receivable in the month of October was £137k v September of £207k. The fall as a result of the change in treasury described in section 3.

2. Workforce

- WTE at 31 October was 6,979 i.e. 171 lower than the budget. The headcount for October has reduced from September by 9 WTE.

					Comparison with September 2008 Outturn	
Pay Group Type	Budgeted WTE	Actual WTE	Variance WTE	Variance %	Actual WTE	Variance %
Nursing	3,202	3,119	(83)	(3%)	3,101	-3%
Medical and Dental Staff	964	902	(62)	0%	914	0%
Allied Healthcare Professionals	424	412	(12)	(2%)	414	-2%
Clinical Scientists & Technicians	687	677	(10)	(2%)	676	-2%
Administrative & Clerical	1,407	1,405	(2)	0%	1,407	0%
Other Pay Costs	466	462	(4)	(1%)	477	0%
Grand Total	7,150	6,979	(171)	(2%)	6,988	-2%

- The increase in substantive staff has been largely offset by a reduction in the use of bank and agency as detailed in the following table.

Pay Group Type	Substantive, Bank or Agency	October Actual WTE	September Actual WTE	August Actual WTE	July Actual WTE	June Actual WTE	May Actual WTE	April Actual WTE
Nursing	Substantive	2,852	2,803	2,768	2,736	2,694	2,745	2,651
	Bank	251	279	287	279	262	254	263
	Agency	16	18	29	42	98	77	60
Grand Total		3,119	3,101	3,083	3,057	3,054	3,076	2,974

Movement in WTE as compared to previous month	Substantive	49	35	32	42	(51)	94
	Bank	(28)	(8)	8	17	8	(9)
	Agency	(3)	(11)	(13)	(56)	21	17
Grand Total		18	17	26	3	(22)	102

- There has been a steady and sustained reduction in the use of agency nursing. The usage in October is less than 20% of the level at its peak in June and has remained at a stable level for the last two months.

3. Cash & liquidity

- Cash is £36.8m v plan £31.0m. The variance of £5.8m is largely attributable to the capital programme being behind the original profile (as discussed below).

- At 25 November the Trust has the following cash investments:

Counterparty	Term	Value £000
Britannia B/Soc	Instant access	5,000
Irish Permanent B/Soc	Instant access	5,000
Alliance & Leicester	Instant access	5,000
Barclays	30 day	3,842

- On 17 September we decided to temporarily reduce the maximum deposit with any one counterparty to £5m (from £15m for AAA rated institutions), which meant reducing our original deposit with Bank of Ireland by £3.8m. We reported our concerns and proposed actions to the Clinical & Corporate Governance Committee the same day.

- On 29 September we took the further step of liquidating all other deposits, totalling £21m, and repatriating the funds to the Trust's Paymaster Generals Office account. This will cause a short-term reduction in interest earnings (approximately £20k per month), but was considered a prudent approach given the volatility in the banking sector. We left £5m with Bank of Ireland because the Irish Government announced that it would indemnify all deposits. Subsequently, on 7 October we have invested £5m with the Irish Permanent Building Society, which also benefits from the Irish Government's guarantee.

- We will continue to monitor the situation carefully and will take any further action that may be necessary.

- Liquidity remains ahead of plan, with a liquidity ratio (i.e. number of days operating expenses that can be covered by working capital) of 25.0 days v plan 23.6 days. It is likely that the liquidity ratio will fall below 25 days in November as capital expenditure continues to erode the cash reserves. A liquidity ratio of 25 days is required to achieve a risk rating of 4, thus this metric has become a key element of the FRR calculation.

- In accordance with the plan, an application was made to the Foundation Trust Financing Facility in the summer for an additional £10m of borrowing. This borrowing is required in order to maintain a liquidity ratio in excess of 25 days and therefore to achieve a FRR of 4 for the year. The application was successful and we are in the process of agreeing terms.

- If liquidity falls below 25 days at 31 December it will result in a FRR of 3 for Q3. Although there are no apparent consequences of this, we could prevent it by drawing down the proposed borrowing from the Foundation Trust Financing Facility before the end of December.

- However, there may be a disadvantage in fixing the interest rate this early. Although base rates have fallen to 3% the borrowing will be at a 25 year fixed rate based on the National Loans Fund (NLF) rate, which is currently 4.59%. Historically, NLF rates have been similar to base rates, but at the moment they reflect LIBOR, which remains significantly higher than base. The day after the base rate was cut the National Loans Fund rate was 4.95%. Hence there has been some rebasing on the rate in recent weeks.

- If we believe that interest rates will fall further, or that inter-bank lending rates will begin to reduce, then it would be beneficial to delay fixing the interest rate, and therefore drawing down the additional borrowing, as long as possible.

- It is proposed that we adopt this approach, but accept that the FRR will fall to a 3 for the third quarter. Other things being equal, the FRR will then return to a 4 once the borrowing is drawn down in the 4th quarter.

4. Capital

- Capital expenditure for the seven months to October is £18.7m against an original plan of £22.9m. However the capital plan was rephrased earlier in the year and the current activity is not materially adrift from this revised profile.

5. Outlook

- The tables at the appendix detail the financial performance against our internal objective of achieving a surplus of £9.2m. The Annual Plan, as submitted to Monitor on 31 May 2008 and as discussed at the Joint Board of Governors' and Board of Directors' meeting of 21 May, has an objective to achieve at least a surplus of £7m for the full year, which will enable us to report a FRR 4. As previously discussed, this is the level required to provide the Trust with the confidence to borrow to fulfil our South Campus objectives.

- Notwithstanding the £7m Annual Plan surplus target, and as reported at the last meeting, internally we continue to strive to exceed this, despite the challenges this poses. Our latest forecast is to generate a surplus of approximately £8M.

Table 1

Cambridge University Hospitals NHS Foundation Trust
Income & Expenditure Report for the Period Ending 31st October 2008

SUMMARY

Directorate	Year to Date				Annual Budget £000
	Budget £000	Actual £000	Variance £000	%	
Income (analysed in Table 3)					
NHS Protected Clinical Income	219,154	222,881	3,728	2%	372,534
Other Protected Clinical Income	28,209	28,209	0	0%	48,332
Other Income	9,346	9,131	(215)	(2%)	13,202
Total Income	**256,709**	**260,221**	**3,512**	**1%**	**434,068**
Expenditure (analysed in Table 4)					
Director of Operations	154,921	158,970	(4,049)	(3%)	257,330
Medical Staff	40,080	40,584	(504)	(1%)	69,876
Corporate Services	34,861	35,240	(379)	(1%)	60,542
Other	8,442	8,331	111	1%	13,958
Sub Total - Directorates	**238,304**	**243,123**	**(4,820)**	**(2%)**	**401,706**
Reserves	0	0	0	0%	24
Sub Total - Reserves	**0**	**0**	**0**	**0%**	**24**
Total Expenditure	**238,304**	**243,123**	**(4,820)**	**(2%)**	**401,730**
Income & Expenditure Position Before Finance Charges & Dep'n (EBITDA)	**18,405**	**17,098**	**(1,307)**	**(7%)**	**32,338**
Dep'n & Financing Charges					
Depreciation	9,920	9,920	0	0%	16,708
Interest Receivable	(817)	(1,549)	732	(90%)	(1,400)
Interest Payable & PDC Dividend	4,567	4,567	0	0%	7,830
Sub Total	**13,671**	**12,939**	**732**	**5%**	**23,138**
Net Surplus / (Deficit)	**4,734**	**4,159**	**(575)**	**(12%)**	**9,200**

Table 2

CAMBRIDGE UNIVERSITY HOSPITALS NHS FOUNDATION TRUST

BALANCE SHEET AS AT 31 OCTOBER 2008

	2007/08	2008/09 Year to date			2008/09 Year end		
	outturn £000	Budget £000	Actual £000	Variance £000	Budget £000	Forecast £000	Variance £000
Fixed Assets	245,923	259,100	254,966	4,134	265,480	265,480	0
Current Assets							
Stock	7,183	7,180	7,110	70	7,470	7,470	0
Trade Debtors	31,897	41,764	38,220	3,544	36,060	36,060	0
Other Debtors	9,653	4,730	7,201	(2,471)	10,620	10,620	0
Cash	35,533	31,040	36,808	(5,768)	29,270	29,270	0
	84,266	84,714	89,339	(4,625)	83,420	83,420	0
Current Liabilities	67,210	76,903	78,103	(1,200)	70,380	70,380	0
Net Current Assets (Liabilities)	17,056	7,811	11,236	(3,425)	13,040	13,040	0
Total Assets less Current Liabilities	262,979	266,911	266,202	709	278,520	278,520	0
Long-Term Liabilities							
Provisions	2,544	2,540	2,420	120	2,540	2,540	0
Loans	21,300	20,840	20,838	2	30,380	30,380	0
	23,844	23,380	23,258	122	32,920	32,920	0
Net Assets	239,135	243,531	242,944	587	245,600	245,600	0
Taxpayers' Equity							
Public Dividend Capital (PDC)	114,768	114,768	114,768	0	114,770	114,770	0
I&E Reserve	32,819	37,553	36,978	575	39,860	39,860	0
Other Reserves	91,548	91,210	91,198	12	90,970	90,970	0
Total Taxpayers' Equity	239,135	243,531	242,944	587	245,600	245,600	0
Key Ratios							
Liquidity Ratio	33.1	23.6	25.0		30.7	30.7	
Days Cash in Hand	28.5	48.3	53.0		46.8	46.8	
Unused Working Capital Facility	28,400	28,400	28,400		28,400	28,400	
Trade Debtor Days	30.1	31.8	29.1		27.4	27.4	
Return on Assets (excl. dividend)	5.50%	6.00%	5.35%		5.18%	5.18%	
Debt to Assets Ratio	6.5%	6.1%	6.1%		8.7%	8.7%	

Definitions of Key Ratios

Liquidity Ratio	((cash + unused working capital facility + trade debtors + other debtors - trade creditors - other creditors) / (planned annual operating expenditure)) x 365 days
Days Cash in Hand	((cash + unused working capital facility) / (total annual operating expenditure)) x 365 days
Unused Working Capital Facility	working capital facility less overdraft
Trade Debtor Days	(trade debtors / planned total income) x 365 days
Return on Assets (excl. dividend)	((net surplus + dividend) / (average net assets + average loans)) x (cumulative months / 12 months)
Debt to Assets Ratio	loans / total assets
EBITDA margin	EBITDA / Gross Income
I&E surplus margin	Net Surplus / Gross Income
Debt to Assets Ratio	loans / total assets

Note: The above ratios are based on income and expenditure gross of devolved income where applicable