

# CAMBRIDGE UNIVERSITY HOSPITALS NHS FOUNDATION TRUST

## BOARD OF GOVERNORS

**AGENDA ITEM  
DATE**

### FINANCIAL REPORT – 31 MAY 2009

Report of: **David Smith, Director of Finance**

## 1. Income & Expenditure

### Headlines

- 1.1 The Trust remains on track to deliver £1.2m surplus for the year. The year to date position is ahead of plan by £0.7m. This is accounted for by favourable results in clinical income (£0.5m), clinical expenditure (£0.3m) and corporate services (£0.2m) partly offset by medical staffing which is £0.2m adverse.

### Financial Summary

F = favourable variance, A= adverse variance, YTD = Year-to-date

	YTD actual			YTD F/(A) to plan				Prior year F/(A)	WTE F/(A)
	Income £m	Expendi- ture £m	Net (I-E) £m	Income £m	Expendi- ture £m	Net (I-E)			
						£m	%	£m	No.
Medicine	18.0	9.5	8.5	0.4	0.1	0.4	5%	0.8	18
Surgery	18.7	5.6	13.1	0.2	0.0	0.2	2%	(0.8)	29
Neuroscience	4.5	3.5	1.0	0.0	0.0	0.0	1%	(0.3)	5
Critical Care	5.9	9.4	(3.5)	(0.4)	0.1	(0.3)	10%	(0.0)	52
Cancer	6.6	3.3	3.3	0.5	0.0	0.5	19%	2.3	18
Women's and Children's	10.2	4.9	5.3	0.2	0.2	0.3	7%	0.8	24
Investigative Sciences	2.5	6.1	(3.6)	0.1	(0.1)	0.0	(0%)	(0.4)	(1)
Other Operational Areas	1.9	4.1	(2.2)	(0.5)	0.0	(0.5)	27%	0.3	5
<b>Total operational areas</b>	<b>68.4</b>	<b>46.5</b>	<b>21.9</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>3%</b>	<b>2.7</b>	<b>150</b>
<b>Other protected clinical income</b>	<b>8.5</b>		<b>8.5</b>	<b>(0.0)</b>		<b>(0.0)</b>	<b>(0%)</b>	<b>1.0</b>	
<b>Other income</b>	<b>0.9</b>		<b>0.9</b>	<b>0.0</b>		<b>0.0</b>	<b>1%</b>	<b>(1.0)</b>	
<b>Medical staff</b>		12.6	<b>(12.6)</b>		(0.2)	<b>(0.2)</b>	<b>1%</b>	<b>(1.3)</b>	(16)
<b>Corporate services</b>		9.2	<b>(9.2)</b>		0.2	<b>0.2</b>	<b>(2%)</b>	<b>0.3</b>	11
<b>R&amp;D</b>		2.3	<b>(2.3)</b>		-	<b>-</b>		<b>(0.8)</b>	-
<b>Other (inc reserves)</b>		2.3	<b>(2.3)</b>		0.0	<b>0.0</b>	<b>(1%)</b>	<b>(1.0)</b>	(0)
Sub-total <b>EBITDA</b>	<b>77.7</b>	<b>72.8</b>	<b>4.9</b>	<b>0.5</b>	<b>0.3</b>	<b>0.8</b>	<b>19%</b>	<b>(0.0)</b>	<b>145</b>
Depreciation		3.5	(3.5)		-	<b>-</b>		(0.7)	
Net interest (receivable)/payable		2.3	(2.3)		(0.0)	(0.0)	2%	(1.4)	
<b>Total Net surplus / (deficit)</b>	<b>77.7</b>	<b>78.6</b>	<b>(0.9)</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>(45%)</b>	<b>(2.1)</b>	<b>145</b>

### Key issues

- 1.4 Pay costs are on budget despite shortfall of 145 WTEs to plan. Further details are provided at paragraph 1.8 to 1.9.
- 1.5 Critical Care income – some EAU non-elective income that is included in the plan has been credited to other clinical Divisions in the period and will be adjusted in month 3. This will not affect the overall favourable variance in clinical income. A similar correction will be required for the £0.5m variances in the 'other operational areas'.
- 1.6 Medical staffing – overspend against planned pay costs of £0.4m partly offset by savings in non-pay expenditure (£0.1m) and additional devolved income (£0.1m). Overspend is mainly attributed to locum costs due to:
- junior doctors on long-term sick leave and taking annual leave prior to August rotation
  - locum costs currently attract 15% VAT subject to review with HMRC.

## Other comments

1.7 NHS protected clinical income over performed against plan by £0.9m (1%) in the 2 months to May. The main impact comes from increases in elective (7%) and non-elective (2%) spells.

1.8 The table below shows that pay is on track but WTE are 2% below plan.

F/(A) = favourable/(adverse) variance

	Month				Annual Plan £'000	Prior year (month)	
	Plan £'000	Actual £'000	F/(A) £'000	%		Actual £'000	F/(A) %
Pay costs	25,250	25,259	(9)	(0.0%)	301,837	23,027	(9.7%)
Non-pay costs	15,465	15,477	(13)	(0.1%)	202,892	17,221	10.1%
Devolved income	(5,280)	(5,440)	161	(3.0%)	(61,529)	(4,701)	(15.7%)
<b>Expenditure</b>	<b>35,435</b>	<b>35,296</b>	<b>139</b>	<b>0.4%</b>	<b>443,200</b>	<b>35,547</b>	<b>0.7%</b>
<b>Workforce (No. of WTEs)</b>	<b>7,505.2</b>	<b>7,360.5</b>	<b>144.8</b>	<b>1.9%</b>		<b>6,746.8</b>	<b>(9.1%)</b>
<b>Average WTE pay cost</b>	<b>40.37</b>	<b>41.18</b>	<b>(0.81)</b>	<b>(2.0%)</b>		<b>40.96</b>	<b>(0.5%)</b>

1.9 Divisions have reviewed this apparent disparity and findings to date suggest that staff mix, high use of bank that incurs a 10% additional charge, and increased payments seen due to bank holidays in April and May are major contributors.

1.10 Actual WTEs at the end of M2 are now, on a like-for-like basis, 92 below the exit rate of 2008/9. This is line with the Trusts current aspirations.

## 2. Balance sheet

### Cambridge University Hospitals NHS Foundation Trust Balance sheet as at 31 May 2009

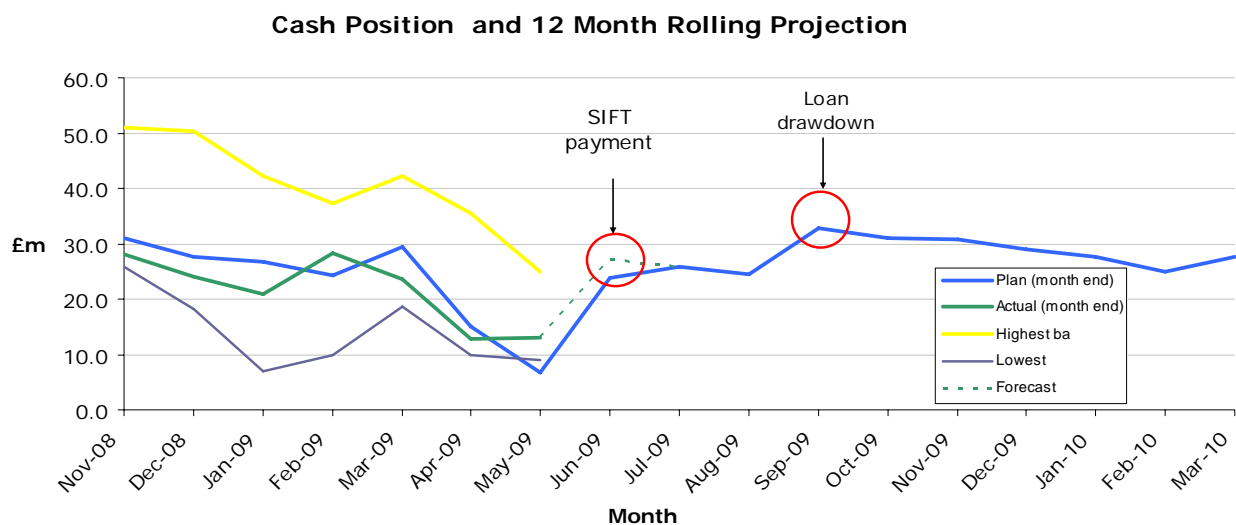
Variance = increase/(decrease) in balance

	Year to date			Annual Plan £m	Prior year Outturn £m
	Plan £m	Actual £m	Variance £m		
<b>Fixed assets</b>	<b>338.1</b>	<b>338.5</b>	<b>0.3</b>	<b>340.7</b>	<b>335.5</b>
<b>Current assets</b>					
Stock	7.1	7.1	0.0	7.3	7.1
Trade debtors	48.7	44.3	(4.5)	30.9	28.6
Other debtors	4.0	3.6	(0.4)	10.7	12.1
Cash	8.3	13.1	4.8	27.6	23.5
<b>Total current assets</b>	<b>68.2</b>	<b>68.0</b>	<b>(0.1)</b>	<b>76.4</b>	<b>71.2</b>
<b>Current liabilities</b>	<b>74.3</b>	<b>73.7</b>	<b>(0.5)</b>	<b>74.6</b>	<b>72.8</b>
<b>Net current assets / (liabilities)</b>	<b>(6.1)</b>	<b>(5.7)</b>	<b>0.4</b>	<b>1.8</b>	<b>(1.6)</b>
<b>Total assets less current liabilities</b>	<b>332.1</b>	<b>332.8</b>	<b>0.7</b>	<b>342.5</b>	<b>333.9</b>
<b>Long-term liabilities</b>					
Provisions	2.4	2.4	(0.0)	2.4	2.4
PFI lease	67.3	67.3		66.9	67.4
Loans	29.5	29.5		38.3	29.5
	<b>99.2</b>	<b>99.1</b>	<b>(0.0)</b>	<b>107.6</b>	<b>99.3</b>
<b>Net assets</b>	<b>232.9</b>	<b>233.6</b>	<b>0.7</b>	<b>234.9</b>	<b>234.7</b>
<b>Taxpayers' equity</b>					
Public dividend capital (PDC)	114.8	114.8		114.8	114.8
I&E reserve	24.8	25.5	0.7	27.4	26.4
Other reserves	93.3	93.3	(0.0)	92.7	93.5
<b>Total taxpayers' equity</b>	<b>232.9</b>	<b>233.6</b>	<b>0.7</b>	<b>234.9</b>	<b>234.7</b>

## Cash & liquidity

2.1 Cash is £4.8m higher than planned at £13.1m. This is largely explained by Trade debtors paying faster than anticipated in the plan.

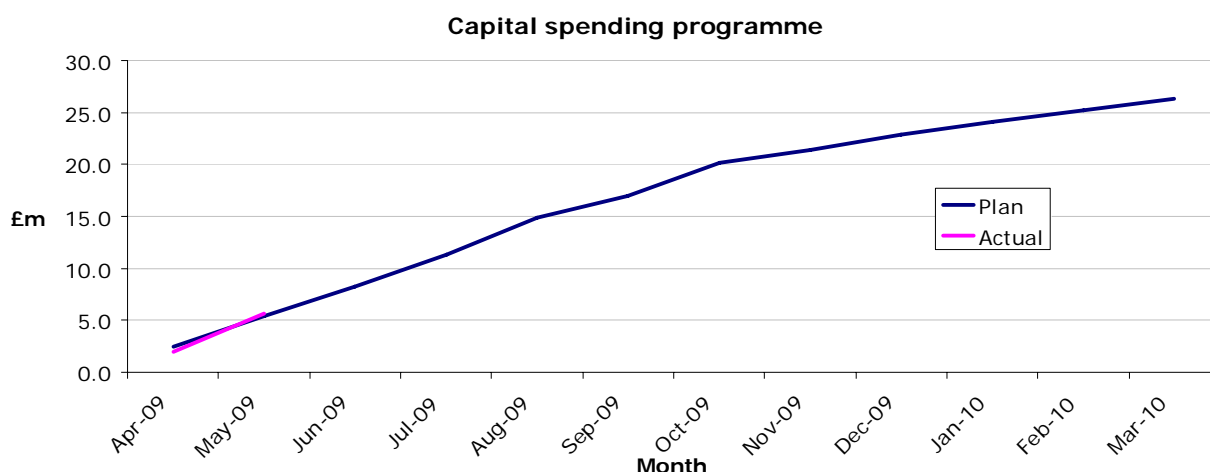
- 2.2 East of England Strategic Health Authority paid the Trust's annual Service Increment for Teaching (SIFT) allocation of £16.7m up front in June (rather than monthly). This has significantly improve the cash position from June as can be seen in the chart below.
- 2.3 The annual plan shows that the Trust will need to borrow a further £10m in 2009/10 to finance its capital programme and, given the tight liquidity position this year, we have commenced the application process with the Foundation Trust Financing Facility (FTFF) to secure this additional cash. FTFF funds are likely to be available for draw down in September.
- 2.4 The following graph shows the planned cash position by month for 2009/10, together with actual cash balances and monthly highest/lowest balances for the last 6 months:



- 2.5 The anticipated peaks in June and September reflect the receipt of £16.7m of SIFT funding (now confirmed as having been received on 15 June) and £10m of FTFF loan financing respectively.
- 2.6 The liquidity ratio stands at 12.7 days, which is 0.3 days lower than planned. The only factors that influence liquidity are capital spend, borrowing and I&E surplus, and this emphasises the importance of controlling capital spend and I&E whilst drawing down additional borrowing at the earliest opportunity.

### Capital expenditure

- 2.7 Current year budget is £26.3m, although 2009/10 spending in excess of £20m is to be authorised by the Board subject to satisfactory progress in achieving the Trust's surplus target. This will be based on a review of the September 2009 position.
- 2.8 The chart below shows cumulative phased spending against the capital programme:



2.9 Expenditure to date is £5.6m against a plan of £5.3m. Spending is ahead of plan by £0.3m. Scheme spending at a slower rate are: Perinatal (-£0.3m), Histopathology (-£0.45m) and IT (-£0.15m). Schemes spending at a faster rate are: Critical Care (+£0.4m), back log maintenance (+£0.1m) and BMRC schemes (+£0.7m).

2.10 The Trust is monitoring commitments (orders raised) against the capital programme and this will be used to help control spending levels and inform reporting and the forecast outturn spend.

### 3. Outturn update

3.1 No changes to planned annual surpluses, deficits, income or expenditure have been notified so far this year. The table below shows the position according to plan with variances where agreed.

*F = favourable variance, A= adverse variance, YTD = Year-to-date*

	Annual plan			Variance to annual plan		
	Income £m	Expenditure £m	Net (I-E) £m	Income £m	Expenditure £m	Net (I-E) £m
<i>Medicine</i>	106.6	57.0	49.6	-	-	-
<i>Surgery</i>	118.8	34.7	84.1	-	-	-
<i>Neuroscience</i>	28.8	20.5	8.4	-	-	-
<i>Critical Care</i>	38.1	55.5	(17.4)	-	-	-
<i>Cancer</i>	39.2	19.4	19.8	-	-	-
<i>Women's and Children's</i>	62.2	30.8	31.4	-	-	-
<i>Investigative Sciences</i>	14.9	36.0	(21.1)	-	-	-
<i>Other Operational Areas</i>	13.8	24.5	(10.7)	-	-	-
<b>Total operational areas</b>	<b>422.5</b>	<b>278.3</b>	<b>144.2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other protected clinical income</b>	51.2		51.2	-	-	-
<b>Other income</b>	5.2		5.2	-	-	-
<b>Medical staff</b>		78.0	(78.0)	-	-	-
<b>Corporate services</b>		59.3	(59.3)	-	-	-
<b>R&amp;D</b>		13.5	(13.5)	-	-	-
<b>Other (inc reserves)</b>		14.1	(14.1)	-	-	-
Sub-total <b>EBITDA</b>	<b>478.8</b>	<b>443.2</b>	<b>35.6</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation		21.2	(21.2)	-	-	-
Net interest (receivable)/payable		13.3	(13.3)	-	-	-
<b>Total <b>Net surplus / (deficit)</b></b>	<b>478.8</b>	<b>477.6</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>-</b>

3.2 Capital spending is currently £0.3m above plan, but is expected to stay within the £26.3m plan for the whole year.

3.3 Due to the move to reporting under IFRS and the problems with Monitor's current assessment tool it is still not possible to provide a Financial Risk Rating for Month 2. However, given the current position in relation to surplus and liquidity it is again strongly envisaged we would be subject to Monitor's overriding rules and, therefore, have a FRR of 2.45 for May compared to 2.2 in the plan. The Trust remains ahead of profile and although a FRR 2 year to date, remains on track for a FRR 3 by the year end as per the Annual Plan.

## Glossary of terms used by Finance

### Financial Terminology

<b>Adverse variance</b>	A movement that erodes the bottom line. WTE that are above plan may have a positive impact on safety but for the purposes of fiscal performance is considered to be adverse on increase expenditure.
<b>Current assets</b>	Assets on the balance sheet which are not held long term, comprising stock, trade & other debtors and cash
<b>Depreciation</b>	The process of charging the cost of an asset to the income and expenditure account over its estimated useful life. It is essentially an estimate of the annual "using up" of an asset. Depreciation is an accounting charge and does not involve any cash outlay (as the cash is spent when the asset is first bought).
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation (broadly surplus before interest & depreciation).
<b>EBITDA margin</b>	EBITDA expressed as a percentage of total income. This is a key ratio for Monitor as it enables comparison of operating efficiency between organisations.
<b>Favourable variance</b>	Any movement that improves surplus or cash
<b>FRR</b>	Financial Risk Rating. This is the methodology developed by Monitor for assigning a score to represent a Trust's overall financial risks. 1 is high risk, 5 is low risk. The score is calculated by reference to a number of accounting ratios (or "metrics").
<b>FTFF</b>	Foundation Trust financing facility is a government body that acts as a lender to the NHS
<b>HMRC</b>	Her Majesty's Revenue and Customs, responsible for collection of all UK taxes including income tax, corporate taxes and VAT
<b>IFRS</b>	International Financial Reporting Standards. The annual plan and accounts for 2009/10 are based on these. They replace the previous UK specific financial reporting standards (known as UK GAAP), but are fundamentally similar.
<b>Liquidity</b>	Defined as Cash + debtors – current liabilities + unused working capital facility. This is a definition adopted by Monitor to identify the funds that a Trust has available to finance its day to day operations
<b>Liquidity ratio</b>	Liquidity expressed as the number of days operating expenditure which can be covered. Calculated as Liquidity divided by planned annual operating expenditure multiplied by 365 days.
<b>PDC</b>	Public dividend capital. This is effectively the Government's equity stake in the Trust. The majority of PDC was created when the NHS Trust was formed in 1993 and represents the net value of assets transferred to the Trust from Cambridge Health Authority. Further PDC has since been received to support certain large capital projects, but this is being phased out as a form of capital funding going forward.
<b>PDC dividend</b>	The annual amount payable to the Treasury to reflect the cost of capital. The current rate is 3.5%, which represents the long-term cost of capital in the public sector.
<b>PFI</b>	Private Finance Initiative. A form of public/private partnership designed to

	fund major capital investments over a number of years, thereby avoiding a large up-front cash cost to the public sector. The public sector works with private sector partners who are contracted to design and build the assets needed.
<b>Price/Volume mix</b>	Shows breakdown of pay and WTE variances (YTD) and splits variance into: <ul style="list-style-type: none"> <li>• “Price” variance – average pay cost variance to plan multiplied by actual WTEs in period. In other words, the premium paid over plan.</li> <li>• “Volume” variance – WTE variance multiplied by planned average pay cost. In other words, the expected variance due to staff changes assuming no price change to plan.</li> </ul>
<b>Provisions</b>	Amounts accrued in the accounts in respect of liabilities where the timing or value of future payments is uncertain, but which have arisen as a result of past events e.g. the estimated value of legal claims relating to past injuries at work.
<b>Reserves</b>	There are two types of reserves: <ol style="list-style-type: none"> <li>1. Income and expenditure reserves – comprising unallocated developments, contingencies and pay &amp; price reserves</li> <li>2. Balance sheet reserves - A collective term to describe sources of funding which appear at the bottom of the balance sheet (under “Taxpayers Equity”) and which do not pass directly through the income and expenditure account. This includes charitable donations, revaluations of the Trust’s assets and cumulative income and expenditure net surpluses</li> </ol>
<b>SIFT</b>	Service Increment for teaching is funding provided to a Teaching Hospital such as Cambridge University Hospitals.
<b>ROA</b>	Return on Assets. An efficiency ratio to identify how well the Trust uses its assets. Defined as (net surplus + dividend)/(average net assets).
<b>Trade debtor days</b>	Trade debtors divided by planned total income multiplied by 365 days
<b>Working capital</b>	The money and assets that an organisation can call upon to finance its day to day operations. It is essentially the organisations net current assets.
<b>Working capital facility</b>	A term used to describe a committed overdraft facility which can be called down at short notice to finance day to day operations.
<b>WTE</b>	Whole time equivalents is a financial term to convert part time workers to the equivalent of one full time employee
<b>YTD</b>	Year to date

<b>Meeting nomenclature</b>	
<b>Joint Clinical &amp; Corporate Executive</b>	Chaired by CEO with Divisional Directors and Corporate Directors
<b>Clinical Executive</b>	Chaired by CEO with Divisional Directors and Executive Team
<b>Corporate Executive</b>	Chaired by CEO with Corporate Directors
<b>Divisional Executive</b>	Chaired by CEO with Divisional Management and Executive Team
<b>Divisional Team</b>	Chaired by Divisional Director with associated Divisional Management Team
<b>FOP</b>	Finance Operations & Performance. Chaired by CEO with mix of NEDs, EDs and other managers