

FINANCIAL REPORT – 31 JULY 2009

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

1. Executive summary

Headlines

1.1 The Trust **remains on track to deliver a £1.2m surplus** for the year having achieved a **surplus for the year to date of £1.7m** which is £0.3m better than plan.

1.2 The main reasons for this positive performance are private patient income (+£0.2m) and Corporate Services (+£0.3m) partially offset by clinical divisions (-£0.1m).

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 | Expenditure £m | Net (I-E) £m | Income £m | Expenditure £m | Net (I-E) £m | % | | |
| <i>Medicine</i> | 36.1 | 19.5 | 16.7 | 0.2 | (0.1) | 0.1 | 1% | 2.6 | 1 |
| <i>Surgery</i> | 39.7 | 11.3 | 28.4 | 0.2 | (0.0) | 0.2 | 1% | 0.8 | 25 |
| <i>Neuroscience</i> | 8.5 | 4.3 | 4.2 | 0.0 | (0.2) | (0.1) | (3%) | 0.8 | (9) |
| <i>Critical Care</i> | 11.7 | 20.0 | (8.3) | (0.2) | (0.0) | (0.2) | 3% | 0.1 | 76 |
| <i>Cancer</i> | 13.9 | 6.7 | 7.2 | 0.3 | 0.0 | 0.3 | 5% | 2.9 | (3) |
| <i>Women's and Children's</i> | 21.3 | 10.0 | 11.3 | (0.1) | 0.2 | 0.1 | 1% | 2.6 | 40 |
| <i>Investigative Sciences</i> | 4.9 | 12.5 | (7.6) | 0.0 | (0.4) | (0.3) | 4% | (0.7) | 16 |
| <i>Other Operational Areas</i> | 4.3 | 11.3 | (7.0) | (0.2) | (0.1) | (0.3) | 4% | (2.1) | (13) |
| Total operational areas | 140.3 | 95.5 | 44.8 | 0.4 | (0.5) | (0.1) | (0%) | 6.8 | 133 |
| Other protected clinical income | 16.9 | | 16.9 | (0.0) | | (0.0) | (0%) | 0.4 | |
| Other income | 1.9 | | 1.9 | 0.2 | | 0.2 | 11% | (1.9) | |
| Medical staff | | 25.6 | (25.6) | | 0.1 | 0.1 | (0%) | (2.7) | 53 |
| Estates & Facilities | | 12.8 | (12.8) | | (0.0) | (0.0) | 0% | 0.6 | (3) |
| Corporate services | | 6.8 | (6.8) | | 0.3 | 0.3 | (4%) | (0.3) | 13 |
| R&D | | 4.9 | (4.9) | | 0.0 | 0.0 | (1%) | (1.0) | (17) |
| Other (inc reserves) | | 0.7 | (0.7) | | - | - | | 1.3 | - |
| Sub-total EBITDA | 159.1 | 146.4 | 12.7 | 0.5 | (0.1) | 0.4 | 3% | 3.2 | 179 |
| Depreciation | | 7.1 | (7.1) | | (0.0) | (0.0) | 0% | (1.5) | |
| Net interest (receivable)/payable | | 4.0 | (4.0) | | (0.1) | (0.1) | 2% | (2.3) | |
| Total Net surplus / (deficit) | 159.1 | 157.4 | 1.7 | 0.5 | (0.2) | 0.3 | 25% | (0.6) | 179 |

Key issues

1.3 Pay costs are £0.7m below budget in month, £0.3m below YTD and there is a shortfall of 179 WTEs to plan. See paragraphs 1.9 and 1.10 for further details.

1.4 Cancer – additional income (£0.3m) caused by favourable performance in Medical Oncology, blood & marrow transplantation and clinical haematology.

1.5 Investigative Sciences expenditure exceeds plan due to:

- high angio med/surg costs (+£0.2m) due to complexity of Arteriovenous Malfunction (AVM) patients
- costs related to over performance on HPA contracts (£0.1m) in Pathology.

1.6 Other income – favourable variance of £0.2m (YTD) caused by additional paying patients' income (£0.1m) and other activity based billable income (£0.1m).

1.7 Corporate Services – savings against planned pay costs (£0.2m) and non-pay costs (£0.1m)

- Vacancies held open at start of year have contributed to meeting turnover and CIP savings

- Non-pay cost savings are broadly linked to pay cost savings.

Other comments

- 1.8 NHS protected clinical income over performed against plan by £0.4m in the year to date – although this equates to 0% variance to plan. The main reasons for this are variances of £0.4m (1%) in non-elective income and £0.2m (2%) in Critical Care.
- 1.9 The table below – which shows costs and WTEs against plan for the Trust in July – shows a 2.7% saving on pay cost in line with a 2.3% reduction in WTEs.

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

| | Plan £'000 | Actual £'000 | Month | | Annual Plan £'000 | Prior year (month) | |
|--------------------------------|----------------|-----------------|----------------|-------------|-------------------------|--------------------|---------------|
| | | | F/(A) £'000 | % | | Actual £'000 | F/(A) % |
| Pay costs | 26,486 | 25,772 | 714 | 2.7% | 306,874 | 23,874 | (7.9%) |
| Drug costs | 4,427 | 4,415 | 12 | 0.3% | 52,522 | 4,920 | 10.3% |
| Non-pay costs | 11,896 | 12,421 | (525) | (4.4%) | 148,854 | 14,256 | 12.9% |
| Devolved income | (5,849) | (5,721) | (129) | 2.2% | (63,115) | (5,017) | (14.0%) |
| Expenditure | 36,960 | 36,888 | 72 | 0.2% | 445,136 | 38,033 | 3.0% |
| Workforce (No. of WTEs) | 7,691.4 | 7,512.7 | 178.7 | 2.3% | | 6,852.1 | (9.6%) |
| Average WTE pay cost | 41.32 | 41.16 | 0.16 | 0.4% | | 41.81 | 1.5% |

- 1.10 Critical Care contributes the largest variances, due to a shortfall of 75 WTEs. This is largely made up of vacant theatre posts which are actively being recruited and are funded within the plan.

2. Balance sheet

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

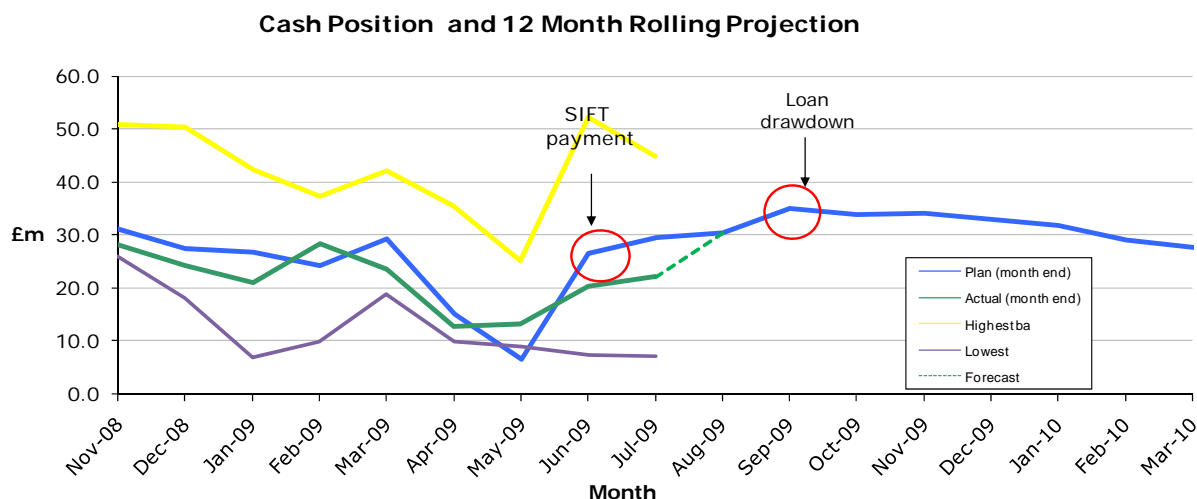
Variance = increase/(decrease) in balance

| | Year to date | | | Annual Plan £m | Prior year Outturn £m |
|--|--------------|--------------|----------------|----------------------|-----------------------------|
| | Plan £m | Actual £m | Variance £m | | |
| Fixed assets | 340.2 | 339.3 | (0.9) | 340.7 | 335.5 |
| Current assets | | | | | |
| Stock | 7.1 | 7.1 | 0.0 | 7.3 | 7.1 |
| Trade debtors | 40.9 | 49.1 | 8.2 | 30.9 | 28.6 |
| Other debtors | 4.0 | 4.6 | 0.6 | 10.7 | 12.1 |
| Cash | 29.6 | 22.0 | (7.6) | 27.6 | 23.5 |
| Total current assets | 81.6 | 82.8 | 1.2 | 76.4 | 71.2 |
| Current liabilities | 87.0 | 87.1 | 0.1 | 74.6 | 72.8 |
| Net current assets / (liabilities) | (5.4) | (4.3) | 1.1 | 1.8 | (1.6) |
| Total assets less current liabilities | 334.8 | 335.0 | 0.2 | 342.5 | 333.9 |
| Long-term liabilities | | | | | |
| Provisions | 2.4 | 2.3 | (0.1) | 2.4 | 2.4 |
| PFI lease | 67.2 | 67.2 | | 66.9 | 67.4 |
| Loans | 29.5 | 29.5 | | 38.3 | 29.5 |
| | 99.1 | 99.0 | (0.1) | 107.6 | 99.3 |
| Net assets | 235.7 | 236.0 | 0.3 | 234.9 | 234.7 |
| Taxpayers' equity | | | | | |
| Public dividend capital (PDC) | 114.8 | 114.8 | | 114.8 | 114.8 |
| I&E reserve | 27.7 | 28.1 | 0.3 | 27.4 | 26.4 |
| Other reserves | 93.2 | 93.2 | (0.0) | 92.7 | 93.5 |
| Total taxpayers' equity | 235.7 | 236.0 | 0.3 | 234.9 | 234.7 |

Cash & liquidity

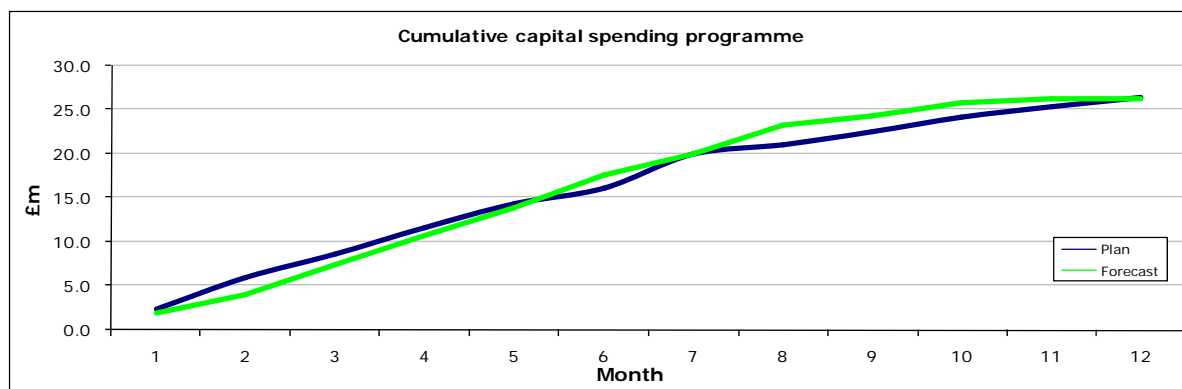
- 2.1 Cash is £7.6m lower than planned at £22.0m. This shortfall is due to PCTs (other than NHS Cambridgeshire) being slow to reflect the new 2009/10 contract values in their monthly payments to the Trust.

- 2.2 The liquidity ratio stands at 12.5 days, which is 0.8 days better than planned. The only factors that influence liquidity are capital spend, borrowing and I&E surplus. Liquidity is better than plan at 31 July because capital expenditure is lower than plan and I&E position favourable.
- 2.3 The Trust's application for an additional loan of £10m from the Foundation Trust Financing Facility was approved on 31 July and recovered during August, ahead of plan. Drawing the funds down in August has also boosted the liquidity ratio a month ahead of plan.
- 2.4 The following chart shows the planned cash position by month for 2009/10, together with actual cash balances and monthly highest/lowest balances for the last 7 months:



Capital expenditure

- 2.5 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.
- 2.6 The need to plan for the swine flu pandemic has identified further spending primarily in Paediatrics totalling £885k. This includes an estimate for pumps of £153k still to be confirmed. Spending is anticipated to occur during September.
- 2.7 The chart below shows cumulative phased spending against the capital programme:



- 2.8 Expenditure to date is £10.8m against a plan of £11.7m. Schemes spending at a slower rate include: Perinatal (-£0.5m), Histopathology (-£1.1 m) and a number of 2008/9 brought forward schemes (-£1.3m, including: transplant theatre, WACN IT and stem cell research GMP). Schemes spending at a faster rate include: Critical Care (+£1.2m), back log maintenance (+£0.5 m) and BMR schemes (+£0.3m).

2.9 Most of these variances reflect timing differences. Steps are being taken to bring these schemes back to plan this year following a review of the mix and phasing of the expenditure.

3. Outturn update

3.1 No changes to planned annual surpluses, deficits, income or expenditure have been notified so far this year.

3.2 The Trust has achieved a FRR of 3 in July which places us in a group of 41% Trusts planning to achieve a score of 3 in 2009/10. The calculated rate of 2.75 compares favourably with 2.65 in the plan. The Trust still expects to achieve a score of 3 at the end of the financial year.

Glossary of terms used by Finance

Financial Terminology

| | |
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| Adverse variance | 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. |
| Balance sheet | Provides a snapshot of the Trust's assets and liabilities as at the end of the month (contrast with income and expenditure position). |
| Budget holder | Budget holders are accountable for the budgets delegated to them, including managing income and expenditure and the financial stewardship of the budget. A budget holder will be expected to monitor income and expenditure and liaise with the finance department if underspends or overspends are expected. A budget holder is responsible for authorising expenditure against the budget and ensuring that the proper financial procedures are followed when obtaining quotes and for monitoring supplier performance to ensure the best value for money. |
| BPA | Business and Performance Analyst, the Divisional finance accountant |
| Capital expenditure | Typically for purchasing large items which have a useful life of over one year such as buildings and equipment. |
| CIP | Cost improvement programmes. A series of actions identified by an NHS body which are intended to reduce costs or improve efficiency. The programme should be established to meet both Department of Health minimum targets for efficiency improvement and internal requirements to secure income or expenditure balance. |
| Comprehensive Spending Review | HM Treasury sets expenditure for each government department covering a 3 year period, with the latest in 2007 setting spending plans for 08/09, 09/10 and 10/11 |
| Current assets | Assets on the balance sheet which are not held long term, comprising stock, trade & other debtors and cash |
| Depreciation | 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). |
| Direct costs | Those costs that can be attributed to a particular service, for example drugs. |
| EBITDA | Earnings before interest, tax, depreciation and amortisation (broadly surplus before interest & depreciation). |

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| EBITDA margin | EBITDA expressed as a percentage of total income. This is a key ratio for Monitor as it enables comparison of operating efficiency between organisations. |
| Favourable variance | Any movement that improves surplus or cash. |
| FRR | 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"). |
| FTFF | Foundation Trust Financing Facility is a government body that acts as a lender to the NHS |
| GDP | Gross Domestic Products, the most commonly used indicator of national income. NHS expenditure is approx 8% of GDP. |
| HMRC | Her Majesty's Revenue and Customs, responsible for collection of all UK taxes including income tax, corporate taxes and VAT |
| HRG | Healthcare Resource Groups, place patient procedures and/or diagnosis into bands which are clinically similar and consume similar levels of resources. HRG4 is the basis of 2009/10 tariffs. |
| IFRS | 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. |
| Indirect costs | Those costs that cannot be directly allocated to a particular service, but are shared over a number of them, for example the provision of cleaning services. |
| Income & expenditure | Income & expenditure position records the income and costs incurred by the Trust during the period in question (contract with balance sheet). |
| Liquidity | 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 |
| Liquidity ratio | 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. |
| NHS expenditure | NHS expenditure is approx 8% pf GDP. |
| Non – cash releasing efficiency savings | Occur when more activity is provided but the cost of delivering the service remains the same (contrast with cash releasing which results in the cost of the service provided being reduced) |
| Non-recurring funds | A one-off allocation of funds. |
| Operating framework | Department of Health document issued in December that sets out key priorities and financial rules for the financial year starting in April. |
| Overhead costs | The costs of support services that contribute to the effective running of a hospital. An example of this is the cost of the finance department. |
| PbR | Payment by Results was introduced in 2003/04, is a rules-based approach |

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| | <p>for paying for acute and specialist hospital services and was designed to directly link the payments that healthcare providers receive to the activity they undertake. It underpins patient choice by enabling the money to follow the patient.</p> |
| PCT expenditure | <p>PCT expenditure is approx 90% of NHS expenditure, which in turn is approx 8% of GDP.</p> |
| PDC | <p>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.</p> |
| PDC dividend | <p>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.</p> |
| PFI | <p>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.</p> |
| Practice-based commissioning | <p>Allows GP's to take on the commissioning and financial responsibility for large parts of PCT budgets and change the patterns of service providers.</p> |
| Price/Volume mix | <p>Shows breakdown of pay and WTE variances (YTD) and splits variance into:</p> <ul style="list-style-type: none"> • "Price" variance – average pay cost variance to plan multiplied by actual WTEs in period. In other words, the premium paid over plan. • "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. |
| Provisions | <p>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.</p> |
| Reference costs | <p>Itemised costs of treatments in every trust and are used for a number of purposes including benchmarking cost improvements, measuring relative efficiency, identifying best practice and costing health improvement programmes. At an individual trust level they are compared against the national tariff to highlight the relative efficiency of activities and to assess where the trust is likely to incur a profit or loss under PbR.</p> |
| Reserves | <p>There are two types of reserves:</p> <ol style="list-style-type: none"> 1. Income and expenditure reserves – comprising unallocated developments, contingencies and pay & price reserves 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 |
| Revenue expenditure | <p>Day to day items such as salaries and running costs.</p> |
| Scheme of delegation or | <p>This is a schedule setting out where responsibility lies for decision making</p> |

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| Delegation of authority | within the organisation. Some decisions will be reserved to the board and the scheme of delegation sets out the management arrangements in place to enable responsibility to be clearly delegated to senior executives. |
| SIFT | Service Increment for Teaching is funding provided to a Teaching Hospital such as Cambridge University Hospitals. |
| Standing financial instructions | This document details the financial responsibilities, policies and procedures adopted by a trust. They are designed to ensure that its financial transactions are carried out in accordance with the law and with government policy in order to achieve probity, accuracy, economy, efficiency and effectiveness. |
| ROA | Return on Assets. An efficiency ratio to identify how well the Trust uses its assets. Defined as $(\text{net surplus} + \text{dividend}) / (\text{average net assets})$. |
| Trade debtor days | Trade debtors divided by planned total income multiplied by 365 days |
| Working capital | 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. |
| Working capital facility | A term used to describe a committed overdraft facility which can be called down at short notice to finance day to day operations. |
| WTE | Whole time equivalents is a financial term to convert part time workers to the equivalent of one full time employee |
| YTD | Year to date |