South Tees Hospitals NHS Foundation Trust

FINANCIAL POSITION

FOR THE PERIOD ENDING 31 OCTOBER 2013

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SECTION 1 - OVERVIEW OF KEY FINANCIAL METRICS

1.1 OVERALL OPERATING POSITION - £3.2 MILLION DEFICIT

INCOME AND EXPENDITURE

Report reference	Q3 to 31 October 2013	Year to Date				Movement in period
		Actual £m	Variance			
			£m	Operational risk	%	
1.4	Income	313.325	6.434		2.10	↑
1.5	Pay	(190.124)	(0.456)		(0.24)	↓
1.6	Non Pay	(108.323)	(10.295)		(10.50)	↓
	EBITDA	14.878	(4.317)		(22.49)	
	Non operating expenses	(18.049)	(0.287)		(1.62)	↓
1.3	Surplus / (Deficit) before impairments	(3.171)	(4.604)		(321.28)	
	Contingency deployed to date	2.780				
	Surplus / (Deficit) before contingency	(5.951)				

OTHER KEY FINANCIAL INDICATORS

2.0	CIP	7.980	(3.219)		(28.74)	↓
3.1	Capital	(11.237)	(0.106)		(0.95)	↑
	PBL	(147.010)	(0.005)		(0.00)	↑
3.2	Cash	21.833	(4.306)		(16.47)	↓
	Aged Debt	5.139				↓
1.2	Risk Rating	2				↓

- The trust is reporting a deficit of £3.171 million at the end of October, which is behind plan. This is despite strong performance on income which is £6.434 million ahead of plan. CIP delivery is the main cause for concern with only 71.3% of the year to date target delivered, which translates into a shortfall of £3.219 million.

- The current operating performance is contributing to a £4.306 million shortfall of cash against plan. If the current level of under-performance continues then the capital programme will need to be curtailed in order to maintain the Monitor risk ratings.

- Capital and PBL are currently satisfactory. The risk rating needs to improve

1.2 CONTINUITY OF SERVICE RISK RATING (WEF Q3)

Indicative risk rating	Weighting	December Plan	Actual	FRR2
Debt Service Cover				
• Debt Service Cover metric		1.51	1.09	**<1.75**
• Debt Service Cover rating	50%	**2**	**1**	
Liquidity				
• Liquidity metric		-2.7	-8.7	**<-7**
• Liquidity rating	50%	**3**	**2**	
Financial Risk Rating		**3**	**2**	

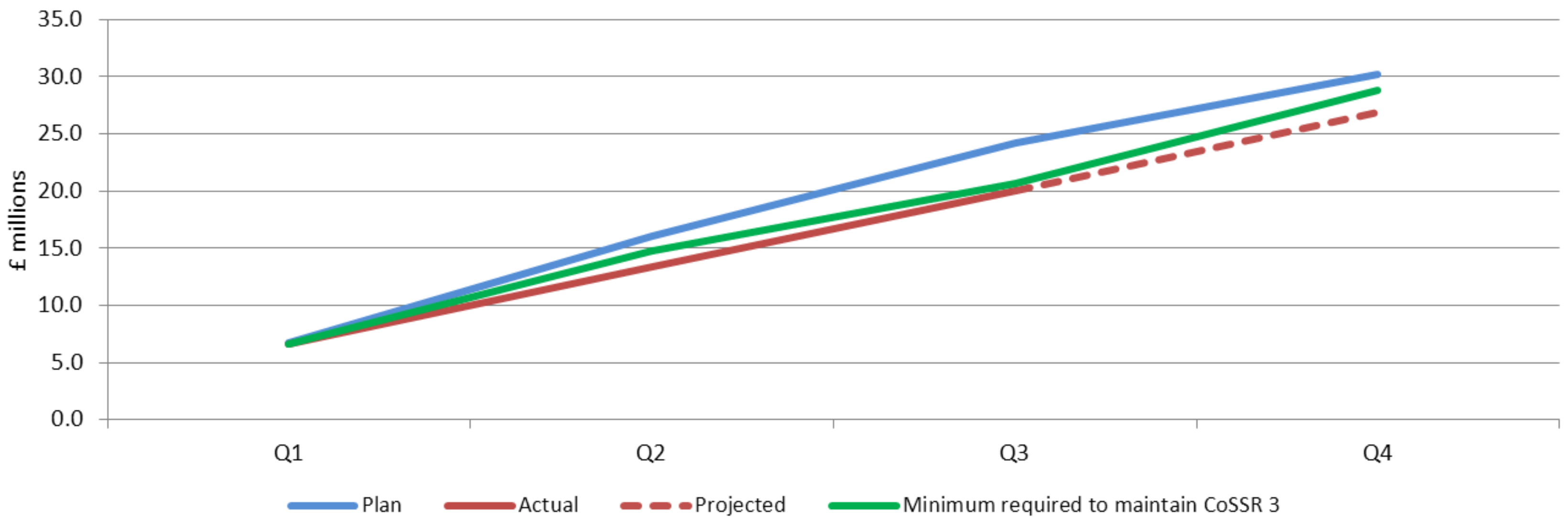
Existing performance translates to an indicative risk rating of 2.

Trust performance and specifically our EBITDA, must improve before the next submission to Monitor.

The position is most sensitive to changes in the debt service cover metric due to the impact of PFI on balance sheet. A 3 on this element of the CoSRR would require an EBITDA of around £44million (8.3%), which has never been achieved. Therefore, realistically, we would expect to plan for a 2 on this element. That would require a minimum EBITDA of around £28.7million, which is about £2.3 million behind plan.

The liquidity metric is stronger and we would expect to maintain a 3 on this element. Improving the plan position further would be a stretch. We are impacted on this metric by our stock holdings, which are relatively high at £7.7million (equivalent to 5.5 days on the metric). PFI accounting may also be having an impact.

The chart below details the minimum level of financial performance required (green line) to achieve a satisfactory risk rating



1.3 OPERATING PERFORMANCE - £3.2 MILLION BEHIND PLAN

- The operating position continues to worsen, in the main driven by an on-going shortfall in recurrent CIP delivery.
- The income position is £6.4 million over plan but is offset by an expenditure overspend of £10.8 million after use of £2.8 million of contingency.
- We are working closely with all divisions. Divisions are focusing on their top 3 areas of expenditure with the goal of reducing the expenditure before the end of the financial year.

1.4 INCOME - £6.4 MILLION AHEAD OF PLAN

	Acute £m	Community £m	Other £m	Total £m	Last month Total £m
NHS South Tees and Associate CCG's	(0.650)	0.187	0.000	(0.463)	0.406
NHS Hambleton, Richmondshire and Whitby & Associate CCG's	(1.198)	0.018	0.000	(1.180)	(1.246)
Specialised	5.872	0.000	0.000	5.872	4.365
Other	0.705	0.099	1.401	2.205	2.125
Total	**4.729**	**0.304**	**1.401**	**6.434**	**5.650**

- The activity income position reflects coded activity for September and a forecast for October.
- The over performance on specialised services largely relates to pass through costs (£2.857 million), Trauma (£0.950 million) and cardiology activity (£0.875 million).

1.5 PAY EXPENDITURE – £0.5 MILLION OVERSPEND

	£m
Nursing (Establishment underspend)	3.589
Nursing (Agency overspend)	(2.244)
Nursing (Total underspend)	**1.345**

Medical (Establishment underspend)	0.513
Medical (Agency overspend)	(1.817)
Medical (Total overspend)	**(1.304)**

- Medical agency is the major cause of the adverse variance
- Nursing is underspent but is partially offset by agency costs.
- Admin and clerical is currently £0.865 million underspent.

1.6 NON PAY EXPENDITURE – £10.3 MILLION OVERSPEND

	£m
Medical and surgical purchases	1.979
Drugs	0.714
Independent sector	1.027
Non pay CIP target, not allocated to specific budgets	3.995
Other (including PbR excluded Drugs & Devices)	2.411
Total	**10.126**

- Excluded drugs and devices are overspent by £2.885 million but are offset by additional income.
- The £3.995 million relates to unallocated CIP targets held centrally and within the divisions, This also includes CIP targets carried forward from 2012/13.

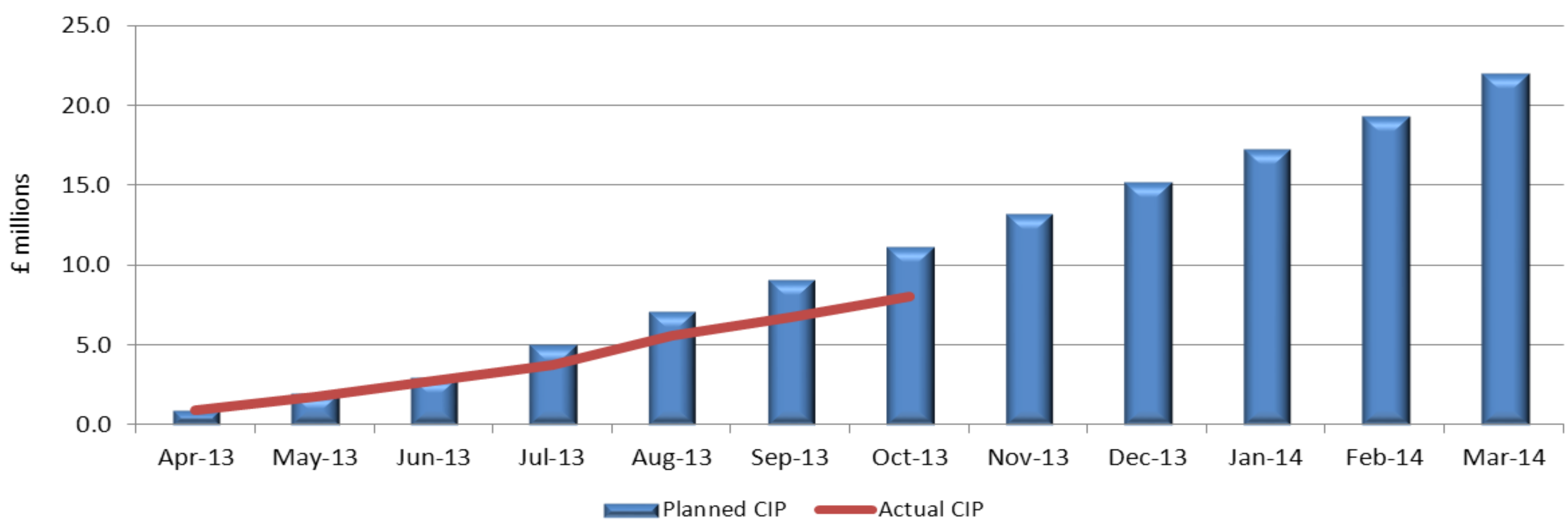
SECTION 2 – COST IMPROVEMENT AND PRODUCTIVITY

2.1 COST IMPROVEMENT PROGRAMMES - £3.2 MILLION BEHIND PLAN

Theme	Target 2013/14 £m	Year to Date target at Oct'13 £m	Year to Date actual at Oct'13 £m	Year to Date variance at Oct'13 £m	% achieved to date
Workforce	10.703	5.432	4.585	(0.847)	84.40
Business Improvement	7.759	4.059	2.123	(1.936)	52.31
Medicines Management	0.831	0.246	0.258	0.011	104.61
Patient Flow	0.155	0.049	0.049	0.000	100.00
Procurement (including drugs)	2.553	1.413	0.965	(0.447)	68.34
Total	**22.000**	**11.199**	**7.980**	**(3.219)**	**71.26**

The shortfall in CIP delivery to date is £3.219 million which includes both divisionally allocated and centrally held CIP targets (including a pro-rate of the £5.4 million unidentified CIP). The shortfall in divisionally allocated targets is around £0.4 million with the balance being corporate or centrally held targets. Centrally held targets, such as procurement, are allocated to divisions as savings are identified and delivered.

2.2 COST IMPROVEMENT PROGRAMMES - TREND



SECTION 3 – EFFECTIVE MANAGEMENT OF RESOURCES AND INVESTMENT

3.1 RESERVES - £3.8 MILLION BALANCE

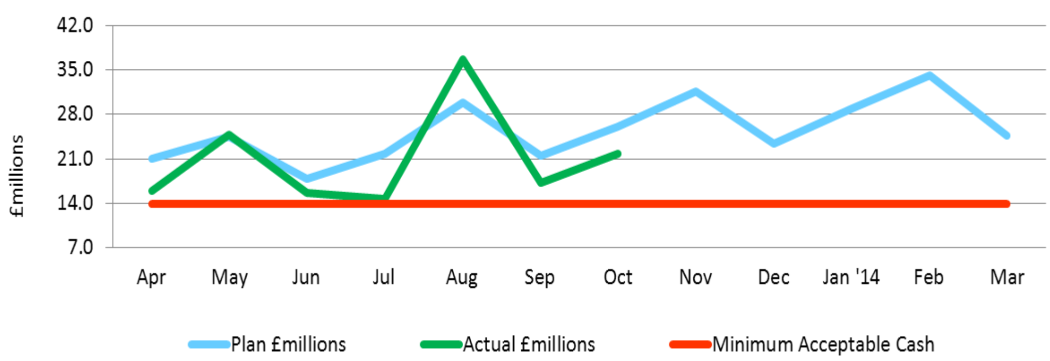
Reserve brought forward £m	Allocated £m	Unallocated £m	CIP Gap £m	Remaining Reserve £m
26.257	(22.035)	4.222	(5.400)	(1.178)

The table represents the unallocated, but earmarked reserves at the end of October.

£4.222 million is currently held centrally as an unallocated reserve. As reported in previous months this reserve will be used to offset shortfalls in CIP.

A review of the expected expenditure against this reserve is being undertaken.

3.2 CASH - £22 MILLION IN HAND



The cash position is satisfactory although the trend continues to remain below plan.

	Plan £m	Year to date £m	Variance £m
Closing Cash	26.139	21.833	(4.306)

Last Month Variance £m
(4.298)

Explanations for the variance include:

- Operating pressures including non pay.
- Investments within capital.
- Outstanding debts due with our commissioners relating to non-contract and block activity income.

3.3 CAPITAL PROGRAMME - £11 MILLION INVESTMENT

	Year to date	
	Actual £m	Variance £m
PFI Lifecycle investment	3.920	(0.003)
Refurbishment Wards 1 - 12	1.073	0.034
Equipment Replacement programme including associated enabling costs	4.246	(0.073)
Other schemes	1.998	(0.064)
Capital Programme	**11.237**	**(0.106)**

The trust had spent £0.106 million more than plan on its capital programme at the end of October.

The overspend relates to PCT funded projects and residual commitments from 2012/13 schemes.

Expenditure will continue to be monitored against this revised plan.