

FINANCIAL POSITION

FOR THE PERIOD ENDING 30 JUNE 2014



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SECTION 1 - OVERVIEW OF KEY FINANCIAL METRICS

1.1 OVERALL OPERATING POSITION - £3.7 MILLION DEFICIT

INCOME AND EXPENDITURE

Report reference	3 months to 30 June 2014	Year to Date				Movement in % variance in period
		Actual £m	Variance			
			£m	Operational risk	%	
1.4	Income	136.635	2.896		2.17	
1.5	Pay	(84.378)	(0.278)		(0.33)	
1.6	Non Pay	(48.025)	(2.051)		(4.46)	
	EBITDA	4.232	0.567		15.47	
	Non operating expenses	(7.976)	0.316		3.81	
1.3	Surplus / (Deficit) before impairments	(3.744)	0.883		19.08	

OTHER KEY FINANCIAL INDICATORS

	CIP	2.138	0.031		1.47	
3.4	Capital	(4.729)	1.577		25.01	
3.2	Cash	20.891	3.146		17.73	
	Aged Debt	5.390				
1.2	Risk Rating	2				

- The trust is reporting a deficit of £3.744 million at the end of June, which is better than plan by £0.883 million. The plan in 2014/15 delivers a £29.443 million deficit.
- The aim of the on going work being undertaken with support from McKinsey and Company on further CIP schemes, that was reported to the trust's Board of Directors in July, will reduce this deficit. This work will be captured in a 3 + 9 revised forecast for 2014/15 and is presented to the Board on a separate paper.
- CIP delivery shows 101.5% achievement of the 2014/15 year to date target. This equates to £2.138 million of the £11.849 million plan.
- The increase in aged debt from May amounts to £1.317 million and relates to invoices for block contract, Cancer Drug Fund and non contract activity income from our commissioners.

1.2 CONTINUITY OF SERVICE RISK RATING – 2 VERSUS A PLAN OF 1

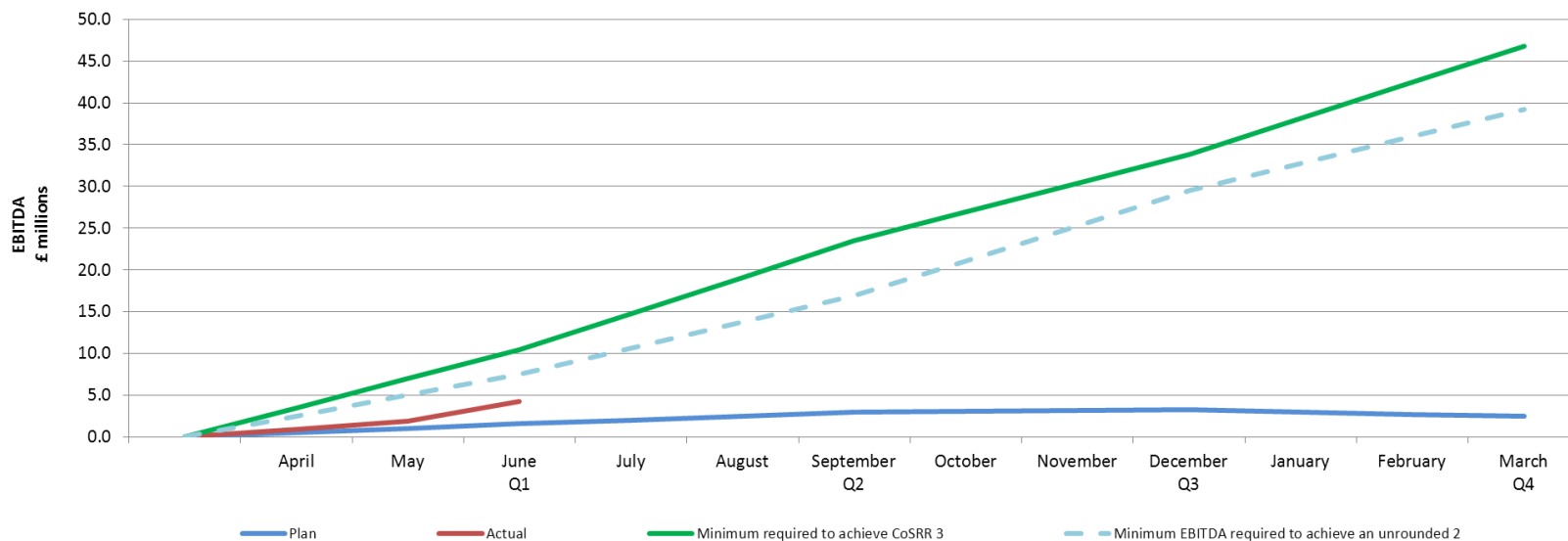
Indicative risk rating	Weighting	Plan	Actual	CoSRR 2
Debt Service Cover				
• Debt Service Cover metric		0.26	0.74	>1.25
• Debt Service Cover rating	50%	1	1	
Liquidity				
• Liquidity metric		-15.1	-11.7	<-14
• Liquidity rating	50%	1	2	
Continuity of Services Risk Rating		1	2	

Performance at the end of June translated to an indicative risk rating of 2 (rounded) compared to plan of 1. Of the metrics liquidity remains the stronger on the back of contract payments received in advance from our commissioners.

The debt service cover metric is mainly driven by the impact of PFI on balance sheet. A rating of 2 on this element of the CoSRR would require an EBITDA of £31 million for the full year. The trust reported an EBITDA of £2.485 million in its 2014/15 forward plan.

The liquidity metric is influenced by EBITDA, the year end cash balance, PFI accounting and stock holdings. Stock holdings have risen £0.186 million to £8.282 million (equivalent to 5.5 days).

EBITDA includes the identified £11.849 million CIP, but does not yet include savings arising from the 'continuing journey' workstreams.



1.3 OPERATING PERFORMANCE - £0.9 MILLION AHEAD OF PLAN

Analysis of 2014/15 financial position	Internal Plan 2013/14 £m	Actual £m	Variance £m	Overtrading and expenditure pressures £m	Additional excluded drugs and devices £m	CIP shortfall £m	Variance £m
Income	133.739	136.635	2.896	2.918	(0.022)	0.000	2.896
Operating Expenses	(130.074)	(132.403)	(2.329)	(2.376)	0.016	0.031	(2.329)
EBITDA	3.665	4.232	0.567	0.542	(0.006)	0.031	0.567
Non Operating Expenses	(8.292)	(7.976)	0.316	0.316	0.000	0.000	0.316
Surplus/Deficit	(4.627)	(3.744)	0.883	0.858	(0.006)	0.031	0.883

- The operating position to the end of June is a deficit of £3.744 million.
- The position is £0.883 million ahead of the 2014/15 trust plan.
- Confirmed income in April and May indicates increased activity consistent with the delivery of RTT waiting times. High levels of expenditure in the first two months of the financial year are consistent with the increased levels of income. June expenditure is not as high as the previous two months, but using this information in isolation is not sufficient to assume a reduced level of income in June. The timetable for validating income data is being accelerated to enable improved matching of revenue and costs.

1.4 INCOME - £2.9 MILLION AHEAD OF PLAN

	Acute £m	Community £m	Other £m	Total £m	Last month Total £m
NHS South Tees CCG	0.914	(0.086)	0.000	0.828	0.177
Associate of NHS South Tees CCG	0.540	(0.013)	0.000	0.527	0.142
NHS Hambleton, Richmondshire and Whitby & Associate CCG's	0.382	(0.003)	0.000	0.379	0.234
Specialised	1.133	0.000	0.000	1.133	1.018
Other	0.096	0.031	(0.098)	0.029	0.221
Total	3.065	(0.071)	(0.098)	2.896	1.792

- The activity income position reflects actual activity to the end of May and June activity has been matched to the plan.
- The over-performance on specialised services largely relates to elective Cardiothoracic, Neurosurgery and major Trauma Orthopaedic activity.

1.5 PAY EXPENDITURE – £0.3 MILLION OVERSPEND

	£m
Nursing establishment underspend	1.231
Nursing (agency overspend)	(0.772)
Expected savings included in CIP	(0.523)
Nursing overspend	(0.064)

Medical (establishment overspend)	(0.210)
Medical (agency overspend)	(0.966)
Medical overspend	(1.176)

Admin & Clerical underspend	0.372
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Other underspend	0.590
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Total Pay overspend	(0.278)
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- The total pay position is showing a £0.278 million year to date overspend. This has not increased in the month.
- Medical pay expenditure is the major cause of the adverse variance, with the medical overspend amounting to £1.176 million. The detailed analysis of the current and future expenditure is being interrogated. This will identify the reason for the variance between demand and capacity activity and expenditure incurred in covering vacancies.
- Nursing expenditure is slightly overspent, taking into account the NHSP expenditure and the expected vacancies included in CIP.
- Admin & Clerical and Other areas of expenditure which includes PAM's and Scientific & Technical are offsetting the medical overspend.

1.6 NON PAY EXPENDITURE – £2.1MILLION OVERSPEND

	£m
Prosthetics, Appliances & Implants	(0.633)
Drugs	(0.231)
PbR excluded Drugs & Devices	0.016
Medical & Surgical Equipment	(0.343)
Procurement CIP to be achieved later in 2014/15	(0.457)
Other	(0.403)
Total	(2.051)

- The non pay position is showing a £2.051 million year to date overspend.
- The non pay expenditure can be linked to the additional activity. Further work is being undertaken to establish the marginal cost of both current and future activity across the clinical centres.
- Excluded drugs and devices expenditure is not a significant part of the non pay variance because the income target and non pay budget have been realigned.
- HMRC have raised a potential VAT liability on the trust amounting to £0.884 million concerning the recovery of VAT paid on energy and maintenance contracts on our energy centres since 2010. Discussions are on-going between the trust, our advisors and HMRC to mitigate this potential liability. This liability is not included in the current position.

1.7 CENTRE PERFORMANCE

Centre	Reason	Action	Variance £m
Trauma, Theatres & Anaesthetics	Income - CRU (formerly RTA) income is less	Review CRU plan	(0.922)
	Pay - Medical expenditure in A&E and Theatres	Prepare business cases to be able to accurately forecast the costs and savings related to the delivery of the RTT target.	
	Non pay - appliances and implants	Analyse expenditure and establish link to RTT delivery. In particular the increase in expenditure compared to the under recovery against the income target.	
Tertiary	Income - Cardiology, Cardiothoracic Surgery and Neurosurgery are ahead of plan	Establish if this overperformance will continue and incorporate the findings into the forecast position	1.283
Integrated Medical Care	Income - non elective and critical care income are ahead of plan	Establish if this overperformance will continue and incorporate the findings into the forecast position	0.859

- The table provides an explanation of the major variances to plan by centre.

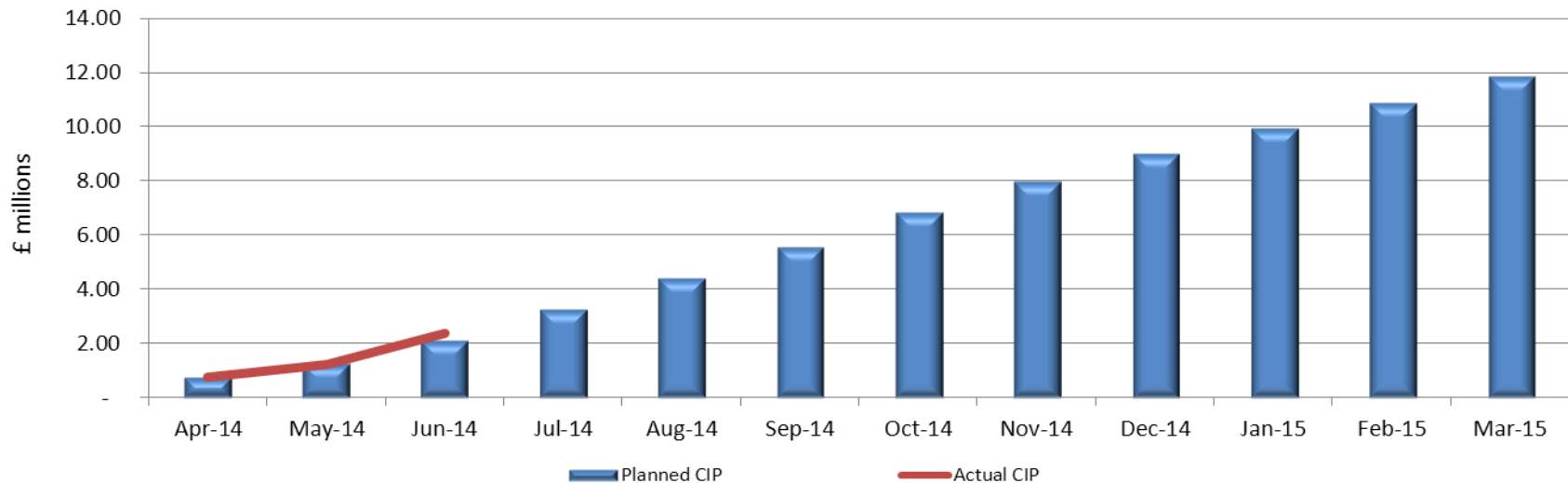
SECTION 2 – COST IMPROVEMENT AND PRODUCTIVITY

2.1 COST IMPROVEMENT PROGRAMMES – AHEAD OF PLAN

Theme	Target 2014/15 £m	Year to Date target at June'14 £m	Year to Date actual at June'14 £m	Year to Date variance at June'14 £m	% achieved to date
Workforce	6.158	1.153	1.181	0.039	103.4
Business Improvement	3.304	0.823	0.823	0.000	100.0
Medicines Management	0.219	0.055	0.055	0.000	100.3
Patient Flow	0.000	0.000	0.000	0.000	100.0
Procurement (including drugs)	2.168	0.076	0.068	(0.007)	90.1
Total	11.849	2.106	2.137	0.031	101.5

- CIP delivery for 2014/15 is slightly ahead of plan achieving 101.5%.
- Additional workforce savings are off setting any delayed delivery of CIP's.
- Further CIP plans will be added following Board of Directors approval.
- Procurement savings are planned to deliver in the last 9 months of the 2014/15, however circa £1.000 million of this target needs to be identified.

2.2 COST IMPROVEMENT PROGRAMMES - TREND



SECTION 3 – EFFECTIVE MANAGEMENT OF RESOURCES AND INVESTMENT

3.1 RESERVES – £18.9 MILLION BALANCE

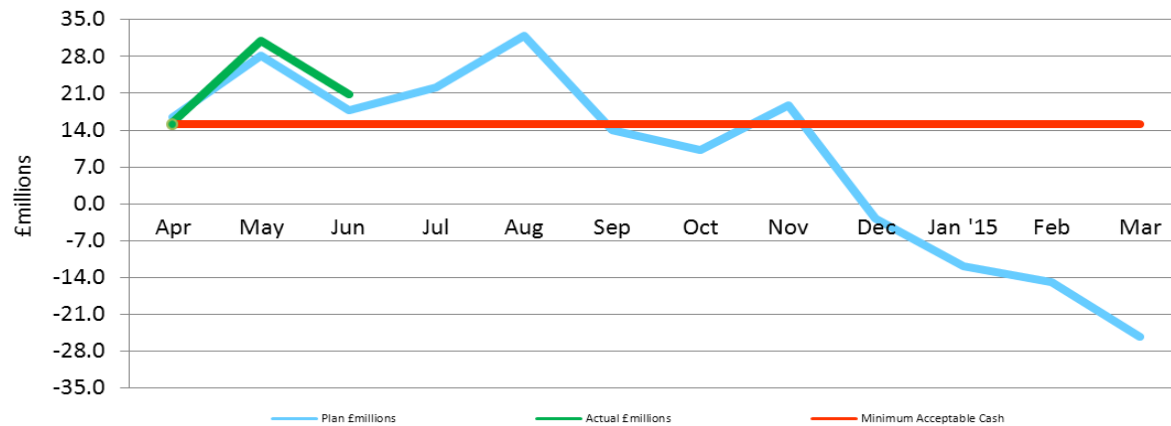
Reserve brought forward £m	Allocated £m	Unallocated & Earmarked £m
31.653	(12.756)	18.897

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

As part of setting the 2014/15 budget the Trust included a £31.653 million reserve.

£12.756 million of full year expenditure has been allocated in the first 3 months of the financial year.

3.2 CASH - £20.9 MILLION IN HAND



The graph represents the impact on cash of the £29.443 million planned deficit.

	Plan £m	Year to date £m	Variance £m
Closing Cash	17.745	20.891	3.146

Last Month Variance £m
2.784

The cash position at the end of June was above minimum acceptable cash and was above plan by £3.146 million.

The variance relates to July NHS commissioner contract payments which have been advanced in June.

3.3 ROLLING THIRTEEN WEEK CASH FLOW FORECAST

	July £000	August £000	September £000	October £000
Opening cash balance	20,891	22,092	31,946	14,098
Receipts				
Block contract income	39,149	42,262	42,261	42,148
Other income	3,589	3,589	3,689	3,579
Financial Liabilities - block contract adjustments	2,371	8,005	(4,000)	(4,000)
Total cash receipts	45,109	53,856	41,950	41,727
Payments				
Pay (including PAYE & Pensions)	(27,777)	(27,872)	(27,774)	(28,002)
Non-pay	(14,150)	(13,257)	(28,367)	(15,226)
Non-pay - PFI	(649)	(902)	(1,315)	(1,713)
Capital	(1,332)	(1,971)	(2,342)	(526)
Total cash spend	(43,908)	(44,002)	(59,798)	(45,467)
Closing cash balance	22,092	31,946	14,098	10,358
Annual Plan	22,058	31,912	14,021	10,286

The plan and closing cash positions for September and October reflect the reduction in block contract income following the early payment on contracts in the first 5 months of the year.

3.4 CAPITAL PROGRAMME - £4.7 MILLION INVESTMENT

	Year to date	
	Actual £m	Variance £m
PFI Lifecycle investment	(1.461)	0.000
Nursing Technology Fund	(1.139)	0.179
Other schemes	(2.129)	1.398
Capital Programme	(4.729)	1.577

Spend is £1.577 million behind plan at the end of June. The slippage in the programme relates to the following:

- Pulmonary bypass machines (£0.540 million) – re-specification undertaken has resulted in delays in procurement of systems and equipment.
- Sterile services decontamination (£0.425 million) – reconsideration of scope of works and strategy. It is anticipated that work will begin towards the end of July 2014.

The variance of £1.577 million is greater than 15% of plan and this has triggered the requirement for the trust to submit a reforecast to Monitor. The reforecast forms part of the quarterly return and will be supported by a signed declaration on behalf of the Board. Further information to support the reforecast is attached at Appendix 1.

Project	Status/Information
Windows 7	First batch of reconditioned PCs purchased and being deployed. Remote desktop software purchased and installed, staff trained and commencing re-packaging of applications which will take a number of months.
LAN upgrade	Tender issued, responses received 3 rd July 2014 and are currently under evaluation.
Telephony	Single tender action to be completed with existing VOIP supplier for telephony solutions and planning underway
Vital Pac	Deployment and testing on Ward 3 complete, training on Ward 4 commencing 7 th July and continuing to plan. Nurses and doctors impressed with solution.
Community laptops	On schedule - Complete in MRC and commencing in HR&W.
Integrated Digital Care Fund	Status/Information
Individual organisation	Electronic Clinical Noting – bid complete and submitted to NHSE w/c 7th July
Partnership	Hosted by MBC, including Redcar and Cleveland and NY councils, ourselves, CT and HRW CCGs and possibly TEWV. The aim of the bid is to share patient data electronically via a portal between the collective organisations in the partnership. For the trust it will also include an upgrade to Sunquest ICE to enable correspondence between the trust, GPs, social services and other agencies to be delivered electronically.

	2014/15 Monitor Plan including slippage	Actual spend 30 June 2014	Q2	Q3	Q4	2014/15 Total	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Committed Expenditure										
PFI Lifecycle costs	5,845	1,461	1,461	1,461	1,462	5,845	5,835	7,205	7,657	10,049
Schemes:										
Decontamination SSD	973	-21	94	224	676	973	0	0	0	0
Site Redevelopment	2,000	112	457	783	648	2,000	1,500	1,500	1,500	1,500
Haematology Day Unit and Inpatient Ward	660	524	0	0	136	660	0	0	0	0
Car Parking	3,350	181	950	1,800	419	3,350	0	0	0	0
Additional Theatre	682	435	0	0	247	682	0	0	0	0
Pulmonary Bypass machines	800	360	584	0	0	944	0	0	0	0
Information Technology	1,600	36	417	360	787	1,600	2,000	2,000	2,000	2,000
MRI (FHN)	0	0	0	0	0	0	1,961	0	0	0
Vital Signs Monitoring	1,318	1139	0	0		1,139	0	0	0	0
Other commitments (includes Chemotherapy electronic prescribing and Maternity IT system)	783	220	246	102	201	769	400	400	400	400
Estates Maintenance	300	0	0	140	160	300	400	400	400	400
Block Allocations:										
Chief Executives Emergency Equipment	575	123	250	100	102	575	675	675	675	675
Minor Equipment Replacement	0	6	0	0	0	6	100	100	100	100
IT Discretionary Replacement	250	4	82	82	82	250	250	250	250	250
X Ray Tube Replacement	150	0	50	50	50	150	150	150	150	150
Salary Recharges	250	82	82	82	82	328	320	320	320	251
Rolling/Replacement programme	3,334	67	259	921	2087	3,334	5,000	5,000	5,000	5,000
Total Allocation	22,870	4,729	4,932	6,105	7,139	22,905	18,591	18,000	18,452	20,775
Monitor Plan Total	22,109						18,591	18,000	18,452	20,775