South Tees Hospitals NHS
NHS Foundation Trust

Meeting / Committee	Board of Directors	**Meeting Date**	31 July 2012

This paper is for	Action/Decision	Assurance X	Information

Title	Financial position for the period ending 30 June 2012

Purpose	The purpose of this report is to advise the Board of the financial position as at the end of June 2012.

Summary	The trust's operating performance is satisfactory at the end of June, but non pay expenditure remains a concern.

Prepared by	Finance	**Presented by**	Chris Newton

Recommendation	The Board of Directors is asked to note and comment on the financial position and action and to confirm that:- • The Monitor quarter one return can be submitted in line with the financial performance highlighted in this report. • The trust can declare that it will maintain a risk rating of at least 3 for the next twelve months.

Implications	Legal	Financial X	Safety & Quality	Strategic X	Risk & Assurance X

South Tees Hospitals NHS
NHS Foundation Trust

Financial position for the period ending 30 June 2012

Section 1 Summary

A commitment of £0.6 million has had to be made from the contingency in order to achieve a satisfactory financial risk rating in Q1

1.1 Overall operating position

	Current Month			Year to date		
	Actual £m	Variance £m	Last Month Variance £m	Actual £m	Variance £m	Last Month Variance £m
Income						
Activity Income	39.639	1.040	(1.199)	118.170	(0.292)	(1.332)
Non Activity Income	2.309	(0.134)	0.231	7.688	0.271	0.405
Income, Total	**41.948**	**0.906**	**(0.968)**	**125.858**	**(0.021)**	**(0.927)**
Operating Expenses						
Pay	(25.911)	0.201	(0.165)	(78.435)	0.184	(0.017)
Drugs	(2.623)	0.258	(0.263)	(9.099)	(0.312)	(0.570)
Clinical supplies	(4.350)	0.256	(0.220)	(13.126)	0.144	(0.112)
PFI operating expenses	(2.135)	0.006	(0.092)	(5.957)	(0.164)	(0.171)
Other operating expenses	(4.028)	(0.181)	(0.236)	(12.936)	(0.629)	(0.447)
Operating Expenses, Total	**(39.047)**	**0.540**	**(0.976)**	**(119.553)**	**(0.777)**	**(1.317)**
Profit (Loss) from Operations (EBITDA)	**2.901**	**1.446**	**(1.944)**	**6.305**	**(0.798)**	**(2.244)**
Non Operating Expenses, Total	**(2.573)**	**0.018**	**0.165**	**(7.889)**	**0.251**	**0.233**
Net Surplus / (Deficit)	**0.328**	**1.464**	**(1.779)**	**(1.584)**	**(0.547)**	**(2.011)**

Indicative risk rating	Weighting	Q1 June Plan	Q1 June Actual	FRR2
Underlying performance				
• EBITDA Margin metric		5.0%	5.0%	**<5%**
• EBITDA Margin rating	25%	**3**	**3**	
Achievement of plan				
• EBITDA % of plan achieved metric		100.0%	99.6%	**<70%**
• EBITDA % of plan achieved rating	10%	**5**	**4**	
Financial Efficiency				
• Net return after Financing metric		-2.8%	-2.8%	**<3%**
• Net return after financing rating	20%	2	2	
• IS Surplus margin metric		-1.4%	-1.2%	**<1%**
• IS Surplus margin rating	20%	2	2	
		2	**2**	
Liquidity				
• Liquidity days metric		16.9	19.9	**<15**
• Liquidity rating	25%	**3**	**3**	
Weighted Average Rating		**2.80**	**2.70**	
Financial Risk Rating		**3**	**3**	

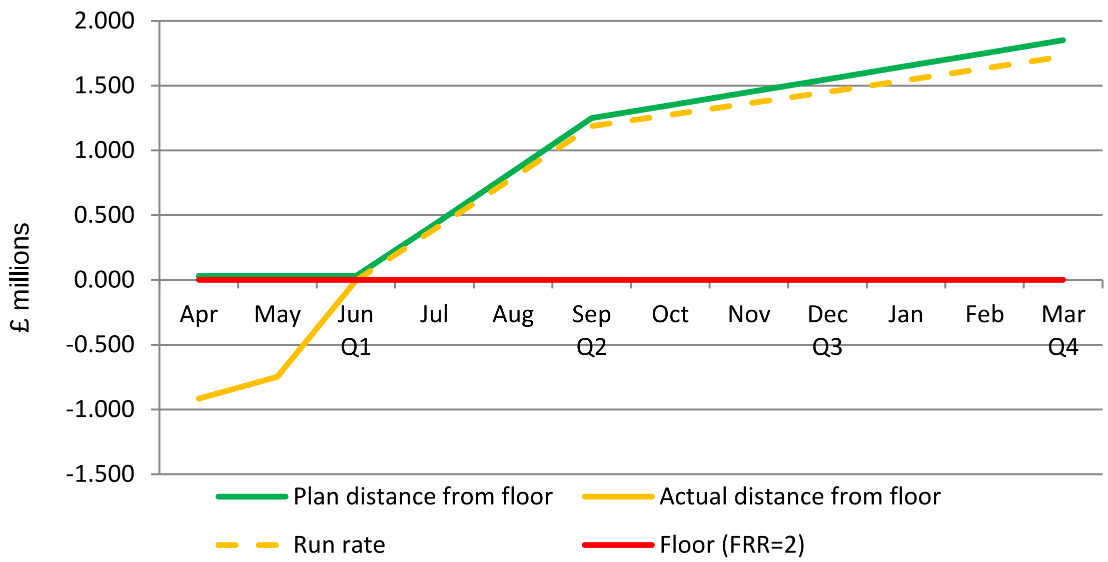
Translating this performance into an indicative risk rating shows that the trust would be rated at 3. This is satisfactory.

The operating position remains behind plan. In order to achieve a satisfactory financial risk rating in Q1 it has been necessary to commit £0.6 million of the contingency. This adjustment has been made to PFI operating expenses, where there is some non-recurrent benefit arising from prior years' expenditure accruals.

The divisions under the greatest financial stress are:

Divisions more than £0.2 million behind plan	£m
Women and Children	0.252
Community Services	0.232
Pathology	0.225

1.2 **Headroom and run rate against Monitor plan**



The graph plots the planned and actual operating performance, together with the run rate, against the headroom available before the trust would breach its terms of authorisation (the *Floor*). The run rate projection has been revised this month, to track the phasing of the plan rather than as a simple straight line.

The run-rate projects an outturn which is £0.1 million below plan but £1.7 million above the Floor. This should be read with caution as there is limited data and the Q1 position includes the use of £0.6 million contingency. Furthermore, additional P&E delivery is phased in from July onwards, which will create further pressure.

Section 2 Operating performance

The income position has improved
but non-pay spend and P&E delivery remain a concern

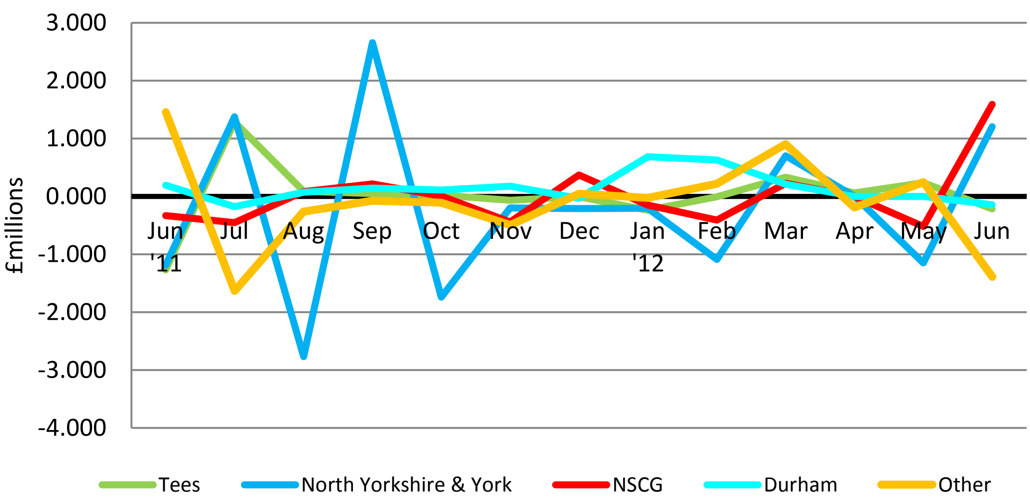
2.1 Income

Overall, income performance is broadly in-line with plan and has improved, as anticipated, from last month. NHS activity remains behind plan, but has improved significantly from last month:

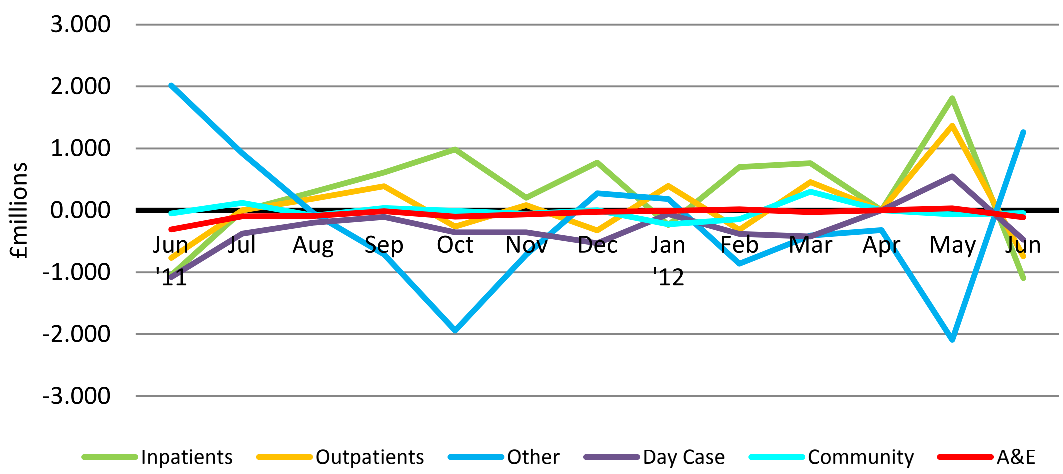
PCT trading variance	Last month Cumulative £m	This month Cumulative £m
Tees	0.293	0.075
North Yorkshire & York	(1.153)	0.049
NSCG	(0.522)	1.069
Durham	(0.001)	(0.148)
Other	0.053	(1.336)
Total	**(1.332)**	**(0.292)**

Income trends by PCT and point of delivery are set out below.

PCT contract variances by month



Point of delivery variance by month

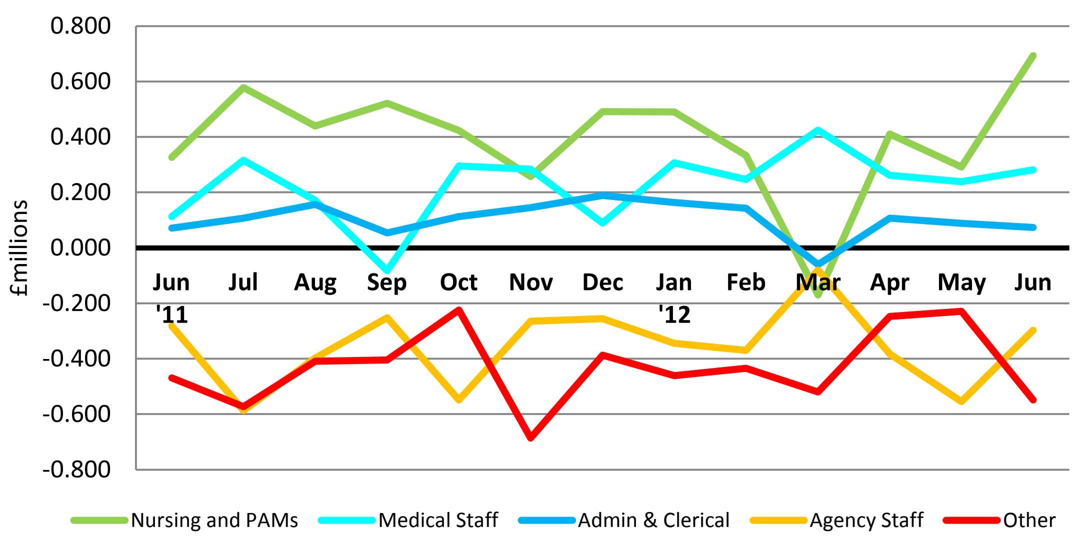


The income position is based on actual activity data for April and May together with and assessment for June based on the number of working days. There were two bank holidays in June together with a day of industrial action which has impacted upon activity income.

Non-activity income is ahead of plan. There are no individually significant items to report.

Pay

Monthly pay variance by staff group



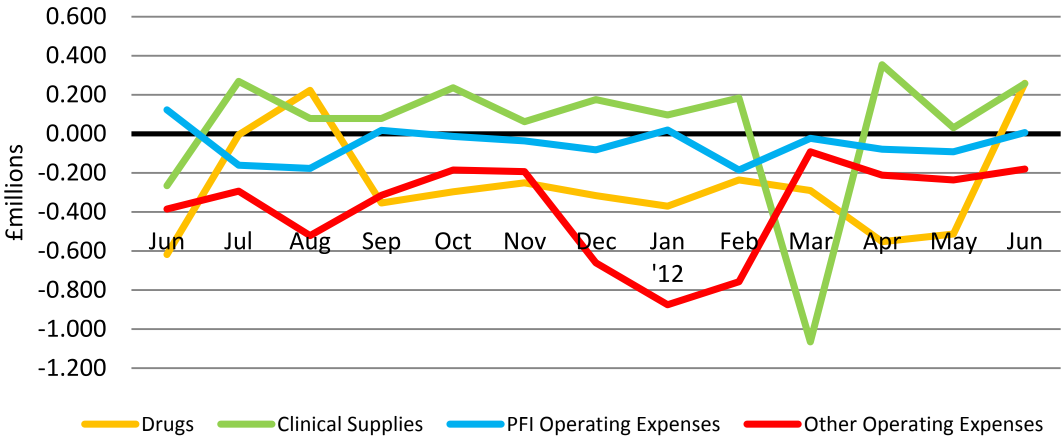
Overall, pay is underspent at the end of June. This trend will need to be maintained as there are further P&E savings scheduled to deliver from July.

- Other pay includes unallocated P&E target, which is being offset by underspending in other heads.

- Agency costs (cumulative) ....£1.538 million
  - community services (medical) £0.213m
  - community services (nursing) £0.426m
  - acute medicine (nursing - G52 patients) £0.233m

Non-pay

Monthly non pay variance by expenditure group



NB – All graphs show adverse variance as negative eg below the zero axis.

Non pay overspending remains a concern with a cumulative overspend of £0.961 million at the end of June, after the application of £0.6 million of contingency. The underlying positon has, therefore, worsened since last month. The main areas of cumulative overspending are:

Drugs

- Non high cost drugs ....£0.281 million
  - specialty medicine (Haematology & Oncology) £0.182m
  - CSS (OP drugs not yet allocated to divisions) £0.179m

PFI operating costs

- PFI variations (currently under review with planning/finance) ....£0.124 million

Other operating costs

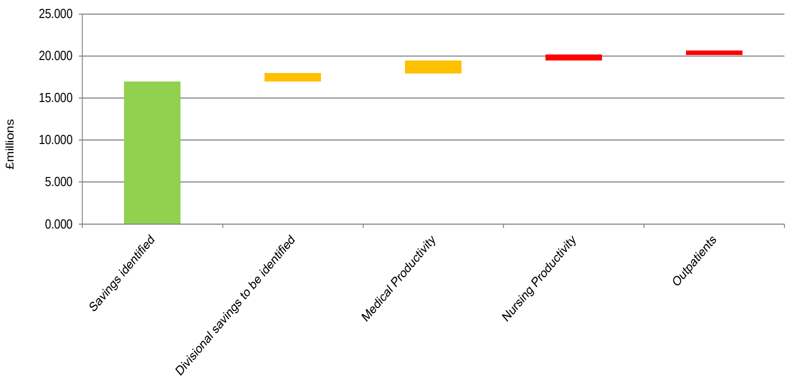
- Renal satellite units (shift of activity from main hospital) ....£0.187 million

2.2 Productivity and efficiency

Theme	Target 2012/13 £m	Year to Date actual £m	Year to Date variance £m	% achieved to date
Workforce	10.497	1.380	0.041	103.0
Business Improvement	4.781	1.091	(0.201)	84.5
Medicines Management	1.968	0.426	(0.011)	97.4
Patient Flow	0.873	0.000	0.000	0
Procurement	2.537	0.227	(0.127)	64.7
Total	**20.656**	**3.124**	**(0.298)**	**91.3**

- Overall delivery has worsened in month slipping from 92.1% to 91.3%, despite over-achievement on workforce savings.
- The procurement savings target is currently held in the planning directorate budget whilst savings are reflected in divisions. We will allocate this target out from next month and demonstrate better delivery.

The bridge chart below shows the make-up of the annual P&E target by main scheme and RAG rated for risk of delivery.



Out-patients remains a high risk and nursing productivity has now been escalated to a red risk. This is equates to £1.2 million (5.8%) of the annual planned savings. The total risk including amber rated elements is £2.8 million.

Section 3 Source and application of funds

The cash position remains satisfactory

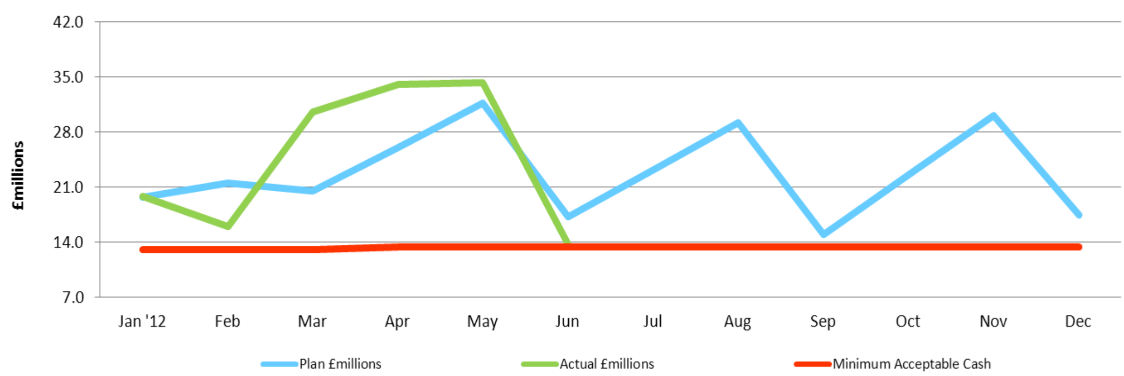
There is limited headroom available for further borrowing to support additional capital investment

3.1 Summary source and application statement

Summary Source and Application of Funds	Plan £m	Actual at 30 June 2012 £m
Opening cash balance at start of period	30.526	30.526
Source of Funds		
EBITDA	7.103	6.305
Treasury Management and Financing Activities	0.062	0.235
Total Funds Available	**37.691**	**37.066**
Application of Funds		
Capital investment	(3.837)	(2.817)
Treasury Management and Financing Activities	(4.651)	(4.819)
Total Application of Funds	**8.488**	**7.636**
Net Funds Available after application	29.203	29.430
Net movement in working capital	(11.987)	(15.720)
Closing cash balance at end of period	**17.216**	**13.710**

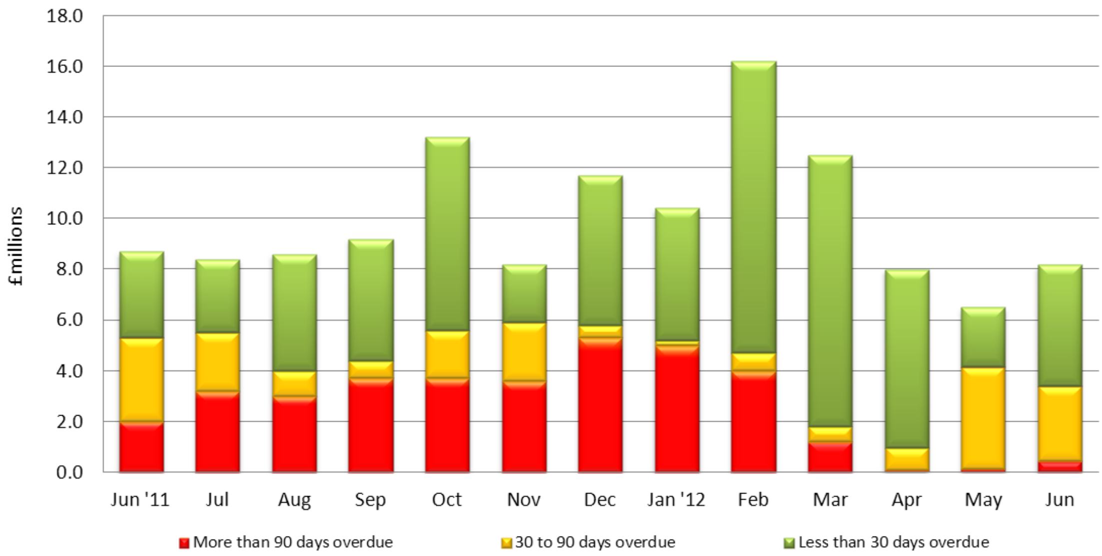
3.2 Cash and working capital

Cash in hand



- The cash position was satisfactory, although the cash balance fell below plan, but not below MAC. This was driven by the underlying operating position, an increase in debtors (see below) together with the settlement of o/s creditor invoices with Tees PCT relating to community service estates recharges for 2011/12. The impact of these debts had been anticipated in cash planning but the timing of payments was not adequately reflected. We will begin to recover this position next month.

Aged debt



Aged debt presents a low risk to the trust's financial position:

- **>90 days - £0.4 million**

  From April 2012 the bad debt provision has been excluded from the debts over 90 days category in order to show the net amounts at risk. The remaining debt comprises numerous smaller amounts and is subject to an arrangement to pay or is being actively pursued through recovery action.

- **30-90 days - £3.0 million**

  £1.4 million relates to 2011/12 community services contract variations with Tees PCT, due to be paid by the end of July. There is a further £0.9 million relating to other NHS organisations which we anticipate receiving in full. Non-NHS debt includes £0.3 million with Sainsbury's for the out-patient pharmacy, which was paid in July.

- **<30 days - £4.8 million**

  This includes £3.2 million of NHS debt which was due for payment by the end of July, including Q1 non-contract activity. Non-NHS debt includes £0.6 million with Endeavour in relation to PFI income, which was paid in July, and £0.2 million with Sainsbury's which is due to be paid by the end of August.

3.3 Capital programme

	Approved Annual Plan	Current Month			Year to date		
		Actual £m	Variance £m	Last Month Variance £m	Actual £m	Variance £m	Last Month Variance £m
Cancer Radiotherapy Expansion	3.268	0.152	0.030	0.033	0.228	0.016	(0.014)
Generic High Dependancy Unit	1.087	(0.069)	(0.456)	0.016	0.539	(0.548)	(0.092)
Refurbishment Wards 1 - 12	1.500	0.000	0.000	0.000	0.000	0.000	0.000
Endoscopic Decontamination at JCUH	1.808	0.024	0.009	0.034	0.073	0.028	0.019
Sterile Services Decontamination	1.271	(0.010)	(0.060)	0.034	0.049	(0.022)	0.038
PFI Lifecycle investment	4.032	0.288	(0.048)	(0.004)	0.887	(0.121)	(0.073)
Equipment Replacement programme including associated enabling costs	4.094	0.039	(0.392)	(0.054)	0.409	(0.454)	(0.062)
Other schemes	2.850	0.088	(0.093)	0.124	0.632	0.081	0.174
Capital Programme	**19.910**	**0.512**	**(1.010)**	**0.183**	**2.817**	**(1.020)**	**(0.010)**

The capital programme is £1 million behind plan at the end of June 2012, mainly due to delays in procurement for the equipment replacement programme. We do not anticipate any slippage into future years or cost variations within the programme at present.

3.4 Prudential borrowing

Prudential Borrowing Limit	PFI £m	Non-commercial borrowing £m	Leases £m	Total £m
Opening position at start of period	118.138	19.376	5.557	143.071
New borrowing	0.000	0.000	0.803	0.803
Principal repayments	(0.882)	0.000	(0.500)	(1.382)
Closing position at end of period	**117.256**	**19.376**	**5.860**	**142.492**
Prudential Borrowing Limit				**151.000**

Prudential Borrowing Code	Measure	Plan	Actual
PBC ratio test			
Minimum Dividend cover	>1	4.9	4.8
Minimum interest cover	>2	2.4	2.3
Minimum debt service cover	>1.5	1.6	1.6
Maximum debt service to revenue	<10%	3.1%	3.1%

- We have suggested to Monitor that a PBL of £151 million is appropriate, as we have an opportunity to switch some planned leasing into borrowing from the Foundation Trust Financing Facility at preferential rates. This would result in a higher than planned liability, due to the way lease liabilities are calculated when compared to borrowing, but would deliver an expenditure benefit due to the lower interest rates. We are awaiting Monitor's confirmation of the PBL.

- Performance against PBC ratios is satisfactory.

- The headroom for borrowing is presently around £0.4 million of annual principal and interest payments, which equates to around £5 million of long term borrowing (25 years) or £1.0 million of short term borrowing (5 years). This will be affected by both prevailing interest rates and underlying performance.