SECTION 1 - OVERVIEW OF KEY FINANCIAL METRICS

1.1 OVERALL OPERATING POSITION

Q1 to 30 June 2013	Year to Date				Movement in period
	Actual £m	Variance £m	Variance Operational risk	Variance %	
Income	131.457	1.648	Green	1.27	↑
Pay	(80.743)	1.155	Green	1.41	↑
Non Pay	(45.278)	(3.060)	Red	(7.25)	↓
EBITDA	5.436	(0.257)		(4.51)	
Non operating expenses	(6.513)	0.260	Green	3.84	↑
Surplus / (Deficit) before impairments	(1.077)	0.003		(0.28)	
Capital	(4.939)	(2.287)	Green	(86.24)	↓
PBL	(145.779)	(0.065)	Green	(0.04)	↓
Cash	15.614	(2.255)	Amber	(12.62)	↓
CIP	2.748	(0.129)	Red	(4.48)	↑
Aged Debt	6.213		Green		↓
Risk Rating	2.700		Green		↔

COMMENTARY

- Deficit of £1.077 million, which is in line with Monitor plan. £1.240 million of the contingency has been utilised in this position. £0.704 million is remaining within contingency.
- Overspend on capital of £2.287 million, which is ahead of plan.
- PBL and risk ratings are in line with plan.
- Cash is £2.255 million behind plan.
- We have achieved 95.5% of the CIP year to date target.
- Headroom to be developed once new Monitor risk rating framework has been finalised.

1.2 FINANCIAL RISK RATING – CURRENT METRICS

Indicative risk rating	Weighting	Plan	Actual	FRR2
Underlying performance				
• EBITDA Margin metric		5.10%	5.00%	**<5%**
• EBITDA Margin rating	25%	**3**	**3**	
Achievement of plan				
• EBITDA % of plan achieved metric		100.00%	98.10%	**<70%**
• EBITDA % of plan achieved rating	10%	**4**	**4**	
Financial Efficiency				
• Net return after Financing metric		-1.90%	-1.70%	**<-1%**
• Net return after financing rating	20%	2	2	
• IS Surplus margin metric		-0.80%	-0.80%	**<1%**
• IS Surplus margin rating	20%	2	2	
		2	**2**	
Liquidity				
• Liquidity days metric		20.0	18.1	**<15**
• Liquidity rating	25%	**3**	**3**	
Weighted Average Rating		**2.70**	**2.70**	
Financial Risk Rating		**3**	**3**	

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

1.3 FINANCIAL RISK RATING - PROPOSED METRICS

Indicative risk rating	Weighting	Plan	Actual	FRR2
Debt Service Cover				
• Debt Service Cover metric		1.29	1.24	**<1.75**
• Debt Service Cover rating	50%	**2**	**1**	
Liquidity				
• Liquidity metric		-4.0	-5.8	**<-7**
• Liquidity rating	50%	**3**	**3**	
Financial Risk Rating		**3**	**2**	

Existing performance translates to an indicative risk rating of 2, despite EBITDA being only 4.5% below plan.

Trust performance and specifically our EBITDA, must improve before the proposed metrics are introduced at the end of September.

1.4 MONITOR FRR DECLARATION

RECOMMENDATION - DECLARE FRR3

- Performance is currently on plan.
- Processes are in place to sustain plan.
- Track record of delivery.

HISTORY

- Have maintained FRR3 for some time.
- Unqualified 2012/13 accounts, operating surplus delivered.
- 2012/13 CIP fully delivered.
- Q4 2012/13 FRR3 confirmed by Monitor.

CURRENT

- Three year plan holds FRR3 and submitted to Monitor.
- Q1 2013/14 - on plan and achieved FRR3.

FORECAST 2013/14

- Income forecast underwritten by commissioner contracts.
- Funding pressures identified and proactively managed.
- Capital plan restrained pending raising £5 million further borrowing.
- CIP programme: £5 million to find, but offsetting spend on business cases and reserves temporarily withheld.
- Marginal increased income pursued.
- 2014/15 CIP plan Q1 underwritten by full year effect of late 2013/14 projects.

SECTION 2 – OPERATING PERFORMANCE

The most significant divisional variances are detailed below:

Division	Reason/Action	£millions Behind Plan
All	Unidentified CIP • Identify further CIP's for full year.	**£5.000**
Surgery	Income behind plan • Recover £300k income identified and address circa £250k month lost due to cancellations	**£0.978**
Trauma	Income behind plan and non pay expenditure • Investigate the use of Independent sector providers and maximise use of the trust's capacity.	**£0.465**
Acute Medicine	Non pay expenditure • Investigate conventional drug expenditure (Infectious Diseases & Gastroenterology) • Investigate clinical supplies expenditure (Critical care) • Reduce nursing agency expenditure, particularly G52 specialising. • Profile medical expenditure to address agency cost.	**£0.525**

2.1 PAY EXPENDITURE

Overall, pay is underspent by £1.155 million at the end of June. Nursing is underspent but is partially offset by agency costs.

MONTH 3 POSITION

	£m
Nursing (Establishment underspend)	1.430
Nursing (Agency overspend)	(0.891)
Nursing (Total underspend)	**0.539**

Medical (Establishment underspend)	0.287
Medical (Agency overspend)	(0.495)
Medical (Total overspend)	**(0.208)**

SICKNESS ABSENCE

Sickness absence has improved in in the first quarter of 2013/14 and is only slightly behind plan at 3.91% against a target of 3.90%. This position has improved enormously from 2012/13 where the estimated opportunity cost was £2.3 million.

Community and surgery are the divisions with the highest sickness rates.

2.2 NON PAY EXPENDITURE

Overall, non pay is over spent by £3.060 million at the end of June. The main areas of cumulative overspend are detailed below.

MONTH 3 POSITION

	£m
Medical and surgical purchases	0.695
Drugs	0.268
Independent sector	0.580
Non pay CIP target, not allocated to specific budgets	0.592

COMMENTARY

Excluded drugs and devices are offset by additional income of £0.354 million. The variance is held outside divisions, so as not to distort their individual performance.

2.3 INCOME

ACTIVITY INCOME VARIANCE

Activity Income Variance YTD	Acute £m	Community £m	Other £m	Total £m	Last month Total £m
NHS South Tees and Associate CCG's	0.110	(0.125)	0.000	(0.015)	0.871
NHS Hambleton, Richmondshire and Whitby & Associate CCG's	(0.450)	0.007	0.000	(0.443)	(0.440)
Cumbria, Nurthumberland, Tyne and Wear Area Team	1.547	0.000	0.000	1.547	0.823
Other	0.014	0.237	0.308	0.559	(0.137)
Total	**1.221**	**0.119**	**0.308**	**1.648**	**1.117**

COMMENTARY

Actual income reflects May coded activity together with a best estimate for June. Budget has been phased based on number of working days or calendar days. At this stage it is difficult to draw any meaningful conclusions as there is insufficient fully coded data to provide a robust comparison.

PRIVATE PATIENT INCOME

	Annual Plan £m	YTD Actual £m	Variance £m	Last Month Variance £m
Private Patient Income	1.395	0.360	(0.062)	(0.041)

Radiology and trauma are the main contributors to the current position.

EDUCATION, TRAINING, RESEARCH AND DEVELOPMENT

	Annual Plan £m	YTD Actual £m	Variance £m	Last Month Variance £m
Education, Training, Research and Development Income	16.079	4.212	0.158	0.065

NMET income is higher than originally planned.

2.4 COST IMPROVEMENT PROGRAMME

COST IMPROVEMENT PROGRAMMES

Theme	Target 2013/14 £m	Year to Date target at June'13 £m	Year to Date actual at June'13 £m	Year to Date variance at June'13 £m	% achieved to date
Workforce	13.455	1.249	1.428	0.179	114.3
Business Improvement	4.935	1.123	1.020	(0.102)	90.9
Medicines Management	0.831	0.040	0.034	(0.005)	86.9
Patient Flow	0.320	0.000	0.000	0.000	100.0
Procurement (including drugs)	2.460	0.466	0.265	(0.201)	56.9
Total	**22.000**	**2.878**	**2.748**	**(0.129)**	**95.5**

COMMENTARY

The trust has achieved 95.5% of the £2.878 million target in the 1st quarter of 2013/14. £0.207 million of the non-recurrent pay underspent has been included. More of the £22.0 million CIP target is phased in from July.

2.5 RESERVES

RESERVES

Reserve brought froward £m	Allocated £m	Unallocated £m	CIP Gap £m	Remaining Reserve £m
26.257	(16.543)	9.714	(5.000)	4.714

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

COMMENTARY

The trust currently has £5 million unidentified CIP, which will need to be allocated against the reserve, if plans are not developed and savings delivered in 2013/14.

Only the remaining balance of £4.7 million can be utilised at this point to deal with winter pressures, business cases and any unforeseen pressures.

SECTION 3 – CAPITAL PROGRAMME AND WORKING CAPITAL

CASH COMMENTARY

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

	Plan £m	Year to date £m	Variance £m	Last month Variance £m
Closing cash	17.869	15.614	(2.255)	(1.432)

Explanations for the variance include:

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

As part of the management process and to deliver a position close to target, the trust had to review the level of funds released for the creditor payment runs in the final 2 weeks of June.

WORKING CAPITAL COMMENTARY

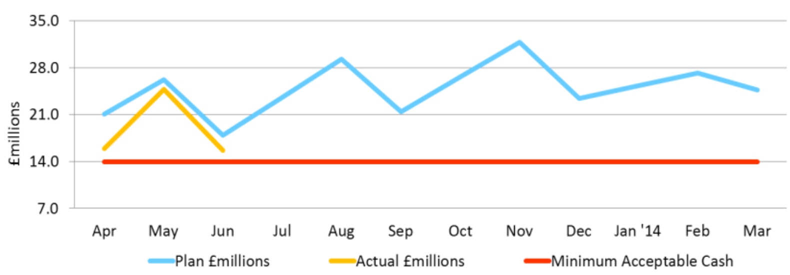
Aged debt presents a low risk to the trust's financial position.

- **> 90 days**
  The trust has approximately £0.5 million in debts over the 90 day category which have been fully provided for. It comprises numerous invoices with small value.

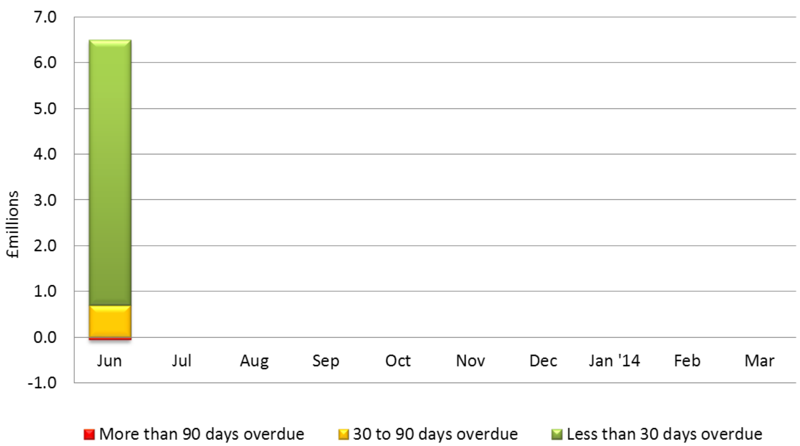
- **30-90 days - £0.7 million**
  £0.4 million relates to NHS debt, which we anticipate receiving in full. There are no individually significant sums within the £0.3 million of non NHS debt.

- **<30 days - £5.8 million**
  This includes £4 million of NHS and Local Authority debt, which is due for payment by the end of July. Non NHS debt includes £0.6 million with Endeavour, in relation to PFI income which will be paid. There are no other individually significant sums.

CLOSING CASH



AGED OVERDUE DEBT



BUSINESS SUSTAINABILITY

CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

CAPITAL PROGRAMME

The trust has spent £2.287 million more than plan on its capital programme by the end of June.

	Year to date	
	Actual £m	Variance £m
PFI Lifecycle investment	1.664	(0.144)
Refurbishment Wards 1 - 12	0.273	(0.123)
Equipment Replacement programme including associated enabling costs	2.107	(1.307)
Other schemes	0.895	(0.713)
Capital Programme	**4.939**	**(2.287)**

COMMENTARY

The additional spending was in the following areas:

- Equipment replacement programme - outstanding commitments from 2012/13 (£0.701 million) and associated enabling works £0.606 million.
- Emergency equipment replacement - earlier than originally planned (£0.300 million).
- PCT funded schemes from 2012/13 – outstanding commitments (£0.170 million).

The capital plan submitted to Monitor amounted to £15.900 million, and a paper has been formulated that provides details of the prioritised schemes that will call on this allocation. Further work is to be undertaken to determine current commitments and determine which of the prioritised schemes will proceed to deliver the plan.

PRUDENTIAL BORROWING

The trust has met its PBL and is in full compliance with its PBC ratios.

Prudential Borrowing Limit	**PFI £m**	**Non-commercial borrowing £m**	**Leases £m**	**Total £m**
Opening position at start of period	114.887	23.627	6.427	144.941
Net principal movements	(0.591)	1.800	(0.371)	0.838
Closing position at end of period	**114.296**	**25.427**	**6.056**	**145.779**
Prudential Borrowing Limit				**153.700**

Prudential Borrowing Code	**Measure**	**Plan**	**Actual**
PBC ratio test:			
Dividend cover	>1.0	6.8	6.3
Interest cover	>2.0	2.2	2.1
Debt service cover	>1.5	1.5	1.5
Debt service to revenue	< 10.0%	2.8%	2.8%

COMMENTARY

The trust has arrangements in place to utilise £5.1 million of borrowing that was approved by the Department of Health in 2012/13 and the trust is looking for approval of further borrowing amounting to £5 million, to support the approved plan.

Funding will be sourced through the NHS Financing Facility and it is anticipated that it will be approved in September. Its utilisation is dependent on the trust :

- Remaining within its PBL
- Achieving a satisfactory risk rating of 3 during 2013/14.