

## Finance Report Month 03 (June) 2012/13

### Key Financial Indicators

	2012/13 (Month 3)		Page
		RAG	
Financial Performance	Actual Surplus £0.9m	A	2
Monitor Financial Risk Rating	3 (YTD)	A	9
CIP performance	£3.3m	R	3
Liquidity (Net Current Liabilities)	£1.7m	G	7

### Commentary

The Trust achieved a cumulative surplus of £0.9m, as at the end of Month 3 which is a considerable improvement on the first two months of the year; though still below plan by £0.7m. This result has increased the overall Financial Risk Rating (FRR) to a score of 3.

The cumulative variance against plan reflects the continuing high level of elective and emergency activity which is £1.8m higher than expected; This is offset by the increase in costs of treating additional patients, £0.9m, and a shortfall on savings to date of £1.6m.

A recent review of the Getting Better savings programme has shown that £8.6m of savings should be achieved by the year end and work is ongoing to increase this, particularly through reducing the marginal cost of the extra work being undertaken. A separate paper reviews the forecast monthly run rate for the remainder of the year and concludes that the year end target surplus should be achievable.

The cash balance as at 30<sup>th</sup> June 2012 was £15.4m; 21.8 days of operating expenses. Note that, once the £7m relating to the Watford Hospital Link Road is excluded, the cash balance is reduced to £8.4m which is 11.9 days of operating expenses.

The Trust has achieved an overall rating of “3” using the Monitor Financial Risk Rating (FRR) ratios. This is sufficient to meet the minimum requirement for a Foundation Trust (FT).

The reported surplus £0.9m to Month 3, is £0.4m lower than the FIMS plan as submitted to the SHA. As indicated above this relates to higher than planned patient treatment income, offset by costs incurred delivering this activity and unachieved savings.

The SLR report, as at April, is included.

Once the FT application has been completed, the financial plan for the year will be updated to reflect a modest increase of £0.3m in the target surplus in response to the higher implied efficiency requirement from Monitor, which has increased since the original plan was set, and funding support from the PCT for the capacity development.

**M03 I&E - June 2012/13**

Full Year Budget £'000		Year to Date			
		Budget to Date £'000	Actuals to Date £'000	Variance³ £'000	Variance %
	<b>NHS Acute Activity Revenue</b>				
46,469	Elective revenue (long and short stay)	11,300	12,188	888	7.9
81,030	Non-Elective revenue	20,086	20,602	516	2.6
54,121	Outpatient	13,357	12,832	(525)	(3.9)
9,631	A&E	2,408	2,593	185	7.7
44,997	Other NHS	11,015	11,707	692	6.3
<b>236,248</b>	<b>NHS Clinical Revenue, Total</b>	<b>58,165</b>	<b>59,921</b>	<b>1,756</b>	<b>3.0</b>
	<b>Non NHS Clinical Revenue</b>				
2,445	Non NHS Clinical Revenue	601	517	(84)	(14.0)
<b>2,445</b>	<b>Non NHS Clinical Revenue, Total</b>	<b>601</b>	<b>517</b>	<b>(84)</b>	<b>(14.0)</b>
	<b>Other Operating income</b>				
8,635	Education and Training income	2,159	2,193	35	1.6
18,236	Other Operating Income	4,568	4,656	88	1.9
<b>26,872</b>	<b>Other Operating income, Total</b>	<b>6,727</b>	<b>6,850</b>	<b>123</b>	<b>1.8</b>
<b>265,565</b>	<b>Operating Revenue and Income, Total</b>	<b>65,493</b>	<b>67,288</b>	<b>1,795</b>	<b>2.7</b>
	<b>Operating Expenses</b>				
162,446	Employee benefits expense	40,561	42,359	(1,798)	(4.4)
14,248	Drug expense	3,562	3,798	(236)	(6.6)
24,256	Clinical supplies	6,146	6,392	(246)	(4.0)
28,306	Non Clinical Supplies	6,829	6,973	(145)	(2.1)
21,514	Other Operating expenses	3,835	3,897	(62)	(1.6)
<b>250,771</b>	<b>Operating Expenses, Total</b>	<b>60,933</b>	<b>63,419</b>	<b>(2,486)</b>	<b>(4.1)</b>
	<b>EBITDA</b>				
14,794	Surplus (Deficit) from Operations margin	4,561	3,869	(692)	(15.2)
	<b>Non-Operating expenses</b>				
1,098	Interest	275	269	5	1.9
7,596	Depreciation and Amortisation	1,899	1,899	0	0.0
3,300	PDC Dividend	825	825	0	0.0
<b>11,994</b>	<b>Non-Operating expenses, Total</b>	<b>2,999</b>	<b>2,993</b>	<b>5</b>	<b>0.2</b>
<b>2,800</b>	<b>Surplus/(Deficit)</b>	<b>1,562</b>	<b>876</b>	<b>(686)</b>	

**Analysed by Division**

65,625	Medicine	16,539	17,569	(1,030)	(6.2)
51,117	Surgery	12,748	13,730	(982)	(7.7)
28,934	Women's	7,063	7,278	(215)	(3.0)
27,288	Clinical Support	6,792	6,958	(166)	(2.4)
21,231	Estate & Facilities	5,109	5,235	(126)	(2.5)
24,451	Corporate	6,312	6,165	147	2.3
240,080	Central Income	59,123	60,804	1,680	0.2
18,635	Other	2,999	2,993	5	0.2
<b>2,800</b>		<b>1,562</b>	<b>876</b>	<b>(686)</b>	

**Income and Spend Variances**

**SLA Income** - at Month 3, the Trust is £1,756k above the year-to-date plan; an in month decrease of £242k. Non-elective over-performance has increased £90k in month and elective income performance is unchanged from May. There was an adverse swing in outpatients of £700k, in-part due to the impact of the June bank holidays which was not fully reflected in the plan. The cumulative position reflects increases in referrals and includes work carried out to meet 18 week targets. Non-elective & A & E performance continue to over-perform as a result of on-going emergency pressures.

**Non NHS Clinical Revenue** - although improved, is still below plan in relation to compensation recovery i.e. RTA Income.

**Other Operating Income** - the £88k adverse variance is made up of NEQAS and W. Herts PCT recharge income.

**Operating Expenses** - are £2,486k above budget at the end of Month 3. £1,632k relates to unachieved savings, £285k relates to non-delivery of QIPP reductions and the remainder to the cost of delivering increased levels of activity £589k. Across the main expense heads, note the following - pay overspent by £1,798k, of which the majority relates to CIP and QIPP. Non Pay overspent by £689k of which non delivery of CIP equates to £183k and the remainder to the delivery of activity. Of the drugs overspend, £202k relates to high cost drugs and is a pass through cost.

**Divisional Positions**

**Medicine** - Emergency activity and A&E attendances remain significantly above plan; resulting in overspends through opening unfunded beds, additional medical and nursing costs in A&E and outsourcing elective activity displaced by emergency patients occupying Cath Lab beds. Despite identifying a further £0.5m of savings, delivery in month 3 target was £127k behind plan.

**Surgery** - £340k overspent in month against budgets being £194k unrealised CIP savings, £60k unrealised QIPP savings and £100k additional costs of weekend working. 30 additional weekend lists run creating capacity to operate on 170 patients in the month.

**Women & Children** - Further outsourcing of activity in Gynaecology; £19k overspent. Increased temporary staffing expenditure in maternity theatres whilst recruitment continues £28k overspent offset by £16k underspend on midwifery pay expenditure as number of deliveries continues below plan. Divisional savings yet to be achieved is £203k.

**Clinical Support** - M3 shows an adverse variance of £7k which is made up of underachievement of CIP of £16k offset by under spends in Pathology and Pharmacy.

**Estates & Hotel Services** - In M3 there is an adverse variance of £101k due to underachievement of CIP of £76k and £50k MFD costs to be recharged internally offset by under spends in pay, utilities, postage and additional income.

**Corporate** - Favourable variance in month is primarily due to an additional VAT reclaim relating to 2011-12 financial year.

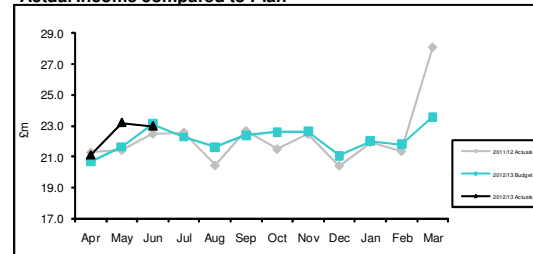
**Performance by Contract**

	YTD Actuals £'000	YTD Variance £'000
NHS Harrow	723	(86)
NHS Hertfordshire (incl specialist commissioning)	55,336	2,973
NHS Hillingdon	1,217	(58)
Other Primary Care Trusts	1,966	(34)
Non-Contract Activity	680	(1,039)
	<b>59,921</b>	<b>1,756</b>

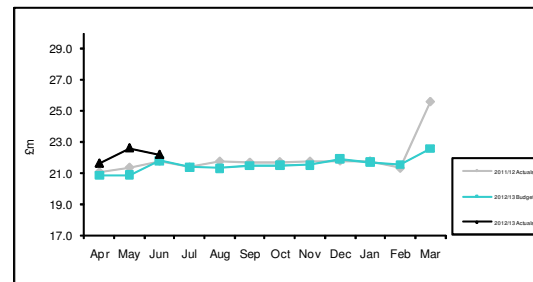
**SLA Income Variances by Division**

	YTD Actuals £'000	YTD Variance £'000
Medicine	20,932	786
Surgery	20,554	960
Women's	11,935	(359)
Clinical Support	2,838	111
Other	3,662	258
	<b>59,921</b>	<b>1,756</b>

**Actual Income compared to Plan**

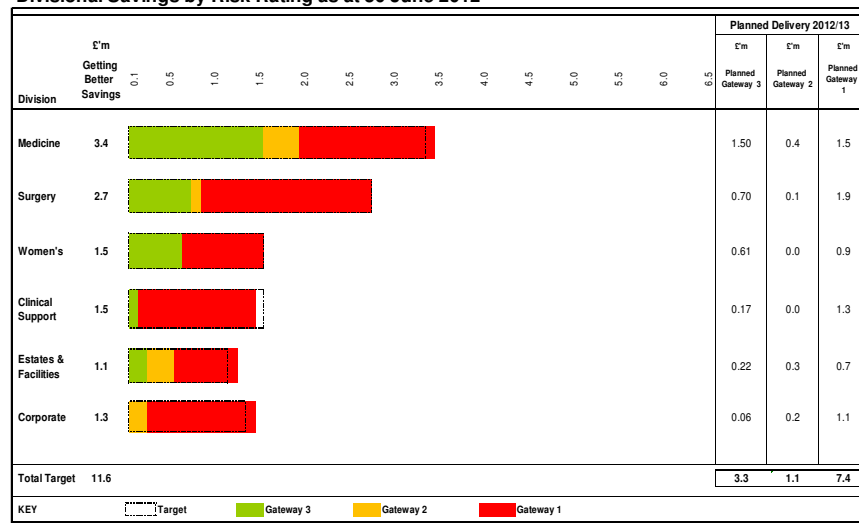


**Actual Spend compared to Plan**



## Delivery of Getting Better Savings

Divisional Savings by Risk Rating as at 30 June 2012



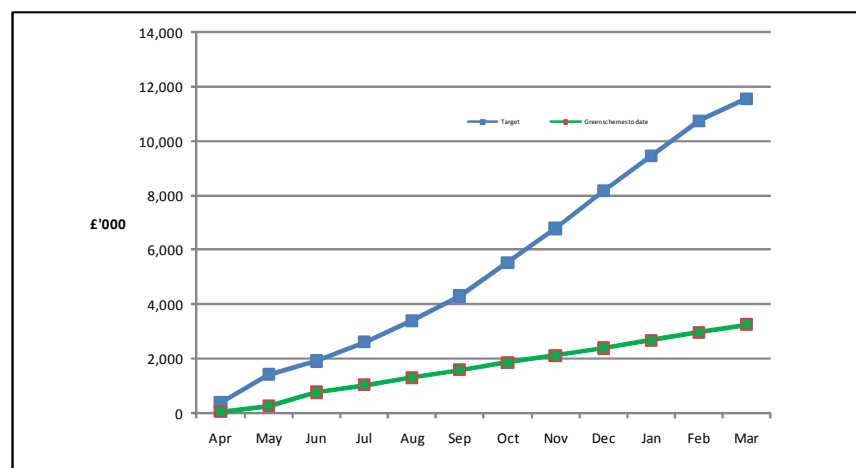
## Getting Better Planned vs Actual Delivery

Month	General Ledger Target £'000	Green schemes to date £'000	Variance from plan YTD £'000
Apr	401	57	(344)
May	1,014	213	(801)
Jun	1,014	496	(518)
Jul	1,014	269	(745)
Aug	1,014	276	(739)
Sep	1,014	279	(736)
Oct	1,014	266	(748)
Nov	1,014	267	(747)
Dec	1,014	268	(746)
Jan	1,014	288	(726)
Feb	1,014	288	(726)
Mar	1,014	289	(725)
	<b>11,558</b>	<b>3,256</b>	<b>(8,302)</b>

## Annual Green savings identified as at 30 June 2012/13

Division	Target	£'000	Identified
Medicine	3,622		1,504
Surgery	2,790		700
Women's & Children's	1,557		613
Clinical Support	1,170		166
Estates & Hotel Servs	1,128		217
Corporate & Trustwide	1,291		56
Total	11,558		3,256

## Getting Better: Plan vs Actual



As at the end of Month 3, the total value of savings schemes identified was £11.4m. The forecast is £8.6m; which is expected to be achieved by year end.

Further work is ongoing to increase the forecast by delivering the schemes identified and to identify additional schemes necessary to meet the increase in target surplus (shown from M04). This further increase reflects the higher implied efficiency requirement from Monitor following the completion of the updated FT application.

The total value of schemes delivered to date is £0.8m, which is £1.6m lower than the planned target to date.

As at the end of June, £3.3m of schemes have been converted to 'Green'.

## Income by Division compared to activity plan for the month ended 30 June 2012

Division	Inpatient				Outpatient				A&E				Other	Total
	Budget Spell	Actuals Spell	Variance Spell	Variance (£'000)	Budget Attendance	Actuals Attendance	Variance Attendance	Variance (£'000)	Budget Attendance	Actuals Attendance	Variance Attendance	Variance (£'000)	Variance (£'000)	Variance (£'000)
Medicine	8,077	8,770	693	782	33,805	32,452	(1,353)	(188)	17,760	19,003	1,243	189	3	786
Surgery	6,601	6,995	394	863	38,916	38,193	(723)	(102)	1,123	1,269	146	11	188	960
Women's	5,829	5,492	(337)	(241)	30,037	28,509	(1,528)	(235)	5,268	5,449	181	(16)	132	(359)
Clinical Support													111	111
High Cost Drugs													20	20
Other													239	239
<b>Total</b>	<b>20,507</b>	<b>21,257</b>	<b>750</b>	<b>1,403</b>	<b>102,758</b>	<b>99,154</b>	<b>(3,604)</b>	<b>(525)</b>	<b>24,151</b>	<b>25,721</b>	<b>1,570</b>	<b>185</b>	<b>692</b>	<b>1,756</b>

**Medical** Inpatient activity is over-performing by £782k, of which £634k relates to non-elective activity due to ongoing emergency pressures. Outpatient activity is £188k below plan, due to unrecorded outpatient procedure cardiology activity

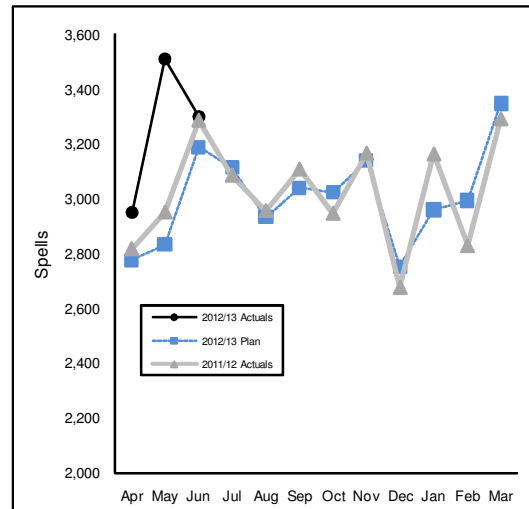
**Surgery's** inpatient over-performance largely relates to elective activity (£625k), of which £275k is in orthopaedics. This is driven by the requirement for additional lists to achieve 18 week targets. The complexity of the work on these additional lists has increased income within this specialty.

**Women & Children's** - The inpatient variance is a cumulative £450k under-performance in obstetrics and midwifery due to fewer births than forecast. The key driver is the removal of the non-Hertfordshire maternity cap which is yet to have an impact on Trust activity. This is offset by a £73k over-performance in paediatrics and £105k favourable variance in gynaecology. £206k of the outpatient under-performance relates to Gynaecology, which requires further investigation.

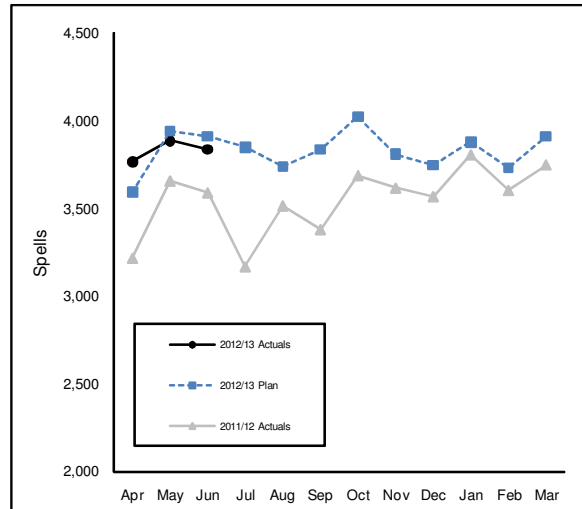
**Clinical Support** - £88k of the income variance in this division relates to direct access radiology.

**Outpatient** - Outpatient income is £525k below plan at M03 due to a combination of late recording and reduced activity in June; a result of the additional bank holiday.

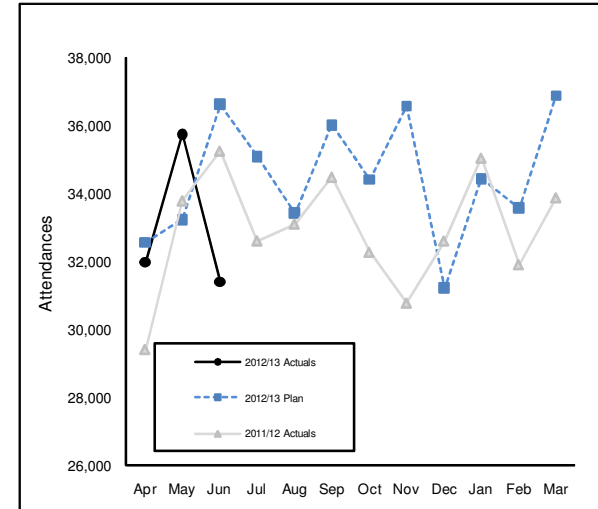
2012/13 Elective Activity Actuals Compared to Plan



2012/13 Emergency & Non-Elective Actuals Compared to Plan



2012/13 Outpatient Activity Actuals Compared to Plan



## Workforce spend and Average Whole Time Equivalents for the periods to June 2012

Division	Permanent Staff £'000	Bank £'000	Agency £'000	Total Staff Costs £'000	Budget £'000	Variance £'000	Budget WTE	Actuals Worked WTE	Variance WTE
Medicine	11,560	1,316	582	13,459	13,170	(289)	1,331.0	1,290.1	40.9
Surgery	9,472	440	351	10,263	10,321	58	861.7	842.6	19.1
Women's	5,848	670	329	6,846	6,955	109	622.5	565.6	56.9
Clinical Supp.	6,137	27	158	6,322	6,398	76	589.6	553.2	36.4
Estates	704	4	4	712	766	53	84.9	79.3	5.6
Corporate	4,532	65	159	4,756	4,686	(70)	464.8	432.5	32.3
<b>Total</b>	<b>38,252</b>	<b>2,523</b>	<b>1,584</b>	<b>42,359</b>	<b>42,296</b>	<b>(63)</b>	<b>3,954.5</b>	<b>3,763.4</b>	<b>191.2</b>
<b>% Variance</b>						<b>(0.1)</b>			<b>4.8</b>

### Analysis of Variances

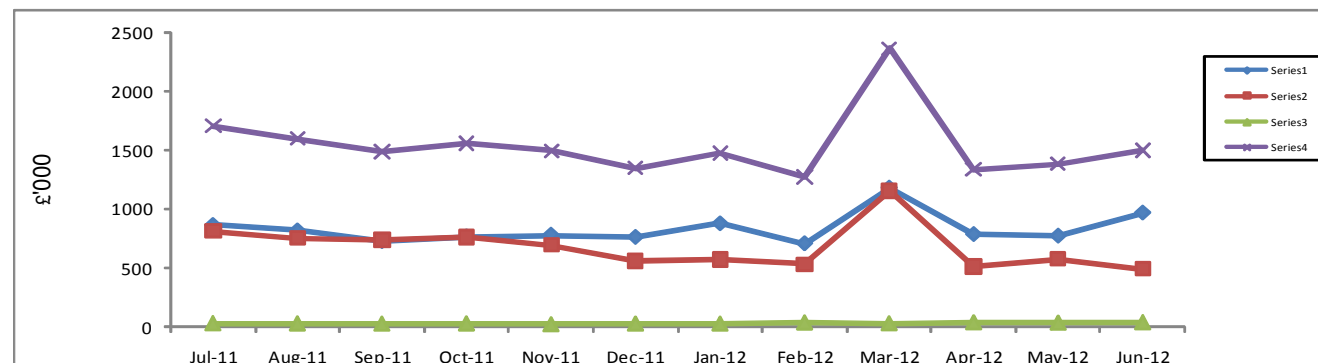
Whole Time Equivalent actuals include estimated WTE for agency staff. Average WTE worked remains lower than budgeted due to vacancies across the Trust.

Medicine Division is showing a large overspend to date as a result of supporting the higher than planned patient activity.

The overall actual wte has decreased from an average of 3,772 in 2011/12 to an average of 3,763 for the first quarter of 2012/13.

Note: Total Pay equates to an overspend against plan of £1,798k due to the impact of unachieved CIP/QIPP of £1,450k and £285k respectively.

### Temporary staffing spend on a 12 month rolling period

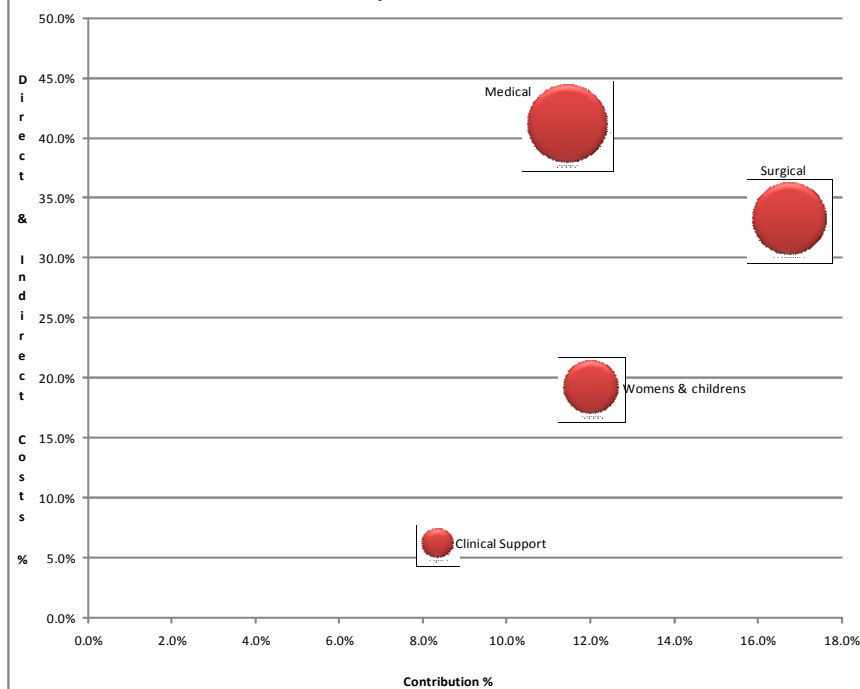


## Service Line Reporting to 30 April 2012

Division	April YTD						Contribution %		Surplus/(Deficit) %	
	Income £'000	Direct Cost £'000	Indirect Costs £'000	Contribution £'000	Overheads £'000	Surplus/(Deficit) £'000				
Medicine	7,798	6,364	541	893	1,305	(412)	11.5%		-5.3%	
Surgery	6,707	4,693	892	1,123	985	137	16.7%		2.0%	
Womens & Children	3,666	3,175	50	441	524	(83)	12.0%		-2.3%	
Clinical Support	1,145	655	394	96	236	(141)	8.4%		-12.3%	
Total	19,316	14,887	1,877	2,552	3,050	(498)	13.2%		-2.6%	

Point Of Delivery (POD)	April YTD						Contribution %		Surplus/(Deficit) %	
	Income £'000	Direct Cost £'000	Indirect Costs £'000	Contribution £'000	Overheads £'000	Surplus/(Deficit) £'000				
Day Case	2,235	1,426	158	651	256	395	29.1%		17.7%	
Elective	1,957	1,361	579	18	243	(225)	0.9%		-11.5%	
Non-Elective	7,127	5,356	1,103	668	1,066	(398)	9.4%		-5.6%	
Outpatients FA	1,825	1,227	(90)	688	286	402	37.7%		22.0%	
Outpatients FU	2,667	2,696	(141)	112	619	(508)	4.2%		-19.0%	
Outpatients Procedures	437	407	(38)	68	87	(19)	15.5%		-4.4%	
Critical Care	1,357	873	74	410	120	290	30.2%		21.4%	
A&E	996	1,076	112	(192)	220	(412)	-19.3%		-41.3%	
Direct Access	715	466	119	130	153	(23)	18.2%		-3.3%	
Total	19,316	14,887	1,877	2,552	3,050	(498)	13.2%		-2.6%	

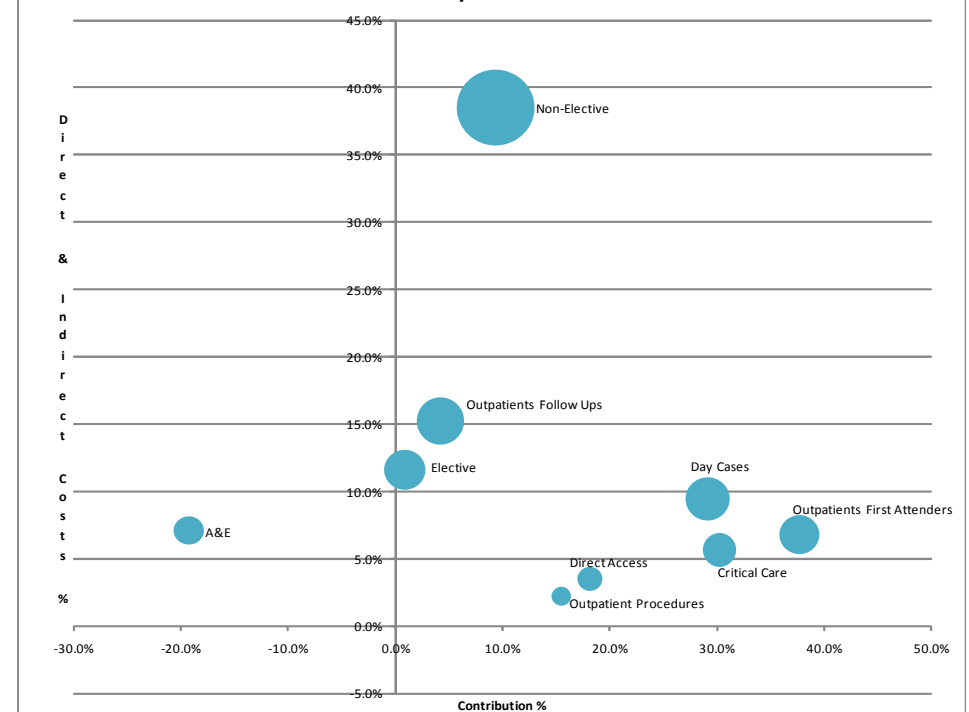
West Hertfordshire Hospitals Divisional Contribution Chart



### Key Headlines:

The Contribution for each Division is lower than that achieved in the previous financial year by approx. 2%. This reflects the lower level of planned income in April and the underachievement against target savings reported in the General Ledger. A more robust version of Divisional achievement should become apparent in later months as these issues are addressed. The overall deficit position for Month 1 is in line with the Trust's financial plan.

West Hertfordshire Hospitals POD Contribution Chart



### How to Interpret your 'Portfolio Matrix':

The size of each bubble shows how much income is generated by that Division or 'Point of Delivery'. 'Contribution' means the difference between income earned and the costs (direct & indirect costs) before overheads. Services should be aiming to maximise this 'contribution', by moving towards the right of the chart. The vertical axis shows each Divisions/ PoDs percentage share of overall Trust costs (direct and indirect costs).

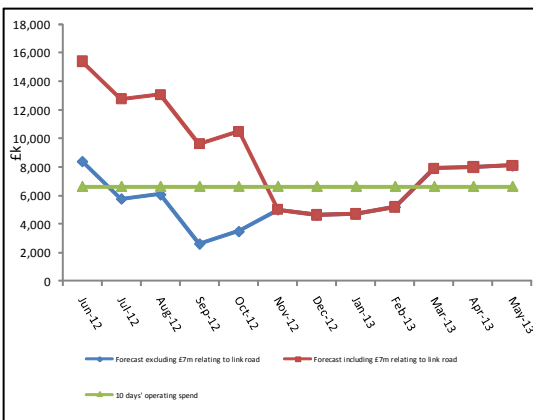
## Cash and Capital Management

### Month end cash balance

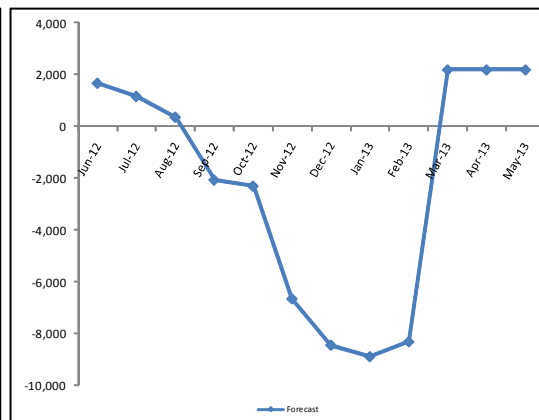
	£m
Opening balance 01/04/2012	9.8
Surplus to 30/06/2012	0.9
Capital spend	(0.8)
Depreciation	1.9
Other changes in working capital	3.6
<b>Cash balance as at 30/06/2012</b>	<b>15.4</b>

£15.4m represents 21.8 days of operating expenses. Excluding £7m relating to Watford Hospital link road the cash balance of £8.4m is 11.9 days of operating expenses.

### Forecast Cash Balances - Next 12 Months



### Forecast Liquidity as measured by Net Current Assets/Liabilities for the next 12 months



### Cash and Liquidity

The cash balance and liquidity are forecasts for the next twelve months. Both have been reviewed as part of the Trust's refresh of its FT application. Cash balance shows both cash with and without the short term benefit of funds for the link road to Watford Hospital received in 2011/12. The forecast is based on the Trust's loans being re-phased in March 2013, this may occur sooner depending on the Trust's FT application. Cash is low in September when loan and dividend payments are due. Liquidity each month is affected by the phasing of I&E and delivery of savings, together with the phasing of capital spending. The liquidity chart demonstrates the revision to the Trust loans prior to year end is essential enabling the liquidity risk ratio going into 2013/14 to be scored 4. Without the loan re-phasing this would score 2.

### Payables

The Trust strives to meet the BPPC, which targets paying at least 95% of invoices both in numbers and value within 30 days or earlier. In June there was a decline in number and value performance due to a number of invoices taking longer to approve for payment.

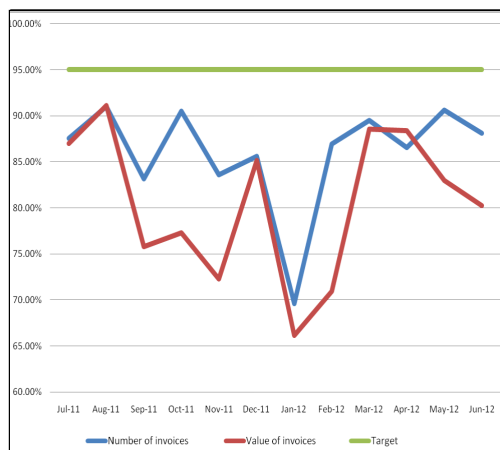
### Receivables

The age of debts not covered by provision is shown. The Trust increased its level of bad debt provision in March 2012 to cover all those over 90 days old and continues to operate this policy. June shows the settlement of increased debt over 30 days reported in May; returning to more normal levels.

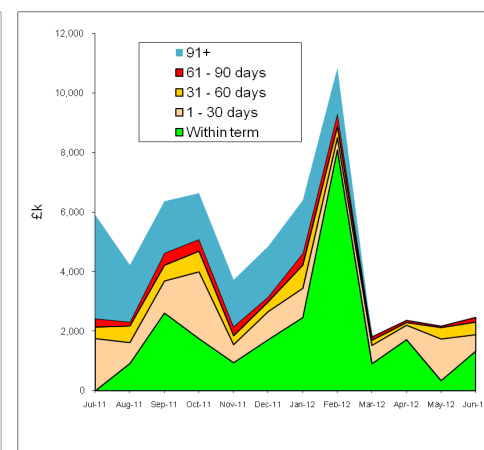
### Capital Programme

The capital plan reflects May Board discussion; there is £1.8m of funds pending Board decision on capacity planning. The asset sales planned include the pill packing unit and 62 Vicarage Road. £7m PDC was received in 2011/12 and held within the Trust's cash balance pending transfer to Watford Borough Council. £2.9m is pending progress with the combined heat and power unit project.

### Payables: Better Practice Payment Code Performance



### NHS and Trade Receivables by Age Profile Adjusted for Bad Debt Provision



### Capital Programme 30th June 2012

	Plan (May Board) £m	YTD Actual £m	Balance £m
<b>Trust funding</b>			
Estate Maintenance	5.0	0.4	4.6
TSSU Decontamination	1.9	0.0	1.9
Endoscopy Decontamination - Watford	1.5	0.0	1.5
Capacity Works / Pending	1.8	0.0	1.8
Other Committed	0.2	0.3	-0.1
Getting Better (self funding schemes)	0.5	0.0	0.5
<b>Trust funded Capital Programme</b>	<b>11.0</b>	<b>0.8</b>	<b>10.2</b>
<b>PDC funding</b>			
Watford Hospital Link Road			7.0
Combined Heat and Power Plant			2.9
<b>PDC funded Capital Programme</b>			<b>9.9</b>
<b>Asset Sales</b>			
Sales towards cost of Capital Programme			(0.7)

Under the Better Practice Payment Code, the Trust has a duty to pay 95% of its invoices within 30 working days of receipt.

## Statement of Financial Position (Balance Sheet)

	Balance as at 01 Apr 2012	Balance as at 30 June 2012	
<b>Non Current Assets</b>			<u>Property, Plant and Equipment (PPE)</u> Represents the fair value of the Trust's land, buildings and equipment. The difference between 1 April and 30 June relates to the excess of depreciation over capital investment.
Property Plant and Equipment	121,896	120,753	<u>Intangible Assets</u> Represents computer systems and as with PPE the level of amortisation is higher than investment resulting in a reduction in fair value.
Intangible Assets	2,243	2,028	
Other Financial Assets	0	0	
Trade and Other Receivables	1,187	1,179	<u>Non Current Trade and Other Receivables</u> Represents injury cost recovery expected in more than one year.
<b>Total non current assets</b>	<b>125,326</b>	<b>123,960</b>	
<b>Current assets</b>			<u>Trade and Other Receivables</u> Represents invoices raised but not yet paid.
Inventories	3,031	2,996	<u>Other Assets</u> These relate to the accrual of NHS and Non NHS income not yet invoiced. The increase in June 2012 reflects accruals for overperformance for April to June.
Trade and Other Receivables	3,252	3,015	
Other Assets	6,126	9,815	<u>Non Current Assets Held for sale</u> This relates to the prescription packing unit, now closed and being marketed for sale. In line with Trust accounting policy the value is the lower of book value prior to sale and expected proceeds. After costs of sale, for example, the cost of planning permission the sale is expected to yield a profit before year end.
Cash and Cash equivalents	9,851	15,398	
<b>Total current assets</b>	<b>22,260</b>	<b>31,224</b>	
Non Current assets held for sale	0	323	
<b>Total Assets</b>	<b>147,586</b>	<b>155,507</b>	
<b>Current liabilities (amounts due in less than one year)</b>			<u>Cash balance</u> The cash balance includes £7m of Public Dividend Capital (PDC) received in 2011/12, and retained to fund the proposed link road and is also higher than planned due to delay in the approval of a small number of high value payments and capital spending being slower than planned.
NHS Trade Payables	883	3,129	<u>NHS Trade Payables</u> These have increased from 1 April reflecting the build up of creditors to pay interest on DH loans and dividend due in September.
Non NHS Trade Payables	5,308	8,776	<u>Non NHS Trade Payables</u> The increase mainly relates to March's PAYE and NI being paid early; in March 2012 rather than April 2012.
Other Liabilities	11,980	13,253	<u>Other Liabilities</u> These relate to the accrual of NHS and Non NHS expenditure not yet invoiced.
DH Working Capital Loan Principal Repayment	1,400	1,400	
DH Capital Loan Principal Repayments	2,772	2,772	
Provisions for Liabilities and Charges	541	541	
<b>Total current liabilities</b>	<b>22,884</b>	<b>29,871</b>	
<b>Net current assets (liabilities)</b>	<b>(624)</b>	<b>1,676</b>	
<b>Total assets less current liabilities</b>	<b>124,702</b>	<b>125,636</b>	
<b>Non Current Liabilities (Due &gt; 1 Year)</b>			
DH Working Capital Loan Principal Repayment	2,800	2,800	
DH Capital Loan Principal Repayments	13,851	13,851	
Provisions for liabilities and charges	5,280	5,338	
<b>Total Non current liabilities</b>	<b>21,931</b>	<b>21,989</b>	
<b>Total assets employed</b>	<b>102,771</b>	<b>103,647</b>	
<b>Financed by Taxpayers Equity</b>			
Public Dividend Capital	180,668	180,668	
Retained Earnings	(92,434)	(91,558)	
Revaluation reserve	14,537	14,537	
Donated asset reserve	0	0	
<b>Total funds employed</b>	<b>102,771</b>	<b>103,647</b>	



## Financial Risk Ratings<sup>6</sup> Monitor

Financial Risk Ratings									
		Month	Jun-12						
Criteria	Metric	Weight	5	4	3	2	1	Risk rating ytd	Forecast rating 12/13
Underlying performance	EBITDA margin %	25%	11	9	5	1	<1	3	3
Achievement of plan	EBITDA achieved %	10%	100	85	70	50	<50	4	5
Financial efficiency	Return on assets %	20%	6	5	3	2	<-2	4	4
	I&E surplus margin %	20%	3	2	1	-2	<-2	3	3
Liquidity	Liquid ratio days	25%	60	25	15	10	<10	3	3
Average								3.3	3.4
Overriding rules	Overriding rules								
Overall rating	Overall rating							3	3

## SHA

Financial Risk Ratings											
		Month	Jun-12								
Criteria	Metric	Weight	5	4	3	2	1	Annual Plan 12/13	YTD Risk ratings 12/13	Forecast Risk ratings 12/13	
Underlying performance	EBITDA margin %	25%	11	9	5	1	<1	3	3	3	
Achievement of plan	EBITDA achieved %	10%	100	85	70	50	<50	5	4	5	
Financial efficiency	Return on assets %	20%	6	5	3	2	<-2	4	4	4	
	I&E surplus margin %	20%	3	2	1	-2	<-2	3	3	3	
Liquidity	Liquid ratio days	25%	60	25	15	10	<10	4	4	4	
Average								3.65	3.55	3.65	
Overriding rules	Overriding rules	At least one criteria on Plan 1 or 2						0	0	0	
Overall rating	Overall rating							4	4	4	

The Trust has achieved an overall rating of "3" using the Monitor Financial Risk Rating (FRR) ratios, and a "3" rating based on the ratios used by the SHA Management Board to assess performance which is acceptable to meet the minimum requirement to achieve Foundation Trust status.

Key factors driving this performance are the EBITDA margin and I&E surplus margin ratios. Both indicators have improved significantly since Month 2 and have achieved the level required to generate a score of "3". Note, a surplus of £95k in Month 2 has been improved to a surplus of £876k, improving the EBITDA margin to 5.8% (5% is required for a "3" rating) and I&E surplus margin to 1.30% (1% required for a "3" rating).

It should be noted that, in addition to Monitor liquidity requirements, the Department of Health has also indicated that it expects Trusts to have cash holdings in excess of 10 days' operating expenses which equates to cash levels of approximately £6.9m. The Trust received £7m of Public Dividend Capital in March 2012 which has contributed to the Trust holding cash in excess of 10 days' of operating expenses.

<sup>6</sup> Monitor calculations for liquidity and EBITDA achieved are based on 2011/12 performance. The SHA ratings are based on 2012/13 for all ratings. Monitor also excludes the value of inventories (stocks) from the liquidity calculation.