

AGENDA ITEM NO:**UNIVERSITY HOSPITAL BIRMINGHAM NHS FOUNDATION TRUST****BOARD OF DIRECTORS****THURSDAY 26 APRIL 2012**

Title:	TRUST CAPITAL PROGRAMME REPORT
Responsible Director:	Morag Jackson, New Hospitals Project Director
Contact:	Steve Clarke, Finance Department, ext. 53854

Purpose:	To update the Board of Directors on 2011/12 capital expenditure and gain approval for the 2012/13 capital programme.
Confidentiality Level & Reason:	None
Medium Term Plan Ref:	Relevant to all strategic aims
Key Issues Summary:	<p>Actual capital expenditure in 2011/12 was £11.50 million compared to the £14.99 million budget.</p> <p>The proposed budget for capital projects in 2012/13 is £13.19 million across a range of projects detailed in this report.</p>
Recommendations:	<p>The Board of Directors is requested to:</p> <ol style="list-style-type: none">1. Note the expenditure against the 2011/12 capital programme.2. Approve the 2012/13 capital expenditure budget of £13.19 million.3. Note the provisional capital programme for the two years following 2012/13 and the expected impact on the Trust's cash balance.

Signed:	Date: 19 April 2012
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UNIVERSITY HOSPITAL BIRMINGHAM NHS FOUNDATION TRUST

BOARD OF DIRECTORS
THURSDAY 26 APRIL 2012

TRUST CAPITAL PROGRAMME REPORT

PRESENTED BY NEW HOSPITALS PROJECT DIRECTOR

1. Purpose of the Report

This report summarises the Trust's 2011/12 capital expenditure and gives an overview of the major projects. The report also contains the proposed capital programme for 2012/13 financial year for Board of Directors' approval. Finally, for planning purposes, an indicative capital programme for the next three financial years is attached.

2. 2011/12 Expenditure Summary

Actual capital programme expenditure in 2011/12 was £11.50 million subject to the completion of the audit of the annual accounts. The annual expenditure is summarised below:

Table 1: Summary 2011/12 Capital Programme Budget & Expenditure

	Annual Budget £ m	Apr – Mar Expenditure £ m
Brought Forward Schemes	0.43	0.19
Estates Development Works	3.88	0.92
Equipment – Replacement and Other	4.08	4.54
Tomotherapy Project	4.20	3.75
ICT replacement & specific projects	1.29	1.08
Modernisation and Discretionary	0.30	0.09
New Hospital Works	1.31	0.93
Assumed slippage	-0.50	0.00
TOTAL	14.99	11.50

3. 2011/12 Programme Update

3.1 Brought forward from previous years (Budget: £0.43m)

Only £0.19m was required against the brought forward budget. The under spend relates to several items no longer required.

3.2 Estate Development Works (Budget: £3.88m)

In 2011/12 £0.92m was incurred on the following schemes:

- £0.63m of Plaza Scheme Balfour Beatty (Birse Civils) advanced works were undertaken up to the end of March. Works will continue

with the next phase of the scheme due to start when the passenger transport interchange has been completed by Birmingham City Council.

- QE site retained estate building and statutory works totalling £0.23m was incurred on Nuffield House and the Wellcome building.
- QE site road infrastructure works costing £0.06m was incurred in fees and preparation. The actual work to Hospital Drive and Metchley Park Road will now be undertaken in the new financial year.
- Work to the CRF facility in the Wellcome building is also due to start in the new financial year.

The under spend against the budget has been caused by slippage to the plaza works, roads and retained estate refurbishment works.

3.3 Equipment (Budget: £4.08m)

Total expenditure on equipment in the year was £4.54m. This included the following projects;

- Replacement endoscopes to the value of £0.56m.
- Final new hospital digital imaging rooms totalling £0.86m.
- £1.30m was incurred in the rolling medical equipment replacement programme.
- Other medical equipment costing £0.50m was purchased including dental chairs; ophthalmology slit lamps and the equipping of several areas such as max-fax labs.
- Equipment required for the short stay surgical unit business case (Wellcome building) totalled £0.81m in the financial year for theatres, wards and critical care.
- Other ad hoc items and expenditure related to other business cases (e.g. hand service) required in the year.

3.4 Tomotherapy (£4.20m)

To date, £3.75m has been incurred on this project. The business case included the purchase of two machines (one NHS and one private patient) and included total project costs of £6.20m including £2.00m QEHB Charity contribution. The two machines are now in use, one potential final payment remains in relation to a potential software purchase, but this scheme has been completed within the approved budget.

3.5 ICT Replacement and Specific Projects (£1.29m)

£1.08m of ICT expenditure in the year which included the following ICT projects:

- £0.32m PFI operator and new hospital ICT subcontractors (KCOM)

for IT infrastructure installed in the new hospital.

- £0.70m for replacement of IT servers and hardware.
- £0.06m on projects such as PACS and my health @QEHB.

3.6 Modernisation & Chief Operating Officer's Capital Fund (£0.30m)

This is for the unplanned replacement of equipment or the purchase of new equipment to improve service delivery or release revenue savings. To date £0.92m has been incurred with other requests recently been approved.

3.7 New Hospital Works (£1.31m)

Variation works expenditure in 2011/12 was £0.93m. This included works to areas including the Outpatient Pharmacy, Automated Laboratories, Ophthalmology and the Emergency Department.

3.8 Cash Management (-£0.50m)

Previous experience shows that capital schemes often take longer than expected to gain approval. This leads to costs being incurred later than planned; a small budget reduction of £0.50m (4%) was included in the plan to take account of this.

3.9 2011/12 Expenditure Summary

The Trust incurred £11.50m of capital expenditure in 2011/12, below the £14.99m budget due to slippage on several major estates schemes.

4. **2012/13 Proposed Capital Budget**

The proposed capital budget for 2012/13 is £13.19m, of which £9.99m is funded by the Trust and £3.20m funded from charitable donations. The key projects are summarised in Table 2 and detailed on the following pages:

Table 2: Proposed 2012/13 Capital Programme Budget

	Project Description	Annual Budget £'000
1	Brought Forward from 2011/12	200
2	Estates and Infrastructure Works	4,900
3	Equipment New & Replacement	2,890
4	IMT Replacement & specific projects	1,150
5	Modernisation and Discretionary	300
6	New Hospital Works	350
7	Unallocated	500
8	Assumed Slippage	-300
	Trust Sub Total	9,990
9	Donated Assets	3,200
	TOTAL	13,190

A more detailed breakdown of the expected 2012/13 projects is contained in **Appendix A**. The proposed 2012/13 capital programme includes expenditure several approved business cases along with anticipated expenditure subject to approval at a future date.

4.1 Brought Forward

The £0.20m budget includes several items of medical and IT equipment ordered in 2011/12 but due for delivery in 2012/13.

4.2 Estates and Infrastructure Works

The proposed £4.90m budget includes the following work schemes:

- £0.15m for statutory and minor works in retained estate buildings.
- £1.50m for the completion of plaza works required as part of the planning approval for the building of the new hospital.
- £0.75m for building works for the potential Cyberknife. This is subject to the approval of the business case by the Board of Directors. The initial version of the business case was based on Trust funding for the building works and charitable funding of the equipment.
- £0.30m for work on road infrastructure on the QE site including Hospital Drive and Metchley Park Road.
- £1.85m to undertake refurbishment works to retained estates buildings on the QE site including up to £1.0m on Nuffield House to relocate the HARC service.
- £0.35m relating work to changes to the Wellcome building required to create the CRF2 development with the University of Birmingham.

4.3 Equipment (New and Replacement)

The proposed £2.89m budget includes:

- £0.45m for next batch of replacement endoscopes as set out in the seven year business case previously approved by the Board of Directors.
- £0.30m for a replacement to the Trust's electron microscope due to be installed in the new hospital.
- £0.45m for remaining equipment including critical care beds and monitors relating to phased activity increases associated with the Major Trauma Centre.

- £0.11m for two new items of equipment e.g. EBUS scope and additional CT scanner capabilities.
- £1.58m for the annual rolling replacement of existing medical equipment that is over its useful economic life. This includes equipment no longer supported by the original manufacturers, equipment at the end of their asset life and items identified by the divisions as needing replacement. The current value of items proposed for replacement is higher than the available budget; therefore risk assessments are being undertaken to prioritise the equipment. A full list of items for replacement will be taken to a future Chief Operating Officer's Group meeting for discussion and approval.

4.4. IMT Projects

The proposed £1.15m budget includes £0.80m for the replacement and modernisation of IT systems, servers and hardware and £0.35m for finance and SMART systems disaster recovery and upgrades. A detailed schedule of ICT projects for 2012/13 is being developed; these will proceed once the projects have been agreed in line with Standing Financial Instructions and Scheme of Delegation.

4.5. Chief Operating Officer Modernisation and Discretionary

An annual budget of £0.30m is proposed for unplanned replacement of capital assets and for the purchase of new equipment to improve service delivery or release revenue cost savings.

4.6 New Hospital Works

This £0.35m budget is for approved variation works being undertaken by the PFI operator to the new hospital. Not all of this is committed at present; therefore a limited amount of funding is available for further new hospital building works which may be required in 2012/13.

4.7 Unallocated & Assumed Slippage

In a change to previous annual capital programmes, an unallocated £0.5m budget is included in this year's capital plan for potential business cases requiring capital investment which may arise during the financial year. This funding will be allocated as business cases are approved during the year.

Experience of previous years capital expenditure programmes shows that schemes often begin later than expected and take longer to gain approval than expected. To take account of this, a small budget reduction of (£0.30m) is built into the budget.

4.8 Donated Assets

The 2012/13 capital programme includes £3.20m of assets to be funded from charitable donations; this includes the purchase of the Cyberknife machine at £2.80m subject to business case approval and £0.40m for other purchases of equipment during the year based on bids by departments to QEHB Charity Trustee Board.

5. **Three Year Capital Programme**

An indicative three year capital programme (including 2012/13) is included as **Appendix B**; this will form the basis of the Trust's long term financial plans and submissions to Monitor. It includes the replacement of Linear Accelerators and an update to the RIS/PACs system in years 2 and 3. These are high value investments which are subject to approval of business cases and completion of strategy papers. The year 2 and 3 programmes also include unallocated budgets for potential works to retained estate buildings on the QE site. Overall capital Trust capital budgets are lower in the next few years in comparison to recent expenditure. This reflects the significant recent expenditure to replace the majority of high value imaging equipment along with the shift towards payment for new hospital lifecycle and maintenance as part of the annual PFI unitary payment rather than through capital project works.

6. **Other Capitalised Payments and Funding**

In addition to the traditional capital expenditure outlined above, the Trust will incur two other capitalised payments in relation to the New Hospital which are not shown in the monthly Income and Expenditure report to the Board of Directors. In 2012/13, the values are expected to be:

A. **£12.25 million** for the repayment of the finance lease creditor (effectively the annual repayment of the outstanding credit to ensure a zero balance at the of the PFI contract term).

B. **£1.5 million** for new hospital lifecycle payments.

With the exception of the £3.20m contribution from QEHB Charities all these costs are funded from Trust cash balances. The projected total capital expenditure and projected funding for the next three years is set out below:

Table 3: Capital Expenditure & Funding Draft Projection

Capital Funding & Expenditure	2012/13 £'million	2013/14 £'million	2014/15 £'million
Estimated Expenditure (capital programme, donations and new hospital capital payments detailed above)	-27.15	-24.28	-24.41
Estimated Funding (depreciation, annual surplus and donations)	23.00	20.30	20.80
Net Cash Outflow	-4.15	-3.98	-3.61

Table 3 above shows a net cash outflow of £11.74 million over the three year period relating to capital expenditure. The Trust's future financial plans

need to include total capital expenditure (capital programme plus new hospital capital payments) which are broadly in line with the internally generated funds.

Should higher capital expenditure be required in future years, this will need to be funded by an increase in internally generated cash, e.g. delivery of higher annual surpluses or the sale of assets such as Selly Oak site. Other methods of financing for future developments could be considered including charitable donations, leasing or external borrowing; noting that the latter two are subject Monitor constraints. This combined with greater scrutiny and more prioritisation of potential investments should ensure the overall cash impact on the Trust of the capital investments is sustainable.

At present the Trust capital programme excludes any required works to non retained estate buildings on the QE site which were previously expected to be mothballed. The overall capital programme may need to be updated when the strategy is finalised regarding the use of these buildings. The plans also exclude any income from the disposal of the Selly Oak site.

7. **Conclusion**

The Trust incurred £11.50m of capital expenditure in 2011/12 compared to the £14.99m budget. A proposed capital budget for 2012/13 is £13.19m of which £3.2m relates the charitable donations.

Capital expenditure updates will be included in the monthly finance and activity reports presented to each Board of Directors meeting. More detailed quarterly basis capital reports will continue in 2012/13 as in previous years.

8. **Recommendations**

The Board of Directors is requested to:

- 8.1 **Note** the expenditure against the 2011/12 capital programme.
- 8.2 **Approve** the 2012/13 capital expenditure budget of £13.19 million.
- 8.3 **Note** the provisional capital programme for the two years following 2012/13 and the overall impact on the Trust's cash balance.

Morag Jackson
New Hospitals Project Director
19 April 2012

Heading	Item	2012/13	Notes / Comments
Carry Forward from 2011/12	Various Items	200,000	Several Items ordered in 2011/12 due for delivery in 2012/13
	Sub Total	200,000	
Estates Projects	Statutory Standards	150,000	Recurring capital budget for statutory works
Estates Projects	Plaza & Car Park M	1,500,000	Guaranteed Price Contract for Works (less 2011/12 expenditure)
Estates Projects	Cyberknife Works	750,000	Room 9 Radiotherapy, subject to business case approval (January 2012 CEAG Paper)
Estates Projects	Roads	300,000	Section 278 Agreement Birmingham City Council
Estates Projects	QE Site Redevelopment	1,850,000	Includes £1m HARC Approved Works (plus other potential works)
Estates Projects	Wellcome CRF Development	350,000	Out to tender at present, works agreed with University of Birmingham
	Sub Total	4,900,000	
Equip - Scopes Replacement	Keymed Scopes Replacement	450,000	As per business case case, order placed in March 2012
Equip - New Hospital Replacement	Electron Microscope	300,000	Order Raised in 2008 as new hospital major medical
Equip - Major Trauma Centre	Trauma Centre	450,000	Approved Board Paper 2012, check what has been ordered / delivered in 2011/12 March
Equip - Other	EBUS Equipment Purchase	60,000	Ordered placed but not delivered COOG Paper approved March 12
Equip - Replacement Major M	CT Scanner	50,000	Division agreed upgrades in 2012/13 (Paul Brettle)
Equip - Rolling Replacement	Rolling Replacement	1,580,000	Actual replacements to be determined at later date
	Sub Total	2,890,000	
ICT Specific Project	Finance Disaster Recovery S	350,000	
ICT Specific Project	My Health Roll Out Server Pu	50,000	CEAG Paper October 2011
ICT Specific Project	Replacement & Modernisatio	750,000	Detailed list of projects under development
	Sub Total	1,150,000	
Discretionary Capital	COO Budget	300,000	Recurring Chief Operating Officer discretionary capital budget
	Sub Total	300,000	
New Hospital	Variations	350,000	Outstanding approved variations, plus £150k for Electron Microscope, check sheet
New Hospital	Lifecycle	0	Accounting treatment to be finalised in 2012/13
	Sub Total	350,000	
Unallocated		500,000	Provision for in year business cases
Cash Management / Slippage		-300,000	Expected Capital Project Slippage
	Sub Total	200,000	
TRUST FUNDED CAPITAL PROGRAMME		9,990,000	
Donated	Cyber knife	2,800,000	Subject to Board of Directors Approval
Donated	Other Items	400,000	
DONATED CAPITAL PROGRAMME		3,200,000	
TOTAL 2012/13 CAPITAL PROGRAMME		13,190,000	