

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
COUNCIL OF GOVERNORS MEETING
THURSDAY 16 NOVEMBER 2017

Title:	FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 30 SEPTEMBER 2017
Responsible Director:	Mike Sexton, Chief Financial Officer
Contact:	Steve Clarke, Acting Deputy Director of Finance, ext. 17374

Purpose:	To present an update to the Council of Governors by providing a copy of the Board of Directors report on finance and activity performance for Quarter 2.
Confidentiality Level & Reason:	N/A
Annual Plan Ref:	3.4 – Ensure the Trust maintains financial health
Key Issues Summary:	The Trust has recorded a surplus of £10.047m for the first six months of the 2017/18 financial year. This is £0.246m above the year to date planned surplus of £9.801m. This position includes a (£13.529m) overspend across Operational Divisions, which is offset by underspends within Corporate functions, Trust subsidiaries and by the use of Trust reserves.
Recommendations:	The Council of Governors is requested to receive the contents of this report.

Signed: Mike Sexton	Date: 16 October 2017
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UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

BOARD OF DIRECTORS

THURSDAY 26 OCTOBER 2017

FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 30 SEPTEMBER 2017

PRESENTED BY THE CHIEF FINANCIAL OFFICER

1. Introduction

This report covers the first six months of the 2017/18 financial year (April 2017 to September 2017). The report summarises the Trust's financial performance and includes information on healthcare activity, expenditure variances and Cost Improvement Plan (CIP) delivery.

The 2017/18 Financial Plan projected an annual surplus of £18.374m. This includes £5.359m of capital grants and donations relating to the Haematology redevelopment of the old Trust HQ and the 3rd floor ITM MD-TEC project).

NHS Improvement (NHSI) monitors Trusts financial performance excluding the impact of capital grants, donations and Sustainability & Transformation Funding (STF) income (£16.896m). The Trust remains on plan against the NHSI financial metrics, therefore internal reporting indicates the Trust will achieve a Use of Resources score of 2 (see section 9).

The Trust has reported an actual surplus of £10.047m at the end of September; this is £0.246m above the planned year to date surplus of £9.801m. This assumes the Trust receives the full allocation of 2017/18 STF income and includes £0.419m of 2016/17 STF income recently allocated to the Trust by NHSI. The financial position includes a (£13.529m) year to date overspend within operational divisions, this has been offset by underspends within corporate functions, Trust subsidiaries and by the use of Trust reserves.

2. Income & Expenditure Position

2.1 Year to Date Summary

Table 1 below shows the monthly actual income and expenditure performance compared to plan.

Table 1 – Underlying I&E: Actual vs Plan

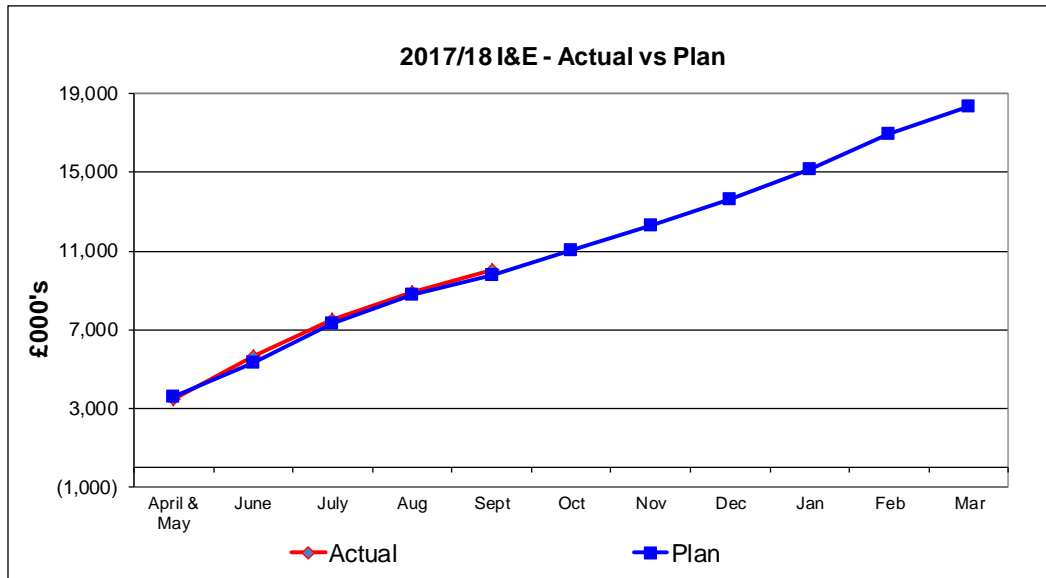


Table 2 below summarises the Trust's income & expenditure position at the end of September. Analysis of income is included in section 2.2 and operating expenditure variances are detailed in section 2.4 below.

Table 2 – YTD Income and Expenditure Budget vs. Actual

	Budget Sep-17 £m	Actual Sep-17 £m	Variance £m
Operating Revenue	395.8	417.9	22.1
Operating Expenses	(370.7)	(391.9)	(21.2)
EBITDA	25.1	26.0	0.9
Depreciation	(10.5)	(10.9)	(0.4)
Interest Receivable	0.1	0.1	0.0
Interest Payable	(8.0)	(8.0)	0.0
Contingent Rental	(3.2)	(3.5)	(0.3)
Corporation Tax	0.0	0.0	0.0
PDC Dividend	0.0	0.0	0.0
Normalised Surplus / (Deficit)	3.5	3.7	0.2
Donated Asset Revenue	6.3	6.3	0.0
Profit / (Loss) on Asset Disposal	0.0	0.0	0.0
Total Surplus / (Deficit)	9.8	10.0	0.2

Note - may include rounding differences

2.2 Income Analysis

Total operating revenue is £22.1m above plan at the end of September, as shown in table 3 below.

Table 3 – Income against Plan

	Budget Sep-17 £m	Actual Sep-17 £m	Variance £m
Clinical - NHS	331.0	353.6	22.6
Clinical - Non NHS	4.7	4.1	(0.6)
Other	60.1	60.2	0.1
TOTAL	395.8	417.9	22.1

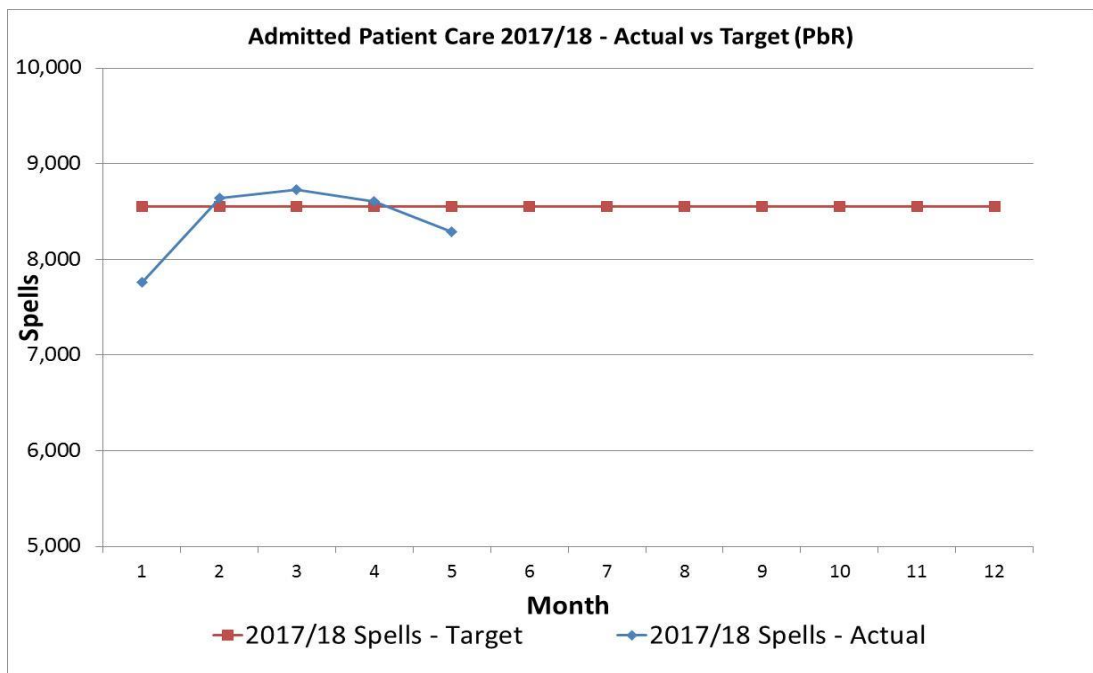
Note - may include rounding differences

NHS clinical revenues are £22.6m above the plan submitted to NHS Improvement before contracts were finalised and internal planning completed. This includes additional income from high cost drugs and devices excluded from tariff and specific cost per case treatments. Non NHS clinical revenues are (£0.6m) below plan primarily due to under recovery of Injury Cost Recovery Scheme (RTA) income. Other income, which includes education & training and service level agreement income is in line with plan.

2.3 NHS Clinical Income / Activity

Table 4.1 below compares monthly admitted patient care (APC) spells against target for the first five months of 2017/18 (April – August).

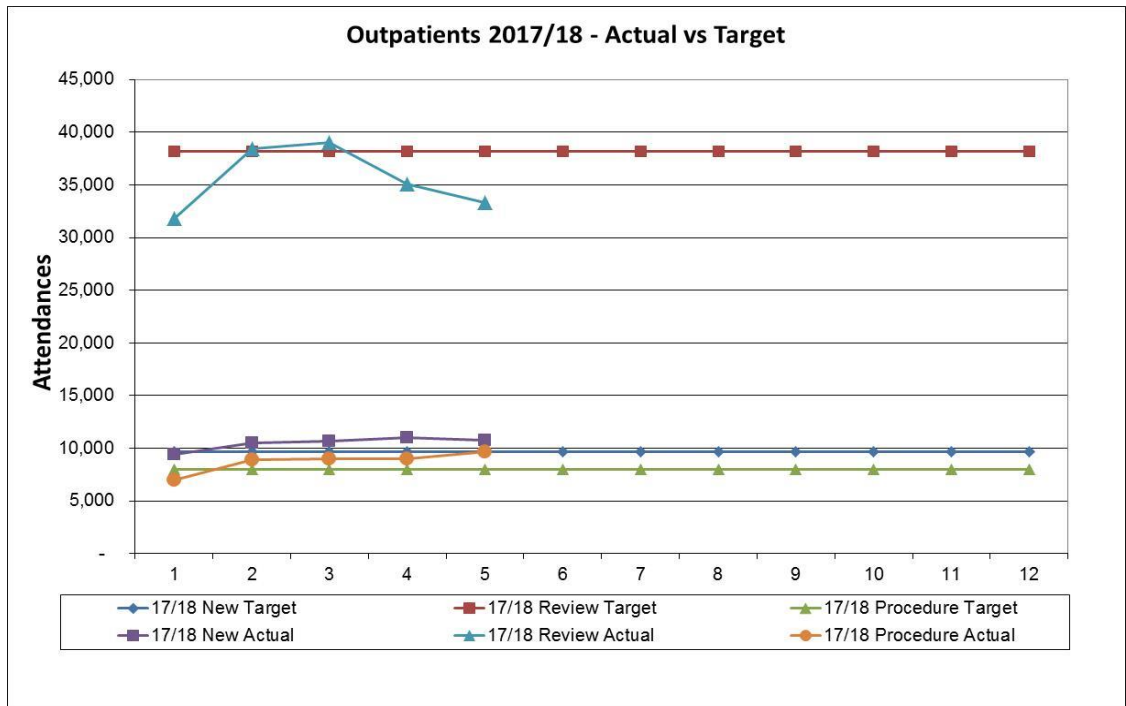
Table 4.1 – Trust Inpatient Activity



Actual inpatient activity is marginally below plan year to date (April – August), as in previous years, the plan is phased equally across the year and not flexed to reflect actual working days. At present, elective activity is below plan which is partially offset by increased non-elective inpatients.

Table 4.2 shows outpatient activity reduced in August. Year to date, new attendances and outpatient with procedure clinic activity are above plan and follow up outpatient attendances (reviews) are below plan.

Table 4.2 – Trust Outpatient Activity



The healthcare income target was finalised when contracts were agreed with commissioners following the completion of internal service planning. Table 5 below shows healthcare income variances by division and points of delivery to the end of month 5 (April - August). Healthcare income is currently below the internal plan; this excludes cost per case and high cost drugs and device payments, but includes contract adjustments for marginal rate emergencies, readmissions, fines and penalties where these are expected to be levied. As in previous years, this variance is not reflected in the ledger as activity increases in the later months of the financial year and the plan remains phased equally across the year.

Table 5 – Summary of Healthcare Income by Division & Point of Delivery

	YTD Variance against Divisional Baselines (£000)				
	Div A	Div B	Div C	Div D	Total
Inpatient	4	-61	836	211	991
Outpatient	-41	-606	-900	-959	-2,506
Other	993	-604	-1,249	-1,069	-1,929
Total	956	-1,270	-1,312	-1,817	-3,443

2.4 Expenditure Analysis

The Trust wide operating expenditure analysis in Table 6 shows actual expenditure being (£21.2m) above the planned £370.7m expenditure year to date.

Table 6 – Year to Date Expenditure against Plan

	Budget Sep-17 £m	Actual Sep-17 £m	Variance £m
PAY			
Medical Staff	63.5	68.4	(4.9)
Nursing	73.2	74.3	(1.1)
Scientific & Technical	27.3	27.3	0.0
SMP / A&C	32.6	32.4	0.2
Other	7.6	7.5	0.1
Pay Reserves	(1.2)	0.0	(1.2)
Total Pay	203.0	209.9	(6.9)
NON PAY			
Drugs	62.1	71.7	(9.6)
Clinical Supplies & Services	44.6	51.3	(6.7)
Other / Non-Pay Reserves	61.0	59.0	2.0
Total Non Pay	167.7	182.0	(14.3)
GRAND TOTAL	370.7	391.9	(21.2)

Note - may include rounding differences

3. Cost Improvement Programme

The Trust's 2017/18 financial plan includes an annual efficiency savings target of £18.0m. At the end of month 6, efficiency savings of £7.1m had been delivered which is equivalent to 79% of the year to date target.

Table 7 –Cost Improvement Delivery

	YTD Target (£m)	YTD Actual (£m)	YTD Variance (£m)
Division A	2.3	1.5	(0.8)
Division B	1.8	1.3	(0.5)
Division C	1.7	1.4	(0.3)
Division D	2.0	2.0	(0.0)
Corporate	1.3	0.9	(0.3)
Total	9.0	7.1	(1.9)

CIP delivery within operational divisions continues to be reviewed in detail in monthly meetings with the Chief Operating Officer. Based on previous experience, CIP delivery is expected to improve over the remaining quarters of the financial year. For comparison, the Trust reported 76% achieved at the same stage in 2016/17.

The Trust takes the prudent approach of profiling CIP savings targets equally across the financial year, whilst noting that some schemes may not actually deliver until later months.

4. Divisional Analysis

An adverse variance of (£13.529m) has been reported across operational divisions in the first six months of 2017/18, this equates to a monthly average “run rate” of (£2.255m).

Table 8 – Analysis of year to date variances by Division

	Income	Expenditure	Total
	£'000	£'000	£'000
Division A	1,211	(4,672)	(3,461)
Division B	1,317	(2,456)	(1,139)
Division C	(451)	(3,353)	(3,804)
Division D	292	(2,264)	(1,972)
Division E	90	(3,243)	(3,153)
Sub - Total	2,459	(15,988)	(13,529)

Note - may include rounding differences

The aggregate divisional overspend in September was (£2.121m), this includes an adverse variance of (£0.263m) relating to under recovery of Injury Cost Recovery Scheme (ICRS) income in the month. This scheme aims to recover the cost of NHS treatments from insurance companies, historically this income can vary month-to-month so further investigations are ongoing.

Of the remaining monthly variance, (£0.956m) was attributable to Medical staffing with senior medical staff (consultants) accounting for (£0.445m) of the over spend. This included locum cover for vacancies and sickness, unfunded consultant posts and payments for additional sessions and waiting list initiatives. Specific speciality overspends in September included Anaesthetics (£126k), General Medicine (£75k) and A&E (£51k). The balance of the medical overspend (£0.510m) relates to expenditure on junior and middle grade doctors including usage of agency, locums and unfunded posts. The largest overspends were within Anaesthetics (£131k), A&E (£127k), General Medicine (£81k) and Trauma (£75k).

Other expenditure pressures in the month included slippage against in year and historic CIP targets and activity related non-pay pressures including the winter wards, imaging and Oncology.

5. Statement of Financial Position

The Statement of Financial Position (Balance Sheet) shows the value of the Trust's assets and liabilities. The upper part of the statement shows net assets after deducting short and long term liabilities with the lower part identifying sources of finance. Table 9 summarises the Trust's Statement of Financial Position at 30 September 2017.

Table 9 – Statement of Financial Position

	Audited Mar 2017 £m	Actual Sep 2017 £m	YTD Plan Sep 2017 £m	Annual Plan Mar 2018 £m
Non Current Assets:				
Property, Plant and Equipment	517.3	513.8	497.8	493.6
Intangible Assets	2.2	1.9	0.8	0.8
Trade and Other Receivables	4.6	4.6	7.1	7.1
Other Assets	0.1	0.1	0.0	0.0
Total Non Current Assets	524.2	520.4	505.6	501.4
Current Assets:				
Inventories	15.0	17.3	16.3	15.1
Trade and Other Receivables	71.9	71.7	54.4	53.3
Cash	70.8	68.0	68.8	77.5
Total Current Assets	157.7	157.0	139.5	145.9
Current Liabilities:				
Trade and Other Payables	127.5	120.5	118.4	117.2
Borrowings	12.3	12.2	12.3	12.3
Provisions	0.7	0.7	0.8	0.8
Other Liabilities	20.3	20.0	19.9	19.4
Total Current Liabilities	160.8	153.4	151.3	149.6
Non Current Liabilities:				
Borrowings	484.5	478.4	478.3	472.2
Provisions	3.1	3.1	2.4	2.4
Other Liabilities	5.1	3.8	3.0	1.9
Total Non Current Liabilities	492.7	485.3	483.7	476.4
TOTAL ASSETS EMPLOYED	28.5	38.7	10.1	21.2
Financed by:				
Public Dividend Capital	186.2	186.5	184.8	187.3
Income & Expenditure Reserve	(272.7)	(262.8)	(282.8)	(274.3)
Donated Asset Reserve	0.0	0.0	0.0	0.0
Revaluation Reserve	115.0	115.0	108.2	108.2
Merger Reserve	0.0	0.0	0.0	0.0
TOTAL TAXPAYERS EQUITY	28.5	38.7	10.1	21.2

Note - may include rounding differences

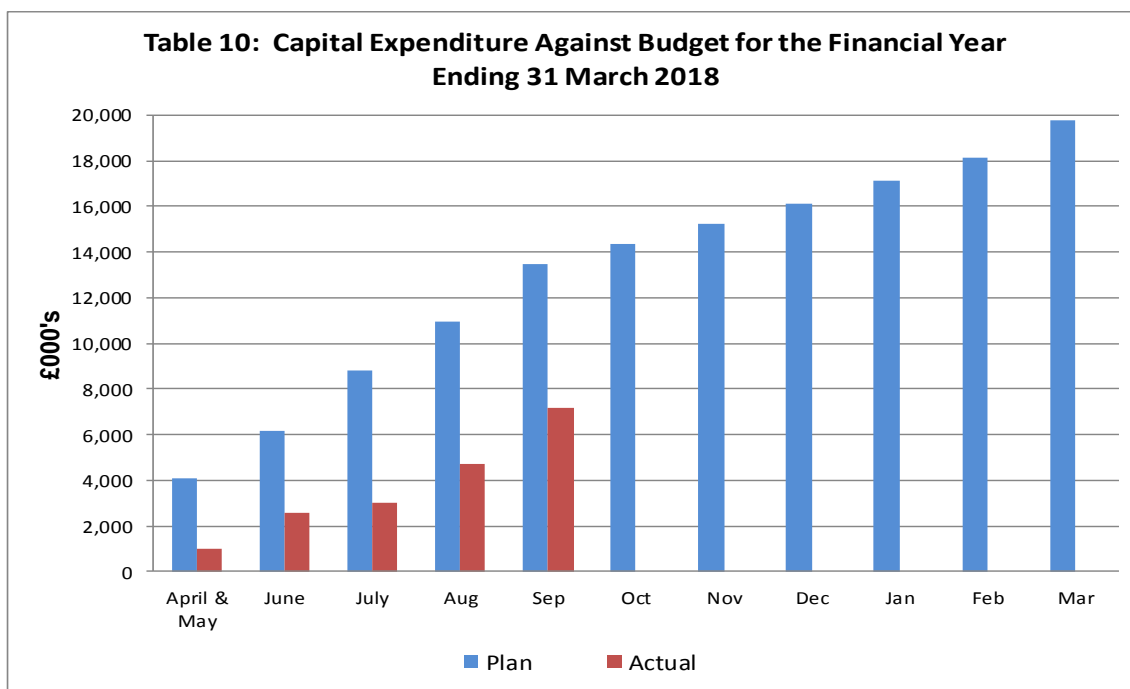
6. Capital Expenditure (Non-Current Assets)

The Trust's capital budget for 2017/18 is £19.8m. At the end of month 6, actual capital expenditure incurred was £7.2m. As in previous years, capital expenditure tends to increase in the later part of the financial year as schemes and procurement processes are completed. Expenditure in September totalled £2.5m which included;

- £0.9m Refurbishment works for the MD_TEC (3rd Floor ITM)
- £0.9m QEHB works including PFI lifecycle
- £0.3m Conversion of old Trust HQ into Haematology clinical space and
- £0.3m on replacement medical and ICT equipment.

The quarterly capital expenditure report is attached as **Appendix A**.

Table 10 – Capital Expenditure against Plan



7. Aged Debt

The age profile of Trade Receivables (unpaid invoices issued by the Trust) is summarised in Table 11 below. At the end of September 2017, over 90 day debt amounted to £9.7m. This includes £1.9m due from NHS commissioners and £3.7m in relation to Service Level Agreements (SLA) for services provided to other NHS providers. The SLA outstanding amounts include Heart of England FT (£1.5m), Sandwell & West Birmingham NHS Trust (£0.8m) and Birmingham Women’s & Children’s FT (£0.5m). The £4.1m balance includes amounts owed to the Trust by non-NHS debtors such as the Ministry of Defence (£0.3m), universities, private sector organisations and individuals (e.g. overseas and private patients).

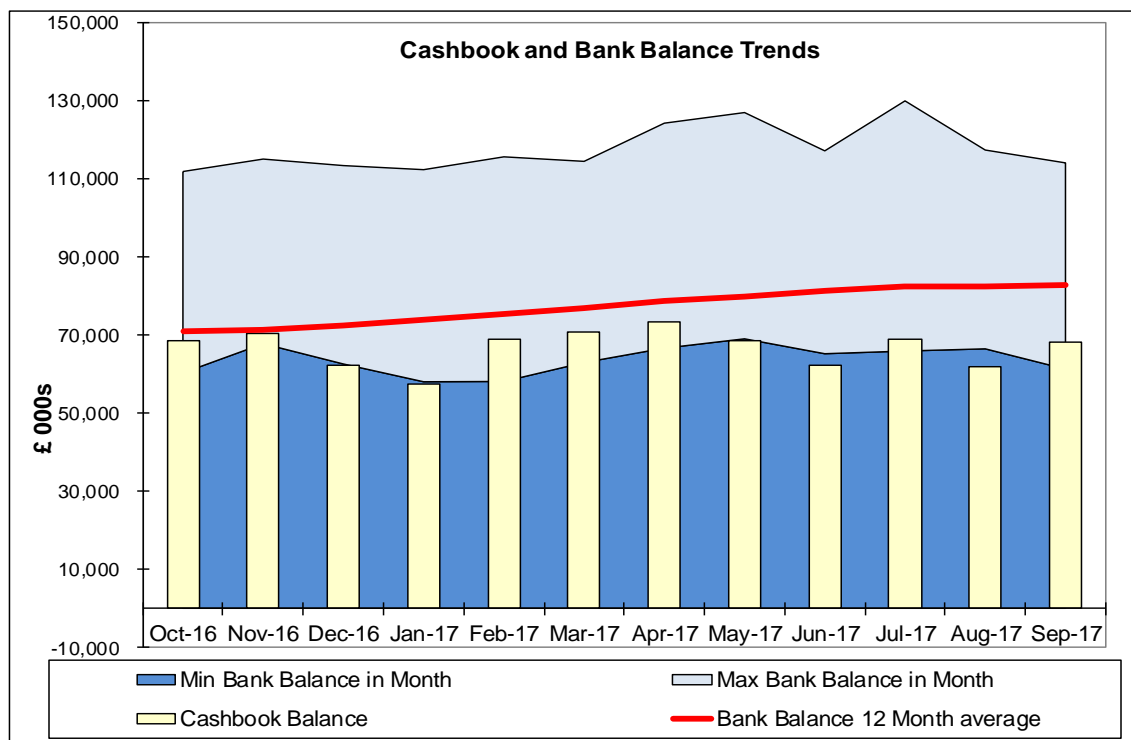
Table 11 – Aged Debt Analysis



8. Cash Flow

Table 12 shows the month end cashbook balance, the minimum and maximum daily bank balance in the month and a twelve month rolling average daily bank balance. The Trust's cashbook balance at the 30 September was £68.0m, marginally below the planned value of £68.8m.

Table 12 – Cash Flow



9. NHS Improvement and Use of Resources (UoR) Metric

9.1 Use of Resources (UoR) Metric

In 2016 NHSI launched the Single Operating Framework for NHS providers; this gives each provider a score between 1 (best) to 4 (worst) against 5 equally weighted metrics. The average score across the metrics is labelled the Trust's Use of Resources (UoR), based on the financial performance year to date, the Trust's UoR score is expected to be 2 as follows:

Table 13 – Use of Resources Score

Metric	Score	Definition
Capital Service Cover	3	Can the provider's income cover its longer term financial obligations
Liquidity	3	Cash held to cover operating costs
I&E Margin	2	I&E surplus or (Deficit) as a proportion of Total Income
Distance From Plan	2	Actual year to date surplus compared to plan
Agency Spend	1	Distance of actual spend from the annual agency cap set by NHS Improvement
TRIGGER	No	No metric scores a 4 therefore no trigger
Use of Resources Score	2	

The Trust achieved the low ratings of 3 on the following metrics;

- **Capital Service Cover** – this includes annual PFI capital expenditure (interest, inflation and capital repayments), therefore the Trust’s capital commitments are high compared to other providers, in the medium term the Trust will be unable to improve on this metric.
- **Liquidity** - despite the Trust’s relatively high cash balances it receives a low rating of 3.

Use of Resources is one theme used by NHSI to assess providers’ overall performance. Other factors include quality of care, operational performance, strategic change and leadership and improvement capability. After reviewing each of these, each Trust is segmented into one of four categories;

Segment	Description
1	Providers with maximum autonomy – no potential support needs identified across our five themes – lowest level of oversight and expectation that provider will support providers in other segments
2	Providers offered targeted support – potential support needed in one or more of the five themes, but not in breach of licence (or equivalent for NHS trusts) and/or formal action is not needed
3	Providers receiving mandated support for significant concerns – the provider is in actual/suspected breach of the licence (or equivalent for NHS trusts)
4	Special measures – the provider is in actual/suspected breach of its licence (or equivalent for NHS trusts) with very serious/complex issues that mean that they are in special measures

The latest provider segmentation data published on the NHSI website places UHB in segment 2.

9.2 NHSI Control Total

The Trust is monitored by NHSI for its financial performance against the agreed control total and excluding STF. Table 14 below shows the reconciliation between the figures used in the Trust’s accounts and the figures used by NHSI.

Table 14 – NHSI Financial Performance

	Annual Plan £m	YTD Plan £m	YTD Actual £m	YTD Variance £m
Trust Surplus / Deficit	18.4	9.8	10.0	0.2
Less: Capital Grants & Donations	(5.4)	(5.7)	(5.5)	0.2
Less: 2016/17 STF post accounts allocation	0.0	0.0	(0.4)	(0.4)
Control Total Surplus / (Deficit)	13.0	4.1	4.2	0.0
Remove: 2017/18 STF Income	(16.9)	(5.9)	(5.9)	0.0
Adjusted Surplus / (Deficit) Exc. STF	(3.9)	(1.8)	(1.8)	0.0
Performance Against Control Total Exc. STF		0.0	0.0	0.1

Note - may include rounding differences

This table shows that the Trust remains on track to deliver the financial control total agreed with NHSI.

9.3 STF Income

To achieve its control total, the Trust has been allocated up to £16.9m of Sustainability and Transformation Funding (STF). The release of this income is subject to the Trust's in year financial performance and delivery against the agreed A&E trajectory. To date, the Trust has received £2.5m of STF cash relating to quarter 1 of 2017/18. At present, the Trust continues to assume receipt of the full value of STF income.

10. Conclusion

The Trust has reported an actual surplus of £10.047m at the end of September (Month 6); this is £0.246m above the planned surplus of £9.801m. The Trust's financial performance also remains in line with the NHSI metrics which exclude donations, grants and STF income. As highlighted in this report, there are several key assumptions and risks to the achievement of the Trust's planned surplus for 2017/18. They include:

- Full receipt of the STF income.
- Healthcare income continues in line with internal plans.
- CIP delivery continues to improve during the financial year and
- The monthly adverse "run rate" incurred by operational divisions does not worsen.

11. Recommendation

The Board of Directors is requested to;

- Receive the contents of this report.

Mike Sexton
Chief Financial Officer
16 October 2017

Appendix A – 2017/18 Capital Expenditure Update

1. Purpose

This appendix provides a summary of capital expenditure in the 2017/18 financial year along with a short progress update on the major capital projects. An overview of the 2017/18 total capital investment, sources of financing and the impact of the Trust's cash balance is provided at the end of this document.

2. 2017/18 Capital Funding Summary

Actual capital expenditure at the end of quarter 2 was £7.2m as detailed below:

Table 1: 2017/18 Capital Programme

Project Description	2017/18 Annual Budget £m	2017/18 Q2 Actual Expenditure £m
Estates – MD-TEC (3 rd Floor ITM)	3.72	3.12
Estates – Haematology Expansion – Trust HQ	2.34	0.80
Estates – QE Heritage & offsite buildings	1.50	0.66
Estates – QEHB works & lifecycle	1.20	0.97
Equipment - Rolling replacement	3.00	0.44
Equipment - Major equipment replacement	3.00	0.15
Equipment - Other inc. COO discretionary	0.50	0.27
IT - Replacement & specific projects	1.50	0.48
IT - Global Digital Exemplar Project	2.50	0.09
External funded donated assets	0.50	0.23
TOTAL	19.76	7.20

Note - may contain rounding differences.

3. Capital Programme Update

- Medical Device Testing & Evaluation Centre (MD-TEC): £3.12m has been incurred to date to create this new facility on the 3rd Floor of the ITM building. Project works were initially delayed due to asbestos removal; however the main contractors' works are now close to completion. Works are scheduled to be completed at the end of October to allow commissioning the facility. The cost of this project is funded by the University of Birmingham and European Funding. Funding will be drawn down gradually over the remaining months of 2017/18.
- Haematology Expansion: £0.80m has been incurred on the early stages of refurbishing old Trust HQ. Contractors are on site and the initial works are on track for completion in December 2017. The full project costs are being funded by Cure Leukaemia and the Local Growth Fund, funding will be drawn down over the remaining months of 2017/18.
- QE Heritage building & offsite building refurbishment: Several projects are underway, costs incurred to date total £0.66m which includes improvements

to fire safety, replacement electricity substation and works to a linear accelerator room.

- QEHB works and lifecycle: £0.97m of variation and lifecycle works undertaken in the QEHB building by the PFI operator. Costs to date include lifecycle works and changes to the water treatment plant within the Endoscopy decontamination unit and work to create the A&E expansion area.
- Equipment rolling replacement: A £3.00m budget exists to replace existing medical equipment across the Trust. Items are prioritised for replacement by the medical engineering team; this year's plan includes ultrasound scanners, dialysis machines, scopes and stacks, patient monitors, slit lamps, and operating tables. The procurement and delivery of these items will take place on a phased basis throughout the financial year, with a total expenditure of £0.44m incurred to date.
- Major medical equipment: The funding for 17/18 includes £1.80m of external PDC for the replacement of a Linear Accelerator and a further £1.2m for imaging equipment including refurbishment of an MRI scanner and mobile X-ray machines. Orders for both high value machines have been placed with delivery scheduled in the later part of the current financial year.
- Other equipment purchases: Expenditure approved to date totals £0.27m; this includes Gallium 68 equipment and new Glaucoma equipment.
- IT – Global Digital Exemplar: External PDC funding of up to £2.5m has been allocated to the Trust for this project. Little expenditure has been incurred to date as project workforce plans to support the programme are under review. .
- IT projects: To date £0.48m has been incurred on a range of IT infrastructure, replacement and modernisation purchases as prioritised by the Director of I.T.
- Donated Equipment: £0.23m of equipment and vehicles were awarded to the Trust in quarter one following successful bids to the QEHB charity during this period.

4. Capitalised Payments and Sources of Funding

In addition to the capital project expenditure outlined above, the Trust incurs two further capital payments related to the New Hospital. These are the capital repayment of the finance lease and the new hospital lifecycle prepayments. In 2017/18 these items total £15.48m as follows:

- £12.23. for the repayment of the finance lease creditor i.e. the annual repayment of the capital element of the PFI lease and
- £3.25m for new hospital lifecycle prepayments.

When added to the normal capital programme expenditure above, the Trusts total planned capital investment for 2017/18 is £35.2m as shown below;

Table 2: 2017/18 Capital Expenditure & Sources of Funding

Capital Funding & Expenditure	2017/18 Plan £m	QTR 2 Plan £m	QTR 2 Actual £m
Capital Programme Expenditure	(19.8)	(13.5)	(7.2)
New Hospital Capital Payments	(15.5)	(7.6)	(7.6)
Sub Total Capital Expenditure	(35.3)	(21.1)	(14.8)

Note - may contain rounding differences.

This financial year's capital investment will be funded from the following sources;

- £20.8m Trust depreciation
- £2.5m PDC funding for Global Digital Exemplar
- £1.8m PDC funding for replacement Linear Accelerator
- £3.7m external funding for the MD_TEC development in the ITM building (University of Birmingham and European Regional Development Fund).
- £3.2m external funding for the Centre for Clinical Haematology development (Local Growth Fund and Cure Leukaemia)
- £0.5m external funding from QEHB charity

Any balance required to fund capital investments is taken from disposal proceeds from the sale of the Selly Oak site.

5. Capital Expenditure Outturn

At present, the Trust is forecasting capital expenditure of circa £18.76m, circa £1.0m below the full year plan; this is reflected in the monthly returns to NHSI. Capital expenditure is expected to increase over the remaining months as several estates projects are completed and as high value medical equipment is delivered. Further work is required on the ICT Global Digital Exemplar (GDE) project to understand its likely commitments during 2017/18.