# UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
## COUNCIL OF GOVERNORS MEETING
## THURSDAY 13 NOVEMBER 2014

| | |
|---|---|
| **Title:** | **FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 30 SEPTEMBER 2014** |
| **Responsible Director:** | Mike Sexton, Chief Financial Officer |
| **Contact:** | Julian Miller, Director of Finance, ext. 53074 |

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| **Purpose:** | To present an update to the Council of Governors by providing a copy of the Board of Directors report covering Financial 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 £0.097m during September which is (£0.203m) below the budgeted surplus of £0.300m for the month. The cumulative surplus at Q2 is £1.183m which is (£0.717m) lower than the planned surplus of £1.900m for the period. |
| **Recommendations:** | The Council of Governors is asked to receive the contents of this report. |

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| **Signed:** Mike Sexton | **Date:** 3 November 2014 |

# UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

## BOARD OF DIRECTORS

## THURSDAY 23 OCTOBER 2014

## FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 30 SEPTEMBER 2014

## PRESENTED BY THE CHIEF FINANCIAL OFFICER

### 1. Introduction

This report covers the first six months of the 2014/15 financial year (1 April 2014 to 30 September 2014). The report summarises the Trust's year to date financial performance including information on healthcare activity, key expenditure variances, CIP delivery and capital programme expenditure.

The 2014/15 Financial Plan has budgeted for an annual surplus of £3.000m. For the six months to 30 September 2014 an actual surplus of £1.183m has been recorded which is (£0.717m) below the £1.900m surplus planned for the period. The surplus achieved in month was £0.097m which represents an adverse variance of (£0.203m) against the budgeted surplus for the month of £0.300m.

The reported position for the year to date includes a combined overspend of (£14.016m) across Operational Divisions. Key pressures include:

- Activity and capacity related cost pressures including usage of unfunded beds, waiting list initiative payments and utilisation of private sector capacity. Significant additional expenditure is being incurred to maintain elective waiting times in the face of rising emergency demand, some of which is reimbursed at a marginal rate.
- Deliverability of cost improvements. Planned efficiency savings have not been fully achieved due to a gap in the overall programme for 2014/15 and slippage against some identified schemes.
- Workforce issues - continued use of agency nurses and locum doctors to cover recruitment gaps in areas of skills shortages.

To date, the operational overspend has largely been balanced by underspends across Corporate budgets and use of the Trust's Specific Reserves. Divisions have agreed forecasts for the remainder of the financial year and are implementing action plans to reduce the current rate of expenditure. Improved performance is required in the second half of the financial year to ensure that the financial plan is delivered.

The Trust has received a Continuity of Services Risk Rating (COSRR) of 2* from Monitor based on the Operational Plan for 2014/15 and Quarter 1 results. Self assessment indicates that this will be maintained for Quarter 2.

## 2. Income & Expenditure Position

### 2.1 Year to Date Summary

Table 1 below shows the year to date actual income and expenditure surplus (excluding impairments) compared to plan. As set out above, the Trust reported a surplus of £1.2m at month 6 (September) as compared to a plan surplus of £1.9m.

**Table 1 – I&E Surplus vs. Plan 2014/15**

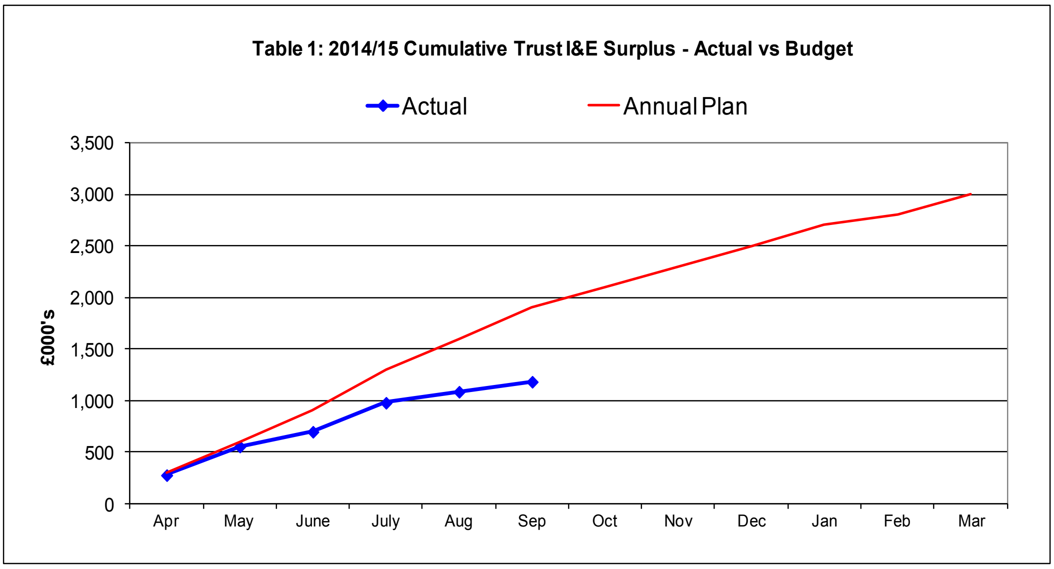



Table 2 below summarises the Trust's income & expenditure position at the end of Q2 2014/15. Analysis of income is included in section 2.2 and the operating expenditure variances are detailed in section 2.4 below.

**Table 2 – YTD Income and Expenditure Budget vs. Actual**

| | Budget Sep £m | Actual Sep £m | Variance £m |
|---|---|---|---|
| Revenue | 344.4 | 356.4 | 12.0 |
| Operating Expenses | (321.9) | (334.4) | (12.5) |
| **EBITDA** | **22.5** | **22.0** | **(0.5)** |
| Depreciation | (10.0) | (10.1) | (0.1) |
| Donated Asset Revenue | 0.1 | 0.5 | 0.4 |
| Interest Receivable | 0.3 | 0.2 | (0.1) |
| Interest Payable | (8.4) | (8.6) | (0.2) |
| Contingent Rental | (2.6) | (2.8) | (0.2) |
| Corporation Tax | 0.0 | 0.0 | 0.0 |
| PDC Dividend | 0.0 | 0.0 | 0.0 |
| **Surplus before impairments** | **1.9** | **1.2** | **(0.7)** |
| Impairments on Property | 0.0 | 0.0 | 0.0 |
| **Total Surplus / (Deficit)** | **1.9** | **1.2** | **(0.7)** |

Note - may include rounding differences

## 2.2 Income Analysis

Total operating income is £12.0m above plan as at the end of Month 6, as shown in table 3 below.

**Table 3 – Income against plan**

| | Budget Sep £m | Actual Sep £m | Variance £m |
|---|---|---|---|
| Clinical - NHS | 280.5 | 292.8 | 12.3 |
| Clinical - Non NHS | 9.9 | 8.3 | (1.6) |
| Other | 54.0 | 55.3 | 1.3 |
| **TOTAL** | **344.4** | **356.4** | **12.0** |

Note - may include rounding differences

NHS Clinical Revenues are £12.3m above plan. This is due primarily to growth in high cost drugs and devices which are excluded from national tariffs (or local prices) and reimbursed on a cost per case basis. Non NHS clinical revenues are (£1.6m) below plan year to date. This includes (£0.4m) attributable to under performance against private patient income targets, mainly in Radiotherapy and Chemotherapy. The balance relates to income from the MoD Treatment contract, which is behind plan due to further reductions in aeromedical activity, and the Local Authority contracts for Sexual Health Services which are below budgeted levels. Other income is £1.3m above plan year to date due to increases in commercial revenue and SLA income.

## 2.3 NHS Clinical Income / Activity

Table 4.1 below compares monthly admitted patient care activity against target for the first five months (April-August) of 2014/15. Total activity is below plan during the month due to seasonal trends but remains above plan on a year to date basis. Within this elective activity is in line with plan whilst emergency activity continues to be circa 5% above plan.

**Table 4.1 – Trust Inpatient Activity**

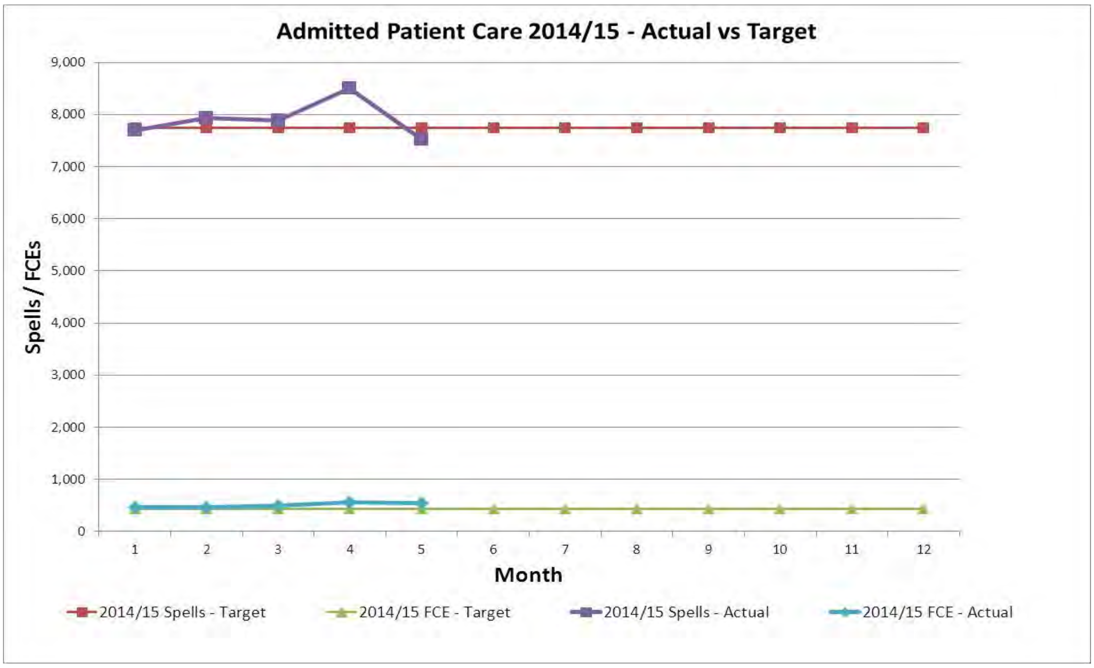


Table 4.2 shows outpatient activity against target for the first five months of 2014/15. Attendances are below target in August due to seasonal factors and are now slightly behind plan for the year to date. However, combined outpatient activity for the year to date is 5% above the activity for the same period last year.

**Table 4.2 – Trust Outpatient Activity**

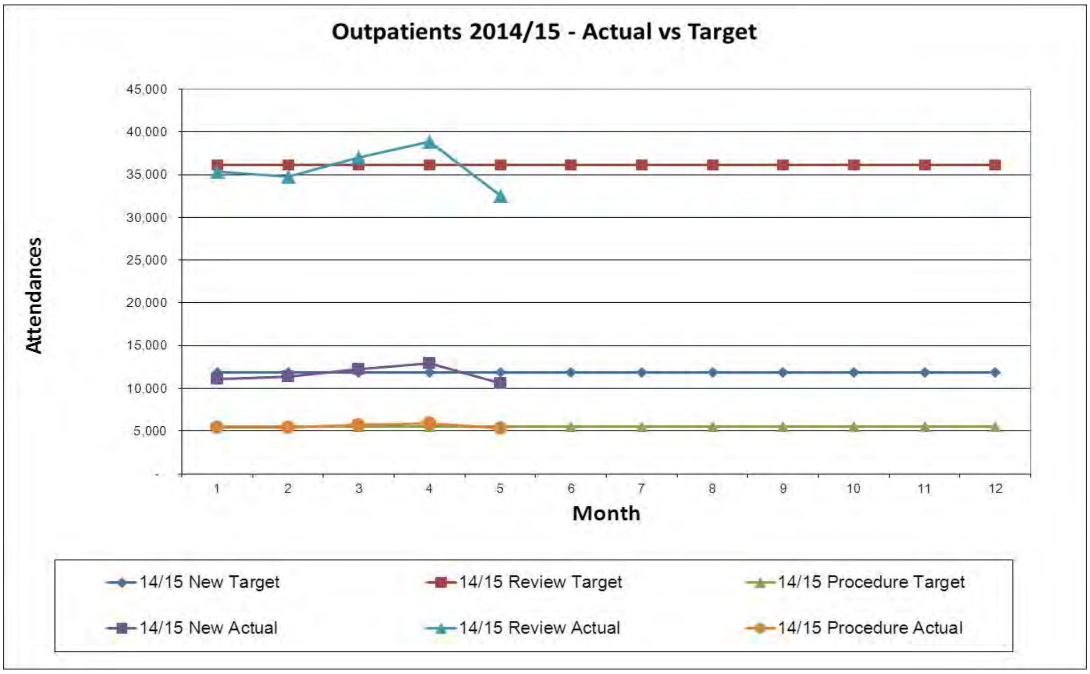



Table 5 below shows the year to date income variances by Division and Point of Delivery against 2014/15 healthcare income targets included in the financial plan. For the 5 months to the end of August healthcare income (excluding cost per case activity) was (£2.4m) below plan. This excludes adjustments for the Marginal Rate Emergency Threshold and contract penalties and fines.

**Table 5 – Summary Healthcare Income Performance by Division by Point of Delivery**

| | **YTD Variance against Divisional Baselines (£000)** | | | | |
|---|---|---|---|---|---|
| | Div A | Div B | Div C | Div D | **Total** |
| Inpatient | (6) | (1,737) | 251 | 1,125 | **(367)** |
| Outpatient | (37) | (4) | (256) | 152 | **(145)** |
| Other | (1,298) | 64 | 368 | (987) | **(1,852)** |
| **Total** | **(1,341)** | **(1,676)** | **363** | **290** | **(2,365)** |

Note - may include rounding differences

## 2.4 Expenditure Analysis

The Trust wide subjective expenditure analysis in Table 6 shows actual expenditure being (£12.5m) above the budgeted expenditure of £321.9m for the year to date.

**Table 6 – Expenditure against plan**

| | Budget Sep £m | Actual Sep £m | Variance £m |
|---|---|---|---|
| **PAY** | | | |
| Medical Staff | 54.2 | 58.4 | (4.2) |
| Nursing | 62.1 | 66.5 | (4.4) |
| Scientific & Technical | 22.1 | 22.5 | (0.4) |
| SMP / A&C | 27.7 | 27.8 | (0.1) |
| Other / Pay Reserves | 11.8 | 7.3 | 4.5 |
| **Total Pay** | **177.9** | **182.5** | **(4.6)** |
| **NON PAY** | | | |
| Drugs | 46.4 | 50.1 | (3.7) |
| Clinical Supplies & Services | 44.0 | 44.6 | (0.6) |
| Other / Non-Pay Reserves | 53.6 | 57.2 | (3.6) |
| **Total Non Pay** | **144.0** | **151.9** | **(7.9)** |
| **GRAND TOTAL** | **321.9** | **334.4** | **(12.5)** |

Note - may include rounding differences

## 3. Cost Improvement Programme

The Trust's 2014/15 Financial Plan includes a total efficiency savings target of £18.9m. As at Q2 schemes totalling £14.3m have been identified and therefore there remains a shortfall of £4.6m (down from £5.3m at Q1). It is becoming increasingly difficult to deliver cost improvements at the level required as commissioners are now taking savings directly in areas where providers have previously made gains e.g. pharmaceutical procurement.

Actual CIP delivery has increased from £2.5m (52% of target) at the end of Q1 to £5.7m (60% of target) as at Q2. This results in a variance of (£3.8m) for the year to date, as shown in Table 7. Approximately (£2.3m) of this relates to the gap in the overall programme as described above. The balance of circa (£1.5m) relates to slippage against identified schemes due to a combination of prudent phasing with targets profiled in twelfths (although some schemes will only start to deliver in year) and a cautious assessment of activity related schemes as the Trust is slightly below its overall income plan. In line with recent years, the overall CIP delivery is expected to improve during the year with current forecasts indicating overall CIP delivery at 74% of the agreed target. Further updates will be provided on a quarterly basis.

**Table 7 – Delivery of Cost Improvements**

| | Cumulative variance against plan (£000) | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Y/E Forecast |
| Division A | (394) | (420)) | | | (562) |
| Division B | (607) | (1,193) | | | (2,267) |
| Division C | (416) | (527) | | | (299) |
| Division D | (854) | (1,658) | | | (2,019) |
| Corp/ NHP/ Central Ops | 3 | 0 | | | 273 |
| **Total** | **(2,268)** | **(3,798)** | | | **(4,874)** |
| % Achieved | 52% | 60% | | | 74% |

## 4. Divisional Analysis

A total adverse variance of (£14.0m) has been recorded against operational budgets in the first six months of 2014/15. This has been offset by a combination of the Trust's Specific and General Contingency Reserves and underspends across other Corporate Budgets.

**Table 8 – Analysis of year to date variances by Division**

| | Income £'000 | Expenditure £'000 | **Total £'000** | Year End Forecast £'000 |
|---|---|---|---|---|
| Division A | 573 | (3,751) | **(3,178)** | (4,558) |
| Division B | 888 | (3,797) | **(2,909)** | (4,641) |
| Division C | (147) | (2,875) | **(3,022)** | (4,226) |
| Division D | 156 | (5,917) | **(5,761)** | (9,253) |
| Division E | 8,069 | (7,215) | **854** | 2,725 |
| **Sub - Total** | **9,539** | **(23,555)** | **(14,016)** | **(19,953)** |
| Healthcare Income | 0 | 0 | **0** | 0 |
| **TOTAL** | **9,539** | **(23,555)** | **(14,016)** | **(19,953)** |
| | | | | |
| *Memo General Contingency Reserve* | | | *936* | *0* |

Note - may include rounding differences

The aggregate operational overspend in September was (£2.159m). Within this, medical staffing accounted for (£796,000) of the adverse variance including (£305,000) attributable to senior medical staff. This includes locum cover for vacancies and sickness, unfunded consultant posts and payments for additional sessions and waiting list initiatives. Significant specialty overspends in September included Neurosciences (£141,000), Anaesthetics (£85,000), Cardiac Surgery (£51,000) and Ophthalmology (£29,000). The balance of the medical overspend (£491,000) relates to expenditure on junior and middle grade doctors including usage of agency, locums and unfunded posts within Anaesthetics (£81,000), Cardiac Surgery / Cardiology (£81,000), ED (£65,000), Trauma (£65,000) and Oncology (£46,000).

Nursing expenditure (including Theatre ODPs) across operational divisions in September was (£598,000) above budget. Specific departmental pressures included Critical Care (£157,000), ED (£58,000) and Theatres (£30,000). The remaining nursing over spend is spread across ward areas and reflects;

- Overspends due to premium rate cover for vacancies, sickness and annual leave.
- Additional nursing input provided to specific patients (‘specials’), and
- Unfunded beds opened due to capacity pressures.

Other expenditure pressures included the slippage against CIP targets and expenditure incurred to deliver activity in the private sector. The operational position for September includes £371,000 of additional income within cardiac surgery for VAD and transplant activity and £66,000 of SLA over performance income within Imaging. These gains were partially offset by a shortfall of (£128,000) relating to the Injury Cost Recovery Scheme and continuing underperformance against private patient targets within divisions B and D.

## 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 2014.

**Table 9 – Statement of Financial Position**

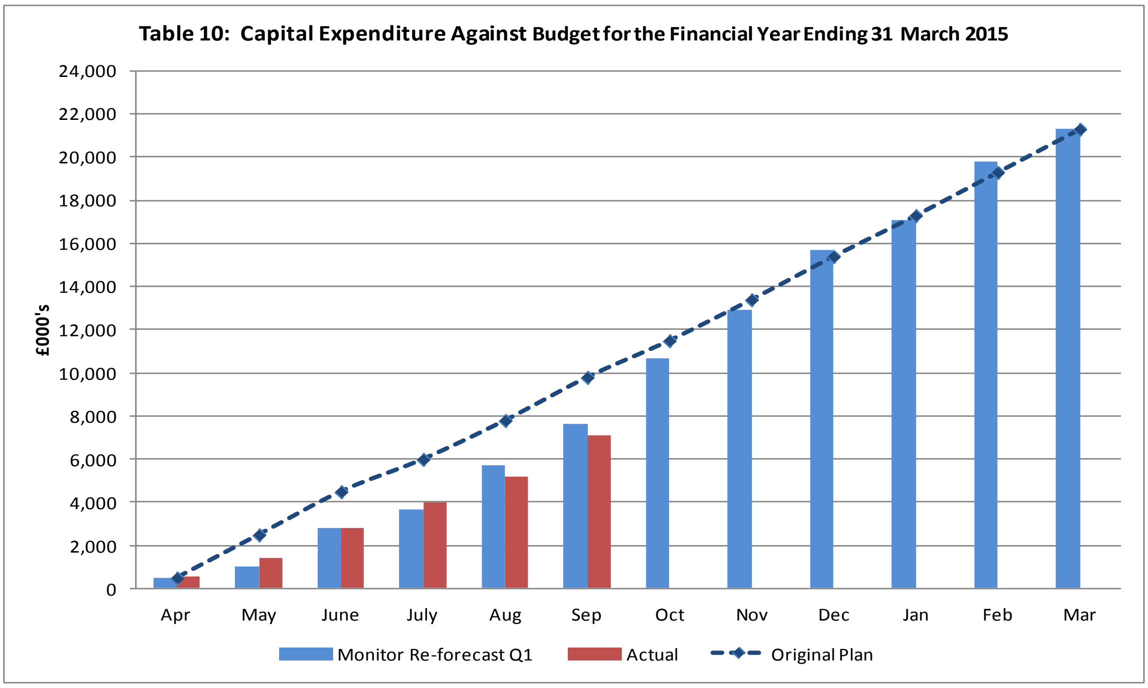
| | | Audited Mar 2013 £m | Actual Sep £m | YTD Plan Sep £m | Annual Plan Mar 2015 £m |
|---|---|---|---|---|---|
| **Non Current Assets:** | | | | | |
| | Property, Plant and Equipment | 518.2 | 515.4 | 518.8 | 520.1 |
| | Intangible Assets | 0.5 | 0.4 | 0.3 | 0.3 |
| | Trade and Other Receivables | 3.1 | 3.2 | 2.6 | 2.6 |
| | Other Assets | 0.0 | 0.0 | 0.0 | 0.0 |
| | **Total Non Current Assets** | **521.8** | **519.0** | **521.7** | **523.0** |
| **Current Assets:** | | | | | |
| | Inventories | 15.2 | 15.1 | 14.4 | 14.4 |
| | Trade and Other Receivables | 46.4 | 27.5 | 36.7 | 36.7 |
| | Other Financial Assets | 0.6 | 3.4 | 0.3 | 2.1 |
| | Other Current Assets | 8.8 | 14.1 | 9.2 | 10.3 |
| | Cash | 63.1 | 57.6 | 57.3 | 51.4 |
| | **Total Current Assets** | **134.1** | **117.7** | **117.9** | **114.9** |
| **Current Liabilities:** | | | | | |
| | Trade and Other Payables | 106.7 | 86.8 | 99.3 | 99.3 |
| | Borrowings | 12.1 | 12.4 | 12.0 | 12.6 |
| | Provisions | 1.2 | 1.2 | 1.6 | 1.6 |
| | Tax Payable | 7.5 | 7.4 | 6.9 | 6.9 |
| | Other Liabilities | 17.0 | 15.7 | 14.2 | 22.7 |
| | **Total Current Liabilities** | **144.5** | **123.5** | **134.0** | **143.1** |
| **Non Current Liabilities:** | | | | | |
| | Borrowings | 522.2 | 516.0 | 516.0 | 509.3 |
| | Provisions | 1.9 | 1.8 | 1.7 | 1.7 |
| | Other Liabilities | 17.8 | 17.4 | 16.9 | 11.7 |
| | **Total Non Current Liabilities** | **541.9** | **535.2** | **534.6** | **522.7** |
| **TOTAL ASSETS EMPLOYED** | | **(30.5)** | **(22.0)** | **(29.0)** | **(27.9)** |
| **Financed by:** | | | | | |
| | Public Dividend Capital | 171.0 | 178.4 | 171.0 | 171.0 |
| | Income & Expenditure Reserve | (315.0) | (313.9) | (314.7) | (313.6) |
| | Donated Asset Reserve | 0.0 | 0.0 | 0.0 | 0.0 |
| | Revaluation Reserve | 113.5 | 113.5 | 113.1 | 113.1 |
| | Merger Reserve | 0.0 | 0.0 | 1.6 | 1.6 |
| **TOTAL TAXPAYERS EQUITY** | | **(30.5)** | **(22.0)** | **(29.0)** | **(27.9)** |

Note - may include rounding differences

## 6. Capital Expenditure (Non Current Assets)

The approved Capital Programme for 2014/15 has a total value of £21.3m. This excludes the recent purchase of office accommodation to enable the disposal of the Selly Oak site. Actual capital expenditure to the end of September was £7.1m which is £2.7m below the original plan and £0.5m below the reforecast submitted to Monitor at Q1. Capital expenditure during the month totalled £1.9m and included £0.7m for the ITM refurbishment works, £0.9m for replacement medical equipment and £0.3m for donated equipment additions. Further details are provided in the separate Q2 Capital Programme Update.

**Table 10 – Capital Expenditure against plan**




## 7. Current Assets

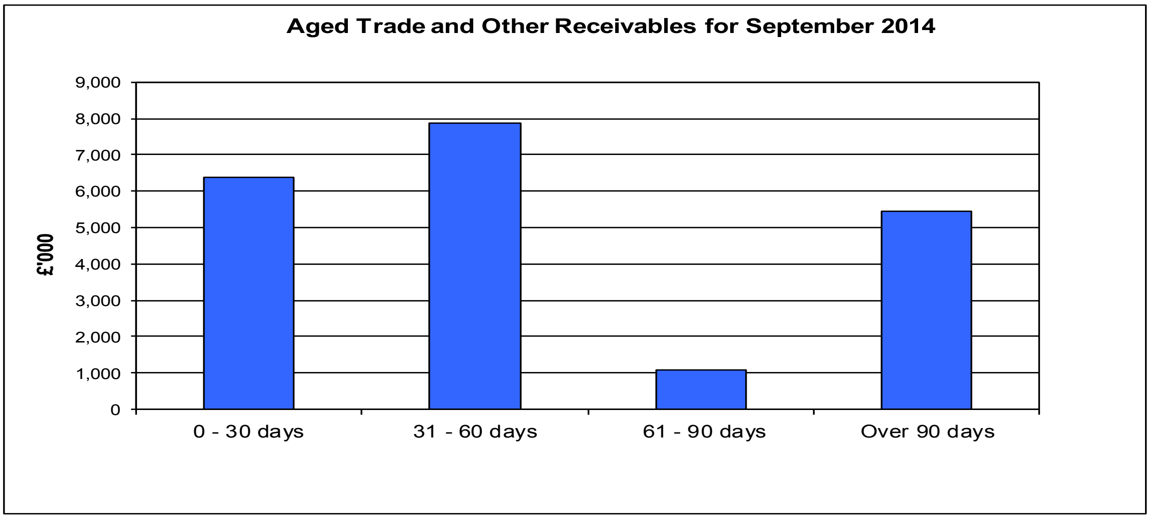
The total value of the Trust's inventory (stock) was £15.1m at the end of September. This is £0.7m (5%) above plan due to increases in pharmacy, warehouse and divisional stock holdings. The Trust's total current assets, excluding cash and inventories, totalled £45.0m at 30 September.

**Table 11 – Analysis of Current Assets (excluding Inventories and Cash)**

| | Actual Sep 2014 £m | Forecast Sep 2014 £m |
|---|---|---|
| Trade Receivables | 23.3 | 30.9 |
| Bad Debt Provision | -1.8 | -1.5 |
| Other Receivables | 6.0 | 7.3 |
| **Trade and Other Receivables** | **27.5** | **36.7** |
| Accrued Income | 3.4 | 0.3 |
| **Other Financial Assets** | **3.4** | **0.3** |
| Prepayments | 14.1 | 9.2 |
| Deferred Asset | 0.0 | 0.0 |
| **Other Current Assets** | **14.1** | **9.2** |
| **TOTAL** | **45.0** | **46.2** |

Analysis of the age profile of Trade Receivables (unpaid invoices issued by the Trust) is summarised in Table 12 below. At 30 September 2014 the over 90 day debt has reduced to £5.4m following payment for 2013/14 activity over performance from a number of CCG's. Of this, NHS commissioning organisations account for £3.4m, including NHS England (£1.2m) and Welsh Specialised Services (£1.6m). The balance of £2.0m includes invoices to other NHS providers including Birmingham Women's Hospital (£0.7m), Birmingham Community Healthcare (£0.3m) and Heart of England NHSFT (£0.2m).

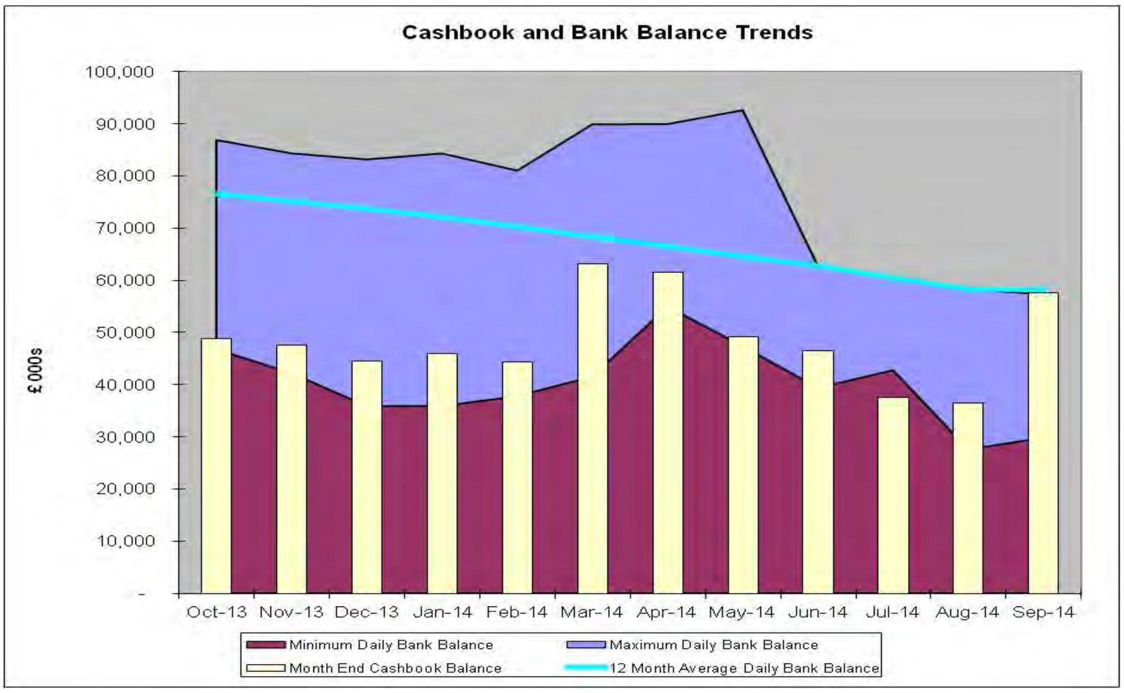
**Table 12 – Aged Debt Analysis**




## 8. Cash Flow

Table 13 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 2014 was £57.6m, which was £0.3m above plan. The month end cash balance is higher than in recent months due to settlements from CCG's for 2013/14 activity over performance and a catch up payment from NHS England to reflect the agreed 2014/15 contract values.

**Table 13 – Cash Flow**



## 9. Monitor Submission

The Trust has received a Continuity of Services Risk Rating (COSRR) of 2* in each quarter since the new risk rating regime was introduced in October 2013. This means that the Trust is classified by Monitor as “material (financial) risk but stable” but importantly ensures that the organisation is not subject to monthly monitoring or potential regulatory action in the same way that FT’s rated as 1 or 2 can be. It is difficult for the Trust to achieve a better rating due to the significant adverse impact of the PFI scheme on the metrics.

Self assessment of Quarter 2 financial performance indicates that the rating of 2* should be maintained for the 3 months to September 2014. On this basis, the Trust is required to submit a negative finance declaration as part of the quarterly monitoring return certifying that “the Board cannot confirm that a COSRR of 3 or better is anticipated for the next 12 months”.

Since Q1 of 2014/15 Monitor have added a new section to the in year governance statement asking Trusts to confirm the number of subsidiaries which have been consolidated in the finance return. For UHB this is now two as UHB Facilities commenced trading during September 2014.

## 10. Conclusion

The Trust has reported a £1.183m surplus for the first six months of the 2014/15 financial year. This represents an adverse variance of (£0.717m) against the planned surplus of £1.900m for the year to date. This reported position includes an aggregate overspend of (£14.016m) across operational divisions, an average of (£2.336m) per month. To date this has been offset by Trust reserves but performance must improve in the second half of the year to ensure that the planned surplus is achieved.

## 11. Recommendations

The Board of Directors is asked to:

- Receive the contents of this report
- Agree that the in year governance statement for Q2 should be submitted to Monitor with a negative finance declaration and confirming that two subsidiary companies have been consolidated into the financial return.

Mike Sexton
Chief Financial Officer
15 October 2014