

**UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
COUNCIL OF GOVERNORS MEETING
5 SEPTEMBER 2014**

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

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 1
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 £0.698m in the first three months (April – June) of 2014/15 financial year. This represents an adverse variance of (£0.202m) against the planned surplus of £0.900m for the year to date.
Recommendations:	The Council of Governors is asked to receive the contents of this report.

Signed: M Sexton	Date: 29 August 2014
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UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
BOARD OF DIRECTORS
THURSDAY 24 JULY 2014

FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING
30 JUNE 2014

PRESENTED BY THE CHIEF FINANCIAL OFFICER

1. Introduction

This report covers the first three months of the 2014/15 financial year (1 April 2014 to 30 June 2014). The report summarises the Trust's financial performance for the year to date 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 three months to 30 June 2014 an actual surplus of £0.698m has been achieved. This represents an adverse variance of (£0.202m) against the £0.900m planned surplus for Quarter 1.

The reported position includes a combined overspend of (£7.052m) across Operational Divisions in the first three months 2014/15. This is equivalent to an adverse variance of (£2.351m) per month and is primarily caused by;

- CIP under achievement, reflecting both a gap in the overall programme for 2014/15 and slippage in the delivery of planned schemes in the early months of the year.
- Activity related cost pressures including the opening of unfunded beds, use of private sector capacity and high levels of expenditure on waiting list initiative payments. Much of the additional expenditure has been driven by the costs of maintaining elective waiting times in the face of significant emergency demand pressures. Expenditure has been incurred at a premium cost which is not covered by additional income, some of which is paid at a marginal rate.
- The continued use of agency nursing and locum doctors due to recruitment issues and other workforce pressures.

The operational overspend during the quarter has been offset by underspends across Corporate budgets and use of the Trust's Specific Reserves. Divisions are finalising forecast projections for the remainder of the year including action plans to reduce the current rate of expenditure. The focus must now be on improving the delivery of the planned efficiency savings for 2014/15 and tightening the management of controllable expenditure to ensure that the financial plan for the year is achieved.

The Trust has received a 2* Continuity of Services Risk Rating (COSRR) rating from Monitor based on its financial results for Quarter 4 (January-March 2014). Self assessment of the financial performance at the end of month 3 indicates that this rating should be maintained in Quarter 1 of the new financial year.

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.

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

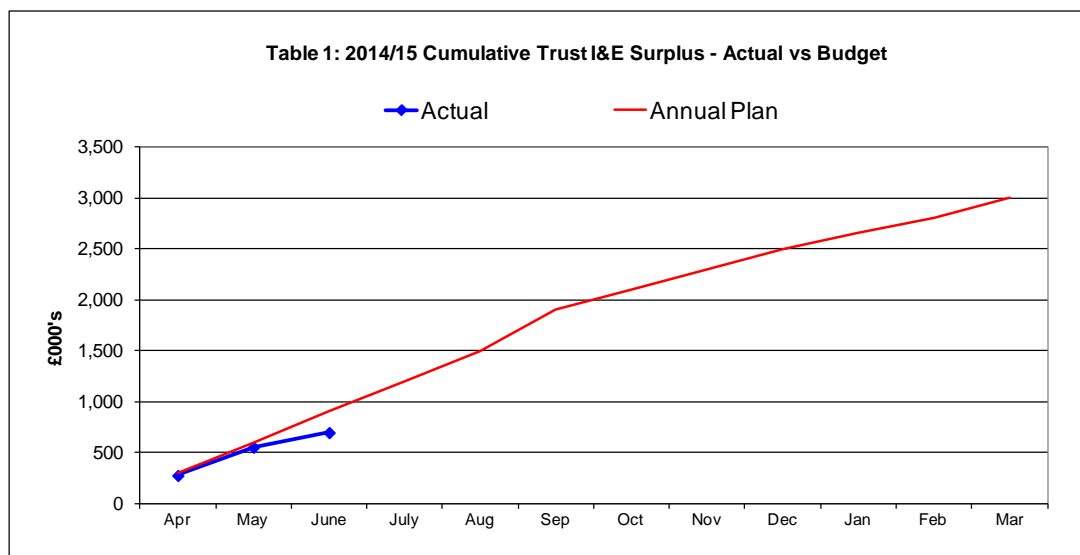


Table 2 below summarises the Trust's income & expenditure position at the end month 3 (June) of the 2014/15 financial year. A detailed analysis of income is included in section 2.2 and the operating expenditure variances are set out in section 2.4 below.

Table 2 – YTD Income and Expenditure Budget vs. Actual

	Budget Jun £m	Actual Jun £m	Variance £m
Revenue	172.1	174.4	2.3
Operating Expenses	(160.9)	(163.1)	(2.2)
EBITDA	11.2	11.3	0.1
Depreciation	(5.0)	(5.0)	0.0
Donated Asset Revenue	0.1	0.0	(0.1)
Interest Receivable	0.1	0.1	0.0
Interest Payable	(4.2)	(4.3)	(0.1)
Contingent Rental	(1.3)	(1.4)	(0.1)
Corporation Tax	0.0	0.0	0.0
PDC Dividend	0.0	0.0	0.0
Surplus before impairments	0.9	0.7	(0.2)
Impairments on Property	0.0	0.0	0.0
Total Surplus / (Deficit)	0.9	0.7	(0.2)

Note - may include rounding differences

2.2 Income Analysis

Total operating income is £2.3m above plan as at the end of Month 3, as shown in table 3 below.

Table 3 – Income against plan

	Budget Jun £m	Actual Jun £m	Variance £m
Clinical - NHS	140.2	143.2	3.0
Clinical - Non NHS	5.0	4.1	(0.9)
Other	26.9	27.1	0.2
TOTAL	172.1	174.4	2.3

Note - may include rounding differences

NHS Clinical Revenues are £3.0m above plan. This relates entirely to cost per case activity including over-performance against plan for high cost drugs and devices excluded from tariff, Bone Marrow Transplants and Renal Dialysis.

Non NHS clinical revenues are (£0.9m) below plan for the period. This includes (£0.4m) due to under performance against private patient income targets in Radiotherapy, Chemotherapy and some surgical specialties. The balance relates to the Local Authority contract for Sexual Health Services and the MoD Treatment contract.

Other income is £0.2m above budget due to SLA and trading revenues being marginally ahead of plan.

2.3 NHS Clinical Income / Activity

Table 4.1 below compares monthly admitted patient care activity against target for the first two months (April-May) of 2014/15. Total inpatient activity during May was marginally above plan and the year to date activity (April and May) is now in line with planned levels. This is attributable to increased emergency demand. Elective activity for the period remains below plan due to the impact of the emergency growth and seasonal factors including the four Bank Holidays during April and May (with the activity targets phased in twelfths).

Table 4.1 – Trust Inpatient Activity

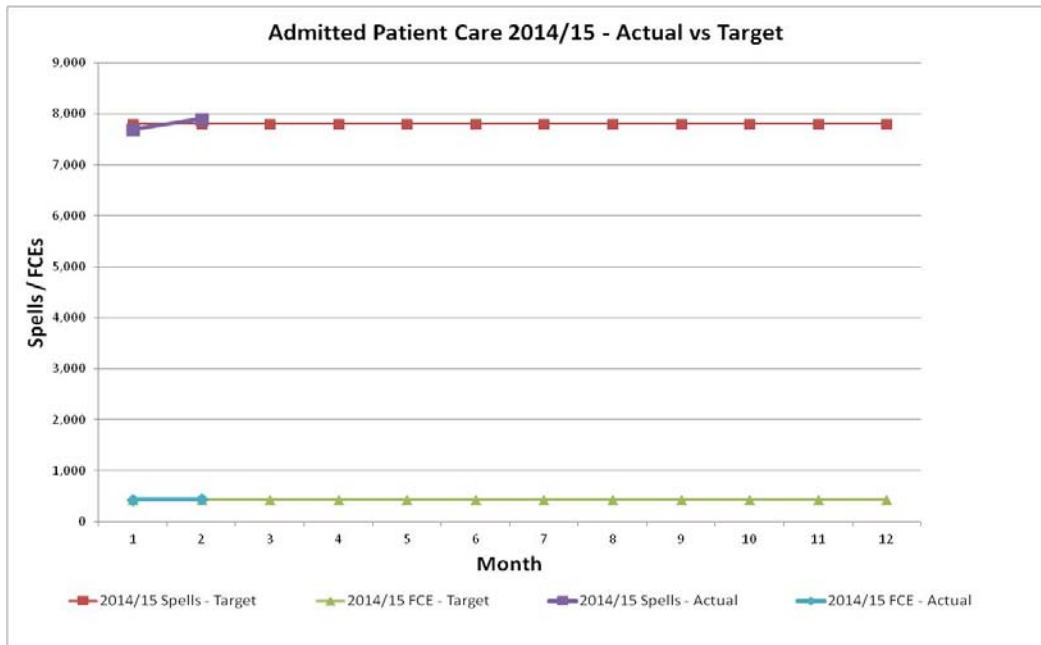


Table 4.2 below shows outpatient activity against target for April and May. Total outpatient activity remains below plan year to date across all activity types (new, follow up and outpatient procedures). As above, this is largely due to the impact of the bank holidays during the period.

Table 4.2 – Trust Outpatient Activity

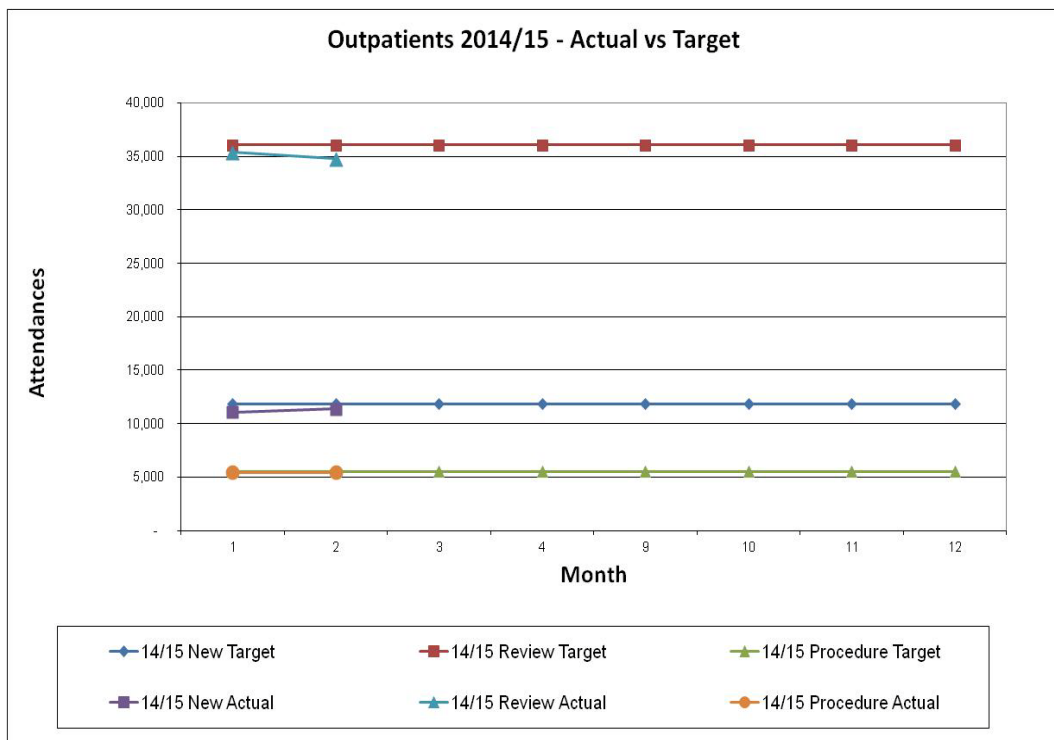


Table 5 below shows the year to date income variances by Division and by Point of Delivery against 2014/15 healthcare income targets included in the financial plan. As set out above, activity is slightly behind the year to date plan due to seasonal factors and therefore healthcare income (excluding cost per case activity) is (£2.411m) below plan at Month 2. This figure excludes provisions for fines for missing contract targets such as referral to treatment (RTT), emergency admissions, ambulance handover and others. Provisions for these will be included (if applicable) during the

year as a clearer picture of activity and performance develops. Price and activity schedules have now been agreed with CCGs and NHS England and contracts are expected to be signed imminently. It is too early in the year to determine a meaningful trend and therefore in line with previous years the underperformance has not been reflected in the ledger at this point.

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	(13)	(683)	(53)	(313)	(1,063)
Outpatient	(12)	8	(259)	(28)	(292)
Other	(758)	(15)	91	(374)	(1,056)
Total	(783)	(691)	(221)	(715)	(2,411)

Note - may include rounding differences

2.4 Expenditure Analysis

The Trust wide subjective expenditure analysis in Table 6 shows actual expenditure being (£2.2m) above the budgeted expenditure of £160.9m for the year to date.

Table 6 – Expenditure against plan

	Budget Jun £m	Actual Jun £m	Variance £m
PAY			
Medical Staff	26.8	28.8	(2.0)
Nursing	30.7	32.9	(2.2)
Scientific & Technical	11.1	11.3	(0.2)
SMP / A&C	13.9	13.9	0.0
Other / Pay Reserves	6.4	4.3	2.1
Total Pay	88.9	91.2	(2.3)
NON PAY			
Drugs	23.2	24.0	(0.8)
Clinical Supplies & Services	22.0	22.0	0.0
Other / Non-Pay Reserves	26.8	25.9	0.9
Total Non Pay	72.0	71.9	0.1
GRAND TOTAL	160.9	163.1	(2.2)

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. At the end of June there remains a gap of £5.3m between the target

and the value of identified schemes. This reflects the increasing difficulty in identifying cost improvements with commissioners now taking some of the gains directly in areas that the Trust has previously targeted for savings e.g. drug procurement. Work is ongoing to identify further schemes in order to close this gap and a number of additional initiatives have been identified but not yet quantified or added to the Trust wide CIP monitoring database.

As in previous years, progress against delivery of this target will be reported on a quarterly basis to the Board of Directors. Table 7 shows CIP delivery at Q1.

Table 7 – Delivery of Cost Improvements

	Cumulative variance against plan (£000)				
	Q1	Q2	Q3	Q4	Y/E Forecast
Division A	(394)				(325)
Division B	(607)				(2096)
Division C	(416)				(518)
Division D	(854)				(2362)
Corporate inc. NHP	3				0
Total	(2268)				(5301)
% Achieved	52%				72%

The actual CIP delivered to date was £2.5m (52%) meaning CIP under delivery at the end of quarter 1 was (£2.3m). Over half of the under delivery relates to a gap in the overall programme with the balance due to slippage on identified schemes (£1.0m). The majority of this (£0.9m) is 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. This is likely to be recovered by year end. There is a further (£0.1m) of confirmed slippage due primarily to delays in some procurement schemes.

In line with recent years, the overall performance is expected to improve throughout the year and the Q1 forecast projects overall delivery of 72% by the year end. The year end forecast will also improve throughout the year as further schemes are identified.

4. Divisional Analysis

A total adverse variance of (£7.052m) has been recorded against operational budgets during the first three months of 2014/15. This has been offset by a combination of the Trust's Specific and General Contingency Reserves and under-spends across other Corporate Budgets.

Table 8 – Analysis of year to date variances by Division

	Income	Expenditure	Total
	£'000	£'000	£'000
Division A	331	(1,555)	(1,224)
Division B	372	(2,081)	(1,709)
Division C	49	(1,565)	(1,516)
Division D	(56)	(3,026)	(3,082)
Division E	(3,679)	4,158	479
Sub - Total	(2,983)	(4,069)	(7,052)
Healthcare Income	0	0	0
TOTAL	(2,983)	(4,069)	(7,052)
<i>Memo General Contingency Reserve</i>			468

Note - may include rounding differences

The aggregate Operational overspend in June was (£2.025m). Within this, medical staffing accounted for (£755,000), of which (£509,000) was attributable to senior medical staff due to locum cover for vacancies and sickness, unfunded consultant posts and payments for additional sessions and waiting list initiatives. The key overspends during June included Anaesthetics (£72,000), Neurosciences (£89,000), Imaging (£45,000), Cardiac Surgery (£45,000), Ophthalmology (£34,000) and Urology (£21,000). The remaining (£246,000) of the medical overspend relates to junior and middle grade doctors reflecting usage of agency locums in ED (£83,000), Anaesthetics (£37,000), Cardiac (£36,000) and Trauma (£23,000).

Nursing expenditure (including Theatre ODPs) across operational divisions in June was (£471,900) above budget. Specific departmental pressures included Critical Care (£93,000), Theatres (£70,000), and ED (£33,000). The balance of the nursing overspend relates to ward areas, with key variances driven by the additional nursing input provided to specific patients ('specials') and unfunded beds due to capacity pressures.

These cost pressures listed above were partially offset by additional revenues including £122,000 relating to the Injury Cost Recovery Scheme, £131,000 relating to variable income in Cardiac Surgery and £264,000 attributable to SLA and trading income in Imaging and Pharmacy.

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 June 2014.

Table 9 – Statement of Financial Position

		Audited Mar 2013 £m	Actual Jun £m	YTD Plan Jun £m	Annual Plan Mar 2015 £m
Non Current Assets:					
	Property, Plant and Equipment	518.2	516.1	518.5	520.1
	Intangible Assets	0.5	0.4	0.3	0.3
	Trade and Other Receivables	3.1	2.8	2.6	2.6
	Other Assets	0.0	0.0	0.0	0.0
	Total Non Current Assets	521.8	519.3	521.4	523.0
Current Assets:					
	Inventories	15.2	16.3	14.4	14.4
	Trade and Other Receivables	46.4	38.7	36.7	36.7
	Other Financial Assets	0.6	5.4	0.3	2.1
	Other Current Assets	8.8	13.6	8.8	10.3
	Cash	63.1	46.5	59.6	51.4
	Total Current Assets	134.1	120.5	119.8	114.9
Current Liabilities:					
	Trade and Other Payables	106.7	94.7	99.3	99.3
	Borrowings	12.1	12.1	12.2	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	16.7	13.8	22.7
	Total Current Liabilities	144.5	132.1	133.8	143.1
Non Current Liabilities:					
	Borrowings	522.2	519.2	518.8	509.3
	Provisions	1.9	1.8	1.7	1.7
	Other Liabilities	17.8	16.5	16.9	11.7
	Total Non Current Liabilities	541.9	537.5	537.4	522.7
TOTAL ASSETS EMPLOYED		(30.5)	(29.8)	(30.0)	(27.9)
Financed by:					
	Public Dividend Capital	171.0	171.0	171.0	171.0
	Income & Expenditure Reserve	(315.0)	(314.3)	(315.7)	(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)	(29.8)	(30.0)	(27.9)

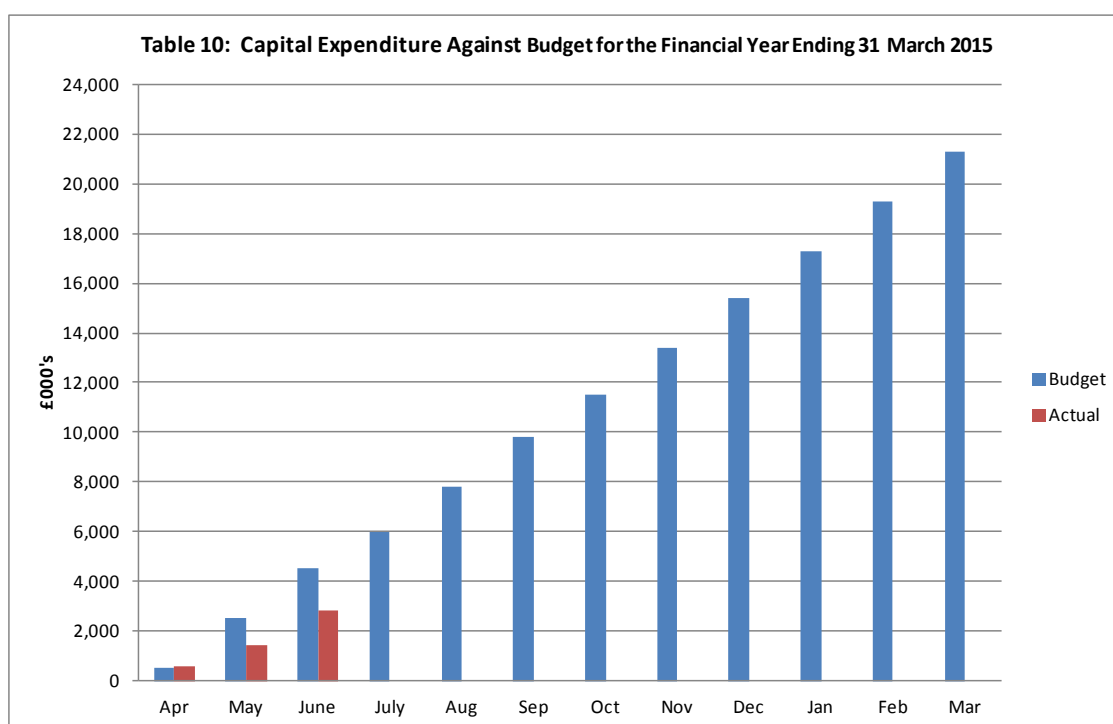
Note - may include rounding differences

6. Capital Expenditure (Non Current Assets)

The total budget for the approved Capital Programme in 2014/15 is £21.3m. Actual capital expenditure up to the end of June was £2.8m which is £1.7m below the year to date plan. Expenditure during the month included £0.8m for works in the North block for the ITM projects, £0.2m for replacement ICT equipment and £0.4m for medical equipment (replacement ultrasound, diathermy, ventilators and microscopes).

Although expenditure is expected to increase during the year, as orders for equipment are finalised and estates projects begin, the Trust will be required to submit a re-forecast to Monitor as actual capex is more than 15% below plan at Q1. Further details are provided in the separate Capital programme update paper.

Table 10 – Capital Expenditure against plan



7. Current Assets

The total value of the Trust's inventory (stock) was £16.3m at the end of June. Although there has been a £0.8m reduction in the month, this remains £1.9m above plan due to increased in stock holdings across pharmacy, the warehouse and Operational areas (cardiac devices, theatres and imaging).

The Trust's other current assets, excluding cash, totalled £57.7m at 30 June 2014 as shown below:

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

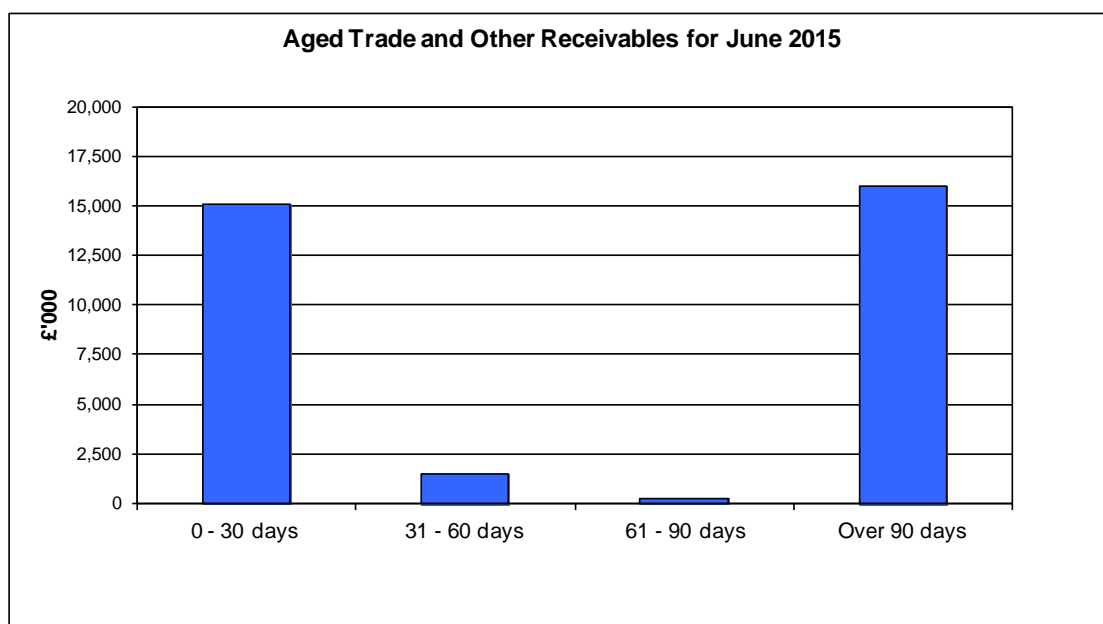
	Actual June 2014 £m	Forecast June 2014 £m
Trade Receivables	32.8	30.9
Bad Debt Provision	-1.9	-1.5
Other Receivables	7.8	7.3
Trade and Other Receivables	38.7	36.7
Accrued Income	5.4	0.3
Other Financial Assets	5.4	0.3
Prepayments	13.6	8.8
Deferred Asset	0.0	0.0
Other Current Assets	13.6	8.8
TOTAL	57.7	45.8

Analysis of the age profile of Trade Receivables (unpaid invoices issued by the Trust) is summarised in Table 12 below. As at 30 June 2014, over 90 day debt totalled £16.2m. This is largely due to over performance invoices for 2013/14 activity which were raised in March but have not yet been settled. Accordingly, NHS commissioning organisations accounted for £15.0m of the outstanding debt including NHS England (£9.0m), Birmingham Cross City CCG (£3.8m) and

Welsh Specialised Services (£1.8m). Some of the debt has been cleared since the end of the month, for example a £7.5m invoice to NHS England was paid on the 4 July.

The balance (£1.2m) includes invoices to local authorities (£0.4m) and other NHS providers including the Birmingham Women’s Hospital (£0.4m) and the Heart of England NHSFT (£0.1m).

Table 12 – Aged Debt Analysis

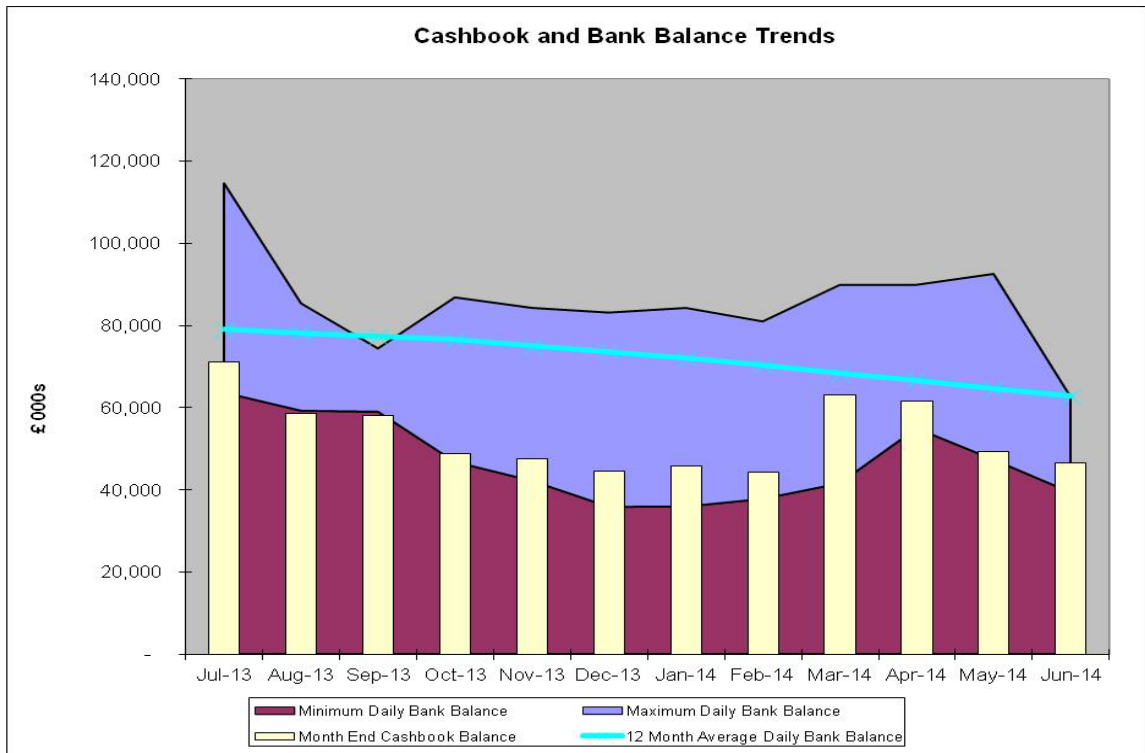


8. Cash Flow

Table 13 shows the month end cash book balance, the minimum and maximum daily bank balance in the month and a twelve month rolling average daily bank balance. The Trust’s cash book balance at the 30 June 2014 was £46.5m, which was (£13.1m) below plan due to movements in working capital balances including;

- £1.9m due to increased inventory (stock).
- £2.0m due to trade and other receivables being higher than plan.
- £5.1m due to accrued income being higher than plan at the end of June.
- £4.8m relating to prepayments e.g. annual maintenance charges paid at the start of the year.

Table 13 – Cash Flow



9. Monitor Continuity of Service Risk Rating

The Trust has received a Continuity of Services Risk Rating (COSRR) of 2* each quarter since the new risk rating regime was introduced in October 2013. This means that the Trust is classified as “material (financial) risk but stable” but importantly ensures that it is not subject to monthly monitoring or potential regulatory action in the way that FT’s rated as 1 or 2 could be. Self assessment of Quarter 1 results indicate that the rating of 2* should be maintained for the 3 months to June 2013.

On this basis the Trust is required to submit a negative finance declaration as part of the quarterly monitoring stating that “the Board cannot confirm that a COSRR of 3 or better is anticipated for the next 12 months”.

For Q1 of 204/15, Monitor have added a new section to the in year governance statement asking Trusts to confirm the number of subsidiaries which have been included in the finance return. For UHB this is only one (Pharmacy@QEHB) as the other subsidiaries are not yet trading.

10. Conclusion

The Trust has recorded an actual surplus of £0.698m in the first three months of 2014/15 financial year. This represents an adverse variance of (£0.202m) against the planned surplus of £0.900m for the year to date. The reported position includes an aggregate overspend of (£7.052m) across operational divisions in the first quarter. To date this has been offset by Trust reserves but action is required to improve the monthly run rate and ensure that the financial plan for the year is delivered.

11. Recommendations

The Board of Directors is asked to:

- Receive the contents of this report.
- Agree that Monitor's in year governance statement should be submitted with a negative finance declaration for Quarter 1 2014/15 and confirming that one subsidiary has been consolidated into the financial return.

A handwritten signature in black ink, consisting of a large capital letter 'M' followed by the name 'Sexton' in a cursive script.

Mike Sexton
Chief Financial Officer

14 July 2014