

**UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST  
COUNCIL OF GOVERNORS MEETING  
TUESDAY 18 FEBRUARY 2014**

<b>Title:</b>	<b>FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 31 DECEMBER 2013</b>
<b>Responsible Director:</b>	Mike Sexton, Chief Financial Officer
<b>Contact:</b>	Julian Miller, Director of Finance, ext. 53074

<b>Purpose:</b>	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 3
<b>Confidentiality Level &amp; Reason:</b>	N/A
<b>Annual Plan Ref:</b>	3.4 – Ensure the Trust maintains financial health
<b>Key Issues Summary:</b>	A surplus of £4.170m has been realised in the first nine months of the 2013/14 Financial Year (April-December), this represents a favourable variance of £0.770m against the planned year to date surplus of £3.400m.
<b>Recommendations:</b>	The Council of Governors is asked to receive the contents of this report.

<b>Signed:</b> M Sexton	<b>Date:</b> 14 January 2014
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# UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

## REPORT TO THE BOARD OF DIRECTORS THURSDAY 6 FEBRUARY 2014

### FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 31 DECEMBER 2013

#### PRESENTED BY THE CHIEF FINANCIAL OFFICER

#### 1. Introduction

This report covers the first nine months of the 2013/14 financial year (1 April to 31 December 2013). It includes the three main financial statements, the Statement of Comprehensive Income, the Statement of Position and the Cash Flow Statement. The report also includes information on healthcare activity, key operating expenditure variances, CIP delivery and capital programme expenditure.

The 2013/14 Financial Plan provides for an annual surplus of £3.900m. An actual surplus of £4.170m has been realised at Quarter 3 which represents a favourable variance of £0.770m against the planned surplus of £3.400m for the year to date. The in month surplus was £0.520m against a plan of £0.200m, a positive variance of £0.320m.

The reported position includes a year to date overspend of (£6.945m) across operational budgets. This has been caused primarily by activity pressures, including increased staffing costs such as the use of external agency nurses and locum doctors, and slippage against some planned cost improvements. The aggregate divisional overspend was (£0.220m) during December, generating an overall operational underspend for the month of £1.080m after recognition of an additional £1.300m of over-performance against healthcare income targets.

Monitor's new rating system came into force from 1 October 2013. Self assessment of Q3 results generates a Continuity of Services Risk Rating (COSRR) of 2 (out of 4), however the Trust anticipates that this will be uplifted to 2\* by Monitor in line with the discretionary powers set out in the Risk Assessment Framework. Under the previous rating system the Trust would continue to achieve a Financial Risk Rating of 3.

#### 2. Income & Expenditure Position

##### 2.1 Year to Date Summary

Table 1 below shows the year to date income and expenditure surplus compared to plan and a forecast to the year end.

**Table 1 – I&E Surplus vs. Plan 2013/14**

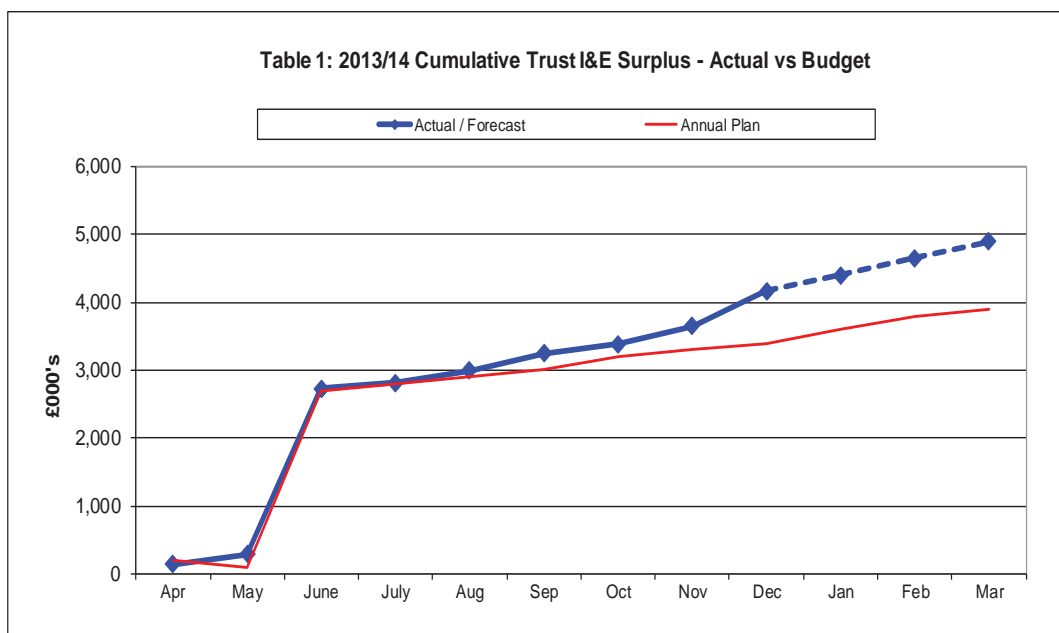


Table 2 below summarises the Trust's income & expenditure position for the nine months to the end of December 2013. A detailed analysis of income is included in section 2.3 and the operating expenditure variances are set out in section 2.4 below.

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

	<b>Budget April - Dec £m</b>	<b>Actual April - Dec £m</b>	<b>Variance £m</b>
Revenue	484.6	507.2	22.6
Operating Expenses	(452.0)	(474.7)	(22.7)
<b>EBITDA</b>	<b>32.6</b>	<b>32.5</b>	<b>(0.1)</b>
Depreciation	(15.0)	(14.5)	0.5
Donated Asset Revenue	2.3	2.4	0.1
Interest Receivable	0.6	0.4	(0.2)
Interest Payable	(13.6)	(13.1)	0.5
Contingent Rental	(3.5)	(3.5)	0.0
Corporation Tax	0.0	0.0	0.0
PDC Dividend	0.0	0.0	0.0
<b>Surplus before impairments</b>	<b>3.4</b>	<b>4.2</b>	<b>0.8</b>
Impairments on Property	0.0	0.0	0.0
<b>Total Surplus / (Deficit)</b>	<b>3.4</b>	<b>4.2</b>	<b>0.8</b>

Note - may include rounding differences

## 2.2 Forecast Outturn

As at Quarter 3 the Trust is forecasting a surplus of £4.9m by the end of the 2013/14 financial year.

## 2.3 Income Analysis

Total operating income is £22.6m above plan for the first nine months of the financial year as shown in table 3 below.

**Table 3 – Income against plan**

	<b>Budget April - Dec £m</b>	<b>Actual April - Dec £m</b>	<b>Variance £m</b>
Clinical - NHS	386.5	407.5	21.0
Clinical - Non NHS	14.8	14.2	(0.6)
Other	83.3	85.5	2.2
<b>TOTAL</b>	<b>484.6</b>	<b>507.2</b>	<b>22.6</b>

Note - may include rounding differences

Total NHS Clinical Revenue is £21.0m higher year than budget year to date. Of this £8.4m is attributable to over-performance against plan for high cost drugs and devices excluded from tariff and cost per case treatments such as Bone Marrow Transplant and Renal Dialysis. A further £7.2m is attributable to contract variations and other business case approvals along with £4.5m recognised in respect of general over-performance against the activity plan (see 2.4 below).

Non NHS clinical revenues are (£0.6m) below plan due largely to underperformance against private patient income targets. Other Operating Income is £2.2m above plan year to date due to additional SLA and research income.

## 2.4 NHS Clinical Income / Activity

Table 4.1 below compares monthly admitted patient care activity against target levels for the first eight months of the financial year (April-November). Both Payment by Results (PbR) spells and Non PbR inpatient FCEs continued above plan in November and remain above plan year to date.

Table 4.1 – Trust Inpatient Activity – update

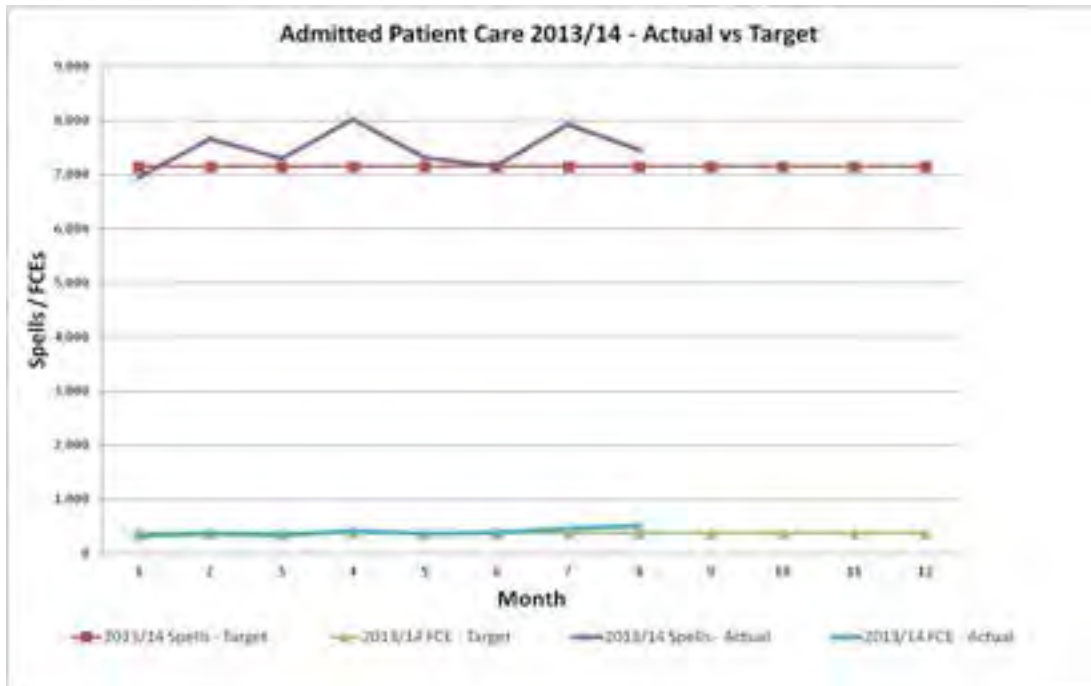


Table 4.2 below shows outpatient activity against target. Both the in month (November) and the year to date (April-November) outpatient activity remains above plan across all the outpatient categories (new, follow up and outpatient procedures).

Table 4.2 – Trust Outpatient Activity

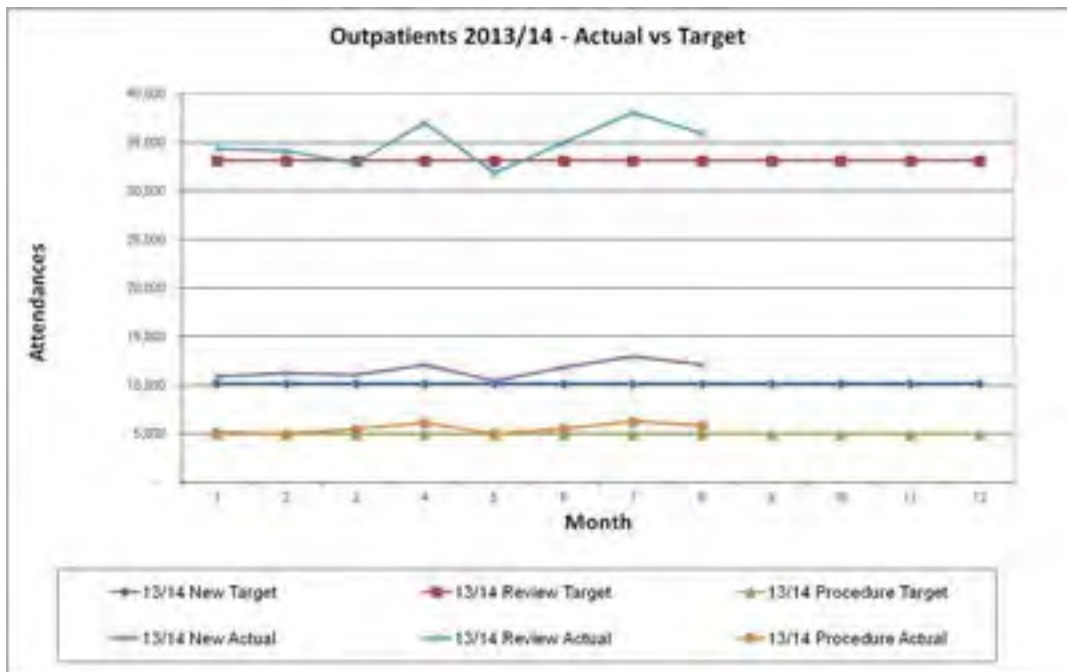


Table 5 below shows the year to date income variances by Division and by Point of Delivery against 2013/14 healthcare income targets. Healthcare income excluding cost per case activity was £4.8m above plan for the first eight months of the financial year (April-November). Of this £4.5m has been recognised in the year to date financial position, with the balance held back to reflect commissioner queries, contract penalties and payment risks.

**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	(100)	(1,470)	657	(473)	<b>(1,386)</b>
Outpatient	99	1,553	1,287	644	<b>3,584</b>
Other	1,747	(463)	235	1,043	<b>2,562</b>
<b>Total</b>	<b>1,746</b>	<b>(379)</b>	<b>2,179</b>	<b>1,214</b>	<b>4,760</b>

Note - may include rounding differences

## 2.5 Expenditure Analysis

The Trust wide subjective expenditure analysis in Table 6 shows actual expenditure being (£22.7m) above the year to date budgeted expenditure of £452.0m year to date. The main areas of overspend relate to medical and nursing pay.

**Table 6 – Expenditure against plan**

	Budget April - Dec £m	Actual April - Dec £m	Variance £m
<b>PAY</b>			
Medical Staff	79.1	84.2	(5.1)
Nursing	88.8	94.0	(5.2)
Scientific & Technical	31.8	32.5	(0.7)
SMP / A&C	40.5	39.9	0.6
Other / Pay Reserves	7.1	10.6	(3.5)
<b>Total Pay</b>	<b>247.3</b>	<b>261.2</b>	<b>(13.9)</b>
<b>NON PAY</b>			
Drugs	60.9	63.9	(3.0)
Clinical Supplies & Services	62.4	64.2	(1.8)
Other / Non-Pay Reserves	81.4	85.4	(4.0)
<b>Total Non Pay</b>	<b>204.7</b>	<b>213.5</b>	<b>(8.8)</b>
<b>GRAND TOTAL</b>	<b>452.0</b>	<b>474.7</b>	<b>(22.7)</b>

Note - may include rounding differences

## 3. Cost Improvement Programme

The Trust's 2013/14 Financial Plan includes a total efficiency savings target of £16.7m. At the end of December 2013, 87% of the year to date target has been achieved, resulting in total slippage of (£1.645m). In line with previous years the cumulative CIP delivery has improved each quarter, up from 81% at Q1 and

84% at Q2, with current forecasts indicating overall delivery of around 90% by 31 March 2014.

The main areas of slippage include procurement savings, where certain tender exercises have taken longer to complete than initially envisaged, some productivity schemes including improvements in theatre efficiency and a number of income related schemes where business cases have yet to be implemented.

**Table 7 – Delivery of Cost Improvements**

	<b>Cumulative variance against plan (£000)</b>				<b>Y/E Forecast</b>
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	
Division A	(249)	(199)	(377)		(453)
Division B	(287)	(635)	(772)		(930)
Division C	6	(35)	(33)		(44)
Division D	(238)	(410)	(458)		(251)
Corporate / NHP	(42)	(61)	(5)		(6)
<b>Total</b>	<b>(810)</b>	<b>(1,340)</b>	<b>(1,645)</b>		<b>(1,684)</b>
% Achieved	81%	84%	87%		90%

#### 4. Divisional Analysis

A net adverse variance of (£6.945m) has been recorded against operational budgets for the first nine months of 2013/14. This has been offset by a combination of the Trust's Specific and General Contingency Reserves. Operational budget were in surplus during December by £1.080m, including the recognition of a further £1.300m of healthcare income over-performance. Divisional performance will continue to be monitored against the year end forecast trajectories over the remaining months of the financial year.

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

	Income £'000	Expenditure £'000	Total £'000	Year End Forecast £'000
Division A	1,013	(5,235)	<b>(4,222)</b>	(6,402)
Division B	2,009	(5,861)	<b>(3,852)</b>	(5,304)
Division C	157	(2,467)	<b>(2,310)</b>	(2,859)
Division D	(501)	(2,369)	<b>(2,870)</b>	(3,160)
Division E	11,510	(9,701)	<b>1,809</b>	2,384
<b>Sub - Total</b>	<b>14,188</b>	<b>(25,633)</b>	<b>(11,445)</b>	<b>(15,341)</b>
Healthcare Income	4,500	0	<b>4,500</b>	6,000
<b>TOTAL</b>	<b>18,688</b>	<b>(25,633)</b>	<b>(6,945)</b>	<b>(9,341)</b>
<i>Memo General Contingency Reserve</i>			1,403	1871

Note - may include rounding differences

Excluding the additional healthcare income, the total Divisional overspend for the month was (£222,000), which is significantly below the recent run rate. Key expenditure pressures in December included overspends of (£461,000) across medical staffing. Of this (£339,000) was attributable to senior medical staffing reflecting a combination of locum cover for vacancies and sickness, unfunded



consultant posts and additional session payments for cover and waiting list initiatives. Overspends were incurred across a range of specialties including Anaesthetics (£73,000), Imaging (£60,000), Neurosurgery (£37,000) and Ophthalmology (£33,000). Combined expenditure on junior and middle grade doctors was (£122,000) above budget which included pressures within A&E (£50,000), Trauma (£39,000), General Surgery (£25,000) and Anaesthetics (£15,000).

Nursing pay (including Theatre ODPs) was (£164,000) above budget in December, a significant improvement on the previous trend due in part to seasonal factors. Specific departmental nursing pressures included Critical Care (£31,000) and Theatres (£38,000). The balance of the nursing overspend relates to ward areas, including the 5<sup>th</sup> floor (£104,000), with key pressures around the additional nursing input provided to specific patients ('specials').

Non-pay expenditure also fell during the month with underspends in some areas including theatres, critical care, outpatients and a number of wards as planned activity reduced over the Christmas and New Year break. The remaining non-pay pressures were largely offset by additional variable income including £235,000 of cost per case activity within Cardiac Surgery and £65,000 of SLA over-performance within Imaging.

## **5. Statement of Financial Position**

The Statement of Financial Position (formerly the Balance Sheet) shows the value of Trust assets and liabilities. The upper part of the statement shows net assets after deducting short and long term liabilities. The lower part identifies the sources of finance. Table 9 summarises the Trust's Statement of Financial Position at 31 December 2013.

Table 9 – Statement of Financial Position

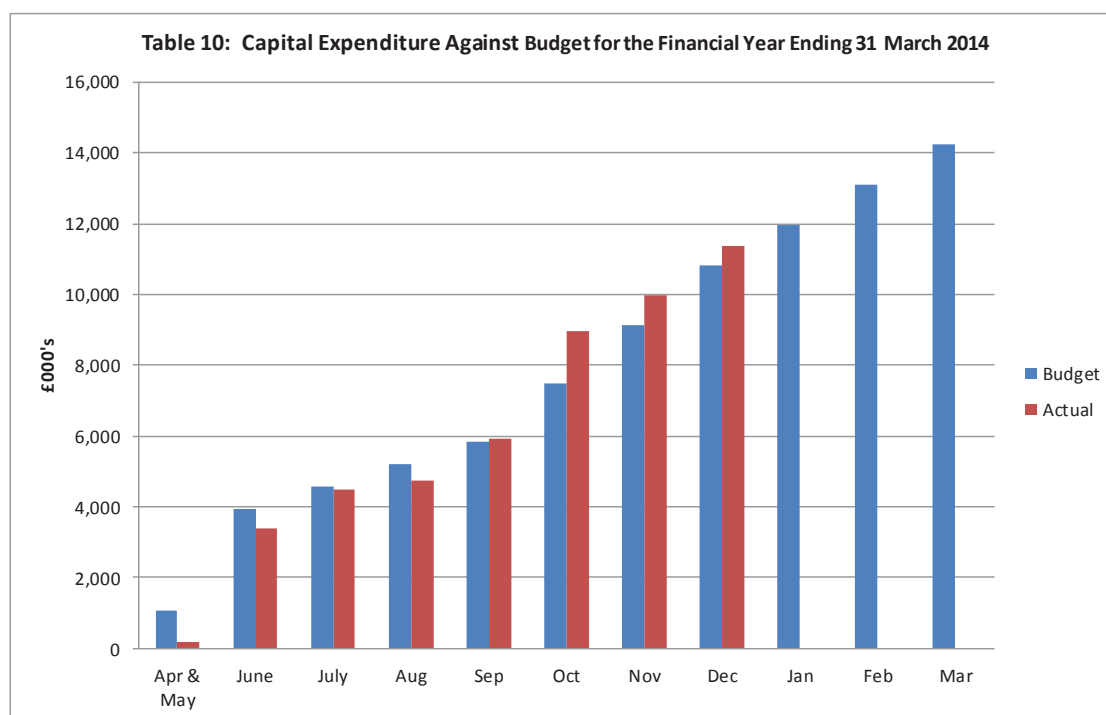
	Audited Mar 2013 £m	Actual Dec 2013 £m	YTD Plan Dec 2013 £m	Annual Plan Mar 2014 £m
<b>Non Current Assets:</b>				
Property, Plant and Equipment	491.8	490.5	489.7	488.0
Intangible Assets	0.5	0.3	0.5	0.5
Trade and Other Receivables	2.8	2.6	2.8	0.0
Other Assets	0.0	0.0	0.0	2.8
<b>Total Non Current Assets</b>	<b>495.1</b>	<b>493.4</b>	<b>493.0</b>	<b>491.3</b>
<b>Current Assets:</b>				
Inventories	13.4	18.4	13.1	13.0
Trade and Other Receivables	32.8	40.7	27.5	31.5
Other Financial Assets	0.3	3.3	0.2	0.2
Other Current Assets	5.3	9.9	8.2	7.7
Cash	76.2	44.6	70.7	65.5
<b>Total Current Assets</b>	<b>128.0</b>	<b>116.9</b>	<b>119.7</b>	<b>117.9</b>
<b>Current Liabilities:</b>				
Trade and Other Payables	91.5	86.6	91.1	91.1
Borrowings	11.8	12.1	11.9	11.9
Provisions	1.8	1.6	1.8	1.8
Tax Payable	7.1	6.9	6.9	7.1
Other Liabilities	21.0	16.0	14.2	12.0
<b>Total Current Liabilities</b>	<b>133.2</b>	<b>123.2</b>	<b>125.9</b>	<b>123.9</b>
<b>Non Current Liabilities:</b>				
Borrowings	534.4	525.2	525.2	522.2
Provisions	1.7	1.7	1.7	1.7
Other Liabilities	21.6	22.2	22.4	23.4
<b>Total Non Current Liabilities</b>	<b>557.7</b>	<b>549.1</b>	<b>549.3</b>	<b>547.3</b>
<b>TOTAL ASSETS EMPLOYED</b>	<b>(67.8)</b>	<b>(62.0)</b>	<b>(62.5)</b>	<b>(62.0)</b>
<b>Financed by:</b>				
Public Dividend Capital	171.0	171.0	171.0	171.0
Income & Expenditure Reserve	(345.5)	(341.4)	(342.1)	(341.6)
Donated Asset Reserve	0.0	0.0	0.0	0.0
Revaluation Reserve	106.7	106.8	106.7	106.7
Merger Reserve	0.0	1.6	1.9	1.9
<b>TOTAL TAXPAYERS EQUITY</b>	<b>(67.8)</b>	<b>(62.0)</b>	<b>(62.5)</b>	<b>(62.0)</b>

Note - may include rounding differences

## 6. Capital Expenditure (Non Current Assets)

The total value of the Capital Programme for 2013/14 is £14.2m, including £2.5m of donated assets. Actual capital expenditure during the first nine months of 2013/14 was £11.4m, which is (£0.6m) above the year to date plan. Additions in the month totalled £1.4m which included £0.7m for estates projects (East block, ITM, Radiopharmacy and new hospital) and £0.7m for recent medical equipment including patient monitors, ECG machines and ventilators. Further details are provided in the separate Quarter 3 Capital Programme update paper.

**Table 10 – Capital Expenditure against plan**



## 7. Current Assets

The total value of the Trust's inventories (stock) was £18.4m at the end of December, this remains £5.3m above plan due to increases in pharmacy stock holdings and bulk purchases of cardiac consumables. Work is ongoing to manage this back in line with plan by year end. The Trust's other current assets, excluding cash, totalled £53.9m at 31 December 2013, as shown below:

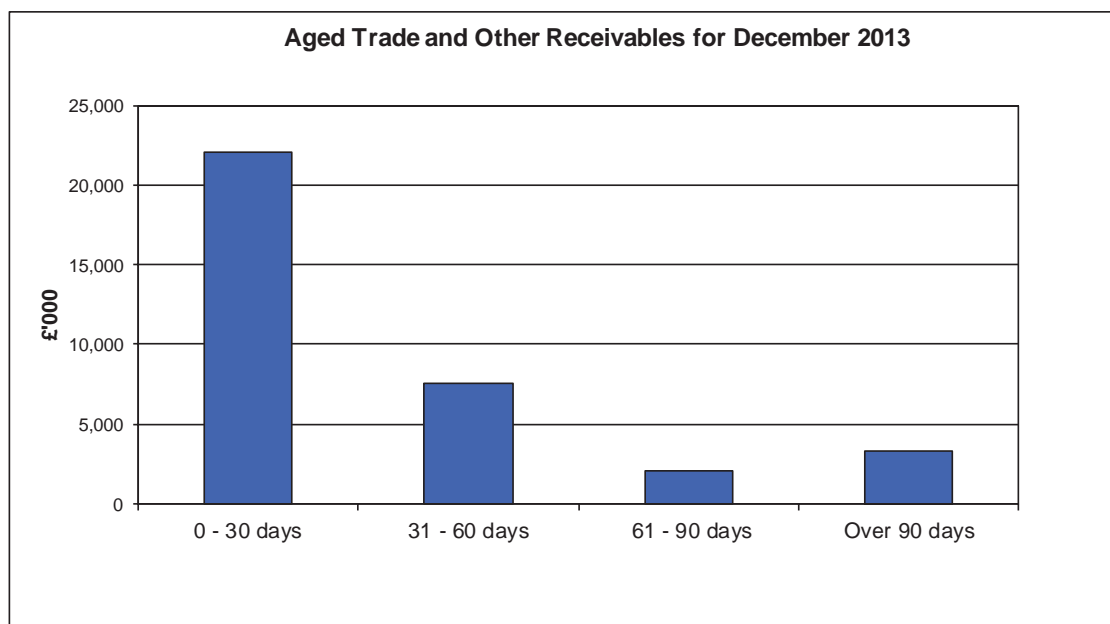
**Table 11 – Analysis of Current Assets (excluding Inventories and Cash)**

	<b>Actual Dec 2013 £m</b>	<b>Forecast Dec 2013 £m</b>
Trade Receivables	34.9	24.2
Bad Debt Provision	-1.5	-1.8
Other Receivables	7.3	5.1
<b>Trade and Other Receivables</b>	<b>40.7</b>	<b>27.5</b>
Accrued Income	3.3	0.2
<b>Other Financial Assets</b>	<b>3.3</b>	<b>0.2</b>
Prepayments	9.9	8.2
Deferred Asset	0.0	0.0
<b>Other Current Assets</b>	<b>9.9</b>	<b>8.2</b>
<b>TOTAL</b>	<b>53.9</b>	<b>35.9</b>

Analysis of the age profile of Trade Receivables (unpaid invoices issued by the Trust) is summarised in Table 12 below. The over 90 day debt totalled £3.3m as at 31 December, a £1.0m improvement on the previous month. Commissioning organisations account for £1.0m of the outstanding value which includes some legacy PCT invoices and payments from out of area CCG's for patients treated in the early part of 2013/14.

A further £1.8m relates to other NHS providers for service level agreements including the Birmingham Children’s Hospital (£0.4m), Birmingham Women’s Hospital (£0.4m), the Royal Orthopaedic Hospital (£0.2m) and Heart of England (£0.2m). The remaining £0.5m relates to non NHS debt including private patients, the University of Birmingham and other miscellaneous charges.

**Table 12 – Aged Debt Analysis**



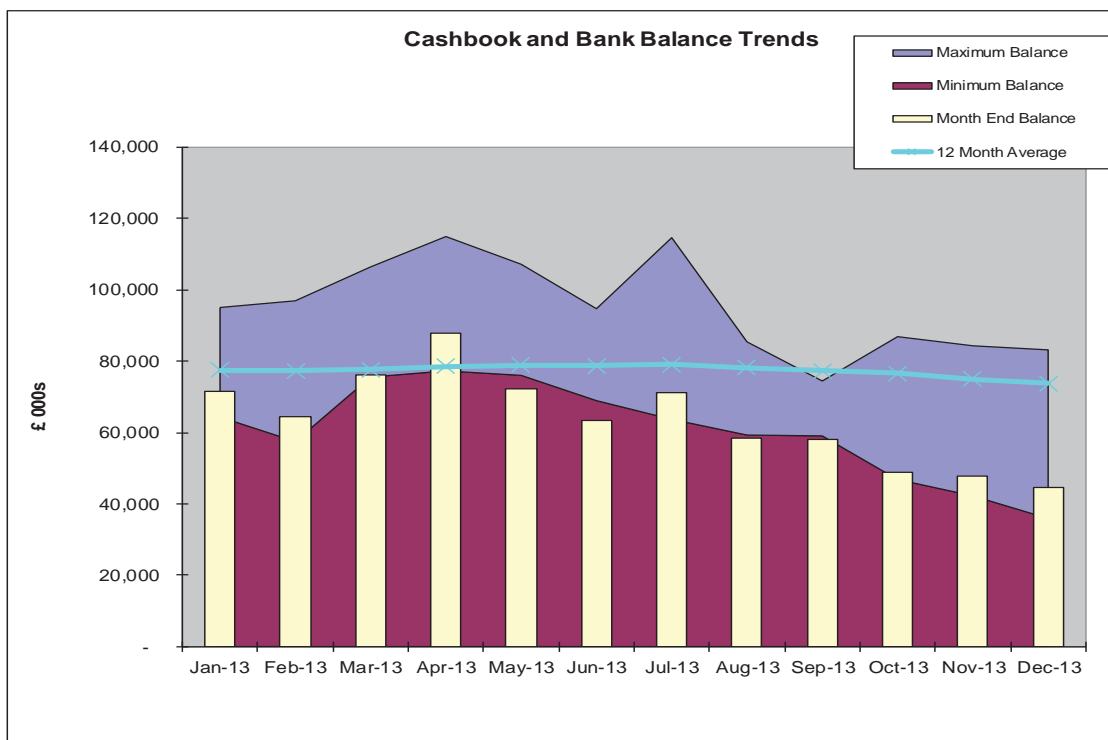
## 8. Cash Flow

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 balance at the 31 December 2013 was £44.6m which is below plan by (£26.1m). This is largely attributable to movements in working capital balances including:

- £5.3m due to increased inventory (stock).
- £13.2m due to trade and other receivables being higher than plan. This includes some invoices for NHS healthcare services which have only recently been raised due to delays resulting from the changes in commissioning arrangements for 2013/14.
- £3.1m relating to accrued income (other financial assets)
- £4.5m due to trade and other payables being below plan.

The cash position is expected to improve over the remaining months as the outstanding large value healthcare invoices are settled by commissioners. Focus will remain on this area over the remaining months to ensure that cash balances move back in line with the plan.

**Table 13 – Cash Flow**



The Trust’s working capital facility was closed in December 2013 as the facility is no longer required due to changes in the calculation of Monitor’s liquidity ratio.

## 9. Monitor Ratios

### 9.1 Continuity of Service Risk Rating (COSRR)

The previous Financial Risk Rating was replaced by the COSRR from 1 October 2013/14. Self assessment of Q3 results indicates that a rating of 2 (out of 4) would be generated against the new measure, however the Trust anticipates that this will be uplifted to 2\* by Monitor in line with the discretionary powers set out in the Risk Assessment Framework.

### 9.2 Financial Risk Rating (FRR)

Under the previous rating system, the FRR remains a 3 based on the Strategic Plan and the latest results published by Monitor (Quarter 2). Self assessment indicates that this would have been maintained during Quarter 3.

## 10. Monitor Finance Declaration

As part of the Quarter 3 submission to Monitor, the Trust is required to submit a forward looking finance declaration confirming whether “the board anticipates that the trust will continue to maintain a continuity of service risk rating of at least 3 over the next 12 months”.

As set out in previous papers the composition of the new metrics, and in particular the significance attached to the PFI lease (debt), mean that the Trust is highly unlikely to achieve a COSRR of 3 in the near term. In the longer term a rating of 3 could be achieved if the majority of the proceeds from the sale of the Selly Oak site are retained rather than reinvested. On this basis the finance declaration will be negative (i.e. the board cannot confirm that a COSRR of 3 is anticipated for the next 12 months) as at Q3 2013/14. Due to Monitor's Quarter 3 deadline (31 January 2014) falling before the date of the Board Meeting, the declaration has been approved for submission (on the basis detailed above) by the Chair and Chief Executive.

## 11. Conclusion

An income and expenditure surplus of £4.170m has been reported for the first three quarters of the 2013/14 financial year (April-December). This represents a favourable variance of £0.770m against the planned surplus of £3.400m for the year to date.

Ongoing overspends across operational areas continue to be balanced by a combination of Trust Reserves and additional healthcare income and it is now forecast that an overall surplus of £4.900m will be achieved by year end. Focus must now be placed on managing recurrent cost pressures and identifying new cost improvements for 2014/15 to ensure that the strong financial performance can be sustained during the next financial year in light of further tariff reductions.

## 12. Recommendations

The Board of Directors is asked to:

- Receive the contents of this report.
- Note that Monitor's Q3 combined governance statement has been submitted on the basis that for Finance the Board cannot confirm that it anticipates that the Trust will continue to achieve a COSRR of 3 over the next 12 months.



Mike Sexton  
Chief Financial Officer  
14 January 2014