

**AGENDA ITEM NO:****UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST****BOARD OF DIRECTORS****THURSDAY 25 APRIL 2013**

<b>Title:</b>	<b>CAPITAL PROGRAMME REPORT</b>
<b>Responsible Director:</b>	Morag Jackson, New Hospitals Project Director
<b>Contact:</b>	Steve Clarke, Corporate Finance Manager, ext. 53854

<b>Purpose:</b>	To update the Board of Directors on 2012/13 capital expenditure and request approval for the 2013/14 capital programme.
<b>Confidentiality Level &amp; Reason:</b>	None
<b>Medium Term Plan Ref:</b>	Relevant to all strategic aims
<b>Key Issues Summary:</b>	<p>Actual capital expenditure in 2012/13 was <b>£10.23</b> million compared to the <b>£12.80</b> million budget. The majority of the slippage relates to the donated Cyberknife machine.</p> <p>The proposed 2013/14 capital budget is <b>£14.24</b> million including £3.91 million of externally funded projects.</p> <p>A summary of the major projects included in 2013/14 is also set out in this report.</p>
<b>Recommendations:</b>	<p>The Board of Directors is requested to:</p> <ol style="list-style-type: none"><li>1. <b>Note</b> the £10.23 million expenditure against the 2012/13 capital programme.</li><li>2. <b>Approve</b> the 2013/14 capital expenditure budget of £14.24 million.</li><li>3. <b>Note</b> the estimated impact of the total capital expenditure for 2013/14.</li></ol>

<b>Signed:</b>	<b>Date:</b> 15 <sup>th</sup> April 2013
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# UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

## BOARD OF DIRECTORS THURSDAY 25 APRIL 2013

### CAPITAL PROGRAMME REPORT

#### PRESENTED BY NEW HOSPITALS PROJECT DIRECTOR

#### 1. Purpose of the Report

This report summarises the Trust's 2012/13 capital expenditure across the main projects. It sets out the proposed capital programme for 2013/14 financial year for Board of Directors approval and summarises the major projects. Finally, the report includes a summary of capital funding sources and expenditure to demonstrate the impact on the Trusts cash balances of the overall capital investment in 2013/14.

#### 2. 2012/13 Expenditure Summary

Actual capital expenditure in 2012/13 was £10.23m as summarised below:

**Table 1: Summary 2012/13 Capital Programme Budget & Expenditure**

	<b>2012/13 Budget £ m</b>	<b>2012/13 Expenditure £ m <sup>(1)</sup></b>
Brought Forward Schemes	0.20	0.26
Retained Estates	4.95	3.85
Equipment - Rolling Replacement	1.93	2.45
Equipment - Scopes Replacement	0.45	0.44
Equipment - Major Trauma Centre & Other	0.86	0.72
ICT replacement & specific projects	1.25	1.49
Modernisation and Discretionary	0.30	0.07
New Hospital Works	0.35	0.74
Assumed slippage	(0.30)	0.00
Donated Assets (inc. Cyberknife)	2.80	0.20
<b>TOTAL</b>	<b>12.80</b>	<b>10.23</b>

1. Subject to the 2012/13 annual accounts audit.

#### 3. 2012/13 Programme Update

##### 3.1 Brought forward from previous years (Budget: £0.20m)

This relates to several items of equipment approved or ordered in the previous financial year but delivered during 2012/13. Actual costs were marginally higher than planned at £0.26m.

### 3.2 Retained Estate (Annual Budget: £4.95m)

In 2012/13 expenditure of £3.85m was incurred on the following:

- £1.53m on the Plaza landscaping scheme.
- £0.30m on QE site road infrastructure work undertaken by Birmingham City Council.
- £0.85m on Nuffield house refurbishment for the HARC service.
- £0.31m spent on works to the CRF facility in the Wellcome building.
- £0.26m for works on the ground floor of the Oncology building in preparation of for the transfer of the Haemophilia service.

Work on all the above schemes has now been completed. Several smaller projects, refurbishments and work to comply with statutory standards were also undertaken in year. A further £0.47m has been incurred for refurbishment work ongoing to create the Cyberknife facility.

Slippage against the overall budget relates to the Radiopharmacy refurbishment. This project is currently out to tender with construction work expected to start in July 2013, several months later than originally anticipated.

### 3.3 Equipment (£3.24m)

Equipment expenditure in 2012/13 as £3.62m including;

- £0.50m on replacement endoscopes and scope drying cabinets.
- £2.43m on the replacement of existing medical equipment, including dialysis units, heart and lung machines, operating tables, ventilators and diathermy units.
- £0.32m on new equipment within the emergency and critical care departments to support additional activity including Major Trauma Centre growth.
- £0.30m on the replacement electron microscope installed into the new hospital.

Total equipment expenditure in the year overspent by (£0.38m) due to unplanned costs relating to the replacement of CVVH dialysis machines and apheresis machines.

### 3.4 ICT Replacement and Specific Projects (£1.25m)

In 2012/13 £1.49m has been incurred on ICT projects, an overspend of (£0.24m) against the approved budget. ICT expenditure in the year included the finance disaster recovery upgrade, replacement and additional servers to support various system upgrades and other IT security and system management upgrades. The ICT overspend was incurred due to additional servers and hardware required to support the development of the new Patient Administration System approved during 2012/13.

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

Expenditure on new equipment to improve service delivery or deliver revenue savings totalled £0.07m in 2012/13.

### 3.6 New Hospital Works (£0.35m)

In 2012/13 new hospital works variations totalled £0.50m largely relating to variations approved by the Board of Directors in previous financial years. In addition new hospital lifecycle additions of £0.24m have been incurred in line with the PFI financial model.

### 3.7 Unallocated and Assumed Slippage (£0.20m)

The £0.50m budget included in the overall capital budget at the start of the year was fully allocated during the financial year. Assumed slippage of (£0.30m) was included in the budget, based on historic trends that some capital projects would be delayed in the year.

### 3.8 Donated Assets (£2.80m)

The £2.80m budget includes the Cyberknife machine at £2.40m and £0.40m for the other donated equipment. The Cyberknife machine was delivered in February 2013 with installation and commissioning ongoing and the first patient expected to be treated in June 2013. The expenditure (and associated donated income) will be recognised once the equipment is in use; this means no costs are recognised in 2012/13. Actual other donated items totalled £0.20m in 2012/13.

### 3.9 2012/13 Expenditure Summary

Total capital expenditure in 2012/13 was £10.23m compared to the £12.80m budget. This is split across Trust funded schemes and schemes funded through donations as follows:

- Trust funded capital project expenditure of £10.03m in 2012/13 in line with the £10.00m budget. Key variances included unanticipated expenditure relating to replacement CVVH dialysis machines, apheresis machines and the purchase of additional hardware and servers to support the new Patient Administration System being developed. These were offset by slippage in the radio pharmacy refurbishment scheme.
- Donated schemes incurred £0.20m compared to the budgeted £2.80m, an underspend of £2.60m primarily relating to the Cyberknife machine as detailed above.

#### 4. 2013/14 Proposed Capital Budget

The proposed 2013/14 capital budget is £14.24m, of which £10.33m is funded by the Trust and £3.91m is funded from external sources including £2.51 (QEHB charity) and £1.40m (central government ITM grant). The key projects are summarised in Table 2 and detailed on the following pages:

**Table 2: Proposed 2013/14 Capital Programme Budget**

	<b>Project Description</b>	<b>Annual Budget £'m</b>
1	Brought Forward from 2012/13	0.20
2	Estates Works & Projects	2.93
3	New Hospital Works & Lifecycle	0.54
4	External Funding: ITM Facility	1.40
5	Equipment Linear Accelerator Replacement	1.56
6	Equipment Rolling Replacement	2.30
7	Equipment: Growth & Developments	1.10
8	IMT Replacement & specific projects	1.10
9	Modernisation and Discretionary	0.30
10	Unallocated Contingency	0.30
11	External Funding: Donated Cyberknife & Other	2.51
	<b>TOTAL</b>	<b>14.24</b>

A more detailed breakdown of the planned 2013/14 capital projects is contained in **Appendix A** and summarised below;

##### 4.1 Brought Forward

The £0.20m budget includes several items of medical and IT equipment ordered in 2012/13 but due for delivery early in 2013/14.

##### 4.2. Site Building & Infrastructure Estates Projects

An overall budget of £4.87m is proposed to cover the following schemes:

- £0.50m bunker works for the replacement Linear Accelerator.
- £0.93m Radiopharmacy clean room refurbishment works in line with the approved business case.
- £1.40m Institute for Translational Medicine (ITM) facility advanced works and refurbishment (matched by external funding of the same value). Preferred consultants for the design of the new facility have been selected and approval of central government funding from the Department of Business, Innovation and Skills (BIS) totalling £12.00m has now been received.
- £0.54m for new hospital works including the allowance for lifecycle costs in line with the PFI financial model.

All the above are in line with approved business cases. The proposed budget also includes a £1.50m allowance for refurbishment of old QE hospital buildings to meet operational capacity requirements. Projects to be undertaken will be subject to Board of Directors approval or approved under agreed delegated limits. Potential works may include the day surgery facility, relocation of breast services, refurbishment work to increase office space for the transfer of remaining service from Selly Oak or clinical space to meet Trust requirements.

#### 4.3 Equipment (Replacements and Developments)

The proposed £4.96m budget includes:

- £1.56m replacement linear accelerator in line with the recently approved business case.
- £2.30m for the ongoing rolling replacement of existing medical equipment. This includes equipment no longer supported by the original manufacturers, equipment at the end of its asset life and items identified by the divisions for replacement. At present the total value of items proposed for replacement is higher than the available funding, therefore risk assessments and further discussions with departments are being undertaken to prioritise the equipment.
- £1.10m for additional new equipment to support continued capacity growth and approved developments, including:
  - £0.40m Cardiac Surgery expansion business case.
  - £0.10m Ophthalmology service development business case.
  - £0.20m potential further Critical Care expansion as forecast from the Major Trauma Centre paper.
  - £0.40m allowance for potential new equipment which may be required for in year developments to support operational requirements.

#### 4.4 IT Projects

The proposed £1.10m budget is an increase on the previous year's annual capital IT modernisation budgets but this reflects the minimum requirements of the long term IT project plan developed by the Director of IT services. The proposed £1.10m includes server replacement (£0.20m), SAN storage network investment to ensure continued availability of all vital applications and systems (£0.20m), backup and continuity projects (£0.20m) including disaster recovery and further investment in security, protection and management of IT hardware and applications. A detailed project list is available for further scrutiny; these will proceed as approved in business cases or under delegated limits.

#### 4.5 Chief Operating Officer Discretionary and Other

In line with previous years, 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.

In addition, a further unallocated budget of £0.30m is included in the proposed 2013/14 capital programme to support any potential business cases requiring capital investment which may be brought forward in the financial year. This funding will be allocated as business cases are approved during the year.

No slippage is included in the 2013/14 capital programme as initial work with key project managers and clinical departments indicates that the full value of the 2013/14 capital budget will be utilised during the year.

#### 4.6 Donated Assets

The 2013/14 capital programme includes £2.51m of assets to be funded from QEHB Charity and donated to the Trust. The bulk of this relates to the Cyberknife machine (£2.31m) which as set out above was originally included in the 2012/13 plan, but will now be accounted for in 2013/14 once patient treatments begin. A final £0.20m is included for other purchases of equipment following bids by departments to QEHB Charity Trustee Board.

#### 4.7 2013/14 Capital Programme Summary

The proposed plan reflects the current understanding of Trust commitments at this point in time. Changes to the capital programme may be required in the year to reflect approved developments. In particular, it should be noted that the current plan does not include:

- A Da Vinci surgical robot purchase.
- Significant site strategy investment above the estates projects outlined above and the £1.50m allowance for works to the QE site.
- Expenditure and potential income relating to the Selly Oak site.
- Additional works which may be agreed with the PFI operator either through variations or other commercial agreement.

Work on a longer term capital programme will continue during 2013/14 following:

- Agreement of an outline QE site redevelopment plan.
- Conclusion of discussions with key stakeholders regarding the planned replacement of several major medical equipment items including linear accelerators, CT Scanners and MRI scanners.
- Submission of the Trust 3-year financial plan to Monitor in May 2013.

### 5. **Other Capitalised Payments and Funding**

In addition to the traditional capital expenditure outlined above, the Trust will incur two other capitalised payments relating to the new hospital. These are not shown in the monthly Income and Expenditure report to the Board of Directors. In 2013/14 these are projected to be:

A. **£11.80m** for the repayment of the finance lease creditor, effectively the annual repayment of the capital element of the PFI lease.

B. **£2.35m** for new hospital lifecycle payments.

When added to the proposed capital budget outline above, the total capital related cash flows for 2013/14 are:

**Table 3: 2013/14 Capital Expenditure & Funding**

<b>Capital Funding &amp; Expenditure</b>	<b>2013/14 £'million</b>
Capital Programme Expenditure	(14.24)
New Hospital Capital Payments	(14.14)
<b>Sub Total Capital Expenditure</b>	<b>(28.38)</b>
External Funding: QEHB Charity	2.51
External Funding: Central Govt Grant (ITM)	1.40
Trust Funding: Estimated 13/14 Depreciation	20.50
Trust Funding: Estimated 13/14 Annual Surplus	2.00
<b>Net Capital Funding</b>	<b>26.41</b>
<b>Net Cash Inflow / (Outflow)</b>	<b>(1.97)</b>

Table 3 shows a net cash outflow of (£1.97m) in 2013/14 based on current estimates of depreciation and annual surplus. To ensure no significant reduction in Trust cash holdings, capital expenditure needs to be broadly in line with the generated funds. A net cash reduction of £1.97m is affordable and manageable with no significant impact on Trust Financial Risk Ratings.

## 6. Conclusion & Recommendations

The Trust incurred £10.23m of capital expenditure in 2012/13 compared to the £12.80m budget. The majority of the variance relates to donated assets (Cyberknife) which will now be recognised in 2013/14.

The proposed 2013/14 capital programme budget is £14.24m of which £10.33m is funded by the Trust and £3.91m from external sources (QEHB Charity and Central Government). The proposed programme includes expenditure relating to several approved business cases and allowances for anticipated expenditure subject to future approval.

Total capital expenditure for 2013/14 including new hospital related payments totals £28.38m and is expected to result in a net cash outflow of (£1.97m) in the year.

The Board of Directors is requested to:

6.1 **Note** the £10.23 million expenditure against the 2012/13 capital programme.

6.2 **Approve** the 2013/14 capital expenditure budget of £14.24 million.

6.3 **Note** the estimated impact of the total capital expenditure for 2013/14.

Morag Jackson  
Director of Projects