

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

BOARD OF DIRECTORS

THURSDAY 24 APRIL 2014

Title:	CAPITAL PROGRAMME REPORT
Responsible Director:	Morag Jackson, Director of Projects
Contact:	Steve Clarke, Corporate Finance Manager, ext. 53854

Purpose:	To update the Board of Directors on 2013/14 capital expenditure and request approval for the 2014/15 capital programme.
Confidentiality Level & Reason:	None
Annual Plan Ref:	Relevant to all strategic aims
Key Issues Summary:	<p>Total capital expenditure in 2013/14 was £14.32 million compared to the £14.24 million budget.</p> <p>The proposed 2014/15 capital budget is £21.30 million including £9.00 million of externally funded projects. A summary of the planned 2014/15 projects is also included in this report.</p>
Recommendations:	<p>The Board of Directors is requested to:</p> <ol style="list-style-type: none">1. Note the £14.32 million capital programme expenditure during 2013/14.2. Approve the 2014/15 capital project budget of £21.30 million and3. Note the total capital investments and sources of funding planned for the 2014/15 financial year.

Signed: Morag Jackson	Date: 11 April 2014
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UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

**BOARD OF DIRECTORS
THURSDAY 24 APRIL 2014**

CAPITAL PROGRAMME REPORT

PRESENTED BY DIRECTOR OF PROJECTS

1. Purpose of the Report

This report provides a summary of the 2013/14 capital project expenditure and details the capital projects planned for the 2014/15 financial year. The report sets out the capital funding sources, capital expenditure and the impact on the Trust's cash balances of capital investment in 2014/15.

2. 2013/14 Expenditure Summary

Actual capital expenditure at the end of 2013/14 was £14.32m as summarised below:

Table 1: Summary 2013/14 Capital Programme Budget & Expenditure

	2013/14 Annual Budget £ m	2013/14 Expenditure £ m ⁽¹⁾
Brought Forward Schemes	0.20	0.43
Estates – Retained Buildings	4.43	3.70
Estates – New Hospital	0.54	0.35
Equipment - Rolling Replacement	2.30	2.73
Equipment - Lin Acc replacement	1.56	0.00
Equipment - Business Cases & Other	1.30	3.00
COO Discretionary & Modernisation	0.30	0.42
ICT replacement & specific projects	1.10	1.22
Donated Assets (inc. Cyberknife)	2.51	2.47
TOTAL	14.24	14.32

1. Subject to the 2013/14 annual accounts audit.

3. 2013/14 Programme Update

Total capital programme expenditure in 2013/14 was £14.32m, marginally above the approved £14.24m budget. This overspend relates to projects approved in year (Da Vinci robot, CT Synergy etc.) resulting in increased expenditure above the value of slippage within approved schemes (linear accelerator room 7 replacement). Key projects completed during 2013/14 included:

- Radiopharmacy refurbishment (£1.00m) - refurbishment work started in October 2013 and finished at the end of January 2014. Commissioning and testing has now been completed and the new facility became fully operational on the 7th April 2014.
- East block refurbishment (£1.68m) - work to refurbish this block to create the new short stay clinical capacity and additional office space was completed in the year. The new areas were occupied in December 2013.
- Institute of Translational Medicine (£0.94m) – design work has been completed and advanced works undertaken to remove asbestos, ICT cabling and redundant pipe work. The main works contractor has now been appointed and is due to start on site at the end of April 2014 with works programmed to last until early May 2015.
- Lifecycle replacement and variation works totalling £0.35m have been undertaken by the PFI operator in the new hospital during.
- Rolling replacement of existing medical equipment has cost £2.73m in year, this has included new anaesthetic machines, slit lamps, operating tables, a heart and lung perfusion system, ultrasound machines and defibrillators.
- A further £3.00m has been incurred on additional (growth) medical equipment based on approved business cases. This includes items related to ophthalmology, urology, East block day surgery area and £1.63m for the Da Vinci surgical robot.
- £1.22m has been incurred in 2013/14 on ICT projects; this covered a range of projects identified by the Director of IT Services including server replacement, storage area network upgrades, business continuity and backup investment and data security projects.
- Donated capital equipment valued at £2.47m was received from QEHB Charity during 2013/14; this includes the Cyberknife machine which has been used to treat patients since June 2013.
- Of the capital projects planned for 2013/14, only the linear accelerator (room 7) bunker refurbishment did not proceed as expected. This was for operational reasons including increased radiotherapy demand which resulted in clinical team deciding to delay the decommissioning of the existing machine. This resulted in a saving of £2.06m (£0.5m works and £1.56m equipment) during 2013/14, with the majority of this saving being used to fund the Da Vinci robot.

Capitalised Payments and Sources of Funding

In addition to the traditional capital project expenditure outlined above, the Trust incurred two further capital payments relating to the New Hospital. The value of these payments (capital repayment of the finance lease and new hospital lifecycle payments) in 2013/14 was £14.31m. When added to

the £14.32m capital project expenditure budget summarised above, the total 2013/14 capital investment was £28.63m as summarised in table 2 below;

Table 2: 2013/14 Capital Expenditure & Funding

Capital Funding & Expenditure	2013/14 Plan £ million	2013/14 Actual £ million	2013/14 Variance £ million
Capital Programme Expenditure	-14.24	-14.32	-0.08
New Hospital PFI Capital Payments	-14.14	-14.31	-0.17
Sub Total Capital Expenditure	-28.38	-28.63	-0.24
External Funding: QEHB Charity	2.50	2.47	0.03
External Funding: Central Govt Grant (ITM)	1.40	1.40	0.00
Trust Funding: 2013/14 Depreciation	20.00	20.28	0.28
Trust Funding: 2013/14 Annual Surplus ⁽¹⁾	1.40	2.47	1.07
Net Capital Funding	25.30	26.62	1.32
Net Cash Inflow / (Outflow)	-3.08	-2.01	1.08

1. Trust actual 2013/14 surplus (before asset revaluations) was £4.94m; this includes £2.47m donated income already shown in the external funding line in this table.

To maintain the Trust's overall level of cash balances, total capital expenditure needs to be broadly in line with the sources of capital funding. Table 2 above shows total capital expenditure of £28.63m, compared to actual funding of £26.62m in the year, an overall cash outflow of (£2.01m) during 2013/14. The year end position was £1.08m better than planned, primarily due to the higher than planned annual surplus.

4. 2014/15 Proposed Capital Budget

The proposed 2014/15 capital budget is £21.30m, of which £9.00m is externally funded (£8.80m agreed central government ITM grant and £0.20m assumed QEHB donations) with the balance funded by the Trust. The key capital expenditure projects included within the £21.30m proposed budget are summarised in Table 3 and detailed in the following pages:

Table 3: Proposed 2014/15 Capital Programme Budget

Project Description	Annual Budget £ m
Estates - ITM Project	8.80
Estates - QE Site Building Refurbishment	2.40
Estates - New Hospital Works & Lifecycle	0.93
Estates - Renal Facility Project	0.75
Equipment - Rolling Replacement	2.10
Equipment – Major Equipment Replacement	3.61
Equipment – Other	0.86
IMT Replacement & specific projects	1.15
Modernisation and Discretionary	0.30
Unallocated Contingency	0.20
External Funding: Donated Cyberknife & Other	0.20
TOTAL	21.30

The projects included within the proposed £21.30m capital project budget are summarised below:

4.1 Estates (building, refurbishment & infrastructure) Projects

The proposed capital budget includes a £12.88m investment in building projects during 2014/15 as follows:

- £8.80m for the refurbishment of the Institute for Translational Medicine (ITM) facility in line with the approved external funding.
- £2.40m for anticipated works across the QE site and buildings. This includes £0.50m for Linear Accelerator room 7 refurbishment works and funding for clinical area refurbishment projects within the West Block, subject to operational requirements.
- £0.93m for new hospital works including the allowance for lifecycle costs in line with the PFI financial model.
- £0.75m for the development of an offsite Renal Dialysis facility. This is based on a £3.0m total cost of works which will be incurred over two financial years by the Trust.

4.2 Equipment (Replacements and Developments)

The proposed capital budget includes the following investment in equipment during 2014/15:

- £3.61m for the replacement of several high value equipment assets:
- £1.56m linear accelerator (Business Case approved).
- £1.00m cardiac catheter laboratory replacement.

- £1.05m MRI scanner and ultrasound machine replacement.
- £2.10m for the ongoing rolling replacement of existing medical equipment, this includes equipment no longer supported by the manufacturers, equipment at the end of its asset life and items identified by the divisions as causing operational difficulties due to breakdown. The list of items to be replaced is being finalised based on risk assessments and discussions with the clinical services.
- £0.86m for other equipment purchases including:
 - £0.20m for replacement scopes.
 - £0.20m potential further critical care expansion.
 - £0.46m allowance for replacement laboratory systems (BARS and mass spectrometers).

These will proceed in year subject to the relevant approvals under the Trust's scheme of delegated authority and Standing Financial Instructions (SFI's).

4.3 IT Projects

A £1.20m budget is proposed to fund IT projects in 2014/15. This reflects the minimum requirements identified by the Director of IT Services. Planned ICT projects include the replacement of end of life hardware (£0.80m), the purchase of additional SAN storage capacity (£0.20m) and other upgrade projects required to support vital applications and systems across the Trust (£0.20m). A detailed project list is available for further scrutiny and a full project plan is being finalised to deliver these projects over the financial year.

4.4 Other Capital Budgets

The proposed 2014/15 capital budget also includes £0.80m for the following:

- £0.30m discretionary budget for Chief Operating Officer projects to improve service delivery or to deliver savings.
- £0.20m for potential donated equipment following bids approved by the QEHB Charity Trustee Board and
- £0.30m contingency for any unplanned replacement of capital assets or business cases approved during the year.

4.5 2014/15 Capital Programme Summary

No slippage is included in the 2014/15 capital programme as initial work with key project managers and departments indicates that the full value of the proposed capital budget will be utilised in the year. Progress updates will be provided to the Board of Directors on a quarterly basis during

2014/15 as in previous years. The proposed plan reflects the current understanding of Trust commitments at this point in time.

The key risks associated with this programme include:

- Delays to ITM refurbishment programme either due to changes in the design or specifications required or contractor delays during the works.
- Operational impacts, delays or unforeseen costs associated with the replacement of the major medical assets (cardiac catheter lab, MRI scanner and linear accelerator machine).
- Further capital equipment requests during the year which are not currently funded within this plan.

Multi-disciplinary project teams will need to be established for the major projects that include external advisors and specialist technical expertise where required to help mitigate project risks. Should additional capital expenditure be approved in year, the capital programme will be reviewed to determine if either:

- Planned projects can be slipped to fund new the investments or
- Where additional expenditure is required, the Trust's financial models will be updated to forecast and demonstrate the impact of the further investment on the Trust cash balances and Continuity of Services Risk Ratings (CoSRR).

4.6 2014/15 Other Capitalised Payments and Funding

As in previous years, in addition to the capital project expenditure outlined above, the Trust will incur two other capitalised payments relating to the New Hospital. In 2014/15 this is forecast to be £14.44m as follows:

- **£12.10m** for the repayment of the finance lease creditor or the annual repayment of the capital element of the PFI lease.
- **£2.34m** for new hospital lifecycle payments.

When added to the proposed capital budget outline above, the total capital related cash flows for 2014/15 are planned to be;

Table 4: 2013/14 Capital Expenditure & Funding

Capital Funding & Expenditure	2013/14 £'million
Capital Programme Expenditure	(21.30)
New Hospital Capital Payments	(14.44)
Sub Total Capital Expenditure	(35.74)
External Funding: QEHB Charity	0.20
External Funding: Central Govt Grant (ITM)	8.80
Trust Funding: 2014/15 Planned Depreciation	20.20
Trust Funding: 2014/15 Planned Surplus ⁽¹⁾	2.80
Net Capital Funding	32.00
Net Cash Inflow / (Outflow)	(3.74)

1. Trust planned 2014/15 surplus is £3.00m; this includes £0.20m of donated income already shown in the external funding line in this table.

As indicated above, Trust capital expenditure needs to broadly balance capital funding sources. Table 4 shows a net cash outflow of (£3.74m) is expected in 2014/15 in relation to capital expenditure, this one-off net cash reduction is consistent with the Trust's approved financial plans and the Trust's long term financial model.

5. Conclusion & Recommendations

The Trust incurred £14.32m of capital expenditure in 2013/14 compared to the £14.24m approved budget.

The proposed total capital expenditure for 2014/15 is £35.74m which includes new hospital capital payments of £14.44m and capital projects of £21.30m. This results in a total net cash outflow of (£3.74m) in the year, based on the Trust receiving £9.0m of external capital funding during 2014/15. This proposal is consistent with two year financial plan approved by the Board of Directors in March 2014 and subsequently submitted to Monitor in April. The Board of Directors are requested to:

- 5.1 **Note** the £14.32 million capital programme expenditure during 2013/14.
- 5.2 **Approve** the 2014/15 capital project budget of £21.30 million and
- 5.3 **Note** the total capital investments and sources of funding planned for the 2014/15 financial year.