

**AGENDA ITEM NO:****UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST  
BOARD OF DIRECTORS  
THURSDAY 27 JANUARY 2011**

<b>Title:</b>	<b>FINANCE AND ACTIVITY PERFORMANCE REPORT FOR THE PERIOD ENDING 31 DECEMBER 2011</b>
<b>Responsible Director:</b>	Mike Sexton, Director of Finance
<b>Contact:</b>	Julian Miller, Deputy Director of Finance, ext. 53074

<b>Purpose:</b>	To present an update to the Board
<b>Confidentiality Level &amp; Reason:</b>	N/A
<b>Medium Term Plan Ref:</b>	Aim 2: Maintain our reputation and position at the leading edge of performance and quality Aim 3: Enhance our reputation for excellent financial management and efficiency
<b>Key Issues Summary:</b>	A £2.684m surplus has been recorded for the first nine months of the 2010/11 financial year. This represents a favourable variance of £84,000 against the planned surplus of £2.600m for the period. This position excludes transition costs of £4.925m related to the New Hospital move and a total impairment loss of £260.936m covering phases 1 and 2. Therefore the overall deficit is (£263.177m) including these items.
<b>Recommendations:</b>	The Board of Directors are asked to: <ul style="list-style-type: none"><li>• Receive the contents of this report.</li><li>• Agree that Declaration 1 should be signed at Q3 stating that the Board expects the Trust to maintain a minimum FRR of 3 for the next 12 months.</li></ul>

<b>Signed:</b> M Sexton	<b>Date:</b> 17 January 2011
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# UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

## BOARD OF DIRECTORS THURSDAY 27 JANUARY 2011

### FINANCE AND ACTIVITY PERFORMANCE REPORT FOR THE PERIOD ENDING 31 DECEMBER 2010

#### PRESENTED BY THE DIRECTOR OF FINANCE

#### 1. Introduction

This financial report covers the nine months of the 2010/11 financial year between 1 April 2010 and the 31 December 2010. The report is prepared under International Financial Reporting Standards (IFRS) and contains three key financial statements; the Statement of Comprehensive Income (previously the Income and Expenditure Account), the Statement of Position (Balance Sheet) and the Cash Flow Statement. The report details the operating variances in the month along with capital expenditure in the period. Activity data is also provided for the first eight months of the financial year.

As set out in the Financial Plan approved by the Board of Directors, the Trust has budgeted for an annual surplus of £800,000 in 2010/11. This position excludes planned 'exceptional costs' of £268.5m comprising restructuring costs of £8.0m associated with the transition to the New Hospital and an expected impairment loss of £260.5m on the new building. Therefore, in overall terms the Trust is planning for a deficit of (£267.7m) in 2010/11. The exceptional costs are excluded from the calculation of the Trust's Financial Risk Rating (FRR) and are largely non-cash (the impairment loss does not involve a cash payment), therefore the organisation remains financially sound despite the planned deficit.

After nine months, the actual surplus achieved was £2.684m compared to the budgeted surplus of £2.600m for the period, this represents a favourable variance of £84,000 (excluding exceptional costs). The budgeted surplus to date is higher than the planned full year surplus due to the phasing of expenditure across the year, with additional costs being incurred in line with the New Hospital moves. To date transition costs of £4.925m have been incurred along with an impairment loss of £260.936m relating to phases 1 and 2 of the new hospital. This results in an overall deficit of (£263.177m) at 31 December 2010.

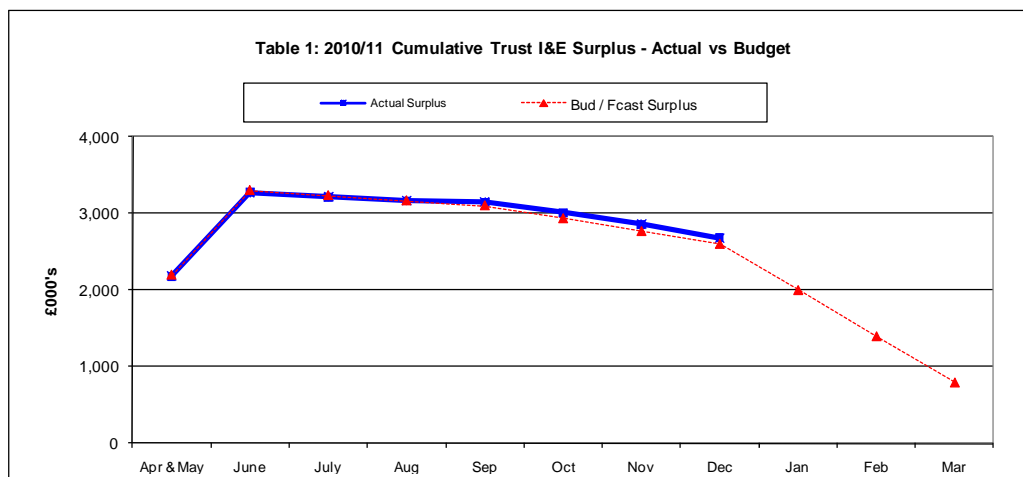
The Financial Risk Rating (FRR) for 2010/11 currently stands at 4 based on Quarter 2 results. Self assessment indicates that a rating of 3 will be achieved for Quarter 3. This is in line with the annual plan submitted to Monitor which forecast a rating of 4 in the first half of the year reducing to a 3 from Q3 onwards.

## 2. Summary of Financial Position

### 2.1 Year to Date Position

Table 1 shows the cumulative income and expenditure surplus achieved (excluding 'exceptional costs') compared to budget. This shows a £2.684m surplus year to date compared to the planned surplus of £2.600m resulting in a favourable variance of £84,000.

**Table 1 – I&E Surplus vs. Plan 2010/11**



The statement of comprehensive income appears in Appendix C. Table 2 below summarises the Trusts revenue transactions for the period. Further analysis of income is included in section 3.1 and detail regarding operating expenses is set out in section 3.3.

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

Note - may include rounding differences

### 3. Income and Expenditure

#### 3.1 Income Analysis

The income position shows a net £12.6m over-recovery compared to the year to date budget. As in previous months, this primarily relates to NHS Clinical Income from cost per case funding for high cost drugs and devices excluded from tariff. Over-performance against core healthcare income targets (section 3.2) has not been recognised in the ledger to date. Non-NHS Clinical Income, which includes private patients, the RCDM treatment contract and income from the Injury Costs Recovery Scheme (ICRS – formerly RTA income) remains slightly below plan year to date due primarily to lower than expected ICRS income. Other Income includes education, research, non-patient care services provided to other bodies (SLAs), trading and other ad-hoc income. This is currently £3.4m ahead of plan due largely to research and education income although this is largely matched by corresponding expenditure commitments (see other expenditure).

**Table 3 – Income against plan**

	<b>Budget Apr-Dec 2010 £m</b>	<b>Actual Apr-Dec 2010 £m</b>	<b>Variance £m</b>
Clinical - NHS	300.8	310.2	9.4
Clinical - Non NHS	9.3	9.2	(0.1)
Other	72.8	76.2	3.4
<b>TOTAL</b>	<b>382.9</b>	<b>395.6</b>	<b>12.7</b>

**Note - may include rounding differences**

#### 3.2 NHS Clinical Income / Activity

Table 4.1 over page compares the 2010/11 monthly admitted patient care activity against target levels. This shows that total Payment by Results spells were again slightly above target during the month and are now in line with plan for the year to date. Non-PbR FCE's are above target for the month, but remain slightly below plan for the year to date.

Outpatient activity in Table 4.2 shows that new attendances, follow-up attendances and outpatient procedures were all ahead of plan during the month and for the nine months to 31 December 2010.

Table 4.1 – Trust Inpatient Activity

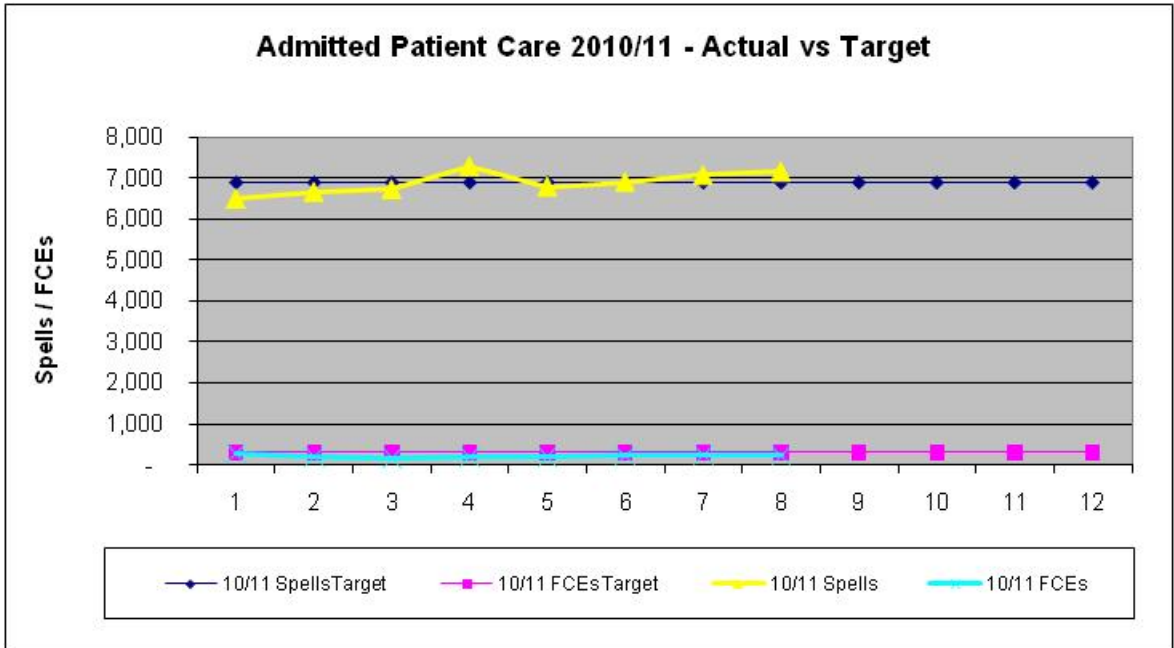


Table 4.2 – Trust Outpatient Activity

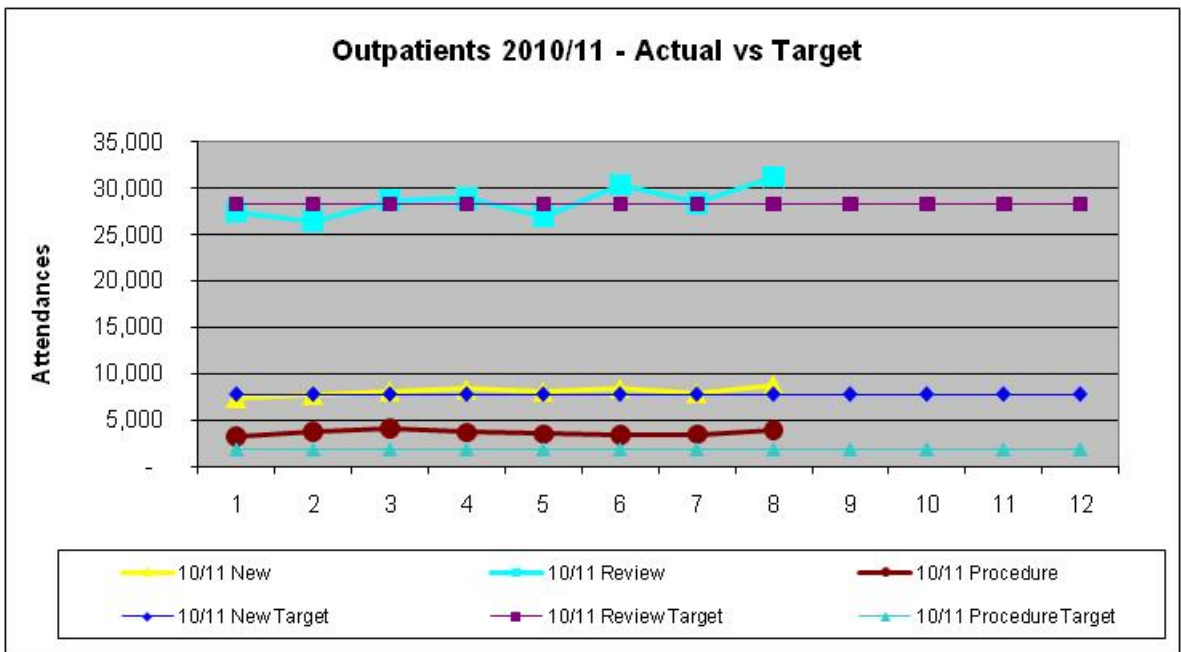


Table 5 below summarises the cumulative variance by Division and Point of Delivery (POD) against the healthcare income targets included within the 2010/11 Financial Plan. This shows that in overall terms core healthcare income is £4.4m above plan (excluding cost per case activity) for the eight months to 30 November 2010. However, there is some payment risk associated with this based on queries raised by commissioners and potential contract penalties should any performance targets be missed. Further detail of activity against plan by specialty and by Commissioner is included as Appendix G.

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

	YTD Variance against Divisional Baselines			
	Inpatient (£000)	Outpatient (£000)	Other (£000)	Total (£000)
Div 1	44	0	(721)	(676)
Div 2	(431)	89	250	(92)
Div 3	1,018	1,110	(178)	1,951
Div 4	575	1,236	(61)	1,750
Div 5	(579)	1,403	640	1,464
<b>Total</b>	<b>628</b>	<b>3,838</b>	<b>(70)</b>	<b>4,396</b>

Note - may include rounding differences

### 3.3 Expenditure Analysis

The subjective analysis of expenditure variances in Table 6 below shows an over spend of (£14.5m) against budgeted expenditure of £361.4m for the year to date. The main overspend relates to High Cost Low Volume drugs and clinical supplies which is balanced by increases in NHS Clinical Income (see 3.1 above). Nursing (£1.9m) and medical staff (£2.1m) are overspent year to date as is Other Non Pay expenditure (partly additional education costs which are matched by a corresponding income stream).

**Table 6 – Expenditure against plan**

	Budget Apr-Dec 2010 £m	Actual Apr-Dec 2010 £m	Variance £m
<b>PAY</b>			
Medical Staff	61.9	63.8	(1.9)
Nursing	69.7	71.9	(2.1)
Scientific & Technical	30.8	32.3	(1.6)
SMP / A&C	37.8	37.5	0.3
Other	8.4	8.9	(0.5)
<b>Total Pay</b>	<b>208.6</b>	<b>214.4</b>	<b>(5.8)</b>
<b>NON PAY</b>			
Drugs	36.6	42.5	(5.9)
Clinical Supplies & Services	49.8	51.4	(1.6)
Other	66.1	67.3	(1.2)
<b>Total Non Pay</b>	<b>152.5</b>	<b>161.2</b>	<b>(8.7)</b>
<b>GRAND TOTAL</b>	<b>361.1</b>	<b>375.6</b>	<b>(14.5)</b>

Note - may include rounding differences

### 3.4 Cost Improvement Programme

The Trust's 2010/11 Financial Plan includes a total efficiency savings target of £15.9m. Progress on delivering this target is shown in the table below. As at the end of December (Q3) there was slippage of (£775k), the majority of which relates to Division 2. The overall delivery of cost improvements have increased from 88.5% at Q2 to 93.1% at Q3. Areas of slippage continue to be reviewed and contingency

schemes developed and implemented. The current forecast projects that circa 95% of planned CIP will be achieved by 31 March 2011.

**Table 7 – Delivery of Cost Improvements**

<b>£000</b>	<b>Cumulative variance against plan</b>				
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Forecast</b>
Division 1	0	0	1		15
Division 2	(270)	(508)	(456)		(447)
Division 3	(109)	(107)	(171)		(243)
Division 4	(53)	(57)	(40)		(104)
Division 5	(30)	(81)	(108)		(84)
Corporate Budgets	(19)	(15)	(1)		0
Inflation Avoidance	0	0	0		0
Single Site	0	0	0		0
<b>Total</b>	<b>(481)</b>	<b>(768)</b>	<b>(775)</b>		<b>(863)</b>
<b>% Achieved</b>	<b>84.4</b>	<b>88.5</b>	<b>93.1</b>		<b>94.6</b>

#### 4. Divisional Analysis

Operational budgets (excluding healthcare income) incurred an adverse variance of (£895,000) in December, resulting in a year to date overspend of (£6,206,000). This is partially offset by releasing £1,403,000 from the general contingency reserve.

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

	<b>Income</b>	<b>Expenditure</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Division 1	70	(997)	<b>(927)</b>
Division 2	816	(2,010)	<b>(1,194)</b>
Division 3	27	(3,932)	<b>(3,905)</b>
Division 4	27	(474)	<b>(447)</b>
Division 5	55	(1,137)	<b>(1,082)</b>
COO	11,707	(10,358)	<b>1,349</b>
<b>Sub - Total</b>	<b>12,702</b>	<b>(18,908)</b>	<b>(6,206)</b>
Healthcare Income	0	0	<b>0</b>
<b>TOTAL</b>	<b>12,702</b>	<b>(18,908)</b>	<b>(6,206)</b>
<i>Memo General Contingency Reserve</i>			<i>1,403</i>

Note - may include rounding differences

The main budgetary pressures in December related to medical staffing, nursing costs and activity related non pay expenditure (clinical supplies, and consumables). The total medical pay overspend during December was (£388k), of which the main component was again junior medical locum usage (£284k), primarily driven by the requirement to cover vacant training posts. This impacted across a number of specialties including Cardiac Surgery (£71k), General Surgery (£22k) and Urology (£18k). The balance of the medical pay overspend relates to senior medical staff (£104k) reflecting a combination of waiting list payments in a number of specialties including

Trauma (£24k) and Cardiology (£15k) and a locum consultant in Dermatology (£31k).

The aggregate divisional nursing overspend was (£485k) during the month. This reflects a number of pressures including (£237k) related to staffing additional capacity on E2B and Ward 407, (£112k) in Critical Care due to a high level of agency and bank usage to cover 14 wte vacancies and 22 staff on maternity leave and (£50k) relating to nursing agency cover in the Emergency Department. Overall, higher than normal levels of nursing sickness were reported across a range of wards and departments in December resulting in premiums costs being paid for agency cover in many cases.

Non pay expenditure was also significantly higher than budget during the month. This was primarily activity related with the main pressures including costs associated with the additional beds (£23k), lab and pacing consumables in Cardiology (£102k), warehouse issues in Critical Care (£39k) and Theatre consumables (£181k), in particular Trauma implants. Further work is ongoing to investigate this expenditure including full stock takes in a number of areas.

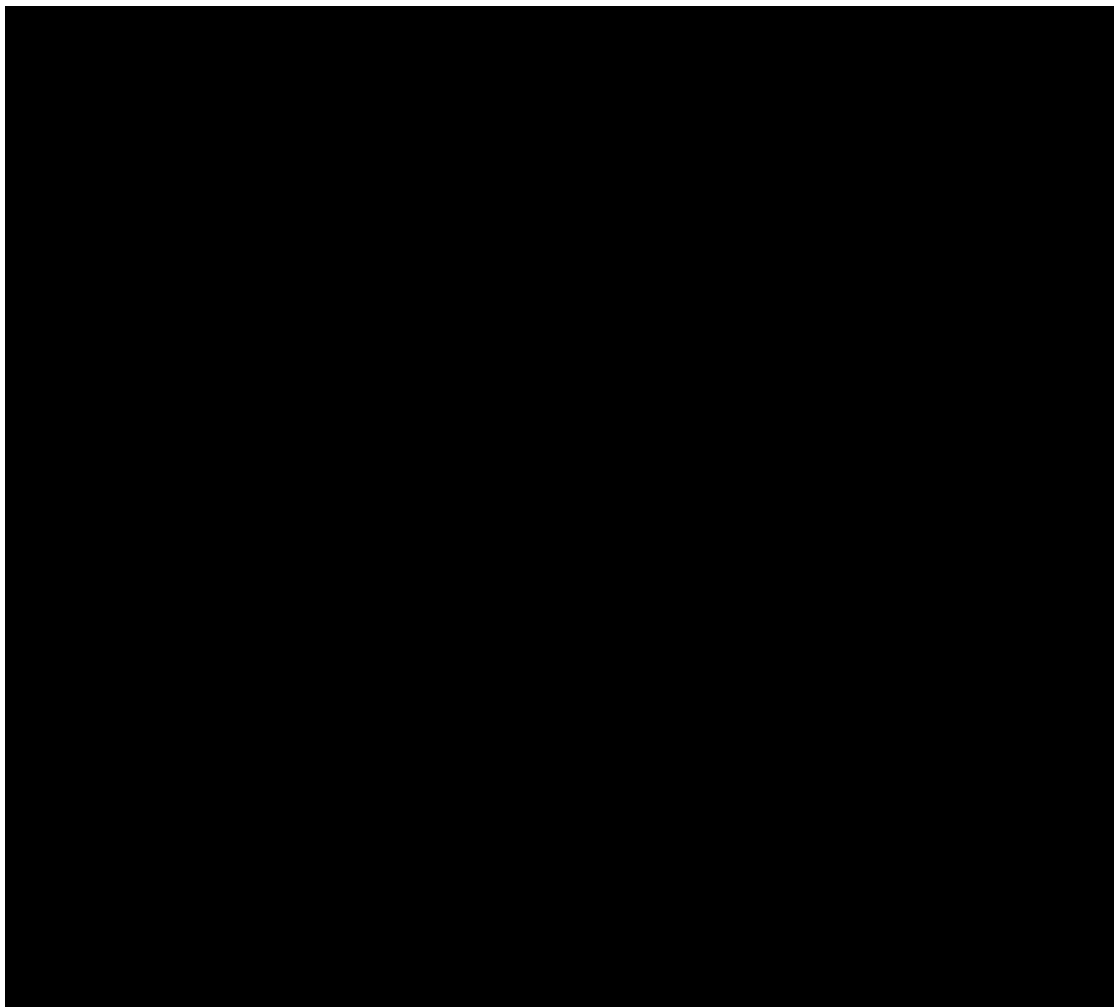
These pressures have been compounded by an under-recovery of income against the Injury Costs Recovery Scheme (£131k) during December. This is likely to be attributable to delays in processing claims and payments at the CRU and should be recovered over the remaining months of 2010/11. On a more positive note, transplant performance remains strong with a surplus of £120k in Livers due to adult transplants being six above plan in the month.

## **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 deduction of both short and long term liabilities. The lower part identifies the sources of finance or equity used to fund the net asset position. The Trust's Statement of Financial Position at 31 December 2010 is shown in Table 9 below.



**Table 9 – Statement of Financial Position**

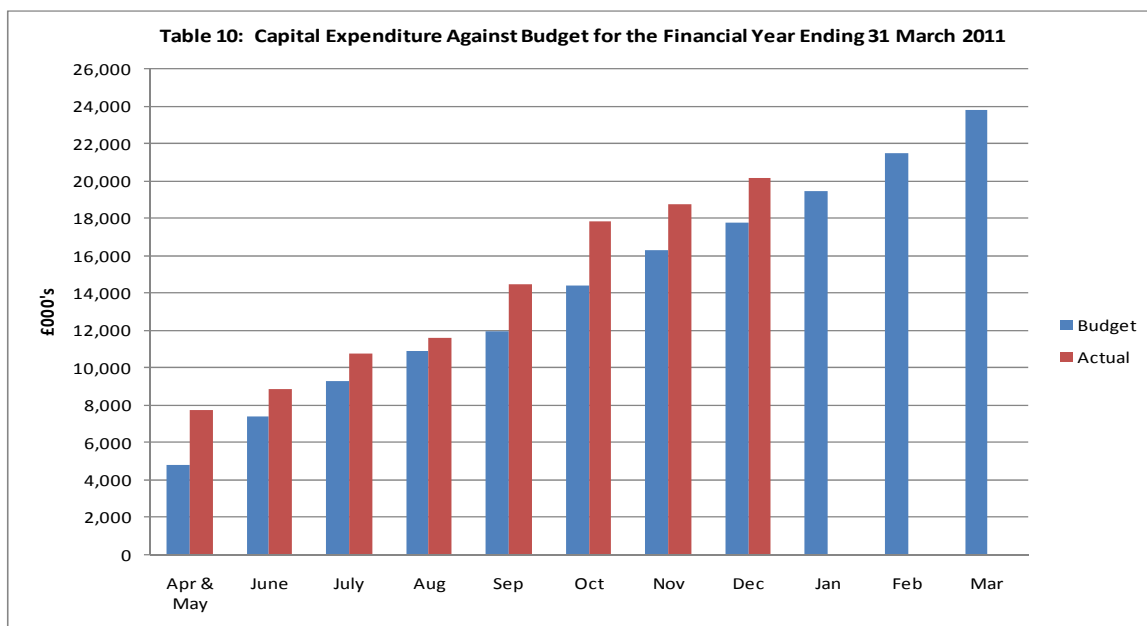


Note - may include rounding differences

**6. Capital Programme**

The 2010/11 approved Capital Programme totals £23.8m for the year, excluding expenditure on non-retained estate funded from revenue. Actual capital expenditure to 31 December 2010 was £20.2m, £2.4m ahead of the plan year to date as shown in Table 10 below. Expenditure in the month was £1.4m which includes £0.5m on equipment replacement, £0.2 for ICT (disaster recovery) and a £0.6m payment for ICT infrastructure in the new hospital. A summary of expenditure against major schemes is provided in Appendix D.

**Table 10 – Capital Expenditure against plan**

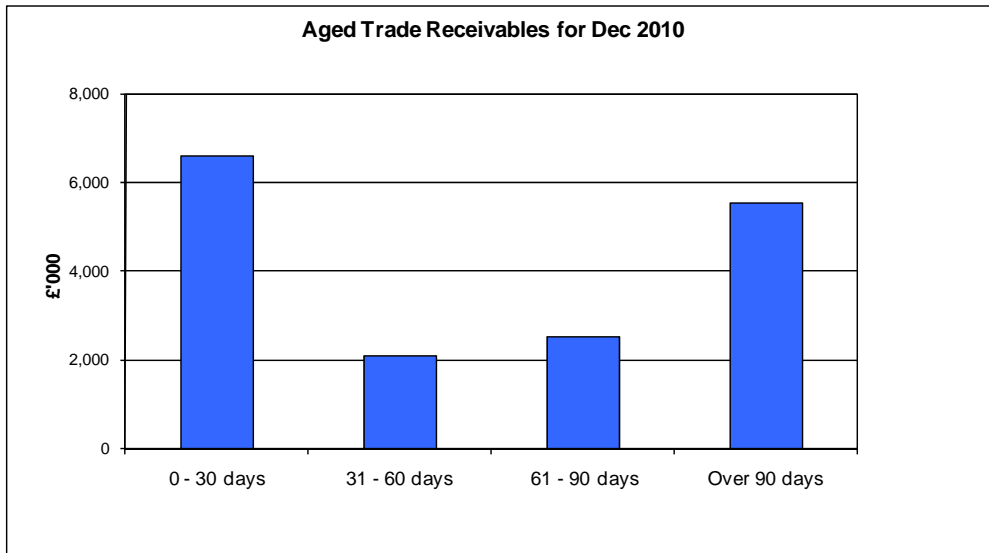


**7. Analysis of Current Assets (excluding Inventories and Cash)**

The value of current assets (excluding inventories and cash) due within one year was £42.2m as at the end of December 2010. Analysis of the balances set out in table 11 below shows that £16.7m relates to trade receivables (i.e. unpaid invoices raised by the Trust). Analysis of these outstanding invoices by age is included at Appendix E and is summarised in table 12 below. The over 90 day debt has reduced from £6.2m (November 2010) to £5.5m at the end of December 2010. The significant amounts outstanding include healthcare income to South Birmingham PCT (£2.0m) and other commissioners (£0.8m), delayed discharges to Birmingham City Council (£0.6m) and SLA charges to other providers (£1.3m) including HEFT (£0.4m) and BCH (£0.2m).

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

**Table 12 – Aged Debt Analysis of Trade Receivables due within One Year**



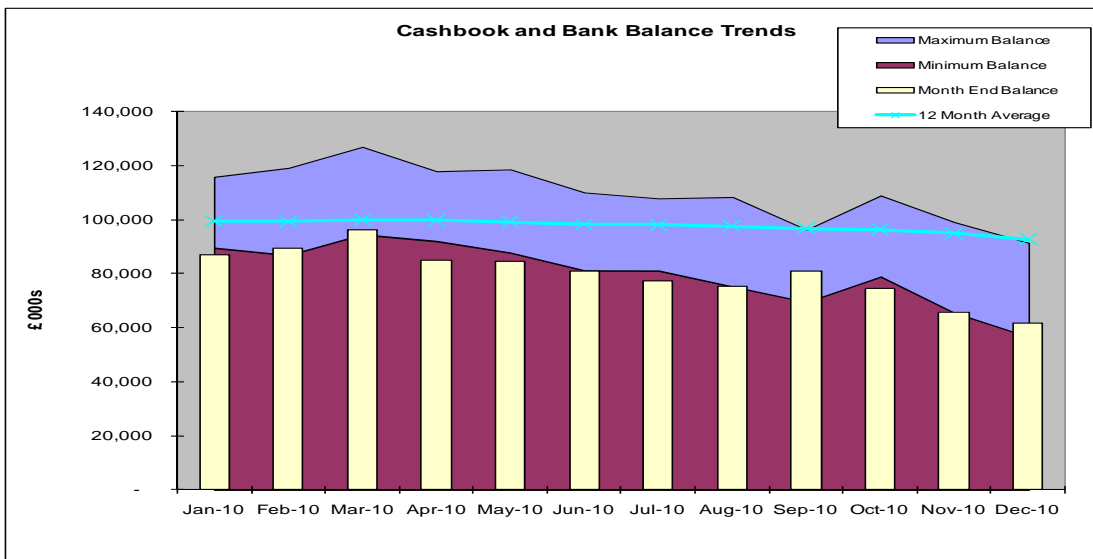
**8. Cash Flow**

A cash flow statement is included as Appendix F, this analyses the actual and forecast cash received and paid out. Table 13 below shows the cash balance at month end along with the minimum and maximum daily bank balance in the month and a twelve month rolling average daily bank balance.

The actual cashbook balance at 31 December 2010 is £61.5m which is £12.5m below the forecast position. This reflects a combination of factors including Trade and Other receivables (£7.1m), Inventories (£4.1m) due to increased pharmacy stock levels (£1.9m), cardiac devices bulk purchases and warehouse stock, and Capital Expenditure (£2.4m).

The twelve month rolling average bank balance shows the underlying cash position of the Trust reducing over the period as planned.

**Table 13 – Cash Flow**



## 9. Working Capital Facility

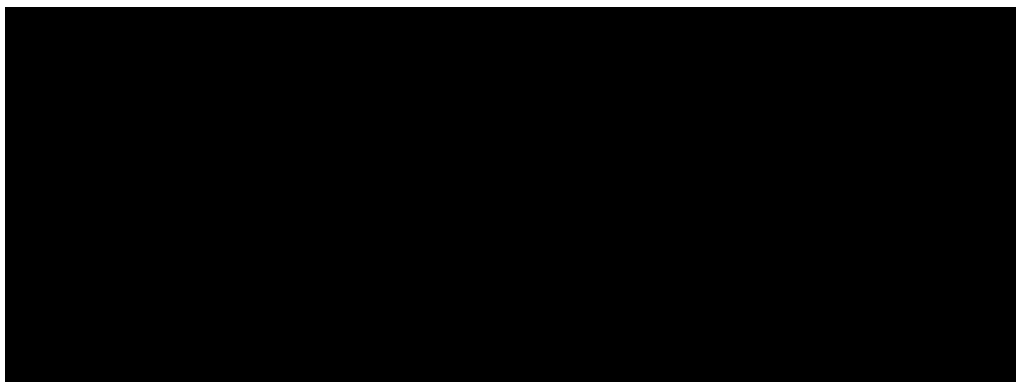
In line with the 2010/11 Annual Plan submitted to Monitor, the Trust retains an overdraft facility of £20.0m. This is needed to meet the requirements of the Monitor liquidity ratio, although the facility has not been used and is not expected to be used in the immediate future.

## 10. Monitor Ratios

### 10.1 Borrowing Ratios

The PFI new hospital is incorporated into the Trust's Prudential Borrowing Code as the agreement is considered to be a form of financing or loan. Therefore, the following Tier 2 Borrowing Ratios now apply:

Table 14 - Borrowing Ratios



The first three ratios compare how many times the Trust's income and expenditure surplus can cover the PDC dividend, the interest payable on the PFI loan and the debt service of the PFI loan. Debt Service is the sum of interest paid and the capital repayment of the loan. The PDC dividend ratio is not applicable because there is nil PDC dividend forecast for this financial year.

The final ratio compares how many times the Trust's total income covers the Debt Service on the PFI loan. The Trust's Prudential Borrowing Limit of £561m is actually the maximum value of the PFI loan reached at the opening of the final phase of the new hospital in October 2011.

### 10.2 Financial Risk Rating

The Financial Risk Rating (FRR) for 2010/11 currently stands at 4 based on Quarter 2 results. Self assessment indicates that a rating of 3 will be achieved for Quarter 3; this is in line with the annual plan submitted to Monitor which forecast a rating of 4 in the first half of the year reducing to a 3 from quarter 3 onwards. The rating is set between 1 (worst) and 5 (best), based on a series of financial metrics and informs the value of Trust's Prudential Borrowing Limit.

## 11. Monitor Finance Declaration

The 2010/11 Compliance Framework introduced an additional set of “Potential Financial Risk Indicators” to be used by Monitor to provide early warning of FT’s facing material financial risk. These indicators do not form part of the formal regulatory framework or Monitor’s consideration for using their statutory powers of intervention but may trigger informal discussions with Trusts or requests for additional financial information. As part of this change all FT’s are now required to submit quarterly a Finance Declaration (similar to the Governance Declaration) certifying that the Board anticipates that the Trust will maintain a financial risk rating of at least 3 for the next 12 months (Declaration 1). If this declaration cannot be made the Trust is required to sign Declaration 2 and provide additional information to support this.

A copy of the Finance Declaration is attached at Appendix H and the Board is requested to agree that Declaration 1 should be signed as current performance and future planning indicates that a FRR of at least 3 will be achieved over the next 12 months.

## 12. Conclusion

The Trust reported a £2.684m income and expenditure surplus for the nine months to 31 December 2010. This is slightly ahead of the planned surplus of £2.600m for the period. Income is ahead of plan due to additional high cost drug and device treatments however there is a corresponding increase in expenditure. This position excludes transition costs of £4.925m and the first and second phase of the new hospital impairment loss totalling £260.936m. Therefore including these items results in an overall deficit of (£263.177m) at 31 December 2010.

## 13. Recommendations

The Board of Directors are asked to:

- Receive the contents of this report
- Agree that Declaration 1 should be signed at Q3 stating that the Board expects the Trust to maintain a minimum FRR of 3 for the next 12 months.



Mike Sexton  
Director of Finance  
17 January 2011