

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
REPORT TO THE BOARD OF DIRECTORS
THURSDAY 27 MARCH 2014

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| Title: | FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 28 FEBRUARY 2014 |
| Responsible Director: | Mike Sexton, Chief Financial Officer |
| Contact: | Julian Miller, Director of Finance, ext. 53074 |

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| Purpose: | To update the Board on the Financial and Activity performance of the Trust |
| Confidentiality Level & Reason: | N/A |
| Annual Plan Ref: | 3.4 – Ensure the Trust maintains financial health |
| Key Issues Summary: | A surplus of £4.624m has been realised in the first eleven months of the 2013/14 Financial Year (April-February). This represents a favourable variance of £0.924m against the planned year to date surplus of £3.700m. A surplus of £4.900m is projected by year end prior to the impact of asset revaluations. |
| Recommendations: | The Board of Directors is asked to: <ul style="list-style-type: none"> • Receive the contents of this report. |

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| Signed:  | Date: 14 March 2014 |
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UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

REPORT TO THE BOARD OF DIRECTORS

THURSDAY 27 MARCH 2014

FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 28 FEBRUARY 2014

PRESENTED BY THE CHIEF FINANCIAL OFFICER

1. Introduction

This report covers the first eleven months of the 2013/14 financial year (1 April 2013 to 28 February 2014). 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 provided for an annual surplus of £3.900m. At the end of month 11 an actual surplus of £4.624m has been delivered which represents a favourable variance of £0.924m against the planned year to date surplus of £3.700m. The in month surplus was £0.122m against a plan of £0.100m, a positive variance of £0.022m. A surplus of £4.900m is projected by year end i.e. £1.000m ahead of plan.

The projected surplus of £4.900m excludes the impact of asset revaluations for which the Trust has recently final notifications from the District Valuation office. Once revaluation gains are included the Trust expects to report an overall surplus of around £28.900m, of which £24.000m is an accounting adjustment reversing previous impairment losses (see section 2.2). This is a non cash adjustment and will be excluded by Monitor when they assess the Trust's financial performance.

The reported position includes a year to date overspend of (£6.492m) across operational budgets. This is largely attributable to activity related cost pressures, under-recovery of private patient income and slippage against planned cost improvement programmes. In aggregate, divisional budgets broke-even in February after recognition of £0.475m of additional healthcare activity income in the month.

Monitor has now published the Trusts Continuity of Services Risk Rating (COSRR) rating for Quarter 3 (October-December 2013). In line with expectations, and due to the PFI scheme, the Trust has been rated as a 2* which is defined as "a material level of financial risk but stable". Self assessment of the financial position as at the end of February indicates the Trust retains a COSRR of 2 (or 2* at Monitor's discretion).

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

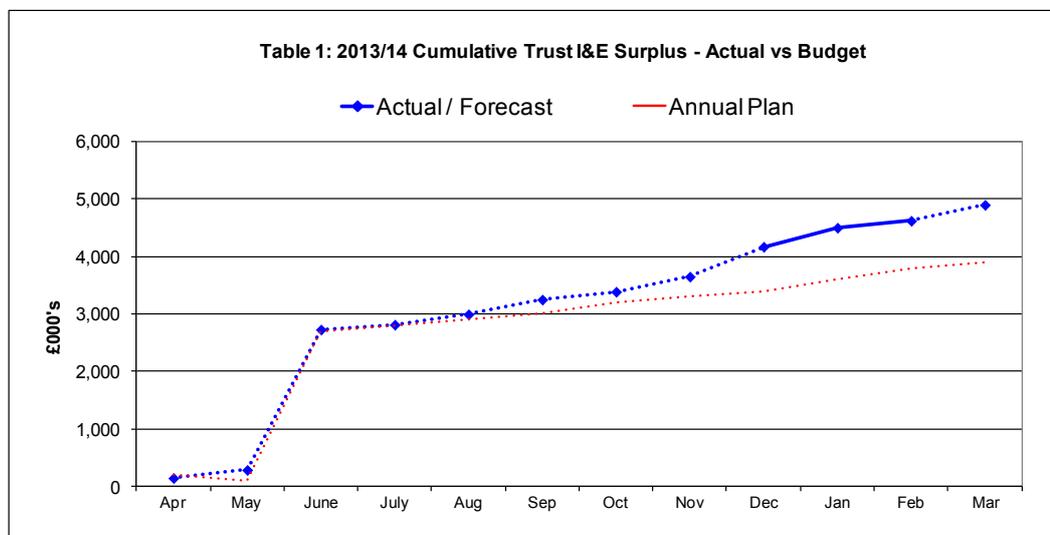


Table 2 below summarises the Trust's income & expenditure position as at the end of February 2014. A detailed analysis of income is included in section 2.3 and the operating expenditure variances are set out in section 2.4 below.

Table 2 – YTD Income and Expenditure Budget vs. Actual

| | Budget April - Feb £m | Actual April - Feb £m | Variance £m |
|-----------------------------------|------------------------------------|------------------------------------|-----------------------|
| Revenue | 592.4 | 625.4 | 33.0 |
| Operating Expenses | (552.7) | (585.4) | (32.7) |
| EBITDA | 39.7 | 40.0 | 0.3 |
| Depreciation | (18.3) | (18.1) | 0.2 |
| Donated Asset Revenue | 2.3 | 2.4 | 0.1 |
| Interest Receivable | 0.7 | 0.5 | (0.2) |
| Interest Payable | (16.5) | (16.0) | 0.5 |
| Contingent Rental | (4.2) | (4.2) | 0.0 |
| Corporation Tax | 0.0 | 0.0 | 0.0 |
| PDC Dividend | 0.0 | 0.0 | 0.0 |
| Surplus before impairments | 3.7 | 4.6 | 0.9 |
| Impairments on Property | 0.0 | 0.0 | 0.0 |
| Total Surplus / (Deficit) | 3.7 | 4.6 | 0.9 |

Note - may include rounding differences

2.2 Forecast Outturn

As at the end of month 11, the Trust continues to forecast an annual surplus of £4.9m for the 2013/14 financial year, prior to the impact of asset revaluations.

The Trust has now received the final asset valuations for 2013/14. This will result in a £30.3m increase in the carrying value of the Trust's buildings:

- QEHB +£18.8m - reflecting general increases in the costs of re-providing specialised buildings
- East Block +£8.7m – as a consequence of adding this back to the balance sheet following the works (this was previously impaired).
- Other buildings +£2.8m – higher valuations across the retained estate reflecting increases in building indices.

The revaluation adjustments are recognised as gains in the Trust's Statement of Comprehensive Income (SOCl) up to the value of previous impairments charged to the SoCl on a building by building basis. This means that all of the QEHB increase and £5.2m relating to East Block will be reflected in the SOCl. The balance of the East Block adjustment and the movement on the other buildings will be taken straight to the revaluation reserve and therefore does not affect income and expenditure.

On this basis the Trust expects to report an overall surplus of around £28.9m for 2013/14 of which £24.0m will be attributable to impairment gains. The impairment gain is an accounting adjustment only and does not involve a cash transaction for the Trust. Impairments are therefore excluded from Monitor's assessment of the Trust's financial performance.

2.3 Income Analysis

Total operating income is £33.0m above plan for the first eleven months of the financial year as shown in table 3 below.

Table 3 – Income against plan

| | Budget April - Feb £m | Actual April - Feb £m | Variance £m |
|--------------------|--------------------------------------|--------------------------------------|------------------------|
| Clinical - NHS | 472.4 | 502.1 | 29.7 |
| Clinical - Non NHS | 18.1 | 16.9 | (1.2) |
| Other | 101.9 | 106.4 | 4.5 |
| TOTAL | 592.4 | 625.4 | 33.0 |

Note - may include rounding differences

Total NHS Clinical Revenue is £29.7m above plan year to date. This includes £11.8m 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 £6.1m relates to a combination of healthcare over-performance (see 2.4 below) and prior period gains. The £11.9m balance is attributable to other contract variations and business case approvals in year. Non NHS clinical revenues are (£1.2m) below plan due largely to private patient income

underperformance. Other income has increased to £4.5m above plan for the 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 for the first ten months of the financial year (April-January). January's inpatient activity elective activity was above plan for both elective and emergencies. Year to date, all categories of inpatient activity are ahead of plan.

Table 4.1 – Trust Inpatient Activity

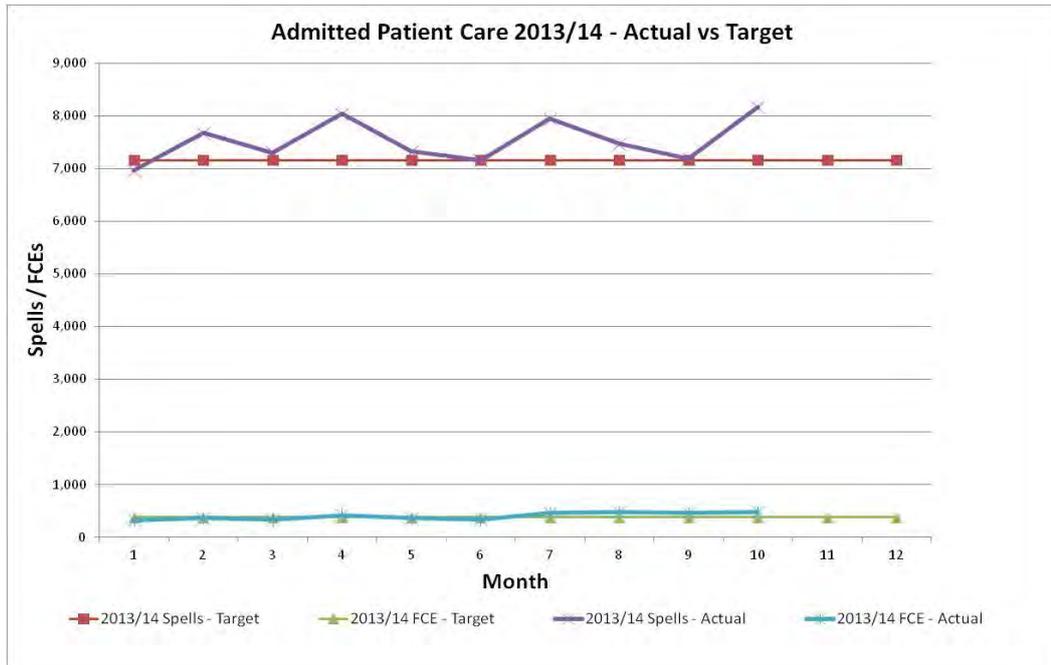


Table 4.2 below shows outpatient activity against target. Actual outpatient activity in January was strong compared to plan and compared to previous years. Both the in month and the year to date (April-January) outpatient activity continue to remain above plan across all categories (new, follow up and outpatient procedures).

Table 4.2 – Trust Outpatient Activity

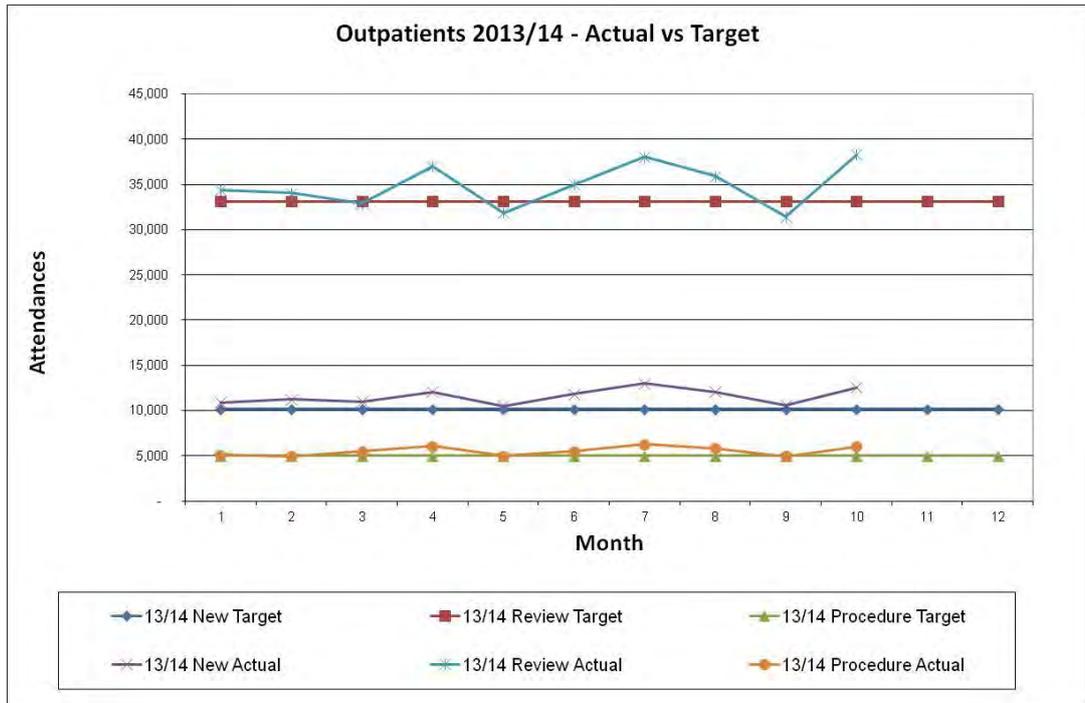


Table 5 below shows the year to date income variances by Division and by Point of Delivery against 2013/14 healthcare income targets. Healthcare income excluding cost per case activity was £5.4m above plan for the first ten months of the financial year (April-January).

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 | (122) | (2,063) | 1,551 | (479) | (1,114) |
| Outpatient | 82 | 1,934 | 1,440 | 731 | 4,187 |
| Other | 1,399 | (633) | 251 | 1,281 | 2,299 |
| Total | 1,359 | (762) | 3,242 | 1,533 | 5,372 |

Note - may include rounding differences

2.5 Expenditure Analysis

The Trust wide subjective expenditure analysis in Table 6 shows actual expenditure being (£32.7m) above the budgeted expenditure of £552.7m for the year to date.

Table 6 – Expenditure against plan

| | Budget April - Feb £m | Actual April - Feb £m | Variance £m |
|------------------------------|--|--|----------------------------------|
| PAY | | | |
| Medical Staff | 97.1 | 103.2 | (6.1) |
| Nursing | 109.8 | 116.0 | (6.2) |
| Scientific & Technical | 39.0 | 39.8 | (0.8) |
| SMP / A&C | 49.6 | 48.9 | 0.7 |
| Other / Pay Reserves | 6.8 | 13.3 | (6.5) |
| Total Pay | 302.3 | 321.2 | (18.9) |
| NON PAY | | | |
| Drugs | 74.4 | 78.3 | (3.9) |
| Clinical Supplies & Services | 76.3 | 80.0 | (3.7) |
| Other / Non-Pay Reserves | 99.7 | 105.9 | (6.2) |
| Total Non Pay | 250.4 | 264.2 | (13.8) |
| GRAND TOTAL | 552.7 | 585.4 | (32.7) |

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 Quarter 3, 87% of the year to date target has been achieved, resulting in total slippage of (£1.645m). Total CIP delivery has improved each quarter, up from 81% at Q1 and 84% at Q2 and current forecasts indicating overall delivery of around 90% by 31 March 2014.

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

| | Cumulative variance against plan (£000) | | | | Y/E Forecast |
|-----------------|--|----------------|----------------|-----------|-------------------------|
| | Q1 | Q2 | Q3 | Q4 | |
| 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) |
| Total | (810) | (1,340) | (1,645) | | (1,684) |
| % Achieved | 81% | 84% | 87% | | 90% |

4. Divisional Analysis

A net adverse variance of (£6.492m) has been recorded against operational budgets for the first eleven months of 2013/14. This has been offset by a combination of the Trust's Specific and General Contingency Reserves. Operational budgets broke even in February after recognition of a further £0.475m of healthcare income over-performance.

Table 8 – Analysis of year to date variances by Division

| | Income £'000 | Expenditure £'000 | Total £'000 |
|--------------------|-----------------|----------------------|-----------------|
| Division A | 1,323 | (5,947) | (4,624) |
| Division B | 2,543 | (6,792) | (4,249) |
| Division C | 167 | (2,960) | (2,793) |
| Division D | (705) | (2,438) | (3,143) |
| Division E | 16,828 | (14,611) | 2,217 |
| Sub - Total | 20,156 | (32,748) | (12,592) |
| Healthcare Income | 6,100 | 0 | 6,100 |
| TOTAL | 26,256 | (32,748) | (6,492) |

| | | |
|---|--|-------|
| <i>Memo General Contingency Reserve</i> | | 1,715 |
|---|--|-------|

Note - may include rounding differences

Excluding the additional healthcare income, the operational divisional over spend in February was (£505,000). The key expenditure pressures in month included overspends across medical staffing (£405,000) including (£300,000) attributable to senior medical staff. This reflects locum cover for vacancies, sickness and annual leave as well as unfunded consultant posts and payments for additional sessions and waiting list initiatives. Key senior medical staff overspends in February included Anaesthetics (£75,000), Imaging (£45,000), Neurosurgery (£82,000), Ophthalmology (£36,000) and General Surgery (£14,000). Junior and middle grade doctor expenditure was (£105,000) above budget in February, primarily relating to ENT (£42,000), Anaesthetics (£17,000) A&E (£25,000), and General Surgery (£18,000)

Nursing pay (including Theatre ODPs) was (£380,000) above budget in February. Specific departmental pressures included CDU (£44,000), Critical Care (£52,000), Theatres (£24,000) and A&E (£22,000). The balance of the nursing overspend relates to QEHB ward areas, including the 5th floor (£121,000), with key variances driven by the additional nursing input provided to specific patients ('specials'). The main non-pay overspends in February included the continued usage of private sector capacity (Cardiac, Trauma & Neurosurgery) and CIP slippage.

Variable income improved in February with £279,000 of additional cardiac VAD income and SLA over-performance of £91,000 across Imaging and Medical Physics. Private patient income also improved in February although it remains below target Trust wide.

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 with the lower part identifying sources of finance. Table 9 summarises the Trust's Statement of Financial Position at 28 February 2014.

Table 9 – Statement of Financial Position

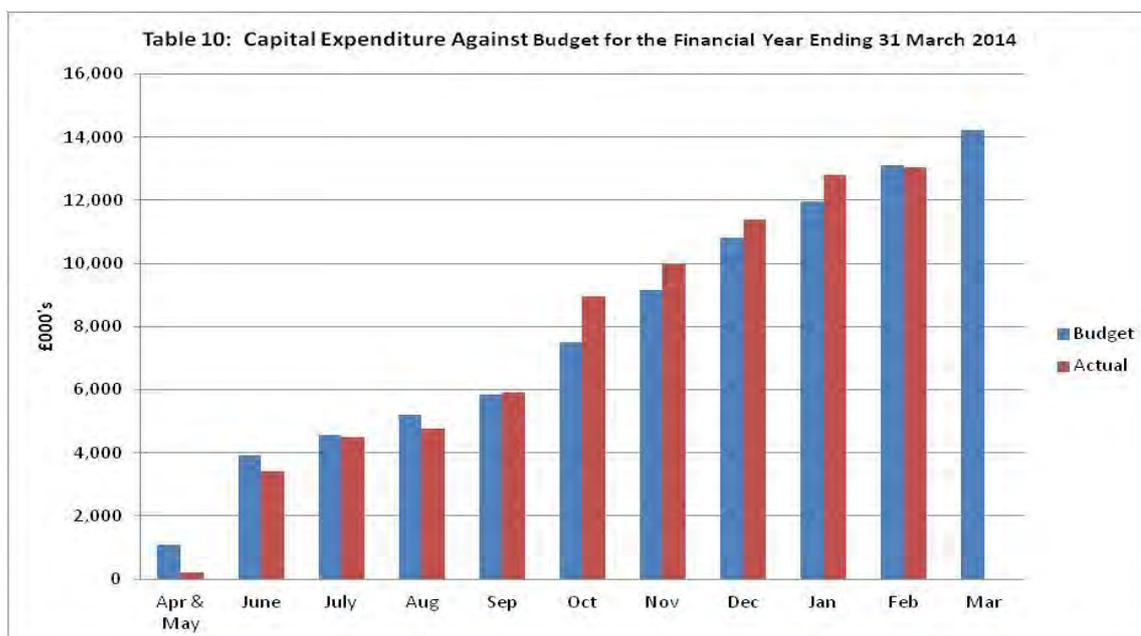
| | | Audited Mar 2013 £m | Actual Feb 2014 £m | YTD Plan Feb 2014 £m | Annual Plan Mar 2014 £m |
|---------------------------------|--------------------------------------|---------------------------|--------------------------|----------------------------|-------------------------------|
| Non Current Assets: | | | | | |
| | Property, Plant and Equipment | 491.8 | 488.4 | 488.7 | 488.0 |
| | Intangible Assets | 0.5 | 0.4 | 0.5 | 0.5 |
| | Trade and Other Receivables | 2.8 | 3.1 | 2.8 | 0.0 |
| | Other Assets | 0.0 | 0.0 | 0.0 | 2.8 |
| | Total Non Current Assets | 495.1 | 491.9 | 492.0 | 491.3 |
| Current Assets: | | | | | |
| | Inventories | 13.4 | 16.2 | 13.1 | 13.0 |
| | Trade and Other Receivables | 32.8 | 37.5 | 29.7 | 31.5 |
| | Other Financial Assets | 0.3 | 4.4 | 0.2 | 0.2 |
| | Other Current Assets | 5.3 | 9.1 | 8.0 | 7.7 |
| | Cash | 76.2 | 44.4 | 67.8 | 65.5 |
| | Total Current Assets | 128.0 | 111.6 | 118.8 | 117.9 |
| Current Liabilities: | | | | | |
| | Trade and Other Payables | 91.5 | 82.7 | 91.1 | 91.1 |
| | Borrowings | 11.8 | 11.8 | 11.9 | 11.9 |
| | Provisions | 1.8 | 1.6 | 1.8 | 1.8 |
| | Tax Payable | 7.1 | 7.3 | 7.0 | 7.1 |
| | Other Liabilities | 21.0 | 13.9 | 13.0 | 12.0 |
| | Total Current Liabilities | 133.2 | 117.3 | 124.8 | 123.9 |
| Non Current Liabilities: | | | | | |
| | Borrowings | 534.4 | 523.5 | 523.5 | 522.2 |
| | Provisions | 1.7 | 1.7 | 1.7 | 1.7 |
| | Other Liabilities | 21.6 | 22.6 | 22.9 | 23.4 |
| | Total Non Current Liabilities | 557.7 | 547.8 | 548.1 | 547.3 |
| TOTAL ASSETS EMPLOYED | | (67.8) | (61.6) | (62.1) | (62.0) |
| Financed by: | | | | | |
| | Public Dividend Capital | 171.0 | 171.0 | 171.0 | 171.0 |
| | Income & Expenditure Reserve | (345.5) | (340.9) | (341.8) | (341.6) |
| | Donated Asset Reserve | 0.0 | 0.0 | 0.0 | 0.0 |
| | Revaluation Reserve | 106.7 | 106.7 | 106.7 | 106.7 |
| | Merger Reserve | 0.0 | 1.6 | 1.9 | 1.9 |
| TOTAL TAXPAYERS EQUITY | | (67.8) | (61.6) | (62.2) | (62.0) |

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 eleven months of 2013/14 was £13.0m, which is in line with the year to date plan. Expenditure in the month was £0.2m, this included £0.1m for estates projects (ITM and Radiopharmacy) and £0.1m for medical equipment.

Table 10 – Capital Expenditure against plan



7. Current Assets

The Trust's other current assets excluding cash totalled £51.0m at 28 February 2014, as shown below:

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

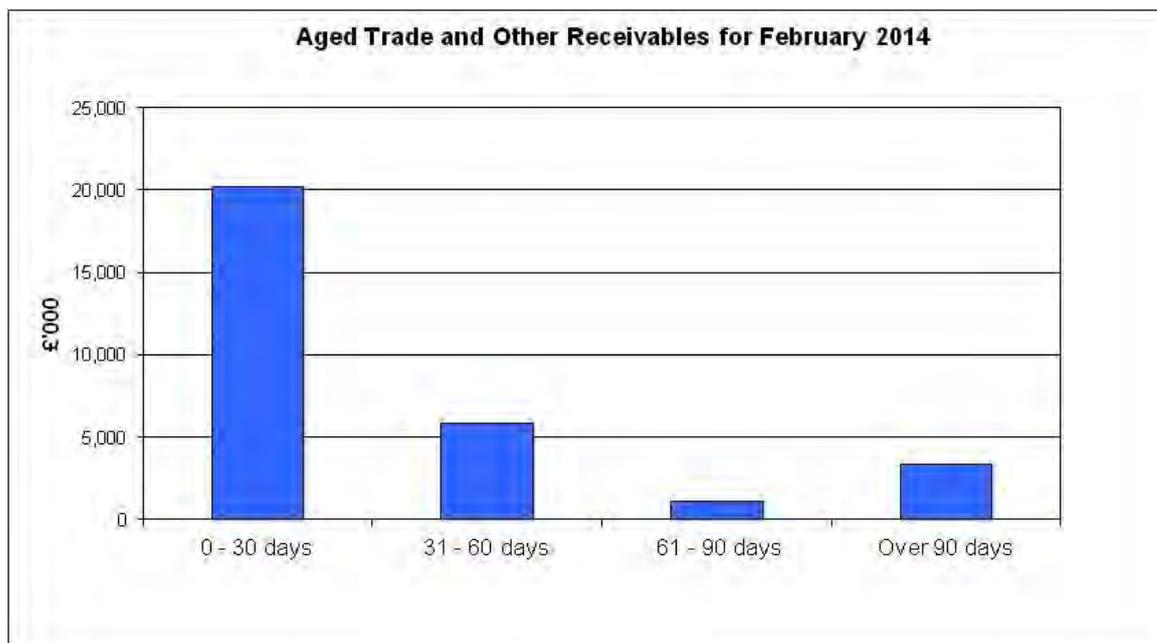
| | Actual Feb 2014 £m | Forecast Feb 2014 £m |
|------------------------------------|--------------------------|----------------------------|
| Trade Receivables | 31.7 | 26.4 |
| Bad Debt Provision | -1.5 | -1.8 |
| Other Receivables | 7.3 | 5.1 |
| Trade and Other Receivables | 37.5 | 29.7 |
| Accrued Income | 4.4 | 0.2 |
| Other Financial Assets | 4.4 | 0.2 |
| Prepayments | 9.1 | 8.0 |
| Deferred Asset | 0.0 | 0.0 |
| Other Current Assets | 9.1 | 8.0 |
| TOTAL | 51.0 | 37.9 |

The total value of the Trust's inventories (stock) was £16.2m at the end of February. This is £3.1m above plan, due primarily to increases in pharmacy stock and cardiac bulk purchases earlier in the year. Inventory levels are now reducing month on month as bulk purchase items are used.

Analysis of the age profile of Trade Receivables (unpaid invoices issued by the Trust) is summarised in Table 12 below. As at 28 February, the over 90 day debt totalled £3.4m. Within this, NHS commissioning organisations accounted for £1.1m of this balance and a further £0.7m relates to Local Authority commissioned services with payments due from Solihull, Sandwell, Dudley and Walsall local authorities for Sexual Health Services. The balance of the unpaid

debt (£1.6m) largely relates to service level agreements with other NHS providers with the main balances including the Royal Orthopaedic Hospital (£0.5m), Birmingham Women's Hospital (£0.4m) and University Hospitals Coventry & Warwickshire (£0.2m).

Table 12 – Aged Debt Analysis



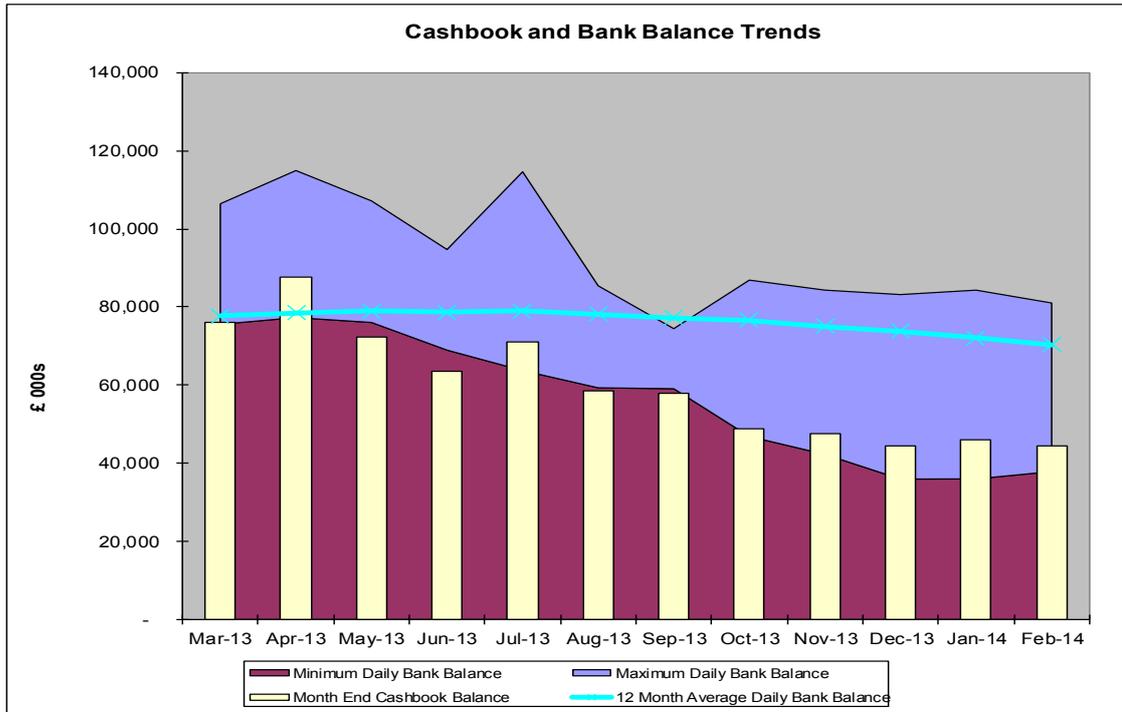
8. Cash Flow

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 28 February 2014 was £44.4m which was (£23.4m) below plan. This is largely attributable to movements in working capital balances including:

- £3.1m due to increased inventory (stock).
- £7.8m due to trade and other receivables being higher than plan, this includes several recent high value invoices for healthcare over-performance, some of which have been settled in the early weeks of March.
- £4.2m relating to accrued income (other financial assets) being higher than plan, this will be resolved in March as final 2013/14 invoices are raised and
- £8.4m relating to trade and other payables (invoices due for payment by the Trust) remaining below plan.

Finance teams continue to chase outstanding payments owed to the Trust and it is anticipated that the cash balance will improve further during March as final payment runs for 2013/14 are completed.

Table 13 – Cash Flow



9. Conclusion

An income and expenditure surplus of £4.624m has been reported for the eleven months of 2013/14 (April-February). This represents a favourable variance of £0.924m against the planned surplus of £3.700m year to date.

The Trust remains on track to exceed its planned year end surplus of £3.900m and a revised figure of around £4.900m is now forecast. The focus is now on planning for 2014/15 to ensure that cost pressures are managed and agreed cost improvements are delivered in order to make a strong start to the new financial year.

10. Recommendations

The Board of Directors is asked to:

- Receive the contents of this report.

M Sexton

Mike Sexton
 Chief Financial Officer
 14 March 2014