

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
REPORT TO THE BOARD OF DIRECTORS
THURSDAY 26 JANUARY 2017

Title:	FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 31 DECEMBER 2016
Responsible Director:	Mike Sexton, Chief Financial Officer
Contact:	Steve Clarke, Acting Deputy Director of Finance, ext. 17374

Purpose:	To update the Board of Directors 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:	<p>In December, the Trust recorded a surplus of £0.035m compared to the planned breakeven position for the month. The year to date financial position at the end of December is a surplus of £3.492m; this is £0.192m above the planned £3.300m surplus.</p> <p>This position includes a (£19.115m) overspend across Operational Divisions which is offset by underspends within corporate functions, Trust subsidiaries and by the use of Trust reserves.</p> <p>To ensure the Trust continues to achieve the planned control total agreed with NHS Improvement, further work is required to maintain the operational monthly run rate, delivery CIP savings projects and continue to reduce agency staff expenditure.</p>
Recommendations:	<p>The Board of Directors is requested to;</p> <ul style="list-style-type: none"> • Receive the contents of this report.

Signed: Mike Sexton	Date: 16 January 2017
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UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

BOARD OF DIRECTORS THURSDAY 26 JANUARY 2017

FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 31 DECEMBER 2016

PRESENTED BY THE CHIEF FINANCIAL OFFICER

1. Introduction

This report covers the first nine months of the 2016/17 financial year (1 April to 31 December). The report summarises the Trust's year to date financial performance and includes information on healthcare activity, expenditure variances and CIP delivery.

The 2016/17 financial plan agreed with NHS Improvement budgets for an annual surplus (control total) of £4.600m. To achieve this control total, the Trust was allocated up to £16.700m of the Sustainability and Transformation Funding (STF). The release of this income is subject to the Trusts in year financial performance and delivery against agreed activity trajectories.

As at the end of Month 9, the Trust is reporting a surplus of £3.492m, this is £0.192m above the £3.300m planned surplus. This financial position includes a (£19.155m) year to date overspend across Operational Divisions. The main pressures include;

- Activity and capacity cost pressures including unfunded capacity, waiting list initiative payments and additional sessions.
- Workforce issues: in particular, high levels of locum and agency medical staff expenditure.
- Cost improvement programme (CIP) under achievement: 2016/17 CIP delivery to date is currently at 83% plus additional pressures against historic CIP targets.

The operational cost pressures have been offset by underspends within corporate functions, Trust subsidiaries and by the use of Trust reserves. Continued improvement to the monthly run rate needs to be delivered to ensure the Trust achieves the agreed financial control total required to secure STF income.

From the 1st October 2016, NHS Improvement implemented a new Single Operating Framework (SOF) for assessing Trust performance. Based on the Trusts financial performance to date, the Trust expects to achieve a Use of Resources score of 3 (see section 9 below).

2. Income & Expenditure Position

2.1 Year to Date Summary

Table 1 below shows the monthly actual income and expenditure performance compared to plan;

Table 1 – Underlying I&E: Actual vs Plan

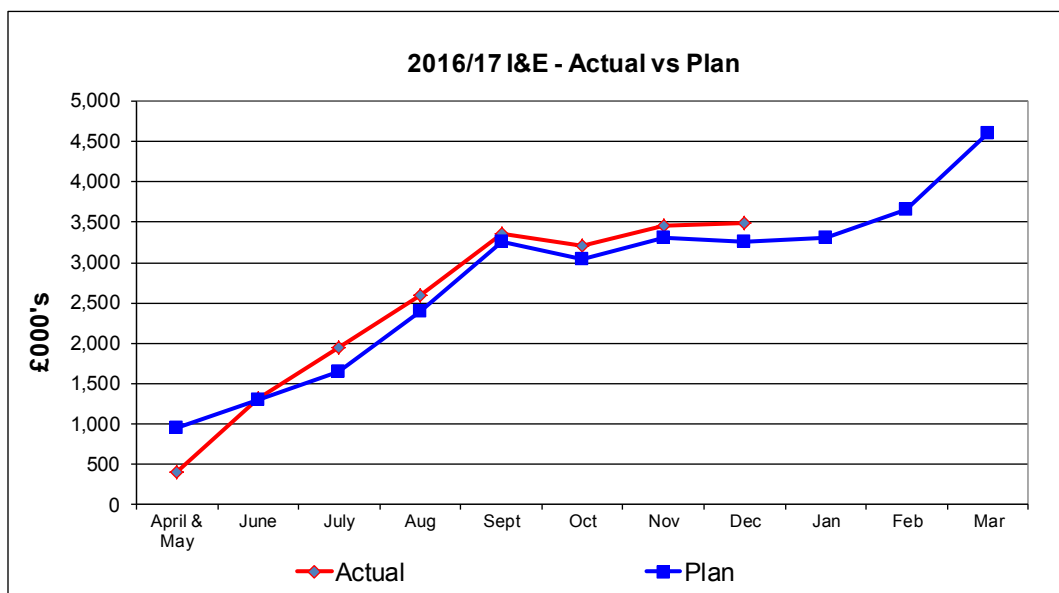


Table 2 below summarises the Trust's income & expenditure position at the end of December. Analysis of income is included in section 2.2 and operating expenditure variances are detailed in section 2.4 below.

Table 2 – YTD Income and Expenditure Budget vs. Actual

	Budget Dec £m	Actual Dec £m	Variance £m
Operating Revenue	585.3	600.5	15.2
Operating Expenses	(550.7)	(565.9)	(15.2)
EBITDA	34.6	34.6	(0.0)
Depreciation	(15.9)	(15.6)	0.3
Interest Receivable	0.3	0.3	0.0
Interest Payable	(12.0)	(12.2)	(0.2)
Contingent Rental	(4.4)	(4.4)	0.0
Corporation Tax	0.0	0.2	0.2
PDC Dividend	0.0	0.0	0.0
Normalised Surplus / (Deficit)	2.6	2.9	0.3
Donated Asset Revenue	0.3	0.5	0.2
Profit / (Loss) on Asset Disposal	0.4	0.1	(0.3)
Retained (Deficit) / Surplus	3.3	3.5	0.2

Note - may include rounding differences

2.2 Income Analysis

Total operating revenue is £15.2m above plan at the end of Month 9, as shown in table 3 below.

Table 3 – Income against Plan

	Budget Dec £m	Actual Dec £m	Variance £m
Clinical - NHS	485.0	494.5	9.5
Clinical - Non NHS	19.0	19.3	0.3
Other	81.3	86.7	5.4
TOTAL	585.3	600.5	15.2

Note - may include rounding differences

NHS clinical revenues are £9.5m above plan; this includes additional income for high cost drugs and devices excluded from tariff and specific cost per case treatments. Non NHS clinical revenues are £0.3m above plan which includes overseas and private patient invoices. Other income is £5.4m above plan due to additional education, training & service level agreement income.

2.3 NHS Clinical Income / Activity

Table 4.1 below compares monthly admitted patient care (APC) spells against target for the first eight months of 2016/17. Overall inpatient activity was slightly above plan in month 8 (November), with both elective activity and non-elective activity higher than planned.

Table 4.1 – Trust Inpatient Activity

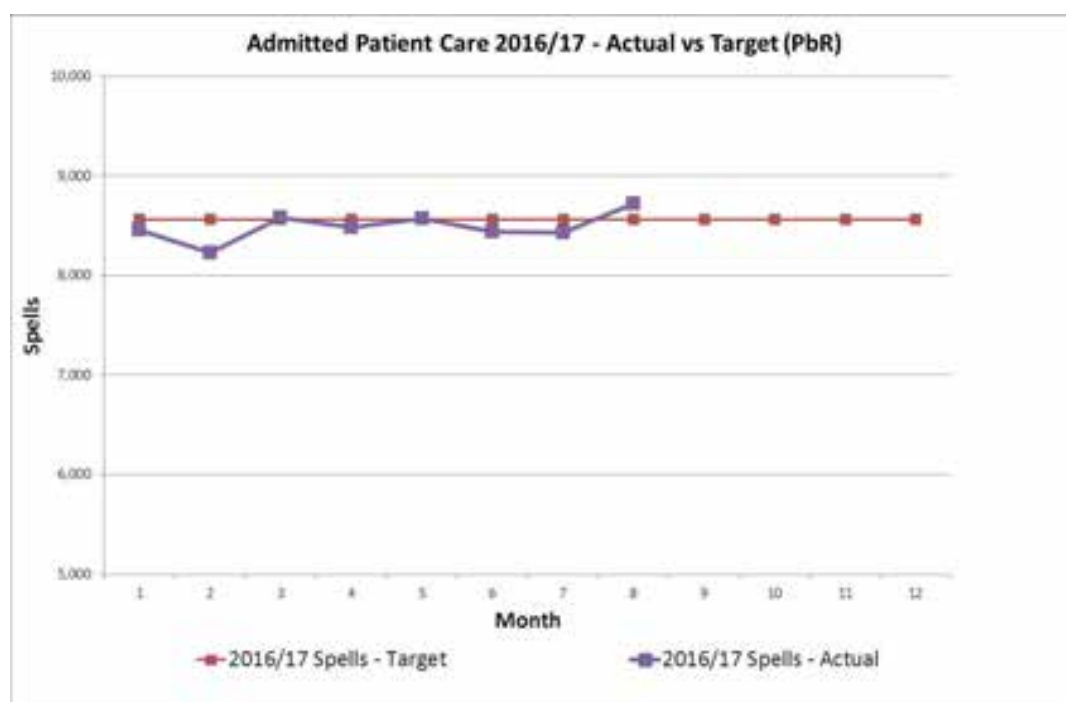


Table 4.2 shows the combined outpatient activity is above plan for the first eight months of 2016/17 (April – November) across all attendance type categories.

Table 4.2 – Trust Outpatient Activity

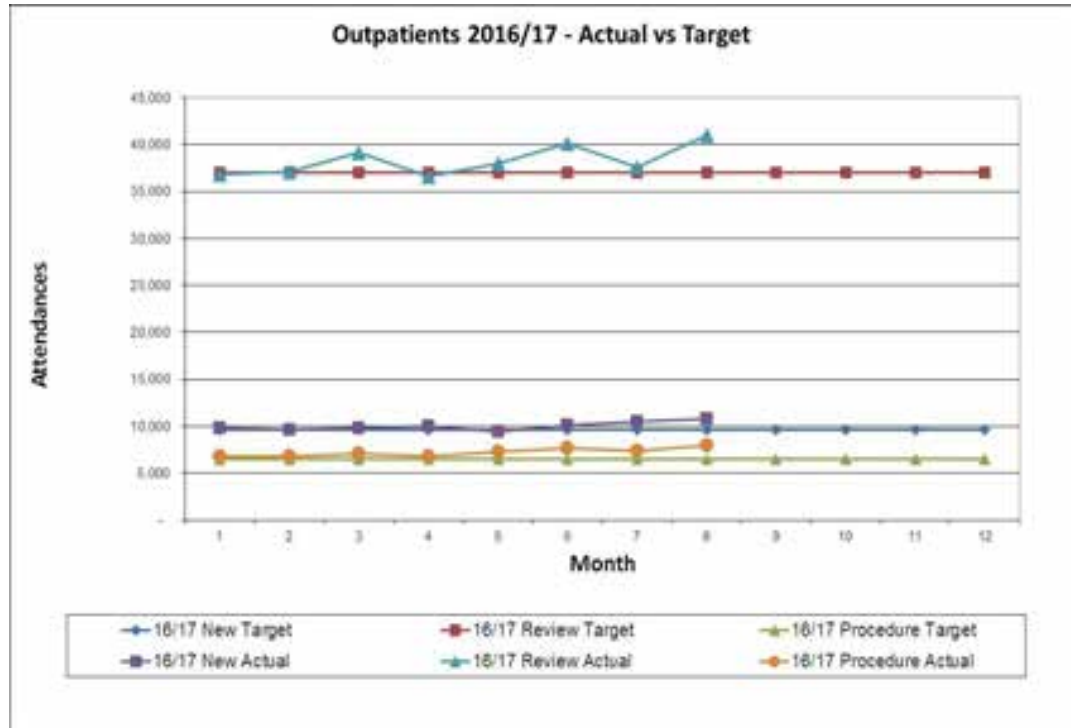


Table 5 below shows the income variance by division and point of delivery at the end of Month 8 (April-Nov). To date, healthcare income (excluding block contracts and cost per case drugs and devices) is (£0.4m) below plan, this includes assumed contract adjustments for marginal rates, readmissions, potential fines and penalties. This position now:

- Includes the receipt of STF income relating to the A&E trajectory, as the Trust is confident this will be received following an appeal.
- Excludes STF income relating to cancer targets which are not being achieved year to date.

As in previous year's, healthcare income under or over performance will continue to be monitored but not reflected in the financial position until agreed with commissioners and regulators.

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

	YTD Variance against Divisional Baselines				
	Div A	Div B	Div C	Div D	Total
Inpatient	20	-3,266	1,775	740	-731
Outpatient	58	836	766	1,560	3,219
Other	77	-875	-623	-1,441	-2,863
Total	154	-3,305	1,917	860	-374

Note - may include rounding differences

2.4 Expenditure Analysis

The Trust wide operating expenditure analysis in Table 6 shows actual expenditure being (£15.2m) above the budgeted expenditure of £550.7m for the year to date.

Table 6 – Year to Date Expenditure against Plan

	Budget Dec £m	Actual Dec £m	Variance £m
PAY			
Medical Staff	91.0	99.3	(8.3)
Nursing	104.4	107.1	(2.7)
Scientific & Technical	38.9	38.6	0.3
SMP / A&C	47.2	46.5	0.7
Other	11.0	11.3	(0.3)
Pay Reserves	7.5	0.0	7.5
Total Pay	300.0	302.8	(2.8)
NON PAY			
Drugs	92.1	95.6	(3.5)
Clinical Supplies & Services	69.5	71.6	(2.1)
Other / Non-Pay Reserves	89.1	95.9	(6.8)
Total Non Pay	250.7	263.1	(12.4)
GRAND TOTAL	550.7	565.9	(15.2)

Note - may include rounding differences

3. Cost Improvement Programme

The Trust's 2016/17 financial plan includes an annual efficiency savings target of £18.2m. At the end of month 9, efficiency savings of £11.3m had been delivered which is equivalent to 83% of the £13.7m year to date target.

Table 7 –Cost Improvement Delivery

	YTD Target (£000)	YTD Actual (£000)	YTD Variance (£000)
Division A	3,748	2,477	(1,272)
Division B	2,789	1,943	(846)
Division C	2,618	2,573	(45)
Division D	3,185	3,039	(146)
Corp/ NHP/ Central Ops	1,310	1,265	(45)
Total	13,650	11,297	(2,354)

CIP delivery within operational divisions continues to be reviewed in regular Chief Operating Officer meetings. Based on previous experience, the level of CIP

delivered improves during the second part of the financial year. The Trust profiles savings targets equally across the year despite some savings schemes starting part way through the year. Work needs to continue to address the CIP gap and ensure further schemes are agreed to improve overall delivery. The full year forecast is to achieve £16.1m of cost improvement programmes, which is equivalent to 89% of the full year target.

4. Divisional Analysis

An adverse variance of (£19.155m) is being reported across operational divisions in the first nine months of 2016/17, this equates to a monthly “run rate” of (£2.128m).

Table 8 – Analysis of year to date variances by Division

	Income	Expenditure	Total
	£'000	£'000	£'000
Division A	120	(5,629)	(5,509)
Division B	2,493	(6,745)	(4,252)
Division C	(717)	(5,529)	(6,246)
Division D	418	(5,130)	(4,712)
Division E	108	1,805	1,913
Sub - Total	2,422	(21,228)	(18,806)
Healthcare Income	(128)	(221)	(349)
TOTAL	2,294	(21,449)	(19,155)

Note - may include rounding differences

The aggregate divisional overspend in December was (£1.836m), within this (£0.826m) was attributable to medical staffing. Senior medical staff (consultants) accounted for (£0.522m) of the variance, this included locum cover for vacancies and sickness, unfunded consultant posts and payments for additional sessions and waiting list initiatives. Significant specialty overspends in December included Imaging (£0.104m), Anaesthetics (£0.066m) and Neurology (£0.059m). The balance of the medical overspend (£0.304m) relates to expenditure on junior and middle grade doctors including usage of agency, locums and unfunded posts. The largest over spends were within Trauma (£0.068m), Cardiology (£0.055m) and A&E (£0.043m).

The monthly nursing (including Theatre ODPs) pay variance was (£0.386m) in December, which included specific overspends within Anaesthetics (£0.119m) and Theatres (£0.105m) caused by external agency and bank shift usage which are partially offset by substantive nursing vacancies across wards and other clinical areas.

Other expenditure pressures included slippage against historic CIP targets and activity related non pay pressures. The healthcare income loss relates to missed cancer trajectories during 2016/17 and the subsequent withholding of the related STF income.

5. Statement of Financial Position

The Statement of Financial Position (Balance Sheet) shows the value of the Trust's 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 31 December 2016.

Table 9 – Statement of Financial Position

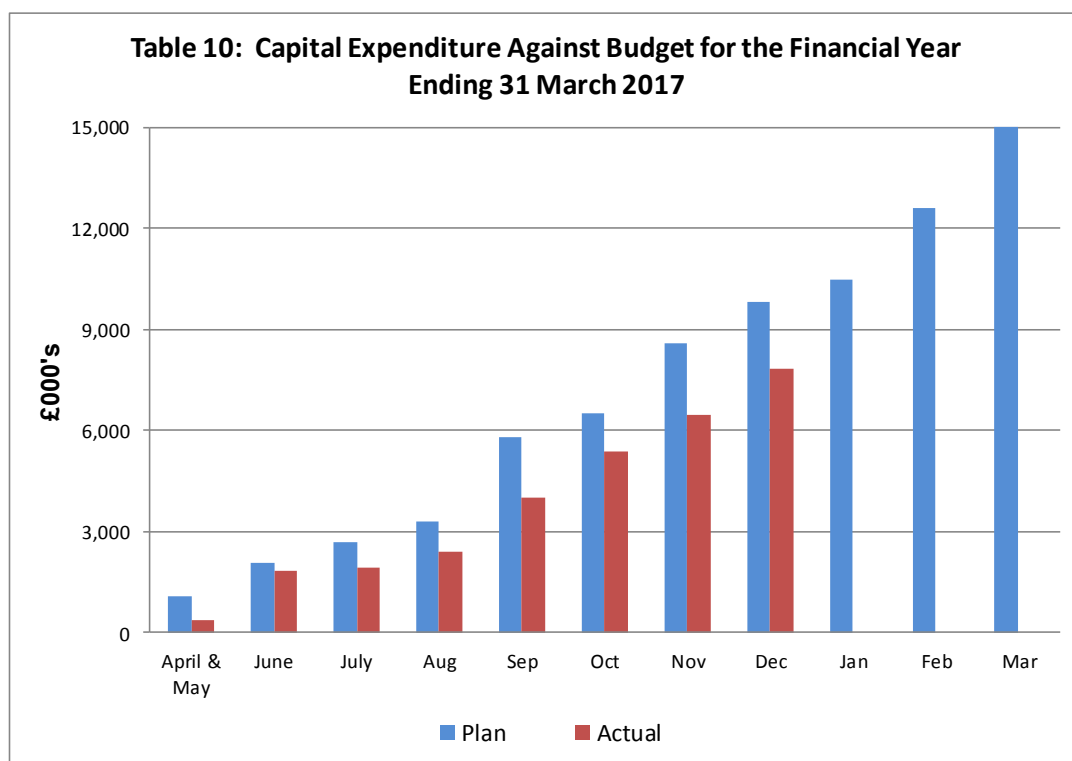
	Audited Mar 2016 £m	Actual Dec 2016 £m	YTD Plan Dec 2016 £m	Annual Plan Mar 2017 £m
Non Current Assets:				
Property, Plant and Equipment	503.4	495.8	497.8	497.7
Intangible Assets	0.7	0.5	0.8	0.8
Trade and Other Receivables	11.1	7.2	4.3	4.3
Other Assets	0.0	0.2	0.0	0.0
Total Non Current Assets	515.2	503.7	502.9	502.8
Current Assets:				
Inventories	15.7	16.0	15.8	15.8
Trade and Other Receivables	51.1	40.5	46.3	40.1
Other Financial Assets	0.2	6.2	4.9	4.9
Other Current Assets	10.2	16.2	13.4	13.7
Cash	59.2	62.4	48.6	51.5
Total Current Assets	136.4	141.3	128.9	126.0
Current Liabilities:				
Trade and Other Payables	113.6	113.5	102.5	102.5
Borrowings	12.8	12.6	12.8	12.8
Provisions	0.8	0.6	0.6	0.6
Tax Payable	7.3	8.7	7.5	7.5
Other Liabilities	16.7	18.3	17.5	16.4
Total Current Liabilities	151.2	153.7	140.9	139.8
Non Current Liabilities:				
Borrowings	496.7	487.3	487.2	483.9
Provisions	2.4	2.4	2.4	2.4
Tax Payable	0.1	0.0	0.0	0.0
Other Liabilities	7.4	4.3	5.4	5.4
Total Non Current Liabilities	506.6	494.0	495.0	491.7
TOTAL ASSETS EMPLOYED	(6.2)	(2.7)	(4.1)	(2.8)
Financed by:				
Public Dividend Capital	183.0	183.0	181.7	181.7
Income & Expenditure Reserve	(297.4)	(293.9)	(280.9)	(279.5)
Donated Asset Reserve	0.0	0.0	0.0	0.0
Revaluation Reserve	108.2	108.2	95.0	95.0
Merger Reserve	0.0	0.0	0.0	0.0
TOTAL TAXPAYERS EQUITY	(6.2)	(2.7)	(4.1)	(2.8)

Note - may include rounding differences

6. Capital Expenditure (Non-Current Assets)

The approved capital programme for 2016/17 is £15.0m. At the end of month 9, actual capital expenditure was £7.8m, compared to the planned £9.8m. Expenditure in the month of December totalled £1.3m, this included £0.7m of replacement medical equipment (operating tables and anaesthetic machines) and £0.5m relating to estates costs. More detail on capital expenditure is contained in the quarterly update attached as Appendix A.

Table 10 – Capital Expenditure against Plan



7. Current Assets

The Trust's total current assets (excluding cash and inventories) amounted to £62.9m as at 31 December 2016.

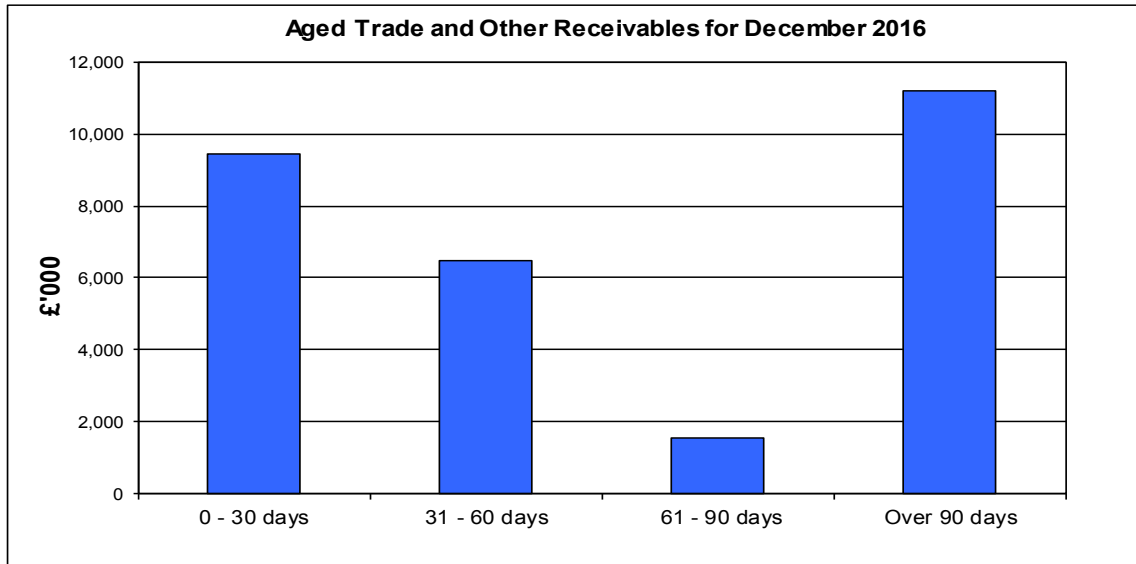
Table 11 – Analysis of Current Assets (excluding Inventories and Cash)

	Actual Dec 2016 £m	Forecast Dec 2016 £m
Trade Receivables	28.7	30.0
Bad Debt Provision	-3.0	-2.4
Other Receivables	14.8	18.7
Trade and Other Receivables	40.5	46.3
Accrued Income	6.2	4.9
Other Financial Assets	6.2	4.9
Prepayments	16.2	13.4
Other Current Assets	16.2	13.4
TOTAL	62.9	64.6

Analysis of the age profile of Trade Receivables (unpaid invoices issued by the Trust) is summarised in Table 12 below. As at 31 December, the over 90 day debt amounted to £11.3m. £2.7m of the total is due from NHS commissioners including £1.7m outstanding from NHS England. A further £3.8m relates to unpaid invoices for Service Level Agreements for services provided to other NHS providers. This includes Sandwell & West Birmingham FT (£1.2m), Heart of England FT (£0.8m), Birmingham Women's Hospital (£0.6m), and Birmingham

Children’s Hospital (£0.4m). The balance includes income owed to the Trust by non-NHS debtors including local authorities (£1.1m), the Ministry of Defence, universities, private sector organisations and individuals (e.g. overseas and private patients).

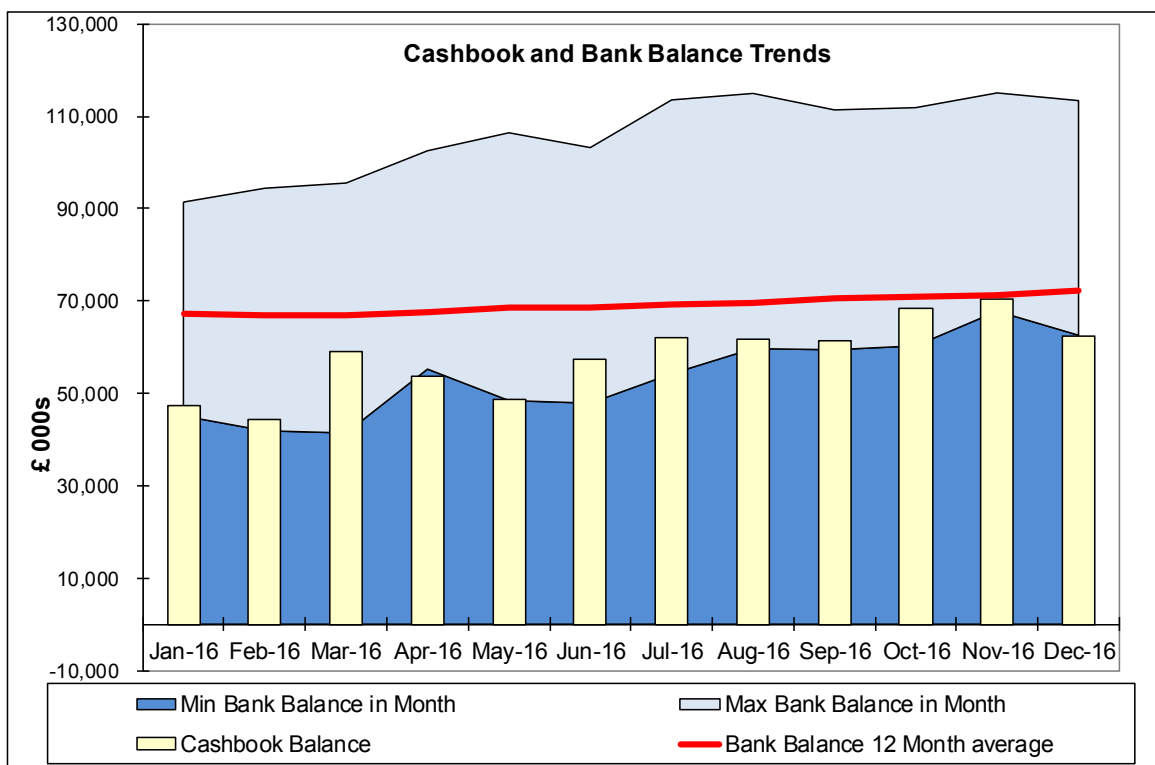
Table 12 – Aged Debt Analysis



8. Cash Flow

Table 13 shows the month end cashbook balance, the minimum and maximum daily bank balance in the month and a twelve month rolling average daily bank balance. The Trust’s cashbook balance at 31 December was £62.4m which is £13.8m above plan.

Table 13 – Cash Flow



9. NHS Improvement and Use of Resources (UoR) Metric

NHS Improvements new framework to monitor provider organisations came into effect in October 2016. Previous BoD reports have summarised the new measure, these showed how providers will be scored 1 (best) to 4 (lowest) against 5 equally weighted metrics. The average across the metrics is then used to determine the Trusts Use of Resources (UoR) score.

Based on the Trusts financial performance at the end of Quarter 3, the Trust UoR score is expected to be a 3 as follows;

Table 14 – Use of Resources Score

Metric	Score	Definition
Capital Service Cover	3	Can the providers income cover its longer term financial obligations
Liquidity	4	Cash held to cover operating costs
I&E Margin	2	I&E surplus or (Deficit) as a proportion of Total Income
I&E Variance From Plan	1	Actual year to date surplus compared to plan
Agency Spend	3	Distance of actual spend from the annual agency cap set by NHS Improvement
Use of Resources	2.7	(Unrounded Score)
TRIGGER	Yes	Trust receives the lowest rating of 4 in one area, thus triggering a max overall score of 3
Use of Resources Score	3	

The Trust achieves the lowest ratings of 3 or 4 on the following;

- **Capital Service Cover** – this includes annual PFI capital expenditure (interest, inflation and capital repayments), therefore the Trusts capital commitments are high compared to other providers, in the medium term the Trust will be unable to improve on this metric.
- **Liquidity** – despite the Trust holding a cash balance of £62.4m, the Trust receives the lowest rating of 4 for this metric. This metric continues to be weighted against organisations which have PFI contracts and commitments. However, based on the higher planned control total surplus next year (and forecast cash balance increase), this metric is expected to improve in 2017/18.
- **Agency Expenditure** – The Trust has been set an annual agency expenditure ceiling by NHS Improvement of £13.281 million. This was an arbitrary figure which is over 1/3rd lower than the Trusts actual spend in 2015/16. The required reduction takes no account of the Trust performing relatively well on agency expenditure spends when measured as a % of total pay costs. Year to date (April - December), Trust wide expenditure on agency was 4.6% of its total pay costs (and falling), this compares well to the most recently published provider sector average of 6.0% and the regional average of 6.6%. Both of these figures include ambulance, community and specialist providers who historically use much less agency than acute providers. Work continues across the Trust to review and tackle agency expenditure with current forecasts showing an improvement from £21.7m reported in 2015/16 to £17.0m in 2016/17, despite the operational and workforce pressures in year. If the current agency reductions continue and further controls are implemented on medical and

other staff groups' agency bookings, the Trust score on this metric is expected to improve from a 3 to a 2 in the next few months.

Use of Resources is one theme which NHS Improvement assessment takes account of in assessing a providers overall performance. Other factors include quality of care, operational performance, strategic change and leadership and improvement capability. After reviewing each of these, each Trust is segmented into one of four categories;

Segment	Description
1	Providers with maximum autonomy – no potential support needs identified across our five themes – lowest level of oversight and expectation that provider will support providers in other segments
2	Providers offered targeted support – potential support needed in one or more of the five themes, but not in breach of licence (or equivalent for NHS trusts) and/or formal action is not needed
3	Providers receiving mandated support for significant concerns – the provider is in actual/suspected breach of the licence (or equivalent for NHS trusts)
4	Special measures – the provider is in actual/suspected breach of its licence (or equivalent for NHS trusts) with very serious/complex issues that mean that they are in special measures

Based on the Quarter 1&2 performance, the Trust has been placed in segment 2.

10. Conclusion

The Trust is reporting a surplus of £3.497m for the first nine months of the 2016/17 financial year. This represents a positive variance of £0.192m against the planned surplus of £3.300m. The Trust is still forecasting to meet the annual control total at the end of the 2016/17 financial year as it is assumed that any withheld STF income is earned back via a successful appeal or that the Trust is issued with a lower control total.

Continued focus needs to be given to the delivery against 2016/17 CIP targets, addressing historic CIP shortfalls and implementing plans to reduce agency and locum expenditure across the Trust.

Mike Sexton
Chief Financial Officer
16 January 2017