


AGENDA ITEM NO:

**UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
REPORT TO THE BOARD OF DIRECTORS
THURSDAY 28 MARCH 2013**

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| Title: | FINANCE AND ACTIVITY PERFORMANCE REPORT FOR THE PERIOD ENDING 28 FEBRUARY 2013 |
| Responsible Director: | Mike Sexton, Chief Financial Officer |
| Contact: | Julian Miller, Director of Finance, ext. 53074 |

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| Purpose: | To present an update to the Board |
| Confidentiality Level & Reason: | N/A |
| Annual Plan Ref: | 3.4 – Ensure the Trust maintains financial health |
| Key Issues Summary: | An actual surplus of £0.511m has been recorded in February, resulting in a £3.509m surplus for the year to date. The Trust expects to exceed its forecast surplus of £3.000m by the end of the financial year. |
| 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: 18 March 2013 |
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UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

REPORT TO THE BOARD OF DIRECTORS THURSDAY 28 MARCH 2013

FINANCE AND ACTIVITY PERFORMANCE REPORT FOR THE PERIOD ENDING 28 FEBRUARY 2013

PRESENTED BY THE CHIEF FINANCIAL OFFICER

1. Introduction

This report covers the eleven months of the 2012/13 financial year from 1 April 2012 to the 28 February 2013. It includes the three main financial statements; the Statement of Comprehensive Income, the Statement of Position and the Cash Flow Statement. The report includes information on healthcare activity and its associated income along with key operating expenditure variances, CIP delivery and capital programme expenditure.

The Trust originally planned for a £0.600m annual surplus for the 2012/13 financial year. In September 2012, the full year forecast was revised upwards to £3.000m (i.e. £2.400m above plan). An actual surplus of £0.511m has been reported for February 2013 leading to a year to date surplus of £3.509m and consequently the Trust is now on course to exceed its revised forecast of £3.000m by 31 March 2013.

The reported position includes an aggregate overspend of (£2.675m) across operational divisions for the first eleven months of the financial year after recognising £8.106m of healthcare contract over-performance income. The remaining overspend reflects activity driven costs in excess of the additional income recognised, for example the use of premium rate agency staff, together with shortfalls against income targets for the Injury Cost Recovery Scheme and private patients. The operational overspend has been offset by a combination of the General Contingency Reserve and Trust Specific Reserves.

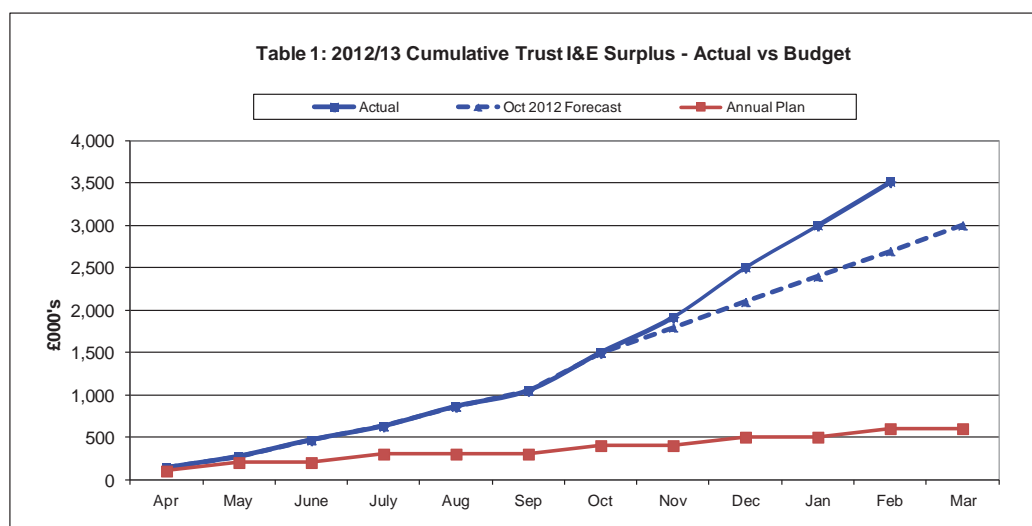
The Trust's Financial Risk Rating (FRR) remains at 3 based on the 2012/13 Annual Plan, Monitor's assessment of the first three quarters and self assessment of recent monthly financial performance.

2. Financial Position Summary

2.1 Year to Date Position

The cumulative income and expenditure surplus against plan is shown in Table 1 below. As detailed above the actual year to date surplus is £3.509m, which is £2.909m above the planned £0.600m year to date surplus. Table 1 also shows the revised forecast made in September 2012 (see 2.2 below).

Table 1 – I&E Surplus vs. Plan 2012/13



The statement of comprehensive income appears in Appendix C. Table 2 below summarises the Trusts revenue transactions for the year. 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

| | Budget Apr-Feb 2013 £m | Actual Apr-Feb 2013 £m | Variance £m |
|-------------------------|------------------------------|------------------------------|----------------|
| Revenue | 550.4 | 586.1 | 35.7 |
| Operating Expenses | (512.7) | (544.6) | (31.9) |
| EBITDA | 37.7 | 41.5 | 3.8 |
| Depreciation | (17.7) | (18.5) | (0.8) |
| Donated Asset Revenue | 0.0 | 0.0 | 0.0 |
| Interest Receivable | 0.7 | 0.6 | (0.1) |
| Interest Payable | (16.9) | (16.9) | 0.0 |
| Contingent Rental | (3.2) | (3.2) | 0.0 |
| PDC Dividend | 0.0 | 0.0 | 0.0 |
| Retained Surplus | 0.6 | 3.5 | 2.9 |

Note - may include rounding differences

2.2 Forecast Outturn

The Trust originally planned for a £0.600m annual surplus for the 2012/13 financial year. In September 2012, the full year forecast was revised upwards to £3.000m due to continued income growth in excess of additional costs. The Trust is now on course to exceed the revised forecast of £3.000m by 31 March 2013.

3. Income and Expenditure

3.1 Income Analysis

Total operating income is £35.7m above plan at 28 February 2013; this is largely attributable to NHS Clinical Income which is £32.7m ahead of plan comprising:

- £10.7m relating to high cost drugs and devices excluded from national tariff and paid on a cost per case basis.
- £6.8m for Enzyme Replacement Therapy commissioned on a cost per case basis by the National Commissioning Group.
- £7.2m relating to contract variations, in year service developments (e.g. Vascular Surgery transfer) and other cost per case treatments (e.g. BMT and non contracted activity).
- £8.1m recognised in respect of core activity over-performance against 2012/13 contracts (see section 3.2) and gains from 2011/12 where final activity exceeded year end estimates.

Non-NHS Clinical Income is £0.5m above plan and Other Income is above plan by £2.4m as at the end of February 2013.

Table 3 – Income against plan

| | Budget Apr-Feb 2013 £m | Actual Apr-Feb 2013 £m | Variance £m |
|--------------------|------------------------------|------------------------------|----------------|
| Clinical - NHS | 432.0 | 464.8 | 32.8 |
| Clinical - Non NHS | 11.7 | 12.2 | 0.5 |
| Other | 106.7 | 109.1 | 2.4 |
| TOTAL | 550.4 | 586.1 | 35.7 |

Note - may include rounding differences

3.2 NHS Clinical Income / Activity

Table 4.1 below compares 2012/13 monthly admitted patient care activity against target levels for the first ten months of the financial year. This shows that Payment by Results (PbR) inpatient spells and Non PbR inpatient FCEs were marginally below plan both in January the month, however year to date inpatient spells remain above plan year to date.

Table 4.1 – Trust Inpatient Activity

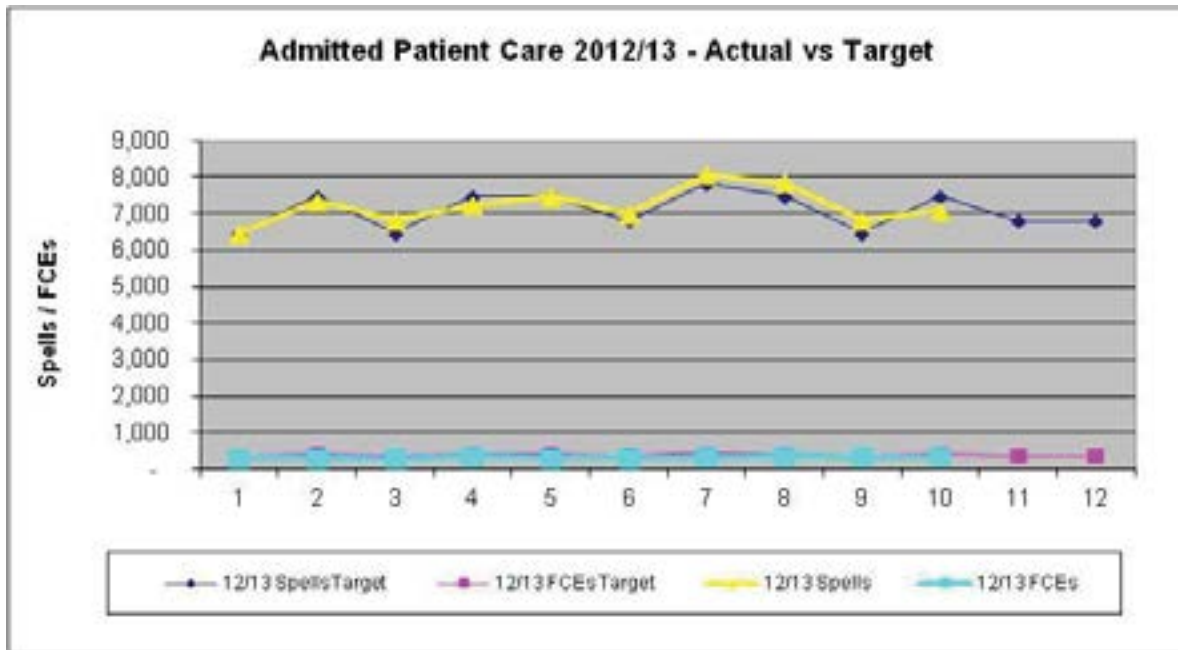


Table 4.2 shows outpatient activity against target. Actual outpatient attendances are continuing above planned levels for new, follow up attendances and outpatient attendances with procedures both in the month (January) and year to date.

Table 4.2 – Trust Outpatient Activity

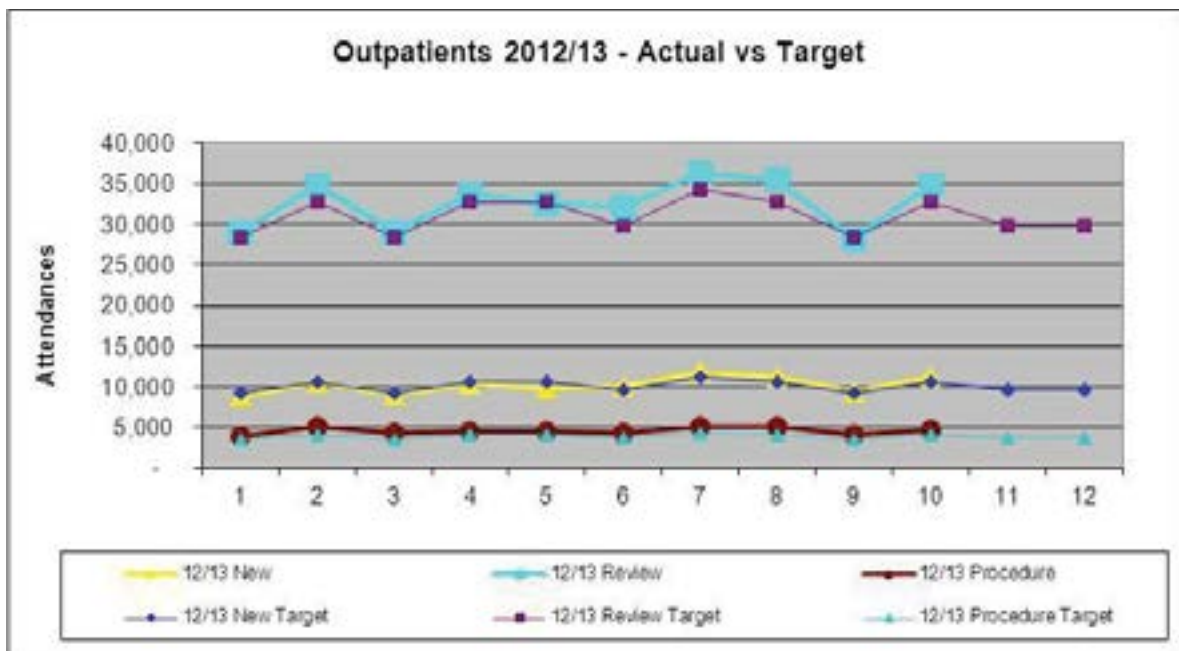


Table 5 below shows the variance by Division and Point of Delivery against the 2012/13 healthcare income targets. This shows that healthcare income (excluding cost per case) is £5.4m ahead of plan for the ten months to the end of January 2013. For 2012/13 income targets have been profiled based on working days (rather than equal twelfths), as agreed with the Trust's main commissioner (NHS South Birmingham). Detailed activity performance against plan by specialty and commissioner is included as Appendix G.

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 | 379 | (694) | 1,050 | (766) | (31) |
| Outpatient | 270 | 337 | 1,479 | 1,184 | 3,270 |
| Other | 1,030 | (49) | 1,026 | 184 | 2,191 |
| Total | 1,678 | (406) | 3,554 | 602 | 5,429 |

Note - may include rounding differences

3.3

Expenditure Analysis

The Trust wide subjective expenditure analysis in Table 6 shows an over spend of (£31.9m) against budgeted expenditure of £512.7m year to date. The main areas of overspend include pay costs (£13.5m) and cost per case drugs and devices (£10.5m).

Table 6 – Expenditure against plan

| | Budget Apr-Feb 2013 £m | Actual Apr-Feb 2013 £m | Variance £m |
|------------------------------|------------------------------|------------------------------|----------------|
| PAY | | | |
| Medical Staff | 91.4 | 96.2 | (4.8) |
| Nursing | 100.4 | 105.2 | (4.8) |
| Scientific & Technical | 36.7 | 37.1 | (0.4) |
| SMP / A&C | 46.8 | 48.1 | (1.3) |
| Other / Pay Reserves | 10.0 | 12.2 | (2.2) |
| Total Pay | 285.3 | 298.8 | (13.5) |
| NON PAY | | | |
| Drugs | 63.1 | 69.5 | (6.4) |
| Clinical Supplies & Services | 68.6 | 72.6 | (4.0) |
| Other / Non-Pay Reserves | 95.7 | 103.7 | (8.0) |
| Total Non Pay | 227.4 | 245.8 | (18.4) |
| GRAND TOTAL | 512.7 | 544.6 | (31.9) |

Note - may include rounding differences

3.4 Cost Improvement Programme

The Trust's 2012/13 Financial Plan includes a total efficiency savings target of £18.3m. For the first nine months of the financial year (April – December) 95% of the planned Cost Improvement Programme (CIP) has been delivered, resulting in slippage of (£0.739m). The current forecast is for 97% of planned CIP to be achieved by 31 March 2013.

Detailed CIP work is has now shifted towards the planning and delivery of the next financial years CIP targets.

Table 7 – Delivery of Cost Improvements

| £000 | Cumulative variance against plan | | | | Y/E Forecast |
|---------------------|----------------------------------|--------------|--------------|----|--------------|
| | Q1 | Q2 | Q3 | Q4 | |
| Division A | (27) | (48) | (131) | | (132) |
| Division B | 54 | (15) | (42) | | (46) |
| Division C | (51) | (147) | (309) | | (367) |
| Division D | (448) | (260) | (187) | | (53) |
| Corporate / NHP | (164) | (265) | (105) | | 13 |
| Single Site / Other | (40) | 0 | 0 | | 0 |
| Total | (676) | (735) | (739) | | (584) |
| % Achieved | 85% | 92% | 95% | | 97% |

4. Divisional Analysis

Divisional budgets are showing an adverse variance of (£2.675m) for the first eleven months of the financial year after including £8.106m of additional healthcare income. The balance is offset by a combination of the General Contingency Reserve and Trust Specific Reserves.

Table 8 – Analysis of year to date variances by Division

| | Income £'000 | Expenditure £'000 | Total £'000 | Year End Forecast £'000 |
|---|-----------------|----------------------|-----------------|-------------------------------|
| Division A | 1,500 | (7,260) | (5,760) | (5,774) |
| Division B | 1,470 | (3,517) | (2,047) | (2,439) |
| Division C | (621) | (4,114) | (4,735) | (4,812) |
| Division D | (849) | 772 | (77) | (901) |
| Division E | 23,673 | (21,835) | 1,838 | 2,106 |
| Sub - Total | 25,173 | (35,954) | (10,781) | (11,820) |
| Healthcare Income | 8,106 | 0 | 8,106 | 2,000 |
| TOTAL | 33,279 | (35,954) | (2,675) | (9,820) |
| <i>Memo General Contingency Reserve</i> | | | 1,715 | 1871 |

Note - may include rounding differences

The aggregate operational division overspend in February was (£503,000) excluding the recognition of £2.220m of healthcare over-performance income in the month. Medical staffing accounted for (£345,000) of the over spend including (£190,000) relating to senior medical staff. This includes locum cover in Anaesthetics and Ophthalmology, unfunded Consultant posts in Neurosurgery, Livers, General Surgery, Trauma and Pain services along with waiting list payments across a number of specialties. The remaining (£155,000) relates to junior and middle grade doctors with agency costs in excess of funded vacancies in several areas including A&E (£49,000), Anaesthetics (£53,000) along with several unfunded posts in ENT, General Medicine and Trauma.

Total nursing pay (including Theatre ODPs) was (£398,000) overspent in the month, after the release of additional funding for winter pressures. Specific departmental nursing pressures included A&E (£22,000), Critical Care (£67,000) and Theatres (£57,000). The balance (£252,000) relates to ward

based nursing with pressures including additional nursing for specific patients ('specials') and the use of external agency staff to cover sickness and annual leave.

Non-pay expenditure in February was below the monthly average level but activity related overspends remained in Theatres (£85,000), Imaging (£40,000) and Laboratories (£21,000). Variable income performance in February included benefits in Cardiac Surgery (£100,000) from Ventricular Assist Devices (VADs) and private patients and in Laboratories (£79,000) from Direct Access and SLA recharges.

5. Statement of Financial Position

The Statement of Financial Position 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. The lower part identifies the sources of finance. Table 9 summarises the Trust's Statement of Financial Position at 28 February 2013.

Table 9 – Statement of Financial Position

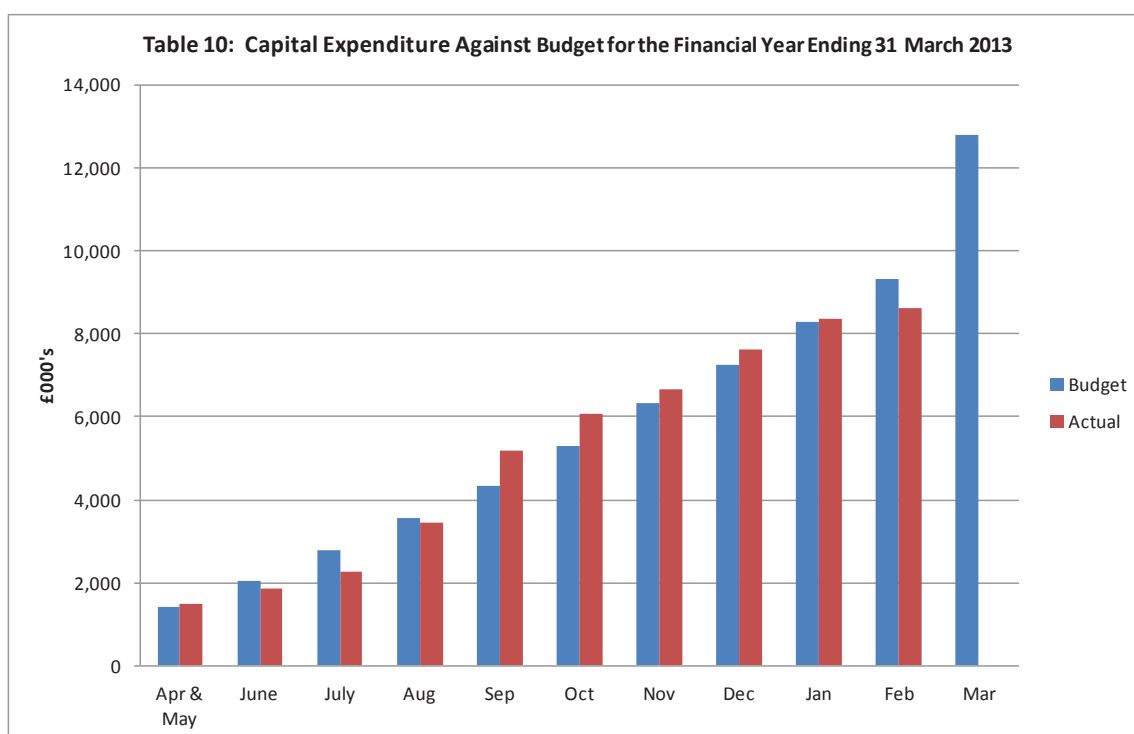
| | Audited Mar 2012 £m | Actual Feb 2013 £m | YTD Plan Feb 2013 £m | Annual Plan Mar 2013 £m |
|--------------------------------------|---------------------------|--------------------------|----------------------------|-------------------------------|
| Non Current Assets: | | | | |
| Property, Plant and Equipment | 513.2 | 503.7 | 506.9 | 507.2 |
| Intangible Assets | 0.8 | 0.5 | 0.8 | 0.8 |
| Trade and Other Receivables | 2.9 | 3.0 | 2.9 | 2.9 |
| Other Assets | 0.2 | 0.2 | 0.0 | 0.0 |
| Total Non Current Assets | 517.1 | 507.4 | 510.6 | 510.9 |
| Current Assets: | | | | |
| Inventories | 12.3 | 12.4 | 12.4 | 12.3 |
| Trade and Other Receivables | 33.0 | 33.5 | 28.6 | 31.0 |
| Other Financial Assets | 0.6 | 4.9 | 6.2 | 5.9 |
| Other Current Assets | 4.4 | 6.9 | 5.7 | 0.6 |
| Cash | 66.7 | 64.6 | 46.7 | 50.7 |
| Total Current Assets | 117.0 | 122.3 | 99.6 | 100.5 |
| Current Liabilities: | | | | |
| Trade and Other Payables | 70.2 | 82.4 | 67.3 | 70.1 |
| Borrowings | 12.3 | 12.0 | 11.9 | 11.8 |
| Provisions | 3.7 | 2.0 | 3.7 | 3.7 |
| Tax Payable | 6.9 | 7.1 | 6.7 | 6.9 |
| Other Liabilities | 23.8 | 18.3 | 18.5 | 22.0 |
| Total Current Liabilities | 116.9 | 121.8 | 108.1 | 114.5 |
| Non Current Liabilities: | | | | |
| Borrowings | 545.9 | 534.8 | 535.3 | 534.0 |
| Provisions | 1.6 | 1.7 | 1.6 | 1.6 |
| Other Liabilities | 29.8 | 28.0 | 24.8 | 20.8 |
| Total Non Current Liabilities | 577.3 | 564.5 | 561.7 | 556.4 |
| TOTAL ASSETS EMPLOYED | (60.1) | (56.6) | (59.6) | (59.5) |
| Financed by: | | | | |
| Public Dividend Capital | 171.0 | 171.0 | 171.0 | 171.0 |
| Income & Expenditure Reserve | (339.5) | (335.8) | (339.0) | (338.9) |
| Donated Asset Reserve | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation Reserve | 108.4 | 108.2 | 108.4 | 108.4 |
| TOTAL TAXPAYERS EQUITY | (60.1) | (56.6) | (59.6) | (59.5) |

Note - may include rounding differences

6. Capital Programme

The approved capital programme for 2012/13 is £12.8m including donated assets. Capital expenditure at the end of February totalled £8.6m, which is below the £9.3m year to date budget. Actual expenditure in the month was £0.2m which included £0.1m on ICT equipment and £0.1m on works related to the Cyberknife installation. Expenditure against major schemes is summarised in Appendix D and more detail is provided in the separate quarterly capital programme update.

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 £45.3m at 28 February 2013. Of this £27.9m relates to Trade Receivables (unpaid invoices raised by the Trust). Analysis of this outstanding debt by age is included in Appendix E and summarised in table 12 below.

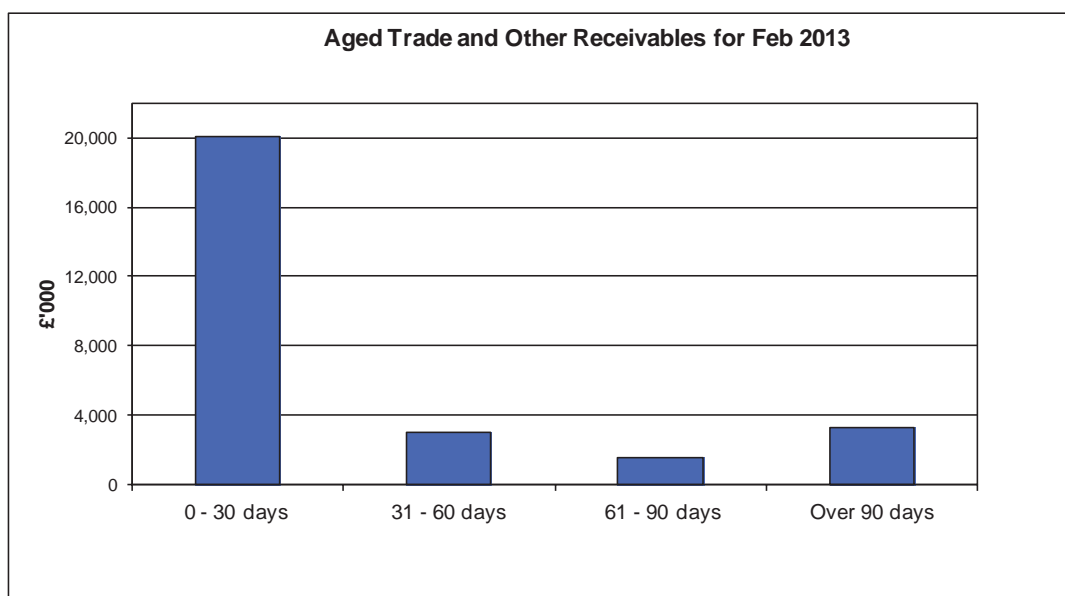
As at 28 February, total over 90 day debt was £3.7m. Of this £1.5m is attributable to NHS commissioner debt including £0.5m relating to invoices to Welsh Specialised Services Commissioners for over performance in months 1-6, £0.4m to London SHA for transplant activity and £0.2m to South Birmingham PCT.

A further £1.6m of the debt is with other NHS providers for service level agreements, including Birmingham Women's Hospital (£0.5m), Sandwell & West Birmingham (£0.4m) and Heart of England (£0.2m). In aggregate these amounts are balanced by NHS creditors so there is little adverse impact on cash flow. The remaining balance of £0.6m relates to non-NHS creditors including £0.2m of rental charges to the University of Birmingham which has been settled in early March.

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

| | Actual Feb 2013 £m | Forecast Feb 2013 £m |
|------------------------------------|-----------------------------------|-------------------------------------|
| Trade Receivables | 27.9 | 24.4 |
| Bad Debt Provision | -0.9 | -1.3 |
| Other Receivables | 6.5 | 5.5 |
| Trade and Other Receivables | 33.5 | 28.6 |
| Accrued Income | 4.9 | 5.7 |
| Other Financial Assets | 4.9 | 5.7 |
| Prepayments | 6.9 | 6.2 |
| Deferred Asset | 0.0 | 0.0 |
| Other Current Assets | 6.9 | 6.2 |
| TOTAL | 45.3 | 40.5 |

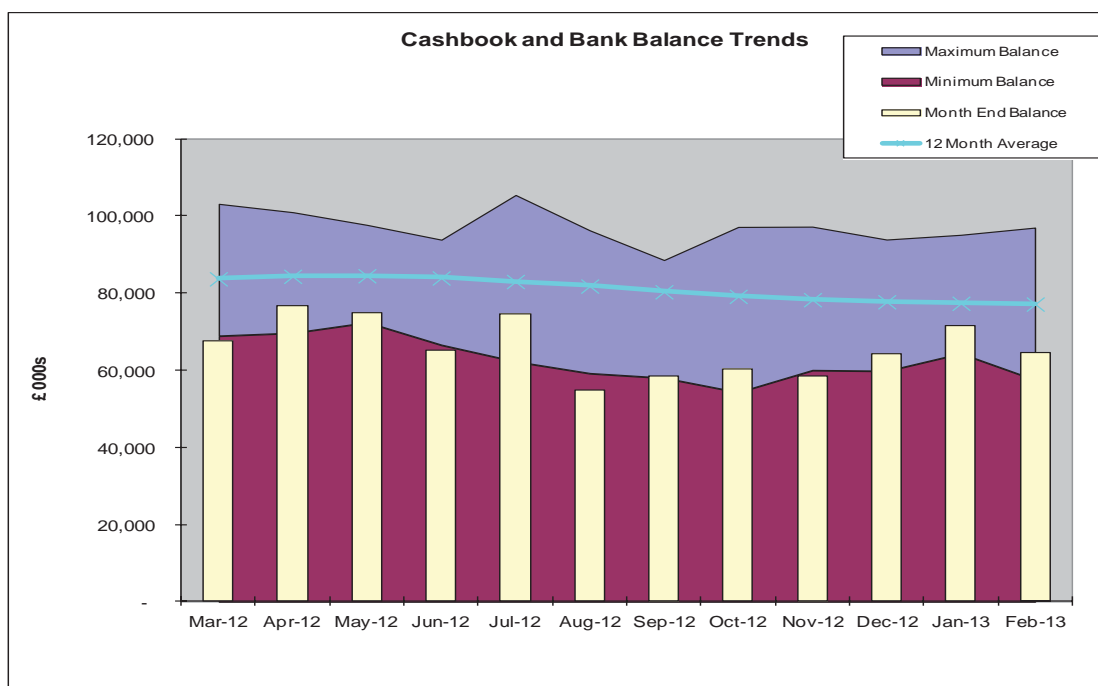
Table 12 – Aged Debt Analysis of Trade and Other Receivables due within One Year



8. Cash Flow

Appendix F sets out the cash flow statement including the actual cash received and paid out against forecast. 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 Trusts actual cash balance at the 28 February 2013 was £63.3m which is £16.6m above plan (£46.7m). This is due largely to favourable movements in working capital balances and the higher than planned income and expenditure surplus. The twelve month rolling average bank balance remains broadly flat but above planned levels.

Table 13 – Cash Flow



9. Working Capital Facility

The Trusts working capital facility remains at £46.6m for 2012/13 to ensure that the Trust meets Monitor’s liquidity ratio requirements (part of the overall Financial Risk Rating). The overdraft has not been used to date and there are no plans to utilise the facility in the immediate future.

10. Monitor Ratios

10.1 Borrowing Ratios

New hospital PFI borrowing is incorporated into the Trust’s Prudential Borrowing Code as it is considered to be a form of financing or loan. Therefore, the Tier 2 Borrowing Ratios now apply:

Table 14 - Borrowing Ratios

| Borrowing Ratio: | Limit | Annual Plan - 2012 | Actual - Feb 2013 |
|---------------------------------|-------|--------------------|-------------------|
| Minimum Dividend Cover | > 1.0 | n/a | n/a |
| Minimum Interest Cover | > 2.0 | 1.9 | 2.3 |
| Minimum Debt Service Cover | > 1.5 | 1.2 | 1.4 |
| Maximum Debt Service to Revenue | < 10% | 5.1% | 4.8% |

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 respectively (debt service is the sum of interest paid and the capital repayment of the

loan). The final ratio compares how many times the Trust's total income covers the Debt Service on the PFI loan.

The Annual Plan suggests that the Trust will be slightly under the Tier 2 Limits for the Minimum Interest Cover (1.9 vs a limit of 2.0) and the Minimum Debt Service (1.2 vs 1.5 limit), although based on actual performance only the latter ratio has been breached to date. Monitor's prudential borrowing guidance allows for borrowing limits to be authorised which exceed the ratios in certain circumstances (for example a major renovation or redevelopment). Therefore this does not affect the Financial Risk Rating however access to potential additional borrowing (e.g. Finance Leases) may be restricted.

The Trust's current Prudential Borrowing Limit (PBL) for long term borrowing is £558.1m.

10.2 Financial Risk Rating

The Trust's Financial Risk Rating (FRR) remains at 3 based on the Annual Plan, Quarter 3 monitoring and self assessment of recent months. The rating is set between 1 (worst) and 5 (best) based on a series of financial metrics.

11. **Conclusion**

An income and expenditure surplus of £3.509m has been reported for the eleven months to February 2013. This represents a favourable variance of £2.909m against the planned £0.600m surplus for the year to date. Ongoing overspends across operational divisions continue to be covered by additional healthcare income and reserves and the Trust now expects to exceed its revised surplus forecast of £3.000m for the full financial year.

12. **Recommendations**

The Board of Directors is asked to:

- Receive the contents of this report.



Mike Sexton
Chief Financial Officer
18 March 2013