

AGENDA ITEM NO: 18

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST REPORT TO THE BOARD OF DIRECTORS THURSDAY 26 APRIL 2012

| | |
|------------------------------|--|
| Title: | FINANCE AND ACTIVITY PERFORMANCE REPORT FOR THE PERIOD ENDING 31 MARCH 2012 |
| Responsible Director: | Mike Sexton, Director of Finance |
| Contact: | Julian Miller, Deputy Director of Finance, ext. 53074 |

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|--|---|
| Purpose: | To present an update to the Board |
| Confidentiality Level & Reason: | N/A |
| Medium Term Plan Ref: | 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 |
| Key Issues Summary: | <p>An actual surplus of £2.373m has been recorded for the 2011/12 financial year. This represents a favourable variance of £1.873m compared to the £0.500m planned surplus (before exceptional costs). The position includes a £1.209m benefit relating to a change in the accounting treatment for donated assets as set out in previous months.</p> <p>This position excludes transition costs of (£4.320m) and impairment losses of (£31.695m). Therefore the overall deficit reported as at 31 March 2012 is (£33.642m), subject to the audit of the annual accounts.</p> |
| Recommendations: | <p>The Board of Directors is asked to:</p> <ul style="list-style-type: none">• Receive the contents of this report• Agree that Declaration 1 should be signed for Q4 confirming that the Board expects the Trust to maintain a minimum FRR of 3 for the next 12 months. |

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|-------------------------|----------------------------|
| Signed: M Sexton | Date: 17 April 2012 |
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UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

REPORT TO THE BOARD OF DIRECTORS THURSDAY 26 APRIL 2012

FINANCE AND ACTIVITY PERFORMANCE REPORT FOR THE PERIOD ENDING 31 MARCH 2012

PRESENTED BY THE DIRECTOR OF FINANCE

1. Introduction

This report covers the 2011/12 financial year from 1 April 2011 to 31 March 2012. It includes the three main financial statements; the Statement of Comprehensive Income, the Statement of Position and the Cash Flow Statement. The report details healthcare activity and the associated income, key operating expenditure variances, CIP delivery and a summary of the capital programme.

The Financial Plan for 2011/12 provided for an underlying surplus of £0.500m. This excludes planned 'exceptional costs' of £52.600m comprising £3.500m of restructuring associated with the transition into the New Hospital and an expected £49.100m impairment loss of on the new building. Therefore, in overall terms the Trust planned for a deficit of (£52.100m).

An actual surplus of £2.373m (before 'exceptional costs') has been achieved, which represents a favourable variance of £1.873m against the financial plan. This position includes a £1.209m gain relating to a change in the accounting treatment for donated assets as detailed in the January 2012 Board of Director's report. This will be excluded from Monitor's assessment of financial performance and on this basis the Trust would be reporting an underlying surplus of £1.164m for the year i.e. a favourable variance of £0.664m.

Transition costs of £4.320m have been incurred during 2011/12 and total impairment losses are £31.695m. This is lower than the planned figure due to a further increase in the value of QEHB based on the latest notification from the District Valuation Office. Including these items, the Trust has reported an overall deficit of (£33.642m) for the 2011/12 financial year, subject to the audit of the annual accounts.

The Trust's Financial Risk Rating (FRR) remains at 3 based on Monitor's review of financial performance up to Quarter 3 and self assessment of Quarter 4.

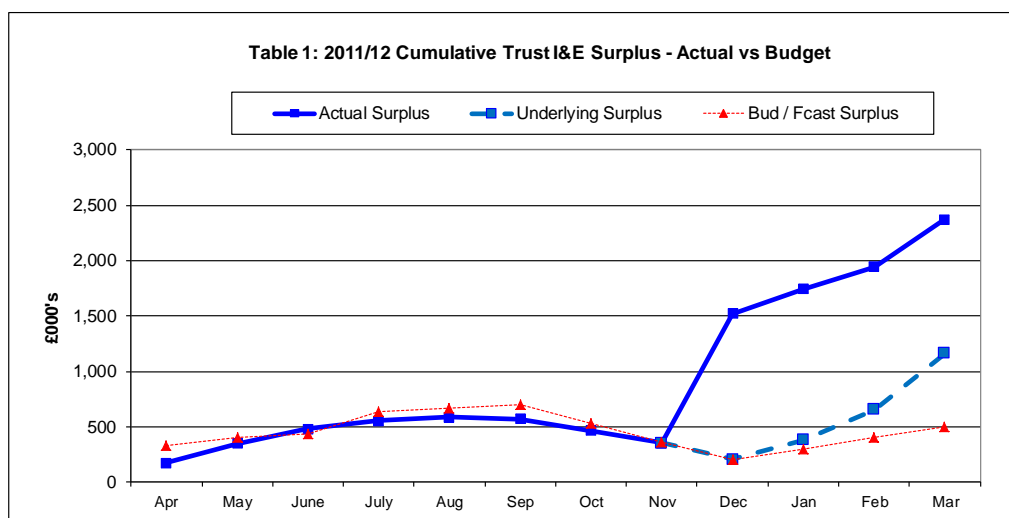
2. Financial Position Summary

2.1 Year End Position

The cumulative income and expenditure surplus (excluding impairments and restructuring) is shown in Table 1 below. As detailed

above the actual year to date surplus is £2.373m, which is £1.873m above the planned £0.500m surplus. An additional line has been added to show the underlying surplus excluding the gain on donated assets.

Table 1 – I&E Surplus vs. Plan 2011/12



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-Mar 2012 £m | Actual Apr-Mar 2012 £m | Variance £m |
|--------------------------------------|------------------------------|------------------------------|----------------|
| Revenue | 552.9 | 584.2 | 31.3 |
| Operating Expenses | (516.1) | (545.3) | (29.2) |
| EBITDA | 36.8 | 38.9 | 2.1 |
| Depreciation | (18.1) | (20.1) | (2.0) |
| Donated Asset Revenue | 0.8 | 2.4 | 1.6 |
| Interest Receivable | 0.6 | 0.8 | 0.2 |
| Interest Payable | (17.5) | (17.5) | 0.0 |
| Contingent Rental | (2.1) | (2.1) | 0.0 |
| PDC Dividend | 0.0 | 0.0 | 0.0 |
| Operational (Deficit)/Surplus | 0.5 | 2.4 | 1.9 |
| Transition Costs | (3.5) | (4.3) | (0.8) |
| Impairments on Property | (49.1) | (31.7) | 17.4 |
| Retained (Deficit)/Surplus | (52.1) | (33.6) | 18.5 |

Note - may include rounding differences

3. Income and Expenditure

3.1 Income Analysis

Total operating income is £31.3m above budget at 31 March 2012, within this NHS Clinical Income is £21.2m ahead of plan. This includes £7.9m related to contract variations, business cases and additional cost per case income and a further £13.3m attributable to general over-performance (see section 3.2) including some small balances relating to 2010/11 where final activity differed from the previous estimates and payments have now been agreed.

Non-NHS Clinical Income is £2.0m above plan with over-performance against the MoD Treatment Contract offset by under recovery of private patient income in the year. Other Income is above plan by £8.1m reflecting increases in education, research and development and non NHS SLA income. These sources typically have matching expenditure commitments and therefore have little impact on the bottom line.

Table 3 – Income against plan

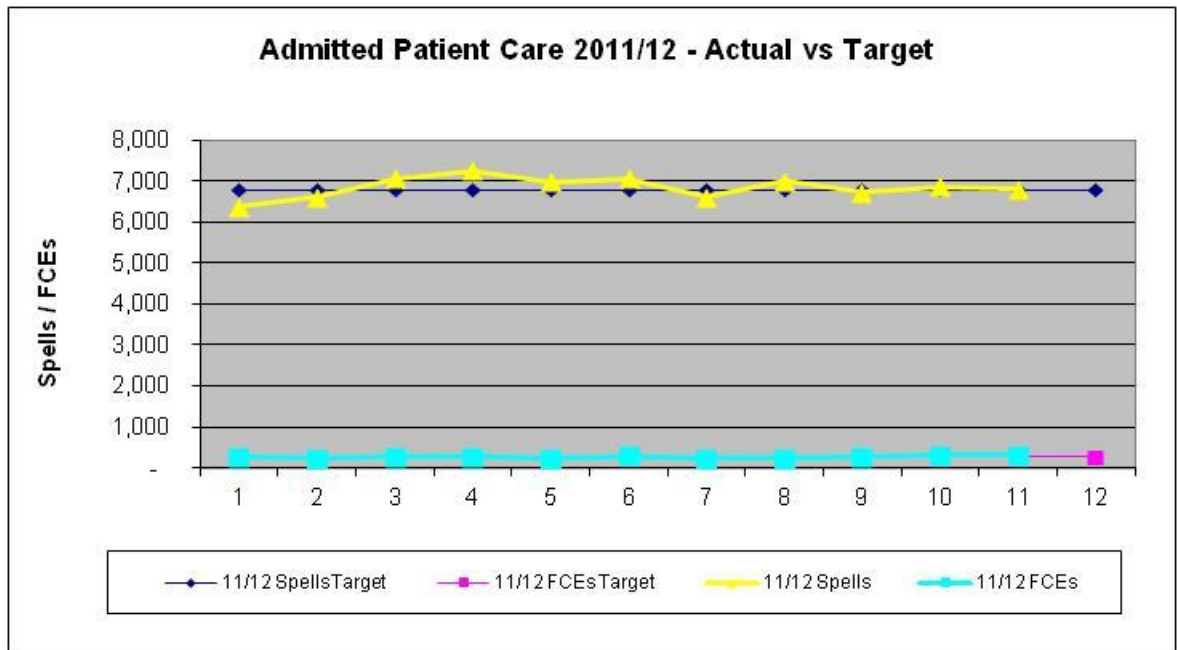
| | Budget Apr-Mar 2012 £m | Actual Apr-Mar 2012 £m | Variance £m |
|--------------------|------------------------------|------------------------------|----------------|
| Clinical - NHS | 433.5 | 454.7 | 21.2 |
| Clinical - Non NHS | 13.0 | 15.0 | 2.0 |
| Other | 106.4 | 114.5 | 8.1 |
| TOTAL | 552.9 | 584.2 | 31.3 |

Note - may include rounding differences

3.2 NHS Clinical Income / Activity

Table 4.1 below compares 2011/12 monthly admitted patient care activity against target levels for the first eleven months of the financial year. Inpatient spells (covered by Payment by Results) were slightly ahead of monthly target in February and remain marginally (1%) above plan year to date. Non PbR FCEs were above plan in the month but are slightly below target for the year to date.

Table 4.1 – Trust Inpatient Activity



New outpatient attendances were slightly below plan in Month 11 whilst outpatient procedures and follow up attendances were above plan. The same pattern also occurs in the year to date performance as shown in Table 4.2 below.

Table 4.2 – Trust Outpatient Activity

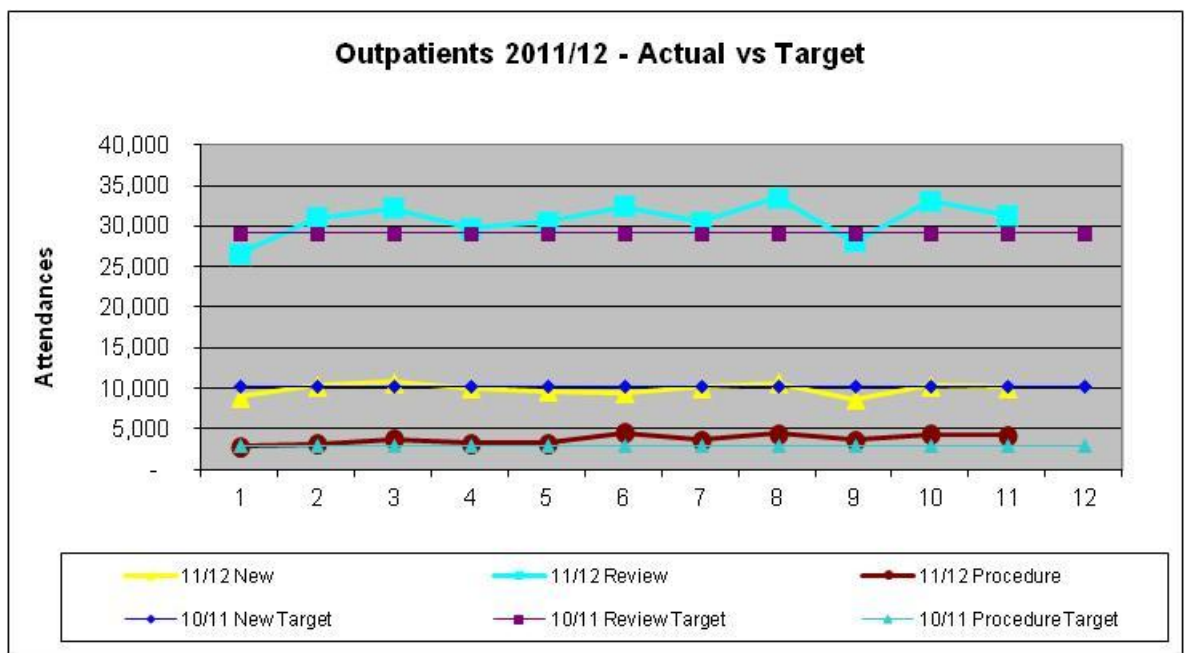


Table 5 below shows the variance by Division and Point of Delivery against the 2011/12 healthcare income targets. Healthcare income (excluding cost per case) is £8.7m ahead of plan for the first eleven months of the financial year. This includes credit note provisions based on an assessment of unresolved commissioner queries raised to date. The value of over-performance against divisional targets is lower than the total amount recorded in the ledger (see section 3.1) as it excludes estimated over-performance for month 12, prior year gains and some items which are not currently recorded in the divisional monitoring e.g.

CRF, BMT, etc. An activity performance summary 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 | 422 | (1,967) | (189) | 2,642 | 908 |
| Outpatient | 34 | 1,447 | 2,034 | 245 | 3,759 |
| Other | 3,090 | (404) | 796 | 513 | 3,995 |
| Total | 3,545 | (924) | 2,641 | 3,401 | 8,662 |

Note - may include rounding differences

3.3 Expenditure Analysis

The Trust wide subjective expenditure analysis in Table 6 shows an over spend of (£29.1m) against budgeted expenditure of £516.1m for the year.

Table 6 – Expenditure against plan

| | Budget Apr-Mar 2012 £m | Actual Apr-Mar 2012 £m | Variance £m |
|------------------------------|------------------------------|------------------------------|----------------|
| PAY | | | |
| Medical Staff | 92.0 | 96.9 | (4.9) |
| Nursing | 99.1 | 106.2 | (7.1) |
| Scientific & Technical | 38.8 | 38.6 | 0.2 |
| SMP / A&C | 52.0 | 52.3 | (0.3) |
| Other / Pay Reserves | 13.3 | 12.3 | 1.0 |
| Total Pay | 295.2 | 306.3 | (11.1) |
| NON PAY | | | |
| Drugs | 58.0 | 63.7 | (5.7) |
| Clinical Supplies & Services | 69.2 | 71.9 | (2.7) |
| Other / Non-Pay Reserves | 93.7 | 103.4 | (9.7) |
| Total Non Pay | 220.9 | 239.0 | (18.1) |
| GRAND TOTAL | 516.1 | 545.3 | (29.2) |

Note - may include rounding differences

3.4 Cost Improvement Programme

The Trust's 2011/12 Financial Plan includes a total efficiency savings target of £18.8m. In total 91% of the planned savings were delivered by 31 March 2012. The slippage of (£1.791m) was primarily related to the later than expected commencement of some schemes with the largest shortfalls in Division's B and D as shown in the table below:

Table 7 – Delivery of Cost Improvements

| £000 | Cumulative variance against plan | | | |
|---------------------|----------------------------------|---------------|---------------|---------------|
| | Q1 | Q2 | Q3 | Q4 |
| Division A | (94) | (203) | (285) | (335) |
| Division B | (199) | (211) | (272) | (445) |
| Division C | (160) | (159) | (117) | 81 |
| Division D | (187) | (486) | (658) | (721) |
| Corporate & NHP | (43) | (198) | (284) | (304) |
| Single Site Savings | (287) | (154) | (230) | (67) |
| Total | (970) | (1410) | (1847) | (1791) |
| % Achieved | 70% | 85% | 86% | 91% |

4. Divisional Analysis

Divisional budgets recorded a favourable variance of £1.453m for the financial year, including £13.265m of healthcare income over-performance.

Table 8 – Analysis of year to date variances by Division

| | Income | Expenditure | Total | Year End Forecast |
|---|---------------|-----------------|-----------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Division A | 914 | (6,165) | (5,251) | (5,251) |
| Division B | 2,023 | (4,320) | (2,297) | (2,297) |
| Division C | (89) | (3,272) | (3,361) | (3,361) |
| Division D | (1,222) | (904) | (2,126) | (2,126) |
| Division E | 12,739 | (11,516) | 1,223 | 1,223 |
| Sub - Total | 14,365 | (26,177) | (11,812) | (11,812) |
| Healthcare Income | 13,265 | 0 | 13,265 | 13,265 |
| TOTAL | 27,630 | (26,177) | 1,453 | 1,453 |
| <i>Memo General Contingency Reserve</i> | | | <i>1,871</i> | <i>1871</i> |

Note - may include rounding differences

The aggregate divisional overspend in March was (£846,000) before taking account of healthcare over-performance income. The main over spend in the month was again nursing pay (including Theatre ODP's) with expenditure (£778,000) above budget in the month. Specific departmental nursing pressures in March included Critical Care (£192,000) due to opening of additional beds for major trauma and other activity along with Theatres (£63,000), CDU (£20,000) and Outpatients (£22,000). Further expenditure of (£100,000) relates to unfunded bed capacity across inpatient wards and CDU trolleys and (£97,000) has been incurred to provide additional nursing for specific patients ('specials') on the inpatients wards, primarily on the fifth floor. The remaining nursing overspend (£284,000) relates to a combination of sickness and vacancy cover, and skill mix pressures primarily across the inpatient wards.

The aggregate medical staffing over spend in March was (£519,000) which is higher than the trend in recent months due to a number of one off issues. Within this (£242,000) relates to junior and middle grade doctors with agency costs in excess of funded vacancies in key areas including A&E (£60,000), Anaesthetics (£20,000), Cardiac Surgery & Cardiology (£25,000) and Imaging (£60,000). The balance relates to senior medical staff (£277,000) and includes consultant cover (£110,000) in Anaesthetics and Cardiac Surgery,

locum costs (£51,000) in Elderly Care, ENT and Dermatology and waiting list payments across a number of specialties.

The pay cost pressures were partially offset by strong variable income which was in aggregate £560,000 above plan during the month. The main benefits included £230,000 across Cardiac Surgery and Cardiology, due to additional transplant and private patient income and £292,000 in Imaging due to additional income related to NHS SLAs and RRPPS (Medical Physics).

In overall terms non-pay was broadly in balance during the month with activity related costs in Theatres, Critical Care and Imaging offset by stock benefits and other non-recurrent gains.

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. The lower part identifies the sources of finance. Table 9 summarises the Trust's Statement of Financial Position at 31 March 2012.

Table 9 – Statement of Financial Position

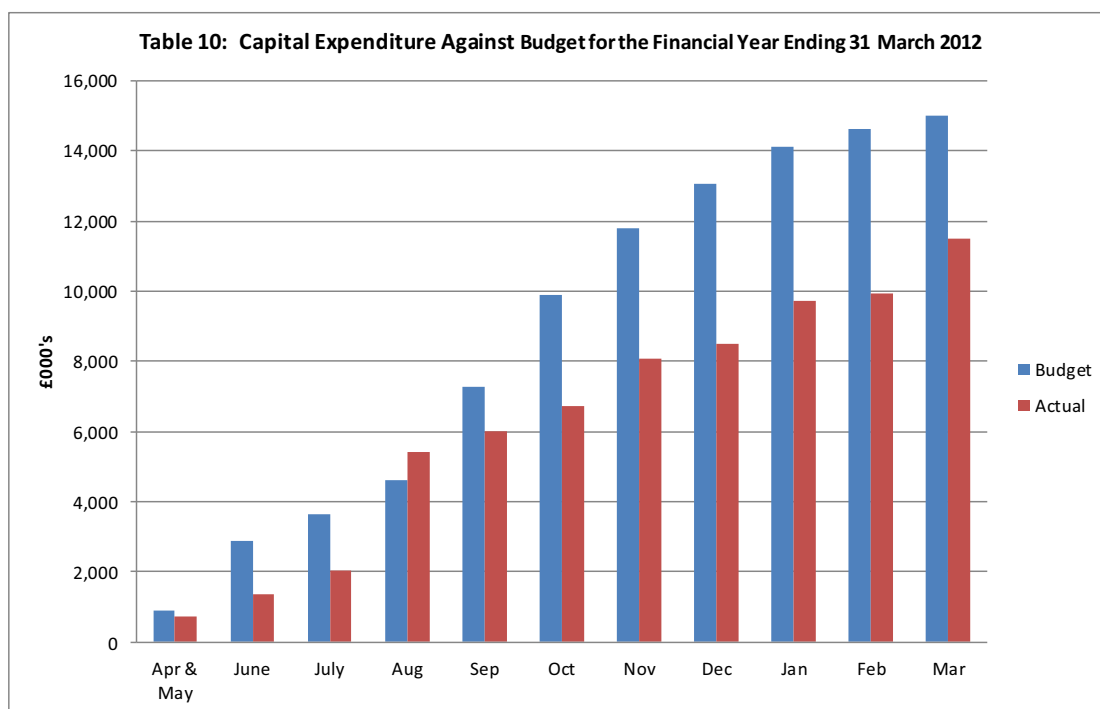
| | Audited Mar 2011 £m | Actual Mar 2012 £m | YTD Plan Mar 2012 £m | Annual Plan Mar 2012 £m |
|--------------------------------------|---------------------------|--------------------------|----------------------------|-------------------------------|
| Non Current Assets: | | | | |
| Property, Plant and Equipment | 437.0 | 513.3 | 497.7 | 497.7 |
| Intangible Assets | 1.0 | 0.8 | 1.0 | 1.0 |
| Trade and Other Receivables | 2.8 | 2.9 | 2.9 | 2.9 |
| Other Assets | 0.3 | 0.2 | 0.0 | 0.0 |
| Total Non Current Assets | 441.1 | 517.2 | 501.6 | 501.6 |
| Current Assets: | | | | |
| Inventories | 12.8 | 13.1 | 12.0 | 12.0 |
| Trade and Other Receivables | 50.7 | 31.0 | 29.7 | 29.7 |
| Other Financial Assets | 1.1 | 0.6 | 1.5 | 1.5 |
| Other Current Assets | 2.2 | 4.4 | 4.0 | 4.0 |
| Cash | 62.0 | 67.7 | 55.0 | 55.0 |
| Total Current Assets | 128.8 | 116.8 | 102.2 | 102.2 |
| Current Liabilities: | | | | |
| Trade and Other Payables | 64.5 | 70.0 | 61.0 | 61.0 |
| Borrowings | 10.9 | 12.2 | 12.3 | 12.3 |
| Provisions | 3.3 | 3.7 | 3.3 | 3.3 |
| Tax Payable | 6.3 | 6.9 | 6.3 | 6.3 |
| Other Liabilities | 26.9 | 23.9 | 13.7 | 13.7 |
| Total Current Liabilities | 111.9 | 116.7 | 96.6 | 96.6 |
| Non Current Liabilities: | | | | |
| Borrowings | 447.9 | 545.9 | 546.0 | 546.0 |
| Provisions | 1.7 | 1.6 | 1.7 | 1.7 |
| Other Liabilities | 41.3 | 29.8 | 42.9 | 42.9 |
| Total Non Current Liabilities | 490.9 | 577.4 | 590.6 | 590.6 |
| TOTAL ASSETS EMPLOYED | (32.9) | (60.1) | (83.4) | (83.4) |
| Financed by: | | | | |
| Public Dividend Capital | 171.0 | 171.0 | 171.0 | 171.0 |
| Income & Expenditure Reserve | (316.5) | (339.5) | (368.6) | (368.6) |
| Donated Asset Reserve | 8.7 | 0.0 | 10.3 | 10.3 |
| Revaluation Reserve | 103.9 | 108.4 | 103.9 | 103.9 |
| TOTAL TAXPAYERS EQUITY | (32.9) | (60.1) | (83.4) | (83.4) |

Note - may include rounding differences

6. Capital Programme

The approved budget for capital programmes in 2011/12 totalled £15.0m. Actual expenditure for the year was £11.5m, with the under spend relating to slippage on the plaza works and retained estate redevelopment schemes. Expenditure in March was £1.5m, this included works expenditure on the Plaza area, the Wellcome Building and the New Hospital, along with the purchase of replacement patient monitors and the initial delivery of equipment for the Major Trauma Centre. A summary of expenditure against major schemes is provided in Appendix D and further details are provided in the separate Capital Programme update paper.

Table 10 – Capital Expenditure against plan



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

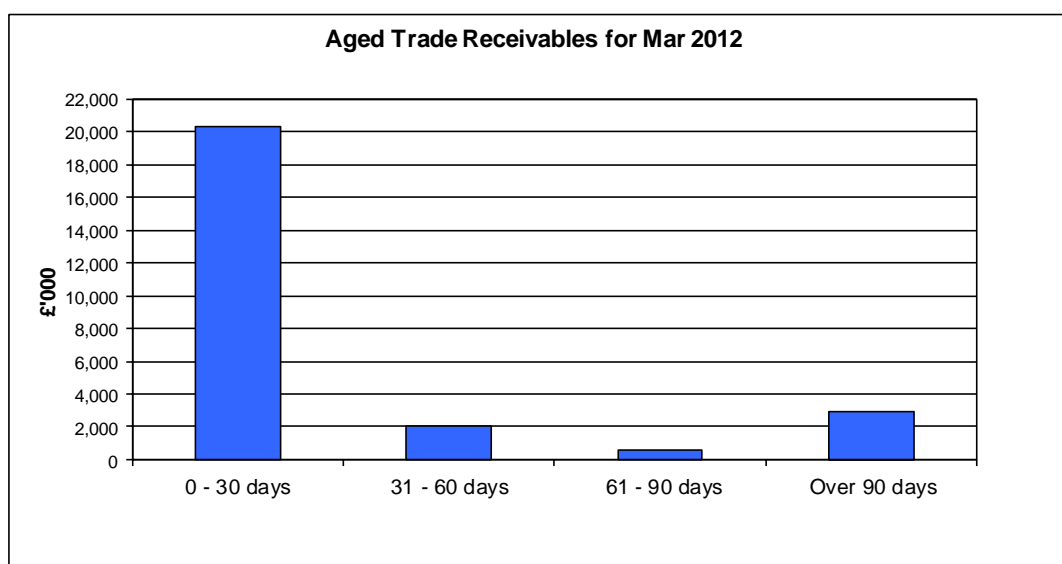
The value of current assets (excluding inventories and cash) due within one year was £36.0m at 31 March 2012. Of this, £26.7m relates to Trade Receivables i.e. unpaid invoices raised by the Trust. Analysis of this debt by age is included in Appendix E and summarised in table 12 over the page.

Over 90 day debt as at 31 March 2012 was £3.0m. Of this around £1.1m is attributable to healthcare income (debt with NHS commissioners) with the largest balance being NHS South Birmingham (£0.6m). A further £1.3m relates to debt with NHS providers, including Birmingham Children's Hospital (£0.4m), Sandwell and West Birmingham (£0.2m) and Birmingham Women's Hospital (£0.1m). These amounts are typically matched by reciprocal creditor balances so there is little adverse impact on cash flow.

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

| | Actual Mar 2012 £m | Forecast Mar 2012 £m |
|------------------------------------|--------------------------|----------------------------|
| Trade Receivables | 26.7 | 28.4 |
| Bad Debt Provision | -1.2 | -2.3 |
| Other Receivables | 5.5 | 3.6 |
| Trade and Other Receivables | 31.0 | 29.7 |
| Accrued Income | 0.6 | 1.5 |
| Other Financial Assets | 0.6 | 1.5 |
| Prepayments | 4.4 | 4.0 |
| Deferred Asset | 0.0 | 0.0 |
| Other Current Assets | 4.4 | 4.0 |
| TOTAL | 36.0 | 35.2 |

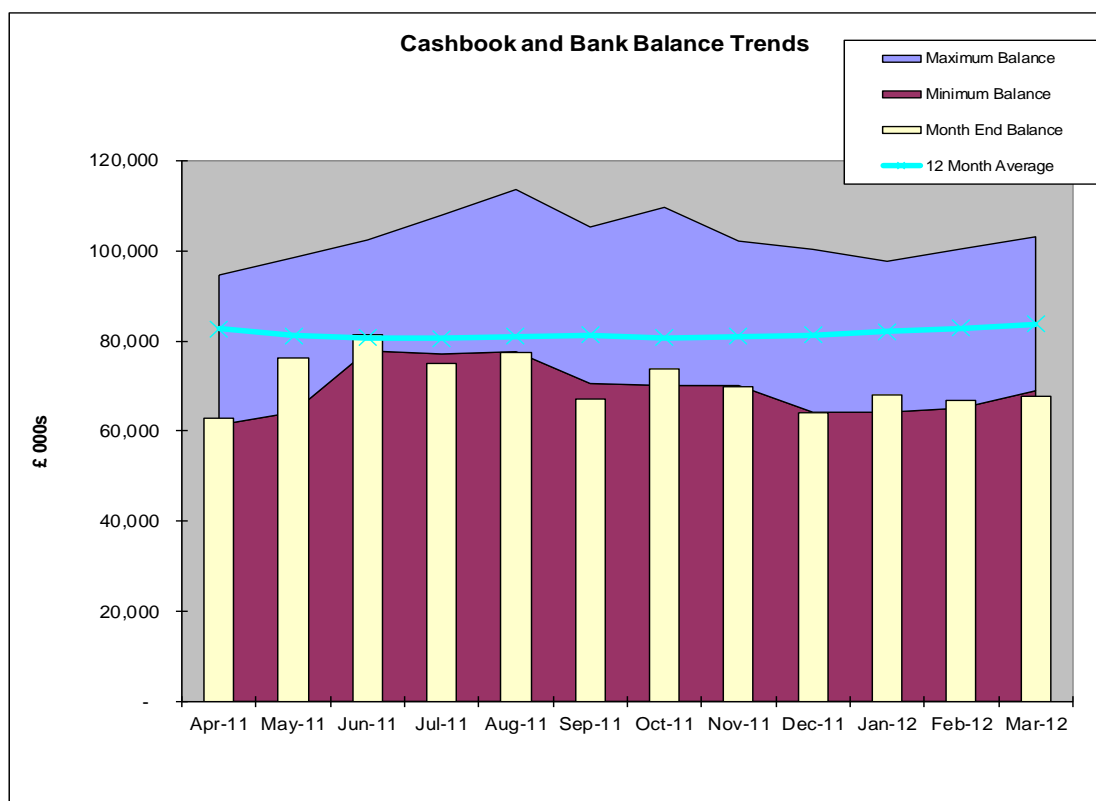
Table 12 – Aged Debt Analysis of Trade Receivables due within One Year



8. Cash Flow

A cash flow statement is included as Appendix F showing actual cash received and paid out against forecast. Table 13 shows the month end cash balance, the minimum and maximum daily bank balance in the month and a twelve month rolling average bank balance. The actual cashbook balance at 31 March 2012 was £67.7m which is £12.7m above plan. This reflects a combination of favourable movements in working capital, with debtors being below plan and creditors above plan, and the slippage against the capital programme. Consequently the twelve month rolling average has remained stable over recent months rather than reducing as previously expected.

Table 13 – Cash Flow



9. Working Capital Facility

The Trust has a working capital facility of £30.0m in line with the 2011/12 Annual Plan. This facility is necessary to meet Monitor’s liquidity ratio requirements. The overdraft has not been used to date and there are no plans to call on the facility 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 Tier 2 Borrowing Ratios now apply:

Table 14 - Borrowing Ratios

| Borrowing Ratio: | Limit | Annual Plan - Mar 2012 | Actual - Mar 2012 |
|---------------------------------|-------|------------------------|-------------------|
| Minimum Dividend Cover | > 1.0 | n/a | n/a |
| Minimum Interest Cover | > 2.0 | 2.2 | 2.3 |
| Minimum Debt Service Cover | > 1.5 | 1.3 | 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 actual Tier 2 Limit for Minimum Debt Service cover ratio achieved was 1.4 against a target of greater than 1.5. 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). 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 is £564.5m.

10.2 Financial Risk Rating

The Financial Risk Rating (FRR) remains at 3 based on the Trust's 2011/12 Annual Plan and the latest results published by Monitor (Quarter 3). Self assessment of financial performance indicates that this rating should be maintained during the final quarter of the 2011/12 financial year. The rating is set between 1 (worst) and 5 (best) based on a series of financial metrics.

11. **Monitor Finance Declaration**

Each quarter Foundation Trusts are required to submit 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 as Appendix H. 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 maintained over the next 12 months.

12. **Conclusion**

The Trust reported a £2.373m income and expenditure surplus for the 2011/12 financial year. This represents a favourable variance of £1.873m compared to the planned £0.500m surplus (before exceptional costs). This includes a £1.209m benefit relating to in year changes in the accounting treatment for donated assets as detailed in previous months.

The reported position excludes transition costs of (£4.320m) relating to the new hospital moves and the impairment losses of (£31.695m). Therefore the overall deficit for the 2011/12 financial year is (£33.642m), subject to the audit of the annual accounts.

13. **Recommendations**

The Board of Directors is asked to:

- Receive the contents of this report
- Agree that Declaration 1 should be signed for Q4 confirming that the Board expects the Trust to maintain a minimum FRR of 3 for the next 12 months.

A handwritten signature in black ink, consisting of a large capital letter 'M' followed by the name 'Sexton' in a cursive script.

Mike Sexton
Director of Finance
17 April 2012