UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
REPORT TO THE BOARD OF DIRECTORS
24 OCTOBER 2013

Title:	**FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 30 SEPTEMBER 2013**
Responsible Director:	Mike Sexton, Chief Financial Officer
Contact:	Julian Miller, Director of Finance, ext. 53074

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 £3.250m has been realised in the first six months of the 2013/14 Financial Year (April-September), this represents a favourable variance of £0.250m against the planned year to date surplus of £3.000m.
Recommendations:	The Board of Directors is asked to: • Receive the contents of this report.

Signed: M Sexton	**Date:** 11 October 2013

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

REPORT TO THE BOARD OF DIRECTORS
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FINANCE AND ACTIVITY REPORT FOR THE PERIOD ENDING 30 SEPTEMBER 2013

PRESENTED BY THE CHIEF FINANCIAL OFFICER

1. Introduction

This report covers the first six months of the 2013/14 financial year (1 April to 30 September 2013). 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 provides for an annual surplus of £3.900m. An actual surplus of £3.250m has been realised in the first six months of the financial year representing a favourable variance of £0.250m against the planned surplus of £3.000m for the year to date. The in month surplus was £0.256m against a plan of £0.100m, a positive variance of £0.156m.

The reported position includes a net year to date overspend of (£7.361m) across operational budgets. This is caused primarily by capacity pressures, increased staffing costs (including the use of external agency nurses and locum doctors) and slippage against planned cost improvements. The monthly variance for September was (£0.121m) after recognition of £1.000m of healthcare income over performance. The operational overspend is offset by Trust reserves and underspends across Corporate budgets. Divisions have prepared forecasts and action plans and these are being reviewed through meetings with the Chief Financial Officer and Chief Operating Officer.

The Trust’s Financial Risk Rating (FRR) remains a 3 based on the Strategic Plan and self assessment of the results for the first six months of the 2013/14 financial year. From the start of Quarter 3 Monitor will replace the FRR with a new Continuity of Services Risk Rating (COSRR) and a shadow COSRR will be published alongside the FRR for Q2.

2. Income & Expenditure Position

2.1 Year to Date Summary

Table 1 below shows the year to date income and expenditure surplus of £3.250m compared to plan of £3.000m.

Table 1 – I&E Surplus vs. Plan 2013/14

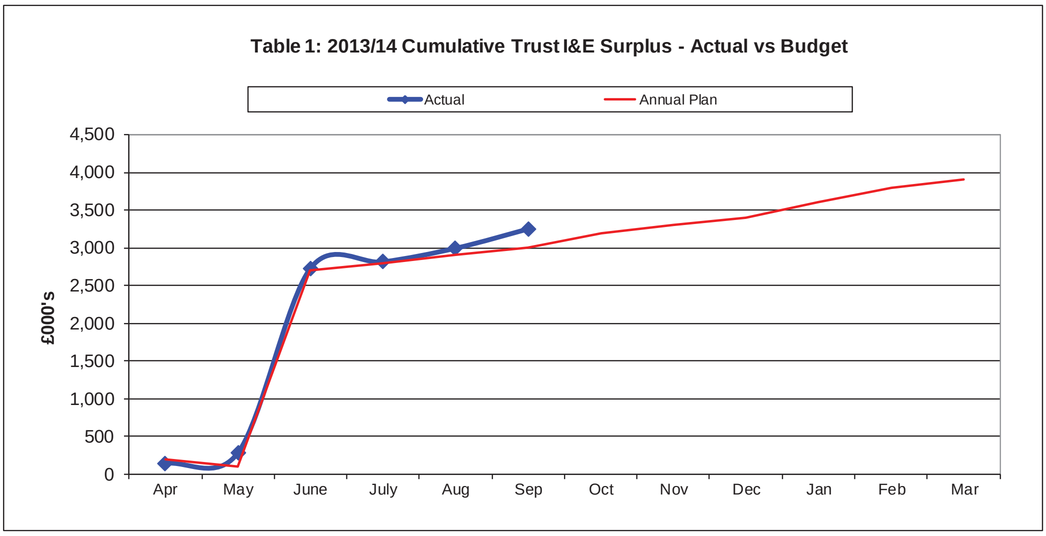


Table 2 below summarises the Trust's income & expenditure position for the six months to the end of September 2013. A detailed analysis of income is included in section 2.2 and the operating expenditure variances are set out in section 2.4 below.

Table 2 – YTD Income and Expenditure Budget vs. Actual

	Budget April - Sep £m	Actual April - Sep £m	Variance £m
Revenue	323.0	334.4	11.4
Operating Expenses	(301.2)	(312.9)	(11.7)
EBITDA	**21.8**	**21.5**	**(0.3)**
Depreciation	(10.0)	(9.7)	0.3
Donated Asset Revenue	2.3	2.3	0.0
Interest Receivable	0.4	0.3	(0.1)
Interest Payable	(9.1)	(8.8)	0.3
Contingent Rental	(2.4)	(2.3)	0.1
Corporation Tax	0.0	0.0	0.0
PDC Dividend	0.0	0.0	0.0
Surplus before impairments	**3.0**	**3.3**	**0.3**
Impairments on Property	0.0	0.0	0.0
Total Surplus / (Deficit)	**3.0**	**3.3**	**0.3**

Note - may include rounding differences

2.2 Income Analysis

Total operating income is £11.4m above plan for the first six months of the financial year as shown in table 3 below.

Table 3 – Income against plan

	Budget April - Sep £m	Actual April - Sep £m	Variance £m
Clinical - NHS	257.7	267.5	9.8
Clinical - Non NHS	9.8	10.0	0.2
Other	55.5	56.9	1.4
TOTAL	**323.0**	**334.4**	**11.4**

Note - may include rounding differences

Total NHS Clinical Revenue is £9.8m higher year than budget year to date. Of this £5.2m is 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. The balance includes £2.5m attributable to contract variations and other business case approvals as well as £2.0m recognised in respect of general over-performance against the activity plan (see 2.3 below).

Non NHS clinical revenues are £0.2m above plan with MoD activity over performance offsetting private patient income under performance. Other Operating Income is £1.4m above plan year to date largely due to additional SLA and trading income.

2.3 <u>NHS Clinical Income / Activity</u>

Table 4.1 below compares 2013/14 monthly admitted patient care activity against target levels for the five months of the financial year. This shows that both Payment by Results (PbR) spells and Non PbR inpatient FCEs was slightly above plan in August. Year to date inpatient activity continues above plan activity primarily due to continued growth in non elective activity.

Table 4.1 – Trust Inpatient Activity

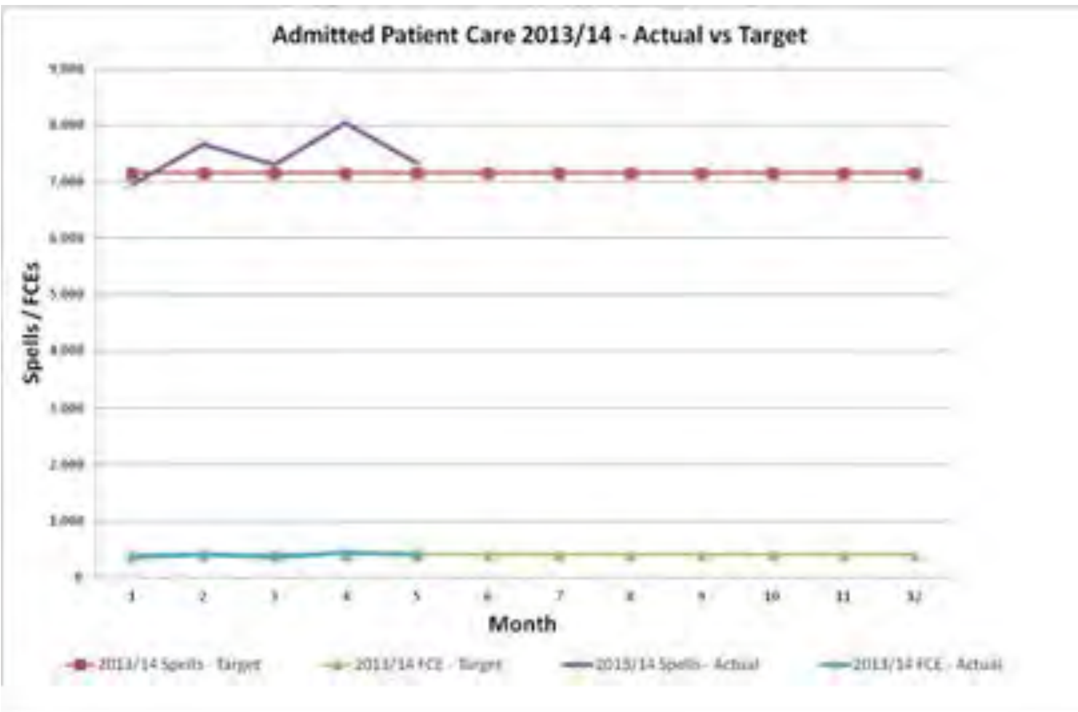


Table 4.2 shows outpatient activity against target. On a year to date basis new and follow up attendances and outpatient procedures remain above plan. During August (month 5) total attendances were slightly below the monthly target due to seasonal variation.

Table 4.2 – Trust Outpatient Activity

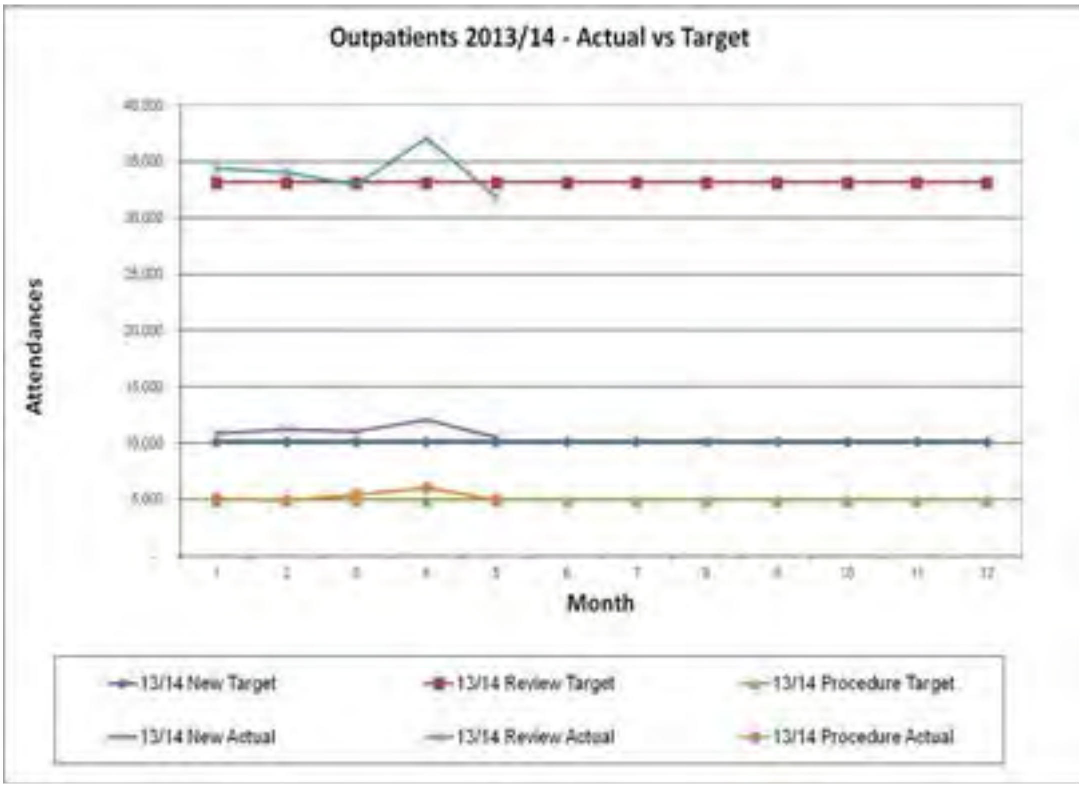


Table 5 below shows the year to date income variances by Division and by Point of Delivery against 2013/14 healthcare income targets. Healthcare income excluding cost per case activity was £2.8m above plan for the first five months of the financial year (April-August). At present only £2.0m of this has been recognised in the year to date financial position to reflect outstanding commissioner queries and general payment risks.

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	(53)	(753)	776	(24)	**(54)**
Outpatient	93	788	290	262	**1,433**
Other	835	(268)	98	738	**1,403**
Total	**876**	**(234)**	**1,165**	**975**	**2,782**

Note - may include rounding differences

2.4 Expenditure Analysis

The Trust wide subjective expenditure analysis in Table 6 shows actual expenditure being (£11.3m) above the year to date budgeted expenditure of £301.8m year to date. The main areas of overspend relate to medical and nursing pay.

Table 6 – Expenditure against plan

	Budget April - Sep £m	Actual April - Sep £m	Variance £m
PAY			
Medical Staff	52.2	55.9	(3.7)
Nursing	58.4	61.8	(3.4)
Scientific & Technical	20.9	21.3	(0.4)
SMP / A&C	26.8	26.5	0.3
Other / Pay Reserves	6.5	7.1	(0.6)
Total Pay	**164.8**	**172.6**	**(7.8)**
NON PAY			
Drugs	40.6	41.4	(0.8)
Clinical Supplies & Services	41.6	41.4	0.2
Other / Non-Pay Reserves	54.2	57.5	(3.3)
Total Non Pay	**136.4**	**140.3**	**(3.9)**
GRAND TOTAL	**301.2**	**312.9**	**(11.7)**

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. For the first half of the year 84% of the planned Cost Improvement Programme (CIP) has been delivered, resulting in slippage of (£1.340m). CIP delivery has improved during the quarter, up from 81% at the end of Q1. As in recent years, actual delivery is expected to improve over the second half of the year as contingency schemes are added. The current forecast projects 90% achievement of plan by 31 March 2014 and this should improve as additional contingencies are identified.

The main areas of slippage to date include procurement savings, where some tender exercises have taken longer than originally envisaged, and income related schemes where a prudent assessment of performance has been made until further activity data is available.

Table 7 – Delivery of Cost Improvements

	Cumulative variance against plan				**Y/E Forecast**
£000	**Q1**	**Q2**	**Q3**	**Q4**	
Division A	(249)	(199)			(409)
Division B	(287)	(635)			(836)
Division C	6	(35)			(66)
Division D	(238)	(410)			(352)
Corporate / NHP	(42)	(61)			(84)
Total	**(810)**	**(1,340)**			**(1,748)**
% Achieved	81%	84%			90%

4. Divisional Analysis

An adverse variance of (£7.361m) has been recorded against operational budgets for the first six months of 2013/14. This has been offset year to date by a combination of Trust reserves (specific and general).

Table 8 – Analysis of year to date variances by Division

	Income £'000	Expenditure £'000	**Total** **£'000**	Year End Forecast £'000
Division A	613	(3,902)	**(3,289)**	0
Division B	1,258	(4,426)	**(3,168)**	0
Division C	36	(1,619)	**(1,583)**	0
Division D	(281)	(2,112)	**(2,393)**	0
Division E	5,545	(4,473)	**1,072**	0
Sub - Total	**7,171**	**(16,532)**	**(9,361)**	**0**
Healthcare Income	2,000	0	**2,000**	0
TOTAL	**9,171**	**(16,532)**	**(7,361)**	**0**
Memo General Contingency Reserve			*935*	*1871*

Note - may include rounding differences

The total operational budget overspend in September was (£1.121m) before the recognition of £1.000m of healthcare income over-performance. The main adverse variances continue to be against pay budgets. Medical staffing expenditure was (£619,000) above plan during the month. This includes (£441,000) relating to senior medical staff reflecting locum cover for vacancies, sickness and absence, unfunded consultant posts and additional session payments for cover and waiting list initiatives. Overspends were across a range of specialties including Anaesthetics (£67,000), Cardiac surgery (£75,000), Neurosurgery (£55,000), Liver (£45,000), Ophthalmology (£25,000), General Surgery (£28,000), ENT (£33,000) and Imaging (£47,000). The balance of the medical staff over spend (£178,000) relates to junior and middle grade doctors with agency costs in excess of funded vacancies in several key areas including A&E (£54,000), Anaesthetics (£48,000), Cardiac Surgery (£48,000) and General Medicine (£25,000).

Nursing pay (including Theatre ODPs) was (£427,000) above budget during September. Specific departmental nursing pressures included Critical Care (£64,000), A&E (£20,000) and CDU (£11,000) due largely to the usage of external agency to cover vacancies, and annual leave Theatres nursing was (£35,000) over in the month due primarily to 24 new starters undertaking induction and training. A further (£230,000) relates to ward areas through the use of external agency to provide additional nursing for specific patients (‘specials’) and absence cover for sickness and leave.

The main non-pay pressures during the month included charges for cardiac surgery and urology cases undertaken in the private sector to maintain waiting times and slippage against Cost Improvements Programmes. These pressures were offset by additional variable income of £386,000 in Cardiac Surgery due to transplant and VAD (ventricular assist device) activity and SLA over-performance of £68,000 in Imaging and £28,000 in Laboratories.

Action plans to address the continuing over spends have been agreed with Divisions and will be reviewed in the monthly performance meetings.

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 30 September 2013.

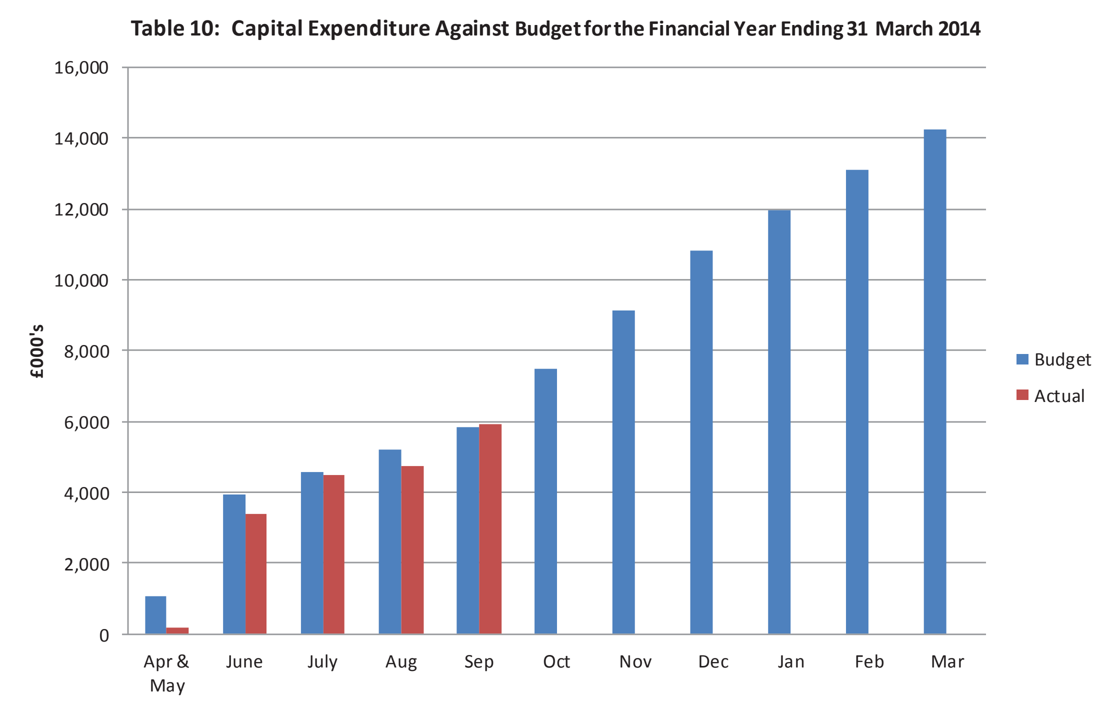
		Audited Mar 2013 £m	Actual Sept 2013 £m	YTD Plan Sept 2013 £m	Annual Plan Mar 2014 £m
Non Current Assets:					
	Property, Plant and Equipment	491.8	489.6	489.9	488.0
	Intangible Assets	0.5	0.4	0.5	0.5
	Trade and Other Receivables	2.8	3.0	2.8	0.0
	Other Assets	0.0	0.0	0.0	2.8
	Total Non Current Assets	**495.1**	**493.0**	**493.2**	**491.3**
Current Assets:					
	Inventories	13.4	17.0	13.2	13.0
	Trade and Other Receivables	32.8	28.1	23.5	31.5
	Other Financial Assets	0.3	6.3	0.2	0.2
	Other Current Assets	5.3	11.0	9.1	7.7
	Cash	76.2	58.1	78.2	65.5
	Total Current Assets	**128.0**	**120.5**	**124.2**	**117.9**
Current Liabilities:					
	Trade and Other Payables	91.5	84.4	91.1	103.0
	Borrowings	11.8	12.0	11.8	0.0
	Provisions	1.8	1.7	1.8	1.8
	Tax Payable	7.1	7.2	6.9	7.1
	Other Liabilities	21.0	19.6	16.5	12.0
	Total Current Liabilities	**133.2**	**124.9**	**128.1**	**123.9**
Non Current Liabilities:					
	Borrowings	534.4	528.3	528.3	522.2
	Provisions	1.7	1.7	1.7	1.7
	Other Liabilities	21.6	21.6	22.2	23.4
	Total Non Current Liabilities	**557.7**	**551.6**	**552.2**	**547.3**
TOTAL ASSETS EMPLOYED		**(67.8)**	**(63.0)**	**(62.9)**	**(62.0)**
Financed by:					
	Public Dividend Capital	171.0	171.0	171.0	171.0
	Income & Expenditure Reserve	(345.5)	(342.3)	(342.5)	(341.6)
	Donated Asset Reserve	0.0	0.0		0.0
	Revaluation Reserve	106.7	106.8	106.7	106.7
	Merger Reserve	0.0	1.5	1.9	1.9
TOTAL TAXPAYERS EQUITY		**(67.8)**	**(63.0)**	**(62.9)**	**(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 in the first six months of 2013/14 was £5.9m which is in line with planned expenditure for the year to date. Additions during the month totalled £1.1m which included £0.6m relating to the East Block refurbishment (offices and short stay theatres) and £0.5m for replacement medical equipment.

Table 10 – Capital Expenditure against plan



7. Current Assets

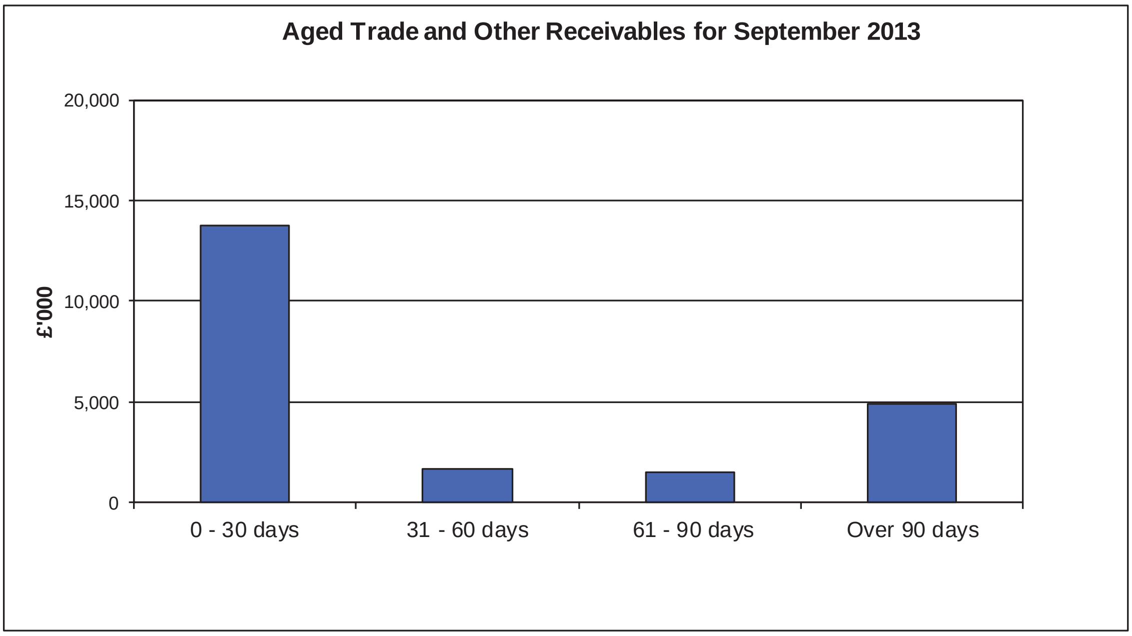
The total value of the Trust's inventories (stock) was £17.0m at the end of Month 6. This is £3.8m above plan due to temporary increases in pharmacy stock holdings and bulk purchases of cardiac consumables. Inventory levels are expected to move back in line with plan over the remainder of the year. The Trust's other current assets, excluding cash, totalled £45.4m at 30 September 2013, as shown below:

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

	Actual Sep 2013 £m	Forecast Sep 2013 £m
Trade Receivables	21.8	20.2
Bad Debt Provision	-1.4	-1.8
Other Receivables	7.7	5.1
Trade and Other Receivables	**28.1**	**23.5**
Accrued Income	6.3	0.2
Other Financial Assets	**6.3**	**0.2**
Prepayments	11.0	9.1
Deferred Asset	0.0	0.0
Other Current Assets	**11.0**	**9.1**
TOTAL	**45.4**	**32.8**

Analysis of the age profile of Trade Receivables (unpaid invoices issued by the Trust) is summarised in Table 12 below. This shows that over 90 day debt totalled £4.9m as at 30 September. Commissioning organisations account for £1.7m of this amount including £1.0m attributable to Welsh Specialised services for 2012/13 over performance which has now been agreed for payment. A further £2.2m relates to other NHS providers for service level agreements including Birmingham Women's Hospital (£0.5m), the Royal Orthopaedic Hospital (£0.5m) and Birmingham Children's Hospital (£0.3m). The remaining balance relates to private patients, University recharges and other miscellaneous debt.

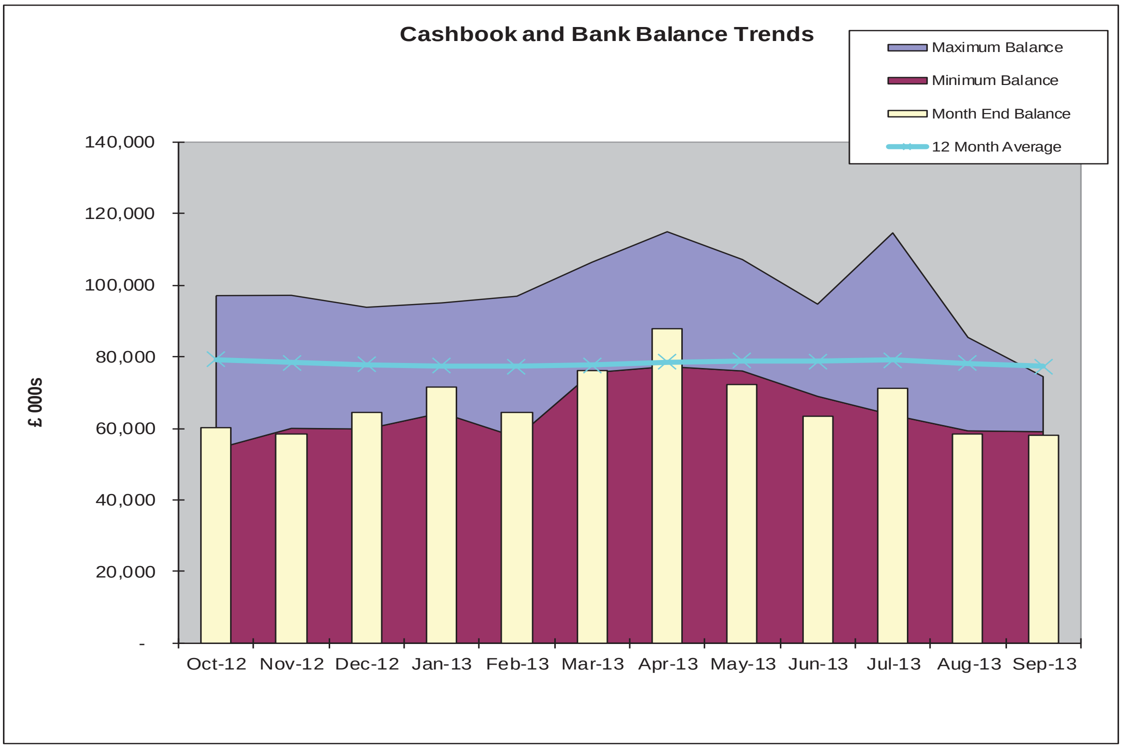
Table 12 – Aged Debt Analysis



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 30 September 2013 was £58.1m which is below plan by (£20.1m). This is largely attributable to movements in working capital balances including £3.8m due to increased inventory (stock) and £6.7m due to trade and other payables (creditors) being below plan with the balance relating to changes in the payment profile as a consequence of the new commissioning arrangements. It is expected that cash balances will come back in line with the year end forecast of £65.5m over the remainder of the year.

Table 13 – Cash Flow



The Trust's working capital facility is £46.6m. This agreement continues until the December 2013 to ensure that the Trust meet Monitor's liquidity ratio requirements which form part of the Financial Risk Rating. The overdraft facility has not been used to date and there are no plans to utilise the facility in the immediate future.

9. Monitor Ratios

9.1 Borrowing Ratios

The Health and Social Care Act 2012 has repealed the requirements of the Prudential Borrowing Coded with effect from 1 April 2013 and therefore the previous borrowing ratios no longer apply.

9.2. Financial Risk Rating (FRR)

The Trust's FRR remains at 3 based on the 2013/14 Strategic Plan and self assessment of financial performance year to date. The rating is set between 1 (worst) and 5 (best) based on a series of financial metrics. This rating will no longer be published or reported against after Quarter 2 of 2013/14.

9.3. Continuity of Service Risk Rating (COSRR)

This rating will be published in a shadow format for quarter 2 and will replace the Financial Risk Rating from quarter 3 onwards. The rating ranges between 1 (worst) and 4 (best) based on two financial metrics. Discussions are ongoing to determine the impact on the Trust.

10. Conclusion

An income and expenditure surplus of £3.250m has been reported for the first six months of the 2013/14 financial year (April-September). This represents a small favourable variance of £0.250m against the planned £3.000m surplus for the year to date.

Significant operational overspends have been incurred the first six months of the year, these have been largely driven by activity and capacity pressures, plus higher than budgeted staffing costs and slippage against CIP targets. Year to date, these have been mitigated by the release of Trust reserves and action plans have been drawn up by Divisions to address the main areas of over spend and improve the monthly run rate during the second half of the year.

11. Recommendations

The Board of Directors is asked to:

- Receive the contents of this report.

Mike Sexton
Chief Financial Officer
11 October 2013