

2011/12 Budgets – revenue and capital

For: Approval and delegation of authority in respect of the capital budget.

Summary:

The Board has received regular updates on the financial budget from business planning and has discussed it in detail at formal Board meetings on 22 February, 8 March and 18 March.

Revenue:

The paper presents a balanced revenue budget (a breakeven position), with the inclusion of £19.8m of non recurrent income.

This describes an underlying deficit of this amount. The underlying deficit includes a significant income reduction from Operating Framework rules and PCT QIPP plans.

The Board has received correspondence from the SHA in respect of the issues that impact on its ability to discharge its financial duties.

In particular the Trust has agreed with PCTs, GPs and SHA to carry out financial modelling on strategic options for the Trust, with an end date of mid-June. Financial support will be needed during this period and then for a period of time to be agreed depending on the service model to be implemented or procured.

The sourcing of non recurrent income will be based on its use as transformational support and its source, although not agreed, will be based on that use.

Finally, the Contract has not yet been agreed with PCTs and is not close to finalisation. This means that there may be further change in the non recurrent funding requirement.

Capital

An indicative capital budget is included for approval. The budget will be subject to further consideration at the Investment and Workforce Committee as confirmation of capital resource limit and cash funding are required. The detail of the budget may therefore change.

Action:

The Board are asked to:

- Approve the Trust revenue and indicative capital budgets for 2011/12
 - Delegate authority to the Investment and Workforce Committee to make any changes to the budget, not exceeding the value of the budget here. .
-

**Presented/
authored by:**

Paul Simpson (Chief Financial Officer)

Notes:

Trust objective:	Please list number and statement this paper relates to. An effective organisation: Deliver all financial targets.
Legal:	What are the legal considerations and implications linked to this item? Please name relevant act Financial performance is subject to Schedule 5 of the NHS Act 2006 which provides the “breakeven duty”.
Regulation:	What aspect of regulation applies and what are the outcome implications? This applies to <u>any</u> regulatory body – key regulators include: Care Quality Commission, MHRA, NPSA & Audit Commission Supports governance and meets previously stated requirements in key lines of enquiry for the now out of date ALE which act as a proxy for expected actions by Trusts in preparing financial plans.

2011/12 Budgets – revenue and capital

Date	17 th March 2011
Author	Paul Simpson (Chief Financial Officer)
Department	Finance & Contracting
Audience	Board Members

Summary

The paper presents a balanced revenue budget (a breakeven position), with the inclusion of £19.8m of non recurrent income.

This describes an underlying deficit of this amount. The underlying deficit includes a significant income reduction from Operating Framework rules and PCT QIPP plans.

The revenue budget is set out in Annex A, the indicative capital budget in Annex B.

The Board has received correspondence from the SHA in respect of the issues that impact on its ability to discharge its financial duties. That correspondence covers the following:

- i) Confirmation of the rescheduling of the remaining £4.5m repayment of the Trust's working capital loan (reduced by £51.5m in the last 3 years) as a long term payable (ie: it will not need to be repaid in 2011/12 – the period to be confirmed in year);
- ii) Confirmation that capital funding of £4.4m from the capital loan and £3.2m from an asset sale in 2010/11 should be included as part of capital planning in 2011/12 (and identifying a process to finalise funding);
- iii) Confirmation that the Trust's remaining liquidity issues (the two points above are part of this) will be addressed through a process to ensure cash support.
- iv) Recognition of the Trust's 2011/12 revenue planning assumptions, including the 4% savings target, and noting the agreement with PCTs, and GPs to carry out financial modelling on strategic options for the Trust, with an end date of mid-June.

In addition the Trust is expected to sign a provider development tripartite agreement (with the SHA and DoH – this describes formally the process to establish the Trust's long term sustainability, PCTs are also party to the process and sign on that basis) confirming the modelling of strategic options.

The Month 11 Finance Report to the Board includes detail on the liquidity position of the Trust and its separate components.

Financial support will be needed while strategic options are worked up and then for a period of time to be agreed depending on the service model to be implemented or procured. The sourcing of non recurrent income will be based on its use as transformational support and its source, although not agreed, will be based on that use.

2011/12 Contract with PCTs

The Contract has not yet been agreed with PCTs and is not close to finalisation as this report is written.

Activity and income data has been received from the PCTs and the differences mapped. Discussions are now identifying specific areas for discussion and agreement but the process will take more time to confirm a final position. The outcome of this discussion will increase or decrease the amount of non recurrent revenue required.

However, the Board will note that the estimated income impact has reduced from previous estimates.

The Trust position has been clearly communicated to PCTs and SHA, including the level of risk from PCT QIPP income plans.

Capital

Please see Annex B. An indicative capital budget is included for approval. The budget will be subject to further consideration at the Investment and Workforce Committee as confirmation of capital resource limit and cash funding are required and the detail of the budget may therefore change.

Action by the Board :

The Board are asked to:

- Approve the Trust revenue and indicative capital budgets for 2011/12
- Delegate authority to the Investment and Workforce Committee to make any changes to the budget, not exceeding the value of the budget here. .

2011/12 Revenue budget

Additional risk: £20.9m (adverse)

Estimated risk (in addition)

Non-recurring income (Un sourced)	(19.8)
Savings risk	(2.1)
Contingency in budget	1.0
Risk in addition to budget deficit	(20.9)

Key Assumptions

Income : Baseline plus tariff price reduction (about 1.6%). Re-admissions impact of £4.3m loss of income is included. Paediatric “readmission” activity will be more correctly recorded as day cases and outpatient attendances and some activity is expected to be lost to other providers.

Savings : Target is £7.7m (4% of turnover). £5.6m is ‘scoped’ and phased. The savings plan includes a reduction in posts (mainly from removal of vacancies) of 52 WTE. There will be full consultation in all instances where it is appropriate.

Inflation :

Inflation	£000s
NHSLA price rise	499
Pay Inflation (Incl Pay awards for Employees <£21k)	854
Non Pay Inflation	1,209
VAT Increase	1,051
Pay Increments	1,224
Depreciation	999
Clinical Excellence Awards	130
TOTAL INFLATION	5,966

Cost Pressures : Cost pressures other than inflation have been permitted where there are service impacts and quality issues. In particular nursing budgets have been extensively reviewed and funded at national benchmark levels, which includes increasing the allowance covering absence from 17% to 22%. Funding to cover winter pressures has also been included.

Contingency : Set at 0.5% of turnover. £1.0m included.

Restructuring/PMO : £2.0m included.

CQUINs : £2.5m income (1.5%), with £0.5m costs included.

[END – appendices follow]

2011/12 Revenue budget

(nb: income received by Divisions direct is netted off spend)

Income & Expenditure	2010/11 outturn (£000)	2011/12 Budget (£000)	Variance (red)/incr (£000)	Variance (red)/incr (%)
Income				
1 Contract Income	177,253	169,335	(7,918)	-4.5%
2 Non recurring income	3,134	19,788	16,654	531.4%
3 Donated Assets	224	220	(4)	-1.8%
4 Other Income	6,926	6,634	(292)	-4.2%
5 CRS income	610	0	(610)	-100.0%
Income total	188,147	195,977	7,830	4.2%
Directorate expenditure (incl Dir income)				
1 Surgical	54,721	53,830	(891)	-1.6%
2 Medical	39,557	38,797	(760)	-1.9%
3 WaCH	20,426	20,842	416	2.0%
4 CSS	26,538	25,677	(861)	-3.2%
5 E&F	11,446	11,493	47	0.4%
6 Central budgets	11,652	12,477	825	7.1%
7 Overheads	8,438	8,827	389	4.6%
8 Restructuring	313	2,000	1,687	538.1%
9 High cost drugs	6,269	6,072	(197)	-3.1%
10 Cost pressure reserves	0	802	802	100.0%
11 CQUIN/quality reserve	243	500	257	105.7%
12 Unallocated savings	0	(2,059)	(2,059)	100.0%
13 CRS costs	610	0	(610)	-100.0%
14 Inflation	0	4,588	4,588	100.0%
15 Contingency reserves	0	955	955	100.0%
16 Unallocated costs	0	1,600	1,600	100.0%
17 Non recurrent items	(32)	0	32	-100.0%
Dir spend total	180,181	186,401	6,220	3.5%
EBITDA	7,965	9,576	1,610	20.2%
18 Interest paid/rec'd	263	291	28	10.8%
19 Depreciation	5,132	6,187	1,055	20.6%
20 PDC dividend	3,061	3,061	0	0.0%
21 Impairment	0	0	0	0.0%
22 Other post EBITDA	(490)	37	527	-107.6%
Total post EBITDA	7,965	9,576	1,611	20.2%
Net surplus/(deficit)	0	0	(0)	0.0%

2011/12 indicative capital budget

Capital Programme 2011-12

Financed by:

Depreciation	5,026
Disposal income (Fairfield / Kibblewhite)	3,670
Capital Investment Loan	4,350
	<u>13,046</u>

Project code/name	2011/12 Full Year Plan £000s	April £000s	May £000s	June £000s	July £000s	August £000s	Septemb er £000s	October £000s	Novembe r £000s	Decembe r £000s	January £000s	February £000s	March £000s
Endoscopy	872	-	-	60	75	65	90	300	217	65	-	-	-
Side Rooms	750	-	-	50	150	200	200	150	-	-	-	-	-
Clinical Decision Unit	1,500	-	5	5	5	5	5	150	250	250	300	275	250
Theatres	1,988	50	50	75	75	75	75	200	250	250	250	250	388
ED	1,400	-	5	5	5	5	5	150	250	250	300	225	200
Main Entrances	1,140	-	-	-	-	25	25	100	150	150	200	290	200
Patient Connect	500	-	20	20	40	60	70	60	50	50	40	40	50
Catering	500	-	-	-	20	30	30	70	50	50	50	100	100
Estate Rationalisation	150	-	-	25	25	25	25	25	25	-	-	-	-
Lift Refurbishment	215	-	-	-	-	150	65	-	-	-	-	-	-
Estates other	794	-	80	25	219	100	75	185	110	-	-	-	-
IT Data Centre	500	-	-	-	-	-	-	-	100	100	100	100	100
IT Other	615	-	20	30	75	120	120	60	60	25	25	25	55
Fixed allocation - IT	150	10	10	10	10	10	10	10	10	10	20	20	20
Fixed allocation - Medical equipment	150	10	10	10	10	10	10	10	10	10	20	20	20
Fixed allocation - Estates	150	10	10	10	10	10	10	10	10	10	20	20	20
Fixed allocation - Theatres	150	10	10	10	10	10	10	10	10	10	20	20	20
General Capital Fund - legislation & inspection	250	20	20	20	20	20	20	20	20	20	20	20	30
Equipment - general	1,435	4	116	70	449	86	140	10	160	10	170	110	110
Washer Disinfectors for Crawley	500	-	-	-	-	-	-	-	-	-	150	150	200
Gamma Camera	300	-	-	-	-	-	-	-	300	-	-	-	-
Image Intensifiers	225	-	-	-	-	225	-	-	-	-	-	-	-
Interventional Suite	600	-	-	50	50	150	150	100	100	-	-	-	-
Backlog maintenance	300	-	-	-	-	75	75	75	75	-	-	-	-
Project Management Costs	250	20	20	20	20	20	20	20	20	20	20	20	30
Contingency	(2,338)	-	-	-	-	-	-	-	-	-	-	-	(2,338)
	0	-	-	-	-	-	-	-	-	-	-	-	-
Total Gross Expenditure by Project	13,046	134	376	495	1,268	1,476	1,230	1,715	2,227	1,280	1,705	1,685	(545)