

Public Board: 24 April 2014
Agenda item:

2014/15 Final revenue budget

Executive sponsor: **Paul Simpson (Chief Financial Officer)**
Author: **Lorraine Clegg (Deputy CFO)/ Peter Burnett (Head of Financial Management & Planning)**

An Associated University Hospital of
Brighton and Sussex Medical School

2014/15 budget

Purpose of report and action required: **Approval of the final 14/15 revenue budget after Contract signature.**

Summary:

- The Board approved an interim revenue budget in March 14 as contract negotiations had not concluded and the risk was too great at that time to set a final 14/15 budget.
- Contract arbitration has now been completed by the TDA and NHS England . the arbitration went in the Trust's favour. We could now therefore set a final 14/15 budget based on the 14/15 contracts.
- This budget is consistent with the TDA return submitted on 4th April 2014 and is based on the LTFM . minor changes to the LTFM assumptions were detailed in the March Interim Board paper.
- The 14/15 budget assumes no non-recurrent financial support and a cost improvement plan (CIP) of £11.0m (4.8% of turnover). The Board has approved a robust and detail quality impact assessment (QIA) process that all CIPs must pass through.
- The income plan reflects CCG demand growth assumptions, the tariff deflator (which is a 1.1% price reduction) and reduction in non-elective activity from CCG Quality Innovation Productivity & Prevention (QIPP) plans, offset by assumed growth in demand for other activity in line with CCG assumptions and to deliver 18 weeks standards for elective work.
- Reserves include non pay inflation and funding to pay for cost pressures, but the tariff includes only £0.6m to cover costs associated with the Francis and Keogh reports around staffing and 7 day working.
- There is still risk, and is estimated at £8.0m . there is risk over the delivery of savings and the costs associated with Francis and Keogh . although the main risk over contract income has reduced as a result of the arbitration, there is still risk to income.
- This is a budget - and the Board will have the ability to change it in light of later business cases or change to income assumptions.

Relationship to Trust corporate objectives

Relevant objective:

- **Objective 4** – Become a Sustainable, Effective Organisation . live within our means both in year and sustainably into the future. **Key targets** - delivery of agreed financial budget (breakeven) and deliver savings target (£10.0m)

2014/15 budget update

Corporate impact assessment:

<p>Legal:</p>	<p>No legal breach is reported, or forecast.</p> <p>NHS Trust financial performance is subject to Schedule 5 of the NHS Act 2006 (the %breakeven duty+). This was breached in 2007/08 and the Auditor has notified the Secretary of State in several letters as required by Section 19 of the Audit Commission Act. The Trust continues to have permission to spend through agreement of its previous financial plans and its compliance with the conditions of its working capital loan. Legal aspects impact on individual parts of spend and income according to the nature of the spend & source of income but no other material disclosures are appropriate.</p>
<p>Regulation:</p>	<p>No regulatory breach is reported, or forecast.</p> <p>Financial information is reported according to IFRS (International Financial Reporting Standards) and NHS conventions in guidance. The Audit Commission reviews compliance in its audit activities and its opinion of the Accounts. Data here is presented in an EBITDA format to allow comparison with Monitor metrics. Assurance on Trust systems is also provided by internal audit through the AAC.</p>
<p>Patient experience/ engagement:</p>	<p>No adverse impact reported or expected. Cost improvements have been/will be cleared by senior clinicians through a Board approved quality impact assessment. Financial decisions continue to balance operational & clinical need against budget delivery and there is no clash leading to an adverse impact, including in respect of patient experience. Assurance has been provided to Board sub-committees about the appropriateness of clinical staffing levels and is subject to separate papers to Board.</p>
<p>Risk & performance management</p>	<p>No compliance issues. Risks are stated in the report.</p>
<p>NHS constitution; equality & diversity; communication.</p>	<p>No compliance issues.</p> <p>In respect of communication, Trust financial performance is reported through an on-line financial system in some detail to operational areas and is supported by a hierarchy of Divisional and Board reporting that pulls together activity, HR, finance, performance and quality.</p>

Summary: 2014/15 final revenue budget

- ~ **Key points about the budget – (no change to the interim budget)**
- ~ The budget delivers a £2.3m surplus in 14/15, with the inclusion of £1.0m of non recurrent costs (for restructuring).
- ~ The budget projects an underlying recurrent position at the end of 14/15 of a £3.3m surplus, improving from a £4.3m deficit at the end of 13/14.
- ~ The cost improvement plan (CIP) is £11.0m . 4.8% of turnover. This level of cost improvement is necessary to recover the underlying deficit at the end of 13/14 and deliver the 4% national efficiency target . The Quality Impact Assessment (QIA) process for reviewing cost improvement plans is on going and will be completed by the end of April 14.
- ~ The income plan reflects CCG demand assumptions, reduction from tariff deflation and the impact of CCG QIPP plans .
- ~ Reserves include pay and non pay inflation funding and the contingency.
- ~ There is a £1.0m contingency included in the plan (as recommended by guidance) . this includes £0.6m for costs arising from Francis/ Keogh and 7 day working. This may not be enough and discussion will be needed with commissioners.
- ~ There is still risk £8.0m net. the CCG spend plan (income for the Trust) is lower than our plan (however the arbitration went in our favour and we are on a PbR contract) , the CIP target is challenging and there is potential of overspending.

	2013/14 Forecast Outturn	2013-14 Annual Budget	2014/15 Annual Budget
	£'000	£'000	£'000
Income (excl Divisional income):			
Contract income (incl MFF)	207,266	207,202	210,687
Additional Outsourcing (Feb & Mar 2014)	574	0	0
Winter Pressure Funding	685	685	0
Non-Recurring Financial Support	3,500	3,500	0
Sub total	212,025	211,387	210,687
High Cost Drugs & Devices	(9,945)	(8,893)	(10,593)
Other Income	7,991	8,370	7,737
Total income	210,071	210,864	207,831
Divisions (inc Divisional income):			
Surgical	56,621	55,482	53,963
Medical	44,588	44,189	43,279
WaCH	22,157	22,288	21,844
CSS	30,670	29,613	29,321
Cancer	2,547	2,490	2,483
Escalation, Site Management & Performance	4,731	4,409	4,471
Additional Agency Savings		(769)	0
Central CIP schemes (excl CNST)			(6,652)
E&F	13,216	13,178	12,729
HR	2,797	2,797	2,438
CEO	758	758	700
Restructuring and PMO	1,387	2,300	1,150
Finance	3,085	3,085	3,071
Nursing	3,092	3,017	2,957
Business Intelligence	3,033	3,033	2,973
Corporate Affairs	1,324	1,324	1,086
Overheads	9,375	9,694	9,260
Prior Year Adjustments	(378)	0	0
CQUINS costs	75	1,941	300
Savings From Non Elective Reductions			(1,431)
Activity Costs			1,668
Underlying Divisional Pressures	0		2,152
Reserves		1,202	5,741
Total Divisional I&E	199,079	199,781	186,850
EBITDA	10,992	11,083	20,981
Financial Charges:	10,692	11,083	12,029
Net Surplus / (Deficit)	300	0	2,300

2014/15 CIP & efficiency plan position

	£'000	£'000	£'000
2% CIP Requirement	March FWC	amber/green rated	Red rated
Surgical	1,252	508	744
Medical	944	53	891
WaCH	469	193	276
CSS	591	625	(34)
Cancer	46	50	(4)
Escalation & Site Management	61	61	(0)
E&F	260	264	(4)
HR (excluding PGMC etc)	47	49	(2)
CEO	25	25	0
Finance	61	61	(0)
Nursing	60	38	22
Business Intelligence	61	61	(0)
Information Dept	12	22	(10)
Corporate Affairs	24	24	(0)
Reduction due to increased central schemes balance	0		0
Sub total: Divisional CIPs & efficiencies	3,913	2,034	1,879
Centrally Driven Schemes:			
Conversion of 65% agency to bank/NHS locum/perm and 10% reduction in current agency levels	2,885	1,400	1,485
Closure of 28 beds (with associated support costs)	1,200	1,238	(38)
Digital Dictation (Net of Costs)	67	67	0
Net Contribution (after costs) from amenity beds and private patients	500		500
Pathology network	300	300	0
Flatter organisational structure	1,220		1,220
Recharges of site fixed costs (lost opportunity costs) e.g. rates, capital charges	200	45	155
Additional Central Schemes (incl CNST)	715	715	0
Reduction in payaward for those receiving increments	0	900	(900)
Sub total: centrally driven schemes	7,087	4,665	2,422
CIP & efficiency target	11,000	6,699	4,301

- Summary risk ratings: The current position is that £4.3m of savings are red rated.**

A few areas have overdelivered in planning terms . this is shown as a negative in the red rated column. This includes the new inclusion of the £900k payaward saving as a new scheme.

- ~ The current CIP situation report is presented, left.
- ~ A MARS (Mutually Agreed Resignation Scheme) has been approved by the TDA and has been launched. This should help deliver the latter organisation+ target.
- ~ Nursing agency. 50% of the target will be delivered if agency levels on wards remain as now . actions in relation to further control are in place.
- ~ 28 beds closure . this is a priority - actions necessary to deliver the saving.
- ~ Pathology Network . sign off to proceed has been received from the CCP and the scheme can now progress.
- ~ Net contribution from Amenity beds/ private Patients . contractual discussions are in hand with BUPA regarding pricing structures. However capacity needs to be confirmed to deliver this increased activity.
- ~ Corporate areas have delivered their targets (bar a small balance on Nursing).
- ~ The DH has announced that staff will be restricted on the total increment and payaward they can receive in 14/15. this is estimated to be a benefit of £900k no longer needed in the payaward reserve.
- ~ Guidance around the use of some of the non pay reserve towards the savings plan is being reviewed . this would leave a challenge for us to strongly oppose any request for inflation increases by Suppliers.

Risks to financial plan – total £8.0m net risk.

<u>Risks</u>	Annual (risk)/ benefit (£m)	RAG	Notes	Action points	Who	
Income:						
Contract Challenges in year	(3.9)	▲	The CCG will action transactional KPIs and apply other financial challenge through the contract, and there is risk from the readmission assumption and other aspects.	Manage the contract robustly in 14/15 to minimise challenges.	Chief Finance Officer	
contingency available in income budget	4.1		Contingency available within income budget	Manage the contract robustly in 14/15 to minimise challenges	Chief Finance Officer	
Risk that Non Elective does not reduce as per plan	(0.9)	▲	The gross £3m reduction contributes to £0.9m benefit to I&E position. Though QIPP plans exist their delivery is not guaranteed.	Work with CCG's to ensure delivery of non elective reduction in LHE plans.	Chief Operating Officer	
Risk that Demand growth activity does not deliver the plan	(1.5)	▶	If Non elective activity does not reduce as above there will be constraints on capacity to deliver the demand plan. Not all the £3m increase budgeted needs capacity increase (eg BPT) therefore risk is not the full £3m	Ensure all income is captured and BPT's achieved. Agree detail activity plans within Divisions and manage delivery.	Chief Operating Officer	
AQP's, MSK and other contractual procurement risks	-	▶	Difficult to quantify risk. At this point the Trust is participating in all AQP's and must be engaged by the winning bidder for the MSK procurement.	i) Quantify risk when more detail is known ii) Develop contingency action as necessary and agree with Board	Chief Finance Officer	
Net income risk	(2.2)					
Savings Plan						
Red/ Red Amber risk rated items	(4.3)	▲	The savings plan includes several schemes which are red rated. The contingency is extreme, and reduces the planned surplus for 14/15 to a breakeven position. If this contingency is used it provides a short term cash balanced in year position, but loses the planned surplus.	i) Delivery of savings managed through perf improvement process (ongoing) ii) Delivery of Divisional contingency savings	Divisional Chiefs	
Contingency savings	2.3					
Loss of surplus	(2.3)			iii) Operation of cost control measures in Divisions to manage spend (ongoing process)	Divisional Chiefs	
Net savings plan risk	(4.3)					
Costs:						
Potential overspending from operational pressures	(1.5)	▶	Divisions will need to manage within their budgets whatever the operational pressure. This will require them building up their own reserves and making decisions about the balance of operational pressure against financial cost.	i) Divisions to implement action plans and contingencies to control/or recover overspending	Chief Operating Officer	
Risk from Francis/ Keogh costs	-	▲	The Trust is calculating the cost of proposals to increase nurse/midwifery staffing and establish 7 day working. The costs are funded up to £0.6m within tariff, but beyond that there is no additional funding and PbR does not include cover.	i) Board to confirm nurse staffing and 7 day working implemnetation plan and balance with funding;	Chief Nurse/Medical Director	
				ii) Discuss and agree additional funding with NHS England/CCGs	Chief Finance Officer	
Net costs risk	(1.5)					
Surplus/(deficit) risk	(8.0)					