

Public Board	Date: 31 March 2016	
	Agenda Item:	
REPORT TITLE:	2016/17 Interim Revenue Budget – Final Capital Budget	
EXECUTIVE SPONSOR:	Paul Simpson – Chief Finance Officer	
REPORT AUTHOR (s):	Peter Burnett – Deputy Chief Finance Officer	
Action Required:		
Approval <input checked="" type="checkbox"/>	Discussion <input checked="" type="checkbox"/>	Assurance ()
Purpose of Report:		
Approval of the 2016/17 interim revenue/ final capital budgets .		
Summary of key issues		
<p>The Board will be aware that the Trust’s financial budgets have been constructed in a particular sequence to support decision making over revenue stretch and provide cash flexibility in the challenging environment of national NHS financial targets and the mechanics supporting their application.</p> <p>The 2016/17 revenue budget is interim because of slippage to the national timetable for contract negotiation (no contracts agreed). It provides a surplus of £15.2m* (the “control total” notified by NHS Improvement).</p> <p><i>*note: the Trust has provided caveats that would reduce the control total – these have not been agreed, and the items the caveats relate to have not been resolved as at 23 March.</i></p> <p>The revenue budget includes:</p> <ul style="list-style-type: none"> a) the receipt of <u>£9.7m sustainability and transformation funding</u>; b) A cost improvement/<u>savings plan of £9.2m</u> (3.1% of turnover, after excluding set offs for pass through costs and taking account of income included in Divisional budgets); c) A <u>£2.7m productivity gain</u> from additional activity valued at £3.6m – this item describes the main stretch for the Trust and increases the overall efficiency gain to 4% of turnover); <p>The proposed <u>capital budget is £8.97m</u>. This budget has been deliberately reduced to the minimum to allow for cash flexibility. The capital resource limit will be increased by the return of the £3.0m transferred into revenue in 2015/16.</p>		
Recommendation:		
The Board is asked to approve the 2016/17 interim revenue budget/final capital budget .		

Relationship to Trust Strategic Objectives & Assurance Framework:	
Objectives S01 (Safe Services) S02 (Effective) and S05 (Well led) 4 apply.	
Corporate Impact Assessment:	
Legal and regulatory impact	<p>No legal breach is reported, or forecast. 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.</p> <p>The <u>main regulators</u>, are as follows:</p> <ul style="list-style-type: none"> ▪ External audit (Grant Thornton for this Trust) give an opinion on the Trust’s compliance with International Financial Reporting Standards and with NHS accounting conventions – this is not purely financial and deals with procurement, fraud, transparency and legal duties. It also gives a Value for Money Conclusion on the Trust’s ability to put in place arrangements to deliver economy, efficiency and effectiveness in its use of resources. ▪ The Care Quality Commission registers the Trust according to its compliance with regulations concerning the safety and quality of services
Financial impact	Direct – sets the interim revenue budget for 2016/17 and capital budget for 2016/17.
Patient Experience/Engagement	No adverse impact – indeed the budget describes increased productivity and specific investment in quality. CIPs are subject to quality impact assessment.
Risk & Performance Management	No compliance issues. Risk and financial performance are a core part of the monthly internal performance management process and risk is described within the report.
NHS Constitution/Equality & Diversity/Communication	No compliance issues.
Attachment:	
Paper with appendices	

Finance and Workforce – 29 March 2016

2016/17 interim revenue budget – final capital budget

1. Summary

The Board will be aware that the Trust's financial budgets have been constructed in a particular sequence to support decision making over revenue stretch and provide cash flexibility in the challenging environment of national NHS financial targets and the mechanics supporting their application (please see section #2).

As in past years, the revenue budget is an interim budget (ie: it will be revisited and re-presented to the Board). There are two reasons for this:

- 1) slippage to the national timetable for contract negotiations - contract signatures are not expected for some weeks. Boards are, however, expected to have signed off plans in time for the return to NHS Improvement on 11 April;
- 2) activity commissioned and transactional aspects: the current position means that activity volumes are not agreed and there is no certainty over readmission deductions or the request to increase the marginal rate emergency tariff (MRET) baseline.

The proposed interim revenue budget for 2016/17 provides a **surplus of £15.2m** (the "control total" notified by NHS Improvement). This includes:

- d) the receipt of £9.7m sustainability and transformation funding. This is dependent on the delivery of access standards, agency reductions and a financial trajectory that delivers the £15.2m surplus*;
- e) A cost improvement/savings plan of £9.2m (3.1% of turnover);
- f) A £2.7m productivity gain from additional activity valued at £3.6m – this item describes the main stretch for the Trust and increases the overall efficiency gain from that above to 4% of turnover);

**note: the Trust has provided caveats that would reduce the control total – these have not been agreed, and the items the caveats relate to have not been resolved as at 23 March.*

The proposed capital budget is £8.97m. This covers the funding of committed projects, essential maintenance work and replacement costs for medical equipment (excluding radiology). This budget has been deliberately reduced to the minimum to allow for cash flexibility. The capital resource limit will be increased by the return of the £3.0m transferred into revenue in 2015/16.

2. Context and budget setting approach

The financial environment for NHS trusts is exceptionally difficult in 2016/17. National management of the position includes the provision of additional funding but only if I&E financial control totals, agency reduction and access standard trajectories are met. This regime is supported by rigorous controls over cash.

Significantly, contracts are not yet agreed with any commissioners.

The budget has been constructed in light of this environment and in the following sequence:

- 1) working capital facility: during Q4 of 2015/16 the Trust has secured the facility for drawing down working capital of up to £12.5m. This provides short term cash cover while 2015/16 plays out and [some] protection until 2016/17 S&T funding payments begin after Q1 (probably August);
- 2) core budget: a breakeven revenue budget (£0.25m surplus, with a £9.2m savings plan) forms the core of the budget. This includes £2.7m productivity gain from additional activity valued at £3.6m – this item describes the main stretch for the Trust;
- 3) S&T Funding: the Trust has written to NHS Improvement to accept the £9.7m sustainability and transformation (S&T) funding and £15.2m surplus control total offered, but with four caveats. Those caveats see the control total adjusted downwards (less than £15.2m) if they are realised (the caveats are: final contract value; an increase in the MRET baseline; no readmission penalty and agreement of a realistic agency cap trajectory);
- 4) the capital budget has been deliberately reduced to the minimum to allow for cash flexibility, noting the central restrictions on cash and the way they have been operated. In summary, the budget is set £3.5m below the anticipated capital resource limit (which includes the return of the 2015/16 revenue transfer). This provides the opportunity for a further transfer, but also provides cash flexibility, assuming that the Department of Health does not require a return of public dividend capital;
- 5) interim budget: the budget presented is interim and will be reviewed again by the Board when contracts are signed.

3. Final 2016/17 capital budget

The proposed capital budget is £8.97m and is at *Appendix A*.

This covers the funding of committed projects, essential maintenance work and replacement costs for medical equipment (excluding radiology).

Radiology equipment replacement costs will be covered either by a managed equipment service or by procurement of equipment through finance leases – either route allows for capital resource limit to be added as a set off to revenue expenditure (over the life of the asset).

4. National timetable for contract signature

As this budget is presented, the Trust has not signed any contracts for 2016/17 with commissioners. The main contracts will be with (respectively) Sussex CCGs, Surrey CCGs, NHS England (for specialist commissioning) and the Sussex Musculoskeletal Partnership (SMSK).

The final tariff and contract rules were issued on Tuesday 23 March (the consultation resulted in no objection). Trust contract prices are based on the “consultation tariff” and we will review any changes in the final issued version.

A revised contract signature/arbitration timetable has been issued with an end date of 13 May 2016.

5. Interim Revenue Budget 2016/17

The proposed revenue budget for 2016/17 is attached as appendix B.

Control total budget - £15.2m surplus

The appendix emphasises the separation between: a) the “core” breakeven budget, and; b) the “control total” £15.2 m surplus budget.

The latter includes £9.7m of non-recurrent sustainability and transformation (S&T) funding.

The £5.3m “bridge” from the “core budget” consists of benefit from the adjustment to the marginal rate emergency tariff baseline and no readmission penalties and a £0.28m additional contribution from Trust reserves.

Core budget

The key points to note are:

- The savings plan is £9.2m (appendix C);
- The inclusion of £3.6m additional income to be delivered at maximum productivity (£0.9m cost) – this provides a £2.7m contribution, and describes the main risk to the budget
- £2.0m of explicit contingency and £1.0m of nursing costs reserve is included in the budget;
- Quality investments [with no increase in activity] will total £1.0m, and £0.5m remains unallocated.
- Reserves hold the agency premium uplift deducted from Divisional budgets, unallocated budget and inflationary increases as per national assumptions. The pay inflation takes account of the recent notification of pay rises and increments for staff.

Principal risks to the 2016/17 budget

The net risk to the surplus is estimated at £6.8m and the main risks can be summarised as follows

- Non-agreement of MRET baseline changes and the application of the readmission penalty (set off by reduction to the Control Total)
- Non delivery of the productivity gain
- Non achievement of income targets because of capacity restriction;
- Non delivery of savings, the main risk being that agency reductions are not achieved due to recruitment and retention issues – the risk measure uses the gateways from the analysis)
- Overspending to deliver activity, and overspending from capacity constraints

This is set off by adjustments in respect of contingency, non-allocation of the quality reserve and additional spend controls

Action:

- **The Board is asked to note and approve the interim revenue budget and final capital budget.**

Appendix A

2016/17 Capital Budget: £8.97m

The table below shows the capital budget for 2016/17, as already presented to FWC. Although it shows the budget as fully committed there will, inevitably, be changes in year to allow for the management of risk that may arise.

The return of the £3.0m capital transferred into revenue in 2015/16 will add to the available capital resource limit for the Trust. This potentially provides the opportunity for a £3.5m transfer to revenue in 2016/17, or the availability of £3.5m cash to support risk.

Summary	£000	#Divisional items (analysis)	£000
Essential Maintenance		Medicine	
Ward Improvements	500	Equipment for Frailty Unit	100
Non-ward Improvements	500	Pharmacy Omnicell	30
Infrastructure	400	Sub-total	130
Fire Doors	50	Cancer Services	
Windows Replacement	150	Dedicated Cancer MDT rooms x2 with video-conferencing	60
Car Park Repairs	200	EEG Move (move into old physio swimming pool)	70
Sub-total	1,800	Radiology PACS home workstations	100
Committed		Sub-total	230
Resus refurbishment & CT in ED	1,417	WaCH	
Radiology Day Care Unit	520	Scheme to address Neo-natal infection issue	125
Medical Records	2,500	Women's Centre at East Surrey	125
Fixed allocations (medical eqmt /theatres / endoscopes)	500	Sub-total	250
Programme Management	150	Pathology	
Sub-total	5,087	2 x Embedding centres	36
IT		2 x Autostainers	60
Hardware	300	Sub-total	96
Network	500	Surgery	
e-Mail	100	Flexible nasoendoscopes	100
Sub-total	900	ENT - CO2/Otology laser	73
Divisional Items listed#	1,183	ENT - Voice camera	50
Total capital spend	8,970	ENT - Rigid nasoendoscope	15
Capital budget	8,951	Gastro - Scope Guide	44
Variance	(19)	Accurus vitrectomy and phaco machine - Ophthalmology	120
		Sub-total	402
Memorandum: potential Loan		Corporate	
EPR Digitise	3,500	New Intranet	25
Pathology (microbiology)	301	Replacement Pager System	50
Total	3,801	Sub-total	75
		Total	1,183

The current status of other projects originally discussed for 2016/17 is as follows:.

- Haematology, Outpatient Refurbishment and East Entrance Outpatients – an analysis is currently taking place to inform a business case describing any changes to the six locations where outpatient clinics are currently held;
- Kitchen refurbishment - moved to 2017/18;
- Pathology (microbiology centralization with BSUH) and EPR Digitise– will be subject to a loan application, noting that both are VFM/productivity schemes;
- Network – subject to OBC/FBC approval; budget previously reduced by 50%.

2016/17 interim revenue budget (final column)

	2015/16 Annual Budget as at Mth 11	2015/16 Forecast Outturn	2016/17 Annual Budget
	£'000	£'000	£'000
NHS Clinical Income	245,458	234,696	260,446
Other Income & Central Costs:			
Donated Assets	252	453	256
Integrated Reablement Unit		1,700	
McMillan Information Centre		1,503	
Capital to Revenue	3,000	3,000	
Chemo Profit Share	(134)	(105)	(105)
PBR Excluded Drugs	(11,797)	(11,758)	(12,287)
Excluded devices	(923)	(1,236)	(1,058)
Other Income	8,709	8,580	8,052
	(893)	2,137	(5,143)
Total income	244,565	236,833	255,303
Divisions (inc Divisional income)			
Surgical	70,430	71,688	71,805
Medical	57,944	61,096	60,490
WaCH	24,335	24,818	24,397
Cancer Services (including Pathology)	24,277	25,295	25,503
Clinical Services (Escalation)	4,359	5,212	5,418
E&F	13,414	13,831	14,029
HR	2,595	2,513	3,411
CEO	1,078	1,061	1,178
Restructuring and PMO	754	366	250
Finance	3,261	3,125	3,283
Nursing	3,719	3,752	3,815
IMT	5,041	4,969	5,394
Corporate Affairs	1,048	1,108	1,121
Overheads	8,168	8,216	8,898
Reversal of Balance Sheet Provisions		(150)	
CQUINS costs	150	76	150
Additional Costs Associated with Activity*			3,842
Quality Reserve			1,000
2016/17 Unallocated Savings			(8,233)
Reserves	9,442		15,195
Total Divisional I&E	230,015	226,977	240,946
EBITDA	14,550	9,856	14,357
Financing Charges:	12,950	13,048	14,107
Net Surplus / (Deficit)	1,600	(3,192)	250
Technical Adjustment (don assets)	(34)	(3,408)	0
Adjusted Net Surplus / (Deficit)	1,566	(6,600)	250
I & E Planned Surplus as above			250
Sustainability & Transformation Funding			9,700
Benefits from MRET Baseline Change			3,866
Benefits from Readmissions			1,108
Further Savings from non use of reserves			275
Adjusted Net Surplus As Per Control Total			15,200

*Over and above that allocated to Divisions as FYEs of 15/16 investments

Appendix C

2016/17 cost improvement plan

Director Lead	Schemes	Type	2016/17 CIP Total Savings	Agreed	Unscoped	Gateway 1 Initial Estimate	Gateway 2 Supported by costing validated by finance	Gateway 3 QA approved	Gateway 4 Divisional sign off and removed from budget	FYE of 15/16 CIP
			£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income:										
Ian Mackenzie	1 Car Park Income	Inc	180					180		48
Angela Stevenson	2 Catering Income	Inc	70					70		
Paul Simpson	3 Private Patients	Inc	1,000					1,000		
	4 Reduction in fines	Inc	1,250					1,250		48
Cost Reduction:										
Ian Mackenzie	5 Premises	NP	258				63	195		50
Angela Stevenson	6 Escalation	Pay	671			583		88		88
	7 Medical & Consultant agency	Pay	99					99		99
	8 Consultant agency	Pay	3,810			1,249	2,561			
Fiona Allsop	9 Radiographer agency	Pay	91				91			
Gillian F-M	10 Nursing Temp staff	Pay	115					115		13
Janet Miller	11 HCA Agency	NP	50				28	23		
Jim Davey	12 Establishment - Corp	NP	1,057			394		663		300
Des Holden	13 Establishment - HR	NP	239			98		141		
Paul Simpson	14 Drugs	NP	15					15		15
Gillian F-M	15 Non Clinical Agency	Pay	0							
Angela Stevenson	16 CNST	NP	250	Unscoped	250					
Paul Simpson	17 Reduction outsourcing	NP	850							
	18 Additional duty hours	Pay	307					307		
	19 Other schemes	NP	(79)							
	20 Contingency schemes	NP	0							
	21 Balancing item	NP	7,733							565
				1,021	2,324	2,743	1,645			
Transformation:										
Sue Jenkins	26 [Other transformation]									
Paul Simpson	27 Overstaffing	Pay								
	28 Transformation	Pay								
	20 Pathology Network	NP								
	Blank									
IT:										
Ian Mackenzie	30 IT	NP	250							
	31 IT/EPR productivity	NP	250							
	32 EPMA	NP	250			250				
				1,021	2,574	2,743	2,895			
TOTALS			9,233							
	Pay	Pay	5,536	60%	850	1,832	2,652	202		202
	Non Pay	NP	2,447	27%	171	742	91	1,444		363
	Income	Inc	1,250	14%				1,250		48
			9,233		1,021	2,574	2,743	2,895		613
					11%	28%	30%	31%		

[END]