

<b>Public Board</b>	<b>Date: 30th March 2017</b>	
	<b>Agenda Item: 4.4</b>	
<b>REPORT TITLE:</b>	<b>2017/18 Revenue &amp; Capital Budget Paper</b>	
<b>EXECUTIVE SPONSOR:</b>	Paul Simpson – Chief Finance Officer	
<b>REPORT AUTHOR (s):</b>	Peter Burnett – Deputy Chief Finance Officer	
<b>Action Required:</b>		
<b>Approval</b>	<input checked="" type="checkbox"/>	<b>Discussion</b> ()
		<b>Assurance</b> ()
<b>Purpose of Report:</b>		
Approval of the 2017/18 revenue and capital budgets.		
<b>Summary of key issues</b>		
<p>The 2017/18 revenue and capital budgets have been constructed to facilitate delivery of the £21.3m I &amp; E control total surplus. The Control Total has been set by NHSi, and the Board confirmed its acceptance in the Trust's Plan submission in December 2016, subject to a covering letter.</p> <p>Part of the reason for the large surplus target (which is £5.1m more than in 2016/17) is due to the Trust's receipt of significant additional income from the higher prices for tariff activity as a result of the change to HRG4+, and the surplus will also be supported by additional sustainability and transformation funding.</p> <p>However, the target obviously remains challenging and the Trust provided a clear caveat letter to NHSi specifying the significant risks associated with delivering the surplus required.</p> <p>The revenue budget includes:</p> <ul style="list-style-type: none"> <li>a) Receipt of <u>£8.8m sustainability and transformation funding (STF)</u>;</li> <li>b) A combined cost improvement and productivity programme totalling £11.2m (3.5% of turnover, after excluding set offs for pass through costs and taking account of income included in Divisional budgets);</li> <li>c) £3m financial contingency against non-delivery of the above savings and productivity programme, resulting in a net savings/productivity risk of 2.5%</li> <li>d) £12.4m expected benefit from HRG 4+</li> </ul> <p>The proposed <u>capital budget</u> is <u>£17.7m</u>. Capital funding assumes £7m of additional loan receipts with the £10.7m being funded internally through depreciation and working capital management.</p>		
<b>Recommendation:</b>		
<b>The Board is asked to note and approve the 2017/18 revenue and capital budgets.</b>		

<b>Relationship to Trust Strategic Objectives &amp; Assurance Framework:</b>	
<b>Objectives S01 (Safe Services) S02 (Effective) and S05 (Well led) 4 apply.</b>	
<b>Corporate Impact Assessment:</b>	
<b>Legal and regulatory impact</b>	<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"> <li>▪ External audits (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.</li> <li>▪ The Care Quality Commission registers the Trust according to its compliance with regulations concerning the safety and quality of services</li> </ul>
<b>Financial impact</b>	Direct – sets revenue and capital budgets for 2017/18
<b>Patient Experience/Engagement</b>	No adverse impact – indeed the budget describes increased productivity and specific investment in quality. CIPs are subject to quality impact assessment.
<b>Risk &amp; Performance Management</b>	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.
<b>NHS Constitution/Equality &amp; Diversity/Communication</b>	No compliance issues.
<b>Attachment:</b>	

# 2017/18 Revenue & Capital Budgets

## 1. Summary

The 2017/18 revenue and capital budgets have been constructed to facilitate delivery of the £21.3m control total surplus in 2017/18.

In accepting the control total set by NHSi in our Plan submission in December 2016, the Trust has written a letter to NHSi specifying the risks associated with delivering a £21.3m surplus in 2017/18 and a £22m surplus in 2018/19.

The revenue budget includes:

- a) Receipt of £8.8m sustainability and transformation funding;
- b) A combined cost improvement and productivity programme totalling £11.2m (3.5% of turnover, after excluding set offs for pass through costs and taking account of income included in Divisional budgets);
- c) £3m financial contingency against non-delivery of the above savings and productivity programme, resulting in a net savings/productivity risk of 2.5%
- d) £12.4m expected net benefit from HRG 4+

The proposed capital budget is £17.7m. Capital funding assumes £7m of additional loan receipts with the £10.7m being funded internally through depreciation and working capital management.

## 2. Revenue budget (Appendix 1)

The budget setting methodology adopted for 2017/18 rolls forward recurrent budgets (so as not to not reward overspending budget-holders with increased budget) adjusted for anticipated 2017/18 activity changes and specific cost pressures which are outside of the budget managers' control.

Budgets have been constructed to enable safe delivering of high quality care whilst ensuring the Trust's limited financial resources are used effectively. Budgets will be increased for national payawards once amounts are known.

The appendix shows the baseline budget position for 2017/18 and how it compares to 2016/17 forecast outturn and 2016/17 annual budgets.

### Reserves:

£1m has been set aside for quality investments. Following a robust process involving the Chiefs of Service, Medical Director and the Chief Nurse £859K of this allocation has been awarded on a recurring basis. The remaining £141K has been held back will be allocated for quality projects later in the financial year.

A £3m (1% of Trust turnover) contingency reserve has created, and the main purpose of this reserve is to act as a contingency against the savings and productivity programme not fully delivering the £11.2m required.

The amounts set aside for pay and non pay inflation are in line with the percentages used nationally in deriving the national tariff uplift. There is a risk that inflation in 2017/18 may be higher than these assumptions and may affect non pay costs - this risk, if it occurs, will be managed through effective procurement.

### **Activity Changes in 2017/18:**

The overall general assumptions on 2017/18 activity increases remain as follows:

	2017/18 Growth
A & E Activity	2.0%
Emergency Activity	2.0%
Outpatient Activity	3.7%
Elective Activity	3.8%
Non PBR Activity	3.5%

### **Savings & Productivity**

The combined value of savings and productivity in 2017/18 is £11.3m which represents 3.5% of 2017/18 turnover, of which the formal CIP plan is £6.2m or 2%.

The savings plan approach is three-fold:

- 1) Workstreams led by Directors focusing on key areas of spend and applying top-down actions, and the securing buy-in from Divisions to deliver (currently the stated CIP budget, excluding productivity, below);
- 2) A productivity planning approach (led by the COO and reported to FWC) has seen action planning at Divisional level (which completes the stated CIP budget);
- 3) Divisionally developed CIPs (they have all been asked for 2%) that will overlap with #1 and provide additional savings to eat into the non-CIP productivity gain and to support full CIP delivery [while encouraging Divisional ownership].

Following the prudent approach adopted in 2016/17, the Trust has included the £3m contingency referred to above.

The productivity gain remains the main area of risk in the plan.

### **Principal risks to the 2016/17 budget**

The main risks can be summarised as follows

- Non-agreement of MRET baseline changes;
- 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;
- Overspending to deliver activity, and overspending from capacity constraints

### **3. Capital Budget (appendix 2)**

The proposed capital budget is £17.7m. Capital funding assumes £7m of additional loan receipts with the £10.7m being funded internally through depreciation and working capital management.

#### **Action:**

- **The Board is asked to note and approve the 2017/18 revenue and capital budgets.**

## Appendix 1

### Revenue Budget 2017/18 (centre column)

	2016/17	2017/18	2017/18
	FOT	Annual Budget	FOT to 2017/18 Budget Movement
	£'000	£'000	£'000
<b>Central Income &amp; Costs:</b>			
NHS Clinical income	256,608	289,759	33,151
Marginal Rate Emergency Tariff	(2,191)		2,191
Readmissions Deductions	(0)		0
	<b>254,416</b>	<b>289,759</b>	<b>35,343</b>
Additional income NHS England	3,000		(3,000)
High Cost Drugs & Devices	(14,723)	(16,092)	(1,368)
Sustainability & Transformation Funding	4,850	8,789	3,939
Other Central Income & Costs	9,315	8,888	(427)
	256,858	291,344	34,486
<b>Divisions &amp; Reserves:</b>			
Surgical Division	73,353	74,639	1,286
Medical Division	64,637	65,958	1,321
WaCH Division	26,382	26,025	(357)
Cancer and Diagnostic Services Division	28,701	29,748	1,047
Clinical Services (Escalation)	4,147	4,016	(131)
Integrated Reablement Unit			
Estates & Facilities	14,139	14,544	405
HR	2,804	2,740	(64)
CEO	1,507	1,808	301
Non Recurring Trust Support Costs	416	250	(166)
Finance Directorate	3,255	3,449	194
Nursing	4,053	4,127	73
IMT	5,503	5,555	52
Corporate Affairs	865	794	(71)
Overheads	8,668	10,785	2,117
CQUINS costs	79	250	171
Non Recurring Items	(793)		793
Activity Related Costs		7,750	7,750
Apprentice Levy		762	762
Reserves		7,145	7,145
2016/17 Cost Over Runs		437	437
Savings		(6,213)	(6,213)
Total Divisional I&E	237,715	254,568	16,854
<b>EBITDA</b>	19,143	36,775	17,633
Depreciation	9,220	9,822	602
Financial Charges	5,056	5,737	681
	14,276	15,559	1,283
<b>Surplus (before technical items)</b>	4,867	21,217	16,350
Technical Adjustment (don assets)	133	90	(43)
<b>Surplus (after technical items)</b>	<b>5,000</b>	<b>21,307</b>	<b>16,307</b>

## Appendix 2

### Capital Budget 2017/18 (centre column)

	2016/17 £'000	2017/18 £'000	2018/19 £'000
<b>Backlog and On-going Maintenance:</b>			
Building services infrastructure -	400	250	500
Fire Doors	50	50	50
Windows replacement programme	140	150	100
Non-ward works - general maintenance	435	250	500
Ward Improvements Group	417	1,000	500
	<b>1,442</b>	<b>1,700</b>	<b>1,650</b>
<b>Modernisation:</b>			
Car park improvements	300	200	100
Children's Assessment Unit Move to Outpatients		500	
Kitchen Modernisation & Food Business Case		450	800
	<b>300</b>	<b>1,150</b>	<b>900</b>
<b>New Development:</b>			
Ophthalmology Day Unit		1,500	
Day Case Unit	1,023	1,663	
Urology at Crawley		800	
Ambulatory Care Unit		2,900	
MRI		1,200	811
Neo-natal	125		
Radiology Offices	34		
Pendleton Frailty Unit	370		
ED Resus & CT	1,126		
Maple Annex Replacement	643		
Radiology Day Case Unit	291		
Outpatients Refurbishment	65		
Jacob Bell	182		
East Entrance	300		
Doctors' Mess	170		
Medical Records	2,282		
Pathology joint venture	40	2,674	2,733
	<b>6,651</b>	<b>10,737</b>	<b>3,544</b>
<b>Information Technology:</b>			
EPR Digitise		2,021	2,518
Doctors Rosteing		48	48
Move to NHS Mail	100		
IT hardware	300	300	400
Network Upgrade	34	766	1,293
Bed Management System	160		
Other IT	200		
<b>Total</b>	<b>794</b>	<b>3,135</b>	<b>4,259</b>
<b>Medical Equipment:</b>			
Various Medical Equipment	2,153		
Fixed allocations (medical / theatres / endoscopes)	525	500	500
<b>Total</b>	<b>2,678</b>	<b>500</b>	<b>500</b>
<b>Capital Programme Management</b>	<b>150</b>	<b>200</b>	<b>200</b>
<b>Donated Assets</b>	<b>150</b>		
Release of Prior Year Accruals/VAT Reclaims	(692)		
<b>Contingency/Unallocated</b>		<b>239</b>	<b>2,771</b>
<b>Total</b>	<b>11,473</b>	<b>17,661</b>	<b>13,824</b>
<b>Funded by:</b>			
Depreciation	9,193	9,824	10,883
Capital to Revenue Transfer	3,000		
Donated Assets	150		
Loan		7,000	5,250
Loan Repayments	(1,346)	(1,696)	(2,309)
Internally Generated Funds	476	2,533	
	<b>11,473</b>	<b>17,661</b>	<b>13,824</b>

[END]