



MEETING TITLE Public Trust Board		MEETING DATE 26/03/2013	
TITLE of PAPER	Budget Setting including Cost Improvement Programme 2013/14	PAPER REF	6.2
STRATEGIC OBJECTIVE	<i>To provide cost effective services that contribute to the objectives of the wider health economy</i> Choose an item. Choose an item.		
PURPOSE OF THE PAPER	The report presents the proposed Income and Expenditure and Capital budgets for 2013/14.		
For Approval	<input checked="" type="checkbox"/>	For Assurance	<input type="checkbox"/>
For Decision	<input type="checkbox"/>	Discussion/Information	<input checked="" type="checkbox"/>
AUTHOR / LEAD	Associate Director of Finance	ACCOUNTABLE DIRECTOR	Director of Finance & Performance
PREVIOUSLY CONSIDERED BY	Committee/Group: Finance & Investment Committee Trust Executive Group	Date: 05/03/2013 08/03/2013	
RECOMMENDATION	It is recommended that the Trust Board approve the Income and Expenditure and Capital budgets for 2013/14		
RISK ASSESSMENT		Yes	No
Corporate Risk Register and/or Board Assurance Framework amended <i>If 'Yes' – expand in Section 4. / attached paper</i>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
Resource Implications (Financial, Workforce, other - specify) <i>If 'Yes' – expand in Section 2. / attached paper</i>		<input checked="" type="checkbox"/>	<input type="checkbox"/>
Legal implications/Regulatory requirements <i>If 'Yes' – expand in Section 2. / attached paper</i>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
Quality and Diversity Implications <i>If 'Yes' – please attach to the back of this paper</i>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
ASSURANCE/COMPLIANCE			
Care Quality Commission Registration Outcome(s)		Not Applicable	
NHSLA Risk Management Standards for Ambulance Trusts		Not Applicable	

1. PURPOSE/AIM

- 1.1 The paper presents to the Trust Board for approval the proposed revenue income and expenditure and capital budgets for 2013/14 in line with contracts and known commitments. The paper also confirms that budget setting has been approached in a way which meets expected professional practice for a public sector organisation of the size and complexity of the Trust.

2. BACKGROUND/CONTEXT

- 2.1 Budgets have been prepared in line with the approach outlined in previous papers submitted to Audit Committee and Finance and Investment Committee – draft budgets provided to budget holders at the end of December; budget holder responses by the end of January; revisions made and a summary of second draft budgets presented to Finance and Investment Committee and the Trust Executive Group in early March.
- 2.2 The financial planning assumptions used in preparing the revenue budgets reflect the expectations of the NHS Trust Development Authority in terms of tariff uplift or inflation and efficiency requirements. The provider efficiency requirement in the tariff is -4% and pay and prices inflation has been confirmed as 2.7%. This gives a net tariff deflator of -1.3%.
- 2.3 The income figures are subject to formal acceptance by Commissioners. Contracts are to be signed by 31 March 2013.
- 2.3 CIPs of £10.9m have been removed from the 2013/14 budgets as per the five year CIP Plan. Reserve schemes totalling £2.5m have been identified in order to provide a 25% contingency.
- 2.4 Reserves include inflationary estimates totalling £3.9m in line with the Long Term Financial Model (LTFM) expectations.
- 2.5 The service development, as per the LTFM, for 111 has been incorporated in pay and non-pay budgets. The Major Trauma service development is included in reserves until such time that the development is progressed. ECS will be processed as an in year contract variation once go-live dates and associated part year costs are confirmed.

3. REVENUE BUDGETS

3.1 The approach taken and assumptions behind key components is set out below.

AREA	APPROACH
Income	<ul style="list-style-type: none"> • Main A&E contract - £168.9m This has been calculated on the basis of: <ul style="list-style-type: none"> ◦ 12/13 overtrade becomes the 13/14 baseline being grossed up from marginal rate. This amounts to an increase 4.42% ◦ A further 3.5% increase in activity at marginal rate for 13/14 ◦ 1.3% tariff deflator has been applied ◦ HART funding is assumed to be £3.0m ◦ Major trauma includes an additional £200k ◦ MERIT funding is £246k and is a recurrent fixed sum ◦ ECS is not in the base budgets and will be an in-year contract variation at the direction of the Commissioners ◦ CQUINS at 2.5% amount to £4.1m
	<ul style="list-style-type: none"> • Main PTS contract <ul style="list-style-type: none"> ◦ Income has been rolled forward with the application of a 1.3% tariff deflator ◦ Deduction has been made for the loss of the Sheffield Discharge service amounting to £132k ◦ Deduction has been made for activity reduction in Rotherham amounting to £100k
	<ul style="list-style-type: none"> • 111 contract Contractual income has been included gross at £26.3m being inclusive of sums payable to sub-contractors (£15m included in non-pay costs)
	<ul style="list-style-type: none"> • Other sources of income <ul style="list-style-type: none"> ◦ Recurrent income streams have been rolled forward into 13/14 ◦ Recurrent income targets – for which pay and non-pay resources have been provided – have been rolled forward into 13/14 ◦ Where known, exact income expectations have been incorporated ◦ Notable income sources are: Road Traffic Accident (ICRS) £1.1m; Private & Events £931k; Hull Transport service £922k; GP OOH £842k and NHS learning account (based on proposed training plans) £952k
Pay	<ul style="list-style-type: none"> • Month 8 12/13 has been taken as the start point of the budget setting exercise. Staff in posts in alignment with funded establishment have been budgeted at actual gross cost inclusive of incremental progression; allowances;

	enhancements; pension costs where these apply
	<ul style="list-style-type: none"> • Vacant posts have been costed at mid-point of the pay band with the exception of Band 5 and 7 vacancies in A&E which are costed at the top of scale. All vacant posts are assumed to be pensionable and allowances and enhancements have been included where applicable
	<ul style="list-style-type: none"> • Approved departmental restructures have been incorporated
	<ul style="list-style-type: none"> • Staff commitments in non-established posts have been identified and funded on a fixed term basis. Whilst the Trust has an obligation to pay these staff they represent a cost pressure and must be resolved
	<ul style="list-style-type: none"> • The A&E pay budgets have been set in line with the workforce model with the expectation that the predicted increase in activity will be delivered by 2,106 wte i.e. the existing workforce will be managed more effectively thereby generating efficiency gains
	<ul style="list-style-type: none"> • A pay inflation reserve has been set aside in line with assumptions within the LTFM and the recently announced national pay award
Non pay	<ul style="list-style-type: none"> • Non pay budgets have been rolled forward from 12/13
	<ul style="list-style-type: none"> • Adjustment has been made for non-recurrent elements
	<ul style="list-style-type: none"> • Adjustment has been made for the full year effect of 12/13 CIP schemes and for the reserve schemes identified in the latter part of 12/13
	<ul style="list-style-type: none"> • A non-pay inflation reserve has been set aside in line with assumptions within the LTFM for specific major categories of non-pay expenditure: 3% vehicle leasing; 3.5% vehicle insurance; 3% vehicle maintenance and 6% fuel. Inflation on other expenses is provided for at 4.5%
All	<ul style="list-style-type: none"> • Service Developments have been incorporated in line with the LTFM

3.2 Summary Income and Expenditure Budget 2013/14

		12/13 budget as at Month 10	13/14 budget
		£000	£000
Income	A&E	156,280	161,253
	ECPs	1,542	1,521
	MERIT	246	246
	Major Trauma	0	400
	ECS	0	0
	Neonatal (Embrace)	569	619
	HART	2,853	3,053
	A&E CQUINs	3,894	4,119
	A&E ECRs	123	123
	Resilience	369	457
	PTS	27,219	26,268
	111 (gross including LCD)	0	26,285
	GPOOH	1,733	842
	RTA	1,183	1,183
	R&D	181	42
	Quality & Risk	68	68
	P&E	931	931
	Rent - NHSD	474	160
	NHS Learning account	1,109	953
	Commercial Training	293	293
	Fleet	226	226
	Hull Transport Service	951	922
	Other income: including Salary recharges	1,429	134
		201,673	230,098
Expenditure	Pay	-144,541	-147,687
	Non pay	-42,118	-55,125
	Reserves	-1,326	-12,799
		-187,985	-215,611
EBITDA		13,688	14,487
Depreciation		-9,247	-9,506
Interest receivable		27	27
Interest payable		-66	-155
Unwinding of discounts		-151	0
Public Dividend Capital		-2,276	-2,392
Profit on disposal of assets		0	138
Net surplus		1,975	2,600

3.3 Manpower Breakdown by Directorate

Directorate	12/13 budget as at Month 10	Draft 13/14 budget	Movement	
	WTE	WTE	WTE	
A&E	2,719.83	2,711.19	-8.64	GPOOH and EOC restructure
PTS	816.42	682.37	-134.05	CIP
Finance	46.24	47.05	0.81	Additional payroll resource for 111 (1wte)
Estates	45.39	46.69	1.30	Transfer from Procurement
Fleet	176.74	177.74	1.00	Electrician funded from non pay per CIP
IM&T	39.10	39.10	0.00	
Procurement	21.33	18.83	-2.50	CIP and transfer to Estates
Standards & Compliance	66.50	62.23	-4.27	net of restructure; CIP and service developments
111	0.00	282.00	282.00	Service development
Workforce & Strategy	93.56	93.51	-0.05	restructure
Clinical	31.92	30.41	-1.51	CIP
Chief Executive	16.80	17.00	0.20	
	4,073.83	4,208.12	134.29	

3.4 Cost Improvement Programme

Budgets have been reduced in respect of CIP targets in line with the Trust's five year CIP plan and FT long term financial model. The 13/14 schemes are detailed in the table below.

Scheme	£000
Clinical Leadership	619
Clinical Hub	1,413
Sickness Management	202
A&E Meal Breaks	689
A&E Overtime	932
PTS Transformation	2,930
A&E Skill Mix	2,134
Fleet	770
VFM Reviews	669
Other	551
Total	10,909

note: exclusive of slippage on 12/13 schemes

3.5 Reserves

Monies have been set aside to fund known in year and other anticipated cost pressures, including pay inflation £2.2m, non-pay inflation £1.7m, cost pressures £1m, training to enable the implementation of the A&E workforce model £900k, pension auto-enrolment £600k, 111 potential TUPE issues £500k, the transformational programme £600k and a general contingency of £2.6m. The contingency is primarily held to offset the financial risks inherent in the plan, detailed in the table at 6.1 below.

4. CAPITAL BUDGETS

- 4.1 The capital budgets for 2013/14 totalling £17.7m are set out at appendix 2. Funding is from the following sources: depreciation £9.5m, loans £3.6m, public dividend capital £4.5m and net book value of asset disposals £97k.
- 4.2 Figures for Estates, IT, Fleet, Plant & Machinery and Medical Equipment capital allocations have all been taken from the Board agreed strategies i.e. the Estates, IM&T and Fleet Strategies.
- 4.3 The budget for HART now assumes that the £2m, which should have been received in 2012/13, is funded from Public Dividend Capital (PDC) in 2013/14 in addition to the original plan of £2.5m.
- 4.4 The Electronic Care System (ECS) was deferred from the current financial year and capital plans reflect the roll out during 2013/14.
- 4.5 The £1.8m of service developments shown at Appendix 2 will remain unallocated until the business need is justified through a business case or completion of a capital allocation bid form by the project sponsor. These will initially be presented at the Capital and Equipment Group and to the Director of Finance & Performance and through to the Finance and Investment Committee and the Trust Board for approval where required. The projects that are likely to utilise this money include:

Carry Chairs £333k – this is a £1m scheme implemented over three years

Environmental initiatives £250k – following the survey this year a number of projects have been brought forward including solar panels, boiler and lighting upgrades.

Rewires £300k – the rewrites deferred this financial year will require financing next year

Other Vehicles – vans and resilience vehicles not separately identified in the Fleet Strategy.

5. PROPOSALS/NEXT STEPS

- 5.1 As the Director of Finance and Performance has requested further scrutiny of the capital allocations, Capital Allocation Bid forms will be used to analyse each of the programmes into their component parts in order to provide the necessary due diligence to ensure needs are appropriate and in accordance with the Strategy. This process will be undertaken in March 2013 and conclude prior to the start of the financial year. Scrutiny will be through the Director of Finance & Performance.
- 5.2 Budget holders are expected to agree and sign off their budgets by 31 March 2013.

6. RISK ASSESSMENT

- 6.1 There are a number of risks associated with budget setting:

Risk	Mitigation	Owner
The Trust will not secure the level of income assumed e.g. activity levels forecast may not transpire, penalties may be incurred and CQUINs not achieved	Ensure commissioners are aware of the service implications of failure to fund services at full cost. Hold a contingency reserve	DF&P
The inflation calculations do not reflect the actual rates of inflation and unforeseen cost pressures arise in-year	Ongoing monitoring of inflation as the year progresses. Hold a contingency reserve Develop CIP reserve schemes	DF&P
Failure to deliver the agreed Cost Improvement Plan results in inadequate funding to deliver planned developments and fund cost pressures	Improvement to service transformation process included CIP governance processes and development of reserve schemes	TEG
The CIPs are not sustainable from a	All CIP proposals to be signed-off at commencement by DS&C and	DS&C;

clinical quality perspective	MD; periodic updates to be presented to the Quality Committee and CIP Management Group. Reserve schemes to be developed and implemented	MD
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7. RECOMMENDATIONS

It is recommended that the Trust Board approves the 2013/14 revenue income and expenditure and capital budgets noting the inherent risks therein.

8. APPENDICES/BACKGROUND INFORMATION

Appendix 1 – Capital budget 2013/14

Appendix 1		
2013/14 Capital Programme		
	£	£
ESTATES		500,000
Heating	80,000	
Road surfacing	80,000	
Roofs	70,000	
Fuel tanks & containment	200,000	
Demolition	40,000	
Charging Points	30,000	
IT		1,598,000
Desktop/Laptop/Printer	98,000	
Network/ Server refresh	90,000	
ECS*	500,000	
Mobile Data Refresh	150,000	
CAD Developments	100,000	
PTS Developments	80,000	
Airwave expansion	50,000	
Station moves & changes	80,000	
Station security	150,000	
111/ Urgent care	300,000	
FLEET		4,620,000
A&E vehicles (43 DMA's)	3,870,000	
PTS Vehicles	750,000	
PLANT & MACHINERY		50,000
MEDICAL EQUIPMENT		934,000
A&E vehicle equipment	774,000	
CFR defibrillators	160,000	
HART**		4,600,000
ECS*		3,583,000
SERVICE DEVELOPMENT***		1,800,000
PROGRAMME TOTAL		17,685,000
Sources of funding		£
NVB of disposals		-96,750
Public dividend capital**		-4,500,000
Loans		-3,583,000
CRL funded expenditure		-9,505,250
		-17,685,000
<p>*ECS - the £500k within the IT programme will be reallocated assuming the major scheme has the necessary funding **HART - the difference between the programme and public dividend capital will be made up from within the CRL funded expenditure *** - the service development programme is the funding not yet allocated, this will be allocated to specific schemes as these are developed and their business cases approved.</p>		