



<b>MEETING TITLE</b> Trust Board Meeting in Public		<b>MEETING DATE</b> 25/03/2014	
<b>TITLE of PAPER</b>	Budget Setting (capital and revenue) including Cost Improvement Programme 2014/15 and outline Financial Plan for 2015/16	<b>PAPER REF</b>	6.3
<b>STRATEGIC OBJECTIVE</b>	To provide cost effective services that contribute to the objectives of the wider health economy Choose an item.		
<b>PURPOSE OF THE PAPER</b>	The report presents the proposed 2014/15 Income and Expenditure and Capital budgets and Cost Improvement Programme, and outline of the 2015/16 Financial Plan, for Trust Board approval		
<b>For Approval</b>	<input checked="" type="checkbox"/>	<b>For Assurance</b>	<input type="checkbox"/>
<b>For Decision</b>	<input type="checkbox"/>	<b>Discussion/Information</b>	<input type="checkbox"/>
<b>AUTHOR / LEAD</b>	Associate Director of Finance	<b>ACCOUNTABLE DIRECTOR</b>	Executive Director of Finance & Performance
<b>DISCUSSED AT / INFORMED BY –</b> Budget setting has been discussed at Board Development meetings on 25 February and 11 March and at Finance & Investment Committee on 6 February and 21 March 2014. Budgets have been signed as agreed by all Trust Executive Directors during week commencing 10 March 2014, with the exception of the Medical Director and the Chief Executive whose budgets will be agreed week commencing 17 March 2014.			
<b>PREVIOUSLY AGREED AT:</b>	<b>Committee/Group:</b>	<b>Date:</b>	
<b>RECOMMENDATION</b>	The Trust Board is asked to approve the Income & Expenditure and Capital budgets and the Cost Improvement Programme for 2014/15, and outline of the 2015/16 two-year plan		
<b>RISK ASSESSMENT</b>		<b>Yes</b>	<b>No</b>
<b>Corporate Risk Register and/or Board Assurance Framework amended</b>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Resource Implications (Financial, Workforce, other - specify)</b>		<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Legal implications/Regulatory requirements</b>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Quality and Diversity Implications</b>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>ASSURANCE/COMPLIANCE</b>			
<b>Care Quality Commission Registration Outcome(s)</b>	Not Applicable Choose an item. Choose an item.		
<b>NHSLA Risk Management Standards for Ambulance Trusts</b>	Not Applicable Choose an item. Choose an item.		

## **1. PURPOSE/AIM**

- 1.1 The paper presents to the Trust Board for approval the proposed revenue income and expenditure and capital budgets and Cost Improvement Programme for 2014/15 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. It also confirms that budget setting has been updated and takes into account existing, rather than historic, staff complements and known service changes.
- 1.2 A draft full two-year financial plan for 2014/15 and 2015/16 was submitted to the NHS Trust Development Authority (TDA) on 5 March 2014. Outline figures are included in this report at Appendix 1. The final plan will be submitted to the NHS TDA on 4 April 2014.

## **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 members of 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 TDA 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 2.2%. This gives a net tariff deflator of -1.8%.
- 2.3 The income figures are in line with contract agreements agreed by Commissioners by 14 March 2014.
- 2.3 CIPs of £10.35m have been removed from the 2014/15 budgets as per the five year CIP Plan. Additional reserve schemes have been identified in order to provide a 25% contingency.
- 2.4 The service development, as per the Long term Financial Model (LTFM), for ePRF / ECS has been incorporated in pay and non-pay development reserves.
- 2.5 This provides for an overall surplus of £2.9m (1.3%) and a general reserve of £6m including the minimum 0.5% contingency and non-pay inflation (but in addition to the provisions made for pay and increments applied directly to service budgets) .

### **3. INCOME & EXPENDITURE BUDGETS**

- 3.1 The revenue budgets have been compiled based on:-
- rolling forward 2013/14 income and expenditure budgets
  - adjusting for non-recurrent items
  - adjusting for 2014/15 CIP plans
  - approved staffing structures
  - comparing the results of this exercise with the 2013/14 forecast outturn to identify any anomalies and making appropriate adjustments (such as the full year effect of changes implemented part way through 2013/14)
  - contract negotiations for A & E, EOC, 111 and PTS
  - reflecting the NHS TDA Guidance for 2014/15 budget setting
- 3.2 The 2013/14 and 2014/15 budgets by Directorate are outlined at Appendix 2.
- 3.3 A bridge chart has been produced, as at Appendix 3, demonstrating the movement in surplus from £2.6m in 2013/14 to £2.9m in 2014/15.

#### **3.4 Revenue – Income Budgets**

- 3.4.1 Income budgets in general reflect the application of a contract income deflator of 1.8% as per NHS TDA guidance.
- 3.4.2 A&E income for 2014/15 is calculated on the forecast outturn position for 2013/14 with the 2013/14 overtrade funded at full cost. CQUINs income has been incorporated and the tariff deflator of 1.8% has been applied.
- 3.4.3 It is assumed that all PTS contracts will roll forward into 2014/15 with the tariff deflator applied with 100% contractual compliance assumed, i.e. no penalties applied. An assumed level of ECR income has also been taken into account, but all other non-recurrent income (such fixed term discharge services commenced in 2013/14) has been removed.
- 3.4.4 Income budgets include the full value of the 111 contract including West Yorkshire Urgent Care. There is no allowance within the budget assumptions in respect of achievement of the KPI reward.
- 3.4.5 Other recurrent sources of income have been rolled forward into 2014/15; where known, exact income expectations have been incorporated. Notable income sources are Road Traffic Accident income recovered through the Insurance Cost Recovery Scheme (ICRS) £1.2m, Private & Events £1.1m, Hull Transport Service, GP Out of Hours and NHS Learning Account (based on proposed training plans) £952k

### **3.5 Revenue – Pay Budgets**

- 3.5.1 The recurrent staff establishment as at month 9 2013/14, amended for known changes, has been costed at actual point of scale cost plus anticipated annual increments, with vacancies costed at the mid-point of the relevant Agenda for Change scale.
- 3.5.2 CIPs have been removed from the draft budget figures in line with the 2014/15 CIP Plan.
- 3.5.3 Pay inflation has been assumed to be 1.0% across all staff however a Government Ministerial Statement received on 13 March indicates that only staff who are not eligible to receive incremental pay will be given a 1% pay award in 2014/15. Other staff will receive an increase of at least 1% through incremental progression. Both the pay award and the cost of incremental progression have been added directly to pay budgets. Pay inflation has therefore potentially been overstated in the budgets but the overstated amount will be moved to be held as a pay reserve in month 1.
- 3.5.4 The A&E budgets have been set in line with the new workforce model and operational redesign with the intention of aligning staff rotas with demand and so minimising the utilisation of sub-contractors. The A & E budget therefore reflects the revised front line clinical staffing level of 2164 wte.
- 3.5.5 PTS budgets currently reflect the establishment levels of 2013/14 (net of CIPs for 2014/15) and sub-contractor budgets reflect similar levels to 2013/14 budget. These will be amended as revised staff rotas are implemented and alternative methods of service delivery are rolled out to deliver the savings associated with the transformation programme in the first half of the financial year.
- 3.5.6 The 2014/15 pay budgets for NHS111 reflect both the cost of the core establishment for 2013/14 service delivery, plus the additional staffing levels incurred to date in 2013/14 and forecast for the remainder of the year to deal with service pressures (including winter pressures). The CIP is being developed ahead of 1 April 2014.
- 3.5.7 Manpower figures in whole time equivalents (WTE) by Directorate are shown at Appendix 4.

### **3.6 Revenue – Non-Pay Budgets**

- 3.6.1 Recurrent non-pay budgets are to be rolled forward from 2013/14 and inflation assumptions applied in line with the LTFM, specifically vehicle leasing 3.1%, vehicle insurance 7.2%, vehicle maintenance 4.3% and fuel 5.9%. A general inflation reserve for non-pay inflation of 2.2% has also been budgeted for, in line with NHS TDA guidance.

### 3.7 Cost Improvement Programme

3.7.1 A high level summary of the CIPs included in the NHS TDA two-year plan and the Trust's LTFM is shown in Table 1 below.

CIP Summary of Delivery	2014/15 £000	2015/16 £000
PTS transformation	2,278	794
A&E skill mix	3,292	2,843
Clinical Hub	1,257	1,222
Meal break payments	689	
Support Services savings	1,078	1,912
Fleet vehicle reduction & department review	799	647
Insurance savings		500
Other schemes	959	1,781
<b>Total CIP Plan</b>	<b>10,352</b>	<b>9,699</b>

Table 1

3.7.2 Project Initiation Documents and Quality Impact Assessments have been produced for all schemes.

3.7.3 In addition to the above, schemes have been identified to provide a 25% contingency.

## 4. CAPITAL BUDGET

4.1 The Capital budget for 2014/15 totalling £14.8m is set out at Appendix 5.

4.2 The Capital budget has been compiled after receipt of Capital bids from the various departments, which were in turn considered by the Capital Assessment Panel.

4.3 The Budget was produced after consideration of the Board agreed strategies of the Estates, IM&T and Fleet, and risk assessments of Trust Estate and Service developments.

4.4 The Electronic Patient Record Form (ePRF) / Electronic Care Solution (ECS), £2.2m, has been included. It is currently proposed that the Capital element of this service development will be funded by utilisation of the loan facility.

4.5 The Hub & Spoke project has been included at £2.4m, this will be funded via the disposal of assets during the year and the utilisation of cash surpluses.

## 5. RISK ASSESSMENT

5.1 There are a number of risks associated with budget setting:

<b>Risk</b>	<b>Mitigation</b>	<b>Owner</b>
The Trust will not secure the level of income assumed	Ensure commissioners are aware of the service implications of failure to fund services at cost	DF&P
The calculations are flawed and in particular fail to identify all costs	Ensure controls are established to minimise potential for costs being overlooked. Scan national guidance. Meetings held with Directors and Budget Managers.	DF&P
The Trust has not developed a sustainable set of CIPs from a financial point of view	Formal support for individual CIPs is to be provided to Board by the 'sponsoring' executive director	TEG
The CIPs are not sustainable from a clinical quality perspective	All CIP proposals to be signed-off at commencement by DS&C and MD; periodic updates to be presented to the Quality Committee and CIP Management Group	DS&C; MD
Budget reserves for contingencies and inflation are not adequate	On-going monitoring of income and expenditure throughout 2014/15	DF&P
That budget holders have not been involved in the budget setting process	This will be addressed through continued budget holder engagement and training with Business Finance Managers	DF&P
That delivery of the financial plan is primarily an issue for the Director of Finance & Performance and not for TEG as a whole	Management of Trust's finances handled as key element of TEG business	CE

5.2 Financial risks are summarised at Appendix 6, the greatest risk being around A&E contractual penalties, which are 2% of the contract value for each of the Red 1 and Red 2 performance targets.

## **6. RECOMMENDATIONS**

- 6.1 It is recommended that the Trust Board approves the Income & Expenditure and Capital budgets and the Cost Improvement Programme for 2014/15, and the outline of the 2015/16 two-year plan.

## **7. APPENDICES/BACKGROUND INFORMATION**

- 7.1 Appendix 1 – NHS TDA Financial Plan – Key Metrics and Continuity of Service Risk Ratings
- 7.2 Appendix 2 –2013/14 & 2014/15 Summary Income & Expenditure Budget
- 7.3 Appendix 3 – Bridge Chart – Surplus 2013/14 to 2014/15
- 7.4 Appendix 4 – Manpower breakdown by Directorate
- 7.5 Appendix 5 – 2014/15 Capital Budget
- 7.6 Appendix 6 – 2014/15 and 2015/16 Financial Risks

## Appendix 1

### NHS TDA Financial Plan – Key Metrics and Continuity of Service Risk Ratings

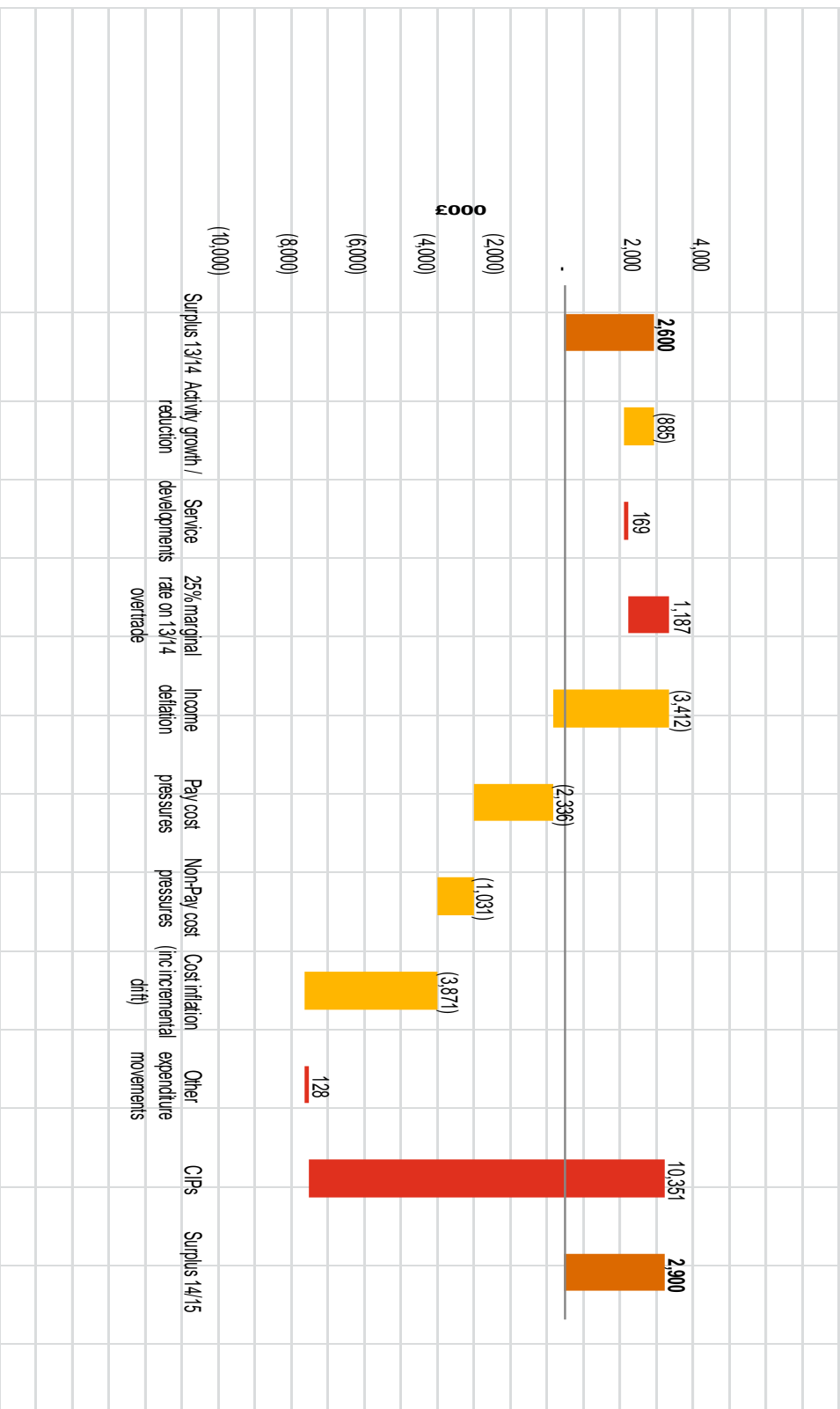
Key metrics	2013/14 £000	2014/15 £000	2015/16 £000
Income	231,262	232,023	226,964
Expenditure: pay	(154,009)	(154,490)	(148,455)
Expenditure: non-pay	(74,653)	(74,620)	(75,409)
EBITDA	13,701	15,190	15,818
Net Surplus	2,600	2,913	3,100
Cash at bank	10,140	12,062	15,162

Continuity of Service Risk Ratings	2013/14	2014/15	2015/16	Rating
Liquidity Ratio (days)	13	16	20	4
Capital Servicing Capacity (times)	5	5	5	4
Overall Continuity of Service	4	4	4	4



### Appendix 3

Bridge Chart - 2013/14 - 2014/15



<b>Appendix 5</b>			
<b>2014/15 Capital Programme</b>			
<b>FLEET</b>			<b>£6,212,000</b>
A&E	x 43 new vehicles		£3,870,000
A&E	x 14 ex Leased vehicles		£285,000
A&E	13/14 carry forward to fulfil order		£600,000
PTS vehicles	x125 previously leased vehicles		£1,290,000
HART	x 2 vehicles (Navarros)		£167,000
<b>MEDICAL EQUIPMENT</b>			<b>£1,134,000</b>
A&E	vehicle equipment		£774,000
CFR	defibrillators		£120,000
ECG	12 lead		£240,000
<b>ESTATES</b>			<b>£ 3,109,200</b>
Road Surfacing at			£ 30,000
	Castleford	£	30,000
Roof repairs at			£ 100,000
	Middlewood	£	100,000
Estates Service Developments			£2,837,000
	Springhill 2 Reception	£	337,000
	Hub & Spoke	£	2,400,000
	Purchase of HART Car Park land	£	100,000
Estates Carbon			£ 142,200
	HART building Solar Panels	£	70,200
	Solar Panels- Northallerton/Bainbridge (approved 13/14)	£	72,000
<b>IT</b>			<b>£ 1,623,600</b>
EOC	Disaster Recovery 13/14 C/fwd		£ 39,000
Network/Server	refresh		£ 122,400
Mobile Data	Development		£ 24,000
Mobile Data	Refresh		£ 224,000
CAD	Developments		£ 100,000
PTS	Developments		£ 50,000
Desktop/Laptop/Printer	refresh		£ 120,000
Station moves & changes			£ 36,000
Vehicle Telematic System			£ 249,000
111/Urgent care	Developments		£ 46,000
Mobile Devices			£ 100,000
GRS	Developments		£ 24,000
Alternative SAT NAV for RRV & DCA			£ 125,400
Telephony (all Trust)			£ 72,000
Wireless Infrastructure Transformation			£ 113,800
EOC	Wallboard		£ 80,000
GPOOH	Development & Upgrade		£ 50,000
ASSURE	Developments		£ 24,000
YAS	TV		£ 24,000

					£ 2,200,000
<b>SERVICE DEVELOPMENTS</b>					
ECS			£ 2,200,000		
<b>REPAYMENT OF LOANS</b>					£ 554,000
Springhill			£ 334,000		
ECS (part year repayment)			£ 220,000		
<b>PROGRAMME TOTAL</b>					<b>£14,832,800</b>
<b>Sources of funding</b>					
NBV of disposals					£ 1,737,000
Loans					£ 2,200,000
Utilisation of Cumulative Surplus					£ 977,400
CRL funded expenditure					£ 9,918,400
					<b>£14,832,800</b>

## Appendix 6 – 2014/15 and 2015/16 Financial Risks

Financial Risk	2014/15 Estimated Value £000	2015/16 Estimated Value £000
A&E Contract Penalties	6,400	6,400
CQUIN Penalties (A&E and PTS)	4,900	4,900
Retendering and loss of PTS contracts	0	9,500
10 % Underachievement of CIPs	1,035	970
Unsocial Hours Costs (PTS & 111)	372	372
<b>Total Risk</b>	12,707	22,142