



<b>MEETING TITLE</b> Trust Board Meeting in Public		<b>MEETING DATE</b> 24/03/2015	
<b>TITLE of PAPER</b>	For Approval: Draft Budget Setting including: Cost Improvement Programme (CIP), Revenue and Capital Budgets – 2015/16	<b>PAPER REF</b>	6.2
<b>STRATEGIC OBJECTIVE</b>	Work in partnership to provide cost effective services which reduce waste and duplication and contribute to the objectives of the wider health economy		
<b>PURPOSE OF THE PAPER</b>	The paper presents the proposed draft 2015/16 Income & Expenditure Budget, Capital Budget and Cost Improvement Programme.		
<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>	Financial Performance Manager	<b>ACCOUNTABLE DIRECTOR</b>	Interim Executive Director of Finance & Performance
<b>DISCUSSED AT / INFORMED BY –</b> Budget setting has been previously discussed at the Finance and Investment (F&I) Committee on 5 February 2015. Draft budgets discussed at virtual F&I Committee on 11 March 2015.			
<b>PREVIOUSLY AGREED AT:</b>	<b>Committee/Group:</b> Not Applicable	<b>Date:</b>	
<b>RECOMMENDATION</b>	It is recommended that the Trust Board approves the draft Income & Expenditure budget, the draft Capital budget and the draft Cost Improvement Programme for 2015/16. The Trust Board should note that the budgets are in draft form and subject to amendment once contract discussions with Commissioners have been finalised and therefore are subject to change.		
<b>RISK ASSESSMENT</b>		<b>Yes</b>	<b>No</b>
<b>Corporate Risk Register and/or Board Assurance Framework amended</b> <i>If 'Yes' – expand in Section 4. / attached paper</i>		<input type="checkbox"/>	<input checked="" type="checkbox"/>

<b>Resource Implications (Financial, Workforce, other - specify)</b> <i>If 'Yes' – expand in Section 2. / attached paper</i>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Legal implications/Regulatory requirements</b> <i>If 'Yes' – expand in Section 2. / attached paper</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Equality and Diversity Implications</b> <i>If 'Yes' – please attach to the back of this paper</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>ASSURANCE/COMPLIANCE</b>		
<b>Care Quality Commission</b>	Well Led	
<b>Monitor Quality Governance Framework</b>	Not Applicable	

## **1. PURPOSE/AIM**

- 1.1 The paper presents to the Trust Board for approval the proposed draft revenue income and expenditure and capital budgets and Cost Improvement Programme for 2015/16. 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 It should be noted that the budget will be further updated once the impact of significant outstanding items are confirmed. These items include the result of A&E, PTS and 111 contract negotiations as well as the workforce remodelling work being completed in A&E and in PTS.

## **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 the Interim Executive Director of Finance and Performance and the Interim Chief Executive.
- 2.2 The financial planning assumptions used in preparing the revenue budgets reflect the expectations of the NHS Trust Development Authority (TDA) in terms of tariff uplift or inflation and efficiency requirements. The provider efficiency requirement reflects the Enhanced Tariff Option (ETO) published on 18 February, meaning the efficiency requirement is -3.5% with pay and prices inflation of 1.9%. This gives a net tariff deflator of -1.6%.
- 2.3 The income figures will need to be revisited once the various contracts have been agreed with Commissioners.
- 2.4 CIPs of £8.79m have been identified and removed from the 2015/16 budgets. This compares to the five year CIP Plan (where 2015/16 is Year 2) allocation of £9.70m. Additional reserve schemes are being identified and worked up in order to provide a suitable contingency.
- 2.5 The service development, as per the Long Term Financial Model (LTFM), for electronic Patient Report Form (ePRF) / Electronic Care System (ECS) has been incorporated in pay and non-pay development reserves.
- 2.6 This provides for a draft overall surplus of £1.15m (0.5%).

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

3.1 The revenue budgets have been compiled based on:

- rolling forward 2014/15 income and expenditure budgets
- adjusting for non-recurrent items
- adjusting for 2015/16 CIP plans
- approved staffing structures (However, this excludes ongoing workforce reviews and will need to be revisited once the workforce remodelling is completed)
- comparing the results of this exercise with the 2014/15 forecast outturn to identify any anomalies and discussing any budget pressures with budget holders to make appropriate adjustments
- reflecting the NHS TDA Guidance for 2015/16 budget setting
- updates will be required once contract negotiations for A & E, EOC, 111 and PTS have been finalised

3.2 The 2014/15 budget, 2014/15 forecast outturn and 2015/16 draft budget by Directorate is outlined at Appendix 2.

#### **3.4 Revenue – Income Budgets**

3.4.1 Contract negotiations with commissioners are ongoing. Income budgets in general reflect the application of the ETO deflator of 1.6% as per NHS TDA guidance. Budgets have been amended to reflect CIPs as appropriate.

3.4.2 Income budgets will be updated once the contract negotiations with Commissioners have been finalised for all areas and therefore is subject to change.

#### **3.5 Revenue – Pay Budgets**

3.5.1 The recurrent staff establishment as at month 8 2014/15, 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 at values which budget holders have identified and agreed as deliverable.

3.5.3 Pay inflation has been based on the proposed National Pay Award published by NHS Employers on 27 January and subject to agreement. This, as well as the cost of incremental progression, has been added directly to pay budgets. The element of the Pay Award relating to the pensions of front line staff remains uncertain and therefore it is not included in the budget setting process at this point.

- 3.5.4 The A&E budgets have been set in line with the existing workforce model, therefore 2,164 wte. The cost of any revision to this workforce model as part of the ongoing ORH review will need to be reviewed alongside A&E contract negotiations. The new workforce model driven by ACAS negotiations on progression is currently calculated to be cost neutral in 2015/16 and specific locality budgets will be updated to reflect the new model once more localised, specific aspects have been finalised.
- 3.5.5 PTS budgets for 2015/16 now reflect the establishment levels of the new rotas implemented in West, South and East in 2014/15.
- 3.5.6 The 2015/16 pay budgets for NHS111 reflect the recurrent cost of the core establishment for 2015/16 including increments and Pay Award. A £243k CIP has been identified for 2015/16.
- 3.5.7 Manpower figures in whole time equivalents (WTE) by Directorate are shown at Appendix 3.

### **3.6 Revenue – Non-Pay Budgets**

- 3.6.1 Recurrent non-pay budgets initially reflected rolled forward expenditure from 2014/15 net of the CIPs programme. However, an exercise was then undertaken to consider the budgetary requirements in more detail (to reflect, for example, contractual and service delivery changes), realigning non-pay and rebasing budgets by also considering 2014/15 forecast outturn.
- 3.6.2 Inflation assumptions, in line with the LTFM and NHS TDA guidance, have been provided for in Reserves, specifically; vehicle leasing 2.8%, vehicle insurance 6.3%, vehicle maintenance 6.4% and fuel 4.5%. A general inflation reserve for non-pay inflation of c1% has also been budgeted for, in line with NHS TDA guidance.
- 3.6.3 PTS sub-contractor budgets initially reflected 20% of activity being delivered by third parties, but with CIP targets to reduce the third party delivery of activity from 20% to 10%, in line with rota expectations. The full year effect of 2014/15 CIPs equate to £600k (including the reduction in third party expenditure) and are reflected in the PTS budget for 2015/16. Further savings associated with the PTS Transformation Programme are currently reflected in a £900k CIP within the PTS budget.

### **3.7 Cost Improvement Programme**

- 3.7.1 A high level summary of the CIPs included in the 2015/16 plan, along with a comparison to the previously submitted Five Year CIP Plan (for which 2015/16 is Year 2) is shown below. The reduction in CIP value has been discussed with the NHS TDA (the revised figure reflecting

3.8% of turnover) and is the result of both demand and operational finance pressures the Trust expects through 2015/16.

<b>CIP Summary</b>	<b>5 Year Plan</b>	<b>2015/16 Budget</b>
PTS transformation	794	1,500
A&E skill mix	2,843	2,843
Clinical Hub	1,222	1,222
Fleet vehicle reduction & review	647	647
Carbon reduction plan	333	0
Transformation Programme review	400	0
Support services savings	1,040	1,005
Other schemes	2,420	1,569
<b>Total CIP Plan</b>	<b>9,699</b>	<b>8,786</b>

3.7.2 Included in the above are £352k of CIPs where the saving is against 2014/15 actual spend rather than the rolled forward 2014/15 budget.

3.7.3 Significant changes to the 5 Year Plan include:

- PTS Transformation increase which now reflects the full year effect of 2014/15 CIPs and anticipated savings from the PTS Transformation programme of work.
- Carbon Reduction and Transformation Programme have been removed due to a lack of information supporting how the savings will be realised, along with the need to continue to invest in the transformation programme in 2015/16.
- 'Other Schemes' shown above includes £850k of schemes introduced in 2013 as part of an organisation wide focus on value for money. These schemes were due to be implemented in 2015/16 but currently have no detail supporting how the savings are to be delivered.

3.7.4 Project Initiation Documents and Quality Impact Assessments will be produced for all schemes.

#### **4. CAPITAL BUDGET**

4.1 The draft Capital budget for 2015/16, totalling £12.5m, is set out at Appendix 4.

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, Information and Communication Technology (ICT) and Fleet, and risk assessments of Trust Estate and Service developments.
- 4.4 The Electronic Care System, £1.5m (£2.2m in total), commenced in 2014/15 following Trust Board and Commissioner approval. The Capital element of this service development is funded by a loan facility, TDA approved December 2014.
- 4.5 The Hub & Spoke project has been included at £840k; this will be funded via the forecasted disposal of assets during the year. The costs include the team costs and associated consultancy fees. If disposal are not realised alternative funding arrangements will need to be considered.

## 5. RISK ASSESSMENT

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

Risk	Mitigation	Owner
The Trust will not secure the level of income assumed	Ensure commissioners are aware of the service implications of failure to fund services.	Director of Finance and Performance (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.	DF&P
A&E and PTS operational reviews are not reflected in the budget and/or lead to significant cost pressures	Finance are fully engaged in the reviews and are therefore able to assess the budgetary impact of these proposals. Ensure commissioners are aware of service and cost implications.	Trust Executive Group (TEG)
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 CIP Management Group (CIPMG) by the project lead and the CIP programme is to be risk assessed.	CIPMG

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	Director of Standards & Compliance (DS&C); Medical Director (MD)
Budget reserves for contingencies and inflation are not adequate	On-going monitoring of income and expenditure throughout 2015/16	DF&P
That budget holders have not been involved in the budget setting process	This will be addressed through continued 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	Chief Executive Officer (CEO)

## 6. KEY FINANCIAL RISKS

- 6.1 The following key financial risks have been identified for 2015/16 with an initial RAG rating based on likelihood and impact. This will be updated post contract negotiations.

Risk	2015/16
A&E workforce modelling	£3m - £5m
A&E contract penalties	£4.0m
30% CIP underachievement	£2.6m
Paramedic re-grading	£2m - £3m
Hillsborough	£0.6m - £1m
PTS and A&E CQUINS, 25% underachievement	£1.1m
Hull Logistics Service	£0.4m
National Pay Award pension impact	£1.7m

## 7. RECOMMENDATIONS

- 7.1 It is recommended that the Trust Board approves the draft Income & Expenditure budget, the draft Capital budget and the draft Cost Improvement Programme for 2015/16. The Trust Board should note that the budgets are in draft form and subject to amendment once contract discussions with Commissioners have been finalised and therefore are subject to change.



## **8. APPENDICES/BACKGROUND INFORMATION**

- 8.1 Appendix 1: Financial Plan – Key Metrics and Continuity of Service Risk Ratings
- 8.2 Appendix 2: Summary Income & Expenditure Budget
- 8.3 Appendix 3: Manpower breakdown by Directorate
- 8.4 Appendix 4: 2015/16 Draft Capital Plan

**Appendix 1:  
Financial Plan – Key Metrics and Continuity of Service Risk Ratings**

<b>Key Metrics</b>	<b>2014/15</b>	<b>2015/16</b>
Income	239,841	232,077
Expenditure: Pay	(160,639)	(153,206)
Expenditure: Non-pay	(76,289)	(77,717)
EBITDA	13,765	13,438
Net Surplus	2,913	1,154
Cash at bank	12,077	13,602

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

**Appendix 2:  
Summary Income & Expenditure Budget**

<b>Directorate</b>	<b>2014/15 Budget</b>	<b>2014/15 Forecast</b>	<b>2015/16 Budget</b>
111 development	1,851	2,210	1,630
A&E	72,873	72,136	80,837
CHIEF EXECUTIVE	-1,410	-1,412	-1,351
CLINICAL DIRECTORATE	-1,137	-1,069	-1,374
EOC	-13,334	-13,329	-13,349
F&P-Capital Charges	-12,049	-10,631	-12,753
F&P-Estates	-5,163	-5,132	-5,349
F&P-Finance	-4,019	-4,543	-4,983
F&P-FLEET	-23,692	-24,115	-22,736
F&P-IM&T	-4,982	-4,591	-4,967
F&P-Procure	-3,498	-3,882	-3,768
OTHER	1,183	899	1,183
PEOPLE & ENGAGEMENT	-4,385	-4,875	-5,155
PTS	10,302	7,133	8,903
RESERVES	-4,753	-1,317	-9,973
SPECIALISED OPERATIONS	-1,783	-1,519	-1,994
STANDARDS & COMPLIANCE	-3,091	-3,050	-3,647
<b>Total</b>	<b>2,913</b>	<b>2,913</b>	<b>1,154</b>

### Appendix 3: Manpower breakdown by Directorate

Directorate	14/15 Budget WTE (AP8)	15/16 Budget WTE	WTE Movement	Comments
111 development	313.1	308.1	-5.00	
A&E	2,267.77	2267.77	0.00	
CHIEF EXECUTIVE	16.8	16.8	0.00	
CLINICAL DIRECTORATE	61.99	34.19	-27.80	UCPs Stripped out from 15/16 WTE
EOC	384.99	390.99	6.00	
F&P-Estates	42.87	15.83	-27.04	Hull Transport WTE Removed 15/16 WTE
F&P-Finance	69.65	73.85	4.20	
F&P-FLEET	186.93	186.93	0.00	
F&P-IM&T	39.98	39.98	0.00	
F&P-Procure	18.53	20.5	1.97	
PEOPLE & ENGAGEMENT	114.07	117.74	3.67	
PTS	772.01	772.01	0.00	
RESERVES	0	30	30.00	UCPs added to Reserves
SPECIALISED OPERATIONS	127.77	119.77	-8.00	Air Ambulance reduced by 3 WTE, P&E down by 3 WTE, Resilience down by 2WTE.
STANDARDS & COMPLIANCE	47.15	45	-2.15	
<b>Grand Total</b>	<b>4,463.61</b>	<b>4,439.46</b>	<b>-24.15</b>	

**Appendix 4:  
2015/16 Draft Capital Plan**

<b>Fleet</b>		
	A&E Vehicle 46 vehicles	4,690
	PTS Vehicles	744
	HART Reconnaissance	121
	Heavy Equipment Carrier	118
	HART 2 x (Navara replacements)	167
	PTS ex lease vehicles (20) cfwd 14-15	90
		5,930
<b>Medical Equipment</b>		
	A&E Equipment	859
	PTS Equipment	160
	Defib Replacement	322
		1,341
<b>Fleet Equipment</b>		
	Diagnostic Skoda & VW	14
	MOT Wakefield Workshop	11
		25
<b>Service Development</b>		
	Oracle system	30
	Replacement AED's & Cabinets for Public Defibs	57
	ECS cfwd 14-15	1,500
		1,587
<b>HUB &amp; Spoke</b>		
	Project Team	500
	External Consultancy Fees	200
	Make Ready Pilot	90
	Procurement Move	50
		840
<b>Estates</b>		
	Fuel Tank Menston	70
	Fuel Tank Barnsley	70
	Fuel Tank Castleford	70
	Fuel Tank Batemoor	70
	Garage Doors South Kirkby	60
	Resurfacing Bridlington	30
	Resurfacing Doncaster	24
	Driffield Facia & Soffits replacement & Asbestos	24
	Springhill Reception cfwd 14-15	235
	Springhill Car Park	150
		803
<b>ICT</b>		
	Mobile Data refresh	351
	Storage & Server Refresh	150

CAD Developments	50
Station Security (2 years)	10
111 Urgent Care Developments	50
Mobile Devices Management	150
GRS Developments	24
Telephony	12
PC Refresh Desktop Laptop Printer	100
Additional Screens on A&E Vehicles Yr2	7
Digital Radio voice recording PTS Callflex	6
ICT Network Switch Refresh	125
GPOOH Developments	60
Voice Recorder Resilience	87
Station Moves & Changes	31
Wireless	121
Assure	20
PTS PDA's	241
	1,595
Service Improvements -to be allocated	362
<b>Total Capital Programme</b>	<b>12,483</b>

<b>Financed by:</b>	
Depreciation	10,622
loan -ECS	1,500
Disposals - Vehicles NBV	204
Disposals - Buildings NBV	931
less loan Repayments:	
Springhill	-334
ECS - (14-15 £700k + 15-16 £1.5m)	-440
<b>Available Funding</b>	<b>12,483</b>