NORTHUMBERLAND, TYNE AND WEAR NHS FOUNDATION TRUST

BOARD OF DIRECTORS MEETING

Meeting Date: 25 March 2015

Title and Author of Paper: 2015/16 Budget & Financial Plans 15/16 & 16/17
James Duncan, Deputy Chief Executive/Director of Finance

Paper for Debate, Decision or Information: Decision

Key Points to Note:

- This paper includes the proposed income & expenditure budget for 2015/16.
- The budget includes planned income for the year of £300m, Financial Delivery Plan savings of £10.1m and a budgeted surplus of £2m. It should be noted that due to the issues around this year's tariff/settlement, contracts are still in the process of being agreed.
- This year's budget setting exercise has included a fundamental review of expected income and expenditure levels.
- To enhance service line management arrangements within the Trust, the Trust has allocated all available funding and savings targets out to Group and directorate budgets.
- This means the Trust is not holding any contingency reserve and Groups and support services directorates will need to manage within their allocated budgets and deliver Financial Delivery Plan savings for the Trust to deliver its planned surplus.
- A £5m non-recurring Transformation reserve has been created by delivering a reduced surplus.
- Budgets have been being signed off at Director, Directorate and Service Manager level.
- This paper also includes the Trust's overall Financial Plans over the next 2 years to continue to deliver the Service Development Strategy as described in the Operational Plan.
- The Trust's strategy is based on the full implementation of Community Transformation and a reduction in mainstream beds to circa 400.
- The Trust had previously planned to deliver an underlying surplus of £8.9m. This has reduced to £6.9m due to the Trust funding recurrent pressures in 2015/16 budgets. This is just above the £6.1m required to cover the Trusts loan repayments.
- Updated financial plans include:-
- In-Year Financial Delivery Plan savings of £10.1m and £7.8m and recurring savings plans of £14.2m and £11.9m. Higher than target recurring plans have been identified to recognise the fact that there is always some slippage on delivery.
- £76m of capital investment over the 5 years from 2014/15 including £24.4m in 15/16, which will further develop in-patient services and community premises.
- Further loan funding over the next 3 years of £36m an increase of £8m from previous plans.
- Year-end cash balances of £21.6m in 2015/16 and £24.4m in 2016/17.
- Delivering the proposed surplus and planned cash levels will result in a Monitor Continuity of Services risk rating of 3.

Outcome required: Board approval of 2015/16 Budget and updated Financial Plans including revised capital programme.

2015/16 Budget & Financial Plans 2015/16 - 2016/17

Background & Purpose

Senior Management Team received a budget setting paper on 13th October 2014 setting out the principles and timescale for setting the 2015/16 budgets. This paper provides the outcome of the budget setting exercise 2015/16 in section 1 and in section 2 a summary of the Trust's updated Financial Plans for 2015/16 & 2016/17. The Finance, Infrastructure and Business Development Committee (FIBD) on 18th March 2015, considered the detailed analysis supporting these figures.

Section 1 – Budget 2015/16

Budget Setting

The Trust's recurring underlying financial plan for 2015/16, set out in its 3 Year Operational Plan submitted to Monitor in April 2014, planned recurrently to deliver a surplus of £8.8m.
As a result of the net impact of pressures, the Trust's underlying recurrent surplus in the budget for 2015/16 has reduced to £6.9m. However, the planned surplus for the year, after non-recurring investment, is £2m. The schedule summarises the changes in the recurring surplus and shows the non-recurring investment in 2015/16:-

Recurring Surplus 2014/15		**£8.9m**
Inflation Uplift (1.90%)	£5.2m	
MH Funding (0.35%)		£1.0m
Efficiency Target (-3.5%)	(£9.6m)	
FDP Delivery re 15/16	£9.6m	
Inflation Increases & Pressures (0.3%)	(£8.2m)	
Recurring Surplus 2015/16		**£6.9m**
Non-Recurring Items		
Transformation Fund		(£5.0m)
Other Non-Rec Funding/Costs (Net)		£0.1m
Plan Surplus 2015/16	**£2.0m**	

Further details of the changes/assumptions in the budget are explained below: -

a) Inflation & Efficiency Settlement

NHS Patient Care income budgets include the NHS Enhanced Tariff Offer settlement of a 1.25% deflator. This is made up of the following components: -

	%
Inflation Funding	1.90
MH Funding (EIP)	0.35
	2.25
Efficiency Target	(3.50)
Deflator	(1.25)

However, it should be noted that contracts for next year have not yet been signed off and the additional £1m from the 0.35% MH funding has still to be confirmed.

b) Pay & Non Pay Changes

The headline figure for the 2015/16 pay award is 1%, although some staff will receive more than this and some staff will not receive an uplift. Employer pension contributions have also increased by 0.3%. The budget includes an inflation increase of 2% in non-pay budgets.

c) Pressures

The budget setting exercise has funded £2m of financial pressures in service budgets from a reduction in surplus.

d) Financial Delivery Plan (FDP)

The initial NHS settlement published for 2015/16 included an efficiency target of 3.8%. Following a consultation exercise and the rejection of the national tariff by providers, an alternative Enhanced Tariff Offer was made which included an efficiency target of 3.5%. The Trust accepted this tariff offer. The reduction in efficiency target increased the level of income the Trust will receive by £0.9m and reduced the in-year shortfall on FDP delivery.

The efficiency requirement for 2015/16 is £12.9m. This is made up of a forecast recurrent shortfall carried forward from 2014/15 of £3.3m and £9.6m based on the 2015/16 national efficiency requirement of 3.5%. The Trust plans to deliver in-year savings of £10.1m which is a £2.8m in-year shortfall. Table 1, in section 2 shows the in-year and recurring Financial Delivery Plan for 2015/16 and 2016/17. The table shows the Trust has put in place a plan to deliver £14.2m of recurring savings, this recognises the fact that there is always some slippage on delivery. Above target plans are also in place for 2016/17.

e) Reserves/Contingency

To enhance service line management arrangements within the Trust, the Trust has allocated all available funding and savings targets out to Group and directorate budgets, as part of this year's budget setting exercise. The expectation is that services will manage within allocated resources and deliver financially. Therefore the Trust has no contingency built into its plans.

A £5m non-recurring Transformation Fund has been created by reducing the planned surplus for the year, to support delivery of the Trust's Transformation of Services Programmes in 2015/16.

Budgeting Principles

The budgets have been set in conjunction with budget holders and Group & Corporate budgets have been signed off at Executive, Group Director, Directorate and Service Manager level.

Expenditure budgets have been set using the following assumptions:

- Pay awards to be fully funded
- Agenda for Change Increments to be funded
- Overall Non-Pay Budget to be inflated by 2% in 2015/16
- Ward budgets include 28% for holiday, sickness & training cover
- All enhancements and on-call arrangements are funded

Contracts are still in the process of being agreed with our main commissioners. Income budgets include CQUIN funding at 2.5%, the same level as last year, representing £6.4m.

It should be noted that the CQUIN funding of 2.5%, is fully committed to funding baseline activity. Therefore any failure to deliver CQUIN targets represents a real risk to the Trust.

The underlying principle in setting the budgets for 2015/16 has been to allocate all specified funding and targets to the relevant groups/departments. As a result the FDP targets will be allocated to the areas of planned delivery. Budget holders will then be held accountable through the Trust's Performance Management arrangements, for the delivery of the budgeted plan, which will include delivery of income targets, delivery of expenditure within budget and delivery of FDP targets.

Delivery of Plans

As stated the 2015/16 budget has allocated all available funding out to Groups and support services directorates to fund the majority of identified pressures. Therefore, services are expected to deliver within the allocated resources in 2015/16.

However, there are a few specific acknowledged pressures that remain. Where it was identified that services are currently being providing at a cost in excess of what is supported by the specific price for the service, these pressures have not been funded. Services such as Alnwood and Bamburgh Clinic are the subject of specific negotiations with commissioners. If the price agreed will not cover the current level of expenditure then the services will have to implement changes to the services delivered. This may include changes in the levels of acuity of referrals that the units can accept.

The 2015/16 budget assumes delivery of £10.1m in-year efficiency savings and the FDP plans for £14.2m of recurrent savings. Delivery of the planned FDP both in-year and recurrently is the key factor in achieving the Trusts financial plans. The in-year total is made up of £8.2m from recurrent schemes and £1.9m of non-recurrent savings.

With the FDP targets being devolved to the Groups and support services directorates. The reported actual and forecast variances from budget in 2015/16 will show performance against budget and FDP. Variance from plan will be monitored by the Corporate Decisions Team, FIBD and the Trust Board through the monthly finance report. The Finance Report will highlight the service lines that are under-performing financially and these areas will then be subject to review through the Trust's Performance Management arrangements that are being put in place.

Section 2 – Financial Planning 2015/16 & 2016/17

Financial Forecasts

Our Financial Plans reflect the nature of our income, planning guidance and commissioning intentions. Key financial data for the next 2 years are illustrated in the table below.

Key Financial Data 2015/16-2016/17

Key Financial Data	2015/16 £m	2016/17 £m
Income	299.9	292.9
Income and Expenditure Surplus	2.0	4.8
Efficiency Target	12.9	9.6
Cash Balance	21.6	24.4
Capital Programme	24.4	17.2
Asset Sales	7.5	1.9
Loan Drawdown	17.9	13.5
Risk Rating	3	3
Normalised Risk Rating	3	3

Financial Projections

The Trust's planned underlying recurring surplus is around £6.9m. However, in 2015/16, like 2014/15, this surplus is reduced due to non-recurring investment in transformation. A summary of income and expenditure over the next 2 years is shown in the table below.

Summary of Income and Expenditure

	2015/16 £m	2016/17 £m
Operating income	299.9	292.9
Operating costs	(285.2)	(275.0)
EBITDA	14.7	17.9
Depreciation	(6.3)	(6.7)
Net Interest/Other	(5.9)	(5.9)
PDC dividend	(0.5)	(0.5)
Net surplus / (deficit)	2.0	4.8

Income

The Trust's forecast income for 2015/16 is £300m. The split between patient care and non-patient care income is approximately £281m patient care (94%) and £19m non-patient care (6%).

Financial Delivery Plans

The Trust's plans are based on the Transformation of Services as outlined below:-

- Community Transformation Programme – implementation of re-designed community pathways. Whilst this involves protecting resources the aim is to double productivity, through the introduction of standardised pathways with a Single Point of Access, an assessment clinic model, delivery of treatment packages based on NICE and other national best practice, focussed on therapeutic interventions, supporting people to recover and supporting themselves in their own communities.

- Inpatient care programme - this involves reducing adult beds for the local population from 650 at April 2014 to around 400. During 2014/15, the Trust closed 7 wards releasing £3.3m. The Trust efficiency plans include the closure of a further 8 wards over the next 2 years (2 in 15/16 and 6 in 16/17), to release £7.5m of savings including accommodation savings. However, this is subject to the outcome of consultation and agreement of a bed model.

- Specialist Care Services - Across our Specialist Services the aim is to maintain overall levels of contribution. This means that reductions in contract imposed through the national tariff adjustment, net of any CQUIN gains, will be met through improved occupancy rates, entry into new markets, withdrawal from non-profitable service lines, where this is appropriate to the overall Trust Strategy, and productivity gains linked to overall pathway improvement, and absorption of additional demand. The plan is to deliver savings of circa £3.5m per annum. Currently plans are in place to deliver £2.0m of in-year savings in 2015/16.

- Corporate Services - A fundamental re-design of corporate services is being undertaken to re-focus on the needs of the organisation across professional and functional silos. Consultation on the new model is scheduled to commence in August 2015 with implementation planned in 2016/17. This is planned to deliver £3.7m over two years.

- Other Schemes - The Trust has a range of initiatives to reduce nursing and medical agency spend. We have introduced nursing pools across our core sites at St Nicholas Hospital, St. George's Park and Hopewood Park, and are aiming to reduce agency nursing spend significantly in 2015/16. We aim to reduce medical agency spend by approximately £2m in 2015/16 through international recruitment, use of floating locums and the introduction of alternative measures of cover. Skill mix changes are being introduced across in-patient wards including the introduction of band 2 Support Workers supplemented by a new band 4 role. A programme of maximising efficiency of prescribing continues with planned savings of £400k over the next two years.

Financial Delivery Plan Profile

The Financial Delivery Plan Profile is shown in Table 1. Including a carry forward of non-delivered elements of the plan in 2014/15, the target is £12.9m in 2015/16. To deliver this the Trust has developed plans to deliver £14.2m of recurring savings, recognising the fact that usually there will be some slippage against plans. Above target plans are also in place for 2016/17.

Although £14.2m of recurring savings have been identified, the in-year delivery from these schemes is £8.3m. For this reason a range of non-recurring measures are planned to deliver a further £1.9m of savings. This leaves an in-year delivery shortfall of £2.8m in 2015/16. A further in-year shortfall in delivery of £1.8m is identified in 2016/17 as a result of the timing of scheme delivery. This will impact on the bottom line in 2015/16 and 2016/17, with a direct impact on the level of surplus delivered.

Overall the Plan is set to deliver in full, although challenges remain in managing a substantial change agenda through 2015/16.

Table 1 – Financial Delivery Plan Profile 2015/16 – 2016/17

	IN YEAR			RECURRENT		
	2015/16	2016/17	TOTAL	2015/16	2016/17	TOTAL
TARGETS	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Carry forward from 2014/15	3.3		3.3	3.3		3.3
Annual FDP Requirement	9.6	9.6	19.2	9.6	9.6	19.2
RECURRENT FDP REQUIREMENT	**12.9**	**9.6**	**22.5**	**12.9**	**9.6**	**22.5**
FDP PROGRAMMES						
In-Patient Care Programme	3.6	2.7	6.3	5.0	4.5	9.5
Specialist Care Programme	2.0	2.4	4.3	3.4	3.5	6.9
Corporate	0.9	1.9	2.8	1.9	1.9	3.7
Drugs	0.2	0.2	0.4	0.2	0.2	0.4
Accommodation	0.2	0.6	0.8	0.4	1.7	2.1
Pharmacy	0.1	0.1	0.3	0.1	0.1	0.3
Trust Schemes	1.3	0.0	1.3	3.2	0.0	3.2
PLAN TOTAL	**8.3**	**7.8**	**16.1**	**14.2**	**11.9**	**26.0**
Contingency for under delivery/slippage	0.0	(1.2)	(1.2)	(1.2)	(2.3)	(3.5)
TARGET DELIVERY	**8.3**	**6.6**	**14.9**	**12.9**	**9.6**	**22.5**
(SHORTFALL) / OVER DELIVERY	**(4.7)**	**(3.0)**	**(7.7)**	**0.0**	**0.0**	**0.0**
Non Recurrent Delivery	1.9	1.2				
IN YEAR DELIVERY	**10.1**	**7.8**				
(SHORTFALL) / OVER DELIVERY	**(2.8)**	**(1.8)**				

Capital Programme and Asset Sales Programme

The proposed Capital Programme totals £76.6m for the 5 years 2014/15 to 2018/19.

Since last year, the overall Capital Programme has increased by £1.6m due to the receipt of Safer Hospitals, Safer Wards and Nurse Technology Funding to support Electronic Prescribing and Medicines Administration and Ward based medicines automation. The capital programme supports the Trust's strategic direction through the planned level of investment in in-patient facilities that would enable the Trust to ensure that all in-patient facilities meet Trust wide standards and would enable, subject to the outcome of consultation, the centralisation of services onto a reduced number of main sites. The Trust is also investing in community premises to support the Transforming Community Services Programme. To support this level of investment it is planned to take out new loans of £27.7m - £22.7m for investment in the reconfiguration of inpatient services & £5m for the development of community premises. Loans of £13m were approved in 14/15, £10m for the new Autism Assessment and

Treatment Unit and £3m for community premises. The proposed level of loans is an increase of £8m from last year's plans.

Capital Investment Plan (at out-turn prices)

Description of scheme	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
New Developments						
South of Tyne Reprovision	4.1					4.1
Autism	0.6	9.0	0.3			9.9
In-Patient Developments	0.7	4.9	12.4	4.7		22.7
Community Premises	2.5	4.1	1.1			7.7
Other Schemes	3.2	2.2	0.2			5.6
Total – New Developments	**11.1**	**20.2**	**14.0**	**4.7**		**50.0**
Maintenance Schemes						
Refurbishment Programme	0.4	0.5	0.5	0.5	0.5	2.4
Backlog / Other schemes	1.0	0.7	0.7	1.2	1.2	4.8
Total - Maintenance	**1.4**	**1.2**	**1.2**	**1.7**	**1.7**	**7.2**
Other Schemes						
IM&T	1.7	1.5	1.5	1.5	1.5	7.7
Medicines Mgmt	0.8	0.8				1.6
Other Allocations	0.8	0.7	0.5	0.6	0.6	3.2
Contingency				3.5	3.4	6.9
Total - Other	**3.3**	**3.0**	**2.0**	**5.6**	**5.5**	**21.4**
Total Capital Expenditure	**15.8**	**24.4**	**17.2**	**12.0**	**7.2**	**76.6**

The Trust's new £50m hospital, Hopewood Park was completed in 2014/15 and became fully operational last September.

Asset Sales Programme

The Trust's planned asset sales are shown in the table below. The sale of part of the Northgate Hospital site is our last major asset realisation and this sale was completed in December 2014 with sale receipts received over 2 years. In addition to this there are a number of smaller sales of land and buildings planned linked in primarily with rationalisation of community sites.

	2015/16 £m	2016/17 £m
Asset Sales	7.5	1.9

Liquidity

The Trust's cash balance at the end of 2014/15 is forecast to be £20.6m. This is planned to increase slightly during 2015/16 to £21.6m with a further increase planned in 2016/17 to £24.4m. The Trust's forecast cash flow for the next 2 years is shown in the table below:-

Cash Flow Summary

	2015/16 £m	2016/17 £m
Opening Cash Balance	**20.6**	**21.6**
Trust Surplus	2.0	4.8
Loan Repayments	(6.2)	(6.1)
Capital Programme	(24.4)	(17.2)
Depreciation	6.2	6.7
Asset Sales	7.5	1.9
Loan Drawdowns	17.9	13.5
Change in Working Balances	(2.0)	(0.8)
Closing Cash Balance	**21.6**	**24.4**

Risk Ratings

The Trust is planning a Continuity of Services rating of 3 in 2015/16. However, the capital servicing capacity rating is planned to be a 1 in 2015/16 due to the continued investment in Service Transformation (£5m in 2015/16), and due to the phasing of delivery of recurrent savings during the year. However, the underlying capital servicing capacity rating remains a 2. The liquidity rating is planned to remain a 4 with the Trust's cash balances planned to be £21.6m at March 16.

Summary of Risk Ratings

	2015/16	2016/1
Liquidity rating	4	4
Capital Servicing Capacity	1	2
Overall Continuity of Services rating	**3**	**3**

Potential down side risks and mitigations

The Trust faces a number of risks to delivery of its strategy. The key financial risks for 2015/16 include the following:

- Slippage, delays and non-achievement of the Financial Delivery Programme;
- NHS England strategy to tender and consolidate services. Details of this are yet to be issued;
- Tendering of locally Commissioned services;
- Outcome of the Newcastle and Gateshead Alliance CCG consultation on services for Newcastle and Gateshead;
- Failure to meet CQUIN Targets;
- Failure to manage occupancy rates under cost and volume contracts;
- Failure to deliver service specifications within the negotiated prices;
- Managing risks arising from the agreement to manage Out of Area Placements on behalf of Northumberland and North Tyneside CCGs and potentially other CCGs;

Contingencies built into Plans

To enhance service line management arrangements within the Trust, the Trust has allocated all available funding and savings targets out to Group and directorate budgets, as part of this year's budget setting exercise. The expectation is that services will manage within allocated resources and deliver from a financial perspective. Therefore the Trust has no contingency built into its plans.

The Trust has created a £5m non-recurrent Transformation Fund, by reducing the planned surplus for the year, to support delivery of the Trust's Transformation of Services Programmes in 2015/16.

The Trust has in place well developed and fully resourced programme management to manage the process of change, and well developed governance and assurance processes to manage on-going delivery of targets and plans.

Risks and opportunities arising from tendering and commissioning services are more likely to emerge in 2015/16 and will become clearer as the coming year develops.

Risk Analysis

The plans above represent the expected scenario for the Trust going forward. For the final operational plan, a risk analysis will be undertaken looking at the potential impact of failing to deliver elements of the Financial Delivery Plan, the potential impacts of developments within the market, and the impact of failing to deliver some of the Trust's CQUIN requirements.

SUMMARY

The Board is asked to approve:-

1) The 2015/16 Budget including the proposed funding of pressures, the funding to support Transformation and the Financial Delivery Plan.

2) Updated financial plans including the proposed capital programme 2014/15 – 2018/2019