

Finance & Performance Committee

Meeting Date:	23rd March 2016
Title:	Income and Expenditure Plan for 2016/17
Executive Summary:	This report outlines the Income & Expenditure Plan for 2016/17. It details the contract income agreements with Commissioners, the level of resource investment and also the risks inherent in the financial planning.
Action Requested:	Recommended that the Income and Expenditure Plan and associated balance sheet and cash flow are approved.
Report of:	Kevin Stringer, Chief Financial Officer
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Resource Implications:	
Public or Private: (with reasons if private)	Public Session
References: (eg from/to other committees)	
Appendices/ References/ Background Reading	
NHS Constitution: (How it impacts on any decision-making)	In determining this matter, the Board should have regard to the Core principles contained in the Constitution of: <ul style="list-style-type: none"> ✚ Equality of treatment and access to services ✚ High standards of excellence and professionalism ✚ Service user preferences ✚ Cross community working ✚ Best Value ✚ Accountability through local influence and scrutiny

1.	<u>Context</u>
1.1	Provider organisations within the NHS are facing severe financial challenges. As part of the national driver to balance the NHS finances providers have been issued with 2016/17 control totals. The Trust was notified by the Trust Development Agency (TDA) on 15 th January of its control total of £12.6m surplus with Sustainability and Transformation (S & T) funding of £10.6m. Therefore, the Trust has to set an underlying surplus of £2m. It is important to note that the S & T funds are subject to conditions including delivery of the agreed control total; maintaining agreed performance trajectories (including the A & E 4 hour standard and 18-week referral to treatment standard) and

development with Commissioners of an integrated 5 year plan.

2. **Overview**

Setting an Income and Expenditure (I & E) plan for 2016/17 has been challenging due to material pressures within the economy:

- **Cost Improvement Programme (CIP).**
The Trust continues to recurrently underachieve against its CIP target. The level of recurrent underachievement in 2015/16, and carried forward into 2016/17 is £10.7m. The 2016/17 efficiency requirement is £14.9m.
- **Quality, Innovation, Productivity and Prevention (QIPP)**
In addition to the CIP passed on by commissioners through the tariff additional schemes have been proposed which total £9m reduction to the Trust's income.
- **Contract negotiations**
Contract negotiations are not yet concluded with Commissioners. Escalation meetings are being held with Wolverhampton CCG and its associates. The main material issues being QIPP in relation to Better Care Fund; the level of activity within the Urgent Care centre and the level of investment in the Clinical Decision Unit with A & E. A formal contract offer has not been received from Specialised Services Commissioner's, however a start point activity and finance model has been received. This informal offer contains issues relating to QIPP savings, the level of inflation for local tariffs and CQUIN percentage.

3. **Summary**

3.1 Currently the I & E is not fully completed and discussions are on-going with Divisions and Directorates in relation to the level of cost pressures and developments requested (£28m) and the ability to fund this level within the overall income quantum. The requirement is to reduce the cost pressures / business cases and developments by £15m and in response to a QIPP loss of £9m. Discussions will need to be concluded prior to the submission of the full and final plan to the TDA on 11th April 2016. Whilst these discussions are completed the Committee is requested to agree the I & E plan and these actions.

A summary of the proposed Income and Expenditure Plan is as follows:-

The Royal Wolverhampton NHS Trust**Financial Plan 2016/17**

Income	2016/17	2015/16
	£000's	£000's
Patient Income	435,674	429,384
Patient Income Contingency	(2,010)	
Training & Education	12,179	10,943
CRN Income	30,636	30,784
Other Income	31,062	36,169
Total Income	507,540	507,279
Expenditure		
Baseline Budgets	433,850	429,871
CRN Expenditure	30,636	30,784
Reserves		
Inflation - Pay	7,568	3,311
Inflation - Non Pay	2,027	1,753
Drugs & Devices	5,507	7,305
Activity & Developments	15,273	5,694
Cost Pressures	12,956	8,472
Cost pressures & business case review	(15,000)	(3,000)
Quality & Safety Improvements	749	869
Contingency & Risk	2,250	6,681
Anticipated QIPP Savings	0	(2,266)
Non recurrent Cost pressures	2,600	5,188
Less Cost Improvement Programme	(14,907)	(16,000)
Less CIP Carry forward from 14/15	(10,722)	(4,617)
Total Expenditure Budgets	472,788	474,046
EBITDA Surplus	34,752	33,233
Less		
Depreciation NHS/ Donated	(17,316)	(21,308)
Depreciation IFRS PFI & Leases		
Operating Surplus	17,436	11,925
Add /Less		
Interest Receivable	100	100
Interest Payable	(1,784)	(1,784)
Surplus After Interest	15,752	10,241
Less		
Dividends payable to Department of Health	(13,520)	(12,447)
Underlying Surplus	2,232	(2,206)
Impairments	(2,000)	(3,701)
Retained Surplus / (Deficit)	232	(5,907)

Adjustments to TDA reported figure:-

Donated Asset Income	(400)	(400)
Depreciation on donated assets	168	168
Impairments	2,000	3,701
Adjusted Surplus	2,000	(2,438)

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Income

Contract Negotiations

Following lengthy Contract Negotiation Meetings and Director level Escalation Meetings, with Wolverhampton CCG and Staffordshire CCG's, patient activity contracts for Clinical Commissioning Groups (CCG's) have not been fully agreed. At the time of writing this report, 21st March, the escalation meetings are continuing with the aim to reach an agreement without the need to go to mediation and then arbitration.

The material issues still to be agreed are the Better Care Fund reduction and aligned Community activity; Urgent Care activity changes; Clinical Decision Unit activity pathway changes; Critical Care tariffs and End of Life Pathway nurse support. The national contract documentation is expected to be signed by 31 March 2016.

A formal offer has not been received from Specialised Services but a start point "informal" offer of activity; finance; QIPP and local tariff has been received and has risks attached. The Trust has issued a contact proposal to Specialised Services. The risks attached to the Specialised Services Contract are as follows:-

Local tariff inflator has been offered at 0.7% whereas the national tariff indicator is 1.1%. The Trust has included 1.1% against all local tariffs as per the national guidance. The Specialised Services offer is based on local tariffs not requiring any inflation for drugs but this has not been agreed and as the inflation is an average we would expect the national tariff to be honoured.

CQUIN will only be paid at 2% not the 2.5% national percentage. Specialised Services have only paid 2.4% for a few years stating the difference funds regional networks. The 2.4% has been built into the I & E plan. This change in the CQUIN percentage was only notified to the Trust on 16th March.

QIPP schemes of £1.26m have been deducted within the contract offer. The schemes are predominately related to drugs and devices prices where by the Trust will only be paid at the nationally / regionally negotiated price (£350k). There is a QIPP relating to managing pre dialysis patients to reduce the number of patients transferring to kidney dialysis (£270k) also for reduction in radiotherapy fractions for prostate cancer based on clinical evidence (£200k). A level of detail behind the QIPP schemes was received on 17th March and is being reviewed for their impact, but there was insufficient detail for some areas.

An analysis of income is shown in Appendix A. This highlights that the majority of the income is via patient activity contracts with CCG's; NHS England (including Specialised Services) and Local Authorities.

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Baseline Budgets

Appendix B details the baseline budgets by Division/Directorate. The pay and non pay budgets are based on the 2015/16 recurrent budgets, adjusted for full

year impact of service developments and cost improvements.

Budget setting meetings have taken place over the last 3 months with Divisions and Directorate Managers in order to understand the material financial issues within the Trust. These discussions, where appropriate, have been taken into account when forming the expenditure plan for 2016/17.

6 Reserves

Pay inflation of £7.6m includes incremental drift; National Insurance increases and the pay award of 1%.

Non pay inflation of £2m includes CNST premium; procurement negating inflation and Radiology PFI.

Drugs and devices of £5.5m mainly relates to specific items funded by Commissioners, these are described as “pass through” items where actual costs are passed on to and funded by Commissioners. The majority £3.9m, relates to pass through nationally agreed drugs; NICE drugs and chemotherapy drugs.

Activity and Developments are detailed in Appendix C and total £15.3m. This includes funding for the Urgent & Emergency Care Centre; Service activity changes including Dermatology, Community and Endoscopy and Midwifery staffing costs.

Cost pressures of £12.9m are also detailed in Appendix C. These include:- Lucentis drug costs aligned to activity; A & E and AMU consultants and loss of income due to changes in drugs gain share schemes.

The plan includes £0.8m for quality and safety relating to costs to pump prime CQUIN initiatives.

Funds of £2.6m are being held for non recurrent investment, however the bids for non recurrent funding total £4m and are being further reviewed. This includes the non recurrent funds for Cannock transition of £1m and associated costs.

7 Cost Improvement Programme (CIP)

The CIP for 2016/17 has been set at £14.9m, to reflect the following:-

National tariff efficiency	£8.4m
Requirement of surplus of £2m	£5.3m
PDC and Depreciation Change	<u>£1.2m</u>
Total	£14.9m

There is also a balance of £10.7m carried forward from 2015/16 giving a total CIP requirement of £25.6m.

This level of saving is a significant risk to the Trust. The financial plans include support for Divisions to help put into place the processes and changes required to achieve this significant level of efficiency savings.

8 Risks and Contingency

The Trust holds a small level of contingency reserves to help mitigate specific risks and issues.

The main risks facing the Trust include:-

- Achievement of efficiency targets, a significant risk with the level of efficiency required at £25.6m.
- Changes to activity plans, including emergency activity pressures.
- Commissioner plans, specifically relating to QIPP and the Trust's ability to find replacement activity and/or reduce its cost base.
- Achievement of CQUIN target and performance targets, both national and local.
- The full impact of the Specialised Services contract as no formal offer has yet been received.
- The level of fines the Trust may incur and the ability to access these on a ring-fence basis going forwards
- Cost of the NHS contract impositions
- Key performance trajectories without increased funding
- Manpower costs in relation to agency and TDA control total of £10.2m
- Costs of new junior doctor contract

The Trust holds a general contingency reserve of £1.25m to help offset these risks.

9 Total Planned Surplus and Risk Metrics

The total planned surplus of £2m, after adjustment for impairments, and other data within the plan result in the following financial risk metrics:-

Financial Sustainability Risk Ratings (FSRR)	
	Rating
Liquidity Ratio (days)	2
Capital Servicing Capacity (times)	3
Income & Expenditure Margin	4
Income & Expenditure Variance from Plan	4
Capital Servicing & Liquidity Rating	3
Financial Sustainability Risk Ratings	3
Key metric FSRR - Liquidity Ratio Metric and Capital Servicing Capacity Elements	GREEN

10 Cash Flow and Balance Sheet

Appendix D shows the forecast Balance Sheet as at 31st March 2017

Appendix E shows the monthly cash forecast that flows from the proposed income and expenditure plan, and also includes the capital programme expenditure plan forecast.

This detail is subject to review over the next 2 weeks, prior to submission of the final plan on 11th April 2016. The current figures phase capital expenditure to the end of the year which needs discussion with Estates Development. Additionally it is dependent on achievement of CIP in the last 6 months of the year. Otherwise a working capital loan will be required.

11 Conclusion

Whilst the plan provides an income and expenditure package that enables

activity levels and a number of developments to be funded the Trust will need to identify how it will ensure that financial control will be maintained and efficiency requirements met. The required funding reductions will need to be concluded and agreed prior to the full plan submission on 11th April 2016. The plan also provides a small level of contingency against risks the Trust may face in 2016/17.

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Recommendations

The Trust Board is recommended to approve the 2016/17 Income and Expenditure and Cash plans.

		APPENDIX A			
<u>Planned Income</u>		2016/17		2015/16	
Service Level Agreements CCG's and Local Authority		£000's	£000's	£000's	£000's
Acute Services					
Wolverhampton		148,294		145,308	
South East Staffs & Seisdon		25,581		23,536	
Cannock & Staffs Surround CCG's		57,611		59,893	
Walsall		25,600		23,604	
Dudley		6,258		6,332	
Others		11,435		13,590	
CQUIN (2.5%)		5,180		5,977	
Community Services		38,747		38,848	
Dental services		1,256		1,256	
Local Authority		9,402		7,925	
			329,364		326,269
Specialised Services incl NHSE			89,042		88,362
Other Patient Income (Mainly RTA's; NCA's)			14,134		14,753
Private Patient Income			1,124		1,112
Training & Education; Research Network			42,814		41,727
Divisional Income Budgets			30,662		34,657
Donated Asset Income			400		400
TOTAL			507,540		507,279

Baseline Budgets**APPENDIX B**

	WTE	£000's
Operations Directorate		
Division 1 (Surgery etc)	3,126	190,639
Division 2 (Medicine etc)	2,512	153,845
Estates & Facilities	750	37,326
Other Operations Staff		
Sub Total	6,388	381,810
Chief Executive	19	1,581
Chief Operating Officer	7	728
Finance & Information (Including Procurement & Estates Development)	470	19,403
Human Resource & Training	83	3,955
Planning & Contracting	16	687
Nursing Director	155	14,288
Medical Director	248	11,399
CRN	0	30,636
TOTAL	7,386	464,485

APPENDIX C

Cost Pressures	WTE	£000's
Health Education England income	0	1,220
Lucentis	0.00	1,212
ED and AMU Consultants	0.00	1,002
Pharmacy Gainshare loss	0.00	847
Reduction in non patient care income	0.00	448
Ward B7 staffing	5.24	434
Head and Neck activity costs	0.00	390
JMS and Senior Fellows	4.00	383
Paediatric ward staffing	11.00	357
Clinical Haematology Unit costs	1.67	318
Delisted Cancer Drug Fund Drugs	0.00	277
C41 procedure room	4.00	267
Equipment maintenance	0.00	257
Home Inreach Team	5.91	248
Rheumatology Consultants	0.00	241
Transformation team	6.00	230
Private patient income	0.00	200
Endoscopy activity costs	2.28	195
Incinerator maintenance costs	0.00	184
Colonoscopies recharge	0.00	172
Radiology cost pressures	0.00	140
Childrens services non pay	0.00	137
Drugs overspend	0.00	136
BPAS Income loss	0.00	136
Cardiology ward staffing	5.00	127
Postage increase	0.00	123
Medical Physics staffing	0.00	120
School nursing	4.00	115
Critical Care non pay	0.00	112
Cleaning and waste	3.49	112
Pathology cost pressures	0.00	96
Communications and Engagement	1.00	91
Enteral feeds	0.00	89
Vitrectomy activity -Ophthalmology	0.00	85
CQC subscription fee	0.00	84
Childrens Services non pay	0.00	84
Renal activity	0.00	83
T & O pay costs	2.00	79
Gene expression profiling testing	0.00	73
Wheelchairs- community	0.00	65
CPAP machines and consumables	0.00	62
Other	17.60	1,926
Total Cost pressures	73.19	12,956

Activity & Developments	WTE	£000's
Urgent & Emergency Care Centre	30.98	2,161
Dermatology activity changes	21.70	1,715
Cannock Endoscopy	37.57	1,552
Community staffing re BCF activity	17.46	1,262
Midwifery staffing costs	26.50	1,024
4th Breast Consultant	8.75	680
E-prescribing	11.00	496
6th Urology Consultant	5.00	479
Rheumatology activity changes	6.40	416
Early Access to Medicines Scheme Pembrolizumab	0.00	407
IT WHIP transfer from CCG	0.00	389
Renal Activity	0.00	375
Nursing Home Project	7.37	373
Centralisation of Head & Neck service	0.02	343
Transitional Care Ward	21.14	326
Cannock Respiratory	11.04	270
Medical Physics & Radiotherapy Electronics Staffing	0.00	248
Respiratory Consultants	2.00	219
Radium 223 (Xofigo)	0.03	217
Heart Failure BPT	5.25	186
Therapy Services Rehabilitation Team expansion	6.40	175
Capacity Staffing	5.63	168
Speech & Language staffing	4.90	164
Eylea (Aflibercept) Ophthalmology Drug	0.00	159
Safe Hands (Acumentive)	0.00	153
Cardiology - Additional middlegrade doctors	3.00	144
Adult Cystics Fibrosis Service	2.00	133
Consultant 7 day working	1.00	133
Cardiology Cath Lab	0.00	106
Fidoxomicin	0.00	100
Other	13.47	702
Total Activity & Developments	248.61	15,273

APPENDIX D

Draft Balance Sheet	01/04/2016 £000	31/03/2017 £000	Full Year Movement £000
Non Current Assets			
Property, Plant and Equipment	408,580	425,106	16,526
Intangible Assets	453	282	(171)
Other non current assets (under review)	1,989	695	(1,294)
Non Current Assets	411,022	426,083	15,061
Current Assets			
Inventories	5,642	5,642	0
Trade & Other Receivables	24,009	24,009	0
Cash (Dependant on CIP Achievement)	14,130	11,518	(2,612)
Total Current assets	43,781	41,169	(2,612)
Non Current Assets - Held for sale	800	800	0
Total Assets	455,603	468,052	12,449
Current Liabilities			
Trade & Other Payables	(45,976)	(47,976)	(2,000)
Borrowings	(1,841)	(2,110)	(269)
Provisions	(4,321)	(2,321)	2,000
Total Current Liabilities	(52,138)	(52,407)	(269)
Net Current Assets/(Liabilities)	(7,557)	(10,438)	(2,881)
Total Assets less Current Liabilities	403,465	415,645	12,180
Non Current Liabilities			
Other	(5,130)	(7,390)	(2,260)
Provisions	(648)	(648)	0
Total Non Current Liabilities	(5,778)	(8,038)	(2,260)
Total Assets Employed	397,687	407,607	9,920
Financed By:-			
PDC	229,543	232,043	2,500
Retained Earnings	27,229	30,061	2,832
Revaluation Reserve(Valuation latterly received & reviewing)	140,725	145,313	4,588
Other Reserves	190	190	0
Total Taxpayers Equity	397,687	407,607	9,920

