

Trust Board Report

Meeting Date:	24 March 2014
Title:	Income and Expenditure Plan for 2014/15
Executive Summary:	This report outlines the Income & Expenditure Plan for 2014/15. 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.

Overview

1.1

The 2014/15 Income and Expenditure Plan reflects the Trust's Long Term Financial Model (LFTM). The surplus is set at £5.37m, with the inclusion of impairments of £0.65m the retained surplus is £4.72m.

The NHS continues to work in a constrained financial environment which is highlighted in the national net tariff deflator of 1.5% for acute services (1.8% for non acute services), this includes an in built efficiency of 4%. The level of

efficiency required is reflected in the Trust's Cost Improvement Programme (CIP) target.

Following lengthy Contract Negotiation Meetings and Director level Escalation Meetings patient activity contracts for Clinical Commissioning Groups (CCG's) have been agreed, by Wolverhampton City CCG on behalf of all associate CCG's. At the time of writing this report, 14th March, patient activity contracts for Specialised Services have not been signed. We have been informed that the deadline for NHSE contracts has been extended to the end of March.

2 **Summary**

2.1 Contracts for CCG Income were agreed on the 14th March with signed plans. The national contract documentation is expected to be signed by 31 March 2014. This included the Community Services contract which has been rebased across all Commissioners, moving to part cost and volume and part block contract. This is the first step to moving towards a full cost and volume contract with local tariffs and follows 2 years of review and negotiation. In total CCG contracts secured income of £252m for the Trust.

2.2 The contracts for the previously National Commissioning Board, now NHS England, have moved from being an associate contract of the WCCCG as our host CCG to the commissioner responsibility of NHSE alongside Specialised Services. This includes acute and community elements and also secondary dental services which from 1st April 2014 will move from CCG responsibility to NHSE.

2.3 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 2014/15.

2.4 In line with the required national efficiency target of 4% the Trusts CIP target has been set at £15.3m, this excludes the carry forward from 2013/14 of £12.7m.

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

Financial Plan 2014/15		
Income	2014/15	2013/14
	£000's	£000's
Patient Income	351,965	344,750
Training & Education	10,687	10,344
Other Income	20,914	17,986
Total Income	383,566	373,080
Expenditure		
Baseline Budgets	338,141	325,197
Reserves		
Inflation - Pay	4,969	6,036
Inflation - Non Pay	2,394	2,550
Drugs & Devices	6,818	3,852
Activity & Developments	13,427	10,242
Cost Pressures	3,858	6,213
Quality & Safety Improvements	881	1,090
Contingency & Risk	5,836	5,572
Non recurrent Cost pressures	3,000	958
Less Cost Improvement Programme	(15,300)	(14,741)
Less CIP Carry forward from 13/14	(12,704)	(6,543)
Total Expenditure Budgets	351,318	340,427
EBITDA Surplus	32,248	32,653
Less		
Depreciation NHS/ Donated	(15,813)	(15,000)
Depreciation IFRS PFI & Leases		
Operating Surplus	16,435	17,653
Add /Less		
Interest Receivable	100	100
Interest Payable	(1,687)	(1,600)
Surplus After Interest	14,848	16,153
Less		
Dividends payable to Department of Health	(9,480)	(8,120)
Underlying Surplus	5,368	8,033
Impairments	(647)	(539)
Retained Surplus	4,721	7,494
Adjustments to TDA reported figure:-		
Donated Asset Income	(400)	
Depreciation on donated assets	182	
Impairments	647	
Adjusted Surplus	5,150	

3.	<u>Income</u>
3.1	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.
3.2	The Commissioner contracts are based on month 6 forecast outturn, with adjustments for commissioning intentions (agreed price and coding changes); service developments and QIPP savings. Quality Innovation, Productivity and Prevention (QIPP) saving reductions included in the contract total £2.8m, including Procedures of Limited Clinical Value (POLCV). However, the CCG's have plans to remove further savings, including further POLCV following agreement of clinical guidelines and also through schemes to reduce outpatient attendances, especially in relation to follow up review attendances. The CCG's view of the full year impact of those remaining schemes totals £5m but the Trust will only agree to any contract changes and subsequent service changes when convinced plans are fully worked through; clinically appropriate and safe.
3.3	The NHS England contracts total £84.8m and have not been agreed or signed. However, an initial offer has been received and following risk assessment and internal discussions the £84.8m has been included in the plan for Specialised Services and NHS England Community/Acute Services including secondary dental services which have transferred from CCG's. It is anticipated these contracts will be agreed and signed by the end of March.
4.	<u>Baseline Budgets</u> Appendix B details the baseline budgets by Division/Directorate. The pay and non pay budgets are based on the 2013/14 recurrent budgets, adjusted for full year impact of service developments; and cost improvements.
5.	<u>Reserves</u>
5.1	Pay inflation of £5m includes incremental drift of £1.7m; a provision for a 1% pay award of £2.4m and £0.6m relating to the "opted in" Pension scheme introduced in April 2013.
5.2	Non pay inflation of £2.4m includes energy; rates; consumable costs and managed service contracts in Pathology.
5.3	Drugs and devices of £6.8m 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 £5.6m, relates to pass through nationally agreed drugs and chemotherapy drugs.
5.4	Activity and Developments are detailed in Appendix C and total £13.4m. This includes funding for the Clinical Decision Unit; funding for increased activity in Ophthalmology and other service developments.
5.5	Cost pressures of £3.8m are also detailed in Appendix C. These include:- services funded through increased income e.g. Healthy Lifestyles & Early Supportive Discharge; pathology activity pressures and Estates & Facilities cost pressures.
5.6	The plan includes £0.9m for quality and safety. This includes costs to pump prime CQUIN initiatives and patient experience.

<p>5.7</p> <p>6.</p> <p>6.1</p> <p>7.</p> <p>7.1</p> <p>8.</p>	<p>Funds of £3m are being held for non recurrent investment. This will include support to achieve efficiency savings.</p> <p><u>Cost Improvement Programme (CIP)</u></p> <p>The CIP for 2014/15 has been set at £15.3m, to reflect the national efficiency requirements of 4%. There is also a balance of £12.7m carried forward from 2013/14 giving a total CIP requirement of £28m. Plans continue to be discussed and put into action in order to reduce the carry forward and achieve the 2014/15 target. 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. This level of saving is a significant risk for the Trust.</p> <p><u>Risks and Contingency</u></p> <p>The Trust holds contingency reserves to help mitigate specific risks and issues.</p> <p>The main risks facing the Trust include:-</p> <ul style="list-style-type: none"> - Achievement of efficiency targets, a significant risk with the level of efficiency required at £28m. - Changes to activity plans, including emergency activity pressures. - Commissioner plans, specifically relating to QIPP. - Achievement of CQUIN target and performance targets, both national and local. <p>The Trust holds a general contingency reserve of £1.25m to help offset these risks and also contingencies for emergency threshold reductions; emergency readmission reductions and QIPP savings to be actioned during the year.</p> <p><u>Total Planned Surplus and Risk Rating</u></p> <p>The total planned surplus of £4.32m is consistent with the Trust's Long Term Financial Model, after adjustment for impairments.</p> <p>The planned surplus and other indicators within the plan result in the following risk ratings:-</p>
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8.1

Financial Risk Rating			
Ratio KPIs	Value	Rating	Definitions
EBITDA Achieved	100.0 %	5	=in year achievement/ in year plan
EBITDA Margin	8.3 %	3	=EBITDA/Total Income
Net Return on Financing	1.6 %	3	=(I&E Surplus less PDC dividend, Interest, PFI financing other finance lease costs)/divided by(total debt + balance sheetPFI & Finance leases+Taxpayers equity)
I & E Surplus Margin	1.3 %	3	=Net Surplus/(Deficit)/Total Income
Liquidity Ratio	29.6 days	4	= prior year cash plus trade debtors less trade creditors plus working capital facility expressed as days of current year operating expenses
Overall Rating		3.5	
Continuity of Service Rating			
Ratio	Actual To Date	Rating	Definitions
Liquidity Ratio(days)	(0) days	3	As above but excluding working capital facility
Capital Servicing Capacity (Times)	3 Times	4	The number of times the debt can be met by the surplus
Overall Continuity of Service Rating		4	Maximum rating 4

9. **Cash Flow and Balance Sheet**

9.1 Appendix D shows the forecast Balance Sheet as at 31st March 2015

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

10. **Conclusion**

This plan is in line with the principles agreed as part of the Long Term Financial Model. The plan provides an income and expenditure package that enables activity levels and a number of developments to be funded. The plan also provides a level of contingency against risks the Trust may face in 2014/15.

11. **Recommendations**

The Trust Board is recommended to approve the 2014/15 Income and Expenditure and Cash plans.

APPENDIX A

Planned Income

Service Level Agreements CCG's and Local Authority	2014/5		2013/14	
	£000's	£000's	£000's	£000's
Acute Services				
Wolverhampton	136,876		147,877	
South Staffs	31,640		34,996	
Walsall	20,162		20,459	
Dudley	6,251		8,707	
Others	12,890		9,157	
CQUIN (2.5%)	4,937		5,530	
Community Services	37,904		42,431	
Community Services CQUIN	916		1,060	
Dental services	1,277		1,300	
Local Authority	6,445		6,793	
		259,299		278,310
Specialised Services incl NHSE		84,819		58,616
Other Patient Income (Mainly RTA's; NCA's and flexi Sigs)		7,848		7,824
Private Patient Income		1,107		1,086
Training & Education		10,687		10,344
Divisional Income Budgets		19,407		16,900
Donated Asset Income		400		
TOTAL		383,566		373,080

APPENDIX B**Baseline Budgets**

	WTE	£000's
Operations Directorate		
Division 1 (Surgery etc)	2,165	134,832
Division 2 (Medicine etc)	2,491	132,892
Estates & Facilities	641	30,415
Other Operations Staff	5	537
Sub Total	5,302	298,676
Chief Executive	18	1,534
Finance & Information (Including Procurement; Information & Estates Development)	413	17,965
Human Resource & Training	119	6,079
Planning & Contracting	15	812
Nursing Director –including CNST	118	11,400
Medical Director	52	1,674
TOTAL	6,037	338,141

APPENDIX C

Cost Pressures	WTE	£000's
Healthy lifestyles	32.79	889
IT	4.71	451
Ft Costs Including Wcf	0.00	250
Health Visiting Support Workers	10.00	245
Pathology	0.00	174
Wolves Urgent Care Triage & Assessment	4.03	163
E & F Increase in Electric and Gas consumption	0.00	160
C16 Activity staffing increase	2.00	155
Incinerator	0.00	150
Pharmacy extended weekend opening	5.44	134
HR	2.00	124
Nursing -IV Team Expansion	2.90	118
Early Supportive Discharge	3.00	116
E Prescribing	1.61	109
A & E Majors opening hours 18 to 24	3.00	105
Adult Safeguarding	1.00	76
Other	18.29	439
Total Cost pressures	90.77	3,858

Activity & Developments	WTE	£000's
Nursing staffing	37.59	1,000
Flexible Sigmoidoscopy	12.61	1,916
Clinical Decisions Unit (CDU); Majors; A & E	41.21	1,587
Lucentis for Diabetic Macular Oedema and Wet AMD	0.83	1,258
Activity related clinical support	12.00	833
Clinical Haematology Expansion	10.77	512
Adult Cystic Fibrosis Unit	29.82	480
7 Day Consultant Working	4.00	407
Midwifery Staffing birth rate plus	9.68	395
Cardiology In-Reach	5.00	330
Beynon from 5 to 7 Days	7.79	316
Nursing for IV and SSI teams	11.10	306
Fidaxomicin	0.00	290
Pathology	0.00	279
Family Nurse Partnership Programme	1.93	252
Accumentive	0.00	220
Cardiac Theatres	8.10	219
Looked After Children	4.00	208
Clinical Coding	3.43	170
Robotic Surgery		168
NICE for Denosumab		93
Other	46.17	2,188
Total Activity	246.03	13,427

APPENDIX D

Balance Sheet	01/04/2014	31/03/2015	Full Year Movement
	£000	£000	£000
Non Current Assets			
Property, Plant and Equipment	291,351	311,783	20,432
Intangible Assets	855	1,173	318
Other non current assets	837	837	0
Total Non Current Assets	293,043	313,793	20,750
Current Assets			
Inventories	5,000	4,599	(401)
Trade & Other Receivable	14,533	14,173	(360)
Cash	24,826	26,214	1,388
Total Current assets	44,359	44,986	627
Non Current Assets Held for sale	800	0	(800)
Total Assets	338,202	358,779	20,577
Current Liabilities			
Trade & Other Payables	(34,630)	(37,884)	(3,254)
Borrowings	(1,724)	(1,626)	98
Provisions	(1,307)	(1,307)	0
Total Current Liabilities	(37,661)	(40,817)	(3,156)
Net Current Assets	6,698	4,169	(2,529)
Total Assets less current liabilities	300,541	317,962	17,421
Non current Liabilities			
Other	(6,487)	(4,760)	1,727
Provisions	(402)	(402)	0
Total Non Current Liabilities	(6,889)	(5,162)	1,727
Total Assets Employed	293,652	312,800	19,148
Financed By			
PDC	173,253	180,835	7,582
Retained Earnings	39,728	44,053	4,325
Revaluation Reserve	80,481	87,722	7,241
Other Reserves	190	190	0
Total Taxpayers Equity	293,652	312,800	19,148

Appendix E - Cash Flow

