The Royal Wolverhampton NHS Trust

NHS

Trust Board Report

Meeting Date:	30th March 2015
Title:	Income and Expenditure Plan for 2015/16
Executive Summary:	This report outlines the Income & Expenditure Plan for 2015/16. 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: - 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. **Context**

1.1 The NHS is facing a very challenging financial time with 75% of acute Trusts forecasting a year end deficit in 2014/15.

This has been allied to a difficult contracting round with the original tariff proposal from NHS England and Monitor being rejected as more than 51% of stakeholders objected during the consultation. The effect of these objections was that Monitor has to decide whether to refer the matter to the Competition and Markets Authority or to develop proposals on which to re-consult with stakeholders. This process means that there is not an agreed tariff to be implemented from 1st April 2015. Therefore on 18th February 2015 Monitor and NHS England issued 2 tariff options to which providers had to respond stating which option they wished to adopt for 2015/16. In essence the 2 options were:-

- Enhanced Tariff Option (ETO) – which is the 2015/16 proposed tariff updated
- Default Tariff Rollover (DTR) – which is the 2014/15 tariff but without CQUIN being paid.

The following tables highlights the main differences:-

	Current 14/15 Tariff	15/16 proposed tariff	ETO	DTR
Efficiency within tariff		-3.8%	-3.5%	0
Pay & prices uplift within tariff		1.9%	1.9%	0
Net efficiency within tariff		**-1.9%**	**-1.6%**	**0**
CQUIN	2.5%	2.5%	2.5%	0
Marginal Rate threshold paid	30%	50%	70%	30%
Specialised Services – payment for over performance	100%	50%	70%	100%

Both of the proposed tariffs give the Trust challenging financial scenarios but after detailed Financial modelling (shared with the Board) the Trust responded to Monitor stating its preferred option as ETO. Therefore, for 2015/16 the Trust will be paid for its patient care activity under the ETO option which will remain in place for all of 2015/16

2 **Overview**

2.1 Setting an Income and Expenditure plan for 2015/16 has been challenging because of a number of material issues:

- **Cost Improvement Programme (CIP).**
  The Trust underachieved on CIP for 2014/15 and carried forward £16.6m of efficiency target which when added to the tariff requirement of 3.5% totalled £32.6m (7.0% of Income, 7.6% of expenditure budgets).
- **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 £11.4m reduction to the Trust's income.
- **Contract negotiations**
  These are still not concluded and the Trust is in dispute with Wolverhampton CCG and its associates and has not received a formal written offer from specialist services. Of significant concern is Wolverhampton CCG's proposal to withdraw £4.7m of income which currently funds the dementia ward, 7 day services, supervisory ward managers and the nurse staffing consequences of the CQC visit.
- **Divisional performance against expenditure budgets**
  Divisional budgets (excluding CIP and corporate budgets) are likely to overspend by c£9.8m. Whilst some of this will undoubtedly be related to activity the pressures on budgets will need to be considered.
- **Cost pressures, developments and business cases.**
  Bids totalling c£20.6m have been made in respect of services some of which will be related to the budget overspends identified above.

3	**Summary**

The 2015/16 Income and Expenditure Plan reflects the Trust's Long Term Financial Model (LFTM) but now updated for the latest contract positions. The Board adjusted its view of the LTFM from a surplus of £5.4m to a surplus of £0.3m given the overview of pressures that it faced. The proposed Income and Expenditure position is a deficit of £2.4m, albeit this has a number of risks in setting this position. (£2.4m deficit adjusted from an in year deficit of £5.9m when including technical accounting items, mainly impairments of £3.7m).

The Trust also has a statutory target to break even year on year and therefore options will need to be explored to achieve this statutory requirement.

3.1 Contract Negotiations

Following lengthy Contract Negotiation Meetings and Director level Escalation Meetings, with Wolverhampton CCG on behalf of all associate CCG's, patient activity contracts for Clinical Commissioning Groups (CCG's) have not been fully agreed. At the time of writing this report, 24th March, the Trust and its CCG commissioners have now entered into the dispute resolution process. This dispute is in relation to the contract deductions relating to the Better Care Fund £1.9m and the proposed block withdrawal of £4.7m.

Contracts for CCG Income have been agreed except for the Better Care Fund reduction; South East Staffs & Seisdon QIPP; Staffordshire outpatient QIPP and growth relating to referral to treatment targets. The national contract documentation is expected to be signed by 31 March 2015. This included the Community Services contract and the initial services transferred from County Hospital, Stafford via the Acquisition Business case. In total CCG contracts secured income of £282m for the Trust.

The contracts for NHS England acute; Community and dental services have been agreed but the Specialised Services element remains outstanding. NHSE have significant financial problems and their baseline offers have not yet been agreed nationally. As at 24th March the Trust has not received a contract offer from Specialised Services Commissioners, despite several requests for information. We have received a "working paper" which has been reviewed and responded to. Due to the national tariff changes there is a risk with the Specialised Services contracts. Their offer is linked to the ETO option and the nationally stated intention of the contract being based on the actual activity baseline as at January 2015.This will require detailed modelling by the Trust especially due to the change that all over performance will only be paid at 70%, including drugs and devices which have always been paid at actual costs. The specialised Services contract has a value of £74m.

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 2015/16

In line with the required national efficiency target the Trusts CIP target has been set at £16m, this excludes the carry forward from 2014/15 of £16.6m. Given the significant challenge this would provide the Trust is proposing a challenging but more realistic plan of £20m and therefore aiming to write off £12m of CIP bring forward.

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

The Royal Wolverhampton NHS Trust

Financial Plan 2015/16

		2015/16	2014/15
Income		**2015/16**	**2014/15**
		£000's	£000's
Patient Income		429,384	351,965
Training & Education		10,943	10,687
CRN Income		30,784	
Other Income		36,169	20,914
Total Income		**507,279**	**383,566**
Expenditure			
Baseline Budgets		429,871	338,141
CRN Expenditure		30,784	
Reserves			
	Inflation - Pay	3,311	4,969
	Inflation - Non Pay	1,753	2,394
	Drugs & Devices	7,305	6,818
	Activity & Developments	5,694	12,853
	Cost Pressures	8,472	3,789
	Business case review	(3,000)	
	Quality & Safety Improvements	869	881
	Contingency & Risk	6,681	5,836
	Anticipated QIPP Savings	(2,266)	
	Non recurrent Cost pressures	5,188	3,642
Less Cost Improvement Programme		(16,000)	(15,300)
Less CIP Carry forward from 14/15		(4,617)	(12,704)
Total Expenditure Budgets		**474,046**	**351,318**
EBITDA Surplus		33,233	32,248
Less			
Depreciation NHS/ Donated		(21,308)	(15,813)
Depreciation IFRS PFI & Leases			
Operating Surplus		11,925	16,435
Add /Less			
Interest Receivable		100	100
Interest Payable		(1,784)	(1,687)
Surplus After Interest		10,241	14,848
Less			
Dividends payable to Department of Health		(12,447)	(9,480)
Underlying Surplus /(Deficit)		**(2,206)**	**5,368**
Impairments		**(3,701)**	**(647)**
Retained Surplus / (Deficit)		**(5,907)**	**4,721**

Adjustments to TDA reported figure:-

Donated Asset Income	**(400)**	**(400)**
Depreciation on donated assets	**168**	**182**
Impairments	**3,701**	**647**
Adjusted Surplus / (Deficit)	**(2,438)**	**5,150**

4. **Income**

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.

At this stage the Trust is planning to receive the £4.7m of block income for the dementia ward, 7 day services, supervisory ward managers and the nurse staffing consequences of the CQC visit from Wolverhampton CCG. Clearly this is at significant risk and the loss of this income would push the Trust into further deficit.

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 £9.5m, including Procedures of Limited Clinical Value (POLCV); Community Dermatology Service and GP demand management schemes plus a block reduction of £1.9m for Better Care Fund. The Trust will need to size its capacity correctly and either replace the activity with other work or reduce its cost base. At this point an assumption against the QIPP plans have been made which assume activity/income replacement of £2.1m and cost reduction (50% assumed) of £2.2m.

5. **Baseline Budgets**

Appendix B details the baseline budgets by Division/Directorate. The pay and non pay budgets are based on the 2014/15 recurrent budgets, adjusted for full year impact of service developments; and cost improvements.

6. **Reserves**

Pay inflation of £3.3m includes incremental drift; pension increases and pay award. The pay award is based on the latest detail available in relation to 1% pay increase, and removes the 2014/15 unconsolidated pay award.

Non pay inflation of £1.7m includes energy; procurement negating inflation Cannock CNST and Radiology PFI.

Drugs and devices of £7.3m 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 £5.2m, relates to pass through nationally agreed drugs; NICE drugs and chemotherapy drugs.

Activity and Developments are detailed in Appendix C and total £5.7m. This includes funding for the Cannock Minor Injuries Unit; Urology staffing; Breast Surgery and the Urgent & Emergency Care centre.

A detailed analysis of the MSFT service pressures is underway and a planning assumption that a £3million reduction to cost pressures/ developments/ business cases has been made.

Cost pressures of £8.5m are also detailed in Appendix C. These include:- Imaging consultant; Health Visitors; Ophthalmology activity; MRI; ED staffing and consumables; Winter capacity and Gastroenterology activity.

The plan includes £0.9m for quality and safety. This includes costs to pump prime CQUIN initiatives and patient experience.

Funds of £5.15m are being held for non recurrent investment. This will include support to achieve efficiency savings.

7. **Cost Improvement Programme (CIP)**

The CIP for 2015/16 has been set at £16m, to reflect the national efficiency requirements. There is also a balance of £16.6m carried forward from 2014/15 giving a total CIP requirement of £32.7m. Given that this would be an unachieveable level the Trust has set a still challenging but more realistic target of £20 million. This requires the write off of CIP and is a key reason as to why the Trust is setting a deficit plan.

Plans continue to be discussed and put into action in order to reduce the carry forward and achieve the 2015/16 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.

8. **Risks and Contingency**

The Trust holds 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 £20.0m.
- The loss of £4.7m for the block income for the dementia ward, 7 day services, supervisory ward managers and the staffing consequences of the CQC visit
- 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 level of fines the Trust may incur and the ability to access these on a ring-fence basis going forwards

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 deficit of £2.4m, after adjustment for impairments, and other data within the plan result in the following financial risk metrics:-

Financial Risk Metrics		**£000s**
Underlying performance	EBITDA	33,233
	Operating Income	507,279
	EBITDA Margin (%)	**6.6**
Financial Efficiency Return on Capital	Net return/(Deficit) after financing costs	(2,206)
	Opening Financing	377,940
	Closing Financing	385,409
	Net return/(Deficit) after Financing	**(0.6)**
Financial Efficiency I&E Surplus Margin	Surplus/(Deficit)	(5,907)
	Profit (loss) on asset disposals	0
	I & R (Impairments & restructuring) expenses	3,701
	Adjusted Surplus/(Deficit)	(2,206)
	Operating Income	507,279
	Adjusted I&E Surplus/(Deficit) Margin (%)	**(0.4)**
In Year Surplus/(Deficit)		RED
Underlying Surplus/(Deficit)		RED
Continuity of Service Rating		
Liquidity Ratio (days)	Working Capital Balance	(5,519)
	Annual Operating Expenses	474,046
	Liquidity Ratio Days	(4)
	Liquidity Ratio Metric	**3**
Capital Servicing Capacity (times)	Revenue Available for Debt Service	33,233
	Annual Debt Service	13,720
	Capital Servicing Capacity (times)	**2**
	Capital Servicing Capacity metric	**3**
Continuity of Services Rating	**Continuity of Services Rating for Trust**	**3**
Continuity of Service Rating		GREEN

CIPs / Efficiencies	
Planned Efficiencies	20,617
Efficiencies as a percentage of planned expenditure (%)	4.3
Efficiencies as a % of Planned Spend	GREEN

CIP scheme detail will be supplied with the Plan submission due on 7 April 2015

10. Cash Flow and Balance Sheet

Appendix D shows the forecast Balance Sheet as at 31st March 2016

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.

Work continues to be undertaken on the balance sheet and cash plan position, taking account of the current year end forecast position, and working to the TDA interim Plan submission of 7th April 2015.

11. Conclusion

This plan is consistent with the principles agreed as part of the Long Term Financial Model updated for the significant financial risks that the Trust is facing.

A deficit plan will require the Trust to use its own cash reserves at a time when the capital programme is also using the working capital of the Trust.

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 get back to at least break even to deliver its statutory responsibility and ensure financial sustainability. The plan also provides a small level of contingency against risks the Trust may face in 2015/16.

On this basis, figures within the Ratings, Cash and Balance Sheet are likely to be subject to some change for the interim Plan submission to the TDA on 7th April 2015.

Recommendations

The Trust Board is recommended to approve the 2015/16 Income and Expenditure and Cash plans.

The Trust Board is asked to note further work will be needed to deliver year on year break even targets and ensure financial sustainability.

APPENDIX A

Planned Income

Service Level Agreements CCG's and Local Authority	**2015/16**		**2014/5**	
	£000's	**£000's**	**£000's**	**£000's**
Acute Services				
Wolverhampton	145,308		136,876	
South East Staffs & Seisdon	23,536		31,640	
Cannock & Staffs Surround CCG's	59,893			
Walsall	23,604		20,162	
Dudley	6,332		6,251	
Others	13,590		12,890	
CQUIN (2.5%)	5,977		4,937	
Community Services	37,933		37,904	
Community Services CQUIN	915		916	
Dental services	1,256		1,277	
Local Authority	7,925		6,445	
		326,269		259,299
Specialised Services incl NHSE		88,362		84,819
Other Patient Income (Mainly RTA's; NCA's)		14,753		7,848
Private Patient Income		1,112		1,107
Training & Education		41,727		10,687
Divisional Income Budgets		34,657		19,407
Donated Asset Income		400		400
TOTAL		**507,279**		**383,566**

Note - Patient Care Income now includes the Cannock Business Case Income

Note - Other Patient Income 2015/16 includes £6m Cannock Transition monies

Note - Training & Education 2015/16 inlcudes £30m Research Network income

Baseline Budgets 2015/16 APPENDIX B

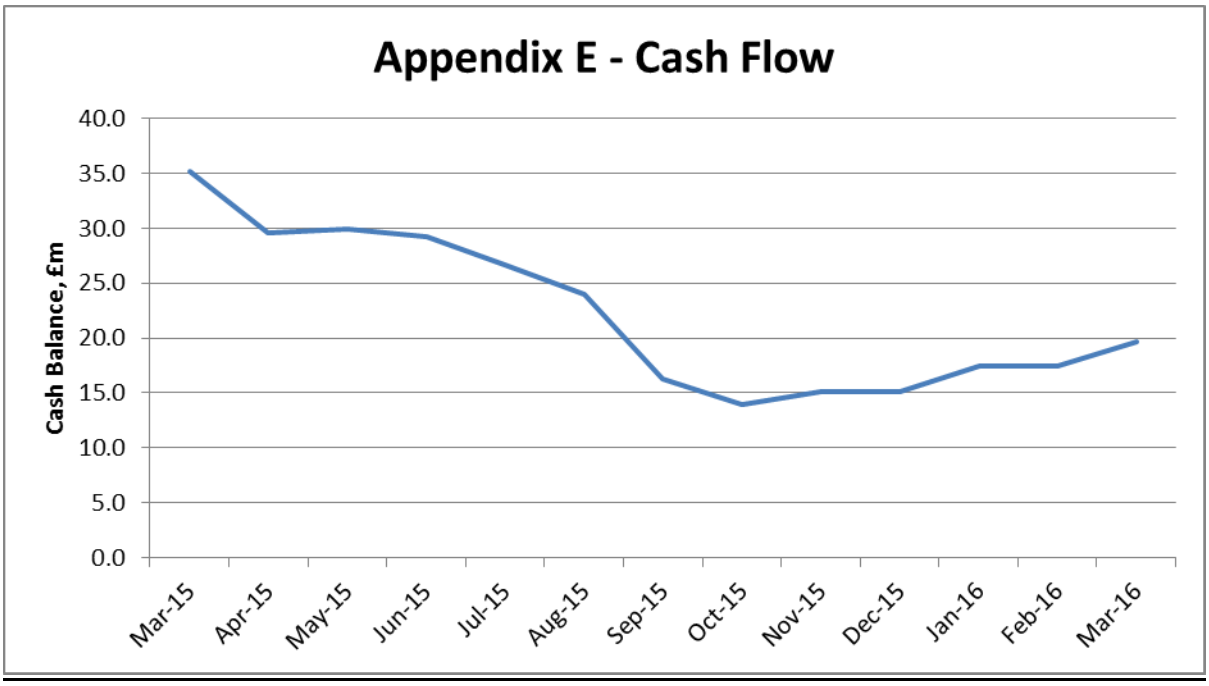
	WTE	£000's
Operations Directorate		
Division 1 (Surgery etc)	2,465	172,120
Division 2 (Medicine etc)	2,818	170,572
Estates & Facilities	718	35,899
Other Operations Staff	6	602
Sub Total	**6,006**	**379,192**
Chief Executive	19	1,510
Finance & Information (Including Procurement; Information & Estates Development)	486	20,535
Human Resource & Training	83	3,620
Planning & Contracting	16	851
Nursing Director	147	13,672
Medical Director	258	10,491
CRN	0	30,784
TOTAL	**7,014**	**460,656**

APPENDIX C

Cost Pressures	WTE	£000's
Lucentis	0.00	1,502
ED Consultants Staffing	6.00	1,000
Ward B7	0.00	1,000
A&E Activity Pressures	0.00	320
Endoscopy Pressure	0.00	253
West Park Ward	2.49	250
Health Visiting Support Workers	10.00	245
MRI	0.00	218
Hotel Services - Bed Cleaning	9.58	207
Clinical Haematology Unit	2.00	200
Imaging Consultant	2.69	198
Health Visitor Increase	5.14	171
WUCTAS	4.03	163
Incinerator	0.00	141
Synergy	0.00	121
General Surgery - Laproscopic	0.00	120
Medical Physics Department	1.00	120
AMU Consultant Staffing	1.00	102
FT planning	0.00	100
ICD/ Pacemakers	0.00	100
Head & Neck Activity Pressures	0.00	100
Urology Staffing	1.00	100
Orthopaedics Spinal Activity	0.00	95
Increased AMU Attendances - Consumables	0.00	90
Gynaecology activity pressures	0.00	88
Community activity	3.02	88
Ocular Tissue Price Increase	0.00	73
Neonates non pay activity increase	0.00	70
Investigations - Physiologists	2.50	70
Fire Dampers as part of DHEF safety alert	0.00	60
Chiropody	1.00	50
Linen Increase due to activity	0.00	50
Government legislation (CFP) to test water quality	0.00	50
Eprescribing Chemotherapy	0.00	45
Multi Disciplinary Co-ordinators - Cancer	2.00	45
Renal live donor co-ordinator	0.00	43
Radiographer staffing	1.00	42
Increased AMU Attendances - consumables	0.00	40
Other	7.43	743
Total Cost pressures	**61.88**	**8,472**

Activity & Developments	WTE	**£000's**
Urgent & Emergency Care Centre	30.76	730
4th Breast Consultant	9.47	625
Cannock Minor Injuries Unit	8.17	435
Referal targets	0.00	430
Urology 6th Consultant	6.20	412
Nursing Home Project	7.37	373
Cardiology In reach	5.25	330
Paediatrics and Neonatal	7.23	250
Looked After Children	4.00	208
New oral anticoagulants	(0.51)	192
Drugs - Adalimumab and Golimumab	0.00	160
Eylea - Ophthalmology	0.00	159
7 Day Consultant Working	2.00	133
AMU Relocation	10.12	128
Family Nurse Partnership	2.77	103
Fidaxomicin	0.00	100
Oral Nutrician Community	0.00	95
NICE TAG 265 Denosumab	0.00	93
Homecare Pharmacist	2.00	72
Adult Cystic Fibrosis Unit	2.73	68
Speech & Language Therapy	7.51	68
Chemotherapy Electronic Prescribing II		68
Pathology Cytology Testing	0.00	62
Accumentative	0.00	58
Epilepsy Nurse	1.00	47
Other	27.59	295
Total Activity	**133.66**	**5,694**

Balance Sheet	01/04/2015 £000	31/03/2016 £000	Full Year Movement £000
Non Current Assets			
Property, Plant and Equipment	366,429	388,083	21,654
Intangible Assets	430	748	318
Other non current assets	1,016	1,016	0
Non Current Assets	367,875	389,847	21,972
Current Assets			
Inventories	6,115	6,115	0
Trade & Other Receivables	15,859	15,567	(292)
Cash	35,141	19,604	(15,537)
Total Current assets	57,115	41,286	(15,829)
Non Current Assets - Held for sale	800	0	(800)
Total Assets	425,790	431,133	5,343
Current Liabilities			
Trade & Other Payables	(44,852)	(42,729)	2,123
Borrowings	(1,805)	(1,707)	98
Provisions	(2,369)	(2,369)	0
Total Current Liabilities	(49,026)	(46,805)	2,221
Net Current Assets	8,089	(5,519)	(13,608)
Total Assets less Current Liabilities	376,764	384,328	7,564
Non Current Liabilities			
Other	(5,588)	(5,175)	413
Provisions	(629)	(629)	0
Total Non Current Liabilities	(6,217)	(5,804)	413
Total Assets Employed	**370,547**	**378,524**	**7,977**
Financed By:-			
PDC	227,470	233,670	6,200
Retained Earnings	27,697	21,791	-5,906
Revaluation Reserve	115,190	122,873	7,683
Other Reserves	190	190	0
Total Taxpayers Equity	**370,547**	**378,524**	**7,977**


Appendix E - Cash Flow
Cash Balance, £m
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
Mar-15
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16