The Royal Wolverhampton NHS Trust

NHS

Trust Board	
Meeting Date:	27th March 2017
Title:	Budget Setting Update 2017/18
Executive Summary:	This report provides an update on the 2017/18 Budget. This paper provides a revised budget following Executive Directors decisions and agreement to deliver control target for 2017/18. This will also form the basis of a plan resubmission to NHSI by 30th March 2017.
Action Requested:	The Board are asked to note the final budget proposal for 2017/18 which now meets the NHSI control total, discuss the key issues and agree this plan for the new financial year.
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

BUDGET SETTING UPDATE – 2017/18

Contents

1 INTRODUCTION

This document details the budget setting for the next financial year 2017/18 for The Royal Wolverhampton Hospital NHS Trust.

The budget aims to meet national priorities and local priorities which will need to be delivered within the financial resources available in 2017/18. The nine national 'must do' priorities focus on:

- STPs
- Finance
- Primary Care
- Urgent and Emergency Care
- Referral to treatment times and elective care
- Cancer
- Mental Health
- People with learning Difficulties
- Improving quality in organisations

2 EXECUTIVE SUMMARY

The Trust's financial strategy is to create surpluses to invest in the infrastructure and future development of the Trust and its services. The Trust has produced surpluses for the last 10 years, totalling £53million.

The normalised position of the Trust, as detailed in the monthly Trust Board reports and NHS Improvement submissions during 2016/17, prior to any new financial targets/challenges is a c£32m deficit.

The Trust wants to re-establish a firm financial footing, but believes that this needs to be achieved through a challenging, but achievable financial target.

With contracts now having being agreed and following improvements in the last quarter of 2016/17 alongside a more stretching CIP in 2017/18 the Trust is planning on delivering it's control target for 2017/18 and 2018/19.

Following Executive Director agreement on the 15th March 2017 the Trust has revised the budget to set a plan that delivers a surplus of £11.6m for 2017/18, which includes a STF payment of £9.9m (subject to MSFT funding agreement c£6.0m and control total reduction c£1.5m).

Key elements of the 2017/18 budget setting are as follows:

- **NHSI Plan -** the £11.6m surplus will be the basis of the 2017/18 plan, resubmission required by 30th March 2017.

- **Base Budget –** 2017/18 provides for a year to underpin the financial security of the Trust and importantly provide a platform to progress to surplus periods in future years. To achieve this delivery of efficiency is paramount.

- **Budget Re-alignment** – to provide for a deliverable balanced budget in 2017/18.

- **Winter** – to be managed within existing resources unless additional monies are made available.

- **Contract Activity –** contracts provide a 2.4% level of growth, Divisional plans have been set a lower, more realistic, deliverable plan.

- **Cost of Growth -** to manage real cost of growth whilst challenging Divisions in new ways of working.

- **Inflation** – to meet cost of inflation in line with national uplifts.

- **Cost Pressures / Service Developments** – prioritisation following a review of all new/proposed cost pressures and service developments.

- **Cost Improvement Plans** – to deliver national and local efficiency targets securing financial stability for the Trust.

- **Reserves –** to provide central reserves for specific pressures or to be called upon if agreed.

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3 OPERATING FRAMEWORK RULES

The national tariff is set at 2.1% for 2017/18. The cost uplifts include revised projections for pay drift, the costs of the apprenticeship levy and pass through drugs and exclude HRG-specific uplifts included in tariff prices for Clinical Negligence Scheme for Trusts (CNST). The national efficiency deflator is 2%.

4 PLANNED NET SURPLUS 2017/18

The planned 2017/18 start point is a surplus of £11.6m. Appendix A details the budget envelope by Division. The key areas are explained in the following sections in this paper.

5 BASE BUDGET

The base budget surplus of £11.6m consists of:

- The underlying recurrent deficit of The Royal Wolverhampton Hospital NHS Trust;

- A realignment across Divisional areas to provide for a deliverable budget in 2017/18;
- The full year impact of approved commitments;
- The release of recurrent reserves to support the financial plan based on an assessment of need;
- The release of growth to support associated service costs within Divisions;
- Uplift based on contract agreements*;
- Agreed Inflationary/Cost pressures and Service Developments;
- Required CIP to achieve plan;
- Any non-recurrent allocations.

*The base budget has been set on outturn activity plus 2.4% growth. A central adjustment of £2.4m has been made to set a lower, more realistic, deliverable operational plan.

6 WINTER PLAN

The plan assumes we will manage winter pressures within existing resources. Should monies become available to support any national / local requirements these will be made available through Trust agreed approval process.

7 LDP UPLIFT

The contract values have been set using the actual activity of April – July 2017 forecast to the year end in the same phasing as the income plan. The baseline plan assumes the delivery of the 2016/17 forecast outturn. The table below shows the breakdown of the Patient Income by type:

Description	Contracted	Non Contracted	Total
Baseline	£430,525,817	£7,390,037	**£437,915,854**
CQUIN	£8,410,137		**£8,410,137**
Growth - Service Adjustments	£5,863,582		**£5,863,582**
Growth - Demographic	£1,139,739		**£1,139,739**
Growth - STP	£2,172,610		**£2,172,610**
Shadow Year	£1,633,076	£30,484	**£1,663,560**
QIPP	(£10,182,068)	£5,421,324	**(4,760,744.0)**
Total Patient Income	**£439,562,893**	**£12,841,845**	**£452,404,738**

8. LDP INCOME

The forecast levels of income have been discussed with each specialty. In many specialties there have been adjustments made to reflect the view of each service. Some specialties have set a plan at out turn, others have added growth and some have reduced the plan from the out turn levels as these were deemed to be unrealistic.

Any adjustments to the forecast have been flagged as growth as below.

There have been adjustments made in relation to “Shadow Year” activity. This is activity that had either been previously counted but excluded from charging or has moved from a local price agreement back to the National Tariff prices.

There has also been a reduction to the contract in relation to QIPP schemes proposed by the Commissioners. The value of £5.4m on the Non Contracted QIPP line shows where income has been added to the plan as it is deemed the levels of activity savings are high.

9. GROWTH

The Trusts LDP Contracts are finalised and incorporate growth at 2.4%. The growth figures have been calculated based on discussions with each specialty around the levels of activity expected in 2017/18. An element of demographic growth has then been added at 0.3%. Any residual income to get to an overall growth value 2.4% has then been added.

The residual element of growth to reach an overall 2.4% has been held centrally. This is the value that is over and above the activity levels discussed with the services as part of the LDP round.

Any anticipated stepped costs in delivery of growth has been considered as part of the cost pressure / service development process.

10 OTHER INCOME

Other income, c£69m, including Education, Training & Research, CRN and Directorate trading income is held within Divisional budgets and will be uplifted in line with revised annual agreements.

11 INFLATION

The Trust Tariff inflationary uplift is 2.1% as per below table:

National Cost Uplift 2017/18	**%**
Pay	2.1
Drugs	2.8
Non Pay	1.8
Changes in Capital Costs	3.0
CNST	0.9
Service Development	0.0
Weighted	**2.1**

Detailed costing's have been made and this uplift will be funded as follows:

Pay inflation

Pay inflation c£5.9m, 2.1% – to provide for pay award, incremental drift and clinical excellence awards, as per the following:

Agenda for Change Staff

- Pay inflation for agenda for change staff is c£2.4m and has been funded to Divisions as part of the startpoint envelope.

- Agenda for change incremental drift has been calculated at c£1.8m, this has been funded to Divisions as part of the startpoint envelope.

Medical & Dental Staff

- Pay inflation for Medical and Dental staff is c£0.8m and has been funded to Divisions as part of the startpoint envelope.

- Medical incremental drift has been calculated at c£0.6m, this has been funded to Divisions as part of the startpoint envelope.
- Clinical Excellence Awards (National and Local) will be funded as appropriate in year. A reserve of c£0.2m has been set aside for this specific allocation.

National Insurance Uplift

- NI contributions in 2017/18 £0.2m, this has been funded to Divisions as part of the startpoint envelope.

Non pay inflation

Non Pay inflation has been calculated and allocated as follows:

General Non Pay

This is calculated at £2.4m of the recurring expenditure. In line with previous years this has been retained centrally for 2017/18 as a negated inflation / specific reserve to be released in accordance with existing rules.

Drugs

This is calculated at £1.5m of the recurring expenditure. In line with previous years this has been retained centrally for 2017/18 as a negated inflation / specific reserve to be released in accordance with existing rules.

CNST

This is based on the actual CNST premiums as notified by the NHSLA which have a net increase of £2.8m, in 2017/18. The inflationary element of this is £1.3m which creates and additional cost pressure of £1.5m. The Trust has provided for this in budget setting but is in the process of challenging the cost pressure increase with NHSLA.

VAT

There is no known increase to VAT for 2017/18.

Capital Charges

Depreciation has decreased in total by £0.6m. This is caused by an increase in depreciation of £0.8m - the 2017/18 depreciation has been re-calculated using 2016/17 year end outturn asset values adjusted for assumed 2017/18 capital programme additions and an estimated increase caused by revaluation and an additional £1.4m has been removed from the budget following an estimate of the impact of the 1st April 2016 MEA site revaluation (MEA depreciation saving is calculated as £2.4m but £1m was already removed from budgets in 16/17 based on a proposed adoption of a single asset life method. This method has been replaced by the MEA site valuation).

The 2017/18 Dividend figure has decreased by £2.8m mainly due to the impact of the 1st April 2016 MEA site revaluation (£3.2m dividend reduction). This is slightly offset by an estimated increase in fixed asset book values caused by the imminent 31st March 2017 revaluation exercise and 17/18 capital programme additions (£0.4m dividend increase).

12 CAPITAL PROGRAMME

The CRL for 2017/18 is currently under review. The Trust continues to review and prioritise the 5 year capital programme to ensure that the capital plan reflects what is required in order to deliver our current services without a detrimental impact on quality and the on-going delivery of safe services, and statutory/regulatory non-compliance. The Trust has taken appropriate steps to minimise external funding request in the context of a nationally constrained capital budget.

13 COST PRESSURES / SERVICE DEVELOPMENTS

Following a review of all submitted cost pressures / service developments the following reserves have been set aside as part of 2017/18 budget setting. Divisions will need to bid against these reserves throughout the course of the year in line with existing authorisation processes.

Cost Pressures / Service Developments 2017/18	£m
Division 1	2.5
Division 2	1.3
Estates & Facilities	0.2
Corporate	1.3
Non Recurrent	1.1
Total	**6.5**

Any other extraordinary Trust Wide cost pressures, including the full impact of changes on rateable values, in the new financial year we need to be managed as and when notified.

14 APPRENTICESHIP LEVY

The net levy for our Trust is c£1.3m for 2017/18. The new apprenticeship levy is effective on the 6th April 2017. The levy requires all employers operating in the UK, with a pay bill of more than £3m each year and charged at a rate of 0.5%, to invest in apprenticeships. The Trust can mitigate this risk through changes in workforce and training funding available.

15 MSFT TRANSACTION

The plan assumes continued support for the £6m deficit on MSFT transaction. This remains a risk with no formal agreement in place at the time of writing this paper.

16 CQUIN

CQUINs (Commissioning for Quality and Innovation) are part of the national contract.

For 2017/18 there will be no local CQUINS but there will be 6 National, 5 Specialised Services and 3 NHSE Public Health CQUINs which equate to £8.4m. Early implementation and regular monitoring should continue to mitigate any loss of income relating to this. A central reserve has been provided of £0.7m for costs / failure to achieve target.

17 COST IMPROVEMENT PLANS

The Trust target for 2017/18 is a further £26.9m. The breakdown by Division, following adjustment for exceptions, is shown in below table:

CIP Target 2017/18	£m
Division 1	(13.4)
Division 2	(8.8)
Estates & Facilities	(2.7)
Corporate	(2.0)
Total	**(26.9)**

*Any historic residual balance of CIP targets following the budget re-alignment of c£21.0m to Divisions will need to be met through additional CIP within Divisions.

Divisions must have robust plans in place and begin implementation prior to the new financial year in order to successfully deliver the required savings. The target will be phased equally in twelfths in 2017/18 budget unless otherwise agreed.

Divisions who deliver shortfall against CIP in 2017/18 must remedy this through immediate introduction of rectification measures.

The Recovery Board will continue to oversee the delivery of CIP through 2017/18.

18 CENTRALLY HELD BUDGET

Reserves totalling £15.2m will be held centrally at 2017/18 start point. These are committed against specific items and as such are available for Divisions to bid against throughout the financial year.

The below table details these centrally held reserves:

Reserves 2017/18	£m
CEA's	0.3
Drugs	1.3
General Contingency	1.3
Procurement	0.8
Pay Contingency	1.2
Non Pay Inflation	0.1
Discretionary Points	0.1
Growth	2.4
CQUIN COD	0.7
Negated Inflation	0.5
Cost Press / Service Dev	6.5
Total	**15.2**

19 STARTPOINT RISK REGISTER

Key risks at this time which require consideration for the BAF/risk register and critical to achieving plan are:

- CIP delivery – Risk of under delivery.

- STF payments – Risk the Trust does not meet control target and defaults the benefit of STF.

- Pay related control issues – Risk that pay awards are higher/reserves are insufficient.

- MSFT transitional funding – Risk that NHS Improvement/DH do not continue the £6m deficit funding.

- CNST change to control total – Risk that NHS Improvement do not change the control total for greater than national inflation award. The Trust also continues to challenge its premium with NHSLA.

- LDP achievement – Risk that the Trust underperforms against its contracted activity targets resulting in lower income achievement.

- Apprenticeship Levy re-imbursement – Risk that the net budget set is insufficient.

- CQUIN delivery – Risk that the Trust does not achieve the quality requirements for the payments.

- Contract KPI's – Risk that the Trust remains unable to achieve the control total and therefore fines become active for all contracts.

- Rateable values – that the impact of changes to rateable values is material and cannot be managed within the plan.

- Cash – Risk that the Trust runs out of cash due to a deficit budget and therefore has to take a loan which will contain serious attached conditions for the Trust to comply with.

20 RECOMMENDATION

The Board are asked to note the updated position, discuss the key issues and agree to finalise the budget and re-submit our plan on this basis to NHSI by 30th March 2017.

Kevin Stringer
Chief Financial Officer

March 2017

Appendix A

Royal Wolverhampton NHS Trust Budget Envelope 2017/18

	Operational Divisions				Trust Wide				
	Division 1	Division 2	Corporate	Estates	Trust Wide	Contract Income	Other income	Reserves	Total
Baseline									
2017/18 Recurrent ledger baseline @ month 9	193,462,382	149,654,580	35,008,612	34,018,310	33,051,266	(439,043,767)	(13,733,007)	12,867,456	5,285,832
Budget realignment	8,343,516	7,168,216	3,444,845	1,948,604					20,905,182
CCH transition income removed from rollover						5,000,000			5,000,000
									0
2017/18 Recurrent Control totals @ month 9	201,805,898	156,822,796	38,453,457	35,966,914	33,051,266	(434,043,767)	(13,733,007)	12,867,456	31,191,014
									0
Release of Reserves (see summary reserves sheet)								(12,867,456)	(12,867,456)
Divisional allocation of rollover reserves	1,094,317	3,028,284	746,047	42,697				5,238,798	10,150,143
Approved business cases	440,651	148,949	287,290	1,526					878,416
									0
								0	0
									0
Recurrent Base Budget 2017/18	203,340,866	160,000,029	39,486,794	36,011,137	33,051,266	(434,043,767)	(13,733,007)	5,238,798	29,352,117
									0
2017/18 Contract									0
Income Growth - Reserves = Growth in Passthrough	(15,912)	1,989,939				(15,707,000)	2,143,154		(11,589,819)
Adjustment to Income Growth						2,219,413			2,219,413
Community CICT Rehab Service - Estimated Income Loss						526,616			526,616
Growth beyond capacity - NREC								2,400,000	2,400,000
Assesment of QIPP - NREC						(5,400,000)			(5,400,000)
									0
Sub Total Contrcatual Change	(15,912)	1,989,939	0	0	0	(18,360,971)	2,143,154	2,400,000	(11,843,790)
									0
2017/18 CIP	(13,424,952)	(8,797,995)	(2,019,429)	(2,657,624)					(26,900,000)
2017/18 Inflation									0
CNST			1,276,449						1,276,449
Pay Inflation 1.8%	3,028,016	1,803,096	490,002	445,873				171,000	5,937,987
Non Pay Inflation 1.8%								100,000	100,000
Drugs Inflation 2.8%								250,000	250,000
Negating inflation reserve								500,000	500,000
									0
Sub Total Cost of Inflation	3,028,016	1,803,096	1,766,451	445,873	0	0	0	1,021,000	8,064,436
									0
2017/18 Cost Pressures / Service Developments									0
CNST Increase			1,500,000						1,500,000
Depreciation/PDC/Interest					(3,683,953)				(3,683,953)
Apprenticeship Levy (net)			1,305,190						1,305,190
Cost pressure / Service Developments								6,500,000	6,500,000
									0
Sub Total Cost Pressures / Service Developments	0	0	2,805,190	0	(3,683,953)	0	0	6,500,000	5,621,237
									0
2017/18 RECURRENT BUDGET	192,928,018	154,995,069	42,039,006	33,799,386	29,367,313	(452,404,738)	(11,589,853)	15,159,798	4,294,000
									0
Non Recurrent									0
CCH Transitional Income						(6,000,000)			(6,000,000)
STF income							(9,894,000)		(9,894,000)
									0
2017/18 BUDGET	192,928,018	154,995,069	42,039,006	33,799,386	29,367,313	(458,404,738)	(21,483,853)	15,159,798	(11,600,000)