The Royal Wolverhampton NHS Trust

Trust Budget 2018/19
26 March 2018

Agenda Item No: 8.3

The Royal Wolverhampton NHS Trust

Trust Board Report	
Meeting Date:	Monday 26th March
Title:	Trust Budget 2018/19
Executive Summary:	This document sets out the Trust income and expenditure budget that has been set for the financial year 2018/19 which the Trust Board is asked to approve
Action Requested:	Approve the budget for 2018/19.
For the attention of the Board	
Assure	•
Advise	•
Alert	•
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Links to Trust Strategic Objectives	5. Maintain financial health – Appropriate investment to patient services.
Resource Implications:	Revenue: Capital: Workforce: Funding Source:

CQC Domains	**Well-led:** the leadership, management and governance of the organisation make sure it's providing high-quality care that's based around individual needs, that it encourages learning and innovation, and that it promotes an open and fair culture.
Equality and Diversity Impact	
Risks: BAF/ TRR	
Risk: Appetite	
Public or Private:	
Other formal bodies involved:	
References	
NHS Constitution:	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

Trust Budget 2018/19

Content

1. Introduction

This document sets out the Trust income and expenditure budget that has been set for the financial year 2018/19 which the Trust Board is asked to approve.

The budget that has been set incorporates national planning guidance for 2018/19 and has previously been discussed in the following forums:

Finance and Performance Committee

- 22nd November 2017 – medium term financial outlook and 2018/19 budget setting principles.
- 21st February 2018 – operating plan briefing note and draft income and expenditure budget.

Trust Board (in private)

- 26th February 2018 – operating plan briefing note and draft income and expenditure budget.
- 12th March 2018 at Trust Board Development Session – discussion on control total agreement.

The Trust submitted a draft operating plan on Thursday 8th March to NHS Improvement that was approved by executive directors. The final income and expenditure budget aligns to the submitted operating plan.

It is anticipated that a further iteration of operating plan will be required in April once contracts with commissioners have been agreed. Any changes to the budget approved by the Trust Board following the submission of the final operating plan will be reported to the Trust Board.

2. Executive Summary

The Trust was asked to submit a draft operating plan on 8th March 2018 with an unambiguous acceptance or rejection of the £16.205m surplus control total.

The Trust has a financial plan for 2018/19 that delivers a £2.292m surplus and £13.913m of STF. This plan is dependent on the delivery of £25m of CIP and an additional £9.8m of efficiency to be identified.

On that basis the Trust accepted the NHSI control total and the income and expenditure budget for approval aligns with the operating plan.

The Trust Board is asked to approve this budget.

3. Planned Surplus Position - Control Total

In 2017/18 the Trust submitted a two year operating plan for 2017/18 to 2018/19. The control total for 2018/19 was a surplus of £4.044m before the application of STF. There have been some adjustments to that control total and the STF has been enhanced and renamed to the provider sustainability fund (PSF).

The original control total, the adjustments and the sustainability funding available are set out in the table below:

Original 2018/19 control total (exc. STF)	**£4.044m**
Adjust for:	
CNST	-£0.489m
Risk reserve	-£1.263m
Adjusted 2018/19 control total (exc. STF)	**£2.292m**
2018/19 original STF	£9.894m
Additional PSF allocation	£4.019m
Revised 2018/19 control total (inc. PSF)	**£16.205m**

The control total adjustments mean that the surplus requirement is less challenging than the original 2018/19 requirement. However, the forecast outturn for 2017/18 is a deficit of £4.253m before the application of STF and therefore, the Trust must perform better financially than in 2017/18.

4. Summary Income and Expenditure Plan

A summary Trust's financial plan for 2018/19 is set out in the table below:

	£'000
Income from patient care	473,339
Other operating income, excluding STF funding	74,011
Operating expenditure – Pay	(334,163)
Operating expenditure - Non Pay	(198,068)
Non-operating items	(12,919)
Surplus/ (deficit) before STF funding	**2,199**
Technical adjustment to calculation vs. control total	97
Planned performance against control total	**2,296**
STF funding planned - control total achieved	13,913
Planned surplus*	**16,113**

* *excludes £97k technical adjustment*

The bridge from the 2017/18 forecast outturn is set out in the table below:

	£'000
2017/18 forecast deficit excluding STF funding	(4,353)
Adjustments carried forward from 2017/18:	
Non-recurrent income from patient care 2017/18	(3,186)
Non-recurrent cost improvement savings 2017/18	(8,008)
Non-recurrent underspends in 2017/18	(8,223)
Full year effect of 2017/18 developments in 2018/19	(1,775)
Exiting underlying 2017/18 surplus/ (deficit)	**(25,545)**
Cost pressures in 2018/19:	
Inflation	(9,784)
Service developments – shown net of growth in income	(7,219)
New cost pressures	(1,313)
Non-inflationary drugs growth	(1,434)
Increase in depreciation and PDC dividend	(1,384)
Increase in interest payable	(269)
Offset by:	
Slippage on business cases and cost pressures	2,500
Growth in income (including service developments)	11,843
Cost improvement plan - recurrent	10,000
Cost improvement plan - non-recurrent	10,000
Cost improvement plan - stretch	5,000
Unidentified efficiency requirement	9,804
Surplus/ (deficit) excluding PSF funding	**2,199**

5. Non-Recurrent Items Carried Forward from 2017/18

There are £21.2m of non-recurrent items carried forward from 2017/18:

- Non-recurrent income in 2017/18 including winter pressure funding of £1.9m, CCH transitional funding of £1.1m and other smaller adjustments.
- Non-recurrent CIP mainly generated through non-pay underspends and the time lag on recruiting against vacant posts. The CIP programme for 2018/19 assumes that £10m of saving can be generated in the same way. Please note - the non-recurrent CIP total reported in 2017/18 is higher than the amount shown above but this also includes increases to income from patient care taken in year as non-recurrent CIP. This income has been been rolled into the 2018/19 contract negotiations and so does not appear as non-recurrent in this analysis.
- In addition there were non-recurrent underspends of £8.2m against budgets in 2017/18. The unidentified efficiency value of £9.8m would be largely offset if these underspends could be taken recurrently.
- Full-year effect of service developments in 2017/18 is the full year cost of developments implemented part way through the year.

The budget setting process also identified cost pressures of £9.6m included in the 2017/18 outturn but not funded in the 2017/18 budget. The pressures include:

- agency premium costs over and above substantive staff costs of £3.5m
- additional session payments of £1.7m
- £1.4m of other Emergency Department staffing costs
- £0.5m of other costs of activity and growth
- £2.5m of other costs not covered by 2017/18 budgets but considered unavoidable in the short term

A budget has been set in 2018/19 for these pressures in order that the 2018/19 financial plan presents a realistic view of pressures within the Trust's underlying financial position. However, the budget was agreed on the condition that some of these costs, particularly agency staffing and additional sessions, will be reduced in 2018/19 as part of the £5m stretch to the cost improvement programme.

6. Inflation

The table below sets out the inflationary pressures in 2018/19:

Description	Amount £'000	Type
Pay Award 18/19 @1%	3,303	Pay
CNST	2,494	Non-pay
A4C incremental drift	1,165	Pay
General non-pay inflation	1,184	Non-pay
Pay inflation- CEA's	541	Pay
Medical increments	336	Pay
Div 1 - non pay inflation cost pressures	393	Non-pay
Div 2 - non pay inflation cost pressures	23	Non-pay
E&F - non pay inflation cost pressures	209	Non-pay
Other Pay	136	Pay
Total inflation	**9,784**	

7. Service Developments and Other Cost Pressures

The table below sets out the planned service developments in 2018/19:

	Investment £'000
Division 1	
Neonatal staffing	840
Colorectal surgeons	464
Orthogeriatric consultants	239
Other	175
Division 2	
Walsall stroke	2,338
Emergency pathway investment	1,141
Endoscopy (Room 3, CCH)	524
Other	303
Division 3 infrastructure	436
Corporate business cases	552
E&F business cases	207
Total	**7,219**

Other cost pressures include:

- New cost pressures (not in the 2017/18 forecast outturn), as set out in the table below:

Description	£'000
Emergency Department staffing incl. capacity management	504
NHS Property Services	256
Safehands licenses and staffing	184
Other	369
TOTAL	**1,313**

- Non-inflationary drugs growth of 2.5% of 2017/18 forecast drugs spend.
- £1,384k for increased depreciation and PDC dividend compared to 2017/18 forecast outturn. The revaluation of the estate at the end of 2017/18 has led to an increase in the value of buildings of around 9%. The valuation calculated on a Modern Equivalent Asset basis, which takes into account the estimated cost of constructing an equivalent asset. The Building Cost Information Service Tender Price Index shows a significant increase from last year to this in the price of new building works, therefore the valuer's estimate of the value of the estate has risen. This in turn has led to a significant increase in capital charges for 2018/19. The Trust has challenged the methodology but without success and accepts the indexation.
- Increased PFI interest payable due to the inclusion of more equipment within the PFI contract.

There is an assumed level of non-recurrent in year slippage of £2.5m offsetting the above developments and cost pressures.

8. Income

The operating plan includes £11.8m of income growth. Of this £4.8m was included in the original 2018/19 operating plan as STP growth with a further £4.2m assumed for business case funding. In the budget of November 2017 additional funding for the NHS was announced. Commissioners have used this income to commission additional activity and that makes up a further £5.1m of income growth in the plan, less a provision of £2.3m to reflect the additional cost of delivery.

Contract negotiations are still underway. The current status of discussions with the main commissioners is as follows:

- Wolverhampton and Walsall CCGs (c. 50% patient income) – contract value agreed with discussions underway to move away from a PbR cost and volume contract into a block or cap and collar arrangement.
- Staffordshire CCGs (c. 20% patient income) – still under discussion. Staffordshire is part of the capped expenditure process and as are not able to agree a contract value above the second year of the contract signed in 2017/18. At the time of writing there is a c. £4.3m difference between the Trust plan and the commissioner offer, the commissioner offer being lower.
- Other associate CCG commissioners (c. 4% patient income) – these contracts range from £0.1m to £7.4m. At the time of writing it has not been confirmed that all of these contracts are agreed but there are no known contentious items. No associate commissioner other than Walsall have expressed an interest in an alternative contractual arrangement therefore at this stage PbR is assumed. The total variance on offers from associate commissioners against the assumptions in the income plan is currently £0.2m adverse which is an acceptable level of risk in a PbR based contract.
- Specialised commissioning (c. 20% patient income) – an offer has been received which the Trust is reviewing.

9. Reserves

The table below shows the budgets held in reserves. They are categorised under various headings in the analysis above. These will be allocated to divisions at the start of the year where the cost is known and incurred from the start of the year. Otherwise the budgets will be allocated when the associated cost is incurred.

Description	£'000
High Cost Drugs and Devices and drugs growth	1,783
Electronic Prescribing (including chemotherapy)	605
CQUIN delivery	530
PFI variation	348
Orthopaedic spinal cases (possible income loss)	235
Pharmacy gain share loss	204
Primary Care Innovation Fund (made permanent)	200
Other divisional funding agreed in earlier years	351
Slippage on business cases and cost pressures	(2,500)
TOTAL	**2,756**

10. Cost Improvement Programme

The Trust has assessed the maximum achievable Cost Improvement Programme target for 2018/19 as £25m (£15m recurrent and £10m non-recurrent). This is 4.6% of planned turnover and 4.7% of planned operating expenditure.

The Trust has added to this an unidentified CIP stretch of £9.8m taking the programme to 6.4% of planned turnover and 6.5% of planned operating expenditure.

The Trust has a track record of achieving around £10m of non-recurrent CIP each year in recent years, through vacancies, underspends and overachievement of income without additional cost. The Trust has planned for sufficient costs to meet planned levels of activity (including premium costs such as agency and additional sessions) and so it is reasonable to assume a similar level of non-recurrent CIP for 2018/19.

The £10m of recurrent CIP is planned as follows:

- £6.5m arising from the Trust's Clinical Excellence Programme (incorporating the Model Hospital and Getting It Right First Time initiatives), as well as the Medicines Management, Value for Money and Trustwide HR programmes.
- £1.5m of procurement savings, consistent with prior years' achievement, with the renewal of the sterilisation contract targeted for particular savings;
- £1.3m relating to the Outpatients Efficiency Programme;
- £0.3m relating to the new Managed Print Service;
- £0.3m relating to the Trust's Job Standardisation Programme, matching bandings more closely to job descriptions;
- £0.1m profit from garage services.

The £5m stretch CIP is to be delivered by overachievement on the above workstreams and by driving down expenditure on agency staffing and waiting list initiatives that have been funded in 2018/19.

11. Risks to Delivery

The Trust has the following risks in delivering the 2018/19 financial plan:

- The Trust is finalising negotiations with CCG commissioners and at this stage the Trust remains unclear as to the exact activity levels that commissioner are seeking to commission in 2018/19 as QIPP detail is limited and the activity level detail on the application of the growth funding has not been shared. Therefore, the risk is that the Trust is either unable to deliver the activity or the cost in delivering this activity is above the margin assumed.

- Furthermore, given the level of activity commissioned through growth monies, it is unlikely that there will CIP related to income over performance.

- Business case negotiations on the AEC/frailty model of care are still underway and as such the income on this new model of care has not been agreed in a way that compensates the Trust for stranded costs if this model of care leads to a reduction in non-elective admissions resulting in ward(s) closures.

- The plan assumes that agreement of £6m deficit support funding for CCH and the transfer of Mid-Staffordshire activity continues into 2018/19. The value is £6.0m which has been agreed for 2017/18 but the Trust does not yet have formal approval for this in 2018/19. The Trust has notified NHSI in the narrative accompanying its operating plan submission that if this funding is not approved for 2018/19, the Trust will not be able to achieve its control total.

- The budget has very little contingency for in-year cost pressures. During the budget setting round the Trust had sought to protect a £1.25m contingency reserve. However, this has been released in order to deliver the control total.

- There could be risks on the pay award nationally that are not fully known.

- The financial model includes £25m CIP and an unidentified gap of £9.8m which is currently reflected as an unidentified CIP. By way of comparison, at this stage in 2017/18 the Trust had a CIP plan of c£20m and an unidentified gap of c£7m.

12. Recommendation

The Board is recommended to approve the budget as set out above.