

Trust Board

3 May 2017

Title:		Budget Setting 2017/18					
Agenda item:		17/068		Paper		08	
Action requested:		The Trust Board is asked to approve the 2017/18 budget and delegate the sign off of the final ICSU and department budgets to the CEO and CFO.					
Executive Summary:		This paper provides an update on the 2017/18 financial planning process covering the overall financial plan, core assumptions and efficiency requirements (CIP). The paper also highlights the improved grip and control processes in place, the process to close the CIP gap and ensure delivery, and targeted support. Further, it sets out the financial envelope available for the budget and the control total position for 2017/18 being a surplus of £0.6m, inclusive of Sustainability & Transformation Funding (STF).					
Summary of recommendations:		The Trust Board is asked to approve the 2017/18 budget and delegate the sign off of the final ICSU and department budgets to the CEO and CFO.					
Fit with WH strategy:		Delivering efficient, affordable and effective services. Meet statutory financial duties.					
Reference to related / other documents:		Annual Plan 2017/18					
Date paper completed:		26 April 2017					
Author name and title:		Jason Burn Deputy Director of Finance		Director name and title:		Stephen Bloomer Chief Financial Officer	
Date paper seen by EC	18/4/17	Equality Impact Assessment complete?	n/a	Quality Impact Assessment complete?	n/a	Financial Impact Assessment complete?	n/a



Report to the Trust Board

2017/18 Budget Setting

3rd May 2017

This paper provides an update on the 2017/18 financial planning process covering the overall financial plan, core assumptions and efficiency requirements.

1 Background

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| The Trust financial plan was submitted in December and refreshed in March 2017 | 1.1 The planning cycle (finance, activity and workforce) timetable is set for NHS Trusts each year by NHS Improvement (NHSI). For 2017/18, two key financial planning outputs were required, a final plan submission on 23 December and a plan re-submission on 30 March 2017. To inform the planning process national planning guidance was followed in conjunction with specific local information such as localised cost pressures or changes to service delivery models. |
| F&BD have received papers on the process and progress to date | 1.2 The Finance & Business Development Committee have received papers in January and April outlining the budget setting process and specific planning steps required to develop the 2017/18 financial plan and subsequent operating budget |
| | 1.3 The budget setting process has been on-going since January with the Finance and ICSU / Corporate Teams working on the detail of activity, income, expenditure and CIP. Final sign-off will be May. |
| The Trust achieved its 2016/17 control target but with non-recurrent benefit | 1.4 In 2016/17 the Trust achieved its financial control target of £6.4m deficit, through some non-recurrent measures and STF funding, which means that the opening recurrent loss (for 2017/18) was worse than originally planned and creates an increased efficiency pressure. |
| | 1.5 The Trust had enhanced financial controls in place in Q4 of 2016/17 and further financial grip and control processes will be in place in-year for 2017/18 to help areas achieve their budgeted targets. |

2 Financial Context & Funding Envelope

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| The agreed control total for 2017/18 is a £0.6m surplus | 2.1 The challenge for delivery in 2017/18 will be greater than 2016/17. The Trust Board agreed a control total with NHSI of a £0.6m surplus (inclusive of £6.7m STF funding). To achieve the control total an increased efficiency (CIP) target of £17.5m is required which includes £15.5m of new cost reduction in year and the final budget must be within the agreed financial envelope. |
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The 2017/18 budget is based on the 2016/17 budget amended for known changes

2.2 The 2016/17 budget provided the framework for delivery of the Trust's control totals over a 2-year period. Therefore the budget setting process for 2017/18 ensures that each ICSU and corporate service budget is based on the 2016/17 recurrent budget, which is then adjusted for cost improvement programs, inflationary cost increases, agreed cost pressures and service developments, in order to arrive at the start-point budget.

Overall there will be reserves held centrally which are broadly 3%

2.3 As a proportion of the overall budget, the level of centrally held reserves is approximately 3%. The reserves are split in two parts, contingency and service transformation. These reserves were earmarked specifically for material issues that remain unresolved at the date of agreeing the financial plan. Further use within 2017/18 of any remaining amounts will be strictly contingent upon delivering all other budgetary requirements e.g. delivery of activity and CIP targets.

Turnover is planned to be £311m and 98% of contracts are signed and reflected in the budget. Activity plans underpinning this are at a detailed level and being agreed with ICSUs.

2.4 The financial plan shows expected turnover for the Trust of £310.7m. This compares with £307.7m plan for 2016/17, an increase of £3.0m. The key assumptions in the plan were:

- clinical income has increased by £3m due to activity growth of 3% and tariff inflation;
- The Dental service won new contracts improving other clinical income by £4.7m;
- the loss of some services (Children's local authority services, Smoking Cessation and Urgent Dental Care) as well as a reduction of £2.3m in Education and Training income is reflected;
- Commissioner QIPP reduction (£4.9m) is reflected in the overall financial budget but not in ICSU activity plans at this point until the detail is agreed with commissioners
- 98% of income contracts are agreed and reflected in the budget;
- Full achievement of STF (£6.7m) and CQIN is assumed for planning purposes;
- There are no deductions for fines or successful challenges

2.5 Income is shown within ICSU budgets and activity plans agreed with all areas.

Financial performance will be monitored with continuing focus on actual and trend

2.6 In order to focus financial performance oversight and accountability, discussions on the areas that are most critical to the Trust, an increased emphasis will be placed on the actual run-rate performance of ICSUs and corporate areas, rather than a simple assessment of budget variance.

This will support increased clarity on performance, identifying trends and forecasting, to support early actions being taken, where required, to either correct underperformance or support ongoing improved performance.

The quantum of expenditure budgets for 2017/18 is £310.1m, which achieves the £0.6m control total surplus when set against income

Expenditure budgets include the pay award, actual pension contributions, incremental drift, contractually binding inflation and the CIP target.

Cost pressures were reviewed by the CFO and COO and funded where appropriate Specific reserves for other cost pressures have been established

3 Budget Setting – Indicative ICSU Budgets

3.1 Operating within the required financial envelope, for budget setting an indicative expenditure budget has been created, which in quantum totals £310.1m. When taken against the income position of £310.7m, this achieves the £0.6m control total surplus.

Within the total expenditure quantum, indicative ICSU and corporate expenditure budgets total £294.4m, with financing costs e.g. depreciation etc. totalling £15.7m. See appendix 2

3.2 Expenditure budgets use 2016/17 budgets as the baseline with known agreed changes reflected. The key expenditure changes are:

- Pay costings were modelled based on the approved budgeted staffing structure at FY 16/17 month 10.
- national pay award (1%) is reflected
- actual incremental drift for agenda for change staff (1%) is reflected
- the increase in pensions contributions (0.08%). In a change from last year, this year the financial model was updated to accurately reflect whether or not a member of staff was in the NHS pension scheme.
- Contractually obliged inflationary uplifts will be supported via an inflation reserve along with agreed contractual changes where these are evidenced
- General inflation for non-pay will be funded where evidence is provided
- Each area put forward a list of cost pressures which were reviewed by the Chief Operating Officer and Chief Finance Officer and will be appropriately reflected within in budgets
- The financial efficiency assumption for FY17/18 has been set for all ICSU and corporate areas based on the road maps developed prior to FY 16/17. The CIP target for ICSUs and corporate directorates is based on the level of efficiency from the two-year road map schemes. This will include any shortfall against the 2016/17 plan. As CIP delivery improves into 2017/18 (as longer lead time schemes mature and come online) the level of tactical/short-term financial control required to offset CIP slippage will diminish. External assistance is being sought to help achieve the CIP target.

- Junior doctor rota pressures have been funded for this rotation only and action plans to reduce the bandings have been agreed with ICSUs. The funding is being held centrally and will be released to ICSUs following approval from the COO & CFO

Final budgetary sign-off will be in May and will involve the CEO, CFO & COO together with the ICSU leadership team

- 3.3 The Finance team and ICSU leads are finalising individual budgets. Once completed the budget sign-off will involve the Chief Executive, Chief Finance Officer and Chief Operating Officer alongside the Clinical Director, Director of Operations and Head of Nursing for the ICSU.

4 Improving Financial Control

All areas must deliver their financial targets

- 4.1 To deliver the financial plan all areas within ICSUs and corporate departments will need to deliver the second year of their CIP, make good any shortfall on CIP from 2016/17, achieve their agreed activity target and manage within the agreed expenditure allocation.

Historically delivery to plan has been challenging

- 4.2 Whilst in overall terms the Trust has delivered its control total, individual targets and most notably original CIP plans, have not been achieved in full by all ICSU areas and as a result not all ICSUs and departments managed within their allocations. This is not unique to 2016/17 and remains a key challenge for 2017/18. In addition it should be noted that at the time of writing the majority of areas do not have detailed plans that achieve the efficiency target for 2017/18 and are therefore likely, in the absence of these, to miss their budget.

To improve financial grip and control within the organisation a number of additional controls have been introduced

- 4.3 To support areas in achieving their financial targets the Trust is introducing a number of additional business disciplines to increase grip and control, which include:
- Agreement of the funded establishment between HR, ICSU and Finance to ensure that the correct posts are in ESR and funded. This will allow any future establishment changes to be reflected appropriately
 - A reduction in the discretionary spend accounts and regular monitoring of future orders to highlight and agree any discretionary projects
 - The Investment Group to review all agreed projects and those not achieving the target contribution to be either corrected or ceased
 - Project rationalisation
 - Weekly workforce meetings chaired by the Director of HR to review forward booking of agency and off payroll arrangements, monitor and reduce overtime & enhanced payments
 - Improved purchase order processes, and 'no purchase order no pay' to be followed through with suppliers
 - All contracts to be reviewed and market tested where this has not been undertaken

- All clinical staffing changes will require a quality impact assessment that will be approved by the Director of Nursing and Medical Director

Budget management has been reviewed and a lower number of budget holders defined. Each budget holder will receive training and will not be able to commit expenditure until this is completed

- 4.4 The Trust has reviewed the role of the budget holder, the number of budget holders within the organisation and refreshed the support package available to them including:
- a) Budget Manager training: Budget Holders will not be able to sign until this is completed.
 - b) Electronic reporting including the ability to see transactions.
 - c) Regular emails on key financial issues and Trust financial position.
 - d) Procurement training.
 - e) Regular HR and Finance workshops.
 - f) Overspending or over-establishing an area could result in the Budget Holders having their authorisation rescinded. Note: clear run-rate and FTE targets will be agreed and set.

Targeted support will be introduced for areas failing to hit financial targets. It will be for a defined period and designed to help ICSUs to improve and create a sustainable solution that achieves the targets

- 4.5 To support those areas that are most challenged the Trust has introduced a targeted support regime for ICSUs or support departments who have not achieved their targets. Targeted support will be for a defined period and is designed to help areas improve and create a sustainable solution. The key features of targeted support are:
- a) It is for a defined time period with defined targets to move out.
 - b) Those in targeted support will receive additional central support through the PMO for CIPS and process improvements, Finance with additional management accounting and costing support, enhanced Information support with a named contact and additional HR support for workforce issues.
 - c) The Chief Operating Officer will hold a £50,000 revenue budget to support areas.
 - d) In addition to the normal reporting requirements ICSUs will meet bi-weekly with the Chief Operating Officer and Chief Finance Officer to present a defined reporting pack and demonstrate progress.
 - e) If an area is in targeted support for longer than 3 months there will be a review of the management structure in that area.
 - f) Whilst in targeted support all expenditure must be signed off by the Director of Operations.
 - g) As targets are achieved areas will be monitored monthly for the first quarter to ensure that improvements are in line with agreed plans.

- 4.6 For those areas that are not receiving targeted support they will be subject to the current quarterly monitoring regime.

5 Financial Improvement Programme (FIP)

The Trust has taken advantage of the FIP2 contract

5.1 As additional support to ensure that ICSUs and departments deliver their cost improvement targets the Trust has taken advantage of the national FIP2 contract to work with Boston Consulting Group.

The four month support will ensure the CIP gap is closed and delivery is on track

5.2 The four month focussed support will ensure all areas close their CIP gap with fully worked up schemes, coach senior leaders, improve the PMO and increase the reporting capabilities and control

6 Recommendations

6.1 The Trust Board is asked to approve the 2017/18 budget and delegate the sign off of the final ICSU and department budgets to the CEO and CFO.

Appendix 1: *Income and Expenditure Summary*

Description	2017/18 Plan
	£000s
Revenue from Patient Care Activities	278,420
Other Operating Revenue	32,285
Gross Employee Benefits	-215,253
Other Operating Costs	-87,801
OPERATING SURPLUS/(DEFICIT)	7,651
Investment Revenue	36
Finance Costs (including interest on PFIs/Finance Leases/DH Financing/PDC Commitment Fee)	-3,096
SURPLUS/(DEFICIT) FOR THE PERIOD	4,591
Dividends Payable on Public Dividend Capital (PDC)	-4,146
RETAINED SURPLUS/(DEFICIT) FOR THE PERIOD	445
Reported NHS Financial Performance	
Retained Surplus/(Deficit) for the Period (as above)	445
Other: IFRIC12	0
Donated/Government grant assets adjustment: include donation/grant receipts and depreciation of donated/grant funded assets	162
Adjusted Financial Performance Retained Surplus/(Deficit)	607

Appendix 2: Indicative Expenditure Budgets 2017/18

2017/18 Budget Summary																				
	CSS	EUC	IM	CYP	PPP	Womens	Surgery	COO	Facilities	Finance	ICT	Medical	Nursing	Overseas	Procure ment	Trust Secretariat	Workforce	Central Financing & Reserves	Total	
Pay																				
2017/18 opening budget	15,344.0	23,482.0	33,379.0	45,849.0	13,772.0	18,982.0	35,481.0	1,428.0	7,826.0	4,268.0	4,023.0	1,376.0	2,407.0	41.0	4,684.0	1,443.0	3,355.0	1,986.0	219,126	
Pensions increase 0.08% (column T)	9.0	14.0	26.7	30.2	10.5	12.0	23.9	1.0	5.6	3.1	2.9	1.0	1.7	0.0	3.4	1.0	2.4		149	
Incremental Pay 1.0% (column U)	99.0	150.0	242.0	276.4	119.6	88.7	221.2	12.9	70.4	38.4	36.2	12.4	21.7	0.4	42.2	13.0	30.2		1,475	
Inflation Pay 1.0% (column V)	120.0	176.0	239.0	495.5	138.2	206.4	371.7	14.3	78.3	42.7	40.2	13.8	24.1	0.4	46.8	14.4	33.6		2,055	
Adjustment for dental contract							3,307.4												3,307	
Indicative 2017/18 pay budget start point (EXCLUDING CIPS)	15,572	23,822	33,887	46,651	14,040	19,289	39,405	1,456	7,980	4,352	4,102	1,403	2,454	42	4,776	1,471	3,421	1,986	226,112	
Non Pay																				
2017/18 Budget	15,997.0	2,573.0	2,702.0	2,068.0	2,215.0	1,674.0	8,589.0	242.0	17,765.0	1,160.0	2,917.0	589.0	10,310.0	355.0	613.0	177.0	847.0	11,511.6	82,305	
Adjustment for dental contract							1,434.4												1,434	
Indicative 2017/18 non pay budget start point (EXCLUDING CIPS)	15,997	2,573	2,702	2,068	2,215	1,674	10,023	242	17,765	1,160	2,917	589	10,310	355	613	177	847	11,512	83,739	
CIP	(2,213)	(2,084)	(2,124)	(2,907)	(564)	(533)	(2,710)	(100)	(1,263)	(148)	(340)	(100)	(100)	0	0	(140)	(450)	276	(15,500)	
Net ICSU expenditure budget	29,356	24,311	34,465	45,812	15,691	20,430	46,719	1,598	24,482	5,364	6,679	1,892	12,664	397	5,389	1,508	3,818	13,774	294,351	
Financing costs																				
Interest and other financing costs																		3,096.0	3,096	
Depreciation																		8,500.0	8,500	
PDC																		4,146.0	4,146	
Financing Expenditure																		15,742.0	15,742.0	
Total	29,356.0	24,311.0	34,464.7	45,812.2	15,691.3	20,430.2	46,718.6	1,598.2	24,482.3	5,364.2	6,679.3	1,892.1	12,664.5	396.8	5,389.4	1,508.5	3,818.2	29,515.6	310,093.0	
																		Surplus	607.0	
																		Total	310,700.0	