North Cumbria University Hospitals NHS
NHS Trust

TRUST BOARD

Date of Meeting: 19 June 2012	**Agenda Item No:** 6.3	**Enclosure:** 4
Intended Outcome:		
For noting ✓	**For information**	**For decision**

Title of Report:
Annual Plan and Revenue and Capital Budget for 2012/13

Aims:
This paper provides a final view on the Annual Plan for 2012/13 together with the revenue (income and expenditure) and capital budgets.

Executive Summary:

The Annual Plan has been developed following the Trust Board decision to achieve Foundation Trust Status through acquisition with an existing Foundation Trust. As such it represents a transition plan for the organisation which identifies key objectives for ensuring the organisation is able to secure a range of proposals for a new organisational form under the management of Northumbria Healthcare Foundation Trust.

The draft plan was presented to the Board in May. Additional content and comments received from the Divisional Managers and Acting Director of Nursing have been added to the plan in relation to CQUIN and Divisional objectives (Appendix A).

In addition to the plan the budget paper (Appendix B) has been prepared in order to deliver a surplus of £1.0m in 2012/13 after allowing for IFRS adjustments. This is the value that the Trust is measured against in determining if the breakeven duty has been achieved. Delivering this surplus is also in line with the Trust's implicit Recovery Plan to clear the historic debt of £2.4m by 2015/16.

Income is forecast to reduce in 2012/13 to £217.2m compared to a forecast outturn of £227.5m in 2011/12. The key areas of income reduction are a result of reductions in the national tariff, further reductions in activity as a result of demand management schemes, reductions in activity for evidence based referrals, a reduction in outpatient follow ups to improve our new to review ratios and a loss of income for readmissions within 30 days. Expenditure has been reduced in line with the level of CIP delivered in the current financial year.

The budget indicates a very challenging £16.9m CIP programme will be required. However, this includes the shortfall against the 2011/12 CIP target for which there are significantly progressed plans. The final CIP for 2012/13 has been determined by the level of recurrent CIP delivered in 2011/12 and final contract negotiations with NHS Cumbria. The national efficiency target for 2012/13 is 4% and this equates to £8.7m.

Overview of key areas for consideration or noting:

The Trust Board is asked to note the following:

- The likely Revenue (Income and Expenditure) Budget scenario for 2012/13,
- The Capital Programme for 2012/13 to 2016/17.
- The size of the Cost Improvement Programme for 2012/13,
- The likely income plan at £217.2m for the year, £19m support from NHS North of England and any in-year changes being reported as variations on this base budget plan,
- That any further developments proposed by the divisional teams will need to be supported by an identified income or cost reduction stream as appropriate.

Further work will be undertaken with Northumbria on the transitional plan required to complete the acquisition and priorities outlined in the plan may be extended as the Transition Board and work streams develop the transition and integration plan for the new organisation form.

Recommendations:

The committee is asked to note the report.

Prepared by:	**Presented by:**
Eric Gardiner, Deputy Director of Finance	Alistair Mulvey, Director of Finance

TRUST BOARD
REVENUE AND CAPITAL
BUDGETS 2012/13

1. INTRODUCTION

This paper sets out the revenue and capital budget for the Trust for 2012/13.

The Finance Committee have been informed of the key messages and changes included within the Department of Health's Operating Framework for 2012/13 which form the background to the approach taken by the Trust in establishing 2012/13 budgets. The budget position reflects the Operating Framework within a planning context and has been finalised as additional detail and further guidance has been shared.

Service Level Agreements for clinical services contracts have all been agreed with Clinical Commissioning Groups / Primary Care Trusts within the national timescale.

Further information on developments and cost pressures can be found in Section 5. The Senior Management Team (SMT – including executives and divisional management teams) have discussed and reviewed the cost pressures, and subsequently determined which are to be funded.

2. SUMMARY INCOME AND EXPENDITURE POSITION

Discussions with Cumbria CCG / NHS Cumbria regarding the contract progressed positively between December and February and as a result the Trust was able to agree a contract value by the deadline of the 29th February and sign the contract in March. Further detail of the contract value is shown in section 3. Whilst the main income SLAs have been agreed the Trust is yet to formally agree the strategic support income, therefore, a range of scenarios are shown below to take into account the potential income risk. Based on the 'likely' set of assumptions the Trust will be required to meet a range of efficiency improvements that will equate to £16.9m.

The surplus of £1.0m is after making adjustments for dual accounting with the PFI being on the balance sheet under IFRS.

The overall revenue financial position for 2012/13 for the Trust is summarised in Table 1.

Table 1 Summary Income and Expenditure Position

	2011/12	2012/13		
	Outturn	Likely	Best	Worst
	£000	£000	£000	£000
Income	227,483	217,209	218,464	216,029
Expenditure				
Pay	(137,918)	(137,906)	(137,906)	(137,906)
Non Pay	(77,208)	(72,290)	(72,290)	(72,290)
Reserves		(7,094)	(7,094)	(7,094)
CIP		16,930	15,675	18,110
Subtotal Expenditure	**(215,126)**	**(200,359)**	**(201,614)**	**(199,179)**
EBITDA	12,357	16,850	16,850	16,850
Finance Charges	(8,881)	(15,507)	(15,507)	(15,507)
Surplus / (Deficit)	**3,476**	**1,343**	**1,343**	**1,343**
Adjustments for IFRIC 12, impairments & donated assets	(2,381)	(343)	(343)	(343)
Surplus / (Deficit) - Breakeven Duty	**1,095**	**1,000**	**1,000**	**1,000**

The main assumptions behind each scenario are highlighted below;-

The tariff for 2012/13 has been passed through the Road Test validation procedure. Whereas the national position is expected to yield a net decrease of 1.5% in PbR values (inflation less 4% efficiency savings), the impact on NCUHT was calculated as a reduction in income of 1.33%.

The likely scenario includes an assumption that NHS North of England will provide Strategic Support funding of £19.0m, assuming full delivery of 12/13 CIP targets. This level of support has yet to be formally agreed with the Strategic Health Authority (SHA). Discussions are being held with the SHA with regards to the level of achievable CIP so that a firm position may be established and agreed for strategic support.

All approved developments not implemented at this time are included in opening reserves.

3. INCOME

The Trust has concluded its negotiations with Cumbria Clinical Commissioning Group (CCG) regarding the contract for 2012/13, and formally signed off by the national deadline of the 15th March. The agreed contract value is £169.374m.

The contract for 2012/13 is based on the forecast outturn for 2011/12 reflecting changes to the casemix and the increase in the complexity of care witnessed in the current financial year. The contract has been reduced by £1.3m to reflect the commissioners' demand management schemes, however, this is offset by an increase in the contract value of £1.6m in support of demographic changes.

The contract is based on Payment by Results (PbR) with no threshold limits for under and over pay performance (risk sharing). Therefore, if the contract over

performs the commissioners will have to pay for the work at national tariff rates. This is of course subject to the national PbR guidance such as the marginal rate of 30% for non-elective activity above the 2009/10 outturn. Due to the changes in the delivery of children's services in the county it has been agreed that these services will not be paid via PbR but on a block contract basis this year in order to limit the risk for both organisations as the service goes through transformational change. As the contract has been rebased to outturn values the risk of the contract under or over performing should be minimised.

Although the agreed contract value with NHS Cumbria / Cumbria CCG is £169.374m, for planning purposes the Trust has used a higher value which it considers to be more realistic of the planned activity levels in the Trust. The difference relates to the PCI development and PbR excluded drugs. The CCG has only included £1.2m of income for the PCI development whereas our own internal calculations, which have been supported by the commissioners, suggest the income will be c£3m. Therefore an additional amount has been included to cover this shortfall. In addition, the CCG has included growth of PbR excluded drugs of 5% or £600k. Based on recent years' experience, we would have expected this to be over 10%, and therefore have made an adjustment of £600k to reflect this change. Both changes are subject to CQUIN at 2.5%. A reconciliation of the changes is shown in Table 2 below.

Table 2 Reconciliation of the Changes in the NHS Cumbria Contract Value

	£000	£000
Agreed Contract Value		169,374
Additional PCI investment	1,700	
Growth in PbR excluded drugs	600	
Sub total		2,300
CQUIN @ 2.5%		58
Revised Contract Value		**171,732**

As noted in Section 2, the Trust has assumed £19m of Strategic Support from the SHA. This has not been formally agreed with NHS North of England at this time. However, it has been discussed and the discussion continues on a regular basis. As the CIP plans for 12/13 are finalised a view will need to be formed as to the level of realistic cash releasing savings which can be achieved which may require the planned level of Strategic Support income to change.

The Department of Health have recently announced that the Trust is one of seven nationally that is in line to receive financial support from 2012/13 onwards in recognition of the financial pressures imposed by the Cumberland Infirmary PFI scheme. The indications are that this support will be in the region of £6m - £7m. The Department of Health is due to announce four key tests that will be required to be passed before the financial support will be provided, future updates as to the progress against these tests will be included in the Finance section of the Performance report.

Total income is forecast to be £217.2m and is summarised in Table 3.

Table 3 Summary of Income 2012/13

	2011/12 Outturn £000	2012/13 Likely £000	2012/13 Best £000	2012/13 Worst £000
NHS Patient Related Income				
NHS Cumbria	168,031	171,732	171,732	171,732
NHS North of England	28,000	19,000	20,000	18,000
Specialist Commissioning	1,958	1,350	1,350	1,350
Non Contract Activity	2,821	3,100	3,200	3,075
Dumfries & Galloway	3,073	3,100	3,255	2,945
Northumberland	941	917	917	917
Morecambe Bay	223	206	206	206
Total NHS Patient Related Income	**205,047**	**199,405**	**200,660**	**198,225**
Other NHS Income				
Training & Education	6,550	5,815	5,815	5,815
Research & Development	791	380	380	380
Total Other NHS Income	**7,341**	**6,195**	**6,195**	**6,195**
Non NHS Patient Related Income				
Private Patients	919	1,000	1,000	1,000
Other 3rd Party Liability	1,120	950	950	950
Total Non NHS Patient Related Income	**2,039**	**1,950**	**1,950**	**1,950**
Other Operating Income				
Accommodation	487	550	550	550
Catering	344	335	335	335
Non-patient Services	7,428	7,597	7,597	7,597
Parking	313	341	341	341
Other	4,485	837	837	837
Total Other Operating Income	**13,056**	**9,659**	**9,659**	**9,659**
Total Income	**227,483**	**217,209**	**218,464**	**216,029**

4. EXPENDITURE

Budgetary proposals for the **likely** revenue expenditure budgets and whole time equivalents (WTEs) for 2012/13 are summarised in Table 4.

Table 4 Summary of Expenditure Budgets

	WTE	Pay £000	Non Pay £000	Income £000	CIP £000	Total £000
Income - Non Devolved				208,921		208,921
Clinical Divisions						
Family & Support	787.06	(35,960)	(13,219)	3,157	2,562	(43,460)
Medical	991.64	(40,922)	(20,334)	712	4,272	(56,272)
Surgical	868.80	(43,020)	(12,551)	1,293	4,423	(49,856)
Sub Total	2,647.50	(119,902)	(46,104)	5,162	11,257	(149,588)
Corporate Divisions						
Chief Executive	18.26	(1,036)	(6,084)		654	(6,466)
Estates & Facilities	198.50	(5,050)	(16,271)	1,242	1,467	(18,612)
Finance	210.10	(6,835)	(2,694)	1,385	3,321	(4,823)
Human Resources	63.00	(2,731)	(905)	499	122	(3,015)
Medical Director	6.95	(234)	(4)		7	(232)
Nurse Director	44.89	(2,118)	(226)		103	(2,241)
Reserves		(4,769)	(2,325)			(7,094)
Cost Improvement Target						0
Sub Total	3,189.20	(142,675)	(74,615)	8,288	16,930	(192,071)
EBITDA		**(142,675)**	**(74,615)**	**217,209**	**16,930**	**16,850**
Finance Charges			(15,507)			(15,507)
Surplus / (Deficit)		**(142,675)**	**(90,122)**	**217,209**	**16,930**	**1,343**
Adjustment for Dual Accounting / IFRIC 12			(343)			(343)
Surplus / (Deficit) - Breakeven Duty		**(142,675)**	**(90,465)**	**217,209**	**16,930**	**1,000**

Expenditure is calculated to allow the Trust to provide a £1.0m surplus after adjusting for Dual Accounting / IFRIC 12.

The opening budgets reflect the full year effect of all cost improvements actioned up to 31st January 2012. The cost improvement target for 2012/13 is a combination of unachieved cost improvements for 2011/12 and the target for 2012/13. The Divisions and Corporate Services continue to work alongside the Project Management Office (PMO) to identify cost improvements and there is significant progress in the plans to address the balance of the 2011/12 CIP target. The CIP target has been devolved in full to divisions (see Table 4 above) and this has had the effect of reducing the opening devolved budgets.

5. RESERVES

The reserves for 2012/13 are shown in Table 5.

Table 5 Reserves

	PYE 2012/13 £	FYE 2013/14 £
Pay Reserves		
Pay Award	277,274	277,274
Clinical Excellence	300,000	300,000
Specialty Doctors	100,000	100,000
Agency Premium	800,000	600,000
	1,477,274	**1,277,274**
Non Pay Reserves		
Medical for Dental SIFT	85,000	85,000
R&D	380,000	380,000
HMC Pressures & Inflation	250,000	250,000
Inflation on Other Contracts	100,000	100,000
PbR Excluded Drugs	275,000	275,000
Acquisition	500,000	0
PMO Team	360,000	0
NPfIT & Other IT Pressures	800,000	800,000
Ophthalmology 18 Weeks	245,000	0
	2,995,000	**1,890,000**
Developments b/f 11/12		
Theatres On Call	308,478	308,478
	308,478	**308,478**
New Developments 12/13		
Obs & Gynae Consultant	232,188	232,188
Emergency Medicine Middle Tier	888,946	0
Anaesthetists	405,000	405,000
Ophthalmology Middle Grades	140,200	140,200
Optometrist	14,510	14,510
Endoscopy	257,000	317,000
Radiologists	375,443	375,443
	2,313,287	**1,484,341**
TOTAL OPENING RESERVES 2012/13	**7,094,039**	**4,960,093**

The pay reserve includes a sum for 2012/13 based on £250 pro rata for every employee earning less than £21,000. No other pay awards are expected although provision to cover the cost of Clinical Excellence Awards has been included. There remain a small number of doctors who have yet to convert to the new specialty doctor contracts.

The Trust has set aside £0.8m to support the on-going cost of agency medical staff. This figure is based on 2011/12 expenditure on agency medics and the vacancy level within the 2011/12 medical staff establishment.

The non-pay reserve includes an amount of £0.8m to reflect the expected reduction in income to the Trust from the PCT for IT services. Funding has also been set aside for inflation on the PFI contract and inflation on a small number of other significant contracts such as PACS within Radiology. Funding has also been set aside to fund the Project Management Office and the costs of acquisition.

A number of developments have recently been supported by SMT including funding for Anaesthetists at CIC, additional medical middle tier Obstetric input into WCH to sustain services and additional middle grade support for Ophthalmology. These developments are linked to plans to reduce the level of agency expenditure and, in the case of Ophthalmology, to cope with a recognised increased demand for the service.

Funding has also been set aside for additional staffing to support the Emergency Medicine middle tier at WCH. This development is as the result of a number of recommendations made by the Deanery following their visit to West Cumberland Hospital in December. Experience dictates that it is highly likely that most of the additional staffing will be agency staff although it is hoped that lower cost NHS locums can be secured and this funding will not be required in full. The arrangements will be reviewed after six months and then again in advance of 2013/14 against the backdrop of the proposed changes around the emergency floor.

A business case has been approved for additional Radiologists. Although additional budget of £375k is required to be set aside to formally fund these posts it is expected that other unbudgeted costs such as evening reporting, local on call arrangements and plain film outsourcing will reduce by more than £400k.

The Trust continues to hold an amount on its balance sheet in respect of Equal Value. Any costs incurred are cash backed by the Department of Health. An estimate of the 2012/13 write down costs of provisions on the balance sheet in respect of early retirements, injury benefits and liabilities in respect of third parties is included in opening budgets.

6. CAPITAL

The capital plan for 2012/13 – 2016/17 is shown below. The plan is subject to change depending on priorities that may emerge and particularly around the timing of expenditure on the redevelopment at WCH.

The capital programme remains tight over the next few years with little flexibility. Decisions need to be made regarding the replacement and development of some large pieces of medical equipment such as a replacement CT Scanner, replacement Linear Accelerators and the development of Pharmacy Automation. These decisions will need to be set within the overall context of the acquisition process. In addition, the clinical divisions will need to prioritise their requirement for minor medical equipment. There is further significant investment planned in IT which will be used as an enabler to improve clinical efficiency and safety standards in line with the IM&T strategy. Small amounts of funding are available to deal with backlog maintenance and minor Estates schemes.

The Trust intends to draw down a proportion of the remaining Department of Health (PDC) funding for the WCH redevelopment when the Full Business Case (FBC) has been approved. It is anticipated that approval will be given in the very near future so that significant building work can start taking place in summer 2012. The 5 year capital plan shows the Trust's current best estimate of expenditure on the redevelopment of WCH split between the expenditure which is PDC backed and the

Trust's own contribution to the project. The timing of these will be subject to change dependent on when approval of the FBC is received.

No provision is currently made in the plans for the demolition of the tower block at the CIC site.

These plans are subject to change dependent on priorities that may emerge and particularly around the timing of expenditure on the redevelopment at WCH.

Table 6 Allocation of the 2012/13 – 2016/17 Capital Resource

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	TOTAL £000
Minor Medical Equipment	690	650	650	1,650	1,050	**4,690**
Major Medical Equipment	1,135	0	0	0	0	**1,135**
IM&T	1,000	1,000	1,000	1,000	1,500	**5,500**
Minor Works	250	250	250	250	500	**1,500**
PFI Lifecycle Additions	1,754	2,559	4,607	4,376	3,067	**16,363**
WCH Redevelopment (NCUHT)	1,750	2,750	2,500	0	0	**7,000**
Unallocated	25	0	150	150	1,650	**1,975**
Subtotal Trust Allocation	**6,604**	**7,209**	**9,157**	**7,426**	**7,767**	**38,163**
WCH Redevelopment (PDC)	18,250	27,250	17,500	7,593	0	**70,593**
CRL	**24,854**	**34,459**	**26,657**	**15,019**	**7,767**	**108,756**

7. BUDGETARY RISKS & SENSITIVITIES

Importantly the Trust Board should be aware of the following financial risks:

On the assumption that £19.0m of Strategic Support funding is made available from NHS North of England it still remains for the Trust to deliver a CIP of £16.9m in order to deliver a surplus of £1.0m in line with the Trust's Recovery Plan. If this level of CIP cannot be delivered, additional strategic support income will have to be secured to cover any. This will be closely monitored throughout the year and schemes will be performance managed to ensure they are delivered on time and achieve the savings identified. Regular updates will be presented to the Finance Committee.

- As noted in an earlier section of the paper the Trust has assumed that 100% of CQUIN will be received under the contract. In order to achieve this investment in some services may be required. A quality schedule is also included within the contract with financial penalties applicable where specified standards and targets are not met. The delivery of electronic discharge summaries to GPs in a timely manner represents a significant financial risk.
- The NHS North of England has yet to confirm that it will make all or any of the £19m Strategic Support funding available.
- Other sources of income are at a consistent level to 2011/12 and should represent minimum risk. Any change to the management of Private Patients in the Trust will have an impact on the relevant income and expenditure budgets.

- Expenditure budgets are based on planned activity levels and expenditure trends, including known cost pressures. Any significant deviation from the assumptions could lead to a cost pressure which may not be able to be funded from identified reserves. Specific risks to note are:
    - agency staff costs which are currently increasing,
    - costs associated with the acquisition process in excess of the £0.5m set aside in non-pay reserves,
    - Ophthalmology waiting times which may result in an increased number of patients requiring treatment either in the private sector or in premium rate Waiting List Initiative sessions funded by the Trust.
- Achievement of the £16.9m CIP plan remains a significant risk. The Trust's run rate needs to start reducing over the coming months if it is to achieve this target.
- Due to the scale of the internal CIP, mitigation strategies associated with potential downside risks are limited.
- There are a large number of internal reviews linked to improved service delivery and longer term savings currently being undertaken in the Trust including Nursing, Midwifery, Pharmacy and Pathology. These reviews need to be managed appropriately and implemented according to planned timescales.
- The Capital plan is based on currently available information and may be subject to change when prices are confirmed.
- Whilst the Trust has set a full year plan the context of the acquisition will need to be considered as we move through the financial year.

8. RECOMMENDATION

The Trust Board is asked to note the following;-

- The likely Revenue (Income and Expenditure) Budget scenario for 2012/13.
- The Capital Programme for 2012/13 to 2016/17.
- The size of the Cost Improvement Programme for 2012/13 and the need to consider the scale of achievable CIP in the context of the need for strategic support.
- The likely income plan of £217.2m for the year subject to agreement of strategic support from the SHA and any in-year changes being reported as variations on this base budget plan.
- That any further developments proposed by the Senior Management Team / Executives will need to be supported by an identified income stream as appropriate.

Alistair Mulvey
DIRECTOR OF FINANCE