

Budget and Capital Plan 2018/19

Trust Board	Item: 12
Date: 11 th April 2018	Enclosure: H
Purpose of the Report: This paper provides the Board with a summary of the indicative budget and capital plan approved by FIC for noting.	
For: Information <input checked="" type="checkbox"/> Assurance <input type="checkbox"/> Discussion and input <input type="checkbox"/> Decision/approval <input type="checkbox"/>	
Sponsor (Executive Lead):	Jo Farrar, Director of Finance
Author:	<i>Jo Farrar, Director of Finance</i>
Author Contact Details:	Jo.farrar@nhs.net
Risk Implications – Link to Assurance Framework or Corporate Risk Register:	
Legal / Regulatory / Reputation Implications:	
Link to Relevant CQC Domain: Safe <input type="checkbox"/> Effective <input type="checkbox"/> Caring <input type="checkbox"/> Responsive <input type="checkbox"/> Well Led <input checked="" type="checkbox"/>	
Link to Relevant Corporate Objective:	Strategic Objective 4 - To deliver sustainable, well managed, value for money services
Document Previously Considered By:	Finance & Investment Committee
Recommendations: The Board is asked to note the contents of this report.	

2018/19 BUDGET SETTING AND CAPITAL PLANNING

A. Introduction

The Trust has adopted a two-stage approach to the approval of the 2018/19 budget and capital plan. The significant operational pressures experienced recently has necessarily meant that clinical areas have had to focus on maintaining the flow of patients safely through the Hospital. Although we are in a near final position with the budgets in respect of the corporate areas, there is more work to be done on the clinical areas and on the significant transformational Financial Improvement Plans (FIP).

The Board delegated authority to the Finance and Investment Committee (FIC) for the approval of the indicative budget and capital plan at its meeting on 29th March 2018. FIC will also be asked to approve the final budget at its April meeting prior to submission of the Operating Plan to NHSI (due for submission on 30th April).

This paper provides the Board with a summary of the indicative budget and capital plan approved by FIC for noting.

B. Summary of the 2018/19 indicative budget position

	2017/18 Outturn	2018/19 Plan
	£m	£m
NHS Patient Care	225.2	229.9
Other Patient Care	1.7	2.3
Private Patients	0.6	0.5
RTA	0.6	0.6
Other Income	25.2	30.7
Total Income	253.3	264.0
Pay	(160.7)	(161.1)
Non Pay	(85.2)	(89.0)
Total Operating Expenditure	(246.0)	(250.1)
EBITDA	7.3	13.9
EBITDA %	2.9%	5.3%
Non Operating (excluding impairments & donated asset adjs.)	(13.5)	(13.9)
Control Total (Deficit)/Surplus	(6.2)	0.0
Capital Donations/grants	(0.2)	(0.2)
Adjusted Total (Deficit)/Surplus including Donated Asset Adjs	(6.4)	(0.2)
Sustainability & Transformation Fund (STF)	2.7	10.8
Winter Resilience Funding	0.8	0.0
Impairments	(1.8)	0.0
Total (Deficit)/Surplus	(4.7)	10.6

All devolved indicative budgets have been reviewed, authorised and signed by the relevant Director or Associate Director and by the Chief Executive.

C. Patient care income

The original demographic growth presented to us by commissioners resulted in an increase in patient care income of £4.5m at current year prices. The detail of this by service and Point of Delivery (POD) was shared with serviceline managers and clinical Associate Directors for review. This resulted in a revised value of growth of £3.4m and £1.3m of associated marginal cost pressures. The net contribution remains broadly in line with the Trust's original budget setting assumptions.

D. Expenditure

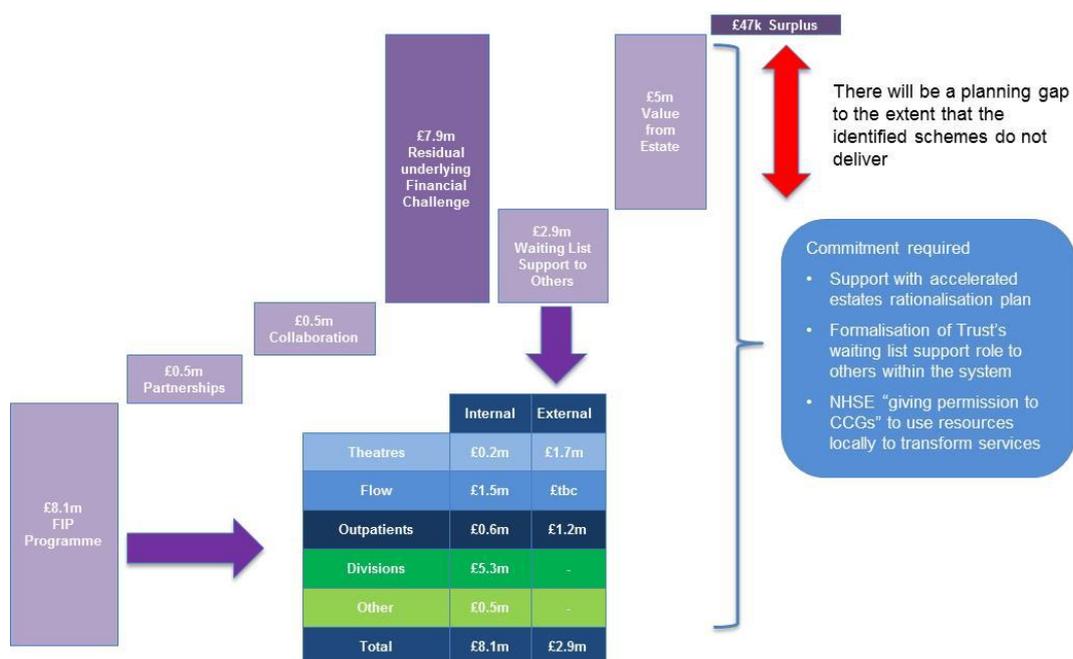
Cost pressures of £8.9m were put forward by servicelines and corporate departments. The current position is summarised below:

Category	Accept	Business Case	Reject	Grand Total	Total Reflected in Budget
	£m	£m	£m	£m	£m
17/18 Runrate	1.4	1.2	0.8	3.3	2.6
18/19 New	2.4	1.5	0.3	4.2	3.9
Activity Growth	1.1	0.2		1.3	1.3
Grand Total	5.0	2.8	1.1	8.9	7.8

A number of cost pressures with an estimated value of £2.8m will need to be considered for approval as part of formal business cases. The cases will be reviewed by the Investment Committee in-year as appropriate. Any additional cost pressures arising during the year are assumed to be funded through slippage on business cases above and other reserves.

E. Meeting the financial challenge

The graphic below shows the allocation of the estimated £17.0m financial challenge assumed as part of the budget setting process across a number of themes.



The detail of the schemes still needs to be worked through particularly within the clinical divisions and in relation to the transformation programmes such as Theatres, Flow and Outpatients. This work will be finalised before the end of April.

F. QIPP

The review of Commissioner QIPP is ongoing and will be concluded prior to approval of the final budget and before submission of the Trust's Operating Plan to NHSI on 30th April.

G. Risks and mitigations

There are a number of risks that may have a significant financial implication both in terms of the budget for 2018/19 and the Operating Plan should they crystallise. These risks can be summarised as follows:

	Risk	Mitigating action
1	The non-delivery of FIP and other schemes to meet the financial challenge.	We are continuing to work up the detail of the FIPs and other schemes that need to be delivered if we are to meet the financial challenge. This work is being closely scrutinised by the Executive Team, in particular the Chief Executive, the Chief Operating Officer and the Finance Director. Progress is also being monitored by PIB, EMC and FIC.
2	The delivery of activity by the Trust in relation to the wait list support that we are proposing on providing to others may not happen to the extent that we are expecting and within the timescales that we are assuming.	Work is continuing between the Trust and other partners to formally confirm what activity shifts will occur in 2018/19. The aim is to fix an initial position before the end of April so that it can be reflected in our plans.
3	The envisaged benefit to be derived from the Trust's estate may not arise in 2018/19 and/or may not be to the value included within the plan.	We have sought advice to support a programme of deriving benefit from the estate over the coming years that will have an impact in 2018/19. The advice received, based on current market conditions supports the assumption we have made in the budget and Operating Plan. The programme of work will be overseen at EMC and progress reported to FIC. We are also liaising with NHSI, DH, planners and the STP as appropriate.
4	The nature of many of the Transformation Programmes, FIPs and other schemes to meet the financial challenge mean that their successful delivery is linked with the action of other parties external to the Trust, many of which are not within the Trust's direct sphere of influence. By implication, this increases the risk of partial or non-delivery of these schemes.	We continue to work up the detail of the schemes in close conjunction with external partners where appropriate. We are planning to capture the action required by commissioning colleagues who are party to the Trust's contracts as part of the contract longstop process. We will be highlighting these risks to NHSI within the Trust's Operating Plan submission due at the end of April.

	Risk	Mitigating action
5	The CCG QIPP schemes may have a greater impact than we have assumed within the budget setting process which may result in stranded costs that are not reflected in budgets.	We will work through the detail if the QIPPs between now and the end of April so that we have a detailed and shared understanding of their likely impact. We will revise our budget and planning assumptions accordingly. Any unmitigated stranded costs will result in an additional financial challenge.
6	The recently announced pay award is yet to be finalised. We understand that it will be fully funded however until we see the detail we are unable to confirm that this is the case. Any shortfall in funding would result in a cost pressure.	We will continue to monitor the position and, if it becomes apparent that there may be a cost pressure resulting from the award we will bring it to the Board's and NHSI's attention to ensure it is resolved appropriately.

H. Reserves

The budget proposed is not without significant risk primarily in relation to the delivery of FIPs, the transformation schemes elements of which are linked to actions of other external parties, the potential impact of commissioner QIPP, and the overarching affordability issues within the sector.

The level of reserves the Trust has established as part of the budget setting process so far stands at £1.4m. The estimated value of the cost pressures requiring a business case will also be held in a business case reserve until approval is given. The pending items will be resolved before the end of April.

I. Next steps

The key next steps include:

- i. Finalisation of the phasing of the budgets in particular to reflect the treatment of FIPs.
- ii. Clarification of the nature and extent of the activity that the Trust will deliver in relation to the provision of wait list support to others.
- iii. Further work to meet the financial challenge and fully allocate to cost centre and account codes.
- iv. Completion of contract negotiations (still a PbR contract) particularly with regard to QIPP and the evaluation of potential stranded costs.
- v. FIC approval of the final budget at its April meeting prior to submission of the Operating Plan to NHSI (due for submission on 30th April).

2018/19 INDICATIVE CAPITAL PLAN**J. Introduction**

This section of the paper sets out the Trust's indicative capital plan for 2018/19 and the following four years to 2022/23. It also identifies the funding gap and the proposed steps to mitigate it. This indicative capital plan was approved by FIC at its meeting on 29th March 2018.

K. Methodology

The capital planning process for 2018/19 includes outline plans for the 4 subsequent years to 2022/23. The prioritisation bases of patient safety and experience have been retained from previous years' processes. All Priority 1 projects have been included in the core capital plan. Priority 2 and 3 projects have not been included within the 2018/19 Plan.

The capital plan continues to be broken down into the following themes:

- Estates
- ICT (IT)
- Clinical Engineering (Equipment)

The draft capital plan listing has been communicated to the Divisions and modified to reflect the feedback provided. Several prioritisation meetings have taken place. The draft Plan was also considered at EMC.

L. Progress to date

An initial prioritisation of the Trust's capital longlist was carried out in January 2018. Further prioritisation sessions have taken place during February and March. The results of this prioritisation are summarised below.

	2018/19	2019/20	2020/21	2021/22	2022/23	Five Year Total
	£m	£m	£m	£m	£m	£m
Estates	17.6	7.9	6.5	6.5	6.5	45.0
ICT	2.6	5.8	2.7	2.7	2.5	16.3
Clinical Engineering	3.0	1.5	1.5	1.5	1.5	9.0
Total Capital Plan	23.1	15.2	10.7	10.7	10.5	70.3
Of which:						
Fire Capital	10.5	-	-	-	-	10.5
Charity Funded	1.9	-	-	-	-	1.9
Trust funded excluding Fire and Charity funding	10.6	15.2	10.7	10.7	10.5	57.8

For the 2018/19 financial year, a total of £23.1m of core capital requirements have been identified as a Priority 1 requirement, including non-discretionary Fire Capital of £10.5m and Charity-funded Capital of £1.9m (both subject to approval).

M. Affordability

As an FT, the Trust must fund all capital development through internally generated resources (depreciation) and surpluses from operating activities. It can also access external funding such as charitable funds and commercial loans.

The total funding identified through internal resources and charitable donations is £10.3m. The Trust is also pursuing a further Fire Capital loan (£10.5m) from the Department of Health for the specific elements of the fire capital programme.

This leaves a potential affordability gap of £2.3m. Furthermore, any reductions in the 2018/19 Provider Sustainability Funding available for capital expenditure (we have currently assumed that £6.8m (63%) will be allocated to the capital programme) may have the effect of reducing the scale of the cash available for the Trust's overall capital plan for the 2018/19 financial year.

Whilst approving a capital plan which includes a funding gap is not without risk, there are a number of options the Trust can explore to mitigate this including further prioritisation of the programme during the course of April assuming a prudent level of slippage within the plan (reflecting recent experience). If the funds that we have assumed to be made available during the year do not materialise to the level that we have assumed we will also review and reprioritise that scheme and, in parallel, consider alternative sources of funding.

N. Outcome

FIC approved the indicative capital plan for 2018/19 at its meeting on 29 March 2018 subject to receiving the following confirmations at its meeting in April:

- i. That formal sign off has been received from all Clinical Divisions and Executive Team on the Priority 1 list within the final programme.
- ii. There will be a continual review of the capital programme to ensure any changes to schemes are captured and reflected.
- iii. Any amendments to the plan within the overall funding envelope would be brought back to FIC quarterly or more frequently if appropriate.

In the event that there is a material change in the funding available, the capital plan and its prioritisation would be reviewed in full and brought back to the FIC sign off.

O. Action required

The Board is asked to note the contents of this report.

Jo Farrar
Director of Finance