Board of Directors Meeting Report– 2 May 2017

Agenda item 44/17

Title	Financial Plan 2017/18
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Purpose	To present the Trust's financial plan for 2017/18
Previously considered at	Earlier versions of the plan have been discussed at the Trust Board and Finance & Investment Committee
Executive Summary The financial plan summarises the key financial targets for 2017/18 and describes the changes made to the submission made to NHSI on 23rd December 2016.	
Related Trust Objective	Financial and Operational Sustainability – Financial, Operational, Estate
Related Risk	ALL BAF Risks
Legal implications / regulatory requirements	The Trust's financial position forms part of Monitor's regulatory regime.
Quality impact assessment	The delivery of the financial position and maintaining and improving quality are integral. Each cost improvement programme has a quality impact assessment.
Equality impact assessment	As far as can be considered this paper has no detrimental impact for the 9 protected characteristics under the Equality Act 2010
Recommendations The Board is asked to approve the budget.	

Introduction

The Board has already approved the 2 year operational plan and this was submitted to NHSI in December. The plan was consistent with the control totals set by NHSI but, because of the accelerated timescale, was largely based on a "top-down" approach.

Since then, the Finance department has worked closely with the Directorates to produce detailed budgets and to incorporate any changes in the assumptions. This detailed work culminated in budget "sign-off" meetings with Directorates and the Site Leadership Team in the latter half of March. These detailed budgets remain in-line with the original Control Totals.

NHSI also requested that Trusts resubmit their refreshed plans under the strict condition that there were no deviations from previously agreed Control Totals. This was completed on 30th March.

Although the key headlines of the plan remain consistent with the Board approval in December, some of the detail and assumptions have changed and this paper explains these and summarises the various elements of the overall plan. The paper concentrates on Year 1 because these plans have been developed in detail but also refers to Year 2 where appropriate.

The key financial targets resubmitted to NHSI on 30th March are summarised below:

	Year 0 2016/17	Year 1 2017/18	Year 2 2018/19
	£'m	£'m	£'m
I&E *Surplus / (Deficit)*	(15.7)	(15.5)	(11.9)
CIPs *(included above)*	17.4	8.8	11.1
Capital Programme	12.0	12.3	10.1
Cash	1.5	1.5	1.5

Progress Since the December Plan Submission

The following table summarises the key changes made to the 2017/18 position submitted in December.

	Income	Expenditure	**Net**	Capital	Cash
	£'m	£'m	**£'m**	£'m	£'m
Position Submitted on 23rd Dec 2016	305.8	(321.3)	**(15.5)**	14.0	1.5
Adjustments					
a Change to 16/17 Forecast Outturn	1.5	(1.5)	**-**	-	-
b Urology Business Case	0.6	(0.6)	**-**	-	-
c Medical Model	-	(0.9)	**(0.9)**	-	(0.9)
d JEG costs	-	(0.6)	**(0.6)**	-	(0.6)
e Savings in management roles to offset JEG costs		0.5	**0.5**	-	0.5
f Non-recurrent Contribution to ESR	-	(1.0)	**(1.0)**	-	(1.0)
g Impact of PbR tariff	0.9	-	**0.9**	-	0.9
h CIPs	0.3	(0.3)	**-**	-	-
i Income underfunded in 16/17 re block	1.8	-	**1.8**	-	1.8
j Other I&E	(0.2)	(0.5)	**(0.7)**	-	(0.7)
k Contribution from Charitable Funds	-	-	**-**	0.3	-
l Changes to the mix of leasing & outright purchases	-	-	**-**	(2.0)	-
	4.9	**(4.9)**	**-**	**(1.7)**	**-**
Final Plan 2017/18 ***Surplus / (Deficit)***	**310.7**	**(326.2)**	**(15.5)**	**12.3**	**1.5**

A : Changes to the Forecast Outturn in 2016/17 *(net effect of nil)*

The forecast outturn used in the Operational Plan was based on the Month 06 position and contained a number of assumptions that have proven different to the final outturn. It is worth pointing out that some of these assumptions were amended in subsequent year-end forecasts but the plan itself was set using Month 06.

The increase in income comprises an additional £1.0m related to contractual discussions between the Trust and the CCGs and £0.5m on specialist commissioning which reflects those areas of activity that were running higher than plan *(eg. NICU, Radiotherapy and Sexual Health)*

The expenditure increase comprises £0.3m investment in the Medical Model, £0.4m related to slippage on pay related CIP schemes *(largely the Grant Thornton ones)* slippage of £0.3m on the

nursing review savings and a number of smaller over spends and service developments of £0.5m *(eg. expansion of the ERAN service and reconfiguration of AMU)*

B : Urology Business Case *(net effect of nil)*

The Trust agreed to the urology cancer business case with the costs being met by an increase in activity from other Trusts.

C : Medical Model *(£0.9m increased cost)*

The investment in the Medical Model is approximately £1.2m in a full year with some of this commencing in 2016/17 and shown as a full year effect. There is no direct income stream to offset this development although the anticipated improvements in patient flow and bed capacity should help the Trust achieve its overall activity plan in 2017/18.

D & E : JEG Costs and Management Savings *(£0.1m increased cost)*

The annual running costs of the Joint Executive Group have been shared equally between the three acute Trusts and equate to £0.6m. This is largely offset by internal management savings of £0.5m through the creation of the Site Leadership Team *(at lower grades)* and only back-filling where absolutely necessary.

F : ESR Contribution *(£1.0m increased cost)*

The contribution to the Essex Success Regime of £1.0m is non-recurring and, combined with the equivalent contributions from Basildon & Mid-Essex, should meet the central project costs required to plan and implement the reconfiguration of services. Until recently, the expectation was for these costs to be funded centrally by NHSE / NHSI.

G : Impact of PbR Tariff *(£0.9m increased income)*

The impact of the new PbR income tariff against the Trust's new activity plan is £1.2m which is an increase of £0.9m on the position shown in the December submission. The increase is due to changes in the activity plan and not the tariff which has remained unchanged.

H : Cost Improvements *(net effect of nil)*

This change relates to relatively minor movements between income and expenditure CIPs.

I : Income Unfunded in the 2016/17 Contract *(£1.8m increased income)*

The Trust was on a block contract in 2016/17 and, consequently, was not reimbursed for over-performance. The 2017/18 contract is based on PbR cost and volume and this change is enough to increase the Trust's income level regardless of any growth in patient activity. The full year effect of the increase is £4.6m which is an additional £1.8m on the amount already included in the December submission. This increase in income does not cause any corresponding increase in cost because the activity was being undertaken in 2016/17 and is already reflected in the expenditure.

J : Other I&E Changes *(£0.7m net increase)*

This change relates to relatively minor adjustments on income and expenditure *(eg. increases in lease interest payments, Bohmer training programme and increased costs in discharge management)*.

K : Contribution from Charitable Funds *(£0.3m increase to capital)*

A review of the Charitable Funds has identified a number of equipment bids that can be funded thereby increasing the capital programme.

L : Change to the Mix of Leasing & Purchasing *(£2.0m reduced capital)*

This reduction in capital acquisitions reflects a movement in the capital programme, following the December submission, from medical and IT equipment *(which is largely leased over a number of years)* to estates schemes *(which are purchased outright)*. The total cash budget available for the capital programme remains unchanged.

Summary of I&E Plan by Directorate

Although the Board has seen the overall income and expenditure plan *(in addition to a reconciliation of movements from the 2016/17 forecast)* this is now presented in the form of a directorate analysis as follows:

	Clinical Income	Other Income	Pay	Non-Pay	**Net**
	£'000	£'000	£'000	£'000	**£'000**
Clinical Directorates					
Surgery	57,175	2,535	(26,181)	(10,236)	**23,293**
Medicine	75,286	2,188	(39,771)	(15,761)	**21,942**
Emergency Directorate	14,012	1,339	(9,975)	(1,611)	**3,765**
Women & Children	37,526	897	(22,617)	(3,413)	**12,393**
MSK	36,884	898	(18,094)	(9,454)	**10,234**
Theatres	3,541	595	(15,745)	(4,309)	**(15,918)**
D&T	50,107	5,382	(26,187)	(31,882)	**(2,580)**
	274,531	**13,834**	**(158,570)**	**(76,666)**	**53,129**
Corporate Services					
Management Executive	-	127	(1,507)	(225)	**(1,605)**
Finance *(incl. Purchasing)*	-	9	(3,215)	(63)	**(3,269)**
Information	-	-	(480)	(79)	**(559)**
HR *(incl. Occup Health & Nursery)*	-	523	(2,880)	(953)	**(3,310)**
I.T.	-	16	(1,781)	(2,239)	**(4,004)**
Facilities	-	3,203	(9,570)	(11,968)	**(18,335)**
Site Management	225	362	(2,022)	(395)	**(1,830)**
Clinical Support Services	-	-	(1,050)	(251)	**(1,301)**
Nursing & Governance	-	623	(1,814)	(1,016)	**(2,207)**
CNST	-	-	-	(10,685)	**(10,685)**
Medical Records	-	31	(877)	(110)	**(956)**
Clinical Tutor	-	2,619	(685)	(606)	**1,328**
SPO	-	-	(481)	(5)	**(486)**
Communications & Engagement	-	252	(498)	(131)	**(377)**
R&D	-	1,697	(1,493)	(204)	**-**
Central & Reserves	12,507	59	(13,030)	(4,765)	**(5,229)**
"Below the Line" Items	-	40	-	(15,813)	**(15,773)**
	12,732	9,561	(41,383)	(49,508)	**(68,598)**
Net *Surplus / (Deficit)*	**287,263**	**23,395**	**(199,953)**	**(126,174)**	**(15,469)**

The assumptions behind the Clinical Income budgets remain unchanged since the previous submission. The budgets is based on an agreed PbR contract with a number of QIPP schemes to manage growth. The Trust has agreed to the principles of risk share on those QIPP schemes where enabling actions are required by the Trust. However, in order that the parties focus their joint efforts on these measures, it has been agreed that there will be no fines or penalties, only minimal challenges and that CQUIN will be paid in full, subject to national guidance. The activity plan, upon which the contract is based, does not assume any backlog clearance but rather holds the current position and treats the clearance as a separate issue. In order to address the issue of affordability, the contract requires the Trust to discuss and agree, with the Commissioner, any initiatives to reduce the backlog before implementing them.

The internal recharges for SLR *(Service Line Reporting)* are currently being calculated and will be applied to these budgeted values in order to disaggregate costs *(particularly from Corporate Services)* down to Clinical Directorates where the majority of the income is generated.

A number of reserves have been set aside which, with the exception of a £2.5m contingency, are "ear-marked" for specific purposes.

The following table shows the monthly profile of the budget for 2017/18:

Clinical Directorates	Apr £'m	May £'m	Jun £'m	Jul £'m	Aug £'m	Sep £'m	Oct £'m	Nov £'m	Dec £'m	Jan £'m	Feb £'m	Mar £'m	**Net** **£'000**
Clinical Income	21.9	23.9	24.1	24.1	24.6	23.7	24.9	24.5	23.2	25.0	22.8	24.5	**287.2**
Other Income	2.0	2.0	1.9	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	**23.1**
Pay	(16.3)	(16.3)	(16.4)	(16.5)	(16.6)	(16.5)	(16.8)	(16.9)	(16.9)	(16.9)	(16.9)	(16.9)	**(199.9)**
Non-Pay	(8.9)	(9.3)	(9.4)	(9.1)	(9.3)	(9.1)	(9.3)	(9.2)	(8.9)	(9.4)	(9.0)	(9.3)	**(110.2)**
EBITDA	**(1.3)**	**0.3**	**0.2**	**0.4**	**0.7**	**-**	**0.7**	**0.3**	**(0.7)**	**0.6**	**(1.2)**	**0.2**	**0.2**
Financing	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	**(4.8)**
Depreciation	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	**(10.8)**
Planned *Surplus / (Deficit)* 2017/18	**(2.6)**	**(1.0)**	**(1.1)**	**(0.9)**	**(0.6)**	**(1.3)**	**(0.6)**	**(1.0)**	**(2.0)**	**(0.7)**	**(2.5)**	**(1.1)**	**(15.4)**
Cumulative *Surplus / (Deficit)*	**(2.6)**	**(3.6)**	**(4.7)**	**(5.6)**	**(6.2)**	**(7.5)**	**(8.1)**	**(9.1)**	**(11.1)**	**(11.8)**	**(14.3)**	**(15.4)**	

The net positions are anticipated to be less adverse in the months of August, October and January because of a higher level of Clinical Income due to a greater number of both working days and calendar days. Conversely, April and February have the highest planned deficits as income is anticipated to be lower in these months due to a lower working days in April *(due to Easter)* and lower Calendar days in February.

Pay costs are expected to increase in the second half of the year owing to a number of factors including winter pressures and the profiling of the Contingency reserve *(which has been classified as pay in the plan)*. It should be emphasised that the

Contingency reserve is completely uncommitted but the plan requires the Trust to estimate when, and how, it will be used.

Cost Improvement Programme

The plan for 2017/18 assumes the achievement of **£8.8m** of cost improvements. The main schemes are summarised in the following table:

	Pay	Non-Pay	Income	**Total**
	£'000	£'000	£'000	**£'000**
Agency Reductions	1,833	-	-	**1,833**
Procurement	-	1,691	-	**1,691**
Outsourcing	-	1,547	-	**1,547**
Drugs	-	766	-	**766**
Pathology JV	-	750	-	**750**
Facilities Schemes	64	370	19	**453**
Loan Interest	-	400	-	**400**
Waiting List Initiatives	174	-	-	**174**
Integrated Diabetes Service	-	-	171	**171**
Slippage on Agreed Developments	288	127	-	**415**
Other	4	-	92	**96**
Unidentified	504	-	-	**504**
Total	**2,867**	**5,651**	**282**	**8,800**

Over half of the programme is represented by the three main themes of agency usage, procurement and the reduction of outsourcing which affect many of the directorates. Each of the schemes has undergone a quality impact assessment by the Medical Director and Nursing Director, although there are still £0.5m that are being "worked-up" and valued. These cover training rationalisation, review of Medical Records, the translation service, a midwifery review, management of vacancies, portering run-rate and the review of ward skill mix. Some schemes, which were part of the programme when it was presented to the Board on 8th March have become unfeasible and have been removed *(eg. management savings of £0.5m arising from the creation of the Site Leadership Team and their back-fill arrangements)*.

Capital Programme

The capital programme has been set at **£12.3m** for 2017/18 and **£10.1m** for 2018/19 with the main categories of spend summarised in the table below:

Programme	2017.18 £'000	2018.19 £'000
Estates	6,198	5,043
IT Equipment	1,951	2,405
Medical Equipment	3,679	2,615
Contingency	202	-
Total : Funded by the Trust	12,030	10,063
Purchases from Charitable Funds	300	-
Total Programme	12,330	10,063

The programme is constrained by the availability of cash and relies on significant amounts of leasing for IT and medical equipment to stretch the limited resource as far as possible. The planning process involved the identification of total bids of **£43m** and then these were risk assessed as a means of prioritisation.

As far as possible, the high risk schemes were included within the programme but there remains **£12.2m** of schemes, many of which are high risk, that are excluded for affordability reasons. Charitable funds were reviewed and **£300k** of charitable funding was identified to support the programme.

Further detail on the approved schemes is shown at Appendix A and Appendix B while a list of the key excluded bids is shown at Appendix C. Other than a small **£202k** contingency, any additional requirements will need to be resourced from slippage on other parts of the programme.

There is a possibility that the Trust will be able to retain the proceeds from the Fossett Farm sale *(valued at £8m and planned for the second quarter of 2017/18)* and use these for reinvestment. This is currently being explored with NHSI but agreement is far from certain and has been excluded in the planning assumptions.

Cash

The cash plan remains largely unchanged from the plan submitted to NHSI in December and is summarised in the table below:

Version 8	Year 1 2017/18	Year 2 2018/19
	£'m	£'m
Opening Cash Balance	1.5	1.5
Net I&E Surplus / (Deficit)	(15.5)	(11.9)
Add Back Depreciation	10.7	10.7
Capital Expenditure *(outright purchases)*	(7.6)	(6.6)
Finance Leases *(principal on new leases of £4.4m)*	(0.6)	(0.6)
Finance Leases *(principal on current leases)*	(2.4)	(3.5)
Working Capital Movement	0.1	0.3
Cash Released through Asset Sales	8.0	-
Cash Support from the ITFF	7.3	18.6
Repay the £7m loan *(which commenced in 2015/16)*	-	(7.0)
Closing Cash Balance *Surplus / (Deficit)*	**1.5**	**1.5**

The opening cash balance of £1.5m includes **£33.6m** of external financial support as follows:

2015/16	£18.5m
2016/17	£15.1m

This support was largely provided as a working capital facility with an interest rate of 3.5% but from January 2017 the Trust was allowed to convert this into an uncommitted Revenue Support Loan with the lower interest rate of 1.5%. This benefit of £0.4m per annum has been incorporated into the cost improvement programme.

The sale of Fossett's Farm was originally forecast to occur in quarter 4 of 2016/17 but has now been delayed until 2017/18. The expected value is still £8m and the assumption that this will be used to reduce external borrowing requirements has been maintained for planning purposes.

Further cash support is required to the value of **£7.3m** in Year 1 and **£18.6m** in Year 2. The support required in Year 2 is higher because of the requirement for the Trust to repay the £7.0m loan provided in 2015/16.

The closing balance of **£1.5m** in each year is effectively the minimum level which the Trust is expected to meet.

Risks & Mitigations

The following broad risks to the financial plan have been identified along with appropriate mitigating actions.

RISK	MITIGATION
Cash available for capital spend does not address all the high risk capital requests *(both estates and equipment)* and there may be additional demands during the year which are unavoidable.	All the excluded capital bids have been risk assessed although, it may be necessary to defer other planned capital spend if an unexpected essential requirement arises. The Trust will also pursue its case with NHSI to retain the £8m proceeds from the sale of Fossett's Farm in 2017/18
Risk to STF funding due to failure to achieve operational standards relating to A&E 4 hour waits	The operational productivity and access target (OPAT) programme is in place to drive forward productivity and improve flow. The recent implementation of the Medical Model also facilitates this.
Inability to recruit sufficient staff to deliver a cost effective and safe service necessitating the continued high usage of agency staff.	Recruitment plan and KPIs in place to support employment of new staff and regular assurance on meeting recruitment trajectories is provided at various board committees. This is also listed as a risk in the Trust's BAF.
Failure to deliver the cost improvement programme	Schemes have been identified with the assistance of the Turnaround Director and delivery will be closely monitored.
Costs of implementing nationally mandated initiatives may create additional pressures *(eg. a seven day hospital service)*	A continual review of the likelihood of such changes will be undertaken to maximise the time available to plan. In the event, a reprioritising of existing plans may then be necessary and full communication with the Commissioners will take place.
Failure to achieve the agency cap for 2017/18 and 2018/19	Robust control of agency appointments.
Loss of key staff due to uncertainty around the STP and service reconfigurations	The appointment of a Joint Executive Team is providing more direction and certainty. In addition, regular communication with staff regarding the proposed changes is essential.

CCG being unable to afford the activity that the Trust undertakes	This risk comprises two elements: Non-backlog : this is the recurring day-to-day activity which is necessary to maintain the backlog at its current level. This part of the risk should be well mitigated with a PbR contract agreed with the Commissioner which includes no fines and minimal challenges. In addition, while there is a risk share arrangement with QIPP schemes, the Trust has set aside an estimated contingency against this. Backlog Clearance: the contract stipulates that the Trust is required to agree initiatives to reduce the backlog with the Commissioner. There is, therefore, a risk that the Commissioner will not agree to fund these which would prevent the Trust achieving the agreed trajectories on RTT targets. A clear and prompt process of communication is in place and if an agreement cannot be reached, a remedial plan should be developed by both organisations.
Failure to maintain fully operational IT systems leading to an adverse impact on services.	The IT infrastructure has been deployed to provide the maximum available resilience within the Trust datacentre. Scoping work has been carried out with other Success Regime Trusts to strengthen and share datacentre resilience and disaster recovery capabilities across hospital sites
Planned I&E outturn of £15.5m deficit not achieved	Continuous monitoring of I&E forecast and actual performance. Monthly performance review meetings to identify required interventions to remain on target.

Recommendation

The Board is asked to approve the financial plan.

Appendix A

2017.18 Approved Capital Schemes		2017.18
		£'000
Estates		
Project Management Team		500
2016.17 Slippage / Committed Schemes :	MRI replacement	2,600
	Fire Dampers	250
	SSD Air Handling Unit	240
	Nursery structure	80
	Laparoscopic theatre	630
	Radiopharmacy	85
	Cardigan drugs rooms	75
	Conversion of manifold room into Porters and store	15
	EALs to Path labs	350
Statutory Compliance :	Fire Doors	463
	Medical Gas	75
	Security Review	150
Physical Condition :	Electrical infrastructure	100
	Tower Block internal drainage	60
	Cardigan Vacuum pump	75
Other :	Neurology to Path labs	400
	Critical care (minimal refurbishment)	50
Subtotal		6,198
IT		
Replacement Programme :	Production Storage Area Network	100
	Email Content Filtering, AV and Encryption Software	200
	Email Content Filtering, AV and Encryption Hardware	20
	Access Layer Switches	273
	Cat5e Structured Cabling	30
	Hub Room Environment	8
	IT Data Communications - Cisco Core Catalyst 6500	382
	IT Data Communications - Cisco Wireless LAN Access Points	58
Service Developments :	Electronic Patient Record Programme (EPR)	260
	e-Rostering (phase 1)	78
	PACS Tender	440
	e-Prescribing	10
	e-Rostering (phase 2)	92
Subtotal		1,951
Medical Equipment		
Syringe Pump (x13)		17
Op. Theatre Monitoring (x55)		628
Colonoscope		50
MRI scanners (x2)		2,584
Mobile X-Ray Units (x2)		120
Radiopharmacy Isolator (x2)		120
Linear Accelerator		160
Subtotal		3,679
Other		
Contingency		202
Subtotal		202
Grand Total		12,030

Appendix B

2017.18 Capital Schemes funded from Charitable Funds		2017.18
		£'000
Estates		
Medical Equipment		
Replacement Programme :	Incubator - Baby (x2)	30
	Heamodyalysis Unit (x7)	92
	Contribution towards Linear Accelerator *(total cost is £250k)*	90
	Breast Board	58
	Ophthalmic Diathermy	6
	Ophthalmic Cryo	6
	Telemetry Units / Drager x 5	12
	Phototherapy Unit x 2	6
Grand Total		300

Appendix C

2017.18 Excluded Capital Schemes

*High Risk Bids (Score 25 with the exception of items marked * which total £7,640k)*

		2017.18
		£'000
Estates		
2016.17 Slippage / Committed Schemes :	Ed Stone and Dowsett sanitary provision	175
Physical Condition :	Ophthalmology - main site	650
	Fixed wire testing	24
	MSCP	250
	Window Replacements	600
	Pneumatic air tube system	48
	Basement tanking	300
	York Chillers	60
	Confined space improvements	60
	MB2	145
	Tower ground floor toilets refurbishment	50
Other :	Mortuary	1,000
	HDU 8 beds *	870
	Endoscopy 4th room *	150
	Side Entrance to Tower Block *	30
	Endoscopy unit (phase 2) *	2,000
	Pathology (consultants and admin) *	60
	A+E expansion/ GP assess/ Out of Hrs *	1,090
	Trauma Assessment unit *	680
	Heart and Chest *	910
	Tower Block admin offices *	50
Subtotal		9,202
IT		
Replacement Programme :	Contingency	250
Service Developments :	Second data centre - IT and Telephony resilience *	1,800
	DMARD Monitoring	24
	NHS mail2	313
	Tele-tracking System	330
Subtotal		2,717
Medical Equipment		
	Contingency	250
Subtotal		250
Grand Total		12,169