Agenda Item 10 ii)

NORTHUMBERLAND, TYNE AND WEAR NHS FOUNDATION TRUST

BOARD OF DIRECTORS' MEETING

Meeting Date: 23 March 2016

Title and Author of Paper: Budget & Financial Plans - 2016/17
James Duncan, Deputy Chief Executive/Director of Finance

Paper for Debate, Decision or Information: Decision

Key Points to Note:

- The proposed income & expenditure budget for 2016/17 includes planned income for the year of £304m, Financial Delivery Plan savings of £9.4m including £3.8m non-recurrent savings and a budgeted surplus of £4.7m which is the control total set by Monitor. It should be noted that contracts are still in the process of being finalised with a deadline for sign off of 31st March 2016.
- This year's budget setting exercise has included a review of expected income and expenditure levels and pressures and all available funding has been devolved out with £2.7m of recurring and £2.3m of non-recurring pressures in operational budgets being funded.
- In line with the approach to devolution, all reserves have been issued to enable maximum transparency, apart from very limited reserves held for specific and agreed purposes. There is no contingency reserve. All groups and Directors have therefore been asked to confirm acceptance of their control total, for which they will be held accountable by the Board. Delivery of these control totals will be necessary for the Trust to deliver its overall financial targets
- Control totals will include agreed contributions to the Financial Delivery Plan. These will all be incorporated into budgets issued at the beginning of the year
- The Trust had previously planned to deliver an underlying surplus of £6.9m. This has reduced to £6.0m due to the Trust funding recurrent pressures in budgets with the reduction to £4.7m in 2016/17 due to the timing of efficiency savings and non-recurrent pressures.
- The Trust's updated financial plans include:-
  - In-Year Financial Delivery Plan savings of £9.4m to be met from recurrent schemes delivering £5.6m and non-recurrent schemes of £3.8m.
  - A £1.3m non recurrent reduction in surplus due to timing of efficiencies (£1.0m) and support of non-recurrent pressures (£0.3m).
  - £73.1m of capital investment over the 4 years from 2015/16 including £22.1m in 16/17, which will further develop in-patient services and community premises. This is an increase of £12.4m since last year's plan.
  - Funding for this increased capital investment through an increase in loans of £12.2m including £9.7m in 16/17.
  - A year-end forecast cash balance of £24m in 2016/17.
- Delivering the proposed surplus and planned cash levels will result in a Monitor Financial Sustainability risk rating of 4.

Outcome required: Board approval of 2016/17 Budget and updated Financial Plans including revised capital programme.

Budget & Financial Plans - 2016/17

Background & Purpose

Corporate Decision Team received a budget setting paper on 19th October 2015 setting out the principles and timescale for setting the 2016/17 budgets. This paper provides the outcome of the budget setting exercise for 2016/17 in section 1 and in section 2 a summary of the Trust's Financial Plans for 2016/17.

Financial Environment

The NHS is forecasting a significant deficit in 2015/16 (£2.4bn) as at quarter 3 and following the Government's spending review additional funds have been released for the NHS on the basis that NHS will then deliver financial balance in 2016/17. In this context all Trust's received letters from Monitor and the TDA on 15th January 2016 advising them of a control total that they are required to deliver in 2016/17. NTW's control total is a £4.7m surplus.

On the same day the Trust received a joint letter from the CQC and Monitor acknowledging the pressure providers have been under to improve quality outcomes for patients. The letter emphasised that quality and financial objectives cannot trump one another and are equally important. The letter clearly states that, 'Success is delivering the right quality outcomes within the resources available'. This is consistent with the Trust's approach to long term planning.

Section 1 – Budget 2016/17

Budget Setting

The Trust submitted a draft annual plan to Monitor showing planned delivery of the required £4.7m surplus. The Trust is planning for an ongoing surplus of £6m year on year, which is the level required to service its capital repayments on loans. Previously the Trust was planning an ongoing surplus of £6.9m to create some cash headroom but this has been reduced this year to fund ongoing pressures. In addition, the surplus is further reduced on a one off basis, by £1m to fund slippage on delivery of full year savings and £0.3m to fund one off pressures.

The budget setting exercise has been undertaken in collaboration with budget holders. All the pressures identified have been discussed at Group level, Group Business Meeting and then reviewed and agreed between the Group Triumvirates and the Executive Team.

The summary below shows the changes in the recurrent surplus and non-recurrent costs & funding in 2016/17:-

	£m
Recurrent Surplus 2015/16	**6.9**
Inflation Uplift (3.06%)	8.0
Inflationary Increases – Pay & Non Pay	(8.0)
Efficiency Target 16/17 (-2.0%)	(5.2)
Efficiency Target 15/16 C/fwd	(4.1)
Recurrent Pressures from Additional Efficiency	(1.1)
Recurrent Pressures from Reduction in Surplus	(0.9)
Target FDP Delivery 16/17	10.4
Planned Recurrent Surplus 2016/17	**6.0**
Non-Recurrent Items	
Non-Recurrent Pressures (Net)	(2.3)
Transformation Funding	2.0
Non-Rec Shortfall on FDP Delivery	(1.0)
Plan Surplus/Control Total 2016/17	**4.7**

The Income & Expenditure plan is broken down below to show the net contribution Groups make to cover the costs of central departments and the cost of capital:-

	£m
Contribution to Central Costs	
Specialist Care	28.9
Community Services	19.0
In-Patient Care	33.4
Total Group Contribution	81.3
Central Department Costs	(62.6)
Cost of Capital	(14.0)
Planned Surplus	4.7

In line with the Trust's approach to devolution and its new accountability framework, the figures above are the current control totals for 2016/17 which the Groups have agreed to deliver. Central departments also need to deliver the central control total and control totals for the various central directorates are in the process of being signed off with the relevant director.

Details of the assumptions in and changes to the budget are explained below:-

a) Inflation & Efficiency Settlement

NHS Patient Care income budgets have been uplifted by the NHS settlement of 1.06%. This is made up of the following components:-

	%
Inflationary Uplift	3.06
Efficiency Target	(2.00)
Net Uplift	1.06

The Trust income increases by £8.0m, but there is a requirement to deliver a £5.2m Cost Improvement Target (NTW efficiencies are identified through the Financial Delivery Programme).

b) Pay & Non Pay Inflation

The pay budget includes the recently announced pay award of 1% for 2016/17and the national increase in employers NI contributions which has increased the Trust's pay costs by £4.4m.
The budget setting process identified the following pay changes:-

	£m
Pay Award (1.0%)	2.4
Clinical Excellence Awards (15/16 & 16/17)	0.2
Incremental Drift	(0.6)
Increase in employer NI contribution (2%)	4.4
	6.4

The budget includes an increase of £1.6m in non-pay budgets The national rate of inflation is running at very low levels (0.3% at Jan 16), therefore it is proposed that specific identified increased costs/pressures are funded in 2016/17 rather than applying a general uplift across all non-pay budgets.

Therefore the Trust's Inflation Funding for 2016/17 has been fully utilised:-

	£m
Inflation Funding	8.0
Pay Inflation	(6.4)
Non Pay Inflation	(1.6)
	0.0

c) Pressures

Budget setting identified a number of pressures and discussions between the Group Triumvirates and Executive Directors agreed whether pressures needed to be funded recurrently / non-recurrently or be managed and mitigated within the Groups resources.

It is proposed to fund identified recurrent pressures of £2.7m by:-

	£m
Using Contingency Reserve	0.7
Reducing the Recurrent Surplus	0.9
Increasing the Recurrent FDP Target	1.1
	2.7

It is proposed to fund £2.3m of non-recurrent pressures from 2m of non-recurrent transformation funding the Trust is receiving and £0.3m by reducing the in-year surplus

d) Developments

The Trust's contracts for 2016/17 are still being negotiated so there is currently no development funding included in the Trusts' plans for 2016/17. Once the contracting discussions are complete the plan and control totals will be updated to reflect what has been agreed.

e) Reserves/Contingency

In line with the approach to devolution, apart from very limited reserves held for specific and agreed purposes, all reserves have been issued to enable maximum transparency. There is no contingency reserve in 2016/17 and any specific development funding received will be held in the relevant clinical/central budget.

f) Financial Delivery Plan

The NHS settlement published for 2015/16 included an efficiency target of 2.0%, which represents a £5.2m target for NTW. The Trust is carrying forward £4.1m outstanding FDP from 2015/16. The FDP target has also been increased further to fund pressures identified in budget setting for 2016/17. The FDP plan is therefore as follows: -

	In Year £m	**Recurrent £m**
Carried Forward 2015/16	4.1	4.1
Target 2016/17	5.2	5.2
Recurrent Pressures	1.1	1.1
TOTAL TARGET	**10.4**	**10.4**
FDP Plan 2016/17*	(5.6)	(9.2)
Non-Recurrent Savings	(3.8)	
TOTAL SAVINGS	**(9.4)**	**(9.2)**
Reduce Surplus – Non-Recurrently	(1.0)	
SHORTFALL	**0.0**	**1.2**

.

*Table 3 in Section 2 provides a break-down of the schemes that make up the FDP plan for 2016/17.

The Financial Delivery Planning exercise shows there is a recurrent shortfall of £1.25m which will carry forward to 2017/18. To achieve the required in-year position and deliver the control total of £4.7m in 2016/17, the Trust needs to make non-recurrent savings, in addition to recurrent FDP schemes, of £3.8m. Additional non-recurrent savings have been identified and work is on-going to confirm these savings will be delivered.

It is expected that the national annual efficiency expectation of 2% will be consistent through the life of the latest Government Spending review. As a result the Trust can expect to have a recurrent FDP target of £6.4m in 2017/18, made up of £1.2m carried forward from 2016/17 and a circa £5.2m requirement in 2017/18.

Budgeting Principles

The budgets have been set in conjunction with budget holders and Group and corporate budgets and are in the process of being signed off at Executive Director, Group Director, Directorate and Service Manager level.

Expenditure budgets have been set using the following assumptions:

- Pay inflation to be fully funded (pay award & increase in employers NI)
- Agenda for Change Increments to be funded
- £1.6m of specifically identified non pay pressures funded
- Ward budgets include 28% for holiday, sickness & training cover
- All enhancements and on-call arrangements are funded

Contracts are still in the process of being agreed with our main commissioners. Income budgets include CQUIN funding at 2.5%, the same level as last year, representing £6.4m.

It should be noted that the CQUIN funding of 2.5%, is fully committed to funding baseline activity. Therefore any failure to deliver CQUIN targets represents a real risk to the Trust.

The underlying principle in setting the budgets for 2016/17 has been to allocate all specified funding and targets to the relevant groups/departments (including reserve balances). As in 2015/16, FDP targets will be allocated to the areas of planned delivery. Budget holders will then be held accountable through the Trust's Accountability framework, for the delivery of their Control Totals, which will include delivery of income targets, delivery of expenditure within budget and delivery of FDP targets.

Delivery of Plans

The budget for 2016/17 includes £2.7m to fund recurrent pressures and £2.3m to fund non-recurrent pressures. However, not all pressures that were identified as part of the budget setting exercise have been funded, as it has been agreed that some pressures can be managed within the resources already included within Group and Central budgets. These risks and the identified mitigations are to be managed across clinical areas to deliver an overall control total across the Groups and across Central budgets.

Section 2 – Financial Planning 2016/17

The Trust submitted its draft financial plan to Monitor on 8th February. We are still awaiting feedback from Monitor on the draft plan. The information below in the main reflects the plans submitted in February although the FDP has been updated to reflect current plans and capital and cash figures have been adjusted to reflect current year-end forecasts. Final plans are required by 11th April. The final submission will reflect any changes to income following the conclusion of the contracting round for 2016/17, the deadline for which is 31st March, and any further impacts of changes to the forecast out-turn position for 2015/16.

Financial Forecasts

Key financial data is illustrated in the table below.

Table 1 - Key Financial Data 2016/17

Key Financial Data 2016/17	£m
Income	304.1
Normalised Income and Expenditure Surplus	4.7
Efficiency Target	10.4
Cash Balance	24.0
Capital Programme	22.1
Asset Sales	3.4
Loan Drawdown	15.2
Risk Rating	4

Financial Projections

The Trust's planned underlying recurring surplus is £6.0m. Monitor have allocated the Trust a Control Total of a £4.7m surplus (before exceptional items). A summary of income and expenditure for 2016/17 which includes estimates for non-recurrent funding in 2016/17 is shown in the table below:-

Table 2 - Summary of Income and Expenditure

Income & Expenditure 2016/17	£m
Operating income	304.1
Operating costs	(286.6)
EBITDA	17.5
Depreciation	(6.4)
Net Interest/Other	(5.8)
PDC dividend	(0.6)
Normalised Surplus / (Deficit)	**4.7**
Profit on Sale	1.5
Surplus/Deficit incl Exceptional Item	**6.2**

Income
The Trust's forecast income for 2016/17 is £304m. The split between patient care and non-patient care income is approximately £286m patient care (94%) and £18m non-patient care (6%).

Patient care income reflects commissioner requested services as identified in contracts. The work streams, objectives, actions and timescales of commissioner intentions for each CCG have been agreed as part of contract negotiations and form part of the contractual obligations of the Trust.

Of the £286m patient care income, £278m is income which is covered by contracts. The difference of £8m relates to non-contracted activity or over performance against contracts. Of the £286m, 88% is covered by block contracts and 12% is covered by cost and volume (C&V) /cost per case contracts (CpC).

Financial Delivery Plans
The Financial Delivery Plan for 2016/17 is shown in Table 3. Including a forecast carry forward from 2015/16 of £4.1m re non-delivered elements of the plan in 2015/16 and £1.1m to fund recurrent pressures, the target efficiency requirement is £10.4m in 2016/17. The Trust has developed plans to deliver recurrent savings of £9.2m leaving a £1.2m recurrent shortfall to be carried forward to 2017/18. In-year delivery from these schemes is expected to be £5.6m. This leaves an in-year delivery shortfall of £4.8m, £3.8m to be met from non-recurrent savings with the other £1.0m reducing the surplus non-recurrently.

The Trust has outline plans identified for 2017 / 18. However, some of these plans will be affected by the outcome of the "Deciding Together" consultation on Newcastle and Gateshead's specialist mental health inpatient services and other developments, so work is on-going on the further development of our forward plans.

The Trust expects to deliver the savings that are needed to maintain our required underlying surplus and 2016 / 17 control total, although challenges remain in managing a substantial change agenda through 2016 / 17 and going forward.

Table 3 - Financial Delivery Plan 2016/17

	IN-YEAR	RECURRENT
TARGET	**2016/17 £m**	**2016/17 £m**
Carry Forward 2015/16	4.1	4.1
2016/17 FDP Requirement	5.2	5.2
Recurrent Pressures	1.1	1.1
FDP REQUIREMENT	**10.4**	**10.4**
FDP PROGRAMMES		
Specialist Care Programme	0.7	1.7
In-Patient Care Programme	1.2	2.0
Community Productivity	0.8	0.8
Transforming Corporate Services	1.4	1.9
Reduction in Agency Staffing	1.0	1.6
Pharmacy/Drugs	0.3	0.3
Non Pay/Other	0.3	0.9
PLAN TOTAL	**5.6**	**9.2**
(SHORTFALL) / OVER DELIVERY	**-4.8**	**-1.2**
Non-recurrent schemes	**3.8**	
Reduction in In-year Surplus	**1.0**	
TOTAL IN YEAR PLAN	**9.4**	

Capital and Asset Sales Programmes

Capital Programme

The Capital Programme supports the Trust's Strategy through the planned level of investment in in-patient facilities that would enable the Trust to ensure that all in-patient facilities meet Trust wide standards and would enable, subject to the outcome of consultation, the implementation of a new model for Newcastle and Gateshead's specialist mental health inpatient services with provision on a reduced number of main sites. The Trust is also investing in community premises to support the Community Transformation Programme. Both of these areas of capital investment are seen as essential to deliver efficient and effective pathways, realise the full benefits for patients from our transformation work and to enable increases in productivity and delivery of efficiency savings.

The Trust's draft Capital Programme, totals £73.1m for the 4 years 2015/16 to 2018/19.

The overall Capital Programme to 2018/19 is planned to increase by £12.4m since last year due mainly to additional requirements in relation to both in-patient and community transformation. The plan is to fund this increased investment by taking out further new loans of £12.2m. In 2016/17 it is planned to draw down £15.2m of loans. £9.7m of this is a further loan to support in-patient and community transformation, a loan of £7.5m was taken out in 2015/16, and £5.5m relates to loans already in place. The expected restriction on capital availability represents some risk to this, although the Trust is well placed to meet national conditions for access to capital funding. All of our capital spending to be funded through loans is deemed as essential for the Trust to maintain a sustainable position on quality and financial delivery. We await further guidance on capital funding for 2016/17.

Table 4 - Capital Programme (at out-turn prices)

Description of scheme	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
New Developments					
Autism	7.5	2.1	0.0	0.0	9.6
In-Patient Developments	2.7	4.6	13.5	4.0	24.8
Community Premises	0.3	8.2	4.0	0.0	12.5
Other Schemes	2.0	3.2	0.0	0.0	5.2
Total – New Developments	**12.5**	**18.1**	**17.5**	**4.0**	**52.1**
Maintenance Schemes					
Refurbishment Programme	0.2	0.5	0.5	0.5	1.7
Backlog / Other schemes	0.4	0.2	1.2	1.2	3.0
Total - Maintenance	**0.6**	**0.7**	**1.7**	**1.7**	**4.7**
Other Schemes					
IM&T	1.8	2.1	1.5	1.5	7.0
Other Allocations	0.8	1.1	0.6	0.6	3.0
Contingency	0.0	0.0	3.2	3.1	6.3
Total - Other	**2.6**	**3.2**	**5.2**	**5.2**	**16.2**
Total Capital Expenditure	**15.7**	**22.1**	**24.4**	**10.9**	**73.1**

Asset Sales Programme

The Trust's asset sales programme continues with planned sales for the year totalling £3.4m. The sale of part of the Northgate Hospital site was our last major asset realisation and this sale was completed in December, 2014 with sale receipts being received in two instalments in December, 2014 and January, 2015. There is expected to be a further smaller receipt in 2016/17 and in addition to this there are a number of smaller sales of land and buildings planned linked primarily with the rationalisation of community sites.

Risk Ratings

The Trust is planning a Financial Sustainability Risk Rating of 4 in 2016/17. The main risk area is the capital servicing capacity rating which is planned to be a 2. This requires the delivery of a £2.7m surplus to achieve this. If the actual surplus falls below this level the capital servicing capacity rating will be a 1 which will reduce the overall rating to a 2. The Trust is planning a £4.7m surplus for next year, which means there is £2.0m of headroom in terms of capital servicing capacity. However, the planned surplus is now the Trust's control total set by NHS Improvement so the Trust needs to achieve the planned surplus which would achieve a 4 rating. The liquidity rating is planned to remain a 4 with the Trust's cash balances planned to be £24.0m at March, 2017. The main driver of the Trust's rating is its surplus and the planned ratings together with ratings that would be achieved at different surplus levels are shown below.

Table 5 - Risk Ratings

Planned Risk Ratings	2016/17
Liquidity	4
Capital Servicing Capacity	2
I&E Margin	4
Variance from I&E Margin	4
Overall Continuity of Services rating	**4**

Table 6 - Financial Sustainability Risk Rating at Different Surplus Levels

Surplus	Rating
£4.7m & above	4
£2.7m - £4.7m	3
Below £2.7m	2

Liquidity
The Trust's cash balance at the end of 2015/16 is forecast to be £25.2m. This is planned to decrease during 2016/17 to £24.0m.The Trust's forecast cash flow for 2016/17 is shown in Table 10 below:-

Table 7 - Cash Flow Summary

Cash Flow 2016/17	£m
Opening Cash Balance	25.2
Trust Surplus	4.7
Loan Repayments	-5.9
Capital Programme	-22.1
Depreciation	6.4
Asset Sales	3.4
Loan Drawdowns	15.2
Change in Working Balances	-2.9
Closing Cash Balance	24.0

Key financial risks
The Trust faces a number of risks to delivery of its Strategy. The key financial risks for 2016/17 include the following:

- Slippage, delays and non-achievement of the Financial Delivery Programme;
- Managing significant service delivery and financial pressures across community CYPS services;
- Managing significant financial implications arising from Learning Disability Transforming Care National Programme;

- NHS England strategy to tender and consolidate services. Details of this are yet to be issued;
- Outcome of the Newcastle and Gateshead Alliance CCG consultation on specialist mental health inpatient services for Newcastle and Gateshead;
- Failure to meet CQUIN Targets;
- Failure to manage occupancy rates under cost and volume contracts;
- Failure to deliver service specifications within the negotiated prices within children's secure services and Neuro-disability services;
- Managing risks arising from the agreement to manage Out of Area Placements on behalf of Northumberland and North Tyneside CCGs and potentially other CCGs;
- Risks around funding for Out of Area activity from outside the local area;
- Availability of capital funding.

The Trust has in place well developed governance and assurance processes to manage on-going delivery of targets and plans.

RECOMMENDATIONS

The Board are asked to approve:-

1) The 2016/17 Budget including the proposed funding of pressures and the Financial Delivery Plan.
2) Updated financial plans including the proposed capital programme 2015/16 – 2018/19