

NORTHUMBERLAND TYNE AND WEAR NHS FOUNDATION TRUST

BOARD OF DIRECTORS MEETING

Meeting Date: 22 nd March 2017
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Title and Author of Paper: Budget & Financial Plans - 2017/18 James Duncan, Deputy Chief Executive/Director of Finance
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Paper for Debate, Decision or Information: Decision
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Key Points to Note:

- The proposed income & expenditure budget for 2017/18 includes planned income for the year of £306m, Financial Delivery Plan savings of £10.6m including £1.8m non-recurrent savings and a budgeted surplus of £7.1m which is the control total set by NHS Improvement.
- In line with the Trust's approach to devolution, Groups and central directorates have been allocated control totals which they need to achieve to ensure the Trust achieves its overall control total. 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.
- Control totals will include agreed contributions to the Financial Delivery Plan. These will be incorporated into budgets issued at the beginning of the year.
- Control totals will be signed off together with the agreed Quality Standards by the Group Triumvirates with the Exec Team at meetings arranged in March. Performance against both control totals and quality standards will be monitored through the Accountability Framework.
- The Trust has plans to deliver the allocated control total of £7.1m which includes £1.9m of Sustainability & Transformation Fund funding.
- The Trust's updated financial plans include:-
 - In-Year Financial Delivery Plan savings of £10.6m to be met from recurrent schemes delivering £8.8m and non-recurrent schemes of £1.8m.
 - £69.7m of capital investment over the 5 years from 2017/18 including £12.4m in 17/18 with the main developments next year being community premises schemes.
 - To support this capital investment it is planned to take out £5.1m of new loans in 2017/18.
 - A year-end forecast cash balance of £18.6m in 2017/18 and £17.4m in 2018/19, although plans will be reviewed to try and maintain cash balances at current levels.
- Delivering the proposed surplus and planned cash levels will result in a NHS Improvement Use of Resources risk rating of 1.

Budget implications: Trust to achieve £7.091m surplus in 17/18

Equal Opportunities, Legal and Other Implications: N/a

Action Proposed and Person Responsible for Action:

- Board to approve proposed 2017/18 Budget and Financial Plans, including updated Capital Programme.

Outcome required: Board approval of 2017/18 Budget and updated Financial Plans including revised capital programme.
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Date for completion: 22 nd March 2017

Budget & Financial Plans - 2017/18

Background & Purpose

Each year the Trust must set a budget and produce financial plans. The Trust submitted its operational plans for 2017/18 and 2018/19 to NHS Improvement in December, which was earlier than in previous years due to the planning timetable being brought forward this year. Section 1 of this paper provides the outcome of the budget setting exercise for 2017/18 and section 2 provides a summary of the Trust's Financial Plans for 2017/18 and 2018/19 which include some small updates to reflect current forecasts.

Financial Environment

The NHS provider sector delivered a £2.4bn deficit in 2015/16. To help get the NHS back in financial balance, the Government released £1.8bn of Sustainability & Transformation Fund (STF) funding in 2016/17. NHS Improvement also set each trust a control total for the year that it has to achieve. The STF was made available to individual trusts conditional on delivery of the organisation's allocated control total. The Trust is forecasting to deliver above its control total in 2016/17 so will receive its STF funding.

The NHS continues to face significant financial challenges and NHS Improvement recently reported that the NHS provider sector had a £900m deficit at quarter 3 2016/17, with a forecast year-end deficit of between £750m and £850m dependent on the level of success of further recovery actions. The expectation is that the provider sector will achieve breakeven in 2017/18.

The Trust's control totals, set by NHS Improvement for 2017/18 and 2018/19 are a £7.1m surplus and £7.4m surplus respectively. Both these figures include £1.9m STF funding.

Section 1 – Budget 2016/17

Budget Setting

The budget setting exercise has been undertaken in collaboration with budget holders. A budget has been set to deliver the control total surplus of £7.1m. To achieve this efficiency savings of £10.6m (4%) are required.

The table below shows that the Trust's budgeted income is £306.1m with planned expenditure of £299m to deliver the control total/budget for 2017/18 of £7.1m.

	2017/18 Budget (£m)
Patient Care Income	284.9
Non-Patient Care Income	21.2
Total Income	306.1
Operating Expenses	
Pay	244.1
Non-Pay	43.9
Total Operating Expenses	(288.0)
Cost of Capital	(11.0)
Surplus/Control Total	7.1

The table below shows the current control totals which Groups will be required to deliver. The Group control totals are their contributions required to meet central department costs and the cost of capital as well as the control total. These totals are indicative at this stage as some final minor adjustments are still required.

Area	Control Total (£m)
Specialist Care	26.9
Community Services	21.1
In-Patient Care	25.8
Central	(55.7)
Cost of Capital	(11.0)
Trust Surplus	7.1

Group Triumvirates are meeting with the Exec Team to agree the Control Totals and the Quality Standards in March. Both of these will be signed off together by the Executive Medical Director and the Executive Director of Nursing & Operations to confirm services can deliver their Quality Standards within the resources identified.

Central departments need to deliver the central control total which includes both recurrent and non-recurrent FDP schemes. Control totals for the various central directorates are in the process of being signed off with the relevant director.

The key issues factored into the 2017/18 budget are detailed below:-

a) Inflation & Efficiency Settlement

NHS Patient Care income budgets have been uplifted by the NHS settlement of 0.1%. This is made up of the following components:-

	%	£m
Inflationary Uplift	2.1	5.5
Less: Efficiency Target	(2.0)	(5.2)
Net Uplift	0.1	0.3

b) Pay & Non Pay Inflation

The following pay cost increases are included in the budget:-

	£m
Pay Award (Estimated 1.0%)	2.4
Incremental Drift	0.5
Increase in employer pension contribution (0.08%)	0.2
Clinical Excellence Awards (16/17 & 17/18)	0.2
Apprentice Levy	0.8
Junior Doctors Pay	0.3
Total Pay Increase	4.4

Non-Pay inflation funding has been used to increase budgets that are subject to specific uplifts eg contract agreements and to support of efficiency savings.

Therefore the Trust's Inflation Funding for 2017/18 has been fully utilised:-

	£m
Inflation Funding	5.5
Pay Increases	(4.4)
Non Pay Inflation/Contribution to FDP	(1.1)
	0.0

c) Reduction in Cost of Capital

The Trust assets were revalued and asset lives reviewed in March 2017. This has resulted in a £1.5m reduction in the Trust's depreciation charges and a £0.3m reduction in Public Dividend Capital charge.

d) Risk Reserve

Due to the reduction in cost of capital, the Trust has managed to create a recurrent 'Risk Reserve' of £1.3m (circa 0.5% of income) as required by NHS Improvement in this year's planning guidance.

e) Financial Delivery Plan

The NHS settlement for the current Parliament includes an efficiency target of 2.0% a year, which represents a £5.2m target for NTW. The Trust is carrying forward £4.8m outstanding FDP from 2016/17. The Trust's efficiency target for 2017/18 is £10.6m which is made up as follows:-

	Recurrent £m
Carry forward from 2016/17	4.8
Target 2017/18	5.2
<u>Other Pressures (Net)</u>	<u>0.6</u>
Recurrent FDP 2017/18	10.6
<u>Planned Recurrent Delivery 2017/18</u>	<u>(8.8)</u>
Recurrent FDP carried forward to 2018/19	1.8
<u>Planned Non-Recurrent Delivery 2017/18</u>	<u>(1.8)</u>
	0.0

The Trust has identified plans to deliver £8.8m recurrent savings and £1.8m non-recurrent savings in 2017/18.

The Financial Delivery Plan shows there is a recurrent shortfall of £1.8m which will carry forward to 2018/19. The national annual efficiency requirement for 2018/19 is 2% and it is expected that this will continue through the life of the latest Government Spending review. As a result the Trust's recurrent FDP target for 2018/19 is £7.0m, made up of £1.8m carried forward from 2017/18 and a circa £5.2m requirement in 2018/19. The Trust is planning to have detailed plans for 2018/19 by the end of quarter 2 2017/18 to allow 6 months for implementation through quarters 3 and 4 next year. This should allow full year delivery from April 2018/19.

Section 2 – Financial Planning 2017/18

The Trust submitted its Operational Plan to NHS Improvement on 23rd December 2016, covering both 2017/18 and 2018/19. A 2 year contracting round was completed on the same date so the plan is based on agreed contracts for the period. The information below reflects the plans submitted in December although the FDP has been updated to reflect current plans and capital and cash figures have been adjusted to reflect current year-end forecasts.

Financial Forecasts

Key financial data is illustrated in the table below.

Table 1 - Key Financial Data 2017/18 and 2018/19

Key Forecast Financial Data	2017/18 £m	2018/19 £m
Income (including STF funding)	306.1	305.8
Income and Expenditure Surplus (excl STF Funding)	5.2	5.5
STF Funding	1.9	1.9
Surplus / Control Total (including STF Funding)	7.1	7.4
Risk Rating	1	1
Efficiency Target	10.6	7.0
Cash Balance	18.6	17.4
Capital Programme	12.4	15.9
Asset Sales	1.0	2.0
Loan Drawdown	5.1	7.0

Financial Projections

The Trust's planned underlying recurring surplus is £5.2m in line with the NHS Improvement allocated control total (increased to £7.1m through STF funding). A summary of income and expenditure for 2017/18 and 2018/19 which includes estimates for non-recurrent funding is shown in the table below. These figures reflect lower depreciation and PDC dividend costs than included in the submitted operational plan.

Table 2 - Summary of Income and Expenditure

Income & Expenditure	2017/18 £m	2018/19 £m
Operating income	304.2	303.9
Operating costs	(288.1)	(287.0)
EBITDA	16.1	16.9
Depreciation	(4.8)	(5.1)
Net Interest/Other	(5.6)	(5.8)
PDC dividend	(0.5)	(0.5)
Surplus / (Deficit) excl STF Funding	5.2	5.5
STF Funding	1.9	1.9
Surplus/Deficit incl STF Funding	7.1	7.4

Capital and Asset Sales Programmes

Capital Programme

The Capital Programme supports the Trust's Strategy, and the key elements of delivery over the next five years are summarised as follows:

- **Community Premises** - This represents investment to support the completion of the Transformation Programme for Community Services. The aim of this programme is to enable significant improvements in patient experience, and to support productivity in community services. This programme has been reviewed as a result of the availability of capital across the NHS. This has resulted in a £4.6m reduction in planned spend in 2017/18 as it is proposed to only progress the most essential requirements.
- **In-patient Developments/ Forensic In-patients** - The Newcastle Gateshead CCG undertook a significant public consultation on the preferred option for delivering in-patient

services for its local population. As a result of this the CCG selected the option to provide services for its local population at the St Nicholas Hospital site in Newcastle (not the Trust's preferred option). This had associated capital costs of £38m. In addition the Trust's Learning Disability Medium Secure facility has been identified as requiring replacement, which was confirmed at the Trust's recent CQC inspection. This requires potentially a further £25m in capital. The Trust is looking at a potential solution that delivers new Forensic secure facilities and a Newcastle Gateshead bed model collectively for a cost of £33.0m.

The Trust's draft Capital Programme, totals £69.7m over the next 5 years. In 2017/18, it is planned to draw down a further loan of £5.1m to support community transformation and further borrowing will be required in future years. However, NHS capital funding and spending is being limited at the moment so the deliverability of the proposed programme is not assured.

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

Description of scheme	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
New Developments						
In-Patient Developments	0.0	12.0	17.0	7.0	0.0	36.0
Community Premises	5.1	0.0	0.0	0.0	0.0	5.1
Other Schemes	2.8	0.0	0.0	0.0	0.0	2.8
Total – New Developments	7.9	12.0	17.0	7.0	0.0	43.9
Maintenance Schemes						
Refurbishment Programme	0.2	0.0	0.5	0.5	0.5	1.7
Backlog / Other schemes	0.7	0.7	1.2	1.2	1.2	5.0
Total - Maintenance	0.9	0.7	1.7	1.7	1.7	6.7
Other Schemes						
IM&T	1.9	1.5	1.5	1.5	1.5	7.9
Other Allocations	0.6	0.6	0.6	0.6	0.6	3.0
Contingency	1.1	1.1	2.0	2.0	2.0	8.2
Total - Other	3.6	3.2	4.1	4.1	4.1	19.1
Total Capital Expenditure	12.4	15.9	22.8	12.8	5.8	69.7

Asset Sales Programme

The Trust reviews opportunities for asset sales on an on-going basis and has identified the potential for the sale of a small number of community premises in 17/18.

Risk Ratings

The Trust is planning a Use of Resources Risk Rating of 1 during 2017/18 and 2018/19.

Table 5: Risk Ratings

Planned Risk Ratings	Q1	Q2	Q3	Q4	18/19
Capital Servicing Capacity	3	3	3	3	3
Liquidity	1	1	1	1	1
I&E Margin	1	1	1	1	1
Variance from Control Total	1	1	1	1	1
Agency rating	1	1	1	1	1
Overall Continuity of Services rating	1	1	1	1	1

7.1.6 Liquidity

The Trust's forecast cash balance at the end of 2016/17 is £20.2m. The reduction in depreciation costs without a corresponding increase in the Trust's surplus has a negative

impact on the Trust's cash balances. The planned cash balances have therefore reduced to £18.6m by March 2018 and to £17.4m by March 2019. The Trust will need to review its capital plans/funding to ensure cash levels are maintained rather reducing. The Trust's forecast cash flow for 2017/18 & 2018/19 is shown in Table 7 below:-

Table 7: Cash Flow Summary

Cash Flow	2017/18 £m	2018/19 £m
Opening Cash Balance	20.2	18.6
Trust Surplus	7.1	7.4
Loan/PFI/Lease Repayments	(6.4)	(6.8)
Capital Programme	(12.4)	(15.9)
Depreciation	4.8	5.1
Asset Sales	1.0	2.0
Loan Drawdowns	5.1	7.0
Change in Working Balances/other	(0.8)	0.0
Closing Cash Balance	18.6	17.4

Key financial risks

The Trust faces a number of risks to delivery of its Strategy. The key financial risks for 2017/18 include the following:

- Slippage, delays and non-achievement of the Financial Delivery Programme;
- Implications of the Northumberland CCG Recovery Plan
- Managing significant service delivery and financial pressures across 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;
- 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 the proposed 2017/18 budget and financial plans including:-

- 1) the proposed budget for 2017/18
- 2) the proposed capital programme 2017/18 – 2021/22