

TRUST BOARD
27th March 2014

TITLE **Revenue and Capital Budgets 2014/15 and 2015/16**

EXECUTIVE SUMMARY This paper sets out the proposed revenue and capital budgets for 2014/15 and 2015/16 for approval. Two year plans are due for submission to Monitor by 4th April 2014.

The Trust has now agreed a contract envelope and Heads of Terms with our lead commissioner, North West Surrey CCG and the principles in this are being applied to our other CCG contracts. However, Heads of Terms with our Specialist Commissioners remain under negotiation and hence there remains some risk although this is expected to be resolved by the 31st March 2014.

The proposed revenue budget set out in the paper is based around the following key points:-

	2013/14 Forecast	2014/15 Budget	2015/16 Budget
CIP's	£10.3m	£14.9m	£13.3m
EBITDA	£15.1m	£16.9m	£16.4m
Pre-Impairment Surplus	£1.5m	£2.0m	£0.7m
Surplus	£1.5m	£1.5m	£0.2m
Continuity of Services Risk Rating	3	3	3
Capital Programme	£16.6m	£12.5m	£12.2m

Further details of our revenue and capital budgets, our assumptions and the key risks are set out in the paper and appendices that follow.

ASSURANCE (Risk) / IMPLICATIONS The Trust Board is aware of the rationale behind the preparation of the proposed revenue and capital budgets for 2014/15 and 2015/16.

STAKEHOLDER / PATIENT IMPACT AND VIEWS The proposed budget reflects on the ongoing discussions being held with the Trust's lead commissioner, North West Surrey CCG. Revenue budgets have been prepared with patient safety in mind and CIP's are being fully risk assessed.

A capital programme is being put in place that enhances both the patient and staff experience.

EQUALITY AND DIVERSITY ISSUES None identified

LEGAL ISSUES Formal contracts will be signed prior to the 31st March 2014, once full agreement has been reached with our lead CCG and specialist commissioners.

The Trust Board is asked to: Approve the revenue and capital budget envelopes for 2014/15 and 2015/16.

Submitted by: Simon Marshall, Director of Finance and Information

Date: 19th March 2014

Decision: For Approval

Revenue and Capital Budgets 2014/15 and 2015/16

Introduction

This document updates the Trust Board on progress with the Trust's budget setting for 2014/15 and 2015/16 and sets out the proposed revenue and capital budgets for approval.

This year has seen protracted discussions with the Trust's lead/specialist commissioners on both the contract envelopes and the detailed terms underpinning each contract. These discussions are nearing completion but work is likely to be on-going up until the national deadline of the 31st March 2014. The revenue budget that follows is based on the expected 1.5% tariff reductions for 2014/15, which are offset by continued growth in demand for our services and the repatriation of specialist services in line with our clinical strategy.

Revenue Budget 2014/15 and 2015/16

The sections that follow cover the key areas within our revenue budgets.

North West Surrey CCG

Heads of Terms have now been signed with North West Surrey CCG, with a contract value of £161.4m. This is broadly in line with the outturn value for last year and includes CCG QIIP of £4m, offset by 18 week catch up activity of £1.8m and additional local contributions to Rehabilitation, IV, ICT and Palliative care services of £2.25m. It should be noted that we believe this contract value underestimates the activity that we expect to undertake in 2014/15, hence we have pre-notified the CCG that we expect over-performance of at least £2.8m, which they will be contractually obliged to pay should it materialise.

The CCG has also made available £5.1m for the reinvestment of enablement monies back into the wider health system. This includes the £2.25m noted above, £1.1m for three new locality hubs, £0.75m for rapid access to community support and £0.5m for extended walk in centre access. Both the expenditure and impact of these funds will be monitored closely during the year.

For 2015/16 a tariff deflator of 1.8% has been assumed in line with current national guidance.

Other CCG's

Now that we have agreed Heads of Terms with NWS CCG we can roll out the underlying principles to our other CCGs. These organisations represent approximately £28.5m of income to the Trust. There is one material issue with Surrey Downs CCG remaining over their emergency threshold following substantial transfers of activity to the Trust from this area in recent years. Once agreed this should be worth a further £0.3m to the Trust.

SCG Patient Contract Income

The Trust has made all the necessary submissions to our specialist commissioners and we expect to sign a contract with a value of approximately £33.0m in due course.

Expenditure

The Trust's expenditure budget has been built up using inflation assumptions, known cost pressures, CIP reductions and investments, both full year effect and new year.

Investments for 2014/15 have been scrutinised by the Executive Directors with certain schemes being rejected and others deferred until self-funding business cases are approved. The Executive Directors met to discuss the investment priorities for the plans and these are summarised below in priority order:

1. Safety Concerns;
2. Emergency Pathways;
3. Workforce Gaps;
4. Francis/Quality;
5. Planned Pathways;
6. Business Cases; and
7. Other directorate issues

This has resulted in £6.6m of full year effect and new investments being included in budgets, with this sum being net of any income generated by these investments. Of this £1.7m is below the line costs – see section below.

Corporate reserves of £0.5m have been kept for items such as CQUIN delivery and Quality with a further General Contingency amount of £1.0m.

In respect of 2015/16 the full year effect of schemes approved for 2014/15 have been built in along with an allowance for new investments – the total of these investments is £3.4m.

Below the Line Costs

Our depreciation budgets have been increased to reflect the increased capital programme over the last couple of years, including the Imaging Managed Equipment Service and the InHealth Cath Lab investments. As will be seen in the Capital Budget section, there is further capital expenditure in relation to the Imaging Managed Equipment Service equipment in both 2014/15 and 2015/16.

Finance interest payable will also increase in both years as the effect of the payments under the finance leases mentioned above filter through.

The budgets have also been set to allow for Impairments of £0.5m in each year. In 2014/15 this is an allowance in respect of the Midwifery Led Unit and Admissions Lounge both of which are new builds.

The Trust is due to carry out its five yearly revaluation of its estate during 2014/15. Whilst it is hoped that this revaluation would either (i) lead to increases in asset valuations or (ii) allow any impairment to be offset against revaluation reserve balances for individual assets, there is a potential for impairments being charged to I&E. In the budget for 2014/15 no additional allowance has been made, however should these materialise they would have no impact on our Continuity of Services Risk Rating.

Cost Improvement Plans (Quality and Transformation Planning)

The Trust has set its budget based on a CIP delivery of £14.9m. A lot of work has taken place in Divisions as they have strived to hit their individual targets. Detailed action plans have been completed by both the Divisions and Corporate Services including Procurement.

Endeavours will continue now, and throughout the year, to ensure that the plans for 2014/15 are robust and monitored to ensure delivery and have strict quality scrutiny, assessment and monitoring. This work will include on-going identification and development of new schemes.

It should be noted that £15.4m of schemes have been identified, however in the budget £0.5m of income CIP's have had additional risk adjustments applied to arrive at the £14.9m total.

Budget Papers

Included in Appendices of this paper are tables for 2014/15 and 2015/16 covering: -

- Income and Expenditure Statement (appendix A)
- Bridge between 2013/14 and 2014/15 (appendix A)
- Summary of investments (appendix B)
- Cost Improvement Plans for 2014/15 (appendix C)
- Balance Sheet (appendix D)
- Cashflow Statement (appendix D)
- Continuity of Services Risk Rating (appendix E)

Risks

The main risks facing the Trust are financial and concern delivering the expected CIP's including the income targets which are over and above the current commissioner contract values.

The gap between our contracts and our 2014/15 budget is approximately £6m – if struck at this level the budget would show a deficit of £4.5m. However, it should be noted that the following mitigations exist under a PBR contract:-

- we believe the contract values understate our existing activity by £2.8m;
- although we expect to repatriate substantial amounts of tertiary activity, this is not an additional cost pressure to our commissioners and hence represents a transfer of funds across providers;
- we have yet to include a cost response to the £4.0m of CCG QIPP should activity reduce in line with their plans - we would expect to be able to reduce our costs by c30% in the short term and c70% in the medium term; and
- given the CCGs QIPP delivery record it is likely that further over-performance will be seen in year.

As noted earlier the budget includes a contingency budget of £1.0m should this be needed for winter pressures etc.

Continuity of Services Risk Ratings

Set out in the table below are indicative quarterly and annual Continuity of Service Risk Ratings for 2014/15 and 2015/16.

	2014/15			
	Q1	Q2	Q3	Q4
Debt Service Cover	4	4	3	3
Liquidity	3	3	3	3

CoSRR	4	4	3	3
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	2015/16			
	Q1	Q2	Q3	Q4
Debt Service Cover	3	3	3	3
Liquidity	3	4	3	3
CoSRR	3	4	3	3

These represent our best guess split by quarter at this stage – further work will be on-going over the next two weeks prior to the 4th April 2014 Monitor submission. If there are any significant changes from this table identified then there will be a verbal update at the Trust Board meeting.

Summary and Next Steps

In summary the Trust is setting its plans based on income of £250.3m, EBITDA of £16.9m, post-impairment surplus of £1.5m and CIP's of £14.9m. This would deliver the Trust a Continuity of Services Risk Rating (CoSRR) of 3.

The major step to be completed is to reach agreement with all commissioners so that the Trust has certainty over its income assumptions and hence proposed surplus.

The budget being set is challenging, with the practicalities of delivering all that is in the plan, but it is deliverable and is a suitable target for 2014/15 given the current positioning of the Trust.

Capital Budget 2014/15 and 2015/16

The current proposal by the Trust for funding capital in 2014/15 and 2015/16 is set out below: -

	2014/15 £'000	2015/16 £'000
Depreciation (excl MES)	9,076	8,944
Carry forward underspend from 2013/14	220	-
Managed Equipment Service	2,744	2,940
DH Matched IT Funding	375	225
Purchased Capital Allocation	12,415	12,109
Donated Additions	100	100
Total Capital Programme	12,515	12,209

A summary capital programme highlighting the areas of spend is shown at Appendix F

Action

The Trust Board is asked to approve the revenue and capital budget envelopes for 2014/15 and 2015/16 as set out, and note the risks surrounding these and specifically issues related to protracted contract negotiations.

INCOME AND EXPENDITURE STATEMENT

	2013/14	2014/15	2015/16
	£'000	£'000	£'000
Income from Activities	228,049	234,246	227,224
Other Operating Income	16,823	16,083	16,522
Total Income	244,872	250,329	243,746
Pay	150,637	155,324	151,466
Non-pay	79,114	78,090	75,855
Operating Expenditure	229,751	233,414	227,321
EBITDA	15,121	16,915	16,425
Depreciation & Amortisation	(8,532)	(9,416)	(10,093)
Impairments	0	(500)	(500)
Charitable contributions	210	100	100
PDC Dividend	(5,131)	(5,198)	(5,249)
Interest Payable	(231)	(472)	(544)
Interest Receivable	63	71	71
Surplus	1,500	1,500	210

BRIDGE

	2014/15	
	%	£
Underlying Surplus		
Forecast 2013/14		1.5
Non-Recurrent: -		
Income		0.0
Costs		0.0
Adjusted Underlying Forecast		1.5
Income Tariff/Inflation Changes		
Tariff	-1.50%	(3.4)
Activity Change	0.45%	1.0
Education Income increase	1.00%	0.1
Other Income inflation	0.50%	0.1
Total Income Inflation (exc CIP's and investments)		(2.2)
Inflationary Cost Changes (excluding investments)		
Pay Awards	0.70%	(1.0)
Pay Drift	0.90%	(1.3)
Drugs Inflation	5.00%	(0.9)
Clinical Supplies Inflation	2.50%	(0.8)
Energy Inflation	10.00%	(0.3)
Other Non-Pay Inflation	2.10%	(0.6)
Total Cost Inflation Movement		(4.9)
Investments		
13/14 FYE + 14/15 New Investments (net of income)	Fixed	(4.1)
CQUIN/Quality & Innovation	Fixed	(1.0)
Contingency	Fixed	(1.0)
Change in depreciation/impairments/interest	Fixed	(1.7)
Total Investments		(7.8)
CIP's		
Income generation schemes		6.9
Pay schemes		3.3
Non-Pay schemes		4.7
CIP's	Fixed	14.9
TARGET BUDGET 2014/15		1.5

Summary Investments

Priority #	Description	Sub #	Sub-category	14/15 Full Year Effects	14/15 Net Investments	14/15 £ Total	WTE
1	Safety Concerns	1.1	Emergency department	-	240,275	240,275	4.00
		1.2	Critical Care	-	-	-	2.00
		1.3	Dietetics	-	97,695	97,695	4.06
		1.4	Labour Ward Consultants	-	2,633	2,633	2.00
		1.5	Safeguarding team	-	209,802	209,802	3.26
1 Total					550,405	550,405	15.32
2	Emergency Pathway	2.1	Ambulatory Care & OPAL (already approved)	377,673	260,371	638,044	7.34
		2.2	Acute Physicians	-	367,552	367,552	3.00
		2.3	Stroke & Neurology	20,699	32,246	52,945	4.28
		2.4	Therapies	-	-	-	2.00
		2.5	Internal Flow / Efficiency	8,620	589,396	598,016	-
2 Total				406,992	1,249,565	1,656,557	16.62
3	Francis/Quality	4.1	Ward and theatre nursing	-	430,237	430,237	15.03
		4.2	NICU nursing	-	156,266	156,266	6.04
3 Total					586,503	586,503	21.07
4	Planned Pathways	5.1	Diagnostic capacity	-	46,000	46,000	0.20
		5.2	Cancer	-	100,000	100,000	-
		5.3	Urology	-	-	-	3.00
		5.4	Theatre efficiencies	-	14,810	14,810	-
4 Total					160,810	160,810	3.20
5	Business Cases	7.1	MLU/Maternity (already approved)	-	-	-	12.87
		7.2	CT - 2nd scanner at SPH	-	-	-	4.00
		7.3	NICU Growth	-	-	-	0.70
		7.4	Women's Health Clinics	-	-	-	1.50
		7.5	MSK pathways / T&O Consultants (already approved)	-	-	-	2.00
		7.6	Anaesthetics Business case (already approved)	-	-	-	3.59
		7.7	Cardiology	-	-	-	-
5 Total				-	-	-	24.66
6	Other	8.1	Inflation Reserves & Contingency	-	7,565,251	7,565,251	
		8.2	CQUIN reserves	10,570	614,430	625,000	8.15
		8.3	Other	634,859	1,013,259	1,648,118	11.06
6 Total				645,429	9,192,940	9,838,369	19.21
Grand Total				1,052,421	11,740,223	12,792,644	100.08

* The 7th Priority, which relates to Workforce, falls exclusively within CIPS, as it reflects the release of agency premiums

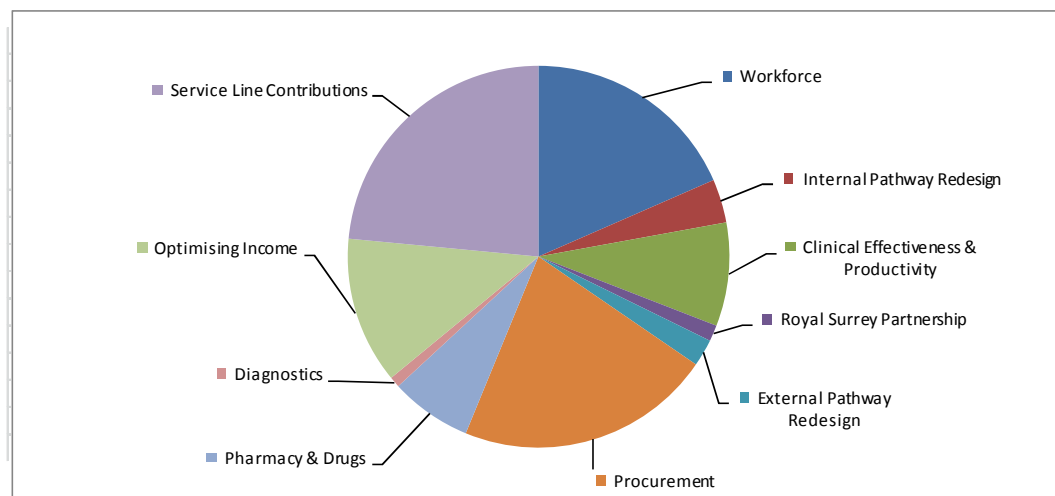
** Note, the above relates to 14/15 only

COST IMPROVEMENT PLANS BY THEME AND DIVISION

Workstream	No. of supporting projects	%	£
Workforce	40	18%	1,839,824
Internal Pathway Redesign	8	4%	1,012,533
Clinical Effectiveness & Productivity	19	9%	1,254,096
Royal Surrey Partnership	3	1%	165,000
External Pathway Redesign	5	2%	460,072
Procurement	47	22%	3,709,137 **
Pharmacy & Drugs	15	7%	527,009
Diagnostics	2	1%	15,000
Optimising Income	27	12%	2,235,331
Service Line Contributions	51	24%	3,684,264
Total	217	100%	14,902,266

Income CIPS	- 9,506,951	-
Pay Investments to deliver income CIPS	2,079,025	-
Non- Pay Investments to deliver income CIPS	521,570	-
Profit on Income CIPS	- 6,906,356	46%
Other CIPS		
Other Pay CIPS	- 3,305,269	22%
Other Non Pay CIPS	- 4,690,641	31%
Total Other CIPS	- 7,995,911	54%
Total CIPS	- 14,902,266	

- 0



**Procurement includes divisional savings schemes relating to purchasing of contracts not negotiated by the Procurement team

Appendix C (continued)

Priority #	Description	Sub #	Sub-category	Income CIP	Investment to Deliver CIP	NET Income CIP	Pay CIP	Non Pay CIP	Grand Total
1	Safety Concerns	1.2	Critical Care		-	-	115,898		115,898
Safety Concerns Total				-	-	-	115,898		115,898
2	Emergency Pathway	2.1	Ambulatory Care & OPAL	- 486,480	-	- 486,480	49,837		436,643
		2.5	Internal Flow / Efficiency	- 213,520	-	- 213,520		- 76,072	289,592
Emergency Pathway Total				- 700,000	-	- 700,000	49,837	- 76,072	726,235
3	Workforce Gaps	3.1	Workforce Planning & Redesign		-	-	17,988		17,988
		3.2	A&E and Acute medicine Middle grades		-	-	1,140,026	469,824	670,202
Workforce Gaps Total				-	-	-	1,158,014	469,824	688,190
4	Planned Pathways	5.2	Cancer	- 59,279	59,348	69	51,126	- 30,000	81,058
		5.3	T&O / surgical pathways	- 693,682	- 7,051	- 700,733	116,000		816,733
		5.4	Ashford Rehab		-	-	814,423	- 132,610	947,033
		5.5	Urology	- 498,184	68,640	- 429,544			429,544
		5.6	Theatre efficiencies	- 291,950	-	- 291,950	106,150		398,100
Planned Pathways Total				- 1,543,095	120,936	- 1,422,159	- 1,087,699	- 162,610	- 2,672,468
5	Business Cases	7.1	Midwifery Led Unit	- 137,212	-	- 137,212			137,212
		7.2	PPCI	- 348,583	162,804	- 185,779			185,779
		7.3	Vascular	- 445,000	234,270	- 210,730			210,730
		7.4	Neurophysiology	- 199,000	102,820	- 96,180			96,180
		7.5	NICU Growth	- 57,753	-	- 57,753			57,753
		7.6	Electro Phys	- 486,000	258,965	- 227,035			227,035
		7.7	Emergency Surgeons	- 362,000	150,000	- 212,000			212,000
		7.8	Women's Health Clinics	- 21,168	-	- 21,168			21,168
		7.9	Paeds HDU	- 88,950	34,358	- 54,592			54,592
		7.10	Pain Management	- 112,000	67,000	- 45,000			45,000
		7.11	MSK pathways / T&O Consultants	- 1,399,378	968,560	- 430,818			430,818
		7.12	Bariatric	- 161,400	34,376	- 127,024			127,024
		7.13	Cardiology	- 234,834	142,932	- 91,902			91,902
Business Cases Total				- 4,053,278	2,156,085	- 1,897,193	-	-	- 1,897,193
6	Other CIPS	9.1	Non-Income		-	-	1,049,587	- 4,791,949	5,841,537
		9.2	Other income	- 996,606	309,173	- 687,433	56,092	- 129,834	761,175
		9.3	PIMMS / repatriation	- 2,213,971	14,400	- 2,199,571			2,199,571
CIPS Total				- 3,210,577	323,573	- 2,887,004	993,495	- 4,921,783	- 8,802,283
				- 9,506,951	2,600,595	- 6,906,356	- 3,305,269	- 4,690,641	- 14,902,266

BALANCE SHEET

	2013/14	2014/15	2015/16
Non-Current Assets			
Operational assets	161,187	165,061	165,277
Assets under construction	2,573	1,298	2,698
Receivables > 1 Year	871	871	871
Total Non-Current Assets	164,631	167,230	168,846
Current Assets			
Stock	3,845	3,845	3,845
Receivables < 1 Year	14,749	12,749	12,749
Cash	12,613	15,376	15,634
Total Current Assets	31,207	31,970	32,228
Current Liabilities: Less than 1 year			
Payables < 1 Year - Revenue	(13,501)	(13,501)	(13,501)
Payables < 1 Year - Capital	(2,923)	(2,923)	(2,923)
Payables < 1 Year - Accruals	(10,771)	(10,771)	(10,771)
Deferred Income < 1 year	(853)	(853)	(853)
Financing < 1 Year	(1,008)	(1,500)	(1,325)
Provisions < 1 Year	(240)	(240)	(240)
Total Current Liabilities	(29,296)	(29,788)	(29,613)
Net Current Assets	1,911	2,182	2,615
Financing > 1 Year	(4,924)	(5,919)	(7,533)
Provisions > 1 Year	(390)	(390)	(390)
Total Assets Employed	161,228	163,103	163,538
Public Dividend Capital	87,578	87,953	88,178
Revaluation Reserve	67,478	67,478	67,478
I&E Reserve	6,172	7,672	7,882
Total Taxpayers Equity	161,228	163,103	163,538

CASHFLOW STATEMENT

	2014/15 £'000	2015/16 £'000
Surplus	1,500	210
Non Cash Flows in Operating Surplus:	15,415	16,215
(Increase)/Decrease in Working Capital	2,000	0
Capital Expenditure (purchased)	(9,671)	(9,169)
Financing - PDC Dividends Paid	(5,198)	(5,249)
Financing - Interest element of finance leases	(472)	(544)
Financing - Capital element of finance leases	(1,257)	(1,501)
Financing - Interest received	71	71
Financing - PDC drawdown	375	225
Net increase/(decrease) in cash	2,763	258
Opening cash	12,613	15,376
Closing cash	15,376	15,634

FORECAST RISK RATNG

	2014/15			
	Q1	Q2	Q3	Q4
Debt Service Cover				
Revenue available for Debt Service (EBITDA + Interest Receivable)	4,158	8,481	12,739	16,986
Debt Service	(1,639)	(3,363)	(5,126)	(6,891)
Debt Service Cover metric	2.54x	2.52x	2.49x	2.46x
Debt Service Cover rating	4	4	3	3
Liquidity				
Cash for CoS liquidity purposes	(1,179)	(955)	(1,676)	(1,663)
Operating Expenses within EBITDA, Total	(57,159)	(115,418)	(174,385)	(233,413)
Liquidity metric	-1.9	-1.5	-2.6	-2.6
Liquidity rating	3	3	3	3
Continuity of Service Risk Rating	4	4	3	3

	2015/16			
	Q1	Q2	Q3	Q4
Revenue available for Debt Service (EBITDA + Interest Receivable)	4,038	8,236	12,371	16,496
Debt Service	(1,774)	(3,581)	(5,401)	(7,222)
Debt Service Cover metric	2.28x	2.30x	2.29x	2.28x
Debt Service Cover rating	3	3	3	3
Cash for CoS liquidity purposes	(489)	93	(290)	(1,230)
Operating Expenses within EBITDA, Total	(55,667)	(112,406)	(169,834)	(227,321)
Liquidity metric	-0.8	0.1	-0.5	-1.9
Liquidity rating	3	4	3	3
Continuity of Service Risk Rating	3	4	3	3

key to scoring				
Debt Service Cover		50%		
2.5	1.75	1.25	<1.25	
4	3	2	1	
Liquidity		50%		
0	-7	-14	<-14	
4	3	2	1	

DRAFT CAPITAL PROGRAMME 2013/14

	2014/15 £'000	2015/16 £'000
Capital Programme Funding		
Depreciation estimates (excl MES)	9,076	9,265
Not invested in capital	(76)	(465)
Managed Equipment Scheme	2,744	2,940
Managed Equipment Scheme - possible	86	144
DH Matched Funding PDC - EDM	375	225
C/fwd underspend from 2013/14 (Admissions Lounge)	210	0
Total Purchased	12,415	12,109
Total Donated	100	100
Total Capital Programme	12,515	12,209
By Category		
Corporate rolling programmes	2,024	2,193
Facilities - Committed	1,288	420
Facilities - New bids - Refurbishments &/or replacements	1,159	1,226
Facilities - New bids - New developments	559	617
Integrated List of Theatres & SSD Works Bids	676	684
Equipment - Committed	445	359
Equipment - Replacements	300	344
Equipment - New bids - Additional &/or new development	871	630
IT - New bids - Replacements	595	525
IT - New bids - New developments	1,668	2,027
Managed Equipment Scheme - developments	2,830	3,084
	12,415	12,109
Trust Funds	100	100
	12,515	12,209