

NLG(18)075b

DATE OF MEETING	27 February 2018
REPORT FOR	Trust Board of Directors – Public
REPORT FROM	Marcus Hassall, Director of Finance
CONTACT OFFICER	Marcus Hassall, Director of Finance
SUBJECT	Budget Setting 2018/19
BACKGROUND DOCUMENT (IF ANY)	-
PURPOSE OF THE PAPER:	
EXECUTIVE SUMMARY (PLEASE INCLUDE A BRIEF SUMMARY OF THE PAPER, KEY POINTS & ANY RISK ISSUES AND MITIGATING ACTIONS WHERE APPROPRIATE)	This report provides an overview and update on the 2018/19 financial planning framework including the Trust's budget setting principles and basis for setting individual budget allocations. Also included at section 8 is an outline timetable highlighting the key milestones required to ensure appropriate budgets are agreed by the end of March 2018.
HAVE STAFF SIDE BEEN CONSULTED ON THE PROPOSALS?	N/A
HAVE THE RELEVANT SERVICE USERS/CARERS BEEN CONSULTED ON THE PROPOSALS?	N/A
ARE THERE ANY FINANCIAL CONSEQUENCES ARISING FROM THE RECOMMENDATIONS?	N/A
IF YES, HAVE THESE BEEN AGREED WITH THE RELEVANT BUDGET HOLDER AND DIRECTOR OF FINANCE, AND HAVE ANY FUNDING ISSUES BEEN RESOLVED?	N/A
ARE THERE ANY LEGAL IMPLICATIONS ARISING FROM THIS PAPER THAT THE BOARD NEED TO BE MADE AWARE OF?	N/A
WHERE RELEVANT, HAS PROPER CONSIDERATION BEEN GIVEN TO THE NHS CONSTITUTION IN ANY DECISIONS OR ACTIONS PROPOSED?	N/A
WHERE RELEVANT, HAS PROPER CONSIDERATION BEEN GIVEN TO SUSTAINABILITY IMPLICATIONS (QUALITY & FINANCIAL) & CLIMATE CHANGE?	N/A
THE PROPOPSALS OR ARRANGEMNTS OUTLINED IN THIS PAPER SUPPORT THE ACHIEVEMENT OF THE TRUST OBJECTIVE(S)	N/A
THE PROPOSAL OR ARRANGEMENTS OUTLINED IN THIS PAPER ENDORSE COMPLIANCE WITH THE REGULATORY OR GOVERNANCE REQUIREMENTS LISTED	N/A
THE PROPOSALS OR ARRANGEMENTS OUTLINED IN THIS PAPER TAKE ACCOUNT OF REQUIREMENTS IN RESPECT OF EQUALITY & DIVERSITY	N/A
ACTION REQUIRED BY THE BOARD	The Board is asked to ratify the approach taken as set out in the paper and reviewed by the Finance & Performance Committee held on 22 February 2018.

Report to Finance and Performance Committee – February 2018

Business Planning 2018/19: Outline Planning Framework & Principles

1. Purpose of this Document

The purpose of this report is to provide an overview and update on the 2018-19 financial planning framework including the Trusts budget setting principles and basis for setting individual budget allocations. An outline timetable has also been included at section 8 highlighting the key milestones required to ensure appropriate budgets are agreed by the end of March 2018.

Directors have a key responsibility to ensure the development of effective plans within their directorates, including the construction, with their management teams, of a budgetary plan.

The Trust's financial plan for 2018/19 has taken a realistic and prudent view of the income and expenditure forecast for the next financial year consistent with the National Planning Guidance. It is based upon forecast outturn spend, adjusted to remove non recurrent and the full year effect of investments agreed in 2017/18 and includes activity and inflation assumptions.

2. Background

The Trust was placed in financial special measures in March 2017 following a significant deterioration in its financial performance in 2016/17. Subsequently, the Trust agreed a Financial Recovery Plan, developed in conjunction with Ernst and Young, to deliver a forecast outturn deficit of £39.9m for 2017/18. Current forecast year end projections at month 10 are that the Trust will deliver a forecast deficit of £44.5m and it is this outturn position that forms the basis of the outline 2018/19 financial plan.

3. 2018/19 Draft Financial Plan – Key Business Rules

As outlined above, the construction of the Trust's 2108/19 financial plan assumes a starting position for 2018/19 based on the forecast Month 10 end of year deficit of £44.5m. The following key business rules/assumptions have then been applied:

- 2017/18 in year non-recurrent technical adjustments are added back;
- Non-recurrent savings delivered in year are added back;
- Full Year effect of agreed investments are adjusted for;
- Expenditure deemed non recurrent are removed ;
- Activity requirements are re-priced at 2018/19 Tariff values and uplifted for circa 4% growth consistent with National Planning Guidance until Local Contracts are agreed with the additional cost of delivery assumed at 60% of tariff;
- 2.1% cost inflation as per national planning;
- Interest repayments recalculated for expected drawdowns at 6% where relevant;
- Increase Cost of Capital in line with the outline Capital Programme;
- £2m of regulatory and quality investment requirements;
- Delivery of a £20.1m savings programme (5.1% of Operating expenditure).

The key bridge elements of the 2018/19 plan from the Trust's forecast outturn position in 2017/18 are therefore as follows:

	£000's
2017/18 Forecast Outturn Deficit	(44,458)
Remove Technical Non Recurrent Items	(3,972)
Add Back Non Recurrent Savings	(2,071)
Full Year Effects of Agreed Investments	(2,541)
Remove Non Recurrent Expenditure Items	1,976
Income Tariff Adjustments & Growth (4%)	12,626
Marginal Cost to deliver Additional Activity	(7,693)
Inflation & Incremental Drift	(8,261)
Increased Interest Payments	(3,027)
Increased Cost of Capital	(1,334)
Quality & Regulatory Reserve (Clinical)	(1,000)
Quality & Regulatory Reserve (Non Clinical)	(1,000)
Savings Programme (5.1% of Operating Expenditure)	20,079
2018/19 Draft Financial Planned Deficit	(40,676)

The Trust's revised formal Control total for 2018/19 is currently a deficit of £9.418m (excl. available Sustainability and Transformational Funding of £14.397m) which includes an agency ceiling of £15.663m. This draft financial plan is therefore not compliant with the control total outlined by NHSI.

3. Budgetary Allocations

The allocation and budget planning process will use the methodology used in previous financial years with front line clinical Groups moving into the new financial year with an allocation set at the better of outturn or existing allocation, effectively bailing out the overspends in these areas and setting a clear outturn basis for financial planning.

This approach has been extended to Corporate Directorates and Estates and Facilities. In addition, non-recurrent savings delivered in 17/18 have been added back to base allocations with the view that revised 2018/19 targets will then be applied.

Full year effects of committed investments have been built into allocations, as have inflation elements that can be ascertained at this time using national planning guidance.

Activity for budget setting within Clinical Divisions is set at outturn, with forecast growth funds retained centrally until the contractual requirements are confirmed and detailed delivery plans have been developed and agreed. Actual performance will be monitored and budgets flexed in year accordingly.

Strategic Service changes where fully developed, for example, the decommissioning of the Minor Injuries Unit at Goole will be reflected in budgetary allocations where possible. The financial implications of further service changes will be agreed and reflected in budgets following internal sign off through the Trust Governance arrangements as and when they materialise.

4. Setting Detailed Budgets - Principles

4.1 General Principles

Budgets should be a financial expression of the Director's plan to deliver services within the financial envelope set by their allocation. Individual budgets therefore should not be set based upon historic budget levels, but where possible, should be **zero based to reflect the most accurate forecast of potential 2018/19 spend**.

Some of this this zero basing work is already underway, through workstreams such as the the nurse (and other) establishment confirm and challenge process. This work needs to be assembled to form the basis of a new set of opening budgets. Where we do not have such work completed or nearing completion, then other forecasting techniques should be used to fill in the gaps. Rollover of existing budgets without a forecasting review should not be adopted.

4.2 Scheme of Delegation – Responsibilities of Budget Holders

Under the existing Trust Scheme of Delegation, planning and decision making power is delegated to senior budget managers, most usually Directors and Clinical Divisional Managers, within their areas of control. This principle is important, in that it establishes a Directorate driven planning approach, and, as the budget is an expression of the plan, it too must be constructed within the Directorate, as part of the wider planning process.

Under the Scheme of Delegation principles, though work may be delegated to more junior departmental managers, responsibility for setting out an effective plan remains with the delegated budget holders.

Construction of appropriate plans and budgets will be a key performance objective for each directorate and group, and will be incorporated into the performance management process for 2018/19.

4.3 Inflation Assumptions and Price Bases

Budgets should be set at 2018/19 prices. The initial assessment of inflation provision including interest and increased cost of capital required for the new financial year has been made at £12.62m. This includes the impact of incremental drift for medical and Agenda for Change staff, inflationary pay awards based at 1%, drugs inflation, clinical non-pay inflation, other non-pay inflation, CNST increases provided to the Trust by the NHSLA and the forecast impact of Interest payments for loans drawdown at 6%. The headline inflation percentage is 2.1%. The breakdown and relevant uplift rates are as follows:

Inflation Assumptions	2018/19 £m	%	Notes
Pay Award & Incremental Drift	4.25	1.6%	% of total pay spend
Drugs Inflation	1.28	3.6%	% of forecast drug spend
Clinical Non Pay	0.69	2.1%	% of forecast spend
Other Non-Pay	0.83	2.1%	% of forecast spend
CNST	1.23	9.2%	% of forecast CNST spend
Interest Expenses	3.03	8.0%	% of forecast Deficit
Cost of Capital / PDC	1.334	3.3%	% of forecast Deficit
Total	12.62	2.1%	% of Total Operating Expenditure

4.4 Activity Levels

Initial budget projections should be set based on 2017/18 forecast outturn activity levels. Discussions are ongoing with Commissioner's to agree activity projections for 2018/19. This work will be undertaken in conjunction with the Operational Senior Management Teams, Clinical Leads and the Director of Strategy and Planning. In the absence of agreed contractual activity requirements at this stage, Divisions should plan for demand levels consistent with the National Planning Guidance consisting of the following:

Activity Type	%
Non Elective Admissions	2.3%
A&E Attendances	1.1%
Outpatient Attendances	4.9%
Elective Admissions	3.6%

As per previous years, activity variations for the following items will be adjusted each month based on well-established structured systems with the aim of reimbursing actual spend:

- PBR excluded High Cost Excluded Drugs and Devices
- Diagnostic Services (Pathology, Imaging, Medical Physics, Audiology)

For all other activity variation, budgetary adjustments will be implemented both for positive and negative variation to outturn using variable cost. Semi-fixed cost variation will only be adjusted once delivery plans are formally agreed through the Trust's Governance Structure (currently the Trust Management Board).

4.5 Savings Planning

The outline 2018/19 financial plan assumes a savings programme requirement that will deliver £20.08m savings. This process will be led by the Trust Turnaround Director supported by the revamped PMO office and underpinned through the existing Workstream programme infrastructure developed under the Financial Special Measures programme in conjunction with Ernst and Young.

Individual Divisional/Directorate expected savings plan contributions to the £20.08m target outlined will be derived through the construction of the Sustainability workstreams led by the respective Executive Lead and allocated based on each Division/Directorate's share of the overall workstream target. Work is progressing to develop the outline programme with a Draft allocation of the savings requirements per Workstream and also the share currently allocated to Directorate's included in Appendix A. Currently, only the Corporate "Carter 7" workstream remains unallocated at this time.

4.6 Sign-off Process

Directorate and Divisional budgets will be subject to a corporate sign off process. This will be conducted by the Chief Executive in conjunction with the Director of Finance, Director of Operations and Trust Turnaround Director and will judge budgets on the following parameters:

- Is the budget balanced to allocation?
- Does the budget reflect a reasonable forecast of 2018/19 spends?
- Does the budget set out the detailed delivery of savings plans?
- Are appropriate implementation plans agreed to support delivery of savings?
- Does the budget threaten either service delivery or service quality?

In order to have budgets approved, Directorates/Divisions will need to submit an Integrated Service Plan document which set out their plans, including detailed budgets. These should represent the Director's plan for delivery of key service objectives and the maintenance of financial control during the year.

Directors will decide whether they wish to submit a single Directorate wide Planning Schedule, or break up their Directorate into sub-directorate components (eg Health Divisions) and delegate the process of agreement to other members of their senior team. The Director remains ultimately accountable.

Where the Finance review process recommends that further work is required, and that the budgetary plan does not meet the required objectives, then an action plan will be agreed with the Director to achieve compliance.

4.7 Integrated Performance Plans

Integrated Performance Planning Schedules should provide a single summary of the key service objectives for the year, action plans for delivery, and a comprehensive record of the matching budgetary plan for the Directorate/Division.

These may be constructed by the wider management team, but must be owned by the respective Director. This is their sign off document.

In effect, these books should fulfil the same role for Directorates that the Annual Plan submission performs at a corporate level. As such, they are the key link between the wider planning process, the budget planning process, and performance management arrangements. This one document should set out the whole of the plan for the year, from a planning, performance, or financial perspective.

Planning Schedules should include

- Key service objectives for 2018/19
- KPIs to be monitored, with targets
- Activity/output levels
- An allocation trail summary from 2017/18 opening allocation to 2018/19 opening allocation
- A reviewed Scheme of Delegation table
- Detailed budgets, with appropriate summaries, for 2018/19
- Savings plans, with delivery trajectories and milestones
- A short summary, outlining key risks and required corporate delivery support

Constructing these documents, and the plans that they reflect, will be led by management teams in Directorates, supported by both planning and finance teams.

5. Budget Setting Approaches – By Budget Category

These are suggested approaches to setting budgets across different budget types, consistent with the general principles set out in section 4:

5.1 Central Income Budgets

These should be set based upon the forecast income levels anticipated following contracting discussions. Where no contract agreement is in place, or where contract baselines are unlikely to reflect likely income levels, then budgets should be set to include a full assessment of likely actual income streams for 2018/19.

5.2 Non Pay Budgets/Other Income Budgets

These budgets should be set using typical forecasting techniques – most usually derived from current outturn:

	2017/18 Forecast Outturn
<i>less</i>	Non Recurrent items
<i>plus</i>	Full year effects of 2017/18 in year changes
<i>plus</i>	Known 2018/19 investments/developments

5.3 Corporate Directorates – Pay

Pay budgets for corporate Directorates should be set based upon current establishments and Director Portfolios, adjusted for subsequent changes and for savings plan delivery requirements for 2018/19.

For the “Front Line” services within the Estates & Facilities Directorate - establishments should be tied directly to the rota patterns needed to support service provision. This should mean developing the roster planning tools that we have used for nursing to set working establishments for these services.

5.4 Clinical Directorates - Pay – Management and Administration Functions

As with Corporate Directorates, clinical management teams and administrative function budgets should be set based upon the current agreed funded establishments. This will incorporate subsequent changes as set out in savings plans where necessary.

5.5 Nursing, Therapist and Technician Establishments

Where ward and departments have been subject to a formal confirm and challenge process tied directly to rotas this should form the basis of opening baseline budgets updated to reflect the latest rotas, and to update pricing data in each area to forecast 2018/19 costs.

Where wards and departments have not yet reached the stage of having an agreed template in place, then focussed attention needs directing at these areas as a priority whilst using interim measures – either simpler interim staffing models or outturn based forecasting to set baseline budgets.

This approach should cover all ward, community or facility based nursing or Therapy teams (ie it should exclude CNS staff, who operate on job plans, not rotas).

5.6 Senior Clinician Pay Budgets

This includes medical staffing budgets and also linked CNS budgets. Some therapist staff may also fit the senior clinician/CNS model better than the facility/team model set out in section 5.5, so may be included here.

These staff operate to job plans. We need to build our job planning records so as to be able to set establishments and budgets based on service need, not historic data. This will then allow us to effectively make changes and savings by remodelling establishments. However, that is not primarily a task for Finance, and the groundwork is as yet not in place to support this.

Historic establishments should have only limited influence on this process – without underlying planning work to validate them, these historic establishments have no operational credibility, and to set budgets based upon them would be misleading.

This is an area likely to throw up a considerable “planning gap” and must be addressed by Directorates.

5.7 Expenditure Budgets Directly Linked to Income Streams

Some income streams are dependent upon delivery of services as quantified by specific expenditure – for example, a service contract may specify the requirement to have specific staff in post to ensure payment. Where savings or budgetary plans suggest more effective service provision may be possible, achieving the same service delivery at lower cost, the opportunity should still be explored, but will require dialogue with the service’s commissioner.

Managers and their Business Accountants should be aware of which services they deliver under these sorts of arrangements. Where the need to make alterations in these areas arises, or potential savings opportunities are identified, contact should be made with the contracting team to coordinate an effective dialogue with commissioners.

6. Investment Programme

Pre-committed 2017/18 investment/capacity expansion schemes will be accounted for in the opening allocations for Directorate/Group’s and appropriately adjusted for any part and full year effect variation.

A planning assumption for further investments required in 2018/19 sets an outline allocation consisting of £1m each respectively for both Clinical and Non Clinical requirements. The individual potential commitments against each reserve require further development.

Therefore, it is imperative that any investment commitments are prioritised, understood and agreed through the Trust Management Board and Finance and Performance Committee framework.

7. Outline Timetable and Next Steps

The attached file in Appendix B outlines the detailed planning timetable over the remaining months of the year. The key deadlines consist of the following:

- Budget Setting Principles to Finance & Performance Committee/Trust Board/TMB 22nd Feb
- Draft 2018/19 Financial Plan submission to NHSI 8th March
- Final 2018/19 Budget and Financial Plan agreed at Trust Board 24th April
- Final 2018/19 Financial Plan submission to NHSI 30th April
- Integrated Performance Plans completed and signed off by Director / AMD 30th May

8. Conclusion & Recommendations

The Committee is asked to review and discuss the approach taken to produce the draft 2018/19 Financial Plan and Budgetary Allocations which are underpinned by the principles set-out in this report included in Appendix C.

Brian Shipley
Acting Deputy Director of Finance
February 2018

Appendix A – Savings Programme Workstream Allocation:



2018-19 Savings
Workstream Allocation

Appendix B – Budget Setting Timetable:



Budget Setting
Timetable 2018-2019

Appendix C – Draft Budgetary Allocations:



2018-19 Allocations
Table Draft.xlsx