

Public Board Meeting, 31 January 2013

Financial Plan for 2013/14

Presented by: **Anna Anderson, Director of Finance**

1. Introduction

The Integrated Business Plan v19/Long Term Financial Model (IBPv19/LTFM) was presented to and approved by the Board in July 2012 as part of the Foundation Trust (FT) application. This incorporated a financial plan for 2013/14 which was underpinned by a series of assumptions/outputs applicable at that time. These included the requirement for a surplus of £3.4m, 1% plus a recommended element of headroom, QIPP-related income reductions of £5.5m and a savings target of £14.9m. Also included was the impact of the proposed loan rescheduling and associated cash injection and an increase of £2m revenue spend on backlog maintenance and infrastructure. The planning outlook has change significantly since completion of the IBP and this paper summarises the main changes, potential impact and also sets out the actions required to finalise the plan so that it can be approved by the Board at its March meeting.

2. 2013/14 Financial Plan

The Trust is now unlikely to achieve the surplus target of £3.1m for 2012/13. A paper outlining a normalised forecast outturn of breakeven was presented to the Board in January and this forms the starting point for 2013/14.

3. Payment by Results (PbR)

The Draft PbR Guidance for 2013/14 builds on changes made in recent years and continues to be guided by four key principles:

- Incentivising quality and better outcomes for patients;
- Embedding efficiency and value for money with the tariff;
- Promoting integration and patient responsiveness;
- Expanding the scope of PbR.

The 2013/14 tariff is based on 2010/11 NHS reference costs with some activity remaining outside the scope of the mandatory tariff and subject to local price negotiation.

The table below sets out the efficiency requirement and tariff adjustment for 2013/14.

	%
Pay and price inflation	+2.7
Total national efficiency requirement	-4.0
Net price adjustment	-1.3
Increase in underlying costs	+0.2
Overall change in tariff prices	-1.1

The net price adjustment of 1.3% is expected to be used to inform discussions on the price of non-tariff services e.g. critical care, neurology, direct access pathology and any locally agreed tariffs e.g. chronic pulmonary obstructive disease (COPD).

Further changes to note are:

- Introduction of a mandated maternity pathway payment system;
- Setting of separate tariffs for diagnostic imaging that take place in an outpatient setting;
- Potential opportunities as a result of further expansion of the best practice tariff programme aimed at:
 - o Promoting better management of long term conditions to reduce the risk of avoidable hospital admissions;
 - o Delivering care in an appropriate setting, with further tariffs set to incentivise day case, outpatient treatments and same day emergency discharges;
 - o Improving the quality of endoscopy service by linking payment to accreditation.
- A number of previously non-mandatory tariffs have become mandatory e.g. the delivery of chemotherapy.

4. Activity & Income

The contract negotiation process started at the beginning of January and meetings are scheduled to cover the range of issues required in order to have a contract agreed in March. As part of this process the Trust is keen to ensure that a realistic and achievable plan is agreed with Hertfordshire Valleys (HV) CCG. Representatives of the CCG will be involved in the negotiation process, which will be supported by NHS Herts commissioning staff while the CCG is being established.

The table overleaf details the Trust's first draft expectations of 2013/14 activity and associated income and is underpinned by the following assumptions:

- Forecast outturn is the starting point
- Total net tariff reduction of -1.1%
- Population growth of 1%
- Increase of £0.8m in respect of full year impact of 12/13 changes in activity and recording changes
- Increase of £0.5m – 2013/14 notified changes in counting and coding
- Offset by £0.5m reduction in locally negotiated critical care tariff in agreement with NHS Hertfordshire.

In recognition of the continuing commissioner-led QIPP demand management initiatives, activity/income projections incorporate a £5.5m reduction in outpatient income, as described in the IBPv19/LTFM. Final activity levels will reflect agreed QIPP initiatives which must be realistic in order for final Trust and CCG plans to be closely aligned.

The impact of the draft Payment by Results tariff is currently being modelled internally, and by the PCT, to determine whether the net impact for the Trust will be -1.1%, as indicated in the guidance

Activity and income plans are summarised in the table overleaf:

2012/13		2013/14 per LTFM v19	2013/14	2013/14
Actual spells/ attendances	Activity	Estimated spells/attendances	Current forecast spells/attendances	Change from LTFM v19
39,445	Elective	37,061	40,188	3,127
47,769	Non-elective	48,223	48,848	625
412,814	Outpatient	380,066	376,555	-3,511
103,767	A&E	99,931	105,267	5,336
£m	Income	£m	£m	£m
49.4	Elective	46.9	49.8	2.9
84.8	Non-elective	83.0	85.0	2.0
53.8	Outpatient	49.5	48.7	-0.8
10.5	A&E	9.8	10.7	0.9
47.0	Non-PbR	46.3	46.7	0.4
-1.2	Penalties	0.0	-1.2	-1.2
244.4	Total Income	235.5	239.7	4.2

The 2012/13 forecast outturn forms the basis of the first draft proposed activity and income plan for 2013/14. The current forecast is £4.2m higher than the LTFM with the main increase being in elective activity.

5. Expenditure

Detailed work on setting budgets is underway as part of the overall business planning process and this exercise will confirm non-recurrent and full year effect changes which will need to be reflected in each of the Directorate/Divisions' budget proposal. Executive review of first draft business plans will commence at the end of January 2013. As the HV CCG contract will not be finalised until March there will be an ongoing iterative process to agree spending plans that match expected activity and income.

In addition to expected activity, expenditure plans will be underpinned by assumptions outlined in the national tariff guidance and other known issues as follows:

- Pay and price inflation – 2.7% and more specifically:
 - Pay award of 1%,
 - Incremental drift cost pressure of 0.5%,
 - Drugs inflation of 10%,
 - Non pay clinical supplies of 2.5%.
- Local cost pressures – as included in the current version of the LTFM for 2013/14 is £4m in relation to outsourcing of IT, equipment, CQUIN implementation, decontamination, QIPP agenda and premises maintenance.
- In addition as part of the review of Divisional/Directorate business plans further cost pressures may need to be considered.
- Delivery of required savings reductions.

6. Cost Improvement Programme (CIP)

6.1 Framework

In 2012/13, significant progress has been made in establishing a robust framework for delivery of CIPs supported by a comprehensive tracking tool, QPID. The key objective has been to engender a culture of challenge, performance improvement and ownership of delivery. A comprehensive operational training programme is currently being rolled out to establish CIPs as a central deliverable across the Trust not simply a pledge for potential savings.

6.2 2013/14 Target

The savings target for 2013/14, as per the IBP v19/LTFM, is £14.9m. The target is subject to change as the impact of failing to achieve the surplus target in 2012/13, and the delay to loan rescheduling, is currently under assessment. If nothing else were to change, this could represent an increase of c£4m to the target.

The target cannot be finalised until Divisional/Directorate Business Plans are reviewed and approved and a contract is agreed with the main commissioners. Difficult decisions will have to be made to ensure that the savings target is maintained at a level which is considered achievable internally and by external assessors, i.e. 5-6% of the cost base.

6.3 Progress

An initial review of the schemes identified for 2013/14 demonstrates that further focus is required in order to ensure that the target is achieved. Divisions need to be more engaged with the process of identifying schemes and a number of deadlines have passed without significant improvement being evident.

As at the 22nd January, QPID entries detail £5.4m of identified opportunities for 2013/14. Contributing toward that total is £2.2m which is the full year impact of schemes initiated part way through 2012/13. The full year impact of savings included in the recovery plan as presented to the Board in November is not yet included.

The composition of the £5.4m identified opportunities is:

- 8% - permanent pay costs
- 10% - agency staff costs
- 47% - non pay costs
- 35% - increased income

It is imperative that all senior managers recognise that the achievement of the CIP target is a central component to the delivery of a balanced financial position at both Divisional and Trust level. In addition to further identification of plans, Divisions/Directorates need to carry out a detailed validation of what has been entered into QPID, to ensure all their savings plans are recorded, plans developed and detailed costings completed. This will enable a financial risk rating of 'Amber'; with the aim that all plans have a 'Green' rating by 1st April 2013 and identify the cost centres from which savings will be removed.

7. Surplus

The target surplus for 2013/14, as detailed in the IBP v19/LTFM, is £3.4m. This is currently under review in a bid to produce a plan that triangulates Monitor requirements, of 1% surplus, with an achievable budget, sufficient cash and liquidity and the ability to support essential investments.

8. Capital

Funding for the capital programme is limited to depreciation of £8m plus the £1m of revenue surplus earmarked for backlog maintenance. Final decisions on how capital funds are used will be informed by the business planning process and corporate assessment of priorities.

- £5.0m - backlog maintenance (including £1m sourced from revenue funds);
- £1.3m – 2012/13 over-commitment;
- £1.0m – un-validated potential replacement cost of surgical instruments to facilitate outsourcing of decontamination services;
- £0.7m - essential medical equipment and IT replacement costs;
- £1.0m – prioritised spending based on Divisional/Directorate Business Plans.

9. Cash and loan rescheduling

The Board is aware that 2011/12 and 2012/13 financial plans, as agreed with the SHA, included refinancing of the Trust's loans. The successful outcome is linked with the Trust's Foundation Trust approval which is now delayed. This means the Trust's 2012/13 closing cash position will be £10.6m less than expected and if the planned £3.1m surplus is not achieved the shortfall will be £14.6m. The position has been discussed with the SHA and the plan is to apply for a new Department of Health (DH) loan. The Finance Committee discussed the proposed options in detail, at its January 2013 meeting, and agreed arrangements necessary to manage the 2012/13 position, which included the temporary use of road funds. The Finance Committee also supported the proposal to apply to the DH for a loan. The loan application will be submitted in March when the Trust's financial plans for 2013/14 have been completed. If successful this will provide the additional cash needed and allow for longer term planning.

10. Actions Required

Further work needs to be completed before a robust budget can be presented to the Board for approval in March. More specifically, the following actions are required:

- Progress the development of Divisional Business Plans, budgets and savings;
- Negotiate a realistic contract with HV CCG and work with them to manage activity levels;
- Finalise a loan application to submit to the DH in March;
- Continue to develop the financial strategy to balance savings, investment and liquidity and meet the requirements of Monitor to ensure long term clinical and financial viability.

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