

Report to: Trust Board –28th March 2013

Enclosure 7

Title	2013/14 Budget Proposal
Sponsoring Executive Director	Neil Nisbet, Finance Director
Author(s)	As above
Purpose	
Previously considered by	Finance Committee 26 th March 2013

Executive Summary

The 2013/14 financial year will be challenging for the Trust. Reductions in Income combined with a requirement to absorb internally all cost inflation in respect of Pay and Non Pay expenditures, result in the Trust having to deliver a significant Cost Improvement Programme in order to achieve the statutory duty to achieve an Income and Expenditure balanced position at the end of the year.

This paper provides a description of the 2013/14 budget, and describes the construction of the:

- Income budgets, in particular describing the changes that have led to the Income budget for the year,
- Pay Expenditure – the assumptions adopted in the creation of the Pay budgets,
- Non Pay Expenditure – the assumptions adopted in the development of the Non Pay Budgets, and
- Cost Improvement Programme – the activities being taken forward to deliver Cost reductions in the year.

The paper then progresses to consider how the Plan progresses on a monthly basis through the year and then concludes by considering the impact upon the Medium Term Financial Plan of the Trust.

Related SATH Objectives	SATH Sub-Objectives
Financial Strength: We will develop and deliver robust services that generate surpluses to reinvest in quality	Develop and grow services which make a positive financial contribution. Maximise the productivity and efficiency of our services.

Risk and Assurance Issues	
Equality and Diversity Issues	
Legal and Regulatory Issues	

Action required by the Trust Board

To **APPROVE** the budget for 2013/14.

TRUST BOARD - Thursday 28th March 2013

2013/14 Budget – Key Messages

Overall Income and Expenditure Position

- *Trust to deliver surplus in the year amounting to £1.201 million.*
- *Required to deliver a Cost Improvement Programme that generates recurrent cost savings.*
- *The Cost Improvement Programme represents 4.0% of expenditure.*
- *The Trust carries forward into the 2014/15 year a balanced financial position.*

Income

- *Total Income for the year - £303,427 million.*
- *Income has grown in the year when compared with the Budget approved for the 2012/13 year by £2.55 million, principally as a consequence of increased Emergency activity. Income from Elective activity has reduced significantly in the 2012/13 year.*
- *Application of the Negative Tariff reduces the Trust Income by £3.25 million in 2013/14.*
- *The Trust has identified Income growth for the 2013/14 year with local Commissioners amounting to £6,939 million although this level is to be agreed.*
- *No agreement exists to provide Transitional support in the 2013/14 year.*
- *Trust plan assumes that CCG QIPP savings of £6.3 million are not achieved in the 2013/14 year.*

Expenditure budgets and Reserves

- *Pay Budgets set at £208.0 million, before the achievement of cost improvement Programme savings.*
- *Non Pay set at £91.499 million before achievement of CIP.*
- *Pay assumed to increase in the 2013/14 year by 2 per cent, Non pay by 4.5 per cent.*

Cost Improvement Programme

- *Cost Improvement Programme identified to deliver savings in year of £11.875 million.*
- *Revised management arrangements established to deliver Programme, overseen by a Programme Board and driven through the Performance management of the operational arm of the Trust.*

Risks and Contingencies

- *A sizeable gap presently exists between the Trust and Local Commissioners in respect of the value of Contract Income for the 2013/14 year. In addition confusion presently exists in respect of Specialised Services Income.*
- *The Trust is presently failing to deliver against national targets. Failure in the 2013/14 year will attract financial penalties. No contingency funds exist to cover financial penalties.*
- *No contingency reserves exist to cover the failure to deliver the 2013/14 CIP Programme.*

Medium Term Financial Plan

- *The Trust is required to deliver efficiency savings in each of the next 5 years at a rate of 4 per cent.*
- *Achievement of the CIP Plan combined with demographic growth at a level of 1 per cent results in the Trust delivering surpluses throughout the 2013/14 to 2017/18 period.*
- *The Trust has not presently incorporated Recurrent QIPP savings within the medium term financial plan.*

*Neil Nisbet
Finance Director
20th March 2013*

2013/14 BUDGET PROPOSAL

TRUST BOARD – 28TH March 2013

1. Introduction

The 2013/14 financial year is challenging for the Trust. Reductions in Income combined with a requirement to absorb internally all cost inflation in respect of Pay and Non Pay expenditures, result in the Trust having to deliver a significant Cost Improvement Programme in order to achieve the statutory duty to achieve an Income and Expenditure balanced position at the end of the year.

In this context this paper provides a description of the 2013/14 budget, and describes the construction of the:

- Income budgets, in particular describing the changes that have led to the Income budget for the year,
- Pay Expenditure – the assumptions adopted in the creation of the Pay budgets,
- Non Pay Expenditure – the assumptions adopted in the development of the Non Pay Budgets, and
- Cost Improvement Programme – the activities being taken forward to deliver Cost reductions in the year.

The paper then progresses to consider how the Plan progresses on a monthly basis through the year and then concludes by considering the impact upon the Medium Term Financial Plan of the Trust.

2. Overall Income and Expenditure Budget.

The Income and Expenditure budget for the 2013/14 year is presented in the table below

	Recurrent £000's	Non Recurrent £000's	Total £000's	Forecast Outturn 2012/13	% change
Income	303,427	-	303,427	302,378	+0.35
Expenditure					
Pay	(207,745)	(255)	(208,000)	(203,024)	+2.45
Non Pay	(91,499)	-	(91,499)	(86,530)	+5.74
Reserves				1,082	
Cost Improvement Programme	15,875	(4,000)	11,875		
Total Expenditure	(287,369)	(255)	(287,624)	(288,476)	(0.29)
Earnings before Interest, Tax, Dividends and Amortisation (EBITDA)	20,058	(4,255)	15,803	13,902	
Dividends and Amortisation	(15,202)	600	(14,602)	(13,902)	
Surplus / (deficit)	4,856	(3,655)	1,201	-	

As can be seen the Income and Expenditure budgets as constructed enable the Trust to take forward into the 2014/15 year a surplus of £4,856 million. The existence in year of non recurrent costs and slippage on CIP schemes reduces the surplus in the year to £1.2 million.

Key messages – Overall Income and Expenditure Position	
-	Trust to deliver surplus in the year amounting to £1.201 million
-	Required to deliver a Cost Improvement Programme that generates recurrent cost savings amounting to £11.875 million,
-	The Cost Improvement Programme represents 4.0% of expenditure.
-	The Trust carries forward into the 2014/15 year a balanced financial position.

2.1 Income Budget

The changes within the Income budget are presented in the table below:

	Recurrent £000's	Non recurrent £000's	Total £000's
2012/13 Approved Baseline Budget	297,194	4,900	302,094
2012/13 Income growth / reduction	2,544	(2,260)	284
2012/13 Forecast Outturn	299,738	2,640	302,378
2013/14 Financial year			
Baseline Position	299,738		299,738
Negative Tariff	(3,250)		(3,250)
Local Commissioners QIPP	(6,300)		(6,300)
	(9,550)		(9,550)
Income Increases			
Best Practice Tariff	894		894
Full year effect of Developments 2012/13	1,239		1,239
Implement Audit Findings	1,000		1,000
Elderly Frail and Early Supported Discharge	858		858
Other	158		158
Demographic growth – 1.0%	2,790		2,790
	6,939		6,939
Local Commissioners QIPP schemes reversed	6,300		6,300
Income Budget 2012/13	303,427		303,427

2.1.1 Baseline Position

The 2012/13 Budgeted Baseline Income position for the Trust differs from the contracted position as agreed with the two local Commissioners, in two key areas, notably:

- Local QIPP – given the absence of detail underpinning the QIPP savings schemes, it was decided to disregard the savings target from the planned position for the year. The value of the QIPP schemes amounted to £5.288 million; and
- Demography - the local commissioners excluded the impact of demographic growth in presenting their contract offer. The impact of demographic growth was estimated to increase Trust Income by £3.021 million.

The forecast Outturn has been computed jointly by the Trust and HCS the commissioning support to the local CCG's. As the table below shows the forecast Outturn (based upon the period November 2011 to October 2012) is calculated to exceed the Trust Budgeted level of Income for the year by £2.55 million (after allowing for the failure to deliver QIPP and the effect of demographic growth in 2012/13).

	Shropshire County £000's	Telford and Wrekin £000's	Powys LHB £000's	Other CCG'S £000'S	Specialised Services £000's	Other £000's	Total £000's
Elective Day Case	(430)	236	(560)	33	(16)		(737)
Elective Inpatient	(1,246)	(606)	(709)	(132)	42		(2,651)
Emergency and Maternity Services	1,921	1,099	409	105	(59)		3,475
Outpatients	1,533	282	192	35			2,042
Accident and Emergency	50	261		13			324
Other	256	(1,099)	(123)	871	914	(726)	93
Total	2,084	173	(791)	925	881	(726)	2,546

The forecast Outturn is then adjusted by the following items:

2.1.2 Income Reductions

- Negative Tariff – The Trust has in collaboration with the Local Commissioners computed the impact of the 2012/13 National Tariff upon the forecast Recurrent Outturn Activity. Doing so reduces the level of Income to be payable to the Trust by £3.25 million.
- Local Commissioner QIPP Schemes 2013/14 – The two local Commissioners have shared their expectations in respect of QIPP savings in the 2013/14. The level of savings for Shropshire County CCG amount to £3.8 million. Telford and Wrekin CCG have assumed savings of £2.5 million.

2.1.3 Income Increases

- Best Practice Tariff – The Trust has notified the two Local Commissioners of the intention to claim Best Practice Tariff for Stroke Care from the 1st of April 2013. Doing so increases Income to the Trust by £894,000.
- Full year effect of developments – The Trust has commenced with a number of services in the year. The full year effect of these services amount to £1.239 million

Service	£000's
Colposcopy	78
Fertility Treatment	156
Low vision aids	44
Middle ear treatment	344
Any Qualified Provider – Audiology services	650
Total	1,239

- Implementation of Audit Findings – A comprehensive review of the practices followed by the Clinical Coding Team at Princess Royal Hospital has identified shortcomings in the coding of clinical activity. The need to implement dedicated software supported by proactive audit of coded activity are the principal recommendations from the review.
- Elderly frail and early supported discharge – The local health economy has recognised the need to strengthen clinical services to enable elderly frail patients to be discharged from hospital services more promptly and from thereafter actively managed within a community setting. Funding is to be made available to the Trust. The level of financial support is to be confirmed however based upon discussions with commissioners it is estimated that the sum to be paid to the Trust will amount to £858,000.
- Demographic growth – Using predictions presented to the Trust by local CCG's, Trust income is assumed to increase in 2013/14 by £2.79 million, equivalent to a growth of 1%.
- Local QIPP schemes – As stated in the above local commissioners have proposed that the existence of their local QIPP schemes will reduce Income to the Trust by £6.3 million. Little detail exists to support the schemes and as such it appears unlikely that such a level of Income reduction will occur in the 2013/14 year. That said, because of a greater level of Primary Care Clinical engagement it appears prudent to assume that the historic levels of Income growth received by the Trust will be curtailed in the 2013/14 year. For this reason growth from demography has been set at 0.5%.

2.1.4 Other observations

- Contract agreement – The above provides a description of the position adopted by the Trust in its negotiations with the two local Commissioners for the 2013/14 contract. The CCG's have presented a substantially lower contract offer to the Trust.

	Trust view of contract value for 2013/14 £000's	View presented by the CCGs £000's	Variance £000's
Telford and Wrekin CCG	97,797	92,809	4,988
Shropshire County CCG	138,742	132,665	6,077

- CQUIN – The Trust Income plan assumes the achievement of CQUIN Targets in full during the 2013/14 year. The value of CQUIN Income for 2013/14 amounts to £5.5 million.
- Penalties – No allowance has been made for the Income consequences arising from the failure to achieve national Targets and any local Remedial Action Plans. The ongoing difficulties experienced by the Trust in delivering the Accident and Emergency and Referral to Treatment Targets would indicate that the risk of penalties being imposed upon the Trust is significant.
- Transitional Funds – Discussions with the Area Team of the National Commissioning Board have suggested that it is appropriate for the Trust to receive transitional funding support in the 2013/14 year. Local discussions, however have indicated that both CCG's are unwilling to provide transitional funding to the Trust in the 2013/14 year.
- Readmissions funds – The 2013/14 operating framework requires both local Commissioners to agree with the Trust the use of funds relating to the adjustment made against the Trusts

Income in respect of readmitted activity. The level of adjustment amounts to £2.5 million. Neither CCG has provided detail in respect of the use of these funds in the 2013/14 year.

- Emergency Threshold – As with readmissions funds, local CCG's are required to agree with the Trust the use of funds retained by the CCG's in respect of Emergency activity beyond the jointly agreed Emergency Threshold. Neither CCG has provided detail in respect of the use of these funds in the 2013/14 year. The level of funding is circa £700,000.
- Specialised Services – From the 1st of April 2013 the level of activity purchased as "specialised services" is to increase with the expectation that the level of services commissioned locally will correspondingly reduce. At present the level of allocations available to the local CCG's and the Specialised Services function is confused. Given this uncertainty the discussions with local Commissioners have not sought to recognise the impact of the change.

Key Messages - Income	
-	Total Income for the year - £303,427 million
-	Income has grown in the year when compared with the Budget approved for the 2012/13 year by £2.55 million, principally as a consequence of increased Emergency activity. Income from Elective activity has reduced significantly in the 2012/13 year.
-	Application of the Negative Tariff reduces the Trust Income by £3.25 million in 2013/14
-	The Trust has identified Income growth for the 2013/14 year with local Commissioners amounting to £6,939 million although this level is to be agreed.
-	No agreement exists to provide Transitional support in the 2013/14 year.
-	Trust plan assumes that CCG QIPP savings of £6.3 million are not achieved in the 2013/14 year.

2.2 Expenditure Budgets

2.2.1 Pay Expenditure

The baseline budget for Pay spending in the 2013/14 year has been set, before the application of a cost Improvement Programme, at £208.0 million. The table below provides a description of how this sum compares with the budgeted level set for the 2012/13 year.

	Recurrent £000's	Non Recurrent £000's	Total £000's
Recurrent Baseline 2012/13	190,300		190,300
In year movement			
Pay CIP Unachieved	2,404		2,404
New post s in 2013/14	3,760		3,760
Reopening of Beds	3,249		3,249
Revised Nurse staffing levels	914		914
Post Budget adjustments	1,346		1,346
New Developments	1,043		1,043
	203,012	-	203,012
Pay Pressures 2013/14	4,060		4,060
Nursing Cover CIP Delay		255	255
Cost Pressures associated with New developments in 2013/14	673		673
Pay Budget (before CIP)	207,745	255	208,000

- Pay CIP Unachieved

The level of CIP savings achieved in the 2012/13 year when compared with the planned level of savings when setting the Budget for the 2012/13 year is presented in the table below.

Recurrent Pay CIP	Recurrent Achieved CIP 2012/13	Budget approved CIP 2012/13
Medical Consultants	88	1000
WLI	1000	1000
Nursing	1747	900
Bed Reduction	0	875
Administration and Outpatients	0	142
Pathology services	0	
Allied Health Professionals	0	117
On Call Payments	0	500
Estates and corporate services	400	400
Temporary Medical staff	1212	1212
Temporary staff (exc Medical staff)		3088
Overtime savings	0	
MARS savings	128	
Radiology service	55	
Theatres	0	167
Pay Reserves	3020	1300
Inflation Reserve savings	647	
Total	8297	10701
CIP Unachieved	2404	

- New Posts in 2013/14

In re- setting the budget establishment for the Trust, based upon the January 2012 pay spend, for the 2013/14 financial year it was recognised that the budgeted establishment would need to be adjusted to accommodate posts that had not appeared in the January pay spending figure. These additional posts however were to be accommodated through further disestablishment of posts as vacant posts emerged during the year. The inability to approve the disestablishment of vacant posts has resulted in a recurrent cost pressure of £3.8 million.

- Reopening of beds

In the 2011/12 year beds were closed as part of the Trust CIP programme. In year operational pressures has meant that it has been necessary to re-establish the budget that had been released from that bed closure programme. The level of funding re-established amounts to £3.2 million.

- Nursing staffing levels

In agreeing to introduce revised shift patterns across wards and also to reduce the supernumerary element of ward nursing staff time as part of a Nursing CIP, discussions were held with ward managers to determine the level of staffing required at ward level. This introduced a cost pressure of £914,000.

- New developments and Post Budget adjustments

Since the beginning of the year a series of Post budget adjustments have been effected. These changes have funded:

- Additional nursing posts in support of the reconfiguration of clinical services between the PRH and RSH sites,
- Increased resources to support the improvements within the colorectal service,
- Strengthening the Emergency Care service through the employment of increased senior medical support; and
- Improving the corporate infrastructure, through the resourcing of enhanced capacity within the Trust finance and Information functions and Operational Management.

These new developments and Post budget adjustments amount to £2.4 million.

- Pay Pressures 2013/14

The Trust has established a reserve to cover the cost of Pay awards and Incremental progression. This budget has been set at a rate of 2 per cent of annual recurrent pay and amounts to £4.06 million.

- Developments 2013/14

The Trust has assumed agreement by local CCG's to a number of developments operational in the 2013/14 year. In order to take forward these developments it will be necessary for costs to be incurred. These developments being to support the delivery of:

- Colposcopy services,
- Fertility treatment,
- Support for Frail and complex patients,
- Early supported discharge; and
- The achievement of best practice for Paediatric mini admissions.

In setting the Pay budget, the Trust will continue to hold reserves to support costs associated with:

- Waiting List Initiatives – sum £1.2 million; and
- Agency premium – sum £3.3 million.

As in the 2012/13 year these funds will be released to budget managers on a non recurrent basis through the year, based upon supporting plans describing fully the impact upon service performance as a result of the receipt of these monies.

2.2.2 Non Pay Budgets

The baseline budget for Non Pay spending in the 2013/14 year has been set, before the application of a cost Improvement Programme, at £91.499 million. The table below provides a description of how this sum compares with the budgeted level set for the 2012/13 year.

	Recurrent £000's	Non Recurrent £000's	Total £000's
Recurrent Baseline 2012/13	91,283		91,283
In year movement			
Non Pay CIP over achieved	(6,176)		(6,176)
Non Pay overspending	2,196		2,196
	87,283	-	87,283
Non Pay Pressures 2013/14	3,928		3,928
Cost Pressures associated with New developments in 2013/14	289		289
Non Pay Budget (before CIP)	91,499		91,499

- Non Pay CIP Unachieved

The level of CIP savings achieved in the 2012/13 year when compared with the planned level of savings when setting the Budget for the 2012/13 year is presented in the table below.

Recurrent Non Pay CIP	Recurrent Achieved CIP 2012/13 £000'S	Budget Approved CIP 2012/13 £000'S
Procurement	989	1000
Diagnostics	0	150
CIP Centre schemes	741	1080
Non Pay reserves	1325	1325
Nuffield	313	
Consultancy usage	729	
Radiology	55	
Inflation savings	5579	
Total	9731	3555
CIP over achievement	-6176	

As can be seen the Trust exceeded the Budgeted CIP Target by £6.176 million.

- Non Pay Budget overspend

During the course of the year the Trust revisited budgetary practices so as to ensure that "pass through" charges were presented as Gross Income and Expenditure items. The value of these adjustments amounted to circa £800,000. In addition the Trust has seen overspending across Clinical and Corporate service budgets amounting to £1.396 million.

- Non Pay Pressures 2013/14

The Trust has established a reserve to Non Pay inflationary pressures. This budget has been set at a rate of 4.5 per cent of annual recurrent non pay and amounts to £3.93 million.

Key Messages - Expenditure budgets and Reserves

- Pay Budgets set at £208.0 million, before the achievement of cost improvement Programme savings.
- Non Pay set at £91.499 million before achievement of CIP.
- Pay assumed to increase in the 2013/14 year by 2 per cent, Non pay by 4.5 per cent.

3. Cost Improvement Programme

The Trust has constructed a cost improvement programme for delivery in the 2013/14 year with the requirement to deliver savings amounting to £11.875 million as presented in the table below.

	2013/14 savings £000's	Recurrent £000's	Slippage £000's
Vacancy Controls	2,000	4,000	(2,000)
Headcount reduction	2,000	4,000	(2,000)
Cease use of Nuffield Hospital	700	700	-
Waiting List Initiatives	400	400	-
Medical Agency Spending	400	400	-
Estates and Corporate Services	1,150	1,150	-
Bed reclassification	750	750	-
Pathology reconfiguration	300	300	-
Gain share arrangements – Pharmacy	200	200	-
Procurement	1,000	1,000	-
Nursing Cover arrangements	1,300	1300	-
Head and Neck Centre Budget reduction	100	100	-
Women and Children's Centre Budget reduction	80	80	-
Surgery Centre Budget reduction	520	520	-
MSK Centre Budget reduction	200	200	-
Medicine Centre Budget reduction	200	200	-
Ophthalmology Centre Budget reduction	300	300	-
Oncology Centre Budget reduction	200	200	-
Radiology Centre Budget reduction	75	75	-
	11,875	15,875	(4,000)

Revised management arrangements have been established to secure the release of these savings. These arrangements incorporate the establishment of a Cost Improvement Programme Board chaired by the Finance Director. Membership of the group comprises:

- Chief Operating Officer
- Assistant Chief Officers
- Director of Workforce,
- Deputy Finance Director; and
- Senior Centre Finance Officers.

This group is scheduled to review progress on a monthly basis.

In addition the performance of Cost Improvement projects is incorporated into revised performance management arrangements practised within the Operational arm of the Trust.

3.1 Status of the Cost Improvement Programme

Confidence in the delivery of an ambitious Cost Improvement Programme depends upon the stage of implementation of each element of the Programme. The table below provides a description of the "status" of each element and a corresponding Risk Rating.

	Director / Centre Chief Lead	Status	Savings "in year" £000s	Risk Rating
2012/13 schemes				
Vacancy Controls	Chief Operating Officer and Assistant COO 's.	Budgets amended to incorporate 2 per cent vacancy savings. Achievement of the Target requires a reduction in sickness levels, reduction of over established posts and	2000	Amber
Headcount reduction	Chief Operating Officer and Assistant COO 's.	Budgeted Targets issued to divisions. Recruitment Panels established in each centre.	2000	Amber
Cease use of Nuffield Hospital	Medical Director/ Assistant COO (scheduled Care)	Waiting List Initiative monies centralised. Approval Panel established in April.	700	Amber
Waiting List Initiative Payments	Medical Director/ Assistant COO (scheduled Care)	Waiting List Initiative monies centralised. Approval Panel established in April.	400	Amber
Medical Agency spend	Medical Director	Staff Flow system now established in the Trust	400	Amber
Estates and Corporate Services	Finance Director	Plans established – Review meetings established on a monthly basis	1,150	Amber
Bed Reclassification	Chief Operating Officer	Review of Bed Base completed. Realignment between Medical and Surgical Centres being determined.	750	Red
Pathology Reconfiguration	Director of Strategy	Approval for reconfiguration approved at March Board	300	Amber
Gain share arrangements - Pharmacy	Director of Finance	Schemes identified – agreement to be reached with Local Commissioners / NCB	200	Red
Nursing Cover arrangements	Chief Operating Officer and Assistant COO 's.	Budgets amended to incorporate 20 per cent cover. Achievement of the Target requires a reduction in sickness levels, reduction of over established posts and enhanced Bank arrangements.	1,300	Red
Centre Budgets	Chief Operating Officer and Assistant COO 's.	Budgets amended to identify Centre savings. Delivery through Operational Performance review groups.	1,675	Amber

Key Messages – Cost Improvement Programme

- Cost Improvement Programme identified to deliver savings in year of £11.875 million.
- Revised management arrangements established to deliver Programme, overseen by a Programme Board and driven through the Performance management of the Operational arm of the Trust.

3.2 Risks associated with the 2013/14 Plan

Income – The Trust does not have an agreed contract with either of the Local Commissioners and a sizeable gap exists between the Trust and commissioner view of the contract value for the 2013/14 year.

Income – Specialised Services – New arrangements transferring greater responsibility for commissioning from the local CCG's to the National Commissioning Board has led to confusion over the level of availability of funds to purchase specialised services activity. Immediately this is resulting in a lack of clarity in respect of the Income base for these services from the 1st of April. During the year, potential for contractual disputes is likely.

Local QIPP – Local Commissioners have indicated that local QIPP schemes will reduce Income by 6.3million; little detail exists in respect of the activities being introduced to reduce the Income.

Performance Penalties – Commissioners are being required to actively manage contracts in the 2013/14 and enforce Financial Penalties where Provider Trusts fail to achieve national contract Targets. The Trust is presently failing to achieve both the Accident and Emergency and Referral to Treatment Targets. No reserves exist to cover the financial consequence of Performance penalties.

Commissioning intention of Powys Health Board – No information has been provided to the Trust by the Trust that details the commissioning intentions of the Powys Local Health Board.

Pay Spending – As described in the above the Trust is required to substantially reduce spending. Doing so is dependant upon the delivery of CIP schemes and controlling expenditures in respect of Waiting List Initiatives and Agency Costs. No contingency reserve exists to cover this risk.

Non pay spending – As with Pay spending the underlying level of Non Pay spending (excluding Inflation and growth in High Cost Drugs) is expected to reduce in the year as a consequence of the delivery of Cost Improvement Targets. No contingency reserve exists to cover this risk.

Key Messages - Risks and Contingencies
<ul style="list-style-type: none">- A sizeable gap presently exists between the Trust and Local Commissioners in respect of the value of Contract Income for the 2013/14 year. In addition confusion presently exists in respect of Specialised services Income.- The Trust is presently failing to deliver against national targets. Failure in the 2013/14 year will attract financial penalties. No contingency funds exist to cover financial penalties.- No contingency reserves exist to cover the failure to deliver the 2013/14 CIP Programme.

4. Impact upon the Medium Term Financial Plan

In setting the medium term financial plan for the Trust, a series of assumptions have been applied, notably:

- Negative Tariff – Applies across the years 2012/13 to 2016/17. In the years 2013/14 to 2016/17 at the rate of 1.3 per cent.
- Demographic growth – Increases Income each year by 1.0 per cent.
- Pay Costs – Rise in each year by 2 per cent; and
- Non Pay costs – Rise in each year by 4.5 per cent.

Applying these assumptions produces the following:

	Recurrent £million's	Non Recurrent £million's	Total £million's	New Recurrent CIP £million's	Savings achieved " in year" £millions	% "in year" CIP as compared with expenditure
2013/14	4.8	(3.6)	1.0	15.9	11.9	4.1%
2014/15	3.4	-	3.4	11.2	15.2	5.1%
2015/16	4.6	-	4.6	11.1	11.1	4.0%
2016/17	5.8	-	5.8	11.0	11.0	4.0%
2017/18	6.8	-	6.8	10.8	10.8	4.0%

Key Messages – Medium Term Financial Plan

- The Trust is required to deliver efficiency savings in each of the next 5 years at a rate of 4 per cent
- Achievement of the CIP Plan combined with demographic growth at a level of 1 per cent results in the Trust delivering surpluses throughout the 2013/14 to 2017/18 period.
- The Trust has not presently incorporated Recurrent QIPP savings within the medium term financial plan.

Annex 1 – Monthly Income and Expenditure Position 2012/13

	April	May	June	July	August	September	October	November	December	January	February	March	Total
Income - core contract	23670	24536	25646	25418	24701	25413	25423	25444	24847	24753	24269	26517	300637
Demographic growth	36	72	107	143	179	215	250	286	322	358	393	429	2790
Total Income	23705	24607	25754	25561	24880	25628	25673	25731	25169	25111	24662	26946	303427
Pay	-16918	-16918	-16918	-16918	-16918	-16918	-16918	-16918	-16918	-16918	-16918	-16918	-203012
2012/13 Increments fye	-68	-68	-68	-68	-68	-68	-68	-68	-68	-68	-68	-68	-820
Pay inCREMENTS	-15	-31	-46	-62	-77	-92	-108	-123	-138	-154	-169	-185	-1200
Pay Inflation	-170	-170	-170	-170	-170	-170	-170	-170	-170	-170	-170	-170	-2040
Nursing Cover CIP Delay	-85	-85	-85										-255
New Developments	-56	-56	-56	-56	-56	-56	-56	-56	-56	-56	-56	-56	-673
	-17312	-17328	-17343	-17274	-17289	-17304	-17320	-17335	-17351	-17366	-17381	-17397	-208000
CIP													
Vacancy Controls	26	51	77	103	128	154	179	205	231	256	282	308	2000
Headcount reduction	96	109	122	135	147	160	173	186	199	211	224	237	2000
Waiting List Initiatives							67	67	67	67	67	67	400
Medical Agency spending	33	33	33	33	33	33	33	33	33	33	33	33	400
Estates and Corporate services	67	67	67	67	67	67	67	67	67	67	67	67	800
Bed reclassification				83	83	83	83	83	83	83	83	83	750
Pathology reclassification									75	75	75	75	300
Nursing Cover	108	108	108	108	108	108	108	108	108	108	108	108	1300
Centre schemes	70	70	70	70	79	79	79	79	79	79	79	79	915
	401	438	477	600	646	685	790	829	943	980	1019	1058	
Total Pay	-16912	-16890	-16866	-16674	-16643	-16619	-16530	-16507	-16408	-16386	-16362	-16339	-199135
Non Pay	-7211	-7211	-7211	-7211	-7211	-7211	-7211	-7211	-7211	-7211	-7211	-7211	-86533
seasonal adjustment - utilities	-150								-150	-150	-150	-150	-750
Non Pay inflation	-50	-101	-151	-201	-252	-302	-353	-403	-453	-504	-554	-604	-3928
New developments	-24	-24	-24	-24	-24	-24	-24	-24	-24	-24	-24	-24	-289
	-7436	-7336	-7386	-7437	-7487	-7537	-7588	-7638	-7838	-7889	-7939	-7989	-91500
CIP													
Cease use of Nuffield	58	58	58	58	58	58	58	58	58	58	58	58	700
Estates and Corporate services	29	29	29	29	29	29	29	29	29	29	29	29	350
Gain share Pharmacy	17	17	17	17	17	17	17	17	17	17	17	17	200
Procurement	13	26	38	51	64	77	90	103	115	128	141	154	1000
Centre schemes	63	63	63	63	63	63	63	63	63	63	63	63	760
Total Non pay	-7255	-7143	-7180	-7218	-7255	-7293	-7330	-7368	-7556	-7593	-7631	-7668	-88490
EBITDA	-462	575	1707	1669	982	1716	1812	1856	1206	1132	669	2939	15802
Finance charges	-1159	-1159	-1159	-1159	-1159	-1159	-1159	-1159	-1159	-1159	-1159	-1159	-13902
Effect of Reconfiguration												-700	-700
Surplus /deficit	-1620	-584	549	511	-177	557	654	697	47	-27	-489	1081	1200
Cumulative position	-1620	-2204	-1655	-1144	-1321	-764	-110	588	635	608	119	1200	

Annex 2 – Income and Expenditure Position 2012/13 to 2016/17

Income and Expenditure	2012/13			2013/14			2014/15			2015/16			2016/17		
	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Income (1) and (2)	300.6	1.8	302.4	300.2		300.2	296.4		296.4	294.3		294.3	292.2		292.2
Pay	-203.0	0.0	-203.0	-207.1	-0.2	-207.3	-211.2		-211.2	-215.4		-215.4	-219.7		-219.7
Non Pay	-87.3	0.8	-86.5	-91.2		-91.2	-95.4		-95.4	-99.6		-99.6	-104.1		-104.1
Finance Costs	-13.9		-13.9	-13.9		-13.9	-13.9		-13.9	-13.9		-13.9	-13.9		-13.9
Reserves	0.0	1.0	1.0	0.0	0.0	0.0	0.0		0.0	0.0		0.0	0.0		0.0
Expenditure (3)	-304.2	1.8	-302.4	-312.2	-0.2	-312.4	-320.5	0.0	-320.5	-329.0	0.0	-329.0	-337.8	0.0	-337.8
Deficit before CIP	-3.6	3.6	0.0	-12.0	-0.2	-12.2	-24.1	0.0	-24.1	-34.7	0.0	-34.7	-45.5	0.0	-45.5
CIP															
CIP PROGRAMME 2017/18 - 4.5 per cent						0.0			0.0			0.0			0.0
CIP PROGRAMME 2016/17 - 4.5 per cent			0.0			0.0			0.0			0.0	11.0		11.0
CIP PROGRAMME 2015/16 - 4.5 per cent			0.0			0.0			0.0	11.2		11.2	11.5		11.5
CIP PROGRAMME 2014/15 - 4.5 per cent			0.0			0.0		11.3	11.3	11.6		11.6	11.9		11.9
CIP PROGRAMME 2013/14 - 6 per cent			0.0	15.9	-4.0	11.9	16.3		16.3	16.8		16.8	17.2		17.2
Contract Negotiations Green Risk - Income				3.2		3.2	3.2		3.2	3.1		3.1	3.1		3.1
Contract Negotiations Green Risk - Expenditure				-1.0		-1.0	-1.0		-1.0	-1.1		-1.1	-1.1		-1.1
QIPP Savings			0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
QIPP Savings - Transitional support						0.0			0.0			0.0			0.0
Surplus after CIP	-3.6	3.6	0.0	6.1	-4.2	1.9	5.7	0.0	5.7	6.9	0.0	6.9	8.1	0.0	8.1
Revenue Consequence of Service Reconfiguration			0.0	-1.3	0.7	-0.7	-2.3		-2.3	-2.3		-2.3	-2.3		-2.3
Surplus after Service Improvements	-3.6	3.6	0.0	4.8	-3.6	1.2	3.4	0.0	3.4	4.6	0.0	4.6	5.8	0.0	5.8

Inflation Assumptions

Pay	-194.8	1.0%	-1.9	-203.0	2.0%	-4.1	-207.1	2.0%	-4.1	-211.2	2.0%	-4.2	-215.4	2.0%	-4.3
Non Pay	-84.9	4.0%	-3.4	-87.3	4.5%	-3.9	-91.2	4.5%	-4.1	-95.4	4.5%	-4.3	-99.6	4.5%	-4.5
Finance Costs	-14.4	0.0%	0.0	-13.9	0.0%	0.0	-13.9	0.0%	0.0	-13.9	0.0%	0.0	-13.9	0.0%	0.0
	-294.1		-5.3	-304.2		-8.0	-312.2		-8.2	-320.5		-8.5	-329.0		-8.8
			1.82%			2.63%			2.64%			2.66%			2.67%

