

<b>Reporting to:</b>	<b>Trust Board - 29<sup>th</sup> May 2014</b>
<b>Title</b>	Financial Strategy 2014/15
<b>Sponsoring Director</b>	Neil Nisbet - Finance Director
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<b>Previously considered by</b>	Finance Committee - 27 <sup>th</sup> May 2014
<b>Executive Summary</b>	<p>At the March 2014 Trust Board a draft budget was presented for approval by the Board. Due to concerns over the potential financial consequences of an impending arbitration hearing it was concluded that approval of the 2014/15 budget should be deferred.</p> <p>This paper provides:</p> <ul style="list-style-type: none"> <li>• an updated budget, which now reflects the outcome of the arbitration hearing.</li> </ul>
<b>Strategic Priorities</b> <input type="checkbox"/> Quality and Safety <input type="checkbox"/> Healthcare Standards <input type="checkbox"/> People and Innovation <input type="checkbox"/> Community and Partnership <input checked="" type="checkbox"/> Financial Strength	<b>Operational Objectives</b> FS1 FS3 FS6
<b>Board Assurance Framework (BAF) Risks</b>	<input type="checkbox"/> If we do not deliver <b>safe care</b> then patients may suffer avoidable harm and poor clinical outcomes and experience <input type="checkbox"/> If we do not implement our <b>falls</b> prevention strategy then patients may suffer serious injury <input type="checkbox"/> If we do not achieve safe and efficient <b>patient flow</b> and improve our processes and capacity and demand planning then we will fail the national quality and performance standards <input type="checkbox"/> If we do not have a clear <b>clinical service vision</b> then we may not deliver the best services to patients <input type="checkbox"/> If we do not get good levels of <b>staff engagement</b> to get a culture of continuous improvement then staff morale and patient outcomes may not improve <input checked="" type="checkbox"/> If we are unable to resolve our (historic) shortfall in <b>liquidity</b> and the structural imbalance in the Trust's <b>Income &amp; Expenditure</b> position then we will not be able to fulfil our financial duties and address the modernisation of our ageing estate and equipment

<b>Care Quality Commission (CQC) Domains</b>	<input type="checkbox"/> Safe <input checked="" type="checkbox"/> Effective <input type="checkbox"/> Caring <input checked="" type="checkbox"/> Responsive <input type="checkbox"/> Well led
<input type="checkbox"/> Receive <input type="checkbox"/> Review <input type="checkbox"/> Note <input checked="" type="checkbox"/> Approve	<b>Recommendation</b> To <b>APPROVE</b> the 2014/15 budget.

## FINANCIAL STRATEGY 2014/15

TRUST BOARD – 29<sup>th</sup> May 2014

### 1. Introduction

At the March Trust Board a draft budget was presented for approval by the Board. At the meeting it was concluded that because of concerns over the potential financial consequences of an impending arbitration hearing it was decided that approval of the 2014/15 budget should be deferred.

This paper provides:

- an updated budget, which now reflects the outcome of the arbitration hearing; and then
- introduces a series of options for consideration by the Board for addressing the Trust financial deficit for the 2014/15 year and the period 2016/17 to 2018/19.

### 2. Arbitration outcome

An arbitration panel comprising of representatives from NHS England and the NHS Trust Development Authority met on the 1<sup>st</sup> April 2014 to consider an arbitration case between Telford and Wrekin CCG and the Trust. The results from the arbitration panel are summarised below.

- *Introduction of coding changes without complying with PBR code of conduct - Value £900,000*

The Panel concluded that coding changes introduced by the Trust in the 2013/14 financial were compliant with the PBR Code of Conduct.

- *Charging for rehabilitation services in accordance with PBR rules - Value £1.6 million*

The Panel determined that an independent review should be completed by the end of June 2014 to conclude upon whether the Trust should rightfully receive a “top up” in respect of the provision of rehabilitation services. Any changes arising from the review to be introduced from the 1<sup>st</sup> of October 2014.

- *CCG QIPP Schemes*

The Panel acknowledged that QIPP savings plans as presented by the CCG required greater detail and engagement. Accordingly the value of the QIPP savings should be excluded from the 2014/15 contract.

### 3. The effect of the Arbitration decision upon the 2014/15 budget

Whilst the Trust has, through the arbitration process avoided a reduction in the value of its contract with Telford and Wrekin CCG of £2.5 million, the effect of doing so has meant that the CCG has been placed in “financial recovery “ by the Staffordshire and Shropshire Area Team.

In setting the budget for the 2014/15 financial year the Trust had assumed that Transitional funding would be made available by the two local CCG’s. Given the financial position of Telford and Wrekin CCG it now appears unlikely that Transitional support will be provided to the Trust. The sum requested from Telford and Wrekin CCG amounted to £1.2 million. In addition Shropshire County CCG have confirmed that they will provide Transitional support amounting to £1.0 million for the 2014/15 year. The Trust had assumed the receipt of £1.8 million transitional support from Shropshire CCG.

The reduced level of Transitional support has the effect of increasing the deficit of the Trust to £8.2 million.

	Total £000's	Reduced Transitional support £000's	Revised Budget
Income	314,640	(2,000)	312,640
Expenditure			
Pay	(217,135)	-	(217,135)
Non Pay	(94,769)	-	(94,769)
Cost Improvement Programme	9,000		9,000
Total Expenditure	(302,904)	-	(302,904)
Earnings before Interest, Tax, Dividends and Amortisation (EBITDA)	11,736	(2,000)	9,736
Dividends and Amortisation	(17,936)	-	(17,936)
Surplus / (deficit)	(6,200)	-	(8,200)

Since presenting the draft budget in March, the Trust has introduced three further significant changes:

- Midwifery Income – Midwifery Income Tariffs now compensate the Trust for the delivery of a complete care pathway. The Trust has been notified that in applying these revised Tariffs it is necessary for the Income attributed to undelivered elements of the care pathway to be discounted. This has the effect of reducing Trust Income by £1.3 million.
- Pay cost reduction – Recognising the need to address the underlying financial deficit of the Trust, it is proposed to take forward a programme in the 2014/15 year to reduce the recurrent pay bill by £5.3 million. It has been assumed that the level of savings to be realised in the 2014/15 year amounts to £1.3 million.
- Emergency Care Centre – An exercise has been completed to review options for the reconfiguration of services so as to enable the establishment of an Emergency Care Centre. Five options have been considered, results of which are summarised below.

	Option 1 Refurbishment of RSH Site	Option 2 Conversion of RSH Site into ECC	Option 3 Conversion of PRH Site into ECC	Option 4 New site for ECC	Option 5 New site for ECC, Elective and Maternity Activity
Estimated Capital Cost £ millions	62	121	97	168	240
Estimated Land Sale £millions	-	-	4	18	27
Increased Financing costs from new development	(10.2)	(16.1)	(13.6)	(16.2)	(23.1)
Reduced Financing costs from development	1.2	1.2	1.5	9.4	14.6
Duplication cost savings £millions	10.1	10.1	10.1	11.2	12.3
Clinical efficiencies £millions	2.0	4.0	4.5	6.5	7.5
<b>Net (Cost)/ Saving from Development</b>	<b>3.0</b>	<b>(0.8)</b>	<b>2.5</b>	<b>10.9</b>	<b>11.3</b>

In constructing the five year financial plan it has been assumed that the Trust is able to take forward Option 4 and is able to commence with the new development in 2017/18.

The effect of making these changes to the five year financial plan is then as follows:

	Recurrent £million's	Non Recurrent £million's	Total £million's
2013/14	(7.5)	7.5	-
2014/15	(4.4)	(3.8)	(8.2)
2015/16	(4.5)	(1.5)	(6.0)
2016/17	(2.6)	(0.6)	(3.2)
2017/18	4.3	(6.6)	(2.3)
2018/19	0.9	(0.1)	0.8

#### 4. **Conclusion**

Since discussing the 2014/15 budget at the March Trust Board meeting, the Arbitration Panel has met and concluded upon contract disagreements that existed in respect of the contract between the Trust and Telford and Wrekin CCG. The decisions made by the Arbitration Panel have meant that the Trust has avoided an Income loss of £2.5 million. However, because of the impact upon the finances of Telford and Wrekin CCG the Trust is now unlikely to receive Transitional funding in the 2014/15 year. Accordingly the Trust has needed to reduce Transitional funding in the year from £3 million to £1 million with the effect that the Trust is now expecting to record a deficit in the 2014/15 year of £8.2 million.

Since presenting the draft budget at the March Trust Board meeting two further assumptions have been made notably:

- the implementation of a pay cost reduction savings plan in the 2014/15 aimed at generating cost savings of £5.3 million (2.5 per cent of the pay budget); and
- the assumption that clinical services can be reconfigured by the 2017/18 financial year.

On this basis the Trust is now expecting to see its Income and Expenditure deficit position decline progressively from £8.2 million in 2014/15 to a small surplus of £800,000 by the year 2018/19.

Neil Nisbet  
Finance Director  
20<sup>th</sup> May 2014