

## Update to Budget proposal 2011/12

### Introduction

A proposed budget was presented to the board on the 30<sup>th</sup> April 2011. This budget was approved by the board subject to the resolution of discussions with the Primary Care Trusts, in respect of the level of strategic change reserve support to be made available to SATH in the 2011/12 year.

Since constructing the budget further work has been undertaken to assess:

- the deliverability of the proposed Cost Improvement programme; and also
- The assumptions as they relate to Income and Expenditure.

This paper provides a description of this work and in doing so provides a revised budget proposal for the 2011/12 year.

### Summary Position

At the board meeting a budgeted surplus for the year was presented amounting to £100,000. This surplus however assumed the existence of Strategic change reserve funding amounting to £3.1 million. Discounting for this sum produces a budgetary deficit for the year of £3.0 million. The revised budget for the year presently presents a deficit amounting to £3.8 million.

The variation in the position is described as follows:

	Variance £million's
Budget surplus (assuming full SCR contribution)	0.1
Unfunded SCR contribution	(3.1)
Budget deficit ( discounted for unfunded SCR contribution)	(3.0)
Budget amendments :	
Budget Savings programme	(4.0)
Income changes	(0.5)
Pay changes	(0.8)
Additional savings programme	5.1
Organisational capacity	(0.9)
<b>Revised Budget deficit</b>	<b>(4.0)</b>

### **Unfunded SCR contribution**

At the Cluster review meeting held on the 25<sup>th</sup> March 2011 SATH reported that based upon the contract offer made by the two local Primary Care Trusts, the Trust would report a deficit for the year of £3.1 million. At that meeting it was agreed that the local health economy or the West Mercia Cluster would seek to put in place a solution to enable the deficit within SATH to be rectified.

Discussions have subsequently been held between the local PCT's and the new cluster chief executive. Through these discussions it has been determined that neither the cluster nor the local Primary Care Trusts are able to make further contributions to SATH at this stage. Both parties agreed however to work during the year to support SATH in addressing the deficit.

### **Budget savings Programme**

Contained within the proposed budget was the assumption that a savings programme amounting to £5.3 million could be delivered in the 2011/12 year. Following discussions with Officers within the Trust this savings programme has been reduced by £4.0 million. The target for the 2011/12 year is then £1.3 million.

	Budget proposal £000's	Revised Assessment £000's	Variance £000's
Division 1	1,179	-	(1,179)
Division 2	1,802	-	(1,802)
Division 3	1,984	765	(1,219)
Corporate services	850	100	(750)
Cross Cutting	381	-	(381)
Estates and Facilities	657	427	(430)
Estimated slippage	(1,553)		1,553
	<b>5,300</b>	<b>1,292</b>	<b>(4,008)</b>

A full analysis is presented in annex 1.

### **Income Changes**

Since the March board meeting, information has been presented by the Powys health board. Indications are that the Powys health board will enforce a reduction in the contracted value for the 2011/12 year in respect of Elective and non elective readmissions. Doing so reduces the contracted Income from Powys by £500,000.

## Pay changes

A comprehensive review of the Baseline Pay budget has been undertaken. This review has considered the estimated Pay run rate in each of the twelve months April through to March. The run rate calculation itself has been disaggregated into:

- Baseline Budget
- Escalation costs
- Agency cost premium – Medical staff
- Agency cost premium – Nursing staff
- Agency cost premium – other staff
- Waiting list initiative payments
- Costs associated new developments
- Costs associated with clearance of Pending list

The annual cost within these categories has then been compared with the levels included within the overall pay budget. The analysis suggests that:

	Budget £000's	Forecast spend £000's	Variance £000's
Baseline Budget	184,587	186,283	1,696
Escalation costs	575	606	31
Agency cost premium – Medical staff	1,188	1,993	805
Agency cost premium – Nursing staff		247	247
Agency cost premium – other staff	134	83	(51)
Waiting list initiative payments	1,918	1,744	(174)
Costs of new developments	5,787	6,266	479
Cost associated with clearance of Pending list	486	486	-
	194,675	197,708	3,033
Disestablished posts			(1,696)
Cost of new developments			(479)
<b>Forecast Pay overspend</b>			<b>858</b>

Total spending is expected to exceed the budgeted pay budget by £3.033 million, this being so because:

- based upon an agreed profile of vacancies with Divisions, SATH fails to deliver targeted savings from vacancies / disestablishment of posts by £1.696 million,

- the level of non recurrent savings in respect of new development posts had been estimated at £1.3 million, it is now believed that slippage will result in savings of £821,000;
- the continuation of escalation arrangements in the month of April results in an overspend against the escalation pay budget of £31,000; and
- excess costs associated with the appointment of agency staff is expected to generate a cost pressure of £827,000.

Further work is being undertaken to:

- Approve the disestablishment of posts;
- Assess the timing of appointments to new developments.

It is anticipated that once complete this will then ensure that the run rate for each of these two areas will be contained within the approved budget. After doing so however there remains an estimated overspend as compared with the existing pay budget of £858,000.

### **Additional savings programme**

A review of savings options across the Trust has identified the following areas:

	£ millions
Nursing skill mix – revise to 18.5 %	1.1
Procurement	1.0
Deferred Income	0.5
Capitalising revenue costs	1.0
Stock valuation	0.5
Training – Charitable funds	0.5
Estate review	0.5
	5.1

- Nursing skill mix – Presently budgets allow for a 22% uplift within budgets to provide capacity to cover annual leave, sickness and study leave for permanent staff employed on the ward. A re-examination of the methodology used to compute the uplift identifies that the level of lost capacity arising from these three events amounts to 18.5% of staff establishment. Adjusting ward budgets to reflect this level of lost capacity results in the need to employ 30 less ward staff than previously planned, generating savings of approximately £1.1 million.
- Procurement – A detailed programme is presently being constructed to deliver savings from “influence able” non pay budgets. The target is to achieve a percentage cost reduction within these budgets of 5% resulting in savings amounting to £1 million.

- Deferred Income – The Trust carries forward into the 2011/12 financial year Income relating to research and development activities. These funds amount to £500,000.
- Capitalising revenue costs – In order for IT equipment and medical equipment to be replaced in accordance with their recognisable lifecycles it is necessary for there to exist a planned replacement programme, funded through the Trust capital programme. This also ensures the use of such equipment is appropriately “matched” with the Income generated by using this equipment. The effect of introducing this practice reduces revenue expenditure by £1.0 million.
- Stock valuation – Presently the Trust does not record fully the inventories held in respect of stocks held across the wards and operating theatres at the two hospitals sites. Introducing a more complete inventory is estimated to increase stock levels by £500,000.
- Training – charitable funds – The trust is presently carrying sizeable balances within charitable funds. In the 2011/12 financial year it is proposed to utilise these funds to support the cost of training programmes entered into by staff employed within the Trust.
- Estate review – With the transfer of services from the Shrewsbury hospital site to Telford hospital site and vice versa, it will be necessary to undertake a revaluation of the two hospital sites in accordance with accounting standards. The reduced Income generating capability of these two sites, arising from the reconfiguration, can be expected to result in a substantial impairment to the value of the assets held. An impairment reduction of £8 million reduces the level of capital charges by £500,000.

### **Organisational capacity.**

The Trust recognises that in order to deliver transformational change within operational practices it is necessary for there to exist enhanced organisational capacity. The Trust has therefore committed to:

- Service development – Increasing the level of resources available to support the change programmes being taken forward by the Value stream leads and Service Improvement Team. The sum to be made available amounts to £500,000; and
- Programme Management – introducing more rigorous programme management arrangements to ensure that savings programmes are robustly managed and change programmes are affected through well defined governance practices. A sum amounting to £400,000 is to be earmarked to cover the cost of Programme management.

### **Risk assessment of the budgeted Position**

Circumstances within SATH are such that, it is presently not possible to describe with certainty the forecast position of the Trust. To illustrate the level of variability, it is useful therefore to consider the financial position of the Trust, using three scenarios; where:

- Most likely position – represents the revised budgetary position as described in the above,
- Best Case scenario – assumes the budgetary position improves linked to Income gains and expenditure budget improvements; and
- Worst case scenario – assumes that the budgetary position weakens as a consequence of Income deterioration and a weakening expenditure budget position.

The table below provides a summary of these three scenarios.

	Original Budget Proposal £million's	Most Likely Scenario £million's	Best Case scenario £million's	Worst case scenario £million's
Income	281.5	277.4	280.5	277.4
Expenditure				
Pay	191.9	194.1	194.1	195.6
Non Pay	75.3	73.6	73.6	74.1
Finance Cost	14.2	13.7	13.7	13.7
Further targeted Savings			(4.0)	-
Total Expenditure	281.4	281.4	277.4	283.4
Surplus / (deficit)	0.1	(4.0)	3.1	(6.0)

As can be seen the forecast outturn position varies from a best case scenario surplus of £3.1 million to a worst case prediction recording a deficit of £6.0 million. The most likely scenario as described above presently predicts a deficit in the year of £4.0 million.

The surplus generated within the Best case scenario assumes the delivery of presently unidentified costs savings in the year amounting to £4.0 million, and the receipt in full of £3.1 million as Strategic change reserve support through the PCT's or the West Mercia Cluster.

The worst case scenario presents a deteriorating financial position, from the Most likely position, as a consequence of a requirement to maintain escalation arrangements in place for the full year, an inability to recover the full level of pay savings from slippage in respect of development posts and the failure to deliver pay savings arising from the planned disestablishment of posts.

### **Sustainable position of SaTH NHS Trust**

The underlying financial position of SATH can be measured by reference to the Recurrent position of the Trust. The table below provides a description of the recurrent and non recurrent position of the Trust based using the updated (Most Likely) scenario.

	Recurrent £million's	Non Recurrent £million's	Total £million's
Income	279.4	(2.0)	277.4
Pay	199.8	(5.7)	194.1
Non Pay	75.7	(2.1)	73.6
Finance Cost	13.7	-	13.7
<b>Surplus / (deficit)</b>	<b>(9.8)</b>	<b>5.8</b>	<b>(4.0)</b>

As can be seen the Trust has a recurrent deficit amounting to £9.8 million. This arises because in computing the forecast pay budget for the 2011/12 year no allowance is made for the recurrent disestablishment of posts. Instead pay cost savings are assumed to be delivered in year non recurrently through turnover and the existence of vacancies. A Commitment to reduce establishment levels by 200 posts as agreed at the previous board meeting reduces the recurrent deficit to £2.8 million.

Additionally SATH is aware of a number of instances where a case exists for SATH to Increase its Income from commissioners through the appropriate application of Payment by Results Rules. In the event that SATH were successful in its claim this would increase the recurrent Income available to SATH by £3.6 million.

### **Conclusion**

At the March board meeting a budget for the 2011/12 year was presented which generated a surplus in the year amounting to £100,000. This budget assumed the existence of Strategic Change Reserve funding amounting to £3.1 million.

Since the Board meeting, SATH has been informed that the funding from the Strategic Change Reserve will not be made available.

Further, exercises have been undertaken to assess the deliverability of the planned savings programme and pay expenditure budgets. These exercises now indicate that:

- the level of savings capable of being generated through the planned savings programme amount to £1.3 million, whereas the plan had been to achieve savings amounting to £5.3 million; and
- Given the planned usage of Agency staff within divisions, particularly within Medical staffing areas, pay budgets are expected to overspend in the year by £858,000.

In response to these increased cost pressures, opportunities have been sought to reduce pay and non pay expenditure in the 2011/12 year. Doing so has led to the identification of costs savings amounting to £5.1 million.

Allowing for the increased cost pressures and newly identified savings opportunities the Trust then presents a forecast outturn that records a deficit for the year of £3.8 million. Work is now being undertaken to identify opportunities to address the deficit.

Given uncertainties surrounding the financial position, analysis has been undertaken to consider the outturn of the Trust based upon three scenarios, Most Likely, Best Case and Worst Case. The Best Case scenario produces a surplus for the year of £3.1 million, the Worst Case scenario a deficit of £6.0 million. The Most likely scenario is based upon the forecast outturn deficit of £4.0 million.

Integral to the financial stability of the Trust is the existence of a recurrent balanced financial position. Based upon the forecast outturn deficit position of £4.0 million, the Trust records a recurrent deficit of £9.8 million compensated through non recurrent savings in year amounting to £5.8 million. The delivery of the planned reduction in staff numbers reduces the recurrent deficit to £2.8 million.