

THE SHREWSBURY AND TELFORD HOSPITAL NHS TRUST**TRUST BOARD – 31 March 2011****Budget Proposal 2011/12****1. INTRODUCTION**

The purpose of this report is to outline the process under which the business plan and budget proposals for 2011/12 have been developed, to brief the Board on the risks and challenges facing the Trust in the coming year and to seek the Board's approval to manage services within these budgets in 2011/12.

2. BACKGROUND

The 2010/11 financial year which ends on 31 March 2011 has been a challenging year for the Trust. Budgets included £12.1m of financial savings that were, with the benefit of hindsight, insufficiently defined and the Trust was not able to deliver the level of savings required. At the time of writing it is forecast that actual savings achieved will be in the region of £3.7m, of which £0.5m is non recurring.

The budgets for the year 2010/11 also assumed that non elective admissions would reduce by circa 1850 compared to the previous year, in line with the plans set by Commissioners. This reduction did not materialise and non elective admissions for 2010/11 are circa 900 spells above the previous year, 2750 above the 2010/11 planned level. This placed additional strain on our hospitals which had to gear up to treat these additional patients using expensive temporary staff. This unplanned over performance is penalised in the national tariff arrangements and our local Commissioners were able to pay just 30% of the tariff price for this additional activity, reducing income by circa £3.5m.

These pressures combined to push the Trust into financial deficit during the year. The Trust secured £5m of financial support from the West Midlands Strategic Health Authority (WMSHA) and with this support has been able to forecast a financial breakeven at the end of March. The support from the WMSHA was agreed for one year only so it is important that the Trust sets a budget for 2011/12 which will deliver at least a financial break-even position.

The wider economic position is having a significant impact on funds available. Whilst nationally the government has pledged to grow NHS spending in real terms year on year, NHS organisations are being tasked with funding the costs of new medical advances and increased demand (e.g. from an ageing population) within minimal growth in the national budget. To create the funds to cope with these pressures SaTH in common with most health organisations is being tasked to reduce costs by 4% in each of the next three years. This will require a very challenging set of budget objectives, delivery of which will be particularly important in the 2011/12 as the Trust prepares an application to become a Foundation Trust.

Details of each of the key budget areas are covered in the report that follows, including:

- Contract income
- Expenditure budgets
- Budget risks
- Productivity improvements and savings plans
- Capital proposals

Finally the report includes recommendations from the Executive Team on approving the budgets for 2011/12 and closely monitoring the delivery of the proposals during the coming year.

3. CONTRACT INCOME 2011/12

The table below illustrates the Trust's financial assumptions for income in 2011/12.

Income Source	SCPCT	T&WPCT	Powys	Specialised Services	Other PCTs	Other Clinical Income	Non Clinical Income	Total
	£M	£M	£M	£M	£M	£M	£M	£M
Baseline Income 2011/12	115.9	80.1	21.4	10.6	6.8	4.2	20.5	259.5
Non Elective Threshold Revised Baseline	2.1							2.1
PCT 2011/12 QIPP schemes reversed	3.2	3.7						6.9
Use of PCT's Strategic Change Reserve	4.5	2.3						6.8
Trust CIP Schemes							1.4	1.4
Proposed Contract Income	125.7	86.1	21.4	10.6	6.8	4.2	21.9	276.7
Cluster Support (TBC)	2.0	2.0						4.0
Total Trust Income	127.7	88.1	21.4	10.6	6.8	4.2	21.9	280.7

The following sections update the Board on the ongoing discussions with Commissioners regarding the contract for next year and build on the 'contract negotiations' paper submitted the Finance & Performance Committee in February.

3.1 NHS Telford & Wrekin and Shropshire County PCT

The Board will be aware that, alongside the contract negotiation process, discussions have been taking place at Finance Director-level to agree a more strategic approach to the health economy funding requirements for 2011/12.

An overall agreement has now been reached, and the detailed arrangements for the contract process are being developed. The agreement, for 2011/12 only, incorporates the following key changes from the original contract offers received from the PCTs :

- No reduction to contract activity numbers/value in respect of PCT QIPP plans (circa £7million).
- A rebasing of the emergency threshold for Shropshire County PCT (circa £2.1million).
- Strategic Change funding/support in recognition of the significant service transformation challenges that SaTH faces during the year (in part funded by the monies derived by the application of the national policy regarding non-payment for an element of readmissions, circa £3.6million).

3.2 Powys Local Health Board (LHB)

SaTH put forward a contract offer to Powys, based on forecast outturn activity and 2011/12 prices/PbR guidance in February.

Initial feedback from the LHB was that current activity levels were unaffordable. This was confirmed in a meeting with the LHB on 23rd March. The LHB's representatives indicated that they wished to work with SaTH on a number of schemes (e.g. admission avoidance, repatriation of activity into Wales) to reduce both activity and the associated contract value. They gave a commitment to provide both detailed plans and a counter contract proposal by the end of the month. Although SaTH representatives gave an assurance that the Trust would work

with the LHB on the development and implementation of such schemes that they may have (on the basis that the schemes would be clinically led), they were also clear that SaTH would expect payment – in full – for all activity undertaken at the Trust. A further meeting is planned in April.

3.3 Specialised Services

The Specialised Commissioning Team (SCT) for the West Midlands currently commission nitric oxide, haemophilia factors and neonatal cot days for all commissioners across the region and renal dialysis on behalf of Shropshire & Staffordshire PCTs.

Agreement has been reached regarding this contract that is broadly consistent with our forecasts.

3.4 Other Commissioners

NHS Telford and Wrekin, Shropshire County PCT, Powys LHB and Specialised Services collectively account for approximately 98% of the Trust's healthcare income.

For the remaining Commissioners (e.g. neighbouring PCTs in the West Midlands) contract proposals/agreements are broadly in line with 2010/11 forecast outturn activity and/or SaTH expectations.

3.5 In Year Contract Monitoring

The Contract agreement with Shropshire County PCT and NHS Telford & Wrekin will be on the basis of a cost and volume contract, with the following key points being incorporated into the Heads of Agreement document.

Over / under performance of activity

- Payment / reimbursement arising from activity under /over achievement against the contracted levels will occur only where the financial impact deviates from the contracted sum by more or less than 1.5%. Agreement to fund or reimburse will only be effected where it has been concluded that it is not possible to take actions to restrict the payment to the levels as described in the signed contract.

Sustainable financial position

- SATH financial model that describes the financial position of SATH over the period 2011/12 to 2015/16 that demonstrates a sustainable financial position for SATH, consistent with PCT financial plans over this same period. In addition SATH and the PCTs agree to construct a jointly agreed costed activity plan.

Service Developments / Decommissioning

- In keeping with the commitment to maintain financial balance across the health economy over the medium term, all new service developments and areas of services scheduled to be decommissioned are to be jointly shared and agreed between SATH and the PCTs, and supported by approved implementation plans. Detailed protocols underpinning these arrangements to be developed and agreed.

QIPP

- In recognition of the need to deliver cost efficiencies and service improvements within the Shropshire health economy, the PCTs and SATH will work collaboratively to develop jointly agreed plans. In the development of these plans, both parties will commit to constructing implementation programmes to enable the plans to be delivered. Once the plans have been jointly agreed, associated activity and finance implications will be effected against the contracted value. In the 2011/12 financial year the PCT and SATH will work jointly to establish sustainable programmes to deliver recurrent savings within the health economy amounting to £6.9 million.

4. EXPENDITURE BUDGETS 2011/12

For 2011/12 the aim has been to develop expenditure plans that reflect the resources required to deliver commissioned activity within agreed budgets and to progress any approved developments whilst ensuring the ability to:

- Deliver a small surplus in 2011/12 whilst investing in quality and innovation
- Develop service plans and clinical strategies that will ensure the Trust's financial sustainability beyond 2011/12
- Maximise productivity and enhance efficiency in delivery of all services
- Identify and eliminate waste and challenge and remove non value adding processes

4.1 Budget Setting Process

The process to set expenditure budgets commenced in November 2010, when preparatory technical work, data gathering and validation of 2010/11 actuals and forecast was undertaken.

During the period December 2010 to February 2011 discussions took place with operational managers to identify 2011/12 requirements. These discussions covered:

- Current workload and activity
- Known cost pressures
- Developments: known, approved for 2011/12 and the balance to full year effect of 2010/11 developments

Following production of first draft budgets validation discussions have taken place with managers at Departmental, Service Delivery and Divisional level. This is an iterative process. Where changes to budgets have been identified and justified, the budgets have been updated to reflect the revised requirement. These revised budgets form the basis of the proposals presented in this report.

It is important to note that the expenditure budgets presented here represent the outputs from meetings with departmental, functional and ward managers. In addition the ward budgets reflect the findings of a skill mix review for nursing. This is subject to final approval by the Director of Quality and Safety/Chief Nurse.

In order to ensure that budgets have been set on an inclusive basis the process has been undertaken in line with the current management structure of the Trust. As departmental, functional and ward managers have been involved in this inclusive process it is anticipated that Centre Chiefs will be able to take assurance that the budgets have been set with full involvement of the clinical and operational managers within their Centres and that those budgets will support delivery of service requirements in a safe manner.

The budgets presented in this report are shown in the current Divisional format and also in the provisional Centre format. The Centre arrangements may be subject to change dependent on agreement on the final structure, although the financial total will not change.

4.2 2011/12 Budget Setting Principles and Assumptions

In setting the expenditure budgets the following key assumptions and principles have been used :

- Establishments have been funded in full based on the scale point of staff in post at 31st October 2010 with vacancies funded for the full year at the average of the actual staff in post.

- Increments have not been funded, it is expected that incremental pressures will be offset through vacancy turnover.
- Waiting list budgets have been set based upon the average cost of months 1 – 7, but reduced where new Consultants are expected to be in post.
- Wards have been funded at the proposed skill mix including 22% for holiday, sickness etc. cover.
- Nursing budgets in the Women's and Children's Centre are currently being reviewed by the Centre Chief and management, skill mix issues are to be identified along with a timed transition programme.
- Locum budgets have been funded in line with specific rotas being covered by locums.
- Agency uplift has been included for posts that are being covered in this way and for the expected length of time the post is expected to be vacant.
- Clinical Safety and Waiting List related business cases, as known at the time of budget setting are funded with 2010/11 funded budgets for WLI/agency/outsourcing being used to offset budget costs where appropriate.
- Non pay has been set based upon months 1 – 7 average adjusted for known seasonal and non-recurrent variations.
- No budget has been set for redundancies.
- Newly funded posts in the 2011/12 establishment will be held in a development and contingency reserve until the post is filled.
- Mandatory and statutory cost pressures have been funded where appropriate including National Insurance, VAT and Agenda For Change pay awards.

4.3 Pay and Non Pay Budget Proposals 2011/12

The tables below show the proposed expenditure budgets for 2011/12 by Division (current structure) and by Centre (provisional):

	Total 11/12 WTE	PAY		NON PAY		TOTAL EXPENDITURE		
		11/12 Plan Pre CIPs £000	11/12 Plan £000	11/12 Plan Pre CIPs £000	11/12 Plan £000	11/12 Plan Pre CIPs £000	11/12 CIP £000	11/12 Plan £000
Emergency Care	513.21	(22,680)	(22,266)	(2,859)	(2,859)	(25,539)	414	(25,125)
Critical Care	532.57	(23,994)	(23,769)	(5,536)	(5,536)	(29,530)	225	(29,305)
General Medicine	517.55	(19,993)	(19,664)	(4,209)	(4,209)	(24,202)	329	(23,873)
Management	4.40	(342)	(11)	(35)	(35)	(377)	331	(46)
Division 1	1,567.73	(67,009)	(65,710)	(12,639)	(12,639)	(79,648)	1,299	(78,349)
Cancer, Oncology and Haematology	164.93	(6,748)	(6,620)	(10,256)	(10,256)	(17,004)	128	(16,876)
Surgical	514.77	(26,749)	(25,335)	(6,627)	(6,627)	(33,376)	1,414	(31,962)
Women's and Children's	605.87	(28,536)	(28,357)	(3,325)	(3,325)	(31,861)	179	(31,682)
Management	3.40	(276)	(101)	(146)	(146)	(422)	175	(247)
Division 2	1,288.97	(62,309)	(60,413)	(20,354)	(20,354)	(82,663)	1,896	(80,767)
Patient Delivery	303.41	(9,882)	(9,632)	(8,883)	(8,883)	(18,765)	250	(18,515)
Support Delivery	167.21	(4,264)	(4,169)	(2,298)	(2,298)	(6,562)	95	(6,467)
Diagnostic and Therapies	561.00	(24,202)	(24,172)	(7,637)	(7,607)	(31,839)	60	(31,779)
Pharmacy	126.65	(4,403)	(4,173)	163	163	(4,240)	230	(4,010)
OPD, Scheduling and Booking	141.70	(3,297)	(3,217)	(429)	(429)	(3,726)	80	(3,646)
Management	4.40	(350)	(315)	(25)	(25)	(375)	35	(340)
Division 3	1,304.37	(46,398)	(45,678)	(19,109)	(19,079)	(65,507)	750	(64,757)
Estates	71.20	(2,281)	(2,156)	(7,604)	(7,369)	(9,885)	360	(9,525)
Facilities	367.21	(7,857)	(7,759)	(3,438)	(3,236)	(11,295)	300	(10,995)
Corporate Affairs	96.37	(3,340)	(3,340)	(1,553)	(1,253)	(4,893)	300	(4,593)
CEO	13.48	(554)	(554)	(180)	(180)	(734)	-	(734)
Head of Nursing	57.23	(1,906)	(1,906)	(343)	(343)	(2,249)	-	(2,249)
Finance	146.46	(4,839)	(4,839)	(12,213)	(11,398)	(17,052)	815	(16,237)
Strategy	4.00	(234)	(234)	(215)	(215)	(449)	-	(449)
Medical Director	52.08	(2,507)	(2,307)	(698)	(698)	(3,205)	200	(3,005)
Service Delivery	17.53	(696)	(696)	(70)	(70)	(766)	-	(766)
Total	4,986.63	(199,930)	(195,592)	(78,416)	(76,834)	(278,346)	5,920	(272,426)

In arriving at the 2011/12 proposals the following budget additions and uplifts have been made:

- Pay Awards funded in full £0.4m
- National Insurance increases funded in full £1.0m
- VAT increase funded where appropriate £0.3m
- Unachieved 2010/11 CIP's refunded £8.0m
- Corrections to 2010/11 Budget setting £0.4m

In addition to the above, the 2011/12 budgets also include funding in the areas detailed below to address issues and concerns that emerged during 2010/11:

	wte	£'000
Clinical Safety		
Cardiology	5.50	-396
Obstetrics	37.38	-2,360
Oncology	12.50	-712
Oncoplastic Surgery	7.37	-267
CSSD	16.70	-352
Nursing Skill Mix*	60.81	-1,470
Sub Total	140.26	-5,557
Demand and Capacity		
Audiology	3.00	-68
Ophthalmology	23.80	-627
ENT	17.89	-666
Colorectal	8.85	-351
Orthodontics	0.75	-5
Maxillo Facial	8.13	-354
Endoscopy Nursing : activity increase	1.20	-47
Booking : ICAT	2.00	-35
Sub Total	65.62	-2,153
Unfunded Posts 10/11 Budgets	69.63	-2,847
Total	275.51	-10,557

4.4 Expenditure Budget Sign Off

Budget proposals have now been submitted to managers for agreement and sign off. This process will require sign off by ward/departmental/service managers along with Divisional Managers, Service Delivery Unit Managers and Divisional Finance Managers. It is anticipated that this will give Centre Chiefs the appropriate level of assurance that agreed budgets will allow delivery of service requirements.

5. RISKS WITHIN THE 2011/12 BUDGET ASSUMPTIONS

In order to achieve the outturn requirement for 2011/12 several risks around cost management have been identified. These include:

- Budgets, as set, include no escalation cover for the period 1st April until 30th September
- Significant reduction in the use of all agency staffing: it is imperative that expenditure is reduced by £300k per month in respect of this expenditure item.

Executives have undertaken to take appropriate action to ensure that these issues are addressed as a priority.

6. PRODUCTIVITY IMPROVEMENT AND SAVINGS PLANS

The plan identifies £7.3m of savings and a further £1.1m already removed from corporate budgets, with an assumed risk of £2m, leaving a net saving of £5.3m. When combined with the disestablishment saving the total of £10.3m is still below the nationally required 4% efficiency target.

All savings have an Executive lead who will be responsible for ensuring that detailed delivery plans with clearly identified milestones and actions that will be taken to make changes that will ensure delivery of CIP targets. In addition Executives have been tasked with ensuring delivery against these milestones and taking corrective action where there is a deviation or variance.

7. SUMMARY INCOME AND EXPENDITURE POSITION

The table below summarises the budget income and expenditure position for the Trust for 2011/12:

	Total
Income	£m
2011/12 Planned Income	279.3
2011/12 Income CIP	1.4
2011/12 Total Income	280.7
Expenditure	
Pay	-200.0
Non Pay	-76.4
Finance Costs	-14.2
CIP	5.9
Total Expenditure	-284.7
Deficit	-4.0

The initial budget shows a **£4m deficit** assuming delivery of £7.3m of CIPs.

An assessment of the budget deficit has been undertaken and based on past performance and the nature of proposed CIPs it has been assumed that £2m will be at risk of non-delivery. In addition it is projected that c£1m of incremental drift will actually arise during the year. Thus the deficit position is likely to be £7m.

To address this, several mitigating actions have been identified. Along with the risks detailed above these are detailed in the table below:

	£m
Deficit	-4.0
CIP risk	-2.0
Increments	-1.0
Adjusted Deficit	-7.0
Slippage on Developments	1.3
Car Parking Goodwill	0.5
Income uplifts (non contract)	0.3
Disestablish Posts	5.0
Mitigating Items	7.1
Projected Surplus	0.1

The main factor in delivery of a small surplus of £0.1m is the disestablishment of posts. The Trust plan for 2011/12 shows a growth of 366.66 wte posts against the 2010/11 plan. At Month 11 in 2010/11 the Trust reported 4,639.90 wte worked. This would be indicative of a Trust-wide vacancy level of c.346.73 wte against the 2011/12 plan.

The disestablishment of posts is key in that it gives a recurrent saving from April. The following principles have been agreed with Executive Directors in respect of this action:

- Disestablishment must not compromise quality of direct care provision
- Disestablishment must be actioned in agreement with Senior Clinical Staff

This will support the requirement for delivery of productivity gain (4%) without redundancies. It should be noted that any productivity gain is not limited to 4% in any single year. A key assumption in respect of delivery of the financial target is that one-third of vacant posts are disestablished immediately.

The £5m target saving is assumed to be from disestablishment of 200wte posts, this equates to 2.5% of the pay budget.

Executive Directors have been charged with developing the proposals for disestablishment of vacant posts for the meeting of the Trust Board in April 2011. These proposals will also be presented along with a revised workforce plan.

8. CAPITAL PROPOSALS

2010/11 Overview and 2011/12 Annual Plan: 2011/12 Outline Capital Programme

8.1 2010/11 Overview

The 2010/11 capital programme was budget set for a CRL limit £13.105m but has been re-forecast to a CRL limit of £8.505m. This reduction is a result of two factors: (i) a reduction due to the non-application of capital loans of £5.400m (£2.400m Decontamination and £3.000m Women and Children's Zone redevelopment) and (ii) an increase of transferred CRL of £0.800m for Patient Status at a Glance (PASG) of £0.500m and a second theatre at RSH maternity department of £0.300m.

The revised capital programme is addressing some significant items; the completion of the off-site Decontamination solution; the acceleration of digital mammography; a replacement CT scanner and a second maternity theatre at RSH.

As part of the agreement of the Trust's forecast outturn (I&E) with the two main PCTs the Trust has received additional cash and can therefore utilise this cash to address some of the items that were deferred into 2011/12. The latest forecast outturn for 2010/11 reverts to CRL of £8.505m.

8.2 Background to 2011/12 Outline Programme

Following the changes in the process of the formation of the 2010/11 capital programme the same principles have been applied when formulating the 2011/12 outline capital programme.

In November 2010, the Capital Planning Group reviewed the first draft of the divisional and corporate capital aspiration lists. This review meeting was set to challenge the schemes and ensure a consistent approach to the ranking of schemes – primarily around mitigating risk as each identified scheme detailed the appropriate risk score. The Group also reviewed schemes that offered a rapid pay-back and/or delivered I&E savings.

In January 2011, the Capital Planning Group met with divisional and corporate representatives to discuss a draft plan. Following this meeting a draft programme has been formulated for 2011/12 and an outline plan for the years to 2015/16.

Following a final review of the corporate risk register the following capital programme has been approved by the Capital Planning Group.

The Trust forecasts a CRL for 2011/12 of £8.288m based on the following:

- Depreciation £8.288m

The Trust has not included the sale of the remaining accommodation site into the 2011/12 outline capital plan.

8.3 Application of Capital Funds

The summary below details the key items within the plan:

Agreed commitments b/fwd and Contingency Funds	£3.200m	
Future project development	£0.490m	
Capital Aspirations	£1.598m	
Deferred expenditure from 2010/11	£0.900m	
ITU Refurbishment / Expansion (Planning fees)	£0.100m	
Reconfiguration project fees	£1.000m	
Uncommitted/Corporate Contingency	£1.000m	If not used this would be available for additional medical equipment and/or Invest to save schemes.
Total	£8.288m	

9. RECOMMENDATIONS

The Board is asked to **NOTE** the budget proposals and **APPROVE** the following:

- APPROVE the contract proposal as described for 2011/12.
- APPROVE the budget proposals, conditional on the Executive Team, demonstrating the full disestablishment of the 200 currently vacant posts generating the required £5m recurrent savings.
- NOTE the Executive Team will be reporting on the outcome of the disestablishment work to the April Trust Board.
- APPROVE the Productivity Improvement and Savings Proposals outlined above and the proposed monitoring arrangements.
- APPROVE the proposed capital programme for 2011/12 and note the contingencies contained therein.

David Gilbert

Interim Finance Director, on behalf of the Executive Team.