Reporting to:	**Trust Board - 27th March 2014**
Title	Financial Strategy 2014/15
Sponsoring Director	Neil Nisbet - Finance Director
Author(s)	Neil Nisbet - Finance Director
Previously considered by	Finance Committee 25th March 2014
Executive Summary	This paper provides a description of the 2014/15 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.
Strategic Priorities ☐ Quality and Safety ☐ Healthcare Standards ☐ People and Innovation ☐ Community and Partnership ☒ Financial Strength	**Operational Objectives**
Board Assurance Framework (BAF) Risks	☐ If we do not deliver **safe care** then patients may suffer avoidable harm and poor clinical outcomes and experience ☐ If we do not implement our **falls** prevention strategy then patients may suffer serious injury ☐ If we do not achieve safe and efficient **patient flow** and improve our processes and capacity and demand planning then we will fail the national quality and performance standards ☐ If we do not have a clear **clinical service vision** then we may not deliver the best services to patients ☐ If we do not get good levels of **staff engagement** to get a culture of continuous improvement then staff morale and patient outcomes may not improve ☒ If we are unable to resolve our (historic) shortfall in **liquidity** and the structural imbalance in the Trust's **Income & Expenditure** position then we will not be able to fulfil our financial duties and address the modernisation of our ageing estate and equipment

Care Quality Commission (CQC) Domains	☐ Safe ☒ Effective ☐ Caring ☒ Responsive ☐ Well led
☐ **Receive** ☐ **Review** ☐ **Note** ☒ **Approve**	**Recommendation** **To APPROVE the 2014/15 budget.**

TRUST BOARD - Thursday 27th March 2014

Financial Strategy 2014/15 – Key Messages

Overall Income and Expenditure Position

- Trust to deliver deficit in the year amounting to £6.2 million
- Required to deliver a Cost Improvement Programme that generates recurrent expenditure savings amounting to £9.0 million
- The Cost Improvement Programme represents 4.2% of recurrent expenditure carried forward from the 2013/14 year.
- The Trust carries forward into the 2015/16 year a recurrent deficit of £6.0 million.

Income

- Total Income for the year - £314,640 million
- Recurrent income has grown in the year when compared with the Budget approved for the 2013/14 year by £3.113 million, principally as a consequence of the unwinding of risk share arrangements in respect of Radiology and Maternity services and the implementation of revised charging arrangements in respect of Cardio respiratory outpatient procedures.
- Application of the Negative Tariff reduces the Trust Income by £3.983 million in 2014/15
- Delivery of activity based upon Demand and Capacity models increases Trust Income by £3.7 million recurrently and £4.033 million in the 2014/15 year
- Within the overall income plan, the Trust is still assuming £3.0 million Transitional Support. Whilst we have agreement of £1 million to be provided to the Trust by Shropshire CCG in the 2014/15 year, no agreement reached with Telford and Wrekin CCG.
- Trust plan assumes that if CCG QIPP savings of £7.7 million or any proportion of it are achieved this will be offset by associated cost reduction & transitional support in the 2014/15 year.
- Trust plan assumes that the Trust is successful in its arbitration with Telford and Wrekin CCG in respect of Rehabilitation services and Coding Changes.

Expenditure Budgets and Reserves

- Pay Budgets set at £216.595 million, before the achievement of Cost Improvement Programme savings.
- Non Pay set at £94.769 million before achievement of CIP.
- Pay assumed to increase in the 2014/15 year by 1.5 per cent, Non pay by 4.6 per cent.

Cost Improvement Programme

- Cost Improvement Programme identified to deliver savings in year of £15.2million.
- Revised management arrangements established to deliver Programme, overseen by a Financial Recovery Board.

Risks and Contingencies

- A sizeable gap presently exists between the Trust and Telford and Wrekin CCG in respect of the value of Contract Income for the 2014/15 year.
- The Trust has historically failed to deliver against national targets. Failure in the 2014/15 year will attract financial penalties. No contingency funds exist to cover financial penalties.
- No contingency reserves exist to cover the failure to deliver the 2014/15 CIP Programme.
- Income plans assume the Trust will receive £3.0 million transitional support. Contract negotiations to date have only secured £1.0 million of this from Shropshire County CCG.
- No agreement reached on Transitional Support with Telford and Wrekin CCG.

Medium Term Financial Plan

- The Trust is expecting to record deficits in each of the years 2014/15 – 2016/17.
- Trust generates a surplus in the 2017/18 financial year as a consequence of a reconfiguration of services which enables excess costs of split site working to be avoided.

Neil Nisbet/Jill Price
Deputy Finance Director
19th March 2014

FINANCIAL STRATEGY 2014/15

TRUST BOARD – 27TH March 2014

1. Introduction

The 2014/15 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 2014/15 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 2014/15 year is presented in the table below

	Recurrent £000's	Non Recurrent £000's	Total £000's	Forecast Outturn 2013/14 £000's	% change
Income	314,791	(151)	314,640	306,910	+1.9%
NTDA Support				4,000	
Expenditure					
Pay	(217,814)	680	(217,135)	(208,341)	+4.2%
Non Pay	(94,769)	-	(94,769)	(91,454)	+5.74%
Reserves				3,044	
Cost Improvement Programme	8,700	300	9,000		
Total Expenditure	(303,884)	980	(304,410)	(296,751)	2.58%
Earnings before Interest, Tax, Dividends and Amortisation (EBITDA)	10,908	828	11,736	14,159	
Dividends and Amortisation	(16,936)	(1,000)	(17,936)	(14,129)	
Surplus / (deficit)	(6,028)	(172)	(6,200)	30	

Key messages – Overall Income and Expenditure Position
- Trust to deliver deficit in the year amounting to £6.2 million - Required to deliver a Cost Improvement Programme that generates recurrent Expenditure savings amounting to £9.0 million, - The Cost Improvement Programme represents 4.2% of recurrent expenditure carried forward from the 2013/14 year. - The Trust carries forward into the 2015/16 year a recurrent deficit of £6.0 million.

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
2013/14 Approved Baseline Budget	303,427	-	303,427
2013/14 Income growth / reduction	3,113	4,480	7,593
2013/14 Forecast Outturn	306,540	4,480	311,020
2014/15 Financial year			
Baseline Position	306,540		306,540
Negative Tariff	(3,983)		(3,983)
Non Clinical Income Inflation	820		820
Local Commissioners QIPP	(7,697)		(7,697)
Decommission Rehabilitation services	(1,629)		(1,629)
Phased Coding Changes		(955)	(955)
	(12,489)	(955)	(13,444)
Income Increases			
Demand and Capacity	3,710	323	4,033
Winter Pressures funding		1,079	1,079
MSK Best practice Tariff	469	(469)	-
Bowel scope development	1,620	(1,434)	186
Specialised services Transition funds		350	350
Demographic growth – 1.0%	2,616		2,616
	8,415	(151)	8,264
Local Commissioners QIPP schemes reversed	7,697		7,697
Rehabilitation services	1,629		1,629
Phased Coding changes		955	955
CCG Transition funds	3,000		3,000
Income Budget 2012/13	314,791	-151	314,640

2.1.1 Baseline Position

The forecast Outturn has been computed jointly by the Trust and CSU, the Commissioning Support Unit, to the local CCGs. In the 2013/14 financial year the recurrent Income of the Trust increased by £3.113 million, as a result of:

	£000's	Reason for Change
Specialised Services – CIP Reversal	(1,986)	New Policy introduced by NHS England in respect of financial savings arising from Drug Price reductions
Financing of High Cost Drugs	2,640	Pass through cost to NHS England – corresponding increase in Non-Pay budgets
Transfer of Cervical Screening Service to UHNS	(433)	Network decision to consolidate Cervical Screening Services
Transfer of Rheumatology service to Robert Jones and Agnes Hunt	(190)	Implementation of local CCG Commissioning Plans
Plastic surgery transfer to UHNS	(101)	Action taken to address on-going operational problems being

	£000's	Reason for Change
		experienced within the Trust
Reduce budgeted CQUIN Target to 90% achievement	(400)	Recognition of historical level of performance
Unwinding of risk share – Maternity Pathway	1,567	Application of 2014/15 PBR rules
Unwinding of risk share – Radiology	426	Application of 2014/15 PBR rules
Cardio–respiratory outpatient procedures	1,590	Notice period in March 2013 – agreed implementation date 1st April 2014
Total Recurrent Income Increase	3,113	

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 2014/15 National Tariff upon the forecast Recurrent Outturn Activity. Doing so reduces the level of Income to be payable to the Trust by £3.98 million.

- Local Commissioner QIPP Schemes 2014/15 – The two local Commissioners have shared their expectations in respect of QIPP savings in the 2014/15. The level of savings for Shropshire County CCG amount to £3.02 million. Telford and Wrekin CCG have assumed savings of £4.68 million.

- Decommission Rehabilitation services – Telford and Wrekin CCG have sought to withdraw funding in respect of Rehabilitation services provided at the PRH site on the basis that it is their belief that the Trust does not provide a Rehabilitation service. This is presently being contested, whilst discussions are ongoing, if unresolved, within the next week, an arbitration process will be utilised.

- Coding changes – Telford and Wrekin CCG are presently contesting the funding of activity based upon improved coding practices adopted by the Trust in the 2013/14 financial year, instead maintaining that such changes should be funded on a phased basis over a three year period. Whilst discussions are ongoing, if unresolved, within the next week, an arbitration process will be utilised.

2.1.3 Income Increases

- Demand and Capacity – the Trust has in collaboration with the Local Commissioners developed Demand and Capacity models. These models have demonstrated that the Trust has struggled to achieve RTT Targets in a number of specialities because the level of incoming activity exceeds the available capacity. In setting the budget for the 2014/15 year the costs associated with addressing the capacity shortfall have been recognised. Doing so is then expected to result in an increase in the level of recurrent Elective Outpatient, Day Case and Inpatient Income. In addition, to address the backlog arising from the capacity – demand imbalance, the Trust expects to see further non recurrent activity in the 2014/15 year. The value of the recurrent and non recurrent income growth is presented in the table below.

	2014/15 In Year				2015/16 Recurring		
	Daycase /Inpatient	Outpatients	Total		Daycase /Inpatient	Outpatients	Total
Activity for Sustainable RTT	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
BREAST SURGERY	127	-	127		170	-	170
OPHTHALMOLOGY	35	11	47		47	15	62
PAIN MANAGEMENT	99	4	104		132	6	138
CARDIOLOGY	437	52	489		583	70	653
UROLOGY	85	-	85		113	-	113
COLORECTAL SURGERY	43	-	43		57	-	57
UPPER GASTROINTESTINAL SURGERY	77	-	77		102	-	102
VASCULAR SURGERY	167	-	167		223	-	223
TRAUMA & ORTHOPAEDICS	857	-	857		1,143	-	1,143
ENT	100	-	100		133	-	133
ORAL SURGERY	396	-	396		528	-	528
MAXILLO-FACIAL SURGERY	32	-	32		43	-	43
GYNAECOLOGY	11	-	11		15	-	15
GASTROENTEROLOGY	248	-	248		330	-	330
Sub Total	**2,715**	**68**	**2,782**		**3,620**	**90**	**3,710**
Waiting List Reduction (Backlog)							
UROLOGY	128	-	128				-
COLORECTAL SURGERY	63	-	63				-
VASCULAR SURGERY	4	-	4				-
TRAUMA & ORTHOPAEDICS	338	-	338				-
ENT	98	-	98				-
OPHTHALMOLOGY	214	-	214				-
ORAL SURGERY	137	-	137				-
PAIN MANAGEMENT	166	-	166				-
CARDIOLOGY	68	-	68				-
RESPIRATORY MEDICINE	10	-	10				-
GYNAECOLOGY	28	-	28				-
	1,251	**-**	**1,251**		**-**	**-**	**-**
Total	**3,966**	**68**	**4,033**		**3,620**	**90**	**3,710**

- Winter Pressures Funding – Expenditure Budgets for the 2014/15 financial year allow for the continuation of escalation beds (Ward 32) and the establishment of a winter pressure reserve. The combined value amounts to £1.079 million and is consistent with the level of funding received by the Trust in the 2013/14 year.

- MSK Best Practice Tariff – The Trust has recently agreed to take forward activities that when in place will enable the Trust to provide improved care for elderly patients in receipt of orthopaedic treatment. In doing so the Trust is then able to receive a supplement to income, through a Best Practice Tariff. Once operational the level of income received recurrently will increase by £469,000. To receive such funding it is necessary to have in place a dedicated ortho geriatrician. In recognition of the difficulties associated with the recruitment of an ortho geriatrician it has been assumed that in the 2014/15 financial year no additional income will be received.

- Bowel Scope extension – Approval has recently been granted to extend the scope of the existing Bowel Cancer screening programme to the 40 – 50 year age group. Ultimately it is estimated that the Trust will increase income by £1.62 million, doing so is however dependent upon the appointment of additional clinical and specialist nursing staff. It is estimated that the programme will commence in the last quarter of the 2014/15 resulting in increased income in the year of £186,000.

- Specialised Service Transition funding – From the 1st of April 2013 NHS England assumed responsibility for the funding of high cost drugs and treatments. Prior to the transfer the Trust had an agreement with local commissioners that where drugs prices reduced as a consequence of being transferred from Patent Prices to Generic Prices then the associated gain could be retained as a Cost Improvement. The approach adopted by NHS England is that all such price gains are to be held by the commissioner. Recognising the financial impact of this decision Transitional funds have been made available. In the 2013/14 year the level of transitional funds amounted to £650,000 and in 2014/15 this reduces to £350,000.

- Demographic growth – The two local commissioners have incorporated within their financial plans for 2014/15 a need to provide for the cost of demographic growth, and have applied an uplift of 1.3 – 2.5 per cent. The Trust in setting a budget for the year has assumed the effect of demographic change will serve to increase Income levels in 2014/15 by 1 per cent.

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 2014/15 contract. At the time of writing this paper the position in respect of the two local commissioners is as follows:

	Trust view of contract value for 2014/15 £000's	View presented by the CCGs £000's	Variance £000's
Telford and Wrekin CCG	88,633	82,690	5,943
Shropshire County CCG	119,602	119,602	-

As can be seen the Trust has an agreed Contract position with Shropshire County CCG. A significant imbalance exists in respect of Telford and Wrekin CCG. The differences being attributable to:

(a) QIPP - £2.631 million – Telford & Wrekin CCG, whilst presenting an overall QIPP saving for the year of £4.678 million, have agreed that £2.047 million of that sum will be transferred to a below the line adjustment for the CCG to manage the in year risk. The CCG require the residual £2.631 million to be incorporated within the contract. The Trust is maintaining that the schemes supporting the reduction of £2.631 million are insufficiently developed and so should also be removed from the 2014/15 contract.

Shropshire County CCG - It should be noted that a level of QIPP has been included in the contract for 2014-15 – this comprises £1,167k for the Full Year impact of existing schemes that are already underway and additional values (£440k) in relation to the expansion of the Integrated Community Service which will release pressures on the underlying cost base around the use of escalation beds (£138k) in relation to the reduction of referrals on the Pain Pathway.

During the year the residual level of QIPP currently sitting with commissioners (£1,412k) will be reviewed with the explicit intention of introduction during the year.

Whilst a level of QIPP schemes remain within the contract, as described above, the Trust's overall plan assumes a nil financial effect for all QIPP schemes.

(b) Rehabilitation – As stated in the above Telford and Wrekin CCG have withdrawn funding associated with Rehabilitation services from their 2014/15 contract offer.
(c) Coding Changes – Likewise Telford and Wrekin CCG have also reduced their contract offer, to allow for a phased implementation of coding changes.

- CQUIN – The Trust Income plan assumes a 90 per cent level of achievement of CQUIN Targets in full during the 2014/15 year. The value of contract offers presented by the two local CCG's assume achievement at a rate of 100 per cent.

- Penalties – No allowance has been made for the Income consequences arising from the failure to achieve national Targets and any local Remedial Action Plans.

- Transitional Funds – Shropshire County CCG has agreed to provide the Trust with Transitional funds in the 2014/15 year amounting to £1.0 million. Telford and Wrekin CCG are not presently recognising within their contract offer a requirement to provide the Trust with Transitional support.

- Readmissions funds – The 2014/15 Payment by Results guidance has reiterated the requirement for 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 £2.8 million. Shropshire CCG has acknowledged this requirement by incorporating, within the 2014/15 Contract, an explicit statement agreeing with the Trust how these funds are to be used. Telford and Wrekin CCG have indicated that this issue will be addressed through the Better Care Fund work programmes but no explicit reference exists within the contract documentation.

- Emergency Threshold – The contract offers presented by the two Local CCG's have retained the existing Emergency Threshold. The effect of which is that for the 2014/15 year neither CCG is presently retaining funds associated with emergency activity levels in excess of the Threshold.

Key Messages - Income
- Total Income for the year - £314,640 million - Recurrent income has grown in the year when compared with the Budget approved for the 2013/14 year by £3.113 million, principally as a consequence of the unwinding of risk share arrangements in respect of Radiology and Maternity services and the implementation of revised charging arrangements in respect of Cardio respiratory outpatient procedures. - Application of the Negative Tariff reduces the Trust Income by £3.983 million in 2014/15 - Delivery of activity based upon Demand and Capacity models increases Trust Income by £3.7 million recurrently and £4.033 million in the 2014/15 year - Within the overall income plan, the Trust is still assuming £3.0 million Transitional Support. Whilst we have agreement of £1 million to be provided to the Trust by Shropshire CCG in the 2014/15 year, no agreement reached with Telford and Wrekin CCG. - Trust plan assumes that CCG QIPP savings of £7.7 million or any proportion of it will be offset by associated cost reduction and transitional support for stranded costs. - Trust plan assumes that the Trust is successful in its arbitration with Telford and Wrekin CCG in respect of Rehabilitation services and Coding Changes.

2.2 Expenditure Budgets

2.2.1 Pay Expenditure.

The baseline budget for Pay spending in the 2014/15 year has been set, before the application of a cost Improvement Programme, at £207.7 million. The table below provides a description of how this sum compares with the budgeted level set for the 2013/14 year.

	Recurrent £000's	Non Recurrent £000's	Total £000's
Recurrent Baseline 2013/14 before application of CIP	207,745		207,745
CIP Achieved in year	(8,850)		(8,850)
	198,895		198,895
In year movement			

	Recurrent £000's	Non Recurrent £000's	Total £000's
New Posts established – in year			
Nursing Review	4,008	(244)	3,764
Increased Agency Nursing Premium	750		750
Nursing costs in excess of Nursing Review – Scheduled Care	300		300
Theatre staffing	738	(300)	438
Additional Bed capacity	789		789
Physician Associates	320		320
Management restructure	255		255
Elderly Frail and Complex service	162		162
Scheduled Care over establishment	489		489
Unscheduled Care over establishment	715		715
Scheduled Care Medical Secretaries	175		175
MSK – Best practice Tariff	94		94
HR Restructure	153		153
	8,948	(544)	8,404
New posts established with directly attributable finance resource	2,587		3,760
Disestablished posts following service Transfer	(523)		3,249
Other	117		117
	210,024	(544)	209,480
Pay Pressures 2014/15	3,150		3,150
Winter Pressures reserve		645	645
Demand and Capacity Model	700	1,740	2,440
New developments in 2014/15	3,940	(2,521)	1,419
Pay Budget (before CIP)	217,814	(680)	217,135

<u>New Posts established in 2013/14</u>

- Nursing Review

Budgets in support of Nursing staffing levels have been reset, to allow for the:

- Board approved Review of ward staffing levels – Cost £3.287million,
- Cost of additional staff to support Accident and Emergency and Outpatient areas - £0.425 million; and
- Application of nursing uplift into areas not previously covered, e.g. Maternity - £0.296 million.

- Increased Nursing Agency Premium

During the 2013/14 financial year the level of spending in respect of Agency nursing staff has increased to circa £1.0 million per month. In setting the budget for the 2014/15 financial year the effect of this increase has been recognised by increasing the Agency premium reserve to cover the increased costs being incurred in employing Agency nursing staff. The level of increase amounts to £750,000.

- Nursing costs in excess of Nursing review – Unscheduled Care.

Despite increasing budgets within Unscheduled Care as part of the Nursing Review the effect of high levels of sickness has meant that spending levels continue to exceed the budgeted levels. Without definable management actions this will result in an overspend across Unscheduled Care Nursing budgets of £300,000.

- Theatre staffing

Concerns raised in the 2013/14 with regard to:

(a) The overall level of Theatre capacity; and
(b) The on-going clinical sustainability of existing working practices within Theatres at the PRH and RSH sites

resulted in a decision to reverse changes introduced as part of the 2012/13 Cost Improvement Programme. The effect of doing so has been to increase the recurrent staffing budgets by £738,000. In the 2014/15 year spending increases by £438,000 in recognition of the effect of recruitment.

- Additional bed capacity

Changes to operational working practices have resulted in:

- The continuous use of capacity, previously defined as escalation capacity (Ward 32); and
- following the reconfiguration of wards into those supporting medicine and surgical activities, further beds have been established within the Day Surgery Unit .

To support the cost of these changes it is necessary to increase ward budgets by £789,000.

- Physician Associates

Pressures within Acute Medicine, particularly in respect of Middle grade and Junior Doctors resulted in the service operating with over established budgets provided often by Locum Doctors. In 2012/13 the Trust piloted a new staffing group, physician associates as a basis for creating a more dependable level of service and also to reduce the level of over spending. In 2013/14 it was decided that the physician associates roles should progress so as to become a recurrent part of the Trust funded budgetary establishment. To support this change it is necessary to increase the level of recurrent budget by £320,000.

- Management Restructure

Recognised shortcomings in the level of management support offered to operational delivery has been addressed through the restructuring of Centre management. The net effect of the restructuring has been to increase recurrent spending by £255,000.

- Elderly Frail and Complex service

Improvements to the service provided for Elderly Frail and Complex patients have occurred in the 2013/14 financial year through the existence of increased levels of therapy support. This support has also provided opportunity to improve the “flow” of patients within the hospital. These improvements were supported in the 2013/14 year by the CCG’s through their non-recurrent transition funds. Funding has not been identified to support the service into 2014/15. To maintain the service requires the Trust to resource a cost pressure of £162,000.

- Unscheduled Care – Over establishment

During the 2013/14 year establishment levels have exceeded recurrent budgeted levels as a consequence of staff sickness within medical staffing. The cost of the over establishment in year has amounted to £715,000.

- Scheduled Care – Over establishment - contingency reserve

During the 2013/14 financial year, the effect of:

- sickness levels within medical staffing,
- requirement to provide cover in respect of employment issues, and
- a decision to increase bed capacity by a further 1 bed in respect of ITU

has meant that the service has experienced difficulty in maintaining spending within agreed budgeted levels. The cost of the above items in the 2013/14 year amount to £489,000.

- MSK Best Practice Tariff – Elderly Frail

In 2013/14 the Trust employed Middle grade doctor support in respect of the Elderly Frail service, this post when combined with a dedicated ortho geriatrician consultant and supporting nursing posts will enable the Trust to receive additional funding as a Best Practice Tariff. Presently the Trust is unable to receive the Best Practice supplement.

- HR Restructure

To deliver on-going sustainability within the Trust it is recognised that considerable improvements need to be made in respect of the management of sickness absence, the recruitment and retention of staff and working practices. Recognising this challenge the Trust decided to fund a restructuring of the HR department. The cost of the restructure amounts to £153,000.

<u>New posts with directly attributed financial resource</u>

During the year the Trust has either:

- Received notification of explicit recurrent finance to support the establishment recurrently of new posts; or
- Established increased capacity following the completion of the Demand and Capacity modelling.

	£000's
Womens and Children Birth rate plus	254
Womens and Children – Maternity Pathway	75
Therapies – Early Supported Discharge	192
MSK Consultant/ Medical staff Capacity	826
Urology Consultant Capacity	125
Endoscopy – Capacity	347
Endoscopy – Nurse specialist	55
Oncology – Nurse specialist	20
Colorectal Capacity	362
Corporate Procurement	203
Anti – Coagulation service	87
	2,587

<u>Disestablished posts – Transfer of Service</u>

During the year the year the Trust has disestablished posts as a consequence of the transfer of service to other organisations.

	£000's
Rheumatology transfer to Robert Jones and Agnes Hunt	(38)
Plastic surgery transfer to University Hospital North Staffs	(52)
Cervical Screening transfer to University Hospital North Staffs	(433)
Total Disestablished	(523)

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 1.5 per cent of annual recurrent pay and amounts to £3.15 million.

Winter Pressures

The Income budget assumes the existence of winter pressure funding for the 2014/15 financial year amounting to £1.079 million. In setting the pay budget it is assumed that this funding will be used to:

- Support the cost of escalation capacity – Ward 32 - £434,000
- Establish Winter Period reserve - £659,000.

Demand and Capacity Model

Whilst the Trust has put in place additional capacity to support the findings from the Demand and Capacity modelling, there remains a requirement to provide recurrent funding particularly in respect of Cardiology. A recurrent reserve amounting to £700,000 has been established.

Non recurrent funding is also required to enable the Waiting List Backlog to be addressed. A reserve of £1.74 million has been established.

The reserves to support Demand and Capacity whilst presently described as resource to support increased pay costs but will also be used to support increased non pay expenditure and also the cost of outsourcing work to other providers.

New Developments / Cost Pressures 2014/15

During the 2014/15 year, the Trust will be required to increase the cost base of the Trust because of:

- New service developments being taken forward in the year; and
- Emerging cost pressures.

The value of these new developments/ cost pressures amount to £3.94 million recurrent and £1.4 million in the 2014/15 year.

	Recurrent £000's	Non Recurrent £000's	Total £000's	
MSK Best Practice Tariff – Elderly	469	(469)	-	Recruitment for ortho geriatrician commenced, supporting posts to be appointed into following the appointment of the ortho geriatrician
Bowel Scope – screening extension	831	(482)	349	Recruitment commencing in first quarter of 2014/15. Service to commence in last quarter of the financial year
Accident and Emergency 8 and 9 Consultants	300	(150)	150	Recruitment process commenced – not envisaging appointment until last half of the year.
Further Increased Bed Capacity	1,200	(850)	350	Opportunities to increase bed capacity presently being reviewed
Womens and Children	804	(402)	402	Increased costs anticipated following the

	Recurrent £000's	Non Recurrent £000's	Total £000's	
– FCHS Cost Pressure				opening of the new facility at PRH
Radiology Business Case	336	(168)	168	Business Case under development
	3,940	(2,521)	1,419	

2.2.2. Non Pay Budgets

The baseline budget for Non Pay spending in the 2014/15 year has been set, before the application of a Cost Improvement Programme, at £94.769 million. The table below provides a description of how this sum compares with the budgeted level set for the 2013/14 year.

	Recurrent £000's	Non Recurrent £000's	Total £000's
Recurrent Baseline 2013/14	91,499		91,499
In year movement			
Non Pay CIP achieved	(4,155)		(4,155)
High Cost Drugs/ Treatments – recharged to NHS England	2,640		2,640
	89,985	-	89,985
Non Pay Pressures 2013/14	4,139	-	4,139
Cost Pressures associated with New developments in 2014/15	645		645
Non Pay Budget (before CIP)	94,769		94,769

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 4.6 per cent of annual recurrent non pay and amounts to £4.139 million.

Key Messages - Expenditure budgets and Reserves
• Pay Budgets set at £216.595 million, before the achievement of Cost Improvement Programme savings. • Non Pay set at £94.769 million before achievement of CIP. • Pay assumed to increase in the 2014/15 year by 1.5 per cent, Non pay by 4.6 per cent

3. Cost Improvement Programme

The Trust has constructed a Cost Improvement Programme for delivery in the 2014/15 year with the requirement to deliver savings amounting to £15.2 million as presented in the table below. The programme for the year comprises of two elements:

- Cash releasing expenditure savings - £9.0 million; and
- Activity efficiencies - £6.2 million.

	2014/15 savings £000's	Recurrent £000's	Slippage £000's
Procurement	2,000	2000	-
CNST Contribution	500	500	-
Salary Sacrifice	100	100	-
Pharmacy gain share	200	200	-
Capitalisation of workforce Costs	1,200	1,200	-
Outpatient Nursing and Clinical Nurse Specialist Review	500	500	-

	2014/15 savings £000's	Recurrent £000's	Slippage £000's
Diagnostic staffing and Pay harmonisation	300	300	-
CQUIN at 100 per cent	600	600	-
Finance Directorate – staff reduction	200	200	-
Nursing recruitment and sickness management	600	600	-
Nursing review transitional programme	400		400
Finance Directorate non pay	200	200	-
Estates and Facilities staff reduction	200	200	-
Unscheduled Care Savings programme	500	500	-
Medical staff Management costs	200	200	-
Travel expenses – Travel plan	200	300	(100)
Non Pay spending controls	600	600	-
To be identified	500	500	
Cash releasing efficiency savings	9,000	8,700	(300)
Activity efficiencies	6,200	6,200	-
			-
Total Cost Improvement Programme	15,200	14,900	(300)

The Cost Improvement Programme is being performance managed through a Financial Recovery Board. Membership of the board comprises:

- Chief Executive (Chair)
- Finance Director
- Chief Operating Officer
- Medical Director
- Workforce Director,
- Director of Nursing and Quality
- Deputy Finance Director; and
- CIP Programme Manager

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

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
Procurement	Finance Director	Detailed savings plans constructed with on-going engagement with Service Centres and Departments	2000	Amber
CNST Contribution	Chief Operating Officer	Evidence supplied to NHSLA in March awaiting notification of results of the review	500	Green
Salary sacrifice	Workforce Director	Schemes being finalised	100	Amber
Gain share arrangements – Pharmacy	Finance Director	Schemes identified – agreement to be reached with Local Commissioners / NCB	200	Red
Capitalisation of Costs	Finance Director	Opportunities for capitalisation identified	1,200	Green
Outpatient Nursing and Clinical Nurse Specialist Review	Director of Nursing & Quality	Review to be developed	500	Red
Diagnostic staffing and Pay harmonisation	Workforce Director	Implementation plans to be finalised	300	Amber
CQUIN 100 per cent	Director of Nursing &	CQUIN schemes being finalised – Commissioners	600	Green

	Director / Centre Chief Lead	Status	Savings "in year" £000s	Risk Rating
	Quality	have confirmed funding in place to underpin 100 per cent achievement		
Finance Directorate Pay reduction	Finance Director	Schemes identified	200	Green
Nurse recruitment and sickness management	Director of Nursing & Quality	Schemes to be developed	600	Amber
Nursing Review transitional programme	Director of Nursing & Quality	To be developed	400	Amber
Estates and Facilities staff reduction	Finance Director	Plans being finalised	200	Amber
Finance Directorate Non Pay	Finance Director	Schemes identified	200	Green
Unscheduled Care savings programme	Chief Operating Officer	Programme of savings to be finalised	500	Amber
Medical staff Management Cost reduction	Medical Director	Plan for achieving savings to be finalised	200	Red
Travel expenses – savings – Travel Plan	Workforce Director	Plan for achieving savings approved	200	Amber
Non Pay savings controls	Finance Director	Schemes in place	600	Green
To be identified			500	Red
Activity efficiencies	Finance Director	Contract agreements in place	6,200	Green

Key Messages – Cost Improvement Programme
• Cost Improvement Programme identified to deliver savings in year of £15.2million. • Revised management arrangements established to deliver Programme, overseen by a Financial Recovery Board.

4. Risks associated with the 2014/15 Plan

Income – The Trust does not have an agreed contract with Telford and Wrekin CCG, arbitration carries a potential risk of £2.5 million.

Demand and Capacity – Underpinning the 2014/15 Financial Plan is an assumption that the Trust will generate additional income as it delivers to the recently constructed Demand and Capacity Plans. To achieve this level of activity the Trust will need to have in place sufficient capacity and ensure that this capacity is deployed effectively in response to the increased levels of demand.

Local QIPP – Local commissioners have indicated that local QIPP schemes will reduce Income by £7.7 million; little detail exists in respect of the activities being introduced to reduce the Income.

Performance Penalties – The experience of 2013/14 demonstrates that commissioners intend to actively manage contracts in the 2014/15 and enforce Financial Penalties where the Trust fails to achieve national contract targets.

Within the overall income plan, the Trust is still assuming £3.0 million Transitional Support. Whilst we have agreement of £1 million to be provided to the Trust by Shropshire CCG in the 2014/15 year, no agreement reached with Telford and Wrekin CCG. Clearly without agreement this remains a significant risk to the overall plan.

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.

Key Messages - Risks and Contingencies
• A sizeable gap presently exists between the Trust and Telford and Wrekin CCG in respect of the value of Contract Income for the 2014/15 year. • The Trust has historically failed to deliver against national targets. Failure in the 2014/15 year will attract financial penalties. No contingency funds exist to cover financial penalties. • No contingency reserves exist to cover the failure to deliver the 2014/15 CIP Programme. • Income plans assume the Trust will receive £3.0 million transitional support. Contract negotiations to date have only secured £1.0 million of this from Shropshire County CCG. • No agreement reached on Transitional Support with Telford and Wrekin CCG.

5. 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 2018/19. In the years 2015/16 to 2018/19 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.
- Trust is able to release excess costs associated with split site working in the 2016/17 financial year
- Transitional support or price modifications are paid by commissioners in the years 2015/16 and 2016/17.

Applying these assumptions produces the following:

	Recurrent £million's	Non Recurrent £million's	Total £million's
2013/14	(7.5)	7.5	-
2014/15	(6.0)	(0.2)	(6.2)
2015/16	(8.1)	2.4	(5.7)
2016/17	(8.5)	6.0	(2.5)
2017/18	5.6	(2.0)	3.6
2018/19	4.2	(1.0)	3.2

Key Messages – Medium Term Financial Plan
• The Trust is expecting to record deficits in each of the years 2014/15 – 2016/17 • Trust generates a surplus in the 2017/18 financial year as a consequence of a reconfiguration of services which enables excess costs of split site working to be avoided.

6. Capital Programme 2014/15

An Outline Capital Programme was agreed as per attached table below, column (a) dependent upon the following actions:

1) Operational Risk Group review the Medical Equipment Requirements within the Risk Prioritisation/Capital Aspirations exercise and prioritise against the original proposed allocation, ie for 2014/15 Medical Equipment Contingency £275k and additional replacement equipment £300k
2) An understanding regarding the prioritisation of replacement ultrasound scanners (Radiology and Maternity) against other medical equipment requirements.

The outcome of actions 1 and 2 above have resulted in a revised Outline Capital Programme as per attached Appendix 1 column (b). This results in an overcommitment of £506k over the Trust's Capital Resource Limit. However, the Royal Shrewsbury Hospital League of Friends and the Friends of Princess Royal Hospital have both indicated that they are willing to consider requests from the Trust for support in delivering capital schemes that have been prioritised by the Trust. Therefore there is an assumption within the Programme that this shortfall will be funded by them (this would be well within the value of support received during the current financial year).

3) Estates/Facilities Management present a prioritised replacement programme for floors/bathrooms/kitchens that could be completed within the £250k allocation

The following should be noted:

- No allocation for the original planned Medical Equipment Replacement Programme.
- No allocation for provision of a 4th Lift.

	Original Proposal from CPG (a)	Post ORG Prioritisation (b)				
	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
FUNDING AVAILABLE:						
Internally Generated Capital Resource Limit (CRL)	8,450	8,450	8,450	8,450	8,450	8,450
DH PDC Future Configuration of Hospital Services (Reconfiguration)	5,035	5,035				
Total CRL	13,485	13,485	8,450	8,450	8,450	8,450
IDENTIFIED SCHEMES:						
Agreed Commitments/Recurring Contingencies:						
Schemes carried forward from old year	200	200	200	200	200	200
Capitalised Salaries	600	600	600	600	600	600
Total Agreed Commitments	800	800	800	800	800	800
Contengencies:						
Estates Contingency	250	175	250	250	250	250
Medical Equipment (emergency replacement £250k/planned replacement £100k)	350	275	500	500	500	500
Information Technology	250	175	250	250	250	250
Non Patient Connected Equipment Contingency Fund	100	75	100	100	100	100
VitalPAC Contingency Fund	100	75	100	100	100	100
Corporate Contingency Fund	1,000	900	1,000	1,000	1,000	1,000
Contingency for Capital additions identified through the budget process	625	625	625	625	625	625
Total Recurring Contingencies	2,675	2,300	2,825	2,825	2,825	2,825
Creating additional capacity at PRH (Ward 17)	3,500	3,500				
Agreed Schemes:						
Bowel Scope Screening Programme	105	105	323			
Water/RO Plant at RSH	100	100				
MES - additional replacement equipment	300		300	300		
Asbestos removal from Duct (Path Lab to Boilerhouse)/Pathology/Maternity	100	100	100			
Server replacement scheme	120	120				
Network replacement scheme	120	120				
4th Lift	330					
Estates Replacement Fund (floors/bathrooms/kitchens,etc)	250	250	250	250	250	250
Patient Monitoring	50	50	150	127		
Radiology Ultrasound Equipment (revised cost)		192				
Maternity Ultrasound Equipment		140	100	100	100	100
Anaesthetics scopes		90	90			
PRH Cystoscopes		125	100	100		
PRH Operatiing Tables (part completed 2013.14)		150				
Radiology Image Intensifier RSH		96				
Theatre Operating Lights PRH		55				
Renal dialysis stations replacement		100	100			
Pathology Tissue Processing Machine		43				
Pathology Tissue Cassette Markers		15				
Bariatric Evacuation from Ward Block		5				
Replacement of Obsolete Handsets		50				
Invest to save		60				
Creation of Surgical Admission and Discharge Suite - PRH		110				
Creation of Urgent Care Centre and Ambulatory Care Area - RSH		130				
Creation of Clinical Decision Unit - PRH		150				
Over-Commitment potentially mitigated through LoF support		-506				
Schemes agreed within 5 Year Outline Programme in 2013.14	1,475	1,850	1,513	877	350	350
IG CRL	8,450	8,450	5,138	4,502	3,975	3,975
Future Configuration of Hospital Services - Project 2	5,035	5,035				
Total committed	13,485	13,485	5,138	4,502	3,975	3,975
BALANCE REMAINING	0	0	3,312	3,948	4,475	4,475

Annex 1 – Monthly Income and Expenditure Position 2014/15

Monthly Income and Expenditure 2014/15	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	2014/15 Full Year
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Gross Employee Benefits	(17,983)	(18,111)	(17,864)	(18,070)	(17,964)	(17,868)	(17,952)	(17,779)	(17,502)	(17,415)	(17,417)	(17,415)	(213,340)
Other Operating Costs	(8,619)	(8,620)	(8,616)	(8,621)	(8,622)	(8,617)	(8,622)	(8,621)	(8,618)	(8,621)	(8,622)	(8,697)	(103,516)
Revenue from Patient Care Activities	23,319	23,907	24,165	24,605	23,476	24,020	26,026	25,263	24,979	24,776	24,319	25,868	294,723
Other Operating Revenue	1,702	1,721	2,109	1,695	1,787	1,726	1,633	1,789	1,894	1,893	1,893	1,894	21,736
OPERATING SURPLUS/(DEFICIT)	(1,581)	(1,103)	(206)	(391)	(1,323)	(739)	1,085	652	753	633	173	1,650	(397)
Investment Revenue	2	2	2	2	2	2	2	2	2	2	2	2	24
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR	(1,579)	(1,101)	(204)	(389)	(1,321)	(737)	1,087	654	755	635	175	1,652	(373)
Dividends Payable on Public Dividend Capital (PDC)	(492)	(492)	(492)	(492)	(492)	(492)	(492)	(492)	(492)	(493)	(493)	(413)	(5,827)
Net gains/ (loss) on transfers by absorption													0
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR	(2,071)	(1,593)	(696)	(881)	(1,813)	(1,229)	595	162	263	142	(318)	1,239	(6,200)

Annex 2 – Income and Expenditure Position 2013/14 to 2018/19

	2013/14			2014/15			2015/16			2016/17			2017/18			2018/19		
Income and Expenditure	Recurring	Non Recurring	Total	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	£000	£000	£000
Income (1) and (2)	306.5	4.5	311.0	311.8	-0.2	311.6	313.0	-0.8	312.2	313.9		313.9	315.0		315.0	316.0		316.0
Pay	-210.0	1.7	-208.4	-213.2	-0.1	-213.3	-217.4	0.4	-217.0	-221.8	0.4	-221.4	-226.2	0.4	-225.8	-230.7		-230.7
Non Pay	-90.0	-1.5	-91.5	-94.1		-94.1	-98.0		-98.0	-102.0		-102.0	-106.2		-106.2	-110.4		-110.4
Finance Costs	-14.1		-14.1	-14.6		-14.6	-15.2		-15.2	-15.8		-15.8	-16.4		-16.4	-17.0		-17.0
Reserves	0.0	3.1	3.1	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
Expenditure (3)	-314.1	3.3	-310.8	-321.9	-0.1	-322.0	-330.6	0.4	-330.2	-339.6	0.4	-339.1	-348.8	0.4	-348.3	-358.2	0.0	-358.2
Deficit before CIP	-7.6	7.7	0.2	-10.1	-0.3	-10.4	-17.7	-0.3	-18.0	-25.6	0.4	-25.2	-33.8	0.4	-33.4	-42.1	0.0	-42.1
CIP																-1.5		-1.5
Establish contingency					-1.5	-1.5	0.0	-1.5	-1.5		-1.5	-1.5	0.0		0.0	7.9		7.9
CIP PROGRAMME 2017/18 - 4 per cent			0.0			0.0			0.0			0.0	7.9		7.9	8.1		8.1
CIP PROGRAMME 2016/17 - 4.5 per cent			0.0			0.0			0.0	7.8		7.8	8.1		8.1	8.3		8.3
CIP PROGRAMME 2015/16 - 4.5 per cent			0.0			0.0	7.8		7.8	8.0		8.0	8.3		8.3	8.5		8.5
CIP PROGRAMME 2014/15 - 5.0 per cent			0.0	8.7	0.3	9.0	8.9		8.9	9.2		9.2	9.4		9.4	9.7		9.7
CIP PROGRAMME 2013/14 - 6 per cent			0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
Revenue consequences of Service Reconfiguration	0.0	-0.2	-0.2	-2.3	0.5	-1.8	-2.3		-2.3	-2.3		-2.3	-2.3		-2.3	-2.3		-2.3
Local Tariff Modifications	0.0		0.0	1.0	2.0	3.0	1.0	5.1	6.1	1.0	8.1	9.1		6.3	6.3			0.0
Opening of new hospital													15.5	-7.7	7.7	15.9		15.9
Non Pay Cost Pressure Demo Growth			0.0	-0.6		-0.6	-1.3		-1.3	-2.0		-2.0	-2.7		-2.7	-3.4		-3.4
RTT Cost Increase				-0.7	-1.7	-2.4	-0.7	-1.0	-1.7	-0.7	-1.0	-1.7	-0.7	-1.0	-1.7	-0.7	-1.0	-1.7
Developments				-1.6	1.0	-0.6	-1.6		-1.6	-1.6		-1.6	-1.7		-1.7	-1.7		-1.7
QIPP Savings	0.0	0.0	0.0			0.0	-3.1	0.0	-3.1	-6.3	0.0	-6.3	-9.4	0.0	-9.4	-12.6	0.0	-12.6
QIPP Savings - cost reduction	0.0	0.0	0.0			0.0	3.1		3.1	6.3		6.3	9.4		9.4	12.6		12.6
Bowels scope costs				-0.8	0.5	-0.3	-0.8	0.2	-0.6	-0.8		-0.8	-0.8		-0.8	-0.8		-0.8
p. Herring developments			0.0	-1.5	1.0	-0.5	-1.5		-1.5	-1.5		-1.5	-1.5		-1.5	-1.5		-1.5
Surplus after CIP	-7.6	7.5	0.0	-8.0	1.8	-6.2	-8.1	2.4	-5.7	-8.5	6.0	-2.5	5.6	-2.0	3.5	4.2	-1.0	3.2
Inflation Assumptions																		
Pay	-203.0	2.0%	-4.1	-210.0	1.5%	-3.2	-213.2	2.0%	-4.3	-217.4	2.0%	-4.3	-221.8	2.0%	-4.4	-226.2	2.0%	-4.5
Non Pay	-87.3	4.5%	-3.9	-90.0	4.6%	-4.1	-94.1	4.1%	-3.9	-98.0	4.1%	-4.0	-102.0	4.1%	-4.2	-106.2	4.0%	-4.2
Finance Costs	-13.9	0.0%	0.0	-14.1	3.8%	-0.5	-14.6	3.8%	-0.6	-15.2	3.8%	-0.6	-15.8	3.8%	-0.6	-16.4	3.8%	-0.6
	-304.2		-8.0	-314.1		-7.8	-321.9		-8.7	-330.6		-8.9	-339.6		-9.2	-348.8		-9.4
			2.63%			2.49%			2.70%			2.71%			2.71%			2.69%