Agenda Item: Trust Board Paper E

TRUST BOARD MEETING – 2ND APRIL 2015

2015/16 DRAFT FINANCIAL PLAN

DIRECTOR:	Paul Traynor - Director of Finance
AUTHOR:	Paul Traynor - Director of Finance
DATE:	2nd April 2015
PURPOSE:	To update the Trust Board on progress with the 2015/16 Financial Plan
PREVIOUSLY CONSIDERED BY:	Integrated Finance, Performance and Investment Committee
Objective(s) to which issue relates *	☐ 1. Safe, high quality, patient-centred healthcare ☐ 2. An effective, joined up emergency care system ☐ 3. Responsive services which people choose to use (secondary, specialised and tertiary care) ☐ 4. Integrated care in partnership with others (secondary, specialised and tertiary care) ☐ 5. Enhanced reputation in research, innovation and clinical education ☐ 6. Delivering services through a caring, professional, passionate and valued workforce ☑ 7. A clinically and financially sustainable NHS Foundation Trust ☐ 8. Enabled by excellent IM&T
Please explain any Patient and Public Involvement actions taken or to be taken in relation to this matter:	Considered but not applicable to this paper
Please explain the results of any Equality Impact assessment undertaken in relation to this matter:	Considered but not applicable to this paper
Organisational Risk Register/ Board Assurance Framework *	☐ **Organisational Risk Register** ☒ **Board Assurance Framework** ☐ **Not Featured**
ACTION REQUIRED *	For decision ☒ For assurance ☐ For information ☒

♦ We treat people how we would like to be treated ♦ We do what we say we are going to do
♦ We focus on what matters most ♦ We are one team and we are best when we work together
♦ We are passionate and creative in our work

***** tick applicable box

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

REPORT TO: **TRUST BOARD**

DATE: **2ND APRIL 2015**

REPORT FROM: **PAUL TRAYNOR – DIRECTOR OF FINANCE**

SUBJECT: **2015-16 DRAFT FINANCIAL PLAN**

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1. INTRODUCTION

1.1 This paper updates the Trust Board on the progress with the 2015/16 financial plan.

2. CURRENT POSITION ON CONTRACT NEGOTIATIONS

2.1 Early in March, UHL was requested to make a decision on which tariff they wished to operate under in 2015/16, a default tariff rollover (DTR) or an enhanced tariff option (ETO). The DTR involved payment at 2014/15 prices, but loss of CQUIN monies with ETO involved a lesser efficiency requirement, MRET payments at 70% rather than 30% and payment of all specialised growth at 70% rather than 30% as per the initial draft tariff. UHL opted for ETO, largely driven by high levels of CQUIN performance in previous years.

2.2 Discussions continue with both local CCGs and NHSE for specialised services about contract values for 2015/16, but have progressed significantly since the last update to IFPIC.

2.3 Commissioning with LLR CCGs

Discussions are nearing conclusion on a risk sharing arrangement between UHL and LLR CCGs at a value of £436m. The contract uses ETO to value activity and form the baseline. Any variation from the levels of activity in this plan will not be paid in full based on ETO. Terms and conditions around how activity changes, penalties, CQUIN and QIPP are managed are being discussed as part of agreeing this contract and ensuring that UHL is not exposed to unacceptable levels of risk, especially in relation to activity changes.

2.4 Commissioning with NHSE

NHSE discussions are challenging due to the national position on contracting. NHSE are unable to make formal contract offers until 31st March as national implications on tariff choices are still being understood. However, it is known that all growth over and above the 2014/15 plan will be paid at 70% across all types of activity.

Despite this, discussions are ongoing about potential contract envelopes, including areas of growth in activity and excluded drugs. Areas likely to be of significant difference at this stage, pending a formal offer, are high cost drugs, where NHSE wish to commission less than UHL's growth requests and payment for consumables on the robot.

3. DRAFT INCOME AND EXPENDITURE ACCOUNT

3.1 Although there are still uncertainties regarding the contract income value, a draft plan has been established subject to finalisation. This is shown in the table below. Overall, the deficit position is planned to improve in 2015/16 to £36.1m, an improvement of £4.6m on 2014/15 plan and forecast outturn.

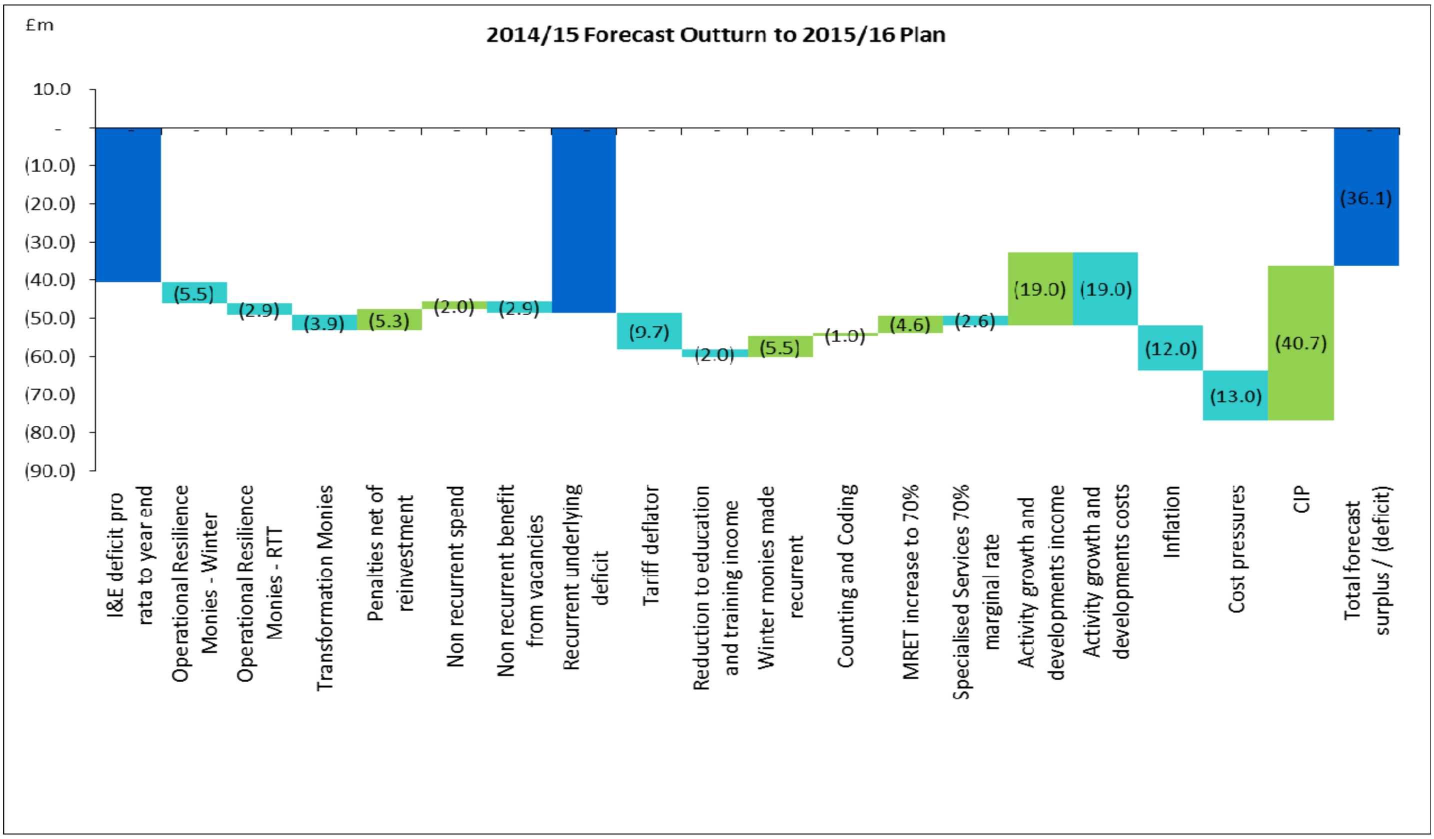
	April 2014 to March 2015 Draft Outturn			April 2015 - March 2016	Increase / (Decrease) from 2014/15 Outturn
	Plan £ 000	Actual £ 000	Variance (Adv) / Fav £ 000	Plan £ 000	Plan £ 000
NHS Patient Care Income	696,060	701,539	5,478	722,600	21,061
Non NHS Patient Care	5,660	6,214	553	6,214	1
Teaching, R&D income	81,095	80,974	(121)	79,146	(1,827)
Other operating Income	37,377	38,206	829	36,328	(1,877)
Total Income	**820,193**	**826,932**	**6,739**	**844,289**	**17,357**
Pay Expenditure	**496,581**	**495,204**	**1,377**	**496,811**	**1,607**
Non Pay Expenditure	**320,772**	**331,717**	**(10,945)**	**334,626**	**2,909**
Total Operating Expenditure	**817,354**	**826,921**	**(9,568)**	**831,437**	**4,516**
EBITDA	**2,839**	**11**	**(2,828)**	**12,852**	**12,841**
Interest Receivable	96	**84**	(12)	77	(7)
Interest Payable	(810)	**(762)**	48	(840)	(78)
Depreciation & Amortisation	(33,887)	**(33,232)**	655	(34,717)	(1,485)
Surplus / (Deficit) Before Dividend and Disposal of Fixed Assets	**(31,762)**	**(33,899)**	**(2,137)**	**(22,628)**	**11,271**
Dividend Payable on PDC	(10,428)	**(11,255)**	(827)	**(13,472)**	(2,217)
Net Surplus / (Deficit)	**(42,190)**	**(45,154)**	**(2,964)**	**(36,100)**	**9,054**
EBITDA MARGIN		**0.00%**		**1.52%**	
Less: Impairments	1,445	**4,447**	3,002	**0**	(4,447)
RETAINED SURPLUS / (DEFICIT)	**(40,745)**	**(40,707)**	**38**	**(36,100)**	**4,607**

3.2 The following assumptions have been made:

- Contract income from LLR CCG is £436m and specialised contract is on a full tariff contract
- There is no investment for the identified costs of 7 day services. These have been identified at £6.3m and are not supported by any additional funding from within tariff
- A number of priorities have been identified for investment that would support quality and performance improvement, totalling £4.7m. The costs of these discretionary decisions are not included within the above
- Full delivery of £40.7m of CIP. The unidentified CIP is currently allocated to non pay

3.3 A number of internal allocations of funding at CMG and Directorate level are still to be finalised, the implications of which are included within the I&E presented above. In addition, there are some CMG funding requests specifically reliant on income from NHSE for specialised work. Until these are finalised, the individual CMG positions are still subject to move and may affect allocation of budget between pay and non pay. This is expected to be finalised in April, when a full budget book including CMG and Directorate budgets will be presented to IFPIC.

3.4 The movement from 2014/15 outturn to the 2015/16 plan can be seen in the chart below:



3.5 There have been a number of non recurrent items within this position as shown in the Chart:

- Operational resilience funding of £8.4m has been received in support of winter and RTT
- Transformation costs funding of £3.9m was received
- Penalties (net of re-investment) of £5.3m were incurred
- There was non recurrent spend of £2m
- There was a non recurrent benefit of £2.9m due to the number of vacancies across the Trust

In total, these non recurrent amounts mean that the recurrent underlying deficit for the Trust is £48.6m.

In moving from this recurrent underlying deficit to the planned £36.1m deficit for 2015/16, the following is planned for:

- Tariff deflator of £9.7m as per the ETO
- Reduction to education and training income of £2m as new tariffs for this area are introduced and transitional funding is no longer available
- Winter monies of £5.5m are made recurrent as these are now included in CCG allocations
- Counting and coding submissions of £1m are agreed with NHSE
- MRET is rebased to 70% (£4.6m)
- Demographics, RTT and internally approved business cases mean growth of £19m with equal cost to deliver
- Inflation costs of £12.0m for pay and non pay
- Cost pressures of £13.0m, including financing costs, IBM support costs, reconfiguration costs and other unavoidable costs
- Delivery of £40.7m of CIP

4. DRAFT CAPITAL PLAN

4.1 The draft capital plan can be seen in the table below. The finalisation of this plan is ongoing as plans for large business cases linked to the Trust's 5 year strategy are worked through. In total, an estimated £123m will be committed, with £89m requiring borrowing to support.

Scheme	2015/16 £'000
Trust Funded Schemes	
IM&T Sub-Group	4,000
Facilities Sub-Group	5,355
Medical Equipment Executive Budget	5,500
MES Installation Costs	1,500
Stock Management Project	3,371
Theatre Recovery LRI	2,750
LRI Managed Print	1,323
Linear Accelerators	3,000
EDRM	3,000
Electronic Blood Tracking System	996
Donations	300
LiA Schemes	250
Vascular Enablers	800
ITU Bed Interim Solution	0
Individual Business Cases	1,974
	34,119
Schemes Requiring External Funding	
Emergency Floor	17,698
Vascular Surgery	9,788
Treatment Centre	5,000
Women's	7,500
MSCP Development	4,150
Childrens' Hospital	3,500
Theatres LRI	1,650
Wards / Beds LRI	2,000
Wards / Beds GH	6,000
Imaging GH	3,000
EPR Programme	28,570
	88,856
Total Plan 2015/16	**122,975**

5. CASH

5.1 In order to support the planned deficit and the capital programme, there will be a need for further borrowing in 2015/16. Currently, it is forecast that £130m of borrowing will be required to support the deficit, capital programme and improvements in working capital. This will be refined as business cases for large projects are approved and the mechanisms for application of loans are finalised by the NTDA. Further information on cash requirements can be found in the working capital strategy paper.

6. NEXT STEPS

6.1 There are a number of steps that need to be taken to finalise the plan:

- Signed agreement of final plans with local CCGs and NHSE – this will allow finalisation of CMG budgets and final confirmation of Trust-wide expenditure levels

- Full identification of the CIP programme – this will reduce risk within the financial position and support the full and final setting of budgets
- Final internal allocation of budgets, in part linked to the point above – this will allow individual budgets to be agreed and signed off by budget holders

6.2 Subject to agreement of contracts, the plan will be finalised and a full budget book presented to the IFPIC in April 2015.

7. RISKS

7.1 There are a number of risks, both in finalising the plan and delivering in 2015/16. These are detailed below with mitigation.

7.1.1 There is a risk that contracts will not be agreed by commissioners by mid April 2015 in line with national timetables. Current negotiations with NHSE are being held back by national requirements not to issue formal offers.

Mitigation – Agreement with LLR CCGs is nearing completion and a verbal update will be given to IFPIC. Negotiations on UHL expectations with NHSE have begun in the absence of a formal offer and principles being agreed.

7.1.2 There is a risk that internal plans are not signed off in a timely fashion.

Mitigation – Finalisation of funding for CMGs not linked to income will be agreed by the end of March 2015, with the amounts left to agree then based on outcomes of commissioning discussion.

7.1.3 There are a number of investments that have been identified as required to improve performance and/or quality, but have no identified source of funding. Investment in these may risk the delivery of the planned control total.

Mitigation – The Executive Team has prioritised all identified investments and communicated this prioritisation. For those identified as highest priority (£4.7m), a mechanism for funding is being sought.

7.1.4 Within the risk share agreement with LLR CCGs, activity may be above plan without a direct impact on income in the same way as a tariff based contract. Similarly, activity may be below plan without a corresponding direct decrease in income.

Mitigation – As part of finalisation of contracts, terms and conditions will be written to ensure that activity changes do not represent an unacceptable financial risk to UHL. In addition, activity monitoring will continue to allow identification of any adverse trends and the impact of them for review through the contract monitoring process.

7.1.5 There is a risk in year of there being unidentified cost pressures that place pressure on the delivery of the plan.

Mitigation – The planning process has been robust in identification of costs required to deliver activity as well as the communication of what is not supported. The Trust holds a small contingency (£3.5m) for the support of unavoidable cost pressures identified in year.

7.1.6 CIP delivery is key to delivery of the planned I&E position, any under delivery is a risk to this.

Mitigation – E&Y continue to support the identification and management of the CIP programme, with recruitment having been undertaken for specific individuals to support this going forward. CIP performance is monitored on a monthly basis through CMG performance meetings and reporting to EPB and IFPIC.

7.1.7 CMGs and Directorates do not deliver to within their plan.

Mitigation – CMGs and Directorates will have finalised plans for 31st March 2015, with any remaining items being based on decisions from Commissioners. CMG financial positions will be reported through the performance meetings, as well as overall Trust positions at EPB and IFPIC.

8. CONCLUSION AND RECOMMENDATIONS

8.1 The Trust Board is asked to:

- **Note** the current position with regards to development of the plan
- **Approve** the draft budget subject to finalisation at CMG and Directorate level and agreement of contract plans with commissioners
- **Note** the borrowing requirement of £130m to support the capital plan and the planned £36.1m deficit
- **Note** the work ongoing to finalise the plan and the risks associated with delivery
- **Agree** this budget as draft for operation until final agreement of patient care income

Paul Traynor
Director of Finance

2nd April 2015