

Report to Trust Board

Date: 30 March 2011

Agenda item no 8.2

Title: **Approval of Budgets 2011-12**
Author: Deputy Director of Finance
Responsible Director: Deputy Director of Finance
Purpose: ~~Strategy/ Decision / Ratification/ Assurance/Information~~
Delete as appropriate
Action required: Approve the budget for 2011-12

Executive Summary	<p>This paper summarises the budget for revenue income, revenue expenditure and capital expenditure highlighting planned revenue efficiency measures of £11.7m required to perform: (a) within statutory limits and (b) to a level required to underpin financial viability by generating a revenue margin of £1.4m. (Equivalent to 1% of turnover). The main risk to all parts of the budget is the further development of the efficiency programme. The cash flow implications of the budget are summarized. Capital expenditure is planned at £4.7m but will be managed to contribute to safety and efficiency needs within cash flow constraints.</p> <p>The Board is asked to approve the budget.</p>
-------------------	--

1. Introduction

This paper provides the Board with a summary of the budget for the 2011-12 financial year for approval.

2. Background

Acute NHS trusts have three main financial statutory duties :

- to breakeven, taking one financial year with another – which is normally achieved through a balanced position on the income and expenditure account each and every year.

- to remain within the Capital Resource Limit (CRL) set for each NHS trust by the Department of Health;
- to remain within the External Financing Limit (EFL) set for each NHS trust by the Department of Health

In setting the budget for the 2011-12 financial year, Bedford Hospital NHS Trust will seek to meet its patient care objectives without breaching the statutory duties outlined above.

Furthermore the Trust will seek to set a budget that demonstrates the ability to operate at the standard required of an NHS Foundation Trust. Our budget therefore needs to underpin the ability to remain financially viable with patient activity and service development assumptions underpinned by our local commissioners.

Our budget is therefore set to meet the conditions listed in table 1:

Table 1: Primary budget setting conditions.

Condition	Effect on budget
1. To breakeven, taking one financial year with another	Expenditure must not exceed income.
2. To remain within the Capital Resource Limit (CRL) set for each NHS trust by the Department of Health	Capital programme must not exceed £4.7m. (To be confirmed by EoE SHA).
3. The budget supports cash flow management within the External Financing Limit (EFL).	Cash flow implications of the budget must result in £5.4m on the balance sheet as at 31 st March 2012.
4. The budget underpins the assumption of financial viability at Foundation Trust standard.	A budget which plans for an income and expenditure margin of 1% of turnover and an EBITDA of at least 5% of turnover. (Consistent with a Monitor/ EoE financial risk rating of 3).
5. Patient activity and service development assumptions are underpinned by our local commissioners.	Patient care income assumptions consistent with likely contracts for the 2011-12 year.

3. Summary of the Revenue Income and Expenditure Budget.

The Operating Framework for the NHS in England 2011/12 presents some challenges to the Trust's budget setting for 2011/12. The most notable are:

- The national payment by results tariff and prices for services outside of tariff will be effectively reduced by 1.5%. Combining this with a national assessment

of pay and price inflation of 2.5% suggests that NHS Trusts need an “implied efficiency improvement” of 4% to “stand still” in financial terms.

- In 2011/12 hospitals will not be reimbursed for emergency admissions within 30 days of discharge following an elective admission and all other readmissions within 30 days will be subject to locally agreed thresholds set to deliver a 25% reduction.
- The 30% marginal tariff rate for emergency admissions above a contractual baseline will remain in place for 2011/12.

In addition to the above the Trust needs to address the recent pattern of expenditure where spending has exceeded normalised income by an average of £0.2m each month for the last three months of the financial year (excluding the effect of contract penalties not expected to continue).

As a result of the above, the budget setting process anticipated the need for efficiency plans designed to save £10- £12m in 2011/12 (see table 2 below).

Table 2: The basis for the anticipated size of the efficiency programme.

	£m
Implied efficiency requirement of 4% on cost base of £140m.	5.6
Effect of recurrent spending in excess of income	2.7
Effect of lost income associated with elective patient readmissions	1.0
Volume effect of capital charge increase	1.0
Improved efficiency to achieve 1% margin	1.4
Expected efficiency requirement	11.7

Budget setting also takes into account the potential increases to income and expenditure arising from activity linked to population growth vs income and expenditure reductions linked to PCT plans to reduce emergency readmissions by 25%.

Revenue budgets were built up in the following way:

- Pay – financial managers reviewed authorised and agreed staff posts and costed the financial effect of these from a zero base. The budget includes anticipated incremental movements and pay awards for those earning under £21,000 per annum.
- Non pay – these were adjusted for the full year effect of VAT changes and inflation (8.9% for drugs, 2.5% for clinical supplies and 2% for other costs).
- Other operating income – Inflated by 0.7%, activity levels in line with 2010-11.

- Service Level Agreement Income – This has been based on the latest negotiated proposals from Primary Care Trusts taking into account: the national tariff, extra income to reflect the effect of population growth and other demographic factors, reduced income to reflect reduced payments for readmissions.
- Marginal cost budget changes linked to agreed activity changes.

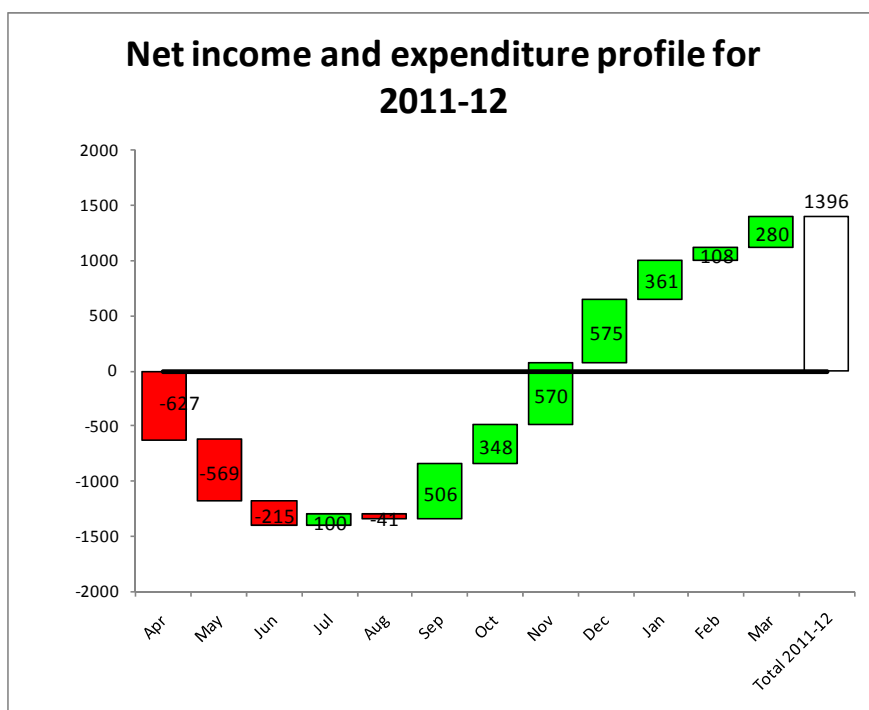
Table 3 below summarizes the financial effect arising from the process above illustrating the need for efficiencies totalling £11.7m are required to achieve a net margin of 1%.

Table 3: Summary of the 2011-12 Income & Expenditure Budget

	A	B	C	D	E (B+C+D)
	2010-11 Forecast outturn	Budget excluding efficiencies (£000s)	Efficiencies identified (£000s)	Efficiencies yet to be finalised (£000s)	Budget net of efficiencies (£000s)
Income	145,033	136,790	533		137,323
Pay	87,789	87,543	-2,029	-7,929	77,585
Non pay	48,642	49,438	-1,273		48,165
Sub- total direct costs	136,431	136,981	-3,302	-7,929	125,750
EBITDA	8,602	-191	3,835	7,929	11,573
Capital charges	5,135	5,831			5,831
Dividend payable	2,928	3,838			3,838
Other finance costs	477	525			525
Interest receivable	-38	-11			-11
Net Surplus (+) or Deficit (-)	100	-10,374	3,835	7,929	1,390
Net Margin	0%	-8%			1%

The Executive Team has identified themes designed to finalise the £12m efficiency programme. Clearly the development of these themes and their implementation presents a significant risk to the revenue income and expenditure objective set out in this budget. The Executive Team continues to develop the project plan with Divisional Management to underpin achievement.

Income in the budget is profiled to accrue in line with the seasonal trends experienced in previous years. The benefits from the cost improvement programme are anticipated to build during the year. The development of the budget at this stage suggests monthly deficits for the first three months of the financial year and the Trust not achieving a cumulative surplus for the year until November as illustrated by the figure below:



4. Summary Capital Expenditure Budget

The Trust expects the Strategic Health Authority to agree a capital resource limit of £4.7m based on our financial planning submissions. As part of long term financial planning the Trust has prioritised capital expenditure in line with the themes listed in table 4 below. The changed nature of financial risk to the Trust will warrant a review of capital expenditure priorities, therefore the capital expenditure themes listed below should not be viewed as expenditure commitments.

Table 4: Themes for 2011-12 Capital Expenditure Budget

Theme	£m
New theatre	1.4
Building refresh	1.3
IT replacement	0.8
Equipment replacement	1.2
Total	4.7

In managing the Trust's objectives, capital investments will be tested with business cases¹, taking into consideration any material liquidity and CRL affordability issues, before proceeding.

5. Cash flow

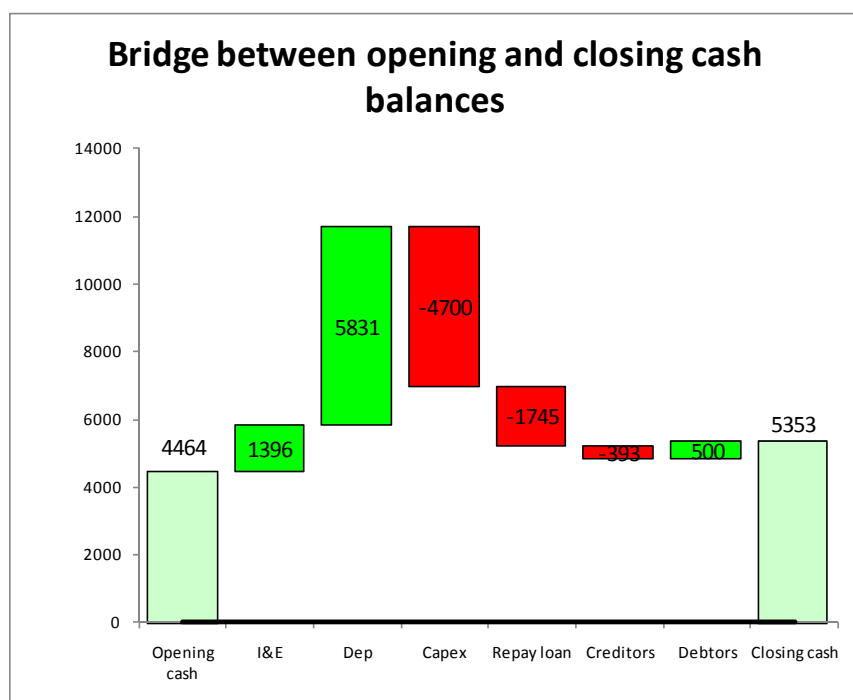
¹ Capital Planning Group approval required up to £100,000; EMG approval between £100,000 and £1m; Trust Board approval over £1m; SHA approval above Trust delegated limit (currently £3m).

The income and expenditure and capital budgets underpin the cash flow plan summarized in table 5 below:

Table 5: Summary bridge between opening cash balance for 2011-12 and forecast closing cash balance.

	(£000s)
Opening Cash Balance - April 2011	<u>4,464</u>
add I&E Surplus to be made in the year (+)/deficit (-)	1,390
add back Depreciation	5,831
deduct Capital Expenditure	-4,700
deduct Loan repayments	-1,745
reduction in creditors	-393
reduction in debtors	500
movement in other working capital (Dr/Cr)	<u>0</u>
Forecast closing Cash Balance - March 2012	<u><u>5,353</u></u>

The table and the bridge chart below shows that the Trust expects to start the year with £4.5m cash and end with £5.4m.



The main risk to the cash flow plan will, however, be the revenue income and expenditure performance which in turn will be affected most by performance of the efficiency programme.

The Finance Committee will continue to monitor performance in managing these risks and review any decisions to manage cash through adjustments to capital expenditure and working capital management plans.

6. Activity

Contract negotiations are due to reach final agreement by the 31st March with contract signing soon after. The aggregate of draft activity schedules based on the current stage of negotiations is summarised below. These schedules underpin the draft budget.

Table 6: Aggregate of Draft Contract Activity Schedules

Point of delivery	Projected 2010-11 activity	Planned 2011-12 activity 11/12*	% difference
Planned Same Day elective	19,633	19,258	-1.9%
Elective	3,539	3,742	5.8%
Non elective	21,837	21,396	-2.0%
Total Admitted patient care (incl XSBD)	45,009	44,397	-1.4%
Outpatient First Consultant Procedure	8,914	10,033	12.6%
Outpatient First Non Consultant Procedure	1,276	741	-41.9%
Outpatient Follow Up Consultant Procedure	6,440	7,884	22.4%
Outpatient Follow Up Non Consultant Procedure	5,503	2,950	-46.4%
Outpatients First Con	55,763	45,897	-17.7%
Outpatients First Non Cons	19,176	19,976	4.2%
Outpatients Follow up Cons	92,208	88,505	-4.0%
Outpatients Follow up Non Cons	70,822	68,951	-2.6%
Total Outpatients	261,981	244,980	-6.5%
A&E	65,671	60,416	-8.0%

** subject to final negotiations*

7. Conclusion

The main risk to adhering to this budget is the delivery of the efficiency programme. Bedford Hospital's main financial challenge is where current unit costs exceed current commissioner prices. This is compounded by the additional challenges of: (a) the NHS payment tariff being reduced by 1.5% while costs continue to inflate and (b) other pressures on the tariff such as the removal of payment for elective readmissions. These additional challenges are generic to all NHS commissioned healthcare providers but present Bedford with a stretching financial efficiency task.

Despite the risks, the Board is asked to approve the budget for 2011-12 noting the action required to develop the efficiency programme further.