ENCLOSURE 9

Birmingham Women's NHS
NHS Foundation Trust

SUBJECT :	Financial Plan 2013-14
REPORT BY :	Director of Finance and Informatics
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RECOMMENDATIONS

It is recommended that the Trust Board:-

1) Approve the financial plan for 2013-14
2) Note the CIP plans proposed in Annex 3.
3) Note the risks within the current financial plans
4) Note the development the Trust will look to fund if resources become available

EXECUTIVE SUMMARY

The attached report sets out the following:

A summary of the Trust's proposed revenue budget for 2013-14.

A summary of the Trust's proposed Cost Improvement Schemes for 2013-14.

A summary of the Trust's proposed Capital expenditure plans for 2013-14

The risks attached to the Trust's proposed budgets and some of the possible upsides to the budget.

Links to Strategic objectives	To achieve a financial risk rating of 3 or better.

Links to BAF risks	Contracts for service need to adequately compensate the Trust for the costs of providing the

	service.

Links to compliance requirements	

1.0 General Overview

The overall budget proposed will give the Trust a financial risk rating (FRR) of 3 if achieved. As previously discussed with the Committee, Monitor has proposed some alternative metrics for reviewing the Trust's financial risk. Under the proposed metrics the proposed budget will achieve a level 4 which is the highest possible rating.

It will achieve a surplus of £46K and an Earning before Interest, Tax, Depreciation and Amortisation (EBITDA) of 5.1% of total income. Capital Expenditure is proposed to leave the Trust with the same level of cash reserve as at 1st April 2012, assuming working capital levels stay the same.

The Trust has faced a number of cost pressures in setting the budget for 2012/13, including a 1% pay award for all staff, a price deflator of 1.3%, specific inflation increases, non-recurrence of income from 2012/13 (e.g. Lorenzo early adopter funding).

The Trust has also benefited from lower than anticipated CNST premiums and the new maternity tariffs has lead to additional income for the Trust based on the same activity.

The Trust has identified Cost Improvement Plans of £2.7million (2.9% of income), in order to ensure that it meets its financial targets. These are detailed in Annex 3. These plans are currently being clinical risk rated by the Medical Director and the Director of Nursing and the results of this exercise will be report to the Patient Outcomes Committee. Capital Expenditure of £5.9 million is proposed, of which £1.8 million is allocated to Strategic Estates Work.

Two of the Trust's hosted organisations West Midlands Cancer Intelligence Unit (WMCIU) and the Public Health Observatory (PHO) will transfer out the Trust from 1st April 2013. This will reduce income and expenditure on a like for like basis.

There are a number of developments that the Trust would like to undertake, but as there is currently insufficient flexibility within the budget these have not been included. The list of these items is included in Annex 4.

2.2 Income

It is worth noting four main issues for the Trust, relating to anticipated income.

1) 1.3% deflator in the tariff pricing for services paid for under payment by results (PBR), but also applies to other clinical services.
2) The new tariff currencies for maternity services
3) Reduction in early adopter IT funding and other non-recurrent funding received in 2012/13.

4) Reduction in SIFT training funding of £224K
5) Increase in genetics income from National Commissioning Board.

Overall this has lead to a £1.8 million increase in expected contract income from the Trust's main commissioners (National Commissioning Board and South Birmingham CCG) but this is more than offset by reductions in other areas. Private Patient income is expected to see only a marginal (2.7%) increase compared to 2013-14.

In addition the Trust is anticipating a reduction in income of £2.7 million from the transfer of hosted organisations out of the Trust. This income will directly be offset by expenditure reductions.

2.3 Pay Expenditure

The ratios of midwives to births have been set at a 1:31 ratio (excluding bank expenditure which would move the ratio 1:30 if bank expenditure was included).

The pay budget has increased by £4m compared to the forecast expenditure in this financial year (excluding the hosted organisations, R&D and Direct External Genetics funding for trainees) before Cost Improvement Programmes (CIP) are applied. This includes £539K for the 1% pay award. Other increases are due to funding post that started part way through the year as well as posts that are part of business growth.

Incremental drift has not been funded (£655K) as it is assumed that this will be offset by leavers being appointed at the bottom of the scale in line with Agenda for Change (AFC) guidelines.

A reduction has also been included (£130K) for the implications of the new national AFC Terms and Conditions relating to sickness payments.

2.4 Non-pay Expenditure

The non-pay expenditure for the Trust is approximately 28% of the total income (excluding CNST expenditure). A general contingency reserve of £450,000 (0.5% of total income) has been proposed to deal with unexpected events and give the Trust the opportunity to take advantage of any currently unforeseen opportunities during the year.

If additional income is made available to the Trust, then the general contingency reserve will be increased in the first instance. There are no specific reserves held by the Trust as all other initiatives have been funded.

CNST expenditure is assumed at level 2 for maternity services and level 1 for other services. Due to a revised pricing methodology the Trust has seen a reduction in its CNST premium of £675K.

The Trust has experienced a number of non-pay cost pressures during the year and these have been funded, except where these are recurring or due to expected or actual activity. Non-recurrent items experienced in this financial year have been excluded. In particular additional energy costs relating to this year have been funded, but the 6-facet estates survey has not.

Energy prices are assumed to increase by 5%, all other prices are assumed to remain at current levels unless known to be otherwise. SLA prices with other NHS bodies are assumed to be at their current levels.

2.6 Capital Expenditure

For this year and next year the Trust has the following resources available to fund Capital Expenditure.

Non-cash I&E items	£3.35m 2012-13
Planned surplus	£0.05m 2012-13
Maternity Expansion PDC	£3.20m
Non-cash I&E items	£3.35m 2013-14 (planned)
Planned surplus	£0.05m 2013-14
Total Capital Resource	**£10m**

In 2012-13 it is anticipated that the expenditure on Capital items will be £4.1m therefore the suggested capital expenditure is as follows:-

	£'000s
Schemes started in 2012/13	1,087
Estates	942
Gynaecology Equipment	193
Maternity Equipment	263
Neonatal Equipment	191
Genetics Equipment	700
Pathology Equipment	113
IM&T	650
Strategic Estates Changes	1,800
Total	**5,939**

If further capital funds are made available (e.g. due to additional I&E surplus made in 2012-13) then this will be utilised to fund Gynaecology/Strategic Estates Changes.

This excludes the recent Maternity bids that were awarded to the Trust (£233K) and any future PDC issues (e.g. carbon reduction scheme) that the Trust may receive.

3. Risks

3.1 Income

The key risk to the Trust's income if there is any reduction in the activity. This year clinical genetics, cytogentics and fetal medicine have all seen a move to cost and volume contracts.

Therefore the Trust's income is nearly all related to either PBR related services or to services with agreed cost and volume contracts with the National Commissioning Board and if activity reduces this will lead to a direct reductions in the Trust income.

The Trust has not yet confirmed the price and activity matrix for all the National Commissioning Board services, particularly for foetal medicine. Although assumptions have been made on a most likely case, these may not be finally accepted by the Commissioners.

Maternity

A reduction in activity is unlikely in maternity as the Trust currently does not have the capacity to see all the patients who wish to book with the Trust, however a change in the type of patient the Trust see would reduce the income available. Foetal Medicine income now may go down if activity moves to other providers or commissioners do not accept the Trust's proposal.

Risk Rating: Medium

Gynaecology

The Trust has anticipated activity based on the last financial year's anticipated outturn and included developments during the year (e.g. Extended Recovery Area). There is a risk that the Community Gynaecology will move to another provider (current income £400K per annum), however it is unclear how much this will be at this time and additional activity in other areas may offset any reduction.

Risk Rating: Medium

Neonatal

The Trust has contracted based on the activity last year. Initial network projections suggest that the Trust will be asked to undertake more workload in

this area in future. However the Trust has seen fluctuations in this workload during the current financial year.

Risk Rating: Medium

Genetics

The Trust has budgeted for an increase in clinical genetics compared to the activity undertaken in 2012-13 (£300K). Given the historical trends in this area suggest growth over and above this level.

Risk Rating: Low

Other Areas

Other Areas are relatively small e.g. catering income or are agreed amounts e.g. SIFT Training Income.

3.2 Pay

Non-Planned Absences

The greatest risk is for non-planned absences, normally sickness but this could include maternity leave, training etc. Sickness is currently running above the target for the Trust with particular pressure in Maternity and Neonatal Directorates. If this occurs the Trust may need to utilise bank and agency expenditure to provide the service.

Risk Rating: High

Recruitment

In order to undertake recruitment the Trust may need to pay recruitment and retention premium or to recruitment at a higher point of the scale then expected. All vacancies are currently budgeted for at mid-point of the scale.

Risk Rating: Low

Staff Turnover

As incremental drift is not funded, if the Trust's turnover is lower than expected then the average pay of the Trust's staff will increase.

Establishment Levels

The Trust may be required by its regulatory to employ additional staff (without additional income) to meet its regulatory requirements.

Risk Rating: Low

3.3 Non-Pay

The Trust has a risk that non-pay prices increase over the above the expected levels.

Risk Rating: Medium

Cost Pressures
The Trust may find it is required to pay for additional services that had not previously been required or statutory regulations change leading to additional cost requirements. Approximately £1m was potentially identified as cost pressures that have not been funded.

Risk Rating: High

CNST

The Trust may lose its CNST level 2 rating for maternity. This would increase the premium in the fourth quarter by approximately £100K.

Service Level Agreements

3.4 Cost Improvement Programme

There is a risk that the Trust will not be able to deliver some of the Cost Improvement Programme. The Trust will monitor these scheme in detail on a monthly basis to ensure that the programme is on track. As the Trust CIP is lower than in previous years this is mitigated

Risk Rating: High

3.5 Depreciation & Public Dividend Capital (PDC)

There is a risk that the building is valued higher than expected by the District Valuer leading to higher depreciation and net assets which are used in the calculation of the PDC payable by the Trust.

In addition if Capital expenditure becomes weighted toward to the beginning of the year this will increase the Trust’s depreciation charge.

Risk Rating: Low

4.0 Potential additional income/ cost reductions.

The following areas are savings that are not included within the budget, but may release resources for the Trust over the coming year.

Additional Income associated with additional staffing funded e.g. consultant obstetric started in April 2013.
Further reduction in bank expenditure due to extra staff in establishment.
Additional CIPs associated with improved ICT infrastructure.
Agency cover may be able to be replaced by Doctors from Oman on 2-year placements.
Further reductions in drugs cost due to the new pharmacy arrangements.
Improved prices on the neonatal transport SLA from recent tender exercise £100K
Achievement of CNST level 3 for Maternity would save the Trust £100K in the last quarter if achieved.
The Trust may identify expenditure reduction by applying other elements of the nationally negotiated AFC terms and conditions.

5.0 Conclusions and Further Actions

The Trust is expected to receive additional clinical income which can be utilised to fund additional expected costs in 2013-14.

The Trust has a CIP of £2.7 million (2.9% of total income).

The Trust has set aside £450K contingency for unforeseen events or to fund further developments.

There are a number of financial risks to the Trust achieving its strategic objective of maintaining a Financial Risk Rating of 3.

There are a number of other areas which could potentially increase the Trust's income or reduce the Trust's expenditure which are not assumed within the plan.

If the financial plan for 2013-14 is accepted the Long-Term Financial Model will be updated and a more detailed plan for the following 2 years will be identified, for presentation to the next Committee Meeting.

6.0 Recommendations

It is recommended that the Trust Board:-

1) Recommend the financial plan for approval by the Trust Board

2) Approve the Capital Expenditure plan proposed in section 2.6
3) Note the CIP plans proposed in Annex 3.
4) Note the risks within the current financial plans
5) Note the development the Trust will look to fund if resources become available