

TO **GLOUCESTERSHIRE PARTNERSHIP NHS TRUST BOARD**

FROM **Sandra Betney, Director of Finance**

DATE **28th March 2007**

SUBJECT **BUDGET PROPOSAL FOR FINANCIAL YEAR 2007/08**

1. PURPOSE OF REPORT

1.1 As a key part of financial control the Board needs to approve the setting of budgets for each financial year. The purpose of this paper is to set out how this will be achieved for 2007/8.

2. RECOMMENDATIONS

2.1 The Board is asked to:

- Approve the proposed budgets
- Note the risks posed by saving plans/emergency financial measures
- Note the other risks highlighted in the report

3. LINK TO TRUST OBJECTIVES

3.1 The Trust has a duty to set budgets that achieve financial balance year on year and enable the care groups to provide the level and quality of service agreed with our Commissioners

4. STANDARDS FOR BETTER HEALTH

4.1 There are links to "Governance", c7a "apply principles of sound corporate governance" and c7b "economical, efficient and effective use of resources".

5. RISK MANAGEMENT

5.1 Without a balanced budget being set the Trust Board will not comply with one of the key financial duties of an NHS body.

5.2 There is also a risk that if the estates strategy, developments and service redesigns are not accomplished in a timely and efficient manner, as reflected in budget setting, it will have a serious impact on the Trusts' financial position.

6. EQUALITY ISSUES

6.1 There are no consequences of this paper that affect "Equality Issues".

7. CONSULTATION

7.1 The Process of Budget Setting

To ensure a balanced budget is achieved, three processes have been undertaken:

- the establishment of income and expenditure financial control totals at a care group level– top down approach
- the establishment of budgets at an individual Cost Centre level– bottom up approach
- managing issues arising where the bottom up approach exceeds the top down approach

7.2 Principles of Budget Setting included in the Process

The process has incorporated the following principles.

- apply inflation to pay and non pay budgets,
- ensure that budgets reflect the redesigned services, new cost centres and expected levels of expenditure, including new developments declared and agreed with Commissioners,
- identify savings,
- ensure total budgets remain within the envelope of total income,
- ensure that budgets are set at a level to cover all expected expenditure.

Budget Holders, key Clinicians and Programme Managers have been involved and engaged in the process of establishing realistic budgets.

8. AUDIT/REVIEW

- 8.1 Budgets will be monitored in the finance reports to the Board each month, with virements, as delegated in the SFIs¹, post budget setting reported as revised budgets.

9. BACKGROUND

- 9.1 This paper follows the “Budget Setting 07/08” paper approved by the Performance Management Committee in December 2006. This paper details the outcome of the budget setting process.

10. DISCUSSION

The LDP² agreed with Commissioners included new investment in services. Our response and proposed financial control totals corresponding to the Commissioners priorities have been shown as “reserves” in the appropriate Care Group section. Budgets will be approved for these investments once plans have been fully developed for implementation. Overheads related to the new investment are not shown in the individual Care Group sections.

Appendix 1 details the proposed budgets and the corresponding FCTs³. The following sections provide an overview of the proposed budgets.

¹ Standing financial instructions

² Local Delivery Plan

³ Financial control total

10.1 Child & Adolescent Mental Health Service

The FCT is income £92k and expenditure £3,073k. The proposed budgets are £85k for income and £3,246k for expenditure. The variance against FCT is £180k unfavourable, £177k recurring and £3k non-recurring.

The variance between FCT and proposed budget is mainly caused by the under achievement of the full 06/07, (£394k) and 07/08, (£36k), saving targets. However the care group has achieved £303k of savings during 06/07 and through the budget setting process.

The pay budgets include £120k for the premiums paid to a limited number of locum medical staff and the “Out of Hours” service.

The small loss of income is due to the completion of a psychologist course, the funding of which came from the South West Peninsula Workforce Confederation.

There are on going meetings between the Programme Manager and Service Director to investigate further ways to achieve the financial control total, which will result in budgets being reduced during the year.

10.2 Learning Disabilities

The FCT is income £10k and expenditure £9,840k. The proposed budgets are income of £10k and expenditure of £9,895k. Against FCT, this results in a net unfavourable variance of £55k recurring.

The 06/07 and 07/08 saving plans for the care group have been achieved and the care group has absorbed the full year effect of the cost of the fifth consultant (£60k). During budget setting a £55k cost pressure arose within one of the inpatient sites which has a high number of vacancies. These had been budgeted for at the bottom of scale, in accordance with the “Budget Setting Paper for 07/08” paper but we have recognised with the Programme Manager that there should be a budget for the employment of bank staff who are rarely at the bottom of scale.

The re-provision of the PMLD⁴ inpatient service has been reflected in the proposed budgets with a non recurring budget available for PMLD inpatient care and a reserve for a redesigned service when it is agreed with the Commissioners.

The LDP for 07/08 includes an investment of £19k this has been included in the proposed budgets as reserves.

10.3 Older Age

The FCT is income £2k and expenditure £9,626k. The proposed budget is expenditure of £9,667k. This results in a net unfavourable variance of £43k against FCT, comprising £148k favourable (recurring) and £191k unfavourable (non-recurring). During 06/07 the care group achieved £720k of savings and a further £687k during budget setting for 07/08.

⁴ Profound and multiple learning difficulties

The non recurring variance against FCT of £82k is made up of the anticipated cost of medical staff at risk of £20k, which has arisen from the redesign of the current services, the use of locum Consultants £62k and excess travel £50k. Investigations into minimising this cost pressure are on-going. There is a non recurring saving plan to reduce Nurse Education by £50k during the year.

It is important that the various estate moves occur as planned to minimise the financial impact on the plan. A budget has been set cover the additional costs incurred whilst awaiting the outcome of the HOSC⁵ referral.

The LDP for 07/08 includes an investment of £646k for community development this has been detailed on appendix 1.

10.4 **Working Age**

The FCT is income £3,313k and expenditure £29,396k. The proposed budgets are income of £3,342k and expenditure of £29,427k resulting in a net unfavourable variance against FCT of £2k (recurrently £78k favourable and £80k unfavourable non-recurrently)

The unfavourable non-recurring variance of £80k is due to the double running of estates costs for a period of 6 months while services move sites. There is additionally a non recurring negative budget of £100k from Wotton Lawn Hospital. The care group continues to review the proposed budgets to identify any further savings that can be made, which may mean that budgets can be reduced in year.

The LDP for 07/08 includes an investment of £907k for early intervention and this has been detailed at appendix 1.

10.5 **Substance Misuse**

The FCT is expenditure £3,188k. The proposed expenditure budget is £3,184k. This gives a net unfavourable variance of £4k against FCTs, £6k favourable recurrently and £2k unfavourable non-recurrently.

The 06/07, (£141k) and 07/08, (£21k), saving plan targets have been met through a combination of achievement during the 06/07 financial year and through the budget setting process for next year.

10.6 **Social Services, Section 31 Agreement (Gloucestershire County Council)**

The FCT is income £5,197k and expenditure £5,201k. The proposed budgets are income of £5,197k and expenditure of £5,197k. The FCT made the assumption that no inflation would be received and savings have been found within expenditure budgets to match income.

10.7 **Trust Board**

The FCT is expenditure of £987k. The proposed expenditure budget is £1,006k, which results in a net unfavourable variance of £19k (recurring) against FCT.

⁵ Health Overview & Scrutiny Committee

The Chief Executive is considering options to reduce costs to achieve financial balance.

10.8 Nurse Education/Training/Pharmacy

The FCT is income £1,133k and expenditure £1,470k. The proposed budgets are income of £1,293k and expenditure of £1,604k resulting in a net favourable variance of £26k (recurring) against FCTs. The proposed budgets have been realigned based on actual income and expenditure which has resulted in a recurring favourable variance against FCTs.

10.9 Governance & Quality

The FCT is expenditure £505k. The proposed budget is expenditure £528k, resulting in an unfavourable recurring variance of £23k against FCTs. This variance is due to the creation of a budget for Foundation Trust membership which was omitted from FCTs in error.

10.10 Human Resources

The FCT is income £750k and expenditure £2,283k. The proposed budgets are income of £631k and expenditure of £2,170k giving a net unfavourable variance of £6k (recurrently £75k unfavourable and £69k favourable non-recurrently). This unfavourable variance is due to the combination of losing of Hosted income during 06/07 and the inability to reduce costs.

The saving plans of £200k for 06/07 were achieved in year and £70k of the 07/08 plan of £134k has been achieved during budget setting. Work continues to investigate possible increases in income derived from Occupational Health and additional savings may be released once the impact of e-recruiting has been reviewed during the year. There will be a further review of the NVQ team to consider the best future training provision for the Trust.

10.11 Maintenance & Estates

The FCT is income £359k and expenditure £2,630k. The proposed budgets are income of £343k and expenditure of £2,588k

The proposed expenditure budget includes a negative budget for £100k for which plans are being developed around reviews of overheads, cleaning and catering.

10.12 Finance & Procurement

The FCT is income £14k and expenditure £2,355k. The proposed budgets are income of £35k and expenditure of £2,357k, resulting in a favourable variance of £19k; £4k recurring and £15k non-recurring.

A negative budget of £35k has been set to cover P2P and Shared Services savings.

10.13 Service Development & Information

The FCT is income £28k and expenditure £581k. The proposed budgets are income £28k and expenditure £657k resulting in an unfavourable variance of £76k

(£10k recurring and £66k non-recurring). The non recurring variance is due to the extension of the support contract for the Clinical Manager system.

10.14 **Potential Redundancies**

The FCT for potential redundancies was £1.6m non-recurring but this has been changed on appendix 1 to make overall comparisons clearer. The proposed budget is £677k non-recurring. Work continues within HR to reduce the cost and number of potential redundancies.

10.15 **Depreciation/Capital Charges**

The FCT is £4,234k. The proposed expenditure is £4,336, an unfavourable variance of £102k recurring.

11.0 **KEY ASSUMPTIONS AND RISKS**

There are some significant risks within the position detailed at appendix 1 and there is no contingency reserve to deal with in-year pressures that may arise. The Trust will therefore need to continue its efforts to identify further savings to allow for some contingency.

As a result of the additional non-recurrent costs expected during the 07/08 financial year, it has been necessary to set a budget for emergency financial measures for 6 months that equates to £900k. This will entail the freezing of recruitment in designated areas and continued control of bank and agency expenditure and discretionary non pay. Staff at risk will be used to cover those areas where currently vacancies exist reducing the need for bank or agency cover.

It is planned to keep emergency financial measures in place for 6 months at a saving rate of £150k per month. There is a risk that savings of this level may not be achievable as the provision of services may be adversely affected.

No budget has been set for those staff who have not yet been redeployed and therefore currently at risk, on the basis that the numbers will reduce due to staff leaving/ redeployment. There is the risk of the planned position worsening if these staff remain at risk and are not deployed.

Wyre Forest have not paid our invoices now totalling £1,100k. We have created a budget for this income as we are still treating the patient and the dispute is a responsible commissioner one.

A budget of £350k has been made for the additional cost of keeping 4 inpatient sites running for 6 months in anticipation of the SoS⁶ decision. If this decision is later that we expect then this will impact adversely on our financial position.

The pay budgets have been uplifted by 2.3% for pay awards, however the recently announced uplifts have been less than this and current indications are that the budgets are overstated by £156k. This has not been removed from budgets as we are unsure if national uplift will be revised downwards.

⁶ Secretary of State

12.0 SUMMARY

The proposed budgets deliver a recurrent surplus of £910k and a non-recurrent surplus of £109k. As detailed above, the budgets include some risks that will need close monitoring and some assumptions that need to be tested, but if expenditure can be kept within budgets, then the Trust will achieve a surplus of £1m which will achieve a Monitor risk rating of 4, as detailed on appendix 2.

APPENDIX 1

Proposed Budgets for 2007/8

	Financial Control Total £'000	Proposed Rec Budget £'000	Proposed Non Rec Budget £'000	Total Proposed Budget £'000
Income				
Child & Adolescent Mental Health	-92	-85	0	-85
Learning Disabilities	-10	-10	0	-10
Older Age	-2	0	0	0
Working Age	-3,313	-3,342	0	-3,342
Substance Misuse	0	0	0	0
Social Services	-5,197	-5,197	0	-5,197
Board	0	0	0	0
Nurse Education/Training/Pharmacy	-1,133	-1,293	0	-1,293
Governance & Quality	0	0	0	0
Human Resources	-750	-626	-5	-631
Maintenance & Estates	-359	-343	0	-343
Finance & Procurement	-14	-15	-20	-35
Service Development & Information	-28	-28	0	-28
LDP/SLA income	-66,279	-66,169	-110	-66,279
LDP Investments	-1,437	-1,787	350	-1,437
Income Total	-78,614	-78,895	215	-78,680
Expenditure				
Child & Adolescent Mental Health	3,073	3,229	17	3,246
Learning Disabilities	9,840	9,870	25	9,895
LD/CAMHS integration	19	23	-4	19
Older Age	9,626	9,223	444	9,667
OA Community Services	646	909	-263	646
Working Age	29,396	29,318	109	29,427
WA Early Intervention	907	1,567	-660	907
WA Primary Care Assessment & Treatment	550	550	0	550
Substance Misuse	3,188	3,182	2	3,184
Young People's Substance Misuse	100	100	0	100
Social Services	5,201	5,197	0	5,197
Board	987	1,006	0	1,006
Nurse Education/Training/Pharmacy	1,470	1,604	0	1,604
Governance & Quality	505	436	92	528
Human Resources	2,283	2,134	36	2,170
Maintenance & Estates	2,630	2,586	2	2,588
Finance & Procurement	2,355	2,354	3	2,357
Service Development & Information	581	561	96	657
Potential Redundancy	677	0	677	677
Emergency Financial Measures	0	0	-900	-900
Expenditure Total	74,034	73,849	-324	73,525
EBITDA	-4,580	-5,046	-109	-5,155
Non Operational Income	-200	-200	0	-200
Depreciation/Capital Charges	4,234	4,336	0	4,336
(Surplus)/Deficit	-546	-910	-109	-1,019

Predicted FT Financial Risk Rating

Ratio	Bank FTE	2007/08
1 EBITDA₁ margin		
$\frac{\text{EBITDA achieved}}{\text{Total Income}}$	$\frac{5,155}{78,680}$	6.5% 3
2 EBITDA, % achieved		
$\frac{\text{EBITDA achieved (06/07)}}{\text{EBITDA planned (06/07)}}$	$\frac{4,211}{4,138}$	101.0% 5
3 ROA₂		
$\frac{\text{Surplus/(Deficit) before Dividends and Impairments}}{\text{Net average relevant assets}}$	$\frac{1019 + 2406}{(66,951 + 73380) / 2}$	4.9% 4
4 I&E surplus margin		
$\frac{\text{Surplus/(Deficit) before Impairments}}{\text{Total Income}}$	$\frac{1,109}{78,680}$	1.3% 4
5 Liquidity		
Number of revenue days covered by available working capital	25.1	4
		<hr/> <hr/> 4
<u>Financial Criteria</u>		
Underlying Performance		3
Achievement of Plan		5
Financial Efficiency (ROA & I&E Surplus)		4
Liquidity		5
Predicted Financial Risk Rating		4

1 EBITDA = Earnings before interest, tax, depreciation and amortisation

2 ROA = Return on Assets