

TO Gloucestershire Partnership NHS Foundation Trust Board

FROM Sandra Betney, Director of Finance and Commerce

DATE 31st March 2008

SUBJECT BUDGET PROPOSAL FOR FINANCIAL YEAR 2008/09

1. PURPOSE OF REPORT

- 1.1 The Board needs to approve the setting of budgets each financial year. The purpose of this paper is to detail to the Board the proposed budgets for 2008/9.

2. RECOMMENDATIONS

- 2.1 The Board is asked to:
- Approve the proposed budgets
 - Note the risks posed by saving plans
 - 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 stability in line with Monitor expectations and enable the Strategic Service Units (SSUs) to provide the level and quality of service agreed with our Commissioners and consistent with our terms of authorisation.

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 budget being set that meets the Foundation Trust Compliance Framework the Trust Board will not comply with the key financial duty of an NHS Foundation Trust.
- 5.2 The following risks have been identified in this report
- Agreement of proposed investments with PCT
 - Insufficient non-recurrent savings are identified during the year for to fund the full £1.5m for building capacity
 - Capital sales and expenditure slip/increase
 - In-year unanticipated cost pressures arise

6. EQUALITY ISSUES

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

7. CONSULTATION

7.1 The Budget Setting process

Three processes have been undertaken:

- the establishment of income and expenditure financial control totals at a Strategic Service Unit/directorate 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 The process has incorporated the following principles.

- Inflation budgets,
- Budgets reflect the redesigned services, new cost centres and expected levels of expenditure, including new developments declared and agreed with Commissioners,
- Savings,
- Budgets remain within the envelope of total income,
- Budgets cover all expected expenditure.

Directors, Budget Holders and key Clinicians have been involved and engaged in the process of establishing realistic budgets. The budget setting process has been aligned to the business planning process where each Strategic Service Unit/Directorate has created their plan for the coming year. The budgets proposed support the objectives of the Directorate/SSU business plans developed over the same timescale.

8. AUDIT/REVIEW

8.1 The financial performance of the Trust will be reported to the Board each month along with any virements/changes to the agreed budgets.

9. BACKGROUND

9.1 This paper details the outcome of the budget setting process that commenced back in October last year.

10. DISCUSSION

Inflation for 2008/9 has been set at 5.3%, which has been applied to our 3 year contract with Gloucestershire PCT and we have assumed this level of uplift for the other NHS funded contracts. Cash Releasing Efficiency Savings (CRES) for 2008/9 increased from 2.5% to 3% which generates an additional cost pressure, as our original plans had assumed CRES at 2.5%.

Appendix 1 details the proposed budgets and the corresponding FCTs¹. The following sections provide an overview of the proposed budgets.

¹ Financial control total

10.1 **Child & Adolescent Mental Health Service**

CAMHS is under FCT by £118k, as detailed at appendix 1.

At the planning stage £44k of cost pressures were authorised by the Executive Team and are included in the proposed budgets, covering areas such as consultant contract, Agenda for Change re-gradings, clinical excellence awards etc.

CAMHS has achieved its 1% saving of £33k, and an additional saving of £36k related to a band 6 post and well as contributing £72k to overheads.

10.2 **Learning Disabilities**

LD is under FCT by £84k, as detailed at appendix 1. At the FCT stage £113k of cost pressures were authorised by the Executive Team and are included in the proposed budgets, covering areas such as consultant contract, Agenda for Change regradings, clinical excellence awards etc. There have been some additional unavoidable pay cost pressures amounting to £51k which were not included in the FCTs. The non recurring budget of £35k covers protected pay and night shift rotation.

The SSU did not achieve all of the 1% saving target (£21k out of £101k). Subsequently, the Strategic Service Unit has identified additional saving plans amounting to £227k (£80k of which are negative budgets), including releasing some vacant posts and generating income.

10.3 **Mental Health Services for Older People**

Older Age is under FCT by £82k, as detailed at appendix 1.

At the planning stage £78k of cost pressures were authorised by the Executive Team and are included in the proposed budgets, covering areas such as consultant contract, Agenda for Change re-gradings, clinical excellence awards. The non recurring budget of £111k covers protected pay and excess travel.

Older Age has achieved its 1% saving target of £102k, and the Strategic Service Unit has identified additional saving plans amounting to £269k (£85k of which are negative budgets), including releasing vacant posts and reducing drugs budgets.

10.4 **Working Age**

This SSU is currently under FCT by £790k, as detailed at appendix 1. At the FCT stage £320k of cost pressures were authorised by the Executive Team and are included in the proposed budgets, covering areas such as consultant contract, Agenda for Change regradings and clinical excellence awards. The non recurring budget of £55k covers protected pay and excess travel.

Working Age has achieved the 1% saving target of £278k, and the drugs saving plan included in the FCTs. The SSU has subsequently identified an additional amount of £766k (£468k of which are negative budgets) covering skill mix review and releasing vacancies.

10.5 **Substance Misuse**

Substance Misuse is over FCT by £254k, as detailed at appendix 1, however most of this excess is covered by potential additional income.

At the FCT stage £80k of cost pressures were authorised by the Executive Team and are included in the proposed budgets, covering areas such as consultant contract, Agenda for Change, clinical excellence awards etc. An additional drugs pressure of £100k, which came to light in late March, has also been budgeted for.

Substance Misuse has achieved its 1% saving target of £35k, and the Strategic Service Unit has managed to identified additional savings amounting to £147k. These savings include reducing some non-pay budgets and releasing vacant posts.

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

Matching income and expenditure budgets of £5.5m have been proposed for Social Services. The community care budget is forecast to over spend by £150k during 07/08 however this is being covered by under spends elsewhere within Section 31. The budget for 08/09 has been rolled forward and a review will take place after the March panel to ascertain the commitments for the 08/09 financial year.

10.7 **Board**

The Board is currently over FCT by £15k, as detailed at appendix 1. The 1% saving target of £15k, has not been achieved.

10.8 **Corporate Affairs**

The Corporate Affairs directorate is over FCT by £147k, as detailed at appendix 1.

At the planning stage £305k of cost pressures were authorised by the Executive Team and are included in the proposed budgets, however additional pressures have materialised which have resulted in the excess over FCT covering areas such as

- Increases in GHT recharges
- Increased estates/maintenance costs
- PAS migration/merger
- IT training costs
- Fire safety inspection work

Non recurring budgets have been set to cover the use of clinical manager, PAS migration and Charlton Lane medical records move.

Additionally, the directorate has not achieved the 1% saving target, however it has achieved £16k out of the saving target of £37k in the FCTs and additional savings amounting to £266k has been indentified (£82k of which are negative budgets), covering patient transport and reviewing catering. Additional investigative work is ongoing aimed at identifying more saving.

10.9 Finance & Commerce

The proposed budgets are £70k less than FCT.

The directorate has achieved its 1% saving target of £18k and has identified additional savings amounting to £240k, covering areas such as reducing the cost of audit and generating more interest income on our cash balances. Two negative budgets are set; plans for implementation will be drawn up as soon as an initial analysis has been concluded.

10.10 Human Resources & Organisational Development (Including Occupational Health)

The proposed budgets for this directorate equal FCT, as detailed at appendix 1. The 1% saving target of £11k has been achieved along with increasing income for Occupation Health.

10.11 Nursing, Social Care and AHPs

This directorate is over FCT by £347k, as detailed at appendix 1.

At the planning stage £78k of cost pressures were authorised by the Executive Team and are included in the proposed budgets, however additional pressures have resulted in the excess over FCT due to

- Non achievement of 1% saving target
- Increased legal costs driven by employment tribunals
- Removal of pharmacy trading surplus and VAT reclaim
- Non achievement of saving plans for staff meals and legal fees

Additional saving plans have been identified amounting to £129k. Work continues to identify additional savings within the directorate.

10.12 Capacity Building

In order to progress our key objectives the Board has identified the need to build capacity. A budget of £1.5m (£0.5m recurring and £1.0m non recurring) has been set aside to facilitate this. This amount is dependent on the phasing of additional non-recurrent savings.

10.13 Non Operational

Non operational income relates to Interest receivable and is £275k below FCT due to the planned impact of increasing investing surplus cash during the year. Non operational expenditure relates to depreciation and Public Dividend Capital (PDC). The proposed budget is £1,880k for depreciation and PDC is £2,464k. These figures are calculated by assessing the capital assets of the Trust at the start and end of the year, including changes resulting from the estates strategy. Estimates are then made for the impact of depreciation and PDC. There is a risk that planned disposals will not happen in the timescales planned and that the capital programme may slip or increase due to construction inflation. These risks will be managed in-year by the Infrastructure Committee.

11. KEY ASSUMPTIONS AND RISKS

The plans include potential investment from the PCT not yet agreed for CAMHS, Older People and Substance Misuse. If these are not agreed then expenditure budgets will be reduced, however as this income includes overheads, there will be a residual cost pressure.

There is also a risk that insufficient non-recurrent savings are identified during the year to enable the full £1.5m to be spent on building capacity. This risk will be managed by the Executive team in-year.

Appendix 3 shows the estimated position for the 09/10 and 10/11 financial years, and assuming that savings can be identified and implemented each year, the Trust's risk rating rises to a 5. The savings assumed in years 09/10 and 10/11 are 3% which matches the amount of CRES assumed for those years.

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

12. SUMMARY

The proposed budgets deliver a recurrent surplus of £2.5m and an actual surplus of £1.5m. Assuming expenditure is controlled within budgets, then the Trust will achieve a surplus of £1.5m which will achieve a Monitor risk rating of 4, as detailed on appendix 2. The in-year surplus would need to fall by £1.3m for the Monitor risk rating fall to 3.