

Financial Planning Framework

2014/15-2018/19

Including 2014/15 Budget Setting Framework

Version 1.4 / 19th September 2013

Contents

1	Introduction/Executive Summary	3
2	Service Change Model	3
3	2014/15 Budget Setting Framework	4
3.1	Background.....	4
3.2	Assumptions	4
3.3	Quantum and CSC Forecast	5
3.4	Budget Setting Template	5
4	Project Management Arrangements.....	6
5	Timetable.....	7
	Annex A - Budget Setting Template	8

1 Introduction/Executive Summary

This paper sets out the Financial Planning Framework for 2014/15-2018/19, incorporating the 2014/15 budget setting framework.

The Financial Planning Framework sets out proposals to develop a Service Change Model to provide an integrated planning tool across finance, workforce and activity, along with other resource areas such as beds, theatres and clinics. By 'flexing' the current performance metrics (e.g. improving length of stay or bed utilisation rates) the impact on these resources areas (finance, workforce, beds, theatres etc.) can be determined. From this a comprehensive and integrated plan can be developed and service changes fed directly into the Trust's cost improvement/efficiency plans.

In line with the framework of devolved CSC/Cluster financial responsibility, the 2014/15 budget setting framework allocates a 'Quantum' of funds to each CSC within which to establish their budget proposals. Against this Quantum, CSCs will be required to set out a forecast and proposed cost improvements/mitigating actions to determine their shortfall/surplus from this required funding position.

2 Service Change Model

Central to the development of the Trust's Financial Plan will be integrated Service Change Model, which will 'triangulate' the Trust's plan across key resources and performance metrics. The components of the Service Change Model are outlined below:

- A. **Current resource requirement** – the resources required to deliver current activity measured across areas such as expenditure, beds, theatre sessions, clinics, consultant PAs, other medical wte, nursing wte, other workforce wte and estate.
- B. **Current performance metrics** – the performance metrics currently driving current resource requirements (at 'A' above). These include length of stay, bed utilisation rates, clinic efficiency, consultant job-planning, space utilisation and theatre efficiency.
- C. **Future resource requirement at current performance metric** – the resources that would be consumed to deliver the future activity requirement at current performance metrics. This also takes into account any capacity constraints.
- D. **Service Change Opportunity** – the impact on the future resource requirement ('C' above) from flexing the performance metrics (e.g. reduction in beds etc. by improving length of stay).
- E. **Service Change Plan** – the Service Change Opportunities ('D' above) which are approved to be taken forward, along with the resultant detailed delivery plan and output statement (i.e. what the service change will deliver across cost saving and/or patient quality and/or staff terms and conditions).

It is intended to produce a dynamic (enabling scenarios to be easily run and assessed) Service Change Model using the Trust's Gooroo Planner. Business Intelligence are currently exploring the feasibility of this, using one specialty to provide a test model.

The Trust will:

- Continue to use Quality Impact Assessments (QIA) as an integral part of its approach to change management.
- Align its business planning, at both Trust and CSC level, with the standardised Service Change Model approach.

- Develop its Long Term Financial Model (LTFM) in line with the Service Change Plan (see E above)
- Use high level Service Line Reporting (SLR) information to assist in understanding the dynamics of the relative contribution of services across the Trust. This will be incorporated from month 5 (August) in each CSC's Standard Finance Reporting Packs.

3 2014/15 Budget Setting Framework

3.1 Background

Budgets are an essential component of planning, control, coordination, communication, motivation and performance evaluation [ref]. The Trust's Standing Financial Instructions (para 8.12) require that:

'Prior to the start of the financial year the Director of Finance and Investment will, on behalf of the Chief Executive, prepare and submit budgets for approval by the Board. Such budgets will:

- a) be in accordance with the aims and objectives set out in the Annual Business Plan,*
- b) accord with workload and workforce plans,*
- c) be produced within the limits of available funds,*
- d) identify potential risks.'*

Monitor, NHS England and the TDA working together will be producing a system wide planning process for 2014/15, along with assumptions and timetable. It is anticipated that this will require detailed plans for 2 years with outline plans for 3 years and that the introduction of a transition to Integrated funds in 2014/15 will mean real flat cash for the NHS¹. Within this context, this paper sets out the proposed high level principles to be applied in the Trust's Budget Setting Framework for 2014/15 and 2015/16.

3.2 Assumptions

Assumptions will be refined and tested as the budget setting process progresses, both in terms of the receipt of additional central guidance and from local testing. The key initial assumptions are:

- **Inflation** – Initial inflation assumptions are as follows:
 - Pay
 - Pay award Inflation 1.0%
 - Incremental drift 1.2%
 - Drugs 10.0%
 - Non Pay 2.5%
 - Non Pay – Unitary Payment 3.9%
 - SLA Income
 - Pass through drugs 10.0%
 - Other 2.2%
 - Direct Income nil%
- **Contingency** – the Trust will hold a 1%² contingency reserve to mitigate 'down-side' financial planning or to be released to pump-prime service developments if 'down-side' is mitigated. Further guidance will be provided on what constitutes a 'service development', but the expectation is that, after allowing for risk, they will each make a minimum of 20%-30% 'contribution' to the Trust over and above the net direct costs.

¹ TDA Directors of Finance Meeting 3rd September 2013

² !% of 2014/15 baseline expenditure.

- **National Efficiency Requirement** – It is assumed that a 4% efficiency requirement will be built into tariff, as a tariff deflator, that will need to be delivered in 2014/15 in **addition** to addressing underlying financial issues and 2014/15 cost pressures.
- **Income & Expenditure** – the Trust will plan to deliver a 1% surplus in 2014/15, in order to deliver the equivalent of a Monitor Financial Risk Rating (FRR) of '3' (the minimum FRR allowable on an FT trajectory).

3.3 Quantum and CSC Forecast

In line with the framework of devolved CSC/Cluster financial responsibility, each CSC will be allocated a 'Quantum' of funds within which to establish their budget proposals. Against this Quantum, CSCs will set out a forecast and proposed cost improvements/mitigating actions to determine their shortfall/surplus from this required funding position.

Whilst the intention is to keep the Quantum for each CSC as stable as possible, it will inevitably change as more becomes known about central planning requirements and the financial challenges and opportunities facing the Trust.

It has been recognised that the 2013/14 standard reporting packs and CSC budgets do not adequately recognise 'pass through income' (e.g. non PbR drugs and appliances) within CSC financial performance. Consideration will be given during the budget setting process as to how best address this; be it by the in-year flexing of income and expenditure budgets or by making 'pass through' income budgets part of the direct income budgets of CSCs (as opposed to SLA income).

3.4 Budget Setting Template

A high level template, at both Trust and CSC level will be used to summarise the detailed workings required for budget setting. The template sets out the key elements used to determine the budget across both the 'Quantum' and 'CSC Forecast' (see 3.3 above) and the resultant 'balance to find'.

The template is set out, at Annex A (figures illustrative only), and comprises of the following elements:

- A. **Baseline** - Determine the baseline cost of delivering current year³ activity and performance, at current year prices. This includes an adjustment for the full year effect of CIPs and required minimum ward staffing requirements.
- B. **Activity** - Determine activity changes required for the new year⁴ across price and volume:
 - Price Changes, for example:
 - PbR tariff changes
 - Non PbR tariff changes
 - Maternity 50:50 tariff
 - Coding changes
 - Other....
 - Volume Changes, for example:
 - CCG Local Health Economy:
 - Demographics/Growth
 - Referral changes

³ Current Year - for 2014/15 budget setting, the current year is 2013/14

⁴ New Year - for 2014/15 budget setting, the new year is 2014/15

- Casemix changes
- QIPP/Demand Management
- PHT Initiated Growth:
 - Market engagement
 - Service development
 - Private patients

The cost for delivering the above will be at the relevant marginal rate.

- C. **Inflation** – Pay and prices increase for 2014/15, including incremental drift (see Section 3.2 ‘Assumptions’ above).
- D. **Cost Pressures** – Reflecting *unavoidable* cost pressures and contingencies. Examples of unavoidable cost pressures might include those arising due to new statutory requirements or from a CQC inspection. All other cost pressures (i.e. those which are not unavoidable), are to be recorded on a ‘risk and opportunities’ log, with an assessment of their likelihood of occurring and the proposed mitigating actions.

The above gives the 2014/15 Income & Expenditure position, prior to Cost Improvement Programmes (CIPs).

- E. **CIPs** – Identified, in-year gross and net (after cost of implementation) and includes:
- Service Change – the impact of changes from the service change model (see Section 2 ‘Service Change’ above)
 - Other – all other CIPs

It should be noted that CIPs will *exclude* the additional financial contribution arising from delivering additional activity at marginal cost (as this is reflected under B above ‘Activity & Performance’).

The above gives the 2014/15 Income & Expenditure position, after CIP.

- F. **2015/16 Baseline** - the 2014/15 Income & Expenditure position adjusted for the full year effect of 2014/15 CIPs and Cost Pressures.

4 Project Management Arrangements

Initially two task and finish groups will be established, with other project teams introduced as required by the Steering Group (e.g. a ‘Service Change Model Project Team’, if feasibility study is positive):

- **Financial Framework Steering Group (FFSG)** – chaired by the Director of Finance or Director of Operations to coordinate action across finance, workforce, activity and service change (for example, planned improvements in length of stay, bed utilisation, clinic efficiency, consultant job-planning, space utilisation and theatre efficiency); to ensure that a robust financial plan and business plans are delivered by the commencement of the 2014/15 financial year.

The Financial Framework Project Team will report to the Finance Committee.

- **Finance Budget Project Team (FBPT)** - chaired by the Deputy Director of Finance to manage the technical elements of the finance 2014/15 budget setting process.

The Finance Budget Project Team will report to the Financial Framework Steering Group.

5 Timetable

Monitor, NHS England and the TDA will be producing a system wide planning process for 2014/15, along with assumptions and timetable. Once this has been received by the Trust a local timetable will be set out incorporated the milestones in setting a robust budgets for 2014/15 by 31st March 2014. The Service Change Model will be incorporated into the timetable, via the Financial Framework Steering Group, once the feasibility study has been assessed.

In the meantime, an indicative budget setting timetable to 31st December 2013 is set out below:

Date (2013)	Task	Lead
w/c 16 th September	SMT approval of Financial Planning Framework	Director of Finance
30 th September	Establish Financial Framework Steering Group and Financial Budget Project team.	Director of Finance
18 th October	Construct integrated, hierarchical budget setting spreadsheets (budget setting pack), at Trust and CSC level.	Head of Income, Expenditure & Planning
31 st October	First cut budget setting pack & working papers. - Quantum	Head of Income, Expenditure & Planning and Head of Financial Business Partnering
22 nd November	Second cut populated budget setting pack & working papers. - Quantum - CSC forecast (n/a for first cut)	Head of Income, Expenditure & Planning Head of Financial Business Partnering
20 th December	Third cut populated budget setting pack & working papers.	(ditto)

Annex A - Budget Setting Template

	%	Quantum					CSC Forecast					Balance to Find
		SLA Income	Direct Income	Pay	Non pay	Total	SLA Income	Direct Income	Pay	Non pay	Total	
		£'000 a	£'000 b	£'000 c	£'000 d	£'000 e [sum a:d]	£'000 f	£'000 g	£'000 j	£'000 i	£'000 k [sum f:i]	
A 2014/15 BASELINE												
Outturn		388,968	58,007	(248,497)	(206,220)	(7,741)	-	-	-	-	-	7,741
Net Risks & Opportunities		1,960	-	(1,132)	721	1,548	-	-	-	-	-	(1,548)
Sub Total - 2013/14 Forecast Outturn	-1.4%	390,928	58,007	(249,629)	(205,500)	(6,193)	-	-	-	-	-	6,193
Less Non Recurrent Items		(500)	-	(75)	(780)	(1,355)	-	-	-	-	-	1,355
Add FYE of CIPs		-	322	969	992	2,283	-	-	-	-	-	(2,283)
Add FYE of approved cost pressures		-	-	-	-	-	-	-	-	-	-	-
Minimum ward staffing recommendations		-	-	-	-	-	-	-	-	-	-	-
2014/15 BASELINE	-1.2%	390,428	58,329	(248,734)	(205,288)	(5,265)	-	-	-	-	-	5,265
B Activity Change 2014/15												
Price Increase		-	-	-	-	-	-	-	-	-	-	-
Price Reductions		-	-	-	-	-	-	-	-	-	-	-
Activity Increases		-	-	-	-	-	-	-	-	-	-	-
Activity Reductions		-	-	-	-	-	-	-	-	-	-	-
Sub Total - Activity Change 2014/15		-	-	-	-	-	-	-	-	-	-	-
C Inflation & Increments 2014/15												
Tariff Inflation (excl. pass through drugs)	2.2%	7,887	-	-	-	7,887	-	-	-	-	-	(7,887)
Pay Inflation Reserve	1.0%	-	-	(2,487)	-	(2,487)	-	-	-	-	-	2,487
Pay Incremental Drift Reserve	1.2%	-	-	(2,985)	-	(2,985)	-	-	-	-	-	2,985
Pay CEA Reserve		-	-	(300)	-	(300)	-	-	-	-	-	300
Drugs Inflation Reserve (incl. passthrough)	10.0%	3,193	-	-	(4,838)	(1,645)	-	-	-	-	-	1,645
Non Pay Inflation Reserve	2.5%	-	-	-	(1,236)	(1,236)	-	-	-	-	-	1,236
Non Pay Inflation Reserve - Unitary Payment	1.4%	-	-	-	(700)	(700)	-	-	-	-	-	700
Sub Total - Inflation & Increments 2014/15		11,080	-	(5,772)	(6,773)	(1,466)	-	-	-	-	-	1,466
D Cost Pressures & Other												
Tariff Deflation	-4.0%	(15,933)	-	-	-	(15,933)	-	-	-	-	-	15,933
Other (central reserve)		-	-	-	-	-	-	-	-	-	-	-
Other Cost Pressures		-	-	-	-	-	-	-	-	-	-	-
Contingency	1.0%	-	-	(2,487)	(2,053)	(4,540)	-	-	-	-	-	4,540
Sub Total - Cost Pressures & Other		(15,933)	-	(2,487)	(2,053)	(20,473)	-	-	-	-	-	20,473
TOTAL (before CIP)		385,575	58,329	(256,994)	(214,114)	(27,204)	-	-	-	-	-	27,204
E CIPs												
CIP Gross (<=4% of expenditure)	4.0%	-	-	9,949	8,212	18,161	-	-	-	-	-	(18,161)
CIP Gross (>4% of expenditure)	3.0%	-	-	-	13,482	13,482	-	-	-	-	-	(13,482)
CIP cost of delivery		-	-	-	-	-	-	-	-	-	-	-
Sub Total - CIPs	7.0%	-	-	9,949	21,694	31,643	-	-	-	-	-	(31,643)
2014/15 INCOME & EXPENDITURE	1.0%	385,575	58,329	(247,044)	(192,421)	4,439	-	-	-	-	-	(4,439)
1% Surplus						4,439						
Distance from 1% Surplus						(0)						
F 2015/16 (at 2014/15 Prices)												
2014/15		385,575	58,329	(247,044)	(192,421)	4,439	-	-	-	-	-	(4,439)
Less Non Recurrent Items		-	-	-	-	-	-	-	-	-	-	-
Add FYE of CIPs		-	-	-	-	-	-	-	-	-	-	-
Add FYE of approved cost pressures		-	-	-	-	-	-	-	-	-	-	-
Net Risks & Opportunities		-	-	-	-	-	-	-	-	-	-	-
2015/16 INCOME & EXPENDITURE	1.0%	385,575	58,329	(247,044)	(192,421)	4,439	-	-	-	-	-	(4,439)