Avon and Wiltshire NHS
Mental Health Partnership NHS Trust

Trust Board	Date:	29 March 2017

Agenda item	Title	Executive Director lead and presenter	Report author
BD/16/273	Final 17/18 Budget	Simon Truelove, Director of Finance	Pete Tilley, Deputy Director of Finance

This report is for:	
Decision	X
Discussion	X
To Note	X

History

The following impacts have been identified and assessed within this report	
Equality	
Quality	
Privacy	

Executive summary of key issues

The Trust submitted its 2 year plan on the 23 December 2016. This included a workforce plan, a financial plan and a written annual operating plan. As a mental health trust an activity plan was not required.

The financial plan was supported by detailed bottom budget working papers for all cost centres, managed by the finance accountants working with managers and directors to agree the overall financial envelope for the Trust.

As was previously reported to February Finance & Planning Committee, through the budget setting process a financial gap of £18.1m was identified against achievement of a £1.4m surplus before application of the S&T fund of £1.2m.

Individual budget setting meetings were held during March with all LDU and corporate leads in order to agree starting baselines, test current assumptions around savings / delivery confidence levels and to ensure savings are embedded in budgets from April 17. As a result of these meetings, further budget refinement was undertaken before finalisation – as part of this review the financial gap has shifted by a further £2.4m from £18.1m to £20.5m against the existing £1.4m surplus assumption.

Detail on the budget setting process and the final 17/18 Budget was presented to F&P on the 24th March seeking the committee to recommend sign off from the Board.

Following budget finalisation, budget statements will be issued to managers during the week commencing 20th March 17 with the intention to achieve final sign off before the Board Meeting.

This report addresses these strategic priorities:	
We will deliver the best care	
We will support and develop our staff	
We will continually improve what we do	X

We will use our resources wisely	X
We will be future focussed	X

Background

Previously, budget setting was very much driven centrally, with little involvement of the Local Delivery Units and managers in working with finance to agree a robust plan. As a result the current budget for 2016/17 did not reflect accurately the annual operating plan of AWP.

Key to the process adopted to deliver the 17/18 budget was:

- Clear financial management policy adapted across the organisation
- Detailed working papers by account code
- Reconciliation to 2016/17 run rate and forecast out-turn at month 6, but updated to reflect current forecasted position at both M10 and M11.
- Audit trail from current budgets to opening budgets for 2017/18
- Early discussions with budget managers and others in ensuring budget changes were understood with further review and challenge as required
- High level oversight by the senior finance team

Adhering to this process meant that we were able to submit our annual operating financial plans on time, and continue to refine and understand the financial gap in 2017/18. Following the principles of this approach supported the identification of the further movement in financial gap for 17/18.

Financial Assumptions

The core financial assumptions underpinning the plans for 2017/18 remain unchanged from the update paper in February, namely:

- Cost inflation of £4.1m
- A £1m Board contingency
- Changes to CQUIN targets resulting in a risk reserve of £0.8m + contingency against cost of delivery/non delivery of £0.4m
- Assumed delivery of control total of £1.4m (before application of S&T funding of £1.2m)
- Tariff inflation on income from commissioners of £0.16m (0.1%)
- Growth of 1.9% from the majority of commissioners totalling £1.6m
- Removal of non-recurrent cost pressures identified in 2016/17 relating to 2015/16 of £4.7m

Overall I&E Position

The opening 2017/18 budget position is outlined below in table 1 as compared to the M11 FOT position.

Table 1: Summary Income and Expenditure Budget for 2017/18 compared to the Forecast

Outturn for 2016/17

£m	2016/17 FOT @ M11	2017/18 Opening Budgets
Income from Patient Activities	202.6	202.5
S&T Funding	0.3	1.2
Other Income	10.1	8.0
Total Income	**213.0**	**211.7**
Permanent Staff	-141.5	-155.8
Temporary Staff	-20.3	-0.8
Non Pay	-46.8	-36.0
Board Contingency		-1.0
Operating Costs	**-208.6**	**-193.6**
EBITDA	4.4	18.0
Financing Costs	-21.4	-17.6
Retained Surplus/Deficit	**-17.0**	**0.4**
Impairments and IFRIC 12	7.2	2.2
Monitored Surplus/Deficit	**-9.8**	**2.6**

To deliver the £2.6m surplus the Trust will need to deliver a £20.5m cost improvement programme (CIP) which represents a reduction of 9.6% of turnover. This is a further deterioration in the overall financial position from the original financial plan submitted in December 2016 of £18.1m which is explained in more detail later in the report.

The original financial gap of £18.1m had been allocated across a number of schemes based on the work identified in the financial recovery plan and potential new schemes identified with a longer lead time. The further challenge of the additional £2.4m gap adds to the current level of unidentified savings as outlined in the below table 2:

Table 2: Analysis of the Cost Improvement Programme for 2017/18

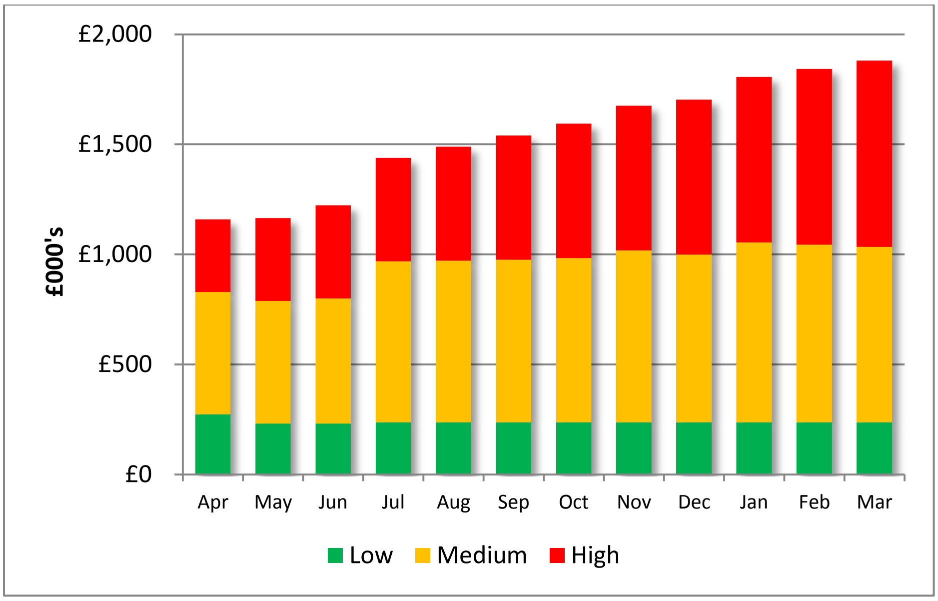
£m	Savings Target	Fully Developed	In Progress	Opportunity	Unidentified	Budget Reduction	Run Rate Reduction
LDU Savings	3.8	1.2	1.5	0.3	0.8	3.8	
Corporate Savings	1.1	0.2	0.3	0.6		1.1	
OOA reductions	2.2	2.2				2.2	
Safer staffing and other agency initiatives	2.5	1.4	1.1			1.8	0.7
Ward Closures	1.0			1.0		1.0	
Estate strategy and rationalisation	0.9	0.5	0.4			0.9	
PFI savings potential	2.3		2.3			0.3	2.0
Procurement savings	0.4	0.4				0.4	
Income Generation	0.8	0.2	0.6			0.8	
Other	0.3	0.1	0.2			0.3	
Financing	0.4	0.4				0.4	
Identified as fully developed/in progress/opportunity	**15.7**	**6.6**	**6.4**	**1.9**	**0.8**	**13.0**	**2.7**
Unidentified	4.8				4.8		
Total Gap	**20.5**	**6.6**	**6.4**	**1.9**	**5.6**	**13.0**	**2.7**
Previously Reported (Feb 2017)	18.1	5.0	5.1	4.0	4.0	12.7	2.7

- Fully Developed – These are identified to budget lines and will be removed from 1 April.
- In Progress – These schemes are currently expected to deliver but require further work to ensure budget lines are identified. It is still expected that these will be removed from budget lines by 1 April.
- Opportunity – These schemes are still in early stages of development at this point in time, and work continues on them to move them to at least in progress by the 1 April. These schemes are unlikely to be in place by 1 April and work will be needed to identify their realistic start date.
- Unidentified – As the title suggests, AWP still needs to identify new schemes to close this gap by 1 April and again there is likely to be a delay in their start date. The £2.4m is an additional pressure on top of the unidentified schemes previously highlighted.

Overall, the value of schemes assessed as fully developed or in progress has increased as compared to that recorded at the end of February, with those categorised as opportunity reducing. Unidentified had also reduced by £0.8m before the application of the further cost pressures of £2.4m.

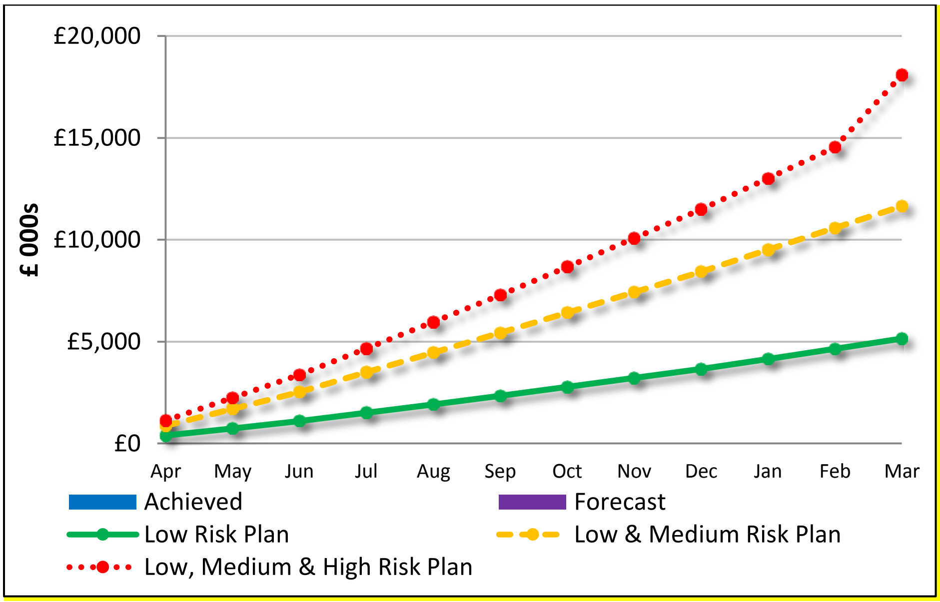
All of the schemes have been profiled based on likely start dates as per the chart below. ***For presentation purposes only, the £2m scheme for PFI has been excluded as that is profiled for March Delivery***. There are less back-ended schemes than in previous years to ensure delivery is started as soon possible. The largest back-ended phasing relates to the unidentified schemes as shown in Diagram 3.

Diagram 3 – Graphical representation of the profile of expected savings for 2017/18



The cumulative impact of the savings is shown in diagram 4 which shows the profiling of the total CIP over the financial year 2017/18.

Diagram 4 – Cumulative Impact of the 2017/18 Cost Improvement Programme



With the full application of the CIPs programme with the revised income and expenditure budgets the draft budgets for 2017/18 are summarised in table 5. Directors and senior managers have been signing off these values and it is envisaged that most budgets will be signed off by the day of the Board.

Table 5 – Summary of Budgets for 2017/18

Service Area	Income Budget	Pay Budget	Non Pay Budget	Financing	Total Expenditure	Net Budget
Direct Patient Services	68,143,327	- 132,063,893	- 13,641,922	- 108	- 145,705,923	- 77,562,597
Estates and Facilities	703,372	- 7,530,542	- 12,685,712	- 9,731,978	- 29,948,232	- 29,244,860
Chief Exec and Board	-	- 1,223,238	- 989,942	-	- 2,213,180	- 2,213,180
Corporate Services	8,166,502	- 24,829,298	- 7,150,126	- 25,806	- 32,005,229	- 23,838,727
Financing and Contract Income	134,659,570	9,005,750	- 2,539,022	- 5,652,934	813,793	135,473,364
Grand Total	**211,672,771**	**- 156,641,221**	**- 37,006,724**	**- 15,410,825**	**- 209,058,771**	**2,614,000**

Note:

Contract income from CCGs and NHSE are currently reported centrally under financing. Work continues to allocate out to LDUs

Sustainability Funding is included in Financing and contracting

Unidentified CIPs are included in financing.

Current run-rate in 2016/17

As reported in the month 11 finance report, the current normalised deficit run rate has stabilised at c£550-560k per month and this is reflected in the updated waterfall chart below. The assumption is that this should have an impact on the underlying position going into 2017/18; however work continues to review the underlying impact that any non-recurrent measures currently being exercised will have on the run-rate in the new year. The following waterfall diagram (Diagram 6) represents the move from the current financial position of £12.2m deficit to the £20.5m financial gap for 2017/18 before savings.

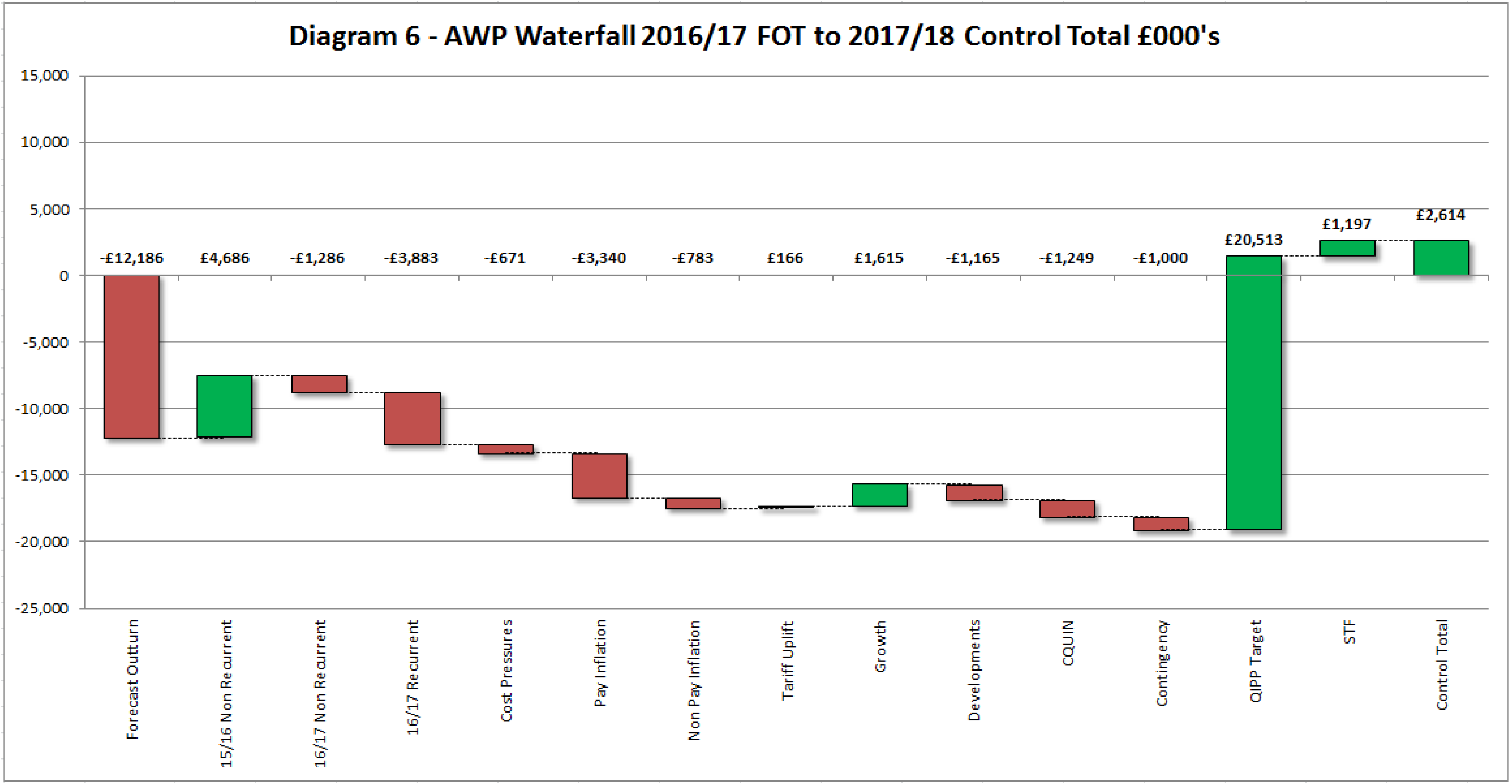


Diagram 6 - AWP Waterfall 2016/17 FOT to 2017/18 Control Total £000's
15,000
10,000
5,000
0
-5,000
-10,000
-15,000
-20,000
-25,000
-£12,186
£4,686
-£1,286
-£3,883
-£671
-£3,340
-£783
£166
£1,615
-£1,165
-£1,249
-£1,000
£20,513
£1,197
£2,614
Forecast Outturn
15/16 Non Recurrent
16/17 Non Recurrent
16/17 Recurrent
Cost Pressures
Pay Inflation
Non Pay Inflation
Tariff Uplift
Growth
Developments
CQUIN
Contingency
QIPP Target
STF
Control Total

It should also be noted that £3.5m of the £20.5m gap relates to the creation of the surplus, creation of a contingency reserve and ring-fencing funding for dealing with the impact of CQUIN changes.

Financial Gap Movement

As described above the budget setting process since December 2016 has seen a number of further changes from assumptions not coming to fruition or the amount of income that was expected in December is now lower than initially envisaged.

Table 7 highlights the main drivers for the movement between the £18.1m gap previously identified based upon the December submission and the revised gap of £20.5m:

Table 7 – Explanation of the Increase in CIP requirements for 2017/18

Starting Financial Gap	**18,085**
LDU Cost Pressures	1,131
Reduced Service Contribution	447
Increased cost of structure	382
Reduced Growth Funding	262
Corporate Services Cost Pressures	96
Revised CAMHS Budget	88
Other	22
Revised Financial Gap	**20,513**
Movement	**2,428**

Capital Plan for 2017/18

The latest version of the capital plan for the next five years is outlined below in Table 8:

Table 8 – Five Year Capital Plan for 2017-2022

Capital Plan	2017/18	2018/19	2019/20	2020/21	2021/22
Funding Sources					
Depreciation (Less IFRIC 12)	4,719	4745	4638	4541	4480
TOTAL funding	**4,719**	**4,745**	**4,638**	**4,541**	**4,480**
Schemes					
Server refresh	123	30	1550		
Development environment refresh		150			
Switches and routers	71	85	85		
Network Connections	210	199			
Network management	45				
Wi-Fi	350	350			
Bath server room closure	30				
N3 circuits move	90				
Role based equipment provision	602	1020	292	750	750
Mobile device management	200				
Single sign on		192			
Intranet upgrade and relaunch	100				
Asset management and audit	55				
Video conferencing & instant messaging		200			
Single registration		70			
Analogue device replacement		57			
VOIP replacement		90			
Kingswood CC N3	100				
Other IT investment				1080	1019
Crisis House PDC funding					
CQC Ligature-reduction works	458	534	500	500	500
Lansdowne Refurbishment	572				
Riverside Unit	150	350			
Perinatal Unit	0	500			
Lifecycle Investment	395	250	250	250	250
Southmead water works	200				
Capital Feasibility Studies	57	57			
PFI equipment replacement programme	211	211	211	211	211
Backlog maintenance		400	750	750	750
Other building requirements			1000	1000	1000
Estate rationalisation	300				
Avon and Siston development	200				
Specialised High Care Area	200				
TOTAL schemes	**4,719**	**4,745**	**4,638**	**4,541**	**4,480**

The capital plan for the next 5 years and most importantly, the next 2 years is a continually developing programme, as new requirements and changing priorities are brought to the attention of the Investment Planning Group (IPG). It is, however, unlikely that the funding envelope of £4.7m identified for 17/18 will alter, unless some additional funding becomes available in the form of Public Dividend Capital, as was the case for £0.5m of funding in 16/17.

Of the £4.7m plan, £2m is expected to be spent on IT works, given that the capital expenditure on IT in 16/17 was particularly low and it is recognised that the organisation has a number of urgent technological advances that need to be made. Almost all of the £2m is based on network upgrades and increasing the provision of mobile working.

The remaining £2.7m is based around Estate works and Estate rationalisation. £1.3m of this is required for legislative and essential works such as anti-ligature and water purification works. The remaining £1.4m is allowing rationalisation of the estate, providing both improvements and creating opportunities for more efficient and innovative ways of working.

A number of schemes have been moved between financial years since the original plan in December 2016 following reprioritisation / reprofiling with more urgent schemes.

Cashflow

Anticipated Cash Flows for the next two years are outlined below in Table 9:

Table 9 – Statement of Cash Flows 17/18 & 18/19

Statement of Cash Flows	16/17	17/18	18/19
	£'000	£'000	£'000
Operating Surplus/(Deficit)	(6,623)	9,108	9,250
Depreciation and Amortisation	6,151	6,462	6,600
Impairments and Reversals	7,034	2,000	2,500
(Increase)/Decrease in Trade and Other Receivables	(3,801)	(3,442)	(3,226)
Increase/(Decrease) in Trade and Other Payables	1,355	(3,745)	(2,388)
Provisions Utilised	(146)	(150)	(150)
Net Cash Inflow/(Outflow) from Operating Activities	**3,970**	**10,233**	**12,586**
Cash Flows from Investing Activities			
Interest Received	16	12	12
(Payments) for Property, Plant and Equipment	(7,183)	(7,731)	(6,245)
Proceeds of disposal of assets held for sale (PPE)	2,008	0	0
Net Cash Inflow/(Outflow) from Investing Activities	**(5,159)**	**(7,719)**	**(6,233)**
Cash Flows from Financing Activities			
Capital Element and interest paid On-SoFP PFI	(5,866)	(6,298)	(6,587)
PDC Paid/Received	(2,566)	(2,566)	(2,766)
Loans and IRWCF paid/received	5,899	6,350	3,000
Net Cash Inflow/(Outflow) from Financing Activities	**(2,533)**	**(2,514)**	**(6,353)**
Net Increase/(Decrease) in Cash and Cash Equivalents	(4,567)	0	0
Restated Cash and Cash Equivalents (and Bank Overdraft) at Beg of Year	5,600	1,033	1,033
Cash and Cash Equivalents (and Bank Overdraft) at Year end	**1,033**	**1,033**	**1,033**

The overall cash support from NHSI/DH in 17/18 is anticipated to be £6.4m which is broadly in line with the requirement seen in 16/17. Twelve week forecast cashflows are now required to be sent to NHSI/DH on a monthly basis to show the current cash position, likely draw for the next month and forecast over the following 2 months to give future indications. The latest cashflow to NHSI that runs up to mid-July suggests that £3.4m will be required over the first quarter, in order to maintain prompt payments to suppliers.

It is anticipated that following this period, a number of savings opportunities will have commenced, allowing the requirement per month to drop to £0.5m with the aim that by the final quarter any further support will not be required.

Balance Sheet

Table 10 below highlights the planned balance sheet position for 17/18:

Table 10 – Statement of Financial Position for 17/18 & 18/19

Statement of Financial Position	16/17	17/18	18/19
	£'000	£'000	£'000
ASSETS			
Total Non-Current Assets	119,630	118,017	116,634
Total current assets	15,843	16,550	16,220
Total Non-Current Liabilities	(49,188)	(46,281)	(40,930)
Total Current Liabilities	(18,513)	(17,650)	(17,893)
TOTAL ASSETS	**67,772**	**70,636**	**74,031**
TAXPAYERS EQUITY			
Public Dividend Capital	100,548	100,548	100,548
Revaluation Reserve	11,379	11,629	11,879
Retained Earnings	(44,155)	(41,541)	(38,396)
TOTAL EQUITY	**67,772**	**70,636**	**74,031**

Next Steps

Budget statements have been issued to budget managers for sign off during the week commencing 20th March. At the time of writing this report, the Resources Directorate budgets have been signed off by the Executive Director – a verbal update will be provided to confirm the updated status of sign off.

Work continues to allocate contract income to the correct locality.

Work continues to ensure that the whole time equivalents are correct and are reported correctly across the Trust from a budget point of view.

Budgets will be uploaded into ledger prior to month 1 reporting with appropriate phasing of plans to support accurate reporting of the 17/18 financial position and linked to the budget paper.

Recommendations

The Board is asked to:

- Note the report and the residual financial gap of £7.5m
- Linked to the Proposed Programmes of work for 2017/18 recognise that there are further savings opportunities to be achieved
- Approve the sign off of the proposed budget for 2017/18