

<b>Report Title</b>	Budget Setting 2021 and Financial Improvement Trajectory		
<b>Sponsoring Executive</b>	Dinah McLannahan, Acting Director of Finance		
<b>Report Author</b>	Dinah McLannahan, Acting Director of Finance		
<b>Meeting</b>	Public Trust Board	<b>Date</b>	5 <sup>th</sup> December 2019

### 1. Suggested discussion points *[two or three issues you consider the Trust Board should focus on]*

The Trust's 1920 plan requires delivery of a £17.348m deficit (before FRF, PSF and MRET). We are currently expected to be circa £6.2m away from that target. Our 2021 plan requires £18.2m of CIP and planning is underway on that basis. The plan also requires £11m of income growth margin, and, a year end result of a £600k surplus. The total 'ask' is therefore £29m, in 2021, to eliminate the underlying £17.4m deficit of the Trust. In order for that to remain the case, we must in effect roll over budgets from 1920 in to 2021. Income under-performance and pay underspends are the root cause of the mix variance from plan in 1920. We must therefore assess what the full year value of the 1920 income (in particular surgical services) will be in 2021, which will then inform the required expenditure budgets to deliver the activity plan.

The Trust is in the process of aligning the Financial Improvement Trajectory with the LTFM with DHSC and NHSI/E, and further updates will be provided in due course.

The expectation is that an initial budget proposal will come before the Board via the January 2<sup>nd</sup> FIC meeting.

### 2. Alignment to 2020 Vision *[indicate with an 'X' which Plan this paper supports]*

Safety Plan		Public Health Plan		People Plan & Education Plan	<b>x</b>
Quality Plan		Research and Development		Estates Plan	<b>x</b>
Financial Plan	<b>x</b>	Digital Plan	<b>x</b>	Other <i>[specify in the paper]</i>	

### 3. Previous consideration *[where has this paper been previously discussed?]*

NA

### 4. Recommendation(s)

The Trust Board is asked to:

- a. Discuss the contents of the report

### 5. Impact *[indicate with an 'X' which governance initiatives this matter relates to and where shown elaborate]*

Trust Risk Register	<b>x</b>	3688			
Board Assurance Framework	<b>X</b>	SBAF 9			
Equality Impact Assessment	Is this required?	Y		N	<b>x</b> If 'Y' date completed
Quality Impact Assessment	Is this required?	Y		N	<b>x</b> If 'Y' date completed

# Budgeting 2021

## Financial Improvement Trajectory

Trust Board  
5<sup>th</sup> December 2019

# 1920 performance implications on 2021

	Budget 1920 £m	FOT M7 £m	Variance £m
Patient Related Income	435,146	425,491	(9,655)
PRI Pass-through	27,638	26,509	(1,128)
Other Patient Related Income	8,171	8,145	(27)
Other Income	52,537	53,001	464
Pay	(340,010)	(331,997)	8,013
Non Pay and Non-Opex	(200,831)	(204,737)	(3,906)
<b>(Deficit)</b>	<b>(17,348)</b>	<b>(23,588)</b>	<b>(6,240)</b>

c£12.5m under-performance against SWBCCG and net over against others – needs confirming

Non-pay prudent ramp up of costs for activity increase and energy

- This is the month 7 view of the forecast outturn position. The Trust expects to be able to reach the £17.348m required through available non-recurrent mitigation.
- The basis for the 2021 budget is a starting deficit of £17.348m, equivalent to a monthly average run rate deficit of £1.45m a month. This would leave the £6m recurrent risk reserve in place.
- The overall variance needs either eliminating on a recurrent basis before 1<sup>st</sup> April – which means directorates confirming that they have plans to recurrently balance budgets within plan, or using the £6m of recurrent reserves within the £17.348m deficit to recurrently fund the variance.
- The following slide sets out the year to date performance and annual budgets by directorate to provide context and an indication of where the main variance from plan arises, being Surgical Services.

		Annual Budget £000's	Budget WTE	Actual WTE	Current Period			Year to Date		
					Budget £000's	Actual £000's	Variance £000's	Budget £000's	Actual £000's	Variance £000's
Medicine & Emergency Care	Emergency Care	23,279	635.00	671.54	1,687	1,118	-568	11,169	9,899	-1,271
	Admitted Care	21,029	910.09	928.57	1,394	951	-443	9,193	10,112	919
		<b>44,307</b>	<b>1,545.09</b>	<b>1,600.11</b>	<b>3,081</b>	<b>2,070</b>	<b>-1,011</b>	<b>20,362</b>	<b>20,011</b>	<b>-351</b>
Surgical Services	General Surgery	23,006	399.37	380.85	1,749	971	-777	10,883	9,075	-1,808
	Specialist Surgery	21,000	266.63	261.69	1,662	1,213	-449	10,216	7,873	-2,343
	Theatres	-24,251	287.18	297.83	-2,039	-2,020	20	-12,041	-11,839	202
	Anaesthetics, Pain Management and Critical Care	-9,482	294.44	275.49	-914	-812	102	-4,773	-4,094	679
	Ophthalmology	14,886	289.03	260.81	1,138	1,035	-102	6,637	7,071	434
		<b>25,159</b>	<b>1,536.65</b>	<b>1,476.67</b>	<b>1,595</b>	<b>388</b>	<b>-1,207</b>	<b>10,923</b>	<b>8,086</b>	<b>-2,836</b>
Women & Child Health	Gynaecology, Gynae-Oncology	5,069	107.38	100.54	356	341	-14	2,445	2,594	148
	Maternity & Perinatal Medicine	10,474	439.46	415.39	510	797	287	5,691	5,432	-259
	Acute & Community Paediatrics	4,926	412.77	385.27	358	370	13	2,413	2,415	2
		<b>20,469</b>	<b>959.61</b>	<b>901.20</b>	<b>1,224</b>	<b>1,509</b>	<b>285</b>	<b>10,549</b>	<b>10,441</b>	<b>-108</b>
Primary Care, Community and Therapies	iBeds	-4,859	339.10	325.04	-425	-429	-4	-2,438	-2,339	100
	Ambulatory Therapies	-1,065	241.12	228.87	-119	-44	76	-542	93	635
	iCares	4,367	285.87	269.21	288	432	144	2,230	2,905	675
	Community Medicine	6,133	175.14	162.94	460	245	-215	2,779	2,279	-499
		<b>4,577</b>	<b>1,041.23</b>	<b>986.06</b>	<b>204</b>	<b>204</b>	<b>0</b>	<b>2,028</b>	<b>2,939</b>	<b>911</b>
Imaging	Breast Screening	1,590	55.34	47.91	94	142	48	817	844	27
	Diagnostic Radiology	-964	196.31	178.62	-140	-305	-166	-907	-1,029	-122
	Interventional Radiology	1,085	12.79	8.78	86	66	-20	524	595	71
	Nuclear Medicine	-196	28.60	20.47	-23	28	51	-81	77	158
	Black Country Pathology	-3,968	3.00	2.19	-335	-366	-31	-2,050	-2,454	-404
		<b>-2,454</b>	<b>296.04</b>	<b>257.97</b>	<b>-319</b>	<b>-436</b>	<b>-117</b>	<b>-1,697</b>	<b>-1,967</b>	<b>-270</b>
Corporate	Strategy and Governance	-28,131	247.59	239.08	-2,280	-2,516	-236	-14,482	-14,464	18
	Finance	-4,450	79.99	77.59	-369	-360	9	-2,233	-2,194	40
	Medical Directors Office	-2,358	93.93	94.58	-208	-227	-19	-1,306	-1,213	94
	Operations	-18,759	533.60	507.80	-1,551	-1,471	80	-9,454	-9,280	174
	People & Organisation Development	-6,839	139.36	154.89	-571	-526	44	-3,430	-3,255	175
	Estates & New Hospital Project	-17,378	171.17	181.87	-1,318	-1,306	12	-7,833	-7,705	127
	Corporate Nursing Services	-12,835	390.91	421.67	-1,065	-1,067	-2	-6,446	-6,345	101
		<b>-90,751</b>	<b>1,656.55</b>	<b>1,677.48</b>	<b>-7,361</b>	<b>-7,473</b>	<b>-112</b>	<b>-45,185</b>	<b>-44,456</b>	<b>729</b>
Central	Central	-28,259	22.51	0.09	-2,897	-458	2,439	-17,346	-15,597	1,749
	Income	17,278	0.00	0.00	1,440	1,171	-269	8,641	8,824	184
	Reserves	-7,676	0.00	0.00	586	586	0	-3,613	-3,613	0
		<b>-18,656</b>	<b>22.51</b>	<b>0.09</b>	<b>-871</b>	<b>1,298</b>	<b>2,169</b>	<b>-12,319</b>	<b>-10,386</b>	<b>1,933</b>
NET I&E		<b>-17,348</b>	<b>7,057.68</b>	<b>6,899.58</b>	<b>-2,448</b>	<b>-2,442</b>	<b>7</b>	<b>-15,339</b>	<b>-15,332</b>	<b>7</b>

# 1920 in to 2021 – illustrative example

	Budget 1920 £m	FOT M7 £m	Variance £m
Patient Related Income	435,146	425,491	(9,655)
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<b>(Deficit)</b>	<b>(17,348)</b>	<b>(23,588)</b>	<b>(6,240)</b>

- Excluding PRI, the net forecast expenditure position of the Trust is £449.079m.
- Therefore, to achieve a deficit annual budget of £17.348m, the Trust must be able to set a plan of £431.731m for 2021 (all at 1920 prices – 2021 inflation assumed to cover inflationary costs). This is £6.24m more than currently forecast.
- This is likely to cause affordability issues for the host commissioner.
- The other option is to set a budget at £425m for PRI – but then this would require expenditure budgets £6.24m lower than forecast outturn. For both pay and non-pay it is possible that this would interfere with CIP plans in 2021, which would require further cost reduction.
- Another option would be to fund the gap through use of the Trust's risk reserve of £6m. This may have impact on the Trust's ability to invest in revenue developments.

# 2021 LTFM assumptions – a reminder

	Impact 20/21 £m	Impact 21/22 £m	2020 to 2022 £m
<b><u>Normalisation/National CIP Requirement</u></b>			
PSF/FRF/MRET	(17.3)		(17.3)
RTT Income less non recurrent RTT costs	(2.4)		(2.4)
Coding Quality Improvement	4.3		4.3
National CIP Requirement (implied efficiency)	(4.5)	(5.4)	(9.8)
<b>TOTAL</b>	<b>(19.9)</b>	<b>(5.4)</b>	<b>(25.2)</b>
<b><u>CIP Target and Income Margin</u></b>			
Local Trust CIP Target	18.2	12.9	31.1
National Growth Margin	7.9	4.4	12.4
General PRI Growth Margin	3.0	1.1	4.2
<b>TOTAL</b>	<b>29.1</b>	<b>18.5</b>	<b>47.6</b>
<b><u>CP/Devs</u></b>			
Taper Relief Net Revenue Impact	0.8	(0.4)	0.4
Acute Oncology Stranded Cost Funding Step Down	(0.8)	(0.7)	(1.5)
Gynae Oncology		(3.0)	(3.0)
Car Parking Out Sourcing (FYE)	(1.0)		(1.0)
Non Opex, net of FRF PDC Funding (ie primarily the impact of depreciation)	(1.6)	(3.5)	(5.1)
Other	(0.2)	0.0	(0.2)
RCRH Reserve	(5.7)	(3.3)	(9.0)
Hard FM Outsource (Retained Estate)		(2.2)	(2.2)
<b>TOTAL</b>	<b>(8.5)</b>	<b>(13.0)</b>	<b>(21.5)</b>
<b>TOTAL</b>	<b>0.8</b>	<b>0.1</b>	<b>0.8</b>

- In order for the ask next year to remain at CIP of £18.2m plus total margin of £10.9m, assuming everything else remains the same, the Trust must set startpoint budgets at an overall deficit of £17.3m
- This would maintain the Trust's commitment to the Midland Met FBC and LTFM assumptions
- The Trust must align the above assumptions with the NHSI/E Financial Improvement Trajectory

# Key actions required

- Confirm 2021 FYE of 1920 activity and income plan whilst considering likely CCG affordability position to set realistic and achievable plan for 2021. Model built, meetings being arranged with groups. All of the work will be at 1920 prices, a significant unknown being the impact of tariff changes and HRG groupers (which may change the value).
- The above will inform the required expenditure position. Pay is a key consideration, particularly given the Trust's ambition to become fully staffed. Pay budgets sit at £340m for 1920 with an expected outturn of £332m. Any CIP identified for 2021 would have to be a further cash releasing reduction on startpoint budgets.
- Templates due in from finance teams by 14<sup>th</sup> December that will confirm actions to pull back to £17.348m budgets, that will confirm ability to set budgets on outturn, rollover, or a combination of the two.
- Deputy COO, finance and operational teams to identify route to further £11m margin in 2021 activity plan.
- £10m of pay CIP plans to be developed – incremental reduction on outturn 1920 budgets.