

Trust Board Public Meeting: Wednesday 11 May 2016

TB2016.51

Title	Update on Financial Plans 2016/17
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Status	For Approval
History	<p>Initial Revenue and Capital Plans approved by Trust Board - 9 March</p> <p>Extraordinary Board Meeting - 23 March</p> <p>Financial & Performance Committee meeting - 13 April</p> <p>Trust Board Seminar - 27 April</p>

Board Lead	Mr Mark Mansfield, Executive Director of Finance and Procurement			
Key purpose	Strategy	Assurance	Policy	Performance

Executive Summary

1. The Trust submitted its Annual Plan (the so-called APR) for 2016/17 to its regulator, NHS Improvement, on 18 April 2016 (Section 2.1)
2. The APR reflected the latest outputs from the process of internal budget-setting (Section 3)
3. This report provides summary information from the APR submission (see Appendices A to E and Section 4)
4. The report also provides an update to the Board on the progress in producing internal budgets. Specifically, the report outlines the impact at divisional level of the Stage 2 budgets (Section 3.2)
5. The Board is asked to:
 - Ratify the APR submitted to NHS Improvement on 18 April
 - Note the adjustments to internal budgets resulting from Stage 2 of the budget setting process
 - Note the next steps in developing “Stage 3” budgets.

Update on Financial Plans 2016/17

1. Introduction

- 1.1. This report provides summary information to the Board on the Annual Plans (APR) provided to the regulator, NHS Improvement, on 18 April. This paper also describes progress in developing internal budgets at the Trust.
- 1.2. Initial budgets were agreed by the Board at its meeting on 9 March. At departmental level, these plans reflected the impact of “Stage 1” of the internal budget setting process, and at corporate level, the expected income and expenditure of the organisation in the forthcoming year.
- 1.3. Stage 1 budgets reflected the “rolled forward” view of the Trust’s underlying financial position at departmental level. Stage 2 budgets adjust the initial baseline budgets for the impact of expected cost inflation and the application of savings targets. A third stage to budget setting will follow, reflecting the internal impact of the commissioner contracts which were agreed on 25 April.
- 1.4. The financial assumptions within the APR were considered by the Board at its extraordinary meeting on 23 March. These discussions directed the content of the submission made on 18 April. Further discussion took place at the Finance and Performance Committee meeting on 13 April and the Trust Board Seminar on 27 April.

2. Summary Income & Expenditure

- 2.1. The table below shows the Summary Income & Expenditure plans for 2016/17 with the breakdown between non-recurrent items and the recurrent underlying financial position (which is the opening baseline for 2017/18 plans). The internally-generated EBITDA and surplus (excluding the impact of the national Sustainability and Transformation Fund (see 2.3 below)) is also shown.

	APR 2016/17	Recurrent	Non- Recurrent	APR 2016/17 excl S&T
	£m	£m	£m	£m
Operating income (inc in EBITDA)	1012.5	992.1	20.4	992.1
Operating expenses (inc in EBITDA)	-913.4	-926.9	13.5	-913.4
EBITDA	99.0	65.1	33.9	78.6
Operating income (exc from EBITDA)	0.3	0.3	0.0	0.3
Operating expenses (exc from EBITDA)	-37.0	-37.0	0.0	-37.0
Non-operating income	0.0	0.0	0.0	0.0
Non-operating expenses	-28.5	-28.5	0.0	-28.5
Surplus / (Deficit) after tax	33.9	0.0	33.9	13.5
Profit/(loss) from discontinued Operations, Net of Tax	0.0	0.0	0.0	0.0
Surplus / (Deficit) after tax from Continuing Operations	33.9	0.0	33.9	13.5
EBITDA %	9.8%	6.6%		7.9%

- 2.2. The recurrent (underlying) financial plan gives a zero retained surplus and an EBITDA of £65.1m (6.6% of income). This recurrent EBITDA of £65.1m has

been used in the formulation of the 2016/17 “Stage 2” budgets at Divisional level.

- 2.3. The APR submitted to NHS Improvement (NHSI) reflects the control total target assigned to this Trust. Whilst the underlying financial plan is for a zero retained surplus, the control total target is for a surplus of £33.9m. The APR has been submitted on this basis. The £33.9m would be delivered through a combination of £13.5m of internally-generated non-recurrent sums and a payment from NHSI of £20.4m from the Sustainability and Transformation Fund (S&T) linked to the delivery of operational targets. As the table above shows, the control total surplus generates a planned EBITDA of 9.8%, whilst the internally-generated EBITDA target is 7.9%
- 2.4. In-year the Trust Board will receive performance reports against the APR submitted to NHSI and a set of Management Accounts which will detail the performance of the Divisions against the recurrent underlying financial plan and EBITDA.
- 2.5. The underlying breakeven surplus requires the delivery of £50.9m savings; this is comparable to the £49.85m achieved in 2015/16.
- 2.6. The financial plan includes a development fund of £5m to support the delivery of transformation, £1m to support the achievement of the Trust’s CQUIN plans and £7.9m contingency (1% of operating expenditure).

3. “Stage 2” Internal Budgets

- 3.1. Internal budgets have been developed according to the three stage process outlined to the Board at its seminar in January 2016. These internal budgets have been directed at the delivery of the underlying plan for a zero retained surplus (see 2.2 above).
- 3.2. The table below provides the Board with the details of the £65.1m recurrent EBITDA, at a Divisional level and shows the impact of the Stage 2 budget adjustments to the “Stage 1” budgets agreed by the Board on 9 March 2016.

Type	NOTSS	CHWO	MRC	SUON	CSS	Corporate & Central Depts	Planning Adjustments	TOTAL
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Income	204.9	119.0	206.3	220.1	71.6	117.9		939.7
Expenditure	-158.5	-93.7	-163.8	-178.4	-87.9	-214.7		-897.0
Stage 1 EBITDA	46.3	25.3	42.4	41.7	-16.3	-96.8	0.0	42.6
	Stage 2							
CIP Targets - stage 2	9.5	5.6	9.8	10.7	5.3	7.9		48.8
Pay uplift and inflation	-2.8	-2.2	-3.4	-2.2	-3.7	-6.6	0.0	-21.0
Contingency 1%							-7.9	-7.9
Developments							-5.0	-5.0
CQUIN expenditure							-1.0	-1.0
Balance of planning (stage 3)							8.5	8.5
Stage 2 EBITDA Position	53.0	28.7	48.9	50.1	-14.7	-95.5	-5.4	65.1

These plans include:-

- £48.8m savings (CIPs) target agreed at Divisional level; the balance of £2.1m will be delivered through schemes which do not impact on EBITDA.

- £21m expenditure uplifts covering the additional cost of the 1% pay award, pension changes, living wage and non-pay inflation.

- 3.3. The £8.5m balance of planning assumptions reflects the marginal impact on income of commissioner contracts together with the potential expenditure implications. Whilst these have been agreed at a Trust level and incorporated into the Trust's overall financial plan the precise impact on the Divisional budgets is being finalised and will be agreed by end of May, which is in line with the timescales set for "Stage 3".
- 3.4. It is anticipated that the final budget, reflecting the final business plans for the year from Divisions and incorporating the commissioning income outcomes will be agreed by TME on 26 May and will be reported to the Finance & Performance Committee on 8 June. The Board will receive a routine Month 2 performance report on 13 July, which will incorporate these final Stage 3 adjustments to budgets.

4. Financial Statements included within the APR

- 4.1. The below appendices are derived from the APR submitted to Monitor on 18 April 2016.

Appendix A	Summary Income and Expenditure Account
Appendix B	Summary Balance Sheet
Appendix C	Summary Statement of Cash flows
Appendix D	Financial Sustainability Risk Rating
Appendix E	Capital Programme

- 4.2. The summary income and expenditure account reflects the Trust's delivery of the designated "control total" surplus of £33.9m funded through the receipt of Sustainability and Transformation Funds of £20.4m and a non-recurrent, but internally-generated sum, of £13.5m.
- 4.3. The APR contains the full impact of the "Sustainability and Transformation Fund" and the proposed "control total". It also contains the impact of the efficiency programme from "Stage 2" and the impact of the Commissioner Contracts being agreed at Divisional level "Stage 3" of the internal process.

5. Recommendation

- 5.1. The Trust Board is asked to ratify the approval of the APR submitted to NHS Improvement agreed at its meeting held 23 March 2016 and note the amendments to the Divisional Budgets, which reflects the out-come of Stage 2 budgets.
- 5.2. The Board is also asked to note the next steps for developing the Stage 3 budgets at Divisional level, which reflects the impact of the Commissioning Contracts.
- 5.2.1. It is anticipated that the final budget, reflecting the final business plans for the year from divisions incorporating the commissioning outcomes will be agreed by TME on 26 May and will be reported to the Finance and Performance Committee on 8 June.

Mark Mansfield, Executive Director of Finance and Procurement

May 2016

Summary Income and Expenditure Account

Summary Income and Expenditure Account

		Forecast Out- turn 2015-16	Plan 2016-17
Operating income (inc. in EBITDA)			
NHS Clinical income	£m	782.521	851.836
Non-NHS Clinical income	£m	11.234	10.355
Non-Clinical income	£m	151.535	150.259
Total operating income, inc. in EBITDA	£m	945.290	1,012.450
Operating expenses (inc in EBITDA)			
Employee expense	£m	(536.619)	(556.023)
Non-Pay expense	£m	(323.973)	(320.047)
PFI / LIFT expense	£m	(27.777)	(37.334)
Total operating expense, inc. in EBITDA	£m	(888.369)	(913.404)
EBITDA	£m	56.921	99.046
<i>EBITDA margin %</i>	%	6.0%	9.8%
Operating income (exc. from EBITDA)			
Donations and Grants for PPE and intangible assets	£m	0.470	0.300
Operating expenses (exc. from EBITDA)			
Depreciation & Amortisation	£m	(36.703)	(36.976)
Impairment (Losses) / Reversals	£m	9.937	0.000
Restructuring costs	£m	0.000	0.000
Total operating expense, exc. from EBITDA	£m	(26.766)	(36.976)
Non-operating income			
Finance income	£m	0.264	0.200
Gain / (Losses) on asset disposals	£m	9.745	(0.200)
Gain on transfers by absorption	£m	0.000	0.000
Other non - operating income	£m	0.000	0.000
Total non-operating income	£m	10.009	0.000
Non-operating expenses			
Interest expense (non-PFI / LIFT)	£m	(0.314)	(0.220)
Interest expense (PFI / LIFT)	£m	(14.403)	(14.002)
PDC expense	£m	(8.235)	(8.776)
Other finance costs	£m	(0.062)	0.000
Non-operating PFI costs (e.g. contingent rent)	£m	(5.365)	(5.472)
Loss on transfers by absorption	£m	0.000	0.000
Other non-operating expenses (including tax)	£m	0.000	0.000
Total non-operating expenses	£m	(28.379)	(28.470)
Surplus / (Deficit) after tax	£m	12.255	33.900
Profit/(loss) from discontinued Operations, Net of Tax	£m	0.000	0.000
Surplus / (Deficit) after tax from Continuing Operations	£m	12.255	33.900
Memorandum Lines:			
Surplus / (Deficit) before impairments and transfers	£m	2.318	33.900

Summary Statement of Financial Position (Balance Sheet)

Summary Statement of Financial Position		Forecast Out- turn 2015-16	Plan 2016-17
Non-current Assets			
Intangible assets	£m	11.566	8.121
Property, Plant & Equipment	£m	368.977	380.242
On-balance sheet PFI	£m	299.052	295.687
Other	£m	5.535	5.468
Total non-current assets	£m	685.130	689.518
Current Assets			
Cash and cash equivalents	£m	89.481	110.529
Other current assets	£m	58.220	58.220
Total current assets	£m	147.701	168.749
Current Liabilities			
Overdrafts and drawdowns in committed facilities	£m	0.000	0.000
PFI / LIFT leases	£m	(6.840)	(9.979)
Other borrowings	£m	(1.859)	(1.870)
Other current liabilities	£m	(137.800)	(137.802)
Total current liabilities	£m	(146.499)	(149.651)
Non-current Liabilities			
PFI / LIFT leases	£m	(249.800)	(239.821)
Other borrowings	£m	(4.242)	(2.689)
Other non-current liabilities	£m	(19.049)	(18.965)
Total non-current liabilities	£m	(273.091)	(261.475)
Total Assets Employed	£m	413.241	447.141
Reserves (Tax payers Equity)	£m	413.241	447.141

Summary Statement of Cashflows

Summary Statement of Cash Flows

		Forecast Out- turn 2015-16	Plan 2016-17
Surplus (Deficit) from Operations	£m	30.625	62.370
<i>Operating activities</i>			
Non-operating and non-cash items in operating surplus/(deficit)	£m	26.841	36.676
Operating Cash flows before movements in working capital	£m	57.466	99.046
Movements in working capital	£m	2.114	(0.088)
Increase/(Decrease) in non-current lines	£m	(0.502)	0.067
Net cash inflow/(outflow) from operating activities	£m	59.078	99.025
<i>Investing activities</i>			
Capital Expenditure (Accruals basis)	£m	(22.998)	(41.616)
Increase/(decrease) in Capital Creditors	£m	0.700	0.500
Proceeds on disposal of PPE, intangible assets and investment property	£m	16.593	0.000
Other cash flows from investing activities	£m	0.255	0.200
Net cash inflow/(outflow) from investing activities	£m	(5.450)	(40.916)
<i>Financing activities</i>			
Public Dividend Capital repaid	£m	(6.000)	0.000
Repayment of borrowings	£m	(1.404)	(1.404)
Capital element of finance lease rental payments	£m	(9.914)	(7.494)
Interest element of finance lease rental payments	£m	(19.926)	(19.584)
Interest paid on borrowings	£m	(0.150)	(0.103)
Support funding required	£m	0.000	0.000
Other cash flows from financing activities	£m	(6.705)	(8.476)
Net cash inflow/(outflow) from financing activities	£m	(44.099)	(37.061)
Opening cash and cash equivalents less bank overdraft	£m	79.952	89.481
Net cash increase / (decrease)	£m	9.529	21.048
Changes due to transfers by absorption	£m	0.000	0.000
Closing cash and cash equivalents less bank overdraft	£m	89.481	110.529

Note: The cash position for a breakeven / nil surplus plan would be £76.63m

Financial Sustainability Risk Rating

Financial Sustainability Risk Rating

		Forecast Out-turn 2015-16	Plan 2016-17
Capital Service Cover			
Revenue Available for Capital Service	£m	57.185	99.246
Capital Service	£m	(45.697)	(37.368)
Capital Service Cover metric	0.0x	1.25	2.66
Capital Service Cover rating	Score	2	4
Liquidity			
Working Capital for FSRR	£m	(14.251)	3.645
Operating Expenses within EBITDA, Total	£m	(888.369)	(913.404)
Liquidity metric	Days	(5.78)	1.44
Liquidity rating	Score	3	4
I&E Margin			
Normalised Surplus/(Deficit)	£m	(7.427)	34.100
Adjusted Total Income	£m	946.024	1,012.950
I&E Margin	%	(0.79%)	3.37%
I&E Margin rating	Score	2	4
I&E Margin Variance From Plan			
I&E Margin - Plan from 15/16 APR	£m	-0.30%	
I&E Margin - 15/16 Out-turn	£m	(0.79%)	
I&E Margin Variance From Plan	%	-0.48%	-0.48%
I&E Margin Variance From Plan rating	Score	3	3
1 Rating Trigger	Text	No Trigger	No Trigger
Continuity of Service Risk Rating	Score		
Financial Sustainability Risk Rating	Score	3	4

Note: The FSRR included within the APR submission to Monitor does not reflect the updated methodology issued in March. The Trust is unable to change the template and has raised this with Monitor.

The Trusts final FSRR for 2015/16 was a 2.

Capital Programme

OUH Capital Programme 2016/17	2016/17 Plan £000s
<i>Gross Capital Spend</i>	
Medical and Surgical Equipment	2.6
Lease Buyouts	0.7
Estates General and Ward Relocations/Refurbishments	11.0
Major Equipment including CTs, ultrasounds etc	4.5
Small Schemes	1.0
IT/EPR	2.3
Estates New Development Works	4.0
R&D	0.4
Donations	0.3
JR Theatre Remodelling - Trust funded element	0.3
Adult Critical Care - Trust funded element	0.1
Radiotherapy: Milton Keynes - Trust funded element	0.1
Radiotherapy Swindon	5.3
EPR Reprourement	2.7
Total Capital Programme Spend	35.3
PFI Lifecycle	5.8
Finance Leases	0.5
Energy Centre	
Total Other Capital Spend	6.3
Gross Capital Spend	41.6

Key assumptions:

- Capital funded through internally generated cash only, no loans
- Assumes no further major capital schemes approved and started in year

Capital Programme	£m
Slippage from 2015/16	13.6
Previously agreed cases	5.7
Business as usual	7.6
New Scheme indicative amounts	8.4
Total in 2016/17	35.3