Agenda item 2019-20 120 (aii)

Leeds Community Healthcare NHS Trust

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Operational Plan

(Finance Section)

2020 - 2021

8. Financial Plan

8.1. The Trust's financial plan for 2020/21 can only be considered in the context of Coronavirus and the suspension of the previous business rules for at least 4 months.

8.2. The financial plan presented here is in two parts: firstly, the business rules that will apply for at least the first four months and, secondly, the financial plan that would have been presented for the full year had those new business rules not been introduced.

8.3. The business rules for the first 4 were published in a letter from the NHS Chief Executive and the Chief Operating Officer on 17 March 2020. They will be developed as issues arise but it is important the Board understands the financial framework the Trust will be operating under. The content has been edited to only include rules relevant to LCH:

REVENUE COSTS

Contractual payments and provider reimbursement

We are suspending the operational planning process for 2020/21.

We will provide all NHS providers a guaranteed minimum level of income reflecting the current cost base on the following basis:

a) Commissioners should agree block contracts with the NHS providers with whom they have a contract (NHS Trusts, Foundation Trusts, Mental Health, Community and Ambulance trusts) to cover the period 1 April to 31 July. **This should provide a guaranteed monthly payment.**

   For CCGs the value of this payment will be calculated nationally for each CCG/provider relationship. This figure will be based on the average monthly expenditure implied by the provider figures in the M9 Agreement of Balances return plus an uplift that allows for the impact of inflation (including pay uplifts and CNST) but **excluding the tariff efficiency factor**.

   The monthly payment should include CQUIN and assume 100% delivery.

b) Trusts should suspend invoicing for non-contracted activity for the period 1 April to 31 July. A sum equivalent to the historical monthly average will be added to the block contract of the provider's coordinating commissioner. Providers should continue to record all activity including NCAs in SUS in the normal way.

c) **A national top-up payment will be provided to providers to reflect the difference between the actual costs and income guaranteed by steps 1 and 2 where the expected cost base (which will be calculated as the average monthly expenditure over the period November to January uplifted for inflation) is higher**. The top-up payment will take into account individual provider CNST contributions compared to that funded in the allowance for cost inflation.

We will provide these numbers to Commissioners and Providers on Monday 23 March.

Providers should claim for additional costs where the block payments do not equal actual costs to reflect genuine and reasonable additional marginal costs due to COVID-19. These reasonable costs should include:

a) Evidenced increases in staffing costs compared to the baseline period associated with dealing with increased total activity.

b) Increases in temporary staffing to cover increased levels of sickness absence or to deal with other caring responsibilities (e.g. to look after other family members).

c) Payments for bank or sub-contractor staff to ensure all sickness absence is covered consistent with Government's announced policy and public health advice which aren't otherwise covered under normal practice; and

d) Additional costs of dealing with COVID-19 activity. For example: the costs of running NHS111 assessment pods; increases in the volumes required or prices of equipment to deal with the response to the virus which aren't offset by reductions elsewhere; extra costs of decontamination and transport for the ambulance service; higher testing volumes in acute-based laboratories; and community-based swabbing services.

Claims should be made on a monthly basis, alongside regular monthly financial reports. **This should provide sufficient funds for providers to deliver a break-even position through the period and will provide the basis against which we will monitor financial performance.**

We will monitor the impact of any changes in income levels from non-NHS services, in particular from local authorities. Providers should escalate to regional teams as appropriate.

The payments made by commissioners under block contract arrangements should not be revised to reflect any short falls in normal contractual performance during this period. The majority of NHS acute providers are already exempt from the majority of contract sanctions; **for the duration of the outbreak until further notice any remaining contract sanctions for all NHS provider groups are to be suspended**.

It is important that providers and commissioners pay promptly during this time, so that cash flow for NHS and non-NHS suppliers of goods and services does not become a barrier to service provision.

8.4. Effectively this can be summarised as all reasonable costs will be met. The Trust's finance team will assess the value of the monthly contract sum plus top-up notified and work with NHS Leeds CCG and other commissioners where these amounts may not cover our total monthly cost base.

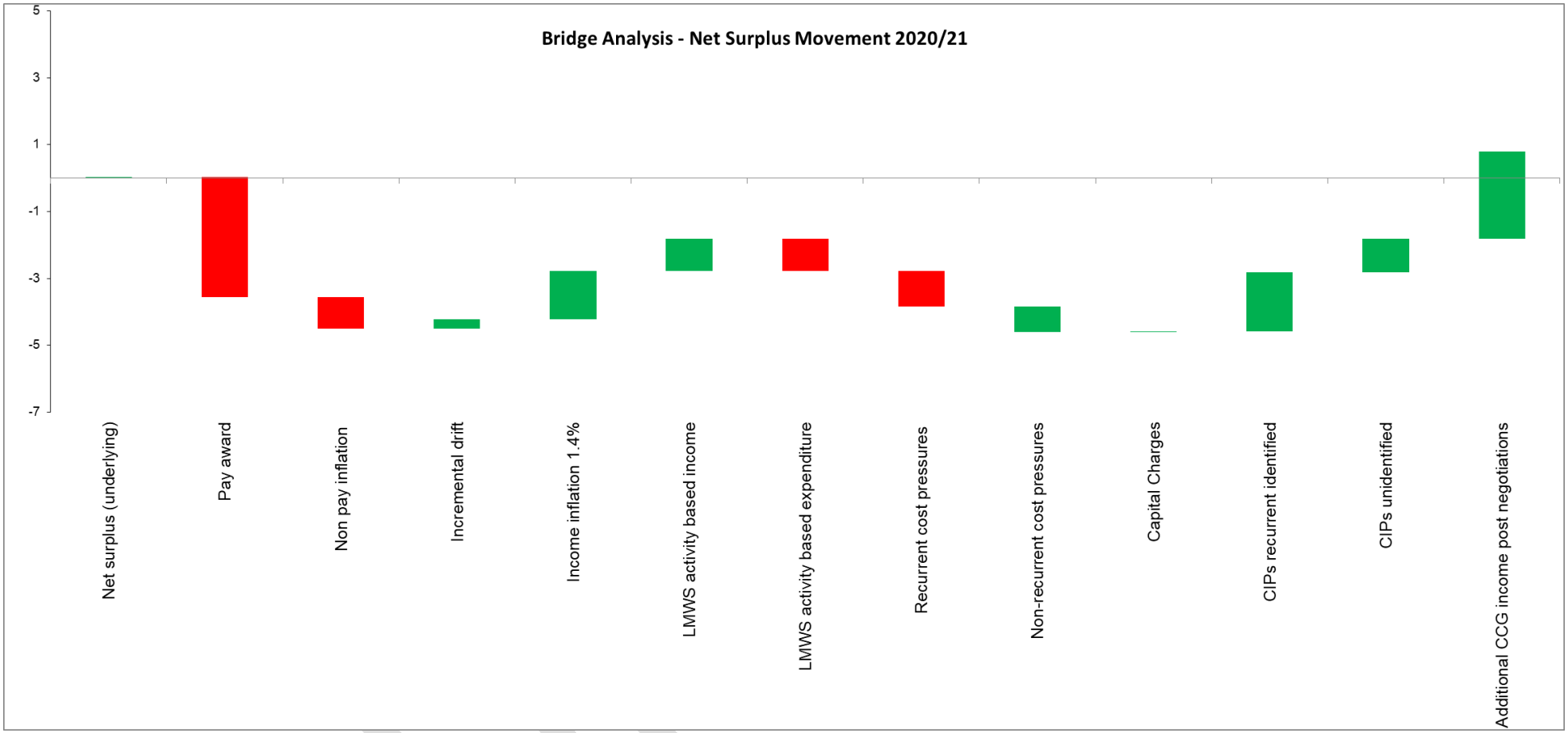
8.5. The Trust's financial plan for the first four months of 2020/21 is to ensure that finances are no barrier to a rapid and effective response to the coronavirus outbreak. The Trust expects all reasonable costs to be met and will therefore plan to have no income and expenditure surplus.

8.6. The Trust must also be mindful of planning for a return to a position when some or all of the national business rules are reintroduced. We will therefore maintain a view of what our underlying income and expenditure position is. The following paragraphs describe that position.

8.7. **2020/21 Income and Expenditure**

Income & Expenditure Summary	Annual Plan £m
Income	
Contract Income	(159.8)
Other Income	(6.5)
Total Income	***(166.3)***
Expenditure	
Pay	116.8
Non pay & Reserves	45.9
Total Expenditure	***162.7***
EBITDA	**(3.6)**
Depreciation	2.2
Public Dividend Capital	0.8
Interest Received	(0.2)
Retained Net Surplus	**(0.8)**

8.8. The key drivers for the revenue financial plan are illustrated in the bridge diagram on the following page. The under pinning detail is contained in the remainder of the report.


Bridge Analysis - Net Surplus Movement 2020/21
5
3
1
-1
-3
-5
-7
Net surplus (underlying)
Pay award
Non pay inflation
Incremental drift
Income inflation 1.4%
LMWS activity based income
LMWS activity based expenditure
Recurrent cost pressures
Non-recurrent cost pressures
Capital Charges
CIPs recurrent identified
CIPs unidentified
Additional CCG income post negotiations

Income Detail

8.9. Total income planned for the Trust for full year 2020/21 is shown in the table below. This report has been prepared on the **most likely** contract income position. The contract negotiations and planning for 2020/21 were not concluded and have been paused.

8.10. The main risks are:

- Additional income £2.6m assumed from NHS Leeds CCG in respect of the block contract, £1m estates, £0.5m roadmap shortfall, £1m cost pressures. At best this income will be non-recurrent pending further discussions with NHS Leeds CCG.
- £1m assumed from NHS Leeds CCG in respect of activity for Leeds Mental Wellbeing Service contract. The contract guarantees income up to 19% access levels. The partners will incur costs to increase capacity to deliver a 22% access activity however the Trust will only receive additional income in respect of the access target achieved over 19%. The income reflects the activity trajectory agreed with the CCG.
- Income derived from savings on the CAMHS new model of care baseline budget where £0.8m expenditure has been committed to new CAMHS community service delivery across West Yorkshire.

Income Summary	Annual Plan £m	£m
Contract Income		
NHS Leeds CCG		
Main contract	102.8	
Community Care Beds Service	4.1	
Leeds Mental Wellbeing Service	12.2	
Pain Clinic	0.4	
Weight Management	0.4	**119.9**
CCG LMWS Activity Based Income		**1.0**
NHS England		
CAMHS T4	1.6	
Young Offender Healthcare	3.7	
Dental	2.8	
Liaison & Diversion	1.2	
CAMHS NMoC	0.8	
Public Health	0.8	**10.9**
Police Custody		**8.0**
Leeds City Council		
Public Health	6.4	
Recovery Hub	0.2	
Community Care Beds Service	1.6	
0-19 Public Health Intergrated Nursing	10.8	
Leeds Equipment Service	1.0	**20.0**
Other Income		***6.5***
Total Income		**166.3**

8.11. Although contract negotiations with **NHS Leeds CCG** negotiations have paused, the CCG has indicated some investment into community services. Where this is agreed it has been included in financial planning however the system's priority is dealing with the response to COVID 19 and most investments and transformation projects are likely be paused.

8.12. The national guidance for NHS commissioners includes a tariff uplift of 1.4% plus the increase in CNST payments. In line with this the contract uplift from NHS Leeds CCG includes a 1.4% inflator to the recurrent block contract baseline plus estates. The 1.4% increase includes the recurrent funding for the impact of the 2020/21 pay awards. It does not included anything in respect of the increase in employer pension contributions; these will be funded centrally again for 2020/21.

8.13. There have been no changes to the CQUIN payments for NHS contracts these remain at 1.25% for 2020/21. CQUINs have yet to be agreed with Commissioners, national guidance having only just been published.

8.14. Apart from the Leeds Mental Wellbeing Service adjustment see 8.10 above, there is no provision in the contract sum for adjustment, up or down, in the event that activity varies from agreed levels.

8.15. **NHS England's** commissioned service lines have all had the 1.4% inflator applied in the planning assumptions. The contracts have yet to be formally agreed at the time of writing. Assumed income is as in the table above. £1.4m of the £3.5m for Young Offender Healthcare is sub-contracted to South West Yorkshire Partnership NHS Foundation Trust.

8.16. The planned income from the **Regional Police Custody** contract is £8.0m. Penalties currently apply is respect of non-delivery of KPIs for this contract.

8.17. **Local Authority** contracts have yet to be formally agreed. Assumed income is as in the table above. The sexual health and the 0-19 PHINS contracts include penalties for non-delivery of KPIs although they will be suspended for the next 4 months at least. The sexual health contract expires June 2020. Although a contract extension is being negotiated, current contract values have been assumed here.

8.18. **Other income** including training and education, research and developments and all other income have been rolled forward at the current values for the plan; Training and Research budgets will be amended to reflect actual changes as these are agreed; these are cost neutral in that income is offset by increases in costs.

Expenditure Detail

8.19. Material changes to planned rolled forward expenditure include:

- Reduction in the pay costs baseline in respect of incremental drift of £0.3m.
- Pay award at £3.6m; this is based on the actual cost of the 2020/21 pay award including non-consolidated elements and an estimate for the medical and dental and very senior management pay awards yet to be agreed.

- The increase in costs associated with agreed investments.
- The increase in costs associated with expansion of the LMWS.

8.20. Planned **pay costs** assume an in year saving of £5.4m for vacancies. This represents circa 5.0% vacancy factor, unchanged in principle from 2019/20. .

The Board will wish to be assured that pay costs can be kept within budget in 2020/21. It should be noted that pay expenditure for 2019/20 is forecast to be £1.1m underspent primarily due to of less agency staff expenditure than expected and the level of vacancies across the year.

There is a degree of risk that the vacancy factor won't be delivered but, mitigating that, account should be taken of the fact that the Trust will start 2020/21 with circa 100 vacancies. Although efforts are being made to fill most of these vacancies, and temporary staff will be used, there will undoubtedly be a degree of lag in recruitment.

Taking everything into account the judgement made in these budget proposals is that the vacancy factor at £5.4m is reasonable.

8.21. The Trust's **agency cap** for 2020/21 is £4.3m. This is a £2.2m reduction on 2019/20. The forecast outturn agency costs for 2019/20 is £4.4m and the planning assumption is this will remain similar for 2020/21.. This means there is no headroom in the financial plan and the Trust may breach the agency cap should it be necessary to break glass in response to service pressures.

8.22. £0.95m is included in the plan for inflation on **non-pay expenditure**; this is derived from the national inflation assumptions as applied to the Trust's expenditure profile. Of this £0.4m will not be allocated and will be held to contribute towards the efficiency savings leaving £0.55m for cost increases.

8.23. New and increased budgets put before the Board/Committee include **cost pressures and expenditure proposals agreed by the Senior Management Team**. The following tables list them recurrently and non-recurrently:

Non-discretionary		Recurrent £	Non Recurrent £	Total £
CBU	B7 A&E Liaison Officer	59		59
CBU	Ancillary staff at HH	16		16
CBU	Band 4s HH		12	12
SBU	Police Custody		200	200
ABU	Villa care	400		400
Ext & Corp	Single Sign on	25		25
Ext & Corp	CQC/Waiting List Analytical Resource	10		10
Ext & Corp	Systone next banding	30		30
Ext & Corp	Leeds Care Record	28		28
Ext & Corp	SSAC (LCC, CCG, Trust) - Shared Architecture	35		35
Ext & Corp	ICE access	25		25
Ext & Corp	BI outcomes post		21	21
Ext & Corp	BI waiting list post		33	33
Ext & Corp	HR	69		69
Ext & Corp	HR	26		26
Ext & Corp	Medical Director 0.2 wte	34		34
Ext & Corp	PEG commitments	86		86
Ext & Corp	External audit	20		20
Ext & Corp	Intranet	10		10
Ext & Corp	External website	3		3
Ext & Corp	PMO B6	43		43
Ext & Corp	Service Improvement	25		25
Ext & Corp	LMWS access for LCH staff	30		30
Ext & Corp	Lone working app	92		92
Total non-discretionary cost pressures		**1,065**	**266**	**1,331**

Projects

8.24. The following projects are included in the budgets. Any other projects will be funded from existing resources within individual services or from a source of external funding as yet to be agreed.

Project Costs	£k	Funding Assumptions
EPR project	280	Current revenue costs plus capital
E-rostering project	423	Continued CCG support
Replacement IT System Sexual Health	100	New LCC contract
Total	**803**	

Reserves

8.25. All reserves in the plan are committed to expenditure and will be deployed to budgets as the Trust gets certainty of timing and/or expenditure values.

Cost Improvement Programme and Other Planned Savings

8.26. The need to deliver cost improvement programmes will continue to be a significant challenge for the Trust.

8.27. The efficiency expectation nationally for 2020/21 is 1.1%. After accounting for known and assumed income and expected expenditure CIP savings of 1.7% of expenditure or £2.75m are required.

8.28. The CIP proposals for 2020/21 recognise the severe pressure that many of services have continued to face during 2019/20. For that reason there is no general CIP applied across the Trust or across business units. The 2020/21 CIPs seek to protect front line clinical delivery wherever possible but the Board should note that if and when normal business rules are re-applied the Trust will need to deliver the part year effect of a full year unidentified CIP of £1m. Work will continue as far as circumstances allow over coming months to identify CIP opportunities.

CIP Scheme	£k	R/NR	Risk Rating
Travel & lease cars	300	R	L
Non pay inflation reserve	400	R	L
Continence products	50	R	L
Estates	80	R	L
Stationery	20	R	M
Procurement	150	R	M
Contribution from new investments (corporate CIP)	500	R	L
IT Kit	250	NR	L
Un-identified	1,000	R	H
Total	**2,750**		

8.29. The most material CIP for 2020/21 is the contribution to overheads from new investments. This could be used to increase corporate support to operational services however investment in corporate services is considered on an incremental step change basis only when SMT considers that investment is essential.

8.30. Non pay inflation savings will be delivered directly from the inflation reserve and will not require actions from budget holders other than to manage their non-pay expenditure with no real terms increase.

8.31. Other CIPs take advantage of pre-existing plans and underspending opportunities.

8.32. £1m of required full year CIPs are not yet identified

Capital

8.33. Despite recent increases to the amount of capital made available to the NHS permission to spend capital in 2020/21 is being constrained to target the additional resource to specific projects. This includes projects that are financed from the Trust's cash.

8.34. The budget includes the proposed capital expenditure ('capex') of £3m for 2020/21 which is £1m more than the £2m the Trust usually spends on capital in line with the well-established strategy of funding capex from internally generated depreciation resources. £1.0m of this expenditure is targeted at improvements in LCH estate. The additional cash to fund this level of capex over and above the cash generated by depreciation has come from the increased surplus and provider sustainability funding achieved in 2018/19.

8.35. The proposal tabled below has a total £1.62m for estates expenditure of which £0.8m is ear-marked to address significant and high risk back-log maintenance. All properties in use will be maintained to the required standard for patient care.

8.36. There is £0.66m proposed for IT equipment and £0.42m for clinical equipment expenditure; some of the clinical equipment expenditure will be timed for the second half of the year to ensure any unforeseen demands can be addressed.

8.37. The continued roll out of the electronic patient record across ICAN services will require a further £0.3m capital investment; this is on pay costs.

8.38. In summary, the Trust's 2020/21 depreciation charges on owned assets of £2m along with £1m generated by prior year surpluses will provide the cash to fund the planned capital expenditure.

Capex	Annual Plan £m
Estates General Maintenance	0.82
Estates Backlog Maintenance	0.80
Information Technology	0.66
Clinical Equipment	0.42
EPR project	0.30
Total Capex	**3.00**

Cash

8.39. The Trust's cash position remains very strong with a forecast of £31m at the start of the year. This includes additional cash generated from historic surpluses and provider sustainability funds.

8.40. Funding capital expenditure from depreciation and public dividend capital from the Department of Health & Social Care means the operating surplus continues to improve liquidity.

8.41. The Trust expects to achieve the better payments practice code in 2020/21. However this continues to be a challenge for the organisation given the devolved approval regime and the finance team will continue to take every possible action to meet this again for the coming financial year.

Use of Resources

8.42. The Use of Resources risk rating is how NHS England/Improvement assesses an organisation's ability to meet its financial obligations and determine the Trust's performance across 5 different metrics to establish a single, overall Use of Resources score. The scores range from 1 to 4; where 1 represents the lowest risk and 4 the highest. The plan presented here represents the minimum risk score for Use of Resources of 1.

Financial Risks

8.43. The most significant cost risk is the non-delivery of prior year cost saving plans. Within the financial plan the assumption is that these will be delivered in 2020/21. These relate to recurrent savings required but have not yet been attributed to specific budgets and therefore present an increased risk of non-delivery These include:

- £500k reduction in discretionary expenditure as a contribution to the £1.5m contract gap in 2018/19;
- £500k admin review savings – work on delivery of these savings, which have been identified, has paused; and
- £300k reduction in corporate services costs.

8.44. These risks brought forward from previous years, but successfully mitigated in 2019/20 are then joined by the £1m unidentified 2020/21 full year CIP. The Trust has a good record of delivering cost reduction on discretionary expenditure in-year and this would be the first port of call to cover these risks. In 8.20 above it was noted that the Trust will underspend on pay by £1.1m in 2019/20. Whilst not all of this is recurrent, a similar underspending on pay can be expected given shortages in the supply of labour. However, this is not a long-term sustainable financial position if current national plans to increase labour supply are successful.

8.45. Based on current financial assumptions the underlying recurrent position is a deficit of £1.8m.

Conclusion

8.46. There will be no financial constraints to LCH taking immediate and necessary action to respond to the challenges faced by the coronavirus. This will be our absolute priority.

8.47. When the current emergency measures are reduced or withdrawn the Trust will face a significant financial challenge in meeting its currently notified surplus target. The Trust has a track record of delivering on financial challenges and will do again in 2020/21. The likely level of pay underspending and work to identify at least the required part year CIP allows the draft budget to be approved. However, the Trust cannot continue to incur new costs that are not covered by new income without identifying efficiencies to pay for them. The current position is not sustainable in the medium term.

Recommendation

8.48. At its meeting on 25 March the Business Committee agreed to recommend approval of the revenue and capital budgets to the Board. The assumptions underpinning the budget for the first 4 months will continue to be reviewed and reported through our existing governance arrangements.