DRAFT FINANCIAL PLANS 2009/10

INTRODUCTION

1 The purpose of this paper is to present the draft Income, Revenue Expenditure, and Capital Expenditure budgets for 2009/10 for the Board’s consideration and approval.

RECOMMENDED: That

(1) the revenue budgets for 2009/10 be approved;

(2) the financial risks to the plan be noted; and

(3) the Outline Capital Programme for 2009/10 be approved.

Background

2008/09 Funding - NHS Wales

2 The revenue allocations to Local Health Board's (LHBs) and Health Commission Wales (HCW) for 2009/10 were announced in January 2009. This details the revenue allocations to Health Service bodies and reflects the Minister’s final decisions about the distribution of resources in NHS Wales. LHBs, Trusts and HCW are expected to achieve and deliver the Ministers annual priorities for 2009/10 as outlined in the Annual Operating Framework from this allocation.

3 The Welsh Ambulance Service NHS Trust (WAST) will be required to attain and maintain on a month by month basis, an all Wales average of
65% of responses to category A calls within 8 minutes and no less than 60% within 8 minutes in each LHB area.

4  The revenue allocation circular also contains explicit guidance on the National Finance Agreement detailing inflationary assumptions for 2009/10 and identifying the costs that commissioners are obliged to fund.

5  The impact of projected cost increases on overall NHS expenditure across Wales is estimated as follows:-

<table>
<thead>
<tr>
<th>Cost Element</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay (2.5%)</td>
<td>1.90</td>
</tr>
<tr>
<td>Non Pay (5%)</td>
<td>1.25</td>
</tr>
<tr>
<td>Agenda for Change Incremental Drift</td>
<td>0.77</td>
</tr>
<tr>
<td>Consultant Contract</td>
<td>0.07</td>
</tr>
<tr>
<td>Compliance</td>
<td>0.26</td>
</tr>
<tr>
<td>NICE</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>5.00</strong></td>
</tr>
</tbody>
</table>

6  WAST are responsible for managing the following cost impacts:

(a) Health Commission Wales are expected to fund Trusts with a minimum uplift of 1.7% to meet these costs. The remaining increase of 3.3% will be for the Trust to make through efficiencies.

(b) The key All-Wales inflation assumptions are reproduced below. It should be noted that some of the cost elements identified for the purposes of estimating All-Wales inflation, such as Consultant Contract Awards and NICE are applicable only to LHBs and will have little or no impact on WAST, whereas other cost pressures will have a disproportionately large impact.

(c) Pay

A planning assumption of a 2.5% increase in pay has been applied, reflecting the second year of the three year agreement.

(d) Non Pay

Taking account of continued increases in energy costs, a planning assumption of an inflation increase in non pay of 5% has been applied. This equates to an increase of 1.25% in total costs across Wales.
(e) Agenda for Change – Incremental Drift

The National Finance Agreement recognises that there will be incremental drift associated with the early years of Agenda for Change. The extent of this increase varies between Trusts, with smaller Trusts experiencing a greater impact as a result of lower staff turnover. For planning purposes, the All-Wales impact of Agenda for Change incremental drift is estimated at 0.77% of total revenue costs.

(f) Statutory Compliance / Policy Changes

The cost of statutory compliance will vary across Wales. For planning purposes, the impact of statutory compliance is estimated at 0.26%.

(g) Commissioner funding increases

The overall HCHS underlying uplift is 2% for all commissioners including HCW.

There is no uplift for any ambulance specific issues or any local issues.

Welsh Ambulance Services Financial Framework

7 The Board will be aware that in 2008/09, the Trust is forecasting an Income and Expenditure breakeven position with approximately £2.3 million fortuitous one off savings. This means the Trust's recurrent position is £2.3 million of expenditure over budget. This is largely as a result of Welsh Assembly Government (WAG) under funding of recurrent Agenda for Change costs of £5.2m which has been offset by efficiency savings.

8 WAG have accepted the Trust’s Service Change and Efficiency Plan (SCEP) which sets out the Trust’s Financial Plan for the next 3 years, including a repayment of £2.7 million in 2009/10.

9 Operational and departmental budgets for 2009/10 have been set locally by Regional and departmental Finance Managers on a “bottom up” basis, incorporating the full cost of staff currently in post, and the current cost of providing services, but factoring in any anticipated changes in the cost base for 2009/10. This ensures that all known costs are identified, but within an overall Trust wide control framework which ensures that key factors of the SCEP, and in particular agreed regional and departmental savings plans and new regional rota efficiencies, are also fully reflected.
BUDGETS have initially been set at 2008/09 prices to facilitate comparison.

**2009/010 Income and Expenditure Budgets**

A summary of the draft proposed 2009/10 Income and Expenditure Budgets and the corresponding outturn position for the current year are attached at Appendix 1.

In summary, projections in income and expenditure are as shown in the Table below.

<table>
<thead>
<tr>
<th>£'000</th>
<th>Income</th>
<th>Increase</th>
<th>Costs</th>
<th>Increase</th>
<th>Savings</th>
<th>Increase</th>
<th>Deficit</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4,089)</td>
<td></td>
<td></td>
<td>10.103</td>
<td></td>
<td>(6,014)</td>
<td></td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Key points to note are as follows:

(a) **HCW Income**

The Trust’s 2009/10 Long Term Agreement (LTA) with HCW has yet to be finalised. This is in large part due to the commitment from both sides to fully implement the results of the efficiency review currently being carried out by Lightfoot Solutions Ltd. The assumption made by the Trust at this stage is that Lightfoot will conclude that the Trust does not require further investment, however it is also assumed that the review will conclude that WAST will not be able to deliver any further savings. The original SCEP plan was for the Trust to repay £2 million to HCW in 2009/10. HCW has agreed to fund £600K towards assisting the Trust to meet a target of reaching 65% of Category A patients across Wales within 8 minutes.

Budgeted income is shown as £82.5 million, reflecting 1.7% uplift on the recurrent value of the Service Level Agreement (SLA) agreed with HCW for 2009/10 with an additional projected sum of £7.6 million to include Strategic Capital Charge support. This is directly offset against depreciation and increases in return on capital.
(b) NHS Direct Funding

Budgeted income is shown as £10.2 million, reflecting only a 1.7% increase on the recurrent value of the SLA agreed with HCW for 2008/09.

(c) Airwave Radio Replacement Project (ARRP) Funding

Funding reflects the profile agreed with WAG.

(d) PCS / Other Income

An increase of £0.6m in the proposed 08/09 baseline incorporates a projected increase of £1m in Air Ambulance recharges reflecting the full year effect of increased coverage and flying hours, and a target to recover approximately £0.35m in Air Ambulance Paramedic costs in excess of the £0.15m currently funded by WAG through the HCW contract, and which is not currently recharged to the Air Ambulance Charity. This was achieved by the Trust in 2008/09 on a non-recurrent basis and the Health Minister is currently considering the Air Ambulance Review which recommends the continuation of this funding. The Trust is also assuming that it will receive £2 million for the implementation of HART (Hazardous Area Reponses Teams) and additional recovery of funds for Road Traffic Collisions (RTCs) which is in line with funds recovered in this financial year.

Budgeted 2009/10 PCS/other income is shown as £23.4 million, reflecting 1.7% uplift on the recurrent 2008/09 income.

(e) Pay Expenditure Budget

The 2009/10 Pay budget reflects an increase of £5.5m on the previous year’s outturn. The pay budget also assumes a vacancy factor of 1.25% across all non-operational staff. It also assumes an increase in the Emergency Medical Service (EMS) establishment to the same budgeted level as at April 2008. This involves a reinvestment of £1.2 million.

(f) Non Pay Expenditure Budget

The 2009/10 Non Pay budget (before SCEP Savings and inflation uplift) reflects a net decrease of £0.5m on the previous year’s outturn. This includes an increase of £2.5m on profiled ARRP non pay expenditure, and £0.427m for the increased of RRVS and
Scheduling systems as identified in the SCEP. The budget also assumes £524,000 for the implementation of the AVLS/MDT project. Within the remit of the Interim Director of Operations savings will be targeted in other areas e.g. fleet maintenance and PCS to ensure the investment in front line staff is achieved.

(g) Capital Charge Expenditure Budgets

The 2009/10 Depreciation Budget reflects an increase of £2.8m due to significant levels of planned capital investment in 2009/10. The Public Dividend Capital return reflects a decrease of £0.5m due to the significant reduction in Agenda for Change reserve. The modernisation element of increased Capital Charges is offset by Strategic Capital charge support. Capital Charges funding in future will be ring-fenced and has been removed from the funding formula. The Trust is assuming that there will be Capital Charges neutralisation i.e. that the Trust will receive from WAG the Capital Charges that it expects to incur. This will result in additional funding of £791K for WAST.

(h) SCEP Savings plans

2009/10 budgets assume baseline savings of £6.0m which have been removed from budgets. Clearly achievement in planned savings is critically important to the achievement of the overall financial plan targets, and will be closely monitored and reported throughout the year through the financial monitoring framework described in Appendix 3.

(i) 2008/09 Inflation

2008/09 funding assumptions on inflation are detailed earlier in this paper. In terms of expenditure, the proposal is that pay budgets be uplifted in line with the anticipated 2% National Pay award, reflecting the recent Pay Review Body announcement.

On non pay, other than fuel inflation costs, it is anticipated that budgets will be based on actual outturn, with any further inflation to be managed within the set budget through efficiency requirements. No other inflation or risk reserve is proposed to be held at HQ or Regional level.
(j) Regional / Service Budgets.

More detailed Budget assumptions relating to each Region and Service can be found in Appendix 1 - WAST Financials 09/10 Budget Template.

KEY ASSUMPTIONS

14 The main assumptions made in this budget setting exercise are listed below:-

(a) That EMS pay levels have been set at the establishment levels as at 1 April 2008 (i.e. pre 2008/09 SCEP);
(b) The Operations Directorate and Clinical Directorate will have a 2% increase in budget with any savings required being found from within the directorate;
(c) The Trust will not meet its SCEP target of repaying £2.9 million of historic deficit;
(d) The management review will be cost neutral; and
(e) The efficiency review will not lead either to additional funding for the Trust, or to a reduction in HCW income.

MAJOR FINANCIAL RISKS

15 The main financial risks along with the consequences and likelihood of these risks being realised are listed below:-

Pay

(a) That sickness for operational staff is over the 6% target.

Consequences: £1.3 million per additional 1% sickness if covered at over time rates.
Likelihood: High – the Trust currently has 7% sickness for 2008/09, although this is higher in some specific operational areas.
Mitigating Actions: the Trust will ensure that the sickness absence policy is adhered to in all areas and that relevant staff are trained in sickness management.

(b) The Trust is unable to achieve the significant efficiencies in PCS required in order to achieve the financial targets.

Consequences: £1 million if no savings are delivered.
Likelihood: High
Mitigating Actions: The Trust has set up a governance framework within PCS to ensure these savings are met and employed a very
experience senior manager to oversee the modernisation of the service. It has also either implement or will be implementing in a matter of months the Cleric CAD system which will facilitate an improving efficiency in a number of areas including better monitoring of contracts and better planning.

Non-Pay

(c) There is a significant increase in fuel prices:

**Consequences:** £36k for each 1% increase above current price levels.
**Likelihood:** Medium
**Mitigating Actions:** This is outside of WAST control. The Trust has budgeted above the current fuel prices (£1.05 per litre).

(d) PCS efficiency savings are not met

**Consequences:** £1,000,000 if no savings are made
**Likelihood:** High
**Mitigating Actions:** The Trust has invested heavily in PCS infrastructure, including:-
   a) Senior Management
   b) New PCS CAD system
   c) Increase the volunteer car driver’s rates in order to recruit additional volunteers.

   The PCS Project Board has been set up to monitor progress in this area and will monitor the financial position closely.

(e) The Trust will not be able to realise the saving in other SCEP schemes.

**Consequences:** £955K (these are non-pay schemes which are medium risk)
**Likelihood:** Medium
**Mitigating Actions:** Many of these schemes are based on reductions already started in this financial year (e.g. vehicle maintenance), although will need careful monitoring throughout the year.

(f) The Trust will continue with expenditure in areas that are currently overspending e.g. telephony, travel and subsistence, estates.

**Consequences:** £1.1 million
**Likelihood:** Low/Medium
**Mitigating Actions:** Actions have already been taken in many of these areas to ensure that these areas do not continue to overspend. Other
actions including the development of new policies in fuel management, telephony and lease cars are currently being produced is expected to be presented in the next couple of months.

**Income**

(g) The Trust will not receive funding for Air Ambulance staff.

**Consequences:** £350K  
**Likelihood:** Medium  
**Mitigating Actions:** The Trust does not have any further influence over this decision.

(h) The Trust is still required to reduce its expenditure by £2 million in line with the HCW original request

**Consequences:** £2 million  
**Likelihood:** Low  
**Mitigating Actions:** Both HCW and the Trust have agreed to the findings of the efficiency review.

(i) The Trust receives revenue funding for the HART project costs

**Consequences:** £800K  
**Likelihood:** Medium  
**Mitigating Actions:** A total of £2 million nationally has been allocated for the HART project. Discussions are underway with WAG officials regarding how the Trust is re-imbursed expenses for this project.

(j) The Trust continues to receive funding for full cost of providing refresher training for paramedics and paramedic courses from WDECU

**Consequences:** £1.5 million  
**Likelihood:** High  
**Mitigating Actions:** tbc

**General**

(k) The Trust is still required to reduce expenditure still further to achieve a surplus of £2.9 million in line with the original SCEP projections. There is a risk that the Trust will still be required to make this level of surplus.

**Consequences:** £2.9 million  
**Likelihood:** High  
**Mitigation Actions:** Discussions with WAG officials.
(l) Following the efficiency review the Trust is liable to repay funds to HCW in line with the SCEP

Consequences: £2 million
Likelihood: Low
Mitigation Actions: Work with Lightfoot and Baker Tiley to understand results of the efficiency review.

(m) Following the Win Griffiths review of PCS, this service is transferred to another provider

Consequences: £500K
Likelihood: Low
Mitigating Actions: Identify overheads to be shed if the service is moved to another provider.

CAPITAL PROGRAMME

16 A draft Capital Programme is included in Appendix 2 – Capital Expenditure proposal 2009/10. This reflects assumed funding of £5m Discretionary Capital and takes into account the cash not spent in this financial year on the Automatic Vehicle Location System (AVLS) project agreed in January. The position is also shown if the Business Justification Case for Vehicle Replacements for 2008/09 is approved. The Board may wish to note that the Trust has managed the cash position in 2008/09 by assuming that this case will be accepted in 2009/10 and purchasing some of the vehicles accordingly. If this business case is not approved, the budget will be reduced accordingly. This scheme is also requesting strategic capital charge support which has not been included within the revenue budget.

17 Additional Schemes will only be added if and when the schemes attract additional funding from WAG. Additional schemes currently under development include:-

- Wrexham Make Ready Depot
- Hazardous Area Response Team (HART)
- Electronic Patient Records

ACHIEVEMENT OF FINANCIAL TARGETS

18 The achievement of this expenditure plan will be monitored a Financial Framework which is shown in Appendix 3.