

**LONDON AMBULANCE SERVICE
NHS TRUST**

2005/06 Budgets

1. Summary

1.1. This paper sets out balanced Income and Expenditure and Capital budgets for 2005/06, but with a higher level of risk than last year. **The Board is requested to approve the capital and revenue budgets set out in this paper.**

1.2. Final revenue funding for A&E services has yet to be agreed with Commissioners. Currently we have agreed an 8.7% increase in recurrent funding, including Agenda for Change. We are in continuing discussions with commissioners relating to activity driven revenue increases. The funding formula agreed thus far requires the Trust to make a 1.7% cash releasing efficiency saving. PTS is in a similar position and has also had to plan for the loss of some contracts. These factors, combined with internal cost pressures, have led to a tight budget for 2005/06. The most significant risks are:

- Agenda for Change costs may exceed budget.
- We may fail to secure recurrent CBRN funding of £8.0m and have nothing to cover the costs being incurred.
- We may fail to find circa £2.8m of savings.

On the other hand, the Trust will have some opportunities to get extra income for the Emergency Care Practitioner project, and from the Workforce Development Confederation. PCT commissioners are also devising a financial incentive scheme for the Trust. These are not factored into the budget.

1.3. Within the A&E service, it will be a year to consolidate Category A performance. We will see the full benefits of Mobile Data Transfer, but will be operating at lower levels of overtime than last year. The Trust is in the process of developing the Intermediate Tier which involves an increase in crew staffing. This development will also help with growth in demand.

1.4. The budget includes 25 extra ECPs to be added to the existing complement of 26. These ECPs are assumed to be funded by individual PCTs at 75% of the recurrent cost. The balance (£0.91m) is included in the A&E cost budget.

2. Revenue Budgets

2.1. Overall, the proposed revenue budgets are summarised, using the same analysis as the monthly finance report, in Table 1, below.

Table 1

	2004/05 Issued Budget	2004/05 Forecast Outturn	2005/06 Draft Budget	Change	Percent Change
	£000	£000	£000	£000	%
Directorate					
A&E Operations					
<i>A&E Income</i>	-173,911	-173,911	-191,639	-17,728	10.2%
<i>Sectors</i>	104,452	105,792	106,581	789	0.7%
<i>Control Services</i>	11,707	12,158	12,868	710	5.8%
<i>Training Services</i>	6,225	5,695	6,921	1,226	21.5%
<i>A&E Development</i>	1,344	1,344	861	-483	(36.0%)
<i>A&E Support Services</i>	2,962	3,019	4,086	1,067	35.3%
<i>Fleet</i>	4,980	4,973	5,016	43	0.9%
Total A&E	-42,241	-40,930	-55,306	-14,376	
PTS Operations					
<i>PTS Income</i>	-13,440	-13,440	-11,711	1,730	(12.9%)
<i>PTS Expenditure</i>	13,366	13,366	11,560	-1,806	(13.5%)
Total PTS Operations	-74	-74	-150	-76	
Chief Executive	1,319	1,319	1,154	-165	(12.5%)
Finance	13,645	13,364	14,513	1,148	8.6%
Human Resources	4,561	3,875	4,821	946	24.4%
IM&T	6,259	6,259	6,687	428	6.8%
Communications	1,095	1,027	1,491	464	45.2%
Medical Director	76	76	98	22	28.3%
Centrally Held Funds	15,360	14,499	26,694	12,194	84.1%
Trust Total	-0	-585	-0	585	

3. A&E Services

3.1. A&E Income

3.1.1. Table 2 below sets out the components of A&E income for the current year and proposed budget. The main difference between the two years is the increased contribution from commissioners.

Table 2

Account Code Description	2004/05 A&E Contract	2004/05 Other A&E Income	2004/05 Total A&E Income	2004/05 Recurrent Income	2005/06 Proposed Budget	Change between [C] & [E]	Recurrent Change ([D] & [E])
	A	B	C	D	E		
	£000	£000	£000	£000	£000	£000	£000
A&E Services Contract	172,754		172,754	164,998	190,821	18,067	25,823
Stadia Attendance		531	531	531	582	51	51
Heathrow BAA Contract		166	166	166	166	0	0
Compensation Received		70	70	70	70	0	0
Other Income		391	391			-391	0
Total	172,754	1,158	173,911	165,765	191,639	17,728	25,874

3.1.2. The main increase in income for 2005/06 is through the main service level agreement with PCTs. A breakdown of the ££25,823,000 increase is set out in Table 3.

Table 3**2005/06 A&E SLA**

	PCTs	Other	Total	
	£000	£000	£000	
2004/05 Recurrent Base	164,998	0	164,998	
2004/05 CBRN Funding				
Training Funds		264	264	
MAIAT Funding (Remaining 3 months)		156	156	
CBRN Base Funding		6,200	6,200	
2004/05 AfC HCAS (PYE)	(1,624)	0	(1,624)	
	163,374	6,620	169,994	
2005/06 Generic Cost Pressures				
Base Inflation	3,921	179	4,100	Increase
Revaluation of the NHS Estate	210	0	210	
Pensions Indexation	384	0	384	8.79%
2005/06 AfC	9,840	599	10,439	
Full Cost of HCAS	0	3,448	3,448	
2005/06 CBRN Funding				
2005/06 Pod Funding	0	396	396	
2005/06 Base Funding	0	1,122	1,122	
2005/06 A&E SLA Total	177,729	12,363	190,092	
<i>Add</i> 2005/06 Activity Increase	1,000		1,000	
<i>Less</i> Humanitarian Journeys	(271)		(271)	
Per A&E Income Budget	178,458	12,363	190,821	

3.1.3. The 'Generic Cost Pressures' increase will be enough to meet the cost of the national pay award (3.225%) and other generic cost pressures, (see Section 6 below) but less a 1.7% cash releasing cost efficiency requirement, which has been

set by the DH for all NHS organisations.

- 3.1.4. The funding for ‘Agenda for Change’ is as specified by the Department of Health for Ambulance Trusts. There is an estimated addition for ‘High Cost Area Supplements’ (the new term for London Weighting). This has yet to be agreed and may be funded via Richmond & Twickenham PCT.
- 3.1.5. NHS employer’s superannuation contributions (Pensions Indexation) rose from 7% to 14% in 2004/05, and sums have been set nationally for each Trust. the allocation for the LAS was incorrect. This has now been corrected.
- 3.1.6. Table 3 above shows total funding for CBRN of £8,916,000. this comprises the main CBRN funding (£8,100,000), funding for further CBRN training (£264,000), the remaining 3 months of MAIAT (£156,000) and ‘Pod’ storage (£396,000).
- 3.1.7. The Board should note that the main CBRN funding must be secured recurrently for 2005/06 and beyond. There is currently, no definitive commitment that these funds will be allocated to the Trust.

3.2. A&E Expenditure

- 3.2.1. The recurrent effect of developments commenced in 2004/05 is included either in individual cost centres. The impact of increased activity in 2004/05 (6.7%) and the projected activity increase in 2005/06 (6.91%) is reflected in cost centre non-pay budgets (but not staffing budgets).

Table 4

	2004/05 Forecast Outturn	2005/06 Draft Budget	Percent Change
A&E Incidents			
Forecast annual total	821,581	878,332	6.91%
Forecast daily average	2,251	2,406	6.91%
Staffing (Establishment in wte)			
A&E Crew staff	2,479	2,631	6.13%
Incidents per day per A&E crew staff	0.9080	0.9146	0.73%

- 3.2.2. The Sector Services budget has increased overall across both pay and non-pay budgets. The pay increase reflects the increased crew staff establishment as well as the costs of the ECP staff. All pay budgets have been re-based for 2005/06 using the current agreed establishment. In Sector Services, the best estimate of the grade mix between TEMTs, EMTs and paramedics has been used to reflect the movements in pay costs as new staff pass the transition points in the salary

- scales. The crew staff establishment has been increased by 45 wtes for Agenda for Change and 46 wtes for the FRUs covered on unfunded overtime in 2004/05. By funding the 46 FRU posts there is unlikely to be an overspend on this item in 2005/06. This year's overtime cost £8.7m. In the proposed budget there is £7.5m for A&E crew staff overtime. Further analysis is required to establish the actual mix of overtime, vacancies and Agenda for Change terms and conditions.
- 3.2.3. Within non-pay there are increased depreciation costs and fuel costs. The non-pay budget also assumes that meal breaks for crew staff will be actively managed and that a reduction of £321,813 is achievable.
- 3.2.4. The net ECP project cost is £909,857 and sits within Sector Services. This includes income from the existing agreements (£818,000) and expansion to other PCTs later in the year (£414,375).
- 3.2.5. CAC budgets have also increased due to staff changes. The posts taken out from MDT have been restored and the establishment increased by 29 EMDs and 5 CTA. Non-pay budgets have decreased due to a reduction in depreciation as the CAC computers are fully written down.
- 3.2.6. The funding for Agenda for Change and its impact on overtime is still shown in the Centrally Held Funds rather than sector services as pay and conditions have not yet been finalised
- 3.2.7. The Training budget has been restored to its baseline to meet the planned training program for next year.
- 3.2.8. Where required, some individual non-pay budgets have been increased for the effects of inflation:
- The increase in capital charges following the indexation of assets.
 - The increase in average fuel prices, see paragraph 6.4.2 below.
 - The impact of price inflation where this is known and can be directly attributable to budgets, e.g. the vehicle recovery contract.
- 3.2.9. Non-pay unit costs used in budget setting are based on the most recent available data after stock adjustments; e.g., the 2004/05 total cost of medical consumables per A&E incident.

4. PTS

- 4.1. As part of the annual contracting round, all PTS contract activity and associated contract values were reviewed in September and October 2004. All contracts were reviewed and the minority not performing satisfactorily were re-priced. Expenditure budgets are built up from the same assumptions that underlie contract values.
- 4.2. Two significant contracts (Hammersmith Hospitals and Chase Farm) have been subject to tender during 2004/05. The results of the tender bids have yet to be

announced and therefore a number of assumptions have had to have been made to account for these contracts during 2005/06 (details outlined below).

- 4.3. This position will improve should LAS prove successful with these tender bids and the full year contribution from these contracts be included in the budget. If unsuccessful, efforts will have to be made to dramatically reduce overheads and the LAS contribution will need to be recalculated to reflect the reduced PTS activity levels.
- 4.4. A summary PTS position is shown in Table 5.

Table 5

	2004/05 Budget	Proposed Budget	Change
	£000	£000	£000
PTS Contract Income	(12,463)	(10,569)	(1,894)
Contract Variation	(102)	(25)	(77)
ECR	(264)	(504)	240
PTS Out of Hours	(347)	(436)	89
Humanitarian	(264)	(176)	(88)
Total PTS Income budget	(13,440)	(11,711)	(1,729)
PTS Direct Expenditure	12,932	11,533	1,399
OOH QAT Expenditure	56	28	29
Pay Reserve	378	0	378
Total PTS Expenditure Budget	13,366	11,560	1,806
Total (Surplus)/Deficit	(74)	(150)	76

4.5. **PTS Income**

4.5.1. **Contract Income** – Budgeted contract income has decreased in 2005/06. The fall is mainly attributable to uncertainties with some of the significant contracts and therefore a prudent approach has been taken to account for these. These are discussed below:

- Hammersmith & Charing Cross Hospitals NHS Trust – The results of the tender bids have yet to be announced. The current budget assumes that this contract will continue for only five months of 2005/06 (assuming that it will take at least this long for any successors to establish themselves on a contract of this size). It has recently been agreed that the Trust will definitely roll over the current PTS contract for at least three of these months. Adjustments to this contract budget will have to be made once this rollover price has been agreed and upon announcement of the successful tender bid
- Chase Farm & Enfield – Historically this has been a joint contract between Barnet & Chase Farm Hospitals NHS Trust and the Barnet,

Enfield & Haringey Mental Health NHS Trust (BEH). Barnet & Chase Farm have tendered their part of the contract during 2004/05 and the announcement of the successful bid has yet to be made. Due to the uncertainty surrounding both elements of this contract the budget prudently accounts for only six months of income.

- Homerton University Hospital NHS Foundation Trust – This contract is intending to take its PTS activity in-house with effect from 1st July 2005. New levels of activity have been proposed by the Trust for the remaining three months of the contract, the reduced contract has yet to be re-priced and agreed with the customer. Again the budget will have to be adjusted accordingly once this figure has been finalised.
- RNO Hospital NHS Trust (Stanmore and W1) – Talks are being held with staff to increase the LAS activity levels on these contracts. It seems likely that the total contract price may increase from £245,000 to around £490,000. The budget will need to be adjusted once the new SLA has been agreed and signed.
- Oxleas NHS Trust and Bromley PCT (Ravensbourne) - Both of these contracts are quite small. However new prices are currently being negotiated for these contracts and will need to be reflected in the budget once agreed.

4.5.2. For all other contracts, it is expected that all the proposed income in the pricing round will materialise. Where there are doubts income budgets have been reduced accordingly. There is always a risk in PTS that existing contracts, up for tender during the year, will not be retained.

4.5.3. **Other PTS Income** – Contract Variation income (for extra activity above contract) is based largely on 2004/05 income and local management knowledge. Expenditure budgets for the use of third party have been set to reflect the cost structure of contracts. ECR and Out of Hours income are based on estimates of the current year activity.

4.6. **PTS Expenditure**

4.6.1. Pay budgets have been calculated based on crew staff numbers needed to deliver each contract, in accordance with the pricing review. All other pay budgets have been zero based.

4.6.2. Non-pay budgets have also been set in accordance with the pricing structure. The following points should be noted:

- All vehicles have been priced using currently known lease and maintenance rates.
- During the last three years, a Central Services scheme has been developed based in Greenwich providing in-house out of hours cover. During 2004/05, Central Services continued to extend its geographic scope and now forms a central resource, which the existing contracts can use. A

number of cars and ambulance vehicles are available as an alternative to external third party providers, thus keeping more activity in-house and considerably reducing reliance on external third party providers.

- 4.6.3. The 2005/06 budget for Central Services includes some demanding income targets; these should be achieved through intensive management focus on this area throughout the year.

5. Corporate Services Expenditure

- 5.1. The Chief Executive budget now includes an income target to account for secondment income received from the Department of Health. The director of IM&T has been moved to the IM&T directorate.
- 5.2. The Finance and Business Planning budget has increased to account for an increase in dividend payments (£370,000) and the CNST contribution (£225,000). Budgets have been revised to reflect a change in the organisation structure: the PALS budget has moved to the Communications Directorate and cleaning budgets have been moved out of Estates to Logistics to due to the Make Ready teams now having responsibility for ambulance cleaning. The Estates budget has been adjusted to take account of increases in rent and rates and maintenance contracts, funded from the generic cost pressure part of the commissioners funding increase.
- 5.3. The budget for Human Resources has reduced overall. This reflects savings made in the Corporate HR department and on Recruitment Advertising. The budget includes the full year effect of the Agenda for Change project staff, it is envisaged the project will run until the end of 2005/06.
- 5.4. The IM&T budget includes the impact of increases in maintenance contract prices, in particular the CTS contract. The MI budget includes the transfer of 2 A&C post from PTS.
- 5.5. The Communications budget has been realigned so that the Conference and Corporate Induction budget is fully funded from within current resources in the directorate. The PALS budget has moved from the Finance Directorate as mentioned previously.

6. Centrally Held Funds

- 6.1. Centrally Held Funds are summarised in Table 6 below:

Table 6

Centrally Held Fund	Total Proposed Budget
Depreciation	1,109,000
Central Price Increase Budget	239,000
Central Pay Increase Budget	3,830,161
Central A&E Ambulance Lease Cost Budget	1,816,620
Efficiency Savings	-2,919,241
Development Funds	55,345
Central Agenda for Change Budget	23,246,000
Contingency Budget	68,788
TOTAL 2005/06 BUDGET	27,445,673

6.2. A summary of the individual Centrally Held Funds are set out in the paragraphs below.

6.3. Central Depreciation Budget

6.3.1. A sum of £1,109,000 is held for depreciation relating to the estimated costs of new assets to be brought into use during 2005/06. This includes the impact of the quinquennial revaluation of the NHS estate and the routine indexation of equipment.

6.4. Central Price Increase Budget

6.4.1. There is £239,000 held in the Price Increase Budget. Non-pay inflation has already been included in cost centre budgets where its effects are known, e.g. for contracts with inflation clauses within them.

6.4.2. The remaining reserve will be held to cover the potential increase in fuel costs above the levels assumed in cost centre budgets. There is potential for petrol prices to increase above the 80.00p per litre used to calculate budgets as a result of the fall in the dollar, the instability in the crude oil price.

6.4.3. PTS holds its own budget to cover the cost of price increases.

6.5. Central Pay Increase Budget

6.5.1. The pay increase budget of £3,830,161 assumes the cost of the 2005/06 awards, payable for all staff from 1 April 2005, will cost 3.225% of the pay bill. This is in line with guidance issued to the NHS.

6.6. Central A&E Ambulance Lease Budget

6.6.1. Each year as the old LDV based A&E ambulances were written down to £nil the saving on the depreciation budget was withdrawn from individual budgets and

held centrally

6.6.2. The balance of £1,816,620 held in the Central A&E Ambulance Lease Budget will be used to fund the lease costs of the 65 new ambulances currently being delivered and the further 65 to be acquired later in 2004/05.

6.7. **Efficiency Savings**

6.7.1. The Base Inflation element of the Generic Cost Pressures funding included a national requirement for all NHS bodies to release cash savings of 1.7% (or £2,919,241 for the LAS). SMG will identify detailed savings measures within 3 months. Items under consideration include, improved productivity, removal of vacant management posts from the establishment posts and savings in the non-pay budgets.

6.8. **Development Funds**

6.8.1. Table 6 shows £55,345 held in the Development Fund. There are a small number of commitments brought forward from 2004/05, totalling £55,345. these are predominantly the revenue impact of delayed capital projects. The balance is available to fund ISONs, see section 7 below.

6.9. **Central Agenda for Change Budget**

6.9.1. The Agenda for Change budget of £23,246,000 reflects the estimated costs including the cost of the High Cost Area Supplement and an uplift of 3.225% for the national pay award.

6.9.2. The main uncertainties remain:

- The banding Technicians are assimilated to.
- The High Cost Area Supplement costs are properly funded.
- Extra costs emerge as a result of the change in the length of the working week and the treatment of meal breaks.

6.9.3. In the light of the preceding paragraphs, the Board are asked to note the potential substantial risk associated with Agenda for Change, which may not be fully quantified until the latter part of the year.

6.9.4. A&E operations budgets reflect an increase in staffing to cover the effects of the changes in annual leave arrangements.

6.10. **Contingency Reserve**

6.10.1. The Contingency Reserve holds £68,788 to cover the cost of unforeseeable items. This is uncommitted at present.

7. ISON Bids

- 7.1. As in previous years, bids for developments have been requested using the 'ISON' process. Final decisions about which revenue ISONs will be funded will be made once funding negotiations with commissioners have been concluded.

8. Revenue Risks

- 8.1. There are a significant number of uncertainties and risks which are not included within the revenue budgets. These are:
- The financial impact on non-pay if A&E activity increases over and above the forecast outturn.
 - The recurrent CBRN funding is not secured, but needs to be as this has been used to fund recurrent staffing costs. The generic cost pressure uplift and effect of Agenda for Change also needs to be secured.
 - The funding for Agenda for Change (£23,246,000) may not prove sufficient to cover the additional costs the Trust will incur.
 - The trust requires savings to be achieved to cover the cash releasing efficiency savings (£2,919,241).
 - It may not be possible to manage down crew overtime
 - Any new and unforeseen cost pressures.
 - Fuel prices in excess of the sums held in budgets.
 - A&E and PTS failing to manage and control third party expenditure.
 - the Trust may not be successful in securing extra funding for the ECP project.

9. Capital Resource Limit

- 9.1. The Trust's Capital Resource Limit (CRL), for 2005/06 is shown in Table 10 and totals £10,988,000. The CRL consists of the Block Capital Allocation (£6,907,000) and brokerage brought forward from 2004/05 (£3,370,000), the forecast underspend in 2004/05 (£177,000) and Access Incentive Funding of £534,000.

Table 7

Source of Capital Funds

Block Allocation (Initial CRL)		6,907,000
Returned Brokerage	3,370,000	
Forecast 2004/05 Underspend	177,000	
2004/05 Access Incentive Fund	75,000	
Access Incentive Fund	459,000	
CRL Change		4,081,000
Current CRL		10,988,000

9.2. The Department of Health's 'Access Incentive Scheme' has changed and is no longer directly linked to the Trust's Category A performance.

10. Proposed Capital Expenditure

10.1. The proposed capital programme is set out in Table 8 below. Column [1] shows planned expenditure against the Block Capital Allocation and Column [2] shows the projects deferred from 2004/05, which are part funded from the brokerage brought forward.

Table 8

Cost Centre	Scheme/Project Description	Budget Holder	Total Project Approved Budget	Initial CRL & Budget	Access Incentive Fund	2004/05 Carry Forward	Approved Initial Programme
				[1]	[2]	[3]	[4]
				£	£	£	£
S91	Vehicles						
	Replacement RRUs (14)		400,000	400,000			400,000
S933	Minor Fleet Schemes	M Boyne	34,404			34,404	34,404
	Total Vehicle Projects			400,000	0	34,404	434,404
S92	Equipment						
80055	Defibrillator Purchase		413,165			413,165	413,165
	Total Equipment Projects			0	0	413,165	413,165
S93	Estates Projects						
80045	Buckhurst Hill - Disposal	Martin Nelhams	(2,100,000)				0
	Buckhurst Hill - Replacement		500,000				0
80062	Streatham Station	Martin Nelhams	1,208,287			754,937	754,937
80158	Whipps Cross – Workshop Improvement	Martin Nelhams	520,000			205,000	205,000
80176	Poplar Ambulance Station - Replacement	Martin Nelhams	415,000			415,000	415,000
80179	Bow Office Changes	Martin Nelhams	708,000			683,000	683,000
80192	Bounds Green - Additional Accommodation	Martin Nelhams	156,875			154,129	154,129
80197	Relocate Central Store	Martin Nelhams	235,000			135,000	135,000
80204	Relocation of Isleworth Ambulance Station	Martin Nelhams	200,000			200,000	200,000
80205	Relocation of Park Royal & Willsden	Martin Nelhams	2,142,000				0
80222	New Brixton Ambulance Station	Martin Nelhams	950,612	500,000			500,000
S932	Minor Estates Projects	M Dinan	279,693	43,943		310,575	354,518
	Total Estates Projects			543,943	0	2,857,641	3,401,584
S94	Technology						
S934	Minor Technology Schemes	Peter Suter				0	0
	Total Technology Projects			0	0	0	0
	Uncommitted/Unapproved Projects						
	# Backup Servers	ISoN 96	123,375			123,375	123,375
	# Battersea - Heating system renewal	ISoN 44	9,988			9,988	9,988
	# Camden – 2nd phase boiler up grade	Est 04	53,000			53,000	53,000
	# Chase Farm SOM	ISoN 63	71,000			200,000	200,000
	# Croydon - DRC Accommodation	ISoN 54	50,000			50,000	50,000
	# Croydon - Room reconfiguration	ISoN 46	60,000			60,000	60,000
	# Gold Control	ISoN 29	235,000			235,000	235,000
	# HQ Accommodation Changes	ISoN 29	200,000	200,000			200,000
	# Hillingdon AOM Accommodation	ISoN 1	235,000			235,000	235,000
	# Provision of fallback facilities for admin systems	ISoN 97	65,800			65,800	65,800
	# Rotherhithe facilities	A&E 41	96,350			96,350	96,350
	Unallocated Reserve/(Level of Over Commitment)			5,763,057	534,000	(886,723)	5,410,334
	Total Uncommitted/Unapproved Projects			5,963,057	534,000	241,790	6,738,847
	Total Capital Budget			6,907,000	534,000	3,547,000	10,988,000

Note: # = AFAs or Business Cases awaited.

10.2. The uncommitted balance of £5,410,334 will be allocated to projects by SMG following decisions on the priority of ISoN bids.

11. Risks to the Capital Resource Limit

11.1. There are a few risks associated with the achievement of the CRL, as follows:

- Until more details of some projects are known, the levels of VAT and its recovery cannot be forecast accurately.
- Until tenders for each project are received, there is the possibility that costs will increase. That was the Trust's experience for some projects in 2004/05.

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Director of Finance
24 March, 2005