COST IMPROVEMENT PLANS

PROCEDURE REFERENCE NUMBER: FP09/17
VERSION NUMBER: 2
REPLACES SEPT DOCUMENT FP09-17
REPLACES NEP DOCUMENT N/A
CONSULTATION GROUPS: EPUT Audit Committee/ Senior Finance Staff
IMPLEMENTATION DATE: April 2017
AMENDMENT DATE(S): November 2018 (Separate QIA Procedure (FP09/18) established); Aug 19 (minor tweak)
LAST REVIEW DATE: November 2018
NEXT REVIEW DATE: November 2021
APPROVAL BY AUDIT COMMITTEE DATE: 14th November 2018

PROCEDURE SUMMARY

This procedure describes the processes and controls to be followed when developing and monitoring cost improvement and transformational plans.

The Trust monitors the implementation of and compliance with this procedure in the following ways;

Delivery of cost improvement plans and internal monitoring
Transformation Steering Group
Monthly performance reports - assurance for contractual compliance (external)
Review of procedure annually
Internal audit programme

<table>
<thead>
<tr>
<th>Services</th>
<th>Applicable</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trustwide</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Director responsible for monitoring and reviewing this Procedure is
Executive Chief Finance & Resources Officer
COST IMPROVEMENT PLANS

CONTENTS

1.0 INTRODUCTION

2.0 GUIDING PRINCIPLES

3.0 IDENTIFICATION OF THE COST IMPROVEMENT TARGET

4.0 DEVELOPMENT OF CIP PLANS

5.0 APPROVAL OF CIPS

6.0 MONITORING DELIVERY OF CIPS

APPENDIX 1 - CIP INITIATION DOCUMENT TEMPLATE
1.0 INTRODUCTION

1.1 The NHS continues to experience severe financial constraints, resulting in a national requirement for NHS organisations to deliver efficiency savings on an annual basis. Demographic growth, an aging population and increasing number of people living with long term conditions is creating additional demand for health services, at additional cost which is not matched by increases in contract income. Commissioners may make commissioning decisions to change the level of services contracted under their QIPP schemes, which can result in the withdrawal of income from Trust contracts without an associated reduction in costs. The combination of these factors result in an ongoing need for NHS Trusts to identify Cost Improvements to ensure that they remain in financial balance each year.

1.2 The Trust’s financial planning process for each financial year (which ultimately forms part of the Annual Plan submission to NHS Improvement (NHSI)), includes the setting of robust income and expenditure plans to deliver a defined financial position. Achievement of the required financial position is dependent upon the identification and delivery of a Cost Improvement Programme (CIP). In order to remain financially viable, it is essential that the Trust recurrently delivers its CIP and remains within financial budgets each year.

1.3 This procedure provides an overview of the Trust’s guiding principles in developing CIP plans, the approval process and how schemes are monitored and reported following final approval from the Board of Directors.

1.4 For the avoidance of doubt, this procedure refers to a number specific staff within the Finance Department for the completion of a range of tasks. The task may be undertaken by an alternative member of staff. Advice may additionally be sought from the Head of Financial Management, Deputy Chief Finance Officer or the Executive Chief Finance Officer.

2.0 GUIDING PRINCIPLES

2.1 In developing savings initiatives the Trust has adopted a number of guiding principles in order to ensure those schemes which are ultimately approved by the Board of Directors each financial year are robust, and where possible, have minimal impact on the quality of front line services. However, given the scale of savings delivered by the Trust in recent years, more recurrent savings are now required to be delivered by whole scale service change.

2.2 The Trust will work to the following guiding principles although these may change with the agreement of the Executive Team:

2.2.1 The Trust will not provide services that are deemed to be clinically unsafe. Cost containment and improvements in efficiency cannot be considered without due regard for the impact on service provision.
2.2.2 Proposals considering management and administrative functions must be considered before CIPs impacting on clinical services are considered, while acknowledging that an acceptable level of management for the organisation must be maintained at all times.

2.2.3 A Quality Impact Assessment will be undertaken on all CIPs (or group of CIP’s). This will be completed in accordance with the Trust QIA procedure and signed off through the Trust internal approval process, prior to implementation of the CIP scheme.

2.2.4 Proposals should maintain existing service levels wherever possible.

2.2.5 Proposals must be achievable and deliverable during the financial year.

2.2.6 Proposals should be sensitive to staff interests and minimise impact as far as practicable.

2.2.7 Income Generation Schemes will only be considered as part of overall CIP plans if there is sufficient evidence to establish that there is an overall financial benefit to the organisation. These should be linked to productivity improvements in existing services.

2.3 In line with National guidance, the Trust will monitor KPIs, risks and service impacts associated with the delivery of CIPs as part of the QIA monitoring.

2.4 The CIPs and Transformational savings schemes which relate to front line services will be shared with commissioners with associated QIAs.

3.0 IDENTIFICATION OF COST IMPROVEMENT TARGET

3.1 The Cost Improvement Target for the trust arises from the reduction in expenditure required to deliver the Trust Control Total (surplus/deficit) notified by NHSI. The requirement for cost reductions arises from a number of sources:

3.4.1 National Efficiency Requirement
The National Tariff uplift, used by NHS commissioners as a basis for uplifting the contract includes an efficiency requirement as a deflator. This figure is notified annually and ranges between 2% and 4%, and requires NHS organisations to reduce its cost base by this amount in order to remain in financial balance.

3.4.2 Local Cost Pressures
These cost pressures relate to unavoidable costs which the service is not able to address within existing resources and are in addition to normal inflationary pressures. These may either be presented to the Executive Operational Committee (EOC) for consideration during the year as they arise, or as part of the annual budget setting process.
3.4.3 **Prior Year Unachievable / Overachieved CIP’s**

On occasions, the saving schemes included as part of the financial plan for the year, prove to be undeliverable / may exceed on a recurrent basis either in part or in full. This shortfall / overachievement on the prior year savings plan, therefore needs to be carried forward to adjust the savings requirement for the following year.

3.4.4 **Loss of Services / Income**

In the event that a Trust is unsuccessful in retaining a service following a tendering exercise, for example, the level of income which will be lost needs to be ascertained. The related expenditure for the income stream needs to be identified and where it is not possible to release sufficient costs to match the income reduction the shortfall needs to be included as part of the cost improvement requirement.

3.4.5 **Changes to the Control Total**

Should NHSI require the Trust to improve its financial position from the previous year, further expenditure reductions will be required increasing the Trust CIP requirement for the year.

3.5 The allocation of the Trust CIP requirement to individual directorate targets is to be determined on an annual basis.

### 4.0 DEVELOPMENT OF CIP PLANS

4.1 Executive Directors are responsible for identifying potential cost improvement schemes to deliver the Directorate CIP target. The Senior Finance Managers will work with Executive and Service Directors and Budget Holders to identify and cost potential CIP schemes. The Service Development Team will provide project management to key, complex or high value projects.

4.2 A CIP Initiation Document (CIPID) (Appendix 1) must be completed for each identified scheme. The CIPID is to be completed by the service and should describe what changes to service delivery are being proposed and how this will realise savings. The Senior Finance Managers will provide support and will cost the proposed changes in order to establish the expected savings. They will also, where appropriate, advise on the deliverability of savings based on previous year’s expenditure. The decision as to whether a scheme is a viable CIP is a joint Service/Financial decision and the PID is to be signed off by both representatives.

4.3 The CIPID will identify the CIP Delivery Lead, the cost centre where savings are expected to be realised (for budget adjustment), define the timescales for implementation and associated phasing of delivery of saving. The CIPID will also identify how successful delivery of the saving will be measured to enable CIP delivery to be accurately reported.

4.4 The Director or senior manager responsible for the CIP scheme will present the CIPID to the directorate SMT for discussion and approval in principle. The Executive Director can elect to take Chairs Action in this process.
4.5 The completed CIPID, signed off by the scheme lead, finance and Executive Director will then be passed to the Service Development Team who will work with the manager to undertake the QIA. In the instance where a budget is underspent and a prior month/period Non-Recurrent saving is to be actioned to support the delivery of the annual saving target; a fully approved CIPID will be sufficient to action a budget virement adjustment and there will be no requirement for a QIA.

4.6 Once signed off the QIA will be passed back to Finance to allow the CIP scheme to be recorded as fully approved. Following confirmation of the scheme implementation date by the scheme lead, the CIPD and QIA documentation which contains the authorised signatory approvals will be used as formal approval to action the budget virements in the general ledger to reflect the anticipated expenditure reductions.

4.7 Due to the complexity of some CIP schemes, it is recognised that not all plans will be developed before the commencement of the financial year. Therefore there is a requirement to undertake CIP development on an ongoing basis.

4.8 Similarly, schemes that cannot be completed once commenced or cannot commence, will need to be replaced with a new CIP overseen by the responsible director and relevant SMT.

4.9 Progress on identification, implementation and delivery of the Trust CIP Programme will be reported in the monthly Finance performance report that is presented to the Executive Team and Finance and Performance Committee.

### 5.0 APPROVAL OF CIPs

5.1 Throughout the financial planning and budget setting process, the Executive Chief Finance Officer will ensure updates are provided to the Executive Team as and when required. The updates will outline current performance relating to the identification of schemes to address the efficiency target, and delivery of the CIP plan against the planning timetable.

5.2 Executive Directors will present their CIP programmes to achieve their savings target to the Executive Team. In the event that schemes are not forthcoming from Directors, the Chief Executive may need to call an Extraordinary meeting to focus solely on the identification of new schemes.

5.3 In order to present a robust financial plan to the Board of Directors prior to the end of the financial year; the Trust will plan to develop a robust savings plan early in the fourth quarter of the preceding financial year. The financial planning timetable will reflect this objective. However, in light of the level and complexity of savings required, this may ultimately prove to not be achievable.

5.4 The approved CIP plan for the financial year will be included as part of the annual financial plan. The Board of Directors will approve the financial plan, together with the inbuilt CIP plan, at the March meeting. This will form the basis of the Operational Plan submitted to NHSI.
6.0 MONITORING DELIVERY OF CIPs

6.1 Following approval of the CIP plans by the Board of Directors, the Trust’s performance against this plan needs to be monitored on a monthly basis and reported as part of the Finance Report.

6.2 CIP financial monitoring will take place in line with the dates detailed in the monthly Management Accounts Timetable.

6.3 Directorate Savings Targets will be held as credit CIP budgets within the directorate. Approved CIP schemes plans should be reflected within the general ledger through adjustment to the appropriate budgets, as early in the financial year as possible. In general, achievement of the expected CIP will be evidenced through financial performance on the relevant budget code.

6.4 The Savings target associated with unidentified CIP schemes and CIP schemes that have slipped will remain in the Directorate CIP code. This will ensure any delay in implementation directly impacts on the reported delegated financial position. The Directorate CIP code within the general ledger should be reconcilable to the agreed list of schemes yet to be implemented in terms of both current year and next year budgets.

6.5 In monitoring the Trust’s financial performance, it is important to ascertain unidentified savings, any in-year slippage, any recurrent deficit on the plan whereby schemes are no longer deemed to be deliverable and schemes that have been implemented but are not achieving the expected savings. Any schemes deemed not deliverable will need to be replaced; this may result in the savings requirement being carried forward to the following year as an under-achievement.

6.6 In identifying any in-year slippage against the plan, it is important that Directors are made aware of the potential impact on their financial position and identify means to address this non-recurrently until schemes are able to be implemented recurrently.

6.7 The Trust will monitor relevant CIP schemes for an agreed post-implementation period against quality and key performance indicators specified in the full QIA. Extracting and monitoring these requirements will ensure that any emerging adverse quality impact of the CIP is identified and addressed at an early stage. The monitoring and reporting process is described in the Trust QIA Procedure document.