

Policies, Procedures, Guidelines and Protocols

Document Details		
Title		Finance Procedure N1 : Budget Setting, Monitoring and Forecasting
Trust Ref No		805-70916
Local Ref (optional)		
Main points the document covers		To describe how opening budgets are set; and budget management including monitoring and forecasting
Who is the document aimed at?		All managers with budget responsibilities and the Management Accounting team
Author		Anthony Simms, Head of Management Accounting
Approval process		
Approved by (Committee/Director)		Director of Finance
Approval Date		23 December 2021
Initial Equality Impact Screening		Yes
Full Equality Impact Assessment		No
Lead Director		Director of Finance
Category		Finance
Sub Category		Finance Procedures
Review date		23 December 2024
Distribution		
Who the policy will be distributed to		Distributed to senior staff as defined by Directors
Method		Electronically to senior staff and available to all staff via the Trust website
Document Links		
Required by CQC		
Required by NHLSA		
Other		
Amendments History		
No	Date	Amendment
1	September 2014	Updated to reflect current practices & requirements
2	September 2017	Updated to reflect current practices & requirements
3	September 2020	Updated to reflect current practices & requirements
4	November 2021	Minor amendments to reflect current working across the ICS
5		

Shropshire Community Health Trust

Finance Procedures

Section N **Budgetary Control** N1 **Budget Setting, Monitoring and Forecasting**

1 – Introduction

Budgets are essential in order that the organisation can plan, authorise, monitor and control the way its funds are allocated and expended. This procedure describes how opening budgets are set; and the approach to budget management, including monitoring and forecasting.

2 – Budget Setting

2.1 General Principles

2.1.1 Discrete budgets will be set annually for expenditure, income and whole time equivalents to enable managers to identify the resources available to them and for performance reporting purposes.

2.1.2 Budgets may be categorised as either recurrent and non-recurrent. Budgets are initially set on a recurring basis and flexed to include income or expenditure which is of a non-recurrent nature or for part year effects.

2.1.3 The process for the budget setting is reported to the Resource and Performance Committee (RPC) in the January prior to the new financial year. The paper highlights some of the main principles for establishing the budgets for the following categories of income and expenditure:

- Pay
- Non-pay – general
- Non-pay – specific i.e. depreciation, clinical negligence, etc.
- Cost pressures
- Service developments
- Healthcare income
- Other income
- Key risks and opportunities

2.1.4 The process of agreeing establishments and reviewing non pay budgets involve appropriate discussions between Budget Managers and the Management Accounting team. Budgets should be as realistic as possible to provide an incentive to manage within the resources available and to assist in identifying any potential savings for cost improvement.

2.1.5 Proposed annual budgets are considered at the Resource and Performance Committee and recommended to the Trust Board for approval in early April at the latest.

2.2 Pay Budgets

2.2.1 Recurrent pay budgets are reviewed in conjunction with budget managers, at individual post level based on month 9 nominal roll of the preceding financial year. All posts in the funded establishment will continue to be budgeted for. Staff in post as at

month 9 will be funded at their actual pay point whilst vacancies will be budgeted at mid-point of scale as well as those associated with service developments. Managers will be required to manage any pay drift associated with incremental changes during new financial year.

2.2.2 Posts not included in the agreed establishment will remain unbudgeted and will therefore represent a cost pressure and a prompt resolution of the future of such arrangements will be required, through either these arrangements ceasing or subsequent identification of other sources of budget to cover.

2.3 Non-Pay Budgets

2.3.1 Non-pay budgets will be largely unchanged; however, specific budgets will be uplifted for inflation and other material movements e.g. rates, clinical negligence, depreciation charges, etc. The list of non-pay budgets which are considered for uplift will be reviewed each year based on local and national knowledge of price changes.

2.4 Income Budgets

2.4.1 Healthcare income budgets will be adjusted to reflect the agreed contract values for the main clinical contracts. Other contracts will be adjusted by tariff i.e. for inflationary and efficiency requirements as determined by NHSE/I planning guidance.

2.4.2 Other income budgets will remain unchanged unless there are specific reasons to make amendments, however, income associated with the provision of services to other NHS bodies will be adjusted as per the tariff for clinical contracts unless specifically negotiated.

2.5 Service Development Budgets

2.5.1 Specific service developments and/or agreed changes which are known at the time of budget setting will also be included in the budgets.

2.5.2 Income budget will be set at the agreed funding level for the service development/agreed changes. Cost associated with delivering these service changes will be funded based on the approved costing.

2.6 Efficiencies/Cost Improvement (CIP)

2.6.1 The Trust is required to deliver an efficiency target each year which is determined during the planning/budget setting process. The required level of efficiency will be based on the national target set by NHSE/I plus non recurrent efficiencies from previous financial and locally identified cost pressures and in line with the ICS Financial Framework and partner organisations.

2.6.2 The efficiency target for the Trust will allocated to Service Delivery Groups and Corporate Services budgets on a percentage basis taking into account first, areas which have already identified schemes and those where it may be unrealistic to generate efficiencies.

3 – Budget management

3.1 Budget Holders and Budget Managers should be notified of the budgets available to them prior to the commencement of the financial year. All Budget Holders and Budget Managers are required to sign their acceptance and agreement to the budgets set for each Service Delivery Group (SDG) / Directorate, before the financial year to which the budget relates.

- 3.2 Budget management processes ensure that resources allocated are used for their intended purpose and are properly accounted for. Budgetary control is a continuous process enabling the Trust to review and adjust its budgets during the financial year, relative to its overall financial duties. In order that the Trust achieves its end of year targeted financial position, each service is required to manage its own expenditure within the allocated budget.
- 3.3 For the purpose of budgetary control by managers, a budget represents the planned income and expenditure for a specific service or cost centre. Each cost centre is the responsibility of a named individual (Budget Manager), determined by the appropriate Director (Budget Holder).
- 3.4 The essential controls for managing and controlling budgets are:
- Managers understand the Trust Standing orders (Standing Financial Instructions, Scheme of Reservation, Scheme of Delegation)
 - Managers are responsible for all income and expenditure within their area of responsibility.
 - Managers are involved in the budget setting process with Management Accounting staff.
 - Managers accept ownership and accountability for their budgets and the level of service to be delivered, and understand their financial responsibilities.
 - Managers follow an approved authorisation process for all expenditure incurred.
 - Expenditure is properly recorded and accounted for in accordance with the Trust reporting requirements.
 - Managers receive timely information which is sufficiently detailed to enable them to fulfil their budgetary responsibilities.
 - Continual review of budgets is undertaken between the Management Accounting team and managers. This is to aid the forecasting process in order to identify potential deviations from financial plans and, if material, to bring this to the attention of the Trust via the RPC/Trust Board, and NHS England & Improvement (NHSE/I). Every effort is made to ensure that actual spend remains within each service's overall budget. This is facilitated by the monitoring of budgets and taking appropriate corrective action where necessary when significant variations from the approved plan are forecast.
 - Where there are in-year adverse variances in excess of 10% compared to the overall service budget, the budget manager is required to prepare a recovery plan for the management accounts team to approve.
- 3.5 Any proposed or required virement between budget lines should comply with the requirements of the virement policy (see Finance Procedure N2: Budgetary Virement).
- 3.6 Production of monthly budget reports should comply with the agreed monthly reporting timetable, which stipulates monthly reports are distributed to budget managers by the 7th working day of the following month (see Finance Procedure N4: Monthly financial Reports production).
- 3.7 Management Accounting staff are expected to produce robust monthly financial summary information, including variance analysis and forecasting, in liaison with managers. Managers receive the information for their areas of responsibility and should sign off the monthly financial forecast. The forecasting process commences based on Month 3 of each financial year.

4 – Forecasting

- 4.1 Monthly forecast of the full year outturn position commences in month 3.
- 4.2 Monthly budget managers meetings are held by the Management Accounting team with Budget Managers to review current performance. Actions/mitigations to recover overspends are discussed and agreed. Budget Managers also inform the management accounting team of future changes.
- 4.3 Future changes are costed by the management accounting team and agreed with Budget Managers for inclusion in forecast.
- 4.4 The Management Accounting team prepares initial forecast based on current run rate adjusted for mitigations/actions and future changes agreed at budget managers meetings. Forecasts are then shared with budget managers for verification.
- 4.5 SDG/Directorates individual forecasts are consolidated by the Head of Management Accounting to give a trust-wide position, with a range where appropriate. The consolidated forecast is approved by Director of Finance before presenting to RPC and Trust Board and reporting to NHSEI.

References & associated documents

Budget Setting Process report to RPC
Finance Procedure N2: Budgetary Virement
Finance Procedure N4: Monthly Financial Reports Production

Reviewed By: A Simms

Date: 23 December 2021

Authorised By: S Lloyd

Date 23 December 2021