

Sustainability and Transformation Plan – 31st January 2017 submission

1. Introduction

In October 2016 a financial plan was submitted in support of the Sustainability and Transformation Plan (STP). Both the STP and the financial plan were then reviewed and it was agreed that a further version of the STP and accompanying financial template needed to be constructed and sent through to NHSE by the 31st January 2017. This paper provides a description of the revised financial plan.

2. Feedback in respect of the October 2016 submission

The local health system received a written response to its STP, including financial plan, dated the 1st December 2016. It made the following comments:

- The plan delivers a surplus of £40 million by 2020/21 including STF funds (£33 million) but not taking account of social service deficits,
- The plan delivers the control totals in 2017/18 and 2018/19 but trajectory of recovery is adverse in 2019/20 with a £3m movement in that year,
- There is a HRG4+ impact to be resolved for RJAH,
- The plan relies upon £271m external funding between 2017/18 and 2020/21. There is a risk that this level of capital borrowing will not be available to the STP.
- There is no expenditure identified for the investment required to deliver the five year forward view.
- CCG QIPP schemes are £61m by 2020/21. This is a particular risk for Shropshire CCG currently under directions.

3. Construction of the Financial Plan

In the construction of the STP financial plan, agreement was reached that a “group accounts model” would be adopted to describe the scale of challenge to be addressed within the local health economy. This same approach would then be used to consider the impact of agreed decisions. Doing so would then mean that the local health economy would become focused upon taking decisions that reduced overall expenditure. This model was constructed for the health economy by PricewaterhouseCoopers.

In adopting this approach, it becomes necessary to define the organisations located within the health economy. Agreement was reached that the participants within the LHE would be:

- Telford and Wrekin Clinical Commissioning Group,
- Shropshire Clinical Commissioning Group,
- The Shrewsbury and Telford Hospital NHS Trust,
- Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust; and
- Shropshire Community Health NHS Trust.

South Staffordshire and Shropshire Healthcare NHS Foundation Trust are excluded because the Trust had determined that the STP that they wish to be aligned with needed to be Staffordshire STP.

In keeping with this methodology, it is clearly necessary for a common set of planning assumptions to be adopted to enable each of the commissioner and provider organisations to produce their own specific financial plans. These planning assumptions particularly relate to inflation/ demographic pressures and are summarised in Annex 1. Further, as part of the October 2016 submission it was decided that an agreed distribution of QIPP savings and the timing of delivery of the QIPP savings would be incorporated within financial plans, though it was recognised that such sums needed further development work. This distribution and timing has been unchanged within the January submission for all organisations with the exception of Shropshire CCG.

Since the exercise requires the construction of a sustainable solution, the financial plan particularly focuses upon the underlying recurrent financial positions for each of the local health economy participant organisations. This approach whilst agreed with NHSE in October introduces a level of complication when considered in respect of the Business Rules prescribed by NHSE (as described later).

4. **The local Health Economy Finance Plan**

The local health economy financial plan is constructed in three phases:

- i) The scale of recurrent financial challenge by 2020/21 – without action
- ii) The scale of financial challenge after delivery of cost savings schemes within each specific LHE organisation – described as requiring transformational change,
- iii) The scale of recurrent surplus/ deficit after allowing for cost savings schemes and transformation savings for the local health economy.

In constructing the financial plan, the aggregate plan has been based upon the financial plans as constructed individually by each of the LHE organisations over the five period 2017/18 – 2020/21.

The table below provides a description of these three phases as contained in both the October and January submissions and the variation between each of the submissions.

	21st October 2016			31st January 2017		
	Commissioners £m	Providers £m	Total £m	Commissioners £m	Providers £m	Total £m
Structural deficit	-18.7	-17.0	-35.7	-13.6	-17.1	-30.7
Inflation/demography	-54.8	-41.0	-95.8	-54.8	-40.4	-95.2
LHE System deficit	-73.5	-58.0	-131.4	-68.4	-57.5	-125.9
QIPP Savings LHE Providers	32.1	-32.1	0.0	35.0	-35.0	0.0
QIPP Savings Other	45.4		45.4	37.5		37.5
Provider CIP		45.2	45.2		47.6	47.6
Carter Review		8.8	8.8		8.8	8.8
Transformation	4.0	-36.0	-32.0	4.2	-36.1	-31.9
Use of Trans Funds		6.5	6.5		6.5	6.5
Reconfiguration		15.1	15.1		15.1	15.1
Community Hospitals		3.8	3.8		3.8	3.8
Orhopaedic rebasing		3.9	3.9		4.0	4.0
Repatriation		6.0	6.0		6.0	6.0
Rationalisation of services		4.0	4.0		4.0	4.0
External Transfer	1.5		1.5	1.5		1.5
	5.5	3.2	8.7	5.7	3.2	8.9

The variation between the two submissions is presented in the table below.

Variation between submissions			
	Commissioners £m	Providers £m	Total £m
Structural deficit	5.1	-0.1	5.0
Inflation/demography	0.0	0.6	0.6
Reduction LHE System deficit	5.1	0.5	5.6
QIPP Savings LHE Providers	3.0	-3.0	0.0
QIPP Savings Other	-7.8		-7.8
Provider CIP		2.4	2.4
Carter Review		0.0	0.0
Reduced Transformation	0.2	-0.1	0.1
Use of Trans Funds		0.0	0.0
Reconfiguration		0.0	0.0
Community Hospitals		0.0	0.0
Orhopaedic rebasing		0.1	0.1
Repatriation		0.0	0.0
Rationalisation of services		0.0	0.0
External Transfer	0		0.0
	0.2	0.0	0.2

The detail as it relates to each of the LHE organisations is presented in Annex 2.

As can be seen the January 2017 submission has remained consistent with the October 2016 submission. The principal difference between the October and January submissions being the value of the structural deficit carried forward into the 2017/18 financial year by commissioners.

In the October submission Shropshire CCG had estimated that their underlying level of recurrent deficit at the end of the 2016/17 financial year would amount to £24.5 million. Information presented for the January submission reduced the level of the recurrent deficit to £19.4 million.

Over the period 2017/18 – 2020/21 the level of QIPP savings to be achieved by Shropshire CCG in respect of The Shrewsbury and Telford Hospital NHS Trust increased by £3.0 million. The combination of an improved underlying structural deficit and increased QIPP savings is then used by Shropshire CCG to reduce their level of QIPP savings from other elements of their spending portfolio by £7.8 million.

On the basis that these savings are able to be delivered, the recurrent position for each of the LHE organisations by 2020/21 is then as follows:

	2020/21 Surplus / (deficit) £000's
The Shrewsbury and Telford NHS Trust	3,866
Shropshire Community Health NHS Trust	82
Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust	(716)
Telford and Wrekin CCG	216
Shropshire CCG	5,519
LHE recurrent Surplus 2020/21	8,968

(Note Telford and Wrekin CCG has been discounted by £5 million in respect of NHSE business rules)

5. Progression over the period 2017/18 – 2020/21

As stated in the above, the overall LHE financial template has been constructed based upon the financial positions as developed by each of the LHE organisations over this period. The table below provides a summary of the recurrent surplus/ (deficit) positions for each organisations as each progress over the next four years.

Recurrent surplus /deficit	Shrewsbury and Telford NHS Trust	Shropshire Community NHS Trust	Robert Jones and Agnes Hunt Foundation Trust	Telford and Wrekin CCG	Shropshire CCG	Total
2016/17	(16,400)	(2,005)	1,300	5,838	(19,411)	(30,675)
2017/18	(15,378)	855	(865)	4,923	(17,967)	(28,432)
2018/19	(12,092)	855	(716)	5,048	(8,879)	(15,964)
2019/20	(14,142)	471	(716)	5,075	(4,967)	(14,280)
2020/21	3,866	82	(716)	5,265	5,519	14,017
NHSE Business Rules				(5,000)		(5,000)

The Shrewsbury and Telford Hospital NHS Trust presents a significant improvement in the overall recurrent position in the year 2020/21. This change reflects the recurrent impact of the Trust reconfiguration plans.

Robert Jones and Agnes Hunt Orthopaedic Hospital Foundation Trust records a recurrent deficit throughout the period 2017/18 – 2020/21 as a result of the application of HRG 4+.

Telford and Wrekin CCG maintain a recurrent surplus of circa £5 million throughout the period; however uncertainty exists over the need to comply with Business rules amounting to £5 million.

Shropshire CCG had in January constructed financial plans covering the period 2016/17 – 2018/19. Accordingly, in order to produce a LHE financial plan, consistent with a period 2017/18 – 2020/21 it was necessary to distribute their residual QIPP challenge (undelivered at the end of 2018/19) evenly across the years 2019/20 – 2020/21.

Significantly for Shropshire CCG the 2017/18 financial year records a recurrent deficit for the year of £17.967 million. In the 2017/18 financial year the CCG has also established a non recurrent contingency reserve amounting to circa £5.0 million (in accordance with NHSE Business Rules). Accordingly the combined recurrent and non recurrent deficit for Shropshire CCG in 2017/18 amounts to £23.0 million. Plans are presently being constructed by the CCG to generate further savings amounting to £3.5 million to enable the CCG to achieve their 2017/18 control total.

6. **How does the January 2017 submission answer the concerns raised in respect of the October 2016 submission?**

- The plan delivers a surplus of £40 million by 2020/21 including STF funds (£33 million) but not taking account of social service deficits,

The January submission after allowing for unallocated STF funds of £33 million has increased to £41.9 million. Discussions with regard to the use of STF funds on a recurrent basis are still to be concluded. In considering the use of such funds a potential application could be to provide support to Social service deficits.

- The plan delivers the control totals in 2017/18 and 2018/19 but trajectory of recovery is adverse in 2019/20 with a £3m movement in that year,

The January submission continues to deliver control totals in 2017/18 and 2018/19 and the recurring deficit for the system continues to improve in future years.

- There is a HRG4+ impact to be resolved for RJAH,

The adverse financial impact of HRG4+ continues to generate a recurrent financial issue for RJA. This issue is still to be resolved.

- The plan relies upon £271m external funding between 2017/18 and 2020/21. There is a risk that this level of capital borrowing will not be available to the STP.

The financial position of The Shrewsbury and Telford Hospital NHS Trust is entirely dependent upon the reconfiguration of services. This is presently scheduled to be completed by 2020/21. Delays in commencing with the consultation process are likely to mean that deficits will continue beyond 2020/21. Alternative sources of financing are presently being developed in recognition of National Capital Allocation restrictions.

- There is no expenditure identified for the investment required to deliver the five year forward view.

The Trust has not committed STF Funds amounting to £33 million. This sum is to be used to finance the five year forward view.

- CCG QIPP schemes are £61m by 2020/21. This is a particular risk for Shropshire CCG currently under directions.

The scale of financial savings to be realised by Shropshire CCG are significant and reflect the recurrent deficit as at the end of 2016/17 and the allocation shortfall over the period 2017/18 – 2020/21. Provider organisations have incorporated within their financial plans the need to generate cost savings amounting to £35 million; however definition of the schemes to support these savings requires development.

7. Conclusion

In response to the October 2016 STP submission, the LHE was required to construct a revised financial plan. This plan was constructed in January 2017. The revised financial plan reduces the scale of recurrent financial challenge faced by the LHE by £5 million as a result of a revised assessment of the underlying recurrent deficit associated with Shropshire CCG. The January 2017 financial plan shows minimal variation as compared with the October 2016 submission.

The use of recurrent STF funds continues to be outstanding. Decisions in respect of the use of such funds are required in order to progress with the five year forward view.

In setting the LHE financial plan providers have acknowledged a requirement to support particularly QIPP savings in support of the financial difficulties in respect of Shropshire CCG. The details supporting such savings remain under development.

The reconfiguration of hospital services is a key change, necessary to support financial recovery and operational sustainability at The Shrewsbury and Telford Hospital NHS Trust. Delays in taking forward this programme will result in continuing financial difficulties within the Trust.

Robert Jones and Agnes Hunt Orthopaedic Hospital Foundation Trust continue to wait for the financial consequence of applying HRG4+ to be resolved. Absence of such a solution results in the Trust operating with an underlying recurrent deficit.

Neil Nisbet

Finance Director and Deputy Chief Executive/STP Finance Lead Executive

21st March 2017

Annex 1

Commissioner Assumptions					2016/17	2017/18	2018/19	2019/20	2020/21
Acute					2.60%	2.60%	2.90%	2.60%	2.70%
Mental Health					1.90%	1.90%	1.90%	1.90%	1.80%
Community					3.30%	3.40%	3.40%	3.40%	3.30%
Continuing Care					6.50%	5.80%	5.50%	5.70%	6.60%
Primary Care					6.10%	4.90%	5.30%	5.20%	5.20%
Other Programme					6.10%	4.90%	5.30%	5.20%	5.20%
Primary Care Co-Commissioning					5.40%	4.20%	4.00%	3.90%	5.00%
Tariff					1.10%	0.30%	0.00%	0.00%	0.90%
Provider Assumptions					2016/17	2017/18	2018/19	2019/20	2020/21
Tariff									
Shropshire Community					1.10%	0.30%	0.00%	0.00%	0.90%
SATH					1.10%	0.30%	0.00%	0.00%	0.90%
RJAH					1.10%	0.30%	0.00%	0.00%	0.90%
Demography - Community						3.40%	3.40%	3.40%	3.30%
Demography - SATH					2.60%	2.60%	2.90%	2.60%	2.70%
Demography - RJAH					2.60%	2.60%	2.90%	2.60%	2.70%

	Proposed Submission							
	SATH £000	Community £000	RJAH £000	NHS T&WCCG £000	NHS SCCC £000	LHE £000	Other £000	Total £000
15/16 Recurring	-23,500	455	747	5,800	-17,000	-33,498	0	-33,498
Allocation Growth	0	0	0	10,087	12,342	22,429	0	22,429
Inflation	-12,505	-3,061	-3,070	0	0	-18,636	0	-18,636
CIP	10,531	3,677	3,500	0	0	17,708	0	17,708
Tariff	3,569	238	1,067	-2,908	-5,662	-3,696	3,696	0
Demography Provider Income Growth	11,410	0	2,723	-8,389	-19,774	-14,030	14,030	0
Demography Provider expenditure Growth	-5,905	0	-1,765	0	0	-7,671	-9,821	-17,492
Pressures/Investment CCG	0	0	0	-4,494	0	-4,494	4,494	0
Pressures Providers	0	-3,314	-802	0	0	-4,116	0	-4,116
QIPP	0	0	-1,100	5,742	10,683	15,325	-15,325	0
QIPP Expenditure Savings	0	0	0	0	0	0	0	0
Carter Review	0	0	0	0	0	0	0	0
Investment In Community Services	0	0	0	0	0	0	0	0
Additional Expenditure In ShropComm	0	0	0	0	0	0	0	0
Repatriation of Income	0	0	0	0	0	0	0	0
Expenditure Cost of Repatriation	0	0	0	0	0	0	0	0
Reconfiguration of hospital Services	0	0	0	0	0	0	0	0
Rationalisation of Acute Services	0	0	0	0	0	0	0	0
Transformation Allocation	0	0	0	0	0	0	0	0
Transformation Expenditure	0	0	0	0	0	0	0	0
Funding of Fragile Services	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
2016/17 Recurring	-16,400	-2,005	1,300	5,838	-19,411	-30,678	-2,926	-33,605
Allocation Growth	0	0	0	5,744	7,953	13,697	0	13,697
Inflation	-10,845	-1,181	-1,729	0	0	-13,754	0	-13,754
CIP	7,108	4,288	3,288	0	0	14,684	0	14,684
Tariff	991	1,792	-1,800	-147	-359	477	-477	0
Demography Provider Income Growth	8,592	1,677	1,228	-7,611	-12,185	-8,299	8,299	0
Demography Provider expenditure Growth	-5,121	-3,347	-860	0	0	-9,328	-5,809	-15,137
Pressures/Investment CCG	3,010	0	0	-6,364	-6,042	-9,396	9,396	0
Pressures Providers	0	0	-2,135	0	0	-2,135	0	-2,135
QIPP	-6,589	-1,604	-1,228	7,464	12,077	10,120	-10,120	0
QIPP Expenditure Savings	2,000	1,123	860	0	0	3,983	0	3,983
Carter Review	1,875	112	212	0	0	2,199	0	2,199
Investment In Community Services	0	0	0	0	0	0	0	0
Additional Expenditure In ShropComm	0	0	0	0	0	0	0	0
Repatriation of Income	0	0	0	0	0	0	0	0
Expenditure Cost of Repatriation	0	0	0	0	0	0	0	0
Reconfiguration of hospital Services	0	0	0	0	0	0	0	0
Rationalisation of Acute Services	0	0	0	0	0	0	0	0
Transformation Allocation	0	0	0	0	0	0	0	0
Transformation Expenditure	0	0	0	0	0	0	0	0
Funding of Fragile Services	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
2017/18 Recurring	-15,378	855	-865	4,923	-17,967	-28,432	-1,637	-30,069
Allocation Growth	0	0	0	4,647	8,049	12,696	0	12,696
Inflation	-9,932	-1,288	-2,010	0	0	-13,229	0	-13,229
CIP	8,060	1,723	1,947	0	0	11,730	0	11,730
Tariff	0	574	0	-151	-991	-568	568	0
Demography Provider Income Growth	9,601	1,673	1,318	-7,697	-13,768	-8,873	8,873	0
Demography Provider expenditure Growth	-5,243	-2,621	-922	0	0	-8,786	-6,211	-14,997
Pressures/Investment CCG	0	0	0	0	-614	-614	614	0
Pressures Providers	0	0	-1	0	0	-1	0	-1
QIPP	-6,017	-574	-1,318	3,325	16,502	11,919	-11,919	0
QIPP Expenditure Savings	2,000	402	922	0	0	3,324	0	3,324
Carter Review	1,875	112	212	0	0	2,199	-212	1,987
Investment In Community Services	0	0	0	0	0	0	0	0
Additional Expenditure In ShropComm	0	0	0	0	0	0	0	0
Repatriation of Income	0	0	0	0	0	0	0	0
Expenditure Cost of Repatriation	0	0	0	0	0	0	0	0
Reconfiguration of hospital Services	0	0	0	0	0	0	0	0
Rationalisation of Acute Services	0	0	0	0	0	0	0	0
Transformation Allocation	0	0	0	0	0	0	0	0
Transformation Expenditure	0	0	0	0	0	0	0	0
Funding of Fragile Services	2,942	0	0	0	0	2,942	-2,942	0
	0	0	0	0	0	0	0	0
2018/19 Recurring	-12,092	855	-716	5,048	-8,789	-15,694	-12,866	-28,560
Allocation Growth	0	0	0	3,944	8,796	12,740	0	12,740
Inflation	-10,466	-1,360	-2,254	0	0	-14,080	0	-14,080
CIP	6,956	1,908	1,705	0	0	10,569	0	10,569
Tariff	0	0	0	-153	0	-153	153	0
Demography Provider Income Growth	8,423	1,367	2,607	-7,577	-16,590	-11,770	11,770	0
Demography Provider expenditure Growth	-5,439	-1,963	-1,825	0	0	-9,227	-8,239	-17,466
Pressures/Investment CCG	0	0	0	0	0	0	0	0
Pressures Providers	0	0	0	0	0	0	0	0
QIPP	-5,399	-1,494	-1,484	3,813	11,616	7,051	-7,051	0

Annex 2

	Proposed Submission							Total
	SATH	Community	RJAH	NHS T&WCCG	NHS SCCC	LHE	Other	
	£000	£000	£000	£000	£000	£000	£000	£000
QIPP Expenditure Savings	2,000	1,046	1,039	0	0	4,085	0	4,085
Carter Review	1,875	112	212	0	0	2,199	-212	1,987
Investment In Community Services	0	0	0	0	0	0	0	0
Additional Expenditure In ShropComm	0	0	0	0	0	0	0	0
Repatriation of Income	0	0	0	0	0	0	0	0
Expenditure Cost of Repatriation	0	0	0	0	0	0	0	0
Reconfiguration of hospital Services	0	0	0	0	0	0	0	0
Rationalisation of Acute Services	0	0	0	0	0	0	0	0
Transformation Allocation	0	0	0	0	0	0	0	0
Transformation Expenditure	0	0	0	0	0	0	0	0
Funding of Fragile Services	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
2019/20 Recurring	-14,142	471	-716	5,075	-4,967	-14,280	-16,445	-30,725
Allocation Growth	0	0	0	9,236	15,886	25,122	0	25,122
Inflation	-15,531	-2,152	-3,228	0	0	-20,911	0	-20,911
CIP	7,295	1,586	1,743	0	0	10,624	0	10,624
Tariff	2,334	574	926	-148	-5,013	-1,327	1,327	0
Demography Provider Income Growth	10,669	2,030	2,777	-7,729	-12,001	-4,255	4,255	0
Demography Provider expenditure Growth	-5,331	-2,030	-1,944	0	0	-9,306	-2,978	-12,284
Pressures/Investment CCG	0	0	0	-5,318	0	-5,318	5,318	0
Pressures Providers	-12,684	0	0	0	0	-12,684	0	-12,684
QIPP	-6,010	-1,705	-1,623	4,150	11,615	6,427	-6,427	0
QIPP Expenditure Savings	2,000	1,193	1,136	0	0	4,330	0	4,330
Carter Review	1,875	114	214	0	0	2,203	0	2,203
Investment In Community Services	0	6,000	0	0	0	6,000	0	6,000
Additional Expenditure In ShropComm	0	-6,000	0	0	0	-6,000	0	-6,000
Repatriation of Income	8,000	0	0	0	0	8,000	-8,000	0
Expenditure Cost of Repatriation	-2,000	0	0	0	0	-2,000	2,000	0
Reconfiguration of hospital Services	14,203	0	0	0	0	14,203	0	14,203
Rationalisation of Acute Services	4,000	0	0	0	0	4,000	0	4,000
Transformation Allocation	0	0	0	0	0	0	0	0
Transformation Expenditure	0	0	0	0	0	0	0	0
Funding of Fragile Services	9,188	0	0	0	0	9,188	-1,829	7,359
	0	0	0	0	0	0	0	0
2020/21 Recurring	3,866	82	-716	5,265	5,519	14,017	-22,780	-8,763