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|---|---|
| **Reporting to:** | **Trust Board - 31st March 2016** |
| **Title** | Financial Strategy 2016/17 |
| **Sponsoring Director** | Neil Nisbet, Finance Director and Deputy Chief Executive |
| **Author(s)** | |
| **Previously considered by** | Finance Committee - 29th March 2016 |
| **Executive Summary** | The 2015/16 financial year was challengeing for all NHS Acute providers. The Shrewsbury and Telford Hospital NHS Trust in that context fared well delivering an in year deficit consistent with plan. The 2016/17 financial year will still be challenging for the Trust. New cost pressures will add substantially to the Trust cost base and the financial difficulties across the wider health economy will increase financial pressure on the Trust.<br><br>This paper provides a description of how the Trust plans to respond to this challenge in the 2016/17 financial year and describes the construction of:<br>- income budgets and the changes that have led to the income budget<br>- pay expenditure and the assumptions adopted<br>- non pay expenditure and the assumptions adopted<br>- Cost Improvement Programme and the activities being taken forward to deliver cost reductions in the year.<br>The paper considers how the Plan progresses on a monthly basis through the year, considers the impact upon the Medium Term Financial Plan of the Trust and concludes by presenting a proposed Capital Programme for the 2016/17 financial year. |
| **Strategic Priorities**<br>1. Quality and Safety | ☐ Reduce harm, deliver best clinical outcomes and improve patient experience.<br>☐ Address the existing capacity shortfall and process issues to consistently deliver national healthcare standards<br>☐ Develop a clinical strategy that ensures the safety and short term sustainability of our clinical services pending the outcome of the Future Fit Programme<br>☐ To undertake a review of all current services at specialty level to inform future service and business decisions<br>☐ Develop a sustainable long term clinical services strategy for the Trust to deliver our vision of future healthcare services through our Future Fit Programme |
| 2. People | ☐ Through our People Strategy develop, support and engage with our workforce to make our organisation a great place to work |
| 3. Innovation | ☐ Support service transformation and increased productivity through technology and continuous improvement strategies |
| 4 Community and Partnership | ☐ Develop the principle of 'agency' in our community to support a prevention agenda and improve the health and well-being of the population<br>☐ Embed a customer focussed approach and improve relationships through our stakeholder engagement strategies |
| 5 Financial Strength: Sustainable Future | ☒ Develop a transition plan that ensures financial sustainability and addresses liquidity issues pending the outcome of the Future Fit Programme |
| **Board Assurance Framework (BAF) Risks** | ☐ If we do not deliver **safe care** then patients may suffer avoidable harm and poor clinical outcomes and experience<br>☐ If we do not implement our **falls prevention** strategy then patients may suffer serious injury<br>☐ If the local health and social care economy does not reduce the **Fit To** |

| | |
|---|---|
| | **Transfer** (FTT) waiting list from its current unacceptable levels then patients may suffer serious harm<br>☐ Risk to **sustainability** of clinical services due to potential shortages of key clinical staff<br>☐ If we do not achieve safe and efficient **patient flow** and improve our processes and capacity and demand planning then we will fail the national quality and performance standards<br>☐ If we do not get good levels of **staff engagement** to get a culture of continuous improvement then staff morale and patient outcomes may not improve<br>☐ If we do not have a clear **clinical service vision** then we may not deliver the best services to patients<br>☒ If we are unable to resolve our (historic) shortfall in **liquidity** and the structural imbalance in the Trust's **Income & Expenditure** position then we will not be able to fulfil our financial duties and address the modernisation of our ageing estate and equipment |
| **Care Quality Commission (CQC) Domains** | ☐ Safe<br>☐ Effective<br>☐ Caring<br>☐ Responsive<br>☐ Well led |
| ☐ **Receive** ☐ **Review**<br>☐ **Note** ☒ **Approve** | **Recommendation**<br>To APPROVE the 2016/17 budget. |

Paper 8

TRUST BOARD – 31 MARCH 2016

# FINANCIAL STRATEGY 2016/17

## 1. Introduction

The 2015/16 financial year was challenging for all NHS Acute providers, resulting in an end of year cumulative deficit of £1.8 billion (after allowing for substantial levels of non recurrent savings benefits). The Shrewsbury and Telford Hospital NHS Trust in that context fared well delivering an in year deficit consistent with plan, a feat achieved by a small minority of acute service providers. Doing so however has still meant that in 2015/16 the Trust ended the year with an in year deficit of £14.75 million and carries forward a recurrent deficit of £20.2 million.

The difficult landscape being occupied by particularly the NHS Acute provider sector has in part begun to be recognised, as evidenced by the results emerging from the National Tariff negotiations between NHS Improvement and NHS England, but 2016/17 will still be challenging. New cost pressures will add substantially to the Trust cost base, and our local commissioners buoyed by their own financial difficulties, continue to seek opportunities that if/when successful further erode income and increase financial pressure on the Trust.

Additionally, the effect of an aggregation of financial deficits is also now becoming more transparent as evidenced by recent reviews that have exposed the fragility of the Trust estate, medical equipment and IT infrastructure and so in 2016/17 year resources will need to be obtained to begin the journey of addressing these deficiencies.

To accommodate such challenges the Trust will need to deliver once again a sizeable level of cost savings through its Cost Improvement Programme. Performance in delivering cost improvement savings in recent years have been impressive, generating improved cost savings/ productivity valued at circa £13 million per year. However, house-keeping opportunities are now becoming more difficult to engineer. The recent Carter Review pointed to observable savings opportunities of £17.6 million, but then acknowledged that the bulk of these savings (£9 – 10 million) became possible only through the consolidation of clinical services.

In this context this paper provides a description of the 2016/17 budget, and describes the construction of the:

- Income budgets, in particular the changes that have led to the Income budget for the year,
- Pay Expenditure – the assumptions adopted in the creation of the Pay budgets,
- Non Pay Expenditure – the assumptions adopted in the development of the Non Pay Budgets, and
- Cost Improvement Programme – the activities being taken forward to deliver cost reductions in the year.

The paper then progresses to consider how the Plan progresses on a monthly basis through the year and then concludes by considering the impact upon the Medium Term Financial Plan of the Trust.

## 2. Overall Income and Expenditure Budget.

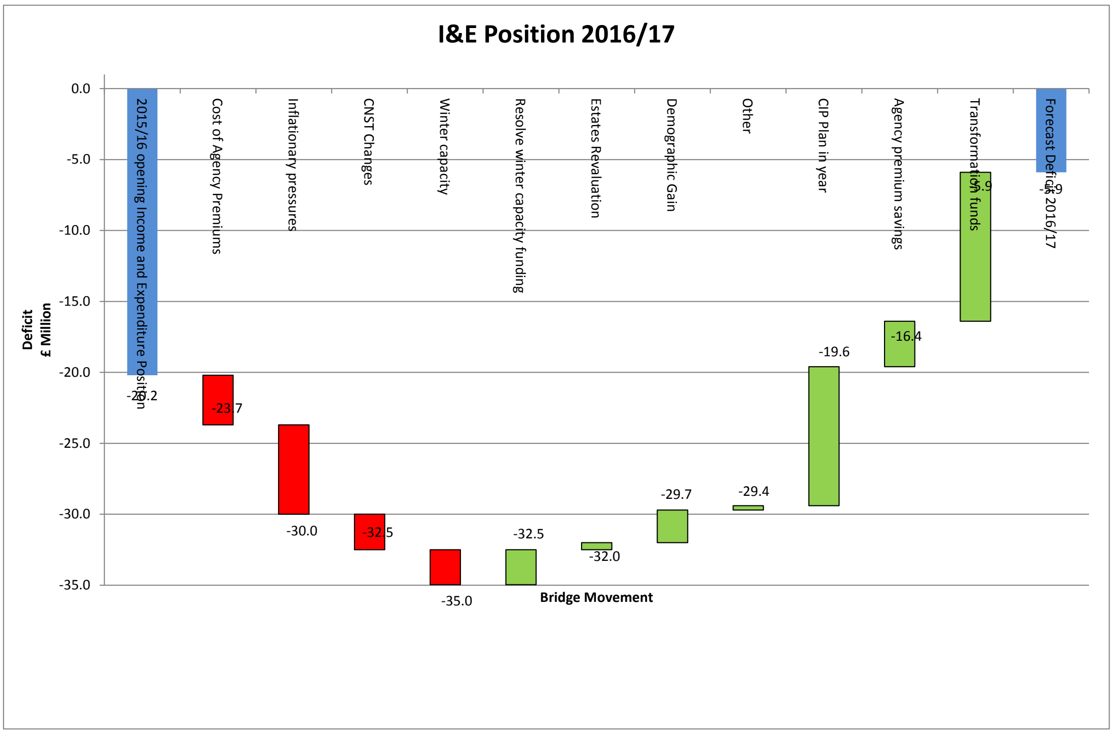
The Income and Expenditure budget for the 2016/17 year is presented in the table below

| | Recurrent<br><br>£000's | Non Recurrent<br>£000's | Total<br><br>£000's | Forecast Outturn<br>2015/16<br>£000's | % change |
|---|---|---|---|---|---|
| Income | 331,486 | 10,500 | 341,986 | 326,099 | +4.9% |
| NTDA Support | | | | | |
| Expenditure | | | | | |
| Pay | (230,663) | (5,068) | (235,731) | (226,243) | +4.2% |
| Non Pay | (110,052) | - | (110,052) | (99,545) | +10.6% |
| Reserves | (2,979) | 3,168 | (189) | | |
| Cost Improvement Programme | 10,531 | (2,500) | 13,031 | | |
| Underachievement CIP | (6,189) | | (6,189) | | |
| Total Expenditure | (339,352) | 600 | (338,752) | (326,104) | 1.6% |
| | | | | | |
| Earnings before Interest, Tax, Dividends and Amortisation (EBITDA) | (7,866) | 11,100 | 3,254 | (6) | |
| | | | | | |
| Dividends and Amortisation | (17,323) | (2,000) | (15,323) | (14,744) | +3.9% |
| | | | | | |
| Surplus / (deficit) before corrective actions | (25,189) | 13,100 | (12,089) | (14,750) | |
| Corrective actions | 6,189 | | 6,189 | | |
| Surplus / (deficit) after corrective actions | (19,000) | 13,100 | (5,900) | | |

The target presented by NHS Improvement for the year is to achieve a deficit of £5.9 million. Underlying gaps in the Trust Cost Improvement Programme presently suggest that the Trust will underachieve against this target by £6.1 million without further actions being taken.

| | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | 26701 | 27960 | 27915 | 28858 | 26870 | 29398 | 30608 | 29337 | 27683 | 28688 | 28851 | 29118 | **341986** |
| | | | | | | | | | | | | | |
| Pay | -19065 | -19289 | -19370 | -19404 | -19415 | -19661 | -19758 | -19874 | -19944 | -20131 | -19869 | -19952 | **-235731** |
| Non Pay | -8710 | -8457 | -8779 | -9110 | -8754 | -9577 | -9881 | -9331 | -9229 | -9281 | -9335 | -9609 | **-110052** |
| CIP and reserves | 586 | 586 | 586 | 586 | 586 | 586 | 586 | 586 | 586 | 586 | 586 | 586 | **7031** |
| Total Expenditure | -27189 | -27161 | -27563 | -27928 | -27583 | -28652 | -29053 | -28619 | -28587 | -28827 | -28618 | -28975 | **-338752** |
| | | | | | | | | | | | | | |
| EBITDA | -488 | 799 | 352 | 930 | -713 | 746 | 1555 | 718 | -904 | -139 | 234 | 143 | **3234** |
| | | | | | | | | | | | | | |
| Finance costs | -1277 | -1277 | -1277 | -1277 | -1277 | -1277 | -1277 | -1277 | -1277 | -1277 | -1277 | -1277 | **-15323** |
| | | | | | | | | | | | | | |
| Surplus / deficit - before corrective actions | -1765 | -478 | -925 | -346 | -1990 | -531 | 278 | -559 | -2181 | -1416 | -1043 | -1134 | **-12089** |
| Corrective actions | | | | | | | | | | | | 6189 | **6189** |
| | | | | | | | | | | | | | |
| Surplus / defcit | -1765 | -478 | -925 | -346 | -1990 | -531 | 278 | -559 | -2181 | -1416 | -1043 | 5055 | **-5900** |
| Cumulative deficit | -1765 | -2242 | -3167 | -3514 | -5504 | -6034 | -5756 | -6315 | -8496 | -9912 | -10955 | -5900 | |

A bridge diagram describing the construction of the deficit position is presented below.




| Key messages – Overall Income and Expenditure Position |
|---|
| - Trust to deliver deficit in the year amounting to £5.9 million<br>- Required to deliver a Cost Improvement Programme that generates recurrent expenditure savings amounting to £13 million,<br>- The Cost Improvement Programme represents 3.9% of expenditure<br>- The Trust carries forward into the 2016/17 year a recurrent deficit of £20.2 million.<br>- The recurrent deficit includes £2 million recurrent amortisation reserve established to support the revenue consequences of loans required to address Backlog asset difficulties. |

## 2.1 Income Budget

The changes within the Income budget are presented in the table below:

| | Recurrent £000's | Non recurrent £000's | Total £000's |
|---|---|---|---|
| 2015/16 Approved Baseline Budget | 314,540 | 1,774 | 316,314 |
| | | | |
| 2015/16 Income growth / reduction | 2,766 | 7,018 | 9,784 |
| | | | |
| 2015/16 Forecast Outturn | 317,306 | 8,792 | 326,098 |
| | | | |
| | | | |
| 2016/17 Financial year | | | |
| Baseline Position | 317,306 | | 317,157 |
| Transformation fund | | 10,500 | 10,500 |
| Local Commissioners QIPP | (4,000) | | (4,000) |
| | (4,000) | 10.500 | 6,500 |
| Income Increases | | | |
| National Tariff – 1.6 per cent | 4,755 | | 4,755 |
| HCD /Pass through inflation – 4.1 per cent | 1,020 | | 820 |
| Readmissions adjustment | 2,217 | | 2,217 |
| Winter Pressures funding | 2,470 | | 2,470 |
| Demographic growth – 1.25% | 3,714 | | 3,714 |

| | Recurrent £000's | Non recurrent £000's | Total £000's |
|---|---|---|---|
| | 5,405 | - | 14,176 |
| | | | |
| Local Commissioners QIPP schemes reversed | 4,000 | | 4,000 |
| | | | - |
| | | | - |
| | | | - |
| Income Budget 2016/17 | 331,486 | 10,500 | 341,986 |

2.1.1 <u>Baseline Position</u>

In the 2015/16 financial year the recurrent Income of the Trust increased by £2.617 million, as a result of:

| | £000's | Reason for Change |
|---|---|---|
| Pass Through Costs | | |
| High Cost Drugs | 3,604 | Expenditure budgets increased consistent with the Income increase |
| Total Pass through Costs | 3,604 | |
| Income Losses in year | | |
| Education Income | (360) | Reduction in funding from the Deanery |
| Point of Delivery | 119 | Growth within gastroenterology, oncology and haematology being compensated by reduced activity and lower case mix within Trauma and Orthopaedics and Oral Surgery. |
| Healthcare Recovery | (673) | Inability to secure increased Income from insurance claims |
| Car Parking | (160) | Implementation of revised care parking concessions |
| Catering | 236 | New Café Bistro concept combined with revised catering options |
| Total Recurrent Income movement | 2,766 | |

The 2016/17 Income budget is then adjusted by the following items:

- Transformation Fund – The Trust has been notified that transformation funds are to be released to the Trust through NHS Improvement amounting to £10.5 million.

- Local Commissioner QIPP Schemes 2016/17 – The Trust is presently in discussion with Telford and Wrekin CCG, when concluded could establish a non activity based "block contract". QIPP schemes with the CCG would then be developed in the 2016/17 year within the context of the Local Health Economy Financial Recovery Plan.

  Shropshire CCG, within their contract, offer QIPP savings amounting to £4.0 million. This savings figure is not presently supported by detailed plans. In setting the budget it has been assumed that these savings will not be achieved.

2.1.2 <u>Income Increases</u>

- National Tariff – Base Tariff has been set to increase Income by 1.1 per cent and also cover increased CNST premiums. Nationally this has been calculated to increase Income within a range from 1.3 to 2.4 per cent. Trust calculations suggest income growth of 1.6 per cent amounting to £4.755 million.

- High Cost Drugs /Pass through – The 2015/16 Tariff required commissioners to pay in full for the cost of high cost drugs up to a historically set threshold and thereafter at 70 per cent of cost. This rule has been amended for the 2016/17 year and instead commissioners are now required to pay in full for all high cost drugs. Allowing for inflation and the new rules increases Trust income in the year by £1.02 million.

- Readmissions – Previously commissioners have been able to avoid payment for activity arising as a consequence of a readmission within 30 days, where it had been determined that the readmissions could have been avoided through appropriate actions taken either by the Trust or LHE partners. Commissioners are then required to invest in targeted areas so as to reduce the level of avoidable admissions. New rules are to be introduced for the 2016/17 financial year following negotiations between NHS Improvement and NHS England. Specifically these rules no longer allow commissioners to avoid payment for readmitted activity unless it is possible to demonstrate that investments have been made in targeted programmes and these programmes are able to show significant levels of reduced readmitted activity. The sum withheld by Commissioners in 2015/16 amounted to £2.4 million. Telford and Wrekin CCG have agreed to reinvest their share, £1 million, in the Trust in 2016/17 year as part of the block contract. Shropshire CCG have not indicated a willingness to reinvest in the Trust and maintain that their share has been reinvested with the local Community Trust. The level of readmitted activity attributable to Shropshire CGG has grown in each of the last three years.

- Winter Monies – Allocations for CCGs now incorporate funding to support increased costs and activity associated with the winter period. The decision to incorporate winter monies into baseline CCG allocations was made in recognition that doing so would create greater certainty over the availability of such funds, so enabling recipient bodies to put in place winter plans earlier and with greater cost efficiency. The level of funds incorporated into CCG budgets amounts to £2.47 million. Telford and Wrekin CCG made available to the Trust £1 million in the 2015/16 financial year, no funding was made available by Shropshire CCG. The 2016/17 contract offer from Telford and Wrekin CCG is expected to include funding in support of winter; Shropshire CCG have not agreed to provide this funding in 2016/17.

- Demographic growth – In setting budget for the 2016/17 year, it has been assumed that income generated through clinical activity will grow by 1.25 per cent, equivalent to £3.714 million. Shropshire CCG in setting their financial plans for the 2016/17 have assumed that demography will increase clinical activity by 1.5 per cent, Telford and Wrekin CCG assumes a growth rate of 2 per cent. The Telford demographic growth increase has been incorporated within their contract offer.

2.1.3 <u>Other observations</u>

- Contract agreement – The above provides a description of the position adopted by the Trust in its negotiations with the two local commissioners for the 2016/17 contract. At the time of writing this paper the position in respect of the two local commissioners is as follows:

| | Trust view of contract value for 2016/17 £000's | View presented by the CCGs £000's | Variance £000's |
|---|---|---|---|
| Telford and Wrekin CCG | 90,500 | 89,500 | (1,000) |
| Shropshire County CCG | 133,300 | 125,500 | (7,800) |

| Key Messages - Income |
|---|
| - Total Income for the year - £341.986 million<br>- Income incorporates non recurrent Sustainability and Transformation Funds received from NHS Improvement amounting to £10.5 million,<br>- Agreement reached with Telford and Wrekin CCG to put in place a block agreement, which includes funding for demographic growth, National Tariff, readmissions monies and funds to support winter pressures. |

- Shropshire CCG contract presently in dispute. CCG assumes £6 million QIPP savings (with no clear underpinning plans) and have not agreed to provide funding to support winter pressures or address readmissions.

## 2.2 Expenditure Budgets

### 2.2.1 Pay Expenditure.

The baseline budget for Pay spending in the 2016/17 year has been set, before the application of a cost Improvement Programme, at £235,731 million. The table below provides a description of how this sum compares with the budgeted level set for the 2015/16 year.

| | Recurrent £000's | Non Recurrent £000's | Total £000's |
|---|---|---|---|
| Recurrent Baseline 2015/16 after application of CIP | 219,315 | 2,934 | 222,249 |
| In year movement | | | |
| | | | |
| New Pay pressures in year | | | |
| Nurse Unavailability | 1,590 | | 1,590 |
| Nurse fill rate | 569 | | 569 |
| Anaesthetic critical care | 249 | | 249 |
| Bank Fill rates | | 339 | 339 |
| Deanery Medical rota | | 274 | 274 |
| Medical staffing sickness | | 368 | 368 |
| Increased Premium costs | | 870 | 870 |
| Unfunded Winter plan monies | | 1,000 | 1,000 |
| Bank payment arrangements | | (500) | (500 |
| Other savings | | (763) | (763) |
| | 221,721 | 4,522 | 226,243 |
| | | | |
| 2015/16 Recurrent Budget carried forward | 221,721 | | 221,721 |
| Pay Pressures 2016/17 | 3,368 | | 3,368 |
| Pension contributions | 1,500 | | 1,500 |
| Anaesthetic critical care | 489 | | 489 |
| Increased Agency premiums | | 870 | 870 |
| Nursing Agency premiums | | 2,630 | 2,630 |
| Winter Funding | 2,470 | | 2,470 |
| Doctor sickness | | 368 | 368 |
| Deanery medical rota | | 1,200 | 1,200 |
| Demographic growth reserve | 1,115 | | 1,115 |
| Pay budget before CIP | 230,663 | 5,068 | 235,731 |

Recurrent  Pay Pressures in 2015/16

*Nursing Unavailability*

In resetting the nurse budgets (based upon reconstructed staffing templates based upon Safer Nursing Standards) an allowance was made to cover absence arising from annual leave, sickness, training and maternity leave. This allowance amounted to 22 per cent of the nurse budget. During the 2015/16 financial year however the level of actual unavailability amounted to 27 per cent principally because of higher levels of staff sickness. Contained within the 2015/16 budget was a Cost Improvement Programme that aimed to reduce the level of unavailability to 25 per cent.

In 2015/16 the actual level of unavailability has increased to circa 29 per cent, the effect of this increase has been to introduce further spending amounting to £1.59 million.

*Nurse fill rate*

High levels of Nurse staffing vacancies, have meant that after allowing for the filling of vacant posts temporarily through a combination of Bank and Agency staff, the levels of staff working across the wards in the Trust have consistently been lower than the levels required as specified within the nursing ward templates. In setting the budget for 2016/17 budgets were set based upon the level of staff typically operating across wards (this level is known as the fill rate). In 2015/16 the average fill rate amounted to 93 per cent. (These savings were then used to underpin the higher staff unavailability rates as described above).

During 2015/16 the actual fill rate recorded has been 95 per cent. In doing so this has then introduced a further cost pressure of £569,000.

*Critical Care Anaesthetic Consultants*

Inconsistency within working practices within Anaesthetic Consultant On Call rotas had existed between the two hospital sites. This inconsistency, resulted in unsustainable (and potentially unsafe) working arrangements and as such has needed to be corrected. Doing so, introduced a cost pressure of £789,000 of which £249,000 impacted upon the 2015/16 financial year. The full year effect amounts to a further £489,000.

*Bank Nursing – premium rates*

In an attempt to reduce Agency spending, revised pay rates were introduced for nursing staff employed through the Trust's internal Bank. The revised rates allowed for a premium to be paid equivalent to 30 per cent of the rate attributable to a substantive member of staff. The introduction of the new rate has been popular. In the months since its introduction the numbers of staff employed through the Bank has grown from circa 258 wte in September 2015 to 310 wte in January 2016. The excess cost associated with the Bank premium has introduced new costs in year amounting to £339,000.

*Deanery medical rota*

The delivery of hospital services is underpinned by a substantial contingent of medical students receiving work experience. Changes to the curriculum has meant that greater levels of work experience is now being completed by students within General Practice. Additionally new funding mechanisms has meant that the competition for Junior Medical students has become more intensive. The impact upon the Trust in the 2015/16 financial year has been that the level of cover provided by Junior Medical staff has reduced and as a result the Trust has needed to introduce temporary middle grade agency staff. In the 2015/16 year the cost of the replacement agency medical staff amounted to £274,000; in 2016/17 this is expected to increase to circa £1.2 million.

*Medical staffing sickness*

Unlike nursing, in setting budgets for medical staff no allowance exists to cover the cost of sickness. During the 2015/16 year the cost of employing staff to cover sickness has amounted to £368,000.

*Increased Premium Costs*

Increased nursing staff as a consequence of higher fill rate and higher unavailability and increased levels of medical staffing sickness absence and reduced levels of junior medical work experience has meant that the levels agency staff employed within the Trust has grown in the 2015/16 financial year. Increased Agency staff has accordingly meant that the levels of premiums paid for such staff has also increased. In 2015/16 this increase has amounted to £870,000.

*Unfunded Winter plans*

At the August 2015 Trust Board meeting agreement was reached to underpin operational services by deploying additional non recurrent budget amounting to £1 million. During the year the Trust has committed £2.47 million in support of enhanced capacity previously funded through CCG winter allocations. In 2015/16 winter funds amounting to circa £1 million were received from Telford and Wrekin CCG, Shropshire CCG made available £300,000.

2015/16 Recurrent Pay Budget carried forward

The effect of the above recurrent budget changes means that the Trust now takes forward into 2016/17 a need to support a recurrent pay budget of £221,721 million, this is then supplemented by the following:

*Pay Pressures 2015/16*

The Trust has established a reserve to cover the cost of pay awards and incremental progression. This budget has been set at a rate of 1.6 per cent of annual recurrent pay and amounts to £3.368 million. In addition the Trust is also required to increase contributions in support of staff who are members of the NHS Pension Scheme. This is estimated to introduce a further cost pressure of £1.5 million.

*Anaesthetic Consultant Critical Care*

As described in the above the full year effect of new working arrangements introduces further costs in 2016/17 amounting to £489,000.

*Continuation of Pay pressures experienced in 2015/16*

In setting the budget for the 2016/17 year it is proposed that new cost pressures introduced in the 2015/16 financial year should be recognised within Trust spending budgets for 2016/17. These are as follows:

| | £000's |
|---|---|
| Increased Agency premiums | 870 |
| Nursing Agency premiums | 2,630 |
| Winter Funding | 2,470 |
| Consultant /medical sickness | 368 |
| Deanery Medical rota | 1,200 |
| | 7,538 |

*Demographic growth*

Income plans are assumed to increase in year as a consequence of underlying demographic growth. As stated previously, the effect of demographic growth is assumed to increase activity by 1.25 per cent. In order to support the increased levels of activity it is necessary to establish a level of reserve to support increased pay costs. The reserve set amounts to £1.15 million.

*Sense check of the Proposed Pay Budget*

To test the validity of the proposed 2016/17 budget it is useful to consider, the monthly run rate assumed for the 2016/17 financial year with the levels of spending that have occurred in the previous financial year.

| | 2016/17 Budget £000's | Actual Months 1 – 11 2015/16 | Moving average 3 month period Mths 9 -11 |
|---|---|---|---|

| | | £000's | £000's |
|---|---|---|---|
| Average Monthly run rate | 19,146 * | 18,872 | 19,061 |

*The Average monthly run rate excludes inflationary pressures and any new developments planned to commence in the 2016/17financial year.

As can be seen the budget is £274,000 per month greater than the average monthly run rate recorded through the 2015/16 financial year and £85,000 per month greater than the levels spent in the most recent three months.

2.2.2. Non Pay Budgets

The baseline budget for Non Pay spending in the 2016/17 year has been set, before the application of a Cost Improvement Programme, at £98.664 million. The table below provides a description of how this sum compares with the budgeted level set for the 2015/16 year.

| | Recurrent £000's | Non Recurrent £000's | Total £000's |
|---|---|---|---|
| Recurrent Baseline 2015/16 after application of CIP | 94,104 | | 94,686 |
| | | | |
| | | | - |
| Care Group / Corporate services General cost pressures | 949 | (115) | 834 |
| Activity related Care Group cost pressures | 1,903 | | 1,903 |
| Pass through devices / High cost drugs | 3,604 | | 3,604 |
| Stock movement gain | | (500) | (500) |
| End of year controls | | (800) | (800) |
| Vanguard Unit | | 400 | 400 |
| | 100,560 | (1,115) | 99,545 |
| | | | |
| Recurrent budget bfwd | 100,560 | | 100,560 |
| Inflation reserve 2015/16 | 6,209 | - | 6,209 |
| CNST Contribution increase | 2,540 | | 2,540 |
| Cost Pressures associated with Increased activity | 743 | | 743 |
| Non Pay Budget (before CIP) | 110,052 | | 110,052 |

*Care Group / Corporate services General Cost pressures*

During the year Non pay budgets have increased by £834,000 across Care Group / Corporate services as a consequence of inflationary pressures beyond levels estimated when setting the budget for the 2015/16 year.

*Activity related Care group cost pressures*

Increased activity in the year has increased non pay spending by £1.903 million.

2015/16 Recurrent Non Pay Budget carried forward

The effect of the above recurrent budget changes means that the Trust now takes forward into 2016/17 a need to support a recurrent non pay budget of £100,560 million, this is then supplemented by the following:

*Non Pay Inflation*

The Trust has established a reserve to Non Pay inflationary pressures. This budget has been set at a rate of 6.2 per cent of annual recurrent non pay and amounts to £6.209 million.

*CNST Contribution Increase*

As in the previous financial year the NHSLA has reappraised its risk profile of cases, and in doing so increased premiums substantially. The effect of this change in methodology is to increase the Trust contribution from £10.1 million in 2015/16 to £12.6 million in 2016/17.

*Cost pressure associated with increased activity*

Income budgets have been increased to allow for the effect of demographic growth. It is recognised that in performing such activity additional non pay costs will be incurred. A reserve amounting to £743,000 has been established to cover non pay costs attributed to this activity.

*Sense check of the Proposed Non Pay Budget*

To test the validity of the proposed 2016/17 budget it is useful to consider, the monthly run rate assumed for the 2016/17 financial year with the levels of spending that have occurred in the previous financial year.

| | 2016/17 Budget £000's | Actual Months April - February 2015/16 £000's | Moving average 3 month period December - February £000's |
|---|---|---|---|
| Average Monthly run rate | 8,380 * | 8,298 | 8,380 |
| Average Monthly run rate excluding inflationary pressures and developments | 8,380 | | |

*The Average monthly run rate excludes inflationary pressures and any new developments/ Cost pressures planned to commence in the 2016/17financial year.

As can be seen the budget is £82,000 per month greater than the average monthly run rate recorded through the 2015/16 financial year and is consistent with the levels spent in the most recent three months.

| Key Messages - Expenditure budgets and Reserves |
|---|
| • Pay Budgets set at £235.7million, before the achievement of Cost Improvement Programme savings,<br>• Pay budgets based upon a level of spending that is £274,000 greater than the average level of pay spending recorded in the 2015/16 year and £85,000 greater than the levels recorded in the most recent three months.<br>• Non Pay set at £110 million before achievement of CIP.<br>• Non Pay budgets based upon a level of spending that is £82,000 greater than the average level of non pay spending recorded in the 2015/16 year and at a rate that is consistent with the levels recorded in the most recent three months.<br>• Pay assumed to increase in the 2016/17 year by 1.6 per cent, Non pay by 6.2 per cent |

3. <u>Cost Improvement Programme</u>

The Trust has constructed a Cost Improvement Programme for delivery in the 2016/17 year with the requirement to deliver savings amounting to £13.031 million as presented in the table below.

| | 2016/17 savings £000's |
|---|---|
| Procurement | 2,000 |
| Unavailability improvement | 1,300 |
| Waiting List Initiative payments | 400 |
| Pharmacy gain share | 300 |
| Residual CIP | 1,742 |
| Scheduled Care under achieved 2015/16 CIP | 2,000 |
| Unscheduled Care group under achieved CIP 2015/16 | 1,000 |
| Women and Children's under achieved CIP 2015/16 | 250 |
| Agency cap savings | 3,250 |
| Scheduled Care – Anaesthetic Critical Care | 789 |
| | |
| Cash releasing efficiency savings | 13,031 |
| | |
| % savings as compared with expenditure | 3.925 |

The Cost Improvement Programme will be overseen through the Trust Sustainability Committee and progress of the Programme will be performance managed through the monthly Confirm and Challenge Care Group meetings.

3.1 Status of the Cost Improvement Programme

Confidence in the delivery of an ambitious Cost Improvement Programme depends upon the stage of implementation of each element of the programme. The table below provides a description of the "status" of each element and a corresponding Risk Rating.

| | Director / Centre Chief Lead | Status | Savings Target"in year" £000s | Savings Identified £000's | Risk Rating |
|---|---|---|---|---|---|
| Procurement | Finance Director | Detailed savings plans constructed with on-going engagement with Service Centres and Departments | 2,000 | 1,550 | Amber |
| Unavailability Improvement | Chief Operating Officer / Director of Nursing | Introduction of new working practices to ensure Unavailability maintained within a 24 per cent uplift. | 1,300 | 300 | Red |
| Waiting List Initiative Payments | Chief Operating Officer | RTT delivery plans structured to substantially reduce WLI payments | 400 | - | Red |
| Pharmacy Gain share | Support Services Director | Schemes identified – agreements approved with Chief Pharmacist | 300 | 300 | Amber |
| Residual CIP | | Schemes to be finalised | 1,742 | 1,192 | Amber |
| Scheduled Care recovery of 2015/16 CIP | Assistant Chief Operating Officer Scheduled Care | Schemes to be finalised | 2,000 | | Red |
| Unscheduled Care – recovery of 2015/16 CIP | Assistant Chief Operating Officer Unscheduled Care | Schemes being developed | 1,000 | | Red |
| Women and Children's – recovery of 2015/16 CIP | Women & Children's Care Group Director | Savings schemes identified | 250 | 250 | Amber |
| Agency CAP savings | Workforce Director | Various schemes – implemented and being finalised | 3,250 | 3,250 | Amber |
| Scheduled Care – Anaesthetic savings | Assistant Chief Operating Officer Scheduled Care | Schemes to be developed/ finalised | 789 | | Red |
| Total | | | 13,031 | 6,842 | |

The distribution of the CIP programme across the Care Groups and Corporate services departments is as follows:

| | Scheduled Care £000's | Unscheduled Care £000's | Support Services £000's | Women and Children's £000's | Corporate Services £000's | Total £000's |
|---|---|---|---|---|---|---|
| Procurement | 550 | 150 | 150 | 100 | 1,050 | 2,000 |
| Unavailability Improvement | 300 | 1,000 | | | | 1,300 |
| Waiting List Initiative Payments | 400 | | | | | 400 |
| Pharmacy Gain share | | | 300 | | | 300 |
| Residual 2016/17 CIP | 300 | 240 | 200 | 700 | 302 | 1742 |
| Under achieved 2015/16 CIP | 2,000 | 1,000 | | 250 | | 3250 |
| Agency Cap savings | 850 | 2,100 | 150 | | 150 | 3250 |
| Anaesthetic Care service development | 789 | | | | | 789 |
| Total savings to be achieved | 5,189 | 4,490 | 800 | 1,050 | 1,502 | 13,031 |
| Total savings identified | 1,750 | 1,740 | 800 | 1,050 | 1,502 | 6,842 |
| Shortfall | 3,439 | 2,750 | - | - | - | 6,189 |

| Key Messages – Cost Improvement Programme |
|---|
| • Cost Improvement Programme for the year 2016/17 set at £13.031 million equivalent to 3.925% of operational spending.<br>• Financial plans as developed by the Scheduled and Unscheduled Care groups underachieve by £6.1 million. |

## 4. <u>Further actions to reduce the 2016/17 Deficit</u>

The Trust is required to deliver an Income and Expenditure budget deficit in the 2016/17 amounting to £5.9 million however this requires the delivery of Cost Improvement savings of £13.031 million. As described in the above presently the Trust has been able to identify cost savings amounting to £6.842 million, as such without corrective action the Trust will then record a deficit in the year of £12.089 million.

The following actions if implemented will address this imbalance:

*Procurement - Scheduled Care – Prosthetics MSK*

The Trust has agreed a procurement deal that if implemented would consolidate the purchasing of all prosthetics used within the MSK department with a single supplier, this organisation being the existing dominant supplier to the Trust. This change is supported by the Medical Director, Care Group Director and only one of the Trust's consultants object to the use of this supplier. Consolidating purchasing enables the Trust to generate cost savings of £270,000.

*Procurement – Scheduled Care – Sutures*

The Trust is presently trialling the use of a reduced set of sutures. Making a decision to restrict usage in this way generates cost savings amounting to £180,000.

*Theatre Productivity*

A recent review has been undertaken of operational performance of theatres at both the RSH and PRH Hospital sites. This review identified that :

- 80 per cent of lists at both RSH and PRH started late, and on average the level of delay was 43 minutes,
- General Surgery and MSK accounted for the bulk of the delay.

The review concluded that by delivering to average performance standards within the NHS this would enable the Trust :

(a) Release up to 14 sessions per week – remove annual costs of £840,000; or
(b) Perform 3,045 additional procedures – generate additional income of £5.2 million – contribution circa £2.0 million

An exercise to improve theatre productivity does not presently feature within the Scheduled Care Group Cost Improvement Programme. Introducing an improved level of theatre productivity could be expected to generate cost savings in this year of £450,000.

*Enforce the unavailability nursing rate of 24 per cent*

Financial plans as produced by both Unscheduled and Scheduled Care Groups assume a conservative improvement in the unavailability rate across the wards. Enforcing the unavailability rate by:

- Restricting agency and Bank usage to wards presently managing within the 24 per cent unavailability rate. Doing so would have the effect of reducing the fill rate from the budgeted 95 per cent, in those wards where unavailability exceeded the unavailability rate,

- Improved management of controllable absence, such as training and annual leave,

- Active monitoring of nurse rosters so as to ensure that rosters when planned do not exceed the unavailability cap and then supported by monthly review to identify ward areas where the actual level of unavailability exceeded planned levels.

- More assertive management of sickness absence, particularly in respect of short term absence.

Enforcing the unavailability nursing rate would increase the Cost Improvement savings by £1.0 million.

*Waiting List Initiative Payments*

The Scheduled Care group in setting its financial plans for 2016/17 year has not assumed a reduction in the level of Waiting List Initiative Payments as compared with the sums spent in the 2015/16 financial year. In 2015/16 the level of Waiting List Initiative Payments amounted to £2.6 million.

Over the winter period the level of cancellations that have occurred in respect of Elective activity has been considerably less than seen in previous years and as such the level of backlog RTT activity that will need to be recovered is less significant. Accordingly the need for non recurrent sessions to recover RTT backlog in order to achieve the RTT performance target should be reduced in the 2016/17 year.

In addition, discussions are presently taking place to reduce the waiting List sessional rate from the existing £600 to a revised rate of £500 which is more consistent with rates paid in neighbouring Trusts. It is believed that this change could be implemented from the 1st of October 2016.

Achieving the Waiting List Initiative Cost Improvement Target increases savings by £400,000.

*Achieve the Nationally defined Agency Cap*

The Trust Cost Improvement Plan incorporates a savings target relating to Agency premiums of £3.25 million. Deliverability of this savings target is illustrated in the table below. The table below provides a description of spending in respect of Agency staff in the 2015/16 financial year.

| | Average monthly WTE | Annual Agency Payments £000's | Annual Agency Premium £000's | | Applying the April 55 % premium £000's | Savings from reduced premium £000's | | National Agency Cap staff redn/ non agency employment | National Agency £000s |
|---|---|---|---|---|---|---|---|---|---|
| Consultants | 7.9 | 1,882 | 810 | | 1,660 | (221) | | (1.5) | 1,339 |
| Medical staff | 32.0 | 5,094 | 2,533 | | 3,970 | (1,124) | | (6.2) | 3,202 |
| Nursing | 116.0 | 7,928 | 3,869 | | 6,293 | (1,635) | | (22.4) | 5,076 |
| Other Clinical | 8.9 | 539 | 270 | | 416 | (123) | | (1.7) | 335 |
| Non Clinical | 16.2 | 896 | 411 | | 752 | (144) | | (3.1) | 607 |
| | 181.1 | 16,339 | 7,893 | | 13,091 | (3,248) | | (35.0) | 10,559 |
| Assumed CIP savings | | | | | | (2,500) | | | |

In the construction of spending plans for the 2016/17 year Care Groups calculated that based upon existing budgets the level of savings opportunity amounted to £3.5 million. In setting a budget however the level of Agency saving assumed to be delivered amounts to £3.25 million, this being on the basis that the April 1st Agency rate cap is introduced from :

- 1st July for Consultant staff,
- 1st April for Medical Staff
- 1st April Nursing staff
- 1st April Other Clinical Staff; and
- 1st April Non Clinical staff

Introducing the 1st April rate cap for Consultant staff would generate a further £250,000.

On the 17th March 2016 the Trust received notification of an annual Agency spending cap covering all staff groupings for the 2016/17 year. The value of the Agency spending cap amounts to £10.559 million. The guidance states

> "Trusts will be held to account against their annual agency expenditure. Performance against the Agency rules will form part of the criteria for releasing funding from the Sustainability and Transformation Fund".

Achieving the staffing numbers consistent with the annual Agency cap would reduce Agency premiums by a further £900,000.

*Funding – Shropshire County CCG*

As part of the contract negotiations with Shropshire CCG the Trust has in accordance with contracting guidance requested payment for a series of service areas where funding is not presently being made available. Shropshire CCG is not agreeing to pay for these items in 2016/17. The areas are:

- Rehabilitation – An anomalous position exists where under local Tariff arrangements Shropshire CCG pays for rehabilitation work undertaken at the Princess Royal Hospital site but do not pay for the same activity when performed at the Royal Shrewsbury Hospital site. The difference exists because the CCG has argued that the rehabilitation activity performed at RSH is presently funded through Non Elective Tariff. The Trust has commissioned an independent review of such activity. This work completed by KPMG concluded that the work at RSH should be funded separately through a local Tariff. The value of this work amounts to £825,000.

- Complex Audiology – Complex audiology activity is funded through a local Tariff. The Trust has informed the CCG of its intention to increase the local price so as to ensure that the rate paid covers the cost of delivering the service. The cost increase amounts to £736,000.

- Critical Care – The Trust has notified the two local CCGs of an intention to increase the cost of a local Tariff in support of Critical Care activity, as a consequence of changes made following the CQC visit. Telford and Wrekin CCG have agreed to fund the increase as part of the 2016/17 block contract. Shropshire CCG has not agreed to fund their share of the increase. The sum attributable to Shropshire CCG amounts to £432,000.

- The Trust presently provides nurse led activity in support of Tuberculosis and Neurology for Shropshire patients. The value of this activity is £158,000. Shropshire CCG has stated that they do not intend to pay for this activity in 2016/17.

- Child Protection Medicals – In response to a request made by Shropshire CCG the Trust introduced new child protection arrangements at a cost of £11,000. The CCG have stated that it is not their intention to pay for this service in 2016/17.

A successful resolution of these items increases funding by £2.162 million.

*RTT Activity – Oral Surgery*

The Trust is presently required to ensure that at least 92 per cent of all referrals for Elective Care are seen within a period of 18 weeks. In the 2015/16 year achievement was required also at an individual speciality level and failure to do so resulted in penalties being levied by the CCG. In the 2016/17 year the speciality level target has been removed along with the imposition of financial penalties.

In order to achieve the 92 per cent target, the Trust is having to plan to over perform in a number of specialities in order to compensate for the inability to deliver the target within Oral Surgery. This is illustrated in the table below.

| | Apr-16 | May-16 | Jun-16 | Jul-16 | Aug-16 | Sep-16 | Oct-16 | Nov-16 | Dec-16 | Jan-17 | Feb-17 | Mar-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Specialty | | | | | | | | | | | | |
| Breast | 99.42% | 98.72% | 97.25% | 100% | 100% | 98.61% | 100% | 100% | 100% | 100% | 100% | 100% |
| Colorectal | 100% | 99.20% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| MSK | 83.43% | 92.64% | 96.06% | 97.03% | 94.57% | 94.73% | 94.32% | 93.29% | 93.31% | 93.61% | 94.80% | 97.13% |
| Upper GI | 91.97% | 97.36% | 95.62% | 96.88% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Urology | 90.08% | 97.53% | 99.46% | 99.91% | 98.99% | 99.80% | 97.86% | 97.02% | 97.76% | 95.19% | 94.81% | 95.05% |
| Vascular | 88.97% | 97.36% | 99.49% | 99.45% | 99.15% | 99.06% | 99.66% | 100% | 98.78% | 98.60% | 99.10% | 98.74% |

The situation within Oral Surgery has continued to be problematic over a number of financial years and reflects the unwillingness of referred patients to seek care outside of the Shropshire and Telford area and the continuing inability to recruit sufficient capacity to accommodate demand.

A decision to limit achievement to 92 per cent performance target in all specialties with the exception of Oral Surgery, would enable the Trust to reduce costs of Agency / Locum staff. The level of savings able to be delivered would amount to circa £500,000.

*Postpone developments*

Both Scheduled and Unscheduled Care Groups are proposing increasing expenditure by appointing into new posts in the financial year. Given that both Care Groups are presently unable to describe savings equivalent to their Cost Improvement target, it is proposed that these developments be suspended. These developments are as follows :

| | £000's | Description |
|---|---|---|
| Haematology | 375 | As a response to increased activity the Care Group wishes to appoint in year a further consultant, 2.4 wte CNs and 2.45 wte nurses to work within Day Case centres. The service also wishes to enhance the chemotherapy service through the employment of 2.6 wte nurses. |
| Radiotherapy | 165 | In support of the 3rd linac coming into operation in April 2017, the Radiotherapy service wishes to appoint in year a further 9.0 wte medical/physics/radiotherapy staff. |
| Surgical Admission Suite | 130 | As part of an initiative to improve patient flow, the proposal is to increase capacity and in doing so to avoid the need for a number of patients to be admitted on the day before surgery. |
| Unscheduled Care | 200 | In order to create greater resilience, the Unscheduled Care Group is seeking to introduce greater capacity within its consultant workforce by funding additional sessions. Collectively these sessions are equivalent to an additional 2.0 wtes. |
| | 870 | |

| Key Messages – Recovering a financial imbalance |
|---|
| • Existing Financial plans suggest that Trust will fail to deliver the targeted deficit for the year by £6.1 million, potential actions include:<br>• Implementing new procurement arrangements in respect of Prosthetics in MSK and Sutures – generates cost savings of £450,000<br>• Introducing improved operational practices across theatres at RSH and PRH – reduce costs in year by £450,000 and over a full year circa £850,000,<br>• Enforcing an unavailability per cent of 24 per cent across Nursing budgets – generates savings of £1.0 million,<br>• Improved management of Elective Care combined with a reduced sessional rate – reduces Waiting List Initiative payments by £400,000,<br>• Successfully resolving contractual disputes with Shropshire CCG increases Trust Income by £2.16 million,<br>• Achieving the Trust Agency Cap, generates a further £900,000 and a potential £0.25 million if introduced for Consultant Agency staff from the 1st April,<br>• Limiting RTT performance to 92 per cent, with the exception of Oral Surgery, reduces costs by £500,000.<br>• Postponing proposed developments until the Care Groups are able to identify cost savings to support their underachievement of CIP of £870,000. |

## 5. <u>Risks associated with the 2016/17 Plan</u>

Shropshire CCG Financial recovery plan – Shropshire County CCG have indicated that their expectation is for local QIPP schemes to reduce Income by £4.0 million. Shropshire CCG have also issued CQUIN targets for the year. The Trust is contesting the reasonableness of the scale and timescales attached to these targets.

Neighbouring Trusts – The Trust, though not formally aware, has learnt that Shropshire CCG wishes to substantially reduce its funding in support of services presently provided by Shropshire Community Trust. It is not clear what level of impact such changes will have upon the Trust.

Sustainability and Transformation Fund – It is not presently clear how the Sustainability and Transformation fund is to be released to the Trust and also the precise circumstances in which NHS Improvement will withhold funding. Guidance suggests that withholding of funds will be linked to performance targets and also failure to contain spending within levels attributed to the Trust in respect of the Agency Cap.

Achievement of Agency Cap – The Trust is expecting to deliver £3.25 million as cost savings from implementing new Agency rates in the 2016/17 financial year. Introducing these new rates particularly within medical and consultant staff groups may result in immediate operational difficulties.

| Key Messages - Risks and Contingencies |
|---|
| • Shropshire CCG financial recovery plan – aims to significantly reduce the Income of the Trust,<br>• Shropshire CCG seeking to reduce funding for particular services, which could be expected to create operational and financial pressures within the Trust<br>• Trust 2016/17 financial plan assumes the receipt in full of Sustainability and Transformation funds from NHS Improvement amounting to £10.5 million. NHS Improvement have stated that this sum will be reduced if the Trust fails to deliver performance targets and/or limit agency spending.<br>• A sizeable level of savings are expected to be generated through the implementation of revised Agency rates in 2016/17. |

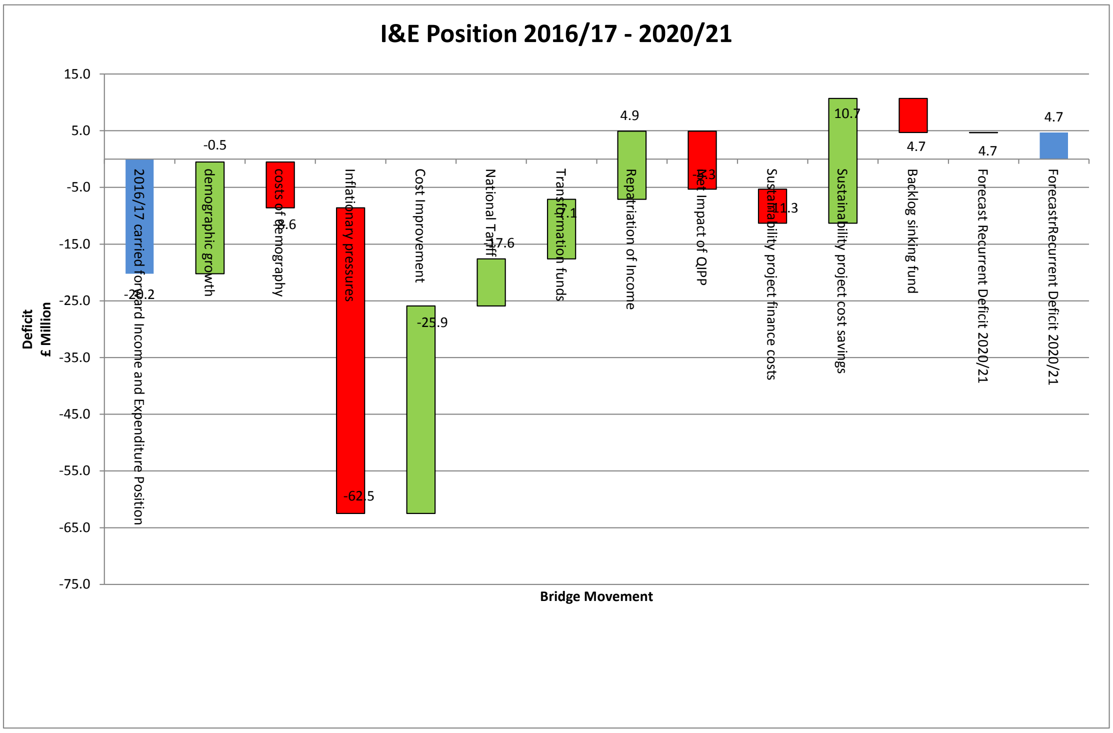
## 6. Impact upon the Medium Term Financial Plan

In setting the Medium Term Financial Plan for the Trust, a series of assumptions have been applied, notably:

- Tariff – 1.6 per cent in 2016/17 and flat cash thereafter
- Demographic growth – Increases Income each year by 1.25 per cent.
- Pay Costs – Rise in each year by 2 per cent; and
- Non Pay costs – Rise in each year by 4.0 per cent
- Clinical element of Sustainable Services project - £16.0 million gain realised in year 2020/21
- Repatriation of Income – Trust gains £10.0 million by 2020/21
- QIPP – reduces Income by £16.0 million as a consequence of Future Fit
- Transformation Fund - £10.5 million received non recurrently in 2016/17 and converted into a recurrent Increase in 2017/18
- Trust assumed to receive funds amounting to £70 million to cover backlog asset issues not covered by the clinical element of the Sustainable Services project - £6million revenue consequence generated progressively over the years 2016/17 – 2020/21.

Applying these assumptions produces the following:

| | Recurrent £million's | Non Recurrent £million's | Total £million's |
|---|---|---|---|
| 2015/16 | (20.2) | 5.5 | (14.8.) |
| 2016/17 | (19.0) | 13.1 | (5.9) |
| 2017/18 | (9.8) | (3.9) | (13.7) |
| 2018/19 | (11.0) | (1.9) | (13.0) |
| 2019/20 | (12.3) | 0.1 | (12.3) |
| 2020/21 | 4.8 | (2.5) | 2.3 |




The bridge  diagram describes how the recurrent position of the Trust improves over the period from a recurrent deficit of £20.2 million in 2015/16 to a recurrent surplus of £4.7 million in 2020/21.

To achieve the improved recurrent position, the Trust is assumed to:

i) Receive Transformation funds of £10.5 million
ii) Generate a net financial benefit of £16.0 million from the Sustainable Services project
iii) Benefit from repatriation of income by £12 million.

In describing the recurrent position a sum of £6 million is generated to support the cost pressures associated with addressing the Trust Backlog problem.

| Key Messages – Medium  Term Financial Plan |
| --- |
| • The Trust is expecting to record deficits in each of the years 2015/16 – 2019/20<br>• Trust generates a surplus in the 2020/21 financial year as a consequence of a reconfiguration of services which enables excess costs of split site working to be avoided.<br>• Trusts generates  recurrent funds over the years 2016/17 – 20/21 amounting to £6 million to cover the revenue consequences of a £70 million loan to address Trust backlog asset issues. |

## 7. Capital Programme 2014/15

### 7.1 Capital Programme 2016/17 and extended to 2020/21

Recent reviews into the condition of assets used within the Trust have identified a considerable  level of funds required to support the upgrading of estate and replacement of ageing medical and IT equipment. The scale of the "Backlog" problem is summarised as follows:

| | £millions |
| --- | --- |
| Estate | 103.5 |
| Medical Equipment | 7.5 |
| IT Equipment | 3.3 |
| | 114.3 |

The Trust internally generates a sum amounting to £8.45 million to underpin the ongoing maintenance and replacement of its equipment. Across the three groupings, the levels of funds generated are as follows:

| | £millions |
|---|---|
| Estate | 4.5 |
| Medical Equipment | 2.7 |
| IT Equipment | 1.25 |
| | 8.45 |

Immediate observation from the above datasets are:

- it is not possible to rectify the scale of "Backlog" challenge through the use of Internally generated funds,
- Until funds are available to rectify the problem on a day to day basis the Trust will experience unpredictable and inefficient operational problems. Managing this risk will require a level of contingent funds,
- Allocating funds to help address the problem needs to be based upon a sound methodology.

7.2 <u>Constructing the Capital Programme for 2016/17 and beyond</u>

In establishing a Capital Programme the Trust has:

- prioritised programmes for development based upon the items populated on the Trust Risk Register, and in particular those areas where a score of "20" has been allocated reflecting the high degree of likelihood of the risk occurring and the serious scale of impact if the risk remains untreated.

- Established a contingency reserve of £3.0 million to underwrite unpredictable risks.

- Needed to recognise commitments that have been made that will need to be maintained. This being especially so where schemes are supported by charitable contributions.

By adopting this approach, the internally generated funds are then distributed:

| | £millions |
|---|---|
| Estates | 3.0 |
| Medical Equipment | 0.8 |
| IT Equipment | 0.8 |
| Contingency | 3.0 |
| Pre-commitments | 1.3 |

The Capital Programme for the 2016/17 financial year is then presented as follows:

| | | | | | |
|---|---|---|---|---|---|
| The Shrewsbury and Telford Hospital NHS Trust | | | | | |
| Outline Capital Programme 2016/17 to 2020/21 | | | | | |
| | | | | | |
| | Proposed 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| | £000 | £000 | £000 | £000 | £000 |
| Funding Available: Internally Generated Capital Resource Limit (CRL) | 8,450 | 8,450 | 8,450 | 8,450 | 8,450 |
| | | | | | |
| Pre-Commitments | | | | | |
| Schemes carried forward from old year | 200 | 200 | 200 | 200 | 200 |
| Capitalised Salaries | 650 | 650 | 650 | 650 | 650 |
| Additional 3rd Linac (in conjunctiion with Lingen Davies) | 366 | 650 | 0 | 0 | 0 |
| Replacement Linac (condition of Lingen Davies Grant) | | 1,800 | 0 | 0 | 0 |
| RSH MLU/PAU - P2 FCHS | 100 | 1,500 | 3,400 | 0 | 0 |
| Total of Pre-Commitments | 1,316 | 4,800 | 4,250 | 850 | 850 |
| Contingency Funds | | | | | |
| Estates Contingency | 250 | 250 | 250 | 250 | 250 |
| Medical Equipment | 200 | 250 | 250 | 250 | 250 |
| Information Technology | 200 | 250 | 250 | 250 | 250 |
| Non Patient Connected Equipment Contingency Fund | 75 | 100 | 100 | 100 | 100 |
| VitalPAC Contingency Fund | 50 | 100 | 100 | 100 | 100 |
| In Year Allocations/Corporate Contingency | 2,200 | 2,200 | 2,200 | 2,200 | 2,200 |
| Total of Contingency Funds | 2,975 | 3,150 | 3,150 | 3,150 | 3,150 |
| BUDGET REMAINING FOR ALLOCATION | 4,159 | 500 | 1,050 | 4,450 | 4,450 |
| | | | | | |
| Operational Risk Group - Prioritisation of Risks - IT Computer Room Infrastructure | 450 | 450 | | | |
| Estates Six Facet Survey - High Risk ORG Risk Rated 20: | | 3,000 | 3,000 | 3,000 | 3,000 |
| PRH Statutory - Fire Compartmentation | 120 | | | | |
| PRH Electrical/Energy Centre/Heating/Hot & Cold Water/Medical Gases Replacement | 209 | | | | |
| RSH Statutory - Fire Compartmentation, Infrastructure & Assessments/Electrical Testing/Legionella Remedial works | 1,128 | | | | |
| RSH ITU Air Handling Unit Replacement | 300 | | | | |
| RSH Pharmacy Aseptic Air Handling Unit Replacement | 180 | | | | |
| RSH Ward 31/32/EPAS & Fertility - Air Handling Unit Replacement | 210 | | | | |
| RSH Pathology Replacement Electrical Switchgear | 23 | | | | |
| RSH Air Handling Replacement of required elements | 150 | | | | |
| RSH Plant Room Pipework - full replacement of defective pipework | 5 | | | | |
| RSH Electrical - Switchgear Replacement | 60 | | | | |
| Estates Condition Survey High Risk - RSH Pharmacy Male Changing Area | | | | | |
| Estates Condition Survey High Risk - RSH Maternity | | | | | |
| Estates Condition Assessments still required re Mechanical and Electrical Elements | 186 | | | | |
| Medical Equipment Replacement Priority 1: | | 1,000 | 1,000 | 1,000 | 1,000 |
| Priority 1 Medical Equipment Replacement - PRH Duodenoscopes | 30 | | | | |
| Priority 1 Medical Equipment Replacement - RSH Duodenoscopes | 30 | | | | |
| Priority 1 Medical Equipment Replacement - PRH Colonoscopes/Gastroscopes | 39 | | | | |
| Priority 1 Medical Equipment Replacement - RSH Fertility Cabinet | 26 | | | | |
| Priority 1 Medical Equipment Replacement - RSH/PRH Renal Dialysis Machines | 242 | | | | |
| Priority 1 Medical Equipment Replacement - PRH Theatre Stack Systems & Power Tools | 180 | | | | |
| Priority 1 Medical Equipment Replacement - RSH/PRH Operating Microsopes | 203 | | | | |
| Priority 1 Medical Equipment Replacement - PRH Gynae Telescopes | | | | | |
| Priority 1 Medical Equipment Replacement - Maternity Ultrasound Scanner | | | | | |
| Priority 1 IT Replacements - Servers | 483 | 397 | 193 | 64 | 75 |
| Priority 1 IT Replacements -Switches (Networking) | 327 | 192 | | 258 | |
| Priority 1 IT Replacements -Computers | | 159 | 86 | 214 | 447 |
| Total for Risks Rated 20 | 4,579 | 5,198 | 4,279 | 4,536 | 4,522 |
| | | | | | |
| Total | 8,870 | 13,148 | 11,679 | 8,536 | 8,522 |
| | | | | | |
| Surplus/(deficit) after above | -420 | -4,698 | -3,229 | -86 | -72 |
| Approaches to League of Friends for support for schemes identified above | 320 | | | | |
| Overcommitted | 100 | | | | |
| | 0 | | | | |
| | | | | | |

Annex – Income and Expenditure Position 2015/16 to 2020/21

| | 2015/16 | | | 2016/17 | | | 2017/18 | | | 2018/19 | | | 2019/20 | | | 2020/21 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income and Expenditure | Recurring | Non Recurring | Total | Recurring | Non Recurring | Total | Recurring | Non Recurring | Total | Recurring | Non Recurring | Total | Recurring | Non Recurring | Total | Recurring | Non Recurring | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Income (1) and (2) | 317.306 | 8.8 | 326.1 | 331.286 | | 331.3 | 335.177 | | 335.2 | 339.116 | | 339.1 | 343.105 | | 343.1 | 347.144 | | 347.1 |
| Pay | -221.7 | -4.5 | -226.2 | -230.2 | -5.1 | -235.2 | -234.8 | -5.1 | -239.8 | -239.5 | -5.1 | -244.5 | -244.3 | -5.1 | -249.3 | -249.1 | -5.1 | -254.2 |
| Non Pay | -100.6 | 1.0 | -99.5 | -110.1 | | -110.1 | -114.6 | | -114.6 | -119.1 | | -119.1 | -123.9 | | -123.9 | -128.9 | | -128.9 |
| Finance Costs | -15.2 | 0.5 | -14.7 | -15.3 | | -15.3 | -15.9 | | -15.9 | -16.5 | | -16.5 | -17.1 | | -17.1 | -17.8 | | -17.8 |
| Reserves | | -0.3 | -0.3 | 2.4 | 0.9 | 3.3 | 2.4 | | 2.4 | 2.4 | | 2.4 | 2.4 | | 2.4 | 2.4 | | 2.4 |
| Expenditure (3) | -337.5 | -3.3 | -340.8 | -353.1 | -4.2 | -357.3 | -362.8 | -5.1 | -367.9 | -372.7 | -5.1 | -377.8 | -382.9 | -5.1 | -388.0 | -393.4 | -5.1 | -398.4 |
| Deficit before CIP | -20.2 | 5.5 | -14.7 | -21.8 | -4.2 | -26.0 | -27.6 | -5.1 | -32.7 | -33.6 | -5.1 | -38.7 | -39.8 | -5.1 | -44.9 | -46.2 | -5.1 | -51.3 |
| cip 20/21 | | | | | | | | | | | | | | | | 7.2 | | 7.2 |
| CIP 2019/20 | | | | | | | | | | | | | 7.1 | | 7.1 | 7.3 | | 7.3 |
| CIP 2018/19 | | | | | | | | | 0.0 | 7.0 | | 7.0 | 7.2 | | 7.2 | 7.4 | | 7.4 |
| Spec services marginal Income gain | | | | 0.2 | | 0.2 | 0.2 | | 0.2 | 0.2 | | 0.2 | 0.2 | | 0.2 | 0.2 | | 0.2 |
| CIP PROGRAMME 2017/18 - 4 per cent | | | 0.0 | | | 0.0 | 7.0 | | 7.0 | 7.2 | | 7.2 | 7.4 | | 7.4 | 7.6 | | 7.6 |
| CIP PROGRAMME 2016/17 - 4.5 per cent | | | 0.0 | 6.751 | | 6.8 | 6.9 | | 6.9 | 7.1 | | 7.1 | 7.3 | | 7.3 | 7.5 | | 7.5 |
| CIP PROGRAMME 2015/16 - 4.5 per cent | | | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 |
| Nurse Agency Cip | | 0.0 | 0.0 | | 2.5 | 2.5 | | 2.5 | 2.5 | | 2.5 | 2.5 | | 2.5 | 2.5 | | 2.5 | 2.5 |
| Anaesthetics job plan review | | | 0.0 | 0.3 | | 0.3 | 0.3 | | 0.3 | 0.3 | | 0.3 | 0.3 | | 0.3 | 0.3 | | 0.3 |
| Transformation fund | | | 0.0 | | 10.5 | 10.5 | 10.5 | | 10.5 | 10.5 | | 10.5 | 10.5 | | 10.5 | 10.5 | | 10.5 |
| Increased cost / demography | | | 0.0 | -1.5 | | -1.5 | -3.0 | | -3.0 | -4.6 | | -4.6 | -6.2 | | -6.2 | -7.8 | | -7.8 |
| Repatriation of Income gain | | | 0.0 | | | 0.0 | 2.4 | | 2.4 | 4.8 | | 4.8 | 7.2 | | 7.2 | 12.0 | | 12.0 |
| Backlog sinking fund | 0.0 | | 0.0 | -2.0 | 2.0 | 0.0 | -3.0 | 3.0 | 0.0 | -4.0 | 4.0 | 0.0 | -5.0 | 5.0 | 0.0 | -6.0 | | -6.0 |
| QIPP Savings unachieved | | | | 3.3 | | 3.3 | 2.5 | | 2.5 | 1.7 | | 1.7 | 0.8 | | 0.8 | | | 0.0 |
| QIPP Savings | | 0.0 | 0.0 | -3.3 | 0.0 | -3.3 | -6.7 | 0.0 | -6.7 | -10.1 | 0.0 | -10.1 | -13.5 | 0.0 | -13.5 | -17.0 | 0.0 | -17.0 |
| QIPP Savings - cost reduction | 0.0 | | 0.0 | | | 0.0 | 1.7 | | 1.7 | 3.4 | | 3.4 | 5.1 | | 5.1 | 6.8 | | 6.8 |
| Surplus after CIP | -20.2 | 5.5 | -14.8 | -19.0 | 13.1 | -5.9 | -9.8 | -3.9 | -13.7 | -11.0 | -1.9 | -13.0 | -12.3 | 0.1 | -12.3 | 4.8 | -2.5 | 2.3 |
| | | | | | | | | | | | | | | | | | | |
| Inflation Assumptions | | | | | | | | | | | | | | | | | | |
| Pay | -217.7 | 1.5% | -3.265 | -221.7 | 2.2% | -4.867 | -230.2 | 2.0% | -4.6 | -234.8 | 2.0% | -4.7 | -239.5 | 2.0% | -4.8 | -244.3 | 2.0% | -4.9 |
| Non Pay | -91.9 | 2.8% | -2.528 | -100.6 | 4.1% | -4.123 | -110.1 | 4.1% | -4.5 | -114.6 | 4.0% | -4.6 | -119.1 | 4.0% | -4.8 | -123.9 | 4.0% | -5.0 |
| Finance Costs | -16.9 | 3.0% | -0.51 | -15.2 | 3.8% | -0.579 | -15.3 | 3.8% | -0.6 | -15.9 | 3.8% | -0.6 | -16.5 | 3.8% | -0.6 | -17.1 | 3.8% | -0.7 |
| | -326.5 | | -6.30 | -337.5 | | -9.569 | -355.5 | | -9.7 | -365.2 | | -9.9 | -375.1 | | -10.2 | -385.3 | | -10.5 |
| | | | 1.93% | | | 2.84% | | | 2.73% | | | 2.71% | | | 2.71% | | | 2.72% |