EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS MEETING

HELD ON 20 APRIL 2011

Subject 2011/12 Capital Programme and 5 Year Capital Plan
Supporting TEG Member Neil Priestley
Author Neil Priestley
Status 1 A

PURPOSE OF THE REPORT

To seek Board approval for the 2011/12 Capital Programme and updated 5 Year Capital Plan.

KEY POINTS

1. Major review of the 5 Year Plan given £31.2m reduction in assumed resources, largely due to a decision to not rely on future I&E surpluses.
2. 5 Year Plan/Capital Programme balanced following actions to reduce ring-fenced budgets and scheme costs.
3. No flexibility for further significant schemes before 2015/16.
4. Small over commitment on 2011/12 Capital Programme but unlikely to be a problem given the size of the Programme and historic levels of slippage.
5. Capital planning/prioritisation and scheme “value engineering” will be crucial in securing maximum value for money from limited resources.

IMPLICATIONS

Achieve Clinical Excellence Enabler of quality, efficiency, etc.
Be Patient Focused Enabler of quality, efficiency, etc.
Engaged Staff Enabler of quality, efficiency, etc.

RECOMMENDATIONS

As per Section 6 of the report.

APPROVAL PROCESS

Meeting Presented Approved Date

1 Status: A = Approval
A* = Approval & Requiring Board Approval
D = Debate
N = Note

2 Against the three pillars (aims) of the STH Corporate Strategy 2008-2012
1. **INTRODUCTION**

1.1 At its 21 April 2010 meeting the Board approved the newly developed 5 Year Capital Plan along with the 2010/11 Capital Programme.

1.2 Over the last 6 months or so, the Trust has undertaken the 2011/12 Business Planning Process and, alongside the capital planning element of this process, has undertaken a full review of the 5 Year Capital Plan.

1.3 This report briefly describes the work undertaken and conclusions reached; and seeks approval for the resulting 2011/12 Capital Programme and updated 5 Year Capital Plan.

2. **5 YEAR CAPITAL PLAN**

2.1 As part of the 2011/12 Business Planning Process a number of unavoidable new commitments were identified as follows:

- A&E Expansion (estimated £2m)
- Increased IT investment (£1m per annum from 2012/13)
- Increased funding for Major Medical Equipment Replacement to offset budget shortfalls (£2m)
- NGH additional car parking (£0.7m)

2.2 Potential other developments were identified in respect of Neurosciences facilities and the PACS renewal/replacement but neither are currently assumed to have significant costs in the current 5 year period.

2.3 Given the current NHS financial climate, it was deemed no longer appropriate to rely on the £6.7m per annum of I&E surpluses previously assumed. The long-term depreciation forecasts were also reassessed which resulted in a reduction in available resources of £4.4m. Overall, therefore, the assumed resources available over the four years from 2011/12 to 2014/15 have been reduced by £31.2m.

2.4 As a result of this and other minor adjustments, the 5 Year Capital Plan showed an over commitment of £18.3m. Actions proposed to balance the Plan were:

- Reductions to the annual ring-fenced budgets over 4 years for Service Developments (£0.5m), Estates Infrastructure (£0.5m), Ward Refurbishments (£0.5m) and Statutory/Regulatory (£0.1m).

- The use of the Service Development ring-fenced budget to fund the Breast Services Phase 2 scheme (2011/12) and the further NGH Car Parking scheme (2013/14).
Confirmed cost reductions on the RHH Critical Care (£1m) and Catering (£3.2m) schemes and an expected cost reduction on the WiFi scheme (£0.5m).

Various anticipated scheme underspends (£0.4m), a reduction to the funding available for Strategic Energy schemes (£0.5m) and various resource assumption updates (£1.8m).

Most speculatively, further one-off ring-fenced budget reductions in 2013/14 (£3m) and an assumed reduction to the cost of the 5th MRI Scanner (£1m) should that proposal ultimately proceed.

2.5 The outcome of this exercise, therefore, is that there is now a balanced 5 Year Capital Plan but with some risks and no uncommitted resources for significant schemes until 2015/16.

2.6 The updated 5 Year Capital Plan has now been built into the proposed Capital Programme as described below.

3. 2011/12 CAPITAL PROGRAMME

3.1 The 2011/12 Capital Programme is derived from the 5 Year Capital Plan described above as are the planned values for subsequent years.

3.2 The 2010/11 position shows a programmed position of an £9.2m under commitment but the final outturn under commitment will be around £15m. This partly reflects the small under commitment on the original 2010/11 Capital Programme, largely due to the full receipt of the FT Financing Facility loan for the Laboratory Rationalisation scheme in 2010/11, but principally reflects very high levels of slippage, some of which was late and unexpected.

3.3 The proposed Capital Programme shows the following position:

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under/(over)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>commitment</td>
<td>9.2</td>
<td>(10.4)</td>
<td>(5.1)</td>
<td>1.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Cumulative</td>
<td>(1.2)</td>
<td>(6.3)</td>
<td>(5.3)</td>
<td></td>
<td>0.4</td>
</tr>
</tbody>
</table>

3.4 It can be seen, therefore, that there is a very small programmed over commitment for 2011/12 once the uncommitted resources from 2010/11 are carried-forward. Given historic levels of slippage, an outturn overspend is extremely unlikely.

3.5 The Capital Programme shows a more significantly over commitment in 2012/13 and 2013/14 but these are felt to be manageable sums, even though the planned expenditure in those years is much smaller.

3.6 The assumed resources in the 2011/12 Capital Programme reflect:

- Internally generated resourced of £22.4m from forecast depreciation and impairment charges.
- £10m from reinvestment of past I&E surpluses.
A further £2.5m from Health Authority allocations (Clinical/Surgical skills), forecast VAT recovery and various “donations”.

3.7 Resources assumed in future years reflect forecast depreciation and impairments, expected VAT recovery and the final application of historic I&E surpluses. Clearly, any future I&E surpluses will give the opportunity for additional investment should the revenue consequences be affordable.

3.8 Significant schemes within the Capital Programme are as follows:

<table>
<thead>
<tr>
<th>Scheme</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>WiFi Project</td>
<td>1.3</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laboratory Rationalisation</td>
<td>8.7</td>
<td>4.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RHH Critical Care</td>
<td>4.6</td>
<td>2.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NGH Ultrasound</td>
<td>1.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NGH Car Parking</td>
<td>1.2</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A&amp;E Expansion</td>
<td>0.2</td>
<td>1.2</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>RHH Endoscopy/Decontamination</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chest Clinic/Respiratory Outpatients</td>
<td>0.9</td>
<td>2.5</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Diabetes/Endocrinology Outpatients</td>
<td></td>
<td></td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Catering Infrastructure</td>
<td>2.2</td>
<td>1.3</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Replacement Cath Lab</td>
<td>0.9</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

3.9 In addition to the larger schemes shown above, the process for prioritising schemes against the ring-fenced capital budgets has been completed. There are many individual schemes but some of the more significant proposals are as follows:

- **Minor Medical Equipment (£3.5m)**
  - Stack Systems
  - Patient Monitors
  - Ultrasound Equipment
  - Orthopaedic Power Tools

- **Major Medical Equipment (£4.0m)**
  - MRI Scanner Replacement
  - Linear Accelerator Replacement
  - Urology Lithotripter

- **Information Technology (£1.0m)**
  - ICE Infrastructure
  - Single PAS
  - Vmware

- **Statutory and Regulatory (£0.4m)**
  - Fire Safety Works
  - Moving and Handling

- **Hotel Services/Security (£0.35m)**
  - Vehicles
  - Catering Equipment
  - Laundry Equipment
  - CCTV Infrastructure

- **Estates Infrastructure (£3.5m)**
  - Clocktower works
  - Electrical Infrastructure
  - Heating Systems
  - Lift Upgrade Programme
Ward Refurbishments (£3.5m) - Contribution to RHH Critical Care
- Infectious Diseases E Floor Cubicles

Service Developments (£3.5m) - Renal IT System
- Ophthalmology IT System
- Breast Services Phase 2
- Clinical Immunology Department
- Barnsley Road entrance
- Wi-Fi Trolleys

4. RISKS

The key risks for the 2011/12 Capital Programme and subsequent years are:-

4.1 Additional critical/unavoidable schemes arising, particularly in 3 or 4 years time – **High Risk**. Mitigating actions would include delivering I&E surpluses, identifying other funding options and reprioritising the Capital Programme.

4.2 Increased scheme costs and other pressures – **Medium/High Risk**. Mitigating actions include tight management of scheme specifications, firm cost control and, if necessary, identifying other funding sources and/or reprioritising the Capital Programme.

4.3 Slippage – **Medium Risk**. Mitigating actions include improved planning and forecasting, prompt actions in developing and finalising schemes and identification of options to advance schemes where slippage occurs.

4.4 Reduced Resource Availability – **Medium Risk**. The resource assumptions in the Capital Programme are prudent and do not rely on future I&E surpluses. The main risk would arise from a failure to deliver I&E balance such that internally generated resources would be reduced.

5. CONCLUSIONS

5.1 The Trust has a balanced Capital Programme over the 5 Year 2010/11 to 2014/15, albeit with a number of risks and challenges as described above.

5.2 The position for 2011/12 shows a small over commitment but this is unlikely to be a problem given historic levels of slippage.

5.3 Satisfactory solutions are required on expected scheme cost reductions and ring-fenced budget reductions.

5.4 There is little scope as things stand for any further major schemes over the next 4 years such that the PACS renewal/replacement and Neurosciences development proposals will need to be carefully planned and considered.

5.5 Capital planning/prioritisation and “value engineering” to secure maximum value for money will be crucial as capital funding is inevitably constrained over the coming years and revenue affordability will also be a major issue.
6. **RECOMMENDATIONS**

The Board of Directors is asked to:-

6.1 Approve the Capital Programme as per the attached Appendix.

6.2 Note the risks outlined in Section 4 above.

6.3 Note the importance of capital planning/prioritisation and “value engineering” in securing maximum results from limited capital and revenue funding.

Neil Priestley  
Director of Finance  
April 2011