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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS MEETING

HELD ON 18th OCTOBER 2017

Subject	2017/18 to 2021/22 Capital Programme
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Status[1]	A/N

PURPOSE OF THE REPORT

To provide an update on the 2017/18 Capital Programme and 5 Year Capital Plan.

KEY POINTS

1. The Capital Programme remains manageable for 2017/18 but the current 5 Year Plan moves into an increasing over committed position from 2019/20 onwards
2. This over-committed position is likely to be exacerbated as new schemes and priorities emerge over the five year period and, if these priorities are to be progressed, funding solutions for future years will need to be identified.
3. The next Capital Planning Round for 2018/19 and beyond will commence shortly and there will be important issues to address in respect of decant wards, theatre refurbishments, IT and the proposed WPH upgrade.
4. Given potential slippage, action is required to ensure an acceptable position for 2017/18.
5. Capital planning/prioritisation and scheme "value engineering" continue to be crucial in securing maximum value for money from extremely constrained resources.

IMPLICATIONS[2]

AIM OF THE STHFT CORPORATE STRATEGY 2012-2017		TICK AS APPROPRIATE
1	Deliver the Best Clinical Outcomes	
2	Provide Patient Centred Services	
3	Employ Caring and Cared for Staff	
4	Spend Public Money Wisely	✓
5	Deliver Excellent Research, Education & Innovation	

RECOMMENDATIONS

As per Section 7 of the report.

APPROVAL PROCESS

Meeting	Date	Approved Y/N

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

[2] Against the five aims of the STHFT Corporate Strategy 2012-2017

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

BOARD OF DIRECTORS 18th OCTOBER 2017

2017/18 TO 2021/22 CAPITAL PROGRAMME – QUARTER 2 UPDATE

1. INTRODUCTION

1.1 This report continues the process of monitoring progress on the Trust's Capital Programme for the period 2017/18 to 2021/22. It considers the position at the end of September 2017 and outlines the major changes since approval of the 5 Year Capital Plan and 2017/18 Capital Programme update by the Trust Board in June 2017.

1.2 As previously reported, the Capital Plan for 2017/18 to 2021/22 does not assume any future I&E surpluses to support the Capital Programme. This reflects the very challenging NHS financial climate. Similarly, the latest 5 Year Plan continues to include budgets for key areas plus an assessment of future needs for significant schemes at £6m pa. The £6m sum for 2017/18 has been incorporated into the Capital Programme.

1.3 The current cumulative 5 Year Plan over-commitment, at £12.4m, is a minor improvement of £0.4m on the position at June, following work to secure additional VAT recovery. The over-committed position from year three of the plan remains a concern, although there are also a growing number of potential commitments which might make planning for 2018/19 a challenge.

1.4 Appendix A includes a list of these "probable" and "possible" schemes which are not yet included on the Capital Programme/Plan but require further consideration. The potential for capital requirements in excess of planning sums is significant and extensive work to achieve a satisfactory position will need to be undertaken as part of the forthcoming 2018/19 planning round. This will necessitate difficult decisions on the likelihood of additional funding, scheme prioritisation and investment timings.

1.5 The current capital expenditure plan for 2017/18 stands at £46.9m which reflects a challenging programme, comprising many complex operational and logistical issues.

2. OVERVIEW OF THE CAPITAL PROGRAMME AND PLAN

2.1 The Capital Programme for 2017/18 – 2021/22 as per Appendix B shows the following position:-

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Funding Available	50.9	33.2	28.7	28.8	29.2
Expenditure Plan	(46.9)	(31.3)	(28.3)	(26.7)	(28.4)
Under/(Over) Commitment	**4.0**	**1.9**	**0.4**	**2.1**	**0.8**
Cumulative Under/(Over) Commitment		**5.9**	**6.3**	**8.4**	**9.2**

2.2 The 5 Year Plan at Appendix A then reflects further assumptions and whilst there is currently a manageable position for 2017/18 and 2018/19, it shows a growing level of cumulative over-commitment over the next three years to a level of £12.4m by 2021/22. Appendix A also indicates that the level of potential larger schemes exceeds the allowance within the plan, and this position will need careful consideration during the coming planning round.

2.3 The position for 2017/18 remains manageable. However, with a programme under-commitment of £4.0m at this stage of the year, a high level of resource not yet allocated to specific IT schemes and other likely slippage, a significant underspend again appears likely. Proactive action to minimise further slippage will be necessary. Appendix C provides an update on the current quantified potential risks of cost adjustments anticipated on existing schemes. These show a minor net pressure. However, the summary also highlights a significant level of possible net slippage (£7.3m) which requires attention.

2.4 The Capital Programme includes a number of high priority schemes which have recently received approval. These include:

- RHH MSK Integrated Hub - £3.8m (Subject to Full Business Case)
- Stroke Rehabilitation Services at Beech Hill - £0.6m
- ISOSEC Licences (for Lorenzo performance) - £0.2m
- Neighbourhood Policing Hub - £0.1m

3. ADDITIONAL FUNDING

3.1 The assumed funding in the 2017/18 Capital Programme consists of:

- Internally generated resourced of £28.8m from forecast depreciation (net of around £2.5m of loan repayments).
- Application of the 2014/15 I&E Surplus - £6.1m
- £13.7m from reinvestment of the programme underspend from 2016/17.
- £2.3m from “donations” and forecast VAT recovery.

3.2 There has been a modest increase in cumulative funding available from the original plan stage, of around £1.3m, reflecting £0.4m donations and £0.9m VAT recovery.

3.3 The £4.6m 2016/17 STF Incentive and Bonus funds received at the end of the last financial year have been profiled into 2018/19 Capital Programme resources.

3.4 The Trust is required to undertake an interim revaluation of the estate during 2017/18. The arrangements for the revaluation, on a Modern Equivalent Asset basis, are currently being finalised but the outcome will have an impact on the annual depreciation charge and, therefore, resources for the capital programme. However, at this stage it is unclear which way the impact will be.

4. CHANGES TO APPROVED PROGRAMME

4.1 There have been many changes to approved expenditure since the programme update was approved in June due to new scheme approvals, in-year re-profiling, allocation of specific schemes from the ring-fenced envelopes and cost updates on planned schemes.

4.2 In headline terms the planned expenditure at June of £51.1m has reduced by £4.2m to £46.9m, mainly due to net slippage on 2017/18 schemes of £4.6m offset by additional schemes funded by donations of £0.4m.

4.3 Slippage from 2017/18 largely comprises MSK Hub £3.6m (approved from 2017/18 funding for a start in 2018/19), Laundry Modernisation £0.4m and RHH Lifts £0.2m.

4.5 New scheme approvals have been highlighted at paragraph 2.4 above.

5. FURTHER RISKS AND CONTINGENCIES

5.1 Appendix C identifies the quantified major risks to the capital position.

5.2 Other risks to delivering the 2017/18 Capital Programme and subsequent years are:

- The current £12.4m over commitment on the 5 Year Plan which may be increased by further unavoidable schemes – **High Risk**. Mitigating actions include:
    - Attracting PDC/STP funding
    - Loans/Leases.
    - Use of working capital balances (if available)
    - Additional charitable donations
    - Further reducing ring-fenced budgets/restrictions on scheme approvals
    - Strong prioritisation of new proposals through the 2018/19 and subsequent planning rounds.

- Increased costs for existing schemes – **Medium/High Risk**. Mitigating actions include robust case scrutiny, tight management of scheme specifications and firm cost control as schemes progress.

- Risk of slippage on 2017/18 schemes, due to operational and logistical barriers inherent in managing a major programme of almost £50m whilst maintaining patient services – **High Risk.** Mitigating actions include tight planning and forecasting, prompt actions in developing and finalising schemes and identification/approval of options to advance schemes where slippage occurs.

- Poor prioritisation of potential schemes – **Low Risk.** Mitigating actions include good strategic, business and capital planning with a clear understanding of the environment and close working with Directorates.

- IT Programme and Theatre scheme risks including scheme progression/delivery, financial planning, operational change and transition – **High Risk.** Mitigating actions will include strong governance arrangements, developing knowledge and skills within the organisation, excellent planning and good communication.

- National capital funding limitations create pressure to restrict STH capital expenditure – **Medium Risk.** Whilst no changes to existing processes have been made to date, mitigating action will include submitting clear plans to NHS Improvement, good internal capital planning/control and good communication with NHSI throughout the year.

5.3 Prioritisation against the ring-fenced budgets for 2017/18 is virtually complete, although several IT scheme proposals have yet to be finalised. The solution for NGH and RHH decant wards also needs to be finalised to understand the call on service development funding during the current future financial years.

5.4 Business planning/capital prioritisation and “value engineering” will also be critical in order to secure maximum value for money from constrained capital funding. Revenue affordability will also remain a key issue.

6. BUSINESS CASES

6.1 The Capital Programme at Appendix B formally identifies the status of all current capital schemes.

6.2 Fees have been allocated for work in developing Business Cases for the following schemes:

- WPH Upgrades, including the possible Link Bridge
- PET-MRI Facility
- Hyper Acute Stroke Unit
- NGH Modular Wards/5 Beech Hill Road Refurbishment
- Major Trauma Ward
- NGH Herries Road Entrance
- NGH Theatres

6.3 Since the Capital Programme and 5 Year Plan updates were approved at the Trust Board meeting in June, the following schemes have formally commenced:

- NGH Replacement CT Scanner
- WPH Replacement MRI Scanner
- RHH Fluroscopy Replacement
- E-Prescribing
- RHH Gamma Knife Source Change
- RHH Low Temperature Hot Water

6.4 A small number of schemes have also been completed (or will complete shortly) since June, with the most notable being:

- STH Telephony Platform
- RHH C Floor Radiology Refurbishment
- WPH Ward 3

7. RECOMMENDATIONS

The Board of Directors is asked to:

7.1 Approve the latest 2017/18 Capital Programme and note the significant over-commitment on the 5 Year Plan, which will need to be addressed through the imminent capital planning round.

7.2 Note the list of “probable” and “possible” schemes on the 5 year plan at Appendix A which, along with other schemes which will emerge over the five year period, will require further consideration and careful prioritisation.

7.3 Note the risks outlined in Section 5 above, and the need to continue to generate additional resources for future years.

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

Neil Priestley
Director of Finance
October 2017