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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS MEETING

HELD ON 20th JULY 2016

Subject	2016/17 to 2020/21 Capital Programme/5 Year Plan
Supporting TEG Member	Neil Priestley
Author	Neil Priestley
Status[1]	A/N

PURPOSE OF THE REPORT

To provide an update on the 2016/17 Capital Programme and 5 Year Capital Plan.

KEY POINTS

1. The Capital Programme remains manageable for 2016/17, but the 5 Year Plan then moves into an increasing and significant over-committed position for the following four years.
2. This over-committed position is likely to be exacerbated as new schemes and priorities emerge over the five year period.
3. Key influences on delivery of the 2016/17 Capital Programme will be progression of the IT Programme and the Theatre capacity and refurbishment schemes.
4. Funding solutions for future years are identified in principle, but require further consideration and formal approval.
5. Capital planning/prioritisation and scheme “value engineering” continue to be crucial in securing maximum value for money from extremely constrained resources.
6. Action will need to be taken to ensure that slippage in 2016/17 is kept to an acceptable level.

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 20th JULY 2016

2016/17 TO 2020/21 CAPITAL PROGRAMME – QUARTER 1 UPDATE

1. INTRODUCTION

1.1 This report commences the process of monitoring progress on the Trust's Capital Programme. It considers the position at the end of June 2016 and outlines the major changes since approval of the 5 Year Capital Plan and 2016/17 Capital Programme by the Board in March 2016.

1.2 As previously reported, the Capital Plan does not assume any additional resources from I&E surpluses. This reflects the current very challenging NHS financial climate. Similarly, as previously, the latest 5 Year Plan includes an assessment of future needs for significant schemes (£6m pa from 2017/18 onwards). The £6m sum for 2016/17 has been incorporated into the Capital Programme, with £3.5m of commitments already set against the sum.

1.3 The current cumulative plan over-commitment over the period, at £42.9m, remains broadly in line with the original plan position. The slight further deterioration reflects the opportunity to complete the RHH Theatre schemes earlier than originally planned. The cumulative position from year two of the plan is of major concern and the overall over-commitment is likely to grow further given the plans for a major refurbishment of WPH. Options for funding the over commitment have recently been discussed at the Finance, Performance and Workforce (FPW) Committee and TEG and are further considered in this report.

1.4 Many immediate investment priorities focus around IT developments and Theatre capacity/upgrades. Appendix A also includes a list of "possible" further schemes which are not yet approved but will require further consideration. The potential for further capital requirements therefore remains significant and focus on achieving a balanced position is required. In addition to securing additional resources, this will necessitate difficult decisions on scheme prioritisation and investment timings.

1.5 The current capital expenditure plan for 2016/17 stands at £49.5m. This is a hugely challenging programme, comprising many complex operational and logistical issues.

2. OVERVIEW OF THE CAPITAL PROGRAMME AND PLAN

2.1 The **capital programme for 2016/17 – 2020/21 as Appendix B** shows the following position:-

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Funding Available	39.7	34.6	28.5	28.5	28.6
Expenditure Plan	(49.5)	(34.4)	(27.0)	(28.0)	(28.0)
Under/(Over) Commitment	**(9.8)**	**0.2**	**1.5**	**0.5**	**0.6**
Cumulative Under/(Over) Commitment		**(9.6)**	**(8.1)**	**(7.6)**	**(7.0)**

2.2 As at the original plan stage, once expected slippage on RHH Theatre schemes is taken into account, the **Capital Plan** reflects a manageable position for 2016/17, but a growing level of over-commitment over the following years. Appendix A shows this over-commitment to a level of £42.9m by 2020/21 but this is likely to increase further. With a potential over-commitment of around £20m for 2017/18, it is clear that some level of resolution to the funding gap will need to be in place by then.

2.3 Appendix D provides an analysis of potential funding solutions to address the planned gap. Following the discussions at the FPW Committee and TEG the current proposals are:

- To investigate the potential for a 25 year Loan from the FT Financing Facility for around £25m.
- To pursue I&E surpluses, PDC funding and donations but recognise the likely limited impact.
- To use the Trust's accumulated cash balances to fund the balance of the requirement.

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

- Replacement Cardiac Catheter Labs x 3 - £1.7m
- SPEC-CT Gamma Camera replacement - £1.4m
- WPH Linear Accelerator (LA5) - £1.8m
- CCDH Laboratory Refurbishment - £1.3m
- Podiatric Surgery Service - £0.7m

2.5 Appendix C provides an update on the current quantified risks or potential cost adjustments anticipated on existing schemes. These show a minor net saving. However, the summary also highlights a significant level of possible slippage (£7.4m) to 2017/18. Action will be required to keep this to a minimum.

3. ADDITIONAL FUNDING

3.1 The assumed funding in the 2016/17 Capital Programme consists of:

- Internally generated resourced of £28.1m from forecast depreciation (net of around £2.5m of loan repayments) less £2.7m utilised on non-recurrent revenue for the IT plan.
- £13.1m from reinvestment of the programme underspend from 2015/16.
- £1.3m from "donations" and forecast VAT recovery.

3.2 There has been a modest increase in cumulative funding available from plan stage, of around £300k, following confirmation of donated equipment sources. However, the level of capital resources identified as transferring from capital to revenue to support IT scheme implementation in 2016/17 has increased by around £1.3m.

4. CHANGES TO APPROVED PROGRAMME

4.1 There have been many changes to approved expenditure since the Programme was approved due to new scheme approvals, year end 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 of £39.0m has increased to £49.5m, mainly due to the carry-over of 2015/16 underspend (£13.1m) and then reduced by the increased utilisation of capital spend on revenue (£1.3m) and net slippage from 2016/17 to 2017/18 of £1.3m.

4.3 Re-profiling from 2016/17 largely comprises savings on T3 schemes, and slippage on the RHH Lifts and NGH Cataract Unit. This has been offset by the advance of the last linear accelerator replacement brought-forward into 2016/17 from 2017/18.

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

5. <u>FURTHER RISKS AND CONTINGENCIES</u>

5.1 Appendix C identifies the <u>quantified</u> major risks to the capital position.

5.2 Other risks to delivering the 2016/17 Capital Programme and subsequent years are:

- The current £42.9m over commitment on the 5 Year Plan which is likely to be increased by further unavoidable schemes (see Appendix A) – **High Risk**. Mitigating actions include the resourcing actions highlighted at paragraph 2.3 above, plus potentially:

    - Further reducing ring-fenced budgets.
    - Leases.
    - Maximising VAT recovery in line with updated HMRC guidance

- 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 2016/17 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 – **Medium/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.

5.3 Prioritisation against the ring-fenced budgets for 2016/17 is well progressed, although some IT Infrastructure scheme approvals have yet to be finalised and GMP costs for theatre capacity schemes need to be brought to a resolution.

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:

- Contact Centre Centralisation
- NGH Road Entrances/Exits
- Cardiac Theatre Refurbishment
- RHH Q Floor Theatres
- RHH A Floor Theatres
- RHH Low Temperature Hot Water

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

- CT Scanner replacements at NGH and RHH
- RHH C Floor Radiology Refurbishments
- CCDH Laboratory Refurbishment
- GP Collaborative Relocation

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

- RHH MRI, 6th MRI Scanner
- Clinical Portal
- Special Care Baby Unit

7. RECOMMENDATIONS

The Board of Directors is asked to:-

7.1 Approve the latest 2016/17 Capital Programme and note the significant over-commitment on the 5 Year Plan position, which will need to be addressed via an appropriate combination of the funding solutions proposed.

7.2 Note the list of "possible" schemes on the 5 Year Plan at Appendix A which, along with other likely 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.

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
July 2016