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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS MEETING

HELD ON 15th JULY 2015

Subject	2015/16 to 2019/20 Capital Programme
Supporting TEG Member	Neil Priestley
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Status[1]	A/N

PURPOSE OF THE REPORT

To provide an update on the 2015/16 Capital Programme and 5 Year Capital Plan.

KEY POINTS

1. The Capital Programme remains manageable for 2015/16, but the 5 Year Plan then moves into a potentially significant over committed position for 2016/17.
2. This over-committed position could be exacerbated if new schemes and priorities exceed the current planning assumptions over the five year period.
3. Funding solutions for future years need to be found if levels of capital investment are not to be reduced.
4. Key influences on the 2015/16 outturn position will be the T3 Programme, progression of major medical equipment schemes and decisions on potential IT infrastructure and Theatre developments.
5. Capital planning/prioritisation and scheme "value engineering" continue to be crucial in securing maximum value for money from limited 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 15th JULY 2015

2015/16 TO 2019/20 CAPITAL PROGRAMME – QUARTER 1 UPDATE

1. INTRODUCTION

1.1 This report commences the process of monitoring progress on the Trust's Capital Programme for the period 2015/16 to 2019/20. It considers the position at the end of June 2015 and details the major changes since approval of the 5 Year Capital Plan and 2015/16 Capital Programme by the Trust Board on 18th March 2015.

1.2 As reported at plan stage, the Capital Plan for 2016/17 to 2019/20 does not assume any I&E surpluses to support the Capital Programme. This reflects the challenging NHS financial climate. Similarly, as at plan stage, the 5 Year Plan at Appendix A includes an assessment of future needs for significant schemes (£6m pa) and the, as yet unconfirmed, need for further investment in the Trust's IT.

1.3 The current cumulative plan over-commitment over the period, at £11.5m, is reduced from the March position due to additional resources from the 2014/15 I&E surplus and scheme savings. **However, the potential £13.6m cumulative over-commitment for 2016/17 is a major concern and options for addressing this will need to be identified quickly.**

1.4 Appendix A also includes a list of "possible" schemes which are not yet included on the Capital Programme but require further consideration. The potential for further capital requirements clearly remains significant and work to achieve an overall balanced position will require difficult decisions on prioritisation and investment timings.

1.5 Many immediate investment priorities focus around IT schemes such as the Clinical Portal, Electronic Patient Record, Document Management System and PACS Renewal. Other areas of significant focus are major medical equipment replacement and additions, WPH ward refurbishments and Theatre capacity/refurbishment.

1.6 The current capital expenditure plan for 2015/16 stands at £52.4m. This is a hugely challenging programme with many complex operational and logistical issues. Slippage is likely.

2. OVERVIEW OF THE CAPITAL PROGRAMME AND PLAN

2.1 The current **Capital Programme** for 2015/16 – 2019/20 as Appendix B shows the following position:-

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Funding Available	46.7	35.0	29.5	29.4	29.5
Expenditure Plan	(52.4)	(35.9)	(17.5)	(21.9)	(23.0)
Under/(Over) Commitment	**(5.7)**	**(0.9)**	**12.0**	**7.5**	**6.5**
Cumulative Under/(Over) Commitment		**(6.6)**	**5.4**	**12.9**	**19.4**

2.2 As at the plan stage, the approved Capital Programme reflects a manageable position for 2015/16 and beyond. However, when the planning assumptions on further requirements referred to in 1.2 above (and shown on Appendix A) are incorporated, it results in an overall £11.5m over-commitment in the 5 Year Plan with a major issue for 2016/17. Funding options for future years need to be found if capital investment is not to be reduced.

2.3 There are currently no assumptions of further loans within the programme/plan, although this remains an option for the right scheme in the right circumstances. However, it should be noted that existing loans, PFI and finance lease arrangements currently utilise approximately £2.5m per annum of capital funding for repayments. Revenue costs will also clearly be an issue.

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

- GP Collaborative Relocation - £1.1m
- Special Care Baby Unit - £1.8m
- WPH Ward Refurbishments and Assessment Unit - £6.7m

2.5 A planning sum has also been identified for the third Linear Accelerator Replacement, although the location (WPH or Doncaster) has yet to be confirmed.

2.6 Appendix C provides an update on the current quantified potential risks or cost adjustments anticipated on existing schemes. These show a minor net cost pressure. However, the summary also highlights a significant level of possible slippage (£4.0m) to 2016/17.

3. ADDITIONAL FUNDING

3.1 The assumed funding in the 2015/16 Capital Programme consists of:

- Internally generated resourced of £29.5m from forecast depreciation (net of around £2.5m of loan repayments) less £5.2m utilised on the T3 plan revenue.
- £7.3m from reinvestment of the 2013/14 I&E surplus and £12.0m of programme and Bowel Cancer Scope Screening underspends from 2014/15.
- £3.1m from “donations” and forecast VAT recovery.

3.2 The following changes to funding available have been made to the Programme since the plan was approved:

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Plan Funding Available	34.0	29.5	29.5	29.4	29.5
2014/15 cash backed I&E Surplus		6.0			
Excess 2014/15 Depreciation charge over projection	0.5				
Utilisation of 2014/15 Year End Under-spend	12.0				
Charitable Donations	0.2	(0.5)			
Total Confirmed Funding	**46.7**	**35.0**	**29.5**	**29.4**	**29.5**

3.3 The reduction in charitable donations in 2016/17 reflects the revised content of the Special Care Baby Unit scheme, and hence donated income assumptions.

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 An analysis of the net changes, excluding the allocation of the specific schemes from the ring-fenced envelopes, is as follows:-

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Planned Expenditure	47.2	34.9	20.2	22.4	23.0
Charitable Donations – Medical Equipment	0.2				
Re-profiling from 2014/15	3.7				
Adjustments on Existing Schemes	(0.1)	(1.0)			
New Approvals	0.2				
Re-profiling of existing schemes	1.2	2.0	(2.7)	(0.5)	
Total Expenditure Plan	**52.4**	**35.9**	**17.5**	**21.9**	**23.0**

4.3 Re-profiling from 2014/15 largely comprises further slippage over the year end on various IT projects (£2.7m, including Renal Information System and the T3 Programme) and Infrastructure plans (£1.1m, including Osborne Ward Refurbishments and unallocated resources).

4.4 The adjustment on existing schemes in 2016/17 reflects the savings achieved on the Special Care Baby Unit scheme.

4.5 New approvals mainly include the planning sum set aside for Bowel Cancer Screening.

4.6 Re-profiling of existing schemes largely relates to:

- Advances from 2016/17 to 2015/16 of £3.0m re Service Developments such as SABR technology on two Linear Accelerators, Relocation of the Discharge Lounge, Residential Accommodation, Special Care Baby Unit and Laboratory Equipment.
- Advances from 2018/19 to 2015/16 of £0.2m in respect of the Renal Information System.
- Slippage from 2015/16 to 2016/17 of £0.6m re Ward Refurbishments.
- Slippage from 2015/16 to 2016/17 of £1.4m regarding Haematology Side Rooms and RHH C Floor Radiology scheme.
- Advances of £2.7m from 2018/19 to 2016/17 and of £0.3m from 2019/20 to 2016/17 in respect of Ward Refurbishments.

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 2015/16 Capital Programme and subsequent years are:

- The current £11.5m over commitment on the 5 Year Plan which may be increased by further unavoidable schemes (see Appendix C) – **High Risk**. Mitigating actions could include:
    - Generating I&E surpluses over the 5 Years.
    - Reassessment of future Depreciation levels.
    - Use of working capital balances.
    - Additional charitable donations.
    - Attracting PDC funding if/where opportunities arise
    - Further reducing ring-fenced budgets and avoiding further scheme approvals.
    - Loans/leases.
    - Maximising VAT recovery in line with updated HMRC guidance (e.g. T3, PACS, Laboratory Rationalisation)

- Increased costs for existing schemes – **Medium/High Risk**. Mitigating actions include tight management of scheme specifications (including T3 programme "scheme drift"), firm cost control and, if necessary, identifying other funding sources and/or reprioritising schemes within the Capital Programme.

- Risk of slippage on 2015/16 schemes, due to operational and logistical barriers inherent in managing a major programme of over £50m whilst maintaining patient services, potentially creating an unacceptable level of under commitment – **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 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 2015/16 is well progressed, although IT Infrastructure scheme approvals have yet to be finalised and decisions on solutions for theatre capacity need to be brought to a resolution. Work is on-going to confirm the IT Infrastructure priorities via a TEG Task and Finish Group. It is hoped that the theatre plans will be confirmed in September when proposals for additional RHH theatres, a Cataract Centre and expansion to the Bev Stokes Day Case Unit will be considered in isolation and as a package. It seems likely that the costs will significantly exceed the current planning assumptions.

5.4 Business planning/capital prioritisation and "value engineering" will 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 In addition to approved schemes, fees have been allocated for work in developing business cases for the following potential schemes:

- NGH Gamma Camera Replacement
- Doncaster Radiotherapy Facility
- WPH Upgrade
- NGH TAU Upgrade
- CCDH Laboratory Refurbishment
- Expansion of Bev Stokes Facility
- NGH Site Entrances/Exits

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:

- 5^{th} and 6^{th} MRI Scanners
- Replacement Catheter Lab C
- Helipad
- Haematology Side Rooms/Ward O1
- GP Collaborative Relocation
- Weston Park Hospital Assessment Unit

6.4 The following schemes have also been completed since the Capital Programme was approved in March:

- Alterations to Brearley OPD - £0.3m
- Brearley 2 Cystic Fibrosis Modifications
- 2^{nd} Mobile Scanner Pad

7. RECOMMENDATIONS

The Board of Directors is asked to

7.1 Approve the latest 2015/16 Capital Programme and note the significant over-commitment on the 2016/17 plan position, which will need to be addressed.

7.2 Note the list of “possible” schemes on the five 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, and the need to continue to generate additional resources for future years if levels of capital investment are not to be significantly reduced.

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 2015