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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS MEETING

HELD ON 19th OCTOBER 2016

Subject	2016/17 to 2020/21 Capital Programme/5 Year Plan
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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 may be exacerbated as new schemes and priorities emerge over the five year period.
3. Key issues for delivery of the 2016/17 Capital Programme and 5 Year Plan are progression of the IT Programme, various Theatre schemes and the WPH Refurbishment scheme.
4. Funding solutions for future years are identified in principle but require further consideration on application and timing.
5. Capital planning/prioritisation and scheme "value engineering" continue to be crucial in securing maximum value for money from extremely constrained resources.
6. Proactive action will need to be taken to ensure that slippage in 2016/17 is kept to an acceptable level and expenditure plans for the medium term are robust.

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 19th OCTOBER 2016

2016/17 TO 2020/21 CAPITAL PROGRAMME – QUARTER 2 UPDATE

1. INTRODUCTION

1.1 This report continues the process of monitoring progress on the Trust's Capital Programme. It considers the financial position at the end of September 2016 and outlines the major changes since approval of the 5 Year Capital Plan and 2016/17 Capital Programme.

1.2 As previously, the Capital Plan does not assume any additional resources from I&E surpluses. This reflects the current very challenging NHS financial climate, notwithstanding efforts to achieve the Control Total for 2016/17 and beyond. Similarly, the latest 5 Year Plan continues to include 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 £4.3m of commitments to-date against the sum.

1.3 The current cumulative plan over-commitment over the period, at £39.0m, remains broadly in line with the original plan and quarter one position. The cumulative position from year two of the plan is of concern and the overall over-commitment is likely to grow further given the plans for a major refurbishment of WPH. Options surrounding the possibility of a loan/loans to, in part, address the over-commitment have previously been discussed and preparations for an approach to the Independent Financing Facility are in progress. The timing of any such loan, if available, will need further consideration over the coming months.

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. As always, the potential for further capital requirements remains significant and a 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 £45.6m. This is a hugely challenging programme, with many complex operational and logistical issues, and slippage is likely.

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	43.1	34.8	28.7	28.7	28.8
Expenditure Plan	(45.6)	(38.4)	(27.0)	(28.0)	(28.0)
Under/(Over) Commitment	**(2.5)**	**(3.6)**	**1.7**	**0.7**	**0.8**
Cumulative Under/(Over) Commitment		**(6.1)**	**(4.4)**	**(3.7)**	**(2.9)**

2.2 Once the revised profile on the RHH Theatre schemes is taken into account, the **Capital Plan** reflects a manageable position for 2016/17, but there is a growing level of over-commitment over the following years. Appendix A shows this over-commitment to a level of £39.0m by 2020/21 but this is likely to increase further.

2.3 The planning process for 2017/18 has now commenced but the shortened timescale for submission of Operational Plans to NHS Improvement creates significant challenges for development of a robust plan. There is an urgent need for further work on likely investment profiles, particularly for Theatre, IT and the WPH Refurbishment schemes. There is also a need to review the on-going levels of slippage and whether this alters planning assumptions. However, with the growing cumulative over-commitment, it is clear that some resolution to the funding gap will be needed soon.

2.4 Following consideration earlier this year, the current outline funding proposals are:

- To investigate the potential for one or more 25 year Loans from the Independent Financing Facility for up to £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.

2.5 The Capital Programme now includes a small number of new schemes which have recently received approval. These include:

- Replacement Fluoroscopy Equipment x 4 - £2.0m
- Patient and Staff Wi-Fi - £0.1m

2.6 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 (£9.7m) to 2017/18. Proactive 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 resources of £28.1m from forecast depreciation (net of around £2.5m of loan repayments).
- £13.1m from reinvestment of the capital underspend from 2015/16.
- £0.1m of national PDC funding for a "Place of Safety" in A&E.
- £1.8m from "donations" and forecast VAT recovery.

3.2 There has been an increase in funding available from the quarter one update of around £3.3m. This comprises £0.1m of donations, £0.1 of PDC funding, £0.4m of additional VAT recovery and the release of £2.7m of IT capital resources where the project costs are funded within the 2016/17 revenue plan.

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 The forecast expenditure from the quarter one update of £49.5m has reduced to £45.6m, mainly due to already confirmed slippage from 2016/17 to 2017/18 of £4.0m offset by new funding from the national PDC funding.

4.3 Re-profiling from 2016/17 largely comprises delayed purchase of major equipment (£360k); slippage on the C Floor Radiology, CCDH Laboratory, Cataract Unit and Podiatric Surgery schemes (£2.2m); and slippage on infrastructure schemes such as RHH Lifts and WPH Ward Refurbishment (£1.3m).

4.5 New scheme approvals have been highlighted at paragraph 2.5 above.

5. FURTHER RISKS AND CONTINGENCIES

5.1 Appendix C identifies the quantified major risks to the 2016/17 capital position.

5.2 The key risks for 2016/17 and the 5 Year Plan are:

- The current £39.0m 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 2.4 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 business case scrutiny, tight management of scheme specifications and firm cost control as schemes progress.

- Risk of major slippage (£9.7m) on 2016/17 schemes, due to operational and logistical barriers inherent in managing a major programme of over £45m whilst maintaining patient services – **High Risk.** Mitigating actions include tight planning and forecasting, prompt actions in developing and finalising schemes and proactive 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, Theatre and WPH Refurbishment scheme risks including scheme progression/delivery, financial planning, operational change and transition – **High Risk.** Mitigating actions will include strong governance, planning and scheme management.

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

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:

- Frailty Unit
- WPH Pharmacy Aseptic Unit
- Hybrid Theatre
- Dermatology Facilities
- Contact Centre Centralisation
- NGH Road Entrances/Exits
- Cardiac Theatre Refurbishment
- RHH Low Temperature Hot Water
- Palliative Care Unit Upgrade

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

- Linear Accelerator Replacement (LA5)
- Spec CT (Gamma Camera) NGH
- RHH CT Scanner replacement
- Patient and Staff Wi-Fi (browsing)

6.4 A number of schemes have also been completed since the start of the financial year with the most notable being:

- RHH (6th) MRI Scanner
- NGH CT Scanner replacement
- Cardiac Catheter Lab
- Haematology Side Rooms/BMT Expansion
- Clinical Portal

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 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
October 2016