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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS MEETING

HELD ON 20th JANUARY 2016

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. There has been a disappointing level of slippage on the 2015/16 Capital Programme, although current forecasts still show a £39m investment.
2. The current position for 2016/17 looks financially challenging but reasonable options exist to address this. The significant over-commitment over the 5 Year Plan period is a concern and could be exacerbated if new schemes and priorities exceed the planning assumptions.
3. Funding solutions for future years need to be found if levels of capital investment are not to be constrained.
4. Work has commenced on the 2016/17 Capital Programme and this will be submitted to the Board in March.
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 20th JANUARY 2016

2015/16 TO 2019/20 CAPITAL PROGRAMME – QUARTER 3 UPDATE

1. INTRODUCTION

1.1 This report continues 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 September 2015 and details the major changes since the Quarter 2 Update reported to the Trust Board on 21st October 2015.

1.2 The Capital Plan for 2016/17 to 2019/20 continues to not assume any I&E surpluses to support capital investment, reflecting the challenging NHS financial climate. However, the 5 Year Plan at Appendix A continues to include an assessment of future needs for significant schemes (£6m pa) and the, as yet unconfirmed, need for further investment in the Trust's IT. Current planning assumptions indicate that a significant additional investment will be required for theatre capacity and refurbishments.

1.3 The current cumulative plan over-commitment over the period, at £12.4m, is marginally increased from the October, largely due to a correction of the resource reduction to fund T3 non-recurrent revenue costs. **However, the potential £9.4m cumulative over-commitment for 2016/17 (reduced from £11.9m at Q2) is an immediate issue and will need to be addressed in the current business planning round.**

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

1.5 Immediate potential investment priorities focus around IT schemes, major medical equipment replacement/additions, Theatre capacity/refurbishment, the new Frailty Unit and on-going demand for refurbishment and upgrade of facilities. Inevitably, there will also be other more strategic development proposals in the coming years.

1.6 The current capital expenditure plan for 2015/16 stands at £39.0m. This reflects a disappointing level of slippage on a challenging programme with many complex operational and logistical issues. Further slippage is likely.

2. OVERVIEW OF THE CAPITAL PROGRAMME AND PLAN

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

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Funding Available	47.4	34.5	29.4	29.5	29.5
Expenditure Plan	(39.0)	(45.3)	(21.7)	(22.7)	(23.0)
Under/(Over) Commitment	**8.4**	**(10.8)**	**7.7**	**6.8**	**6.5**
Cumulative Under/(Over) Commitment		**(2.4)**	**5.3**	**12.1**	**18.6**

2.2 The approved Capital Programme reflects a disappointing level of slippage in 2015/16 (around £14m with the key areas being major medical equipment, IT, Theatre developments and WPH Ward Refurbishments). The Capital Programme position for future years looks satisfactory but 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 £12.4m over-commitment in the 5 Year Plan with a significant issue for 2016/17. There are reasonable options for addressing the 2016/17 position but if additional funding options are not identified for future years then capital investment will need to be constrained at a sub-optimal level.

2.3 There are currently no assumptions of further loans within the plan, although this remains an option for the right scheme in the right circumstances. 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 in any business case considered.

2.4 The Capital Programme includes a small number of significant schemes which received approval in the last quarter as follows:

- Cataract Unit (Full Business Case) - £7.1m
- Updated STH Telephony Platform - £1.2m

2.5 Appendix C shows the current 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 potential further slippage (£3.6m) in 2015/16.

3. ADDITIONAL FUNDING

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

- Internally generated resourced of £29.5m (forecast depreciation less £2.5m of loan repayments) less £5.0m used to fund the T3 non-recurrent revenue costs.
- £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.
- £3.6m from "donations" and forecast VAT recovery.

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

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Q2 Funding Available	47.6	35.0	29.4	29.5	29.5
T3 N/R revenue funding adjustment	0.1	(0.8)			
Charitable Donations	(0.3)	0.3			
Total Confirmed Funding	**47.4**	**34.5**	**29.4**	**29.5**	**29.5**

4. CHANGES TO APPROVED PROGRAMME

4.1 There have been numerous changes to approved expenditure since the quarter two Programme was approved due to new scheme approvals, re-profiling of schemes, 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
Q2 Expenditure	47.1	40.5	17.8	22.7	23.0
Charitable Donations		0.3			
New Approvals	0.1				
Adjustments on Existing Schemes	0.2				
Re-profiling of existing schemes	(8.4)	4.5	3.9		
Total Expenditure Plan	**39.0**	**45.3**	**21.7**	**22.7**	**23.0**

4.3 Charitable donations largely reflect promised support for Medical Equipment items from Neurocare.

4.4 New approvals reflects the investment in Breast Tomosynthesis technology.

4.5 The adjustments on existing scheme budgets mainly reflect the reductions in non-recurrent revenue needs on T3 schemes funded by the capital programme. These reductions increase the planning envelope available for future IT investment.

4.6 Re-profiling of existing schemes largely relates to:

- Slippage from 2015/16 to 2016/17 on NGH MRI (£1.6m), RHH & NGH CT Scanners (£1.4m), Pharmacy Aseptic facilities (£0.9m), Special Care Baby Unit (£0.9m), Theatre plans, including the Cataract Unit, (£0.8m), Renal Information System (£0.3m), A&E Decontamination Unit (£0.2m), Bowel Cancer Screening Accommodation (£0.2m) and GP Collaborative (£0.2m).
- Slippage from 2015/16 to 2017/18 from savings on T3 schemes - £1.9m
- Slippage from 2016/17 to 2017/18 re the WPH Ward refurbishment programme - £2.0m.

4 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 5 Year Plan are:

- The current £12.4m over commitment on the 5 Year Plan which may be increased by further unavoidable schemes (see Appendix A) – **High Risk**. Mitigating actions could include:
  - Generating I&E surpluses over the 5 Years.
  - Use of working capital balances.
  - Additional charitable donations.
  - Attracting PDC funding if/where opportunities arise
  - Further reducing ring-fenced budgets and avoiding further 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 (buildings, equipment and IT), firm cost control and, if necessary, identifying other funding sources and/or reprioritising schemes within the Capital Programme.

- Further slippage on 2015/16 schemes, due to operational and logistical barriers inherent in managing a major programme whilst maintaining patient services – **High Risk.** Mitigating actions include prompt action to develop and finalise schemes, close management of procurement processes 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. This work will be crucial in the coming years.

- 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, prioritisation and good communication.

5.3 Prioritisation against ring-fenced budgets for 2015/16 is virtually complete, with the exception of IT Infrastructure schemes where proposals have yet to be finalised. Work is on-going to confirm the IT Infrastructure priorities via a TEG Task and Finish Group.

5.4 Planning on solutions for theatre capacity has progressed significantly in the last quarter. The Cataract Unit FBC was approved by the Board in October 2015. Outline plans for additional RHH theatres and the refurbishment of the RHH A Floor Theatres are now developed and will be submitted to the Board for approval in the near future. Proposals for expansion of the Bev Stokes Day Case Unit have been developed and will be further considered in the coming months. Current indications are that the costs will significantly exceed the current capital programme sums and the excess cost is included in Appendix A.

5.5 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 (Appendix B) shows 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:

- Doncaster Radiotherapy Facility
- WPH Upgrade
- Frailty Unit
- CCDH Laboratory Refurbishment
- Expansion of Bev Stokes Facility
- RHH Theatre Expansion/Refurbishments
- NGH Site Entrances/Exits

6.3 Since the Quarter 2 Update, the following schemes have formally commenced:

- Linac Replacement LA8
- Special Care Baby Unit

6.4 The following schemes have also been completed since the last Capital Programme update report in October:

- Huntsman Entrance
- Huntsman Retail Facilities
- WPH Assessment Unit

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 5 Year Plan position, which will need to be addressed.

7.2 Note the list of “possible” schemes on the 5 Year Plan at Appendix A which, along with other schemes which may 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 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
January 2016