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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS MEETING

HELD ON 21st JANUARY 2015

Subject	2014/15 to 2018/19 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 2014/15 Capital Programme and 5 Year Capital Plan.

KEY POINTS

1. The Capital Programme remains manageable in the short-term but the 5 Year Plan then moves into an increasing over committed position for the following years.
2. This over-committed position is likely be exacerbated as further investments, many already identified, are required.
3. Funding solutions for future years therefore remain to be found.
4. Capital planning/prioritisation, scheme “value engineering” and project control continue to be crucial in securing maximum value for money from limited resources.
5. A significant under-spend on the 2014/15 Capital Programme is likely due to slippage but the resources will be carried-forward to complete planned projects in 2015/16.

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 21st JANUARY 2015

2014/15 TO 2018/19 CAPITAL PROGRAMME – QUARTER 3 UPDATE

1. INTRODUCTION

1.1 This report monitors progress on the Trust's Capital Programme/5 Year Plan for the period 2014/15 to 2018/19. It considers the position at the end of December 2014 and details the major changes since approval of the 5 Year Capital Plan and 2014/15 Capital Programme by the Trust Board on 15th October 2014.

1.2 In addition to the approved Capital Programme, there has been considerable focus in recent months on updating the 5 Year Capital Plan. The Capital Plan for 2014/15 to 2018/19 incorporates a significant level of IT investment across the period, incorporating the three "Transformation through Technology" projects, the new PACS investment and the potential for further IT infrastructure needs. These projects, alongside the need for theatre refurbishment works, dominate the 2015/16 planning work and have contributed to a potentially significantly over-committed plan position (Appendix C).

1.3 Appendix C includes a full list of "possible" schemes which are not yet included on the Capital Programme but which require further consideration as part of the 2015/16 planning round. The potential for further capital requirements remains significant. Therefore, work to maintain an overall balanced position will need to continue and will necessitate very difficult decisions on prioritisation and investment timings.

2. OVERVIEW OF THE CAPITAL PROGRAMME AND PLAN

2.1 The approved capital programme for 2014/15 – 2018/19, as at Appendix A, shows the following position:-

	2014/15 £m	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Funding Available	40.3	28.8	25.8	26.4	26.4
Expenditure Plan	(35.4)	(44.1)	(24.8)	(21.5)	(26.7)
Under/(Over) Commitment	**4.9**	**(15.3)**	**1.0**	**4.9**	**(0.3)**
Cumulative Under/(Over) Commitment		**(10.4)**	**(9.4)**	**(4.5)**	**(4.8)**

2.2 Once various planning assumptions (as shown on Appendix C) are taken into account, then the planned position over 2014/15 and 2015/16 is manageable. However, the plan then shows a growing level of over-commitment over the following three years to 2018/19, and funding solutions for future years still need to be found.

2.3 The Trust has informally been advised by NHSE that its bid in respect of the Integrated Digital Care Fund has been partially successful, at £4.5m. However, formal notification from Treasury is still awaited. Additionally, the Trust has informally been advised that the funding would all be allocated in 2014/15 and would need to be spent, on legitimate elements of the projects, by the end of the financial year. If confirmed, part of the funding would need to be applied to proposals not shown in the current capital programme or plan (re Clinical Portal phase 3).

2.4 There are currently no assumptions of further loans within the programme, 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 would also clearly be an issue.

2.5 The under commitment in 2014/15 at this stage of the year is of concern given potential and historic levels of slippage. Proactive action is being taken to mitigate these risks, although options are now limited.

2.6 The Helipad appeal scheme was publically launched in October 2014, and so far has received strong key stakeholder/corporate investor support. It is expected this scheme will be operational in early 2016.

2.7 Appendix B provides an update on the currently quantified potential risks and cost adjustments anticipated on existing schemes. These identify a small additional pressure over the period. However, the summary also highlights a significant level of possible slippage (£3.6m) to 2015/16.

3. ADDITIONAL FUNDING

3.1 The assumed funding in the 2014/15 Capital Programme consists of:

- Internally generated resourced of £26.1m from forecast depreciation net of around £2.5m of loan repayments.
- £3.3m from reinvestment of the 2012/13 I&E surplus and £9.3m of programme underspend from 2013/14.
- £1.6m from “donations” and forecast VAT recovery.

3.2 There have been no changes to funding available since the last report update. An update on the level of internally generated resources, to include the revaluation of the estate and the long term depreciation forecasts, will be completed shortly.

4. CHANGES TO APPROVED PROGRAMME

4.1 There have been many changes to approved expenditure since the quarter two update due to new scheme approvals, 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:-

	2014/15 £m	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Expenditure as at Q2	34.5	43.5	24.8	22.7	27.3
PACS project expenditure – classified as non-recurrent revenue	(0.3)	(0.3)			
Cost Adjustments to Existing Schemes	0.3				
Re-profiling of existing schemes	0.9	0.9		(1.2)	(0.6)
Total Expenditure Plan	**35.4**	**44.1**	**24.8**	**21.5**	**26.7**

4.3 Cost Adjustments to existing schemes incorporates:

- Projected VAT savings on PACS investment - £0.3m
- Transfer of revenue funding to capital re the Refurbishment of the M&SRC centre (re War Veteran services) - £0.5m.

4.4 Re-profiling of schemes largely comprises:

- IT Projects (T3 and PACS) - £1.9m advanced into 14/15 from 17/18 and 18/19.
- Advances of funds from 15/16 to 14/15 to support Reconfiguration of Clocktower (£1.0m), additional Low Temperature Hot Water Schemes (£0.9m) and several smaller Hotel Services schemes (£0.3m)
- Slippage on WPH CT Scanners (£1.4m), Pharmacy Aseptic schemes at RHH and WPH (£0.6m), Osborne Ward Refurbishment programme (£0.5m), and Huntsman Entrance scheme (£0.7m) from 14/15 to 15/16.

5. FURTHER RISKS AND CONTINGENCIES

5.1 As stated above, Appendix B identifies the quantified risks to the capital position. Other risks to delivering the 2014/15 Capital Programme and subsequent years are:

- The over commitment on the 5 Year Plan which may be increased by further unavoidable schemes (see Appendix C) – **High Risk**. Mitigating actions include:
  - Quantification of additional internally generated resources.
  - Use of working capital balances.
  - Additional charitable donations.
  - Attracting PDC funding where opportunities arise.
  - Further utilisation/reductions of ring-fenced budgets.
  - Loans.

- Increased costs for existing schemes – **Medium/High Risk**. Mitigating actions include tight management of scheme specifications, firm cost control and, if necessary, identifying other funding sources and/or reprioritising schemes within the Capital Programme. Strong management of IT projects and the contingency/risk sums within the programmed budgets will also provide opportunities to release committed sums.

- Risk of slippage on 2014/15 schemes, due to operational and logistical barriers inherent in managing a major programme whilst maintaining patient services, potentially creating an unacceptable level of under commitment – **Medium/High Risk.** Mitigating actions include improved 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 include improved governance arrangements; developing knowledge and skills within the organisation; strong planning and prioritisation; and good communication.

5.2 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 A identifies the status of all current schemes.

6.2 Virtually all schemes have now moved from planning sums to approved schemes, with the exception of schemes still at fee stage. Fees have been allocated for work in developing Business Cases for the following schemes:

- Neonatology Intensive Care Unit
- Community Dental Facilities
- Outpatient Facility, RHH
- Doncaster Radiotherapy Facility
- Haematology/Bone Marrow Transplant Facilities

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

- RHH Digital Plain Film Room
- PACS replacement
- M&SRC Refurbishment
- Reconfiguration of Clocktower
- Osborne Ward Refurbishments

6.4 A number of schemes have also been completed since the Capital Programme update at quarter two, with the most notable being:

- RHH Theatres 3&4
- Re-provision of Sorby1&2 accommodation

7. RECOMMENDATIONS

The Board of Directors is asked to

7.1 Approve the latest 2014/15 Capital Programme and note the overall over-commitment which will need to be addressed.

7.2 Note the list of “possible” schemes on the Five Year Plan at Appendix C which, along with other likely schemes which will emerge over the five year period, will require further consideration, robust discussion and careful prioritisation.

7.3 Note the risks outlined in Section 5 above, and the need to continue to identify additional capital funding 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.

7.5 Note the need for strong control of scheme costs and particularly contingency and risk sums within the Technology through Transformation projects.

Neil Priestley
Director of Finance
January 2015