

Board of Directors	Guy's and St Thomas'  NHS Foundation Trust	
2016/17 Financial Update	27th January 2016	BDA/16/04 part

This paper is for:		Sponsor:	Martin Shaw
Decision	X	Author:	Hannah Coffey, Chris Bowler
Discussion		Reviewed by:	
Noting		CEO*	X
Information		ED*	
		Board Committee*	
		TME*	
		Other*	

Summary

This paper provides a summary update to the Board in relation to:

- The significant changes in the external environment since last November's update to the Board in Committee.
- The effects these changes are likely to have on the Trust's financial position in 16/17.
- Other external factors that will require additional clarification.
- Our internal progress against business planning and Fit for the Future savings.
- How the factors above translate into a 'best estimate' position for 16/17.
- The key risks associated with this position.
- The actions and decisions required prior to the submission of our annual plan on the 8th February.

The Board is asked to approve:

- The Trust's planning assumptions and requirement to deliver savings of £90.9 million to achieve a breakeven plan, reflecting the underlying deficit position from 15/16.
- That the draft plan submitted to Monitor on the 8th February will reflect progress to date in relation to both additional income and efficiency savings totalling £56.6 million, including £19.2 million income from the Sustainability and Transformation (S&T) Fund.
- That the Trust commits to delivering a break-even plan, assuming £19.2 million income from the S&T Fund; and
- That the Trust submits a draft plan to Monitor with a deficit of £34.3 million, based on current planning information, but with a comprehensive narrative on how the gap will be closed in the final plan (to be submitted on 11th April).
- That the Trust now enters into a constructive dialogue with NHS Improvement regarding the £19.2 million '*general element*' allocation within the S&T Fund, the potential requirement to deliver a '*control*' surplus and the process for allocating funds from the '*targeted element*'.
- That the capital funding included in the plan will be consistent with available funding, including the £100 million loan currently under discussion.
- The ongoing work to identify savings and efficiency opportunities prior to final plan submission.
- The Trust Board delegates authority to the Chairman, Chief Executive and Finance Director to agree any amendments to this position as a result of dialogue with NHS England by 8th February.

1. Introduction

This paper provides an update on internal progress and changes within the external environment relevant to the Trust's 16/17 financial position. It also highlights areas of both uncertainty or risk and sets out the next steps required to develop the plan further prior to draft and final submission.

2. Current context

Since the financial update at November Board, the outcome of the Comprehensive Spending Review (CSR) has been announced and important related guidance has been released.

On 22 December, NHS England, NHS Improvement (Monitor and the Trust Development Authority) and the other national agencies published *'Delivering the Forward View: NHS planning guidance 2016/17-2020/21'*. This document sets out the guidance for organisations to deliver a five year Sustainability and Transformation Plan (STP) for local, or 'place-based', services that will promote both improved quality of care and financial control. The guidance also includes detail of the operational planning approach for the next financial year and sets out the approach to tariff setting and business rules that will support system sustainability and recovery in 2016/17.

The guidance confirms additional funding of £8.4 billion in real terms by 2020/21, with a funding increase in 2016/17 of £5.4 billion (recurrent) for the NHS in England. However, this offer is dependent on the provider sector delivering a deficit of not more than £1.8 billion in 2015/16 and then breaking even in 2016/17.

Although the increase in funding announced in the CSR is to be welcomed, the NHS is still facing an efficiency requirement of circa £22 billion over the next five years and this will be exacerbated in future years due to the front loading of the cash settlement in 2016/17.

Of the £5.4 billion, £3.6 billion will flow through into commissioning allocations and related budgets, which will affect tariff agreements, specialist 'top-ups', the specialist marginal rate, the efficiency factor and pension contributions.

In addition, the guidance introduces the £1.8 billion Sustainability and Transformation (S&T) fund for 2016/17. This aims to support providers to move to a more sustainable financial footing with an intention that this is primarily allocated to providers of emergency care as they are perceived as being under the greatest financial pressure (termed the *'general element'* of the fund). The S&T fund will also include an element

that supports providers to drive efficiency and achieve overall sustainability (the *'targeted element'*). The funds will be accessed via commissioners and will be linked to detailed plans to achieve an agreed control total (which might be a deficit or surplus), access standards (particularly Emergency Access and RTT) and an agreed Local Sustainability and Transformation Plan that sets out an integrated 5 year plan.

The Trust received a letter from NHS Improvement on 15th January, suggesting that GSTT's 'general element' allocation from the £1.8 billion has been set at £19.2 million. However, this is set against a potential requirement to achieve a significant surplus and the GSTT proportion of the 'targeted element' for driving efficiencies at pace remains unknown at this stage. The Trust has begun to engage with NHS Improvement about this and will seek to work constructively with NHSI to agree a position over the coming weeks.

The funding of £19.2million 'general element' currently has a number of attached conditions attached, including: -

- Delivery of a significant surplus.
- Agreement to a capital control total – no details provided.
- Agreed milestones for the implementation of Carter efficiencies
- Delivery of a credible plan for delivering core performance standards, including Emergency Access, Referral to Treatment times and cancer
- Development of an integrated STP with commissioners and local providers.
- Progress towards achieving seven day services for patients by 2020, with demonstrable action in 2016/17 (there may be costs associated with delivering this).

Until we have a better overall understanding of the detail behind the S&T Fund and the full extent of any implications for the Trust, it is proposed that we do not plan on the basis of delivering the proposed surplus. However, it is also proposed that we assume additional funding of £19.2 million against our delivery of a balanced financial plan for 2016/17 in our draft submission of the 8th February.

We are required to submit a draft one year plan to NHS Improvement by 8th February 2016, with a final plan due on the 11th April 2016. Plans must take into account the 2015/16 outturn, the implications of tariff setting and the requirements of the S&T fund allocations (including the proposed 'control' surplus).

3. Current position

The Trust is working through the internal business planning process according to the usual timetable, which means that the overall position is changing (usually for the better) week by week. In parallel, the external factors that impact on the Trust's financial position, such as the impact of the 16/17 tariffs, are also causing the overall position to change. The known variables on the Trust's position are set out in 3.1 below and the unknown variables are set out in 3.2. Particularly focus is being given to managing the internal variables as this is the area over which the Trust has most control.

3.1 Known variables

Internal

- Following a recent round of Fit for the Future (FFF) workstream stocktakes, we already have plans to achieve £27m savings in 16/17 (£15m of which have been mapped to directorate plans so far). Several workstreams require additional work to reach a confirmed savings target. This is encouraging progress at this stage of the year against an ambition to achieve FFF savings of £30-35m in 16/17, as highlighted at the November Board.

External

- There will be a delay in the introduction of HRG4+ to provide a year of pricing stability. This will be combined with a status quo in relation to specialist top-ups. A consultation will be launched in 16/17 and there may be a risk from 17/18 onwards.
- The basis for tariffs in 2016/17 is the 2015/16 Enhanced Tariff Option (ETO).
- There will be a cost uplift of 3.1% to reflect a stepped change in the cost of employers' pension contributions.
- There will be an efficiency factor of 2%, less than anticipated, and this will result in a net price uplift of 1.1%
- It is expected that Clinical Negligence Scheme for Trusts (CNST) contributions will increase by 17%. Prices in specific sub-chapters of HRGs have been adjusted to reflect this, adding a 0.7% uplift to national prices.
- There will be an increase in the marginal rate for emergency admissions to 70% across all providers. This will have less impact for GSTT, as we have worked with our commissioners to reinvest this fund in previous years.
- The specialised service marginal rate will not be applied in 2016/17. Again, this is linked to HRG4+ so there is a risk from 17/18 onwards, depending on the outcome of next year's consultation.

- There will be a move to the centralised procurement of devices with nationally set reference prices. These are generally pass through costs, but there are some potential risks and benefits to GSTT.
- Monitor is currently out to consultation on the draft 2016/17 tariffs. However changes to the regulation of tariff consultation mean that it is highly unlikely that the threshold for a successful challenge will be reached. Final tariffs will be issued in March 2016.
- The Trust will be eligible for the CQUIN funding removed in 2015/16. We have not agreed CQUIN schemes at this stage, so do not currently know if there will be any costs involved in the delivery of these initiatives.
- The Trust is still awaiting details of the 2016/17 QIPP initiatives from commissioners. NHS England has indicated a 2.4% QIPP requirement (circa £10 million). Although this is currently above our central planning assumption, it is likely that it will be reduced through negotiation as in previous years.
- The deadline for signing contracts with commissioners is 31st March 2016.

3.2 Unknown variables

Internal

- The likely 15/16 recurrent outturn. The first submission of directorate plans reflect a gap between the year end forecast and recurrent outturn. Work to align these is in progress. We will review planning assumptions with all directorates, including their income and expenditure run rates, prior to sign off of their business planning start point for 2016/17.
- The consequences of our current demand versus our available capacity, taking into account efficiency, have not yet been factored into next year's plan. This is currently being translated into a first cut capacity and activity plan which will be sense checked, operationally and strategically, at a specially convened Clinical Directors Away Day in early February.
- Scoping and delivery of 'Bold' schemes. These are schemes that aim to deliver efficiency improvements through comprehensive pan-organisational change over the next one to five years. The schemes were initially framed as discrete pieces of work ranging from removing/repurposing 100 inpatient beds through to a complete redesign of our patient administration processes. However, as their development has progressed, it has become evident that many of the schemes, and the necessary underpinning cultural changes, are interlinked and therefore best viewed in the wider context of clinical pathway redesign. The central goals of this process would be to maximise efficiency opportunities across key patient pathways whilst minimising unnecessary, and costly, variation in clinical practice. A central tenet of this approach is a recently launched programme of clinical engagement. The current focus is on defining manageable sub-programmes of work with the appropriate leadership, capability and resource for delivery. The aim is to complete enabling work and identify the expected benefits for 16/17 and beyond by the end of February.

External

- Although the planning guidance has set out some broad assumptions regarding the changes from the 2014/15 roll over tariffs, the financial impact on the Trust is currently an estimate and will vary depending on specific changes to individual tariffs. We expect to process our April to September 2015 activity through the new HRG grouper and tariffs by the 29th January and to then update our savings requirement, draft plan and contract proposals to commissioners. The tariffs are also expected to have differential impact by commissioner, with an increase to CCG contract values and an offsetting reduction in the NHS England specialist services contract. If the costs of services have increased by more than inflation funding, this may lead to affordability issues for some CCGs.
- The calculations behind the proposed 'control' surplus requirement and how the Trust's figures compare with other peer group trusts.
- The 'targeted element' of the S&T fund available to us and the conditions associated with it.
- A requirement for commissioners and councils to agree a joint plan to deliver the requirements of the Better Care Fund (BTF) in 2016/17 which should explicitly support reductions in unplanned admissions and hospital delayed transfers of care.
- A requirement for commissioners to plan to spend 1% of their allocations non-recurrently and (to insulate the health economy from financial risks) to ensure this remains uncommitted at the beginning of the financial year.
- Lambeth and Southwark Local Authorities have informed the Trust of their proposals to significantly reduce Public Health services funding over the next 3 years. The Trust has requested they quantify the scale of reductions in writing and that they now engage with clinical teams to agree how the affected services (which are within sexual health and children's services) can be redesigned to fit within the available funding envelope.
- There has been no update on Education or Research funding for 2016/17

4 'Best Estimate' 2016/17

The initial 2016/17 savings requirement reported to the Board in November 2015 was an estimated £100.3 million to deliver a break-even plan. In the light of the CSR, national planning guidance, the annual efficiency requirement, the proposed allocation of the 'general element' of the S&T fund, along with the 'control' surplus, the Trust will need to revise the overall savings requirement. A number of the drivers of the savings requirement are still estimates and will be confirmed over the next few weeks in internal discussions with directorates and externally with commissioners and NHS Improvement.

Table 1 below sets out the impact on our savings requirement *excluding* the S&T Fund:

Table 1:	£M
Month 9 forecast deficit	(22.8)
15/16 non recurrent benefits	(15.9)
Reversal of 15/16 tariff issues	(0.8)
Recurrent forecast	(39.5)
16/17 Efficiency Drivers:	
National Efficiency	(17.1)
CQUIN & QIPP	(9.0)
Education Tariff transition funding loss	(2.0)
Corporate, strategic, interest, depreciation	(23.3)
Sub-total new pressures	(51.4)
Forecast savings required to achieve break-even	(90.9)
Previous planning estimates	(100.3)
Estimated reduction in savings requirement	9.4

4.1 Key assumptions contained within 'best estimate' 2016/17

- The bridge from the forecast £22.8M deficit (Month 9 / Q3 forecast to Monitor) is a shortfall of £3.7M from the Trusts stated 2015/16 £19.1 million deficit plan.
- There are currently no capital to revenue costs included in forecast outturn (£11M risk currently)
- The 2015/16 position assumes £15.9M of non-recurrent balance sheet benefits and circa £10M of recurrent benefits.
- The first cut of directorate plans show a recurrent deficit of £50.4M against budgets compared to the expected £26M adverse position based on the agreed control totals. Further urgent work is being undertaken to align these.
- Our initial internal estimate of the revised NHS efficiency target and inflation assumptions, cost pressures and other income changes have reduced the forecast savings requirement by £9.4M.
- The Trust will therefore have a revised savings requirement of £90.9M (from £100m) to deliver a break-even plan.

5. Proposed draft plan submission

The Trust is required to provide NHS Improvement with a draft plan by 8th February. We have considered a number of financial scenarios, reflecting progress made to date in addressing the financial challenge of £90.9 million. It is proposed that the February 8th submission is in line with the position outlined in Table 2 below:

Table 2:	
	£M
Efficiency to deliver Breakeven	(90.9)
Draft 1 Savings estimates:	
- Margin on activity	5.2
- Cost improvements	22.2
- Further directorate improvements	10.0
- General Sustainability funding	19.2
Total income and efficiencies identified to date	56.6
Proposed Deficit in draft plan submission	(34.3)
- Bold ideas and other initiatives	34.3
Forecast surplus /(deficit) if achieve add. savings	0.0

This scenario reflects progress to date in relation to both additional income and efficiency savings totalling £56.6 million, including £19.2 million income from the Sustainability and Transformation (S&T) Fund. However, it does not take into account the proposed 'control' surplus. It also shows a current planning deficit of £34.3 million, reflecting the current planning information, but we would propose to attach a comprehensive narrative on how the gap will be closed in the final plan (to be submitted on 11th April) based on the work underway to identify further directorate savings plans and FFF schemes, as well as to quantify the benefits of the 'Bold Ideas'.

The Board is asked to confirm that, whilst we continue conversations with NHS Improvement on the allocation of the S&T Fund, this scenario forms the basis of the draft plan submission. It will also show that the capital funding included in the plan is consistent with available funding, including the £100 million loan currently under discussion.

The final submitted plan will then include the outcome of ongoing discussions with directorates, commissioners and NHS Improvement. This will be made available prior to March Board for approval.

The Trust is expected to submit a 5 year plan in June 2016, including the local S&T plan. Further information on this is being sought.

6. Next steps

The Board is asked to approve:

- The Trust's planning assumptions and requirement to deliver savings of £90.9 million to achieve a breakeven plan, reflecting the underlying deficit position from 15/16.
- That the draft plan submitted to Monitor on the 8th February will reflect progress to date in relation to both additional income and efficiency savings totalling £56.6 million, including £19.2 million income from the Sustainability and Transformation (S&T) Fund.
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- That the capital funding included in the plan will be consistent with available funding, including the £100 million loan currently under discussion.
- The ongoing work to identify savings and efficiency opportunities prior to final plan submission.
- The Trust Board delegates authority to the Chairman, Chief Executive and Finance Director to agree any amendments to this position as a result of dialogue with NHS England by 8th February.