Enclosure H

Kingston Hospital
NHS Foundation Trust

Operating Plan 2019-20

Trust Board	**Item: 12**
Date: 27th March 2019	**Enclosure: H**
Purpose of the Report: To provide an update on the 2019-20 Operating Plan prior to submission to NHSI on 4th April 2019. The paper outlines the details of the financial plan and the risks to delivery, including the mitigating actions.	
For: Information ☒ **Assurance** ☒ **Discussion and input** ☒ **Decision/approval** ☐	
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Risk Implications – Link to Assurance Framework or Corporate Risk Register:	N/A
Legal / Regulatory / Reputation Implications:	
Link to Relevant CQC Domain: **Safe** ☐ **Effective** ☐ **Caring** ☐ **Responsive** ☐ **Well Led** ☒	
Link to Relevant Corporate Objective:	All
Document Previously Considered By:	EMC 20th March 2019, FIC 21st March 2019

Recommendations:

The Board is asked to:

a) Note the executive summary of the annual plan and the assumptions for budget setting

b) Approve the recommendation to accept the control total

c) Approve a capital plan of no more than £25m subject to further refinement

2019-20 Operating Plan

1. Introduction

The Board reviewed and commented on the draft submission of the 2019-20 operating plan at the Board meeting on 30th January 2019, prior to submission to NHSI on 12th February 2019. Since then further work has taken place with the Trust due to make a final submission of the 2019-20 Operating Plan on 4th April 2019.

The paper also outlines an executive summary of the Operating Plan, an update on agreeing the contract, including the mitigating actions, and the capital plan.

2. Executive Summary

Activity uplifts and pricing have now been agreed with Commissioners, and the Trust is in the process of finalising the negotiations on the contracts. The proposal is to agree a block with the SWL Clinical Commissioning Groups (CCGs) thereby securing the income position in advance, which will allow for greater focus on system transformation. The contract would be supported by a concordat. Other contracts outside of SWL are likely to remain variable with cost per case.

Due to the anticipated income settlement, and a close review of the internal bottom up cost pressure requirement, the Trust has been able to reduce the FIP requirement from £12m to £8.8m, of which £4.9m has been identified. Further challenge on the corporate cost base is expected to result in additional FIPs being identified.

Operationally, it has so far been assumed that bed numbers remain unchanged for 2019/20 (aside from temporary closures over the summer of 8 beds). Further work is being undertaken on the transformation agenda which may identify additional opportunities to close beds.

WTE changes in year are driven primarily by: the implementation of developments approved in 2018/19; the transfer of the private patient unit from BMI to the Trust and efficiency savings.

It should be noted that the proposed pension increase from 14.3% to 20.6% has not been included – this increase will add £11m to the Trust cost base and it is not funded in tariff. Guidance received suggests that the cost will be paid centrally direct to the Pensions Authority for 2019/20.

A self-certification similar to last year was attached with the draft submission which required the Trust to confirm acceptance of the control total. The Trust has previously indicated that it will only accept the Control Total once the contracting and other planning assumptions have been finalised. The planned financial position is currently consistent with acceptance of the control total.

3. Budget Setting and Contracting Update

The draft plan submitted in February was based on Income of £287m, and costs of £295m leading to a loss on activities before central funding of £8m. This plan was built using a high level indicative approach based on the national planning guidance.

Since submission of the draft plan, the Trust has completed a "bottom up" exercise to establish the anticipated cost base for 2019/20, as well as continuing negotiations with the commissioners to settle the income contract. The cost base has been built using forecast outturn, adjusted for non-recurrent items, and uplifted for cost pressures/anticipated growth at departmental level. Inflation has been managed centrally to date, in order to provide like for like comparison to the 18/19 position.

Table 1 below shows the current income offer from the commissioners as well as the consolidated expenditure position, along with the draft plan for comparative purposes.

The Trust has been working collaboratively with SWL CCGs to try to reach a settlement that provides sufficient income for the Trust to deliver safe quality services and still meet the control total. The primary option being considered is to block the SWL contract to enable resources to focus on service transformation without consideration for the consequences of loss of income associate with reduction in activity through eg QIPP. The current offer from SWL CCGs equates to income of £188m. This figure has been worked into table 1 below to enable visibility of the impact on costs/CIP if that offer is accepted.

Following the budget review meetings some cost pressures have been removed and some development schemes will be subject to identifying CIP to support. This leaves a CIP target of £8.8m, of which just under £5m has been identified, and £2m is being progressed, to leave unidentified risk of £2m.

Within the proposed plan there is £1.5m of contingency in reserves which is set aside to fund developments which support the transformation programme but that have yet to be formally approved through the business case approval process.

Table 1: Financial Summary 15th March 2019

	Draft plan £'000	Current Position £'000	
INCOME			
Income by Commissioner			
SWLondon CCGs ex HCD	188,547	181,601	£188.04
SWLondon CCGs HCD	6,591	6,438	
Other CCG HCD	2,132	2,132	
Surrey CCG	35,567	33,487	
NHSE	18,770	18,241	
NCAs & Other	7,380	15,921	
Total Clinical Income	**258,987**	**257,820**	
Other Income	28,324	26,326	
Total Income	**287,311**	**284,146**	
EXPENDITURE			
Forecast 18/19 at M8	(278,792)	(280,188)	-£300.97
Inflation	(7,781)	(8,091)	
CNST Increase	(2,859)	(2,859)	
Budget Uplift Requests	(4,900)	(8,334)	
Contingencies		(1,500)	
CIP Identified in Divisions	0	5,380	£8.82
Balance to CT	(987)	3,438	
Total Expenditure	**(295,319)**	**(292,154)**	
Control Total pre PSF	**(8,008)**	**(8,008)**	
MRET	3,096	3,096	
PSF	5,800	5,800	
Donated Assets/Depn	209	209	
Draft Plan for 2019/20	**1,097**	**1,097**	

Table 2: Income and expenditure projections for 2019/20 compared to 2018/19 Forecast Outturn

Income and expenditure projections	**2018/19 FOT Outturn £m**	**2019/20 Plan £m**
NHS Clinical Income	237.9	251.1
Non NHS Clinical Income	8.5	6.7
Non Clinical Income	26.9	26.3
MRET Centrally Funded	0.0	3.1
Provider Sustainability Fund (PSF)	18.1	5.8
Total Income	**291.4**	**293.0**
Pay	(171.4)	(179.9)
Non-Pay	(93.7)	(96.5)
Total Operational Expenditure	**(265.1)**	**(276.3)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**26.3**	**16.7**
Depreciation, PDC and Interest	(14.3)	(15.6)
Other Gains	5.0	
Net (deficit)/surplus (including STF)	**17.1**	**1.1**
Less Provider Sustainability Fund (PSF)	(18.1)	(5.8)
Less MRET Centrally Funded	0.0	(3.1)
Underlying surplus excluding STF	**(1.0)**	**(7.8)**

Table 3: Efficiency savings for 2019/20

2019/20 Efficiencies - Identified	**£m**
Corporate and admin	0.155
Estates and facilities	0.750
Other Savings Plans	2.025
Procurement	1.000
RightCare	0.061
Workforce (nursing)	0.390
Workforce (other)	0.999
Sum of identified Schemes	**5.380**
Schemes to be identified	3.438
Total 2019/20 Efficiency requirement	**8.818**

4. Capital Plan

Capital bids from Estates, IT, Medical Equipment Committee and other Divisional requests. These have been collated and an initial review was completed in Feb 2019 to assess priorities.

The current aggregate of the capital schemes being considered is £29.6m across the following expenditure categories:

Please select	Category	2019/20 £000
Equipment	Equipment	2,210
Equipment Total		**2,210**
IT	IM&T	5,455
	Refurbishment	0
IT Total		**5,455**
Estates	Fire Programme	6,626
	Refurbishment	50
	Infrastructure	11,150
	Decant	0
	Slippage from 2018/19	3,080
	Estates Other	1,035
Estates Total		**21,941**
Grand Total		**29,606**

In order to fund the capital programme per the requests, additional DH loans would be required for some of the fire elements as well as external funding for Energy schemes and the redevelopment of the Front Entrance. An analysis of potential funding sources is shown below.

Funding Source	2019/20 £000
Fire Prog - Loans Secured	3,000
PDC Approved (MH)	3,000
Charitable Funds	270
STP	3,215
Internally Funded	12,985
Subtotal Funding in Place	**22,470**
Partner Funding Sought	80
Salix	480
Fire Prog - Loans Required	6,576
Subtotal Funding Required	**7,136**
Grand Total	**29,606**

A further review of the capital bids will be carried out in late March, early April 2019 to refine the plan and this will take a risk based approach to finalising the programme. The aim is to reduce the overall programme to a maximum £25m so as to be within the Trust's own affordability limits with no requirement to seek approval for further loans.

5. Risks

The achievement of the control total is dependent on the delivery of a number of significant financial savings which are still in development and a proportion of the transformational work will require changes in the wider STP footprint. These schemes will need to be worked up and validated with community and other STP partners, and the Trust will require assurance that external organisations will deliver their elements to avoid stranded costs arising in the Trust. It is also noted that the Trust has been given an additional 0.5% stretch efficiency within the control total.

The risks that may have a significant financial implication for the Operating Plan are summarised as follows:

	Risk	**Mitigating action**
1	The income offer from SWL CCGs is based on a block contract and if this is not accepted, the alternative proposal from the CCGs would be of a lower value.	We are working through the operational and financial implications of a block contract with the CCGs.
2	The non-delivery of FIP and other schemes to meet the financial challenge.	The Trust is continuing to work up the detail of the FIPs and other schemes that need to be delivered if the Trust is to meet the financial challenge. Further challenge on the corporate cost base is expected to result in additional FIPs being identified.
3	The delivery of activity by the Trust in relation to the wait list support of other providers may not happen to the extent expected and within the timescales being assumed.	Work is continuing between the Trust and other partners to formally confirm what activity shifts will occur in 2019/20. The Trust is agreeing with commissioners that this activity will sit outside of the block contract arrangement for the SWL providers.
4	The capital programme is currently above affordability, and therefore additional loans would be required to fund elements of it. There is no certainty that additional loans would be approved.	A risk based approach is being used to identify means to reduce the overall programme to a more affordable level with a further review of the capital bids taking place in March 2019 to refine the plan.
5	The nature of many of the Transformation Programmes, FIPs and other schemes to meet the financial challenge mean that their successful delivery is linked with the action of other parties external to the Trust, many of which are not within the Trust's direct sphere of influence. By implication, this increases the risk of partial or non-delivery of these schemes.	The Trust continues to work up the detail of schemes in close conjunction with external partners where appropriate. It is also expected that the block contract arrangement will release resources across the system to focus on transformation.
6	There is a risk of workforce supply and retention challenges, which may be further exacerbated due to BREXIT and the impact it may have eg. skills shortage.	Plans to mitigate against workforce supply and retention challenges: Recruitment - Leveraging CQC Outstanding rating to strengthen it, reassessing the Trusts international recruitment strategy to mitigate the risks associated with EU exit Retention – revised leadership and management development framework, continued focus on health and wellbeing with a 12-month programme of interventions and further develop the case for updating the High Cost Area allowance for outer London including a review of staff benefits Improving productivity - use of e-rostering and electronic job planning through Allocate, working across SWL to reduce doctor bank and agency rates, reinforcing a bank first temporary staffing model Transformation - introducing new roles such as Advanced Nurse Practitioners in ED to address shortfall in medical staff and Nursing Associates

The Operating Plan is not without significant risk primarily in relation to the delivery of FIPs, the transformation schemes elements of which are linked to actions of other external parties, the potential impact of commissioner QIPP, and the overarching affordability issues within the sector.

The 2019/20 Operating Plan is focusing on system working and transformation to achieve the system control total in conjunction with the Trusts' own control total.

6. Recommendations

The Board is asked to:

a) Note the executive summary of the financial plan and the assumptions for budget setting
b) Approve the recommendation to accept the control total
c) Approve a capital plan of no more than £25m subject to further refinement