

Board of Directors (Public)

Item 4.2

Board Report

Subject: Draft Proposed Financial Plan 2015/16
Date of meeting: 31st March 2015
Prepared by: David Jago, Chief Finance Officer
Presented by: David Jago, Chief Finance Officer

| Data Quality Rating | BAF Ref | Impact on BAF Risk Rating |
|---------------------|---------|---------------------------|
| Silver | 3,4,7 | None |

1. Introduction

- 1.1 The purpose of this paper is to update the LHCH Board of Directors on the Income and Expenditure plans and Balance Sheet assumptions for LHCH for the forthcoming financial year 2015/16. The committee's attention is brought to Monitor's revised planning framework of a single financial year under current regulatory guidance.
- 1.2 The Trust is required to submit a one year "operational" plan to Monitor by midday 7th April 2015 which will incorporate the 2015/16 draft financial plan. Final submission of plan is required by midday 14th May 2015. Further work is required to fine tune the 2015/16 projections e.g. the Trust is currently in very early stages of negotiating its contract position with its key commissioners which gives rise to a level of risk not historically present at this time of the financial year. However, the analysis taken thus far does enable the IPC to consider and recommend to the Board of Directors a provisional budget for LHCH for the financial year 2015/16.
- 1.3 This paper sets out the key highlights in relation to the proposed financial plan including the risks and opportunities and also those major areas of uncertainty which remain under review at this time. As in prior years this is a particularly challenging planning cycle this year given the delays imposed on the planning cycle by the impact of the provider response to 2015/16 tariff consultation proposals and there are a number of significant matters outstanding that could have a material impact upon the position. These include the following;
- A final contract offer is awaited from NHS England and its Cheshire, Warrington and Wirral Area Team.

- A final contract offer is awaited from Liverpool CCG as commissioner in its own right and as lead commissioner for its associates.
- An initial contract offer is awaited from Wales, however, given the small variation between 2014/15 plan and forecast outturn this is expected to be minimal risk.
- The plan assumes a CIP at 4.0% of operating expenses (£4.5m) some of which is yet to be identified.
- The proposed financial plan is underpinned by the 2014/15 forecast outturn, which is still in the process of being finalised.

2. Financial Objectives

- 2.1 For 2015/16 the Trust will aim to ensure that it meets, as a minimum, the financial requirements of a Continuity of Services Risk Rating (CoSRR) level 3 comprising a 4 scored for the debt service cover rating and 2 for liquidity rounding up to a 3 overall. The CoSRR is shown in more detail in **Appendix 1**. The liquidity metric is adversely impact upon by liquid days standing at -7.03 days under current planning assumptions. Improvement to the current planned net deficit of £300k bringing this closer to breakeven would see the liquidity metric fall to less than - 7 days improving this metric to a level 3 and a CoSRR overall of level 4 .A key underpinning objective is the need to deliver a CIP of £4.5m in 2015/16 (4.0%).
- 2.2 The Trust also has to be mindful of creating sufficient surplus balances to support investment in its capital infrastructure to enable delivery of its core objectives. Monitor's liquidity rating is an area of fragility for LHCH in 2015/16 and will continue to be under the current "flat cash" planning scenario going forwards.

3. Review of 2014/15 Financial Performance

- 3.1 At the end of month 11 the Trust is forecasting a normalised net surplus of £0.4m against a plan of £0.48m. The marginally below plan level of performance reflects the impact of higher levels of activity(and margins delivered) especially within cardiology experienced throughout the latter part of the year together with the slippage experienced on the CIP programme materially around pay at circa £1.0m and agreed planned investments.
- 3.2 Activity performance has been buoyant in the latter part of the financial year. Total NHS income is forecast at £3.6m (3.6%) above plan this includes £1.9m unplanned income for device excluded ICDs which is matched by expenditure. As at month 11 total spell activity is some 1% below plan with income correspondingly being 2% above plan reflecting increasing complexity and comorbidity of activity.
- 3.3 As in previous years the Trust has commissioned the District Valuation Service (DVS) to provide a prospective valuation report of the Trust's land and buildings as at 31st March 2015 to conform to IAS 16 Property, Plant and Equipment. Any revaluation impact on the Statement of Comprehensive Income (SoCI) will be dealt with as a technical and exceptional issue by Monitor and will be normalised out.

3.4 The 2014/15 planned financial metrics and forecast performance is detailed below in Table 1.

Table 1 Trust 2013/14 Financial Metrics

| | 2014/15 Plan | 2014/15 (forecast) |
|------------------------|--------------|--------------------|
| EBITDA | £7.4m | £6.7m |
| Normalised Net Surplus | £0.48m | £0.40m |
| Cash balance | £8.7m | £8.0m |
| CIP | £5.8m | £4.7m |
| Capital investment | £5.6m | £5.1m |
| CoSRR | 4 | 4 |

From the above analysis the Trust's forecast outturn CoSRR will be in line with plan but there are minor variations within the metrics but not to the extent to have an adverse impact on the overall risk rating.

4. Activity Assumptions Underpinning Trust Income Plan

4.1 The Trust's income plan is set using projected activity levels substantially based upon the month 9 forecast outturn for 2014/15 adjusted for known variations arising from commissioning intentions, notice served etc. Activity is then correlated back to a rolling historical 5 year trend analysis to help further support assumptions made on activity base. Detailed modelling work has been undertaken to assess the level of additional activity required to be undertaken to reduce the number of backlog waits to ensure delivery of Referral To Treatment standards (RTT) on a sustainable basis. Accordingly an additional 215 surgical spells across CABG, Valve, CABG and Valve, Aortics and TAVI have been catered for in the plan alongside a further 180 EP cases within Cardiology.

4.2 The activity assumptions detailed below in Table 2 continue to remain work in progress and are subject to agreement with commissioners. The Trust continues its contracting negotiations with its commissioners to ensure formal sign off of contract activity levels by 31st March 2015 to avoid mediation process. There is contractual risk that NHS England will not include backlog activity and associated income in their contract but will accept this as above plan performance.

Table 2 Activity Figures Utilised to set 2015/16 Income Plan

| Point of Delivery | Plan 2014/15 £'000 | Forecast 2014/15 £'000 | Variation % | Projected 2015/16 £'000 |
|-------------------|--------------------------|------------------------------|----------------|-------------------------------|
| Day case | 9,190 | 9,294 | 1.1 | 9,248 |
| Elective I/P | 24,770 | 24,340 | -1.7 | 28,388 |
| Non Elective | 19,514 | 21,048 | 7.9 | 21,018 |
| Outpatients | 7,888 | 8,258 | 4.7 | 8,632 |
| Other | 36,386 | 38,112 | 4.7 | 38,347 |

4.3 Current discussions with commissioners are based upon a full PbR tariff contract utilising the rules under the Default Tariff Rollover (DTR) as set out by Monitor and NHS England in its letter sent to providers on the 18th February 2015. The aim

of contracting negotiations is to secure the 2015/16 forecast as described above together with recognition of coding and counting change notifications submitted to commissioners in September 2014. The changes comprise of:

- Changes to coding from outpatients to outpatient procedures £0.4m
- Local Price variation to move critical care currency to the number of organs supported with a revised tariff £1.0m

4.4 The activity plans have been driven by Directorate colleagues and formed as part of their business planning process and use historical trend analysis together with referral trends to indicate capacity requirements to manage waiting time targets moving forward.

4.5 The Trust continues to meet regularly with commissioners to ensure formal sign off of contract activity levels in March 2015. The activity projections currently incorporated may therefore need to be refined along with the associated impact on income and expenditure plans. As anticipated and not unlike planning for 2014/15 there are a core set of principles that have been adopted by the local Area Team to include;

- **System stability:** to stratify risk and manage within fixed envelopes and tolerances to mitigate risk across the system in 2015/16.
- **Equity:** phased approach to rebasing of local prices to national and consistent pricing models. No unilateral rebasing of prices by providers or LATs. Work to consistent pricing methodology by 2015/16.
- **Counting and Coding:** Requirement to submit 6 month notice period for all coding and counting changes plus meeting qualifying criteria for local variations.
- **Clinical Standards:** Expectation that providers meet this or adopt time limited clinical and financial derogation.

5. Key 2015/16 Financial Plan Headlines

Table 3 Key Financial Plan Headlines

| Key Performance Measures | Forecast 2014/15 £'000 | Planned 2015/16 £'000 |
|---------------------------------|------------------------------|-----------------------------|
| EBITDA | 6,673 | 7,219 |
| Normalised Net Surplus(Deficit) | 405 | (300) |
| Capital Investment | 5,096 | 5,272 |
| Closing Cash Balance | 8,049 | 6,732 |
| CIP | 4,700 | 4,560 |
| Revenue total | 116,100 | 121,065 |
| Continuity of Services Rating | 4 | 3 |

5.1 The key points to be brought to the Board of Directors attention for 2015/16 include a financial plan set in the context of sector performance that caters for a small planned deficit of £0.3m balancing out the need to maintain sector wide levels of productivity within the context of the need to invest in organisational capacity(cost pressures some £1.8m), driven by the planned delivery of efficiency at £4.5m (4.0% of operating expenses), planned closing cash balances remaining

at a reasonable balance at £6.5m driving liquidity under the current risk rating regime of -7.0 days (level 2) and capital investment broadly contained within depreciation but including £0.15m from donated sources.

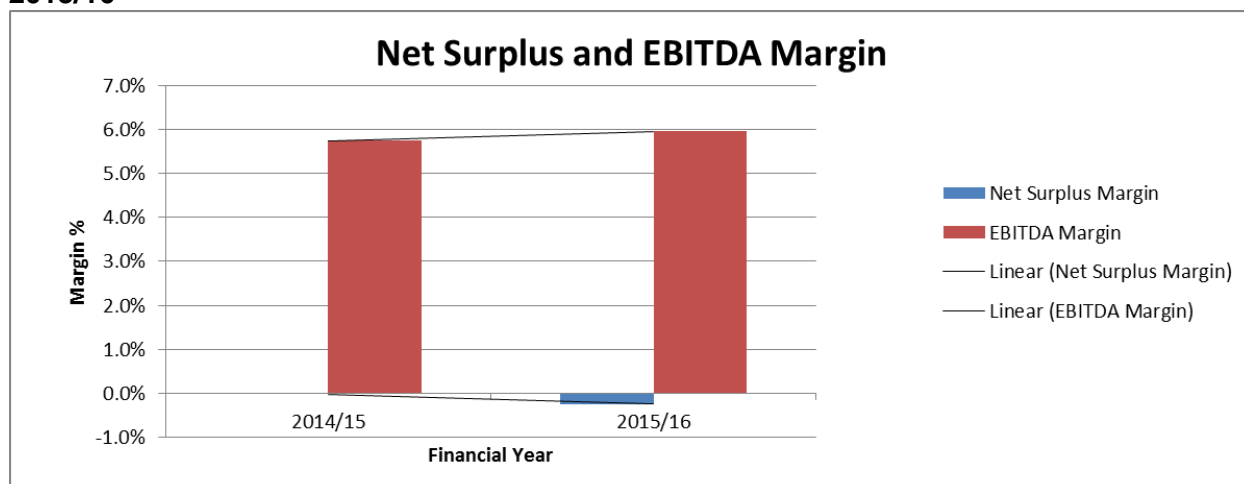
5.2 The summarized Income & Expenditure position for the one year plan is detailed below in Table 4 with full details contained in **Appendix 2**

Table 4 Income & Expenditure summary

| | 2014/15 Plan £'m | 2014/15 (forecast) £'m | 2015/16 Projected £'m |
|---------------------------------------|------------------------|------------------------------|-----------------------------|
| Income (operating) | 111.0 | 116.1 | 121.1 |
| Expenditure | 103.6 | 109.4 | 113.8 |
| EBITDA | 7.4 | 6.7 | 7.2 |
| Net Normalised Surplus/(Deficit) | 0.5 | 0.4 | (0.3) |
| EBITDA Margin % | 6.7% | 5.8% | 6.0% |
| Continuity of Services Risk Rating | 4 | 4 | 3 |

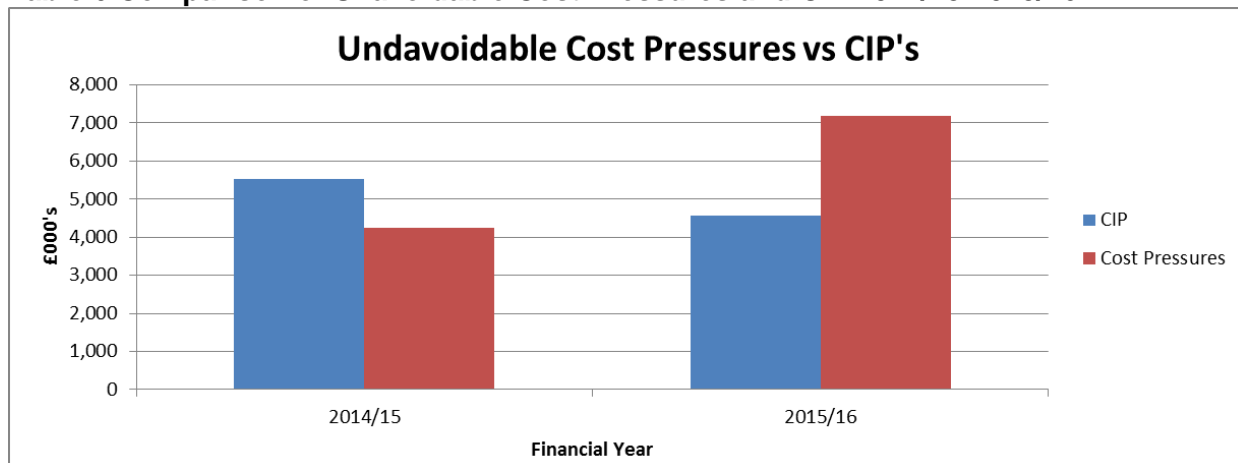
5.3 The normalised net surplus position for 2014/15 is still subject to change until finalised in April, but is forecast to be £0.40m. The financial plan for 2015/16 is underpinned by a forecast normalised surplus of £0.40m in 2014/15.

Table 5 Comparison of normalised Net Surplus and EBITDA margins 2014/15-2015/16



5.4 The financial plan includes a number of unavoidable recurrent cost pressures, including inflation, incremental drift and agreed investments, which are offset by cost reducing schemes (CIP's), as demonstrated in Table 6 overleaf.

Table 6 Comparison of Unavoidable Cost Pressures and CIP 2014/15-2015/16



5.4 It should be noted that the financial plan in 2015/16 caters for a pay award which has been assessed at an impact of some £1.04m with key details noted below;

- Abolition of the bottom point of AfC and increasing pay point 2 to £15,100. This means an increase of 5.6 per cent for staff on point 1 and 3.1 per cent for staff on pay point 2.
- 1 per cent consolidated pay rise for all staff up to point 42 from April 2015.
- A further consolidated pay rise of an additional £200 for staff on pay points 3-8. This means staff on these pay points will receive an increase between 2.1 per cent and 2.3 per cent.
- An increment freeze in 2015/16 for staff on pay point 34 and above for one year only.

6. Key Headlines for 2015/16

6.1 Currently the base position shows a small deficit of £0.3m and provides a CoSRR of 3 (On a range of 1-4 with 4 lowest risk) with 4 scored for the debt service cover rating and 2 for liquidity rounding up to a 3 overall. The range of outcomes detailed within **Appendix 5** demonstrate that a rating of 4 is achievable with the best case scenarios in 2015/16 but the worst case with CIP contingency rolled out would still generate a CoSRR of 3 overall. The potential application of contract penalties, shortfall in CIPs and loss of Upper GI income with no replacement income stream offset by roll out of unutilised contingency impacting adversely on the liquidity rating reducing liquidity to -12.0 days but still delivering a level 2 on this metric. The headroom on base case before LHCH would see the CoSRR drop to a level 2 overall is some £2.2m.

6.2 Inpatient activity is expected to increase slightly by 276 spells (2.1%) compared to that experienced in 2014/15 with the key issue of building in an additional 395 spells to drive down backlog waiting numbers being the key factor.

6.3 The proposed financial plan for 2015/16 having undergone two iterations following review of key assumptions does not cater for any discernible impact of competition and loss of market position.

6.4 The financial plan caters for the Trust adopting the Default Tariff Rollover (DTR) option compared to the Enhanced Tariff Option (ETO) tariff for 2015/16. Key issues in reaching this decision was the loss of CQUIN income at £1.7m offset by the continuation of 2014/15 tariff and avoidance of impact of revised tariff deflator (circa £3.2m) in conjunction with Trust receiving full payment of drug and device activity.

6.5 The total CIP efficiency requirement for 2015/16 has been identified at £4.5m. To date some 70% of this efficiency requirement has been identified. These have been individually risk rated, to give the following assessment of risk against deliverability at this present time.

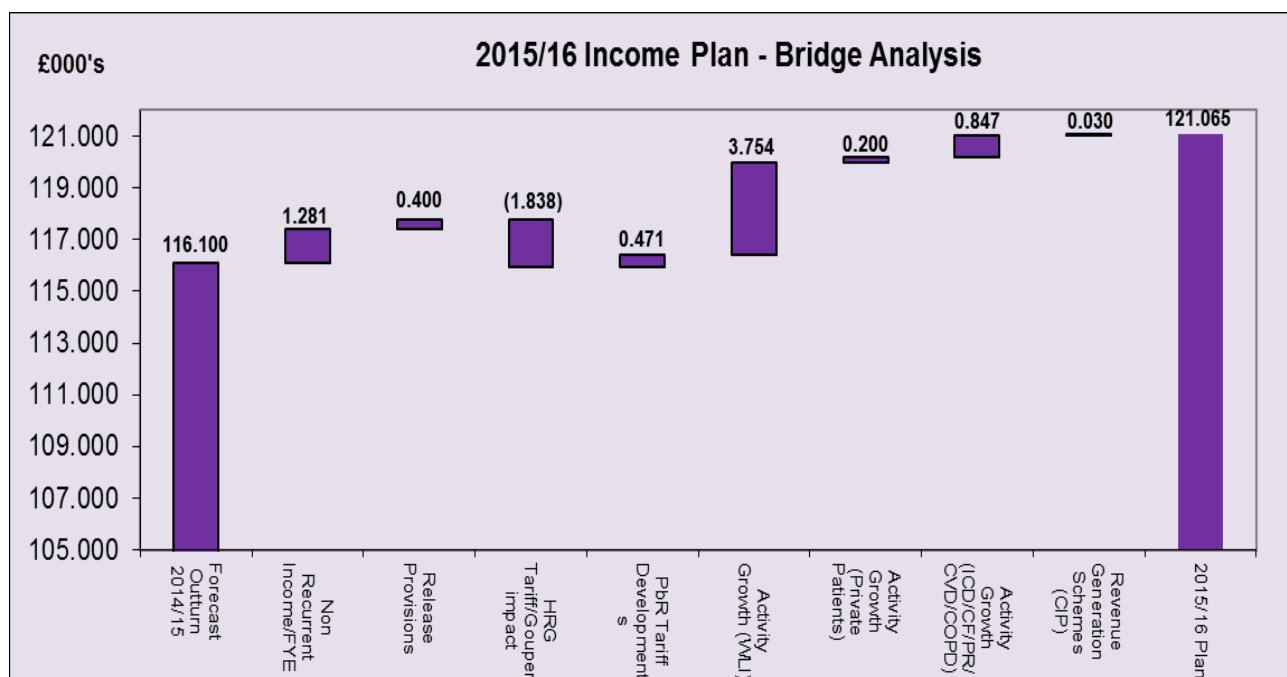
Table 7 CIP Risk Assessment/Progress to Date

| Table 7 CIP Risk Assessment/Progress to Date | | | | |
|----------------------------------------------|--------|--------|--------|--------------|
| | £000's | £000's | £000's | £000's |
| Target 4..0% | | | | 4,560 |
| Current Savings Identified | Green | Amber | Red | Total |
| C&CM | 276 | | | 276 |
| SACC | 361 | | | 361 |
| Clinical Support Services | 426 | | | 426 |
| Non Clinical Support Services | 113 | | | 113 |
| Corporate Services | 162 | | | 162 |
| Trust Wide | | 1,850 | | 1,850 |
| Subtotal | 1,338 | 1,850 | 0 | 3,188 |
| GAP | | | | 1,372 |

6.6 A draft capital programme is included at £5.3m although expenditure will be contained within estimated depreciation of £5.4m utilising donated assets of £0.2m. The capital programme proposed for 2015/16 includes capital contingency of £0.3m, the finalisation of our new cystic fibrosis ward (£1.1m), expansion of critical care facilities (£0.4m), medical equipment replacement programme (£0.8m), front entrance scheme (£1.0m) and the redevelopment of the outpatient department to improve patient flow (£0.4m).

7. Detailed Current Assumptions

7.1 The income and expenditure position is summarised in **Appendix 2**. Anticipated key movements between 2014/15 income and 2015/16 are shown in the bridge chart overleaf.



8. Activity

This is included at 13,500 spells (including private patients at 463 spells) which compares to the forecast position of 13,224 for 2014/15, an increase of 2%. The following key points are highlighted;

8.1 NHS Clinical Income

- Tertiary** – Activity remains as per the forecast outturn based at month 9 for 2014/15 and adjusted for known variations reflecting activity underperformance in non-electives and over performance in elective activity and the impact of the additional 395 spells. PbR tariff rates at 2014/15 prices in line with DTR rules have been applied. The plan includes £73.6m for this contract and whilst a formal contract is still to be signed the Trust expects to achieve an outcome in line with assumptions reflected in the plan. Indication has been given around commissioners intention not to formal contract for the impact of reducing the patient wait backlog but to treat as over performance as activity hits.
- Secondary** – The Trust's secondary contract is negotiated with Liverpool CCG and is based on the same assumptions as the tertiary contract. Whilst a formal contract is yet to be signed the most recent offer achieved the financial value built into the plan (£15.30m) is likely to be accepted.
- Wales** – Health Commission Wales are yet to make any formal offer. However, against a 2014/15 plan of £14.75m forecast outrun is of the order of £14.85m with an opening base contract value for 2015/16 being catered for at £14.86m.

8.2 Non Clinical Income

- Education and Training – MPET (Multi Professional Education & Training) income is included at known levels for 2015/16 which includes a transitional adjustment to manage the risk associated with the movement to a tariff based payment system.
- Others – 1.5% reduction on Services provided to other NHS Organisations in line with national guidance and mainly impacts upon the contract with RLUHT for pharmacy and radiology services.

8.3 2014/15 Business Rules

8.3.1 2015/16 Tariff

- Under DTR rules the 2015/16 tariff the Trust will work under is based on 2014/15 pricing rules until at such time NHS England/Monitor may take a decision to issue a revised tariff for 2015/16.
- The financial plan accordingly caters for the loss of CQUIN income under this option at £1.76m.

8.3.2 Contract Efficiencies

A number of measures will continue to remain in place in 2015/16 these being;

- Readmissions – Trusts will not be reimbursed for emergency readmissions within 30 days of discharge following an elective admission and a locally agreed threshold for all other readmissions;
- Non-elective admissions will be reimbursed at 30% marginal tariff over 2013/14 levels. This represents a renegotiated baseline compared to the national contract stipulated baseline year of 2008/09.
- Efficiency Levers - commissioners will continue to drive providers for increased efficiency and improvements in quality by imposing clear penalties on failure to achieve Referral to Treatment Times and cases of infection (C-diff and MRSA) exceeding trajectory. The standard national contract also imposes penalties for late submission of activity related information per the monthly timetable.

8.3.3 Operating Costs

8.3.4 Total operating costs in 2015/16 are forecast at £113.8m which compares to a forecast outturn in 2014/15 of £109.4m, an increase of £4.4m. This is materially driven by activity related cost in respect of reduction of backlog £3.6m and cost pressures.

An analysis of movement in costs between years by category is shown in Table 8 below:

Table 8 Detailed Operating costs

| Operating Cost Category | 2014/15 £m | 2015/16 £m | Movement £m |
|------------------------------|---------------|---------------|----------------|
| Pay | -62.6 | -65.0 | -2.4 |
| Drugs | -6.1 | -6.2 | -0.1 |
| Clinical Supplies | -30.9 | -33.2 | -2.3 |
| Non-Clinical Supplies | -2.7 | -2.6 | 0.2 |
| Other Costs | -7.1 | -6.9 | 0.3 |
| Total Operating Costs | -109.4 | -113.8 | -4.4 |

8.3.5 The increase in pay costs between 2014/15 and 2015/16 is analysed in the bridge chart below and Table 9 below:

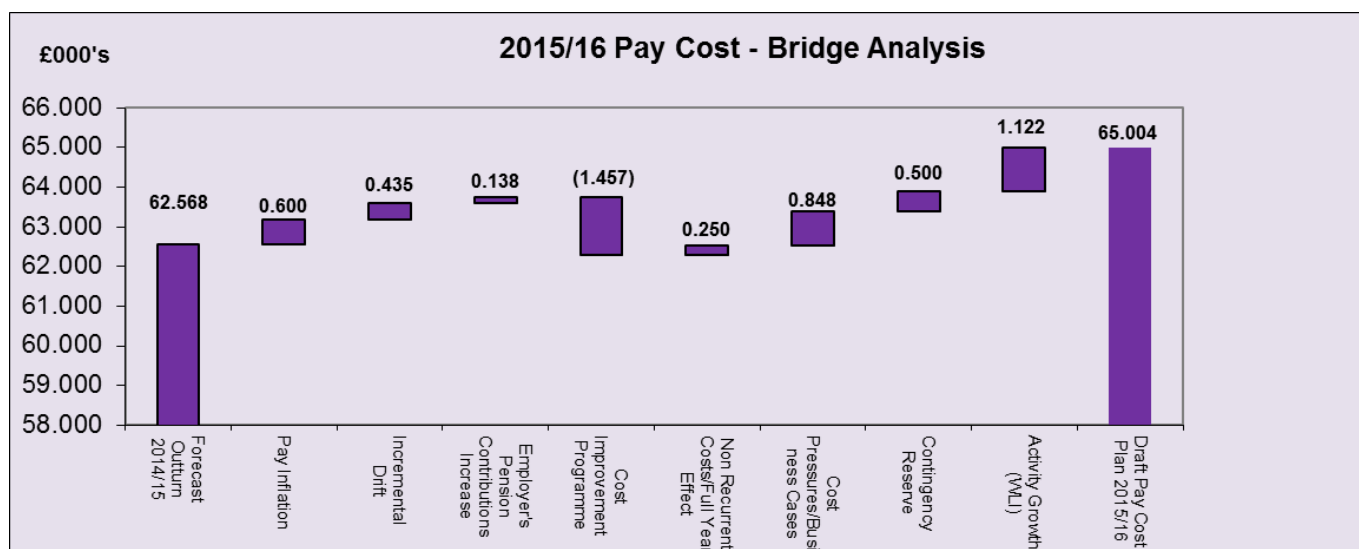


Table 9 Pay Cost 2014/15-2015/16 Reconciliation

| Pay Expenditure Bridge Analysis | | £000's |
|-------------------------------------|--|----------------|
| Forecast Outturn 2014/15 | | -62,568 |
| Pay Inflation | | -600 |
| Incremental Drift | | -435 |
| Employer's Pension | | -138 |
| Cost Improvement Programme | | 1,457 |
| Non Recurrent Costs/FYE | | -250 |
| Cost Pressures/Business Cases | | -848 |
| Contingency Reserve | | -500 |
| Activity Growth (WLI) | | -1,122 |
| Pay Expenditure Plan 2015/16 | | -65,004 |

- The recommended pay award for NHS staff has been catered for in the proposed 2015/16 financial plan.
- CIP efficiency schemes of £1.5m have been identified in initial pay efficiency plans for 2015/16.

- Cost pressures and non-recurrent costs reflect the full year effect of recruiting to vacancies during 2014/15 and also posts required that are not yet filled at month 11.
- A pay reserve is included for CIP contingency risk reserve of £0.5m.

8.3.6 The £1.98m increase in non-pay costs between 2014/15 and 2015/16 is detailed in the chart and Table 10 below;

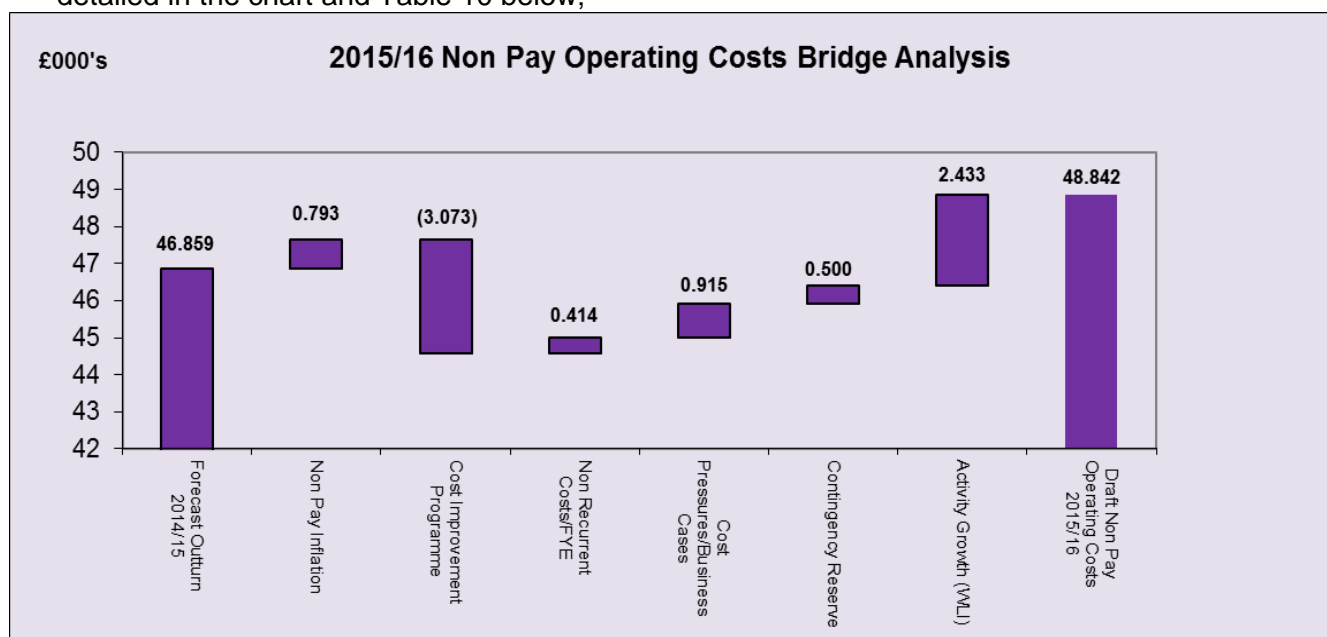


Table 10 Non-Pay costs 2014/15-2015/16 reconciliation

| Non Pay Operating Expenditure Bridge Analysis | £000's |
|---------------------------------------------------|----------------|
| Forecast Outturn 2014/15 | -46,859 |
| Non Pay Inflation | -793 |
| Cost Improvement Programme | 3,073 |
| Non Recurrent Costs/FYE | -414 |
| Cost Pressures/Business Cases | -915 |
| Contingency Reserve | -500 |
| Activity Growth (WLI) | -2,433 |
| Non Pay Operating Expenditure Plan 2015/16 | -48,842 |

- Inflation has been applied to drugs and other non-pay inflation at a level of 2.5%, equating overall to circa £0.8m for 2015/16.
- CIP efficiency schemes of £3.1m have been identified in the initial CIP work to date as being required for 2015/16; this is discussed in further detail below.
- Some £915k cost pressures have been catered for in the plan including £0.27m in respect of Clinical Negligence Scheme for Trusts (CNST) reflecting loss of discount.
- A non-pay reserve of £0.5m has been included for CIP contingency risk reserve.

9. Cost Improvement Programme

9.1 The national efficiency target for 2015/16 as set out in the initial national tariff consultation was a gross 3.8% netted down to 1.9% after factoring in the impact of inflation uplifts. The Trust has identified in its financial plan for 2015/16 a requirement to deliver a CIP at 4.0% (£4.5m). This level of CIP reflects the requirement to carry forward £0.39m of savings found non-recurrently in the 2014/15 programme together with other financial pressures as noted above.

9.2 The table below highlights the savings targets identified to date for 2015/16 by enabling strategy:

Table 11; CIP by enabling strategy

| Enabling Strategy | £m |
|-----------------------------|-----|
| Workforce | 1.0 |
| Standardisation/Procurement | 1.7 |
| Pathway redesign | 0.2 |
| External review programme | 0.3 |
| Income | 0.1 |
| Other | 0.0 |
| Unidentified | 1.4 |
| Total | 4.6 |

9.3 The Trust has still to fully identify the delivery of the full £4.5m CIP over the plan. Whilst work streams have been identified the Trust still has elements of risk to the delivery of the programme of savings in 2015/16 of the order of £1.4m. This is a key element of risk to the delivery of the plan and this risk needs to be mitigated by the end of quarter one.

9.4 The level of efficiency noted above is broadly in line with that included within Monitor guidance and reflects the nature of CIPs achieved in 2014/15 (non-recurrent element) and pressures facing the Trust as detailed above. The financial plan caters for realistic risk in respect of delivery of CIP, impact of tariff, inflationary pressures and mitigation of risk re potential penalties.

9.6 The 2015/16 target at 4.0% equates to £4.5m. The Trust will seek to identify the various work streams to enable this level of efficiency to be delivered during quarter one.

9.8 The performance management of CIP schemes will continue to be managed at various levels. For 2015/16 performance again will be built into directorate objectives as a KPI and will be monitored at quarterly directorate business and governance meetings, performance review's with the executive team and will be also be reported on a regular basis to the Integrated Performance Committee. In addition the Trust has invested in a Project Management Office to support on-going CIP development, implementation and delivery. It is anticipated that a formal substantive appointment to PMO lead will be made in quarter 1 with interim support being secured in the first instance.

10. Other Costs

10.1 Depreciation - this is based upon the current asset profile adjusted for the expected capital programme over the period. Neither change in depreciation policy has been assumed or any significant revaluations. The Trust is awaiting a final report on a desk top revaluation carried out by the District Valuer.

10.2 PDC - The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for

- (i) Donated assets (including lottery funded assets),
- (ii) Average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits
- (iii) Any PDC dividend balance receivable or payable.

10.3 Financing costs in 2015/16 are detailed below in Table 12.

Table 12 2015/16 Financing costs

| | 2015/16 £000's |
|-------------------------------|-------------------|
| Depreciation | -5,422 |
| Interest Payable | -38 |
| Interest Receivable | 36 |
| PDC | -2,195 |
| Income from Donated Additions | 100 |
| Restructuring Costs | 0 |
| Total | -7619 |

11. Balance Sheet – Statement of Financial Performance

11.1 This is summarised in **Appendix 3** and shows net assets decreasing marginally in line with the current trading position over the period.

11.2 Fixed Assets - The position assumes a moderated capital spend for 2015/16 of £5.3m. The financing costs increase relating to the 2015/16 capital programme has been catered for in the proposed financial plan.

11.3 Working Capital - This continues to support the cash position with a low level of receivables and a relatively high level of payables and accruals. The Trust will seek to continue to improve its approach to treasury management in 2015/16 and forecast levels of working capital are maintained throughout the one year planning period. The Trust will continue to seek all options and look to improve working capital management and for further cash preservation initiatives during 2015/16.

12. Cash Flow

12.1 This is summarised within **Appendix 4** with projected closing cash balances of £6.7m in 2015/16.

13. Capital Expenditure Plan.

13.1 As in previous years for 2015/16 the Trust has identified a risk based capital expenditure requirement of £5.3m. This is broadly in line with depreciation estimated to be £5.4m.

13.2 The table below summarises the capital programme priorities;

Table 13: Capital Programme 2015/16

| Programme | 2015/16 £m |
|-------------------------------------|-----------------------|
| New Cystic Fibrosis unit | 1.1 |
| Critical Care additional beds | 0.4 |
| Outpatient Department redevelopment | 0.4 |
| Estates Front Entrance | 1.0 |
| Estates infrastructure | 0.5 |
| IT investment | 0.8 |
| Replacement medical equipment | 0.8 |
| Contingency | 0.3 |
| TOTAL | 5.3 |
| Depreciation | (5.4) |
| Under subscribed | 0.1 |

13.3 The approach to capital planning for 2015/16 has been risk based and managed by the Capital Control Group and subsequently presented to Operational Board and the Executive Team. Each department was asked to submit risk assessed capital investment requirements categorised into high, medium and low priority. This review included assets on the asset register that are approaching the end of their estimated useful economic life.

13.6 As in previous operational plan submissions capital investment is aligned to levels of depreciation given on-going challenges around the liquidity metric. Catheter laboratory replacement requirements were risk assessed and removed from 2014/15 and have again been removed from 2015/16 but will be subject to detailed debate as part of the capital planning process for 2016/17. The Trust will need to identify its key strategic priorities for investment of capital as part of the planning process for 2015/16 referring to its five year priority investment plan.

14. Treasury Management

14.1 The Trust will continue to invest surplus cash balances to maximise its investment return whilst fully adhering to the treasury policy and procedures set in terms of risk exposure. During 2014/15 the Trust continued to invest surplus cash balances in the National Loans Fund to capitalise on the more favourable interest

rates compared to the Government Banking Service account and interest earned has been used to inform the level set in the refreshed 2015/16 financial plan at £38,000.

15. Key Financial Risks

15.1 The following are highlighted as material risks in respect of the 2015/16 financial plan for the forthcoming year:

- I. Delivery of a challenging 4.0% CIP target given historically strong performance and delivery with 2014/15 being the first year CIP was not delivered in full and recurrently.
- II. Potential tertiary commissioner's ability to recognise fully accelerated critical care and TAVI transition issues assumed within the plan.
- III. The possible introduction of a revised 2015/16 tariff for those that opted for DTR.
- IV. The potential for Aortic activity to continue to increase over and above 2015/16 planned levels and the associated loss incurred on these procedures not fully recognised by commissioners.
- V. The potential application of Standard Contract penalties in respect of readmissions, failure to meet RTT at speciality level and C Difficile.
- VI. The inability to reach contractual agreement with commissioner's specifically NHS England given scale of difference in Stated Base Value and Trust income assumptions. Risk mitigated by where activity does materialise will be paid in full at PbR rates and will merely reflect contract over- performance.
- VII. Anticipated new cost pressures in 2015/16 are in line with forecast.
- VIII. The level of activity performance required within the financial plan set with regard to backlog activity is not recurrent necessitating the need to disinvest in posts etc. in 2016/17. Risk is materially mitigated by turnover levels within clinical teams.

Going forward:

- The lack of substance in respect of future year's savings programmes which will need to be worked upon but again need to focus on more strategic and transformational options.

16. Key Outstanding Matters

16.1 While the financial plan is complete based on known factors and informed assumptions there are a number of material issues which need to be resolved:

They include:

- Signed off contractual agreements for 2015/16 with commissioners and consequent financial implications.

- Finalisation of patient flow and capacity requirements in 2015/16 to enable delivery of key performance targets outlined in the planning framework for 2015/16. These will need to be achievable within a tightening financial envelope whilst maintaining safe, effective clinical services and the best potential outcomes for patients.
- We are short of our CIP target by some £1.4m with some CIPs identified rated as amber in terms of risk. Dialogue and identification of additional transformation schemes to bridge the gap continues and will be progressed through Operational Board during quarter 1.
- The finalisation and approval of the capital programme (essentially firming up cost estimates) whilst acknowledging that the programme for 2015/16 is already identified for the most part.
- Risks and Mitigations - These are set out in **Appendix 5** summarising some of the key upside opportunities and the most likely downside risks. This shows a range of a surplus of £0.5m to a loss of £1.9m after applying CIP contingency reserve. A key piece of work remains with regards to the mitigating action put forward to ensure they are deliverable if the downsides present themselves.

17. Conclusions

17.1 This proposed financial plan for 2015/16 whilst prepared on a prudent basis, still has a number of key issues which are uncertain and could impact the position set out.

17.2 Within the plan the following have been catered for to mitigate against the above and other risks with:

- Conservative activity assumptions based upon forecast outturn and small element of growth.
- Realistic and developed CIP schemes with further identification and iteration required.
- Fully provided inflation reserves.
- Contingency reserves remaining at £1.0m
- Reducing but reasonable cash balances at the end of the trading period
- The mitigation plans which will continue to be developed.

18. Recommendations

18.1 The Board of Directors are asked to consider the analysis outlined in this paper and to approve the financial plan for 2015/16 to set budgets and to be submitted to Monitor on 7th April 2014.

| Appendix 1 - Risk Ratings | Baseline | Year 1 |
|-------------------------------------------|----------------|----------------|
| Capital Service Cover | 2014/15 | 2015/16 |
| PDC Dividend | -2,015 | -2,195 |
| Interest Expense on Finance Lease | -38 | -38 |
| Capital Element of Finance Lease | -217 | -80 |
| Revenue Available for Debt Service | 6,673 | 7,219 |
| Capital Service | -2,270 | -2,313 |
| Capital Service Cover Metric | 2.94 | 3.12 |
| Capital Service Cover Rating | 4 | 4 |
| Liquidity | 2014/15 | 2015/16 |
| Cash for CoS Liquidity | -2,070 | -2,222 |
| Operating Expenses within EBITDA | -109,427 | -113,846 |
| Liquidity Metric | -6.81 | -7.03 |
| Liquidity Rating | 3 | 2 |
| Overall CoSRR | 4 | 3 |

| Appendix 2 - Statement of Comprehensive Income (SoCI) | Baseline | Year 1 |
|-------------------------------------------------------|-----------------|-----------------|
| | 2014/15 | 2015/16 |
| NHS Acute Activity Income | 105,105 | 109,769 |
| Private Patient Revenue | 3,571 | 3,957 |
| Other Operating Revenue | 7,424 | 7,339 |
| Total Operating Revenue | 116,100 | 121,065 |
| Employee Expenses | -62,568 | -65,004 |
| Drugs | -6,131 | -6,211 |
| Clinical Supplies | -30,871 | -33,185 |
| Non Clinical Supplies | -2,715 | -2,564 |
| Consultancy | -548 | -478 |
| Misc Operating Expenses | -6,594 | -6,404 |
| Total Operating Expenditure | -109,427 | -113,846 |
| Depreciation & Amortisation | -5,097 | -5,422 |
| Restructuring Costs | -437 | 0 |
| Interest Income | 36 | 36 |
| Interest on Finance Leases | -38 | -38 |
| PDC Dividend Expense | -2,015 | -2,195 |
| Income from Donated Assets | 846 | 100 |
| Total Net Surplus/(Deficit) | -32 | -300 |
| EBITDA | 6,673 | 7,219 |
| Normalised Net Surplus/(Deficit) | 405 | -300 |

| Appendix 3 - Statement of Financial Position (SoFP) | Baseline | Year 1 |
|-----------------------------------------------------|----------------|----------------|
| | 2014/15 | 2015/16 |
| Non Current Assets | 72,604 | 72,454 |
| Inventories | 3,206 | 3,061 |
| NHS Receivables | 1,331 | 1,331 |
| Non NHS Receivables | 1,447 | 1,447 |
| Other Receivables | 883 | 883 |
| Provision for impairment of receivables | -223 | -223 |
| Accrued Income | 1,893 | 1,893 |
| Prepayments | 355 | 355 |
| Cash & Cash Equivalents | 8,049 | 6,732 |
| Non Current Assets Held for Sale | 6 | 6 |
| Total Current Assets | 16,947 | 15,485 |
| Deferred Income | -1,357 | -757 |
| Provisions | -271 | -246 |
| NHS Payables - Revenue | -2,454 | -2,454 |
| Non NHS Trade Payables - Revenue | -1,636 | -1,636 |
| Other Payables | -2,040 | -2,040 |
| Non NHS Trade Payables - Capital | -2,033 | -1,533 |
| Accruals | -5,908 | -5,908 |
| Borrowings | -112 | -72 |
| PDC Dividend | 0 | 0 |
| Total Current Liabilities | -15,811 | -14,646 |
| Deferred Income | -683 | -583 |
| Provisions | -105 | -98 |
| Borrowings | -404 | -364 |
| Total Non Current Liabilities | -1,192 | -1,045 |
| Total Assets Employed | 72,549 | 72,249 |
| Public Dividend Capital | 63,232 | 63,232 |
| Revaluation Reserve | 14,236 | 14,236 |
| Retained Earnings | -4,919 | -5,219 |
| Total Taxpayers Equity | 72,549 | 72,249 |

| Appendix 4 - Statement of Cashflow (SoCF) | Baseline | Year 1 |
|---------------------------------------------------------------|----------|--------|
| Opening Balance | 10,907 | 8,049 |
| EBITDA | 7,071 | 7,319 |
| Charitable Investment | -846 | -100 |
| Operating Cashflows | 6,225 | 7,219 |
| (Increase)/Decrease in Inventories | -665 | 145 |
| (Increase)/Decrease in Receivables (including accrued income) | -1,929 | 0 |
| (Increase)/Decrease in Prepayments | 31 | 0 |
| Increase/(Decrease) in Payables | -2,196 | 0 |
| Increase/(Decrease) in Accruals | 548 | 0 |
| Increase/(Decrease) in Deferred Income | -1,025 | -700 |
| (Increase)/Decrease in Current Provisions | 203 | -25 |
| Increase/(Decrease) in Non Current Provisions | 0 | -7 |
| Increase/(Decrease) in Working Capital | -5,034 | -587 |
| Net Cashflow from Operating Activities | 1,191 | 6,632 |
| Capital Expenditure | -5,096 | -5,272 |
| Increase/(Decrease) in Capital Payables | 1,567 | -500 |
| Net Cashflow from Investing Activities | -3,529 | -5,772 |
| Cashflow before Financing | -2,338 | 860 |
| PDC Dividends Paid | -1,582 | -2,195 |
| PDC Dividends Capital received | 433 | 0 |
| Interest received on Cash Balances | 38 | 36 |
| Interest element of Finance Leases | -38 | -38 |
| Repayment of Loans & Leases | -217 | -80 |
| Donations received in cash | 846 | 100 |
| Net Cash Inflow/(Outflow) from financing | -520 | -2,177 |
| Net Cash Inflow/Outflow | -2,858 | -1,317 |
| | | |
| Closing Balance | 8,049 | 6,733 |

Appendix 5 - Emerging Risks

| | | Net Surplus | | Cash Balance | |
|-------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | | 2014/15 £000's | 2015/16 £000's | 2014/15 £000's | 2015/16 £000's |
| a. Net Surplus as per Forecast (Base Case) | | -32 | -300 | 8,049 | 6,732 |
| Upside Opportunities | | | | | |
| U.01 | Non Elective Threshold | 0 | 200 | 0 | 200 |
| U.02 | ICD Growth | 0 | 330 | 0 | 330 |
| U.03 | Arrowe Park PCI | 0 | 100 | 0 | 100 |
| U.04 | Pulmonary Effusion | 0 | 0 | 0 | 0 |
| U.05 | Myocardial Revascularisation - ESC Guidelines increase in Surgical Activity | 0 | 150 | 0 | 150 |
| Total Upside Opportunities | | 0 | 780 | 0 | 780 |
| b. Best Case Net Surplus | | -32 | 480 | 8,049 | 7,512 |
| Downside Risks | | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| R.01 | Energy price volatility (Inflationary increases) | 0 | -125 | 0 | -125 |
| R.02 | Commissioning Penalty - Referral to Treatment Times Penalties at Specialty Level | 0 | -100 | 0 | -100 |
| R.03 | CIP Scheme shortfall not fully identified | 0 | -1,372 | 0 | -1,372 |
| R.04 | Upper GI Activity Loss not replaced | 0 | -1,050 | 0 | -1,050 |
| Total Downside Risks | | 0 | -2,647 | 0 | -2,647 |
| c. Downside Case Net Surplus - No Mitigations | | -32 | -2,947 | 8,049 | 4,085 |
| Mitigating Actions | | | | | |
| a. Schemes in Control of the Trust Board | | | | | |
| M.01 | Reversal of Provisions (Non Recurrent) | 0 | 697 | 0 | 0 |
| M.02 | Restricted recruitment to vacant posts | 0 | 500 | 0 | 500 |
| M.03 | Increased Control of Non Pay Expenditure | 0 | 150 | 0 | 150 |
| M.04 | Roll out of Unutilised Contingency | 0 | 1,000 | 0 | 1,000 |
| Total Schemes in Control of Trust Board | | 0 | 2,347 | 0 | 1,650 |
| b. Schemes that have some risk but the Board has significant influence | | | | | |
| M.05 | Outpatient procedures not being fully charged | 0 | 100 | 0 | 100 |
| Total Schemes that the Board has Significant Influence | | 0 | 100 | 0 | 100 |
| c. Schemes that have risk and a significant reliance on others | | | | | |
| M.06 | Clinical Excellence Awards - Cessation | 0 | 160 | 0 | 160 |
| M.07 | Additional Private Patient Activity | 0 | 105 | 0 | 105 |
| M.08 | Incremental Drift Freeze | 0 | 435 | 0 | 435 |
| Total Schemes that have significant reliance on others | | 0 | 700 | 0 | 700 |
| d. Total Mitigating Actions | | 0 | 3,147 | 0 | 2,450 |
| e. Downside Case Net Surplus with Mitigations | | -32 | 200 | 8,049 | 6,535 |
| Financial Viability Summary | | 2014/15 | 2015/16 | 2014/15 | 2015/16 |
| a. Base Case | | -32 | -300 | 8,049 | 6,732 |
| b. Best Case | | -32 | 480 | 8,049 | 7,512 |
| c. Downside Case (No Mitigations) | | -32 | -2,947 | 8,049 | 4,085 |
| e. Downside Case (with Mitigations) | | -32 | 200 | 8,049 | 6,535 |

