5 Year Financial Strategy

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Executive Summary

Paper G

Context

The 5 year Long Term Financial Model (LTFM) produced in June 2014 has been subject to refinement since that date in support of business case reviews and applications to the Integrated Trust Financing Facility Committee nationally. However, during these revisions, there has been no change to the Trust's income and expenditure surplus/deficit trajectory.

As a result, a draft revision to the Financial Strategy and LTFM has been approved by IFPIC on 28th May 2015 and is presented for Board consideration and approval.

Questions

1. What is the result of the assumptions within the financial strategy?
2. What is the key driver of financial recovery and how has this been developed?
3. What further work is required on the Trust's financial strategy?

Conclusion

1. The Trust's deficit trajectory has improved but the year UHL returns to surplus remains the same with a surplus of £4.6m in 2019/20 which is a £4.1m improvement.
2. One of the key drivers of financial recovery is estate rationalisation which is due to be complete in 2019/20 as per the strategy. The other key driver is the delivery of national planning assumptions, most importantly, for 4% efficiency improvement per year.
3. Further work is required in risk and scenario modelling to consider sensitivity of assumptions, availability (or not) of capital, slippage on delivery of reconfiguration and alternative assumptions regarding site rationalisation. To give further assurance on the strategy, we will commission an external review of the site rationalisation savings assumptions.

Input Sought

- Approve the assumptions used in the Financial Strategy
- Support the Financial Strategy and LTFM for onward consideration by the NHS Trust Development Authority
- Support the further work required through subsequent review of the Financial Strategy and LTFM once the work is complete

For Reference

Edit as appropriate:

1. The following objectives were considered when preparing this report:

Safe, high quality, patient centred healthcare	[Yes]
Effective, integrated emergency care	[Yes]
Consistently meeting national access standards	[Yes]
Integrated care in partnership with others	[Yes]
Enhanced delivery in research, innovation & ed’	[Yes]
A caring, professional, engaged workforce	[Yes]
Clinically sustainable services with excellent facilities	[Yes]
Financially sustainable NHS organisation	[Yes]
Enabled by excellent IM&T	[Yes]

2. This matter relates to the following governance initiatives:

Organisational Risk Register	[No]
Board Assurance Framework	[Yes]

3. Related Patient and Public Involvement actions taken, or to be taken: [N/A]

4. Results of any Equality Impact Assessment, relating to this matter: [N/A]

5. Scheduled date for the next paper on this topic: [TBC]

6. Executive Summaries should not exceed 1 page [My paper does comply]

7. Papers should not exceed 7 pages [My paper does not comply]

5 Year Financial Strategy

Financial recovery plan (for approval) including assumptions & high level long term financial model (LTFM) outputs

Version 1.3

Trust Board

4th June 2015

Contents

1. Background

1.1. The Trust is required to clearly articulate it's financial strategy for a number of purposes including;

a) Summarising the financial impact of the Integrated Business Plan (IBP), or '*the strategy*'
b) Demonstration of timing in which the Trust will execute its financial recovery plan and will return to making a surplus or in the very least breakeven
c) To inform the application process to the Independent Trust Financing Facility (ITFF) for cash for the Trust to remain solvent whilst operating in financial deficit
d) To support the application process for external loans to the ITFF to fund the major capital reconfiguration programme
e) Aligning internal financial and strategic planning to the Better Care Together (BCT) programme

1.2. The Trust produced a 5 year Long Term Financial Model (LTFM) in June 2014 as part of a national strategic planning round and development of the BCT Strategic Outline Case (SOC) which followed. The June 2014 version of the LTFM has been subject to refinement since in supporting business case reviews and applications to the ITFF committee. However, during these revisions there has been no change to the Trust income and expenditure surplus/deficit trajectory.

1.3. As a result of the need for the financial strategy and there being a complete 2014/15 baseline the LTFM and financial strategy which it reflects are being refreshed during May 2015 for Board consideration and sign off on the 4th June 2015. This iteration of the financial strategy should be considered as the base case to which further scenario analysis will be applied, see 1.6 below.

1.4. The Trust has been challenged as to whether the strategy, and return to financial balance, can be delivered over a condensed period of time. So far, the response to this challenge has focused on whether the programme of business cases and estate reconfiguration can be delivered in a shorter time scale. Due to a variety of factors including formal public consultation as part of the BCT programme this has been deemed undeliverable so the financial strategy under consideration in this paper reflects those conclusions.

1.5. The financial strategy therefore links to the overarching strategic objectives and simultaneous nature of delivering significant organisational change whilst maintaining business as usual. However, it should be noted that the potential to expedite some of the savings associated with site rationalisation, and in doing so improve the surplus/deficit trajectory, remains possible within the assumptions given below.

1.6. On the 14th May 2015 the Trust Board considered the assumptions and outputs within this paper at its Thinking Day. On the 28th May 2015 the Integrated Finance, Performance and Investment Committee considered and endorsed the Financial Strategy. Comments from those discussions have been taken into account in this version.

2. Baseline assumptions

2.1. Within the financial strategy there are some baseline assumptions which underpin the 'business as usual' aspects. For the purposes of refreshing the 5 year financial strategy assumptions have been applied to the agreed 2015/16 plan from 2016/17 onwards.

2.2. As part of the BCT process and local health economy 'unit of planning' work in June 2014 there was agreement on the demographic growth that should be factored into each organisations plan. This has not been revised since so table 1 below summarises demographic change assumed.

Table 1 – Demographic change

	Basis	2016/17	2017/18	2018/19	2019/20
Unweighted demographic change					
NHS Leicester City	Used as part of BCT SOC	1.2%	1.6%	1.5%	1.5%
West Leicester CCG		1.7%	1.8%	1.7%	1.7%
East Leicester & Rutland CCG		1.8%	1.8%	1.9%	1.9%
Other commissioners		1.7%	1.8%	1.7%	1.7%
Total (weighted) demographic change					
Weighted demographic growth	Cumulative impact of above	1.6%	1.7%	1.7%	1.7%

2.3. There is guidance provided by Monitor on national income and expenditure inflation which Trusts are expected to reflect in their financial strategy. Table 2 below summarises this in headline terms. This table shows assumptions that are consistent with the June 2014 plan as there has been no further national guidance released.

Table 2 – Headline Income and Expenditure change

	2016/17	2017/18	2018/19	2019/20
Income deflation (aggregated impact of income inflation)	0.3%	(0.5%)	(0.6%)	(0.6%)
Cost inflation (aggregated impact of operating cost inflation)	4.3%	3.5%	3.4%	3.4%
LTFM implied efficiency	**4.0%**	**4.0%**	**4.0%**	**4.0%**

2.4. Within the headline measures there is some further guidance which breaks down cost inflation assumptions but this is rarely detailed for each and every year as Trusts are likely to experience local variation to any national assumptions. The UHL financial strategy includes the following at a detailed level:

Table 3 – Detailed Income and Expenditure change

	Basis	2016/17	2017/18	2018/19	2019/20
NHS acute activity revenue					
Tariff inflation	National guidance	0.4%	(0.6%)	(0.7%)	(0.7%)
High cost drugs & devices	Assumption based on trend	9.0%	8.8%	8.5%	8.5%
Other income					
Education & training	Impact of known reduction	(1.2%)	(0.6%)	0.0%	0.0%
Research & development	No intelligence to indicate change	0.0%	0.0%	0.0%	0.0%
Other income	Assumed change as per previous iteration	1.4%	0.7%	0.0%	0.0%
Private patients	Assumed change as per previous iteration	1.4%	0.7%	0.0%	0.0%
Other non NHS clinical revenue	Assumed change as per previous iteration	1.4%	0.7%	0.0%	0.0%
Operating costs					
Pay expenditure	National guidance	4.2%	3.0%	3.1%	3.1%
Drug expenditure - high cost	Assumption based on trend	9.0%	8.8%	8.5%	8.5%
Drug expenditure - other	Assumption based on trend	9.0%	8.8%	8.5%	8.5%
Clinical supplies and services - high cost	Assumption based on trend	4.5%	4.5%	4.0%	4.0%
Clinical supplies and services - other	Assumption based on trend	4.5%	4.5%	4.0%	4.0%
CNST premia	Assumption based on trend	5.0%	5.0%	5.0%	5.0%
Other operating expenditure	Assumption based on trend/guidance	4.4%	4.4%	3.8%	3.8%

2.5. The operating cost inflation assumptions above can also be represented as a weighted share of the total cost inflation of 3.5% to 4.3% per year. This is shown below in table 4.

Table 4 – Headline cost inflation breakdown

Split of Cost Inflation (as shown in LTFM)	2016/17	2017/18	2018/19	2019/20
Pay expenditure	2.8%	2.0%	2.1%	2.2%
Drugs	0.1%	0.1%	0.0%	0.1%
Clinical supplies and services	0.6%	0.6%	0.6%	0.6%
CNST	0.1%	0.1%	0.1%	0.1%
Other	0.7%	0.7%	0.6%	0.4%
Total	**4.3%**	**3.5%**	**3.4%**	**3.4%**

3. Financial strategy assumptions

3.1. The financial strategy contains a number of assumptions that drive the financial trajectory. The baseline assumptions (above) are important to capture the context of the financial strategy but the assumptions about how the organisational strategy is interpreted for the purposes of the LTFM are crucial in determining the surplus/deficit projection for the Trust. These assumptions are laid out below:

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3.1.

3.1.1. General assumptions

- 2015/16 plan is the baseline position. Therefore a higher baseline than previous versions by c£30m on income and expenditure. This drives higher inflation on things like high cost drugs expenditure which also impacts upon income.
- Cost pressures of 0.5% of income (c£4m) assumed in addition to inflationary cost pressures. For context, £5m of cost pressures have been funded in budgets for 2015/16.
- Transitional costs (with the exception of capital charges) or mitigations for transitional costs have not been included. The transitional costs may include costs resulting from the decision to invest in change, double running and redundancy which may be mitigated by transformational funding, additional CIP or pre business case completion savings or staged estate rationalisation.
- No other non-recurrent income or expenditure anticipated.

3.1.2. Income assumptions

- Income is assumed to initially move in line with demographic change shown in table 1.
- The impact of BCT workstreams is modelled as adjustments to the 2015/16 baseline for 2016/17 through to 2018/19. The workstream impact is in line with what it was in the BCT SOC.
- As a result of the 2015/16 baseline not including the full anticipated impact of workstream interventions in 2014/15 or 2015/16 the full impact does not equate to the BCT SOC impact.
- The net impact of BCT (which is assumed to include QIPP impacts) and activity growth therefore results in higher levels of income than the previous version of the model which contained generic assumptions about the combined effect of QIPP and BCT managing the impact of all growth. However, due to costs being modelled in line with income growth the impact on the Trust surplus/deficit is a marginal impact rather than a full income benefit.
- Assumes winter monies continue beyond 15/16 as part of recurrent baseline.

3.1.3. Financing assumptions

- Interest bearing debt (IBD) is used to fund all major business cases, including all estate reconfiguration.
- Public dividend capital (PDC) is used to fund the income and expenditure deficit, plus any further cash shortfall caused by the use of IBD for major business cases.
- Operational capital will continue to be aligned to the level of depreciation incurred, with a modest contribution to estate reconfiguration 2016/17 onwards.

3.1.4. Estate rationalisation assumptions

- The value of buildings on part of the estate will be impaired as at March 2017 as it transfers to asset held for sale (in line with last business case approval).
- The land becomes an 'asset held for sale' at its current balance sheet value (£17.6m) and is then revalued prior to sale which is assumed to happen in 2019/20 at £28.4m. The land sale receipt is assumed to be used to pay off PDC with no income and expenditure gain.
- Estate reconfiguration Business Cases will assume impairment of 25% occurs in March of the year the scheme is completed. The 25% impairment assumption is made up of fees and contingency (16.5%) and demolition/refurbishment split (8.5%).
- Rationalisation of estate footprint will not make a saving until full closure of a site occurs.

3.1.5. CIP assumptions

- CIP for 2016/17 to 2018/19 assumed at 4% in line with national guidance.
- EPR savings assumed as part of the 4% referenced above, thus making the implementation of EPR an enabler scheme to the Trust delivering 4% year on year saving.
- Site rationalisation savings assumed as CIP in addition to 4% baseline requirement. This is assumed as the net benefit in year, including depreciation and cost of capital on the investment. Where there is an in year deficit in a scheme the CIP contribution is zero.
- Only the benefits in the Emergency Floor case which offset the additional financing costs (depreciation, capital charges and interest) together with the savings associated with estate footprint reduction have been assumed above the 4% requirement. This is to avoid a potential double count with savings assumed within the 4% and a result of the detailed service models not being developed at this stage but this could be considered conservative.

4. 5 year financial strategy trajectory

4.1. When the assumptions detailed above are modelled through the LTFM they drive an improvement when compared to the June 2014 model. Table 5 below shows the improvement in high level terms.

Table 5 – Surplus/(Deficit) trajectory change

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Current surplus/(deficit) trajectory	(40.6)	(36.1)	(29.9)	(26.7)	(23.1)	4.6
June 2014 surplus/(deficit) trajectory	(40.7)	(36.1)	(34.3)	(33.3)	(30.8)	0.5
Improvement/(deterioration)	0.1	0.0	4.4	6.6	7.7	4.1

4.2. The financial modelling required in the LTFM is very detailed. As a result the financial strategy will inevitably account for a number of issues which cannot be directly compared between different versions, not least when baselines change which is part of the most recent refresh. For this reason it is difficult to compare exactly between this iteration and the previous.

4.3. However, the improvement can be summarised by the principle drivers. Table 6 below shows the changes, by year and by high level income and expenditure categories.

Table 6 – High level income and expenditure changes

	Outturn 2014/15 £m	Plan 2015/16 £m	Forecast 2016/17 £m	Forecast 2017/18 £m	Forecast 2018/19 £m
Income	15.5	26.5	34.0	45.7	58.6
Pay	(1.4)	(24.7)	(27.4)	(30.4)	(38.8)
Non Pay	(13.3)	(3.4)	(7.0)	(14.2)	(16.0)
Operating surplus/deficit	**0.8**	**(1.5)**	**(0.5)**	**1.2**	**3.8**
Interest	0.0	0.1	2.2	4.0	4.9
Depreciation	(0.2)	1.7	3.0	1.7	(0.8)
Other	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)
Net surplus/deficit	**0.1**	**(0.0)**	**4.4**	**6.6**	**7.7**

4.4. This demonstrates that income has increased significantly both in terms of outturn in 2014/15, plans for 2015/16 and forecasts thereafter. The changes in the first years (2014/15 and 2015/16) are confirmed changes to reflect actual outturn and annual plan. The subsequent changes include the recurrent impact of this plus the application of demographic growth to income which is mitigated by BCT interventions.

4.5. The previous iteration assumed all demographic growth would be mitigated by a combination of BCT interventions and QIPP. However, due to the need for costs to increase in line with activity and income growth the material change in income translates into a modest marginal impact as is shown by the change in operating surplus/deficit. This overall favourable move is partially offset by the modelling of additional cost pressures in excess of national inflationary guidance each year.

4.6. The other material movement shown is an improvement in interest costs. The main driver for this is the assumption around using Interest Bearing Debt (IBD) rather than Public Dividend Capital (PDC) to finance major business cases. The interest rates with IBD are lower than PDC by varying degrees based on the length of loan term. There is however a downside to this funding assumption which is the cash repayment of loans as highlighted in 3.1.3. Without the Trust generating an income and expenditure surplus no cash surplus, required to repay loans, is being generated. The consequent cash funding gap has to be serviced by additional PDC requirements in order for the Trust to make repayments.

4.7. The capital outlay and external finance required to fund it mean the finance costs (depreciation, capital charges and loan interest) increase before the savings associated with the developments materially impact which leads to a lag in benefits, this causes a smaller reduction to the deficit between 2016/17, 2017/18 and 2018/19.

4.8. The latest financial strategy and its impact on non-operating costs like depreciation and interest charges are best demonstrated via the summary below in table 7. The CAGR (Cumulative Annual Growth Rate) highlights the significant increase in interest; depreciation and non-pay which are all heavily linked to the reconfigured estate whilst income shows steady growth and pay costs reduce as a result of reconfiguration.

Table 7 – 5 year income and expenditure summary

	2014/15 Outturn £k	2015/16 Forecast £k	2016/17 Forecast £k	2017/18 Forecast £k	2018/19 Forecast £k	2019/20 Forecast £k	CAGR %
Income	834.4	842.9	853.9	866.2	881.8	899.3	1.5%
Pay	(497.3)	(504.3)	(497.8)	(488.4)	(484.4)	(476.3)	(0.9%)

Non Pay	(333.5)	(328.4)	(339.5)	(351.6)	(366.0)	(365.0)	1.8%
Gains on Disposal	0.0	-	-	-	-	-	0.0%
Depreciation	(33.2)	(33.2)	(32.2)	(37.6)	(38.8)	(37.9)	2.7%
Interest	(11.1)	(13.4)	(14.7)	(15.5)	(16.1)	(15.8)	7.5%
Impairments	(6.8)	-	(70.5)	(39.9)	(32.8)	(13.8)	15.3%
Net surplus/(deficit)	**(47.5)**	**(36.4)**	**(100.7)**	**(66.9)**	**(56.2)**	**(9.5)**	
Technical adjustments	6.8	0.3	70.8	40.2	33.1	14.1	
Board Reported Position	**(40.6)**	**(36.1)**	**(29.9)**	**(26.7)**	**(23.1)**	**4.6**	

4.9. The technical adjustments shown above primarily relate to impairments being adjusted outside of the surplus/deficit the Trust is managed against in terms of 'control total'.

4.10. Based on the CIP assumptions outlined above the level of CIP assumed within this trajectory is demonstrated below in table 8.

Table 8 – 5 year CIP delivery projection

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Un-inflated CIP (%)	5.5%	5.1%	4.1%	4.0%	4.0%	5.6%
Un-inflated CIP (£m)	48.0	43.0	33.3	31.5	30.6	41.1

4.11. In 2019/20 table 8 shows the impact of the estate rationalisation on the annual CIP delivery increasing it to 5.6% for that year. This is a combination of delivering the baseline 4% requirement and realising the benefit of estate rationalisation together in the same financial year. It is important to recognise this reflects the estate rationalisation benefit being delivered in this way rather than a staged approach in absence of the benefits from each individual case being known. Further information is shown below in section 5.

4.12. The way in which the financial strategy drives the need for additional external financial support has been shown in the LTFM across 4 different elements: the capital loan received in 2014/15, the borrowing required to support the Emergency Floor development as the first 'service development', the business case for an Electronic Patient Record (EPR) as the second 'service development' and the final all encompassing 'site rationalisation' as the final 'service development'.

4.13. The reason for defining service developments in this way is twofold. There is a requirement for the LTFM to show the discrete impact of each development and the LTFM allows a maximum of 5 service developments to be shown. Therefore, other than the schemes that have already reached FBC status the practical solution is to combine the rest of the site rationalisation as one whilst the finer details are developed.

4.14. The additional, external financial support identified to deliver the major capital cases is summarised below in table 9.

Table 9 – Borrowings summary

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Support	12.0	-	-	-	-	-
EPR	-	24.4	31.2	0.5	-	-
EF	-	20.0	18.3	0.4	-	-
Site Rationalisation	-	25.8	69.9	111.6	60.1	8.0
Total IBD	**12.0**	**70.3**	**119.4**	**112.4**	**60.1**	**8.0**
Gross PDC requirement	47.2	41.1	32.0	31.0	36.5	13.4
Sale proceeds	-	-	-	-	-	(28.4)
Total PDC	**47.2**	**41.1**	**32.0**	**31.0**	**36.5**	**(15.0)**

4.15. The borrowings described here are to fund the capital programme which has been summarised in table 10 below.

Table 10 – Capital Programme

Major Business Cases	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Emergency Floor	17.7	18.3	0.4	-	-	**36.4**
ICU interim solution & Vascular Hybrid Theatre	11.4	2.3	-	-	-	**13.8**
Treatment Centre	1.5	4.5	21.0	23.0	8.0	**58.0**
ITU LRI	-	-	14.0	2.0	-	**16.0**
Women's services	1.0	26.2	26.6	12.1	-	**65.9**
Multi Storey Car Park LRI	4.2	-	-	-	-	**4.2**
Childrens' Hospital	0.3	1.7	6.0	9.0	-	**17.0**
Interim EMCH	1.9	1.6	-	-	-	**3.5**
Theatres LRI	-	4.0	7.0	-	-	**11.0**
Entrance LRI	-	-	2.0	10.0	-	**12.0**
Wards/Beds LRI	-	10.0	10.0	2.0	-	**22.0**
Wards/Beds GH	4.4	10.6	15.0	-	-	**30.0**
Identified reconfiguration projects	**42.5**	**79.2**	**102.0**	**58.1**	**8.0**	**289.8**
Other reconfiguration projects	1.0	9.0	10.0	2.0	-	**22.0**
EPR Programme	24.4	31.2	0.5	-	-	**56.1**
TOTAL MAJOR BUSINESS CASE CAPITAL	**67.9**	**119.4**	**112.4**	**60.1**	**8.0**	**367.8**
Operational capital	33.8	23.3	22.3	30.3	32.3	**142.0**
TOTAL CAPITAL EXPENDITURE	**101.7**	**142.7**	**134.7**	**90.4**	**40.3**	**509.8**

4.16. This table shows a slight different between major business case capital expenditure and total IBD in table 9, this relates to emergency floor expenditure in 2014/15 for which the Trust are seeking repayment of the funding in 2015/16.

5. Site rationalisation

5.1. The savings in 2019/20 associated with rationalising the sites have been summarised in table 11.

Table 11 – Site rationalisation savings

Cost	Source	Current £k	Saving £k	Saving %
Business Rates	15-16 budget	847	847	100%
Catering	15-16 budget	2,687	2,687	100%
Cleaning	15-16 budget	2,030	2,030	100%
Contract Management	15-16 budget	380	-	0%
Electricity	15-16 budget	1,199	1,199	100%
Estates Management and Maintenance	15-16 budget	1,802	1,802	100%
Gas	15-16 budget	1,144	1,144	100%
Laundry Contract	15-16 budget	541	541	100%
Other	15-16 budget	907	589	65%
Portering	15-16 budget	917	917	100%
Security	15-16 budget	283	283	100%
Switchboard	15-16 budget	343	-	0%
Water & Sewerage - Charges	15-16 budget	321	321	100%
Gross estates and facilities costs		**13,401**	**12,359**	**92%**
Income from Car Parking and Catering	15-16 budget	2,052	2,052	100%
Net estates and facilities costs		**11,349**	**10,307**	**91%**
Depreciation	14-15 costing data & asset register	6,427	3,966	62%
Return on asset	14-15 costing data & asset register	2,056	2,047	100%
Capital charges		**8,482**	**6,013**	**71%**

Direct costs & overheads (see below)	14-15 costing data	**135,693**	**9,272**	**7%**
Total costs		**155,524**	**25,592**	**16%**

5.2. The specific assumptions contained within these savings are as follows:
- Baseline costs not inflated
- Buildings & land capital charges saved, no change to IT & equipment
- Zero saving on overhead cost currently apportioned to site
- Full saving assumed on majority of estates and facilities costs with zero on some others, reality is likely to be somewhere in between

5.3. The direct costs and overheads included contain the following assumptions and calculations:
- Non clincial/management staff reduced as a result of reducing from 3 sites to 2 based on 50% of site share of costs, £4.8m
- Nursing saving based on 33% of theatres pay budget (£1.7m) with other nursing (£0.2m), total £1.9m
- Medical staff savings based on 1 consultant per specialty (£1.3m) with junior doctor savings (£0.4m) in the same proportion, total £1.7m
- CNST saving based on reduction of doctors and activity which drive the cost, total £0.3m
- Pharmacy savings as a result of reduced site presence based on 50% of site share of costs, total £0.3m

5.4. The net savings from the site rationalisation are offset by additional revenue consequences from capital investment in the estate. The phasing of these costs, alongside the phasing of the total savings associated with the site rationalisation is also important to recognise, as per the current assumptions described above. This is summarised in table 12 below.

Table 12 – Net site rationalisation saving and phasing over 5 years

	2015/16 £k	**2016/17 £k**	**2017/18 £k**	**2018/19 £k**	**2019/20 £k**
Savings on Depreciation		-	-	-	3,966
Savings on Return on Asset		1,023	2,047	2,047	2,047
Savings on Estates and Facilities					12,359
Loss of income					(2,052)
Other Clinical Savings					9,272
Annual savings from rationalised estate		**1,023**	**2,047**	**2,047**	**25,592**
Increase in estate footprint driven costs					
Additional Capital Charges and Interest	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Loan Interest	355	1,333	2,985	4,423	4,722
Buildings Depreciation	-	42	1,153	1,093	2,502
Equipment Depreciation	-	86	171	455	1,179
Total Additional Capital Charges and Interest	**355**	**1,461**	**4,310**	**5,971**	**8,403**
Additional FM costs from service developments	**-**	**28**	**1,617**	**2,386**	**2,431**
Total additional costs	**355**	**1,489**	**5,927**	**8,357**	**10,834**
Net revenue costs benefit from rationalised estate	**(355)**	**(466)**	**(3,880)**	**(6,310)**	**14,758**

5.5. What this analysis shows is the additional costs of the estate reconfiguration strategy beginning to impact prior to the sites being rationalised from 3 to 2. It is therefore recommended that careful consideration is given to the extent to which:

a) Each discrete business case can begin to deliver savings prior to the full estate solution being in place. For instance, the Emergency Floor workforce related efficiencies have been identified to reduce the impact of the case on the Trust surplus/deficit during construction as well as after it.
b) The phasing of estate related cost savings and whether the cost savings shown in table 11 can be delivered, in part, any earlier than 2019/20.

6. Further Financial Strategy development

6.1. The discussion with the Board on the 14th May supported the intended further development of the financial strategy, post approval of the base case, which will include the following:

- Development of the Financial Strategy into a Monitor compliant Integrated Business Plan (IBP) finance chapter which will include capturing the Trust cash and working capital strategy within it.
- Risk and scenario modelling to include sensitivity of baseline and financial strategy assumptions, availability (or not) of capital, slippage on delivery of reconfiguration and alternatives solutions to site disposal.
- Development of a simple and concise message focusing on the costs and benefits of strategy including a simple demonstration of Return on Investment (ROI) for the reconfiguration plan.
- An external review of site rationalisation savings assumptions
- Review of education and training income in light of latest intelligence
- Review appropriateness of PDC funding assumption for bottom line (and cash impact of loan) financing within current funding context.
- Update for future operating model activity and capacity forecasting.
- Iterative refresh to reflect changes in assumptions on financing, business case benefits and delivery timescales.

7. Conclusions

7.1. The current trajectory, based on the assumptions given, is an improvement on the June 2014 iteration of the LTFM but does not achieve financial balance any sooner than 2019/20.

7.2. The ability for the Trust to deliver 4% year on year saving, with EPR as an enabler, is a key assumption which keeps the financial strategy in line with national guidance and expectation but is by no means easily deliverable. Conversely, the Financial Strategy does not assume delivery of savings over and above the level of nationally dictated efficiency improvements with the exception of estate rationalisation.

7.3. To aid clarity and comparison to the June 2014 version additional capital charges (depreciation, capital charges and loan interest) resulting from reconfiguration are built into the LTFM but other revenue transitional and transformation costs have not been included at this stage. Similarly, no income which may be sought to offset the costs of change has been included.

7.4. The requirement for individual business cases to ‘pay for themselves’ during construction has not been assumed, nor has a phased closure of estate to deliver estate rationalisation savings any earlier. The nature of interim moves means they potentially lead to an increase in cost rather than to cost savings so introducing each of these factors could have offsetting effects.

7.5. Benefits of each business case, in addition to the closure of a significant amount of estate, has not been assumed for anything other than those developments that have reached FBC stage so far (i.e. Emergency Floor and EPR).