EAST KENT HOSPITALS UNIVERSITY NHS FOUNDATION TRUST

BOARD OF DIRECTORS MEETING – 28TH FEBRUARY 2014

BUSINESS PLAN 2014/15 – 2015/16 UPDATE

1. Introduction

1.1 This document will act as a short preparatory brief to aid the presentation of the plan to the FIC.

1.2 The paper will:

- Outline the financial impact of the plan for 2014/15 and 2015/16;
- Describe the changes to the plan since the December 2013 FIC meeting (Base Plan);
- Highlight any issues yet to be built into the finances of the plan.

2. The current position

2.1 Both Income and Expenditure have changed and the latest value of the plan is shown in Table 1 below.

FINANCIAL OVERVIEW					
£m	FOT 2013/14	Plan 2014/15	Change	Plan 2015/16	Change
Total Income	520.6	513.4	(7.2)	506.7	(6.7)
Expenditure	491.4	483.2	8.2	473.9	9.4
EBITDA	29.2	30.1	0.9	32.8	2.7
Surplus	3.6	(0.9)	(4.5)	3.2	4.1
COSR	4.0	4.0		4.0	

Table 1 – I&E Position in 2014/15 & 2015/16 Plans

The EBITDA position improves over the Month 10 forecast for 2013/14 by £0.9m. The COSR for 2014/15 remains at 4. The aim in constructing the plan is to ensure that the savings and growth built into the plan can counteract the impact of the tariff deflator and emergent cost pressures as well as deliver the funds necessary to not only ensure sustainability but also deliver funds for capital investment into buildings and equipment and investments to deliver improvements in quality and safety.

2.2 In % terms the biggest swing is in below EBITDA in 2014/15 is the £3.4m of impairments due to the Dover Hospital development which has a one-off impact when the new building comes into use. There are also increases to depreciation and PDC of £2.1m due to the investments in capital.

2.3 The plan for 2015/16 is currently less well developed than the plan for 2014/15 however work is currently underway to develop this plan. The current changes to 2015/16 compared to 2014/15 are shown in Table 2.

Bridge from 2014/15 to 2015/16 (/£m)	Income	Expenditure	EBITDA	below EBITDA	Surplus/ deficit
2014/15 Plan	**513.4**	**483.2**	**30.1**	**31.0**	**(0.9)**
Commissioning intentions	(5.2)	(1.6)	(3.7)	0.0	(3.7)
Recognised cost pressures	0.0	0.0	0.0	(1.4)	1.4
Service developments	0.0	4.0	(4.0)	0.0	(4.0)
Impact of 2014/15 tariff	(6.7)	0.0	(6.7)	0.0	(6.7)
Impact of cost inflation	0.0	10.6	(10.6)	0.0	(10.6)
Incremental drift	0.0	1.2	(1.2)	0.0	(1.2)
Cost improvements	0.0	(25.2)	25.2	0.0	25.2
Change in activity	5.2	1.6	3.7	0.0	3.7
2015/16 Plan	**506.7**	**473.9**	**32.8**	**29.6**	**3.2**

Table 2 – Bridge from 2014/15 Plan to 2015/16 Plan

2.4 The cash held at the 31st March 2015 is planned to be £30m and in the following year on the 31st March 2016 it is planned to be £28.4m. The forecast cash holding at 31st March 2014 is projected to be £46.1m. The drivers behind the reduction in cash balances is capital spend exceeding the cash generated in year and a more prudent assumption on the collection of NHS debt.

2.5 The updated capital spend plan is shown in Table 3. In summary, the planned capital spend has reduced by £2.3m in 2014/15 (£29.7m) and £4.6m in 2015/16 (£24.9m) and compared to the Monitor plan submission in 2013/14. This is partially offset by a rise in plans in 2016-2018 following a prioritisation of Clinical Strategy Schemes.

	Five Year Capital Plan - Monitor				
Scheme	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Endoscopy Upgrade	500	0	0	0	0
Energy Project - Phase I	1,172	0	0	0	0
Dover - Reprovision of services	13,832	607	0	0	0
PACS RIS	0	525	0	0	0
Clinical Strategy - Approved Schemes	1,200	6,400	584	0	0
Clinical Strategy - Schemes not yet Approved	2,000	3,000	15,000	15,000	20,000
Laundry Equipment	1,000	0	0	0	0
Computer Aided Facilities Management (CAFM)	500	0	0	0	0
Linac	0	0	1,000	4,000	0
Energy Project - Phase II	0	3,328	750	0	0
Telephony	1,000	0	0	0	0
KPP	500	2,500	0	0	0
Nursing Home Strategy	0	1,500	3,000	0	0
Recurrent Allocations	8,000	7,000	9,000	9,000	9,000
Total	**29,704**	**24,860**	**29,334**	**28,000**	**29,000**

Table 3 – Draft Capital Plans 2014/15 – 2018/19

3. Income and Expenditure changes to the 2014/15 plan since the December 2013 FIC meeting (Base Plan)

3.1 There have been some significant changes since December. The plan now incorporates the published National Tariff for 2014/15, the latest evaluation of business cases, CIPs cost pressures and provisions. Table 4 below outlines the changes since the December meeting for the year 2014/15.

Changes to the 2014/15 plan	Income	Expenditure	EBITDA	Below EBITDA	Surplus/ Deficit
December FIC figures	**507.8**	**477.7**	**30.1**	**29.9**	**0.2**
Change in cost of delivery	3.1	2.2	0.9	0.0	0.9
Changes due to tariff moves	(0.3)	0.0	(0.3)	0.0	(0.3)
Change in level of VAT provision	0.0	0.5	(0.5)	0.0	(0.5)
Changes in below EBITDA	0.0	0.0	0.0	1.1	(1.1)
Changes in Service Developments	2.8	2.8	0.0	0.0	0.0
February FIC figures	**513.4**	**483.2**	**30.1**	**31.0**	**(0.9)**

Table 4 – Bridge of updates to the 2014/15 Plan since December

3.2 The "Change in cost of delivery" reflects an increase in pass through costs which is matched in both income and expenditure and a reduction in the cost assumption around the delivery of Direct Access services. This increase in pass through is as a result of the increased level of High Cost Drugs built into the plan that has been carried forward from the Month 10 forecast. The increase in High Cost Drugs has resulted from new Ophthalmology and Oncology drugs being issues in the last few months of 2013/14.

3.3 The adverse move on tariff is the net impact of changes in price from the original assumption in December (13/14 tariff less 1.9%) to the published tariff in late December. The pricing of income may change once the classification and application of tariff rules are released in March. The impact is not expected to be material and unless there is a strong indication of a material change there will probably be no impact on the submission to Monitor.

3.4 The net impact of the increase in VAT provision in 2014/15 compared to 2013/14 is a result of reviewing the latest VAT position.

3.5 The increase in below EBITDA costs of £1.1m is as a result of an update in the impact of Depreciation, Amortisation and PDC. Still the biggest single change below EBITDA between 2013/14 and 2014/15 is the impact of impairments resulting from the Dover Hospital investment. However, as a non cash adjustment, the sustainability of the Trust is not impacted by the impairment increase and as such there would be no direct impact on both the old FRR risk measure and the new COSRR risk measure.

3.6 There is a net zero impact of the Southern Acute Cluster Programme (SaCP) assumed in the plan of £2.8m income and expenditure. There are no changes to the overall net Service Development investment of £4m though the impact of Executive prioritisation has been built into the schemes being taken forward. These include the impact of the Kent Pathology Project and the interim Emergency surgery centralisation.

3.7 There has been no change in income risks, general contingencies and pay and non-pay inflation assumptions.

4. Issues yet to be addressed

4.1 There are a number of issues being worked on that are yet to be reflected in the financial plans. These are:

- Conclusion to contracting – the overall impact is yet to be finalised and the detail of contract values will have to be added to the return for submission to Monitor.

- A final update of the activity plan.
- Refining the plan for 2015/16.
- Update of CIPs.
- Finalising the detailed workforce plan.
- Detailed breakdown of the Balance Sheet changes and Cash Flow built into the APR documents for submission to Monitor.
- Downside scenario/ sensitivity analysis.

4.2 In addition to this, the written Operational plan is the single largest piece of work that needs to be completed. The first draft will be reviewed by the members of the Finance Committee and the Divisional and the Corporate Management teams during the week commencing 24th February 2014. Following this, an updated draft will be circulated to the Council of Governors for their review and input before the next Council meeting on 10th March 2014. A final draft will be presented to the Board of Directors at the March 2014 meeting.

5. Conclusion

5.1 Despite a significant number of individual amendments to the plan the overall plan has not changed materially.

5.2 There is some risk from both the lack of progress on CIP identification and the completion of the contract negotiations having an impact on the planning assumptions and therefore the final plan. The contract negotiations are still at an early stage so it would be premature to build in potential impacts at this stage. A full update will be made as part of the presentation at the meeting.

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For Jeff Buggle, Director of Finance and Performance Management
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