

**Epsom and St.Helier  
University Hospitals NHS Trust**

**St.Helier Hospital Scheme (Phase 1)**

*(Better Healthcare Closer to Home)*

**Financial Annex**

October 2008

## 1 PREFACE

This Financial annex comprises the financial evaluation work conducted in conjunction with production of the Outline Business Case (OBC) for the St.Helier Hospital Scheme (phase 1).

This Outline Business Case forms part of a suite of OBCs produced in support of the Better Healthcare Closer to Home programme. Although presented individually, the proposals contained in this suite of OBCs are themselves both linked and interdependent and any individual OBC must be read in conjunction with both its companion OBCs and the overarching document entitled “programme of investment overview”.

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### 3 ABBREVIATIONS

A&E	Accident and Emergency	LCC	Local Care Centre
ALOS	Average Length of Stay	LINKs	Local Involvement Networks
BDO	BDO Stoy Hayward LLP	LoS	Length of Stay
BHCH	Better Healthcare Closer to Home	NHS	National Health Service
BREEM	Building Research Establishment	NICE	National Institute for Health and Clinical Excellence
	Environmental Assessment Method	OBC	Outline Business Case
BR	Benefits Realisation	OGC	Office of Government Commerce
CEO	Chief Executive Officer	OJEU	Official Journal of the European Union
COPE	Centre of Pain Education	OPARS	Older People's Assessment and Rehabilitation Services
CT	Computerised Tomography	OSC	Overview and Scrutiny Committee
DH	Department of Health	PASA	Purchasing and Supply Agency
ESH	Epsom and St.Helier University Hospital's NHS Trust	PCT	Primary Care Trust
ECG	Electrocardiogram	PFI	Private Finance Initiative
ENT	Ear, Nose and Throat medicine	QOF	Quality Outcomes Framework
EWTD	European Working Time Directive	RMH	Royal Marsden Hospital Foundation NHS Trust
FBC	Full Business Case	SBDP	Shotfield Business Development Partnership
GP	General Practitioner	SFFF	Surrey Fit For Future
GPSI	General Practitioner with a Special Interest	SLA	Service Level Agreement
HfL	Healthcare for London	SMPCT	Sutton and Merton Primary Care Trust
HRG	Healthcare Resource Group	SOA	Super Output Area
I & E	Income and Expenditure	SOC	Strategic Outline Case
ICC	Intermediate Care Centre	SPCT	Surrey Primary Care Trust
ICR	Institute of Cancer Research	SSDP	Strategic Services Development Plan
IMD	Index of Multiple Deprivation	SWLEOC	Suth West London Elective Orthopaedic Centre
IM&T	Information Management and Technology	UCC	Urgent Care Centre
IPAC	Intermediate and Post-Acute Care	UTI	Urinary Tract Infection
ITT	Invitation to Tender		
JHSC	Joint Health Scrutiny Committee		

## 4 GLOSSARY

Building Research Establishment Environmental Assessment Method	The Building Research Establishment Environmental Assessment Method (BREEAM) helps construction professionals understand and mitigate the environmental impacts of the developments they design and build. A new scheme was commissioned by the Department of Health and the Welsh Health Estates to replace the existing NEAT (NHS Environmental Assessment Tool). As of 1st of July 2008, the Department of Health requires, as part of the Outline of Business Case approval, that all new builds achieve an Excellent and all refurbishments achieve a Very Good rating under BREEAM Healthcare. Additionally all projects will need to achieve credit Tra 5 Travel Plan. Further information can be found at <a href="http://www.breeam.org">www.breeam.org</a> .
Benefits Realisation	Benefits Realisation is a process to help to track the realisation of benefits for a programme.
Category B estates condition	Four categories exist for measuring estates condition - A to D. Category A. is applicable to new builds whilst achieving Category B for existing buildings will result in a safe estate in acceptable condition.
European Working Time Directive	The European Working time Directive (EWTD) is a directive from the Council of Europe 93/104/EC which lays down minimum requirements in relation to working hours, rest periods, annual leave and working arrangements for night workers. By August 2009 health professionals will be expected to comply with the maximum 48-hour working week.
Healthcare Resource Group	Healthcare Resource Groups (HRGs) provide a means of categorising clinical activity in order to monitor and evaluate the use of resources.
Index of Multiple Deprivation	The Index of Multiple Deprivation 2007 combines a number of indicators, chosen to cover a range of economic, social and housing issues, into a single deprivation score for each small area in England. This allows each area to be ranked relative to one another according to their level of deprivation.
NICE	The National Institute for Health and Clinical Excellence is an independent organisation responsible for providing national guidance on promoting good health and preventing and treating ill health.
Scrutiny Committees	The Health and Social Care Act of 2001 gives statutory provision to local authorities with social services responsibilities to review and scrutinise health services provided or commissioned by NHS trusts. In the London Borough of Sutton this is undertaken by the Health and Well-being Scrutiny Committee, and in the London Borough of Merton this is undertaken by Health and Community Care Overview and Scrutiny Panel. These scrutiny committees have a responsibility to participate in a Joint Health Scrutiny Committees (JHSC) where the service changes proposed by an NHS trust affect more than one local authority area, as is the case in BHCH. Health scrutiny committees have powers to refer matters to the Secretary of State for Health.
Super Output Area	Super Output Areas (SOAs) are a unit for presenting statistical information covering areas of a consistent population size.

## 5 SUMMARY

### 5.1 Introduction

This document is the Finance Annex to the St. Helier Hospital Scheme (Phase 1) Outline Business Case (OBC).

The OBC sets out the process undertaken by the Trust's project team in selecting a scheme, and related funding proposal, that best responds to the 'Case for Change' under the Better Healthcare Closer to Home (BHCH) proposals. The preferred solution comprises a new building on the site of Ferguson House containing wards, outpatients and other facilities together with an investment in other existing buildings on the St.Helier site to achieve the required estates and consumerism standards. The main OBC document includes summary financial information. The purpose of this annex is to provide the supporting analysis.

The development of the quantitative analysis is made up of two elements:

- Understanding the impact of BHCH activity shifts on the baseline financial position for Epsom and St. Helier University Hospitals NHS Trust (ESH)
- Overlaying the impact of funding the preferred option onto the BHCH baseline.

### 5.2 BHCH Baseline Financials

The changes in activity proposed by the BHCH programme have been modelled to show the implications for ESH Income and Expenditure, Balance Sheet and Cash Flow Forecasts. Models were prepared over a 15 year timeframe from 2008/09 (FY09) to 2022/23 (FY23). Initial models only covered a ten year period but this was insufficient to gauge how the new service approach would operate when fully embedded.

The modelling approach started with the 2007/08 activity and income taken from the contracting database. This subset of clinical income relates to income that is driven by activity and was reconciled back to the Trust's total income for 2007/08. It was then adjusted to reflect the fact that activity in 2007/08 included above average volumes due to the Trust's efforts to achieve the 18 week waiting time.

BHCH and their advisers prepared a range of assumptions relating to growth in activity, demand management and the impact of activity shifts from St Helier Hospital to the planned Local Care Centres. These assumptions were applied to the baseline income and activity to produce the BHCH baseline Income

The activity changes were also profiled in order to determine required future capacity, in particular the number of beds and outpatient clinics required. Although increases in surgical activity indicated that a review of theatre capacity is required; theatre efficiency at this point in time was relatively poor with only about 70% utilisation. Given that in the largest surgical growth areas only 20% increase was anticipated further detailed modelling of theatres was considered unnecessary at this stage.

There was insufficient time to prepare a detailed analysis to determine the cost of new staffing models and new non pay costs on a bottom up basis for the planned activity. As an alternative, assumptions were used to determine the cost impact of changes in activity. The basis of these assumptions is a "cost curve" provided by the BHCH advisors and which had been developed through work on changing activity and changing costs with the number of trusts across the NHS.

The agreement of activity, income and costs relating to the shift of workload from the acute setting into the new proposed primary care facilities, formed the majority of the project work between March and August 2008. Agreement was reached and signed off by the Chief Executives of ESH and SMPCT on the first of August 2008.

### 5.3 Preferred option

In parallel with the development of the BHCH baseline the Trust worked on identifying the drivers of change and the potential options to deliver against this change. In summary, five options were considered three of which looked at varying degrees of refurbishment and new build at the St. Helier Hospital site, one which looked doing nothing and one which looked at complete demolition and rebuild of the entire hospital. The refurbishment and new build options were taken forward into a shortlist and subjected to a detailed evaluation testing both their ability to deliver benefit against a set of agreed evaluation criteria and their costs, as measured by the Net Present Cost (NPC) of their cash flows. The preferred option was selected on a Value for Money (VfM) basis by combining benefits scores with net present costs to create a cost per benefit point. The option with the lowest cost per benefit point is deemed to have the best VfM, all other things being equal.

The option evaluation within the OBC selected option 3 – “Refurbishment and new build” as the preferred option. All subsequent modelling has therefore been conducted to better understand the financial implications of undertaking this option both in terms of capital and revenue affordability. Both capital and revenue affordability tests are themselves dependent on the choice and availability of funding route and therefore the further modelling within this annex looks at the implications to the Trust of undertaking option 3 using a range of potential funding routes.

Three funding routes have been tested: private finance initiative; public dividend capital and loan funding. Although it was recognised that the PFI market had been quiet this was still the most likely form of funding to be made available. The Trust had received an indication that under certain circumstances public dividend capital could be made available and therefore, although it has not been possible to establish clearly the criteria for public dividend capital, this option has been modelled. As an alternative to either of these, loan funding has been considered. The Trust recognise that their Prudential Borrowing Limit is only around £25 million which is insufficient to fund the preferred option unless freedom to borrow in excess of this limit is granted. In reality, funding for the preferred option will possibly be a hybrid/blend with elements of the scheme being funded through internally generated cash, some elements being funded through loans in order to bridge the gap between project commencement and the sale of the Sutton site and finally with the new build likely to be funded under the private finance initiative.

#### 5.4 Loan funding route

Modelling under the Loan funding route identified that the Trust would breach its Prudent Borrowing Limit if it were to attempt to cover the entire proposed cost of the building under this route.

#### 5.5 Public Development Capital (PDC) route

Modelling under the PDC funding route identified that the capital cost could be covered by the proposed PDC if it were to be made available for such a project. Similarly the model identified that the Trust would return to surpluses under such a funding route and would be able to undertake further phases of development.

Despite meeting the capital and revenue affordability tests the funding route was not regarded as the preferred option for the purposes of this OBC due to the restricted nature of its availability. Were this funding route to be available to the Trust the preferred funding option would need to be revisited.

#### 5.6 Private Finance Initiative (PFI) funding route

Modelling under the PFI funding route assumed that the capital cost could be covered by the introduction of a willing PFI provider. The results of the revenue modelling identified that this route was the most costly of the three studied and that, at points, these costs would take the Trust in to a short term deficit position. This route would also restrict the Trust's ability to undertake further phases of development until some years after the end of the modelling period.

Despite not meeting the revenue affordability test on a continuous basis the PFI funding route was still considered by the Trust to be the preferred funding option for financing the Refurbishment and new build proposed under option 3 for the purposes of this OBC.

#### 5.7 Conclusion

It was concluded that the Outline Business Case should consider PFI as the preferred funding route for option 3 when making its recommendations but that further analysis should be undertaken to determine whether there was a further option of blending the funding given the complex nature of the scheme.

#### 5.8 Key sensitivities and risks

- The Trust needs to be constantly aware that the preferred funding route could change should PDC funding be approved.
- The present proposals have only studied the options as if they are single options rather than looking at a possible blending of funding routes.
- The adoption of PFI as the preferred route for the St.Helier Hospital element of the BHCH programme will have implications on the funding and management of the St.Helier Local Care Centre (LCC) which occupies the same site as part of an integrated building.
- The figures have been compiled on the assumption that all of the scheme costs including Decant costs, refurbishment costs and backlog maintenance are all capable of capitalisation and subsequent depreciation over 60 years.
- The modelling of operational cost is solely based on a cost curve assumption

## 6 INTRODUCTION

### Introduction

The purpose of this annex is to set out the assumptions, analysis and calculations used to develop the baseline, and option specific, financial schedules which have been reflected in the OBC. This work has been done in close collaboration with the BHCH programme managers and their advisers (McKinsey & Co) in order to ensure that a consistent and inclusive approach was adopted.

ESH is obliged to ensure that it remains financially viable at all times as expressed by its ability to either break even (financial balance) or to make a surplus on its annual Income and Expenditure account. The Trust must therefore ensure that any proposed changes to activity levels either do not in themselves put the Trust's financial balance at risk or, that where a risk of a deficit is possible, that the Trust has developed plans and strategies to mitigate against such a position. This position of financial balance must be maintained after the Trust has made its 3 ½ % return on assets. Additionally, where the Trust wishes to embark on a programme of significant capital expenditure the Trust must ensure that such expenditure does not lead to cash-flow difficulties.

This annex provides the detailed considerations undertaken by the Trust to show:

- The position of the Trust on the assumption that the BHCH programme does not proceed
- The position of the Trust if the BHCH programme proceeds but the Trust estates remain unchanged
- The position of the Trust after adopting the Preferred option, which is looked at in conjunction with the three possible funding options.

In order to demonstrate and assess the various scenarios financial projections have been made over the 15 financial years to 2022/23 showing the impact of the changes, the revised Income & Expenditure Accounts, the revised Balance Sheets and the revised Cash Flow Forecasts.

### Process undertaken

The Trust firstly established a simple ESH baseline financial projection which outlines the position that it would expect to find itself in if the BHCH programme is not approved. This projection assumes that the first three financial years to 31/3/2011 the figures are

based on the agreed annual plan submitted by the Trust to NHS London. It is then assumed that there will be no significant change from the annual plan and thus the 2010/11 position becomes a recurrent position through to FY 23. This would see the Trust expecting to continue with its on going cost improvement programmes and, over the period, the Trust would continue with recurrent surpluses which would generate increased cash balances.

In order to understand the impact of BHCH in isolation a financial model has been created which shows the year on year impact of the shifts in activity associated with the proposed LCC opening dates. This model demonstrates that by FY 23 of the BHCH programme a net benefit to the Trust's Income and Expenditure position of £5.8 million per annum could be expected.

By combining the ESH baseline financial projection with the impact of BHCH the Trust created a model which effectively demonstrates what the Trust position would be prior to undertaking any sort of estates investment. This model is then adjusted for the assumption that the Trust will be subject to tariff efficiency of 3% pa which is itself compensated for by a 3% annual saving in costs. This model shows that by FY 23 the surplus would be £8.7 million. This equates to the £2.9 million recurring surplus from the annual plan added to the £5.8 million in benefit resulting from BHCH. It should be made clear that this is an artificial position and could not be sustained without the required capital investment in the hospital's estate.

Based on the economic analysis outlined in the OBC the Trust have selected Option 3 as the preferred option. This proposes the refurbishment of parts of the St.Helier Hospital estate together with the building of a new block to house wards and associated outpatient facilities. A financial model has been developed that incorporates the capital cost of pursuing this option as set out in the Estates Annex to the OBC. There are three variants to this model which show the resulting Income & Expenditure position after the effects of each of the 3 possible funding routes, eg PFI, NHS Bank loan funding and PDC funding.

Based on a consideration of the costs and availability of funding a preferred funding route has been selected.

### Common assumptions

In each of the financial models there are some assumptions that are specific to that individual scenario and some that are common to all of the models. The common assumptions are as follows:

#### Period

The models have been produced for the 15 financial years from 2007/08 to 2022/23

#### Income & Expenditure

The Income and Expenditure accounts are presented for the entire Trust

The base year for the projections is 2007/08

Unless otherwise stated surpluses and deficits are represented by increases or decreases in cash on the projected Balance Sheets

#### Balance Sheets

Balance Sheets are regarded as stable other than the movements in cash related to surpluses or deficits, movements in assets due to purchases and the impact of depreciation, and repayment of the Public capital loan. No assumptions are made with regard to changes in working capital balances.

## 7 ESH FINANCIAL BACKGROUND

This section provides an overview of the Trust's historical financial performance together with providing an understanding of the existing short term plans and longer term financial strategy.

These issues will be dealt with under the following principal headings

- 7.1 ESH Historical performance
- 7.2 ESH Annual Plan
- 7.3 ESH Current financial position
- 7.4 ESH financial risks

### 7.1 ESH Historical performance

Financial performance

Table 1 below sets out the historical financial performance of the Trust as described by its abbreviated Income Expenditure accounts for the last three years.

The key features of the Trusts performance are that it broke even in 2005/06, made a deficit of £7.3 million in 2006/07 and then return to surplus again in 2007/08. The cumulative retained surplus for the Trust as at the 31<sup>st</sup> March 2008 reflected a £711,000 deficit. The Trust expects future planned financial performance to recover this deficit and place the Trust in surplus.

Although the Trust found itself in financial difficulty during 2006/07 this was consistent with a large number of NHS organisations during that year and particularly related to management of pay costs whilst delivering against challenging performance targets. A revitalised executive team under the leadership of the new Chief Executive has taken up the challenge of returning the Trust to surplus.

Table 1 - Historical Income and Expenditure accounts

	<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>
	£'000	£'000	£'000
		restated	
Income from activities	260,405	239,796	232,682
Other operating income	36,093	33,058	34,367
Operating expenses	(289,314)	(274,206)	(260,834)
Operating Surplus / (Deficit)	7,184	(1,352)	6,215
Profit / (loss) on disposal of fixed assets	(285)	0	(56)
Surplus / (Deficit) before interest	6,899	(1,352)	6,159
Interest receivable	1,118	481	479
Interest payable	(694)	(19)	(1)
Other finance costs – unwinding of discount	(79)	(85)	(558)
Surplus / (Deficit) for the Financial Year	7,244	(975)	6,079
Public Dividend capital dividend payable	(6,417)	(6,286)	(6,000)
<b>Retained Surplus / (Deficit) for the year</b>	<b>827</b>	<b>(7,261)</b>	<b>79</b>
<b>Cumulative surplus / (Deficit)</b>	<b>(711)</b>	<b>(4,156)</b>	<b>2,698</b>

Although not in formal turnaround the Trust put in place a strong combination of project management structure and processes to drive an aggressive savings plan. Further details are provided later in this section setting out the Trust's approach to cost improvement.

Table 2 below sets out the Trust's Balance Sheets for the three years ended 31<sup>st</sup> March 2008.

	<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>
	£'000	£'000	£'000
Fixed assets	202,883	191,910	176,577
Current assets	31,880	19,440	19,534
Creditors due within one year	(33,284)	(22,288)	(16,225)
Creditors due after more than one year	(4,668)	(9,353)	(48)
	(6,072)	(12,201)	3,261
Provision for liabilities and charges	(7,430)	(6,487)	(8,801)
<b>Total Assets Employed</b>	<b>189,381</b>	<b>173,222</b>	<b>171,037</b>
Public dividend capital	134,980	132,749	135,574
Revaluation reserve	50,122	39,743	28,110
Donated asset reserve	4,990	4,886	4,655
Income and expenditure	(711)	(4,156)	2,698
<b>Total taxpayers equity</b>	<b>189,381</b>	<b>173,222</b>	<b>171,037</b>

## 7.2 ESH Annual Plan

The Trust is budgeting for a surplus of £5.5m in 2008/9 in order to generate cash sufficient to meet its loan repayments. This surplus would also clear the historic debt relating to the 2006/07 deficit of £5.5m such that that the Trust will meet its 3 year breakeven duty without an extension to the recovery period. A surplus of £4.7m is required in 2009/10 at which time the majority of the Trust's current loans will be repaid and a smaller surplus of £2.9m is targeted for 2010/11.

Table 3 - ESH Planned performance

	Current plan		
	2008/09	2009/10	2010/11
Income	294.6	299.9	306.7
Expenditure	-271.5	-277.8	-286.2
<b>EBITDA</b>	<b>23.1</b>	<b>22.1</b>	<b>20.5</b>
ITDA	-17.1	-17.4	-17.6
Exceptional Items	-0.5	0.0	0.0
<b>Net surplus</b>	<b>5.5</b>	<b>4.7</b>	<b>2.9</b>

The Trust's agreed Annual Plan can be found at Appendix A to this annex. Supporting spreadsheets can be made available on request.

### Cost Improvement Programmes (CIPs)

A key feature of the Trust's recent financial performance has been development and delivery of Cost Improvement Programmes. There are 3 key reasons for CIPs:

1. Tariff efficiency: the real terms reduction of prices by 3%. It has been assumed that this trend will continue over the full 15 year term of this OBC planning process.
2. Unfunded revenue cost pressures: these can take the form of both locally and nationally driven cost pressures through inflation above funded levels, pay settlements, or technology advances
3. Estates development projects: requiring additional capital charges or unitary payments under PFI to be met through increased surpluses.

Over the last three years the Trust has made great strides in reducing costs and improving efficiency, indeed it may be argued that it is largely as a result of these CIPs that the Trust avoided an I&E deficit in 2005/06 and 2007/08 and mitigated a major problem in 2006/07 as set out below.

Table 4 - Impact of Cost improvement Programmes

<b>Item</b>	<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Surplus / (Deficit)</b>	<b>827</b>	<b>(7,261)</b>	<b>79</b>
<b>CIPs included in net performance</b>	<b>18,300</b>	<b>10,000</b>	<b>6,000</b>

The Trust found a large proportion of its 2006/7 savings plan from non recurrent sources. These costs (£4.4m) were added back into the 2007/8 baseline. The Trust had achieved a relatively low level of savings in previous years; however for 2006/7 savings of £10m were targeted and achieved. The further savings required in the plan to deliver sustained balance and repay the Trusts debt are substantial.

### 7.2.1 CIP Approach

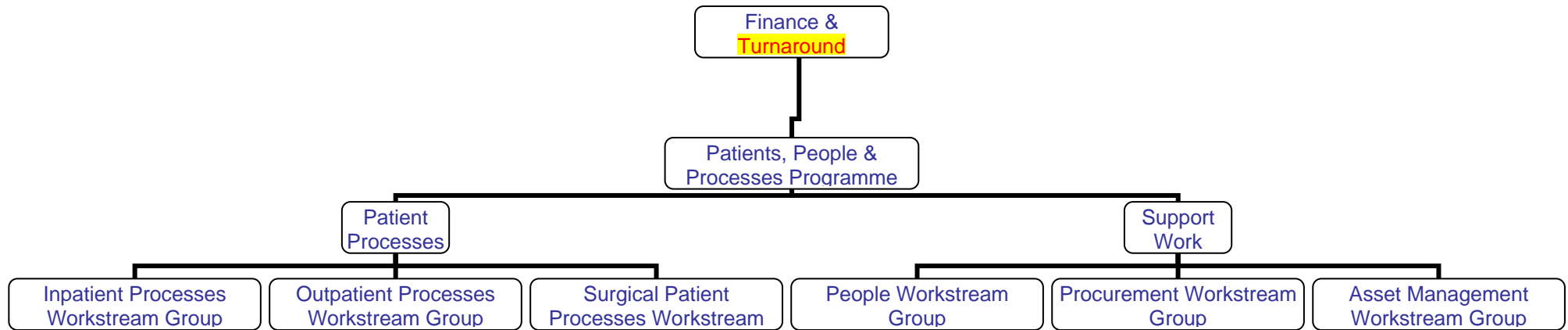
Each year all Department Managers are asked to draw up a list of areas within their control where costs could be reduced or performance increased. Each manager scrutinize all aspects of procedures and processes within their department focusing on items where-

- usage is a major factor and therefore tighter control can influence total cost
- throughput and turnover directly affects costs and therefore improved processing will be reflected in overall cost
- the cost of purchasing or usage plays a significant part in process costs and any reduction in price or quantity will result in cost savings

The Finance Department are tasked with installing systems to identify and record the outcomes of the identified CIPs and Departmental Accountants are charged with compiling the inputs and updating the Department Managers with the results.

Meetings between Departmental Managers and the Finance Managers play an important part in the success of the CIP as it is their interaction and speed of response that allows for accurate monitoring and the ability to progressive corrective actions when appropriate.

CIP Management structure



7.2.2 2006/07 CIP programme

The Trust forecasted a £7.3m deficit in 2006/07 and in order to mitigate the problem the Trust developed a plan to deliver total full year recurring benefits of £24m, of which £3m had to be delivered that year.

The three main areas that the hospital focused on were -

- Controls  
Significant savings are achievable by tightening controls and raising authorisation levels, particularly around recruitment and temporary staffing. Total £7.1m
- Process Change  
There is significant scope to standardise and improve operational processes. Process changes such as roll-out of nurse led discharge will drive reduction in length of stay and number of beds. Total £11.4m

- Capacity Reduction

As a result of demand management initiatives, referrals and income will fall. Capacity reductions can be delivered through reducing the number of outpatient clinics and associated staffing. Total £5.7m

### 7.2.3 2007/08 CIP programme

The key features of the 2007/08 cost improvement programme identified below:

Through applying a strong project management structure and clearly identifying the process of delivering savings the Trust achieved £18.3 million cost improvement savings in 2007/08. It is key to the trust to ensure that the savings programme that puts in place recurrent and are founded on fundamental changes to the way in which it operates to ensure that a firm platform is created for investment.

### 7.2.4 Future CIPs programme

The Trust's annual plan sets out its requirement for savings over the three-year period to 2010/11. As has been described earlier the target in 2008/09 is to achieve a sufficient surplus to create cash balances to repay loans. For the period from 2011/12 the forecasts have assumed that the requirement for savings will be based purely on the need to offset a 3% reduction in income as a result of efficiencies built into the national tariff.

Table 5 below sets out the projections included in the annual plan.

<b>PROJECTIONS</b>	<b>2008/09 £'000</b>	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>
In-year CIP target (+)	16,000	21,700	21,700
% of total income (%)	5.4	7.2	7.1
Recurrent (+)	16,000	21,700	21,700

### 7.2.5 2008/09 CIP programme

The CIP programme for 2008/09 as been set out as follows:

#### **Patient Process Work streams**

##### **Inpatient Processes:**

- Acute Beds Open (excluding cohort beds) – Target 495, Actual 575
  - Nurse Led Discharge – Target 20%, Actual 6.3%
  - Weekend Discharges – Target 20%, Actual 18.2%
- Total Savings £2.3m

##### **Outpatient Processes:**

- Outpatient Clinic Utilisation – Target 90%, Actual 74%
  - Follow-up to First Appointments Ratio for Payment by Results Specialities – Target 2.00, Actual 2.03
- Total Savings £1.3m

##### **Surgical Patient Processes:**

- Theatre consumable and operating costs in excess of tariff – Target None, Actual 19
  - Theatre hours wasted through late starts (per month) – Target 130, Actual 212
  - Theatre hours wasted through early finishes (per month) – Target 187, Actual 445
- Total Savings £1.8m

#### **Support Work streams**

##### **People:**

- Wards in excess of weekly pay budget – Target None, Actual 15
  - Specialities with centrally held and reviewed job plans following Medical Workforce Controls reviews – Target – 24,
  - Starts in April 08
- Total £1.3m

##### **Procurement**

- Top suppliers pricing reviews completed – Target 21, Actual 20

Total £3.1m

**Asset Management**

- Reduction of space in use – Target 5,500 m2, Actual 3,325 m2  
Total £0.7m

**Divisional Schemes**

- The existing divisions have identified opportunities and plans to deliver the remaining annual plan savings requirements
- Acute – reduce all junior doctor banding from 2a (80%) to 1a/1b/2b (50%) in General Surgery at Epsom and Trauma & Orthopaedics on both sites, reduce usage and control rates of junior doctor locums in A&E given increased Senior cover and rearrange Beacon lease
- Family Care – convert Hysteroscopy to outpatient procedure from day-case, reducing the need for General Anaesthetic for half of patients, increase outreach clinics in Cobham and Merton plus review of community paediatric Service Level Agreement and increased activity at Epsom Early Pregnancy Assessment Unit.
- Clinical Services – reduce labour costs through line by line budget, reduce non-pay costs through demand management, switching suppliers and capital investment and increase income through price reviews and external organic growth
- Clinical Networks – drug savings in renal, staff consolidation on the planned care ward, further private patient income and reduced endoscopy maintenance costs
- Corporate Infrastructure and Information Services have also identified local savings  
Total £5.4m

In summary the 2008/09 plan is as follows:

	£,000
Inpatient processes	2,300
Outpatient processes	1,300
Surgical patient processes	1,800
Support work - People	1,300
Support work - Procurement	3,100
Support work - Asset management	700

Divisional schemes

5,400

15,900

## 7.2.6 CIP Performance year to date

The trust's performance against its 2008/2009 cost improvement plan is set out in the table 6 below.

<b>AUGUST 2008</b>	<b>ANNUAL BUDGET</b>	<b>YTD BUDGET</b>	<b>YTD ACTUALS</b>
2008 Savings 2.5%	-£5,421,017.31	-£1,751,233.42	-£1,058,240.63
Bank Service Contract	-£400,000.01	-£59,892.87	-£21,584.29
Common Procedure Economics	-£601,313.00	-£134,123.67	-£966.67
Consultant Productivity	-£273,750.00	-£30,416.67	£0.00
Contracts	-£328,749.00	-£79,357.53	-£41,276.70
Deduplication / Detriplcation	-£100,000.00	£0.00	£0.00
E-Procurement	-£1,225,000.00	-£133,333.33	£0.00
Esr Benefits Realisation	-£100,000.00	£0.00	£0.00
Further Theatre Efficiency	-£583,041.00	-£66,026.79	-£1,866.67
Logistics	-£55,000.00	-£5,000.00	-£2,319.97
Medical Workforce	-£299,788.00	£0.00	£0.00
Nurse Led Discharge Stretch	-£1,171,000.00	-£226,000.00	-£226,000.00
Other	-£357,000.00	-£117,358.02	-£9,656.89
Output Management Efficiencies	-£300,000.00	-£100,000.01	-£4,843.68
Pathology	-£244,000.00	-£33,007.78	£117.70
Pharmacy	-£105,000.00	-£28,475.75	-£20,833.58
Pre-Operative Bed Days	-£75,316.00	-£8,368.44	£0.00
Private Patients Income	-£360,000.00	-£113,154.67	-£113,154.67
Removing Follow-Up Clinic Slot	-£389,585.03	-£129,861.68	-£52,170.32
Retime table Clinic Slots	-£609,587.60	-£67,731.96	-£646.05
Short-Notice Diag/Med Clinics	-£505,000.02	£0.00	£0.00
Sickness	-£104,638.01	-£29,715.27	-£8,291.78
Space Util And Capital Charges	-£240,000.00	-£40,000.00	£0.00
Stock Management	-£105,000.00	£0.00	£0.00
Supplier Management	-£60,000.01	£0.00	£0.00
Supply Chain Alternatives	-£1,027.00	-£181.67	£0.00
Supply Chain Alternatives	-£385,648.00	-£67,461.36	-£3,418.27

Sutton Site	-£100,692.00	£0.00	£0.00
Theatre Efficiency (&Sut Thea)	-£300,000.00	-£100,000.00	£0.00
Theatres Procurement	-£65,000.00	-£11,800.00	-£118.00
Top 100 Suppliers	-£218,000.01	-£50,730.15	-£12,848.47
Ward Hr Manage And E-Rostering	-£349,393.00	-£69,477.93	-£29,831.78
Weekend Pathways & Discharges	-£628,000.00	-£125,600.00	-£125,600.00
<b>TOTAL</b>	<b>-£16,061,545.00</b>	<b>-£3,578,308.97</b>	<b>-£1,733,550.72</b>

The Trust had planned to deliver 22% of its cost improvement programmes by August 2008. It has only managed to deliver 11% of the total programme for the year and 48% of the budgeted target for August 2008. Clearly many of the schemes are focused on the second half of the year and the finance director is working with his team is identifying the remedial action that is required to bring the Trust into balance by 31<sup>st</sup> March 2009.

### 7.2.7 CIPs beyond 2010/11

The detail behind the future CIPs are set out at Appendix B to this document. A summary is set out in Table 7 below:

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Cost reduction schemes															
Inpatient processes	3.0	3.8	3.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Miscellaneous	2.6	6.3	9.2	0.1	2.1	3.0	4.2	4.4	5.1	3.0	3.1	5.2	5.3	5.4	5.5
Outpatient processes	1.3	0.2				0.5	0.5	0.5							
People	1.8	2.6	1.3	3.0	2.7	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Procurement	3.6	1.6	0.5	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Service reconfiguration	0.2	3.0	3.0	1.9						2.0	2.0				
Surgical patient processes	3.6	4.2	4.2	2.9	2.9	1.4	0.3	0.3							
<b>Grand Total</b>	<b>16.0</b>	<b>21.7</b>	<b>21.7</b>	<b>9.2</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>	<b>9.5</b>	<b>9.4</b>	<b>9.3</b>	<b>9.4</b>	<b>9.5</b>	<b>9.6</b>	<b>9.7</b>	<b>9.8</b>
<b>Cumulative</b>	<b>16.0</b>	<b>37.7</b>	<b>59.4</b>	<b>68.6</b>	<b>77.8</b>	<b>87.1</b>	<b>96.4</b>	<b>105.8</b>	<b>115.1</b>	<b>124.4</b>	<b>133.8</b>	<b>143.3</b>	<b>152.9</b>	<b>162.6</b>	<b>172.4</b>

### 7.3 ESH Current Financial performance

#### Performance to period ended August 2008

The Trust's financial plan for the year ended 31<sup>st</sup> March 2009 is to achieve a surplus of £5.5 million. In order to deliver this it plans to generate £295 million of income and incur £183 million of pay costs and £105 million of non-pay costs.

By the end of August 2008 the Trust had expected to receive £125 million of income. It has exceeded that target by some £2.3 million. However, it's targeted pay expenditure for the same period is £76 million and it has spent in excess of £79 million. The key areas of overspending relate to healthcare assistants, medical staff and underachievement of the pay cost improvement programme.

Non-pay expenditure has also exceeded budget with a target of £122 million for the period ended August 2008 and an actual expenditure level of £126 million giving an overspend of £4 million. The most significant areas of overspending relate to clinical supplies and services, utilities and the non-pay cost improvement programme.

The overall Trust position is a £2 million shortfall against budget. The target for the Trust at this point in the year was to be in surplus by £2.8 million however the trust has actually made a surplus of £900,000.

The Finance Director is working with his executive director colleagues and key senior managers are responding to this issue and, at the present moment in time, still anticipate achieving the target surplus of £5.5 million.

Further detailed information with regard to the Trust's current financial position can be made available upon request.

#### 7.4 ESH Financial Risks

The Trust faces a number of significant financial risks. In particular there is potential for further loss of income under demand management projects, competition from the Independent Sector, and other local NHS providers. These risks are tabled below

Specific issues are as follows:

<b>Description</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Mitigation measures</b>	<b>Residual risk</b>
Demand Management Projects impact income streams further than the anticipated £5m.	Lost income would directly affect the Trust's bottom line and ability to deliver financial balance Potential to lose £2.5m +	Low	Producing detailed capacity plans with the PCT based on their commissioning plan, reducing capacity in line with expectations as in the recovery plan for outpatients	Possible £2.5m
Activity for the 18 week target is undertaken elsewhere	Lost income would directly affect the Trust's bottom line and ability to deliver financial balance Potential to lose £2.5m	Medium	Workload is currently on the Trusts waiting list. If workload goes elsewhere further capacity will be required to be taken out.	Possible £2.5m
Intervention of OSC in recovery plan	Delay in implementation of plan causing slippage on saving schemes C£1m	Low	CEO/FD in discussions with OSC's, plans not significant service changes rather efficiency gains.	Low c £1m

Industrial Action	Delay in implementation of plan causing slippage on saving schemes C£1m	Low	Weekly meetings with staff side and regular update to staff.	Low c£1m
Changes to PbR rules agreed by St HA	South Coast SHA is looking at implementing guidance in line with the so called Welsh Rules for PbR if this is imposed on the Trust there could be significant income losses £8m>	Unknown at this time	Unknown at this time	Unknown at this time

Other key risks are:

<b>Description</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Mitigation measures</b>	<b>Residual risk</b>
High bed occupancy as result of bed closures	Delays in A&E and missing emergency access target	Likely	Align bed closures with shortened LOS Robust escalation procedures Whole system engagement	Possible
Poor fabric of buildings and estate – restrictions on capital spend	Disruption of services	Likely	Estates strategy ensures spend focused on areas of highest risk	Possible

The Trust has now successfully gained the savings benefit of those savings that were readily identifiable and obtainable. Further year on year cost savings will become more difficult to achieve as the targeted areas become complex and demanding due to focusing on the less accessible clinical and non-clinical matters.

Although the Trust has a well formulated CIP programme there remains the potential for slippage or non delivery on the recovery plan, in part due to the timing of redundancies and uncertainty about the necessary scale of compulsory job losses. In addition there is uncertainty about the impact of the Overview and Scrutiny Committee intervention and the possible need to go to consultation for some elements of the plan.

The Trust recognises that it must make improvement and it is committed to a high level of savings to be made in order to meet its financial targets.

## 8 ESH BASELINE

This section looks at the Trust's financial position as if the BHCH programme was not going to be put in to action. This is simply included to show a pre BHCH position.

### Modelling assumptions

- The 2007-08 baseline position is per ESH Trusts' audited Annual Accounts.
- The years 2008-09 to 2010-11 are derived from ESH Trusts' Annual Plan.
- The forecast I&E baseline surplus at FY11 of £2.9M is presumed to be recurrent.
- Any surplus or deficit is assumed to be represented by additions or reductions in the Trust's cash balances.
- 

### Income & Expenditure

The ESH baseline Income & Expenditure accounts are set out in table 8 below. For 2007/8 they show the actual figures. The figures for the subsequent 3 years are those included in the agreed 3 year plan. The surplus generated in 2010/11 of £2.9M is presumed to be recurrent resulting in a cumulative surplus at FY23 is £47M. It is important to note that this basic profile is not particularly sophisticated in its presentation. It does not indicate a reducing level of depreciation as assets are reduced and it does not show a reducing level of Public Dividend as the PDC loan is effectively paid down over time. This issue will be returned to later in this analysis.

Table 8 - Income &amp; Expenditure Account - ESH baseline

£ million	Mar - 08	Mar - 09	Mar - 10	Mar - 11	Mar - 12	Mar - 13	Mar - 14	Mar - 15	Mar - 16	Mar - 17	Mar - 18	Mar - 19	Mar - 20	Mar - 21	Mar - 22	Mar - 23
<i><u>NHS Clinical Income</u></i>																
Elective income	55.8	57.3	57.4	54.9	54.9	54.9	54.9	54.9	54.9	54.9	54.9	54.9	54.9	54.9	54.9	54.9
Non-Elective income	77.9	73.8	74.0	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8
Outpatient	40.0	41.7	42.4	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7
A&E	12.6	12.8	13.0	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
Other	70.7	66.4	69.5	69.8	69.8	69.8	69.8	69.8	69.8	69.8	69.8	69.8	69.8	69.8	69.8	69.8
PBR (clawback)/ relief	-1.2		-0.1													
<b>Total</b>	<b>255.8</b>	<b>252.0</b>	<b>256.0</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>	<b>252.9</b>
<i><u>Non NHS Clinical Income</u></i>																
	4.6	5.2	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
<i><u>Other income</u></i>																
	35.4	37.4	38.2	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0
<b>Total Income</b>	<b>295.8</b>	<b>294.6</b>	<b>299.9</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>	<b>306.7</b>
<b>Expenses</b>																
Pay Costs	178.3	183.1	186.3	191.0	191.0	191.0	191.0	191.0	191.0	191.0	191.0	191.0	191.0	191.0	191.0	191.0
Drug Costs	15.1	16.0	18.3	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5
Clinical supplies & services	36.5	30.9	30.5	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8
Other Costs (excl. depr'n)	46.0	41.5	42.7	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9
<b>Total costs</b>	<b>275.9</b>	<b>271.5</b>	<b>277.8</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>	<b>286.2</b>
<b>EBITDA</b>	<b>19.9</b>	<b>23.1</b>	<b>22.1</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>	<b>20.5</b>
Profit / (loss) on asset disps	-0.2															
Exceptional Income/ (Costs)	-1.5	-0.5														
Total Depreciation	-11.4	-9.5	-9.8	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
Total interest receivable	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest payable on Loans	-0.7	-0.5	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
PDC Dividend	-6.4	-7.2	-7.4	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6
<b>Net Surplus</b>	<b>0.8</b>	<b>5.5</b>	<b>4.7</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>

### Balance Sheets

The recurrent surplus is simply assumed to arise in cash and therefore no Balance Sheets or Cash Flow Forecasts have been reproduced here.

### Conclusion

That without any changes in the way in which healthcare is provided by Sutton and Merton PCT the Trust would continue in surplus.

## 9 BHCH BASELINE

This section looks at the financial future of the Trust if the BHCH programme goes ahead but there are no changes in the Trust with respect to the existing estate.

The BHCH baseline position shows the anticipated Trust Income and Expenditure position after the impact of BHCH. The baseline position was worked out through analysis of the effect of shifts of activity into community settings and their impact on both income and costs. These activity changes are agreed with SMPCT and reconcile to the overall local health economy position.

The impact of the BHCH proposals are analysed under the following headings:

- 9.1 Process
- 9.2 BHCH Modelling assumptions
- 9.3 BHCH baseline Income & Expenditure accounts
- 9.4 Conclusion

### 9.1 Process

The movements related to the shift in activity towards the primary care setting were established by the BHCH programme and their advisors McKinsey & Co and are contained in the Assumptions Log which forms part of the annex to the “programme of investment overview” document.

Following the confirmation of the high level income and activity changes work was then conducted to identify the cost implications and specific timing of changes associated with the opening of each LCC and the UCC. As part of this work the potential costs associated with transition were also considered. It is important to note here that there was insufficient time to carry out a detailed review of staffing changes and non-pay charges in order to calculate a figure for the cost impact. To facilitate timely completion, McKinsey's, the advisers to BHCH, provided a ‘cost curve’ developed through work with a number of trusts which identifies changes in fixed semi-fixed and variable costs in response to percentage changes in activity levels. Due to the proprietary nature of this information ESH was unable to look at the detail behind a calculation of the cost curve.

The year-on-year impact of the income and expenditure changes, both in terms of recurrent and non-recurrent transactions, was modelled and iterated a number of times until finally agreed by the Chief Executives of the PCT and ESH on 1<sup>st</sup> August 2008.

## 9.2 BHCH Modelling assumptions

The following key assumptions have been made in arriving at the financial models presented in this section:

### Period

For the 15 years from 2008/09 to 2022/23

### Inflation

All projected figures are priced at March 2008, with no further inflation applied to later years.

### BHCH Activity assumptions

The revised activity levels and timing have been provided by the BHCH programme in association with their advisors McKinsey & Co. This revised activity was adjusted from information provided by the Trust for 2007/8 which broke the ESH activity down in to the following number of fields:

- Commissioner;
- Location of activity by local and parent site;
- Specialty;
- HRG;
- Length of stay;

- Payment by Results identifier;
- Contract type;
- Division;
- Point of discharge
- Band Description; Band Code.

This has resulted in the annual ESH activity being broken down into a dataset of 31,808 rows. This model was used to calculate the impact of the various assumptions provided by BHCH with regard to shifts in activity. The key areas of activity shift included: minor procedures which are mainly related to day case activity; outpatients which clearly related to outpatient activity; intermediate care which related to a basket of HRGs for which length of stay less than two days or greater than 10 days was agreed can be delivered outside the hospital setting; urgent care which related to accident and emergency activity which could be provided in an alternative setting led by primary care clinicians and direct access diagnostics which relates to activity currently directly procured by primary care from the hospital for some pathology and some physical measurements.

The activity and income output from this model reconciles to the range of figures set out in the tables below. The detailed database is available should it be required.

#### Income & Expenditure account assumptions

The Income and Expenditure forecasts are initially based on the actual performance in 2007/08.

The performance for financial years 2009/09 through to 2010/11 are based purely on the Annual plan as agreed with the Board.

The changes to the income and expenditure begin to impact from financial year 2011/12 to coincide with the phased opening of the Local Care Centres, increased IPAC and UCC opening. These are set out in the attached spreadsheet.

The BHCH baseline Income and Expenditure accounts, as presented, are a simple aggregate of the ESH pre BHCH numbers plus the numbers shown in the separate spreadsheet that shows the impact of BHCH activity movements. As such they retain the level

of simplicity that stems from the pre BHCH position and thus depreciation cannot readily be reconciled to Fixed assets movements, nor does the capital cost of the PDC loan react to the paying down of the Loan. These simplifications have acted to increase the costs reported in the model thus providing a prudent net Income figure at all times.

#### Detailed Income assumptions

Base income figures are taken from the Quarter 4 Service Line Report. The total income for 07/08, as reported in the ESH annual accounts, was £252.2M. ESH supplied an income breakdown across the 30,000 row dataset totalling £249.1M. Further adjustments to the income figures to match the annual total were provided; broken down by site (Epsom or St Helier), contract type and specialty. These adjustments have been distributed across the dataset according to these three criteria, apportioning them by income value (as per the £249.1M allocation).

The above process left £88K un-apportioned, mostly relating to dermatology. This was due to there being no rows in the dataset that corresponded to the specialty, contract type and site identified for this income. These un-apportioned amounts were then apportioned to site specific activity rows within that specialty.

It is assumed that from 08/9, ESH will not receive income for any activity that does not meet the requirements of the 18 week time target. A percentage reduction in respect of the relevant activity rows (agreed by McKinsey & Co) was applied, bringing Trust income to £248.9M.

For all years beyond 2011/12 gross income will reduce by 3% per annum to reflect the impact of tariff efficiencies.

For long stay patients (e.g. length of stay over 10 days) who may be treatable at the ICC for part of their stay, it has been assumed they transfer to the ICC after 10 days stay (an assumption agreed with McKinsey). To this end an excess bed day income rate has been applied to reflect the income lost for each day's stay beyond the first ten. The rate applied is HRG specific and has been taken from the national tariff for 2007/08.

The activity remaining after taking account of the impact of the ICC is considered in the context of BHCH. Income is reduced in direct proportion to the degree of activity assumed to transfer out of the Trust.

### Detailed Costs assumptions

To analyse the cost impact of activity changes and shifts, account needed to be taken of the variability of costs. To this end McKinsey identified a series of 'cost curves' – drawn from their experience of other NHS projects – which identified the movement of fixed, semi-variable and variable costs according to percentage changes in activity levels.

To make use of McKinsey's 'cost curves' to forecast future costs, ESH analysed costs under a number of headings into fixed, semi-variable and variable costs. For each of ESH parent sites (Epsom and St Helier) costs were broken down under the following headings:

- outpatients costs by specialty and first and follow up visits;
- accident and emergency costs by minor, standard and high cost procedures;
- In-patient costs by HRG and within that by elective, non-elective or day case;
- Non Payment by Results costs were split by category but it was not possible to identify fixed, semi-variable and variable elements so all these costs were treated at semi-variable.

Costs identified from the ESH analysis were then apportioned to the relevant rows of the activity dataset, based on the number of episodes of activity (finished consultant episode/spells/visits as appropriate). This resulted in costs being identified against the activity dataset, split between fixed, variable and semi-variable elements.

McKinsey's cost curves have been expressed as algebraic formulae within the model, allowing costs to be projected in accordance with changes in activity levels. In accordance with the model costs have been altered such that for each reduction of £1 in income a corresponding saving of 55p would be made to costs. For the intermediate care service it is assumed that the total income lost can be covered by the closure of 32 beds. Time has not allowed the Trust to confirm that this general cost curve applies exactly to the ESH cost base. The cost total of £251.3M reconciles to the figure from Q4 SLR, and is the figure shown in the ESH annual accounts.

The overall costs are subject to the impact of a Cost Improvement Programme which is assumed to cut 3% per annum from the cost base.

### Income and expenditure account

The result of the detailed modelling of activity income and costs is to produce a set of accounts which by FY 23 demonstrate a £5.8 million surplus purely relating to the impact of BHCH. The table below sets out a series of forecast income and expenditure accounts based on this analysis.

## 9.3 BHCH baseline Income &amp; Expenditure account

The table below shows the financial impact, in terms of both Income and expenditure, of the alterations in activity brought about by the BHCH programme..

Table 9 - Financial impact of activity changes

£ million	Mar - 08	Mar - 09	Mar - 10	Mar - 11	Mar - 12	Mar - 13	Mar - 14	Mar - 15	Mar - 16	Mar - 17	Mar - 18	Mar - 19	Mar - 20	Mar - 21	Mar - 22	Mar - 23
<i>NHS Clinical Income</i>																
Elective income - Tariff					-0.1	0.1	0.1	0.4	0.5	0.3	0.3	0.4	0.6	0.9	1.1	1.3
Non Elective income - Tariff					-0.1	0.1	0.2	0.3	0.6	0.4	0.2	0.5	0.8	1.1	1.4	1.7
Outpatient income - Tariff					-0.3	0.6	1.4	2.4	4.4	2.9	1.5	3.6	5.7	7.8	10.0	12.2
A&E - Tariff					-0.1	0.1	0.3	0.5	0.9	0.6	0.3	0.8	1.2	1.7	2.1	2.6
Other - Non Tariff					-0.1	0.1	0.1	0.2	0.4	0.3	0.1	0.3	0.5	0.7	0.9	1.1
<b>Impact on Income</b>					<b>-0.5</b>	<b>1.0</b>	<b>2.1</b>	<b>3.8</b>	<b>6.8</b>	<b>4.5</b>	<b>2.4</b>	<b>5.6</b>	<b>8.8</b>	<b>12.1</b>	<b>15.5</b>	<b>18.9</b>
<b>Expenses</b>																
Pay costs					1.0	0.7	0.6	0.0	-1.1	-1.5	-1.5	-2.1	-3.3	-5.1	-6.9	-8.1
Drug costs					0.1	0.1	0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.4	-0.6	-0.7	-0.9
Clinical supplies					0.2	0.1	0.1	0.0	-0.2	-0.2	-0.2	-0.3	-0.6	-0.8	-1.1	-1.4
Other					0.2	0.1	0.2	0.0	-0.2	-0.3	-0.3	-0.5	-0.8	-1.2	-1.6	-2.0
<b>Impact on Expenses</b>					<b>1.5</b>	<b>1.0</b>	<b>1.0</b>	<b>0.0</b>	<b>-1.6</b>	<b>-2.2</b>	<b>-2.2</b>	<b>-3.1</b>	<b>-5.1</b>	<b>-7.7</b>	<b>-10.3</b>	<b>-13.1</b>
<b>Net impact</b>					<b>1.0</b>	<b>2.0</b>	<b>3.1</b>	<b>3.8</b>	<b>5.2</b>	<b>2.3</b>	<b>0.2</b>	<b>2.5</b>	<b>3.7</b>	<b>4.4</b>	<b>5.2</b>	<b>5.8</b>

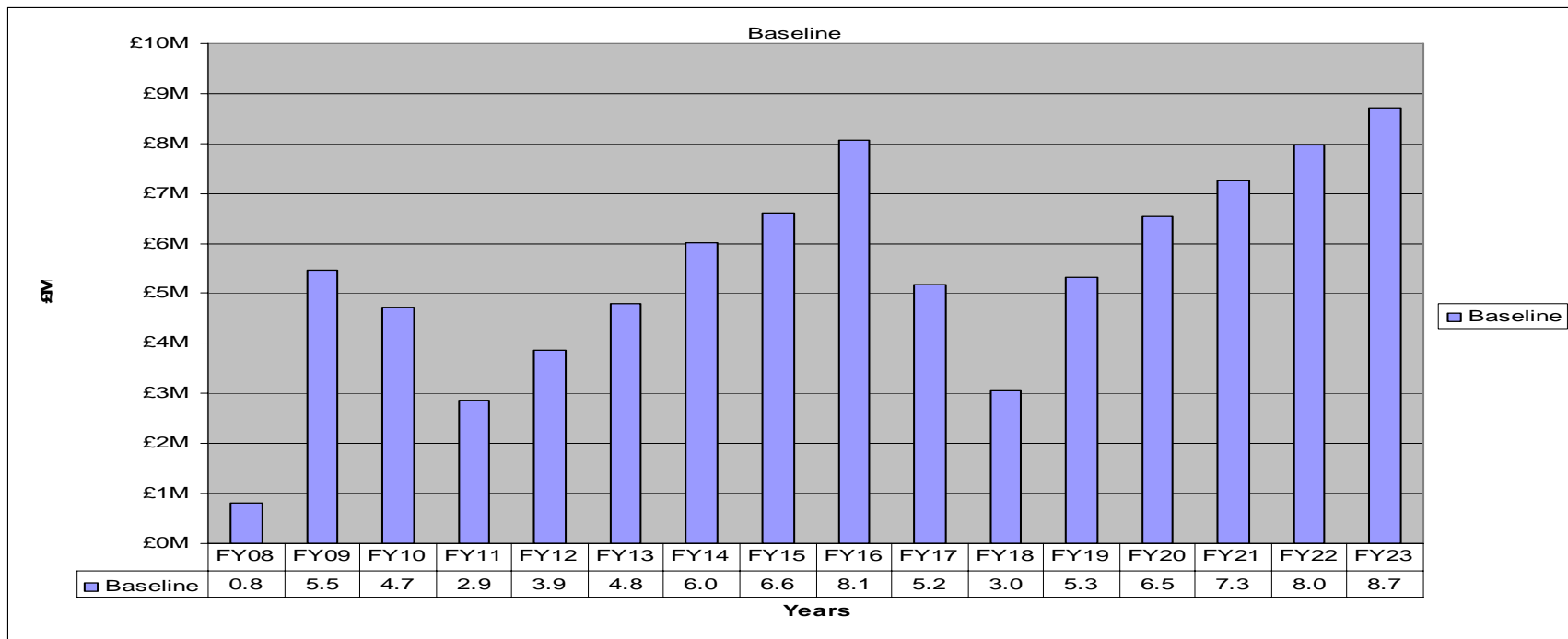
To understand the actual impact on the Trust's Income and Expenditure the changes shown above have to be incorporated with the initial ESH position ( pre BHCH ) which showed a recurrent £ 2.9m and this is presented as Table 9 below. The Income and Expenditure account has also been adjusted to incorporate the reduction in Income due to tariff efficiencies which are assumed to continue at 3% of income. Furthermore the ESH cost base has also been adjusted by 3% per annum which is expected to be obtained through a continued CIP programme. Please note all figures are included at 2007/08 price base and the shift is computed with reference to 2007/08 figures.

Table 10 - BHCH baseline Income &amp; Expenditure account

£ million	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
<i><u>NHS Clinical Income</u></i>																
Elective income	55.8	57.4	57.2	54.9	53.3	51.6	50.2	48.8	47.4	45.9	44.4	43.4	42.2	41.0	40.0	38.9
Non-Elective income	77.9	73.8	74.0	81.8	79.3	77.0	74.8	72.8	70.8	68.6	66.2	64.5	62.8	61.1	59.4	57.9
Outpatient	40.0	41.7	42.4	34.7	33.3	33.2	32.9	32.8	33.5	31.3	29.3	30.0	30.7	31.4	32.0	32.6
A&E	12.6	12.8	13.0	11.7	11.3	11.2	11.0	10.8	10.9	10.3	9.7	9.8	9.8	9.9	9.9	10.0
Other	70.7	66.4	69.5	69.8	67.7	65.7	63.8	62.0	60.3	58.4	56.5	54.9	53.4	52.0	50.6	49.2
PBR (clawback)/ relief	1.2	0.1	0.1													
<i><u>Non NHS Clinical Income</u></i>	<b>4.6</b>	<b>5.2</b>	<b>5.7</b>	<b>5.8</b>	<b>5.6</b>	<b>5.4</b>	<b>5.3</b>	<b>5.1</b>	<b>5.0</b>	<b>4.8</b>	<b>4.7</b>	<b>4.5</b>	<b>4.4</b>	<b>4.3</b>	<b>4.1</b>	<b>4.0</b>
<i><u>Other income</u></i>	<b>35.4</b>	<b>37.4</b>	<b>38.2</b>	<b>48.0</b>	<b>46.6</b>	<b>45.2</b>	<b>43.8</b>	<b>42.5</b>	<b>41.3</b>	<b>40.0</b>	<b>38.8</b>	<b>37.7</b>	<b>36.5</b>	<b>35.4</b>	<b>34.4</b>	<b>33.3</b>
<b>Total Income</b>	<b>295.8</b>	<b>294.7</b>	<b>299.9</b>	<b>306.7</b>	<b>297.1</b>	<b>289.4</b>	<b>281.8</b>	<b>274.8</b>	<b>269.2</b>	<b>259.3</b>	<b>249.7</b>	<b>244.8</b>	<b>239.8</b>	<b>235.1</b>	<b>230.4</b>	<b>225.9</b>
<b>Expenses</b>																
Pay Costs	178.3	183.1	186.3	191.0	185.1	183.2	178.4	175.5	172.9	171.1	157.1	149.5	145.6	142.1	138.7	135.4
Drug Costs	15.1	16.0	18.3	20.5	20.0	19.6	19.1	18.8	18.5	18.3	17.0	17.1	16.8	16.5	16.3	16.0
Clinical supplies & services	36.5	30.9	30.5	30.8	29.6	28.6	27.4	26.5	25.7	25.1	22.0	22.2	21.3	20.5	19.7	19.0
Other Costs (excl. depreciation)	46.0	41.5	42.7	43.9	40.9	35.6	33.3	29.9	26.4	22.0	32.9	33.1	32.0	31.1	30.1	29.2
<b>Total costs</b>	<b>275.9</b>	<b>271.5</b>	<b>277.8</b>	<b>286.2</b>	<b>275.6</b>	<b>267.1</b>	<b>258.2</b>	<b>250.6</b>	<b>243.5</b>	<b>236.5</b>	<b>229.0</b>	<b>221.9</b>	<b>215.7</b>	<b>210.2</b>	<b>204.8</b>	<b>199.6</b>
<b>EBITDA</b>	<b>19.9</b>	<b>23.1</b>	<b>22.1</b>	<b>20.5</b>	<b>21.5</b>	<b>22.4</b>	<b>23.6</b>	<b>24.2</b>	<b>25.7</b>	<b>22.8</b>	<b>20.6</b>	<b>22.9</b>	<b>24.1</b>	<b>24.9</b>	<b>25.6</b>	<b>26.3</b>
Profit / (loss) on asset disposals	0.2															
Exceptional Income/ (Costs)**	1.5	0.5														
Total Depreciation	11.4	9.5	9.8	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Total interest receivable/ (payable)	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total interest payable on Loans and leases	0.7	0.5	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
PDC Dividend	6.4	7.2	7.4	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
<b>Net Surplus</b>	<b>0.8</b>	<b>5.5</b>	<b>4.7</b>	<b>2.9</b>	<b>3.9</b>	<b>4.8</b>	<b>6.0</b>	<b>6.6</b>	<b>8.1</b>	<b>5.2</b>	<b>3.0</b>	<b>5.3</b>	<b>6.5</b>	<b>7.3</b>	<b>8.0</b>	<b>8.7</b>

The revised position after the impact of BHCH surplus of £5.8M (FY23) together with the original baseline of £2.9M surplus, equates to a surplus of £8.7M surplus at FY23. The profiling of these surpluses is shown in the chart below:

Table 11 -



The cumulative baseline position changes from the original baseline of £ 47M surplus (FY23), plus the cumulative impact of BHCH of £39M, together equate to an £ 86.4M cumulative surplus at FY23.

The tables below set out certain reconciliations of the Trust's position as at FY 23.

Table 12 - **BHCH activity shift impact on income**

:	<b>£m</b>
- Minor procedures	(1.8)
- Outpatients	(16.9)
- Intermediate Care	(2.3)
- Urgent Care	(3.6)
- Direct access diagnostics	(1.5)
<b>Total reduction in income</b>	<b><u>(26.1)</u></b>

The Surrey growth figure shown in the table below is after Surrey demand management. The demand management for SMPCT is made up of two elements: 15% reduction in A&E income (£1.6m); and the remainder (£1.3m) relating to other activity.

Table 13 - Analysis of the Impact of growth on income:

	<b>£m</b>
- SMPCT	30.1
- Surrey PCT	11.9
- Other PCTs	5.6
- Impact of demand management:	(2.9)
<b>Total income gain</b>	<b><u>44.7</u></b>

Table 14 - Impact of activity loss on costs:

	<b>£m</b>
- Growth costs	(25.7)
Savings from activity shift in:	
- Minor procedures	0.8
- Outpatients	7.3
- Intermediate Care	2.3
- Urgent Care	1.6
- Direct access diagnostics	0.7
<b>Total cost impact</b>	<b><u>(13.0)</u></b>

The overall impact on the ESH financial position by 2023 is to create a recurrent net surplus of £5.8m per annum, before the St.Helier Hospital Scheme (Phase 1) is taken into account. The table below shows this in summary:

Table 15 - Total impact on FY23 I&E outturn :

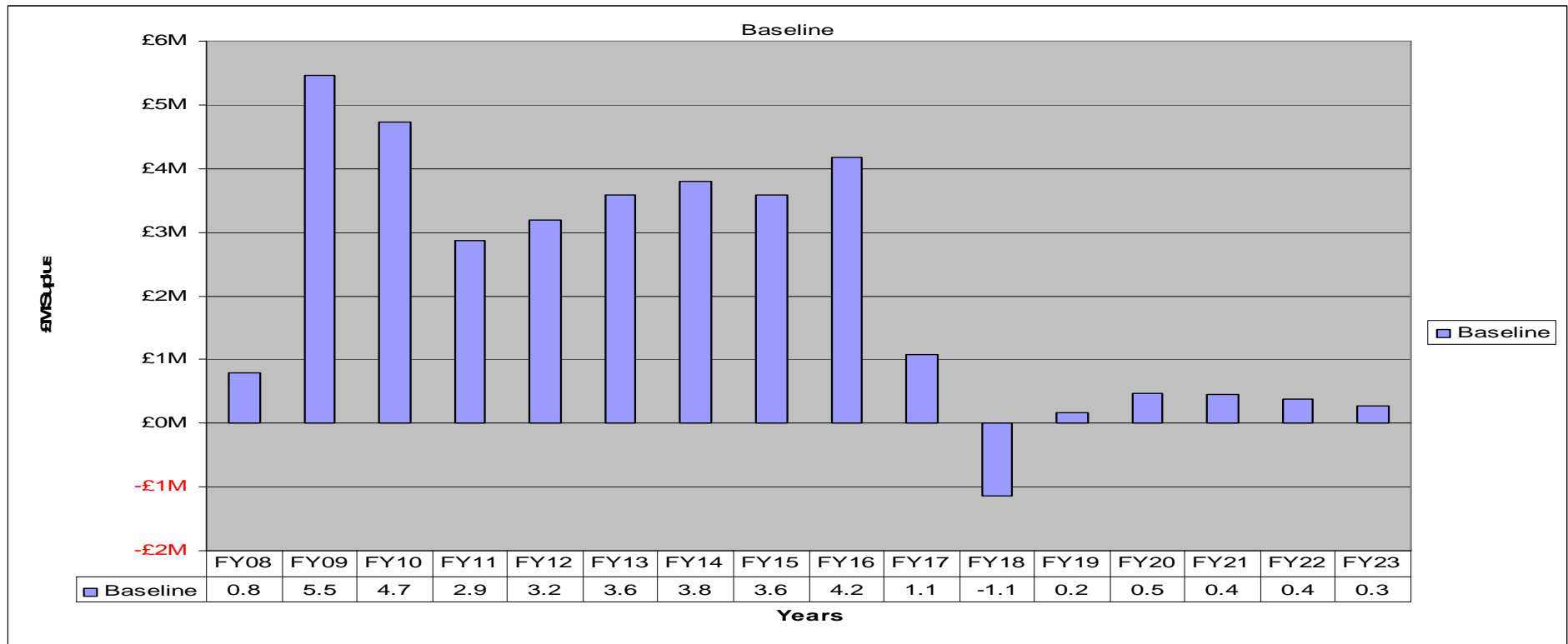
	<b>£m</b>
- BHCH Activity shift	(26.1)
- Growth impact/demand management	44.7
- Cost base	(13.0)
- Income from rents (UCC/LCC)*	0.2
<b>Total I&amp;E</b>	<b><u>5.8</u></b>



St. Helier & Sutton sites

The impact of BHCH on the Annual Plan that relates solely to the St. Helier and Sutton Hospital sites (i.e. excluding Epsom etc), would result a surplus of £.03M in FY23.

The graph below highlights the surplus for St. Helier & Sutton in each year:



The associated baseline balance sheets and cash flow statements have not been set out in this document. The only modelling that has been carried out for the baseline balance sheets and cash flow statements is simply to map forward planned domestic capital programme and manage the impact of the income and expenditure services through cash. Therefore inclusion of these documents would not be terribly instructive.

## 10 PREFERRED OPTION - Option 3 Refurbishment and new build

This section describes the financial features of the preferred option. It looks at the capital cost, accounting treatment, cash flows and financial risks associated with the option. This is reviewed under the following key headings;

- 10.1 Description
- 10.2 Capital cost build up
- 10.3 Cash flow forecast
- 10.4 Financial risks associated with the option

### 10.1 Description

This proposal has the following key features;

- Completion of the backlog maintenance for the entire St.Helier Hospital site such that the facilities meet 'Category B' estates standard.
- Demolition of the existing Ferguson House building and clearance of the entire area.
- Construction of a new block incorporating 348 beds, purpose-built outpatient facilities, pharmacy and therapy service areas which will be contained within a single structure incorporating the proposed St.Helier Local Care Centre. The new block will also be linked to the existing main building to ensure ease of access to diagnostics and will be completed by 2016.
- Refurbishment of some of the current services areas in the existing hospital block, in particular Ophthalmology.
- Dispersal of the services presently provided on the Sutton Hospital site and the eventual sale of the site.

10.2 Capital cost build up

The estimated scheme costs have been provided by Davis Langdon LLP (Quantity Surveyors) and are contained in the Estates annex. The key capital costs are set out in the table below:

Table 16 – Summary of Scheme costs

<b>Option 3: Refurbishment &amp; new build</b>		<b>£</b>	<b>£ VAT</b>	<b>£ Total</b>
1	Departmental costs	32,982,629	5,771,960	38,754,589
2	On costs	29,384,916	5,142,360	34,527,277
3	Location adjustment	6,236,755	1,091,432	7,328,187
4	Fees	10,976,688		10,976,688
5	Non works cost	14,708,683	2,574,020	17,282,702
6	Equipment	3,490,720	610,876	4,101,596
7	Planning contingency	9,778,039	1,711,157	11,489,196
8	Optimism bias 21.4%	23,017,504	4,028,063	27,045,567
		130,575,933	20,929,868	151,505,801
9	Inflation	29,914,613	5,235,057	35,149,670
	Total	160,490,546	26,164,925	186,655,471

Full cost details are included in the Estates annex however the key assumptions are also set out below:

- The costings are in response to a functional brief provided by the Trust and Devereaux ( architects ) on 6<sup>th</sup> August as set out in the Estates Annex.
- The estimate has been compiled assuming a traditional procurement route based on a lump sum JCT form of contract for a firm price contract secured through a single stage selective tendering.
- Departmental costs are for the construction of a 6 storey building totalling an area of 19,217 m2 gross, together with the refurbishment of elements of the existing facility totalling 6,512 m2. Although the proposal is for a single structure including the St.Helier LCC the costings contained in this OBC are based on functional content computations rather than detailed drawings. No allowance has therefore needed to be made for the fact that these buildings are inter related as this will not alter the cost quoted.

- 1) Departmental costs comprise costs in relation to the construction of a 6 storey new building of some 19,217 m<sup>2</sup> gross and the refurbishment of a further area of 6,512 m<sup>2</sup> gross. The circulation space requirements are anticipated to equate to 20% uplift on the net m<sup>2</sup> figures.

<b>Table 17 - departmental cost breakdown</b>	<b>M2 (net)</b>	<b>Dept cost (Not inc VAT)</b>	<b>Cost/m2</b>
<b>New Build</b>			
Adult inpatient wards	12,023	23,439,224	1,950
Coronary Care Unit	1,200	2,281,767	1,900
Pharmacy	600	857,500	1,429
General outpatients	1,230	1,741,133	1,415
Nursery	200	283,111	1,415
Therapy dept	650	806,867	1,241
Coffee shop	100	150,675	1,506
	16,003	29,560,277	1,847
<b>Refurbishment</b>			
Update existing wards	1,362	1,326,418	973
Ophthalmology	1,000	1,070,922	1,070
Clinical administration	3,065	1,025,013	334
	5,427	3,422,353	631
<b>Total departmental costs</b>	<b>21,430</b>	<b>32,982,630</b>	<b>1,540</b>

2) Capital “on cost” principally comprises the following;

<b>Table 18 - Breakdown of capital “On costs”</b>	£
Construction related	20,052,799
Build regs part L	2,125,507
Backlog maintenance ( see below)	6,496,108
VAT	5,018,022
<b>Total</b>	<b>33,692,436</b>

The existing costs of Backlog maintenance has been assessed by the Trust and reported in the latest ERIC report for 2007/08 per the table below:

<b>Table 19 - Backlog maintenance</b>	<b>St.Helier</b>	<b>Sutton</b>	<b>Epsom</b>	<b>ESH</b>
High risk	2,770,454	746,121	1,244,226	4,760,801
Significant risk	4,866,834	1,437,838	2,311,801	8,616,473
Moderate risk	2,126,875	763,168	1,007,645	3,897,688
Low risk	3,256,716	668,183	1,813,077	5,737,976
<b>Total</b>	<b>13,020,879</b>	<b>3,615,310</b>	<b>6,376,749</b>	<b>23,012,938</b>

For the various options considered in the OBC this figure has been amended to remove the element that will not need to be carried out if the refurbishments are done,.

<b>Table 20 - St.Helier site backlog</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
Full cost of backlog for St.Helier site	13,020,879	13,020,879	13,020,879
Reduction in main building due to refurb		(3,390,938)	(3,390,938)
Reduction in Ferguson House due to refurb		(942,426)	(2,258,848)
<b>Cost at 2008 prices</b>	<b>13,020,879</b>	<b>8,687,515</b>	<b>7,371,093</b>
Reduction by MIPS 490/556			
<b>Cost carried in Estates schedules</b>	<b>11,475,235</b>	<b>7,656,263</b>	<b>6,496,108</b>

It has been assumed that the cost of backlog maintenance will be capitalised as part of the overall scheme.

- 3) A provisional "Location adjustment" has been applied at 10% of the aggregate of the Departmental Costs and the On Costs.
- 4) Fees have been compiled and equate to 16% of the aggregate Departmental costs and On Costs, as adjusted for the location adjustment.

## 5) Non works costs principally comprise :

<b>Table 21 - Non works costs</b>	<b>£</b>
General allowance at 2.5% of construction cost	1,323,595
Section 106	500,000
Decanting costs per annex	12,836,597
VAT	2,565,534
<hr/> Total	<hr/> 17,225,726

The decanting costs have been included as estimated by the Trust and this has been set out in the General Annex.

It has been assumed that the decanting cost required during the construction phase of the scheme will be capitalised as part of the cost of the scheme.

- 6) Equipment costs have been estimated within the Estates annex and are subject to a 38% rebate allowance for the re use of existing equipment.
- 7) Planning contingency has been included at 10% of the aggregate scheme costs before Optimism bias.

- 8) Optimism bias has been included at 21.4% as assessed by the Quantity surveyors based on the risks associated with the scheme. This compares to the programme level of optimism bias of 39.1 %.

Although broken down further for the differing funding options the next part of this analysis estimates the cost of conducting the Refurbishment element of the scheme which has not been separately identified within the Estates annex.



The basic build cost for the refurbished element of the scheme should then be adjusted for the following allowances per the estates annex :

<b>Table 22 ( Cont'd) - Refurbishment costs</b>	<b>£</b>	<b>£</b>
Departmental	4,021,264	
Equipment		1,014,202
Location adjustment of 10% on departmental costs plus VAT	402,126	
Fees at 16 % of Department plus location	602,334	
Sub total		<u>5,025,724</u>
		6,039,926
Planning contingency		<u>603,993</u>
		6,643,919
Optimism bias at 21.4 %		<u>1,421,799</u>
Anticipated cost of Refurbishment		<u>8,065,718</u>

Although it is difficult to be entirely accurate in splitting costs, for the purposes of this OBC the refurbishment element is assumed to be £ 8.1 million inc VAT but before inflation.

The cash flow forecast associated with the construction programme anticipates FBC completion in 1Q 2011 with construction commencement on 1Q 2011 and completion in 3Q 2015. Full details of the cash flow forecasts are set out in the Estates Annex within the OB forms. After reviewing the phasing of cash spend per the Estates annex the Trust has adopted a modified spend pattern which is expected to more closely reflect reality and these cash flows are identified throughout this annex. The principle changes are driven by :-

- Start timing: whereby the Estates annex shows a significant spend in 2008/09 which is not likely to occur given the approval timetable.
- Decant costs: which have been spread over the period whilst the construction phase takes place.
- Backlog maintenance: which is more likely to take place once the refurbishment and new build have taken place and the need for such backlog work can be properly assessed.

The lifecycle costs associated with option 3 have been estimated at £ 388m (at Base date prices) over 60 years in accordance with the Estates annexes.

#### 10.4 Financial risks associated with Option 3

The key risks associated with capital cost of Option 3 relate to :

- Compilation of these costs at OBC stage has been done using assumptions rather than more detailed drawings. A 1% change in the construction cost ( before optimism bias ) equates to an additional cost of £ 1m
- Changes in VAT rate will alter the scheme cost.
- Changes in VAT recoverability will increase the scheme cost as the OB forms assume the total recovery of VAT on the Fees. Should this change the fees would rise by £ 1.9m.
- The accounting policy applied to these costs is to have them all capitalised as part of the scheme and depreciated in the normal way over 60 years. Should this not be acceptable to all or part of the costs then such costs would have to be written off to the Income & Expenditure account possibly causing short term deficits to the Trust.
- On completion, the building will be re valued by the DV with the possibility that a valuation is given that is lower than the cost of construction, causing a 'one off' impairment charge.

## 11 PREFERRED OPTION - PFI / PPP funding

Having accepted that Option 3 , 'Refurbishment and new build' is the preferred option this section looks at the cost of funding Option 3 using the PPP (PFI) funding route. This will be followed by an analysis of option 3 under Loan funding and PDC funding. This will be looked under the following headings;

- 11.1 Funding scenario and assumptions
- 11.2 Income & Expenditure account
- 11.3 Balance Sheets
- 11.4 Cash flow forecast
- 11.5 Movements in Fixed Assets
- 11.6 Capital affordability
- 11.7 Revenue affordability
- 11.8 Sensitivity, Risks & mitigation
- 11.9 Summary

## 11.1 Funding scenario and assumptions

It is envisaged that the PFI provider will fund the vast majority of the capital project however allowance has had to be made for certain cost which most PFI providers would not regard as part of a PFI scheme. To that extent the total scheme costs have been broken in to 4 parts per the table below.

<b>Table 23 - PFI costs</b>	<b>Decant costs</b>	<b>Backlog</b>	<b>PFI</b>	<b>VAT avoided</b>	<b>Total</b>
Departmental costs			32,982,628		32,982,628
On costs		6,496,108	22,888,808		29,384,916
Location adjustment		649,611	5,587,144		6,236,755
Fees			10,976,688		10,976,688
Non works cost	12,836,597		1,872,086		14,708,683
Equipment			3,490,720		3,490,720
Planning contingency	1,283,659	714,572	7,779,808		9,778,039
Optimism bias 21.4%	3,021,735	1,682,102	18,313,667		23,017,504
	17,141,991	9,542,393	<b>103,891,549</b>		130,576,233
VAT	2,999,848	1,669,919		16,260,101	20,929,868
<b>At 2007/08 prices</b>	<b>20,141,839</b>	<b>11,212,312</b>	103,891,549	16,260,101	151,505,801

The Capital cost to be funded by the PFI provider will be before the addition of VAT. The amount of £ 103.9m will be capitalised in FY16 as the cost of the building for depreciation purposes. The figures included within the PFI element also include an element of Refurbishment of approx £ 8.1 million and it has been assumed that this will be taken in to the PFI scheme for the purposes of this OBC, however the Trust recognise that these may have to be funded differently in reality. Taking the refurbishment element out of the PFI would also incur an additional VAT sum of £ 1.2 m.

In order to calculate the impact on the Trust's Income and Expenditure Accounts a PFI project financial model has been used. This model has produced a unitary charge which has been used as the basis for further calculations of the financial impact to the Trust. The financial model has used assumptions from the project (Capital costs, facilities management costs) as well as assumptions relating to current financial market conditions (interest rates) and estimates based on previous PFI projects (set up costs, SPV running costs).

The main assumptions used in the financial model are as follows:

Item	Assumption	Comments
Financial close date	31 December 2010	
Capital costs (at 2008 prices)	£103,891,548	Being the VAT exclusive cost of the construction, excluding backlog maintenance and decant costs
Build period	4 years	Construction costs are spread evenly each month during the construction period.
Set up costs	£3,973,500	This includes costs prior to financial close (advisers' costs, bid costs) and costs during construction (insurance, monitoring costs)
RPI	2.5%	

Item	Assumption	Comments
Percentage of Unitary charge subject to indexation	35%	
Corporation tax rate	28%	
Operational period	30 years	This is the period following construction during which the unitary charge is payable. It gives a total contract term of 34 years (4 years construction, 30 years operation)
Fixed asset accounting and tax treatment	Contract debtor / composite trader	These treatments are the most beneficial to the private sector operator and enable it to impose a lower unitary charge than the depreciated asset / capital allowances treatments.
Funding sources	Approximately 90% senior debt, 10% subordinated debt and equity	This is standard in PFI contracts.
Capital contribution	£40m received in February 2017	This capital contribution is used by Project Co to repay senior and subordinated debt in the same proportions as the initial gearing at the time it is received.
Annual facilities management costs	£845,820	This is based on a rate of £36 per square metre
Annual SPV running costs	£420,000	This is based on previous projects of a similar size, and includes insurance, audit, management costs, etc.
Senior Debt margin	1.00% during construction,	This is based on current market terms

Item	Assumption	Comments
	0.9% to 1.00% during operations	
Senior debt base rate	5.25%	This is based on a current market rate of 4.75%, plus a 0.5% buffer against interest rate movements as required by the DH at Outline Business Case stage.
Senior debt arrangement / commitment fee	0.8% / 0.4%	This is based on current market terms
Minimum ADSCR / LLCR	1.15 / 1.18	This is based on current market terms
Subordinated debt coupon	12%	This is based on current market terms
Required blended equity rate of return	14%	This is based on current market terms

The resulting unitary charge is £9,175,000 per annum at 2008 prices.

As a result of the requirement from 1 April 2009 for all public sector entities to comply with International Accounting Standards, it is highly likely that many PFI projects that are currently treated as “off-balance sheet” from the point of view of the public sector will come to be treated as “on-balance sheet”. Accordingly, the Trust has calculated the likely impact on its Income and Expenditure account assuming that the property will be capitalised and depreciated, and that there will be a corresponding liability on the balance sheet. The unitary charge has therefore been split between the service charge (facilities management), the repayment of the liability and the finance charge. The latter two elements have been calculated assuming a uniform interest rate over the operational period, which reduces the liability to zero by the end of the contract. Therefore, the finance charge is higher in early periods and reduces in later years.

The return on capital has been calculated on the average amount of the net balance of the property and the related liability. As these two amounts are similar in the early years of the contract, the return on capital amount is small at this time, but increases in the later years as the liability is written off over a shorter period than the property. The following figures have been used within the Trust’s financial modelling.

**Table 24 - PFI annual cost breakdown**

		<b>FM</b>	<b>Interest</b>	<b>Repay</b>	<b>Unitary Charge</b>
		£' m	£' m	£' m	£' m
Finance Year	2016/17	0.8	7.4	0.9	9.1
	2017/18	0.8	7.3	1.0	9.1
	2018/19	0.8	7.2	1.1	9.1
	2019/20	0.8	7.1	1.2	9.1
	2020/21	0.8	7.0	1.3	9.1
	2021/22	0.8	6.9	1.4	9.1
	2022/23	0.8	6.8	1.5	9.1

The total Income & Expenditure cost of the FPI element of the scheme is shown in the following table:

<b>Table 25 - Total PFI costs</b>	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>PFI interest</b>										7.4	7.3	7.2	7.1	7.0	6.9	6.8
<b>PFI FM charges</b>										0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>PFI prepayment write down</b>									1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
									<b>1.3</b>	<b>9.6</b>	<b>9.4</b>	<b>9.3</b>	<b>9.2</b>	<b>9.1</b>	<b>9.0</b>	<b>8.9</b>
<b>Depreciation on PFI assets</b>										1.7	1.7	1.7	1.7	1.7	1.7	1.7
									<b>1.3</b>	<b>11.3</b>	<b>11.1</b>	<b>11.0</b>	<b>10.9</b>	<b>10.8</b>	<b>10.7</b>	<b>10.6</b>

Other assumptions that have been made when reviewing the financial impact of this funding scenario are:

- The backlog maintenance costs of £ 11.2m have been capitalised including the attributable VAT. These will be paid for out of internal cash in equal instalments in FY17 and FY18 ie the expectation is to conduct the backlog works only once the main project has been completed and therefore the element of the estate that requires backlog can be properly assessed. This is slightly contrary to the assumed scheme cash flow on the OB forms but the impact is thought to be negligible. These costs will be depreciated over the subsequent 60 years.
- The decanting costs of £ 20.1 m will also be capitalised including the attributable VAT. These again will be paid for out of internal cash in the following pattern FY12 = £2m, FY 13 = £ 3m, FY14 = £6m, FY15 = £6m, FY16 = £2m, FY17 = 1.1m. There is a cash flow assumption that the decanting costs will start prior to the demolition of Ferguson House and will be spread evenly throughout the build phase with some expenditure required post completion of the new build. These costs will be depreciated over the subsequent 60 years.
- Ferguson House will be demolished in 2013 and at this time it will have a carrying cost of £ 8.1m with accumulated Depr of £ 1.0 m. The demolition will therefore give rise to an exceptional impairment charge of £ 7.1m in 2013 . From FY 14 the Trust will save an estimated £ 800k per annum in FM costs.
- The Sutton Hospital site will be disposed of in 2016 and at that time it will have a carrying cost of £ 49.1m with accumulated Depr of £ 10.6 m. The sale is assumed to raise £ 40million net of expenses and will therefore give rise to a surplus of £ 1.5m. The sale proceeds will be paid directly to the PFI provider and will appear in the Trust's Balance Sheet as a 'Prepayment' which reduces over the period of the PFI arrangement. The sale is estimated to give rise to an annual FM saving of £ 700k from FY 17
- Interest during the construction phase will be paid by the PFI provider and recovered via the Unitary charge.
- Surplus funds in the Trust are assumed to attract interest at 5.5%, and conversely any overdraft incurred by the Trust will attract interest payments at 5.5%

- The Trust will continue to have a domestic annual capital expenditure programme in line with the following :

<b>Table 26 - Capital expenditure</b>	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>Replacement capital expenditure</b>	<b>18.9</b>	<b>21.0</b>	<b>17.7</b>	<b>10.0</b>	<b>8.0</b>	<b>7.0</b>	<b>6.0</b>	<b>6.0</b>	<b>5.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>

Depreciation on the existing domestic assets has been charged at 3.8% on cost, in line with the existing average rate.

It has been assumed that the scheme assets will be written off over the subsequent 60 years however it is accepted by the Trust that this may marginally underestimate the charge as some of the assets will comprise Equipment ( £ 5.5 m or 5% of spend ) which has a shorter life.

## 11.2 Income &amp; Expenditure Accounts

Income and Expenditure	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>BHCH Baseline Total Income</b>	<b>295.8</b>	<b>294.7</b>	<b>299.9</b>	<b>306.7</b>	<b>297.1</b>	<b>289.4</b>	<b>281.8</b>	<b>274.8</b>	<b>269.2</b>	<b>259.3</b>	<b>249.7</b>	<b>244.8</b>	<b>239.8</b>	<b>235.1</b>	<b>230.4</b>	<b>225.9</b>
<b>BHCH Baseline Total costs</b>	<b>275.9</b>	<b>271.5</b>	<b>277.8</b>	<b>286.2</b>	<b>275.6</b>	<b>267.1</b>	<b>258.2</b>	<b>250.6</b>	<b>243.5</b>	<b>236.5</b>	<b>229.0</b>	<b>221.9</b>	<b>215.7</b>	<b>210.2</b>	<b>204.8</b>	<b>199.6</b>
<b>BHCH Baseline EBITDA</b>	<b>19.9</b>	<b>23.2</b>	<b>22.1</b>	<b>20.5</b>	<b>21.5</b>	<b>22.3</b>	<b>23.6</b>	<b>24.2</b>	<b>25.7</b>	<b>22.8</b>	<b>20.7</b>	<b>22.9</b>	<b>24.1</b>	<b>24.9</b>	<b>25.6</b>	<b>26.3</b>
FM costs from PFI										0.8	0.8	0.8	0.8	0.8	0.8	0.8
FM Savings from sale of Sutton										0.7	0.7	0.7	0.7	0.7	0.7	0.7
FM savings from demolition of Ferguson							0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>BHCH EBITDA</b>	<b>19.9</b>	<b>23.2</b>	<b>22.1</b>	<b>20.5</b>	<b>21.5</b>	<b>22.3</b>	<b>24.4</b>	<b>25.0</b>	<b>25.5</b>	<b>21.4</b>	<b>21.3</b>	<b>23.6</b>	<b>24.8</b>	<b>25.6</b>	<b>26.3</b>	<b>27.0</b>
Profit / (loss) on asset disposals - baseline	0.2															
Profit / (loss) Ferg Hse, Sutton						7.1			1.5							
Baseline Exceptional Income/ (Costs)**	1.5	0.5														
Depreciation - Baseline	11.4	9.5	9.8	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Depreciation - Changes to baseline		0.8	0.1	1.0	1.9	2.3	2.3	2.6	2.8	1.2	1.4	1.5	1.7	1.8	2.0	2.1
Depreciation - Backlog										0.1	0.1	0.1	0.1	0.1	0.1	0.1
Depreciation - PFI assets										1.7	1.7	1.7	1.7	1.7	1.7	1.7
Depreciation - Decant costs						0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest on cash balances		0.2	0.1	0.7	1.3	1.3	1.2	1.1	1.0	0.4	0.7	1.0	0.8	0.6	0.3	0.1
Interest receivable - baseline	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest payable on Loans/ leases baseline	0.7	0.5	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
PDC Dividend – baseline	6.4	7.2	7.4	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
PDC dividend - changes			0.7	1.2	1.2	0.9	0.9	0.9	0.7	0.6	0.5	0.1	0.2	0.6	0.9	1.3
PFI prepayment write off									1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
PFI interest										7.4	7.3	7.2	7.1	7.0	6.9	6.8
<b>Net Surplus/(deficit)</b>	<b>0.8</b>	<b>6.6</b>	<b>3.9</b>	<b>0.0</b>	<b>0.5</b>	<b>7.0</b>	<b>2.2</b>	<b>2.5</b>	<b>4.3</b>	<b>7.2</b>	<b>9.6</b>	<b>7.4</b>	<b>5.7</b>	<b>4.4</b>	<b>3.1</b>	<b>1.7</b>
<b>Cumulative</b>	<b>0.7</b>	<b>5.9</b>	<b>9.8</b>	<b>9.8</b>	<b>9.3</b>	<b>2.3</b>	<b>4.5</b>	<b>7.0</b>	<b>11.3</b>	<b>4.1</b>	<b>5.5</b>	<b>12.9</b>	<b>18.6</b>	<b>23.0</b>	<b>26.1</b>	<b>27.8</b>

## 11.3 Balance Sheets

<b>BALANCE SHEET</b>	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Domestic assets	202.8	221.3	243.7	258.7	256.7	245.3	240.0	233.3	188.0	181.8	174.5	167.0	159.2	151.4	143.4	135.3
Backlog maintenance										5.5	10.9	10.7	10.6	10.4	10.2	10.0
PFI assets										102.2	100.4	98.7	97.0	95.2	93.5	91.8
Decant costs					2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1	16.8
<b>Total Fixed Assets</b>	<b>202.8</b>	<b>221.3</b>	<b>243.7</b>	<b>258.7</b>	<b>258.7</b>	<b>250.2</b>	<b>250.7</b>	<b>249.7</b>	<b>206.1</b>	<b>308.3</b>	<b>304.2</b>	<b>294.5</b>	<b>284.6</b>	<b>274.4</b>	<b>264.2</b>	<b>253.9</b>
Stocks & Work in Progress	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Debtors	24.3	14.9	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
PFI prepayment									38.7	37.4	36.1	34.8	33.5	32.2	30.9	29.6
Cash at bank and in hand	<b>4.2</b>	<b>1.8</b>	<b>12.9</b>	<b>22.9</b>	<b>23.5</b>	<b>21.9</b>	<b>20.2</b>	<b>16.8</b>	<b>7.6</b>	<b>12.6</b>	<b>17.8</b>	<b>15.3</b>	<b>11.0</b>	<b>5.3</b>	<b>1.8</b>	<b>10.3</b>
<b>Total Current Assets</b>	<b>31.9</b>	<b>16.5</b>	<b>6.2</b>	<b>3.8</b>	<b>4.4</b>	<b>2.8</b>	<b>1.1</b>	<b>2.3</b>	<b>50.2</b>	<b>43.9</b>	<b>37.4</b>	<b>38.6</b>	<b>41.6</b>	<b>46.0</b>	<b>51.8</b>	<b>59.0</b>
Creditors	34.7	26.5	27.7	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
<b>NET CURRENT ASSETS</b>	<b>2.8</b>	<b>10.0</b>	<b>21.5</b>	<b>28.2</b>	<b>28.8</b>	<b>27.2</b>	<b>25.5</b>	<b>22.1</b>	<b>25.8</b>	<b>19.5</b>	<b>13.0</b>	<b>14.2</b>	<b>17.2</b>	<b>21.6</b>	<b>27.4</b>	<b>34.6</b>
Long term Debtors	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>201.5</b>	<b>212.8</b>	<b>223.7</b>	<b>232.0</b>	<b>231.4</b>	<b>224.5</b>	<b>226.7</b>	<b>229.1</b>	<b>233.4</b>	<b>329.3</b>	<b>318.7</b>	<b>310.2</b>	<b>303.3</b>	<b>297.5</b>	<b>293.1</b>	<b>290.0</b>
Creditors: After one year	4.7	4.7														
PFI liability										103.0	102.0	100.9	99.7	98.4	97.0	95.5
Provisions for liabilities	7.4	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
<b>TOTAL ASSETS EMPLOYED</b>	<b>189.4</b>	<b>204.6</b>	<b>219.7</b>	<b>228.0</b>	<b>227.4</b>	<b>220.5</b>	<b>222.7</b>	<b>225.1</b>	<b>229.4</b>	<b>222.3</b>	<b>212.7</b>	<b>205.3</b>	<b>199.6</b>	<b>196.1</b>	<b>192.1</b>	<b>190.5</b>
Public dividend capital	135.0	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4
I & E Reserve	0.7	5.9	9.8	9.8	9.3	2.3	4.5	7.0	11.3	4.1	5.5	12.9	18.6	23.0	26.1	27.8
Revaluation reserve	50.1	58.4	69.6	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8
Donated asset reserve	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
<b>TOTAL TAXPAYERS EQUITY</b>	<b>189.4</b>	<b>204.6</b>	<b>219.7</b>	<b>228.0</b>	<b>227.4</b>	<b>220.5</b>	<b>222.7</b>	<b>225.1</b>	<b>229.4</b>	<b>222.3</b>	<b>212.7</b>	<b>205.3</b>	<b>199.6</b>	<b>196.1</b>	<b>192.1</b>	<b>190.5</b>

## 11.4 Cash Flow Forecasts

<b>CASH FLOW FORECAST</b>	2007/ 08 £M	2008/ 09 £M	2009/ 10 £M	2010/ 11 £M	2011/ 12 £M	2012/ 13 £M	2013/ 14 £M	2014/ 15 £M	2015/ 16 £M	2016/ 17 £M	2017/ 18 £M	2018/ 19 £M	2019/ 20 £M	2020/ 21 £M	2021/ 22 £M	2022/ 23 £M
NET Surplus ( deficit )		<b>6.6</b>	<b>3.9</b>	<b>0.0</b>	<b>0.5</b>	<b>7.0</b>	<b>2.2</b>	<b>2.5</b>	<b>4.3</b>	<b>7.2</b>	<b>9.6</b>	<b>7.4</b>	<b>5.7</b>	<b>4.4</b>	<b>3.1</b>	<b>1.7</b>
Depreciation																
Domestic		8.7	9.8	11.0	12.0	12.3	12.3	12.6	12.8	11.2	11.4	11.5	11.7	11.8	12.0	12.1
Backlog										0.1	0.1	0.1	0.1	0.1	0.1	0.1
PFI assets										1.7	1.7	1.7	1.7	1.7	1.7	1.7
Decant costs						0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Profit on sale																
Profit / (loss) Ferg Hse, Sutton						7.1			1.5							
<b>Increase in assets</b>																
Domestic		<b>18.9</b>	<b>21.0</b>	<b>17.7</b>	<b>10.0</b>	<b>8.0</b>	<b>7.0</b>	<b>6.0</b>	<b>6.0</b>	<b>5.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
Decant					2.0	3.0	6.0	6.0	2.0	1.0						
Backlog										5.6	5.6					
<b>Proceeds of disposal</b>									<b>40.0</b>							
Movement in PFI prepayment									<b>38.7</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>
PFI repayment										0.9	1.0	1.1	1.2	1.3	1.4	1.5
Working Capital changes		2.7	3.8	3.3												
PDC movements		0.4														
Reserve		0.1														
<b>Net cash flow</b>		<b>6.0</b>	<b>11.1</b>	<b>10.0</b>	<b>0.6</b>	<b>1.6</b>	<b>1.7</b>	<b>3.4</b>	<b>9.2</b>	<b>5.0</b>	<b>5.2</b>	<b>2.3</b>	<b>4.3</b>	<b>5.7</b>	<b>7.1</b>	<b>8.5</b>
<b>Opening cash</b>		<b>4.2</b>	<b>1.8</b>	<b>12.9</b>	<b>22.9</b>	<b>23.5</b>	<b>21.9</b>	<b>20.2</b>	<b>16.8</b>	<b>7.6</b>	<b>12.6</b>	<b>17.8</b>	<b>15.3</b>	<b>11.0</b>	<b>5.3</b>	<b>1.8</b>
<b>Movement</b>		<b>6.0</b>	<b>11.1</b>	<b>10.0</b>	<b>0.6</b>	<b>1.6</b>	<b>1.7</b>	<b>3.4</b>	<b>9.2</b>	<b>5.0</b>	<b>5.2</b>	<b>2.3</b>	<b>4.3</b>	<b>5.7</b>	<b>7.1</b>	<b>8.5</b>
<b>Closing cash</b>	<b>4.2</b>	<b>1.8</b>	<b>12.9</b>	<b>22.9</b>	<b>23.5</b>	<b>21.9</b>	<b>20.2</b>	<b>16.8</b>	<b>7.6</b>	<b>12.6</b>	<b>17.8</b>	<b>15.3</b>	<b>11.0</b>	<b>5.3</b>	<b>1.8</b>	<b>10.3</b>

## 11.5 Movements in Fixed Assets

<b>MOVEMENTS IN ASSETS</b>	2007/ 08 £M	2008/ 09 £M	2009/ 10 £M	2010/ 11 £M	2011/ 12 £M	2012/ 13 £M	2013/ 14 £M	2014/ 15 £M	2015/ 16 £M	2016/ 17 £M	2017/ 18 £M	2018/ 19 £M	2019/ 20 £M	2020/ 21 £M	2021/ 22 £M	2022/ 23 £M
Domestic assets																
Opening net assets		202.8	221.3	243.7	258.7	256.7	245.3	240.0	233.3	188.0	181.8	174.5	167.0	159.2	151.4	143.4
Additions		18.9	21.0	17.7	10.0	8.0	7.0	6.0	6.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0
Disposals																
Depreciation net		8.7	9.8	11.0	12.0	12.3	12.3	12.6	12.8	11.2	11.4	11.5	11.7	11.8	12.0	12.1
Revaluation Reserve		8.3	11.2	8.2												
Closing net assets	202.8	221.3	243.7	258.7	256.7	245.3	240.0	233.3	188.0	181.8	174.5	167.0	159.2	151.4	143.4	135.3
Backlog maintenance																
Opening net assets											5.5	10.9	10.7	10.6	10.4	10.2
Additions										5.6	5.6					
Depreciation										0.1	0.2	0.2	0.1	0.2	0.2	0.2
Closing net assets										5.5	10.9	10.7	10.6	10.4	10.2	10.0
Decant cost																
Opening net assets						2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1
Additions					2.0	3.0	6.0	6.0	2.0	1.0						
Depreciation						0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Closing net assets					2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1	16.8

**MOVEMENTS IN ASSETS**

	2007/ 08 £M	2008/ 09 £M	2009/ 10 £M	2010/ 11 £M	2011/ 12 £M	2012/ 13 £M	2013/ 14 £M	2014/ 15 £M	2015/ 16 £M	2016/ 17 £M	2017/ 18 £M	2018/ 19 £M	2019/ 20 £M	2020/ 21 £M	2021/ 22 £M	2022/ 23 £M
PFI assets																
Opening net assets											102.2	100.4	98.7	97.0	95.2	93.5
Additions									103.9							
Depreciation									1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Closing net assets									102.2	100.4	98.7	97.0	95.2	93.5	91.8	

## 11.6 Capital affordability

Under the Capital affordability criteria the additional cost of funding the new scheme should not, when added to the existing finance costs, equate to more than 12.5% of Income.

<b>CAPITAL AFFORDABILITY</b>																
	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Income	<b>295.8</b>	<b>294.7</b>	<b>299.9</b>	<b>306.7</b>	<b>297.1</b>	<b>289.4</b>	<b>281.8</b>	<b>274.8</b>	<b>269.2</b>	<b>259.3</b>	<b>249.7</b>	<b>244.8</b>	<b>239.8</b>	<b>235.1</b>	<b>230.4</b>	<b>225.9</b>
Working capital Financing cost	0.6	0.2	0.3	0.7	1.3	1.3	1.2	1.1	0.9	0.4	0.7	1.0	0.8	0.6	0.3	0.1
PFI funding costs									1.3	8.7	8.6	8.5	8.4	8.3	8.2	8.1
PDC	6.4	7.2	8.1	8.8	8.8	7.5	8.5	8.5	8.3	8.2	8.1	7.7	7.4	7.0	6.7	6.3
Total funding	6.0	7.4	8.4	9.5	10.1	8.8	9.7	9.6	10.5	17.3	17.4	17.3	16.6	15.9	15.2	14.3
Depreciation	11.4	8.7	9.7	11.0	12.0	12.4	12.5	12.9	13.1	13.3	13.6	13.8	13.9	14.1	14.2	14.4
Total	17.4	16.1	18.2	20.5	22.0	22.2	22.2	22.5	23.7	30.7	31.0	31.0	30.5	30.0	29.4	28.7
Total %	5.9	5.5	6.1	6.7	7.4	7.7	7.9	8.2	8.8	11.8	12.4	12.7	12.7	12.8	12.8	12.7

Although the project would meet the affordability test for the Trust in total, such a funding route would leave no future flexibility for funding future expansion or the re organisation of other sites such as Epsom.

### 11.7 Revenue affordability

Revenue affordability is judged by the Trust's ability to meet its statutory financial duty to break even in each financial year.

For the years FY 17 to FY 23 deficits are recorded as a result of the impact of opening the LCCs and the transfer of activity to the primary setting. These deficits are however reducing each year based on the impact of net growth in demand however at FY23 the Trust has a cumulative deficit of £ 27.8m

Undertaking the build under PFI funding would mean that the Trust would breach its fiducery duty to break even as it incurs losses for 8 out of the 15 years under review.

## 11.8 Sensitivity, Risks & mitigation

The impact of the principle sensitivities are set out in the table below:

### SENSITIVITY ANALYSIS

	Present position £M	Working Cap cost up by 1% £M	Working Cap cost down by 1% £M	Sutton sale proceeds reduce PDC
Annual surplus in FY 23	1.7	1.9	1.6	1.4
Cumulative surplus at FY 23	27.7	30.7	25.2	21.1
No of years in deficit, out of 15	10	11	9	9
Available capital spend ay FY 23	Nil	Nil	Nil	Nil

It has been assumed that the PFI provider will undertake the Refurbishment of the hospital which would otherwise cost some £ 8.15m. Should this not be the case then alternative, more costly , funding would be needed and there would be additional VAT to pay on this element.

### Risks

Changes in interest/funding rates between OBC and contract signature

Availability of willing partners

### Mitigation

The models make no allowance for the possible financial gains to be made from operating a more efficient building.

### 11.9 Summary

The PFI option permanently avoids some £ 16m of VAT however the cost of funding is expensive such that there would be little room for the Trust to spend further capital on its other site at Epsom.



## 12 PREFERRED OPTION - Loan funding

This section provides the analysis relating to the option to fund the scheme through Loan funding and the analysis is covered by the following sections.

- 12.1 Funding scenario and assumptions
- 12.2 Income & Expenditure account
- 12.3 Balance Sheets
- 12.4 Cash flow forecast
- 12.5 Movements in Fixed Assets
- 12.6 Capital affordability
- 12.7 Revenue affordability
- 12.8 Sensitivity, Risks & mitigation
- 12.9 Summary

### 12.1 Funding scenario and assumptions

The funding of the entire scheme including decant cost, refurbishment costs, backlog maintenance and the new build element would be financed by a single NHS Bank loan. As a consequence the scheme will suffer the entire VAT cost immediately.

The loan would be drawn down as required by the scheme cash flow set out below.

Interest would be charged at 5.5% and paid in the year of charging even during the construction phase.

Loan establishment costs have been ignored for the sake of simplicity.

Loan repayments would be made initially on the disposal of the Sutton Hospital site and subsequently in tranches of £ 5m. This repayment pattern has been assumed to allow the Trust to retain a reasonable amount of cash on its Balance Sheet and the model assumes a level of deposit interest will be earned on positive balances, again at 5.5%..

<b>Loan schedule</b>	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>Opening balance</b>		<b>0.0</b>	<b>7.0</b>	<b>9.0</b>	<b>27.0</b>	<b>57.0</b>	<b>87.0</b>	<b>117.0</b>	<b>137.0</b>	<b>140.0</b>	<b>147.0</b>	<b>151.0</b>	<b>146.0</b>	<b>141.0</b>	<b>136.0</b>	<b>131.0</b>
<b>Drawn down</b>		<b>7.0</b>	<b>2.0</b>	<b>18.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>20.0</b>	<b>3.0</b>	<b>7.0</b>	<b>4.0</b>					
Repayments													5.0	5.0	5.0	5.0
Closing balance	<b>0.0</b>	<b>7.0</b>	<b>9.0</b>	<b>27.0</b>	<b>57.0</b>	<b>87.0</b>	<b>117.0</b>	<b>137.0</b>	<b>140.0</b>	<b>147.0</b>	<b>151.0</b>	<b>146.0</b>	<b>141.0</b>	<b>136.0</b>	<b>131.0</b>	<b>126.0</b>
Interest																

The drawdown profile has been assumed such that the Trust do not have surplus cash and similarly the repayment profile has been assumed such that the Trust retains sufficient cash to meet its current creditors. As the Balance Sheet shows in the later years the Trust may be able to accelerate the repayments, reducing interest costs and bringing the Trust back in to surplus. At £ 5m per annum the loan would be repaid in 30 years which is equivalent to the repayment period on the PFI option.

Other assumptions that have been made when reviewing the financial impact of this funding scenario are:

- The backlog maintenance costs of £ 11.2m have been capitalised including the attributable VAT. These will be paid for out of internal cash in equal instalments in FY17 and FY18 ie the expectation is to conduct the backlog works only once the main project has been completed and therefore the element of the estate that requires backlog can be properly assessed. This is slightly contrary to the assumed scheme cash flow on the OB forms but the impact is thought to be negligible. These costs will be depreciated over the subsequent 60 years.
- The decanting costs of £ 20.1 m will also be capitalised including the attributable VAT. These again will be paid for out of internal cash in the following pattern FY12 = £2m, FY 13 = £ 3m, FY14 = £6m, FY15 = £6m, FY16 = £2m, FY17 = 1.1m. There is a cash flow assumption that the decanting costs will start prior to the demolition of Ferguson House and will be spread evenly throughout the build phase with some required post completion of the new build. These costs will be depreciated over the subsequent 60 years.
- Ferguson House will be demolished in 2013 and at this time it will have a carrying cost of £ 8.1m with accumulated Depr of £ 1.0 m The demolition will give rise to a loss of £ 7.1m in 2013 . From FY 14 the Trust will save an estimated £ 800k per annum in FM costs.
- The Sutton Hospital site will be disposed of in 2016 and at that time it will have a carrying cost of £ 49.1m with accumulated Depr of £ 10.6 m. The sale is assumed to raise £ 40million net of expenses and will therefore give rise to a surplus of £ 1.5m. The sale proceeds will be paid directly to the PFI provider and will appear in the Trust's Balance Sheet as a Prepayment which reduces over the period of the PFI arrangement. The sale is estimated to give rise to an annual FM saving of £ 700k from FY 17
- FM cost of the new build would be £ 0.6m per annum , which is lower than would otherwise be charged by the PFI provider route.

## 12.2 Income &amp; expenditure account

Income and Expenditure	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>BHCH Baseline Total Income</b>	<b>295.8</b>	<b>294.7</b>	<b>299.9</b>	<b>306.7</b>	<b>297.1</b>	<b>289.4</b>	<b>281.8</b>	<b>274.8</b>	<b>269.2</b>	<b>259.3</b>	<b>249.7</b>	<b>244.8</b>	<b>239.8</b>	<b>235.1</b>	<b>230.4</b>	<b>225.9</b>
<b>BHCH Baseline Total costs</b>	<b>275.9</b>	<b>271.5</b>	<b>277.8</b>	<b>286.2</b>	<b>275.6</b>	<b>267.1</b>	<b>258.2</b>	<b>250.6</b>	<b>243.5</b>	<b>236.5</b>	<b>229.0</b>	<b>221.9</b>	<b>215.7</b>	<b>210.2</b>	<b>204.8</b>	<b>199.6</b>
<b>BHCH Baseline EBITDA</b>	<b>19.9</b>	<b>23.2</b>	<b>22.1</b>	<b>20.5</b>	<b>21.5</b>	<b>22.3</b>	<b>23.6</b>	<b>24.2</b>	<b>25.7</b>	<b>22.8</b>	<b>20.7</b>	<b>22.9</b>	<b>24.1</b>	<b>24.9</b>	<b>25.6</b>	<b>26.3</b>
FM cost of new build										0.6	0.6	0.6	0.6	0.6	0.6	0.6
FM Savings from sale of Sutton										0.7	0.7	0.7	0.7	0.7	0.7	0.7
FM savings from demolition of Ferguson							0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>BHCH EBITDA</b>	<b>19.9</b>	<b>23.2</b>	<b>22.1</b>	<b>20.5</b>	<b>21.5</b>	<b>22.3</b>	<b>24.4</b>	<b>25.0</b>	<b>26.5</b>	<b>23.7</b>	<b>21.6</b>	<b>23.8</b>	<b>25.0</b>	<b>25.8</b>	<b>26.5</b>	<b>27.2</b>
Profit / (loss) on asset disposals - baseline	0.2															
Profit / (loss) Ferg Hse, Sutton						7.1			1.5							
Baseline Exceptional Income/ (Costs)**	1.5	0.5														
Depreciation - Domestic	11.4	8.7	9.7	11.0	12.0	12.3	12.3	12.6	12.8	11.2	11.4	11.5	11.7	11.8	12.0	12.1
Depreciation – Backlog										0.1	0.2	0.2	0.2	0.2	0.2	0.2
Depreciation - Refurbishment				0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Depreciation - New build									1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Depreciation Decant cost						0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest on cash balances		0.2	0.1	0.8	1.4	1.4	1.2	1.0	0.8	0.4	0.1	0.	0.1	0.2	0.5	0.8
Interest receivable - baseline	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest payable on Loans/ leases baseline	0.7	0.5	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Scheme loan interest			0.4	0.5	1.5	3.1	4.8	6.4	7.5	7.7	8.1	8.3	8.0	7.8	7.5	7.2
PDC Dividend – baseline	6.4	7.2	7.4	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
PDC dividend - changes			0.8	1.2	1.1	0.7	0.5	0.2	1.5	1.8	2.1	2.3	2.4	2.6	2.8	3.0
<b>Net Surplus/(deficit)</b>	<b>0.8</b>	<b>6.6</b>	<b>3.5</b>	<b>0.6</b>	<b>2.2</b>	<b>10.1</b>	<b>2.3</b>	<b>3.3</b>	<b>1.6</b>	<b>3.8</b>	<b>6.0</b>	<b>3.9</b>	<b>2.3</b>	<b>1.0</b>	<b>0.2</b>	<b>1.5</b>
<b>Cumulative</b>	<b>0.7</b>	<b>5.9</b>	<b>9.3</b>	<b>8.7</b>	<b>6.5</b>	<b>3.6</b>	<b>6.0</b>	<b>9.2</b>	<b>10.8</b>	<b>14.6</b>	<b>20.6</b>	<b>24.5</b>	<b>26.8</b>	<b>27.9</b>	<b>27.7</b>	<b>26.1</b>

## 12.3 Balance Sheets

<b>BALANCE SHEET</b>	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>Fixed assets</b>																
Domestic	202.8	221.3	243.7	258.7	256.7	245.3	239.9	233.4	188	181.8	174.5	166.9	159.3	151.4	143.4	135.3
Backlog										5.5	10.9	10.7	10.5	10.4	10.2	10.0
Refurbishment				3.9	7.9	7.8	7.6	7.5	7.4	7.2	7.1	7.0	6.8	6.7	6.5	6.4
New build		7.5	9.8	24.3	47.4	73.6	96.8	111.0	109.2	107.3	105.5	103.6	101.8	99.9	98.1	96.2
Decant costs					2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1	16.8
<b>Total Fixed Assets</b>	<b>202.8</b>	<b>228.8</b>	<b>253.5</b>	<b>286.9</b>	<b>314.0</b>	<b>331.5</b>	<b>355.1</b>	<b>368.3</b>	<b>322.6</b>	<b>320.6</b>	<b>316.4</b>	<b>306.3</b>	<b>296.1</b>	<b>285.8</b>	<b>275.3</b>	<b>264.7</b>
Stocks & Work in Progress	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Debtors	24.3	14.9	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
Cash at bank and in hand	4.2	2.3	14.2	25.3	24.6	22.3	18.1	14.6	7.5	2.4	0.1	1.1	3.9	8.2	13.9	21.1
<b>Total Current Assets</b>	<b>31.9</b>	<b>16.0</b>	<b>4.9</b>	<b>6.2</b>	<b>5.5</b>	<b>3.2</b>	<b>1.0</b>	<b>4.5</b>	<b>11.6</b>	<b>16.7</b>	<b>19.0</b>	<b>20.2</b>	<b>23.0</b>	<b>27.3</b>	<b>33.0</b>	<b>40.2</b>
Creditors	34.7	26.5	27.7	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
<b>NET CURRENT ASSETS</b>	<b>2.8</b>	<b>10.5</b>	<b>22.8</b>	<b>30.6</b>	<b>29.9</b>	<b>27.6</b>	<b>23.4</b>	<b>19.9</b>	<b>12.8</b>	<b>7.7</b>	<b>5.4</b>	<b>4.2</b>	<b>1.4</b>	<b>2.9</b>	<b>8.6</b>	<b>15.8</b>
Long term Debtors	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>201.5</b>	<b>240.8</b>	<b>232.2</b>	<b>257.8</b>	<b>285.6</b>	<b>305.4</b>	<b>333.2</b>	<b>349.9</b>	<b>311.3</b>	<b>314.4</b>	<b>312.5</b>	<b>303.6</b>	<b>296.2</b>	<b>290.2</b>	<b>285.4</b>	<b>28.2</b>
Creditors: After one year	4.7	4.7														
NHS bank Loan		7.0	93.0	27.0	57.0	87.0	117.0	137.0	140.0	147.0	151.0	146.0	141.0	136.0	131.0	126.0
Provisions for liabilities	7.4	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
<b>TOTAL ASSETS EMPLOYED</b>	<b>189.4</b>	<b>204.6</b>	<b>219.2</b>	<b>226.8</b>	<b>224.6</b>	<b>214.5</b>	<b>212.1</b>	<b>208.9</b>	<b>167.3</b>	<b>163.5</b>	<b>157.5</b>	<b>153.6</b>	<b>151.3</b>	<b>150.2</b>	<b>150.4</b>	<b>152.0</b>
Public dividend capital	135.0	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4	135.4
I & E Reserve	0.7	5.9	9.3	8.7	6.5	3.6	6.0	9.2	10.8	14.6	20.6	24.5	26.8	27.9	27.7	26.1
Revaluation reserve	50.1	58.4	69.6	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8
Donated asset reserve	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
<b>TOTAL TAXPAYERS EQUITY</b>	<b>189.4</b>	<b>204.6</b>	<b>219.2</b>	<b>226.8</b>	<b>224.6</b>	<b>214.5</b>	<b>212.1</b>	<b>208.9</b>	<b>167.3</b>	<b>163.5</b>	<b>157.5</b>	<b>153.6</b>	<b>151.3</b>	<b>150.2</b>	<b>150.4</b>	<b>152.0</b>

## 12.4 Cash Flow Forecasts

<b>CASH FLOW FORECAST</b>	2007/ 08 £M	2008/ 09 £M	2009/ 10 £M	2010/ 11 £M	2011/ 12 £M	2012/ 13 £M	2013/ 14 £M	2014/ 15 £M	2015/ 16 £M	2016/ 17 £M	2017/ 18 £M	2018/ 19 £M	2019/ 20 £M	2020/ 21 £M	2021/ 22 £M	2022/ 23 £M
NET Surplus ( deficit )	<b>0.8</b>	<b>6.6</b>	<b>3.5</b>	<b>0.6</b>	<b>2.2</b>	<b>10.1</b>	<b>2.3</b>	<b>3.3</b>	<b>1.6</b>	<b>3.8</b>	<b>6.0</b>	<b>3.9</b>	<b>2.3</b>	<b>1.0</b>	<b>0.2</b>	<b>1.5</b>
Depreciation																
Domestic	11.4	8.7	9.7	11.0	12.0	12.3	12.3	12.6	12.8	11.2	11.4	11.5	11.7	11.8	12.0	12.1
New build									1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Refurbishment				0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Decant						0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Backlog										0.1	0.2	0.2	0.2	0.2	0.2	0.2
Profit on sale																
Profit / (loss) Ferg Hse, Sutton						7.1			1.5							
<b>Increase in assets</b>																
Domestic programme		18.9	21.0	17.7	10.0	8.0	7.0	6.0	6.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0
Decant					2.0	3.0	6.0	6.0	2.0	1.0						
Backlog										5.6	5.6					
Refurbishment				4.0	4.1											
New build		7.5	2.3	14.5	23.1	26.2	23.2	14.2								
<b>Proceeds of disposal</b>									40.0							
NHS bank funding		7.0	2.0	18.0	30.0	30.0	30.0	20.0	3.0	7.0	4.0	5.0	5.0	5.0	5.0	5.0
Working Capital changes		2.7	3.8	3.3												
PDC movement		0.4							40.0							
Reserve		0.1														
<b>Net cash flow</b>		<b>6.5</b>	<b>11.9</b>	<b>11.1</b>	<b>0.7</b>	<b>2.3</b>	<b>4.1</b>	<b>3.5</b>	<b>7.0</b>	<b>5.2</b>	<b>2.3</b>	<b>1.2</b>	<b>2.9</b>	<b>4.3</b>	<b>5.7</b>	<b>7.2</b>

Refurbishment

## 12.5 Movements in Fixed Assets

**MOVEMENTS IN ASSETS**

	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>Domestic assets</b>																
Opening net assets		202.8	221.3	243.7	258.7	256.7	245.3	240.0	233.3	188.0	181.8	174.5	167.0	159.2	151.4	143.4
Additions		<b>18.9</b>	<b>21.0</b>	<b>17.7</b>	<b>10.0</b>	<b>8.0</b>	<b>7.0</b>	<b>6.0</b>	<b>6.0</b>	<b>5.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
Disposals																
Depreciation net		<b>8.7</b>	<b>9.8</b>	<b>11.0</b>	<b>12.0</b>	<b>12.3</b>	<b>12.3</b>	<b>12.6</b>	<b>12.8</b>	<b>11.2</b>	<b>11.4</b>	<b>11.5</b>	<b>11.7</b>	<b>11.8</b>	<b>12.0</b>	<b>12.1</b>
Revaluation Reserve		8.3	11.2	8.2												
Closing net assets	202.8	221.3	243.7	258.7	256.7	245.3	240.0	233.3	188.0	181.8	174.5	167.0	159.2	151.4	143.4	135.3
<b>Backlog maintenance</b>																
Opening net assets											5.5	10.9	10.7	10.6	10.4	10.2
Additions										5.6	5.6					
Depreciation										<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Closing net assets										5.5	10.9	10.7	10.6	10.4	10.2	10.0
<b>Decant cost</b>																
Opening net assets						2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1
Additions					2.0	3.0	6.0	6.0	2.0	1.0						
Depreciation						<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Closing net assets					2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1	16.8

**MOVEMENTS IN ASSETS**

	2007/ 08 £M	2008/ 09 £M	2009/ 10 £M	2010/ 11 £M	2011/ 12 £M	2012/ 13 £M	2013/ 14 £M	2014/ 15 £M	2015/ 16 £M	2016/ 17 £M	2017/ 18 £M	2018/ 19 £M	2019/ 20 £M	2020/ 21 £M	2021/ 22 £M	2022/ 23 £M
<b>New build</b>																
Opening net assets			7.5	9.8	24.3	47.4	73.6	96.8	111.0	109.2	107.3	105.5	103.6	101.8	99.9	96.1
Additions		<b>7.5</b>	<b>2.3</b>	<b>14.5</b>	<b>23.1</b>	<b>26.2</b>	<b>23.2</b>	<b>14.2</b>								
Depreciation net									1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Closing net assets		7.5	9.8	24.3	47.4	73.6	96.8	111.0	109.2	107.3	105.5	103.6	101.8	99.9	96.1	96.2
<b>Asset additions</b>	<b>Total</b>															
Decant costs	20.1				2.0	3.0	6.0	6.0	2.0	1.1						
Backlog	11.2									5.6	5.6					
Refurbishment	8.1			4.0	4.1											
New build	112.1	7.5	2.3	14.5	23.1	26.2	23.2	14.2	1.1							
	151.5	7.5	203	18.5	29.2	29.2	29.2	20.2	3.1	6.7	5.6					

## 12.6 Capital affordability

Under the Capital affordability criteria the additional cost of funding the new scheme should not, when added to the existing finance costs, equate to more than 12.5% of Income.

<b>CAPITAL AFFORDABILITY</b>	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Income	<b>295.8</b>	<b>294.7</b>	<b>299.9</b>	<b>306.7</b>	<b>297.1</b>	<b>289.4</b>	<b>281.8</b>	<b>274.8</b>	<b>269.2</b>	<b>259.3</b>	<b>249.7</b>	<b>244.8</b>	<b>239.8</b>	<b>235.1</b>	<b>230.4</b>	<b>225.9</b>
Working capital Financing cost		0.2	0.3	0.8	1.4	1.4	1.2	1.0	0.8	0.4	0.1	0.0	0.1	0.2	0.5	0.8
NHS loan interest			0.4	0.5	1.5	3.1	4.8	6.4	7.5	7.7	8.1	8.3	8.0	7.8	7.5	7.2
PDC		7.2	8.2	8.8	8.7	8.3	8.1	7.8	6.1	5.8	5.4	5.3	5.2	5.0	4.8	4.6
Total funding		7.4	8.9	10.1	11.6	12.8	14.1	15.3	14.5	13.9	13.7	13.6	13.1	12.5	11.8	11.0
Depreciation		8.7	9.7	11.0	12.1	12.6	12.6	13.0	15.1	13.6	13.9	14.0	14.2	14.3	14.5	14.6
Total		16.1	18.6	21.1	23.7	25.3	26.7	28.3	29.6	27.5	27.6	27.7	27.3	26.8	26.3	25.7
Total %		5.5	6.2	6.9	8.0	8.8	9.5	10.3	11.0	10.6	11.1	11.3	11.4	11.4	11.4	11.4

The project would meet the affordability test for the Trust in total, such a funding route would also leave future flexibility for funding expansion or re organisation of other sites such as Epsom. At FY 23 the Trust could fund a further finance cost of £ 2.53 m which at 3.5% interest and depreciation at an effective rate of 1.6 % would allow a capital development of some £ 49m.

## 12.7 Revenue affordability

Revenue affordability is judged by the Trust's ability to meet its statutory financial duty to break even in each financial year.

The cost of the increased interest holds the Income and Expenditure in a deficit position almost throughout the period from the start of construction with the possibility of it reaching surplus by 2022/23. By this time however the cumulative surplus has amounted to £ 26.1m.

Undertaking the build under commercial loan/ NHS Bank funding would mean that the Trust would breach its fiducery duty to break even for 13 out of the 15 years under review.

## 12.8 Sensitivity, Risks & mitigation

The impact of the principle sensitivities are set out in the table below:

**SENSITIVITY ANALYSIS**

	Present position £M	Working Cap cost up by 1% £M	Working Cap cost down by 1% £M	Sutton sale proceeds at £29m £M	Loan interest up by 1% £M	Loan interest down by 1% £M
Annual surplus in FY 23	1.5	1.5	1.5	1.5	0.7	3.8
Cumulative surplus at FY 23	26.1	28.1	24.1	37.1	44.9	7.4
No of years in deficit, out of 15	11	11	11	11	13	9
Available capital spend ay FY 23	49.9	50.1	48.7	49.9	6.9	92.9

12.9 Conclusion

This route would allow the Trust future flexibility but would breach the Trust Prudential Borrowing Limit as outlined in themain body of the OBC.

## 13 PREFERRED OPTION - PDC funding

This section provides the analysis relating to the option to fund the scheme through Public Development Capital funding and the analysis is covered by the following sections.

13.1 Funding scenario and assumptions

13.2 Income & Expenditure account

13.3 Balance Sheets

13.4 Cash flow forecast

13.5 Movements in Fixed Assets

13.6 Capital affordability

13.7 Revenue affordability

13.8 Sensitivity, Risks & mitigation

13.9 Conclusion

### 13.1 Funding scenario and assumptions

The funding of the entire scheme including decant cost, refurbishment costs, backlog maintenance and the new build element would be financed by an extension to the existing PDC loan. As a consequence the scheme will suffer the VAT cost immediately.

The loan would be drawn down as required by the scheme cash flow set out below.

Interest would effectively be charged by a re working of the PDC loan dividend which, for the purposes of this OBC have been assumed to be at 3.5% of net assets less cash balances. As such interest is paid immediately during the construction phase.

A single repayment would be made on the disposal of the Sutton Hospital site.

	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>PDC funding</b>		135.4	142.4	144.4	162.4	192.4	222.4	252.4	272.4	235.4	242.4	246.4	246.4	246.4	246.4	246.4
<b>Scheme funding drawdown</b>		7.0	2.0	18.0	30.0	30.0	30.0	20.0	3.0	7.0	4.0					
<b>Repayment, Proceeds of sale of Sutton</b>									40.0							
	135.4	142.4	144.4	162.4	192.4	222.4	252.4	272.4	235.4	242.4	246.4	246.4	246.4	246.4	246.4	246.4

Other assumptions that have been made when reviewing the financial impact of this funding scenario are:

- The backlog maintenance costs of £ 11.2m have been capitalised including the attributable VAT. These will be paid for out of internal cash in equal instalments in FY17 and FY18 ie the expectation is to conduct the backlog works only once the main project has been completed and therefore the element of the estate that requires backlog can be properly assessed. This is slightly contrary to the assumed scheme cash flow on the OB forms but the impact is thought to be negligible. These costs will be depreciated over the subsequent 60 years.
- The decanting costs of £ 20.1 m will also be capitalised including the attributable VAT. These again will be paid for out of internal cash in the following pattern FY12 = £2m, FY 13 = £ 3m, FY14 = £6m, FY15 = £6m, FY16 = £2m, FY17 = 1.1m. There is a cash flow assumption that the decanting costs will start prior to the demolition of Ferguson House and will be spread evenly throughout the build phase with some required post completion of the new build. These costs will be depreciated over the subsequent 60 years.

- Ferguson House will be demolished in 2013 and at this time it will have a carrying cost of £ 8.1m with accumulated Depr of £ 1.0 m The demolition will give rise to a loss of £ 7.1m in 2013 . From FY 14 the Trust will save an estimated £ 800k per annum in FM costs.
- The Sutton Hospital site will be disposed of in 2016 and at that time it will have a carrying cost of £ 49.1m with accumulated Depr of £ 10.6 m. The sale is assumed to raise £ 40million net of expenses and will therefore give rise to a surplus of £ 1.5m. The sale proceeds will be paid directly to the PFI provider and will appear in the Trust's Balance Sheet as a Prepayment which reduces over the period of the PFI arrangement. The sale is estimated to give rise to an annual FM saving of £ 700k from FY 17
- FM cost of the new build would be £ 0.6m per annum , which is lower than would otherwise be charged by the PFI provider route.

## 13.2 Income &amp; Expenditure accounts

	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>Income and Expenditure</b>																
<b>BHCH Baseline Total Income</b>	<b>295.8</b>	<b>294.7</b>	<b>299.9</b>	<b>306.7</b>	<b>297.1</b>	<b>289.4</b>	<b>281.8</b>	<b>274.8</b>	<b>269.2</b>	<b>259.3</b>	<b>249.7</b>	<b>244.8</b>	<b>239.8</b>	<b>235.1</b>	<b>230.4</b>	<b>225.9</b>
<b>BHCH Baseline Total costs</b>	<b>275.9</b>	<b>271.5</b>	<b>277.8</b>	<b>286.2</b>	<b>275.6</b>	<b>267.1</b>	<b>258.2</b>	<b>250.6</b>	<b>243.5</b>	<b>236.5</b>	<b>229.0</b>	<b>221.9</b>	<b>215.7</b>	<b>210.2</b>	<b>204.8</b>	<b>199.6</b>
<b>BHCH Baseline EBITDA</b>	<b>19.9</b>	<b>23.2</b>	<b>22.1</b>	<b>20.5</b>	<b>21.5</b>	<b>22.3</b>	<b>23.6</b>	<b>24.2</b>	<b>25.7</b>	<b>22.8</b>	<b>20.7</b>	<b>22.9</b>	<b>24.1</b>	<b>24.9</b>	<b>25.6</b>	<b>26.3</b>
FM on new build										0.6	0.6	0.6	0.6	0.6	0.6	0.6
FM Savings from sale of Sutton										0.7	0.7	0.7	0.7	0.7	0.7	0.7
FM savings from demolition of Ferguson							0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>BHCH EBITDA</b>	<b>19.9</b>	<b>23.2</b>	<b>22.1</b>	<b>20.5</b>	<b>21.5</b>	<b>22.3</b>	<b>24.4</b>	<b>25.0</b>	<b>26.5</b>	<b>23.7</b>	<b>21.6</b>	<b>23.8</b>	<b>25.0</b>	<b>25.8</b>	<b>26.5</b>	<b>27.2</b>
Profit / (loss) on asset disposals - baseline	0.2															
Profit / (loss) Ferg Hse, Sutton						7.1			1.5							
Baseline Exceptional Income/ (Costs)**	1.5	0.5														
Depreciation - Domestic programme	11.4	7.7	9.7	11.0	12.0	12.3	12.3	12.6	12.8	11.2	11.4	11.5	11.7	11.8	12.0	12.1
Depreciation - Backlog										0.1	0.2	0.2	0.2	0.2	0.2	0.2
Depreciation - Refurbishment				0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Depreciation - New build									1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Depreciation - Decant cost						0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest receivable - baseline	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest receivable - on cash balances		0.2	0.1	0.8	1.4	1.4	1.3	1.0	0.7	0.2	0.2	0.5	1.1	1.7	2.5	3.3
Interest payable on Loans/ leases baseline	0.7	0.5	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Scheme loan interest																
PDC Dividend – baseline	6.4	7.2	7.4	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
PDC dividend - changes		0.3	1.1	2.2	3.1	3.7	4.6	5.0	3.4	3.3	3.2	2.8	2.5	2.1	1.8	1.4
<b>Net Surplus/(deficit)</b>	<b>0.8</b>	<b>6.3</b>	<b>3.5</b>	<b>1.1</b>	<b>2.8</b>	<b>10.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.1</b>	<b>1.1</b>	<b>2.9</b>	<b>0.2</b>	<b>1.8</b>	<b>3.5</b>	<b>5.1</b>	<b>6.9</b>
<b>Cumulative</b>	<b>0.7</b>	<b>5.6</b>	<b>9.2</b>	<b>8.1</b>	<b>5.3</b>	<b>4.8</b>	<b>6.5</b>	<b>8.2</b>	<b>7.0</b>	<b>8.1</b>	<b>11.0</b>	<b>11.1</b>	<b>9.3</b>	<b>5.9</b>	<b>0.7</b>	<b>6.2</b>

## 13.3 Balance Sheets

<b>BALANCE SHEET</b>	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>Fixed assets</b>																
Domestic	202.8	221.3	243.7	258.7	256.7	245.3	239.9	233.4	188	181.8	174.5	166.9	159.3	151.4	143.4	135.3
Backlog										5.5	10.9	10.7	10.5	10.4	10.2	10.0
Refurbishment				3.9	7.9	7.8	7.6	7.5	7.4	7.2	7.1	7.0	6.8	6.7	6.5	6.4
New build		7.5	9.8	24.3	47.4	73.6	96.8	111.0	109.2	107.3	105.5	103.6	101.8	99.9	98.1	96.2
Decant costs					2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1	16.8
<b>Total Fixed Assets</b>	<b>202.8</b>	<b>228.8</b>	<b>253.5</b>	<b>286.9</b>	<b>314.0</b>	<b>331.5</b>	<b>355.1</b>	<b>368.3</b>	<b>322.6</b>	<b>320.6</b>	<b>316.4</b>	<b>306.3</b>	<b>296.1</b>	<b>285.8</b>	<b>275.3</b>	<b>264.7</b>
Stocks & Work in Progress	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Debtors	24.3	14.9	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
Cash at bank and in hand	4.2	2.6	14.4	25.9	25.8	23.4	18.7	13.5	3.8	4.2	9.6	19.5	31.4	45.2	60.9	78.4
<b>Total Current Assets</b>	<b>31.9</b>	<b>15.7</b>	<b>4.7</b>	<b>6.8</b>	<b>6.7</b>	<b>4.3</b>	<b>0.4</b>	<b>5.6</b>	<b>15.3</b>	<b>23.3</b>	<b>28.7</b>	<b>38.6</b>	<b>50.5</b>	<b>64.3</b>	<b>80.0</b>	<b>97.5</b>
Creditors	34.7	26.5	27.7	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
<b>NET CURRENT ASSETS</b>	<b>2.8</b>	<b>10.8</b>	<b>23.0</b>	<b>31.2</b>	<b>31.1</b>	<b>28.7</b>	<b>24.0</b>	<b>18.8</b>	<b>9.1</b>	<b>1.1</b>	<b>4.3</b>	<b>14.2</b>	<b>26.1</b>	<b>39.9</b>	<b>55.6</b>	<b>73.1</b>
Long term Debtors	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>201.5</b>	<b>219.5</b>	<b>231.8</b>	<b>257.2</b>	<b>284.4</b>	<b>304.3</b>	<b>332.6</b>	<b>351.0</b>	<b>315.0</b>	<b>321.0</b>	<b>313.6</b>	<b>322.0</b>	<b>323.7</b>	<b>327.2</b>	<b>332.4</b>	<b>339.3</b>
Creditors: After one year	4.7	4.7														
Provisions for liabilities	7.4	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
<b>TOTAL ASSETS EMPLOYED</b>	<b>189.4</b>	<b>211.3</b>	<b>228.1</b>	<b>253.2</b>	<b>280.4</b>	<b>300.3</b>	<b>328.6</b>	<b>346.9</b>	<b>311.1</b>	<b>317.0</b>	<b>318.1</b>	<b>318.0</b>	<b>319.8</b>	<b>323.2</b>	<b>328.4</b>	<b>335.3</b>
Public dividend capital	135.0	142.4	144.4	162.4	192.4	222.4	252.4	272.4	235.4	242.4	246.4	246.4	246.4	246.4	246.4	246.4
I & E Reserve	0.7	5.6	9.2	8.1	5.3	4.8	6.5	8.2	7.0	8.1	11.0	11.1	9.3	5.9	0.7	6.2
Revaluation reserve	50.1	58.4	69.6	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8	77.8
Donated asset reserve	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
<b>TOTAL TAXPAYERS EQUITY</b>	<b>189.4</b>	<b>211.3</b>	<b>228.1</b>	<b>253.2</b>	<b>280.4</b>	<b>300.3</b>	<b>328.6</b>	<b>346.9</b>	<b>311.1</b>	<b>317.0</b>	<b>318.1</b>	<b>318.0</b>	<b>319.8</b>	<b>323.2</b>	<b>328.4</b>	<b>335.3</b>

## 13.4 Cash Flow Forecasts

<b>CASH FLOW FORECAST</b>	2007/ 08 £M	2008/ 09 £M	2009/ 10 £M	2010/ 11 £M	2011/ 12 £M	2012/ 13 £M	2013/ 14 £M	2014/ 15 £M	2015/ 16 £M	2016/ 17 £M	2017/ 18 £M	2018/ 19 £M	2019/ 20 £M	2020/ 21 £M	2021/ 22 £M	2022/ 23 £M
NET Surplus ( deficit )		<b>6.3</b>	<b>3.5</b>	<b>1.1</b>	<b>2.8</b>	<b>10.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.1</b>	<b>1.1</b>	<b>2.9</b>	<b>0.2</b>	<b>1.8</b>	<b>3.5</b>	<b>5.1</b>	<b>6.9</b>
Depreciation																
Domestic programme	11.4	7.7	9.7	11.0	12.0	12.3	12.3	12.6	12.8	11.2	11.4	11.5	11.7	11.8	12.0	12.1
Backlog										0.1	0.2	0.2	0.2	0.2	0.2	0.2
Refurbishment				0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
New build									1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Decant cost						0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Profit on sale																
Profit / (loss) Ferg Hse, Sutton						7.1			1.5							
<b>Increase in assets</b>																
Domestic		<b>18.9</b>	<b>21.0</b>	<b>17.7</b>	<b>10.0</b>	<b>8.0</b>	<b>7.0</b>	<b>6.0</b>	<b>6.0</b>	<b>5.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
Decant					<b>2.0</b>	<b>3.0</b>	<b>6.0</b>	<b>6.0</b>	<b>2.0</b>	<b>1.0</b>						
Backlog										<b>5.6</b>	<b>5.6</b>					
Refurbishment				<b>4.0</b>	<b>4.1</b>											
New build		<b>7.5</b>	<b>2.3</b>	<b>14.5</b>	<b>23.1</b>	<b>26.2</b>	<b>23.2</b>	<b>14.2</b>								
<b>Proceeds of disposal</b>									<b>40.0</b>							
PDC drawdown		7.0	2.0	18.0	30.0	30.0	30.0	20.0	3.0	7.0	<b>4.0</b>					
PDC repayments									<b>40.0</b>							
Working Capital changes		<b>2.7</b>	<b>3.8</b>	<b>3.3</b>												
PDC movement		0.4														
Reserve		<b>0.1</b>														
<b>Net cash flow</b>		<b>6.8</b>	<b>11.8</b>	<b>11.6</b>	<b>0.2</b>	<b>2.4</b>	<b>4.8</b>	<b>5.2</b>	<b>9.7</b>	<b>7.9</b>	<b>5.4</b>	<b>9.9</b>	<b>12.0</b>	<b>13.8</b>	<b>15.6</b>	<b>17.6</b>
<b>Cumulative</b>		<b>2.6</b>	<b>14.4</b>	<b>25.9</b>	<b>25.8</b>	<b>23.4</b>	<b>18.7</b>	<b>13.5</b>	<b>3.8</b>	<b>4.2</b>	<b>9.6</b>	<b>19.5</b>	<b>31.4</b>	<b>45.2</b>	<b>60.9</b>	<b>78.4</b>

## 13.5 Movements in Fixed Assets

<b>MOVEMENTS IN ASSETS</b>	2007/ 08 £M	2008/ 09 £M	2009/ 10 £M	2010/ 11 £M	2011/ 12 £M	2012/ 13 £M	2013/ 14 £M	2014/ 15 £M	2015/ 16 £M	2016/ 17 £M	2017/ 18 £M	2018/ 19 £M	2019/ 20 £M	2020/ 21 £M	2021/ 22 £M	2022/ 23 £M
<b>Domestic assets</b>																
Opening net assets		202.8	221.3	243.7	258.7	256.7	245.3	240.0	233.3	188.0	181.8	174.5	167.0	159.2	151.4	143.4
Additions		18.9	21.0	17.7	10.0	8.0	7.0	6.0	6.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0
Disposals																
Depreciation net		8.7	9.8	11.0	12.0	12.3	12.3	12.6	12.8	11.2	11.4	11.5	11.7	11.8	12.0	12.1
Revaluation Reserve		8.3	11.2	8.2												
Closing net assets	202.8	221.3	243.7	258.7	256.7	245.3	240.0	233.3	188.0	181.8	174.5	167.0	159.2	151.4	143.4	135.3
<b>Backlog maintenance</b>																
Opening net assets											5.5	10.9	10.7	10.6	10.4	10.2
Additions										5.6	5.6					
Depreciation										0.1	0.2	0.2	0.1	0.2	0.2	0.2
Closing net assets										5.5	10.9	10.7	10.6	10.4	10.2	10.0
<b>Decant cost</b>																
Opening net assets						2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1
Additions					2.0	3.0	6.0	6.0	2.0	1.0						
Depreciation						0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Closing net assets					2.0	4.9	10.7	16.4	18.1	18.8	18.4	18.1	17.8	17.4	17.1	16.8

**MOVEMENTS IN ASSETS**

	2007/ 08 £M	2008/ 09 £M	2009/ 10 £M	2010/ 11 £M	2011/ 12 £M	2012/ 13 £M	2013/ 14 £M	2014/ 15 £M	2015/ 16 £M	2016/ 17 £M	2017/ 18 £M	2018/ 19 £M	2019/ 20 £M	2020/ 21 £M	2021/ 22 £M	2022/ 23 £M
<b>New build</b>																
Opening net assets			7.5	9.8	24.3	47.4	73.6	96.8	111.0	109.2	107.3	105.5	103.6	101.8	99.9	96.1
Additions		<b>7.5</b>	<b>2.3</b>	<b>14.5</b>	<b>23.1</b>	<b>26.2</b>	<b>23.2</b>	<b>14.2</b>								
Depreciation net									1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Closing net assets		7.5	9.8	24.3	47.4	73.6	96.8	111.0	109.2	107.3	105.5	103.6	101.8	99.9	96.1	96.2
<b>Asset additions</b>	<b>Total</b>															
Decant costs	20.1				2.0	3.0	6.0	6.0	2.0	1.1						
Backlog	11.2									5.6	5.6					
Refurbishment	8.1			4.0	4.1											
New build	112.1	7.5	2.3	14.5	23.1	26.2	23.2	14.2	1.1							
	151.5	7.5	203	18.5	29.2	29.2	29.2	20.2	3.1	6.7	5.6					

## 13.6 Capital affordability

Under the Capital affordability criteria the additional cost of funding the new scheme should not, when added to the existing finance costs, equate to more than 12.5% of Income.

<b>CAPITAL AFFORDABILITY</b>		2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23
		£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Income		<b>295.8</b>	<b>294.7</b>	<b>299.9</b>	<b>306.7</b>	<b>297.1</b>	<b>289.4</b>	<b>281.8</b>	<b>274.8</b>	<b>269.2</b>	<b>259.3</b>	<b>249.7</b>	<b>244.8</b>	<b>239.8</b>	<b>235.1</b>	<b>230.4</b>	<b>225.9</b>
Working capita	Financing cost		0.3	0.3	0.8	1.4	1.4	1.3	1.0	0.7	0.2	0.2	0.5	1.1	1.7	2.5	3.3
PDC			7.5	8.5	9.8	10.7	11.3	12.2	13.6	11.0	10.9	9.8	10.4	10.1	9.7	9.4	9.0
Total funding			7.7	8.8	10.6	12.1	12.7	13.4	13.6	11.8	11.2	10.6	9.9	9.0	8.0	6.9	5.6
Depreciation			8.78	9.7	11.0	12.1	12.6	12.6	13.0	15.1	13.6	13.9	14.0	14.2	14.3	14.5	14.6
Total			16.4	18.6	21.6	24.3	25.3	26.1	26.7	26.9	24.8	24.5	24.0	23.2	22.3	21.4	20.3
Total %			5.6	6.2	7.0	8.2	8.7	9.3	9.7	10.0	9.5	9.8	9.8	9.7	9.5	9.3	9.0

The project would meet the affordability test for the Trust in total and such a funding route would also leave Ifuture flexibility for funding expansion or re organisation of other sites such as Epsom. At FY 23 the Trust could fund a further finance cost of £ 7.9m which at 3.5% interest and depreciation at an effective rate of 1.6 % would allow a capital development of some £ 154m

### 13.7 Revenue affordability

Revenue affordability is judged by the Trust's ability to meet its statutory financial duty to break even in each financial year.

Undertaking the build under PDC funding would mean that the Trust would breach its fiducery duty to break even for 9 out of the 15 years under review.

### 13.8 Sensitivity, Risks and mitigation

The impact of the principle sensitivities are set out below:

#### SENSITIVITY ANALYSIS

	Present position £M	Working Cap cost up by 1% £M	Working Cap cost down by 1% £M	Sutton sale proceeds at £ 29m £M	£M	£M	£M
Annual surplus in FY 23	<b>6.9</b>	<b>6.3</b>	<b>7.5</b>	<b>6.9</b>			
Cumulative surplus at FY 23	6.2	6.3	5.8	<b>4.8</b>			
No of years in deficit, out of 15	9	9	9	9			
Available capital spend ay FY 23	154.1	142.9	164.7	154.1			

In addition the programme is sensitive to the timing of the spend within the programme

This option is only viable if such funding is available to the Trust.

### 13.9 Summary

This funding route, if available, would provide the Trust with the lowest cost and greatest future flexibility.

## 14 CONCLUSION

In looking at a funding option to recommend as the preferred option within the main OBC document, the Trust considered that Loan Funding would not be available due to breaches in the Prudential Borrowing Limit.

Similarly the Trust considered that PDC funding would be the best financial option to use within the OBC however there were no strong indications that this form of funding would be available to the Trust for this scheme.

Consequently, although PFI funding is more expensive and may restrict the Trust in the future it is the most likely to be available to the Trust and as such the Trust have put this forward as the preferred option within the OBC



## 15 Appendix A: Annual Plan 2007/08

Past year performance

Chief executive's summary of the year THE BOXED LINES DO NOT APPEAR ON PRINT OUT

### Chief executive's summary of the year

2007/08 has been a year of change and challenge; and one in which significant progress has been made against clinical and financial targets.

In the Annual Health Check 2006/07, the Trust improved its rating for the quality of its clinical services from *Fair* to *Good*.

As the financial year started the Trust had an interim CEO and Chairman, with the new Chief Executive taking up post in July and Chairman in September. .

Since the early summer the Trust has focused on four main priorities

- Delivering safe clinical services including all central targets
- Improving the patient experience including ensuring that hospital acquired infections are kept to a minimum
- Improving the staff experience to ensure that the Trust becomes an employer of choice
- Ensuring that the Trust provides safe and secure services for the future.

Underlying all these, has been a central aim that the Trust maintains its financial recovery: but not at the expense of other targets. The financial forecast for the Trust is to breakeven in the current financial year against an original plan of a £6.5m deficit.

▪ .

The Trust is predicting that it will receive an healthcare standards assessment of:

- Fully met for meeting core standards
- Fully met for existing national targets
- Fair for new national targets

The Trust continues to meet core standards for quality services but it is anticipated that we will declare non compliance with the following two standards:

- 4a infection control standard

The Trust is actively managing plans to ensure compliance with medical devices and statutory and mandatory training which have required action following further risk assessments.

- 

The Trust achieved all the targets relating to cancer waiting time, outpatient waiting times, waiting times for operations, rapid access chest pain clinic and thrombolytic drugs, sexual health clinic access, ethnicity and infection control data quality indicators and delayed transfers of care. Emergency Access remains a considerable challenge, however we remain committed to the delivery plan as agreed with NHS London.

Historically, the Trust has had issues with both capacity and capability within its operational services and additional external short term management support has been brought in to aid delivery of key performance targets. Over the forthcoming year the operational structures will change and will be supported through its implementation by an organisational development programme.

The Trust's performance management regime has been further revised and strengthened with CEO and director led divisional performance meetings on a monthly basis with standardised balanced scorecards being used to allow a common currency in terms of performance management from 'board to ward'. The responsibility for performance management has passed to the Director of Finance.

### **Strengthening Board Performance**

There has been significant change at Executive level within the Trust with the change of six new Executive Directors. The new appointees take up post between January and March 2008, putting the Trust in a strong position to take forward 2008/9.

The Trust Board has undertaken a series of away days and a full review of the Trust's governance structures and Board sub-committees. This has helped focus the Trust Board and, coupled with some movement of responsibilities between Executive Directors, has led to a greater clarity and transparency at the top of the organisation. The Board is undergoing a Board Development Programme, externally facilitated to support its transition to Foundation Trust status.

The Trust has also re-engaged a Turnaround Director who has led the savings programme since August 2007.

### **Working towards a new clinical strategy**

Work has been proceeding to agree a new clinical strategy for the Trust given that previous aspirations under the *Better Healthcare Closer to Home* can no longer be delivered in their originally intended form. A more structured governance structure along with more clearly defined roles for both the Trust's main commissioners (e.g. Sutton and Merton and Surrey PCT), has been agreed and two iterations of potential future configurations have been produced by the Better Healthcare Closer To Home project during the course of this financial year. However further work is required to reflect the Trust's new clinical strategy and to address affordability issues with the proposals in 2008. The Trust intends to produce an OBC for the first phase of redevelopment on the St Helier Site in mid 2008

During the year the Trust received a offer from the Denbies Trust to invest in the Espom Site. This offer has been the subject of a number discussions with both the London Provider Agency and the DoH. A way forward has been agreed and a project has been commissioned to review the feasibility of the offer, led by a Steering Group involving all the Trust's major stakeholders with an interest in the matter. The Steering Groups first meeting was held in January 2008.

### **Major Investments**

During the year the Trust has invested £10m of capital including

- GUM refurbishment. Funding £300k. Project completed. Refurbished unit opened 26th November 2007
- Refurbishment of Maternity Unit St Helier. Funding £1.3m. Agreed. Work commenced January 2008. To be completed December 2008.

- Major Revenue investments agreed by the Trust Board include £600k in further medical and midwifery staff to ensure that the Trust's maternity services are meet the standards required at present whilst the case for change is put together for public consultation. This investment was made after a review of current service provision, requested by the Chief Executive, by the incoming chair of the Royal College of Obstetricians and Gynaecologists. . An external review was also commissioned for Paediatrics and the actions associated with this are being implemented
- In addition to the central funding for deep cleaning and renewal of patient areas to counter hospital acquired infection the Trust has invested a further £500k in other schemes to reduce infections including rolling out testing to high risk areas and carrying out a trial of the PCR method for testing in its renal unit.

WHERE???????????

## Summary of financial performance THE BOXED LINES DO NOT APPEAR ON PRINT OUT – WHY ALL OF THE REPORT

**Summary of financial performance: commentary**

The Trust's initial financial plan was to deliver a deficit of £6.5m after making non recurrent charges of £6m to cover costs of redundancy relating to its turnaround plans.

However, the required reduction in staff has been largely made through natural wastage and this cost has been avoided, (although there have been a small number of redundancies).

Clinical income has remained higher than anticipated, due to PCTs' demand management schemes not having as great an impact as was anticipated during the planning round for the year. This has also led to costs being higher, due to the extra work carried out.

The Trust had an identified savings plan of £18.5m and has delivered £18m of this plan, other costs reductions and the increased income have allowed the Trust to breakeven for the current financial year

**Summary of financial performance: high-level comparison between historical plan performance and actual performance**

<i>£m</i>	<b>2007/08 plan</b>	<b>2007/08 forecast*</b>	<b>Variance</b>
<b>Income</b>			
Clinical income	242.8	246.7	3.9
Non-clinical income	3.8	4.6	0.8
Other income	34.1	37.9	3.8
<b>Total income</b>	<b>280.7</b>	<b>289.2</b>	<b>8.5</b>
<b>Expenses</b>			
Pay costs	-177.0	-178.6	-1.6
Non-pay costs	-88.6	-94.9	-6.3
Other costs			

<b>Total costs</b>	<b>-265.6</b>	<b>-273.5</b>	<b>-7.9</b>
<b>EBITDA</b>	15.1	15.7	0.6
<b>ITDA</b>	-15.6	-15.5	0.1
<b>Exceptional items</b>	-6.0	0.3	6.3
<b>Net surplus/(deficit)</b>	-6.5	0.5	7.0

\*Based on month 10 actual plus 2 months forecast

Other major performance issues

#### Other major performance issues

#### SLA Issues

The Trust has an improving relationship with Sutton and Merton PCT, and has avoided any large disputes regarding its SLA to date this year.

With both Surrey PCT and Sutton and Merton in formal turnaround, there have been a number of large data challenges during the course of the year and these have been resolved without the need for arbitration or conciliation. Both PCTs continue to request further audits of data by external companies and the Trust is awaiting the outcome of an audit of its short stay patients and CAU processes to be shared with it.

The Trust's contract with all PCTs commits it to meeting upper quartile ratios for outpatient follow ups, and sets out a process for moving to upper decile performance. This process is still in play and it is unlikely that these ratios will have a substantial impact on the 2007/08 income, however there is likely to be an impact in future years.

Activity in the Trust's Renal service continues to grow, against a backdrop that both PCTs wish to move the service to other providers in the medium term.

**HSDU Incident** **WHY INCLUDE**

The Trust runs an accredited Sterilisation plant from its Epsom site, providing services to all constituent parts of the Trust and also a number of PCT provider arms, GP practices and private hospitals. During November 2007 an incident occurred which resulted in disinfected but not autoclaved equipment being used on a small number of patients. This led to the sterilisation plant being closed until an independent investigation could be carried out. This process was completed by mid December.

An independent company Decon were commissioned to run the plant shortly after to allow the Trust to run services, which were back at full capacity by Christmas 2007. Nevertheless, before this, the impact on the Trust was substantial, with over 200 operations being cancelled, and 8 patients having to receive counselling and support from the hospital. This delay has put the 18 week target under pressure but the Trust is confident that all cancelled patients will be rebooked and the lost activity will be caught up

**There have been significant changes in the Trust Board since April 2007:**

(includes non-voting Board members):

Post	Name	From	To
Chief Executive	Graham Smith (Interim)	4 January 2007	31 May 2007
	Patricia Wright (Acting)	1 June 2007	8 July 2007
	Samantha Jones	9 July 2007	Present

Chairman	John Davey(Acting from April)	1 August 2007	Present
Director of Nursing and Care Standards	Steve Lennox	1 April 2007	31 October 2007
	Pippa Hart and Sara Blakey (Joint Acting)	1 November 2007	31 December 2007
	Pippa Hart	1 January 2008	Present
Director of Communications*	Charlotte Gawne		6 <sup>th</sup> December 2007
	Anthony Tiernan	21 <sup>st</sup> January 2008	
Director of Service Development*	Sue Jones	3 <sup>rd</sup> March 2008	Present
Director of Clinical Operations	Patricia Wright	7 July 2003	31 October 2007
	Fiona Ashworth (Acting)	1 Nov 2007	16 March 2008
	Shane DeGaris	17 March 2008	
Director of Human Resources	Karen Allman	4 Nov 2003	31 May 2007
	Sue Dew (Acting)	1 June 2007	31 December 2007
	Michael Burden	1 January 2008	
Turnaround Director	James Friend	20 August 2007	31 March 2008

Non Executive  
Director

Peter Rawlinson

1 December  
2007

Present

**WHERE IS THE DIRECTOR OF FINANCE**

## 1. Future business plans

### Strategic overview

#### Strategic overview, incorporating turnaround and reconfiguration

##### Strategic Context

Epsom and St Helier University Hospitals NHS Trust provides comprehensive secondary acute hospital services for approximately 420,000 people living in parts of southwest London and east Surrey. The Trust has two acute hospital sites, with 24-hour A&E departments and acute inpatient beds, these are:

- Epsom General Hospital – serving c.180,000 people in Surrey, and
- St Helier Hospital – serving c.240,000 people from the London Borough of Sutton and the southern part of the London Borough of Merton.

The Trust also operates the South West London Elective Orthopaedic Centre (SWLEOC) – a joint venture with other south west London Trusts located on the Epsom General Hospital site – and Sutton Hospital – adjacent to the Surrey branch of The Royal Marsden Hospital. This houses a day surgery unit plus a range of diagnostic, rehabilitation and outpatient services.

The Trust, and its constituent hospitals, faces a complex array of strategic drivers. Commissioners and professional bodies are setting clearer and more demanding standards for the provision of care. These create particular challenges for relatively small acute hospitals. National policy is setting new organisational and professional priorities. New technologies enable care to be delivered in different settings, by different people, and in a more “joined up” fashion.

The Trust and its two main commissioning PCTs are all currently in formal turnaround. The Trust’s catchment sits astride the boundary between NHS London and NHS South-east Coast and, consequently, these two PCTs have different reporting relationships. Sutton and Merton PCT acts as our host PCT.

The Trust Board has recently approved the clinical strategy for the organisation. The strategy supports both hospitals sustaining core secondary care services; very much in line with the model for a “local hospital” set out by NHS London in the strategic framework

currently out for consultation. Some key components of the proposed strategy are:

- Creation of a centre of excellence for planned inpatient services for general surgery, urology and gynaecology on the Epsom site, building on the successful SWLEOC orthopaedic model, to achieve high levels of throughput, exemplar outcomes and minimal HAI rates.
- Hub and spoke models for outpatient services – with greater devolvement to local care settings in line with PBC strategies
- A tiered model for acute services which would maintain much of the existing acute medical activity on the Epsom site (acute surgery has already been consolidated at St Helier)
- Greater integration of primary care and acute services e.g. through a common front door to unplanned care, with primary care led urgent care centres collocated with emergency (A&E) departments
- Consolidation of maternity and child inpatient services onto one site, whilst maintaining routine ambulatory services (outpatients, diagnostics and daycases) and paediatric and early pregnancy assessment units, at both sites
- Greater integration and closer working of primary, secondary and voluntary sector clinicians and social care in the management of chronic diseases and end of life care.
- The Trust is working closely with both Sutton and Merton and Surrey PCTs to develop more specific proposals and business cases for the development of services in line with this strategic framework. There are formal programmes of work in the following areas
- Joint programme with both PCTs developing the case for change for public consultation on maternity and paediatric services (May 2008)
- Better Healthcare Closer to Home Programme – developing the business cases for the redevelopment of the St Helier site, but also looking at the future of services on the Sutton site and the Trust's service contribution to local care facilities. (June 2008)
- Surrey Fit for Future programme – supporting strategic development of services on the Epsom site. Surrey PCT will also leading public consultation on the future of renal services for the Surrey population. This potentially has significant implications for the Trust as the current main provider of renal services to Surrey. Surrey PCT has signalled

a wish to develop alternative provision in West Surrey. Within this workstream the Trust will continue to monitor Surrey PCT's commissioning intentions with regard to Renal services and will work with the Renal network to ensure that the Trust positions itself to take maximum advantage of the outcome of this workstream.

- The Trust is also entering a period of negotiations with the Denbies Trust to see how this development can be integrated into the Trust's plans and to provide maximum benefit for the Trust in its development of the Epsom site.
- A small group has been working through options in the future for the use of Sutton Site including whether it will be used for a Polyclinic and for the potential solutions for any services that maybe moved from the site to enable its sale to raise capital for the redevelopment of the St Helier site. – a business case will be finalised by the end of June 2008.
- There are also subsidiary pieces of work looking at models for primary led urgent care alongside our A&E facilities and End of Life Care.

As outlined above a significant body of work is underway which will flesh out in more detail the financial and investment implications of the proposed strategy by mid 2008.

#### Achievement of FT status

#### **Actions identified to achieve FT status**

The Trust's FT action plan has five core themes which reflect many of the issues already identified in this plan

- Achieving financial stability
- Improving operational performance
- Strengthening financial, strategic and business planning
- Developing management capacity
- Building external relations

### Progress to date

During the past twelve months the Trust has concentrated on getting the basics right, a large proportion of this work was aimed at improving performance and management capability. This work has moved the Trust forward with its preparedness for Foundation Trust status.

Actions taken during this period include a strengthening on the performance management process, including more board level scrutiny of key performance management issues through the Executive Committee and balance scorecards taken to the Trust Board.

A Board development programme has commenced, ensuring that both NED's and Executive Directors have the requisite skills and knowledge for their posts and that there is clarity about roles between Directors.

Changes at Board level and beyond have increased management capacity.

A initial review of the Trust's governance structures and a review of Board Committees terms of references has been carried out.

The finance function has been redesigned, including joining a shared services bureau for some provision of the finance service. This streamlined service will allow for better and more timely information including SLR analysis to be provided to the organisation.

The Trust has engaged with its stakeholders during the year, with improving relationships with its major commissioners and a number of GP open evenings being held to work through issues that local users may have with the Trust's services.

### Key outstanding actions and milestones for coming year

The Trust is currently carrying out a review of its current management structure, with a view to de-layering and providing clarity about responsibilities and accountabilities in the organisation. The new structure is also intended to prepare the way for service line management over the next 2 to 3 years as required by Monitor. The Trust will continue to invest in and develop its management and governance structures to deliver a Monitor

compliant organisation during the year.

The Trust also intends to develop a more formal marketing strategy during the next year to address its relationships with all major stakeholders.

### Service and workforce development plans

#### Service development plans

The Trust sees the financial year 2008/09 as the first year in its movement to its clinical strategy as outlined above. The Trust intends to ensure that all key mandatory targets are delivered and that the uncertainty surrounding its women's and children's services are resolved.

#### Women's and Children's Services

- Additional investment is being made in maternity services as outlined previously to ensure that labour ward cover is improved at both sites and that there are sufficient senior midwives in post to support the service. This first level of investment is based on recommendations of the Chair of the Royal College of Obstetricians and is required whatever the outcome of any consultation on maternity services. A review is also underway of the Trust paediatric services, following a request by the Chief Executive to the National Clinical Advisory Team.
- The Trust will carry out a consultation in partnership with both PCTs concerning the configuration of its Women's and Children's Services planned for summer 2008, with a view to implementing the outcome of the consultation for the second half of the 2008/09 or early 2009/10.. The aim of this process will be to provide both safe and sustainable maternity services to the Trust's population. It is envisaged that the service reconfiguration will happen towards the end of the new financial year with a cost to the Trust of £1,000k in 2008/09 and then a recurrent cost of around £600k thereafter.

- The Trust intends to move to providing levels of midwifery cover in line with Birth Rate Plus over the next two years with an initial investment of £200k in 2008/9 growing to a total investment of £800k by 2009/10.
- **Stroke Services** - The Trust has reviewed its standing against Stroke service standards following the Sentinel Stroke Audit in 2006. Whilst the self assessment showed and improvement, it identified a requirement for further investment in the order of £170k per annum. This will provide an additional Stroke Physician with Clinical Psychology support on the Epsom site and a further Clinical Nurse Specialist for the Trust-wide service. These posts are anticipated to be in place for the start of the new financial year.
- The Trust is also taking part in the sector wide (SW London) trial on the provision of thrombolysis drugs currently being led by Wandsworth PCT on behalf of all the sector's commissioners. This is not expected to have a financial impact as the tariff will be shared between providers.

#### **Emergency Services review**

- **Clinical Site Management** - The Trust is committed to strengthening and developing the role of the Clinical Site Manager to assist in ensuring compliance against the 98% emergency access operational standard and providing a safer patient environment. Costs of providing this service will be in the region of £200k.
- **Additional Consultant Support to A&E** – The trust has recently appointed 3 new A&E consultants and agreed funding for a 6<sup>th</sup> A&E consultant and is currently reviewing job descriptions for this additional post.
- **Observation Beds – A&E** - The Acute Division is looking to develop a purpose built observation ward in the A&E Department at St Helier. This will assist in delivery against the 98% emergency access operational standard. A capital bid is being submitted to develop this area, revenue implications of £250k are estimated to impact on the service in 2008/09. This process is expected to be cost neutral for PCTs.

- **Develop EPAU service at Epsom** - This will be cost neutral as these women would normally present in A&E. In future their care will be undertaken with in the Early Pregnancy Assessment Unit. The service will run every afternoon Monday – Friday.
- **EAT Action Plan a specialist external support has been commissioned by the CEO to provide the Trust with an action plan to ensure that there is a whole system action plan to deliver a sustainable EAT performance, a provision of £500k has been held in reserve to support this delivery.**

#### **Maintaining the 18 Weeks target**

- **Trauma and Orthopaedics** - The Acute Division has employed a locum Orthopaedic Consultant with a sub specialty interest in upper limb/shoulder surgery since August 2007. Current demand suggests that this post should be made substantive. A business case is being developed.
- **Transfer of Elective T&O Activity to SWLEOC** - There is a requirement for the Acute Division to build collaborative working relationships with SWLEOC to facilitate the transfer of elective T&O activity. This will benefit the 18 week pathway and provide improved elective theatre capacity for existing surgical specialties on the Epsom site. This process will be reviewed in year and, provided the transfer is cost neutral to both organisations, will proceed in line with the SWLEOC business plan.

#### **Quality and Service Improvement.**

##### **Critical Care Review**

- The trust has agreed to invest in addition consultant sessions for HDU to strengthen the unit at Epsom. In addition, a review of ITU/HDU is currently underway to ensure that the service is safe and properly resourced for the current casemix on each hospital site. This review will be completed before the start of the next financial year a provision has been put aside to cover any additional costs incurred.

### **Infection Control**

- The Trust will improve its management of Infection Control with the appointment of a dedicated Microbiologist to act as a full time Director of Infection Control. Two further infection control nurses will support this post and enhance training.
- In addition to testing all elective patients for MRSA on admission, the Trust will roll out testing of non-elective patients to other at risk areas during the year. This will be the start of a programme to ensure all admissions are screened for MRSA by 2011 as per the operational framework.

### **Data Quality and IS strategy**

- The Trust is investing £170k in additional clinical coding to ensure that the new SUS timetable can be delivered to ensure that no income is lost due to uncoded activity. Presently the Trust would lose £6m pa if the coding speed was not addressed.
- Since the two Trusts merged in 1999, there has not been a proper merging of both sets of medical records. This has historically been seen as an expensive project, however the lack of a merged medical records means that there are large number of duplicate records for patients. This is clearly a clinical risk and causes a significant issue for the Trust's stated strategy to move to fully electronic patient records. This project is seen as an enabler for the Trust IS strategy and will take approximately 12 months to complete in its entirety. The full year cost of the project will be £347k.

### **Strengthening management support**

- The trust is currently reviewing its clinical divisional management structure in order to ensure that there are clear responsibilities in terms of performance and accountability. The proposed structure will also provide site specific focus, which will help to stabilise both sites and avoid wasted management time. A further aim of the restructure is to facilitate service line management in the future supporting the delivery of FT status

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### **Workforce development plans**

The Board has established a Workforce Committee with a remit for ensuring that a Workforce Strategy is developed. This will be developed by the executive directors and the Board Committee is responsible for scrutiny of the Strategy prior to presentation to the Trust Board in June 2008. The strategy will focus on identifying future staffing requirements linked to the clinical strategy and models of care delivery that are being developed and development of a plan to ensure the right staff grades and specialties are in place.

## Financial Plan

The Trust is budgeting for a surplus of £5.5m in 2008/9 in order to generate cash sufficient to meet its loan repayments. This surplus would also clear the historic debt relating to the 2006/07 deficit of £5.5m meaning that the Trust will meet its 3 year breakeven duty without an extension to the recovery period. A surplus of £4.7m is required in 2009/10 at which time the majority of the Trust's current loans will be repaid and a smaller surplus of £2.9m is targeted for 2010/11.

The three year position is as follows

Summary of Plan against current year performance					
£m	Plan	Forecast	Current plan		
	2007/08	2007/08	2008/09	2009/10	2010/11
Income	280.7	289.2	294.6	299.9	306.7
Expenditure	-265.6	-273.5	-271.5	-277.8	-286.2
<b>EBITDA</b>	<b>15.1</b>	<b>15.7</b>	<b>23.1</b>	<b>22.1</b>	<b>20.5</b>
ITDA	-15.6	-15.5	-17.1	-17.4	-17.6
Exceptional Items	-6.0	0.3	-0.5	0.0	0.0
<b>Net surplus/(deficit)</b>	<b>-6.5</b>	<b>0.5</b>	<b>5.5</b>	<b>4.7</b>	<b>2.9</b>

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### Income changes

The Trust has signed contracts in place with all its major commissioners for acute

services, Renal services and for SWLEOC. A few out of London and Surrey contracts need to be signed, however 98.00% of clinical income is covered by signed contracts as at the 28<sup>th</sup> February 2008. The other contracts are agreed, but not signed, but are non material.

In terms of non clinical contracts the Trust is awaiting a contract variation for its R&D contract which is now an actual figure as notified by the DoH and has yet to receive final details of its MPET and SIFT contracts from NHS London and therefore has used the same assumptions as at the previous submission.

**Due to the majority of Clinical Contracts being signed the Trust will be stating compliance with the services provided statement.**

For 2008/09 there are four major impacts on clinical income

- Changes to the PbR Tariff
- Demand management schemes
- Reduction in the workload required to meet 18 weeks
- End of Transitional PbR relief

Changes to PbR Tariff

The changes announced in the road testing package for the PbR and subsequently confirmed in the Operating Framework impact Epsom and St Helier adversely, in particular the Trusts inability to charge specialist top up in a number of areas will cost the Trust £1.3m in lost income.

Changes to the maternity tariff in particular around the treatment of non delivery obstetric/maternity inpatient stays (HRG N12) will cost the Trust £0.7m. This loss is mitigated by the increase in maternity tariff

Miscellaneous other changes to the Tariff adversely affect income by £0.3m.

**Demand Management**

Both Sutton and Merton PCT and Surrey PCT have indicated that they have no major new demand management programmes that will start in the new financial year. The Trust has discounted agreed SLA figures by £2.2m to cover expected PCT demand management and data challenges, which based on the current activity will be lost underterms in the KPI's.

Renal services have had a 7% growth applied to all SLA's as per the Renal Network guidance. The Trust's experience would suggest this is perhaps 3% lower that would be expected, however the Trust's SLA's allow for a 5% variance before capacity reviews under the nation contract impact. Expenditure budgets have been matched to the level of income shown in the SLA..

No other growth is currently provided for in the SLA's and this plan, this is considered a prudent position and reflects a lack of growth from the Trust's main commissioners over the past year due to relatively successful demand management schemes in that time. It should be noted that the Trust's host PCT has budgeted for an element of growth, and has put a 5% tolerance in the SLA for over performance before capacity review, and this position will be monitored closely at SLA meetings to ensure that the correct amount of work is being carried out.

### **18 Weeks**

The Trust is estimating that income relating to activity to deliver the 18 week target will reduce by £2.5m in 2008/9. This will be matched by an equal reduction in cost as a proportion of the work carried out this year is being placed in the private sector and further work has been undertaken out of hours at premium costs for staff.

The Trust will receive a final £1.2m benefit as the transitional relief on PbR ends in 2007/08.

Clinical income has been inflated at 2.3% as per the Operating Framework in each year of the plan.

Currently future growth in activity is assumed to be matched by demand management from the PCT's and PBC groups.

**Non Clinical Income**

Research and Development income reduces by a further £500k in 2008/9. Transitional funding will cease in 2009/10 and the Trust assumes that it will recover £400k from the new research bodies to replace the lost transitional funding.

Non recurrent non clinical income in 2008/09 of £900k relating to Continuing Professional Development and infection control has been taken out of the budget. This is met with an equal reduction in cost.

Non Clinical Income has been inflated by 2.0% in each year across the planning period.

<b>Clinical income</b>					
<i>£m</i>	<b>Plan</b>	<b>Forecast</b>	<b>Current plan</b>		
	<b>2007/08</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Elective	55.0	54.4	57.4	57.2	58.5
Non-elective	75.9	75.3	73.8	74.0	75.6
Outpatients	34.5	40.4	41.6	42.4	43.4
Other activity	66.6	65.0	66.4	69.4	71.0
A&E	12.0	12.8	12.8	13.0	13.3
PBR Claw back	-1.2	-1.2	0	0	0
<b>Total</b>	<b>242.8</b>	<b>246.7</b>	<b>252.0</b>	<b>256.1</b>	<b>261.9</b>

<b>Clinical activity</b>					
<i>Activity numbers (000s)</i>	<b>Plan</b>	<b>Forecast</b>	<b>Current plan</b>		
	<b>2007/08</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Elective	29.2	37.6	38.3	36.6	36.6
Non-elective	36.8	39.4	40.5	40.5	40.5

Outpatients	248.1	374.1	355.9	355.9	355.9
Other activity	1,906.3	2005.0	2005.0	2005.0	2005.0
A&E	132.9	130.2	130.9	130.9	130.9

Operating resources required to deliver service development

### Resources required to deliver service development

Under current guidance, the Trust is required to deliver a surplus of £5.5m. This surplus enables enough cash to be generated to repay its loans. A contingency of £1.4m is also being created to manage the position for the year.

The plan assumes that cost inflation over the 3-year planning guidance will remain as per the guidance issued in the 2008/09 operating framework; this inherently means that an efficiency target of 3% has been included in the plan for the next three years.

Full year effects from 2007/08 of £2m are included. These are largely the impact of the split year pay awards and incremental drift costs under AfC from October 2007.

The table below sets out the cost inflation in the plan across the 3 year planning period.

	2008/9	2008/9	2009/10	2009/10	2010/11	2010/11
	%	£'m	%	£'m	%	£'m
Pay Inflation	2% AfC 1.5% Medical	-3.0	2% AfC 1.5% Medical	-3.1	2% Afc 1.5% Medical	-3.2
Incremental Drift		-2.8		-4.1		-5.4
Drugs (inc NICE)	12.50%	-1.8	12.50%	-2.0	12.50%	-2.3

Depreciation/Capital Charges	Per CCE return	-1.2	2.75%	-1.2	2.75%	-1.2
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The Costs included in the plan for the service developments outlined above are as follows.

	2007/08	2008/09	2009/10	2010/11
£'k				
Maternity Safety Issues	200	600	600	600
Maternity Consultation		200	0	0
Maternity Consolidation		800	600	600
Maternity Birthrate Plus		200	800	800
Emergency Services Review		550	750	750
Stroke Services		170	170	170
Infection Control	374	700	700	700
Information Services		340	340	170
18 Weeks Cost		1,300	1,300	1,300
EAT Action Plan		500	500	500
BHCH Costs		500	0	0
Critical Care Review		400	400	400
Management and Structure		1,000	1,000	1,000
Other Quality and Services per Tariff		1,500	1,500	1,500
<b>Total</b>	<b>574</b>	<b>8,760</b>	<b>8,660</b>	<b>8,490</b>

**Cost improvement plans**

<i>£m</i>	<b>Plan</b>	<b>Forecast</b>	<b>Current plan</b>		
	<b>2007/08</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
People	5.9	4.2	1.3	3.0	3.0
Procurement	2.3	1.4	3.1	4.2	4.2
Asset Management	3.6	3.5	0.8	1.5	1.5
Divisional Initiatives	3.5	4.5	5.4		
<b>Total</b>	<b>15.3</b>	<b>13.6</b>	<b>10.6</b>	<b>8.7</b>	<b>8.7</b>

**Commentary on cost improvement plans**

The CIPs are governed within our Patients, People & Processes programme which is divided into 6 workstreams. A Director of Service Improvement joins the Trust's Executive Board at the start of March and will be the lead for delivery of the three workstreams focusing on patient process improvements – Inpatient Processes, Outpatient Processes and Surgical Patient Processes. The remaining three control focused workstreams, People, Procurement and Asset Management, have executive sponsors together with clinical and management leadership and will be monitored by the Turnaround Director who will continue into the summer.

All six workstreams have weekly reporting in place, covering the operational changes being implemented, the links to financial benefits and workforce changes, together with immediate milestones and risk management actions. Progress challenge workstream board meetings are well established, fortnightly for workstreams on track for delivery, and weekly for others, attended by the workstream's sponsor and priority project managers and the Directors of Finance and HR and the Turnaround Director.

Taken together, the six workstreams within our Patients, People & Processes programme have effective plans in place that will deliver £7.7m of savings in 2008-09 through cross-divisional schemes. The workstreams have identified a further £2.9m of opportunities where they are finalising implementation plans and where benefits will be delivered as 2008-09

progresses. Divisional schemes have been identified for around £2.7m with an indication that a further £2.7m can be found. The balance of division specific to cross-division schemes is broadly in line with the benefits delivery seen in 2007-08.

Three workstreams focus on expenditure and asset use controls:

**People** - To review the Trust's Human Resource capacity across all disciplines to match demand to make best use of the financial investment in the resources available. Making sure the Trust retains the people in the organisation that it needs to retain and ensuring temporary resources are used appropriately. Major focus on use of nursing and medical workforces and implementation of e-Rostering in 2008.

**Procurement** - To ensure that the Trust is purchasing the most appropriate goods and services for the Trust at best value, by improving controls regarding financial expenditure, negotiating reduced pricing with key suppliers, introducing new technology and/or changes to how current resources are utilised to reduce the cost of the supply chain, streamlining processes, reducing cost of the supply chain and implementing improved key supplier management.

**Asset Management** - Maximising the returns from the Trust's assets and activities. This includes optimising the physical assets used, for example reviewing the Trust's presence on the Sutton Hospital site, and reviewing how functions support the wider operation.

#### Turnaround and reconfiguration plans

<i>£m</i>	Plan	Forecast	Current plan		
	2007/08	2007/08	2008/09	2009/10	2010/11
Inpatient Processes	5.4	3.6	2.3	3.5	3.5
Outpatient Processes	1.2	0.7	1.3	1.4	1.4
Surgical Patient Processes	0.8	0.4	1.8	2.7	2.7
<b>Total</b>	7.4	4.7	5.4	7.6	7.6

#### Commentary on turnaround and reconfiguration plans

Three workstreams focus on doing the right thing for the right patient with the right person at the right time.

**Inpatient Processes** – Focusing on the effectiveness of the discharge process, from the moment the patient is admitted, and the effective running of the Clinical Assessment Unit and other support services for inpatients, such as diagnostics and therapies, to ensure that patients can leave the hospital as soon as they are able.

**Outpatient Processes** – To improve the patient experience and outcome in all care pathways. To improve internal “efficiencies” throughout the patient journey. To reduce the number of follow up outpatient appointments to comply with PCT Follow up to new appointment requirements to reduce costs and maximise income to assist with the delivery of the Trust's Financial Recovery Plan. To ensure standardised processes are used, are adequate and are rigorous to reduce the risk of the Trust failing to comply with national standards

**Surgical Patient Processes** - Improve theatre utilisation and productivity, through better scheduling and improved theatre efficiencies. Reduce number of theatres in operation to improve efficiencies, including moving off the Sutton site. Make staffing efficiencies through improved workforce planning. Negotiate reductions in prices on high cost laparoscopic and other equipment.

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## Service Line Reporting

### Plans for implementation of service line reporting

The Trust took an active role in the provider agency SLR project this year and has produced to date 3 quarters worth of SLR reports. Further work has been undertaken to break service costs down between sites and the 3<sup>rd</sup> quarters SLR reporting is in this format. This work is currently just being shared with the organisation.

As part of the reorganisation of the Finance Department has identified specific resource to support this process and as the first part of this process the Trust's costing model is now

being redesigned with the software suppliers to allow for regular report and to tie into new functionality from the Trust's new ledger and chart of accounts.

The Trusts new structure will come into place from the start of the new financial year and this structure will follow a directorate basis with individual specialities all wholly contained within each division. This will further support the SLR process and quarterly reports will be produced in the format as agreed via the London wide project.

The Trust is now looking towards using the output from the project to inform both its cost savings programmes and strategic development.

## 2.6 Investment and disposal strategy

### Plans for investment and disposal

The Forecast for capital expenditure is based on an annual recurring sum of £9.5m. The forecast expenditure in 08/09 consisted of the core £9.5m. The annual plans allows for approximately £2.5m to be committed to backlog maintenance schemes and the balance to equipment replacement and other non-maintenance issues.

### Comparison between historic achievement and current plan

#### Investment and disposal strategy

<i>£m</i>	Plan	Forecast	Current plan		
	2007/08	2007/08	2008/09	2009/10	2010/11
Investment in fixed assets	8.0	8.0	7.6	7.5	7.7
Investment in fixed assets	2.6	2.6	2.3	2.3	2.3
Investment in other assets	0	0	0	0	0

### Capital Cash Management Plan

The Trust will finance all of its future capital plans from depreciation. It has no plans to ask for a capital loan. The Trust will receive £0.4m of Public Dividend Capital next year to fund a combined heat and power project. The asset disposals shown above will not generate any funding for capital expenditure.

<i>£m</i>	2008/09	2009/10	2010/11
Planned Capital Expenditure	9.9	9.8	10.0
Depreciation	9.5	9.8	10
Public Dividend Capital	0.4	0	0

## 2.7 Summary of key assumptions

<b>Key assumptions</b>				
<b>Income assumptions</b>				
<i>Nb – (minus) denote a decrease in income levels</i>				
<b>Clinical Income</b>				
Income driver	Value used			Notes
	08/09	09/10	10/11	
Inflation PbR	2.3% £4.7m	2.3% £4.7m	2.3% £4.9m	08/09 value as advised by DoH, future years set at prudent estimate
Demand management	£-2.2m	£-2.5m	£-2.6m	
Activity growth	£1.5m	£1.5m	£1.5m	
Capacity plan	£-2.4m	£0m	£0m	
PBR Changes	£-2.0m	0	0	
<b>Non Clinical Income</b>				
Income driver	Value used			Notes
	07-Aug	08-Sep	09-Oct	
R&D	£-0.5m	-	-	R&D Transitional funding reduction. 09/10 £0.5m loss of transitional

				funding offset by new income from research networks.
MADEL/SIFT/NPET	2% £0.3m	2% £0.3m	2% £0.3m	
Other income	2% £0.5m	2% £0.5m	2% £0.5m	

### Inflation/Technical Adjustments

Inflation has been added as follows within the plan

	2008/9	2008/9	2009/10	2009/10	2010/11	2010/11
	%	£'m	%	£'ms	%	£'m
Pay Inflation	2% Afc 1.5% Medical	-3.0	2% Afc 1.5% Medical	-3.1	2% Afc 1.5% Medical	-3.2
Incremental Drift		-2.8		-4.1		-5.4
Drugs (inc NICE)	12.50%	-1.8	12.50%	-2.0	12.50%	-2.3
Non Pay –Other	2.75%	-2.0	2.75%	-2.0	2.75%	-2.0
Depreciation/Capital Charges	Per CCE return	-1.2	2.75%	-1.2	2.75%	-1.2

## 2. Risk analysis

### Financial risk

#### Commentary on financial risk rating

#### Financial commentary

The major financial risk facing the Trust is the non achievement of it's savings plans. The delivery of substantial savings in the last two financial years means that the final years savings in the Trusts plan are obviously harder to achieve, The Trust has invested in a permanent Director of Service improvement and has provide to also keep a Turnaround Director in place for the first part of the financial year, These two senior posts will be supported by a project team to ensure that workstreams focus and deliver this years targets. Regular meetings with each workstream (fortnightly) are also attended by both the CEO, DoF and Director of HR.

The Trust is currently preparing to go to consultation on its current management structure in order to move to a better focused management effort and to prepare for FT status and Service Line Management. In the first quarter of the year there is a potential for this to distract the organisation and cause temporary inefficiencies. The process is being led by the Trusts new Director Of Operations, who has been involved in the design of the scheme. This project will be closely monitored by the CEO and strong performance management will remain in place to ensure that existing divisions manage their areas during this process.

The Trust is assuming that its EUWTD pressures can be managed in a cost neutral manner, the new Director of HR is currently testing this assumption, and whilst some costs for MMC are allowed for in the plan, it is not certain what the final impact of this could be at the current time. The Trust's Medical Director and HR Director are reviewing the situation and reporting back to the Executive Committee on a regular basis.

Currently the Trust has concentrated on ensuring that its clinical coding is of the highest

quality and uses all the available time under the SUS timetable to ensure that this is achieved. The bringing forward of the timetable means that in order to maintain the level of clinical coding and thus clinical income, additional resource needs to be in place. This funding has been agreed and staff are currently being recruited. The Trust can also use an agency to code activity and will use this service to mitigate the risk if the recruitment process is delayed.

The Trust has produced an EAT action plan with colleagues in its surrounding PCT's and in conjuncture with Healthworks Consultancy. A provision for this cost has been made in the plan, however the plan is still being produced and it is possible that the final cost is higher than that identified. As the plan is being produced with the Trusts main PCT's additional funding maybe available, and this possibility has been discussed during SLA negotiations, with SMPCT wanting to see the final plan before committing.

The Trust is investing significant funds into the control of infection, with the provision of cohort wards, additional staff, extending testing to a wider range of patients and continuing deep cleans, however this is a problematic area for the Trust and the Board is united in ensuring that the Trust's performance improves and the public perception of the Trust improves. The financial risk identified here allows for the implementation of PCR testing throughout the Trust and further costs for cleaning.

The following table shows the Trusts expected risk costs with opportunities to reduce the risk shown below.

Risk Item	Value £'000s	Probability	Expected Value £'000s
Non Achievment of Savings Plans	(16,000)	30.00%	(4,800)
Changes in Management Structure	(300)	33.30%	(100)
MMC/Junior doctors hours	(900)	75.00%	(675)
Coding close down	(1,000)	20.00%	(200)
Further investment in EAT	(500)	50.00%	(250)
Infection Control Measures	(750)	25.00%	(188)
Maternity & Paeds Consultation Costs	(1,000)	30.00%	(300)

Safe and Sustainable Services Review	(400)	45.00%	(180)	0	0
<b>Total Risks</b>	<b>(20,850)</b>		<b>(6,692)</b>		

Mitigating Item	Value £'000s	Probability	Expected Value £'000s
PCT Demand Mgmt less than expected	2,000	50.00%	1,000
Activity Growth	4,707	50.00%	2,353
Development Slippage	4,491	20.00%	898
Drugs Inflation/NICE less than plan	1,900	25.00%	475
Decontamination Savings	400	25.00%	100
			0
			0
			0
			0
			0
			0
<b>Total Mitigation</b>	<b>13,498</b>		<b>4,827</b>
<b>Total Risk less Mitigation</b>			<b>(1,686)</b>

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Governance risk

Commentary on governance and associated risks **NUMBERING ????????????**

**Governance commentary**

In terms of compliance with statutory requirements, contracts with commissioners and the Agency guidance, there is a low risk of not being able to comply with data quality standards as set by commissioners as well as a risk of not complying with the statutory duty to achieve a surplus at the year end (see finance section above).

No risks have been identified with complying with the Agency Board’s right to participate in key appointments.

There have been a number of changes at Board level and there are no current vacancies on the Board (a process is in place to appoint a new Medical Director when the current director steps down in mid 2008).

Performance management has been considerably strengthened within the Trust. However, there is a need to strengthen risk management processes and work is underway to achieve this through the revised Trust structure being put into place and improved governance arrangements.

The Major Incident Plan has been revised and disseminated. Business continuity plans are in place for key areas although plans need to be updated in some areas.

Relationships with the public are important in the ongoing development of the Trust and public engagement and there is a need to ensure that patients’ perceptions of the Trust are appropriate and that a balance of information is provided.

Specific risks in relation to governance are:

Description	Impact	Likelihood	Mitigation	Residual risk
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			measures	
Further development needed of governance arrangements including risk management procedures	Organisational effectiveness Clinical incident Litigation	Possible	Key areas for development of governance systems identified. Divisional governance groups in place. Regular review of corporate risk register More rigorous monitoring of divisional based risk management	Possible
Public perception and risk of patients choosing to be treated elsewhere.	Organisational Financial	Likely	Development of communications strategy. Regular patient experience reports to the Trust Board. PALS and complaints team. Proactive press releases.	Possible

Risk to services provided

Commentary on services provided and associated risks

**Commentary on services provided**

The key service risk is the loss of medical posts with the implementation of Modernising Medical Careers (MMC). This is having a particular effect on Care of the Elderly, General Medicine and Paediatric services. Plans are in place to control these risks, but more work needs to be done to maintain services for the future.

There are also risks relating to lack of intensivist input into critically ill patients at Epsom General Hospital and lack of senior anaesthetic cover for St Helier theatre rotas including elective emergency/trauma lists, resuscitation, and ICU/HDU.

The capital programme has been reviewed and reprioritised and further investment in medical equipment and refurbishment work. However, there remain risks relating to the medical equipment.

Achieving the emergency access target remains a risk.

Description	Impact	Likelihood	Mitigation measures	Residual risk
Lower than necessary numbers of doctors with required skills following implementation of MMC and compliance with EWTD	Quality of patient care	Likely	Additional doctors put in place in key risk areas and plans being developed for future sustainability of good quality services.	Likely
Risk of poor patient outcomes due to lack of	Disruption of services	Likely	Revised capital programme	Possible

appropriate medical equipment	Quality of patient care			
Risk of not achieving the Emergency Access Target	Organisational. Quality of service to patients	Possible	Additional resource invested in A&E and whole hospital processes including escalation and discharge. Agreed action plan in place with PCT's.	Possible

### Quality and safety risk

Commentary on quality and safety performance and associated risks

#### Commentary on quality and safety

Provision of a high quality of care:

- There are risks in relation to Maternity and Paediatric services. Significant effort is being taken to mitigate these risks.
- There are risks to Ophthalmology service provision due to difficulties in recruiting staff.
- Reducing healthcare associated infections to the required level remains a risk although there have been considerable actions to increase investment and improve the quality and efficacy of infection control activities during 2007/08 including inviting external advice in this area and subsequent implementation of a number of new measures that have seen numbers starting to reduce. Until sustained reductions are evident, this will remain on the risk register.
- There are risks with endoscopy services. Sterilisation issues should be eliminated in 2007/08 through investment identified in the capital programme. Waiting list issues are being addressed through reprioritisation of patients.
- Based on current assessments there is a risk of not being able to demonstrate

compliance with some of the healthcare standards next year i.e. reducing MRSA bacteraemia (4a), medical devices (4b) and delivering statutory and mandatory training (11c) but the level of risk will depend on the year-end (at March 2008) performance.

The Board has approved a plan to address the issues raised in the Patient Survey and the Board has initiated a regular Patient Experience Report which provides information from a number of sources and actions to address issues raised.

Specific risks in relation to quality and safety are:

Description	Impact	Likelihood	Mitigation measures	Residual risk
Inability to deliver maternity and paediatric services in a safe and sustainable way	Disruption to services and quality of patient care.	Likely	Additional Anaesthetic staff in place.  Interim measures in place and a plan for resolving in the medium to long term is under development, for resolution in 2008/9	Risk remains until a proposal for the delivery of services is agreed and implemented.
Risk to the quality of care to patients in Ophthalmology due to increased workload and difficulties in recruiting sufficient staff.	Quality of patient care.	Likely	Temporary staff in place to cover gaps.	Likely
Reducing the instances of hospital acquired infections	Patient safety  Healthcare Standard 4a	Possible	Much improved measures have been implemented to improve infection control performance. A revised and updated Infection Control Plan is in place with improved monitoring arrangements and	Possible

			increased senior involvement	
Risk of non compliance with Healthcare Standards 4a and 11c	Healthcare Standards	Possible	<p>4a) See above</p> <p>4b) Dedicated resource has been allocated to implement improved and sustainable systems and processes for medical devices management including training records.</p> <p>11c) More statutory and mandatory training is being delivered and more staff are being trained.</p>	Possible
Risk to quality of care in endoscopy due to sterilisation facilities being below standard and lengthy waiting lists.	Quality of patient care.	Likely	<p>Regular checks of sterilisation equipment.</p> <p>Screening of high-risk patients on waiting list.</p> <p>Capital programme includes improved sterilisation facilities.</p>	Possible

16 Appendix B: Future CIPs **FAR RIGHT COLUMNS MISSING**

The following table provides a detailed analysis of the anticipated cost improvement programme included in the financial baselines for the outline business case.

Cost reduction schemes	Project Name	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	
<b>Inpatient processes</b>	Nurse Led Discharge	1.1	0.2	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	
	Weekend Pathways & Discharges	0.6	1.1	1.1		0.0	0.0	0.0	0.0						
	Increase day case rates		1.1	1.1											
	Patient optimisation pre surgery (LOS)	0.2	0.2	0.2											
	Acuity management	0.1	0.1	0.1											
	Reduce hand offs	0.2	0.3	0.2											
	Short-notice Diagnostics & Medical Clinics	0.5	0.4	0.1											
	Nurse Led Discharge stretch	0.2	0.5	0.1											
	<b>Sub-total</b>	<b>3.0</b>	<b>3.8</b>	<b>3.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>
	<b>Outpatient processes</b>	Removing Follow-up Clinic Slots	0.4	0.0				0.5	0.5	0.5					
Outpatient Management Efficiencies		0.3	0.0												
Retimetable Clinic Slots		0.6	0.2												
<b>Sub-total</b>		<b>1.3</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
<b>Surgical patient processes</b>	Common Procedure Economics	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3						
	Theatre Efficiency (& Sutton Theatres)	0.3	0.2	0.2	0.2	0.2									
	Common Procedure Economics Further Opportunities	0.3	0.1	0.1	0.1	0.1									
	Consultant Productivity	0.3	0.1	0.1	0.1	0.1									
	Patient consent process	0.2	0.1	0.1	0.1	0.1									
	Unused theatre list response process	0.2	0.1	0.1	0.1	0.1									
	Theatre list planning and communication	0.2	0.1	0.1	0.1	0.1									
	Ward to theatre journey	0.2	0.1	0.1	0.1	0.1	0.1								

## Finance Annex to St.Helier Hospital Scheme (phase 1) Outline Business Case

Cost reduction schemes	Project Name	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
	efficiency													
	Staff planning, agency and bank useage	0.2	0.1	0.1	0.1	0.1								
	Review theatre booking templates	0.2	0.1	0.1	0.1	0.1								
	Improve theatre turnaround times	0.1	0.1	0.1	0.1	0.1								
	Appropriate procedures in theatres	0.2	0.1	0.1	0.1	0.1								
	Further Theatre Efficiency	0.6	0.2	0.2	0.2	0.2								
	Reduced cancellation/DNA rate	0.1	0.1	0.1	0.1	0.1								
	Reduced premium time working	0.2	0.1	0.1	0.1	0.1								
	Pre-operative Bed Days	0.1	2.5	2.5	1.2	1.2	1.2							
	Other													
	<b>Sub-total</b>	<b>3.6</b>	<b>4.2</b>	<b>4.2</b>	<b>2.9</b>	<b>2.9</b>	<b>1.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>People</b>	Ward HR Management and e-rostering	0.2	0.4		0.7	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
	Medical Workforce	0.3	1.2											
	Lean process introduction	0.3	0.5	1.0	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
	Agency staff review	0.2	0.4	0.3										
	Sickness	0.1	0.1											
	Bank Service Contract	0.4	0.1											
	ESR Benefits Realisation	0.1	0.1											
	Ward HR Management and e-rostering further opportunities	0.2	(0.1)											
	<b>Sub-total</b>	<b>1.8</b>	<b>2.6</b>	<b>1.3</b>	<b>3.0</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>
<b>Procurement</b>	Suppliers, Contracts, London Procurement benefits & Logistics	1.6	0.3											
	e-Procurement and Stock Management systems	1.2	0.4											
	Pharmacy	0.1	0.0											
	Supply chain strategy	0.5	0.5	0.5	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Patient Test Management	0.1	0.0											
	Pathology Process Review	0.1	0.3											

Finance Annex to St.Helier Hospital Scheme (phase 1) Outline Business Case

Cost reduction schemes	Project Name	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
	<b>Sub-total</b>	<b>3.6</b>	<b>1.6</b>	<b>0.5</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
<b>Miscellaneous</b>	Private Patients Income	0.4	0.4											
	Sutton Site	0.1	(0.0)											
	Space Utilisation and Capital Charges	0.2	0.0											
	Contract out equipment maintenance	0.2	0.2											
	VAT recovery	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	Non pay expenditure review	0.8	0.8											
	Other undefined savings	0.1	4.0	9.1		2.0	2.9	4.1	4.3	5.0	2.9	3.0	5.1	5.2
	Balance sheet review	0.5	0.5											
	Deduplication / Detriplcation of support services	0.1	0.3											
	<b>Sub-total</b>	<b>2.6</b>	<b>6.3</b>	<b>9.2</b>	<b>0.1</b>	<b>2.1</b>	<b>3.0</b>	<b>4.2</b>	<b>4.4</b>	<b>5.1</b>	<b>3.0</b>	<b>3.1</b>	<b>5.2</b>	<b>5.3</b>
<b>Service reconfiguration</b>	Pathology rationalisation		2.5	2.0	1.9									
	Maternity reconfiguration										2.0	2.0		
	SLR - Target unfunded activities	0.2	0.5	1.0										
	<b>Sub-total</b>	<b>0.2</b>	<b>3.0</b>	<b>3.0</b>	<b>1.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total CIPs delivered in year</b>		<b>16.0</b>	<b>21.7</b>	<b>21.7</b>	<b>9.2</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>	<b>9.5</b>	<b>9.4</b>	<b>9.3</b>	<b>9.4</b>	<b>9.5</b>	<b>9.6</b>
<b>Cumulative CIPs</b>		<b>16.0</b>	<b>37.7</b>	<b>59.4</b>	<b>68.6</b>	<b>77.9</b>	<b>87.2</b>	<b>96.5</b>	<b>106.0</b>	<b>115.3</b>	<b>124.6</b>	<b>134.1</b>	<b>143.6</b>	<b>153.2</b>
<b>Target</b>		<b>16.0</b>	<b>21.7</b>	<b>21.7</b>	<b>9.2</b>	<b>9.2</b>	<b>9.3</b>	<b>9.3</b>	<b>9.4</b>	<b>9.3</b>	<b>9.3</b>	<b>9.4</b>	<b>9.5</b>	<b>9.6</b>
<b>Shortfall/(surplus)</b>		<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>

Notes

Change in recoverability of VAT by the PFI provider