

## Report to STP Board: 22 November 2018

<b>Agenda item:</b>	2.3		
<b>Title:</b>	Financial Plan		
<b>Lead:</b>	Paul Scott, Chair, Financial Performance and Planning Group, Cambridgeshire and Peterborough Sustainability & Transformation Partnership		
<b>Author:</b>	Jamie Drake, Interim Head of Strategic Finance, System Delivery Unit		
<b>Report purpose</b> <i>(Please mark one in bold)</i>			
APPROVAL	DECISION	ASSURE	<b>INFORM</b>
<b>Link to STP Priorities</b> <i>(Please mark all applicable in bold)</i>			
AT HOME IS BEST	SAFE & EFFECTIVE HOSPITAL CARE, WHEN NEEDED	<b>WE'RE ONLY SUSTAINABLE TOGETHER</b>	SUPPORTED DELIVERY
<b>Committees/groups where this has been presented to before</b> <i>(including date)</i>			
Not applicable			

### Purpose of the paper

The Cambridgeshire and Peterborough System faces significant financial challenges, however we understand what is driving these and are developing a System for how we are addressing them. This plan will set out how we will manage the System's finances as best we can, enabling us to secure financial sustainability in the medium-term and increasingly live within our means. The purpose of this paper is to inform the Sustainability and Transformation Partnership (STP) Board regarding:

1. 2018/19 System finances
  - a. Our 2018/19 financial plan
  - b. Our 2018/19 financial performance to 30 September 2018 and forecast year end
2. 2019/20 and beyond
  - a. Understanding and addressing the causes of our financial pressures
  - b. Capital investment
  - c. Living within our budget through the development of mitigations and closer working with regulators to identify further opportunities
  - d. Forecasting future financial performance.

### The STP Board is invited to:

The STP Board is asked to note this report.

## 1. BACKGROUND

The Cambridgeshire and Peterborough health and care system is a financially challenged STP area in England on a per-population basis. The System budget is an amalgamation of our NHS partners who remain accountable to their Board and regulators for delivering their own individual budgets. The System ended the 2017/18 financial year with a £94.9m overspend, whilst delivering organisational efficiency savings of £114.7m. Tackling our financial challenge is, therefore, a key focus for the System in 2018/19 if we are to return the System to financial sustainability and live increasingly within our budgets.

The System has made good progress over the past year – aligning financial incentives, stabilising finances and planning for the future:

- Implementing Guaranteed Income Contracts (GICs) between all three acute providers and the CCG for 2018/19 which will better incentivise whole system working and collective financial management.
- Understanding what our System deficit is by undertaking a system-level analysis to better understand and articulate the Drivers of the Deficit, and collectively working towards System solution to enable us to move towards financial recovery.
- Undertaking system-level analysis to better understand and articulate the Drivers of the Deficit which in turn will help us identify and develop sustainable solutions moving forward.
- Building a system demand and capacity forecast and medium-term counterfactual financial plan.

The drivers of the deficit work, demand and capacity and financial forecast will be the focus for the development of future plans to improve performance and reduce the System's deficit. We will continue to keep the STP Board appraised of our financial performance in year as well as in planning for future years. We will be honest about the confidence we have in our plans and highlight both risks and opportunities as these emerge.

## 2. BODY OF REPORT

### ***2018/19 Financial plan***

The level of deficit we are running is not sustainable. As such, NHS partners in Cambridgeshire and Peterborough worked with our regulators to set a challenging, but achievable, financial target for 2018/19. This resulted in an agreement, with NHS England and NHS Improvement, for the System to have a planned overspend of £134m against system income of approximately £1.8bn. This includes £55m non-recurrent Sustainability and Transformation Funding (STF) that we will receive if we meet financial and operational targets. If we do not meet these targets by the end of March 2019, our overspend could increase as the STF element could potentially be withdrawn.

To receive the £55m STF our agreed 2018/19 financial plan requires us to make organisational efficiency savings of £113m. These efficiency savings need to permanently reduce the annual costs in the System to help us to move towards a balanced budget. Efficiency savings are being made in areas such as realising the financial benefits of the merger between Peterborough hospital and Hinchingsbrooke hospital, reducing the use of agency staff and entering into more effective contracts. Achieving all of these efficiency savings remains a

challenge and additional work is needed to catch up as some savings have not been made at the rate originally planned.

## **2018/19 Financial performance to Month 6 (end of September 2018)**

At the end of September, we were forecasting to be on track to deliver the planned budget overspend (See Table 1 below) of £134m at year end. At the end of month 6, half way through the year we are slightly better than plan.

Table 1 - Financial performance at 30 September and forecast year end

<b>Financial Performance - Surplus/(Deficit) Reported at 30 September 2018</b>	<b>Plan £m</b>	<b>Actual £m</b>	<b>Variance £m</b>
Year to date at 30 September 2018 (including STF)	(82.0)	(79.2)	2.8
Forecast year end (including STF)	(134.1)	(134.4)	(0.3)

Whilst the above is encouraging, we acknowledge that there are significant risks in the coming months which could lead to increased costs which we may be unable to avoid, particularly as we move into the winter months. If System partners overspend against their Control Totals we may also lose valuable Sustainability and Transformation Funding (STF) for the System.

## **Understanding and addressing the causes of our financial pressures**

We need to improve our financial position year on year, over the next five years, to get to a position where our System is financially secure. This is in the context of year on year inflationary increases in costs, as well as increased demand for health and care services, both because our area's population is growing and because we have a significant ageing population. We aim to improve our financial position through:

- Continued delivery of organisational efficiency savings; and
- Executive led core system initiatives.

To fully understand the causes of the financial pressures in Cambridgeshire and Peterborough, we have undertaken work to compare our System to others (Drivers of the Deficit). This work has identified key areas of high cost in 2018/19, some of which are within our control and some of which are outside of our control:

- **Funding** – Funding per head is below benchmark, for both local and specialist services (£39.2m, 23%)
- **Structural** – Some of our hospital assets are too highly-specified, purchased at a premium through lease contracts (e.g., PFI), while other hospital assets are too small (£68.4m, 40%)
- **Disjointed commissioning** – The legacy of layered services with multiple organisations (£21.8m, 13%)
- **System capacity** – There is a lack of beds (in part due to forced closure for fire safety works), exacerbated by avoidable admissions & high Delayed Transfers of Care (DTC) levels (£40m, 24%)

This Drivers of the Deficit analysis has allowed us to understand how existing organisational efficiency savings and core system initiatives can improve patient care through timely access

to care, improved use of resources and streamlined contracts to help reduce those costs which are within our control.

The foundation of the System finance plan for 2019/20 is a commitment that each System partner will take actions to reduce their cost base independently through internal efficiency savings programmes. These will address opportunities identified through national programmes such as Getting It Right First Time (GIRFT), and Lord Carter's bench-marking of provider costs. At present we have included savings assumptions ranging between 0.8% and 5%, totalling £60 million saving for 2019/20. These assumptions are currently being tested through a peer review process to ensure all partners are satisfied that there is no misalignment and there is sufficient ambition in each partner's plans.

The following system initiatives are being developed to contribute towards tackling our financial challenges as a System, both in 2019/20, and the longer term:

- **Delayed Transfers of Care** – Reducing the level of beds being occupied by people who are medically fit to be discharged would allow beds to be utilised by people in need of care, reducing costs and improving the patient experience;
- **Integrated Neighbourhoods** – Providing proactive, integrated whole-person care to improve local people's health and well-being, reducing their need for institutional care in hospitals and care homes;
- **Joined-up Commissioning** – Working together to ensure that contracts are held by the most appropriate partner and that organisations work together to give complementary care and achieve economies of scale;
- **Best use of hospital capacity** – Ensuring that we make best use of the specialist expertise at CUH, and PCH, and in particular that the Hinchingsbrooke theatres and independent sector treatment centre is well used;

Progress to date on these system initiatives is contained within Annex 1.

We acknowledge that the integration of health and care provision within neighbourhoods will in medium to longer term benefits for patients whilst maximising value for money for our System. In 2019/20 we will therefore explore more tactical improvements that may reduce demand for acute care and length of stay – for example increased use of ambulatory care, or better alignment of urgent care provision.

All financial efficiency and system initiatives will be reviewed for impact upon quality of care to ensure that patients continue to receive the highest quality service.

## ***Capital Investment***

Cambridgeshire and Peterborough submitted seven Wave 4 capital bids in July in order to access capital funding to support the key Estates priorities of the System which are:

- Prioritising patient safety
  - Developments at Hinchingsbrooke Hospital to meet compliance requirements, support transformation as well as rebalance capacity and demand.
- Matching capacity and demand
  - Modular ward providing medium term capacity at Addenbrookes site
  - Redeveloping Peterborough City Hospital to meet demand in the North
- Co-location enabling integrated care

- Developing a ‘super’ community hub in Ely to integrate Primary, Community, Social and Acute care as the first of a phased programme supporting Integrated Neighbourhoods
- Building world class facilities
  - Developing a regional Children’s Hospital integrating children’s physical and mental health
  - Developing world class services for integration of cancer research and health care with a Cambridge Cancer Research Hospital
  - Developing a regional Thrombectomy centre to support implementing best practice in stroke service.

The results of the capital bid submissions are expected towards the end of November and if successful these bids would support the System to transform services, improve quality and improve the financial position of the System. We continue to lobby hard in respect of these capital bids. Meetings with key stakeholders have continued since the submission to help put the bids in the best position possible for approval.

***Living within our budget through the development of mitigations and closer working with regulators to identify further opportunities***

As the System develops the 5-year strategic plan it will continue to work more closely with regulators and engage at a granular level to ensure that regulators have full sight of the progress of the medium-term financial plan and system solutions. This will help ensure that the System narrative represents a mutual understanding with regulators and allow the focus of conversations to be on supporting the System to achieve transformation that will bring it into financial balance.

Acknowledging that unforeseen eventualities may arise resulting in additional cost pressures to the System leading to difficulties in delivering the short and medium term financial plan, work is under way to develop a portfolio of more challenging options which may be implemented to deliver further financial benefit, and to ensure the System is best placed to living within its budget. The nature of these options will include operational and structural changes and cover the whole system.

***Forecasting future financial performance***

We have developed a 2019/20 short-term financial forecast for the System. It is built from an agreed starting point of 2018/19, using System approved assumptions in relation to growth in numbers of patients we will need to treat, price increases due to inflation and changes in how much we are paid to deliver care (as set out in the National Tariff) and efficiency savings. The short-term forecast will be updated in January 2019 to reflect any notified changes in these assumptions as set out in the forthcoming 10 year plan for the NHS. The short-term financial plan will also include an estimate of the financial impact of the above core system initiatives.

We are required to submit to regulators individual organisation draft operating plans by 12 February 2019 and a draft aggregate and aligned System operating plan and narrative by 19 February 2019. Final individual organisation operating plans and aggregate System operating plans and narrative are due for submission to regulators by 4 April 2019 and 11 April 2019 respectively.

A medium-term financial forecast is under development which covers a longer period from 2019/20 - 2023/24 and will allow us to understand the impact of longer-term delivery of initiatives and capital investment.

Alongside this forecasting, we are also working closely with partners in the councils to understand the impact of local government plans on NHS finances, and vice versa. Further, we are developing an approach to System contracting that continues to align incentives towards delivery of the System's short and longer term strategic objectives.

### **3. RECOMMENDATIONS**

The STP Board is asked to note this report.

**12 November 2018**

**Appendices:      *Annex 1 – System initiatives status***

## Annex 1 – System initiatives status

Driver of Deficit Category	Potential Solutions	Project Status RAG	Comment
System Capacity	<i>DTOC reduction</i>	A	Reasonable progress has been made by the DTOC clinical and operational working group. The System Delivery Unit has met with the programme lead and is waiting for a trajectory report which sets out timing for reduction of DTOC. Once received this can be used to update the financial values.
System Capacity	<i>Integrated neighbourhoods</i> – including demand management	R	It's been agreed that Integrated Neighbourhoods need time to organically evolve and therefore no financial implications for 2019/20 have been outlined. Additional scoping of initiatives to address Length of Stay and acute demand will be reviewed.
Disjointed commissioning	<i>Contract rationalisation</i> , including: CHC/S117 Children's contract	A	This is a CCG led work stream. PWC have been commissioned to undertake a review of contracts with a view to identifying any wastage and duplication that can be avoided, this resulting in a lower commissioning value. This work is due to commence 22 October 2018.
Maximising use of assets	<i>Additional activity through Hinchingsbrooke</i> – IS repatriation & referral shifts  <i>CUH Ward closure mitigation</i> – avoidance of cost pressure linked to above	A	Working teams have been identified from both CUH and NWAngliaFT including Executive, clinical, operational, financial and System Delivery Unit leads. An indicative financial value has been calculated as being achievable if the Hinchingsbrooke capacity is used fully, avoiding the cancellation of Elective beds in both CUH and NWAngliaFT and also bringing in repatriated income. Next steps are for working teams to meet, discuss and begin planning what steps are required to deliver identified opportunities. Linked to this will be the mitigation of CUH ward closure due to fire risk. No firm value for system solution currently.