Homerton University Hospital NHS
NHS Foundation Trust

Operational Plan Document for 2014-16

Homerton University Hospital NHS Foundation Trust

1.1 Operational Plan for y/e 31 March 2015 and 2016

This document completed by (and Monitor queries to be directed to):

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Date	**4th April 2014**

The attached Operational Plan is intended to reflect the Trust's business plan over the next two years. Information included herein should accurately reflect the strategic and operational plans agreed by the Trust Board.

In signing below, the Trust is confirming that:

- **The Operational Plan is an accurate reflection of the current shared vision of the Trust Board having had regard to the views of the Council of Governors and is underpinned by the strategic plan;**
- **The Operational Plan has been subject to at least the same level of Trust Board scrutiny as any of the Trust's other internal business and strategy plans;**
- **The Operational Plan is consistent with the Trust's internal operational plans and provides a comprehensive overview of all key factors relevant to the delivery of these plans; and**
- **All plans discussed and any numbers quoted in the Operational Plan directly relate to the Trust's financial template submission.**

Approved on behalf of the Board of Directors by:

Name *(Chair)*	**Tim Melville-Ross**

Signature 

Approved on behalf of the Board of Directors by:

Name *(Chief Executive)*	**Tracey Fletcher**

Signature 

Approved on behalf of the Board of Directors by:

Name *(Finance Director)*	**Jo Farrar**

Signature 

1.2 Executive Summary

Since becoming a Foundation Trust in 2004, the Trust has maintained its reputation as a high performing provider, delivering quality patient and service user care whilst maintaining compliance with all key performance and regulatory requirements.

Despite a challenging economic environment the Homerton continues to deliver high-performing clinical services in a cost effective manner as evidenced by an anticipated surplus in 2013/14. Our forward planning is focused on maintaining this position and on taking the necessary strategic and operational actions to safeguard the Trust's long-term sustainability.

The Trust's strategy "*Achieving Together"* sets out the Trust's ambitions and priorities for building on our current high standards and establishing the Trust as one of country's foremost health providers, with a reputation for quality, innovation and leading the way on service integration.

In developing our Operational Plan we have taken account of a number of challenges within the local and national context. These include:

- embracing new and innovative models of integrated care to ensure that increasing health care demands can be met within a challenging economic environment;
- increased focus on meeting clinical standards relating to models of care and seven day working;
- supporting the transfer of public health responsibilities to local authorities and the consequent changes in commissioning priorities and approaches;
- adapting to the emergence of Clinical Commissioning Groups with distinctive local priorities and the evolving interplay between these commissioning bodies and NHS England;
- ensuring an appropriate post-Francis scrutiny of clinical quality and organisational culture;
- meeting accreditation requirements designed to quality assure aspects of specialist services; and
- engaging with the strategic review of the North East London health economy and beyond.

In consultation with a wide range of Trust staff and key stakeholders we have identified three strategic priorities: **Quality**; **Integration;** and **Growth**, each supported by clear aims and objectives to enable us to realise our mission:

'Safe, caring, effective health and social care provided to our communities with a transparent, open approach.'

We recognise that successful delivery depends as much on the approach we take, as the priorities themselves. We have developed a set of organisational values which describe the approach we will take in delivering the services and the standards we will uphold, outlined in the document *Living our Values*.

Achieving Together sets out both the priorities for the next stage of our development and the values of the Trust. These values provide a framework for how we make our decisions and engage with patients, staff, carers, governors, and the Trust's membership. We are proud of the services we offer at Homerton and the reputation the Trust has developed for providing high quality care. *Achieving Together* will ensure we continue to build on this reputation both locally and nationally.

We have a number of initiatives supporting our strategic direction and ensuring continued operational performance. These include a renewed focus on organisational development and workforce engagement; a productivity and efficiency strategy; and a quality agenda designed to further embed high-quality provision and a positive patient experience.

The Operational Plan reflects our desire to build upon our strong operational and financial foundations to ensure sustained organisational performance, in the widest sense, over the medium to long term. Our approach is centred on the development of an organisation which delivers excellence in general hospital services but also seeks to play a critical role in managing the patient pathway across primary, community and secondary care boundaries. Our immediate clinical and operational priorities have been designed with these objectives in mind.

In financial terms the Operational Plan is designed to deliver a modest level of net surplus. It reflects both the current national guidance and the intentions of our local and specialist commissioners. Our assumptions require us to deliver an annual CIP of c4.5% and this is a level we remain confident of achieving recurrently.

The risks to our financial position, over and above the continuation our Community Health Services contract, primarily reflect the recent changes to commissioning arrangements and the ongoing focus on acute activity levels. Our underlying operational performance is strong. We expect this to continue over the next two years. We are focused on a small number of key risks, appropriate action is being taken, and we are confident of effectively mitigating them.

Our commitment to engaging with the integration of health and social care services locally is designed to effectively mitigate these factors. We will also fully participate in the recently initiated health economy wide review and other sector based initiatives to ensure the Trust plays a leading role in the continued delivery of high quality and sustainable services.

1.3 Operational Plan

1.2.1 The short term challenge

The Trust's primary challenge in 2013-14 resulted from the reconfiguration of the commissioning landscape and the pressure this placed on contractual arrangements, strategic relationships and operational delivery. These pressures, although in potentially different forms, are anticipated to continue into 2014-15 and be a major focus of attention for the Trust's management teams.

In particular, the following issues are considered to be of significant importance:

- The impact of the Better Care Fund (BCF) on both the funding and commissioning of services from 2015-16 onwards in particular;
- The expiry of the Trust's Community Health Services contract with City & Hackney CCG (the CCG) at the end of 2014-15;
- The London Borough of Hackney's (LBH) intention to re-commission elements of the Trust's portfolio of Public Health services; and
- City & Hackney CCG's strategic priorities and the implication of these for the Trust as a provider of acute and community services.

The emerging work amongst North East London CCG's pertaining to long-term strategic planning within the sector is also an area of important activity the Trust will need to engage with.

The Trust's strategy '*Achieving Together*' commits the organisation to focusing on the overarching objectives of quality, integration and growth so as to develop a range of high-performing services which remain financially and clinically viable into the future.

Embedding these objectives – and their supporting work programmes – within the Trust's internal processes will be a core focus during the forthcoming period with the aim of achieving a reputation for innovation and excellence amongst patients, commissioners, referrers, and fellow providers. The detail underpinning this work is contained within annual delivery plans for the Trust's three Clinical Divisions and each individual Corporate Service and supported by quarterly review meeting chaired by the Chief Executive.

We will also ensure the maintenance and development of effective relationships with key partner organisations so that the Trust plays a key role in influencing and informing decision-making with regard to the future commissioning and provision of health services across its localities. Active participation therefore within local Health and Wellbeing Boards, within the CCG's sub-structures, within the UCL Partners academic health science partnership and within the wider North East London provider community will be imperative.

Internally the Trust will be challenged over the next two years with particular reference to the balancing of financial sustainability with achieving key staffing and quality related standards. Effectively adjusting to the post-Francis landscape will be a key requirement and revised decision-making processes and management structures have already been enacted in order to facilitate this.

The key for the Trust in this regard will be to underline the associations and inter-dependencies between efficient service delivery and high-quality patient care. The Trust's configuration as an integrated acute and community provider offers multiple opportunities in this regard. Nevertheless, the challenges emanating from 7/7 working and prescribed staffing ratios are expected to be material.

With the above in mind, the Trust requires an appropriately skilled and motivated workforce and in this regard it will build on the implementation in 2013-14 of a discrete set of Trust values – *personal, safe, respectful, responsibility*.

These values will be applied to recruitment and appraisal processes with a view to ensuring that the organisation attracts and retains the most appropriate individuals. Such work will also include clinical leadership with a focus on developing a strong cadre of clinicians who have the enthusiasm and creativity to assist the organisation in meeting its challenges.

1.2.2 Quality Plans

Quality Strategy

The Trust's strategy identifies Quality as one of its 3 key aims in the delivery of our mission to provide safe, effective care with a transparent, open approach to our communities. The Quality aims are to:

- continuously strive to improve patient safety and provide harm free care;
- provide services based on the latest evidence and clinical research; and
- ensure all patients have an excellent experience of our services by providing person-centred care.

Delivery depends on the development of a strong safety culture, common patient-centred values, and effective leadership to deliver best practice. As part of a transformative approach to healthcare, these values are being embedded across the organisation through expectations of behaviour, appraisal processes, and values-based recruitment.

The Quality strategic aims also form the basis of the Trust's Quality Account priorities which have been developed in consultation with key stakeholders across the local healthcare economy.

Quality Account

The key priorities for 2014-15, which are identified in the Trust's Quality Account and aligned with the 3 core components of quality, are:

Safety

1. Further reduce harm to patients caused by pressure ulcers, falls, urinary catheter infections and Venous Thrombo Embolism (VTE) identified within the safety Thermometer / Harm free care programme.
2. Achieve and maintain a position in the lower quartile of NHS organisations for the Summary Hospital-level Mortality Indicator (SHMI).
3. Improve the response to acutely deteriorating patients and failure to rescue by introducing the National Early Warning System (NEWS) and Surviving Sepsis campaign.
4. Improvements in the reporting and consistency of medication errors and a reduction in numbers of errors resulting in harm.

Effectiveness

1. Assess all relevant NICE quality standards, identifying any gaps, acting to achieve within 2 yrs.
2. To reduce the number of patients who are readmitted within 30 days of discharge.
3. Community specific effectiveness measures for Health Visiting and District Nursing.
4. Participate in the UCL Partners work on developing and testing a Value Score Card in North East London in relation to maternal mental health.

Patient Experience

1. Improve the effectiveness of discharge from our care for both simple and complex discharges (This would include sharing letters with patients, which was a previous priority).
2. Improve the level of Trust and Confidence in Nursing and Medical staff.
3. Improve the way we communicate with a particular focus on respect, dignity and compassion – leading by example and taking responsibility for our actions.
4. Improve the management and control of pain.

Quality through commissioning intentions

The CCG have identified the following potential areas of focus for quality in 2014-15:

1. Responding to the Francis report and recommendations.
2. Prevention of readmissions.
3. Meeting the core specification and principles outlined in the Winterbourne review.
4. Reporting of and responding to medication-related safety incidents.
5. Compassion in Practice implementation plan.
6. Work on Culture and Values across the Trust and the link between staff and patient satisfaction.
7. Agreed priorities for action plans addressing concerns raised by patient feedback.
8. As part of the quality premium, improving the score in a specified patient experience indicator.
9. Performance against the London Quality and Safety Standards.
10. Assurance and commitment to improving clinical coding practice.

The Trust will work closely with the CCG to deliver on these areas.

CQC Inspections and Intelligent Monitoring

The Trust has recently been inspected by the CQC under the new Acute Hospital Inspection format and will receive the report and judgement in April 2014. Although we understand there were no immediate concerns, and in some areas examples of good practice, it is likely there will be areas requiring improvement and these will be built into a CQC improvement plan.

During 2013/14 the Trust's Community Health Services were also inspected by the CQC. The CQC visited two community sites. The visit had been well received by community staff and verbal feedback provided by the CQC was positive with no issues or concerns highlighted and all six domains assessed were judged to be compliant. We are proud of these achievements and the demonstrable improvements we have made since we started delivering the services in April 2011.

Risk assessment and assurance

The Board Assurance Framework tracks strategic and organisational risks which are aligned with the CQC outcomes and the Trust's strategic objectives. This is reported at each meeting of the Board of Directors and at the Risk Committee, a sub-committee of the Board. Controls and assurance are regularly reviewed as well as progress on actions to limit the risk and form part of the scope of the work of the Trust's Internal Auditors in a number of areas.

All QIPP initiatives are risk assessed for quality impact as part of the QIPP planning and approval process and then scrutinised by the Chief Nurse and Medical Director. The Clinical Quality Review Meeting chaired by the CCG Chair also provides external scrutiny of all elements of quality, including QIPP.

The Council of Governors plays an increasingly important and valuable role in representing the interests of the local community and acting as the link between the Board and the membership. We have also increased the level of Governor involvement in a number of sub-committees within the trust, further strengthening our internal governance arrangements.

Board Leadership for Quality

The Board of Directors is committed to improving the quality of patient care. There is a refined sub-committee structure which includes two Chief Executive led management boards; one picking up Quality and Patient Safety, and as second covering the day to day management of the Trust. The Quality and Patient Safety board will be responsible for the monitoring of delivery of the quality account priorities. Components of the Quality plan for delivery in 2014-15 include:

1. Improving Patient Experience Strategy.
2. Improving Patient Experience action plan.
3. Embedding the Trust values.
4. Responding to Francis and Berwick action plans.
5. Review and improve the complaints management process.
6. CQC inspection response.

1.2.3 Operational Requirements and Capacity

Reflecting the short-term challenges identified above the Trust considers the following to be the key likely material drivers of operational capacity over the next two years:

- An increasing external focus on emergency admissions with an objective within Hackney's Better Care Fund to reduce these by 2%;
- A continuing internal focus on improving the scope and quality of non-acute services so as to both minimise hospital lengths of stay and prevent avoidable admissions;
- A requirement to demonstrate efficient outpatient and elective provision to commissioners coupled with a desire to expand the organisation's current referral base;
- A challenge to deliver current maternity provision (c.6,200 births per annum) within the existing physical infrastructure; and
- An appropriate response to increasingly rigorous clinical standards.

Divisional and Corporate plans have been developed with these requirements in mind and the Trust is confident that it has the operational capability in place to effectively manage their delivery.

Inevitably a key focus of operational activity over the next two years will be to work proactively with commissioners to address emergency demand. Whilst a reduction of 2% in admissions is considered viable from a financial perspective given current marginal rate deductions and would allow the organisation to more effectively deliver emergency work within its recurrent bed-base the Trust's strategy is to work collaboratively with its partners to achieve service models which are mutually beneficial.

The Trust is playing a key role in the development of the local Better Care Fund plan and is a permanent member of the local Urgent Care Board. As a consequence, a range of service developments are being collaboratively pursued which focus both on reducing avoidable emergency admissions but also on developing the Trust as an effective provider of high-quality non-acute services.

Examples in this regard include:

- The implementation of a new Reablement Intermediate Care System (RICS) in Hackney with the Trust as the lead provider;
- The implementation of a new psychiatric and psychological intervention service (Homerton Psychology Medicine) based in the Trust's Emergency Department and delivered jointly with the local mental health Trust; and
- The development between the Trust and the London Borough of Hackney of an integrated discharge management team incorporating the Trust's current discharge planning team and the Local Authority's hospital social workers

The operational requirements stemming from this agenda are at least three-fold. Firstly, the Trust will need to develop a more flexible workforce containing, in particular, high-calibre community-based nursing and therapy capability. Secondly, the Trust will need to consider different ways of contracting for such activity given the limitations of block contracting but also the inappropriateness of current tariff structures. Thirdly, the Trust will need to engineer a further shift in clinical mind-sets as to facilitate swifter transfers of care into community settings.

The Trust's approach to emergency activity therefore is to recognise the reality pertaining to commissioning priorities but to do so in a way which is constructive and therefore facilitates delivery of the organisation's own objectives in the field of integrated care.

The potential re-direction of emergency activity into the Trust's growing portfolio of non-acute services also affords the opportunity to re-focus the main hospital site towards elective work. This reflects an increasing view that the Trust's current elective workload is too small and that it is derived from too narrow a referral base. Correcting this will allow the organisation to mitigate the loss of emergency work with increased elective activity; to utilise its bed-base more efficiently and flexibly; to attract work from other localities thereby diversifying its referral base; and, paradoxically, to safeguard on-site emergency surgical capability.

The operational requirements in this context are best understood as follows:

- An effective and adequately resourced Business Development Unit to pursue new business opportunities supported by engaged and equipped clinical operational teams and the recruitment of a Head of Business Development early in 2014-15 is accepted as being imperative to this;
- Additional outpatient capacity in targeted geographical locations and on the main Homerton site in order to facilitate referral growth. A joint outpatient productivity programme is in place between the Trust and the CCG looking, in particular, at follow-up rates and internal consultant to consultant referrals. This work is expected to allow the Trust to re-profile its capacity towards new patient activity and in so doing reduce waiting times. Coupled with this the Trust has secured premises in the London Borough of Newham for a range of outreach outpatient clinics and has commenced the process of engaging local GPs so as to influence their future referral decisions;
- Sufficient elective capability to manage the additional procedures flowing from effective stimulation of outpatient demand. With this in mind the Trust's capital plan for the next two years contains provision for additional theatre and endoscopy capacity and the options around these developments will be activity worked through during Q1 2014-15. The delivery of this work does not, however, diminish the need to ensure increased efficiency from the current available capacity and to increasingly utilise the existing physical infrastructure at evenings and weekends.

Beyond the above there are two further operational requirements which are material for the Trust over the next two years:

1. The Trust has seen a significant, but planned, increase in its maternity activity over recent years and has uplifted its workforce accordingly and in line with its current capacity of c.6,200 births per annum. The Trust's physical infrastructure is not, however, conducive at present to the long-term delivery of such activity. Phase 1 of a reconfiguration programme with therefore occur in 2014-15 with a decision required during the course of the year with regard to the nature of Phase 2.
2. The Trust has some key areas of risk relating to compliance with the current London Quality and Safety Standards. These relate primarily to complex diagnostics and emergency surgery. Option appraisals are being developed with regard to how these risks could be mitigated and these will need serious consideration during the first half of 2014-15.

In terms of operational performance the Trust has identified the 62-day cancer standard as a risk for 2014-15. This is a consequence of a decline performance at the end of 2013-14 triggered by a number of associated factors and impacted upon materially by an increase in the complexity of both diagnostic and treatment pathways. The Trust has, however, audited its recent performance and has identified important internal and external actions which, if enacted, should mitigate the risk. These actions will be implemented as a priority during the early months of 2014-15.

1.2.4 Productivity, efficiency and CIPs

The Trust is working to a planned CIP target of 4.5% for 2014-15 and within this plan there are a number of key drivers over and above incremental budget reductions. These include:

- A concerted Trust-wide approach to sustainably reducing Bank & Agency expenditure by addressing both supply and demand. Whilst 20% of the Trust's temporary staffing is provided by agencies this activity accounts for nearly 60% of the cost. A 5% reduction in expenditure would yield a saving of £1m and therefore the opportunities available to the Trust to reduce its cost base in this regard are significant;
- An integrated procurement plan across the organisation to maximise saving opportunities and improve alignment between the procurement team and clinical services. This work will benefit in 2014-15 from the input of UCL Partners who will provide the Trust with additional expertise and benchmarking capability as well as access to collaborative procurement opportunities;
- The operationalisation of a new boiler system with associated revenue efficiencies resulting from a significant capital investment over the last 18 months;
- The electronic tracking of medical records so as to allow for the simple and easy identification of records and an associated re-configuration of the workforce as a result;
- The application of a new policies and procedures aimed at driving outpatient efficiencies by tightening processes regarding DNAs and multiple patient cancellations, focusing on follow-up ratios and defining appropriate circumstances for onward internal referrals. The impact of these changes is expected to be a reduction in wasted, and therefore non-income-generating capacity, and a prioritisation of new over follow-up patient activity where this is clinically appropriate; and
- The more efficient management of hospital discharges so as to achieve more efficient usage of the Trust's bed-base. The initiatives detailed above with regard to the development of the Trust's non-acute provision provide an opportunity for expediting discharges in a safe and sustainable manner and coupled with additional internal action provide a significant opportunity to improve patient pathways. The Trust spends up to £1m per annum at present on additional short-term bed capacity and this is therefore an appropriate area for scrutiny.

The plan is subject to a robust quality check involving the Medical Director and Chief Nurse so as to safeguard against any adverse impact on safety, quality and/or the patient experience. The plan will also be monitored on a monthly basis by the Trust QIPP Board underpinned by individual meetings with each Division and Corporate Service to ensure effective delivery and, if required, appropriate intervention.

A number of other initiatives are being developed within the organisation to provide longer-term resilience:

- The agreement, dissemination and systematic application of agreed service improvement techniques across the organisation in order to facilitate improved efficiency. To date, the application of such techniques has been inconsistent;
- The roll-out of a Patient Level Costing System so as to establish improved financial transparency and further engage clinicians in the management of both income and expenditure;
- The establishment of a Business Development Unit to pursue growth opportunities thereby enhancing and diversifying the Trust's income base;
- Further dedicated work-streams aimed at influencing clinical behaviour with an initial focus on understanding upward movements in diagnostic demand; and
- A re-configured job-planning process so as to ensure sufficient transparency and organisational consistency across the Consultant body

Whilst many of these initiatives are expected to deliver benefits during 2014-15 they are also important building-blocks for future CIP programmes.

1.3 Supporting Financial Information

We have a track record of strong financial management and sound underlying financial performance, as evidenced by the delivery of a surplus year on year, and achieving and exceeding our financial plans. As a consequence of accumulating surpluses in recent years, the Trust has been able to embark upon a significant capital investment programme in support of the Trust's overall strategic priorities.

The financial forecasts included within the Operational Plan reflect the current guidance available nationally and the intentions of our local and specialist commissioners. The Operational Plan projections have also been prepared based on assumptions consistent with those used as part of our 2014/15 budget setting process.

We have a strategic objective to grow over the next 5 years. Notwithstanding this objective we acknowledge the modest growth included within this Operational Plan. We are fully participating in a number of ongoing initiatives within the local health economy with the aim of ensuring that high quality healthcare continues to be delivered on a sustainable basis. Given the Trust's strong track record of delivery, and the recent favourable reports from the CQC relating to both acute and community services, we believe we can play a key role in providing a solution to the significant issues faced by the sector.

We expect the potential for the Trust's role to become clearer in the coming months, as the strategic review progresses. The themes emerging from this work will be used to further refine our strategic plan, as appropriate.

1.3.1 Projected income and expenditure

At the time of writing this document we are yet to reach agreement with our commissioners for 2014/15. The table below shows the forecast income and expenditure performance for 2013/14, with projections for 2014/15 and 2015/16 based on our initial discussions with commissioners.

Detailed Financial Summary **£m**	**2013/14** **Forecast**	**2014/15** **Plan**	**2015/16** **Plan**
Acute	183.3	184.0	190.2
Community	45.6	45.2	44.5
Other operating revenues	31.5	30.6	27.6
Total Operating Revenue	**260.4**	**259.8**	**262.3**
Employee expenses	(177.1)	(179.0)	(180.7)
Drugs expenses	(12.9)	(13.4)	(14.0)
Other operating expenses	(59.9)	(53.8)	(52.4)
Total Operating Expenses	**(249.9)**	**(246.2)**	**(247.1)**
EBITDA	**10.5**	**13.6**	**15.2**
Net interest payable/receivable	(0.1)	(0.1)	(0.1)
Donations	1.0	-	-
Depreciation and amortisation	(6.2)	(6.7)	(7.7)
PDC Dividend	(3.7)	(4.2)	(4.7)
Subtotal	**(9.0)**	**(11.0)**	**(259.7)**
Net Surplus (before impairments)	**1.5**	**2.6**	**2.6**
Continuity of Services Risk Rating (anticipated)	**4**	**4**	**4**

Income

As noted above, we are yet to reach agreement on the acute and community health services contracts. The position in respect of our primary commissioners is as follows:

- An initial indicative baseline has been agreed with the CCG. The intention is to reach agreement on the contracts by 30 April 2014. The Trust has reflected the high level commissioning intentions advised by the CCG in its income plans. Discussions over the precise contract detail are ongoing.
- The Trust has not received service specifications in relation to the services commissioned by LBH. However, the contract income reflected in the Trust's plan largely reflects a rollover of the 2013/14 level of income (adjusted by assumed deflation of 1.8%).
- In the base case the Trust is assuming that LBH will not fund all of the overheads associated with certain services that transferred to them from the CCG on 1st April 2013. The original funding had a value of approximately £1.3m.
- The contract with NHS England (NHSE) is assumed to be largely a rollover of the 2013/14 position. NHSE have advised the Trust of reductions in the contract to reflect changes in commissioning responsibilities between them and the CCG. We understand that the detail of these transfers is yet to be agreed between NHSE and the CCG. The Trust is assuming any changes will have a neutral impact on our income position.

Key assumptions

	2014/15	2015/16
PbR and Non-PbR deflator	1.5%	1.5%
Non Tariff deflator	1.8%	1.8%
Impact of readmissions policy	£1.3m	£1.3m
Impact of 30% non elective marginal rate	£0.7m	£0.7m
CQUIN delivery	75%	75%

Acute contract tariff deflation
We have assumed net national tariff deflation of 1.5% in both years for both PbR and Non-PbR activity.

Community health services deflation
We have assumed deflation on the value of the CCG and Local Authority commissioned community health services of 1.8% in both years.

The community services contract has been extended by one year to 31 March 2015. We have assumed we will continue to provide these services in 2015/16, although we have reflected the loss of some elements of the contract in our down side scenario.

Other tariff changes
The impact (reduction) of the marginal rate of 30% of tariff applied to any non-elective activity above a baseline set at 2008/09 levels has been factored into the income assumptions. An estimate of the impact of the policy on reduced payment for an assumed level of 23.4% avoidable readmissions has also been incorporated within the income figures. These assumptions remain unchanged from 2013/14 and are consistent with our commissioner's intentions.

The projections assume no reinvestment of these "penalties" within the trust, consistent with our assumptions in prior years. We are also aware that the CCG may retain these sums as part of their financial contingency. If the CCG were to reinvest these monies we would anticipate that the impact is also likely to be neutral in income and expenditure terms.

CQUIN
The national CQUIN goals, equating to 20% of total CQUIN income, are as set out within the NHS Commissioning Board Guidance 'Everyone Counts'. The remaining 80% of CQUIN will be based on locally determined goals. These initiatives are yet to be agreed by our commissioners, but the total potential value is 2.5% of the total contract value, equating to £5.4m based on current income assumption. In 2014/15 and 2015/16 is planning to deliver 75% of the total available.

Education and Training
The Local Education and Training Board (LETB) are responsible for commissioning education and training of medical and nursing staff. The Learning and Development Agreement for 2014/15 sets out changes to funding for Postgraduate Education, building on the changes to Undergraduate funding in 2013/14. Whilst there is a net benefit to the Trust in 2014/15, the impact has been capped by £0.2m.

Contract activity
The acute contract baseline discussed with our lead CCG reflects the underlying activity of 2013/14, adjusted for a shared view of growth based historic trends and anticipated changes in 2014/15. The value of this activity has been derived by applying the relevant national guidance including the prevailing tariffs for 2014/15. The projections also reflect the activity associated with agreed service developments, including those forming part of our rolling QIPP programme.

For 2014/15 and 2015/16 the following assumptions for growth in acute activity levels have been made:

	2013/14 Actual	2014/15 Plan	2015/16 Plan
Elective	1.0%	-0.3%	1.5%
Non Elective	0.7%	-2.0%	1.7%
Outpatients	0.0%	-0.4%	1.0%
A&E*	0.5%	2.2%	0.5%
Other	-0.3%	1.6%	2.1%

Community services activity is also assumed to grow by each year without any corresponding increase in income in light of the block funding arrangement we currently have in place with our commissioners. In time, and as community tariffs are developed, we would anticipate negotiating additional income for this activity. This element of additional funding will be a feature of our ongoing discussions commissioners as part of agreeing a position for 2014/15.

Expenditure

Key assumptions

	2014/15	2015/16
Pay inflation	1.43%	1.43%
Non Pay inflation	2.1%	2.1%
Drugs inflation	7.2%	7.2%
Contingency	1.0%	1.0%
CIPs %	4.5%	4.5%
CIPs £	£11.7m	£11.5m

Pay

Following the announcement of the pay award for the two years covered by the plan, we have costed pay inflation at 1.43% to cover both the national pay award and the impact of pay drift. In addition, the pay budgets reflect the impact of undertaking the planned levels of activity; service developments, and delivering the productivity, efficiency and CIPs outlined earlier.

Non Pay

In line with national guidance we have set non-pay inflation at 2.1% and drugs inflation at 7.2%. The same inflation assumptions have been made for 2015/16. The 2014/15 budget for CNST contributions has been set based on information from the NHS Litigation Authority and represents a £0.2m reduction in costs compared with 2013/14. The non-pay budget also reflects the impact of undertaking the planned levels of activity, service developments, and delivering the productivity, efficiency and CIPs outlined earlier.

QIPP savings requirement

The Trust has set a total QIPP target of £11.7m in 2014/15 and £11.5m in 2015/16. As outlined earlier, the plans to achieve this are split between expenditure reductions driven by productivity and efficiency measures, savings on agency expenditure and revenue generation schemes. This is set out in the table below:

QIPP Target	**2014/15 £'m**	**2015/16 £'m**
Expenditure reductions	9.3	7.5
Agency expenditure reduction	1.0	1.0
Revenue generation schemes	1.4	3.0
TOTAL	**11.7**	**11.5**

The schemes can be grouped together under a number of themes, as described below:

Productivity and Efficiency (£2.8m in 14/15; £0.8m in 15/16)
These schemes are predicated on doing more with existing or even less resource often linked with an underlying quality improvement or service redesign. Reducing waste and unnecessary tasks resulting in improved throughput/activity.

Management/Administration (£0.8m in 14/15; £1.1m in 15/16)
Reductions in costs of back office support functions.

Service reconfiguration (£0.6m in 14/15; £nil in 15/16)
Typically, a merger or restructure of two existing functions and how present workload is managed.

Clinical transformation (£0.4m in 14/15; £2.1m in 15/16)
A particularly new and innovative method, scheme or improvement that will lead to quality improvements and cost efficiencies developed internally or adapted from best practice elsewhere.

Non-clinical Transformation (£1.2m in 14/15; £1.7m in 15/16)
As above but applicable in non-clinical departments, for example, record tracking of patient case notes to enable a reduced number of WTE whilst also improving operational performance.

New ways of working (£1.2m in 14/15; £0.8m in 15/16)
New methods in which a service is delivered by usually taking on additional responsibility or developing in-house capability reducing the need for external support e.g. in-house nitrogen generation.

Improved Contracts (£2.4m in 14/15; £1.1m in 15/16)
Better value for money and cost efficiencies through better awareness on existing contracts, reviewing and rationalising where applicable and/or through improved procurement and supply chain.

1.3.2 Capital

The capital programme for the next two years is summarised in the table below:

£'m	**Forecast**	**Capital Plan**	
	2013/14	**2014/15**	**2015/16**
Ward Refurbishment	0.7	1.1	1.0
Minor works	0.9	0.9	1.4
IT	2.1	6.2	1.2
Medical Equipment	3.6	2.3	5.3
Major Estates Projects	5.3	2.4	0.5
Service Developments	1.8	9.3	9.8
Other	3.6	0.5	0.5
Slippage	-	-	(1.5)
Total	**18.0**	**22.7**	**18.2**
	Funding		
	2013/14	**2014/15**	**2015/16**
Internal resources	(12.0)	(14.1)	(17.0)
Energy Efficiency Grant	(3.0)	-	-
Charity	(1.1)	-	-
DoH Loan	(1.0)	(8.6)	(1.2)
Nurse Technology Fund	(0.7)	-	-
Maternity grant	(0.2)	-	-
Total	**(18.0)**	**(22.7)**	**(18.2)**

The peak in capital spending during 2014/15 is largely driven by two significant strategic projects that are already underway. The Trust is redeveloping its Pathology service to provide a modern laboratory able to meet the growing demands from both internal and external customers. This project is costing £8.5m over three years. In addition, the Trust is developing a vacant space to allow expansion of its maternity services. Phase 1 of this project will cost £2.9m in 2014/15 allowing the expansion of the postnatal ward facilities in 2015/16 at a cost of £3m.

The Trust plans to continue to invest a significant element of internally generated resources in various strategic capital projects. The Trust is also planning to maintain a strong liquidity position and has secured a £10.8m 25 year loan from the Department of Health to fund the Pathology and Maternity developments.

Revaluations
The income and expenditure forecasts summarised above do not reflect revaluations to our fixed assets as they do not impact on our earnings for the purposes of deriving our Risk Rating. During 2013/14 the Trust revalued its fixed assets upward by approximately £11m. Due to the unpredictable nature of fixed asset revaluations we have not assumed any further revaluations in 2014/15 and 2015/16.

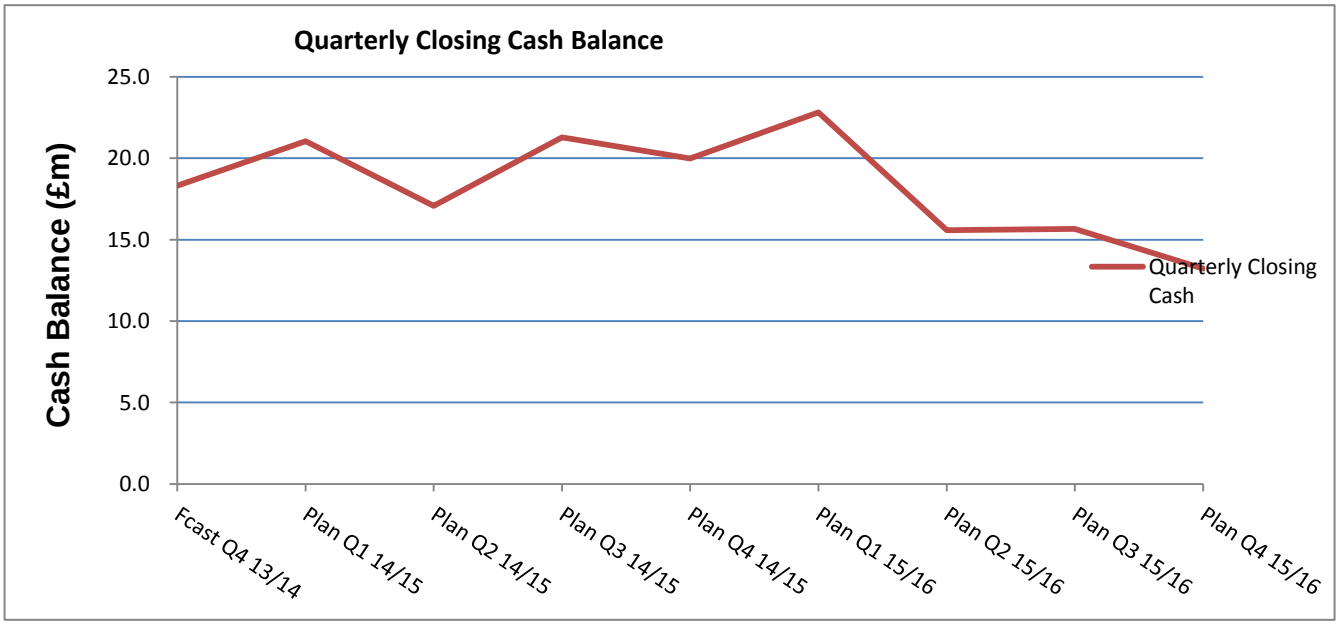
1.3.3 Liquidity

The Trust has historically had a strong liquidity position due to its continued delivery of surpluses over recent years. However the Trust's cash reserves came under significant pressure in 2013/14. This pressure resulted from the Trust's lead commissioning CCG withholding significant payments on invoices until such time as the basis of an agreement for the 2013/14 was reached. The situation was not resolved until early March 2014, by which point our cash reserves were significantly depleted.

We have assumed that this situation will not recur and the Trust and the CCG will commit to reaching agreement on a contract for 2014/15 in good time and will not allow issues to go unresolved from one month to the next. We will also seek more effective intervention from other parties in the event that issued that cannot be resolved between the parties are escalated.

Overview of Working Capital

The chart below shows projected net quarter-end cash balances for 2014/15 and 2015/16.



The key factors affecting future cash balances are ability to generate planned surpluses, levels of capital spend, and borrowing. The Trust has decided not to renew its working capital facility in light of the projected liquidity position over the next two years.

1.4.4 Continuity of Service Risk Rating

The Trust is planning to achieve a risk rating of 4 in both 2014/15 and 2015/16 as shown below:

Continuity of Service Risk Rating	2014/15	2015/16
Liquidity	4	3
Capital Servicing Capacity	4	4
Overall Rating	**4**	**4**

The reduction in the liquidity rating in 2015/16 reflects the use of some of the Trust's cash balance for strategic investment in capital projects.

1.3.5 Down side risks and mitigations

There is a degree of uncertainty in relation to where we will conclude our negotiations with City & Hackney CCG and our other commissioners as well as finalising the budget setting process. The table below summarises the financial planning assumptions that have been factored in the 2014/15 downside scenario.

(£m)	Income	Expd.	Comment
Acute Income			
CQUIN	(0.6)		Assumed at 60% (75% in base case)
General Income Risk	(1.5)	-	General sensitivity on loss of income associated with productivity initiatives. This should also include an element of cost reduction as linked to activity
Total Acute Income	(2.1)	-	
Community Income			
Further Loss of LBH Funding	(0.2)	-	Loss of £0.2 already in the base case (Specialist Children's nursing, HIV Liaison)
School Nursing	(0.1)	-	Element to be tendered in 2014/15
Impact of Sexual Health Tariff	(0.5)	-	Impact of implementation of new tariff (neither tariff nor pace of change confirmed)
CQUIN	(0.2)		Assumed at 60% (75% in base case)
Total Community Income	(1.0)		
Unfunded Cost Pressures	-	(2.0)	
Total	**(3.1)**	**(2.0)**	

Risks associated with the delivery of the financial plan

The risks to the delivery of our financial plan can be summarised as follows:

- Increasing competition as the AQP initiative gathers momentum;
- Current expiry date for the Community Health Services contract in March 2015;
- Impact of LBH as commissioners of some of the Trust's CHS services
- The impact of the Better Care Fund (may also be an opportunity)
- Pressures within the local health system and the conclusion of the ongoing strategic review that may result in a shift in local priorities and commissioner behaviour;

- Systemic changes to tariffs and the funding for education and training; and
- The successful delivery of our QIPP programme.

There are a number of mitigating factors not reflected in the scenarios modelled above. These include:

- Over performance against contracted levels;
- Delivery of other sources of income not included within the plan, including additional service developments that emerge from the business planning process;
- The reinvestment of readmissions monies to fund expenditure already included within the plan;
- Additional monies made available in year from the CCG; and
- Further QIPP identification.

It is worth noting that our plan includes a contingency reserve of 1% of turnover in each of the next two years which may be used to help mitigate the impact of the above risks should they materialise.

Although the economic outlook remains challenging we have a strong platform on which to build. We will be making a concerted effort to attract new GP and other referrals to help us achieve our objective of expanding the organisation, whilst maintaining quality and a sustainable cost base.