UPDATED ADDENDUM FOR THE BURTON HOSPITAL NHS FT AND DERBY TEACHING HOSPITAL NHS FT PROPOSED MERGER

Reflects Sovereign plans submitted 30th April 2018

Introduction

During March 2018 an initial Addendum to Chapter 7 of the FBC was produced for consideration by the PRC of NHSI. Post feedback from NHSI and the time allowed by the delay in our merger a second Addendum has now been produced.

The main areas covered in the updated Addendum are:-

- Submission of Sovereign Operational Plans for 2018/2019 on 30th April 2018.
- Reviewing the impact of the delay on the savings and costs of the Merger.
- Finalisation of plans in order to be Control Total compliant in 2019/2020 under the current 2018/2019 planning rules. This assumes the compliance regime and control totals stay as they are in 2018/2019.

Control Totals and Compliance Update

The assumption included in the new projections of both Sovereign Trusts and the merged entity is that this level of Compliance is maintained at these levels for the whole of the future model presented. For the purposes of the Addendum we have assumed that c£33m deficit remains the test for CT compliance during the period of the plan.

Changes in Sovereign Plans

BHFT 2018/19 Final Plan Submission

The FBC assumed the BHFT would be control total compliant for 2018/2019 as a sovereign organisation.
In 2017/2018 BHFT utilised £2m of non-recurrent resources to deliver its control total and has also benefitted from the change in its control total compliance measure for 2018/2019.

The net impact of the above and the planning guidance was an increase in the CIP required from £7.8m to £9.5m to ensure control total compliance.

The final plan submitted on 30th April was in line with the March Addendum. The BHFT board have taken the opportunity to increase the level of CIP in 2019/2020 onwards to remain compliant with the control total currently in place.

DTHFT 2018/19 Final Plan Submission

The March submitted plan for 2018/2019 was a deficit of £36.3m, which is in line with the original 2 year plan submitted to NHSI in December 2016, but above the original FBC figure of £28.1m which included further stretch CIP. The plan reflected an additional CIP of £4m in 2018/19 giving a total savings plan of £21.3m or 4% of its operating expenses.

The submission on 30th April is a deficit of £35.8m with the table below summarising the changes from the draft plan March submission.

	2018/19 Draft Plan £m	Adjustments since Draft plan submission and March Addendum					Final Plan £m
		Contract Income change £m	New Exec Director post £m	Meridian £m	STP Central Costs £m	Draft Plan Budget Challenge £m	
Position pre CIP	**57.6**	(0.5)	0.1	0.3	0.1	(0.4)	**57.4**
18/19 CIP requirement	**(21.3)**			(0.3)			**(21.6)**
2018/19 Deficit Plan	**36.3**	**(0.5)**	**0.1**	**0.0**	**0.1**	**(0.4)**	**35.8**

The draft plan included Income assumptions that have now been settled and the above plan now reflects the actual agreed contract.

The CIP for 2018/2019 within the sovereign plan is now £21.6m. Additional CIPs of £7.2m, £7.5m and £3m have also been added from 2019/2020 as described in the March addendum.

Impact of a 1st July Merger date

The Trusts have reviewed all savings and costs in light of an assumed delay to the 1st July 2018.

Savings – both organisations agreed that the savings due in 2018/2019 should still be delivered unless there was a clear reason to the contrary. Only 3 areas have been highlighted from these discussions and are as follows:-

1. Burton Hospitals FT will now require a part year audit for its anticipated accounts for the period April 2018 to June 2018.
2. The level of savings for moving to a single Trust Board from April 1st 2018 will be reduced by the delay to July 2018. This is offset by the new strategy director post added into the DTHFT sovereign plan.
3. Burton Hospitals FT could be required to pay Public Dividend Capital (PDC) for the period April to June 2018

The factors above have reduced the £3.6m expected synergies to be generated in 2018/2019 to £3.1m.

Implementation costs – a delay in the commencement of the new organisation has seen a review of the 2018/2019 integration team requirements. The level of reduced cost in 2018/2019 is estimated to be £0.2m.

STF – Burton Hospitals FT will now be eligible to earn 2018/2019 STF in Quarter 1 to a level of £1.1m.

These factors in addition to the generation of additional CIP from 2019/2020 have led to an updated financial projection for the merged organisation.

Impact on the Merged Organisation

The original addendum delivered a reduced deficit before STF of £12.6m in 2022/2023 as shown below:

	2017/18 £'m	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m
DTHFT - Standalone (£41.3m with £1.8m 17/18 Project Costs)	-39.5	-36.3	-29.1	-20.9	-17.8	-18.8
BHFT - Standalone (Includes STF)	-9.6	-6.2	-7.9	-8.4	-8.9	-9.0
Baseline: Standalone	**-49.1**	**-42.5**	**-37.0**	**-29.2**	**-26.7**	**-27.9**
Merger synergies/benefits:						
Clinical opportunities	0.0	0.4	3.9	7.1	8.7	10.1
Shared service opportunities	0.0	1.3	4.5	5.6	6.5	6.8
Repatriation Margin	0.0	0.0	1.3	2.5	3.8	5.1
Reduction in PDC / Interest as a consequence of above	0.0	1.9	1.6	1.3	1.6	1.1
Sub total synergies/benefit	**0.0**	**3.6**	**11.3**	**16.5**	**20.7**	**23.1**
Implementation/Integration Costs	-1.8	-1.9	-1.3	-0.8	-0.3	-0.3
Remove BHFT STF (Increased in value in 18/19 guidance)	0.0	-7.6	-7.6	-7.6	-7.6	-7.6
Surplus/(deficit) (£m)	**-50.9**	**-48.4**	**-34.6**	**-21.1**	**-13.8**	**-12.6**

The changes to both sovereign plans have result in a reduced deficit, prior to STF, of £9.1m in 2022/2023, with Control Total compliance being achieved in 2019/2020. As the organisation would be control total compliant by 2019/2020 a further line has been added to include the receipt of STF.

	2017/18 £'m	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m
DTHFT - Standalone	-39.0	-35.8	-28.6	-20.4	-17.3	-18.3
BHFT - Standalone (Includes STF)	-6.5	-6.2	-6.1	-6.1	-6.1	-6.1
Baseline: Standalone	**-45.5**	**-42.1**	**-34.7**	**-26.4**	**-23.4**	**-24.5**
Merger synergies/benefits:						
Clinical opportunities	0.0	0.4	3.9	7.1	8.7	10.1
Shared service opportunities	0.0	1.3	4.6	5.7	6.7	7.0
Repatriation Margin	0.0	0.0	1.3	2.5	3.8	5.1
Reduction in PDC / Interest as a consequence of above	0.0	1.4	1.6	1.3	1.6	1.1
Sub total synergies/benefit	**0.0**	**3.1**	**11.4**	**16.7**	**20.8**	**23.2**
Implementation/Integration Costs	-1.8	-1.7	-1.3	-0.8	-0.3	-0.3
Remove BHFT STF (Increased in value in 18/19 guidance)	0.0	-6.4	-7.6	-7.6	-7.6	-7.6
Surplus/(deficit) (£m)	**-47.3**	**-47.2**	**-32.2**	**-18.2**	**-10.4**	**-9.1**
Merged STF			25.5	25.5	25.5	25.5
Updated Surplus/(deficit) (£m)	**-47.3**	**-47.2**	**-6.7**	**7.3**	**15.1**	**16.4**

The sovereign plans, which total a deficit of £24.5m by 2022/2023 in the table above, include CIP as shown in the table below.

CIP (Excluding Merger Benefits)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
EXCLUDING VACANCY FACTOR after 2017/18	£'m	£'m	£'m	£'m	£'m	£'m	£'m
BHFT in year CIP	-9.1	-9.5	-5.7	-4.8	-5.0	-4.8	**-38.9**
CIP as % of operating expense	-4.6%	-4.8%	-2.8%	-2.3%	-2.3%	-2.1%	
DTHFT in year CIP (Excluding Vacancy Factor after 17/18)	-24.0	-21.6	-20.9	-21.9	-18.2	-16.0	**-122.7**
CIP as % of operating expense	-4.5%	-4.0%	-3.8%	-3.9%	-3.1%	-2.7%	
CIP (BHFT + DTHFT) standalone	**-33.1**	**-31.1**	**-26.6**	**-26.7**	**-23.2**	**-20.8**	**-161.6**

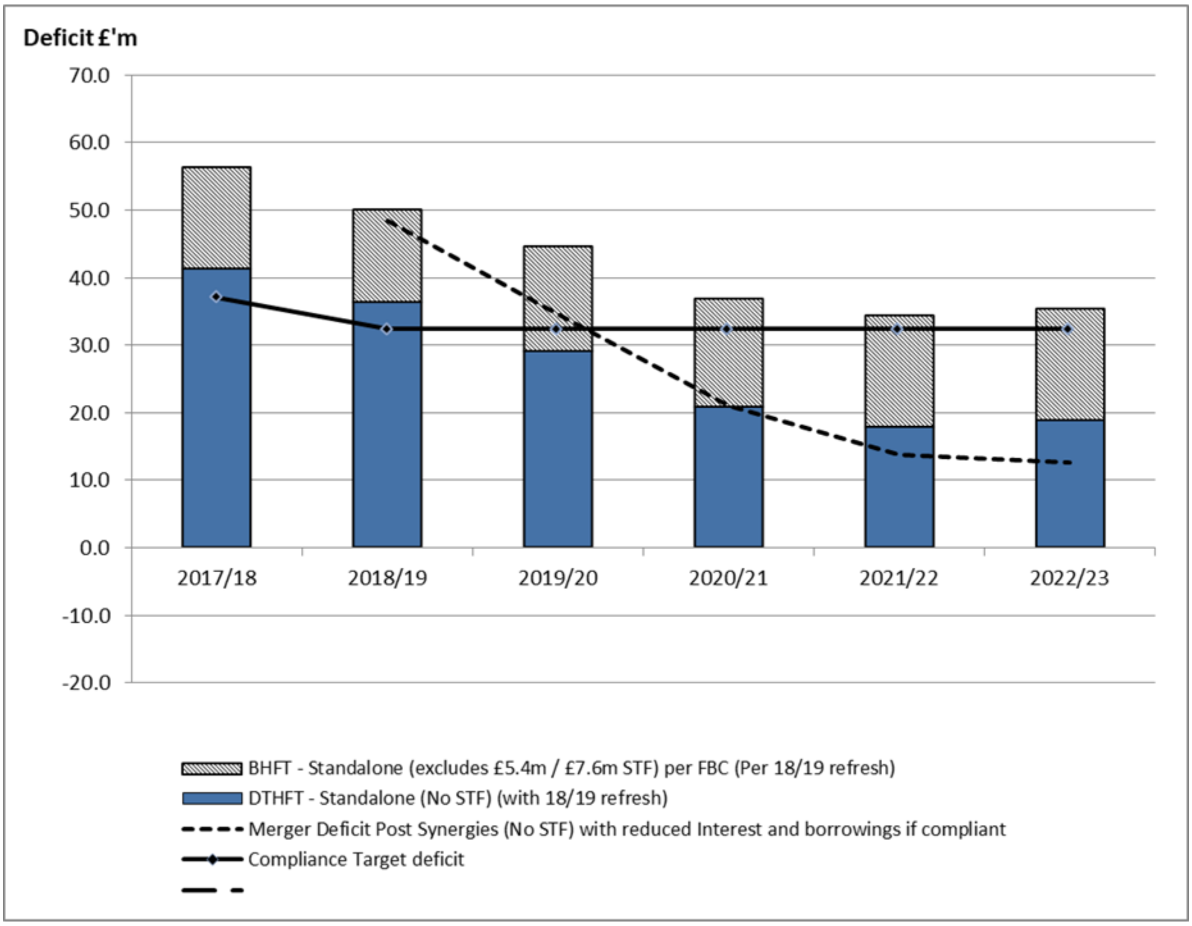
When the merger synergies are added to the sovereign CIP plans the total saving against the combined operating cost base is 22.7%.

CIP (Cumulative)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£'m	£'m	£'m	£'m	£'m	£'m
CIP (cumulative)	-33.1	-64.2	-90.8	-117.5	-140.7	-161.6
Combined synergies £m (cumulative) (Excluding Implementation costs)	0.1	-3.1	-11.4	-16.7	-20.8	-23.2
CIP + transaction synergies	**-33.0**	**-67.3**	**-102.2**	**-134.2**	**-161.6**	**-184.8**
CIP + transaction synergies as a % of combined operating expenses	**4.5%**	**9.2%**	**13.7%**	**17.5%**	**20.4%**	**22.7%**

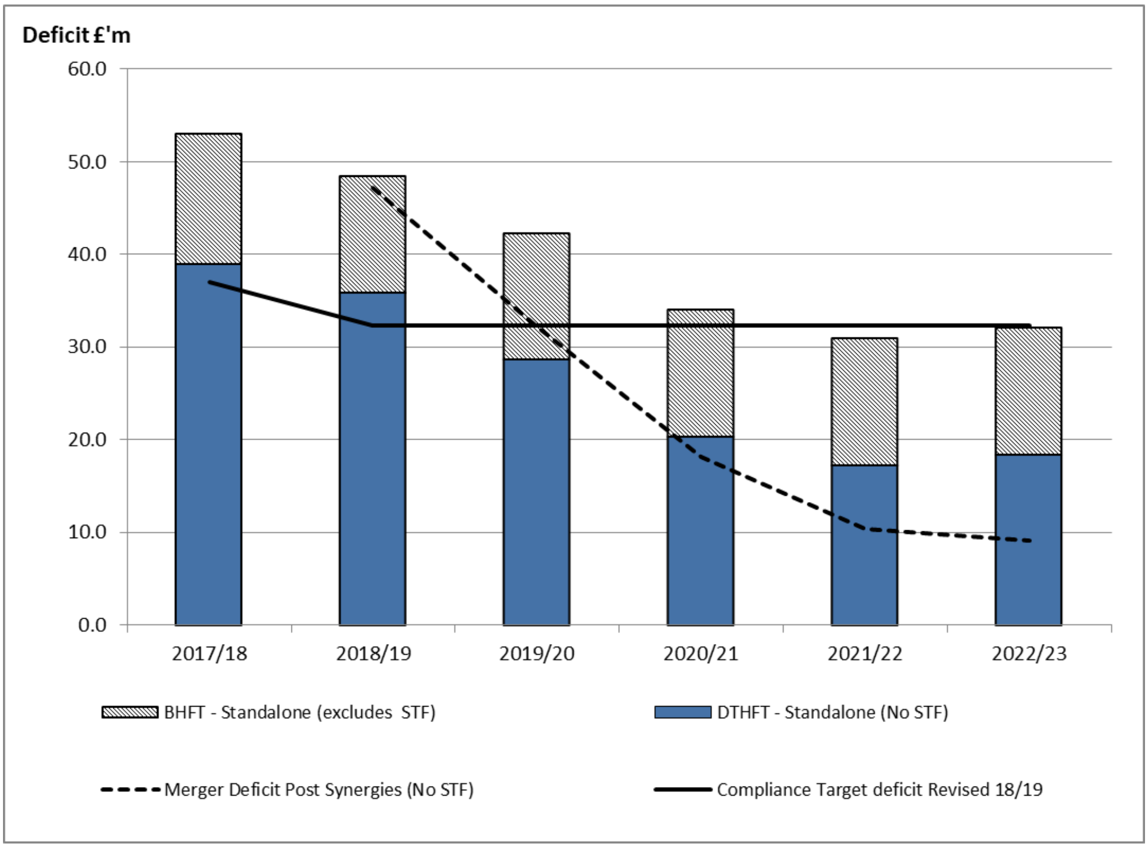
As the merged organisation would be in receipt of STF, the cash borrowings required would be less and as a result interest payable would also reduce. This benefit would be a contribution to the CIP programme in future years.

Compliance Measurement

The previous addendum reflected the changes made to the sovereign plans of both organisations and particularly the increased CIP agreed by the DTHFT Board on 6 March. The columns represent the standalone deficits of the two trusts, the dotted line is the impact of merger and revised CIP plans. The solid line is the CT compliance requirement assuming the 2018/2019 level remains.



The graph below shows plan reflecting the changes made to the sovereign plans of both organisations and particularly the increased CIP in future years agreed by the BHFT Board.

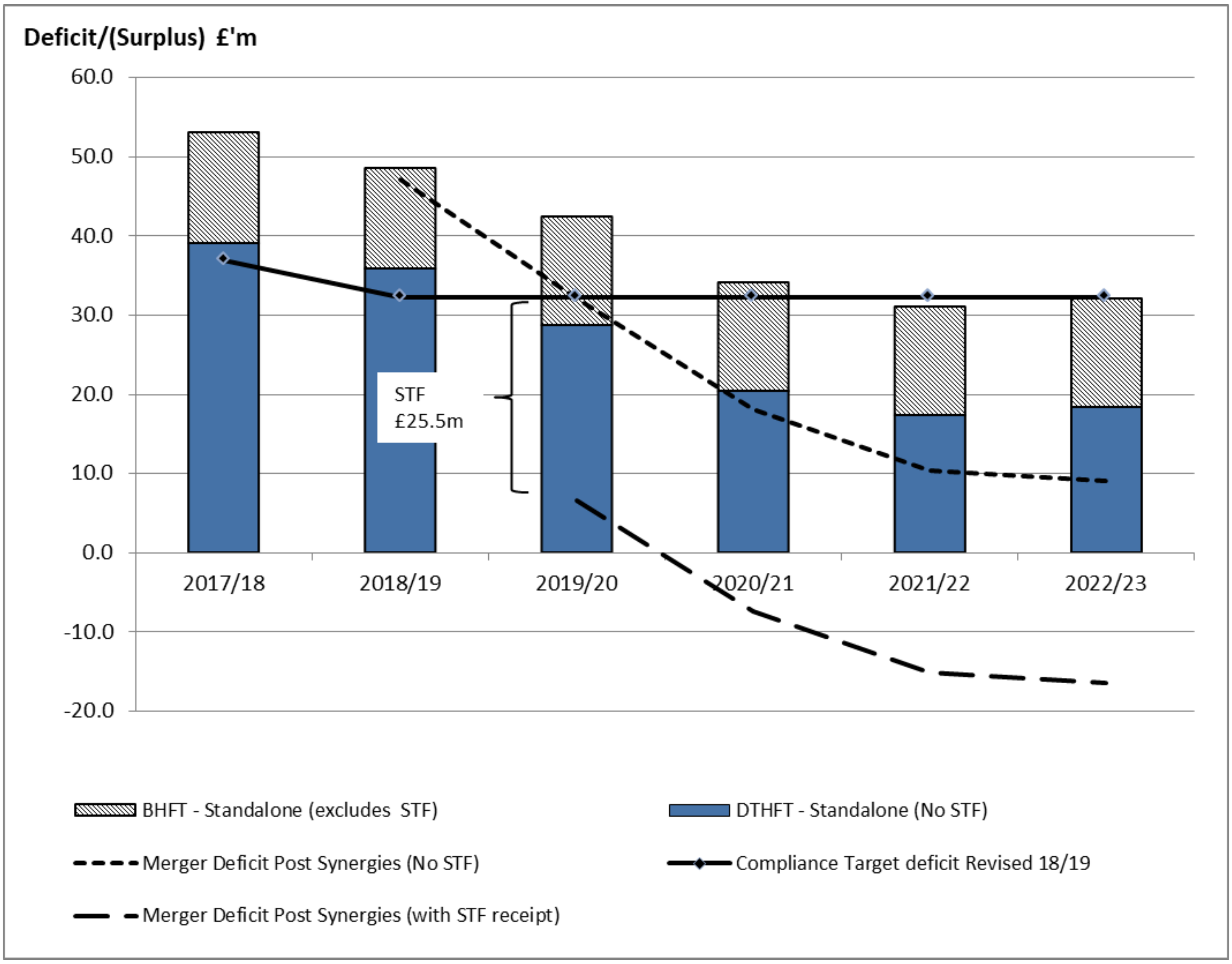


DTHFT, as a sovereign organisation, would be compliant by 2021/2022 and therefore would have been in receipt of STF.

BHFT have reviewed the level of CIP from 2019/2020. This has now been increased in order for Burton to remain compliant as a sovereign organisation from 2019/2020 onwards.

The net impact for the merged organisation is a pre STF deficit of £32.2m by 2019/2020, being compliant under the existing STF rules.

Upon receipt of STF in control total compliant years the graph would change as below:



Should the compliance measure remain at 2018/2019 levels, it would also give the merged Trust access to the combined STF funding of £25.5m per year from 2019/2020, providing a reduction in borrowings of £102m over the period, and thereby reducing the need for capital loans and compound interest charges. This reduction of interest would contribute to the CIP requirement of the organisation.

Impact on Working Capital Facility requirements

Both Trust Boards have been made aware of the ongoing need for working capital facility (WCF) loans to support the income and expenditure deficits and, for specific loans to fund future capital expenditure.

This is in order to be able to submit Working capital memorandum papers to NHSI.

The original WCF forecast in the March Addendum is shown in the following table.

Forecast cash facility £m Excluding Strategic Capital	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Burton Standalone Cash Requirement:	-46.8	-56.5	-62.6	-72.8	-80.4	-89.3	-98.8
Derby Standalone Cash Requirement:	-88.3	-133.0	-192.3	-220.4	-251.9	-280.4	-308.9
Combined cash position: Sum of the Separate entities	-135.1	-189.5	-254.9	-293.2	-332.3	-369.7	-407.7
Combined cash position: Merged entity	-135.1	-189.5	-254.9	-297.8	-325.3	-349.8	-373.9

The impact of the revised financial planning detailed above has been explained to both Boards and the consequential impact on cash, prior to STF receipts, is a reduction from £373.9m to £361.7m.

The reduced requirement is shown in the following table.

Forecast cash facility £m Excluding Strategic Capital	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Burton Standalone Cash Requirement:	-46.8	-56.5	-62.6	-71.1	-76.3	-82.5	-89.1
Derby Standalone Cash Requirement:	-88.3	-133.0	-191.8	-219.4	-250.4	-278.4	-306.4
Combined cash position: Sum of the Separate entities	-135.1	-189.5	-254.4	-290.5	-326.7	-360.9	-395.5
Combined cash position: Merged entity	-135.1	-189.5	-254.4	-295.1	-319.7	-341.0	-361.7

As this addendum now shows control total compliance from 2019/2020 onwards, the new organisation would also be eligible for STF in those years. This is currently up to a maximum of £25.5m per year.

This is not a loan and is a pure cash injection on which no interest would be due. This would directly reduce the WCF requirement identified in the previous table and is summarised below.

Forecast cash facility £m Excluding Strategic Capital	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Combined cash position: Merged entity Pre STF	-135.1	-189.5	-254.4	-295.1	-319.7	-341.0	-361.7
STF Receipt (Cumulative effect)				25.5	51.0	76.5	102.0
Revised Cash requirement	**-135.1**	**-189.5**	**-254.4**	**-269.6**	**-268.7**	**-264.5**	**-259.7**