DERBY TEACHING HOSPITALS NHS FOUNDATION TRUST

FINANCE & INVESTMENT COMMITTEE – MAY 2018

NHSI "OFFER" ON THE CONTROL TOTAL OF DTHFT

Introduction

Senior national figures at NHSi have made an informal offer to the Trust, via the Regional Team, on a revised control total for 2018/19.

This is a one off, non-negotiable offer, for one year only.

No one knows what happens in 2019/20.

Proposed Offer

The offer is to set the "Compliance Target" to a deficit of £29.077m.

This is the deficit required before including any Sustainability & Transformation Funding (STF).

If the Trust delivers this deficit then the reward would be 50% of the STF that would be available to the Trust if it had achieved the unadjusted target.

In terms of earning the STF "reward", the rules are that 70% is earned based on CT compliance and 30% earned on ED performance against an agreed trajectory.

This offer can be shown as follows:

Compliance Target	**Current**	**Offer**	**Change**
	18/19	**18/19**	**18/19**
	£m	**£m**	**£m**
Control Total Deficit	0.766	20.160	19.394
STF	17.834	8.917	-8.917
Compliance Deficit	**18.600**	**29.077**	**10.477**

In effect the "Control Total" moves by £19.4m but as the STF moves by £8.9m in the opposite direction, the compliance measure itself becomes easier to achieve by £10.5m.

Current Plan and Gap to compliance

Currently we have a control total of £0.766m which includes receipt of £17.834m, so excluding STF our "Compliance Target" is a deficit of £18.6m.

Our submitted plan, including £21.6m CIP, is for a deficit of £35.8m which is a gap from compliance, when adjusted for donations, of £16.6m

Offer – Gap To Compliance

NHSI's "offer" is a target, excluding STF, of £29.077m which is "easier to achieve" by £10.5m so DTHFT

Revised Gap From Compliance Would Be £6.1m.

With this offer, the STF reward would not be the full £17.8m but only 50%, being £8.9m.

Benefits

Accepting a control total brings benefits

- Exemption from key penalties such as A&E, Cancer and RTT performance. Removes a current risk
- New cash support loans at 1.5% rather than 3.5%
- Access to other strategic capital
- Potential access to year-end STF bonuses

Risks

Accepting a further stretch improvement to the position brings its own challenges

- £21.6m CIP is already 4% so an additional £6m is a further 1%
- We are in an STP where the CCG has already reduced our Income and left us with cost (the Non recurrent funding)
- The main Derbyshire QIPP list still has an unmet QIPP need and an expectation that the Acute spend will have to reduce further.
- The current operational plan depends on beds for which we haven't yet secured the capital.
- The backlog of RTT caused by Q4 2017/18 has not been commissioned at all.

Impact on Merger Finance case

The joint compliance test across the **whole year** is currently £32.3m deficit in 18/19.

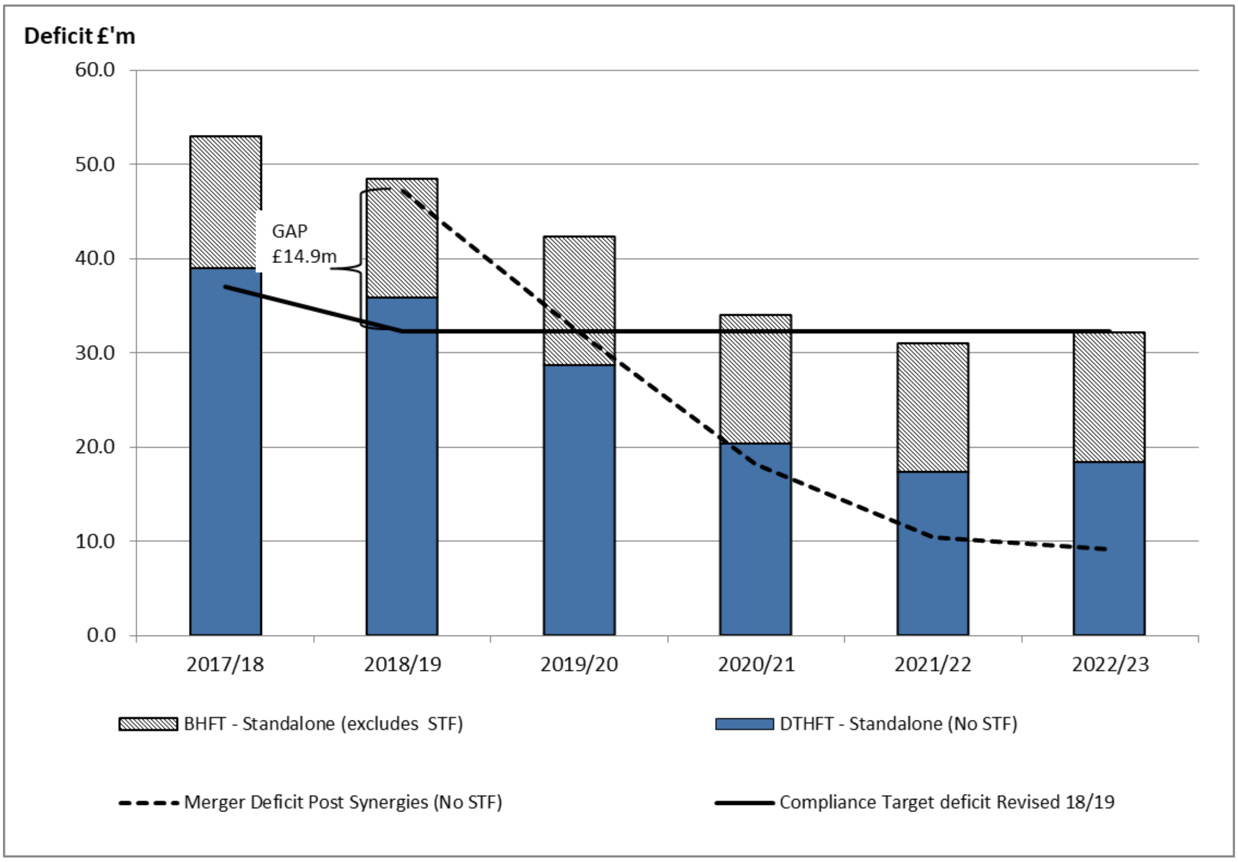
	Final 18/19 £m
Derby CT Deficit	0.766
Derby STF	17.834
Compliance Deficit	**18.600**
Burton CT Deficit	6.096
Burton STF	7.568
Compliance Deficit	**13.664**
Joint "Compliance"	**32.264**

It is unclear how the "Burton" compliance adds to the Derby compliance for the new organisation, now that the merger did not take place on 1st April 2018.

In the FBC addendum to Chapter 7, the 2018/19 full year position is shown as in the following table:

	2017/18 £'m	2018/19 £'m
DTHFT - Standalone	-39.0	-35.8
BHFT - Standalone (Includes STF)	-6.5	-6.2
Baseline: Standalone	**-45.5**	**-42.1**
Merger synergies/benefits:		
Clinical opportunities	0.0	0.3
Shared service opportunities	0.0	1.3
Repatriation Margin	0.0	0.0
Reduction in PDC / Interest as a consequence	0.0	1.4
Sub total synergies/benefit	**0.0**	**3.1**
Implementation/Integration Costs	-1.8	-1.7
Remove BHFT STF (Increased in value in 18/19	0.0	-6.4
Surplus/(deficit) (£m)	**-47.3**	**-47.2**

The “Gap to compliance” associated with this plan is currently around £14.9m, less than the DTHFT standalone gap because of merger synergies etc.



If Derby’s compliance requirement is reduced as offered, then the “joint compliance” would be £10.5m easier, so a £42.7m deficit or less would be required.

	OFFER 18/19 £m
Derby CT Deficit	20.160
Derby STF	8.917
Compliance Deficit	**29.077**
Burton CT Deficit	6.096
Burton STF	7.568
Compliance Deficit	**13.664**
Joint Compliance	**42.741**

Assuming Burton remains compliant, as they plan to be, and assuming they receive Q1 STF and stay compliant, and Derby were compliant with this new offer, then the merged Trust would be £6.1m (the Derby Gap) short of compliance across the whole year, prior to any synergies / integration costs.

The synergies should deliver 3.1m and the costs are shown to be £1.7m so a net benefit of £1.3m due to merger should close this gap.

So the £6.1m “Gap” would be closed by this £1.3m to £4.8m.

STF receipts reduce borrowings

The current model assumes Burton lose the STF, after Q1 when they merge with Derby, so assuming the merged Trust remains compliant with the offered Control Total, then it would receive £6.4m STF back in Burton for Q2-4 and the full £8.9m offered to Derby, so an additional £15.3m cash. This assumes target delivery as well.

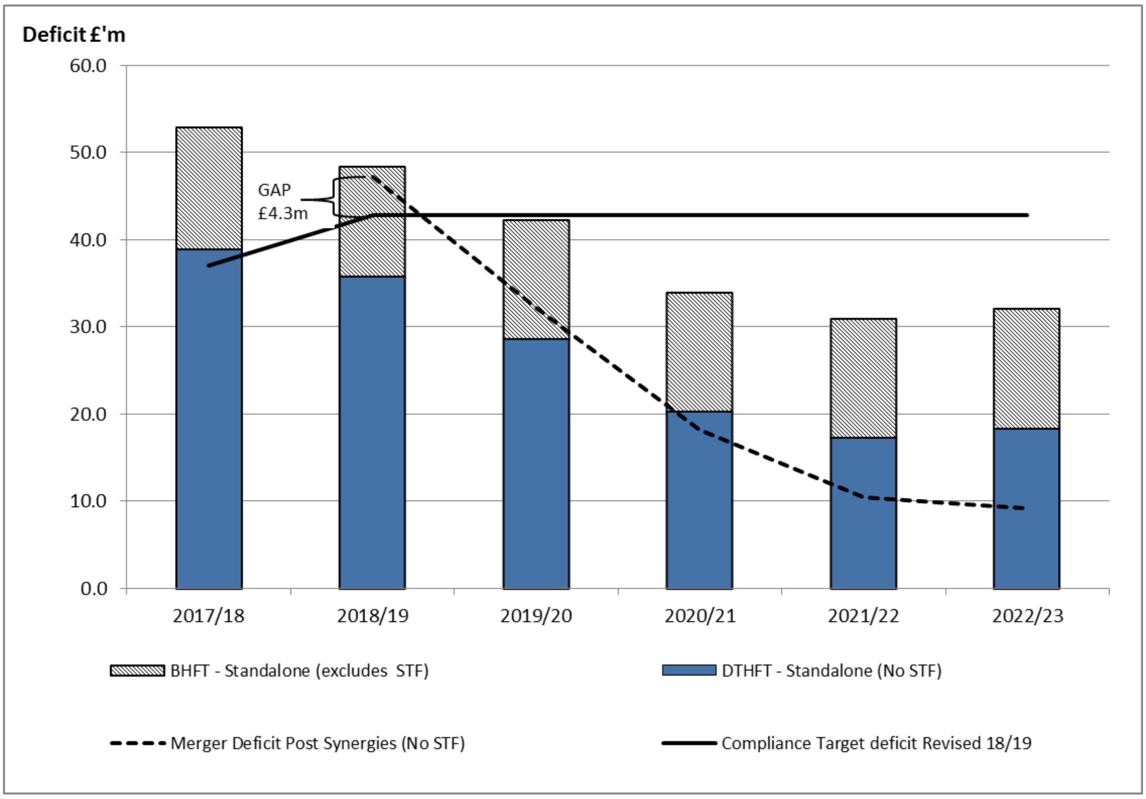
Not all of the STF cash would be received at once and certainly not from 1.4.18.

So a full year's cash benefit is unachievable. However, assuming we have the benefit of 1/3rd of it in year, we would save 3.5% interest on about £5m so this would save about £0.2m in interest.

Borrowings at reduced interest rate

In addition, the plan in Derby would improve if the deficit of £36m is financed at 1.5% rather than at 3.5%. This should save 2% on around half of the £36m, as it is not all borrowed on 1st April.
This would save around £0.3m in interest.

So of the £4.8m gap, we could potentially save £0.5m in interest so still a gap of about £4.3m



The compliance solid line on the above graph increases to a higher deficit due to the Control Total offer. This replaces the previous Control Total which had made the compliance target £4.7m "harder" than in 2017/18. It is now £5.8m "easier" than 2017/18, making a total movement in the 2018/19 target of £10.5m.

The graphs in this paper all show the 12 month period of 1.4.18 – 31.3.19 and assume the two Trusts add together their sovereign plans and then make synergies and incur integration costs in Q2 – 4. Control totals and STF receipts are not phased equally across financial years. STF receipts are weighted towards the end of year and this STF phasing is taken into account against the underlying I&E phasing (excluding STF receipts) to determine the actual YTD compliance tests.

Taking this into account, the "**Gap to compliance**" for the **merged Trust** would appear to be in the region of **£4m**.

The “**Gap to compliance**” for **<u>DTHFT as a standalone organisation</u>**, would be in the region of £6.1m less the £0.3m associated with the 2% interest saved on borrowings to finance the deficit, so around **£5.8m**

The difference is mainly associated with the additional merger synergies available to the larger organisation and associated interest.