Sherwood Forest Hospitals
NHS Foundation Trust

Achieving Better Value Financial Strategy 2019/20 to 2023/24

Final version 27/8/19

Inspected and rated
Good
Care Quality Commission

Trust Strategy

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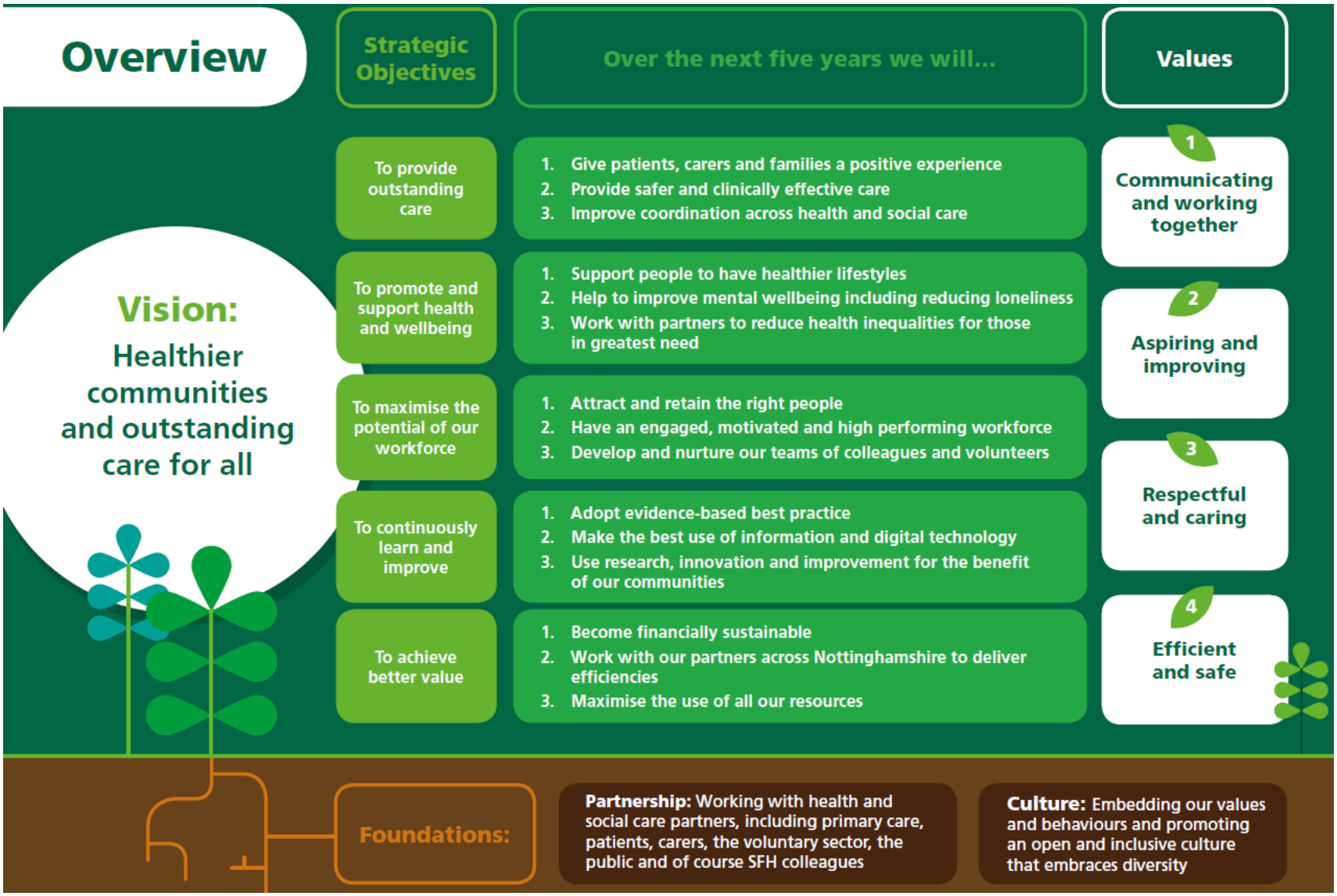

Strategic Objective 5 'Achieve Better Value' is the Financial Strategy of Trust for the next 5 years

Sherwood Forest Hospitals NHS Foundation Trust

The financial strategy is to deliver better value in the next 5 years through:

1. **Become financially sustainable**
2. Work with our partners to deliver efficiencies
3. Maximise the use of all our resources

- **We will become financially sustainable by:**
  - reducing our deficit and meeting our financial targets
  - becoming more efficient through delivering our Financial Improvement Plan on a recurrent basis
  - eliminating the controllable operational and strategic deficits by 31/3/24
  - securing NHSI assistance and agreement to eliminate the structural deficit through changes to the NHS financial regime and access to financial recovery funding and long term funding

Strategic Objective 5 'Achieve Better Value' is the Financial Strategy of Trust for the next 5 years

Sherwood Forest Hospitals NHS Foundation Trust

The financial strategy is to deliver better value in the next 5 years through:

1. Become financially sustainable
2. **Work with our partners to deliver efficiencies**
3. Maximise the use of all our resources

- **We will work with our partners to deliver efficiencies by:**
  - eliminating the strategic element of the deficit
  - redesigning outpatients and reducing the number of unnecessary patient visits
  - focus on system wide planning and work with ICS / ICP /PCN partners to plan services within available resources
  - developing multi-year plans to improve efficiency, based on available benchmarking information
  - agree a financial plan with partners and implement contracts which align objectives and incentivise delivery
  - focus on maximising utilisation of the NHS estate and resources – e.g. back office functions with PCNs, clinical pathways and estates with NUH and CCGs

Strategic Objective 5 'Achieve Better Value' is the Financial Strategy of Trust for the next 5 years

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The financial strategy is to deliver better value in the next 5 years through:

1. Become financially sustainable
2. Work with our partners to deliver efficiencies
3. **Maximise the use of all our resources**

- **We will maximise the use of all our resources by:**
  - eliminating the operational element of the deficit
  - improving the financial efficiency of our services
  - developing a plan for the renewal of our theatres and critical care unit to make them fit for the future and to support patients across Nottinghamshire
  - >£10m will be invested in our estates, equipment and IT, including the purchase a state of the art Gamma Scanner, supported by charitable funds
  - tactical procurement to ensure prices are best value
  - improving back office value by increasing use of technology and shared services
  - maintained grip and control on recruitment, retention and use of variable pay
  - use of benchmarking to aim for top quartile performance which correlates with CQC ratings of 'Good' and 'Outstanding' (NHSI)

Strategic Objective 5 'Achieve Better Value' is the Financial Strategy of Trust for the next 5 years

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Summary of approach, findings and objectives:

- In March 2016, the Trust commissioned PWC to undertake a 'Causes of Deficit' Review. The findings of this review have been refreshed with the forecast 2018/19 outturn deficit of £51.6m. This deficit has not materially changed since the 2016 review.

- Whilst the overall deficit is unchanged, the component causes have changed. The operational deficit has reduced by £5m with a corresponding increase in the structural deficit.

- If we do nothing the overall deficit will grow from £51.6m to £83.5m over the next 5 years. The operational deficit will have the largest increase due to assumed tariff efficiency requirements

- In the 5 years to 2024, the Trust aims to eliminate the controllable operational (£36.5m) and strategic (£26.5m) deficits and securing NHSI help to eliminate the structural deficit (£20.5m) through applying changes to the tariff regime and access to financial recovery funding and long term solutions

Strategic Objective 5 'Achieve Better Value' is the Financial Strategy of Trust for the next 5 years

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The underpinning principles and assumptions in delivering the strategy are:

- The start point is the underlying financial position at 31st March 2019. This is the actual outturn position less any non recurrent items.

- Year one of the strategy (2019/20) is based on the new financial framework for the NHS, including a number of non recurrent income streams (Marginal Rate Emergency Threshold (MRET), Provider Sustainability Funding (PSF) and Financial Recovery Fund (FRF). Access to non recurrent streams in future years is subject to NHSI approval following agreement of a financial recovery plan.

- Management of activity changes needs to be addressed by the health economy as part of the Integrated Care Provider (ICP). For the purposes of this strategy there have been assumed to be no adverse financial impacts as a result of activity and contractual changes.

- Due to the reliance upon Treasury Loans to resource capital investment it is assumed that major estate development will be agreed, approved and resourced utilising Integrated Care System mechanisms separate to this strategy.

- There is no repayment of Treasury loans over the next 5 years as only a recurrent surplus position would allow this. Total loans repayable to the Treasury as at 31st March 2019 are £472M.

Our underlying deficit is £51.6m*, materially unchanged from March 2016

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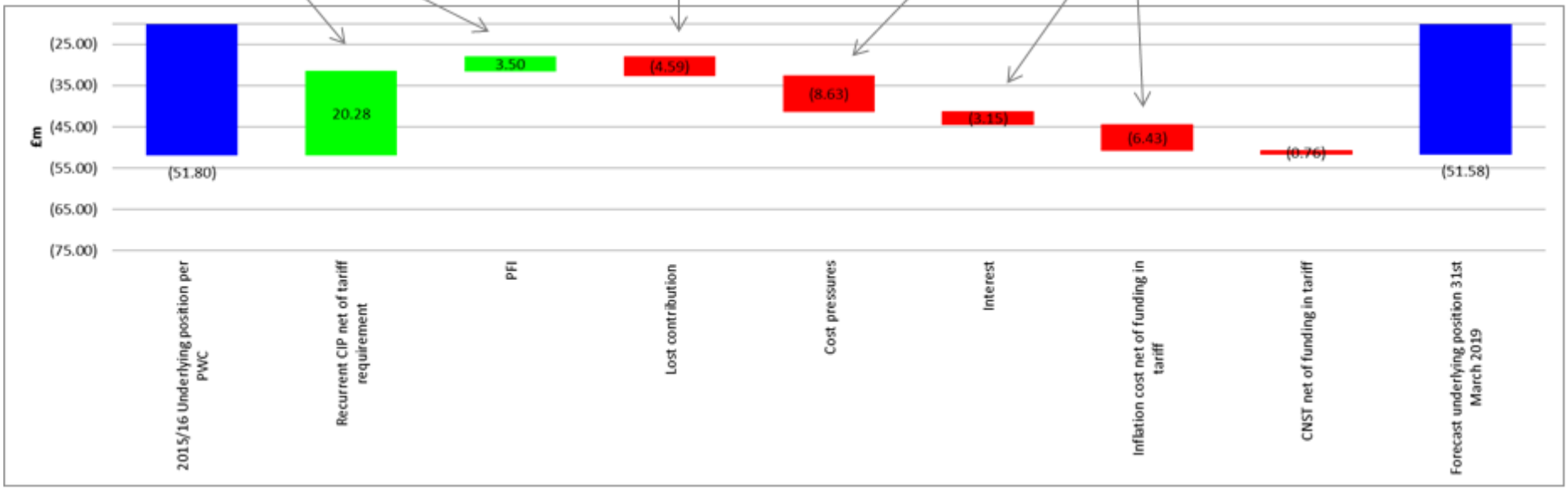
This deficit is 17% of turnover. The bridge below demonstrates how our deficit has changed in the 3 years since March 2016.

We have made over £20m of CIP over and above that which tariff required us to do. We've also had a benefit from the change in accounting treatment of the PFI of £3.5m.

We've lost income but not reduced associated costs, for example CCG contract notices in 2017/18 and changes to emergency pathways reducing income. Appendix 1 details these areas

Cost pressures of almost £9m have needed funding. Appendix 1 details these areas.

Interest charges on borrowings because we have a deficit are £3.2m and inflation costs above those we are funded for are £6.4m* of which £4.2m is PFI driven



* Pay award funding of £3.6m relating to AfC will be received recurrently in 2019/20 through the tariff uplift. This timing difference has been assumed within the recurrent position at the end of 2018/19 so as not to over inflate the recurrent position.

Although the deficit hasn't changed, the causes of it have

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PWC identified the cause of the deficit as:-

- Structural – outside of the immediate control of the health economy or Trust, i.e. excess PFI and loan interest
- Strategic – within the control of the health economy, i.e. ensuring services are provided within the available resources
- Operational – within the control of the Trust, i.e. ensuring services are efficient and represent best value

Building on the analysis undertaken in February 2016 by PWC the current causes of the deficit can be seen below

	Structural		Strategic		Operational		Total	
	PWC March 2016	March 2019	PWC March 2016	March 2019	PWC March 2016	March 2019	PWC March 2016	March 2019
PFI Finance charge	(11.90)	(12.56)					(11.90)	(12.56)
Safety and Performance Compliance driven premium	(2.30)	(2.30)	(1.20)	(4.45)		(1.73)	(3.50)	(8.48)
Operationally driven variable pay					(10.70)	(6.44)	(10.70)	(6.44)
Estate Utilisation	(1.20)	(1.20)	(6.80)	(4.79)			(8.00)	(5.99)
Workforce and Operational Efficiency					(7.70)	(4.97)	(7.70)	(4.97)
Income and loss of contribution			(5.40)	(4.11)			(5.40)	(4.11)
Interest payments for borrowings		(3.15)						(3.15)
Vacancy Cover Premium	(3.40)	(2.41)					(3.40)	(2.41)
Inflation costs in excess of funding		(2.26)						(2.26)
MRET			(1.20)	(1.20)			(1.20)	(1.20)
Total	**(18.80)**	**(23.88)**	**(14.60)**	**(14.56)**	**(18.40)**	**(13.13)**	**(51.80)**	**(51.57)**
Movement		**(5.08)**		**0.04**		**5.27**		**0.24**

This analysis shows that improvement has been made in reducing the operational deficit. Although the strategic deficit has remained the same, as estate utilisation has improved more has been invested to deliver performance targets. Structural cost including PFI, costs to borrow and inflation have increased such that the overall deficit has not reduced significantly.

If we do nothing in 5 years time the deficit will be £83.5m

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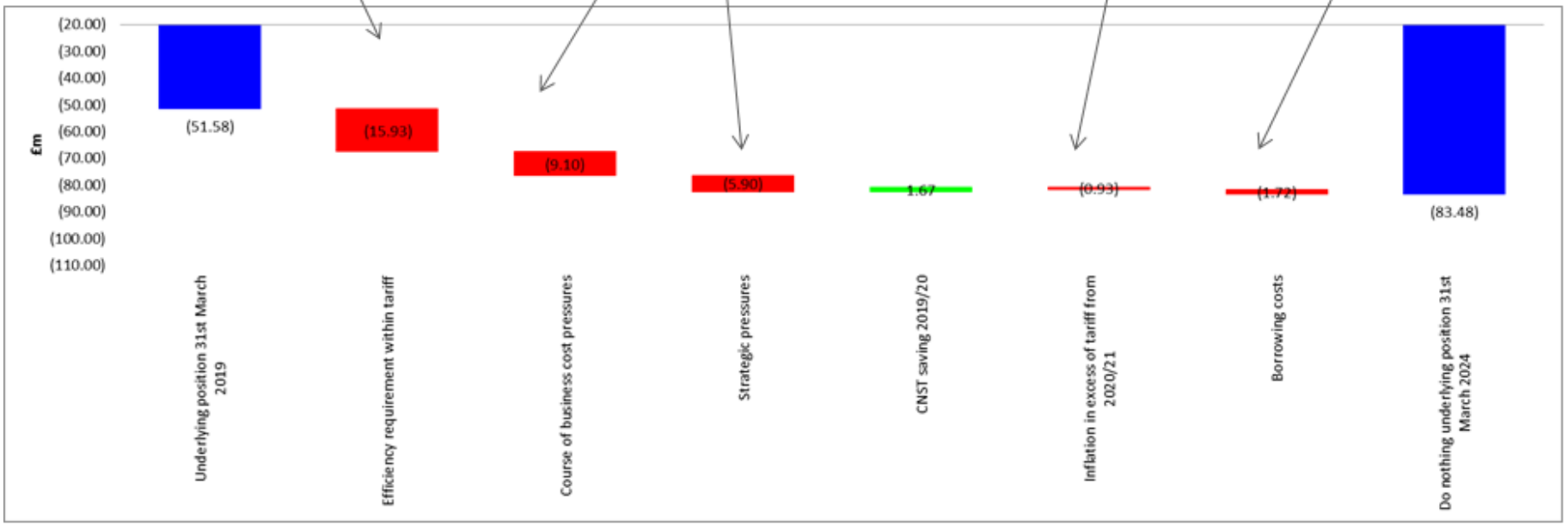
Starting with our deficit forecast at March 2019 of £51.6m and applying assumptions about what efficiency requirements will be expected, levels of cost pressures and expected inflation until March 2024 means if we do nothing this deficit will rise to £83.5m.

Efficiency requirement is forecast to be 1.1% per annum for the next 5 years as per the long term plan

Cost pressures are forecast to be £3m a year for each of the 5 years, based on historical experience

Inflation in excess of tariff will lessen over the next 5 years, in the most part due to funding received in 2019/20 via tariff.

Borrowing to fund the deficit over the next 5 years will increase interest costs by £1.7m.



The component parts of the deficit will grow at different rates over the next 5 years to £83.5m

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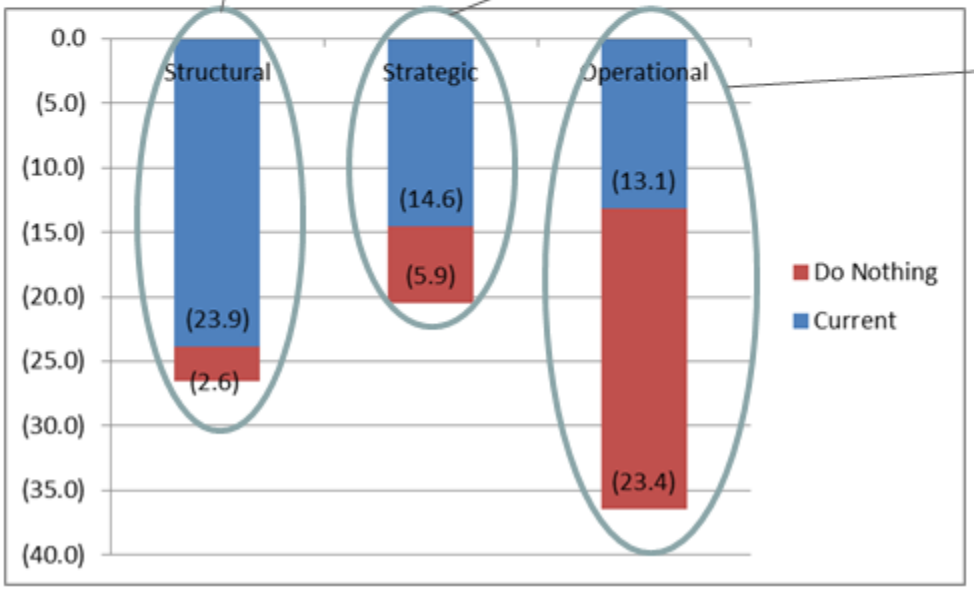
The structural deficit will grow by £2.6m. Increases to tariff inflation in 2019/20 offset in part PFI inflation excess until 2023/24

The strategic deficit is forecast to grow to £20.5m

The operational deficit will grow fastest, driven mostly by the requirement in tariff for an efficiency of 1.1% each year



In 5 years, the split of the deficit is most weighted towards the operational deficit if we do nothing

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This is because of the expectation of efficiency within tariff, assumed at 1.1% per annum for the next 5 years.

Funding via tariff and expected reductions in inflation mean the structural deficit change is limited to excess PFI inflation not included in tariff and growth in loan interest payments.

If we do nothing strategic cost pressures (related to contractual changes) will continue to grow. The operational deficit will grow by £23.4m to £36.5m

If we do nothing the deficit will grow to £83.5m.

	Structural		Strategic		Operational		Total	
	March 2019	March 2024	March 2019	March 2024	March 2019	March 2024	March 2019	March 2024
PFI Finance charge	(12.56)	(15.71)					(12.56)	(15.71)
Safety and Performance Compliance driven premium	(2.30)	(2.30)	(4.45)	(4.45)	(1.73)	(1.73)	(8.48)	(8.48)
Operationally driven variable pay					(6.44)	(6.44)	(6.44)	(6.44)
Estate Utilisation	(1.20)	(1.20)	(4.79)	(4.79)			(5.99)	(5.99)
Workforce and Operational Efficiency					(4.97)	(28.32)	(4.97)	(28.32)
Income and loss of contribution			(4.11)	(10.01)			(4.11)	(10.01)
Interest payments for borrowings	(3.15)	(4.87)					(3.15)	(4.87)
Vacancy Cover Premium	(2.41)	(2.41)					(2.41)	(2.41)
Inflation costs in excess of funding	(2.26)	(0.04)					(2.26)	(0.04)
MRET			(1.20)	(1.20)			(1.20)	(1.20)
Total	**(23.88)**	**(26.52)**	**(14.56)**	**(20.46)**	**(13.14)**	**(36.49)**	**(51.57)**	**(83.47)**
Movement		**(2.65)**		**(5.90)**		**(23.36)**		**(31.90)**

Our aspiration should be to reduce the deficit to no more than the structural amount, £26.5m by the end of March 2024.

The new financial framework for the NHS has improved the 5 year forecast, reducing our forecast structural deficit

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The initial draft of the strategy forecast a deficit of £108.5m after 5 years.

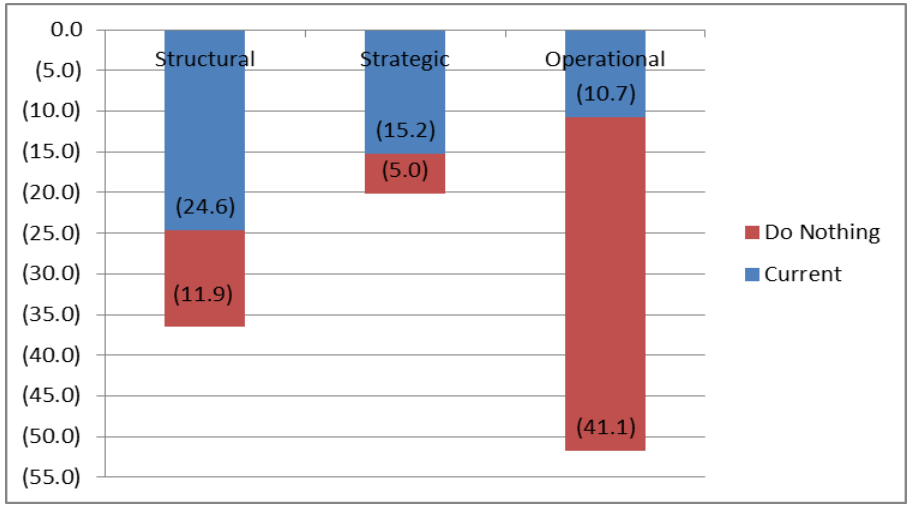
The startpoint has been updated to reflect the outturn for March 2019 and the more accurate forecast for 2018/19 delivery.

The 2019/20 tariff includes significant growth that supports historically accumulated inflation pressures and has reduced our structural deficit.

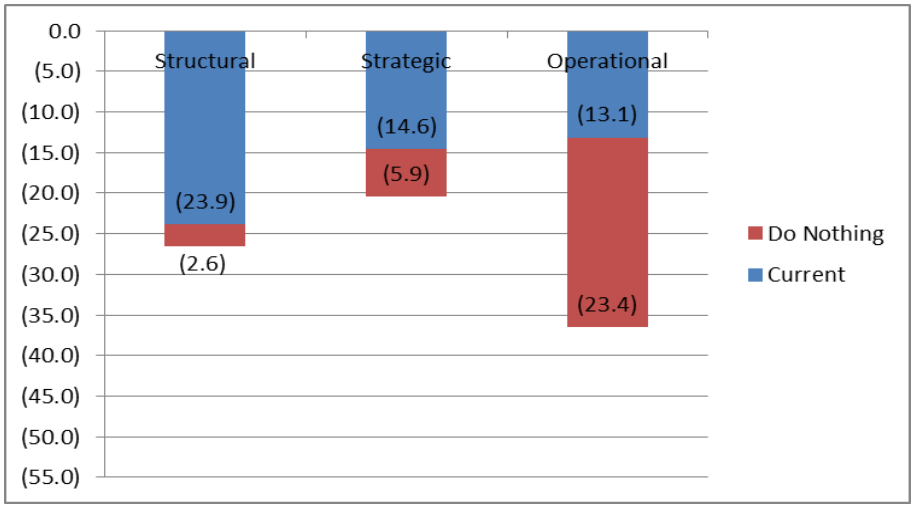
The NHS long term plan assumes 1.1% efficiency requirement in tariff for the next 5 years, 0.9% less than the 2% assumed in the initial strategy modelling.

These 2 effects improve the structural and operational deficit as per the charts below.

Initial strategy



Revised strategy



Our aspiration should be to reduce the deficit to no more than the structural deficit in the 5 years to 2024

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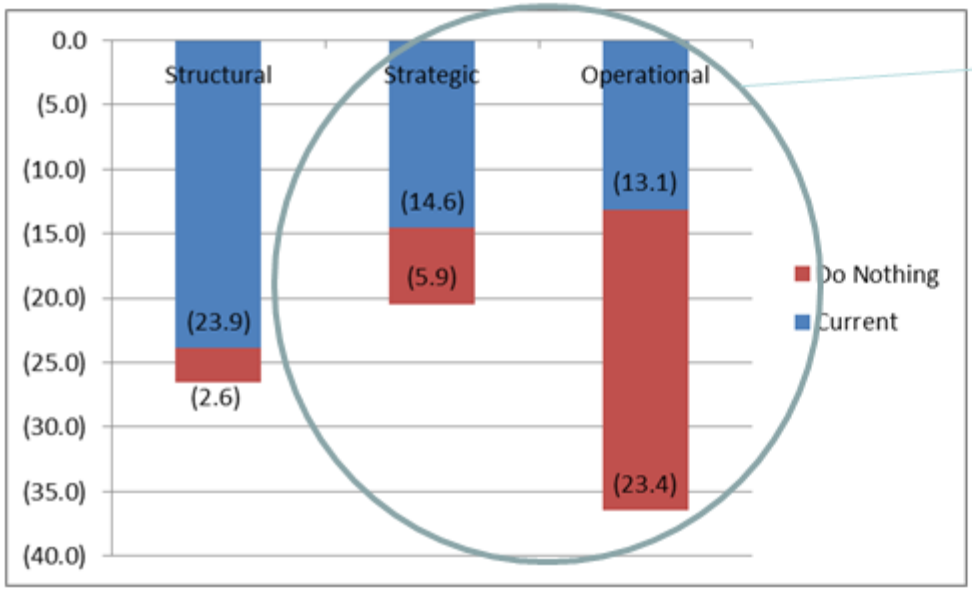
This means eradicating the deficit that is operational and strategic. This is a total of £27.7m now and will rise to £56.9m if we do nothing.
In 5 years the structural deficit will be £26.5m approximately 8% of turnover



A total of £56.9m of savings in the next 5 years is projected to be required to ensure that the causes of the remaining deficit are only structural.

We need to:-

1. Recognise we need to act to drive down the deficit and become financially sustainable
2. Make the best use of our resources to drive down the operational deficit
3. Develop as an ICP and work closely with our partners so that services can be transformed to enable them to be fit for the future and eradicate the strategic deficit.
4. Work with NHSI to develop a solution to the structural challenges within the financial position, including use of newly identified monies within the NHS.

We need to maximise our resources to remove the operational deficit of £36.5m

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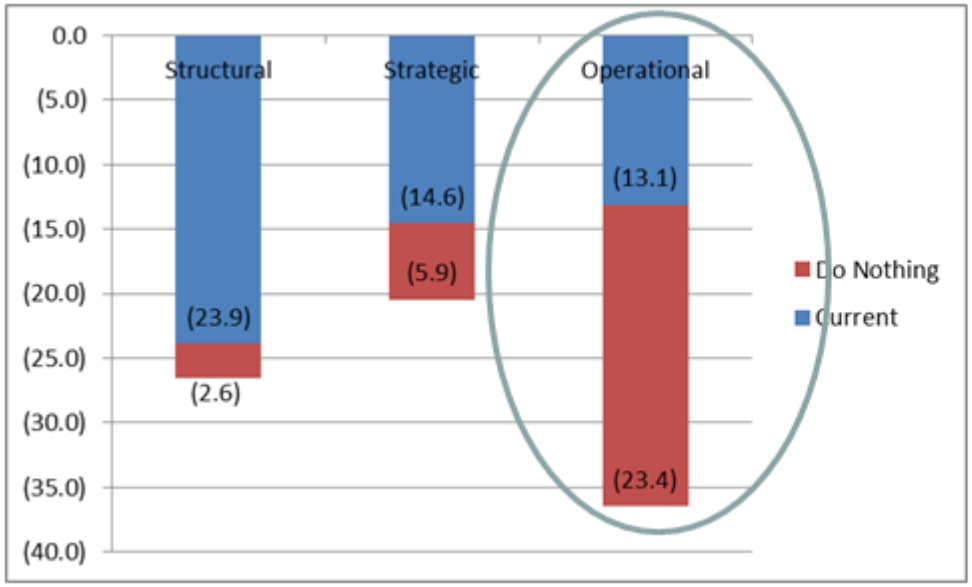
We need to ensure that we reduce our remaining operational deficit of £13.1m as well as ensure that it grows no bigger. Over the next 5 years 1.1% pa efficiency requirement from tariff is forecast as are course of business cost pressures of 0.6% pa (based on history). Averaging this out over 5 years gives a total business as usual requirement of 2.3% per annum on average.



How?

- Ensuring all services, clinical and non clinical, are as efficient as possible and fit for purpose.
- Tactical procurement to ensure prices are best value. Routine contract management and benchmarking will support this
- Maintained grip and control and 'good housekeeping' with regards to vacancies, use of variable pay and filling of shifts.
- Use of benchmarking to aim for top quartile performance
- Optimisation of services ensuring best value for money.

We need to work with our partners to transform our services and remove the strategic deficit of £20.5m

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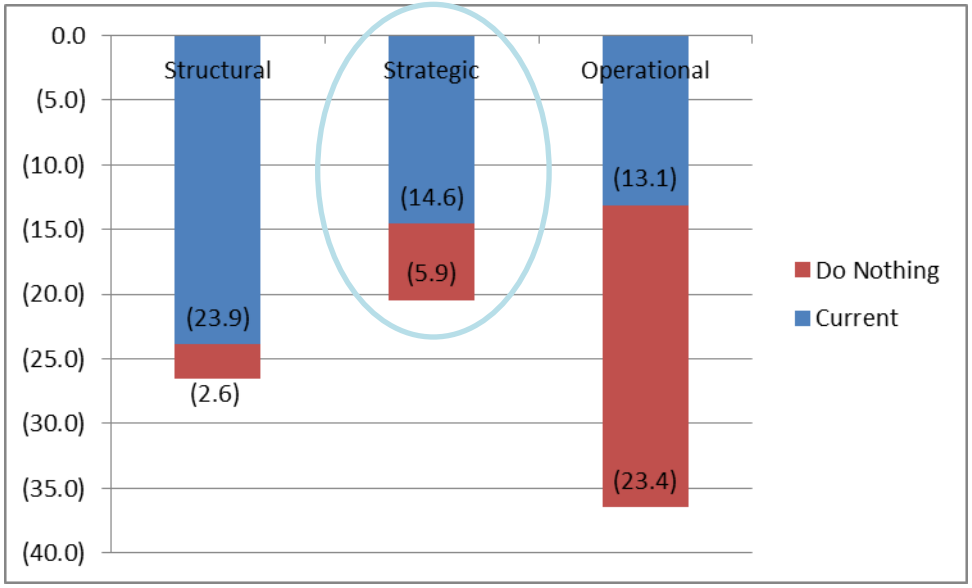
Transformation across the Mid Notts health economy is needed to tackle the strategic deficit. This will be enabled by the ICP. It is necessary for us, working with stakeholders, to decide the shape and scale of services we offer and where we offer them. This reduction is a further 1.3% per annum.



How?

- Work with ICS / ICP to shape services into cost envelope or recover sufficient funding to support current specification (see Appendix 1)
- Review service lines on an individual basis, consider their shape and scale and enact changes that support the clinical and financial strategy.
- Focus on maximising utilisation of the PFI estate
- Identify the best use for estate across the system, including MCH and Newark
- Invest capital where appropriate to enable digital and estate change
- Maintain work on new roles and ways of working to reduce hard to fill vacancies and agency spend

As part of working across the health economy, review of services will also need to manage growth in the most appropriate setting in a way that does not adversely affect our financial position. The move towards ICP in the health economy requires us to think about whole population health management where more activity will not necessarily mean more income but a need to deliver within a financial envelope.

We need to engage with NHSI to support reducing the structural deficit

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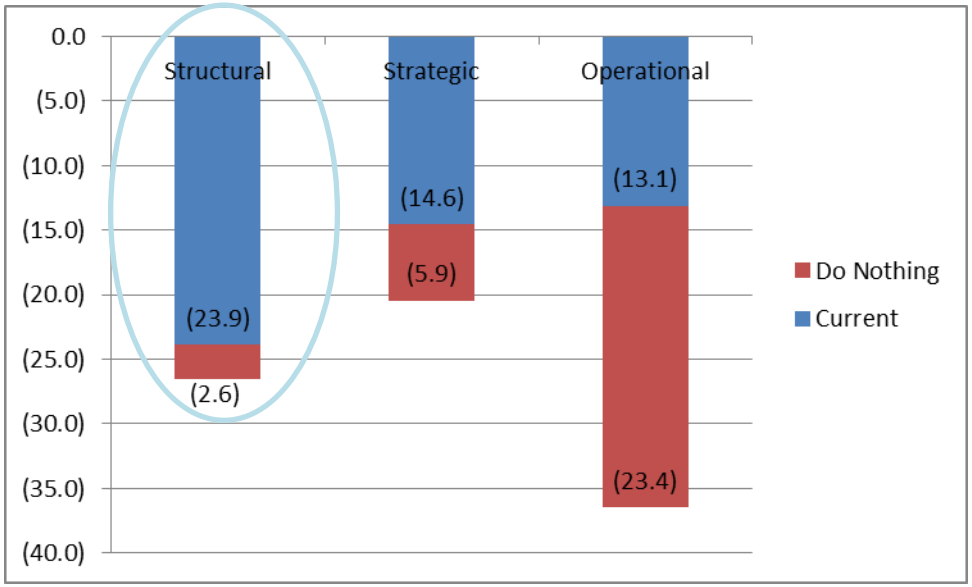
Clear identification of the causes of our deficit and plans to reduce it will leave us with only the structural deficit, currently £23.9m and forecast to rise to £26.5m by 2023/24. We need to engage with NHSI on solutions to reduce this but can only credibly do so if we tackle the other causes of our deficit.



How?

- Identify structural causes of deficit
- Be clear on these, relative to peers
- Engage with NHSI on solutions and progress on other elements of financial strategy

The new financial framework for the NHS has a number of streams of non recurrent monies within 2019/20, that will reduce the structural and strategic deficit in this year.

We have a choice over how we reduce our deficit
One possible option is below

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A possible work plan to reduce the deficit is :-

- Deliver the 1.1% FIP required per annum to 'stand still' – this addresses our operational deficit.
- Concentrate on reducing excess cost associated with premium pay where we remain an outlier relative to peers
- Minimise waste, e.g. utilities management and tactical procurement.
- Rightsize our capacity to meet demand, including estates usage and workforce
- Work across the ICP to prevent adverse impacts as a result of contracting that do not improve the overall system financial position
- Undertake service sustainability reviews, utilising PLICS, model hospital and right care data to support best in care services
- Invest in our theatre estate to increase space and deliver more activity to support the system
- Newark UCC costs £1m more to deliver than the income. Reshape this service in line with commissioner intentions of 2019 to remove this (or have it appropriately funded).
- Review our operating models to ensure they are fit for purpose and efficient
- Review all block contract services and shape them to within the available envelope of funding in 2021 and 2022

	Category	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Startpoint	Structural	(23.9)						**(23.9)**
Startpoint	Strategic	(14.6)						**(14.6)**
Startpoint	Operational	(13.1)						**(13.1)**
Efficiency requirement	Operational		(2.8)	(2.9)	(3.2)	(3.4)	(3.7)	**(15.9)**
Cost pressures	Strategic		(1.9)	(1.0)	(1.0)	(1.0)	(1.0)	**(5.9)**
Cost pressures	Operational		(1.1)	(2.0)	(2.0)	(2.0)	(2.0)	**(9.1)**
Loan Interest	Structural		(0.1)	(0.4)	(0.4)	(0.4)	(0.4)	**(1.7)**
CNST	Operational		1.7	0.0	0.0	0.0	0.0	**1.7**
Inflation	Structural		1.4	(0.8)	(1.0)	(0.7)	0.1	**(0.9)**
Total		**(51.6)**	**(2.8)**	**(7.1)**	**(7.6)**	**(7.5)**	**(6.9)**	**(83.5)**
Options to reduce								
Make 1.1% FIP required from tariff	Operational		3.3	3.3	3.3	3.4	3.7	**17.0**
Reduction in premium pay incl agency	Operational		1.0	1.0	1.0	0.5	0.5	**4.0**
Waste reduction and tactical procurement	Operational		0.7	0.7	0.7	0.7	0.7	**3.5**
Rightsizing and managing demand	Operational		1.4	1.0	1.0	1.0	1.0	**5.4**
Engage in cost out methodology to cease strategic pressures	Strategic		1.9	1.0	1.0	1.0	1.0	**5.9**
Service Sustainability Reviews	Strategic		1.5	2.0	2.0	1.5	1.5	**8.5**
Theatres capital	Strategic						0.6	**0.6**
Newark UCC	Strategic		0.2	0.2				**0.3**
Operating models, including outpatients, Ambulatory care, rehab	Strategic		1.0	1.5	1.0			**3.5**
Block contracts review	Strategic			1.2	1.2			**2.3**
Other	Operational		1.8	1.0	1.0	1.0	1.0	**6.0**
Deficit reduction options			**12.8**	**12.8**	**12.2**	**9.1**	**10.0**	**57.0**
Deficit before non recurrent monies		**(51.6)**	**(41.6)**	**(35.8)**	**(31.2)**	**(29.6)**	**(26.5)**	**(26.5)**

Non recurrent monies in 2019/20 support the strategic deficit

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The new financial framework for providers introduces non recurrent monies in 2019/20.

The Marginal Rate Emergency Threshold (MRET) is abolished, resulting in £5.4m of monies to support the strategic deficit.
Provider Sustainability Funding (PSF) and Financial Recovery Fund (FRF) monies of £6.4m and £14.8m respectively support the structural deficit.

This funding is assumed only in 2019/20 currently. Planning guidance requires development of a financial recovery plan (FRP) for providers in deficit before these flows of money. Agreement of an FRP with NHSI will give access in future years to FRF.

Deficit split	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total**
Structural	(23.9)	(22.6)	(23.7)	(25.2)	(26.3)	(26.5)	**(26.5)**
Strategic	(14.6)	(9.8)	(7.5)	(5.2)	(2.9)	0.0	**0.0**
Operational	(13.1)	(9.2)	(6.9)	(4.6)	(2.3)	0.0	**0.0**
Total deficit split	**(51.6)**	**(41.5)**	**(38.1)**	**(34.9)**	**(31.4)**	**(26.5)**	**(26.5)**
Non Recurrent Monies							
MRET - Strategic		5.4					**0.0**
PSF - Structural		6.5					**0.0**
FRF - Structural		14.8					**0.0**
Total non recurrent monies		**26.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Forecast deficit after non recurrent monies		**(14.9)**	**(38.1)**	**(34.9)**	**(31.4)**	**(26.5)**	**(26.5)**

Deficit split after non recurrent monies	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total**
Structural	(23.9)	(1.3)	(23.7)	(25.2)	(26.3)	(26.5)	**(26.5)**
Strategic	(14.6)	(4.4)	(7.5)	(5.2)	(2.9)	0.0	**0.0**
Operational	(13.1)	(9.2)	(6.9)	(4.6)	(2.3)	0.0	**0.0**
Total deficit split	**(51.6)**	**(14.9)**	**(38.1)**	**(34.9)**	**(31.4)**	**(26.5)**	**(26.5)**

EY Review

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As agreed with NHS Improvement Ernst & Young were commissioned to provide an external review of our five year financial strategy. This included a detailed review of the underlying financial forecasts and assumptions, governance and delivery capability.

EY Key Observations and Trust Response	
Underlying deficit	• We recommend SFH clearly presents the underlying recurrent position for the financial year on a monthly or quarterly basis rather than at year end, including bridges from prior year out-turn and current year plan. • It is critical that the Trust reviews reported and underlying positions in parallel to increase focus on the recurrent position and align decision making by senior management, Executives and NEDs to the strategy. An underlying position, at a Trust level, has been incorporated into the Month 4 Finance Committee report. This will continue to be presented in parallel with the reported financial position. In future months we are looking to refine this to provide an underlying position by division.
Planning assumptions	• There is significant risk to the delivery of the FY19/20 plan unless the recurrent FIP shortfall is addressed. • The planning assumptions should be stress tested. A downside forecast suggests that risks exist which would require up to £27m of additional recurrent efficiency savings to eliminate the "controllable" deficit. The risk to the delivery of the 2019/20 plan is reported routinely to Finance Committee. The Trust PMO, supported by EY, continues to work with divisions to ensure delivery of pipeline schemes and to identify and deliver stretch opportunities. The downside scenario modelled by EY (Appendix 2) was developed alongside the finance team and demonstrate a worst case deficit of £53.7m in 2023/24. As the Trust works to operationalise the financial strategy we will need to consider stretch FIP targets to mitigate these risks.
Workforce	• The Trust need a clearer view on the workforce changes as a result of delivering the financial strategy. There is no workforce plan to support the forward assumptions on cost reduction and changes in staffing models as referenced in the strategy, nor modelling of step changes in capacity. A five year workforce plan is being developed as part of the ICS 5 year plan submission. However it is clear that SFHFT requires a detailed workforce strategy to supplement the financial strategy.

EY Review (2)

Sherwood Forest Hospitals NHS Foundation Trust

EY Key Observations and Trust Response	
Capital	• There is no specific capital requirement assumed to deliver the financial strategy, we would expect to see investment in enablers to facilitate recurrent cost reduction and productivity gains. • The Trust should strengthen the capital approval process to align to delivery of strategic benefits and ensure return on investment is appraised against cost of capital as part of this process. The existing strategy does not include capital assumptions, other than routine backlog maintenance, due to the current limitations in accessing capital funding. However the capital prioritisation process for 2020/21 and beyond will be aligned to the financial strategy, by incorporating the incremental impact on the underlying position into the decision making process. In addition, the Trust is developing capital business cases for key areas of Theatres, Critical Care and CSSD, for which we will seek external funding.
Savings plans	• There are no multi-year schemes with detailed planning and a clear route to cash. This poses a fundamental risk to delivery of the strategy. • The strategic initiatives will rely in part on solutions being developed across the wider health and as yet do not yet have backing calculations for 19/20 and no planning for future years. • To mitigate difficulty in achieving strategic schemes, the Trust could go further on the operational deficit making this a net contributor to the bottom line. • The strategy sets out a clear ambition but is low on detail and “how” the transformation will occur. • The Trust needs to move focus from target allocation to identification of FIPs and mitigation of shortfalls and long term impact on the strategy. The Trust’s PMO, supported by EY, is working with divisions to identify future year FIP schemes in addition to 2019/20 savings opportunities. To date, 25 schemes have been identified for 2020/21. Further detail on transformational schemes is being developed through the ICS and ICP forums as part of the five year system plans. We are actively engaged in these discussions. The allocation of future FIP targets will be predicated on information that we are gathering through the Best Value Reviews process, which incorporates opportunities identified through benchmarking and analytical tools, e.g. PLICS and Model Hospital.

EY Review (3)

Sherwood Forest Hospitals NHS Foundation Trust

EY Key Observations and Trust Response	
Governance and accountability	• The financial strategy has been reviewed and signed off through key Trust forums. Board members were well versed in the key components of the strategy and underpinning assumptions. • There is a good infrastructure to support the strategy with positive senior attendance in key forums and robust challenge. However, focus remains almost solely on delivery of current year control total. • The FIP 'programme architecture' is well designed, and largely follows the recommended structure put in place by EY in 2018. • As early as M1, significant gaps to target were identified. This led to prolonged debate and challenge of the FIP target allocation, which detracted from a Trust focus on bridging the gap. • An immediate opportunity relates to the current requirement for PIDs / QIAs for all schemes. For schemes valued below £50k, it is suggested that budget holders can agree these without PIDs/QIAs. • There is opportunity to enhance the visibility of pipeline schemes and increase executive challenge in the weekly Financial Sustainability Panels. The recommendation that budget holders be given delegated authority to agree FIP schemes below £50k has been implemented. The PMO function, supported by EY, has also made progress in enhancing the visibility of pipeline schemes, which are reviewed and challenged through Financial Sustainability Panels.
Delivery capability	• There is good Executive understanding of the in-year financial challenge and evidenced buy in to managing financial risk. The DoF and COO recently led a comprehensive exercise to identify all financial risks. • A Deputy CFO has been recruited who is tasked with overseeing the delivery of the financial strategy. • Vacancies are significantly impacting PMO capacity to deliver and oversee key workstreams, with a critical need to review and revise senior PMO support arrangements. • Targeted skills and knowledge assessments conducted with the PMO identified 2 key areas for development: 1) Idea generation; 2) Facilitation and influencing of stakeholders. Financial risks continue to be reported routinely through the Finance Committee. The PMO function has been strengthened, with support from EY and recruitment to an analytical post. The function is working with divisions to enhance idea generation and delivery of savings.

Appendix 1 – Identified areas where income does not support current service provision

Sherwood Forest Hospitals
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It is estimated that there is £18.8m of services that we provide that are not appropriately recompensed by the current level of income. We should work with the ICP/ICS partners to reshape services within the system resources available or recognise across the health economy that greater funding is needed in these areas.

	£m
Newark	3.1
Paeds HDU charging	0.4
Cardiology activity not charged for	1.4
Rehab activity not captured correctly	2.1
MCH unbundling credit	1.0
Block funding less than cost	2.3
MRET baseline not adjusted for population growth	1.5
Telephone clinics provided but not charged for	0.4
Correct charging for ambulatory pathway	1.4
Review of local prices	3.3
Occupation of estates by external organisations not charged for	0.2
Outstanding contracting issues, 2018/19	1.7
Total services not recompensed appropriately	**18.8**

Appendix 2 – EY Downside Scenario Model

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A downside analysis suggests the Trust may need to deliver up to £27.2m of additional efficiency savings to eliminate the operational and strategic deficits if risks materialise.

Downside analysis of SFH Financial strategy baseline £m

Deficit category	Downside description	19/20	20/21	21/22	22/23	23/24	Commentary
	Baseline deficit	-41.6	-36.4	-31.3	-29.4	-26.5	
Operational	Cost pressures	-0.5	-1.0	-1.5	-2.0	-2.5	*£0.5m average annual emerging cost pressure. Either unmitigated or mitigated non-recurrently (excludes growth)*
Strategic	Recurrent FIP shortfall	-3.2	-6.3	-9.4	-11.8	-14.2	*Assumption SFH delivers 75% of CIP target recurrently (3 year historic average)*
Structural	Depreciation	0.0	-0.3	-0.5	-0.8	-0.8	*Depreciation on additional capital requirement (no PDC charge due to negative net relevant assets)*
Strategic	Impact of activity changes	-0.6	-1.4	-2.1	-2.9	-3.7	*If Trust cannot deliver activity growth within income envelope, or impact of activity exceeding or below plan.*
Structural	BAU capital financing	0.0	-0.2	-0.3	-0.5	-0.7	*Risk PSF cannot be used to fund capex in years beyond 19/20. 1.7% interest on £10m annual expenditure*
Operational	Increased revenue interest	0.0	-0.5	-1.1	-1.6	-2.2	*If Trust does not accept/deliver control totals in future, interest rate on £27m annual borrowing increases from 1.5% to 3.5%*
Strategic	NICU income shortfall	-0.3	-0.3	-0.3	-0.3	-0.3	*Known NICU income risk in 19/20*
Structural	Loan maturity charges	0.0	0.0	0.0	0.0	0.0	*Deemed very low likelihood so not modelled*
Structural	Pensions funding shortfall	0.0	-0.4	-0.4	-0.4	-0.4	*5% of funding required to fund employers' pension contribution increase not funded by tariff, as per Trust workings.*
Strategic	Further FIP shortfall in 19/20	-2.5	-2.5	-2.5	-2.5	-2.5	*Current forecast £2.7m-£5.2m (96% recurrent)*
	Downside recurrent deficit	-48.7	-49.1	-49.4	-52.1	-53.7	