

Strategic Plan Document for 2014-19

University Hospitals Birmingham NHS Foundation Trust

FOR PUBLICATION

Introduction

UHB has a strong track record in delivering services that are of high clinical quality and provide an excellent patient experience. The Trust also has a reputation for delivering strong operational performance in the face of significant operational challenges. This is confirmed by the Trust's Monitor Green Governance Rating. The Trust has historically delivered impressive financial results, however the NHS is now facing unprecedented financial pressures due to a sustained period without real terms funding growth. Health expenditure has fallen as a proportion of GDP and as a consequence providers have been required to deliver 4% efficiency gains year on year to maintain services in the face of rising demand and a new focus on quality. Many providers are now struggling to balance these priorities and a significant number of both Foundation Trusts and NHS Trusts have reported deficits for 2013/14, whilst the majority of those in surplus have very little headroom. The Trust's 5 year plan shows that it will remain financially sustainable, however this is based on the assumption that the efficiency requirement within tariff will fall back to 2% per annum from 2016/17 onwards, which is more in line with what can realistically be achieved based on the available evidence. There are also a number of other very significant financial risks to be faced over the period of the Strategic Plan.

Market Analysis and Context

Healthcare Needs Assessment

In order to understand future demand requirements, a healthcare needs assessment has been carried out. With regard to the population that UHB serves, the traditional South Birmingham PCT catchment area for the Trust was approximately 340,000 and Cross City CCG's catchment is around 690,000. However, as a result of growth in activity and changes in referral patterns UHB now considers the whole of Birmingham as its main catchment area although the Trust operates in a number of health economies. The main factors that will affect future demand for UHB services are:

- Birmingham's population is projected to grow by 19.6% between 2010 and 2030.
- The number of children in Birmingham is projected to grow by 24.1% between 2010 and 2030.
- The population aged 16-64 is projected to grow by 16.3% and over 65s by almost 30% and the population aged 85 plus is projected to grow by 55%.
- Life expectancy is increasing and expected to increase further.
- Long term conditions are more prevalent in older people and in more deprived groups. The number of people with three or more long-term conditions is predicted to rise from 1.9 million in 2008 to 2.9 million in 2018. There will be rising demand for the prevention and management of multi-morbidity rather than of single diseases.
- Physical health problems significantly increase the risk of poor mental health, and vice versa. People with severe mental illnesses also have significantly higher rates of physical illness – with a dramatic effect on life-expectancy.
- As the incidence of cancer increases and mortality decreases, the demand for these services will grow also. Factors such as age, lifestyle, and socio-economic status affect the demand for cancer healthcare in local populations.

Capacity Analysis

UHB consolidated its services from Selly Oak Hospital and Queen Elizabeth Hospital in June 2010 into a single hospital facility, the new Queen Elizabeth Hospital. The business case for the New Hospital included assumptions around revised models of care delivery, specialty aggregations and efficiency gains. Since the new hospital move, the Trust has seen unprecedented growth in emergency, elective, outpatient, A&E and other types of activity. As a result, the unfunded and unopened capacity has now been opened and filled with this activity growth.

The Trust has implemented a number of key initiatives with stepped investment since the New Hospital move to manage demand and ensure effective patient pathways are in place. These initiatives have provided the Trust with the capacity required for the medium term alongside a continued focus on improving productivity and efficiency.

Funding Analysis and Commissioning Intentions

Birmingham Cross City Clinical Commissioning Group is focused on the development of a number of areas as part of their medium term strategy, including a focus on older adults, dementia care, end of life care and the management of long term conditions and urgent care. CCGs will also be focused on implementing national directives such as those relating to digital health innovations that support integrated working and seven day working, as well as the redesign of Learning Disabilities services.

The Trust is actively involved in the local health economy discussions regarding implementation of the Better Care Fund (BCF). A material proportion of the fund is performance-related, with payments linked to progress against national metrics, such as delayed transfers of care and avoidable emergency admissions. The national metrics underpinning the Fund will be:

- Permanent admissions of older people (65 and over) to residential and care homes.
- Proportion of older people still at home 91 days after discharge from hospital into reablement / rehabilitation services.
- Delayed transfers of care from hospital.
- Permanent admissions of older people to residential and care homes.
- Avoidable emergency admissions.
- Patient / service user experience.

NHS England's commissioning intentions for 2014/15 continue to build on the changes already put in place in relation to the commissioning of prescribed specialised services, with an emphasis on addressing the strategic challenges faced by NHS England in delivering improved outcomes for patients within a fixed resource. The key areas of focus NHS England sets out in its strategic direction for 2014/15 and beyond are:

- Consistent patient access and prioritisation of services.
- A financial sustainability programme, including: non-tariff price standardisation, securing best value with regard to the procurement of high cost drugs and devices.

- Clinical sustainability, through monitoring compliance with specialised service specifications and service specific quality dashboards.
- Market reviews of all services to ensure there is appropriate capacity.
- Developing integrated care pathways between clinical commissioning groups, NHS England and other parts of the health economy.
- Ensuring consistent contract management across all area teams.

Competitor Analysis

The Trust operates in multiple economies from the local health economy in Birmingham, the wider West Midlands for specialised services up to the whole of the UK for some highly specialised services. Overall the Trust's excellent clinical reputation and attractive patient environment places it in a strong position.

Forecasted Activity and Revenue

The Trust plan assumes a level of continued annual growth as this is supported by demand forecast, allows the Trust to remain financially stable, and supports risk mitigation where there are reductions to education funding and national tariffs for clinical activity.

Alignment of Findings

As plans are finalised for UHB's main commissioners, Birmingham Cross City Clinical Commissioning Group and NHS England over the coming months, UHB will work with these organisations and other key stakeholders to ensure that there is alignment of strategic plans. There are mechanisms in place, notably the Unit of Planning through which this alignment will be discussed and agreed.

Strategic Options

The Trust has undertaken an analysis of external challenges, impact on service lines, and the resulting sustainability risks. This has led to assessment of a range of strategic options. The Trust has undertaken this assessment using the categories recommended by Monitor. These include service growth, shrink, merge, collaborate, and transform. The Trust has also assessed the options of sustain and acquire. This assessment included an analysis of the likely impact of each option on service lines, the broader health economy, and the local health economy/national support required for the proposed option.

Strategic Plans

Strategic Vision

The Trust undertakes a review of its vision, values, and core purposes each year as part of the annual planning exercise with the Board of Directors, Council of Governors, and Patient and Carer Councils. As part of the 2014/15 Trust Annual Plan development, these stakeholders considered the vision, values, and core purposes to still be fit for purpose. These therefore remain as follows:

Vision To deliver the best in care
Values Honesty, innovation, respect, and responsibility
Core Purpose 1 Clinical Quality
Strategic Aim 1 To deliver and be recognised for the highest levels of quality of care through the use of technology, information, and benchmarking
Core Purpose 2 Patient Experience
Strategic Aim 2 To ensure shared decision making and enhanced engagement with patients
Core Purpose 3 Workforce
Strategic Aim 3 To create a fit for purpose workforce for today and tomorrow
Core Purpose 4 Research and Innovation
Strategic Aim 4 To ensure UHB is recognised as a leader of research and innovation

The Trust will continue to work with partners and stakeholders to deliver the above.

Service Development Priorities

Based on the analysis undertaken, the Trust has identified key priorities for service development. As part of the Trust's routine processes each of these schemes will undergo business case development. This includes identification of key milestones, resourcing requirements, dependencies, and risk mitigation plans. In addition, the Trust is in the process of undertaking a strategy review exercise with each clinical service and corporate area as part of its 2 year refresh cycle. This final outcome of this process will be presented to the Board of Directors in March 2015 by when greater clarity on the NHS and commissioner strategies is anticipated. Key clinical strategic developments have been identified along with the underpinning strategies for quality, workforce and education, IT, research and development, and finance. The clinical strategic developments include integrated care, expansion of home care and community services, expansion of cancer services, improved delivery of urgent care services, and improved management of long term conditions

Performance Monitoring

Performance monitoring will be undertaken for the key developments via the Trust Annual Plan for which performance of delivery is reported to the Board of Directors and Council of Governors routinely. Specific project plans will be in place for such developments including responsibility and accountability, planned outcomes and performance indicators, and the

required governance and assurance for reporting progress with delivery in line with an agreed timetable. The Trust will also use its business case outcome review process for measuring successful delivery post implementation which is reported up to Executive Director level. Dashboards will also be implemented as required to allow ongoing monitoring. The Trust routinely undertakes horizon scanning and gathers external intelligence to understand changes across the local health economy and if new challenges emerge. These are then taken into account for any internal plans and priorities.

Financial Projections

The Trusts financial strategy during the 5 year period covered by this plan can be summarised as:

- To maintain financial performance that supports and enables the overall delivery of the Trust's strategic, operational and clinical quality plans.
- To achieve a Continuity of Services Risk rating of at least 2*.
- To return to recurrent surplus by continuing to reduce reliance on the non-recurrent PFI transition funding in line with or ahead of the planned trajectory.
- To achieve the planned increases in NHS clinical income, primarily through growth in specialised services.
- To maintain cost discipline and deliver the level of efficiency savings required to support the financial plan.
- To maintain a healthy cash balance to enable the necessary investment in capital assets and ensure that suppliers are paid promptly.

Years 1 and 2 of the Strategic Plan submission are consistent with the Operational Plan submitted to Monitor in April 2014. The financial projections over the five year period are summarised in the following table;

<i>£ million</i>	14/15	15/16	16/17	17/18	18/19
	<u>plan</u>	<u>plan</u>	<u>plan</u>	<u>plan</u>	<u>plan</u>
Operating Revenue within EBITDA	688.7	704.6	734.4	757.3	781.1
Operating Expenses within EBITDA	-643.7	-657.7	-687.2	-709.4	-732.4
EBITDA	45.0	46.9	47.2	47.9	48.7
Retained Profit (Loss)	3.0	16.2	3.5	3.7	3.9
<i>EBITDA Margin (%)</i>	6.53%	6.66%	6.43%	6.33%	6.23%
<i>COSRR</i>	2 / 2*	2 / 2*	2 / 2*	2 / 2*	2 / 2*

The financial projections for 2016/17 to 2018/19 have been produced on a “steady state” basis, largely reflecting a continuation of current trends. The high level assumptions include;

- Underlying income / activity growth is assumed to be 3% per annum due to a combination of demographic trends and market share increases.
- Net Tariff inflation of 2.4% in 2016/17 (including an estimated 1.4% for employer pension cost increases) and 1.0% in the 2 subsequent years. This assumes that the annual efficiency requirement falls to 2% from 2016/17 onwards.
- Education and PFI transition funding continuing to reduce year on year.
- The marginal cost of activity growth is assumed to increase year on year to reflect new stepped costs associated with opening capacity.
- Pay inflation is projected to be 2.5% per annum from 2016/17 onwards.
- RPI, on which the Unitary Payment is based, is forecast to increase by 2.5% per annum.

The financial projections indicate the Trust delivering surpluses of between £3.5m and £3.9m over the 3 years from 2016/17 to 2018/19. Cash balances are expected to reduce throughout the period as a consequence of the utilisation of PFI transition funding and capital expenditure slightly in excess of internally generated funds. Achievement of the plan would result in a Continuity of Services Risk Rating of 2 / 2* being maintained throughout the period.

All NHS providers’ Strategic Plans and financial projections for the five year period are inherently uncertain. Many the key drivers of income and costs for Trusts are determined by national policy or decisions made across the wider health economy and therefore these planning parameters are outside of the direct control of individual provider organisations to a far greater extent than in most industries. Key factors and uncertainties which impact on the preparation of the 5 year Strategic Plan include:

- The overall level of funding available to the NHS which has not been announced beyond 2015/16.
- National policy in terms of structure, priorities and commissioning aims. In particular the planned publication in 2015 of NHS England’s 5 Year Strategy for specialised services. This is designed to set out “how specialised services are best provided to improve patient experience and outcomes, against a backdrop of the financial challenges and rising demand”¹. Initial indications were that this strategy will lead to far greater concentration of specialised activity, potentially within “15 to 30 centres of excellence”². Activity commissioned by NHS England represents around 60% of the Trust’s healthcare income and therefore the future strategy is expected to have significant implications for the Trust. Recent interviews with the new Chief Executive of NHS England now indicate that the organisation’s ambition to concentrate specialised services may now change, that “more patients should be

¹ NHS England. “NHS England launches major exercise to shape the future of specialised services”. November 6th 2013

² National Health Executive “NHS England warns of need to centralise” July 2013

treated in their own communities” and that too much activity had already been centralised.

- Local commissioning plans and the publication of the Local Health Economy strategy which is currently under development by Birmingham CrossCity CCG, the Trust’s host CCG commissioner.
- Uncertainty regarding the potential impact of the Better Care Fund from 2015/16 and the implications of the recent Cabinet Office review.
- Changes to competition policy and regulation in the NHS which may lead to greater vertical and horizontal integration, more mergers and acquisitions and the development of hospital chains and franchise management models.
- The “significant changes” planned by Monitor to national tariff from 2015/16 which may fundamentally change the payment basis and value of income for each service line.
- Future Pay Awards which are set nationally for the vast majority of staff.
- The level of annual efficiency gain that is assumed with the national tariff.
- Education and research funding largely determined by national rules.
- Costs associated with national quality initiatives or addressing regulatory concerns for example the potential impact of any requirements to expand 7 day working.
- Any new drugs and technologies approved by NICE.
- The impact of continuing financial pressures on Local Authorities, which have resulted in funding cuts for community and social care packages, community beds and facilities thus in turn increasing the numbers of patients awaiting discharge from acute hospital beds.
- Any revision of the 2012 Health and Social Care Act or other significant policy or funding changes arising from the general election in May 2015.

All of these factors will have a significant bearing on NHS providers’ strategic plans. The reliability of long term financial projections will therefore largely be dependent upon the ability to forecast some of the parameters above with a reasonable degree of accuracy. It is recognised that the Trust’s 5 year strategy will need to be refreshed over the coming 12 months as more clarity emerges about the national strategy for specialised services and the CCG strategy for the local health economy.

As with any long term financial plan, there are a number of risks which could result in the actual financial performance being different to that projected. Key financial risks not built into the plan include;

- Commissioner Affordability – the exercise to align commissioner and provider 5 year plans across the local health economy has not been concluded. The Trust operates

in a range of health economies providing local, regional and national services meaning no single commissioner has full sight of the range of activity and service developments in the Trust.

- National Tariff efficiencies – a greater tariff efficiency than assumed in the Trust's financial plan will result in higher levels of CIP which may be unachievable.
- National tariff changes 2015/16 – Monitor have indicated that they may make significant changes to the national tariff in 2015/16. This may impact adversely on the Trust although may also be an advantage if specialist work is better recognised and rewarded.
- Better Care Fund – details are still emerging as to the implications of this scheme and the risks associated with continuing unplanned additional activity.
- Delivery of CIP's – as above, delivery of CIP's is becoming increasingly difficult year on year in context of the quality agenda.
- Delivery of planned income / activity growth
- Achievement of CQUIN targets and not incurring contract penalties.
- Loss of services - more services will be subject to Any Qualified Provider (AQP) or other tender mechanisms. This presents both a risk and potentially an upside depending which elements of the contracts the Trust secures in future years.
- Inflation – the financial impact of RPI inflation continuing to run ahead of funding increases and the assumptions within the Trust's plan.
- National Quality Initiatives – the Trust is continuing to invest in service quality, however the financial plan does not include the potential impact of new national policies such as minimum staffing levels or increased 7 day a week or 24/7 working.

The Trust has a good record of achieving its financial plans and maintains a long term financial plan which is updated each year and reviewed by the Audit Committee. This contains an overview of the mitigating options available to offset any potential downturn in financial performance. There are a broad range of mitigating actions available to the Trust including short term cost controls, sale of assets and utilisation of non-recurring funding which are no built into the this baseline financial plan.