Methodology and Key Assumptions

The Trust team has worked with Deloitte to populate the NHSI Long Term Financial Model to produce the Financial Case outputs. The April 2019 NHSI 19/20 plan submission has been used as the base year with forward assumptions based on National and local circumstances being used to produce a forward 10 year outlook

- The 2019/20 activity and financial plan has been contractually agreed by commissioners and is used as the base year for the Long Term Financial Model ('LTFM');
- Forward assumptions are based on National growth assumptions. Activity projections are consistent with Right Care Right Here strategies (showing a similar trend to those in the Midland Met FBC 2015);
- The £358m PDC drawdown has been modelled in line with the construction programme. A continuation of drawdown of PDC is defined to conclude the Early Works Programme and enable the Reconfiguration of services consistent with the approved 4th wave STP Capital Investment Bid;
- The Trust's capital investment programme beyond Midland Met has been fully costed and reflected into the LTFM (detailed profile to 2023/24, indicative assumption thereafter);
- Steady state (2022/23) Hard FM costs are modelled at £8.9m, rise of £3.9m on current base costs. This 'high' benchmark compares with an expected 'medium' benchmark of £8.3m being achieved in procurement, providing a degree of headroom;
- The Trust has agreed non-recurrent 'taper relief support' during the construction of Midland Met;
- In addition it is assumed the Trust will receive additional Financial Recovery Fund support to mitigate the I&E and cash implications of PDC until Midland Met is impaired in 2022/23 once it becomes operational;
- The impairment assessment has remained consistent with the OBC assumption. Sensitivities will be modelled against that assumption.
- The Trust remains committed to making significant savings in order to enable further investment in strategic areas; CIPs are assumed at a minimum of 1.1% of expenditure.

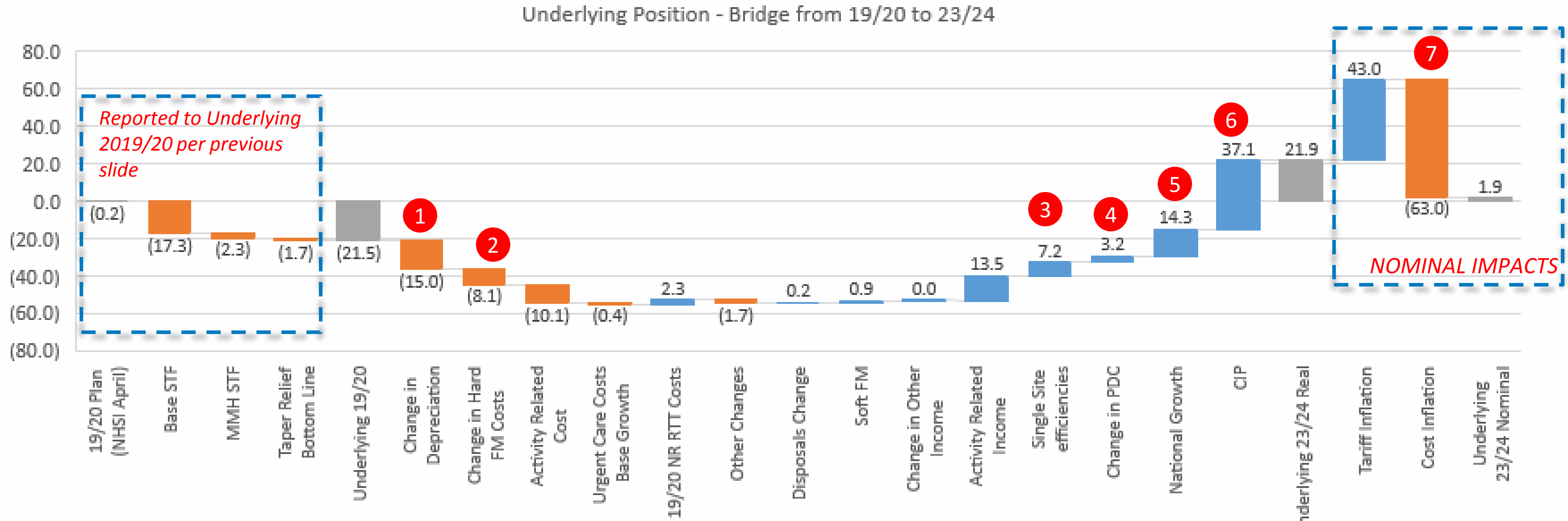
Key Messages and Outputs

The Financial outputs indicate the Trust is able to afford the implications of the £358m public capital investment in Midland Met, returning to an underlying break even position <u>and</u> being able to provide an investment in community/primary care by 2022/23

- As per the Outline Business Case, the Trust is able to afford the implications of £358m of public capital being invested in the completion of the Midland Met;
- The LTFM demonstrates that the Trust will achieve minimum of breakeven for its control total throughout the 10 year horizon and the Trust will not be reliant on non-PDC related Financial Recovery Fund support beyond 2020/21. The Trust will continue to receive FRF for PDC until 2022/23;
- There is no detrimental impact to the Trust's Financial Risk Rating of 3, per the 2019/20 plan, throughout the 10 year period
- Modelled a net WTE reduction of 221 by 2023/24
- The efficiencies enabled by this investment mean that the Trust's clinical operating costs are no higher than they would have been without the Midland Met.
- The Trust is returning to an underlying break-even position by 2020/21 (excluding impact of PDC dividend relating to Midland Met)
- In addition the Trust will generate a recurrent Midland Met 'dividend' of £9m for investment in community and primary care (modelled from 2022/23)
- Cash levels are impacted during the construction period of Midland Met however once operational the Trust will re-build its cash levels to around £50m
- Sensitivity analysis work is currently being undertaken into the following key areas:
    - Higher Capital cost of Midland Met
    - Lower impairment value
    - Less beneficial national assumptions regarding growth and efficiency
    - West Birmingham variant implications

I&E Real Position Bridge

The real normalised deficit is worsened by the a £15m depreciation pressure from the Trust capital investment programme (beyond Midland Met) and increased FM costs (£8m) but this is offset by 23/24 by reduced PDC dividend as a result of the Impairment, CIPs, RCRH strategies and contribution from National Growth



1. Combination of step in depreciation as a result of spend on short life assets in first 3 years and investment in retained asset
2. Additional cost of Hard FM as a result of increased FM requirements
3. Benefit as a result of Right Care Right Here assumptions
4. The Trust spends £380m during period to 23/24 increasing PDC dividend by £13m which is then offset by the impairment of £566m. Element of thi impairment is to donated asset so net benefit to Trust is c£3m.
5. Benefit of national growth assumptions (25% margin), additional £50m income resulting in £13m
6. CIP of 3.5% (20/21), 2% (21/22) 1.1% per annum thereafter. This excludes single acute site efficiencies.
7. Cost inflation is in excess of Tariff therefore additional CIP is required to achieve a breakeven position on a nominal basis (see next slide)

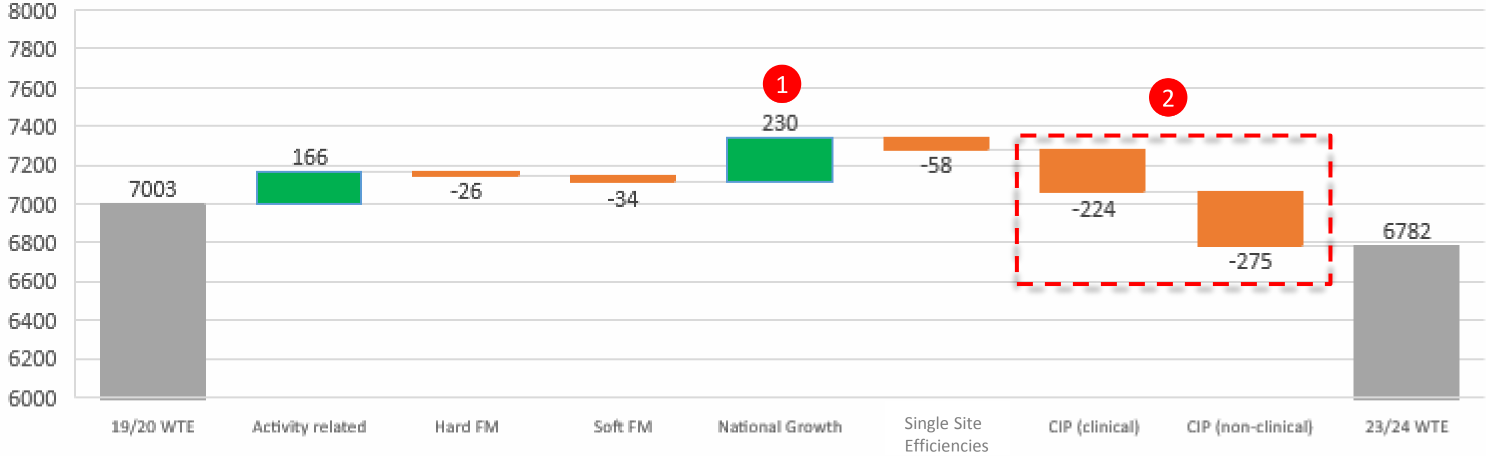
right care right here

Where EVERYONE Matters

WTE

There is forecast decrease in WTEs of around 221 by 2023/24. The reduction is focussed on non-clinical staff through improved productivity enabling significant investment in additional patient facing roles.

	19/20	20/21	21/22	22/23	23/24
Non-Medical - Clinical Staff	4,795	4,698	4,664	4,714	4,705
Medical and Dental	963	963	972	990	976
Non-Medical - Non-Clinical Staff	1,244	1,171	1,149	1,067	1,102
Total Staff	**7,003**	**6,831**	**6,784**	**6,771**	**6,782**



1 This represents new clinical posts generated through increased (National Growth) assumed funding including the investment of 46 intermediate care beds at Sandwell

2 Total of 499 reduction. Indicative impact of CIP reductions on workforce targeting non-clinical

Forward Assumptions

Forward assumptions are based on National growth assumptions.

	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28
					Income				
Elective income		5.4%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Non-elective income		5.4%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
First Outpatient income		5.4%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Follow up Outpatient income		5.4%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
A&E income		5.4%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
High cost drugs income from commissioners (excluding pass-through costs)		8.7%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Other NHS clinical income		5.4%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Pay - Substantive/Bank		8.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Pay - Agency		4.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Drugs		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Other Costs		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

- 19/20 data has been provided on a nominal basis meaning that no inflation is modelled in the LTFM for that year

Income:

- Clinical income in future years has been modelled according to NHSI 19/20 Planning Guidance with no inflation assumptions on other cinome
- 20/21 has an uplift across the clinical income lines to increase the total clinical income by £13.1m to account for an agreed pension increase funded by DH

Expenditure

- To mirror the pension income uplift, the uplift of expenditure has been applied across only the substantive pay lines
- Beyond that pay inflation has been adjusted to 1.5% (2.5% with incremental drift), to account for the end of the 3 year pay deal