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Dear Matthew,

3Ts Full Business Case: Commissioner Support

I write further to our correspondence over the last six months regarding commissioner support to the Full Business Case for the BSUH 3Ts redevelopment.

Strategic Support

We would like to take this opportunity to reiterate our support for the 3Ts programme, which will address the urgent and pressing clinical service needs to redevelop the estate at Brighton. NHS England recognises that 3Ts is an important and key enabler to the future architecture of the NHS in Sussex.

Transitional Funding

As previously confirmed to you NHS England confirms its intention to provide transitional funding of £12.2m by 2020/21 in the following profile.

Table 1 - Transitional Funding

13/14	*14/15*
£'000	*£'000*
2,487	*2,468*

15/16	**16/17**	**17/18**	**18/19**	**19/20**	**Total**
£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
1,369	1,301	1,346	1,543	1,706	7,265

This is consistent with the level of funding committed by organisations prior to the implementation of the Health and Social Care Act in 2013 and with the funding

requested by the Trust between 2015/16 and 2019/20. We cannot at this stage confirm funding for periods beyond 2019/20; however it should be noted that NHS England has already provided additional funding above that set out in the FBC during the years 2013/14 and 2014/15 (see relevant columns in Table 1 above).

BSUH and Commissioner Collaboration on New Models of Care

In recognition of this transitional funding and commissioner support as well as acknowledging the health economy financial challenges, your organisation has confirmed to us that it will work openly and flexibly with commissioners to implement any model of care and care pathway changes deemed appropriate as we move to implement the Five Year Forward View. You have also agreed to work collaboratively to share space with alternative providers of care should they be successful in securing contracts for services and/or to mitigate any financial pressure that the development may create.

Commissioner and Provider Alignment

I can confirm that we are now satisfied that there is good alignment between the income and activity assumptions of the Trust and its commissioners. This alignment is, however, not without risk to both Commissioners and Providers.

In particular the Trust is assuming:

1) significant levels of activity repatriation funded through activity contracts under Payment by Results;
2) full achievement of CQUINs;
3) delivery by the Trust of additional waiting list activity;
4) reinvestment of fines and penalties levied due to performance failures;
5) no reduction in activity as a result of the implementation of the MSK triage service.

The annual values of these differences are set out in Table 2 below, and the Trust should note the following:

1) The Trust will bear the risk of activity repatriation, and if this does not materialise through patient choice then income levels will be lower. Furthermore, it should

be noted that the Commissioners cannot guarantee income levels from activity that may reduce as a result of patient choice.

2) It is unlikely that the Trust will receive 100% of its CQUIN entitlement without incurring additional cost to achieve this.
3) Capacity issues at the Trust have prevented it from delivering the RTT standard. There is therefore a significant risk that the Trust will not have the capacity to deliver RTT waiting time reductions, and funding for this, while provided for by the Commissioner, will need to be paid to the provider that delivers the activity, whether or not this is BSUH.
4) Fines and penalties will be levied on the Trust to the extent that they are warranted. It may be that these fines are reinvested in the Trust, but in the event that they are, it is likely that additional cost will need to be incurred by the Trust in order to improve its performance.
5) Lastly, the introduction of the MSK triage service is likely to have an impact on activity flows through the Trust. While the risk will sit with the Commissioners, if activity continues to flow through the Trust, it is unfortunate that the Trust has chosen not to reflect the Commissioner QIPP assumptions in its model.

With the exception of the MSK triage service impact, the above factors do not undermine the alignment of assumptions between the Trust and Commissioners; however the model does not currently reflect the risk and associated costs that may be associated with the above assumptions.

Table 2 – Summary of commissioner alignment

BSUH Income vs Commissioner Expenditure	FY15 £'m	FY16 £'m	FY17 £'m	FY18 £'m	FY19 £'m	FY20 £'m	FY21 £'m	FY22 £'m	FY23 £'m	FY24 £'m	FY25 £'m
BSUH Income	439.5	435.4	446.8	451.4	454.7	461.6	472.1	477.8	484.3	491.6	496.1
Commissioner Expenditure	430.8	416.5	433.1	438.9	444.9	450.8	456.7	462.6	468.5	474.4	480.3
Difference	**8.7**	**19.0**	**13.7**	**12.5**	**9.9**	**10.9**	**15.4**	**15.2**	**15.8**	**17.2**	**15.7**
RTT held centrally		-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4
50% CQUIN held centrally by CCG		-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
Commissioned service developments (in year CVs)		-6.8									
Service developments - repatriation*		0.0	-1.1	-3.1	-4.1	-6.0	-10.4	-11.2	-12.5	-14.3	-14.3
Balance after repatriation	**8.7**	**4.9**	**5.3**	**2.1**	**-1.5**	**-2.4**	**-2.2**	**-3.2**	**-4.0**	**-4.4**	**-5.8**
MSK contribution to gap		4.8	4.8	4.8	4.9	4.7	4.5	4.3	4.1	3.9	3.7

+ve BSUH income > Commissioner expenditure

* Repatriation of activity should have zero impact to the Commissioner

Business Case and Do Nothing Option

We remain concerned that the Full Business Case presented by the Trust will be extremely challenging to deliver. The Trust has an underlying financial gap of c. £19.2m (4%) in 2015/16. The 3Ts development is estimated to increase the recurrent pressure on a gross basis by approximately £25m (5%) over the next 10 years. Together, these will require the Trust to deliver efficiency savings of 10% over and above the national efficiency requirement implicit in tariff and non-tariff developments over this time period. This efficiency requirement is higher in the early years as the Trust seeks to address the underlying deficit position.

At this point in time the Trust has not been able to provide us with a robust articulation of how it will achieve these additional efficiency gains or a robust demonstration that the 3Ts development is the "least worst" financial option.

At a high level, the Trust has identified potential savings of £11m (2%) that could be generated from consolidation and disposal of surplus estate resulting from the 3Ts development. However, these savings have not been supported by robust analysis or evidence. This would leave a net annual pressure arising from the 3Ts development of approximately 3%. This is clearly not an acceptable position. Currently the Business Case does not articulate any improvement in efficiency as a result of the investment in the redevelopment. We would expect the Trust should be able to realise significant efficiencies from the redevelopment including:

- Energy efficiencies through BREEAM compliant buildings;
- Improved patient flow resulting in reduced number of patient moves;
- Theatre productivity;
- Improved floor space utilisation;
- Outpatient productivities from consultant to nurse led where appropriate;
- Improved diagnostics and medicines management;
- Reductions in length of stay to best in class;
- Improved day case rates to best in class.

The evidence that supports the conclusion that the 3Ts development is the "least worst" option is simply predicated on the assumption that the continued deterioration

of the condition of the estate would result in the need to close capacity, with a resultant loss of income and margin that more than offsets the net pressure that the development will create. We do not regard this as a robust counterfactual.

We consider that the Board should require that significant further work be done on developing the full CIPs and efficiencies that the development will both require and enable, in order to demonstrate value for money, support the benefits realisation of the CIP programme and underpin its decision to proceed with sufficient confidence on the affordability of the programme. We would also recommend that downside modelling is performed, incorporating the risks highlighted in the income assumptions noted above, as there is significant risk in the base case, and the Trust would benefit from identifying suitable mitigating actions. We would recommend that these actions should be completed within 3 months and reported to the TDA and us.

One final note on operational matters. At the Risk Summit regarding Brighton and Sussex University Hospitals NHS Trust on the 8th July 2015 it was noted it will be essential to address the issues of patient flow and basic operational performance prior to the new capital scheme commencing. In addition it is clear that immediate action is required to resolve the historical issues of poor performance in delivering constitutional standards which will not in themselves be addressed by the scheme.

We are supportive of the case overall and recognise that the 3Ts development is necessary to secure safe and sustainable clinical services. We are therefore confirming through this letter our support to the development. We understand that the case will be considered at the following Board meeting of the TDA, and that the recommendations we have made above will be included in conditions placed on the Trust in supporting the case.

Thank you for your cooperation with our team, and we wish you every success with the redevelopment.

Yours sincerely,

Paul Baumann, Chief Financial Officer