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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS

HELD ON 18th MARCH 2015

Subject	Finance Report
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Status[1]	N

PURPOSE OF THE REPORT

To provide the Board with an update on key financial issues.

KEY POINTS

1. There was a deterioration in the Month 10 financial position given the difficult operational environment but the outturn position is still expected to be satisfactory.
2. There are now just a small number of key variables which will determine the ultimate 2014/15 outturn position.
3. Work continues to identify further significant efficiency savings for 2015/16 but the Trust's 2015/16 financial position is still looking extremely difficult given the latest developments on the 2015/16 National Tariff Payment System arrangements.
4. However, along with other major providers of specialised services, the Trust is continuing to seek more appropriate funding arrangements.

IMPLICATIONS[2]

AIM OF THE STHFT CORPORATE STRATEGY 2012-2017		TICK AS APPROPRIATE
1	Deliver the Best Clinical Outcomes	
2	Provide Patient Centred Services	
3	Employ Caring and Cared for Staff	
4	Spend Public Money Wisely	√
5	Deliver Excellent Research, Education & Innovation	

RECOMMENDATIONS

As per Section 4 of the report.

APPROVAL PROCESS

Meeting	Date	Approved Y/N

[1] Status: A = Approval
A* = Approval & Requiring Board Approval
D = Debate
N = Note

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

BOARD OF DIRECTORS MEETING 18th MARCH 2015

FINANCE REPORT

1. Introduction

This paper is to provide the Board with an update on key financial issues.

2. 2014/15 Trust Financial Position – Month 10

2.1 The Month 10 position is a deficit against plan of £727.2k which is 0.09% of the budget to-date. The operating position deteriorated by £1.18m in January to a £7.4m (1.0%) deficit but the further release of uncommitted contingencies (£8m full year and £6.7m year-to-date) resulted in the bottom-line position deteriorating by £0.52m from the Month 9 position. This reflects the difficult operational environment in January but is not expected to prevent a satisfactory outturn position.

2.2 There was a reduced over-performance against the Trust's activity plan to £3.6m at Month 10. Of this, £2.1m relates to sub-contracted elective activity and the position is before £1.7m of expected contract penalties, largely for access targets. The reduced level of over-performance is due to a number of adjustments, e.g. the impact of contract challenges and top-up payments on additional elective activity, which had previously been anticipated but now formally actioned. The level of penalties, whilst still a concern, is reduced following commissioners' agreement to waive/reinvest some of the charges. There is currently a small under-performance on elective activity with significant over-performances on non-elective, outpatients and other activity.

2.3 Of the 33 Directorates, 13 reported a break-even/surplus position, 4 reported a small deficit of less than 2% of budget to-date and 16 reported more significant deficits. This is a slight deterioration from last month. The main concerns remain Geriatric and Stroke Medicine; Gastroenterology; Operating Services, Critical Care and Anaesthesia; Obstetrics, Gynaecology and Neonatology; Vascular Services; General Surgery; and Orthopaedics. In total these 7 Directorates are reporting deficits of £8m worse than plan at Month 10. The positions on Communicable Diseases/Specialised Medicine and Specialised Cancer Services are now also of concern. Work continues to try to address Directorate financial issues but this remains hugely challenging given the further requirement for efficiency savings each year in addition to the recovery of budget imbalances.

2.4 Directorates have reported an under-delivery of £4.4m (19.0%) against their efficiency plans at Month 10 which, along with unidentified efficiency savings requirements, is clearly a significant factor in the deficit position. The forecast outturns show a £4.6m shortfall in total. The overall pay position is now 0.2% overspent with the major issues on Medical and Dental and Administrative and Clerical. Agency costs are a major factor in both areas and in general such costs are significantly higher than in the same period in 2013/14. A significant part of this relates to vacancies and the Trust's IT Programme.

2.5 There are no issues of concern regarding the Trust's balance sheet, working capital or Capital Programme positions at this stage, although the level of slippage on the Capital Programme is disappointing.

2.6 The key financial management actions remain to drive the Efficiency Programme; to progress the work with financially challenged Directorates and secure good general financial performance; to contain operational and cost pressures; to manage contractual issues and deliver contract targets; to deliver CQUIN schemes; and to maximise contingencies. The ability to maintain elective activity levels through the winter, the ultimate level of CQUIN income received and the success or otherwise in securing an "Infrastructure Payment" from NHS England to compensate for inadequate tariffs for the Trust's most complex work appear to be the key variables in the ultimate outturn position.

3. 2015/16 Financial Planning

3.1 Internal financial planning for 2015/16 has continued with Directorates working towards 3rd Cut Plans to be submitted towards the end of March. Efficiency plan development is being supported in a variety of ways including input from the Service Improvement Team, "Confirm and Challenge" sessions, Efficiency Programme projects and a small amount of external consultancy. Modelling of activity requirements, which is crucial for service and financial planning, is largely complete and shows a further significant increase in workload for the Trust in 2015/16.

3.2 There is still some uncertainty about the 2015/16 Tariff Payment System arrangements. As 75% of providers (measured by share of supply) formally objected to the proposed 2015/16 tariffs, Monitor is legally required to reassess the position. However, on 18th February 2015 Monitor/NHS England issued a letter offering providers a "voluntary tariff" called the Enhanced Tariff Option (ETO). This reduces the 3.8% National Efficiency Target to 3.5%, increases the 50% marginal payment for specialised services growth to 70% and increases the 50% marginal rate for emergency activity over threshold to 70%. The level of funding for inflation and pressures was not changed. As an alternative, providers could opt for the Default Tariff Rollover (DTR) option of 2014/15 tariffs but this will be without the benefit of CQUIN funding. Providers were required to select their preferred option by 4th March 2015. Those not making a selection were told that they will automatically take the DTR option.

3.3 The Trust's assessment was that the ETO would reduce the significant income losses faced by just £8m. The DTR could be slightly better but there is still some uncertainty about the detail. Both options leave the Trust with a significant deficit. The Trust has therefore, along with a significant number of other major providers of specialised services within and outside of the Shelford Group, expressed its dissatisfaction with both options and asked for further consideration of the position.

4. Recommendations

The Board is asked to note:-

4.1 The Trust's Month 10 financial position and the key actions and issues which will determine the ultimate outturn position.

4.2 The challenge of delivering further significant efficiency savings in 2015/16; the serious threat to the Trust's 2015/16 financial position from the on-going issues relating to the 2015/16 Tariff Payment System arrangements.

Neil Priestley
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March 2015