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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

BOARD OF DIRECTORS 18 MAY 2011

2011/12 FINANCIAL PLAN UPDATE

1. Introduction

1.1 At its 16 May 2011 meeting the Board approved the 2011/12 Financial Plan. It was noted that the plan was dependent on achieving £36m of efficiency savings and reaching a satisfactory conclusion to contract negotiations with the main PCT commissioning consortium.

1.2 The Board also considered the Trust's 2011/12 P&E Plan at its March meeting. It was noted that potential savings of £30m, albeit with varying degrees of risk, had been identified against the £36m target and that further work was required to identify additional opportunities to achieve the target.

1.3 It was also noted at the March Board meeting that Directorates were due to submit their 3rd Cut 2011/12 Financial and P&E Plans on 31 March 2011 and that this would be crucial in identifying the robustness of plans to deliver the £36m savings required to balance budgets.

1.4 It was therefore agreed that a further report would be brought to the May meeting to update the Board on progress on the above issues, particularly in the light of the required submission of the 2011/12 Annual Plan to Monitor at the end of May.

2. Contract Negotiations

2.1 Progress on the 2011/12 contract negotiations has been understandably difficult given the major challenge of reconciling the NHS Sheffield intention to reduce spend at the Trust by £20m with the Trust's need to maintain financial resilience and to only agree to contractual terms it can deliver. The key issues have been:

- Technical issues around pricing, counting, etc.
- New rules on non-payment for emergency readmissions within 30 days.
- Activity/Waiting Lists required to deliver sustainable 18 Week RTT performance.
- The CQUIN scheme.
- The level of achievable QIPP savings and associated risk sharing arrangements.

2.2 Significant progress has been achieved over the last 2 to 3 weeks and broad agreement has now been reached as follows:

- All potential income changes in 2011/12 around pricing, counting, etc. will be neutralised, i.e. with no gain/loss to either party.
- The potential income loss to the Trust from the emergency readmissions within 30 days will be included in the neutralisation process above.
- Activity plans (before QIPP) which will deliver the 18 Weeks RTT Target sustainably resulting in a £1m reduction in activity for NHS Sheffield and a £5m increase in activity for other PCTs in the consortium.

- A CQUIN scheme which gives the Trust a good chance of achieving the full amount of potential income, with a guarantee of at least 95% funding, along with agreed quality improvements.
- Planned QIPP savings of £8.8m (approximately £5m non-elective, £3.3m elective and £0.5m drugs) to be reflected in the contract.
- £3m of urgent care investments along with £4m of QIPP savings from above in a 50:50 "risk share" for variances from plan (NHS Sheffield only).
- Variations around elective activity, the balance of non-elective activity and drugs to be the PCTs' risk.
- An agreement in principle that an appropriate amount of transition funding will be provided by NHS Sheffield if required.

2.3 The precise consequences of the above are still being calculated but it appears that there will be a net activity reduction of around £7.6m if activity is as per contract. A significant element of the activity reduction relates to general critical care volumes (£2.2m) which had not been delivered in previous years. The expectation is that the Trust will need to reduce capacity to offset the activity reductions but there will inevitably be some delays and some fixed costs which cannot be removed. There may also be some restructuring costs. However, it is worth noting that around £1.8m of the reduction is expected to be off-site Orthopaedics activity which has no hospital impact. It is also worth noting that the urgent care package referred to above is consistent with the Trust's aims in this area. The investment package should also enable the faster discharge of elderly medical patients which should improve the quality of the service and help the Trust make real efficiency savings from reduced length of stay.

2.4 In other respects the contract settlement is broadly neutral. However, it is also worth noting that within the overall settlement there is virtually no development funding. Whilst this is understandable in the current financial climate, this will further compound the Trust's financial challenges as such funding is often a means of defraying some cost/service pressures.

2.5 There is still considerable detail to be resolved in order to get to signed contracts but this will be progressed urgently over the coming weeks.

3. Directorate Financial Plans

3.1 Directorate 2011/12 Financial and P&E plans were submitted on 31 March 2011 and the overall position was a deficit of £8.4m. This largely ignored any activity changes resulting from the contract negotiations. The major deficit plans were in OSCCA, General Surgery and Orthopaedics but in total there were 17 Directorates with deficits. Further consideration of the risks in plans resulted in an assessment that the potential overall deficit could actually be around £12m.

3.2 Review meetings were then held with all clinical directorates during April and those with deficits were required to submit 4th Cut Plans on 4 May 2011. The overall deficit has reduced to £4.2m which is almost entirely in respect of the 3 Directorates referred to above. Whilst this shows what is potentially achievable, it is still felt prudent to assume that Directorate deficits could be as much as £12m as much of the improvement was anticipated in the above assessment and there is significant risk around some of the new proposals.

3.3 Work will continue with all Directorates on an on-going basis to drive improvement in financial and operational performance.

3.4 A meeting has also been held with the Associate Director of Finance for the Community Services Group to consider progress in converting the financial plan agreed as part of the TCS transfer process into budgets and in delivering planned QIPP savings. The overall position seems satisfactory with good progress on budget setting and management cost savings. Further work is required on the balance of the QIPP plan but, based on current knowledge, delivery of the Community Services financial plan seems likely.

4. Trust 2011/12 P&E Plan

4.1 The report submitted to the Board's March meeting showed potential schemes of £30m against the financial plan requirement of £36m. However, risk ratings were attached to each scheme suggesting that, based on knowledge at that time, the full £30m would be unlikely to be delivered. The summary spread sheet is attached to this report.

4.2 Directorate 3rd Cut P&E Plans showed savings of just over £28m but again a number of schemes had a significant level of risk attached to them.

4.3 The assessment of an overall £12m deficit for Directorates would assume P&E savings of around £24m which, given the risk associated with the figures in 4.1 and 4.2 above, appears realistic unless delivery of savings can be improved from recent levels. This clearly is the challenge facing the Trust.

4.4 In terms of progress from the position reported in March the key points are:

- Good progress on Phase 1 Bed Reductions, albeit with on-going operational pressures.
- Good progress on Theatre and Critical Care changes.
- A view that the potential for outpatient productivity savings is much greater than currently assumed but that a major project is required to achieve this.
- Only part of the proposed procurement savings are reflected in Directorate plans.
- Major doubt around the NHSLA Level 2 and R&D Business Unit schemes.
- Savings of £2m from the 2010/11 MARS scheme but will be a part-year effect in 2011/12 and some savings will accrue to other schemes, e.g. theatre changes, bed reductions and the single switchboard.
- Further progress in planning Phase 2 Bed Reductions relating to medical specialties but this remains heavily dependent on the package of investments referred to in 2.2 above and the ability to eradicate delayed transfers of care.
- Emerging proposals to transfer the Orthopaedics elective arthroplasty service to the Royal Hallamshire Hospital to reduce cancelled operations and to enable empty wards at the Northern General Hospital to be used as medicine expansion/escalation beds in times of pressure. This latter point is crucial to ensuring other NGH services do not suffer from medicine bed pressures. The feasibility of making these changes in August 2011 is under consideration but the potential to improve efficiency, quality and operational resilience in many areas appears considerable.
- A recognition that potential operational/efficiency savings from the integration of community services has yet to be quantified and reflected.

4.5 In order to improve delivery of P&E savings potential it is likely that the Trust will secure the services of an external consultancy to work alongside it over a period of up to 2 years. It is hoped that the arrangements will be in place by June 2011. Particular areas to focus consultancy time on may well include outpatients; medicine length of stay; a review of M&S expenditure; support to specific Directorates; A&C processes and the benefits arising from the community services integration. The Trust is also considering whether it would be appropriate to secure some additional internal project management capacity to supplement the expertise of the appointed consultancy.

4.6 It goes without saying that the work on P&E needs to reflect the on-going requirement for future years as well as the immediate issues for 2011/12.

5. Other Financial Plan Changes

5.1 The Trust has still not received any formal communication from the Health Authority on the 2011/12 MPET contract. However, informal discussions have suggested that much of the £1.2m provision for income losses in the financial plan may not be required in 2011/12.

5.2 A reassessment of the capital charges position for 2011/12 has reduced the cost pressure by £0.7m from that assumed in the financial plan.

5.3 The CQUIN funding guarantee referred to in 2.2 above provides the Trust with income of around £1m more than was assumed in the financial plan.

5.4 The actual cost of the AfC pay award is marginally higher than the financial plan assumption due to some unexpected changes to specific pay scales. This will be a commitment against the £1m Inflation Contingency.

5.5 The Trust has still to receive the recalculated CNST Premium following its challenge to the initial proposal. It is felt likely that the ultimate charge may be slightly higher than the financial plan provision and this will be a further charge against the Inflation Contingency.

5.6 The internal cost pressures list has yet to be formally signed-off by TEG given the on-going contractual uncertainty. There may be some further areas for discussion and some new service pressures to be considered within the overall £2m envelope.

6. Conclusions/Overview

6.1 A prudent assessment of the consequences of the 2011/12 contract negotiations and Directorate financial plans would suggest a potential shortfall of up to £17m compared to the financial plan. This can be reduced by:

- Improved delivery of potential P&E savings.
- Managing the consequences of activity reductions by quickly removing capacity and costs.
- Attracting additional activity from outside Sheffield to offset local activity reductions.

6.2 Whilst the Trust holds recurrent contingencies of around £17m, should this be required to offset the potential shortfall identified in 6.1 above there will be no

funding available to fund further pressures relating to consultancy costs, staff reduction costs, in-year contractual income losses and other unexpected costs/losses.

6.3 The potential £3m or so of gains in section 5 above offers some assistance and it is assumed that a further £2-3m of non-recurrent contingencies can be found in year. However, it is unclear whether this will be sufficient to cover the issues in 6.2 above.

6.4 Whilst the internal aim remains to deliver the £6.7m I&E surplus identified in the 2011/12 Financial Plan, it is suggested that the Monitor 2011/12 Annual Plan shows a reduced planned surplus for the following reasons:

- The potential pressure in the plan identified in 6.3 above.
- The need to ensure that the Monitor plan is delivered for Financial Risk Rating (FRR) and reputational reasons.

6.5 The financial templates for the Monitor Annual Plan submission will not be completed for another week or so such that the exact I&E surplus required to achieve a satisfactory FRR is not yet known. However, it is suggested that the plan should show an I&E surplus required to achieve a solid FRR of 3 and that this is likely to be around £3-4m.

7. Recommendations

The Board is asked to:

7.1 Note the updates to the Trust's 2011/12 Financial and P&E Plans as per sections 2, 3, 4 and 5 above.

7.2 Note the conclusions and overview in section 6 above.

7.3 Confirm that the Trust should declare to Monitor in the 2011/12 Annual Plan submission that it will achieve a FRR of 3 for the year.

7.4 Confirm that the Trust should submit a 2011/12 Financial Plan to Monitor which has a solid 3 FRR and that the I&E surplus within the plan should be that necessary to achieve this position.

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May 2011