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SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS

HELD ON 17th DECEMBER 2014

Subject	Finance Report
Supporting TEG Member	Neil Priestley
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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. The difficult national service/financial position in 2014/15.
2. The Trust's Month 7 financial position and the key actions and issues which will determine the ultimate outturn position.
3. The threats to the Trust's 2015/16 financial position from under-delivery of efficiency plans/unsatisfactory Directorate financial positions and the current proposals in the "2015/16 National Tariff Payment System: A Consultation Notice".

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 5 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 17th DECEMBER 2014

FINANCE REPORT

1. Introduction

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

2. 2014/15 National Financial Position

2.1 Quarter 2 financial results were published recently with the key points being:

- NHS Foundation Trusts combined deficit of £254m year to-date.
- Almost 80% of the Acute Foundation Trusts in deficit.
- NHS Trusts combined deficit of £376m year to-date.
- General under-achievement of efficiency savings requirements.

2.2 The forecast outturn position for NHS Trusts appears to be much better than the half year position would suggest is possible. This appears to be because the NHS Trust Development Authority is now allocating significant amounts of additional funding to NHS Trusts with large deficits.

2.3 Service pressures are also apparent nationally with the Foundation Trust sector in aggregate failing to deliver the A&E 4 Hour, 18 Week RTT Admitted and Cancer 62 Day Wait targets in Q2.

3. 2014/15 Trust Financial Position – Month 7

3.1 The Month 7 position is a deficit against plan of £387.0k which is 0.1% of the budget to-date. The operating position deteriorated by a further £0.7m in October to £5.0m (0.9%) but the further release of uncommitted contingencies (£8m full year and £4.6m year-to-date) has resulted in the bottom-line position being virtually unchanged from the Month 6 position.

3.2 There is an over-performance against the Trust's activity plan of £2.6m at Month 7, although £1.4m of this is sub-contracted activity and the position is before £2.3m of potential contract penalties, largely for access targets. The level of penalties is a concern, although commissioners may waive/reinvest some of the penalties and it is expected that performance on access targets will improve in the latter part of the year given action being taken. There are currently small under-performances on elective and critical care activity with small over-performances on non-elective, outpatients and other.

3.3 Of the 33 Directorates, 12 reported a break-even/surplus position, 4 reported a small deficit of less than 2% of budget to-date and 17 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 over £6m worse than plan at Month 7. Work continues to try to address their financial issues but this remains hugely challenging given the further requirement for efficiency savings each year in addition to the recovery of budget imbalances.

3.4 Directorates have reported an under-delivery of £2.9m (18.3%) against their efficiency plans at Month 7 which, along with unidentified efficiency savings requirements, is clearly a significant factor in the deficit position. The forecast outturns show a slightly improved position (14.3% under-delivery) but this must be considered high risk. The overall pay position is in balance. Agency costs are still significantly higher than in the same period in 2013/14, although a large part of this relates to the Trust's IT Programme.

3.5 There are no issues of concern regarding the Trust's balance sheet, working capital or Capital Programme positions at this stage. However, it should be noted that there was recently some press interest in the level of cash balances held by some (generally very large) Foundation Trusts, presumably in the context of the general financial challenges faced within the acute provider sector. The Trust was correctly identified as having balances of £76.2m at 31st March 2014. However, £20m of this is already committed in the Trust's (over-committed) Capital Plan and when other commitments, e.g. R&D funding, provisions, etc., are also taken into account the Trust had around £30m of uncommitted cash balances. This has been built up over the 10 years of being a Foundation Trust but still equates to just 11 days of Trust expenditure. However, it has always been felt necessary to have this level of financial resilience given the Trust's responsibilities to staff, patients and suppliers. Monitor's Continuity of Service Risk Rating also requires the Trust to have this level of working capital resilience.

3.6 The key on-going financial management actions remain to drive the Efficiency Programme; to progress the work with financially challenged Directorates and secure good general Directorate financial performance; to contain operational and cost pressures; to manage contractual issues and deliver contract targets; to deliver CQUIN schemes; and to maximise contingencies. Maintaining activity levels through winter and industrial action, minimising contract penalties and securing an "Infrastructure Payment" from NHS England to compensate for inadequate tariffs for the Trust's most complex work will be crucial to the ultimate outturn position.

4. 2015/16 Financial Planning

4.1 Internal financial planning for 2015/16 has continued with particular attention focussed on the challenge of attempting to deliver a further £30m of efficiency savings in 2015/16 if financial balance is to be achieved. Another key task currently underway is the modelling of likely activity requirements in 2015/16 which is crucial for financial and service plans.

4.2 However, there has also been considerable interest in recent national developments. On 26th November 2014 the "2015/16 National Tariff Payment System: A Consultation Notice" was issued by Monitor. Whilst there is a plethora of detail to understand the key points appear to be:

- A 3.8% National Efficiency Target (a marginal reduction on the 4% in previous years).
- An increase in the Marginal Rate Emergency Tariff from 30% to 50%.
- The introduction of a 50% marginal price for Specialised Services activity commissioned by NHS England over 2014/15 contract levels.

4.3 Whilst the first two points give a marginal improvement on the arrangements in 2014/15, they still create a major challenge given the difficult and deteriorating financial position faced by acute providers. However, the third point is a major concern and will particularly hit the major Teaching Centres. The impact for 2015/16 is still being assessed but based on the increase in activity in 2014/15 over 2013/14 levels, if this rule had been applied the Trust would have lost £5-10m of income it has received. This will not be tenable for 2015/16. It has been suggested that this proposal will give providers an incentive to control Specialised Services activity but it is unclear how this can be done in practice. This issue will need further national consideration given the potentially serious financial and service implications.

4.4 Subsequent to the issue of the Tariff Consultation above, it was announced via the Chancellor's Autumn Statement that an additional £1.95b of funding will be provided for the NHS in England in 2015/16. Of this £1.5b will be part of general spending routed via CCG and Specialised Services allocations; £0.2b will be used as a transformation fund for pump priming new models of care set out in the Five Year Forward View; and £0.25b will be used to expand and enhance primary and out of hospital care. It is unclear at this stage how the £1.5b will impact on the proposals in the Tariff Consultation document. However, the outcome will be critical to the Trust's financial position in 2015/16 as will the further business and contracting rules expected to be issued centrally later this month.

5. Recommendations

The Board is asked to note:-

5.1 The difficult national service/financial position in 2014/15.

5.2 The Trust's Month 7 financial position and the key actions and issues which will determine the ultimate outturn position.

5.3 The threats to the Trust's 2015/16 financial position from under-delivery of efficiency plans/unsatisfactory Directorate financial positions and the current proposals in the "2015/16 National Tariff Payment System: A Consultation Notice".

Neil Priestley
Director of Finance
December 2014