

## SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

### EXECUTIVE SUMMARY

#### REPORT TO THE BOARD OF DIRECTORS

HELD ON 21<sup>st</sup> JANUARY 2015

<b>Subject</b>	Finance Report
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<b>Status<sup>1</sup></b>	N

#### PURPOSE OF THE REPORT

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

#### KEY POINTS

1. There was a much improved Month 8 financial position driven by a significant activity over-performance.
2. There are still several key issues 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 looking extremely difficult given the current proposals in the "2015/16 National Tariff Payment System: A Consultation Notice", other national decisions and likely commissioner contracting positions.

#### IMPLICATIONS<sup>2</sup>

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

<sup>1</sup> Status: A = Approval  
A\* = Approval & Requiring Board Approval  
D = Debate  
N = Note

# **SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST**

## **BOARD OF DIRECTORS MEETING 21<sup>st</sup> JANUARY 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 8**

- 2.1 The Month 8 position is a surplus against plan of £686.1k which is 0.1% of the budget to-date. The operating position improved by £0.4m in November to a £4.6m (0.8%) deficit and the further release of uncommitted contingencies (£8m full year and £5.3m year-to-date) has resulted in the bottom-line position improving significantly from the Month 7 position. It remains to be seen whether the operating position improvement will be sustained.
- 2.2 There was an increased over-performance against the Trust's activity plan of £3.7m at Month 8, although £1.6m of this is sub-contracted activity and the position is before £2.4m 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 is currently a small under-performance on critical care activity with over-performances on elective, non-elective, outpatients and other.
- 2.3 Of the 33 Directorates, 12 reported a break-even/surplus position, 5 reported a small deficit of less than 2% of budget to-date and 16 reported more significant deficits. This is virtually unchanged 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 8, virtually unchanged from 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.
- 2.4 Directorates have reported an under-delivery of £3.6m (19.6%) against their efficiency plans at Month 8 which, along with unidentified efficiency savings requirements, is clearly a significant factor in the deficit position. The forecast outturns show a £5m shortfall in total. 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 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 likely level of slippage on the Capital Programme is disappointing.

- 2.6 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 the winter and on-going 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.

### **3. 2015/16 Financial Planning**

- 3.1 Internal financial planning for 2015/16 has continued with particular attention focussed on the challenge of delivering further significant efficiency savings in 2015/16. Directorate 2<sup>nd</sup> Cut Plans will be submitted at the end of January and this will be an important indicator of progress. Another key task is the modelling of activity requirements in 2015/16 which is crucial for service and financial planning.
- 3.2 Work has continued to understand the implications of the “2015/16 National Tariff Payment System: A Consultation Notice” and other information being released regarding 2015/16 financial arrangements. The final Tariff details, following the consultation process, are due to be issued towards the end of January. However, as currently described the position is extremely worrying with several developments which will adversely impact on the Trust’s income and make financial balance unlikely. These include:
- A 3.8% National Efficiency Target which equates to around £25m.
  - An unexpected loss of around £3m on the tariff movements, effectively on admitted care.
  - The introduction of a 50% marginal price for Specialised Services activity commissioned by NHS England over 2014/15 contract levels which will result in a loss of income currently estimated at around £8m.
  - A likely reduction in System Resilience funding of around £3m compared to the current year.
  - A further reduction of £2.6m on Undergraduate Medical Education funding (although £2m of this was expected).
  - An apparent failure still of tariffs to recognise the very high costs of treating the most complex patients in tertiary hospitals.
  - Potential further contracting losses given the apparent NHS England stance on a number of areas.
  - More penal contract penalties regarding performance targets, and rules prohibiting their reinvestment in the Trust.
- 3.3 Of particular concern is the apparent national policy of targeting the major Teaching Centres for the most significant income reductions. This is being challenged given the potentially serious financial and service implications.
- 3.4 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. The £1.5b has been

allocated to the NHS England Specialised Services budget; to increase spending on Primary Care and Mental Health; to provide some of the 2014/15 System Resilience funding in CCG baseline allocations; and to CCGs which receive allocations of less than their weighted capitation shares. This means that Sheffield CCG has received no additional funding, other than the System Resilience allocation, from the additional £1.95b.

#### **4. Recommendations**

The Board is asked to note:-

- 4.1 The Trust's much improved Month 8 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 and the serious threat to the Trust's 2015/16 financial position from the current proposals in the "2015/16 National Tariff Payment System: A Consultation Notice", other national decisions and likely commissioner contracting positions.

Neil Priestley  
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January 2015