

EXECUTIVE SUMMARY**REPORT TO THE BOARD OF DIRECTORS****HELD ON 18th JULY 2012**

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| Subject | Finance Report |
| Supporting TEG Member | Neil Priestley |
| Author | Neil Priestley |
| Status¹ | N |

PURPOSE OF THE REPORT

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

KEY POINTS

1. The Month 2 financial position is a small deficit against plan with a significant over performance on activity and an under delivery against Directorate efficiency plans.
2. However, there are a small number of Directorates with difficult financial positions for which plans need to be developed quickly to address their deficits over a sensible timescale.
3. The level of activity over performance is causing concerns for NHS Sheffield and the issues raised will need careful consideration and management.
4. The 2013/14 financial planning process will start shortly and will inevitably be very challenging.
5. The on-going challenge of delivering major efficiency savings whilst delivering key operational targets and coping with operational pressures will remain fundamental to the Trust's success in 2012/13 and also in 2013/14 when further significant savings will be required.

IMPLICATIONS²

| 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

The Board is asked to note the Month 2 financial position, the associated issues and the imminent commencement of the 2013/14 financial planning process.

APPROVAL PROCESS

| Meeting | Date | Approved Y/N |
|----------------|-------------|---------------------|
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¹ Status: A = Approval
A* = Approval & Requiring Board Approval
D = Debate
N = Note

² Against the five aims of the STHFT Corporate Strategy 2012-2017

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST
BOARD OF DIRECTORS 18th JULY 2012
FINANCE REPORT

1. 2012/13 FINANCIAL PLAN – MONITOR ANNUAL PLAN SUBMISSION

Monitor's assessment process for the Trust's 2012/13 Annual Plan submission is nearing completion. This has included a teleconference with the Chief Executive, Director of Finance, Deputy Medical Director and Trust Secretary. There were no major issues raised but Monitor sought additional information on areas such as the Efficiency Plan, 18 Weeks RTT target plans, C Diff performance, Community Services integration and relationships with commissioners. It was confirmed that the Trust's Annual Plan will not be subject to a Stage 2 Review. The Quarter 1 monitoring returns will be submitted on 31st July 2012.

2. 2012/13 FINANCIAL POSITION – MONTH 2

2.1 Month 2 is still relatively early in the financial year but, as expected, a considerable amount of further work has been undertaken since Month 1 to resolve issues and improve the robustness of financial information.

2.2 The Month 2 position is a deficit against plan of £330.0k which is 0.2% of budget to-date.

2.3 The reported activity position is an over-performance against the Trust's internal activity plan of £1.7m. This largely relates to non-elective and out-patient activity. However, issues have been identified in respect of failures to fully count "unwell babies" and some areas of critical care activity. An adjustment for this has been made in the overall financial position.

2.4 Of the 34 Directorates, 15 reported a break-even or surplus position, 9 reported small deficits of less than 2% of budget to-date and 10 reported more significant deficits. The Directorates causing most concern at Month 2 are Operating Services, Critical Care and Anaesthesia (OSSCA), Neurosciences, Vascular Services, General Surgery and Orthopaedics. In each case the Directorate was unable to produce a balanced financial plan for 2012/13 but the Month 2 position represents a further deterioration against plan. Work is now commencing with these 5 Directorates under the Trust's Performance Management Framework (PMF) with the aim of ensuring that the Directorates achieve their 2012/13 financial plans and then produce plans to return to financial balance in 2013/14 or, at the latest, 2014/15.

2.5 Directorates have reported an under-delivery of £927.9k (21.4%) against their Efficiency Plans which is clearly a key factor in the Month 2 position. The main areas of under-delivery relate to OSSCA £207.4k (pay savings and activity gains); Medical Imaging and Physics £105.4k (open access activity); Neurosciences £117.5k (activity from 2nd Gamma Knife and various cost reductions); Obstetrics, Gynaecology and Neonatology £103.5k (various cost reductions); and Orthopaedics £86.9k (on-site activity gains).

2.6 At Month 2 Directorates are forecasting to deliver £24.8m of efficiency savings in 2012/13. This is £0.5m more than their efficiency targets but £3.0m less than plans.

The main areas of forecast under-delivery against plan are in Emergency Care £0.8m (slippage on bed closure plans); OSCCA £1.4m (pay savings and activity gains); and Neurosciences £0.4m (activity from 2nd Gamma Knife).

2.7 The key financial risks for the 2012/13 remain the delivery of efficiency plans, handling operational pressures and managing contracting issues. On the latter point, NHS Sheffield has expressed concern at the level of Month 2 activity over performance, particularly the non-elective position. Analysis is on-going to understand the detail and discussions with NHS Sheffield will focus on these issues and potential actions.

2.8 Work is progressing well to identify potential contingencies and potential commitments against them. The net effect will ultimately be released to offset budget deficits and any other risks which materialise. The position looks satisfactory at this early stage of the financial year but the ultimate positions on CQUIN income and income losses relating to emergency readmissions within 30 days will have a major impact.

2.9 The quarterly review of the Capital Programme has shown no major issues compared to the position approved by the Board in April. However, there are a number of moderate pressures from increased schemes costs and the overall 5 Year Plan will remain under pressure unless additional resources are identified, e.g. from delivery of I&E surpluses.

2.10 There are no issues of concern at this stage regarding the Trust's Balance Sheet and Working Capital position.

3. 2013/14 FINANCIAL PLANNING

Work will commence shortly on the 2013/14 Financial Plan. This will be the third year of four where the NHS will receive minimal real terms growth and will be expected to deliver efficiency savings to fund growth in demand and quality improvements. A further level of significant efficiency savings is, therefore, inevitable but the precise value of the requirement will depend on key issues including the following:

- National Efficiency Target.
- CQUIN funding.
- Operating Framework rules, e.g. Emergency Readmissions within 30 days.
- Commissioner QIPP savings.
- MPET income losses.
- Work undertaken via the Shelford Group to seek additional funding for the more complex case-mix of activity undertaken by Teaching Hospitals.

4. CONCLUSIONS

4.1 Whilst it is still very early in the financial year, the Month 2 financial position is satisfactory.

4.2 However, a small number of Directorates continue to have very challenged financial positions and plans will need to be developed quickly under the PMF process to address their deficits over a sensible timescale.

4.3 The level of activity over-performance is causing considerable concern for NHS Sheffield and the resulting issues will need careful consideration and management.

4.4 The on-going challenge of delivering major efficiency savings whilst delivering key operational targets and coping with operational pressures will remain fundamental to the Trust's success in 2012/13 and in 2013/14 where the need for significant further efficiency savings appears inevitable.

5. RECOMMENDATION

The Board is asked to note the above and, in particular, the key issues arising from the 2012/13 Month 2 financial position.

Neil Priestley
Director of Finance
July 2012