

EXECUTIVE SUMMARY**REPORT TO THE BOARD OF DIRECTORS MEETING****HELD ON 21 SEPTEMBER 2011**

Subject	2011/12 Mid Year Financial Review
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PURPOSE OF THE REPORT

To consider the 2011/12 financial position and the key actions required to ensure future financial stability along with high quality services.

KEY POINTS

1. The overall 2011/12 financial position appears satisfactory at month 4 but there are a number of Directorates in difficulty due to the cumulative challenge of significant efficiency requirements over several years.
2. A further significant efficiency requirement is likely for 2012/13.
3. Arrangements to drive sustainable efficiency savings, a strong performance management system and successful contract negotiations are crucial to delivery of financial balance and high quality services.

IMPLICATIONS²

Achieve Clinical Excellence	Enabler
Be Patient Focused	Enabler
Engaged Staff	Enabler

RECOMMENDATIONS

1. To note the current 2011/12 financial position and the outlook for 2012/13.
2. To consider further actions and developments to systems for promoting efficiency savings, performance management and contract negotiation/ management to meet the growing financial challenges for the future.

APPROVAL PROCESS

Meeting	Presented	Approved	Date

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

BOARD OF DIRECTORS – 21 SEPTEMBER 2011

2011/12 MID-YEAR FINANCIAL REVIEW

1. INTRODUCTION

- 2.1 Given the financial environment facing the Trust in 2011/12 and beyond, it was felt that the Board should undertake a mid-year review of the 2011/12 financial position. In doing so, it is inevitable that there will be some consideration of the scenarios for 2012/13.
- 2.2 To assist the Board in its review this paper will consider:
- The 2011/12 financial position at month 4 as compared to the 2011/12 financial plan.
 - The financial scenarios for 2012/13.
 - The key issues and actions required to ensure a sustainable financial position.

2. 2011/12 FINANCIAL POSITION

- 2.3 In very simple terms the 2011/12 financial plan can be summarised as follows:
- An aim to deliver £36m of productivity and efficiency (P&E) savings to cover the 4% national efficiency requirement/expected MPET income losses (£23.5m) and underlying Directorate deficits brought forward from 2010/11 (around £12m).
 - A separate financial plan for Community Services which was balanced but required £1.9m of P&E savings.
 - Maintenance of the £6.7m planned surplus created in 2010/11.
 - Recurrent contingencies assessed as sufficient to cover the anticipated risks around non-delivery of P&E/Directorate overspends and the unmanageable consequences of net activity reductions.
 - The potential for further in-year gains to enable investment in P&E delivery support, workforce programmes, etc. and to cover any other unforeseen issues.
- 2.4 At 31 July 2011 (month 4) the position can be summarised as follows:
- A bottom-line deficit of £30.9k (0.0%) against plan.
 - Significant overspends across many Directorates (13 Red* and 6 Red rated).
 - Significant surpluses in Central Budgets/Income/Reserves with a further £3.3m of contingencies applied to the bottom-line.
 - Adequate remaining contingencies to address expected pressures.
 - A satisfactory working capital position.

3. FINANCIAL SCENARIO FOR 2012/13

- 3.1 Initial high level analysis has produced 3 scenarios for 2012/13 financial planning. Whilst there is little specific information available at this time, the scenarios suggest a new P&E requirement for 2012/13 of between £23m and £40m with the most likely scenario being around £30m. This would make the cumulative external P&E requirement over the 7 years from 2006/07 around £200m.

- 3.2 Clearly the new P&E requirement above does not include any further requirement arising from the need to address underlying Directorate deficits carried-forward into 2012/13.

4. KEY ISSUES AND ACTIONS

4.1 Directorate Deficits

A number of Directorate financial positions are clearly of concern. From the Month 4 P&E report the broad overall message is that Directorates may deliver the new P&E requirement for 2011/12 but are unlikely to make significant in-roads into the underlying deficits brought-forward. There are numerous individual issues behind the Directorate deficits but the key underlying issue is the challenge of delivering major P&E targets over several years (2011/12 is the sixth year of 5% P&E targets for most Directorates). The key issues in influencing Directorate performance are considered in the following sections.

4.2 Productivity and Efficiency Savings

- 4.2.1 It is self evident that the key to financial health in the current NHS financial environment is to continue to deliver high quality services whilst at the same time delivering major efficiency savings. The challenge is compounded by the likely very limited investment in the acute sector in the coming years and the broad aim to move activity out of hospital settings.
- 4.2.2 The Trust has run a corporate P&E programme (the Adding Value Programme and then the Service Improvement Programme) since 2006 and this has been crucial in the Trust's financial achievements over the last 6 years. Dedicated resources have been applied to the programmes and external support has been secured from time-to-time to give additional capacity, focus and expertise.
- 4.2.3 As the Board is aware, support is currently being targeted on 5 projects (Medicine Length of Stay, Outpatients, Medical and Surgical Expenditure, Workforce Systems and General Surgery) and an "Opportunity Search" process to help the Trust develop the 2012/13 corporate P&E plan and to help Directorates produce their individual P&E plans. The ongoing challenge remains to develop capability and capacity across all Directorates and disciplines across the organisation in the pursuit of delivering "more for less".
- 4.2.4 The key issue for the Trust is what more can it do to enhance its delivery of P&E and more fully engage all staff and functions in this requirement.

4.3 Performance Management and Review

- 4.3.1 Having a strong Performance Management and Review system is another important factor in optimising use of resources. Key outcomes should include good delivery of P&E; strong financial/budget management; engagement of clinicians and managers in delivering high quality, cost effective services; challenging the status quo; and providing support and assistance where appropriate to facilitate change.
- 4.3.2 The Trust has made several improvements to its performance management processes in recent years with better performance monitoring information;

Service Line Reporting information; the reinstatement of formal Directorate Review meetings; more frequent dialogue on performance; and targeted support.

- 4.3.3 However, another key issue for the Trust is how it further develops its Performance Management and Review processes and, in particular, how it drives improvement in Directorates where there is a chronic performance (usually financial) issue.

4.4 Contract Negotiations

- 4.4.1 Successful contract negotiations, set in the context of a reasonable set of national parameters, remains fundamental to the delivery of service and financial imperatives. With the taxing national efficiency target and potential MPET income losses, it is crucial that further income losses, whether from price changes, national rule changes or activity reductions, are minimal if the financial position is to be sustainable. However, the Trust clearly needs to play its part in the health community's need to prioritise limited resources and re-design care pathways to make them as efficient and effective as possible.
- 4.4.2 Reconciling these two positions is a major issue and the Trust and NHS Sheffield are developing a 2012/13 contract timetable and process which it is hoped will enable earlier consideration and resolution of the key issues.
- 4.4.3 The Trust is embarking on a Strategy refresh and a key consideration will be how the Trust approaches its partnerships and contract negotiations in the challenging years ahead.

5. CONCLUSIONS

- 5.1 The NHS financial environment is clearly extremely challenging and, whilst the overall Trust financial position is satisfactory in 2011/12, a number of the Trust's Directorates are in difficulty due to the cumulative challenge of major efficiency targets over several years.
- 5.2 The Trust is likely to have to deliver a further £30m of efficiency savings in 2012/13 which will be another major challenge.
- 5.3 Arrangements to drive sustainable efficiency savings, a strong performance management system and successful contract negotiations are crucial to delivery of financial balance and high quality services.
- 5.4 The Trust has been very successful in managing its service and financial challenges over the last decade and has many good processes in terms of its Adding Value/Service Improvement Programmes, the developing Performance Management processes and contract negotiation/management processes.
- 5.5 However, the growing financial challenge ahead means that further consideration of these issues is required to optimise performance in the future.

6. RECOMMENDATIONS

The Board of Directors is asked to:-

- 6.1 Note the current 2011/12 financial position and the outlook for 2012/13.

- 6.2 Consider further actions and developments to systems for promoting efficiency savings, performance management and contract negotiation/ management to meet the growing financial challenges for the future.

Neil Priestley
Director of Finance
September 2011