

EXECUTIVE SUMMARY**REPORT TO THE BOARD OF DIRECTORS****HELD ON 20th NOVEMBER 2013**

Subject	Finance Report
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Status¹	N

PURPOSE OF THE REPORT

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

KEY POINTS

1. The 2013/14 Integrated Sexual Health Services contract with Sheffield City Council is still not agreed. Formal contact from the Council is still awaited following discussions in early September.
2. The Month 6 financial position is a small deficit against plan reflecting a small further deterioration in the operating position in September offset by the planned release of uncommitted central contingencies.
3. The key on-going financial management actions are to drive the Efficiency Programme; to progress the Performance Management Framework work with financially challenged Directorates and secure good general Directorate financial performance; to contain operational and cost pressures; to manage contractual issues (particularly regarding potential contract penalties) and deliver contract targets; to deliver CQUIN schemes; and to maximise contingencies.
4. The local and national planning processes for 2014/15 are underway and information to-date is reinforcing the belief that it will be a very challenging year.
5. The Trust's position on Monitor's new financial risk rating is likely to be satisfactory in the short-term but will be significantly impacted by any material deterioration in the Trust's financial results.

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 key financial issues and, in particular, the current position against the 2013/14 Financial Plan, the key financial management actions required and the outlook for 2014/15.

APPROVAL PROCESS

Meeting	Date	Approved Y/N

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 20th NOVEMBER 2013

FINANCE REPORT

1. 2013/14 FINANCIAL PLAN

- 1.1 Contract negotiations with Sheffield City Council (SCC) regarding the Sexual Health service are still not concluded. The Trust has produced detailed plans which propose:-
- A new Integrated Sexual Health Service created from the previous community and hospital services.
 - Full year savings for 2014/15 of £0.6m cash and £1m real terms as required by SCC.
 - Half of the full-year savings in 2013/14 reflecting the on-going integration process.
 - A 3 year contract to enable a successful integration.

A meeting to consider the Trust's proposals was held in early September and SCC's formal response is still awaited. However, it is understood that SCC is now indicating that it is likely to go out to tender for the service for 2015/16 and is seeking additional savings in 2014/15.

2. 2013/14 FINANCIAL POSITION – MONTH 6

- 2.1 The Month 6 position is a deficit against plan of £595.9k (0.13%). The Operating Position deteriorated in September, albeit at a much reduced rate, to £6.1m (1.4%) and so remains considerably worse than plan. However, as planned, uncommitted centrally held contingencies have been released from Month 6 now that there is some certainty on their value and availability to support the financial position. As a result of this the net reported position at Month 6 is much improved but still slightly behind plan.
- 2.2 The activity position is an over-performance against the Trust's activity plan of £0.25m which is a reduction of £0.75 from month 5. Both elective and non-elective activity were behind plan in September. However, there remains a significant gross over-performance on non-elective activity (£2.1m), albeit that £1.2m of this is not received due to the national rules on the Marginal Emergency Tariff (MRET) and Emergency Readmissions within 30 days. There are also over-performances on Critical Care (£0.8m) and out-patients (£1.1m), with a significant under-performance on elective activity (£2.6m). The major commissioner over-performances still relate to NHS Sheffield (NHSS) and NHS England (NHSE) but there are under-performances for other CCGs.
- 2.3 Of the 33 Directorates, 14 reported a break-even/surplus position, 6 reported small deficits of less than 2% of budget to-date and 14 reported more significant deficits. The Directorates causing most concern continue to be Geriatric and Stroke Medicine; Gastroenterology; Operating Services, Critical Care and Anaesthesia; Obstetrics, Gynaecology and Neonatology; Cardiothoracic Services; General Surgery; Orthopaedics; and Urology.
- 2.4 Work continues with the most challenged Directorates under the Performance Management Framework (PMF) to seek improved financial performance. The initial positions of Neurosciences, Vascular Services and Specialised Cancer Services were positive but all three areas now have growing deficits. Work continues with the

relevant Directorates to identify and address barriers to enhanced efficiency and to seek improved management and governance arrangements. Addressing underlying deficits is immensely challenging given the requirement for significant further efficiency savings each year and it is clear that a step change in performance is necessary to address this growing risk to the Trust's financial position.

- 2.5 Directorates have reported an under-delivery of £2.9m (19.6%) against Efficiency Plans at Month 6 which is a further deterioration in month and a key factor in the overall deficit. There are many minor variances but it is clear that failure to achieve bed reductions and elective activity plans in the early part of the year, as a result of the on-going "winter pressures", was a key factor which was compounded by the lower than expected activity levels in August. Directorates are forecasting marginally improved performance for the rest of the year but again much will depend on the extent of disruption in the winter.
- 2.6 There are no issues of concern regarding the Trust's balance sheet, working capital or Capital Programme positions at this stage, although slippage on the Capital Programme is expected.
- 2.7 The key on-going financial management actions remain to drive the Efficiency Programme; to progress the PMF 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. Work continues to assess where the above actions can be developed further.
- 2.8 The key factors in determining the outturn position will be Directorate financial performance in the second half of the year; the Health and Social Care system's management of operational pressures during the "winter"; agreement with commissioners around the application and/or reinvestment of potential contract penalties; CQUIN scheme delivery; and the outcome of national discussions regarding a potential "infrastructure payment" to compensate the major tertiary centres for the failure of tariffs to adequately fund the most complex treatments.

3. PLANNING FOR 2014/15

- 3.1 The Trust's 2014/15 Financial Planning processes are now well underway and reflect the very challenging scenario identified in the Monitor/NHSE document "The 2014/15 National Tariff Payment System: A Consultation Notice". It is clear that the Trust will be required to deliver around £30m of further efficiency savings in 2014/15 given the 4% National Efficiency Target and Education and Training tariff income losses. First cut plans submitted by Directorates in early November only identified around £18m of efficiency savings.
- 3.2 The Trust's contract negotiations for 2014/15 are also now underway and timetables/arrangements have been developed with commissioners. As confirmed by the first cut plans, delivering the required efficiency savings will be hugely challenging in the context of the cumulative impact over several years, performance targets, quality standards and the financial challenges faced by commissioners and social care. It is absolutely clear that any further hits from contract negotiations, changed "business rules", new cost pressures, etc. will be impossible to handle on top of the 4% National Efficiency Target.

4. CONTINUITY OF SERVICES RISK RATING (COSRR)

- 4.1 With effect from Q3 2013/14 Monitor will be using a new financial risk rating called the COSRR when assessing the financial performance of Foundation Trusts. The new risk rating reflects Monitor's new responsibility to assess FTs' ability to provide key services (as designated by commissioners).
- 4.2 The COSRR has two metrics which consider Liquidity (the number of days of operating expenses which the FT's working capital balances represent) and Debt Cover (the number of times the Trust's annual debt commitments are covered by the I&E position). Each metric is scored from 1 (very high risk) to 4 (low risk) with the COSRR score being the average of the two rounded up.
- 4.3 On the basis of the shadow monitoring position for Q2 2013/14, the Trust's current COSRR is 4 but it is clear that this position will be very sensitive to any significant deterioration in the Trust's financial results.

5. CONCLUSIONS

- 5.1 The 2013/14 Integrated Sexual Health contract with SCC is still not concluded.
- 5.2 The Month 6 results show a further modest deterioration in the operating deficit against budgets but an overall improvement following the planned release of uncommitted contingencies. There are still a number of key factors which will have a material impact on the Trust's final 2013/14 financial results.
- 5.3 The local and national planning processes for 2014/15 are underway for what will inevitably be a very challenging year. The Trust's first cut plans have identified efficiency savings which are considerably less than the minimum which will be required.
- 5.4 The Trust's position on Monitor's new risk rating is likely to be satisfactory in the short-term but will be significantly impacted by any material deterioration in the Trust's financial results.

6. RECOMMENDATION

The Board is asked to note the key financial issues and, in particular, the current position against the 2013/14 Financial Plan, the key financial management actions required and the outlook for 2014/15.

Neil Priestley
Director of Finance
November 2013