| Paper ref: | TB (04/20) 013 |
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Sandwell and West Birmingham Hospitals NHS
NHS Trust

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| **Report Title** | Finance Plan – 2020/21 | | |
| **Sponsoring Executive** | Dinah McLannahan, Chief Finance Officer | | |
| **Report Author** | Dinah McLannahan, Chief Finance Officer | | |
| **Meeting** | Trust Board (Public) | **Date** | 2nd April 2020 |

## 1. Suggested discussion points *[two or three issues you consider the Trust Board should focus on]*

There are four main points for the Board to consider under this item;

1. The Trust will be setting budgets for 2021 as per previous plan papers, being an activity and income plan at full PbR prices and faithful to the Midland Met UH approved FBC. Expenditure budgets will be set at rollover less £18.5m of CIP.
2. The Trust is working to agree an acceptable 2021 contract baseline position, and then review any activity growth over and above that sum, including the patient impact of not delivering the full activity plan. A multi-year settlement remains a plausible route to securing income consistent with Midland Met UH FBC assumptions.
3. Covid-19 has materially impacted on the 2021 financial planning process. For the first four months of the financial year, the Trust will receive a block amount of income to cover baseline expenditure run rates, calculated by NHSM and based on 1920 returns. Any shortfall is topped up to achieve a break even position. There is a separate process to report Covid-19 related expenditure and there is a Trust governance process in place.
4. The capital programme remains as per previous submissions. The draft plan submission indicated no borrowing required to deliver the programme, but this was reliant on commissioner income some £10m higher than current offers.

## 2. Alignment to 2020 Vision *[indicate with an 'X' which Plan this paper supports]*

| | | | | | |
|---|---|---|---|---|---|
| Safety Plan | | Public Health Plan | | People Plan & Education Plan | x |
| Quality Plan | x | Research and Development | | Estates Plan | x |
| Financial Plan | x | Digital Plan | | Other *[specify in the paper]* | |

## 3. Previous consideration *[where has this paper been previously discussed?]*

PMC 24.3.20

## 4. Recommendation(s)

The Trust Board is asked to:

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| **a.** | Discuss the contents of the report |
| **b.** | Review the recommendations |

## 5. Impact *[indicate with an 'X' which governance initiatives this matter relates to and where shown elaborate]*

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|---|---|---|---|---|---|---|---|---|
| Trust Risk Register | x | 3688,3689 | | | | | | |
| Board Assurance Framework | x | SBAF 9, SBAF 10 | | | | | | |
| Equality Impact Assessment | Is this required? | Y | | N | x | If 'Y' date completed | | |
| Quality Impact Assessment | Is this required? | Y | | N | x | If 'Y' date completed | | |

# SANDWELL AND WEST BIRMINGHAM HOSPITALS NHS TRUST

## Report to Trust Board: 3rd April 2020

## Financial Plan – 2020/21

### 1. Introduction or background

1.1 Trust Board has previously considered the Trust's proposed 2021 plan, which outlined £18.5m of CIP. This is included at Appendix 1 as a reminder.

1.2 The operational impact of Covid-19 and the consequent NHS declaration of a Level 4 National Incident have resulted in the operational planning process for 2021 being effectively put on hold, currently for 4 months, until 31st July 2020. The response plans are set out in Appendix 2 – the Trust should ensure that it is addressing all areas in this letter appropriately.

1.3 Further guidance is being issued regularly by the centre; we are not yet clear what the implications for the financial improvement trajectory and FRF regime will be for 2021. Pursuant to further updates, the Trust may need to consider a significant change to budgets in year, but must set a budget based on what is known now.

### 2. Income and Activity Plans

2.1 Budgets will be loaded with the income and activity plans previously advised to Board, as these are those congruent with the Midland Met UH FBC income and activity plans. Clinical groups have been closely involved with designing the plans, and reflect adjustment for some of the challenges experienced in 2019/20 delivery. PMC has agreed to review these activity plans in detail at its April meeting, so that delivery and risk mitigation strategies are in place, and so that any potential competitive advantage opportunities post Covid-19 can be identified.

2.2 As previously advised to the Board, commissioner affordability challenges in the Black Country mean that initial offers were some £22m short of the Trust plan. Draft plan submissions that followed reflected close to the January BCWB STP submission following CEO and AO agreement, and this resulted in the commissioner expenditure expectation being only £12.5m lower than Trust income plans, arguably manageable and representing 2019/20 production plan under-performance.

2.3 Next steps include agreeing an acceptable contract baseline position for 2021 that reflects the unwind of 2019/20 arrangements and extant 2019/20 contractual agreement that specifically relate to 2021, e.g. depth of coding improvements. Reaching an agreeable position on this may be the key to avoiding arbitration. The Trust will then

work with commissioners to understand the impact of little or no activity growth on patients and waiting lists.

2.4 Ultimately, the only achievable satisfactory outcome may be to agree a multi-year agreement that achieves income values reflected in the LTFM over time. The Trust plans to write to commissioners in the near future setting out clearly all of the above elements to move negotiations forward.

## 3. Delivery of existing 2021 expenditure plans

3.1 Appendix 3 sets out the current directorate level view of 2021 plans, excluding Covid-19 and the 4 month interim budget. Our plan provided for investments and developments. The guidance states that no new revenue investments or developments can be made unless it relates to Covid-19. A review of the development list by the CEO and CFO has taken place and is in the process of being summarised. The vast majority of schemes are already approved and either in place now, or being implemented (mainly ED and PAU). Budget will be released subject to funding availability and taking account of cost commitment timing. We should remember that the CIP target was set at a level higher than necessary to balance the plan, to fund developments and reserves – delivery of CIP is therefore particularly important in this context.

3.2 Non-pay plans are being developed. Urgent work is required to close the gap on procurement, and to develop a detailed, visible plan on reducing spend on medicines.

3.3 In relation to pay, Groups are making good progress. The figures in Appendix 4 reflect a draft vacancy factor position. This has been adjusted to a consistent 1.6% of rollover budgets for clinical groups, and 1.9% for Corporate directorates. The wte indicated by this level of VF when set alongside the forecasted group wide vacancy positions at the end of March 2020 appear to suggest all groups have sufficient opportunity to deliver a VF at this level. Local approaches to meeting the overall targets are encouraged.

## 4. Covid-19 impact and governance process

4.1 There has been one payment on account made to cover the costs of Covid-19 related costs incurred so far this year, based on an assessment of returns submitted on 2nd March. The Trust made another return on 23rd March, and the level of expenditure appears comparable to BCWB neighbouring acute Trusts. Further costs for the 1920 financial year will be confirmed as part of the year end process. It is certain that the year-end process will be impacted by the outbreak also, which will impact on external audit, production of the Annual report, and AGM timings.

4.2 It is important that the governance around Covid-19 expenditure commitments is robust, whilst allowing quick decisions and commitments to be made. The Corporate GSFM has derived a financial impact assessment process. Decisions on operational responses and therefore committing cost are made at the daily tactical “Silver” command meetings, attended by the GSFM. The GSFM prepares a weekly finance report

for the COO, on Mondays. The report is then reviewed and ratified by the weekly strategic "Gold" command structure, and by the CEO. The Trust is putting in place a process to facilitate weekly review of those costs by the Chair of the Finance and Investment Committee.

4.3 Costs have been committed to respond to local circumstances and to national guidance issued. The Trust has been able to commit costs in relation to Covid-19 and remain within the approved plan and budget, using its reserves, but also knowing that there would be financial compensation provided. There has been no individual commitment of cost over and above those provided for in the Trust's Standing Financial Instructions Scheme of Delegation. Confirmation of funding for this now provides a certain funding source, and effectively constitutes a budget.

4.4 The Covid-19 arrangements provide for capital expenditure as part of the NHS response. Any modifications to existing estate must be complete within the expected duration of the outbreak to qualify, as for asset purchases. For approved expenditure, PDC will be allocated to Trusts, and there will be no dividend charged.

4.5 The Trust must continue to ensure it secures value for money whilst delivering an effective response, and must ensure record keeping meets the requirements of external audit, the public, and parliamentary scrutiny.

4.6 Going forward, the Trust will be required to report actual costs incurred on a monthly basis, and should maintain a rolling forecast of expected future expenditure from now until the end of the expected end of the peak outbreak.

## 5. Operational Planning 2021

5.1 The centre has worked to delay and simplify planning and regulatory requirements for 4 months to allow the NHS to respond effectively to the outbreak, and to cope. The operational planning process for 2021 has been suspended, and replaced with a "standstill" period until 31st July 2020.

5.2 Providers can expect a guaranteed minimum level of income by way of a block contract to cover the period 1st April -31st July. There will be no activity growth assumed. The value will be calculated by income in 1920 returns submitted. The Trust's monthly cost base will be estimated also using 1920 returns. The main risk identified to our Trust is non-recurrent flexibility released in to the position to report on plan during 1920, which suppresses true cost run rate.

5.3 We have now received the monthly income value and we are assessing whether we will need a top up to ensure a break even position for the next 4 months. Payments are being made in advance to assist cashflows. The FRF regime has been suspended, any adverse variance of cost to income will be "topped up". The methodology has been made transparent and is being reviewed. A key assumption is that all other income

outside of the list of commissioners identified for the block payment continues as planned. This is a key assumption and the finance team are reviewing this, as any risks here should be covered either by Covid-19 claims (which currently are only cost focused), or the top up to break even.

5.4 In respect of capital, the current assumption is that the Trust can deliver the Board approved 2021 capital programme from existing cash reserves, as long as it delivers the plan attached at Appendix 1. The plan does not currently represent the agreed income position with commissioners, regardless of operating plan revised timescales. The longer term capital plan and contractual commitments will have to be considered as part of NHS commissioner contractual agreements, in the context of a three year settlement, and the cash implications.

## 6. Recommendations

6.1 The Trust Board is asked to:

a. Agree the plan as attached at Appendix 1 and as considered by the Board previously
b. Agree continuation of development of plans to deliver £18.5m of CIP for 2021 on rollover budgets, and confirm setting of budgets based on those plans
c. Note the level of CIP to fund local developments and investments and agree to receive a further update in the near future
d. Agree to receive an updated capital programme and funding sources at final plan submission stage
e. Note progress on income negotiations
f. Note the Covid-19 financial impact assessment process and governance framework, and proposed reimbursement approach

Dinah McLannahan
Chief Finance Officer

26th March 2020

**Appendix 1:** Current 2021 plan on a page
**Appendix 2:** Letter on NHS response to Covid-19 and suspension of operational planning
**Appendix 3**: Directorate Budgets paper and CIP development, 2021