Paper ref:	TB (06/20) 016

Sandwell and West Birmingham Hospitals NHS Trust

Report Title	Financial Plan 2021		
Sponsoring Executive	Dinah McLannahan, Chief Finance Officer		
Report Author	Dinah McLannahan, Chief Finance Officer		
Meeting	Trust Board (Public)	**Date**	4th June 2020

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

The Covid-19 pandemic has impacted materially on the finances of the NHS for 2021, and this has ramifications for the Trust's extant financial plan. The Trust has worked hard to remain true to the Midland Met UH business case and LTFM, and although when the pandemic hit the Trust did not have income contracts agreed that would have allowed achievement of the headline results of the plan, budgeting for expenditure and CIP planning processes had been robust, and created investment plans that are on hold under Covid-19 arrangements.

The FIC has reviewed the comparison of plans to the Covid-19 financial framework in some detail, and therefore this paper focuses on confirming the work still required to cement delivery of expenditure plans within budgets, aka CIP, the expenditure risk created by Covid-19, and a residual income risk arising from the new regime. Ultimately we must determine, to what extent there is a run rate problem against plan, during recovery, and post Covid-19. This paper describes those parameters and we should closely monitor our performance in the coming weeks and months.

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		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?]*

FIC 29th May 2020

4. Recommendation(s)

The Trust Board is asked to:

a.	Discuss next steps, including agreement that tracking of the run rate position excluding specific Covid-19 expenditure is required
b.	Agree that under any scenario, development of CIP plans will be required

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

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 the Public Trust Board: 4th June 2020

Financial Plan 2021

1. Introduction or background

1.1 The Trust has a Board approved 20/21 financial plan (Plan A); aligned to the Trust's DHSC approved full business case. This is a FIT compliant plan, earning the Trust £14m in FRF. At the time of draft plan submission, the Trust had not agreed contracts with Black Country commissioners compliant with the income assumptions in the plan (Plan B1).

1.2 The Trust set budgets on this basis (Plan C), reflecting budgeted expenditure of £570m, and a deficit of £31m, driven by CCG income and FRF shortfalls.

1.3 Covid-19 instigated an interim month 1-4 plan (Plan D1), which provides a route to break even (an improved position on that set in budgets) but only provides for incremental change on 1920 as a result of the pandemic, i.e. there is no CIP delivery requirement, and there is therefore no scope to implement assumptions in the Trust plans, commit reserves, or invest. It is very likely that this arrangement will be in place until 31st October, perhaps to service a recovery period, and possibly longer given by then there will only be 5 months of the financial year left.

1.4 In the current context we are therefore working with a considerable degree of ambiguity, and it is therefore important that we invest considerable time in planning for the time we are able to get back on track with Trust plans.

2. Expenditure Plans

2.1 Delivery of the Trust's expenditure plans, **assuming delivery of £18.5m CIP**, and after commitment of all reserves created by that plan, would have resulted in spend of £570m. If the Trust released reserves created by the plan without commitment, spend would be £11m less at £559m. There is a further £9m of cost of contract reserve in the plan, which if not paid for by commissioners to deliver activity via an income contract, could also be released. This brings expenditure down to £550m. Finally, within the £550m is £12.5m of budget, in local groups, that was provided to deliver the 1920 production plan and margin. The Board will remember that the localisation element of the production plan was not delivered, and although spend occurred against those budgets and if we were to remove them that would be likely to impose additional CIP deliver expectations, that option is available, albeit more difficult.

2.2 The Covid interim plan, after adjusting for YHP, expected £542m of expenditure. Annualised, the Month 1 position was £565m, but using the same extrapolation, £45.5m of that is directly attributable to Covid-19. The conclusion is, therefore, at Month 1, that excluding Covid, the Trust is remaining within the approved plan expenditure budgets.

2.3 In a return to a scenario of CIP delivery being required, on the face of it the Trust would appear to have the necessary time to improve the robustness of plans. With reference to paragraph 2.1, the Trust may choose reduce CIP delivery expectations, by reducing reserve creation. At this point in time there would appear to be a circa £11m opportunity to do this, although we cannot double count it. The reserves are either not created by not delivering the CIP, or they are created and then released to improve a deficit position.

2.4 The table below sets out progress on development of plans. Slippage is mainly in Pharmacy savings not yet identified, further work required on the Procurement plans, and confirmation of delivery of the new vacancy factor included within budgets in 2021.

Category	Target	Identified
Other Income	£0.891m	£0.891m
Pay	£9.167m	£7.460m
New Vacancy Factor	£3.109m	TBC
Non-pay	£7.45m	£4.008m
Total	£20.617m	£12.359m

3. Income

3.1 The final section of this report considers the residual income risk arising from the new regime. On the face of it, there is no income risk, as the retrospective top up process allows for reimbursement of any gap between income and expenditure as long as it can be explained and justified. The draft plan submission and budgetary position reflected the lack of a satisfactory contractual income position and drove a £30m deficit arising from the income shortfall and consequent loss of FRF. If this had happened in practice the Trust would have burned its cash reserves and have had to worsen its working capital position. The current regime offers a route to break even and maintenance of the Trust's cash reserves required to meet the future requirements of the capital programme. It is recommended therefore that the key action going forward will be to ensure a route to income necessary to cover likely expenditure as outlined in section 2 above, with a process to clearly identify Covid-19 specific costs, assuming there will be a route to recovery of those. For example, if baseline expenditure of £550m is assumed, with a £14m deficit FIT, that would require £536m of income. This scenario does require delivery of the CIP.

4. Recommendations

a. **Discuss** next steps, including agreement that tracking of the run rate position excluding specific Covid-19 expenditure is required
b. **Agree** that under any scenario, development of CIP plans will be required

Dinah McLannahan
Chief Finance Officer
21st May 2020