

FINANCE REPORT TO BOARD OF DIRECTORS

27 MAY 2020

2020/21 - MONTH 1

1. Interim NHS Financial Framework during COVID19 Pandemic - Summary

To facilitate the NHS's response to the COVID19 pandemic, NHS England / NHS Improvement (NHSE/I, the regulators) has introduced an interim financial framework for providers and commissioners.

The established financial regime has been suspended and replaced with a simplified framework which is designed to ensure providers receive sufficient cash to facilitate the required response to the pandemic while delivering a breakeven position.

Providers have not been issued with formal control totals and the Financial Recovery Fund / Provider Sustainability Fund mechanism has been removed.

Normal contractual arrangements with commissioners have been suspended and replaced with a centrally defined block funding mechanism from each commissioner which is not linked to activity levels.

NHSE/I have made a high level assessment of each provider's expected monthly revenue expenditure based on historic trends uplifted this for inflation to provide each provider with a high level expenditure plan.

The block funding mechanism is supplemented by a series of prospective and retrospective top up payments to offset any legitimate deviations from NHSE/I's high level revenue expenditure assumptions and to reimburse providers for any legitimate exceptional revenue costs of their response to the pandemic.

Until 19 May 2020, providers were able to approve capital expenditure for their COVID19 response up to a limit of £0.25m without seeking prior approval from the regulators and reclaim the costs via a monthly submission. From 19 May onwards, providers must seek prior approval from the regulators for all COVID19 related capital expenditure.

Integrated Care Systems have been allocated capital control totals for non-COVID19 related capital expenditure in their constituent NHS organisations, which is consistent with the business as usual approach introduced in 2019/20.

The interim framework does not place any CIP or efficiency requirements upon providers. However, organisations are expected to work collaboratively within the spirit of the framework and to maintain an appropriate level of rigour and financial governance and to be able to justify all expenditure.

Providers' reported financial positions will be subject to the normal degree of scrutiny and audit and the expectation is that organisations will maintain control of expenditure run rates and will not make unreasonable claims for retrospective top ups for inappropriate non-COVID19 related expenditure.

2. Funding and Reporting Regime Months 1 – 4

Based on NHSE/I's modelling, each provider has been given an expected income and expenditure plan for Months 1 – 4. This plan projects the level of deficit a provider is expected to deliver prior to any top up payments or COVID19 costs. This projected deficit is converted in each provider's plan into a "Projected Top Up" funding stream from NHSE/I to result in a break even plan for each month.

This is not a formal financial plan and NHSE/I has not requested formal approval or confirmation from provider Boards. It is a funding model against which the regulators will assess providers' actual expenditure and to inform the provision of additional financial support as appropriate.

If a provider reports a deficit position after the projected top up funding, it is required to accrue additional Retrospective Top Up funding to report a break even position.

This Retrospective Top Up payment may be required for the following generic reasons:

- To reimburse legitimate and reasonable exceptional COVID19 related costs.
- To address material errors in the baseline income and expenditure plan defined by NHSE/I.
- To address the loss of non-NHS funding streams resulting from the pandemic.
- To address legitimate and unforeseen changes to the expenditure run rate not linked to COVID19.

To reclaim exceptional COVID19 related costs, providers must submit a detailed monthly claim template. This template must be approved by the Chief Executive Officer and the items claimed will be subject to scrutiny and potentially audit.

The regulators have stated that all Retrospective Top Up claims will be closely scrutinised for legitimacy and it is therefore not guaranteed that the full amount of funding accrued will be subsequently reimbursed. This applies equally to COVID19 and non-COVID19 related income and expenditure issues. This therefore means there is a level of risk in the monthly reported I&E position until the Retrospective Top Up payments are confirmed by NHSE/I.

3. Commissioner Block and Top Up Payment Schedules Months 1 – 4

On 1 April 2020, each provider received an advance "Top Up Payment on Account" to support cash flow, facilitate timely payment of suppliers and to offset the planned delay in payment of the required Retrospective Top Up.

Subject to NHSE/I's scrutiny and approval, the Retrospective Top Up payments will be made approximately 6 weeks after the end of the month in which the costs were incurred. For example, the Retrospective Top Up for April 2020 is scheduled to be paid on 15 June and May's payment will be made on 15 July.

The monthly block commissioner payments are received in advance. In Month 1, the block payments for both April and May were received and the block payment for June was made on 15 May.

BTHFT's total Top Up requirement for Month 1 was £2.1m. The Trust's Payment on Account received on 1 April was £2.5m and April's Retrospective Top Up is not due until 15 June. If April's income and expenditure performance is repeated in May, BTHFT will have exhausted the Top Up cash received by Month 2, however due to the in advance commissioner block payments, the organisation's cash position is not compromised.

4. Duration of Interim Financial Framework

This interim framework was originally planned to be in force for the first four months of the financial year, ie until July 2020. It has subsequently been communicated verbally by NHSE/I that the interim arrangements are likely to remain in force to some degree until at least October 2020.

However, due to the scale of the clinical and operational challenges nationally, and the proximity of the winter period after October, it must be considered doubtful whether the NHS will return to the historic regime of Payment by Results, provider-commissioner contractual negotiations, control totals and CIP efficiency targets during the 2020/21 financial year.

5. BTHFT Income & Expenditure Plan Months 1 - 4

5.1. Summary Income & Expenditure Plan Months 1 - 4

In total, NHSE/I has projected BTHFT to receive £36.5m of income per month excluding Top Up payments and to spend £37.3m per month excluding exceptional COVID19 related expenditure. This results in a projected monthly deficit of £0.8m and a consequent £0.8m projected top up requirement prior to reimbursement of exceptional COVID19 costs.

5.2. Expenditure Plan

The regulator's approach to setting projected expenditure plans is based on the average expenditure incurred in a baseline period of Months 8 – 10 of the 2019/20 financial year (ie November 2019 – January 2020). These monthly values have been uplifted for national NHS inflation assumptions.

NHSE/I reviewed provider expenditure patterns in the baseline period and adjusted the projection for Months 1 – 4 to remove the distorting impact of any exceptional non-recurrent items.

BTHFT's expenditure plan was adjusted downwards to remove the non-recurrent adverse impact of the cancellation of the Wholly Owned Subsidiary which increased reported expenditure by £5.1m in January 2020.

5.3. Income Plan

Of the £36.5m projected income, £33.4m (92%) is on agreed block arrangements with NHS or DoHSC bodies. Only the remaining £3.1m (8%) is variable and therefore subject to some degree of risk.

Commissioner Block Funding

The funding each provider should receive via the commissioner block arrangements in Months 1-4 is based on the 2019/20 Month 9 agreement of balances exercise. The baseline for the commissioner block funding is the monthly average received for the first nine months of 2019/20. This value has been uplifted for 2.8% inflation in line with the previous national planning assumptions. No efficiency factor has been applied to these funding levels.

The block commissioner funding allocated to providers is based on historic service models and activity levels. It does not take into account any service developments subsequently agreed with commissioners and does not include any provision for growth.

Health Education England block funding

HEE is funding providers at the same rate as the 2019/20 Learning & Development Agreement education and placement payments made in 2019/20. A block up-front payment for Quarter 1 was made in April.

Provider to Provider Income – WYAAT and Bradford District Care NHS Foundation Trust

To simplify arrangements and to provide local partner organisations with financial stability in this period, the local NHS provider organisations have agreed to pay each other for inter-provider services and staffing recharges on a block basis.

To be consistent with the commissioner block arrangements, these provider to provider blocks are based on the 2019/20 Month 9 agreement of balances exercise.

Variable Funding Streams

The Trust may see a reduction in income from variable funding streams as a result of the lockdown and the consequent curtailment of economic activity. For example, some clinical research projects are being suspended or deferred, charities who pay the Trust for staff time are experiencing funding issues and car parking income is restricted.

NHSE/I will review providers' monthly monitoring returns and will reimburse organisations via the retrospective top up for legitimate losses of funding for which there is no feasible mitigation by reducing costs in the short term.

6. BTHFT – Issues with Baseline for Income and Expenditure Plan

A review BTHFT's income and expenditure patterns during the baseline period November 2019 – January 2020 and in subsequent months has identified a number of issues which mean NHSE/I's projected monthly deficit may prove to be flawed.

The Trust deployed a number of substantial non-recurrent measures to meet the control total in the baseline period. These non-recurrent measures both artificially suppressed the underlying expenditure run rate and artificially increased the underlying income position. NHSE/I did not take these items into account when calculating BTHFT's projected deficit for Months 1 – 4.

In total, the Trust has identified issues which mean the underlying rate of deficit in April 2020 was £1.9m lower than NHSE/I calculated in its projections. This position is summarised in Table 1.

Table 1 – BTHFT Issues with I&E Baseline

Details	Income £000s	Pay £000s	Non-Pay £000s	Total £000s
Changes to Cost Structure since baseline period	317	134	459	909
BTHFT cost structure differs from national assumptions			72	72
Depreciation, capital, PDC issues			254	254
Loss of income generating contracts since baseline period	317	-20	-72	224
New externally driven pressures since baseline period		4	197	201
Service Developments and recruitment since baseline period		150	8	159
Non-Recurrent Items in baseline period	1,158	-86	-42	1,030
NR costs in baseline period	-8	-86	-125	-219
NR Income in baseline period	1,166			1,166
NR savings in baseline period			83	83
Grand Total	1,475	48	417	1,939

There is therefore a risk that as a direct result of this flawed baseline methodology that the Trust will be unable to consistently deliver a margin before COVID19 costs and Top Up in line with NHSE/I's projected £0.8m deficit.

However, it should be noted that the suspension of significant levels of clinical activity during the pandemic has resulted in major underspends on non-pay items. Notable examples of these underspends are orthopaedic and cochlear implants.

In Month 1, these underspends have broadly offset the £1.9m baseline issues mentioned above. This allowed the Trust to report a position in line with plan for Month 1, excluding exceptional COVID19 items.

Despite Month 1's offsetting variances on non-pay items, the risk remains that the baseline issues may cause the Trust to deviate from the overall financial plan set out by NHSE/I, particularly as elective activity comes on line in future months. The Trust is highlighting these baseline issues to the regulators to ensure they are considered when assessing the retrospective top up claims and the projected deficits in future months.

7. BTHFT Month 1 I&E Performance

Table 2 – Month 1 I&E Position

	Plan £000s	Actual £000s	Variance £000s
<u>Income</u>			
CCG & NHSE block	31,456	31,456	0
Provider to Provider - WYAAT & BDCT	364	364	0
Health Education England block	1,615	1,615	0
Total Block Income	33,435	33,435	0
R&D income	1,275	1,053	-222
Other Income	1,803	325	-1,478
Total Variable Income	3,078	1,378	-1,700
Total Income excluding Top Ups	36,513	34,813	-1,700
<u>Expenditure</u>			
Pay	-23,514	-24,198	-684
Non Pay	-12,526	-11,245	1,281
Depreciation, PDC etc	-1,255	-1,504	-249
Total Expenditure	-37,295	-36,947	348
Position Before Top Up Funding	-782	-2,134	-1,352
<u>Top Up Funding</u>			
Projected Top Up Funding	782	782	0
Additional Top Up Funding accrued	0	1,352	1,352
Total Top Up Funding	782	2,134	1,352
Position After Top Up Funding	0	0	0

For April 2020, the Trust reported a £2.1m deficit prior to top up funding. This deficit is £1.3m greater than NHSE/I's projection.

At a summarised level this £1.3m adverse variance can be explained by:

- Baseline issues (£1.9m)
- Variances on non-pay due to reduced clinical activity £2.0m
- COVID19 related expenditure (£1.4m)

A total of £2.1m of top up funding is reflected in the Month 1 position to deliver the break even position required by NHSE/I. It should be noted that there remains a risk to full recovery of this accrued top up income should NHSE/I not consider some of the identified COVID19 costs to be appropriate.

The expenditure figures in Table 2 include the exceptional COVID19 costs. Table 3 breaks down this position to show the split of COVID19 and non-COVID19 expenditure.

Table 3 – Summary COVID19 and Non-COVID 19 Expenditure

	Plan	Actual - Non-COVID	Variance Excluding COVID Costs	Actual - COVID	Total Actual	Total Variance
Block Income	33,435	33,435	0		33,435	0
Other Income	3,078	1,378	-1,700		1,378	-1,936
Pay	-23,514	-23,469	45	-729	-24,198	-684
Non Pay	-12,526	-10,565	1,961	-680	-11,245	1,515
Depreciation, PDC etc	-1,255	-1,504	-249		-1,504	-225
Position Before Top Up Funding	-782	-725	57	-1,409	-2,134	-1,330

The £1.7m adverse income variance can largely be explained by the baseline issues highlighted in Table 1. NHSE/I's projections assume BTHFT will recover £1.5m more income per month than the Trust itself expects to recover. A significant amount of non-recurrent income was recorded in the baseline period to deliver the 2019/20 control total. By definition this non-recurrent income will not be recovered by the Trust in 2020/21.

Additionally, R&D income was £0.2m below projected levels. This performance is expected to continue or deteriorate further in subsequent months.

Pay expenditure excluding COVID19 costs is broadly in line with NHSE/I's projections and is not a cause for concern at Month 1.

Non-pay expenditure not related to COVID19 was almost £2m lower than projected. The majority of this reduction in expenditure was seen in elective areas. Expenditure on clinical supplies in Theatres, Endoscopy, Cardiology and Cochlear Implants service was £1.5m lower than the projection for April.

The baseline expenditure projection did not take into account the increased depreciation charge resulting from the Trust's increased capital base or the recurrently increased PDC charge which resulted from the cancellation of the Wholly Owned Subsidiary plan. These non-operating items will continue to exceed projections by approximately £0.25m per month.

Table 4 – Month 1 I&E Performance Summarised

Details	BTHFT		
	Plan £000s	Actual £000s	Variance £000s
Income (excl Top Up)	36,513	34,813	-1,700
Expenditure (excl COVID)	-37,295	-35,538	1,757
Position Ex Top Up & COVID costs	-782	-725	57
Projected Top Up (received M1)	782	782	0
Position Ex COVID costs & retro top up	0	57	57
COVID costs		-1,409	-1,409
Position Ex Retrospective Top Up	0	-1,352	-1,352
Retrospective Top Up Funding accrued		1,352	1,352
Final Reported Position	0	0	0

Note: Top Up Funding

Projected Top Up Funding	782	782	0
Additional Top Up Funding accrued		1,352	1,352
Total Top Up Funding	782	2,134	1,352

Table 4 summarises the Month 1 performance against the regulator's expected performance.

BTHFT reported a deficit excluding top up and exceptional COVID19 costs of £0.73m. This is a marginally lower deficit than the £0.78m NHSE/I had projected. This confirms that in April 2020, the underspends resulting from the reduced range and volume of clinical activity were adequate to offset the issues with NHSE/I's baseline projections.

The main risk in the Month 1 position is therefore the accrued £1.4m retrospective top up funding required to break even. To mitigate this risk, the Trust has detailed records to substantiate the £1.4m designated exceptional COVID19 costs should this be challenged by NHSE/I and has an established governance and approvals process for COVID19 expenditure.

8. Cash Position

The Trust's closing cash position on 30 April 2020 was £66.3m. This includes the top up payment on account and the advance block payment from CCGs for May. The Trust's cash position is therefore strong and is expected to remain so for the duration of the financial year.

9. Capital Expenditure

The non-COVID19 capital budget and plan for 2020/21 is £20.6m. Capital expenditure in April 2020 was £0.7m.

10. Conclusion

This paper has summarised the interim financial framework introduced by NHSE/I for 2020/21. This framework will remain in force in its current form until July 2020 and is expected to continue until at least October 2020. It is unclear what the financial regime will look like after October 2020, although it is likely that some elements of the existing interim arrangements will continue until the end of 2020/21.

BTHFT has broadly delivered the level of deficit before top up and COVID19 costs for Month 1 that NHSE/I projected. The Trust can therefore be seen to have delivered NHSE/I's financial plan for April 2020.

A total of £1.4m of COVID19 costs were recorded for Month 1 and an associated retrospective top up has been accrued into the I&E position to result in a breakeven position.

Until NHSE/I have concluded their audit and scrutiny of the Trust's claim for reimbursement of the £1.4m costs, there remains a degree of risk in the reported position. The risk is not considered significant however as appropriate governance and record keeping processes have been followed.

The Trust is querying aspects of NHSE/I's baseline projection methodology to ensure the issues identified are recognised by the regulators and potentially adjusted if increased activity levels in future months mean the mitigating non-pay underspends recorded in April begin to reduce.

END

