

# FINANCE REPORT TO BOARD OF DIRECTORS

## SEPTEMBER 2020/21

### MONTH 4

#### 1. BTHFT Month 4 Income & Expenditure Performance

**Table 1 – Month 4 I&E Position**

	Plan £000s	Actual £000s	Variance £000s
<b>Income</b>			
CCG & NHSE block	125,826	125,826	0
Provider to Provider - WYAAT & BDCT	1,456	1,456	0
Health Education England block	6,261	6,261	0
<b>Total Block Income</b>	<b>133,543</b>	<b>133,543</b>	<b>0</b>
R&D income	5,100	1,589	-3,511
Car Parking Income	464	0	-464
Other Income	6,949	2,651	-4,298
<b>Total Variable Income</b>	<b>12,513</b>	<b>4,239</b>	<b>-8,273</b>
<b>Total Income excluding Top Ups</b>	<b>146,056</b>	<b>137,783</b>	<b>-8,273</b>
<b>Expenditure</b>			
Pay	-94,056	-97,312	-3,256
Non Pay	-49,844	-45,001	4,843
Depreciation, PDC etc	-5,279	-6,041	-762
<b>Total Expenditure</b>	<b>-149,179</b>	<b>-148,354</b>	<b>825</b>
<b>Position Before Top Up Funding</b>	<b>-3,123</b>	<b>-10,571</b>	<b>-7,448</b>
<b>Top Up Funding</b>			
Projected Top Up Funding	3,126	3,126	0
Additional Top Up Funding Validated	0	5,279	5,279
Additional Top Up Funding Unvalidated (accrued)	0	2,169	2,169
<b>Total Top Up Funding</b>	<b>3,126</b>	<b>10,574</b>	<b>7,448</b>
<b>Position After Top Up Funding</b>	<b>3</b>	<b>3</b>	<b>0</b>

For the financial year to July 2020, the Trust reported a £10.6m deficit prior to top up funding. This deficit is £7.4m greater than NHSE/I's baseline projection. In line with the interim financial regime, BTHFT has reported £7.4m of retrospective top up funding from NHSE/I to present a break even position at the bottom line.

At a summarised level the £7.4m adverse variance from NHSE/I's high level projections can be explained by:

- NHSE/I Baseline calculation issues (£6.4m, see Appendix 1)
- Income reductions due to the pandemic;
  - Research & Development income (£3.5m)
  - Car Parking income (£0.5m)
- COVID19 related expenditure (£7.9m)
- Research expenditure reductions £1.1m
- Underspends on non-pay due to reduced clinical activity £9.7m

A total of £10.6m of top up funding is reflected in the Month 4 position to deliver the break even position required by NHSE/I. It should be noted that there remains a risk to recovery of the accrued top up income should NHSE/I not consider some of the identified COVID19 costs to be appropriate.

The expenditure figures in Table 1 include the exceptional COVID19 costs. Table 2 breaks down this position to show the split of COVID19 and non-COVID19 expenditure.

**Table 2 – Summary COVID19 and Non-COVID 19 Expenditure**

	Plan	Actual - Non-COVID	Variance Excluding COVID Costs	Actual - COVID	Total Actual	Total Variance
Block Income	133,543	133,543	0		133,543	0
Other Income	12,513	4,239	-8,273		4,239	-8,273
Pay	-94,056	-91,966	2,090	-5,346	-97,312	-3,256
Non Pay	-49,844	-42,477	7,367	-2,524	-45,001	4,843
Depreciation, PDC etc	-5,279	-6,041	-762		-6,041	-762
<b>Position Before Top Up Funding</b>	<b>-3,123</b>	<b>-2,701</b>	<b>422</b>	<b>-7,870</b>	<b>-10,571</b>	<b>-7,448</b>

Table 2 shows that income excluding top up funding was £8.3m lower at Month 4 than NHSE/I's projection.

£5.4m of this apparent income shortfall is explained by the baseline issues identified in Appendix 1. NHSI's projections assumed BTHFT would recover £2.7m more income per month than the Trust itself expected 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. This issue has been raised with the regulators and it is anticipated this will be remedied in the longer term funding regime.

Due to the suspension or curtailment of a significant proportion of all clinical research trials, the Trust's Research & Development income is £3.5m below projected levels, equating to a £0.9m per month funding shortfall. This is partially offset by a related £1.1m year to date expenditure reduction, resulting in a net £0.6m per month funding shortfall. As many of the Research Directorate's costs are fixed, this leaves the Trust with a cost pressure which it is currently reliant on the retrospective top up to mitigate. This issue is expected to continue to present problems until research trials and associated funding can return to previous levels.

Pay expenditure excluding COVID19 costs is £2.1m below NHSE/I's projections and is not a cause for concern at Month 4.

Non-pay expenditure not related to COVID19 was almost £7.4m lower than projected. The majority of this reduction in expenditure was seen in elective areas.

NHSE/I's 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. This has caused an overspend of £0.8m at Month 4 and these non-operating items will continue to exceed projections by approximately £0.2m per month.

**Table 3 – Month 4 I&E Performance Summarised**

Details	BTHFT		
	Plan £000s	Actual £000s	Variance £000s
Income (excl Top Up)	146,056	137,783	-8,273
Expenditure (excl COVID)	-149,179	-140,484	8,695
<b>Position Ex Top Up &amp; COVID costs</b>	<b>-3,123</b>	<b>-2,701</b>	<b>422</b>
Projected Top Up (received M4)	3,126	3,126	0
<b>Position Ex COVID costs &amp; retro top up</b>	<b>3</b>	<b>425</b>	<b>422</b>
COVID costs		-7,870	-7,870
<b>Position Ex Retrospective Top Up</b>	<b>3</b>	<b>-7,445</b>	<b>-7,448</b>
Retrospective Top Up Funding accrued		2,169	2,169
<b>Final Reported Position</b>	<b>3</b>	<b>-5,276</b>	<b>-5,279</b>

**Note: Top Up Funding**

Projected Top Up Funding	3,126	3,126	0
Additional Top Up Funding Validated		5,279	5,279
Additional Top Up Funding Unvalidated (accrued)		2,169	2,169
<b>Total Top Up Funding</b>	<b>3,126</b>	<b>10,574</b>	<b>7,448</b>

Table 3 summarises the Month 4 performance against the regulator's expected performance.

BTHFT reported a deficit excluding top up and exceptional COVID19 costs of £2.7m. This is a lower deficit than the £3.1m NHSE/I had projected. This confirms that in the four months to July 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 and the loss of research income.

The main risk in the Month 4 position is therefore the un-validated accrued £2.2m retrospective top up funding required to break-even. To mitigate this risk, the Trust has detailed records to substantiate the £7.9m designated exceptional COVID19 costs should this be challenged by NHSE/I and has an established governance and approvals process for COVID19 expenditure.

## 2. Cash Position at Month 4

The Trust's closing cash position on 31 July 2020 was £73.3m. This includes the top up payment on account and the advance block payment from CCGs for August 2020. The Trust's

cash position is therefore strong and is expected to remain so for the duration of the financial year.

Year to date cash is £5.7m below plan. Cash is lower than plan due to:

- higher than planned capital expenditure (£3.9m)
- lower than planned payables as a result of paying invoices within 7 days as per COVID 19 government guidance (£1.1m);
- higher than planned receivables primarily due to NHS debt (£4.2m);

This has been offset by higher than planned deferred income (£4.6m).

The year-end cash balance is forecast to be £31.7m, assuming a breakeven income and expenditure position for the year. This is an increase of £2.1m on the closing balance from 2019/20.

At present the Trust is being pre-paid by Commissioners by approximately £30m per month leading to an inflated cash balance. It has been assumed that this arrangement will come to an end in March 2021 leading to a large negative movement (£42.1m) from February to March.

### 3. Capital Expenditure

The Trust submitted a revised capital plan to NHSE/I in July 2020 totalling £21.672m. The revised capital plan, which was both shared and agreed with our local ICS replaces the original capital plan that the Trust submitted to NHSE/I in March 2020 which totalled £20.839m.

Cumulative capital expenditure as at month 4 2020/21 amounts to £3.765m which is £2.995m higher than planned spend of £0.770m.

Material year to date spend on capital projects include:

- Capital to support COVID 19 £1.1m;
- Radiology equipment £0.5m; and
- Command Centre £0.7m.

### 4. Conclusion

Appendix 1 summarises the interim financial framework introduced by NHSE/I for 2020/21. This framework will remain in force in its current form until September 2020. It is unclear what the financial regime will look like after September 2020, although it is likely that some elements of the existing interim arrangements will continue until the end of 2020/21 and that a return to Payment by Results (PbR) is extremely unlikely in the foreseeable future.

**A draft planning template is being worked up and will be submitted to NHSI at the system level in early September. This template will support the move towards a revised financial framework for the latter part of 2020/21, once this has been finalised with Government.**

BTHFT has broadly delivered the level of deficit before top up and COVID19 costs for Month 4 that NHSE/I projected. The Trust can therefore be seen to have delivered NHSE/I's financial plan for July 2020.

A total of £7.9m of COVID19 revenue costs were recorded up to Month 4 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 COVID19 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 with the baseline are recognised by the regulators and potentially adjusted if increased activity levels in future months mean the mitigating non-pay underspends recorded in the first quarter begin to reduce.

**END**

## **APPENDIX 1 – INTERIM FINANCIAL FRAMEWORK 2020/21**

### **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 – 6**

The funding regime for months 1 -4 has been extended to September 2020. Based on NHSE/I's modelling, each provider has been given an expected income and expenditure plan

for Months 1 – 6. 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 – 6**

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.

### **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 - 6**

### **5.1. Summary Income & Expenditure Plan Months 1 - 6**

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 – 6 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 1-6 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 – 6.

In total, the Trust has identified issues which mean the underlying rate of deficit in the four months to July 2020 was £6.4m higher than NHSE/I calculated in its projections. This position is summarised in Table 1.

**Table 1 – BTHFT Issues with I&E Baseline – Impact at Month 4**

Cumulative Forecast Variance Month 4				
	Income	Pay	Non_Pay	Grand Total
<b>Changes to Cost Structure since Baseline period</b>	<b>724</b>	<b>570</b>	<b>863</b>	<b>2,157</b>
BTHFT cost structure differs from national assumptions			288	288
Depreciation, capital, PDC issues			672	672
Loss of income generating contracts since baseline period	673	-82	-288	304
New externally driven pressures since baseline period		15		15
Service developments and recruitment since baseline period	52	636	191	879
<b>Non-Recurrent Items in Baseline Period</b>	<b>4,633</b>	<b>-344</b>	<b>-83</b>	<b>4,205</b>
NR costs in baseline period	-31	-344	-512	-887
NR Income in baseline period	4,664			4,664
NR savings in baseline period			428	428
<b>Grand Total</b>	<b>5,357</b>	<b>226</b>	<b>780</b>	<b>6,362</b>

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.

At Month 4, these underspends have broadly offset the £6.4m baseline issues mentioned above. This allowed the Trust to report a position in line with plan for Month 4, excluding exceptional COVID19 items.

Despite Month 4's offsetting underspends 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.