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Date	Thursday 12 November 2020	Agenda item	Bo.11.20.14

Approved Financial Plan Q3 & Q4 2020/2021

Presented by	Matthew Horner, Director of Finance	
Author	Chris Smith, Deputy Director of Finance	
Lead Director	Matthew Horner, Director of Finance	
Purpose of the paper	To inform the Board of the financial plan submitted to NHS England / NHS Improvement for the period October 2020 – March 2021 and to summarise the interim financial arrangements for the NHS for this period.	
Key control		
Action required	To note	
Previously discussed at/informed by		
Previously approved at:	**Committee/Group**	**Date**

Key Options, Issues and Risks

NHS Financial Regime for Quarters 3 & 4 2020/21

In September 2020, NHSE England / NHS Improvement (the regulators / NHSE/I) published details of the finanical arrangements for Quarters 3 and 4 of 2020/21.

The retrospective top up mechanism employed in Quarters 1 and 2, which guaranteed NHS organisations sufficient funding to support the pandemic response while delivering a break even position, has been phased out from 1 October 2020.

From Quarter 3 onwards, this model has been replaced by a prospective block funding mechanism, under which Integrated Care Systems (ICS) receive a broadly fixed funding envelope within which to deliver a break even position over the final six months of the financial year.

This prospective ICS funding envelope was calculated by NHSE/I to include adequate funding to support the ongoing COVID response across the region, in addition to supporting the recovery of clinical activities that were suspended during the first wave of the pandemic.

Based on the finanical modelling carried out across the West Yorkshire and Harrogate ICS, it is clear that there is some degree of risk in NHSE/I's planning assumptions. The majority of providers and commissioners, including Bradford Teaching Hospitals NHS Foundation Trust (BTHFT) will be required to deliver some level of efficiencies to deliver their plans within the available funding.

Within the ICS, there is a clear planning assumption that each organisation is required to independently deliver their planned position. Financial challenges should be addressed at organisational level in the first instance, before seeking resolution at place level (for BTHFT this is the Bradford Districts and Craven place), however ultimately places may seek support from ICS partners.

The regulators will monitor financial performance at ICS level, meaning that, *with ICS agreement,* the constituent NHS providers and commissioners may varyingly deliver deficit or suplus positions provided that the net system position is at least break even.

Activity Re-Start / Elective Incentive Scheme

To address backlogs and growing waiting lists, in August 2020 NHSE/I communicated an expectation that providers would quickly recover activity levels for services that had been suspended during the first wave

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of the pandemic. The targets for this recovery were expressed as a requirement to deliver a defined percentage of pre-COVID activity levels each month from September 2020 onwards.

Under-performance or over-performance against these targets will in theory be respectively penalised or rewarded via an "Elective Incentive Scheme" (EIS). The risk for BTHFT and other providers is that under the EIS, a provider will suffer a retrospective reduction in its block funding if elective, diagnostic or outpatient activity falls below targeted levels from September 2020 onwards.

Financial Plan for Quarters 3 & 4 2020/21

In accordance with the national timetable, Bradford Teaching Hospitals NHS Foundation Trust submitted an organisational financial plan for Quarters 3 and 4 on 22 October 2020.

BTHFT's submitted plan delivers a deficit of £1.8m in Quarters 3 & 4. This deficit is consistent with agreed ICS principles which have been applied consistently across all local providers. The agreed approach was that, excluding a number of issues specific to other providers, each provider's plan would deliver a break even position with the exception of:

- the projected shortfalls in non-NHS income arising from the curtailment of activities during the pandemic and;
- the anticipated impact of increased liabilities for employee annual leave which has not been taken due to the pandemic.

The ICS has taken the position that these issues cannot be resolved within the system and that additional external support is required to mitigate them. This position has been communicated to NHSE/I by the ICS.

There is a significant degree of risk in the plan submitted by BTHFT. It is anticipated that in order for a £1.8m deficit position to be delivered the Trust would need to reduce its expenditure by £3.9m over the six month planning period compared to the forecast included in the plan. No transformational efficiency plans are currently in place to deliver this cost reduction.

BTHFT's plan reflects a local assessment of the increased costs of recovering elective, diagnostic and outpatient activity levels in line with national targets. The impact of the second wave of the pandemic on the organisation's ability to recover non-COVID activity levels does suggest variable expenditure will be lower than planned in Quarter 3 at least.

The extent to which the regulators will apply the retrospective funding reductions of the Elective Incentive Scheme resulting from shortfalls against activity targets is currently unclear, although this presents a further unquantified risk to the financial plan and may negate the incidental cost reductions arising from reduced elective activity levels.

Effective planning by operational and clinical teams to deliver financial efficiencies is extremely difficult in the current challenging operational environment. In this context, it is anticipated that BTHFT will need to rely upon non-recurrent and technical measures, as well as incidental underspends, to meet the £3.9m efficiency target. The risk of the EIS and unaddressed CIP notwithstanding, it is hoped that the financial risk can be broadly mitigated by these non-recurrent measures in Quarters 3 and 4.

Recommendation

The Board of Directors is asked to note the revised financial regime for Quarters 3 & 4.

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The Board of Directors is asked to note BTHFT's submission of a £1.8m deficit plan for the reasons identified, including the risks to delivery of the planned position.

Risk assessment						
Strategic Objective	**Appetite (G)**					
	Avoid	**Minimal**	**Cautious**	**Open**	**Seek**	**Mature**
To provide outstanding care for patients						
To deliver our financial plan and key performance targets						
To be in the top 20% of NHS employers						
To be a continually learning organisation						
To collaborate effectively with local and regional partners						
The level of risk against each objective should be indicated. Where more than one option is available the level of risk of each option against each element should be indicated by numbering each option and showing numbers in the boxes.	**Low**		**Moderate**	**High**	**Significant**	
	Risk (*)					
Explanation of variance from Board of Directors Agreed General risk appetite (G)						

Benchmarking implications (see section 4 for details)	Yes	No	N/A
Is there Model Hospital data relevant to the content of this paper?	☐	☒	☐
Is there any other national benchmarking data relevant to the content of this paper?	☐	☒	☐
Is the Trust an outlier (positive or negative) for any benchmarking data relevant to the content of this paper?	☐	☒	☐

Risk Implications (see section 5 for details)	Yes	No
Corporate Risk register and/or Board Assurance Framework Amendments	☒	☐
Quality implications	☐	☒
Resource implications	☒	☐
Legal/regulatory implications	☒	☐
Diversity and Inclusion implications	☐	☒
Performance Implications	☒	☐

Regulation, Legislation and Compliance relevance
NHS Improvement: (please tick those that are relevant) ☒Risk Assessment Framework ☐Quality Governance Framework ☐Code of Governance ☒Annual Reporting Manual
Care Quality Commission Domain: Well Led
Care Quality Commission Fundamental Standard: Good Governance

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NHS Improvement Effective Use of Resources: Finance
Other (please state):

Relevance to other Board of Director's Committee: (please select all that apply)					
Workforce	Quality	Finance & Performance	Partnerships	Major Projects	Other (please state)
☐	☐	☒	☒	☐	☐

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The retrospective top up mechanism employed in Quarters 1 and 2, which guaranteed NHS organisations sufficient funding to support the pandemic response while delivering a break even position, has been phased out from 1 October 2020.

From Quarter 3 onwards, this model has been replaced by a prospective block funding mechanism, under which Integrated Care Systems (ICS) receive a broadly fixed funding envelope within which to deliver a break even position over the final six months of the financial year.

This prospective ICS funding envelope was calculated by NHSE/I to include adequate funding to support the ongoing COVID response across the region, in addition to supporting the recovery of clinical activities that were suspended during the first wave of the pandemic.

Based on the finanical modelling carried out across the West Yorkshire and Harrogate ICS, it is clear that there is some degree of risk in NHSE/I's planning assumptions. The majority of providers and commissioners, including Bradford Teaching Hospitals NHS Foundation Trust (BTHFT) will be required to deliver some level of efficiencies to break even within the available funding.

Within the ICS, there is a clear planning assumption that each organisation is required to independently deliver a break even position. Financial challenges should be addressed at organisational level in the first instance, before seeking resolution at place level (for BTHFT this is the Bradford Districts and Craven place), however ultimately places may seek support from ICS partners.

The regulators will monitor financial performance at ICS level, meaning that, *with ICS agreement,* the constituent NHS providers and commissioners may varyingly deliver deficit or suplus positions provided that the net system position is at least break even.

Activity Re-Start / Elective Incentive Scheme

To address backlogs and growing waiting lists, in August 2020 NHSE/I communicated an expectation that providers would quickly recover activity levels for services that had been suspended during the first wave of the pandemic.

The targets for this recovery were expressed as a requirement to deliver a defined percentage of pre-COVID activity levels each month from September 2020 as follows:

Activity Type	Target % - Sept 20	Target % - Oct 20 onwards
Electives and Daycases	80%	90%
Outpatients	100%	100%
Diagnostics	80%	90%

Under-performance or over-performance against these targets will in theory be respectively penalised or rewarded via an "Elective Incentive Scheme" (EIS).

The risk for BTHFT and other providers is that the second wave of the pandemic is severely restricting capacity for elective and outpatient activity. Under the EIS, BTHFT risks suffering a substantial retrospective reduction to its block funding if this activity remains below targeted levels. The funding reduction equates to 20% - 25% of the tariff value of any shortfall against the target.

Summary Financial Plan for Quarters 3 & 4 2020/21

In accordance with the national timetable, Bradford Teaching Hospitals NHS Foundation Trust submitted an organisational financial plan for Quarters 3 and 4 on 22 October 2020.

BTHFT's submitted plan delivers a deficit of £1.8m in Quarters 3 & 4. This deficit is consistent with agreed ICS principles which have been applied consistently across all local providers. The agreed approach was that, excluding a number of issues specific to other providers, each provider's plan would deliver a break even position with the exception of:

- the projected shortfalls in non-NHS income arising from the curtailment of activities during the pandemic and;
- the anticipated impact of increased liabilities for employee annual leave which has not been taken due to the pandemic.

The ICS has taken the position that these issues cannot be resolved within the system and that additional external support is required to mitigate them. This position has been communicated to NHSE/I by the ICS.

There is a significant degree of risk in the plan submitted by BTHFT. It is anticipated that in order for a £1.8m deficit position to be delivered the Trust would need to reduce its expenditure by £3.9m over the six month planning period compared to the forecast included in the plan. No transformational efficiency plans are currently in place to deliver this cost reduction, although a range of non-recurrent measures to bridge this gap are being investigated.

Key National Planning Assumptions for Providers

- Block commissioner funding from CCGs and NHSE Specialised Commissioning (Spec Comm) continues largely unchanged from Quarters 1 & 2.
- Variable funding from Spec Comm for a specified range of high cost drugs.
- Non-NHS income will be recovered to pre-pandemic levels.
- Non-COVID expenditure plan is based on NHSE/I's extrapolation of average expenditure in the period November 2019 – January 2020
- Inflation added to this high level expenditure forecast in line with national NHS assumptions
- A provider-specific expected deficit position resulting from the above assumptions has been calculated by NHSE/I.
- Specific top up funding allocated to each provider to offset this expected deficit to deliver a breakeven position excluding COVID costs.
- A further allocation from the ICS's growth funding allocation (£15m ICS total, BTHFT share £1.8m)
- Providers to produce their own forecasts for expenditure and non-NHS income, although any deviation from the above NHSE/I assumptions is an issue to be resolved locally by providers, places or systems.

- A system COVID funding envelope issued to each ICS, with the responsibility for allocating this funding to providers and commissioners devolved to the ICS (ICS total £119m, BTHFT share £11.2m).
- Providers to calculate generic COVID costs individually but this does not influence the level of COVID funding available to systems.
- Additional external funding available to systems and providers for a limited range of specific COVID-related expenditure, eg Nightingale Hospitals and COVID PCR testing.
- Expenditure on outsourcing work to Independent Sector providers may attract additional external funding.

BTHFT Financial Plan Quarters 3 & 4 2020/21

BTHFT's plan for the final two quarters of 2020/21, and the key deviations from NHSE/I's high level forecast are summarised in the table below.

Details	NHSE/I Plan £m	BTHFT Plan £m	Variance £m
Income			
Block NHS Funding	186.6	186.6	0.0
Spec Comm passthrough drugs	0.9	0.9	0.0
Other Income	20.2	19.2	-1.1
Top Up funding re expected deficit	17.5	17.5	0.0
Growth funding	1.8	1.8	0.0
COVID Funding - generic	11.2	11.2	0.0
COVID Funding - IS & PCR	0.0	2.4	2.4
ICS support	0.0	0.8	0.8
Total Income	**238.2**	**240.4**	**2.2**
Expenditure			
Baseline expenditure	-226.1	-228.0	-1.9
Spec Comm passthrough drugs	-0.9	-0.9	0.0
COVID costs - generic	-11.2	-13.0	-1.9
COVID costs - IS & PCR	0.0	-2.4	-2.4
Annual Leave accrual	0.0	-0.7	-0.7
WY Vascular Service	0.0	-0.8	-0.8
Total Expenditure	**-238.2**	**-245.9**	**-7.8**
Efficiency Target	***0.0***	***3.8***	***3.8***
Final I&E Position	**0.0**	**-1.8**	**-1.8**
Deficit explained by:			
Other income shortfall			-1.1
Annual Leave accrual			-0.7
Total			**-1.8**

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BTHFT Plan - Income

The £11.2m allocation from the generic ICS COVID funding and the £1.8m growth funding were calculated centrally by the ICS on a pro-rata basis based on expenditure. BTHFT can be considered to have received a fair share on this basis.

The Bradford Districts and Craven Place was an outlier in respect to the level of deficit forecast and resultant efficiency requirement. Additional ICS support was allocated to the place to partially bridge this gap, which improved BTHFT's forecast by £0.8m.

The shortfall on non-NHS income of £1.1m compared to NHSE/I's modelling relates to a range of compromised income streams, including research, car parking and a range of contracts which cannot perform in full due to the pandemic.

BTHFT Plan – Expenditure & Efficiency Target

The £3.8m efficiency target is 1.5% of projected expenditure, however developments subsequent to the plan's submission suggest the financial outlook may have improved.

It can be seen that NHSE/I's projections for BTHFT's COVID and non-COVID expenditure are both £1.9m lower than the Trust's own projections.

The COVID expenditure plan assumed a broad continuation of the levels of COVID expenditure in the period April – July 2020 for the remainder of the finanical year, with a moderate £1m increase relating to winter staffing.

BTHFT's overall plan reflects a local assessment of the increased costs of recovering elective, diagnostic and outpatient activity levels in line with national targets. The impact of the second wave of the pandemic on the organisation's ability to recover non-COVID activity levels does suggest variable expenditure will be lower than planned in Quarter 3 at least.

Equally, these restrictions will reduce some elements of vascular activity relating to the consolidation of arterial vascular services for the West of West Yorkshire at Bradford Royal Infirmary. The plan included an associated £0.8m cost pressure which is now not anticipated to materialise in full during 2020/21.

The extent to which the regulators will apply the retrospective funding reductions of the Elective Incentive Scheme resulting from shortfalls against activity targets is currently unclear, although this presents a further unquantified risk to the financial plan and may negate the incidental cost reductions arising from reduced elective activity levels.

Effective planning by operational and clinical teams to deliver financial efficiencies is extremely difficult in the current challenging operational environment. In this context, it is anticipated that BTHFT will need to rely upon non-recurrent and technical measures, as well as incidental underspends, to meet the £3.9m efficiency target.

Conclusion

The national response of the NHS to the COVID pandemic has created a great deal of operational and financial uncertainty. The recent financial planning round was conducted in this context and on the

basis of national guidance which did not require organisations to factor in the financial impact of a second wave of the pandemic.

As a consequence of the second wave, BTHFT's actual cost model has already diverged from that in October's submitted plan. It may be the case that COVID related expenditure increases to offset reductions in variable expenditure related to elective work and it is to be assumed that some level of efficiencies will still be required to deliver the plan agreed with the ICS and NHSE/I.

The risks of defunding via the Elective Incentive Scheme and the unaddressed £3.8m efficiency target remain causes for concern, however it is hoped that the financial risk can be broadly mitigated by non-recurrent measures in Quarters 3 and 4.

END