

## Council of Governors

<b>Subject:</b>	Finance Committee Report		<b>Date:</b> 12 <sup>th</sup> February 2019	
<b>Prepared By:</b>	Neal Gossage, NED, Finance Committee Chair			
<b>Approved By:</b>	Neal Gossage, NED, Finance Committee Chair			
<b>Presented By:</b>	Neal Gossage, NED, Finance Committee Chair			
<b>Purpose</b>				
The Finance Committee met on 18 <sup>th</sup> December 2018 and 29 <sup>th</sup> January 2019 and this paper summarises key matters discussed and matters to be brought to the attention of the Council.			<b>Approval</b>	
			<b>Assurance</b>	<b>X</b>
			<b>Update</b>	
			<b>Consider</b>	
<b>Strategic Objectives</b>				
<b>To provide outstanding care to our patients</b>	<b>To support each other to do a great job</b>	<b>To inspire excellence</b>	<b>To get the most from our resources</b>	<b>To play a leading role in transforming health and care services</b>
<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Overall Level of Assurance</b>				
	<b>Significant</b>	<b>Sufficient</b>	<b>Limited</b>	<b>None</b>
N/A				
<b>Risks/Issues</b>				
<b>Financial</b>	N/A			
<b>Patient Impact</b>	N/A			
<b>Staff Impact</b>	N/A			
<b>Services</b>	N/A			
<b>Reputational</b>	N/A			
<b>Committees/groups where this item has been presented before</b>				
N/A				
<b>Executive Summary</b>				
<b>Matters to be brought to the attention of the board:</b>				
1.1 Financial Planning and Budgeting 2019/20				
On 10 <sup>th</sup> January 2019, full planning guidance was issued by NHSI for 2019/20 and the draft plan for the year needs to be submitted by 12 <sup>th</sup> February 2019. A final plan has to be submitted by 4 <sup>th</sup> April 2019.				
There are some significant differences in the planning guidelines for 2019/20 in comparison with 2018/19. The key changes are:				
<ul style="list-style-type: none"> <li>- More detailed planning at system level with a requirement for 'reasonable baseline activity plans' together with a joint assurance and delivery mechanism</li> <li>- An updated tariff with most financial sanctions continuing to be suspended</li> <li>- MRET being removed from the tariff payment system and a blended payment model for activity where activity is above or below plan</li> <li>- An updated Market Forces Factor (MFF) as part of a five year transition plan.</li> </ul>				

- On-going PSF but with the 4 hour ED target PSF removed from the overall PSF target and added to the tariff
- A non-recurring FRF allocation given to SFH which will be given if the control target is accepted.

The proposed deficit budget for 2019/20 (after PSF) is £14.9m and can be reconciled to the existing deficit as follows:

Existing baseline deficit	(£46.4m)
ED PSF transferred into tariff	£6.4m
CNST and other changes	(£3.1m)*
Efficiency gains for trusts in deficit (0.5%)	£1.6m
MRET now funded centrally (not CCG)	£5.4m
PSF (control total based)	£6.5m
FRF allocation	£14.8m
2019/20 control total after PSF, MRET and FRF	(£14.8m)

\*mainly the Agenda for Change pay review being aligned to the SFH staff profile

The proposed deficit for 2019/20 is broadly in line with the five-year financial plan considered by the Board in 2018.

After considerable discussion the committee is able to recommend acceptance of this total subject to further discussion around the risk sharing arrangements on activity levels and completion of detailed 'bottom up' planning.

Other matters discussed by the committee

2.1 NHIS Quarterly Performance

NHIS is on target to deliver a break-even position by the year end but has missed the average call wait time and call abandonment rates for the last few months with a call wait time well in excess of two minutes. This was due to staff sickness but there is a need to bring these measures back into line with the KPIs by the end of the financial year.

2.2 Better Together Progress Report

The committee received the latest Better Together Progress Report for month 7 and noted that delivery of the QIPP was 16% behind plan. The QIPP plan is now forecast to be £2.8m (16%) behind plan by the year end with the two biggest programmes (Urgent & Proactive Care and Elective Care) being well behind plan. The shortfall, as it relates to SFH, is reflected in the SFH deficit forecast for this year.

2.3 2018/19 Out-turn

SFH is forecast to deliver its pre-PSF control total for 2018/19. However, there is an expected loss of £1.1m in system PSF resulting from the under-delivery of the QIPP programme as noted above.

2.3 PFI Governance Review

The committee noted that the performance of Skanska has not been at the required level in certain areas and there are a number of unresolved financial deductions which could potentially lead to a contractual dispute. However, relationships with Project Co. remain good and Project Co. is

largely sympathetic to our concerns with Skanska.

#### 2.4 PC Refresh for GPs

The committee approved the purchase of 963 PCs for GPs at a cost of £650k. This had already been approved by the Executive.

A request was made to see whether older PCs within SFH could be replaced by those being withdrawn from GP practices.

#### 2.5 Electronic Prescribing and Medicines Administration

The committee reviewed the outline business case and agreed with the recommendation that this should now move to a full business case subject to board approval. The system will improve patient safety by avoiding over-prescribing or mis-prescribing but will result in a cost for the Trust from next year mainly resulting from capital amortisation costs. It is anticipated that approximately half the cost of the system can be met from additional central funds from NHSI.

#### 2.6 Microsoft licencing

The committee authorised the purchase of new Microsoft licences (for PCs and servers) subject to board approval. The previous Enterprise Wide Agreement ended in 2010 but the Trust has procured licences since then on the same terms.

Licences now need to be upgraded because both Windows Server and PC systems will not be supported from 2020 and importantly, will not receive security updates. This could leave the Trust open to further cyber-attacks and Trusts can be fined over £10m for failing to make proper cyber security arrangements.

The proposal is to enter into a new three year Enterprise Wide Agreement but further discussion is required to ascertain which users can use online versions of Office and which users need to download the full version. Hardware upgrades may also be required and these are currently being assessed.

The committee supports the proposal subject to board approval.

#### 2.7 BAF

The committee reviewed PR4 and PR6 and does not recommend any change to the risk ratings at this point. It was noted however that the downside risk on the financial outturn for 2018/19 has reduced and that there is some assurance that there is a reasonable possibility of delivering the proposed control total for 2019/20. In the light of this, the committee will consider a reduction in the risk rating for PR4 early in 2019/20.

#### 2.8 EY ICS Review

The committee noted that the ICS had commissioned a review of its financial plan. The review identified a total system risk of £36.9m in delivering the control total for 2018/19 and the need for each member organisation to understand its recurrent run rate to inform financial planning for 2019/20. The ICS faces some challenging decisions for next year and EY suggest a strategic review to consider options for change.

#### 2.9 Reference Costs

The reference costs from submissions made earlier this year have now been analysed and the

Trust has a reference cost index of 104 – the same as last year. There is considerable variation over different areas which will now be investigated. It was disappointing to note that Derby (a similar PFI Trust) had a reference cost index of 99 so that demonstrates the opportunity SFHT has to improve its performance in this area.

It was noted how successful the PLICS implementation has been and how that will provide a much better understanding of cost drivers – particularly marginal costs when activity is increased or reduced or when services are introduced or stopped