Meeting:	**Brighton and Sussex University Hospitals NHS Trust Board of Directors Meeting**
Date:	**26th January 2017**
Board Sponsor:	**Spencer Prosser, Chief Financial Officer**
Paper Author:	**Bill Stronach, Deputy Chief Financial Officer**
Subject:	**Finance Report Month 9 2016/17**

Executive Summary
Month 9 Performance

At Month 9 the Trust is reporting a year-to-date unfavourable variance of £21.0m, with an actual deficit of £36.1m against a deficit plan of £15.2m. The full-year forecast continues to be a deficit of £59.7m, £44.1m in excess of the control total deficit of £15.6m, pending outcome of the 15/16 contract income arbitration which is expected imminently.

Reasons for the movement from the year-to-date position to forecast outturn can be summarised as follows (with a more detailed analysis in Appendix 3):

	£m
Actual deficit to Month 9	36.1
Non-recurrent cost/income adjustments	3.8
Deficit Month 9 to 12 based on run rate	13.3
Add back non-recurrent cost/income adjustments	(3.8)
Opportunities	(.7)
Income pressures	7.1
Cost pressures	3.9
Forecast deficit	**59.7**

The remaining risks above this forecast are (see Appendix 3 Downside for detail):

	£m
Lower savings opportunities	0.7
Further income pressures	10.6
Further non-pay pressures	2.1
Total	**13.4**

The year-to-date unfavourable variance of £21.0m reflects the difference between the planned deficit and actual deficit:

	£m
Planned deficit to Month 9	15.2
STF funds not earned	7.2
Cost improvement plan underachievement	0.1
Income	(7.2)
Pay	9.0
Non-pay	11.8
Actual deficit to Month 9	**36.1**

The in-month adverse variance reflects:

	£m
Planned deficit Month 9	0.3
STF Funds Not Earned	1.2
Cost Improvement Plan Shortfall	1.6
Income Over Achievement	(1.4)
Financial recovery costs	0.5
Other net overspends	2.4
Actual deficit Month 9	**4.6**

The revenue position directly impacts on cash flow so there is there is a requirement for additional working capital support to cash back the revenue deficit. Revenue deficit funding from the DH has been agreed in principle, with funding for November through to January having been paid over to the Trust. February and March funding will be determined by actual revenue results.

Action required by the Board	The Board is asked to note the contents of the report and ask any questions of the Chief Financial Officer.

Links to corporate objectives	The report aims to support the Trust's corporate objective of ***high productivity***
Identified risks and risk management actions	Noted in Executive Summary.
Resource implications	Annual revenue budget £550m
Legal implications	The Trust has a duty to break even taking one year with another.
Report history	None
Appendices	Appendix 1 – Subjective Analysis Appendix 2 – Organisational Analysis Appendix 3 – Year-to-date to Forecast Outturn Bridge Appendix 4 – Finance Report

Report to the Board of Directors, 26th January 2017
Financial Performance Month 9 2016/17

1. Introduction

1.1. This report provides an update on the financial performance of the Trust to December 2016.

2. Key Financial Metrics

Metric	*In-Month*			*Year-to-Date*		
	Plan	Actual	Variance	Plan	Actual	Variance
	£000's	£000's	£000's	£000's	£000's	£000's
(Surplus)/Deficit	271	4,581	4,310	15,178	36,141	20,963
Income	(45,831)	(46,027)	(196)	(412,114)	(413,722)	(1,607)
Operational Expenditure	43,246	47,788	4,542	401,768	424,869	23,101
Capital	5,807	3,518	(2,289)	77,238	46,419	(30,819)
Cash				8,591	10,419	1,829
CIPs	3,175	1,562	1,613	15,580	15,441	139

The Plan figures shown above deliver the Trust's control total of £15.6m deficit.

3. Summary

3.1. The Trust is reporting an in-month unfavourable variance to budget of £4.3m and a year-to-date unfavourable variance of £21.0m.

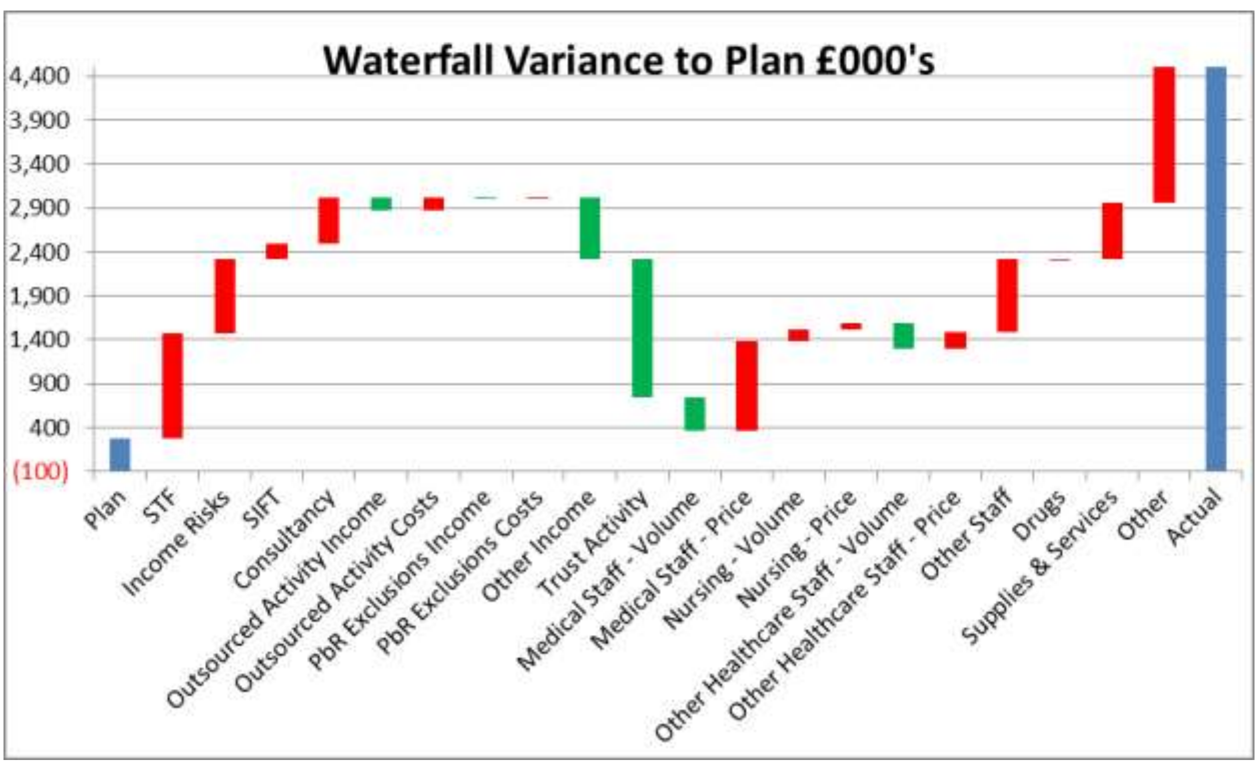
3.2. The position reflects the Trust not meeting the requirements for receiving £7.2m of STF from July onwards and an assessment of contract income challenges. Despite these things, income remains above plan, principally due to PbR exclusion funding being above plan which is offset with overspends in non-pay.

3.3. The table below shows the key variances from plan for December as well as the change in performance from November to December.

Table 1

Key variances from plan	In-month variances £000's	Run-rate changes from Month 8 £000's
Activity income	(1,564)	648
Challenges provision	840	10
PBR exclusions income	(12)	363
Outsourcing income	(144)	(195)
STPF	1,200	0
SIFT income	185	(167)
Other income (PP, R&D etc.)	(703)	240
Pay	1,570	(458)
McKinsey/FTI consultancy	519	14
Outsourcing	144	195
Drugs	3	(129)
PBR exclusions expenditure	12	(363)
Consumables expenditure	637	(238)
Other non-pay	1,621	653
Total variance	**4,310**	**574**

The waterfall graph below shows the breakdown of the December position. A large part of the expenditure variance relates to higher spending on pay and non-pay. This relates to payments for additional hours and waiting list initiatives to achieve RTT targets, additional capacity for winter sustainability and the costs of interim staff to assist with improving both Trust CQC and financial positions. Significant in-month payments to R&D partners increased non-pay run-rate, but were offset by an equivalent increase in income recognised.



3.4. A proportion of the income variance is associated with not achieving the requirements to receive the STF and SIFT income being lower than expected.

3.5. The balance of the in-month overspend is due to the under-delivery of CIP by £1.6m; additional savings required to meet the increased savings target phased in from October have not been identified in-full.

3.6. The Trust's cash position has stabilised with monthly approval from the NHSI and DH of working capital loans to cash back the revenue deficit. The January funding has been approved and paid to the Trust; funding for February and March will be determined by the actual revenue results.

3.7. The efficiency programme has been further reviewed this month and the year-to-date position has slipped below target. The forecast for full-year delivery is now £19.4m, which has increased compared to last month, but is still £5.7m below plan. Much of the current year savings are related to identification of non-recurrent pay savings although some of these may become recurrent through the 17/18 planning process.

3.8. A detailed analysis of the Trust's financial Income and Expenditure performance by subjective category is shown in Appendix 1 and by organisational unit in Appendix 2.

3.9. Of the £13.4m of risk to the current forecast included in the downside model, £10.6m relates to income pressures, £2.1m to cost pressures and a further £0.7m to opportunities being less than forecast. Details are in Appendix 3. An additional risk has been included in the downside model this month: the ability of NHSE to pay for all forecast activity given the level of over-performance against contract. However, the level of risk is yet to be properly assessed and a financial value therefore not attributed at this time.

3.10. In mitigation of the above risks, the Board has authorised a number of enhanced controls to reduce the run rate for the remainder of the year. Enhanced authorisation arrangements for Waiting List Initiative payments has now been rolled out as has a revised Vacancy Control Group policy. A Medical Job Planning policy is also due to be rolled out. In addition to this, negotiations with commissioners have continued with the aim of resolving the outstanding 2015/16 payment as well as ensuring forecast 2016/17 income is secured.

3.11. As part of the Trust being in Financial Special Measures a Financial Recovery Plan has been prepared and submitted to NHSI.

4. Income

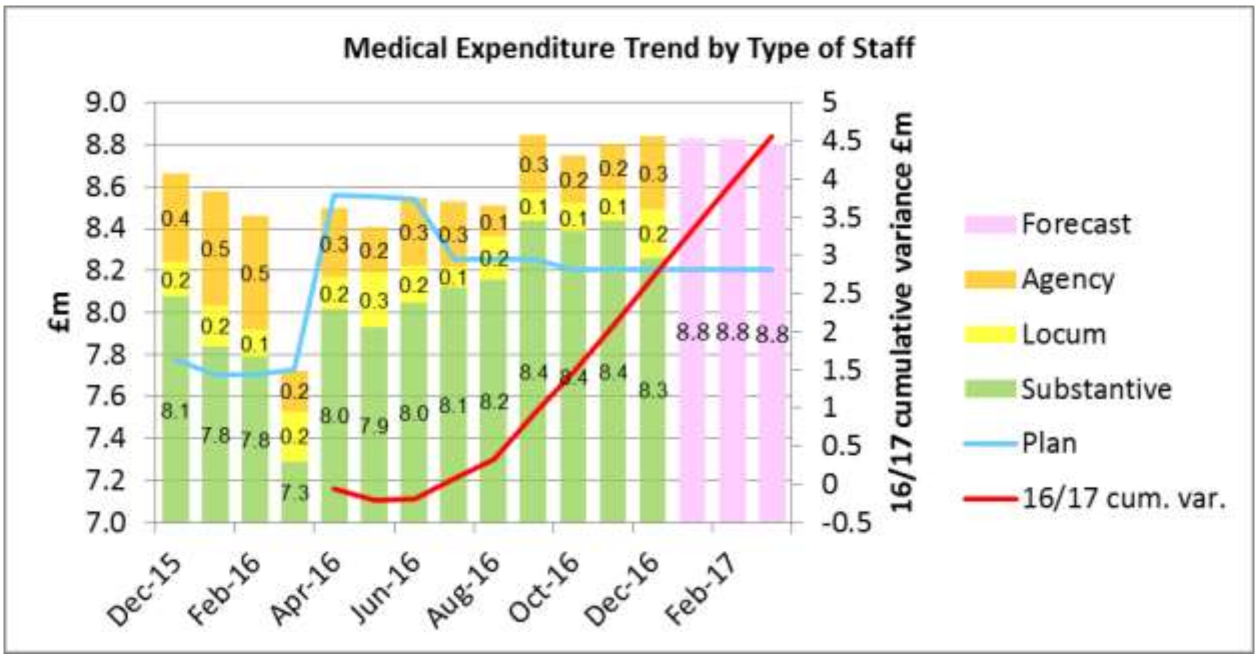
4.1. The Trust is reporting year-to-date income overachievement of £1.6m, an increase of £0.2m in December.

4.2. Commissioner activity is underperforming against the Sussex CCG contract and over performing on the Specialised Commissioning contract. Over performance is mainly for non-elective activity and outpatients. Income from PbR excluded items continues to be significantly above plan. The Trust position includes a provision of £4.9m for contract adjustments/challenges against the reported level of over performance at Month 9.

4.3. There continues to be a variance on SIFT income due to the schedule from HEE KSS being £4.1m lower for the year than the value that was received in 2015/16. Research income improved by £1.1m in month due to funding received from 2 EU funded projects (this is offset by additional cost).

5. Expenditure

5.1. Operating Expenditure is overspent by £23.1m year-to-date which includes a pay overspend of £7.2m. The pay overspend comprises overspends on Medical and Dental Staff of £2.7m, Nursing of £2.3m, Pay Other Staff £2.9m and Pay Other Healthcare £0.5m. Given there are year-to-date overachievements of CIP savings on Medical Staff, Nursing, and Pay Other Healthcare the overall overspends in these areas reflect considerable pressures which need to be addressed. The chart below shows the actual and forecast breakdown of Medical staff by type.



5.2. The Medical pay run rate has been higher in the last four months than it was earlier in the year which is inconsistent with the cost reductions incorporated into the plan. The September increase was due to payments to settle a junior doctor banding appeal. The chart also shows that more higher cost locum and agency doctors were used in December.

5.3. The year-to-date £2.3m adverse Nursing position continues to be mainly due to overspends in the Acute Floor and Neurosciences and Stroke Directorates where staffing in excess of funded templates is being used. Expenditure on Nursing bank and agency continues to outweigh the underspend on substantive budgets, however was lower than expected in December due to the inability to fill shifts. Further increases in cost are forecast in relation to staffing extra capacity agreed as part of the Winter Plan.

5.4. Table 2 below shows the breakdown of Medical and Nursing variances broken down between substantive, bank and agency which further illustrates the overall position.

Table 2: Nursing & Medical Substantive, Bank & Agency Expenditure

	In Month			Year to Date		
	Plan	Actual	Variance	Plan	Actual	Variance
	£000's	£000's	£000's	£000's	£000's	£000's
Nursing - Substantive	10,573	9,797	(776)	96,060	88,631	(7,429)
Nursing - Bank	19	819	800	184	7,988	7,804
Nursing - Agency	0	170	170	0	1,912	1,912
Nursing - Total	**10,592**	**10,787**	**195**	**96,244**	**98,531**	**2,286**
Medical - Substantive	8,079	8,267	188	73,844	73,786	(58)
Medical - Bank/Locum	32	226	194	291	1,558	1,266
Medical - Agency	92	347	256	891	2,387	1,496
Medical - Total	**8,203**	**8,841**	**638**	**75,026**	**77,731**	**2,705**

5.5. The Trust has been set an agency expenditure cap of £12.8m for the year. Year-to-date the cap is not being exceeded with expenditure of £7.4m against the limit of £10.1m. It is anticipated that containing agency expenditure will be more difficult for the remainder of the year due to the staffing required to deliver the Winter Plan.

5.6. The non-pay overspend is £15.9.m of which £5.9m relates to PbR excluded drugs and devices that are pass through costs and therefore offset with income. The rest is a mixture of an increase in consumables, a £5.1m overspend, and £3.6m under delivery of non-pay efficiencies.

5.7. So far this year £0.74m of expenditure has been incurred on initiatives to address concerns raised by the recent CQC inspection. This includes improved fire safety programmes, an improvement Director, a hand hygiene programme, investment in statutory and mandatory training and other smaller initiatives. As there is no budget for most of these costs they will represent a cost pressure, but it is hoped that expenditure can be limited to the £1.6m currently included in the forecast whilst still delivering the required level of quality improvements.

5.8. A Winter Plan proposal has been approved to the value of £0.94m for 16/17 and operational plans are being refined to try to ensure costs are within this envelope.

5.9. The Clinical Directorates are overspent by £14.5m year-to-December with all Directorates overspending except for Specialty Medicine – see Appendix 2.

5.10. The Corporate Directorates are showing an overspend of £6.8m year-to-date, which is largely attributable to the Chief Medical Officer (£3.8m) as a result of the reduction in SIFT income compared to plan. The balance is within Chief Finance officer, where there are overspends in Facilities of £1.1m and in Income with an underachievement of income of £1.5m.

6. Cost Improvement Plans

6.1. Delivery of the efficiency programme was reviewed in Month 7 and a revised full-year forecast of £19.2m made against the £25.1m target. The forecast has improved by £0.2m since them, and stands at £19.4m, although much of the shift is in non-recurrent savings.

6.2. Much of the savings achieved relate to non-recurrent pay underspends identified in Medical, Nursing, Pay Other Healthcare and Admin and Clerical staff groups. In order for the 17/18 plan to include a realistic savings requirement, it will be necessary to make some of these non-recurrent savings into recurrent ones in the planning process with posts being disestablished. The PMO office will be working on identifiying recurrent savings.

6.3. The reported year-to-date position is now an underachievement of £0.1m.

Table 3: CIPS Achievement to Plan

	Plan	Actual / Forecast	Variance
	£'000	£'000	£'000
Year to Date	15,580	15,441	(139)
Year End Forecast	25,110	19,396	(5,714)

6.4. Whilst the efficiency target is £25.1m, the actual amount the Trust needs to reduce expenditure by is much greater than this in order to deliver a balanced position.

7. Actions to improve

7.1. As part of the Trust being in Financial Special Measures a Financial Recovery Plan has been developed and discussed with NHSI. This plan includes a range of improvement actions.

7.2. Focused financial recovery meetings are being held with the most challenged Directorates in order to ensure improvement actions are being driven forward.

8. Cash

8.1. DH has approved additional cash support for the revenue deficit to the end of January (£26.2m). The balance of the year's deficit funding will be subject to monthly applications and approval. These loans have improved the Trust's cashflow significantly and started to normalise the management of creditor payments. The determination of the 15-16 commissioning income arbitration in January will have an impact on the cashflow and outstanding loans balance.

9. Capital

9.1. The Strategic and Operational capital programmes are both underspent at Month 9. The Decant element of the 3Ts programme has impacted on the main scheme and the programme is now reporting a slippage of £11.2m for the full year. The Radiotherapy East scheme has slipped by £1m and will continue into 17/18.

9.2. The Operational capital schemes are significantly behind plan so some schemes planned for 17/18 and other short lead time priority schemes are being drawn forward to fill the shortfall.

10. Forecast Outturn

10.1 The Trust is forecasting a year-end position of £59.7m deficit, which exceeds the control total of £15.6m by £44.1m. Details of how the forecast is reached from the Month 9 position are given in Appendix 3.

11. The Board is asked to:

- Note the contents of this report
- Ask questions of the Chief Financial Officer

Bill Stronach
Deputy Chief Financial Officer
January 2017