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Meeting:	**Brighton and Sussex University Hospitals NHS Trust Board of Directors**
Date:	**27 October 2016**
Board Sponsor:	**Spencer Prosser, Chief Financial Officer**
Paper Author:	**Bill Stronach, Deputy Chief Financial Officer**
Subject:	**Finance Report Month 6 2016/17**

Executive Summary

Month 6 Performance

At Month 6 the Trust is reporting a year-to-date unfavourable variance of £9.6m, with an actual deficit of £23.7m against a plan of £14.1m, and a forecast deficit of £59.7m that is in excess of the control total deficit of £15.6m.

The forecast deficit had previously been maintained at the control total level of £15.6m pending confirmation of savings from the financial improvement project. The movement to a forecast deficit of £59.7m can be summarized as follows (with a more detailed analysis in Appendix 3).

Actual deficit to Month 6	£23.7m
Deficit Month 6 to 12 based on run rate	£27.3m
Non-recurrent cost adjustment	£(1.6m)
Opportunities	£(7.1m)
Income Pressures	£8.1m
Cost Pressures	£9.3m
Revised forecast deficit	£59.7m

The forecast now includes the following values that were previously declared as risks.

STF Funds Not Earned	£10.8m
Cost Improvement Plan Shortfall	£10.9m
Contract Income Adjustments	£1.2m
Other Pressures	£21.2m
Total	£44.13m

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

Lower Opportunities	£3.1m
Further Income Pressures	£11.2m
Further Non-pay Pressures	£3.1m
Total	£17.4m

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The year to date unfavourable variance of £9.6m reflects:

Planned deficit to Month 6	£14.1m
STF Funds Not Earned	£3.6m
Cost Improvement Plan Shortfall	£2.2m
Income	£(3.0m)
Pay	£(0.3m)
Non-Pay	£7.1m
Actual deficit to Month 6	£23.7m

The in-month adverse variance reflects:

Planned deficit Month 6	£1.9m
STF Funds Not Earned	£1.2m
Cost Improvement Plan Shortfall	£0.3m
Income Risk Recognised in Month	£1.2m
Financial recovery costs	£0.3m
Other net overspends	£0.7m
Actual deficit Month 6	£5.6m

The revenue position directly impacts on cash flow with the continuing requirement for additional working capital support to avoid extending creditor days further. Working capital loans of £9.9m have been approved in October.

It has been noted in previous reports that the financial risks are such that the financial position at year-end could be worse than the control total deficit. The forecast outturn now reflects the financial risks faced by the Trust.

Action required by the Board	The Board is asked to note the month 6 position, the revised forecast outturn, the risks to delivery of the plan, and the actions taken and planned

Links to corporate objectives	The report supports delivery of the Trust's corporate objective: ***High Performing***
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

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Report to the Board of Directors, 27 October 2016
Financial Performance Month 6 2016/17

1. Introduction

1.1. This report provides an update on the financial performance of the Trust to September 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	1,912	5,559	3,647	14,055	23,666	9,611
Income	(45,819)	(45,332)	487	(274,640)	(274,750)	(110)
Expenditure	44,546	47,855	3,309	271,357	281,240	9,883
Capital	6,288	3,841	(2,447)	54,858	38,747	(16,111)
Cash				7,563	4,668	(2,894)
CIPs	1,688	1,365	323	6,630	4,428	2,202

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 £3.6m and year-to-date an unfavourable variance of £9.6m. The year-to-date variance is made up of £3.6m underachievement of the STF income, £2.2m slippage on the efficiency programme, a £7.1m overspend on non-pay and £3.0m overachievement of income.

3.2. The position reflects the Trust not meeting the requirements for receiving the £3.6m STF in quarter 2, and also a revised assessment of income challenges. In addition there are overspends in both pay and non-pay. The tables below show the key variances from plan for September as well as the change in performance from August to September.

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Key Variances From Plan	**In Month Variances £000's**	**Run Rate Changes from August to Sept**	**Changes from Month 5 £000's**
Activity Income	(1,090)	Activity Income	(1,172)
Challenges Provision	1,202	Contract Adjustments / Challenges	1,202
PBR Exclusions income	(951)	PBR Exclusions income	(254)
Outsourcing Income	(93)	Outsourcing Income	37
STPF	1,200	STPF	1,200
SIFT Income	341		49
Other Income (PP, R&D etc.)	(122)	Other Income (PP, R&D etc.)	(277)
Pay	1,003	Pay	660
McKinsey's Consultancy	262	McKinsey's Consultancy	(74)
Outsourcing	93	Outsourcing	(37)
Drugs	83	Drugs	(32)
PBR Exclusions Expenditure	951	PBR Exclusions Expenditure	254
Consumables Expenditure	490	Consumables Expenditure	(566)
Other Non Pay	277	Other Non Pay	481
Total Variance to Plan	**3,647**	**Total Movement from Month 5**	**1,472**

3.3. The waterfall graph below shows the breakdown of the September position. A large part of the expenditure variance relates to higher spending on pay. This is as a result of payments for a junior doctors banding settlement of £0.2m, bank holiday enhancements £0.1m, increased usage of bank and agency staff and the understatement of the bank and agency accrual in August. The last two will be investigated in October. In addition the cost of drugs continues to increase, mostly offset by income, and higher spending on consumables also continues. There continues to be increases in PbR exclusion income and outsourced activity income that are matched by costs.

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.

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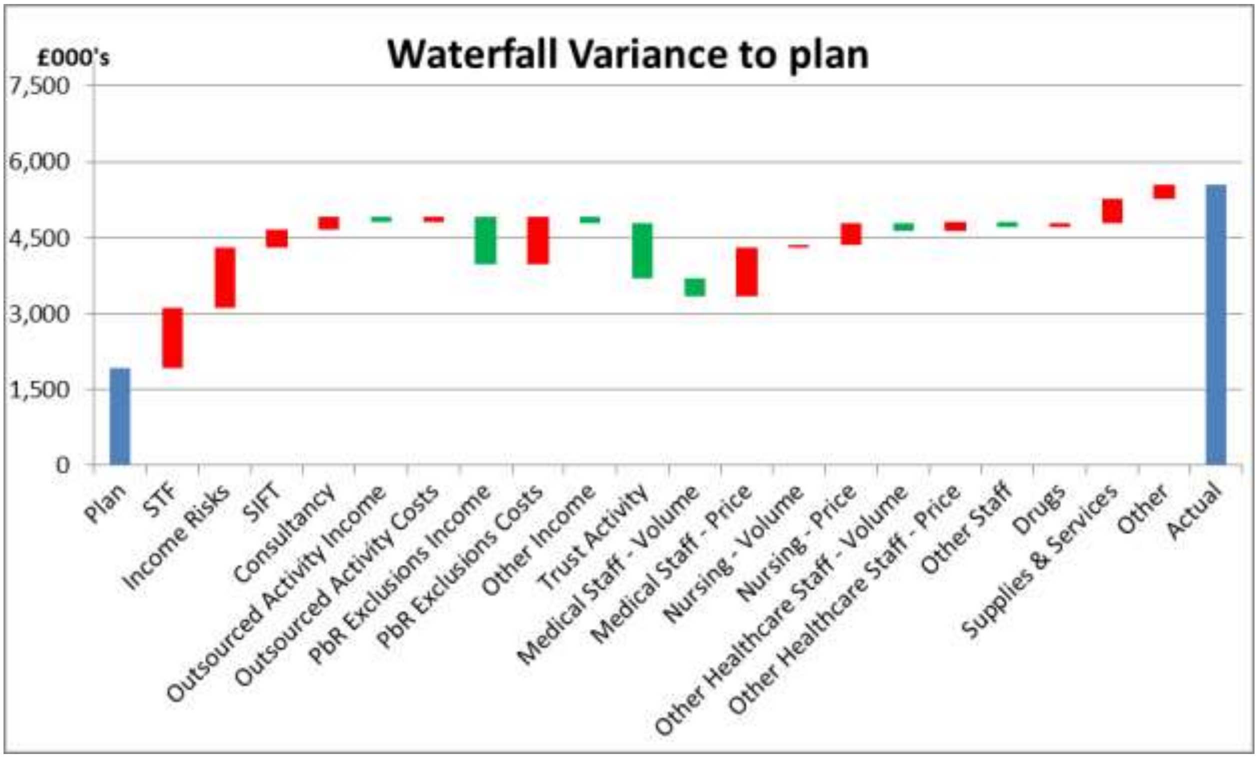

3.5. The balance of the over spend is due to the stepped increase in the efficiency programme of £1.2m per month from July, across pay and non-pay expenditure categories, and the Trust has not delivered the savings required.

3.6. The Trust's cash position continues to deteriorate with a working capital shortfall and the increasing revenue deficit. The NHS Improvement has approved further loan funding of £9.9m to back the working capital shortfall but long term revenue deficit funding is required to provide the cash to support the revised revenue deficit.

3.7. Delivery of the efficiency programme is below plan in the month by £0.3m, and year to date it is below plan by £2.2m. The in-month slippage reflects the planned budget reduction from July together with lack of progress in fully developing CIP schemes. Whilst some plans have now been identified, the time taken to get PMO support in place to implement them has impacted on start dates of some schemes. There will be a further increase to the planned savings of £1.2m per month from October. While the forecast was previously for the £25.1m target to be delivered in-full, this has been revised down in Month 6 to £14.2m, £10.9m below plan.

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 £17.4m of risk to the current forecast included in the downside model, £11.2m relates to income pressures, £3.1m to cost pressures and a further £3.1m to opportunities being less than forecast. Details are in Appendix 3.

3.10. In mitigation of the above risks, the Board has been considering a suite of enhanced controls, which once approved will reduce the run rate for the remainder of the year. In addition to this, negotiations with commissioners have continued with the aim of resolving the outstanding 2015/16 payment as well as ensuring the 2016/17 income is secured.

4. Income

4.1. The Trust is reporting year to date income over achievement of £0.1m, a reduction of £0.5m in month 6, due mainly to an increase in the provision held for contract challenges.

4.2. Commissioner activity is under performing 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 holds a provision of £2.4m for contract adjustments/ challenges against the reported level of over performance at Month 6.

4.3. There continues to be a variance on SIFT income due to the schedule from HEE KSS being £3.6m lower for the year than the value that was received in 2015/16. There also continues to be an under achievement of Research income year-to-date which is expected to be mitigated through a reduction in costs over the rest of the year.

5. Expenditure

5.1. Expenditure year-to-date is overspent by £9.6m which includes an overspend on pay of £1.9m. The pay overspend comprises overspends on nursing of £1.4m, Medical and Dental pay of £0.9m and Pay other staff £0.5m, which is being partly offset by underspends in the other staff groups. The overspends are partly associated with non-delivery of the efficiency plan. The non-pay overspend is £8.0.m of which £4.3m relates to PbR excluded drugs and devices that are pass through cost and therefore offset with income. The rest is a mixture of an increase in consumables, particularly disposable items (£1.2m overspend), continued outsourcing activity and under delivery of non-pay efficiencies.

5.2. In the year-to-date position nursing has overspent by £1.4m, whilst plans to standardise roster processes, and thus reduce costs, have not yet been fully rolled out. The main areas of overspend continue to be in the Acute and Neurosciences Directorates and the Chief Nurse has begun some focused work in these areas. Expenditure on nursing bank and agency continues to outweigh the underspend on substantive budgets.

5.3. The CIPs programme reduces the monthly pay expenditure budgets by £1.6m over the year. The pay budget for April was £28.8m which reduces to £27.2m by March and the graph below shows the reduction to the pay budgets required by month, with stepped changes in July and October. The current overspends reflect slippage in delivering the CIPs programme, plus some increases in volume.

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5.4. A breakdown of the nursing and medical staff spending profile is shown in the table 1 below.

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 £4.5m against the limit of £6.9m. However, more needs to be done to reduce the amount spent on temporary staffing as this is a contributor to the nursing overspend in the month.

Table 1 Nursing & Medical Substantive, Bank & Agency

	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	10,535	9,850	(686)	64,363	59,645	(4,718)
Nursing - Bank	19	977	958	127	4,946	4,818
Nursing - Agency	0	215	215	0	1,263	1,263
Nursing - Total	**10,554**	**11,042**	**488**	**64,491**	**65,855**	**1,364**
Medical - Substantive	8,129	8,440	311	49,628	48,707	(921)
Medical - Bank/Locum	29	134	105	174	1,040	866
Medical - Agency	96	273	177	611	1,589	978
Medical - Total	**8,254**	**8,847**	**593**	**50,414**	**51,336**	**922**

5.6. Additional expenditure has been incurred in outsourcing and other initiatives designed to increase activity in key areas. Expenditure of £1.7m has been incurred year-to-date on these initiatives, with plans to spend up to £4.0m during the year in the areas of Abdominal, Neurology, Children's and Head and Neck.

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5.7. Some expenditure has commenced on initiatives to address concerns raised by the recent CQC inspection, amounting to £0.37m. This includes improved fire safety programmes, an improvement Director, a hand hygiene programme, a training initiative and other smaller initiatives. The full list of initiatives will need to be fully prioritised following the recent high profile release of the CQC report. As there is no budget for these costs they will represent a cost pressure, but it is hoped that this can be limited to £2m now included in the forecast whilst still delivering the required level of quality improvements.

5.8. The Clinical Directorates are overspent by £9.6m in the year to September – see Appendix 2. This is an increase compared to last monthly, partly due to the full allocation of the CIPs budgets. All the clinical directorates except Cardiovascular and Specialty Medicine are overspending year-to-date. The Corporate Directorates are showing an overspend of £0.2m year to date, which is largely attributable to the Chief Medical Officer (£2.4m) as a result of the reduced SIFT income, offset by underspends in other corporate departments.

6. Cost Improvement Plans

6.1. The efficiency programme is behind plan for September by £0.3m and for year-to-date by £2.2m. The under achievement to date is largely due to slippage in formulating the detailed plans in order that Directorates and Departments can implement them.

6.2. The efficiency plan is phased over the year with another £1.2m budget reduction per month from October on top of the July-September values. The graph below demonstrates the stepped increase and the size of the challenge in the last half of the year.

6.3. Whilst the efficiency target is £25.1m, the actual amount the Trust needs to reduce expenditure by is much greater than this. McKinsey worked with the Trust as part the financial improvement programme and identified opportunities of £20m in the current financial year, however these were not identified in full until August 2016, making the achievements of the targets in full more difficult to achieve.

6.4. The full £25.1m efficiency programme target is now fully allocated to directorates, however as the risks reported all year are beginning to impact on achievement of the target, it is now forecast to only deliver £14.2m.

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CIPS Achievement to Plan

	Plan	Actual / Forecast	Variance
	£'000	£'000	£'000
Year to Date	6,630	4,428	2,202
Year End Forecast	25,104	14,247	10,856

6.5. The WAVE system is being used by the PMO to monitor progress of the efficiency schemes is being rolled across the Trust. This is a project management tool that allows tracking of milestones, risks, KPI's as well as the financial element of each scheme across the Directorates.

7. Actions to improve

7.1. Under achievement of the CIP target is a significant reason for the forecast movement from control total and work is needed to address this and mitigate any further risk. The fortnightly PMO meetings are continuing and Directorates will now be focusing on the implementation of the identified plans as well as progressing any that are at the ideas stage. The new Performance Management framework was launched on 4^{th} August 2016 and refocused meetings with the clinical Directorates have commenced in September.

7.2. Focused work is underway in nursing, medical and drugs to bring expenditure back in line with budgets.

7.3. Additional controls are being considered to help reduce the forecast overspend.

8. Cash

8.1. The outstanding 15/16 year-end commissioning income has been invoiced but remains in dispute and is likely to go to arbitration. NHS Improvements has agreed interim loans totalling £9.9m to support this working capital shortfall on the understanding that the loans will be repaid on settlement of the debts. The increasing revenue deficit together with this working capital shortfall has placed further pressure on creditor payments and increased the backlog of overdue creditor accounts.

8.2. The Trust's cash position therefore remains very difficult and is dependent on revenue deficit funding from DH to cash back the revised forecast deficit.

9. Capital

9.1. The capital programme is underspent at Month 6. The Radiotherapy East scheme has just restarted and a number of the Operational Capital Schemes are expected to move into the works phase from October through to the end of the year to achieve the forecast level of capital expenditure.

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10. Forecast Outturn

10.1 The Trust is forecasting a year-end position of a £59.7m deficit, which exceeds the control total of £15.6m by £44.1m. Details of how the forecast is reached from the Month 6 position are given in Appendix 3.

The Board is asked to note the month 6 position, the revised forecast outturn, the risks to delivery of the plan, and the actions taken and planned

Bill Stronach
Deputy Chief Financial Officer
October 2016