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Meeting:	**Brighton and Sussex University Hospitals NHS Trust Board of Directors**
Date:	**30th March 2017**
Board Sponsor:	**Spencer Prosser, Chief Financial Officer**
Paper Author:	**Bill Stronach, Deputy Chief Financial Officer**
Subject:	**Finance Report Month 11 2016/17**

Executive Summary
Month 11 Performance

At Month 11 the Trust is reporting a year-to-date unfavourable variance of £42.5m, with an actual deficit of £58.0m against a deficit plan of £15.6m. The submitted full-year forecast necessarily continues to be a deficit of £59.7m, £44.1m in excess of the control total deficit of £15.6m, but the internal forecast is £3.0m worse at £62.7m deficit. The position deteriorated in February due to the recognition of prior year bad debts following the adverse outcome of arbitration on disputed contract income.

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 11	58.0
Non-recurrent cost/income adjustment	(7.1)
Deficit in Month 12 based on run rate	4.6
Add back non-recurrent cost/income adjustment	7.1
Opportunities	(3.8)
Income pressures	2.7
Cost pressures	1.2
Forecast deficit	**62.7**
Adjustment to Q3 forecast	(3.0)
Q3 forecast deficit	**59.7**

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

	£m
Lower savings opportunities	1.4
Further income pressures	0.5
Further non-pay pressures	1.4
Total	**3.3**

The year-end forecast continues to include £15.5m of impairment costs. This value will be confirmed on the revaluation of the estate and on the review of other assets, including assets under construction. It is assumed that the full value of the impairment will not count towards the measurement of the deficit for performance purposes although there is a risk that a portion of it may.

The year-to-date unfavourable variance of £42.5m reflects the difference between the planned deficit and actual deficit:

	£m
Planned deficit to Month 11	15.6
STF funds not earned	9.6
Cost Improvement Plan underachievement	3.4
Income	(5.5)
Pay	8.4
Non-Pay	26.6
Actual deficit to Month 11	**58.0**

The in-month adverse variance reflects:

	£m
Planned deficit Month 11	0.2
STF funds not earned	1.2
Cost Improvement Plan shortfall	1.6
Income under achievement	2.8
Financial recovery costs	0.5
Other net overspends	11.5
Actual deficit Month 11	**17.8**

The revenue position directly impacts on cash flow so there has been a requirement for additional working capital support to cash back the revenue deficit. Revenue deficit funding has been provided monthly by the DH since November; the February funding was £5.7m and the funding for March will be £8.5m.

Action required by the Board	• Note the contents of this report • 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, 30th March 2017

Financial Performance Month 11 2016/17

1. Introduction

1.1. This report provides an update on the financial performance of the Trust to February 2017.

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	197	17,812	17,615	15,564	58,031	42,466
Income	(45,834)	(41,727)	4,107	(503,782)	(501,418)	2,365
Operational Expenditure	43,220	56,763	13,542	488,213	528,876	40,663
Capital	5,588	6,471	883	90,491	55,934	(34,557)
Cash				10,052	2,893	(7,159)
CIPs	3,175	1,562	1,613	21,936	18,574	3,362

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 £17.6m and a year-to-date unfavourable variance of £42.5m.

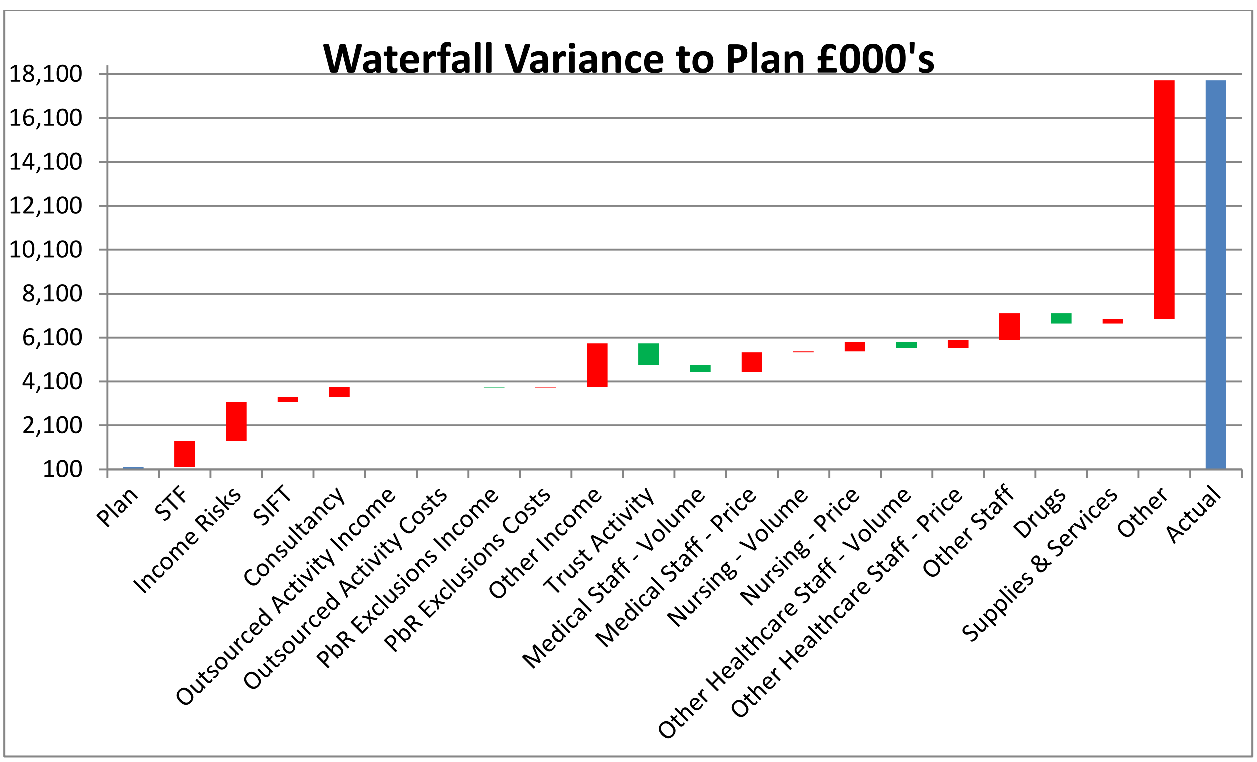
3.2. The position reflects the Trust not meeting the requirements for receiving £9.6m of STF from July onwards and the recognition of a 2015-16 income bad debt relating to CCG income. Expenditure has increased significantly in month due to the bad debt being recognised.

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

Table 1

Key variances from plan	In-month variances £000's	Run-rate changes from Month 10 £000's
Activity income	(993)	(350)
Challenges provision	1,755	2,441
PBR exclusions income	(41)	1,423
Outsourcing income	(16)	(94)
STPF	1,200	0
SIFT income	229	(154)
Other income (PP, R&D etc.)	1,972	975
Pay	2,371	779
McKinsey/FTI consultancy	479	120
Outsourcing	16	94
Drugs	(476)	(301)
PBR exclusions expenditure	41	(1,423)
Consumables expenditure	213	(347)
Other non-pay	10,865	10,571
Total variance	**17,615**	**13,735**

The waterfall graph below shows the breakdown of the February position. A large part of the expenditure variance relates to the bad debt write off. Negotiations were finalised adversely in February with the CCGs and NHSI. The balance primarily 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.



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. A further element 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.

3.6. The balance of the overspend relates to the bad debt provision noted above. Until this month, the forecast income had assumed the Trust would receive £7.25m of the disputed income, however the actual settlement is closer to the downside forecast.

3.7. The Trust's cash position is more stable with the monthly deficit funding from the DH as working capital loans to cash back the revenue deficit. The February loan was for £5.7m and a further £8.5m has been approved for March.

3.8. The efficiency programme year-to-date position continues to be below target. The forecast for full-year delivery is now £20.1m, which has increased compared to last month, but is still £5.0m 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.

3.9. 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.

3.10. Of the £3.3m of risk to the current forecast included in the downside model, £0.5m now relates to income pressures, £1.4m to cost pressures and a further £1.4m to opportunities being less than forecast. Details are in Appendix 3.

3.11. 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 have now been rolled out as has a revised Vacancy Control Group policy. A Medical Job Planning policy is also due to be rolled out, and budget holders were asked by the CEO to reduce their forecast spend in February and March by 2%. However in light of the disappointing outcome of the 2015-16 income negotiations, there is a high risk of the trust not meeting the forecast outturn of £59.7m deficit.

4. Income

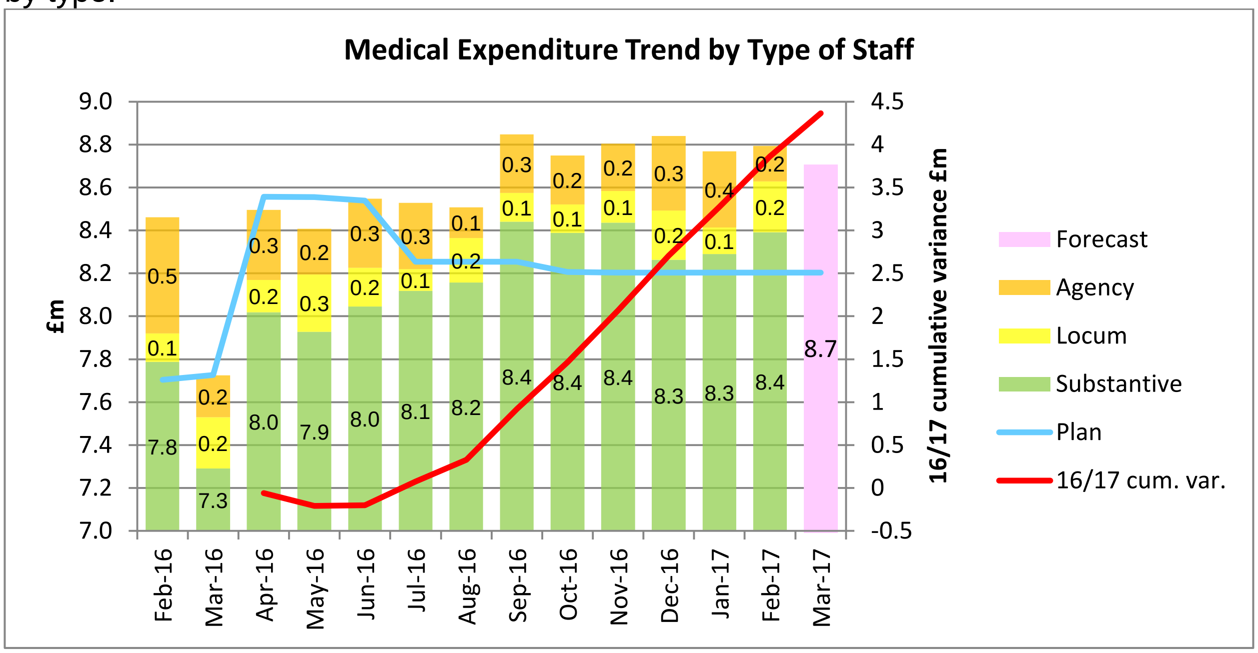
4.1. The Trust is reporting year-to-date income under achievement of £2.4m, a reduction of £4.1m in February. The year-end forecast income variance has moved from a deficit of £6.1m to a surplus of £0.3m. The change reflects the release of £2.7m of provision relating to the 15/16 income dispute, the adverse outcome was recognised as a bad debt in non-pay, and release of provisions previously included for 16/17 income challenges in order to report £59.7m deficit.

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.

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.

5. Expenditure

5.1. Operating Expenditure is overspent by £42.5m year-to-date which includes a pay overspend of £11.1m. The pay overspend comprises overspends on Medical and Dental Staff of £3.8m, Nursing of £3.2m, Pay Other Staff £4.5m, Pay Other Healthcare £0.6m and Management £0.5m, offset with some underspends on Admin and clerical maintenance and ancillary staff. 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 latter half of the year 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, and further payments were made in February. The chart also shows that whilst fewer higher cost locum and agency doctors were used in January, this has doubled in February. The forecast looks optimistic and sits mainly in abdominal

5.3. The year-to-date £3.2m 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, and increased agency costs and a full month of Newhaven Downs being open are the main drivers of the expenditure increase compared to January. Additional budget has been allocated for the areas incurring additional Winter pressures spend.

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	10,572	9,695	(877)	117,240	108,050	(9,190)
Nursing - Bank	19	1,041	1,022	222	10,090	9,868
Nursing - Agency	0	335	335	0	2,496	2,496
Nursing - Total	**10,591**	**11,072**	**481**	**117,462**	**120,636**	**3,174**
Medical - Substantive	8,079	8,388	310	90,001	90,463	461
Medical - Bank/Locum	32	240	207	356	1,922	1,567
Medical - Agency	92	166	74	1,074	2,908	1,833
Medical - Total	**8,203**	**8,794**	**591**	**91,431**	**95,293**	**3,861**

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 £9.4m against the limit of £11.7m. 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. Management costs continue to overspend, in part due to double running costs of the CEO and COO, the management of the hospital at home project and interim staff in the PMO. Some of the interim staff have now left the trust.

5.7. The non-pay overspend is £29.5m of which £15.9m relates to other non-pay and includes the bad debt of £10.3m. A further £7.4m 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 £5.9m overspend, and £2.3m under delivery of non-pay efficiencies.

5.8. So far this year over £1m of expenditure has been incurred on initiatives to address concerns raised by the recent CQC inspection. This includes additional Medical Staff in A&E, investment in staffing Obstetric Theatres, improved fire safety programmes, an improvement Director, a hand hygiene programme, investment in statutory and mandatory training and other smaller initiatives. £0.4m of external funding supporting the CQC investments has been secured.

5.9. 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. Budgets were allocated during January.

5.10. The Clinical Directorates are overspent by £19.4m year-to-February with all Directorates overspending except for Specialty Medicine – see Appendix 2.

5.11. The Corporate Directorates are showing an overspend of £23.5m year-to-date, which is largely attributable to the Chief Finance Officer (£9.0m), and the reserves budget (£8.9m). The CFO overspend is made up of £0.9m in Facilities, £6.3m in trust level income risk and £1.3m relating to the costs of financial special measures consultancy. The reserves overspend is where the bad debt provision has been charged. The Chief Medical Officer also continues to be overspent (£4.3m) as a result of the reduction in SIFT income compared to plan.

6. Cost Improvement Plans

6.1. The full-year CIPs forecast has improved and now stands at £20.0m against the £25.1m target. Much of the increase however is in non-recurrent savings relating to vacancies.

6.2. Savings achieved that relate to non-recurrent pay underspends identified in Medical, Nursing, Pay Other Healthcare and Admin and Clerical staff groups, need to be reviewed. In order for the 17/18 plan to include a realistic savings requirement, consideration is being given to making some of these non-recurrent savings into recurrent ones in the planning process with posts being disestablished.

6.3. The reported year-to-date position is now an underachievement of £3.m.

Table 3: CIPS Achievement to Plan

	Plan	Actual / Forecast	Variance
	£'000	**£'000**	**£'000**
Year to Date	21,936	18,574	(3,362)
Year End Forecast	25,110	20,077	(5,033)

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. The focus at present is in identifying projects with which to make savings in 2017-18, and meetings are being held with all Directorates and Departments in order to ensure improvement actions are developed.

8. Cash

8.1. The Trust received £5.7m revenue deficit funding in February and the final tranche of the funding of £8.5m has been approved to be paid in March. These loans have stabilised the Trust's operational cashflow. Strategic capital expenditure has been supported by capital investment loans (Radiotherapy East) and PDC (3Ts). In February £2m was drawn down from the Radiotherapy Loan facility, and a further £3.2m will be drawn down in March. PDC of £9.8m will be drawn down in March.

9. Capital

9.1. The Strategic and Operational capital programmes are both underspent at Month 11. The Decant element of the 3Ts programme has impacted on the main scheme and the programme is forecasting a slippage of £17.2m for the full year. The Radiotherapy East scheme has slipped a further by £0.6m to £9.7m for the full year.

9.2. The Operational capital schemes are significantly behind plan and so additional schemes have been included in the programme to meet the capital resource allocation for the full year and a number of orders placed for delivery in March but there is a significant risk that the resource limit may not be met.

10. Forecast Outturn

10.1 The Trust is necessarily reporting a forecast year-end position of £59.7m deficit, which exceeds the control total of £15.6m by £44.1m. However, the adverse outcome of the 15/16 contract income dispute means that the internal view of forecast outturn is £3.0m worse at £62.7m. This reflects £3.3m of the total £6.3m impact having been absorbed. Details of how the forecast is reached from the Month 11 position are given in Appendix 3.

10.2 The year-end forecast continues to include £15.5m of impairment costs. This value will be confirmed on the revaluation of the estate and on the review of other assets including assets under construction. It is assumed that the full value of the impairment will not count towards the measurement of the deficit for performance purposes although there is a risk that a portion of it may.

11. The Committee is asked to:

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

Bill Stronach
Deputy Chief Financial Officer
March 2017