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Meeting:	**Brighton and Sussex University Hospitals NHS Trust Board of Directors**
Date:	**29th September 2016**
Board Sponsor:	**Spencer Prosser, Chief Financial Officer**
Paper Author:	**Bill Stronach, Deputy Chief Financial Officer**
Subject:	**Finance Report Month 5 2016/17**

Executive summary
Month 5 Performance

At month 5 the trust is reporting a year to date unfavourable variance of £5.964m, with an actual deficit of £18.107m against a plan of £12.143m, and a forecast deficit matching the control total deficit of £15.570m. The forecast deficit is being reviewed and will change following Board approval.

The worsening variance is partly due to under delivery of the efficiency programme, there has been a £1.2m stepped increase in monthly savings targets from July, and partly due to the Trust not meeting the requirements for receiving the Sustainability and Transformation funding (STF) for July and August, a £2.4m adverse variance. In addition to this the Trust has received £1.2m less of SIFT income less than expected for the year to date position.

The revenue position directly impacts on cash flow with the continuing requirement for additional working capital support to avoid extending creditor days further.

The key risks to the 2016/17 position are:

- Income – The Trust activity plan is higher than the Commissioner contracts on the basis that QIPP schemes will be delayed. CQUIN payments are assumed at 100% and the assumption is that penalties and fines are reinvested in the Trust. PbR exclusion expenditure on drugs and devices continues to increase. SIFT income may be £3.6m less than 2015/16. The Trust has yet to finalise the payment of 15-16 year end contract income, with the value disputed up to £15m although there is a provision against a proportion of this.
- Operational costs – Non-pay costs are over plan, partly due to slippage in cost improvements plans, and require remedial action to achieve reductions to plan. Pay costs are also over budget because the cost improvements profiled from July have not been achieved. Further slippage in these savings plans will impact on achieving the control total.
- Delivery of the planned efficiency programme in full totalling £25.1m.
- Additional unplanned spend on rectifying pressures that have arisen as a result of the recent CQC inspection and the initiative to pursue RTT targets. The former could come to as much as £5m but it is anticipated that it could be £2m, and up

to £4m for the latter.

As noted in previous reports if these risks are not managed the financial position at year-end would be worse than the control total deficit. The forecast outturn has been retained at £15.6m pending finalisation of additional Financial control measures.

Action required by the Board

The Board is asked to note the month 5 position; the plans to address the adverse variance; and the risks to the financial position.

Links to corporate objectives	The report concerns the 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

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Report to the Board of Directors, 29th September 2016
Financial Performance Month 5 2016/17

1. Introduction

1.1. This report provides an update on the financial performance of the Trust for the month of August 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	1,744	4,087	2,343	12,143	18,107	5,964
Income	(45,795)	(46,117)	(322)	(228,821)	(229,418)	(597)
Expenditure	44,686	47,148	2,462	226,811	233,385	6,574
Capital	6,321	6,230	(91)	48,570	34,906	(13,664)
Cash				8,277	3,629	(4,647)
CIPs	1,687	699	988	4,942	3,063	1,879

The figures shown in the plan columns above deliver the Trust's I/E control total of £15.6m deficit.

3. Summary

3.1. The Trust is reporting an in month unfavourable variance to budget of £2.343m and year to date a further unfavourable variance of £5.964m. The year to date variance is made up of a continuing shortfall on SIFT income, underachievement of the STP income, slippage on the efficiency programme and some overspending in the areas of consumables and outsourcing.

3.2. The position reflects the Trust not meeting the requirements for receiving the £2.4m STF in July and August. The tables below show the key variances from plan for August as well as the change in performance from July to August.

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Key Variances From Plan	In Month Variances £000's	Run Rate Changes from July to August	Changes from Month 4 £000's
Activity Income	(2,114)	Activity Income	(4,389)
Challenges Provision	1,234	Challenge Provision	784
PBR Exclusions income	(628)	PBR Exclusions income	(35)
Outsourcing Income	(130)	Outsourcing Income	55
STPF	1,200	STPF	1,200
SIFT Income	292	SIFT Income	6
Other Income (PP, R&D etc.)	(177)	Other Income (PP, R&D etc.)	0
Pay (efficiency related)	332	Pay (efficiency related)	75
McKinsey's Consultancy	(164)	McKinsey's Consultancy	147
Outsourcing	130	Outsourcing	(55)
Drugs	184	Drugs	489
PBR Exclusions Expenditure	628	PBR Exclusions Expenditure	35
Consumables Expenditure	972	Consumables Expenditure	560
Other Non Pay (efficiency related)	583	Other Non Pay (efficiency related)	(66)
Total Variance to Plan	**2,343**	**Total Movement from Month 4**	**(1,194)**

3.3. The graph below shows the breakdown of the August position. A large part of the expenditure variance relates to higher spending on drugs, mostly offset by income, and higher spending on consumables. In addition the income variance is deflated by the shortfall in STF, exacerbated by lower SIFT funding. There continues to be increases in PbR exclusion income and outsourced activity income that are matched by costs.

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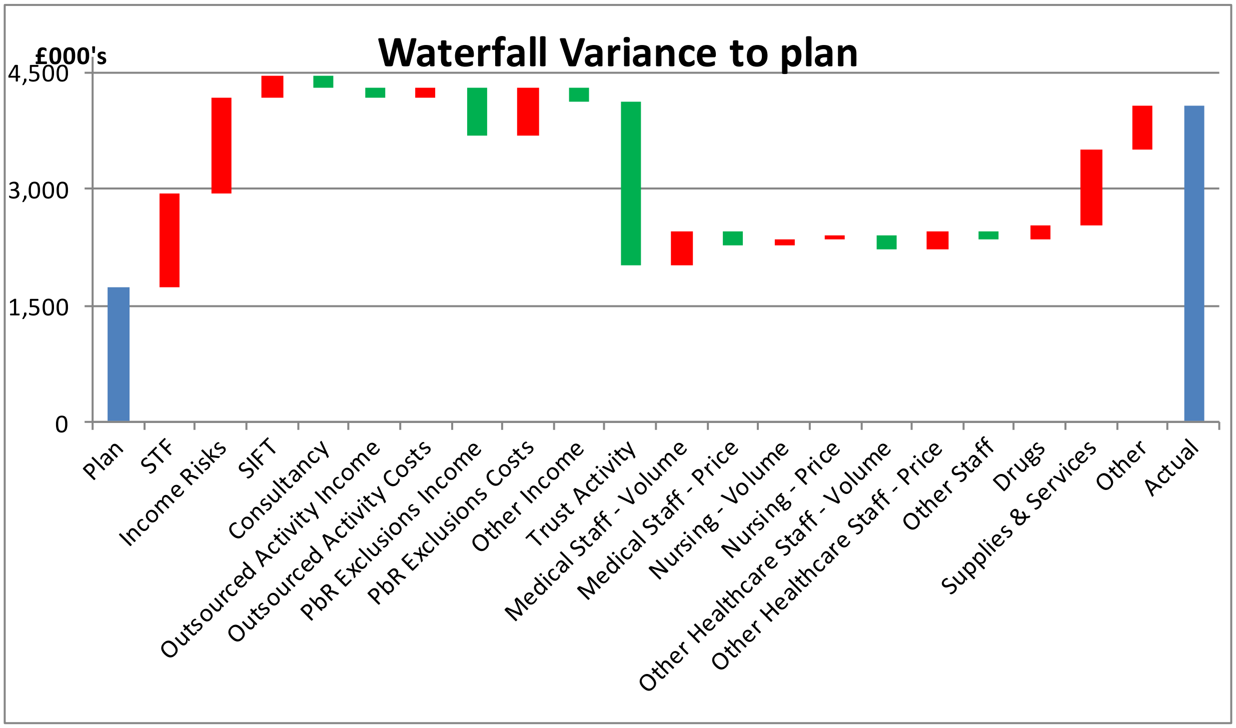

3.4. A significant proportion of the variance is associated with not achieving the requirements to receive the STF as well as the SIFT income being lower than expected.

3.5. The balance of the over spend is due the stepped increase in the efficiency programme of £1.2m per month from July. This is across both pay and non-pay expenditure categories as the Trust has not delivered the increase required. In addition to this there are overspends on non-pay costs – particularly supplies and services and other (including recharges from other trusts).

3.6. The Trust's cash position remains extremely challenging and is dependent on the achievement of the planned level of deficit and revenue support funding from the NHS Improvement.

3.7. Delivery of the efficiency programme is below plan in the month by £1m, and year to date it is below plan by £1.8m. The in month slippage is reflects the planned budget reduction from July together with slippage in finalising the details of the schemes identified by the Trust and assisted by McKinsey. Whilst some plans have now been identified, the PMO support to implement them may impact on start dates of each scheme. Further slippage in the implementation of these savings will add further risk on their achievement in full. There will be a further increase to the planned savings of £1.2m per month from October.

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. The key risks to the 2016/17 position are:

- Income – the Trust activity plan is higher than the Commissioner contracts on the basis that QIPP schemes will not materialise. CQUIN payments are assumed at 100% and penalties/fines are reinvested in the Trust. PbR exclusion expenditure on drugs and devices continues to increase. SIFT income may be £3.6m less than 2015/16. The Trust has yet to finalise the payment of 15-16 year end contract income, with the value disputed up to £15m although there is a provision against a proportion of this.

- Operational costs – Non-pay costs are over plan, partly due to slippage in cost improvements plans, and require remedial action to achieve reductions to plan. Pay costs are also over budget as the reductions in the financial plan based on the delivery of cost improvements were profiled from July. Further slippage in these savings plans will impact on achieving the forecast outturn.
- Delivery of the planned efficiency programme in full totalling £25.1m.
- Additional unplanned spend on rectifying pressures that have arisen as a result of the recent CQC inspection and the initiative to pursue RTT targets. The former could come to as much as £5m, but it is anticipated it could be managed to £2m, and up to £4m for the latter.

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 will continue with the aim of resolving the outstanding 15-16 payment as well as ensuring the 16-17 income is secured.

3.11 The Trust is continuing to forecast delivery of the planned deficit of £15.57m. This is based on successful delivery of the Financial Improvement Programme (FIP), and the additional financial controls noted above. The forecast will be revisited as the FIP plans mature. There are significant risks to the year-end forecast, including finalisation of the payment for 15-16 year end contract income, achieving the planned level of activity income and achieving the £25.1m efficiency programme.

4. Income

4.1. The Trust is reporting year to date income over achievement of £0.597m, an improvement of £0.322m in month 5.

4.2. Commissioner activity is over performing for non-elective activity and outpatients. Day case activity is ahead of plan but elective activity is behind plan. Income from PbR excluded items continues to be significantly above plan. The Trust holds a provision of £1.234m for commissioner challenges against the reported level of over performance.

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.

4.4. The Trust has the income risks outlined at 3.9.

5. Expenditure

5.1. Expenditure year to date is overspent by £6.574m which includes an over spend on pay of £0.910m. The pay overspend comprises overspends on nursing of £0.876m, Medical and Dental pay of £0.33m and Pay other staff £0.326m, which is being partly offset by underspends in the other staff groups, the over spends are associated with non-delivery of the efficiency plan. The non-pay overspend is £5.664m of which £2.9m 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 (£0.97m

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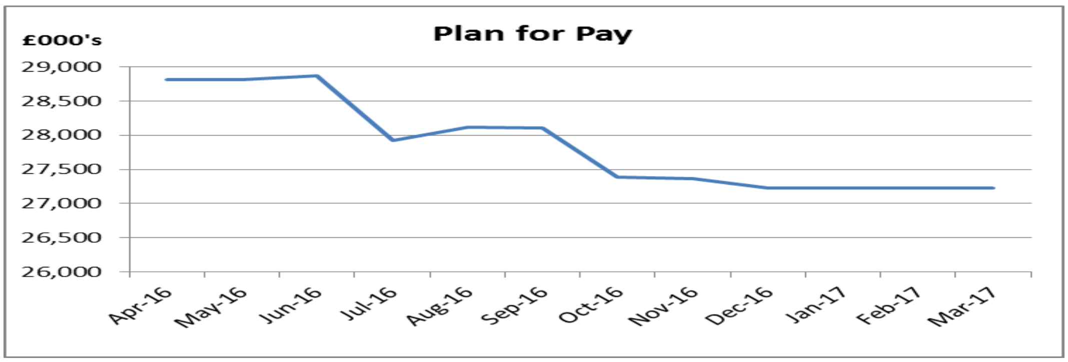
overspend), continued outsourcing activity offset with income and slippage in the stepped increase on non-pay efficiencies.

5.2. In the year to date position nursing has overspent by £0.876m, whilst plans to standardise roster processes and thus reduce costs have not 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, particularly to further reduce agency spend. This overspend is partly offset by underspends in other staff groups. The expenditure on nursing bank and agency continues to outweigh the underspend on substantive budgets, however there continues to be some reduction in agency usage compared with previous months.

5.3. There will be increased pressure to deliver the pay expenditure reductions required as part of the efficiency programme. The pay budget for April was £28.808m which reduces to £27.225m by March. The graph below shows the reduction to the pay budgets required by month, with stepped changes from July and October.



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 £12.798m for the year and we are below the capped value. 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	10,552	9,846	(706)	53,828	49,796	(4,032)
Nursing - Bank	22	681	660	108	3,969	3,860
Nursing - Agency	0	170	170	0	1,048	1,048
Nursing - Total	**10,574**	**10,697**	**123**	**53,936**	**54,813**	**876**
Medical - Substantive	8,129	8,157	28	41,499	40,267	(1,232)
Medical - Bank/Locum	29	207	178	145	906	760
Medical - Agency	96	144	48	515	1,317	801
Medical - Total	**8,254**	**8,509**	**254**	**42,159**	**42,489**	**330**

5.6. Additional expenditure has been incurred in outsourcing and other initiatives designed to increase activity in key areas. Expenditure of £1.5m has been incurred year to date on these initiatives, with plans to spend up to £4m during the year in the areas of Abdominal, Neurology, Children's and Head and Neck. RTT expenditure is offset with income year to date.

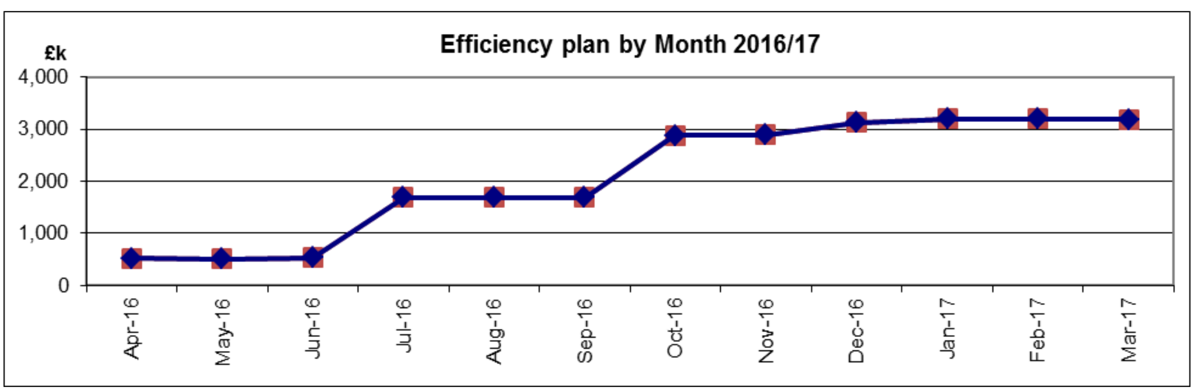
5.7. Some expenditure has commenced on initiatives to address concerns raised by the recent CQC inspection, amounting to £0.3m. This includes improved fire safety programmes, an improvement Director, a hand hygiene programme, a training initiative and other smaller initiatives. The full list of initiatives will need to be fully prioritised following the recent high profile release of the CQC report. As there is no budget for these costs it will represent a further risk, but it is hoped that this can be limited to £2m whilst still delivering the required level of quality improvements.

5.8. The Clinical Directorates are overspent by £5.747m in the year to August. All the clinical directorates except Cancer, Cardiovascular and Specialty Medicine are overspending year to date. The Corporate Directorates are showing an overspend of £0.364m year to date, which is largely attributable to the Chief Medical Officer (£1.6m) 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 August by £0.988m and for year to date by £1.879m. The under achievement is largely due to slippage in formulating the detailed plans in order that Directorates and Departments can implement them. The increasing in-month variance is due to a stepped increase to the monthly plan from July, where the savings plan increased by £1.2m a month.

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. There will need to be significant focus to deliver these savings and the support in the PMO is essential to delivering this.



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's worked with the Trust as part the financial improvement programme and identifying opportunities of £20m in the current financial year.

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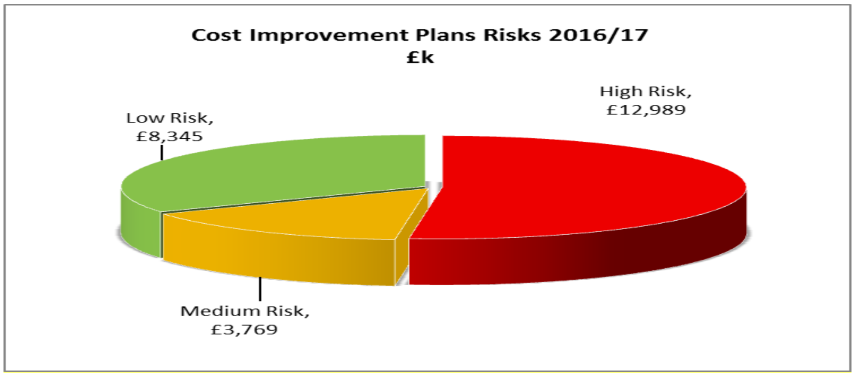
6.4. £15m of the efficiency programme target has been partially allocated to directorates, and the remaining savings allocations will be made in once the Board approves the detail of the savings plans. The full year plan of £25.1m is currently forecast to be delivered in full but there are significant risks associated with this as only £8.3m of the £25.1m has a low risk factor. The graph below shows the risks of delivery to the efficiency programme.

6.5.



6.6. The WAVE system that 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. The Trust is currently forecasting to deliver the planned year end deficit of £15.6m. As discussed above, the biggest financial risks to delivering this are around income, nursing pay and delivery of the efficiency programme. Organisationally, whilst adverse financial performance is widespread, it is greatest in three Directorates: Abdominal, Acute Floor and Neurosciences.

7.2. The weekly 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 4th August 2016 and refocused meetings with the clinical Directorates will commence in September.

7.3. Focused work is underway in nursing, medical and drugs.

Cash

8. Accrued income remains high pending finalisation of the year end commission income. There is still a backlog of overdue creditor accounts, which is an ongoing problem and places enormous pressure on creditor payments as well as impacting on day to day operations.

8.1. The Trust's cash position, remains extremely challenging and is dependent on the achievement of the planned levels of deficit and revenue funding support from NHS Improvement.

9. Capital

9.1. The capital programme continues to be underspent at month 5 but with the Radiotherapy East scheme restarting in September and a number of Medical Equipment and Estates schemes having progressed further in the procurement stage there is an expectation that expenditure will increase from September through to March.

10. Forecast Outturn

10.1 The Trust is forecasting a year end position of a £15.6m deficit, which is in line with the planned deficit. As mentioned above, there are risks relating to the efficiency programme, nursing expenditure and commissioner income. The forecast continues to assume that we will secure the full STPF, that the planned level of activity income will be achieved, as well as the £25.1m efficiency programme. In addition to this there is an assumption that the current expenditure run rate will improve after the implementation of further financial controls.

The Board is asked to: note the month 5 position; the plans to address the adverse variance; and the risks to the financial position.

Bill Stronach
Deputy Chief Financial Officer
September 2016