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Meeting:	**Brighton and Sussex University Hospitals NHS Trust Board of Directors**
Date:	**23rd February 2017**
Board Sponsor:	**Spencer Prosser, Chief Financial Officer**
Paper Author:	**Bill Stronach, Deputy Chief Financial Officer**
Subject:	**Finance Report Month 10 2016/17**

Executive Summary

Month 10 Performance

At Month 10 the Trust is reporting a year-to-date unfavourable variance of £24.9m, with an actual deficit of £40.2m against a deficit plan of £15.4m. The full-year forecast continues to be a deficit of £59.7m, £44.1m in excess of the control total deficit of £15.6m. The treatment of the 15/16 contract income arbitration remains unchanged in the forecast pending agreement of values with commissioners and accounting treatment with NHSI.

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 10	40.2
Non-recurrent cost/income adjustment	3.9
Deficit Month 10 to 12 based on run rate	8.8
Add back non-recurrent cost/income adjustment	(3.9)
Opportunities	(0.4)
Income pressures	7.4
Cost pressures	3.6
Forecast deficit	**59.7**

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

	£m
Lower savings opportunities	0.5
Further income pressures	12.8
Further non-pay pressures	2.2
Total	**15.5**

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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 £24.9m reflects the difference between the planned deficit and actual deficit:

	£m
Planned deficit to Month 10	15.4
STF funds not earned	8.4
Cost Improvement Plan underachievement	1.7
Income	(8.6)
Pay	7.0
Non-Pay	16.3
Actual deficit to Month 10	**40.2**

The in-month adverse variance reflects:

	£m
Planned deficit Month 10	0.2
STF funds not earned	1.2
Cost Improvement Plan shortfall	1.6
Income over achievement	(1.3)
Financial recovery costs	0.4
Other net overspends	2.1
Actual deficit Month 10	**4.1**

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 has been approved and March funding will be determined by actual revenue results.

Action required by the Board

The Board is asked to note the Month 10 report, the year-end forecast, the risks to the year-end position and the planned mitigations.

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

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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, 23rd February 2017
Financial Performance Month 10 2016/17

1. Introduction

1.1. This report provides an update on the financial performance of the Trust to January 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	188	4,077	3,889	15,367	40,218	24,851
Income	(45,834)	(45,969)	(135)	(457,948)	(459,690)	(1,742)
Operational Expenditure	43,225	47,245	4,020	444,993	472,114	27,121
Capital	7,665	3,044	(4,621)	84,903	49,463	(35,440)
Cash				8,931	5,533	(3,398)
CIPs	3,175	1,562	1,613	18,759	17,019	1,740

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 £3.9m and a year-to-date unfavourable variance of £24.9m.

3.2. The position reflects the Trust not meeting the requirements for receiving £8.4m 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 January as well as the change in performance from December to January.

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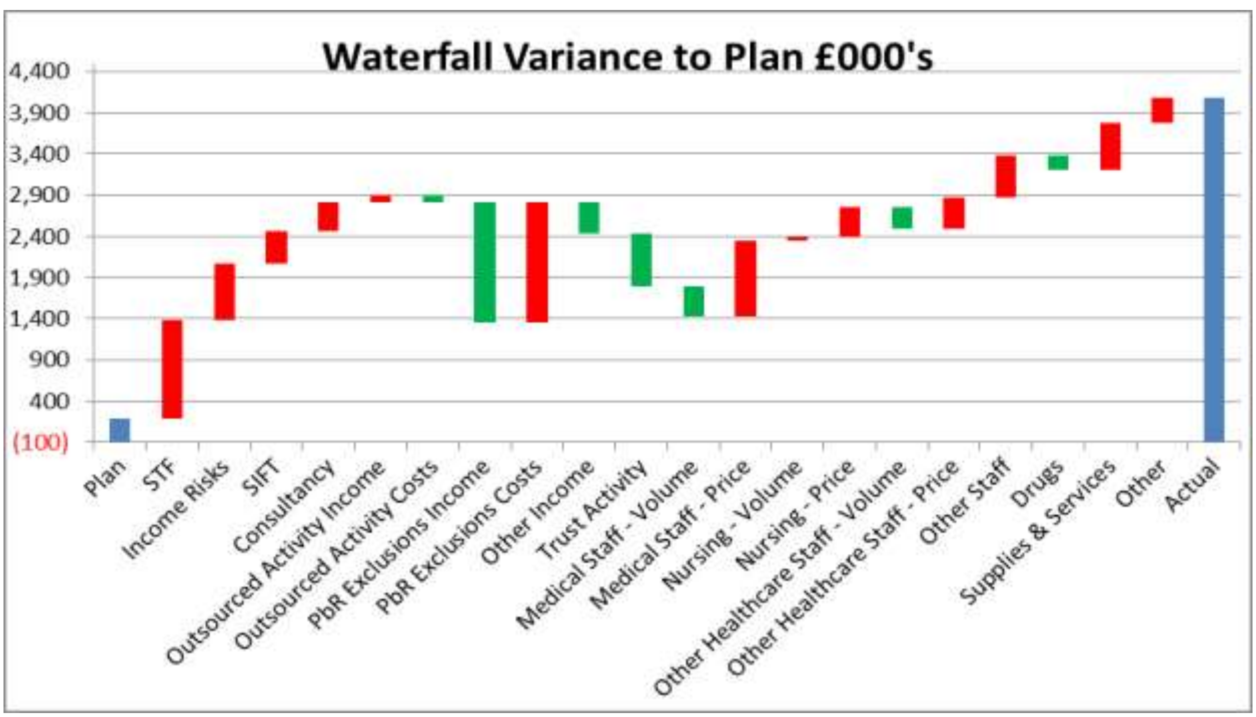
Table 1

Key variances from plan	In-month variances £000's	Run-rate changes from Month 10 £000's
Activity income	(643)	921
Challenges provision	686	(154)
PBR exclusions income	(1,464)	(1,453)
Outsourcing income	89	231
STPF	1,200	0
SIFT income	384	198
Other income (PP, R&D etc.)	(385)	314
Pay	1,592	15
McKinsey/FTI consultancy	359	(160)
Outsourcing	(89)	(231)
Drugs	(176)	(179)
PBR exclusions expenditure	1,464	1,453
Consumables expenditure	573	(123)
Other non-pay	300	(1,336)
Total variance	**3,889**	**(504)**

The waterfall graph below shows the breakdown of the January 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.



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 is more robust with monthly approval from the NHSI and DH of working capital loans to cash back the revenue deficit. The February funding of £5.7m has been approved, funding for 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 continues to be below target. The forecast for full-year delivery is now £19.8m, which has increased compared to last month, but is still £5.4m 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 £15.1m of risk to the current forecast included in the downside model, £12.8m now relates to income pressures, £1.8m to cost pressures and a further £0.5m 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 to the central forecast 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 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. 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. Budget holders have all been asked to reduce their forecast spend in February and March.

4. Income

4.1. The Trust is reporting year-to-date income overachievement of £1.7m, an increase of £0.1m in January.

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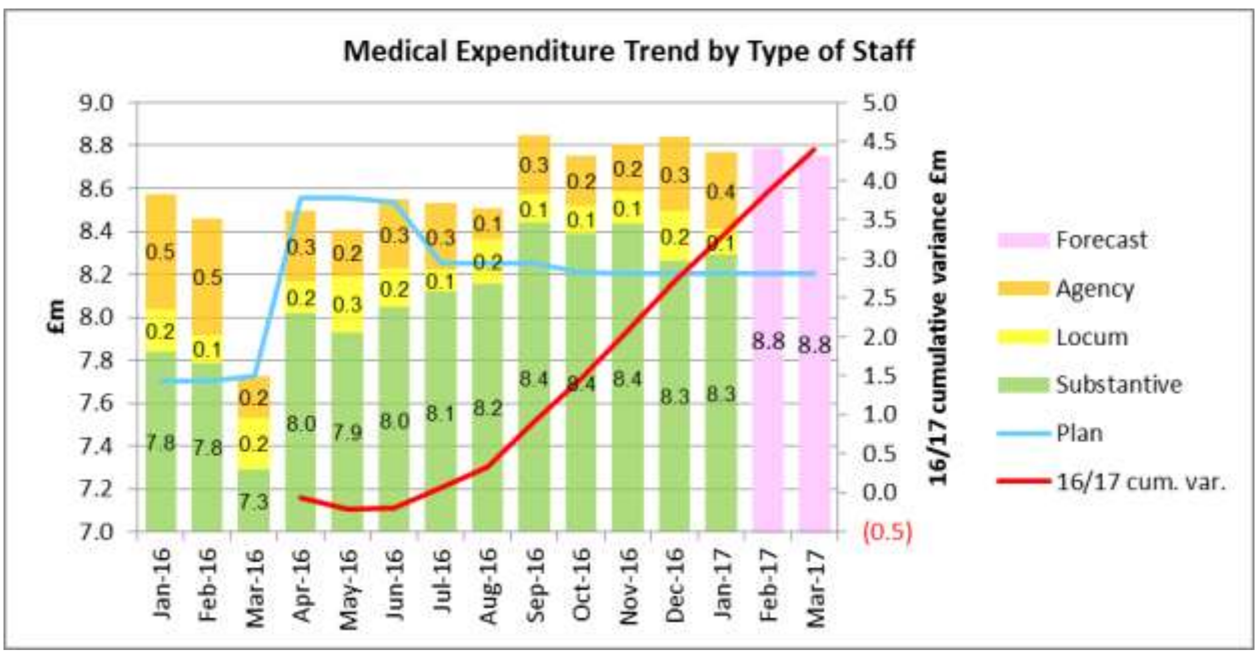
4.2. Commissioner activity is underperforming against the Sussex CCG contract and over performing on the Specialised Commissioning contract. Over performance is mainly for non-elective activity and outpatients. Income from PbR excluded items continues to be significantly above plan. The Trust position includes a provision of £5.6m for contract adjustments/challenges against the reported level of over performance at Month 10.

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 £27.1m year-to-date which includes a pay overspend of £8.8m. The pay overspend comprises overspends on Medical and Dental Staff of £3.3m, Nursing of £2.7m, Pay Other Staff £3.8m and Pay Other Healthcare £0.6m. 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. The chart also shows that whilst more higher cost locum and agency doctors were used in December, this has reduced to more usual levels in January.

5.3. The year-to-date £2.7m adverse Nursing position continues to be mainly due to overspends in the Acute Floor and Neurosciences and Stroke Directorates where

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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 January. Further increases in cost are forecast in relation to staffing extra capacity agreed as part of the Winter Plan, however additional budget has been allocated for the areas incurring additional 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	10,608	9,723	(884)	106,668	98,355	(8,314)
Nursing - Bank	19	1,061	1,042	203	9,048	8,846
Nursing - Agency	0	250	250	0	2,161	2,161
Nursing - Total	**10,627**	**11,034**	**407**	**106,871**	**109,564**	**2,693**
Medical - Substantive	8,079	8,288	209	81,923	82,074	152
Medical - Bank/Locum	32	125	93	324	1,683	1,359
Medical - Agency	92	355	263	982	2,742	1,759
Medical - Total	**8,203**	**8,768**	**565**	**83,229**	**86,499**	**3,270**

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 £8.4m against the limit of £10.7m. 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. The non-pay overspend is £18.3m of which £6.9m 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 £5.7m overspend, and £3.8m under delivery of non-pay efficiencies.

5.7. So far this year £0.93m 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. Budgets were allocated during January.

5.9. The Clinical Directorates are overspent by £17.6m year-to-January with all Directorates overspending except for Specialty Medicine – see Appendix 2.

5.10. The Corporate Directorates are showing an overspend of £7.6m year-to-date, which is largely attributable to the Chief Medical Officer (£3.9m) 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 £1.4m and in Income with an underachievement of income of £2.2m.

6. Cost Improvement Plans

6.1. The full-year CIPs forecast has improved and now stands at £19.8m against the £25.1m target. Much of the increase however is in non-recurrent savings relating to vacancies.

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, 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 £1.7m.

Table 3: CIPS Achievement to Plan

	Plan	Actual / Forecast	Variance
	£'000	£'000	£'000
Year to Date	18,759	17,019	-1,740
Year End Forecast	25,110	19,757	-5,353

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 (£29.8m). A further £5.7m has been approved for February. The March deficit funding will be subject to the actual results for February and forecast results for March. These loans have improved the Trust's cashflow significantly. The determination of the 15-16 commissioning income arbitration which is to be finalised in February 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 10. The Decant element of the 3Ts programme has impacted on the main scheme and the programme is now reporting a slippage of £17.2m 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 and so additional schemes have been included in the programme to meet the capital resource allocation for the full year but with only two months left there is a significant risk that the resource limit may not be met.

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 10 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.

Bill Stronach
Deputy Chief Financial Officer
February 2017