Brighton and Sussex University Hospitals NHS Trust

Report to the Board of Directors, 27th April 2017
Finance Report on Draft Month 12 2016/17 Position

Executive Summary
Month 12 Outturn Performance

At Month 12 the Trust is reporting a year-to-date unfavourable variance of £52.9m, with an actual deficit of £68.5m against a deficit plan of £15.6m. The position deteriorated in the year due to the following factors:

	£m
2016/17 Control Total Deficit	**15.6**
SIFT Income reduction	4.0
2015/16 Income Arbitration	9.0
Clinical Directorate Adverse Variance	21.9
STF Funds Not Earned	10.8
Turnaround Consultancy	3.9
Additional Loan Interest	0.8
Movements in provisions	3.5
Balance	(1.0)
Deficit	**68.5**

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 was £8.5m.

1. Introduction

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

2. Key Financial Metrics

Metric (£000s)	*In-Month*			*Year-to-Date*		
	Plan	Actual	Variance	Plan	Actual	Variance
(Surplus)/Deficit	6	10,477	10,471	15,570	68,507	52,936
Income	(45,854)	(48,953)	(3,099)	(549,636)	(550,370)	(734)
Operational Expenditure	43,263	58,238	14,975	531,476	587,113	55,637
Capital	4,962	13,336	8,374	95,453	69,270	(26,183)
Cash				3,167	7,407	4,240
CIPs	3,174	2,242	932	25,110	20,816	4,294

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

3. Summary

3.1. The Month 12 position is an unfavourable variance to budget of £10.5m leading to a full-year unfavourable variance of £52.9m.

3.2. The full-year actual deficit is £68.5m, £5.8m worse than the £62.7m reported in the Month 11 bridge central case and discussed at the most recent Financial Special Measures meeting, and £2.5m worse than the downside case – see Table 1 below.

Table 1

	£m	
Scenario	Outturn deficit	Actual to scenario variance
Actual	68.5	N/A
Financial Special Measures plan	59.7	8.8
Month 11 bridge - central case	**62.7**	**5.8**
Month 11 bridge - downside case	66.0	2.5

3.3. Full and final contract income settlements have been reached with CCG and NHSE commissioners removing much risk from the income position.

3.4. The position reflects the Trust not meeting the requirements for receiving £10.8m of STF from July onwards and the recognition of a 2015/16 income bad debt of £9.0m relating to CCG income.

3.5. The efficiency programme under-delivered against the targeted £25.1m by £4.3m, with £11.2m of what was achieved being through non-recurrent pay savings.

4. Outturn movement from the central case forecast

4.1. The movement in position from the Month 11 bridge central case of £62.7m to the Month 12 deficit is detailed in Table 2.

4.2. The £0.8m of "Other pressures" include: Month 12 pay £185k above forecast, drugs write-off – £172k, VAT claim – £198k and a very late claim for R&D pass-through income from a partner – £133k.

Table 2

£m	M11 Central Case	Movement in Risks and Opportunities in M12 position	M12 position
Run-rate projection	62.6		62.6
Opportunities:			
Increased CIP delivery in Month 12	(0.8)	0.0	(0.8)
Charitable funds	0.0	0.4	0.4
Resilience funds	(0.5)	0.0	(0.5)
Special Measures income	(0.2)	0.0	(0.2)
PFI rebate	(0.2)	0.1	(0.1)
15/16 income settlement	(1.0)	0.0	(1.0)
Recover prior year funding	(1.1)	0.6	(0.5)
Total Opportunities	(3.8)	1.1	(2.6)
Risks/costs above run-rate			
FIP - McKinsey fees	0.1	0.0	0.1
CQC related costs	0.1	0.0	0.1
Additional support	0.3	0.0	0.3
16/17 challenges, etc.	2.7	0.0	2.7
HR litigation	0.4	0.0	0.4
Winter pressures	0.3	0.3	0.6
Movements in provisions	0.0	3.5	3.5
Other pressures	0.0	0.8	0.8
Total Risks	3.8	4.7	8.5
Forecast	**62.7**	**5.8**	**68.5**

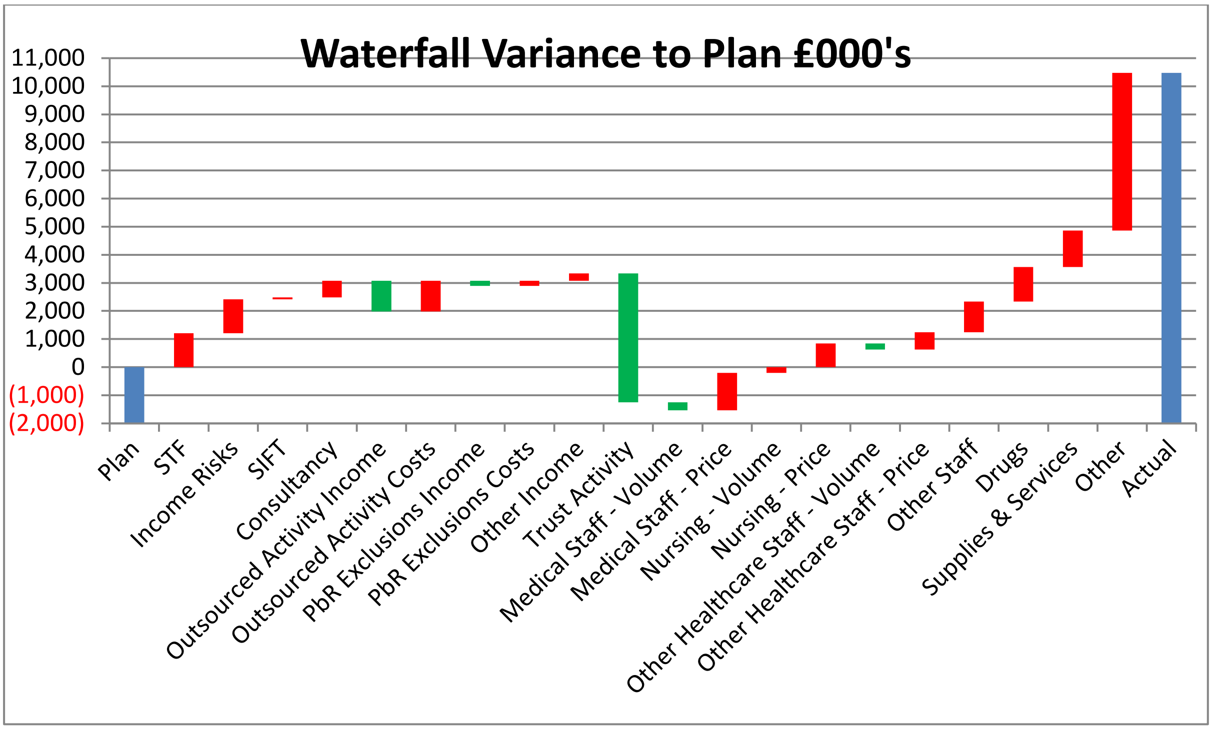
5. Month on Month change

5.1. Table 3 shows the key variances from plan in March as well as the change in performance from February to March.

Table 3

Key variances from plan	In-month variances £000's	Run-rate changes from Month 11 £000's
Activity income	(4,578)	(2,977)
Challenges provision	1,207	38
PBR exclusions income	(175)	(533)
Outsourcing income	(1,091)	(316)
STF	1,200	0
SIFT income	76	(153)
Other income (PP, R&D etc.)	263	(884)
Pay	3,577	(94)
McKinsey/FTI consultancy	581	102
Outsourcing	1,091	316
Drugs	1,231	1,308
PBR exclusions expenditure	175	533
Consumables expenditure	1,296	1,108
Other non-pay	5,618	(9,354)
Total variance	**10,471**	**(10,907)**

5.2. The waterfall graph below shows the breakdown of the March position. A large part of the expenditure variance relates to increased costs of supplies and services, drugs and higher than budgeted medical pay for additional hours and waiting list initiatives to achieve RTT targets. In addition, provision has been made for termination of the EPR contract and for an increase in untaken annual leave across all staff groups.



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

5.4. A further element of the in-month overspend is due to the under-delivery of CIP by £0.9m; additional savings required to meet the increased savings target phased in from October have not been identified despite the investment in McKinsey and FTI.

5.5. Budget holders were asked by the CEO to reduce their forecast spend in February and March by 2%. Whilst this was achieved overall in February, the cumulative target for both months was exceeded by £3.2m.

Table 4

£m	Target Spend	Actual Spend	Variance
Clinical Services	70.9	74.3	3.4
Chief Financial Officer - Facilities	6.7	6.5	(0.2)
Total	**77.6**	**80.8**	**3.2**

5.6. 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.

5.7. 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 March loan was for £8.5m. The monthly revenue support loans will continue throughout 17/18 with the total planned support amounting to £59.7m.

6. Income

6.1. The Trust is reporting year-end income over achievement of £0.7m, a favourable movement of £3.1m in March. The Trust has agreed full and final year-end settlements with its main commissioners to take account of activity performance, contractual adjustments, contract challenges and penalties.

6.2. 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.

6.3. 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.

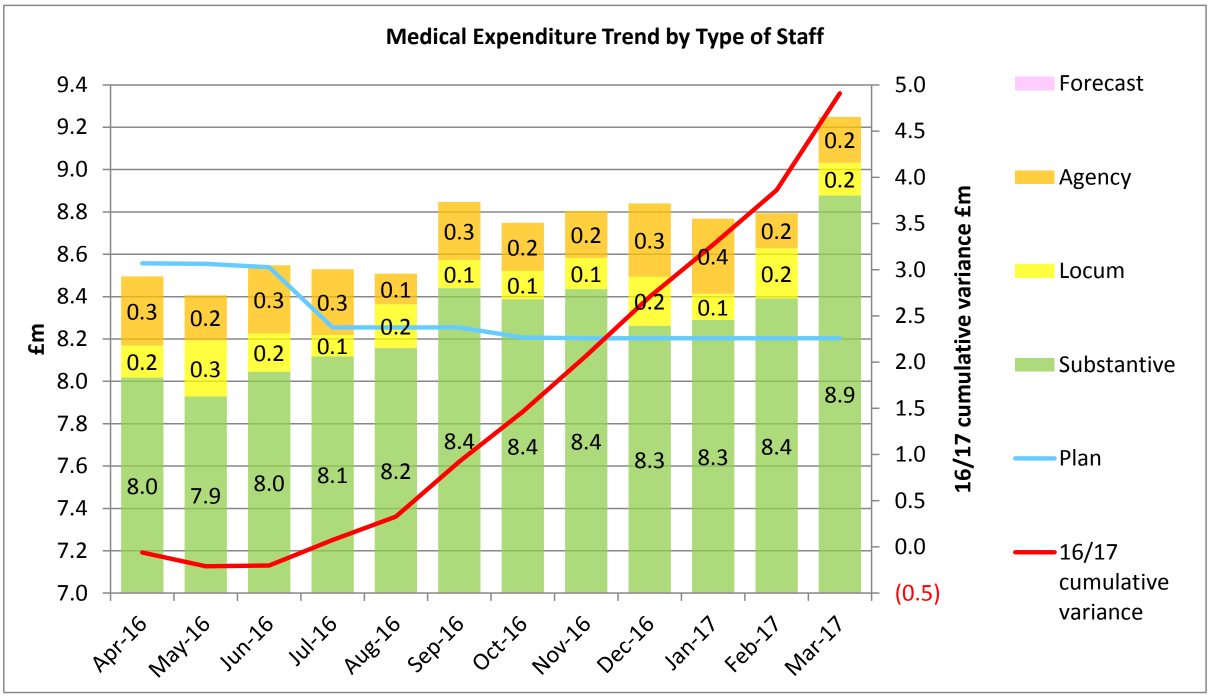
7. Expenditure

7.1. Operating Expenditure was overspent for the year by £55.6m with a pay overspend of £14.7m and a non-pay overspend of £40.9m.

7.2. The pay overspend comprises overspends on Pay Other Staff – £5.4m, Medical and Dental Staff – £4.9m, Nursing and Midwifery – £4.2m, Pay Other Healthcare – £1.0m and Management – £0.6m, offset with some underspends on Admin and Clerical, Maintenance and Ancillary staff. The variance on Pay Other Staff is due to unallocated CIPS target of £4.6m although there are year-to-date overachievements of CIP savings on Medical Staff, Nursing, and Pay Other Healthcare within the overall overspends.

7.3. An accrual for an additional £1.3m of untaken annual leave was required in Month 12 under accounting regulations.

7.4. The chart below shows the breakdown of Medical Staff expenditure by month and type.

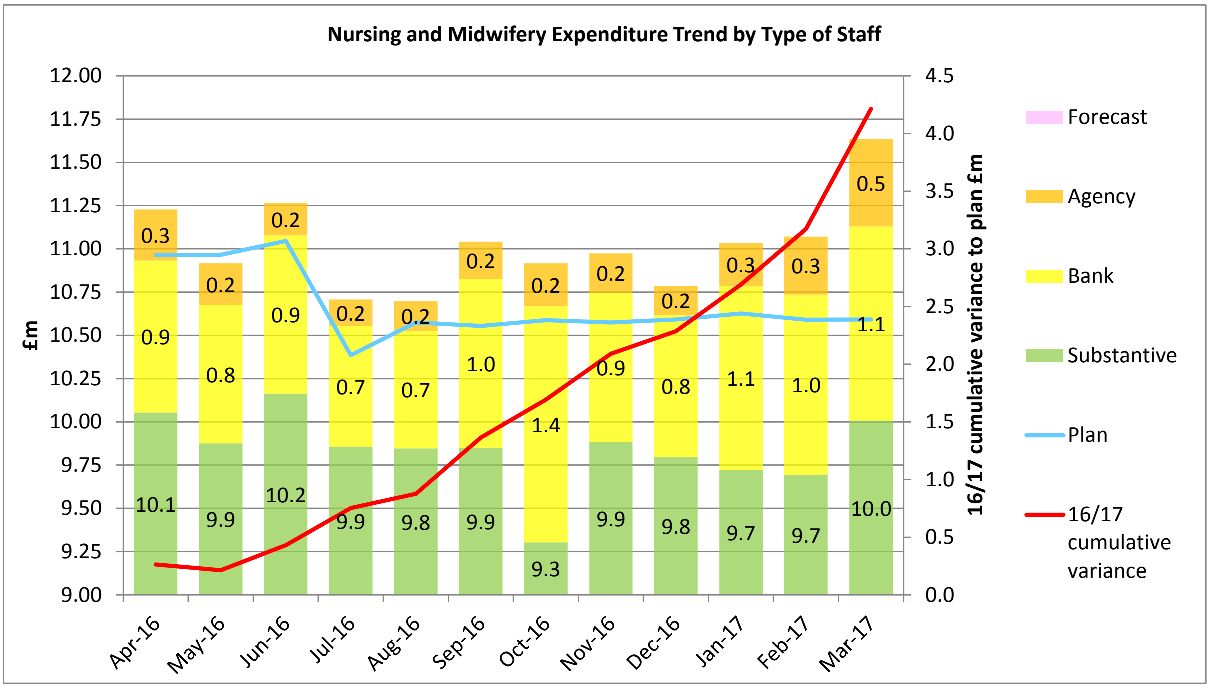


7.5. The Medical pay run-rate has been higher in the latter half of the year than it was earlier in the year which is inconsistent with the cost reductions phased into the plan in July and October. The September increase was due to payments to settle a junior doctor banding appeal, and further payments were made in February. The March increase in substantive pay reflects the accrual for untaken annual leave.

7.6. The £4.2m adverse Nursing position is mainly due to i) overspends in the Acute Floor and Neurosciences and Stroke Directorates, where staffing in excess of funded templates is being used, and ii) funding being agreed for developments not included in the original plan.

7.7. Expenditure on Nursing bank and agency continues to outweigh underspending on substantive staff. Temporary Nursing staff costs have increased in Q4 as substantive WTEs have fallen, additional capacity for winter resilience has opened and there's been use of a higher cost agency as part of a resolving a contractual dispute.

7.8. The chart below shows the monthly cost of Nursing broken down by type. The March accrual for untaken annual leave obscures the fact that the underlying run-rate for substantive Nursing expenditure fell for the fourth consecutive month.



7.9. Table 5 below shows the breakdown of Medical and Nursing variances between substantive, bank and agency which further illustrates the overall position.

Table 5: Nursing & Medical Substantive, Bank & Agency Expenditure

	In-Month			Year Total		
	Plan	Actual	Variance	Plan	Actual	Variance
	£000's	£000's	£000's	£000's	£000's	£000's
Nursing - Substantive	10,573	10,007	(566)	127,813	118,057	(9,756)
Nursing - Bank	19	1,123	1,104	241	11,212	10,972
Nursing - Agency	0	504	504	0	3,000	3,000
Nursing - Total	**10,592**	**11,633**	**1,041**	**128,054**	**132,269**	**4,215**
Medical - Substantive	8,079	8,876	797	98,080	99,338	1,258
Medical - Bank/Locum	32	156	123	388	2,078	1,690
Medical - Agency	92	217	126	1,166	3,125	1,959
Medical - Total	**8,203**	**9,249**	**1,046**	**99,634**	**104,541**	**4,907**

7.10. The Trust was set an overall agency expenditure cap of £12.8m for the year. Expenditure was successfully contained within this cap, only totalling £10.7m.

7.11. Management cost budgets overspent by £0.6m due to: double running costs relating to some senior posts, staff employed in unfunded posts and use of expensive interim staff to cover vacancies. As part of the package of Financial Special Measures actions, some of the interim staff have now left the Trust.

7.12. The full-year non-pay overspend is £40.9m of which £21.4m relates to Other non-pay. The latter figure includes bad debts of £10.3m and movements in provisions. A further £7.7m of the total relates to PbR excluded drugs and devices that are pass through costs and therefore offset with income. The rest is a mainly overspending on consumables, £7.1m, and under delivery of non-pay efficiencies, £6.1m.

7.13. During the year over £1m of expenditure has been incurred on initiatives to address concerns raised by the April 2016 CQC inspection. £0.4m of external funding supporting the CQC investments has been secured.

7.14. The Clinical Directorates were overspent by £21.9m for the year, with all Directorates overspending except for Specialty Medicine – see Appendix 2.

8. Cost Improvement Plans

8.1. Full-year CIPs delivery improved from the M11 forecast of £20.0m reaching £20.8m against the £25.1m target – see Table 6.

8.2. Almost all of the of the reported pay savings of £11.2m result from non-recurrent pay underspends identified in Medical, Nursing, Pay Other Healthcare and Admin and Clerical staff groups across both Clinical and Corporate Directorates.

Table 6: CIPS Achievement to Plan (£000s)

Quantum	Scheme	In-month			Year-Total		
		Plan	Actual	Variance	Plan	Actual	Variance
Income	Clinical Networks	127	267	140	1,500	2,680	1,180
	Integrating Haemato-oncology Diagnostics	1	0	(1)	8	0	(8)
	Intellectual property	1	0	(1)	10	0	(10)
	Online Diagnostics	2	0	(2)	10	0	(10)
	Overseas visitors - additional income	6	(2)	(8)	50	186	136
	PbR exclusion income	0	20	20	0	240	240
	Pharm@sea income generation	42	167	125	500	625	125
	Private Patient Income	17	44	27	150	234	84
	Private Patients – Cancer	12	(51)	(62)	108	90	(18)
	Renegotiating provider agreements	56	93	37	500	749	249
Income Total		**263**	**537**	**275**	**2,836**	**4,804**	**1,968**
Pay	Clinical Networks	(5)	0	5	(59)	0	59
	Corporate Services - Pay (5.5%)	244	180	(64)	1,466	2,030	564
	Financial Improvement	455	80	(375)	2,424	1,784	(639)
	Financial Management Corporate Systems Reporting	3	3	(0)	37	36	(0)
	Flexible Benefits	25	0	(25)	150	0	(150)
	MARs scheme	83	0	(83)	500	0	(500)
	Medical	332	194	(137)	2,841	3,230	389
	Nursing	420	400	(19)	3,776	4,116	340
	Opt out of pension scheme - new regulations	8	0	(8)	100	0	(100)
	Workforce - Workforce projects	7	0	(7)	89	0	(89)
Pay Total		**1,573**	**858**	**(715)**	**11,323**	**11,196**	**(126)**
Non-pay	Car parking income (Marina car park)	4	4	0	50	50	0
	Corporate Services - Non-pay (5.5%)	194	0	(194)	1,162	0	(1,162)
	Depreciation - improvements to asset register	133	133	0	1,600	1,600	0
	Financial Improvement	467	5	(461)	2,500	58	(2,442)
	Pharmacy Medicines Optimisation	58	31	(27)	525	448	(77)
	Procurement	460	495	35	4,907	2,481	(2,425)
	Switchboard	12	0	(12)	108	0	(108)
	Works Schemes	11	179	168	100	179	79
Non-pay Total		**1,339**	**847**	**(491)**	**10,952**	**4,816**	**(6,136)**
Grand Total		**3,174**	**2,242**	**(932)**	**25,110**	**20,816**	**(4,294)**

9. Cash

9.1. The Trust received £8.5m revenue deficit funding in March. The first tranche of the £59.7m 17/18 funding amounting to £6.4m has been paid for April. Funding for the rest of 17/18 will be on the same basis as 16/17, based on monthly submissions of a short term cashflow revised for actual revenue results and revised revenue forecasts. The continuation of the revenue loan support for 17/18 is essential to ensure future stability of the cashflow. Strategic capital expenditure has been supported by capital investment loans (Radiotherapy East) and PDC (3Ts). In March £3.2m was drawn down from the Radiotherapy Loan facility, and a PDC of £9.8m for 3Ts.

10. Capital

10.1. The Strategic and Operational capital programme outturns are both less than planned for the full year. The Decant element of the 3Ts programme has impacted on the main scheme and the full years spend amounted to £44.5m compared to the plan of £64.3m. Delivery of the MRIs for the Radiotherapy East scheme was made in March but building works will continue into April. Loan funding of £3.2m was received in March and the final tranche of the loan will be drawn down in April.

10.2. The Operational capital schemes have been behind plan for most of the year and several changes have been made to the programme during the year to re-programme and incorporate schemes that would deliver in-year. This has resulted in increased expenditure in March and the final outturn was £15.9m against a planned expenditure of £19.9m.

11. The Board is asked to:

- Note the contents of this report

Bill Stronach
Deputy Chief Financial Officer
April 2017