Brighton and Sussex University Hospitals NHS Trust

To: Board of Directors | 26 July 2017

From: Bill Stronach, Deputy CFO (BSUH), on behalf of Karen Geoghegan, Chief Financial Officer

Agenda Item: 9

FOR INFORMATION AND APPROVAL

Finance Report on Month 3 2017/18 Position

Executive Summary
Month 3 Performance

At Month 3 the Trust is reporting a deficit of £18.74m against the deficit plan of £18.94m, a favourable year-to-date variance of £0.20m. Current issues include:

- Overperformance on PbR excluded drugs income, offset by increased costs, masks an underperformance across the rest of income taken as a whole
- This includes R&D income being £0.34m behind plan year-to-date
- The underlying Pay run-rate is increasing

Forecast outturn is to deliver the plan deficit of £65.35m and hence be within the agreed Control Total deficit of £65.40m. Key risks to delivery include:

Income
- Securing the level of contract income included in the plan (plan £10m higher than current contracts)
- Delivery of CQUIN in full
- Continuation of R&D income underperformance would mean an income shortfall of £1.3m (partly mitigated through reduced costs)

Operating Expenditure
- Management of the paybill remains essential

Cross Cutting
- Delivery of the £20m CIP target in full
- Corporate and Clinical restructuring may have both direct and indirect revenue consequences
- A robust Financial Performance Framework is yet to be put in place
- Work on the 3Ts build may have adverse operational consequences

1. Introduction

1.1. This report covers the financial performance of the Trust to June 2017 and addresses income and expenditure, capital, cash management and key risks. Draft details of cost improvement programmes are reported this month.

2. Key Financial Metrics

Metric (£000s)	*In-Month*			*Year-to-Date*		
	Plan	**Actual**	**Variance**	**Plan**	**Actual**	**Variance**
(Surplus)/Deficit	4,901	4,876	(25)	18,943	18,736	(207)
Income	(46,691)	(47,051)	(360)	(135,763)	(135,490)	273
Operational Expenditure	48,445	48,839	394	145,253	144,867	(386)
Capital	9,362	3,996	(5,366)	25,065	11,707	(13,358)
Cash			0	3,280	6,180	2,900

The Plan in the first column delivers the Trust's deficit plan of £65.35m and which is within the agreed Control Total deficit of £65.40m

3. Summary

3.1. The Month 3 position is a favourable variance to budget of £0.2m, with an actual deficit of £18.74m against a deficit plan of £18.94m.

3.2. While there is underperformance against the income plan, this is more than offset by underspending on operational expenditure.

3.3. 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.

3.4. The Trust's cash position is supported by monthly revenue deficit funding from the Department of Health and capital investment loans and PDC for the capital programme. The June revenue funding was £3.5m and the July funding will be £7.2m. Thereafter the funding will continue throughout the year up to the level of the planned deficit

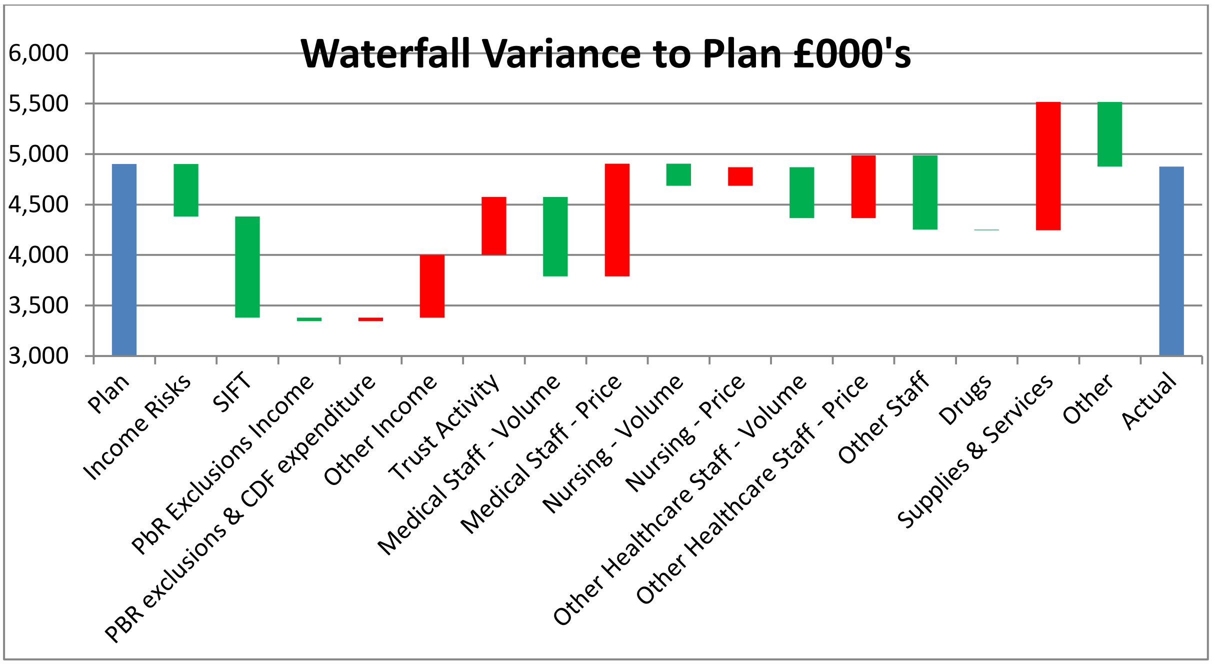
4. Month Movements

4.1. Table 1 on the next page shows the key variances from plan in June, and the movement in actual compared to Month 2.

Table 1

Key variances from plan	In-month variances £000s	Run-rate changes from Month 2 £000s
Activity income	1,228	645
Income challenges	(519)	(1,749)
PBR exclusions & CDF income	(687)	(651)
Outsourcing income	(83)	(51)
SIFT income	(1,002)	5
Other income (PP, R&D etc.)	703	(75)
Pay	(322)	8
Outsourcing	83	51
Drugs in tariff	(7)	28
PBR exclusions & CDF expenditure	687	651
Consumables in tariff expenditure	578	16
Other non-pay	(625)	(17)
Non-operating Costs & Technical Adjustments	(59)	(69)
Total variance / movement	**(25)**	**(1,208)**

4.2. The waterfall chart below shows the breakdown of the June position.



5. Income

5.1. Income for the year-to-date reports an underperformance of £0.27m, an improvement of £360k in month, with the year-end forecast an over performance of £588k. Income from patient activity is based on two months actuals with an estimate for June. The improvement is due mainly to over performance in critical care and outpatients with a reduced underperformance for admitted patient care. A provision is held for contract adjustments and challenges, the value of which was reduced in June to reflect a revised view on PbR exclusion drug challenges.

5.2. As with Month 2, the Cancer Drugs Fund income and costs are lower than plan. Private Patient income is variable and the shortfall increased in June particularly in Cardiac. The shortfall in research income is mainly due to commercial trials being lower than planned.

6. Expenditure Year-to-date

6.1. Operating Expenditure is underspent year-to date by £0.39m driven by a pay underspend of £1.05m, partly offset by overspending on non-pay items.

6.2. The Clinical Directorates were overspent by £0.98m, Corporate Directorates were underspent by £0.75m and the Central Financial services budgets, which include the remaining reserves and CIP budgets pending allocation, were underspent by £0.48m. Details are in Appendix 2.

6.3. Backdated funding for the 1% pay award and apprenticeship levy was delegated to Clinical and Corporate Directorates in Month 3.

Pay

6.4. The pay underspend comprises underspends in all areas except "Other staff" which has an overspend of £2.05m. This is the result of CIP related budget amendments still only being partly finalised in Month 3 with the undelegated balance held in Central Financial Services, much of which under the "Other staff" category.

6.5. The pay run-rate has increased month-on-month since April after taking bank holiday enhancements into account. The biggest increase, £0.3m comparing June to April expenditure, has been in Medical Staff.

6.6. The Trust's overall agency expenditure cap for 2017/18 is the same as last year, at £12.8m. The profiled cap for the year-to-Month 3 is £3.2m and expenditure is below this at £2.7m.

6.7. Table 2 on the following page shows the breakdown of Medical and Nursing variances between substantive, bank and agency which further illustrates the overall position.

Non-pay

6.8. The Month 3 non-pay position is a £0.67m overspend against plan. However, this is mainly as a result of additional expenditure on PbR excluded drugs which is offset by income. Non-pay CIPs targets initially held centrally in 'Other non-pay' have largely been delegated to Directorates in Month 3.

Table 2: Nursing & Medical Substantive, Bank & Agency Expenditure

	In-Month			Year-to-Date		
	Plan £000's	Actual £000's	Variance £000's	Plan £000's	Actual £000's	Variance £000's
Nursing - Registered - Substantive	8,796	7,896	(900)	26,074	23,624	(2,450)
Nursing - Registered - Bank	31	684	653	92	1,785	1,693
Nursing - Registered - Agency	68	253	185	1,545	1,477	(68)
Nursing - Registered Total	**8,895**	**8,833**	**(62)**	**27,712**	**26,887**	**(825)**
Nursing - Unregistered - Substantive	2,121	1,737	(383)	6,406	5,327	(1,079)
Nursing - Unregistered - Bank	48	458	410	143	1,206	1,063
Nursing - Unregistered - Agency	0	1	1	0	1	1
Nursing - Unregistered Total	**2,169**	**2,196**	**27**	**6,550**	**6,534**	**(16)**
Nursing - Total	**11,064**	**11,029**	**(35)**	**34,261**	**33,420**	**(841)**
Medical - Substantive	8,585	8,699	114	26,307	25,639	(668)
Medical - Bank/Locum	30	157	127	88	446	357
Medical - Agency	144	235	91	452	727	275
Medical - Total	**8,760**	**9,091**	**331**	**26,848**	**26,812**	**(36)**

7. Cost Improvement Plans

7.1. The PMO has been working with Directorates to identify efficiency schemes that will deliver the £20m CIP target in full. This work is almost complete and delegated budgets will be amended accordingly for Month 4 reporting.

7.2. The phasing of savings included in the Trust plan was for 34% of the total to be delivered in the first six months, 66% in the second. The phasing of savings in the latest plan is for an increased proportion of savings to made earlier in the year. This will mean a mismatch in reported variance to plan between the NHSI return and internal efficiency programme reporting, but the reason for this will be clear.

7.3. Work to fully report savings delivery progressed in Month 3 and year-to-date figures were produced, but as these were not subject to the necessary assurance they are not reported here. Development of reporting processes over the next month will ensure validated figures can be made from Month 4.

8. Risks

8.1. A number of risks to delivery of the Control Total deficit are outlined below. Identification of further risks and opportunities will continue to enable appropriate actions to be taken.

8.2. Income
- Securing the level of contract income included in the plan; the latter is £10m higher than current contracts
- Delays in meeting CQUIN requirements may lead to payments being withheld
- R&D income is 30% behind plan year-to-date; continuation of this level of underperformance would mean an income shortfall of £1.3m (partly mitigated through reduced costs)

8.3. Operating Expenditure
- There are a significant number of unfunded posts, the cost pressure from which is currently being offset by un-backfilled vacancies. A reconciliation exercise is underway to identify posts that can be formally disestablished to provide funding.

- Changes to Microsoft licencing arrangements mean a potential pressure of £0.5m
- Work is on-going to finalise agreement on the 17/18 SIFT related BSMS charge

8.4. Non-operating expenditure

- Failure to meet the deficit plan in the early months of 17/18 would mean the assumption that the interest rate on subsequent loans supporting the deficit reducing from 6.0% to 1.5% would not hold
- A review of depreciation costs suggests the plan value is overstated by £0.5m

8.5. Cross cutting

- Delivery of the £20m CIP target in full
- Corporate and Clinical restructuring may have both direct and indirect revenue consequences
- A robust Financial Performance Framework is not yet in place
- Work on the 3Ts build may have adverse operational and hence revenue consequences

9. Cash

9.1. The Trust received £3.5m of revenue deficit funding in June and a further £7.2m is approved for July. The full year's revenue deficit funding is equal to the planned deficit of £65.35m. The monthly drawdowns are based on a review by NHSI of revenue results to date and the forecast revenue results for the remainder of the year. Capital funding is PDC for 3Ts and capital investment loans for ED, Emergency Backlog Maintenance and Pathology. PDC was drawn down in May; the next drawdown to match the expenditure profile is planned for August. The other strategic schemes are pending approval from NHSI so the timing of the cash flows for these schemes is uncertain but the estimated income and expenditure is included in the overall cashflow.

10. Capital

10.1. A revised capital expenditure profile for 3Ts has been submitted by the main contractor and this has resulted in significant re-phasing of expenditure into 18/19. The Radiotherapy East scheme is complete. The other strategic capital schemes, ED, Emergency Capital for Backlog Maintenance and Pathology, are subject to NHSI approval and will be funded by capital investment loans. These schemes are included in the overall forecasts for the year.

10.2. The Board approved a revised Operational Capital Programme in June and work is now underway to programme the implementation of this plan. Some schemes are well prepared (Medical Equipment and IT) others require more detail planning and additional resources to be implemented. The expenditure to date relates to schemes approved in the last year and carried over into 17/18.

11. The Committee is asked to:

- Note the contents of this report

Bill Stronach
Deputy Chief Financial Officer (BSUH)
20/07/17