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Meeting:	**Brighton and Sussex University Hospitals NHS Trust Board of Directors**
Date:	**30 June 2016**
Board Sponsor:	**Spencer Prosser, Chief Financial Officer**
Paper Author:	**Bill Stronach, Deputy Chief Financial Officer**
Subject:	**Finance Report M2 2016/17**

Executive summary

Month 2 Performance

At month 2 the trust is reporting an in month deficit of £6,386k, a year to date deficit of £11,088k and a forecast deficit in line with the planned deficit of £15,570k.

The May 2016 in month deficit is significantly above the 2015/16 average monthly deficit of £3.3m, this is due to the national pay award and changes to the NI Rebate as well as the increase to the CNST premium. In addition to this the Trust has made provision for activity income challenges and costs associated with the financial improvement work, and seen an increase in drugs expenditure and consumables costs.

The deficit position is leading to cash flow pressures which are being mitigated through working capital management. Capital spend is below plan for the month because of delays to projects and the need to conserve funds.

The key risks to the 2016/17 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 – Pay costs are currently within budget but the financial plan assumes significant monthly reductions based on the delivery of cost improvements. Non-pay costs are over plan and require remedial action as well as further reductions.
- Delivery of the planned efficiency programme in full totalling £25.1m.

If the financial position continues as it has done in month 2, the year-end deficit could approach £70m. The forecast outturn has been retained at £15.6m pending finalisation of plans under the Financial Improvement Programme.

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There is a requirement to increase the Revolving Working Capital Facility from £29.9m to £35.4m to provide the working capital support for the revenue control total deficit of £15.6m agreed with NHSI for 16-17.
Action required by the Board The Board is asked to note the month 2 position and approve the increase in the Revolving Working Capital Facility to fund the control total deficit this year

Links to corporate objectives	The report supports the objective of ***high productivity***
Identified risks and risk management actions	Noted in Executive Summary.
Resource implications	Detailed in the report
Legal implications	The Trust has a duty to break even taking one year with another.
Report history	None
Appendices	Appendix 1 – Month 2 Report Appendix 2 – Subjective Analysis Appendix 3 – Organisational Analysis Appendix 4 – Revolving Credit Facility

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Report to the Board of Directors, 30th June 2016
Financial Performance Month 2 2016/17

1. Introduction

1.1. This report provides an update on the financial performance of the Trust for the month of May 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	2,933	6,386	3,453	5,851	11,088	5,237
Income	(45,721)	(44,058)	1,663	(91,462)	(88,287)	3,175
Expenditure	45,830	47,622	1,792	91,674	93,979	2,305
Capital	13,283	8,388	4,895	24,116	17,603	6,513
Cash				7,247	5,896	1,351
CIPs	512	645	(132)	1,033	1,383	(349)

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 deficit of £6,386k and year to date deficit of £11,088k The position reflects the advice from NHS Improvement not to include any of the £14,400k Sustainability and Transformation Plan funding (STPF) - there is £1,200k included in the May plan and £2,400k in the year to date plan. The balance of the year to date variance is made up of a shortfall on SIFT income, a provision for income risks of £750k, an overspend on Nursing pay costs, the continuation of outsourcing, an increase in drugs expenditure, an increase on consumables as well as costs associated with Financial Improvement. The tables below show the key variances from plan for May as well as the change in performance from April to May.

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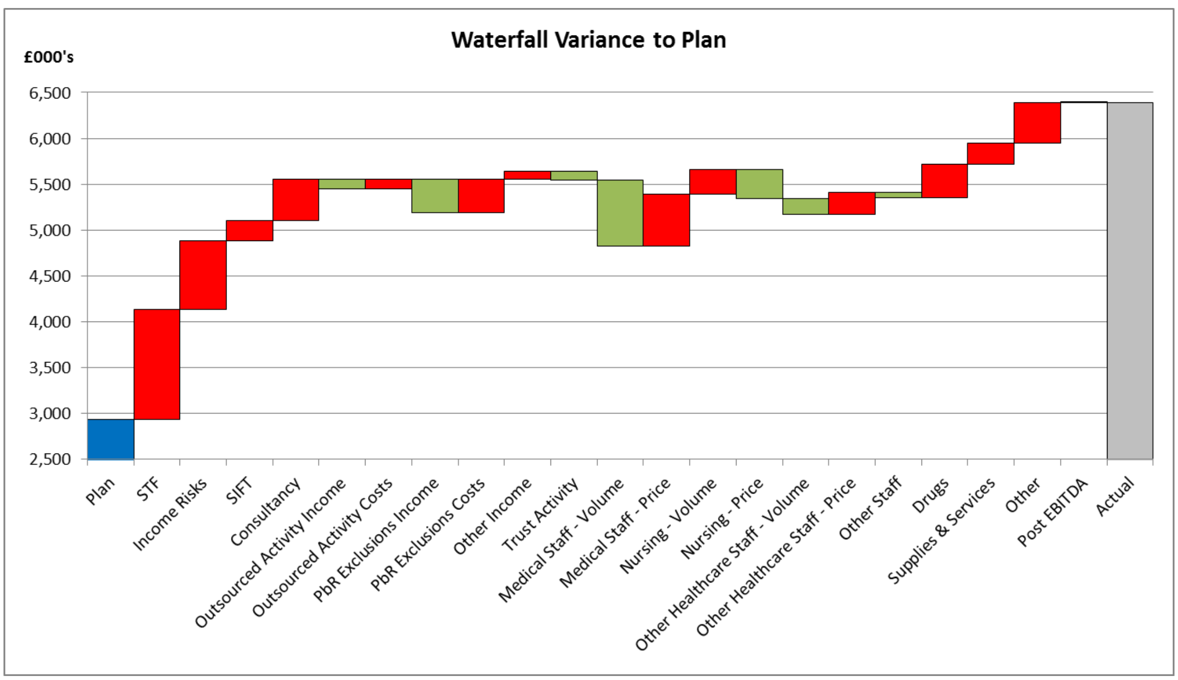
Key Variances From Plan	In Month Variances £000's
Activity Income	(103)
Challenges Provision	750
STPF	1,200
SIFT Income	217
Other Income	(28)
Pay	(185)
McKinsey's Consultancy	458
Outsourcing	114
Drugs	364
Consumables Expenditure	226
Other Non Pay	440
Total Variance to Plan	**3,453**

Run Rate Changes from April to May	Changes from Month 1 £000's
Activity Income	(280)
Challenge Provision	750
Other Income (PP, R&D etc.)	(448)
Pay	(343)
McKinsey's Consultancy	600
Drugs	552
Consumables Expenditure	491
Other Non Pay	115
Post EBITDA	246
Total Movement from Month 1	**1,683**

3.2. The Trust is spending more than the income it is generating. The graph below shows the breakdown of the May deficit. A large proportion of the variance to plan is income related and associated with sustainability funding, income risk provision and SIFT. Additional consultancy costs in month explain more of the variance and there are increases in PbR exclusion and outsourced activity income that are matched by costs. These changes explain the deficit to £5.6m. The remainder of the variance is explained by a small increase in activity offset by increases in non-pay costs – particularly drugs, supplies and services and other (including recharges from other trusts). Pay costs are within plan for the month but there are notable volume and price variances, e.g. there is a saving from a reduced number of doctors which is largely offset by increased costs for those we do have.



3.3. The Trust's cash position, whilst manageable at month-end, remains extremely challenging and is dependent on the achievement of the planned level of deficit and revenue support funding from the NHS Improvement.

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3.4. Delivery of the efficiency programme is ahead of plan in the month by £132k and £349k year to date, this is largely attributable to Pharmacy starting to deliver in April, but the plan assumed July. There is still a lot of work to do to ensure the plans are robust and McKinsey's are supporting the development of the plan and its delivery.

3.5. The delivery of the efficiency programme will become more challenging during the year as there are stepped increases to the plan with a £1,200k increase per month from July and a further £1,200k increase per month from October.

3.6. 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.

3.7. The key risks to the 2016/17 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 is higher than the current schedule, which is £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 – Pay costs are currently within budget but the financial plan assumes significant monthly reductions based on the delivery of cost improvements. Non-pay costs are over plan and require remedial action as well as further reductions.
- Delivery of the planned efficiency programme in full totalling £25.1m.

3.8 The mitigations for the above risks are predominantly focused around the financial improvement programme, the work with McKinsey's will be identifying opportunities of £48m, with the aim to deliver £37m in year, this is to ensure delivery of the £25.1m as well as a reduction in the current run rate. 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.

3.9 The Trust is continuing to forecast delivery of the planned deficit of £15,570k. This is based on successful delivery of the Financial Improvement Programme (FIP). 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, securing full sustainability funding, achieving the planned level of activity income as well as the £25.1m efficiency programme. In addition to this there is an assumption that the current expenditure run rate will be managed down.

4. Income

4.1. The Trust is reporting year to date income under achievement of £3.2m. This is predominantly driven by the NHS Improvement advice not to include any of the £14,400k Sustainability and Transformation Plan funding in the month, there was £1,200k included in the May plan and £2,400k in the year to date. In line with advice from NHS Improvement this has been assumed that the full amount will be received for the year.

4.2. Commissioner activity is broadly on plan with an over performance against PbR excluded items. This is prior to an assessment of CCG challenges and a provision of £750k has been made for these.

4.3. There is 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 is also an under achievement of Research income in the month, it is expected that this will be mitigated through a reduction in costs over the rest of the year.

4.4. The Trust has the following income risks; Trust activity plan is higher than the Commissioner contracts on the basis that QIPP schemes will not materialise. CQUINN payments are assumed to be received at 100% and penalties/fines reinvested in the Trust. 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 part of this disputed amount.

5. Expenditure

5.1. Expenditure year to date is overspent by £2,305k, there is a marginal underspend on pay of £25k, although there are overspends on nursing of £213k and Other Healthcare staff of £100k, which is being offset by underspends in the other staff groups. The non-pay overspend is £2,331k, of this £956k relates to PbR excluded drugs that is a pass through cost and therefore offset with income, there has been an increase in consumables expenditure in the month, particularly on disposable items, in addition to this outsourcing continues and there is a new cost on consultancy in the month that is associated with financial improvement work.

5.2. In the year to date position nursing has overspent by £213k,this in an improvement to the month 1 position, but it is not yet clear if this is improvement is sustainable. This overspend is offset by underspends in medical and other staff groups. The expenditure on nursing bank and agency outweighs the underspend on substantive budgets. There are 2 Directorates that have significant overspends Acute Floor and Neuroscience & Stroke services, these areas need to reduce the amount they are spending on temporary staffing.

5.3. There is going to be increased pressure to deliver the pay expenditure reductions required as part of the efficiency programme. The pay budget for April was £28,808k, this reduces to £27,225k by March, the graph below shows the reduction to the pay budgets required by month, there are stepped changes from July and October.

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5.4. A breakdown of the nursing and medical staff spend 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	10,948	9,876	(1,072)	21,894	19,930	(1,964)
Nursing - Bank	18	798	780	37	1,676	1,639
Nursing - Agency	0	242	242	0	538	538
Nursing - Total	**10,966**	**10,916**	**(50)**	**21,931**	**22,144**	**213**
Medical - Substantive	8,404	7,930	(473)	16,817	15,949	(868)
Medical - Bank/Locum	34	263	229	68	414	346
Medical - Agency	117	213	96	227	542	315
Medical - Total	**8,555**	**8,407**	**(148)**	**17,112**	**16,904**	**(208)**

5.6. The Clinical Directorates are showing an overspend of £1,072k in May and Abdominal, Acute Floor and Neurosciences have operational pressures and continue to overspend at a similar level to month 1. The Corporate Directorates are showing a £2,406k variance in the month, this is largely attributable to the Chief Financial Officer (£2,086k) this is made up of the shortfall on STPF and the CCG Challenges provision. The Medical Director overspend is due to the reduction in SIFT income.

6. Cost Improvement Plans

6.1. The efficiency programme is ahead of plan for May by £132k and the year to date by £349k. The over achievement is largely due to pharmacy savings delivering from April, but the plan anticipated savings from July.

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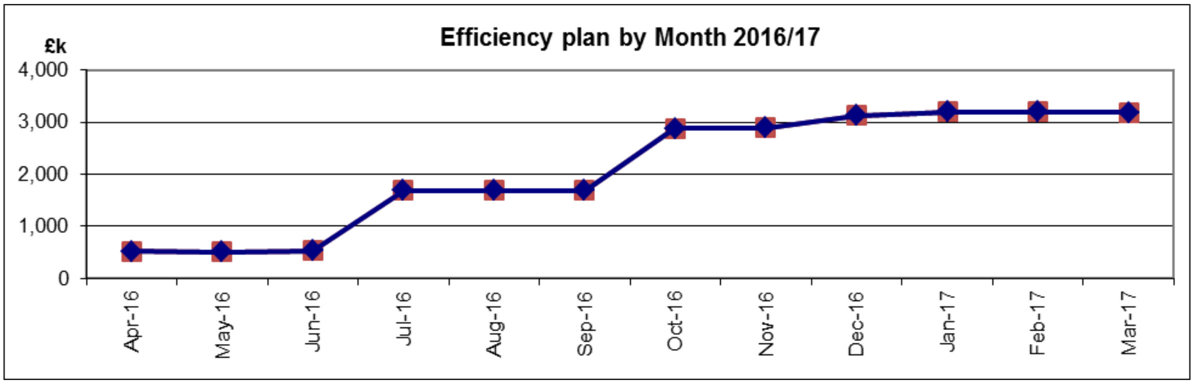
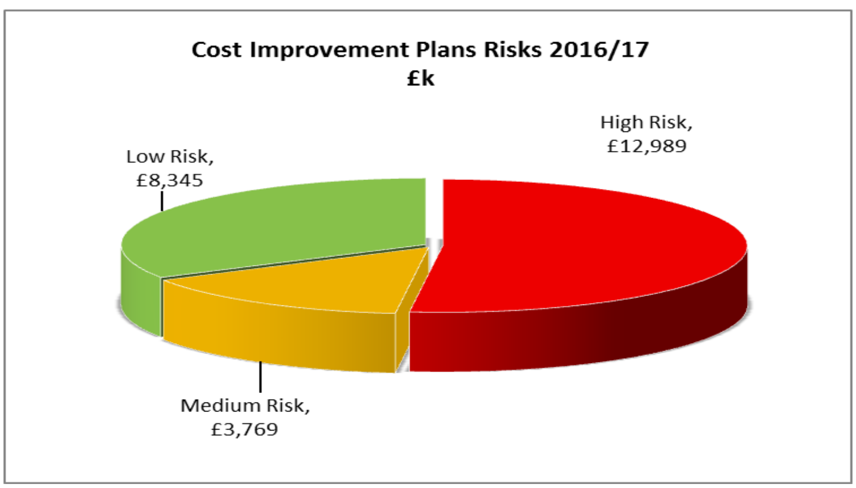
6.2. The efficiency plan is phased over the year with stepped increases to the monthly plan in July, where the plan is increased by £1.2m per month and another £1.2m per month increase from October on top of the July value. The graph below demonstrates the stepped increase and the size of the challenge in the last half of the year. There will need to be significant focus to deliver these savings and the development of robust plans is being supported by McKinsey's.



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 are working with the Trust as part of the financial improvement programme and will be identifying opportunities of £48m, with the aim to deliver £37m in year, this is to ensure delivery of the £25.1m as well as a reduction in the current run rate.

6.4. The efficiency programme target is currently being held centrally with the exception of 2 small schemes within the Corporate areas. Once the plans are developed the targets will be devolved out to the Directorates, this is expected to happen for June reporting. The full year plan of £25.1m is currently forecast to be delivered in full, there are significant risks associated with this as we believe that £8.3m of the £25.1m has a low risk factor, the graph below shows the risks of delivery to the efficiency programme.



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 five Directorates; Abdominal, Acute Floor, Cancer, Cardiovascular and Neurosciences.

7.2. Performance management arrangements have been refocused on these three cost drivers in the Directorates highlighted above. Focussed sessions have been undertaken by the Chief Financial Officer and the Chief Operating Officer to identify and agree specific actions that will improve the financial position in the short term and resolve some long standing issues and blockages. The weekly PMO meetings have commenced and in line with what was reported last month additional resources have been assigned to Directorates.

7.3. Focused work is underway in the three subjective areas of expenditure, this covers nursing, medical and drugs.

7.4. Additional control mechanisms remain in place which whilst good practice, are taking some time to bed in to the culture of the organisation, although there are signs that the level of understanding is improving.

8. Cash

8.1. Whilst causing stress within the organisation, the strict adherence to controls such as “No PO=No pay” has assisted in the ability to manage cash-flow. Creditor levels are uncomfortably high and prioritised payments are being made to avoid running out of cash.

8.2. The Trust’s cash position, whilst manageable at month-end, 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. Part of the overall cash management strategy has been to delay capital expenditure on a number of schemes from 2016/17 to 2017/18. This, coupled with unplanned delays on a number of schemes (including Eastbourne) has meant that the capital programme is underspent at Month 2.

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 commissioner income, nursing expenditure and the efficiency programme. The forecast assumes that we will secure the full STPF, 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.

10.2 Should the current run rate continue the deficit would be closer to £70m. There are plans in place to mitigate this risk with the most significant being the Financial Improvement Programme. Once the FIP plans are further developed the forecast outturn will be reconsidered.

11. Revolving Credit Facility

11.1 There is a requirement to increase the Revolving Working Capital Facility from £29.9m to £35.4m to provide the working capital support for the revenue control total deficit of £15.6m agreed with NHSI for 16-17. Appendix 3 gives greater detail.

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12. The Committee is asked to:

- Note the contents of this report
- Ask questions of the Chief Financial Officer
- Recommend that the Board approve the increase in the Revolving Working Capital Facility to fund the control total deficit this year.

Bill Stronach
Deputy Chief Financial Officer
June 2016