

Dyddiad/Date: 15th November 2019

Mrs Andrea Hughes
 HSSDG – Deputy Head of NHS Financial Management
 Welsh Government
 Sam Mynach
 Llandudno Junction
 Conwy, LL31 9RZ

Dear Andrea,

SWANSEA BAY UNIVERSITY HEALTH BOARD MONITORING RETURNS 31st October 2019

I enclose for your attention the completed proformas in respect of the Health Board's Monitoring Returns to 30th September 2019. This letter provides the supporting commentary to the proformas.

1. Actual Year to Date and Forecast Under/Overspend 2019/20 (Tables A & B)

(a) Movement of Opening Financial Plan to forecast outturn (Table A)

The Health Board developed a balanced financial plan within the Annual Operating Plan.

Costs	£m	Savings/Funding	£m
2018/19 Underlying	23.3	Savings	(21.3)
Carry Forward Deficit		Non-Recurrent Opportunities	(0.7)
		Actions to mitigate Bridgend transfer impact	(0.0)
<u>2019/20 New Costs</u>		<u>Additional Funding</u>	
Service Costs	42.3	WG Allocation Uplifts	(33.2)
		Income Benefits	(0.4)
		WG Additional Funding Support	(10.0)
Total	65.6	Total	(65.6)

The Health Board's ambition is to achieve financial balance in 2019/20. This core financial plan excluded the impact of the Bridgend diseconomies of scale. The Health Board recognises its need to mitigate these diseconomies however the challenge of delivering this in year one has been highlighted.

Table A has been reworked to reflect the detailed analysis undertaken with KPMG and the Finance Delivery Unit.

The Health Board has a forecast savings delivery including income generation and accountancy gains of over £20.269m against the initial requirement of £22m.

However whilst good progress has been made on savings, the Health Board has experienced significant in-year operational pressures, the main drivers being unprecedented unscheduled care pressures resulting in additional costs to maintain surge capacity; and the knock-on impact on income received for commissioned services; rising Continuing Healthcare costs.

The Health Board has also received a number of Final Pension Charge invoices, some of which are significant in value.

The Health Board has identified £0.4m of mitigation opportunities against the Bridgend diseconomies of scale and is grateful for the Welsh Government's commitment to support transitional costs as set out in Andrew Goodall's letter to Tracy Myhill of 13th August 2019. We appreciate the final level of support is to be confirmed, however to support our forecasting, the level of financial support has been assumed to be £2m in 2019/20.

The Health Board has a high degree of confidence in actions to deliver a £12.3m deficit position and this assessment is shared by both the NHS Finance Delivery Unit and KPMG.

The Health Board has identified further mitigations and risks, which are being further developed to increase delivery confidence levels. These, in total, amount to £3.6m and their delivery would improve forecast end-year financial delivery to a £8.7m deficit position at this stage.

We will be reporting to our Board at the end of November with an updated position on financial performance. The Board recognises the challenge of an £8.7m forecast deficit position and will be expecting us to provide assurance on both the current delivery mechanisms for, and delivery confidence in, the actions to realise that position and to explore the further choices open to us to improve the position to the lowest level possible. The Board will update its year end forecast after this critical meeting.

Our focus remains delivery of the improvement actions needed to reduce our deficit position. In July, a detailed review of savings plans and performance was undertaken which resulted in more focused financial grip and control and recovery actions, supported by the Delivery and Support Team. A weekly drumbeat of financial recovery meetings was established. A monthly Financial Management Group was also established, chaired by the Chief Executive, in addition to the monthly assurance and scrutiny by the Finance and Performance Committee. Refreshed spending controls were issued and deep dive assessments of high value opportunities undertaken. We have also established a Value and Efficiency programme to focus on driving medium term priorities and our pipeline and have commenced our work on organisational structures.

The Health Board recognises that the breakeven forecast, at this point, carries significant risk.

(b) Monthly Positions (Table B & B1)

The Month 7 reported position is an overspend of £8.653m. This overspend reflects workforce pressures linked to operational pressures and patient acuity, growth in ChC patient numbers, and income risks associated with lower elective activity levels due to unscheduled care pressures. It also reflects the challenges of delivering the required level of savings, particularly those required to manage the diseconomies of scale following the Bridgend Boundary Change.

The Health Board holds weekly Service Delivery Unit Financial Recovery meetings to ensure visibility, accountability and support for savings delivery and cost pressure management. The patterns of weekly meetings includes overall Unit financial performance, line-by-line savings focus, cross system opportunities and impacts, workforce focus and High Value Opportunities deep dives. The Delivery Support Team is supporting this governance and accountability methodology.

On a monthly basis these Financial Recovery meetings report into the Financial Management Group chaired by the Chief Executive, which was established to provide a more comprehensive review of the Health Board financial performance, facilitating collective learning and good practice sharing and development clear action plans to support financial delivery.

2. Underlying Position (Table A1)

The Health Board underlying carry forward position moving into 2019/20 was assessed at £30.4m based on the former ABMU Health Board. The Swansea Bay University Health Board financial impact assessment undertaken as part of the Bridgend Boundary Change identified £7.1m of this underlying deficit as relating to the Bridgend population and the services they access and therefore transferring CTMUHB. This £23.3m underlying deficit is recognised in the Health Board opening financial plan.

The full impact of the operational pressures, savings and recovery meetings on the underlying position moving into 2020/21 is being assessed in conjunction with KPMG to inform the IMTP planning process which is underway. The initial assessment indicates an underlying position of around £21m, this is continuing to be further refined.

3. Ring Fenced Allocations (Tables N & O)

Tables N and O are not required to be completed in month 7. A balanced position is currently anticipated on all ring-fenced allocations with the exception of GMS which has an anticipated surplus of £855k. This is being reviewed to ensure it fully reflects the position.

4. Net Expenditure Profile Analysis (Table B & B1)

Resource Limit – at the end of month 7 the Revenue Resource Limit is under-phased by £6.0m.

Reserves are not profiled in a straight line across all categories within Table B, the elements of the difference are explained in the table attached to this letter.

The Net Expenditure Profiles for Swansea Bay are likely to be subject to change as the impacts of the financial recovery work and the route to breakeven, on income and expenditure become clearer.

To date the key pressure areas are:

- Pay – due to the increasing use of premium rate agency supporting additional surge capacity and cover sickness absence and vacancies.
- Non-Pay – due in the main to under delivered and unidentified savings requirement.
- Drugs – due to an increase in expenditure on Hepatitis C drugs linked to the work with HMP Swansea.
- ChC – pressure of case number growth.

The actual pay expenditure for October was £1.5m above last month's forecast, this is primarily due to the Medical & Dental pay arrears being paid this month when the forecast assumed arrears would be paid in November. RRL has been brought forward to cover this.

Non pay expenditure was £2.2m above forecast, which is a combination of the costs associated with additional WHSSC activity matched by increases in income, R & D costs matched by income and higher than anticipated clinical negligence costs.

5. Agency/Locum Expenditure (Table B2)

The Health Board Agency expenditure for Month 7 is £1.894m, which is 4.0% of the overall pay expenditure. The agency spend has reduced slightly in month following the recruitment of newly qualified nurses. The agency expenditure for the two quarters of 2019/20 is £3.9m higher than the same period in 2018/19 (adjusted for Bridgend).

The increase primarily relates to nurse agency costs, which increased during 2018/19 and have remained high during the initial months of 2019/20. This reflects the operational pressures being experienced, including high levels of sickness absence, and the additional capacity in place to support the operational pressures.

The key reasons for Agency expenditure in month are:

- Vacancy Cover – 67%
- Temporary Absence Cover – 10%
- Additional Support to delivery and performance – 23%

6. Savings Plans (Table C, C1, C2 and C3)

The Health Board initial core financial plan identified a £21.3m savings requirement for 2019/20 to support the delivery of a balanced financial plan. This savings requirement did not include any actions required to mitigate and manage the impact of the Bridgend Boundary Change clinical and corporate management diseconomies of scale. The Bridgend diseconomies are now being incorporated into the overall approach to delivery through the Delivery Support Team and the Health Board more broadly.

The Health Board savings plan comprises of three elements: local savings, cost containment and management, and High Value Opportunities.

The Health Board plan identified an opening level of savings of £18,151m. This includes £0.981m Income Generation and £0.3m Accountancy Gains, which do not show on Table C.

The initial savings plans have under-delivered by £4.646m.

A further £6.765m of savings have been identified with a high level of delivery assurance.

The Health Board is working with KPMG to identify further opportunities and drive improved delivery.

7. Income Assumptions 2019/20 (Tables D & E)

Table D sets out the income and expenditure assumptions with other Health Boards based on current LTA and other income and expenditure assumptions. These are subject to further refinement as the Bridgend impacts become clearer.

Table E provides the allocations anticipated by the Health Board. These include:

- The SBUHB income allocation based on the Welsh Health Circular 2018 050 - 2019-20 Health Board and Public Health Wales NHS Trust Allocations; and
- the £10m additional WG non-recurrent funding support which our annual plan written feedback (January 2019) indicated was a reasonable assumption to make

Transformation Fund allocations received and anticipated are being fully utilised for the purpose they have been awarded.

8. Health Care Agreements and Major Contracts

All LTAs were signed off by the end of May.

9. Risk Management (Table F)

The Health Board has considered the key risks and opportunities and these have been amended to reflect the forecast position and the elements included in the forecast. The Health Board would wish to highlight the following:

- Prescribing – the Health Board has been advised of changes to Cat M, which is maintained throughout the year could increase prescribing costs by around £1.2m. This is still being reviewed and opportunities to mitigate considered.
- Nurse Staffing Act – the impact of this is included within the current financial position and forecast.
- WG Additional Funding Support – the Health Board financial plan includes the anticipated allocation of additional WG funding support, as provided non-recurrently in 2018/19. This additional funding was included on the advice of WG colleagues, however the funding has not been formally confirmed.
- Performance – the Health Board has received £6.5m of performance funding to support planned care performance. The current operational pressures, emerging

clinical pressures and HMRC issues are putting at risk the ability to achieve the planned RTT performance improvement.

- **Additional Capacity** – the excess costs of additional capacity have been included within the forecast.
- **Diseconomies of Scale** – these have been updated and included within the forecast.
- **Final Pension Charges** – the invoices received to date have now been included in the forecast.
- **Welsh Risk Pool** – the anticipated share of the estimated overspend is included in the risk table. At the present time the Health Board has no opportunities identified to mitigate this risk.
- **Further mitigating actions** – these may not be able to be delivered in full. The Health Board are working KPMG to increase delivery confidence.
- **To deliver the breakeven forecast** the Health Board will need to identify at least a further £8.7m mitigating actions and opportunities. This will be extremely challenging given the pressures and risks associated with delivery. The KPMG opportunities pipeline is being examined to identify areas where opportunities can be expedited and also to develop a more sustainable position going forward.

10. Statement of Financial Position (Table G)

The audit of the disaggregation of the closing Statement of Financial Position of the ABMU Health Board, and the S1 (Fixed Assets) and S2 (current assets and liabilities) has been completed by Wales Audit Office. The audit report and the S1 and S2 documentation is being reported for approval at the health board meeting on 28th November, following which the documentation will be signed by the Chief Executive on behalf of the board and forwarded to the Chief Executive of Cwm Taf Morgannwg Health Board for sign off. A meeting is being arranged for the next couple of week with Cwm Taf Finance colleagues to begin the process of transacting the balances through the health board's financial ledgers.

As a result, the balances included in Table G at 1st April 2019 and 31st October 2019 are the balances prior to disaggregation, less those balances cleared during the period, representing the actual ledger figures at these dates. The forecast closing Statement of Financial Position at 31st March 2020 reflects the current best estimate of the closing Statement of Financial Position for the Swansea Bay University Health Board incorporating the audited S1/S2 figures.

The key issues in respect of the statement of financial position movements are as follows:

- The inventory value remained flat in October, reducing from £10.537m at the end of September to £10.526m at the end of October, a reduction of £0.011m.
- There was a reduction in trade receivables in month from £169.171m at the end of September to £168.251m at the end of October, a reduction of £0.92m. The reduction was mainly in trade debtors and the VAT debtor, despite an increase in the Welsh Risk Pool debtor following the updating of the redress and clinical negligence and personal injury provisions via the Welsh Risk Pool quantum updates.

- The closing October cash balance of £1.193m was in line with the month end cash target set by the health board of between £1m and £2m.
- The trade and other payables figure saw a further reduction from £180.426m at the end of September to £177.255m at the end of October, a reduction of £3.171m, bringing the total reduction in trade and other payables to £14.094m since 1st April. This is the area of the Statement of Financial Position which has been most affected by the Bridgend boundary change, with the reduction in creditors reflecting the continuing impact of clearing the payables balances at year end relating to services which transferred to Cwm Taf Morgannwg Health Board on 1st April 2019. Work is ongoing to identify those creditor balances and expenditure accruals which remain.
- Provisions increased from £143.238m at the end of September to £145.222m at the end of October, an increase of £1.984m. This increase was in redress and clinical negligence and personal injury provisions, following the latest quantum updates from Welsh Risk Pool. The majority of this increase was matched off by the increase in the Welsh Risk Pool debtor.

11. Cash Flow Forecast (Table H)

As reported above, at the end of October, the health board had a cash balance of £1.193m, which is in line with the health board target of holding between £1m and £2m of cash at month end.

Forecasting the cash position for 2019/20 has been challenging given the necessity to estimate the impact on cash of the movements in working capital balances arising from the Bridgend Boundary Change. The disaggregation of the 2018/19 year-end balance sheet has identified that a net liability of £19.657m (creditors are greater than debtors) will need to transfer to Cwm Taf Health Board supported by a cash transfer to allow Cwm Taf Morgannwg to discharge these liabilities. This therefore represents a reduction in working capital balances of this value for which working capital cash support will be required.

Over the period April to October, the payables working capital balances have reduced by £14.094m largely as a result of the Bridgend boundary change as the Swansea Bay Health Board has continued to pay invoices relating to the period prior to 31st March 2019 for those services that have transferred so as to minimise disruption to suppliers and to the transferring services. This has meant that the health board has drawn down around 63% of its cash allocation to the end of October, which is in excess of the anticipated draw down profile of 58.33% (7/12ths) of its allocation.

This requirement to ensure that all balances linked to the Bridgend boundary change are transferred in cash results in a significant deterioration in the health board's working balances position in 2019/20. Based on the S2 document, the cash impact as a result of the deterioration in working capital balances associated with the boundary change is £19.657m. The health board has looked at options to mitigate the full impact of this cash transfer by increasing creditor balances for the services that it retains, but in order to continue to achieve PSPP in 2019/20 it is forecast that there will need to be a further reduction of £4.3m in trade and other payables, resulting in a total impact on cash of £23.957m for which working capital support will be required.

In addition to this, there is a forecast reduction of £9.966m in capital creditors for which working capital cash is also required. The impact of the capital creditors reduction is such that the health board will run out of capital cash in December 2019 with revenue cash then needing to be drawn down to meet capital payments without an increase in the CRL cash draw down facility.

There is also a forecast cash impact of £2.1m from a reduction in provisions and increase in debtor balances in 2019/20. In the case of provisions, the provisions being utilised in year are higher than those arising particularly for retrospective CHC provisions which have seen significant cash payments in year. In addition, the health board will settle in November, the HMRC GP Out of Hours assessment which was provided for in 2018/19 and this will have a cash impact of £0.6m.

Taking these forecast movements into account, assuming a breakeven financial position and the receipt of all anticipated allocations detailed in table E, which includes the £10m Welsh Government support provided in 2018/19 being made recurring, the health board is forecasting a cash deficit of £35.193m as detailed in the table below.

Analysis of Cash Position	£000
Capital Cash Shortfall	
Cash required for working balances movements – Capital	9,966
Cash Required to Reimburse Revenue Cash for 2018/19 year end payments	3,593
Capital Cash Shortfall	13,559
Revenue Cash Shortfall	
Cash required for movement in revenue working balances – creditors due to Bridgend boundary change	19,657
Cash required for movement in revenue working balances – creditors remaining within Swansea Bay	4,300
Cash required for movement in revenue working balances – debtors, prepayments and provisions	2,100
Cash due from capital for reimbursement of 2018/19 year end payments	(3,593)
Revenue Cash Shortfall	22,464
Total Cash Required	36,023
Less Opening Cash Balance	830
Forecast Cash Deficit	35,193

This cash forecast is reviewed daily taking into account the latest receipts and payments.

12. Public Sector Payment Compliance (Table I)

There is no requirement to complete this table for month 7.

13. Capital Schemes and Other Developments (Tables J, K & L)

14. Table J - 2019/20 Capital Resource Limit Management

Table J reflects the CRL of £23.490m issued on 11th November 2019.

A number of schemes are showing a variance compared to the allocation. Unless these are identified in the risk assessment below, this is a planned variance to reflect the recovery of fees spent in prior years. In the case of National Clinical Systems and the Air Handling Unit for Obstetrics Theatre, the Health Board is making an agreed contribution to the scheme from discretionary capital.

Performance to Date

The reported financial performance at Month 7 is a £0.438m underspend to plan. The main areas of variance are shown below.

Scheme	Underspend to Plan M7 £'000	Comments
Discretionary IT - RFID	321	RFID rollout delayed but now going live in November.
Discretionary IT - WCCIS	71	Production of FBC and deployment order delayed due to some delays with staff recruitment and receipt of commercial information from NWIS and supplier.
Discretionary Estates - Morriston Access Road	173	Delays with appointment of design team

Forecast Outturn

The forecast outturn against the current CRL shows an overspend position of £5.091m, which is anticipated to be breakeven with anticipated allocations over the following areas:

Scheme	Anticipated Allocation £000	Comments
Ward 11 & 12 Asbestos, Singleton	2,658	Additional costs resulting in removal of asbestos following ward 12 fire. Initial discussions held with WG Capital & Estates on funding support, with final cost submission made to Ian Gunney on 31/10/19.
Ward 12 Fire, Singleton	387	Initial claim approved by Welsh Risk Pool on 11/9/19. Final claim due for submission to WRP in November.
National Digital Fund	1,390	Awaiting funding letters for approved allocation from National Digital Fund
Business Case Fees	656	Business case fees across a number of schemes, including Swansea Wellness SOC, Cladding and Cancer Centre

B. Table K - In Year Capital Scheme Profiles

Risk Assessment

The risk assessments on schemes which are not considered to be low risk are:

Scheme	Risk Profile	Risk Value £'000	Comments
Environmental Modernisation Phase 2 Morryston	Medium	25	Scheme is currently forecasting a £25k overspend. Costs to be reviewed to assess if any savings can be made and the impact of this. Overspend to be funded from discretionary.
Cladding Removal Works Singleton Hospital	High	273	Scheme is forecasting an overspend of £95k against the original allocation plus additional fees for phase 2 which have been agreed by Welsh Government and will be funded within the phase 2 allocation.
Ward 11 and 12 Asbestos Removal, Singleton	High	2,658	Costs forms submitted to WG as per forecast outturn table above.
National Digital	High	1,390	Awaiting formal approval letters following agreement of allocation from national digital fund
Discretionary	High	770	Business Case fees and WRP claim for Ward 12 fire

C. Table L - Capital Disposals

It is anticipated that the sale of Coelbren will complete in 2019/20.

15. Aged Welsh NHS Debtors (Table M)

Table M lists all Welsh NHS invoices outstanding for more than 11 weeks as at the end of October. The value of NHS debts outstanding for between 11 and 17 weeks amounted to £23.4k at the end of October (September £288k) with the number of invoices in this category reducing from 35 at the end of September to 14 at the end of October. Of the outstanding invoices between 11 and 17 weeks old, 2 have been paid since the end of October, amounting to £1k.

There were 3 invoices outstanding for more than 17 weeks at the end of October amounting to £78k. Since the end of October 1 of the invoices for £27,456 has been paid, a payment date has been provided for another invoice with the third having been authorised and sent to Accounts Payable by CTM Pharmacy Department.

The financial information reported in these Monitoring Returns reflects those reported to the Health Board.

These Monitoring Returns incorporate the financials of the following hosted bodies: Delivery Unit and EMRTS.

These Monitoring Returns will be received by the Health Board's Performance and Finance Committee on 19th November 2019.

Yours sincerely,



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LYNNE HAMILTON
DIRECTOR OF FINANCE

Emma Woollett, Interim Chairman
NHS Financial Management



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TRACY MYHILL
CHIEF EXECUTIVE

Assistant Directors of Finance
Mr Jason Blewitt, Wales Audit Office

