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Dyddiad/Date: 11th October 2019

Mrs Andrea Hughes
HSSDG – Deputy Head of NHS Financial Management
Welsh Government
Sarn Mynach
Llandudno Junction
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Dear Andrea,

SWANSEA BAY UNIVERSITY HEALTH BOARD MONITORING RETURNS 30th September 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.

To support this, address the current overspend and to make progress in identifying and delivering further opportunities to mitigate and manage the risks, the Health Board has established a dedicated multi-disciplinary Delivery Support Team, which is now working alongside the Welsh Government externally commissioned support from KPMG, which commenced in early October.

The Delivery Support Team has three aspects to its work plan, which align closely with the specification for the support from KPMG:

- Savings delivery, assurance and support, including review of existing plans, proposed recovery actions and high value opportunities;
- Enhancing Grip and Control through grip and stretch targets;
- Financial and service sustainability, including use of Efficiency Framework to identify opportunities to develop the future pipeline of plans and spread best practice.

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

(b) Monthly Positions (Table B & B1)

The Month 6 reported position is an overspend of £7.247m. 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 overspend broadly comprises operational pressures £3.7m and £3.5m savings deficit including the Bridgend Boundary Change diseconomies of scale.

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.

3. Ring Fenced Allocations (Tables N & O)

Tables N and O have been completed as required. 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 6 the Revenue Resource Limit is under-phased by £3.9m.

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 full year effect of 2018/19 case number growth and continuing growth in case numbers.

5. Agency/Locum Expenditure (Table B2)

The Health Board Agency expenditure for Month 6 is £2.191m, which is 4.8% of the overall pay expenditure. The agency expenditure for the two quarters of 2019/20 is £3.5m 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 – 63%
- Temporary Absence Cover – 9%
- Additional Support to delivery and performance – 28%

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.

During the first half of the year a further £6.626m additional savings, accountancy gains and income generation schemes were identified, which took the level of identified savings to £24.777m.

The Delivery Support Team has critically reviewed the initial plans and has assessed slippage on forecast delivery to be £4.303m. An element of this slippage relates to High Value Opportunities, which whilst making significant progress are securing the delivery of unit-based savings. To avoid double-counting risks the forecast for these specific savings have been reduced but they are contributing to further unit based recovery actions and savings. Some further minor slippage has been experienced, this is being further reviewed by the Delivery Support Team to identify opportunities to recover.

In response to the deteriorating financial position, the Health Board requested further savings and recovery actions to be developed. To date a further £14m of recovery actions have been identified and have been reviewed by the Delivery Support Team and categorised as:

- Financial Recovery Category A – these are schemes with limited risk and are considered JDIs. A number of the schemes are supported by the High Value Opportunity work particularly the Workforce streams. These have been included in the Savings Tracker.
- Financial Recovery Category B – JDI schemes but requiring a Quality Impact Assessment prior to proceeding. These will be added to the Savings tracker once QIA process complete.
- Financial Recovery Category C – these are schemes with potential broader system impact. These have been aligned to six key themes and the Delivery Support Team is working with units to assess impacts and delivery confidence.

The Health Board has initially assessed the impact of these recovery actions as set out below:

| Recovery Actions | Identified Savings £m | Current Confidence % | Delivery Confidence £m |
|------------------|--------------------------|----------------------------|------------------------------|
| FR Cat A | 2.489 | 100 | 2.489 |
| FR Cat B | 1.51 | 75 | 1.13 |
| FR Cat C | 10.36 | 25 | 2.59 |
| Total | 14.359 | | 6.209 |

The Category A schemes are included on Table C3. To date £1.2m of the Category B and C schemes have been included in Table C3. The remaining schemes are not yet included on Table C3, however the current assessed delivery confidence has been included in Table A.

The Delivery Support Team is working on further directed actions and controls as a result of the Health Board enhanced Spending Controls and also increasing the delivery confidence of the Category B and C schemes. It has been anticipated that this will drive up delivery confidence to provide a further £2m improvement in the financial forecast and has been included in Table A.

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;
- the £10m additional WG non-recurrent funding support which our annual plan written feedback (January 2019) indicated was a reasonable assumption to make; and
- Six months' impact of the Agenda for Change terms and conditions funding.

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 £1m. This is still being reviewed and opportunities to mitigate considered.

- **Nurse Staffing Act** – the Health Board has committed significant investment to meet the requirements of the Nurse Staffing Act for Medical and Surgical wards. The continuing rollout of the Nurse Staffing Act to other areas including Mental Health and Paediatrics may increase the requirement for investment, however this would need to be considered against current expenditure levels and also current service provision. The Health Board is also experiencing increased patient acuity due to operational demands and this may impact on required nurse staffing levels.
- **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.
- **Ophthalmology Gold Command** – this risk has been removed as actions are already in place and being managed with in the overall financial position.
- **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 and the risk has been increased to reflect the potential claw back of WG performance funding support. Discussions are continuing with WG to agree revised delivery trajectories and funding arrangements.
- **Additional Capacity** – the Health Board has had to maintain a significant level of additional capacity in operation. Whilst the annual plan has been able to partially support, there is a potential excess cost of around £3m.
- **Diseconomies of Scale** – the current forecast assumes the diseconomies of scale will be mitigated by SBUHB, where possible working with Cwm Taf Morgannwg and WG. The Health Board is committed to managing these diseconomies and some movement has been seen. However given the scale of the diseconomies, it will be extremely challenging to mitigate fully in 2019/20.
- **The enhanced control measures and further recovery action delivery** is required within the breakeven forecast. There is a risk that these will not be delivered in full and 50% has been identified as a potential risk.
- **To deliver the breakeven forecast** the Health Board will need to identify at least a further £2.5m recovery actions and opportunities. This will be extremely challenging given the pressures and risks associated with delivery. This will include the management of new funding and income streams and further balance sheet opportunities.
- **Final Pension Charges** – the Health Board is in receipt of a number of Final Pension Charges including one of significant value, with further invoices received this month. Challenges are being lodged with NHS Pensions.
- **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.

10. Statement of Financial Position (Table G)

The disaggregation of the closing Statement of Financial Position of the ABMU Health Board, identifying the balances as at 1st April 2019 to transfer to Cwm Taf Morgannwg University Health Board and those to remain with Swansea Bay University Health Board following the Bridgend boundary change has been completed. The draft S1 (Fixed Assets) and S2 (current assets and liabilities) have been shared with finance colleagues in Cwm Taf Morgannwg University Health Board and Wales Audit Office commenced their audit of the S1 and S2 documents on 10th September.

The balances included in Table G at 1st April 2019 and 30th September 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 based on the draft S1/S2.

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

- The inventory value increased from £10.240m at the end of August to £10.537m at the end of September, an increase of £0.297m. The increase was in respect of drug stocks at both Morriston and Singleton Hospitals and in stocks of blood products.
- There was minimal movement in trade receivables in month, the figure at the end of September being £169.171m as compared to £169.183m at the end of August.
- The closing September cash balance of £1.058m 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 continued reduction from £182.040m at the end of August to £180.426m at the end of September, a reduction of £1.614m. 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 during September 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 to enable the remaining balances to be cleared by a cash transfer to Cwm Taf Morgannwg Health Board. It is hoped that this exercise will be completed by the end of October, the cash transfer amount agreed in November and the cash transfer taking place in December.
- Provisions reduced from £143.857m at the end of August to £143.238m at the end of September, a reduction of £0.619m. This reduction is mainly in respect of payments made against the existing clinical negligence and personal injury cases as well as ongoing payments against the retrospective CHC provision, with the provisions for claims prior to 31st March 2019 relating to Bridgend services being retained by Swansea Bay Health Board as confirmed in the Welsh Government boundary change order.

11. Cash Flow Forecast (Table H)

As reported above, at the end of September, the health board had a cash balance of £1.058m, 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 health board has completed the disaggregation of the 2018/19 year-end balance sheet which has identified the assets and liabilities to transfer to Cwm Taf Morgannwg Health Board as at 1st April 2019. This exercise has identified that a net liability of £19.963m (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.

Over the period April to September, 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 54% of its cash allocation to the end of September, which is in excess of the anticipated draw down profile of 50% of allocation. As mentioned above, the health board is currently identifying those assets and liabilities to transfer to Cwm Taf Morgannwg Health Board which have not cleared and these remaining balances will need to be cleared by a cash transfer from Swansea Bay University Health Board to Cwm Taf Morgannwg Health Board following sign off by Wales Audit Office of the S1 and S2 documents and agreement as to the remaining balances which need to be transferred.

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. Whereas at the end of last year the health board had a net £19.963m in creditor balances for the services transferring, having to clear all these in cash in 2019/20 generates significant cash pressures. Whilst the health board is able to mitigate the full impact of this cash transfer by increasing creditor balances for the services that it retains, this can only be done for non NHS trade creditors and needs to be done in a way that does not cause issues with PSPP performance and the risk of suppliers placing the health board on stop due to delays in payment of invoices. Based on the current best estimate of what can be managed locally through managing working capital balances there remains a forecast cash requirement of £14.754m to support this deterioration in cash mainly due to the working balances transfer.

Taking into account, this best estimate of the movement in working capital balances, due to the Bridgend boundary change, the impact of the forecast reduction in capital creditors, the forecast breakeven financial position and the £10m Welsh Government support provided in 2018/19 being made recurring (this is included in anticipated allocations in table E) the health board is forecasting a cash deficit of £26.035m 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 | 14,754 |
| Cash required for movement in revenue working balances – debtors, prepayments and provisions | 2,145 |
| Cash due from capital for reimbursement of 2018/19 year end payments | (3,593) |
| Revenue Cash Shortfall | 13,306 |
| Total Cash Required | 26,865 |
| Less Opening Cash Balance | 830 |
| Forecast Cash Deficit | 26,035 |

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

12. Public Sector Payment Compliance (Table I)

The health board has achieved a cumulative PSPP compliance of 95.5% to the end of September, in excess of the target of 95%. The health board continues to work with NWSSP Accounts Payable to ensure that compliance continues to be above 95% as it is committed to achieving the PSPP target in 2019/20.

The percentage of NHS invoices paid within 30 days amounted to 88.3% for the first 6 months of the financial year, an improvement against the 84% compliance achieved during the 2018/19 financial year. Whilst it is pleasing to note this improvement, the health board recognises that performance needs to further improve and is focussing on this area in an attempt to continue improve this performance. It must be noted, however, that performance has been impacted by issues around invoices for services which have transferred or been split as a result of the boundary change which has resulted in delays in the authorisation of some invoices.

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

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

Table J reflects the CRL of £24.604m issued on 24th May 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

EDCIMS, the Health Board is making an agreed contribution to the scheme from discretionary capital.

Performance to Date

The reported financial performance at Month 6 is a £2.275m underspend to plan. The main areas of variance are shown below.

| Scheme | Underspend to Plan M6 £'000 | Comments |
|--|--|---|
| Neonatal and Post-Natal Capacity at Singleton Hospital | 694 | As previously reported, the underspend relates to previous delays with asbestos removal, which on its own are not anticipated to impact on the year end position and contractor plans to recover the delay however scheme will be closely monitored. See risk assessment below related to Ward 12 fire damage and Ward 11 and 12 asbestos removal. |
| Linac B | 231 | Scheme is complete, see risk assessment below. Underspend to date relates to remaining contingency, which was submitted to WG Capital & Estates on 19 th September to be considered for re-investment. |
| Environmental Modernisation BJC 2 / Phase 1 Morriston | 833 | As previously reported, the scheme is 10 weeks behind programme due to delay in procuring generator to the new standards required. Completion scheduled for November 2019 so will not impact year end spend position. Increased underspend to date this month due to £540k payment planned for September being held until generator was delivered to site on 6th October. |
| Discretionary | 342 | Minor delays across a number of discretionary schemes. |
| Misc | 175 | |
| Total | 2,275 | |

Forecast Outturn

The forecast outturn against the current CRL shows an overspend position of £2.507m, which is anticipated to be breakeven with anticipated allocations over the following areas.

| Scheme | Anticipated Allocation £000 | Comments |
|-----------------------|--|--|
| Ward 11 & 12 Asbestos | 1,027 | Estimated 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 expected by end of October. Works impact on Neo Natal scheme with delayed handback of ward 20 |
| Ward 12 Fire | 450 | Initial claim of £127k less £50k excess approved by Welsh Risk Pool on 11 th September. Final claim for remaining £450k due for submission to WRP in October. |
| WCCIS | 479 | Local OBC submitted to NWIS in October 18, for implementation and design costs to produce FBC through the National Digital allocation |
| Business Case Fees | 634 | 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 |
|--|--------------|---------------------|---|
| Neonatal and Post-Natal Capacity at Singleton Hospital | Medium | 1,027 | There is highly likely to be an impact on the scheme, as the Health Board is unable to handover ward 20 to the contractor until the remedial works and asbestos removal on the fire damaged ward 12 and ward 11 are completed. A revised programme and cost plan has been received from the contractor. The full impact and in-year position is due to be finalised in mid-October. At this point the in-year financial impact is estimated at £1.027m, with an overall impact on the project of between £2.4 and £2.8m over this year and next year. |
| Linac B | Medium | 225 | There is currently a £225k contingency remaining on the scheme which is complete and is in the commissioning phase. A proposal for reinvestment was submitted to WG Capital & Estates on 19 th September. |

| | | | |
|--|--------|-------|--|
| Environmental Modernisation Phase 2 Morriston | 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. |
| ICF – Tonna and ICF - Refurb for IAS MAPS ND and CAMHS | High | 45 | Schemes have a combined overspend of £45k against the original allocation. This information has been reported to West Glamorgan Regional Partnership to request additional funding. |
| Cladding Removal Works Singleton Hospital | Medium | 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. |
| MRI Scanner at NPT | Medium | 1,278 | Revised programme would allow installation of the MRI in Q4 2019/20. Commencement of works is subject to the agreement of a new form of works contract which has been requested by the PFI contractor. |
| EDCIMS | Medium | 270 | Current spend profile reflects the plan for the Health Board to go live in Q4 2019-20, however the programme and timing of this spend are under review with the national programme. |
| Discretionary | High | 1,123 | WCCIS, Business Case Fees and Ward 12 Fire WRP |

C. Table L - Capital Disposals

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

14. Aged Welsh NHS Debtors (Table M)

Table M lists all Welsh NHS invoices outstanding for more than 11 weeks as at the end of September. The value of NHS debts outstanding for between 11 and 17 weeks amounted to £0.288m at the end of September (August £0.086m) with the number of invoices in this category increasing from 28 at the end of August to 35 at the end of September. Of the outstanding invoices between 11 and 17 weeks old, 8 have been paid since the end of September, amounting to £0.151m.

There was 1 invoice outstanding for more than 17 weeks at the end of September for £465.78. This invoice was paid in full on 8th October.

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 22nd October 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

