Meeting Date	**29 March 2022**	**Agenda Item**	**2.3**
Report Title	**Budgetary Management Revenue Resource Limit & Plan 2022/23**		
Report Author	Samantha Moss, Deputy Director of Finance		
Report Sponsor	Darren Griffiths, Director of Finance and Performance		
Presented by	Darren Griffiths, Director of Finance and Performance		
Freedom of Information	Open		
Purpose of the Report	This paper provides the Committee with an overview of the proposed revenue budget management approach to be adopted in 2022/23 to the support the overall management and delivery of the 2022/23 Financial Plan.		
Key Issues	The IMTP will set the strategic overview of the Financial Plan for 2022-2025. However this report explains how the Health Board resources will be allocated across the organisation down to Cost Centres level for Financial Year 2022/23. The paper breaks down the allocation of resources into the 3 component elements of the wider Financial Plan: • Core Plan • Extraordinary costs • Covid (including Recovery) Each section outlines the proposed approach to be adopted, providing a transparent process by which the resources will be managed to support budget holders on the delivery of the Plan. It also recognises the need to explore alternative approaches to the allocation of resources to budget holders in future years, which will need to sit alongside a comprehensive training programme to support individuals who are accountable for the performance of their budgetary areas.		

Specific Action Required ***(please choose one only)***	**Information**	**Discussion**	**Assurance**	**Approval**
	☐	☐	☒	☐

Recommendations	Members are asked to: - • **NOTE** the recommended approaches for the allocating of budgets across the 3 components of the financial plan. • **NOTE** the potential risks regarding the anticipated income assumptions on Covid and Extraordinary Pressures and the scrutiny by CEO/DOF of spend profiles with the relevant budget holders during March 2022. • **NOTE** the proposal to look at alternative approaches to future budget allocation to support the Health Boards planning / commissioning of services for the population it serves. • **AGREE** CIP principles and recurrent/non recurrent actions, which will need to be presented by service units to see expenditure plans consistent with 4% CIP reduction each month from April 2022.

Budgetary Management Revenue Resource Limit & Plan 2022/23

1. INTRODUCTION

This paper provides an overview of the proposed revenue budgetary management approach to be adopted in 2022/23 to support the delivery and maintain governance around the Financial Plan.

The approach outlined in the paper will mirror the overall breakdown of the plan into in the three component parts:

- Core Plan (including delivery of savings) – Section 3;
- Extraordinary Pressures – Section 4;
- Covid (including Recovery) – Section 5.

2. BACKGROUND

Planning, budgeting, and forecasting are three ways that organisations form a strategic plan for the future.

- Planning element consists of setting long-term goals via the NHS Wales IMTP process, with milestones to mark achievement of said goals.
- By contrast, budgeting is the process of allocating the funds summarised in the IMTP into operation within a financial year.
- Financial forecasting provides a 'live' insight into the financial position to the end of the financial year, and helps analyse the current situation in relation to the overriding plan / budget for the current financial year which then informs future years planning.

This paper focuses on the second element of the strategic planning process - budgeting and the allocation of resources across the Health Board within the financial year 2022/23. It will be these allocated budgets that Budget Holders will be accountable for delivering and against which performance will be measured.

3. CORE PLAN

Base Core Plan

The starting point for the 2022/23 plan and subsequent budgetary allocation is the 2019/20 budget uplifted through 2020/21 and 2021/22 and rolled into 2022/23. This will reflect the Health Board budgets pre-covid for which budget holders should recognise and manage within for the delivery of core activity.

Budgetary Uplifts Inflation & Growth (excluding Extraordinary Pressures)

Pay Inflation – the 2022/23 pay award will be issued to Health Boards on a provider basis in 2022/23, as opposed to a commissioner based allocation upon which the Annual Allocation letter is based. Recurrently the allocation will be included in future Annual Allocation letter on a commissioner basis, although this should have no impact for individual budget holders.

For 2022/23 the pay uplift will be allocated to budget holders once both the pay deal has been agreed and Welsh Government have confirmed the approach for allocation of the funding. The principles to be adopted in the Health Board would be a transparent and equitable approach across all Budget Holders but the total quantum allocated remaining within the funding envelope provided by Welsh Government (WG). The Health Board approach will be undertaken in collaboration with the Finance Business Partners to ensure all Service Groups are clear on the process underlining the allocation of funding.

Non-Pay Inflation – the plan has set aside funding to support non-pay inflation. There will be a number of cost centres which would not attract this basic non-pay inflation (see examples below under specialist areas). For those cost centres for which an uplift for non-pay inflation is appropriate the funding available will need to be equitably shared based on that cost centre's % of the overall non-pay budget of the Health Board.

Growth – the actions linked to the types of areas within the growth element of the plan will be actioned as per the proposals below:

- NICE (see specialist areas below)
- External Providers (WHSSC/EASC) – these will be allocated to the provider LTA in line with the planned approved by the Management Groups of each provider
- GP Prescribing / CHC – the funding for these areas will be allocated as the year progresses once it is clear how the expenditure in materialising through the ledger.

Specialist areas – this is not a full list but provides the Committee with examples of where the approach detailed above may differ due to the nature of the service and funding streams would not attract the uplifts in budget as per process outlined above. Below are some examples and the Committee is asked to note there will be additions to this list:

- Primary Care Contract uplift – on receipt of additional funding from WG the Health Board will allocate these uplifts directly to the Service Group once confirmation has been received from WG.
- NICE/HCD – inflations and growth is held centrally and allocated to budgets based on the actual level of spend committed each month.
- LTAs – inflationary uplift applied to the contracts will be in line with the All Wales approach which is currently being worked through as providers/ commissioners move away from the current block arrangements.

Investments Recognised in Financial Plan

Similar to the approach adopted in 2021/22, expenditure committed linked to investments agreed as part of the IMTP process will be funded on an actual basis up to the total investment value. As projects are established and actual costs transact through the Financial Ledger, these will be funded monthly based on the requests submitted by the Finance Business Partner (FBP). Only where the project is fully operational and all staff are in post will the funding be allocated to the relevant Service Group/Budget on a recurrent basis.

In Year Allocations (Excludes Covid & Extraordinary Pressures)
The core funding and core uplifts are included in the main Allocation Letter, which is traditionally issued in the December prior to the start of the new Financial Year, and which forms the foundation of the IMTP. However the Health Board will also receive allocations once the Financial Year has commenced, referred to as In-Year Allocations. The basic principles for the management of these allocations are summarised below:

- *Historic In Year Allocation* – where WG allocate funding on an annual but non recurrent basis, such as Substance Misuse, the annual budgets are already committed. In these instances the allocation is treated as an anticipated income in the starting plan and the budget are already allocated to the Budget Holder(s). Therefore on receipt of the In-Year allocation the income within the plan moves from anticipated to received and is added to the Health Board Revenue Resource Limit.
- *Additional Uplifts for Primary Care Contracts* – where national uplifts are agreed for GMS, GDS and Pharmacy contracts these uplifts are allocated directly to the PCT Service Group, as per comments above.
- Additional Allocations Non-Recurrent – where new funding is received from WG this will initially be held in a central Health Board reserve. As costs are incurred the FBP will request the funding to support costs incurred to date transacted via the Financial Ledger, which will then move budget into the relevant budget line within the Service Group. Once the FBP has confirmed the service is fully operational and all funding will be utilised in year the remainder of the funding will be transferred to the relevant Service Group for that financial year only.
- Additional Allocation Recurrent – the initial process will be in line with the Non Recurrent approach detailed above, but once the service is fully operational the funding will be transferred to the Service Group on a recurrent basis.

Savings Element Core Plan
The recurrent savings target detailed in the IMTP for 2022/23 is £27M which is allocated to Service Groups / Directorates. It will be for each area to determine how they manage this target across the budget lines to ensure maximum ownership and delivery of the target. However from a budget management perspective there are some general principles to be adopted:

- All savings on the trackers must be budget releasing, except in the situation outlined in bullet point 4 below. Whilst there will be a need to reduce expenditure trends as the Health Board exits from the Covid, only savings which link to the budgets should be added to the core savings tracker.
- Where a saving has been successfully achieved the budgetary adjustment must be actioned through the Financial Ledger to reduce the savings target budget and remove the expenditure budget which will no longer be required as a result of the actions taken.
- Each month the 2022/23 savings target in the ledger, must be reconciled to the tracker to demonstrate that the schemes noted as delivered on the tracker have been correctly actioned.

- Where the service group is breaking even then cost containment can be identified.
- Budget Holders will provide their savings monthly and identify monthly non-recurrent or recurrent actions to ensure they deliver the savings in 12th each month, effective from 1st April 2022.

As part of the monthly reporting the PMO will provide a summarised report on the performance against target and delivery to date, including reconciliation to the Financial Ledger.

4. EXTRAORDINARY PRESSURES

Health & Social Care Levy

Whilst there is no funding within the 2022/23 WG Allocation letter, from April 2022 all posts currently liable for Class 1 (1A and 1B) National Insurance Contributions will attract the new Health & Social Care Levy of 1.25%, via this temporarily increase. As this is a Levy which is beyond the control of Budget Holders it is proposed that an increase in budgets is allocated as the start of the year based on Staff In Post on 1st April to Service Groups/Directorates to reflect this increase in costs. As the Levy is temporary for 2022/23 this will initially be a Non-Recurrent increase to budgets. After the initial increase no adjustments will be made for new staff or leavers as it is expected that Budget Holders will need to manage within the initial funding envelope issued. However where posts commence linked to new funding/investment the requests to transfer funding may include the 1.25% Levy as part of the on-costs for the post(s).

Any funding with a recurrent element issued in 2022/23, will only include the 1.25% Non-Recurrently until further clarity on the recurrent funding and impact is provided.

For 2022/23 the proposed exercise to issue the funding to Budget Holders as a one off exercise using Staff in Post from 1st April 2022, will result in a negative budget being held centrally. It will be assumed for financial planning purposes, in line with the letter received 14th March that WG funding will be made available and so will be treated as anticipated income in the plan. This process will continue to be reviewed as WG issue further guidance on the management of the funding.

Energy

The volatility of the energy markets will make establishing a robust budget for energy for 2022/23 difficult. Therefore budget will be issued to support this pressure on a monthly basis using the difference between the historical monthly spend and the 2022/23 spend based on current market rates.

Benefits of allocating the budget is that the Budget Holder cannot influence global markets and cannot be held to account for this pressure and therefore needs to be provided with funding. This will only be issued non-recurrently whilst the future of the markets is assessed.

In allocating additional budget the Health Board will be left with a negative budget being held centrally. It will be assumed for financial planning purposes, in line with the letter received 14th March that WG funding will be made available and so will be treated as anticipated income in the plan. This process will continue to be reviewed as WG issue further guidance on the management of the funding.

Real Living Wage
The assumption is this cost will be contained to the Care Home sector, as the impact of the Real Living Wage on Health Board employees will be part of the Pay Award and addressed as part of the Pay uplift detailed in Section 3.

It is recognised and proposed that the impact of this on budgets linked to the Care Home sector will need to be increased to reflect any additional costs as they arise. The detail behind how these costs will be transacted via the ledger is yet to be determined on an All Wales basis. However national work has commenced on this, which will be fed back via All Wales Deputy Directors of Finance.

At the time of writing this paper the proposal is that any additional costs determined by the national work is reflected in the budget for those areas impacted on, which is primarily with the PCT Service Group. The will ensure budget holders are not disadvantaged by national changes in policy. Similar to the approach for energy and Health & Social Care Levy in allocating additional budget the Health Board will be left with a negative budget being held centrally. It will be assumed for financial planning purposes, in line with the letter received 14th March that WG funding will be made available and so will be treated as anticipated income in the plan. This process will continue to be reviewed as WG issue further guidance on the management of the funding.

5. COVID RESPONSE

Recovery
The Health Board has received £21.6M Recovery on a recurrent basis and must therefore remain within this resource limit. As the expenditure will impact on multiple budget areas across all Service Groups this funding will be held centrally and allocated to Budgets and Service Group based upon:

- Funding requested by the FBP each month.
- In plan with the Recovery Plan.

Updates on spend against plan will be provided to the Board and its sub-committees throughout 2022/23.

National Programmes
The national programmes on TTP, Vaccinations Programme and PPE will be funded on an actual basis by WG. Therefore as costs are incurred, funding will be issued and an anticipated income assumed from WG, which is the same approach adopted in 2021/22.

Covid Transition Costs
The Allocation Letter included no funding for Covid costs outside Recovery and the National Programmes. However it is recognised that there will continue to be legacy costs from the pandemic and the ongoing Infections Prevention and Control requirements.

As we move out of the pandemic Service Groups need to establish, where appropriate, an exit strategy and this will continue to be assessed as part of the Service Groups Performance & Finance Review meetings. The exit plans being developed and scrutinised in March 2022 by the DOF and CEO with the relevant Budget Holder, will profile how Covid expenditure is planned each month through 2022/23, along with the reason why these costs continue to be incurred. However where agreed costs continue, the budgets will need to be increased to reflect expenditure or loss of income.

Therefore funding will be issued to the Service Groups / Directorates on the basis that the expenditure is in line with the plans submitted during March 2022, with the risk being held centrally mitigated by an assumption that WG will provide an allocation. This approach is in line with the letter received 14th March outlining that WG funding can be assumed in the plan and so will be treated as anticipated income in the plan.

The requests for funding will need to be categorised into one of the following to support the submission to WG along with further sub categories as per the WG letter dated 14th March:

- Contractual Obligation
- Unavoidable- National Guidance
- HB Quality & Safety Risk Assessment
- Accelerated Change
- Other

6. SUMMARY

Appendix A provides the Committee with a summary of the provisional recurrent budgets for 2022/23, this will be updated over the next month to reflect:

- Final IMTP/Financial Plan.
- Changes to management of services across service areas/directorates.
- Assumptions regarding Covid & extraordinary pressures funding.

A finalised Resource Plan will be present at the May Committee meeting.

7. SLIPPAGE ON INVESTMENTS / IN YEAR ALLOCATIONS

Given the challenging financial position for 2022/23 where funding has not been issued in full linked to investments or in year allocations these will be retained centrally and an update on the position shared with the Board and its sub-committees as part of the standard finance reports. Any retained and unallocated funding is likely to be required to support ‘unexpected’ or ‘unplanned’ growth in

expenditure or unforeseen changes to the opening plan. Therefore supporting and mitigating risks as they arise through 2022/23.

8. LOOK FORWARD

Budget Allocation Future Years

Covid has resulted in unprecedented changes in the expenditure trends and budgets for the NHS since 2020/21. As NHS Wales moves forward the Health Board needs to assess whether the core budgets (section 3) remain fit for purpose both in terms of budget holders being able to manage but also whether it reflects the support needed for the planning and delivery of services for its population.

Work will commence in 2022/23 to look at alternative approaches to budget setting alongside the need to educate and train our budget holders to ensure they are able to support the delivery of their element of the Financial Plan.

9. RECOMMENDATION

Committee members are asked to: -

- **NOTE** the recommended approaches for the allocating of budgets across the 3 components of the financial plan.
- **NOTE** the risks regarding the anticipated income assumptions on Covid and Extraordinary Pressures and the scrutiny by CEO/DOF of spend profiles with the relevant budget holders during March 2022.
- **NOTE** the proposal to look at alternative approaches to future budget allocation to support the Health Boards planning / commissioning of services for the population it serves.
- **AGREE** CIP principles and recurrent/non recurrent actions, which will need to be presented by service units to see expenditure plans consistent with 4% CIP reduction each month from April 2022.

APPENDIX A:

Recurrent Base Core Plan 2022/23 @ End February 2022

Summary	Total £
Chief Operating Officer	54,625,375
Board Secretary	5,101,631
Medical Director	1,474,070
Nursing Director	3,231,509
Director of Strategy	154,569,109
Workforce & Organisation	7,703,544
Digital	15,925,174
Director of Transformation	1,202,591
Finance	5,837,517
NPTS	249,878,605
POWH Delivery Unit	-
Morriston Delivery Unit	240,755,453
MH & LD Delivery Unit	99,225,026
Primary Care & Community Delivery Unit	216,203,424
NPT Delivery Unit	-
Delivery Support Unit	574,219
EMRTS	5,000,853
Clinical Medical School	5,776,049
South Wales Cancer Network	-
Clinical Research Unit	85,677
Total	**1,067,169,826**

Note – the table above only contains the Base Core Plan

Governance and Assurance		
Link to Enabling Objectives ***(please choose)***	**Supporting better health and wellbeing by actively promoting and empowering people to live well in resilient communities**	
	Partnerships for Improving Health and Wellbeing	☐
	Co-Production and Health Literacy	☐
	Digitally Enabled Health and Wellbeing	☐
	Deliver better care through excellent health and care services achieving the outcomes that matter most to people	
	Best Value Outcomes and High Quality Care	☐
	Partnerships for Care	☐
	Excellent Staff	☐
	Digitally Enabled Care	☐
	Outstanding Research, Innovation, Education and Learning	☐
Health and Care Standards		
(please choose)	Staying Healthy	☐
	Safe Care	☐
	Effective Care	☐
	Dignified Care	☐
	Timely Care	☐
	Individual Care	☐
	Staff and Resources	☐
Quality, Safety and Patient Experience		
There are none		
Financial Implications		
These are set out in the paper.		
Legal Implications (including equality and diversity assessment)		
There are none.		
Staffing Implications		
There are none.		
Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015)		
No implications for the Committee to be aware of.		
Report History	This is the first specific report on budget management to the Committee linked to 2022/23. The overarching Financial Plan for 2022/23 will be reported separately.	
Appendices	There are none	