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Health Board



<b>Meeting Date</b>	<b>27<sup>th</sup> October 2020</b>		<b>Agenda Item</b>	<b>3.3</b>
<b>Report Title</b>	Financial Report – Period 7 2020/21			
<b>Report Author</b>	Samantha Lewis, Deputy Director of Finance			
<b>Report Sponsor</b>	Darren Griffiths, Interim Director of Finance			
<b>Presented by</b>	Darren Griffiths, Interim Director of Finance			
<b>Freedom of Information</b>	Open			
<b>Purpose of the Report</b>	The report advises the Performance and Finance Committee of the Health Board financial position for Period 7 (October) 2020/21 and sets out the current estimated revenue year end outturn.			
<b>Key Issues</b>	<p>The report invites the Performance and Finance Committee to note the detailed analysis of the financial position for Period 7 (October) 2020/21.</p> <p>The report also includes an analysis of the COVID-19 revenue impact and the forecast year end revenue position based on current planning assumptions.</p>			
<b>Specific Action Required (please choose one only)</b>	<b>Information</b>	<b>Discussion</b>	<b>Assurance</b>	<b>Approval</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Recommendations</b>	<p>Members are asked to:</p> <ul style="list-style-type: none"> <li>• <b>NOTE</b> the agreed 2020/21 financial plan.</li> <li>• <b>CONSIDER</b> and comment upon the Board's financial performance for Period 7(October) 2020/21, in particular: <ul style="list-style-type: none"> <li>• the revenue outturn position of £14.825m deficit;</li> <li>• the COVID-19 revenue impact to Period 7; and</li> <li>• the assessed revenue forecast based on Q3/Q4 planning assumptions.</li> </ul> </li> </ul>			

## FINANCIAL REPORT – PERIOD 7

### 1. INTRODUCTION

The report provides the Performance and Finance Committee with an account of the period 7 revenue position and an update on the revisions to the 2020/21 agreed financial plan.

The report informs the Performance and Finance Committee that the Period 7 (October 2020) revenue financial position is an overspend of £14.825m and invites the committee to note the detailed analysis of the Period 7 (October 2020) revenue financial position.

The report provides the committee with an analysis of the COVID-19 costs committed during this reporting period and provides an assessment of the forecast based on Quarter 3/4 planning assumptions

### 2. BACKGROUND

The Health Board agreed the IMTP/Annual plan at its meeting on 16<sup>th</sup> March 2020. This included a financial plan which indicated a £24.4m year-end deficit for 2020/21 as summarised in the table below.

	2020/21 £m	2021/22 £m	2022/23 £m
2020/21 Underlying Deficit	28.0	24.4	12.6
Inflationary/Demand Pressures	35.5	26.6	26.2
WG Allocation Uplift	-21.6	-15.1	-15.4
Investment Commitments	5.4	0.8	-0.2
Planned Savings	-23.0	-24.0	-24.0
<b>Forecast Deficit</b>	<b>24.4</b>	<b>12.6</b>	<b>-0.8</b>

The financial plan provided for a limited level of already committed investments (£5.4m) and whilst further investment priorities were identified, including those supporting frailty and unscheduled care the investments were unable to be supported without additional Welsh Government (WG) funding support, further savings delivery or a deterioration in the forecast deficit.

The COVID-19 pandemic has had a significant impact on service delivery, workforce and financial position of the Health Board, however it is critical that we recognise the agreed plan and are able to monitor and assess the impact of the movement from this plan.

### 3. FINANCIAL IMPLICATIONS

#### 3.1 Revenue Position

##### 3.1.1 Summary Revenue Position

The Health Board £24.4m deficit plan is being held within the Corporate Plan. This would result in a £2.033m planned overspend each month.

The £28m underlying deficit which had in the previous year been reflected as overspends within the Service Delivery Units and Corporate Directorates is incorporated with the Corporate Plan £24.4m deficit plan. This has enabled the Service Delivery Unit and Corporate Directorate budgets to be established at a level that broadly reflects the 2019/20 expenditure profiles.

The period 7 reported in-month position was an overspend of £2.016m and a cumulative overspend for the first seven months of the financial year of £14.825m.

The revenue position against the Health Board baseline financial plan is shown in the table below. In the current ledger position, most of the additional funding allocations are attributed to non-pay, despite also covering pay costs and income losses. An assessment has been made of the funding that should be attributed to income and pay to give an adjusted year to date variance from baseline plan.

	Cumulative Ledger Position	Funding Adjustment	Adjusted Cumulative Position
	£m	£m	£m
Income	5.291	-4.381	0.910
Pay	5.051	-10.948	-5.897
Non-Pay	-16.988	15.329	-1.659
Savings Slippage	9.936		9.936
Slippage on Planned Investments	-2.696		-2.696
Planned Deficit	14.231		14.231
<b>Total Position</b>	<b>14.825</b>	<b>0.000</b>	<b>14.825</b>

This adjusted cumulative position will be key to understanding and managing the Health Board underlying financial position.

The year to date position includes £68.5m of the £117.5m additional confirmed and anticipated funding.

The key drivers of the residual £14.825m overspend are:

- The 2020/21 £24.4m planned deficit, with 7/12ths (£14.2m shown in the year to date position)
- The impact of the TAVI service demand growth, which is £0.6m for the year to date and £2m for full year.

### 3.1.2 Income

Income budgets have reported an under-achievement of £5.291m after seven months, of which £4.381m has been identified as the impact of the pandemic. This reflects reductions in income from key activities undertaken by the Health Board as a result of COVID-19. This reduction can be seen both in terms of direct service activity, including private patients, injury cost recovery scheme, overseas patients, non-contracted activity and dental income and also other income sources for example catering income. Much of this reduction in income would also see a reduction in cost

### 3.1.3 Pay (Slide 5)

Pay budgets have reported a £5.051m overspend after seven months. This position is net of the application of £6.831m WG funding, which supported additional staff costs incurred during Quarter 1. No funding has been applied for subsequent months. The assessed funding attribution is £10.948m, which would result in a £5.897m underspend. The underspend predominantly relates to vacancies which are not fully covered. This will be extremely important for the assessment of the underlying financial position.

The table below shows the Month 1 to Month 7 2020/21 compared to the same period of the previous year (adjusted for inflation). This highlights that pay expenditure this year is £21.661m higher than the same period last year.

	2019-20 Month 1-7 Adjusted for inflation	2020-21 Month 1-7	Increase	Increase
	£000	£000	£000	%
Additional Clinical Services	41,976	44,285	2,309	5.50%
Admin & Clerical	43,938	45,887	1,949	4.44%
Aliied Health Professionals	21,845	22,786	941	4.31%
Estates & Ancillary	17,752	18,717	965	5.44%
Healthcare Scientists	9,895	10,236	341	3.45%
Medical and Dental	77,729	85,513	7,784	10.01%
Nursing and Midwifery	101,765	104,599	2,834	2.78%
Prof, Scientific and Technical	10,535	11,510	975	9.25%
Students	5	3,568	3,563	
<b>Total</b>	<b>325,440</b>	<b>347,101</b>	<b>21,661</b>	<b>6.66%</b>

Almost £4m of the increase in pay expenditure relates to the employment of students through the first half of the financial year. A further £14m relates to costs attributed to the pandemic, including short term recruitment, increasing agency and additional costs for substantive and bank staff who have been working in excess of previous working arrangements.

There is around £3.6m of the increase in pay expenditure which is not directly related to the pandemic response. This will include investment commitments, directed expenditure and also recruitment to posts previously vacant. The impact of this growth in expenditure will be examined in more detail as we retest the Health Board underlying financial position.

### **3.1.4 Non Pay (Slides 6 & 7)**

Non-pay budgets have reported an overspend of £4.484m, however most of the additional funding has currently been attributed to non-pay. When adjusted to reflect more appropriate funding attribution, non-pay moves to a £19.813m overspend.

The overspend includes the planned deficit of £14.2m plus a balance of savings delivery, less planned investment slippage and cost reductions due to COVID.

This results in a residual net non-pay overspend which is being further examined to ensure clear recording of COVID costs and to understand any impact on the underlying financial position.

### **3.1.5 Savings and Recovery Challenge (Slide 8)**

The Health Board financial plan identified a £23m savings requirement for 2020/21 to support the delivery of the £24.4m deficit financial plan.

The Health Board initial financial plan identified £11.5m of savings scheme that were assessed as Green and Amber, with a further £11.5m of schemes that are linked to the opportunities pipeline that was developed with the support of KMPG. The level of green and amber schemes had increased to £13m by the start of the financial year.

The initial response to COVID-19 and the planning for essential services and a further potential wave has required all management capacity and focus and this has resulted in progress on savings being halted, which has impacted both on the delivery of the Green and Amber schemes and also in the development of the further schemes.

The savings delivery to Month 7 is £3.245m against a planned delivery of £13.770m. The impact of non-delivery of savings to Month 7 is therefore £9.925m.

The savings opportunities presented by KPMG and those identified previously are being reviewed to enable a clear line of sight to in-year delivery and more importantly to the recurrent impacts and benefits to support the Health Board's financial sustainability.

All Service Groups have reinvigorated their financial governance infrastructure to ensure both recurrent and non-recurrent opportunities are maximised and also to ensure efficiency improvements are included within service reset plans.

It should however be recognised that many of the historic efficiency measures are not able to be utilised in the current environment due to requirements of the pandemic e.g. theatre turnaround times will have significantly increased due to PPE requirements.

## **4. COVID-19**

The COVID-19 pandemic started to impact on the Health Board's financial position during March 2020. The key areas of cost impact have been reviewed

and assessed for the first seven months along with the attribution of additional WG funding.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Cumulative
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals
	£m	£m	£m	£m	£m	£m	£m	£m
Impact on Savings Delivery	1.749	1.480	1.318	1.321	1.310	1.394	1.364	9.936
COVID-19 Gross Costs	3.176	8.709	27.099	12.273	5.755	5.972	7.111	70.095
COVID-19 Cost Reductions	-1.179	-1.589	-1.840	-1.169	-1.035	-0.852	-0.642	-8.306
Slippage on Planned Investments	-0.408	-0.408	-0.920	-0.355	-0.250	-0.450	0.095	-2.696
<b>TOTAL COVID-19 IMPACT</b>	<b>3.338</b>	<b>8.192</b>	<b>25.657</b>	<b>12.070</b>	<b>5.780</b>	<b>6.064</b>	<b>7.928</b>	<b>69.029</b>
Funding Contribution	-0.060	-0.060	-26.888	-9.445	-0.612	-23.985	-7.441	-68.491
<b>Net COVID-19 IMPACT</b>	<b>3.278</b>	<b>8.132</b>	<b>-1.231</b>	<b>2.625</b>	<b>5.168</b>	<b>-17.921</b>	<b>0.487</b>	<b>0.538</b>

The Health Board recorded additional COVID-19 response costs of £7.111m during October 2020, with a cumulative gross expenditure of £70.095m. These costs were partially offset by reduced expenditure related to the restriction of planned care activity £8.306m. This resulted in a net cumulative additional expenditure of £61.789m for the first seven months of the financial year.

The Health Board has also reported a £9.936m adverse impact on savings delivery and a £2.696m positive impact on investment slippage. These items combined with the net cumulative additional expenditure result in a total COVID impact of £69.029m.

These costs have been offset by £68.491m WG funding, which includes the additional general funding allocation, Field Hospital and internal surge set up and construction costs, specific workforce costs for quarter 1, PPE, testing and contract tracing, adult ChC provision and optimising flows.

The most significant areas of expenditure for the first seven months of the financial year are: -

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Cumulative
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	
	£m	£m	£m	£m	£m	£m	£m	£m
Workforce	0.606	2.949	3.337	2.723	2.499	2.181	3.484	17.779
Field Hospital Set Up	0.088	1.431	20.026	6.427	0.046	0.102	0.890	29.010
Other Equipping	0.037	1.162	0.045	0.204	0.146	0.123	0.242	1.959
PPE	0.662	1.455	0.168	0.212	0.561	0.692	0.751	4.501
Testing Programme	0.000	0.004	0.076	0.361	0.264	0.546	0.530	1.781
Primary Care Prescribing	0.250	0.150	1.172	0.437	0.759	0.337	0.064	3.169
Care Homes	0.000	0.000	0.000	0.000	0.000	0.995	0.205	1.200
Loss of Income	0.500	0.300	0.856	0.741	0.676	0.563	0.745	4.381
<b>TOTAL COVID-19 IMPACT</b>	<b>2.143</b>	<b>7.451</b>	<b>25.680</b>	<b>11.105</b>	<b>4.951</b>	<b>5.539</b>	<b>6.911</b>	<b>63.780</b>

The other £6.315m additional costs cover such items as clinical consumables, accommodation, staff uniforms, cleaning and catering services, IT, mortuary and transport services.

## 5. FORECAST POSITION (Slide 9)

The Health Board revised forecast was developed building on the current financial profiles and in conjunction with the Quarter 3 and 4 Operational Plan.

The year-end forecast was reduced £96.180m to £26.431m in Month 6. This reduction reflected both refinement of expenditure profiles and the funding allocations and anticipated funding from national allocations.

The forecast has been reduced to £25.431m in Month 7 following the advice from WG that a further £1m funding support for the decommissioning of internal surge capacity should be assumed.

Financial Forecast	
	£m
Year End Forecast deficit/(surplus) as at Mon	96.18
<b>Key Expenditure Adjustments</b>	
Field Hospital Planning Assumptions	-13.88
Additional Surge Capacity cost estimates	2.01
PPE increased requirements	1.67
LAC financial exposure	1.20
Additonal Digital requirements	0.54
Essential Services support	1.85
Extended Flu Campaign	1.99
Winter Priorities	3.89
<b>Revised Year End Forecast deficit/(surplus)</b>	<b>95.44</b>
<b>Funding Assumptions</b>	
Funding Allocation as per Operating Framew	-48.20
PPE	-8.25
Field Hospital - Decommissioning	-2.91
Field Hospital - consequential losses	-0.46
Internal Surge - Decommissioning	-1.00
Testing	-2.51
Extended Flu Campaign	-1.99
Winter Priorities	-3.89
Independent Sector	-0.80
<b>Year End Forecast deficit/(surplus)</b>	<b>25.43</b>

The year-end forecast now reflects the £24.4m 2020/21 planned deficit plus the £2m impact of TAVI service demand and delivery, less the additional £1m funding assumption. On Thursday 5<sup>th</sup> November 2020 the Health Board attended a month 6 monitoring return review with welsh Government Finance and Finance Delivery Unit colleagues. This was a formal review to provide assurance on the granularity of the Health Board's financial forecast, links to operational plans and cost and funding assumptions. The meeting was very positive and built on the developing transparency around Health Board finances. A formal response letter has been received and this is attached as **Appendix 2** to this report for the consideration of the committee.

The Committee will be aware of the current work being undertaken to formulate the Health Board's COVID vaccination plan. At the time of writing this report Board approval is being sought to enable the primary vaccination hub to be located at Bay Field Hospital. Locating the hub at Bay Field Hospital looks likely to extend the intended life of the Field Hospital beyond this financial year. Should this occur, £2m of decommissioning cost will be avoided in 2020/21 (but will need to feature in 2021/22) and the funding assumed to cover this will not be needed (or if retained will improve the financial forecast and reduce the deficit). The full

implications of the revenue requirement to implement the plan are being worked through at the time of writing and a further verbal update will be given at committee. The potential for this modification in forecast has been communicated to the Director general and Chief executive of NHS Wales from the Chief Executive of the Health Board as Accountable Officer. Notification has also been given to Welsh Government Finance and Finance Delivery Unit.

## **6. OPPORTUNITIES AND RISKS (Slide 10)**

The Health Board forecast includes a number of opportunities and risks, which may impact on the current forecast assessment. These are being regularly reviewed and mitigation options considered. The most likely impact has been re-assessed in Month 7. The key opportunities and risks are: -

- HCSW banding – the claim has been accepted by the Health Board and the financial impact has been assessed as £0.15m. This is likely to be paid in forthcoming months and will be removed from Opportunities and Risks schedule. However it should be highlighted that there is a potential for similar challenges in other service areas.
- Final pension charge costs – the Health Board had initially assessed this risk as £1m based on the costs incurred during 2019/20 and some specific senior post retirements. To date only one invoice has been received and further advice from pensions has mitigated the risk on some of the posts that were anticipated to trigger a significant charge. The most likely impact has been reduced to £0.5m.
- NICE and high cost drugs – the impact of changes in service provision on NICE and high cost drugs are being closely monitored along with the implementation of new technologies. The expenditure remains very volatile and impacted by service provision.
- Essential Services – the Q3/Q4 operational plan has reflected the key additional capacity to support Essential services including some use of external capacity. As service demands increase, there may be further requirements identified and supported to minimise patient harm.
- Additional Capacity – the Q3/Q4 operational plan has been developed around demand and capacity modelling. The operational plan and financial forecast reflects the requirement for surge and super surge capacity to be deployed, the workforce required to support this and the implications on services and risk profiles to ensure workforce availability. There is a potential for further costs should workforce availability assumptions change.
- Funding Assumptions – the forecast recognises the funding allocation noted in the Operating Framework and also assumes funding from National allocations. If these are not fully agreed, then the forecast position would be adversely impacted. This risk has been reduced as elements of assumed funding, such as PPE have been confirmed.
- LTA arrangements – the forecast assumes that the LTA block arrangements in place during 2020/21 remain in place for the remainder of the financial year.
- Primary Care Prescribing Price Concessions – the forecast has included an increased level of price concessions based on Quarter 1 data. This is an area of volatility and if price concessions reduce then the forecast will also reduce.
- Further Savings Delivery – the Health Board has reinvigorated its focus on savings delivery opportunities, particularly those focussed on service efficiency to support the reset and recovery of services to the most efficient



new norm. However, as we move into the challenging winter period, the ability to focus and drive efficiency opportunities is likely to reduce.

- Demand requirements – if the actual demand does not reach the modelled levels, then some elements of surge and super surge capacity may not need to be deployed. Given the current operational pressures this seems highly unlikely and the opportunity has been removed.
- Slippage on planned expenditure – the forecast already includes the assessed slippage on planned investments, however there is a potential for further slippage against planned expenditure, including directed and ring-fenced funding.

## **7. ACTIONS AND NEXT STEPS**

Following the period of immediate response to the COVID-19 pandemic the Health Board:

- Reinstated financial review meetings from month 2
- Routine weekly meetings with Finance Business Partnering Teams
- Issued a clear approach to the in-year financial framework: -
  - Focus on remaining within base budget and controlling the run rate within this
  - Focus on exploring all savings opportunities to mitigate savings loss risk
  - Ensure clear analysis and accounting for COVID-19 costs and controlling these proportionately to the need to respond whilst maintaining good governance and value for money
- Specific reassessment of service assessments driving cost forecasts to identify opportunities to cost avoid and appropriately reduce possible future costs.
- Re-established the Scrutiny Group to ensure clear understanding and decision-making for any investment service proposals and considerations.
- Re-aligned financial governance and engagement through the Senior Leadership Team (SLT).

In light of the WG funding and the submission of the revised forecast, the process of establishing clear financial performance targets for Service Groups, Directorates and the Health Board as a whole will be worked through during the forthcoming month. This will enable enhanced accountability to be established.

The focus remains on the key cost drivers; medical staff costs, nurse staff costs, ChC, Income impacts and Medicines Management. These are subject to specific work programmes to enable issues, opportunities, risks and mitigations to be identified and considered.

The Health Board is also reviewing the potential recurrent or longer term impacts of actions taken in response to the pandemic to ensure these are clearly understood, agreed and reflected within the Health Board underlying financial position.

Work has commenced to consider the nature of the possible finance framework for 2021/22 and beyond. Next financial year will be a year of

significant financial uncertainty in terms of potential funding for the NHS, vaccination plans, presence and impact of COVID, availability of capital, workforce resilience and service productivity and efficiency. Having said that, there are key elements of grip and control and key financial matters where the Health Board can act and this is the focus of the work commencing within the finance team. A session is planned with Service Director for early December and a further update will be shared with the Committee in December.

## 8. RISK ASSESSMENT

There are currently three Board level financial risks: -

- Funding for COVID-19 (risk 71): The total quantum for funding for addressing COVID-19 across Wales remains fluid and uncertain - Risk Rated 20
- Capital Resource/Plan (risk 72): COVID-19 impact on Capital Resource Limit and Capital Plan for 2020-21- Risk Rated 20
- Residual Cost Base (risk 73): There is a potential for a residual cost base increase post COVID-19 as a result of changes to service delivery models and ways of working - Risk Rated 20

The last Performance and Finance Committee meeting was advised that in light of the allocation of £48.2m revenue to the Health Board specifically assigned for COVID costs and the impact of COVID on savings delivery, that risk 71 has been reduced to a score of 15 with the consequence remaining at 5 and the likelihood reducing to 3 to reflect the confirmation of the funding. More certainty has been gained around the other stream of funding required to deliver the forecast, but the risk will remain at this level at this stage whilst vaccination plans are worked through and the impact of the second COVID wave is understood.

The capital plan remains balanced and unchanged at this point and will remain at 20. Further dialogue is ongoing with Welsh Government and this risk will be revised in light of this. It is anticipated that this work will enable a revised risk assessment to be presented to the December Committee.

The residual cost base risk remains unchanged and whilst the Health Board is working hard to control underlying run rate and to seek out savings opportunities wherever possible, there is currently understandable uncertainty as to the resource arrangements for 2021/22.

## 9. RECOMMENDATION

Members are asked to:

- **NOTE** the agreed 2020/21 financial plan.
- **CONSIDER** and comment upon the Board's financial performance for Period 7 (October) 2020/21, in particular:
  - the revenue outturn position of £14.825m deficit;
  - the COVID-19 revenue impact for Period 7; and
  - the assessed £25.431m forecast based on Quarter 3 and 4 planning assumptions.

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	<input type="checkbox"/>
	Co-Production and Health Literacy	<input type="checkbox"/>
	Digitally Enabled Health and Wellbeing	<input type="checkbox"/>
	Deliver better care through excellent health and care services achieving the outcomes that matter most to people	
	Best Value Outcomes and High Quality Care	<input checked="" type="checkbox"/>
	Partnerships for Care	<input checked="" type="checkbox"/>
	Excellent Staff	<input type="checkbox"/>
	Digitally Enabled Care	<input type="checkbox"/>
	Outstanding Research, Innovation, Education and Learning	<input type="checkbox"/>
Health and Care Standards		
(please choose)	Staying Healthy	<input type="checkbox"/>
	Safe Care	<input type="checkbox"/>
	Effective Care	<input type="checkbox"/>
	Dignified Care	<input type="checkbox"/>
	Timely Care	<input type="checkbox"/>
	Individual Care	<input type="checkbox"/>
	Staff and Resources	<input checked="" type="checkbox"/>
Quality, Safety and Patient Experience		
Financial Governance supports quality, safety and patient experience.		
Financial Implications		
The Board is reporting a £24.4m forecast year-end deficit financial outturn prior to the impact of COVID-19.		
Legal Implications (including equality and diversity assessment)		
No implications for the Board to be aware of.		
Staffing Implications		
No implications for the Board to be aware of.		
Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015)		
No implications for the Board to be aware of.		
Report History	Board receives an update on the financial position at every meeting	
Appendices	Appendix 1 – P07 – 20 Financial Report Supporting Detail Appendix 2 – Month 6 review feedback letter	