

Dyddiad/Date: 12th December 2019

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

Dear Andrea,

SWANSEA BAY UNIVERSITY HEALTH BOARD MONITORING RETURNS 30th November 2019

I enclose for your attention the completed proformas in respect of the Health Board's Monitoring Returns to 30th November 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 for 2019/20 had been to achieve financial balance and we had developed a plan to support this ambition. That core financial plan excluded the impact of the Bridgend diseconomies of scale. The Health Board recognised its need to mitigate these diseconomies, however the challenge of fully addressing these diseconomies in year one has been highlighted.

The Health Board has a forecast savings delivery including income generation and accountancy gains, of over £19.8m against the initial financial plan savings 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, the knock-on impact on income received for commissioned services, and rising Continuing Healthcare costs.

The Health Board has now recognised the impact of category M drugs price increases, final pension charges and the Welsh Risk Pool risk share within its revised forecast.

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 that the final level of support is yet 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 at its meeting on 28 November received a detailed report on the performance and financial trajectories and a range of actions to support improvement. The Board agreed the implementation of a range of actions and recognised that this would deliver at best a year-end deficit of £12.3m.

The 2019/20 financial delivery plan has been reviewed and tested by KPMG, and they have highlighted that the £12.3m year-end forecast carries significant risk as it requires full delivery of all actions and also assumes no further escalation of in-year operational and subsequent financial pressures. Their professional assessment recommends that a forecast outturn of £14.2m is the best outcome achievable.

The Board recognises the challenge of delivering a £12.3m outturn in the context of this advice and will require assurance on the delivery of the necessary actions, along with the continued identification and pursuit of further opportunities whilst ensuring any impact of cost pressures and risks are minimised.

The actions required to deliver a £12.3m outturn will be monitored weekly and the year-end forecast reviewed on a month to month basis, along with Welsh Government, in order to determine its ongoing deliverability.

(b) Monthly Positions (Table B & B1)

The Month 8 reported position is an overspend of £9.845m. 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 in-month financial position is an overspend of £1.192m, which is an improvement on previous months and is the lowest reported position since May 2019. It is however recognised that the monthly performance is required to improve significantly in the remaining months to ensure the current £12.3m year-end forecast is delivered.

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 8. 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 8 the Revenue Resource Limit is under-phased by £3.8m.

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 Primary Care Contractor costs for November were £1.2m above last month's forecast, this is primarily due to GMS contract increases linked to an additional allocation of £1.4m.

Non-pay expenditure was £1.7m 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.

Secondary Care drug expenditure was £0.6m above the forecast, this can be explained by higher than expected NICE drug costs.

Healthcare Services Provided by other NHS Bodies was also £0.9m higher than forecast due to a change in treatment of WAST costs. The budgets due to be transferred were being held in a reserve, but during month 8 the invoices were paid as the transfer is now not taking place this financial year.

5. Agency/Locum Expenditure (Table B2)

The Health Board Agency expenditure for Month 8 is £2.009m, which is 4.3% of the overall pay expenditure. The year-to-date agency expenditure for 2019/20 is £4.2m 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 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 – 12%
- Additional Support to delivery and performance – 25%

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 £4.743m.

A further £6.362m of savings have been identified with a high level of delivery assurance.

The Health Board is continuing to work 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 for which 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 prices which have now been included within the current financial position forecast.
- 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 of £10m, 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. It is assumed in the revised forecast that this funding will remain with the Health Board.
- 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 now included within the forecast.
- Further mitigating actions (renamed KPMG risk adjustment in month 8) – this reflects the KPMG assessment of potential delivery risk which the Health Board is working to eliminate.
- Local Authority Issues – a new risk and opportunity have been included this month linked to invoicing disputes with Local Authorities. The concluding outcome of

these ongoing issues, could result in an adverse financial impact to the Health Board or could result in a positive financial impact depending on the outcome. The Health Board is committed to reaching a resolution on these issues as soon as possible.

The Health Board has included two new potential opportunities:

- Further Bridgend Boundary Change Transitional support – discussions are continuing following the due diligence report undertaken by PWC and some further non-recurrent transitional support may be agreed.
- KPMG Opportunities Pipeline – KPMG have identified opportunities with a 2019/20 impact, the grip and control elements of these have been included in the further actions agreed by the Board. There are a number of productivity and efficiency gain opportunities identified, these have not been included as the detailed review of methodology, impact and delivery of cash releasing improvement has not yet been finalised. A review workshop is being held on Monday 16th December. It is expected that these opportunities will aid in the mitigation of risks.

10. Statement of Financial Position (Table G)

The S1 and S2 transfer documents detailing the balances to transfer to Cwm Taf Morgannwg Health Board as a result of the Bridgend boundary change have been approved by the Board, signed off by the Chief Executive and forwarded to Cwm Taf Morgannwg Health Board for sign off. An initial meeting has been held with Cwm Taf Finance colleagues to begin the process of transacting the balances through the health board's financial ledgers and further meetings are planned to agree the cash transfers required to clear the balances remaining.

As a result, the balances included in Table G at 1st April 2019 and 30th November 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 forecast 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 increased from £10.526m at the end of October to £10.685m at the end of November, an increase of £0.159m, this being due to an increase in drugs stocks at Morriston and Singleton Hospitals.
- There was a reduction in trade receivables in month from £168.251m at the end of October to £165.484m at the end of November, a reduction of £2.767m. The reduction was mainly in the Welsh Risk Pool debtor as a result of reimbursements made following the November WRP advisory board meeting. There was also a reduction in NHS debtors with a number of invoices being cleared prior to the month 8 agreement of balances exercise.

- The closing November cash balance of £1.035m 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 £177.255m at the end of October to £174.011m at the end of November, a reduction of £3.244m, bringing the total reduction in trade and other payables to £17.338m 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.
- Provisions reduced from £145.222m at the end of October to £143.135m at the end of November, a reduction of £2.087m. The reductions were primarily in clinical negligence provisions, retrospective CHC provisions and other provisions following the settlement of the GPOOH employment taxes issue with HM Revenue & Customs.

11. Cash Flow Forecast (Table H)

As reported above, at the end of November, the health board had a cash balance of £1.035m, which is in line with the health board target of holding between £1m and £2m of cash at month end.

Over the period April to November, the payables working capital balances have reduced by £17.338m 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 and a reduction in capital creditors. This deterioration in working capital balances is a key factor in the forecast cash deficit for the health board and has resulted in the health board having drawn down 71.97% of its cash allocation to the end of November, which is in excess of the anticipated draw down profile of 66.67% (8/12ths) 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 PSCP in 2019/20 it is forecast that there will need to be a further reduction of £1.044m in trade and other payables, resulting in a total impact on cash of £20.701m for movement in revenue working capital balances.

In addition to this, there is a forecast reduction of £9.673m 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 have drawn down its' full capital cash allocation in January 2020 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 £1.027m from the updated forecast 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 together with the settlement of the HMRC GP Out of Hours assessment.

In addition to these forecast movements in working capital cash, the health board's updated financial forecast is that of a £12.3m deficit for which strategic cash support will be required. Taking all these issues into account, the receipt of all anticipated allocations detailed in table E, including the £10m Welsh Government support provided in 2018/19 being made recurring in both allocation and cash terms, the health board is forecasting a cash deficit of £42.871m as detailed in the table below.

Analysis of Cash Position	£000
Capital Cash Shortfall	
Cash required for working balances movements – Capital	9,673
Capital Cash Required to Reimburse Revenue Cash for 2018/19 year end payments	3,593
Capital Cash Shortfall	13,266
Revenue Cash Shortfall	
Strategic cash support required for the forecast I&E deficit	12,300
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	1,044
Cash required for movement in revenue working balances – debtors, prepayments and provisions	1,027
Cash due from capital for reimbursement of 2018/19 year end payments	(3,593)
Revenue Cash Shortfall	30,435
Total Cash Shortfall	43,701
Less Opening Cash Balance	830
Forecast Cash Deficit	42,871
Cash Required	
Strategic Cash Support	12,300
Working Capital Cash Support	
Capital (includes £3.593m payback to revenue)	13,266
Revenue (including £500k to have a small cash balance at year end and £3.593m payback from capital)	17,805
Total Cash Required	43,371
Closing Cash Balance	500

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

The Chief Executive will confirm the Health Board's request for strategic cash support by 18 December 2019 as requested.

12. Public Sector Payment Compliance (Table I)

There is no requirement to complete this table for month 8.

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 £25.491m issued on 5th December 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 8 is a £0.540m underspend to plan. The main areas of variance are shown below.

Scheme	Underspend to Plan M8 £'000	Comments
Discretionary IT	135	Delays with RFID rollout and WCCIS but not anticipated to impact the forecast outturn.
Discretionary Estates - Morriston Access Road	234	Delays with appointment of design team.

Forecast Outturn

The forecast outturn against the current CRL shows an overspend position of £5.053m, 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. WG approval received awaiting Ministerial approval letter.
Ward 12 Fire, Singleton	385	Initial claim approved by Welsh Risk Pool on 11/9/19. Final claim submission to WRP in November to be reviewed in January.
National Digital Fund	1,390	Funding letters approved awaiting adjustment in CRL.
Business Case Fees	621	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 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.
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	Additional costs resulting in removal of asbestos following ward 12 fire. WG approval received awaiting Ministerial approval letter.
National Digital	High	1,390	Funding letters approved awaiting adjustment in CRL.
Discretionary	High	732	Business Case fees and WRP claim for Ward 12 fire

C. Table L - Capital Disposals

The sale of Coelbren was previously anticipated to be during 2019/20 but due to a lack of interest we are now anticipating that the sale will complete in 2020/21.

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 November. The value of NHS debts outstanding for between 11 and 17 weeks amounted to £150k at the end of November (October £23k) with the number of invoices in this category reducing from 14 at the end of October to 5 at the end of November. Of the outstanding invoices between 11 and 17 weeks old, 1 has been paid since the end of November, amounting to £6k.

There were no invoices outstanding for more than 17 weeks at the end of November.

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 17th December 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

