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Bwrdd Iechyd Prifysgol  
Bae Abertawe  
Swansea Bay University  
Health Board



|  |   |                          |                                     |
|--|---|--------------------------|-------------------------------------|
| <b>Meeting Date</b>  | <b>28<sup>th</sup> November 2019</b>  | <b>Agenda Item</b>       | <b>2.3</b>                          |
| <b>Report Title</b>  | Financial Report – Period 7   |                          |                                     |
| <b>Report Author</b>   | Samantha Lewis, Assistant Director of Finance   |                          |                                     |
| <b>Report Sponsor</b>  | Lynne Hamilton, Director of Finance   |                          |                                     |
| <b>Presented by</b>  | Lynne Hamilton, Director of Finance   |                          |                                     |
| <b>Freedom of Information</b>                                      | Open  |                          |                                     |
| <b>Purpose of the Report</b>                                       | The report advises the Board of the Health Board financial position for Period 7 (October 2019).  |                          |                                     |
| <b>Key Issues</b>  | <p>The report invites the Board to note the detailed analysis of the financial position for Period 7 2019/20.</p> <p>The report also invites the Board to note the capital budget forecast position, cash position and key balance sheet movements.</p>   |                          |                                     |
| <b>Specific Action Required</b><br><i>(please choose one only)</i> | <b>Information</b>  | <b>Discussion</b>        | <b>Assurance</b>                    |
|  | <input type="checkbox"/>  | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| <b>Recommendations</b>   | <p>Members are asked to:</p> <ul style="list-style-type: none"> <li>• <b>CONSIDER</b> and comment upon the Board's Period 7 financial performance, in particular: <ul style="list-style-type: none"> <li>i. the revenue outturn position; cumulative overspend of £8.653m, the revenue outturn forecast and the revenue risk profile;</li> <li>ii. the capital forecast position;</li> <li>iii. balance sheet movements;</li> <li>iv. cash position; and</li> <li>v. performance against the Public Sector Payment Policy compliance.</li> </ul> </li> <li>• <b>NOTE</b> the restatement of the Health Board's intention to deliver a breakeven position and the significant delivery risks.</li> </ul> |                          |                                     |

## FINANCIAL REPORT – PERIOD 7

### 1. INTRODUCTION

The report advises the Board that the Period 7 (October 2019) revenue financial position is an overspend of £8.653m.

The report invites the Board to note the detailed analysis of the revenue financial position.

The report also invites the Board to note the capital budget forecast position, cash position and key balance sheet movements.

### 2. BACKGROUND

#### 2.1 The Health Board has two key statutory duties to achieve:

- **To submit an Integrated Medium Term Plan (IMTP) to secure compliance with breakeven over 3 years.**

2017/18 No Approved Plan

2018/19 No Approved Plan

2019/20 No Approved Plan

The Health Board will fail to achieve this Statutory Duty.

- **To achieve financial breakeven over a rolling three year period, which commenced on 1<sup>st</sup> April 2017 and will end on 31<sup>st</sup> March 2020.**

2017/18 £32.4m Overspend

2018/19 £9.9m Overspend

2019/20 Breakeven forecast

The Health Board will fail to achieve this Statutory Duty.

#### 2.2 Summary of Performance against Key Financial Targets

| <b>Financial KPIs : To ensure that net operating costs do not exceed the revenue resource limit set by Welsh Government</b> | <b>Value<br/>£000</b> |
|---|-----------------------|
| Reported in-month financial position – deficit/(surplus)  | 1,408                 |
| Reported year to date financial position  | 8,653                 |
| Current year-end Forecast – deficit/(surplus)   | 0                     |
| <b>Capital KPIs: To ensure that costs do not exceed the capital resource limit set by Welsh Government</b>                  | <b>Value<br/>£000</b> |

|   |                          |
|---|--------------------------|
| Reported In-month financial position – deficit/(surplus)  | (438)                    |
| Forecast Outturn – deficit/(surplus)  | 0                        |
| <b>PSPP Target : To pay a minimum of 95% of all non NHS creditors within 30 days of receipt of goods or a valid invoice</b> | <b>Value</b><br><b>%</b> |
| Cumulative year to date % of invoices paid within 30 days (by number)   | 95.1                     |

### 3. FINANCIAL IMPLICATIONS

#### 3.1 Revenue Position

##### 3.1.1 Summary Revenue Position

The Health Board is committed to delivering a breakeven financial position. The Health Board has developed a balanced core financial plan. However, the £22m savings plan to deliver the balanced core financial plan did not include a detailed plan to address the impact of the corporate and clinical management diseconomies of scale following the Bridgend boundary change. This required a further £5.4m of mitigating actions to be identified and delivered.

The Health Board has reported an in-month overspend of £1.408m in Period 7 (October 2019), this results in a cumulative overspend to the end of October of £8.653m

The key reasons for the overspend are:

- i. Operational expenditure increases and delegated budget overspends, particularly the workforce and contract income impact of the continuing unscheduled care pressures and also Continuing Healthcare; and
- ii. required savings not being fully identified and delivered;
- iii. corporate and clinical management diseconomies of scale linked to the Bridgend Transfer.

##### 3.1.2 Income

Income budgets have reported an over-achievement of £1.082m for the first seven months of the financial year. Despite the over-achievement, there are pressures associated with contract income as delivery is being adversely impacted upon by unscheduled care pressures. Further pressure is anticipated following the decision to cease private

patient work at Morriston during the winter months to support unscheduled care.

Income allocations anticipated by the Health Board 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, if we deliver a balanced plan; and
- transitional recognition, the exact value of which has yet to be confirmed by Welsh Government, of some of the Bridgend boundary change diseconomies.

### 3.1.3 Pay

Pay budgets are breaking even after seven months **(Slide 5)** however this is a significant movement from the £9.7m pay underspend reported in 2018/19.

The underspend had been supporting the Health Board's underlying financial position, given underperformance in the delivery of recurrent savings in 2018-19 and previous years. Recurrent savings delivery in 2018-19 would have reduced the pay bill and therefore the cost base of the Health Board going into 2019-20. As this did not happen and the cost base has further increased, the 2018-19 underlying underspend has been eroded putting pressure on the overall position in 2019-20.

The movement of almost £10m can be attributed to three main issues:

- £5m diseconomies of scale following Bridgend boundary change;
- £2.3m admin and clerical as a result of vacancies, rather than actual costs being released to support the Bridgend boundary change, which has effectively increased the Health Board underlying deficit by eroding underspends; and
- £2m nursing in excess of Nurse Staffing Act and surge capacity funding. This is being driven by service demand and patient acuity.

### **3.1.4 Non Pay**

Non-pay budgets have reported an overspend of £9.82m in the first seven months of the financial year. The key non-pay overspends are ChC costs associated with the increasing patient numbers, clinical consumables including blood products and savings non-identification and delivery.

### **3.1.5 Savings and Recovery Challenge**

The Health Board financial plan identified a £22m savings requirement for 2019/20 to support the delivery of a balanced financial plan. This savings requirement did not include actions required to mitigate and manage the clinical and corporate management diseconomies of scale resulting from the Bridgend Boundary Change.

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

At the start of the financial year, the Health Board had identified £18.2m of savings and by the end of Quarter 1, this had increased to £21.4m. However, £4.6m slippage was identified against these identified schemes, resulting in a forecast delivery of £16.8m.

In light of the savings shortfall and the operational financial pressures all Service Delivery Units and Directorates were asked to develop recovery plans to support an improvement in financial performance. The Health Board also established a Delivery Support Team, which is a multi-disciplinary team focussing on:

- Accelerating the delivery of current plans with immediate focus on USC plans and High Value Opportunities;
- Accelerating the development of pipeline plans and opportunities;
- Developing a battle rhythm from monthly progress to daily and weekly focus, unblocking issues, problem solving and supporting system wide working; and
- Ensuring robust “grip and control” in place throughout the Health Board.

One of the early priorities of the Delivery Support Team was to review the financial recovery plans. The submitted plans were assessed as those suitable for immediate implementation, those considered reasonable but requiring Quality Impact Assessment

and those that would require further work to fully assess cross system impacts.

The recovery actions, with high delivery confidence have been added to the savings trackers and this has increased the forecast savings to £20.4m.

It should be noted that whilst the shortfall against the initial savings requirement has reduced to £1.6m, this does not meet the requirements of the Bridgend diseconomies and the in-year operational pressures and risks. Therefore further savings and recovery actions are required to be identified and delivered in the remaining months of the financial year.

The Health Board is being supported by KPMG who have been commissioned by WG to enhance in-year financial delivery and develop a pipeline of opportunities for financial sustainability.

### **3.1.6 Revenue Risks and Opportunities**

A number of financial risks and opportunities have been identified and are being monitored. The key risks and opportunities are shown in **Slide 7**. These risks are updated each month and are reported to Welsh Government and reviewed by the Performance and Finance Committee.

## **3.2 Capital**

The approved CRL value at Month 7 is £23.490m. This includes Discretionary Capital and the schemes under the All Wales Capital Programme.

### **3.2.1 Performance to Date**

The reported financial performance at Month 7 is a £0.438m under spend to plan. The key reasons for the under spend are:

- **Discretionary IT - RFID.** RFID rollout delayed but now going live in November.
- **Discretionary IT - WCCIS.** Production of FBC and deployment order behind schedule due to delays with some staff recruitment and the receipt of commercial information from NWIS and supplier.
- **Discretionary Estates – Morriston Access Road.** Delays with appointment of design team.

### 3.2.2 Risk Assessment

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

| <b>Scheme</b>                                 | <b>Risk Profile</b> | <b>Risk Value<br/>£000</b> | <b>Comments</b>  |
|---|---------------------|----------------------------|--|
| 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                      | Cost forms for additional resource of £3.385m over 19/20 and 20/21 submitted to Welsh Government on 29 <sup>th</sup> October.  |
| National Digital                              | High                | 1,390                      | Awaiting formal approval letters following agreement of allocation from national digital fund  |
| Discretionary                                 | High                | 770                        | Includes business case fees incurred on schemes within the All-Wales Capital Programme and the final claim to the Welsh Risk Pool for the fire on Ward 12, Singleton.                                    |

### 3.2.3 Forecast Outturn

A forecast break-even outturn position depends on the receipt of additional funding of £5.091m from Welsh Government linked to the risk assessment above.

### 3.3 Balance Sheet

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

As a result, the balances included in the balance sheet at 1st April 2019 and 31st October 2019 are the balances prior to disaggregation, less those balances cleared during the period, representing the actual ledger figures at these dates.

During the first 7 months of the financial year, there was an increase of £10.147m in net assets employed (2.21%). Total assets reduced by £9.230m with total liabilities reducing by £19.377m.

The main reduction in assets was in respect of trade and other receivables (£6.960m) and tangible and intangible assets (£2.925m) offset by small increases in stocks (£0.292m) and cash (£0.363m). The reduction in receivables was due to a reduction in the Welsh Risk Pool debtor as a result of reimbursements from Welsh Risk Pool for claims settled, with the fixed asset reduction being due to depreciation on the asset base.

The reduction in liabilities is due to a reduction in payables (£14.093m) linked to a reduction in the tax, national insurance and superannuation creditors following the transfer of staff to Cwm Taf Health Board and the clearance of other creditor balances as at 31<sup>st</sup> March in respect of services which have transferred to Cwm Taf Health Board. There has also been a reduction in provisions of £5.284m, following payments in respect of clinical negligence and personal injury claims.

### 3.4 Cash

The closing October cash balance of £1.193m was in line with the month end cash target set by the health board of between £1m and £2m.

Forecasting the cash position for 2019/20 has been challenging given the need to estimate the impact on cash of the movements in working capital balances arising from the Bridgend Boundary Change. The disaggregation of the 2018/19 year-end balance sheet has identified



that a net liability of £19.657m (creditors are greater than debtors) will need to transfer to Cwm Taf Health Board supported by a cash transfer to allow Cwm Taf Morgannwg to discharge these liabilities. This therefore represents a reduction in working capital balances of this value for which working capital cash support will be required.

Over the period April to October, the payables working capital balances have reduced by £14.093m largely as a result of the Bridgend boundary change as the Swansea Bay Health Board has continued to pay invoices relating to the period prior to 31st March 2019 for those services that have transferred so as to minimise disruption to suppliers and to the transferring services. This has meant that the health board has drawn down around 63% of its cash allocation to the end of October, which is in excess of the anticipated draw down profile of 58.33% (7/12ths) of its allocation.

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

The closing October cash balance of £1.193m was in line with the month end cash target set by the health board of between £1m and £2m.

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

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to suppliers and to the transferring services. This has meant that the health board has drawn down around 63% of its cash allocation to the end of October, which is in excess of the anticipated draw down profile of 58.33% (7/12ths) of its allocation.

The health board has looked at options to mitigate the full impact of the required £19.657m cash impact of the Bridgend transfer by increasing creditor balances for the services that it retains, without impacting on PSPP in 2019/20. However, it is likely that this will not be possible without impacting on PSPP compliance.

In addition to the cash impact of the Bridgend transfer, there is a forecast reduction of £9.966m in capital creditors for which working capital cash is also required, together with a forecast cash impact of £2.1m from a reduction in provisions in 2019/20.

Taking all these factors into account, as well as the actual cash receipts and payments for the first 7 months of this financial year and the forecast receipts and payments for November to March, the health board is forecasting a cash deficit of £35.193m. This forecast cash deficit has been flagged to Welsh Government (WG) in the monthly monitoring returns as requested during October to enable WG to bid for additional cash support from Treasury. The board is reminded that cash support to fund movement in working capital balances is non-repayable but any cash support provided to fund a deficit position referred to as strategic cash support is repayable.

### **3.5 Public Sector Payment Policy (PSPP)**

At the end of October, the health board has achieved the 95% PSPP target with 95.1% of supplier invoices paid within the 30 day target. However, in October, only 92.65% of invoices were paid within 30 days, resulting in the cumulative compliance for the year reducing from 95.5% at the end of September to 95.1% at the end of October.

The main issues impacting the PSPP performance in October were delays in receipting and delays in the processing of pharmacy and nurse bank invoices. The processing of pharmacy invoices may be impacting on PSPP performance as the JAC system which generates the payment file for accounts payable can only record a single date and pharmacy require this to be the invoice date for audit purposes. The PSPP measure starts from the invoice received date which will always be later than the invoice date and using the invoice date rather than invoice received date starts the clock from an earlier point which may be adversely impacting on PSPP.

#### 4. **RECOMMENDATION**

Members are asked to:

- **CONSIDER** and comment upon the Board's Period 7 financial performance, in particular:
  - vi. the revenue outturn position; cumulative overspend of £8.653m, the revenue outturn forecast and the revenue risk profile;
  - vii. the capital forecast position;
  - viii. balance sheet movements;
  - ix. cash position; and
  - x. performance against the Public Sector Payment Policy compliance.
- **NOTE** the Health Board year-end breakeven forecast and the risks associated with the delivery.

|   |   |                          |
|---|---|--------------------------|
| <b>Governance and Assurance</b>   |   |                          |
| <b>Link to Enabling Objectives</b><br>(please choose)   | <b>Supporting better health and wellbeing by actively promoting and empowering people to live well in resilient communities</b> |                          |
|   | 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"/> |
|   | <b>Deliver better care through excellent health and care services achieving the outcomes that matter most to people</b>         |                          |
|   | Best Value Outcomes and High Quality Care   | <input type="checkbox"/> |
|   | Partnerships for Care   | <input type="checkbox"/> |
|   | Excellent Staff   | <input type="checkbox"/> |
|   | Digitally Enabled Care  | <input type="checkbox"/> |
|   | Outstanding Research, Innovation, Education and Learning  | <input type="checkbox"/> |
| <b>Health and Care Standards</b>  |   |                          |
| (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 type="checkbox"/> |
| <b>Quality, Safety and Patient Experience</b>   |   |                          |
| Financial Governance supports quality, safety and patient experience.   |   |                          |
| <b>Financial Implications</b>   |   |                          |
| The Board is reporting a balanced end year financial outturn.   |   |                          |
| <b>Legal Implications (including equality and diversity assessment)</b>                                       |   |                          |
| No implications for the Board to be aware of.   |   |                          |
| <b>Staffing Implications</b>  |   |                          |
| No implications for the Board to be aware of.   |   |                          |
| <b>Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015)</b> |   |                          |
| No implications for the Board to be aware of.   |   |                          |
| <b>Report History</b>   | Board receives an update on the financial position at every meeting   |                          |
| <b>Appendices</b>   | Appendix 1<br>Appendix 2  |                          |