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Dyddiad/Date: 14th January 2019

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

Dear Andrea,

SWANSEA BAY UNIVERSITY HEALTH BOARD MONITORING RETURNS 31st December 2019

I enclose for your attention the completed proformas in respect of the Health Board's Monitoring Returns to 31st December 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 Carry Forward Deficit	23.3	Savings Non-Recurrent Opportunities Actions to mitigate Bridgend transfer impact	(21.3) (0.7) (0.0)
<u>2019/20 New Costs</u> Service Costs	42.3	<u>Additional Funding</u> WG Allocation Uplifts Income Benefits WG Additional Funding Support	 (33.2) (0.4) (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 and prolonged 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 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. This needs to be confirmed as soon as possible to improve the delivery assurance of the financial forecast.

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, who have highlighted that the £12.3m year-end forecast carries significant risk as it requires full delivery of all actions and 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 due to delivery risks, however further productivity and efficiency opportunities were identified which have the potential to improve this position.

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 are being monitored weekly and the year-end forecast reviewed on a month-to-month basis in order to determine its ongoing deliverability.

(b) Monthly Positions (Table B & B1)

The Month 9 reported position is an overspend of £11.101m. 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 £1.256m. It was recognised last month that significant improvement was required in the financial performance over the remaining months to ensure the current £12.3m year-end forecast is delivered, however further unprecedented winter pressures have resulted in the December position being £0.636m adrift of the in-month forecast.

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. The balance of £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 high level assessment indicates an underlying position of around £21m, this is continuing to be further refined and based on current information could be higher.

3. Ring Fenced Allocations (Tables N & O)

Tables N and O have been completed as required at the end of quarter 3. A balanced position is currently anticipated on all ring-fenced allocations with the exception of GMS and Dental which has an anticipated surplus of £655k and £84k respectively.

4. Net Expenditure Profile Analysis (Table B & B1)

Resource Limit – at the end of month 9 the Revenue Resource Limit is under-phased by £3.2m.

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.

Non-pay expenditure was £0.8m 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 all of which are non-recurrent in nature.

Healthcare Services Provided by other NHS Bodies was also £0.7m higher than forecast due to recurrent WAST costs.

Continuing Healthcare and Funded Nursing Care was £0.7m above forecast, highlighting the continued recurring pressure in this area.

5. Agency/Locum Expenditure (Table B2)

The Health Board Agency expenditure for Month 9 is £1.837m, which is 4.0% of the overall pay expenditure. The year-to-date agency expenditure for 2019/20 is £4.5m higher than the same period in 2018/19 (adjusted for Bridgend).

The increase primarily relates to nurse agency costs, which increased during 2018/19 and have remained high during 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 – 61%
- Temporary Absence Cover – 11%
- Additional Support to delivery and performance – 28%

6. Savings Plans (Table C, C1, C2 and C3)

The Health Board initial core financial plan identified a £21.3m savings requirement for 2019/20 to support the delivery of a balanced financial plan. This savings requirement did not include any actions required to mitigate and manage the impact of the Bridgend Boundary Change clinical and corporate management diseconomies of scale. The Bridgend diseconomies are now being incorporated into the overall approach to delivery through the Delivery Support Team and the Health Board more broadly.

The Health Board savings plan comprises 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 £4.764m.

A further £6.240m of savings have been identified with a high level of delivery assurance.

The Health Board is forecasting savings delivery, including income generation and accountancy gains of £19.8m.

The Health Board is continuing to work through the KPMG opportunities pipeline to identify and drive improved delivery and bring forward opportunities into 2019/20.

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 its key risks and opportunities. 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 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 was held on Monday 16 December and further work is required to agree the scale of opportunities and to agree the actions to be undertaken to expedite delivery, however this will be extremely challenging during the winter period due to operational pressures. These opportunities should however be considered as they could 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 signed off by Swansea Bay Health Board and forwarded to Cwm Taf Morgannwg Health Board for sign off. The health board is awaiting agreement from Cwm Taf Finance colleagues to start the process of transacting the balances through the health board's financial ledgers.

The balances included in Table G at 1 April 2019 and 31 December 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 31 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 reduced marginally from £10.685m at the end of November, to £10.680m at the end of December, a reduction of £0.005m, this being due to a reduction in drugs stocks at Morriston and Singleton Hospitals.

- There was an increase in trade receivables in month from £165.484m at the end of November to £171.520m at the end of December, an increase of £6.036m. The increase was mainly in the Welsh Risk Pool debtor as a result of a large value case moving from possible to probable on the 3rd quarter clinical negligence quantum reports issued from NWSSP Legal and Risk Services. This increase is offset by an increase in provisions.
- The closing December cash balance of £0.699m was below the month end cash target set by the health board of between £1m and £2m.
- The trade and other payables figure saw an increase from £174.011m at the end of November to £175.003m at the end of December. The increase in December was due to an increase in unpaid invoices on the Oracle system as the health board had to reduce the value of its supplier payment runs on 23 and 24 December due to there being insufficient cash available to pay all invoices due for payment on those dates. Despite the increase in month, there has been a reduction in trade and other payables of £16.346m 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 1 April 2019.
- Provisions increased from £143.135m at the end of November to £149.552m at the end of December, an increase of £6.417m. The increase was in clinical negligence provisions as a result of a large value case moving from possible to probable on the 3rd quarter quantum reports issued from NWSSP Legal and Risk Services, the opposite entry to this increase being in Welsh Risk Pool debtors.

11. Cash Flow Forecast (Table H)

As reported above, at the end of December, the health board had a cash balance of £0.699m, which is below the health board target of holding between £1m and £2m of cash at month end. This cash balance was only achieved through holding back some cash payments to suppliers on 23 and 24 December due to the supplier payment runs for those days being higher than the amount of cash available. This subsequently resulted in the PSPP target for December not being achieved.

Over the period April to December, the payables working capital balances have reduced by £16.346m largely as a result of the Bridgend boundary change. This is because Swansea Bay Health Board has continued to pay invoices relating to the period prior to 31 March 2019 for those services that have transferred so as to minimise disruption to suppliers and the transferring services, as well as 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 80.72% of its cash allocation to the end of December, which is in excess of the anticipated draw down profile of 75% (9/12) of its allocation.

The 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 £3.003m in trade and other payables, resulting in a total impact on cash of £22.660m for movement in revenue working capital balances.

In addition to this, there is a forecast reduction of £10.107m in capital creditors for which working capital cash is also required.

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 £45.264m as detailed in the table below.

Analysis of Cash Position	£000
Capital Cash Shortfall	
Cash required for working balances movements – Capital	10,107
Capital Cash Required to Reimburse Revenue Cash for 2018/19 year end payments	3,593
Capital Cash Shortfall	13,700
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	3,003
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	32,394
Total Cash Shortfall	46,094
Less Opening Cash Balance	830
Forecast Cash Deficit	45,264
Cash Required	

Strategic Cash Support	12,300
Working Capital Cash Support	
Capital (includes £3.593m payback to revenue)	13,700
Revenue (including £500k to have a small cash balance at year end and £3.593m payback from capital)	19,764
Total Cash Required	45,764
Closing Cash Balance	500

This position reflects a deterioration in the forecast cash deficit advised by the Chief Executive in her letter to Andrew Goodall of 12 December 2019 which requested total cash support of £43.371m.

As a result of this forecast cash shortfall of £45.264m, the fact that the health board is anticipating but is not yet able to draw down a further £20.037m in anticipated allocations, the cash drawn down for January 2020 and the forecast cash required for February 2020, the health board will have fully drawn down its currently allocated cash drawing limit by the end of February. This means that the health board will effectively have run out of cash unless these anticipated allocations, requested movement in working capital balances cash and strategic cash support is available to be drawn down at the beginning of March.

12. Public Sector Payment Compliance (Table I)

The health board has achieved a cumulative PSPP compliance of 94.3% to the end of December, which is below the target of 95%. The failure to achieve the target is largely due to the PSPP performance for December which was 87.02% and which has reduced the cumulative figure below 95%. The low compliance figure in December was due to the availability of cash with the supplier payment runs on 23 and 24 December having to be reduced in value due to there being insufficient cash available to pay the full value requested by NWSSP Accounts Payable. This resulted in 2,103 invoices that were due for payment on these dates not being paid until 31 December, thereby missing the 30 day payment target.

Given the current forecast cash deficit, the large value of anticipated allocations which cannot as yet be drawn down and the as yet unapproved request for cash support from Welsh Government, it is probable that further cash restrictions on the amount of cash available for supplier payment runs will need to be put in place in January and February and so it is unlikely that the 95% target will be achieved for the remainder of the financial year.

The percentage of NHS invoices paid within 30 days amounted to 86% for the first 9 months of the financial year. Whilst this represents an improvement against the 84% compliance achieved during the 2018/19 financial year, this performance will also be affected in the remaining quarter of the financial year by the availability of cash.

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 £29.685m issued on 13 January 2020.

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 9 is a £1.449m underspend to plan. The main areas of variance are shown below.

Scheme	Underspend to Plan M9 £'000	Comments
Ward 11 & 12 Asbestos, Singleton.	214	Asbestos strip completed in ward 12 which was handed over on time on in December. Some potential savings on this element of the contract are being reviewed and will be discussed with WG at the CRM on 28 January.
National Digital Fund	469	Issues with procurement, which have been resolved and are not expected to impact on the outturn position.
Discretionary IT	66	Delays with RFID rollout and EDCIMS but not anticipated to impact the forecast outturn.
Discretionary Estates - Morriston Access Road	294	Delays with appointment of design team.

Forecast Outturn

The forecast outturn against the current CRL shows an underspend position of £0.046m, which is anticipated to be breakeven with anticipated allocations over the following areas

Scheme	Anticipated Allocation £000	Comments
NPT MRI	(800)	Scheme is delayed due to issues with the PFI contractor and their contractor. Issues now resolved but delays to deliver of the faraday cage will impact of

		programme. Agreement with WG to return £800k for re-provision next year.
Ward 12 Fire, Singleton	385	Initial claim approved by Welsh Risk Pool on 11/9/19. Final claim submitted to WRP in November and is due to be considered by the WRP Committee on 22 nd January.
Business Case Fees	369	Business case fees across a number of schemes, including 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
Cladding Removal Works Singleton Hospital	High	201	Scheme is forecasting an overspend of £23k 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	Medium	300	Asbestos strip completed in ward 12 which was handed over on time on in December. Some potential savings on this element of the contract are being reviewed and will be discussed with WG at the CRM on 28 th January.
NPT MRI	High	1,164	Scheme is delayed due to issues with the PFI contractor and their contractor. Issues now resolved but delays to deliver of the faraday cage will impact of programme. Agreement with WG to return £800k for re-provision next year.
Re:Fit	Medium	480	Working through options to manage within the scheme.
Gamma Cameras	High	128	Design work requirements reduced this year awaiting service decision on control room location.
Discretionary	High	553	Business Case fees and WRP claim for Ward 12 fire

C. Table L - Capital Disposals

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

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 December. The value of NHS debts outstanding for between 11 and 17 weeks amounted to £102k at the end of December (November £150k) with the number of invoices in this category increasing from 5 at the end of November to 16 at the end of December. Of the outstanding invoices between 11 and 17 weeks old, none have been paid since the end of December.

There were 2 invoices outstanding for more than 17 weeks at the end of December both relating to Cwm Taf Morgannwg Health Board. Both of these invoices were agreed for payment as part of the month 8 agreement of balances exercise and a definitive date for payment has been requested from Cwm Taf Morgannwg Health Board but has not yet been provided.

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 28 January 2020.

Yours sincerely,



LYNNE HAMILTON
DIRECTOR OF FINANCE

Emma Woollett, Interim Chairman
NHS Financial Management



TRACY MYHILL
CHIEF EXECUTIVE

Assistant Directors of Finance
Mr Jason Blewitt, Wales Audit Office