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Bwrdd Iechyd Prifysgol
Bae Abertawe
Swansea Bay University
Health Board



Meeting Date	26th January 2021	Agenda Item	3.1
Report Title	Financial Report – Period 9 2020/21		
Report Author	Samantha Lewis, Deputy Director of Finance		
Report Sponsor	Darren Griffiths, Director of Finance and Performance (interim)		
Presented by	Darren Griffiths, Director of Finance and Performance (interim)		
Freedom of Information	Open		
Purpose of the Report	The report advises the Performance and Finance Committee of the Health Board financial position for Period 9 (December) 2020/21 and sets out the current estimated revenue year end outturn. The report also provides an initial overview of the Health Board funding allocation for 2021/22.		
Key Issues	<p>The report invites the Performance and Finance Committee to note the detailed analysis of the financial position for Period 9 (December) 2020/21.</p> <p>The report includes an analysis of the COVID-19 revenue impact and the forecast year end revenue position based on current planning assumptions.</p> <p>This report also includes a summary of the Welsh Government draft budget impact on Health and Social Services budgets and the 2021/22 Revenue Allocation letter impact for Swansea Bay University Health Board.</p>		
Specific Action Required (please choose one only)	Information	Discussion	Assurance
	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Recommendations	<p>Members are asked to:</p> <ul style="list-style-type: none"> • NOTE the agreed 2020/21 financial plan. • CONSIDER and comment upon the Board's financial performance for Period 9 (December) 2020/21, in particular: <ul style="list-style-type: none"> ▪ the revenue outturn position of £18.680m deficit; ▪ the COVID-19 revenue impact for Period 9; and ▪ the revised £24.405m forecast based on the revised Quarter 3 and 4 planning assumptions. 		

	<ul style="list-style-type: none"> • NOTE the Welsh Government Revenue Allocation letter impact for the Health Board and the financial planning assumptions.
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FINANCIAL REPORT – PERIOD 9

1. INTRODUCTION

The report provides the Performance and Finance Committee with an account of the period 9 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 9 (December 2020) revenue financial position is an overspend of £18.680m and invites the committee to note the detailed analysis of the Period 9 (December 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.

The report also provides an overview of the revenue allocation to the Health Board for 2021/22 via the Welsh Government Revenue Allocation letter received at the end of December 2020. This will be a key component of the emerging financial framework for 2021/22 and beyond.

2. BACKGROUND

The Health Board agreed the Annual Plan for 2020/21 at its meeting on 16th 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
Forecast Deficit	24.4	12.6	-0.8

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.

The initial review of the 2021/22 financial plan will be set out later in this report.

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 9 reported in-month position was an overspend of £1.944m and a cumulative overspend for the first nine months of the financial year of £18.680m.

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	6.216	-5.637	0.579
Pay	7.705	-17.715	-10.010
Non-Pay	-22.355	23.352	0.997
Savings Slippage	12.584		12.584
Slippage on Planned Investments	-3.767		-3.767
Planned Deficit	18.297		18.297
Total Position	18.680	0.000	18.680

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

The year to date position includes £83.7m of the £131.5m additional confirmed and anticipated funding.

3.1.2 Income

Income budgets have reported an under-achievement of £6.216m after nine months, of which £5.637m 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.

Work is underway to assess the potential ongoing impacts of this loss of income.

The residual income pressure reflects underlying private patient shortfalls and changes to other SLA income such as screening services.

3.1.3 Pay (Slide 5)

Pay budgets have reported a £7.705m overspend after nine 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 £17.715m, which would result in a £10.010m underspend. The underspend predominantly relates to vacancies which are not fully covered. This underspend is a core component of the Health Board underlying position, pay budgets should therefore be realigned to this level of expenditure in order to maintain and manage the position and to manage service expectations.

The Health Board has reported significant additional workforce costs in 2020/21 in response to the pandemic and the ability to reduce costs back to pre-COVID levels will be extremely important for the assessment of the underlying financial position.

The table below shows the Month 1 to Month 9 2020/21 compared to the same period of the previous year (adjusted for inflation). This highlights that pay expenditure this year is £28.022m higher than the same period last year.

	2019-20 Month 1-9 Adjusted for inflation	2020-21 Month 1-9	Increase	Increase
	£000	£000	£000	%
Additional Clinical Services	53,986	57,146	3,160	5.85%
Admin & Clerical	56,763	59,047	2,284	4.02%
Aliied Health Professionals	28,061	29,348	1,287	4.59%
Estates & Ancillary	22,761	23,936	1,175	5.16%
Healthcare Scientists	12,774	13,262	488	3.82%
Medical and Dental	100,167	110,803	10,636	10.62%
Nursing and Midwifery	131,486	135,657	4,171	3.17%
Prof, Scientific and Technical	13,573	14,794	1,221	9.00%
Students	5	3,605	3,600	
Total	419,576	447,598	28,022	6.68%

Around £24.5m of the increased pay expenditure has been attributed to the pandemic response, through additional recruitment, use of students and increased payments for substantive staff through overtime and other additional payments.

There is around £3.5m 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 £4.760m, 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 £28.1m overspend.

The overspend includes the planned deficit of £18.3m plus savings non-delivery of £12.6m, less planned investment slippage and cost reductions due to COVID.

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 9 is £4.512m against a planned delivery of £17.117m. The impact of non-delivery of savings to Month 9 is therefore £12.6m.

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 nine months along with the attribution of additional WG funding.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Cumulative
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals
	£m	£m	£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	1.310	1.338	12.584
COVID-19 Gross Costs	3.176	8.709	27.099	12.273	5.755	5.972	7.111	6.294	8.835	85.224
COVID-19 Cost Reductions	-1.179	-1.589	-1.840	-1.169	-1.035	-0.852	-0.642	-0.735	-1.050	-10.091
Slippage on Planned Investments	-0.408	-0.408	-0.920	-0.355	-0.250	-0.450	-0.099	-0.672	-0.399	-3.961
TOTAL COVID-19 IMPACT	3.338	8.192	25.657	12.070	5.780	6.064	7.734	6.197	8.724	83.756
Funding Contribution	-0.060	-0.060	-26.888	-9.445	-0.612	-23.985	-7.441	-6.518	-8.724	-83.733
Net COVID-19 IMPACT	3.278	8.132	-1.231	2.625	5.168	-17.921	0.293	-0.321	0.000	0.023

The Health Board recorded additional COVID-19 response costs of £8.835m during December 2020, with a cumulative gross expenditure of £85.224m. These costs were partially offset by reduced expenditure related to the restriction of planned care activity £10.091m. This resulted in a net cumulative additional expenditure of £75.133m for the first nine months of the financial year.

The Health Board has also reported a £12.584m adverse impact on savings delivery and a £3.961m positive impact on investment slippage. These items combined with the net cumulative additional expenditure result in a total COVID impact of £83.756m.

These costs have been offset by £83.733m 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, extended flu campaign, testing and contract tracing, adult ChC provision and optimising flows.

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

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Cumulative
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Workforce	0.606	2.949	3.337	2.723	2.499	2.181	3.484	2.961	3.806	24.546
Field Hospital Set Up	0.088	1.431	20.026	6.427	0.046	0.102	0.890	0.018	0.000	29.028
Other Equipping	0.037	1.162	0.045	0.204	0.146	0.123	0.242	0.504	0.154	2.617
PPE	0.662	1.455	0.168	0.212	0.561	0.692	0.751	0.784	0.809	6.094
Testing Programme	0.000	0.004	0.076	0.361	0.264	0.546	0.530	0.784	0.896	3.461
Primary Care Prescribing	0.250	0.150	1.172	0.437	0.759	0.337	0.064	0.502	0.719	4.390
Care Homes	0.000	0.000	0.000	0.000	0.000	0.995	0.205	0.042	0.526	1.768
Loss of Income	0.500	0.300	0.856	0.741	0.676	0.563	0.745	0.650	0.650	5.681
TOTAL COVID-19 IMPACT	2.143	7.451	25.680	11.105	4.951	5.539	6.911	6.245	7.560	77.585

The other £6.2m additional costs cover such items as clinical consumables, accommodation, staff uniforms, cleaning and catering services, IT, mortuary, essential service provision 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 Health Board forecast has been refined over recent months to reflect the impact of funding allocations and clearly expenditure profiles.

The Health Board has a year-end forecast deficit of £24.4m, which is recognised by Welsh Government.

This month the forecast has been updated to reflect revised TTP and vaccination costs and the assessed increased impact of the untaken annual leave accrual. In addition, the cost and funding assumptions related to the decommissioning of internal surge has been removed from the forecast following the review of technical guidance on the accounting treatment of these costs. All of these additional costs are assumed to be matched by funding allocations, therefore having no impact on overall forecast position.

6. OPPORTUNITIES AND RISKS

Through the regular review of opportunities and risks and continuing discussions with WG and following the revision of the forecast, the Health Board is endeavouring to manage opportunities and risks that may arise within the overall forecast position.

Any significant changes to income or expenditure assumptions will be highlighted to the Performance and Finance Committee.

7. RISK ASSESSMENT

There are currently three Board level financial risks: -

- Funding for COVID-19 (risk 71): As funding position is now clear, this risk has been closed.
- Capital Resource/Plan (risk 72): COVID-19 impact on Capital Resource Limit and Capital Plan for 2020-21- Risk Rated 15
- 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 Health Board has received the funding requested to support the COVID response. The capital plan remains balanced at this point and the risk has been reduced to 15.

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 and therefore the risk remains unchanged.

8. 2021/22 FORWARD LOOK

The Welsh Government draft budget was issued in December 2020. This included £430m additional growth funding for Health and Social Service budget. This £430m has been allocated in the following way: -

- £10m contract tracing
- £35m social care and child care
- £140m allocated in core uplift

- £245m held centrally for wage awards, ATMPs, education and training, digital, new digital health authority, primary care contractor services.

In addition, a further £9m has been identified for Mental Health, Wellbeing and Welsh Language.

This funding excludes any allocation of funding secured for COVID-19 response.

The 2021/22 Revenue Allocation letter was issued to Health Boards on 22nd December 2020. This provided detail on the allocation of the £140m core uplift funding. The Health Board has received £15.1m to support pay, prices and service pressures, this is broadly equivalent to 2%.

This provides the Health Board with a basis for financial planning for core service delivery, however there are further financial planning guidance is expected from WG in respect of other potential funding streams. This will include treatment of ongoing pandemic response and service recovery plans.

Work is ongoing through the 2021/22 planning process to refine the financial framework within which the overall plan will be structured. Given the Health Boards deficit position and pressures on savings delivery experienced in 2020/21 (and likely to be further pressures in 2021/22) the emerging financial outlook is challenging. A more detailed and refined assessment will be shared with Board members in February 2021.

9. 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-aligned financial governance and engagement through the Senior Leadership Team (SLT).

Following the clarification and issue of WG funding and the submission of the revised £24.4m forecast, the focus of the remaining months of this financial year will be on monitoring variation from that forecast and the management of risks and opportunities to enable the delivery of the forecast.

The focus remains on the key cost drivers; medical staff costs, nurse staff costs, ChC, Income impacts and Medicines Management.

The Health Board planning process for 2021/22 is underway and within that is the development of a financial plan for 2021/22.

The development of a deliverable 2021/22 financial plan, that does not worsen the Health Boards financial position will be dependent upon: -

- Management of the underlying position, ensuring baseline costs are not allowed to escalate.
- Management of the in-year cost pressures through the delivery of cost containment measures, grip and control and value, efficiency and savings opportunities
- Constraining further investment choices to ensure clear benefit realisation track and alignment to key WG priorities and potential funding sources.
- Clear assessment and recognition of ongoing impacts of the response to the pandemic, including those directly attributable such as TTP, Vaccination plan and additional capacity as well as those that are more indirect impacts such as income impacts, increased use of single use items and workforce costs.

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.

10. RECOMMENDATION

Members are asked to:

- **NOTE** the agreed 2020/21 financial plan.
- **CONSIDER** and comment upon the Board's financial performance for Period 9 (December) 2020/21, in particular:
 - the revenue outturn position of £18.680m deficit;
 - the COVID-19 revenue impact for Period 9; and
 - the revised £24.405m forecast based on the revised Quarter 3 and 4 planning assumptions.
- **NOTE** the Welsh Government Revenue Allocation letter impact for the Health Board and the financial 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 Committee to be aware of.		
Staffing Implications		
No implications for the Committee to be aware of.		
Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015)		
No implications for the Committee to be aware of.		
Report History	The Committee receives an update on the financial position at every meeting	
Appendices	Appendix 1 – P09 – 20 Financial Report Supporting Detail	