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Health Board



<b>Meeting Date</b>	<b>23<sup>rd</sup> March 2021</b>	<b>Agenda Item</b>	<b>4.1</b>
<b>Report Title</b>	Financial Report – Period 11 2020/21		
<b>Report Author</b>	Samantha Lewis, Deputy Director of Finance		
<b>Report Sponsor</b>	Darren Griffiths, Director of Finance and Performance (interim)		
<b>Presented by</b>	Darren Griffiths, Director of Finance and Performance (interim)		
<b>Freedom of Information</b>	Open		
<b>Purpose of the Report</b>	<p>The report advises the Performance and Finance Committee of the Health Board financial position for Period 11 (February) 2020/21 and sets out the current estimated revenue year end outturn.</p> <p>The report also provides the Performance and Finance Committee with the 2021/22 Discretionary Capital Plan</p>		
<b>Key Issues</b>	<p>The report invites the Performance and Finance Committee to note the detailed analysis of the financial position for Period 11 (February) 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>An update is also provided on the discretionary capital plan for 2021/22</p>		
<b>Specific Action Required (please choose one only)</b>	<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>NOTE</b> the agreed 2020/21 financial plan.</li> <li>• <b>CONSIDER</b> and comment upon the Board's financial performance for Period 11 (February) 2020/21, in particular: <ul style="list-style-type: none"> <li>▪ the revenue outturn position of £22.333m deficit;</li> <li>▪ the COVID-19 revenue impact for Period 11; and</li> <li>▪ the year-end forecast deficit of £24.405m.</li> </ul> </li> <li>• <b>NOTE</b> the 2021/22 Discretionary Capital Plan.</li> </ul>		

## FINANCIAL REPORT – PERIOD 11

### 1. INTRODUCTION

The report provides the Performance and Finance Committee with an account of the period 11 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 11 (February 2021) revenue financial position is an overspend of £22.333m and invites the committee to note the detailed analysis of the Period 11 (February 2021) revenue financial position.

The report provides the committee with an analysis of the COVID-19 costs committed during this reporting period and reflects the £24.405m year-end forecast deficit.

### 2. BACKGROUND

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

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

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

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

### 3. FINANCIAL IMPLICATIONS

#### 3.1 Revenue Position

##### 3.1.1 Summary Revenue Position

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

The £28m underlying deficit which had in the previous year been reflected as overspends within the Service Delivery Units and Corporate Directorates is incorporated with the Corporate Plan £24.4m deficit plan. This 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 11 reported in-month position was an overspend of £1.757m and a cumulative overspend for the first ten months of the financial year of £22.333m.

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	7.583	-6.835	0.748
Pay	11.977	-26.960	-14.983
Non-Pay	-30.199	33.795	3.596
Savings Slippage	15.275		15.275
Slippage on Planned Investments	-4.667		-4.667
Planned Deficit	22.363		22.363
<b>Total Position</b>	<b>22.332</b>	<b>0.000</b>	<b>22.332</b>

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

The year to date position includes £102.292m of the £131.750m additional confirmed and anticipated funding.

### 3.1.2 Income

Income budgets have reported an under-achievement of £7.583m after eleven months, of which £6.835m 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 continuing to assess the potential ongoing impacts of this loss of income and this will be considered as part of the COVID response requirements for 2021-22

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 £11.977m overspend after eleven 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 £26.690m, which would result in a £14.983m 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 and future financial plan

The table below shows the Month 1 to Month 11 2020/21 compared to the same period of the previous year (adjusted for inflation). This highlights that pay expenditure this year is £36.542m higher than the same period last year. £33.8m of this increase has been attributed to the pandemic response, with the remaining increase in costs due to recruitment and service development.

	2019-20 Month 1-11 Adjusted for inflation	2020-21 Month 1-11	Increase	Increase
	£000	£000	£000	%
Additional Clinical Services	66,416	70,949	4,533	6.83%
Admin & Clerical	70,174	72,446	2,272	3.24%
Aliied Health Professionals	34,405	36,066	1,661	4.83%
Estates & Ancillary	27,807	29,630	1,823	6.56%
Healthcare Scientists	15,701	16,289	588	3.74%
Medical and Dental	123,081	136,716	13,635	11.08%
Nursing and Midwifery	161,742	168,923	7,181	4.44%
Prof, Scientific and Technical	16,945	18,174	1,229	7.25%
Students	5	3,625	3,620	72400.00%
<b>Total</b>	<b>516,276</b>	<b>552,818</b>	<b>36,542</b>	<b>7.08%</b>

Variable pay costs in month 11 remain higher than average for the year, however they have reduced significantly from the levels reported in Month 10. This is a reflection of reducing operational pressures due to the pandemic and reducing levels of staff unavailability.

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

Non-pay budgets have reported an overspend of £2.772m, 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 £36.567m overspend.

The overspend includes the planned deficit of £22.4m plus savings non-delivery of £15.2m, 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 11 is £5.747m against a planned delivery of £20.969m The impact of non-delivery of savings to Month 11 is therefore £15.222m.

The savings opportunities presented by KPMG and those identified previously have been reviewed along with refreshed benchmarking as part of the development of the Health Board plan for 2021-22. This ensures that the KPMG opportunities are part of the core plan of the Health Board.

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.

## 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	Month 10	Month 11	Cumulative
	£m	£m	£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	1.307	1.384	15.275
COVID-19 Gross Costs	3.176	8.709	27.099	12.273	5.755	5.972	7.111	6.294	8.835	10.111	8.405	103.740
COVID-19 Cost Reductions	-1.179	-1.589	-1.840	-1.169	-1.035	-0.852	-0.642	-0.735	-1.050	-0.918	-0.831	-11.840
Slippage on Planned Investments	-0.408	-0.408	-0.920	-0.355	-0.250	-0.450	-0.099	-0.672	-0.399	-0.451	-0.448	-4.860
<b>TOTAL COVID-19 IMPACT</b>	<b>3.338</b>	<b>8.192</b>	<b>25.657</b>	<b>12.070</b>	<b>5.780</b>	<b>6.064</b>	<b>7.734</b>	<b>6.197</b>	<b>8.724</b>	<b>10.049</b>	<b>8.510</b>	<b>102.315</b>
Funding Contribution	-0.060	-0.060	-26.888	-9.445	-0.612	-23.985	-7.441	-6.518	-8.724	-10.049	-8.510	-102.292
Net COVID-19 IMPACT	3.278	8.132	-1.231	2.625	5.168	-17.921	0.293	-0.321	0.000	0.000	0.000	0.023

The Health Board recorded additional COVID-19 response costs of £8.4m during February 2021, with a cumulative gross expenditure of £103.7m. These costs were partially offset by reduced expenditure related to the restriction of planned care activity £11.8m. This resulted in a net cumulative additional expenditure of £91.9m for the first eleven months of the financial year.

The Health Board has also reported a £15.2m adverse impact on savings delivery and a £4.9m positive impact on investment slippage. These items combined with the net cumulative additional expenditure result in a total COVID impact of £102.3m.

These costs have been offset by £102.3m 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 eleven months of the financial year are: -

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Cumulative
	£m	£m	£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	4.863	4.382	33.791
Field Hospital Set Up	0.088	1.431	20.026	6.427	0.046	0.102	0.890	0.018	0.000	0.318	0.000	29.346
Other Equipping	0.037	1.162	0.045	0.204	0.146	0.123	0.242	0.504	0.154	0.000	0.008	2.625
PPE	0.662	1.455	0.168	0.212	0.561	0.692	0.751	0.784	0.809	0.510	0.481	7.085
Testing Programme	0.000	0.004	0.076	0.361	0.264	0.546	0.530	0.784	0.896	1.096	1.372	5.929
Primary Care Prescribing	0.250	0.150	1.172	0.437	0.759	0.337	0.064	0.502	0.719	0.663	0.145	5.198
Care Homes	0.000	0.000	0.000	0.000	0.000	0.995	0.205	0.042	0.526	0.185	0.469	2.422
Loss of Income	0.500	0.300	0.856	0.741	0.676	0.563	0.745	0.650	0.650	0.545	0.609	6.835
Vaccination Programme										0.914	0.718	0.914
<b>TOTAL COVID-19 IMPACT</b>	<b>2.143</b>	<b>7.451</b>	<b>25.680</b>	<b>11.105</b>	<b>4.951</b>	<b>5.539</b>	<b>6.911</b>	<b>6.245</b>	<b>7.560</b>	<b>9.094</b>	<b>8.184</b>	<b>93.231</b>

The other £10.5m additional costs cover such items as clinical consumables, accommodation, staff uniforms, cleaning and catering services, IT, mortuary, essential service provision, transport services and LA provision.

## 5. FORECAST POSITION

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. 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 9
- 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 February 2021 performance and Finance Committee agreed the reduction of risk 72 on the basis of the improved funds flow it is proposed to reduce the risk to a 9 to reflect a reduced likelihood of 3 (possible).

The residual cost base risk was considered at the March Audit Committee.

It is proposed that this risk now be updated and developed as the Health Board moves to finalise its service and financial plan for 2021/22. The proposal is set out below: -

- The risk of COVID cost being built into the Health Board cost base – retain in risk 73
- The risk of COVID response costs being in excess of funding available add to risk 73
- The risk of COVID recovery costs not being sufficient to meet the Health Board's aspirations to recover from COVID – be established as new risk as there is a potential impact on recovery from COVID

Should the Performance and Finance Committee agree these changes the risks will be updated, established and then assessed for scoring. A preliminary score would be prudent to be set at 20 at this stage.

## **8. 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 in March 2021 will now be on delivering the revised forecast

The focus remains on the key cost drivers with potential to impact on 2021-22 financial performance; 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.

## **9. 2021/22 DISCRETIONARY CAPITAL PLAN**

A first draft of the 2021/22 discretionary capital programme presented to Senior Leadership Team (SLT) in January 2021, highlighted an over-commitment of £6.3m.

Following a review of priorities by the Capital Prioritisation Group and the success in accessing significant end of year capital funding from Welsh Government, the proposed plan now shows a balanced position.

The plan also includes emerging priorities from the annual planning process, although at this stage many of the capital enablers do not have sufficient detail to be able to provide an accurate indication on proposed costs

The summary plan shown below contains a number of funding assumptions, including disposals and other potential funding sources.



					Option 1 No Action		Option 2 Only Risks 20 & above		Option 3 Maximise Realistic Funding Oppourtunities
Allocation Headings	Baseline	Less Approved Funding (AWCP, ICF etc)	Less Other Bids Submitted (AWCP, ICF etc)	Less Moderate Risks [9 to 15]	Net Discretionary Requirements	Less High Risks [16]	Net Discretionary Requirements	Hold pending Other Funding Oppourtunities (no agreement at this stage)	Net Discretionary Requirements
	£000								
PART A - FUNDING & EXPENDITURE COMMITMENTS									
A. DISCRETIONARY FUNDING & DISPOSAL INCOME	11,607	0	0	0	11,607	0	11,607	0	11,607
SUB TOTAL FUNDING (PART A)	11,607	0	0	0	11,607	0	11,607	0	11,607
B. DISCRETIONARY SCHEME COMMITMENTS B/F 2021/22	631	-270	0	0	361	0	361	0	361
C. DISCRETIONARY SCHEME APPROVED COMMITMENTS 2021/22	4,257	-26	0	0	4,231	0	4,231	-621	3,610
D. AWCP [Approved Cases & Business Case Fees]	20,542	-15,439	-2,006	0	3,097	0	3,097	0	3,097
SUB TOTAL EXPENDITURE COMMITMENTS (Part A)	25,430	-15,735	-2,006	0	7,689	0	7,689	-621	7,068
TOTAL ESTIMATED NET -UNDER / OVER COMMITMENT (Part A)	13,823	-15,735	-2,006	0	-3,918	0	-3,918	-621	-4,539
PART B - FUNDING REQUESTS									
E. DEPARTMENTAL REFRESH ALLOCATION	19,310	0	-2,589	-5,061	11,073	-7,484	3,589	0	3,589
F. DISPOSAL COSTS	130	0	0	0	130	0	130	0	130
G. AWCP - BUSINESS CASES IN DEVELOPMENT	0	0	-733	0	-733	0	-733	0	-733
H. ANNUAL PLAN ENABLERS	400	0	0	0	400	0	400	0	400
I. DIGITAL	2,688	-90	-1,427	0	1,172	0	1,172	-805	367
J. PROPOSED NEW OTHER SCHEMES (Not included in Annual Plan)	787	0	0	0	787	0	787	0	787
SUB TOTAL EXPENDITURE COMMITMENTS (Part B)	23,315	-90	-4,749	-5,061	12,828	-7,484	5,344	-805	4,539
TOTAL ESTIMATED NET -UNDER / OVER COMMITMENT	37,138	-15,825	-6,755	-5,061	8,910	-7,484	1,426	-1,426	0
Jan 21 Draft Plan	41,707	-15,146	-1,402	-4,808	20,350	-8,646	11,704	-5,373	6,331
Movement	-4,568	-679	-5,353	-252	-11,440	1,161	-10,278	3,947	-6,331

The emerging annual plan priorities have been included in the plan, albeit these will be subject to a separate Executive Board approval process. At this stage, where values have been indicated, these have been included and the £400k removed from the emerging contingency. It should be noted that at this stage the many of the capital enablers do not have sufficient detail to be able to provide an accurate indication on proposed costs.

Two schemes in particular will have significant resource requirements which are likely to be beyond the remaining contingency within the discretionary capital programme. With a very high level assessment, they would require funding support of between £2m to £4m. from Welsh Government: -

- NPTH Orthopaedic & Spinal Elective Care Centre. Enabling works for vanguard unit and ward reconfiguration
- Tonna Hospital development

The presentation of a balanced draft 2021/22 discretionary capital plan is a significant achievement, but not without risks in relation to the low level of contingency and emerging enablers from the annual plan process.

## 10. RECOMMENDATION

Members are asked to:

- **NOTE** the agreed 2020/21 financial plan.
- **CONSIDER** and comment upon the Board's financial performance for Period 11 (February) 2020/21, in particular:
  - the revenue outturn position of £22.333m deficit;

- the COVID-19 revenue impact for Period 11; and
  - The £24.405m year-end forecast.
- **NOTE** the 2021/22 Discretionary Capital Plan.

<b>Governance and Assurance</b>		
<b>Link to Enabling Objectives</b> (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 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"/>
<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 checked="" 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 £24.4m forecast year-end deficit financial outturn prior to the impact of COVID-19.		
<b>Legal Implications (including equality and diversity assessment)</b>		
No implications for the Committee to be aware of.		
<b>Staffing Implications</b>		
No implications for the Committee 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 Committee to be aware of.		
<b>Report History</b>	The Committee receives an update on the financial position at every meeting	
<b>Appendices</b>	Appendix 1 – P11 – 20 Financial Report Supporting Detail	