



Meeting Date	27th October 2020	Agenda Item	3.1
Report Title	Financial Report – Period 6 2020/21		
Report Author	Samantha Lewis, Deputy Director of Finance		
Report Sponsor	Darren Griffiths, Interim Director of Finance		
Presented by	Darren Griffiths, Interim Director of Finance		
Freedom of Information	Open		
Purpose of the Report	The report advises the Performance and Finance Committee of the Health Board financial position for Period 6 (September) 2020/21 and sets out the current estimated revenue year end outturn.		
Key Issues	<p>The report invites the Performance and Finance Committee to note the detailed analysis of the financial position for Period 6 (September) 2020/21.</p> <p>The report also includes an analysis of the COVID-19 revenue impact and the forecast year end revenue position based on current planning assumptions.</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 6 (September) 2020/21, in particular: <ul style="list-style-type: none"> • the revenue outturn position of £12.809m deficit; • the COVID-19 revenue impact for Period 6; and • the assessed revenue forecast based on Q3/Q4 planning assumptions. 		

FINANCIAL REPORT – PERIOD 6

1. INTRODUCTION

The report provides the Performance and Finance Committee with an account of the period 6 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 6 (September 2020) revenue financial position is an overspend of £12.809m and invites the committee to note the detailed analysis of the Period 6 (September 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

2. BACKGROUND

The Health Board agreed the IMTP/Annual plan 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 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 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 6 reported in-month position was an underspend of £15.903m and a cumulative overspend for the first six months of the financial year of £12.809m.

The revenue position can be analysed as follows and shows the movement from the Health Board baseline financial plan.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Cumulative
	£m	£m	£m	£m	£m	£m	£m
Income	1.261	1.074	0.188	0.494	0.972	0.657	4.646
Pay	0.577	2.859	-4.630	1.124	1.943	0.805	2.678
Non-Pay	0.184	3.195	2.710	0.184	1.574	-20.341	-12.494
Savings Slippage	1.749	1.480	1.318	1.321	1.310	1.394	8.572
Slippage on Planned Investments	-0.408	-0.408	-0.920	-0.355	-0.250	-0.450	-2.791
Planned Deficit	2.033	2.033	2.033	2.033	2.033	2.033	12.198
Total Position	5.396	10.233	0.699	4.801	7.582	-15.902	12.809

The table highlights that there is a significant underspend reported in Month 6. This underspend reflects the inclusion of WG funding allocations to support the financial impacts of the pandemic on Health Boards. The funding includes the WG allocation based on population share which provides Swansea Bay with £48.2m and also some further anticipated funding from national allocations including; Testing, PPE, Field Hospital decommissioning costs and consequential losses, winter priorities and the extended flu campaign.

The funding has at this point all been deployed against non-pay but this will be more appropriately attributed in future months.

The key drivers of the residual £12.809m overspend are:

- The 2020/21 £24.4m planned deficit, with 6/12ths (£12.2m shown in the year to date position)
- The impact of the TAVI service demand growth, which is £0.6m for the year to date and £2m for full year.

3.1.2 Income

Income budgets have reported an under-achievement of £4.646m after six months. 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.

3.1.3 Pay (Slide 5)

Pay budgets have reported a £2.678m overspend after six months after the application of £6.831m WG funding. This funding supported the additional costs incurred during Quarter 1.

The table below shows the Month 1 to Month 6 2020/21 compared to the same period of the previous year (adjusted for inflation). This highlights that pay expenditure this year is £16.513m higher than the same period last year.

	2019-20 Month 1-6 Adjusted for inflation	2020-21 Month 1-6	Increase	Increase
	£000	£000	£000	%
Additional Clinical Services	36,047	37,613	1,566	4.34%
Admin & Clerical	37,600	39,238	1,638	4.36%
Aliied Health Professionals	18,733	19,502	769	4.11%
Estates & Ancillary	15,242	16,005	763	5.01%
Healthcare Scientists	8,463	8,641	178	2.10%
Medical and Dental	65,083	70,736	5,653	8.69%
Nursing and Midwifery	87,277	88,975	1,698	1.95%
Prof, Scientific and Technical	9,007	9,820	813	9.03%
Students	3	3,438	3,435	
Total	277,455	293,968	16,513	5.95%

The most significant increases have been students, which reflects the costs of student nurses and medical staff, of which £0.293m relates the costs of medical students.

The cost of newly recruited staff for COVID, other than students is around £2m.

Over £6.5m of the increased workforce costs relates to costs of existing substantive and bank staff who have been working in excess of previous working arrangements.

In Month 6 pay costs reduced compared to previous months, which reflected reductions in bank and overtime payments.

3.1.4 Non Pay (Slides 6 & 7)

Non-pay budgets have reported an overspend of £5.485m after the first six months. This includes the impact of savings non-delivery £8.572m, the planned deficit £12.198m and the release of investments not fully committed £2.791m. This leaves £12.494m underspend on core non-pay expenditure. This underspend reflects the application of the recognised funding wholly against non-pay, when it is should also be covering loss of income, additional pay costs and savings delivery shortfalls. This will be reviewed and realigned to be more reflective for Month 7.

The Health Board incurred significant additional non-pay costs associated with COVID-19 preparedness and operational support. The key costs included PPE and uniforms, staff accommodation, minor works and

equipping, clinical consumables and drug costs particularly the impact of NCSOs within primary care prescribing. Whilst some costs are reducing due to refined decision making, improved procurement routes and preparedness costs, costs associated with PPE, primary care prescribing and physical distancing measures continue to drive significant non-pay costs.

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 6 is £2.652m against a planned delivery of £11.224m. The impact of non-delivery of savings to Month 6 is therefore £8.572m.

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 eg 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 four months.

The table below reflects the analysis shown earlier in the paper :

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Cumulative
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals
	£m	£m	£m	£m	£m	£m	£m
Impact on Savings Delivery	1.749	1.480	1.318	1.321	1.310	1.394	8.572
COVID-19 Gross Costs	3.176	8.709	27.099	12.273	5.755	5.972	62.984
COVID-19 Cost Reductions	-1.179	-1.589	-1.840	-1.169	-1.035	-0.852	-7.664
Slippage on Planned Investments	-0.408	-0.408	-0.920	-0.355	-0.250	-0.450	-2.791
TOTAL COVID-19 IMPACT	3.338	8.192	25.657	12.070	5.780	6.064	61.101

The Health Board recorded additional COVID-19 response costs of £5.972m during September 2020, with a cumulative gross expenditure of £62.984m. These costs were partially offset by reduced expenditure related to the restriction of planned care activity £7.664m. This resulted in a net cumulative additional expenditure of £55.32m for the first six months of the financial year.

These costs have been offset by £61.050m WG funding, which include £28.897m for Field Hospital and internal surge set up and construction costs, £6.831m for quarter 1 COVID-19 workforce costs and £17.905m general WG support. Other income has been phased in to align with costs incurred, this includes testing and contact tracing, optimising flow, PPE and Mental Health Improvement fund allocations.

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

	Quarter 1			Quarter 2			
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Cumulative
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	
	£m	£m	£m	£m	£m	£m	£m
Workforce	0.606	2.949	3.337	2.723	2.499	2.181	14.295
Field Hospital Set Up	0.088	1.431	20.026	6.427	0.046	0.102	28.120
Other Equipping	0.037	1.162	0.045	0.204	0.146	0.123	1.717
PPE	0.662	1.455	0.168	0.212	0.561	0.692	3.750
Testing Programme	0.000	0.004	0.076	0.361	0.264	0.546	1.251
Primary Care Prescribing	0.250	0.150	1.172	0.437	0.759	0.337	3.105
Care Homes	0.000	0.000	0.000	0.000	0.000	0.995	0.995
Loss of Income	0.500	0.300	0.856	0.741	0.676	0.563	3.636
TOTAL COVID-19 IMPACT	2.143	7.451	25.680	11.105	4.951	5.539	56.869

The other £6.115m additional costs cover such items as clinical consumables, accommodation, staff uniforms, cleaning and catering services, IT, mortuary and transport services.

In addition, the impact on savings delivery has also been assessed as a COVID-19 impact. This has been identified as £8.572m.

The Health Board has also identified slippage on planned investments and new funding streams which is offsetting some of the additional costs. This amounts to £2.791m for the first six months of the financial year.

5. FORECAST POSITION (Slide 9)

The Health Board forecast has been developed building on the current financial profiles and in conjunction with the Quarter 3 and 4 Operational Plan.

The year-end forecast has been reduced from £96.180m to £26.431m in Month 6. This reduction reflects both refinement of expenditure profiles and the funding allocations and anticipated funding from national allocations.

Financial Forecast	
	£m
Year end forecast deficit/(surplus)	96.18
<u>Expenditure adjustments</u>	
Field Hospital Planning Assumptions	(13.88)
Additional Surge Capacity cost estimates	2.01
PPE increased requirements	1.67
LAC financial pressure	1.20
Additional Digital requirements	0.54
Essential Services Support	1.85
Extended Flu Campaign	1.99
Winter Priorities	3.88
Revised Year end forecast deficit/(surplus)	95.44
<u>Funding assumptions (costs already in plan)</u>	
Funding Allocation as per Operating Framework	(48.20)
PPE	(8.25)
Field Hospital - Decommissioning	(2.91)
Field Hospital - consequential losses	(0.46)
Testing	(2.51)
Extended Flu Campaign	(1.99)
Winter Priorities	(3.89)
Independent Sector	(0.80)
Year end forecast deficit/(surplus)	26.43

The year-end forecast now reflects the £24.4m 2020/21 planned deficit plus the £2m impact of TAVI service demand and delivery.

6. OPPORTUNITIES AND RISKS (Slide 10)

The Health Board forecast includes a number of opportunities and risks, which may impact on the current forecast assessment. These are being regularly reviewed and mitigation options considered. The key opportunities and risks are: -

- HCSW banding – the Health Board is in negotiation with staff side regarding the potential re-banding of this staff group. If the claim is successful it is likely to increase costs by £0.3m.
- Final pension charge costs – the Health Board has initially assessed this risk as £1m based on the costs incurred during 2019/20. It is inevitable that invoices will continue to be received for these costs. It is extremely difficult to assess the scale of the impact for the year, however we are aware of some employees who may have triggered this on retirement.
- NICE and high cost drugs – the impact of changes in service provision on NICE and high cost drugs are being closely monitored along with the

implementation of new technologies. The expenditure remains very volatile and impacted by service provision.

- Essential Services – the Q3/Q4 operational plan has reflected the key additional capacity to support Essential services including some use of external capacity. As service demands increase, there may be further requirements identified and supported to minimise patient harm.
- Additional Capacity – the Q3/Q4 operational plan has been developed around demand and capacity modelling. The operational plan and financial forecast reflects the requirement for surge and super surge capacity to be deployed, the workforce required to support this and the implications on services and risk profiles to ensure workforce availability. There is a potential for further costs should workforce availability assumptions change.
- Funding Assumptions – the forecast recognises the funding allocation noted in the Operating Framework and also assumes funding from National allocations. If these are not fully agreed, then the forecast position would be adversely impacted.
- LTA arrangements – the forecast assumes that the LTA block arrangements in place during 2020/21 remain in place for the remainder of the financial year.
- Primary Care Prescribing Price Concessions – the forecast has included an increased level of price concessions based on Quarter 1 data. This is an area of volatility and if price concessions reduce then the forecast will also reduce.
- Further Savings Delivery – the Health Board has reinvigorated its focus on savings delivery opportunities, particularly those focussed on service efficiency to support the reset and recovery of services to the most efficient new norm. However, as we move into the challenging winter period, the ability to focus and drive efficiency opportunities is likely to reduce.
- Demand requirements – if the actual demand does not reach the modelled levels, then some elements of surge and super surge capacity may not need to be deployed.
- Slippage on planned expenditure – the forecast already includes the assessed slippage on planned investments, however there is a potential for further slippage against planned expenditure, including directed and ring-fenced funding.
- Decommissioning costs – the forecast includes decommissioning costs of both the field hospital and internal surge capacity, however it is as yet unclear whether the decommissioning will take place in 2020/21. The field hospital is assumed funded and therefore not included as an opportunity, the internal surge has however been included as an opportunity.

7. 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-established the Scrutiny Group to ensure clear understanding and decision-making for any investment service proposals and considerations.
- Re-aligned financial governance and engagement through the Senior Leadership Team (SLT).

In light of the WG funding and the submission of the revised forecast, the process of establishing clear financial performance targets for Service Groups, Directorates and the Health Board as a whole will be worked through during the forthcoming month. This will enable enhanced accountability to be established.

The focus remains on the key cost drivers; medical staff costs, nurse staff costs, ChC, Income impacts and Medicines Management. These are subject to specific work programmes to enable issues, opportunities, risks and mitigations to be identified and considered.

The Health Board is also reviewing the potential recurrent or longer term impacts of actions taken in response to the pandemic to ensure these are clearly understood, agreed and reflected within the Health Board underlying financial position.

8. RISK ASSESSMENT

There are currently three Board level financial risks: -

- Funding for COVID-19 (risk 71): The total quantum for funding for addressing COVID-19 across Wales remains fluid and uncertain - Risk Rated 20
- Capital Resource/Plan (risk 72): COVID-19 impact on Capital Resource Limit and Capital Plan for 2020-21- Risk Rated 20
- 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

Since the last meeting of the Performance and Finance Committee Welsh Government has published the Quarter 3/4 Operating Framework. Our assessment of the impact of the Operating Framework has been captured in the report above, with the particular impact on the forecast revenue outturn for the Board set out in section 5 above. The allocation of £48.2m revenue to the Health Board specifically assigned for COVID costs and the impact of COVID on savings delivery has had a positive impact on risk 71. Further, the operating framework sets out national funding streams and assumptions around expectations of Swansea Bay's share of this have also been made in the financial forecast. It is therefore proposed that risk 71 be reduced to a score of 15 with the consequence remaining at 5 and the likelihood reducing to 3 to

reflect the confirmation of the £48.2m but the remaining uncertainty around the national funding allocations at this point.

The capital plan remains balanced and unchanged at this point and will remain at 20. Further dialogue is ongoing with Welsh Government and this risk will be revised in light of this.

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.

9. RECOMMENDATION

Members are asked to:

- **NOTE** the agreed 2020/21 financial plan.
- **CONSIDER** and comment upon the Board's financial performance for Period 6 (September) 2020/21, in particular:
 - the revenue outturn position of £12.809m deficit;
 - the COVID-19 revenue impact for Period 6; and
 - the assessed £26.431m forecast based on Quarter 3 and 4 planning assumptions.

Governance and Assurance		
Link to Enabling Objectives <i>(please choose)</i>	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		
<i>(please choose)</i>	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 Board to be aware of.		
Staffing Implications		
No implications for the Board to be aware of.		
Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015)		
No implications for the Board to be aware of.		
Report History	Board receives an update on the financial position at every meeting	
Appendices	Appendix 1 – P06 – 20 Financial Report Supporting Detail	