



**GIG**  
CYMRU  
**NHS**  
WALES

Bwrdd Iechyd Prifysgol  
Bae Abertawe  
Swansea Bay University  
Health Board



<b>Meeting Date</b>	<b>26<sup>th</sup> July 2022</b>		<b>Agenda Item</b>	<b>2.1</b>
<b>Report Title</b>	Financial Report – Period 3 2022/23			
<b>Report Author</b>	Samantha Moss, Deputy Director of Finance Alison McLennan, Finance Business Partner			
<b>Report Sponsor</b>	Darren Griffiths, Director of Finance and Performance			
<b>Presented by</b>	Darren Griffiths, Director of Finance and Performance			
<b>Freedom of Information</b>	Open			
<b>Purpose of the Report</b>	The report advises the Performance & Finance Committee of the Health Board on the financial position for Period 3 (June 22) 2022/23 and sets out the current forecast revenue year end outturn.			
<b>Key Issues</b>	<p>The report invites the Performance &amp; Finance Committee to note the detailed analysis of the financial position for Period 3 (June 22) 2022/23.</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>Risks have been updated.</p>			
<b>Specific Action Required (please choose one only)</b>	<b>Information</b>	<b>Discussion</b>	<b>Assurance</b>	<b>Approval</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Recommendations</b>	<p>Members are asked to:</p> <ul style="list-style-type: none"> <li>• <b>NOTE</b> the agreed 2022/23 financial plan.</li> <li>• <b>CONSIDER</b> and comment upon the Board’s financial performance for Period 3 2022/23.</li> <li>• <b>DELIVER</b> the actions to ensure delivery of the financial forecast with a specific focus on savings delivery: - <ul style="list-style-type: none"> <li>○ 100% delivery of savings and all schemes to be green and amber with work to finalise red schemes to be completed by the end of July 2022.</li> <li>○ Focused attention to ensure the 100% of the green and amber schemes are deliver in line with the plans identified. <b>All Service Group Directors and Corporate Directors</b></li> <li>○ Immediate attention is required to address the shortfall in savings in quarter 2 of the financial year. This work must be completed by Month 4 closedown to avoid further risk being added to the financial plan</li> </ul> </li> </ul>			

	<p>for the year. <b>All Service Group Directors and Corporate Directors</b></p> <ul style="list-style-type: none"> <li>• <b>DELIVER</b> increased cost control in respect of COVID response costs: - <ul style="list-style-type: none"> <li>○ Check &amp; Challenge meeting with CEO held in July 2022, which picked up the revised cost assessments based on new guidance and evidence based cost reductions.</li> <li>○ Actions from meetings in July 2022 to be followed up in August 2021 with updates required from all Services Groups but the end of August, to provide assurance on delivery to the Committee in September.</li> <li>○ DoF to continue engagement WG on the risks regarding funding and updated on COVID response costs submitted WG in Month 4 MMR submission.</li> <li>○ To ensure that the allocation of resources is directed to delivering WG expectations in balance with risk profile of patients on waiting lists.</li> </ul> </li> <li>• <b>DELIVER</b> actions to ensure the operational pressures are mitigated and areas return to financial balance by the end of September 2022. <b>All Service Group Directors and Corporate Directors</b></li> <li>• <b>NOTE</b> component elements of the plan, in risks, forecasts and challenges, brought together into standard planning format (section 6).</li> <li>• <b>AGREE</b> the risk handling for the risks noted.</li> <li>• <b>NOTE</b> all actions and updates to support the management of the 2022/23 financial position.</li> </ul>
--	--

## FINANCIAL REPORT – PERIOD 3

### 1. INTRODUCTION

The report provides the Committee with an account of the period 3 2022/23 revenue position.

### 2. FINANCIAL PLAN 2022/23

The Health Board agreed the 3-year recovery and sustainability plan for 2022/23 at its meeting on 31<sup>st</sup> March. This included a financial plan, which reflected a £24.4m deficit for 2022/23.

**Table 1: 2022/23 Year 1 of Recovery and Sustainability Plan**

SBUHB Financial Plan 2022-23	Updated Assessment
	£m
Opening deficit	24.4
FY21 savings gap	17.7
FY22 savings gap	0.0
<b>2022/23 opening position</b>	<b>42.1</b>
WG Allocation applied against sustainability	(12.4)
Savings required to manage FY21 Savings Gap	(5.3)
<b>2022/23 underlying position after sustainability application</b>	<b>24.4</b>
Application of core WG funding based on 2%	(9.7)
Cost pressures - National - core	7.1
Cost pressures - inflation	9.9
Cost pressures - demand growth	7.4
Investment decisions - 2022-23	7.0
CIPs - Service Transformation 2.5%	(17.0)
CIPs - General Savings 1.5%	(4.7)
<b>Deficit/(surplus) for year 2022-23 - base plan</b>	<b>24.4</b>

Key assumptions underpinning the plan:

- Starting with underlying deficit b/f = **£42.1m**
- Increase in WG funding for 22/23 = **£22.1m**
- Savings requirement = **£27.0m**
- Recognised growth & investment = **£31.4m**
- = c/f underlying deficit 22/23 = **£24.4m**
- Anticipated that COVID transition and extraordinary Pressures (Utilities / RLW / NI) funded in full by WG

**Midway through drafting this report the Health Board has been notified of the approved allocation of £24.4m from Welsh Government in recognition of the Health Board's underfunded position against the revised resource allocation formula. This position will be updated for future reports where the planned forecast outturn will now become breakeven.**

### 3. FINANCIAL PERFORMANCE

The key metrics linked to the revenue position are provided in the table below. Further details on the key drivers to this are provided in section 4 of the report.

- **Variance Against RRL** – With a £24.4m deficit plan the target each month is £2.034m. The actual Month 3 variance was £2.573m and so was £0.539m off profile. The YTD plan at Month 3 should be £6.102m but actual variance is £7.208m, which is £1.106m off profile.
- **Additional Expenditure** – this is the value of the additional funding required to support COVID Transition and extraordinary pressures. At the end of Month 3 no funding had been received from Welsh Government (WG) and so £42.9m and £24.2m remain anticipated allocations and noted as a risk.
- **Savings Delivery** – With a 2022/23 annual target of £27.0m in month delivery is anticipated at £2.25m. For Month 3 the shortfall against this target as per the ledger was £0.400m and YTD £0.899m.

At the end of Quarter 1 the £7.208m is broken down by Service Group and Corporate Directorate as per the table 2 below:

**Table 2: Summary Position by Service Group/ Directorate @ Q1**

	Q1 Performance £000
<b>Service Groups</b>	
Mental Health & LD	1,006
Morrison	3,065
NPT & Singleton	367
PC & Community	-85
<b>Directorates</b>	
Board Secretary	-31
Chief Operating Officer	44
Director of Strategy (excluding COVID)	11
COVID	0
Director of Transformation	-14
Finance & Estates	364
Digital	-25
Medical Director	-21
Nurse Director	-42
Workforce & OD	66
Clinical Medical School	0
Research & Development	6
DSU	0
EMRTS	0
Corporate I&E	-8
<b>Delegated Budget Position</b>	<b>4,703</b>
In year deficit £24.4M	6,102
Opportunities Released	- 3,597
<b>Current Delegated Position</b>	<b>7,208</b>

#### **Actions/Comments in Q1 Summary:**

- Morrison – The CEO has requested enhanced support/escalation to focus on both assurance regarding financial control, clarity on why actual spend is increasing and actions to return spend to pre-pandemic levels, along with a continued focus on savings as Morrison has 87% of the total red schemes. Further updates will be provided on the actions being taken and plan to mitigate the issues arising in this one section of the Health Board.

- MH/LD – primarily CHC and the requirement to fund CHC at higher than anticipated level. This is linked to the wider issue of how the HB deploys its central budgets to support growth, given as per Mth 2 report these central budgets are potentially overcommitted.
- Finance & Estates – this is linked to the ongoing pressures with regard to Utilities, funding for extraordinary pressures (section 4.8) and what forecast will be for the year given the volatility of the Energy Markets. For example, for one 24 hour period in July the price increased by 20%.
- The CEO has asked the Director of Finance to prepare a financial improvement plan to enable the forecast balances position to be achieved.

#### 4. KEY DRIVERS IMPACTING REVENUE

This section will provide the reader with the key aspects within the Health Board position that is influencing the financial performance against the Revenue Resource Limit.

##### 4.1 Pay / Variable Pay – Trends

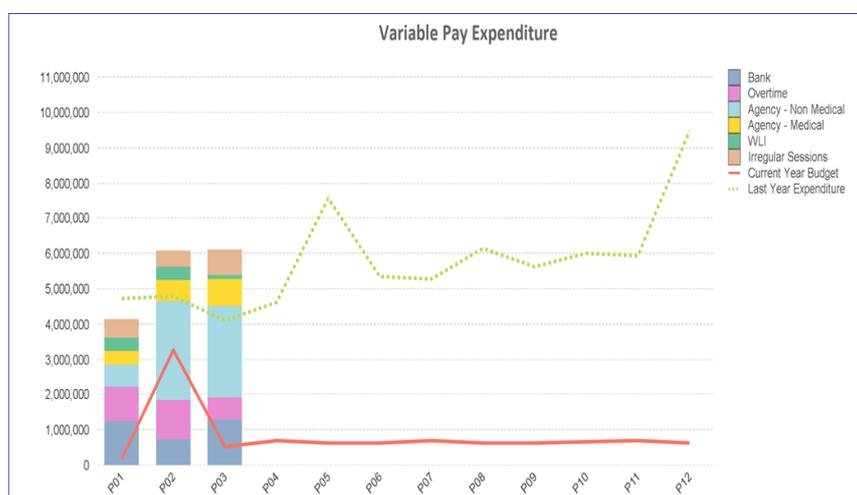
The performance against budget both in month and YTD is provided in table 3 below, with the variance split between Variable Pay costs and fixed staff costs.

**Table 3: Variance on Pay 2022/23**

Pay	Budget	Actual	Variance Variable Pay	Variance Fixed Costs	Total Variance
	£'000	£'000	£'000	£'000	£'000
Mth 1	49,837	49,556	5,401	- 5,682	- 281
Mth 2	55,348	55,298	6,177	- 6,227	- 50
Mth 3	53,589	53,819	6,015	- 5,786	230
YTD	158,774	158,673	17,593	- 17,694	- 101

The performance of variance pay in comparison to 2021/22 is summarised in graph 1 below. At this point in the year, Variable Pay is above last year's level with continued pressures in non-medical and medical agency costs in month 3.

**Graph 1: Variable Pay Analysis**



**Note: The Agency Non-Medical for Month 1 reflects an error in the system generating the report, this has been corrected in the Month 2 reporting. The error did not impact on overall position, only this analysis, making comparisons between Month 1 and Month 2 difficult from this chart.**

## 4.2 Non Pay

The performance against budget both in month and YTD is provided below, with the variance spilt between the deficit of £24.4m reported within Non Pay and general non pay pressures.

**Table 4: Variance on Non-Pay**

Non Pay	Budget	Actual	Variance Linked Deficit	Variance Non Pay Pressure	Total Variance
	£'000	£'000	£'000	£'000	£'000
Mth 1	51,733	54,108	2,034	341	2,375
Mth 2	58,231	60,897	2,034	632	2,666
Mth 3	58,977	61,574	2,034	563	2,597
YTD	168,941	176,579	6,102	1,537	7,639

The overall non pay variance can be summarised as set out in table 5 below.

**Table 5 – Key variances driving non pay overspend**

	Variance £m
CHC	2.381
Drugs/FP10s	0.420
Clinical services/supplies	0.320
Energy	0.260
CIP	0.899
<b>Sub total</b>	<b>4.400</b>
Offset by underspends across other non pay categories	(3.000)

### 4.2.1 CHC

One areas of the non-pay areas with significant variance against budget in Month 1-3 is CHC. An analysis of actual spend and patient numbers for 2022/23 is provided in table 6 below on a month by month basis. *The reduction in MH expenditure in Month 3 reflects adjustment made for savings delivery and is a one off in month adjustment.*

**Table 6 – CHC breakdown**

Service Area	General		MH		LD		Total	
	Patient No.	£						
Mth 1	357	1,947,177	182	1,120,588	197	1,774,467	736	4,842,232
Mth 2	352	2,135,283	182	1,187,727	196	1,805,067	730	5,128,078
Mth 3	364	2,101,956	182	734,588	196	1,630,935	742	4,467,480
Total		6,184,417		3,042,904		5,210,470		14,437,790

### 4.2.2 Primary Care Prescribing

As the Primary Care prescribing data is 3 months in arrears there is only 1 months 2022/23 data at this point. The accrual has been calculated

based on historical trends. Updates will be provided in future months, when a number of months' data is available.

#### 4.2.3 Other key issues arising In Year

In most months, there are numerous under and over spends against the various non-pay subjective codes. This section will be used to identify any material issues that impact on the financial performance in each month.

Whilst there were variances across various areas of clinical consumables the most significant pressures in Mth 3 were seen in drugs and general M&SE, which was not seen to the same level in Mth 1 and 2. Further work will be required to understand whether this was a one-off issue or a rising pressure linked to activity/demand.

### 4.3 Income

**Table 7 – income by month**

Income	Budget	Actual	Variance
	£'000	£'000	£'000
Mth 1	- 23,248	- 23,094	154
Mth 2	- 23,126	- 23,356	- 229
Mth 3	- 25,905	- 26,159	- 254
YTD	- 72,279	- 72,608	- 329

In Month 3 the overachievement in income is attributable to R&D income, with other income categories broadly achieving a balanced position. Table 7 shows the movement in income in the first quarter.

### 4.4 Savings

The 2022/23 savings target is £27m, with a further £4.6m of unmet savings brought forward from 2022/23, which takes the combined target to £31.6m. As per the weekly CIP dated 07/07/22, the total value of schemes identified for 2022/23 is £27.1m (£22.5m recurrently).

**Tables 8a, b, c and d – Savings Overview**

	Reported PFC April	Reported PFC May	Reported PFC June	Reported PFC July	Movement
	£m	£m	£m	£m	£m
2022/23 Identified	20.0	22.0	23.0	27.1	4.1
2022/23 Identified Recurrently	19.6	20.8	20.7	22.5	1.8

To date, slippage on the savings plan is causing a non-pay overspend of £0.899m

Summary Breakdown	Target 2022/23 £k	Identified 2022/23 £k	Shortfall £k	Recurrently Identified £k	Shortfall £k
Corporate	5,746	5,010	735	3,098	2,647
Morrison	10,447	8,422	2,025	8,119	2,328
NPTS	6,388	5,178	1,211	4,887	1,501
MHLD	3,738	3,098	640	3,079	659
PCC	3,505	3,534	-29	2,321	1,184
IMM and Health Board Wide	1,819	1,000	819	1,000	819
	<b>31,642</b>	<b>26,242</b>	<b>5,401</b>	<b>22,504</b>	<b>9,138</b>

	Total		Morrison		NPTS		MHLD		PCC		Corp/Other	
	22-23	FYE	22-23	FYE	22-23	FYE	22-23	FYE	22-23	FYE	22-23	FYE
Red	3,162	6,787	2,718	5,009	340	1,210	64	488	-	-	40	80
Amber	6,462	6,579	454	432	2,792	3,253	1,535	1,530	482	743	1,199	621
Green	16,618	9,138	5,250	2,678	2,046	424	1,499	1,061	3,051	1,578	4,771	3,397
	<b>26,242</b>	<b>22,504</b>	<b>8,422</b>	<b>8,119</b>	<b>5,178</b>	<b>4,887</b>	<b>3,098</b>	<b>3,079</b>	<b>3,534</b>	<b>2,321</b>	<b>6,010</b>	<b>4,098</b>
% of CIPS Green	<b>63.33%</b>	<b>40.61%</b>	<b>62.34%</b>	<b>32.99%</b>	<b>39.52%</b>	<b>8.68%</b>	<b>48.39%</b>	<b>34.46%</b>	<b>86.35%</b>	<b>67.98%</b>	<b>79.38%</b>	<b>82.90%</b>



The Services Group and Corporate Directorates will be using Non-recurrent opportunities to ensure that the gap of 'to be identified' is addressed in 2022/23 but the recurrent delivery is equally as important to deliver.

**Actions:**

- Each Wednesday a weekly report is produced by the PMO and issued to Executive and Service Group Directors to ensure there is a constant focus. Within the weekly report are detailed actions that will be taken and updates provided on progress against these.
- CEO set target for 100% delivery of savings and all schemes to be green and amber by the end of June 2022, with further work required on remaining Red Schemes in July 2022.
- Further work is required on mitigating the b/f unmet savings delivery from 2021/22 and this will need to be part of the review in assessing the utilisation on central budgets. However, for MH/LD some of the unmet value will be offset by recurrent reduction in variable pay, where there is no budgetary adjustments.
- Immediate attention is required to address the shortfall in savings in quarter 2 of the financial year. This work must be completed before the

Month 4 Ledger Closedown to avoid further risk being added to the financial plan for the year.

- Focused attention to ensure the 100% of the green and amber schemes are delivered in line with the plans identified. Thus ensuring plan and actual align.

**NOTE: failure to deliver savings will result in slippage, and/or cessation, of investment plans to develop services to maintain financial balance.**

#### **4.5 LTA (inc WHSSC) Performance**

Historically LTA contracts have been based on a Cost and Volume approach, which reflects adjustments for under and over performance. From the start of the COVID pandemic in April 2020 all LTA agreements in both England and Wales transferred to a block arrangement, whereby commissioners funded providers on 2019/20 levels uplifted by nationally agreed rates with no adjustment for performance. From 1<sup>st</sup> April 2022 the previous block arrangements have ceased and a hybrid model adopted where under or over performance adjustments will become applicable above a tolerance level. This will be relevant to both services we commission from other Health Boards and services commissioned from SBU HB.

For a robust assessment to be made the Health Board will need a number of months' data. Therefore, it is proposed that the first round of information will be included during Q2 to reflect data relating to Q1 and going forward will be updated on a quarterly basis.

#### **Action:**

- Update to be provided during Q2 and quarterly from that point.

#### **4.6 COVID Transition (Response)**

The national COVID programmes of TTP, Mass Vaccinations and PPE are confirmed as funded by WG. Whilst the COVID Transition costs are recognised by WG, there is no confirmed funding at this point. However, within the financial position and plan is it assumed this will be funded via an anticipated allocation.

Within the 3 Year Recovery and Sustainability Plan, the Health Board included anticipated costs of £25m, however the first full assessment reported to WG in mid-April included costs of circa £40m.

The forecast position for 2022/23 at the end of Month 3 is included table 9 below and has been reported in detail to WG as part of the MMR submissions:

**Table 9 – COVID Allocations and Anticipated Allocations**

RRL COVID Allocations	2022/23 Forecast @ mth 3	Total By Type
	£'000	£'000
National Programmes: Tracing	5,600	20,869
National Programmes: Testing	2,132	
National Programmes: Mass Vaccinations	7,092	
National Programmes: PPE (Exc Stores Staff)	4,959	
National Programmes: Long COVID	578	
National Programmes: Nonsocomial	508	
COVID Transition: Cleaning Standards	1,906	42,954
COVID Transition: Extended Flu	918	
COVID Transition: Dental Income Shortfall (as per WG Letter)	1,418	
COVID Transition: Dental Income Shortfall (Balance)	1,816	
COVID Transition: Other	36,896	
<b>Total Table B3</b>	<b>63,823</b>	<b>63,823</b>

**Actions:**

- Forecast continue to be refined and updated based on discussions with Service Groups.
- Linked to above given the latest de-escalation guidance service areas need to review requirements and update forecast with support of the Finance Business Partners (FBPs).
- Next round of Check & Challenge meetings with CEO were held in July 2022, which picked up the actions from the point above.
- Actions from meetings in July 2022 to be followed up in August 2022 with updates required from all Services Groups by the end of August 2022, to provide assurance on delivery to the Committee in September 2022.
- Continued discussion with WG on the risks regarding funding.

**There is no certainty that the COVID Transition element will be funded by WG or that WG will agree with the Health Board’s assessments of COVID costs. This is reflected in the risk section later. The actual expenditure must be materially managed downwards as funding is uncertain in 2022/23 and likely to cease for all transition costs in 2023/24**

**4.7 COVID Recovery**

The Health Board has received £21.6M recurrently to support COVID recovery. The funding is held in a central budget and issued out based on the cost of the work undertaken called down by the Service groups each month. There will close monitoring of the financial performance against this budget and an update of the spend by recovery areas is provided below. The budget column is an indicative estimate of costs by area, but the Health Board needs to ensure that whilst one area may require more investment this is offset but under commitments in other areas of the Recovery Plan. The Table below is a summary reconciled to the headings the Service Group have called the funding down against.

**Table 10 – COVID Recovery Allocation**

COVID Recovery Areas	Indicative Budget 2022/23	YTD Funding Committed	Balance Funding Remaining 2022/23
	£'000	£'000	£'000
National Endoscopy Programme	2,877	691	2,185
Regional Cataract Services	1,398	237	1,162
Regional Orthopaedics	3,419	-	3,419
Strengthened Diagnostic & Imaging services	4,500	1,889	2,611
Implementation of the Critical Care Plan	-	-	-
Cancer	1,280	554	726
Other Capacity	4,140	1,883	2,257
Other Eyes	319	46	273
Primary Care Pathway Redesign	26	58	31
Other - Pre Committed	3,222	1,141	2,081
Therapies	122	25	96
Other (WHSSC)	298	344	46
<b>TOTAL</b>	<b>21,600</b>	<b>6,867</b>	<b>14,733</b>

**Actions:**

- To ensure there is clear ownership of the funding Finance is working through the allocation of each area to an operational lead and a supporting finance lead.
- To ensure that the allocation of resources is directed to delivering WG expectations in balance with risk profile of patients on waiting lists.
- Plan is required by the end of September 2022 to balance the allocation.

**4.8 Extraordinary Pressures**

As per the 3 Year Recovery and Sustainability Plan submission, there are three areas of extraordinary pressures within 2022/23. For planning purposes and within the Month 3 position it is assumed these costs, above 2021/22 levels, will be funded by WG. A breakdown of the estimated costs above 2021/22 levels, as per the WG reporting requirements, for the three areas is provided below:

**Table 11 – Extraordinary item cost assessment**

Extraordinary Items	2022/23 Forecast @ mth 3
	£'000
NI Health & Social Care Levy	6,929
RLW (Care Homes Only)	1,581
Energy Costs (inc Non BG items)	15,639
<b>TOTAL ALLOCATION</b>	<b>24,149</b>

**Actions:**

- Continual review of each area and refinement of forecast.
- Continued discussions with WG on the risks regarding funding and the methodology assessing the '2021/22 levels'.

## 5. SUMMARY ALL RISKS – REVENUE

As per Table A2 of the MMR returns the risks reported are as follows:

**Table 12 – Risk rating per formal Monitoring Return reporting**

RISKS		
AREA	£'000	Risk Score C x L
LTA 'Go Live' with 10% tolerance	- 7,200	12
Savings Delivery above current identified Schemes (inc red)	- 3,900	8
WAST Transition Plan Full Year Impact	- 200	6
CTM SLA disag	- 1,000	8
Net Impact ALN	- 300	9
Service Group Cost Pressures excluding Covid Response	- 5,000	16
Digital Service cost pressures linked to SLA	- 605	12
ICF / RIF	- 500	6
Childrens Services response	- 800	6
COVID Recovery not able to be constrained within funding	- 3,100	8
CHC growth volume and cost	- 2,000	16
Energy Funding Assumption variance to IMTP	- 119	6
Covid Funding WG (Transition)	- 42,954	16
Extraordinary Funding WG	- 24,149	16
<b>TOTAL RISKS</b>	<b>- 91,827</b>	

Further details on the RED risks:

- Service Group Pressures - increasing pressures materialising as seen in Table 3 which are currently being offset by non-recurrent opportunities in. If these non-recurrent opportunities end the HB would be significantly further away from its monthly target of £2.034m than has been seen in the first 3 months. Service Group and Directorate forecasts being completed, which will be refined over the next 2-3 months, to establish whether the pressures are likely to remain for the remainder of 2022/23. To achieve the £24.4m deficit plan all areas must remain within their funding envelope. This is in addition to the actions outlined in Section 3 under Table 3.
- CHC – refer to section 4.2.1.
- COVID Funding (Transition) – refer to section 4.6.
- Extraordinary Funding – refer to section 4.8.

Action:

- Review of the operational forecast to continue through July-September to inform updated position for 2022/23 and the anticipated Mid-Year review with WG.

## 6. SUMMARY RISKS, OPPORTUNITIES AND FORECASTS ON 2022/23 PLAN

This section re-provides the plan signed off by the Board on 31<sup>st</sup> March 2022 based on the risks, opportunities and forecasts included within this paper and in

previous Committee papers. The aim is to bring together the challenges for 2022/23 in one table. **It is not intended to give a forecast to 31<sup>st</sup> March 2023 as a significant amount of work is required between now and September to establish a position that would be shared with the Board and WG in the Mid-Year Review meeting. The table represents the potential “do nothing” position based on financial performance in Quarter 1.**

The keys areas of note are:

- **Savings Target:**
  - A further £4.6m now been added to the plan for 2021/22 schemes where there was a shortfall in the recurrent delivery.
  - Mitigation actions – delivery is part of the focus of the CEO and to ensure 100% delivery, all of which need to be green and amber schemes.
- **Savings Delivery:**
  - In addition to the £4.6m referred to above the forecast against delivery is only £26.2, which is £0.8m short of the initial target of £27m.
  - Of note is that within the £26.2m is the assumption that Red Schemes will deliver in full. However, there remains a clear risk that the not all red schemes will be delivered, which has the potential increase non delivery by £3.2m (see table in section 4.4).
  - Mitigation actions – delivery is part of the focus of the CEO and to ensure 100% delivery, all of which need to be green and amber schemes.
- **Cost Pressures & Investments:**
  - As per the Month 2 PFC paper there is currently a gap between the central budgets and the investment proposed. The figure included is an indicative value at Month 3.
  - Further work is required to ensure all funding requirements have been captured, full review of central budgets and assumptions at the end of Q1 and then aligning this to what is assumed within the Service Group/Directorate forecasts on funding required.
  - Mitigating Actions – decisions will be required to ensure that the funding and the planned expenditure align following a further review of the central budgets.
- **Operational Pressures:**
  - Following Month 2 closedown each operational area, using the data at that point commenced work on outturn assumptions for 2022/23. Working on this at such an early point in the year presents risks but is starting point for building on over the next 2-3 months.
  - Mitigating Actions – further work on the reviews is required both in terms of the next 2 months of actual information along with alignment to the assumptions in terms of funding (as per the section above).
  - Please refer to actions linked to Section 3 Table 3.
- **COVID Response & Extraordinary Pressures:**
  - Original forecast has been updated based on the latest information (refer section 4.6 and 4.8) this has increased since 31/3/22. However, funding is assumed to offset these costs.

- Detailed COVID workings will be shared with FDU for Month 4, with the outcome being some aspects of costs classified as COVID may not be recognised by WG and will need to be managed with existing HB resources.
- **Risks:**
  - Risks detailed in section 5 of the report are currently excluded from table 12 below.

**Table 12: Plan Updated with Risks and Challenges @ Mth 3**

	Submission	Update Mth 3	Movement
	£m	£m	£m
Opening deficit	24.4	24.4	0.0
FY21 savings gap	17.7	17.7	0.0
FY22 savings gap	0.0	4.6	4.6
<b>2022/23 opening position</b>	<b>42.1</b>	<b>46.7</b>	<b>4.6</b>
WG Allocation applied against sustainability	(12.4)	(12.4)	0.0
Savings required to manage FY21 Savings Gap	(5.3)	(5.3)	0.0
<b>2022/23 underlying position after sustainability application</b>	<b>24.4</b>	<b>29.0</b>	<b>4.6</b>
Application of core WG funding based on 2%	(9.7)	(9.7)	0.0
Cost pressures & Investments	31.4	43.9	12.5
Cost pressures Operational	0.0	18.8	18.8
CIPs - 4%	(21.7)	(20.9)	0.8
<b>Deficit/(surplus) for year 2022-23 - base plan</b>	<b>24.4</b>	<b>61.1</b>	<b>36.7</b>
Extraordinary cost pressures	19.9	24.1	4.3
<b>Deficit/(surplus) for year 2022-23 - after extraordinary pressures</b>	<b>44.3</b>	<b>85.2</b>	<b>41.0</b>
COVID Scheduled & Unscheduled care Sustainability Funding	(21.6)	(21.6)	0.0
COVID Recovery Costs	21.6	21.6	0.0
COVID Response Costs	25.0	43.0	18.0
Covid Transition & Extraordinary Pressures Funding	(44.9)	(67.1)	(22.2)
<b>Deficit/(surplus) for year</b>	<b>24.4</b>	<b>61.1</b>	<b>36.7</b>

The table clearly shows that a “do nothing” approach will not result in rebalancing the plan. Urgent attention is therefore required to: -

- Re-balance the operational position
- Re-cast reserves and investment plans to balance
- Further assure savings delivery

## 7. RISK ASSESSMENT

There are five Board level financial risks: -

● **Residual Cost Base (risk 73):** There remains 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**. A detailed submission has been shared with Finance Delivery Unit and discussions have commenced at a National Welsh level on handling of the impact of COVID on underlying pressures from 2022/23. **It is proposed that this risk remains unchanged whilst this work is undertaken.**

• **Resource required lower than health board recovery plan ambition (risk 79):** The Performance and Finance Committee agreed that this risk be established for 2021/22. During 2020/21 the COVID-19 pandemic impacted services in many different ways. Of particular concern has been the impact on access to services, particularly outpatients, diagnostic tests, elective surgery and therapy services. The recovery of access times to pre-pandemic levels will require a significant amount of human, estates and financial resource to support it. There is potential for the scale of ambition that the Health Board has in terms of access recovery will be unaffordable in context of the current financial plan. **The risk is reported as severe impact (5) but moderate likelihood (3) score 15.**

The Health Board has received £22m in 2021/22 to address access pressures and further funding will be notified for 2022/23. It is therefore proposed that the risk score remains the same but that the risk be modified to incorporate 2022/23.

• **Availability of capital (risk 72).** This risk has been re-opened for 2022/23 as the initial draft financial plan is not balanced given a 24% reduction in discretionary capital allocation. Work is underway to manage schemes to reduce commitments in 2022/23 and to produce a balanced plan. This risk varies during the year as more details on schemes emerge and potential slippage funding is made available by Welsh Government. A score of 20 is suggested at this stage as the whilst plan is now balanced a number of schemes are on hold and the flexibility within the plan is extremely limited given the reduction in the allocation.

• The September 2021 Committee also agreed to add an additional risk regarding the **savings schemes related to bed release**. A significant amount of work is underway on this area at the moment with changes planned in the Emergency Department itself, GP services in support of this, length of stay reduction plans and the purchase of care home beds to increase patient flow. These developments are intended to reduce admission and occupancy and will ultimately release bed capacity. In the first instance this released capacity will be used to reduce risk in the delivery of care, but then will be further used to reduce cost. It is therefore proposed that **a current score of 15 be maintained this month** with a high impact but medium likelihood. The mitigation of the risk will come through the actions of the Urgent Emergency Care (UEC) Programme.

• The April 2022 Committee also recognised the overarching risk in the delivery of the overall savings requirement for 2022/23. Performance against target is detailed within Section 4.4 of this report. Whilst a significant amount of work is being undertaken, under the direction of the PMO, there remain a shortfall in savings identified by in year and recurrent as well as a significant number of schemes identified as red. Work will continue through the CEO Check and Challenge sessions and the monthly Unit Performance & Finance meetings chaired by the DOF. However, whilst gaps in delivery remains it is proposed that **a risk score of 15 be maintained with a high impact but medium likelihood.**

## 8. FINANCIAL MATURITY

The Health Board undertook a governance maturity assessment in the autumn. This was undertaken as a self-reflection to help to inform, drive and enhance improvements in the Health Board’s governance processes and ways of working.

Whilst the maturity element is titled “Money/Value for Money” the essence of the aspects of maturity is based on good financial discipline and control, transparency of process and robust, effective decision making.

The assessment of this maturity element was undertaken against the following assessment matrix and the assessment placed the Health Board at Early Progress level with 66% of the assessments being at that level with 16% Basic and 16% Results. This was considered a fair reflection.

**Table 13 – Financial maturity table**

Progress Levels →	BASIC LEVEL Principle accepted and commitment to action	EARLY PROGRESS Early progress in development	RESULTS Initial achievements achieved	MATURITY Results consistently achieved	EXEMPLAR Others learning from our consistent achievements
Key Elements ↓					
MONEY/VALUE FOR MONEY	Budget, cost pressures and efficiency targets are clearly identified and understood by the Board.	All in-year plans are costed and trajectory of spend / savings have been established to achieve breakeven / target. Quality implications are robustly tested.	The organisation has a record of meeting planned cost reductions / CIPs and agreed investments, whilst rejecting proposals with an unacceptable impact on quality.  Unexpected in year pressures are identified and the Board show timely re prioritisation of deliverables.	Our services consistently run under benchmark cost. Headroom is created for developments / improvements.  The Board is demonstrably reinvesting whole budget, rather than being limited by affordability at margins.	We successfully leverage wider community resources to improve service delivery and outcomes.

The System of Financial Control which was developed early 2020/21 will assist in further maturing the financial domain. The assessment scored as early progress, but further work was done in 2021/22, particularly on the system of financial control, which has been focussed on a move to “results” and “maturity”. The progress and next steps being worked on within the System of Financial Control is set out below across 8 key areas of financial control.

- **Planning – Integrated approach to service, workforce and financial planning.**
  - Progress – greater alignment of planning through Integrated Planning Group allowing service prioritisation within available resources. This is supported by clear business case scrutiny process.
  - Next Steps – expand focus to reallocation of resources not just investments.
- **Budget Planning – Revenue and Capital budgets set in line with organisation’s plan and allocation.**
  - Progress – revenue budgets aligned to 19/20 baseline
  - Next Steps – refresh of baseline budgets post COVID to ensure clear understanding of delivery expectations. Capital budget prioritisation and planning based on service priorities.
- **Budget Delegation – Clear and formal procedure for the delegation of budgets from the Board cascaded throughout the organisation.**
  - Progress – delegation letters issued to Service Groups but no response collated.

- Next Steps – ensure delegation letters are issued to all Corporate Directorates as well as Service Groups and ensure appropriate recognition is returned. Reporting to Audit Committee
- **Budgetary Control – Clear and robust control process with accountability through the Performance Management Framework**
  - Progress – Performance Management Framework established and implemented
  - Next Steps – 12-month review of Performance Management Framework in readiness for 2022/23, aligned to clear budgetary, workforce and service performance trajectories.
- **Reserves – Agreed process for managing and reporting reserves**
  - Progress – reporting of reserves and allocations periodically through PFC
  - Next Steps – Agreed reporting on Quarterly basis including forecast.
- **Accountability and Performance Management – Linked to Performance Management Framework**
  - Progress – Service group recognition of budgetary and performance delivery based on 19/20. COVID impact has been significant
  - Next Steps – re-establish clear baseline and cascade throughout the organisation. Identify development needs for service and clinical managers to enable them to deliver effectively.
- **Board Reporting – Clear and concise Board Reporting, articulating risks and opportunities and providing insight to allow informed decisions**
- **Business Cases – Clear process for the development and approval of business cases, supported by post implementation benefits realisation monitoring.**
  - Progress – Establishment of Business Case Assurance Group and reporting to Management Board
  - Next Steps – Develop clear timeline and pre-scrutiny process for Business Cases to avoid unproductive work. Support training and development for managers in developing business cases including clear performance metrics.

It is worth note that some of the aspects of higher maturity, whilst reflected under the financial maturity assessment are broader than just finance. Members will recall that recently a formal review of the Annual Plan and an adjustment to that plan were made by the Board. This action relates very well to the results section of the maturity, particularly the description of “unexpected in year pressures are identified and the Board show timely reprioritisation of deliverables”.

It is recognised that whilst progress has been made, further actions are required to progress the organisation’s financial maturity. A summary of the key areas of focus for the Finance Function linked to the Maturity Assessment that will commence in 2022/23 are summarised in the table below, this may be expanded upon as the year progresses:

**Table 14 – financial control actions**

Areas of Financial Control	Area	Actions & Outcome	Next Steps
Budget Planning	Assess robustness and effectiveness of the current budget allocation process and comment changes.	Current budgets are based on 2019/20 outturn uplifted to growth and inflation where necessary. Question is whether this approach is now fit for purpose and what approach should be adopted.	Task and Finish Group established in June 2022, with provisional meeting held in June.  This is a long term programme which may lead to annual developments to improve budget setting.
Budget Delegation	Building on from Internal Audit recommendation from the Financial Reporting & Monitoring Audit it is recognised that the HB needs to re-establish what support budget holders require and how we deliver regular engagement	This will require the Finance function to re-evaluate who is a Budget Holder, how do we direct the resources available in the most efficient and effective manner, how we share financial information and the manner within which we engage i.e. virtual or face to face.	First meeting of the programme is scheduled for 28 <sup>th</sup> July, which will scope out programme.
Budgetary Control	Revised Closedown Process (In Year and Year End)	Explore options on closing ledger quicker but also improving quality data to support budgetary control and decision-making earlier in the month.	The Ledger Closedown Group has been established which meets bi-weekly and has a clear work plan/action plan. The Governance around agreeing changes is being developed and in the longer term this will be supported by the new Finance Structure once all appointments have been made.
Reserves	Transparency of reserve position	Refer to section 6 or Mth 1 and Mth 2 reports	
Reporting	Improve Financial Reporting to Board/PFC/WG	This will be an ongoing process to ensure all risks and opportunities are identified and providing insight into key drivers of the position, including improved understanding of the Reserves	The first revised report issued to PFC in Month 1. This is a journey of continued improvement to ensure reports are transparent and of use to the reader.  There are no timescales for completion as ongoing progress.

Areas of Financial Control	Area	Actions & Outcome	Next Steps

## 9. SUMMARY OF ACTIONS AND UPDATES

**Table 15 – Action Summary**

Area	Ref	Action	Update- July Report
Financial Performance	M03.1	Morrison – The CEO has requested enhanced support/escalation to focus on both assurance regarding financial control, clarity on why actual spend is increasing and actions to return spend to pre-pandemic levels, along with a continued focus on savings as Morrison has 87% of the total red schemes..	Further updates will be provided in August report
Savings	M01.1	Each Wednesday a weekly report is produced by the PMO and issued to Executive and Service Group Directors to ensure there is a constant focus. Within the weekly report are detailed actions that will be taken and updates provided on progress against these within the report.	Weekly report continues to be updated and shared widely.  <b>ACTION: CLOSED</b>
	M02.1	CEO set target for 100% delivery of savings and all schemes to be green and amber by the end of June.	Update of Performance included in Section 4.4.
	M02.2	Further work is required on mitigating the b/f unmet savings delivery from 2021/22 and this will need to be part of the review in assessing the utilisation on central budgets.	Update of Performance included in Section 4.4.
	M03.2	Focused attention to ensure the 100% of the green and amber schemes are deliver in line with the plans identified. Thus ensuring plan and actual align.	Ongoing Review linked updates provided in section 4.4
LTA Performance (Providers & Commissioner)	M01.2	Update to be provided during Q2 and quarterly from that point.	To be provided in Q2
COVID Transition	M01.3a	Forecast continue to be refined and updated based on most relevant information from the Service Groups.	Continually being reviewed and updated
	M01.3b	Following the latest de-escalation guidance service need to review requirements and update forecast with support of the FBP.	Revised forecasts to be brought to discussions with CEO and Director of Finance and Performance during July.

Area	Ref	Action	Update- July Report
			Next steps are to bring this work together to assess review HB position for Mth 4 MMR reporting.
	M01.4	Next round of Check & Challenge meeting with CEO were held in July 2022, which picked up the actions from the point above.	Actions from May meetings were reviewed and updated actions following July meetings to be issued with responses required by end August 2022.
	M02.3	Linked to M01.3 above given the latest de-escalation guidance service areas need to review requirements and update forecast with support of the FBP.	Completed for CEO meetings in July.  <b>ACTION: CLOSED</b>
	M01.5	Continued discussion with WG on the risks regarding funding.	Discussions are taking place regularly
<b>COVID Recovery</b>	M01.6	To ensure there is clear ownership of the funding Finance is working through the allocation of each area to an operational lead and a supporting finance lead.	Allocations are updated and revised monthly
	M03.3	To ensure that the allocation of resources is directed to delivering WG expectations in balance with risk profile of patients on waiting lists.	
<b>Extraordinary Pressures</b>	M01.7	Continual review of each area and refinement of forecast.	Updated approach adopted for Mth 3 and will review feedback from Mth 3 MMR.
	M01.8	Continued discussions with WG on the risks regarding funding and the methodology assessing the '2021/22 levels'.	Part of regular discussions with Finance Delivery Unit
<b>Risks</b>	M02.4	Review of the operational forecast to continue through July-September to inform updated position for 2022/23 and the anticipated Mid-Year review with WG.	Completion of review of initial operational position completed in July this will be refined over next 2-3 months to support the WG Mid-Year review anticipated in October 2022.
<b>Opportunities (Central Budgets)</b>	M01.9	Continue to development of the process for reporting of central budgets that is helpful to the reader to improve the transparency of the financial position. With updates provided on a quarterly basis.	Further information was provided to the PFC in the Month 2 Finance Report to support a move towards a more transparent approach, with updates to be provided each quarter as a minimum.
		Look at options for sharing the Main Central Budget in a format that assists the reader of the report.	By end of Quarter 2
<b>Financial Maturity</b>	M01.10	Various developments	Refer to Section 8 of this report.

## 10. RECOMMENDATIONS

Members are asked to:

- **NOTE** the agreed 2022/23 financial plan.
- **CONSIDER** and comment upon the Board's financial performance for Period 3 2022/23.
- **DELIVER** the actions to ensure delivery of the financial forecast with a specific focus on savings delivery: -
  - 100% delivery of savings and all schemes to be green and amber with work to finalise red schemes to be completed by the end of July.
  - Focused attention to ensure the 100% of the green and amber schemes are deliver in line with the plans identified. Thus ensuring plan and actual align.
  - Immediate attention is required to address the shortfall in savings in quarter 2 of the financial year. This work must be completed by Month 4 closedown to avoid further risk being added to the financial plan for the year.
- **DELIVER** increased cost control in respect of COVID response costs: -
  - Check & Challenge meeting with CEO held in July 2022, which picked up the revised cost assessments based on new guidance and evidence based cost reductions.
  - Actions from meetings in July to be followed up in August will updates required from all Services Groups but the end of August, to provide assurance on delivery to the Committee in September.
  - DoF to continue engagement WG on the risks regarding funding and updated on COVID response costs submitted WG in Mth 4 MMR submission.
  - To ensure that the allocation of resources is directed to delivering WG expectations in balance with risk profile of patients on waiting lists.
- **DELIVER** actions to ensure the operational pressures are mitigated and areas return to financial balance by the end of September.
- **NOTE** component elements of the plan, in risks, forecasts and challenges, brought together into standard planning format (section 6).
- **AGREE** the risk handling for the risks noted.
- **NOTE** all actions and updates to support the management of the 2022/23 financial position.



<b>Governance and Assurance</b>		
<b>Link to Enabling Objectives</b> <i>(please choose)</i>	<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>		
<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"/>
<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		
<b>Staffing Implications</b>		
No implications		
<b>Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015)</b>		
No implications		
<b>Report History</b>	Updated on the financial position are provided at every meeting	
<b>Appendices</b>	none	