

**SUMMARY REPORT**ABM University  
Health Board**Health Board Briefing**Date : 26<sup>th</sup> January 2017  
Agenda item: 7 (i)**Subject** FINANCIAL REPORT – MONTH 9**Prepared by** Samantha Lewis, Assistant Director of Finance  
Paul Gilchrist, Acting Director of Finance**Approved & Presented by** Paul Gilchrist, Acting Director of Finance**Purpose**To advise Board members of the overall financial position of ABMU Health Board as at 31<sup>st</sup> January 2017.

<b>Decision</b>	
<b>Approval</b>	x
<b>Information</b>	x
<b>Other</b>	

**Corporate Objectives**

<b>Excellent Population Health</b>	<b>Excellent Population Outcomes</b>	<b>Sustainable &amp; Accessible Service</b>	<b>Strong Partnerships</b>	<b>Excellent People</b>	<b>Effective Governance</b>
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**Executive Summary**

The report provides the Health Board with the following updates:-

- i. The financial position of the Health Board, including balance sheet, cash, and Public Sector Payment Policy compliance.
- ii. 2017/18 Initial Financial Outlook

**Key Recommendations**The Health Board is asked to note the Financial Position of the Health Board for the 31<sup>st</sup> January 2017 and the actions required to improve financial performance in order to meet the revised year-end forecast.**Next Steps**

Monitor the outcome actions taken to address the financial overspend against the expected position.

## 1. EXECUTIVE SUMMARY

### 1.1 Purpose

The report provides the Health Board with an update on the financial performance for the year to date, highlights the financial risks and provides a forecast for the remainder of the financial year.

### 1.2 Context

The Health Board has two key statutory duties to achieve:

To submit an Integrated Medium Term Plan (IMTP) to secure compliance with breakeven over 3 years

To achieve financial breakeven over a rolling three year period, the first of which commenced on 1<sup>st</sup> April 2014 and will end on 31<sup>st</sup> March 2017.

The Health Board had an approved IMTP for 2014/15-2016/17 and 2015/16-2017/18, however the 2016/17-2018/19 plan submitted to Welsh Government was not approved and the Health Board is therefore operating under an Annual Operating Plan for 2016/17.

The Health Board delivered financial breakeven in 2014/15 and 2015/16.

### 1.3 Summary of Key Financial Targets

<b>Financial KPIs : To ensure that net operating costs do not exceed the revenue resource limit set by Welsh Government</b>	<b>Value £000</b>	<b>Trend</b>	<b>Forecast Risk</b>
Reported year to date financial position – deficit/(surplus)	26,623	↑	
Movement in year to date financial position from last month – worsening/(improvement)	3,476	↓	
Current reported year end forecast – deficit/(surplus)	39,200	↑	
Current projected forecast based on year to date financial performance – deficit/(surplus)	35,497	↑	

<b>PSPP Target : To pay a minimum of 95% of all non NHS creditors within 30 days of receipt of goods or a valid invoice</b>	<b>Value %</b>	<b>Trend</b>	<b>Forecast Risk</b>
Cumulative year to date % of invoices paid within 30 days (by value)	95.7	→	
Cumulative year to date % of invoices paid within 30 days (by number)	96.2	→	

## 2. REVENUE POSITION

### 2.1 Summary Revenue Position

The Health Board has reported a £26.623m overspend to the end of December, against the £15.075m that could be anticipated given the £20.1m deficit forecast in the 2016/17 Plan. The Health Board expenditure to date is therefore £11.548m above the financial plan of the IMTP. The table below provides a summary of the key variances in month and for the year to date, along with the full year forecast:

	In Month Position			Year to Date Position		
	Budget £000	Actual £000	Variance £000	Budget £000	Actual £000	Variance £000
Income	(102,553)	(102,676)	(123)	(948,888)	(951,309)	(2,421)
Pay	51,547	51,679	132	464,214	471,247	7,033
Non Pay	51,006	54,473	3,467	484,674	506,685	22,011
<b>Total Position</b>	<b>0</b>	<b>3,476</b>	<b>3,476</b>	<b>0</b>	<b>26,623</b>	<b>26,623</b>

## 2.2 Income

The year to date and monthly income performance is shown in table below:

Income	In Month			Year to Date		
	Budget £000	Actual £000	Variance £000	Budget £000	Actual £000	Variance £000
Revenue Resource Limit	(81,138)	(81,138)	0	(778,393)	(778,393)	0
Income from Activities	(16,511)	(16,560)	(49)	(147,750)	(148,925)	(1,175)
Other Operating Income	(4,904)	(4,978)	(74)	(22,745)	(23,991)	(1,246)
<b>Total Income</b>	<b>(102,553)</b>	<b>(102,676)</b>	<b>(123)</b>	<b>(948,888)</b>	<b>(951,309)</b>	<b>(2,421)</b>

The income over-achievement reflects increasing income from activities undertaken for other Health Boards and increasing levels of income and grants for Research and Development. However income for private patients remains low.

## 2.3 Pay

Pay Budgets are £7m overspent after 9 months, the key areas of overspend are Medical and Dental and Nursing HCSW.

The table below provides an analysis of Pay Expenditure by Staff group.

Pay Expenditure	In Month			Year to Date		
	Budget £000	Actual £000	Variance £000	Budget £000	Actual £000	Variance £000
Admin & Clerical	6,723	6,509	(214)	58,554	57,814	(741)
Medical & Dental	13,234	13,135	(99)	118,717	120,097	1,380
Nursing & Midwifery	16,876	16,429	(447)	152,436	150,503	(1,933)
Add Clinical Services - Nursing	4,314	5,182	868	39,438	47,998	8,560
Add Clinical Services – Non-Nursing	1,255	1,208	(47)	11,234	10,497	(737)
AHPs	3,448	3,214	(234)	31,093	29,166	(1,927)
Add Prof, Tech & Scientific	1,753	1,610	(143)	15,679	14,464	(1,215)
Healthcare Scientists	1,340	1,368	28	12,127	12,531	404
Estates & Ancillary	3,109	3,008	(101)	28,367	28,080	(287)
Students	16	13	(3)	97	97	0
Vacancy Factor	(523)	0	523	(3,529)	0	3,529
<b>Total Pay Expenditure</b>	<b>51,547</b>	<b>51,679</b>	<b>132</b>	<b>464,214</b>	<b>471,247</b>	<b>7,033</b>

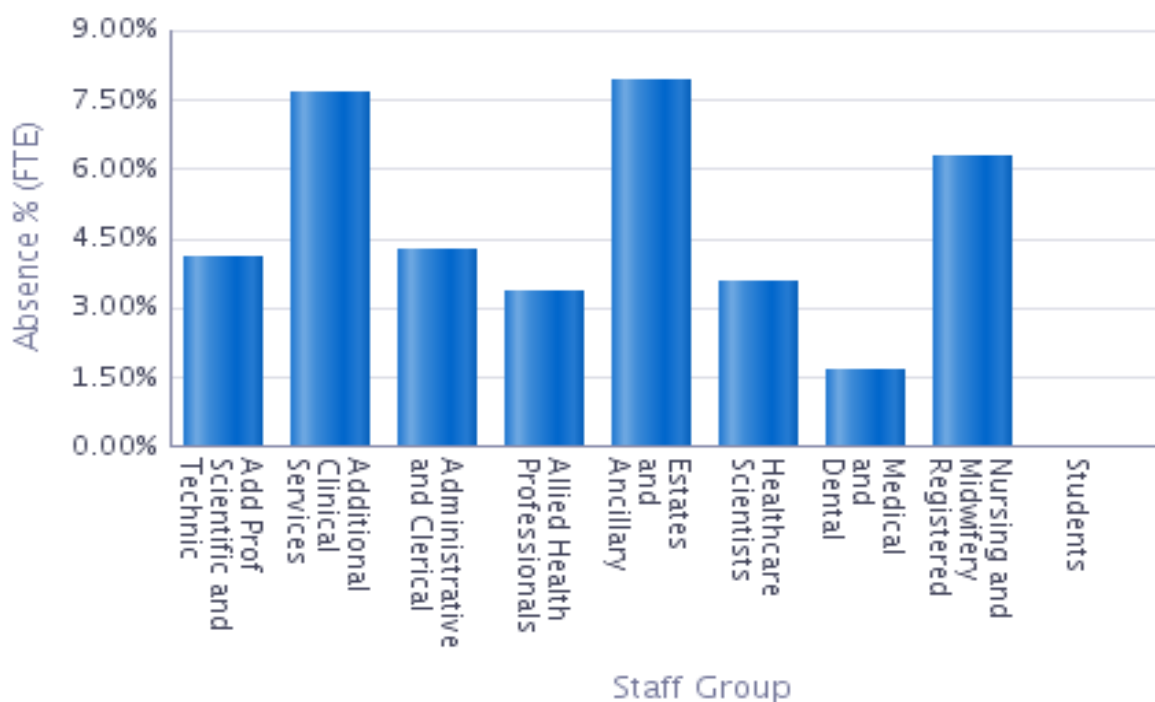
The Medical and Dental budgets have overspent by £1.380m after 9 months. This represents a marked increase from the overspend of £0.886m reported for the same period in 2015/16. The overspend includes £6.8m of agency costs and

£5.3m internal cover costs, both of which are materially higher than the costs incurred in the previous year, which were £5.8m agency and £3.5m internal cover. During the financial year, there has been a growth in the numbers of medical staff employed, however agency and internal cover costs have continued to rise.

Nursing and HCSW budgets are considered together as due to registered nursing recruitment difficulties additional HCSW resources have been utilised. The Nursing and HCSW budgets are overspent by £6.627m after 9 months, which is an improvement of £1m from the £7.5m overspend for the same period in 2015/16. The improvement reflects the significant reductions in Agency spend from £10.5m for the first 9 months of 2015/16 to £6.5m for the same period in 2016/17. During this period the total bank, agency, overtime and additional hours usage has remained fairly constant, but the usage has shifted from premium agency to less expensive cover alternatives. There has been a growth in substantive nursing staff numbers during the last calendar year of around 205 wte, of which 30 wte are registered nurses and 175 wte are HCSW.

The Health Board is experiencing increasing levels of sickness absence, with the reported cumulative sickness absence to the end of October being 5.62%. This will be impacting on variable pay, quality and safety of services to patients and performance.

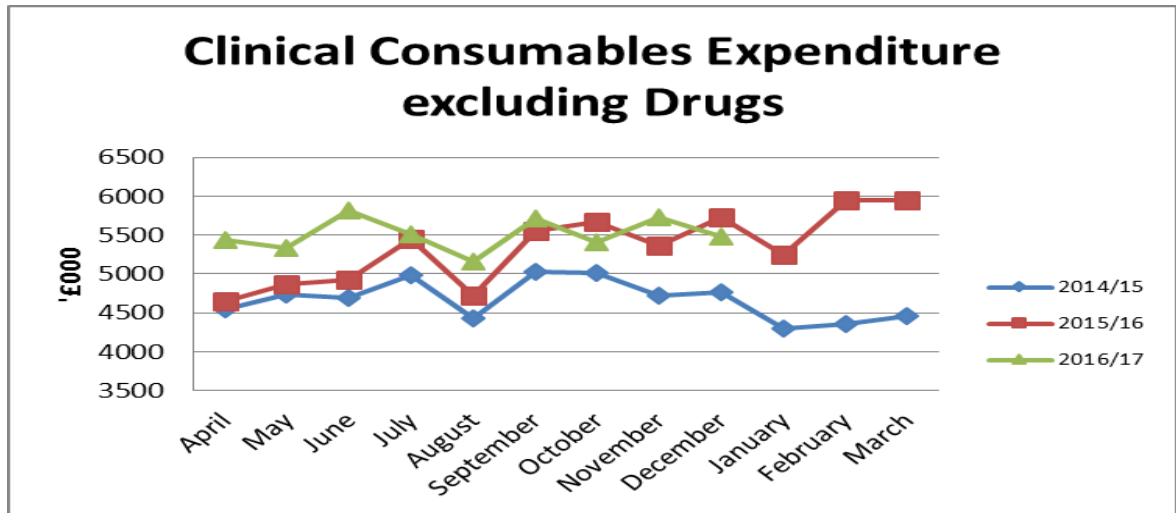
The graph below provides an analysis of the sickness absence rate by staff group and highlights that Additional Clinical Services (includes HCSW), Estates and Ancillary and Registered Nurses and Midwives are all significantly above the 5% sickness absence target.



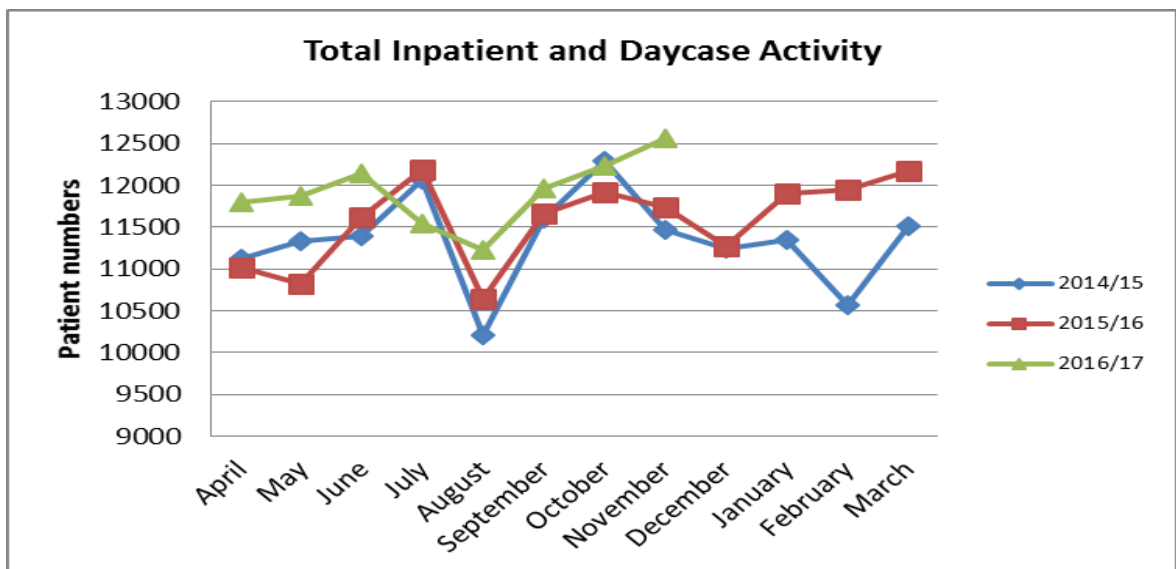
## 2.4 Non Pay

The most significant non-pay issue is within Clinical Supplies and services. Expenditure in this area grew steadily throughout the previous financial year, from

a monthly average of £4.8m in Quarter 1 2015/16 to £5.7m in Quarter 4 of that year. The 2016/17 monthly expenditure has been on average £5.5m per month. The clinical consumables spend for the first eight months of 2016/17 is shown in the graph below, along with the expenditure levels of the previous two years. It can be seen that the expenditure in December reduced, which is likely to reflect a reduction in elective activity during the Christmas period.



The activity levels within the Health Board have increased and are well above the levels of activity reported in the same period of the previous two years, which will account for some of the clinical consumables cost growth. The inpatient and daycase activity has increased by around 3700 cases compared with the same period in 2015/16. It should be noted however that outsourced activity (around 1400 cases) is included and the level of outsourced activity has increased in 2016/17.



## 2.5 Financial Performance of Service Delivery Units and Directorates

The Budgetary Framework set out in the Interim Resource Plan provided a roll over budget, whilst IMTP approval was being sought. This resulted in underlying

carry forward targets being set for each Service Delivery Unit and Directorate based on the Month 1 to 9 2015/16 financial performance.

The expectation therefore is that all Service Delivery Units and Directorates, maintain the level of financial performance reported in Month1-9 2015/16 and identify and deliver CIPs to meet the 2016/17 savings requirement.

The table below sets out the cumulative planned position based on the £20.1m planned deficit, the overall cumulative position for each of the Service Delivery Units and Directorates and the variance against the planned carry forward target set for the year to date. The table highlights that the Delegated Budgets are £13.33m above the required level of performance.

	<b>Planned Position</b>	<b>Total Overspend</b>	<b>Variance from Planned Position</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Nurse Director	0	31	31
Medical Director	739	1,048	309
• Med Director	0	-5	-5
• Informatics	739	1,053	314
Workforce & OD Director	262	562	300
Director of Strategy	1,017	3,145	2,128
• Planning	612	1,368	756
• Hotel Services	405	1,777	1,372
Chief Operating Officer	34,307	44,892	10,585
• Singleton	4,876	6,390	1,514
• POW	3,705	5,420	1,715
• Morriston	11,140	17,534	6,394
• MH & LD	6,441	8,442	2,001
• PCC	3,020	3,170	150
• NPT	5,125	3,936	-1,189
Other Corporate Directorates	0	-22	-22
• Board Secretary	0	4	4
• Director of Therapies	0	-24	-24
• Finance	0	-2	-2
<b>Delegated Position</b>	<b>36,326</b>	<b>49,656</b>	<b>13,330</b>
Corporate Plan	-21,251	-23,033	-1,782
<b>Health Board Position</b>	<b>15,075</b>	<b>26,623</b>	<b>11,548</b>

## 2.6 Savings Requirement

The Health Board IMTP established a savings requirement of £45.5m for Year 1 (2016/17). This was made up of:

	Annual Savings Requirement £m	Savings Identified to Date £m	Risk
Delegated Savings Target	25.0	13.5	Red
Cost Containment/Avoidance	5.0	5.0	Green
Strategic Improvement in Service Expenditure	5.5	0	Yellow
Slippage against new Investment funding	10.0	6.0	Red
Total Savings	45.5	24.5	Red

The Delegated Savings Target represents a savings requirement of 3.5% on non ring-fenced delegated budgets. The table below sets out the savings requirements by Service Delivery Unit and Directorate, the savings identified to date and the level of savings yet to be identified.

	Savings Target £000	Budget Releasing £000	Cost Reduction £000	Savings yet to be identified £000
Singleton Delivery Unit	3,576	149	1,918	1,509
POW Delivery Unit	2,850	632	937	1,281
Morrison Delivery Unit	6,480	935	2,388	3,157
MH & LD Delivery Unit	3,963	231	1,118	2,614
P.C. & Community DU	2,717	300	2,413	4
NPT Delivery Unit	1,471	729	566	176
Dir. of Therapies & HS	5	5	0	0
Board Secretary	134	0	0	134
Medical Director	99	99	0	0
Nursing Director	146	0	146	0
Planning	451	11	280	160
Hotel Services	1,126	0	650	476
Workforce & O.D.	150	0	0	150
Informatics	364	0	183	181
Finance	183	183	0	0
Corporate Schemes	1,285	0	0	1,285
<b>3.5% Savings Target</b>	<b>25,000</b>	<b>3,184</b>	<b>10,599</b>	<b>11,217</b>

The table shows that schemes equating to around £13.8m have been to identified, through budget releasing savings and cost reduction measures, this equates to around 55%. It should be highlighted that not all of these savings have yet been achieved but plans are in place to target this level of cost reduction. It is essential that efforts are focussed on scheme identification and delivery, because the savings challenge becomes increasingly difficult as the year progresses. In addition, to the savings identified there are a further £3m of saving schemes identified as Red, which are being worked on. The level of identified saving has remained broadly constant in December. It is essential that all Service Delivery Units, are recording their potential schemes to enable support to be given to schemes as required to bring them to fruition. There has been an increase of £1.5m of schemes recorded in November. The continued identification and delivery of schemes is essential to the delivery of the financial trajectory.

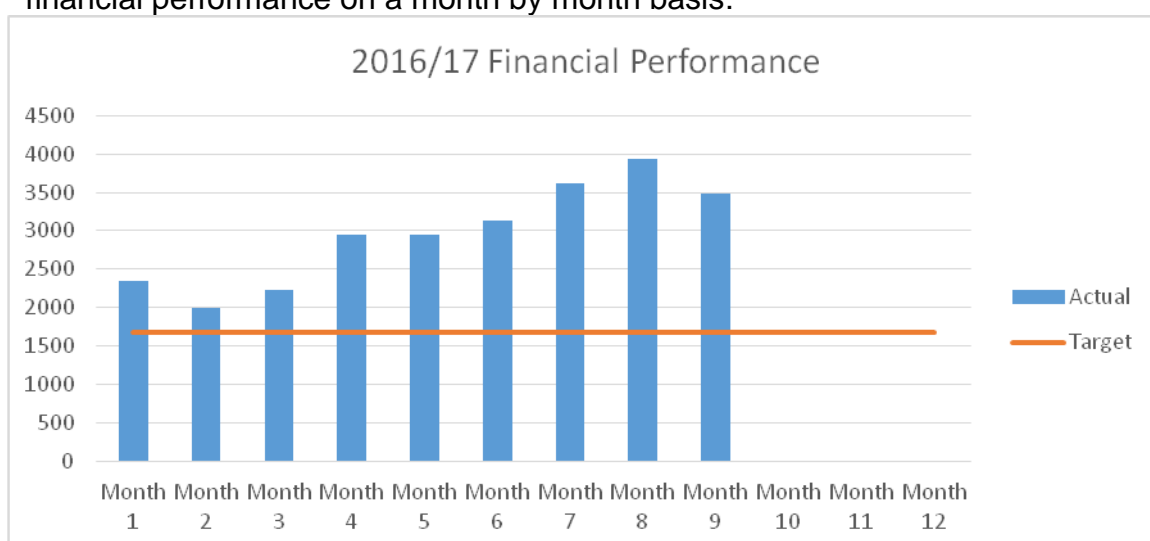
The proposed cost avoidance target is considered to be deliverable over the course of the year. The measures include an expectation that the Specialist Services and Welsh Risk Pool cost growth can be constrained during 2016/17.

Slippage in funding has been assumed to be deliverable within the financial position. However this is a significant risk as it is dependent on the receipt of new funding from Welsh Government and the continued robust management of commitments against the funding available. To date around the means to deliver around £6m non-recurrently has been identified through slippage and other technical means, however this still needs to be worked through to ensure it is deliverable. This would leave around £4m of planned savings unable to be delivered at year end, unless WG release significant further funding. This anticipated shortfall has now been factored into the year-end forecast.

The strategic improvement in service expenditure target expects that most of the expenditure reductions achieved in Quarter 4 2015/16 would continue into 2016/17. The 8 months performance to date does not reflect this and given this performance it is highly unlikely that sufficient actions would be taken to meet this savings requirement. The non-delivery of this savings requirement has been factored into the financial position in recent months.

### 3. YEAR-END FORECAST POSITION & FINANCIAL RISKS

3.1 The expenditure of the first nine months of 2016/17 has seen the Health Board's financial position adrift of that expected by the financial plan, as seen in the chart below. The Month 9 reported position has shown a slight improvement, with the in-month reported position at £3.476m against a target of £1.675m. Some improvement is often reflected in the Month 9 position due to restricted annual leave, reduced availability of agency staff and reduced clinical capacity during the Christmas period. The graph below shows the distance from the required level of financial performance on a month by month basis:



Through the monthly financial performance review meeting, the six Service Delivery Units were tasked with identifying recovery actions to improve financial

performance. These expenditure profiles produced a year end position of £33.9m, which is some £13.8m above the £20.1m deficit plan.

- 3.2** At month 7, the table below was produced to provide an assessment of the best, likely, worst case scenario based on financial performance trajectories and the forecast position reported to Welsh Government was increased from £20.1m to £34.6m.

	£m Best	£m Likely	£m Worse
Plan Deficit	20.1	20.1	20.1
Operational Pressures based on SDU profile delivered	13.8		
Operational Pressures based on M8-M12 SDU profile delivered		14.5	
Operational Pressures based on M6&M7 performance			17.0
<b>Forecast Position Prior to funding</b>	<b>33.9</b>	<b>34.6</b>	<b>37.1</b>

The Month 8 position saw financial performance deteriorate further from the forecast trajectory, with the in month reported overspend being almost £1m above the forecast trajectory.

The Month 9 financial performance on operational budgets improved, however a number of risk have materialised and these along with the distance from trajectory in Month 8 has necessitated the Health Board year-end forecast to be revised further. The following table provides a summary of the movements in the forecast from £34.6m to £39.2m:

	£m
<b>Current Forecast</b>	<b>34.6</b>
Month 8 Adverse Movement from forecast trajectory	1.0
2015/16 RTT Funding Claw Back	1.8
Changes in Pensions Discount Rate notified in December	0.8
2016/17 RTT Performance Funding in excess of plan	(1.1)
Non-achievement of planned £10m slippage	3.75
Impact of In-Year Sustainability Actions:	
• Cessation of Outsourcing	(1.3)
• Investments Deferred	(0.15)
• Study Leave Held	(0.2)
<b>Revised Forecast</b>	<b>39.2</b>

- 3.3** The Health Board's Resource Plan contained a range of risks and opportunities that needed to be managed or mitigated during the course of the financial year. The majority of these risks and opportunities have been now been managed and reflected within the financial position and year-end forecast. The key risks remaining are:

- The Service Delivery Units and Directorates do not deliver their revised year-end target positions. This is being closely monitored through the regular

financial recovery meetings. All Service Delivery Units and Directorates are clear of their responsibility to at least deliver the year-end target and where possible to improve upon these positions.

- The revised forecast includes the 2016/17 RTT Performance funding in full, however it should be noted that this funding is predicated on the delivery of the specified RTT target. If this is not delivered, there is a risk that Welsh Government will withdraw some or all of the £9.33m funding provided.

**3.4** There are a number of other funding issues that could potentially impact on the year-end position:

- The Welsh Government has been asked to meet the impact of the loss of Burns Services income whereby the Health Board has suffered a significant loss of income due to the closure of the Burns Unit following the treatment of an overseas patient.
- There has been a change in the funding arrangements for some elements of expenditure that was previously supported directly by Welsh Government i.e. WP10 prescriptions and Ophthalmic Services. The funding received is less than the expenditure being incurred and representations have been made to fund the impact.
- The Health Board is currently forecasting an underspend against the Dental allocation due to lower than planned levels of activity. The financial forecast assumes that the full funding will not be recovered by WG but retained by the Health Board.

**3.5** The priority for the Health Board is for each Service Delivery Unit and Directorate to formulate and implement plans which incorporate the in-year sustainability actions agreed. These include actions on:

- Non-Medical Workforce – this includes specific actions for nursing workforce and the general cessation of agency and overtime for non-nursing areas.
- Cessation of Non-Core RTT expenditure – this will require the cessation of outsourcing of further RTT activity during the final quarter of 2016/17.
- Medicines Management – support the medicines management plan.
- Deferral of Investment Decisions
- Restriction of Study Leave
- Appropriate use of Charitable Funds
- Medical Workforce Review and Service Reconfiguration.

## **4. BALANCE SHEET**

### **4.1 Balance Sheet**

	<b>Balance as at 1<sup>st</sup> April 2016 (£000)</b>	<b>Balance as at 31<sup>st</sup> December 2016 (£000)</b>	<b>Forecast as at 31<sup>st</sup> March 2017 (£000)</b>
<b><u>Non-Current Assets</u></b>			
Tangible & Intangible Assets	587,965	582,830	588,738
Trade & Other Receivables	74,498	94,601	97,594

<b>Total Non Current Assets</b>	<b>662,463</b>	<b>677,431</b>	<b>686,332</b>
<b><u>Current Assets</u></b>			
Inventories	10,859	11,699	10,859
Trade & Other Receivables	46,834	41,552	44,249
Cash	2,190	4,082	(24,966)
Non Current Assets Held for Sale	1,274	1,274	0
<b>Total Current Assets</b>	<b>61,157</b>	<b>58,607</b>	<b>30,142</b>
<b><u>Current Liabilities</u></b>			
Trade & Other Payables	125,389	135,094	139,003
Provisions	21,999	17,642	15,980
<b>Total Current Liabilities</b>	<b>147,388</b>	<b>152,736</b>	<b>154,983</b>
<b><u>Non-Current Liabilities</u></b>			
Trade & Other Payables	49,123	49,111	46,639
Provisions	80,832	95,237	99,336
<b>Total Non Current Liabilities</b>	<b>129,955</b>	<b>144,348</b>	<b>145,975</b>
<b>Total Assets Employed</b>	<b>446,277</b>	<b>438,954</b>	<b>415,516</b>
<b><u>Financed By Taxpayers Equity</u></b>			
General Fund	416,106	408,783	383,364
Revaluation Reserve	30,171	30,171	32,152
<b>Total Taxpayers Equity</b>	<b>446,277</b>	<b>438,954</b>	<b>415,516</b>

#### 4.1.1 Balance Sheet Assets and Liabilities

The key movements on the balance sheet between April 2016 and December 2016 relate mainly to movements in non-current trade and other receivables, trade and other payables and provisions.

The increase in both non-current trade and other receivables and provisions is linked to an increase in the value of clinical negligence claims against the Health Board as assessed by Legal and Risk Services. The Health Board is responsible for the first £25,000 of any claim with the remainder of the claim being met by the Welsh Risk Pool, with the balance sheet position reporting a provision for the gross amount of the claim, with a corresponding debtor to Welsh Risk Pool in trade and other receivables. The in-year increase relates primarily to 2 claims dating back to 2013 where the assessment of damages has increased as the likely settlement date of next financial year draws closer.

The December trade payables figure is higher than in previous months and is linked to the timing of the last creditor payment run by Shared Services Accounts Payable, with no supplier payment runs being processed after 23<sup>rd</sup> December due to the Christmas period.

The forecast year-end balance sheet reflects the best estimate of the likely impact of the forecast year end deficit of £39.2m. This includes a requirement for £24.966m of cash only funding from Welsh Government as outlined in the cash section of this report.

## 4.2 Cash

The closing December cash balance for the Health Board amounted to £4.082m which is above the month end cash target set by the Health Board of between £1m and £2m. The higher cash balance arose as a number of payments from local authorities were received on 28<sup>th</sup> December after the last supplier payment run, the impact of which was to reduce the trade receivables balance at the end of December as well as providing a higher than planned month end cash balance.

As reported to the Board in November, the Health Board has previously provided to Welsh Government a forecast cash deficit of £37.796m which was based on a forecast year end revenue deficit of £34.600m and anticipated movements in working balances.

Following the submission of this forecast cash deficit to Welsh Government in November 2016 the Health Board was advised by Welsh Government that it is unable to bid to Treasury for full cash support to fund revenue deficits and therefore requested that the Health Board undertake a detailed review of the forecast cash position and identify opportunities to minimise the cash requirement without impacting on the ability to maintain services. Given that the Health Board has to ensure that salary payments are made to staff, that all statutory payments are made to HMRC, that all contractual payments are made to primary care practitioners and that all LTA payments need to be made the only option available to the Health Board to reduce the cash requirement is to reduce payments to non NHS suppliers.

Having completed this review the Health Board advised Welsh Government that the minimum level of cash support required was £22.841m. Welsh Government will now submit a bid to HM Treasury for this cash to enable this cash only support to be provided but the Health Board has not yet been advised if this bid has been approved and the cash support will be provided.

A further review of the cash position has been undertaken following the revision of the forecast year end revenue deficit which has identified an increase in the cash requirement to £24.966m which has been advised to Welsh Government in the monthly monitoring returns. The analysis of this cash requirement is detailed in the table below:

Item	£000
I&E Forecast Deficit as per SCNE	39,200
<b>Cash Required for Movement in Working Balances</b>	

Forecast Reduction in Capital Creditors	1,241
Forecast Reduction in Revenue Creditors	3,317
Forecast Movement in Provisions	(708)
<b>Total Cash Required for Movements in Working Balances</b>	<b>3,850</b>
<b>Planned Reduction in Cash Payments to manage cash position as required by Welsh Government</b>	<b>(15,894)</b>
<b>In Year Cash Shortfall</b>	<b>27,156</b>
<b>Less Opening Cash Balance from 2015/16</b>	<b>2,190</b>
<b>Cash Required at 31<sup>st</sup> March 2017</b>	<b>24,966</b>

This is the first time that the Health Board has been in a position where it requires cash support from Welsh Government as a result of a forecast revenue deficit and managing the cash position in this way will be particularly challenging over the remaining months of the year, requiring close working with NWSSP Accounts Payable to ensure that despite the reduction in cash payments that payments continue to be made to all suppliers in order to ensure continued supplies of goods and services to the Health Board.

It must be noted that in order to reduce the cash deficit to £24.966m the Health Board has already had to reduce its planned supplier payments by £15.894m and this will inevitably mean a failure to achieve PSPP compliance in February and March and may mean that the cumulative PSPP target for the year is missed. Furthermore if the Welsh Government cash support is not provided this will require further reductions in payments to non NHS suppliers in February and March.

The cash position of the Health Board is now being proactively managed on a daily basis and the amount of cash made available for supplier payments being agreed with NWSSP Shared Services prior to each supplier payment run. It must also be stressed that the cash requirement of £24.966m assumes that:

1. There is no deterioration in the forecast revenue deficit
2. Other NHS bodies pay all their LTA amounts to the Health Board for 2016/17
3. Other NHS Wales bodies continue to make invoice payments to ABMU Health Board during February and March
4. All claims for reimbursement of clinical negligence payments submitted to Welsh Risk Pool are reimbursed following the January and March Advisory Board meetings.

#### **4.3 Public Sector Payment Policy (PSPP)**

To the end of December the Health Board achieved a compliance level of 96.2% of supplier invoices paid within the 30 day target, as compared to the target figure of 95%, with an in month performance of 96.0%. In order to ensure that this target has been achieved significant work has been undertaken by the Health Board and NWSSP Accounts Payable to ensure prompt authorisation of invoices and receipting of goods.

However, given the cash position and the requirement to significantly reduce payments to non NHS suppliers in February and March even with Welsh

Government cash support, it will not be possible to achieve in month PSCP compliance of 95% for these months. This places the cumulative compliance with the target at risk depending on actual PSCP performance in the months of February and March and may result in the failure to achieve this key target at 31<sup>st</sup> March.

## 5. 2017/18 FINANCIAL OUTLOOK

### 5.1 2017/18 Revenue Allocation Letter

The 2017/18 Revenue Allocation letter was issued to Health Boards on 20<sup>th</sup> December 2016.

The accompanying letters from the Director General Health and Social Services/NHS Wales Chief Executive and the Cabinet Secretary for Health, Well-being and Sport set the clear expectation that organisations operate within the funding set out in the allocation letter.

Health Boards are required to achieve and deliver the annual priorities for 2017/18 in line with prudent healthcare principles from within the funding set out in the Allocation letter.

The 2017/18 Draft Budget set out additional investment for Health and Social Services budgets, as described below:

	£m
General Increase in NHS Budget	220
Mental Health Funding Increase	20
Healthcare Profession Education	7
End of Life Funding	1
Eating Disorders & Gender Identity	1
Treatment Fund for High Cost Patients	16
<b>Total additional revenue funding</b>	<b>265</b>

Within the Revenue Allocation letter Health Boards have received a general uplift of £90m plus an increase in Mental Health funding of £20m. Welsh Government have retained £130m of the general NHS Budget increase with the basis of future distribution of be agreed.

The main headlines of the 2017/18 Revenue Allocation Letter are:

- The Health Board has received £16.117m general allocation uplift which its share of the £90m issued by Welsh Government. £130m of the general uplift is yet to be distributed by Welsh Government.
- The recurrent Intermediate Care Fund allocations remain in place, with additional allocations to support Welsh Community Care Information System (WCCIS) (£0.269m) and Integrated Autism Service (£0.086m).
- There is a further £12m Intermediate Care Fund to be issued in 2017/18.

- A significant additional recurrent allocation has been made for Mental Health services. This is made up of £0.902m funding issued for new services and schemes non-recurrently in 2016/17 which has been made recurrent within the Revenue Allocation letter and £3.582m new funding, which is the Health Board's share of the £20m Mental Health funding announced in the draft budget. The use of this new funding appears to be at the discretion of Health Board's within the Mental Health Programme budget.
- Delivery Plan funding remains in place, hosting arrangements have changed for Liver and Cancer plans, with hosting responsibility transferring from ABMU Health Board to others.
- The transfer of the Cancer Network hosting to NHS Collaborative has been actioned.
- The recurrent Primary Care Development funding remains unchanged from 2016/17. This results in shortfall in workforce element of funding remaining in 2017/18.
- Funding uplifts for GMS and Dental contracts for 2017/18 have not yet been finalised.
- Ring-fencing of Dental Contract allocation will be in place for Health Boards without an approved IMTP.

## 5.2 **Cost Growth Expectation for 2017/18**

The National Cost Assessment undertaken on behalf of Directors of Finance has identified additional inflationary and service growth pressures of £48m. In addition, a further £5m has been earmarked to meet local pressures. The Health Board always plans to manage an element of these growth pressures through management action, such as medicines management, ChC management and procurement opportunities. It is estimated that around £7.5m could be managed this way, reducing the in-year new cost growth to £45.5m.

This £45.5m in-year cost growth will be partially offset by the £16.117m general allocation uplift, leaving £29.4m of savings opportunities to be identified to deliver a balance in-year financial plan. This equates to a savings requirement of around 4%.

## 5.3 **Savings and Efficiency Opportunities**

The Health Board has identified the following areas of focus for the identification and delivery of savings and efficiency opportunities to meet the in-year financial challenge:

- Traditional cost down savings (1.25%) – the Health Foundation identify that between 0.75% and 1.5% is reasonable for these types of savings. These would include cost control and robust management grip through such things as sickness management, rostering, job planning and procurement.
- Variable pay management through the robust management of the workforce resource
- Productivity and efficiency gains identified through benchmarking. These could be cash-releasing or productivity gains but must not be seen as both.

### 5.3 Underlying Carry Forward

The Health Board is currently forecasting a budget deficit of £39.2m to the end of 2016/17. Within this there are a number of non-recurrent opportunities that have been utilised, through such things as slippage on new services and rates rebates. These are unlikely to be available in 2017/18 and this is expected to increase the underlying carry forward deficit taken into 2017/18 to around £53m. This is still be worked through to fully understand the longer term impact of recovery actions and the consideration of existing investment decisions.

The scale of this underlying structural deficit will require a broader themes to be developed including:

- Service Reconfiguration and Rationalisation
- Unwarranted Clinical Service Variation
- Workforce Redesign
- Digital Strategy
- Back Office Functions
- Medicines Optimisation.

### 5.4 2017/18 Financial Outlook

The financial outlook for 2017/18 is extremely challenging. It is essential that the Health Board at least ensures that the £53m underlying structural deficit is not added to in 2017/18.

The Health Board is working with the Recovery and Sustainability Director and is engaging external consultants to support the Health Board in delivering the short term savings and efficiency opportunities and in developing a strategy to address the underlying structural deficit.

## 6. CONCLUSION & RECOMMENDATIONS

6.1 The Health Board is asked to:

- (i) **Note** the Health Board overspend to the end of December 2016
- (ii) **Note** the movement in the Service Delivery Unit target positions and the shortfall in savings delivery
- (iii) **Note** the In-Year Financial Recovery proposals and the monitoring mechanisms
- (iv) **Note** the risk associated with the RTT performance funding
- (v) **Note** the balance sheet movements and forecast
- (vi) **Note** the forecast cash position and the actions necessary to manage the cash position; and
- (vii) **Note** the compliance with the Public Sector Payment Policy.