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Bwrdd Iechyd Prifysgol  
Abertawe Bro Morgannwg  
University Health Board



<b>Meeting Date</b>	<b>Health Board in Public</b> <b>29 November 2018</b>		<b>Agenda Item</b>	<b>3.(iii)</b>
<b>Report Title</b>	<b>FINANCIAL REPORT – Period 7</b>			
<b>Report Author</b>	Samantha Lewis, Assistant Director of Finance			
<b>Report Sponsor</b>	Lynne Hamilton, Director of Finance			
<b>Presented by</b>	Lynne Hamilton, Director of Finance			
<b>Freedom of Information</b>	Open			
<b>Purpose of the Report</b>	The report advises the Board of the Health Board financial position for Period 7 (October 2018).			
<b>Key Issues</b>	<p>The report invites the Board to note the detailed analysis of the financial position for Period 7 2018/19.</p> <p>The report also invites the Board to note the capital budget forecast position, cash position and key balance sheet movements.</p>			
<b>Specific Action Required</b> <i>(please ✓ one only)</i>	<b>Information</b>	<b>Discussion</b>	<b>Assurance</b>	<b>Approval</b>
		✓		
<b>Recommendations</b>	<p>Members are asked to:</p> <ul style="list-style-type: none"> <li>• <b>Note</b> that Welsh Government has set the Health Board a Control Total of £20m deficit.</li> <li>• <b>Consider and comment</b> upon the Board's Period 7 financial performance.</li> </ul>			

## FINANCIAL REPORT – PERIOD 7

### 1. INTRODUCTION

The report advises the Board that the Period 7 (October 2018) revenue financial position is an overspend of £13.679m.

The report invites the Board to note the detailed analysis of the revenue financial position and to consider the impact of the Recovery and Sustainability workstreams on the Financial Plan.

The report also invites the Board to note the capital budget forecast position, cash position and key balance sheet movements.

### 2. BACKGROUND

#### 2.1 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.**

2016/17	No Approved Plan
2017/18	No Approved Plan
2018/19	No Approved Plan

The Health Board will fail to achieve this Statutory Duty.

- **To achieve financial breakeven over a rolling three year period, which commenced on 1<sup>st</sup> April 2016 and will end on 31<sup>st</sup> March 2019.**

2016/17	£39.3m Overspend
2017/18	£32.4m Overspend
2018/19	£20.0m Forecast Overspend

The Health Board will fail to achieve this Statutory Duty.

#### 2.2 Summary of Performance against Key Financial Targets

Financial KPIs : To ensure that net operating costs do not exceed the revenue resource limit set by Welsh Government	Value £000
Reported year to date financial position – deficit/(surplus)	13,679

Reported year to date financial position compared to forecast deficit plan	2,012
Current year-end Forecast – deficit/(surplus)	20,000
<b>Capital KPIs: To ensure that costs do not exceed the capital resource limit set by Welsh Government</b>	<b>Value £000</b>
Reported in month financial position – deficit/(surplus)	(1,376)
<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>
Cumulative year to date % of invoices paid within 30 days (by number)	93.2

### 3. FINANCIAL IMPLICATIONS

#### 3.1 Revenue Position

##### 3.1.1 Summary Revenue Position

The Health Board is working towards a deficit control total of £20m by 31 March 2019.

The Health Board has reported an in-month overspend of £1.286m in Period 7 (October 2018), with the reported cumulative position after seven months of £13.679m.

The cumulative overspend is £2.012m above that which should be anticipated based on the £20m control total.

The key reasons for the overspend above the planned forecast deficit are the non-delivery of the required level of savings and increasing operational pressures, particularly medical staff costs. The non-delivery and operational pressures are being partially offset in-month by the use of mitigating opportunities, including slippage on some committed reserves and other recurrent and non-recurrent opportunities.

To meet the Welsh Government control total, the Health Board will need to deliver an average monthly deficit run-rate of £1.265m until the end of March 2019.

##### 3.1.2 Income

Income budgets have reported an over-achievement of £2.645m to Period 7. This reflects improving private patient income, RTA income, Research and Development income and VAT recovery. It should be noted that much of the income is activity driven and is as a result may result in additional costs.

### **3.1.3 Pay**

Pay budgets have reported an underspend of £2.328m. This underspend reflects vacancy levels across most staff groups. Whilst we are reporting an underspend, this is a misleading view because it does not reflect savings non-delivery. This is because CIPs, and therefore the effect of non-delivery, are classified as non-pay within the All Wales financial reporting structure. If the non-delivery impact was attributed on a 70/30 basis across pay and non-pay, the pay position would be reporting an overspend of £1.2m.

The pay award for Agenda for Change staff has been applied in Period 7. This has effectively increased pay costs by around £1.25m per month. However even after adjusting for this additional cost, pay expenditure levels are running above the levels for the same period in the previous year, due to increasing reliance on variable pay. **Slide 5.**

### **3.1.4 Non Pay**

Non-pay budgets have reported an overspend of £18.472m.

The non-pay position includes £11.3m, which reflects the impact of £25m financial plan deficit, less the released reserves and other mitigating opportunities.

Following the budget rebasing undertaken for the start of 2018/19, non-pay budgets and expenditure are better aligned. The residual £7.1m non-pay overspend can be attributed to savings non-delivery, both in terms of 2018/19 savings requirements and the 2017/18 savings included in the underlying financial position, this amounts to £5.1m and around £2m of emerging non-pay pressures linked to infrastructure maintenance, infection control issues and clinical consumables which are linked to activity increases.

### **3.1.5 Savings Requirement**

The Health Board Annual Operating Plan established a savings requirement of £21.2m for 2018/19. The identification and delivery of the savings requirement has been attributed to Executive led workstreams and is being managed through the Recovery and Sustainability Programme.

A review of savings at the end of Quarter 1, identified three workstreams were unlikely to deliver benefits in 2018/19, the Health Board has identified opportunities to mitigating against this lack of delivery. This effectively means that the savings expectation for 2018/19 has reduced to £15.9m

To date the Health Board has identified £15m of schemes rated as Green and Amber at the end of October, with a further £1m of Red schemes where delivery confidence is less assured. This £16m is shown in **Slide 4**

The level of savings of identified savings has remained broadly static for a number of months and whilst work is continuing to develop the workstream plans to enable further savings to be identified and delivered, it is unlikely that these will deliver any material saving in this financial year. It is however, essential that these schemes are fully identified and robustly planned to ensure they deliver the required benefits in 2019/20 financial year. The Health Board has identified and will continue to identify mitigating actions and opportunities to:

1. address the short falls in delivery against the confirmed £25m deficit plan; and
2. respond proactively to the Welsh Government control total.

### **3.1.6 Recovery & Sustainability Programme**

The Recovery and Sustainability Programme is not on track to deliver against the £21m savings programme as set out in 3.1.5 due in the main to the non-delivery of the three workstreams: Workforce Redesign, Reducing Waste, Harm and Variation and Mental Health Service Review. There is also significant slippage in delivering the objectives of the service remodelling workstream. This is due in part to delays in designing and mobilising schemes that underpin planned service changes, but it should also be recognised that operational pressures have impeded progress.

The focus of the programme is to ensure that the remaining workstreams are delivering to their maximum potential, whilst continuing to work on the three non-delivering workstreams to enable the improvement benefit to be achieved in 2019/20.

A review of all work streams has been undertaken at the mid-year point to assess progress and also to shape objectives and milestones for the remainder of 2018/19. This will be reported to Performance and Finance Committee in due course.

Welsh Government has confirmed its Targeted Intervention support package of £1.6m and this is being deployed to strengthen project management in a number of key areas to support workstreams, which was a key issue identified in the Q1 review undertaken in July.

The Financial Recovery Meetings have also been strengthened to provide greater assurance of controls and enhance delivery confidence.

### **3.1.7 Revenue Risks and Opportunities**

A number of financial risks and opportunities have been identified and are being monitored. The key risks and opportunities are shown in Slide 6. These risks are updated each month and are reported to Welsh Government and reviewed by the Performance and Finance Committee.

## 3.2 Capital

The approved CRL value at Month 7 is £25.040m, an increase in month of £4.3m. This includes Discretionary Capital and the schemes under the All Wales Capital Programme.

### 3.2.1 Performance to Date

The reported financial performance at Month 7 is a £1.376m. See details below

Scheme	Underspend to M7 £'000	Comments
Morrison - Renal unit	134	Main scheme now complete but later than originally forecast, reversion works and final account still to be agreed. Contingency of 50k remaining , see risk assessment below
HVS Phase 1b	134	There is an identified underspend on this schemes of £110k, see risk assessment below
Discretionary Capital - Estates	668	Underspend to date of £200k relating to a delayed start on the Isolation Room ED Morrison. The scheme has now started however is required to be completed in phases and will therefore require an adjustment to the allocation in year. Underspend of £214k against individual site estates allocations and minor delays across a number of schemes All allocations are reviewed and risk assessed monthly. Some changes to scheme budgets have been made in month to ensure there is no impact on the year-end forecast position
<b>Total</b>	<b>956</b>	

### 3.2.2 Risk Assessment

The risk assessments on All Wales Capital Programme schemes which are not considered to be low risk are:

Scheme	Risk Profile	Risk Value £'000	Comments
Morrison - HVS Phase 1B (S1) Fees & Build Main Scheme	High	110	Following completion and during commissioning of the Renal Refurbishment in Morrison the equipment requirements for Renal teams now based in the Main Entrance have been identified. There is an identified underspend on this schemes of £110k which was discussed with Welsh Government in the monthly progress meeting on the 24th September. As agreed at this meeting a proposal for reinvestment will now be submitted
Renal Refurbishment Morrison	High	30	There is a remaining contingency on this scheme of 50k, increase of 20k from M6. A draft final account figure has been received and is being updated as packages are agreed. As above This underspend was discussed with Welsh Government in the monthly progress meeting on the 24 <sup>th</sup> September and a proposal for reinvestment will be submitted
I2S – Health Records Modernisation	Medium	100	Current forecast for 2018/19 is indicating the potential for 150k underspend in year. There are however a number of risks still outstanding and further work is required around the risks. This will be discussed further at the November CRM however as CRLs are now fixed any slippage will need to be managed by the Health Board.
Fees for Bridgend Primary Care Scheme	Medium	10	Latest forecast provided by Linc Cymru is 10k over the initial allocation. This will be reviewed and monitored over the next few months and discussed with WG at the monthly CRM. Given the value this would normally be managed internally by the Health Board between years however

Scheme	Risk Profile	Risk Value £'000	Comments
			this now needs to be assessed in conjunction with the Bridgend transfer.

### 3.2.3 Forecast Outturn

The forecast outturn against the current CRL shows a break-even position.

### 3.3 Balance Sheet

For the period ended 31<sup>st</sup> October 2018 there was a reduction of £0.579m in net assets employed (0.13%). Total assets reduced by £24.701m with total liabilities reducing by £24.122m.

The main reduction in assets was in respect of the Welsh Risk Pool debtor for clinical negligence and personal injury claims. The health board accounts for such claims gross with all estimated settlement costs in excess of £25,000 being reimbursed by the Welsh Risk Pool. There was a £24.8m reduction in the estimated costs of the Welsh Risk Pool share of the outstanding claims on the report issued by Welsh Health Legal Services as at the end of September which is reflected in the October balance sheet. This reduction was offset by an increase in the income accrual for anticipated allocations from Welsh Government (£11m), as there were no outstanding allocations at year end. The largest element of the remaining movement is in respect of tangible and intangible fixed assets which reduced by £11.806m, with depreciation on these assets exceeding the asset additions for the period. The closing cash balance at the end of October of £0.892m was also £0.516m higher than at the end of March 2018, with a small increase in stocks of £0.321m relating to pharmacy stocks at Morriston and Singleton Hospitals and theatre stock at Morriston Hospital.

The reduction in liabilities was due to the reduction in the gross provision for clinical negligence and personal injury claims as per the latest estimated costs of the outstanding claims on the report issued by Welsh Health Legal Services as at the end of September, amounting to £24.702m. There was a small overall increase in trade and other payables of £0.580m, with a reduction of £7.736m in creditors relating to capital schemes, with an increase of £8.316m in revenue creditors. Of this increase £3.376m relates to accruals for invoices not yet received in respect of CHC cases with the remaining increase due to accruals for invoices not yet received in respect of ICF funding and the increase in invoices on hold following the introduction of the All Wales No PO/No Pay policy.



### 3.4 Cash

The closing October cash balance amounted to £0.892m which is in line with the plan to hold between £1m and £2m of cash at the end of the month in accordance with the Welsh Government best practice figure. The forecast cash deficit for 2018/19 based on receipts and payment trends to the end of October is estimated at £27.663m as detailed below:

<b>Analysis of Cash Position</b>	<b>£000</b>
Current Forecast I&E Deficit	20,000
Cash required for working balances movements - Capital	4,296
Cash required for working balances movements - Revenue	3,744
<b>Total Cash Required</b>	<b>28,040</b>
Less Opening Cash Balance	377
<b>Forecast Cash Deficit</b>	<b>27,663</b>

The cash forecast is monitored and updated on a daily basis, with the forecast deficit needing to be funded by Welsh Government through a combination of cash support for movement in working balances and strategic cash assistance with any strategic cash assistance required adding to the £55.292m strategic cash assistance already provided up to 31<sup>st</sup> March 2018. Repayment of this strategic cash assistance will be required in accordance with the Health Board's future Integrated Medium Term Plan submissions.

### 3.5 Public Sector Payment Policy (PSPP)

To the end of October the health board did not achieve the 95% PSPP target with 93.2% of supplier invoices paid within the 30 day target. The failure to achieve the 95% compliance has been due to delays in authorising nurse agency invoices earlier in the year. In order to address this issue additional resources have been put into this area and a thorough review of the authorisation processes undertaken, with changes made to the process in order to speed up the authorisation of these invoices. This has resulted in an

improvement in PSPP compliance with the in month performance being above the 95% target in both September (95.6%) and October (97.3%).

#### **4 RECOMMENDATION**

The Board is invited to:

- **Note** that Welsh Government has set the Health Board a Control Total of £20m deficit.
- Consider and comment upon the Board's Period 7 financial performance, in particular:
  - i. the revenue outturn position; cumulative overspend of £13.679m, the revenue outturn forecast and the revenue risk profile in particular in connection with the Recovery and Sustainability Programme delivery confidence;
  - ii. the capital forecast position;
  - iii. balance sheet movements;
  - iv. cash position; and
  - v. performance against the Public Sector Payment Policy compliance.

<b>Governance and Assurance</b>					
<b>Link to corporate objectives</b> <i>(please ✓)</i>	Promoting and enabling healthier communities	Delivering excellent patient outcomes, experience and access	Demonstrating value and sustainability	Securing a fully engaged skilled workforce	Embedding effective governance and partnerships
					✓
<b>Quality, Safety and Patient Experience</b>					
Financial Governance supports quality, safety and patient experience.					
<b>Financial Implications</b>					
No Implications for the Board to be aware of.					
<b>Legal Implications (including equality and diversity assessment)</b>					
No Implications for the Board to be aware of.					
<b>Staffing Implications</b>					
No Implications for the Board to be aware of.					
<b>Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015)</b>					
No implications for the Board to be aware of.					
<b>Report History</b>	Board receives an update on the financial position at every meeting.				
<b>Appendices</b>	Appendix 1 – Appendix 2 -				