



AGENDA ITEM

6.2

PLANNING, PERFORMANCE & FINANCE COMMITTEE

BUDGET SETTING ARRANGEMENTS FOR 2021/22

Date of meeting	27/04/2021
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FOI Status	Open/Public
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If closed please indicate reason	Not Applicable - Public Report
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Prepared by	Mark Thomas, Deputy Director of Finance
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Presented by	Executive Director of Finance & Procurement
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Approving Executive Sponsor	Executive Director of Finance & Procurement
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Report purpose	ENDORSE FOR BOARD APPROVAL
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Engagement (internal/external) undertaken to date (including receipt/consideration at Committee/group)

Committee/Group/Individuals	Date	Outcome
Executive discussion	Ongoing	Choose an item.
Management Board	21/04/21	APPROVED

ACRONYMS

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1. SITUATION/BACKGROUND

The draft financial plan for 2021/22 was agreed by the Health Board on 26 March 2020 to be submitted to the Welsh Government as part of the overall 2021/22 plan. The Executive summary is attached at Annex A, and a high level summary is shown in the table below. As the plan currently shows a £19.8m deficit for the year as a whole, it remains a draft plan, and feedback and further discussion with the Welsh Government is needed.

Summary of Core Plan, Covid, & Planned Care Recovery	Q1	Q2	Q3	Q4	Total
	£m	£m	£m	£m	£m
Core plan - assuming even phasing over Q1-4 initially	5.7	5.7	5.7	5.7	22.8
Covid costs net of WG funding	-7.4	-4.0	4.5	3.9	-3.0
Planned care recovery (costs assumed matched by funding)	0.0	0.0	0.0	0.0	0.0
Total	-1.7	1.7	10.2	9.6	19.8
Cumulative total	-1.7	0.0	10.2	19.8	

The purpose of this report is to provide further information on the budget setting principles and assumptions and the proposed allocation of the draft budget to ILGs and other service and corporate directorates for the three separate elements of the financial plan:

- The core plan
- Covid response
- Planned care recovery

The ILG and other budgets then provide clarity on the financial envelopes for local operational, workforce and financial plans to be developed during April and May.

The detailed working papers supporting the budget allocations have been shared with the Finance leads for each area.

2. SPECIFIC MATTERS FOR CONSIDERATION BY THIS MEETING (ASSESSMENT)

2.1 The core plan

A summary of the proposed budget increases, over and above the recurrent budgets, is provided below:

Core plan	Total	Merthyr & Cynon	Rhondda & Taff Ely	Bridgend	Medicines Mgt	Primary care	Other DE	Contracting	Corporates	Non Delegated	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	
Forecast recurrent deficits	33.9	5.5	5.1	3.0	3.2	0.3	0.3	0.8	0.7	15.0	33.9
WG Income	-29.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-29.4	-29.4
Inflation	14.3	1.1	1.5	1.8	0.6	0.1	0.2	2.6	0.7	5.8	14.3
Investments	10.3	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	10.0	10.3
Unavoidable Recurrent cost pressures and demand growth	15.5	1.0	1.0	1.4	3.6	0.0	0.0	5.0	0.0	3.6	15.5
Non Recurring costs and benefits	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.8	-5.8
Savings Targets	-16.1	-3.6	-4.0	-4.0	-2.7	-0.2	-0.3	-0.6	-1.2	0.5	-16.1
TOTAL BUDGET	22.7	4.0	3.5	2.1	4.7	0.4	0.2	7.8	0.2	-0.2	22.7

The key principles and assumptions used to allocate the above budgets are described below.

Forecast recurrent deficits at 31 March 2021- £33.9m

The components of the forecast recurrent deficit at 31 March 21 are summarised below:

Forecast recurrent deficits at 31 March 21	Merthyr & Cynon	Rhondda & Taff Ely	Bridgend	Medicines Mgt	Primary care	Other DE	Contracting	Corporates	Non Delegated	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Planned recurrent deficit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.4	13.4
Total savings shortfalls- M10 forecasts	3.7	2.7	4.6	1.1	0.3	0.3	0.8	0.4	1.6	15.6
CHC	0.3	0.3	-2.5							-1.9
Other recurrent cost pressures	1.6	2.1	0.8	2.1	0.0	0.0	0.0	0.3	0.0	6.8
Total	5.5	5.1	3.0	3.2	0.3	0.3	0.8	0.7	15.0	33.9
Total excluding CHC - £m	5.3	4.8	5.5							
Total excluding CHC - % of base budget	2.4%	2.4%	2.9%							

The forecast shortfalls against the recurrent savings targets for 2020/21 have been fully funded as part of the 2021/22 financial plan. This is in the context of the key cause of these shortfalls being the inevitable focus on the Covid response during the year.

The £4.9m for other recurrent cost pressures reflected in the plan is lower than was put forward by ILG and Directorates, as has been previously discussed, and significant management action is needed to manage these to the funded level.

Ongoing costs of the Covid response or otherwise due to Covid are not included in the recurrent deficit from 2020/21 within the core plan; they are reflected in the Covid element of the 2021/22 plan.

Recurrent Inflation - £14.3m

Recurrent cost pressure	£m	Allocation
Pay – A4C	4.3	Allocated to Non Delegated initially, pending detailed calculation based on M1 payroll compared to M12 payroll and confirmation of pay award for 21/22.

Pay – Medical	1.4	Allocated to Non Delegated initially, pending detailed calculation based on M1 payroll compared to M12 payroll and confirmation of pay award for 21/22.
Pay - Consultant incremental drift incl commitment awards	0.3	£100k per ILG to reflect estimated increased costs.
Pay – agency cost inflation	0.5	£150k per ILG to reflect estimated costs
Pay – incremental drift	1.0	Allocated based on recurrent A4C pay budgets.
Community pharmacy – earmarked WG allocation	0.5	100% Medicines Mgt.
CHC inflation – 2% estimate	1.2	Allocated based on recurrent CHC budgets.
NHSFNC inflation	0.3	100% BG ILG.
Non pay inflation – 2% estimate	2.2	Allocated based on recurrent non pay budgets.
LTA Inflation- core 2.0%	2.6	100% Contracting
Total	14.3	

Investments - £10.3m

Investment area	£m	Rec/NR	Allocation
Locally determined priorities	1.0	Rec	Allocated to Non Delegated initially and will be released based on the actual costs of the commitments already made <ul style="list-style-type: none"> Vascular reconfiguration £0.65m (additional C&V commissioning cost net of cost reduction in RTE ILG - initial estimate being refined but the change has been agreed) Early cancer diagnosis and cancer management development (already approved by Management Board)
Primary care – WG earmarked allocation	0.3	Rec	Allocated to Primary Care.
Health Board Transformation Fund	1.0	NR	Provision of £1m has been made for the transitional costs of moving from current to new better value service models/pathways and workforce models. This transition often involves double running costs for a period, and this is what the resource is set aside for. Its use has not yet been prioritised, and this will be part of the more detailed planning and budget setting process over April to June.

			Allocated to Non Delegated initially and will be released based on the actual costs of the agreed local priorities.
Enablers	1.0	Rec	<p>£1.0m has been included in the plan for further investment in enablers for improvement. Again the exact use of this will be decided in the more detailed planning process over April to June. This will be linked in part to whether WG supports the Health Board's request for TI funding (as this includes some enabling investment). But the key areas of priority identified are as follows:</p> <ul style="list-style-type: none"> • CTM improvement (including Value Based Healthcare) • Population health • ICT and informatics • Business partnering support to ILGs in some areas. <p>Allocated to Non Delegated initially and will be released based on the actual costs of the agreed local priorities.</p>
Out of hospital transformation	7.0	NR	Allocated to Non Delegated initially and will be released based on the actual costs of the agreed expenditure plan for 2021/22. There is a significant concern as currently there is not a plan to manage within the £7.0m funding available.
Total	10.3		

Recurrent cost pressures - £15.5m

Recurrent cost pressure	£m	Allocation
CHC growth(2% provided)	1.2	Allocated between ILGs based on recurrent CHC budgets
Prescribing growth	2.3	100% Medicines Management, with corresponding savings target
NICE growth - internal	1.3	100% Medicines Management
NICE growth – external	1.0	100% Contracting
Nurse Staffing Act	0.9	Allocated to Non Delegated initially and will be released based on the agreed actual costs
WHSSC and EASC	4.0	100% Contracting
WRP – risk sharing	0.4	Budget held centrally

Internal cost and service pressures	2.9	£700k per ILG as a contingency against unavoidable cost increases. The balance of £800k is allocated to Non Delegated initially and will be used to fund agreed recurrent cost pressures across other areas & provide a small level of contingency.
Increased demand for beds	1.5	Budget held centrally and released non-recurrently in 21/22 as part of the £5.8m net non-recurring benefit (see below). Required recurrently from 22/23 for transformation.
Total	15.5	

Non-recurring costs and benefits - £ (5.8)m

Non-recurring costs and benefits	£m	Allocation
Retrospective CHC claims	0.5	Budget held centrally and will be released to fund agreed costs
Other non-recurring costs	0.6	Budget held centrally and will be released to fund agreed costs. This is largely the medical staffing efficiency scheme and prioritised projects/reviews in ILGs to be agreed.
Laboratory Information Network Cymru (LINC)- Programme costs	0.2	Budget held centrally and will be released to fund agreed costs
Radiology Information System – Programme costs	0.1	Budget held centrally and will be released to fund agreed costs
Overseas nursing I2S project phase 2 initial investment	0.7	Budget held centrally and will be released to fund agreed costs. The total costs are likely to be in the region of £2m. An Invest to Save grant application is expected to be made for 75% of the costs.
Records digitisation I2S project	1.5	Budget held centrally and will be released to fund agreed costs
Targeted intervention costs	2.5	Budget held centrally and will be released to fund agreed costs. It is important to note that WG have not yet confirmed the level for funding for TI in 21/22 in relation to CTM Improvement and so the assumed £2.5m may not all be available.
Release of reserve for increased demand for beds	(4.7)	Negative budget held centrally
Accountancy gains	(6.2)	Negative budget held centrally

Slippage on investments	(1.0)	Negative budget held centrally
Total	(5.8)	

Recurrent savings targets - £16.1m

As noted above all areas have been funded for their forecast recurrent savings shortfalls from 2020/21.

For 21/22 all areas have been allocated a 2% savings target based on their forecast recurrent budgets at 31 March 2021. The only exception is Primary care prescribing where the savings target has been set at £2.3m which is equivalent to the budget increase for Primary care prescribing growth for 21/22.

2.2 Covid response

Given the significant uncertainties around the costs of the Covid response, and the uncertainties in funding after Q1/2, it is proposed to allocate Covid budgets on a quarterly basis.

A summary of the allocation of the proposed non-recurring budget increases for Covid response costs in Q1 (over and above the recurrent budgets) is provided below. The total budgets being allocated are as per the assessments made in the draft financial plan (Appendix 1).

Q1 Covid plan	Total	Merthyr & Cynon	Rhondda & Taff Ely	Bridgend	Medicines Mgt	Primary care	Other DE	Contracting	Corporates	Non Delegated	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
TTP	2.9	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	2.8	0.0	2.9
Mass Vaccination	3.2	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0	0.0	3.2
Cleaning Standards	0.6	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
CHC/FNC Support	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.9
PPE	0.6	0.2	0.2	0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.6
Long COVID	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Field Hospital	1.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.4	1.0
Primary care prescribing	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.9
Dental income Loss	0.4	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.4
IT	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2
Planned care exp're reductions	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5	-1.5
Secondary care reactive costs	2.8	0.7	0.7	0.7	0.0	0.0	0.7	0.0	0.0	0.0	0.0	2.8
Secondary care reactive costs- HCSW previously charged to W&OD but now being allocated to ILGs	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7
Undelivered Savings	4.0	0.9	1.0	1.0	0.7	0.1	0.1	0.1	0.3	-0.1		4.0
Costs to transition back out of Covid operating models	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0		1.0
TOTAL BUDGET	17.7	2.0	2.1	2.4	0.7	3.7	0.8	0.1	3.6	2.4		17.8

The key principles and assumptions used to allocate the above non-recurring budgets are as follows. It is important to highlight the distinction between Covid Programme costs

(which are effectively pass through costs to WG) and other Covid costs which are a 'real' cost to the Health Board and will need to be managed within our fair shares Covid allocation:

	Qtr 1 £m	Non recurring allocation
Programme costs:		
TTP	2.9	£2.8m budget allocated to Public Health plus a small allowance for pathology testing at circa £30k/month. Adjusted periodically to reconcile with actual costs/WG funding.
Mass vaccination	3.2	Budget allocated 100% to Primary Care. Adjusted periodically to reconcile with actual costs/WG funding.
Cleaning standards	0.6	Budget allocated to ILGs based on estimated split provided by Facilities. Adjusted periodically to reconcile to actual costs/funding
CHC/FNC support for Care homes	0.9	Budget retained and managed centrally.
PPE	0.6	Q1 allocation based on continuation at M12 levels. Adjusted periodically to reconcile with actual costs/WG funding.
Other Covid Costs :		
Long Covid	0.1	Budget allocated 100% to M&C ILG.
Field Hospital	1.0	Estimated staffing costs for April allocated to BILG (£300k) and estimated running costs for Q1 (£300k) allocated to Estates with balance held in reserve pending clearer view on M2/M3
Primary care prescribing	0.9	Allocated to Non Delegated initially pending clearer view on additional Covid costs.
Dental income loss	0.4	Allocated to Non Delegated initially. Actual net costs above budget due to Covid then funded.
IT	0.2	Budget allocated 100% to ICT.
Planned Care expenditure reductions	(1.5)	Allocated to Non Delegated initially. Will need to be assessed in light of the final planned care recovery plan and the level of planned elective cases compared to pre Covid levels by site.
Secondary Care reactive costs	2.8	Monthly budget is £918k based on 75% of 20/21 run rate. Budget allocated equally between the three ILGs and Facilities.
Secondary care reactive costs-HCSW previously charged to W&OD but now being allocated to ILGs	0.7	Monthly budget is £225k based on 75% of 20/21 run rate. Allocated to Non Delegated initially and will be released to ILGs in proportion to the actual amounts being recharged to ILGs in M1.

Undelivered savings	4.0	Allocation based on actual savings targets for 21/22.
Costs to transition back out of Covid operating models	1.0	Allocated to Non Delegated initially and will be released by the COO & DoF based on consideration of ILG proposals
Total	17.7	

2.3 Planned care recovery

It is expected that feedback will be received from the Welsh Government on the Planned Care Recovery Plan, and on the allocation of the initial £100m Welsh Government budget, in the near future. In the meantime, a process for making decisions on initial commitments at risk is underway. These will be funded centrally at risk, based on minimum expectations of allocations from the Welsh Government.

2.4 Other matters

- **Accountability letters and budget sign off arrangements**

As in previous years, the CEO will be sending accountability letters to each Executive Director, which will include the formal budget sign off arrangements and will also cover finance, performance, quality and workforce.

Director	Areas included in CEO accountability letters
Director of Operations	BG ILG MC ILG RTE ILG Medicines Management Primary care Other areas within Delivery Executive
Director of Finance	Finance Estates
Director of Planning	Planning & Partnerships Performance & Information Contracting & Commissioning ICT
Medical Director	Medical Directorate
Director of Nursing	Patient Care & Safety
Director of Workforce	Workforce and OD
Director of Public Health	Public Health

Director of Corporate services	Corporate Development
Director of Therapies & Health Sciences	Therapies and Health Sciences

In addition to the above, the Director of Operations will also be sending accountability letters to the ILG Directors and other Directors responsible for the areas within his portfolio.

- **Anticipated additional Welsh Government allocations**

Further Welsh Government funding, in addition to the anticipated funding referred to earlier in this report, has been announced and is expected to be allocated to Health Boards. The process for making these allocations is generally one based on a response to specific Health Board proposals.

This areas of funding announced include the following in particular:-

- Adult mental health
- CAMHS
- Urgent care (Contact ahead, Urgent Primary Care, and Ambulatory Urgent Care).

As specific Welsh Government allocations to CTM become clear, they will be devolved as appropriate.

3. KEY RISKS/MATTERS FOR ESCALATION TO BOARD/COMMITTEE

There are a number of risks around the 2021/22 budget and finances which have been flagged in the financial plan already agreed. These will be clarified further through feedback from Welsh Government on the draft plan, and through the local planning process over April and May, leading to an update of the plan by the end of June.

The key overarching areas of action needed to develop the plan, both locally in ILG and Directorates, and from an overall plan perspective, are as follows:-

- Service and workforce plans to manage and prioritise cost pressures within the available resources in the plan
- Prioritising the use of the internal funding set aside for transitional service changes and enabling.
- Development of efficiency savings plans to deliver on the agreed savings targets
- Service and workforce plans to manage transformation investment within the available resources in the current year and to plan for sustainability in 2022/23 once the non-recurring transformation funding comes to an end.

- Tracking of the use of the annual leave carried forward, and balancing the associated costs against a release of the resources held on the balance sheet as the accrued leave reduces.
- Development and refinement of Covid response plans, and agreeing updated mechanisms for reporting on Covid related costs against the budgets set.
- Development and refinement of the Planned Care Recovery plan within additional resources agreed by Welsh Government
- Working with Welsh Government to achieve a balanced plan for Q3/4
- Working through the year to reduce the level of recurrent deficit being taken into 2022/23 (currently £32.2m in the draft plan).

4. IMPACT ASSESSMENT

Quality/Safety/Patient Experience implications	There are no specific quality and safety implications related to the activity outlined in this report.
Related Health and Care standard(s)	Staff and Resources If more than one Healthcare Standard applies please list below:
Equality Impact Assessment (EIA) completed - Please note EIAs are required for <u>all</u> new, changed or withdrawn policies and services.	No (Include further detail below) If yes, please provide a hyperlink to the location of the completed EIA or who it would be available from in the box below. If no, please provide reasons why an EIA was not considered to be required in the box below.
Legal implications / impact	There are no specific legal implications related to the activity outlined in this report.
Resource (Capital/Revenue £/Workforce) implications / Impact	Yes (Include further detail below) The report discusses the allocation of resources in line with the IMTP and CTM priorities.
Link to Strategic Well-being Objectives	Ensure sustainability in all that we do, economically, environmentally and socially

5. RECOMMENDATION

Members of the Committee are asked to **ENDORSE** for Board **APPROVAL** the proposed budgets and budget-setting arrangements for 2021/22. It should be noted that these budgets are draft as the overall financial plan remains a draft plan given it is currently a deficit plan.