

2022-23 Finance Report

Month 2



Summary



Situation	Background
<p>Our revised draft financial plan was submitted to Welsh Government (WG) on 29 April 2022 and was analysed into three elements; core, exceptional cost pressures and ongoing COVID response costs. Our core plan submission was a deficit of £26.5m. The failure to submit a financially balanced plan is a breach of our statutory duty under the Finance (Wales) Act 2014.</p> <p>Our deficit core plan includes savings of £17.3m to be delivered in year. In addition, recovery actions are required to address bought forward cost pressures of circa £11m. Meeting these requirements will represent a step change in savings delivery.</p> <p>In accordance with WG plan guidance, additional allocations have been assumed in respect of our assessed exceptional cost pressures (£19.0m) and ongoing COVID response costs (£32.3m). However, this funding has not yet been confirmed and is therefore shown as at risk.</p> <p>There remain a number of residual risks and uncertainties spanning all elements of our plan and our cost estimates and risk assessments will continue to be refined and updated during 2022/23.</p> <p>This report outlines our financial performance against our draft plan for the period to 31 May 2022.</p>	<p>Our financial performance for 2021-22 was reported at a small surplus of £0.037m and thus we achieved our break even financial duty against its Revenue Resource Limit over the 3 year period 2019-20 to 2021-22.</p> <p>However, our underlying position deteriorated during 2021-22 to a recurrent deficit of £44.5m, compared with a planned recurrent deficit of £31.4m. This deterioration can primarily be attributed to the recurrent shortfall in savings delivery.</p> <p>We planned to achieve savings of £14.5m by the end of March 2022 and £16.1m was planned to be delivered recurrently. We achieved in year savings of £14.5m, of which £5.0m was delivered recurrently. Our recurrent savings shortfall in 2021-22 was therefore £11.1m.</p> <p>During 2021-22, we received COVID funding of £93.6m plus Planned Care Recovery funding of £20.8m.</p>





Summary



Assessment	Recommendation
<p>As at Month 2, we are reporting:</p> <ul style="list-style-type: none"> A M2 YTD deficit of £5.232m compared to a straight line plan of £4.416m. This represents an adverse variance of £0.815m (M1: £0.154m) M2 COVID Programme expenditure of £1.3m (M1: £2.1m). M2 COVID Response expenditure of £1.3m (M1: £3.0m). Exceptional cost pressure expenditure of £1.5m (M1: £1.3m). <p>As at Month 2, we are forecasting :</p> <ul style="list-style-type: none"> A Core plan deficit of £26.5m (M1:£26.5m) Exceptional costs of £18.0m (M1: £18.0m) Covid costs of £30.5m (M1: £35.7m). The exceptional items & COVID response costs are anticipated to be fully funded by Welsh Government. However, this funding has not yet been confirmed by Welsh Government and is shown as a risk to the plan. An Underlying recurrent deficit at 31 March 2023 at £28.0m. This is consistent with plan. However, urgent work is needed to further develop and implement savings plans to meet the £17.3m recurrent savings target. As at M2, only £10.8m of recurrent savings plans are identified and, of these plans, £6.9m have an Amber risk rating. 	<p>The Board is asked to DISCUSS and NOTE financial performance for the period to 31 May 2022.</p>





Contents

Slide	Subject Area
5	Executive Summary
6-7	YTD Performance & Forecast
8-10	Pay Expenditure
11	Agency Expenditure
12	Non pay Expenditure
13	COVID Expenditure
14	Exceptional Cost Pressures Expenditure
15	Savings (including Accountancy gains)
16-17	Income Assumptions
18	Risk Management – Risks and Opportunities
19	Statement of Financial Position- from M3 onwards
20	Cash Flow forecast- from M3 onwards
21	Public Sector Payment Compliance- from M3 onwards
22	Capital- from M3 onwards



Executive Summary



Year to Date Revenue

- M2 YTD deficit of £5.232m compared to a straight line plan of £4.416m, representing an adverse variance of £0.815m (M1: £0.154m)
- M2 COVID Programme expenditure of £1.3m (M1: £2.1m).
- M2 COVID Response expenditure of £1.3m (M1: £3.0m).
- Exceptional cost pressure expenditure of £1.5m (M1: £1.3m).
- M2 total Pay expenditure of £51.3m (M1: £52.4m)
- M2 total Agency costs of £4.4m (M1: £4.7m)
- M2 total Savings of £1.6m (M1: £0.7m)

Key Financial Issues

- Forecast Core plan deficit of £26.5m (M1:£26.5m)
- Forecast Exceptional costs at M2 of £18.0m (M1: £18.0m)
- Forecast Covid costs at M2 of £30.5m (M1: £35.7m).
- The exceptional items & COVID response costs are anticipated to be fully funded by Welsh Government. This funding has not yet been confirmed by Welsh Government and remains a risk to the plan.
- Forecast Underlying recurrent deficit at 31 March 2023 at £28.0m. This is consistent with plan but urgent work is needed to develop robust savings plans to meet the £17.3m recurrent savings target. The M2 recurrent savings plans are only £10.8m and £5.1m of these plans have an amber risk rating.

Capital

- The Capital Resource Limit (CRL) is currently £62.94m.As at M2, £9.3m has been incurred against the CRL
- Significant forecast variances from plan include:
 - Bridgend Health & Wellbeing Centre – Delays in appointing contractor resulting in slippage of £3m
 - PCH Ground & First Floor – Potential overspend of £9.4m, currently being risk shared with WG
 - POW Fire Enforcement – Potential remedial action required not included in plan





Year to Date Performance and Forecast



	M2 Actual	M2 YTD	M2 Forecast	M1 Forecast	Financial Plan
	£m	£m	£m	£m	£m
Core plan deficit	2.9	5.23	26.5	26.5	26.5
Exceptional items:					
National insurance changes	0.5	0.9	5.0	5.0	5.0
Energy inflation	0.8	1.5	10.6	10.6	11.6
Real Living Wage for Social Care Workers	0.2	0.4	2.4	2.4	2.4
Anticipated funding	(1.5)	(2.8)	(18.0)	(18.0)	(19.0)
Total	0.0	0.0	0.0	0.0	0.0
Covid response costs:					
Programme	1.3	3.4	16.2	15.2	15.6
Other	1.3	4.3	14.3	20.5	16.7
Anticipated funding	(2.6)	(7.7)	(30.5)	(35.7)	(32.3)
Total	0.0	0.0	0.0	0.0	0.0
Grand total	2.87	5.23	26.5	26.5	26.5

Key Points for Year to Date Performance:

- The M2 position is reporting a £5.2m deficit against the revenue resource limit, which is £815k worse than plan.
- Circa £550k of this variance is due to a Welsh Government instruction to remove COVID income losses and ICT/Homeworking costs from COVID response costs and to treat them as a Core plan cost.
- The exceptional items & COVID response costs are anticipated to be fully funded by Welsh Government. This funding has not yet been confirmed by Welsh Government and remains a risk to the plan.

Key Points for Current Year Forecast:

- The current year core plan forecast remains on track to deliver a planned deficit of £26.5m.
- The M2 Exceptional items forecast remains unchanged from M1.
- The M2 COVID programme forecast has increased by £1.0m from M1 due to revised vaccination programme plans.
- The M2 COVID response forecast expenditure has improved by £5.2m from M1. This includes £3m for income losses and ICT/homeworking costs noted above which are now shown as a Core plan cost rather than a Covid cost. Other Covid response costs have also been revised downwards following correspondence indicating a change to policy and IPC guidance. The M2 forecast assumes that many costs will be phased out by the end of Q2. Any significant resurgence of Covid in Q2, Q3 or Q4 will therefore deteriorate the M2 forecast.





Year to Date Performance and Forecast



	Annual Budget (£m)	Cur Month Variance (£m)	YTD Variance (£m)
Pay	597.3	0.1	0.5
Non Pay	764.9	0.6	(0.7)
CRES	(10.4)	(0.2)	0.6
Income	(149.8)	0.1	0.4
Allocations	(1,202.1)	0.0	0.0
Planned Deficit (£26.5m)	0.0	2.2	4.4
Grand Total	0.0	2.9	5.2

Key Points:

- The M2 position is reporting a £2.9m deficit against the revenue resource limit, which is £815k worse than plan.
- During M2 the core position deteriorated by £550k to reflect a Welsh Government instruction to remove COVID income losses and ICT/Homeworking from the forecast COVID response funding.
- The main driver for the remaining £265k adverse variance is the Savings delivery shortfall of £600k.





Pay Expenditure



Staff Group	Plan £'m	YTD Actual £'m	YTD Variance £'m
Administrative & Clerical	14.0	14.0	0.0
Medical And Dental	24.6	25.8	1.2
Nursing And Midwifery Registered	34.4	33.5	(0.9)
Add Prof Scientific And Technical	3.1	2.8	(0.3)
Additional Clinical Services	12.4	13.3	0.9
Allied Health Professionals	6.4	6.2	(0.1)
Healthcare Scientists	2.1	2.1	(0.1)
Estates And Ancillary	5.9	5.9	(0.0)
Students	0.0	0.0	0.0
Pay Budget Adjustments	0.2	0.0	(0.2)
Grand Total	103.1	103.7	0.5

Key Points:

- The M2 YTD pay expenditure is £103.7m . This represents a £0.5m adverse variance compared to the M2 plan of £103.1m.
- The adverse variance in Medical & Dental was mainly due to increased ADH and Waiting List payments.
- The adverse variance in Additional Clinical Services reflects additional cover provided to manage registered nursing vacancies.





Pay Expenditure Trends



Staff Group	Jan-22 £'m	Feb-22 £'m	Mar-22 £'m	Apr-22 £'m	May-22 £'m
Administrative & Clerical	7.5	7.3	11.2	7.1	6.9
Medical And Dental	13.5	13.2	17.9	12.5	13.4
Nursing And Midwifery Registered	17.5	17.0	26.1	17.5	16.0
Add Prof Scientific And Technical	1.4	1.4	2.8	1.4	1.4
Additional Clinical Services	7.1	6.7	11.3	6.8	6.6
Allied Health Professionals	3.2	4.0	3.8	3.1	3.1
Healthcare Scientists	1.0	1.0	1.5	1.0	1.0
Estates And Ancillary	3.2	3.0	7.3	2.9	2.9
Students	(0.0)	0.0	0.1	0.0	0.0
Pay Budget Adjustments	0.0	0.0	0.0	0.0	0.0
Grand Total	54.4	53.7	82.0	52.4	51.3

Key Points for Pay Expenditure Trends:

- The M12 expenditure includes specific year end adjustments of £28.9m (pension & annual leave).
- The M2 expenditure is reporting £51.3m. This represents an improvement of £1.1m compared to the M1 position and a £2.5m improvement compared to the M10-M12 average of £53.7m.





Pay Expenditure Trends



Key Points for Pay Expenditure Trends:

- The M12 pay expenditure included specific year end adjustments of £28.9m (pension & annual leave). The M10-M12 average monthly spend (excluding the £28.9m) was £53.7m
- The M2 pay expenditure was £51.3m. This represents an improvement of £1.1m compared to the M1 position and a £2.5m improvement compared to the M10-M12 average of £53.7m.
- Medical pay expenditure was slightly higher in M2 at £13.4m compared to £12.5m in M1 and an average of £13.2m during M9-11.
- Nursing pay expenditure was lower in M2 at £16.0m compared to £17.5m in M1 and an average of £17.1m during M9-11.





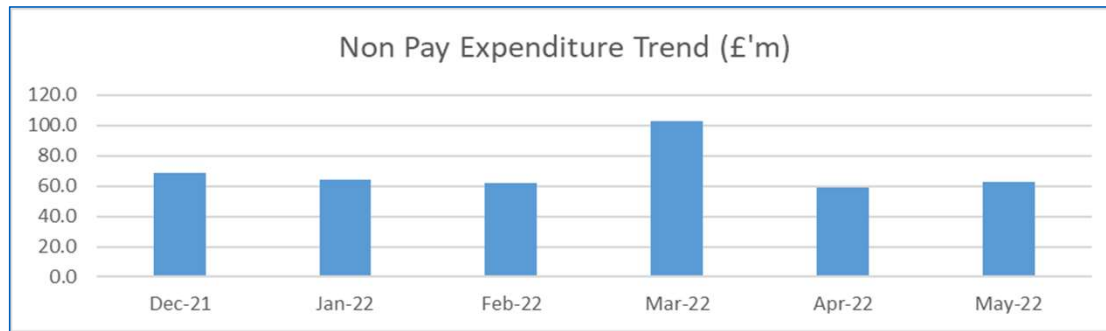
Non Pay Expenditure



Staff Group	Plan £'m	YTD Actual £'m	YTD Variance £'m
Primary Care Contractors	22.2	22.6	0.3
Primary Care Drugs	15.5	15.2	(0.2)
Provider Non Pay	26.3	26.4	0.1
Commissioned Activity	53.2	53.4	0.3
Capital Charges	4.0	4.0	0.0
Other Non Pay	1.5	0.3	(1.2)
Total Expenditure	122.7	122.0	(0.7)

Key Points for Non Pay Expenditure:

- The main reason for the £0.7m surplus within Other Non Pay is the release of non delegated reserves of £1.2m.
- There are no other significant variations at M2.





COVID Expenditure



	M2 Actual	M2 YTD	M2 Forecast	M1 Forecast	Financial Plan	Change from M1
	£m	£m	£m	£m	£m	£m
Programme costs						
TTP	0.6	1.7	5.4	6.5	6.5	(1.1)
Mass Vaccination	0.6	1.5	9.6	7.4	7.4	2.2
PPE	0.1	0.2	1.2	1.3	1.6	(0.1)
Sub total	1.3	3.4	16.2	15.2	15.6	1.0
COVID Response Costs:						
Cleaning Standards	0.1	0.3	2.1	2.2	2.3	(0.1)
Capacity & Facilities costs	0.4	1.3	1.6	2.9	3.0	(1.3)
Prescribing costs	0.2	0.4	2.1	2.1	2.1	0.0
Dental income losses	0.2	0.5	2.5	2.5	2.5	0.0
Increased workforce costs	0.4	1.6	3.5	5.9	2.6	(2.4)
Long Covid	0.1	0.1	0.8	0.8	0.8	0.0
Flu extension	0.0	0.0	0.6	0.6	0.6	0.0
Discharge support	0.1	0.2	0.5	0.6	0.6	(0.1)
Other Covid Response	(0.2)	0.1	0.6	3.0	2.3	(2.3)
Sub total	1.3	4.3	14.3	20.5	16.7	(6.2)
Total Covid costs	2.6	7.7	30.5	35.7	32.3	(5.2)
Anticipated funding	(2.6)	(7.7)	(30.5)	(35.7)	(32.3)	5.2
Total	0.0	0.0	0.0	0.0	0.0	0.0

Key Points for the M2 COVID Expenditure:

- Programme Costs – the M2 spend of £1.3m was £0.8m below the M1 costs of £2.1m.
- Other COVID Costs – the M2 spend of £1.3m was £1.7m below the M1 costs of £3.0m.
- COVID Costs are anticipated to be fully funded by WG. However, this funding has not yet been confirmed by Welsh Government and is shown as a risk to the plan.

Key Points for forecast COVID Expenditure:

- Programme Costs – the M2 forecast has increased by £1.0m from M1. The main increase is the £2.2m movement in the Mass Vaccinations forecast which reflects a revised plan.
- Other Covid costs – the M2 forecast has reduced by £6.2m from M1.
- The M2 COVID response forecast expenditure has improved by £5.2m from M1. This includes the removal of £3m for income losses and ICT/homeworking costs noted above which are now shown as a Core plan cost rather than a Covid cost.
- Other Covid response costs have also been revised downwards following correspondence indicating a change to policy and IPC guidance.
- The M2 forecast assumes that many costs will be phased out by the end of Q2. Any significant resurgence of Covid in Q2, Q3 or Q4 will therefore deteriorate the M2 forecast.





Exceptional Cost Pressures Expenditure



	M2 Actual	M2 YTD	M2 Forecast	M1 Forecast	Financial Plan	Change
	£m	£m	£m	£m	£m	£m
National insurance changes	0.5	0.9	5.0	5.0	5.0	0.0
Energy inflation	0.8	1.5	10.6	10.6	11.6	(1.0)
Real Living Wage for Social Care Workers	0.2	0.4	2.4	2.4	2.4	0.0
Total Exceptional Costs	1.5	2.8	18.0	18.0	19.0	(1.0)
Anticipated funding	(1.5)	(2.8)	(18.0)	(18.0)	(19.0)	1.0
Grand total	0.0	0.0	0.0	0.0	0.0	0.0

Key Points:

- The M2 spend of £1.5m was £0.2m higher than the M1 spend of £1.3m.
- There has been no change to the forecast Exceptional costs in M2.
- It is anticipated that these Exceptional costs will be fully funded by WG. However, this funding has not yet been confirmed by Welsh Government and is shown as a risk to the plan.

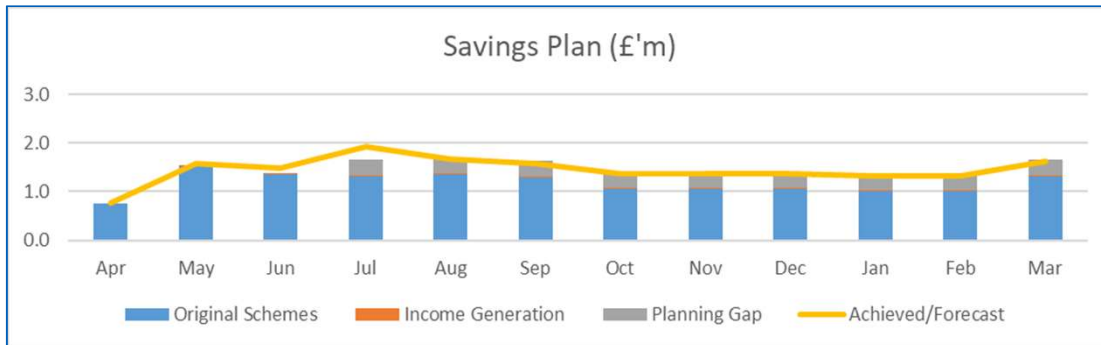




Savings (including Accountancy Gains)



	Month 2			M2	22/23	Rec
	M2 YTD	22/23	Rec			
	£m	£m	£m	£m	£m	£m
Planned savings		14.1				
Planned income generation		0.2				
Plans to be finalised		3.0				
Savings target as at M2	2.9	17.3	17.3	1.4	17.3	17.3
Actual and Forecast Savings	(2.3)	(17.3)	(10.8)	(0.7)	(14.3)	(7.3)
Total	0.6	0.0	6.5	0.7	3.0	10.0



Key Points for Savings achievement:

- Forecast in year savings have improved by £3m in M2 to £17.3m. This forecast includes £10.4m of schemes classified as Green and £6.9m Amber.
- Forecast Recurrent savings have improved by £2.5m in M2 to £10.8m. This forecast includes £5.7m of schemes classified as Green and £5.1m Amber.
- Urgent work is still needed to develop a robust savings plan to deliver £17.3m of savings in 22/23 and also on a recurrent basis.
- It is important to note that M2 internal reporting within the Health Board is reporting a M2 YTD savings shortfall of £0.6m compared to the Breakeven position reported in the WG Monitoring Return. This is due to a different phasing of the savings target in the HB plan where the annual target of £17.3m has been phased equally through M1 to M12.
- In addition to the £17.3m savings target the financial plan includes a target of £4.5m for accountancy gains. Delivery of this target is classified as Green and is considered to be low risk.





Income Assumptions WG



0	RESOURCE LIMIT				Resource
	HCHS £'m	Pharmacy £'m	Dental £'m	GMS £'m	Limit £'000
Confirmed Welsh Government Allocations	1,000.4	28.1	22.2	78.8	1,129.5
Anticipated Allocations:					
COVID Programmes	16.2				16.2
Other COVID Response	14.3				14.3
Exceptional Costs	18.0				18.0
WRP	(3.2)				(3.2)
Substance Misuse	3.9				3.9
2022/23 MH Funding	3.3				3.3
2021/22 MH Funding	2.4				2.4
Same Day Urgent Care	2.2				2.2
Value in Health Care Hosting	2.2				2.2
Targeted Intervention	1.7				1.7
Holiday Pay on Overtime	1.5				1.5
21/22 GMS Uplift				1.3	1.3
Dementia ICF	1.2				1.2
PACU	0.9				0.9
Other Anticipated Allocations	3.2				3.2
Total Allocations	1,068.7	28.1	22.2	80.1	1,199.1

Key Points for Allocations:

- As at M2 the confirmed revenue resource allocation was £1,129.5m.
- The forecast position assumes a further £69.6m of Anticipated allocations.
- The forecast position assumes that all the COVID response costs and Exceptional costs will be fully funded by WG:
 - £16.2m – COVID Programme
 - £14.3m – COVID Response
 - £18.0m – Exceptional Costs
- The latest assessment from NWSSP for the contribution to the Risk Pool has been estimated at £3.165m. This will be a reduction to the resource limit.





Income Assumptions- NHS



	Contracted Income	Non Contracted Income	Total Income
	£'m	£'m	£'m
Swansea Bay University	30.5	1.7	32.2
Aneurin Bevan University	22.6	1.3	23.9
Betsi Cadwaladr University	0.0	0.2	0.2
Cardiff & Vale University	15.9	1.6	17.4
Cwm Taf Morgannwg University	0.0	0.0	0.0
Hywel Dda University	0.5	0.3	0.8
Powys	2.6	0.8	3.4
Public Health Wales	3.0	0.8	3.7
Velindre	0.0	8.7	8.7
NWSSP	0.0	0.0	0.0
DHCW	0.7	0.0	0.7
Wales Ambulance Services	0.0	0.1	0.1
WHSSC	10.4	0.0	10.4
EASC	0.0	0.0	0.0
HEIW	0.0	12.2	12.2
NHS Wales Executive	0.0	0.0	0.0
Total	86.2	27.6	113.8

Key Points :

- The M2 plan assumes £113.8m of income from Welsh NHS organisations.
- A further £36.0m of non NHS income is also included in the financial plan of which £10.8m relates to Local Authority income and £6.0m for patient dental charges..
- Over the last 2 years there has been an All Wales agreement to support 'stability of LTA income' by retaining a block arrangement based on 19/20 income levels uplifted for inflation. The All Wales agreement has changed for 2022/23 and will transition towards a hybrid Cost & Volume agreement where performance is measured against 19/20 activity levels and variances will impact LTA income & expenditure.
- With current LTA activity levels below 19/20 activity this represents a risk to our income assumptions.
- The LTA with Powys HB remains in dispute in respect of the additional activity flows being treated at PCH following the opening of the Grange Hospital and transfer of services from Nevil Hall.
- All LTAs need to be agreed and signed by the end of June 2022. Any LTAs not agreed by that time will be submitted for arbitration with Welsh Government.





Risk Management Risks and Opportunities



	Month 2	Month 1	Financial Plan 30 April
	£m	£m	£m
Risks:			
Reduction in COVID funding - Income losses & ICT/Homeworking	3.0	0	0
Potential reduction in anticipated allocations for COVID response	7.8	0	0
Potential reduction in anticipated allocations of Exceptional items	18.0	0	0
Shortfall against planned savings delivery of £17.3m.	2.3	2.5	2.5
Shortfall against recovery plans to address forecast recurring overspends from 2021/22 of circa £11m	0	2.5	2.5
Cost of covering extra annual leave day and extra bank holiday	2.0	2.0	2.0
Winter plan costs not covered by additional WG funding	2.5	2.5	2.5
External NICE costs exceed planned growth of £2.5m	0.5	0.5	0.5
Return to Cost & Volume LTA arrangements in 22/23 from the block arrangements during the past 2 years	1.5	1.5	1.5
Contracting risks with other Health Boards	1.0	1.0	1.0
Non Pay Inflation exceeds the £4.4m provision made in the plan (4.0%)	1.1	1.1	1.1
Impact of new funding arrangements for the Regional Integration Fund and matched funding requirements	0	2.5	2.5
Impact of auto-enrolment upon employers pension costs	1.2	1.2	0.0
Total risks	40.9	17.3	16.1
Opportunities:			
Further slippage opportunities on WG 22/23 investment funding	(1.7)	0	0
Balance sheet reviews including the 21/22 Annual leave accrual	tbc	(2.0)	(2.0)
Total Opportunities	(1.7)	(2.0)	(2.0)
Total	39.2	15.3	14.1

Key Points :

- Welsh Government have requested that we remove our anticipated funding for COVID income losses and ICT/Homeworking costs. This has resulted in a new risk to the Core plan of £3.0m.
- Welsh Government have also requested that anticipated funding for certain COVID response costs and Exceptional items should be treated as a risk and be shown in our risk tables (£7.8m and £18.0m).
- The latest M2 savings plan includes Amber schemes of £6.9m
- The Recovery plan risk and the Regional Integration fund risk have been reduced in M2.
- As at M2, the main opportunities are the retention of potential slippage on the NEW WG allocations for SDEC and Mental Health, plus a further review of balance sheet opportunities.

