2.12 Report of the Finance Committee / Adroddiad y Pwyllgor Cyllid

Presenter: Michael Hearty

Finance Committee Update Report from meeting on 13 March 2020

Finance Committee Update Report from meeting on 28 April 2020
The Finance Committee has been established to advise the Board on all aspects of Finance and the revenue implications of investment decisions. The primary role of Hywel Dda University Health Board’s (HDdUHB’s) Finance Committee is, as such, to provide assurance on financial performance and delivery against HDdUHB financial plans and objectives and, with regard to financial control, to provide early warning of potential performance issues and to make recommendations for action to continuously improve the financial position of the organisation.

This report summarises the work of the Finance Committee at its meeting held on 13th March 2020 (no meeting having been held in February 2020), with the following highlighted:

- **Finance Report Month 11** – the Month 11 Finance Report was presented to Committee, identifying a Year to Date (YTD) variance to breakeven position of £32.2m and a revised projected year-end deficit position of £35.0m, following draw-back of £10m additional Welsh Government (WG) funding. Significant in-month adverse variances against plan were highlighted, with primary factors cited as significant pressures on drug costs in both Secondary and Primary Care; staff vacancies and sickness covered by premium cost staff, outsourcing costs due to vacancies; winter pressures; non-delivery of savings in Radiology and the impact of the unidentified savings profile gap. Members were assured that HDdUHB would meet the planned target of a £35m year-end deficit position, and were advised of a Finance Directorate project to develop a method of tracking financial consequences of decisions taken in-month, which would provide assurance regarding the effective monitoring of spending for 2020/21. Members were also advised of plans to develop processes which would enable earlier identification of non-recurrent benefits, thereby optimising flexibility with regard to their use.

- **Referral to Treatment Time (RTT) Month 10 Report** – the Month 10 RTT Report was presented to Committee, supplemented with a verbal update regarding the Month 11 position. Members were assured that Month 11 data confirms the Month 10 RTT position, which indicates that, in terms of year-end spend, HDdUHB remains on course to meet the target of £6.45m against the current Financial Plan. Members were further assured that an operational Delivery Plan is in place which will enable attainment of target positions. Members were advised that additional funding of £1.5m has been secured from WG to support the cost of planned outsourced Orthopaedic activity, of which it was anticipated that approximately £1.1m would be committed, with full expenditure of the sum being partly dependent upon the
level of patient take-up of offers of outsourced treatment. The Committee’s thanks were conveyed to Mr Keith Jones and the Planned Care Team in their management of the on-going operational pressures.

- **Draft Financial Plan 2020/21** – the Committee received the HDdUHB Draft Financial Plan 2020/21. Key budgetary points were highlighted to Members, together with details of the work being undertaken with Directorates to identify further savings. Members were assured that, while the Opportunities Framework had not yet reached full potential in supporting the delivery of significant savings opportunities, there was every confidence that it would yield future benefits in supporting the development of a 2021/22 Savings Plan and instil discipline in testing risk appetite within the Health Board.

In view of the recognised gaps within the HDdUHB Savings Plan, Members acknowledged that the Committee could not sign off the plan as it currently stood, and confirmed that they were content for the Chair of the Committee to take Chair’s Action on their behalf to work through the Draft Financial Plan with the Executive Director of Finance and Lead Director for the Committee, and to confirm approval of the plan, or otherwise, on the Committee’s behalf.

- **Workforce Pay Controls** – the Workforce Pay Controls report was presented to Committee, providing an outline of the approach for the delivery of the Workforce Efficiency and Effectiveness Programme for the 2020/21 financial year. Members were informed of the Workforce and Organisational Development Directorate’s plans to drive the delivery of circa £7m savings linked to its business case for investment, and provided with details of key workforce efficiency and effectiveness savings schemes for 2020/21. Members commented upon the maturity of the work undertaken to date, and potential financial benefits to be derived.

- **Capital Financial Management** – the Capital Financial Management report was presented to Committee, providing the latest update regarding the All-Wales Capital Programme (AWCP) and the Capital Resource Limit (CRL) for 2019/20. Members were advised that HDdUHB is on course to meet its CRL for 2019/20.

- **Executive Team Opportunities Framework** – an update regarding the Executive Team Opportunities Framework was presented to Committee, informing Members of opportunities for technical efficiency identified through Framework processes and recognising that, while such opportunities may appear quick-to-deliver, they require a significant level of whole-system discussion to develop plans for implementation. Members were advised that while the Opportunities Framework would not deliver all savings required for 2020/21, a potential £10m to £12m potential savings over the next 12-18 months, generated by opportunities identified to date through application of the Framework approach, was possible.

- **Primary Care Prescribing** – the Committee received the Primary Care Prescribing report, outlining actions planned and implemented by the Pharmacy and Medicines Management Directorate to identify priority areas and mitigate pressures. Members commented upon the richness of detail
and intelligence contained within the report, and discussed potential opportunities to make full use of the intelligence available from GP practices. Significant savings delivered by the Pharmacy and Medicines Management Team in 2019/20 were also noted.

- **Corporate Risks** – Members received updated positions relating to the three risks assigned to the Finance Committee. In light of current national challenges in respect of the COVID-19 pandemic, Members recognised the need to refresh these Finance–related risks for the 26th March 2020 Board meeting.

- **IFRS 16 Leases and Pensions** – Members were provided with update reports noting preparations for the implementation of the International Financial Reporting Standard (IFRS) 16 Leases Accounting Standard, and advising of an agreement with Wales Audit Office and WG that HDdUHB 2019-20 Annual Accounts must account for the increase in employer contribution rate for the NHS Pensions Scheme in full and on a gross basis. In both cases, Members were assured that there were would be no financial consequences for the Health Board.

- **KPMG Grip and Control Review** – A report and accompanying presentations detailing KPMG findings and recommendations relating to minimum expectations for HDdUHB control environments, and to the 2019/20 Delivery Framework, together with Finance Directorate responses, were presented to Committee. Members were assured that many of the recommendations arising from the review had already been implemented, and that further work would be undertaken to reinforce discipline relating to business case benefits realisation testing and opportunities testing, which would lead to a sound control environment going forward.

- **Finance Committee Terms of Reference and Workplan** – the Committee endorsed the proposal to submit the current Terms of Reference (ToR) for renewed approval to the Board, recognising that any amendments are likely to be informed by current COVID-19 pandemic requirements, future governance arrangements and Members’ responses to the annual self-assessment of Committee effectiveness exercise. It was noted that the ToR would be reviewed over the coming months, together with the Committee’s Workplan for 2020/21.

### Materion y mae angen Ystyriaeth neu Gymeradwyaeth Lefel y Bwrdd are u cyfer / Matters Requiring Board Level Consideration or Approval:

- Revised Finance Committee Terms of Reference.

### Risgiau Allweddol a Materion Pryder / Key Risks and Issues/ Matters of Concern:

- COVID-19 Pandemic.
• Recognised gaps in the HDdUHB Savings Plan for 2020/21, and the requirement for further work on the draft Financial Plan 2020/21 prior to Finance Committee sign-off and Board approval.

• Draw-back of £10m additional Welsh Government (WG) funding leading to the current forecast position of £35m, given the cumulative financial position and on-going operational pressures.

• Increased cost pressures relating to the use of agency staff, and continuing concern relating to workforce management

• Significant cost pressures relating to drugs, manifesting in both Secondary and Primary Care.

Busnes Cynlluniedig y Pwyllgor ar gyfer y Cyfnod Adrodd Nesaf / Planned Committee Business for the Next Reporting Period:

Adrodd yn y Dyfodol / Future Reporting:

In addition to the standing agenda items, the April 2020 Finance Committee meeting will include progress updates for the various actions identified above.

Dyddiad y Cyfarfod Nesaf / Date of Next Meeting:

28th April 2020
The Finance Committee has been established to advise the Board on all aspects of Finance and the revenue implications of investment decisions. The primary role of Hywel Dda University Health Board’s (HDdUHB’s) Finance Committee is, as such, to provide assurance on financial performance and delivery against HDdUHB financial plans and objectives and, with regard to financial control, to provide early warning of potential performance issues and to make recommendations for action to continuously improve the financial position of the organisation.

This report summarises the work of the Finance Committee at its meeting held on 28th April 2020, with the following items highlighted:

- **Finance Committee Annual Report 2019-20**: The Finance Committee Annual Report 2019-20 was received by the Committee, summarising its business undertaken during the year, and identifying key areas of risk and concern raised by the Committee to Board. The Committee endorsed the Annual Report 2019-20 for onward submission to the Board on 28th May 2020 for approval.

- **Finance Report Month 12**: The Month 12 2019/20 Finance Report was received by the Committee, identifying an End of Year (EOY) variance to breakeven position of £34.9m (which excludes the impact of COVID-19), against a forecast of £35.0m, and a Month 12 variance to breakeven position of £2.6m. Members were advised that the end of year result remains subject to the closure and submission to Welsh Government (WG) of the final accounts for 2019-20 and the subsequent audit by Audit Wales. An operational variance to plan of £0.8m in month (£9.9m EOY) was highlighted, and the Committee advised that the impact of COVID-19 in Month 12 manifested in £1.6m of revenue costs and £0.4m of capital costs, with the majority (£1.0m) of COVID-19 revenue costs experienced within Unscheduled Care. Members were however assured that the working assumption (based on recent guidelines) is that WG will fund the additional revenue costs incurred.

The Committee was also provided with a summary of HDdUHB’s key financial targets for 2020-21, defined under the headings of revenue, savings, capital, cash and Public Sector Payment Policy targets.

- **Referral to Treatment Time (RTT) Month 12 Report**: Headline figures for HDdUHB Month 12 RTT position were reviewed by the Committee. Members were advised of an overall underspend of £0.6m against the £6.5m plan and £1.5m treatment outsourcing costs (which had been agreed with WG), due to
lower-than-forecast outsourcing activity in Orthopaedics, ENT/General Surgery and Ophthalmology.

Members were informed of 722 recorded year-end breaches of the 36-week treatment target, all relating to the suspension of elective activity in response to the COVID-19 pandemic, however were assured that had it not been for the cancellation of elective procedures in March 2020, delivery against the 36-week target would have been achieved. As such, HDdUHB performance compares very favourably with that of other Health Boards in Wales.

- **Capital Financial Management** – the Capital Financial Management report was received by the Committee, providing the un-audited outturn position for the Capital Resource Limit (CRL) for 2019-20 (£40.295m), and the opening position for 2020-21. Members were informed that a total of £1.090m capital resource was handed back to Welsh Government for 2019/20 schemes, and that this reduction in resource for 2019/20 has been added to the Health Board CRL for 2020/21. Members were advised to note the impact of COVID-19 upon the 2019-20 CRL and the value of capital expenditure currently committed to respond to COVID-related demand for 2020/21. While there is currently no allocation in the 2020/21 CRL for new expenditure associated with COVID-19, Members were assured that work is being undertaken with colleagues in Local Government and WG to understand how these additional costs will be funded in 2020/21.

- **COVID-19 Value For Money (VFM) and Governance Framework** – Committee Members were advised that, as part of individual Directorate/Departmental responses to the COVID-19 pandemic, some decisions involving a financial impact have necessarily been made outside of the Health Board’s Standing Orders, Standing Financial Instructions and Scheme of Delegation. Consequently, there is now a requirement to review individual decisions in terms of VFM, assessment of associated risk, and benchmarking of available options, and to ensure that decisions are regularised through appropriate governance processes. The Committee was advised that the outcomes of this review will be summarised in a report to be presented to the Audit and Risk Assurance Committee, and that evidence in support of COVID-19-related decision-making within the Health Board is being prepared in anticipation of future external scrutiny.

- **COVID-19 Healthcare Contracts** – the Committee received a briefing paper highlighting the Health Board’s current approach regarding the governance of Long Term Agreements (LTAs), with particular reference to NHS Guidance recommending revised arrangements for NHS contracting and payment during the COVID-19 pandemic. Members were advised of some concern that block contract agreements between HDdUHB and two English Trusts are unlikely to deliver value for money, as the majority of the work involved is elective. Members were further apprised of the material risk for HDdUHB linked with Non-Contracted Activity (NCA), and informed of the likelihood that, between NCA and block contracting arrangements with English Trusts, HDdUHB will be impacted to the sum of circa £2.9m. The Committee was advised that consideration needs to be given to the next steps when exiting block contract arrangements, and to expectations regarding the levels of activity to be undertaken for the remainder of the year, together with
subsequent reimbursement (including marginal rate applications at appropriate levels).

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<th>Materials Requiring Board Level Consideration or Approval:</th>
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<td>- The impact of COVID-19 upon the 2019-20 CRL and the value of capital expenditure currently committed to respond to COVID-related demand for 2020/21, with, as yet, no allocation in the 2020/21 CRL for new expenditure associated with COVID-19.</td>
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<td>- The financial impact upon the Health Board resulting from NCA and block contracting arrangements with English NHS Trusts.</td>
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<th>Planned Committee Business for the Next Reporting Period:</th>
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<td>In addition to the standing agenda items, the May 2020 Finance Committee meeting will include the draft Annual Accounts report for 2019/20.</td>
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