

Appendix 1: Cwm Taf Morgannwg University Health Board Three Year Plan 2022-25 Full Financial Plan

1. FINANCE - 2022/23

The financial plan for 2022/23 builds on the current financial plan and is based on the funding confirmed in the 2022/23 allocation letter.

1.1 STATUTORY FINANCIAL DUTY

Cwm Taf Morgannwg University Health Board (CTMUHB) has a statutory duty to achieve break even over a period of 3 financial years. This applies to revenue and capital expenditure. Performance against the 3-year rolling duty for revenue is summarised below:

Revenue:	Actual 2018/19	Actual 2019/20	Actual 2020/21	Forecast 2021/22
	£k	£k	£k	£k
Surplus /(deficit)	25	883	88	0
Rolling 3 years	66	931	987	987

1.2 UPDATE ON FINANCIAL PERFORMANCE IN 2021/22

CTMUHB has recently submitted its M12 Monitoring Returns to Welsh Government (WG). This showed a forecast breakeven position for 2021/22 and a forecast recurrent deficit of £44.5m. This is the starting point for our 1 year financial plan for 2022/23:

	Plan £m	Forecast £m
B'Fwd deficit at 1 April 2021	33.8	33.8
Planned recurrent surplus for 21/22	(2.4)	(0.4)
Forecast recurrent shortfall in 21/22 savings plans	0	11.1
Recurrent deficit at 31 March 2022	31.4	44.5
Forecast recurrent deficits not recognised in the 2022/23 Financial plan	0	16.1

Integrated Locality Groups (ILGs) and Directorates have identified additional recurrent cost pressures from 2021/22 of circa £11m and recovery plans are needed to manage these overspends back to agreed budgets. These cost pressures have not been included in the financial plan for 2022/23.

1.3 FINANCIAL STRATEGY

The key underlying financial strategy objectives remain as in previous years, as follows:-

- To achieve breakeven in each financial year, and to gradually reduce the level of recurrent deficit to achieve recurrent breakeven over a reasonable timeframe.
- To achieve year on year reductions in premium workforce costs and premium planned care costs (waiting list initiatives and outsourcing).
- To achieve year on year improvements in efficiency, quality and value (outcomes relative to cost), including through population health management initiatives.
- To utilise financial improvement to re-invest in improving service quality and outcomes wherever possible.
- To achieve closer alignment over time between the needs based formula funding allocations from WG, and our actual use of resources, and so improve equity of resource use.

However, current circumstances necessitate some particular areas of focus during 2022/23, as follows:-

- The requirement for planned care recovery makes our investment in population health management and in value based healthcare more important than ever in order to focus the resources we have on the interventions which will make the most difference to patient outcomes. Productivity and efficiency in planned care remain very important, but with a focus of maximising the impact of both our current planned care resources and the additional resource confirmed for 2022/23.
- We need to respond to the ongoing requirements of Covid in a way that is safe and effective, but also increasingly factors in value for money and sustainability considerations as pressures reduce and decision-making can be made in a more considered way.

The key actions within the finance function, to support and deliver the strategy, remain as before, with a particular focus on developing an analysis of potential opportunities for improvement in efficiency, value and savings delivery.

1.4 OVERALL FINANCIAL PLAN FOR 2022/23

The financial plan for 2022/23 can be broken down into three separate elements:

- The core plan- **Sections 1.5 to 1.10**
- Exceptional items - **Section 1.11**
- Ongoing Covid response – **Section 1.12**

The three key elements of the financial plan are summarised below:

	Core plan £m	Exceptional items £m	Covid response £m
Recurrent deficit at 31 March 2020	17.6		
Recurrent savings shortfalls 2020/21	16.2		
Forecast recurrent savings shortfalls 2021/22	11.1		
Other recurrent underspends	(0.4)		
Forecast recurrent deficit at 31 March 2022	44.5	0	0
Planned surplus on Core plan	-18.0		
National insurance changes		5.0	
Energy inflation		11.6	
Real Living Wage for Social Care Workers		2.4	
Ongoing Covid response costs (Programme costs and Non Programme costs)			32.3
Total	26.5	19.0	32.3

The plan includes a number of risks and uncertainties which span the core plan and also the estimated costs for ongoing Covid response and Exceptional items (**see Section 1.13**). These risks and cost estimates will continue to be refined and updated during 2022/23.

1.5 CORE PLAN

The core financial plan for 2022/23 builds on the current financial plan and is based on the funding confirmed in the 2022/23 allocation letter. The key assumptions driving the core financial plan for 2022/23 are summarised below:

- A 2021/22 recurrent deficit of £44.5m, which is the starting point for the 2022/23 plan. This includes a £16.2m shortfall against the 2020/21 savings plan resulting from Covid plus a £11.1m savings shortfall in 2021/22 also due to Covid.
- ILGs and directorates have also identified additional recurrent cost pressures from 2021/22 of circa £11m and recovery plans are needed to manage these overspends back to agreed budgets. These cost pressures have not been included in the financial plan for 2022/23.
- Additional recurring allocations from WG for 2022/23 is £71.8m. This includes £25.9m of un-earmarked growth funding (excluding funding for pay awards) plus £44.2m of earmarked funding for service improvement. The latter includes £26.1m of funding to strengthen planned care services.
- Provision for recurring inflation, cost and service pressures of £27.4m. This includes £12.9m for pay rises, incremental drift and inflation (excluding pay awards) plus £14.5m for other service and demand pressures.
- The plan also includes for 1.0m for locally determined service improvement schemes.
- Recurring savings of £17.3m are planned in 2022/23. This is circa 2.2% of an estimated controllable budget for CTM of circa £800m.
- Fully delivery of the core financial plan for 2022/23 would still leave a recurrent deficit at the end of the year of £28.0m.

The financial plan is shown in the table below, with costs and deficits shown as positive numbers and income and surpluses as negative numbers.

	Core Plan		
	2022/23		
R = recurring NR = non recurring	R	NR	Total
	£m	£m	£m
Brought forward recurring deficit/-surplus	44.5		44.5
Income changes			
Share of core un-earmarked £150.0m Sustainability funding	-22.9	0.0	-22.9
Share of core un-earmarked £20m MH funding	-3.0	0.0	-3.0
Additional funding:			
Pay inflation	tbc	0.0	tbc
Annual leave on overtime changes	-1.5	0.0	-1.5
Community pharmacy contract uplift	-0.5	0.0	-0.5
Service improvement - earmarked funding	-44.2	-2.9	-47.1
Invest to Save repayments	0.0	0.5	0.5
All Wales top slices	0.3	0.0	0.3
Sub total income changes	-71.8	-2.4	-74.2
Cost pressures and investments			
Pay rises, incremental drift and inflation	12.9	0.0	12.9
Service and demand pressures	14.5	0.0	14.5
Service improvement - locally determined	1.0	0.0	1.0
Service improvement - earmarked funding	44.2	2.9	47.1
Other Non-recurring costs	0.0	4.0	4.0
Other Non-recurring benefits	0.0	-6.0	-6.0
Contingency	0.0	0.0	0.0
Sub total cost pressures and investments	72.6	0.9	73.5
Efficiency & re-design savings - 21/22 shortfalls	-11.1	0.0	-11.1
Efficiency & re-design savings - 22/23	-6.2	0.0	-6.2
Sub total	-17.3	0.0	-17.3
Total change on previous year	-16.5	-1.5	-18.0
Revised surplus/deficit	28.0	-1.5	26.5

The key elements of the Core Plan are explained in the following sections:

1.6 INCOME CHANGES – 2022/23

A summary of the assumed new allocations from WG for 2022/23 is shown in the table below:

	22/23 £m
Recurrent:	
Core un-earmarked £150m Sustainability funding	(22.9)
Core un-earmarked £20m Mental health funding	(3.0)
Pay inflation	tbc
Annual leave on overtime changes	(1.5)
Community pharmacy contract changes	(0.5)
Service improvement - earmarked funding (see below)	(44.2)

	22/23 £m
All Wales top slices	0.3
Total Recurrent	(71.8)
Non Recurrent:	
Service improvement - earmarked funding (see below)	(2.9)
Invest to Save repayments	0.5
Total Non Recurrent	(2.4)

The key points to highlight are as follows:

1.6.1 Service improvement - earmarked funding

The individual items making up the assumed recurrent funding are summarised below:

	22/23 Recurrent £m	22/23 Non Recurrent £m
Planned care sustainability	(26.1)	
Unscheduled care sustainability- SDEC	(2.2)	
Primary Care - Dental	(0.3)	
Post Anaesthetic Critical Care Units	(0.9)	
Value Based Healthcare	(2.3)	
Regional Integration Fund	(8.4)	
Mental Health	(3.3)	
CAMHS – In reach	(0.7)	
Targeted Intervention (TI) funding		(1.7)
Outpatient transformation		(0.6)
Nosocomial – Investigating & Learning		(0.6)
Total	(44.2)	(2.9)

Planned care sustainability

The Health Board has received £26.1m of recurrent funding to support the next steps of implementing plans to strengthen planned care services. Further information is provided in the Planned Care Section of this 3 year plan.

Regional Integration Fund

The Regional Integration Fund (RIF) is a tapered funding programme with partners required to provide a level of match funding and commit to growing their replacement match to 50%, with the aim being a 50/50 intervention rate from WG and Regional Partnership Boards (RPBs) by the end of the five year fund. The allocation for Cwm Taf Morgannwg RPB is outlined in the below table:

REGIONAL INFRASTRUCTURE FUND 75% MATCH FUND	NATIONAL PRIORITIES 100% WG FUNDING			NEW MODEL DEVELOPMENT 90% WG FUNDING	NATIONAL EMBEDDING FUND 70% WG FUNDING	REGIONAL TOTAL
	IAS	DEMENTIA ACTION PLAN	MEMORY ASSESSMENT			
£ 500,000	£ 367,000	£ 1,242,000	£ 461,000	£ 5,783,316	£ 13,494,404	£ 21,847,720

*Note the requirement for a minimum of 20% (£4.3m) of the RIF to support social value, 5% (£1m) carers.

1.7 INFLATIONARY, SERVICE DEMAND AND COST PRESSURES

The table below shows the projected inflationary, demand and other cost pressures for the next three years, which are anticipated to be fairly stable over this period.

Inflation and other cost pressures	22/23 £m
Inflation	
Pay rises and incremental drift	2.3
Community pharmacy	0.5
CHC inflation	1.2
NHSFNC inflation	0.3
Non-pay inflation	4.4
LTA inflation – core 2.8%	4.2
Subtotal	12.9
Service and demand pressures	
CHC growth	1.4
Primary care prescribing	1.0
Community pharmacy	0
NICE	3.5
Nurse Staffing Act	0
Internal cost/demand/service pressures	3.1
Claims WRP	1.1
WHSCC demand and cost pressures	2.1
EASC and NCCU demand and cost pressures	1.0
Microsoft	1.3
Subtotal	14.5
Total	27.4

The basis for the above estimates is outlined below:

1.7.1 Pay cost inflation

Pay rises and incremental drift	22/23 £m
Wage awards – A4C staff	tbc
Wage awards – Medical and dental staff	tbc
Incremental drift	0
Recurrent impact of holiday pay on overtime changes	1.5
Consultant commitment awards	0.3
Estimated inflation on external agency costs @1.5-2%	0.5
Total	2.3

1.7.2 Continuing Health Care (CHC) and NHS Funded Nursing Care (FNC)

The Health Board currently spends circa £43m per annum on external CHC placements. The anticipated cost increases for 2022/23 has been based on average price inflation of circa 2.7% per annum (£1.2m) and volume growth of circa 3.25% per annum (£1.4m). The plan also includes £0.3m for NHSFNC price inflation in 2022/23 on a base spend of £7m.

1.7.3 Non Pay Inflation

The plan includes a non-pay inflation estimate of £4.4m (circa 4.0%) for 2022/23.

1.7.4 LTA Inflation

Provision has been made for a 2.8% tariff increase on all income and expenditure LTAs at a net cost of £4.2m for 2022/23.

1.7.5 Primary Care Prescribing

The financial plan assumes growth in primary care prescribing costs of £1.0m for 2022/23 which is based on the estimated growth provided by the Medicines Management directorate.

1.7.6 Community Pharmacy

The financial plan includes £0.5m for growth in community pharmacy expenditure costs for 2021/22. This was confirmed in the WG Allocation Letter.

1.7.7 NICE and New High Cost Drugs

The cost of NICE technical appraisals and nationally adopted high cost drugs has been a significant cost pressure in recent years. The latest planning assumption is an annual increase of £3.5m for 2021/22. This includes:

- Internal NICE growth within CTM (£1.0m)
- Anticipated financial impact of growth in NICE and other high cost drugs for CTM residents at Velindre Trust and other Health Boards (£2.5m).

1.7.8 Local Cost, Demand and Service Pressures

A £3.1m provision has been made in the financial plan for 2022/23 to cover local cost, demand and service pressures.

1.7.9 Welsh Risk Pool (WRP)

The cost of clinical negligence and other claims previously met by the Welsh Risk Pool have been met by Health Boards since 2015/16. A risk sharing arrangement has been put in place such that all costs are shared between LHBs proportionate to their shares of the devolved budget.

The latest information from NWSSP is indicating an additional charge to CTM in 2021/22 of a further £1.1m.

1.7.10 WHSSC Demand and Cost Pressures

The financial plan includes a sum of £2.1m for WHSSC demand and cost pressures in 2022/23. The latest plans from WHSSC, agreed at the Joint Committee, require additional investment of £2.7m in 2022/23 including planned care recovery, which is in line with the CTM financial planning assumption. This is in addition to the 2.8% funding for inflation of £2.4m.

1.7.11 EASC Demand and Cost Pressures

The financial plan includes a sum of £1.0m for EASC and NCCU demand and cost pressures in 2022/23. The latest agreed estimates from EASC and NCCU are that they require an additional £1.0m in 2022/23 which is in line with the CTM financial planning assumption. This is in addition to the 2.8% funding for inflation of £0.8m.

1.8 INVESTMENT IN SERVICE IMPROVEMENT

The following table sets out the planned investments over the three year period:

Service improvement	21/22
Non Recurring investment:	£m
Investment to address TI status (See Section 1.6)	1.7
Nosocomial – Investigation and learning (See Section 1.6)	0.6
Outpatient transformation (See Section 1.6)	0.6
Total Non- Recurring investment	2.9
Recurring investment:	£m
Locally determined developments	1.0
Investment in Planned care sustainability- nationally funded (See Section 1.6.1)	26.1
Investment in Unscheduled care sustainability – nationally funded (See Section 1.6.1)	2.2
Investment in Primary Care – nationally funded (See Section 1.6.1)	0.3
Investment in Post Anaesthetic Critical care units - nationally funded (See Section 1.6.1)	0.9
Investment in Value Based Healthcare (VBHC) – nationally funded (See Section 1.6.1)	2.3
Investment in the Regional Integration Fund – nationally funded (See Section 1.6.1)	8.4
Investment in Mental Health services – nationally funded (See Section 1.6.1)	3.3
Investment in CAMHS services – nationally funded (See Section 1.6.1)	0.7
Total Recurring investment	45.2

1.8.1 Service Improvement – Locally Determined

The financial plan for 2022/23 includes £1.0m for locally determined investment decisions. The planned allocation of this £1.0m will be agreed as part of the Health Board's prioritisation process for 2022/23.

1.9 OTHER NON RECURRING COSTS AND BENEFITS

Non Recurring costs	2022/23 £m
New retrospective CHC claims settled in year	0.2
Laboratory Information Network Cymru Programme (LINC) costs	0.2
Radiology Information system procurement (RISP)	0.1
Equipment replacement	0.5
Invest to Save – Records digitisation	1.5

Other non-recurring costs, including investment in central enabling schemes to support savings delivery	1.5
Total	4.0

Non Recurring benefits	2022/23 £m
Slippage on investments	(1.5)
Accountancy gains	(4.5)
Total	(6.0)

1.10 SAVINGS PLAN FOR 2022/23

Recurring savings of £17.3m are planned in 2022/23. This is circa 2.2% of an estimated controllable budget for CTM of circa £800m.

Further information on the latest savings plans to meet this target in 2022/23 has been provided in a separate Annex and is summarised below:

	2022/23 £m
Recurring savings target for 2022/23	17.3
Forecast savings – Green and Amber schemes only	14.7
Further savings required	2.6

1.11 EXCEPTIONAL ITEMS

The following cost pressures have been classified as ‘Exceptional’ and have been excluded from the Core plan:

	22/23 £m
Energy inflation	11.6
National Insurance changes	5.0
Real Living Wage for Social Care Workers	2.4
Total	19.0

- Energy inflation- The estimated cost pressure of £11.6m includes £8.3m based on the latest Mid range estimates from NWSSP for Gas and Power plus £3.3m for Prince Charles Hospital which is covered by a separate Combined Heat & Power PFI scheme.
- National Insurance – The introduction of a Health & Social Care Levy of 1.25% on Employers National Insurance contributions for 2022/23 has been estimated at £5.0m
- Real Living Wage for Social Care Workers – The additional cost of implementing the Real Living Wage of £9.90/hr for 2022/23 for Social Care Workers in the independent sector has been estimated at £2.4m.

Further to the WG letter dated 14 March, the Health Board is anticipating additional funding from WG for these three areas and will seek to mitigate these costs as far as possible.

1.12 COVID RESPONSE COSTS

The table below shows the latest assessment of our ongoing Covid response costs for 2022/23:

Covid costs and funding 2022/23	Q1	Q2	Q3	Q4	Total
	£	£m	£m	£m	£m
Programme costs:					
TTP	3.4	1.0	1.0	1.2	6.5
Mass Vaccination	3.2	1.7	1.2	1.2	7.4
PPE	0.4	0.4	0.4	0.4	1.6
Sub total	7.0	3.1	2.6	2.8	15.6
Assumed funding- programme element	-7.0	-3.1	-2.6	-2.8	-15.6
Total	0.0	0.0	0.0	0.0	0.0
Capacity and Facilities Costs:					
Cleaning Standards	0.6	0.6	0.6	0.6	2.3
Bed capacity - YS	0.7	0.0	0.0	0.0	0.7
Bed capacity- POW	0.6	0.3	0.3	0.3	1.5
Bed capacity - RGH	0.2	0.1	0.3	0.3	0.8
Prescribing costs	0.5	0.5	0.5	0.5	2.1
Dental income losses	0.6	0.6	0.6	0.6	2.5
Increased workforce costs:					
Increased sickness & shielding costs	0.4	0.4	0.4	0.4	1.6
Services supporting Covid response :					
Digital and Home working	0.4	0.4	0.4	0.4	1.5
Long COVID	0.2	0.2	0.2	0.2	0.8
Flu extension	0.0	0.1	0.2	0.3	0.6
ED streaming	0.3	0.3	0.3	0.3	1.0
Discharge support	0.2	0.1	0.1	0.1	0.6
Other income losses	0.3	0.2	0.1	0.1	0.8
Sub total	4.9	3.7	4.0	4.1	16.7
Assumed funding- Non programme element	-4.8	-3.7	-4.0	-4.1	-16.7
Total	0.0	0.0	0.0	0.0	0.0

Further to the WG letter dated 14 March , the Health Board is anticipating additional funding from WG for the 'Non programme Covid costs' noted above and will seek to mitigate these costs as far as possible during 2022/23.

1.13 KEY RISKS TO THE 2022/23 FINANCIAL PLAN

The key risks to the 2022/23 financial plan are summarised in the following table. The table shows the worst case position (as per the WG financial templates) and also a more realistic probability adjusted risk which applies probability assessments to the worse case position:

Table 1 Risk Assessment of 2022/23 financial plan	Plan Assumption £m	Worse Case Risk £m	Probability %	Probability Adjusted Risk £m
Savings delivery risks:				
Shortfall against planned savings delivery of £17.3m.	-17.3	5.0	50	2.5
Cost pressure risks:				
Shortfall against recovery plans to address forecast recurring overspends from 2021/22 of circa £11m	-11.0	5.0	50	2.5
Cost of covering extra annual leave day	1.5	1.5	50	0.8
Cost of covering extra bank holiday	2.5	2.5	50	1.2
Winter plan costs not covered by additional WG funding	5.0	5.0	50	2.5
External NICE costs exceed planned growth of £2.5m	2.5	1.0	50	0.5
Return to Cost & Volume LTA arrangements in 22/23 from the block arrangements during the past 2 years	0	3.0	50	1.5
Contracting risks with other Health Boards	0	2.0	50	1.0
Non Pay Inflation exceeds the £4.4m provision made in the plan (4.0%)	4.4	2.2	50	1.1
Impact of new funding arrangements for the Regional Integration Fund and matched funding requirements	0	5.0	50	2.5
Surplus / Deficit before contingencies		32.2		16.1
Further balance sheet review within 22/23		-4.0	50	-2.0
Surplus / Deficit after Contingencies		28.2		14.1

It is important to highlight that the above table only covers the core plan and there is also a risk that the actual cost of the Exceptional items and the ongoing Covid response may exceed the figures included in Sections 1.11 and 1.12 above.

The plan also assumes that there will be no adverse financial impact from the introduction of the new IFRS16- Accounting for finance leases.