

Bundle Finance Committee 26 August 2020

2.5

Capital Financial Management

Presenter: Huw Thomas

2.5 Capital Financial Management August 20.docx

2.5 Appendix A - Corporate Risk 2020-21 - Capital and COVID-19 v2.pdf



PWYLLGOR CYLLID FINANCE COMMITTEE

DYDDIAD Y CYFARFOD: DATE OF MEETING:	26 August 2020
TEITL YR ADRODDIAD: TITLE OF REPORT:	Update on All-Wales Capital Programme – 2020/21 Capital Resource Limit and Capital Financial Management
CYFARWYDDWR ARWEINIOL: LEAD DIRECTOR:	Huw Thomas, Director of Finance
SWYDDOG ADRODD: REPORTING OFFICER:	Eldeg Rosser, Senior Finance Business Partner

Pwrpas yr Adroddiad (dewiswch fel yn addas)

Purpose of the Report (select as appropriate)

Ar Gyfer Trafodaeth/For Discussion

ADRODDIAD SCAA SBAR REPORT

Sefyllfa / Situation

This update report is presented to Finance Committee to:

- Note the Capital Resource Limit (CRL) for 2020/21;
- Note the value of capital expenditure currently committed to deal with the COVID-19 pandemic (COVID-19) for 2020/21 and funding released to date;
- Note the financial risk associated with progressing COVID-19-related capital schemes at feasibility stage without confirmed funding, and the proposal to add this risk to the Corporate Risk Register;
- Note other financial risks and potential additional allocations for 2020/21;
- Note the updates on the Women and Children Phase II (Glangwili General Hospital - GGH) and Cylch Caron schemes, and Interserve.

Cefndir / Background

Further to previous update reports to Finance Committee, this report provides an update on the CRL position for 2020/21.

Asesiad / Assessment

Capital Resource Limit 2020/21

The current CRL for 2020/21 has been issued with the following allocations:

Expenditure	£m
All Wales Capital Programme (AWCP)	12.503
Discretionary Programme	7.271
Slippage due to COVID-19 from 2019/20	1.090
COVID-19 – Digital Devices & IT	0.967
COVID 19 – Equipment (Acute Sites and Field Hospitals)	6.361
Total	28.192

There are also two allocations pending of:

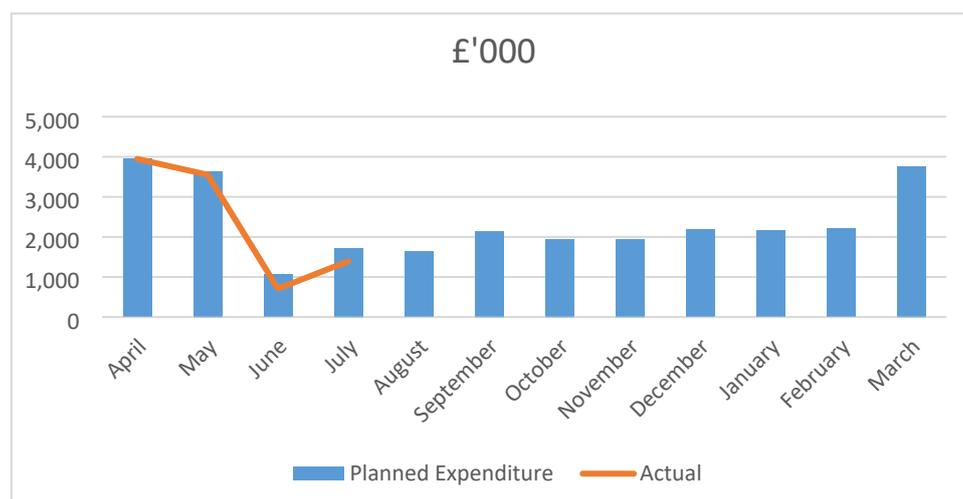
- Advance Fire Compliance Works at Withybush General Hospital (WGH): £0.350m
- COVID 19 – Digital Devices: £0.192m

The Capital Expenditure Plan for 2020/21 is detailed below.

Scheme	Allocation (from 2019/20)	Allocation (2020/21)	Total Allocation £m
AWCP			
Women and Children Phase II		10.001	10.001
MRI Withybush		2.700	2.700
Radiology Schemes		0.467	0.467
Advance Fire Works WGH			
Other	0.315	0.261	0.576
COVID-19		7.328	7.328
Sub-total AWCP	0.315	20.757	21.072
Discretionary			
Equipment	0.172	0.550	0.722
Estates Infrastructure	0.010	1.794	1.804
Estates Development	0.103	0.381	0.484
Estates Statutory		1.120	1.120
Digital	0.445	1.000	1.445
Contingency	0.045	0.330	0.375
Credits for Cleaning/ Healthcare Inspectorate Wales/ COVID-19		0.570	0.570
Business Case Development		0.300	0.300
Capital Support (Critical Care Information System)		0.300	0.300
Sub-total Discretionary	0.775	6.345	7.120
TOTAL	1.090	27.102	28.192

The annual review of additional VAT recovery and accruals held on schemes now completed has been undertaken, and has released £0.400m of additional capital into the programme. This has not yet been prioritised.

An expenditure profile for 2020/21 is shown below:



Total capital expenditure as at Month 4 was £9.598m, of which £7.498m is related to COVID-19.

Financial Risks

The value of capital orders placed by the Health Board (HB) to date for COVID-19-associated items which is expected to impact on the 2020/21 position is:

Expenditure	Costs Committed 2020/21 £m	Funding Released to Date £m	Current Funding Gap £m
Acute Sites	5.654	2.802	2.852
Field Hospitals	3.846	3.534	0.312
Informatics	1.338	0.966	0.372
Women and Children Phase II (GGH)	0.024	0.024	0.000
Equipment purchased through Shared Services	0.235		0.235
Total	11.097	7.326	3.771

The design, build and restoration costs for the Field Hospitals are not classed as capital expenditure and are additional to the spend shown above. Welsh Government (WG) is currently releasing the capital funding, based on information provided by the HB relating to actual cost incurred, not committed expenditure.

There are additional costs for the Women and Children Phase II scheme, due to the delay in handover of part of the scheme as a result of COVID-19 capacity planning, and additional work required to allow the scheme to progress. There will also be an additional cost implication for the scheme as a result of the implementation of social distancing legislation; the total estimated additional costs are £2.967m, of which £0.024m will impact in 2020/21 and £2.942m in 2021/22. The HB assumption is that WG funding will be available for this additional cost.

In addition to the cost committed to date, there are schemes to the value of **£12.469m** which have been proposed in response to COVID-19 and social distancing requirements, where feasibility work is being undertaken. It is proposed to take the following approach in relation to these schemes:

- The Operational Team will prioritise the schedule of schemes through Bronze Acute Group;
- Currently, WG has advised that there is no funding for these schemes. There is a risk that the HB will breach its CRL should any of these schemes be progressed without agreed funding. This risk, as detailed in Appendix A of this report, will be added to the Corporate Risk Register.
- The position reported in the HB's M4 Monitoring Returns represents a potential over-commitment against the CRL of £16.400m in 2020/21 and £2.943m in 2021/22, based on the current pressures in the system, and assumes only the funding currently released for COVID-19.
- The HB is working with WG to review the mitigating opportunities available against this current reported financial risk position.

	2020/21
Costs	£m
COVID-19 costs committed as per WG return	11.097
Additional COVID 19 screening committed	0.160
Feasibility work not yet committed	12.469
Total	23.726
Funding	
WG COVID-19 funding released to M4	(7.326)
Risk/ Funding Gap	16.400

Other risks which are not currently prioritised or funded in the Capital Programme for the HB at present are the following:

Scheme	£m
Fire Detector Heads GGH	0.120
Design Fees – Fire Works WGH	0.300
Additional Equipment Pressures – Anaesthetic Machines	TBC
Additional Social Distancing Screens Prince Philip Hospital (PPH) and WGH*	0.160
Pharmacy	0.185
Cross Hands Fees	0.050
Total	0.815

In addition to the £0.400m released back to the programme, the sale for £0.450m of the old Cardigan Hospital site was completed in May 2020. Part of the Full Business Case approval conditions was that the proceeds of the sale were to be returned to WG. As part of ongoing discussions during the monthly Capital Review Meetings, WG has indicated that it is prepared to consider a request by the HB to retain the proceeds. A letter has been sent and is currently with WG for consideration.

A paper focusing on the prioritisation of these additional items and the use of the additional allocations is being prepared for People, Planning and Performance Assurance Committee (PPPAC).

Women & Children (GGH)

The current projected completion date for the scheme is now February 2022. This projection takes into account the impact of social distancing legislation and delays caused to date by COVID-19. This delay impacts upon the total resource required for the scheme, and the financial year in which allocations need to be drawn down from WG. The current estimated additional costs for the whole scheme due to COVID-19 amount to £2.967m, of which £0.024m is likely to be incurred in 2020/21. The HB assumption is that WG funding will be available for this additional cost.

Ongoing profiling of resource usage is being undertaken with the cost advisors for the scheme, and regular progress updates are provided to WG and NHS Wales Shared Services Partnership.

Cylch Caron

A joint meeting of Executives from the Health Board, Ceredigion County Council and Mid Wales Housing to agree the next steps in the scheme has been organised for the 9th September 2020.

Interserve Update

At the time of preparing this report, there have been no further Cabinet Office updates.

Argymhelliad / Recommendation

The Finance Committee is requested to:

- Note the Capital Resource Limit (CRL) for 2020/21;
- Note the value of capital expenditure currently committed to deal with the COVID-19 pandemic for 2020/21 and funding released to date;
- Note the financial risk associated with progressing capital schemes at feasibility stage without confirmed funding;
- Note the other financial risks and potential additional allocations for 2020/21;
- Note the updates on the Women and Children Phase II (GGH) and Cylch Caron schemes, and Interserve.

Amcanion: (rhaid cwblhau)

Objectives: (must be completed)

Committee ToR Reference: Cyfeirnod Cylch Gorchwyl y Pwyllgor:	4.3 Conduct detailed scrutiny of all aspects of financial performance, the financial implications of major business cases, projects, and proposed investment decisions on behalf of the Board.
Cyfeirnod Cofrestr Risg Datix a Sgôr Cyfredol: Datix Risk Register Reference and Score:	Risk 856 - Risk to delivery of the Financial Plan for 2020/21
Safon(au) Gofal ac Iechyd: Health and Care Standard(s):	All Health & Care Standards Apply
Amcanion Strategol y BIP: UHB Strategic Objectives:	4. Improve the productivity and quality of our services using the principles of prudent health care and the opportunities to innovate and work with partners. 5. Deliver, as a minimum requirement, outcome and delivery framework work targets and specifically eliminate the need for unnecessary travel & waiting times, as well as return the organisation to a sound financial footing over the lifetime of this plan
Amcanion Llesiant BIP: UHB Well-being Objectives: Hyperlink to HDdUHB Well-being Statement	Improve efficiency and quality of services through collaboration with people, communities and partners

	All business cases for capital investment require alignment to the UHB's Well-being Objectives where applicable
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Gwybodaeth Ychwanegol: Further Information:	
Ar sail tystiolaeth: Evidence Base:	Capital Allocation and prioritisation process. Capital Investment procedure and all relevant Welsh Government guidance.
Rhestr Termiau: Glossary of Terms:	Included in the main body of the report.
Partïon / Pwyllgorau â ymgynhorwyd ymlaen llaw y Pwyllgor Cyllid: Parties / Committees consulted prior to Finance Committee:	Capital Monitoring Forum Capital Planning Group Individual Project Boards of Capital Schemes Welsh Government Capital Review Meeting Capital, Estates and IM&T Sub-Committee

Effaith: (rhaid cwblhau) Impact: (must be completed)	
Ariannol / Gwerth am Arian: Financial / Service:	Capital values noted within the report. Included within individual business cases and Capital prioritisation process.
Ansawdd / Gofal Claf: Quality / Patient Care:	Included within individual business cases and Capital prioritisation process
Gweithlu: Workforce:	Included within individual business cases and Capital prioritisation process
Risg: Risk:	Risk assessment process is integral to the capital prioritisation process and the management of capital planning within HDdUHB
Cyfreithiol: Legal:	Included within individual business cases and Capital prioritisation process
Enw Da: Reputational:	Included within individual business cases and Capital prioritisation process
Gyfrinachedd: Privacy:	Included within individual business cases and Capital prioritisation process
Cydraddoldeb: Equality:	Equality assessments are included within individual business cases and Capital prioritisation process when required

Strategic Objective:	Deliver against the Capital Resource Limit for 2020/21 by the end of March 2021, despite the financial impact of the COVID-19 pandemic
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Executive Director Owner:	Thomas, Huw	Date of Review:	Aug-20
Lead Committee:	Finance Committee	Date of Next Review:	Sep-20

Risk ID:	TBC	Principal Risk Description:	<p>There is a risk that based on the current capital funding issued to date from Welsh Government for COVID-19 that the Health Board may spend in excess of the capital resource it has available.</p> <p>This is caused by</p> <p>a) funding to date has been based on items delivered to sites and not for expenditure committed</p> <p>b) funding to date does not cover the potential cost of our response to the social distancing legislation</p> <p>c) funding to date does not cover the potential cost of the mitigating action required to ensure appropriate segregation of COVID and non-COVID patients in our services</p> <p>d) funding to date does not cover additional costs of other estates adaptations or additional equipment that may be required as part of the Health Board's response to COVID-19.</p> <p>This could result in an impact/effect on the Health Board breaching its statutory financial duty to breakeven against its Capital Resource Limit for 2020/21 by £3.931m on expenditure already committed, and on COVID-19 schemes not yet committed of £12.469m which would have a direct effect on the Health Board's ability to effectively deal with COVID-19 and respond to the pandemic.</p>
Does this risk link to any Directorate (operational) risks?			Yes

Risk Rating:(Likelihood x Impact)	
Domain:	Statutory duty/inspections
Inherent Risk Score (L x I):	4x5=20
Current Risk Score (L x I):	3x5=15
Target Risk Score (L x I):	2x4=8
Tolerable Risk:	8
Trend:	

Rationale for CURRENT Risk Score:
The scale of the pandemic and the likely impact on the Health Board is evolving. The financial impact on capital in the first quarter of 2020/21 was significant and the current feasibility work being on schemes to deal with COVID-19 issues on ongoing basis would suggest that the Health Board's capital funding streams is insufficient.

Rationale for TARGET Risk Score:
The Health Board needs to demonstrate that it is able to manage its capital position effectively, cognisant of the risks which are inherent in the delivery of safe and timely care. Given the challenge in delivering the capital position this year, the Health Board will achieve a risk which is in line with the tolerable risk for the year. Effective prioritisation will aim to reduce the impact of this risk on statutory and clinical schemes.

Key CONTROLS Currently in Place: (The existing controls and processes in place to manage the risk)
<ol style="list-style-type: none"> Modelling the anticipated impact of feasibility schemes being developed and the impact on equipment and operational requirements through Bronze Acute and Estates Groups to ensure full knowledge of prioritised schemes. Prioritisation and expenditure commitment are managed and approved through Gold command. Timely financial reporting to Finance Committee, Board and Welsh Government on local costs incurred as a result of Covid-19 to inform central and local scrutiny, feedback and decision-making. Monthly reporting to the Finance Committee regarding the Capital Risk.

Identified Gaps in Controls : (Where one or more of the key controls on which the organisation is relying is not effective, or we do not have evidence that the controls are working)	Gaps in CONTROLS			
	How and when the Gap in control be addressed	By Who	By When	Progress
The costs of addressing the Health Board's local needs may exceed available funding.	Working with Welsh Government to review and identify and mitigate the Financial Risk	Huw Thomas	end Sept 2020	Further clarification is expected in September 2020 around the potential availability of additional capital
Co-ordination of approval process to progress projects	Gold Command to approve prioritised list. Gold Command to approve any further changes to the prioritised list. No commitment to schemes without an agreed funding source.	Huw Thomas	end Sept 2020	Report to be prepared for consideration at Gold Command in September 2020

ASSURANCE MAP			
Performance Indicators	Sources of ASSURANCE	Type of Assurance (1st, 2nd, 3rd)	Required Assurance Current Level
Performance against the Capital Resource Limit	Performance against plan monitored through Capital Monitoring Group with key internal stakeholders	1st	
	Operational prioritisation through Bronze Group using the operational risk and benefit matrix	1st	
	Performance Reports through to Capital, Estates and IM&T Sub-Committee	2nd	
	Finance Committee oversight of current performance	2nd	
	Capital Report to PPPAC	2nd	
	WG scrutiny through monthly monitoring and COVID capital returns	3rd	

Control RAG Rating (what the assurance is telling you about your controls)	
Latest Papers (Committee & date)	Monthly Reports to Finance Committee on Capital reporting the COVID risk

Identified Gaps in Assurance:	Gaps in ASSURANCES			
	How are the Gaps in ASSURANCE will be addressed Further action necessary to address the gaps	By Who	By When	Progress
None				