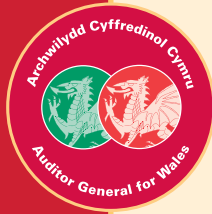




# THE FINANCES OF NHS WALES 2004

Report by the National Audit Office Wales on behalf of the Auditor General for Wales



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Auditor General for Wales

National Assembly for Wales  
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1 April 2004

The Auditor General for Wales is totally independent of the National Assembly. He certifies the accounts of the Assembly and its associated sponsored public bodies; and he has statutory authority to report to the Assembly on the economy, efficiency and effectiveness with which the Assembly and its sponsored public bodies have used their resources in discharging their functions.

This report was prepared for the Auditor General for Wales by the National Audit Office Wales.

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## **THE FINANCES OF NHS WALES 2004**

Report by Auditor General for Wales, presented to the National Assembly on 1 April 2004

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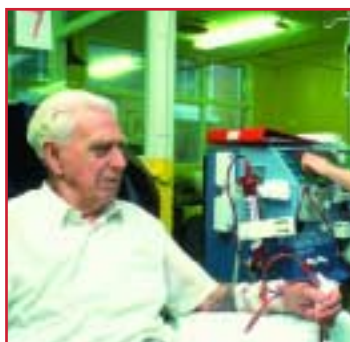
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# Executive Summary

## Introduction

- 1 This is my third annual report on the finances of NHS Wales and related issues. It covers the financial year ended 31 March 2003 and considers the progress of the restructuring in 2003.
- 2 The Audit Commission appointed the auditors of the five health authorities and their successor bodies, the twenty two local health boards, as well as appointing the auditors of the 15 NHS trusts in Wales. I am responsible for the audit of the three summarised accounts prepared by the National Assembly's NHS Wales Department. This report includes material provided by the Commission, its appointed auditors, and the NHS Counter Fraud Service. I am grateful to these organisations and to the NHS Wales Department for their assistance in producing this report.

## Issues covered by this report

- 3 Part 1 of this report sets out the basis of my audit and the work of the Audit Commission and its appointed auditors, and also indicates future audit arrangements in Wales. In part 2, I comment on the financial performance of NHS Wales in 2002-2003 and note the latest financial forecasts for 2003-2004. In part 3, I provide an update on the proposed restructuring of NHS Wales and consider the actions taken by NHS Wales in response to external reports. Finally in part 4, I highlight other key challenges impacting on corporate governance and the measures taken to combat fraud.
- 4 I certified the 2002-2003 Summarised Accounts of NHS Wales on 16 December 2003. As in previous years, I qualified my regularity opinion on the summarised accounts of the health authorities. This qualification mirrored those given by the appointed auditors at four out of the five health authorities in respect of a potential shortfall in prescription income. My opinions on the summarised accounts of NHS trusts and funds held on trust by NHS bodies were unqualified.

## Main findings and Conclusions

### Financial standing and management of the NHS in Wales

- 5 **2002-2003 results:** The result for the year was a deficit of £37 million (compared with £16 million in 2001-2002). This comprised a £10.9 million net deficit amongst the NHS trusts (£2.8 million in 2001-2002), a £25.5 million deficit generated by the health authorities (£12.4 million in 2001-2002), and a deficit of £0.6 million (£0.8 million in 2001-2002) from the Dental Practice Board's General Dental Health Services in Wales.
- 6 **Financial position of health authorities on abolition:** The total accumulated net deficit of the health authorities in Wales at 31 March 2003 was £60.2 million. The equivalent figure for the financial year ended 31 March 2002 is £58.4 million. Against financial performance targets, the appointed auditors reported all five health authorities achieving their statutory duty to remain within their cash limits. Only the North Wales Health Authority achieved its breakeven target.
- 7 **Public sector payment policy and performance:** All NHS bodies are required to pay undisputed invoices within 30 days unless other terms are agreed with suppliers. During 2002-2003 85.2 per cent of bills by number were paid within the 30 day target, which is below the benchmark of 95 per cent, but still represents an improvement on 2001-2002 (83.1 per cent). As in previous years there was a very wide variation in payment performance across NHS bodies ranging from just under 56.7 per cent for North Glamorgan NHS Trust to 99 per cent for Bro Taf Health Authority for the number of bills paid within 30 days.
- 8 This remains an important performance indicator for all NHS bodies in Wales and the NHS Wales Department has determined that compliance will represent a formal financial duty for NHS trusts and local health boards from 1 April 2003 onwards.



9 **Financial standing of NHS Wales:** In 2002-2003, the appointed auditors expressed concerns about the financial standing of six NHS trusts. Health communities have been asked by the Welsh Assembly Government to produce Strategic Change and Efficiency Programmes to eradicate deficits by March 2006. The Audit Commission are concerned that some Strategic Change and Efficiency Programmes for the local health boards have not yet been agreed. NHS trusts will also face continuing financial pressures from the impact of the new consultants' contract and the Working Time Directive, restructuring of national funding allocations and increases in the demand for health care services.



## Restructuring of NHS Wales

10 **Changes in legislation:** The Health and Social Care (Community Health and Standards) Act 2003 provides for the Assembly to conduct reviews of, and investigations into, the provision of healthcare by and for Welsh NHS bodies; and established the Commission for Healthcare Audit and Inspection to publish national performance data and conduct reviews of particular kinds of health care. The Assembly's reviews will be conducted by a new unit, the Healthcare Inspectorate Wales, from 1 April 2004 and will cover areas such as the availability of and access to health care; the quality and effectiveness of the health care; the financial or other management of the health care and the economy and efficiency of its provision; and the need to safeguard and promote the rights and welfare of children.



11 Healthcare Inspectorate Wales will not be awarding performance ratings (star ratings) for Welsh NHS trusts, but the reviews will be related to the "balanced scorecard". This "balanced scorecard" is a key component of the Performance Improvement Framework to be adopted by NHS Wales to facilitate continuous development; assess performance in the NHS; facilitate the establishment of a universally applicable benchmarking process; and address quality and safety issues.

12 **Review of structural change costs:** A detailed review of how the Business Services Centre and the National Public Health Service for Wales would operate in practice, within their revised budgets and without jeopardising service delivery, has now been completed. The National Public Health Service for Wales has produced a definitive financial strategy, agreed by the Assembly in December 2003, which proposes transitional funding of £0.5 million in 2003-2004 and a balanced budget within the Service's running costs envelope from 2004-2005. The Business Services Centre has produced an interim financial strategy which was agreed by the Assembly in June 2003, and has confirmed to the Welsh Assembly Government that transitional funding will not be required for 2003-2004. The transitional funding requirement for future years is under review.

13 The Minister for Health and Social Services stated in July 2002 that the running costs of the new structure would not exceed those within the existing structure of £71.1 million and that transitional costs would be in the range of £12.5 million to £15.5 million. The NHS Wales Department have informed me that they expect the running costs of the new structure to remain within £71.1 million.

14 The revised budget estimate of £10.9 million to £14.1 million for the transitional costs of the NHS Wales Structural Change Programme for the four year period to 31 March 2005 was reported to the Health and Social Services Committee in March 2003. Excluding transition funding for the Business Services Centre the latest available forecast at £12.57 million lies within the approved budget range.

15 **The impact of major reviews in the NHS:** The "Review of Health and Social Care in Wales" was published by Derek Wanless in June 2003 and the Townsend research team's report on "Targeting Poor Health" highlighted the need for significant change in the provision of health and social care, for example, through productivity improvements, better public health measures and ensuring value for money. The NHS Wales Department has responded by establishing a Programme Board to implement actions in response to the Review, and have set up the Financial Information Strategy Board to identify a framework to improve the quality of information for strategic service planning at

national and local level. Local health boards are required to produce local 'Wanless' action plans by Spring 2004. The Health Minister announced £30 million of dedicated funding in 2004-2005 to take forward the Assembly's response to the Review, and in addition £16 million has been provided to implement the "Informing Healthcare" information initiative.

- 16 **Review of internal controls in the Business Services Centre:** The Director of Finance NHS Wales commissioned Atos KPMG Consulting to review the internal controls, draft Service Level Agreements and organisational arrangements in the new structure for the Business Services Centre. The report was published in November 2003 and concluded that the internal control systems were adequate, although there are a number of areas for improvement.
- 17 **Review of Reorganisation Processes:** The appointed auditors also raised concerns over the delays in the disaggregation of health authority balances to successor bodies which should have been completed when health authorities' accounts were certified in September 2003. However, the process was not completed until January 2004.

## Challenges facing NHS Wales

- 18 **Cost of agency nurses:** The cost of using agency nursing staff in Wales continues to rise significantly each year: during 2002-2003 it was £18 million (2001-2002 £15 million, 2000-2001 £10 million, and 1999-2000 £8 million). This represents approximately 1 per cent of the total NHS bill. The Welsh Assembly Government has launched a number of initiatives to reduce this expenditure and will also set targets for trusts to reduce the usage of Agency nurses. In addition each trust has developed Recruitment and Retention strategies which have been implemented in 2003-2004.
- 19 **Welsh Risk Pool:** During 2002-2003 a number of actions were taken by the Welsh Risk Pool to strengthen their financial management arrangements. These revised arrangements have helped ensure that the Pool's expenditure of £43 million on the settlement of 246 clinical negligence and personal injury claims have been met from within its budget and without the need for additional premiums to be levied.

- 20 **NHS fraud update:** During the last year the Assembly has continued to work with the NHS Counter Fraud Service to continue to develop an effective structure to counter fraud in Wales. My last report highlighted that the Counter Fraud and Security Management Service estimated that the amount lost as a result of pharmaceutical fraud in Wales had reduced from £15 million to £7 million for 2001-2002. They have completed a second measurement exercise on the estimated amount of income lost as a result of Optical Patient and Contractor fraud in Wales. The exercise concluded that the level of optical fraud in Wales had fallen from £1.2 million per year to £0.9 million per year.
- 21 The Post Payment Verification Unit was set up in 2001-2002 by the Welsh Assembly Government to investigate claims for exemptions from prescription charges. Between October 2002 and December 2003, the Unit checked approximately 350,000 scripts and recovered total income of £31,000. Another £34,000 is being recovered in penalties and surcharges.
- 22 The NHS Counter Fraud Service (Wales) was established by the Counter Fraud and Security Management Service in August 2001. Since then, they have received 37 referrals of alleged fraud, recovered £233,402 and are currently investigating cases involving funds of approximately £550,000. They have also run a number of initiatives in 2002-2003 to raise awareness of fraud and measures of fraud prevention in the NHS in Wales.
- 23 NHS Wales currently has twenty two accredited Local Counter Fraud Specialists (nineteen 2001-2002) who generally investigate cases where the potential estimated loss is less than £15,000 and act as a deterrent to potential fraud. In the period to December 2003 they had received 150 case referrals and recovered funds of £122,713.





# 1 Introduction

## Scope

- 1.1 This is my third annual report on the financial health of NHS Wales. It comments on the recent financial performance of NHS bodies in Wales (Part 2), looks at ongoing issues arising from the recent restructuring (Part 3) and considers the financial challenges facing the organisation (Part 4). The Appendices provide more detail about the financial legacy to the NHS trusts and the new local health boards following the abolition of the five health authorities in Wales on 31 March 2003, and payment performance information for 2002-2003 and 2001-2002.
- 1.2 In addition to this report, I have recently presented to the Assembly three reports on value for money studies of NHS Wales:
- The Procurement of Primary Care Medicines (March 2003);
  - The Management and Delivery of Hospital Cleaning Services in Wales (May 2003); and
  - The Management of Sickness Absence by NHS Trusts in Wales (January 2004).

## Basis of Audit

- 1.3 Under Section 98(4) of the National Health Service Act 1977, I am required to examine, certify and report to the Assembly on the NHS summarised accounts prepared by the NHS Wales Department of the Welsh Assembly Government from the underlying accounts. For the 2002-2003 financial year these covered the financial results of the five health authorities, the Dental Practice Board (General Dental Services in Wales), and the 15 NHS trusts. My examination included an assessment of the reliability of the underlying information contained in the audited accounts of the individual NHS bodies. As in previous years, National Audit Office staff in Wales undertook this task by reviewing the work of the auditors appointed by the Audit Commission,

scrutinising their reports and discussing their findings with them. My staff also examined the summarisation of the individual underlying accounts by the Assembly's NHS Wales Department.

- 1.4 I certified the 2002-2003 Summarised Accounts on 16 December 2003. As in the two previous years, my opinion on the summarised account of the health authorities was qualified in respect of a potential shortfall in the level of prescription income. This qualification mirrored that given by the appointed auditors to four of the five underlying health authority accounts. Further details are provided below and in my report published with the summarised accounts.

## The Audit Commission and the role of its appointed auditors

- 1.5 The Audit Commission promotes the best use of public money by ensuring the proper stewardship of public finances and by helping those responsible for public services to achieve economy, efficiency and effectiveness. Auditors appointed by the Commission are required to assess expenditure not just for probity but also for whether value for money has been achieved.
- 1.6 In November 2002 all aspects of the Audit Commission's activities in Wales (including the in-house audit supplier formerly known as District Audit) were integrated into a single unified structure - The Audit Commission in Wales. However, the in-house "appointed auditors" retain the title of District Auditor.
- 1.7 Each NHS body is required to publish an annual report and statement of accounts, along with an annual report and statement of accounts for the charitable funds held on trust, which must be prepared in accordance with the *Manual for Accounts* issued by the NHS Wales Department.

- 1.8 For 2002-2003, the Audit Commission made two new appointments. PricewaterhouseCoopers undertook the audit of the Welsh Ambulance Services NHS Trust and Pembrokeshire and Derwen NHS Trust was audited by an in-house district auditor. PricewaterhouseCoopers remained the appointed auditor for Bro Taf Health Authority and Pontypridd and Rhondda NHS Trust, and the other four health authorities and 13 NHS trusts continued to be audited in-house.
- 1.9 All NHS trust accounts were submitted to the Welsh Assembly Government in accordance with the prescribed timetable of 31 July 2003. Following the abolition of the health authorities on 31 March 2003, responsibility for the production of the 2002-2003 financial statements transferred to Powys Local Health Board. The Welsh Assembly Government extended the timetable for the submission of the accounts to enable Powys Local Health Board sufficient time to review the accounts and to adopt them formally at its September 2003 Board meeting. I review the impact of restructuring in Part 3 of this report.
- 1.11 All the audit opinions on the 2002-2003 accounts of NHS trusts were unqualified. However the appointed auditors included a fundamental uncertainty paragraph in respect of three trusts: Pembrokeshire and Derwen, Ceredigion and Mid Wales and Carmarthenshire. This highlighted the auditors' concerns about the bodies' abilities to continue to deliver their current service provision given the levels of finance likely to be made available for future years. This concept is referred to as 'financial health'. I elaborate on this issue in Part 2 of this report.
- 1.12 For 2002-2003 (the final reporting period for the health authorities), the appointed auditors of Dyfed Powys, Bro Taf, Gwent and Iechyd Morgannwg Health Authorities again qualified their regularity opinions because of continued uncertainty over the completeness of prescription income. The auditors remained concerned that adequate systems had not been established to ensure appropriate dispensing checks were in place and that sufficient action was being taken to recover monies properly due from patients. Only the North Wales Health Authority received an unqualified regularity opinion on the basis that they had again secured appropriate arrangements during the financial year to identify, monitor and prevent prescription income losses. In addition, they had procedures in place to pursue income due but not collected because of falsely claimed exemptions. The appointed auditors of the new local health boards will continue to monitor this issue.

## The work of the appointed auditors

- 1.10 Appointed auditors are required to make an assessment of significant operational and financial risks facing individual health bodies. They provide an opinion as to whether or not the annual accounts show a true and fair view. For the health authorities they also provide an opinion on the regularity of income and expenditure. For all NHS bodies they review whether the Directors' Statement on Internal Control complies with the Welsh Risk Management Standards and the minimum control standards issued by the NHS Wales Department. Finally, the appointed auditors also prepare an annual audit letter for each organisation summarising the key issues for the attention of the body's board of directors and detailed reports and presentations on specific matters and projects undertaken as part of the audit.

## Reports and referrals

- 1.13 As part of their work, appointed auditors consider the legality of actions taken by NHS bodies. The majority of issues that arise are resolved by discussion with senior management. Occasionally, appointed auditors may decide that it is in the public interest to make a referral to the Welsh Assembly Government or to issue a report in the public interest. No such reports or referrals were made in 2002-2003. Auditors

also have a duty to refer a matter to the National Assembly if they have reason to believe that a NHS body has made a decision that involves or may involve unlawful expenditure. Again no such referrals were made in 2002-2003.

- 1.14 The Dental Practice Board, whose remit covers England and Wales, is analogous to a special health authority. The Board's auditors, PricewaterhouseCoopers, who are also appointed by the Audit Commission, again qualified the regularity opinion of the 2002-2003 financial statements on the basis that the absence of controls could result in potentially inappropriate payments, for example through administrative error, misunderstanding of regulations, inappropriate or poor quality work and deliberate theft. I comment on the progress of the NHS Counter Fraud Service in examining verification checks on patients' entitlement to exemption from prescription charges in England and Wales in Part 4 of this report. The Board will be abolished under the Health & Social Care (Community Health and Standards) Act 2003. It is expected that many of its functions will be transferred to a new cross-border special health authority.

## Future audit arrangements in Wales

- 1.15 Under the Public Audit (Wales) Bill now before Parliament, the staffs of the National Audit Office and the Audit Commission in Wales will be transferred to the Auditor General for Wales' employment to form a Wales Audit Office that will be responsible for the audit of the majority of the public sector. The Bill provides for the Auditor General to be the statutory external auditor of all NHS bodies in Wales and for the audited accounts of those bodies to be laid before the Assembly. The Bill also provides for the Auditor General to co-operate with other audit and inspection bodies with a NHS remit such as the new Healthcare Inspectorate Wales and the Commission for Healthcare Audit and Inspection. I welcome these developments as they will provide a more focussed accountability regime for the NHS in Wales as well as the prospect of better and more holistic overall audit and inspection arrangements.

# Financial standing and management of the NHS in Wales

## 2

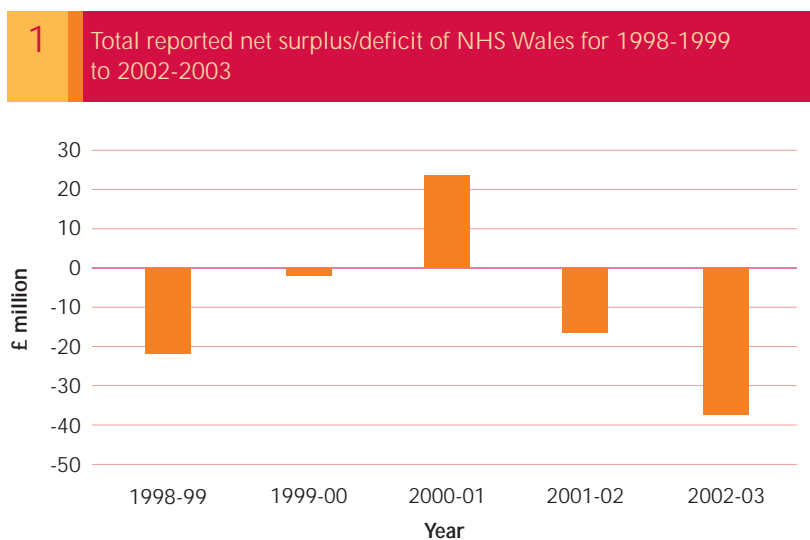
### Introduction

2.1 This part of my report examines the key issues that influenced the financial performance of NHS Wales during 2002-2003 and the developments in management strategy impacting on the future financial standing summarising:

- overview of the financial results of NHS Wales for 2002-2003 (paragraphs 2.2 to 2.5);
- the financial position of the health authorities on abolition (paragraphs 2.6 to 2.7);
- the financial performance of the NHS trusts (paragraphs 2.8 to 2.12);
- the public sector payment policy and performance (paragraphs 2.13 to 2.16); and
- the financial standing of NHS Wales (paragraphs 2.17 to 2.19).

### Overview of the financial results of NHS Wales, 2002-2003

2.2 The total net deficit for 2002-2003 was £37 million (compared with £16 million in 2001-2002), as shown in **Figure 1**. This comprised a £10.9 million net deficit amongst the NHS trusts (£2.8 million in 2001-2002), a £25.5 million deficit generated by the health authorities (£12.4 million in 2001-2002), and a deficit of £0.6 million (£0.8 million in 2001-2002) from the Dental Practice Board's General Dental Health Services in Wales. Last year the NHS Wales Department had predicted an operating deficit of between £39.6 million and £44.1 million, excluding the write off of Dyfed Powys loans.



Source: NHS (Wales) Summarised Accounts

2.3 On 23 January 2002 the Minister for Health and Social Services advised the NHS of the intention of the Assembly to cancel loans taken out before 31 March 2001. NHS trusts needed to demonstrate two successive years of financial balance in order to qualify for the cancellation of their loans, which totalled £17.5 million. No loans to trusts were written off in 2002-2003. Loans issued since 1st April 2001, totalling £7 million for health authorities and £13.7 million for NHS trusts, will be repayable in line with financial plans approved by the Department. Loans to the former health authorities are repayable by their successor local health boards.

- 2.4 Comparisons of net surpluses/deficits between years are not straight forward. In 2002-2003 there was the write off of £23.7 million of loans to Dyfed Powys Health Authority. In 2001-2002 the overall deficit includes strategic assistance of £11.2 million without which the total net deficit would have been £27.2 million. In addition, the figures for 2001-2002 have been restated in response to the Assembly's guidance on pre 6 March 1995 early retirements to comply with FRS 12. The provisions and reserves were adjusted for £6.8 million in relation to the health authorities and £12.2 million for the trusts.
- 2.5 The accumulated net income and expenditure deficit of NHS Wales at 31 March 2003 was £100.6 million (£68.1 million at 31 March 2002). Clearly the reversal of this situation and the restoration of financial balance is the priority for the NHS in Wales. The Minister and NHS Wales Director recognise that the deficit culture must be addressed. Measures aimed at restoring financial discipline are being implemented, designed to ensure the service is back in balance by 2006 with any further loans being repaid by 2009.

## Financial position of the health authorities on abolition

- 2.6 The financial legacy of the local health boards on the demise of the health authorities is detailed in Appendix 1 which details the net assets and liabilities transferred from each health authority. These figures are subject to audit by the Audit Commission. The total accumulated net deficit of health authorities in Wales at 31 March 2003 was £60.2 million as shown in **Figure 2**. The equivalent figure for the financial year ended 31 March 2002 is £58.4 million restated.
- 2.7 The statutory financial duty of the health authorities is set out in section 97A of the National Health Service Act 1977. In terms of performance against financial targets, the appointed auditors reported all five health authorities achieving their statutory duty to remain within their cash limits. Only the North Wales Health Authority achieved its breakeven target. The total accumulated net deficit of the Dental Practice Board at 31 March 2003 was £12.4 million (31 March 2002: £11.8 million).

**2** Health Authorities in Wales: Comparison of accumulated deficits at 31 March for the years 1999 to 2003



Source: NHS (Wales) Summarised Accounts and underlying Health Authority accounts for, 1998-1999, 1999-2000, 2000-2001, 2001-2002 and 2002-2003

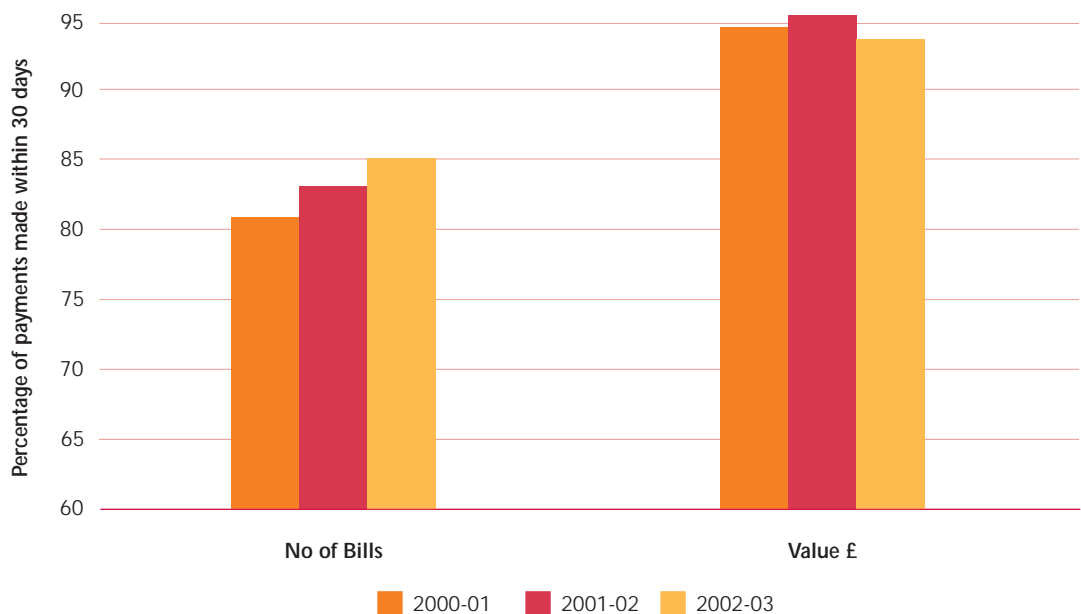
## Financial performance of the NHS trusts

- 2.8 The 2002-2003 summarised accounts of the NHS trusts report a deficit for the year of £10.9 million with an accumulated deficit at 31 March 2003 of £28 million (31 March 2002: £17.4 million restated). It should be noted that Strategic Assistance Funding of £11.2 million improved the position during 2001-2002 without which the deficit on NHS trusts for that year would have been £28.6 million.
- 2.9 NHS trusts have a statutory requirement to breakeven which is measured over a three year rolling period and which can be extended to five years by agreement with the Welsh Assembly Government. The appointed auditors informed me that for the financial year 2002-2003 nine trusts met their breakeven duty and one trust failed to achieve its breakeven duty. The remaining five trusts were not required to formally report their breakeven target in 2002-2003 after approval of budgeted deficits by the Assembly. Seven trusts returned an in-year surplus. All NHS trusts remained within their External Finance Limit.
- 2.10 Carmarthenshire NHS Trust again did not achieve its statutory financial target and had not sought Assembly approval for an extension to the breakeven timescale. The NHS Wales Department requested third party consultants, Teamwork, to complete an independent review of the health community. The NHS Wales Department have informed me that a revised Strategic Change and Efficiency Plan has now been prepared and approved which addresses the underlying deficit of £4.5m.
- 2.11 The deficit positions were accepted by the Welsh Assembly Government on the basis that trusts had either developed, or are currently working on, plans to restore financial balance. Concerns were raised by the Audit Commission in Wales with the Welsh Assembly Government in relation to their arrangements with individual NHS trusts, which potentially overrode the trusts' statutory requirement to breakeven, and the interpretation of the 'rolling' breakeven period, particularly for those trusts that had recently emerged from an extension in the breakeven period due to the agreement of a Financial Recovery Plan.
- 2.12 To resolve this, the Welsh Assembly Government agreed that where trusts had concluded a period of financial recovery in 2001-2002, a new breakeven period was deemed to commence in 2002-2003 with no requirement formally to report on the breakeven target. The following four trusts were therefore not required to report a breakeven duty in 2002-2003: Ceredigion NHS Trust; Powys NHS Trust; Pembrokeshire and Derwen NHS Trust and North East Wales NHS Trust. In addition Cardiff and the Vale NHS Trust had just completed its third year of operation in 2002-2003 and there was no requirement to report breakeven on the basis that its recovery plan had been extended to the year 2008-2009. It should also be noted that 2002-2003 was the last year of operation for Powys NHS Trust. The operations of the Trust have been transferred to Powys Local Health Board as at 1 April 2003. In the light of the approach adopted for 2002-2003, the Audit Commission told me that it will be asking the Welsh Assembly Government to clarify the breakeven guidance.

## Public sector payment policy and performance

- 2.13 All NHS bodies are required to comply with the CBI prompt payments code and the Government accounting rules that require all undisputed invoices to be paid within 30 days, unless other terms are agreed with suppliers.
- 2.14 **Figure 3** shows the comparative improvement in supplier payment performance on an all Wales basis for the past three years in terms of the number of bills paid but a slight deterioration in terms of value during 2002-2003.
- 2.15 The payment performance of each health authority and NHS trust in 2002-2003 is disclosed in Appendix 3. Again the appointed auditors drew attention to the wide variation in payment performance across NHS bodies during 2002-2003, ranging from just under 56.7% for North Glamorgan NHS Trust to 99% for Bro Taf Health Authority for the number of bills paid within 30 days. However no interest payable was recorded in the underlying NHS accounts (2001-2002: nil).

**3** Comparative supplier payment performance of NHS in Wales for the years 2000-2001 to 2002-2003



Source: NHS (Wales) Summarised Accounts for 2000-2001, 2001-2002 and 2002-2003

2.16 The average of 85.2% bills paid within target (2001-2002: 83.1%) falls significantly short of the 95% benchmark for 2003-2004. In the Foreword to the summarised accounts the Director of NHS Wales identified that the implementation of a new financial system in 2002-2003 had resulted in poor performance in some trusts at the beginning of the year, but there has been a general trend of improvement during the current financial year. During 2003-2004 the NHS trusts and local health boards will be required to pay 95% of undisputed invoices within 30 days as a formal financial target with an expectation of compliance by March 2004. Where this is not achieved, formal action plans will be required detailing how performance is to be improved. Best practice has been disseminated throughout the NHS and tighter definitional controls introduced.

### Financial standing of NHS Wales

2.17 In addition to forming opinions on the accounts, the appointed auditors are required to form a view on the financial standing of each NHS body. In doing so they consider:

- the financial performance in the year;
- the ability to meet statutory and other financial obligations, actual and contingent; and
- known developments, whether current or in the foreseeable future, which might impact on financial standing.

Again, the financial standing of NHS Wales was a major concern of the appointed auditors. The health economy in Wales is facing financial problems as indicated by the Service and Financial Framework process. This process has resulted in a projected deficit of £20.7 million for 2003-2004 as detailed in Appendix 2. The forecast range is between £17 million and £24 million. Health communities have been asked to develop Strategic Change and Efficiency Programmes to eradicate the financial deficits by March 2006, through a combination of financial savings and loans that will be repayable by March 2009.

2.18 The Audit Commission in Wales is concerned that some Strategic Change and Efficiency Programmes have not yet been agreed between the local health communities and the Welsh Assembly Government. Assembly Government officials are developing a balanced scorecard approach to performance management for 2004-2005.

2.19 The appointed auditors have also expressed significant concerns over the financial standing of the individual trusts. **Table A** summarises the results of their reviews identifying the underlying financial problems.

The NHS trusts will face continuing financial pressures from the impact of the new consultants' contract and the Working Time Directive, restructuring of national funding allocations and increases in the demand for health care services.

## A

## NHS trusts with underlying financial problems in 2002-2003

NHS trust	Financial position
<b>Cardiff and Vale</b>	<p>The Trust reported a £3.4m deficit in 2002-2003.</p> <p>A new five year recovery plan was agreed with the Welsh Assembly Government in July 2003 which is expected to return the Trust to surplus in 2006-07. The Trust will need to deliver a breakeven position in 2008-09. A key challenge facing the Trust is the delivery of a cost improvement programme of some £23m in this period.</p> <p>The Assembly Government loaned £10.1m to the Trust in 2002-2003. Total loans outstanding at 31 March 2003 were £13.6m.</p>
<b>Carmarthenshire</b>	<p>The Trust reported a £4.5m deficit in 2002-2003.</p> <p>The Trust is planning to restore service and financial balance by 2006 whilst also providing for the repayment of loans received in 2002-2003 and receivable in 2003-2004 by 2008-09.</p> <p>The Assembly Government loaned £6.0m to the Trust in 2002-2003. Total loans outstanding at 31 March 2003 were £9.2m.</p>
<b>Ceredigion and Mid Wales</b>	<p>The Trust reported a £0.8m deficit in 2002-2003.</p> <p>The Trust is planning to restore service and financial balance by 2006 whilst also providing for the repayment of loans received in 2002-2003 and receivable in 2003-2004 by 2008-09.</p> <p>The Assembly Government loaned £0.9m to the Trust in 2002-2003. Total loans outstanding at 31 March 2003 were £1.4m.</p>
<b>Pembrokeshire and Derwen</b>	<p>The Trust reported a £2.4m deficit in 2002-2003 which included a capital to revenue transfer of £2.6m.</p> <p>The Trust is planning to restore service and financial balance by 2006 whilst also providing for the repayment of loans received in 2002-2003 and receivable in 2003-2004 by 2008-09.</p> <p>The Assembly Government loaned £2.4m to the Trust in 2002-2003. Total loans outstanding at 31 March 2003 were £5.2m.</p>
<b>Powys Health Care</b>	<p>The Trust reported a £0.7m deficit in 2002-2003.</p> <p>The LHB (the successor organisation) is planning to restore service and financial balance by 2006 whilst also providing for the repayment of loans received in 2002-2003 and receivable in 2003-2004 by 2008-09.</p> <p>The Assembly Government loaned £0.4m to the Trust in 2002-2003. Total loans outstanding at 31 March 2003 were £0.4m.</p>
<b>North East Wales</b>	<p>The Trust reported a £0.5m deficit in 2002-2003.</p> <p>Although the Trust reported a deficit it is making progress against its approved deficit position. The Trust is expected to reach an in year balanced financial position by 31 March 2004 as set out in its Deficit Management Plan.</p> <p>Total loans outstanding at 31 March 2003 are £0.1m.</p>

Source: Audit Commission in Wales



# 3 Restructuring of NHS Wales

## Introduction

3.1 The restructuring of the NHS in Wales has led to significant changes. The five health authorities and Powys Healthcare NHS Trust were abolished on 31 March 2003 and replaced with 22 local health boards. In addition a number of bodies have been established to provide additional support including:

- **Business Services Centre** - providing a range of services including financial, contractor, human resource and IT support to the local health boards;
- **National Public Health Service for Wales** - providing specialist Public Health facilities to support the local health boards; and
- **Health Commission Wales (Specialist Services)** - an executive agency of the Welsh Assembly Government to provide dedicated guidance, advice and support on specialised secondary and regional services commissioning.

A number of fora and working groups have also been established to address specific issues including:

- **The Wanless Programme Board and Resources Sub-group** - to take forward the recommendations of "The Review of Health and Social Care in Wales" - advised by Derek Wanless. The Resources Sub-group has been established to explore the opportunities and mechanisms for optimising the use of resources to deliver effective health and social services;
- **Financial Information Strategy Board and the Programme Budgeting Board** - to consider the impact of key external reports at all levels of the NHS in Wales, including the Wanless report and the Townsend group report 'Targeting Poor Health'; and

- **All Wales Medicines Strategy Group** - providing advice on strategic medicines management and prescribing to the Assembly.

## Changes in Legislation

- 3.2 The Health and Social Care (Community Health and Standards) Act 2003 conferred new healthcare inspection functions on the Assembly. It also established the Commission for Healthcare Audit and Inspection - a body that will operate across England and Wales.
- 3.3 The Act provides for the Assembly to conduct reviews of, and investigations into, the provision of healthcare by and for Welsh NHS bodies. The Assembly intends that these functions will be undertaken through a new unit, to be established on 1 April 2004 and known as Healthcare Inspectorate Wales.
- 3.4 In exercising these functions, the Assembly must take into account a number of matters including the availability of and access to health care; the quality and effectiveness of the health care; the financial or other management of the health care and the economy and efficiency of its provision; and the need to safeguard and promote the rights and welfare of children.
- 3.5 Healthcare Inspectorate Wales will work closely with other Assembly Inspectorates - Social Services Inspectorate Wales and Care Standards Inspectorate Wales. The Act also allows for the Assembly to review healthcare provided for Welsh NHS bodies and will, in effect, allow the Assembly to review healthcare commissioned by NHS Wales from the NHS in England. Similarly, the Act provides the Commission for Health Audit and Inspection with a corresponding function of reviewing healthcare commissioned by the NHS in England and provided by NHS Wales.

- 3.6 The Welsh Assembly Government has informed me that it does not intend to introduce star ratings as in England and that it has opted for an approach that it believes takes a more rounded view of performance. Their intention is to establish a performance framework that takes an holistic view of the services provided by NHS organisations to its patients and the public, and will provide:
- a structured approach to focussing on an organisation's strategic and annual performance objectives;
  - a mechanism for accurately reporting organisational performance;
  - a way of ensuring accountability for results;
  - a way of ensuring responsibility for performance improvement is shared;
  - a way of addressing quality, safety, activity and cost issues; and
  - a "fair way" of decision making and objective reward and award distribution.
- 3.7 The Commission for Healthcare Audit and Inspection will have England and Wales functions - publishing national performance data; conducting reviews of particular kinds of health care (for example, national reviews on cancer healthcare); the review of healthcare provided by Welsh NHS bodies for NHS bodies in England; the preparation of an annual report on the way it has exercised its functions during the financial year on its review of the provision of health care by and for NHS bodies in England and Wales. It must also report to the Assembly where it is of the view that there are significant failings relating to the provision of healthcare by or for a Welsh NHS body.
- 3.8 The expected benefits of the new inspection regime for NHS patients in Wales include:
- a strong focus on Welsh health priorities when carrying out reviews locally in Wales;
  - stronger collaboration between the various inspectorates, audit bodies and other stakeholders to identify gaps and/or duplications in service provision;
  - reviews taking into account the Welsh NHS organisational structure and the way in which healthcare is commissioned in Wales; and
  - the ability of the Assembly Government to provide the necessary degree of robustness, transparency, and thoroughness that is currently expected.
- 3.9 The Public Audit (Wales) Bill currently before Parliament will, if enacted, create a single audit body for Wales headed by the Auditor General for Wales and to be known as the "Wales Audit Office". The new audit body will take on the functions currently exercised by the Audit Commission in Wales and by the National Audit Office on behalf of the Auditor General, and the staffs of both organisations will be transferred to the Auditor General's employment. The working assumption is that the new arrangements will come into force on 1 April 2005.
- 3.10 The legislation will appoint the Auditor General as the external auditor of all NHS bodies in Wales with statutory duties that will be similar to those currently placed on the auditors appointed by the Audit Commission. The Auditor General's existing value for money audit powers will continue and will be enhanced to reflect the Audit Commission's existing powers.

- 3.11 In England, the Audit Commission's role in undertaking national value for money studies is being transferred to the new Commission for Healthcare Audit and Inspection. In Wales, the Audit Commission will retain these powers until 2005 when they will be transferred to the Auditor General. The Public Audit (Wales) Bill contains clauses requiring the Auditor General for Wales, the Commission for Healthcare Audit and Inspection and Healthcare Inspectorate Wales to co-operate in the discharge of their respective functions.
- 3.12 I welcome the proposed changes which have the potential to strengthen the accountability arrangements for the NHS in Wales and to create a more holistic audit and inspection process.

## Review of Structural Change Costs

- 3.13 In my report *The Finances of NHS Wales 2003*, I recommended that there was a need for a more detailed review of how the Business Services Centre and the National Public Health Service for Wales would operate in practice, within their revised budgets and without jeopardising service delivery. This review has now been completed by the NHS Wales Department. The National Public Health Service for Wales has produced a definitive financial strategy, agreed by the Assembly in December 2003, which proposes transitional funding of £0.5 million in 2003-2004 and a balanced budget within the Service's running costs envelope from 2004-2005. The Business Services Centre has produced an interim financial strategy which was agreed by the Assembly in June 2003. Following a mid-year financial review, the Business Services Centre has confirmed to the Welsh Assembly Government that transitional funding will not be required for 2003-2004. The transitional funding requirement for future years is under review.
- 3.14 The National Public Health Service for Wales was formed on 1 April 2003 and is formally part of Velindre NHS Trust. On the basis of the funding inherited from the health authorities, the organisation was required to make savings of 10.3% to enable it to operate within its revised allocation for 2003-2004 of £13.9 million. The creation of the National Public Health Service for Wales also included the transfer from England of the laboratories of the Public Health Laboratory Service in Wales and the Communicable Diseases Surveillance Centre in Wales. Funding from the Welsh Assembly Government previously provided to the Public Health Laboratory Service amounting to £4.9 million in 2003-2004 was transferred to Velindre NHS Trust.
- 3.15 The Minister for Health and Social Services stated in July 2002 that the running costs of the new structure would not exceed those within the existing structure of £71.1 million and that transitional costs would be in the range of £12.5 million to £15.5 million. The NHS Wales Department have informed me that they expect the running costs of the new structure to remain within £71.1 million. I will continue to monitor the position and comment in future reports.
- 3.16 The revised budget estimate for the transitional costs of the NHS Wales Structural Change Programme for the four year period to 31 March 2005 was reported to the Health and Social Services Committee in March 2003. Excluding transition funding for the Business Services Centre and the National Public Health Service for Wales, the budget range of the transitional costs has been revised to £10.9 million to £14.14 million. At £12.57 million the latest available forecast outturn lies within the approved budget range.
- 3.17 In addition, the Extended Employment Scheme was established on 1 April 2003 to enable NHS Wales to retain, for a further twelve months, those eligible staff with important skills and experience who had not secured substantive employment following restructuring. The Scheme, administered by Powys Local Health Board, also provides support to help them prepare their own personal development plans and secure substantive positions elsewhere. Of the 62 eligible staff entering the Scheme, 33 had left by 31 December 2003 analysed in **Table C**.

## B Transitional costs of the NHS Wales structural change programme

	Expenditure and forecast outturn		Budget range	
	Expenditure to 31 December 2003 £ million	Forecast outturn £ million	Lower Limit £ million	Upper Limit £ million
Project Management	0.734	0.734	0.760	0.800
Recruitment	0.625	0.625	0.475	0.500
Organisational Development and Training	0.367	0.367	0.420	0.450
Accommodation and IT	1.337	2.646	2.600	2.900
Shadow Running	0.551	0.641	0.625	0.650
Extended Employment Scheme	2.133	6.950	5.970	8.740
Miscellaneous	0.080	0.100	0.050	0.100
Business Services Centre <sup>1</sup> .	-	-	-	-
National Public Health Service for Wales	-	0.507	-	-
<b>Totals</b>	<b>5.827</b>	<b>12.570</b>	<b>10.900</b>	<b>14.140</b>

### NOTE

1 Business Services Centre transitional funding for future years is under review.

Source: NHS Wales Department

## C Extended Employment Scheme

	Number of Staff
Staff entering the Scheme	62
<b>As at 31st December 2003</b>	
Staff that have gained jobs outside the Scheme	18
Staff that have reached retirement age and have therefore dropped out of the Scheme	3
Staff that have left the Scheme through early retirement	3
Staff that have left the Scheme due to Ill Health Retirement	1
Staff on long term secondments	8
<b>Number of staff remaining on the Scheme at 31st December 2003</b>	<b>29</b>

## The impact of major reviews in the NHS

### Review of Health and Social Care

- 3.18 This independent review prepared by Derek Wanless on health and social care in Wales was published in June 2003 and highlighted the need for a radical re-think about the way health and social care services are provided. The Review concluded that the current configuration of health services is unsustainable, with insupportable burdens on the acute sector and its workforce, particularly due to demographic changes and an increasingly ageing population. As a result, significant change is required to increase resources for health and social care in Wales achieved, for example, through productivity improvements, better public health measures and ensuring value for money. The Assembly Government's response to the Review (published on 5 November 2003), confirmed that the implementation programme would be structured into four themes: Prevention; Optimising Service Delivery; Involving People and Professions and Accountability and Performance. The theme of Performance and Accountability covers:
- performance, universalising best practise and tackling waste;
  - organisation effectiveness, leadership and accountability; and
  - resources including finance, capital and Information Communication Technology.
- 3.19 In response to the Review, a Programme Board has been established under the chairmanship of the Director of NHS Wales, with a series of sub-groups to progress implementation under the four themes. It is also overseen by a Cabinet Task and Finish Group chaired by the First Minister. Alongside this work, the Minister's monthly report to the Health and Social Services Committee on 26 November 2003 stated that local health boards would be required to produce local 'Wanless' action plans. These are due to be submitted to the Welsh Assembly Government by 30 April 2004.
- 3.20 There are wide-ranging recommendations in the Review including addressing the pressure on the acute sector, more effective use of community hospitals, focus and prevention, and investment in Information Communication and Technology. The Health Minister announced £30 million dedicated funding in 2004-2005 to take forward the Assembly's response to the Review. This is designed to promote independence; intermediate care services; supporting people at home in the community; preventing avoidable admissions; accelerating departure from hospital and relieving pressure on the acute sector. In addition £16 million has been provided to implement the "Informing Healthcare" information initiative, which is seen as a major building block in shaping delivery and performance.
- 3.21 The NHS Wales Finance Department has also established the Financial Information Strategy Board in response to the Review and the report issued by the Townsend research team on 'Targeting Poor Health'. The main objective of the Board is to assess the findings and recommendations of these independent reviews and identify a framework through which the quality of information can be improved to support strategic service planning at national and local level, and in the assessment of NHS and Social Care performance.
- 3.22 The new financial information strategy will implement a programme budgeting initiative mapping NHS expenditure to 23 medical conditions affording benchmarking with England. This will complement information which is currently incorporated in the "Activity and Costs in Welsh Hospitals" guidance ("The Red Book"). As well as aiding decision making, programme budgeting information will support formal performance management processes.

## Review of Internal Controls in the Business Services Centre

3.23 The Director of Finance NHS Wales commissioned Atos KPMG Consulting to review the internal controls, draft Service Level Agreements and organisational arrangements in the new structure for the Business Services Centre. The report was published in November 2003. Although it concluded that the internal control systems were adequate, it highlighted a number of areas for concern, which have been accepted by local management.

These are summarised as follows:

- concerns regarding the adequacy of staffing arrangements at Pontypool and Swansea Business Services Centre offices to deliver the local health board accounts in line with agreed standards and timescales;
- draft Service Level Agreements currently in development could be more focussed and specific in measuring performance; and
- operational improvements are required to address poor visibility of controls and reconciliations, and lack of clarity in management accounting functions in the local health boards and the Business Services Centre leading to duplication in producing financial reports.

## Review of Reorganisation Processes

3.24 In the knowledge that the five health authorities in Wales were to be abolished from 31 March 2003, the Audit Commission informed me that the appointed auditors also continued to monitor the arrangements to manage the change to the new organisational structures. Reviews focussed on areas such as project planning; communication; governance and financial control; staffing, redundancy and redeployment; performance management and budgets for 2003-2004; property, assets, commitments and liabilities; partnerships; shared services, and Caldicott Report (published in December 1997) on the protection of patient information within the NHS. Their findings completed earlier in the year were consistent with the subsequent Atos KPMG review and supported the work of the consultants. A further issue of concern raised by auditors relates to the delays in the disaggregation of health authority balances. The transfer of health authority assets and liabilities to the successor bodies should have been completed when health authorities' accounts were certified in September 2003. Initial NHS Wales Department guidance on the disaggregation process was issued in August 2003 with supplementary guidance, to address specific issues arising from the disaggregation process, issued in early December 2003. The disaggregation process was not completed until January 2004 primarily due to resource constraints in the Business Services Centre and the need to clarify balances in response to queries from successor bodies. The Audit Commission in Wales informed me that the appointed auditors intend to complete their audits of the schedules of assets and liabilities transferring to the successor bodies by 31 March 2004.

# 4 Challenges Facing NHS Wales

## Introduction

4.1 During 2002-2003 there has been considerable progress in implementing the NHS Plan "Improving Health in Wales". In specifying her budget priorities for 2003-2004 the Minister for Health and Social Services recognised major challenges and difficult choices about priorities and how current resources are utilised. Improving health and the standards of health care services in Wales remains the key challenge. Within this context, my report examines some of the pressures, in addition to the restructuring issues noted in Part 3, faced by NHS Wales in delivering its targets effectively:

- corporate governance (paragraphs 4.2 to 4.8);
- issues from the underlying accounts (paragraphs 4.9 to 4.16);
- the Welsh Risk Pool (paragraphs 4.17 to 4.19);
- the Private Finance Initiative in NHS Wales (paragraph 4.20); and
- NHS Fraud update and the role of the Audit Commission in Wales in countering fraud (paragraphs 4.21 to 4.31).

## Corporate Governance

### Welsh Risk Management Standards

4.2 All NHS bodies are required to undertake an annual self-assessment against the standards, which cover both clinical and non-clinical risks, as part of a continuous review process. The results of this exercise together with an action plan setting out the intended programme of work to move their organisation towards higher levels of compliance are submitted to the Assembly. The Welsh Risk Pool independently assesses those standards deemed to be of high priority.

4.3 For 2002-2003, there are some 38 Welsh Risk Management Standards that apply to all trusts in Wales, although not all are of relevance to each individual body. In addition, for 2003-2004 five core Welsh Risk Management Standards have been developed and issued to local health boards for self-assessment at the end of the financial year. Further standards are being developed and will be issued to local health boards on an incremental basis in the future. The first self-assessment submission is scheduled for August 2004.

### Statement on Internal Control

4.4 All NHS bodies are required to submit a Statement on Internal Control as part of their annual financial statements. The Statement is signed by the Accountable Officer on behalf of the Board of each NHS body. As part of their mandatory governance responsibilities, all boards are required to conduct a review of the effectiveness of their systems of internal control at least annually. It is underpinned by compliance with those Welsh Risk Management Standards deemed to be core to the management of risk:

- Risk Management Policy and Strategy
- Risk Profile
- Adverse Incident and Hazard Reporting
- Governance
- Financial Management

Governance and financial management standards were introduced for 2002-2003. Compliance is deemed to be achievement of 75% for each core standard.

4.5 The appointed auditors review the Statement of Internal Control and ensure that it is consistent with the Director's Statement. A summary of the results for 2002-2003, with comparatives for 2001-2002 in brackets, is provided in **Table D** as follows:

## D

## Summary of review of SIC

	Full compliance	Partial compliance
Health Authorities	1 (1)	4 (4)
NHS trusts	7 (4)	8 (11)

## NOTE

Four health authorities noted that the system of internal control had not been fully embedded by 31 March 2003 but only one, Iechyd Morgannwg, formally noted the statement as being partially compliant.

Source: Audit Commission in Wales

- 4.6 In 2002-2003, seven out of the 15 Welsh NHS Trusts achieved full compliance against the five core standards. Of the eight that were not able to meet the requirements of the core standards, five indicated that they still had further work outside of the areas covered by the core risk management standards to achieve comprehensive internal control processes by 2003-2004 and two reported a target of 2004-2005 to achieve comprehensive internal control processes. The outgoing Chief Executives of the demising health authorities were required for 2002-2003 to sign a Statement on Internal Control specifically designed for organisations ceasing to exist. Guidance was issued requiring them to ensure that successor bodies were made aware of the principal risks that were relevant to the functions of the new local health boards.
- 4.7 New guidance issued by the Treasury in 2003 extended the deadline for all public bodies to achieve full compliance by the end of the financial year 2003-2004. It also revised the format of the Statement on Internal Control, which is intended to align the processes underpinning the Statement as closely as possible with the work of the Strategy Unit's report "Risk: Improving government's capability to handle risk and uncertainty". The revised format encourages NHS bodies to tailor their statement to their own circumstances.

- 4.8 The Welsh Assembly Government informed me that it has offered assistance designed to ensure the target date is achieved by all NHS bodies. A work programme beyond March 2004 has been agreed with Swansea NHS Trust - the only body that indicated that it would have difficulty achieving the targets. The Trust is currently working with the Welsh Risk Pool to develop its risk management system.

## Issues from the Underlying Accounts

### Costs of Agency Nurses

- 4.9 As in previous reports, I draw attention to the significant cost of agency nursing. The cost of using agency nursing staff in Wales continues to rise significantly each year: during 2002-2003 it was £18 million (2001-2002 £15 million, 2000-2001 £10 million, and 1999-2000 £8 million). This represents approximately 1 per cent of the total NHS bill. The NHS Wales Department's Performance Management Division has been monitoring agency expenditure for some time and has also been working closely with NHS Trusts to determine ways to reduce the expenditure. Notably Cardiff and Vale NHS Trust, which accounts for 44 per cent of the agency nursing cost, have now ceased using unqualified staff (health care support workers) sourced by agencies.
- 4.10 The Welsh Assembly Government has actioned a number of initiatives since the publication in September 2001 of the Audit Commission report Brief Encounters from Temporary Nursing Staff including:
- **Workforce Planning** - an increase in the number of students aimed at reducing the current vacancy rates and the need to recruit staff from agencies in the long term. However this will take three years to benefit the service.



- **Nursing** - 4,300 nurses, midwives and health visitors are due to complete their training by 2004. Part-time nursing programmes are being developed in partnership with Higher Education Institutions, to increase opportunities for healthcare support workers to train as nurses. The first such programme commenced in September 2002 in North Wales, and another is due to start in South Wales in September 2004. An 'All Wales Agency Contract' proposal has been completed and awaits consultation in the near future with the aim of early implementation in 2004.
- **Human Resources Good Practice Team Visits** - aimed at identifying examples of good practice and sharing this across Wales.
- **Return to Practice Initiative** - financial incentives and aid for extra training for nurses and midwives to return to the profession.

In addition, each trust has developed Recruitment and Retention strategies, which will be implemented in 2003-2004. Some trusts have introduced employment contracts based solely on the number of hours worked per year to provide working arrangements to suit an individual's needs. Other initiatives include the provision of crèche facilities and childcare voucher schemes to support a flexible approach to work rosters. The Welsh Assembly Government will also set targets for the reduction in the usage of agency nurses.

## Early Retirement Costs Due to Ill Health

- 4.11 The NHS Wales Department confirmed that retirement packages were agreed in line with guidance issued in April 2002 and that costs for severance payments continue to be monitored closely. Early retirement costs were again significant. During 2002-2003 there were 299 early retirements across NHS trusts resulting in additional pension costs of £14.3 million (2001-2002 286 cases costing £11.8 million). The average cost per person in 2002-2003 was £47,742 compared with £42,000 in 2001-2002. There were 12 early retirements on the grounds of ill health from the health authorities and the Dental Practice Board resulting in an additional £1,007,886 pension costs, i.e. an additional cost of £83,990 on average per case.
- 4.12 At 31 December 2003 only one individual on the extended employment scheme had retired on the grounds of ill health as detailed in Table C.

## Contingent liabilities

- 4.13 **Table E** shows the contingent liabilities of NHS Wales at 31 March 2003. These represent possible obligations which, by their nature, often cannot be measured with reasonable certainty, and for which no provision has been made in the summarised accounts.

### E

#### Contingent liabilities of NHS Wales at 31 March 2003

	Health Authorities £ million	NHS Trusts £ million	Total £ million	Total 2002 £ million
Legal claims	112.2	157.7	269.9	254.0
Continuing Care	10.1	-	10.1	-
Other	2.3	-	2.3	-
<b>Total</b>	<b>124.6</b>	<b>157.7</b>	<b>282.3</b>	<b>254.0</b>

Source: NHS(Wales) Summarised Accounts 2001-2002 and 2002-2003

## Clinical Negligence

4.14 At 31 March 2003, liabilities for clinical negligence claims included on the balance sheets of NHS bodies amounted to £155.7 million (31 March 2002 £118 million). Excluded from these provisions, and disclosed as contingent liabilities, is an estimated £269.9 million of disputed claims for alleged employer or medical negligence, where the likelihood of payment is "possible" rather than "probable".

## Continuing Care

4.15 Health authorities were instructed by the NHS Wales Department to have in place agreed policies for the provision of Continuing NHS Health Care from 1 April 1996. The report of the Health Services Ombudsman published in February 2003 concluded that health authorities and trusts had not been correctly applying Departmental guidance nor a crucial judgment by the Court of Appeal in 1999 (the Coughlan judgment) to determine whether people were eligible for NHS funding for care in nursing homes. While all the cases considered by the Ombudsman to date have been in England, and the report's instructions were addressed to strategic health authorities and Primary Care Trusts in England, the legal position on Continuing NHS Health Care is the same in Wales. At 31 March 2003 the Welsh health authorities' accounts included a contingent liability for £10.1 million for continuing care. It is a conservative estimate based on the potential level of claims and the average cost of nursing care since 1996.

4.16 The cost of the implications of the Ombudsman's report does not stop at reimbursement of past injustices. Since the Coughlan judgment, health authorities, and subsequently local health boards, have had to change the basis on which eligibility for Continuing NHS Health Care is judged. As a consequence, an increased number of people are being assessed as eligible, with a considerable effect on continuing care budgets over the last two years. The potential realisation of these claims could impose further financial constraints on the NHS in Wales.

## Welsh Risk Pool

4.17 In my 2003 report on the Finances of NHS Wales, I referred to the sharp rise in claims reimbursement payments of £49 million made during 2001-2002 that had not been anticipated by the Welsh Risk Pool when setting its premium levels for that financial year. As a consequence, the Pool had to collect a further £20 million of premium contributions in that year to fund the totality of its reimbursement payments.

4.18 Following this, a number of actions were taken by the Welsh Risk Pool to strengthen their financial management arrangements. The Director of NHS Wales also commissioned an external review of the Welsh Risk Pool to identify further measures to be taken to strengthen and ensure the cost-effectiveness of management arrangements for clinical negligence and other claims funded by the pool. Ministers approved the final report and recommendations in April 2003. Those recommendations, which were aimed at improving the monitoring and forecasting procedures operated by the Pool and included the use of actuary advice on budgeting requirements and premium setting, have now been implemented. Improved accountability and oversight arrangements by its host trust, Conwy and Denbighshire NHS Trust, have also been introduced. Other long-term proposals are in the process of being implemented. These include measures to limit the exposure of individual trusts from multiple claims arising from a common cause and the Pool to potentially major claims, for example property risks.

4.19 In 2002-2003, these revised arrangements have helped ensure that the Pool's expenditure of £43 million on the settlement of 246 clinical negligence and personal injury claims have been met from within its budget and without the need for additional premiums to be levied. Notably, a total of 45 cases exceeded £100,000 with an average settlement of £527,000.

## The Private Finance Initiative in NHS Wales

4.20 The summarised accounts of NHS trusts in Wales for 2002-2003 included seven trusts disclosing 13 separate PFI transactions. There was one additional scheme in 2002-2003 which relates to an energy scheme with minimal capital outlay for North Glamorgan NHS Trust. The estimated capital value covering the 13 separate PFI transactions is £114.3 million: one scheme is accounted for on balance sheet (£2.7 million) and twelve are off balance sheet (£111.6 million). The related operating expenditure for 2002-2003 was £11.4 million (2001-2002 £5.3 million). Trusts are committed to paying £18.5 million annual payments under these schemes.

## NHS Fraud Update

4.21 In my report on the Finances of NHS Wales 2003, I commented upon the Assembly Government's aim of reducing fraud to, and holding it at, the absolute minimum permanently and the steps taken to establish an effective structure to counter fraud in Wales. This included the establishment of the NHS Counter Fraud Service (Wales) team and the appointment of Local Counter Fraud Specialists based in NHS trusts and health bodies. In addition, the Counter Fraud and Security Management Service Pharmaceutical, National Pro-active and Dental Fraud Teams also provide services to health bodies in Wales. NHS Wales currently has twenty two accredited Local Counter Fraud Specialists (nineteen 2001-2002). Six other Local Counter Fraud Specialists have been nominated by health bodies and are awaiting training and accreditation.

4.22 My last report highlighted that the NHS Counter Fraud and Security Management Service estimated that the amount lost as a result of pharmaceutical fraud in Wales had been reduced from £15 million to £7 million per year for 2001-2002. This was consistent with the improving position in England where the estimated prescription fraud had reduced from £117 million per year to £47 million per year. The Counter Fraud and Security Management Service has completed a second measurement exercise on the estimated amount of income lost as a result of Optical Patient and Contractor fraud in

Wales. The exercise concluded that the level of optical fraud in Wales had fallen from £1.2 million per year to £0.9 million per year. The Counter Fraud and Security Management Service Risk Measurement Investigation Unit is to carry out an exercise to estimate the level of dental patient and contractor fraud in mid-2004.

4.23 Arrangements to enable the Dental Practice Board to carry out verification checks for patients claiming exemption or remission from dental charges and to implement penalty charges in Wales are being developed. A Commencement Order to the National Health Service (Primary Care) Act 1997 to designate the Dental Practice Board as a "health service body" through the amendment of the NHS Act 1997 comes into force from 1 April 2004. This will enable the Dental Practice Board to be directed to undertake this function in Wales.

4.24 The Post Payment Verification Unit (part of Velindre NHS Trust) is responsible for the investigation of claims for exemption from relevant prescription charges, to pursue the recovery of such charges, and to levy penalty charges and other surcharges as appropriate. Between October 2002 and December 2003, the Unit checked approximately 350,000 scripts, resulting in 12,000 initial letters being sent to patients requesting proof of exemption or payment for their prescription. From this a further 3,000 penalty charge and 1,800 surcharge letters have been issued. The total income recovered from the initial letters is £31,000 and another £34,000 is being recovered in penalties and surcharges.

4.25 Since becoming operational in August 2001, the NHS Counter Fraud Service (Wales) has received a total of 37 referrals of alleged fraud. By 31 December 2003, the team had concluded eighteen investigations resulting in the recovery of funds valued at £233,402. The remaining 19 cases, which are still under investigation, involve funds of approximately £550,000. The Local Counter Fraud Specialists generally investigate cases where the potential estimated loss is less than £15,000 and act as a deterrent to potential fraud. In the period to 31 December 2003, they had received 150 case referrals, of which 40 are complete and have resulted in the recovery of £122,173.

#### 4.26 The Counter Fraud and Security

Management Service continues to make a key contribution in identifying, investigating and countering fraud. Important developments include:

- a Counter Fraud Charter with Unison, which commits over 30,000 NHS Staff in Wales to working with the NHS Counter Fraud Service on practical action to counter fraud and corruption within NHS Wales;
- a series of national proactive exercises in NHS Wales designed to uncover and prevent fraud by NHS agency and bank staff, and to highlight system and policy weaknesses that allow this fraud to take place. The Counter Fraud and Security Management Service told me that this has identified several timesheet frauds in NHS Wales which are currently under investigation. Other pro-active exercises are planned for 2004;
- a policy statement on the application of sanctions in respect of fraud and corruption in the NHS to deter and prevent fraud, including criminal, civil, disciplinary or employment sanctions;
- fraud awareness days have been conducted at 16 venues at major acute hospitals in Wales, raising general awareness of the NHS counter fraud strategy and explaining to NHS staff their role in tackling fraud and corruption. There has also been an increase in calls to the NHS Fraud and Corruption Reporting Line, with a total of 36 calls reporting suspicions of fraud in NHS Wales to date;
- regular presentations to staff throughout NHS Wales including induction days, management and staff training days, and briefings to professional bodies and audit committees. NHS Counter Fraud Service (Wales) had conducted a total of 64 presentations by the end of 2003; and
- the continuation of the Quality Assurance Programme which ensures all counter fraud work is carried out to a high standard and that standards are maintained across Wales. Quality Assurance reviews were completed at North Wales Health Authority and Gwent Healthcare NHS Trust during

2002 that showed a strong commitment to counter-fraud work, although the scope for some improvements was highlighted which are being acted upon. In addition Quality Assurance Reviews were completed at Bro Morgannwg NHS Trust and North East Wales NHS Trust in 2003 and the results of the reviews are due to be published in early 2004.

### The Role of the Audit Commission in Wales in Countering Fraud

4.27 The safeguarding of public money is the cornerstone of public sector business and the appointed auditors of all NHS bodies in Wales consider whether each body has adequate arrangements to maintain proper standards of financial conduct and to prevent and detect losses through fraud and corruption. The Audit Commission in Wales told me that in general the appointed auditors of NHS bodies reported a strengthening of the role of the Local Counter Fraud Specialists throughout the NHS in Wales. In addition, the appointed auditors reported the growing emphasis being placed by NHS bodies on developing an anti fraud culture.

4.28 The Audit Commission in Wales has confirmed that appointed auditors have again had a strong focus on anti fraud work during the year. As well as examining the overall arrangements for developing an anti fraud culture, appointed auditors have carried out work in specific areas such as the potential abuse of internet access, gifts, hospitality, interest declaration; and antifraud and corruption procedures. In 2002-2003 the Audit Commission in Wales, in conjunction with NHS Counter Fraud Service (Wales) and the police, continued to assist each of the five health authorities in combating ophthalmic fraud. This work has been concentrated on both preventing and detecting inappropriate claims by opticians. Further to this work, in February 2003, one optician entered into an agreement to repay £120,000 and a second optician entered into a county court agreement to repay an initial sum of £72,500 with a further amount of £190,000 to be considered at a future court hearing. Further cases are ongoing.

4.29 The Public Interest Disclosure Act provides statutory protection to public sector employees, including NHS staff, who 'blow the whistle' on fraud and corruption taking place in their employing bodies. Over recent years, the Audit Commission, as a 'prescribed person' under the Act, has received a number of Public Interest Disclosure cases relating to public bodies in Wales. In each case, the appointed auditors have been requested to investigate the disclosures made. There were no such disclosures relating to NHS bodies in Wales in 2002-2003.

4.30 As part of their work, appointed auditors consider the legality of actions taken by NHS bodies. In the majority of cases issues are resolved by discussion, in some instances resulting in action by the body to ensure that it acts within available powers. Occasionally, the appointed auditors conclude that there is need to make a referral to the Welsh Assembly Government or to issue a report in the public interest. In certain circumstances, appointed auditors may decide that it is in the public interest to make public the results of their work. No such reports were made in 2002-2003.

4.31 Auditors also have a duty to refer a matter to the Welsh Assembly Government if they have reason to believe that an NHS body has made a decision that involves or may involve unlawful expenditure. Again no such referrals were made in 2002-2003.

# Appendix 1- Statement of net assets and liabilities transferred from health authorities at 1 April 2003

	Dyfed Powys HA £'000	Iechyd Morgannwg HA £'000	Bro Taf HA £'000	Gwent HA £'000	North Wales HA £'000	Total £'000
<b>Mid &amp; West</b>						
Carmarthenshire LHB	(2,446)	-	-	-	-	(2,446)
Ceredigion LHB	(999)	-	-	-	-	(999)
Pembrokeshire LHB	(2,195)	-	-	-	-	(2,195)
Powys LHB	6,295	(507)	30,903	41,195	41,085	118,971
Bridgend LHB	-	(1,665)	-	-	-	(1,665)
Neath Port Talbot LHB	-	(325)	-	-	-	(325)
Swansea LHB	-	(179)	-	-	-	(179)
	<b>655</b>	<b>(2,676)</b>	<b>30,903</b>	<b>41,195</b>	<b>41,085</b>	<b>111,162</b>
<b>South East Wales</b>						
Cardiff LHB	-	-	(8,745)	-	-	(8,745)
Merthyr Tydfil LHB	-	-	(1,687)	-	-	(1,687)
Rhondda Cynon Taf LHB	-	-	(3,970)	-	-	(3,970)
Vale of Glamorgan LHB	-	-	(4,163)	-	-	(4,163)
Blaenau Gwent LHB	-	-	-	(2,882)	-	(2,882)
Caerphilly LHB	-	-	-	(2,687)	-	(2,687)
Monmouthshire LHB	-	-	-	(2,487)	-	(2,487)
Newport LHB	-	-	-	(2,834)	-	(2,834)
Torfaen LHB	-	-	-	(2,170)	-	(2,170)
	-	-	<b>(18,565)</b>	<b>(13,060)</b>	-	<b>(31,625)</b>
<b>North Wales</b>						
Conwy LHB	-	-	-	-	(430)	(430)
Denbighshire LHB	-	-	-	-	(396)	(396)
Flintshire LHB	-	-	-	-	(359)	(359)
Gwynedd LHB	-	-	-	-	(163)	(163)
Wrexham LHB	-	-	-	-	(408)	(408)
Anglesey LHB	-	-	-	-	(198)	(198)
	-	-	-	-	<b>(1,954)</b>	<b>(1,954)</b>
Health Commission Wales	(1,115)	(746)	(2,001)	(1,021)	(150)	(5,033)
NPHS - Velindre NHS trust	(261)	(289)	(439)	(409)	(92)	(1,490)
<b>Total</b>	<b>(721)</b>	<b>(3,711)</b>	<b>9,898</b>	<b>26,705</b>	<b>38,889</b>	<b>71,060</b>

## NOTE

Powys LHB includes the Business Services Centre and residual balances.

Source: NHS Wales Department - balances have not yet been subject to audit

## Appendix 2 - Forecast 2003-2004 outturn for NHS Wales

	Total forecast surplus/(deficit) £'000	Total forecast surplus/(deficit) £'000	
		Upper range	Lower range
<b>South East Wales Region</b>			
Cardiff & Vale NHST	(2,507)	(2,507)	(2,507)
North Glamorgan NHST	-	-	-
Pontypridd & Rhondda NHST	300	300	300
Velindre NHST	475	475	475
Cardiff LHB	(6,028)	(6,500)	(5,900)
Merthyr Tydfil LHB	138	-	238
Rhondda Cynon Taf LHB	2,000	2,000	2,550
Vale of Glamorgan LHB	(2,301)	(2,500)	(2,200)
Gwent Healthcare NHST	-	-	-
Blaenau Gwent LHB	(229)	(379)	(79)
Caerphilly LHB	(956)	(956)	(685)
Monmouth LHB	(981)	(981)	(753)
Newport LHB	(932)	(1,052)	(784)
Torfaen LHB	-	(500)	1,188
	<b>(11,021)</b>	<b>(12,600)</b>	<b>(8,157)</b>
<b>Mid &amp; West Wales Region</b>			
Carmarthenshire NHST	(5,127)	(5,327)	(4,927)
Ceredigion NHST	(892)	(892)	(892)
Pembrokeshire & Derwen NHST	(3,550)	(3,550)	(3,550)
Carmarthenshire LHB	-	-	-
Ceredigion LHB	-	-	-
Pembrokeshire LHB	211	-	400
Powys LHB	(1,500)	(1,500)	(1,500)
Bro Morgannwg NHST	-	-	-
Swansea NHST	-	-	-
Bridgend LHB	-	(383)	-
Neath & Port Talbot LHB	(104)	(500)	1
Swansea LHB	-	-	-
	<b>(10,962)</b>	<b>(12,152)</b>	<b>(10,468)</b>

	Total forecast surplus/(deficit) £'000	Total forecast surplus/(deficit) £'000	
		Upper range	Lower range
<b>North Wales Region</b>			
Conwy & Denbighshire NHST	(1,000)	(1,000)	(1,000)
North East Wales NHST	-	-	-
North West Wales NHST	475	475	475
Conwy LHB	-	-	-
Denbighshire LHB	-	(149)	-
Flintshire LHB	-	(100)	-
Gwynedd LHB	115	-	521
Wrexham LHB	258	108	408
Ynys Mon LHB	400	100	500
	<b>248</b>	<b>(566)</b>	<b>904</b>
Welsh Ambulance Services	1,065	1,065	1,065
<b>Total for Trusts &amp; Local Health Boards in Wales</b>	<b>(20,670)</b>	<b>(24,253)</b>	<b>(16,656)</b>

Source: NHS Wales Department



## Appendix 3 - Public sector payment performance 2001-2002 and 2002-2003

	2001-2002		2002-2003		March 2003	
	Value of bills %	Number of bills %	Value of bills %	Number of bills %	Value of bills %	Number of bills %
<b>Bro Taf Health Authority</b>	99.0	93.8	99.9	99.0	99.9	99.2
Cardiff and Vale NHS Trust	69.4	62.1	85.6	83.2	94.5	94.2
North Glamorgan NHS Trust	85.2	88.9	63.5	56.7	91.8	83.2
Pontypridd & Rhondda NHS Trust	88.1	88.6	84.2	69.5	93.3	78.8
Velindre NHS Trust	85.4	85.5	95.5	95.1	98.9	96.7
<b>Dyfed Powys Health Authority</b>	99.5	97.0	97.9	94.3	95.3	94.4
Carmarthenshire NHS Trust	83.5	65.4	82.1	69.2	83.8	88.3
Ceredigion NHS Trust	78.5	71.5	97.2	97.6	96.5	97.1
Pembrokeshire & Derwen NHS Trust	82.9	82.6	83.2	79.7	96.0	95.9
Powys Healthcare NHS Trust	91.2	84.1	80.5	67.4	90.6	83.4
<b>Gwent Health Authority</b>	98.7	86.6	99.7	93.8	99.9	95.0
Gwent Healthcare NHS Trust	91.2	90.2	61.6	57.9	94.1	92.3
<b>Iechyd Morgannwg Health Authority</b>	98.1	87.4	98.7	86.5	100.0	86.0
Bro Morgannwg NHS Trust	84.5	85.4	84.4	86.5	94.5	91.3
Swansea NHS Trust	92.7	88.3	96.9	93.3	97.8	96.0
<b>North Wales Health Authority</b>	99.7	92.7	99.5	95.7	97.6	97.5
Conwy and Denbighshire NHS Trust	97.3	95.2	94.1	90.0	97.7	95.0
North East Wales NHS Trust	94.3	92.8	85.8	86.3	91.6	87.4
North West Wales NHS Trust	89.3	87.3	96.3	95.4	97.8	97.0
Welsh Ambulance Services NHS Trust	89.7	81.4	94.8	93.3	95.3	95.8
<b>All health authorities</b>	<b>99.0</b>	<b>92.3</b>	<b>93.3</b>	<b>99.2</b>	<b>99.7</b>	<b>94.5</b>
<b>All NHS trusts</b>	<b>84.8</b>	<b>82.4</b>	<b>84.5</b>	<b>79.5</b>	<b>94.3</b>	<b>92.2</b>
<b>All Wales total</b>	<b>95.3</b>	<b>83.1</b>	<b>95.4</b>	<b>85.2</b>	<b>97.8</b>	<b>92.3</b>

Source: NHS Wales Department