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Is the NHS in Wales managing within its available financial resources?



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This report was presented by the Auditor General for Wales to the National Assembly on 12 April 2006.

The need to address financial difficulties in the short-term constrains the NHS in Wales in resolving, in a sustainable way, some long-standing underlying deficits.



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Summary

NHS bodies in Wales met their statutory financial duties during 2004/2005

- 1 Trusts achieved their statutory breakeven targets but some held significant loans which are repayable by 2009.
- 2 Local Health Boards (LHBs) met their resource limits for the year but some have also received resource brokerage which is repayable by 2009.
- 3 Health Commission Wales (HCW) met its financial target but only after additional funding of £10.2 million was provided whilst a Strategic Change and Efficiency Plan (SCEP) was prepared in order to return to service and financial balance.

A number of NHS bodies in Wales are forecasting that they may not meet their statutory financial duties in 2005/2006

- 4 LHBs are forecasting that, in the main, they will meet their 2005/2006 resource limits.
- 5 Most NHS trusts are forecasting that they will not breakeven in 2005/2006.
- 6 HCW is forecasting a deficit of £9.9 million for the year, after taking account of further strategic assistance funding of £10 million.
- 7 Even though a significant overall deficit position is forecast for the end of 2005/2006, the Welsh Assembly Government considers that there are sufficient liquid resources within NHS Wales for local health bodies to meet their day to day commitments.

Current indications are that the situation will become significantly more difficult for NHS Wales in 2006/2007

- 8 As at December, the NHS bodies in Wales are forecast to be some £22 million in deficit by the end of 2005/2006. Furthermore, a deficit approaching £10 million is forecast for HCW. If the forecast difficulties for 2005/2006 are not managed successfully then these will add to the challenge in 2006/2007.
- 9 Consistency of financial forecasting has been variable during the year and some significant changes have been reported by some individual bodies during the period to December 2005. This raises questions about the robustness of financial forecasting in some parts of the service.
- 10 From 2006/2007, some trusts and LHBs are also required to meet loan repayment or repayable brokerage requirements, which will place additional financial pressures on those organisations with underlying deficits.
- 11 The increase in the discretionary Hospital and Community Health Services allocation for 2006/2007 recognises emerging cost pressures such as energy price increases. However, NHS Trust Finance Directors claim that the overall uplift of 4.5% will fall short of expected unavoidable cost pressures.

It is questionable whether there have been effective links between the strategic direction of the NHS in Wales, the implementation of local plans to better direct resources in the medium-term to match service requirements (SCEPs) and the annual Service and Financial Framework (SaFF) arrangements

- 12 The NHS in Wales has a clearly signposted direction of travel in 'Designed for Life'. The degree and pace by which these strategic intentions can be achieved may be severely hampered by the need to meet short-term financial imperatives without associated, fully costed financial strategies.
- 13 Previous SCEPs, which have been in place to return health communities to service and financial balance, have not fully met their objectives. Given these failures, in some parts of Wales, the effectiveness of these recovery proposals is questionable.

- 14 The effectiveness of the 2005/2006 SaFF agreement process is also variable. The annual round of setting SaFFs for NHS Wales is an important mechanism for clarifying ministerial priorities. However, throughout Wales, SaFF agreement has been protracted. Whilst all 2005/2006 SaFFs across Wales have been signed off, many contained unresolved financial risks at the time of agreement.
- 15 I understand that arrangements are in place for the results of soon to be published service reviews to be incorporated within the future SCEPT process. Subsequently, robust detailed plans will need to be prepared as a matter of urgency and implementation performance managed with a clear focus on accountability for delivery. Also the management framework put in place, whilst maintaining accountability for effective service and financial delivery, must be sufficiently flexible to accommodate amendments to the SCEPs that may arise from policy changes or the results of future national and regional reviews.

Recommendations

Recommendations

1. An analysis should be carried out of the reasons for the non-delivery of previous SCEPs before future plans are agreed.
2. Where relevant, new SCEPs should take into account the potential impact of service reviews which should form part of the risk assessment and management arrangements required as part of the SCEPT production and monitoring process.
3. Efforts should be made for the more timely agreement of SaFFs and these should only be signed off where there are clear plans and accountability for managing residual risks.
4. A standardised assessment of the quality and effectiveness of performance and financial management should be carried out across the whole of NHS Wales.



Detailed Report

NHS bodies in Wales met their statutory financial duties during 2004/2005

- 16** NHS trusts in Wales met their statutory financial duties for 2004/2005. A number are in financial recovery and, under arrangements agreed with the Welsh Assembly Government, were allowed to operate in deficit in accordance with the financial parameters set out in SCEPs. These were intended to return some health communities to service and financial balance. The total deficit reported by trusts under these arrangements amounted to nearly £9 million ([Exhibit 1](#)).
- 17** NHS commissioning bodies in Wales met their resource limits for the year. Within this overall achievement, HCW received in excess of £10 million in Strategic Assistance Funding pending development of a SCEPT to return to service and financial balance.
- 18** As at the end of the financial year, trusts in Wales held loans totalling in excess of £50 million. Of this, some £36 million is repayable during the period 2006/2007 to 2008/2009 as part of previously agreed SCEPs. The remaining £17 million will be written off when the trusts concerned meet the conditions specified in previous loan agreements ([Exhibit 2](#) overleaf).
- 19** As at the end of 2004/2005, commissioning bodies had received repayable resource brokerage of £32 million. Of this, just over £2 million is due to be repaid by LHBs during 2005/2006, with almost £20 million due for repayment during the period 2006/2007 to 2008/2009. The repayment terms for the remaining £10 million (held by HCW) have yet to be finalised ([Exhibit 3](#) overleaf).

Exhibit 1: NHS Trust outturn 2004/2005

NHS Trust	Surplus/(deficit) £000
Bro Morgannwg	53
Cardiff and Vale	(1,955)
Carmarthenshire	(4,471)
Ceredigion & Mid Wales	(516)
Conwy and Denbighshire	13
Gwent Healthcare	(74)
North East Wales	1
North Glamorgan	(22)
North West Wales	4
Pembrokeshire and Derwen	(2,290)
Pontypridd and Rhondda	149
Swansea	7
Velindre	4
Welsh Ambulance Services	111
Total	(8,986)

A number of NHS bodies in Wales are forecasting that they may not meet their statutory financial duties in 2005/2006

- 20** For 2005/2006, all NHS trusts except Cardiff and Vale and all LHBs are expected to balance their expenditure with their income. Cardiff and Vale NHS Trust received a small loan during the year as part of its agreed SCEPT. In order to meet their statutory financial duties, all trusts have

implemented cost improvement programmes as part of their financial management processes. These were reported to amount to £59 million across Wales.

21 As at the end of September 2005 (month 6), 9 of the 14 NHS trusts were forecasting deficits amounting to nearly £30 million (excluding the approved deficit of £1.619 million for Cardiff and

Exhibit 2: NHS Trust loans outstanding 31 March 2005

NHS Trust	Total loans £000	New loans 2005/2006 £000	Repayments due from 2006/2007 to 2008/2009 £000	Historical loans (see notes for terms) £000
Cardiff and Vale	18,236	1,619	9,676	10,179 ⁽¹⁾
Carmarthenshire	18,603	0	15,429	3,174 ⁽²⁾
Ceredigion and Mid Wales	2,762	0	2,268	494 ⁽¹⁾
Pembrokeshire and Derwen	11,038	0	8,238	2,800 ⁽²⁾
Total	50,639	1,619	35,611	16,647

Notes:

1. This will be written off when the Trust achieves 2 years of breakeven.

2. This will be written off when the Trust achieves 3 years of breakeven.

Exhibit 3: Commissioner repayable resource brokerage as at 31 March 2005

Local Health Board	Total brokerage £000	Repayments due 2005/2006 £000	Repayments due 2006/2007 to 2008/2009 £000	Unscheduled £000
Cardiff	11,576	0	11,576	0
Carmarthenshire	772	0	772	0
Merthyr Tydfil	340	340	0	0
Powys	1,336	189	1,147	0
Rhondda Cynon Taff	1,577	1,577	0	0
Vale of Glamorgan	3,818	0	3,818	0
Monmouth	1,400	0	1,400	0
Newport	900	0	900	0
Total LHB brokerage	21,719	2,106	19,613	0
HCW	10,364	0	0	10,364
Total	32,083	2,106	19,613	10,364



Vale NHS Trust). However, this projection did not consistently reflect the residual financial impact of implementing the pay modernisation initiative Agenda for Change (AfC), largely due to timing differences in its implementation in individual trusts. Also, other pressures such as rising energy costs were beginning to emerge but did not feature in these forecasts.

- 22** Trusts' estimates of the financial impact of AfC are greater than the level of funding specifically provided for this purpose by the Assembly. For their part, Assembly Government officials have held concerns regarding the reliability of the principles used to arrive at these estimates and

have provided support in some trusts to re-examine the position. However, even on the premise that as implementation progresses, differences of view about the calculations will be resolved, NHS trusts in Wales are likely to face a significant financial challenge from this initiative. This, together with early reported slippage on Cost Improvement Programmes (CIPs) of some £1.4 million (a possible best case scenario at month 6, given the aim to achieve £59 million by the year-end) indicated potential in-year financial pressures in excess of £44 million which needed to be managed if breakeven duties were not to be breached by a significant number of local NHS trusts ([Exhibit 4](#)).

Exhibit 4: NHS Trusts' 2005/2006 financial challenge

NHS Trust	Month 6 forecast position (excluding AfC estimate) £000	Plus AfC shortfall estimate £000	Plus reported CIPs slippage £000	Emerging financial challenge at month 6 £000
Bro Morgannwg	0	(2,600)	0	(2,600)
Cardiff and Vale	(1,619)	(4,000)	0	(5,619)
Carmarthenshire	(4,350)	(1,400)	(87)	(5,837)
Ceredigion and Mid Wales	(838)	(600)	0	(1,438)
Conwy and Denbighshire	(4,869)	(1,080)	0	(5,949)
Gwent Healthcare	(524)	(4,500)	0	(5,024)
North East Wales	0	(789)	0	(789)
North Glamorgan	(400)	(1,600)	(700)	(2,700)
North West Wales	703	(1,000)	0	(297)
Pembrokeshire and Derwen	(495)	(1,363)	(122)	(1,980)
Pontypridd and Rhondda	0	(1,000)	0	(1,000)
Swansea	(946)	(1,800)	0	(2,746)
Velindre	0	tbc	(500)	(500)
Welsh Ambulance	(4,276)	(3,800)	0	(8,076)
Total	(17,614)	(25,532)	(1,409)	(44,555)

- 23** Whilst a range of specific, local challenges could emerge during the remainder of the financial year, rising energy costs are now being consistently reported as an additional pressure for trusts to manage. The actual impact of these costs will clearly vary in proportion to a number of factors, not least the ability to limit consumption, the availability of further in-year cost improvement or reduction opportunities and the overall financial health of the trust itself. It is also possible that, at some point in the future, energy prices may reduce again but trusts currently estimate that the impact for 2005/2006 amounts to £9 million across Wales.
- 24** At the halfway stage of the year, the majority of LHBs were forecasting that they expected to meet their resource limit. The main exceptions were the Swansea and the Rhondda Cynon Taff LHBs, with the former forecasting an overspend of almost £5 million and the latter an underspend of a similar level. At the same time, HCW was also forecasting a deficit at year-end of almost £20 million.
- 25** By November 2005 (month 8), there had been little significant change in the forecast position overall for the NHS in Wales from that reported two months earlier. Nine trusts, two LHBs and

Exhibit 5: NHS Trusts' month 8 compared to month 6 forecast position

NHS Trust	Forecast outturn month 6 as reported in monitoring returns £000	Forecast outturn month 8 £000	Movement in year end forecast between month 8 and month 6 £000
Bro Morgannwg	0	0	0
Cardiff and Vale	(1,619)	(1,619)	0
Carmarthenshire	(4,350)	(5,750)	(1,400)
Ceredigion and Mid Wales	(1,438)	(1,399)	39
Conwy and Denbighshire	(4,869)	(4,869)	0
Gwent Healthcare	(5,724)	(5,000)	724
North East Wales	0	0	0
North Glamorgan	(2,000)	(1,854)	146
North West Wales	(297)	(220)	77
Pembrokeshire and Derwen	(495)	(2,336)	(1,841)
Pontypridd and Rhondda	0	0	0
Swansea	(2,746)	(2,746)	0
Velindre	0	0	0
Welsh Ambulance	(8,076)	(4,750)	3,326
Total	(31,614)	(30,543)	1,071

Note:

The month 6 figures shown above generally include the estimated shortfall on AfC costs. In Exhibit 4 the estimated AfC shortfalls are shown separately.



HCW forecast that they would breach their statutory financial duties in 2005/2006. The overall deficit forecast by local NHS bodies and HCW approached £39 million (after adjusting for the agreed Cardiff and Vale NHS Trust position and taking account of £10 million strategic assistance provided to HCW). At this point, almost all trusts were including their estimates of the impact of Agenda for Change and some significant shifts in their forecast year-end position were emerging (Exhibit 5).

- 26 As referred to in paragraph 25 above, the most significant overall change to the forecast financial position of LHBs and HCW between September and November reflected the £10 million strategic assistance provided to HCW (Exhibit 6 overleaf).
- 27 The prospect of a number of NHS bodies breaching statutory financial duties in 2005/2006 is clearly a matter of concern for the financial accountability and governance of NHS Wales. Furthermore in the event that the current forecasts are not significantly improved upon by the end of the year, unresolved financial challenges from 2005/2006 will add to the expected pressures for 2006/2007.
- 28 As with any deficit position, a key concern is one of maintaining liquidity. Notwithstanding the financial position of individual bodies, Welsh Assembly Government officials are satisfied that there is sufficient cash available within the NHS system to meet the day to day commitments of local NHS bodies. A process of brokerage is being used to manage the position.

Current indications are that the situation will become significantly more difficult for NHS Wales in 2006/2007

- 29 More recently NHS bodies have completed their year-end forecasts as at December 2005 (month 9). These show that the overall position has improved over previous months' forecasts but the forecast outturn for NHS Wales and including HCW for 2005/2006 still approaches a deficit of some £32 million.
- 30 Although a number of forecasts have remained relatively constant during the year, there have been some very significant changes reported by some individual NHS bodies. Whilst some changes will reflect the results of the very close examination required by the Welsh Assembly Government of individual bodies' and health communities' positions in the approach to the year-end, others pose questions about the effectiveness of financial management and the ability of some bodies to forecast accurately.
- 31 As in many organisations, non-recurring measures to support the in-year financial position have been a feature within NHS Wales over a number of years and are likely to continue in the future as a routine element of financial management. However, at some point there is a danger that the use of non-recurring measures may adversely affect overall financial planning.

Exhibit 6: LHBs and HCW month 8 forecast compared to month 6 position

Commissioner	Forecast outturn month 6 £000	Forecast outturn month 8 £000	Movement in year end forecast between month 8 and month 6
Cardiff LHB	(1,000)	0	1,000
Vale LHB	(250)	0	250
Merthyr LHB	1,350	632	(718)
Rhondda Cynon Taff LHB	5,000	4,250	(750)
Blaenau Gwent LHB	0	0	0
Caerphilly LHB	(216)	0	216
Monmouth LHB	0	(285)	(285)
Newport LHB	(206)	0	206
Torfaen LHB	0	0	0
Carmarthenshire LHB	0	0	0
Ceredigion LHB	199	199	0
Pembrokeshire LHB	0	0	0
Powys LHB	0	0	0
Bridgend LHB	0	0	0
Neath Port Talbot LHB	34	23	(11)
Swansea LHB	(4,692)	(4,692)	0
Conwy LHB	0	0	0
Denbighshire LHB	0	0	0
Flintshire LHB	0	0	0
Gwynedd LHB	0	0	0
Wrexham LHB	0	0	0
Ynys Môn LHB	0	0	0
HCW	(19,938)	(9,952)	9,986
Total	(19,719)	(9,825)	9,894



- 32** For 2005/2006, trusts and LHBs have identified or been in receipt of non-recurring financial measures to assist the overall annual position. As at month 6, sums of this nature approached £10 million in total and this figure may rise by the end of the year. The extent to which these non-recurring measures are related to non-recurring expenditure is unclear. However, if a proportion of the recurrent commitments of NHS bodies is continually to be found on a non-recurring basis, the financial management task required each year becomes more difficult, particularly if the scale of previous measures are unsustainable or unavailable in the future.
- 33** The overall uplift in the discretionary Hospital and Community Health Services allocation for 2006/2007 is 4.5%. In addition to this general uplift (which includes an uplift for non-pay items above the rate of general inflation), specific funds have been made available for implementation of the Consultants' Contract and for the achievement of 2006/2007 waiting times targets.
- 34** NHS bodies are currently assessing the overall impact of the 2006/2007 allocation and future expenditure pressures within their budget planning rounds. Under the terms of recently implemented SCEPs, four trusts are required to make loan repayments during 2006/2007 amounting to some £9 million. LHBs also have repayable resource brokerage commitments of nearly £5 million during 2006/2007.
- 35** Managing any deficits brought forward from 2005/2006, together with any new pressures for 2006/2007 and, in some cases, making provision for repaying loans or resource brokerage will add to the financial management challenge for NHS Wales.
- 36** In recent years, trusts have routinely managed many of their pressures through a variety of approaches including cost improvements, cost reductions and income generation. It is almost

certain that further and more significant measures will be needed to ensure that overall, expenditure does not exceed income. The scale of further measures needed to achieve financial balance within NHS Wales will not be known until local health bodies have completed their budget planning rounds for 2006/2007. In our view, it is unlikely that the traditional approaches referred to above will be effective in fully achieving this requirement and it is likely that a number of NHS bodies will return to a state of 'recovery' or enter 'recovery' for the first time.

It is questionable whether there have been effective links between the strategic direction of the NHS in Wales, the implementation of local plans to better direct resources in the medium-term to match service requirements (SCEPs) and the annual Service and Financial Framework (SaFF) arrangements

- 37** The NHS in Wales has a clear direction of travel in 'Designed for Life', but the need to address difficulties in the short-term is a constraining factor in enabling the NHS in Wales to consider what is required to resolve the underlying difficulties on a collective, sustainable basis. The degree and pace by which strategic intentions can be achieved may therefore be severely hampered by the need to meet short-term financial imperatives without the support of associated, fully costed, financial strategies.
- 38** Trusts that have been in financial recovery over recent years have, with their health community partners, produced SCEPs to return services and finances to balance over a period of time. In some cases, these SCEPs have also included the repayment of loans, once a balanced position has been reached and a sufficient surplus generated. These SCEPs have contained a range of initiatives

requiring individual trust or LHB actions (eg the setting and achievement of cost improvement targets) and collective health community actions (eg addressing levels of Delayed Transfers of Care). In some cases, the final stage has suggested actions to be taken on a regional basis.

- 39** From our review of some existing SCEPs it is clear that medium-term plans have not fully achieved their objectives. This is due to a number of factors which include assumptions regarding the levels of increases in allocations during the periods covered by the SCEPs, the, at the time unknown, full financial impact of initiatives such as Agenda for Change and also the timing and complexity of proposed changes particularly at community and regional level. The mismatch between assumptions and achievement raises questions about how realistic some SCEPs were at the point of their agreement.
- 40** The SaFF is an important mechanism for clarifying ministerial priorities and setting operational targets for meeting them. But an in-year mechanism needs to be in place sufficiently early in the year to be effective. In many cases early agreement of SaFFs has not occurred. For 2005/2006, the majority were signed off whilst containing an acknowledgement that significant financial risks remained to be resolved. A summary of the status of SaFFs across Wales is shown in [Exhibit 7](#).
- 41** The document *Annual Priorities and Planning Guidance for 2006/2007 Service and Financial Frameworks* has recently been issued by the Welsh Assembly Government. This now provides clear links between the overall strategy for the NHS, 'Designed for Life' and the annual priorities and requirements of local NHS bodies. This guidance also looks beyond 2006/2007 and provides early confirmation of the targets to be met for 2007/2008 as an aid to medium-term planning, whilst aligning with the conclusion of the first framework period within 'Designed for Life'. For 2006/2007, the timescale for the agreement of SaFFs clearly states that all are expected to be in place by 31 March 2006.
- 42** As mentioned above, a number of health communities are likely to enter or return to a state of financial recovery at the beginning of the 2006/2007 financial year. Health Commission Wales is also experiencing significant difficulties in preparing a Scep to resolve its underlying financial problems. In my report *The Finances of NHS Wales 2005* I commented on the need for HCW to agree a Scep as a priority. It is a matter of concern that this has still to be concluded and that earlier proposals are now being revisited in the context of the 2006/2007 revenue allocation.
- 43** Further SCEPs may also now be required, to cover, as yet, unknown periods in some health communities. It will be important that, as part of the process for their preparation, the reasons for previous failure within relevant health communities are fully understood and considered by both the Welsh Assembly Government and the local NHS bodies. To minimise the possibility of a recurrence of such factors, further guidance should be provided to health communities to support them in producing realistic plans to return to service and financial balance.
- 44** In my 2005 report, I also commented on the differences in levels of additional funding provided to different parts of Wales and on the long-standing financial problems which have existed, particularly in Mid and West Wales. The Audit Committee of the National Assembly subsequently recommended that more radical and innovative actions needed to be pursued in order that acceptable patient services could be provided within allocated funding limits.



Exhibit 7: 'SaFF' status as at January 2006

Health community	Date signed off	Were finances balanced?	Comments
Ceredigion	17/06/2005	No	Signed off with residual financial risk of £1.5 million remaining
Pembrokeshire	17/06/2005	No	Signed off with residual financial risk of £2.4 million remaining
Neath Port Talbot	17/06/2005	No	Signed off with residual financial risk of £1 million remaining
Powys	17/06/2005	Yes	None
Bridgend	21/06/2005	No	Signed off with residual financial risk of £1 million remaining
Swansea	08/07/2005	No	Signed off with residual financial risk remaining of between £2.3 million and £4.3 million
North East Wales	21/07/2005	No	Subject to SCEP preparation
Conwy & Denbighshire	21/07/2005	No	Subject to SCEP preparation
North West Wales	21/07/2005	No	Subject to SCEP preparation
Gwent	tbc	No	Signed off with residual financial risks remaining
Velindre Trust and Blaenau Gwent LHB	11/10/2005	Not clear	In-year financial risks recognised in the sign off letter but not quantified
Pontypridd & Rhondda Trust and RCT LHB	21/10/2005	Not clear	In-year financial risks recognised in the sign off letter but not quantified
North Glamorgan Trust & Caerphilly LHB	24/10/2005	Not clear	In-year financial risks recognised in the sign off letter but not quantified
Carmarthenshire	08/11/2005	No	Signed off with residual financial risk of £4.3 million remaining

- 45** I note that a range of actions are underway in the Mid and West Wales and South East Wales regions which will encompass fundamental examinations of the ways in which services are provided. Most of these reviews will, I understand, formally report from April 2006 onwards. I also note that the Townsend Review of the NHS funding allocation mechanism is due to report in spring 2006.
- 46** This is after the date by which revised SCEPs are required from those health communities which will be in recovery from 2006/2007 and for the agreement of annual service and financial plans

(SaFFs). However, I understand that arrangements are in place for the results of the service reviews to be incorporated within the SCEP process. Subsequently, robust detailed plans for delivery will need to be prepared as a matter of urgency and the implementation performance managed with a clear focus on accountability for delivery.

- 47** It will also be vital that the framework put in place, whilst maintaining accountability for effective service and financial delivery, is sufficiently flexible to accommodate amendments to the SCEPs that may arise from policy changes or the results of future national and regional reviews.