

Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date:

Tuesday, 11 November 2014

Meeting time:

09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Agenda

The Committee agreed at its meeting on 4 November that Items 1 and 2 will be held in private

1 Glastir (09:00–09:05) (Pages 1 – 5)

PAC(4)–28–14 paper 1

2 Health Finances 2013–14: Briefing from the Auditor General for Wales (09:05–09:10) (Pages 6 – 71)

PAC(4)–28–14 paper 2

3 Introductions, apologies and substitutions (09:10)

4 Papers to note (09:10–09:15) (Pages 72 – 74)

Unscheduled Care: Letter from the Minister for Health and Social Services (27 October 2014) (Pages 75 – 79)

Scrutiny of Commissioners' Accounts 2013–14: Additional information from the Children's Commissioner for Wales (Pages 80 – 84)

Scrutiny of Commissioners' Accounts 2013–14: Letter from Mike Shooter (3 November 2014) (Page 85)

Scrutiny of Arts Council of Wales Annual Report 2013–14: Additional information (Pages 86 – 100)

Governance Arrangements at Betsi Cadwaladr University Health Board: Letter from Dr Andrew Goodall (4 November 2014) (Page 101)

Governance Arrangements at Betsi Cadwaladr University Health Board: Letter from the Chair to Dr Andrew Goodall (6 November 2014) (Pages 102 – 103)

5 Health Finances 2013–14 (09:15–10:30) (Pages 104 – 128)
PAC(4)-28-14 paper 3
Research Brief

Dr Andrew Goodall – Director General, Health and Social Services and **Chief Executive of NHS Wales**, Welsh Government
Simon Dean, Deputy Chief Executive, NHS Wales, Welsh Government
Martin Sollis, Director of Finance, Welsh Government

6 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (10:30)

Item 6

7 Health Finances 2013–14: Consideration of evidence received (10:30–10:45)



Cyfoeth Naturiol
Natural Resources

Cyfarwyddwr Cyffredinol • Director General

Llywodraeth Cymru
Welsh Government

Darren Miller AM
Chair
Public Accounts Committee
National Assembly for Wales
CARDIFF CF99 1NA

3 November 2014

Dear Mr Miller

Thank you for your letter of 23 September. The Permanent Secretary has asked me to respond as I am the Additional Accounting Officer for this area of work.

Welsh Government welcomes the report from the Welsh Audit Office which comes at a key point as we are currently shaping the future of support schemes, including Glastir, for the next Rural Development Programme 2014-20.

Welsh Government is pleased that the report recognises that there have been significant improvements in the design and implementation of Glastir when compared to previous agri-environment schemes such as Tir Gofal. We are particularly pleased that the report finds that Welsh Government have responded to the recommendations of the Tir Gofal audit in 2007 and have ensured that environmental actions are far better targeted under Glastir, and that there is now also a significantly reduced risk of public money being spent without a beneficial change in land use. Most importantly, we are satisfied the report, while offering suggestions for improvement, concludes that Glastir is more likely to deliver towards Welsh Government's environmental objectives than previous schemes. From an administrative perspective we also are pleased that the report identifies significant improvements particularly in how Welsh Government managed the transition between Tir Gofal into Glastir and the cost savings that have been generated in operational time required for Contract Managers to sign Higher Level agreements.

Welsh Government accepts a number of the criticisms in the report, not least that in the early years the scheme was poorly communicated and subject to too much change, and that there was too much complexity. We are pleased, however, that the report also acknowledges Welsh Government has already taken steps to rectify some of these problems, including through the 2012 stocktake of the scheme which reduced the red tape surrounding the scheme and through the employment



of a dedicated Glastir communications officer and a communications strategy published in 2013.

Welsh Government has carefully considered the six specific recommendations made in the Wales Audit Office report and our response to each is detailed in the annex attached.

Yours sincerely

GARETH JONES

R1 Drawing on any knowledge and experience of agri-environment schemes run by other jurisdictions, the Welsh Government should develop an approach for Glastir Advanced to ensure that, in return for grant funding, landholders commit to making significant changes to their land management practices that directly support the delivery of Glastir's objectives.

Welsh Government accepts this recommendation in part.

Welsh Government accepts it is fundamental that agri-environment schemes pay for the delivery of environmental goods and services and deliver real change. Welsh Government notes the WAO report highlighted that only 32% of Tir Gofal participants were required to make a change to their pre-existing farm practices to join that scheme and are pleased that the WAO report finds that Glastir has taken many steps which will ensure that real change occurs and genuine additionality offered. The WAO particularly highlights that the significant increase in capital expenditure payments compared to management payments, which is a feature of Glastir compared to earlier schemes, will reduce the risk of scheme deadweight. However Welsh Government also believes that management payments should continue to have a rightful place in agri-environment activity and that under some circumstances payments for the maintenance of status quo favourable environmental practices should continue, particularly where there is a risk these favourable practices would be discontinued without the incentive of support payments.

R2 The Welsh Government should explore the scope to develop a risk-based approach to identify and target appropriate interventions at farms where poor agricultural practices are responsible for causing wider water quality problems. The Welsh Government should consider a range of interventions, including the provision of advice, grant funding and regulatory action.

Welsh Government accepts this recommendation in part.

Welsh Government accepts the need to tackle wider water quality problems in line with our objectives for a safe and healthy environment for the people of Wales and to meet our European commitments e.g. under the Water Framework Directive. The Glastir scheme currently prioritises such catchments within the scoring process which selects farms for entry into Glastir Advanced and pays for positive works to improve water quality, such as streamside corridor tree-planting. However Welsh Government believes it would be wrong to target agri-environment support at farms where poor agricultural practices are causing problems. Welsh Government believes that far from representing value for money, such an approach potentially risks rewarding poor management or negligence and even activities where breaches of existing environmental regulations may be occurring. This approach would appear to set the wrong example to the industry and would represent poor value for the use of public money. Welsh Government's current,

and intended future approach, is to take a risk-based approach to regulatory inspections in these key catchments, in order to identify recurring offenders, and to use both advisory support and regulatory penalties where necessary to rectify these problems. Rural Inspectorate Wales and Natural Resources Wales have a key ongoing role in delivering improvements to land management in these areas.

R3 After the introduction of online-only applications for Glastir Organic, Glastir Advanced and Glastir Woodland, the Welsh Government should review applicants' experiences and seek to identify and address any remaining barriers to making online applications.

Welsh Government accepts this recommendation fully.

Welsh Government will be seeking feedback from our customers on their experience in submitting their online Glastir applications. This feedback will be taken into consideration when planning the delivery approach for the remainder of the Glastir Schemes.

R4 The Welsh Government should routinely identify the running costs for Glastir and benchmark these against the costs for other similar schemes to help assess the efficiency of the scheme's administration and to demonstrate value for money

Welsh Government accepts this recommendation in part.

The Welsh Government will continue to routinely monitor the overall cost of the administration of all Common Agricultural Policy (CAP) schemes.

We will continue to bench mark Glastir Contract managers' time against Tir Gofal Project Officer time. However we are unable to break down fully the administration costs for individual components of Glastir as we operate Multi Skilled Teams (MSTs) for the delivery of the schemes. Whilst the MST approach does not allow for a scheme by scheme breakdown of costs, utilising this approach has enabled Welsh Government to continually reduce the number of processing posts and make year on year overall CAP programme administrative cost savings between 2009 and 2014.

R5 The Welsh Government should review its targets for Glastir to ensure an adequate evidence base to support each target, and to ensure that the targets are challenging yet achievable, affordable and reflect the scale of change the Welsh Government is expecting the scheme to deliver. The Welsh Government should also ensure that its internal targets for Glastir are consistent with the targets it agrees with the European Commission.

Welsh Government accepts this recommendation in part.

Welsh Government accepts the report findings that the initial targets for the scheme were unrealistic when compared to what could be expected based upon analysis of historic participation in agri-environment schemes in Wales. Welsh Government will set revised targets for the uptake of all elements of the Glastir scheme for the RDP 2014-20 programme once the final RDP 2014-20 budget allocation to Glastir is finalised. This will include the policy rationale behind these targets. These will form the basis for the submission of our performance measures to the European Commission. Welsh Government would like to point out, however, that it is not always possible throughout the duration of the programme to ensure that the targets in documentation held by the European Commission are consistent with Welsh Governments own targets. This is because the EC does not expect those targets set for the RDP to be revised after their submission at the start of the programme except in exceptional circumstances. A change in domestic policy objectives due for example to a change in government which might justify/necessitate an amendment to Welsh Government targets would not generally be accepted alone as a reason for amending RDP targets.

R6 The Welsh Government should use the results of the March 2014 impact modelling exercise to help quantify the scale of the improvements it expects Glastir to deliver. Through setting appropriate targets for the scheme, the Welsh Government should also determine how and by when it expects Glastir to deliver its objectives and contribute to wider objectives such as those included in the *Environment Strategy for Wales*.

Welsh Government accepts this recommendation fully.

The scientific evidence base required for quantifying the level of environmental change from agri-environment activities is often somewhat poorly established. This means that while the direction of change can be predicted, it is often extremely difficult to predict the extent. Previous agri-environment schemes in Wales have therefore not set out quantitative targets for environmental change. However Welsh Government accepts that for Glastir's success to be evaluated effectively some attempt to quantify the changes which could be expected to occur is required. The pioneering Glastir Monitoring and Evaluation Programme (GMEP) uses advanced modelling techniques to predict environmental outcomes based on scheme uptake scenarios and expected land use changes. Welsh Government officials will work closely with the GMEP team and interested stakeholders to identify quantitative targets for the next programme. This commitment has previously been made by Welsh Government in its response to the *Proposals for Glastir consultation* issued in June 2

Archwilydd Cyffredinol Cymru
Auditor General for Wales

NHS Wales: Overview of Financial and Service Performance 2013-14



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared this report for presentation to the National Assembly under the Government of Wales Act 1998 and 2006.

The Wales Audit Office study team comprised Geraint Norman, Clare James, and Mark Jeffs under the direction of Gillian Body.

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Summary

- 1 Over recent years, NHS Wales – comprising the Welsh Government’s Department of Health and Social Services (the Department) and the 10 Welsh NHS bodies – has faced tougher financial settlements than its counterparts in other parts of the UK. The Welsh Government has to fund a range of services, including the NHS, against a backdrop of increasing demand and austerity. NHS Wales faces a growing challenge to deliver cost reductions without impacting on patient experiences, safety and the quality of services.
- 2 This report provides a detailed assessment of the financial position across NHS Wales in 2013-14. It also looks at performance in the delivery of services, focusing on those areas that the Department has identified as a priority. The report then goes on to consider the future financial and service challenges for NHS Wales. The audit methods we used to undertake this work are set out in [Appendix 1](#).
- 3 The first two chapters of this report cover the 2013-14 period, during which NHS bodies have worked within two sets of accounting rules, depending on whether they are an ‘NHS trust’ or a ‘local health board’. Generally all NHS bodies are required in one form or another to ‘break even’ on an annual basis. The Department has introduced a more flexible financial regime from 2014-15 so that, rather than having an annual break even target, local health boards can break even over a three-year period. The third chapter of this report looks at the future challenges facing the NHS for 2014-15 and beyond.

NHS Wales broke even in 2013-14 through substantial savings and additional funding although some NHS bodies overspent

- 4 At the beginning of 2013-14, the Department’s overall health and social services revenue budget was £6.1 billion¹. The vast majority of the Department’s budget is spent providing NHS services via the 10 NHS bodies, through core funding and funding for specific initiatives. The Department identified a number of cost pressures early on: the risk of overspends at NHS bodies and unfunded cost pressures on central programmes. The Department created a contingency at the outset, but recognised it was unlikely to be sufficient to cover the financial risks that would arise during the year. The Department took some risk-based decisions to reduce spending on central programmes. However, the savings were not sufficient to cover the deficits that individual NHS bodies were reporting. During the year, the Department required an additional £200 million (some three per cent of the original revenue budget), of which it allocated £150 million directly to the NHS bodies.
- 5 The Department has strengthened its approach to financial management. Unlike in previous years, the Department gave itself some flexibility by not insisting that there would be no further funding, instead announcing a mid-year review of the financial position. The Department subsequently allocated additional funding to NHS bodies on the basis of a population-needs formula. This was a sound approach as it helped avoid the risk of ‘rewarding’ those NHS bodies that reported the largest deficits. The Department has also sent a stronger message to NHS bodies that not meeting financial targets will have consequences.

¹ Whilst the funding in the budget is notionally split, £5.9 billion for health-related services and £0.2 billion for social services, the Department takes an integrated approach to managing finances across health and social services.

- 6 Seven of the ten NHS bodies met their target to break even in 2013-14. The three that did not break even (Cardiff and Vale University Health Board (UHB), Hywel Dda University Health Board and Powys Teaching Health Board (THB)) each overspent by around £19 million. These three local health boards received a qualified regularity opinion on their accounts stating that the expenditure which exceeded their authorised level of spending is irregular.
- 7 NHS bodies have again done a good job of delivering financial savings in the year. The £185 million of reported savings in 2013-14 by NHS bodies is significant and just £3 million less than that reported in 2012-13. Nonetheless, as we reported last year, we have concerns that some of the savings may be overstated, particularly those for workforce. Again this year, there is also evidence that NHS bodies continue to be reliant on unsustainable one-off savings and technical accounting adjustments in order to break even.
- 8 As we reported last year, some NHS bodies have made savings which have impacted on the level of elective care that they have been able to provide. While such decisions have been based on detailed risk assessments, ultimately reducing elective activity is likely to be poor value for money as patients will need to be treated later, possibly at higher cost.
- 9 In general, the financial planning process at NHS bodies has improved. In particular, NHS bodies have been more transparent and realistic in identifying the funding gap they face at the outset. This growing realism is an improvement on previous years, where NHS bodies have produced 'balanced budgets' that balance in theory but in practice were not underpinned by savings plans. We also saw evidence that some NHS bodies are being more challenging of historical spending patterns, rather than rolling budgets and plans over from one year to the next. Nevertheless, there is scope to improve further, in particular by sharing good practice in areas like cost reduction and scrutiny and making better use of benchmarking data.

Performance across NHS Wales in 2013-14 was mixed and many key targets were not regularly achieved

- 10 We considered the performance of NHS Wales in delivering services. We have focused on the targets that the Department has identified as important by assigning them 'Tier 1' status. We recognise that the Tier 1 targets do not represent the totality of activity across the NHS and many targets are not good indicators of the quality or safety of NHS services. We also recognise NHS Wales faces significant demand pressures across services. The Department is currently reviewing its targets with a view to making the Tier 1 targets more focused on quality and outcomes for patients.

- 11 The performance of NHS Wales during 2013-14 was mixed compared with 2012-13. The NHS is meeting its new targets on prevention through childhood vaccines and improving access to GPs in the evenings and there was a welcome reduction in the number of people admitted to hospital as a result of chronic conditions. There were some improvements in performance against targets for unscheduled care services, mental health services, healthcare associated infections and cancer care, although the targets were not met across the year. There was a deterioration against waiting-times targets for planned treatment and the timely delivery of care to stroke patients. Performance against the main target for ambulance response times was broadly the same as last year but fell short of the target.

Three-year integrated planning is a step forward but NHS Wales will struggle to make progress without transformational change

- 12 In line with our previous recommendations, the Welsh Government has introduced legislation which requires NHS bodies to produce integrated three-year financial, service and workforce plans. The move to a three-year planning and financial duty framework is welcome and should help to address the previous weaknesses of the short-term 'annual' focus of the financial regime. During 2013-14, all NHS bodies submitted three-year integrated plans, but just four have been approved by the Department. Following the Department's initial assessment of the plans, some NHS bodies elected not to submit revised three-year plans and remain on an annual planning cycle.
- 13 The Department's process for assessing the three-year plans was sound although, as with most new processes, the early years involve some bedding in and there are areas in which the planning process could be further strengthened. In particular, NHS bodies' planning remains based on optimistic assumptions about the level of savings and degree of service improvement that can be achieved despite the tough financial climate. There is scope for NHS bodies to be clearer about what would happen if some of their assumptions prove over-optimistic.
- 14 Capital investment to replace and modernise infrastructure is central to the success of NHS bodies' plans. The Department has recently developed a strategic Wales wide approach to prioritising capital schemes and is looking for innovative funding solutions which it intends to use to assess the infrastructure proposals in the three-year plans. This new approach is still in its early stages but is a welcome development which will be essential in ensuring a strategic, sustainable and effective approach to infrastructure investment.

- 15 Looking to the 2014-15 financial year, NHS Wales is again starting with a significant projected end-of-year deficit. The Department has already allocated £23.5 million of additional funding to two of the NHS bodies with approved three-year plans. But the other NHS bodies are projecting a deficit totalling £192 million. Based on the current position, NHS Wales looks set to require a similar level of additional funding to that in 2013-14. On 30 September 2014, the Finance Minister announced an additional £200 million for the NHS in 2014-15 and a further £225 million in 2015-16.
- 16 The position over the medium to long term looks equally challenging unless there is a significant change in funding or transformation of services. The Nuffield Trust has examined the various cost pressures facing NHS Wales – such as an ageing and growing population, changes in technology, growing chronic conditions. The Nuffield Trust has estimated that there is a significant funding gap of up to £2.7 billion by 2025-26. Achieving the kind of cost reductions required to cope with those pressures will require some radical re-thinking and re-shaping of NHS services.
- 17 Some progress is being made with the strategic transformation and reconfiguration of services, but the pace of change is generally slow. Reconfiguration of hospital services in some areas has been delayed by public and political opposition and the detail on the costs and savings from reconfiguration is uncertain. Alongside the plans about where services will be located in future there is a need to rethink how services will be provided for the future. There are now many local projects working to re-shape and improve some services and the Department has high expectations of the emerging ‘prudent healthcare’ agenda, which we agree has potential to help re-think services to deliver better value at lower cost. The Department is aware that further detail is required on what the principles of prudent healthcare will mean in practice. We said last year that reconfiguration and radical service changes offer the best opportunity to put the NHS on a sustainable footing. NHS Wales now needs to markedly increase the pace of progress if it is to make its aspirations for sustainable services a reality. But it is hard to see how this change can be achieved without a greater degree of political consensus.

Recommendations

Appendix 2 sets out our recommendations from our previous NHS Finances report together with the Department's update on progress.

- R1 During the second half of 2013-14, the Department was managing a very difficult financial situation with a real risk that the NHS bodies would deliver a deficit that the Department could not afford to cover. During this period, the Department was receiving different projections and mixed messages from within some NHS bodies as to what the final position would be. **In future, the Department should ensure that all NHS bodies produce a single projected year-end position that is owned and agreed by the Chair, Chief Executive and Finance Director of each NHS body.**
- R2 Across Wales, NHS bodies face a number of challenges managing their estate and other assets such as ICT and medical equipment against a backdrop of reducing resources. The Department is currently implementing plans to improve the prioritisation of capital expenditure across Wales. **The Department and NHS bodies need to ensure that for capital expenditure:**
- **NHS bodies clearly identify their capital expenditure needs based on their three-year plans and these are supported by robust approved business cases which set out the capital and revenue implications along with the impact on services; and**
 - **the Department will need to ensure it develops and improves the strategic capital programme based on the planning priorities and investment objectives agreed in the three-year plans.**
- R3 The introduction of three-year integrated planning across NHS bodies is a significant and positive step forward. As would be expected with a new approach, some aspects could be further strengthened. **In its updated guidance on three-year integrated planning, the Department should require that NHS bodies:**
- **undertake sensitivity analysis, showing how changes in their assumptions including finances, demand, and workforce would impact on their plans; and**
 - **develop high-level contingency plans setting out how they intend to respond should performance depart from the agreed plan.**
- R4 Overall the Department is making reasonable progress in implementing our previous recommendations. However, there are two areas where progress has been slow. **The Department should strengthen and increase the urgency around:**
- **the challenge it provides to NHS bodies on the reported workforce savings and the scale of workforce changes; and**
 - **facilitating NHS bodies to share learning and lessons from successful (and unsuccessful) efforts to deliver sustainable service improvement and, where relevant, cost reductions.**

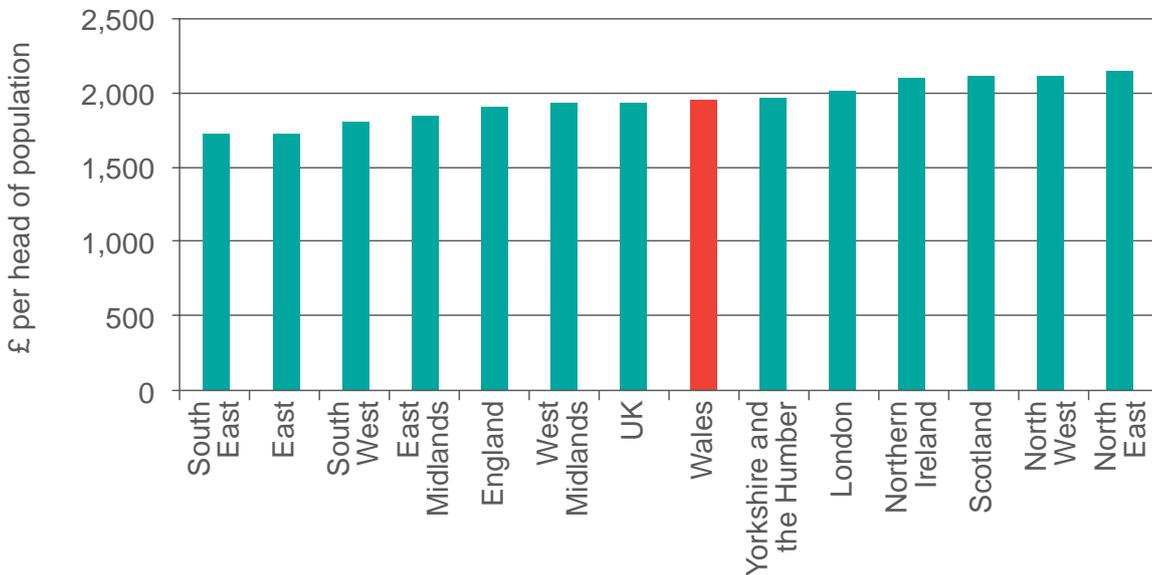
Part 1

NHS Wales broke even in 2013-14 through substantial savings and additional funding although some NHS bodies overspent



- 1.1 This section of the report examines the action taken across NHS Wales² to ensure that the service was able to live within its financial means in 2013-14. Firstly, it considers the action taken by the Department to manage the overall budget for the NHS. Secondly, it looks at the actions taken by individual NHS bodies as they aimed to meet their financial targets during the year – the main one being to achieve break even.
- 1.2 Before considering the detail, it is important to set out the broader financial context in which NHS Wales operates. As set out in our two previous reports covering NHS finances, NHS Wales faces a greater financial pressure than other comparable parts of the UK. While spending on health per head of population in Wales was slightly above England in 2012-13, Wales will fall behind if recent trends continue. As shown in Figure 1, spending per head of population in Wales continues to be below areas with comparable demographic and socio-economic characteristics such as Northern Ireland, Scotland and the North of England. These figures do not reflect the increased funding allocated to the NHS in Wales during 2013-14. The Office for National Statistics intends to provide an update, covering 2013-14, in November 2014.

Figure 1 – Health spending per head of population 2012-13



Source: ONS Country and Regional Analysis

² When we refer to 'NHS Wales' we mean all of the NHS bodies – the seven local health boards and three NHS trusts – and the Welsh Government's Department of Health and Social Services which is headed by the Chief Executive of the NHS.

The Department of Health and Social Services has strengthened its financial management but needed an additional £200 million from other departments and reserves in order to manage within its budget in 2013-14

The Department started 2013-14 with a significant gap in funding for NHS bodies and centrally managed programmes

- 1.3 In April 2013, the health element of the Department's revenue budget for 2013-14 was £5.88 billion. The budget was, in cash terms, one per cent (£59 million) lower than in 2012-13³. The NHS faces a range of cost pressures each year, including inflation, pay increases and increasing demand for services. As a result NHS bodies need to find new savings in addition to those delivered in previous years. In April 2013, Welsh NHS bodies calculated the total funding gap for 2013-14 as £432 million. At that point, NHS bodies had identified £225 million of saving plans, leaving a net funding gap of £205 million.
- 1.4 In addition to the pressures on NHS bodies' budgets, the Department also identified cost pressures of £75 million on central NHS programmes. These pressures included general inflationary pressures and new cost pressures in areas such as payments to primary care practitioners, new vaccines and clinical negligence. The Department reviewed spending plans shortly before the beginning of the financial year and identified opportunities for £15 million of savings. More than half of these savings came from reducing the baseline budgets for workforce and informatics (£4 million from each). These savings, combined with a Department contingency of £30 million, left a net gap in central budgets at the beginning of 2013-14 of £30 million.

Despite finding savings in central programmes, the Department required an additional £200 million from reserves and other departments

- 1.5 The Welsh Government recognised early on in the financial year that additional funding for the NHS would be required. Following Ministerial discussions over the summer of 2013, the Welsh Government set a target to raise £150 million from other government departments to support the NHS. In October 2013, the Finance Minister announced an additional £150 million for the NHS. The Department decided to allocate the majority of the funding to the NHS bodies using the 'Townsend formula'⁴. This was a sound approach as it avoids 'rewarding' those NHS bodies that report the largest deficits.

³ The real-terms reduction, taking account of inflation, at the beginning of 2013-14 was 3.3 per cent (£192 million).

The reduction between 2012-13 and 2013-14 is primarily due to a capital-to-revenue transfer in 2012-13.

⁴ This formula is largely population based, with an adjustment to reflect the relative health needs of the population.

- 1.6 The £150 million of additional funding was not directly linked to the expected deficits that NHS bodies were reporting. As **Figure 2** shows, there were elements for specific purposes: increasing nursing levels, voluntary early release (VER), vaccinations and Kalydeco – a new drug to treat cystic fibrosis. The remaining £123.5 million was allocated to support unscheduled care pressures, using the Townsend formula.
- 1.7 In October 2013, the Department identified that even with the additional funding taken into account, NHS bodies would deliver a year-end deficit of more than £55 million. The Department and the Health and Social Services Minister (the Minister) were clear at this stage that the significance of the financial challenge will require further difficult decisions and choices to be made coupled with the continuation of very stringent financial controls, monitoring and accountability arrangements
- 1.8 Following the announcement in October 2013, the overall projected deficit across NHS bodies reduced by £107 million. The Chief Executive of NHS Wales met with the Chief Executives of NHS bodies and the Minister met the Chairs of NHS bodies. Following these meetings, the Chief Executive of NHS Wales wrote to each NHS body stating that their projected deficits were unacceptable and he set out the Department’s expectation of a lower year-end financial position. These letters showed a significant strengthening of the messages and intentions of the Department with NHS bodies.

Figure 2 – Allocation of the additional funding announced in October 2013

NHS bodies	Nurse Staffing £000	Unscheduled Care (including Ambulance Pressures) £000	Immunisation Programme £000	Kalydeco Drug Funding £000	VER Funding £000	Total £000
Abertawe Bro Morgannwg UHB	1.80	21.80	1.30	-	0.68	25.58
Aneurin Bevan UHB	1.90	23.88	1.14	-	0.13	27.05
Betsi Cadwaladr UHB	2.20	26.64	1.56	-	0.50	30.90
Cardiff and Vale UHB	1.40	17.09	1.03	-	2.63	22.15
Cwm Taf UHB	1.10	13.42	0.66	-	1.68	16.86
Hywel Dda UHB	1.30	15.51	0.86	-	1.30	18.97
Powys THB	0.40	5.16	0.30	-	0.05	5.91
Public Health Wales NHS Trust	-	-	-	-	-	-
Velindre NHS Trust	-	-	-	-	-	-
Welsh Ambulance Services NHS Trust	-	-	-	-	0.47	0.47
Central Programme	-	-	0.15	2.00	-	2.15
Total	10.10	123.50	7.00	2.00	7.43	150.03

Source: Department’s mid-year review October 2013

- 1.9 During this period, the Department was frustrated by what it considered to be inconsistent messages from some NHS bodies. Some Chairs and Chief Executives provided different expected out-turn figures from those submitted by NHS bodies in their monthly monitoring returns. As a result, the Department had to use at least two different sets of figures as part of the Department's overall financial management: the projected deficit NHS bodies were providing through the monthly monitoring returns, and a lower figure based on verbal assurances from Chairs and Chief Executives.
- 1.10 As the year progressed, the Department monitored the position and worked with NHS bodies to reduce their projected deficits through regular meetings between senior officers in the Department and NHS bodies. However, it became increasingly clear that the NHS would require further funding in addition to the £150 million announced in October 2013. The Welsh Government's supplementary budget in February 2014 which formalised the allocation of £150 million to the Department, also allocated a further £50 million to the NHS. The additional £50 million was to be held within the Health and Social Services budget, as a contingency measure, in the event that some NHS bodies were unable to achieve break even.
- 1.11 The supplementary budget showed how the additional £200 million (some three per cent of the Department's original revenue budget) would be funded. Departments across the Welsh Government found £90.1 million of savings as detailed in **Figure 3**. The Welsh Government was able to fund the remaining £110 million primarily using reserves which had been boosted by the Welsh Government drawing on the Budget Exchange System⁵ and some additional funding as a result of spending decisions by the UK Government⁶.

Figure 3 – Funding from other departments re-directed to support the NHS

Welsh Government department	Saving
Education and Skills	£26.4 million
Natural Resources and Food	£18.8 million
Communities and Tackling Poverty	£11.7 million
Economy, Science and Transport	£11.0 million
Local Government	£9.5 million
Central services and administration	£7.3 million
Housing and Regeneration	£4.8 million
Culture and Sport	£0.6 million
Total savings	£90.1 million

Source: Welsh Government Second Supplementary Budget, February 2014

⁵ The Budget Exchange System is an agreement between the Welsh Government and the UK Government regarding access to unspent monies from the previous year.

⁶ During the year, the UK Government increased spending on programmes in areas that have been devolved. These spending decisions result in additional funding going to the devolved administrations, with the amount determined through the Barnett formula.

- 1.12 Across 2013-14, the Department made further savings on central programmes in areas it had identified as low and medium risk, including savings from the workforce development budget. The Department's position was also helped as some of the cost pressures it had anticipated, for example from clinical negligence claims, did not materialise at the expected level. Some initiatives were delayed and demand for some services was less than expected, so their original budget was not fully spent. The Department also received £5 million more income than it expected from the UK-wide renegotiated Pharmaceutical Price Regulation Scheme⁷. As a result of these changes, the Department achieved a net surplus of £13.8 million on central programmes.
- 1.13 The additional £50 million combined with the £13.8 million surplus on central programmes was sufficient to cover the £56.7 million overspend by the NHS bodies at the year-end. Therefore, the Department was able to manage within its overall budget. The net result of the additional funding allocated to the NHS revenue budget was that it has increased from £5.88 billion at the beginning of 2013-14 to £6.08 billion at the end. Compared with the end of the 2012-13 financial year, the health element of the Department's revenue budget increased in both cash terms (2.4 per cent) and real terms (after inflation) (0.1 per cent).
- 1.14 We have recommended previously that the Department allocate additional funding to the NHS earlier in the financial year so that NHS bodies and the Department can plan and take action as early as possible. The Department has been much more transparent and made good progress in allocating a larger proportion of NHS funding to NHS bodies at the beginning of the financial year. In 2011-12, only 90 per cent of their funding was allocated by the beginning of the year; this rose to 93 per cent in 2012-13 and now 96 per cent in 2013-14. Nonetheless, the Department was aware before the beginning of the financial year that the NHS faced a cash-terms reduction in its budget and that the declining level of savings meant the likelihood of financial balance without additional funding was extremely low. NHS bodies had expected to receive some additional funding but they did not know how much. They did not get certainty until October 2013, seven months into the financial year. While certainty at an earlier stage would have been preferable, we acknowledge the practical and political difficulty involved in re-directing significant amounts of funding from other departments to support the NHS.

⁷ The Pharmaceutical Price Regulation Scheme is a voluntary agreement made between the Department of Health acting on behalf of UK governments and the Association of the British Pharmaceutical Industry. The scheme places some control on the costs of medicines to the NHS and applies to all branded licensed NHS medicines. The 2014 Pharmaceutical Price Regulation Scheme became effective on 1 January following the termination of the 2009 Pharmaceutical Price Regulation Scheme (the 2009 PPRS).

The Department took a tougher line in dealing with NHS bodies which overspent at the year-end

- 1.15 The Department took a much stronger line in 2013-14 in dealing with NHS bodies which overspent. For those that forecast close to break even (Cwm Taf University Health Board and Betsi Cadwaladr University Health Board), additional repayable funding, known as 'brokerage', was provided to allow them to break even. However, additional resource was not provided to those NHS bodies which were some way off break even (Cardiff and Vale University Health Board, Hywel Dda University Health Board and Powys Teaching Health Board). As a consequence these NHS bodies received a qualified regularity opinion on their accounts stating that the expenditure which exceeded their authorised level of spending is irregular. In reaching a decision not to cover the deficits, the Department had a clear rationale in relation to each NHS body and overall was keen to:
- a send a clear message that missing financial targets would have consequences; and
 - b not reward health boards that had significantly overspent, especially where the final out-turn exceeds the revised projected deficit following the Minister's October 2013 letter.
- 1.16 The Department will not only require repayment of any 2013-14 brokerage funding in 2014-15, but also repayment of any 'deficit' by those NHS bodies not meeting their financial targets. Those NHS bodies are accountable to the National Assembly for Wales' Public Accounts Committee for their failure to live within their means resulting in their accounts being qualified.
- 1.17 The issues underlying the qualification of three health boards' accounts are not unique to Wales. For example, in England, 21 Clinical Commissioning Groups received qualified regularity opinions on their 2013-14 accounts – of these, 19 were due to breaches of their resource limits (ie, failure to break even).

Despite significant effort, NHS bodies are finding sustainable savings increasingly difficult to achieve and three NHS bodies failed to break even in 2013-14

1.18 As set out previously, NHS bodies began the year with an estimated financial gap of £432 million. During the year new cost pressures increased the gap to £460 million as shown in [Figure 4](#). NHS bodies sought to bridge this gap through a combination of savings from Cost Improvement Plans and other savings, combined with additional funding from the Department. However, for the first time since NHS re-organisation in 2009-10, some NHS bodies failed to break even. The combined 2013-14 deficit for the 10 Welsh NHS bodies was £57 million. The final position for each NHS body is set out in [Appendix 3](#).

Figure 4 – How NHS bodies achieved their financial out-turns in 2013-14

	£ million	% of funding gap
Funding gap identified at April 2013 (savings required)	(429)	–
Additional cost pressures identified in-year	(31)	–
Total funding gap for year	(460)	100%
Reported Cost Improvement Plans (savings) delivered	185	40%
Additional funding (including brokerage)	135	29%
Other (cost containment/avoidance, reserves/contingencies, accounting/other gains)	85	19%
NHS bodies combined out-turn	(57)	12%

Source: Wales Audit Office analysis

1.19 **Figure 5** shows the reported monthly out-turn over the last three financial years. It shows that 2013-14 followed the pattern of previous years: deficits building to a mid-way point in the year, a significant reduction due to the provision of additional Departmental funding and then a push to the year-end to close the gap. **Figure 5** also illustrates the different approach to deficits at the year-end taken by the Department in 2013-14.

Figure 5 – NHS Wales’ out-turn across the last three years



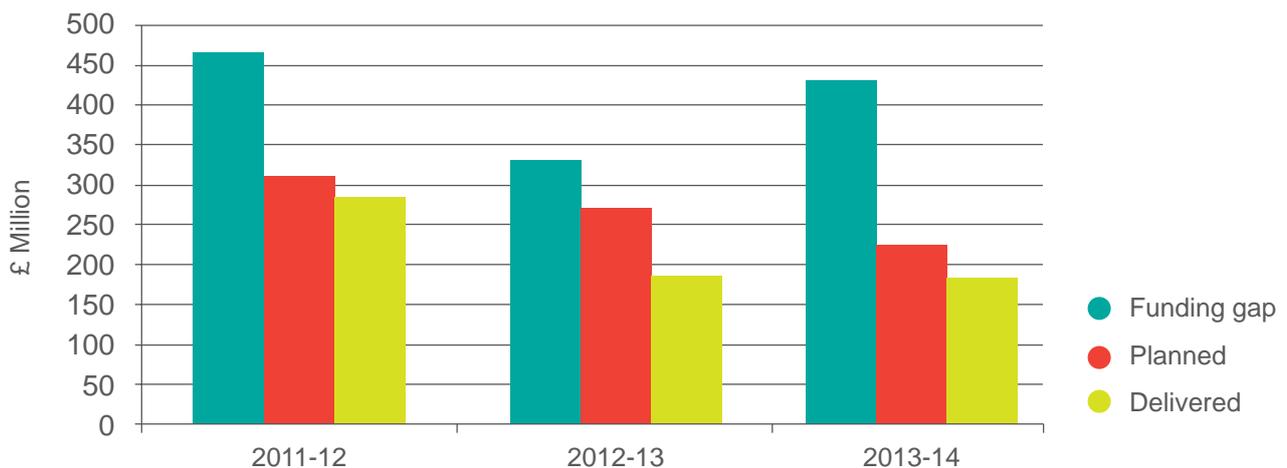
Source: Wales Audit Office analysis of All Wales NHS Finance Reports and monitoring returns

Although significant savings and gains were reported in 2013-14, some were unsustainable and we have concerns over the accuracy in some areas

NHS bodies did well to slow the trend of declining levels of savings

1.20 NHS bodies have reported the delivery of significant savings over the last few years and this continued in 2013-14 with reported savings of £185 million⁸. Figure 6 shows the value of reported planned and delivered savings over the last three years in helping to close the funding gap. Last year we reported that savings were becoming harder to achieve and that the value of reported savings was falling year-on-year. There has been a slight reduction in reported savings year on year of just £3 million. Given that many of the 'quick win' areas for savings have already been exploited, such a small reduction represents a considerable achievement.

Figure 6 – Contribution of reported planned and delivered savings to meet the funding gap



Source: Wales Audit Office analysis of All Wales NHS Finance Reports and monitoring returns

⁸ These are the savings reported in the monthly monitoring returns. There may be other savings or productivity improvements that are not captured in this information.

Some savings are unsustainable

1.21 When assessing the sustainability of the approach taken to savings, it is helpful to look at the proportion of savings which are non-recurrent and the profiling of the savings across the year. Non-recurrent savings are one-off savings which play an important part in helping NHS bodies to manage in-year pressures, but will not recur in future years and consequently are a shorter term and less sustainable way of saving money. Overall NHS bodies' level of non-recurrent savings is increasing. **Figure 7** shows that in 2011-12, 12.3 per cent of savings were non-recurrent, in 2012-13, 16.9 per cent were non-recurrent, and in 2013-14, 18.5 per cent were non-recurrent.

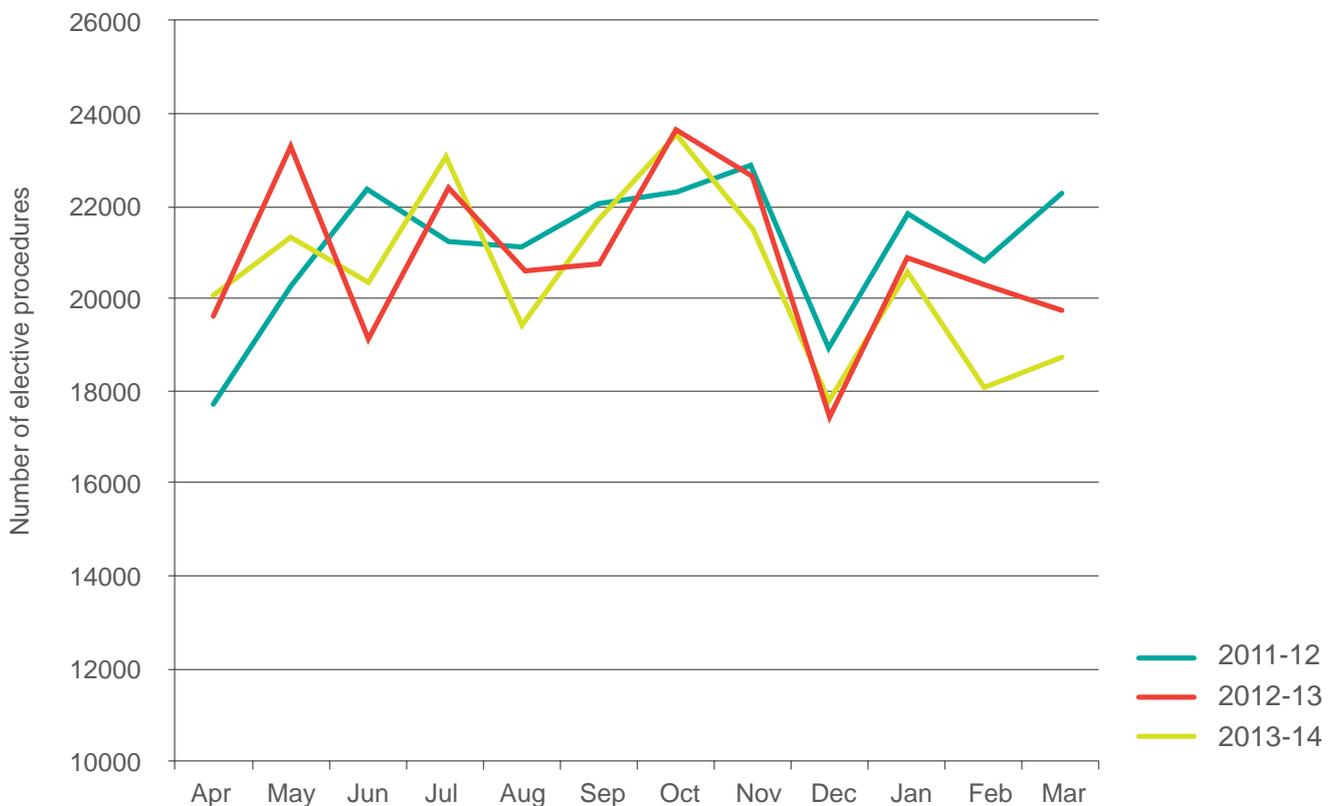
Figure 7 – Recurrent and non-recurrent savings



Source: Wales Audit Office analysis of All Wales NHS Finance Reports and monitoring returns

- 1.22 In 2013-14, NHS bodies were again highly dependent on a range of one-off savings in addition to their savings plans. In 2013-14, NHS bodies reported £86 million of technical accounting gains, use of reserves and contingencies, windfall gains and cost avoidance initiatives which were used to help close the gap. Very few of these other actions are sustainable, but rather are one-off in-year gains.
- 1.23 As was the case in 2012-13, some NHS bodies are making savings which impact on service delivery. In particular, some NHS bodies have not delivered the level of elective⁹ activity that they had intended to, partly because of the need to make financial savings and avoid costs. Examples include decisions to reduce or curtail 'backfill'¹⁰ activity. Figure 8 suggests that, similarly to last year, there has been a reduction in elective activity at the end of the financial year. As we reported last year, reducing elective activity is usually poor value for money because the savings are likely to be marginal. Patients will still need to be treated, potentially at higher cost rates and there may be additional costs involved in helping them to manage their condition while they wait for treatment. Our forthcoming report on NHS waiting times will examine this issue in more depth.

Figure 8 – Elective activity rates 2011-12 to 2013-14



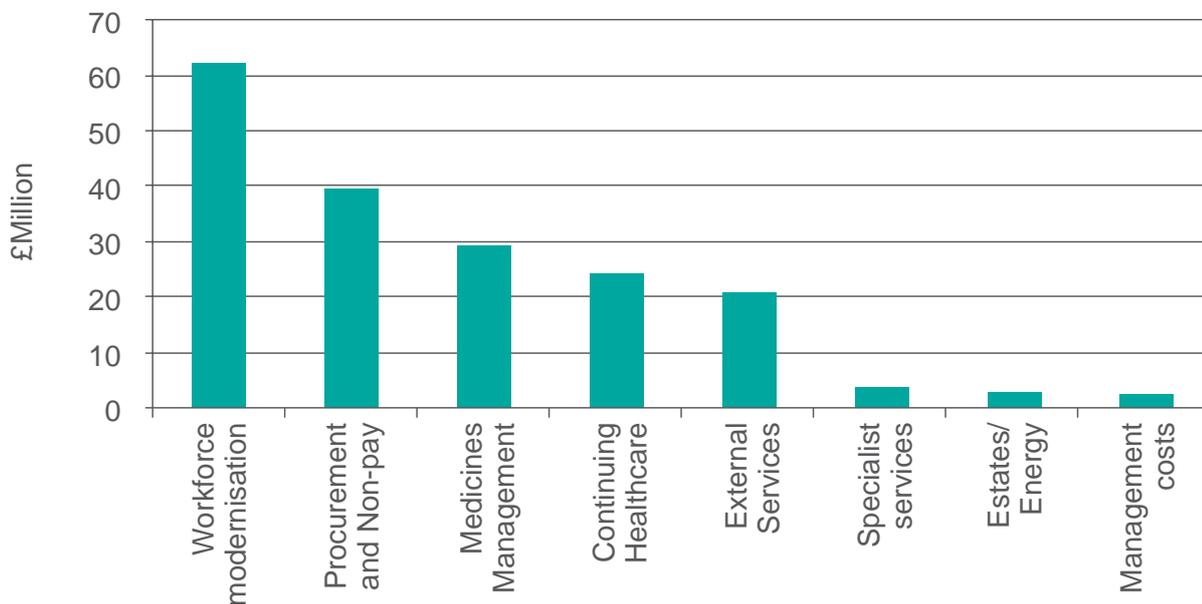
Source: Wales Audit Office analysis of Welsh Government data

⁹ Elective patients are those receiving planned assessments or treatments, usually starting with a referral from their GP.
¹⁰ 'Backfill' involves paying consultants to cover where another consultant is absent due to illness or annual leave.

There is evidence to support some of the reported savings but savings on workforce may be overstated

1.24 **Figure 9** shows the expenditure areas in which NHS bodies reported delivering their savings in 2013-14. We have looked further at three of the four largest areas of spending which we looked at last year: workforce, medicines management and continuing healthcare.

Figure 9 – Savings by expenditure category in 2013-14



Source: Wales Audit Office analysis of All Wales NHS Finance Reports and monitoring returns

Workforce modernisation and management costs

- 1.25 As in previous years the largest savings reported were in workforce modernisation, ie, savings on staff pay and numbers. Workforce accounts for the bulk of NHS expenditure in Wales. In 2013-14 nearly £65 million of savings were reported on workforce modernisation and management costs, of which just under £40 million was due to staff reductions and just under £11 million reported as due to savings in pay rates. However, as we reported last year, these reported savings are difficult to reconcile with other workforce data:
- a audited financial statements show that the average number of staff employed in the year (based on contracted whole-time equivalents) went up by 506 from 2012-13 to 73,198, and that staff and director costs rose by £62 million (2.1 per cent) in 2013-14; and
 - b the increase in the pay bill of £62 million, combined with the £65 million reported savings implies that the cost pressures were 4.3 per cent; but using the services' own *Three Year Cost Pressure Assessment 2013/14 to 2015/16* paper, we calculated that the expected cost pressures across the NHS were only 2.1 per cent, less than half of that implied by the level of reported savings.
- 1.26 As part of their detailed work at NHS bodies, auditors also found it difficult to substantiate declared workforce savings. Last year we recommended that the Department should provide detailed in-year challenge to test whether workforce savings can be reconciled to workforce plans and staffing levels. The Department has made some progress in challenging workforce plans, as part of its review of NHS bodies' three-year integrated plans. Nonetheless, the Department recognises that it needs to further step up its challenge of the level of workforce savings reported during the year.

Medicines Management

- 1.27 The third largest area of savings is medicines management¹¹, with just over £29 million of savings reported in the year. The NHS bodies' audited financial statements show that costs in this area (prescribing and drugs) increased from 2012-13 by just over £30 million. This £30 million increase in actual expenditure, combined with the £29 million savings reported implies that actual cost pressures were 8.2 per cent. Using the services' *Three Year Cost Pressure Assessment 2013/14 to 2015/16* paper we calculated the expected cost pressures to be 6.6 per cent across the NHS, which is not too far off the pressures based on reported savings.
- 1.28 In NHS bodies, local auditors found that there is better evidence for Medicines Management savings than for workforce savings. NHS bodies are working together across Wales and most NHS bodies have detailed analysis which goes down to GP and ward level. It is clear that NHS bodies are making real recurrent savings in this area – for example from the increased use of cheaper generic drugs and clinician

¹¹ Medicines management encompasses the entire way that medicines are selected, procured, delivered, prescribed, administered and reviewed to optimise the contribution that medicines make to producing informed and desired outcomes of patient care.

reviews of the need and use of specific high cost drugs. We will be reporting in the coming months on Primary Care Prescribing and are currently undertaking local work on medicines management across the NHS which will report to each local NHS body in spring 2015.

Continuing Healthcare

- 1.29 The fourth largest area of reported savings is continuing healthcare¹², with £24 million of savings identified in the year. Underlying continuing healthcare expenditure¹³ has actually increased by £3.5 million across NHS Wales in the year. This expenditure increase combined with the reported savings implies that actual cost pressures were 9.7 per cent compared with an expected pressure of 6.3 per cent. That the implied cost pressure is 50 per cent higher than expected suggests that either NHS bodies' forecasting was very optimistic or that the level of reported savings is over-inflated.
- 1.30 As with Medicines Management, there is some evidence from our local work in NHS bodies that some continuing healthcare savings are real and recurrent. For example, individual patient care packages are reviewed by specialist nurses and alongside their understanding of the condition of the patient, savings have been found through joint funding agreements and use of alternative providers – including transferring patients from more expensive external providers to internal providers. However, our earlier study on the Implementation of the National Framework for Continuing NHS Healthcare, found that NHS bodies could not provide assurance that they were consistently interpreting when a patient was eligible for continuing healthcare. This was particularly important given the risk that financial pressures could be influencing eligibility decisions.

Although financial forecasting and reporting have improved, improvements are required in the way savings plans are developed, managed and monitored

- 1.31 NHS bodies' financial forecasting and reporting continues to be generally sound. The savings reported are broadly in line with forecasts and NHS bodies are more realistic about the level of deliverable savings they can achieve, including being more transparent at the beginning of the year: fewer bodies claimed they had a truly 'balanced plan'. The changes made in recent years to the *Financial Monitoring Returns Guidance* have improved and have given the Department the ability to monitor performance closely on a timely basis through the year. Although, as we have identified above, we do have some concerns about the accuracy of reported workforce savings and the inconsistencies in messages given by the NHS bodies' monitoring returns and by their Chief Executives and Chairs.
- 1.32 We remain concerned that the NHS is still taking a short-term approach to financial savings. NHS bodies continue to approach savings plans as in-year annual projects and in many areas the support for, scrutiny and measuring of savings plans needs improvement. In various NHS bodies we found:

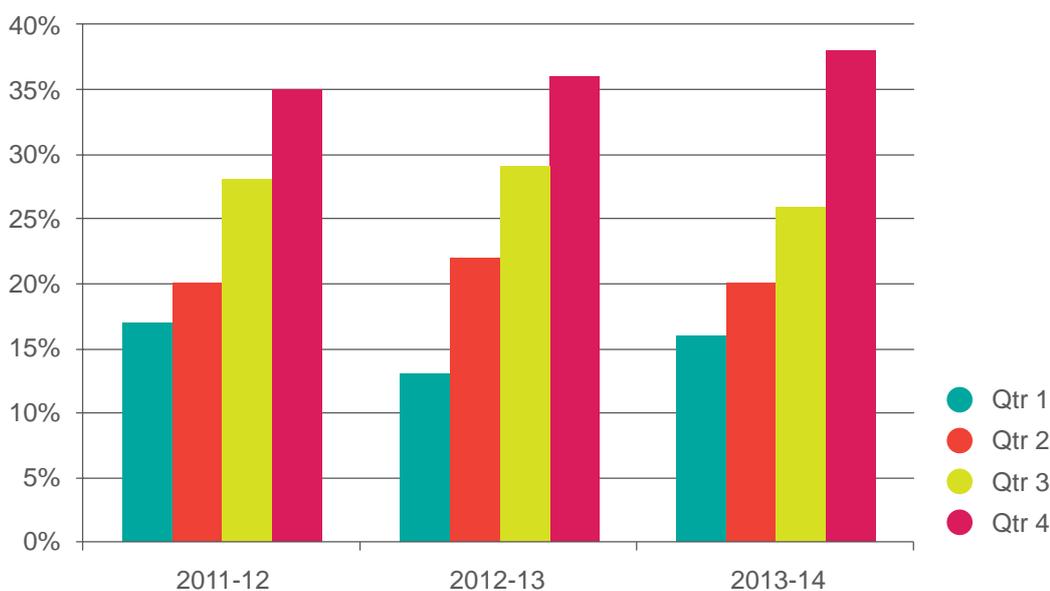
¹² Continuing healthcare is the package of care that is arranged for patients and is funded solely by the NHS for individuals who are not in hospital who have complex, ongoing healthcare needs.

¹³ 'Underlying' expenditure excludes funding set aside for historic claims and more accurately reflects the year-on-year cost pressures.

- a the development of savings plans was not undertaken early enough in the financial year;
- b allocation of a standard ‘top slicing’ percentage savings requirement to every directorate;
- c little or no reference to historic delivery of savings/past actions ie, no consideration of the capacity of a directorate to generate further savings;
- d a lack of shared learning within NHS bodies, across NHS Wales and from other health systems;
- e development of savings plans in silos rather than as part of strategic plans;
- f a lack of central scrutiny of declared savings from directorates – some NHS bodies report savings where they have a budget underspend; and
- g a lack of stakeholder engagement at some NHS bodies, with some budget holders refusing to sign up to budgets.

1.33 **Figure 10** shows when the NHS bodies delivered their savings during the last three years. Each year follows a similar pattern with savings increasing across successive quarters, with between 35 and 40 per cent of savings delivered in the last quarter. It is likely that this pattern of reliance on last-quarter savings reflects the previous annual planning cycle with plans being developed during the financial year and resulting in pressures to realise savings in the latter part of the financial year.

Figure 10 – Percentage of total savings achieved by quarter



Source: Wales Audit Office Analysis of All Wales NHS Finance Reports and monitoring returns

- 1.34 Although we have identified some areas for improvement, there are examples of good practice relating to the planning of savings at NHS bodies:
- a risk assessment of savings plans to improve accuracy of forecasting and identify gaps earlier;
 - b rewarding delivery of savings plans, developing a new benchmarking tool and using Internal Audit to scrutinise savings plans;
 - c use of a Quality Impact Assessment Form to ensure quality and safety are considered for saving plans, which improves governance and ownership; and
 - d an integrated approach to identifying and delivering savings with finance staff engaging and supporting their service and planning colleagues.
- 1.35 Whilst it is important to note the good practice seen, it is, in the main, good practice within the limits of annual planning. Planning on a short-term annualised basis will not deliver the significant improvements required for a sustainable NHS. We look in section three of this report at the changes made by the Department to help facilitate an integrated and long-term planning approach.
- 1.36 Last year we also reported that the Department could do more to co-ordinate the identification and sharing of good practice and benchmarking information. The Department is making some progress in sharing good practice through its Finance Directors network and is supporting the sharing of good practice through networks of clinicians. Nonetheless, the Department recognises the need to widen and strengthen the systems to identify and share good examples particularly for sustainable service improvements that can drive better productivity and cost reduction.

Part 2

Performance across NHS Wales in 2013-14 was mixed and many key targets were not regularly achieved



- 2.1 This section of the report considers the performance of Welsh NHS services in 2013-14. We focus on the goals that NHS Wales has set for itself, in particular the Tier 1 targets. The detailed definitions of the Tier 1 targets can be found in the Department's NHS Delivery Framework for 2013-14¹⁴. These targets, however, represent a small part of the totality of healthcare provision across Wales and in general the targets are focused on timeliness and activity levels. While both of these are important factors of patients' experience, the Tier 1 targets do not provide a rounded view of the quality and safety of NHS services and their impact on patients. The Department recognises this and is currently reviewing the targets with a view to re-focusing them on measuring the impacts and outcomes that the NHS achieves for patients.
- 2.2 We recognise that this report comes amidst growing debate about the performance of NHS Wales relative to other parts of the UK. The 2010 National Audit Office report¹⁵ on health systems across the UK and the recent report by the Nuffield Trust¹⁶ identified the difficulty in comparing performance. The Nuffield Trust considered some performance measures beyond the Tier 1 targets alongside the differences in resources and capacity. It concluded that no one country clearly outperformed the others and that Wales has followed the rest of the UK in improving against some key measures, such as 'amendable mortality rates'¹⁷. But that does not mean that there are not some key areas where Wales is behind other parts of the UK.
- 2.3 The complexity of comparison, with different parts of the UK having different targets and approaches to measuring performance, means that unfortunately we cannot go into comparative detail in this report. We intend to compare performance in our wider programme of value for money work covering the NHS. For example, we intend that our forthcoming report on elective waiting times will contain detailed comparisons of performance between Wales and other countries

Performance against indicators of prevention are generally improving though some new targets are not yet being met

- 2.4 The Department has placed greater emphasis on prevention of healthcare problems, and introduced new targets in 2013-14. The NHS met its targets ensuring that 95 per cent of children under four receive their scheduled vaccines. But the NHS was some way short of its target for smoking cessation, with far fewer than the target of four per cent of smokers making an attempt to quit. The NHS was close to its target that 40 per cent of smokers who attempt to quit are validated as still not smoking after four weeks.

¹⁴ NHS Delivery Framework 2013-14 and future plans <http://wales.gov.uk/docs/dhss/publications/130524frameworken.pdf>

¹⁵ National Audit Office: *Healthcare across the UK: a comparison of the NHS in England, Scotland, Wales and Northern Ireland* www.nao.org.uk/report/healthcare-across-the-uk-a-comparison-of-the-nhs-in-england-scotland-wales-and-northern-ireland/

¹⁶ Nuffield Trust (2014): *The Four Health Systems of the UK: How do they compare?* www.nuffieldtrust.org.uk/compare-UK-health

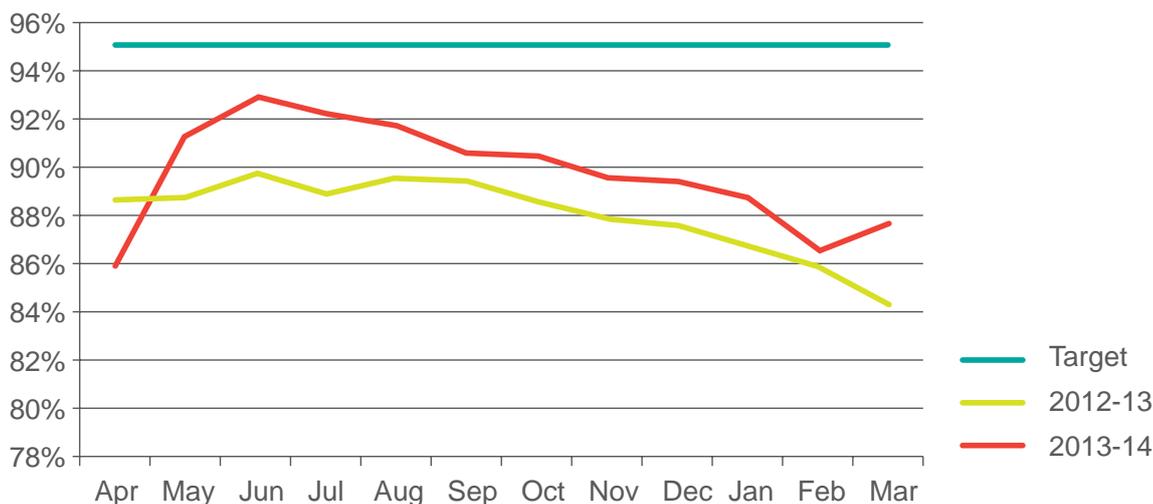
¹⁷ 'Amendable mortality rates' are premature deaths from causes that should not occur in the presence of appropriate, timely health care.

Despite some improvements the NHS is generally not meeting its key targets on patient experience and access

There has been an improvement in the length of time patients wait for treatment in emergency departments but the NHS is still some way from meeting the targets

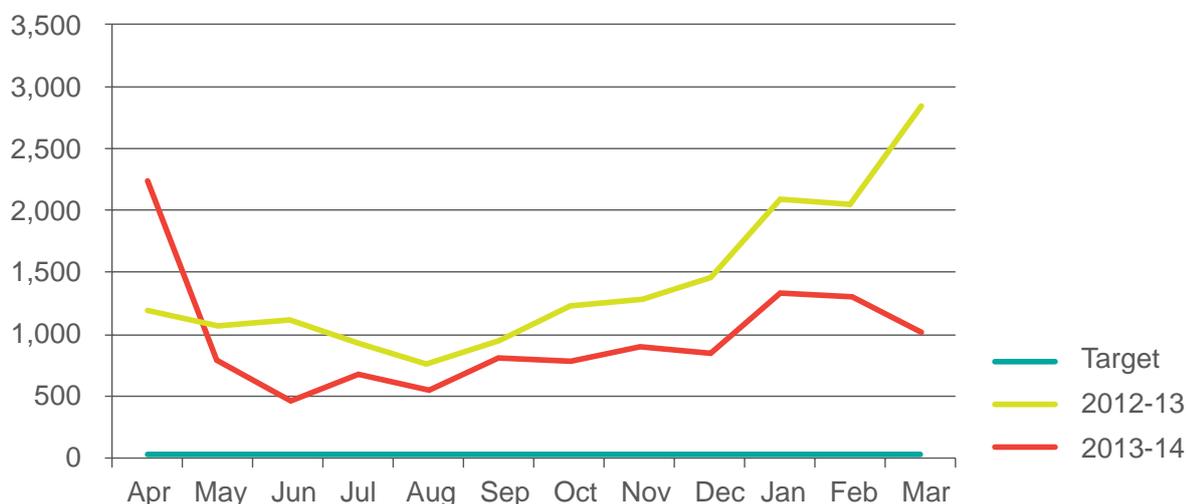
2.5 The time that patients wait in emergency departments is an important indicator of patient experience. The number of patients attending emergency departments was slightly lower this year than last year. The Department has set two targets related to the time people spend in emergency departments: it expects 95 per cent of patients to be treated within four hours and it expects no patients to wait longer than 12 hours. **Figure 11** shows that performance against the four-hour target has been better this year than in 2012-13, but is still some way off the target and a significant improvement at the start of the year tailed off over the winter. The NHS has had some success in reducing very long waits in emergency departments but, as shown in **Figure 12**, it did not meet its target of eliminating waits of over 12 hours.

Figure 11 – Patients waiting less than four hours in emergency departments



Source: Wales Audit Office analysis of Welsh Government data

Figure 12 – Patients waiting more than 12 hours in emergency departments

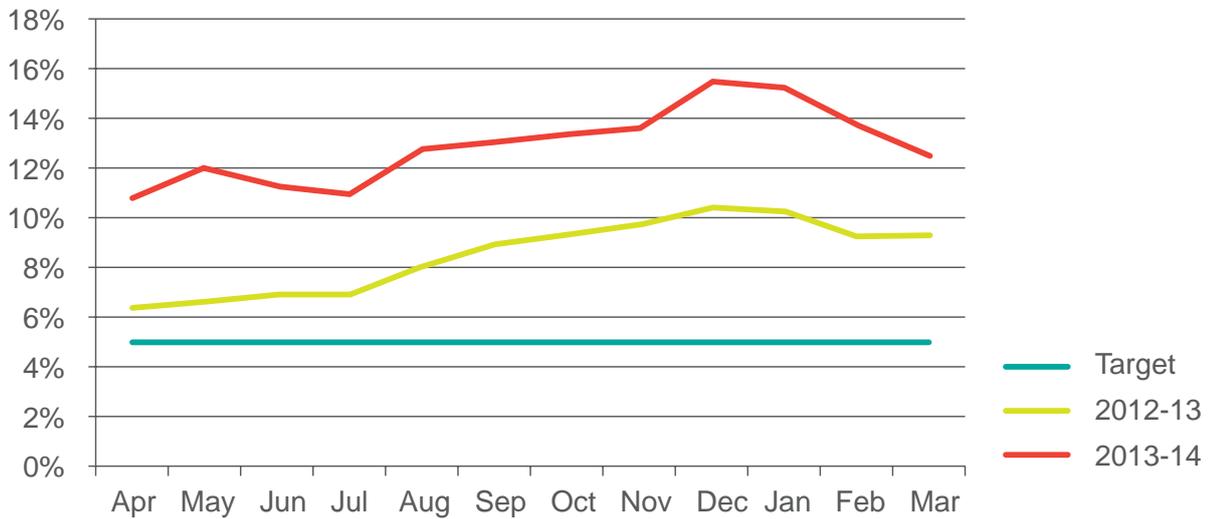


Source: Wales Audit Office analysis of Welsh Government data

Performance on elective waiting times has deteriorated overall

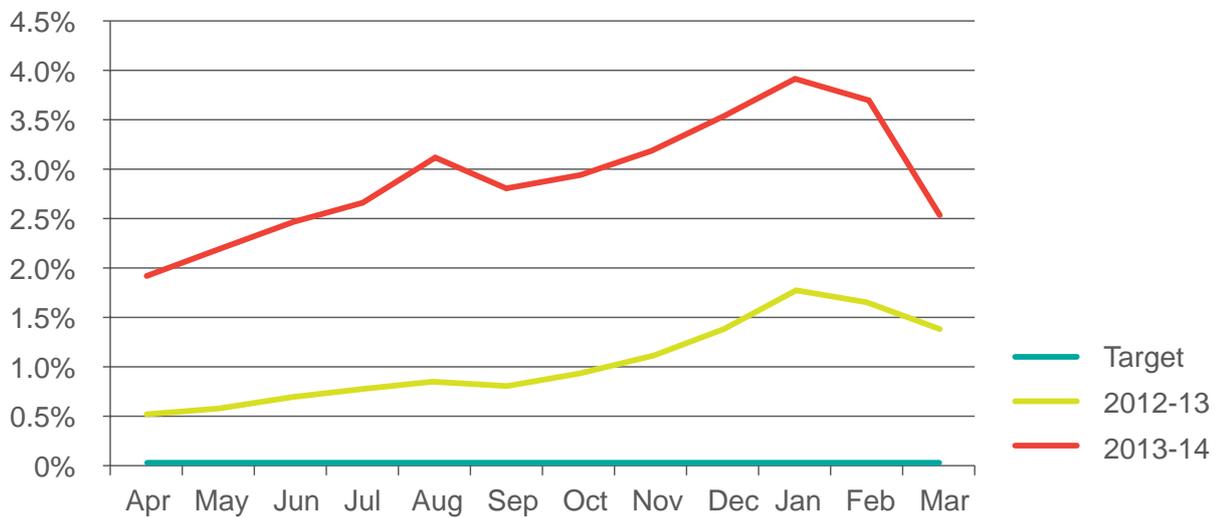
- 2.6 Elective waiting times are an important measure of planned NHS care. The Department's targets relate to the total amount of time that patients wait from referral to treatment. The target is that 95 per cent of patients on the waiting list should be waiting less than 26 weeks and nobody should wait more than 36 weeks. The number of patients referred for a first outpatient appointment has risen between 2012-13 and 2013-14 by around one per cent (around 5,500 patients). As shown in [Figure 13](#), the percentage of patients on the waiting list that had waited for more than 26 weeks is higher than in 2012-13 and significantly exceeds the target.
- 2.7 As set out in [Figure 14](#), performance against the target that nobody should wait more than 36 weeks for treatment has deteriorated further. Improvement at the end of the year was at least partly due to additional activity funded by the Department specifically to tackle longer waits. We are currently undertaking a detailed review of elective waiting times, which will report in the autumn of 2014. As part of that review, we will consider whether short-term funding at the year-end is a sustainable approach to managing waiting times.

Figure 13 – Patients waiting more than 26 weeks for treatment



Source: Wales Audit Office analysis of Welsh Government data

Figure 14 – Patients waiting more than 36 weeks for treatment

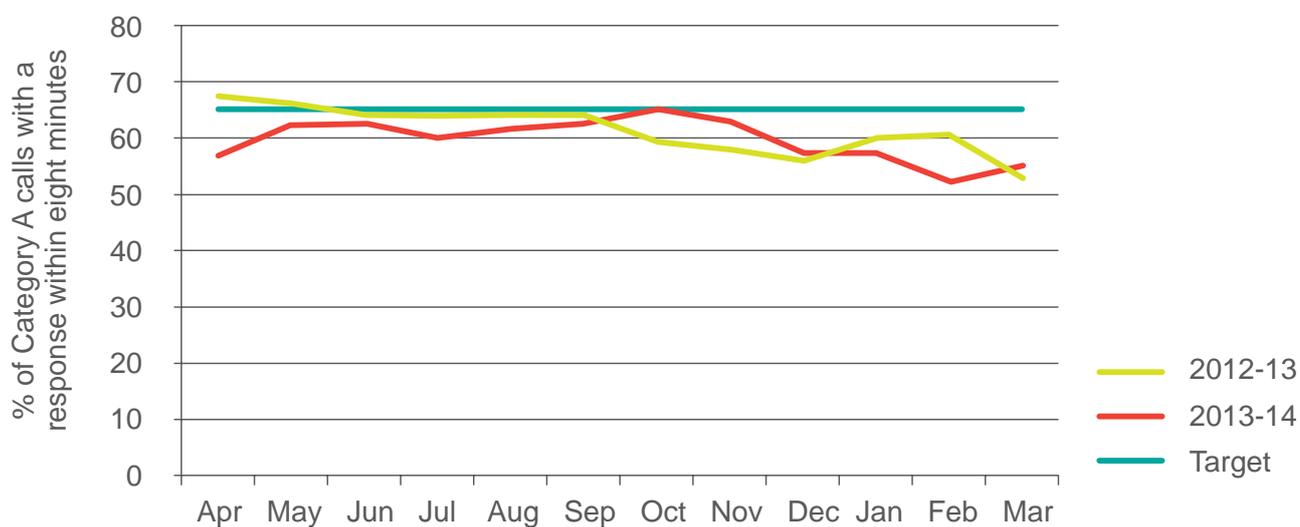


Source: Wales Audit Office analysis of Welsh Government data

Targets on ambulance response times were not achieved during the year

2.8 The target for 65 per cent of Category A calls – incidents to be attended by the ambulance service within eight minutes – is the primary measure of the performance of the ambulance services. Figure 15 shows that performance was broadly static compared with 2012-13. The target was only met during one month of the year. In April 2013, the McClelland¹⁸ review of ambulance services criticised the target as having little clinical basis and recommended a broader suite of measures.

Figure 15 – Performance against target for ambulance responses to Category A calls



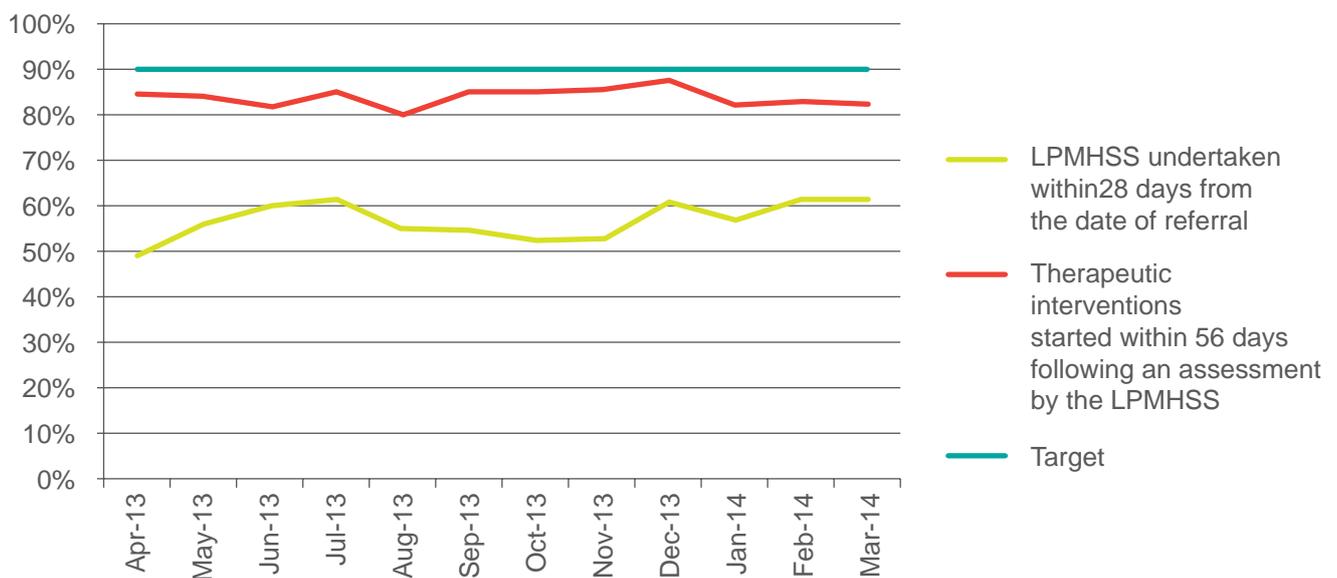
Source: Wales Audit Office analysis of Welsh Government data

¹⁸ Professor Siobham McClelland (2013): *A Strategic Review of Welsh Ambulance Services*
www.ambulance.wales.nhs.uk/assets/documents/f06e69f9-3921-4946-a55a-aad53637c282635179619910478381.pdf

There has been improvement over the year but the NHS is not meeting some of its mental-health-related targets

- 2.9 The Department has this year introduced targets on the timeliness of assessment and treatment for mental-health patients. The Department requires mental health services to undertake 90 per cent of assessments within 28 days of referral. **Figure 16** shows that performance across the year was broadly static and the target was not met. There is also a target that, following assessment, 90 per cent of therapeutic assessments should be started within 56 days. **Figure 16** shows some improvement on the position at the beginning of the year but performance was some way below the target.
- 2.10 There has been significant progress against the target for 90 per cent of patients in receipt of services to have a valid care and treatment plan. In April 2013, just 64 per cent had such a plan. By March 2014 that had risen to 92 per cent. The NHS also reports meeting the target that all hospitals have arrangements to support advocacy for mental-health patients.

Figure 16 – Mental-health performance 2013-14



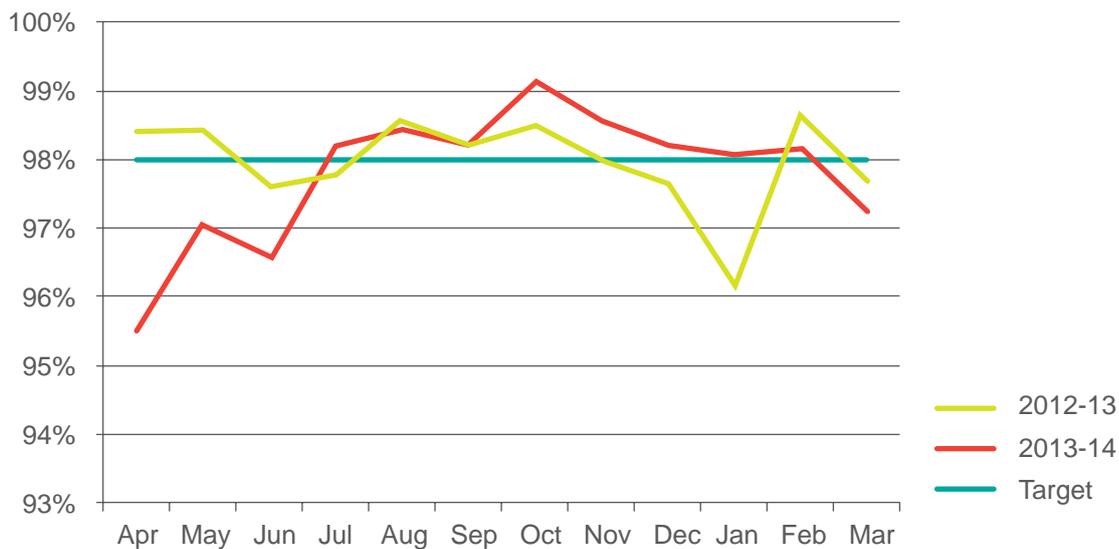
Note: LPMHSS – Local Primary Mental Health Support Service
 Source: Wales Audit Office analysis of Welsh Government data

Performance against quality and safety measures has been mixed in 2013-14

Performance for patients with suspected cancer improved in 2013-14 but key targets are not being met each month

2.11 Timely access to treatment for cancer is a key priority. The Department has two main targets – firstly that 98 per cent of patients whose suspected cancer is not identified as part of the urgent referral process¹⁹ are to be treated within 31 days. Figure 17 shows that performance is static overall, better in some months than in 2012-13 but worse in others. The target was not met in four months of the year. The second target is that 95 per cent of patients whose suspected cancer is identified through the urgent cancer route should be treated within 62 days. Figure 18 shows that against this target, performance improved overall compared with 2012-13 but the NHS did not hit the target at any point during the year.

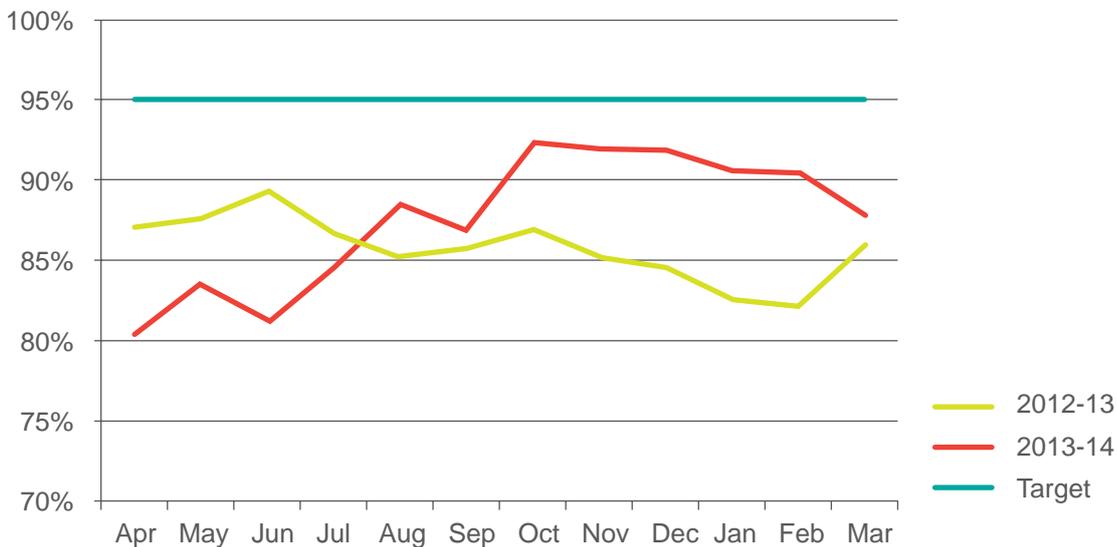
Figure 17 – Performance against target for cancer referrals through non-urgent process



Source: Wales Audit Office analysis of Welsh Government data

¹⁹ The 'non-urgent process' relates to patients who have been referred to a specialist for a reason other than cancer. Because those patients are not classified initially as 'urgent' they wait longer to see a specialist. If, on seeing the patient, the specialist suspects they have cancer it is important that they are seen and treated very quickly because they have already potentially been waiting for many months.

Figure 18 – Performance against target for cancer referrals through urgent referral process



Source: Wales Audit Office analysis of Welsh Government data

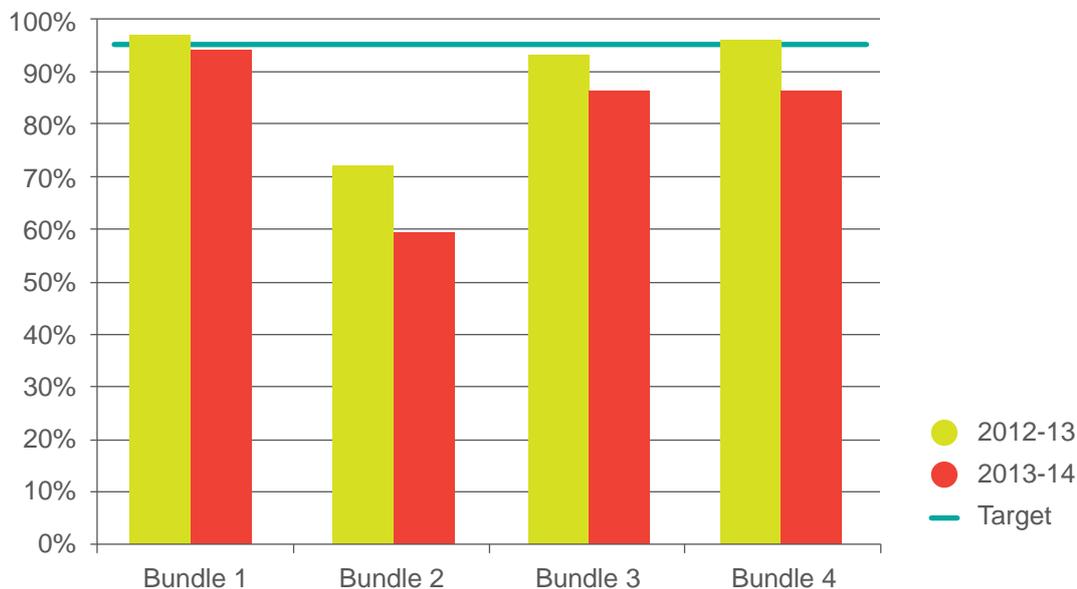
Performance on stroke care did not meet targets across the year and has deteriorated

2.12 Stroke care is monitored and reported based on ‘stroke bundles’. Stroke bundles are an amalgamation of several components of patient care to produce a single list which a clinician or care worker should use to improve the clinical outcome of patients. The stroke bundles are:

- a first hours bundle – rapid recognition of symptoms and diagnosis within three hours;
- b first day bundle – emergency treatment within 24 hours;
- c first three-day bundle – early mobilisation following stroke within three days; and
- d first seven-day bundle – patient-centred and goal-oriented specialist care within seven days following stroke.

2.13 Figure 19 shows that the NHS did not meet any of the targets on stroke bundles consistently across 2013-14. The target is to meet the requirements of each of the bundles in 95 per cent of cases. The NHS did meet the target on the bundle associated with the first hour of care during some months but, averaged out across the year, fell short in each stroke bundle. Compared with 2012-13, performance deteriorated for each bundle.

Figure 19 – Performance against the four stroke bundle targets



Source: Wales Audit Office analysis of Welsh Government data

There has been a reduction in some healthcare-associated infections

2.14 Healthcare-associated infection and harm are a good indicator of quality and care. The NHS has a target of reducing specific healthcare-associated infections. As set out in Figure 20, the NHS has achieved its aim of reducing C.difficile and Methicillin-Resistant Staphylococcus Aureus (MRSA) bacteraemia²⁰ but not by the 20 per cent minimum it set as a target. It came close in the case of C.difficile, with a reduction of around 19 per cent. The number of Methicillin-sensitive Staphylococcus Aureus (MSSA) infections actually increased.

Figure 20 – Performance in reducing healthcare-associated infections

	2011-12	2012-13	2013-14	Change 2012-13 – 2013-14
C.difficile	1,295	1,085	875	-19%
MRSA	199	163	160	-2%
MSSA	651	728	744	+2%

Source: Wales Audit Office analysis of Welsh Government data

²⁰ Bacteraemia means the presence of bacteria in the blood.

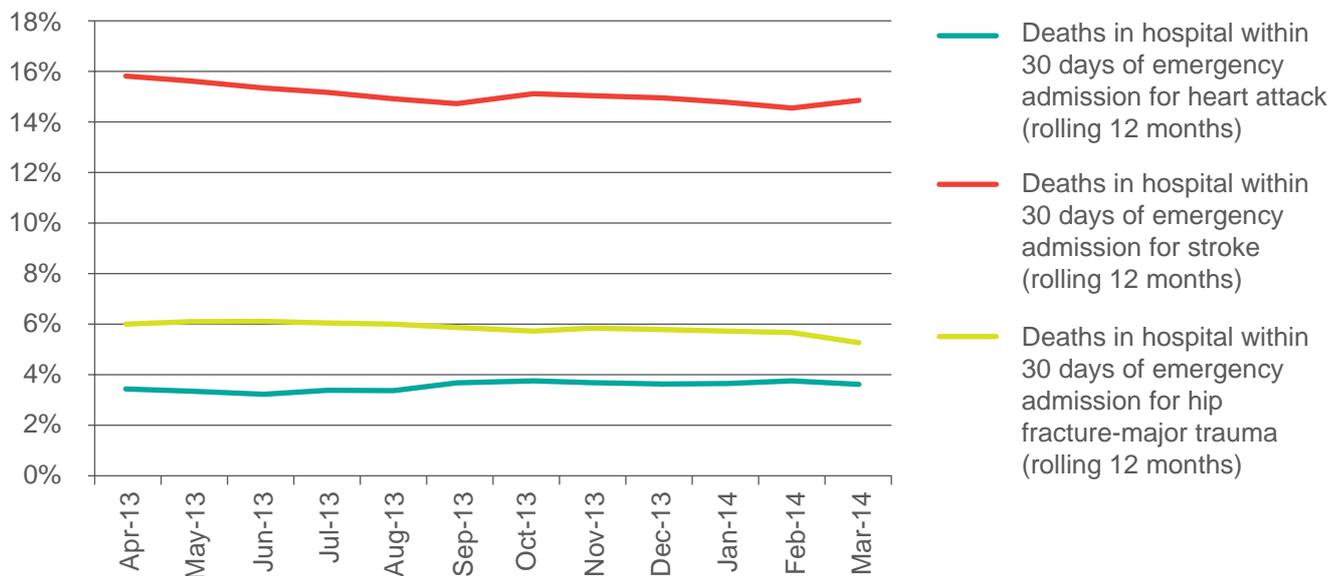
2.15 For the first time, the Department is reporting on healthcare-associated pressure ulcers. The data shows the number of cases has been rising over the year, from 155 in April 2013 to 193 in March 2014. As this is a new indicator, it may be that the increase is a result of better recording and reporting, rather than reflecting an actual deterioration in performance.

Mortality data shows a generally improving position with the exception of cardiac care

2.16 Mortality measures are sometimes used as indicators of the overall quality of care. However, some caution is required in interpreting them because they are highly dependent on the quality of clinical coding and data entry by hospitals. Figure 21 shows that the proportion of patients dying in hospital within 30 days of admission for a stroke or a hip fracture has reduced across 2013-14. There has, however, been an increase in the mortality of patients admitted following a heart attack.

2.17 The 'crude' mortality rate which identifies the total number of deaths per 1,000 patients has reduced from 2.3 per cent in April 2013 to 1.8 per cent in February 2014. There has also been a positive reduction in the Risk Adjusted Mortality Index score across Wales from 105 in April 2013 (which was above the average (100) for England and Wales) to 97 in March 2014.

Figure 21 – Performance against targets on hospital mortality for specific conditions



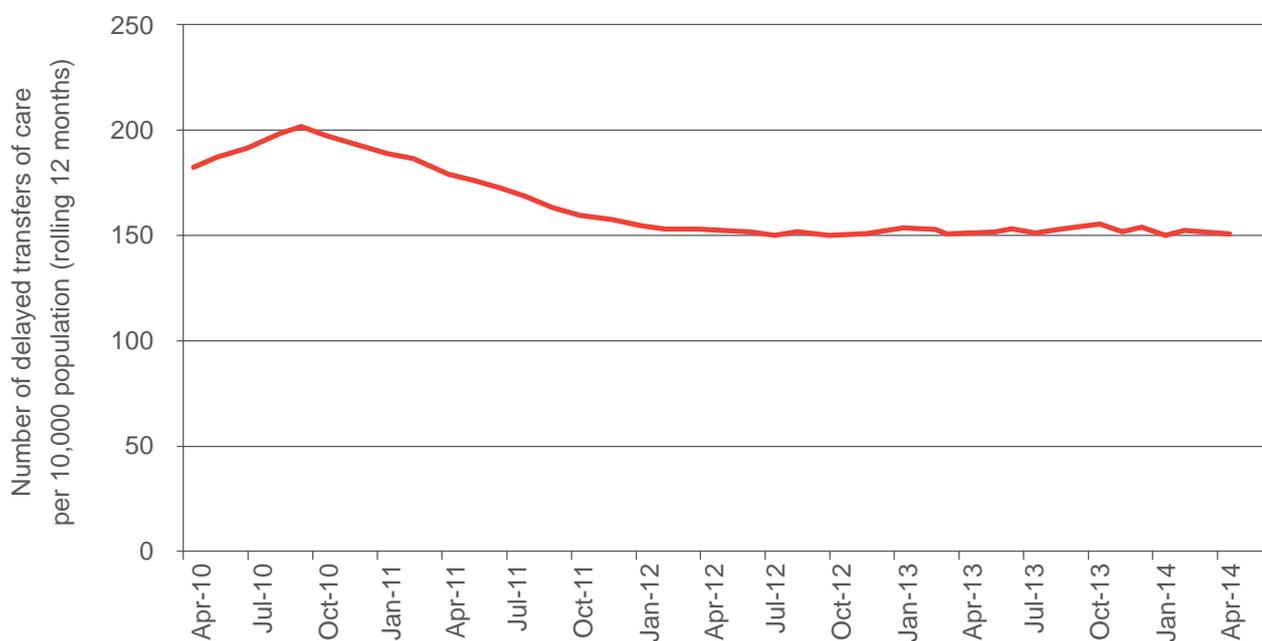
Source: Wales Audit Office analysis of Welsh Government data

There is positive progress against indicators of integration between different parts of the NHS and social care

Delayed transfers of care have been broadly static over 2013-14 and the longer-term trend of improvement has halted

2.18 Delayed transfers of care are those where a patient is clinically ready to leave hospital but for some reason is unable to do so. It is an indicator of the extent of integration between health and social-care services, because often people are delayed when they cannot find a suitable care home or care-support package for when they leave hospital. Addressing delayed transfers of care requires close joint working between the NHS and local government. There is no specific target other than to improve. Figure 22 shows that performance for non-mental health patients was broadly static across the year. Progress has slowed over the past two years following a period of improvement. There was an improvement during 2013-14 in delayed transfers for mental-health patients, with a slight fall in the 12-month rolling average across the year.

Figure 22 – Delayed transfers of care (excluding mental health)



Source: Wales Audit Office analysis of Welsh Government data

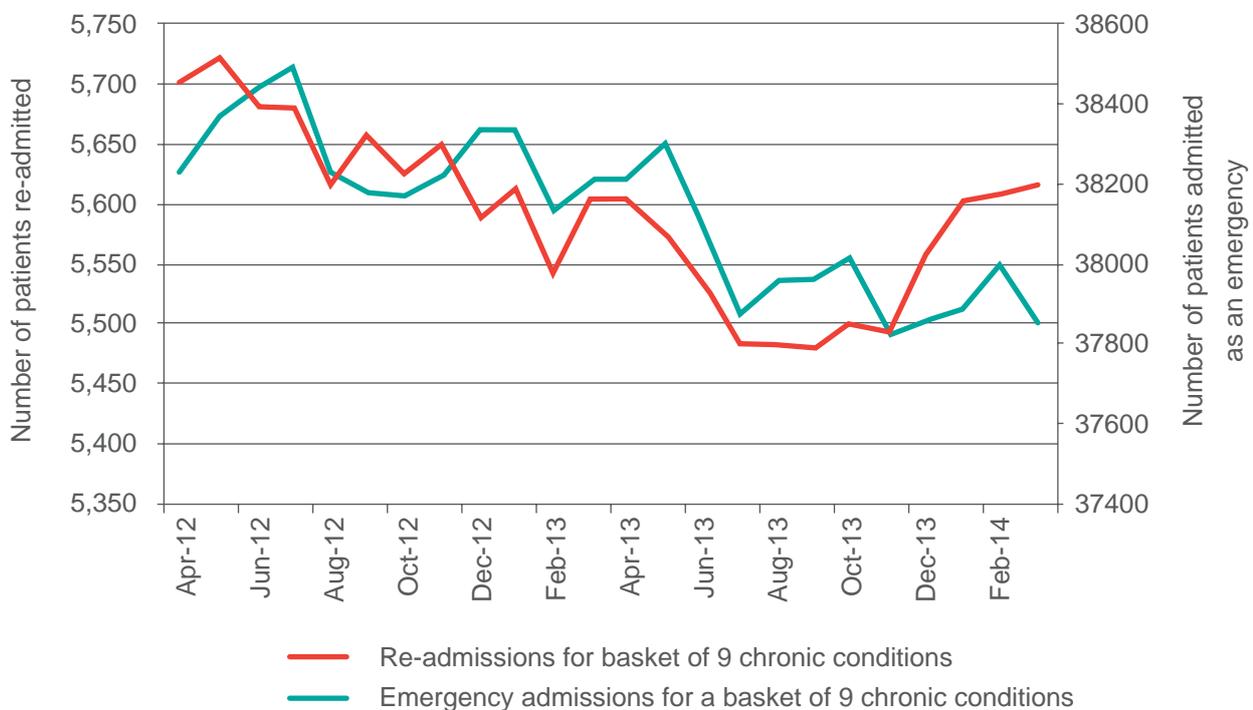
Access to GPs outside of work hours is improving

2.19 The NHS has a target of improving access to GP surgeries outside of working hours. There was a slight improvement during 2013-14 with 95 per cent of GP surgeries now offering appointments between 5 pm and 6.30 pm, compared with 94 per cent in 2012-13.

There has been improvement in reducing admissions and re-admissions for patients with chronic conditions

2.20 The number of patients with chronic conditions being admitted and re-admitted is an indicator of integration between different parts of the NHS. Many chronic conditions are best managed outside of hospital care, through General Practitioners and other community services. As shown in **Figure 23**, NHS Wales has met its targets to reduce the number of emergency admissions and re-admissions for patients covering nine specific chronic conditions. The overall progress reflects the findings of our recent report on the management of chronic conditions. However, there was a sharp rise in re-admissions for patients with chronic conditions during the final quarter of 2013-14.

Figure 23 – Admissions and re-admissions for chronic conditions

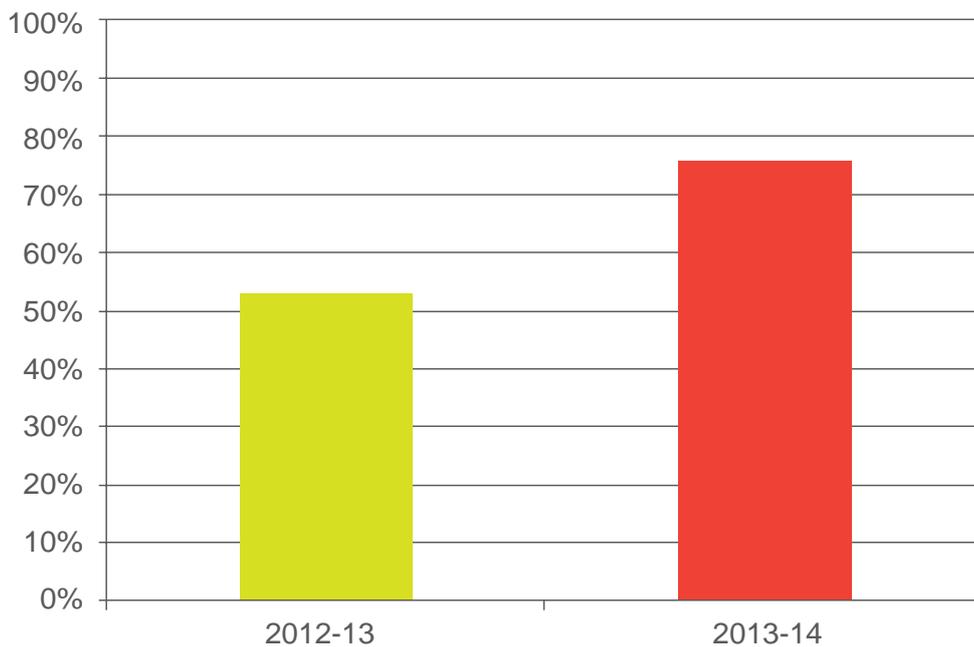


Source: Wales Audit Office analysis of Welsh Government data

Progress against workforce targets was mixed

2.21 **Figure 24** shows that there has been a significant improvement in the proportion of medical staff who receive an annual performance appraisal development review. While the progress is substantial, the NHS has not yet met the target that all medical staff should have an annual appraisal.

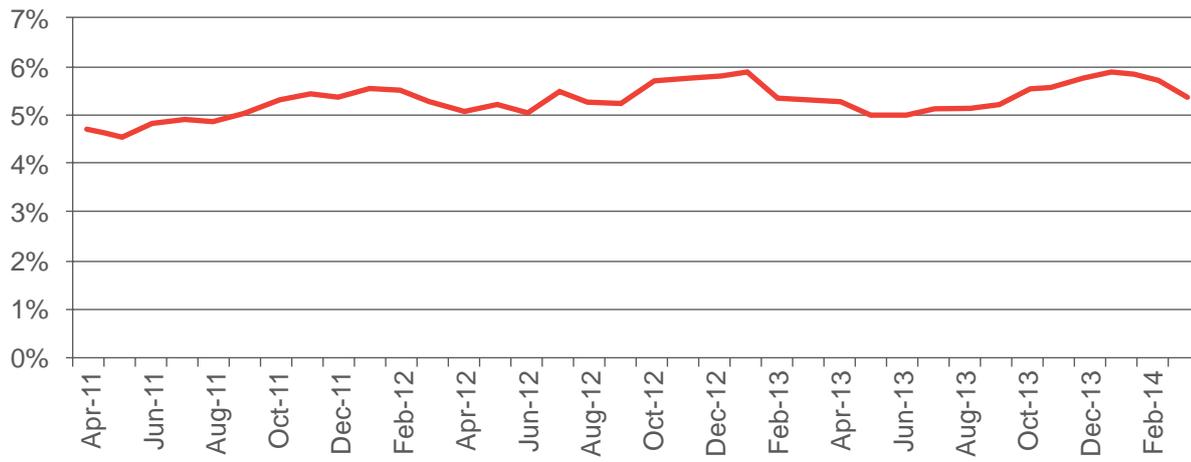
Figure 24 – Percentage of medical staff having an annual performance appraisal development review



Source: Wales Audit Office analysis of Welsh Government data

2.22 The NHS also has a target to reduce levels of staff sickness absence. As shown in **Figure 25**, over the previous three years, sickness-absence rates have been climbing, although this trend was halted this year – the absence rate of 5.3 per cent in 2013-14 matched that of 2012-13.

Figure 25 – Staff sickness absence rates



Source: Wales Audit Office analysis of Welsh Government data

Part 3

Three-year integrated planning is a step forward but NHS Wales will struggle to make progress without transformational change



3.1 This section of the report considers the future challenges facing NHS Wales. It looks at the progress that has been made in moving towards a three-year planning framework for the NHS. It considers the short-term pressures facing the NHS in the current financial year. It then considers the medium to long-term pressures facing healthcare in Wales and looks at the ideas and plans for re-shaping the NHS to meet future demand and financial pressures.

We expect three-year planning to lead to more integrated management of services, workforce and finances but there are significant risks to manage as the process becomes established

- 3.2 The National Health Services Finances (Wales) Act (2014) introduces a new three-year planning framework for local health boards and this will also be applied in practice to NHS trusts. The move to a three-year framework is in line with recommendations that the Public Accounts Committee and we have made previously. In summary the Act requires:
- a health boards to not exceed their allocated budgets over a three-year period;
 - b the Welsh Ministers to direct health boards to produce three-year plans showing how they will improve the health of their populations and improve the quality of care; and
 - c integrated three-year plans showing how health boards will meet both the first and second duties to be approved by Welsh Ministers.
- 3.3 The move to a three-year timeframe is a positive step to help NHS bodies to plan over the medium term. In the past, service, workforce, and financial planning has been very fragmented which has been amplified by the very short-term nature of the previous requirement that annually all NHS bodies must break even. The move to a three-year timeframe enables the NHS to invest up front in service change that will deliver savings and service benefits in the medium term. To help avoid risks that the three-year plans become a static document over time, the Department requires that they be updated annually.
- 3.4 While NHS bodies have moved to a three-year timeframe, there is not unlimited flexibility in the system to allow all NHS bodies to invest up front at the same time. Most of the funding for NHS bodies comes from the Department. The Department, as part of the Welsh Government, is required to achieve break even on its own budget every year. Therefore, it would not be possible for all NHS bodies to overspend in a single year unless there was sufficient cover from within the Department or other parts of the Welsh Government.
- 3.5 Ahead of 2014-15, all NHS bodies submitted integrated three-year plans to the Department. The Welsh Government's Internal Audit Service has reviewed the process for reviewing and approving the plans and concluded that it could give full assurance that the process was operating effectively. We also view the fact that only four of the ten NHS bodies had their plans approved by the Minister as evidence that the Welsh Government has been challenging and is pushing the NHS to improve the quality of its planning.

3.6 Where plans have been approved by the Department, further work by NHS bodies is still required. **Figure 26** identifies that some NHS bodies had plans that only balanced financially with additional funding from the Department. In addition, not all approved plans show financial and service targets will be met over each of the three years. Since approving the plans, the Department has allocated an additional £15 million to Cardiff and Vale University Health Board and £8.5 million to Cwm Taf University Health Board in 2014-15. At the time of drafting, the Department was yet to take a decision on additional funding for Abertawe Bro Morgannwg University Health Board even though it approved a plan showing a £26 million deficit in 2014-15.

Figure 26 – Position on three-year integrated plans as at September 2014

NHS body	Plan approved?	If approved, does the plan show financial breakeven and all Tier 1 targets to be met each year?	If not approved, what were the key reasons?
Abertawe Bro Morgannwg UHB	Yes	No – the plan has a £26 million funding gap in Year 1.	
Aneurin Bevan UHB	No		The UHB produced a one-year planning cycle this year, allowing the organisation to further strengthen its financial and service planning work for the medium term before submitting a final version in January 2015.
Betsi Cadwaladr UHB	No		The UHB decided that it was unable to submit robust Integrated Medium Term Plans for 2014-15 to 2016-17 and wished to respond meaningfully to the conclusion of the Mid Wales Study ¹ before committing to a medium-term plan and is keen to allow sufficient time for recent or imminent changes to key Board personnel to take effect.
Cardiff and Vale UHB	Yes	Yes, but the plan has a gap of £15 million in year one, which the Department has agreed to fund but which will need to be repaid through as yet unidentified savings. Also, the current version of the service trajectories show waiting-time targets will not be met in Year 1.	

NHS body	Plan approved?	If approved, does the plan show financial breakeven and all Tier 1 targets to be met each year?	If not approved, what were the key reasons?
Cwm Taf UHB	Yes	Yes but the plan assumes additional funding of £15 million over the three years and the Department has agreed to provide £8.5 million in 2014-15.	
Hywel Dda UHB	No		The UHB decided that it was unable to submit robust Integrated Medium Term Plans for 2014-15 to 2016-17 and wished to respond meaningfully to the conclusion of the Mid Wales Study ¹ before committing to a medium-term plan and is keen to allow sufficient time for recent or imminent changes to key Board personnel to take effect.
Powys THB	No		The THB decided that it was unable to submit robust Integrated Medium Term Plans for 2014-15 to 2016-17 and wished to respond meaningfully to the conclusion of the Mid Wales Study ¹ before committing to a medium-term plan and is keen to allow sufficient time for recent or imminent changes to key Board personnel to take effect.
Public Health Wales NHS Trust	No		While a plan had been approved in principle by the Trust it was recognised that the new Chief Executive should have an opportunity to contribute to it. Additionally, it was recognised that the plan is contingent on interdependent actions by other NHS bodies, and in the absence of approved plans across the NHS, the Trust could not finalise and agree a three-year plan.
Velindre NHS Trust	Yes	Yes – there is no requirement for additional funding from the Welsh Government.	
Welsh Ambulance Services NHS Trust	No		The Trust is advancing a number of the key reforms arising from the McClelland review, including the full establishment of the new commissioning arrangements, which will be vital to reviewing, inputting and approving a plan on a medium-term basis.

Note:

¹ The Mid Wales Study is an examination of the issues and opportunities for the future provision of healthcare services for patients living in mid Wales. The Department commissioned the Welsh Institute for Health and Social Care to carry out the study.

Source: *Wales Audit Office analysis*

- 3.7 Three-year planning is a welcome very positive improvement. Like many other new initiatives, there are areas that could be strengthened. In particular, given the financial constraints and recent performance trends, in our view some of the underlying assumptions are optimistic. There is scope for the plans to include more consideration of what may happen if things do not go to plan, as follows.
- a None of the plans we have looked at includes detailed sensitivity analysis showing what may happen if service performance, workforce or financial trajectories are missed. Nor did we see detailed contingency plans, although all integrated plans we looked at had a risk assessment with some mitigating actions.
 - b There is an acknowledgement in some plans that the level of financial savings required is higher than has been achieved in the previous three years. With savings proving more difficult each year, relying on growing savings is a very optimistic assumption.
 - c All plans assume a degree of improvement in service performance trajectories, which does not reflect the experience of the past three years. Given that the plans are based on a tougher financial settlement than has been the case for the past three years, this assumption on performance seems very optimistic.
 - d Capital investment to both replace and modernise infrastructure is central to the success of NHS bodies' plans. The Department has developed a strategic Wales-wide approach to prioritising capital schemes and is in the process of reviewing and reprioritising its forward investment programme. It is crucial that where funding is not approved, NHS bodies revisit their three-year plans to consider the impact and alternative solutions.
- 3.8 The Act does not spell out what happens where an NHS body's plan is not of sufficient quality to be approved. The Department has required those NHS bodies without an approved three-year plan to work to a one-year plan for 2014-15 and to develop revised three-year plans. Some one-year plans have yet to be finalised. The Department recognises that some NHS bodies require support to develop their capacity to produce high-quality integrated plans. As it develops its approach to the plans covering the period 2015-16 to 2018-19, the Department is identifying the planning skills gaps within NHS bodies and the actions required to address them.
- 3.9 The Department is closely monitoring progress against financial and service performance trajectories. The Department is clear that those NHS bodies on a three-year cycle can be taken back on to an annual cycle if they do not deliver against their trajectories. We have seen evidence that some NHS bodies are already falling behind against their performance and financial trajectories. The Department intends to manage financial and service performance through ongoing monitoring and, where necessary, use of the escalation and intervention protocol.

The NHS is again starting the 2014-15 financial year facing a cash-terms reduction and is likely to struggle without further revenue and capital funding

The pressure on revenue funding continues to be significant

- 3.10 The increase in funding during 2013-14 means that once again the NHS revenue budget starts the year with a significant year-on-year reduction. The position at the beginning of 2014-15 is slightly better than the position at the start of 2013-14. This improvement is mainly due to the Welsh Government allocating recurrent funding over and above its indicative plans in the 2014-15 Budget. The cash-terms reduction for 2014-15 is £41 million (0.7 per cent) and the real-terms reduction is £150 million (2.5 per cent).
- 3.11 As set out in [Figure 27](#), for 2014-15, NHS bodies predicted a total funding gap of £429 million. At the end of August 2014, NHS bodies were forecasting a likely year-end deficit of £198 million. This projection includes the requirement to pay back £41 million of brokerage and deficits during the year from 2013-14.

Figure 27 – Gross and net 2014-15 funding gaps by Welsh NHS body

NHS body	Gross 2014-15 funding gap (£'000)	Net 2014-15 forecast funding gap as at August 2014 (£'000)	2014-15 Revenue Resource Limit at at August 2014 (£'000)	Gross funding gap as % of Revenue Resource Limit
Aneurin Bevan UHB	48,954	34,946	1,002,273	4.9%
Abertawe Bro Morgannwg UHB	59,500	26,100	964,529	6.2%
Betsi Cadwaladr UHB	80,620	35,000	1,231,395	6.5%
Cardiff and Vale UHB	63,400	0	810,438	7.8%
Cwm Taf UHB	33,700	0	561,225	6.0%
Hywel Dda UHB	70,903	57,903	669,197	10.6%
Powys THB	47,657	44,297	222,067	21.5%
Public Health Wales NHS Trust	2,255	0	106,645	2.1%
Velindre NHS Trust	9,110	0	396,498	2.3%
Welsh Ambulance Services NHS Trust	13,331	(112)	151,510	8.8%
Total	429,430	198,134	6,115,777	7.0%

Source: Wales Audit Office analysis of Welsh Government data

3.12 Based on the position at August 2014, it seems likely that NHS bodies will require a similar level of additional funding in 2014-15 to that provided in 2013-14. In June 2014, the Minister announced that he would have discussions with the Finance Minister over the summer regarding additional funding. On 30 September 2014, the Finance Minister announced an additional £200 million for the NHS in 2014-15 and a further £225 million in 2015-16.

The Department is now starting to strategically manage capital expenditure at an all-Wales level

- 3.13 Good-quality buildings and other assets such as equipment and Information Management and Technology are essential to support the delivery of high-quality and safe NHS services. As a result of targeted investment in replacing and modernising the older part of the NHS estate, the Shared Services Partnership²¹ reported in 2013 that, based on 2012-13 data, over the last 12 years the age profile of the Welsh NHS estate is improving. The proportion of the estate built since 1995 has increased from eight per cent to 30 per cent while the proportion of the estate pre-dating 1948 has shrunk from 32 per cent to 17 per cent.
- 3.14 However, although some progress is being made, the Shared Services Partnership reported that the Welsh NHS needs to do more to improve the functional stability, space utilisation and energy efficiency of the estate. Whilst some of these improvements will require capital investment, many will instead require NHS bodies to consider different ways of using the existing estate. As set out in [Figure 28](#),

Figure 28 – Actual and risk-adjusted estates maintenance backlog

NHS body	Actual backlog 2012-13 (£ million)	Risk-adjusted backlog 2012-13 (£ million)	Risk-adjusted backlog 2011-12 (£ million)
Aneurin Bevan UHB	37.7	11.7	12.6
Abertawe Bro Morgannwg UHB	57.9	16.3	40.8
Betsi Cadwaladr UHB	119.7	36.1	41.0
Cardiff and Vale UHB	47.0	28.9	27.9
Cwm Taf UHB	20.8	9.5	20.8
Hywel Dda UHB	57.1	28.7	27.5
Powys THB	8.8	5.2	5.2
Public Health Wales NHS Trust	Unknown	Unknown	Unknown
Velindre NHS Trust	2.8	0.9	0.9
Welsh Ambulance Services NHS Trust	13.4	8.3	8.1
Total	365.2	145.6	184.8

Source: *The NHS Estate in Wales – Estate Condition and Performance Report 2011/12, Shared Services Partnership*, www.wales.nhs.uk/sites3/Documents/254/EstCondRep201112web.pdf

²¹ The NHS Wales Shared Services Partnership was established in April 2011 and is owned and directed by NHS Wales. It provides a range of support services to Welsh NHS bodies. <http://www.wales.nhs.uk/sitesplus/955/home>

the report also identifies a 2012-13 gross 'backlog maintenance'²² of £365 million (£395 million last year) across Wales which is 'risk adjusted' (calculated by weighting backlog as high, significant, moderate or low risk) to £145 million (£185 million last year).

- 3.15 Last year we reported that the condition of other assets such as medical equipment and Information Management and Technology across Wales is mixed. For 2012-13, some £336 million of assets were beyond their useful economic life. This data has not been updated in time for this report for 2013-14 but, based on estimates in 2012-13, this has now increased to over £400 million.
- 3.16 Last year we also identified concerns about how capital expenditure was managed by the Department. As mentioned previously, it is positive that the Department is now starting to take a strategic Wales-wide approach to capital planning and funding. Last year we reiterated the recommendations that the Welsh Government's internal audit service had made in this regard:
- a at an all-Wales level, the capital programme needs to be reviewed and updated and a capital programme strategy developed;
 - b a formal programme board should be considered to oversee the capital programme including smaller projects;
 - c revised guidance for the management of the programme and projects should be completed; and
 - d the Department should work more closely with NHS bodies to ensure compliance and monthly reporting.
- 3.17 The Department has made some progress in all these areas, which are critical to delivering an effective and sustainable NHS. In addition to the above, key actions by the Department include:
- a issuing revised investment objectives for the NHS Capital Programme;
 - b using new investment criteria against which to assess investment proposals;
 - c setting up an 'Expert Panel' to consider future potential schemes against the investment criteria; and
 - d considering innovative funding arrangements – eg, non-profit-distributing public – private arrangements.

²² Backlog maintenance is essential maintenance work that has not been undertaken and is deemed necessary to bring the condition of a maintainable asset up to a standard or acceptable level of risk that will enable the required service delivery functions of the asset to continue.

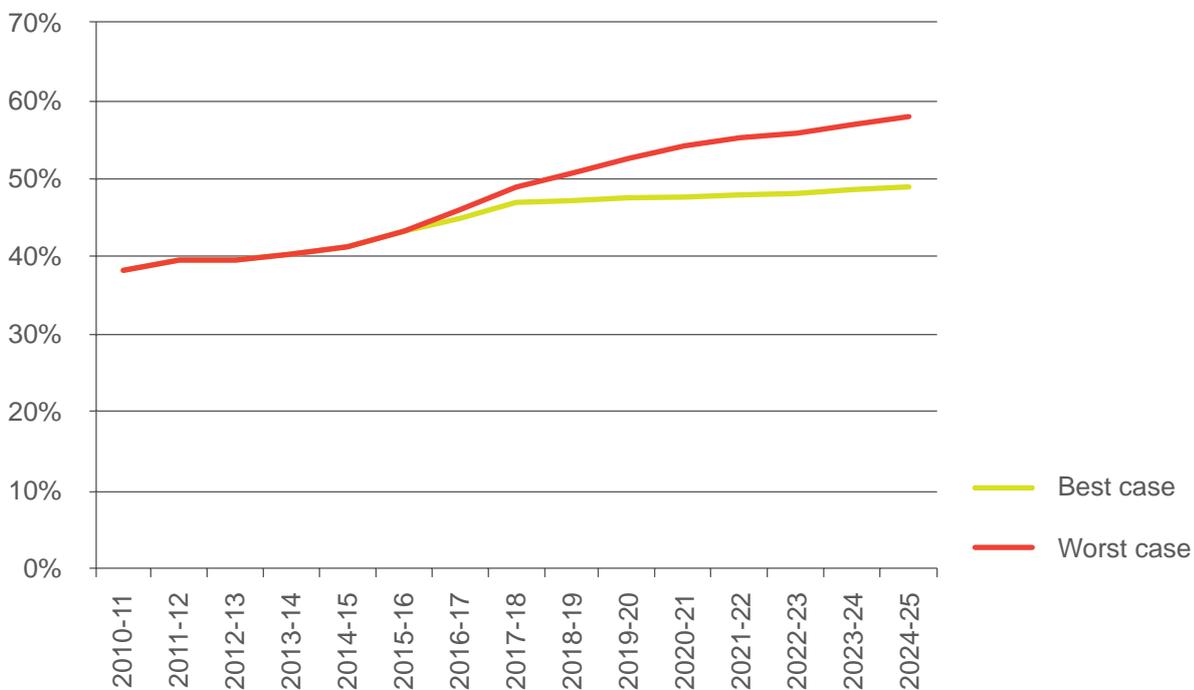
- 3.18 These actions put a new emphasis on the need for investment proposals to deliver improved outcomes and demonstrate sustainability, and reflect the need for other means of funding infrastructure investment in the NHS. Although currently much of the work in this area looks at schemes at an organisational level, there is a recognition of the need to look Wales wide at opportunities for regionalised services and investment projects encompassing the NHS and other public sector bodies. Whilst there are some examples that this is happening, the Department's intention is that these projects should become more mainstream in the coming years.
- 3.19 Given that the ability to modernise and rationalise the NHS estate (and other assets) is crucial to the delivery of sustainable services, the Department's new strategic approach is a key step forward. The investment proposals underpinning NHS bodies' three-year plans were all submitted under the new investment criteria by the end of June. Work is ongoing to assess these with a view to refocusing the forward investment programme and clarification of future projects is expected by the end of 2014.

Financial and demand pressures mean substantial change to NHS services is essential but progress to date has been slow

- 3.20 The Department commissioned the Nuffield Trust to examine the long-term cost pressures on NHS Wales. Such pressures include demographic trends – an ageing population – and the growing costs of technology, including new medicines. The Nuffield Trust calculated that the annual real-terms cost pressures in Wales were lower than those in England (3.2 per cent compared with 3.9 per cent in England) mainly because Wales' population is set to grow slower than England. On that basis, the Nuffield Trust estimates that NHS Wales spending would need to be £3.6 billion higher in 2025-26 than in 2010-11: a rise of almost 60 per cent.
- 3.21 The Nuffield Trust identified how that gap could be filled if services are changed and improved to make them more efficient and effective. Making some assumptions about future decisions on the health budget, the Nuffield Trust identifies that the budget gap by 2025-26 could range from £0.2 billion in its optimistic scenario to £2.7 billion in its pessimistic scenario. We agree that there is scope to build on the progress to date that the Nuffield Trust identifies and further improve efficiency but our own analysis suggests that the more optimistic projections on acute-sector efficiency would be very difficult to achieve without radical changes.

3.22 The independent think tank Wales Public Services 2025 (WPS 2025) produced a set of projections of spending, including NHS spending, to 2025. In **Figure 29** we have updated the WPS 2025 projections to reflect the revised cost pressures on NHS Wales identified by the Nuffield Trust. This shows that if spending rose to match the cost pressures, revenue spending on health in Wales would rise from around 42 per cent of the Welsh Government’s revenue budget in 2010-11 to between 50 and 55 per cent, depending on decisions made in Westminster and the performance of the UK economy.

Figure 29 – Updated WPS 2025 projections of revenue spending on the NHS as a proportion of the Welsh Government’s budget if it rose by 3.2 per cent in real terms



Source: Wales Audit Office update of Wales Public Services 2025 calculations

- 3.23 Given the long-term pressures, it is clear that for the NHS more of the same is not an option. The Department has long recognised the need for change right across the NHS. Over the past 10 years, there have been several major strategies, five-year plans and local reconfiguration plans. Nevertheless, the NHS of today looks remarkably like the NHS of a decade, although that is not to say there has not been progress:
- a the move to integrated local health boards in 2009 is bedding in and should help to better integrate primary and hospital care services;
 - b in terms of infrastructure, the NHS has closed down or fundamentally changed the role of some community hospitals and there are now plans to reconfigure and centralise some services covering all health boards; and
 - c there are pockets of change in the way that services are being delivered, with for example some evidence of new community services to treat patients with chronic conditions in primary care rather than in hospitals and examples of local innovation in service delivery and improving processes.
- 3.24 In terms of infrastructure, the reconfiguration plans have taken a long time to come to fruition. Plans to relocate services have faced significant local opposition, including from elected politicians. There have been judicial reviews which are an important safeguard in the system but these contribute to slow progress. The reconfiguration plans remain at a relatively high level, and while the focus is rightly on improving the safety and quality of services, it is still unclear whether the plans are affordable given the financial pressures on the NHS. As mentioned previously, it remains unclear whether there is sufficient capital to fund the emerging plans for reconfiguring services across Wales.
- 3.25 In terms of changing services for patients, the Department is placing significant emphasis on the emerging 'prudent healthcare' agenda, initially developed by the Bevan Commission. The idea behind prudent healthcare is to refocus service design and delivery on 'value', and to stop clinical activity where the risks potentially outweigh the benefits for patients. The three principles of prudent healthcare are:
- a do no harm;
 - b carry out the minimum appropriate intervention; and
 - c promote equality between professionals and patients.

- 3.26 The principles and ideas being developed through 'prudent healthcare' seem very sensible and, if translated into clear action, could lead to better services at lower cost. The Department points to evidence that 10 per cent of healthcare interventions are associated with some harm to patients and 20 per cent have no impact on patient outcomes. Over the past year, the Department has engaged with clinicians, patients and managers to develop the ideas underpinning 'prudent healthcare' and to test them in a set of pilots around Wales. The concept of 'prudent healthcare' has expanded to cover 'co-production' in terms of involving patients and their families and ideas from lean/systems thinking to re-shape services to identify and reduce activity that does not add value to patients.
- 3.27 We will be looking in more depth at the 'prudent healthcare' agenda in our forthcoming report on elective waiting times. One of the key issues we are finding in fieldwork from that study is that there is an urgent need to clarify what prudent healthcare means operationally. There is a risk that it is being interpreted as rationing or strengthening the hand of NHS bodies in restricting access to healthcare. If it is to get the kind of support among clinicians and patients that will be needed to make it a success, the Department needs to be very clear that it is about better healthcare and not doing things that potentially do more harm than good, rather than rationing services.

Appendices

Appendix 1 - Audit Methods

Appendix 2 - Welsh Government responses to last year's recommendations

Appendix 3 - Financial Summary by NHS body 2013-14

Appendix 1

Audit methods

Data analysis

This report is based on analysis of financial information from published budgets and the monitoring return forms that the NHS bodies provide to the Welsh Government each month. It also draws on other financial data, including:

- Welsh Government data on the funding allocated to NHS bodies at the start of the year and the end of the year; and
- NHS bodies audited accounts.

We have also used a range of service performance data, most of which was provided to us by the Department. The data sources include:

- The Patient Episode Database Wales (PEDW);
- Emergency Department Dataset (EDDS);
- Stats Wales data on performance on elective waiting times; and
- Department's performance data on other Tier 1 targets.

Document review

In interpreting the financial data we have also drawn on published strategic documents specifically related to the NHS in Wales. These include Together for Health: A Five Year Vision for the NHS in Wales and the NHS Wales Delivery Framework 2013-14 and Future Plans.

Local fieldwork

Our assessment of the national picture draws on local audit work examining financial management at each NHS body as part of our 'Structured Assessment' work. The audit work on which we drew includes:

- audit of accounts;
- review of savings plans and delivery;
- interviews with senior NHS body officials and Board Members; and
- review of 2013-14 and 2014-15 financial and strategic planning documents.

Appendix 2

Welsh Government responses to last year's recommendations

Recommendation summary	Progress/update
<p>R1 The Department continues to send mixed messages over the availability of additional funding: insisting at the beginning of the financial year that no funding will be provided before later allocating additional funding. We understand the Department's desire to focus NHS bodies on their goal of living within their means. However, the historical provision of providing additional funding has contributed to an unhelpful culture where some NHS bodies are second guessing the position and assuming they will get additional funding.</p> <p>To help develop a culture of greater financial transparency across NHS Wales, the Department should:</p> <ul style="list-style-type: none"> • develop a shared understanding and ownership by regularly reporting and discussing with NHS bodies the financial position of NHS Wales as a whole, including the central budgets managed by the Department; • clearly articulate the position at the beginning of the financial year in respect of what flexibility the Department has to manage financial risks; • during the year, keep NHS bodies updated in terms of any flexibility within the central budget and how it intends to use any surpluses; and • work with and challenge NHS bodies to improve the consistency and transparency of financial reporting and forecasting particularly for cost improvement programmes. 	<p>To improve the understanding of the financial position, the NHS Wales Finance Directors and Chief Executives are now provided with detailed additional information each month at their formal meetings. This includes a detailed 'all-Wales NHS Finance Report' each month.</p> <p>The developments and improvements we are making to the planning process and in particular the focus on the medium term will require formal approval by the Welsh Government of NHS Integrated Medium Term Plans. This enables the Welsh Government to clearly set out the financial expectations and any financial flexibility being provided over the current and future periods.</p> <p>This will provide certainty of the financial envelope within which NHS organisations are operating.</p> <p>The improvements to the planning process also enable further improvements to be made in monitoring arrangements and the ability to identify and challenge NHS organisations on inconsistencies and discrepancies in their reporting and forecasting.</p>

Recommendation summary	Progress/update
<p>R2 Service reconfiguration and change offer the best chance of developing a lower-cost model that puts the Welsh NHS on a more financially sustainable footing. At present, the financial costs and benefits of transformation and reconfiguration are unclear. The Department is in the process of supporting and challenging NHS bodies as they develop integrated three-year workforce, service and financial plans.</p> <p>In considering NHS bodies' three-year plans, the Department should:</p> <ul style="list-style-type: none"> • robustly challenge NHS bodies to develop an ambitious programme to reform the delivery and configuration of services, to include integrated service plans that set out in detail the costs (both revenue and capital expenditure) and expected financial benefits alongside patient quality and safety impacts; and • test the sustainability of NHS bodies' plans for medium to long-term change against the Department's own assumptions for the medium to long-term prospects for NHS finances. 	<p>This recommendation needs to be considered in the context of all service changes ie, not those relating solely to service reconfiguration.</p> <p>The formal challenge and assessment of both current and future service plans is now addressed as part of the Integrated Planning Framework. In line with the implementation of the NHS Finance (Wales) Act, the Integrated Planning Framework will set out the requirements for sustainable integrated plans, including evaluation of expected financial benefits alongside patient quality and safety impacts for service changes. This is included as part of the formal assessment and approval process.</p> <p>The NHS bodies' Integrated Medium Term Plans are assessed and approved in the context of the overall resources available within the Department's Main Expenditure Group. The financial flexibility being provided through the NHS Finance (Wales) Act will support the Integrated Medium Term Plans. Accordingly there is a robust evaluation and approval mechanism to ensure that the NHS body's plans and profiles are aligned to the overall available resources and show the required ambition in terms of their plans and programmes.</p>

Recommendation summary	Progress/update
<p>R3 In order to manage financial and service pressures, it is clear that many NHS bodies have deprioritised delivery of their targets on waiting times for planned procedures. Given the financial constraints, some form of prioritisation of activity and goals could be seen as inevitable. But such prioritisation needs to be well thought through, transparent and the risks need to be managed. The extent to which such prioritisation is documented and publicised varies between NHS bodies. The Department has not deprioritised any areas and has tasked NHS bodies with delivering against an increasing number of Tier 1 priorities.</p> <p>The Department and NHS bodies should work together to develop a robust framework for reviewing priorities and managing risks in those areas of service delivery that assume a lower priority, in particular to clarify:</p> <ul style="list-style-type: none"> • whether it is realistic to continue to expect NHS Wales to improve performance against an ever-rising set of priorities given a real-terms decline in resources; • the extent to which NHS bodies are free to determine their own local priorities/risk appetite in relation to deprioritising service delivery; and • the extent to which NHS bodies should publicise and engage the public in relation to prioritisations that impact on the level or quality of services. 	<p>Historically, the performance targets have been regularly reviewed and substantially reduced.</p> <p>In 2013-14, Health Boards were required as a minimum to demonstrate an improvement on the previous year's performance, to evidence progress towards the delivery of key National Targets. No further targets or burdens were added to this list in 2013-14.</p> <p>The Department is currently in the process of reviewing its delivery plans and current targets in collaboration with the NHS and the public. The aim is to ensure the targets are more focused around clinical/quality outcomes and wherever possible the review is also looking to reduce the burden further. A number of pilot schemes are being undertaken across the NHS to achieve this aim.</p> <p>In setting the planning guidance and framework for the Three Year Integrated Medium Term Plans from 2014-2017, it was made clear that in year one, the expectation was that Health Boards would maintain target level performance where it had previously been achieved, and that they would recover performance back to target level by March 2015 where they had not. The planning and performance guidance is currently being updated for 2015-16 onwards and the priorities are being reviewed as part of the revised guidance.</p>

Recommendation summary	Progress/update
<p>R4 Last year we recommended that the Department challenge NHS bodies to accelerate savings from workforce planning while managing the risks to service levels and quality. We found that there are still significant issues with workforce planning and the robustness of the workforce savings that NHS bodies claim to have delivered.</p> <p>The Department should:</p> <ul style="list-style-type: none"> • step up its challenge of NHS bodies' workforce plans, to ensure that they have robust and detailed workforce plans, which link directly to service plans and plans for workforce savings; and • provide detailed in-year challenge to test whether the workforce savings that NHS bodies report can be reconciled to the workforce plans and actual staffing levels. 	<p>The Department has set up a dedicated project team with associated governance arrangements to develop and implement improvements to NHS organisations' planning processes. A key component of this work has been to ensure that NHS plans incorporate key linkages between activities and are integrated in terms of finance, workforce and service delivery. The result of this work was the launch of the Integrated Medium Term Planning (IMTP) process through which NHS organisations are invited to submit three-year financial plans. The ability to do this was created with the passing of the NHS Finance (Wales) Act in January 2014. Through these plans NHS bodies are required to provide information on their current and future workforce. The process also includes a robust procedure for reviewing and reconciling plans before they are considered by the Minister for Health and Social Services.</p> <p>Following the completion of the first round, the Workforce and Organisational Development Directorate is now revising the workforce components of the planning template ready for the next round of commissioning in October 2014.</p> <p>In doing so the associated guidance will encourage NHS organisations to focus on demand rather than supply and will seek to improve the information about the future shape of the workforce that is submitted via the plans. This will include seeking additional detail in areas which were deemed to be deficiencies in the first round of returns.</p> <p>In support of this the staff from the Directorate will be joining and seeking to influence the agenda of NHS Workforce, Education and Development Services' network of workforce planning Leads with a view to using their expertise as a change group.</p>

Recommendation summary	Progress/update
<p>R5 Last year we recommended that the Department should support NHS bodies in sharing good practice on savings, but our local work suggests that there is little evidence of learning across NHS Wales either by sharing good practice on savings schemes that have worked well or using available costing data to identify and learn from existing practices.</p> <p>The Department should support NHS bodies by helping to identify, gather and disseminate good practice, considering the use of case studies, seminars, training and a central access point for this information.</p>	<p>As part of the process of implementing a new planning framework and updating the 2013-14 service plans, the Department instigated a supportive peer review process which reinforced the need for sharing good practice. This included running workshops in September and November 2013. Additionally, Welsh Government encouraged Health Boards and Trusts in sharing their 2014-15 to 2016-17 Integrated Medium Term Plans and in running workshops to seek feedback from the current planning process and identifying improvements and support that are required for future planning.</p> <p>Additionally the Directors of Finance group has a work plan to focus on the sharing of good practice and benchmarking. This also includes the Directors of Finance sub-groups such as:</p> <ul style="list-style-type: none"> • Financial Information, Costing and Benchmarking Group; • Sustainability Sub Group • Staff Development Group <p>Furthermore the key to sharing good practice will be through clinicians via clinical networks and other professional and speciality groups. The strength of these groups provides the environment for clinical peer reviews across organisational boundaries. This will be taken forward as a key theme through the prudent healthcare group, through organisational Boards and other professional groups.</p>

Recommendation summary	Progress/update
<p>R6 Last year we recommended that the Department work with NHS bodies to profile technical accounting adjustments and central savings across the year. This year, we found several NHS bodies are still making relatively large adjustments at the end of the year. This situation exposes the Department to significant financial risks at the year-end, if those adjustments do not materialise.</p> <p>We recommend that the Department steps up its challenge on NHS bodies to produce updated projections, including in-year balance sheet reviews, building on the good practice we found in at least one local health board.</p>	<p>The monitoring return guidance for 2014-15 has been strengthened; requiring organisations to accurately reflect any accountancy gains in their reported positions:</p> <p>‘Any accountancy gains/balance sheet movements, unallocated reserves and savings items should be appropriately phased to ensure that the year to date position is not distorted.’</p> <p>Specific lines have been included within the monitoring returns to report any year-to-date and future months’ accountancy gains. Comments are required in the narrative on any entries made.</p> <p>A new table introduced in 2014-15 also requires organisations to report any current or forecast accountancy gains which will contribute to the achievement of their forecast outturn position.</p> <p>A monthly reconciliation is undertaken between all entries and any issues raised with the organisation.</p>

Appendix 3

Financial Summary by NHS body 2013-14

NHS body	Estimated funding gap (required savings & in year cost pressures) £'000	Reported savings £'000	Departmental additional funding £'000	Cost containment/avoidance/technical accounting gains/contingency £'000	Intra-NHS brokerage received or returned £'000	Year-end out-turn £'000	Gross operating expenditure £'000	Estimated funding gap as % of gross operating expenditure
Aneurin Bevan UHB	(51,899)	16,597	22,779	12,611	0	88	1,098,652	4.7%
Abertawe Bro Morgannwg UHB	(61,067)	26,782	22,375	12,000	0	90	1,182,508	5.2%
Betsi Cadwaladr UHB	(99,237)	39,974	26,000	31,015	2,250	2	1,348,589	7.4%
Cardiff and Vale UHB	(89,200)	45,588	16,180	8,255	0	(19,177)	1,181,277	7.6%
Cwm Taf UHB	(40,573)	10,546	12,720	13,423	3,900	16	642,983	6.3%
Hywel Dda UHB	(57,649)	23,531	14,443	450	0	(19,225)	759,125	7.6%
Powys THB	(31,849)	5,831	4,599	2,155	0	(19,264)	273,477	11.6%
Public Health Wales NHS Trust	(1,342)	1,374	0	(17)	0	15	105,033	1.3%
Velindre NHS Trust (including the NWSSP)	(13,514)	11,414	900	2,157	0	57	418,175	3.2%
Welsh Ambulance Services NHS Trust	(13,694)	3,281	7,500	2,801	0	(112)	152,988	9.0%
Total	(460,024)	184,917	126,596	84,850	8,450	(57,510)	7,162,807	6.4%
Percentage of estimated funding gap		40.2%	27.5%	18.4%	1.8%	12.5%		

Source: Wales Audit Office analysis of 2013-14 All Wales NHS Finance Reports and 2013-14 audited financial statements

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Agenda Item 4

Public Accounts Committee

Meeting Venue: **Committee Room 3 – Senedd**

Meeting date: **Tuesday, 4 November 2014**

Meeting time: **09.00 – 11.09**

This meeting can be viewed on [Senedd TV](http://senedd.tv/en/2463) at:
<http://senedd.tv/en/2463>

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



Concise Minutes:

Assembly Members:

Darren Millar AM (Chair)
William Graham AM
Mike Hedges AM
Alun Ffred Jones AM
Julie Morgan AM
Jenny Rathbone AM
Aled Roberts AM
Sandy Mewies AM

Witnesses:

**Professor Andrew Davies, Abertawe Bro Morgannwg
University Health Board**
Simon Dean, Welsh Government
**Rory Farrelly, Abertawe Bro Morgannwg University Health
Board**
Dr Andrew Goodall, Welsh Government
Dr Ruth Hussey, Welsh Government
**Dr Hamish Laing, Abertawe Bro Morgannwg University
Health Board**
**Paul Roberts, Abertawe Bro Morgannwg University Health
Board**
Dave Thomas, Wales Audit Office
Huw Vaughan Thomas, Auditor General for Wales

TRANSCRIPT

View the [meeting transcript](#).

1 Introductions, apologies and substitutions

1.1 The Chair welcomed the Members to Committee.

2 Papers to note

2.1 The papers were noted.

2.1 Intra-Wales – Cardiff to Anglesey – Air Service: Letter from James Price (6 October 2014)

2.2 Scrutiny of Commissioners' Accounts 2013–14: Letter from the Public Services Ombudsman for Wales (14 October 2014)

2.3 The Well-being of Future Generations (Wales) Bill: Letter to the Auditor General for Wales (14 October 2014)

2.4 Scrutiny of Arts Council of Wales Annual Report 2013–14: Letter from Nick Capaldi (17 October 2014)

2.5 EU Structural Funds update: Letter from Sir Derek Jones (21 October 2014)

2.6 Grants Management in Wales: Letter from Sir Derek Jones (22 October (2014)

3 NHS Wales Health Board's Governance

3.1 The Committee scrutinised Dr Andrew Goodall, Director General, Health and Social Services and Chief Executive of NHS Wales, Simon Dean, Deputy Chief Executive NHS Wales, and Dr Ruth Hussey, Chief Medical Officer, Welsh Government on NHS Wales Health Board's Governance, in particular issues arising from Betsi Cadwaladr University Health Board.

3.2 Dr Hussey declared an interest as being related to the Chair of Betsi Cadwaladr University Health Board.

3.3 Dr Goodall agreed to send details of the financial costs of additional support for Betsi Cadwaladr University Health Board including the use of locums and agency nurses, and the names of all the co-opted Board Members together with details of their skills and remuneration packages (if appropriate). He also agreed to provide further detail and a timeline on the Health Standards Framework for NHS Wales Green Paper which the Minister for Health and Social Services announced on 3 November 2014.

3.4 Dr Goodall agreed to give consideration to announcing the level of intervention at each health board more publicly, perhaps on my local health website.

4 NHS Wales Health Board's Governance

4.1 The Committee scrutinised Professor Andrew Davies, Chair, Paul Roberts, Chief Executive, Rory Farrelly, Director of Nursing and Patient Experience and Hamish Laing, Medical Director, Abertawe Bro Morgannwg University Health Board on NHS Wales Health Board's Governance.

5 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

5.1 The motion was agreed.

6 NHS Wales Health Board's Governance: Consideration of evidence received

6.1 The Committee discussed the evidence received and agreed that the Chair should write to Dr Andrew Goodall, Director General, Health and Social Services and Chief Executive of NHS Wales, seeking clarification on the distribution of the additional in-year financial resources for health boards in 2014-15.

Mark Drakeford AC / AM
Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol
Minister for Health and Social Services

Agenda Item 4.1



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MB/MD/4368/14

Darren Millar AM
Chair
Public Accounts Committee

27 October 2014

Dear Darren

In the Welsh Ministers' response of 10 June 2014 to the Public Accounts Committee's report on *Unscheduled Care*, we undertook to update you on the progress in implementing the recommendations of the out of hours review undertaken in 2012. I apologise for the delay in providing the update.

The review was undertaken by Dr CDV Jones, Chair of Cwm Taf Health Board, for the then Minister for Health and Social Services. Following the review, a report was produced for the Minister and, although not published, was shared with health boards to support their planning of out of hours services, and has subsequently been used to inform policy development.

The work on developing out of hours services for the future was subsumed within the work to develop a NHS 111 service for Wales. Through the introduction of NHS 111, we are aiming to improve 24/7 access to timely urgent healthcare with the integration and expansion of the existing out of hours and NHS Direct Wales services. Underpinning this is the ongoing development of local services and alternative pathways by health boards.

Dr Jones chaired the 111/out of hours sub group of the *Unscheduled Care Board* until September 2013 and handed the work of that group to the *Improving Unscheduled Care Board* to be taken forward by NHS Wales. My officials have recently written to NHS Chief Executives to ensure they are addressing current and future requirements of out of hours services directly within their winter plans and 3 year integrated medium term plans. My expectation is that NHS organisations are fully engaged in the development of a sustainable model for the future.

Attached is an update of the work that has been undertaken or is ongoing in relation to out of hours which has been informed by the themes raised in Dr Jones's review. The Public Accounts Committee will receive an update on NHS 111 in January 2015.

Best wishes

Mark Drakeford.

Mark Drakeford AC / AM

Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol

Minister for Health and Social Services

Annex 1

Dr CDV Jones identified a number of themes where improvements could be made, these included:

- developing potential models and assessing the advantages of centralising call handling functions to ensure the provision of consistent high quality services
- challenges in attracting GPs to work in out of hours
- the need for implementation of new standards for out of hours and the development of an out of hours dataset
- improving the design, procurement and delivery of communication and information technologies on an all-Wales basis
- the need to work with the public and use service user feedback to improve services

Service Model

The service model is an integral part of the development of NHS 111 service for Wales. NHS 111 presents an opportunity to support transformation in access to services including primary care and community services. Health boards have been asked to increase the scale and pace of developing plans for local integrated primary care teams and alternative staffing models for 24/7 care to support this ambition.

Improving access to GP services is a key Welsh Government commitment. Whilst we are continuing to see improvements to access to GP services in core hours, health boards are working to build on the good services that GPs already provide, developing new ways to further improve access. Continued improvement in access to core GP services will help to reduce demand for out of hours services

Workforce recruitment, retention and training

Health boards have been asked to develop multi-professional teams based around the prudent healthcare principles. This means considering the opportunities for healthcare professionals other than those traditionally involved in delivering care out of hours.

More than £350m is spent each year supporting 15,000 students and trainees across Wales undertaking health-related programmes including undergraduate, postgraduate and continuing professional education. The Minister for Health and Social Services has commissioned a review to determine whether current arrangements underpinning this investment support the workforce changes required to deliver sustainable services in the future. This will include consideration of whether an incentive based approach to recruitment and retention would be helpful in dealing with some of the challenges the NHS faces.

The Welsh Government is currently exploring changes to the Wales' Performers List regulations to make it easier for locum GPs to work in Wales. The Welsh Government is also exploring how the return to practice arrangements might be changed to encourage a greater number of returners in the future.

NHS Wales Shared Services Partnership, through Welsh Risk Pool, has also extended its indemnity cover arrangements to sessional GPs and discussions between NHS Medical Defence Unions and Welsh Risk Pool about longer term indemnity cover for sessional GPs are ongoing.

A survey of GP attitudes to working in out of hours services conducted in 2013, found a number of areas which could be improved to encourage GPs and other professionals to work in out of hours services. These included more formal induction, support for handling complaints, structured Continued Professional Development and opportunities to provide mentoring, training and peer support to colleagues.

Quality and Monitoring Standards for Out of Hours Services in Wales

The Welsh Government issued revised *Wales Quality and Monitoring Standards for the Delivery of Out of Hours Services* in May 2014 and health boards were required to put delivery plans in place. These new standards are expected to form part of the overall strategic context for improving unscheduled care delivered as close to home as possible. Health boards need to monitor progress against their plans for the progressive implementation of these national standards from 2014-15. These plans will be updated as part of the plans for managing winter pressures and the refreshed three year integrated medium term plans, due in January 2015. The standards will be reviewed and aligned to the standards for NHS 111.

Information and integrated IT systems

Information, communication and technology (ICT) systems, and the use of and access to information electronically, are being considered within the refresh of the eHealth and Care Strategy which has evolved from Informing Healthcare. The refresh will be done in an inclusive manner working with health boards. The software, ICT systems and infrastructure required to support NHS 111, which will include out of hours services, are being considered as part of the wider programme of work.

A minimum dataset formed part of the *Wales Quality and Monitoring Standards for the Delivery of Out of Hours Services*. Work is currently in development with 3 health boards to establish an all-Wales monitoring and reporting system for the standards. The scope of this work, which is expected to be completed within 3 months, includes:

- establish regular, consistent and effective monitoring of out of hours services;
- provide baseline information for future developments;
- support the ongoing plans for developing a single point of access through NHS 111

In conjunction with the quality standards, this data will inform planning and development of the NHS 111 service.

Engagement with the public on appropriate use of services

National initiatives such as *Choose Well* can provide the broad messages to the public to inform them of services which should be accessed in response to particular needs. In order for citizens and their carers to make more informed decisions about their care and well-being, it is the responsibility of health boards to pro-actively engage with the public at both a national and local level to ensure they are aware of when and how to access the services available to them. Health boards have been reminded that this needs to be reviewed regularly as new services are developed and factored in routinely as part of the work to understand and meet the needs of the local population.

The information and intelligence gained will be used by health boards to inform service development and act as a catalyst to the creation of local directories of services.

Feedback on Patient Experience

Improving the patient's experience of care is a key priority for NHS Wales. In May 2013, the [Framework for Assuring Service User Experience](#) was issued by the Minister for Health and Social Services. The Framework identifies core principles to underpin patient experience work and recommends a four quadrant model to build on existing expertise and resources. It is intended to guide and complement patient feedback strategies in Health Boards and Trusts.

In July 2013, the Chief Nursing Officer, issued [core service user experience questions](#) to achieve the 'real time' quadrant of the Framework. These were developed by the National Service User Experience (NSUE) Group to be used across all care settings, including out of hours services, to ensure a consistent approach to determining service user experience across Wales.

In two Health Boards, we are also currently piloting another systematic 'trip advisor' type method of generating, analysing and responding to patient feedback, using the patient voice to transform services, improve safety and empower staff.

Health boards will use patient feedback on out of hours services in their analysis of patient experience to inform and improve services.

Agenda Item 4.2

Scrutiny of Children's Commissioner for Wales Annual Accounts 2013-14:

Additional Information

Analysis of Commissioner's Lease Car v Reimbursement using Travel and Subsistence Policy

Travel and Subsistence Policy mirrors that of Welsh Government and complies with HMRC rules.

Leasing period – 8th April 2011 to 7th April 2015.

Mileage as at end of September 2014 is 89,191 miles.

Average miles over a 12 month period $(89,191/42 \text{ months} * 12) = 25,483$ miles.

Option 1: Reimbursement of standard mileage rate of £0.45 per mile for 10,000 miles and £0.25 thereafter (12 month period)

Table 1: Reimbursement over 12 months

Average Miles	Reimbursement (£)
10,000	4,500.00
15,483	3,870.75
Total	8,370.75

Table 2: Reimbursement over lease period

Miles	Reimbursement (£)
40,000 at £0.45	18,000
61,932 at £0.25	15,483
Total	33,485

Option 2: Operating Lease arrangements (12 month period)

Table 3: Operating lease 2013-14

Cost category	(£)
Lease cost	4,759.71
Car insurance/fuel	3,679.70
Total	8,439.41

Table 4: Operating lease over lease period

Period	Lease cost (£)	Other costs (£)	Total (£)
2011-12	4,279.22	3,329.57	7,608.79
2012-13	4,668.24	3,646.79	8,315.03
2013-14	4,759.71	3,679.70	8,439.41
2014-15	4,375.08	3,331.72	7,706.80
Total	18,082.25	13,987.78	32,070.03

Conclusion

The difference between the lease car arrangements and the reimbursement via the Commissioner's travel and subsistence policy, using an average mileage compared to actual costs for 2013-14, is £68.66 in favour of reimbursement.

However, comparing the lease costs, over the length of the leasing period, shows that the difference is £1,414.97 in favour of the lease arrangements. Thereby demonstrating better value for money.

Variance Analysis of Other Expenditure Costs for the Public Accounts Committee

Other Expenditure

Description	2013-14 (£)	2012-13 (£)	Difference (£)	(%)	Notes
Ambassadors	3,579.65	11,879.86	- 8,300.21	- 69.87	1
BINOCC	4,272.04	4.50	4,267.54	94,834.22	2
Community project	-	57.10	- 57.10	- 100.00	
Promotional - Scout and Guide badges	-	1,080.00	- 1,080.00	- 100.00	
Accommodation	3,785.44	15,342.80	- 11,557.36	- 75.33	3
CYP Visits	46.30	-	46.30	100.00	
Organisational Restructuring	-	75.54	- 75.54	- 100.00	
Advocacy	-	12.36	- 12.36	- 100.00	
Funky Dragon	4,687.08	-	4,687.08	100.00	4
Awareness Research	4,758.00	2,364.00	2,394.00	101.27	5
Looked After Children	8,646.82	-	8,646.82	100.00	6
Viewpoint	21,360.00	-	21,360.00	100.00	7
Baseline research	-	2,304.00	- 2,304.00	- 100.00	5
	51,135.33	33,120.16	18,015.17	54.39	

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Explanation for variance

- 1 - Expenditure in previous year includes Website development work not incurred in 2013-14.
- 2 - Expenditure includes contribution to Scottish Commissioner's Office for publication work.
- 3 - Expenditure in prior period relates to decorating costs incurred in compliance with lease etc.
- 4 - Expenditure incurred in undertaking a joint residentials with Funky Dragon
- 5 - Expenditure incurred on research projects.

6 - Expenditure incurred on holding Looked After Children's event.

7 - Expenditure incurred with research contractor/tool to provide research work on specific projects.

Review of the Children's Commissioner for Wales

Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

3 November 2014

Dear Mr Millar,

Thank you for your letter of 23 October. I am aware of the recent Public Accounts Committee scrutiny of the Children's Commissioner for Wales' accounts, and have had an opportunity to review the transcripts. I very much welcome the recent exercise and, indeed, the proposal that such sessions with Wales' commissioners should take place on an annual basis.

As part of the review process, I was asked to consider the remit and impact of the Children's Commissioner for Wales and, in so doing; I have considered the current structure of the Commissioner's office. I hope that the observations and recommendations I make in my final report (due to be with the Minister for Communities and Tackling Poverty in December) will be of interest to the PAC.

Thank you also for bringing to my attention some broad context about the relationships between the Welsh Government and commissioners. The issue of appropriate financial (and other) relationships between the parties is an important element of the work of the review.

Yours sincerely,



Mike Shooter
Review of the Children's Commissioner for Wales

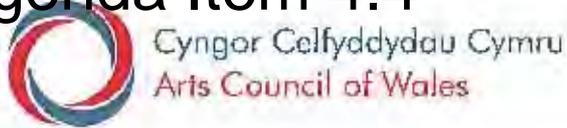
Children's Commissioner for Wales Review Team /
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Agenda Item 4.4



National Assembly for Wales
Public Accounts Committee
PAC(4)-28-14 ptn4

29 October 2014

Mr Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Dear Mr. Millar

Public Accounts Committee hearing 13 October 2014 – additional questions

Thank you for your letter of 23 October on the above. I'm pleased to attach answers to the additional questions that the Committee wished to ask.

If I can be of further assistance, please don't hesitate to contact me.

*Yours sincerely
Nick Capaldi*

Nick Capaldi
Chief Executive

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WEDDING: HOWA R PHEG & PLAIL
INVESTIGOL IN FIDURFF

Swyddfeydd Lleol/Local Offices:

Caerdydd/Cardiff, Bae Colwyn/Colwyn Bay, Caerfyrddin/Carmarthen
Rhif Elusen Gofrestredig/Registered Charity Number: 204204

Arts Council of Wales
Public Accounts Committee Monday 13 October 2014
Additional Questions

1. The annual report notes that cuts to grant-in-aid, and cuts to Local Authorities could have consequences on the arts infrastructure in Wales. Is the Arts Council likely to become the sole funder of key arts projects which could then limit its other objectives?

This is a risk, but a risk that Council has anticipated. It has agreed, as a clear statement of policy, that it won't 'make good', or replace, cuts in partner funding (including local authorities). Indeed, in many cases Welsh Government funding cuts mean that the Arts Council is also itself having to reduce funding to key arts projects.

If a local authority funding partner withdraws support completely, then the Arts Council could, potentially, be left as the sole funder. However, as the Arts Council has committed to not replacing lost funding, this shouldn't translate into an additional funding burden and wouldn't limit investment in other Arts Council objectives.

Should the Arts Council find itself in the potential position of sole funder, we'd look with particular care at whether or not an organisation would:

- a. remain financially viable and sustainable on a reduced revenue base;
- b. be able to maintain the quality of activity; and
- c. be able to demonstrate that (the presumably reduced) activity/outputs still represented value for money

It's important to note that there are a small number of revenue funded organisations (RFOs) where we are already the sole revenue funder. These are Wales' national companies – Literature Wales, National Dance Company Wales, National Theatre Wales, Theatr Genedlaethol, and Wales Millennium Centre. (The exceptions are BBC National Orchestra of Wales, which is jointly funded by the BBC, and Welsh National Opera, whose activity in England is funded by Arts Council England.) This reflects a long-standing unwillingness to invest local taxpayers' funds in organisations that are deemed to have a national and international remit.

Although slightly beyond the remit of this question, we'd wish to draw to the Committee's attention nationally significant arts organisations currently in local authority ownership and management. Examples would be Flintshire County Council's management of Clwyd Theatr Cymru, and Cardiff Council's ownership of St. David's Hall.

Flintshire County Council 'inherited' funding responsibility for Clwyd Theatr Cymru – one of the country's most important theatre producers – during a previous round of local government reorganisation. The Council has been a steadfast supporter of the theatre over many years. However, as budget pressures bite, the challenges for a medium sized Welsh local authority such as Flintshire become more pronounced. Once Flintshire has accounted for its statutory responsibilities, and those areas over which it has no discretion, the Council's room for manoeuvre is significantly reduced.

Financial pressures are no respecter of size, and similar challenges are faced by even the largest local authorities. Cardiff Council invests significantly in the funding and management of St. David's Hall, an unique facility and Wales' national concert Hall. In both of these cases the financial burden falls entirely on the 'home' authority, although their benefits are enjoyed by taxpayers across a much wider geographical area.

Such examples of genuinely national provision are relatively rare, but the underlying issues are becoming urgent. We'd therefore like to suggest that a bespoke funding arrangement for national provision is examined as part of the negotiations around the implementation of the Williams Review.

2. The Arts Council receives funding from, and reports to, Welsh Government, the UK National Lottery as well as managing charitable donations. How does the Arts Council reconcile these different reporting roles while remaining ultimately responsible to Welsh Government?

We account, and report separately, on our General Activities (which includes Government grant-in-aid) and our Lottery Activities. We're therefore required to report and account separately for the funds we receive, and we have appropriate arrangements in place to ensure we produce two sets of published financial accounts. Our Chart of Accounts enables accurate analysis against the relevant funding streams. We also submit an annual return to the Charity Commission.

Our General Activities accounts are audited by the Auditor General for Wales. Responsibility for the audit of our National Lottery distribution sits with the Comptroller & Auditor General and the National Audit Office (the C&AG's audit team). He arranges for Wales Audit Office to undertake the audit on his behalf, to ensure consistency of scrutiny across both of our funding functions.

The financial directions for Lottery Distributors are issued by the UK Government's Department for Culture, Media and Sport (DCMS). The Welsh Ministers issue our Lottery Policy Directions, which set out how we must operate in respect of Lottery Distribution activities. These were most recently updated in October 2012.

Managing Welsh Public Money provides the framework that sets out the terms and conditions under which we operate. Welsh Ministers provide our grant-in-aid funding, and specify how we're able to use this funding. Details of our annual funding, and the expectations that the Welsh Government has of us, are set out in the Annual Remit Letter from our Minister.

Our General Activities Account contains details of all our non-Lottery activities. These accounts are produced in the format prescribed by the Charity Statement of Recommended Practice (SORP). In the event that a funder or donor provides funds for a prescribed purpose, they're treated as restricted funds.

Note 15 in our 2013/14 Accounts contains details of restricted funds, including two amounts which have been bequeathed to the Arts Council of Wales. As a charity we have to ensure we comply with the requirements of the Charities Acts, and follow guidance issued by the Charity Commission.

3. **The original intention of the National Lottery was that it would be additional to government spending, and that it would not be used to replace government funded activities. How do you ensure that this is achieved?**

Council considers these matters as part of our budget setting processes each year. We often talk of a single strategy supported by multiple sources of funding. By ensuring that Lottery funding complements – but does not replicate – Government funding we believe that we're able to enhance the value of taxpayers' investment.

The DCMS has defined the principle of 'additionality' as not allowing Lottery funding to "become a substitute for funding that would normally fall into mainstream Government spending"¹. This is the key distinction that informs Council's deliberations.

This means that grant-in-aid funds are used to support:

- ongoing year-round activities of our RFOs
- strategic grants and contracts for projects or initiatives (typically those which build strategic partnerships with other agencies that lever new resources into the arts)
- research, advocacy and public events that are part of our routine programme of activity

And Lottery funds are used to support:

- our open to application funding programmes
- Capital projects and public art
- Film development and production
- time-limited developmental projects

Our Lottery funding guidelines state very clearly that applications must be for activity that is additional – applicants must explain how this is the case.

4. **Do you intend to follow the lead by the Arts Council England to use lottery funds to fund activities previously funded by grant-in-aid?**

At this moment in time, 'no', although given the year-on-year cuts in Welsh Government funding, Council will probably wish to keep this question under review.

The issue was last discussed at a Council meeting earlier this month. Council reaffirmed that it didn't plan to follow the lead of Arts Council England.

¹ <http://www.publications.parliament.uk/pa/cm200304/cmselect/cmccumeds/196/19611.htm>

We're aware that Arts Council England is now funding a significant proportion of its National Portfolio Organisations (England's equivalent of our RFO portfolio) from Lottery funds. This is not a policy that Council wishes to replicate.

In a limited number of instances Council has, in previous years, concluded that a specific organisation or particular aspect of funding would be more appropriately funded through the Lottery.

Examples would be where we're delegating a funding responsibility (such as with Ffilm Cymru); where we're self-evidently funding programme development rather than year-round costs; or, where we're addressing an inconsistent approach to policy (such as where we've aligned support for festivals with other areas where funding is time-limited to specific projects).

Council has chosen not to follow England's recent change in funding policy because:

1. We adopt a more cautious interpretation of the funding flexibility allowed by Lottery legislation
2. Lottery funding has enhanced the value of grant-in-aid by enabling us to significantly extend the range and amount of activity that we have been able to support. In particular we've been able to extend high quality arts opportunities more widely across Wales, often reaching into localities that were previously less well served by established organisations. We want to maintain our ability to fund this activity; an ability that would be diminished if established organisations took a greater proportion of the funds
3. There can be no guarantee that levels of Lottery funding will remain the same. They may well decrease (given the impact of higher ticket prices and the growth of online competitors). Should that happen the pressures inherent in 2 above become more acute, to the potential detriment of the arts across Wales

5. **Given that certainty over grant-in-aid is limited to one year, what medium and long-term planning is it feasible for the Arts Council and its grant recipients to carry out?**

The annualised grant-in-aid funding basis undoubtedly does affect our ability to plan ahead. However, we have, for some years, prepared medium term financial projections, covering both main funding streams.

In the case of our grant-in-aid, planning is informed by our annual Remit Letter which typically contains details of funding for "year 1" along with an indication of funding for the following year (sometimes two years).

We have greater flexibility with our Lottery funds, where we aren't restricted to operating on an annualised basis. However the nature of the Lottery means we have less predictability in terms of income.

Our arts development strategies will typically take a five year view. We believe in long term planning and value of more extended partnerships that can deepen and mature.

We have therefore sought, with the support of our Welsh Government sponsor division, to use sensibly the year-end flexibility that does exist.

When appropriate, we have submitted a business case to carry forward funds beyond the normal 2% limit placed on non-Lottery funds. Used judiciously, this helps us mitigate the disruption of unexpected shocks (such as an in year funding cut) and enables us to "smooth" the impact of funding across two years.

This has allowed us to plan for, and respond to, initiatives we know will extend beyond one financial year, or where we anticipate a cost "spike" in the following financial year. It can also help avoid year-end pressure where supply and demand may affect prices.

The main benefit, we believe, is that it has given us a degree of flexibility in our dealings with the arts organisations and with delivery of our strategic initiatives. Many of our strategic initiatives involve other partners and are subject to external factors which can affect timing. Year-end flexibility helps overcome these practical issues without detriment to the project.

A number of the organisations we fund necessarily have to work on planning and booking horizons that extend beyond one year. Being able to have an indication of financial settlements beyond the immediate next year would help them to plan and operate more effectively. However, the fact that we're unable to make firm commitments other than on an annualised basis continues to create uncertainty.

6. How has the Arts Council considered collaborating with other Welsh public bodies, and with grant providers across the UK, to save costs?

There have been a number of examples where we've collaborated with other organisations. In all cases we seek to strike the right balance between making best use of resources whilst also ensuring, when applicable, that our own identity, priorities and accountabilities are maintained.

Examples include:

- our Pension scheme – which dates back to our predecessor organisation, Arts Council of Great Britain - is a collaboration between the Arts Council of England, Creative Scotland and three other smaller organisations. It enables us to pool specialist expertise, pension administration and to deliver a cost effective solution
- the Public Sector Broadband Aggregation project, where we take advantage of a pooled approach to IT infrastructure managed on a collective basis across the public sector in Wales
- Academi Wales and the Welsh Government's *Eliesha* programme of learning which we used for a range of training and professional needs. We've also collaborated with Big Lottery on specialist joint training
- we have signed up to the Welsh Government's *National Procurement Service*. This provides us with access to some of the established framework agreements, the opportunity to join new agreements as they're developed, whilst still allowing us the flexibility to select our own suppliers when they offer us with better value for money or more tailored solutions

- the UK Arts Councils network allows us to collaborate on joint projects that deliver enhanced benefits to Wales. Current examples where Wales is a net beneficiary include the Cross Border Touring scheme and the Family Friendly Arts Campaign
- we will be partnering with the Welsh Government and other public bodies on joint survey and research work

The WGSB Directors of Resources Group has worked on a collaborative basis for some time. The Group seeks to share and promote best practice and new initiatives; to explore opportunities to collaborate where appropriate; and to share solutions for management of common risks, business continuity and succession planning arrangements. A recent example is the reciprocal arrangement by which representatives of the Audit Committees of the Arts Council and HEFCW attended each other's meetings.

7. Would sharing accommodation or staff with another public body be feasible?

We currently lease offices in three locations – Cardiff Bay, Colwyn Bay and Carmarthen. In the case of the latter, we relocated to a smaller office accommodation, renting office space from Carmarthenshire Association of Voluntary Services. We'll review other office facilities as the leases expire or come up for renewal.

The nature of our quite specialised work makes it less practical to share staff. "Back office" activities are where most organisations look to achieve savings. However, having automated a number of our administrative processes and implemented previous programmes of cost reduction, current overall costs are relatively minor. For example, the combined cost of our Finance, ICT, Facilities and HR functions is approximately 0.8% of our total grant-in-aid expenditure.

We have well-established processes for reviewing business efficiency. We balance the ongoing need to identify savings against potential loss of flexibility and responsiveness, cost of arranging outsourcing, of administering and managing the arrangement, and the impact on our internal controls. This is, however, an area we keep under review.

8. Are you satisfied that the Council has sufficient capacity, in terms of skills and experience, to undertake its governance role fully, and is not unduly encumbered by conflicts of interest?

Members of Council are appointed by our Minister. They are recruited through an open appointments process conducted according to Nolan rules. Council members bring specific expertise and knowledge to the oversight and development of our activities. Appointments are usually for a three year term renewable a maximum of twice, dependent on review. This allows time for members to become familiar with our work whilst also enabling the rotation of members.

Council's expertise and authority is enhanced on its Committees through the involvement of independent non-executive members. For example, our Audit Committee includes two independent members and the Committee's meetings are intended by representatives of our internal auditor, Deloitte, and the Wales Audit Office. The Committee's scrutiny is informed by a comprehensive Corporate Assurance Framework.

All members (and staff) are required to adhere to our Code of Best Practice. This helps ensure that roles and responsibilities of members and officers are clearly defined. It also contains the standards of propriety expected of members and staff. It is a system which, to date, has worked well.

The very highest standards of propriety and probity, both actual and perceived, are expected of members at all times. Members of Council, as Charity Trustees, are precluded from pecuniary gain direct from the Arts Council. The only remunerated position is that of Chair, an arrangement endorsed by the Welsh Government and formally approved under Charity legislation and by the Privy Council.

Declarations and potential conflicts of interest are meticulously noted and recorded. Members and staff are required to complete an annual Declaration of Interest statement and to ensure changes are promptly notified. Declarations of interest are a standing item at the beginning of all Council and Committee meetings and any funding decision meeting.

Council's authority depends on its ability to attract significant individuals with the highest quality of knowledge and expertise on the arts in Wales. This means that such individuals might well be active in the arts.

Council members must absent themselves as a matter of course from discussion of any funding decision in which they have an interest.

General discussions of policy and strategy are more a matter of discretion. If an interest that has been declared is sufficiently substantial as to cause reasonable doubt in the minds of the public about the individual's ability to make an impartial decision, the meeting Chair may rule that the individual concerned should take no part in the discussion. In such a case the minutes of the meeting will note the point at which the individual concerned left and re-joined the meeting.

A comprehensive Annual Governance Statement is included in our published annual accounts.

9. The Committee notes there has been criticism in some sections of the media of some awards by the Arts Council of Wales. What process do you use to formulate and publicise your awards criteria?

We expect to be held to account for our actions and funding decisions. And over the past eighteen months there have been a very small number of critical stories placed in the media. In each case we have corrected inaccuracies and/or explained the fuller context for the work in question.

Given that we fund 69 RFOs and process around 1,300 funding applications each year we receive very few complaints. And in an independently conducted survey (which included both successful and unsuccessful applicants) nearly 80% of respondents felt our application process to be fair.

Funding programmes reflect the priorities and objectives in our arts strategies. These strategies are subject to extensive public consultation. Funding programme guidelines and criteria are set out in full on our website. They emphasise quality, financial viability, track-record and organisational competence. We also provide telephone advice and face-to-face funding surgeries. Our funding advice sessions take place across Wales.

The demand for funding routinely outstrips the available funds. Sometimes this means that we have to turn down good applications for no other reason than the lack of funds. This means that funding is allocated to those applications that present the most persuasive case for support.

10. Do you select target groups, and if so how do you ensure that awards to target groups are effective?

In terms of target groups, we predominantly focus on sections of the population, or community groups, who are under-represented as beneficiaries of our funding. These are typically attendees or participants who are in the lower socio-economic category groups.

We publicise these targets in our arts strategies and our funding guidelines and we try to support those projects that we believe are best placed to deliver the desired outcomes. We measure our progress against the evidence that's collected through the independently compiled annual Adult and Children Omnibus Surveys. These measure participation using standard socio-economic categories.

According to the Omnibus Survey, between 2006 and 2013 adult participation has increased by 9.8 percentage points. Between 2008 and 2013 participation by children and young people has increased by 3.1 percentage points. There have been encouraging increases in participation amongst the most disadvantaged socio-economic groups, narrowing the gap with their better off comparators.

We also target particular groups of people in a more focused and specific way and conduct detailed research and evaluation as an integral part of the project. An example of this approach would be our *Reach the Heights* programme, evaluated independently by Arad Consulting.

Reach the Heights was a Welsh Government-led initiative aimed at reducing the number of young people in Wales aged 11-19 years who were not in education, employment or training (NEET), or who were at risk of being so. The part of this programme managed by the Arts Council between 2010 and 2013 reached 8,784 participants, of whom around 500 had declared disabilities. Most participants had no qualifications.

As a result of *Reach the Heights*, 196 participants gained formal qualifications, 896 embarked on further education and some 3,530 gained other positive outcomes. (The term 'positive outcomes' is not defined in Welsh Government reports; however, our final evaluation by Arad Consulting provided case studies and insights in participants' and arts organisations' own perceptions of what had been achieved.)

The Arad report concluded that our *Reach the Heights* programme had:
"...clearly delivered against the goals of Arts Council of Wales'
Young Creators Strategy and *Child Poverty and the Arts Agenda*.
The programme has met key goals of '*widening participation in the arts and enabling young people to achieve their creative potential*' as well as '*supporting new, innovative ways of engaging our most disadvantaged and disaffected young people.*'

At a wider Welsh Government level the Programme has also contributed to key aims of the *Child Poverty Strategy* such as improving the skills of young people living in low income households."

11. Does your award decision consider how likely it is that the recipient can eventually become self-funding?

Yes, but the extent to which a grant recipient can become self-funding depends on the category and type of funding and the outcomes that we're trying to achieve through that funding.

There are two factors in-built to our funding programmes that reduce dependency on public support. The first is partnership funding, the requirement to demonstrate that public funds are not paying for the totality of a particular activity. The second is the competition for funds. We're never able to support **all** of the projects that come to us for support, no matter how good they might be.

For example, the average success rate across our funding schemes in 2013/14 was 65%, with success rates dropping to as little as 23% for particularly over-subscribed schemes. It would be a very unwise organisation that based its business strategy on ongoing Arts Council support.

That said, some individuals and organisations have applied more than once for support. In assessing these applications the 'additionality' criteria apply; we also look to see the extent to which funded activity will reach new audiences and/or whether a grant recipient has been able to develop new markets for their work.

The latter approach can be seen particularly in the awards that we make for training, professional development, touring and international exchange. In the case of training and development, the development of new skills will often be the impetus that improves the quality and marketability of a piece of work.

Our Touring support has a dual role – to bring high quality work to audiences across Wales, and allowing arts companies to develop their portfolio of work. For example, Clwyd Theatr Cymru's production of Dylan Thomas' *Under Milk Wood* is now touring internationally, earning a commercial return for the company and promoting the creative reputation of Wales overseas. Indeed, for those exploring international opportunities, this can be the springboard to establishing a more viable career independent of Arts Council support. Many of our most successful artists from Katherine Jenkins to Michael Sheen owe their early development to the funded arts in Wales.

In some instances, becoming self-funding is not an explicit outcome of our funding, although we're always encouraging artists and arts organisations to reduce their dependency on public funding. The obvious example here would be our RFO portfolio.

RFOs are our most important arts development partners, delivering high quality arts activity across Wales. We believe that an important aspect of public investment is the impetus to develop new audiences and to reach into places not previously touched by the arts. Some RFOs could undoubtedly become more self-funding and market orientated. But one of the principal functions of public funding is to address what the market fails to provide – the choice and quality of programme, the affordability of ticket prices, the ability to lever in other income and the ability to engage in cultural and social developmental activity such as work to engage under-represented communities. We do, also, expect RFOs to manage their affairs effectively, and in 2013/14 Arts Council revenue support represented just 27% to the RFO portfolio's total income.

12. If a recipient is unlikely to become self-funding does that indicate some will become permanently reliant on Arts Council grants?

No grant recipient can depend on being permanently reliant on Arts Council grants, for the reasons set out in 11 above. Without strong delivery against agreed outcomes, the Arts Council will not provide funding.

This applies even to our RFOs, our most established arts development partners. Our RFO portfolio is reviewed on a regular basis. In the early 2000s, Arts Council of Wales was funding well over 100 RFOs. That figure is now 69. All organisations are aware that public funding is not an entitlement – it has to be earned.

We have clear, published criteria that we use to guide our funding decisions. They reflect our priorities around quality, reach, relevance, impact, financial viability, value for money and organisational competence. We offer no guarantees about continued funding. If an organisation can demonstrate strong performance against these criteria then it is likely that it will be able to present a strong case for support. Proposals will then be considered on the individual merits of the application, and in comparison with the other projects that are also seeking support.

Nick Capaldi
Chief Executive, Arts Council of Wales

29 October 2014

Yr Adran Iechyd a Gwasanaethau Cymdeithasol
Cyfarwyddwr Cyffredinol a Prif Weithredwr, GIG Cymru

Department for Health and Social Services
Director General and Chief Executive, NHS Wales

Agenda Item 4.5



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair
Public Accounts Committee

Our Ref: AG/KH

04 November 2014

Dear Darren

BCUHB Escalation Status

I am writing to inform you of the Escalation and Intervention arrangements in Betsi Cadwaladr University Health Board.

Following a tripartite meeting between the Welsh Government, Wales Audit Office and Healthcare Inspectorate Wales, on Friday 31st October, to discuss Escalation and Intervention arrangements in BCUHB, it was felt that the health board needed support to ensure it was able to address the challenges it faces. At the meeting it was agreed that the escalation status should be raised to the category of 'Targeted Intervention'. It was necessary to agree this approach with the Minister for Health and Social Services and as a result yesterday Simon Dean wrote to the health board to inform them of the decision.

The aim of this intervention is to provide help and support to the health board by ensuring that plans are developed which will address their challenges with urgency; and that capacity to deliver the necessary actions is put in place quickly.

I appreciate that it is not the normal practice to write to the Committee on the day of an evidence session, but I felt that providing the Committee with some advance notification of the action taken yesterday, following the meeting with regulators, would help inform the discussion. I will, of course, be happy to provide more detail at the Committee session.

Yours sincerely

Dr Andrew Goodall



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Agenda Item 4.6

National Assembly for Wales
Public Accounts Committee
PAC(4)-28-14 ptn6

Y Pwyllgor Cyfrifon Cyhoeddus Public Accounts Committee

Dr Andrew Goodall
Director General, Health and Social
Services
Welsh Government
Cathays Park
Cardiff CF10 3NQ



6 November 2014

Dear Dr Goodall,

Thank you for attending the Committee's meeting on Tuesday to discuss NHS Governance arrangements following our inquiry into Betsi Cadwaladr University Health Board. As you might expect, the Committee were very disappointed to learn at very short notice that the Welsh Government, Wales Audit Office and Healthcare Inspectorate Wales had agreed that BCUHB required an escalation in its support to Targeted Intervention.

A particular issue that you mentioned as contributing to this decision was the Board's prediction that its expenditure would exceed its financial settlement for the present year. When you appear before the Committee again on 11 November we will want to explore this issue further, and what the current financial position is for all health boards in Wales.

The Committee will also want to better understand the additional resources for health boards in 2014-15, announced in the Welsh Government's Draft Budget. This would include how they will be allocated between boards and the purpose of this funding - that is, whether it constitutes additional resource for additional activity or if it is being provided to meet existing shortfalls in allocations, as identified by boards' projections for in-year expenditure.

If the funding is to meet existing needs, the Committee would want to understand whether the announced funding will be adequate, given we are already aware of BCUHB's projection. We would also want to understand whether this is creating a potentially unsustainable demand on the Welsh Budget.

Yours sincerely,



Darren Millar AM

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Croesewir gohebiaeth yn y Gymraeg a'r Saesneg / We welcome correspondence in both English and Welsh

Chair

Agenda Item 5

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

PUBLIC ACCOUNTS COMMITTEE – 11 NOVEMBER 2014.

Wales Audit Office Report - NHS Wales: Overview of Financial and Service Performance 2013-14.

Note from the Director General Health and Social Services.

Introduction

The Welsh Government welcomed the Wales Audit Office report NHS Wales: Overview of Financial and Service Performance 2013-14 which was published on 14 October 2014. The report is the third report in consecutive years to report on the financial and service performance of the NHS.

The report provides a detailed assessment of the financial position across NHS Wales in 2013-14 and also looks at performance in the delivery of services focusing on those areas that the Department has identified as a priority.

It is pleasing to note that the report acknowledges the Department has further strengthened its financial management arrangements and also recognises the good work that continues in delivering savings, although it acknowledges this is becoming increasingly difficult. Furthermore the report comments on the excellent work that has been done to promote medium term integrated planning.

Financial Performance

In 2013-14 the Department successfully managed to outturn within the overall resources approved by the National Assembly for Wales. This was a considerable achievement when we consider the significant service and financial pressures facing the NHS and the increasing demands being placed on the Welsh Government's health and social services budget.

However, whilst the Department achieved financial breakeven, additional resource was not provided to those NHS bodies which were unable to get close to a breakeven position and consequently three NHS bodies received a qualified regularity audit opinion on their accounts. The decision not to provide additional resource was intended to send a clear message that missing financial targets would have consequences and those that significantly overspent would not be rewarded with additional funding in the future.

The current and on-going management and monitoring arrangements of the NHS financial position will be directly linked to the integrated service plans provided at the start of the financial year. The NHS Finance (Wales) Act 2014, which came into force on April 1 2014 gives health boards the flexibility to manage their finances over a three-

year period and it provides them with a real opportunity to plan more prudently and avoid inappropriate short-term decisions being taken at the end of the financial year. Although not all health boards were able to obtain Welsh Government approval of three year integrated service plans for the period 2014-15 to 2016-17 we have been working closely with all organisations to ensure the next round of plans covering the period 2015-16 to 2017-18, due to be submitted by the end of January 2015, will show an improvement in the quality and robustness of those plans.

The Committee will be aware of the independent report of the Nuffield Trust published in June of this year which provided a detailed assessment of the demands and pressures facing the NHS in Wales and quantified the significant funding gap the NHS would face going forward.

The report also commented on the measures the NHS has already taken to close the funding gap and those it must continue to take in the short and medium term.

To maintain a sustainable NHS under continued public austerity pressures, the report informed the announcement made by the Finance Minister on 30 September of the proposal to provide the Health and Social Services department with an extra £200 million in the current year and an additional £225 million in 2015-16. This funding will support the continuing delivery of services and provide the flexibility to enable the NHS to continue its programme of reform.

Delivery Performance

I am pleased to note that the report recognises the NHS is meeting its new targets on childhood vaccinations, access to primary care and in reducing the number of patients admitted to hospital as a result of chronic conditions. They are evidence that the NHS in Wales is moving towards caring for patients closer to their home in line with our strategic direction for the service. We also recognise there are areas of performance we need to improve on. We will continue to work with the NHS to ensure we focus on that improvement.

Reports Recommendations

The report concludes with 4 recommendations which have all been accepted and I have attached the Welsh Government's initial response in relation to each (Appendix 1). Many of the observations and recommendations are consistent with actions the Department is already undertaking. I also thought it would be helpful to provide the Committee with an update to the recommendations it made in its report on WAO's previous report 'Health Finances 2012-13 and Beyond' published in March 2014, which is also attached at Appendix 2.

WAO Report: NHS Wales: Overview of Financial and Service Performance 2013-14

Recommendations and Welsh Government responses

Recs No	Recommendation Summary		Progress / Update
1 Pack Page 114	<p>During the second half of 2013-14, the Department was managing a very difficult financial situation with a real risk that the NHS bodies would deliver a deficit that the Department could not afford to cover. During this period, the Department was receiving different projections and mixed messages from within some NHS bodies as to what the final position would be.</p> <p>In future, the Department should ensure that all NHS bodies produce a single projected year-end position that is owned and agreed by the Chair, Chief Executive and Finance Director of each NHS body.</p>		<p><u>Accept</u></p> <p>The importance of ensuring robust and well informed forecasts has been re-emphasised to all NHS organisations. This has been done through the Chief Executives meetings and relayed directly to the NHS Finance Directors.</p> <p>Furthermore the monthly detailed monitoring returns submitted to the Welsh Government, which includes the latest year end forecast outturn, are supported by a written commentary signed by both the Chief Executive and Director of Finance.</p>
2	<p>Across Wales, NHS bodies face a number of challenges managing their estate and other assets such as ICT and medical equipment against a backdrop of reducing resources. The Department is currently implementing plans to improve the prioritisation of capital expenditure across Wales.</p> <p>The Department and NHS bodies need to ensure that for capital expenditure:</p>		<p><u>Accept</u></p> <p>Following the submission of their Integrated Medium Term (IMPT) Plans at the beginning of the 2014-15 financial year, organisations were requested to provide a list of prioritised capital schemes in a letter from the Deputy Chief Executive of the NHS on the 29th of May 2014. The commission included details of four Ministerially agreed investment objectives along with five investment criteria covering health gain, affordability, clinical & skills</p>

Recs No	Recommendation Summary		Progress / Update
	<ul style="list-style-type: none"> • NHS bodies clearly identify their capital expenditure needs based on their three-year plans and these are supported by robust approved business cases which set out the capital and revenue implications along with the impact on services; and • the Department will need to ensure it develops and improves the strategic capital programme based on the planning priorities and investment objectives agreed in the three-year plans. 		<p>sustainability, equity and value for money. These returns were requested to be submitted by the 27th of June 2014.</p> <p>An expert panel has met three times to date to consider the returns received from organisations. The intention being to identify a pipeline of schemes which show clear alignment to the organisation's IMTP and that sufficient evidence has been provided against the investment criteria.</p> <p>The expert panel is due to meet again in early November with a view to providing recommendations to the Minister later in the month.</p>
3 Pack Page 115	<p>The introduction of three-year integrated planning across NHS bodies is a significant and positive step forward. As would be expected with a new approach, some aspects could be further strengthened.</p> <p>In its updated guidance on three-year integrated planning, the Department should require that NHS bodies:</p> <ul style="list-style-type: none"> • undertake sensitivity analysis, showing how changes in their assumptions including finances, demand, and workforce would impact on their plans; and • develop high-level contingency plans setting out how they intend to respond should performance depart from the agreed plan. 		<p><u>Accept</u></p> <p>The revised NHS Planning framework, issued to the service on October 31, includes sections detailing the Welsh Government's expectations of the plan development and approvals process.</p> <p>Both require Health Boards and Trusts to undergo a thorough process, including sensitivity testing and putting in place contingency plans. There is also a section at the end of the document detailing governance expectations.</p>

Recs No	Recommendation Summary		Progress / Update
Pack Page 116 4	<p>Overall the Department is making reasonable progress in implementing our previous recommendations. However, there are two areas where progress has been slow.</p> <p>The Department should strengthen and increase the urgency around:</p> <ul style="list-style-type: none"> • the challenge it provides to NHS bodies on the reported workforce savings and the scale of workforce changes; and • facilitating NHS bodies to share learning and lessons from successful (and unsuccessful) efforts to deliver sustainable service improvement and, where relevant, cost reductions. 		<p><u>Accept</u></p> <p>The refreshed Planning Framework, issued on October 31, covering guidance on planning requirements for the period 2015-16 to 2017-18 includes refreshed and updated workforce savings templates which will provide additional analysis required for effective challenge. Separately and in addition to this, the message concerning realistic and integrated savings plans for workforce has also been conveyed to the Directors of Finance group, with further messages to HR Officials to ensure improved manpower planning.</p> <p>In terms of facilitating learning and lessons from delivering sustainable service improvement and cost reductions the Directors of Finance group have set up a newly constituted sub group ‘the Sustainability and Delivery group’ to specifically focus on the sharing of good practice and savings schemes.</p>

**RESPONSE TO THE NATIONAL ASSEMBLY FOR WALES PUBLIC
ACCOUNTS COMMITTEE REPORT ON HEALTH FINANCES 2012-
2013 AND BEYOND.**

Report Published 6 March 2014

The Welsh Government welcomes the findings of the report and offers the following response to the reports 12 recommendations.

Recommendation 1.

The Committee recommends that the Welsh Government publishes a clear rationale for funding allocations of additional in year resources to NHS bodies. This would allow greater transparency and clarity in budgets and help to ensure that the resources are being allocated appropriately and value for money.

Response:- Accept

The Welsh Government is fully committed to greater transparency and clarity of budget allocations and the rationale that supports them. For example the health minister made a statement in October 2013 clearly setting out the process and rationale for the additional allocation that was provided in 2013-14.

Furthermore following the enactment of the NHS Finance (Wales) Act and the introduction of new and more robust planning arrangements that underpin it, Health Boards will have certainty and total clarity of their budget allocations covering the planning period. Any additional financial flexibility provided under the authority of the NHS Finance (Wales) Act will only be provided when the request is supported by a clear business case outlining the reasons for and how the additional resources will be used. Similarly any further allocations made in year will be underpinned by a clear and transparent rationale on how the funding will be deployed and the outcomes that are required to be delivered.

Implementation date: *Actioned and on-going*

Update as at 5 November 2014

As part of the draft budget announcement made on 30 September the Finance Minister announced an additional £225m for the Health and Social Services MEG in 2015-16 and £200m in the current financial year. The Health Minister made it clear in the budget documentation and subsequently whilst attending the Health and Social Services scrutiny Committee session, that the additional funding in 2015-16 would be allocated in accordance with the Townsend Formula and with reference to the NHS bodies integrated medium term plans. During the current financial year the additional funding will be allocated in accordance with the requirements as set out in the individual case reports of the Health Boards. This

supports a clear rationale to provide funding on the basis of identified need supported by evidence contained within the integrated service plans.

Recommendation 2.

As recommended in the Committee's previous report, we recommend that the Welsh Government hold senior management to account more rigorously, to ensure transparency for financial decisions. In particular, the Committee want to see a thorough process put in place to ensure accountability for any additional in year resources provided by the Welsh Government or other NHS bodies for specific purposes such as brokerage.

Response:- Accept

The Welsh Government fully endorses the need to hold senior management to account. The Committee will be aware that the Welsh Government has worked closely with the WAO and HIW to establish a new escalation and intervention framework. This framework includes the action to be taken where delivery and performance is falling short of expectations. This may involve a range of actions from simple assurance reviews to fully directed intervention.

Officials meet monthly with Health Boards and Trusts, as well as receiving detailed monthly returns to establish if the organisation is delivering in accordance with its plan. This is supported by policy area specific meetings as required. The intelligence from these meetings is collated via monthly Integrated Delivery Board meetings held within Welsh Government. This Board uses both data and local intelligence to determine the appropriate escalation level and any associated interventional actions required to ensure performance returns to agreed trajectories. This process also involves a more integrated approach to the performance management of Health services, better linking plans, priorities, finance and performance.

Senior managers are held to account through these new arrangements.

The new escalation and intervention framework can be found within the publications section of the Welsh Governments website.

Implementation date: *Actioned and on-going*

Update as at 5 November 2014

The Welsh Government continues to hold Health Boards and Trusts to account through the Performance Management structures. The approach has been amended slightly to reflect the new 3 year Integrated Medium Term Planning process, and as part of this, organisations are required to provide delivery profiles for key delivery measures. All organisations are required to attend bi-monthly Quality and Delivery Meetings to monitor progress against their submitted delivery profiles for in year-delivery. Where organisations are not delivering to profile, the frequency of these meetings can be increased to monthly, and additional theme specific meetings held to discuss areas of specific concern (for example Quality issues, Unscheduled Care or Planned Care)

Where organisations have agreed 3 year plans and are delivering in accordance with their profiles, then this could earn them some autonomy and the frequency of Quality and Delivery Meetings may become quarterly to reflect that performance.

It is against these profiles that they are held accountable, and any escalation is applied through the existing performance management structures. This escalation continues to be considered by the Welsh Governments Internal Delivery Board, which is supported by a new Quality and Safety Assurance Group which looks in detail at all matters that impact on the quality and safety of services being delivered.

In addition to the Quality and Delivery Meetings, there are 6 monthly Joint Executive Team Meetings held between the Executive Director Team in DHSS and the Executive Teams of NHS organisations, Chaired by the Director General/Chief Executive of NHS Wales. These are also a formal part of the accountability arrangements.

Following each round of JET meetings, a tripartite meeting is held with WAO and HIW under the NHS Joint Escalation and Intervention Arrangements published in April 2014. At these meetings, the 3 bodies share information and intelligence on each of the NHS organisations, and agree an escalation status as described in the joint Escalation and Intervention Arrangements. This escalation status for each organisation is made publically available. The first Tripartite meeting following the introduction of the arrangements was held in July 2014. Any of the 3 bodies may call a meeting to discuss any NHS Health Board or Trust if in the intervening 6 month period, it identifies areas of concern that it feels should be shared and discussed to consider a review of that organisations escalation status.

Recommendation 3.

The Committee recommends, in order to enhance transparency and accountability, the Welsh Government publish, the monthly financial position of NHS Wales in a timely and accessible fashion.

Response:- Accept

Detailed monitoring information, showing the actual position to date and current year end forecast information, together with appropriate commentary is provided to the Welsh Government each month within 9 working days of the month end. Considering the complexities and the level of detailed information requested this is considered to be a very efficient and timely submission process.

The monthly financial position of each NHS organisation is currently published as part of their monthly Board papers and although this information is already publicly available at an individual organisational level, it is the intention of the Welsh Government to also publish the collective position each month.

Further consideration will be given as to the most appropriate method by which this will be done.

Implementation date: July 2014

Update as at 5 November 2014

In order for the publication of the collective NHS financial position to be informative, the data would need to be accompanied by an appropriate balance of contextual narrative. Each NHS organisation will be facing their own particular challenges and the most suitable method by which to publish financial and non financial information, combined with other performance / planning information of NHS organisations remains under consideration.

Recommendation 4.

The Committee recommends that the Welsh Government considers how it presents future budgets to ensure that it fully explains - in budget tables and the accompanying narrative report - the impact of any substantial changes following the supplementary budget on year-on-year comparisons.

Response:- Accept

The Welsh Government is committed to continuously improving the presentation of Budget information with a goal of enhancing transparency and supporting the Assembly's effective scrutiny. In line with this, the Minister for Finance has worked closely with the Finance Committee in recent years to improve the transparency and presentation of budget material, including the best basis for comparing spending plans. As a result, the Welsh Government uses the most recently published figures for the previous financial year as a baseline.

The Welsh Government accepts however that the presentation of the health funding in the Draft Budget last Autumn did not fully reflect the impact of the in-year allocation to health announced alongside the Draft Budget. That is why the Welsh Government included a footnote to the comparable Table in the Final Budget, a step which has been welcomed by the Public Accounts Committee.

The Welsh Government will continue to look at ways of improving the presentation of Budget material including year on year comparisons, in future Budgets.

Implementation date: *Actioned*

Update as at 5 November 2014

To maintain clarity, the Welsh Government included a footnote again to the comparable tables published in the draft budget announced by the Finance Minister on 30 September 2014.

Recommendation 5.

The Committee recommends that local population needs, value for money and transparency are key considerations in the scope of the Review of the Allocation Basis and that no significant changes be made to the allocation

formula without full consideration of the potential impact of redistribution on local health services.

Response:- Accept

A commitment to review the basis of revenue allocation was given within the publication of "Together for Health" a five year vision for the NHS in Wales. The key requirement for the Resource Allocation review will be the equitable distribution of resources in line with the population needs. It is important to note that in developing an allocation formula the local population needs will be used to determine the relative not absolute health needs within Wales. The Welsh Government acknowledges that it is essential that the basis of the formula is transparent, understandable and reliable.

Previous allocation formula implementation has been based on the differential distribution of growth funding to those areas most under target so that no organisation suffered a reduction in their allocation. In the context of public finance austerity the implementation of the formula, including phasing of implementation, particularly around any redistribution, will necessitate full consideration of potential impact.

Issues of population needs, value for money and transparency are key considerations which need to be taken into account, in all matters of resource allocation.

Implementation date: December 2015

Update as at 5 November 2014

The Minister has met officials to discuss and agree the approach to the Resource Allocation Review Programme. It is acknowledged that the allocation formula needs to be kept under constant review and some changes may take some time to implement. However, in light of the clear recognised demographic changes, over the last few years, and those projected going forward, a number of short term goals and improvements will be prioritised to maximise benefits and to help achieve sustainable services in the short term. These include:

- *Reviewing and fine tuning the weaknesses and limitations in collection of information and applications of the current direct needs formula e.g. information collected through the Welsh Survey;*
- *Aligning allocations and the formula around the key strategic objective to shift resources in line with the prudent healthcare agenda and towards earlier prevention and treatment;*
- *Addressing problems in funding flows between NHS organisations and communities;*
- *A review of continued ring-fencing of allocations within integrated health organisations, including bringing forward the mental health ring fence review into 2014; and*

- *To develop other funding mechanisms and incentives to ensure that the transfer of care to appropriate primary and community services is achieved.*
- *To develop an on going Resource Allocation Review programme to maintain, update and further develop the formula to reflect latest evidence, population needs, financial and allocation data.*

The initial phase of this work is updating the “Townsend” direct needs formula with the latest available datasets on population, Welsh Health Survey, Cancer Registry, Programme Budget Costs, Births, Population and Age Cost Weights.. This update will inform the additional allocation of the £225m in 2015-16. The second stage of the work will be:

- *reviewing the validity of datasets against other potentially suitable datasets,*
- *assessing whether health inequalities and deprivation are appropriately addressed and recognised and*
- *whether differing demographics and changes in demographics sufficiently covered*

Recommendation 6.

The Committee recommends that the Welsh Government commission a piece of work to consider approaches to profiling potential pressures and how this can be used as an effective management tool within the NHS Wales.

Response:- Accept

This is being taken forward as part of the new Planning Framework issued in November 2013.

Historically Welsh Government has required Health Boards and Trusts to submit recovery profiles where performance has deviated below the required standard. In developing the new Planning Framework and Guidance for the Integrated Medium Term Plan (IMTP) process for 2014-2017, consideration was given to how delivery profiles could be used to support the effective management of health services. This is central to an approach whereby Health Boards and Trusts are robustly managed against their agreed plans.

All Health Boards and Trusts are required through the planning guidance to submit detailed delivery profiles for the full range of tier 1 performance areas as well as finance. These profiles will be used to performance manage the organisations from April 2014, and will form the basis of the performance management meetings within the National Delivery Framework. Performance against planned profiles will then be used to review organisations escalation status, in line with the new Escalation and Intervention Framework developed in partnership with Health Inspectorate Wales and Welsh Audit Office. This will be supported in year through regular meetings to discuss and share intelligence.

Implementation date: Actioned

Update as at 5 November 2014

As part of the planning process, all Health Boards and NHS Trusts are required to provide delivery profiles for the full range of performance indicators. The planning round in 2013/14 was the first time NHS organisations had been asked to provide this at the start of the year to demonstrate how their plan would be delivered. .

This has enabled performance management to focus on the delivery actions contained in Health Board Plans in the most rounded way, as opposed to focus on in-month delivery of a target performance level. This process has also enabled organisations to plan delivery and be monitored in a way that can reflect their proposed means of delivery, taking into account more transparently inter-dependencies within the system. For example, the way in which unscheduled care pressures and planned care services can impact on each other.

This has helped organisations plan delivery of services in a more holistic way, and ensures that performance management of delivery doesn't inadvertently promote the wrong behaviour and response.

Recommendation 7.

The Committee recommends that the Welsh Government sets out the process for agreeing the three year budgets for health boards and how this differs from current processes, as well as how it intends to resolve any disputes that may arise during this process.

Response:- Accept

The process for agreeing the three year budgets for Health Boards is intrinsically linked to the process for agreeing Medium Terms plans (covering finance, service, workforce performance, and quality), which was set out within the NHS Wales Planning Framework issued to all NHS organisations in November 2013.

There has been a strengthening in Medium Term Planning capacity at a Health Board and Trust level and an increase in the level of scrutiny undertaken within the Welsh Government. The plans submitted to Welsh Government are subjected to extensive multidisciplinary assessment, which is quality assured and augmented by other information available on the strength and maturity of planning arrangements within Health Boards and Trusts (including information held by the WAO and HIW).

A three year budget will only be approved if a plan robustly meets all of the requirements set out within the NHS Wales Planning Framework. Where the Welsh Government is not satisfied that requirements have been met by Boards of NHS organisations, it will set out the key improvements required, and develop a delivery agreement (for core performance, finance, workforce, and quality requirements) for the intervening period. This is described within the Planning Framework as the escalation process.

Implementation date: Actioned

Update as at 5 November 2014

The first year of the planning cycle saw four organisations have their integrated medium term plans (IMTPs) approved in line with the 2014/15 NHS Planning Framework and NHS Finance (Wales) Act 2014. Six organisations were held in an annual cycle with agreement on the key deliverables for 2014/15 and milestones for developing the 2015/16 IMTP outlined.

The delivery of approved IMTPs has been monitored through the current delivery and performance management framework. Where performance has varied from the agreed trajectories (performance or finance) the escalation process has been triggered.

The NHS Planning Framework has recently been revised, incorporating lessons learnt from the first cycle with a focus on being clearer on expectations and national requirements and clarifying the significance and consequences of approval and non approval of plans.

The 2015/16 NHS Planning Framework was issued on 31 October.

The planning framework sets out the expectations and criteria against which IMTPs are assessed. All organisations, including those already with approved IMTPs, are required to submit IMTPs by 30 January 2015. The IMTPs will again be subjected to a robust and rounded assessment process, building on the approach from last year but strengthened to include organisational visits and/or meeting to explore issues emerging from the assessment. Plans will only be approved by the Minister once areas requiring strengthening are addressed and a mutual agreement on delivery is reached.

Recommendation 8.

The Committee further recommends that given the risks of financial planning over 3 years, the Welsh Government should require:

- a) Fully balanced plans over three years for each Health Board with supporting detail***

- b) Collective financial planning showing how budgets will balance across the whole NHS every year (so as to stay within DEL)***

- c) Detailed contingency plans setting out how Health Boards will respond if planned savings from up-front investment do not materialise and / or there are additional cost pressures. These contingency plans should include an assessment of risks to patients/ services.***

Response:- Accept

In November 2013 the Welsh Government issued a revised planning framework which clearly set out what was expected to be delivered from the planning process. This included a requirement to show clearly within their integrated plans

how Health Boards intended to balance their finances over a three year period. The Welsh Government acknowledges that this may not always be possible at the planning stage and financial flexibility may need to be offered under the authority of the new NHS Finance (Wales) Act. The new process also requires the plans to be approved by the Welsh Government which will only be confirmed following a review of the collective position and the affordability of any required financial flexibility within each financial year.

Each organisations plan is required to fully disclose a risk assessment to service delivery and the achievement of its financial targets. These risks are closely monitored throughout the year through the organisations risk management processes, alongside the identification of mitigating action and the contingency measures that need to be taken in the event of unforeseen circumstances. Contingency measures will form part of the Welsh Governments oversight and will be considered in the context of the overall resources available.

Implementation date: *Actioned*

Update as at 5 November 2014

A refreshed and updated Planning Framework was issued to NHS organisations on 31 October 2014, requiring balanced integrated service plans covering the period 2015-16 to 2017-18 to be submitted by 31 January 2015. The Framework clearly articulated Welsh Governments expectations and includes a specific requirement for organisations to undergo sensitivity analysis and have in place contingency plans.

Recommendation 9.

The Committee recommends that the Welsh Government produce a clear set of guidelines for the utilising of external expertise for financial planning. This should include information on trigger points as part of the financial management process when Welsh NHS bodies would be required to use external support.

Response: - *Accept*

Guidance currently exists which supports and helps regulate the use of external expertise by NHS organisations e.g. their Standing Financial Instructions require that they follow the Department of Health guidance on „procurement and management of consultants in the NHS“, the manual of accounts also sets out guidance with regard to when NHS organisations should consider using consultants and also all public bodies are required to adhere to the requirements of „Managing Welsh Public Money“.

Notwithstanding the presence of the above guidance the Welsh Government is currently looking to issue further guidance that will cover all external support which may be required for a number of service planning, delivery and/or accountability issues and not just finance. The trigger points and utilisation of any external

expertise will link to the recently published escalation and intervention requirements. External support may be required in various forms but this must be a consideration for any organisation that is in the highest “enhanced monitoring” category. The nature and use of any external support will need to be agreed with the Welsh Government and all reports produced will form part of the enhanced monitoring arrangements and must be copied to the Welsh Government. We will use or develop national procurement frameworks for such support with the NHS procurement shared services to ensure that value for money is maximised for any support that is provided”.

Implementation date: July 2014

Update as at 5 November 2014

Refreshed guidelines for Health Boards and Trusts around the preparation of Medium Term Plans was issued on 31 October 2014. The guidelines require all organisations to consider their capacity and capability to develop plans in line with the Welsh Government’s requirements. The necessity to utilise any external expertise will be highlighted as part of this process.

Recommendation 10.

The Committee recommends that the Welsh Government works with Health Boards to develop mechanisms for sharing financial/service planning and management of good practice across the NHS Wales at all levels. This could involve using the model of the Wales Audit Office Good Practice exchange.

Response: - Accept

As part of the process for updating the 2013/14 plans, the Welsh Government implemented a supportive peer review process which reinforced the need for sharing good practice as part of development of the Integrated Medium Term Plans. This included running workshops in September and November 2013. Additionally Welsh Government have supported Health Boards and Trusts in sharing their 2014/15 to 2016/17 Integrated Medium Term Plans and in running workshops to seek feedback from the current planning process and identifying improvements and support required for future plans.

Additionally the Directors of Finance group have, during 2013/14, realigned to a forward looking agenda and work plan to focus on the sharing of good practice and benchmarking. This also includes the Directors of Finance sub groups terms of reference and work programmes to include best practice.

The key to sharing good practice will be through clinicians via clinical networks and other professional and specialty groups. The strength of these groups provides the environment for clinical peer reviews across organisational boundaries. This will be taken forward as a key theme through the prudent healthcare group, through organisational Boards and all professional groups.

Implementation date: Actioned and on-going
Pack Page 126

Update as at 5 November 2014

The Sustainability & Delivery Group, a Director of Finance sub group, are leading the exchanging of good practice examples within the NHS Wales finance community. The proposed Terms of reference recognise that this will require a level of commitment for members of the Group to:

- *Research areas of good practice across organisations and sectors, and*
- *Engage with non-finance professionals in identifying and evaluating good practice and effective implementation.*

Furthermore the group are engaging with non-finance professionals within NHS Wales and to involve other organisations, who may be able to support the identification and sharing of good practice.

Recommendation 11.

The Committee recommends the Welsh Government examine whether the differences in terms and conditions between Wales and England have led to differences in cost-effectiveness and whether these are offset by benefits to recruitment and retention. The findings should inform discussions about the terms and conditions to ensure Wales is able to attract the right calibre of staff while achieving optimum value for money.

Response:- Accept

With regard to the difference in the consultant contract in Wales, this is already the subject of on going engagement with the British Medical Association (BMA) and as part of the broader employee relations framework.

With regard to staff on the Agenda for Change (A4C) contract (all staff other than medical staff and Very Senior Managers/Executives) a negotiation exercise has just been completed and Trade Union and staff representatives are in the process of consulting their members on re-aligning the terms and conditions in Wales with the rest of England. Recent evidence to the Pay Review Body in September 2013 indicated that the recruitment and retention of staff on these contracts is not a cause for concern. The ongoing remit of the Strategic Pay Taskforce will continue to examine the impact of current and/or proposed changes and is due to provide an update in September 2014.

Implementation date: Actioned

Update as at 5 November 2014

Ratification of proposed changes to the Agenda for Change terms and conditions have stalled, pending the outcome of discussions between employers and staff representatives around the 2014-15 and 2015-16 pay deal. It is anticipated that the Minister will confirm the preferred pay option in early November, after which staff representatives have indicated they are likely to recommend ratification of the terms and conditions changes at the NHS Staff Council on 14 November. Whilst the pay deal and terms and conditions are separate, ratification is unlikely to be

taken forward for recommendation if the pay deal fails to address the trade unions' ongoing dispute.

Wales have joined the England/Northern Ireland negotiations with regards to a modernised and sustainable Consultant Contract, however these discussions collapsed in October as a result of BMA claiming insufficient safeguards around working hours. As a result, discussions are on going with the Department of Health to determine the next steps and in particular whether evidence should be sought from the Doctors and Dentists' Review (Body DDRB) around contract reform. A decision on the remit to the DDRB will be made in early November.

Recommendation 12.

In light of the move to disinvest in services, the Committee recommends that the Welsh Government provides the costs relating to pay protection in the NHS Wales. This will enable the cost and value of this policy to be determined.

Response:- Accept

Costs relating to pay protection have been provided as part of the discussions with Trade Unions in the course of the Strategic Pay Taskforce's work. It has formed part of the on-going discussions and proposals put forward by NHS employers and Trade Unions on how savings can be achieved by revising existing all Wales policies.

One such policy is the Organisational Change Policy (OCP). The policy had been originally agreed by the Welsh Partnership Forum and had been a reference document for re-organisations undertaken in 2007 and 2009. One of the NHS employers' suggestions has been to address what they consider to be overly generous protection arrangements detailed in the OCP.

Negotiations continue in line with broader discussions on further changes to Agenda for Change Terms and conditions and the sustainability of the NHS pay bill.

Implementation date: Actioned

Update as at 5 November 2014

Discussions on the Organisational Change Policy (OCP) which seeks to address pay protection have been stalled whilst staff representatives have been in dispute over the pay. These discussions are due to be resurrected following the Minister's announcement on the 2014-15 and 2015-16 pay award.

Whilst the pay deal and OCP are separate, staff representatives have confirmed that providing the pay deal announcement addresses the ongoing pay dispute they are willing to take forward the OCP.