Public Accounts Committee
PAC(4) 27-12 – Paper 1

Evidence paper from the Director General, Health, Social Services and Children to the Public Accounts Committee in response to the Wales Audit Office Report on Health Finances (July 2012)

Introduction

The Welsh Government welcomed the Wales Audit Office report on Health Finances when it was published in July. The report recognised the action that we are taking to place the finances of NHS organisations on a more sustainable platform. This included the provision of recurrent funding in 2011-12, and the introduction of a more flexible system of brokerage which removes the previous year-end bail-out arrangements. The report acknowledged the future challenges facing the NHS, but supports the Welsh Government's assertion that service change is necessary to secure the long term future of NHS Wales.

This paper provides the Committee with information on the current and future challenges facing the NHS; the action we are taking in the current financial year to address immediate challenges; the review of the NHS finance regime to support the strategic requirements of NHS Wales; and the Welsh Government's provisional response to the recommendations made in the Wales Audit Office report, which have been accepted in principle.

2011-12 Financial Year

2011/12 was a significant year for NHS Wales. The NHS demonstrated how it could rise to the significant strategic and operational challenges by delivering improved services and performance in an extremely tight financial environment. These challenges are increasingly evident as we move forward and the Welsh Government's response to these challenges included:

- the launch of *Together for Health* in November 2011;
- an injection of recurrent funds to replace non-recurrent monies and stabilise the financial position;

- clearly setting out the requirement for NHS organisations to pursue processes of service change which would enable sustainable delivery; and
- setting a clear emphasis on improving quality and safety as the defining and ultimate goals of the NHS.

As I set out in my annual report in July, the NHS has responded well to the challenges it faced in 2011/12, and has demonstrated general improvement across a wide range of services. These include: considerable improvements in stroke services; quality improvements through reductions in infection levels, pressure sores and mortality rates; access improvements, particularly in orthopaedics and unscheduled care; the introduction of new models of care using the benefits of our integrated system to generate substantial reductions in admission levels and length of stay for chronic conditions; and the delivery of financial break-even. The scale of the financial achievement in 2011-12 should not be under estimated. The NHS delivered savings of around £285m last year whilst driving up quality and patient experience. This compares very favourably with the performance of other Health systems.

The NHS therefore entered 2012/13 with a degree of positive momentum. Quality and performance were improving and progress was being achieved in planning longer term service change.

2012-13 Financial Year

It was acknowledged that the NHS would face further significant challenges in 2012/13. Despite the additional recurrent funding that had been allocated in 2011-12, NHS organisations faced a range of new cost pressures and, with continuing increases in demand, this meant a requirement to deliver further efficiency savings of approximately £317 million in order to achieve financial breakeven. This is a significant challenge, especially when set in the context of delivering approximately £600m of savings in the last two years. At the beginning of the financial year Health Boards had submitted financial plans to deliver this scale of efficiency, but it was clear that there was a high level of risk associated with their delivery. Following further work undertaken by the Health Boards it became apparent that some of the savings schemes would not fully

deliver the level of savings required within the necessary timeframes and therefore LHBs have needed to develop new schemes as replacements.

A pattern of monthly deficits developed during the early part of the year and it is becoming increasingly clear that the NHS is struggling to maintain required performance levels within their current allocations. As at the end of September NHS organisations reported a cumulative deficit of £69.1m and had revised their forecast year end outturn to a deficit of £69.6m.

The financial position reported by NHS organisations has been subject to detailed analysis and review by my Department and individual organisations. It is important to note that there has historically been a pattern of NHS overspends in the early part of the year as saving initiatives have had a greater impact during the later months. There are also profiling issues which can, at times distort the year to date position.

There is clear evidence that Health Boards have been experiencing considerable pressure and of particular note is the demand within their unscheduled care systems, where there appears to be very little reduction from the peak levels experienced during the winter period.

As a consequence of the strains on both financial and non-financial performance, the Minister for Health and Social Services asked me to undertake a mid-year review of the pressures facing NHS Wales in the current financial year.

Mid Year Review – Initial Observations

During October, as part of the review, I and my Directors of Delivery and Finance, met individually with each Board and Trust to discuss their service and financial position and prospects in detail. Organisations presented a number of reasons for the pressures they were experiencing. These included:

- A difficulty in delivering sufficient capacity to meet the pressures placed on unscheduled care demands, particularly from increases in the older population.

- An inability to achieve necessary reduction in ‘premium’ pay costs for agency and bank work. A significant reduction in these costs is not likely to be achieved before necessary service change is implemented.
- Increasing expenditure on continuing healthcare patients and clients.
- In some cases Health Boards have acknowledged a requirement to strengthen aspects of their internal budgetary planning and control.

My Department has undertaken further work to corroborate the demographic demands being described by the NHS. What became particularly evident through this analysis was, alongside continuing growth in the overall population, there is significant growth in the absolute and relative level of the elderly, which inevitably places particular strains on care services.

Wales has the highest number of over 85 year olds – a pattern which will continue and increase over coming years. The demographic changes are leading to changes in demand on the NHS. A particularly significant aspect is the level of attendances and admission through A&E Departments. Whilst the overall increase in attendances at A&E departments was 3.5% in 2011-12, the increase for 75-84 year olds was 6.3%, and for those over 85 was 8.6%. The forecasts for 2012-13 are 7.7% for 75-84 year olds, and 9.7% for those over 85, compared to an overall forecast increase of 4%. Despite this pressure, performance in relation to the A&E 4 hour target has remained relatively stable. This reflects considerable work to streamline processes and introduce new models of care.

In addition to the percentage growth increasing with age the proportion of major A&E attendances admitted increases from 15% for the working age population to 37% to 53% for the older population. The position is compounded by the fact that length of stay for older people tends to be longer. This results in more bed days and of course the requirement for increases in associated resources – staff, medication and consumables. This growth in unscheduled care is also mirrored in the demands placed on the ambulance service. Category A calls have increased by 21.7% since 2010/11.

It is also important to note the impact of the financial pressures being experienced by Local Authorities. Health Boards are reporting the impact this is having on the availability of social care provision – particularly domiciliary care – in parts of Wales. The impact includes greater likelihood of admission to hospital and delayed discharge.

The overall picture is therefore one of increasing demand with the trends associated with the elderly population being of particular significance. Health Boards are taking action to contain this demand – new models of care are avoiding admission and reducing lengths of stay. However, analysis indicates the 'net' impact is of significantly increased attendance and admission to hospitals. Further evidence of the demographic impact on demand is provided in Annex 1 to this paper.

It is important to emphasise the positive achievement being delivered by the NHS to improve efficiency and productivity. Resource utilisation is improving rapidly - more care is being delivered in out-of-hospital settings, lengths of stay are reducing and more care is provided without the need for overnight stays. Some examples of this progress are illustrated in Annex 2.

Based on the evidence of risks presented in NHS organisations initial financial plans, I took the decision early in the financial year to establish a contingency reserve within Welsh Government central health and social services programme budgets. The use of the contingency will be considered in light of the review.

Service reconfiguration and the financial challenges

The Committee will be aware that the five year vision for the NHS includes plans to reconfigure the way we deliver our services. Betsi Cadwaladr and Hywel Dda LHBs have recently consulted on their proposals for the future shape of services in their respective areas. They are now considering responses to the consultations and will present their final proposals early next year. The LHBs in the South Wales commenced an engagement programme on 26 September and will formal consultation process will follow next year.

A critical part of the governance process is to ensure that the service changes propose a safe service that is within the overall future indicative budget allocations. The service changes are not financially driven, but financial sustainability will need to be a key component of the final proposals. In particular I am mindful that our plans for capital expenditure, whilst currently affordable and in line with our service strategies, may need to be reviewed in light of the conclusions from the reconfiguration process.

A new Finance Regime for NHS Wales

In *Together for* Health we committed to develop a new finance regime for NHS Wales which improved planning and utilisation of financial resources in line with clinical priorities. We also committed to ensure greater clinical involvement in financial decision-making and budgeting. High quality care and the efficient and effective use of NHS funding go hand in hand. Poor practice and avoidable variations in service delivery can cause both clinical harm and financial waste. So the new finance regime for NHS Wales will bring clinical and financial priorities more closely together and will develop financial information that provides intelligence and insight at a strategic and operational level, in a format that is of use to clinicians, and therefore helps support and drive clinical change

The new regime will place the development and implementation of Integrated Medium Term NHS Plans at its core. These will have the following characteristics:

- As the focus to "*improve planning and utilisation of financial resources in line with clinical priorities"*
- Leads to *"greater clinical involvement in financial decision making",* through clinical input into integrated clinical, service, workforce and financial plans
- move the agenda forward from the traditional narrow annual cycle to support service change and measure improvement over a longer period than one year
- the means of Local Health Boards to focus on ensuring that the plans, framework and tools are fit for purpose for Integrated Organisations, to cover the range from population needs and health, both at organisational and locality level,

to programme and pathway support through to integrated performance and governance

To support the move from annual to medium term plans the finance regime work includes considering options for providing Local Health Boards with more flexibility to manage their funding across financial years. These options include flexibility that can be accommodated within the existing legislative framework for NHS Wales, as well as considering whether changes to the NHS statutory financial regime are required to provide greater flexibility in the longer term. The options also take account of the annual budgetary constraints which apply to the Welsh Government's health budget.

The work on the new regime will be completed and published shortly.

Wales Audit Office Recommendations

The Minister confirmed that the Welsh Government has accepted all six recommendations in the WAO report in principle. Annex 2 sets out our provisional response to these recommendations, and the action we are currently taking. We will, of course, respond formally to any recommendations that the Committee makes following their review of this report.

Conclusion

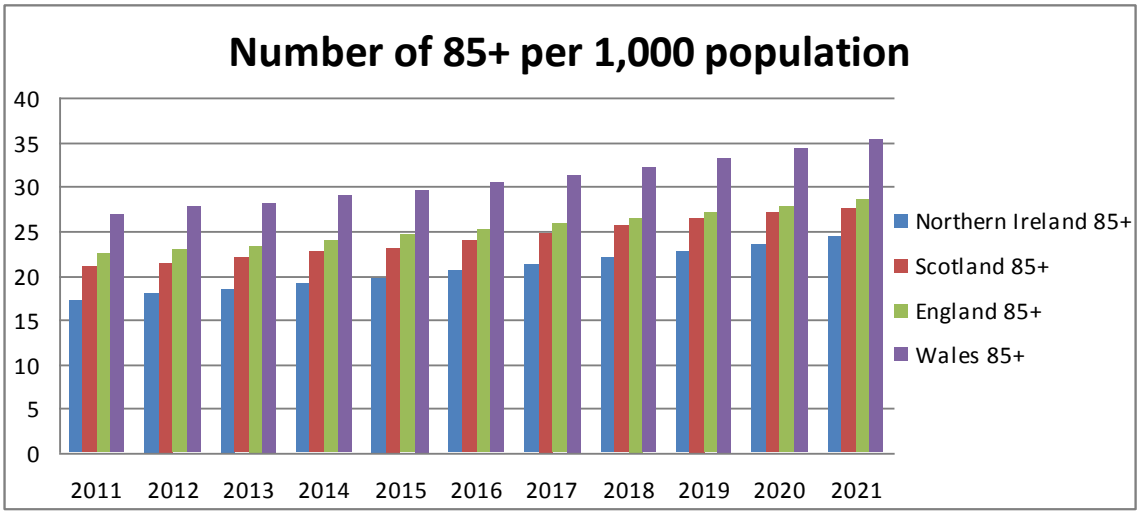
The Wales Audit Office report acknowledged the challenges facing NHS Wales, but acknowledged the actions that the Welsh Government and the NHS collectively are taking to respond to these challenges. We will shortly be reporting on the Mid-Year Review of NHS financial and non-financial pressures, and will be publishing the work that has been undertaken to develop a new finance regime. These will both provide further evidence of the action being taken to place NHS Wales on a stable financial platform.

David Sissling
Director General, Health, Social Services and Children
Chief Executive, NHS Wales

Annex 1

Further Evidence on Demographic Impact on Demand for health services

Figure 1 – Number of 85+ per 1,000 population for each UK nation 2011 - 2021



Sources:
Northern Ireland: 2010-based National Population Projections. Published 26 October 2011. http://www.nisra.gov.uk/demography/default.asp20.htm
England: Interim 2011-based subnational population projections, persons by single year of age. www.ons.gov.uk/ons/rel/snpp/sub-national-population-projections/Interim-2011-based/index.html . Released 28/09/2012
Wales: [019386]: Variants for the 2008-based local authority population projections for Wales, 2008 to 2033 (high projections) Statistical Directorate, Welsh Assembly Government
Scotland: Projected population of Scotland (2010-based), by sex and age group, 2010-2035, Table 6. http://www.gro-scotland.gov.uk/statistics/theme/population/projections/scotland/2010-based/tables.html

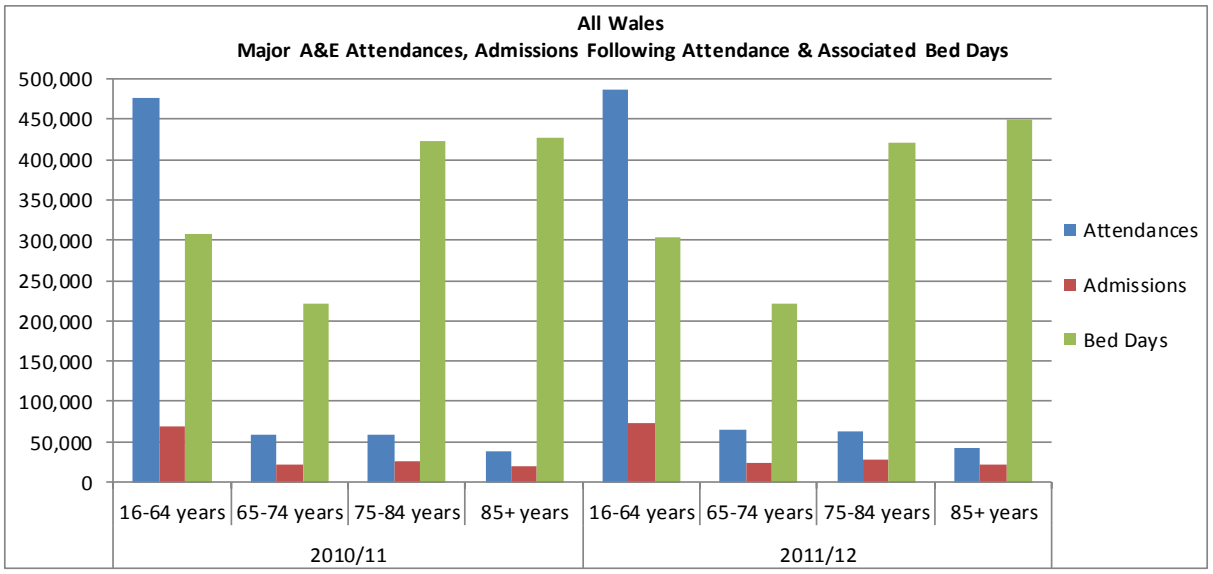
Figure 2 – A&E attendances by age group 2010-11 to 2012-13

A&E Attendances	**2010/11**	**2011/12**	**% Increase**	**2012/13 ** Forecast**	**% Increase**
16-64 years	477,107	487,658	2.21%	499,508	2.43%
65-74 years	59,505	63,874	7.34%	70,219	9.93%
75-84 years	58,215	61,875	6.29%	66,617	7.66%
85+ years	38,023	41,307	8.64%	45,329	9.74%
	632,850	**654,714**	**3.45%**	**681,324**	**4.06%**

** The 2012/13 figures have been extrapolated from the actual position at September 2012.

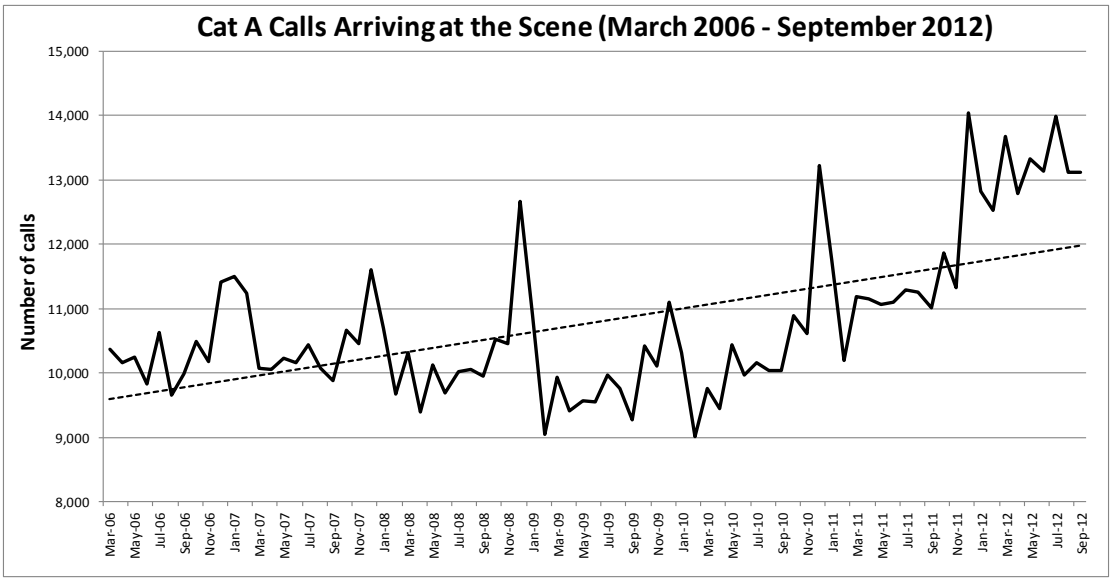
Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 3 – Admissions and associated bed days following attendance at A&E by age group 2010-11 to 2011-12



Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 4 – Category A calls 2006 to 2012

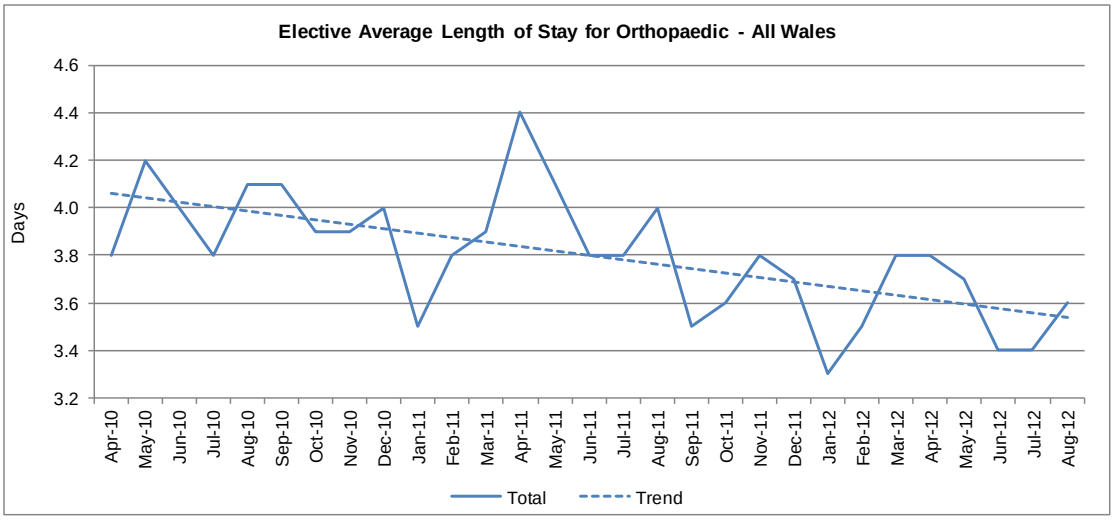


Source: Welsh Government analysis of Welsh Ambulance Services NHS Trust data

Annex 2

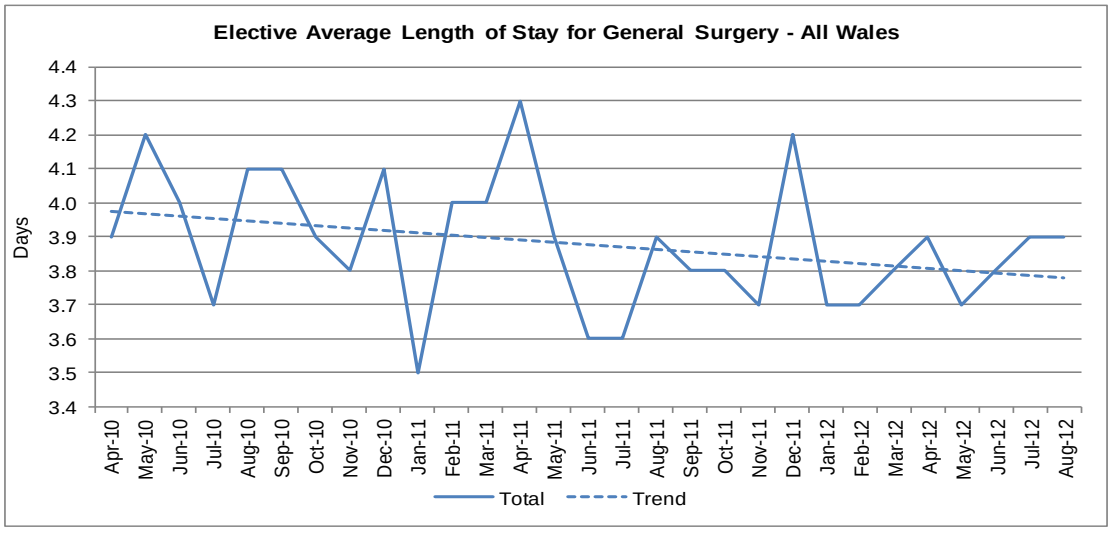
Efficiency and Productivity Improvements : NHS Wales

Figure 1 – Elective average length of stay for Orthopaedics 2010 to 2012



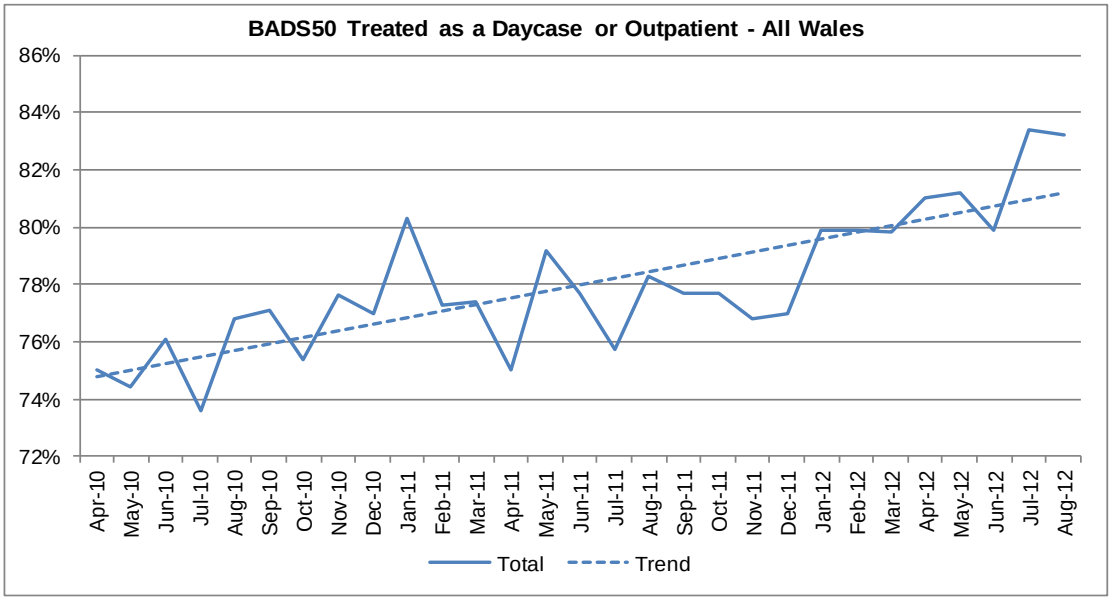
Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 2 – Elective average length of stay for General Surgery 2010 to 2012



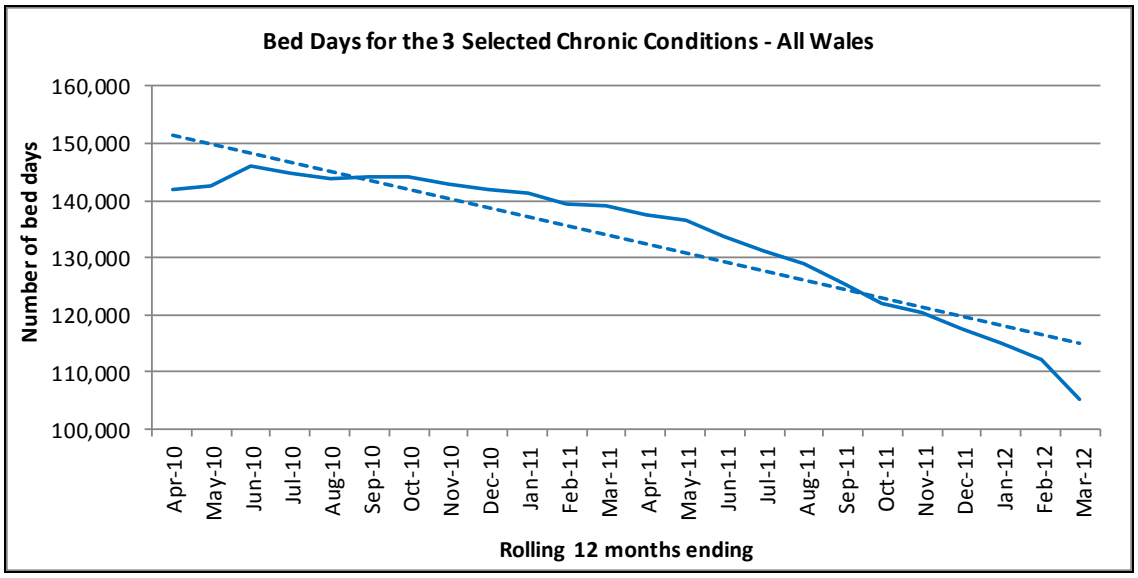
Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 3 – Percentage of selected procedures treated as a daycase or in outpatients 2010 to 2012



Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 4 – Bed days for emergency admissions for 3 selected chronic conditions



Note :

The Chronic Conditions included in the analysis above are:

- COPD

- CHD
- Diabetes

Source: Welsh Government analysis of Patient Episode Database for Wales

Annex 3

Provisional Welsh Government Response to WAO Recommendations

WAO Recommendation	Welsh Government Provisional Response
R1 Despite reporting significant savings, NHS bodies required additional funding in recent years. In particular, there are challenges in achieving cash-releasing workforce savings. In order to help address the short-term funding gaps, **the Welsh Government should**: **• further support NHS bodies in sharing good practice on making cost reductions, particularly efficiency savings that do not impact on quality or service levels; and** **• provide challenge to NHS bodies as they develop their three-year plans to ensure they accelerate the cash-releasing savings from workforce planning while managing the risks to service levels and quality.**	Through membership of the NHS Directors of Finance Sustainability Sub Group, Welsh Government officials support the sharing of analysis and good practice based on the consistent analysis of the Savings Schedule from the Financial Monitoring Returns. As part of the 2012/13 Financial Planning submissions Welsh Government officials have reviewed and challenged the original plans requiring NHS bodies to be more explicit in profiling their workforce wholetime savings.
R2 The longer-term sustainability of health services depends on radical reform of the way services are delivered and organised. The NHS faces a major challenge in funding that reform especially as there are large cuts to capital funding. **The Welsh Government should work with NHS bodies to identify the capital costs of reforming services, ensure these are properly prioritised within available resources and explore alternative options for funding or providing the necessary infrastructure** **that supports the reform of NHS services.**	As set out in the Wales Infrastructure Investment Plan, the Welsh Government view is that public infrastructure investment should be primarily funded through direct government capital expenditure. However there is clearly a strong case for change to increase the resources available for investment –the imperative to boost jobs and growth, the significant reduction in the Welsh Government capital budget, the relatively low cost of borrowing and the benefits of bringing forward investment. The Minister for Finance and Leader of the House's officials

	have been leading on this work and Health officials are already working closely together to explore a number of emerging opportunities which involve different funding partners and delivery mechanisms. In terms of the consideration of NHS service plans, Betsi Cadwaladr University Health Board and Hywel Dda Health Board recently consulted on their proposals for future services in North Wales and Mid and West Wales respectively. They are now considering responses to the consultations before presenting their final proposals. South Wales commenced its three month engagement programme on 26 September and this will be followed by a formal consultation process next year. There are therefore no firm or final capital proposals at this stage. There needs to be timely and regular evaluations of LHB capital requirements and officials are in regular dialogue with NHS organisations to identify and manage investment opportunities as they emerge to ensure that we continue to identify, fund and deliver the priority schemes.
R3 In recent years, the proportion of NHS bodies' funding that has been allocated during the financial year, instead of at the outset, has risen substantially. Whilst there are valid reasons for this, **the Welsh Government should ensure that NHS bodies are provided with as much detail as possible on funding before the start of a financial year to facilitate effective financial planning.**	Health Boards receive their initial allocation notification in the December prior to the start of the financial year. Any funding allocated after this point, including funding notified before the start of the financial year, is considered as an in-year adjustment. In practice, most regular funding that is not included in the initial allocation will be issued early in the financial year, and health boards will have been notified of the intended levels of funding before the formal allocation is made. A significant proportion of the funding allocated to Health Boards during the financial year is also for non-recurrent and exceptional items of expenditure, for example to

	cover accounting costs for impairments and accelerated depreciation. The Welsh Government has reviewed the budgets it holds centrally and is planning to incorporate a number of these funding streams into Health Board's core revenue allocations in future years.
R4 The Welsh Government has improved the monitoring information it gathers on NHS bodies' financial positions throughout the year. This improved information has helped the Welsh Government to take more timely decisions on funding pressures in the year. There are, however, some areas where the monitoring system could be strengthened further to provide a more accurate picture of the likely end-of-year position. **The Welsh Government should work with NHS bodies to:** **• ensure that the information on expected end-of-year out-turn is consistent across NHS bodies, in particular that they strike a similar balance between optimism regarding breakeven and a realistic assessment of the challenge; and** **• ensure that, where possible, NHS bodies profile expected savings from central budgets and accountancy gains across the year in their monitoring returns to give a more realistic picture in-year.**	We have a systematic process of working with NHS organisations to ensure a consistent approach in the calculation of their out-turn position. This is done through a working group comprising Welsh Government officials and NHS finance staff. Currently organisations who report that accountancy gains have been identified are notified that these must be phased into the monthly profile. This is being actioned. Organisations who assess potential accountancy gains are unable to include these until later in the year when they are confident that they have materialised.
R5 There are several different official assessments of the cost pressures that the NHS faces between now and 2014-15, with differences between them. **To support better financial planning, and clarify the scale of the challenge the NHS faces and the savings that are required, the Welsh**	As part of developing Integrated Medium Term Plans, the Welsh Government is supporting joint work with NHS professionals to develop clearer resource planning assumptions for inclusion in modelling individual plans. This will effectively update the challenge the NHS faces, based on assessment of future pressures as well as the underlying

Government should: **• update the assessment of the cost pressures on the NHS, which are currently set out in the Five Year Framework; and** **• consider this updated assessment against other measures of cost pressures from elsewhere in the UK public sector.**	position moving from 2012/13 into 2013/14. This will include evidence and validation against other measures.
R6 The resource accounting regime of the NHS has a short-term focus on breaking even within each financial year. This potentially makes it difficult for NHS bodies to create funds to invest in transformation and change in order to deliver savings in future years. **Within the current framework of resource accounting, the Welsh Government should assess the current requirement for health boards to break-even each and every year, and develop options that would enable NHS bodies to invest in new ways of working where these are likely to deliver savings in the future and enable them to break-even over a longer period.**	The current legislative regime within which NHS organisations currently operate imposes certain financial duties, which includes a requirement for health boards to break even each and every year. This constrains the ability of health boards to plan and manage their finances over the medium term. Therefore work has been instigated to explore opportunities that may be available by making changes to primary legislation that governs the financial operating environment within which health board's function. The options also take account of the annual budgetary constraints which apply to the Welsh Government's health budget. Changes to primary legislation are longer term solutions and consequently other options are being considered which will provide additional flexibility within the current legislative framework. These include arrangements to support; planned financial flexibility, to allow the management of resources across financial years over the medium term, by providing access to a dedicated fund, as part of a three year planning horizon and also shorter term flexibility arrangements, to address unforeseen circumstances and short term challenges that may occur during the year.

	Further information will be provided as part of the publication on the work of the ‘new finance regime’ as announced in the Departments NHS plan ‘Together for Health’ launched by the Minister in October 2011.