

Response to the Report of the National Assembly for Wales Public Accounts Committee Report on Health Finances

We welcome the findings of the report and offer the following response to the 12 recommendations contained within it.

Recommendation 1. We recommend that the Welsh Government reviews its funding formulae for supporting different health bodies, ensuring it appropriately weights and considers demographics, regional geography and other relevant factors, including specialist services.

Response:- Accept

Under the previous arrangements, of 22 Local Health Boards, Welsh Government pursued the implementation of the "Townsend" direct needs formula through the application of differential growth during the period 2003/04 to 2007/08. Since the formation of the 7 integrated Local health Boards in 2009 progress has been limited as the formula has not been updated in light of the significant financial challenges being faced.

Work to introduce a new Finance Regime, as set out in 'Together for Health' includes a Resource Allocation Review as a key project to support the overarching theme on Integrated Medium Term Planning. The project will include:

- Developing a resource allocation formula that can be applied at Local Health Board level and to support Local Health Boards, at locality level*
- Ensuring that the needs weighting reflects relevant factors such as demographics, inequalities, geographical etc*

This will be a substantial project that will take some time to fully develop, review and finalise. Accordingly the first stage of implementation is likely to be 2015/16 at the earliest.

Recommendation 2. We recommend that the Welsh Government is more transparent about the rationale for allocating different levels of funding to different health organisations. This is particularly important when additional funding is provided in-year to health services. Such allocations should be based on a clear business case from each of the NHS organisations in receipt of additional resources.

Response:- Accept

The Welsh Government supports the move to greater transparency across all aspects of its financial and budgetary management. The annual revenue allocation to Health Boards is already published, detailing the distribution of funding to each Board and explaining the basis of distribution.

The Welsh Government accepts that any additional funding that may be provided during the year should be based on clear evidence of need and supported by a clear plan of how those resources will be utilised. This was the case in 2012-13, following a detailed mid year review and close scrutiny of each Health Boards financial position.

The Welsh Government is planning to adopt a more transparent process for providing financial flexibility for Health Boards within financial years and over a three-year planning cycle as part of the new finance regime. The application and approval for both types of flexibility will be dependent on Boards providing a clear business case which provides details of the reasons for requiring the flexibility.

The detailed criteria and requirements for accessing this funding are still to be determined, but the Welsh Government will commit to make public the approved requests for flexibility and repayment profiles.

Recommendation 3. - We recommend that the Welsh Government requires all Health Boards to produce a full break even budget prior to the start of each financial year, and that this budget is supported by a robust and comprehensive savings and work-force plan, which has been appropriately profiled.

Response: - Accept in Principle

Historically all Health Boards have been required to submit financial plans to the Welsh Government by the end of March for the following financial year. These plans have included a set of financial tables showing clearly how financial balance would be achieved, including details of savings to be achieved in year. The Welsh Government accepts that these plans need to be realistic, cover the medium term and demonstrate a greater linkage between workforce capacity and service planning..

For 2013/14, all Health Boards are required to submit their Board's final approved 3 year integrated plans by 31st March 2013. Early drafts have highlighted the difficulty all Health Boards are having in producing realistic plans that show a breakeven position in the short and medium term.

Welsh Government Officials will continue to work closely with the Health Boards to ensure that the plans are deliverable and are supported by a robust savings and workforce plan covering the period to 2015-16..

Recommendation 4. We recommend that the Welsh Government

engages with NHS organisations to enable them to take advantage of all opportunities for efficiencies, including procurement exercises with other parts of the public sector including local authorities, education, police, fire and rescue services.

Response:- Accept

Welsh Government welcomes this recommendation. In the procurement field there are already well established arrangements both in collective procurement efficiencies within health, through the NHS Wales Shared Services - Procurement Services, and also through public sector wide contracts through Value Wales. The principle of collaboration within the Welsh NHS has been in existence for many years and the savings from this have been well documented.

Welsh Government welcomed the publication of the full report and recommendations of John F McClelland's review into Welsh public procurement. In December Welsh government announced the Wales Procurement Policy Statement which clearly sets out the procurement practices and the specific actions that will be required of every public sector organisation in Wales.

Welsh Government, via Value Wales and National Procurement Service, will continue to engage with health and other public sector organisations to strengthen collaboration. The NHS Wales Shared Services - Procurement Services have a key role on behalf of the individual health organisations within this collaboration.

Recommendation 5. We recommend that the Welsh Government review its budgets to satisfy itself that the resources it provides to NHS organisations in future years reflect the increase in demand for services which has been seen during the current financial year.

Response:- Accept

The Welsh Government reviews its budget for future years in terms of Health and other Ministerial portfolio's during the preparation, scrutiny and publication of the final budget each year. The budget preparations for the 2014/15 budget have started and as in previous years Ministerial bilaterals/Cabinet discussions will be held discussing NHS service pressures and other issues.

The 2013-14 DHSSC budget was published as part of the Welsh Governments final budget announcement in December 2012. NHS organisations are required to prepare integrated service, workforce and financial plans within the resources that have been allocated. These plans will identify the demand and financial pressures that will need to be addressed.

It is normal practice to undertake a process of reviewing Departmental budgetary requirements between final budget exercises and this will be the

case for 2013/14. NHS plans reflecting the experiences and demand pressures in 2012/13 which are being finalised by each LHB will be discussed again through Bilaterals and Cabinet discussions so that any budgetary changes considered necessary will be scrutinised through the supplementary budget process in 2013/14.

Recommendation 6. We recommend that the Welsh Government ensures that NHS organisations are provided with as much detail as possible on funding prior to the commencement of the financial year, including contingency funds and conditions governing applications for such funds.

Response:- *Accept in Principle*

The Welsh Government issues Health Boards with their annual revenue allocation prior to the start of the financial year. This sets out the level of core discretionary funding available to the Boards, along with information on any key assumptions they should be making on the availability of other funds not included in the initial allocation. This includes hypothecated funding that is being held back for issue during the year for delivery of specific objectives. Boards are expected to develop their plans for the financial year within this funding envelope.

As referred to in our response to Recommendation 5, the Welsh Government will work with NHS organisations to address any net financial challenges derived from these plans. Information on any additional funding that may become available and the conditions on which it will be given will be made available at the earliest opportunity.

As part of the development of the new finance regime, further information will be provided to Boards on the availability of flexibility funding, including the use of in-year contingency funding. This will include flexibility for over a three-year planning cycle and also for short-term year-end flexibility. The available funds for Planned flexibility over a three-year cycle will be made transparent to Health Boards as a component of the development of annual resource planning assumptions developed in the Autumn prior to the start of the new financial year to aid medium term planning.

Recommendation 7. We recommend that, where appropriate, the Welsh Government continues to make brokerage-funding available to local health boards as an interim measure to support year end flexibility. Brokerage arrangements should be discontinued upon a more permanent legislative solution to year end flexibility being implemented.

Response:- *Accept in Principle*

The ability of the NHS to plan and organise its services in a flexible and sustainable manner is essential. Consequently work to address the current financial constraints imposed by existing legislation, is being taken forward as part of our commitment to introduce a new finance regime as outlined in 'Together for Health' our 5 year strategic vision for the NHS in Wales by a working group comprising NHS and Welsh Government finance professionals.

Acknowledging that changes to primary legislation may take some considerable time to implement, we are considering options that may be executed within the current legislative framework. These involve both longer term solutions (Planned Financial Flexibility) and shorter term solutions (NHS Brokerage Fund).

The Planned Finance Flexibility arrangement is being developed to support the longer term planning and financial cycle and will provide flexibility of resources (subject to overall available resources) linked to an approved balanced integrated plan. It is envisaged that Planned Financial Flexibility would be sought by LHBs where LHBs forecast that they would experience financial peaks and troughs within a balanced 3 year financial plan.

Additionally there are often specific in year financial issues and short term challenges that cannot necessarily be planned or easily forecast and in these circumstances it is recognised that shorter term flexibility arrangements need to be in place. Therefore a more formal in year brokerage arrangement is being developed (again subject to overall available resources), to address those situations where unforeseen circumstances may cause difficulties for health boards to achieve financial balance and meet their existing statutory resource Limit.

Introducing the above arrangements will help provide additional flexibility in the medium term, although it is acknowledged it does not remove the need to seek longer term solutions which can only be achieved through changing primary legislation.

Recommendation 8. We recommend that the Welsh Government works with NHS organisations to ensure that robust, sufficiently detailed public information is available in a timely manner in relation to the financial costs and benefits associated with NHS service change alongside information on clinical risks and benefits.

Response:- Accept

The Welsh Government issued Guidance for Engagement and Consultation on Changes to Health Services in March 2011, which sets out the expectations for NHS organisations in taking forward engagement and consultation on service change. These include the requirement to:

- *set out a clear rationale for change, supported by a clinical case which demonstrates the benefits of change and the risks of remaining the same*

- *provide relevant information including financial information on a proposed change to enable the CHC to carry out informed scrutiny of the proposal*

The guidance makes it clear that public consultation should::

- *explain why change is necessary and provide clear evidence;*
- *explain the consequences of change or of maintaining the status quo, on quality, safety, accessibility and proximity of services*
- *give a clear picture of the financial implications of the different proposals .*

Following the current engagement and consultation exercises Welsh Government will, in conjunction with the NHS, review consultation documents and feedback to consider whether updated guidance is required.

Recommendation 9. We recommend that the Welsh Government continues to work with NHS organisations to enable a consistent approach to the involvement of clinical staff in financial decision making.

Response:- Accept

Since the publication of the Financial Information Strategy in 2005, Welsh Government has had a well established role in the development and improvement of clinically relevant financial information. This includes the continued funding and support of a Financial Information Strategy Programme Team working through a Financial Information and Costing Group, with NHS colleagues, including clinical representatives. The Group have led and co-ordinated the development of financial information systems since the publication of the Financial Information Strategy in 2005. The work to date has included ongoing development of costing returns and programme budgeting returns and has been supported by a Technical Costing Group. The Group will take the lead in progressing the actions and recommendations on the Financial Information theme of the new NHS Finance Regime.

All Health Boards are now implementing financial systems that enable costs to be identified down to patient level. The benefit of these systems is that it presents clinical staff with rich information about the resource implications of their clinical practice. This patient level clinically relevant financial information is an essential building block in engaging clinicians around the 1000 Lives Plus theme of minimising waste, harm and variation.

For example, they would be able to compare the full costs of treatment for a group of patients that were admitted with similar complaints. They would be able to see how treatment costs for each individual patient vary with the length of time they are in hospital, their drug regime, the time spent in theatre, or the diagnostic tests they had.

This type of analysis will help finance, management and clinical staff to have more meaningful discussions about the level of resources required to meet

service demands, and opportunities for financial savings as a result of improving clinical efficiency.

Planning is a Board responsibility and through Medical Directors sitting as members of Boards, clinicians are fully involved in influencing the development of robust service and quality plans. For 2013/14 Welsh Government have reinforced the change in emphasis away from financial plans to integrated plans both through broader clinical service, workforce and financial planning guidelines and templates, as well as review and meetings with Chief Executives and their Executives. This will be underpinned by holistic measures and performance management arrangements to cover the whole range of services secured by integrated Local Health Boards.

Recommendation 10. We recommend that the Welsh Government considers forthcoming legislative opportunities to address the inflexibility of Health Board finances across financial years.

Response:- Accept

As outlined in response to recommendation 7, work has already begun to introduce additional financial flexibility into the operations of the NHS, although it is acknowledged that to achieve a more comprehensive impact of financial flexibility arrangements, changes to primary legislation will be required. The Department is looking at other DHSSC Bills in the legislative programme with a view to making changes before the end of this Assembly term.

Recommendation 11. We recommend that the Welsh Government provides robust challenge to NHS bodies in the planning and delivery of their financial saving plans, to ensure that there is a focus on achieving sustainable savings throughout the year, rather than non-recurring savings towards the end of each financial year.

Response:- Accept

The Welsh Government requires all Health Bodies to prepare and provide profiles of their savings plans at the start of the financial year. These are updated on a monthly basis. Where it is considered that the plans are not robust these are challenged and Health Bodies are required to reassess the plans and profiles prior to the following month's submission.

It is acknowledged that the proportion of savings increase as the year progresses. Health Bodies are encouraged to ensure that their planning processes are started earlier in the previous financial year, thereby ensuring that the savings profile is more evenly distributed throughout the year and that they are not reliant on the achievement of non recurring savings in the latter months.

For 2013/14 Welsh Government have strengthened the planning framework and timetable to include planning guidelines, templates and draft submissions. This process includes Executive Director meetings to review and challenge draft plans and to support Health Bodies to finalise balanced integrated plans.

Recommendation 12. We recommend that the Welsh Government provides us with an update, by June 2013, of its progress in delivering the recommendations made both in this report and that of the Auditor General.

Response:- Accept

The Welsh Government will provide an update by the end of June, although it needs to be acknowledged that a number of recommendations can only be addressed over a longer time frame.