Health and Social Care Committee
HSC(4)-25-13 paper 2
Financial Scrutiny Session – Minister for Health and Social Services and Deputy Minister for Social Services

The Financial Regime for NHS Wales

1. Short term brokerage arrangements continue to be made available and are facilitated by the Welsh Government in order to inject an element of financial flexibility within the system to allow Health Boards to overcome short term funding requirements e.g. for the financial year end 2012-13, two Health Boards made use of brokerage funds provided from surpluses generated by other Health Boards. This process was overseen and facilitated by the Welsh Government. It is important to note that no additional funding was provided by the Welsh Government at the year end, the funding was agreed between NHS organisations. It is envisaged that this type of flexibility will be made available again in 2013-14 should the need arise.

2. Recognising this is only a short term solution and acknowledging the constraints imposed by current primary legislation, I announced on 10 June 2013 that a new Bill giving NHS organisations greater flexibility to manage their budgets will be introduced in the next Assembly term as part of the Welsh Government's legislative programme. The statement confirmed:

   - That by allowing the NHS greater financial flexibility to manage their responsibilities over a number of financial years, rather than each and every year, will give the NHS the scope to make better and more prudent long term decisions.
   - That a significant downside of the current financial regime is that it may encourage short-term decision making around the current year. Introducing this change will help the NHS focus its service planning, workforce and financial decisions over a longer and more sustained period rather than focusing

too much on a one year, and specifically end of March, approach.

- Moving to a three year financial planning regime, does not in any way mean a diminution of the rigour with which Health Boards have to manage their finances.

3. The Financial Flexibility for Local Health Boards (Wales) Bill will propose that the Health Boards will need to manage their resources within their approved balanced Integrated Medium Term Plan and within approved limits set by Welsh Government over a three year period.

4. This change in the finance regime will facilitate greater flexibility for Local Health Boards and will align financial resources with the profile of their Plans. This financial flexibility will be balanced with financial discipline and will need to be managed within the flexibility allowable within the resources available to the Department of Health and Social Services.

5. The proposed Bill will particularly benefit during periods of transformation of services and should lead to better service, workforce and financial planning through aligning the timing of the resource requirements with the service change and service transfer timescales.

6. The current proposed service changes are an example – where aligning the timing of expenditure and resources with the service change plan implementation profile will not fit neatly within a financial year. In these situations, flexing the annual to, say, a three year statutory financial duty will allow LHBs to focus their service planning, workforce and financial decisions over a longer period and is expected to result in better decision making.

7. A further benefit of amending the statutory constraint each year would be to potentially avoid the automatic consequence of an audit qualification should a LHB's expenditure exceed its Resource Limit.

8. The Bill will support the requirement upon LHBs to develop, approve

and deliver prospective 3 year balanced Integrated Medium Term Plans. Financial Flexibility to align financial resources to match the timing of the service and workforce elements of the Integrated Medium Term Plan is a critical component of this policy aim. The current legislation, which sets out an annual financial duty is a constraint on this policy aim.

9. The aim of the Bill therefore is to change the current financial duties of LHBs under sections 175 and 176 of the National Health Service (Wales) Act 2006 from an annual statutory requirement for expenditure not to exceed resource limit to a regime which considers the financial duty to manage its resources within approved limits over a 3 year period. This change would be backed up by changes to LHB Model Standing Orders/Standing Financial Instructions and to any guidance and directions issued by Welsh Government.

10. It is the intention that the Bill is introduced and supported through the legislative process in the Assembly in time that its provisions to come into force for the beginning of the 2014/15 financial year.

11. Other work associated with the New NHS Finance Regime includes:

- Integrated Plans

  The traditional approach whereby Health Boards have produced plans for operational services, workforce planning and budget setting as discreet areas will not be sufficient or appropriate to address future challenges.

  Integrated plans will focus on a whole system approach and will need to be developed at all levels within organisations. They will need to demonstrate the relationship and dependencies across all areas of activity and include, Quality, prevention and early intervention, activity and outcomes, workforce and finance.

- Financial and delivery information

  The development of financial information has mainly been a national-led approach to cost returns and programme budgeting returns. While there has been good progress the next

stage is to focus development of financial information around the end user, the clinician, to produce clinically relevant information that brings together financial and non financial information.

Additionally this will also support the Together for Health commitment to improve the delivery of care services and accountability through the transparent publication of data and application of modern business intelligence services.

- Resource Allocation

  Since the 2009 reorganisation created the 7 Local Health Boards, no reviews or changes to resource allocation have taken place. While the clear responsibility for Local Health Boards is to manage their resources within their specified resource limit it is important to ensure that there is an equitable distribution of resources to Local Health Boards to meet the needs of their respective population.

- Integrated Assurance and Governance

  As Local Health Boards have now been established for 3 years it is appropriate timing to assess the existing assurance and governance arrangements. While they are statutory corporate bodies established within the framework of the NHS (Wales) Act 2006 with accountability arrangements to Welsh Government, it is essential that the arrangements are suitable and are effective for such complex integrated organisations.

- Finance Support and Finance Staff Development.

  There is the need to continuously improve and enhance finance support to NHS organisations given the significant challenges facing the service. The Finance Function and Finance Staff have a key role to support NHS Wales deliver a successful and sustainable future.

The Finance Function and Finance Staff Development programme looks to work with, and build upon the work of, the Finance Staff Development (FSD) group which brings together the FSD leads from all health bodies in Wales with key partners and stakeholders.

Development and changes in these areas will follow a phased implementation over the next 12 to 24 months.

Process of Welsh Government Oversight of LHB Finances

Setting and agreeing financial plans and budgets;

12. Each Health Board has a duty under their standing orders and standing financial instructions to prepare a Service and Financial plan, which is approved by their Board prior to the start of the financial. The plans are required to be prepared within the envelope of resources allocated to each organisation following the approval by the National Assembly of the final budget motion in December.

13. To aid this process and achieve an element of consistency the Welsh Government provides guidance and templates to capture key data. The first drafts of the plans prepared by the NHS organisations for 2013-14 were submitted to the Welsh Government in February 2012. Following extensive scrutiny and discussions with the NHS organisations revised plans were submitted at the beginning of April 2013.

14. A further round of challenge and scrutiny has been conducted between Welsh Government Finance Officials and the Finance Directors of each Health Board.

Setting and monitoring performance against savings plans:

15. The submitted plans are required to contain details of the actions developed by the NHS organisations to achieve financial balance. Historically information has been captured using standard headings:

- Workforce
- Procurement
- Medicines management
- Continuing Healthcare
- Externally Commissioned services
- Management Costs
- Estates / Energy

16. Performance against the plans is monitored on a monthly basis and also discussed at the monthly Directors of Finance meetings. Each month NHS organisations are required to provide detailed explanations of any variance from the plans and what actions they intend to take to bring them back into line.

17. Performance against plans in 2012-13 is shown within paragraph 18.

Linking of spending plans to outcomes and wider strategies, and measurement of value for money.

18. The Welsh Government's Programme for Government contained a commitment to measure the impact that the Welsh Government is having on people's lives, including health in Wales. Two strategic documents were developed to underpin this commitment, *'Together for Health'* and *'Achieving Excellence, the Quality Delivery Plan'.* These documents provide the strategic framework within which our health services are delivered and Outcome Standards are key to drive and provide the detailed focus.

19. The new Delivery Framework for 2013/14 has been prepared against this background to drive up standards and outcomes. It sets out the processes which are in place to monitor progress and provide support and intervention as necessary.

20. Five quality 'domains' have been identified to help provide a more integrated view of NHS delivery. These are:

- Need and Prevention
- Experience and Access
- Quality and Safety
- Integration and Partnerships
- Allocation and use of Resources.

Reported Revenue Position of Health Boards for 2012-13 Financial Year

The 2012-13 year end revenue position;

21. At the end of 2012-13, NHS Wales reported a total surplus of £434k, (Local Health Boards £325k and NHS Trusts £109k). Details by organisation are shown in the table below:

Organisation	- Under / Overspend as per the Final Accounts £000's
Abertawe Bro Morgannwg	-141
Aneurin Bevan	-34
Betsi Cadwaladr	-5
Cardiff & Vale	-66
Cwm Taf	-17
Hywel Dda	-56
Powys	-6
Total Local Health Boards	**-325**
Public Health Wales	-50
Velindre	-10
Welsh Ambulance	-49
Total NHS Trusts	**-109**
Total NHS Wales	**-434**

Details of any additional revenue provided since the second supplementary budget 2012-13;

22. Following the allocation of an additional £82m to NHS organisations in December 2012, the Welsh Government did not allocate any further funding during 2012-13 to help organisations meet their financial

targets. It did however facilitate brokerage funding between NHS organisations.

Amounts of brokerage provided/received;

23. Hywel Dda and Powys LHBs received £2.3m and £4.210m brokerage respectively at the end of 2012-13. This was provided by the other NHS organisations. The table below provides further detail:

Brokerage Received from NHS Organisations	**£m**
Abertawe Bro Morgannwg	2.5
Aneurin Bevan	2.3
Cwm Taf	0.4
Velindre	0.9
Welsh Ambulance	0.1
Sub Total	**6.2**
NHS Wales Surpluses	0.4
Total Available Brokerage	**6.5**
Brokerage Provided to NHS Organisations	**£m**
Hywel Dda	-2.3
Powys	-4.2
Sub Total	**-6.5**
Balance	**0.0**

Performance against planned savings in 2012-13;

24. The NHS organisations achieved savings amounting to £187.7m in 2012-13 (Local Health Boards £176.4m and NHS Trusts £11.3m).

Organisation	Annual Plan £000s	Annual Savings £000s	Variance to Annual Plan £000s	Variance to Annual Plan %
Abertawe Bro Morgannwg	24,400	21,431	-2,969	-12.2%
Aneurin Bevan	48,000	33,100	-14,900	-31.0%
Betsi Cadwaladr	51,793	49,112	-2,681	-5.2%
Cardiff & Vale	66,886	35,651	-31,235	-46.7%
Cwm Taf	24,100	7,671	-16,429	-68.2%
Hywel Dda	27,592	19,807	-7,786	-28.2%
Powys	14,852	9,610	-5,242	-35.3%
Total Local Health Boards	**257,623**	**176,382**	**-81,241**	**-31.5%**
Public Health Wales	2,317	2,317	0	0.0%
Velindre	3,112	3,112	0	0.0%
Welsh Ambulance	7,970	5,850	-2,120	-26.6%
Total NHS Trusts	**13,398**	**11,278**	**-2,120**	**-15.8%**
NHS Wales	**271,022**	**187,661**	**-83,361**	**-30.8%**

Proportion of savings achieved in 2012-13 which are non recurrent.

25. Of the achieved savings of £187.7m, 83.8% are classified as recurrent.

NHS WALES DEBT POSITION

26. In accordance with their Standing Financial Instructions (SFIs), LHBs are required to monitor financial performance against budget and plans and report the current and forecast position at every Board meeting. As part of the LHB Board papers, financial reports are publically available.

27. The form of financial reports to the Board is for each LHB Board to

decide. There are minimum content requirements set out in the SFIs which includes income and expenditure to date showing trends and forecast year-end position, movements in working capital etc. The reporting of the value and make-up of debtors is not a specified requirement, not all LHBs provide debtor analysis in their Board financial reports on a regular basis.

28. LHBs are however required to publish details of their debtors as part of their statutory annual accounts. The LHB debtors per the NHS Summarised Accounts as at 31 March 2013 are as follows:

	Abertawe Bro Morgannwg	Aneurin Bevan	Betsi Cadwaladr	Cardiff & Vale	Cwm Taf	Hywel Dda	Powys	Total
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Non - Welsh NHS	115	331	1,683	1,476	754	587	95	5,041
Total NHS Debtors	***115***	***331***	***1,683***	***1,476***	***754***	***587***	***95***	***5,041***
Local Authorities	1,363	2,704	2,815	1,164	1,937	1,823	373	12,179
Other debtors	7,614	10,585	6,940	13,776	3,497	3,863	1,945	48,220
Other prepayments and accrued income	4,423	3,552	10,080	2,223	1,941	1,325	763	24,307
Total Non NHS Debtors	***13,400***	***16,841***	***19,835***	***17,163***	***7,375***	***7,011***	***3,081***	***84,706***
Total	**13,515**	**17,172**	**21,518**	**18,639**	**8,129**	**7,598**	**3,176**	**89,747**

These figures exclude intra-Welsh NHS debtors and money owed by Welsh Government for reimbursement of agreed programmes and projects, e.g. the Welsh Eye care Initiative.

29. Non Welsh NHS – amounts due from Non Welsh NHS bodies for provision of NHS services in accordance with Service Level Agreements, the terms of which vary but are typically 30 days payment.

30. Local Authorities – amounts due from local authorities for care package costs, recharges for the provision of services and recharges on joint working initiatives such as Flying Start and Sure Start.

31. Other debtors – significant items include amounts due from HMRC for VAT recoveries and amounts due from Non-Welsh Government Departments under funding arrangements, and amounts due from the Department of Work and Pensions Compensation Recovery Unit under the Injury Cost Recovery Scheme.

32. Other prepayments and accrued income – largely prepayment items on maintenance contracts for equipment.

Movement of Monies within NHS Wales: Cross-Border Services

33. In October 2009 the NHS internal market was abolished in Wales, removing the organisational split between commissioners and providers of healthcare to establish the seven integrated Health Boards. As a consequence, there is no need in Wales for a complex system of inter-organisational financial flows such as the Payment by Results system in England.

34. Health Boards receive the majority of their funding through Welsh Government Annual Revenue Allocations. From this allocation, Health Boards are responsible for funding the healthcare for their resident population for community, secondary and specialist services, general medical services for the population registered with their GPs, and for community pharmacy and general dental services provided within their geographical boundaries.

35. Patients will generally receive treatment within the Health Board they are resident or registered in. The funding for this treatment is within the Health Boards revenue allocation, so there is no requirement for any flow of funding between organisations for this activity.

36. When patients are treated in an NHS organisation other than the Health Board in which they are resident or registered, there is need for a flow of funds between organisations. For patients treated by another NHS organisation in Wales, the Welsh Government does not dictate the basis on which the flow of funds is agreed between organisations. This is agreed locally between the organisations, although the Welsh Government does operate an arbitration process for resolving disputes between NHS Wales organisations in the limited situations this arises.

37. The Welsh Government does have an agreement with the other UK nations for the financial arrangements arising when Welsh patients receive treatment in other parts of the UK (and vice versa). Welsh residents treated in England are paid for using the Payment by Results tariff where this applies. Patients treated in Scotland and Northern

Ireland, and in England where the tariff does not apply, are paid for at locally agreed rates.

38. There are separate arrangements for financial flows within Wales for specialist treatments. All Health Boards make an annual financial contribution to the Welsh Health Specialised Services Committee (WHSSC), hosted by Cwm Taf Health Board, to cover the costs of specialist treatment for their residents. This also currently includes a contribution to fund Emergency Ambulance Services provided by the Welsh Ambulance Services NHS Trust. WHSSC then enters into financial agreements with the providers of specialised services, which include Health Boards, Velindre and Welsh Ambulance Services NHS Trusts, and providers in other parts of the UK. Again, the Welsh Government does not dictate the basis on which the flow of funds is agreed between WHSSC and other NHS Wales organisations, but the arbitration process it operates extends to these financial arrangements. WHSCC follows the same agreements for patients treated outside Wales to those for Health Boards.

39. NHS Wales organisations are exploring options to introduce a more regulated approach to inter-organisational financial flows within NHS Wales. The proposals which are being developed would use a Welsh standard cost as the basis of payment for non-specialist patient flows between Health Boards and to Velindre and Welsh Ambulance Services NHS Trusts. Plans to introduce these arrangements in 2013-14 were postponed as further work is required to confirm the regulatory arrangements, as well as work to ensure the underpinning activity and financial information flows are sufficiently robust to support such a system. Whilst this work is being led by NHS organisations, Welsh Government officials are engaged in the process.

Capital Investment

40. The overall capital budget for the Health & Social Services MEG in 2012-13, as a result of transfers during the February Supplementary Budget, is £228 million. This includes a budget of £214 million for the NHS All Wales Capital Programme.

41. As is usual for capital programmes of this size and complexity, slippage on individual NHS schemes and on the other capital grant programmes supported by the MEG (including substance misuse, modernising pharmacy and pandemic flu) is redirected to approved projects to allow the maximum utilisation of funding. The 2012-13 outturn against the overall capital budget of £228 million, based on audited figures from NHS bodies' accounts, is an underspend of £0.559 million. This equates to 0.2% of the budget available.

42. With regard to evaluating the impact of reconfiguration on capital requirements, this is an on-going and iterative process and reflects the fact that NHS organisations are at different stages of their engagement and consultation processes.

43. The forward programme is being reviewed to ensure that it is fully aligned with the *Together for Health* vision and the service change plans. It includes schemes arising out of the consultations for both Hywel Dda and Betsi Cadwaladr Health Boards.

44. The five organisations in the South Wales Programme are currently undertaking their consultation exercises and it would not be appropriate to pre-empt the outcomes to these. However, we continuing to work closely with organisations so we are well placed to move forwards once the consultation responses are announced.

45. The affordability of the forward programme is being actively considered and we are liaising with NHS organisations to challenge their cost assumptions and timescales for delivery. In addition, my officials are working with the Finance Minister's team to consider alternative funding sources potentially to pump prime the service change agenda.

Health Technology Fund

46. The Health Technology Fund has been established to provide capital funding of £25 million over a 3 year period for new technology to

support the transformation of health care delivery through the introduction of new ways of working and treatments, helping to deliver the vision as set out in *Together for Health* of high quality, safe and sustainable services and improved patient benefits.

47. Applications have been received from NHS bodies which are currently being considered by officials. Each application is being assessed against the following eligibility criteria and will only be considered if they:-

- Relate to medical and/or IT equipment;
- Require investment of £250,000 or above; and
- Demonstrate that all associated revenue costs are affordable and can be met by the organisation and that no further Welsh Government funding support is required.

48. The Fund is not intended to:

- · Cover funding for drugs;
- · Support the standard replacement of equipment;
- · Support research and development in technology; or
- · Support core NHS IT infrastructure.

49. Applications will be assessed using the measures of quality as set out in the Welsh Government's Healthcare Quality Improvement Plan, namely patient experience, effectiveness, safety, timeliness and efficiency.

50. We are anticipating that an announcement will be made by the end of July 2013.

Social Services: Protected Budgets and Domiciliary Care

51. The social services element of the Settlement has been subject to a degree of funding protection for the period 2011-12 to 2013-14. The

protection equates to the increase in the funding provided being 1% better than the overall uplift in the Welsh Government budget.

52. The following table details what this means for the annual increase in the notional social services element of Revenue Support Grant (RSG).

£ thousand

	2010-11	2011-12	2012-13	2013-14
Uplift in Welsh Budget		-1.33%	0.58%	1.08%
Social Care Protection Increase		-0.33%	1.58%	2.08%
RSG with protection	**1,007,098**	**1,003,775**	**1,019,634**	**1,040,843**
RSG without protection	**1,007,098**	**993,704**	**999,467**	**1,010,261**
Difference between 2010-11 and 2013-14				33,745
Additional money made available to social care due to protection				60,819

53. The local government settlement is un-hypothecated and it is for Local Authorities to determine spending priorities.

54. It is not possible to ring-fence any element of the settlement but it is possible to set out explicitly where funding has been added to the settlement for a specific purpose and to then work with Local Authorities to ensure this funding is directed in line with Welsh Government spending priorities.

55. In respect of social care, this means by 2013-14, an additional £34 million per annum compared to the 2010-11 local government settlement. The protection provided in 2013-14 is the last settlement planned to include a 1% protection for social care. There is no commitment currently to continue this protection beyond 2013-14.

56. The latest available data is from the 2011-12 Revenue Outturn returns. Therefore it is not possible to assess accurately how the protection has impacted on spending beyond the first year, 2011-12. Information for 2012-13 will be available in October.

57. Based on the 2011-12 outturn data, the key points are:

- Total social services expenditure including specific grants increased by £25 million.

- The average increase in social service expenditure in 2011-12 was 1.7%, compared with the -0.33% protection built into the RSG;
- Overall gross expenditure by local authorities increased 1% indicating how social services expenditure was protected relative to other expenditure;
- This continues the trend of social services expenditure increasing in recent years by around 1% more than the total gross revenue expenditure growth rate in Wales.
- The children and families services element of social services expenditure has grown the most in the last 3 years, whilst the older people and under-65 expenditure elements have shown minimal year-on-year growth since 2010-11.

58. The evidence indicates how overall, Local Authorities have delivered on the protection of social services. At individual authority level, the picture is more varied.

59. Given this and the fact the data is limited to the first year of protection, the Minister for Local Government recently wrote to Local Authorities to remind them of the commitment and to seek information on how they are delivering. These responses are currently being received and will be collated for a briefing to the relevant Ministers.

60. Local authorities have reported a rise in their income foregone arising from the £50 per week maximum from £10. 1 million p.a. as they previously estimated to £15.9 million p.a. In most authorities this was due to a mix of an increase in service users, inflation and changes to Welfare Benefits so that 15 authorities account for £1.1 million p.a. of this increase. However, with 7 authorities who had not previously set a maximum charge in their local charging policy, these factors were magnified so that they reported in total £4.8 million p.a. of this rise. While it is clear that income foregone is influenced by factors such as increases in demand, this is not always the case. Some authorities, for example, reported relativity large increases in services users with little effect on their level of income foregone. Consequently the level of

income foregone on authority experiences is also significantly influenced by the local charging policy it has decided to have in place.

61. As a result we are providing an additional £3.2 million p.a. from 2013-14 to further reimburse local authorities for the income they have foregone. This is a significant contribution to bridging the gap between the original estimate provided and the actual level now reported. This we consider to be a fair allocation of additional support taking into account that in some cases an authority's local charging policy has been a significant contributor to the rise in income foregone it is reporting.

62. The monitoring has identified a rise in those receiving services for which a charge was levied. Of the 31,132 service users across Wales who received these in 2011-12, 7,858 received services for the first time. Previously these individuals would have paid for services privately, received support from family or friends, or gone without care altogether. The assurance the weekly maximum charge has given has meant these individuals could now seek care and support from their local authority in the knowledge that the most they would be asked to pay for this would be £50 per week at present.

63. There is a need, however, to ensure this initiative remains sustainable and does not by default become untenable due to the financial pressures on local government. The £50 weekly maximum was set in 2011 and has now been in operation for over 2 years, during which time there has been increases in the cost of service provision and changes to Welfare Benefits and the level of their awards. As a result we plan to revise the level of the maximum charge from April 2014 to take account of these changes. We also intend to undertake a wider consideration of the impact of the maximum charge, and its level, for April 2015. We will consult will representatives of local government and services users alike on our plans once we have finalised the detail of what we propose.