



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref LF/MD/0988/13

Jocelyn Davies AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

17 October 2013

Dear Jocelyn

Thank you for your invitation to appear before the Finance Committee in an informal session on 23 October 2013.

In advance of my appearance, I thought it would be helpful to provide a paper which reflects on some of the key issues that have already been raised in plenary.

I especially noted in the Stage 1 General Principles debate the widespread view of the need to ensure a high level of scrutiny, both while considering the NHS Finance (Wales) Bill (given the use of the 'fast track' process) and the funding of Local Health Boards more generally. In my paper I have explained how the new planning framework which is being developed in parallel to the Bill will enable my officials and I to monitor and scrutinise Local Health Board plans and finances with increasing effectiveness.

I trust that you and the Committee as a whole will find the information in this letter and in the paper of benefit, and I look forward to discussing the issues raised with you in more detail on 23 October.

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

Briefing Paper

Finance Committee

Date: 23 October 2013

Time: 9:30 -10:00

Venue: Senedd

Title: NHS Finance (Wales) Bill

Purpose

1. To provide a briefing paper for the Finance Committee on the implications of the NHS Finance (Wales) Bill, including:
 - financial flexibility
 - tolerances
 - monitoring of Local Health Board expenditure

Financial flexibility

Rolling 3 Year Duty

2. The 3 year rolling financial regime which will provide financial flexibility for each and every year from year 1 onwards is around the timing, not the totality of the resource requirements needed to match LHB expenditure profile over the three years. LHB plans are not static and Boards will need to update their Medium Term Plans to reflect the changing needs of services and circumstances so that the on-going financial flexibility is aligned with these rolling plans.
3. There will be an annual rolling cycle of LHBs updating and approving their Integrated Medium Term Plans, and the Welsh Government approving the plans with any resource shift between years. This will mean that the relevant resource limit used in the aggregated limits for the 3 year rolling financial duty will be the sum of the latest agreed limits from year 1 of each of the relevant rolling Integrated Medium Term Plans and not necessarily those that were set at the beginning of the first plan. Hence, flexibility going forward is maintained, not just for years 1 and 2 following commencement of the new duty.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Integrated Medium Term Plan Period						
Plan A - 2014/15 – 2016/17						
Plan B - 2015/16 – 2017/18						
Plan C - 2016/17 – 2018/19						
Plan D - 2017/18 – 2019/20						
Revenue Resource Limit						
Plan A - 2014/15 – 2016/17	Year 1					
Plan B - 2015/16 – 2017/18		Year 1				
Plan C - 2016/17 – 2018/19			Year 1			
Plan D - 2017/18 – 2019/20				Year 1		
Plan E - 2018/19 – 2020/21					Year 1	
Plan F - 2019/20 – 2021/22						Year 1
Financial Duty Assessment Measures						
3 Year Rolling Duty			X			
				X		
					X	
						X

4. In the above illustration the 3 Year Rolling Duty will be assessed against the cumulative Revenue Resource Limit (RRL) – that is for the first assessment at the end of 2016/17 the Year 1 RRL for Plan A, Year 1 RRL for Plan B and Year 1 RRL for Plan C. Thus the relevant resource limit for each year, the Year 1 for each Plan, will incorporate any agreed financial flexibility between years as agreed within each approved plan. This flexibility to shift resources between years will be available on an on-going basis based on the discipline and process of submitting and approving Integrated Medium Term Plans on an annual basis.
5. During the policy development of the financial flexibility Bill, a number of options were considered including both a rolling 3 year duty as well as the fixed 3 year duty.
6. The key reason why the rolling 3 year duty was selected was to align with the Integrated Medium Term Planning timescales. LHBs will, on a rolling annual basis, review, update and approve their Integrated Medium Term Plans. The final notified funding allocated each year to the LHBs will be linked to the first year of each relevant submitted and approved rolling Integrated Medium Term Plan. This is key in providing the opportunity to flex, on an on-going basis, funding between years to support agreed profiled plans. Accordingly the financial duty measure, of cumulative expenditure against cumulative funding allocated, had to be aligned to the approved plans and flexed funding allocated over those 3 years.

7. Planning is an on-going process which needs to reflect the challenges and changes that arise from demographic and service changes. Given that LHBs would have updated and approved plans in years 2 and 3 it would not have been appropriate to have fixed the financial duty measure on an earlier, year 1 submitted plan.
8. Furthermore, the application of a financial duty on a fixed 3 year basis would effectively mean that an assessment of a LHB's financial performance would start afresh every 3 years. It is important that LHBs are assessed on an on-going basis and that poor performance in previous years is not disregarded or ignored.

LHB Underspends

9. The Planning Framework and financial flexibility are set up around flexing resources to align with service plan profiles. This includes proposed planned overspends and planned underspends. Some LHBs may plan to profile investment first to save later whilst others may plan to save first and invest later. The same assurance and approval process will apply whatever the profile of the plan.
10. There will be rigour in the assessment of any changes in the profile, whether front ended or back ended, as the manageability and delivery of the actions will be key.

Tolerances

11. The financial flexibilities put forward as part of the Bill can be defined as planned flexibility to support approved plans profiled over 3 years. The question of tolerance levels has been put forward in context of unplanned, or year end, flexibility. That is to provide some additional limited tolerance where the financial target is missed by an insignificant amount where it is recognised that the consequences of breaching a statutory financial duty is serious. As part of developing the Bill, consideration for tolerance levels for LHBs has been considered.
12. Currently NHS Trusts have defined tolerance levels, described as a materiality threshold, which are applicable to their financial duty. This threshold is set out by Direction, through the Welsh Health Circular WHC (2007) 049.
13. As LHBs are defined, in accordance with the Office of National Statistics (ONS) public sector classifications as "Central Government" bodies for Resource Accounting and Budgeting (RAB) purposes, the practical implications for providing tolerance levels is not straightforward. The LHBs financial outturn is consolidated into the consolidated NHS Wales and DHSS resources within its annual Main Expenditure Group (MEG) Budget allocation approved by the National Assembly. Any overspends and/or tolerance would accordingly be included in this consolidated position. Therefore the practical implications of including tolerances would be that DHSS would need to retain an additional reserve to cover the level of tolerance provided.

14. Consequently applying financial tolerances to year end outturn positions does not come without risks. Any additional expenditure that may occur as a result of allowing tolerances would be an extra unplanned charge on the consolidated Department for Health and Social Services Main Expenditure Group. How any tolerance is accounted for, and audited, in LHB Accounts and departmental accounts are being assessed.
15. While LHBs will need absolute clarity on the tolerance levels for the financial duty, there needs to be flexibility to change tolerance levels, following due notice, as the balance between holding back a reserve or releasing funds may need to change over time. Therefore it would be impractical to set a specific level on the face of the Bill.

Monitoring the LHB Expenditure

16. In support of the new Planning Framework, revised Standing Orders and Standing Financial Instructions will be issued to Local Health Boards, which will contain new requirements for boards to develop, scrutinise and approve Integrated Medium Term Plans, including balanced Medium Term Financial Plans. The Planning Framework, to be issued at the end of October 2013, will also clarify the respective roles and responsibilities of LHBs and the Welsh Government in terms of ownership, scrutiny, assurance, monitoring and approval.
17. The monitoring of plans is key to the disciplined approach needed to ensure the planning framework is effective. The monitoring will be conducted by Welsh Government officials and will include a robust system of checks and balances. The new approved Integrated Medium Term Plans will be the main focus on which the monthly LHB performance reviews will be undertaken and will be followed up by actions taken forward throughout the financial year to ensure there is compliance and alignment with the service, performance and financial plans.
18. This monitoring and reporting process will identify early warning signs of a LHB failing to meet its plans, including financial targets, which will allow the position to be tracked, reported and escalated through the regular well established reporting mechanisms. Over the last year the performance management arrangements have been strengthened and integrated with regular Quality and Delivery meetings with each LHB and Trust with an overview being taken by my officials through a monthly Integrated Delivery Board.
19. As noted in the Wales Audit Office Health Finances report:

“The Department has strengthened the monthly monitoring returns process in recent years and it is a good means to ensure detailed and timely reporting of NHS bodies’ in-year financial position and year end

forecast. It provides the Department with a timely NHS-wide picture, which it can react swiftly to if required.”

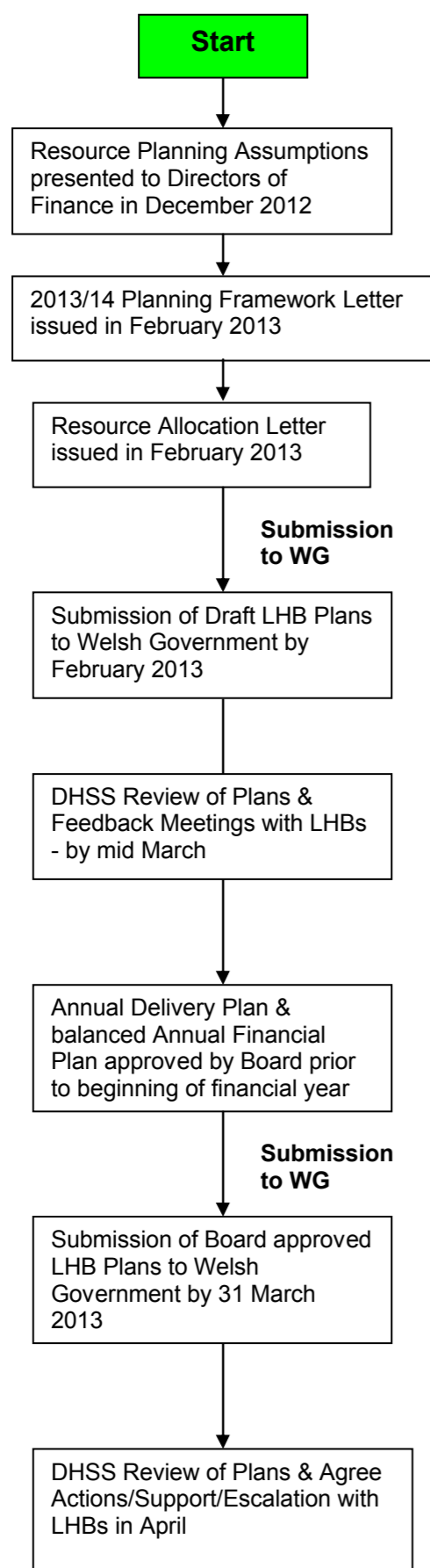
20. Flowcharts are included as part of this briefing paper to demonstrate the change that the planning framework brings under a new duty and the procedure for escalation:

- Annex A sets out the current process for planning, accounts and financial duty.
- Annex B demonstrates the same, but under the new financial duty.
- Annex C sets out the approvals and escalation arrangements which would be in place in support of the new duty.

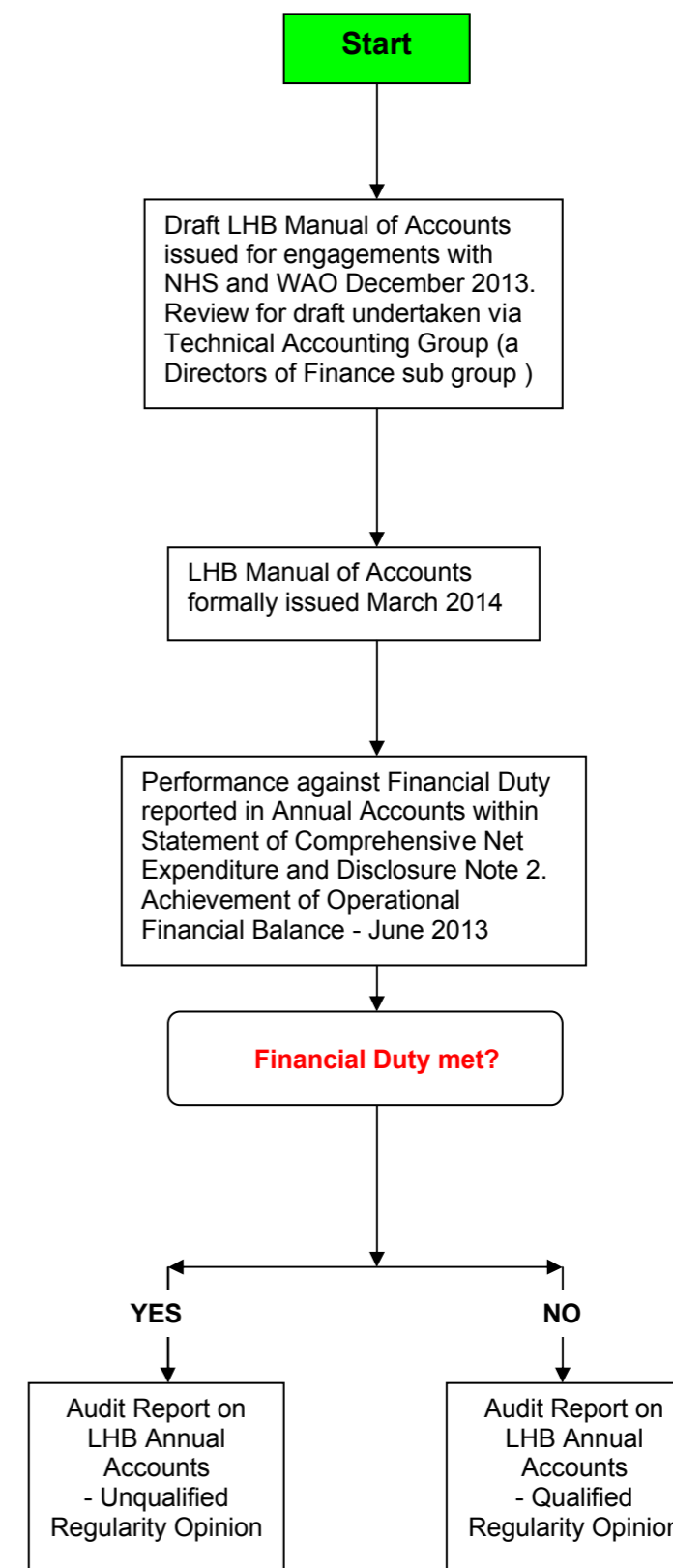
Consideration is being given to a number of other matters that were raised during the Stage 1 debate and I will continue to update Members on progress.

Flow Chart to represent the current processes and arrangements.

Planning Process



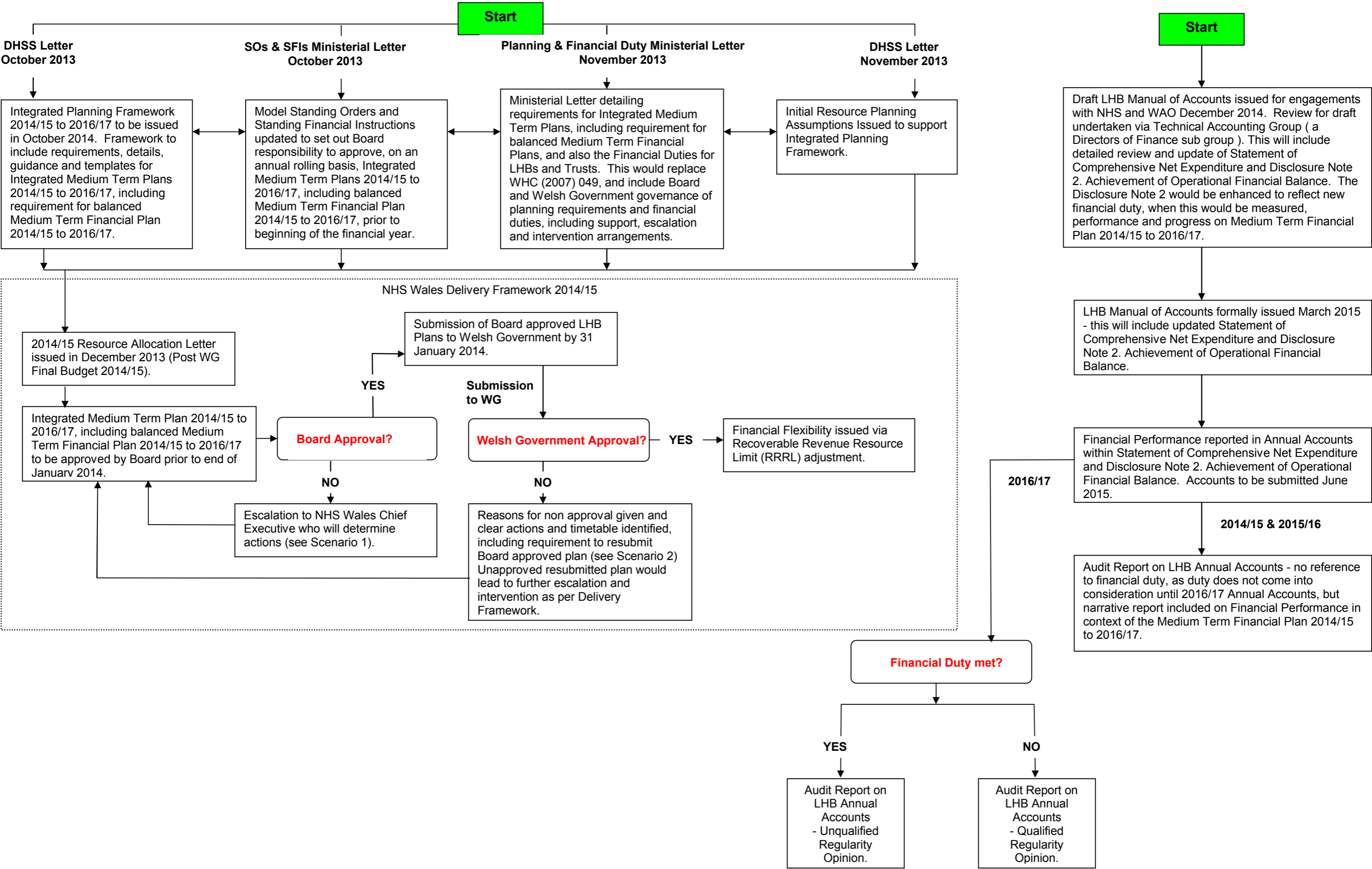
Accounts and Financial Duty Process



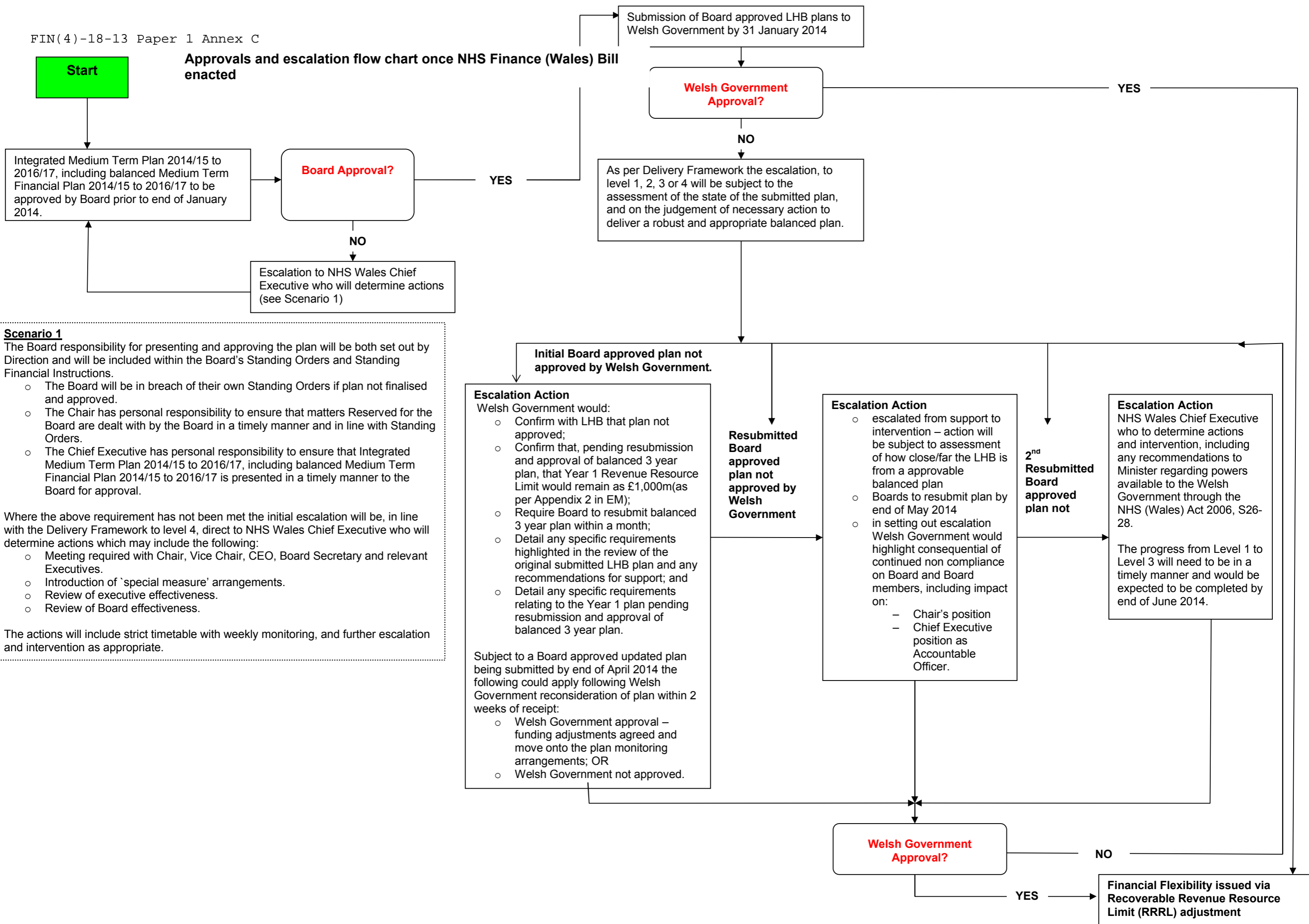
Flow Chart for the process and arrangements once the NHS Finance (Wales) Bill is enacted.

Planning Process

Accounts and Financial Duty Process



Approvals and escalation flow chart once NHS Finance (Wales) Bill enacted



Scenario 1

The Board responsibility for presenting and approving the plan will be both set out by Direction and will be included within the Board's Standing Orders and Standing Financial Instructions.

- The Board will be in breach of their own Standing Orders if plan not finalised and approved.
- The Chair has personal responsibility to ensure that matters Reserved for the Board are dealt with by the Board in a timely manner and in line with Standing Orders.
- The Chief Executive has personal responsibility to ensure that Integrated Medium Term Plan 2014/15 to 2016/17, including balanced Medium Term Financial Plan 2014/15 to 2016/17 is presented in a timely manner to the Board for approval.

Where the above requirement has not been met the initial escalation will be, in line with the Delivery Framework to level 4, direct to NHS Wales Chief Executive who will determine actions which may include the following:

- Meeting required with Chair, Vice Chair, CEO, Board Secretary and relevant Executives.
- Introduction of 'special measure' arrangements.
- Review of executive effectiveness.
- Review of Board effectiveness.

The actions will include strict timetable with weekly monitoring, and further escalation and intervention as appropriate.