Bwrdd Iechyd Prifysgol Abertawe Bro Morgannwg University Health Board

Our Ref: TCM/LH/ks/NRamseyPAC

Date: 18 June 2018

ABMU Health Board
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Nick Ramsey AM
Chair of the Public Accounts Committee
National Assembly for Wales
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Dear Mr Ramsay,

NHS Finances (Wales) Act 2014

Thank you for your letter of 18 May regarding the above. I welcome the opportunity to provide written evidence to the Committee, and have set out the responses to your questions below. I will also be providing further information to the Committee during my attendance on 9 July.

1. What have been the main factors/barriers to meeting the financial duties?

The following table shows the Health Board's delivery against the financial duty over the latest three year rolling period:

	Year 1 2015/16 £000	Year 2 2016/17 £000	Year 3 2017/18 £000	Cumulative Total £000
Revenue Resource Funding	1,028,395	1,060,938	1,096,250	3,185,583
Total Operating Expenses	1,028,309	1,100,254	1,128,667	3,257,230

Under/(Over) spend against Allocation	**86**	**(39,316)**	**(32,417)**	**(71,647)**
As a % of Revenue Resource Limit	**0.01%**	**3.71%**	**2.96%**	**2.25%**

While the Health Board achieved financial break-even in 2015/16, and in the years prior to this since its inception in 2009, this was becoming increasingly reliant on the use of non-recurrent funding and non-recurrent savings. For example, in 2015/16 the break-even position was supported by £32m non-recurrent funding which supported winter pressures, performance delivery and other financial pressures.
The main factors underpinning our ability to meet the financial duty, and the factors that will need to be addressed in the future, include:

- The inability of the organisation to deliver the targeted level of cash releasing cost improvements whilst creating sufficient recurrent savings;
- The impact of significant operational and performance pressures, for example unscheduled care problems, and the need to manage and respond to these to deliver safe, effective, high quality and timely care; and
- The inability of the organisation to drive the required pace and scale of service change needed to transform care, and the impact of this on driving value and in supporting a shift of resources within our system.

The Health Board's financial performance has also been influenced in the past by a number of cost drivers and spending decisions, for example:

- Population and demographic changes, with a growing aging population and increasing prevalence of chronic, long-term conditions;
- Inflation and cost growth, particularly in relation to medical and nursing costs;
- Demand growth for services; and
- Performance challenges relating to access, productivity and efficiency; and
- Investments in priority areas to maintain and improve quality, safety and access such as critical care capacity, unscheduled care, cleaning and nutrition.

2. What have you done that has meant you appear to have been able to improve the position compared to the last financial year?

The Board strengthened its finance function with measures, including the appointment of a new Director of Finance in May 2017 and a focussed finance capability plan which includes implementing the recommendations of the Deloitte Governance Review. This has

strengthened the Board's approach to financial management and delivery in a number of key areas:

Improved financial governance and oversight at all levels:

- The Board established a Performance and Finance Committee in early 2017, chaired by its newly appointed Vice Chair. This Committee provides monthly scrutiny and assurance of the financial plan, financial performance and recovery actions;
- A new financial reporting pack has been in place since mid-2017 with greater transparency of financial reporting at Board and Service/Directorate level;
- A Recovery and Sustainability Programme Board chaired by Chief Executive was established with Executive-led work streams covering key areas of the financial plan such as procurement, medicines management, service redesign and workforce as key areas of focus;
- Fortnightly financial recovery meetings take place with operational Service Delivery Units and corporate areas; and
- New Non Officer Member (non-Executive) appointments have been made. These have brought extensive experience and expertise to the organisation and significantly improved scrutiny and assurance.

Improved grip and stabilisation through improving reporting and data analysis:

- Improved data analysis and use of data visualisation techniques to understand trends, variance and support risk management;
- Improved dashboards in key areas to identify opportunities to deliver improved financial and non-financial performance;
- Establishment of a weekly central panel to review all non-clinical non-pay purchasing requests to curtail non-essential spend; and
- The introduction of unified savings tracker with weekly reporting by each Delivery Unit, which are reviewed fortnightly at the financial recovery meetings.

Structured approach to delivery:

- A Programme Management Office was established with dedicated project support for a number of work streams to drive savings projects forward;
- An Investment and Benefits Group (IBG) was created which scrutinises all investment decisions and tests alignment with strategic plans, ensures that business cases are robust and affordable, and monitors the delivery of benefits; and
- Regular and consistent messaging with the senior leadership team;
- A continued focus and drive on improving engagement and involvement with all staff on our Targeted Intervention status and journey to recovery.

Duty to have an approved three-year plan

3. *What have been the main reasons you have been unable to agree a three-year plan and what are the remaining barriers to you having an agreed plan?*

The Health Board had its first two Integrated Medium Term Plans (IMTP) (2014-2017 and 2015-2018) approved by the Minister for Health and Social Services. However, the IMTP submitted in 2016/17 was not approved, as the Health Board was unable to demonstrate the requirement to balance the delivery of services and performance requirements within the available resources.

Our clear ambition is to develop and deliver a robust IMTP for 2019-2022. Key issues for us to address include the need to reduce our underlying deficit, and make demonstrable and sustained improvements in performance. These will be informed and driven by on-going work on reframing our strategic focus and delivery priorities. Our extant clinical services strategy, *Changing for the Better*, was developed in 2012 and was intended to provide a guiding framework and clear objectives for delivery over a five year period. We are currently reviewing and updating this to give us greater clarity as an organisation on taking forward current and future challenges, changes in regional and local delivery arrangements, and our ambitions for excellent patient care.

Welsh Government Support and guidance on three year planning

4. How helpful is the Welsh Government's guidance on three year planning?

The NHS Wales Planning Framework is issued every year in October and we use this actively to guide the development of the Plan.

The guidance reflects the complex system in which we operate and is very comprehensive, providing clarity of expectations and requirements in each area, information on key planning assumptions, and signposting the resources available to support the planning process. It is also underpinned by Welsh Government feedback on the draft plan, which supports the continued development of each of the plan's component parts.

In the future, it would be helpful if the guidance could be issued earlier in the year as, at present, it comes out later than our internal process starts.

5. Are there any areas where it could be clearer – including views on the Auditor General's previous recommendation that the Welsh Government should 'set out more clearly in its guidance how, working in partnership with the Welsh Government, NHS bodies that have incurred a deficit should plan to recover their financial position in order to meet the duty in future years'.

We welcome the recent publication of *A Healthier Wales: our Plan for Health and Social Care,* and believe that this provides an opportunity to refocus and re-energise planning for medium and long-term delivery. It is critical that the refreshed guidance to support the next planning cycle is aligned with and supports the delivery of the key recommendations, and is clear about delivery expectations.

We believe that there is further opportunity for Welsh Government to support the sharing of best practice, providing tangible and real examples of 'what good looks like' across the planning spectrum including evidence from both NHS Wales and the wider health and social care environment.

The Health Board recognises that its financial plan for the next period needs to focus on both technical and allocative efficiency to support more effective ways of working and the need to change and transform service models. This will require the balancing of short-term financial turnaround and cost reduction measures, with the requirement to make targeted investment and move financial resources within the system to deliver sustainability over the medium term. We are keen to work with Welsh Government on developing this approach.

Financial Management and Savings Plans

6. What are the key challenges and opportunities for your Health Board in planning and delivering financial savings?

Key challenges include the need to plan and deliver drive out savings on a recurrent basis. Traditionally the delivery of savings has been primarily achieved by cost cutting activities, and by looking to improve efficiency and productivity. The organisation recognises that ideas and opportunities are becoming scarcer and more challenging to implement. In previous years the Health Board has relied on flat-rate Cost Improvement Programmes (CIPs), i.e. setting a uniform percentage cost reduction target for each of our Delivery Units via a top-down budget setting and financial planning approach. This can lead to difficulties in maintaining the energy and commitment of staff to engage and deliver, and does not reflect the different pressures and ability to contribute of our service areas.

There are a number of opportunities that the Health Board is actively pursuing. In particular, we are moving to differential targets for savings delivery which are built on evidence-based proposals using benchmarking data designed around key themes and activities. For the current year, these were developed and communicated earlier in the planning cycle to give a greater lead in time for detailed implementation planning. We are also looking to implement a blended and inclusive approach to savings identification – a mixture of top-down and bottom-up planning – to generate ideas and ownership of proposals from all staff. This will be supplemented by our work on staff engagement and incentivisation, where we are developing a process to provide the targeted re-investment of a proportion of savings by our clinical and operational staff.

The Health Board recognises that financial sustainability will need to be facilitated by service improvement and transformation across patient pathways, rather than in operational silos. We are therefore building on early work around pathway redesign, particularly on developing a value based approach to healthcare delivery, which gives greater prominence to the inter-dependencies between patient outcomes, quality and cost.

7. How much of an impact has the national Efficiency, Healthcare Value and Improvement Group had and are there specific examples of how the work of the Group has helped to deliver savings for your Health Board?

The National Efficiency, Healthcare Value and Improvement Group provides challenge, insight and support for Health Boards. Examples of where this Group has helped is in the introduction of the medical agency cap, which has provided a framework and structure to restrict the escalation of agency costs, and also work on clinical procurement supported by the NHS Wales Shared Services Partnership.

The Group encourages the sharing of savings plans and efficiency work across NHS Wales and is facilitating better communication and learning. The Group is now undertaking benchmarking work, including a review of continuing healthcare expenditure, which we believe will be helpful in identifying further opportunities to develop delivery models across Wales and drive additional savings.

8. How has your Health Board responded to the recommendations in WAO's Structured Assessment in relation to savings plans and overall financial planning/management?

The Health Board is responding to and addressing all of the points made by the WAO:

Financial Savings Planning and Delivery

- The financial plan for 2018/19 was developed both through the use of external reviews and benchmarking to identify savings opportunities;
- We have established work streams that directly align with the financial plan, which provides greater transparency around accountability and delivery responsibility; a focus on realism and deliverability in each area, and ongoing visibility around progress;
- We are moving away from traditional uniform Cost Improvement Programmes to targeted strategic savings delivery. This is drawing on staff engagement across the organisation and is looking to drive service transformation;
- This has been supported by a comprehensive budget rebasing exercise; and

- We have agreed a transparent reserves policy with assurance through Performance and Finance Committee.

Monitoring and Review

- We have strengthened accountability and delegation to budget holders, setting out clear expectations around service delivery and performance aligned to the allocation of funding; and
- As set out in answer to Q2 above, we have implemented a weekly savings tracker, undertake regular financial recovery meetings and have developed standardised reporting packs across the organisation.

Medium-Term Planning

- We are already bringing forward work on next year's financial plan, with a view to developing a three-year financial plan to drive and deliver financial sustainability and recovery;
- We are supporting this with the development of a dedicated team to provide financial insight and intelligence and to provide dedicated future financial planning support; and
- We are developing and testing our approach to zero based budgeting, and will pilot our approach in the autumn this year.

The structured assessment can be accessed through the following link:

http://www.audit.wales/system/files/publications/463A2018-19_ABMUHB_Annual%20Audit%20Report%202017_Eng_final.pdf

9. Have any lessons learned from the Welsh Government-commissioned financial governance reviews at some health boards been shared and applied more widely? If so, how?

Welsh Government ensured that the key themes from the finance governance reviews were shared, via an NHS Finance Academy Masterclass, conducted by the Deloitte review team.

10. What are the key actions you have taken, or intend to take, in response to the financial governance review commissioned by the Welsh Government? If you have an up-to-date response which is in the public domain, can you incorporate the link in your reply?

During 2017/18 the Welsh Government commissioned Deloitte to undertake a Financial Governance Review of the Health Board. The Health Board accepted all the recommendations from this Review and developed an action plan which is being monitored by the Health Board's Audit Committee on a quarterly basis. In addition, the Wales Audit Office completed its annual Structured Assessment, and this was agreed by the Health Board in March 2018. As a result a number of the recommendations from the Financial Governance Review have now been superseded.

The Health Board has put in place a Governance Work Programme for 2018/19 which consolidates the outstanding recommendations of the Deloitte Financial Governance Review, the Wales Audit Office Structured Assessment and the actions from its governance stocktake into an integrated work programme.

The review made 22 recommendations, and the current position is that 15 of those have been fully completed. There are 7 recommendations that were superseded by the Structured Assessment and these are now included as part of our integrated governance action plan.

The latest update on our Finance Governance Plan can be found through the following link: http://www.wales.nhs.uk/sitesplus/documents/863/2b.%20Financial%20Governance%20Review.pdf

We have also commissioned The Kings Fund to undertake a comprehensive Board, Executive and Leadership development programme to be delivered during 2018/19. The programme comprises three work-streams designed to work in tandem to increase board, executive and senior leader confidence and capability.

Funding Formula

11. How health boards are involved in the work to update the funding formula, and your understanding of the current state of progress?

We recognise that this is an important piece of work for Welsh Government and NHS Wales. We are awaiting details of the work to update the funding formula and would welcome the opportunity to be involved.

12. *What you see as the key changes that need to be made to the funding formula in*

the future*?*

As with previous work in this area, we are anticipating that any changes will be supported by a transparent and inclusive process, with a focus on reflecting local population health needs.

The original formula was based on the former Welsh Health Survey, which was discontinued in 2015 and replaced by the National Survey for Wales. A key change would be to reflect up-to-date, reliable and credible data sources, and for these and any key assumptions to be tested and shared before being implemented. Consideration should also be made of how more regular reviews and updates could be undertaken to reflect demographic and social changes.

Current formula allocations are based on local health board boundaries. It would be helpful if any revised formula could reflect funding distributions at primary and community care wards. This could then be used inform the distribution of funding within the Health Board to target local needs at a more granular level.

A key issue arising from any change would be for health boards to consider existing cross boundary funding flows, based on flows of patients between health boards, and whether a further review would then need to be undertaken to ensure an equitable share and flow of resource across the NHS Wales system.

We would hope to see Value Based Health Care and a focus on patient and populations outcomes to be at the heart of the funding formula review.

13. How you think any transition should be managed if there are significant changes to the formula/allocation?

If changes are made to the base-line allocations, there is a real risk of destabilising individual health boards. Any change would therefore need to be phased over time – it is likely that this could be over a significant period of time if the changes in allocations are material.

This gives rise to a number of related issues, including whether changes to the formula should be made to the base-line allocations or for new allocations in year, and how the potential for more regular refreshes and updates to the formula could be managed.

Overall impact of the NHS Finances (Wales) Act 2014

14. *Has the Act led to a demonstrable shift in the behaviour of NHS bodies and Welsh Government away from a short-term focus and towards the longer-term?*

The Act has provided a reinforced emphasis on the need to balance short-term operational delivery with longer term planning and service development. By combining the requirement to submit an IMTP and to demonstrate break-even over a rolling three-year period, the Act has provided a locus for integrated planning – where service, performance, workforce, quality and financial plans need to work together to demonstrate medium-term financial and service/ performance sustainability.

The Act has been welcomed by this Health Board and we see the real benefits of planning over a longer term horizon and beyond the current year. As mentioned earlier in this response, we are actively working on a new organisational strategy, underpinned by a refreshed clinical services model. We are keen to re-engage and re-enter the three-year planning cycle from 2019/20 to allow us to move into a planned programme of service improvements and transformational change.

Yours sincerely

TRACY MYHILL
CHIEF EXECUTIVE

- Chairman/Cadeirydd: **Andrew Davies**
- Chief Executive/Prif Weithredwr**: Tracy Myhill**

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