GIG CYMRU NHS WALES
Bwrdd Iechyd Prifysgol Betsi Cadwaladr University Health Board

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Nick Ramsay AM
Chair
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National Assembly for Wales

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Dear Chair,

Meeting financial duties

Thank you for your letter of 18th May regarding the above.

As with the rest of health organisations across the United Kingdom the Health Board is facing financial pressures arising from increased costs and / or rising demand due to a number of factors. An ageing population with materially more people over the age of 65 than five years ago has increased demand for both emergency and planned health care across the whole system - North Wales has a higher elderly population than the average for Wales. This has been compounded by population increases in the prevalence of long term illnesses / conditions such as diabetes, obesity, mental health etc.

Problems in relation to staff recruitment and retention have seen shortages of GPs and clinical staff, specifically medical and nursing staffing leading to increases in the use of locum and agency staff whilst also putting pressure on our waiting times.

New drugs and other new treatments have increased the number of conditions the NHS is able to treat, it has enabled us to provide treatment in circumstances where previously we could not. Modern clinical practice requires far higher levels of diagnostic tests and has seen the introduction of multi-disciplinary team decision making which results in better decisions but is more costly in terms of resources required.

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

BCUHB continues to face a number of financial challenges which have over recent years prevented it from meeting its financial duties. Key cost pressures / financial challenges for the Health Board include;-

- Over reliance on high cost medical and nursing agency costs. Following extensive work undertaken internally around recruitment together with the adoption of the All Wales rate cap, medical agency costs have reduced in 2017/18 to £19m, compared to £28m in 2016/17, although they still remain significantly high and cost materially more than a substantive employees. Similarly nurse agency costs

are high at £10m and continue to increase due to the large number of nurse vacancies across the Health Board.

- Individual Packages of Care including Funded Nursing Care and Continuing Health Care costs continue to increase at a rate in excess of inflation and continue to be an area of focus as we move into 2018/19.
- Secondary Care (particularly around unscheduled care) and MHLD (individual packages of care and out of area placements) are both areas that continue to face a number of operational and budgetary cost pressures.
- One of the underlying reasons for the cost pressure is the increase of both GP referrals and emergency activity into acute services which has been seen in both volume increases and the complexity of patients. As part of care closer to home approach the Health Board future focus is on releasing capacity in primary and community care to ensure this continued pressure on the acute sector is reduced. This is part of our Living Healthier, Staying Well strategy.
- Investments in priority areas to maintain and improve quality, safety and access.

2. To BCU and Hywel Dda: what has been the reason for the apparent further deterioration in the position during this financial year?

The Health Board set itself a very demanding savings target in 2017/18 of £35m (3.5%) which the Board recognised would represent a significant organisational challenge for the year. The Board fully recognised that the presence of ongoing deficits, particularly those which are not on a material downward path of reduction, was not an acceptable position and that there where opportunities for efficiency and productivity in excess of the £35m that was targeted. The concern was that to assume a greater level of CIP delivery in year would be unrealistic or would substantially elevate the risk that savings would be delivered at the expense of service quality and safety.

The main reason for the deterioration in the financial position from that planned relates to the failure to deliver the required level of cash releasing savings, particularly on a recurrent basis. Savings have been delivered, but a large proportion of savings have served to avoid additional cost and have been delivered non-recurrently causing additional financial pressure going forward.

The areas of non-delivery were largely in Secondary Care and Mental Health, the latter also experiencing in-year operational pressures around bed capacity and system flow which resulted in increased costs of out of area placements and individual care packages. As with the whole of the NHS we faced a challenging winter, particularity in relation to flu where despite higher vaccination levels the prevalence of flu was around three times higher at its peak than the Welsh average impacting on costs and ED waiting times and leading to the cancellation of elective activity.

As a consequence, the in-year financial performance was a deficit of £38.8m (of which circa £3m was due to the Health Board's failure to achieve our agreed reduction in waiting times, where a reduction of around 45% was achieved against a target reduction of

50%). The Health Boards financial deficit for the three-year period ended 31 March 2018 was a cumulative over spend of £88.1m.

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 was placed in Special Measures in June 2015 and, in agreement with Welsh Government, has not submitted a three-year plan. As a result of this, the Health Board has been operating under Annual Operating Plan arrangements. The development of an agreed three year plan requires the development of transformational plans to achieve a sustainable position on service quality, waiting times, staff experience and costs. This level of change requires investment in both our capacity and capability to drive service improvements and operational efficiency at every level across the Health Board.

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

The relevant guidance is 'NHS Wales Planning Framework 2017/20'. The guidance is helpful and provides a rationale planning framework with a clear process, timeline of requirements including priority areas for improvement.

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 believe the guidance to be clear and very helpful, and that it provides a good basis for Health Boards to work in partnership with the Welsh Government.

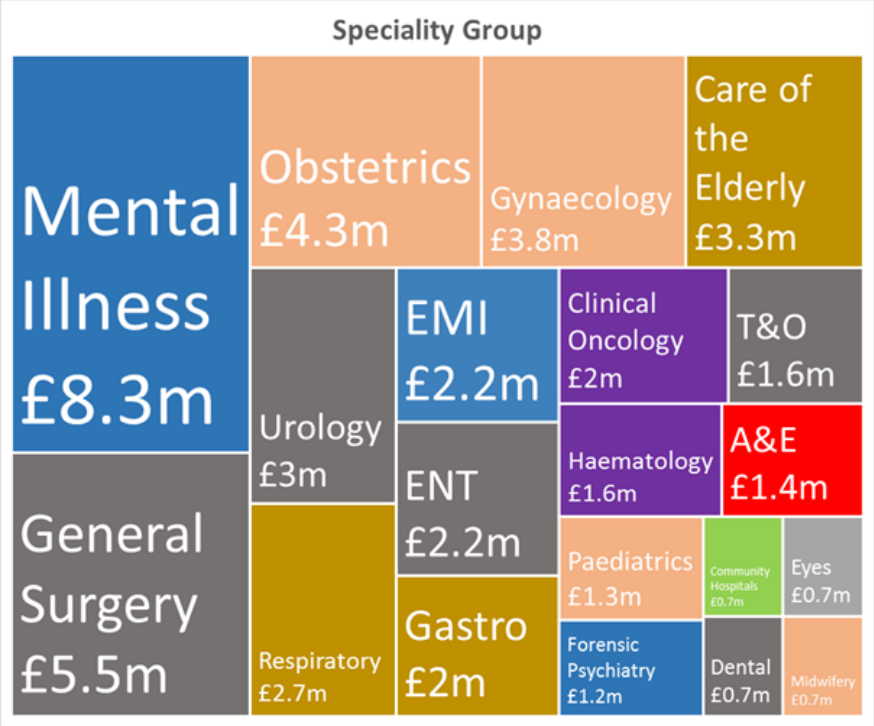
6. What are the key challenges and opportunities for your health board in planning and delivering financial savings?

Our key challenge is that our current methods of delivering change and improvement are not delivering the magnitude of change we require at sufficient pace. We need a step change in delivery if we are to move to a sustainable position and achieve our long term goals to improve the health of the population and deliver excellent healthcare. Our savings target in 2018/19 of £45m is sufficient to deliver a £35m planned deficit, which is a £3m improvement on 2017/18 but is still a deteriorating position compared to 2016/17 when the Health Board was £29m in deficit. As such we know we must aim to improve on the current plan whilst of course ensuring that we do not see a deterioration in service quality and safety.

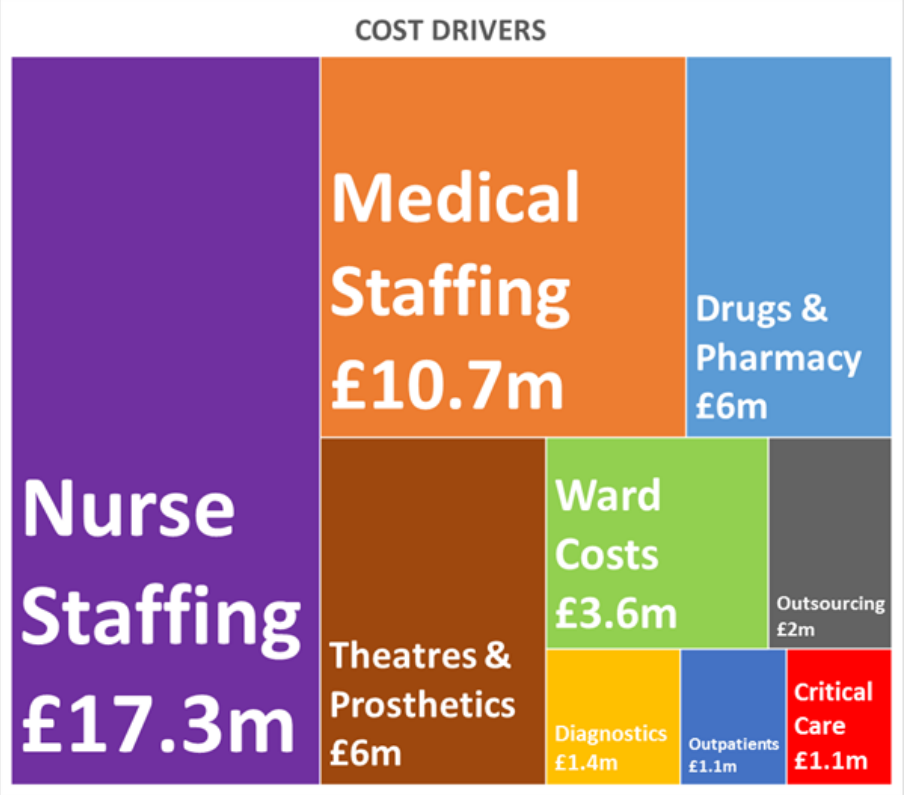
The Health Board's underlying deficit has been calculated as £49.1m, and the position has been assessed based upon known service inefficiencies when compared with peer groups across Wales and based upon the Health Boards strategy of promoting health and well-being and care closer to home, with more health service needs being met outside of hospitals.

The following charts provide an assessment by both specialty group and cost driver:

£49m Underlying Deficit by Specialty Group



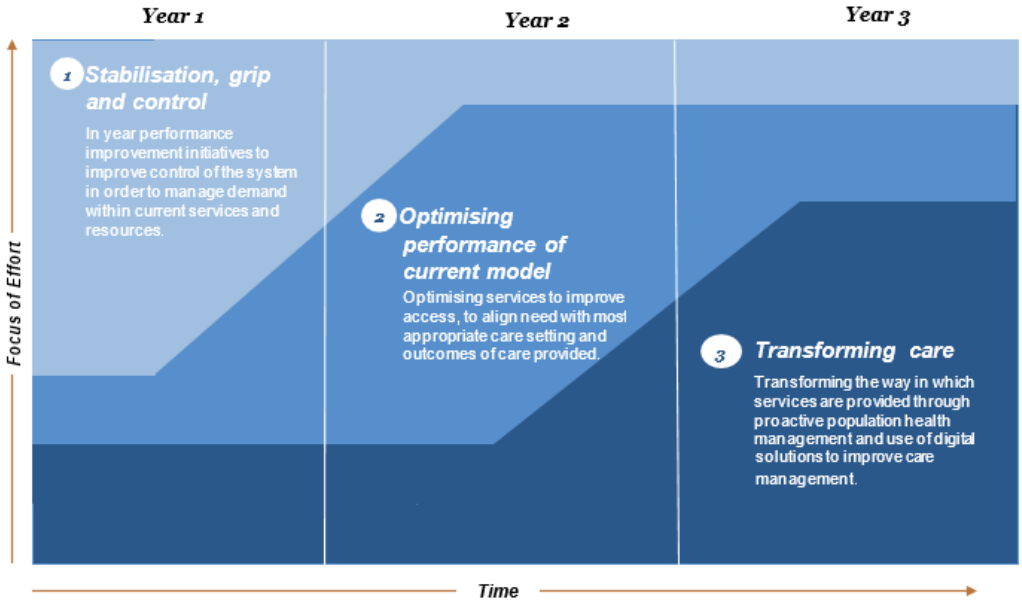
£49m Underlying Deficit by Cost Driver



The Health Board has adopted an ambitious strategy for health improvement and general healthcare; Living Healthier, Staying Well. This strategic direction envisages significant change in the Board's focus towards health improvement and reducing inequalities in health as well as delivering excellent healthcare. The strategy envisages a significant shift in the focus of healthcare delivery, moving more Care Closer to Home and re-designing our hospital services to be sustainable and fit for the future. The Health Board has also developed a number of detailed service strategies and plans as part of taking forward Living Healthier, Staying Well including mental health, orthopaedics, ophthalmology and primary care.

The Health Board will continue to ensure there is clear leadership to deliver the changes necessary to secure efficiencies and savings. This is supported through the PMO Steering Group, chaired by the Chief Executive, which ensures a clear line of sight on programme management and change initiatives. There is a clear approach to quality and cost improvement and service improvement, with a focus on ensuring that our services remain sustainable in the short and longer term. A number of changes are in place or are imminent to enhance our ability to both turnaround our current ways of working/service models but also to transform in order that completely new models of care can drive material improvement as shown below:

How should we prioritise implementation over the period 18/19 – 20/21?



Steps which are in place or underway to enhance our capacity:

- The establishment of a revised approach to service transformation, led by the Chief Executive.
- The appointment of a Turnaround Director and an enhanced Programme Management Office team.
- The appointment of a Director of a Primary Care to provide the dedicated, Board level drive to shift care closer to home in line with our strategy.
- The appointment of a new Secondary Care management team with plans to develop an enhanced level of capacity and capability on our acute sites, building on the work we have done to strengthen, develop and enhance our clinical leaders.
- A new leadership structure with Mental Health Services.
- The development of a new Workforce strategy, building on our successful Work, Train, Live strategy and with a more effective drive to improve staff engagement across the Health Board.

The Health Board does not underestimate the scale of the challenge we face but we believe we are putting in place the foundations to deliver, as we have already successfully done so in areas such as maternity services.

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 the health board?**

The main benefits of the National Efficiency, Healthcare Value and Improvement Group to date have been;-

- Enabling high level comparison across all Wales Boards of the approach taken and relative target/ actual values delivered of efficiency savings. This is helpful in seeing what may be possible.
- Providing forums for exchange of ideas, opportunities and specific initiatives and for sharing best practice, for example in estates LED lighting and carbon reduction.
- Providing an opportunity to challenge practice e.g. time to recruit.
- Enabling greater leverage and comparison of prices and clinical practice e.g. in prescribing (e.g. approach on use of avastin, generics, statins) and procurement.
- Providing information about specific schemes that can be introduced into the organisation.

The Health Board uses the information to sense check where it is against each area identified by the Group and when variance to the norm is identified, action is taken to try and improve performance. This has been particularly successful in a range of specific areas such as the use of biosimilars to reduce medication costs, opportunities for non-pay savings in orthopaedics, new approaches to reduce waste costs etc.

8. What are the key actions you have taken, or intend to take, in response to the financial governance reviews 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?

The Health Board has benefitted from the WG commissioned financial governance review. From the review, an action plan has been established and agreed by the Board with regular monitoring of progress reported to the Board. The initial action plan was presented to the Board in February 2018, a link is provided below.

http://www.wales.nhs.uk/sitesplus/861/page/94107

Funding formula

9. **Involvement and view of funding formula process**

The use of population funding formulas to determine the “appropriate” level of health care expenditure is fraught with complexity and is a substantial challenge, particularly given that there are limits on any national system of data collection. Having said that there is always scope to improve the sophistication and effectiveness of such formulas and BCU would welcome a review.

Any review needs to reflect the very latest up to-date information about population sizes and demographics and consideration should be made about how this is reviewed regularly. Specifically for the Health Board latest projections suggest a 6.7% increase in the total population by 2030. Importantly in the use of healthcare resources it is expected

there will be a decrease in younger population groups (under 16 and 16 to 64), but a very large increase in the older age groups (35% 65-84 and 155% 85+). The Health Board is the largest in Wales and covers almost a third of the country's landmass so rurality as well as temporary residence and tourism are also key issues for us.

It's important that any revision to the formula reflect these known key drivers of the use of healthcare resources. If changes are made to the funding formula that leads to significant changes to allocations, these may need be managed over a number of years until organisations reach their revised target allocation. To maintain stability, the annual movement may have to be capped at a given percentage each year whilst keeping the overall allocation in balance.

Overall impact of the NHS Finances (Wales) Act 2014

The requirement for NHS organisations to develop financially balanced three-year integrated plans provides the NHS with a clear framework to encourage longer term planning.

This approach is welcomed as the right thing to do to ensure that there is a focus on developing longer term solutions and actions in order to address the long-term challenges facing the NHS.

Aligned to the Act, the Health Board welcome the research based approach which WG is increasingly adopting in financial policy development, such as the Institute of Fiscal Studies report into Welsh budgetary trade-offs; the Health Foundation's report on the financial sustainability of the NHS in Wales or the Nuffield Trust's 'Decade of austerity in Wales' report. Such evidence is focusing on the longer term resource requirements of the NHS and will serve to ensure that Wales is well placed to adopt best practice in resource allocation. It is important to recognise that healthy lives are determined, not just by spending directly on health, but through communities which are prosperous, secure, active, well-educated and well-connected.

The broader policy framework from Welsh Government has become increasingly consistent. Linking the NHS Finances (Wales) Act with the Wellbeing of Future Generations Act, for instance, has increased the focus on long term planning and collaboration with public sector partners. Likewise, prudent healthcare and the development of the value agenda helps to provide a longer term solution to address the issues facing the NHS.

I trust the responses provided in this letter provide you with the evidence requested.

Bwrdd Iechyd Prifysgol
Betsi Cadwaladr
University Health Board

Yours sincerely

Gary Doherty
Prif Weithredwr
Chief Executive