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Bwrdd Iechyd Prifysgol  
Hywel Dda  
University Health Board

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Nick Ramsay AM  
Chair  
Public Accounts Committee  
National Assembly for Wales

Dear Chair

Many thanks for the opportunity to submit evidence, once more this year, in support of your review into the NHS Finances (Wales) Act 2014.

You will be aware that the Health Board has faced a number of challenges during this year which have had a significant impact on our in-year financial performance and three-year breakeven duty. Following the completion of the Wales Audit Office's statutory audit of our accounts, I can confirm that our financial results for the three-year period ended 31 March 2018 was a cumulative overspend of £150.2m. Our in-year financial performance was a deficit of £69.4m.

As Committee Members may be aware, following the end of the financial year on 23 May 2018, the Cabinet Secretary announced additional recurrent funding to the Health Board of £27m for 2018/19. We are grateful to Welsh Government for commissioning the 'Zero Based Review' by Deloitte, which identified unique challenges in relation to demography and scale of facilities when compared to our peer Health Boards. Whilst there is further work we must now do deliver financial breakeven, the additional funding in recognition of our unavoidable local factors is welcome.

This additional funding will make a significant impact on our underlying deficit in the short term. Addressing the remaining deficit we are incurring will require action over a longer term, and a longer term recovery plan is being developed.

Your letter of 18 May outlined a series of questions for us, which I have responded to in order, below:

- **What have been the main factors/barriers to meeting the financial duties?**

The review undertaken by Welsh Government into the Health Board's finances, the 'Zero Based Review', has highlighted that there are a number of unique cost pressures which the Health Board faces. These pressures have undoubtedly had a significant impact on the Health Board's ability to meet its historic financial duties.

However, there are also a number of operational issues which have also affected the Health Board, such as the overreliance on agency staffing to cover key services within secondary care; and increasingly a reliance on locum staff within primary care. This has a direct financial impact on our deficit, but also represents a challenge to our ability to work with clinical colleagues on standardising practices and implementing best practice across the organisation.

Engaging with our clinical colleagues to ensure that all our staff are focused on delivering value to our patients, the population we serve and the taxpayer will be critical in improving both the quality of our services and our financial position. The recent launch of the 'Transforming Clinical Services' consultation has been clinically led, and we are confident that the dialogue between the public, clinicians, other staff and stakeholder organisations will enable the Board to develop a sustainable and financially affordable service model.

- **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's budget for this year represented a deficit of £58.9m, but our outturn was a deficit of £69.4m. The main challenges for the Health Board have been related to the difficulties in recruiting key staff to a number of critical services across our sites. These difficulties have resulted in the need to use agency staff and overtime to supplement our substantive workforce.

A number of examples are shown below, which demonstrate the effect of medical agency on a selection of specialties. These cost pressures were not all expected at the time that budgets were set.

	<b>Budget (£'m)</b>	<b>Cost in excess of budget (£'m)</b>	<b>Percentage variance</b>
A&E and MIU	16.8	2.5	15%
Medical specialties	18.7	0.9	5%
Obstetrics and Gynaecology	5.4	0.9	16%
General Surgery	8.2	0.8	10%
Orthopaedics	7.0	0.7	10%
Anaesthetics	11.8	0.4	3%
Urology	2.1	0.3	13%
Contribution to deterioration in financial position		6.5	

As well as medical staff we have also, despite considerable efforts and innovative approaches, struggled to recruit fully to our nursing establishment and this has impaired our ability to deliver savings in agency costs at the level we had planned.

The reasons for the use of agency staff are numerous, although what has been notable is the particular challenges in our more remote sites, Withybush General Hospital and Bronglais General Hospital, and addressing the sustainability of our workforce is one of the critical factors behind our decision to embark on our change programme, 'Transforming Clinical Services'.

- **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's key challenge in agreeing a three-year plan was our inability to deliver a balanced financial position over three years, requiring as it did a net reduction in expenditure of circa £20m per annum to achieve breakeven at the end of the period.

With the allocation of the £27m recently announced; and the emerging consensus regarding the need to fundamentally redesign our service model to reduce the reliance on acute hospitals and increase our ability to support people in the community, we feel that we have the opportunity to develop a plan to achieve breakeven in the medium term. We will continue a dialogue with Welsh Government colleagues regarding our aim of developing an approvable IMTP as soon as possible.

'Transforming Clinical Services' will be a key part of that recovery plan, but addressing issues such as clinical variation will also be critical as part of the medium term recovery.

- **How helpful is the Welsh Government's guidance on three year planning?**

The process used by Welsh Government to support the planning process has become increasingly embedded across the NHS in Wales, and this is to be welcomed. Welsh Government have encouraged peer-learning and support; and this has supported the dissemination of good practice across Health Boards and Trusts.

Specifically for Hywel Dda, we have received additional support from Welsh Government over the past two years. The reviews into our financial governance arrangements, and the 'Zero Based Review' have both supported us in addition to the planning guidance. These have provided welcomed insights into our circumstances which has been fed back into our planning approach.

In addition, our monthly Targeted Intervention meetings with Welsh Government officials has provided a focus to discuss issues of concern as and when they arise. Also under Targeted Intervention, Welsh Government have provided practical support to our ongoing organisational development efforts.

- **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’.**

While there will be some consistencies between the causes and solutions to financial challenges across Health Boards; there are also unique circumstances. Consequently, responses need to be organisation-specific.

In our case, Welsh Government commissioned both a financial governance and ‘Zero Based Review’, both of which have provided insights to support improvements in our approach to address our financial challenge.

There are also opportunities to share learning across organisations. I have previously mentioned the planning peer-review. In addition to this, for example, we will be hosting a Summer Planning event where those involved in planning across Wales will share their learning from last year in order to inform this year’s planning cycle. The recent establishment of the Finance Delivery Unit in Welsh Government is a welcome move to provide more bespoke support to each Health Board.

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

As has been touched on elsewhere, the key challenges facing the Health Board are a distributed, elderly population, an over-reliance on suboptimal acute facilities and particular shortfalls in our primary care and community services. All of these are a factor in our particular issues with being able to recruit and retain a skilled and experienced workforce, many of whom are no longer prepared to work in small teams with onerous on-call arrangements and limited access to the professional and social opportunities available in more urban areas.

The ‘Zero Based Review’ has now recognised the financial impact of our elderly population and the suboptimal scale of our facilities. However, the remaining workforce challenges require more medium to long term solutions to develop Hywel Dda as an attractive place to work. The root-causes and suggested solutions to these challenges have been outlined in some detail in our ‘Transforming Clinical Services’ consultation. We of course await the outcome of the consultation but it is clear from our clinicians that ‘no change’ is not a viable option for Hywel Dda or the population we serve.

Having progressed a considerable way in our strategic thinking it is clear that the identification of our savings plans in the coming years will be a combination of technical efficiencies as in previous years and, increasingly, allocative efficiency, where clinical pathways and service models will be streamlined and developed to ensure we deliver the best outcomes for patients at the most efficient cost.

We recognise the opportunity this presents both for our patients, but also for our workforce and for our longer term finance sustainability. The challenge will be to transition from one model to another at a time when funding for any change will be limited.

- **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?**

This Group has provided important leadership in this area, and has encouraged the adoption of good practice across NHS organisations. Over the past year, the Group has identified efficiencies in the procurement of clinical supplies and in medicines in particular. These opportunities supported the Health Board's savings plan for the last year.

We recognise that as a Health Board we have further to go in our emerging Value Based Healthcare initiatives. To this end we have recently agreed with Welsh Government, Abertawe and Bro Morgannwg UHB and Swansea University, a joint regional programme looking at a selection of agreed clinical pathways across the region. With support from the Finance Delivery Unit and local dedicated resources this programme aims to accelerate the identification of opportunities to improve patient care and improve the allocation of resources within the region.

- **How has your health board responded to the recommendations of the WAO's Structured Assessment in relation to your savings plans and overall financial planning/management?**

The Health Board implemented a turnaround approach during the past year, which is being embedded over this year. The approach to identifying savings opportunities has been better co-ordinated through the planning process for 2018/19. Our change management arrangements and accountability arrangements have also been strengthened through this process for 2018/19.

In 2017/18 this turnaround approach yielded a significantly stronger savings performance with £29m of gross savings and accountancy gains being delivered. In 2018/19 we have targeted £38m of gross savings. We recognise this is challenging and we are doing further work to ensure that our planning of our services, finances and savings over the medium to long term is strengthened to ensure we move away from over reliance on short term and non-recurring measures.

- **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 arranged a seminar which has shared the common themes emanating from the governance reviews amongst the NHS Wales finance community.

- **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?**

As Hywel Dda was one of the Health Boards which were reviewed, we have undertaken considerable work to support the review; respond to its conclusions; and embed within the operations of the Board the lessons learnt. In general it was pleasing to see that whilst there were areas for improvement, the review was generally supportive of the direction of travel we had already embarked on. We had previously commissioned a review into our Board governance arrangements, which was particularly useful in preparing the Health Board for the subsequent financial governance review. Key recommendations were;

- To continue with Board Development given the recent appointments to the Team
- To focus on holding Executives to Account for actions assigned to them
- Review and make changes if required to some aspects of the committee and governance structure
- Make further improvements to Financial Reporting
- Reinforce the Planning cycle process with senior staff.
- Significantly improve savings reporting (the review was undertaken before the Turnaround structure was established)
- Fully understand the capacity and capability of operational teams and support through enhance organisational development.

Whilst not a specific recommendation, the review also supported the plans in place to enhance the Finance Directorate's support to the Operational Teams.

A redacted version of the Financial Governance Report is available on the WG website at the following link;

<https://gov.wales/docs/decisions/2018/health/180426atish11984doc4.pdf>

Progress on the delivery of these recommendations has been regularly reported to the Board and its last review papers are available on the following link.

[Item 09ii External Financial Governance Review](#)

<http://www.wales.nhs.uk/sitesplus/documents/862/ExFinGovReviewRecsSBARJun18withActionPlanv3.pdf>

- **What are the key actions you have taken, or intend to take, in response to the zero-based review?**

We have of course contributed to the 'Zero Based Review' and were impressed by the diligence and professionalism of the reviewers from Deloitte and the commitment of Welsh Government colleagues to the process. As part of the review, as well as undertaking an analysis of the available data, the reviewers interviewed a range of key managers, leaders and clinicians. This in itself was a learning process as it reinforced with all concerned that whilst there were issues causing unavoidable local financial pressures, there were also opportunities open to us in the short to long term. These efficiency opportunities have been built into our savings planning for 2018/19 where possible.

A key initial action for the Health Board is to ensure we are clear about our revised funding baseline and ensure that our reported underlying position as detailed in our monitoring returns and featuring in any future plans is agreed with Welsh Government. This is now underway. This is critical so that as we respond to the current consultation and design in detail our service model, we can be very clear regarding the underpinning financial model.

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

Our responsibility as a Health Board is to ensure that we operate within the funding allocated to us by Welsh Government. We will of course support, if requested, the work to update the funding formula. However, we will respect Welsh Government's approach to the funding allocation across NHS Wales.

In the case of Hywel Dda it is important to note that the 'Zero Based Review' commissioned by Welsh Government identified the need for additional funding to be provided to the Health Board as a result of our elderly demographic and the scale of our facilities arising from the widely distributed nature of the population. We are grateful this has been addressed by the Government.

- **What you see as the key changes that need to be made to the funding formula in the future?**

Please refer to my response to the question above.

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

In order for any changes to be manageable we would anticipate that any transitional arrangements would balance the need to reflect the drivers inherent in the formula with the time necessary to react to change.

- **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?**
  - **If so in what ways?**
  - **If not, then what have been the key barriers to change?**

The issues facing the Health Board have developed over the long term, and addressing these issues will take time.

The Act has made significant progress in encouraging NHS bodies to focus on the longer term. An example of this is our approach in Hywel Dda in the 'Transforming Clinical Services' programme. This demonstrates our approach in planning over the longer term, which will also result in a significant change management programme over the longer term.

I hope that the responses I have provided provide you with the evidence you require. However, should the Committee require any further information or clarification, I would be delighted to provide it in due course.

Yours sincerely



**Steve Moore**  
**Chief Executive**