

Public Accounts Committee
Scrutiny session on the NHS Finance (Wales) Act 2014
16th July 2018

Evidence paper from the Director General, Health and Social Services

Introduction

We are now four years into the operation of the NHS Finance (Wales) Act 2014. The financial year just ended has been the second time we have reported on the three-year financial duty and was the fourth year that organisations were required to submit integrated medium term plans for approval. This is a good opportunity to update the Committee on the progress we have made since our evidence session in July 2017 in embedding the integrated planning approach and improving financial discipline in NHS Wales. While there is still clearly work to be done to ensure all organisations meet the requirements of the Act, I believe we are able to demonstrate that 2017-18 has been a year of stabilisation and improvement.

Integrated Medium Term Plans 2018 to 2021

Process

The IMTP process has developed incrementally since the introduction of the NHS Finance Act (Wales) 2014. The aim is to strike a balance between robust review and assurance and maintaining ownership and accountability at organisational level. The intention of the review stage is to understand that the ambition, priorities and performance set out by each organisation is credible and supported by appropriate workforce, other resources and is financially deliverable. Details of the process can be seen at Appendix 1.

Planning Maturity

For the fifth year of integrated planning round, six organisations (Aneurin Bevan, Cwm Taf and Powys Health Boards and Public Health Wales, Velindre and WAST NHS Trusts) have demonstrated a growing maturity and development of their organisational planning processes and have a track record of delivery that provides confidence and credibility in the ability of the organisation and their Boards to implement their plans. They have submitted well developed and approvable final plans that:

- demonstrate evidence that they are “population health” organisations, understanding the need for local primary and community care to be central to transforming the health system;
- understand the need for prevention and public health focus;

- have clear organisational priorities that are, on balance, underpinned by clear descriptions of impacts, actions, milestones and effects on finances and workforce; and
- provide evidence of ownership of plans across their respective organisations, through a bottom-up approach to the development of priorities.

Going forward plans will be aligned to *A Healthier Future*, but for the 2018-21 planning round organisations were able to take account of findings of the Parliamentary Review in preparing their current submissions.

A key feature of the approved plans is that they are set in the context of Board agreed, or emerging, long term clinical strategies that provide clear direction for the delivery of the integrated medium term plans.

It is also evident that those organisations that have succeeded in multiple plan approvals are more advanced in the application of the legislation and national policies that require new approaches to partnership and collaboration such as the Social Services and Wellbeing Act and the Wellbeing of Future Generations Act.

Developments

Planning skills

The Planning Programme for Learning has continued to evolve and now has a number of strands that support the development of skills and capacity to support integrated planning, and to contribute to improving the quality and maturity of IMTPs.

The Programme includes:

- Bi annual learning events with NHS Planners and officials to learn lessons and share good practice;
- A suite of master-classes to address specific areas, such as demand and capacity planning, to ensure consistency and improve accuracy of planning;
- An Academic Programme is in development to provide accredited learning and enhance professional planning skills.

Collectively this approach is enhancing the planning capabilities and opportunities in Wales and supporting individual and collective learning. The learning events and master-classes are already offered to a broad range of attendees and over time the academic programme will be offered more widely.

Working with Regional Partnership Boards (RPBs) and Public Sector Boards (PSBs)

Health Boards are already statutory partners on RPBs and PSBs, where they agree common priorities and strategic objectives that influence their plans. These

arrangements now need to go further with organisations seeking out and implementing further opportunities for joint approaches, new models of care and support and pooled budgets. The next Planning Framework, to be published in autumn 2018, will provide clarity on the expectations set out in the long term plan for health and care to support and where possible accelerate this work, for example through the Transformation Fund and Integrated Care Fund.

A Healthier Wales – our plan for Health and Social Care

A Healthier Wales sets out the ambition for transformation of health and care services for people in Wales. Integrated planning and a genuine partnership approach across sectors provides a sound footing for enhancing and delivering the expectations of improved outcomes and seamless care first set out in the Parliamentary review. Over the coming months we will start to implement the plan and look at what needs to be done to further support, align and drive planning arrangements across sectors.

In responding to *Healthier Wales* officials are considering how the Welsh planning system, including IMTPs, can be streamlined. This work has already begun and includes:

- Engaging internally and externally with Planners
- Considering how processes and policy can support and simplify arrangements; for example, timeframes and reducing any duplication.

The next Planning Framework will seek to simplify and clarify matters wherever possible. There is a challenging timeframe over the summer that will start this work, as well as identifying levers for change and opportunities for accelerating existing good practise. In addition, further work is being undertaken to incentivise transformation and enhance performance via dedicated funding streams. In applying these levers it is important to recognise that health boards and trusts have a range of challenges and the support and levers that are needed will vary in order to maximise the resources and funding available. As ever, Welsh Government will strike a balance between escalation intervention and the strategic planning support linked to the levers for change that are in development.

Review of 2017-18 Financial Outturn

The Cabinet Secretary for Health and Social Services issued a written statement to members on 14th June detailing the financial outturn for NHS Wales organisations in 2017-18. Six out of ten organisations complied with the statutory break even duty by operating within their budgets over the three-year period of assessment from April 2015 to March 2018. In addition to their reported outturns, Aneurin Bevan and Cwm Taf generated surpluses during 2017-18 of £2.4 million and £3 million respectively

which Welsh Government has agreed to carry forward. These amounts were removed from the boards' 2017-18 allocations, and will be re-provided to them in 2018-19.

Four of the ten organisations did not achieve their financial duty to break even over three years. Consequently these four organisations have failed to meet their statutory financial break-even duty for the three-year period of assessment, and as a result have received qualified regularity opinions from the Auditor General for Wales on their 2017-18 accounts.

To confirm our expectation of stabilisation and improvement for the four boards in escalation, for the first time in 2017-18 we set maximum deficit financial control totals for these organisations. The control totals and final outturn are detailed in the table below.

Health Board	Maximum Deficit Control total £m	Final outturn deficit £m	Variance to control total - Improved / (worsened) £m
Abertawe Bro Morgannwg	36.0	32.4	3.6
Betsi Cadwaladr	26.0	38.8	(12.8)
Cardiff and Vale	30.9	26.8	4.1
Hywel Dda	58.9	69.4	(10.5)

In terms of Hywel Dda UHB, in 2015-16 and 2016-17, Welsh Government provided the Board with additional non-recurrent funding of £14.4 million in each year as short term structural support in recognition of the financial challenges it faced. During 2017-18, no additional funding was provided, pending the commission by Welsh Government of a zero based review of the Board's cost base. To ensure a consistent trajectory of improvement, the reduction in the Board's allocation was taken into account in setting their control total for 2017-18.

Two organisations– Abertawe Bro Morgannwg and Cardiff and Vale – achieved an improved financial deficit position in 2017-18 compared to 2016-17, and improved upon the deficit control totals set by Welsh Government.

All Local Health Boards reporting financial deficits in 2017-18 have received reports from independent financial governance reviews commissioned by the Welsh Government during 2017-18, and have developed and published action plans for implementation. Progress on delivery of these actions is being monitored by officials through the regular intervention meetings with these boards.

In addition to the financial governance reviews and regular targeted intervention meetings, detailed finance meetings were held with these organisations on specific

financial issues such as savings plans, pay costs and workforce numbers, reporting and financial forecasting. This support to those health boards were both focused on in year improvements and also improvements for 2018-19.

Taking account of the two health board surpluses brokered forward during 2017-18, and the additional non-recurrent funding provided in previous years to Hywel Dda which was not provided in 2017-18, the overall net outturn for NHS Wales in 2017-18 was slightly improved on the 2016-17 position, as demonstrated below:

	£m
NHS Wales 2017-18 reported outturn net deficit	167.0
Adjusted for:	
Surpluses brokered into 2018-19	(5.4)
Hywel Dda allocation reduction	(14.4)
Adjusted 2017-18 outturn	147.2
2016-17 reported outturn net deficit	147.7

The NHS net deficit in 2017-18 has been managed within the overall health and social services budget. Subject to audit, the Welsh Government's resource accounts for 2017-18 are expected to show a modest surplus on health and social services revenue budgets. This means that the overall budget has been met whilst maintaining a focus on individual organisations where we wish to see their financial discipline improve.

2018-19 Financial Year outlook

On 13th June the Cabinet Secretary issued a statement to members confirming that he had approved the integrated medium term plans from 2018 to 2021 for six organisations based on the submission of balanced and achievable plans. Although the four health boards in escalation were unable to submit approvable plans for this period, and so continue to work to annual operating plans, there is already evidence that Abertawe Bro Morgannwg and Cardiff and Vale University Health Boards are continuing their trend of improvement with a further material reduction in their planned deficit. (Annex 1)

The Cabinet Secretary for Health and Social Services made an announcement in May on the outcome of the zero based review into Hywel Dda University Health Board. The review partially confirmed that Hywel Dda faces a unique set of healthcare challenges that have contributed to the consistent deficits incurred by the Board and its predecessor organisations. In response to these findings the Cabinet Secretary approved the release of £27 million additional recurrent funding. As a consequence of this additional funding, we expect Hywel Dda to operate within a significantly lower planned deficit than previous years.

Betsi Cadwaladr University Health Board continues to cause concerns in areas of financial planning and management. The Board exceeded its control total in 2017-18 by nearly £13 million, and its current plan for 2018-19 shows at this stage limited stabilisation and improvement on last year. We will be increasing our financial intervention in the organisation over the summer with the input of the recently established Finance Delivery Unit, alongside our regular accountability process with their executive team.

We have placed a particular focus on addressing the net underlying deficits in NHS organisations as a key performance indicator in improving financial stability. The indicator adjusts for non-recurrent funding streams and savings actions, as well as removing any non-recurrent spending. Whilst the analysis is still being reviewed and challenged by officials with NHS finance teams, the positive indications are that the risk will be reduced from 3 per cent of spend coming into the current year down to under two percent by the end of the year. This position has been achieved by an increasing focus on planning and financial discipline.

Efficiency and Value

The National Efficiency, Healthcare Value and Improvement Group continues to support delivery of the efficiency agenda, with a focus on improving both technical efficiency and allocative efficiency. The Efficiency Group works with, and through, All Wales Director groups on developing and enabling delivery of specific improvement opportunities on a system wide basis, for example:

- Atlas of Variation with Medical Directors
- Optimal Nurse Rostering with Nurse Directors
- Delivering on medicines optimisation working with Chief Pharmacists
- Developing an Efficiency Framework with Directors of Finance
- Through Shared Services procurement and medical directors standardising clinical products such as Hip Prosthesis, and other consumables such as high cost trocars.
- Developing and introducing a system wide cap on medical locum and agency pay rates.

In addition to the Efficiency Group programme, other work in relation to supporting the development of Value Based Healthcare is being progressed, strengthened with the appointment of a Clinical Lead for Value-Based Healthcare in Wales, with continued work to develop the approach to value based procurement, outcome measurement and evaluation. NHS Wales has a strategic partnership with the International Consortium for Health Outcomes Measurement (ICHOM) supporting this work, which includes the development of work in pilot areas such as Lung Cancer.

The above describes significant examples of the system and peer groups developing a co-ordinated and consistent response to emerging challenges and delivering financial improvement. The impact of which include:

- Improving the uptake of Biosimilar medicines through an approach endorsed by the Efficiency Group and led by the NHS chief pharmacists peer group. This has enabled increased use of Biosimilar infliximab across Wales by over 35% from January 2017 to October 2017 and increased use of Biosimilar etanercept by approximately 30% between January and November 2017. The annual saving impact in relation to increasing Biosimilar uptake within one Health Board alone (Aneurin Bevan) is £0.7 million per annum.
- Supporting the development of Medicines Optimisation plans, through Chief Pharmacists maximising the significant additional savings from the availability of generic Pregabalin.
- Through Directors of Finance and shared services procurement identifying and implementing Early Payment Programmes anticipated to deliver an £8 million gain to NHS Wales over a 5 year period
- Introducing a locum & agency rate cap in November 2017. The total expenditure on medical and dental locum and agency workforce paid at a premium reduced for the period November 2017 – March 2018 by £13.4 million from the same period in 2016-17.
- Increasing standardisation of clinical products through shared services procurement working with clinical staff and Health Boards. The improvement potential of the standardisation of Trocars, a key instrument used in laparoscopy procedures, was identified as £0.7 million per annum and progressed by Health Boards.
- Developing a Value Based Healthcare approach through delivering a national Time Driven Activity Based Costing (TDABC) exercise for Cataract surgery identifying significant pathway variation, and developing local TDABC work such as Aneurin Bevan Health Boards work on the Prostate Cancer pathway. Through the National Planned Care Board, Finance Directors are currently supporting the TDABC assessment for Knee Surgery to identify potential unwarranted variation and improvement opportunities.

Through the recently established Finance Delivery Unit, an Efficiency Framework has now been developed in order to systemise and more routinely share and surface opportunities for improvement across organisations within NHS Wales. This is focussed on:

- Population health based analysis to inform allocative efficiency opportunities. This considers variation in expenditure by organisation and disease category, and utilises Health-maps Wales software to identify variation in referrals across clusters and practices
- Technical efficiency & productivity analysis, and opportunities to deliver productivity improvements considering organisation performance against best practice peers
- Comparing savings plans and other bespoke benchmarks across organisations to identify opportunities for further improvement and implementing best practice across the system.
- Co-ordinating a shared view of robust intelligence on a system wide basis to support the continued development of plans and improvement

Through Finance Directors and senior teams, the Framework is being utilised to refine and continue to develop 2018-19 plans, and will continue to be developed to support organisations plans for 2019-20.

Through detailed comparisons of organisations savings plans against agreed and standard definitions, this has enabled:

- Developing a consistent framework and approach across organisations
- Identifying areas for improvement in both approach and content across organisations
- Building an understanding of good and best practice, enabling organisations in Targeted Intervention to consider potential improvements in line with organisations with approved plans.

It is anticipated that the actions and work described above will continue to be developed and delivered at pace over 2018-19 to continue to support improvement in this area going forward.

Auditor General for Wales' recommendations

The Auditor General for Wales made two recommendations in his 2017 report and also identified two broad areas for the Welsh Government to focus on. The Welsh Government's initial response and updated position is outlined in Annex 2.

Integrated Medium Term Plans

Process

The assessment process is intended to be robust and to determine if plans are realistic and affordable. The key components include:

- a cross-departmental / multi policy analysis in February 2018 after the January 2018 submission and again in April 2018, after the March 2018 submissions;
- use of a Planning Board, chaired by the Deputy Chief Executive NHS Wales and with a number of HSSG Executive Director Team (EDT) members, to lead and oversee the assessment and approvals process;
- use of executive-level multi-professional meetings between HSSG and NHS organisations, including as part of the Joint Executive Team (JET) meetings and Targeted Intervention (TI) meetings, to enable challenge, clarity and assurances on the plan.
- Officials have met each Health Board and Trust at least twice between January and March. For some organisations, the number of meetings has been significantly higher
- Significant time investment spent analysing and reviewing the plans. This has been in the form of individual policy lead reviews, policy leads coming together to consider and discuss each organisation and discussions and decisions at the Planning Board. This process is overseen by the Director.
- There has been ongoing communication with organisations as part of the feedback loop in the form of letters from, and meetings with the Deputy Chief Executive NHS Wales. These have been supported in many cases by tailored feedback discussions between HSSG planning and policy leads and organisation service leads.

High level organisational summaries

Aneurin Bevan UHB

Aneurin Bevan has provided a well developed plan for 2018/21 and has a sound record of delivery. As expected, assurances on the delivery of the Grange University Hospital were an important aspect of the plan.

Cwm Taf UHB

Cwm Taf has provided a strong plan for 2018/21 that demonstrates a high level of organisational engagement in the development of their plan. The organisation has shown ambition in its plans, in particular around local primary health and care and its

engagement with local authority partners. The health board has expressed a commitment to regional planning that will support the south east Wales region.

Powys THB

Powys has provided a sound plan over the three years which continues to develop its integrated approaches. The Chief Executive has a joint role across the health board and local authority, including social services. The Board's IMTP has been explicitly developed through the lens of the Wellbeing of Future Generations Act, sustainable development principles (the five ways of working), and within the context of Powys' recently published Joint Health & Care Strategy. This has enhanced the focus on its integration and collaborative approaches. Development of local primary health and care remains central to its plans. The health board continues to develop commissioning arrangements and monitoring both externally and within Wales to track and understand services for its patients.

Public Health Wales NHS Trust

The Trust's IMTP has been explicitly developed through the lens of the Wellbeing of Future Generations Act, sustainable development principles (the five ways of working), and within the context of the Trust's emerging strategic long-term plan.

Velindre NHS Trust

Velindre's plan set out an ambitious programme of work for Transforming Cancer Services (TCS) including a new hospital. Their plan provides a mechanism to see the joint commissioning and partnership arrangements necessary for such a complex development. These include:

- ongoing development of the Welsh Blood Service;
- models of care closer to home; and,
- strategies for delivery of new drugs and procedures in partnership with health boards.

Welsh Ambulance Services NHS Trust

WAST IMTP for 2018-21 builds on the previous work and engagement with partners and provides a sustainable and balanced plan which has been agreed with the Emergency Ambulance Services Committee (EASC).

Organisations providing annual plans

Four organisations were unable to develop IMTPs that were sustainable or financially balanced over three years and therefore they could not be approved by their Boards. These organisations have been required to develop annual plans which include how the Boards will work towards their ambitions to develop a balanced IMTP for the 2019/22 IMTP round.

These organisations are also in higher levels of escalation - Abertawe Bro Morgannwg, Cardiff and Vale and Hywel Dda UHBs (currently in Targeted Intervention) and Betsi Cadwaladr UHB (in Special Measures).

Annual plans have been submitted following consideration by their Boards but all require varying levels of development in order to produce sustainable and financially balanced plans. The development of the annual plans is being overseen as part of the escalation arrangements and senior officials will continue to work closely with all organisations to support them to finalise the 2018/19 annual plans and to submit IMTPs for 2019 where this is possible.

Welsh Government response to Auditor General's recommendations

Recommendation 1

We recommend that the Welsh Government:

- a) sets 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; and
- b) enhances its monitoring returns to include the position against the three-year rolling periods, not only the annual picture.

Welsh Government Response (*provided in July 2017*):

Partially Accepted

We do not accept that NHS bodies require additional guidance from Welsh Government on the action they need to take to recover a deficit in order to meet the duty in future years. The operation of the duty was detailed in the Explanatory Memorandum to the Act, and also has been set out in Welsh Health Circular (2016) 054 – Statutory Financial Duties of Local Health Boards and NHS Trusts. However, we recognise the need to ensure that all new board members fully understand the organisation's duties, and this requirement will be addressed in the Independent Member's Induction Programme.

We accept the recommendation that our regular monitoring process needs to include a three-year perspective as well as the annual position for those organisations working to approved three-year plans. We will consider the additions we need to make to the monitoring process to include this perspective. This will be completed by 31st October 2017.

June 2018 Welsh Government update:

Independent Members Induction

Building on the successful Finance Academy arranged Independent Members Finance and Governance development session that took place in June 2016, Welsh Government Health and Social Services officials have been working with Academy Wales on:

- An Induction Guide for Independent Board Members
- A Independent Board Members' Induction Programme

Module 2 of the Induction Programme on "Planning, Resource and Delivery" included a specific session on NHS Wales Financial Duties, both the planning and

break even duty. Module 2 also included presentations from NHS Director of Finance and Director of Planning, as well as presentation from Wales Audit Office. To support Independent members in their scrutiny and review of the respective draft Integrated Medium Term Plans being presented at the January Board meetings Module 2 was deliberately held on 16 January 2018.

The Academy Wales Independent Board Members' Induction Programme complements the locally arranged induction and development programmes at Local Health Boards and NHS Trusts.

Monitoring Returns

Discussions were held with NHS finance staff in October 2017 regarding the potential introduction of three-year monitoring tables. At this stage, no specific requirements for three-year monitoring tables are planned for those organisations with approved medium term plans. The NHS Planning Framework requires health boards and trusts to undertake a Mid Year Review of the plan delivery, with particular reference to a forward look on the implications, consequences and potential changes to years 2 and 3 of the plan. Welsh Government formally reviews progress in the bi-annual Joint Executive Team meetings with each organisation.

Recommendation 2

We recommend that the Welsh Government swiftly completes the review of its funding formula for health boards to ensure that variations in funding levels properly reflect differences in population health needs and other determinants of healthcare costs

Welsh Government Response (*provided in July 2017*):

Accepted

Phase 1 of the resource allocation review was completed within the Finance Regime element of Together for Health. We intend to take forward Phase 2 in due course. Project proposals and timetable are under development and will be shared with the Cabinet Secretary for Health, Well-being and Sport.

June 2018 Welsh Government update:

Proposals are being developed for Phase 2 of the Resource Allocation Review. This work will build on the expertise and lessons from Phase 1, the findings from the recent Zero Based Review in Hywel Dda Local Health Board, funding formula approaches in comparative countries, such as New Zealand, Scotland and England, and also Welsh Government policy priorities.

For example the context of the Zero Based Review was that the configuration of services in Hywel Dda generated excess costs for the Board, but the key findings identified that the population characteristics, that is demographics, rather than configuration of services was the main driver of excess cost. The implication, to be tested in the review work, was that the current formula may not adequately recognise and weight the age/sex needs and cost curve. Given the changing demographics, and the projected changes, within the population, both volume and age/sex mix, this will be a critical element of the review and formula development.

Auditor General for Wales's broad areas

a addressing the funding cycle that sees significant amounts of funding being provided to NHS bodies towards the end of the financial year; we consider that continuing with this pattern is not sustainable; and

b using the opportunity provided by the Parliamentary Review of Health and Care, the development of a new NHS strategy and the development of local long-term plans by NHS bodies to provide an updated and clearer direction for NHS services, in particular the move to greater regional and national services.

Welsh Government response:

- a. Welsh Government has moved away from a practice of issuing significant amounts of funding late in the year. In terms of 2017-18, all NHS organisations received a 2% uplift in funding to meet inflationary and other cost pressures which was confirmed before the start of the financial year. Further funding was provided to Aneurin Bevan and Cwm Taf UHBs in June 2017 in support of their approved medium term plans. Subsequent to this, the only additional funding provided to NHS bodies was for specific priorities. This included £50 million announced in August 2017 to improve waiting times, and £10 million announced in January 2018 in recognition of the extreme winter pressures that health and social services had experienced.
- b. *A Healthier Wales: our plan for health and social care* was published on 11th June. This sets out our response to the Parliamentary Review published in January, with specific actions that we will implement over the next three years. This includes a commitment to develop a national clinical plan for specialist health services setting out our strategic approach to delivering safe and high quality health services which meet the needs of people across Wales by the end of 2019.