

Dr Andrew Goodall  
Director General Health & Social Services/NHS Wales  
Chief Executive  
Welsh Government

4 October 2018

Dear Dr Goodall,

### **Implementation of the NHS Finance (Wales) Act 2014**

Thank you for attending the Public Accounts Committee on 16 July 2018 to discuss the implementation of the NHS Finance (Wales) Act 2014.

The Committee notes that progress is being made, particularly in the work that is being undertaken by the national Efficiency, Healthcare Value and Improvement group, and through the financial governance reviews that have been undertaken during 2017–18.

Nonetheless, the Committee remains deeply concerned about the position of the four health boards which are currently subject to escalation measures. It appears to us that the prospect of their timely recovery to financial balance and operational stability remains highly uncertain for the following reasons:

- Betsi Cadwaladr – despite being at the highest level of escalation and intervention for several years, the health board remains in significant difficulties, and the health board’s written evidence gave the Committee little assurance that it has made much substantive progress beyond identifying a list of problems that it faces;
- Abertawe Bro Morgannwg – the Committee welcomes the enthusiasm and sense of purpose which the new leadership team exhibited, however, we are concerned that the health board still faces major challenges and may



potentially be destabilised due to the upcoming transfer of health services for the Bridgend area to Cwm Taf;

- Cardiff & Vale – the Committee is pleased that the health board’s oral evidence reflected an improved grip on their finances, but we are concerned that the health board appears to consider that they need the Welsh Government to acknowledge the cost pressures that they face in order to achieve financial balance;
- Hywel Dda – the Committee welcomes the completion of the zero-based review conducted at the health board, and notes the additional recurrent funding of £27 million being awarded from 2018–19 onwards, however, we are concerned that there will still be a significant recurring gap in the health board’s finances and the apparent absence of clear plans to address this.

More generally, the Committee is concerned by the AGW’s summary of issues identified across Wales in his letter to this Committee, particularly that, on the whole, NHS bodies are making savings through short-term schemes rather than securing efficiencies through longer-term modernisation and transformation of services. The Committee notes positively that the amount of savings has increased in 2017–18 compared to 2016–17. We also note the positive news that the proportion of savings that are non-recurrent has decreased. Nevertheless, the fact that one-off savings made up 29% of the savings in 2017–18 still gives cause for concern about the short-term nature of these schemes. The Auditor General notes that an increased percentage of 36.5% of savings were delivered in the final quarter. The Committee has also received further evidence which highlights that, despite achieving financial balance, Cwm Taf UHB has continued to place significant reliance on non-recurrent savings (40% of total savings achieved in each of the last two financial years).

Overall, it appeared that the witnesses recognised the importance of transformation in order to make their services sustainable and improve patient care. We felt that although the Boards provided examples of where they have already transformed services, these were still some way from the scale of change we would have expected to see. The Committee considers the introduction of the Transformation Fund as an important initiative and is interested to see how this will operate in practice.



There are a number of areas where we would like some further assurance based on the evidence we have received. The Committee's main concerns relate to:

- **Investment in services** – In both written and oral evidence, some Health Boards told us that they had limited investment in order to maintain financial balance or prevent their financial position from deteriorating. The Committee is concerned that this short-term focus on financial targets may lead to future operational difficulties due to under-investment in services. We are also concerned that this lack of investment will ultimately undermine the ability of bodies to transform their services and delivery. We would particularly welcome any further assurance you can give on the extent to which the new Transformation Fund will enable NHS bodies to invest in new ways of working
- **Capacity and Capability** – Some health boards stated in their evidence that they lacked capacity and capability for future planning and delivering service transformation. Cwm Taf told the Committee that they currently have insufficient capacity and capability to deliver change at the pace required, and that they feel there is a skills gap across the NHS in terms of delivering service transformation. We are uncertain whether the Welsh NHS as a whole has sufficient capacity and capability in order to address its current challenges and to effectively make future improvements. We are also concerned that the lack of management capacity may be limiting the ability of bodies to transform services and deliver changes at a sufficient pace to meet financial and operational pressures. The Committee is also concerned that those health boards which are performing well may be potentially disadvantaged by sharing their staff and expertise with health boards which are struggling.
- **Funding Formula** – The Committee is disappointed by the Welsh Government's comment that the revised funding formula is unlikely to be ready until the 2020–21 funding round. Several health boards highlighted in their evidence to the Committee that they felt the current formula disadvantages them, and the outcome of the zero-based budget review at Hywel Dda recognised that the funding allocation did not fully reflect the



needs of the area. In their evidence, Cwm Taf told us that although they have the joint highest funding per head in Wales, this reflects the health costs of deprivation in the area and maintained that it does not explain their ability to break even. Without a review of the funding formula being completed, it is difficult for the Committee to evaluate the extent to which the differing financial positions of the health boards are due to their individual management of pressures, and the extent to which it is due to their funding allocations. We would urge the Welsh Government to update the formula with more pace.

- **Escalation** – The Committee feels the NHS Escalation and Intervention Arrangements need to be reviewed to consider if they are effective in helping health boards to overcome the difficulties that they are facing. We have noted the Cabinet Secretary’s August 2018 statement on the latest escalation status, and its suggestion that there is some evidence of performance improvement. Nevertheless, leaving aside our concerns about Betsi Cadwaladr; Abertawe Bro Morgannwg, Cardiff & Vale and Hywel Dda have each been subject to escalation arrangements for at least two years, yet all of them ended 2017–18 with significant deficits. We would welcome assurance from Welsh Government that it is identifying and learning lessons from the disappointing pace of progress following escalation and intervention. In particular, we would be keen to understand what lessons the Welsh Government has learnt about its own role in that process.
- **Long-Term Planning** – The Committee has noted from the evidence received that a number of health boards have ten-year clinical services strategies in place alongside their IMTPs (if they have an approved IMTP). Considering this, the Committee is interested in whether the Welsh Government sees three-year financial plans and flexibilities as a sufficient period to maximise the opportunities for longer-term investments. This is particularly pertinent given the concerns expressed by some of the health bodies that they would only take risks in investment and strategic change if they had absolute certainty that the investment will be repaid within three years. We are concerned that this may limit organisations from innovating in their service



delivery, due to a strict need to recoup costs within a tight three-year window.

The Committee would welcome a response on these areas.

I look forward to hearing from you.

Yours sincerely,

A handwritten signature in black ink that reads "Nick Ramsay". The signature is fluid and cursive, with a long horizontal flourish extending from the end of the name.

**Nick Ramsay AM**  
Chair

