

Cyfarwyddwr Cyffredinol Iechyd a Gwasanaethau Cymdeithasol/
Prif Weithredwr GIG Cymru
Grŵp Iechyd a Gwasanaethau Cymdeithasol

Director General Health and Social Services/
NHS Wales Chief Executive
Health and Social Services Group



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

7 January 2019

Dear Mr Ramsay

Implementation of the NHS Finance (Wales) Act 2014

Thank you for your letter of 4th December 2018. I am pleased that the Members agreed that my earlier response of 31st October 2018 was positive.

Your letter noted that the Committee still had a number of concerns relating to the review of the funding formula and welcomed further clarification.

- Timescales

As noted in the evidence to the Public Accounts Committee session on 16 July 2018 revised funding formula is planned to be ready for the 2020-21 funding round. To align with Welsh Government and Annual Allocation letters annual cycle this means that the formula will need to be ready, tested and assured by autumn 2019.

- Scope of Review

My earlier letter of 31st October confirmed that the work is a full formula review that will lead to a replacement of the existing formula, the "Townsend" direct needs formula, with a new funding formula. The intent, as with the arrangements for the existing formula, has always been that the formula would be used to distribute additional growth funding between health boards. Accordingly the initial focus of the formula review work will be around developing and implementing a formula to replace the existing formula to distribute additional growth funding between health boards.

It is worthwhile noting the approach we have adopted for the 2019-20 health board revenue allocation to support implementation of *A Healthier Wales*. As well as additional

core funding to meet unavoidable cost growth, we have provided health boards with additional growth funding, totalling £60 million, to progress transformation of local services, and a further £30 million for Regional Partnership Boards to support development of integrated services. This is in addition to the £30 million that has been allocated direct to local authorities to support sustainable social services. The 2019-20 health board revenue allocation contains additional funding totalling £187 million which has been distributed through the existing formula, the "Townsend" direct needs formula.

The Committee report, February 2013, rightly raised concerns on the identical general uplifts provided to five of the seven health boards. Since that report a formula has been applied to more appropriately distribute the general uplifts to health boards.

Developing a formula to distribute additional growth funding is the essential first stage of this review work programme. Once this first stage has been completed, the subsequent work will cover the broader issues raised in your letter, around the fairness and appropriateness of the total allocations to each health board. This will encompass not only the total discretionary allocations, but also the various ring fenced allocations.

It should be noted that while formulas have been applied, over the years, to elements of the Discretionary Hospital, Community and Health Services and Prescribing (HCHS&P), no formula has ever been applied to ring fenced allocations such as:

- HCHS Ring-Fenced Revenue Allocations
- Revenue Allocation for GMS Contract
- Revenue Allocation for Community Pharmacy Contract
- Revenue Allocation for Dental Contract

The earlier letter of 31st October indicated that, following the full development of the formula, all potential implementation options to shift resources in line with target formula shares will need to be considered taking account of the need to maintain and sustain quality services across Wales. Implementation will need to allow for health boards to plan and manage any consequent resource changes, over time, through their integrated plans. In taking this part 2 work programme forward it is essential that there is an appropriate balance between pace of implementation and minimising any additional risk to services from any resource shifts.

I hope the clarification in my letter provides you with the additional assurance that my earlier letter did not suggest a narrower review.

Yours sincerely



Dr Andrew Goodall