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Reference: AC/181/caf

Date issued: 27 February 2020

Dear Nick

NHS finances and agency spending 2019-20: in year update

Last summer the Committee took oral and written evidence from Andrew Goodall and his team on NHS Finances, which was followed up by further written exchanges. Your letter to Andrew of 27 September 2019 noted the Welsh Government's ambition that any residual NHS deficit in 2019-20 would be managed within the Health and Social Services MEG and its expectation that all health board deficits would be eradicated by 2020-21.

The letter voiced the Committee's reservations around some of these expectations, particularly given the long-term challenges at Betsi Cadwaladr and Hywel Dda Health Boards. It also stated the Committee's intent to keep a watching brief, and to revisit NHS finances and NHS agency staffing costs in summer 2020 or sooner should there be indications that improvement is not as anticipated.

To support the Committee's ongoing scrutiny, we have updated our on-line interactive data tools for both NHS Finances [[English](#) and [Welsh](#)] and NHS Agency Staffing [[English](#) and [Welsh](#)] to provide a summary of 2019-20 financial year performance to 31 December 2019 and the NHS Wales forecasts for the final out-turn at 31 March 2020.

In this letter, I set out a brief summary of the latest position for the Committee, with further information in the two annexes.

NHS Finances

The second Supplementary Budget has now been published, and for 2019-20 it shows that the health revenue related budget has increased by 6.8% in real terms. These are significant funding increases not seen in the NHS for some time. Although some of the revenue allocation has been used to fund increases in pay and pension costs, they should also facilitate improved financial performance

across NHS Wales, including moving towards the Welsh Government's 2020-21 ambition to eliminate all deficits.

At 31 December, NHS Wales bodies were collectively forecasting a deficit of £72 million for 2019-20. Whilst this would represent an improvement on last year's £96 million deficit outturn, it is £12 million more than the £60 million deficit that they forecast at the start of the year, and £32 million greater than the 'control totals' set by the Welsh Government for health bodies.

Although NHS Wales is expecting to deliver 17% more than its planned savings for the year, the total value of those expected savings is still 18% lower than last year. Savings plans, if delivered, are a crucial element in driving improved financial performance; however, it is the recurrent nature of savings which ensures that those improvements are sustainable in future years. I note that the proportion of savings which are recurrent across NHS Wales is expected to drop from 79% in 2018-19 to just 68% this year.

Based on these forecasts, three health boards will generate in-year financial deficits for 2019-20. Four health boards will fail their first financial duty to break-even over a rolling three-year period, as they have done since the introduction of the new duties under the 2014 Act.

The reported position at 31 December therefore has placed pressure on the break-even position for the Health and Social Services Group in 2019-20. It also suggests that NHS Wales bodies may well struggle to meet the Welsh Government's expectation to eradicate all health board deficits by 2020-21.

I set out further details in [Annex 1](#).

NHS agency staffing spend

NHS Wales is currently forecasting that in 2019-20 it will record its highest ever annual spend on agency staff.

NHS expenditure on agency staffing in Health Boards and NHS Trusts for the first nine months of 2019-20 stood at £127 million and is forecast to rise to £169 million by 31 March 2020. Health bodies' projections indicate that £128 million of this (76%) will be spent to cover vacant posts.

Spending on nursing agency staff across Wales in 2019-20 is forecast to rise by £12 million (19%). However, this appears to be primarily related to the two health bodies affected by boundary changes from 1 April 2019 – Cwm Taf Morgannwg and Swansea Bay. A drop-in nursing agency spend at Swansea Bay might reasonably have been expected this year, as their services have contracted by around 27%, but actual levels of spend are unchanged from the previous year.

I set out further details in [Annex 2](#).

I trust that the Committee will find this information helpful as it prepares to take oral evidence from the Welsh Government at its 9 March meeting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Adrian Crompton', with a long horizontal stroke underneath.

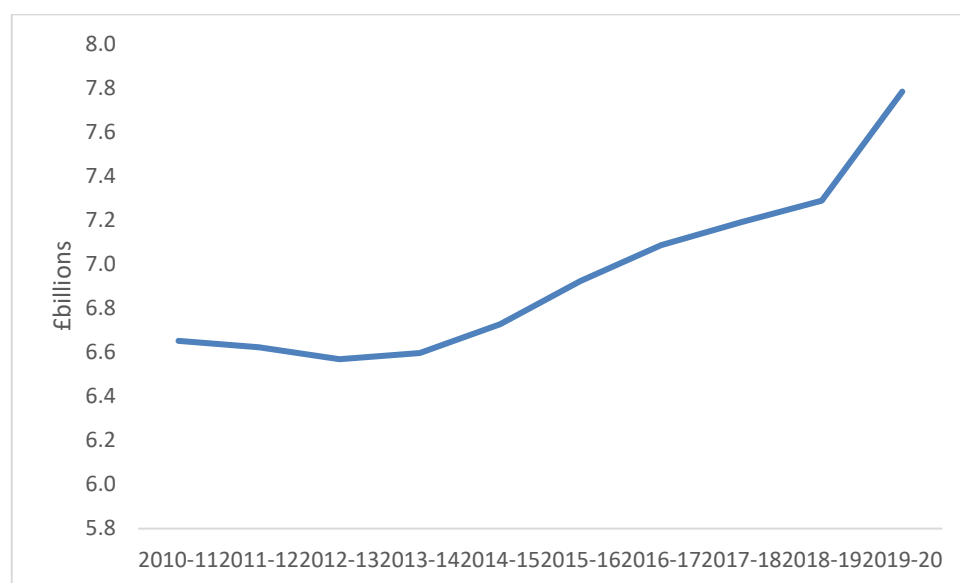
ADRIAN CROMPTON
Auditor General for Wales

Annex 1: NHS Wales Finances

Funding

The budget for NHS Wales has increased significantly between 2018-19 and 2019-20. Without adjusting for inflation, the 'health revenue'¹ budget has grown from £7.3 billion in 2018-19 to £7.9 billion, with an increase of £650 million. Taking account of inflation, the budget has increased by 6.8%. This is by far the largest increase in the budget in recent years (Figure 1). This increase includes significant additional funding allocated during the year. Some of the in-year funding came from extra funding from the UK Government to cover UK wide changes to pensions, medical negligence and immigration health charges. Some additional funding came from the Welsh Government's reserves, including £17 million for in-year priorities and pressures.

Figure 1: health revenue budget (real terms at 2018-19 prices)



Source: Wales Audit Office NHS Wales Finances data tool

In theory, this 6.8% real terms increase should have more than covered the 3.2% to 3.9% real terms demand and cost pressures that the Health Foundation has

¹ 'Health revenue' covers the funding in the Welsh Government's budget for the day-to-day running of NHS services, central support and public health activities. The figures in the chart are drawn from the Welsh Government's second supplementary budget for each financial year.

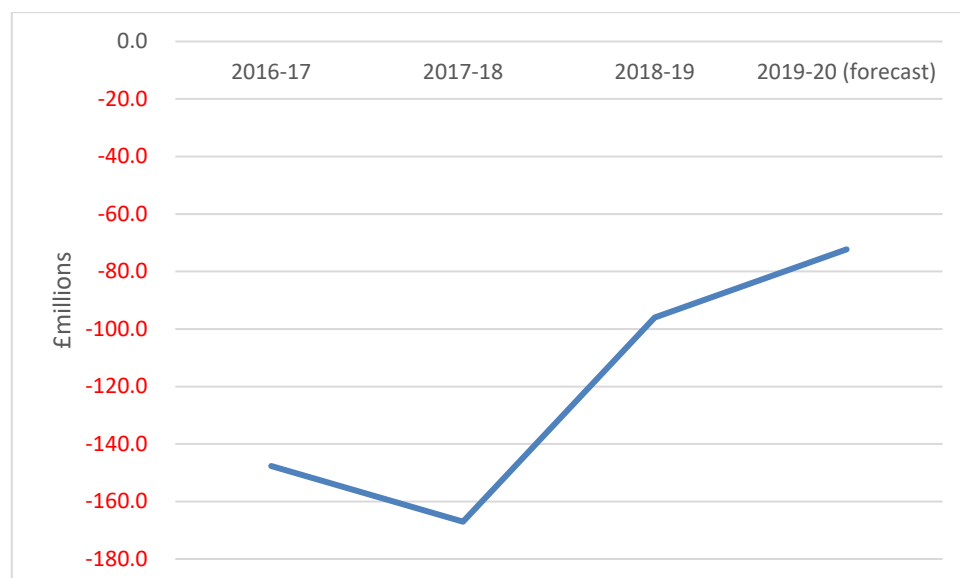
estimated the NHS in Wales faces each year. In practice however, and as set out in more detail below, the NHS has continued to struggle to meet those pressures. Part of the explanation for the current position is that not all the increased funding in the budget has gone to directly manage the immediate pressures on health services. There have been some significant one-off allocations, including £170 million to cover pension changes, £95 million for pay awards and £52 million to support improved performance, particularly for elective waiting times.

In addition, the Welsh Government has allocated an extra £192 million to support its ambitions for integrating health and social care and wider transformation of services, as set out in [A Healthier Wales](#). Some of this funding has been allocated direct to local government to support social care or is shared between health, social care and other partners through Regional Partnership Boards. The Welsh Government expects this investment to result in longer-term improvements to the cost-effectiveness of health and care services.

Financial performance

At 31 December 2019, NHS Wales forecast that it would deliver a deficit of £72.3 million in 2019-20. Given that the reported deficit at that date was already £65.9 million, a significantly improved financial performance would be needed in the last three months of the year to achieve the deficit as forecast. If delivered, this will continue the improving trend shown in [Figure 2](#).

Figure 2: NHS Wales revenue outturn: 2016-17 to 2019-20 (as forecast)

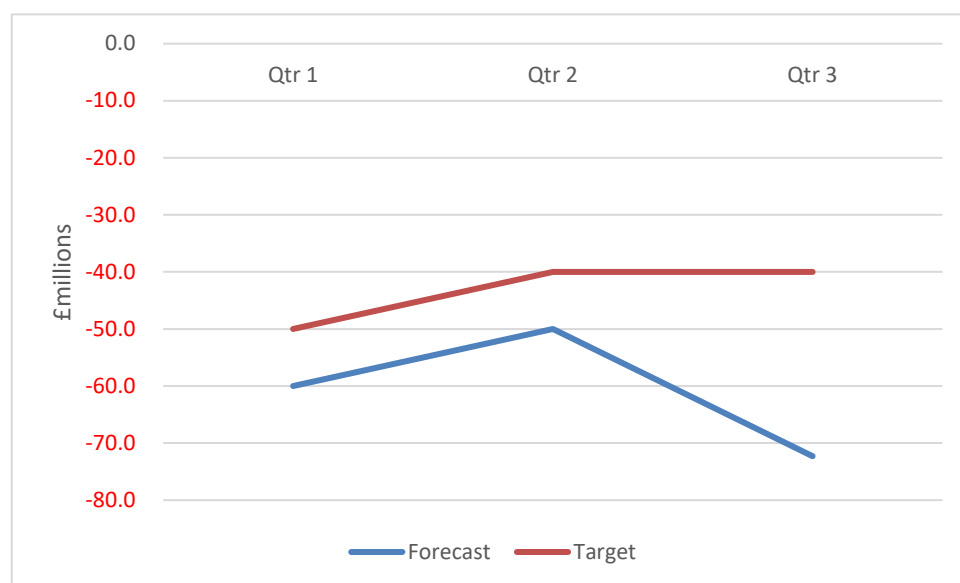


Source: Wales Audit Office NHS Wales Finances data tool

Whilst this compares favourably to last year's £96 million deficit outturn, it is £12 million more than the deficit forecast at the start of the year and £32 million greater than the target deficits (control totals) in place for health bodies at quarter three.

Figure 3 shows the movement of the deficit position against forecast through the year.

Figure 3: NHS Wales 2019-20 forecast compared to target



Source: Wales Audit Office analysis of NHS bodies' Monthly Monitoring Returns

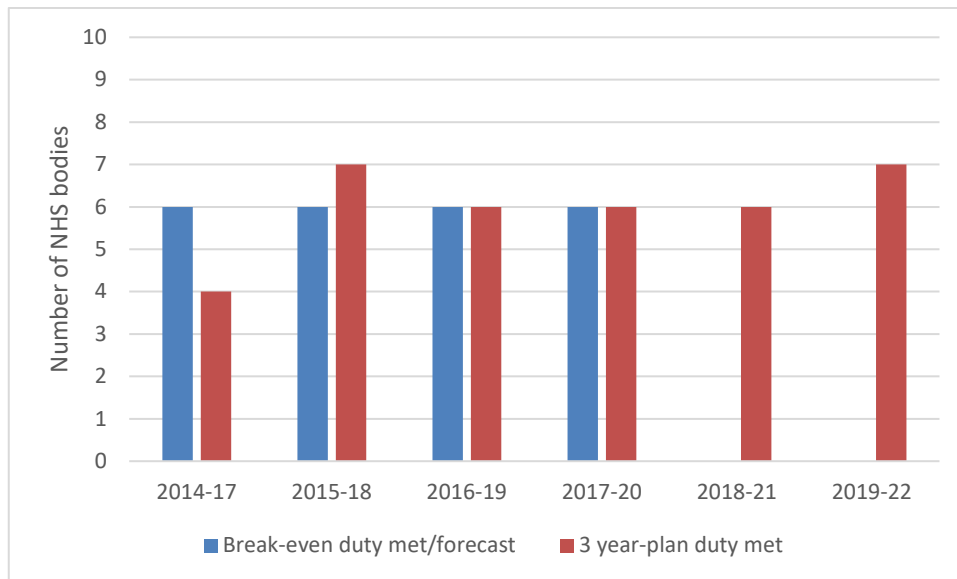
Three NHS bodies are forecasting a deficit for 2019-20, one fewer than in 2018-19. Of these three, Betsi Cadwaladr and Hywel Dda Health Boards, though showing improved trends, both expect to exceed their 'control totals' (annual deficits agreed in advance with the Welsh Government) by £10 million. The third body, Swansea Bay Health Board, is forecasting a deficit of £12.3 million against a planned break-even position at the start of the year.

Based on these forecasts, the first financial duty under the 2014 Act (to break-even over a rolling three-year period) will again be failed by four Health Boards. The cumulative NHS Wales deficit since the introduction of these financial flexibilities six years ago will also increase once again, to some £590 million.

More positively, Cardiff and Vale UHB (which now has an approved three-year plan in place and was de-escalated from 'Targeted Intervention' during the year) is forecasting in-year break-even for 2019-20, for the first time in four years.

Performance against financial duties to date is summarised in Figure 4.

Figure 4: NHS bodies' performance against financial duties



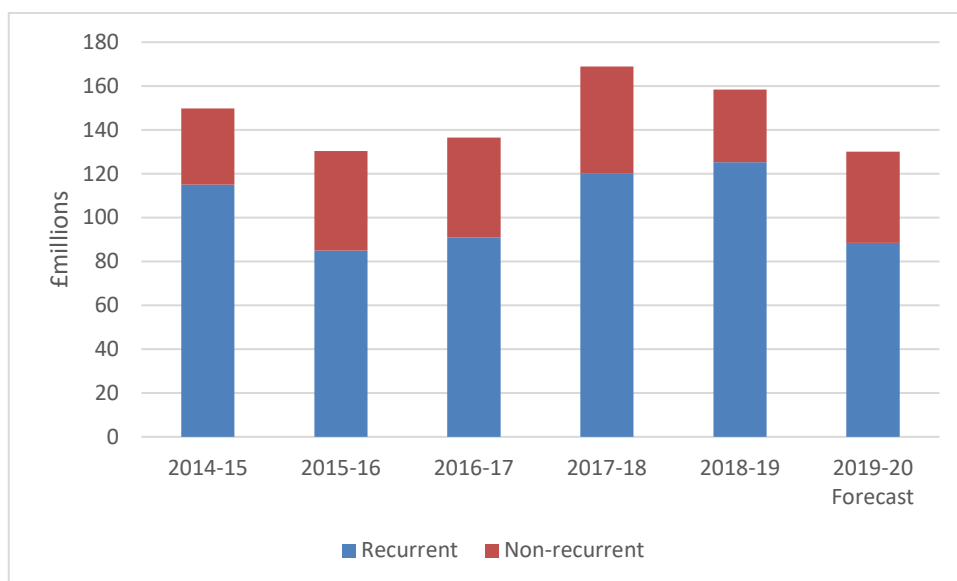
Source: Wales Audit Office NHS Wales Finances data tool

Savings plans

A key element of NHS Wales' ability to improve financial performance is the identification and delivery of recurrent savings plans.

Figure 5 shows that, based on the December 2019 forecast for 2019-20, annual savings delivery is decreasing and the proportion of savings which are recurrent has dropped this year. We also note that at 31 December, the Welsh Government reported that two health bodies had yet to finalise the savings planned at the start of the year.

Figure 5: NHS Wales savings delivery



Source: Wales Audit Office analysis of NHS bodies' Monthly Monitoring Returns

Note:

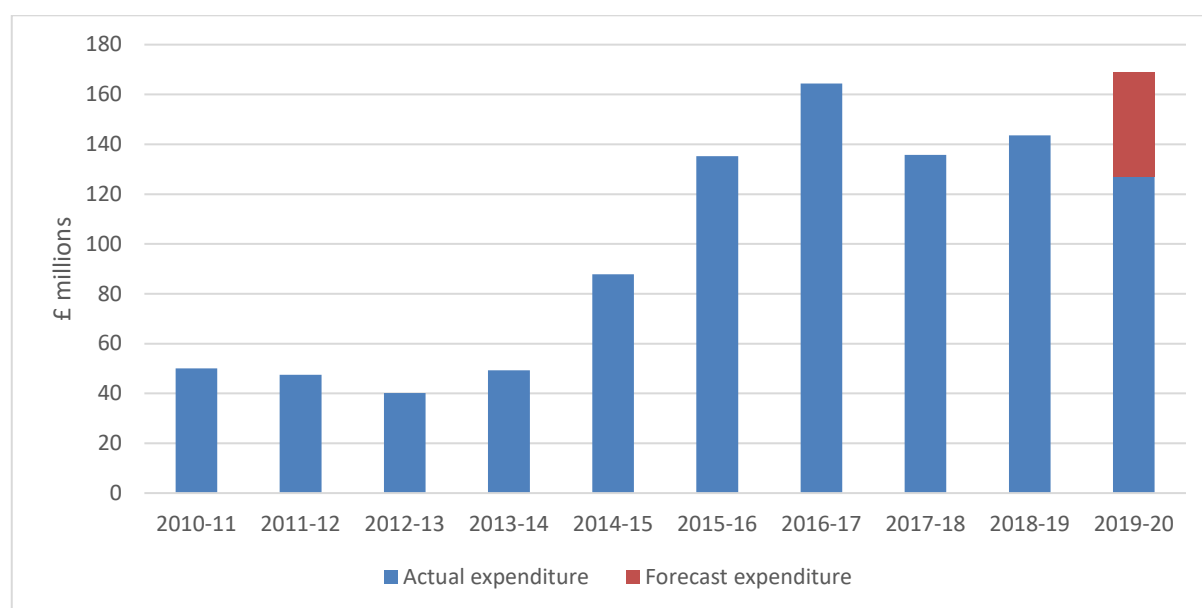
Our online interactive data tool [[English](#) and [Welsh](#)] provides comparative analyses of NHS Wales expenditure and financial positions. This tool has recently been updated with monthly monitoring data submitted by individual health bodies to Welsh Government reporting actual expenditure for the period April to December 2019 and forecast expenditure for January, February and March 2020.

Annex 2: NHS agency staffing spend

As shown in **Figure 6**, agency expenditure had previously peaked at £164 million in 2016-17. Overall expenditure on agency staff fell by £29 million (17%) between 2016-17 and 2017-18, but a trend of annual increases has resumed.

In 2018-19, agency expenditure rose by £8 million (5.8%) and it is forecast to rise by £25 million (18%) in 2019-20.

Figure 6: total NHS expenditure in Wales on agency staff between 2010-11 and 2019-20

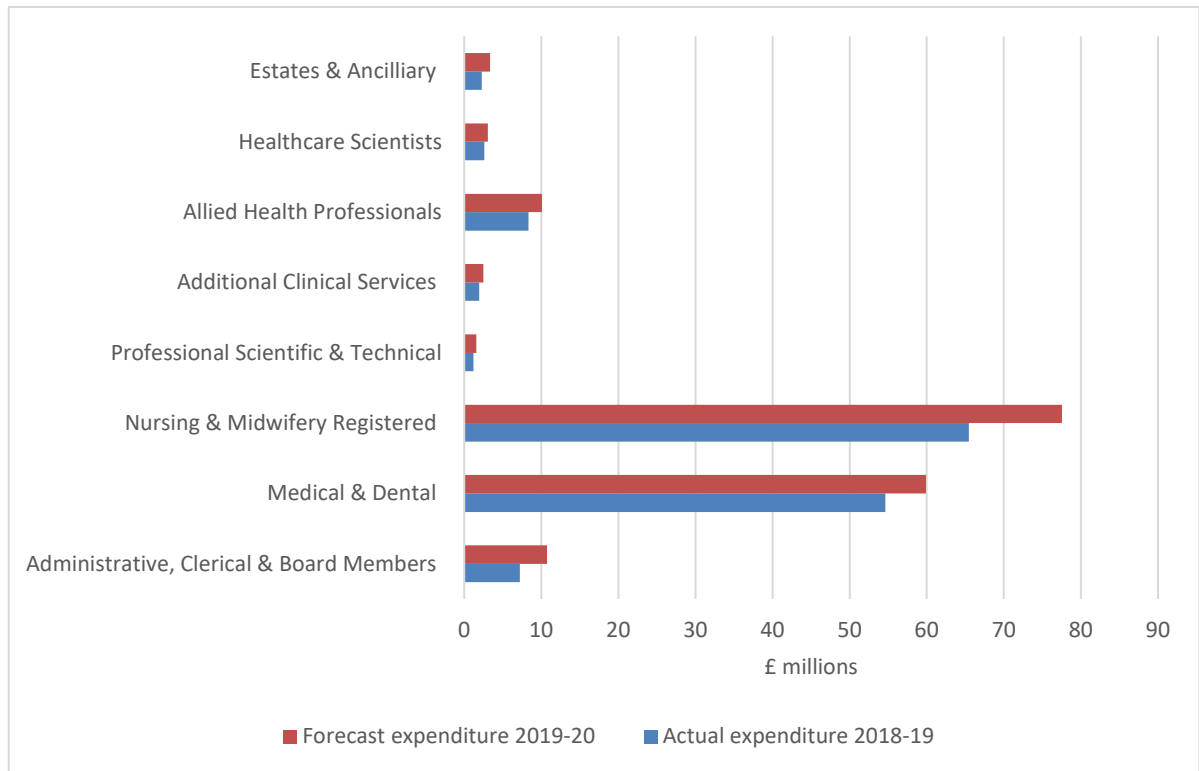


Source: Wales Audit Office Expenditure on agency staff by NHS Wales data tool

Figure 7 shows that agency expenditure is forecast to rise in all staff categories in 2019-20, with the largest increase on Nursing and Midwifery staff.

The proportion of forecast total agency expenditure to be spent on doctors and nurses in 2019-20 (81%) is consistent with recent years. The share of expenditure on medical staff is predicted to fall by 3% to 35%, whilst the proportion spent on nursing staff remains at 46%.

Figure 7: forecast NHS expenditure in Wales on agency staff by staff group in 2019-20, compared to actual expenditure in 2018-19



Source: Wales Audit Office Expenditure on agency staff by NHS Wales data tool

Spending on nursing agency staff across Wales in 2019-20 is forecast to rise by £12 million (19%). This appears to be primarily related to the health bodies affected by the boundary change in March 2019.

Figure 8 shows that combined nursing agency expenditure in Cwm Taf Morgannwg and Swansea Bay UHB for 2019-20 is forecast to be £9 million greater than the combined expenditure in those bodies the previous year.

Whilst an increase in Cwm Taf Morgannwg's expenditure might be expected, as it takes on the services previously provided by the newly named Swansea Bay, it is perhaps surprising that Swansea Bay's expenditure has not reduced.

Figure 8: nursing agency expenditure forecast for 2019-20 in Cwm Taf Morgannwg and Swansea Bay UHBs compared to expenditure in their predecessor bodies in 2018-19

	Swansea Bay UHB (formally Abertawe Bro Morgannwg) £million	Cwm Taf Morgannwg UHB (formerly Cwm Taf) £million	Total £million
2018-19 actual expenditure	12.1	7.0	19.1
2019-20 forecast expenditure	12.1	16.1	28.3
Increase in expenditure	0.04	9.1	9.2

Source: Wales Audit Office Expenditure on agency staff by NHS Wales data tool

Nationally, spending on medical agency staff is forecast to rise by £5 million (10%), of which the majority relates to Aneurin Bevan and Betsi Cadwaladr UHBs. Aneurin Bevan is also forecasting that it will spend £2 million more on nursing agency staff in this financial year.

Note:

Our online interactive data tool [[English](#) and [Welsh](#)] provides comparative analyses of agency expenditure by NHS body and by staff group. This tool has recently been updated with monthly monitoring data submitted by individual health bodies to Welsh Government reporting actual expenditure for the period April to December 2019 and forecast expenditure for January, February and March 2020.