National Assembly for Wales
Public Accounts Committee

Health Finances

February 2013

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

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The Public Accounts Committee was established on 22 June 2011.

Powers

The Committee's powers are set out in the National Assembly for Wales' Standing Orders, with its specific functions of the Committee are set out in Standing Order 18 (available at **www.assemblywales.org)**. In particular, the Committee may consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.

The Committee also has specific statutory powers under the Government of Wales Act 2006 relating to the appointment of the Auditor General, his or her budget and the auditors of that office.

Current Committee membership

Darren Millar (Chair)
Welsh Conservatives
Clwyd West

Mohammad Asghar (Oscar)
Welsh Conservatives
South Wales East

Mike Hedges
Welsh Labour
Swansea East

Julie Morgan
Welsh Labour
Cardiff North

Gwyn R Price
Welsh Labour
Islwyn

Jenny Rathbone
Welsh Labour
Cardiff Central

Aled Roberts
Welsh Liberal Democrats
North Wales

Jocelyn Davies
Plaid Cymru
South Wales East

The following Member was also a member of the Committee during this inquiry:

Lindsay Whittle
Plaid Cymru
South Wales East

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Foreword

One of the biggest challenges facing Wales in the coming years is to ensure that our NHS is adequately resourced. Those who work in this demanding service do an incredible job, and the people of Wales are indebted to them. But this does not change the fact that year on year NHS organisations have spent beyond their initial budgets, and have required additional financial support from the Welsh Government during the year.

The evidence we have gathered in this short inquiry, coupled with the Auditor General's reports on this issue, clearly indicate that significant efforts are being made to improve financial management within the Welsh NHS and that substantial financial savings are being achieved. But we also found evidence which suggests that some features of financial planning and management in the health service are in need of significant improvement. The forecasting of in some Health Boards appeared to be unrealistic and overly ambitious, while others seemed to have produced savings targets without developing a clear strategy for them to be achieved.

We believe that the Welsh NHS needs both support and challenge to meet their financial obligations. In our previous report, *A Picture of Public Services 2011*, we recommended that the Welsh Government consider how NHS organisations could be enabled to make more effective use of funding across financial years to enable improved financial planning in the medium to long-term. We are pleased that as a result of our recommendation the Welsh Government is now examining options to introduce such flexibility.

At the same time we consider that the Welsh Government should consider how NHS organisations can be more accountable for any failures to achieve financial targets. This could include examining whether there is the potential to include clauses around achieving targets in incoming Chief Executives contracts of employment, or otherwise examining whether radical or innovative approaches can be employed to challenge non-delivery.

The Committee's Recommendations

The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

Recommendation 1. We recommend that the Welsh Government reviews its funding formulae for supporting different health bodies, ensuring it appropriately weights and considers demographics, regional geography and other relevant factors, including specialist services. (Page 16)

Recommendation 2. We recommend that the Welsh Government is more transparent about the rationale for allocating different levels of funding to different health organistaions. This is particularly important when additional funding is provided in-year to health services. Such allocations should be based on a clear business case from each of the NHS organisations in receipt of additional resources. (Page 17)

Recommendation 3. We recommend that the Welsh Government requires all Health Boards to produce a full break even budget prior to the start of each financial year, and that this budget is supported by a robust and comprehensive savings and work-force plan, which has been appropriately profiled. (Page 21)

Recommendation 4. We recommend that the Welsh Government engages with NHS organisations to enable them to take advantage of all opportunities for efficiencies, including procurement exercises with other parts of the public sector including local authorities, education, police, fire and rescue services. (Page 26)

Recommendation 5. We recommend that the Welsh Government review its budgets to satisfy itself that the resources it provides to NHS organisations in future years reflect the increase in demand for services which has been seen during the current financial year. (Page 28)

Recommendation 6. We recommend that the Welsh Government ensures that NHS organisations are provided with as much detail as possible on funding prior to the commencement of the financial year,

including contingency funds and conditions governing applications for such funds. (Page 34)

Recommendation 7. We recommend that, where appropropriate, the Welsh Government continues to make brokerage-funding available to local health boards as an interim measure to support year end flexibility. Brokerage arrangements should be discontinued upon a more permanent legislative solution to year end flexibility being implemented. (Page 38)

Recommendation 8. We recommend that the Welsh Government works with NHS organisations to ensure that robust, sufficiently detailed public information is available in a timely manner in relation to the financial costs and benefits associated with NHS service change alongside information on clinical risks and benefits. (Page 41)

Recommendation 9. We recommend that the Welsh Government continues to work with NHS organisations to enable a consistent approach to the involvement of clinical staff in financial decision making. (Page 43)

Recommendation 10. We recommend that the Welsh Government considers forthcoming legislative opportunities to address the inflexibility of Health Board finances across financial years. (Page 45)

Recommendation 11. We recommend that the Welsh Government provides robust challenge to NHS bodies in the planning and delivery of their financial saving plans, to ensure that there is a focus on achieving sustainable savings throughout the year, rather than non-recurring savings towards the end of each financial year. (Page 47)

Recommendation 12. We recommend that the Welsh Government provides us with an update, by June 2013, of its progress in delivering the recommendations made both in this report and that of the Auditor General. (Page 48)

Introduction

Who are we?

1. The Public Accounts Committee is a cross party committee of the National Assembly for Wales, made up of Members from all four political parties represented at the Assembly.

2. The Public Accounts Committee is not part of the Welsh Government. Rather, the role of the Public Accounts Committee is to ensure that proper and thorough scrutiny is given to the Welsh Government's expenditure.

3. In particular, we can consider reports prepared by the Auditor General for Wales on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources were employed in the discharge of public functions.

Why did we conduct this inquiry?

4. Health Services play an immensely important role in any country. In Wales, approximately 43% of the Welsh Government's 2012/2013 budget went towards such services. It is therefore imperative that Health Services both deliver exemplary standards of care, and in as efficient a manner possible, to represent value for public money.

5. Health Finances have previously been considered by Committees of the National Assembly for Wales. For example, in its recent report on the Welsh Government's draft budget for 2013-2014, the Finance Committee commented that it shared:

> "the concerns of Health and Social Care committee about aspects of the current model of financing Local Health Boards. There is a risk that if this year's funding is inadequate, then the need for additional cash for health will draw funding from other portfolios, and undermine the Government's prioritisation."[1]

6. Our investigation was therefore intended to build upon- rather than duplicate- the information recently gathered by the *Health and Social Care Committee* and *Finance Committee* in scrutinising the draft 2013-2014 budget.

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[1] National Assembly for Wales, Finance Committee, The Welsh Government's draft budget for 2013-2014, Page 32.

7. In July 2012, The Auditor General for Wales published a detailed review of *Health Finances*. This report highlighted that with the NHS and other public services in Wales facing unprecedented financial challenges, the historical patterns of the Welsh Government providing NHS bodies with additional money during the year to manage deficits was not sustainable.

8. Notably, the Auditor General's July 2012 report itself followed on from issues previously raised in the Auditor General's earlier report *A Picture of Public Services 2011*, which was published on 14 October 2011. This report set out the scale of the unprecedented financial challenges facing public services, with a 12.4 per cent real terms cut to the Welsh Government's budget between 2010-11 and 2014-15. The report emphasised the particular challenges facing the NHS.

9. In our own report *A Picture of Public Services 2011,* we recommended we recommended that the Welsh Government consider how Health Services could be enabled to make more effective use of funding across financial years. We commented that would support Health Services in improving financial planning in the medium to long-term. We are pleased that the Welsh Government is now examining options to enable Health Boards to manage their finances more flexibly across financial years.

10. During the course of our inquiry into Health Finances, The Auditor General also provided us with an update paper, which set out the financial position of the various Health Boards half-way through the 2012-13 financial year.

How did we conduct our inquiry?

11. Our inquiry was based on issues raised in the Auditor General's July 2012 report, and we received a briefing from the Wales Audit Office on 17 July 2012.

12. We then resolved to gather evidence and hold formal meetings with the Welsh Government, The Welsh NHS Confederation and Betsi Cadwaldr Local Health Board and Cardiff and the Vale University Health Board. We considered that this range of witnesses would enable us to get perspectives on:

- the Welsh Government's role in supporting Health Services;

- an overall view on the challenges facing the Health Service as a whole;
- and the particular challenges for different Health Boards such as geographic issues, demographics, borders with England, etc.

How have we structured this report?

13. A wide range of issues arose during the course of our inquiry, but we have sought to structure these into three themes. Our focus throughout the report has been on Wales' Health Services, by which we refer not only to individual local health boards, but all those involved in the delivery of health services, including NHS Wales.

14. The first chapter of this report briefly sets out the wider financial context of the time, to set in scale the financial challenge facing Wales' Health Services.

15. The second chapter of this report looks more closely at the Health Services' current position in the context of the 2012/2013 financial year. In particular, we have examined the effectiveness of the Welsh Government's actions to put health services on a more sustainable financial footing, the likelihood of additional funding being required this year, the realism of different health bodies' financial plans and the Welsh Government's support and challenge to such plans.

16. In our final chapter, we have looked ahead of the current financial year. In particular, we have considered the potential for changing Wales' financial regime, funding required to transform the NHS in the longer term to make it financially sustainable, and efforts to involve the public and clinicians in decision making around such.

1. The wider financial context

The scale of the financial challenge in Wales

17. In the current economic climate, all public services are under significant financial pressures. In its November 2011 report on the Welsh Government's draft budget for 2012-2013 the National Assembly for Wales' Finance Committee commented that:

> "The Comprehensive Spending Review 2010 (CSR 2010)[2] announced a period of unprecedented restraint in the public finances in order to reduce the UK's budget deficit… the 2012-13 draft budget was presented against a climate of increasing economic uncertainty, amid speculation of a worsening economic picture and fears of further recession."[3]

18. The scale of the challenge for the NHS in Wales is particularly stark, with the Auditor General's July 2012 report commenting that:

> "If the annual pressures on the NHS in 2011-12 are in the order of £250 million a year, as set out in the National Finance Agreement and budget narrative, it will need to reduce costs by around £1 billion between 2010-11 and 2014-15."[4]

19. The Auditor General commented in his report that the pressure on the NHS to keep meeting its annual financial targets, while simultaneously developing three-year service and financial plans to start the process of longer-term reform of NHS services, would be unprecedented. [5]

20. Notably, the NHS in Wales met its financial targets for 2011-12 through significant savings reported by NHS bodies but also through additional funding being provided from the Welsh Government. That additional funding in the year consisted of £133 million to all Health Boards to address NHS cost pressures and £24.4 million of advances from 2012-13 and 2013-2014 funding to four Health Boards.

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[2] HM Treasury, *Spending Review 2010*, October 2010
[3] National Assembly for Wales, Finance Committee, Scrutiny of Welsh Government Draft Budget Proposals 2012-2013, Paragraphs (Paras) 22 and 26.
[4] Wales Audit Office, Health Finances, Para 3.5
[5] Wales Audit Office, Health Finances, Para 3.2 to 3.7

Comparisons with other parts of the UK

21. The Auditor General's *Picture of Public Services 2011* report shows that spending on health per head of population in Wales was lower than in Northern Ireland and Scotland but higher than in England in 2010-11. However, the report also set out that in 2009-10, spending per head of population was lower than comparable parts of England (for example the North East). It also showed that, as part of the Welsh Government's budget, the NHS in Wales faced real terms reductions to its revenue budgets whereas other UK countries have sought to increase health revenue budgets in line with GDP inflation.

22. Welsh Government officials commented in their evidence to us that comparisons of financial expenditure with other parts of the UK should always be treated with a degree of caution. They observed that:

> "Wales is in a very good position in terms of the resilience of its system and the developing maturity of its system and our ability to respond not just to financial challenges, but to the challenge of driving up quality by using all of these very important capabilities to deliver integrated care across primary, community and secondary care, and to do so with pace and urgency, to mobilise clinical leadership to support that, and to make sure that we are looking at pathways of care and that we focus on prevention. Our system is perfectly designed to allow us to do that. We also have the advantage of organisational stability, which, as you know, some parts of the UK do not have."[6]

23. We acknowledge these points of caution, and also recognise that there are wider issues around Wales' financial settlement in comparisons with other parts of the UK. Ultimately, the Welsh Government has a finite amount of money to dedicate to different services, and its decisions in allocating such are scrutinised by other Assembly Committees as part of the budget process. The key concern of this committee is whether processes are in place to ensure the funding that is allocated to the NHS is used as efficiently as possible, based upon effective financial management plans and practices.

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[6] National Assembly for Wales Record of Proceedings (RoP), Public Accounts Committee, 27 November 2012, Para 18

2. Understanding the current position

The historical impact of 'bail-outs'

24. A key financial requirement for health boards is their statutory financial requirement to break-even each and every year. Where they do not achieve break-even, their excess spend is deemed to be 'irregular' and the audit certificate on their financial statements would reflect this by receiving a 'qualified' regularity audit opinion. However, the Auditor General's report details that although budgets rose each year between 06-07 and 10-11:

> "NHS bodies have needed additional funding in order to break-even. Between 2006-07 and 2008-09, the Welsh Government provided additional funding to support service improvements in local NHS bodies by using underspends and contingency funding within its own central programme budget. However, in 2009-10 and 2010-11, the Department needed additional funding from central reserves (funding held within the Welsh Government's general reserve as yet unallocated to any specific department) in order that the overall health budget and local NHS bodies could break-even."[7]

25. The report also notes that there have been a number of valid reasons for allocating funding to NHS bodies during the year, including that:

- "some of the funding is demand-led, for which the Welsh Government assumes the risk and takes responsibility for meeting the costs;
- some of the funding is dependent on negotiations during the year, such as primary care funding where the final costs are known at the end of negotiations between GPs and the UK Government; and
- some funding is allocated to meet specific Welsh Government objectives following submission of plans by NHS bodies."[8]

26. Nevertheless, the report notes that the provision of additional funding at the end of the year to achieve break-even:

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[7] Wales Audit Office, Health Finances, Summary, Para 8
[8] Wales Audit Office, Health Finances, Para 1.10

> "makes it more difficult for finance managers to emphasise the need for cost control to clinicians and operational staff, who may assume that funding for budget overspends will be found from elsewhere."[9]

27. The report details that the Welsh Government has historically given mixed messages on this issue, by both stating that no further funding would be provided and then going on to provide further funding so that Health Boards could meet their requirement to break-even.

Moving to a more sustainable financial footing

28. However, the report notes that during the 2011-2012 financial year the Welsh Government sought to put the health service on a more sustainable financial footing, by providing it with:

> "an additional £133 million (£93 million from central reserves, £40 million from within the Department's budget)."[10]

29. The Auditor General's report details that of the £133 million additional funding:

> "£103 million would be recurrent (ie, will be included in funding allocations for future years), to recognise the cost pressures on health bodies. It was agreed that central reserves would fund £93 million of this uplift – £63 million recurrently plus £30 million as part of a tapering package to Hywel Dda – with the remaining £40 million funded from the Department."[11]

30. The Welsh Government stated that this additional funding was intended to break the historical cycle of an end-of-year bail out for health boards. They commented that:

> "The previous pattern had been associated with non-recurrent moneys being made available towards the very end of the year. What we were able to do, and what our Minister and the Cabinet secured, was a movement from non-recurrent to recurrent funding for her overall budget. That puts it on a much more stable, secure ground. It is a much better basis to

[9] Wales Audit Office, Health Finances, Para 1.23
[10] Wales Audit Office, Health Finances, Para 2.10
[11] Wales Audit Office, Health Finances, Annex 2, page 44

> manage risk, actually, that we know what our means are, and the challenge to us is to live within our means without the expectation of any additional support from outside the health main expenditure group."[12]

Levels of additional funding to different health bodies

31. Notably, this additional funding was split so that five of the seven Health Boards received an identical recurrent uplift of £17 million.[13] We asked the Welsh Government why five of the health boards had received identical levels of financial assistance, when they were presumably dealing with different population demographics and geographic issues. In response, Welsh Government officials advised us that:

> "when the plans and the level of demand on the system were being assessed, it was felt that an element of consistency was needed in that. Given the level of risk that each health board was carrying, it was felt that that was an appropriate basis on which to broadly treat them the same."[14]

32. They explained that:

> "We could argue that one is £17.9 million, and that one is £16.8 million. However, there was a point at which we felt that it seemed to be a challenge that was reasonably common to all health boards. Health boards are of different sizes and all have different characteristics, and we came to the conclusion that it seemed reasonable to give them a similar ask in terms of what they had to provide from the point at which we made the decision to the end of the year."[15]

33. We were surprised that the Welsh Government did not appear to have given greater consideration to different Health Boards' demographics, geographic challenges and different pressures. The Chief Executive of Cardiff and Value University Health Board raised a similar issue, commenting that despite Cardiff being a specialist centre, with people coming to it from all over Wales:

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[12] RoP, Public Accounts Committee, 27 November 2012, Para 27
[13] Wales Audit Office, Health Finances, Exhibit 3, Annex 2 page 45
[14] RoP, Public Accounts Committee, 27 November 2012, Para 34
[15] RoP, Public Accounts Committee, 27 November 2012, Para 42

> "When I do some simple calculations—this is unweighted, so it almost certainly will not tell us very much—per head of population we receive £1,611. That is the lowest figure per head of population in Wales. I imagine that the review of the financial regime will look at those kinds of funding formulae and assess whether they are right. It is a very complex area… one of the risks for our local population is that we subsidise all-Wales services at the cost of our local-population services. We need to be clear whether that is happening. I cannot tell you, sitting here today, whether that is the case, but we are looking at that very carefully."[16]

34. We recognise that there will be similarities in the different challenges confronted by Health Boards in attempting to work on a more sustainable financial footing. We also recognise that if adjustments are made to the finances provided to different health boards there will inevitably be some that receive more funding, and some may receive less funding.

35. Nevertheless, we are uncomfortable with the Welsh Government's decision to award identical recurrent uplifts to five of the seven health boards, as we are concerned this does not adequately take it account their different pressures and needs, both now and going forward. We consider that if a clear message is to be put out that individual health boards must work within their allocated budgets, then this needs to be supported by a greater level of sophistication in assessing the needs of those different health bodies, and allocating their budgets to begin with.

We recommend that the Welsh Government reviews its funding formulae for supporting different health bodies, ensuring it appropriately weights and considers demographics, regional geography and other relevant factors, including specialist services.

36. We also consider that the Welsh Government needs to be publicly seen to have a clear understanding and grip on initial budget setting with different health services. In particular, it is important that there is no possibility that it can be perceived to perversely incentivise Health Services to overspend, in order to be seen as having a greater need for any additional funding provided in-year.

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[16] RoP, Public Accounts Committee, 4 December 2012, Para 227 and 228

We recommend that the Welsh Government is more transparent about the rationale for allocating different levels of funding to different health organistaions. This is particularly important when additional funding is provided in-year to health services. Such allocations should be based on a clear business case from each of the NHS organisations in receipt of additional resources.

Brokerage funding rather than additional funding

37. The Auditor General's report notes that even with this additional recurrent funding, once inflation was factored in, "there is a real terms cut every year in the health revenue budget."[17]

38. In the 2011-2012 financial year, four Health Boards were unable to break even without assistance from the Welsh Government. The report details that in July 2011:

> "Cardiff and the Vale Health Board received additional funding of £12.25 million, with £12 million as repayable brokerage from 2012-13 and 2013-14 resource allocations equally. This support, together with additional planned savings of £2.5 million, enabled that health board to break-even. In return, the health board was required to establish and keep in place a dedicated 'turnaround' team, and to submit a profiled financial plan for months 9 to 12 by the end of November 2011 and a financial and savings plan for 2012-13 by the end of February 2012."[18]

39. Similarly, toward the end of the financial year three health boards were provided with additional support in the form of brokerage funding, in the form of a:

> "…further £12.4 million of advances from 2012-13 funding.... This meant a total of £24.4 million of funding was paid out from the 2012-13 budget."[19]

40. However, the Auditor General's report comments that by providing brokerage, rather than additional funding, the Welsh

[17] Wales Audit Office, Health Finances, Para 3.2
[18] Wales Audit Office, Health Finances, Annex 2, page 44
[19] Wales Audit Office, Health Finances, Summary, Paras 12-15

Government "stuck to its 'no additional funding' message in a way that it had not in previous years."[20]

41. In oral evidence, the Welsh Government officials concurred that they believed the provision of brokerage funding, as opposed to a 'bail-out' had reinforced a firmer message, stating that:

> "…the message that went through last year was very clear… health boards and trusts had to live within their means. That was reinforced at the year-end, when, as you know, we had to provide a small amount of brokerage to a small number of organisations. That was not the provision of money without any conditions attached, and it really did emphasise the need for accountability at organisational level through to the Minister for health. Therefore, I think that the message was a very clear one… it was a break from the previous regime and how things had worked previously. The evidence for that is what we hear from the health boards, which are now very clear about the importance of delivering."[21]

42. We asked our witnesses whether the fact that brokerage funding had been made available in the previous financial year could give the impression that if health boards did not achieve break even themselves, one way or another they would still be bailed out. One of our Members asked:

> "Let me get this right: in spite of the tough talking on the budget, the fact that the Welsh Government has put its hand in its pocket to deliver extra finance, whether through brokerage or by giving more cash from its reserves, on an annual basis for many years has not given the impression to the people whom you are working with that they should do what they can but that they will never have to meet the huge challenges ahead as they know that, in the end, they will be bailed out in some way, shape or form. There is not that sort of attitude among the people in your health board?"[22]

43. In response to these questions, our witnesses consistently stressed that Health Boards were very clear about their responsibilities

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[20] Wales Audit Office, Health Finances, Para 2.20
[21] RoP, Public Accounts Committee, 27 November 2012, Para 30
[22] RoP, Public Accounts Committee, 4 December 2012, Para 166

to deliver against statutory targets. Welsh Government officials commented that:

> "Their boards are in no doubt, from the very clear messages that the Minister has given to chairs and that I give to chief executives, that accountability means something, and that they have to deliver."[23]

44. Similarly, the Welsh NHS Confederation advocated that "The money is the money, and the NHS knows what that money is and it has to work within it to break even."[24]

45. To evidence these assertions, our witnesses noted that significant savings were already being achieved by Health Services in an effort to meet their statutory obligations. The Welsh Government commented that:

> "The scale of the financial achievement in 2011-12 should not be under estimated. The NHS delivered savings of around £285m last year whilst driving up quality and patient experience."[25]

46. Acknowledging that greater savings were still required for 2012-13, the Welsh NHS Confederation commented that:

> "the NHS is still on course to make £220 million of savings this financial year, at a time, as you have just heard from David Sissling [the Welsh Government's Director General for Health, Social Services and Children and Chief Executive of NHS Wales] and colleagues, of unprecedented demand—on top of savings of £285 million plus in the last financial year—by reducing and containing costs, reducing capacity and redesigning services. I want to put it in context that the NHS is doing a good job under very difficult circumstances."[26]

47. Witnesses also noted that that savings were being made to enable investment in other areas. The Welsh Government's Director General

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[23] RoP, Public Accounts Committee, 27 November 2012, Para 71
[24] RoP, Public Accounts Committee, 27 November 2012, Para 177
[25] Welsh Government, Evidence paper from the Director General, Health, Social Services and Children to the Public Accounts Committee in response to the Wales Audit Office Report on Health Finances (July 2012), Page 2
[26] RoP, Public Accounts Committee, 27 November 2012, Para 178

for Health, Social Services and Children and Chief Executive of NHS Wales commented that

> "At the beginning of the year, a health board will examine what it needs to do in terms of some of the inflationary pressures, but it will also produce a complete list of those areas that are driven by service needs—they might be things to do with the introduction of new drugs that have been recommended by NICE, or increases in staffing levels where standards say that that is required. So, when we talk about these big figures—the £250 million and £300 million—they are not just cutting costs; they are recycling money into the service, at times to enable very necessary developments in areas that are under pressure."[27]

48. Similarly, Betsi Cadwaldr commented that sometimes savings made in the past became less effective as new pressures on the service emerged:

> "We have had examples like that where we have made progress and then other pressure has depressed the impacts of those savings in the next year… One area in particular that we have been concerned about and would have given evidence on, is Birthrate Plus and maternity services, where we have taken a conscious decision, because it is right for women to be on a normal birthing pathway, and we need to make sure that the woman gets a very good experience and the life chances of her child/children are the best that they can be. So, we have taken a conscious decision, based on looking at the quality of care and the risks within that service and the life chances of the children, to put investment into that. That has meant a financial cost to us, but it was the right thing to do."[28]

49. We welcome health bodies' stated commitments to meeting their statutory obligations to break even, and their evidence that significant levels of savings are being made.

50. However, we are concerned that despite the stated commitments, there remain significant weaknesses in financial management, as set out below.

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[27] RoP, Public Accounts Committee, 27 November 2012, Para 126
[28] RoP, Public Accounts Committee, 4 December 2012, Paras 75 and 95

Setting balanced budgets

51. We are concerned that some Health Boards may never have had complete plans to break even in 2012-13. In particular, the update report shows that Cardiff and Vale and Abertawe Bro Morgannwg University Health Boards have savings plans that fall considerably short of fully bridging their funding gaps, while Cwm Taf for example has identified £10 million of savings that it decided not to action as they were too high risk.[29] Cardiff and Vale had a particularly large gap in the order of £34 million. When we asked the Chief Executive of Cardiff and Vale University Health Board whether the Health Board ever had a full financial plan, he responded:

> "The easiest thing for me to do is simply say – no. The budget did not have adequate links between workforce capacity and service planning. Required cost reductions were not being achieved, and some of the cost reductions were unrealistic, aspirational and not clearly linked to service delivery or workforce and capacity plans. That is what the Audit Office said about the budget-setting process for last year. There was a discontinuity of leadership in the health board."[30]

52. We welcomed the Chief Executive's acknowledgement of these flaws, and note the vital role of clear leadership and transparent, realistic planning going forward. However, it is particularly concerning that some Health Boards appear to have started the financial year without full plans to meet their statutory duty to break even. This implies an expectation that additional funding would be provided to meet gaps. That some Health Boards still did not have full plans half way through the financial year points to weaknesses in the Welsh Government's oversight and challenge.

We recommend that the Welsh Government requires all Health Boards to produce a full break even budget prior to the start of each financial year, and that this budget is supported by a robust and comprehensive savings and work-force plan, which has been appropriately profiled..

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[29] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figure 9
[30] RoP, Public Accounts Committee, 4 December 2012, Para 171

Delivering savings and work force reductions

53. However, while savings are being achieved, we questioned how realistic Health Boards' saving plans necessarily were. The Auditor General's July report and update paper show that in 2011-12 Health Boards fell short of their savings target and were significantly behind their plans mid-way through 2012-13.

54. Staff cost is an area where the NHS intends to make the largest savings. In his July report, the Auditor General commented that it is difficult to see how the NHS could sustain job levels and live within its means.[31] In managing down staff costs, the Auditor General noted that the NHS would need careful planning in order to manage risks to service levels and quality.[32] In particular, he noted that NHS bodies' three-year service and financial plans would need to link with robust work-force plans.[33]

55. We noted that the Auditor General's update showed that Health Boards were already some way behind their plans for work-force savings and that most had over-spent on their pay budgets.[34] The update detailed that while NHS bodies' plans suggested that they intended to reduce the number of staff over the year by 1,570 whole time equivalents (around 2 per cent of the work-force), the number employed has increased over the first half of the year.[35] The Welsh NHS Confederation commented that the suggested reduction in whole time equivalent staff had been:

> "a bit overambitious in looking at workforce change, because workforce change is dependent upon service delivery, service provision and finances. It is a bit like a three-legged stool, really; we cannot change one without changing the other, and if we change one too soon, it has an impact, sometimes a detrimental impact, on another element of it."[36]

56. The Welsh NHS Confederations comments illustrate a major short term problem for health services: despite workforce reductions being

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[31] Wales Audit Office, Health Finances, Para 3.11
[32] Wales Audit Office, Health Finances, Para 3.12
[33] Wales Audit Office, Health Finances, Para 3.13
[34] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figures 12 and 13
[35] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figure 14
[36] RoP, Public Accounts Committee, 27 November 2012, Para 201

the single largest area for planned savings, they cannot necessarily be delivered without service change, and service change seems to be some way off for many Health Boards. The evidence we received on this issue did not provide clarity that there is therefore a clear path for NHS Services to make the required financial savings in the short-term

57. Betsi Cadwaldr similarly commented that reducing its workforce by 341 members of staff- as indicated in its original plans- was not now considered realistic. They commented that:

> "I am not sure whether the figure of 341 is realistic. It is a mathematical figure, actually. That is a key point, because each job has to be taken on its own merits… On the 341 referred to in the auditor general's paper, effectively, if our plans remained unchanged, to deliver them we would have to remove 341 staff in the second half of the year… we have reviewed our plans in-year and we have accepted that some of them will not deliver, so we have replaced them with alternative plans. The auditor general referred to reprofiling and a reassessment of savings plans; we had a major reassessment in September and October and we are still refining those plans"[37]

58. We concur with Betsi Cadwaldr's comments that every job has to be taken on its own merits. In determining financial plans in the future, we believe it is vital that health boards link them with robust work-force plans, as set out in the Auditor General's July report.

59. We are disappointed that we did not find clear evidence in our short inquiry to establish that Health Boards' savings plans have been historically realistic.

60. In the absence of such evidence, we looked for clear indication as to whether the Welsh Government had robustly challenged and supported the development of such plans. Betsi Cadwaldr advised us that the Welsh Government did provide it with support in delivering its savings plans, describing that:

> "it varies. There is a background level of support and a generally supportive relationship with Welsh Government officials, and then, if there are particular performance issues, mainly around service—not financial issues in our particular

[37] RoP, Public Accounts Committee, 4 December 2012, Para 89 and 90

> perspective—we have had targeted help and assistance, which is geared towards delivering to the clear expectations and directions of Welsh Government."[38]

61. Similarly, Cardiff and Vale University Health Board's new Chief Executive described that:

> "I have not experienced a cycle of sending in a budget and seeing what happens, so I cannot really comment on that. All I can say is that, since our arrival, we have had appropriate, robust, challenging conversations about our position. Our end of that is to be really clear about where we are and to be straightforward about what we think our position is."[39]

62. However, the new Chief Executive also acknowledged that there had been historical flaws in his health boards' savings plans, with too much emphasis on non-recurrent savings. He described that:

> "There would have been an attempt to reduce the number of staff recruited over a period. There would have been reductions in things like training allocations. There would have been a review of travel and subsistence costs. There would have been a whole host of items of that kind, none of which you can sustain. You have to continue to train people—you cannot not train people."[40]

63. We consider it imperative that saving plans are realistic and are not overly-reliant upon non-recurrent savings. In the event that slippage against savings plans occurs, the Welsh Government needs to step in at an early stage to scrutinise the reasons for such slippages, and closely monitor the NHS body's response. We concur with the Auditor General's recommendation that the Welsh Government provide challenge to NHS bodies as they develop their three year plans to ensure they accelerate cash releasing savings from workforce planning.[41]

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[38] RoP, Public Accounts Committee, 4 December 2012, Para 72
[39] RoP, Public Accounts Committee, 4 December 2012, Para 203
[40] RoP, Public Accounts Committee, 4 December 2012, Para 169
[41] Wales Audit Office, Health Finances, Recommendation 1, page 11

Reducing workforce costs by addressing associated expenditure

64. In their evidence, the Welsh Government emphasised that we needed to look beyond the more simplistic numbers of the people being employed by Health Boards, and instead look at the broader nature of staffing costs, including overtime & agency costs. Welsh Government officials commented that

> "the important thing is not just the numbers employed, but also the costs of employment. We are seeing very significant reductions in premium costs—in overtime, bank and agency costs. Our expectation is that, by the end of the year, the total numbers employed will be relatively static and there will be significant reductions in premium costs, so the spend on agency and locum staff—which was at £50 million, dropping down to £47 million, over the last two years—will reduce significantly, perhaps in the order of £10 million this year."[42]

65. Similarly, Betsi Cadwaldr stated that they were "looking hard at locums and agency staff, which is a challenge for us."[43] Betsi Cadwaldr commented that health services in their area did not wish to rely on locums, but that recruitment had traditionally been challenging, and that locums were sometimes used as a substitute for recruited staff. They detailed that:

> "The issue is the middle grade, simply because those doctors are not out there. A lot of the doctors at that grade came from abroad, and, because of immigration issues, we have not been able to recruit more…there are some choices here, and several ways to address the issue. One way is to move primarily to a consultant-delivered service. Again, you would have to look at the numbers. Alternatively, you could have a mixture of a consultant-delivered service and changing the way in which the services are provided. So, you would specialise, as we have done in relation to cancer—gynaecological cancer, upper gastrointestinal cancer and neurological cancer. You would try to get a cohort of surgeons or specialists together, so that you did not spread yourself too thinly."[44]

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[42] RoP, Public Accounts Committee, 27 November 2012, Para 51
[43] RoP, Public Accounts Committee, 4 December 2012, Para 16
[44] RoP, Public Accounts Committee, 4 December, Paras 83 and 84

66. We note that savings can be driven down in terms of reducing reliance on locums. Indeed, we acknowledge that costs can potentially even be reduced by recruiting staff, if this then reduces use of agency staff or overtime. However, we are also conscious that the level of savings that can be achieved by driving down agency and locum costs, as set out by the Welsh Government, are relatively low compared to the overall level of savings required.

Reducing procurement costs

67. We were pleased to note that Health Services were taking action to reduce procurement costs. For example, Betsi Cadwaldr described that they:

> "have collaborative procurement arrangements with local authorities that are seeking to drive the costs of external placements and high-cost packages down. That has been quite beneficial, and it involves social services and very much a housing input too."[45]

68. Similarly, Cardiff and Vale University Health Board that they had:

> "some very active work under way at the moment to look at how we can rationalise some of our procurement decisions and the kind of things that you are referring to. That will be building into next year's plan."[46]

69. However, unlike Betsi Cadwaldr Health Board, Cardiff and Vale University Health Board did not appear to have any processes in place to enable joint procurement exercises with local authorities.[47] We consider that this could represent a valuable opportunity to deliver savings. Procuring alongside local authorities or a consortia of local authorities could offer significant savings when buying consumables, such as photocopier paper.

We recommend that the Welsh Government engages with NHS organisations to enable them to take advantage of all opportunities for efficiencies, including procurement exercises with other parts of the public sector including local authorities, education, police, fire and rescue services.

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[45] RoP, Public Accounts Committee, 4 December 2012, Para 80
[46] RoP, Public Accounts Committee, 4 December 2012, Para 219
[47] RoP, Public Accounts Committee, 4 December 2012, Para 223

Additional demand as a significant factor behind the in year deficit

70. In relation to the in year financial position, the Chief Executive of the NHS in Wales told us that, "our analysis is very supportive of the view that the reason for this pressure is to do with demand."[48] In particular the Welsh Government highlighted increased demand from older people as a result of demographic changes.

> "what you have in Wales is, basically, a 1% increase above the worst-case scenario from the 2008 projections related to population. That 1% is nearly all in over-85s—it is in the older age group. This is largely because of migration into Wales, from England predominantly; the migration into Wales was greater than what was anticipated in the projections in 2008. That has made a 1% difference in the population. The trouble is that the full projections from the 2011 census will not be available until next summer, and so we will need to do quite a bit of work around demographics to understand what that then means after that stage. There is a change, and it is above what was anticipated when the projections were done in 2008."[49]

71. We asked our witnesses whether such changes in the demographics of Wales could not have been anticipated, and whether the increasing age of the population was not in fact well-known, and well-heralded. The NHS Confederation acknowledged that such demographic changes could be expected:

> "…and we can plan for some of them, but they have risen beyond our projections and we have to find ways of dealing with that. So, there will clearly be an increasing challenge to contain the cost within the current level and there may need to be more support to do that."[50]

72. We accept that Wales' population demographics have changed beyond the Welsh Government and Health Services' projections. However, rising demand from an ageing population is a well-known issue that would have been factored into plans. The Auditor General's Reports have detailed that rising demand is a major factor in

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[48] RoP, Public Accounts Committee, 27 November 2012, Para 77
[49] RoP, Public Accounts Committee, 27 November 2012, Para 83
[50] RoP, Public Accounts Committee, 27 November 2012, Para 183

explaining why the NHS in Wales needs to make savings of around 5 per cent a year.

We recommend that the Welsh Government review its budgets to satisfy itself that the resources it provides to NHS organisations in future years reflect the increase in demand for services which has been seen during the current financial year.

73. In addition, we are not convinced that that unexpected demand wholly explains the financial position health bodies currently face. In particular, analysis of the Welsh Government's evidence paper suggests that the number of people over 65 attending Accident and Emergency in 2012-13 was set to increase by around 9.0%. This compares to an increase of 7.3% in 2011-12.[51] Given that the Chief Executive of the NHS told us that the direct cost of increased demand from older people was around £45 million, we estimate that the cost of the unexpected rise in population demographics (i.e. the 1.7 percentage point increase) over and above the increase in 2011-12, to be approximately £8.9 million,[52] significantly lower than the contingency funding provided to health services. We also note that the Minister for Health has already allocated £10 million for Health Boards (earlier in the 2012-2013 year) to deal with unexpected pressures in emergency care.

74. We also consider that the issues regarding demographic change seem to be more about the adaptation of services than not being sufficiently advanced to meet these new challenges. A case can already be made that such demographic changes will likely increase next year, and will happen every year. Indeed, Betsi Cadwaldr acknowledged to us that:

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[51] Welsh Government, Evidence paper from the Director General, Health, Social Services and Children to the Public Accounts Committee in response to the Wales Audit Office Report on Health Finances (July 2012), Annex 1, Figure 2

[52] This figure is a rough estimate based on the evidence provided by the Welsh Government. In 2011-12, 11,313 more patients over 65 attended A&E than in the previous year (a 7.3% increase). Had the number increased at the same rate, we would expect an increase of 12,128 in 2012-13. The Welsh Government figures show A&E attendances increasing by 15,109: 2,981 more than may have been expected. To estimate the cost of this "unexpected" demand, we have taken the Welsh Government's figure of £45 million direct costs of additional demand in 2013-14, and divided by the number of additional patients (15,109), giving a cost per patient of £2,978. Multiplying that figure by the "unexpected" 2,981 patients produces our estimate of £8.9 million.

> "You are right to say that we knew that the population was getting older, and I think that some of that is about trying to get the change in the way that you run the service—and that is a cultural as well as a behavioural change—in order to try to keep people at home by giving them the support that they need, rather than the default position always being to come in to hospital, which, sometimes, is not the best place for them."[53]

The potential for a deficit in the 2012-2013 health budget

75. Despite Health bodies' commitments to meet their statutory obligations to break even, and their evidence that savings are being made, the Auditor General's November 2012 update clearly showed that NHS bodies had a combined deficit of £69.1 million by the middle of the 2012-2013 financial year.[54]

76. Looking towards the end of the financial year, the update set out that by combining each Health Board's own 'most likely' forecasts, there was a 'most likely' collective end of year deficit of around £70 million.[55] The update also detailed a range of possible positions at the end of the year, based on trend analysis, ranging from around £100 million to £138 million.[56]

77. Notably, these figures were based on NHS bodies' own financial analyses and forecasts, rather than an estimate by the Wales Audit Office itself. The Welsh Government acknowledged that:

> "it is something that the Wales Audit Office has collated, not its forecast. The WAO has basically played it back. It is a forecast that the health boards are making that, in a sense, has been reinforced and confirmed by the Wales Audit Office, based on its analysis. We also think that that it is a reasonable basis for planning for the rest of the year; we see that 'most likely' figure as a reasonable basis on which to plan."[57]

78. Likewise, the Welsh NHS Confederation commented that:

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[53] RoP, Public Accounts Committee, 4 December 2012, Para 38

[54] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figure 1

[55] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figure 2

[56] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figures 5 and 6

[57] RoP, Public Accounts Committee, 27 November 2012, Para 44

> "The NHS this year has to deliver £317 million of efficiency savings in order to break even, and the auditor general has predicted, from health service figures—it is from our figures, so we accept it—an estimated deficit of £70 million on the NHS saving plans this year."[58]

79. The Auditor General's July 2012 report noted that in the event that NHS bodies did not achieve a financial break-even:

> "their excess spend is deemed to be 'irregular' and the audit certificate on their financial statements would reflect this by receiving a 'qualified' regularity audit opinion. A qualified opinion could in turn impact on the audit opinion on the Welsh Government's financial statements."[59]

80. To avoid a qualified opinion on its statements, the Welsh Government has in previous financial years allocated additional funding from its reserves to enable NHS bodies to break-even. However, in its November 2011 report on the Welsh Government's draft budget for 2012-13, the Finance Committee expressed concern that:

> "Given the limited nature of the Welsh Government's reserves, we are concerned that it is imperative that local health boards deliver the overall savings anticipated by the Minister for Finance."[60]

81. Following the Auditor General's update report, the Welsh Government provided additional funding to Health Services as a result of a mid-year review. The following sub-chapters consider the impact of this additional funding.

Additional funding for Health Boards in December 2012

82. We were concerned that the Auditor General's update indicated a sizeable deficit in the collective picture of Health Services' Finances, particularly in the context of there being limited central government reserves for responding to such. However, in written evidence the

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[58] RoP, Public Accounts Committee, 27 November 2012, Para 178
[59] Wales Audit Office, Health Finances, Summary, Para 4
[60] Finance Committee, Scrutiny of the Welsh Government's Draft Budget for 2012-2013, November 2011, Para 161.

Welsh Government's Director General for Health, Social Services and Children and Chief Executive of NHS Wales, detailed to us that:

> "Based on the evidence of risks presented in NHS organisations initial financial plans, I took the decision early in the financial year to establish a contingency reserve within Welsh Government central health and social services programme budgets."[61]

83. The Minister for Health and Social Services had previously indicated that this contingency amounted to £50 million to the Health and Social Care Committee. In a written statement on 5 December, she detailed that:

> "I have decided to allocate an additional £82 million to the NHS from resources within my own budget. This additional funding will be met from within my contingency reserve, with an element also being transferred from available resources within my capital programme."[62]

84. We understand that this £82 million therefore represented the Minister's £50 million contingency fund, and the remaining £32 million made available via the movement of capital resources.

The impact of the contingency fund on perceptions

85. As noted earlier in this chapter, the Auditor General's July 2012 report detailed that an unintended consequence of the historical 'bail-out' of health services by the Welsh Government has been to deliver a mixed message: on the one hand there has been clear statements that health services had to live within their budgets, and on the other there had been additional funding required. In a similar fashion, when detailing the existence of the contingency fund, Welsh Government officials continued to emphasise that:

> "we need to get into the frame of mind that it is not 'if' but 'how' we break even."[63]

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[61] Welsh Government, Evidence paper from the Director General, Health, Social Services and Children to the Public Accounts Committee in response to the Wales Audit Office Report on Health Finances (July 2012), Page 5
[62] Written Statement by the Welsh Government, NHS Mid Year Review, 5 December 2012, by Lesley Griffiths, Minister for Health and Social Services
[63] RoP, Public Accounts Committee, 27 November 2012, Para 10

86. We were concerned by the mid-year timing of the announcement of this contingency fund, as we considered that it could be perceived as creating a mixed message again. As one of our Members commented:

> "On the one hand, you are saying 'There is no more money; you have to stick to your existing financial budgets. The envelopes are there and they are fixed', but on the other hand you are saying, 'We have £50 million in the bank ready to give you if you need it.'"[64]

87. We concur with the Auditor General's recommendation that NHS bodies are provided with as much detail as possible on funding before the start of a financial year to facilitate effective financial planning. We consider that this should include detail on any available contingency funds, and an indication of any conditions required for accessing such funding.

88. However, in response to these concerns, a Welsh Government official commented:

> "I understand the point, but, once again, I would say that the NHS, at a time of financial constraint with increasing demand, is in a position where there will be risk, which needs to be anticipated and managed. The huge centre of gravity of the responses in the health boards is that they are doing all kinds of different things to address this emerging position. They are restrengthening their plans, and we have seen an enormous acceleration. So, the idea that, somehow, the health boards and trusts are sitting waiting for central assistance is entirely wrong; they are doing an enormous amount as we speak."[65]

89. We accept that Health Services are not 'sitting waiting' for additional funding. However, we received clear evidence that they are actively asking for additional funding, with Betsi Cadwaladr University Health Board detailing that they were "fighting their corner" to access additional resources. This is concerning in the context of the evidence we received that some Health Boards have not set balanced budgets, with an implication that contingency funding was anticipated. There can be no doubt that Health Services are doing an enormous amount

[64] RoP, Public Accounts Committee, 27 November 2012, Para 66
[65] RoP, Public Accounts Committee, 27 November 2012, Para 67

to manage their finances, but equally clearly, in many cases this has not been enormous enough to live within their means.

90. The Welsh NHS Confederation were also supportive of the existence of a contingency fund, and- like the Welsh Government- considered it to be an element of effective financial management. They commented that:

> "we welcome, for instance, the indication that there is going to be a contingency, which seems to us to be sound financial management. I have a contingency in case my roof blows off—I hope that it does not, but if it does, I can pay for it."[66]

91. We concur that the existence of a contingency fund, to address unexpected emergencies, is a sensible financial management tool. We note that holding back such funding at the start of the year also 'stretches' health bodies to make savings. However, we questioned the Welsh Government whether meeting a deficit in Health Services' funding plans represented an appropriate use for such a contingency fund.

92. We were concerned that addressing a deficit in financial plans was not equivalent to responding to an unexpected emergency. In response, the Welsh Government advocated that this was effectively the use to which the contingency was being applied. The Welsh Government stated that the contingency fund was responding to significant demographic changes.[67]

93. We also asked the Welsh Government whether the contingency funding would be used to enable brokerage funding. However, we were advised that:

> "This is not about a sloppiness of approach—health boards have been incredibly rigorous—but they have experienced very significant demand. We have shared the graphs with you, and health boards have responded; we have seen a reduction in admissions for chronic conditions and bed days have come down, so the net impact is increased demand. In such circumstances, it would be inappropriate, in terms of the recommendation that I would make to the Minister, for this to

[66] RoP, Public Accounts Committee, 27 November 2012, Para 180
[67] RoP, Public Accounts Committee, 27 November 2012, Para 8

> be repayable money. This is not an end-of-year situation; this is a well-managed position, which includes risk, contingency, a mid-year review and a need for early decisive action to recognise increasing pressure."[68]

94. The evidence we received, including the Welsh Government's own figures on demand, appears to contradict this rationale to some degree. While we would not go so far as to say there has been a "sloppiness of approach,"[69] we cannot agree that all Health Boards have been "incredibly rigorous."[70] To a significant extent, the need for additional funding appears to relate directly to financial management issues that we have set out earlier in this report. In particular: some NHS bodies starting the year without a clear plan to break even and/or, for a variety of reasons, not delivering what appear to have been optimistic savings plans

95. It is critical, going forward, that the Welsh Government provides adequate challenge to the planning and delivery of such plans. We have considered this issue further in our final chapter, in the context of potential changes to the financial regime for health services.

96. Regardless of any potential changes to the funding regime, we consider that in future financial years, the Welsh Government should ensure there is transparent clarity over the circumstances in which health services might access contingency funding.

We recommend that the Welsh Government ensures that NHS organisations are provided with as much detail as possible on funding prior to the commencement of the financial year, including contingency funds and conditions governing applications for such funds.

Sufficiency of the additional funding

97. We were also concerned that the Minister for Health and Social Services' own contingency for 2012-2013 has now been entirely utilised, and that if an unexpected health emergency arises, such as a major flu pandemic, that this would presumably need to be addressed with funding from the Welsh Government's reserves.

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[68] RoP, Public Accounts Committee, 27 November 2012, Para 77
[69] RoP, Public Accounts Committee, 27 November 2012, Para 77
[70] RoP, Public Accounts Committee, 27 November 2012, Para 77

98. However, we were also concerned that the additional funding provided to health services might still be insufficient to address the collective deficit in their budgets for 2012-2013, if health services' financial forecasts (on which the Auditor General's update were based) had been inaccurate or unrealistic.

99. Trend analysis reported in the Auditor General's update points to a larger end of year deficit than the 'most likely' position reported by Health Boards in September 2012. Notably, the Auditor General's update shows that four of the seven Health Boards' 'most likely' position is the same as their 'best case.'[71] The Auditor General's July report also referred to inconsistencies in the information that the Health Boards provide, with some providing the Welsh Government with overly optimistic forecasts.[72]

100. The Auditor General's update also showed that Health Boards were behind their targets for making savings during the 2012-2013 financial year.[73] The update detailed that they had collectively fallen short of their targeted savings in every month of the 2012-2013 financial year up to September,[74] but planned to turn things around by exceeding their savings targets in the final months of the year.

101. Given the demographic concerns of an elderly population, and the potential for winter months to increase rather than ameliorate pressure on health services, we asked the Welsh Government how realistic they considered Health Boards' financial profiling to be. The Welsh Government's Director General for Health, Social Services and Children and Chief Executive of NHS Wales, advised us that they were "seeing better planning and better financial management, both centrally and locally."[75] He appeared to consider Health Boards' financial profiles to be realistic, commenting that:

> "The critical issue is that analysis of the most likely outturn from health boards, which was played back by Wales Audit Office as the one that we should work to and which was based on a very thorough review—not just a desktop review, but an

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[71] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figure 2
[72] Wales Audit Office, Health Finances, Para 2.22
[73] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figure 7
[74] Wales Audit Office, Update from the Auditor General for Wales on Health Finances, Figure 8
[75] RoP, Public Accounts Committee, 27 November 2012, Para 7

eyeball-to-eyeball review of the position—said that it was the right basis on which we should plan for the rest of the year."[76]

102. He emphasised that the Welsh Government needed to know:

> "what the position of the health board is as accurately in the first, second and third months as we do in the ninth, tenth and eleventh months… At six months, we are now saying to health boards that their plans have to be absolutely clear. They should not be aspirational or in any sense vague at the margins."[77]

103. However, other witnesses seemed to suggest that at the six month stage there was still some aspiration in Health Boards' financial planning and modelling. For example, the Director of Finance and Procurement for Aneurin Bevan Local Health Board appeared to indicate that there was still some aspiration in most Boards' financial modelling, describing that:

> "At the six-month stage, you would hope that the ambition of all the boards is to plan and aim for the best case. I will take my own health board as an example; our best case is break even, and our most likely is break even. The ambition of the board is to make sure that we live within our means by the year end. So, those two numbers are exactly the same."[78]

104. Betsi Cadwaldr similarly had identical figures for its 'best case' and 'most likely' financial modelling scenarios, of a £19 million deficit. However, they advised us that:

> "The figures that were included in the auditor general's letter were at a point in time in September. In our reporting to the Welsh Government, what we have said is that we still envisage our position being at the £19 million at this point in time. We are working very hard to reduce that, but given the risks that we have assessed, we now have a range that could take that to £24 million if we are not able to manage the in-year risks. We have put a more sophisticated analysis of risk around that in our most recent reporting to the Welsh Government and we are

[76] RoP, Public Accounts Committee, 27 November 2012, Para 93
[77] RoP, Public Accounts Committee, 27 November 2012, Paras 100 and 107
[78] RoP, Public Accounts Committee, 27 November 2012, Para 96

> in dialogue with it on how we are managing those particular risks to ensure that we deliver £19 million and below."[79]

105. We noted that it was therefore plausible that this £19 million deficit could increase. We also asked Betsi Cadwaldr why, when they ultimately needed an extra £17 million in the previous financial year to provide "support for our emergency pressures,"[80] their financial predictions appeared to show that they would break even up until the 11th month of the financial year. In response, Betsi Cadwaldr advised us that:

> "That is because our obligation is to break even... our duty is to balance and therefore our challenge is to produce a plan and deliver a plan that will balance. Throughout last year, our projection was to do so. You are right to point out that, if you look at the profiles, as the auditor general has said, there are some inconsistencies that, perhaps, could be more aligned to give a clearer picture across Wales."[81]

106. Similarly, Cardiff and the Vale University Health Board similarly reported that the figures used in the Auditor General's update might now be unrealistic. They commented that

> "as we sit here today, knowing the risks that we are facing and looking ahead to winter, I think that the £20 million best-case scenario probably comes to something like £25 million to £27 million."[82]

107. We consider it imperative that accurate information is provided to the Welsh Government on their financial forecasts. We consider that everyone involved with Health Boards' financial planning arrangements needs to be clear about what the size of deficits are, and why they are there. We concur with the Auditor General's recommendation that the Welsh Government work with NHS bodies to ensure that information on expected end-of-year out-turn is consistent across NHS bodies, with a similar balance struck between optimism and realistic assessment.[83]

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[79] RoP, Public Accounts Committee, 4 December 2012, Para 25
[80] RoP, Public Accounts Committee, 4 December 2012, Para 32
[81] RoP, Public Accounts Committee, 4 December 2012, Paras 34 and 36
[82] RoP, Public Accounts Committee, 4 December 2012, Para 215
[83] Wales Audit Office, Health Finances, Summary, Recommendation 4

108. We note that in his evidence the Chief Executive of the NHS Wales endorsed the most likely scenario in the Auditor General's update report, of a £70m deficit. Within weeks, the Welsh Government allocated £82 million to Health Boards. We are concerned that if the figure can rise substantially in a very short period, that there seems to be a significant risk that it could rise further in the coming months.

109. We consider it plausible that the deficit in Health Boards' original financial plans for 2012-2013 may well exceed the assistance that the Welsh Government provided in December 2012. The Welsh Government notably provided brokerage funding to a number of Health Boards in the previous financial year, and we welcome the fact that funding was not provided as a simple bail-out but rather as funding that needed to be repaid. We consider that the Welsh Government should consider brokerage funding as a viable, last-resort tool with which to support health services in future financial years. We note that brokerage funding would also enable some degree of end-of-year flexibility for health services.

We recommend that, where appropropriate, the Welsh Government continues to make brokerage-funding available to local health boards as an interim measure to support year end flexibility. Brokerage arrangements should be discontinued upon a more permanent legislative solution to year end flexibility being implemented.

3. Looking forward

Funding transformation to the NHS in Wales

110. The Auditor General's report states that the sustainable solution to the financial challenges is to transform the way that NHS services are delivered.[84] The Auditor General's report describes the historical difficulties that the NHS has experienced in delivering reform of services.[85] However, it also describes that there is a growing recognition that the status quo is simply unaffordable as a major difference between now and the past.[86]

111. All our witnesses concurred that enabling the public to be more often treated in the community- rather than in hospital- had numerous benefits. For example, in written evidence, the Welsh Government stated that service changes were not financially driven but that financial sustainability would be a key component. Similarly, Cardiff and the Vale University Health Board observed that:

> "Too many frail older people are being admitted to hospital unnecessarily. The consequence of that is that they become trapped—in using the word 'trapped', I do not mean that we hold them prisoner—they stay in hospital because it is very complex to get those people with complex needs back home again. There are different models that would enable us to diagnose more accurately and quickly the precipitating condition that that patient arrives with today, pay attention to that rapidly and return them home again quickly."[87]

112. The Auditor General's report also points to the challenges that the NHS faces in finding the funding for any new facilities that may be required to support service reconfiguration, due to a significant reduction in capital spending.[88]

113. Betsi Cadwaladr Local Health Board concurred that reconfiguration wouldn't make savings in the short term. Instead, they detailed that they were taking:

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[84] Wales Audit Office, Health Finances, Para 3.14
[85] Wales Audit Office, Health Finances, Para 3.15
[86] Wales Audit Office, Health Finances, Para 3.16
[87] RoP, Public Accounts Committee, 4 December 2012, Para 145
[88] Wales Audit Office, Health Finances, Para 3.17

"an approach that will rebalance the system to make sure that we have more support in the community… for an increasingly elderly and dependent population, thereby making sure that we are more fit for the future in terms of resilience and capacity."[89]

114. We appreciated that Health Boards are currently consulting on their plans, but were disappointed that they could not provide indications of the total savings that could potentially be achieved by reconfiguration. When asked for such, the Chief Executive of Cardiff and Vale University Board acknowledged that:

> "the simple answer is that I do not know… The issue that we have in modelling through the financial consequences is that it will significantly depend on what the final proposal looks like in the end. There is an almost infinite number of potential permutations, so, at the moment, I cannot tell you what the financial consequences of that will be."[90]

115. While we were pleased that consultation on reconfiguration is underway, we consider that as part of sensible financial management practice, Health Boards should have at least indicative figures for the maximum potential savings- and short to medium term costs- of service reconfiguration. It will be of little benefit for a Health Board to have identified through consultation a reconfiguration of services if it is financially unaffordable.

116. We appreciate that persuading most people to the benefits of reconfiguration can be done more effectively by focussing on improvements to services as opposed to financial savings. We concur with Cardiff and Vale University Health Board observation that:

> "if we were to say to people, 'We want to save money by closing hospital beds—how about it?' you will not get very many people stepping forward saying, 'How can I help?'. If you say to people, 'The evidence tells us that we could deliver better outcomes, more patients would survive our care and they would get home in a better condition—how about that?', then we would then get people involved in the conversation."[91]

[89] RoP, Public Accounts Committee, 4 December 2012, Para 108
[90] RoP, Public Accounts Committee, 4 December 2012, Para 145 and 242
[91] RoP, Public Accounts Committee, 4 December 2012, Para 255

117. But that does not mean Health Boards themselves should be unaware of what levels of savings reconfiguration may potentially enable, or indeed what they will cost in the short to medium term.

118. Our own *Picture of Public Services 2011* report previously called on the Welsh Government to ensure that NHS bodies make public their plans for service transformation and the analysis that underpins those plans, including the likely impact on patients and the wider community. In its response, the Welsh Government accepted our recommendation, referring to its existing guidance that when managing service change, NHS bodies should:

> "set out a clear rationale for change, supported by a clinical case which demonstrates the benefits of change and the risks of remaining the same."

119. In his advice on this response, the Auditor General suggested that we might wish to clarify the level of analysis the Welsh Government expects NHS bodies to publish.

We recommend that the Welsh Government works with NHS organisations to ensure that robust, sufficiently detailed public information is available in a timely manner in relation to the financial costs and benefits associated with NHS service change alongside information on clinical risks and benefits.

Involving the public, clinicians and other key local stakeholders in decision making

120. The Auditor General's report details that there remain key challenges involved in Health Services showing leadership to garner support from other sectors for reconfiguration, as well as the public, patients and their representatives.[92]

121. At the time of our evidence session in late 2012, the Welsh Government detailed that Health Boards were at differing stages with their proposals. In particular, Betsi Cadwaladr University Health Board and Hywel Dda Health Board had gone out to consultation and were considering responses, whereas Health Boards in south Wales have recently started a process of engagement, with formal consultation to follow in 2013.

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[92] Wales Audit Office, Health Finances, Para 3.20

Clinical engagement in decision making

122. Our witnesses concurred that clinicians needed to be engaged at local levels in financial decision making. For example, the Welsh Government described that:

> "Increasingly, we are getting more insight into the fact that the way to address the financial problems, paradoxically, is not through the director of finance's office, but through the medical director, the director of nursing and through the clinicians."[93]

123. However, we heard more mixed evidence as to the extent that clinical engagement in financial decision making was actually happening yet. For example, the Welsh NHS Confederation acknowledged that more could be done, but described that:

> "there have been huge efforts and a lot of very dedicated work to engage clinicians. In every element, not just in service change, a big piece of work that has happened in the last few months has been engaging clinicians in financial work because improving quality often costs less because of the knock-on effects. So, clinicians are a major part."[94]

124. However, Cardiff and Vale University Health Board appeared to talk about clinical engagement predominantly as something in the future tense, which needed 'to' happen, rather than something which 'was' happening. They detailed that:

> "it is really important that this is not something that the director of finance or the chief executive can do; we have to get our clinicians, in particular, with us. They have to own the fact that our circumstances are such that we have to redesign how we deliver care… if we organise ourselves differently and bring more senior doctors into the care delivery system earlier, and if those clinicians target treatment more effectively, we can move patients through our system appropriately and more quickly."[95]

125. Similarly, while detailing the efforts that had been undertaken to engage clinical staff in determining key principles in delivering quality

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[93] RoP, Public Accounts Committee, 27 November 2012, Para 65
[94] RoP, Public Accounts Committee, 27 November 2012, Para 229
[95] RoP, Public Accounts Committee, 4 December 2012, Paras 160 and 162

of care, Betsi Cadwaldr Local Health Board considered that there remained a need to change:

> "institutional perspectives by staff and the public of how we care for people into one of providing really good support and a better quality of life in the community."[96]

We recommend that the Welsh Government continues to work with NHS organisations to enable a consistent approach to the involvement of clinical staff in financial decision making.

Short term financial challenges for 2013-14

126. We concur with the evidence of all of the witnesses that change is needed to put the NHS on a more sustainable footing. However, delivering new ways of working and realising significant financial savings will take time. We are concerned that the financial pressures mean that in the short term NHS bodies are likely to struggle to live within their means.

127. In 2013-14, NHS bodies will need to make significantly greater savings than in 2012-13. They face a gap of roughly £250 million as a result of annual cost and demand pressures. NHS bodies will also need to make savings to cover the non-recurring savings and income from 2012-13, including the £82 million additional funding. The underlying deficit is likely to be significantly higher than the £125 million figure at the start of 2012-13.[97] On top of these pressures, Health Boards will also potentially need to find additional funding to start to implement the planned service changes.

128. We are concerned that the challenge of a significantly larger financial gap is compounded by the downwards trend in achievement of planned savings. The Auditor General reported that in terms of savings, "low hanging fruit" were likely to have already been exploited.[98] This view is reflected in the fact that in 2010-11 the NHS reported £314 million savings, in 2011-12 that figure fell to £285 million and for 2012-13 the NHS Confederation reported that the NHS is on track to deliver £220 million. The trend points to savings of less than £200 million in 2013-14.

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[96] RoP, Public Accounts Committee, 4 December 2012, Para 44
[97] Wales Audit Office, Health Finances, Para 2.15
[98] Wales Audit Office, Health Finances, Para 3.7

Changing the financial regime

129. The Auditor General's July report outlines concerns that the focus on breaking even at the end of the year encourages an excessively short-term focus.[99] The Auditor General recommended that the Welsh Government should assess the requirement for NHS bodies to break-even each year.[100] His report also notes that the Welsh Government has plans for a review of the financial regime for the NHS.[101]

130. The Welsh Government's written evidence paper set out the broad principles underpinning the new financial regime, which will have integrated medium term NHS plans at its core. The Welsh Government reported that it is examining options to enable Health Boards to manage their finances more flexibly across financial years. Their evidence paper stated that the work on the new financial regime would be completed and published shortly.

131. We warmly welcome this consideration of options for a new financial regime, having recommended consideration of such in our own report, *A Picture of Public Services 2011.* Several of our witnesses referred to the rationale which led to us previously making this recommendation, with the Welsh NHS Confederation commenting that:

> "The last time that I came to the committee, I said… that it is like landing a jumbo jet on a postage stamp to expect the health boards to come in on budget at midnight on 31 March every year. You responded positively to that, and we understand and know that the Government is working closely with health boards to introduce some of that financial flexibility over, possibly, three years."[102]

132. Similarly, Cardiff and Vale University Health Board observed that:

> "One of the ways in which our financial regime is not producing the right kinds of behaviour is this focus on one year and a year-end balance, because people are then inclined to focus simply on getting to that finishing line, each and every year. If you go back to look at last year, you can see that lots of non-recurring measures were put in place to get there, but the

[99] Wales Audit Office, Health Finances, Para 1.22
[100] Wales Audit Office, Health Finances, Recommendation 6, page 11
[101] Wales Audit Office, Health Finances, Para 3.16
[102] RoP, Public Accounts Committee, 27 November 2012, Para 184

> underlying recurring position was not addressed by those non-recurring measures. A much better model would be to look at a two or three-year time frame and pay attention not to the end-of-year results, but to the underlying recurring position."[103]

133. We consider that consideration of options to change Health Services' financial regime is entirely appropriate, as it may enable greater leeway and scope for improved planning of longer-term savings.

134. We concur with the Auditor General's recommendation that the Welsh Government continues to assess the current requirement for health boards to break-even each and every year, and develop options that would enable NHS bodies to invest in new ways of working where these are likely to deliver savings in the future and enable them to break-even over a longer period.[104]

We recommend that the Welsh Government considers forthcoming legislative opportunities to address the inflexibility of Health Board finances across financial years.

135. However, it remains absolutely imperative that Health Services are still accountable for their financial management. We believe, it would be counter-productive if a three year cycle of financial management simply resulted in an even greater pressure point at the end of that cycle. We agree with the Welsh Government's observation that while a three-year period is attractive:

> "the danger is that you can backload all of the problems; rather than coming in the fourth quarter of year one, they would come in the last half of year three. So, this would have to be associated with a significantly more rigorous arrangement to ensure that there is the same delivery in the first of the 12 quarters as there is in the last of the 12 quarters. We do not want to just replicate the position over a longer period. So, this would be predicated on much more rigorous planning and accountability arrangements. However, it would at least allow us to recognise that not everything can be contained and constrained within a 12-month period. Some elements of managing and planning something as complex as the NHS

[103] RoP, Public Accounts Committee, 4 December 2012, Para 152
[104] Wales Audit Office, Health Finances, Recommendation 6, Page 11

> should be done over a longer period. This would not be to say that the point of judgment is at the end of year three. There would be important judgments about performance at the end of year one. It would have to be on target and in line with an approved plan."[105]

136. We agree that it would be imperative that any changes to the financial regime for health services should be accompanied by incisive monitoring arrangements, and believe that the Welsh Government should consider both the level and type of monitoring conducted. We consider that the Welsh Government should examine whether it can learn from good practice elsewhere. Effective monitoring will also need to be accompanied by savings being forecast over a longer term, rather than constantly appearing to go down at the beginning of a financial year, and up at the end.

137. Betsi Cadwaldr acknowledged to us that it had been historically slow in instigating its savings plans, commenting that:

> "If you look at our profiles for the last couple of years, you will see that the proportion of savings coming through in the early part of the year is increasing and our quantum is increasing, but we still have a quite a low proportion—between 1% and 3%—in April. That needs to be higher. We need to be off the blocks quicker and that is something that we recognise as a health board. So, there is a mixture of issues there. At the moment, running through to October, we have saved about 47% or 48% of our savings target, which is better than was the case previously, on a larger sum. However, it is still not at the more than 50% that you would expect if we were running through the year."[106]

138. We consider it vital that all Health Boards put as much focus on enabling planned savings to be achieved in the first month of a financial plan as they do in the last, and that this is accompanied by suitable challenge and support from the Welsh Government. The importance of this only increased in the event that resource accounting regime of Health Services moves to a longer-term cycle.

[105] RoP, Public Accounts Committee, 27 November 2012, Para 104
[106] RoP, Public Accounts Committee, 4 December 2012, Para 61

We recommend that the Welsh Government provides robust challenge to NHS bodies in the planning and delivery of their financial saving plans, to ensure that there is a focus on achieving sustainable savings throughout the year, rather than non-recurring savings towards the end of each financial year.

4. Conclusions

139. The Auditor General's report clearly sets out that Health Services in Wales face significant financial challenges in the coming years. Empowering both the public and clinicians to be engaged in Health Services' decisions to address these challenges is imperative.

140. Similarly, it is vital that Health Services prepare and deliver financial savings plans that meet their budgets, with appropriate application of contingency funding from the Welsh Government to address challenges that could not be anticipated and planned for. Whilst we welcome evidence that suggests that improvements have been and are being made, we remain concerned that there is an urgent need to increase both the support and challenge provided by the Welsh Government to Health Services.

141. We will return to assess the Welsh Government's progress in the future and we expect to see improvements at that time.

We recommend that the Welsh Government provides us with an update, by June 2013, of its progress in delivering the recommendations made both in this report and that of the Auditor General.

Witnesses

The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=1311

27 November 2012

David Sissling	Director General, Health, Social Services and Children
Kevin Flynn	Director of Delivery/Deputy Chief Executive, NHS Wales
Helen Birtwhistle	Director, Welsh NHS Confederation.

4 December 2012

Mary Burrows	Chief Executive, Betsi Cadwaldr University Health Board
Geoff Lang	Executive Director of Primary Care and Mental Health Services.
Adam Cairns	Chief Executive Cardiff and Vale University Health Board
Kevin Orford	Interim Financial Director, Cardiff and Vale University Health Board

List of written evidence

The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at http://www.senedd.assemblywales.org/ieIssueDetails.aspx?IId=4181&Opt=3

Organisation	*Reference*
Welsh Government	PAC(4) 27-12 (p1)
Wales Audit Office	PAC(4) 27-12 (p2)