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Archwilydd Cyffredinol Cymru
Auditor General for Wales

NHS Wales: Overview of Financial and Service Performance 2013-14



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared this report for presentation to the National Assembly under the Government of Wales Act 1998 and 2006.

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Summary

- 1 Over recent years, NHS Wales – comprising the Welsh Government’s Department of Health and Social Services (the Department) and the 10 Welsh NHS bodies – has faced tougher financial settlements than its counterparts in other parts of the UK. The Welsh Government has to fund a range of services, including the NHS, against a backdrop of increasing demand and austerity. NHS Wales faces a growing challenge to deliver cost reductions without impacting on patient experiences, safety and the quality of services.
- 2 This report provides a detailed assessment of the financial position across NHS Wales in 2013-14. It also looks at performance in the delivery of services, focusing on those areas that the Department has identified as a priority. The report then goes on to consider the future financial and service challenges for NHS Wales. The audit methods we used to undertake this work are set out in [Appendix 1](#).
- 3 The first two chapters of this report cover the 2013-14 period, during which NHS bodies have worked within two sets of accounting rules, depending on whether they are an ‘NHS trust’ or a ‘local health board’. Generally all NHS bodies are required in one form or another to ‘break even’ on an annual basis. The Department has introduced a more flexible financial regime from 2014-15 so that, rather than having an annual break even target, local health boards can break even over a three-year period. The third chapter of this report looks at the future challenges facing the NHS for 2014-15 and beyond.

NHS Wales broke even in 2013-14 through substantial savings and additional funding although some NHS bodies overspent

- 4 At the beginning of 2013-14, the Department’s overall health and social services revenue budget was £6.1 billion¹. The vast majority of the Department’s budget is spent providing NHS services via the 10 NHS bodies, through core funding and funding for specific initiatives. The Department identified a number of cost pressures early on: the risk of overspends at NHS bodies and unfunded cost pressures on central programmes. The Department created a contingency at the outset, but recognised it was unlikely to be sufficient to cover the financial risks that would arise during the year. The Department took some risk-based decisions to reduce spending on central programmes. However, the savings were not sufficient to cover the deficits that individual NHS bodies were reporting. During the year, the Department required an additional £200 million (some three per cent of the original revenue budget), of which it allocated £150 million directly to the NHS bodies.
- 5 The Department has strengthened its approach to financial management. Unlike in previous years, the Department gave itself some flexibility by not insisting that there would be no further funding, instead announcing a mid-year review of the financial position. The Department subsequently allocated additional funding to NHS bodies on the basis of a population-needs formula. This was a sound approach as it helped avoid the risk of ‘rewarding’ those NHS bodies that reported the largest deficits. The Department has also sent a stronger message to NHS bodies that not meeting financial targets will have consequences.

¹ Whist the funding in the budget is notionally split, £5.9 billion for health-related services and £0.2 billion for social services, the Department takes an integrated approach to managing finances across health and social services.

- 6 Seven of the ten NHS bodies met their target to break even in 2013-14. The three that did not break even (Cardiff and Vale University Health Board (UHB), Hywel Dda University Health Board and Powys Teaching Health Board (THB)) each overspent by around £19 million. These three local health boards received a qualified regularity opinion on their accounts stating that the expenditure which exceeded their authorised level of spending is irregular.
- 7 NHS bodies have again done a good job of delivering financial savings in the year. The £185 million of reported savings in 2013-14 by NHS bodies is significant and just £3 million less than that reported in 2012-13. Nonetheless, as we reported last year, we have concerns that some of the savings may be overstated, particularly those for workforce. Again this year, there is also evidence that NHS bodies continue to be reliant on unsustainable one-off savings and technical accounting adjustments in order to break even.
- 8 As we reported last year, some NHS bodies have made savings which have impacted on the level of elective care that they have been able to provide. While such decisions have been based on detailed risk assessments, ultimately reducing elective activity is likely to be poor value for money as patients will need to be treated later, possibly at higher cost.
- 9 In general, the financial planning process at NHS bodies has improved. In particular, NHS bodies have been more transparent and realistic in identifying the funding gap they face at the outset. This growing realism is an improvement on previous years, where NHS bodies have produced 'balanced budgets' that balance in theory but in practice were not underpinned by savings plans. We also saw evidence that some NHS bodies are being more challenging of historical spending patterns, rather than rolling budgets and plans over from one year to the next. Nevertheless, there is scope to improve further, in particular by sharing good practice in areas like cost reduction and scrutiny and making better use of benchmarking data.

Performance across NHS Wales in 2013-14 was mixed and many key targets were not regularly achieved

- 10 We considered the performance of NHS Wales in delivering services. We have focused on the targets that the Department has identified as important by assigning them 'Tier 1' status. We recognise that the Tier 1 targets do not represent the totality of activity across the NHS and many targets are not good indicators of the quality or safety of NHS services. We also recognise NHS Wales faces significant demand pressures across services. The Department is currently reviewing its targets with a view to making the Tier 1 targets more focused on quality and outcomes for patients.

- 11 The performance of NHS Wales during 2013-14 was mixed compared with 2012-13. The NHS is meeting its new targets on prevention through childhood vaccines and improving access to GPs in the evenings and there was a welcome reduction in the number of people admitted to hospital as a result of chronic conditions. There were some improvements in performance against targets for unscheduled care services, mental health services, healthcare associated infections and cancer care, although the targets were not met across the year. There was a deterioration against waiting-times targets for planned treatment and the timely delivery of care to stroke patients. Performance against the main target for ambulance response times was broadly the same as last year but fell short of the target.

Three-year integrated planning is a step forward but NHS Wales will struggle to make progress without transformational change

- 12 In line with our previous recommendations, the Welsh Government has introduced legislation which requires NHS bodies to produce integrated three-year financial, service and workforce plans. The move to a three-year planning and financial duty framework is welcome and should help to address the previous weaknesses of the short-term 'annual' focus of the financial regime. During 2013-14, all NHS bodies submitted three-year integrated plans, but just four have been approved by the Department. Following the Department's initial assessment of the plans, some NHS bodies elected not to submit revised three-year plans and remain on an annual planning cycle.
- 13 The Department's process for assessing the three-year plans was sound although, as with most new processes, the early years involve some bedding in and there are areas in which the planning process could be further strengthened. In particular, NHS bodies' planning remains based on optimistic assumptions about the level of savings and degree of service improvement that can be achieved despite the tough financial climate. There is scope for NHS bodies to be clearer about what would happen if some of their assumptions prove over-optimistic.
- 14 Capital investment to replace and modernise infrastructure is central to the success of NHS bodies' plans. The Department has recently developed a strategic Wales wide approach to prioritising capital schemes and is looking for innovative funding solutions which it intends to use to assess the infrastructure proposals in the three-year plans. This new approach is still in its early stages but is a welcome development which will be essential in ensuring a strategic, sustainable and effective approach to infrastructure investment.

- 15 Looking to the 2014-15 financial year, NHS Wales is again starting with a significant projected end-of-year deficit. The Department has already allocated £23.5 million of additional funding to two of the NHS bodies with approved three-year plans. But the other NHS bodies are projecting a deficit totalling £192 million. Based on the current position, NHS Wales looks set to require a similar level of additional funding to that in 2013-14. On 30 September 2014, the Finance Minister announced an additional £200 million for the NHS in 2014-15 and a further £225 million in 2015-16.
- 16 The position over the medium to long term looks equally challenging unless there is a significant change in funding or transformation of services. The Nuffield Trust has examined the various cost pressures facing NHS Wales – such as an ageing and growing population, changes in technology, growing chronic conditions. The Nuffield Trust has estimated that there is a significant funding gap of up to £2.7 billion by 2025-26. Achieving the kind of cost reductions required to cope with those pressures will require some radical re-thinking and re-shaping of NHS services.
- 17 Some progress is being made with the strategic transformation and reconfiguration of services, but the pace of change is generally slow. Reconfiguration of hospital services in some areas has been delayed by public and political opposition and the detail on the costs and savings from reconfiguration is uncertain. Alongside the plans about where services will be located in future there is a need to rethink how services will be provided for the future. There are now many local projects working to re-shape and improve some services and the Department has high expectations of the emerging 'prudent healthcare' agenda, which we agree has potential to help re-think services to deliver better value at lower cost. The Department is aware that further detail is required on what the principles of prudent healthcare will mean in practice. We said last year that reconfiguration and radical service changes offer the best opportunity to put the NHS on a sustainable footing. NHS Wales now needs to markedly increase the pace of progress if it is to make its aspirations for sustainable services a reality. But it is hard to see how this change can be achieved without a greater degree of political consensus.

Recommendations

Appendix 2 sets out our recommendations from our previous NHS Finances report together with the Department's update on progress.

- R1 During the second half of 2013-14, the Department was managing a very difficult financial situation with a real risk that the NHS bodies would deliver a deficit that the Department could not afford to cover. During this period, the Department was receiving different projections and mixed messages from within some NHS bodies as to what the final position would be. **In future, the Department should ensure that all NHS bodies produce a single projected year-end position that is owned and agreed by the Chair, Chief Executive and Finance Director of each NHS body.**
- R2 Across Wales, NHS bodies face a number of challenges managing their estate and other assets such as ICT and medical equipment against a backdrop of reducing resources. The Department is currently implementing plans to improve the prioritisation of capital expenditure across Wales. **The Department and NHS bodies need to ensure that for capital expenditure:**
- **NHS bodies clearly identify their capital expenditure needs based on their three-year plans and these are supported by robust approved business cases which set out the capital and revenue implications along with the impact on services; and**
 - **the Department will need to ensure it develops and improves the strategic capital programme based on the planning priorities and investment objectives agreed in the three-year plans.**
- R3 The introduction of three-year integrated planning across NHS bodies is a significant and positive step forward. As would be expected with a new approach, some aspects could be further strengthened. **In its updated guidance on three-year integrated planning, the Department should require that NHS bodies:**
- **undertake sensitivity analysis, showing how changes in their assumptions including finances, demand, and workforce would impact on their plans; and**
 - **develop high-level contingency plans setting out how they intend to respond should performance depart from the agreed plan.**
- R4 Overall the Department is making reasonable progress in implementing our previous recommendations. However, there are two areas where progress has been slow. **The Department should strengthen and increase the urgency around:**
- **the challenge it provides to NHS bodies on the reported workforce savings and the scale of workforce changes; and**
 - **facilitating NHS bodies to share learning and lessons from successful (and unsuccessful) efforts to deliver sustainable service improvement and, where relevant, cost reductions.**

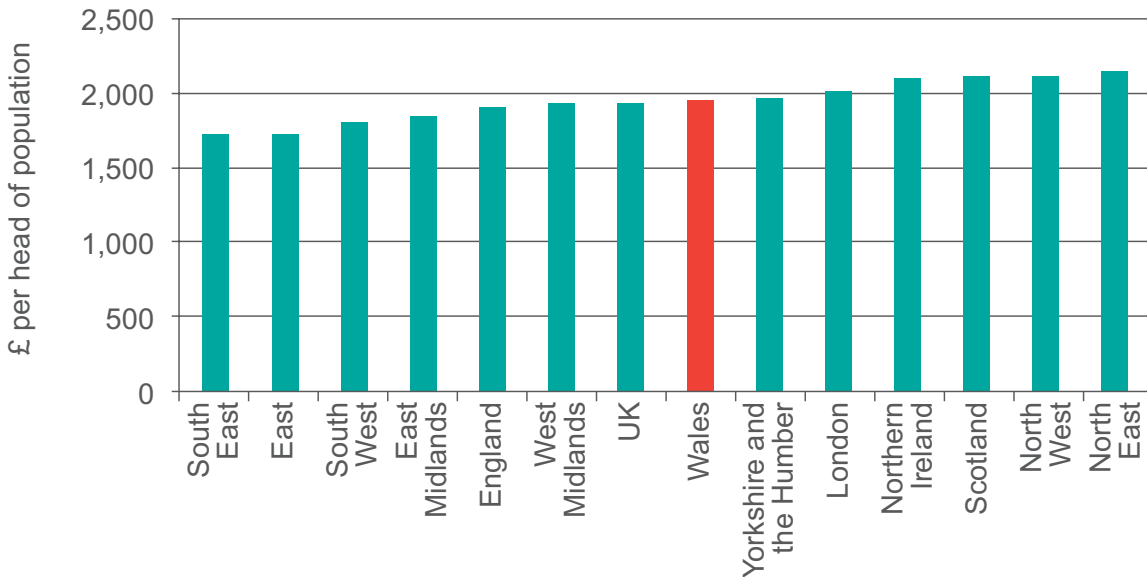
Part 1

NHS Wales broke even in 2013-14 through substantial savings and additional funding although some NHS bodies overspent



- 1.1 This section of the report examines the action taken across NHS Wales² to ensure that the service was able to live within its financial means in 2013-14. Firstly, it considers the action taken by the Department to manage the overall budget for the NHS. Secondly, it looks at the actions taken by individual NHS bodies as they aimed to meet their financial targets during the year – the main one being to achieve break even.
- 1.2 Before considering the detail, it is important to set out the broader financial context in which NHS Wales operates. As set out in our two previous reports covering NHS finances, NHS Wales faces a greater financial pressure than other comparable parts of the UK. While spending on health per head of population in Wales was slightly above England in 2012-13, Wales will fall behind if recent trends continue. As shown in Figure 1, spending per head of population in Wales continues to be below areas with comparable demographic and socio-economic characteristics such as Northern Ireland, Scotland and the North of England. These figures do not reflect the increased funding allocated to the NHS in Wales during 2013-14. The Office for National Statistics intends to provide an update, covering 2013-14, in November 2014.

Figure 1 – Health spending per head of population 2012-13



Source: ONS Country and Regional Analysis

² When we refer to 'NHS Wales' we mean all of the NHS bodies – the seven local health boards and three NHS trusts – and the Welsh Government's Department of Health and Social Services which is headed by the Chief Executive of the NHS.

The Department of Health and Social Services has strengthened its financial management but needed an additional £200 million from other departments and reserves in order to manage within its budget in 2013-14

The Department started 2013-14 with a significant gap in funding for NHS bodies and centrally managed programmes

- 1.3 In April 2013, the health element of the Department's revenue budget for 2013-14 was £5.88 billion. The budget was, in cash terms, one per cent (£59 million) lower than in 2012-13³. The NHS faces a range of cost pressures each year, including inflation, pay increases and increasing demand for services. As a result NHS bodies need to find new savings in addition to those delivered in previous years. In April 2013, Welsh NHS bodies calculated the total funding gap for 2013-14 as £432 million. At that point, NHS bodies had identified £225 million of saving plans, leaving a net funding gap of £205 million.
- 1.4 In addition to the pressures on NHS bodies' budgets, the Department also identified cost pressures of £75 million on central NHS programmes. These pressures included general inflationary pressures and new cost pressures in areas such as payments to primary care practitioners, new vaccines and clinical negligence. The Department reviewed spending plans shortly before the beginning of the financial year and identified opportunities for £15 million of savings. More than half of these savings came from reducing the baseline budgets for workforce and informatics (£4 million from each). These savings, combined with a Department contingency of £30 million, left a net gap in central budgets at the beginning of 2013-14 of £30 million.

Despite finding savings in central programmes, the Department required an additional £200 million from reserves and other departments

- 1.5 The Welsh Government recognised early on in the financial year that additional funding for the NHS would be required. Following Ministerial discussions over the summer of 2013, the Welsh Government set a target to raise £150 million from other government departments to support the NHS. In October 2013, the Finance Minister announced an additional £150 million for the NHS. The Department decided to allocate the majority of the funding to the NHS bodies using the 'Townsend formula'⁴. This was a sound approach as it avoids 'rewarding' those NHS bodies that report the largest deficits.

³ The real-terms reduction, taking account of inflation, at the beginning of 2013-14 was 3.3 per cent (£192 million). The reduction between 2012-13 and 2013-14 is primarily due to a capital-to-revenue transfer in 2012-13.

⁴ This formula is largely population based, with an adjustment to reflect the relative health needs of the population.

- 1.6 The £150 million of additional funding was not directly linked to the expected deficits that NHS bodies were reporting. As **Figure 2** shows, there were elements for specific purposes: increasing nursing levels, voluntary early release (VER), vaccinations and Kalydeco – a new drug to treat cystic fibrosis. The remaining £123.5 million was allocated to support unscheduled care pressures, using the Townsend formula.
- 1.7 In October 2013, the Department identified that even with the additional funding taken into account, NHS bodies would deliver a year-end deficit of more than £55 million. The Department and the Health and Social Services Minister (the Minister) were clear at this stage that the significance of the financial challenge will require further difficult decisions and choices to be made coupled with the continuation of very stringent financial controls, monitoring and accountability arrangements
- 1.8 Following the announcement in October 2013, the overall projected deficit across NHS bodies reduced by £107 million. The Chief Executive of NHS Wales met with the Chief Executives of NHS bodies and the Minister met the Chairs of NHS bodies. Following these meetings, the Chief Executive of NHS Wales wrote to each NHS body stating that their projected deficits were unacceptable and he set out the Department’s expectation of a lower year-end financial position. These letters showed a significant strengthening of the messages and intentions of the Department with NHS bodies.

Figure 2 – Allocation of the additional funding announced in October 2013

NHS bodies	Nurse Staffing £000	Unscheduled Care (including Ambulance Pressures) £000	Immunisation Programme £000	Kalydeco Drug Funding £000	VER Funding £000	Total £000
Abertawe Bro Morgannwg UHB	1.80	21.80	1.30	-	0.68	25.58
Aneurin Bevan UHB	1.90	23.88	1.14	-	0.13	27.05
Betsi Cadwaladr UHB	2.20	26.64	1.56	-	0.50	30.90
Cardiff and Vale UHB	1.40	17.09	1.03	-	2.63	22.15
Cwm Taf UHB	1.10	13.42	0.66	-	1.68	16.86
Hywel Dda UHB	1.30	15.51	0.86	-	1.30	18.97
Powys THB	0.40	5.16	0.30	-	0.05	5.91
Public Health Wales NHS Trust	-	-	-	-	-	-
Velindre NHS Trust	-	-	-	-	-	-
Welsh Ambulance Services NHS Trust	-	-	-	-	0.47	0.47
Central Programme	-	-	0.15	2.00	-	2.15
Total	10.10	123.50	7.00	2.00	7.43	150.03

Source: Department’s mid-year review October 2013

- 1.9 During this period, the Department was frustrated by what it considered to be inconsistent messages from some NHS bodies. Some Chairs and Chief Executives provided different expected out-turn figures from those submitted by NHS bodies in their monthly monitoring returns. As a result, the Department had to use at least two different sets of figures as part of the Department's overall financial management: the projected deficit NHS bodies were providing through the monthly monitoring returns, and a lower figure based on verbal assurances from Chairs and Chief Executives.
- 1.10 As the year progressed, the Department monitored the position and worked with NHS bodies to reduce their projected deficits through regular meetings between senior officers in the Department and NHS bodies. However, it became increasingly clear that the NHS would require further funding in addition to the £150 million announced in October 2013. The Welsh Government's supplementary budget in February 2014 which formalised the allocation of £150 million to the Department, also allocated a further £50 million to the NHS. The additional £50 million was to be held within the Health and Social Services budget, as a contingency measure, in the event that some NHS bodies were unable to achieve break even.
- 1.11 The supplementary budget showed how the additional £200 million (some three per cent of the Department's original revenue budget) would be funded. Departments across the Welsh Government found £90.1 million of savings as detailed in [Figure 3](#). The Welsh Government was able to fund the remaining £110 million primarily using reserves which had been boosted by the Welsh Government drawing on the Budget Exchange System⁵ and some additional funding as a result of spending decisions by the UK Government⁶.

Figure 3 – Funding from other departments re-directed to support the NHS

Welsh Government department	Saving
Education and Skills	£26.4 million
Natural Resources and Food	£18.8 million
Communities and Tackling Poverty	£11.7 million
Economy, Science and Transport	£11.0 million
Local Government	£9.5 million
Central services and administration	£7.3 million
Housing and Regeneration	£4.8 million
Culture and Sport	£0.6 million
Total savings	£90.1 million

Source: *Welsh Government Second Supplementary Budget, February 2014*

⁵ The Budget Exchange System is an agreement between the Welsh Government and the UK Government regarding access to unspent monies from the previous year.

⁶ During the year, the UK Government increased spending on programmes in areas that have been devolved. These spending decisions result in additional funding going to the devolved administrations, with the amount determined through the Barnett formula.

- 1.12 Across 2013-14, the Department made further savings on central programmes in areas it had identified as low and medium risk, including savings from the workforce development budget. The Department's position was also helped as some of the cost pressures it had anticipated, for example from clinical negligence claims, did not materialise at the expected level. Some initiatives were delayed and demand for some services was less than expected, so their original budget was not fully spent. The Department also received £5 million more income than it expected from the UK-wide renegotiated Pharmaceutical Price Regulation Scheme⁷. As a result of these changes, the Department achieved a net surplus of £13.8 million on central programmes.
- 1.13 The additional £50 million combined with the £13.8 million surplus on central programmes was sufficient to cover the £56.7 million overspend by the NHS bodies at the year-end. Therefore, the Department was able to manage within its overall budget. The net result of the additional funding allocated to the NHS revenue budget was that it has increased from £5.88 billion at the beginning of 2013-14 to £6.08 billion at the end. Compared with the end of the 2012-13 financial year, the health element of the Department's revenue budget increased in both cash terms (2.4 per cent) and real terms (after inflation) (0.1 per cent).
- 1.14 We have recommended previously that the Department allocate additional funding to the NHS earlier in the financial year so that NHS bodies and the Department can plan and take action as early as possible. The Department has been much more transparent and made good progress in allocating a larger proportion of NHS funding to NHS bodies at the beginning of the financial year. In 2011-12, only 90 per cent of their funding was allocated by the beginning of the year; this rose to 93 per cent in 2012-13 and now 96 per cent in 2013-14. Nonetheless, the Department was aware before the beginning of the financial year that the NHS faced a cash-terms reduction in its budget and that the declining level of savings meant the likelihood of financial balance without additional funding was extremely low. NHS bodies had expected to receive some additional funding but they did not know how much. They did not get certainty until October 2013, seven months into the financial year. While certainty at an earlier stage would have been preferable, we acknowledge the practical and political difficulty involved in re-directing significant amounts of funding from other departments to support the NHS.

⁷ The Pharmaceutical Price Regulation Scheme is a voluntary agreement made between the Department of Health acting on behalf of UK governments and the Association of the British Pharmaceutical Industry. The scheme places some control on the costs of medicines to the NHS and applies to all branded licensed NHS medicines. The 2014 Pharmaceutical Price Regulation Scheme became effective on 1 January following the termination of the 2009 Pharmaceutical Price Regulation Scheme (the 2009 PPRS).

The Department took a tougher line in dealing with NHS bodies which overspent at the year-end

- 1.15 The Department took a much stronger line in 2013-14 in dealing with NHS bodies which overspent. For those that forecast close to break even (Cwm Taf University Health Board and Betsi Cadwaladr University Health Board), additional repayable funding, known as 'brokerage', was provided to allow them to break even. However, additional resource was not provided to those NHS bodies which were some way off break even (Cardiff and Vale University Health Board, Hywel Dda University Health Board and Powys Teaching Health Board). As a consequence these NHS bodies received a qualified regularity opinion on their accounts stating that the expenditure which exceeded their authorised level of spending is irregular. In reaching a decision not to cover the deficits, the Department had a clear rationale in relation to each NHS body and overall was keen to:
- a send a clear message that missing financial targets would have consequences; and
 - b not reward health boards that had significantly overspent, especially where the final out-turn exceeds the revised projected deficit following the Minister's October 2013 letter.
- 1.16 The Department will not only require repayment of any 2013-14 brokerage funding in 2014-15, but also repayment of any 'deficit' by those NHS bodies not meeting their financial targets. Those NHS bodies are accountable to the National Assembly for Wales' Public Accounts Committee for their failure to live within their means resulting in their accounts being qualified.
- 1.17 The issues underlying the qualification of three health boards' accounts are not unique to Wales. For example, in England, 21 Clinical Commissioning Groups received qualified regularity opinions on their 2013-14 accounts – of these, 19 were due to breaches of their resource limits (ie, failure to break even).

Despite significant effort, NHS bodies are finding sustainable savings increasingly difficult to achieve and three NHS bodies failed to break even in 2013-14

1.18 As set out previously, NHS bodies began the year with an estimated financial gap of £432 million. During the year new cost pressures increased the gap to £460 million as shown in [Figure 4](#). NHS bodies sought to bridge this gap through a combination of savings from Cost Improvement Plans and other savings, combined with additional funding from the Department. However, for the first time since NHS re-organisation in 2009-10, some NHS bodies failed to break even. The combined 2013-14 deficit for the 10 Welsh NHS bodies was £57 million. The final position for each NHS body is set out in [Appendix 3](#).

Figure 4 – How NHS bodies achieved their financial out-turns in 2013-14

	£ million	% of funding gap
Funding gap identified at April 2013 (savings required)	(429)	–
Additional cost pressures identified in-year	(31)	–
Total funding gap for year	(460)	100%
Reported Cost Improvement Plans (savings) delivered	185	40%
Additional funding (including brokerage)	135	29%
Other (cost containment/avoidance, reserves/contingencies, accounting/other gains)	85	19%
NHS bodies combined out-turn	(57)	12%

Source: Wales Audit Office analysis

1.19 **Figure 5** shows the reported monthly out-turn over the last three financial years. It shows that 2013-14 followed the pattern of previous years: deficits building to a mid-way point in the year, a significant reduction due to the provision of additional Departmental funding and then a push to the year-end to close the gap. **Figure 5** also illustrates the different approach to deficits at the year-end taken by the Department in 2013-14.

Figure 5 – NHS Wales’ out-turn across the last three years



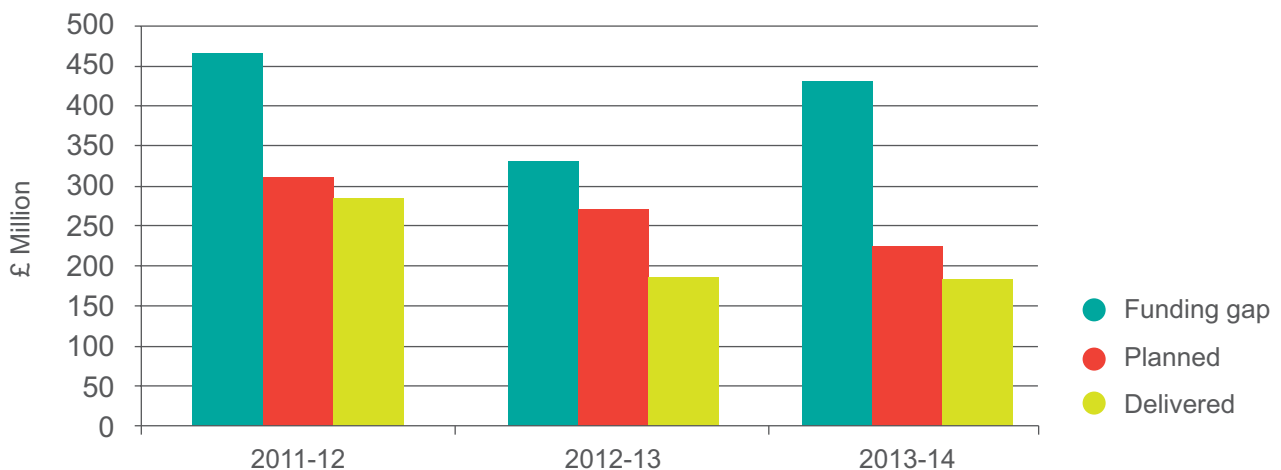
Source: Wales Audit Office analysis of All Wales NHS Finance Reports and monitoring returns

Although significant savings and gains were reported in 2013-14, some were unsustainable and we have concerns over the accuracy in some areas

NHS bodies did well to slow the trend of declining levels of savings

1.20 NHS bodies have reported the delivery of significant savings over the last few years and this continued in 2013-14 with reported savings of £185 million⁸. Figure 6 shows the value of reported planned and delivered savings over the last three years in helping to close the funding gap. Last year we reported that savings were becoming harder to achieve and that the value of reported savings was falling year-on-year. There has been a slight reduction in reported savings year on year of just £3 million. Given that many of the ‘quick win’ areas for savings have already been exploited, such a small reduction represents a considerable achievement.

Figure 6 – Contribution of reported planned and delivered savings to meet the funding gap



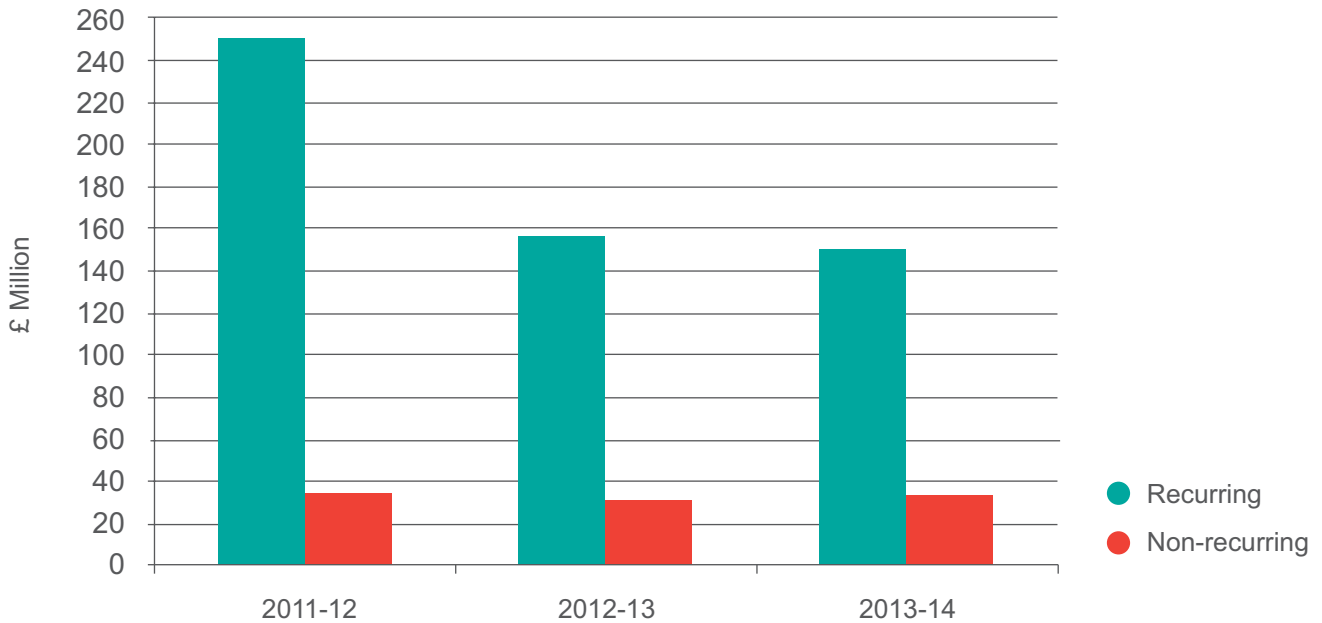
Source: Wales Audit Office analysis of All Wales NHS Finance Reports and monitoring returns

⁸ These are the savings reported in the monthly monitoring returns. There may be other savings or productivity improvements that are not captured in this information.

Some savings are unsustainable

1.21 When assessing the sustainability of the approach taken to savings, it is helpful to look at the proportion of savings which are non-recurrent and the profiling of the savings across the year. Non-recurrent savings are one-off savings which play an important part in helping NHS bodies to manage in-year pressures, but will not recur in future years and consequently are a shorter term and less sustainable way of saving money. Overall NHS bodies' level of non-recurrent savings is increasing. **Figure 7** shows that in 2011-12, 12.3 per cent of savings were non-recurrent, in 2012-13, 16.9 per cent were non-recurrent, and in 2013-14, 18.5 per cent were non-recurrent.

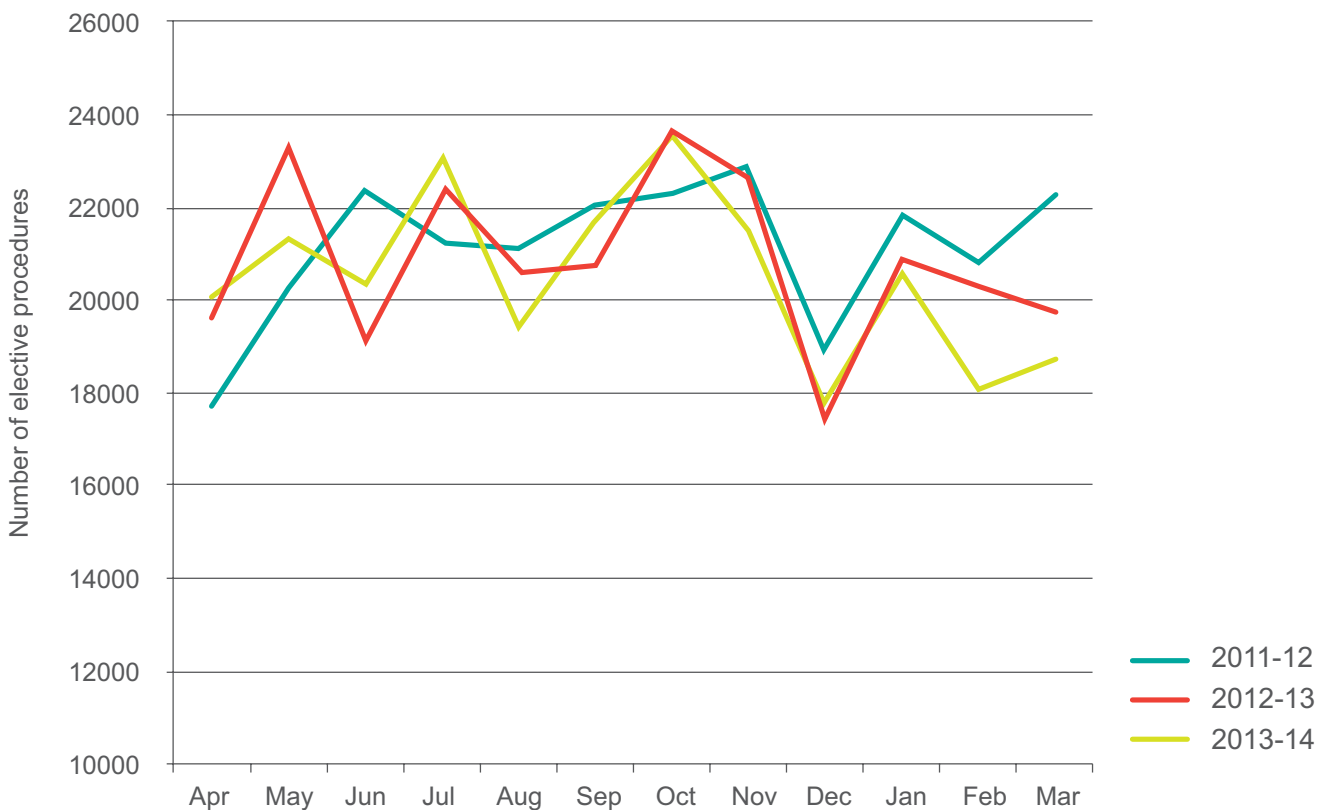
Figure 7 – Recurrent and non-recurrent savings



Source: Wales Audit Office analysis of All Wales NHS Finance Reports and monitoring returns

- 1.22 In 2013-14, NHS bodies were again highly dependent on a range of one-off savings in addition to their savings plans. In 2013-14, NHS bodies reported £86 million of technical accounting gains, use of reserves and contingencies, windfall gains and cost avoidance initiatives which were used to help close the gap. Very few of these other actions are sustainable, but rather are one-off in-year gains.
- 1.23 As was the case in 2012-13, some NHS bodies are making savings which impact on service delivery. In particular, some NHS bodies have not delivered the level of elective⁹ activity that they had intended to, partly because of the need to make financial savings and avoid costs. Examples include decisions to reduce or curtail 'backfill'¹⁰ activity. Figure 8 suggests that, similarly to last year, there has been a reduction in elective activity at the end of the financial year. As we reported last year, reducing elective activity is usually poor value for money because the savings are likely to be marginal. Patients will still need to be treated, potentially at higher cost rates and there may be additional costs involved in helping them to manage their condition while they wait for treatment. Our forthcoming report on NHS waiting times will examine this issue in more depth.

Figure 8 – Elective activity rates 2011-12 to 2013-14



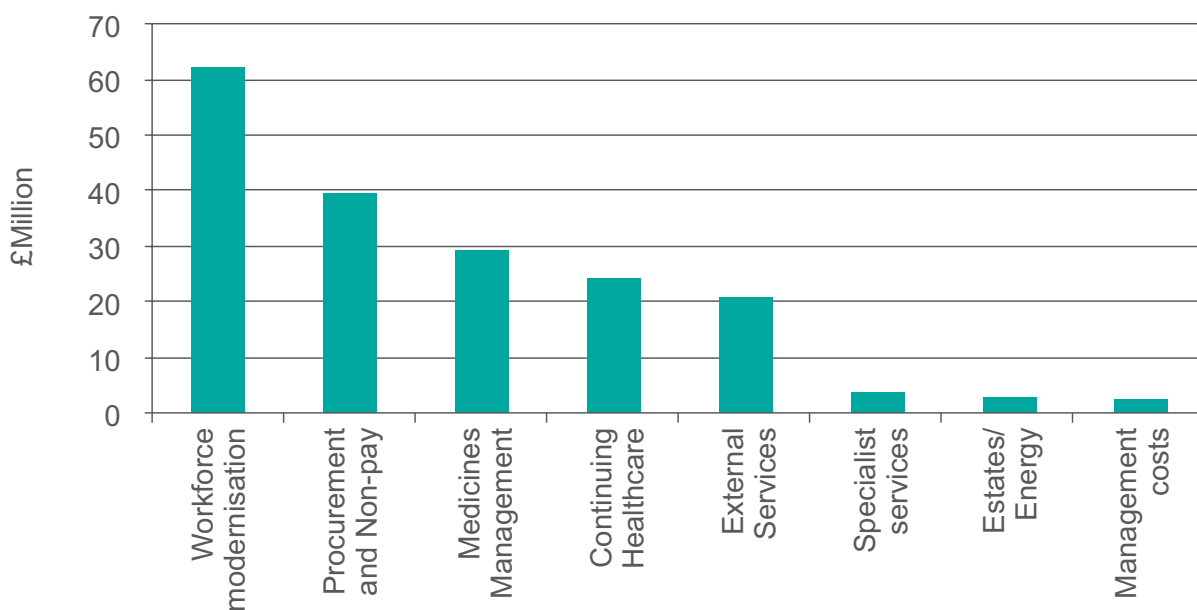
Source: Wales Audit Office analysis of Welsh Government data

⁹ Elective patients are those receiving planned assessments or treatments, usually starting with a referral from their GP.
¹⁰ 'Backfill' involves paying consultants to cover where another consultant is absent due to illness or annual leave.

There is evidence to support some of the reported savings but savings on workforce may be overstated

1.24 **Figure 9** shows the expenditure areas in which NHS bodies reported delivering their savings in 2013-14. We have looked further at three of the four largest areas of spending which we looked at last year: workforce, medicines management and continuing healthcare.

Figure 9 – Savings by expenditure category in 2013-14



Source: Wales Audit Office analysis of All Wales NHS Finance Reports and monitoring returns

Workforce modernisation and management costs

- 1.25 As in previous years the largest savings reported were in workforce modernisation, ie, savings on staff pay and numbers. Workforce accounts for the bulk of NHS expenditure in Wales. In 2013-14 nearly £65 million of savings were reported on workforce modernisation and management costs, of which just under £40 million was due to staff reductions and just under £11 million reported as due to savings in pay rates. However, as we reported last year, these reported savings are difficult to reconcile with other workforce data:
- a audited financial statements show that the average number of staff employed in the year (based on contracted whole-time equivalents) went up by 506 from 2012-13 to 73,198, and that staff and director costs rose by £62 million (2.1 per cent) in 2013-14; and
 - b the increase in the pay bill of £62 million, combined with the £65 million reported savings implies that the cost pressures were 4.3 per cent; but using the services' own *Three Year Cost Pressure Assessment 2013/14 to 2015/16* paper, we calculated that the expected cost pressures across the NHS were only 2.1 per cent, less than half of that implied by the level of reported savings.
- 1.26 As part of their detailed work at NHS bodies, auditors also found it difficult to substantiate declared workforce savings. Last year we recommended that the Department should provide detailed in-year challenge to test whether workforce savings can be reconciled to workforce plans and staffing levels. The Department has made some progress in challenging workforce plans, as part of its review of NHS bodies' three-year integrated plans. Nonetheless, the Department recognises that it needs to further step up its challenge of the level of workforce savings reported during the year.

Medicines Management

- 1.27 The third largest area of savings is medicines management¹¹, with just over £29 million of savings reported in the year. The NHS bodies' audited financial statements show that costs in this area (prescribing and drugs) increased from 2012-13 by just over £30 million. This £30 million increase in actual expenditure, combined with the £29 million savings reported implies that actual cost pressures were 8.2 per cent. Using the services' *Three Year Cost Pressure Assessment 2013/14 to 2015/16* paper we calculated the expected cost pressures to be 6.6 per cent across the NHS, which is not too far off the pressures based on reported savings.
- 1.28 In NHS bodies, local auditors found that there is better evidence for Medicines Management savings than for workforce savings. NHS bodies are working together across Wales and most NHS bodies have detailed analysis which goes down to GP and ward level. It is clear that NHS bodies are making real recurrent savings in this area – for example from the increased use of cheaper generic drugs and clinician

¹¹ Medicines management encompasses the entire way that medicines are selected, procured, delivered, prescribed, administered and reviewed to optimise the contribution that medicines make to producing informed and desired outcomes of patient care.

reviews of the need and use of specific high cost drugs. We will be reporting in the coming months on Primary Care Prescribing and are currently undertaking local work on medicines management across the NHS which will report to each local NHS body in spring 2015.

Continuing Healthcare

- 1.29 The fourth largest area of reported savings is continuing healthcare¹², with £24 million of savings identified in the year. Underlying continuing healthcare expenditure¹³ has actually increased by £3.5 million across NHS Wales in the year. This expenditure increase combined with the reported savings implies that actual cost pressures were 9.7 per cent compared with an expected pressure of 6.3 per cent. That the implied cost pressure is 50 per cent higher than expected suggests that either NHS bodies' forecasting was very optimistic or that the level of reported savings is over-inflated.
- 1.30 As with Medicines Management, there is some evidence from our local work in NHS bodies that some continuing healthcare savings are real and recurrent. For example, individual patient care packages are reviewed by specialist nurses and alongside their understanding of the condition of the patient, savings have been found through joint funding agreements and use of alternative providers – including transferring patients from more expensive external providers to internal providers. However, our earlier study on the Implementation of the National Framework for Continuing NHS Healthcare, found that NHS bodies could not provide assurance that they were consistently interpreting when a patient was eligible for continuing healthcare. This was particularly important given the risk that financial pressures could be influencing eligibility decisions.

Although financial forecasting and reporting have improved, improvements are required in the way savings plans are developed, managed and monitored

- 1.31 NHS bodies' financial forecasting and reporting continues to be generally sound. The savings reported are broadly in line with forecasts and NHS bodies are more realistic about the level of deliverable savings they can achieve, including being more transparent at the beginning of the year: fewer bodies claimed they had a truly 'balanced plan'. The changes made in recent years to the *Financial Monitoring Returns Guidance* have improved and have given the Department the ability to monitor performance closely on a timely basis through the year. Although, as we have identified above, we do have some concerns about the accuracy of reported workforce savings and the inconsistencies in messages given by the NHS bodies' monitoring returns and by their Chief Executives and Chairs.
- 1.32 We remain concerned that the NHS is still taking a short-term approach to financial savings. NHS bodies continue to approach savings plans as in-year annual projects and in many areas the support for, scrutiny and measuring of savings plans needs improvement. In various NHS bodies we found:

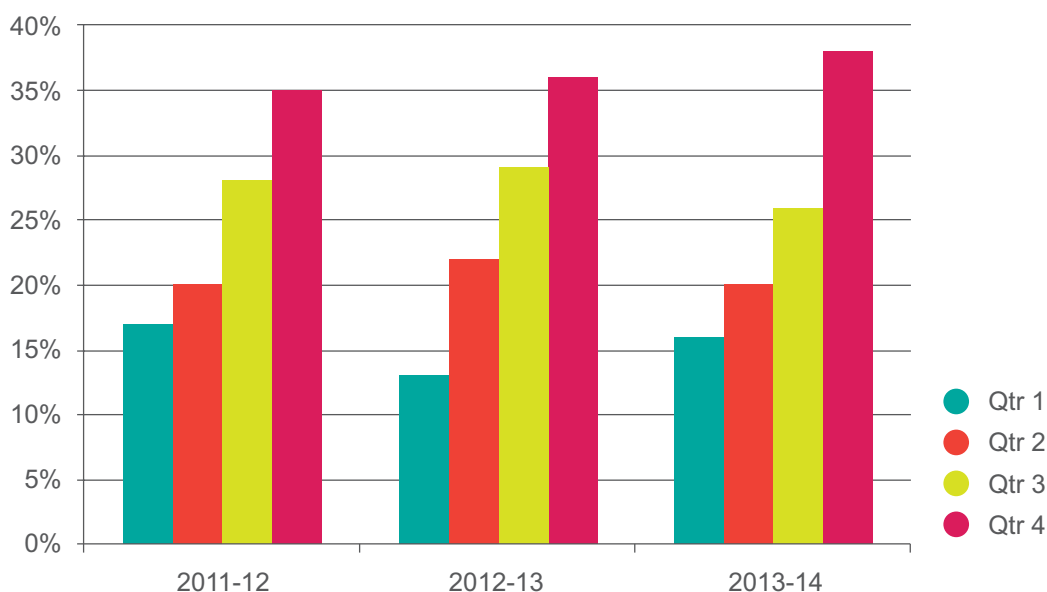
¹² Continuing healthcare is the package of care that is arranged for patients and is funded solely by the NHS for individuals who are not in hospital who have complex, ongoing healthcare needs.

¹³ 'Underlying' expenditure excludes funding set aside for historic claims and more accurately reflects the year-on-year cost pressures.

- a the development of savings plans was not undertaken early enough in the financial year;
- b allocation of a standard ‘top slicing’ percentage savings requirement to every directorate;
- c little or no reference to historic delivery of savings/past actions ie, no consideration of the capacity of a directorate to generate further savings;
- d a lack of shared learning within NHS bodies, across NHS Wales and from other health systems;
- e development of savings plans in silos rather than as part of strategic plans;
- f a lack of central scrutiny of declared savings from directorates – some NHS bodies report savings where they have a budget underspend; and
- g a lack of stakeholder engagement at some NHS bodies, with some budget holders refusing to sign up to budgets.

1.33 **Figure 10** shows when the NHS bodies delivered their savings during the last three years. Each year follows a similar pattern with savings increasing across successive quarters, with between 35 and 40 per cent of savings delivered in the last quarter. It is likely that this pattern of reliance on last-quarter savings reflects the previous annual planning cycle with plans being developed during the financial year and resulting in pressures to realise savings in the latter part of the financial year.

Figure 10 – Percentage of total savings achieved by quarter



Source: Wales Audit Office Analysis of All Wales NHS Finance Reports and monitoring returns

- 1.34 Although we have identified some areas for improvement, there are examples of good practice relating to the planning of savings at NHS bodies:
- a risk assessment of savings plans to improve accuracy of forecasting and identify gaps earlier;
 - b rewarding delivery of savings plans, developing a new benchmarking tool and using Internal Audit to scrutinise savings plans;
 - c use of a Quality Impact Assessment Form to ensure quality and safety are considered for saving plans, which improves governance and ownership; and
 - d an integrated approach to identifying and delivering savings with finance staff engaging and supporting their service and planning colleagues.
- 1.35 Whilst it is important to note the good practice seen, it is, in the main, good practice within the limits of annual planning. Planning on a short-term annualised basis will not deliver the significant improvements required for a sustainable NHS. We look in section three of this report at the changes made by the Department to help facilitate an integrated and long-term planning approach.
- 1.36 Last year we also reported that the Department could do more to co-ordinate the identification and sharing of good practice and benchmarking information. The Department is making some progress in sharing good practice through its Finance Directors network and is supporting the sharing of good practice through networks of clinicians. Nonetheless, the Department recognises the need to widen and strengthen the systems to identify and share good examples particularly for sustainable service improvements that can drive better productivity and cost reduction.

Part 2

Performance across NHS Wales in 2013-14 was mixed and many key targets were not regularly achieved



- 2.1 This section of the report considers the performance of Welsh NHS services in 2013-14. We focus on the goals that NHS Wales has set for itself, in particular the Tier 1 targets. The detailed definitions of the Tier 1 targets can be found in the Department's NHS Delivery Framework for 2013-14¹⁴. These targets, however, represent a small part of the totality of healthcare provision across Wales and in general the targets are focused on timeliness and activity levels. While both of these are important factors of patients' experience, the Tier 1 targets do not provide a rounded view of the quality and safety of NHS services and their impact on patients. The Department recognises this and is currently reviewing the targets with a view to re-focusing them on measuring the impacts and outcomes that the NHS achieves for patients.
- 2.2 We recognise that this report comes amidst growing debate about the performance of NHS Wales relative to other parts of the UK. The 2010 National Audit Office report¹⁵ on health systems across the UK and the recent report by the Nuffield Trust¹⁶ identified the difficulty in comparing performance. The Nuffield Trust considered some performance measures beyond the Tier 1 targets alongside the differences in resources and capacity. It concluded that no one country clearly outperformed the others and that Wales has followed the rest of the UK in improving against some key measures, such as 'amendable mortality rates'¹⁷. But that does not mean that there are not some key areas where Wales is behind other parts of the UK.
- 2.3 The complexity of comparison, with different parts of the UK having different targets and approaches to measuring performance, means that unfortunately we cannot go into comparative detail in this report. We intend to compare performance in our wider programme of value for money work covering the NHS. For example, we intend that our forthcoming report on elective waiting times will contain detailed comparisons of performance between Wales and other countries

Performance against indicators of prevention are generally improving though some new targets are not yet being met

- 2.4 The Department has placed greater emphasis on prevention of healthcare problems, and introduced new targets in 2013-14. The NHS met its targets ensuring that 95 per cent of children under four receive their scheduled vaccines. But the NHS was some way short of its target for smoking cessation, with far fewer than the target of four per cent of smokers making an attempt to quit. The NHS was close to its target that 40 per cent of smokers who attempt to quit are validated as still not smoking after four weeks.

¹⁴ NHS Delivery Framework 2013-14 and future plans <http://wales.gov.uk/docs/dhss/publications/130524frameworken.pdf>

¹⁵ National Audit Office: *Healthcare across the UK: a comparison of the NHS in England, Scotland, Wales and Northern Ireland* www.nao.org.uk/report/healthcare-across-the-uk-a-comparison-of-the-nhs-in-england-scotland-wales-and-northern-ireland/

¹⁶ Nuffield Trust (2014): *The Four Health Systems of the UK: How do they compare?* www.nuffieldtrust.org.uk/compare-UK-health

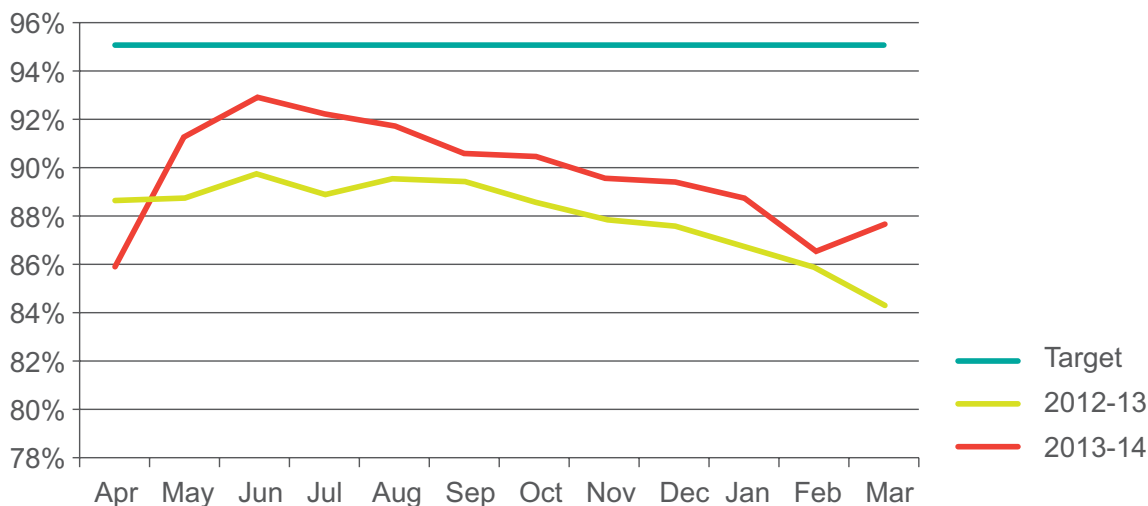
¹⁷ 'Amendable mortality rates' are premature deaths from causes that should not occur in the presence of appropriate, timely health care.

Despite some improvements the NHS is generally not meeting its key targets on patient experience and access

There has been an improvement in the length of time patients wait for treatment in emergency departments but the NHS is still some way from meeting the targets

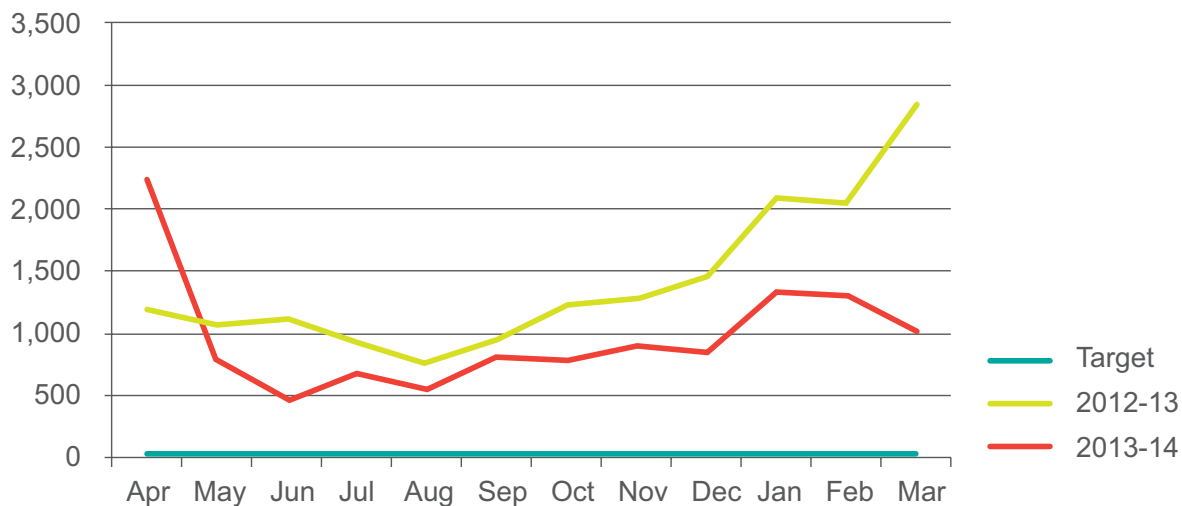
2.5 The time that patients wait in emergency departments is an important indicator of patient experience. The number of patients attending emergency departments was slightly lower this year than last year. The Department has set two targets related to the time people spend in emergency departments: it expects 95 per cent of patients to be treated within four hours and it expects no patients to wait longer than 12 hours. Figure 11 shows that performance against the four-hour target has been better this year than in 2012-13, but is still some way off the target and a significant improvement at the start of the year tailed off over the winter. The NHS has had some success in reducing very long waits in emergency departments but, as shown in Figure 12, it did not meet its target of eliminating waits of over 12 hours.

Figure 11 – Patients waiting less than four hours in emergency departments



Source: Wales Audit Office analysis of Welsh Government data

Figure 12 – Patients waiting more than 12 hours in emergency departments

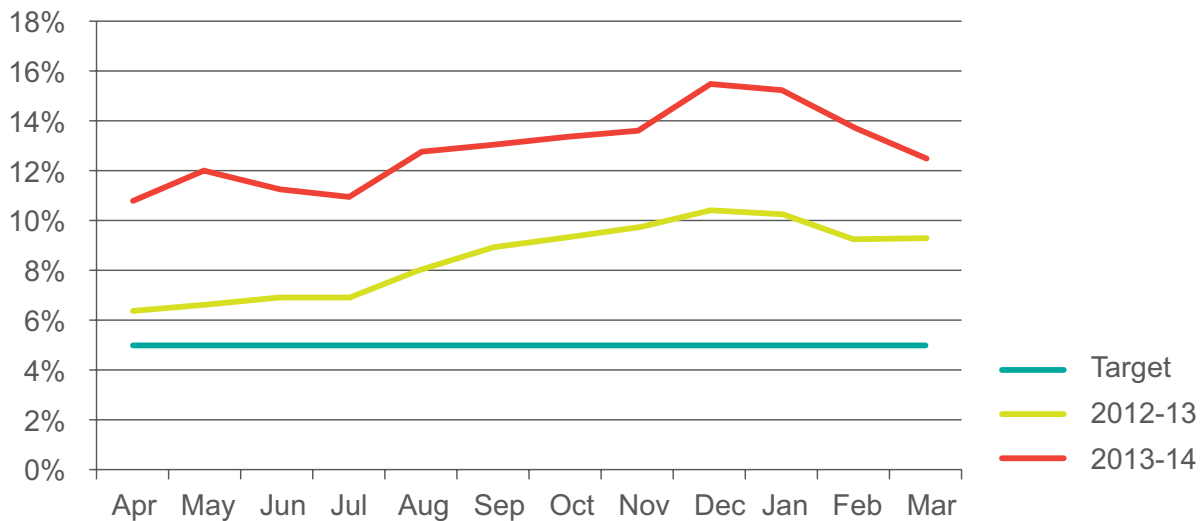


Source: Wales Audit Office analysis of Welsh Government data

Performance on elective waiting times has deteriorated overall

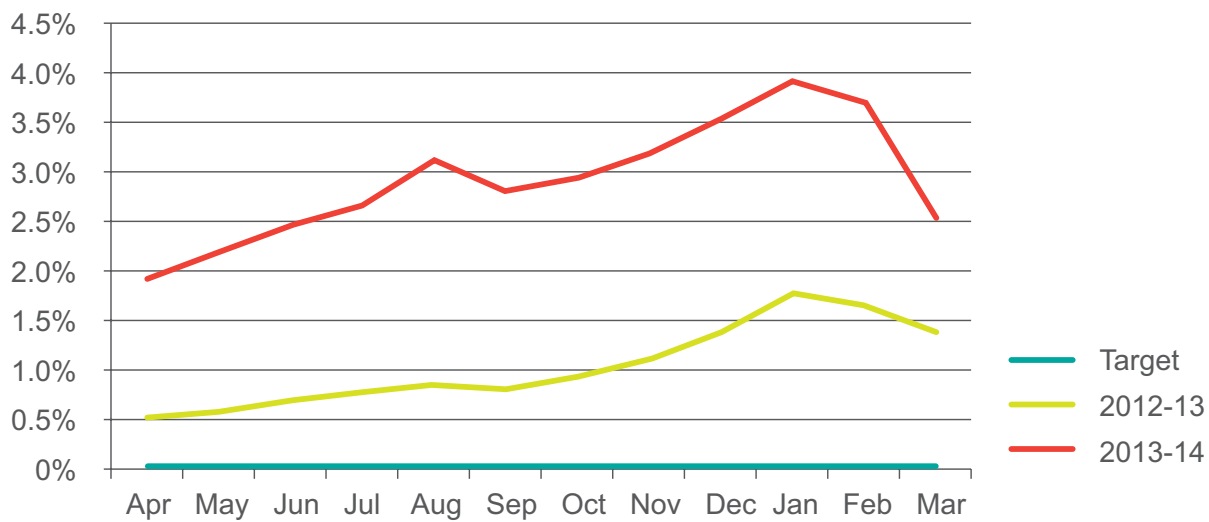
- 2.6 Elective waiting times are an important measure of planned NHS care. The Department's targets relate to the total amount of time that patients wait from referral to treatment. The target is that 95 per cent of patients on the waiting list should be waiting less than 26 weeks and nobody should wait more than 36 weeks. The number of patients referred for a first outpatient appointment has risen between 2012-13 and 2013-14 by around one per cent (around 5,500 patients). As shown in [Figure 13](#), the percentage of patients on the waiting list that had waited for more than 26 weeks is higher than in 2012-13 and significantly exceeds the target.
- 2.7 As set out in [Figure 14](#), performance against the target that nobody should wait more than 36 weeks for treatment has deteriorated further. Improvement at the end of the year was at least partly due to additional activity funded by the Department specifically to tackle longer waits. We are currently undertaking a detailed review of elective waiting times, which will report in the autumn of 2014. As part of that review, we will consider whether short-term funding at the year-end is a sustainable approach to managing waiting times.

Figure 13 – Patients waiting more than 26 weeks for treatment



Source: Wales Audit Office analysis of Welsh Government data

Figure 14 – Patients waiting more than 36 weeks for treatment

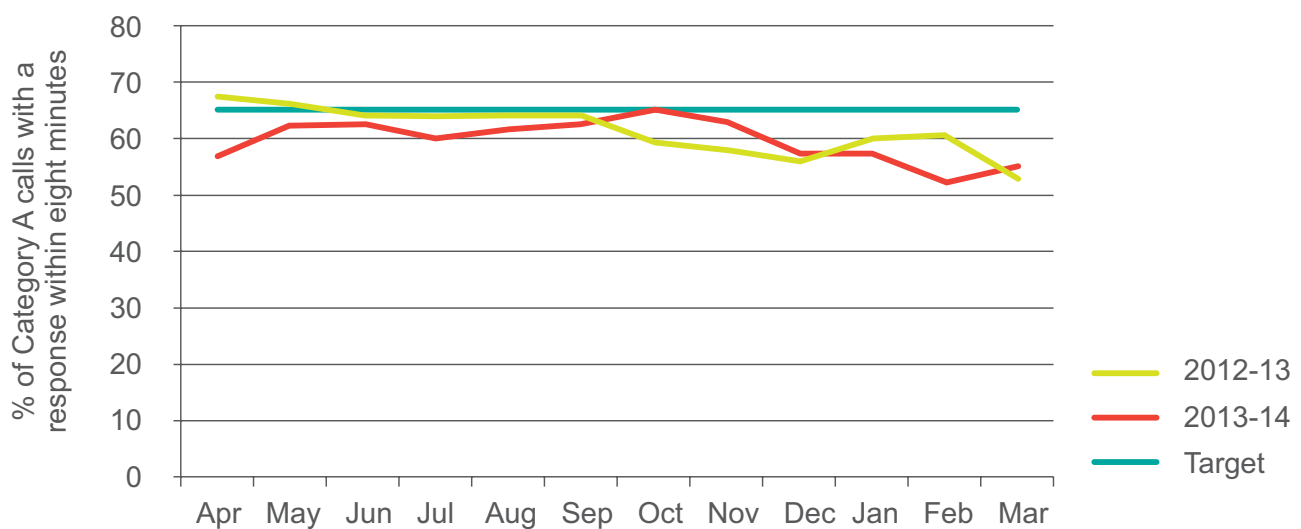


Source: Wales Audit Office analysis of Welsh Government data

Targets on ambulance response times were not achieved during the year

2.8 The target for 65 per cent of Category A calls – incidents to be attended by the ambulance service within eight minutes – is the primary measure of the performance of the ambulance services. Figure 15 shows that performance was broadly static compared with 2012-13. The target was only met during one month of the year. In April 2013, the McClelland¹⁸ review of ambulance services criticised the target as having little clinical basis and recommended a broader suite of measures.

Figure 15 – Performance against target for ambulance responses to Category A calls



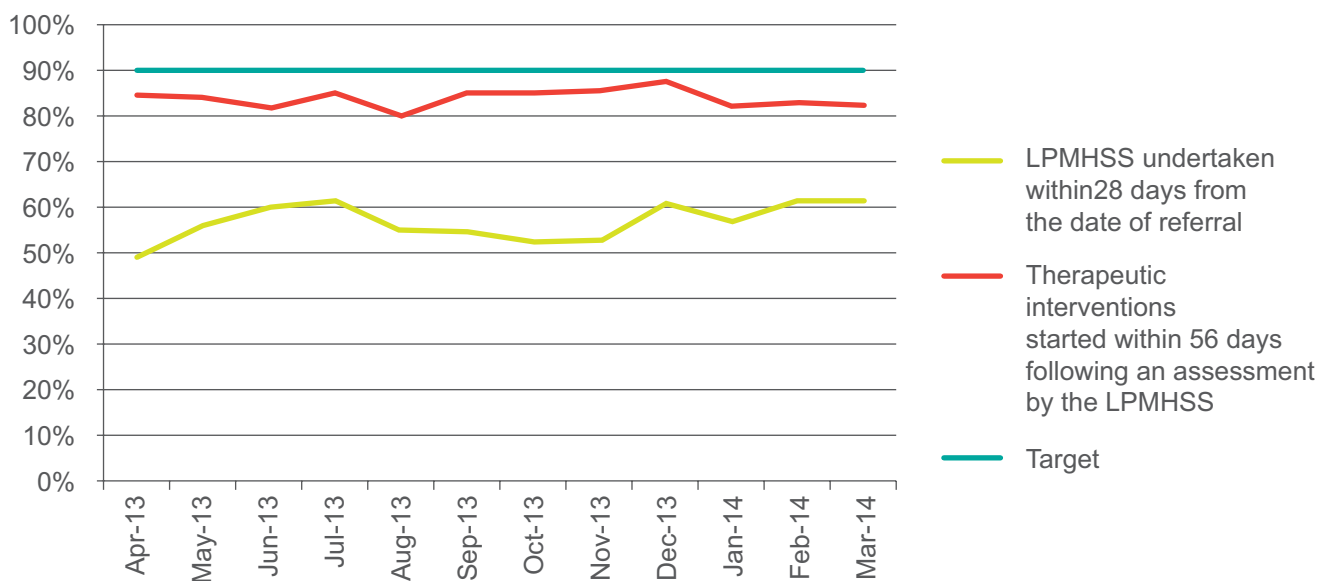
Source: Wales Audit Office analysis of Welsh Government data

¹⁸ Professor Siobham McClelland (2013): *A Strategic Review of Welsh Ambulance Services*
www.ambulance.wales.nhs.uk/assets/documents/f06e69f9-3921-4946-a55a-aad53637c282635179619910478381.pdf

There has been improvement over the year but the NHS is not meeting some of its mental-health-related targets

- 2.9 The Department has this year introduced targets on the timeliness of assessment and treatment for mental-health patients. The Department requires mental health services to undertake 90 per cent of assessments within 28 days of referral. **Figure 16** shows that performance across the year was broadly static and the target was not met. There is also a target that, following assessment, 90 per cent of therapeutic assessments should be started within 56 days. **Figure 16** shows some improvement on the position at the beginning of the year but performance was some way below the target.
- 2.10 There has been significant progress against the target for 90 per cent of patients in receipt of services to have a valid care and treatment plan. In April 2013, just 64 per cent had such a plan. By March 2014 that had risen to 92 per cent. The NHS also reports meeting the target that all hospitals have arrangements to support advocacy for mental-health patients.

Figure 16 – Mental-health performance 2013-14



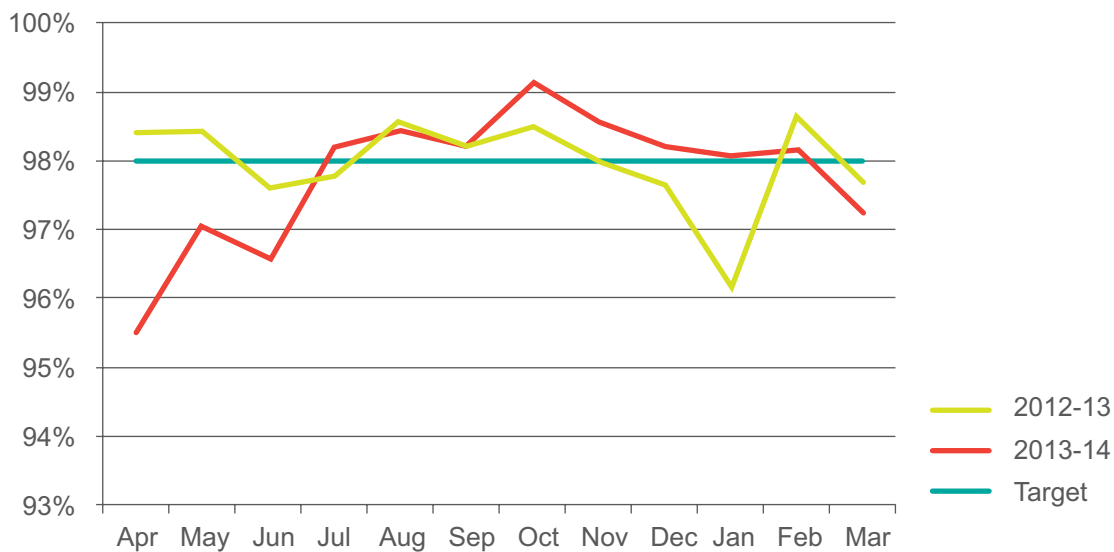
Note: LPMHSS – Local Primary Mental Health Support Service
 Source: Wales Audit Office analysis of Welsh Government data

Performance against quality and safety measures has been mixed in 2013-14

Performance for patients with suspected cancer improved in 2013-14 but key targets are not being met each month

2.11 Timely access to treatment for cancer is a key priority. The Department has two main targets – firstly that 98 per cent of patients whose suspected cancer is not identified as part of the urgent referral process¹⁹ are to be treated within 31 days. Figure 17 shows that performance is static overall, better in some months than in 2012-13 but worse in others. The target was not met in four months of the year. The second target is that 95 per cent of patients whose suspected cancer is identified through the urgent cancer route should be treated within 62 days. Figure 18 shows that against this target, performance improved overall compared with 2012-13 but the NHS did not hit the target at any point during the year.

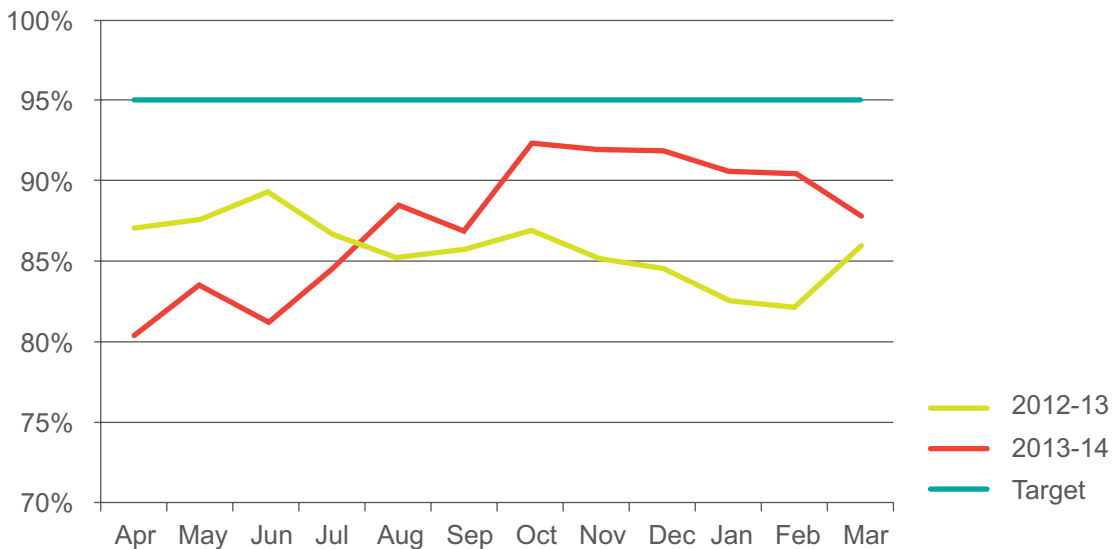
Figure 17 – Performance against target for cancer referrals through non-urgent process



Source: Wales Audit Office analysis of Welsh Government data

¹⁹ The 'non-urgent process' relates to patients who have been referred to a specialist for a reason other than cancer. Because those patients are not classified initially as 'urgent' they wait longer to see a specialist. If, on seeing the patient, the specialist suspects they have cancer it is important that they are seen and treated very quickly because they have already potentially been waiting for many months.

Figure 18 – Performance against target for cancer referrals through urgent referral process



Source: Wales Audit Office analysis of Welsh Government data

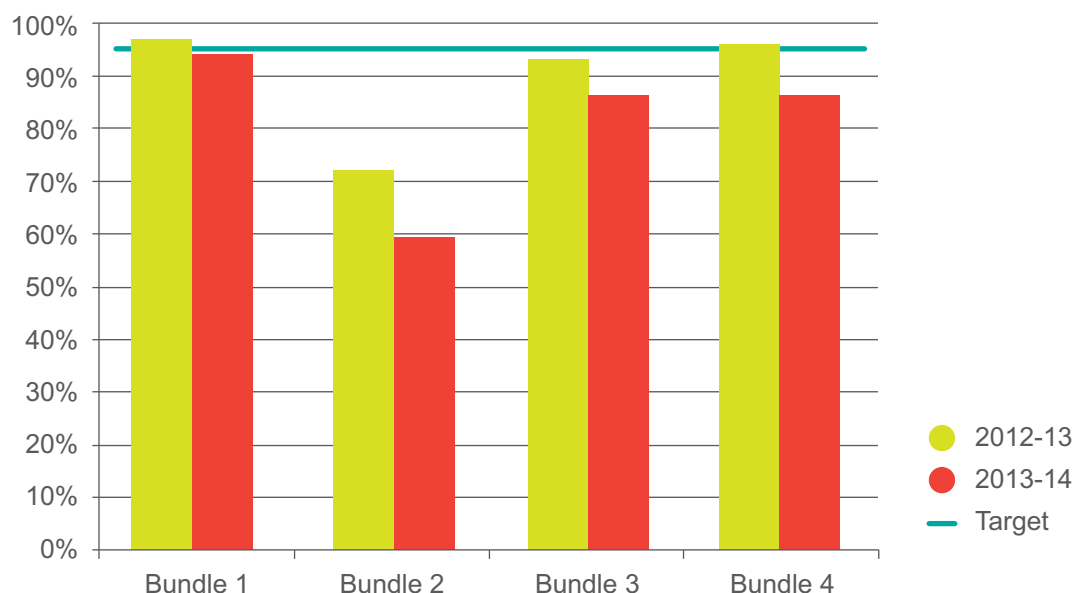
Performance on stroke care did not meet targets across the year and has deteriorated

2.12 Stroke care is monitored and reported based on ‘stroke bundles’. Stroke bundles are an amalgamation of several components of patient care to produce a single list which a clinician or care worker should use to improve the clinical outcome of patients. The stroke bundles are:

- a first hours bundle – rapid recognition of symptoms and diagnosis within three hours;
- b first day bundle – emergency treatment within 24 hours;
- c first three-day bundle – early mobilisation following stroke within three days; and
- d first seven-day bundle – patient-centred and goal-oriented specialist care within seven days following stroke.

2.13 Figure 19 shows that the NHS did not meet any of the targets on stroke bundles consistently across 2013-14. The target is to meet the requirements of each of the bundles in 95 per cent of cases. The NHS did meet the target on the bundle associated with the first hour of care during some months but, averaged out across the year, fell short in each stroke bundle. Compared with 2012-13, performance deteriorated for each bundle.

Figure 19 – Performance against the four stroke bundle targets



Source: Wales Audit Office analysis of Welsh Government data

There has been a reduction in some healthcare-associated infections

2.14 Healthcare-associated infection and harm are a good indicator of quality and care. The NHS has a target of reducing specific healthcare-associated infections. As set out in Figure 20, the NHS has achieved its aim of reducing C.difficile and Methicillin-Resistant Staphylococcus Aureus (MRSA) bacteraemia²⁰ but not by the 20 per cent minimum it set as a target. It came close in the case of C.difficile, with a reduction of around 19 per cent. The number of Methicillin-sensitive Staphylococcus Aureus (MSSA) infections actually increased.

Figure 20 – Performance in reducing healthcare-associated infections

	2011-12	2012-13	2013-14	Change 2012-13 – 2013-14
C.difficile	1,295	1,085	875	-19%
MRSA	199	163	160	-2%
MSSA	651	728	744	+2%

Source: Wales Audit Office analysis of Welsh Government data

²⁰ Bacteraemia means the presence of bacteria in the blood.

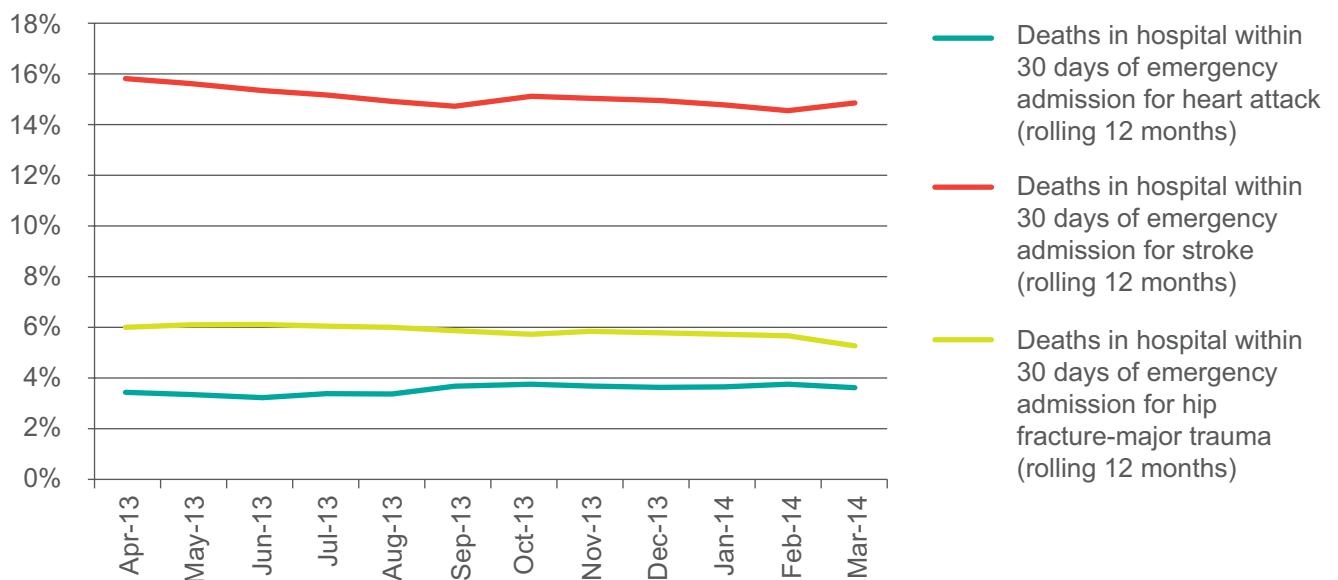
2.15 For the first time, the Department is reporting on healthcare-associated pressure ulcers. The data shows the number of cases has been rising over the year, from 155 in April 2013 to 193 in March 2014. As this is a new indicator, it may be that the increase is a result of better recording and reporting, rather than reflecting an actual deterioration in performance.

Mortality data shows a generally improving position with the exception of cardiac care

2.16 Mortality measures are sometimes used as indicators of the overall quality of care. However, some caution is required in interpreting them because they are highly dependent on the quality of clinical coding and data entry by hospitals. Figure 21 shows that the proportion of patients dying in hospital within 30 days of admission for a stroke or a hip fracture has reduced across 2013-14. There has, however, been an increase in the mortality of patients admitted following a heart attack.

2.17 The 'crude' mortality rate which identifies the total number of deaths per 1,000 patients has reduced from 2.3 per cent in April 2013 to 1.8 per cent in February 2014. There has also been a positive reduction in the Risk Adjusted Mortality Index score across Wales from 105 in April 2013 (which was above the average (100) for England and Wales) to 97 in March 2014.

Figure 21 – Performance against targets on hospital mortality for specific conditions



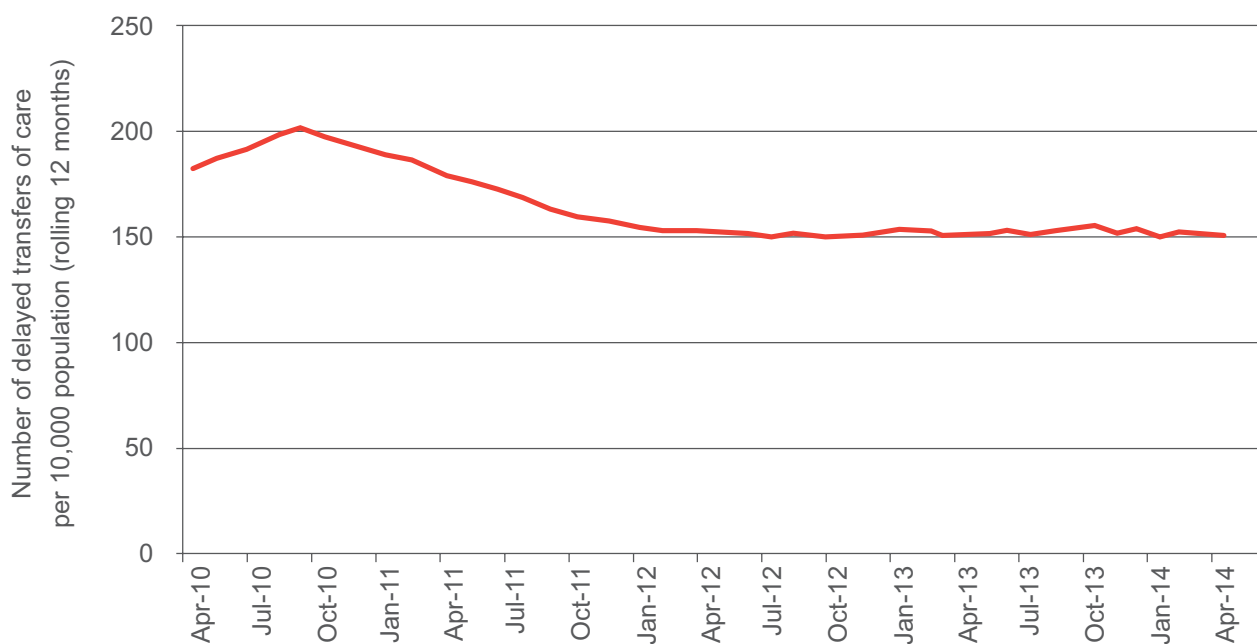
Source: Wales Audit Office analysis of Welsh Government data

There is positive progress against indicators of integration between different parts of the NHS and social care

Delayed transfers of care have been broadly static over 2013-14 and the longer-term trend of improvement has halted

2.18 Delayed transfers of care are those where a patient is clinically ready to leave hospital but for some reason is unable to do so. It is an indicator of the extent of integration between health and social-care services, because often people are delayed when they cannot find a suitable care home or care-support package for when they leave hospital. Addressing delayed transfers of care requires close joint working between the NHS and local government. There is no specific target other than to improve. Figure 22 shows that performance for non-mental health patients was broadly static across the year. Progress has slowed over the past two years following a period of improvement. There was an improvement during 2013-14 in delayed transfers for mental-health patients, with a slight fall in the 12-month rolling average across the year.

Figure 22 – Delayed transfers of care (excluding mental health)



Source: Wales Audit Office analysis of Welsh Government data

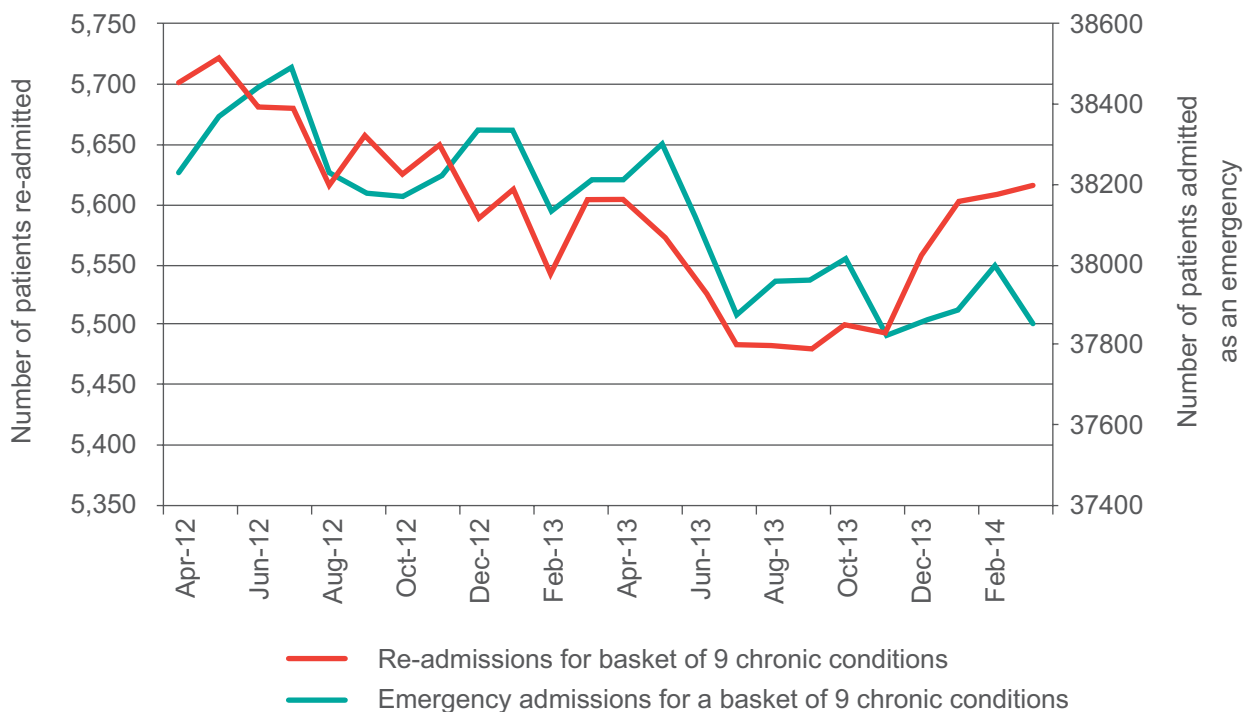
Access to GPs outside of work hours is improving

2.19 The NHS has a target of improving access to GP surgeries outside of working hours. There was a slight improvement during 2013-14 with 95 per cent of GP surgeries now offering appointments between 5 pm and 6.30 pm, compared with 94 per cent in 2012-13.

There has been improvement in reducing admissions and re-admissions for patients with chronic conditions

2.20 The number of patients with chronic conditions being admitted and re-admitted is an indicator of integration between different parts of the NHS. Many chronic conditions are best managed outside of hospital care, through General Practitioners and other community services. As shown in **Figure 23**, NHS Wales has met its targets to reduce the number of emergency admissions and re-admissions for patients covering nine specific chronic conditions. The overall progress reflects the findings of our recent report on the management of chronic conditions. However, there was a sharp rise in re-admissions for patients with chronic conditions during the final quarter of 2013-14.

Figure 23 – Admissions and re-admissions for chronic conditions

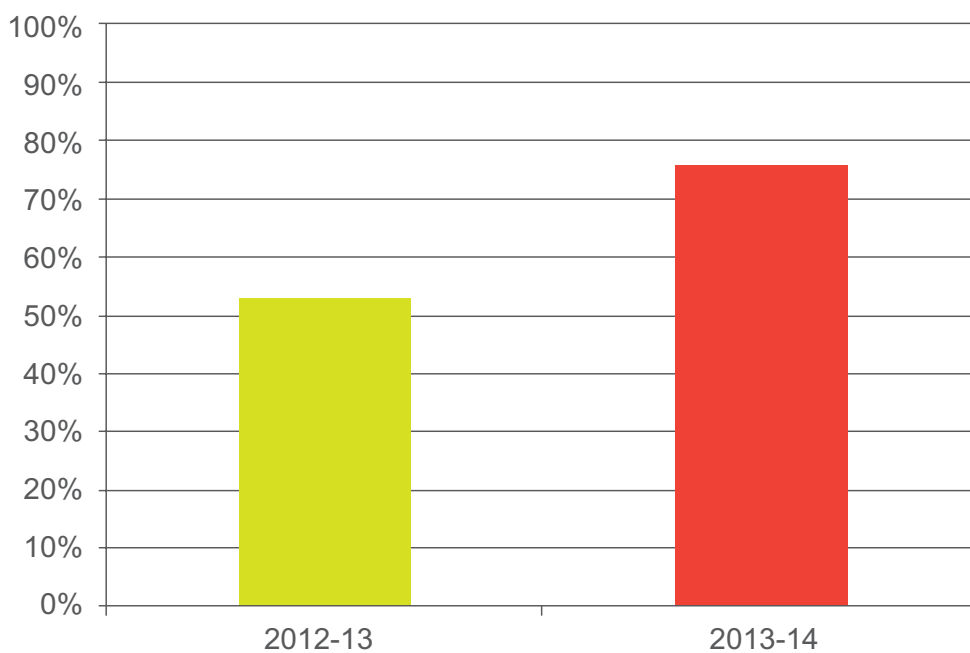


Source: Wales Audit Office analysis of Welsh Government data

Progress against workforce targets was mixed

2.21 **Figure 24** shows that there has been a significant improvement in the proportion of medical staff who receive an annual performance appraisal development review. While the progress is substantial, the NHS has not yet met the target that all medical staff should have an annual appraisal.

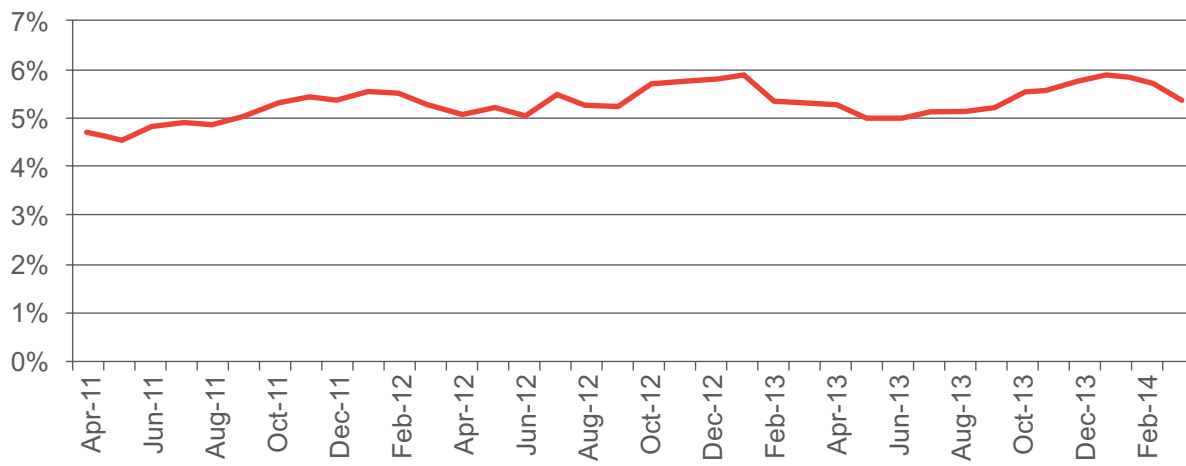
Figure 24 – Percentage of medical staff having an annual performance appraisal development review



Source: Wales Audit Office analysis of Welsh Government data

2.22 The NHS also has a target to reduce levels of staff sickness absence. As shown in Figure 25, over the previous three years, sickness-absence rates have been climbing, although this trend was halted this year – the absence rate of 5.3 per cent in 2013-14 matched that of 2012-13.

Figure 25 – Staff sickness absence rates



Source: Wales Audit Office analysis of Welsh Government data

Part 3

Three-year integrated planning is a step forward but NHS Wales will struggle to make progress without transformational change



3.1 This section of the report considers the future challenges facing NHS Wales. It looks at the progress that has been made in moving towards a three-year planning framework for the NHS. It considers the short-term pressures facing the NHS in the current financial year. It then considers the medium to long-term pressures facing healthcare in Wales and looks at the ideas and plans for re-shaping the NHS to meet future demand and financial pressures.

We expect three-year planning to lead to more integrated management of services, workforce and finances but there are significant risks to manage as the process becomes established

- 3.2 The National Health Services Finances (Wales) Act (2014) introduces a new three-year planning framework for local health boards and this will also be applied in practice to NHS trusts. The move to a three-year framework is in line with recommendations that the Public Accounts Committee and we have made previously. In summary the Act requires:
- a health boards to not exceed their allocated budgets over a three-year period;
 - b the Welsh Ministers to direct health boards to produce three-year plans showing how they will improve the health of their populations and improve the quality of care; and
 - c integrated three-year plans showing how health boards will meet both the first and second duties to be approved by Welsh Ministers.
- 3.3 The move to a three-year timeframe is a positive step to help NHS bodies to plan over the medium term. In the past, service, workforce, and financial planning has been very fragmented which has been amplified by the very short-term nature of the previous requirement that annually all NHS bodies must break even. The move to a three-year timeframe enables the NHS to invest up front in service change that will deliver savings and service benefits in the medium term. To help avoid risks that the three-year plans become a static document over time, the Department requires that they be updated annually.
- 3.4 While NHS bodies have moved to a three-year timeframe, there is not unlimited flexibility in the system to allow all NHS bodies to invest up front at the same time. Most of the funding for NHS bodies comes from the Department. The Department, as part of the Welsh Government, is required to achieve break even on its own budget every year. Therefore, it would not be possible for all NHS bodies to overspend in a single year unless there was sufficient cover from within the Department or other parts of the Welsh Government.
- 3.5 Ahead of 2014-15, all NHS bodies submitted integrated three-year plans to the Department. The Welsh Government's Internal Audit Service has reviewed the process for reviewing and approving the plans and concluded that it could give full assurance that the process was operating effectively. We also view the fact that only four of the ten NHS bodies had their plans approved by the Minister as evidence that the Welsh Government has been challenging and is pushing the NHS to improve the quality of its planning.

3.6 Where plans have been approved by the Department, further work by NHS bodies is still required. **Figure 26** identifies that some NHS bodies had plans that only balanced financially with additional funding from the Department. In addition, not all approved plans show financial and service targets will be met over each of the three years. Since approving the plans, the Department has allocated an additional £15 million to Cardiff and Vale University Health Board and £8.5 million to Cwm Taf University Health Board in 2014-15. At the time of drafting, the Department was yet to take a decision on additional funding for Abertawe Bro Morgannwg University Health Board even though it approved a plan showing a £26 million deficit in 2014-15.

Figure 26 – Position on three-year integrated plans as at September 2014

NHS body	Plan approved?	If approved, does the plan show financial breakeven and all Tier 1 targets to be met each year?	If not approved, what were the key reasons?
Abertawe Bro Morgannwg UHB	Yes	No – the plan has a £26 million funding gap in Year 1.	
Aneurin Bevan UHB	No		The UHB produced a one-year planning cycle this year, allowing the organisation to further strengthen its financial and service planning work for the medium term before submitting a final version in January 2015.
Betsi Cadwaladr UHB	No		The UHB decided that it was unable to submit robust Integrated Medium Term Plans for 2014-15 to 2016-17 and wished to respond meaningfully to the conclusion of the Mid Wales Study ¹ before committing to a medium-term plan and is keen to allow sufficient time for recent or imminent changes to key Board personnel to take effect.
Cardiff and Vale UHB	Yes	Yes, but the plan has a gap of £15 million in year one, which the Department has agreed to fund but which will need to be repaid through as yet unidentified savings. Also, the current version of the service trajectories show waiting-time targets will not be met in Year 1.	

NHS body	Plan approved?	If approved, does the plan show financial breakeven and all Tier 1 targets to be met each year?	If not approved, what were the key reasons?
Cwm Taf UHB	Yes	Yes but the plan assumes additional funding of £15 million over the three years and the Department has agreed to provide £8.5 million in 2014-15.	
Hywel Dda UHB	No		The UHB decided that it was unable to submit robust Integrated Medium Term Plans for 2014-15 to 2016-17 and wished to respond meaningfully to the conclusion of the Mid Wales Study ¹ before committing to a medium-term plan and is keen to allow sufficient time for recent or imminent changes to key Board personnel to take effect.
Powys THB	No		The THB decided that it was unable to submit robust Integrated Medium Term Plans for 2014-15 to 2016-17 and wished to respond meaningfully to the conclusion of the Mid Wales Study ¹ before committing to a medium-term plan and is keen to allow sufficient time for recent or imminent changes to key Board personnel to take effect.
Public Health Wales NHS Trust	No		While a plan had been approved in principle by the Trust it was recognised that the new Chief Executive should have an opportunity to contribute to it. Additionally, it was recognised that the plan is contingent on interdependent actions by other NHS bodies, and in the absence of approved plans across the NHS, the Trust could not finalise and agree a three-year plan.
Velindre NHS Trust	Yes	Yes – there is no requirement for additional funding from the Welsh Government.	
Welsh Ambulance Services NHS Trust	No		The Trust is advancing a number of the key reforms arising from the McClelland review, including the full establishment of the new commissioning arrangements, which will be vital to reviewing, inputting and approving a plan on a medium-term basis.

Note:

¹ The Mid Wales Study is an examination of the issues and opportunities for the future provision of healthcare services for patients living in mid Wales. The Department commissioned the Welsh Institute for Health and Social Care to carry out the study.

Source: *Wales Audit Office analysis*

- 3.7 Three-year planning is a welcome very positive improvement. Like many other new initiatives, there are areas that could be strengthened. In particular, given the financial constraints and recent performance trends, in our view some of the underlying assumptions are optimistic. There is scope for the plans to include more consideration of what may happen if things do not go to plan, as follows.
- a None of the plans we have looked at includes detailed sensitivity analysis showing what may happen if service performance, workforce or financial trajectories are missed. Nor did we see detailed contingency plans, although all integrated plans we looked at had a risk assessment with some mitigating actions.
 - b There is an acknowledgement in some plans that the level of financial savings required is higher than has been achieved in the previous three years. With savings proving more difficult each year, relying on growing savings is a very optimistic assumption.
 - c All plans assume a degree of improvement in service performance trajectories, which does not reflect the experience of the past three years. Given that the plans are based on a tougher financial settlement than has been the case for the past three years, this assumption on performance seems very optimistic.
 - d Capital investment to both replace and modernise infrastructure is central to the success of NHS bodies' plans. The Department has developed a strategic Wales-wide approach to prioritising capital schemes and is in the process of reviewing and reprioritising its forward investment programme. It is crucial that where funding is not approved, NHS bodies revisit their three-year plans to consider the impact and alternative solutions.
- 3.8 The Act does not spell out what happens where an NHS body's plan is not of sufficient quality to be approved. The Department has required those NHS bodies without an approved three-year plan to work to a one-year plan for 2014-15 and to develop revised three-year plans. Some one-year plans have yet to be finalised. The Department recognises that some NHS bodies require support to develop their capacity to produce high-quality integrated plans. As it develops its approach to the plans covering the period 2015-16 to 2018-19, the Department is identifying the planning skills gaps within NHS bodies and the actions required to address them.
- 3.9 The Department is closely monitoring progress against financial and service performance trajectories. The Department is clear that those NHS bodies on a three-year cycle can be taken back on to an annual cycle if they do not deliver against their trajectories. We have seen evidence that some NHS bodies are already falling behind against their performance and financial trajectories. The Department intends to manage financial and service performance through ongoing monitoring and, where necessary, use of the escalation and intervention protocol.

The NHS is again starting the 2014-15 financial year facing a cash-terms reduction and is likely to struggle without further revenue and capital funding

The pressure on revenue funding continues to be significant

- 3.10 The increase in funding during 2013-14 means that once again the NHS revenue budget starts the year with a significant year-on-year reduction. The position at the beginning of 2014-15 is slightly better than the position at the start of 2013-14. This improvement is mainly due to the Welsh Government allocating recurrent funding over and above its indicative plans in the 2014-15 Budget. The cash-terms reduction for 2014-15 is £41 million (0.7 per cent) and the real-terms reduction is £150 million (2.5 per cent).
- 3.11 As set out in [Figure 27](#), for 2014-15, NHS bodies predicted a total funding gap of £429 million. At the end of August 2014, NHS bodies were forecasting a likely year-end deficit of £198 million. This projection includes the requirement to pay back £41 million of brokerage and deficits during the year from 2013-14.

Figure 27 – Gross and net 2014-15 funding gaps by Welsh NHS body

NHS body	Gross 2014-15 funding gap (£'000)	Net 2014-15 forecast funding gap as at August 2014 (£'000)	2014-15 Revenue Resource Limit at at August 2014 (£'000)	Gross funding gap as % of Revenue Resource Limit
Aneurin Bevan UHB	48,954	34,946	1,002,273	4.9%
Abertawe Bro Morgannwg UHB	59,500	26,100	964,529	6.2%
Betsi Cadwaladr UHB	80,620	35,000	1,231,395	6.5%
Cardiff and Vale UHB	63,400	0	810,438	7.8%
Cwm Taf UHB	33,700	0	561,225	6.0%
Hywel Dda UHB	70,903	57,903	669,197	10.6%
Powys THB	47,657	44,297	222,067	21.5%
Public Health Wales NHS Trust	2,255	0	106,645	2.1%
Velindre NHS Trust	9,110	0	396,498	2.3%
Welsh Ambulance Services NHS Trust	13,331	(112)	151,510	8.8%
Total	429,430	198,134	6,115,777	7.0%

Source: Wales Audit Office analysis of Welsh Government data

3.12 Based on the position at August 2014, it seems likely that NHS bodies will require a similar level of additional funding in 2014-15 to that provided in 2013-14. In June 2014, the Minister announced that he would have discussions with the Finance Minister over the summer regarding additional funding. On 30 September 2014, the Finance Minister announced an additional £200 million for the NHS in 2014-15 and a further £225 million in 2015-16.

The Department is now starting to strategically manage capital expenditure at an all-Wales level

- 3.13 Good-quality buildings and other assets such as equipment and Information Management and Technology are essential to support the delivery of high-quality and safe NHS services. As a result of targeted investment in replacing and modernising the older part of the NHS estate, the Shared Services Partnership²¹ reported in 2013 that, based on 2012-13 data, over the last 12 years the age profile of the Welsh NHS estate is improving. The proportion of the estate built since 1995 has increased from eight per cent to 30 per cent while the proportion of the estate pre-dating 1948 has shrunk from 32 per cent to 17 per cent.
- 3.14 However, although some progress is being made, the Shared Services Partnership reported that the Welsh NHS needs to do more to improve the functional stability, space utilisation and energy efficiency of the estate. Whilst some of these improvements will require capital investment, many will instead require NHS bodies to consider different ways of using the existing estate. As set out in [Figure 28](#),

Figure 28 – Actual and risk-adjusted estates maintenance backlog

NHS body	Actual backlog 2012-13 (£ million)	Risk-adjusted backlog 2012-13 (£ million)	Risk-adjusted backlog 2011-12 (£ million)
Aneurin Bevan UHB	37.7	11.7	12.6
Abertawe Bro Morgannwg UHB	57.9	16.3	40.8
Betsi Cadwaladr UHB	119.7	36.1	41.0
Cardiff and Vale UHB	47.0	28.9	27.9
Cwm Taf UHB	20.8	9.5	20.8
Hywel Dda UHB	57.1	28.7	27.5
Powys THB	8.8	5.2	5.2
Public Health Wales NHS Trust	Unknown	Unknown	Unknown
Velindre NHS Trust	2.8	0.9	0.9
Welsh Ambulance Services NHS Trust	13.4	8.3	8.1
Total	365.2	145.6	184.8

Source: *The NHS Estate in Wales – Estate Condition and Performance Report 2011/12, Shared Services Partnership*, www.wales.nhs.uk/sites3/Documents/254/EstCondRep201112web.pdf

²¹ The NHS Wales Shared Services Partnership was established in April 2011 and is owned and directed by NHS Wales. It provides a range of support services to Welsh NHS bodies. <http://www.wales.nhs.uk/sitesplus/955/home>

the report also identifies a 2012-13 gross 'backlog maintenance'²² of £365 million (£395 million last year) across Wales which is 'risk adjusted' (calculated by weighting backlog as high, significant, moderate or low risk) to £145 million (£185 million last year).

- 3.15 Last year we reported that the condition of other assets such as medical equipment and Information Management and Technology across Wales is mixed. For 2012-13, some £336 million of assets were beyond their useful economic life. This data has not been updated in time for this report for 2013-14 but, based on estimates in 2012-13, this has now increased to over £400 million.
- 3.16 Last year we also identified concerns about how capital expenditure was managed by the Department. As mentioned previously, it is positive that the Department is now starting to take a strategic Wales-wide approach to capital planning and funding. Last year we reiterated the recommendations that the Welsh Government's internal audit service had made in this regard:
- a at an all-Wales level, the capital programme needs to be reviewed and updated and a capital programme strategy developed;
 - b a formal programme board should be considered to oversee the capital programme including smaller projects;
 - c revised guidance for the management of the programme and projects should be completed; and
 - d the Department should work more closely with NHS bodies to ensure compliance and monthly reporting.
- 3.17 The Department has made some progress in all these areas, which are critical to delivering an effective and sustainable NHS. In addition to the above, key actions by the Department include:
- a issuing revised investment objectives for the NHS Capital Programme;
 - b using new investment criteria against which to assess investment proposals;
 - c setting up an 'Expert Panel' to consider future potential schemes against the investment criteria; and
 - d considering innovative funding arrangements – eg, non-profit-distributing public – private arrangements.

²² Backlog maintenance is essential maintenance work that has not been undertaken and is deemed necessary to bring the condition of a maintainable asset up to a standard or acceptable level of risk that will enable the required service delivery functions of the asset to continue.

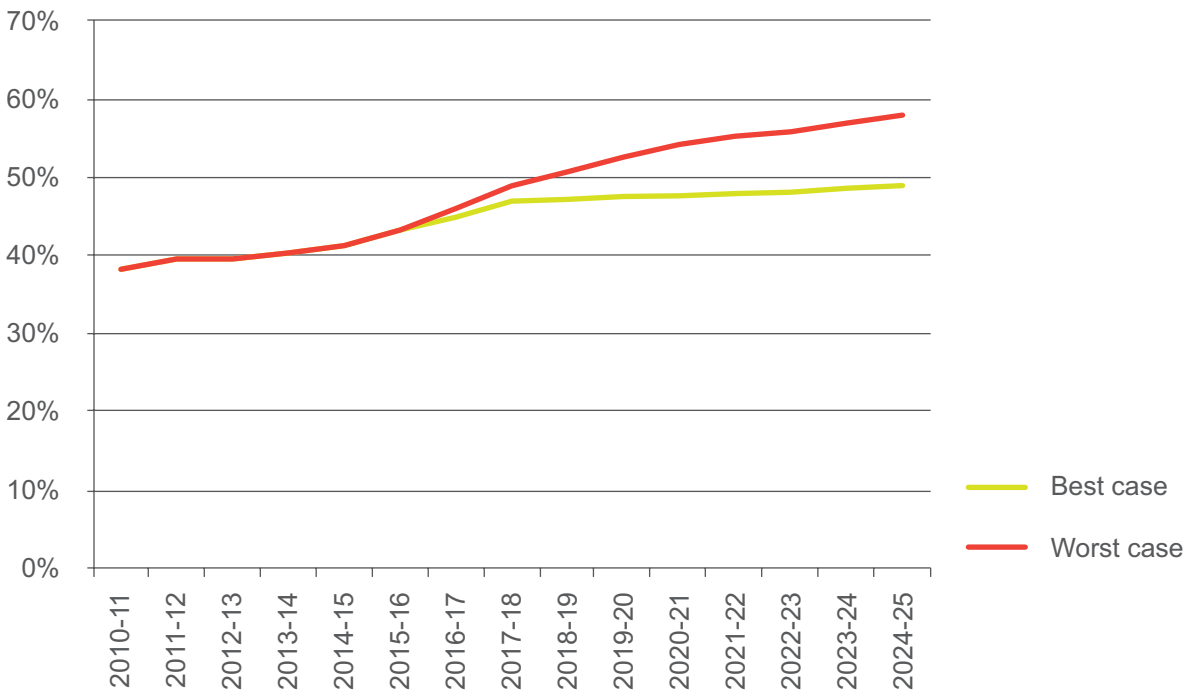
- 3.18 These actions put a new emphasis on the need for investment proposals to deliver improved outcomes and demonstrate sustainability, and reflect the need for other means of funding infrastructure investment in the NHS. Although currently much of the work in this area looks at schemes at an organisational level, there is a recognition of the need to look Wales wide at opportunities for regionalised services and investment projects encompassing the NHS and other public sector bodies. Whilst there are some examples that this is happening, the Department's intention is that these projects should become more mainstream in the coming years.
- 3.19 Given that the ability to modernise and rationalise the NHS estate (and other assets) is crucial to the delivery of sustainable services, the Department's new strategic approach is a key step forward. The investment proposals underpinning NHS bodies' three-year plans were all submitted under the new investment criteria by the end of June. Work is ongoing to assess these with a view to refocusing the forward investment programme and clarification of future projects is expected by the end of 2014.

Financial and demand pressures mean substantial change to NHS services is essential but progress to date has been slow

- 3.20 The Department commissioned the Nuffield Trust to examine the long-term cost pressures on NHS Wales. Such pressures include demographic trends – an ageing population – and the growing costs of technology, including new medicines. The Nuffield Trust calculated that the annual real-terms cost pressures in Wales were lower than those in England (3.2 per cent compared with 3.9 per cent in England) mainly because Wales' population is set to grow slower than England. On that basis, the Nuffield Trust estimates that NHS Wales spending would need to be £3.6 billion higher in 2025-26 than in 2010-11: a rise of almost 60 per cent.
- 3.21 The Nuffield Trust identified how that gap could be filled if services are changed and improved to make them more efficient and effective. Making some assumptions about future decisions on the health budget, the Nuffield Trust identifies that the budget gap by 2025-26 could range from £0.2 billion in its optimistic scenario to £2.7 billion in its pessimistic scenario. We agree that there is scope to build on the progress to date that the Nuffield Trust identifies and further improve efficiency but our own analysis suggests that the more optimistic projections on acute-sector efficiency would be very difficult to achieve without radical changes.

3.22 The independent think tank Wales Public Services 2025 (WPS 2025) produced a set of projections of spending, including NHS spending, to 2025. In **Figure 29** we have updated the WPS 2025 projections to reflect the revised cost pressures on NHS Wales identified by the Nuffield Trust. This shows that if spending rose to match the cost pressures, revenue spending on health in Wales would rise from around 42 per cent of the Welsh Government’s revenue budget in 2010-11 to between 50 and 55 per cent, depending on decisions made in Westminster and the performance of the UK economy.

Figure 29 – Updated WPS 2025 projections of revenue spending on the NHS as a proportion of the Welsh Government’s budget if it rose by 3.2 per cent in real terms



Source: Wales Audit Office update of Wales Public Services 2025 calculations

- 3.23 Given the long-term pressures, it is clear that for the NHS more of the same is not an option. The Department has long recognised the need for change right across the NHS. Over the past 10 years, there have been several major strategies, five-year plans and local reconfiguration plans. Nevertheless, the NHS of today looks remarkably like the NHS of a decade, although that is not to say there has not been progress:
- a the move to integrated local health boards in 2009 is bedding in and should help to better integrate primary and hospital care services;
 - b in terms of infrastructure, the NHS has closed down or fundamentally changed the role of some community hospitals and there are now plans to reconfigure and centralise some services covering all health boards; and
 - c there are pockets of change in the way that services are being delivered, with for example some evidence of new community services to treat patients with chronic conditions in primary care rather than in hospitals and examples of local innovation in service delivery and improving processes.
- 3.24 In terms of infrastructure, the reconfiguration plans have taken a long time to come to fruition. Plans to relocate services have faced significant local opposition, including from elected politicians. There have been judicial reviews which are an important safeguard in the system but these contribute to slow progress. The reconfiguration plans remain at a relatively high level, and while the focus is rightly on improving the safety and quality of services, it is still unclear whether the plans are affordable given the financial pressures on the NHS. As mentioned previously, it remains unclear whether there is sufficient capital to fund the emerging plans for reconfiguring services across Wales.
- 3.25 In terms of changing services for patients, the Department is placing significant emphasis on the emerging 'prudent healthcare' agenda, initially developed by the Bevan Commission. The idea behind prudent healthcare is to refocus service design and delivery on 'value', and to stop clinical activity where the risks potentially outweigh the benefits for patients. The three principles of prudent healthcare are:
- a do no harm;
 - b carry out the minimum appropriate intervention; and
 - c promote equality between professionals and patients.

- 3.26 The principles and ideas being developed through 'prudent healthcare' seem very sensible and, if translated into clear action, could lead to better services at lower cost. The Department points to evidence that 10 per cent of healthcare interventions are associated with some harm to patients and 20 per cent have no impact on patient outcomes. Over the past year, the Department has engaged with clinicians, patients and managers to develop the ideas underpinning 'prudent healthcare' and to test them in a set of pilots around Wales. The concept of 'prudent healthcare' has expanded to cover 'co-production' in terms of involving patients and their families and ideas from lean/systems thinking to re-shape services to identify and reduce activity that does not add value to patients.
- 3.27 We will be looking in more depth at the 'prudent healthcare' agenda in our forthcoming report on elective waiting times. One of the key issues we are finding in fieldwork from that study is that there is an urgent need to clarify what prudent healthcare means operationally. There is a risk that it is being interpreted as rationing or strengthening the hand of NHS bodies in restricting access to healthcare. If it is to get the kind of support among clinicians and patients that will be needed to make it a success, the Department needs to be very clear that it is about better healthcare and not doing things that potentially do more harm than good, rather than rationing services.

Appendices

Appendix 1 - Audit Methods

Appendix 2 - Welsh Government responses to last year's recommendations

Appendix 3 - Financial Summary by NHS body 2013-14



Appendix 1

Audit methods

Data analysis

This report is based on analysis of financial information from published budgets and the monitoring return forms that the NHS bodies provide to the Welsh Government each month. It also draws on other financial data, including:

- Welsh Government data on the funding allocated to NHS bodies at the start of the year and the end of the year; and
- NHS bodies audited accounts.

We have also used a range of service performance data, most of which was provided to us by the Department. The data sources include:

- The Patient Episode Database Wales (PEDW);
- Emergency Department Dataset (EDDS);
- Stats Wales data on performance on elective waiting times; and
- Department's performance data on other Tier 1 targets.

Document review

In interpreting the financial data we have also drawn on published strategic documents specifically related to the NHS in Wales. These include Together for Health: A Five Year Vision for the NHS in Wales and the NHS Wales Delivery Framework 2013-14 and Future Plans.

Local fieldwork

Our assessment of the national picture draws on local audit work examining financial management at each NHS body as part of our 'Structured Assessment' work. The audit work on which we drew includes:

- audit of accounts;
- review of savings plans and delivery;
- interviews with senior NHS body officials and Board Members; and
- review of 2013-14 and 2014-15 financial and strategic planning documents.

Appendix 2

Welsh Government responses to last year's recommendations

Recommendation summary	Progress/update
<p>R1 The Department continues to send mixed messages over the availability of additional funding: insisting at the beginning of the financial year that no funding will be provided before later allocating additional funding. We understand the Department's desire to focus NHS bodies on their goal of living within their means. However, the historical provision of providing additional funding has contributed to an unhelpful culture where some NHS bodies are second guessing the position and assuming they will get additional funding.</p> <p>To help develop a culture of greater financial transparency across NHS Wales, the Department should:</p> <ul style="list-style-type: none"> • develop a shared understanding and ownership by regularly reporting and discussing with NHS bodies the financial position of NHS Wales as a whole, including the central budgets managed by the Department; • clearly articulate the position at the beginning of the financial year in respect of what flexibility the Department has to manage financial risks; • during the year, keep NHS bodies updated in terms of any flexibility within the central budget and how it intends to use any surpluses; and • work with and challenge NHS bodies to improve the consistency and transparency of financial reporting and forecasting particularly for cost improvement programmes. 	<p>To improve the understanding of the financial position, the NHS Wales Finance Directors and Chief Executives are now provided with detailed additional information each month at their formal meetings. This includes a detailed 'all-Wales NHS Finance Report' each month.</p> <p>The developments and improvements we are making to the planning process and in particular the focus on the medium term will require formal approval by the Welsh Government of NHS Integrated Medium Term Plans. This enables the Welsh Government to clearly set out the financial expectations and any financial flexibility being provided over the current and future periods.</p> <p>This will provide certainty of the financial envelope within which NHS organisations are operating.</p> <p>The improvements to the planning process also enable further improvements to be made in monitoring arrangements and the ability to identify and challenge NHS organisations on inconsistencies and discrepancies in their reporting and forecasting.</p>

Recommendation summary	Progress/update
<p>R2 Service reconfiguration and change offer the best chance of developing a lower-cost model that puts the Welsh NHS on a more financially sustainable footing. At present, the financial costs and benefits of transformation and reconfiguration are unclear. The Department is in the process of supporting and challenging NHS bodies as they develop integrated three-year workforce, service and financial plans.</p> <p>In considering NHS bodies' three-year plans, the Department should:</p> <ul style="list-style-type: none"> • robustly challenge NHS bodies to develop an ambitious programme to reform the delivery and configuration of services, to include integrated service plans that set out in detail the costs (both revenue and capital expenditure) and expected financial benefits alongside patient quality and safety impacts; and • test the sustainability of NHS bodies' plans for medium to long-term change against the Department's own assumptions for the medium to long-term prospects for NHS finances. 	<p>This recommendation needs to be considered in the context of all service changes ie, not those relating solely to service reconfiguration.</p> <p>The formal challenge and assessment of both current and future service plans is now addressed as part of the Integrated Planning Framework. In line with the implementation of the NHS Finance (Wales) Act, the Integrated Planning Framework will set out the requirements for sustainable integrated plans, including evaluation of expected financial benefits alongside patient quality and safety impacts for service changes. This is included as part of the formal assessment and approval process.</p> <p>The NHS bodies' Integrated Medium Term Plans are assessed and approved in the context of the overall resources available within the Department's Main Expenditure Group. The financial flexibility being provided through the NHS Finance (Wales) Act will support the Integrated Medium Term Plans. Accordingly there is a robust evaluation and approval mechanism to ensure that the NHS body's plans and profiles are aligned to the overall available resources and show the required ambition in terms of their plans and programmes.</p>

Recommendation summary	Progress/update
<p>R3 In order to manage financial and service pressures, it is clear that many NHS bodies have deprioritised delivery of their targets on waiting times for planned procedures. Given the financial constraints, some form of prioritisation of activity and goals could be seen as inevitable. But such prioritisation needs to be well thought through, transparent and the risks need to be managed. The extent to which such prioritisation is documented and publicised varies between NHS bodies. The Department has not deprioritised any areas and has tasked NHS bodies with delivering against an increasing number of Tier 1 priorities.</p> <p>The Department and NHS bodies should work together to develop a robust framework for reviewing priorities and managing risks in those areas of service delivery that assume a lower priority, in particular to clarify:</p> <ul style="list-style-type: none"> • whether it is realistic to continue to expect NHS Wales to improve performance against an ever-rising set of priorities given a real-terms decline in resources; • the extent to which NHS bodies are free to determine their own local priorities/risk appetite in relation to deprioritising service delivery; and • the extent to which NHS bodies should publicise and engage the public in relation to prioritisations that impact on the level or quality of services. 	<p>Historically, the performance targets have been regularly reviewed and substantially reduced.</p> <p>In 2013-14, Health Boards were required as a minimum to demonstrate an improvement on the previous year's performance, to evidence progress towards the delivery of key National Targets. No further targets or burdens were added to this list in 2013-14.</p> <p>The Department is currently in the process of reviewing its delivery plans and current targets in collaboration with the NHS and the public. The aim is to ensure the targets are more focused around clinical/quality outcomes and wherever possible the review is also looking to reduce the burden further. A number of pilot schemes are being undertaken across the NHS to achieve this aim.</p> <p>In setting the planning guidance and framework for the Three Year Integrated Medium Term Plans from 2014-2017, it was made clear that in year one, the expectation was that Health Boards would maintain target level performance where it had previously been achieved, and that they would recover performance back to target level by March 2015 where they had not. The planning and performance guidance is currently being updated for 2015-16 onwards and the priorities are being reviewed as part of the revised guidance.</p>

Recommendation summary	Progress/update
<p>R4 Last year we recommended that the Department challenge NHS bodies to accelerate savings from workforce planning while managing the risks to service levels and quality. We found that there are still significant issues with workforce planning and the robustness of the workforce savings that NHS bodies claim to have delivered.</p> <p>The Department should:</p> <ul style="list-style-type: none"> • step up its challenge of NHS bodies' workforce plans, to ensure that they have robust and detailed workforce plans, which link directly to service plans and plans for workforce savings; and • provide detailed in-year challenge to test whether the workforce savings that NHS bodies report can be reconciled to the workforce plans and actual staffing levels. 	<p>The Department has set up a dedicated project team with associated governance arrangements to develop and implement improvements to NHS organisations' planning processes. A key component of this work has been to ensure that NHS plans incorporate key linkages between activities and are integrated in terms of finance, workforce and service delivery. The result of this work was the launch of the Integrated Medium Term Planning (IMTP) process through which NHS organisations are invited to submit three-year financial plans. The ability to do this was created with the passing of the NHS Finance (Wales) Act in January 2014. Through these plans NHS bodies are required to provide information on their current and future workforce. The process also includes a robust procedure for reviewing and reconciling plans before they are considered by the Minister for Health and Social Services.</p> <p>Following the completion of the first round, the Workforce and Organisational Development Directorate is now revising the workforce components of the planning template ready for the next round of commissioning in October 2014.</p> <p>In doing so the associated guidance will encourage NHS organisations to focus on demand rather than supply and will seek to improve the information about the future shape of the workforce that is submitted via the plans. This will include seeking additional detail in areas which were deemed to be deficiencies in the first round of returns.</p> <p>In support of this the staff from the Directorate will be joining and seeking to influence the agenda of NHS Workforce, Education and Development Services' network of workforce planning Leads with a view to using their expertise as a change group.</p>

Recommendation summary	Progress/update
<p>R5 Last year we recommended that the Department should support NHS bodies in sharing good practice on savings, but our local work suggests that there is little evidence of learning across NHS Wales either by sharing good practice on savings schemes that have worked well or using available costing data to identify and learn from existing practices.</p> <p>The Department should support NHS bodies by helping to identify, gather and disseminate good practice, considering the use of case studies, seminars, training and a central access point for this information.</p>	<p>As part of the process of implementing a new planning framework and updating the 2013-14 service plans, the Department instigated a supportive peer review process which reinforced the need for sharing good practice. This included running workshops in September and November 2013. Additionally, Welsh Government encouraged Health Boards and Trusts in sharing their 2014-15 to 2016-17 Integrated Medium Term Plans and in running workshops to seek feedback from the current planning process and identifying improvements and support that are required for future planning.</p> <p>Additionally the Directors of Finance group has a work plan to focus on the sharing of good practice and benchmarking. This also includes the Directors of Finance sub-groups such as:</p> <ul style="list-style-type: none"> • Financial Information, Costing and Benchmarking Group; • Sustainability Sub Group • Staff Development Group <p>Furthermore the key to sharing good practice will be through clinicians via clinical networks and other professional and speciality groups. The strength of these groups provides the environment for clinical peer reviews across organisational boundaries. This will be taken forward as a key theme through the prudent healthcare group, through organisational Boards and other professional groups.</p>

Recommendation summary	Progress/update
<p>R6 Last year we recommended that the Department work with NHS bodies to profile technical accounting adjustments and central savings across the year. This year, we found several NHS bodies are still making relatively large adjustments at the end of the year. This situation exposes the Department to significant financial risks at the year-end, if those adjustments do not materialise.</p> <p>We recommend that the Department steps up its challenge on NHS bodies to produce updated projections, including in-year balance sheet reviews, building on the good practice we found in at least one local health board.</p>	<p>The monitoring return guidance for 2014-15 has been strengthened; requiring organisations to accurately reflect any accountancy gains in their reported positions:</p> <p>‘Any accountancy gains/balance sheet movements, unallocated reserves and savings items should be appropriately phased to ensure that the year to date position is not distorted.’</p> <p>Specific lines have been included within the monitoring returns to report any year-to-date and future months’ accountancy gains. Comments are required in the narrative on any entries made.</p> <p>A new table introduced in 2014-15 also requires organisations to report any current or forecast accountancy gains which will contribute to the achievement of their forecast outturn position.</p> <p>A monthly reconciliation is undertaken between all entries and any issues raised with the organisation.</p>

Appendix 3

Financial Summary by NHS body 2013-14

NHS body	Estimated funding gap (required savings & in year cost pressures) £'000	Reported savings £'000	Departmental additional funding £'000	Cost containment/avoidance/technical accounting gains/contingency £'000	Intra-NHS brokerage received or returned £'000	Year-end out-turn £'000	Gross operating expenditure £'000	Estimated funding gap as % of gross operating expenditure
Aneurin Bevan UHB	(51,899)	16,597	22,779	12,611	0	88	1,098,652	4.7%
Abertawe Bro Morgannwg UHB	(61,067)	26,782	22,375	12,000	0	90	1,182,508	5.2%
Betsi Cadwaladr UHB	(99,237)	39,974	26,000	31,015	2,250	2	1,348,589	7.4%
Cardiff and Vale UHB	(89,200)	45,588	16,180	8,255	0	(19,177)	1,181,277	7.6%
Cwm Taf UHB	(40,573)	10,546	12,720	13,423	3,900	16	642,983	6.3%
Hywel Dda UHB	(57,649)	23,531	14,443	450	0	(19,225)	759,125	7.6%
Powys THB	(31,849)	5,831	4,599	2,155	0	(19,264)	273,477	11.6%
Public Health Wales NHS Trust	(1,342)	1,374	0	(17)	0	15	105,033	1.3%
Velindre NHS Trust (including the NWSSP)	(13,514)	11,414	900	2,157	0	57	418,175	3.2%
Welsh Ambulance Services NHS Trust	(13,694)	3,281	7,500	2,801	0	(112)	152,988	9.0%
Total	(460,024)	184,917	126,596	84,850	8,450	(57,510)	7,162,807	6.4%
Percentage of estimated funding gap		40.2%	27.5%	18.4%	1.8%	12.5%		

Source: Wales Audit Office analysis of 2013-14 All Wales NHS Finance Reports and 2013-14 audited financial statements

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