

**Cardiff & Vale University Health Board**  
**Submission to Welsh Government Public Accounts Committee – 28 October 2013**

*Welsh Audit Office - Health Finances 2012-13 and Beyond*

**SUMMARY**

This report provides an update on the current financial position and three year financial plan of Cardiff & Vale UHB. It sets out the Health Board's response to the Welsh Audit Office *Health Finances 2012-13 and Beyond*.

**CARDIFF & VALE UHB CURRENT FINANCIAL POSITION**

The UHB is on track to deliver the first year of the three year financial recovery plan which was agreed with Welsh Government in March 2013.

The UHB recognised in summer 2012 that it needed to take a radically different approach to recovering its underlying financial deficit. It therefore invited Ernst & Young to help develop a turnaround programme in early 2013. This resulted in a report in January 2013 which set out clearly that the UHB had a large underlying financial deficit, but also identified a range of opportunities, based on benchmarking, which would move the UHB from deficit into recurring surplus.

As a result of this, by March 2013, the UHB had developed and agreed a three year financial recovery plan with the Welsh Government. This returns the UHB to recurring financial balance in 2014/15 and pays back the deficit from 2013/14 in 2015/16. The agreed profile is as follows:

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Deficit / (Surplus)</b>	<b>32.5</b>	<b>(8.1)</b>	<b>(25.1)</b>

The financial plan set out above anticipated a requirement to deliver savings each year significantly higher than those planned and delivered by Foundation Trusts in England of 4.3% in 2013/14 and 5% in 2014/15. This poses a significant challenge.

In 2013/14, in line with the above plan, the UHB is planning an agreed deficit of £32.5m. This will be achieved through delivering savings equating to £56.7m. In addition to this the UHB is covering the cost of incremental uplifts from national pay contracts of £4.7m ('Agenda for Change' and 'Consultant Contract'). In total therefore the UHB has an agreed plan which delivers savings in 2013/14 of £61.4m (5.3%).

The savings are being delivered through a combination of changes:

- Service change which improves patient care e.g. changes to mental health services which support policy implementation (care moving into community sectors from inpatient)
- Service related efficiency including reductions in length of stay through earlier discharge of patients, earlier rehabilitation of patients leading to lower likelihood of them requiring a continuing health care package, more effective prescribing
- Administrative efficiency e.g. savings on procurement, back office functions
- Workforce changes e.g. skill mix and reductions in variable and temporary pay

At M6, the UHB has a deficit of £7.1m worse than its planned deficit of £16.2m (1.3%). There is a significant risk to achieving the in year financial position of approximately £15m. The UHB believes that its plans are sound, but the UHB entered the year with no headroom or contingency. Further cost pressures have arisen in year e.g. around medicines management and growth in continuing health care and there has in addition been slippage on change programmes. However the UHB continues to forecast that it will be close to delivering the planned and agreed forecast deficit at year end.

45% of the UHB costs relate to pay (61% of influenceable costs). This means that in order to manage in a flat cash environment, with a national pay increase, continuing requirement to fund incremental pay awards and no changes to terms and conditions, either workforce numbers need to reduce or average pay needs to reduce.

As at the end of September 2013, workforce numbers have reduced by 180 compared to the end of March 2013. A further reduction of 380 is expected by the end of March 2014. The UHB issued a section 188 giving notice that significant numbers of jobs would be put at risk in June 2013. The three month consultation period is now complete and workforce change schemes are now being individually delivered by UHB Clinical Boards.

## **CARDIFF & VALE UHB 2014/15 FINANCIAL PLAN**

In 2014/15 the UHB will be in the second year of its financial recovery plan. The UHB has made assumptions about the Welsh Government budget as follows:

- Flat cash settlement
- Impact of changes to Research and Development and Service Increment for Teaching funding are neutral
- No changes to the funding formula or additional allocation for population growth

The UHB is also assuming the following:

- Funding for specialised services will also be at flat cash plus the marginal rate for any additional treatments provided above 2013/14 contract levels. It is essential that patient flows towards the tertiary centre are backed by the appropriate resource flows.
- The UHB is not planning for significant cost pressure from the introduction of new drugs or Welsh Government policies.
- No assumptions have been made around changes to national terms and conditions negotiated for 2014/15 which could impact favourably both on the financial position but also in terms of incentivising changed patterns of working to deliver better patient care (e.g. 7 day working). Terms and conditions, particularly around the consultant contract and GP contract, are significantly more expensive and less flexible than the English contract.
- A small amount of funding has been built in for costs of strategic service change e.g. workforce changes, investment in project managing and non recurring capacity to drive change programmes.
- Capital will be allocated on a similar basis to 2013/14, however any opportunity to increase this would enable faster implementation of new technology and upgrading or vacating poor quality estate. Both these would support financial savings and improvements in quality and safety.

The UHB in making the assumptions above is taking a cautious position and it is hoped that the 2014/15 budget settlement announced will improve the position as the headline is that there will be some growth rather than a flat cash settlement. At the time of writing, we are currently assessing the impact that this settlement will have on our 3 year plan.

The UHB is then expecting cost pressures for 2014/15 as follows:

- Pay award of 1%
- Incremental drift in line with 'Agenda for Change' and 'Consultants Contract'
- Increased costs of PFI contracts for car parking, which cannot be passed on to the public
- Recovering the underlying deficit
- Non recurring costs of achieving Tier 1 targets, particularly Referral to Treatment times
- Demand growth in continuing health care
- Non pay inflation, with particular pressures on energy prices
- Primary and secondary care drugs growth

These assumptions mean that the UHB will need to deliver a savings target of 6.2% to achieve its planned financial surplus for 2014/15. The plan also assumes that the 2013/14 savings targets are achieved recurrently.

This equates to a real-terms reduction in expenditure of 6.2% and will again require workforce reductions to deliver. The UHB continues to use benchmarking of upper quartile performance against its UK peers to identify those areas through which savings schemes can be delivered.

In 2014/15 the UHB is also aiming to move some funding from acute into primary and community care, predominantly by requiring lower savings targets from primary and community care. This will enable the clinical and management teams in these areas to focus on managing demand, changing services and support preventative treatment, however it has the impact of requiring a higher savings target on hospital services which will be challenging to deliver.

At this stage, no change to the financial position has been planned as a result of the South Wales Programme. Modelling on the potential impact of this is being undertaken following the recent public consultation.

## RESPONSE TO WELSH AUDIT OFFICE *Health Finances 2012-13 and Beyond*

The Health Board has a positive relationship with Welsh Audit Office and finds its reports helpful in supporting effective service and financial planning and management. The Health Board contributed to and has reviewed in detail the *Health Finances 2012/13 and Beyond* report. The response from the Health Board is set out below:

Number	Recommendation	Response
R1	<p>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.</p> <p>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. To help develop a culture of greater financial transparency across NHS Wales, the Department should:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• clearly articulate the position at the beginning of the financial year in respect of what flexibility the Department has to manage financial risks;</li> <li>• 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</li> <li>• work with and challenge NHS bodies to improve the</li> </ul>	<p>The Health Board agrees that it would be a helpful approach if a clear allocation was provided at the beginning of each financial year.</p> <p>The Health Board agrees that there is a key role for Welsh Government in sharing the financial position of NHS Wales across NHS organisations, facilitating their working together to plan and deliver cost improvement programmes and challenge delivery.</p> <p>This is currently delivered via the monthly Directors of Finance and Chief Executives meetings, through monthly Quality and Delivery meetings and through the six monthly JET meetings. The Health Board plays an active role in all these fora and will continue to support Welsh Government continuously to improve these processes.</p>

	consistency and transparency of financial reporting and forecasting particularly for cost improvement programmes.	
<b>R2</b>	<p>Service reconfiguration and change offers 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. In considering NHS bodies' three-year plans, the Department should:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul>	<p>The Health Board fully supports the recent Welsh Government requirement to develop integrated three year workforce, service and financial plans.</p> <p>The Health Board anticipated this requirement, submitting its first plan to Welsh Government in June 2013. The Health Board supports the external and peer review process put in place by Welsh Government to review the September 2013 and January 2014 plans.</p> <p>It would be helpful if Welsh Government could provide an update on expected allocations and assumptions for the three year plan prior to the January 2014 submission.</p> <p>It will be particularly important to understand the capital position especially the amounts which are likely to be available for backlog maintenance and core IT and equipment replacement which is a high risk for the UHB.</p>
<b>R3</b>	<p>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</p>	<p>The Health Board did not deprioritise delivery of targets on waiting times in 2012/13 although there were significant levels of elective procedure cancellations due to pressures of unscheduled care. The Health Board has taken a more proactive approach to winter planning, supported by the Welsh Government assurance process, to ensure that these are minimised in winter 2013/14.</p>

	<p>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. 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"> <li>• 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;</li> <li>• the extent to which NHS bodies are free to determine their own local priorities/risk appetite in relation to deprioritising service delivery; and</li> <li>• 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.</li> </ul>	<p>The Health Board would agree that it will be essential to have a robust framework for determining policy priorities at Welsh Government level including a clear cost benefit analysis and support in terms of what areas of service will therefore be a lower priority.</p> <p>The Health Board has a prioritisation framework which can support its own local determination of this, but this is relatively underdeveloped at this point. The Health Board plans to develop a 10 year Clinical Services Strategy during 2014/15. This will involve extensive public engagement around both service priorities and deprioritisation to support delivery within the funding available.</p>
<p><b>R4</b></p>	<p>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. The Department should:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>and</li> <li>• provide detailed in-year challenge to test whether the</li> </ul>	<p>The Health Board agrees that a key component of integrated planning is the alignment of service, financial and workforce plans.</p> <p>The Health Board submitted the first three year integrated plan including workforce plans to WG in June 2013. This set out plans to reduce workforce significantly in 2013/14. At M6 the workforce has reduced by 179 and is 87 wte over plan.</p> <p>The Health Board has an integrated Performance Management Framework in place for all Clinical Boards and Corporate Departments. All these have integrated service, financial and</p>

	<p>workforce savings that NHS bodies report can be reconciled to the workforce plans and actual staffing levels.</p>	<p>workforce plans and delivery against these are tested on a monthly basis at the Executive Performance Review meetings. Workforce indicators form a key component of the monthly performance dashboard produced for each directorate.</p> <p>The Health Board will need to continue to reduce staff numbers over the next three years. It will also be important to agree across NHS Wales the approach to pay terms and conditions in a way which supports service delivery whilst managing within the funding available. Some of the workforce efficiencies would more appropriately be delivered through pay restraint or changes to terms and conditions, eg enabling 7 day working to be the norm or by matching Welsh pay contracts (eg Agenda for Change, consultant contract, GP contract) to the English contract which has significantly better terms for employers.</p>
<b>R5</b>	<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. 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>The Health Board agrees that there could be more sharing of good practice, both across Wales and across the UK.</p> <p>This has been an increasing focus at the Directors of Finance monthly meetings recently, with sessions covering benchmarking, procurement opportunities, Continuing Health Care, prescribing etc. Welsh Government has facilitated this and the Health Board would support them continuing to do this.</p> <p>There are areas across Wales where benchmarking could be significantly improved, through better information systems and standardisation of data definitions. This includes patient activity, prescribing etc.</p>
<b>R6</b>	<p>Last year we recommended that the Department work with NHS</p>	<p>The Health Board supports this recommendation as part of</p>



	<p>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. 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>good practice around financial reporting and is working with the Welsh Audit Office to understand what opportunities it has for improvements in this area.</p>
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## SUMMARY

In summary, Cardiff & Vale UHB has an agreed three year financial plan to move it from significant underlying deficit into recurring surplus. Despite challenging savings targets, which are slightly behind plan at M6, the UHB is on track to deliver year 1 of the plan. Plans are based on benchmarking and aim to drive improvements in patient care as well as financial savings. The three year plan is based on a flat cash settlement, the potential improvement in this announced recently will enable some headroom to manage in-year risks and pump priming of service change.

The Welsh Audit Office report is helpful in identifying further areas where the Health Board can improve its performance both as an individual organisation and through partnership with other Health Boards and with Welsh Government, to continue to manage to improve services within finite resources.