Yr Adran Iechyd a Gwasanaethau Cymdeithasol
Cyfarwyddwr Cyffredinol • Prif Weithredwr, GIG Cymru

Department for Health and Social Services
Director General • Chief Executive, NHS Wales

Llywodraeth Cymru
Welsh Government

Mr Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Our Ref: DS/MS/KF/TLT

27 November 2013

Dear Darren

PAC – Follow up actions from the meeting on 5th November 2013.

I refer to our attendance at the Public Accounts Committee on 5 November. I am pleased to provide further information in respect of:

- Details of the costs incurred by Health Boards for external support with their budget management;
- Details of the Townsend Formula;
- Analysis undertaken on the cancellation of elective procedures during winter 2012/13;

External Support with budget management

In response to questions raised by Committee members we highlighted four organisations which have commissioned external expertise to support and strengthen their planning and financial management arrangements. These are Cardiff and the Vale University Health Board, Powys Teaching Health Board, Hywel Dda Health Board and Betsi Cadwaladr University Health Board.

The work is significant and extensive. It has to be seen in the context of the requirement for the Boards to develop and implement plans which deliver very significant savings whilst maintaining appropriate service standards. The detailed nature of the commissioned support is specific to the requirements of each organisation but generally includes :

- Detailed analysis of underlying financial pressures
- Short, medium and long term modelling of options to contain cost or deliver significant savings

Parc Cathays • Cathays Park
Caerdydd • Cardiff
CF10 3NQ

Ffôn • Tel 02920 801182/1144
david.sissling@wales.gsi.gov.uk
Gwefan • website: www.wales.gov.uk

- Application of relevant benchmarking to ensure the Health Board is pursuing and adopting proven good practice
- Assessment of internal capacity and capabilities for delivery
- Recommendations to enable stronger internal budgetary control arrangements
- Provision of programme and project management support

Generally the approach taken could be described as 'invest to save' with the major work in each case being commissioned through the UK Government Procurement Framework arrangements. These contract arrangements were agreed nationally to secure value for money in the rates charged for such work and to ensure compliance with EU and other procurement requirements. As you will see (Annex 1) the external support procured by each LHB is enabling a wide range of benefits which have value considerably in excess of the costs incurred.

Details of the Townsend Formula

There are a number of reports and reviews that set out the history and development of the formula. I could provide the reports to the committee if required. However I think it is appropriate at this stage to offer the Committee a summary of relevant aspects:

The Townsend model (formula) was originally commissioned by the Assembly in 2000 and it was known as the Direct Needs Allocation formula. In contrast to the more common use "indirect" allocation measures of health (such as age, sex, mortality and deprivation) the Townsend formula used data on reported direct health needs to derive target allocation shares for each Health Board.

In simple terms, the formula determined the target distribution of the NHS revenue allocation between Health Boards in proportion to their population, weighted for their share of direct health need and adjusted to recognise the cost of meeting that need. It was underpinned by the following key principles:

- It measures health need independently of demand and supply;
- It was aimed at allocating resources where need is greatest not utilisation the highest;
- It is relative – it aims to fairly distribute a pre determined total allocation
- It accepts the national pattern of investment between health conditions.

The formula is particularly based on the Welsh Health Survey (WHS) supplemented with data from other sources.

In 2002 the National Assembly agreed that the implementation of the formula would be based on the differential distribution of growth funding to those areas most under target so that no organisation suffered a reduction in their allocation.

Since the creation of the seven Local Health Boards in 2009, questions have been raised as to suitability of the current formula in meeting future needs. A commitment to review the allocation basis was given under the "Together for Health – Financial Regime" commitments. This review will be complex and will take some time to complete. It has

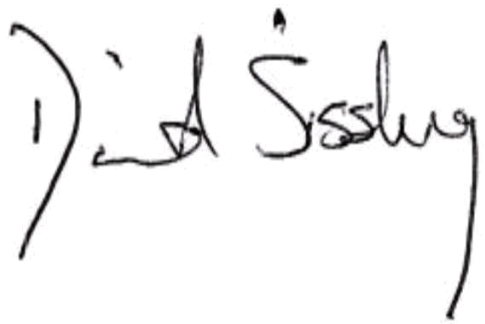
started with a current focus on clarification of objectives, detailed scoping and project establishment. We anticipate the exercise will be completed in 2015.

Analysis undertaken on the postponement of elective procedures during winter 2012/13

During the course of the Committee meeting we described the factors which led to an increased level of postponed elective operations. We highlighted the impact of very harsh prolonged weather conditions and the implications of an increasingly elderly population. An increase in average length of stay for emergency medical patients resulted in a requirement to utilise some surgical bed capacity for patients admitted as emergencies. The increase in lengths of stay occurred to an extent in previous years but was particularly marked in 2012/13. Annex 2 provides an analysis of postponed operations and relevant information regarding length of stay for patients admitted as emergencies.

I trust that the further information provided is helpful.

Yours sincerely



David Sissling

Annex 1

External support obtained by each LHB

Cardiff and Vale University Health Board

The Health Board engaged Ernst and Young (E&Y) in 2 phases. The first in 2012/13 was at a cost of £656k and the second in 2013/14 was at a cost of £781k.

During the course of 2012 the scale of the short and longer term financial challenges facing the Board became apparent. They had achieved financial balance in 2011/12 and 2012/13 but had only done so with significant financial brokerage and non recurrent financial support. They were moreover required to address further substantial cost pressures in future years.

The first phase of the work was commissioned December 2012. E&Y provided the Board with extensive external expertise and capacity to help them address the significant financial challenges the Board faced in 2013/14.

The main benefits from this work were:

- E&Y helped validate the scale of the financial challenges facing the UHB in 2013/14. They worked alongside Clinical Boards, carrying out rigorous analysis and developing options to drive up efficiency and deliver savings. This led to the finalisation of detailed efficiency plans which were owned by budget holders.
- They supported the UHB to deliver these savings by providing significant project management support and advice on the main areas of improvement.
- Their support helped the UHB identify £56.7m savings in 2013/14, equivalent to 5% of their total income. The Health Board is currently delivering this level of savings.

Phase 2 of the work focused on the development of the 3 year integrated business plan. E&Y worked with the Board to identify further efficiency and savings totalling £49m (4.5%) in 2014/15 and £45m (4%) in 2015/16. The main benefits of this work are:

- A three year financial plan developed by the Board which will put the organisation back into recurrent financial balance in 2014/15.
- Very detailed specification of the actions necessary to deliver improved efficiencies and enhanced savings.

In summary, E&Y have helped the organisation embed the savings and improvements necessary to put the organisation back into recurrent financial balance in 2014/15, providing support, advice and material that has identified £150m of savings from 2013/14 to 2015/16.

Powys

Powys commissioned Deloitte's at a cost of £80k to review the underlying financial issues facing the Health Board, assess Board's capability to meet these challenges and recommend further cost reduction and savings programmes.

The final report was produced in September 2013. The main outcomes and benefits are:

- Provision of advice and challenge to the Board on its approach to service and financial planning;
- Provision of analysis regarding the additional scope for savings and cost reduction;
- Specific identification of additional cost reduction opportunities. These total £5.5m over 5 years.

Hywel Dda

Hywel Dda commissioned Ernst & Young (E&Y) in August2013. The total cost of the work is £491k. It is organised into a number of phases.

Phase 1 : Review of Clinical Strategy and Productivity

- Review, challenge and revise the existing clinical service strategy.
- Quantify savings required to achieve recurrent breakeven in 3 year planning framework.
- Introduce additional budgetary, governance and performance management control to ensure in year financial improvement is maximised.
- Assess current efficiency and productivity in key areas and quantify savings which could be made by enhanced productivity.

Phase 2 : Development of Integrated 3 Year Business Plan and Cost Reduction Support

- On the basis of the testing done in phase 1, to identify the future clinical models that need to be in place over the next 3 years. This will acknowledge the specific matters of context e.g. rurality
- Support the production of a 3 year Integrated Business plan. This enables alignment of key service, workforce and financial priorities.

Phase 3 : Further Support to the Development of the 3 Year Integrated Plan

- Support the development of detailed implementation plans with a facilitation of effective internal and external engagement.
- Support the establishment of associated clinical models in key areas – Emergency and Urgent Care, Obstetrics and Paediatrics, Trauma, Orthopaedics and Acute surgery, Speciality Medicine, Integrated Care for the Elderly.

The benefits of the work relating to 2013/14 are already evident. The Health Board is delivering enhanced savings and has more secure budgetary cost management arrangements. The second and third phase are not completed but will result in a 3 year plan with improved levels of savings and enhanced management controls.

Hywel Dda have also commissioned support from MBI Health Group at a cost of £50,000. This support has focused on the provision of advice and recommendation regarding internal performance management, governance, accountability and risk. The areas which have been covered are :

- RTT
- Theatres
- Continuing Health Care

Betsi Cadwaladr

Betsi Cadwaladr commissioned Deloittes at a cost of £288k in August 2013. Their work will cover the following :

Phase 1

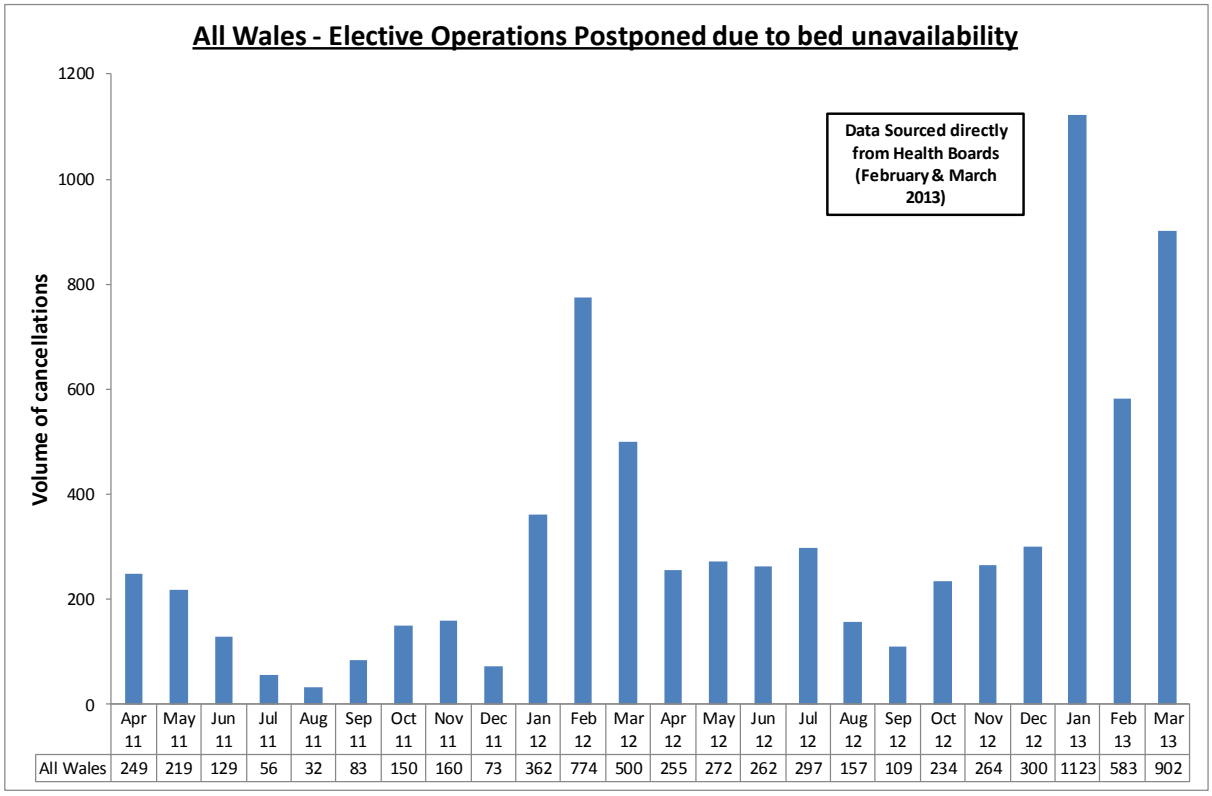
- Review of overall financial plans and risks for 2013/14
- Review specific 2013/14 savings plans for robustness and deliverability
- Assess current financial performance against expectations
- Develop recommendations for further in year savings opportunities

Phase 2

- Review longer term financial plans and support the development of the 3 year integrated delivery plan
- Quantify deliverable savings for next 3 years for each clinical group
- Review clinical pathway proposals to ensure 3 year alignment between demand, service provision and financial aspects
- Develop ‘best practice’ redesign model for diabetic pathway
- Recommend performance management and delivery support arrangements

Significant elements of this work have been completed particularly in respect of Phase 1. The benefits are considerable – in year savings programmes have been improved and delivery arrangements have been strengthened.

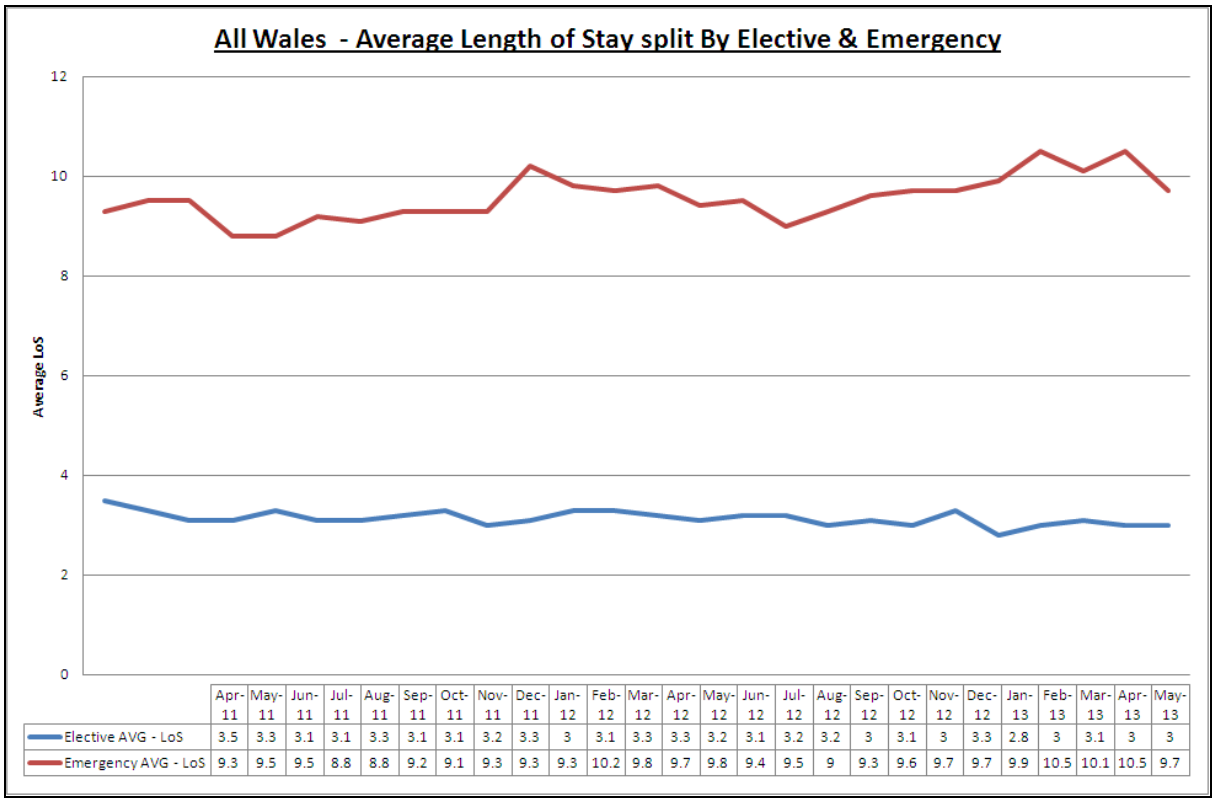
Annex 2



	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13
All Wales	249	219	129	56	32	83	150	160	73	362	774	500	255	272	262	297	157	109	234	264	300	1123	583	902

Figure 1.

During the final quarter of 2012/13, the average length of stay for emergency patients increased from 9.7 days in December to 10.1 days in March, an increase of 0.4 days. This increased medical bed occupancy by 310 beds, or 29,700 bed days more than the average volumes experienced in the final quarter of previous years.



	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
Elective AVG - LoS	3.5	3.3	3.1	3.1	3.3	3.1	3.1	3.2	3.3	3	3.1	3.3	3.3	3.2	3.1	3.2	3.2	3	3.1	3	3.3	2.8	3	3.1	3	3
Emergency AVG - LoS	9.3	9.5	9.5	8.8	8.8	9.2	9.1	9.3	9.3	9.3	10.2	9.8	9.7	9.8	9.4	9.5	9	9.3	9.6	9.7	9.7	9.9	10.5	10.1	10.5	9.7

Figure 2.