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Bwrdd Iechyd Prifysgol
Caerdydd a'r Fro
Cardiff and Vale
University Health Board

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Len Richards
Chief Executive

15 June 2018

Mr Nick Ramsay AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
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Dear Mr Ramsay

NHS Finances (Wales) Act 2014

I reply to your letter of 18 May regarding the above. Thank you for giving me the opportunity to input into the Public Accounts Committee's consideration and as requested, set out below are the responses to the questions asked from Cardiff and Vale University Health Board.

Meeting financial duties

What have been the main factors/barriers to meeting the financial duties?

The UHB had a surplus of £0.1m in 2015/16, a deficit of £29.2m in 2016/17 and a deficit of £26.9m in 2017/18. This has meant that it breached its break even duty by £56m over the period 2015/16 to 2017/18.

The Health Board therefore, did not manage to deliver an annual break even position either over the last two years. This has resulted in an accumulated underlying financial deficit. This underlying financial deficit in effect means that the UHB is recurrently spending more than its recurrent allocation. Some of the key reasons for this have been:

- Non delivery of recurrent CIPs as set out in plans;
- Reliance on non-recurring opportunities and non-recurrent funding;
- Spending on cost pressures and investments to sustain and enhance services and performance that have added to the underlying deficit.

The key cost drivers have been:

- Inflationary cost growth due to wage awards and price rises;
- Demand growth in both services provided and services commissioned;
- Population growth where Cardiff is expanding at a quicker rate than the rest of Wales;
- The cost of better performance in emergency care and in reducing waiting times;
- Local cost pressures and investments.

The financial position deteriorated in 2016/17 as the additional cost pressures and investments were greater than allocation increases and the level of efficiencies being achieved.

In 2017/18 the Health Board did however manage to arrest this trend and the year-end out-turn deficit position improved over the previous year. The Health Board also plans to reduce this further in 2018/19.

The UHB aims to get back to recurrent financial balance as soon as possible and aims to maintain an improving position on an annual basis. Restoration of financial sustainability and delivering a break even position however, cannot be achieved in the short term and will take a number of years to achieve. This is because there is a limit to the financial savings and financial improvements that can be made whilst maintaining performance and the delivery of high quality safe services.

What have you done that has meant you appear to have been able to improve the position compared to the last financial year?

Recognising the key reasons for the deteriorating financial position, in 2017/18 the Health Board:

- Had a strong emphasis on the achievement of the recurrent CIP target and provided a supporting structure to support delivery of this;
- Held budget holders to account for achievement of targets;
- Undertook a detailed review of planned expenditure to avoid costs where ever possible even if within budget;
- Ensured cost pressures were managed and if possible avoided;
- Limited investment to those areas that were unavoidable and essential;
- Maximised all financial opportunities to achieve the best possible out-turn position;
- Focussed on transformation and continual improvement;
- Increased clinical engagement through the introduction of new focussed clinical leadership roles.

Duty to have an approved three-year plan

What have been the main reasons you have been unable to agree a three-year plan and what are the remaining barriers to you having an agreed plan?

The three year plan needs to balance performance and finance whilst maintain safe high quality services, modernising and transforming services and moving services closer to home. The key reason why the Health Board has not been able to have an agreeable three year plan is that it has been unable to produce a plan which delivers all of these whilst also delivering a break even position over a three year period. Therefore a financial plan that does not demonstrate forward delivery of the breakeven duty has resulted in non-approval and this remains the main barrier to overcome.

The Health Board has started a process of financial recovery with an improved financial position delivered in 2017/18 and further improvement planned in 2018/19. The aim of the Health Board is to continue on this improvement cycle until it achieves financial sustainability. The Health Board is working closely with Welsh Government during its period of 'Targeted Intervention' to achieve this joint aim and have an approvable three year plan as soon as practically possible.

Welsh Government support and guidance on three year planning

How helpful is the Welsh Government's guidance on three year planning?

The Welsh Government planning guidance is very comprehensive and reflects the complex and wide ranging agenda of the Health care system in Wales. It clearly sets out the areas that need to be covered in the three year plan. This is supported by Welsh Government feedback on the draft plan, both positive and negative, to help shape the contents of the final plan. One criticism might be that because the planning guidance is so comprehensive the final plans tends to be hundreds of pages long and are therefore not very user friendly.

The planning guidance is however less clear on the expectations of a one year operational plan, should the three year plan not be accepted.

Are there any areas where it could be clearer – including views on the Auditor General's previous recommendation that the Welsh Government should set out more clearly in its guidance how, working in partnership with the Welsh Government, NHS bodies that have incurred a deficit should plan to recover their financial position in order to meet the duty in future years.

The requirement to break even and the rules around this are well understood. The ability however to generate surpluses from a deficit position is extremely difficult. The experience of this Health Board is that maintaining the financial position is difficult and that making financial improvements takes time. The Health Board has not been able to deliver an annual break even position since 2015/16 and is therefore not in a place to recover prior year deficits. It does however have the ambition to make annual improvements on reducing its financial deficit and to get back into annual

financial balance as soon as practically possible. Given the size of the recurrent deficit this may take some time to achieve. The overall aim being to get a forward looking three year plan that is approved.

Financial management and savings plans

What are the key challenges and opportunities for your health board in planning and delivering financial savings?

The Health Board successfully delivered its savings plan in 2017/18. Building on the success of last year, the Health Board recognised the need for an ambitious plan that pushes the organisation to deliver improved levels of efficiency alongside improved and sustained delivery against standards increasing the value that is derived from the resources available for the Cardiff and Vale population.

The Health Board has set a challenging in year target for which planning and delivery are well underway. Strong governance processes and a weekly drumbeat across the organisation will continue to support both the identification and delivery of savings.

Tactical and traditional savings will be insufficient to address the UHB's financial challenge. If the UHB is to continue to deliver the required levels of savings over the next 3 year period, Strategic CIPs will need to form a significant part of the financial plan. This will involve implementing new models of care and the redesign of existing care pathways to reduce the cost base whilst improving quality of service and patient value.

To support savings planning and delivery the Health Board is driving cross cutting opportunities together with improvement and transformational schemes. This is a significant opportunity for the health to lower its cost base at the same time as maintaining and improving health pathways.

The key challenges for the health board is in both the pace of delivery and in ensuring that saving schemes recurrently deliver in year and also support the reduction in the health boards underlying deficit.

How much of an impact has the national Efficiency, Healthcare Value and Improvement Group had and are there specific examples of how the work of the Group has helped to deliver savings for your health board?

The health board has embraced the approach of the national Efficiency, Healthcare Value and Improvement Group and is confident of uncovering further opportunities through the work of the Finance Delivery Unit (FDU).

The Group has been supportive in driving medicines management and clinical procurement opportunities along with the introduction of the medical agency and locum pay cap, all contributing to cash releasing savings. It is hoped that the work of the FDU will encourage and enable greater sharing and understanding of opportunities across Wales.

How has your health board responded to the recommendations of the WAO's Structured Assessment in relation to your savings plans and overall financial planning/management?

The key financial recommendations in the structured assessment for 2017 and the latest Health Board position on this is set out below:

R1: For 2018-19, the Health Board needs to use intelligence such as benchmarking data to identify stretch targets on a case-by-case basis in areas where greater levels of savings could be made.

The Health Board has completed an internal benchmarking exercise using CHKS and Albatross data that is being continually refined and assessed. This work was supplemented by external benchmarking data commissioned from EY and from Welsh Government.

In identifying savings plans the Health Board is striving to “make current systems better” and “make better systems” ensuring maximum value is obtained from all work streams including learning from best practice opportunities identified through the national efficiencies group. The Health Board is playing a key role in both shaping the national efficiency framework but also driving opportunities through shared best practice alongside the Finance Delivery Unit.

Informatics supports the identification of opportunities and efficiencies through triangulating benchmarking and internal data. Key target areas for 2018-19 include:

- Clinical variation – GMS sustainability, reduction in follow up rates
- Outpatients – DNA reduction, clinic booking efficiency, demand management
- Length of Stay – LOS reduction, admission avoidance, day of surgery admission
- Theatre Efficiency – session utilisation, productivity

Have any lessons learned from the Welsh Government-commissioned financial governance reviews at some health boards been shared and applied more widely? If so, how?

The findings of the Financial Governance Review of Cardiff and Vale Health Board have been shared widely within the organisation from Board level down and the action plan to address their recommendations is nearly completed.

To support wider learning, Deloitte LLP ran a half day masterclass open to all NHS organisations where they picked up the key themes that arose from their review of the Health Boards. Key learning focussed upon financial planning, strategy, CIPs, culture, support structures, monitoring and delivery.

What are the key actions you have taken, or intend to take, in response to the financial governance reviews commissioned by the Welsh Government? If you have an up-to-date response which is in the public domain, can you incorporate the link in your reply?

Deloitte LLP undertook an independent financial governance review of the Health Board which was carried out against a scope set out in a contract with Welsh Government and took place between March and May 2017. The outcome was presented to Welsh Government and the Health Board in early July 2017. A UHB action plan was agreed by the Board at its September 2017 meeting.

There were 22 key findings and recommendations of this independent financial governance review. Against each recommendation, the Health Board has produced a management response which includes actions to be taken. The Health Board Finance Committee has been asked to review the progress being made against this action plan and provide the Board with appropriate assurances.

The progress against each recommendation was last reviewed by the Finance Committee at its 30 May 2018 meeting. A link to the Finance Committee papers is included below and is included as agenda item 9b.

<http://www.cardiffandvaleuhb.wales.nhs.uk/sitesplus/documents/1143/PDF%20Finance%20Committee%20May%202018.pdf>

Latest progress against the 22 recommendations shows that 20 have been completed and 2 are in progress. Reasonable progress is therefore being made. Internal Audit have also recently reviewed the robustness and accuracy of progress reporting against this action plan to the Finance Committee and have issued a report that gives substantial assurance.

Funding formula

How health boards are involved in the work to update the funding formula, and your understanding of the current state of progress?

To support the NHS Wales Directors of Finance in delivering their work plan, a number of sub groups have been set up, one of which is the 'Enhanced Rules' Group. Part of the role of this group is to support Welsh Government in reviewing and reshaping the funding formula, as and when requested to assist. So far however Health Boards have not been requested to support this work. Our understanding is that this work is due to be completed to inform the 2019/20 allocation round.

What you see as the key changes that need to be made to the funding formula in the future?

The formula needs to be based on a transparent, rational and readily available datasets and supporting assumptions which have preferably been successfully tested in other health systems in order to give the formula credibility.

The formula needs regular updating to maintain confidence and credibility in it, taking into account population changes as well as movements in relevant health and health needs indices.

The formula should build in medium term projections based on data backed demographic intelligence to indicate the direction of travel for future allocation and better support longer term resource planning.

The opportunity should be taken at the same time to review how the funds flow between Health Boards for cross border patient flows so that the whole funding system is updated at the same time to avoid any inconsistencies and unintended consequences.

How you think any transition should be managed if there are significant changes to the formula/allocation?

There needs to be convergence towards a new formula that is responsive enough to make incremental changes to allocation on a timely basis but builds in mitigation to avoid unhelpful instability in structural funding. Material medium and long term allocation changes can be planned for including any service and structural changes required with associated timescales.

Allocations could be updated within a convergence model that is updated every three years to promote stability and support planning certainty. An allocation model that incorporates projections will help planners understand future allocation trends and support the need for improvements in appropriate service delivery models.

Overall impact of the NHS Finances (Wales) Act 2014

Has the Act led to a demonstrable shift in the behaviour of NHS bodies and Welsh Government away from a short-term focus and towards the longer-term?

If so in what ways?

If not, then what have been the key barriers to change?

The ambition of this Health Board is to have an agreeable three year plan in order to deliver the Health Boards statutory financial duty. This should also result in a lower level of escalation for the Health Board and a lighter touch performance management relationship with Welsh Government.

The production of a three year plan has been embraced by the Health Board and allows it to set out how it intends to deliver its medium term objectives in the direction of its overall strategy 'Shaping our Future Wellbeing'. A three year horizon allows the Health Board to set out what its service, workforce and finance plans are to move towards financial sustainability.

It allows a focus of longer term challenges such as population growth and the resulting pressures within Primary Care in order to plan ahead services to meet changes in demand. It also supports planning for moving services closer to home and transformation, as these may only be deliverable in the medium term and often requires some resource up front to support delivery.

Welsh Government are also more focussed on the long term in assessing the robustness of three year plans. They provide a mechanism to allow the Welsh Government assurances on service and financial sustainability and to enable them to support Health Boards in delivery of their service improvement and performance plans.

I very much look forward to giving oral evidence to the Public Accounts Committee to build upon the responses given in this letter

Yours sincerely

A handwritten signature in black ink that reads "Len Richards". The signature is written in a cursive style with a large initial "L".

Len Richards
Chief Executive