THE NATIONAL ASSEMBLY FOR WALES

AUDIT COMMITTEE

Report presented to the National Assembly for Wales on 7 December 2005 in accordance with section 102(1) of the Government of Wales Act 1998

The Finances of NHS Wales 2005

ANNEX

Summary

There continue to be major changes to the NHS in Wales. In particular we have seen the abolition of the five health authorities and the introduction of twenty two local health boards to replace them, the responses to the external review of the NHS in Wales by Derek Wanless, and the modernisation of pay arrangements for consultants, General Practitioners and NHS staff. The financial performance of NHS bodies in 2003-04 and their financial standing with regard to 2004-05 forecasts, indicate significant challenges in enabling them to return to financial balance in the next five years. The restructuring of the NHS Wales has been completed. The running costs of the new structure and the transitional costs of the change programme are within the limits announced by the Minister for Health and Social Services in 2003. The monitoring of performance through the "balanced scorecard" approach continues to be rolled out but implementation needs to be quicker to establish a robust performance framework. .

On the basis of a report by the Auditor General for Wales,[1] on 23 June 2005 we took evidence from Mrs Ann Lloyd, Director of the Health and Social Care Department, and Dr Christine Daws, Director of Finance of the Health and Social Care Department of the Welsh Assembly Government. This Department has overall responsibility for the finances and monitoring of performance of NHS bodies in Wales. In the light of the evidence, this report examines the ways in which NHS Wales is seeking to improve its financial performance and use of resources. It concludes that:

a. *the late delivery of the accounts of Powys Local Health Board and the consequent impact on the delivery of accounts prepared by the National Assembly for Wales beyond their statutory deadlines is not acceptable and should not be repeated;*

b. *effective enforcement of robust Strategic Change and Efficiency Plans is the key mechanism for returning the NHS in Wales to financial balance; and*

c. *the monitoring of performance through the balanced scorecard needs to be finalised and rolled out to NHS bodies promptly.*

Accounts need to be produced on a timely and consistent basis

The significant delay in the signing of the Powys Local Health Board account directly impacted on the completion and signing of the consolidated account of the National Assembly for Wales. A significant amount of additional work was completed by the Health and Social Care Department, the external auditors and Powys to enable the account to be signed. Powys Local Health Board is very different to other boards in that it also provides services, accounts for the residual balances and NHS estates from the restructuring and hosts the new Business Services Centre. Given the additional complexity of the account, the issues that arose would reasonably have been expected to be identified and resolved sooner than they were.

[1] AGW Report, *The Finances of NHS Wales 2005*, 31 March 2005

The local health boards are required to prepare their accounts in accordance with the resource accounting requirements of HM Treasury. In their first financial year there were a number of different interpretations of key resource accounting requirements in the preparation of these accounts. Without consistent treatment of similar items in the accounts of the local health boards it is more difficult to compare the financial performance of a local health board against its peers.

Significant training and increased guidance has been provided to Powys and other local health boards to prevent a recurrence of these issues in the 2004-05 accounts. We understand that the accounts of local health boards and NHS trusts for 2005-06 were delivered within the required timescale.

Returning to financial balance will be challenging

There are already pressures on bodies to reduce waste and make cost savings as part of the response to the Wanless report and a number of Welsh Assembly Government strategies including "Making the Connections" and "Designed for Life". In addition salary costs are increasing through new contracts with NHS staff. All these pressures increase the risk that NHS bodies may forecast deficits. Local health boards and NHS trusts forecasting an overspend or deficit are required to agree a robust Strategic Change and Efficiency Plan with the Health and Social Care Department to help them achieve overall financial balance by 2008-09. Under these Plans, the timing of the provision of resources is flexed to enable bodies to use resources from future year's allocation in the short term, which then be repaid in future years through costs savings.

Health Commission Wales is still in the process of agreeing a robust and achievable Strategic Change and Efficiency Plan with the Health and Social Care Department. However, despite this an additional resource allocation of £10.3m for 2004-05 had been provided and a further £10m and £5m is required in the forecasts for 2005-06 and 2006-07 respectively. As no Plan has been approved there is no profile for the recovery of this funding.

The balanced scorecard should be rolled out promptly

The need for accurate benchmarking of performance on a consistent basis is vital to understanding and planning the strategies for the NHS in Wales in future years. The development of the balanced scorecard has progressed since July 2004 and pilot schemes have been completed. It is now imperative that this is rolled out to all NHS bodies in Wales to enable meaningful comparisons and conclusions to be drawn from the data. However, the underlying information needs to be generated on a consistent basis and adequately verified to ensure its quality. With a consistent robust performance framework in place the NHS in Wales is better placed to deliver the "Designed for Life" strategy launched by the Minister for Health and Social Care in May 2005 as well as the recommendations of Derek Wanless' review.

Recommendations

1. Delays in agreeing Strategic Change and Efficiency Plans are not satisfactory and should not be repeated. The strategic change and efficiency plan for Health Commission Wales (Specialist Services) needs to be agreed and approved as a priority to enable it to return to financial balance. **We recommend that every effort is made to agree and approve a robust Strategic Change and Efficiency Plan for this body as soon as possible and that it is monitored very closely over the life of the Plan. We also recommend that all possible support is provided to Health Commission Wales to enable it to resolve the underlying reasons for its deficits and prevent them recurring.**
2. There is a significant variation in the additional funding provided under the SCEPs towards bodies in the Mid & West and South East regions of Wales. There are a number of very long standing problems that have contributed to these variations and the subsequent impact on the financial balance of NHS bodies, particularly those noted at Carmarthenshire NHS Trust. **We recommend that more radical and innovative actions are considered and pursued in the context of the local Wanless action plans so that NHS bodies can provide patient services to acceptable standards within the allocated funding limits.**
3. The ability for NHS bodies to accurately forecast and analyse their results is essential to the good financial management of these organisations and effective monitoring by the Welsh Assembly Government. **We recommend that the Health and Social Care Department work with individual NHS trusts and local health boards to guarantee that forecasts are prepared on a consistent and comparable basis across Wales, and that good practice is disseminated to all organisations.**
4. The balanced scorecard is the means for assessing the performance of NHS bodies on a consistent and transparent basis across Wales, for benchmarking bodies with their counterparts and for reducing the burden of producing information for other inspection bodies. **We recommend that the balanced scorecard is finalised by the Health and Social Care Department and that it is rolled out to all NHS bodies, including Health Commission Wales if appropriate, promptly with appropriate guidance on its use.**
5. The changes in response to the Wanless Report will take some time to engineer and require a number of innovations including partnerships with other service providers, the public and restructuring services. **We recommend that the Health and Social Care Department compile a detailed timescale for the implementation and monitoring of all actions in response to the Wanless Report and distribute this widely once the reconfiguration proposals have been received.**

Audit of the annual accounts of NHS bodies

6. The summarised accounts for 2003-2004 were certified on 9 December 2004 with unqualified audit opinions. Delays in the submission of the Powys Local Health Board account resulted in the late completion of the summarised account of the local health boards. This in turn caused delays to the completion and submission of the consolidated account for the National Assembly for Wales which had a deadline of 30 November 2004. In addition there were a number of resource accounting issues that were not identified until late in the preparation and audit process due to the delays. All parties, including the local health boards, appointed auditors and the Welsh Assembly Government, are taking action to ensure that similar problems are avoided in 2004-2005. The difficulties at Powys were identified as resulting from the different ways in which the residual estates and handling of medical negligence, transferred to Powys as part of the restructuring, had been managed previously by the health authorities. The consolidation was originally adjudged to be low to medium risk as it was expected that the former health authorities had been accounting on exactly the same basis. It subsequently took some time to identify the differences in treatment and resolve them. A formal report is being drafted by the Health and Social Care Department for the Permanent Secretary which will also be provided to the Audit Committee. [2]

Financial performance of the NHS in Wales: annual results and forecasts

Financial performance of local health boards and NHS trusts

7. The overall net resource outturn for the local health boards was £2.834 billion compared with an original resource budget of £2.827 billion. £8.9 million of additional resources was provided to five local health boards under their Strategic Change and Efficiency Plans to give a final resource limit of £2.836 billion. All local health boards met their final resource limit for 2003-2004 and reported an overall underspend of £1.5 million against this final resource limit. The 2003-2004 summarised accounts of the NHS trusts report a deficit for the year of £9.7 million (2002-2003 £10.3 million deficit restated) with an accumulated deficit at 31 March 2004 of £36.7 million (31 March 2003: £27.4 million restated). For 2004-2005 the trusts forecast a deficit of £7.8 million and the local health boards forecast a negative outturn before additional resource allocation of £5.9 million. In addition Health Commission Wales forecast a negative outturn before additional resource allocation of £10.3 million. The Assembly Government is currently reviewing but has not yet approved a Strategic Change and Efficiency Plan for Health Commission Wales. Additional resources of £24 million will be provided under the Strategic Change and Efficiency Plans in 2004-2005 to enable the local health boards and NHS trusts to meet their resource limit and break even targets. Ms Lloyd explained that training on forecasting has been provided to bodies and that there

[2] AGW report, paragraphs 1.17 and 1.18; Qs 2 to 9

is now monthly monitoring through the balanced scorecards and the regional offices of the Health and Social Care Department. The results for the year confirm that forecasting has been more accurate for 2003-04 than in previous years. [3]

Performance against the public sector payment policy

8. All NHS bodies are required to pay undisputed invoices within 30 days unless other terms are agreed with suppliers. During 2003-2004 91.6 per cent of bills by number were paid within the 30 day target, which is below the benchmark of 95 per cent, but still represents a notable improvement on 2002-2003 (85.2 per cent). There was also a smaller variation in payment performance across NHS bodies ranging from 82.1 per cent to 98.2 per cent for 2003-2004 compared to 56.7 per cent to 99 per cent during 2002-2003 for the number of bills paid within 30 days. Ms Lloyd and Dr Daws noted that further improvements for 2004-05 had been made and only one local health board and four NHS trusts had not achieved the 95% benchmark. By investigating the reasons why these bodies missed the 95% benchmark, improvements in various invoice payment systems had been identified, for example in the management of disputed invoices at Gwent Healthcare NHS Trust. Bodies have also been encouraged to close their month end accounts within five working days and to improving their understanding of financial management. .[4]

Financial standing of NHS Wales

9. The accumulated net income and expenditure deficit of NHS trusts at 31 March 2004 was £36.7 million (2002-2003 £27.4 million restated). The general funds of the local health boards recorded a negative balance of £67.7 million, most of which was inherited from the former health authorities which reported an accumulated deficit at 31 March 2003 of £60.2 million. Health Commission Wales recorded a negative balance on its general fund of £5 million at 31 March 2004 which was inherited from the health authorities as part of the restructuring. Strategic Change and Efficiency Plans (SCEPs) are being used to eradicate in year deficits by March 2006 and achieve financial balance by 2008/09. Ms Lloyd confirmed that these inherited debts have to be repaid through the SCEPs in conjunction with savings identified as part of the Service and Financial Frameworks. Monitoring of the continued ability to deliver these savings and repayments is carried out by the regional offices of the Health and Social Care Department which are being strengthened. No extensions to the SCEPs' repayment period are planned. [5]

10. There is a variation in funding requirements for 2004-2005 with no assistance required by the North Region; £28.043m for Mid & West Region; £37.847 million for South East Region and £25.364 million for Health Commission Wales. Ms Lloyd agreed the reasons for the variations are not simply a question of the level of resources provided to each area under the Townsend Resource Allocation Formula calculation, which aims to directly measure the local health needs as well as the demographics of local populations, but also the way in which organisations are managed and the efficiency that is achieved. Efficiency improvements have been made by all bodies in the last two

[3] AGW report, paragraphs 2.6, 2.8 and 2.13; Q 19
[4] AGW report, paragraphs 2.17 to 2.20; Qs 23 and 24

years and audits are being undertaken to ensure good practice has been rolled out satisfactorily. Needs assessments exercises clearly show the different health stresses within Wales, for example in South East Wales (which has particular issues around the provision of effective care to scattered communities and the balancing of its resources); and Cardiff, Gwent and Swansea where case mix analysis is being used to ensure the case mix of health needs are properly funded. Ms Lloyd also noted areas in North Wales there were not achieving their targets and had pockets of deprivation. The Townsend formula is also being refined further. [6]

11. All of the additional funding provided under the SCEPs is required to be recovered from the NHS bodies by 2008-2009. However, there is currently no repayment schedule for £36.938 million of this allocation and, as yet, there is no approved plan for the repayment of funding required by Health Commission Wales. Ms Lloyd noted particular issues at Health Commission Wales around child and adolescent mental health services and the provision of very expensive treatments to a small number of patients. Specific work had been conducted to identify ways to provide similar or better treatments in Wales rather than in England or with private providers. The SCEP was expected to be signed shortly. Dr Daws also said that the Department assessed this case based on need and did not want Health Commission Wales to have to cut services or for its accounts to be qualified. Hence additional resources were provided despite no SCEP being finalised. All other SCEPs with local health boards and NHS trusts have been agreed and repayments are being monitored on a monthly basis and action taken as necessary.[7]

12. Ms Lloyd also told us that Carmarthenshire NHS Trust has been trying to achieve financial balance for 20 years and that an external review had been undertaken in previous years to identify the particular issues. The imbalance between the resources and the quantity of the services has never been finalised although Carmarthenshire has moved closer to its target despite needing £11 million more resources currently. The type of population served by the Trust is unusual in that it is rural but also industrialised with inherited industrial diseases. The Health and Social Care Department are discussing ways to resolve the issues with Carmarthenshire. [8]

13. The efficiency of management costs was identified and their definition was a concern in benchmarking bodies against each other. Ms Lloyd confirmed that an exercise is being undertaken to ensure management costs are calculated on a consistent basis and can be compared with bodies in England. Management costs are to be included in measuring performance of bodies. The Minister for Health and Social Care has also requested an exercise to review salaries paid to executive team in NHS trusts and local health boards to ensure that represents value for money for those organisations.[9]

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[5] AGW report, paragraph 2.21; Qs 27 and 31
[6] AGW report, paragraph 2.25; Q 29
[7] AGW Report, paragraph 2.26; Q36 and 37
[8] Q32
[9] Q34

Restructuring of NHS Wales

Monitoring the performance of NHS Wales

14. The "balanced scorecard" was introduced in July 2004 as a key component of the Performance Improvement Framework. It provides a structured focus on strategic objectives and addresses the quality, safety and cost issues in decision making. However it has not yet been implemented in its final form across all NHS bodies in Wales and there are concerns over the consistency of the methods for the collection of data by individual bodies and its comparability with NHS bodies in England. Ms Lloyd confirmed that there was an overwhelming sign-up to the principles of a balanced scorecard, and that all NHS bodies had been involved in the development to ensure that performance measures were appropriate, realistic and measurable. Bodies are also fully aware that this is how they are to be adjudged and that a summary will be published each year. In addition the balanced scorecard is being used to draw together information needs of other inspection bodies in one account so as to minimise the burden on the NHS in Wales. The basis for gathering information and the measurements used has been agreed with the organisations and new standard forms of measurement issued where necessary, for example in the case of cancer standard outcomes. The regional offices of the Health and Social Care Department review the balanced scorecard on a monthly basis for each NHS body and also check that definitions of performance measures are understood and applied universally. The performance management system in England is to change shortly and work with the Healthcare Commission in England and also in Scotland to agree comparable benchmarking indicators should be completed within the next six months. NHS bodies are being encouraged, on a voluntary basis, to sign up to UK wide benchmarking database. [10]

The impact of major reviews in the NHS

15. Following the "Review of Health and Social Care in Wales" published two years ago by Derek Wanless, a Programme Board has been established to implement the improvements through a large number of initiatives under four key themes – Prevention, Optimising Service Delivery, Involving People and Professions and Accountability and Performance. From 1 April 2004 each local health board has a development plan funded by £30 million from the Welsh Assembly Government. The recommendations from the Wanless Review form part of the 10 year Strategic Planning Framework. The monitoring of the progress of these initiatives and the robustness of the local plans are key to achieving lasting and beneficial change in the NHS in Wales. Ms Lloyd said that much of the work had been completed and that a number of additional reviews, for example on mental health services, had been commissioned. The Health and Social Care Department monitors NHS bodies against their local Wanless action plans every six months and the Department reports to the Cabinet sub-committee tracking Wanless approximately every two to three months. There are three areas where progress has been slower than expected, namely the review of mental health services, embedding the

principle of involving people in the provisions of services and the workforce redesign project. The local Wanless action plans were formally evaluated for robustness and the outcomes to be delivered and they are also monitored financially by the regional offices of the Health and Social Care Department each quarter. [11]

16. It is too early to accurately assess the impact of the changes to date and the timescale for positive outcomes in response to the Wanless initiatives. Ms Lloyd stated that without reconfiguration proposals from the NHS bodies it is difficult to determine an accurate timescale to track the changes. These proposals are due to be submitted in the next nine months and will include action plans and resource requirements to achieve each proposal. The "Designed for Life" strategy, issued by the Minister, covers the next ten years and this is the maximum timescale that has been set to achieve the Wanless recommendations. [12]

Challenges facing NHS Wales

Making the Connections: making the most of resources

17. A large number of plans and initiatives have been launched by the Welsh Assembly Government and NHS bodies including strategic change and efficiency plans, public sector payment policy action plans, central and local Wanless action plans, risk management action plans and modernisation of pay. There is a risk that resources may have been diverted to these rather than being used for the delivery of front line services. Ms Lloyd stated that the aim of the plans is to become more efficient and make changes so that important front line services can obtain more of the resources available. The modernising pay agenda is centred on using and supporting the front line staff to undertake their jobs better. The initiatives that have been put in place are designed to move to a system where standards of care drive the service and that targets are set for bodies accordingly. In addition management in NHS bodies has a major job to engage more effectively with its professionals and to use their ideas and initiative to change the way in which services are delivered. It is the job of managers to ensure there is as little waste as possible so that patients receive good quality care and the staff receive support and development opportunities. [13]

Modernising pay

18. A number of significant projects have been introduced aimed at modernising the pay of Consultants, General Practitioners and NHS staff, with further contract changes for dentists and pharmacists planned in the next two years. For 2005-2006 the cost of these contracts has absorbed health funding increases and means that NHS bodies will need to achieve efficiency savings of 3%. The impact of this on NHS bodies with differing levels of efficiency, the systems to monitor productivity

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[10] AGW report, paragraphs 3.4 to 3.6; Qs 41, 43, 44 and 49
[11] AGW report, paragraph 3.14 to 3.17; Qs 52, 54 and 55
[12] Q56
[13] Q 61

improvements and the sharing of good practice in improving efficiencies need to be considered when assessing the ability of bodies to deliver these projects. Ms Lloyd noted the benefits of "Agenda for Change" in providing the harmonisation of pay bands, clear guidance and monitoring of staff development, and an understanding of the competencies needed for each pay band to enable career progression. The consultants' contract has been benchmarked to determine reasonable workloads and formal job plans for consultants. The general medical services contract is being measured and monitored against their quality outcomes and framework. Money has been invested on these contractual obligations to develop a high-quality workforce and to use the skills of staff to the maximum whilst eradicating unnecessary work. Efficiencies have to be made elsewhere as a result. Levels of efficiency improvements have been built into the Service and Financial Frameworks for 2005-06 and bodies that have already met these levels are not being asked for more. Therefore bodies are not being penalised for already being more efficient than others.[14]

[14] AGW report, paragraph 4.22; Qs 59 and 60