



Cynulliad National  
Cenedlaethol Assembly for  
Cymru Wales

## Audit Committee

Are the devolved financial management  
arrangements in NHS Wales effective?

Committee Report AC(3) 01-09  
February 2009

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# THE NATIONAL ASSEMBLY FOR WALES

## AUDIT COMMITTEE

Report presented to the National Assembly for Wales on 4 February 2009  
in accordance with section 143(1) of the Government of Wales Act 2006

### Are the devolved financial management arrangements in NHS Wales effective?

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## Summary

1. The NHS in Wales continues to face similar challenges to the rest of the NHS in the United Kingdom, including meeting the expectations of the public and Government of improved services through modernisation and better access. Whilst recent funding increases for the NHS across the UK have exceeded general inflation, the levels of settlement indicated for the NHS over the next few years suggest that this will not continue. The NHS in Wales is also entering a period where further structural change will be taking place and the need to modernise services continues to be a priority. In order to ensure that the NHS can live within its means, through a period of transition and whilst modernising services, financial management arrangements will need to be robust and capable of supporting the achievement of these key objectives.
2. In 2006, the Auditor General<sup>1</sup> prepared a report which asked the question “Is the NHS in Wales managing within its available financial resources”. At that time, a number of financial pressures were evident and included the introduction of a new pay system for the majority of NHS staff and increasing energy costs. Whilst that report commented on the financial challenges facing NHS Wales and highlighted the likely deficit position for 2005-06, it did not comment in detail on the effectiveness of financial management arrangements within local NHS bodies. The inconsistency in financial forecasting was highlighted as an area for attention.
3. During 2008, the Auditor General and local NHS bodies undertook a review examining the relative strengths and weaknesses of devolved financial management arrangements in NHS Wales. This comprised a self assessment by local NHS bodies together with an independent review carried out by their external auditors. This review also examined the financial out turn for 2007-08.
4. The Auditor General issued a report on the devolved financial management arrangements in NHS Wales<sup>1</sup>. On 25 September, we took evidence on these arrangements and the 2007-08 financial position from Mrs Ann Lloyd and Mr Jeff Buggle from the Health and Social Care Department of the Welsh Assembly Government. We conclude that:

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<sup>1</sup> Auditor General for Wales report, *Are the devolved financial management arrangement in NHS Wales effective?* September 2008

- a. The overall effectiveness of financial management across NHS Wales needs to be improved. Whilst local NHS bodies and Auditors assessed that many routine financial management tasks such as accounting for resources accurately were undertaken well, significant scope existed to improve the arrangements so that financial management better informed performance improvement and supported the modernisation of services;
- b. The robustness of financial forecasting has improved since the Auditor General's previous report in 2006. This improvement needs to form the platform for the consistent introduction of effective medium term financial planning. Given the prospect of further structural change and the continuing priority to modernise services to patients, such objectives will only be successfully delivered if properly costed, realistic medium term financial plans are in place and are monitored;
- c. The prospect of further structural change within the NHS presents both a threat and an opportunity which need to be considered. Any reorganisation always risks introducing instability in the short term which could undermine financial control. Whilst guarding against that risk, the forthcoming reorganisation of the NHS in Wales represents a great opportunity to improve financial management through making more effective use of existing capacity and ensuring that financial leadership of the new NHS organisations is of the highest calibre;
- d. The overall financial position of NHS Wales at the end of 2007-08 represented an improvement in comparison with previous years. That overall improvement was, however, achieved in part by the movement of some significant sums of funding at the year-end and brokerage between local NHS bodies. The repayment by some bodies of these funds will place a notable pressure on their finances for 2008-09.

## Recommendations

- (i) Devolved financial management arrangements need to be significantly developed to enable the NHS in Wales to deliver improved performance and to support the modernisation of services. **We recommend that the Welsh Assembly Government:**
  - a) **provides existing and future Non Executive Directors with access to support to develop and maintain their financial competencies;**

- b) **requires the Chief Executives of local NHS bodies to demonstrate that managers with budgetary responsibilities have the financial competencies to carry out their role effectively including securing value for money;**
  - c) **should ensure that all NHS financial managers have been subject to the new financial competency framework training programme to demonstrate that the standards required will be consistent across Wales;**
- (ii) Recent improvements to in year financial forecasting should be built on to introduce universally effective medium term financial planning. **We recommend that the Welsh Assembly Government:**
- a) **as part of its scrutiny of medium term financial plans produced by local health bodies, confirms that all service modernisation proposals include realistic estimates of the costs of retaining existing services as well as the emerging costs of new developments**
- (iii) Whilst guarding against the risk that the forthcoming reorganisation of the NHS might lead to financial instability, the opportunity should be taken to strengthen financial management capacity and capabilities to move beyond effective stewardship to support the modernisation of services. **We recommend that the Welsh Assembly Government:**
- a) **makes senior appointments to the new NHS bodies of individuals who can be relied upon to champion and improve leadership in financial management;**
  - b) **makes explicit in the project and transitional plans for the creation of new NHS bodies appropriate arrangements for the development of financial management capacity; and**
  - c) **should systematically review the effectiveness of the number of initiatives it has recently introduced to improve financial management arrangements.**

- (iv) Whilst the NHS in Wales ended the 2007-08 in overall balance, in some parts of Wales this resulted from the use of significant year end brokerage. Difficulties continue in some health communities most notably Powys and Swansea. Hywel Dda NHS Trust has come into existence holding a high level of debt as a result of historic deficits. **We recommend that the Welsh Assembly Government:**
- a) **when finalising financial plans for those local NHS bodies encountering difficulties, recognises that financial recovery may take more than one year to achieve to minimise the impact on patients.**

## **Devolved financial management arrangements need to be significantly developed in order to ensure that the NHS in Wales delivers improved performance and the modernisation of services can be effectively supported**

5. For the first time, the effectiveness of financial management arrangements within NHS Wales has been assessed by the Auditor General and local NHS bodies using a consistent methodology. Both local NHS bodies (by self assessment) and auditors used a public sector financial management assessment tool developed by CIPFA.<sup>2</sup>
6. The tool has assessed the strength of financial management arrangements against three styles which can represent increasing standards of maturity in financial management. These are:<sup>3</sup>
  - a) Stewardship – how well bodies control and account for their resources and how well they meet regulatory and reporting requirements;
  - b) Supporting performance – how well financial managers understand the drivers of performance, how they respond to and contribute to improving organisational performance; and
  - c) Enabling transformation – whereby change and risk are managed proactively, strategic decisions are taken and well informed and new ways of working are sought and used. In the NHS this is particularly relevant in the current context of modernising the way services will need to be provided in the future.
7. The results of both the self assessments and auditor assessment indicated, in quite clear terms, agreement as to where strengths and weaknesses might exist.<sup>4</sup>
8. The Auditor General’s analysis indicated that whilst NHS bodies in general are effective at routine financial management tasks, they were less so at supporting improvements in performance and more development was needed if financial management was to be able to play a full part in the future modernisation of services to patients.<sup>5</sup>

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<sup>2</sup> AGW report paragraphs 4

<sup>3</sup> AGW report paragraph 16

<sup>4</sup> AGW report Exhibits 2 and 3

<sup>5</sup> AGW report paragraphs 17, 28 and 35



9. Officials informed us that whilst a range of measures had been put in place to deliver improved financial control, a task remained for them to ensure that all financial managers were of a consistent standard and that it was also important that both Executives and Non Executives fundamentally understood the importance of improving financial control.<sup>6</sup>
10. We were also informed of the additional support which has been provided to some health communities in the form of “intervention” that supports NHS bodies that are having difficulties with delivering services and financial balance.<sup>7</sup> The Committee recognised that in 2007-08, progress in comparison with previous years’ financial performance had been made and reference was made to a trend of continuing improvement in the current year by officials. The Committee had not had sight of this and no evidence was provided by officials. Further comment on the 2007-08 financial performance is made later in this report.
11. The Auditor General’s report contrasts the position of financial management arrangements within NHS Trusts and Local Health Boards (LHBs) and the Committee understands the capacity constraints that may have existed in some LHBs, due to their size, as this is self evident to a degree.<sup>8</sup>
12. However, from the Auditor General’s analysis, there were a number of themes which were of concern to the Committee and which to some extent, started at the top of NHS organisations. The Committee was very concerned that Non Executive Directors of these complex organisations may not always have the financial competencies needed in order to effectively discharge their duties or that they may not fully understand financial information presented to them.<sup>9</sup> It was also concerned that financial managers in NHS organisations may not be required to have formal financial competencies.
13. Whilst the Committee understood officials recognised some of these shortcomings, and that recent action by the Minister has begun to alter the composition of Boards to help address the issues for Non Executive Directors,<sup>10</sup> this seemed to be a recent

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<sup>6</sup> Annex A paragraph 10

<sup>7</sup> Annex A paragraphs 16 and 17

<sup>8</sup> Annex A paragraph 18

<sup>9</sup> AGW report paragraph 20

<sup>10</sup> Annex A paragraph 32

initiative. It was a surprise that further support for existing Non Executive Directors was only just starting to be put in place.<sup>11</sup>

14. With regard to the financial competencies of financial managers within NHS bodies, the Committee were concerned on a number of points. Officials reported that NHS managers were in the past only appointed after achieving a diploma which required formal training in financial management.<sup>12</sup> Given that it was reported that such a qualification lapsed nationally some time ago, it concerned the Committee that a replacement arrangement did not appear to be in place. Whilst officials commented on the National Leadership and Innovation Agency in Health (NLIAH) being tasked with embedding the concept of value for money in all NHS managers<sup>13</sup> and the very recent launching of a financial competency behaviour framework for NHS Finance staff,<sup>14</sup> the need for more formal and comprehensive financial training for NHS managers seems to remain.
15. There also appeared to the Committee to be a dislocation between the accountability arrangements which the Head of NHS Wales puts in place with Chief Executives and how this then translates into accountability for financial performance within NHS organisations in Wales.
16. The Auditor General's report highlighted that there were a number of comments which strongly indicated that ensuring that such accountability cascaded effectively through NHS bodies was an area which needed to be tackled. It was noted by the Committee that personal objectives for managers in the NHS did not appear to consistently include the need to achieve financial objectives with periodic appraisals to review performance.<sup>15</sup>
17. It was reported to the Committee that officials took these particular observations on accountability and responsibility for value for money very seriously and the Head of NHS Wales had requested that NLIAH address this quickly on her behalf.<sup>16</sup>
18. Officials also commented that in future revised budgetary arrangements are intended to be introduced in the form of "service level reporting" which will report costs and

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<sup>11</sup> Annex A paragraphs 33, 39 and 40

<sup>12</sup> Annex A paragraph 38

<sup>13</sup> Annex A paragraph 31

<sup>14</sup> Annex A paragraph 49

<sup>15</sup> AGW report paragraphs 40 and 41

<sup>16</sup> Annex A paragraph 64

activity by individual consultants and across specialities. We were informed that this will require the further engagement of clinicians in the management process and the management of clinical budgets.<sup>17</sup> Whilst conceptually, the proposal is understood by the Committee, officials' observations that clinical directors will need to have only an understanding of finance as part of their key skills does not seem sufficient in the context of managing complex clinical budgets.<sup>18</sup>

19. To some extent, it is therefore understandable that more complex financial management tasks associated with improving NHS bodies' performance or modernising services are in need of development given the need to ensure that Non Executive Directors and NHS managers possess more formal financial competencies to discharge their duties or fulfil their roles effectively. Given the range of actions taken recently to address these shortcomings it will be important that the effectiveness of these initiatives are evaluated and kept under review.
20. The Committee echoes the Auditor General's comments regarding the need for effective financial management to be the responsibility of all managers not just finance professionals.<sup>19</sup> Further, the range of actions which will be necessary to improve the overall standard of financial management also confirms that some cultural attitudes will need to change in order to firmly align responsibilities for both financial and service performance.<sup>20</sup>

### **Recent improvements to in year financial forecasting should be built on and used as a platform to quickly introduce universally effective medium term financial planning**

21. The Auditor General's report highlights a worrying lack of effective medium financial planning by many but not all local NHS bodies.<sup>21</sup> To some extent, the requirement for those NHS bodies in deficit to prepare recovery plans seems to have contributed to this position. The need to improve this area is vital for the longer term financial stability of the NHS in Wales and we were again informed that recent action has been taken to address this.

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<sup>17</sup> Annex A paragraph 87

<sup>18</sup> Annex A paragraph 37

<sup>19</sup> AGW report paragraph 42

<sup>20</sup> AGW report recommendation 4

<sup>21</sup> AGW report paragraph 31

22. The Committee was pleased to hear from officials that the standard of forecasting the in year financial position has improved since the Auditor General issued his previous report in 2006 and understands that preparation of effective financial plans needs to be underpinned by a firm grip of the current financial performance of NHS bodies.<sup>22</sup>
23. The Committee also noted that Welsh Assembly Government now requires NHS organisations to prepare three year financial plans which are subject to quarterly monitoring. In addition, providing the NHS with an indication as to the levels of resources it may have to provide services over a period beyond one year is a welcome development<sup>23</sup> and one which should be consolidated. Not only will this aid the medium term planning process both for service provision and the associated finances but it should also help secure a cultural shift in some NHS bodies whereby the focus is almost exclusively on the annual financial position.
24. The Auditor General also observes that the annual allocation of resources to the NHS has been seen as an obstacle to preparing medium term financial plans.<sup>24</sup> His report further comments that widespread difficulty exists in NHS bodies in identifying the resources to commission new initiatives<sup>25</sup> and as services are modernised, the ability to continue to fund existing services to a degree which maintains services to patients whilst more modern approaches are introduced. The Committee acknowledged the allocation by Welsh Assembly Government of £15m towards the development of Chronic Conditions Management as recognition of this issue.<sup>26</sup>
25. However, as more effective medium financial planning is developed, financial managers will need to become more adept at accurately identifying the financial implications of service modernisation plans and these will need to be clearly contained within organisations' financial plans. It is likely that significant service modernisation will only be achieved over time periods exceeding one year and the need to have medium term financial plans which clearly support service modernisation plans will be a vital component of successful modernisation delivery.
26. The Committee understood that at best, the current capacity of NHS bodies to plan and monitor their finances over the medium term was currently variable. Officials

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<sup>22</sup> Annex A paragraphs 53 and 54

<sup>23</sup> Annex A paragraph 56

<sup>24</sup> AGW report paragraph 32

<sup>25</sup> AGW report paragraph 36

<sup>26</sup> AGW report paragraph 37

reported improving the strategic foresight in NHS bodies was accepted, not only in respect of financial management staff but also service managers.<sup>27</sup>

27. As part of the development of more generally improved medium term financial planning, the Committee would expect to see a better balance between the almost exclusive current focus on the annual financial performance of NHS bodies and their longer term financial health.

**Whilst guarding against the risk that the forthcoming reorganisation of the NHS might lead to financial instability, the opportunity should be taken to strengthen financial management capacity and capabilities to move beyond effective stewardship to support the modernisation of services**

28. The NHS in Wales is facing a further period of reorganisation. The Auditor General's report comments on the mergers that have already taken place between some Trusts and the wider range reorganisation which will follow in 2009. The experience elsewhere within the UK suggests that such reorganisations can distract management from key tasks and can also be a contributory factor to deterioration in financial performance. The Committee agrees that NHS Wales needs to guard against such a situation in the coming year.<sup>28</sup>
29. A degree of upheaval in such situations is inevitable. We were informed that officials had carefully considered these issues and recognised that robust project management arrangements would need to be in place to manage the transition from the existing structures to the new bodies. Overall performance, including financial performance, would be closely monitored and shortcomings addressed.<sup>29</sup>
30. We were also informed that Executive appointments to the new NHS bodies the Minister has recently announced will be tested against a wide range of competencies to ensure that the new bodies are effectively led and managed. The Committee welcomed this commitment.<sup>30</sup> The success of the proposed future NHS reorganisation will depend on the appointment of the best calibre individuals to lead the new organisations.

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<sup>27</sup> Annex A paragraph 60

<sup>28</sup> AGW report paragraphs 59 and 60

<sup>29</sup> Annex A paragraphs 74 and 75

<sup>30</sup> Annex A paragraph 120

31. Whilst recognising that Welsh Assembly Government would be putting transitional arrangements in place to encourage the continued smooth running of existing organisations whilst preparations were made for reorganisation, the Committee has, from the Auditor General's report and from material provided by officials, seen much evidence which indicates that financial management arrangements in NHS bodies needs to be improved across a range of areas. Whilst the forthcoming reorganisation will present risks in terms of maintaining services and financial stability, it is the Committee's view that this also represents an opportunity for NHS Wales to ensure it has the financial management capacity to support the delivery of modernised patient care for the future.<sup>31</sup>

**Whilst the NHS in Wales ended the 2007-08 financial year in overall balance, in some parts of Wales this resulted from the use of significant year end brokerage. Difficulties continue in some health communities most notably Powys and Swansea. Hywel Dda NHS Trust has come into existence holding a high level of debt as a result of historic deficits**

32. In the light of other evidence, and whilst the Committee noted the increasing number of bodies in NHS Wales being in financial balance, this was not necessarily proof in itself that standards of financial management had improved.<sup>32</sup> The Auditor General's report recognises signs of improvement but also highlights the variability in standards within NHS bodies and that serious challenges remained for some in achieving financial balance.<sup>33</sup>

33. The Committee noted from the Auditor General's report that NHS trusts' forecasting of their likely year end position did not move significantly between the position indicated as at December 2007 and the end of the financial year.<sup>34</sup> However LHBs, which were forecasting a £34.3 million deficit overall as at December 2007 all ultimately met their resource limit.<sup>35</sup>

34. This was only achieved through the late allocation of resources from the Welsh Assembly Government and the subsequent brokerage between LHBs.<sup>36</sup> The Committee questioned whether this was contrary to encouraging good financial

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<sup>31</sup> AGW Report Paragraph 62 and Recommendation 6

<sup>32</sup> Annex A paragraph 67

<sup>33</sup> AGW's Summary Report paragraph 7

<sup>34</sup> AGW Report paragraph 76 and Exhibit 11

<sup>35</sup> AGW report paragraph 72

<sup>36</sup> AGW report paragraph 74 and Exhibit 10

management.<sup>37</sup> The Auditor General's report clearly sets out the scale of the financial management challenge in some LHBs and partner health communities where significant levels of income for 2008-09 may be needed to repay resources received in 2007-08 which enabled an apparent balanced position to be reported in that year's accounts. This is particularly noticeable in the Swansea and Powys LHBs where £8 million and £13 million will need to be repaid respectively.<sup>38</sup>

35. Officials reported that plans to return the Swansea and Powys LHBs to financial balance were under discussion at the time we received our evidence.<sup>39</sup> It was evident to Committee members that all such plans would need to be realistic and take an appropriate view of any potential impact on services for patients.<sup>40</sup>
36. The Committee also noted that on creation of the Hywel Dda NHS Trust, it assumed the outstanding loans of its predecessors amounting to £40 million as a result of historic deficits.<sup>41</sup> Officials confirmed that in the event that the Trust achieved break even in 2008-09, the Minister had agreed that this liability would be written off.<sup>42</sup>

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<sup>37</sup> Annex A paragraph 90

<sup>38</sup> AGW report paragraph 83 and Exhibit 12

<sup>39</sup> Annex A paragraphs 109 to 110

<sup>40</sup> Annex A paragraphs 111 to 112

<sup>41</sup> AGW report paragraph 82

<sup>42</sup> Annex A paragraph 114





# Annex A





**Cynulliad Cenedlaethol Cymru  
The National Assembly for Wales**

**Y Pwyllgor Archwilio  
The Audit Committee**

**Dydd Iau, 25 Medi 2008  
Thursday, 25 September 2008**

**Cynnwys**  
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,  
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.  
In addition, an English translation of Welsh speeches is included.

**Aelodau Cynulliad yn bresennol**  
**Assembly Members in attendance**

Eleanor Burnham	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Chris Franks	Plaid Cymru The Party of Wales
Janice Gregory	Llafur Labour
Irene James	Llafur Labour
David Melding	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Darren Millar	Ceidwadwyr Cymreig Welsh Conservatives

**Eraill yn bresennol**  
**Others in attendance**

Neville Andrews	Swyddfa Archwilio Cymru Wales Audit Office
Jeff Buggle	Cyfarwyddwr Adnoddau, Adran Iechyd a Gwasanaethau Cymdeithasol, Llywodraeth Cynulliad Cymru Director of Resources, Department of Health and Social Services, Welsh Assembly Government
Jeremy Colman	Archwilydd Cyffredinol Cymru Auditor General for Wales
Ian Gibson	Dirprwy Bennaeth, Uned Llywodraethu Corfforaethol, Llywodraeth Cynulliad Cymru Deputy Head, Corporate Governance Unit, Welsh Assembly Government
Ann Lloyd	Pennaeth, Adran Iechyd a Gwasanaethau Cymdeithasol, Llywodraeth Cynulliad Cymru Head, Department of Health and Social Services, Welsh Assembly Government
Ceri Stradling	Swyddfa Archwilio Cymru Wales Audit Office

**Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol**  
**Assembly Parliamentary Service officials in attendance**

John Grimes	Clerc Clerk
Abigail Phillips	Dirprwy Glerc Deputy Clerk

*Dechreuodd y cyfarfod am 1.34 p.m.*  
*The meeting began at 1.34 p.m.*

**Ymddiheuriadau a Dirprwyon**  
**Apologies and Substitutions**

[1] **David Melding:** Good afternoon. I welcome everyone to the first meeting of the Audit Committee of the autumn term. I will start with the usual housekeeping announcements. These proceedings will be conducted in English and Welsh, and, when

Welsh is spoken, a translation is available through the headset on channel 1. Should you be hard of hearing, or wish for proceedings to be amplified, amplification is available on channel 0. Please switch off all electronic equipment completely. Do not leave it on silent mode, as that will interfere with our recording system.

[2] We do not anticipate a fire drill this afternoon, so if we hear the alarm, please take it seriously and follow the instructions of the ushers who will lead us safely out of the building.

1.35 p.m.

### **Rheoli Cyllid y Gwasanaeth Iechyd Gwladol NHS Financial Management**

[3] **David Melding:** Today, we are considering the Auditor General for Wales's report on NHS finances, which addresses the question of whether the devolved financial management arrangements in NHS Wales are effective. The report indicates that almost all NHS bodies in Wales met their statutory financial duties at the end of 2007-08, but that future challenges in the way that services are provided will require the support of more effective financial management. We will be discussing how financial management arrangements can be improved to help meet these challenges and to subsequently sustain the recent improvement in financial results.

[4] I welcome the witnesses and ask them to introduce themselves for the record.

[5] **Ms Lloyd:** I am Ann Lloyd, the head of the Department of Health and Social Services and the chief executive of NHS Wales.

[6] **Mr Buggle:** I am Jeff Buggle, the director of resources at the Department of Health and Social Services and head of the accounting profession in NHS Wales.

[7] **David Melding:** Welcome to you both. Ann will well know how our proceedings work but, for Mr Buggle, it is a case that we will work around various questions from Members. I will call them; some may be addressed to you or Ann will ask you to give a view.

[8] I will start by asking a general question. Are you satisfied that the financial position of the NHS is under effective control and that the quality of financial management is up to the challenges that NHS restructuring will bring?

[9] **Ms Lloyd:** I certainly think that there has been a huge improvement in the seriousness with which financial management has been addressed in the NHS bodies in Wales over the past two years in particular. Substantial challenges face us all. The budget is fairly constrained; we are looking more and more for efficiencies in the way in which care is delivered; the demand is increasing and, in some parts, it is increasing significantly given the demographic changes that are taking place.

[10] I would never be satisfied that I could be completely complacent and say that everything is being done that can be done. You will see, from the auditor general's report, the sorts of measures that we have been putting in place increasingly over the past few years to improve financial control. I agree with him about the ways in which we have to develop and change the financial managers within the system. We have some extremely good financial managers, but we need to get everyone up to the same level. Also, one of my responsibilities will be to ensure that the leadership of organisations, which includes the non-executives and the executives, understands fundamentally the importance of improving financial control. It has always been my view that unless you get your money under control, you will be distracted from concentrating your efforts on improving services. Therefore, it is very important.

[11] **David Melding:** We will follow up some of these themes, naturally, in more detail. Thank you for that concise introduction.

[12] **Chris Franks:** I refer to paragraph 14 on page 10. There is clear evidence of the failure of the department to ensure that there is a consistent high standard of financial management. Can you explain why we are having this lack of consistency?

[13] **Ms Lloyd:** I do not know whether I would call it a failure of the department to ensure this. The department is responsible for holding the organisations to account to ensure that the resources are used effectively, which is what we have been doing. There is a lack of consistency, and I think that that is largely due to experience, and in some places it is due to competence. Jeff, as the leader of the accounting profession, has been really applying himself to improving those competencies within Wales. You will ask me this, I am sure, but if you look at the work that the auditor general has done, and the work that we as a department did on our balance score cards, you will see that there is a huge variability between organisations but they have different challenges.

1.40 p.m.

[14] So, we have been trying to ensure that people are able to respond effectively to those challenges and that we give them support and guidance. As you will know, I have set up a delivery and support unit, deliberately to be able to invest additional resource, in terms of people and experience, in organisations that are saying that they need help to deliver some of their core business and to look differently at modernisation and the way in which they transact their business. A few of these organisations are very small and need additional support, and that is where I believe that my responsibilities are, to ensure that they are all enabled to serve their populations effectively and that we put in resources, in terms of people and experience, to help them to do that when it is necessary.

[15] **Chris Franks:** Given that you have set up this additional support, what evidence can you give us today that it is successful? I would like to also focus on the difference between the trusts' and the local health boards' opinion of themselves and the reality of the situation. There is no real surprise, given this difference, that the health bodies are having such a challenge in keeping within their budgets. Why is the health community complacent—if that is the right word—and how will you demonstrate to us that you will get to grips with the problem and that, in two years' time, we will not still have this difference between reality and self-perception?

[16] **Ms Lloyd:** I will start with the advice and help that we have given bodies that were struggling. You will no doubt be aware of the interventions that we have put into places such as Swansea, Carmarthen and Cardiff, in the form of an intervention team of experts. Those teams have sat alongside the executive boards and the boards to look at their financial performance and control mechanisms, to look at the range of services that are to be delivered and to come forward with new and refreshed ideas on how the balance will be met. You will see from the 2007-08 accounts and from this year's trends that enormous progress has been made in those economies to try to bring back the overspends that were running on and the other problems that were being faced by those communities.

[17] So, there is evidence that our interventions have been successful. They are still going on in Cardiff and Carmarthen and Swansea finished last year, but I have allowed them to retain hours of that expertise to ensure that the implementation of the plans is effective.

[18] On why there is a difference between NHS trusts and LHBs, NHS trusts are very different businesses from LHBs; they are much more complicated and have a heavier

management component of their costs, and usually it is the more experienced of the finance directors and management who go and run NHS trusts. On the LHBs, we recognise that one of their really grave difficulties, which the auditor general pointed out in his report, is that they were insufficiently experienced to be able to effectively commission. There was a tendency to say, 'This is the contract that we have; there will probably be some inflation on it, and we would like this, that and the other to change'. So, strong commissioning was not a feature of local health boards, and neither is it a feature in English primary care trusts at the moment.

[19] So, as part of our guidance and our work last year, we set up a commissioning unit in each of the regions to galvanise the experience within LHBs—and I am not denigrating that at all—and to ensure more effective commissioning, with a good evidence base and a much more rigorous long-term agreement between collective LHBs and trusts.

[20] You also asked how I could be assured that the necessary competence and experience would be available in the newly reorganised bodies that the Minister will announce on Tuesday. I regard that to be a major challenge. There are some excellent managers in Wales of all disciplines and professions. My job—and Mrs Hart, the Minister, is very keen for me to do this—is to get the right people, with the right competence and experience, in the right places with the right support, so that they can do the job in the new organisations that will be announced. We must increase the amount of training, development and support that is given to people who run large and complex organisations in Wales. To do that, I established the National Leadership and Innovation Agency for Healthcare five years ago, and our succession plan is really exciting. When I came to Wales, seven years ago, there was no succession plan, which was a disaster; hence, my setting up of NLIAH. We have some fabulous talent coming through the NHS ranks in Wales as well as some extremely experienced and competent managers of all professions, and my job is to get the right people in the right place, with the experienced managers helping to train and develop those who will take their place in the next three to four years.

[21] **David Melding:** I have a question for either of you. How concerned are you that all NHS bodies rated themselves more favourably in their financial arrangements than the actual rating given to them by the Auditor General for Wales? The graphs are remarkable: there are just two areas out of dozens in which they underestimated their performance, according to the auditor general's findings.

[22] **Mr Buggle:** I will answer that, Chair, if I may. I think that one's self-perception is always more favourable than other people's perception of us. I suppose that that is a human characteristic. The auditor general's team had a wider perspective, and were able to look across the piece at a lot of different organisations. Some of our work with the NHS finance community has been on widening managers' perspective, and giving them an insight into, and awareness of, the progress and position of other organisations on training and development. We are looking to raise their perspective from the day job, to look at how they, as finance professionals, or as a board, develop themselves. We have also been working with the Wales Audit Office on training and development for finance professionals, non-executives and chairs of boards. It is about trying to bring in tools and techniques from other industries, including the commercial and private sector, and seeing how we can apply them to the public sector in an NHS environment. So, we are starting to develop and enhance our own expertise in all areas.

[23] So, the difference is partly down to the human characteristic of one's self-perception, but it is also because the auditors have a different perspective. They deal with lots of organisations and can look across the piece. They might therefore decide that NHS finance is not doing well in comparison with other organisations, and therefore should not have rated itself so highly.



[24] **David Melding:** Ann, do you think that it is a calibration problem caused by general cultural factors, or is there an issue here?

[25] **Ms Lloyd:** I think that there is an issue. The greatest differences in these charts were very much about leadership, and that was the absence of financial input into strategic decisions, the financial managers, the people, to shape transformation. On the processes, it was all about a lack of effectiveness in defining strategic priorities and the financial input into that—the engagement of stakeholders in the allocations, and what happens to them.

1.50 p.m.

[26] We have been testing that feature over the past two years as part of the assessment and development centres that we have been running for executives and aspiring executives of all professions. These themes have come out, which is why, as you will see when you see the competencies, the competency frameworks and the leading for change and leading to care programmes that we have developed in NLIAH are placing a particular emphasis on the strategic input of all professions into decision making. Some organisations are very good at strategising but might forget the operation imperatives, and sometimes the burdens are such that an organisation will just look at the operational difficulties and not take that strategic oversight. However, I would agree with the auditor general's response, and that is one issue that we have picked up. As I am not someone who has ever scored myself higher than anybody else has scored me—it is usually the other way around—I see it as an issue. Some of my chief executive colleagues have been extremely helpful in helping me to show the NHS in Wales that it needs to widen its vision, look at strategy in a different way, and encourage boards to test on strategy as well as look after the operation. That is why we are having these training and development programmes that address those competencies.

[27] **David Melding:** Thank you. That is very helpful.

[28] **Eleanor Burnham:** My understanding is that some board members do not even have formal financial expertise. How is it that board members have been appointed with inadequate financial skills, to achieve even the most basic stewardship of resources? We are talking about an enormously complex organisation. I notice that there is a huge disparity in exhibit 3 on page 11. I do not have the analysis regarding which aspects of the competencies it refers to, but, in the middle of the graph, there is huge disparity between the audit office's view and the trusts' own perceptions. I agree with Ms Lloyd that some of us do not rate our own competence as highly as we should. Perhaps I should not say this, but is it a gender trait?

[29] **Ms Lloyd:** I would not like to answer that bit of the question. The area where there is the greatest disparity is this:

[30] 'The organisation makes all managers responsible for achieving value for money and holds them to account for it'.

[31] That is a theme that comes out in the report later on, and I think that that is extremely serious. As part of the competencies against which you appoint managers, what is really important is their understanding of the financial regimes within which they are to deliver care. It would be nice to make all decisions without thinking of the cost, but that would be totally irresponsible; you cannot do that. Cost is a factor, as is the quality of the service, and it has to be borne in mind. So, I have asked Ms Williams of NLIAH to concentrate on developing staff throughout each of the organisations, to ensure that value for money is clearly embedded in the thinking of all managers. In fact, I was quite astonished when I read the auditor general's comment.

[32] On the make-up of boards, I will leave the local health boards to one side for the moment, as they are different; they are stakeholder boards, really. However, as the auditor general says, you might have a fabulously rich stakeholder input into a board but there might not be the expertise in hard legal and financial issues. The Minister has acknowledged that, and you will have noticed that she has changed the composition of the board over the past six months to include people from the community who can give a flavour of the ethical basis and requirements of, and the issues relating to, that community. She has also specifically appointed non-executive directors who have financial skills and qualifications, who are lawyers or are legally qualified, and who have estates experience to increase the testing of the executives on decision making.

[33] In addition, because we were well aware of the fact that some non-executive directors felt all at sea when it came to looking at and making sense of the financial accounts, some of which are extremely variable, Jeff and the Wales Audit Office have been running a fairly comprehensive training programme for non-executive directors for the past 18 months.

[34] **Eleanor Burnham:** I have to take issue with you. The local health boards have existed for some time now. How many years is it?

[35] **Ms Lloyd:** Five years.

[36] **Eleanor Burnham:** I take your point about non-executive directors, but they are there to undertake a different role from that of considering the day-to-day competences that are absolutely essential. There is a huge gap. However, looking to the future, particularly in view of the NHS changes to come, of which we are all well aware—and my particular interest is in north Wales—how will you ensure that the new bodies that will emerge have that financial expertise? How will you monitor it?

[37] **Ms Lloyd:** As part of the development programmes, NHS managers in Wales now have a mandatory requirement to abide by their code of conduct, which requires them to have a thorough understanding of issues of value for money and financial control. That is one of the competencies against which all managers in Wales have been judged over the past two years and will be judged in the future. In addition, for nurse managers, clinical directors and so on, a financial understanding is an important part of the key skills for health programme. You have to prove your competence to be appointed to some of the higher levels under 'Agenda for Change'.

[38] Previously, NHS managers were not appointed unless they had passed their institute's diploma, which had an extremely good training course in financial management. That was abandoned nationally—not just for us—about seven or eight years ago, which was one of the worst things to happen, as there was nothing to fill the gap. So, we lost a trick there as NHS managers collectively. It is important that people understand the information. Chief executives have to be able to challenge their finance directors, and non-executives have to be able to challenge the executive, because that makes decisions really strong.

[39] **Chris Franks:** What support do we give to non-executive directors? I know that there are courses and so on, but do you sometimes feel that these people come onto a board without having any back-up or support—or is that support in place?

[40] **Ms Lloyd:** It is starting to be put in place. It has been a problem. I would expect the back-up for non-executive directors to come from the organisations, because it is in their interests to have well-informed non-executives. If non-executives do not understand the financial reports, that must be addressed within the organisation. With our training programme, we are trying to ensure that there are standardised formats for all reports that go to boards, particularly the finance report, because I have seen some that have made me

wonder how on earth a non-executive would ever understand them—and I am not being derogatory about the non-executives, but about the reports.

[41] **Mr Buggle:** One aspect of the training and development programme that we run with the WAO on an ongoing basis tries to develop a learning network for non-executives in similar areas. So, you would have a friendly face and someone to ring up to ask when you do not understand something. How well or badly that is being used is impossible to tell, because we are trying to make the connections between non-executives in different organisations.

[42] **Eleanor Burnham:** I want to take up your point, Ms Lloyd. You have just contradicted yourself in many respects. You have said previously that the competence is not there. If the competence is not there in the directorship, how can you expect that organisation to give non-executive directors the back-up? Should that not come from you and your department?

2.00 p.m.

[43] **Ms Lloyd:** I am not saying that the executives lack the competence; I am saying that the executives have to be properly competent to be appointed. They are not isolated little things, either—they can collectively develop this, as they have done in many parts of Wales. The chair is in charge of the board, and the chair's primary responsibility is to ensure that the board can make effective decisions. If a chair has ever felt that their board did not have the training and development required to have a view of the financial regimes, and the way in which the money was being spent—or any other aspect—they should have addressed that. If they wanted our help to do that, we were here to do it.

[44] **Janice Gregory:** Thank you, Ann and Jeff, for your comments about the boards. I am looking at paragraph 30, on page 14. I hear what Jeff is saying about the complexities, and that, if non-executive directors need help, they can pick up the phone. Does that extend to the financial managers? Is there any support for them? Paragraph 30 clearly states that, while there were some good points, there are also some difficulties, and a need for improvement. How would you help these NHS bodies to improve their reporting and their understanding and use of the financial management information?

[45] **Mr Buggle:** We are doing this across a range of things with the organisations. As Mrs Lloyd has said, we are trying to increase the financial skills, awareness and competency of boards—the executives and the non-executives. We are also working with the finance community to increase the competency, perspective, range and breadth of the finance reports going to boards. Therefore, in a sense, you hopefully get a push/pull effect at the board level. We have run development programmes for non-executives and chairs of organisations with the Wales Audit Office, in north and south Wales, to try to create increased competency and knowledge of financial information and how it links to performance and business information, but also, as I said to one of your colleagues a few moments ago, to try to develop a learning network of non-executives.

[46] We are also improving some of the basics of financial management. We have therefore been quite prescriptive about what we believe organisations should receive in terms of the level of information presented to boards. So, we have broadened it from just a simple income and expenditure statement to information about balance sheets, ratios and the underlying performance of the organisation. We have also tried to deal with some of the other basics around improving the timeliness and speed of information and some of the forecasting, in terms of a two-year or three-year plan.

[47] So, on several fronts, we are trying to improve what we believe are some of the levels of financial expertise and knowledge that we would expect organisations to have. It is an

ongoing process, and I would never want to be able to say to you that we have finished—we should never complete that process; we should always be striving for improvements.

[48] **Janice Gregory:** What about financial managers within the organisations?

[49] **Mr Buggle:** More by coincidence than by design, we launched the financial competency behaviour framework for the NHS finance community this morning in north Wales. That sets out the competencies, skills and behaviours that we expect all people in the finance profession to exhibit. It is about moving to a culture where continuous professional development is not just a requirement because you have a professional certificate—it is a requirement for anyone who works in finance. A lot of that will be training—formal training, as well as shadowing, mentoring and so on. We have been doing that on a pilot-scheme basis for about five or six months. We launched it formally this morning, and we will be rolling it out. That is to address the problems and issues that we face now, as well as any reconfigured NHS that we might have in the future.

[50] **Janice Gregory:** Are you confident that you will be able to identify the shortcomings, if you like, of staff in the NHS bodies, so that you can raise their financial competency up to a level that would give you and the auditor confidence?

[51] **Mr Buggle:** Yes, the competency framework is based on educational models, but it is also based on what the profession and the service have said that they require; it has been developed based on those three or four sources.

[52] **Janice Gregory:** I will now move on to paragraph 31 on page 15. This sets out the auditor general's concerns about ineffective medium-term financial planning; I am staying with that theme. Your department's previous financial recovery process has mistakenly been seen as a proxy for such planning, and paragraph 32 refers to your current annual allocation process being perceived by some bodies as being unhelpful in promoting effective medium-term financial planning. How are you ensuring that the financial framework for the NHS promotes effective medium-term financial planning, bearing in mind what you have said about the new initiative that you have launched today?

[53] **Mr Buggle:** There are several issues. The first was about ensuring that we had robust information on the current-year performance so that any forecasts and plans could be based on a firm foundation. Some of the work that we have started, and that we will continue, is on improving in-year, or current-year, performance.

[54] We have also required organisations, for both 2007-08 and 2008-09, to develop and produce three-year plans at the start of the year, which will be monitored quarterly for each organisation. That process will refine itself as we are able to improve our competency and skills, in line with my previous answer to you. So, we are looking at organisations having three-year plans. We have put the basic building blocks for forecasting in place; if you look at the forecasting for 2007-08, there was little variability in terms of forecasting throughout the year. So, in a sense, that gives me some confidence that the basics are starting to be put in place.

[55] **Janice Gregory:** Am I right in thinking—I am sure that you will correct me if I am not—that three-year planning is fairly new? Was it not previously allocated annually?

[56] **Ms Lloyd:** Recently, under this comprehensive spending review, we got an outline of the increases, which you will have seen, and that was not previously available in quite that format. So, with this comprehensive spending review, we were able to give an overview to the service of the percentage uplift that it might expect. That has enabled it to have a longer-term view of the type of service that it will be able to deliver and we will have done forecasts

with the service about where we think pay and prices might be; they are extremely variable at the moment, as you are well aware. This has enabled us to start to instil into the organisation a culture of looking further forward in terms of financial management and service outcomes and outputs. Nevertheless, this is quite tricky and, because there has been so much variability this year with fuel prices and so on, people have to concentrate hard on achieving control this year without losing sight of the fact that they have got to be able to project for at least two more years. The service gets cross with us if we issue money late in the year and expect it to spend it, and I have some sympathy with that. It likes early warnings on what the following two years will look like, which was made possible following last year's comprehensive spending review.

[57] **Janice Gregory:** Is this welcomed by the service?

[58] **Ms Lloyd:** Yes, the service always likes to know in what framework it will be. That is why all organisations now report monthly on their three-year projections, but most effort goes into what is going on this year.

2.10 p.m.

[59] **David Melding:** Given the importance of not being overwhelmed by the year-on-year situation, do you think that the capacity of all NHS bodies to look on a three-year basis is strengthening broadly across the piece, or is there quite lumpy variable performance?

[60] **Ms Lloyd:** That is why Jeff has been specifically charged with ensuring that there is a baseline of competence in all organisations. These results have shown quite clearly that the day-to-day financial management control might be there, or certainly that the understanding of where people are might be there, but that this strategic foresight needs to be strengthened. An awful lot of the framework that has been developed is about honing the competencies. The same is true of the general managers, who must understand what strategic planning looks like and feels like.

[61] **Chris Franks:** I will refer to paragraph 40. We have heard some pretty stark comments and I take it that we are referring to fairly senior managers who have not recognised, or were not trained to accept, their financial responsibilities. I think that it is worth reading out a part of this paragraph. It says that

[62] 'respondents expressed some concerns about the degree to which managers understand that they are responsible for value for money in their own activities and are accountable for this'.

[63] That, to me, is a pretty devastating half paragraph. Correct me if I am wrong, but it seems to be saying that senior managers do not understand that they are accountable for the money that they have at their disposal. Is this an indication of a huge failure of the system and is that why we ended up in financial difficulties? Why was it allowed to happen? We have heard comments that some board members were not financially trained or financially responsible; however, surely that is true of most public bodies. Most councils have operational managers who do not have particular financial training who are responsible for the budget; school governing bodies are responsible for their budgets that are, in some cases, for secondary schools, £2 million or £3 million. Why did we get into this state?

[64] **Ms Lloyd:** I think that this is a devastating comment as well. I would be awfully pleased if the auditor general would provide me with that evidence. I think that this is a very serious condemnation of management. Within the workings of organisations that I have known, every manager has to understand thoroughly what value for money is and what effective service delivery looks like. Having received this report, I spoke to the National

Leadership and Innovation Agency for Healthcare about this concern, because it has to be addressed immediately. Financial competence is part of the appointment system for every manager in Wales, so it looks to me as if, first, that has not been tested effectively enough on appointment, and, secondly, that it has never been picked up in people's performance reviews; financial competence, understanding and accountability should be a part of performance reviews. I think that this is a major issue and I shall be raising it with chief executives. The evidence would be ever so helpful, because there might be certain areas where it is a bigger problem than in others. This is an extremely condemnatory paragraph and I was probably as shocked as you were to read it. I have to do something about this now.

[65] **Darren Millar:** I have a further question on that. Obviously, it is very attractive to delegate budgets down to budget holders, so that they can help people to deliver services. I appreciate that you have made the comment that it is far easier to make sure that new appointees have the skills and the ability to manage their budgets effectively, to make sure that they are delivering on the value-for-money front and that they are being accountable for those to other managers, but when you have staff already in place who have been there for some years perhaps and are managing budgets and have never been accountable to anyone for that in the way that they perhaps should be, it becomes much more difficult. Could you elaborate on how you will skill them up to be able to do that job? In addition to that, on financial management, how are finance directors allowing this to go on? Why is there not some early intervention, particularly given that the reporting mechanisms are regular, in that they are monthly? Why has it been allowed to fester and why has it not been identified earlier?

[66] **Ms Lloyd:** I will start with the first part of your question. You should not delegate budgets to anyone who is not competent to manage them. Therefore, it is not particularly the fault of the person to whom this has been delegated—it is the person who has delegated it. That is one of the issues that I have to test. That includes clinicians, because they are often responsible for holding budgets now. However, we have been delegating budgets to clinicians and others for the last 20 years, so that is why this is so extraordinary. I am just going to have to test what arrangements chief executives and others have been putting in place in their organisations to ensure that their budget holders are competent to do the job expected of them, and how the managers have been held to account for that in the past. If they do not understand value for money, do they understand standards of service, and how to measure that, and what metrics to use? Therefore, this is extremely important and worrying.

[67] **Mr Buggle:** The report suggests that the standards of financial management have improved through the period of the report. If we just look at a crude indicator, namely the number of organisations that achieved their financial targets every year, that has improved in every year of the report. That has to continue and has to get better. From talking with the WAO, I know that the impact of the finance directors is not a main concern, because that would have been highlighted in the audit returns, and in the audit work that the WAO carries out on your behalf in organisations. It is an issue about the organisations having a clear accountability framework, and being clear about what is expected from them in terms of financial management and performance. We are being clear with organisations about what is expected.

[68] It is also about ensuring that they have the skills and the competencies to deliver what is expected and what we require. Ann Lloyd's earlier answers hopefully demonstrate some of the work that we are doing in that regard. If there were concerns about the competency of finance directors, the WAO would have reported it previously to this committee, or would have reported it to Mrs Lloyd or me. I do not believe that there are concerns, in the main, about the competency of finance directors.

[69] **Darren Millar:** I am heartened to hear your response in particular, Ann, about

tackling this issue. I am pleased at the spirit in which you have accepted the auditor general's view. However, finance directors must be responsible for having allowed this to go on for some time—they cannot have their hands on the reins sufficiently if they are not monitoring the effectiveness of whether value for money is being delivered on the front line. Therefore, I was rather concerned, Jeff, that you are perhaps not taking this as seriously as you should.

[70] **Mr Buggle:** I assure you that we take this very seriously. As I said earlier, there is no finishing line regarding this process—it is an ongoing issue. I believe that it is a board responsibility. As head of the NHS accounting profession, I am understandably saying that it is a board responsibility to ensure value for money.

[71] **Darren Millar:** Is this not a problem, however? Another thing that the auditor general says is that the chief executive accountability to the NHS executive in Wales is clear—that is abundantly clear. However, we are talking here about a missing link in terms of the finance director's accountability to the board, and the individuals under the finance director—who are budget holders, and are managing budgets—being accountable to the finance director. It has to cascade through, does it not, which is one of the things that the auditor general says. If you miss any link in the chain, the chain is broken—it is broken if one simple link is missed. It is important that this is taken seriously and that, frankly, finance directors are called to account about why they have not identified it as an issue, and why it took the auditor general shining the torch on it before it was picked up.

2.20 p.m.

[72] **Mr Buggle:** To reiterate, we take this extremely seriously.

[73] **Darren Millar:** Okay. Moving on to the current reorganisation plans within the NHS and their potential impact, in paragraph 60 on page 21 the auditor general refers to the mergers that have taken place and the mergers that may be ahead because of the reorganisation in the NHS. It means that there will be some upheaval and that it could distract senior managers from keeping a grip on financial control, financial management and financial reporting. To what extent are you putting things in place to avoid those types of pitfalls?

[74] **Ms Lloyd:** Having been through a number of reorganisations in my life, I can understand the comment that you can be distracted. Immediately after the Minister makes her statement on Tuesday, I will be appointing people who I am calling 'transition directors', whose job will be threefold. First, their job will be to ensure that the communities—in whatever shape the Minister chooses to put round the communities of the future—will deliver this year's plan. This does not interfere with the individual bodies' statutory responsibilities, but they must work together much more cohesively to ensure that the annual operating framework and the financial balance are secured. They will also be responsible for ensuring that the community will deliver the plan for the following year and in draft for the next two years. They will also oversee the transition arrangements within each organisation within that community to ensure that they are robust and that everything is being gathered, such as the estate's terriers and the rest of the stuff that you must do when you change organisations.

[75] I will chair the transition board; these individuals will be part of that board, together with Jeff and my director of performance. We will keep a very tight grip on the performance of the organisations. We will use our delivery and support unit in areas that face the greatest challenge to ensure that the mechanics can keep running and that problems can be addressed quickly with an additional resource in terms of people and ideas to deal with them. That is what we did in the last but one reorganisation that I had to go through. I split the organisations and managed the transition and someone else managed the merger, because otherwise, in bringing two trusts together, I felt that we would lose a grip. That was successful, because it kept an increased spotlight on business and patient safety being delivered, and that is what the

Minister would also wish me to do this time.

[76] **Darren Millar:** I am pleased to hear that, because, as politicians, we tend to worry that our constituents will be adversely affected by change. While some change is welcome, a change for the worse in the quality of service delivery is unacceptable, so I am pleased to hear your comments. I am also pleased to hear that you are taking an interest in performance management, but one of the things, Jeff, that is difficult to predict when you bring organisations together is the forecast ahead in terms of the finances, because the historical information and the current information and data will relate to the bodies that are already in existence. How will you ensure that the finance directors of the new bodies are equipped to be able to accurately forecast the performance ahead, particularly in terms of the financial performance, bearing in mind the undoubted current pressures on spending in public services? How will you ensure that they are equipped and capable of delivering forecasts that we can be confident are reasonably accurate?

[77] **Mr Buggle:** On an individual basis, it relates to some of the work that I have already outlined about training and development and ensuring that they have the right perspective. We also need to ensure that we appoint the right people as finance directors in the new organisations and have individuals and their supporting teams with the right skills and competencies. In terms of the transition between now and those appointments, we will be issuing clear planning guidance to organisations as the basis on which to plan. There will also be a clear and tight planning framework for how we want organisations to manage the transition between now and then. We are using a tool developed by one of the professional accountancy bodies, the Healthcare Financial Management Association, which is based on the experiences and lessons learned from other mergers, about how to have a good control environment from the old organisation going into the new organisation. For each of the proposed mergers, there will be a control plan and a financial plan to carry out the transition. The key thing is that there is close monitoring and control of that, and the board that Mrs Lloyd will establish will hopefully assist us in doing that.

[78] **Darren Millar:** May I pursue this, Chair? I think that it is important.

[79] **David Melding:** You have had a good run, Darren.

[80] **Darren Millar:** I appreciate that.

[81] There is a track record with some mergers that have taken place this year. Have you found that a useful resource in terms of helping you to plan for further upheaval in the NHS? That is a question for both of you.

[82] **Mr Buggle:** In terms of the financial environment, we used the tools that I have outlined in the changes that we have already gone through, and we have added to them based on the experiences of the organisations that went through that process. However, we need to add more to those tools.

[83] **Irene James:** Following on from what Darren said, because he has asked much of what I was going to ask, are there any visible gaps? This offers us a huge opportunity to review the situation, so are there any gaps, of whatever size, in the way that things are operating at the moment?

[84] **Mr Buggle:** Can you clarify whether you mean gaps in terms of—

[85] **Irene James:** We are talking about financial management, are we not?

[86] **David Melding:** We have a chance to ensure a more uniform performance in the new



NHS organisations.

[87] **Mr Buggle:** There are many things that we want to do and improve upon, but the main one that I want to talk to you about is the further engagement of clinicians in the management process and in the management of clinical budgets. This year, we are piloting what is known as service-level reporting, and it will be rolled out fully from 1 April next year, which starts looking at cost and activity behaviour by individual consultants and specialties in hospitals. There are tools and techniques that we currently do not have that we are trying to implement in the service. So, yes, there are gaps that we are trying to address.

[88] **Irene James:** By doing something like that, you will ensure that there is consistency throughout the whole service. If a clinician in Cardiff is doing something one way, you will ensure that it is replicated elsewhere.

[89] **Mr Buggle:** Definitely.

[90] **Irene James:** That is fine. Moving on to my next question, it refers to page 22 and paragraphs 66 to 68, which describe the role of loans and brokerage in helping individual bodies to secure financial balance. How does the use of these measures late in the financial year promote effective in-year financial management by individual NHS bodies?

[91] **Ms Lloyd:** To start with brokerage, we will usually know by this time in the financial year what the organisations' forecasts really are. We try to get them at the half-year point to be as accurate as humanly possible. We do not appreciate poor forecasting, because it leads to making wrong decisions.

2.30 p.m.

[92] We will be able to see from that which organisations might be running into a deficit position and which are not. The discussion then starts about the competence of the organisations to broker between each other. They have to pay back brokerage, so it is a risk that they have to run. They have to evaluate whether they wish to run the risk of acquiring brokerage from someone else and then having to pay it back the next year or whether they will be able to take sufficient action in the effective amount of time to be able to manage that.

[93] We do not give loans in Wales. Loans would mean that we are borrowing money from outside the Minister's allocation from the rest of the Assembly. Instead, we give what is called 'strategic assistance'—a very nice phrase.

[94] **Chris Franks:** I have children who are like that. [*Laughter.*]

[95] **Ms Lloyd:** It comes from within the Minister's given allocation, so we are not asking anyone else from outside to give it. We will take a view about the financial recovery plan of an organisation and over what period of time it will break even and repay any strategic assistance that is necessary before strategic assistance is given. Those financial recovery plans are tested thoroughly before we do that. Strategic assistance is repaid if the Minister decides that it shall be repaid. As it is coming from within her own expenditure group, it is easier for us to manage the whole rather than having to rely on going outside the Minister's main expenditure group and borrowing money from the Assembly, which would be quite difficult.

[96] Therefore, that is what we do at present. However, to take the decision to ask for brokerage or strategic assistance we have to test the robustness of the plans thoroughly. Whether we think that they have sufficient time to do this—and quite a lot of very detailed discussion takes places with these organisations before this happens—and the ability to repay are issues. What will they do to try to repay some of this and what will they have to stop

doing in order to do it? Therefore, that is what we try to do, is it not?

[97] **Mr Buggle:** Yes.

[98] **Irene James:** To clarify, when I asked about the position of it being late in the financial year, were you actually talking about six months?

[99] **Ms Lloyd:** We will take a view after six months' results.

[100] **Irene James:** Therefore, I assume that you take a view from there on.

[101] **Ms Lloyd:** Yes.

[102] **Ms Lloyd:** The auditor general mentions Gwent and north-east Wales in this paragraph. Sometimes, we will have an ongoing negotiation particularly on cross-border issues where there are disputes between and England and Wales about resources, individuals and so forth. Some of those disputes can take an awfully long time to resolve; it could be quite late into the financial year. Jeff and I will take a view on how arbitration will go, and we will also build that into the financial picture.

[103] **Irene James:** Following on from that, you said that it would be six months, but it might be 10 months.

[104] **Ms Lloyd:** We take a view on the six months.

[105] **David Melding:** How seriously do you take a request for the use of these measures from a particular NHS body as an indication of concern?

[106] **Ms Lloyd:** We are always concerned. One of the requirements is that they live within their resources and do not take decisions lightly that restrict services—due to their financial situation. I think that we have to look at it in the round. If an organisation asks for strategic assistance of £10 million or it asks for brokerage from one of its colleagues of £5 million, it is a lot of money to repay. How will it control its expenditure and repay at the same time, and over what period will it do so? Our discussions go on for a long time because this is a serious issue. We would not dream of saying, 'Yes, you can have the strategic assistance.', unless we had risk-assessed their ability to manage as a consequence of that strategic assistance and its required repayment.

[107] **David Melding:** We have covered the next question, so we will skip it and move on to Eleanor.

[108] **Eleanor Burnham:** Following on, with regard to financial deficits and so on, paragraphs 74 to 77, page 23, and paragraph 88, page 28, talk about local health boards meeting their resource limit, deficits reported by trusts reduced significantly to £2.7 million in comparison with £14.3 million in 2006-07, and yet paragraph 88, page 28, shows that Swansea and Powys LHBs are facing major challenges. How do you ensure that their improvements are sustained? I note, from a parochial point of view, that there is a difference between the financial situation in the North West Wales NHS Trust and the rest of north Wales, which is already amalgamated. Will these deficits be transferred from a well performing trust to a not-so-well performing trust when they merge? How will all of this continue and what will be the consequences of the failure, for instance, of Swansea and Powys to meet their financial targets in 2008-09?

[109] **Mr Buggle:** We are working with the Swansea and Powys communities, and the Minister has required a recovery plan from the chairs of both organisations to work as

communities to bring themselves back into balance. Our current discussion with them is about over what time frame that will happen. As I understand it, the chairs of all of those organisations will be reporting to the Minister imminently.

[110] **Eleanor Burnham:** I suppose that the concern for us as Assembly Members would be what the consequences of all of these procedures are in terms of the delivery of service and the patients at the receiving end.

[111] **Mr Buggle:** That judgment is taken when we discuss with the organisations how they can achieve balance and over what time frame they can achieve balance. Some of that is about re-engineering services and changing things. It is a judgement, looking at all of the facets and components of the recovery plan.

[112] **Eleanor Burnham:** So, there are some painful decisions to be taken.

[113] I will now move on to look at paragraph 82, page 26, and the issue of outstanding loans held by some of the NHS trusts, which you have touched on, and particularly exhibit 9, in appendix 1, which identifies the total outstanding loans of £51,645 million, of which £40 million is held by the newly created Hywel Dda NHS Trust. What kind of plans do you have for the repayment of those loans, and what will happen to the outstanding loan the body concerned merges? I mentioned North West Wales NHS Trust because I know about it, but it is a similar question.

[114] **Ms Lloyd:** This is slightly technical and, if I get it wrong, Jeff will kick me. Given the loans for Hywel Dda trust, the accumulated income and expenditure deficit problem of £37 million is not carried forward to the trust's new balance sheet. Those three organisations had cumulative reserves, which, when all amalgamated, left it with a Government investment in the trust of about £167 million—and Jeff can explain that. That is why the £37 million is not there. With regards the £40 million, the Minister has written to the organisation concerned and indicated—and this information is in the public domain, in a submission folder—that she would be prepared to write off that piece of strategic assistance subject to their breaking even this year.

[115] **Eleanor Burnham:** So, coming back to north Wales, when everything eventually merges, what will happen? My understanding is that there is a deficit in parts of it and good financial management on the west, so how will that translate into the proposed new organisation?

[116] **Ms Lloyd:** That would be the Minister's decision.

[117] **Eleanor Burnham:** I see—it is a ministerial decision.

2.40 p.m.

[118] **David Melding:** Last, but certainly not least, we turn to Janice.

[119] **Janice Gregory:** Paragraph 89 suggests that the restructuring of the NHS provides both a challenge and an opportunity to strengthen its financial management. This final question is for Ann: how are you addressing that situation, bearing in mind everything that you have said so far?

[120] **Ms Lloyd:** As part of the restructuring, I am reviewing all the executive posts with professional advisers, looking at the competences and skills required. My view is that you must appoint someone who is competent to undertake the management and leadership of these very different organisations—subject to what that the Minister will announce on

Tuesday—as well as provide them with the infrastructure that they need to deliver effectively. Decisions in the health service are dependent upon financial balance in order to sustain service quality, and in our new performance management regimes, we look not just at financial balance, but at service quality and outcomes and how effectively and efficiently services are being delivered. So, the leaders of these organisations will be tested against their ability to deliver the whole spectrum of care within a financial balance. It is extremely important: people will be thoroughly tested on their competences in order to get on to the executive boards of these organisations.

[121] **David Melding:** That concludes our evidence-gathering. I thank both witnesses for giving clear and relevant answers—we are very grateful.

2.45 p.m.

**Trafod ymateb Llywodraeth Cynulliad Cymru i adroddiad y Pwyllgor Archwilio  
‘Cyngor Celfyddydau Cymru—Prosiectau Cyfalaf’  
The Consideration of the Welsh Assembly Government’s response to the Audit  
Committee report ‘Arts Council for Wales—Capital Projects’**

[122] **David Melding:** We move on to item 3, and consideration of the Welsh Assembly Government’s response to our report on the Arts Council of Wales capital projects. You have copies of the report and of Jeremy’s letter. Jeremy, do you want to say anything?

[123] **Mr Colman:** I will just briefly say that the response is positive and we will, as always, follow up to check that future action is in line with what it has said that it will do. However, what it says that it is going to do seems fine to us.

[124] **David Melding:** Do Members have any views? It occurred to me that we have emphasised the importance of other funding streams—the private sector and European grants—and that might be something that we want to look at. I believe that Jeremy has offered to assess it at some point. That would be helpful.

[125] **Mr Colman:** I would be very glad to do so.

[126] **Eleanor Burnham:** Will the auditor general make an assessment of the loss of lottery funding, now that it has been hoovered up—if you will pardon the expression—by the London Olympics of 2012?

[127] **Mr Colman:** I would be happy to look into it, but I strongly suspect that it is outside my remit.

[128] **Irene James:** I would suggest that it is well outside the auditor general’s remit.

[129] **Eleanor Burnham:** I am talking about lottery funding in Wales. It has been severely curtailed by the hoovering-up of funding by the London Olympics.

[130] **Irene James:** I would still say that that is outside the auditor general’s remit, because it is a national lottery rather than a Welsh lottery.

[131] **David Melding:** Yes, we were talking about the private sector, and I believe that you have other mechanisms to pursue that.

[132] **Eleanor Burnham:** That is fine.

[133] **David Melding:** The auditor general has said that, in terms of funding from the private sector and the use of European money, which we mentioned in our report, and which the Government has said that it is now encouraging—

[134] **Eleanor Burnham:** May I suggest that that is because of the loss of this lottery funding.

[135] **Irene James:** May I suggest that it is still outside his remit. [*Laughter.*]

[136] **Janice Gregory:** If this is becoming a party-political point—

[137] **Eleanor Burnham:** I was not making a party-political point—just a factual one.

[138] **Irene James:** It is still outside the auditor general's remit.

[139] **David Melding:** The Chair feels as though he is losing control. [*Laughter.*]

[140] **Irene James:** You could not possibly, David.

[141] **David Melding:** I feel my confidence is now returning.

**Trafod Ymateb Llywodraeth Cynulliad Cymru i Adroddiad y Pwyllgor  
Archwilio, 'Cynyddu Gweithgarwch Corfforol yng Nghymru'  
The Consideration of the Welsh Assembly Government's Response to the Audit  
Committee Report, 'Increasing Physical Activity in Wales'**

[142] **David Melding:** Again, we have the Minister's response and Jeremy's paper before us. Jeremy, do you have any issues that you want to raise?

[143] **Mr Colman:** I want to draw attention to the second paragraph of my letter. The committee's report was, if I may respectfully say so, extremely critical of progress, and I think that the response from the Assembly Government shows that that has been taken extremely seriously, which is good news; it is certainly better news than had it not been. Nevertheless, the timetable proposed is still quite extended, so I suspect that the committee will wish to return to this in due course.

[144] **David Melding:** I am sure that that is the view of the committee. We have indicated that we might follow up this area of work in about a year's time. One of the responses was only partial, and stated that the Government did not see that a duty needed to be placed on local authorities at this stage but rather that we should follow the health and wellbeing strategy route. That is not an unreasonable response from the Government, but I think that, in a year's time, we will want to see evidence that this area is being picked up by those strategies. So, we will want to devote some time to that in a year or so, Jeremy. However, I agree with you. The response was pretty thorough and shows that that very adverse report was taken seriously by the Government.

2.47 p.m.

**Cynnig Trefniadol  
Procedural Motion**

[145] **David Melding:** I propose that

*the committee resolves to exclude the public from the remainder of the meeting in accordance*

*with Standing Order No. 10.37(vi).*

[146] I see that there is agreement. I ask that the public gallery be cleared and that the recording and broadcasting equipment be switched off.

*Daeth rhan gyhoeddus y cyfarfod i ben am 2.47 p.m.*  
*The public part of the meeting ended at 2.47 p.m.*