

Cyfarwyddwr Cyffredinol Iechyd a Gwasanaethau Cymdeithasol/
Prif Weithredwr GIG Cymru
Grŵp Iechyd a Gwasanaethau Cymdeithasol

Director General Health and Social Services/
NHS Wales Chief Executive
Health and Social Services Group



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

31 October 2018

Dear Mr Ramsay,

Implementation of the NHS Finance (Wales) Act 2014

Thank you for your letter of 4 October. I am pleased that your letter acknowledges the progress that has been made in stabilising and improving financial sustainability in NHS Wales in recent years. I felt it would be helpful to respond in detail to your commentary, and I hope provide assurance on progress and a more sustainable outlook. While there remain a small number of organisations still in an overspending situation, most are now planning on the basis of being financially balanced in the current year and looking forward.

I would like to highlight some of the key indicators supporting this assessment:

- As I set out in my evidence paper, taking account of like for like adjustments, the overall NHS deficit in 2017-18 was marginally lower than in 2016-17.
- We expect further improvement in the NHS position in 2018-19. In May, the Cabinet Secretary for Health and Social Services announced an additional £27 million recurrent funding for Hywel Dda UHB following the completion of the zero-based review, and we have provided Cardiff and Vale UHB with an additional £10 million in support of their plans. The current NHS forecast represents a material improvement from the 2017-18 outturn.
- Despite the NHS deficits that were incurred by individual organisations, the Welsh Government's health budget was balanced again at the end of last financial year. The budget has balanced overall in every financial year since the new NHS finance regime was introduced in April 2014. As a sign of increasing financial stability, the in-year support from central Welsh Government reserves for NHS deficits reduced significantly from £76 million in 2016-17 to £35.2 million in 2017-18. We are not anticipating requiring any central funding in 2018-19 to support remaining deficits.

- NHS organisations have collectively made over £1.5 billion worth of efficiency savings since the new organisations were established at the beginning of this decade. In the last financial year, over two thirds of these savings (71%) were found on a recurrent basis. This proportion is expected to be maintained in 2018-19.
- There is also an increasing focus on the delivery of savings earlier in the financial year. In the current financial year 39% of savings plans have already been delivered at the mid-year stage, compared to 32% in 2017-18.
- To ensure Welsh Government can respond with pace to NHS organisations in financial challenge, a Finance Delivery Unit has been established, hosted by Public Health Wales NHS Trust. The Unit now has a complement of 9 staff, including the transfer in of 4 staff leading the costing and business intelligence process in NHS Wales. As well as providing a challenge and support role, particularly for the organisations in escalation, the Unit is leading the development of an Efficiency Framework for NHS organisations and is playing a key supporting role in driving forward the Value-based healthcare agenda.

Investment in Services

The evidence you received from some Health Boards that they had limited investment to maintain financial balance contrasts significantly with our assessment of the support we are providing to NHS organisations:

- In the current year, we have already provided an additional £173 million funding to health boards to meet core inflationary costs and improve performance, and the Cabinet Secretary has recently announced a further £20 million early support for winter delivery plans. We will also shortly be allocating an additional £80 million to meet the costs of the pay awards recently announced for NHS staff. This totals a package of new investment of £273 million in the current year.
- Our draft spending plans for 2019-20 continue to protect frontline services with an extra £220m confirmed increase in funding for 2019-20. In addition, Welsh Government has announced an additional £287 million in the draft budget for health and social services, to meet the costs of NHS pay awards and take forward implementation of *A Healthier Wales*.
- The Cabinet Secretary has also recently announced the first allocations from the £100 million Transformation Fund to invest in the development and implementation of new models of care endorsed by Regional Partnership Boards.
- This will bring our total additional investment in health and social care in Wales during this government to over a billion pounds by March 2020.

Capacity and Capability

We have provided support to strengthen capacity and capability to a number of Health Boards who are in escalation, totalling over £7.4 million over the last two financial years. This includes additional operational staff, planning capacity, supporting Organisational Development programmes and funding external support.

In addition, officials from the Health and Social Care Group have provided their expertise to help organisations develop their delivery plans, as has the Delivery Unit. This support

includes data analysis, testing plans and acting as a “critical friend”. We have been working with the NHS on developing an academic programme to strengthen planning skills in the NHS. We have established a Planning Programme for Learning to enhance planning skills and capacity across all NHS organisations. The programme aims to raise the profile and reputation of planning as a profession and to develop a talent pipeline. The Programme consists of a range of formal and informal learning and development opportunities. These include: well-established bi-annual All Wales Learning Events; a series of master classes, which focus on capacity and demand planning; a conference on long-term planning to be held next spring. Tendering is underway for an academic partner to design and deliver a post-graduate diploma in healthcare planning. The diploma will see up to 125 students undertake the course over a 5 year period.

Some limited use of skills from more successful organisations has been deployed to support others organisations as they address the challenges they face. This support is a key element of our collegiate ethos in NHS Wales. This internal consultancy approach supports the transfer of skills and experience across the NHS in Wales, and provides benefits in terms of skills development which benefit the NHS as a whole. We believe that the experience helps both the individual and their organisation grow and develop, as well as being very valuable to the organisation they are helping. However, this takes place on a limited basis.

The Parliamentary Review highlighted the requirement to increase the ability of the system to transform, and the NHS Executive function committed in A Healthier Wales will have this as a key responsibility. Bringing together capacity already in the system, for example the NHS Collaborative and the NHS Delivery Unit, provides opportunities to focus effort on key priority areas and support both delivery and performance improvement with the aim of transforming the system.

Funding Formula

I do acknowledge that Phase 2 of the Resource Allocation Review has not progressed as quickly as Welsh Government and NHS Wales would have wanted. A Technical Advisory Group, jointly chaired by the Chief Medical Officer and the Health and Social Services Group Director of Finance, has been formed to take forward the Phase 2 of the Resource Allocation Review. Membership of the group also includes a Chair and Director of Finance representing the NHS as well as a University health economist.

The Group have reviewed existing formulas used in other countries and noted a number of common components, such as population, demography (Age/Sex) and needs (including unmet needs), and some non-universal components such as rurality, ethnicity and market forces factor. The Group have endorsed and are working to a twin track approach of testing an alternative formula and commissioning independent advice on formula development, as follows:

- The initial work has been to populate and test at a high level the formula used by the NHS in Scotland. This is a modular transparent formula where each individual component, for example age/sex or needs, can be tested and validated. The latest Welsh population and other measures have been used within the testing, including the Health Foundation acute services age/sex details from their 2016 report “*The path to sustainability*”. The initial testing indicates that, at a high level, the formula works for Wales and further testing on a more granular level of each component is being undertaken.

- Subject to successful evaluation, the Group will consider whether this formula is robust enough to use initially to equitably distribute future additional discretionary allocations between health boards. The Group will consider this against whether to continue to use the old formula, the “Townsend” direct needs formula, noting that the old formula, to distribute discretionary growth, has not been updated since 2014 following the demise of the Welsh Health Survey in 2015, a key needs measure in the old formula.

It should be noted that the formula has been used as a distributive formula to equitably allocate share of the growth funding to Local Health Boards rather than determining the distribution of total funding. While some Local Health Boards have indicated that the current formula may disadvantage them, the Health Boards all recognise the formula is only applied on the growth funding not on the totality of funding. Therefore whether they are advantaged or disadvantaged is at the margin on the share of discretionary growth.

Since the Nuffield Trust (2014) and Health Foundation (2016) reports the Welsh Government has made continued significant additional investment into the health service. This additional investment recognises the overall demographic and other pressures faced by Local Health Boards. The extant policy accepted by Welsh Government and National Assembly for Wales was in line with the recommendation in the original Professor Townsend report Targeting Poor Health in 2001 that: “the transition to new target shares should be achieved through redistributing the annual growth in NHS resources. Thus no area will receive less than their current level of resources and those areas which are furthest from their target share will receive the highest rate of growth.”

In line with policy since direct needs formula was first used in 2003, any movement towards target formula share would be achieved over time depending on the level of discretionary growth available for equalisation. Local Health Board allocations are, therefore, primarily based on historical allocations plus additions over time, including formula growth share and specific allocations, not on a formula calculated allocation.

Following the full development, testing and engagement on the new formula, the implementation options will need to be considered. These implementation options will range from the current policy, that any movement towards target formula share would be achieved over time depending on the level discretionary growth available for equalisation, to a policy of directly distributing total funding by formula.

Escalation

Escalation arrangements have been effective in focussing action in organisations which face significant challenges. The arrangements are kept under continuous review, including seeking the views of both HIW and the WAO as key partners in the tripartite discussions.

These arrangements have been very successful in supporting WAST on its improvement journey. In 2014 WAST was escalated to *enhanced monitoring* following concerns about response time performance. Work with WAST under the escalation framework was instrumental in allowing the organisation to de-escalate to *normal monitoring arrangements* in 2016.

Improvements are being seen in Cardiff and Vale and Abertawe Bro Morgannwg University Health Boards, driven by escalation support and challenge. In respect of Hywel Dda, the need for a zero based finance review was identified through the targeted intervention, with the result that Welsh Government has recognised a number of pressures unique to that organisation and provided recurring funding which is a significant contribution towards achieving sustainability. The Tripartite process allows consideration of organisations that

could be de-escalated noting improvement, and I expect that to be reviewed in the next meeting.

Progress has been harder to achieve in Betsi Cadwaladr. I note the comments of the Committee on the significant difficulties that remain. In July 2018 Welsh Government agreed a further £6.8 million investment under special measures arrangements to strengthen governance and accountability through joint working with clinicians and partners to deliver substantial improvements in planned and unscheduled care, across all acute specialties.

The funding will increase the health board's capacity and capability in the following areas:

- £4.6m (£2.3m per annum) will be used to strengthen delivery, planning and service improvement capacity in the operational secondary care structure.
- £1.7m (£892,000 in 2018/19 and £826,000 in 2019/20) will support the turnaround process by strengthening programme management and analytical demand capability.
- £0.5m will increase capacity within the mental health and learning disabilities division by extending the pilot project 'Right Care and Repatriation Programme'. This will ensure patients receive the care they need through the correct care package, in the right environment and that timely transfer or discharge occurs when clinically appropriate to do so.

The new Chair, Mark Polin started in post in September and is already bringing clear direction and leadership for improvement including pursuing improved governance and responses that focuses on overcoming problems and challenges the Health Board faces.

I can assure you that we are identifying and logging learning lessons on escalation and intervention arrangements, including our role to inform our thinking and future plans. These include, for example the need to recognise the significant leadership and cultural challenges that have not been tackled successfully previously in organisations, ensure Welsh Government capacity and capability to engage and gear up to support the arrangements on top of other demands and the danger of holding a health board under escalation arrangements to a higher standard than the rest of NHS Wales before issues can be de-escalated. The learning from the BCU experience has, I believe, also supported other organisations at lower levels of escalation to improve performance.

Welsh Government is clear that it has a system leadership role in driving improved performance, within the governance arrangements of NHS Wales. We expect NHS organisations to deliver their responsibilities, with guidance, constructive challenge and support from Welsh Government where required. The early identification of signs that an organisation is experiencing difficulties is critical in allowing intervention at an early stage, so that we can work with organisations to bring about improvements before the position deteriorates. This is not always a quick progress, and it would be wrong to believe that often significant challenges can always be addressed in the short term. Building sustainability through appropriate intervention, both supportive and challenging, requires sufficient time if it is to be fully embedded into the culture of an organisation.

The learning from operation of the escalation framework has, for example, informed the proposals for an NHS Executive set out in A Healthier Wales. This will rebalance the relationship between Welsh Government and the NHS, and provide strengthened capacity to work with challenged organisations to secure improvements. Reflection on the actions taken with challenged organisations is also informing the development of our operating framework, including how we incentivise improvements, the sanctions available to us, and how to deploy the right balance between the two.

A formal review of the escalation framework will be undertaken alongside the establishment of the NHS Executive to ensure that the arrangements fit with the wider organisational and accountability landscape as we deliver A Healthier Wales.

Long Term Planning

Welsh Government expects all organisations to have strategies which set out their ambitions for the long term. This should include clinical strategies in the broadest sense of the term, together with key enabling strategies addressing for example workforce requirements or their estates strategy. IMTPs should be developed within the context of these long term strategies, and set out the steps the organisation will take over the next three years in pursuit of its strategic goals.

A three-year timescale gives the NHS both sufficient certainty and appropriate flexibility within which to plan. This timeframe avoids a more constraining one-year focus, and presents opportunities to use financial flexibilities to support transformation and change over a longer period. Most organisations have demonstrated their ability to operate within this context, and as indicated earlier we can see positive signs that at least two of the more challenged organisations are coming closer to a sustainable position. Three years provides the right timeframe to support a more strategic approach to service decisions. Organisations already make many decisions which have an impact well beyond a three year period, for example recruiting new staff, initiating service developments or investing in their infrastructure such as estates or digital systems.

Many innovations are about making better use of resources already within the system, for example changing models of delivering outpatient services. Others are funded by additional allocations from Welsh Government and do not require costs to be recouped. NHS organisations have many opportunities to innovate in ways which do not incur additional costs.

I hope the detail in my letter provides you with the additional assurance you require.

Yours sincerely



Dr Andrew Goodall