

Public Accounts Committee

Meeting Venue:
Committee Room 3 – Senedd

Meeting date:
27 November 2012

Meeting time:
09:00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Agenda

- 1. Introductions, apologies and substitutions (09:00–09:05)**
- 2. Health Finances – Evidence from the Welsh Government (09:05–10:10)** (Pages 1 – 19)

PAC(4) 27–12 – Paper 1 – Welsh Government

David Sissling, Director General, Health, Social Services & Children
Kevin Flynn, Director of Delivery/Deputy Chief Executive, NHS Wales
Alan Brace, Director of Finance and Procurement, Aneurin Bevan Health Board

- 3. Health Finances – Evidence from the NHS Confederation 10:10–10:50**

Helen Birtwhistle, Director, Welsh NHS Confederation

- 4. Papers to note** (Pages 20 – 42)
PAC(4) 27–12 – Paper 2 – Update from the Auditor General for Wales on Health Finances

Minutes of previous meeting

- 5. Motion under Standing Order 17.42 to resolve to exclude the**

public from the meeting for the following business:

Item 6.

6. Consideration of evidence on Health Finances (10:50 – 11:00)

Public Accounts Committee PAC(4) 27-12 – Paper 1

Evidence paper from the Director General, Health, Social Services and Children to the Public Accounts Committee in response to the Wales Audit Office Report on Health Finances (July 2012)

Introduction

The Welsh Government welcomed the Wales Audit Office report on Health Finances when it was published in July. The report recognised the action that we are taking to place the finances of NHS organisations on a more sustainable platform. This included the provision of recurrent funding in 2011-12, and the introduction of a more flexible system of brokerage which removes the previous year-end bail-out arrangements. The report acknowledged the future challenges facing the NHS, but supports the Welsh Government's assertion that service change is necessary to secure the long term future of NHS Wales.

This paper provides the Committee with information on the current and future challenges facing the NHS; the action we are taking in the current financial year to address immediate challenges; the review of the NHS finance regime to support the strategic requirements of NHS Wales; and the Welsh Government's provisional response to the recommendations made in the Wales Audit Office report, which have been accepted in principle.

2011-12 Financial Year

2011/12 was a significant year for NHS Wales. The NHS demonstrated how it could rise to the significant strategic and operational challenges by delivering improved services and performance in an extremely tight financial environment. These challenges are increasingly evident as we move forward and the Welsh Government's response to these challenges included:

- the launch of *Together for Health* in November 2011;
- an injection of recurrent funds to replace non-recurrent monies and stabilise the financial position;

- clearly setting out the requirement for NHS organisations to pursue processes of service change which would enable sustainable delivery; and
- setting a clear emphasis on improving quality and safety as the defining and ultimate goals of the NHS.

As I set out in my annual report in July, the NHS has responded well to the challenges it faced in 2011/12, and has demonstrated general improvement across a wide range of services. These include: considerable improvements in stroke services; quality improvements through reductions in infection levels, pressure sores and mortality rates; access improvements, particularly in orthopaedics and unscheduled care; the introduction of new models of care using the benefits of our integrated system to generate substantial reductions in admission levels and length of stay for chronic conditions; and the delivery of financial break-even. The scale of the financial achievement in 2011-12 should not be underestimated. The NHS delivered savings of around £285m last year whilst driving up quality and patient experience. This compares very favourably with the performance of other Health systems.

The NHS therefore entered 2012/13 with a degree of positive momentum. Quality and performance were improving and progress was being achieved in planning longer term service change.

2012-13 Financial Year

It was acknowledged that the NHS would face further significant challenges in 2012/13. Despite the additional recurrent funding that had been allocated in 2011-12, NHS organisations faced a range of new cost pressures and, with continuing increases in demand, this meant a requirement to deliver further efficiency savings of approximately £317 million in order to achieve financial breakeven. This is a significant challenge, especially when set in the context of delivering approximately £600m of savings in the last two years. At the beginning of the financial year Health Boards had submitted financial plans to deliver this scale of efficiency, but it was clear that there was a high level of risk associated with their delivery. Following further work undertaken by the Health Boards it became apparent that some of the savings schemes would not fully

deliver the level of savings required within the necessary timeframes and therefore LHBs have needed to develop new schemes as replacements.

A pattern of monthly deficits developed during the early part of the year and it is becoming increasingly clear that the NHS is struggling to maintain required performance levels within their current allocations. As at the end of September NHS organisations reported a cumulative deficit of £69.1m and had revised their forecast year end outturn to a deficit of £69.6m.

The financial position reported by NHS organisations has been subject to detailed analysis and review by my Department and individual organisations. It is important to note that there has historically been a pattern of NHS overspends in the early part of the year as saving initiatives have had a greater impact during the later months. There are also profiling issues which can, at times distort the year to date position.

There is clear evidence that Health Boards have been experiencing considerable pressure and of particular note is the demand within their unscheduled care systems, where there appears to be very little reduction from the peak levels experienced during the winter period.

As a consequence of the strains on both financial and non-financial performance, the Minister for Health and Social Services asked me to undertake a mid-year review of the pressures facing NHS Wales in the current financial year.

Mid Year Review – Initial Observations

During October, as part of the review, I and my Directors of Delivery and Finance, met individually with each Board and Trust to discuss their service and financial position and prospects in detail. Organisations presented a number of reasons for the pressures they were experiencing. These included:

- A difficulty in delivering sufficient capacity to meet the pressures placed on unscheduled care demands, particularly from increases in the older population.

- An inability to achieve necessary reduction in 'premium' pay costs for agency and bank work. A significant reduction in these costs is not likely to be achieved before necessary service change is implemented.
- Increasing expenditure on continuing healthcare patients and clients.
- In some cases Health Boards have acknowledged a requirement to strengthen aspects of their internal budgetary planning and control.

My Department has undertaken further work to corroborate the demographic demands being described by the NHS. What became particularly evident through this analysis was, alongside continuing growth in the overall population, there is significant growth in the absolute and relative level of the elderly, which inevitably places particular strains on care services.

Wales has the highest number of over 85 year olds – a pattern which will continue and increase over coming years. The demographic changes are leading to changes in demand on the NHS. A particularly significant aspect is the level of attendances and admission through A&E Departments. Whilst the overall increase in attendances at A&E departments was 3.5% in 2011-12, the increase for 75-84 year olds was 6.3%, and for those over 85 was 8.6%. The forecasts for 2012-13 are 7.7% for 75-84 year olds, and 9.7% for those over 85, compared to an overall forecast increase of 4%. Despite this pressure, performance in relation to the A&E 4 hour target has remained relatively stable. This reflects considerable work to streamline processes and introduce new models of care.

In addition to the percentage growth increasing with age the proportion of major A&E attendances admitted increases from 15% for the working age population to 37% to 53% for the older population. The position is compounded by the fact that length of stay for older people tends to be longer. This results in more bed days and of course the requirement for increases in associated resources – staff, medication and consumables. This growth in unscheduled care is also mirrored in the demands placed on the ambulance service. Category A calls have increased by 21.7% since 2010/11.

It is also important to note the impact of the financial pressures being experienced by Local Authorities. Health Boards are reporting the impact this is having on the availability of social care provision – particularly domiciliary care – in parts of Wales. The impact includes greater likelihood of admission to hospital and delayed discharge.

The overall picture is therefore one of increasing demand with the trends associated with the elderly population being of particular significance. Health Boards are taking action to contain this demand – new models of care are avoiding admission and reducing lengths of stay. However, analysis indicates the ‘net’ impact is of significantly increased attendance and admission to hospitals. Further evidence of the demographic impact on demand is provided in Annex 1 to this paper.

It is important to emphasise the positive achievement being delivered by the NHS to improve efficiency and productivity. Resource utilisation is improving rapidly - more care is being delivered in out-of-hospital settings, lengths of stay are reducing and more care is provided without the need for overnight stays. Some examples of this progress are illustrated in Annex 2.

Based on the evidence of risks presented in NHS organisations initial financial plans, I took the decision early in the financial year to establish a contingency reserve within Welsh Government central health and social services programme budgets. The use of the contingency will be considered in light of the review.

Service reconfiguration and the financial challenges

The Committee will be aware that the five year vision for the NHS includes plans to reconfigure the way we deliver our services. Betsi Cadwaladr and Hywel Dda LHBs have recently consulted on their proposals for the future shape of services in their respective areas. They are now considering responses to the consultations and will present their final proposals early next year. The LHBs in the South Wales commenced an engagement programme on 26 September and will formal consultation process will follow next year.

A critical part of the governance process is to ensure that the service changes propose a safe service that is within the overall future indicative budget allocations. The service changes are not financially driven, but financial sustainability will need to be a key component of the final proposals. In particular I am mindful that our plans for capital expenditure, whilst currently affordable and in line with our service strategies, may need to be reviewed in light of the conclusions from the reconfiguration process.

A new Finance Regime for NHS Wales

In *Together for Health* we committed to develop a new finance regime for NHS Wales which improved planning and utilisation of financial resources in line with clinical priorities. We also committed to ensure greater clinical involvement in financial decision-making and budgeting. High quality care and the efficient and effective use of NHS funding go hand in hand. Poor practice and avoidable variations in service delivery can cause both clinical harm and financial waste. So the new finance regime for NHS Wales will bring clinical and financial priorities more closely together and will develop financial information that provides intelligence and insight at a strategic and operational level, in a format that is of use to clinicians, and therefore helps support and drive clinical change

The new regime will place the development and implementation of Integrated Medium Term NHS Plans at its core. These will have the following characteristics:

- As the focus to *“improve planning and utilisation of financial resources in line with clinical priorities”*
- Leads to *“greater clinical involvement in financial decision making”*, through clinical input into integrated clinical, service, workforce and financial plans
- move the agenda forward from the traditional narrow annual cycle to support service change and measure improvement over a longer period than one year
- the means of Local Health Boards to focus on ensuring that the plans, framework and tools are fit for purpose for Integrated Organisations, to cover the range from population needs and health, both at organisational and locality level,

to programme and pathway support through to integrated performance and governance

To support the move from annual to medium term plans the finance regime work includes considering options for providing Local Health Boards with more flexibility to manage their funding across financial years. These options include flexibility that can be accommodated within the existing legislative framework for NHS Wales, as well as considering whether changes to the NHS statutory financial regime are required to provide greater flexibility in the longer term. The options also take account of the annual budgetary constraints which apply to the Welsh Government's health budget.

The work on the new regime will be completed and published shortly.

Wales Audit Office Recommendations

The Minister confirmed that the Welsh Government has accepted all six recommendations in the WAO report in principle. Annex 2 sets out our provisional response to these recommendations, and the action we are currently taking. We will, of course, respond formally to any recommendations that the Committee makes following their review of this report.

Conclusion

The Wales Audit Office report acknowledged the challenges facing NHS Wales, but acknowledged the actions that the Welsh Government and the NHS collectively are taking to respond to these challenges. We will shortly be reporting on the Mid-Year Review of NHS financial and non-financial pressures, and will be publishing the work that has been undertaken to develop a new finance regime. These will both provide further evidence of the action being taken to place NHS Wales on a stable financial platform.

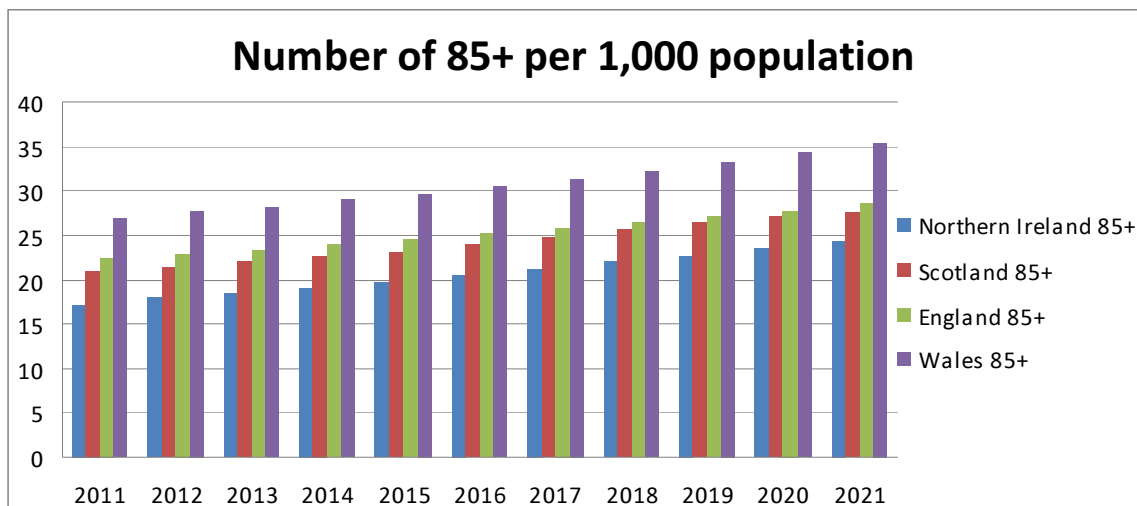
David Sissling

Director General, Health, Social Services and Children

Chief Executive, NHS Wales

Further Evidence on Demographic Impact on Demand for health services

Figure 1 – Number of 85+ per 1,000 population for each UK nation 2011 - 2021



Sources:

Northern Ireland: 2010-based National Population Projections. Published 26 October 2011.

<http://www.nisra.gov.uk/demography/default.asp20.htm>

England: Interim 2011-based subnational population projections, persons by single year of age.

www.ons.gov.uk/ons/rel/snpp/sub-national-population-projections/Interim-2011-based/index.html.

Released 28/09/2012

Wales: [019386]: Variants for the 2008-based local authority population projections for Wales, 2008 to 2033 (high projections) Statistical Directorate, Welsh Assembly Government

Scotland: Projected population of Scotland (2010-based), by sex and age group, 2010-2035, Table 6.

<http://www.gro-scotland.gov.uk/statistics/theme/population/projections/scotland/2010-based/tables.html>

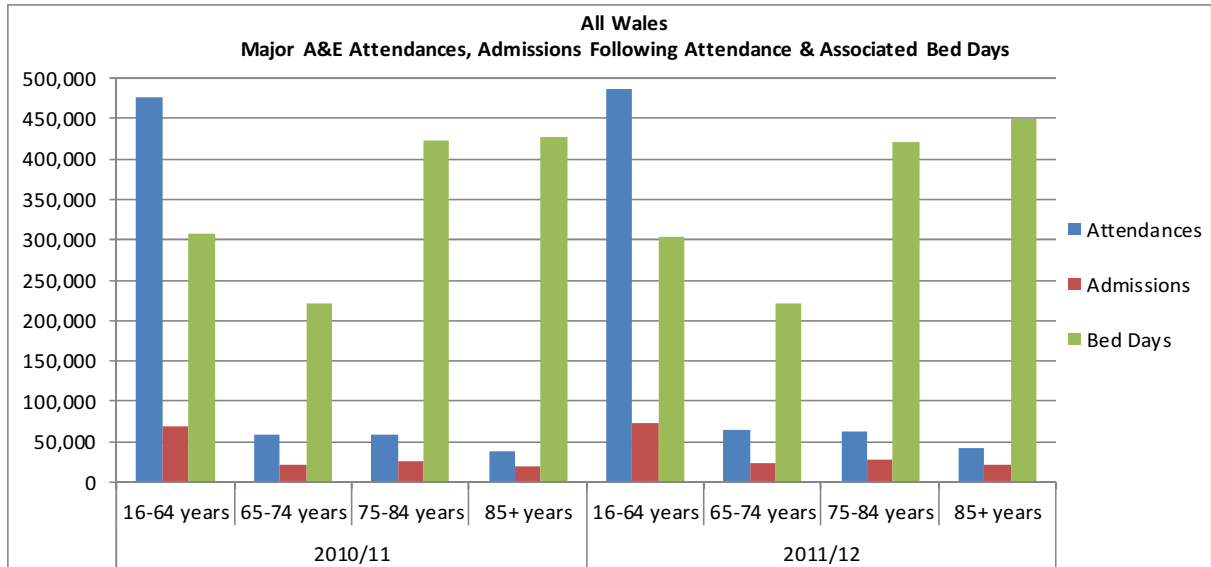
Figure 2 – A&E attendances by age group 2010-11 to 2012-13

A&E Attendances	2010/11	2011/12	% Increase	2012/13 ** Forecast	% Increase
16-64 years	477,107	487,658	2.21%	499,508	2.43%
65-74 years	59,505	63,874	7.34%	70,219	9.93%
75-84 years	58,215	61,875	6.29%	66,617	7.66%
85+ years	38,023	41,307	8.64%	45,329	9.74%
	632,850	654,714	3.45%	681,324	4.06%

** The 2012/13 figures have been extrapolated from the actual position at September 2012.

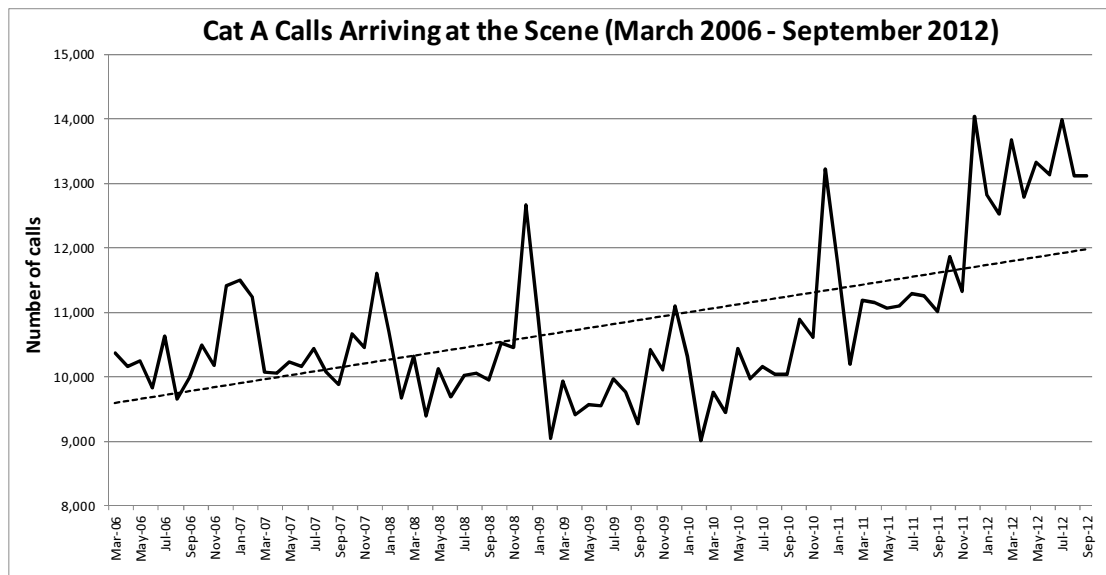
Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 3 – Admissions and associated bed days following attendance at A&E by age group 2010-11 to 2011-12



Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 4 – Category A calls 2006 to 2012

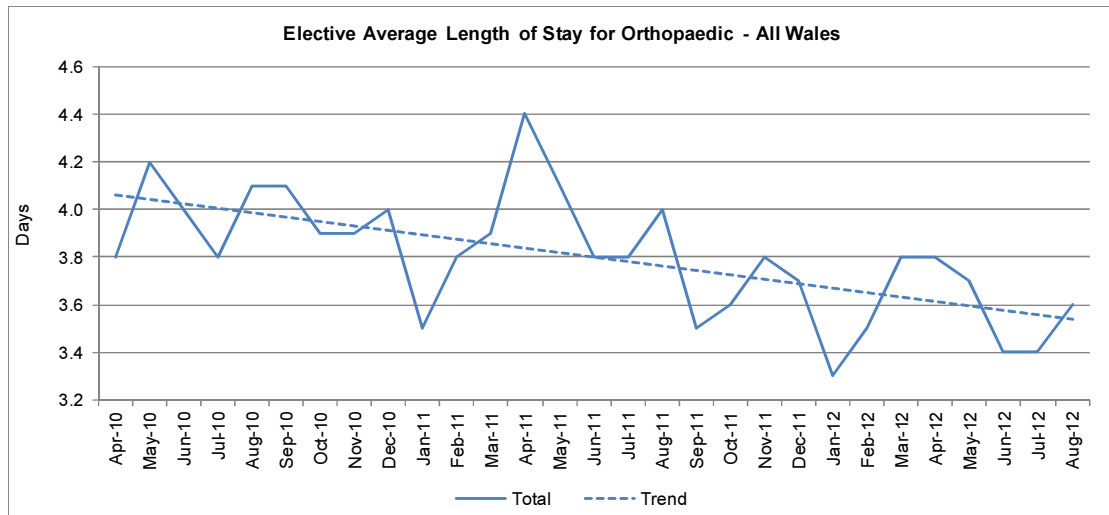


Source: Welsh Government analysis of Welsh Ambulance Services NHS Trust data

Annex 2

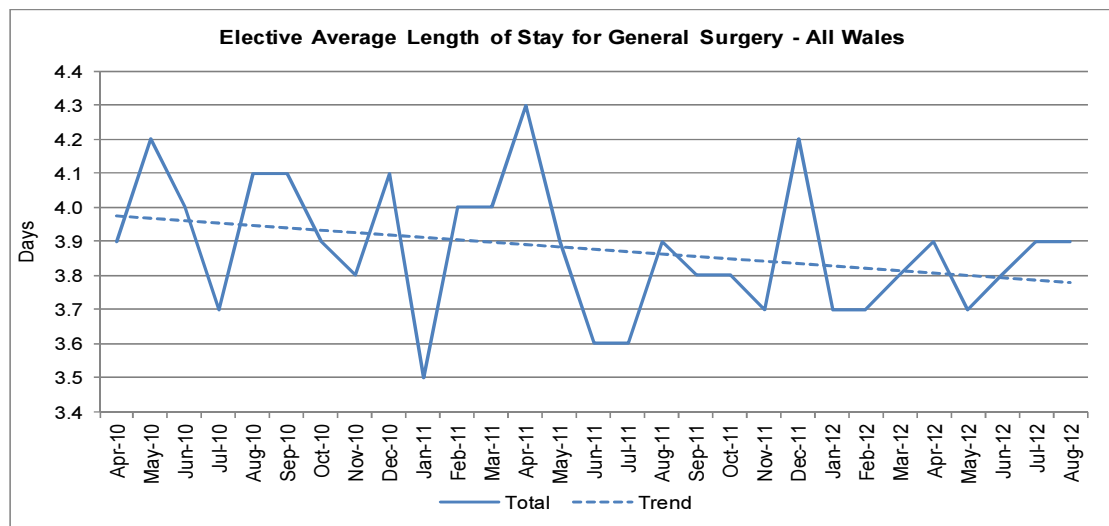
Efficiency and Productivity Improvements : NHS Wales

Figure 1 – Elective average length of stay for Orthopaedics 2010 to 2012



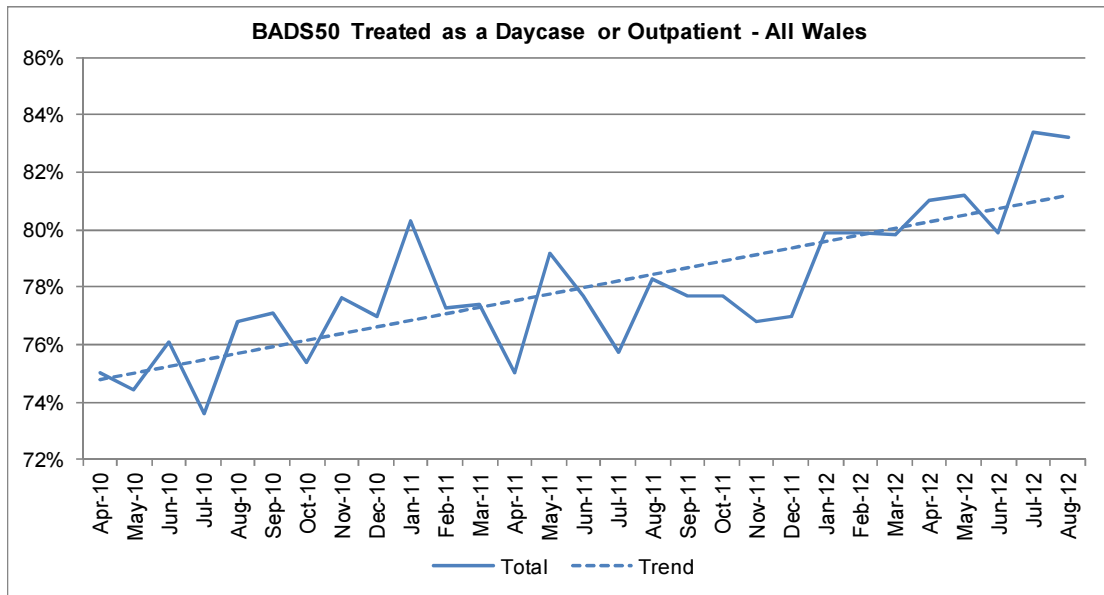
Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 2 – Elective average length of stay for General Surgery 2010 to 2012



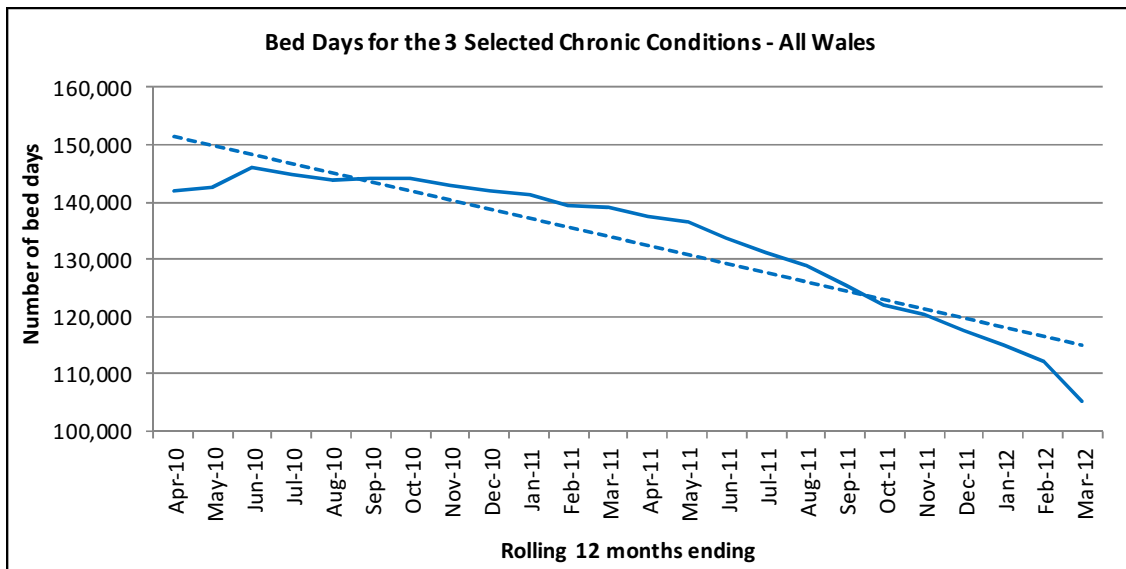
Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 3 – Percentage of selected procedures treated as a daycase or in outpatients 2010 to 2012



Source: Welsh Government analysis of Patient Episode Database for Wales

Figure 4 – Bed days for emergency admissions for 3 selected chronic conditions



Note :

The Chronic Conditions included in the analysis above are:

- COPD

- CHD
- Diabetes

Source: Welsh Government analysis of Patient Episode Database for Wales

Provisional Welsh Government Response to WAO Recommendations

WAO Recommendation	Welsh Government Provisional Response
<p>R1 Despite reporting significant savings, NHS bodies required additional funding in recent years. In particular, there are challenges in achieving cash-releasing workforce savings. In order to help address the short-term funding gaps, the Welsh Government should:</p> <ul style="list-style-type: none"> • further support NHS bodies in sharing good practice on making cost reductions, particularly efficiency savings that do not impact on quality or service levels; and • provide challenge to NHS bodies as they develop their three-year plans to ensure they accelerate the cash-releasing savings from workforce planning while managing the risks to service levels and quality. 	<p>Through membership of the NHS Directors of Finance Sustainability Sub Group, Welsh Government officials support the sharing of analysis and good practice based on the consistent analysis of the Savings Schedule from the Financial Monitoring Returns.</p> <p>As part of the 2012/13 Financial Planning submissions Welsh Government officials have reviewed and challenged the original plans requiring NHS bodies to be more explicit in profiling their workforce wholetime savings.</p>
<p>R2 The longer-term sustainability of health services depends on radical reform of the way services are delivered and organised. The NHS faces a major challenge in funding that reform especially as there are large cuts to capital funding. The Welsh Government should work with NHS bodies to identify the capital costs of reforming services, ensure these are properly prioritised within available resources and explore alternative options for funding or providing the necessary infrastructure that supports the reform of NHS services.</p>	<p>As set out in the Wales Infrastructure Investment Plan, the Welsh Government view is that public infrastructure investment should be primarily funded through direct government capital expenditure. However there is clearly a strong case for change to increase the resources available for investment –the imperative to boost jobs and growth, the significant reduction in the Welsh Government capital budget, the relatively low cost of borrowing and the benefits of bringing forward investment.</p> <p>The Minister for Finance and Leader of the House’s officials</p>

	<p>have been leading on this work and Health officials are already working closely together to explore a number of emerging opportunities which involve different funding partners and delivery mechanisms.</p> <p>In terms of the consideration of NHS service plans, Betsi Cadwaladr University Health Board and Hywel Dda Health Board recently consulted on their proposals for future services in North Wales and Mid and West Wales respectively. They are now considering responses to the consultations before presenting their final proposals. South Wales commenced its three month engagement programme on 26 September and this will be followed by a formal consultation process next year. There are therefore no firm or final capital proposals at this stage. There needs to be timely and regular evaluations of LHB capital requirements and officials are in regular dialogue with NHS organisations to identify and manage investment opportunities as they emerge to ensure that we continue to identify, fund and deliver the priority schemes.</p>
<p>R3 In recent years, the proportion of NHS bodies' funding that has been allocated during the financial year, instead of at the outset, has risen substantially. Whilst there are valid reasons for this, the Welsh Government should ensure that NHS bodies are provided with as much detail as possible on funding before the start of a financial year to facilitate effective financial planning.</p>	<p>Health Boards receive their initial allocation notification in the December prior to the start of the financial year. Any funding allocated after this point, including funding notified before the start of the financial year, is considered as an in-year adjustment. In practice, most regular funding that is not included in the initial allocation will be issued early in the financial year, and health boards will have been notified of the intended levels of funding before the formal allocation is made. A significant proportion of the funding allocated to Health Boards during the financial year is also for non-recurrent and exceptional items of expenditure, for example to</p>

	cover accounting costs for impairments and accelerated depreciation. The Welsh Government has reviewed the budgets it holds centrally and is planning to incorporate a number of these funding streams into Health Board's core revenue allocations in future years.
<p>R4</p> <p>The Welsh Government has improved the monitoring information it gathers on NHS bodies' financial positions throughout the year. This improved information has helped the Welsh Government to take more timely decisions on funding pressures in the year. There are, however, some areas where the monitoring system could be strengthened further to provide a more accurate picture of the likely end-of-year position. The Welsh Government should work with NHS bodies to:</p> <ul style="list-style-type: none"> • ensure that the information on expected end-of-year out-turn is consistent across NHS bodies, in particular that they strike a similar balance between optimism regarding breakeven and a realistic assessment of the challenge; and • ensure that, where possible, NHS bodies profile expected savings from central budgets and accountancy gains across the year in their monitoring returns to give a more realistic picture in-year. 	<p>We have a systematic process of working with NHS organisations to ensure a consistent approach in the calculation of their out-turn position. This is done through a working group comprising Welsh Government officials and NHS finance staff.</p> <p>Currently organisations who report that accountancy gains have been identified are notified that these must be phased into the monthly profile. This is being actioned. Organisations who assess potential accountancy gains are unable to include these until later in the year when they are confident that they have materialised.</p>
<p>R5</p> <p>There are several different official assessments of the cost pressures that the NHS faces between now and 2014-15, with differences between them. To support better financial planning, and clarify the scale of the challenge the NHS faces and the savings that are required, the Welsh</p>	<p>As part of developing Integrated Medium Term Plans, the Welsh Government is supporting joint work with NHS professionals to develop clearer resource planning assumptions for inclusion in modelling individual plans. This will effectively update the challenge the NHS faces, based on assessment of future pressures as well as the underlying</p>

<p>Government should:</p> <ul style="list-style-type: none"> • update the assessment of the cost pressures on the NHS, which are currently set out in the Five Year Framework; and • consider this updated assessment against other measures of cost pressures from elsewhere in the UK public sector. 	<p>position moving from 2012/13 into 2013/14. This will include evidence and validation against other measures.</p>
<p>R6</p> <p>The resource accounting regime of the NHS has a short-term focus on breaking even within each financial year. This potentially makes it difficult for NHS bodies to create funds to invest in transformation and change in order to deliver savings in future years. Within the current framework of resource accounting, the Welsh Government should assess the current requirement for health boards to break-even each and every year, and develop options that would enable NHS bodies to invest in new ways of working where these are likely to deliver savings in the future and enable them to break-even over a longer period.</p>	<p>The current legislative regime within which NHS organisations currently operate imposes certain financial duties, which includes a requirement for health boards to break even each and every year. This constrains the ability of health boards to plan and manage their finances over the medium term. Therefore work has been instigated to explore opportunities that may be available by making changes to primary legislation that governs the financial operating environment within which health board's function. The options also take account of the annual budgetary constraints which apply to the Welsh Government's health budget.</p> <p>Changes to primary legislation are longer term solutions and consequently other options are being considered which will provide additional flexibility within the current legislative framework. These include arrangements to support; planned financial flexibility, to allow the management of resources across financial years over the medium term, by providing access to a dedicated fund, as part of a three year planning horizon and also shorter term flexibility arrangements, to address unforeseen circumstances and short term challenges that may occur during the year.</p>

	Further information will be provided as part of the publication on the work of the 'new finance regime' as announced in the Departments NHS plan 'Together for Health' launched by the Minister in October 2011.
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Mr Darren Millar AM

Chair of the Public Accounts Committee

National Assembly for Wales

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Dear Darren

Please find attached a copy of my *Health Finances: Update*. The report updates some of the figures in my July 2012 *Health Finances* report. My July report showed that the NHS in Wales faces major challenges with a growing funding gap and tougher financial settlement than other parts of the UK. The update sets out the financial position of NHS bodies at month six within the current financial year. It is based entirely on the data reported by NHS bodies to the Welsh Government, setting out the current financial position, the potential end of year position and progress with savings plans. There are some important points that merit drawing to the Committee's attention.

Overall, the NHS is in a better financial position than at the same time last year. However, that is in large part due to the additional recurrent funding that the Welsh Government provided in October 2011. The Welsh Government intended that the recurrent funding would help bring to an end the cycle of NHS bodies over-spending and the Welsh Government providing additional funding in the year to enable them to break-even. It now seems highly unlikely that the cycle has been broken. Most Health Boards are unlikely to break-even within their current resource limits. The Committee will no doubt be aware that the Health Minister has commissioned a mid-year review of NHS bodies' financial position and non financial performance, which I understand is nearing completion.

Health Boards are making some progress with their savings plans but it is clearly not sufficient. Following two years where they have focused heavily on savings, the quick wins and obvious areas for savings are now harder to come by. Health bodies have taken different approaches to their plans: some have plans to fully bridge their funding gaps, others have only been able to develop plans to partially bridge the funding gaps. Regardless, no Health Board has achieved the savings they planned by month six. Workforce savings – the largest area for planned savings - seem to be particularly difficult to actually achieve. Most Health Boards planned to reduce staffing numbers, but overall staff numbers have actually slightly increased. All Health Boards have recognised that there is a risk that they will not deliver the savings they need by the end of the year.

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Date: 20 November 2012
Our ref: HVT/1762/fgb
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As the Committee intends taking evidence from the Chief Executives of Cardiff and Vale University Health Board and Betsi Cadwaladr University Health Board, I thought it would be helpful to briefly comment on the specific challenges they face. The figures in the report raise some significant questions for both organisations. Cardiff & Vale University Health Board is the only Health Board to have a higher deficit at the end of September 2012 than the previous year. Betsi Cadwaladr University Health Board's position is only marginally better than it was at this point last year. Both organisations are considerably behind their initial plans for making savings. Both Health Boards are forecasting similar and large (relative to other Health Boards) "most likely" end of year deficits in the order of £20 million.

Overall, the update report shows that, with a £69 million deficit at month six, NHS bodies face a major challenge in the next six months just to contain their over-spending against plan. Welsh Government budgets, including the latest draft budget, show that there is no let up in the financial pressures for the foreseeable future. As we have said in several previous reports, these financial pressures point to a need for realistic short-term savings plans, including some tough choices around savings on workforce costs; and urgent transformation to new models of care and delivery that are sustainable and deliver better quality services to patients



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

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Health Finances: Update

Introduction

In July 2012, we published our report *Health Finances*. That report set out the historical pattern of spending and financial management within the NHS. It examined how the NHS had broken even in 2011-12 and looked at the major challenges facing the NHS in the future. Following publication of our report, the Public Accounts Committee of the National Assembly for Wales decided to launch its own inquiry and take evidence on the basis of our report.

With the unprecedented and imminent financial challenges facing the NHS, we undertook to provide the committee with an update on the current financial position of NHS bodies in Wales. This report provides a factual update at the 2012-13 mid-year point, without evaluation or detailed analysis. It is based on the monthly monitoring information that NHS bodies supply to the Welsh Government. Specifically, it sets out:

- the current financial position as at 30 September 2012 (month 6);
- forecasts of the end-of-year position at 31 March 2013; and
- progress with 2012-13 savings plans.

This update report shows that NHS bodies have struggled to manage within their current resource limits in the first half of the year. It is likely that there will be a significant deficit by the end of the year. NHS bodies are making progress with their savings plans, but this is clearly not sufficient. Overspends in key areas like pay and medicines suggest NHS bodies are struggling to contain cost pressures.

Welsh Government budgets, including the latest draft budget, show that health budgets will not rise to match known cost and demand pressures for the foreseeable future. As we have said in previous reports, these financial pressures point to a need for:

- realistic short-term savings plans, including some tough choices around savings on workforce costs; and
- urgent transformation to new models of care and delivery that are sustainable and deliver better quality services to patients.

Current financial position

Figure 1 : With a combined deficit of £69 million at month 6, most NHS bodies are in a better position than the same point in 2011-12 thanks to additional recurrent funding allocated in October 2011. However, Cardiff and Vale University Health Board has a larger deficit than at the same point last year and Betsi Cadwaladr University Health Board is only marginally better off.

NHS body	Position at end of September 2012 (£ million)	Position at end of September 2011 (£ million)
Abertawe Bro Morgannwg	-9.7	-15.8
Aneurin Bevan	-5.8	-15.9
Betsi Cadwaladr	-14.8	-15.4
Cardiff and Vale	-17.6	-16.7
Cwm Taf	-6.9	-15.8
Hywel Dda	-7.8	-20.5
Powys	-5.1	-10.3
Public Health Wales	0.0	0.1
Velindre	0.0	0.1
Welsh Ambulance	-0.3	-0.7
NHS Wales	-69.1	-110.8

Source: Welsh Government monitoring returns

Note: In October 2011, the Welsh Government provided NHS bodies with an additional £133 million for the 2011-12 financial year, of which £103 million was recurrent with further transitional funding for Hywel Dda over three years (£30 million in 2011-12, £20 million in 2012-13).

Forecasts of end-of-year position

Forecasts of the 2012-13 end-of-year position are inherently uncertain. In this report, we have used three different forecasts:

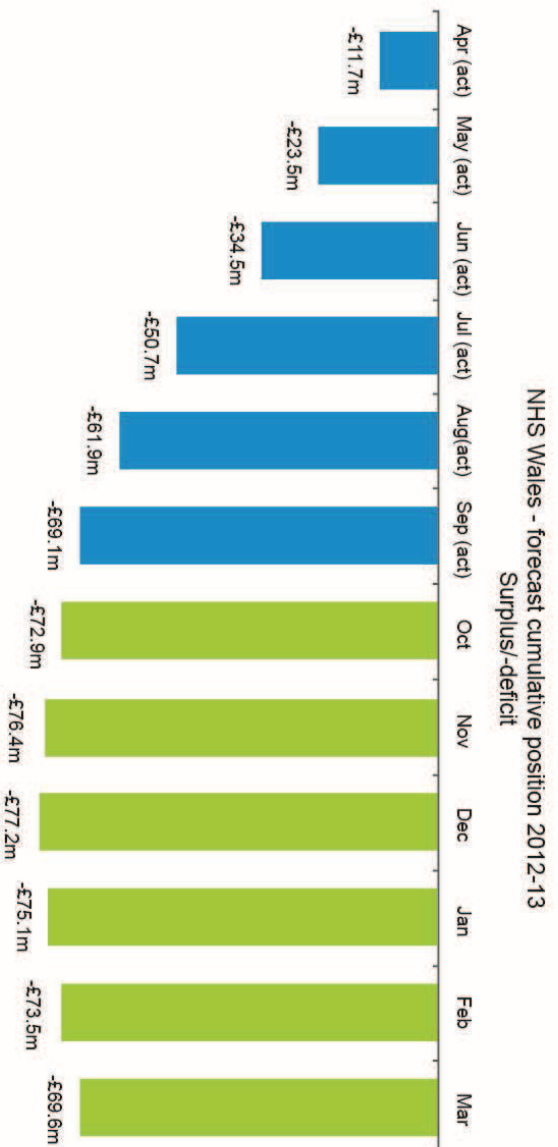
- NHS bodies' own forecasts;
- Welsh Government trend analysis based on progress to date; and
- our own analysis based on the trend in 2011-12.

Overall, these analyses show that **NHS bodies themselves predict an end-of-year deficit of around £70 million but that it could be significantly higher.**

Figure 2: For 2012-13, NHS bodies forecast a 'most likely' potential deficit of £70 million, although it could be between £46 million and £131 million

NHS body	End-of-year forecast position		
	Worst case (£ million)	Most likely (£ million)	Best case (£ million)
Abertawe Bro Morgannwg	-21.0	-13.5	0.0
Aneurin Bevan	-11.0	0	0
Betsi Cadwaladr	-19.0	-19.0	-19.0
Cardiff and Vale	-32.2	-20.0	-20.0
Cwm Taf	-13.1	-10.0	-7.7
Hywel Dda	-12.8	-3.1	-3.1
Powys	-9.0	-4.0	-1.6
Public Health Wales	-1.6	0.0	0.0
Velindre	-4.4	0.0	0.0
Welsh Ambulance	-7.6	0	+5.3
NHS Wales	-131.4	-69.6	-46.1

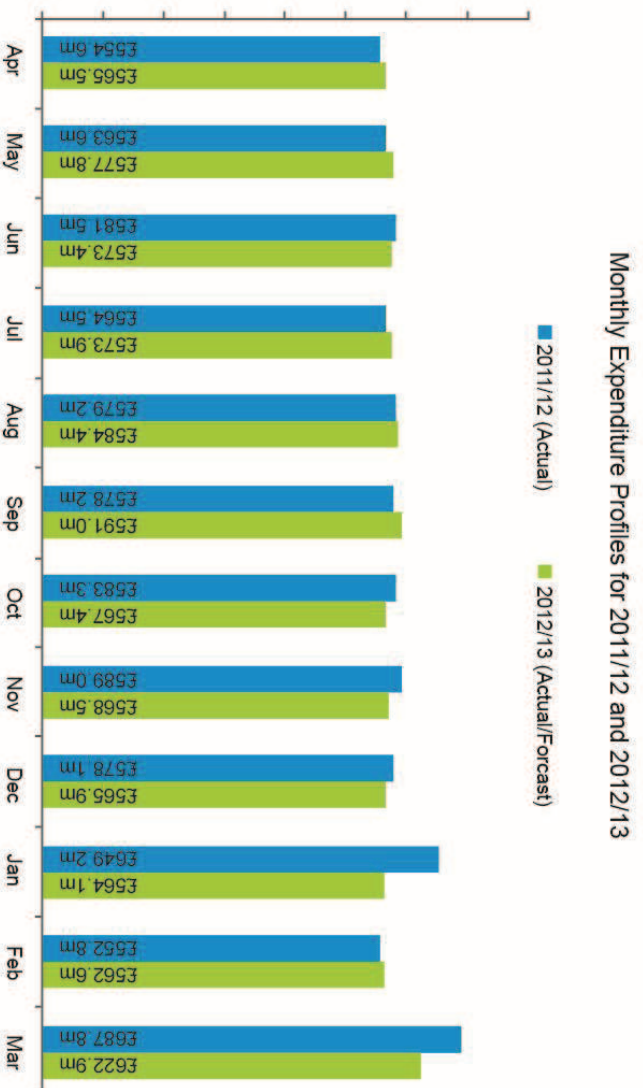
Source: Welsh Government monitoring returns



Source: Welsh Government monitoring returns

Figure 3: NHS bodies have overspent by an average of around £10 million each month but the rate of overspending has reduced and health boards themselves expect to underspend in the final quarter in order to deliver the forecast £70 million deficit

Figure 4: In forecasting this level of deficit, NHS bodies are planning on the basis of spending less in the last six months of 2012-13 than in the last six months of the previous year



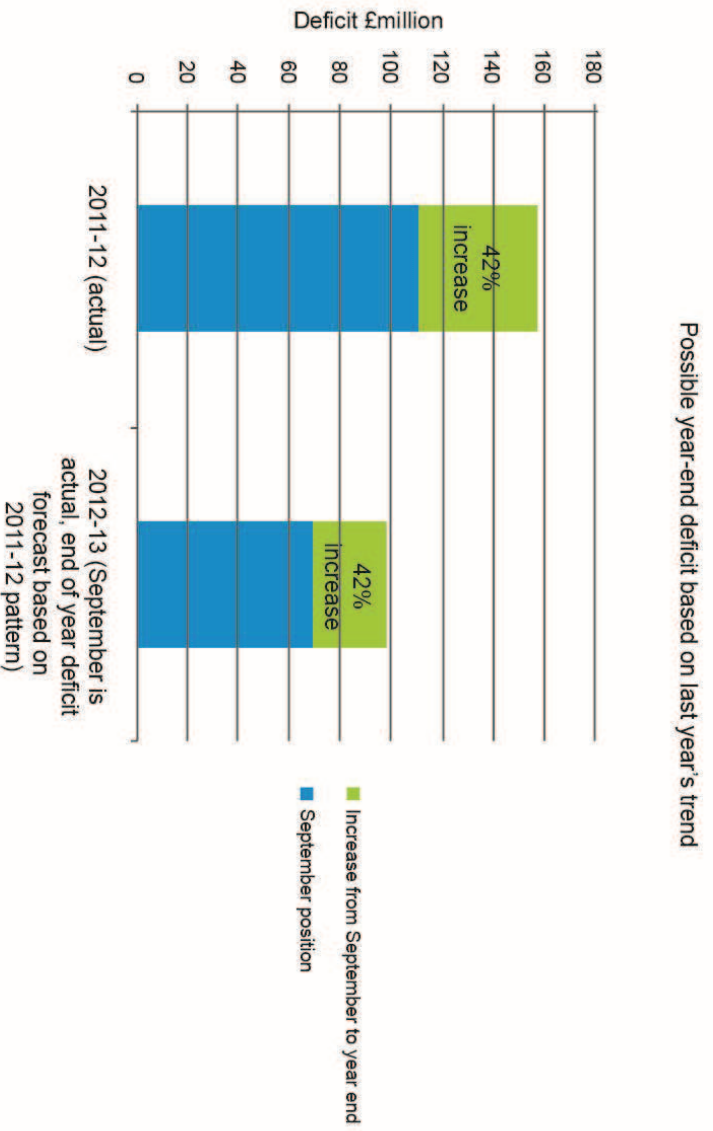
Source: Welsh Government monitoring returns

Figure 5: Welsh Government analysis of current trends suggest the end-of-year deficit could be higher than the most likely forecast by NHS bodies

NHS body	End-of-year position if monthly average continued to year-end (£ million)	End-of-year position if the position in September continued to the end of the year (£ million)
Abertawe Bro Morgannwg	-19.5	-16.3
Aneurin Bevan	-11.6	-7.6
Betsi Cadwaladr	-29.6	-17.2
Cardiff and Vale	-35.3	-31.1
Cwm Taf	-13.9	-12.9
Hywel Dda	-15.6	-16.1
Powys	-10.4	-8.3
Public Health Wales	0	-0.1
Velindre	0.1	-0.1
Welsh Ambulance	-2.6	-3.3
NHS Wales	-138.3	-112.9

Source: Welsh Government monitoring returns

Figure 6: Trend analysis probably overstates the likely year-end position as historically NHS bodies have tended to reduce their rate of overspending in the second half of the year: last year the deficit increased by 42 per cent in the final six months. If that trend were repeated in 2012-13, the end-of-year deficit would be in the order of £100 million.

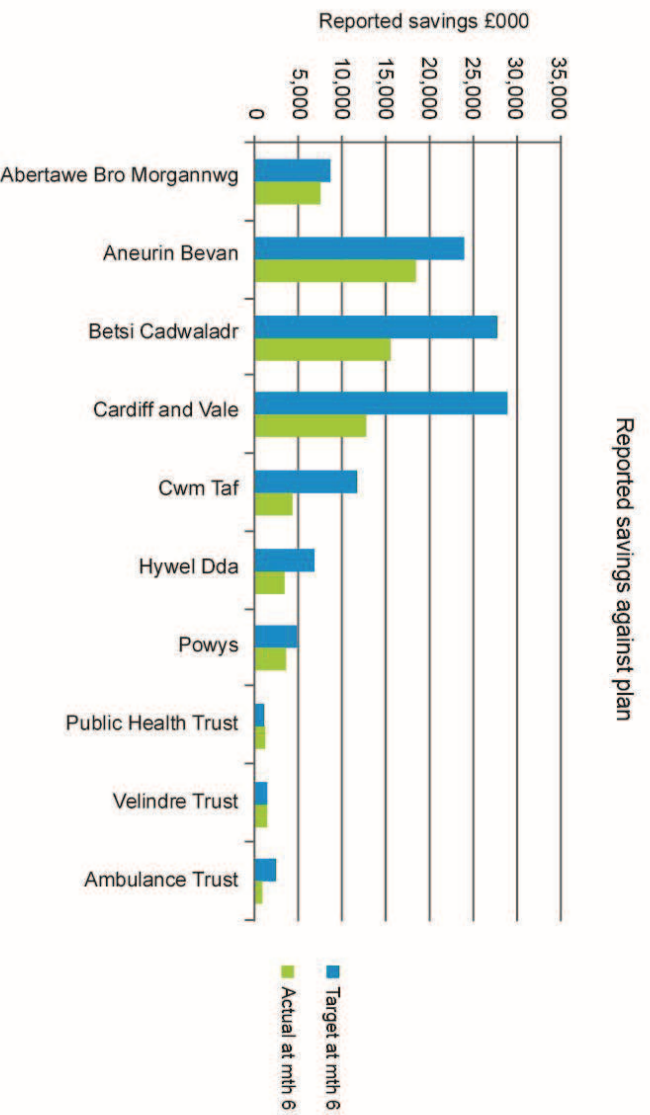


Source: Wales Audit Office analysis

Note: In 2011-12, there was not a formal deficit as the Welsh Government provided additional funding of £133 million and brokerage of £24 million. To enable comparison, we have treated this total of £157 million as the deficit that would have occurred without the additional support.

Progress with savings plans

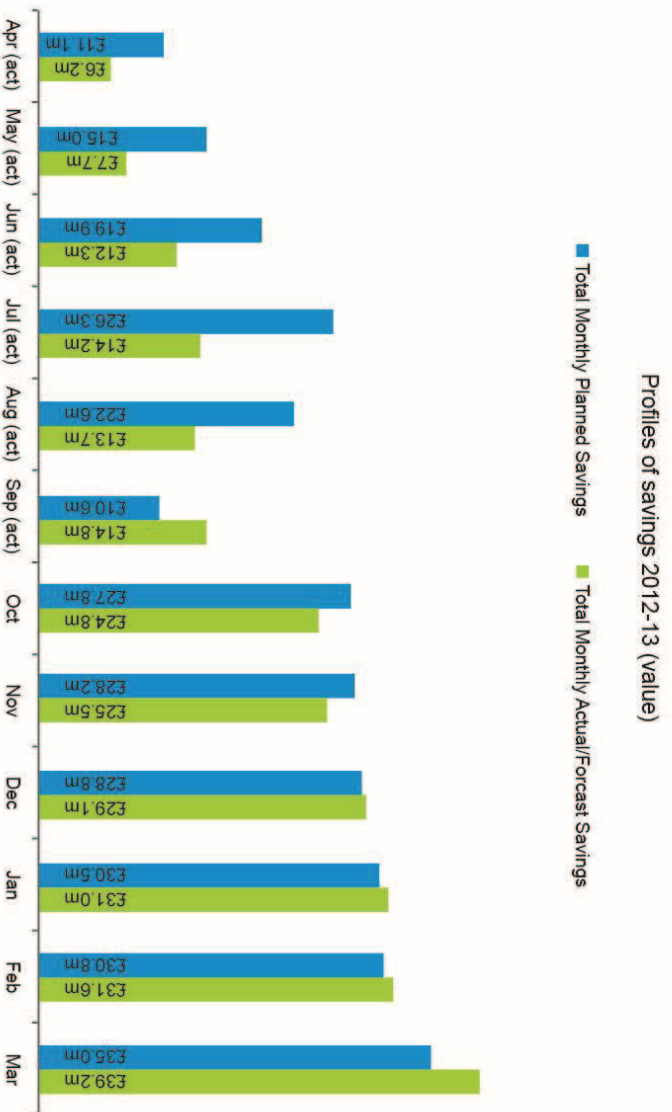
Figure 7: By the end of September 2012, NHS bodies had reported actual savings of £69 million against planned savings of £118 million, with performance varying considerably between NHS bodies



Source: Wales Audit Office analysis of Welsh Government monitoring returns

Note: For Betsi Cadwaladr University Health Board, we have reported the progress made against its original, not its current, savings plan. In September it updated its plans, and moved some £14 million of planned savings from the first half to the second half of the year.

Figure 8: NHS bodies intend to make up some ground with their savings in the second half of the financial year



Source: Welsh Government monitoring returns

Note: The September figure is distorted by Betsi Cadwaladr’s revision to its savings plan, which had the effect of reducing the overall figure for planned savings across all NHS bodies by £12.6 million, from £23.2 million to £10.6 million. Adjusting for Betsi Cadwaladr, NHS bodies actually missed their savings target by £8.4 million in September.

Figure 9: Some NHS bodies' savings plans do not bridge the funding gap and those that do have full savings plans also recognise that there is a significant risk of not delivering

Organisation	Required annual savings £000s	Forecast annual savings £000s	Variance £000s	Comments
Abertawe Bro Morgannwg	45,100	25,951	-19,149	Equivalent to £13.500 million forecast deficit, £8.060 million overstated opening deficit, £1.500 million unscheduled care funding less added cost pressures of £3.911 million.
Aneurin Bevan	48,000	48,000	-0	
Betsi Cadwaladr	64,664	64,664	0	
Cardiff and Vale	66,886	46,886	-20,000	Equivalent to forecast deficit.
Cwm Taf	18,800	8,800	-10,000	Equivalent to forecast deficit.
Hywel Dda	41,630	27,592	-14,038	Equivalent to £3.110 million forecast deficit, £7.440 million accountancy savings, £4.248 million anticipated income not in the plan, less added cost pressures of £0.760 million.
Powys	18,852	14,853	-3,999	Equivalent to forecast deficit.
Public Health Wales	2,317	2,317	-0	
Velindre	3,055	3,055	0	
Welsh Ambulance	7,972	7,972	0	
Total Wales	317,276	250,090	-67,186	

Source: Welsh Government monitoring returns

Notes:

- Cardiff and Vale University Health Board reports that £13.7 million of 'identified savings' were actually yet to be identified in September;
- Aneurin Bevan Health Board reports that there is a high risk that it will not deliver £9 million of its savings;
- Betsi Cadwaladr University Health Board has identified the risk that it will not deliver £19 million of its savings (this is equivalent to its forecast deficit); and
- Cwm Taf Health Board has identified potential savings up to the full £18.8 million but has decided that £10 million are too high risk to action.

Figure 10: NHS bodies expect to make significant savings on workforce, procurement and medicines management

Savings categories	Full-year plan		Full-year forecast		Comprising	
	£000s	% age	£000s	% age	Recurrent £000s	Non-recurrent £000s
Workforce modernisation	103,135	36.0%	89,759	35.9%	85,766	3,993
Medicines management (primary and secondary care)	43,377	15.1%	45,416	18.2%	41,731	3,686
Procurement and other non-pay (excl. energy)	65,020	22.7%	43,006	17.2%	25,446	17,560
CHC (excl. DTOC)	15,520	5.4%	15,062	6.0%	14,727	335
Externally commissioned services	30,915	10.8%	29,563	11.8%	26,966	2,598
Management cost reductions	4,526	1.6%	4,397	1.8%	4,397	0
Estates/energy	2,558	0.9%	1,917	0.8%	1,678	240
Specialist services	21,620	7.5%	20,969	8.4%	20,969	0
Total	286,670	100.0%	250,090	100.0%	221,679	28,412
					88.6%	11.4%

Source: Welsh Government monitoring returns

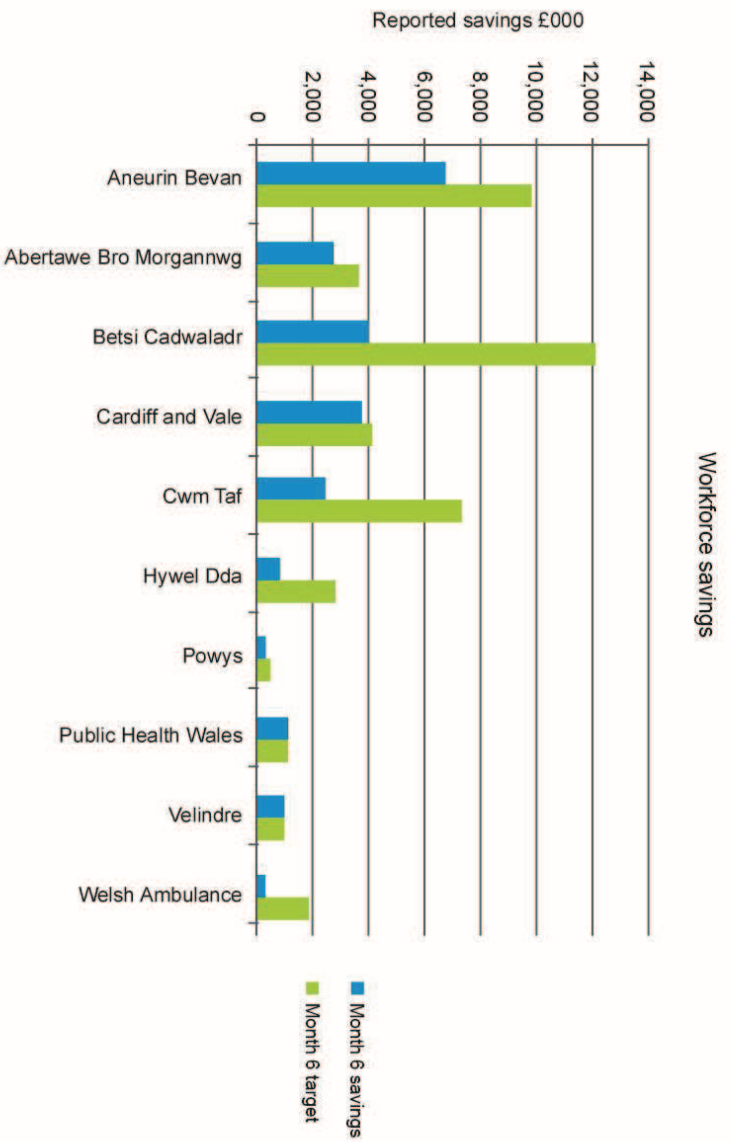
Note: Cardiff and Vale University Health Board accounts for £21 million of the £28 million non-recurrent planned savings.

Figure 11: NHS bodies expect almost two-thirds of workforce and management savings to be achieved through reducing the number of NHS staff

Breakdown of planned workforce and management savings						
NHS body	Reducing staffing establishment (£ million)	Variable pay (£ million)	Locum/ agency (£ million)	Reductions in bank staff (£ million)	Other (£ million)	
Abertawe Bro Morgannwg	14.6	0.3	0.3	0.4		1.1
Aneurin Bevan	7.0	6.6	1.9	2.5		0.3
Betsi Cadwaladr	10.3	0.3	3.3	0.7		1.2
Cardiff and Vale	5.3	0.7	0.2	0.9		2.4
Cwm Taf	6.0	0.0	0.1	-0.5		0
Hywel Dda	9.3	1.3	5.3	0.0		0.0
Powys	1.9	0.0	0.0	0.1		0.0
Public Health Wales	1.4	0.0	0.0	0.0		0.0
Velindre	2.1	0.0	0.0	0.0		0.0
Welsh Ambulance	3.8	2.7	0.0	0.0		0.0
NHS Wales	61.5	12.4	11.2	4.1		5.0
As a % of total workforce savings	65.3%	13.1%	11.8%	4.4%		5.3%

Source: Welsh Government monitoring returns

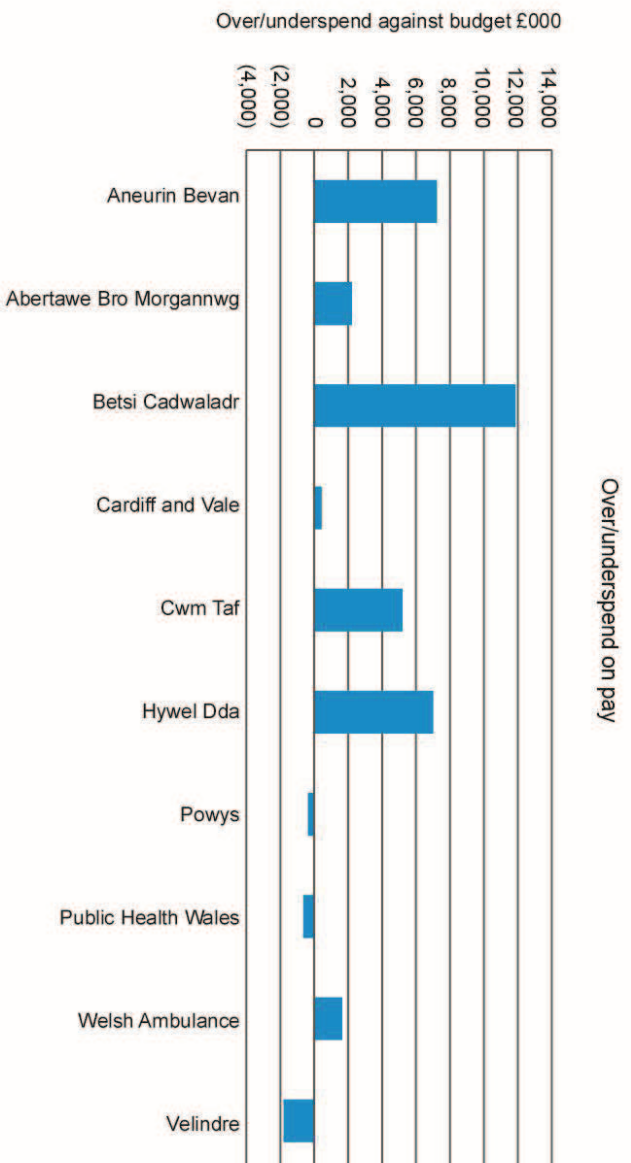
Figure 12: Overall, NHS bodies report delivery of only £23.5million of the intended £44 million workforce savings at month 6, although some have performed better than others



Source: Wales Audit Office analysis of Welsh Government monitoring returns

Note: For Betsi Cadwaladr University Health Board we have reported the progress made against its original savings plan. In September it updated its plans, and moved around £8 million of planned workforce savings to the second part of the year.

Figure 13: By the end of September, NHS bodies had overspent by around £33 million on pay, although there is significant variation



Source: Wales Audit Office analysis of Welsh Government monitoring returns

Note: Overspends against individual budget lines are partly offset by all but one health board (Cardiff and Vale University Health Board) having an unallocated contingency in their budgets. Betsi Cadwaladr University Health Board has a substantially larger contingency than other health boards of £19.2 million to September.

Figure 14: Overall, NHS bodies expect to lose around 1,600 staff (two per cent of the total workforce) in the second half of the year, but those health boards planning the largest reductions have made only limited progress to date

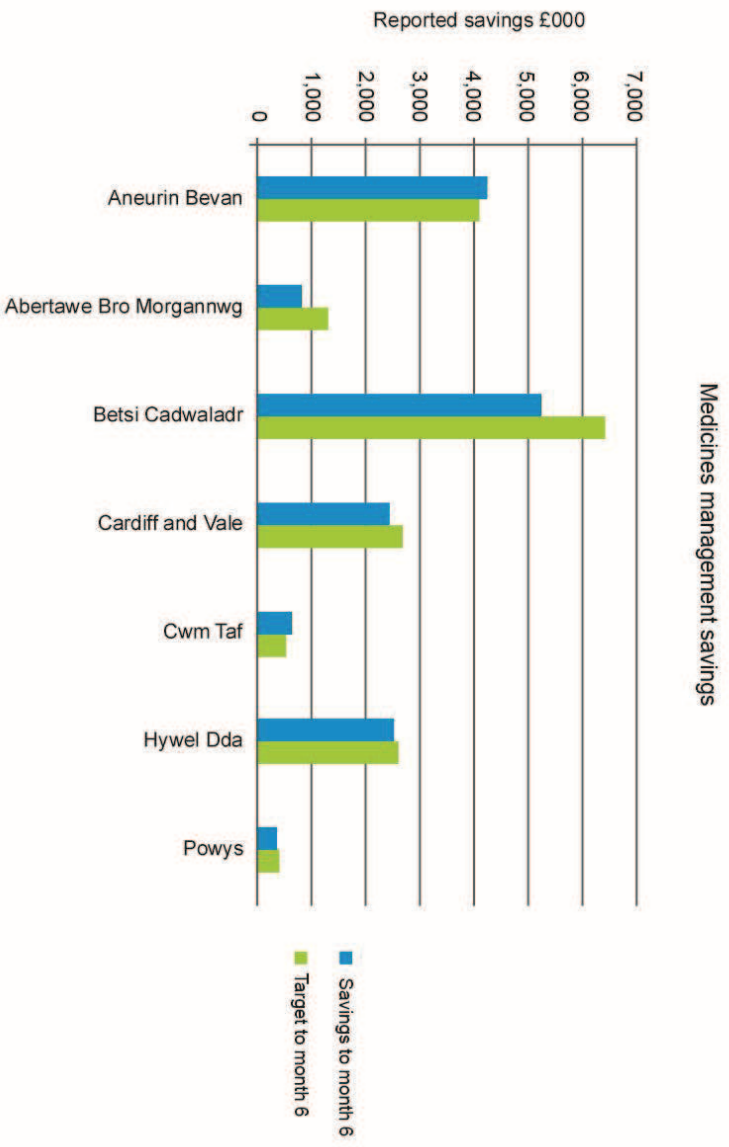
NHS body	Planned movement in paid staff between June and end of year	Actual movement in paid staff between June and September	Movement in paid staff still required in the final six months
Abertawe Bro Morgannwg	-120	-206	Plan already exceeded
Aneurin Bevan	-408	+41	-449
Betsi Cadwaladr	-230	+111	-341
Cardiff and Vale ¹	+156	+35	+121
Cwm Taf	-135	-10	-125
Hywel Dda	-587	+5	-592
Powys ²	+2	+14	+12
Public Health Wales	+2	+2	Plan already met
Velindre	+3	+3	Plan already met
Welsh Ambulance	-253	+13	-266
NHS Wales	-1570	+9	-1579

Source: Welsh Government monitoring returns

Notes:

- Cardiff and Vale University Health Board intends to increase staff levels to reflect planned service changes. The Welsh Government is closely monitoring in light of progress in delivering other savings.*
- Powys has not updated to reflect its staffing numbers to reflect planned staffing reductions from workforce savings.*

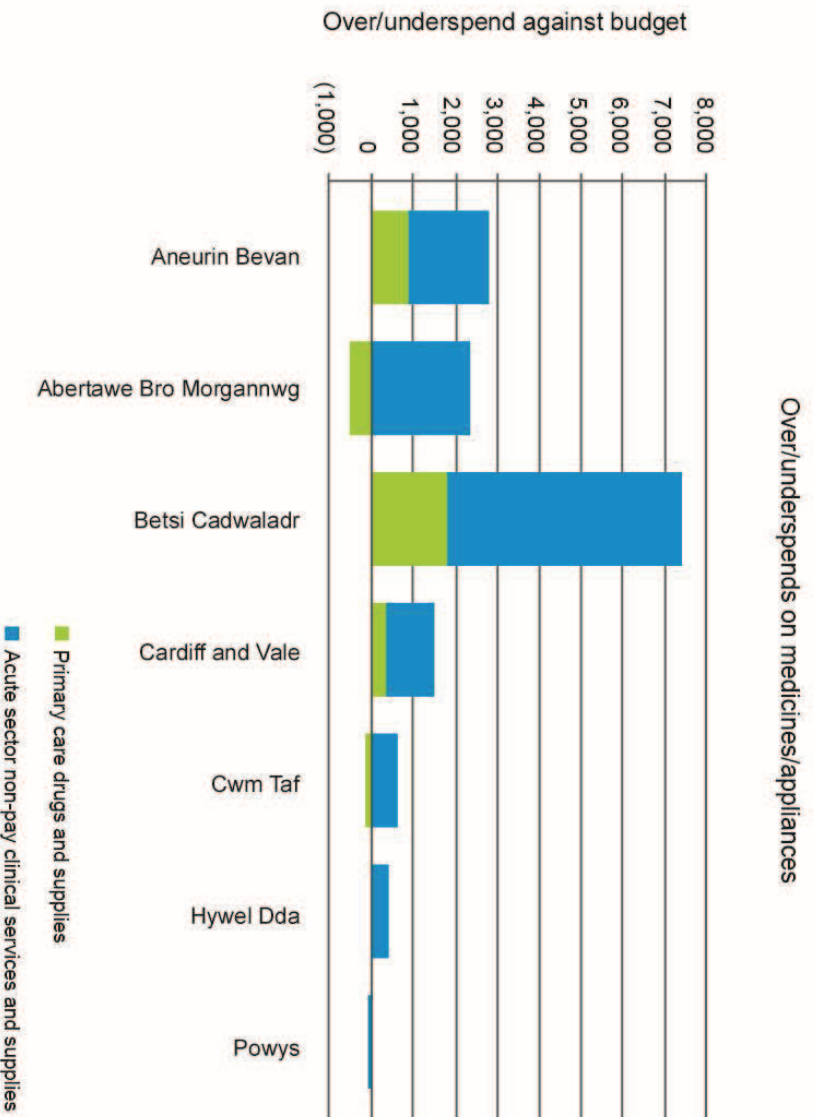
Figure 15: By month 6, the health boards collectively were £1.9 million (13.6 per cent) short of their £13.8 million target savings on medicines management



Source: Wales Audit Office analysis of Welsh Government monitoring returns

Note: For Betsi Cadwaladr we have reported its progress against its original savings plan.

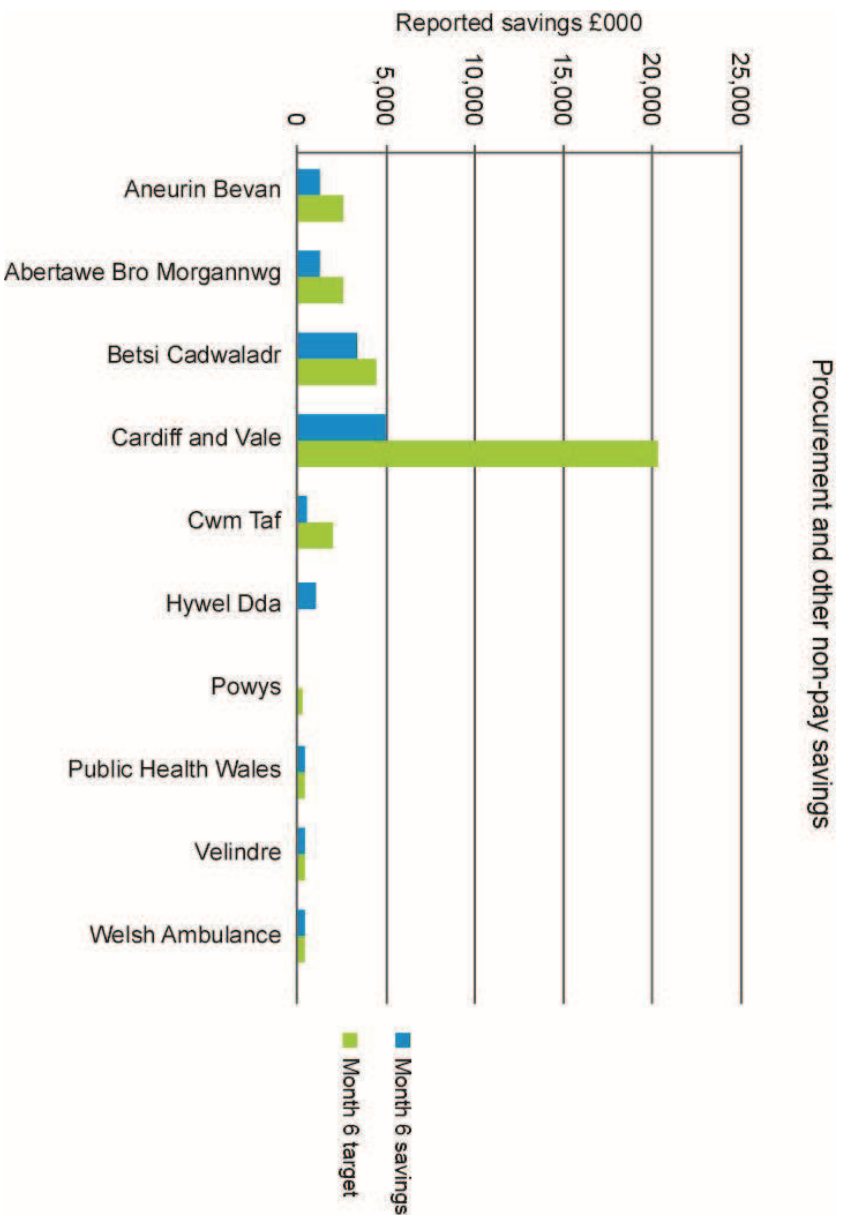
Figure 16: Despite being reasonably close to their savings targets, health boards were collectively £14 million overspent on medicines, with considerable variation between health boards



Source: Wales Audit Office analysis of Welsh Government monitoring returns

Note: Overspends against individual budget lines are partly offset by all but one health board (Cardiff and Vale University Health Board) having an unallocated contingency in their budgets. Betsi Cadwaladr University Health Board has a substantially larger contingency than other health boards of £19.2 million to September.

Figure 17: NHS bodies reported £13 million savings on procurement and other non-pay against a target of £31.2 million: the overall picture is distorted because Cardiff and Vale is considerably behind its plans for large savings in this area



Source: Wales Audit Office analysis of Welsh Government monitoring returns

DRAFT MINUTES

Meeting ID	1104
Committee	Public Accounts Committee
Date	19/11/2012
Attendees	Darren Millar (Chair) Mohammad Asghar (Oscar) AM (Member) Mike Hedges (Member) Julie Morgan (Member) Gwyn R Price (Member) Jenny Rathbone (Member) Aled Roberts (Member) Jocelyn Davies (Member) Tom Jackson (Clerk) Daniel Collier (Deputy Clerk) Sarah Beasley (Clerk) Sarah Sargent (Deputy Clerk) Joane Jackson (Legal Advisor) Linda Heard (Monitor) Ian Summers (Monitor) AMSS Darren Millar (Monitor) AMSS Mohammad Asghar (Monitor) AMSS Gwyn Price (Monitor) AMSS Mike Hedges (Monitor) AMSS Julie Morgan (Monitor) AMSS Jenny Rathbone (Monitor) AMSS Aled Roberts (Monitor) AMSS Jocelyn Davies (Monitor) Central Admin (Monitor) TRS Admin group (Monitor) David Richards (Witness) Arwel Thomas (Witness) Karen Sinclair (Witness) Ieuan Wyn Jones (Witness) Andrew Davies (Witness)

Item ID	8328
Item Title	Introductions, apologies and substitutions
Summary	<p>1.1 The Chair sent his apologies for the beginning of the meeting. The Clerk requested nominations for a temporary Committee Chair under Standing Order 17.22. Jenny Rathbone nominated Jocelyn Davies, who was duly appointed until the arrival of the Chair.</p>

	<p>1.2 The temporary Chair welcomed Members and members of the public to the meeting.</p> <p>1.3 Apologies had been received from Julie Morgan who had declared an interest in the Welsh Government's acquisition and action to dispose of the former River Lodge Hotel as her husband was First Minister during this period.</p>
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Item ID	8362
Item Title	The Welsh Government's acquisition and action to dispose of the former River Lodge Hotel, Llangollen
Summary	<p>Welsh Government</p> <p>2.1 The temporary Chair welcomed David Richards, Director of Governance; and Arwel Thomas, Deputy Director, Corporate Governance and Assurance Division.</p> <p>2.2 The Committee scrutinised the witnesses.</p> <p>Action points:</p> <p>The Welsh Government was asked to provide:</p> <ul style="list-style-type: none"> • Further information on the Welsh Government's register of declarations of interest, including which declarations would be considered as potential risks; <p>Karen Sinclair (via Video Conference)</p> <p>2.3 The Chair welcomed Karen Sinclair, former Assembly Member.</p> <p>2.4 The Committee questioned the witness.</p> <p>Ieuan Wyn Jones AM</p> <p>2.5 The Chair welcomed Ieuan Wyn Jones AM, former Minister for Economy and Transport</p> <p>2.6 The Committee questioned the witness.</p> <p>Andrew Davies</p> <p>2.7 The Chair welcomed Andrew Davies, former Minister for Enterprise, Innovation and Networks.</p> <p>2.8 The Committee questioned the witness.</p>

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Item ID	8329
Item Title	Papers to note
Summary	3.1 The Committee noted the minutes of the previous meeting.

Item ID	8365
Item Title	Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:
Summary	Items 5 and 6.

Item ID	8363
Item Title	Consideration of evidence on the Welsh Government's acquisition and action to dispose of the former River Lodge Hotel, Llangollen
Summary	5.1 The Committee discussed the evidence received on the Welsh Government's acquisition and action to dispose of the former River Lodge Hotel, Llangollen.

Item ID	8364
Item Title	Public Audit (Wales) Bill: Stage 1 - Consideration of draft report
Summary	6.1 The Committee considered its draft report on the Public Audit (Wales) Bill.