GIG CYMRU NHS WALES

Bwrdd Iechyd Aneurin Bevan Health Board

Ref: AG/JD/vep Direct Line: 01495 765031 5th October 2012

Jocelyn Davies AM
Chair
Finance Committee
National Assembly for Wales
Cardiff
CF99 1NA

Dear Ms Davies

Re: Welsh Government's Draft Budget

Thank you for the invitation to attend the National Assembly for Wales' Finance Committee on the 11th October 2012 in order to give an NHS Wales perspective on finance and the Welsh Government's draft budget. We have confirmed attendance from the three organisations you approached:

- Dr Andrew Goodall, Chief Executive, Aneurin Bevan Health Board
- Mr Geoff Lang, Deputy Chief Executive, Betsi Cadwaladr University Health Board
- Mrs Karen Miles, Director of Finance, Hywel Dda Health Board

I know you had initially requested comments on the draft budget by the 14th September, but I am grateful you have allowed comments after the formal draft budget was announced on the 2nd October.

I am writing on behalf of the three organisations who will be giving evidence to give you a broader overview of the Welsh NHS' position. We are of course happy to respond to other matters as representatives of NHS Wales particularly providing the context of our local organisations.

The commentary on the draft budget is a little different for the NHS in Wales than for other public services. We are line managed by Welsh Government with accountability

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arrangements in place that report to the NHS Wales Chief Executive and to the Minister. As Chief Executives of Local Health Boards and Trusts, we remain the accountable officers for the local performance of our organisations through to Welsh Government. This is different, for example, from the local government relationships in place and any commentary is made in this context. We are required to deliver the local services and population health agenda within the budget allocated to us by the Welsh Government, both collectively for NHS Wales and individually for the Local Health Boards and Trusts.

It may be helpful to have further discussion around the following areas:

- As NHS Wales has a cohesive identity, we have a genuine opportunity to work collaboratively and with each other across our respective organisations. This means that in aspects of performance – whether quality, finance and service change – we are able to support each other as a collaborative team. As a group of 10 Chief Executives we are able to develop a common agenda and support each other and our organisations on problems and solutions. Working collaboratively does not breach our local sovereignty, in fact it is necessary to support the objectives placed upon us as organisation and ensure effective use of public resources. Despite the size of some NHS Wales organisations, we already bring ourselves together in specific ways to deliver a shared agenda, for example, common procurement where NHS Wales has been leading the way (as shown by the recent McClelland review), the commissioning of specialist services, the use of clinical networks, the recent development of service change plans and our shared service arrangements. We form a cohesive leadership team for NHS Wales as well as leading local teams within our own organisations.

- We recognise the areas set out as priorities for the NHS in the draft budget. There are some specific areas set out within the draft budget for Health, Social Services and Children that help to bring together some of our local priorities:

    - The recurrent transfer of £27.5m in respect of substance use helps to focus on the NHS contribution, but we are clear that this will continue to operate and be allocated locally in partnership structures;
    - The recurrent commitment to support for our service implementation of the Mental Health measure, which represents a major change with implications to the service and individual clinicians;
    - The recognition of Welsh Risk pool claims as a financial challenge, given the variation and materiality in claims and the strong legal governance arrangements in place;
    - An increase in educational payments for medical and staff training;
    - The continuing support for family-focused schemes, allowing us to support a focus on vulnerable individuals locally – this is emerging

strongly nationally and locally as an opportunity for better coordinated and preventative services;

- We continue to put forward our NHS proposals centrally-supported for invest to save schemes and have welcomed this initiative as a way of delivering some of our local savings plans;
- We welcome the opportunity of a Public Health bill to allow us to bring together a legislative focus on the determinants of health, supported by the respective contributions of public services. There has been progress already within the new single plans for unitary authority areas.

- Due to the difficult public service financial outlook, there has over the most recent years been a significant reduction in the capital made available for infrastructure for the NHS that allows us to deliver improvements in both primary/community and acute facilities, support equipment replacement and maximise the use of advancing technologies. For us, the availability of capital funding allows us the flexibility to keep pace with such change, facilitate better ways of delivering services, reducing unused estate and address often compliance issues about estate. We do however welcome the flexibility to increase capital funding through the Wales Infrastructure Development Plan for named NHS schemes over and above that delegated to the NHS. Capital remains a major enabler of our ongoing service change and improvement agenda and is a key mechanism to rebalance our system. We would support the principle set out in the budget of needing to look for alternative funding streams and opportunities; these may need different governance mechanisms in place eg to work differently with the third sector or housing providers.

- There have been real advances in the delivery of financial savings plans in NHS Wales over the last three years, with in excess of five per cent of savings being made each and every year which cumulatively equates to over 15 per cent. This has been required because of the challenging public service finance environment and also a significant increase from the savings required in a previous environment of growth. In the recent independent "Health Finances" report by the Wales Audit Office, the Auditor-General set out the scale and scope of savings required to be made by NHS Wales. Over the last three years, our achievements compare well with savings being delivered by other health systems and other public services and show a high level of financial performance by NHS organisations in Wales. This has been achieved during a period of establishing new organisations, building local structures, delivering improved performance and maintaining a focus on the care and services we provide. Health Boards remain new organisations as we are only in our third full year of operation – although we are often measured as organisations that are fully mature and established for many years and not that we have brought together

new teams and new ways of working appropriate to this difficult public service environment. Our responsibility in operating an integrated NHS system was to bring some real benefits; we believe these benefits have started to be realised. Despite an unprecedented period of financial challenge, we can show continuous improvement in delivering key ministerial and local priorities. Quite rightly, we have high expectations placed upon us in terms of what the NHS should deliver; we also hold these high expectations ourselves both as organisations and individuals committed to make the NHS work.

- As a point of clarity, each year, the savings NHS Wales makes are additional to those made in the previous year. There is sometimes the impression that we are recycling the same savings each year, but each financial year new pressures emerge whether from the workforce, advances in clinical practice, technology or simply the impact of inflation. This means that we are delivering around an additional £300m each year of savings and have achieved well in excess of £1bn since the inception of the Local Health Boards and Trusts. These savings are cumulative. From our perspective, this continuous and recurrent level of saving is showing greater resilience and a focus on delivery in these most challenging times.

- NHS Wales has had some real successes with the level of savings that have been made by focusing on better use of resources, improved quality of care and designing services that fit around patients' needs rather than rely on traditional models of service designed at the outset of the NHS. These have been driven by areas such as better procurement, patient prescribing (leading to higher quality outcomes), improved efficiency in services, collaboration with other public service agencies, better use of estates and infrastructure, and more effective commissioning of services. These areas have been a feature of the last three years and continue into the current financial year 2012-13 and beyond as they represent the ability to deliver better value for money for the activity we deliver for the population of Wales.

- However, our process and focus on savings has to be set against significantly rising demands which increases the cost base for the NHS. For example, as medicine advances we have to meet these demands within our allocations; there are patient and clinical expectations to have access to the latest and emerging clinical practices; we have a population whose health needs are changing and becoming more demanding in respect of a growing elderly population; there remain workforce pressures even with a limit on pay inflation. These material demands cannot all simply be addressed by driving for further efficiencies and increasing productivity. The system has already proved it can rise to this challenge, but we need more than just further management pressure and focus within the system to put us on a sustainable basis.

- Driven by standards, safety and quality and staffing pressures, service configuration and change is an immediate priority and challenge for NHS Wales. There are positive examples of redesigning local services and making savings, through the local development of services that allows patient activity to be brought back to a local area, by developing new service responses to growing demand, by creating patient-focused alternatives, by shifting services and resources more appropriately to the community and simply by continuing to focus on more patient activity and efficiency. Health Boards' plans need to be developed in the context of managing our future services within budgets and creating the right balance of where care should in future provided across the health system, with a greater focus on community services and infrastructure, supported by excellence in hospitals. Some strategic change requires transitional support, double-running costs or pump-priming and we recognise that for some of our population they wish to be confident that better alternative services are in place on the ground before we remove some of the more traditional and less effective services.

- We are thinking very differently about the future models of care which may challenge some of our traditional ways of working. For example, there are active and on-going discussions with NHS Wales that bring to the fore different service opportunities with the third sector, with the housing sector (including RSLs) and also the use of social enterprise models. These can be challenging for the NHS as it is not our usual practice. However, different collaborative approaches across sectors are emerging; if these were endorsed centrally, for example, to avoid the usual procurement process but within an acceptable legal and governance environment, this would provide some real opportunities for better use of resources and patient-focused change. We would be happy to develop this further and take advantage of public service collaboration. These emerging approaches appear to have in principle support within the draft budget.

- We are involved locally in decisions on services and shared infrastructure with other public services such as local government and the police that support savings and better outcomes – this is a positive sign for the public service agenda for Wales, but requires us to consider how commitments and savings can be balanced. Sometimes these are supported by highly detailed legal arrangements such as Section 33 agreements between NHS and social services; sometimes they represent a leap of faith supported by strong governance to deliver outcomes.

- A clear area of both concern and support to us would be the availability of different mechanisms to allow greater flexibility to Health Boards to manage their end of year positions in a more balanced manner. The specific requirement

to breakeven to the last penny means that any surplus that is generated is returned to Welsh Government and this can limit some of the decisions that are taken locally in order to maximise the funding we use for local services and priorities. Breakeven is a very precise requirement placed upon Local Health Boards on the 31st March each year and this has become a somewhat arbitrary date for production of annual accounts. We welcomed the Public Accounts Committee's recent view that there should be opportunity to provide flexibility in line with other public services. If we perform well financially, we are currently unable to create reserves and flexibility for future years – this can act as a disincentive not just at organisational level but through our structures as budgets are delegated downwards. We need to create an environment that rewards progress on good financial management, facilitates the development of clinically-led proposals and in the best scenario allows transition and pump-priming support for service development. There should be strong endorsement that the creation of reserves is simply good and expected practice, particularly in such challenging times. Other public services have mechanisms to create such flexibility.

I trust that this paper can support a further discussion on the 11th October 2012. If you require any further information to support our attendance, please let me know.

Yours sincerely

Andrew K Goodall

Dr Andrew Goodall
Chief Executive, Aneurin Bevan Health Board