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Our ref: HVT/1762/fgb
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Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

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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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.

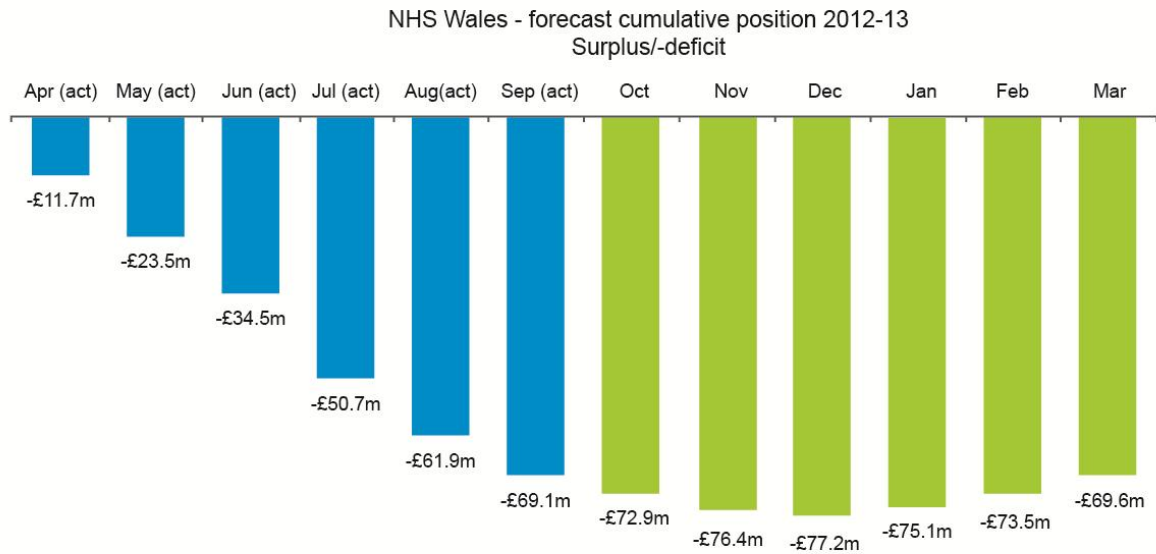
Overall, these analyses show that **NHS bodies themselves predict an end-of-year deficit of around £70 million but that it could be significantly higher.**

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

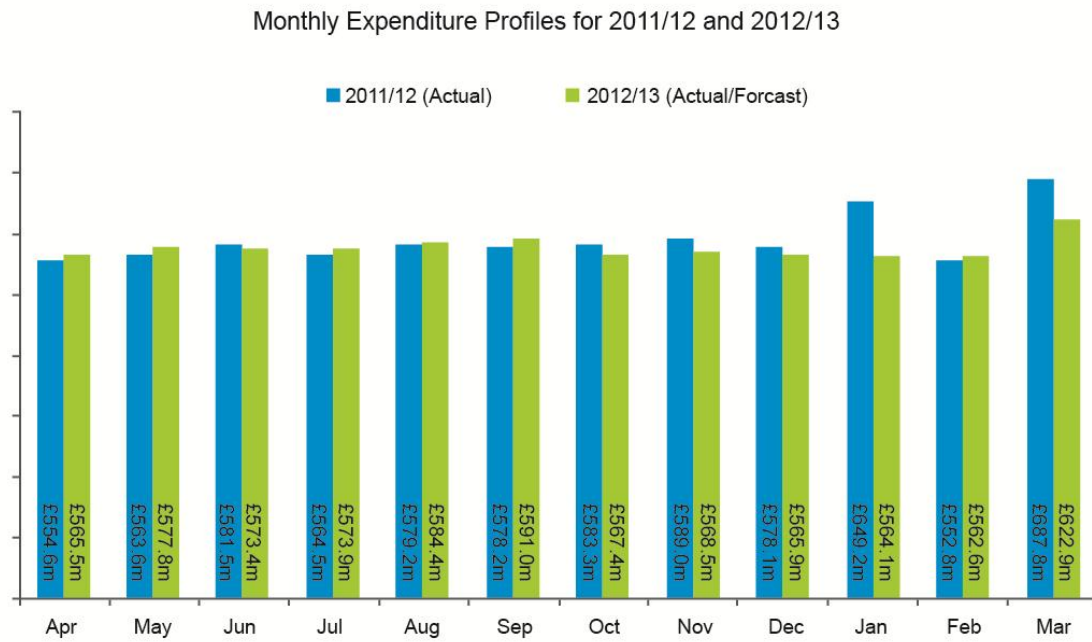
Source: Welsh Government monitoring returns

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



Source: Welsh Government monitoring returns

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



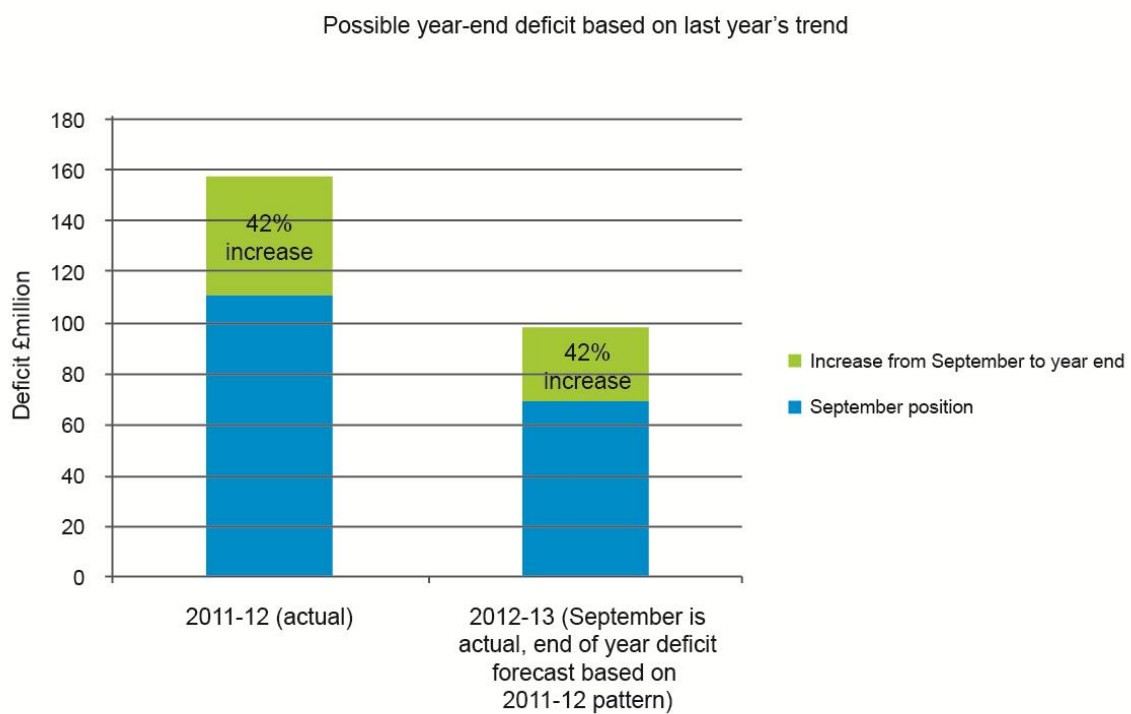
Source: Welsh Government monitoring returns

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.

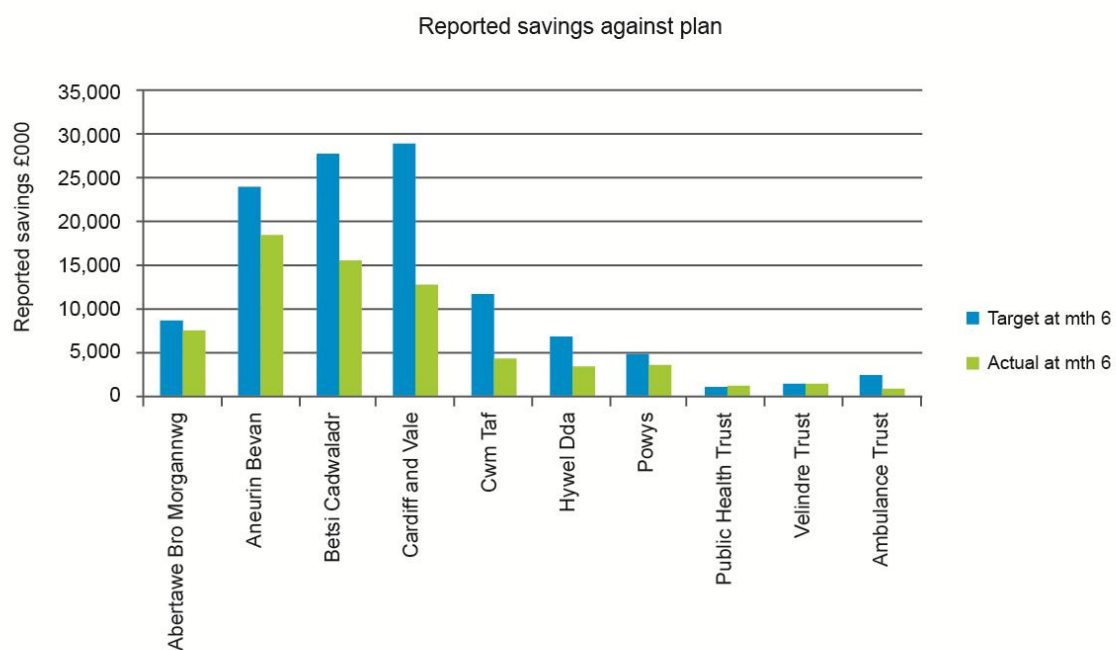


Source: Wales Audit Office analysis

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

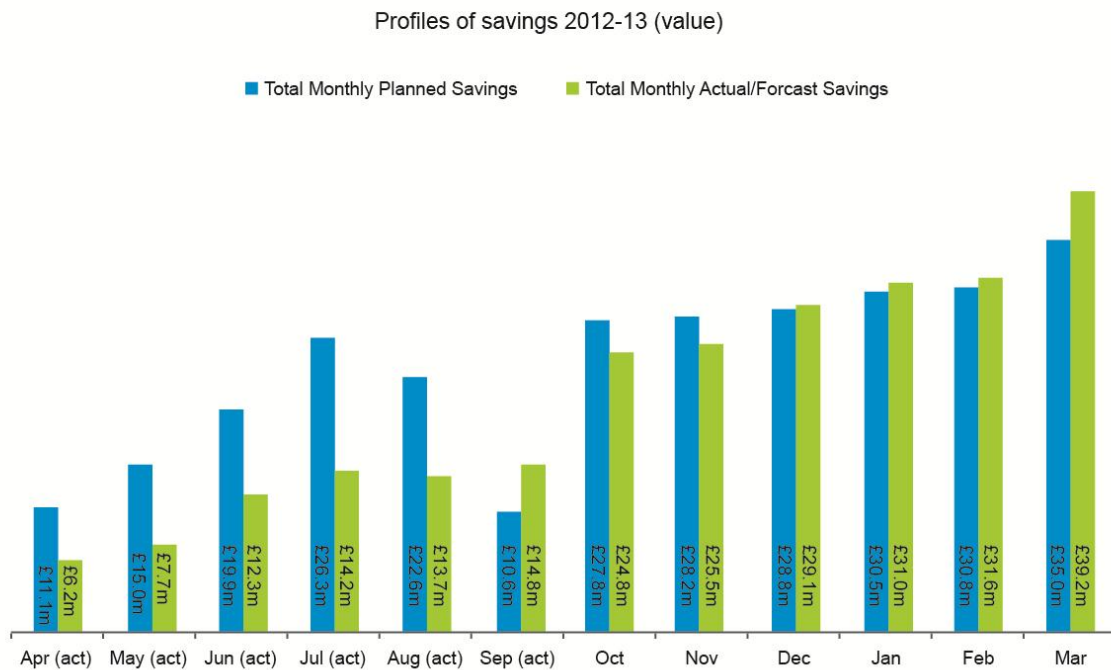
Figure 7: By the end of September 2012, NHS bodies had reported actual savings of £69 million against planned savings of £118 million, with performance varying considerably between NHS bodies



Source: Wales Audit Office analysis of Welsh Government monitoring returns

Note: For Betsi Cadwaldr 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	Non-recurrent
					£000s	£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

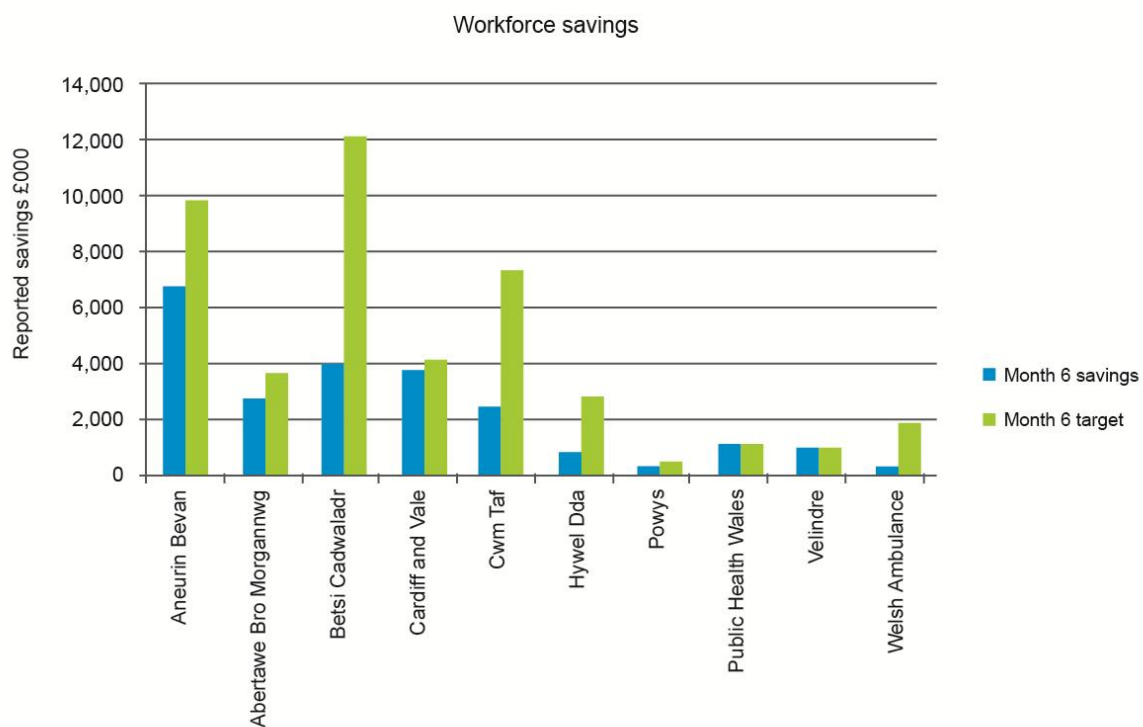
Note: Cardiff and Vale University Health Board accounts for £21 million of the £28 million non-recurrent planned savings.

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

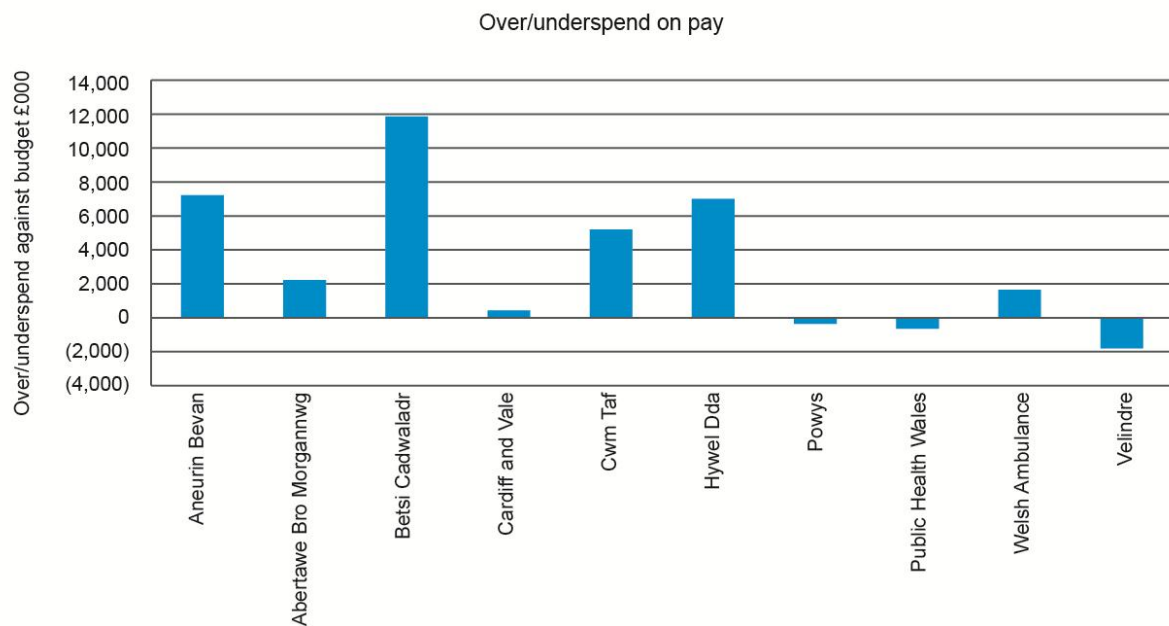
Figure 12: Overall, NHS bodies report delivery of only £23.5million of the intended £44 million workforce savings at month 6, although some have performed better than others



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

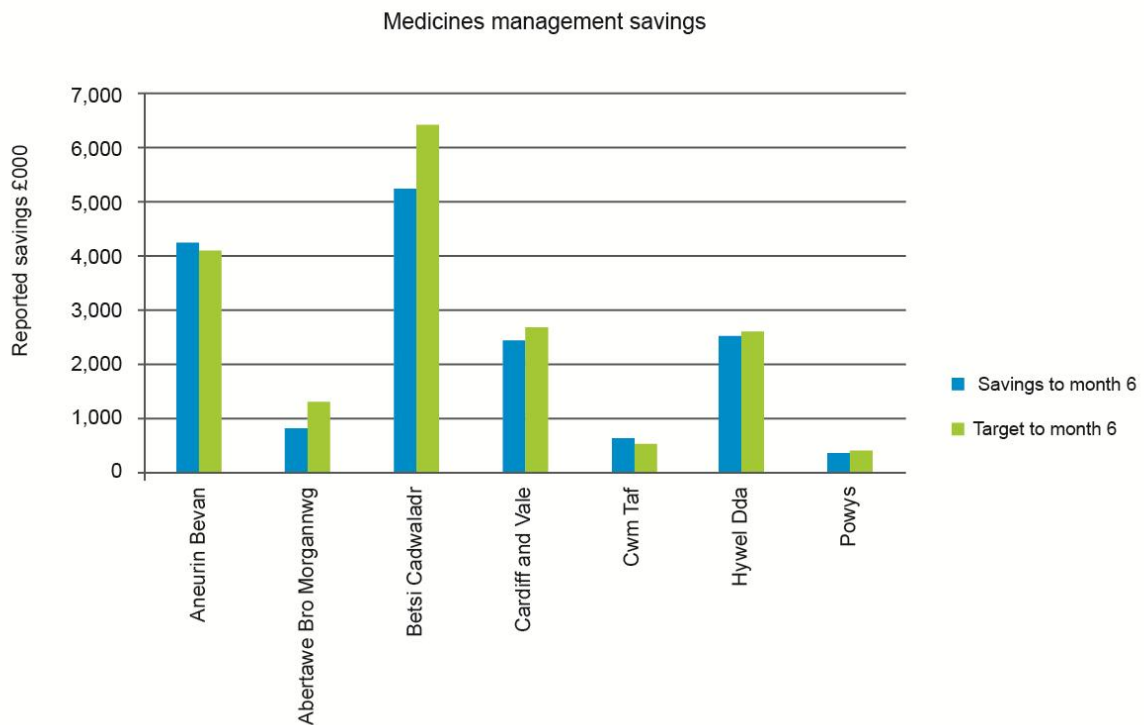
NHS body	Planned movement in paid staff between June and end of year	Actual movement in paid staff between June and September	Movement in paid staff still required in the final six months
Abertawe Bro Morgannwg	-120	-206	Plan already exceeded
Aneurin Bevan	-408	+41	-449
Betsi Cadwaladr	-230	+111	-341
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:

- 1 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.
- 2 Powys has not updated to reflect its staffing numbers to reflect planned staffing reductions from workforce savings.

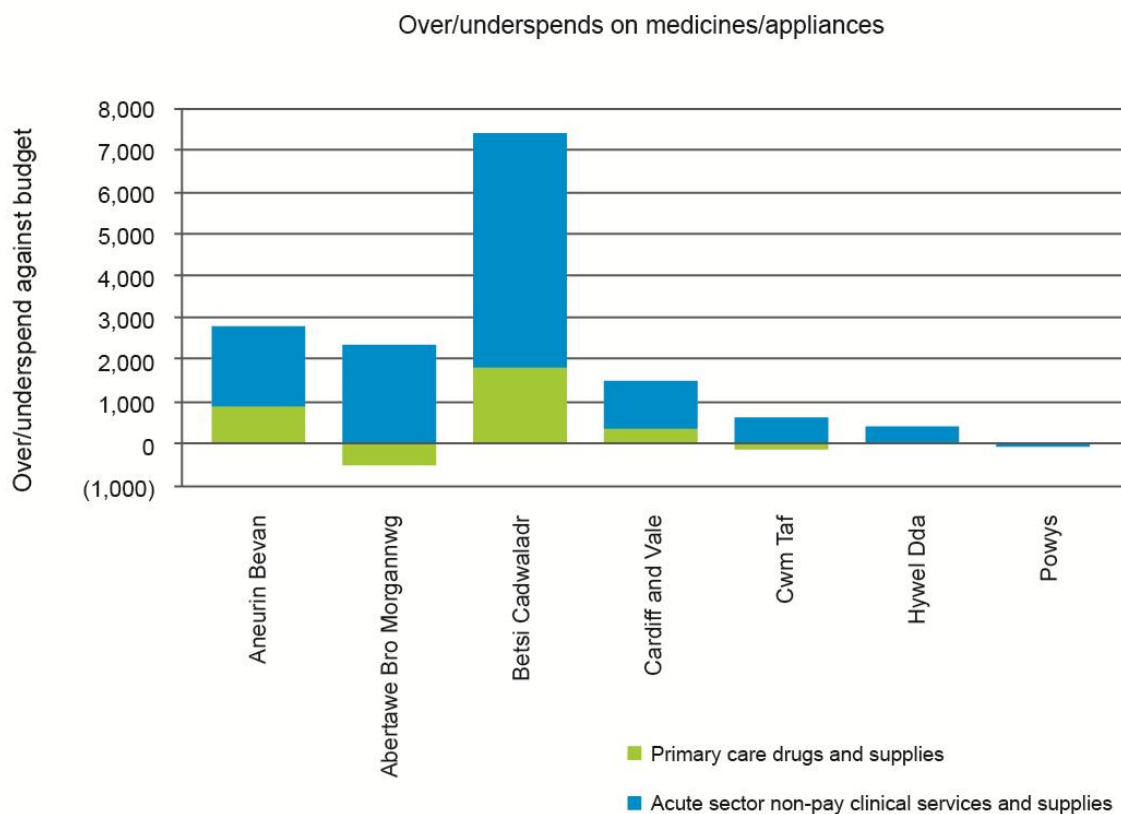
Figure 15: By month 6, the health boards collectively were £1.9 million (13.6 per cent) short of their £13.8 million target savings on medicines management



Source: Wales Audit Office analysis of Welsh Government monitoring returns

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

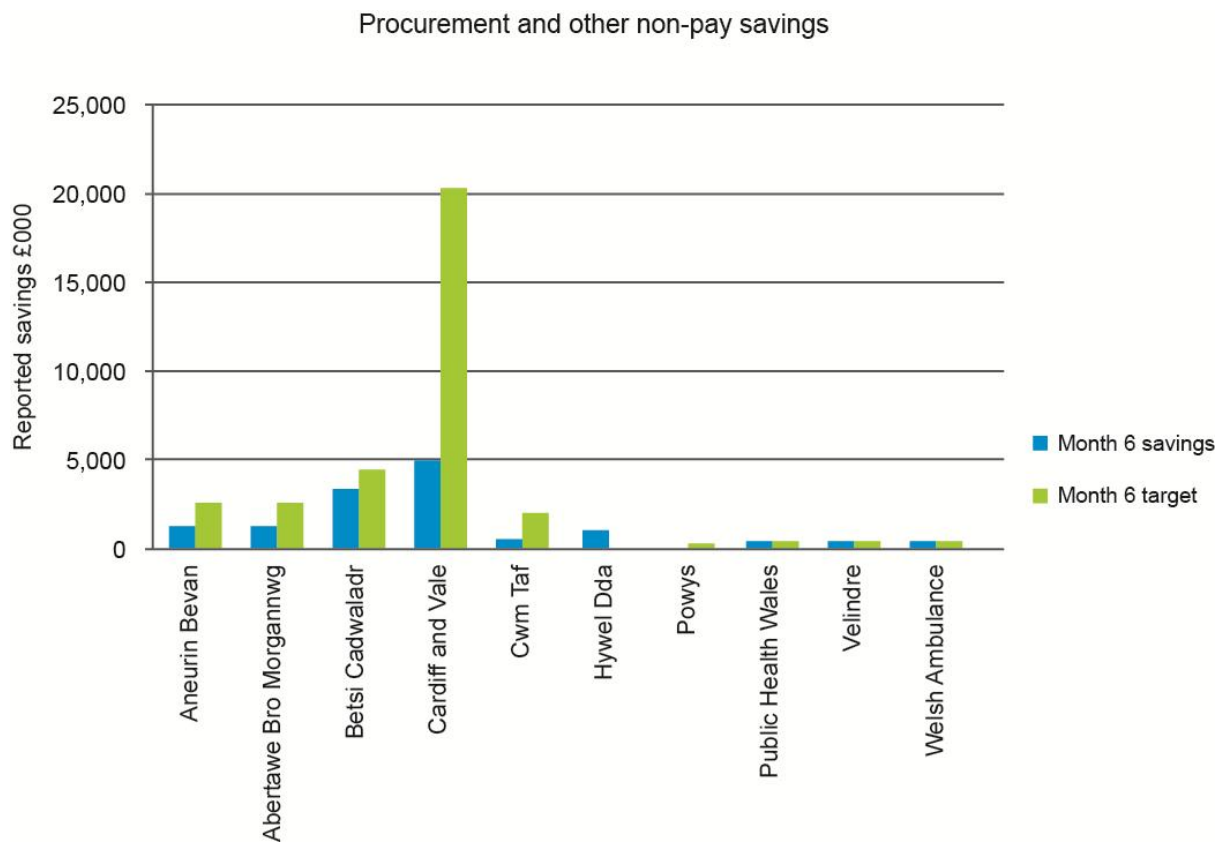
Figure 16: Despite being reasonably close to their savings targets, health boards were collectively £14 million overspent on medicines, with considerable variation between health boards



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