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Dear Mark

We refer to your letter of 22nd October, in which you enclosed a copy of your letter to the Chair of the Finance Committee. Please find below a response on the issues you raised.

1. Information

We are pleased the Committee acknowledges the improvements made in the presentation and clarity of the budget papers and written evidence.

You referred to the £5 billion allocated to the "Delivery of Core Services". In the budget narrative document which accompanied the Draft Budget we published, for the first time indicative Local Health Board allocations for 2013-14 which are funded from this Action. For convenience, these are reproduced below.

Indicative 2013-14 Health Board Revenue Allocations

	£000
Abertawe Bro Morgannwg University Health Board	851,215
Aneurin Bevan Health Board	934,626
Betsi Cadwaladr University Health Board	1,149,556
Cardiff and Vale University Health Board	714,970
Cwm Taf Health Board	512,489
Hywel Dda Health Board	639,718
Powys Health Board	227,118
Total	**5,029,692**

These indicative allocations will be subject to adjustment and confirmation in the 2013-14 Health Board Revenue Allocations document which will be published before the end of the calendar year. A copy of this document will be made available on the Welsh Government's website.

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The Health Board Revenue Allocations document will provide more detail on the separate funding streams provided to each Health Board, induding those funding streams that are ring-fenced for specific purposes. It details the funding being made available for each Health Board to meet the costs of General Medical Services, General Dental Services, Community Pharmacy Services and Hospital and Community Health Services including ring-fenced funding for mental health services.

With the exception of ring-fenced funding streams Local Health Boards have discretion to use their allocation as they consider appropriate to meet the healthcare needs of their population and deliver against national and local priorities. Setting the Direction set-out our vision for primary and community care in relation to the transformation of services and rebalancing of care from hospital to the primary and community setting. The focus is to develop integrated working between the primary and secondary care sectors and to develop new models of care to best meet the needs of people within their local area. The aim is to actively pull patients towards high quality organised services closer to home and the delivery of more services and support within primary and community settings. However, it would not be appropriate nationally to set an annual budget for the amount of funding to be used in each care setting, as this will more appropriately be determined locally by each Board based on how they individually respond to this vision.

In terms of providing more clarity on transfers between budgets, we have provided the Committee with details of movements between Actions and in more detail between Budget Expenditure Lines Officials explained in the scrutiny session many of the movements reflected changes in delivery arrangements for programmes and were not a reduction in the resources available for those programmes, for example, transferring funding in to the Local Health Boards and Public Health Wales core revenue funding budgets from existing programme budgets. In addition, there is a transfer of funding from the Supporting Education and Training Action to the Education and Skills Main Expenditure Group of £2.1 million in 2013-14 in respect of funding which will flow via HEFCW to Cardiff University to support undergraduate medical education.

2. Funding of Local Health Boards

The current legislative regime imposes certain financial duties on individual Local Health Boards, principally requiring "that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by Welsh Ministers". It is acknowledged this can impose a constraint on NHS organisations to have the flexibility to plan and organise their resources over the medium term.

The ability to plan and organise services in a flexible manner which meets the demand and requirements placed upon it is essential. To move resources around the system, between boundaries and across financial years, is a necessary part of the arrangements to deliver an effective health service. Consequently work to address the current constraints is being taken forward by a working group comprising NHS and Welsh Government finance professionals.

Acknowledging changes to primary legislation may take many years to implement, this working group are firstly considering options that may be executed within the current legislative framework. These involve both longer term solutions for medium term planned flexibility and shorter term solutions for brokerage.

A planned flexibility arrangement is being considered to support the longer term planning and financial cycle and it is intended will provide flexibility of resources linked to an approved balanced integrated medium term financial plan. It is envisaged this arrangement would be sought by LHBs where they are forecasting financial peaks and troughs within a balanced 3 year financial plan.

On the other hand, there are often specific in-year financial issues and short term challenges that cannot necessarily be planned or easily forecast and in these circumstances it is recognised additional and shorter term flexibility arrangements need to be in place. A short term brokerage arrangement is being developed as a risk sharing arrangement, similar to the Welsh Risk Pool, by which LHBs would be able to align funding with expenditure at year end, in order to achieve financial balance and meet the existing statutory Resource Limit Duty.

Both medium and short term options would be managed within the annual Welsh Government Health, Social Services and Children's budget through planned use of central health budgets, contingency fund and programme budgets.

In addition, work has been instigated to explore the further opportunities that could be provided by making changes to primary legislation that governs the financial operating environment within which both NHS Trusts and Local Health Boards currently operate. This is a much longer term solution. If proposed changes to primary legislation are feasible, it is not expected NHS organisations would benefit from any proposed changes until at least 2015/16.

3. Budget assumptions and planning for the delivery of budget commitments

The Committee requested more information on specific Programme for Government commitments.

With regard to funding for health checks for the over 50s, we will be considering further advice on this work shortly, and will then decide on our detailed approach. Officials are working to put together an overall proposal for consideration, induding advice about delivery models, implementation timetable and costs. It would be inappropriate to comment further on the detail at this stage, until there has been an opportunity for further consideration. However, any costs associated with this programme in 2013-14 will be accommodated within existing budgets, primarily those for health improvement programmes.

With regard to funding for increasing access to GP services for working people, the second phase of this programme, from 2013/14, will focus on ensuring the availability of appointments outside contracted hours, that is after 6.30pm. There are currently 11% of practices offering the extended opening directed enhanced service (DES), at a cost of £0.7m per year, equating to approximately two additional hours for a practice with 6,000 patients. The intention will be to fund the additional cost of this extended access within existing resources, by reviewing and realigning the current spend on enhanced services. Based on the current specification and allowing for a rise in inflation, the estimated costs for increasing the number of practices offering the extended opening DES (on one or two evenings a week) to 30% of practices in 2013/14 and 50% in 2015/16 are £1.8m and £3.1m respectively. A review is currently underway to assess whether the provision of the existing extended opening enhanced service meets patients needs and delivers value for money. The findings of this review will be used to inform the approach for extending opening after 6.30pm during the week. The work is being led by Health Boards, working with GPC Wales, and the review will be completed by the end of December 2012.

We will, of course, keep the Committee informed of progress on confirming and funding the costs of these programmes as their development and implementation continues.

4. Capital planning and expenditure

The capital funding in the NHS Delivery Action supports the delivery of the All Wales Capital Programme.

Excluding the £12 million additional capital that has been attributed to this Action in 2013-14 as part of the Draft Budget for specific schemes, approximately £44 million will be provided to NHS bodies as discretionary allocations. These can be used to improve and update the existing estate, including the targeting of backlog maintenance, the purchase of minor equipment and minor works.

The balance of funding is available for individual schemes. The allocation of capital requires that all investment decisions are justified by a systematic options appraisal set out in a business case. The Welsh Government and HM Treasury 5 Case Model approach is standard for justifying all major capital investments in healthcare in Wales.

Turning to the consideration of NHS service plans, as you are aware Betsi Cadwaladr University Health Board and Hywel Dda Health Board recently consulted on their proposals for future services. They are now considering responses to the consultations before presenting their final proposals. The four South Wales Health Boards commenced its three month engagement programme on 26

September and this will be followed by a formal consultation process in the new year. There are, therefore, no firm or final capital proposals at this stage. I agree there needs to be timely and regular evaluations of LHB capital requirements and I can confirm my 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.

5. Contingency

The Committee will appreciate we are managing a budget in excess of £6 billion, which is used to fund a wide range of programmes, including, of course, the core funding for NHS Wales. Within this context, it is perfectly normal detailed spending plans will change as the year progresses, particularly where further consideration or assessment may be required before committing funding on a new programme, or extending an existing programme. It is through the careful ongoing management of this significant budget officials are able to identify opportunities to redirect funds during the year to meet new commitments and pressures as they arise, which may not have been foreseen during the Budget Setting process. Furthermore, it is entirely appropriate to hold back an element of the budget at the start of the financial year to meet financial risks that may arise as the year progresses.

It is through these processes a contingency "fund" is generated to mitigate against financial risks and meet in year pressures. Our draft budget proposals contain a contingency of £30 million for 2013-14, which is contained in the Delivering Targeted NHS Services Action budget.

In previous years, additional allocations to LHBs were met from a combination of Central Government reserves where the available contingency "fund" within the Health, Social Services and Children's Main Expenditure Group was insufficient to meet the expected shortfalls on NHS budgets.

6. Ring fencing

As part of their monthly financial monitoring return to Welsh Government, Local Health Boards are required to confirm they are using all their ring-fenced funding for the purposes for which it was allocated. Any forecast shortfall in expenditure against the ring-fenced allocation would be followed up by officials with the Local Health Board.

We have explained to the Committee on previous occasions the particular issues relating to monitoring compliance with the mental health ring-fenced allocation. Despite these limitations, we are able to confirm the total relevant expenditure in 2010-11 on mental health services was £607 million compared to the ring-fenced quantum of £572 million for that year - additional expenditure of £35 million over the ring-fenced quantum. 2011-12 information will be available in early 2013.

Looking forward, we have made a commitment in *Together for Mental Health* to review the basis of the ring-fencing arrangements, and work will be taken forward in due course. In addition, a number of work strands are being taken forward to improve our understanding of the outcomes that are delivered for the investment in mental health services.

We have started work with user groups to develop an approach to measuring improvement in the wellbeing of people who use mental health services in Wales. This new innovative approach will measure outcomes from the perspective of the service user. We are also undertaking work to develop a new finance and compliance regime for NHS Wales, in which there will be a greater emphasis on each local health board benchmarking its level of investment on each health condition, including mental health services, with appropriate peers, taking account of relative needs of their population compared to their peers. Finally, we have commenced work to develop a national dataset for capturing core information on the provision of mental health services.

7. Health and Social Services collaboration and pooled budgets

We recognise the need to stimulate the progress of integrated services by the provision of appropriate funding to support new initiatives and related research. This year, we are investing an additional £500,000 with the Social Services Improvement Agency and the Association of Directors of Social Services Cymru to secure leadership in integration and collaboration.

Over the next two years and with sponsorship from the Economic and Social Research Council (ESRC), we are investing nearly £140,000 in the funding of a unique Knowledge Transfer Partnership (KTP) which will support development of more effective joint working. A primary aim of the KTP is to develop the means to assess the quality of integrated services for older people using practical tools to measure the cost and impact of various joint service models and produce a costed business case for national implementation of transferable practices.

One programme of work which will benefit from the KTP, is the framework for the integration of services for older people across Wales, which is currently under development and expected to be issued by the end of the 2012/13 financial year. The Framework will set out the evidence base for integrated services and our expectation that in delivering citizen centred services, Local Government and Health Boards will need to consider and formalise joint budgets. Implementation of the Framework will be overseen by a National Integrated Services Board reinforcing, at corporate level, the opportunities and value of integration.

Of further benefit, is the Minister for Local Government and Communities' announcement that as part of next year's settlement, he is creating a separate £10 million fund to support Local Authorities in delivering regional collaboration projects. This is especially relevant for social services in their work at the interface with health services.

All Local Health Boards and Social Services departments currently have a budgetary requirement to deliver collaborative services, wherever feasible. The requirement to establish cross sectional partnerships for service integration is provided for by the powers under Section 33 of the NHS Act (Wales) 2006 and has been facilitated through a wide range of policies and grants including the Joint Working Grant (JWG). The JWG formed part of the Welsh Government's commitment to achieving greater joint working between the NHS and Local Government and was aimed at improving the interface between health and social services. Between the inception of the scheme in 2001 and its closure in March 2011, £90 million was made available to Local Authorities and this pump priming produced some notable successes, for example, in establishing community reablement services, the precursor to community resource teams now being developed across Wales.

However, we are conscious more needs to be done to ensure finite resources are used most effectively. The Social Services (Wales) Bill will provide the legislative basis to reinforce the duty on public authorities to work collaboratively in the interests of both cost efficiency and better outcomes for service users. The provisions within the Bill include strengthened powers aimed at promoting pooled budgets, formal partnerships and other flexibilities and the regulations and guidance can be utilised to mandate such processes should this be required.

We are copying this letter to the Minister for Finance and Leader of the House.

Kind Regards
Lesley

Gwenda Thomas.

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