Bwrdd Iechyd Prifysgol
Abertawe Bro Morgannwg
University Health Board

☎ (01639) 683306
☎ WHTN (3306)
Eifion.Williams@wales.nhs.uk

Dyddiad/Date: 25th June 2012

Mr. M Drakeford AC AM
Chair
Health and Social Care Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Dear Mr. Drakeford

National Assembly for Wales Health and Social Care Committee: Financial Scrutiny

This letter provides the information requested in your letter of 1st June 2012.

1. Revenue Allocations

The Health Board's initial revenue allocation from Welsh Government (WG) for 2011/12 and 2012/13 is set out in the table below:

	2011/12 £m	**2012/13 £m**
Hospital & Community Health Service and Prescribing Allocation	732.832	747.322
GMS Contract	69.086	69.478
Community Pharmacy Contract	26.517	28.841
Dental Contract	24.836	25.226
	853.271	**870.507**

During 2011/12 the Health Board received a number of additional allocations, these amounted to £66.945m. A detailed analysis of these allocations is attached as Appendix 1.

2. Capital Allocations

The Health Board initial capital allocation for 2011/12 is set out in Appendix 2, along with the additional allocations received in year.

The initial capital allocation for 2012/13 is £19.473m, which comprises of £8.608m discretionary capital and £10.865m All Wales capital programme.

3. Financial Plans

The Health Board Financial Resource Plans for 2011/12 and 2012/13 are attached as appendix 3 and 4.

The Health Board Capital Plans for 2011/12 and 2012/13 are also attached as appendix 5 and appendix 6.

4. 2011/12 Financial Performance

ABMU Health Board achieved its statutory duty to deliver a breakeven financial position in 2011/12. The Health Board reported an end of year underspend of £136,000.

The Health Board identified savings and cost containment plans of £42.9m of which £37m were delivered. The table below provides an analysis of the savings plans and delivery across the categories set out by WG.

Savings Category	Planned Savings £m	Savings Achieved £m
ChC	5.907	6.657
Estates/Energy	0.300	0.300
Externally Commissioned Services	0.724	0.624
Medicines Management	7.688	7.710
Procurement & Other Non Pay	8.901	9.721
Shared Services	0.184	0.184
Management Cost Reductions	1.096	1.100
Specialist Services	1.536	1.536
Workforce Modernisation	16.534	9.148
Total	**42.872**	**36.980**

Changes in Balance Sheet liabilities ensured that the ABMU Health Board achieved its financial target in 2011/12.

The Health Board has robust plans in place to ensure delivery against the Government's key priorities and particular emphasis is given to the development of Integrated Service, Workforce and Financial plans at Directorate and Locality level. The NHS in Wales is required to deliver an unprecedented level of financial savings given the allocations provided to Health Boards. During this financially challenging time progress must also be made on a range of performance areas, targets and quality outcomes. Clearly, the NHS in Wales is operating in a very difficult financial environment and there will be difficult choices ahead. The way health services are delivered to patients needs to change to address the challenges of Junior Doctor training, new service models that provide care closer to home and achieve high standards of patient care consistently and reliably. Service change is also needed to ensure LHBs continue to deliver and meet the Government's key priorities

and targets. Improving NHS services to ensure patients benefit from the provision of a modern health service is a critical delivery task that ABMU Health Board has embarked upon through its 'Changing for the Better' Programme. We are working in a tough financial climate and we are working to ensure that our plans are developed through engaging with the public in the choices that we have to make and that our clinicians are fully involved in the development and implementation of our proposals. Changes will have to be made to improve the quality, safety and sustainability of services.

I hope this information meets your requirements.

Yours Sincerely

Eifion Williams
DIRECTOR OF FINANCE

cc Paul Roberts, Chief Executive

Appendix 1

Additional Allocations received in 2011/12

Description of Funding	£000	Rec/Non Rec	Allocation Reference
Contractor Services Funding	-1505.2	Rec	HCHS ABMHFS 2
Screening Services Transfer	-5314	Rec	HCHS ABMHFS 3
Additional WHSSC Funding	978	Non Rec	HCHS ABMHFS 4
NHS Redress Facilitators Post	13.75	Non Rec	HCHS ABMHFS 5
NHS Redress Putting Things Right	69.25	Non Rec	HCHS ABMHFS 6
Designed to Smile	73	Non Rec	HCHS ABMHFS 7
Lymphodema Funding	148.788	Non Rec	HCHS ABMHFS 8
Independent Mental Health Advocacy	58.316	Non Rec	HCHS ABMHFS 9
HB Vaccines	69.858	Non Rec	HCHS ABMHFS 10
Blood Borne Viral Hepatitis Action Plan	153	Non Rec	HCHS ABMHFS 11
NHS Redress Facilitators Post	13.75	Non Rec	HCHS ABMHFS 12
Repatriation of AAA Screening Funding WHSSC	-101	Rec	HCHS ABMHFS 13
Consultant Clinical Excellence Awards	435.269	Non Rec	HCHS ABMHFS 14
Additional WHSSC Funding	95	Non Rec	HCHS ABMHFS 15
Orthopaedics Funding	1973	Non Rec	HCHS ABMHFS 16
Provider Depreciation Adjustment	423	Rec	HCHS ABMHFS 18
Primary Care Estate Tal-Y-Bont Increase	2.805	Non Rec	HCHS ABMHFS 19
One Wales School Nursing - Staff Costs	147.978	Non Rec	HCHS ABMHFS 20
South Wales Cancer Networks	108.385	Non Rec	HCHS ABMHFS 21
Local Mental Health Grant Scheme	625.248	Non Rec	HCHS ABMHFS 22
Invest to Save CHC Repatriation	169	Non Rec	HCHS ABMHFS 23
Invest to Save (All Wales Proc £100k & VERS £167k)	-267	Non Rec	HCHS ABMHFS 24
NHS Redress Facilitators Post	13.75	Non Rec	HCHS ABMHFS 25
Belgrave Dental Centre New Models of Care	6.504	Non Rec	HCHS ABMHFS 26
MWW Cancer Network - Transfer from Powys	1688	Rec	HCHS ABMHFS 27
Eating Disorders - New Community Tier 3 Service	87	Rec	HCHS ABMHFS 28
Consultant Clinical Excellence Awards	435.279	Non Rec	HCHS ABMHFS 29
Orthopaedics Funding	0.7	Non Rec	HCHS ABMHFS 30
SpR's April to September	250.56	Non Rec	HCHS ABMHFS 31
Additional Allocation to Support Position	17000	Non Rec	HCHS ABMHFS 32
Additional Funding for Non Orthopaedic Waiting Lists	1000	Non Rec	HCHS ABMHFS 33
Vaccination Allocation	484.441	Non Rec	HCHS ABMHFS 34
Substance Misuse	2948	Non Rec	HCHS ABMHFS 35
Pre Reg Pharmacy Trainees	165.96	Non Rec	HCHS ABMHFS 36
DSU Roll Out of 24/7 Thrombolysis Service	10	Non Rec	HCHS ABMHFS 37
Non Recurrent Orthopaedics Funding - Tranche 1	613	Non Rec	HCHS ABMHFS 38
Non Recurrent Orthopaedics Funding - Validation of Waiting Lists	30	Non Rec	HCHS ABMHFS 39
Primary Care Estate New Street Pencoed	2.403	Non Rec	HCHS ABMHFS 40
Non Recurrent Orthopaedics Funding - Tranche 2	464.5	Non Rec	HCHS ABMHFS 41
Trauma and Orthopaedic SpR Funding	244	Non Rec	HCHS ABMHFS 42
Consultant Clinical Excellence Awards	502.751	Non Rec	HCHS ABMHFS 43
NHS Redress Facilitators Post	11.25	Non Rec	HCHS ABMHFS 44
AME Impairments	38787	Non Rec	HCHS ABMHFS 45
AME Depreciation on Donated Assets	580	Non Rec	HCHS ABMHFS 46
One Wales School Nursing	241.035	Non Rec	HCHS ABMHFS 47
SpR's October to March	250.56	Non Rec	HCHS ABMHFS 48
Primary Care Estate Oak Tree Surgery	243.431	Non Rec	HCHS ABMHFS 49
Consultant Clinical Excellence Awards	402.265	Non Rec	HCHS ABMHFS 50
Deprivation of Liberty Safeguards Grant	32.495	Non Rec	HCHS ABMHFS 51

GP ICT Refresh and Maintenance	1280	Non Rec	HCHS ABMHFS 52
Expanded Independent Mental Health Advocacy Scheme	88.447	Non Rec	HCHS ABMHFS 54
Mental Health Measures Implementation Lead	10.675	Non Rec	HCHS ABMHFS 55
Forensic Community Services	61.67	Non Rec	HCHS ABMHFS 56
Dementia Services	200	Non Rec	HCHS ABMHFS 57
GP ICT Refresh and Maintenance - Transfer to GMS	-1280	Non Rec	HCHS ABMHFS 58
Palliative Care Funding	542.65	Non Rec	HCHS ABMHFS 59
Electronic Staff Record Recharge 2011-12	-588.051	Non Rec	HCHS ABMHFS 60
Woodlands Surgery Caerau	242.652	Non Rec	HCHS ABMHFS 61
DEL Depreciation	8252	Non Rec	HCHS ABMHFS 62
AME Impairments	-1000	Non Rec	HCHS ABMHFS 63
Electronic Staff Record Recharge 2011-12 Adjustment	45.987	Non Rec	HCHS ABMHFS 64
One Wales School Nursing	67.583	Non Rec	HCHS ABMHFS 65
Pandemic Flu Stock Depreciation	37	Non Rec	HCHS ABMHFS 66
Donated & Government Grant Income	-306	Non Rec	HCHS ABMHFS 67
AME Impairments - Return Funding	-9558	Non Rec	HCHS ABMHFS 68
Consultant Clinical Excellence Awards	34.011	Non Rec	HCHS ABMHFS 69
New Street Pencoed - Rates	9.282	Non Rec	HCHS ABMHFS 70
New Street Pencoed	142.615	Non Rec	HCHS ABMHFS 71
Transitional Funding - Cefn Coed Hospital	143	Non Rec	HCHS ABMHFS 72
Additional HCHS Funding	**63290.602**		
Final Allocation GMS Contract	392	Non Rec	GMS ABMHFS 2
Vaccination Allocation	97.499	Non Rec	GMS ABMHFS 3
GP ICT Refresh and Maintenance	1280	Non Rec	GMS ABMHFS 4
GMS Dispensing One Off Back Payment	48	Non Rec	GMS ABMHFS 5
Additional GMS Funding	**1817.499**		
Vocational Training April to July	554	Non Rec	Dental ABMHFS 2
Marches Scheme UDA Proposal February to August 2011	26.159	Non Rec	Dental ABMHFS 3
Belgrave Dental Centre New Models of Care	6.504	Non Rec	Dental ABMHFS 4
Dental Contract 0.5% Uplift	148	Rec	Dental ABMHFS 5
Vocational Training August Intake	1109	Non Rec	Dental ABMHFS 6
Belgrave Dental Centre New Models of Care	-6.504	Non Rec	Dental ABMHFS 7
Additional Dental Funding	**1837.159**		
Total Additional Funding	**66945.26**		

ABMU HEALTH BOARD

CAPITAL ALLOCATIONS 2011-12

Appendix 2

Allocation	Original	Additional	Total
	£000	£000	£000
Discretionary	9,754	1,710	11,464
HVS 1B Scheme 3, Estates, Morriston	1,324		1,324
HVS 1B, Scheme 1, Main Entrance, Morriston	2,654		2,654
HVS 1B, Scheme 4, Combined Services Unit, Morriston	0	3,226	3,226
HVS 1B, Scheme 5, Service Centre, Morriston	0	7	7
HVS 1B, Scheme 6, Mortuary Expansion, Morriston	2,807	-61	2,746
CAMHS Inpatient Unit, POW	857		857
RMHSS P2 Intermediate Care, Cefn Coed	9,758		9,758
RMHSS P5 Ty Einon	2,512		2,512
RMHSS Phase 6 Garngoch	3,921	-170	3,751
RMHSS Phase 8, Low Secure	0	477	477
Pencoed Primary Care Resource Centre	1,748		1,748
Theatre Expansion, Morriston	3,000		3,000
A&E Expansion, Morriston	0	2,538	2,538
Pharmacty Robot		213	213
Telemedicine (NWIS)		40	40
Welsh Clinical Portal (NWIS)		50	50
EOY Capital Funding		399	399
EOY Clinical Renal Network		711	711
PCs sets and DICOM screens		5	5
Singleton Wards		1,508	1,508
Opthalmology Cameras		124	124
Total	**38,335**	**10,777**	**49,112**

REPORT PREPARED BY:
Eifion Williams, Director of Finance
David Clementson, Associate Director of Finance

REPORT SPONSORED BY:
Eifion Williams, Director of Finance

Health Board
7th April 2011

In Committee

INTERIM RESOURCE PLAN 2011/12

1. INTRODUCTION

1.1 The Health Board has received briefings in previous meetings on the very challenging financial outlook for 2011/12 and has agreed an approach to be taken in 2011/12. It has always been clear that the level of savings needed to deliver a balanced financial position would be very substantial.

1.2 This report provides the Health Board with an update on the financial outlook as a result of recent developments and sets out how the Board can approach the projected financial savings required in 2011/12. The paper also sets out the key assumptions and financial risks facing the Board as a result and finally it sets out the proposed initial budgets for Directorates and Localities in 2011/12. The Plan requires the Board to agree an approach to cover the financial shortfall. The Board is also required, under Standing Orders, to formally agree the base budgets for the delegated management structure to facilitate budgetary control in the new year.

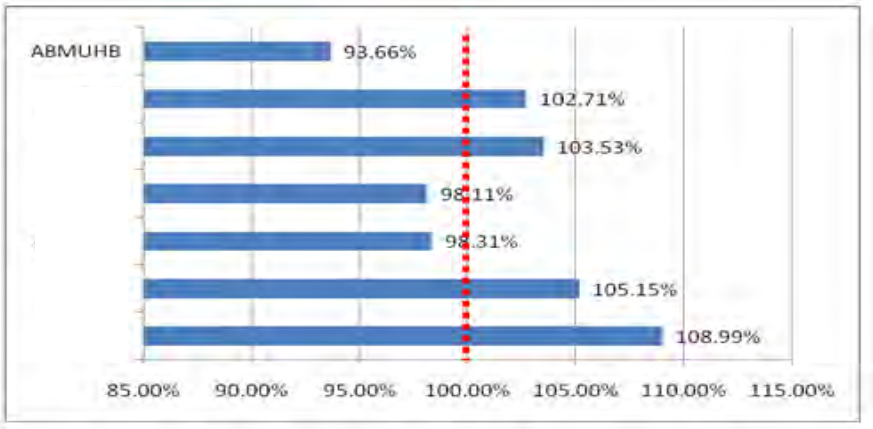
2. BACKGROUND

2.1 The Abertawe Bro Morgannwg University Health Board is on track to deliver a balanced out-turn by the 31st March 2011. Whilst this is a very creditable achievement, it has only been possible through receipt of £24m additional resource from the Welsh Assembly Government. This was necessitated by the fact that the Health Board allocations only received an overall 0.4% uplift in 2010/11, resulting in a savings requirement in the order of 7% to 8% across Wales. Savings of this order have not been achieved by the NHS in Wales in 2010/11. Indeed, the additional funding received by ABMU Health Board was the lowest % of all Health Boards in Wales, with the exception of Betsi Cadwaladr.

2.2 The 2010/11 experience of only partial delivery of the savings plan, due to setting high CIP targets and large corporate savings targets, must be taken into account in establishing the 2011/12 Resource Plan. It is evident that savings and cost containment plans, requiring targets to be achieved in excess of 5% in total, have a high risk of falling short.

2.3 It is clearly accepted that providing quality services, that are appropriately delivered in the right setting, must be at the centre of the approach taken by ABMU Health Board in planning and delivering services. This is not only the correct approach from a healthcare service and patient perspective, but is also the correct approach from a financial perspective.

2.4 In setting the context of the financial overview it is important to note that the cost efficiency of the service provider component of the ABMU Health Board compares favourably with the service provider component of other Health Boards in Wales. The latest Welsh Assembly Government produced analysis on the 2009/10 cost statements shows the ABMU Health Board with a cost index of 93.7 against the All Wales average of a 100. This cost index ranks first in Wales, and represents an improvement on the 2008/09 cost index of 95.9



2.5 Whilst the Health Board compares favourably with regard to its cost efficiency, opportunities do exist to improve service productivity and efficiency within this positive cost index position.

2.6 An exercise promoted by the Welsh Assembly Government identified 14 High Value opportunities across Wales. The ABMU Health Board's potential share of these opportunities (at 17%) is shown in the Table below:-

	All Wales Opportunities	Health Board Potential
Capture the Opportunities of Integrated Care		
	£m	**£m**
➢ Care Pathways and Settings	100-170	17-29
➢ CHc	40-50	7-9
➢ Unscheduled Care	50-100	9-17
➢ I.T.	20	3
Improve Quality and Financial Stability by reducing harm, waste and variation		
➢ Wasteful Interventions	100-200	17-34
➢ Acute Performance	150-250	26-43
➢ Non Acute Performance	65-100	11-17
➢ Mental Health	30-50	5-9
➢ Medicines Management	70-100	12-17
➢ Procurement	100-170	17-29
➢ Prevention	NYQ*	NYQ
Empower the Front Line		
➢ Streamline the Centre	NYQ	NYQ
➢ Streamline Management	NYQ	NYQ
➢ Workforce	NYQ	NYQ
*NYQ: Not yet quantified	**725-1210**	**124-207**

The lower value in the range of the 14 High Value Opportunities has been used within the Financial Plan above and this total would still require further service reconfiguration from strategic schemes, to be identified and taken forward.

2.7 Realistically, the Health Board will strive to achieve the required efficiency and productivity targets in a number of areas but will not be able to achieve the target levels in all areas. The majority of efficiency and productivity targets are based on the highest performing organisation in each target area. It is not realistic to expect all organisations in Wales to achieve all of these levels simultaneously as service models are different in each Health

Board and the nature of specialist services in some Health Boards will mean that National target levels will never be achieved even when a service is run at maximum efficiency locally, simply because that service may have more cancer patients, or receive disproportionately higher levels of more complex patients due to specialist services being present in that Health Board. This is especially relevant to the tertiary services provided in Morriston Hospital.

2.8 The Health Board also faces a service redesign agenda, arising from significant service and workforce challenges, and this is tempered with the challenging financial environment ahead. This will require the Health Board to develop a service and financial strategy that covers a medium term period of up to five years, in order that the services can be shaped and safely delivered within the very challenging environment ahead.

2.9 The final point to make on efficiency gains is that these are often not cash releasing, but capacity releasing. Where efficiency improvements are planned in theatres and outpatient treatment areas in particular, increased throughput has often seen non pay costs increase beyond the notional efficiency saving released. Efficiency is being pursued as core business for the Health Board, but this is being done in recognition of the potential downstream impact on finances overall.

3. WAG ALLOCATION LETTER 2011/12

3.1 The Welsh Assembly Government recently issued the formal Allocation Letter for 2011/12 and its key features are set out below:-

- Health Boards are expected to achieve and deliver the annual AQF priorities for 2011/12 from within their Allocations;
- Discretionary and Ring-Fenced HCHS and Prescribing allocations receive no uplift in 2011/12;
- Contract negotiations have not yet been concluded for GMS and Dental Contracts and therefore allocations are based on 2010/11 final allocations. These will be reissued for 2011/12 when negotiations are concluded;
- Community Pharmacy contract receives a 5% uplift;
- Ring-fenced HCHS services comprise of:-
    - Learning Disabilities
    - Mental Health
    - Cardiac Rehabilitation
    - Renal Services
    - Depreciation Costs
    - Screening Services
    - Continuing Healthcare.
- Capital charges funding is for depreciation costs only, following the removal of the cost of capital funding; and
- No progress has been made in 2011/12 towards providing allocations closer to the (Townsend) Direct Needs Formula to Health Boards.

3.2 The attached **Appendix A** sets out a summary of the Allocation Letter for NHS Wales in 2011/12, and the allocations for ABMU Health Board are shown in the table below.

Unified Allocations 2011/12	
	£m
Discretionary HCHS and Prescribing	588.6
HCHS Ring Fenced	143.8
Directed Expenditure	0.4
Sub Total	**732.8**
GMS Contract	69.1
Community Pharmacy Contract	26.5
Dental Contract	24.8
TOTAL	**853.3**

4. FINANCIAL FRAMEWORK FOR 2011/12

4.1 Financial Responsibilities

The Health Board's key statutory responsibilities are as follows:-

- In Income and Expenditure terms, revenue running costs must remain within an annual Resource Limit, which is set by Welsh Assembly Government.
- To achieve the Public Sector Payment Policy target of paying at least 95% of all invoices within a 30-day target; and finally
- To remain within a Resource Limit set for capital expenditure (assets costing over £5k).

4.2 The ability to deliver these responsibilities requires the Health Board to ensure that certain key processes remain firmly in place, thereby ensuring that financial controls are robustly maintained through a variety of mechanisms, and specifically:-

- Robust financial planning, with early setting of financial targets, especially savings targets;
- Clear lines of accountability to relevant managers;
- Ensuring that Budget holders fully understand their accountability;
- Robust adherence to authorisation levels;
- Well understood Standing Orders, Standing Financial Instructions and Financial Procedures;
- Strong Audit reviews by both Internal and External Audit partners; and
- Regular and comprehensive reporting of financial performance to the Health Board and other key management groups in the organisation.

4.3 The Resource Plan for 2011/12 will need to comprise the assessed impact of the following:-

- The likely carry forward underlying deficit from 2010/11;
- An assessment of new costs and commitments in 2011/12;
- New income to be received in 2011/12; and
- Measures to finance the 'financial gap' in terms of:-
  - Cost containment/avoidance action
  - Cost savings through initiatives /schemes.

4.4 **Underlying Deficit Carried Forward From 2010/11**

4.4.1 A significant level of detailed work has been carried out across the extra Health Board to identify the anticipated deficit carried forward into the new financial year. This has required a major exercise to be carried out in costing the detailed staffing establishments in all Departments/wards, as well as estimating the anticipated spend across all major non-pay budgets. This work is almost complete, but it requires a further iteration to take into account the fact that:-

(i) A number of staffing establishments in the non-ward nursing/non-medical areas require review to conclude the work initiated at the beginning of 2010/11, when Board members will recall it was agreed that all these areas would work through the means of establishing affordable staffing budgets, following the release of just under £4m to various Directorates to facilitate funding establishments at the mid-point of the scale; and

(ii) The assessment of major non-pay budgets needs to be linked to current spend/performance levels.

This work will be completed during April.

4.4.2 Board members were previously alerted to the fact that the carry forward deficit was anticipated to be around £20m. The review work has indicated that due to pressures in a number of areas, (especially Primary Care Prescribing), this will increase to £23m as a minimum, although there has also been some compensating reduction in the pressure on new year costs relating to Primary Care Prescribing. (This is set out later in this paper).

It is considered essential that every effort is made to cost avoid this increase in the deficit carried forward. As a consequence it is proposed that a cost avoidance target of some £3m is set against the Primary Care Prescribing problem. During the second half of 2010/11, there has been a reduction in the costs of some Category M drugs and it is anticipated that this will help in addressing this target, thereby reducing the carry forward deficit back to around the £20m figure previously identified.

4.4.3 Given the above, the carry forward target established is considered to be £20m, which will require a significant amount of containment measures to be adopted by Directorates, Localities and Primary Care Prescribing budgets.

4.5 **Assessment of New Costs and Commitments in 2011/12**

4.5.1 At previous Health Board meetings, the Board has been provided with an outline of the key new costs emerging for Health Boards in 2011/12. This assessment sets national cost pressures at 5.2%. This does not take into account the many local service and cost pressures faced by Health Boards across Wales. Since the initial work was done it has now been identified that the expected inflation/growth on the Primary Care Prescribing budget is overstated at 7.5%, with a more likely figure of around 4.5%. This has consequently reduced the expected new year costs by some £3m, as highlighted previously in this report.

4.5.2 The Table below now sets out a new assessment of the 2011/12 new year costs:-

Detail	Estimated Impact on the overall Board Budget %	Financial Impact £m
Pay	1.07	7.38
Non-Pay	1.15	7.93
Continuing Healthcare	1.10	7.59
NICE	0.82	5.66
Specialist Services	0.22	1.52
Statutory Compliance	0.26	1.79
VAT	0.37	2.55
Mental Health Measures	0.21	1.45
Overall Inflation/Cost Pressures, excluding Primary Care Drugs	**5.20**	**35.87**
Detail	**Expected Inflation/ Growth on Primary Care Prescribing Budget %**	
Primary Care Drugs	4.5	**4.05**
Overall		**39.92**

The above assessment does not take into account any local cost pressures on the basis that these must be managed in a way which maintains cost neutrality. This will be an additional task to achieve at Corporate Director, Directorate and Locality level. However, it is considered that further local investment is required in Unscheduled Care services at around £3m. This should be considered as non-recurring initially, allowing for improvement in service performance to remove these extra costs during 2011/12. This investment is not included above, and needs to be added to the financial gap.

4.5.3 **New Income to be received in 2011/12**

The recently received Welsh Assembly Government Allocation Letter has provided a zero uplift in the funding levels to that provided in the current financial year. This will require the Health Board to identify savings and cost containment action to finance the carry forward underlying deficit, the new costs and new commitments forecast for the 2011/12 year. This will be a very major challenge for the Health Board, especially bearing in mind its efficient base costs.

4.5.4 **Addressing the 'Financial Gap' in 2011/12**

It is evident from the above that there will exist a very major financial challenge in 2011/12, arising out of the zero uplift, the carry forward underlying deficit and the new costs in 2011/12. The Table below sets out the proposed approach in relation to the Cost Containment element of the required action.

Cost Area	Estimated Cost	Proposed Cost Avoidance	Comment
	£m	£m	
Pay	7.38	-	These estimates relate to known pay items outside the Board's direct control.
Non-Pay	7.93	(5.00)	It is proposed that robust Procurement processes must cost avoid approximately 2/3rds of the potential costs.
Continuing Healthcare	7.59	(4.59)	It is proposed that 60% of the estimate should be avoided through management action.
NICE	5.66	(3.19)	It is assumed that just over half of the potential costs can be removed through management action.
Specialist Services	1.52	(1.52)	It is proposed that all WHSSC cost pressures will be removed through LTA negotiation.
Statutory Compliance	1.79	(1.34)	It is assumed that 3/4 of the costs can be prevented through robust management of all areas.
VAT	2.55	-	This is a known increase from 17.5% to 20.0%.
Mental Health Measures	1.45	(0.73)	It is assumed that half of this can be cost avoided.
Primary Care Drugs	4.05	(2.55)	A savings target based on approximately 60% of this potential increase is proposed.
OVERALL	**39.92**	**(18.92)**	

In overall terms it is therefore proposed that the framework established for 2011/12 should require just under half of the potential £39.92m new costs emerging in 2011/12 to be targeted to cost avoidance/minimisation action. It is crucial to stress that this will require very robust management and focused action in all these areas to ensure that this proposed strategy succeeds.

Consequently this would leave a requirement that some £24m (£21m and £3m) of the new 2011/12 costs (excluding the carried forward shortfall, but including the Unscheduled Care investment) will need to be addressed through real cash savings. The Table below sets this out in detail together with options to address the shortfall.

Proposed 2011/12 Financial Approach

	Estimated Cost Pressure	Proposed Cost Avoidance	Proposed Funding / (saving)
	£m	**£m**	**£m**
Pay	7.4	-	7.4
Non Pay	7.9	(5.0)	2.9
Continuing Healthcare	7.6	(4.6)	3.0
Primary Care Prescribing	4.1	(2.6)	1.5
NICE	5.7	(3.2)	2.5
VAT	2.5	-	2.5
WHSSC	1.5	(1.5)	-
Statutory Compliance	1.8	(1.3)	0.5
Mental Health Issues	1.4	(0.7)	0.7
	39.9	**(18.9)**	**21.0**
General 3% savings target			(15.0)
Performance Improvement Savings			(2.0)
Strategic Schemes			(2.0)
Corporate Schemes			(2.0)
	39.9	**(18.9)**	**(21.0)**
Carried forward (minimum)	**20.0**		
Unscheduled Care non-recurring	**3.0**		
Overall remaining shortfall	**23.0**		

It can be seen from the above that there still remains a shortfall of some £23m in the Resource Plan, arising out of the underlying deficit brought forward from 2010/11 and the non-recurring investment in Unscheduled Care for 2011/12.

In terms of the non-recurrent £3m relating to Unscheduled Care, it is proposed that this is managed in-year through the delivery of one off Technical savings managed by the Director of Finance.

REVIEW OF CIP PLANS TO DATE

5.1 Directorate and Locality Plans

The Directorate and Locality Teams have established Plans that set out their proposed approach to address their 3% savings target. These are summarized as follows:-

5.1.1 Acute Directorates

The current summary position on the Acute Directorates identified CIP schemes for 2011/12 is set out in the Table below: -

Directorate	Target £k	Schemes Identified £k	Directorate Surplus/ (Shortfall) £k	Low / Medium Risk £k	High Risk Schemes £k
Cancer	385	457	*72	263	194
ACCT	1,639	1,400	(239)	940	460
Cardiac	743	512	(231)	307	205
MSK	924	1,133	*209	1,048	85
Regional	710	859	*149	491	368
Surgical	1,197	1,517	*320	1,215	302
Pathology	475	262	(213)	202	60
Diagnostics	750	425	(325)	350	75
W&CH	1,289	1,164	(125)	153	1,011
TOTAL	**8,112**	**7,729**	**(383)**	**4,969**	**2,760**

*These surpluses are to be used to offset the carry forward deficits in these Directorates and cannot be used to offset other Directorate's 2011/12 shortfalls.

Against the target of £8.112m, there is currently an overall shortfall of £0.383m, although the total unidentified schemes for those Directorates not realizing their target is £1.133m. Of the £7.729m identified, £2.760m can be considered to be 'high risk' schemes at this point in time.

The detailed schemes are set out in **Appendix B** for colleagues' information.

Continuing work is being undertaken to: -

(i) review the schemes for robustness, especially those deemed high risk;
(ii) initiate more savings schemes to reach the 3% target set for each Directorate;
(iii) carry out the action needed to ensure that the potential identified savings turn into real savings as soon as possible; and
(iv) continue to seek additional savings to address the carried forward recurrent deficits within each Locality and Directorate.

The Director of Acute Services and his support colleagues are working closely with individual Directorates to provide a further set of updated plans by 31st March 2011.

5.1.2 **Mental Health, Learning Disabilities and Localities**

The current summary position on the Localities plus Mental Health & Learning Disabilities Directorates identified CIP schemes for 2011/12 is set out in the Table below: -

Directorate	Target £k	Schemes Identified £k	Directorate / Locality Surplus / (Shortfall) £k	Low / Medium Risk £k	High Risk Schemes £k
Mental Health	1,790	1,120	(670)	1,120	0
Learning Disabilities	621	621	0	621	0
Bridgend Locality	916	1,141	*225	911	230
Swansea Locality	1,305	1,470	*165	1,223	247
Neath Port Talbot Locality	1,999	1,740	(259)	1,505	235
Medicines Management	245	245	0	245	0
TOTAL	**6,876**	**6,337**	**(539)**	**5,625**	**712**

* These surpluses are to be used to offset the carry forward deficits in these Directorates and cannot be used to offset other Directorate's 2011/12 shortfalls.

Against the target of £6.876m, there is currently an overall shortfall of £0.539m, although the total unidentified schemes for those Directorates/Localities not reaching their target is £0.929m. Of the £6.337m identified, £0.712m can be considered to be 'high risk' schemes at this point in time.

The detailed schemes are set out in **Appendix C**.

Continuing work is being undertaken to:-

(i) review the schemes for robustness, especially those deemed medium/high risk;
(ii) initiate more savings schemes to reach the 3% target set for each Directorate;
(iii) carry out the action needed to ensure that the potential identified savings turn into real savings as soon as possible; and
(iv) continue to seek additional savings to address the carried forward recurrent deficits within each Locality and Directorate

The Director of Primary Care, Learning Disabilities and Mental Health and her support colleagues are working closely with individual Directorates/Localities to provide a further set of updated plans by 31st March 2011.

5.2 **Corporate Schemes**

The Corporate schemes proposed to address the £2m Corporate savings targets are set out in the Table below:-

Directorate	Target £k	Schemes Identified £k	Directorate / Locality Surplus / (Shortfall) £k	Low / Medium Risk £k	High Risk Schemes £k
Medical Director	20	20	0	20	0
Nurse Director	53	53	0	53	0
Board Secretary	17	17	0	17	0
Workforce & OD	129	129	0	129	0
Planning	504	504	0	504	0
Informatics	241	190	51	190	0
Finance	178	178	0	178	0
Shared Services*	184	0	184	0	0
Energy	300	300	0	300	0
Taxation Reviews	374	374	0	374	0
TOTAL	**2,000**	**1,765**	**235**	**1,765**	**0**

*Refers to those Corporate services transferring to the new Shared Services set up commencing on 1st April 2011.

Strategic Schemes – target £2m

The means by which savings will be achieved in Strategic Schemes are proposed as follows:-

- **Income Repatriation**

  The Board is taking forward a strategy of repatriating activity back to ABMU facilities. This was successful in 2010/11 and further progress is expected in 2011/12 – proposed target **£500k.**

  The Executive lead will be the Director of Planning.

- **Strategic Service Change**

  The Board is aware of the various service changes being progressed. A target saving of some **£1m** is proposed.

  The Executive lead will be the Director of Planning.

- **Workforce**

  This proposed target area will be addressed through a range of initiatives, including release schemes, focus on sickness absence, annual leave carry forward etc. A target saving of **£500k** is proposed.

The Executive lead will be the Director of Workforce and Organisational Development.

5.3 **Performance Schemes**

The proposed Resource Plan has identified a £2m target savings figure to be achieved through improving service performance. An analysis of performance has also been commissioned by the Health Board from CHKS, where it is envisaged that opportunities for savings will be identified. The work is almost complete and the details will be notified to a future Board meeting.

5.4 **Addressing the Remaining Shortfall**

It is evident that there is a major challenge facing the ABMU Health Board in developing and implementing a comprehensive strategy that ensures all financial and service obligations are delivered. The financial obligation would require savings and cost containment plans to be delivered that far exceeds what has been achieved previously by the NHS in Wales.

It is imperative that representations are made to the Welsh Assembly Government to promote the position that ABMU Health Board should receive its fair share of any resources currently available, but not yet distributed to Health Board organisations. The achievement of this objective is fundamental to maintaining good financial discipline and governance during this challenging period. The Health Board will be kept informed by the Chairman, Chief Executive and Director of Finance of any developments in this matter.

In addition to securing a fair share of the resources available to NHS Wales, consideration has been given as to what further measures must be explored in order to contribute to closing the financial gap that remains.

Executive Directors have considered that the following action should be taken forward:-

- ❑ Need an analysis of which of our services costs more than that of our peers
- ❑ Estimate of the extent of the additional costs / variable pay costs that are within our gift to manage down
- ❑ Need an analysis of a cap on Agency costs at Directorate/Department level
- ❑ What procedures should be reduced because they are of limited effectiveness and what is the potential saving?
- ❑ Target reduction in service outflow costs through SLAs
- ❑ Analyse opportunities to reduce / remove spending in Private Sector
- ❑ What strategic options are available?
- ❑ Need to appraise the impact of On Call System changes
- ❑ Can the NPT lease be lengthened or bought out?
- ❑ Rationalise mobile phone, landline and bleep costs
- ❑ Review Leased Car Scheme to consider alternative terms.

The Board will be kept updated as to the opportunity and progress that is being made with these potential additional initiatives.

6. ASSUMPTIONS AND RISKS

6.1 In setting out the financial challenge facing ABMU in 2011/12 it is essential that Board members are fully aware of the key assumptions and risks built into the financial projections set out for colleagues review and consideration below.

6.2 **Key Assumptions**

In identifying the shortfall requirement, a number of key assumptions have been made. Health Board colleagues need to fully understand these and the key ones are as follows: -

(i) Inflation – the Plan assumes that inflationary costs will be similar to those agreed nationally as part of a national review process. For pay award inflation these reflect the agreed A4C uplift (primarily to lower paid staff) and known N.I. charges. As a result there should be little variation risk here.

In terms of non-pay a national assessment was carried out in the autumn and, in overall terms, this anticipated an overall uplift of some 1.15% on total budget, reflecting some material increases in prices, particularly energy.

(ii) Cost Pressures – the plan assumes any in-year pressures will be managed in a cost neutral way.

(iii) AQF – this is a key area. The current plans provides for the following:-

- R.T.T./Waiting Times

Only funding agreed recurrently (in 2010/11) by the Director of Planning plus a sum to cover recognized Anaesthetics Consultants shortfalls (£600k) is available. It is important to emphasise that there is no provision for non-recurrent R.T.T. initiatives. During 2010/11 significant non-recurrent investment has been made to deliver these targets and, as a consequence, it is inevitable there will be a significant impact in this area.

- Unscheduled Care

As identified previously in this report a non-recurrent sum of over £3m has been earmarked to help address the pressures in this area. It is anticipated that these initiatives will also significantly assist in delivering inpatient waiting times, as a result of the anticipated improvement in surgical bed availability.

- Other AQF priorities

Planning and Service colleagues are currently working through any additional requirements coming out of the AQF exercise. There is no financial provision in the current Interim Resource Plan for any additional investment in this area.

6.3 **Key Risks**

It is important to emphasise that the assessment of the Board's likely financial challenge in 2011/12 is based on the latest information available. It is inevitable that even marginal changes on budgets of more than £1 billion can have a major impact on the Board's ability to achieve financial targets.

As a consequence it is very important to highlight a number of high-level financial risks facing the Board. In particular the following are key: -

(i) Inflation – although it is expected that the pay award inflation requirement should be accurate due to the fact that pay award levels are largely known, there are risks around both the estimate for non-pay inflation, particularly the potentially volatile areas such as energy.

(ii) Incremental movement on pay scales – the A4C pay scales have created major incremental pressures on pay budgets over the last few years, especially due to decreasing staff turnover levels. It is anticipated that this will create further pressure on pay budgets in 2011/12. The Plan does make provision for a sum of £1.1m within the estimated pay increases of £7.4m, however recent work has identified that this could increase significantly if staff turnover levels remain low.

(iii) Continuing Healthcare Pressures – Demographic changes within the local population have resulted in increased numbers of quite elderly people who have an increased likelihood of ill health and multiple co-morbidities. This inevitably means that there are major risks in being able to maintain costs within the sum set out in paragraph 4.5.4. Demand for CHC funding has also increased as a result of the general population being more aware of CHC, as well as being due to the actions of Local Authorities who are increasingly trying to move patients from Social to Healthcare as their financial problems increase. There has been a considerable amount of work within the Health Board to drive down CHC costs e.g. high cost patient repatriation, strengthening review panels, reallocating budgetary management to those Directorates making the placements etc. The recent court ruling on the setting of residential home fees by Pembrokeshire Unitary Authority will inevitably drive fees up across Wales in both the Social and Healthcare sectors.

(iv) Primary Care Prescribing - this is the second consecutive year that no financial uplift has been given by WAG, despite the inevitable increase in both the cost of drugs and also the volume prescribed. WAG has allocated 5% uplift to the Community Pharmacy Budget in recognition of growth in dispensing, but not uplifted the cost of the extra volume of drugs prescribed. Whilst the primary care prescribing teams continually work with GPs to drive down costs (regularly achieving over £2 million new savings per annum) these cost reductions are regularly more than offset by volume increases and new expensive drugs coming onto the market. On a recurrent basis one new drug replacing Warfarin could increase the drugs bill by over £4 million per annum.

(v) NICE and High Cost Drugs Funding – a sum of £5.7m has been identified as the potential impact on the Board in 2011/12, with some £3.2m of this needing to be cost avoided. This is a precariously difficult area to provide estimates for future years. As a result there are risks around this figure.

(vi) Depreciation Funding – this is now a ring-fenced budget with a funding cap. As a result, the impact of the 2011/12 Capital Programme will place pressure on this budget.

(vii) Long Term Agreements with other Health Boards and WHSSC – there are potential threats to the Board's income base, as a result of some Boards looking to reduce LTA's financial quantums e.g. Aneurin Bevan. There is also ongoing discussions with WHSSC over the recurrent quantum needed to pay for the specialised services.

(viii) Local Cost Pressures / Compliance Issues –this can be a highly volatile area, particularly depending on the increasing requirements set out by WAG, Health and Safety and other compliance bodies.

(ix) AQF targets – this issue has also been highlighted above in paragraph 6.2. This is a major risk area for the Health Board.

(x) Organisational Change – as colleagues are aware a new management structure is being put in place for the Acute Directorates. It will inevitably take some time to carry out this major task and, as a result of the changes, it is crucial that the associated risks of this are recognised and addressed.

(xi) Delivery of such a major savings programme – the scale of the shortfall facing the Board is clearly a major risk in itself. It has been recognised nationally that the Board's services are already low cost when benchmarked against those provided by other Boards. The delivery of a very large savings target must be set against this backcloth.

(xii) Accounting Issues – there are two new accounting issues effective from 1st April 2011. There is a new International Accounting Standards (IAS37) on Provisions and also new VAT penalties are being introduced. Work is ongoing to ensure that any risks are mitigated.

These and other financial risks will be monitored closely throughout 2011/12 and the Board will be updated on key areas regularly.

7. BUDGETARY FRAMEWORK

7.1 In paragraph 4.2 a number of key financial controls were highlighted as being essential in helping the Health Board to address its financial challenges. To enhance control and ensure the budgetary framework is fit for purpose, Finance colleagues have been and continue to work through a number of key areas. The following paragraphs outline some of the most important aspects of this work.

7.2 Pay budgets – a major exercise is currently being concluded to fully review the likely impact of incremental movement on pay budgets across the Board in 2011/12. This is to be fully considered by Executive Directors. It is being strongly linked to the need to facilitate robust establishment control and Finance staff are working with H.R. and Directorate/Locality colleagues to ensure control processes are firmly in place.

7.3 Non Pay Budgets – in a similar fashion a major review is being undertaken to look closely at key non-pay budgets, especially those which are well over budget. Key areas for review have been identified and work is ongoing to better understand the issues arising and it is anticipated that this will lead to more economical and more equitable budgeting.

7.4 Review of budget-holders and their requirements – due to the major restructuring which has taken place over the last year or so and indeed will continue as a result of the reshaping of Acute Directorates, the Finance Directorate is proactively reviewing the position to ensure that:-

(i) There is absolute clarity around budgetary responsibilities;
(ii) Budget-holders are supported regularly in terms of their ongoing budgetary operational needs;
(iii) Focused training is provided for both new and previous budget-holders;
(iv) Budget-holders are provided with maximum support in their efforts to deliver what is a very challenging C.I.P. programme; and
(v) Directorate/Locality Teams are provided with appropriate support to deliver the financial agenda.

8. DIRECTORATE/LOCALITY BUDGETS 2011/12

8.1 As previously outlined it is a requirement that the Board agrees:-

(i) the initial budgets for Directorates/Localities, so that budgetary control/reporting can be facilitated; and
(ii) how the overall Financial Plan, including any shortfall, should be addressed.

The former point is addressed in this paragraph, whilst addressing the recurring shortfall has been considered previously.

8.2 As a result of working through the methodology and assumptions outlined earlier in this report, an Outline Plan has been produced. The table below sets out the estimated income and expenditure for the Board in 2011/12 with an estimated remaining shortfall to be addressed of £20m. These sums exclude the income received by the hosted Agencies. The Table below summarises the detailed budgets for each Directorate/Locality, with detail being set out in Appendix D.

ABMU Health Board 2011/12

	£k	£k
Income:		
Revenue Resource Limit	**857,676**	
SLA Income	**167,813**	
Other Income	**55,333**	**1,080,822**
Budgets:		
Localities, MH & LD	**505,664**	
Acute	**277,572**	
Corporate Directors	**190,659**	
Other Budgets	**110,927**	
Locality Directorate b/f deficits	**16,000**	**1,100,822**
Remaining Shortfall		**20,000**

8.3 These budgets have been set before applying the savings measures discussed previously. It should be pointed out that at this stage these budgets are also set out prior to the further redistribution of budgets under the revised management structure. This work is almost complete and, once available, the budgets will be set out in a format that reflects the new Directorate structure.

8.4 As part of the recommendations set out in this report, Board members are asked to confirm that the budgets set out in Appendix D are agreed as a starting point for Directorate/Locality budgets for 2011/12, before any savings schemes to address the remaining shortfall are applied. This is crucial to ensure that budgetary control can be facilitated in the new year.

9. INTERIM RESOURCE PLAN

9.1 Given the remaining shortfall in the Service and Financial Plan at this stage of the new financial year, it is proposed that an interim Resource Plan is agreed by the Board based on:-

(i) Those savings / cost avoidance schemes already agreed and set out in paragraphs 4 and 5, together with a detailed savings / cost avoidance plan being drawn up and provisionally agreed by Executive Directors for consideration by the Health Board in May/June?. In the meantime, a series of interim measures need to be put in place to minimise new costs impacting on the Board's finance base over the next 2 months.

As a result, it is requested that the Board agrees to a number of key interim recommendations to control expenditure during April and May 2011.

9.2 The key areas for robust cost containment to be considered are set out below:-

(i) RTT – There would be a requirement that no additional expenditure should be incurred unless the maximum wait for a patient would be breached.

(ii) Other AOF – There would be a requirement that no new expenditure in this area to be committed, over and above the sums included in the Plan.

(iii) NICE – Pharmacy and Finance Managers are working to cost avoid expenditure in this area currently. However, there would be a further requirement to make no new investment in this area during April and May.

(iv) Containment of CHC Costs - Actions include:-

(a) Full review of processes
(b) Repatriation of clients
(c) Early intervention to prevent further deterioration of clients
(d) Active rehabilitation
(e) Effective Case management of chronic condition patients.

(v) Workforce controls – there would be a requirement for no external recruitment, other than where specifically agreed by Executive Directors. Robust constraints will need to be placed on other areas of pay expenditure, particularly bank, agency and overtime.

(vi) WHSSC Costs – there would be a requirement that no additional commitments can be made for WHSSC services during April and May. This will need to be taken forward in conjunction with other Health Boards.

In exceptional circumstances where small non-recurrent investment is required over the next two months, specific and time limited non-recurrent funding will have to be discussed and agreed by the Chief Executive.

9.3 It should also be emphasised that Executive Directors will, over the next two months, be considering opportunities which may assist in addressing the financial shortfall from 2011/12 onwards. Board members will be fully involved in considering this work as it emerges.

9.4 In addition, Executive Directors will make further representation to WAG regarding the for a fair allocation of all available resources that have not yet been allocated in the Allocation Letter recently received.

9.5 In an ideal situation Board members would agree a balanced Resource Plan with a realistic savings target, which also provided sufficient funding to maintain current service levels and allowed for the delivery of WAG targets. Unfortunately the Health Board has not been able to reach a position that produces a balanced plan as yet. Board members will be aware the Board has a statutory responsibility to deliver a balanced Income and Expenditure position and to facilitate this, a balanced Resource Plan is essential as soon as possible.

9.6 It is proposed that the Board agrees an Interim Resource Plan based on:-

(i) Delivering the savings / cost avoidance measures of £46m set out in paragraphs 4 and 5 and attached as Appendix E.
(ii) Receiving further detailed proposals to address the balance of £20m at its May/June ?meeting, but in the meantime

(iii) Agreeing the actions set out in paragraph 9.2 to effect maximum cost avoidance during the interim 2 month period.

10. RECOMMENDATIONS

10.1 The Board is recommended to: -

(i) agree the Interim Resource Plan for 2011/12 as set out in paragraph 9.6; and

(ii) agree that the detailed budgets set out in Appendix D can be used as the starting point for 2011/12. These budgets will, of course, be amended for the impact of the subsequently agreed savings schemes.

MAIN REPORT IN COMMITTEE	ABM University Health Board
Health Board	03.05.2012 xxx.xxx (agenda number)

Subject	**RESOURCE PLAN 2012/13**
Prepared by	**Samantha Lewis**
Approved by	**Eifion Williams**
Presented by	**Eifion Williams**

1 PURPOSE

1.1 This report provides the Health Board with a Resource Plan for 2012/13, setting out the key assumptions, financial risks and savings requirements for 2012/13.

1.2 The Board is required under standing orders, to formally agree the base budgets for the delegated management structure to facilitate budgetary control in the new financial year.

2 ECONOMIC CONTEXT AND THE NHS IN WALES

2.1 The UK economy is not immune from the difficulties currently being experienced by the majority of economies in the World, which has resulted in the need for the UK Government to curtail its spending on Public Services over a period of some 5 years. The impact of this is arguably more marked in the UK, because of the difference between reducing levels of spending compared to the high growth in Public Services funding of the recent past.

2.2 The Welsh Government has received a tight financial settlement from the UK Government. The reduction in Public Service budgets has been translated by the Welsh Government into the NHS in Wales facing the toughest financial settlement of any of the countries in the UK (WAO Report 2011), as demonstrated by the table below:-

Indicative real-terms changes in NHS revenue budgets from 2010-11 baseline (%)

Source: Wales Audit Office's analysis of budgets

2.3 This will have a significant impact on the resources available to deliver health services, because it is already the case that spending per head on health is lower in Wales than in Scotland and Northern Ireland, and, due to the greater reduction in NHS funding in Wales, it is likely that it will also be lower in Wales than in England by 2014-15 (WAO Report 2011).

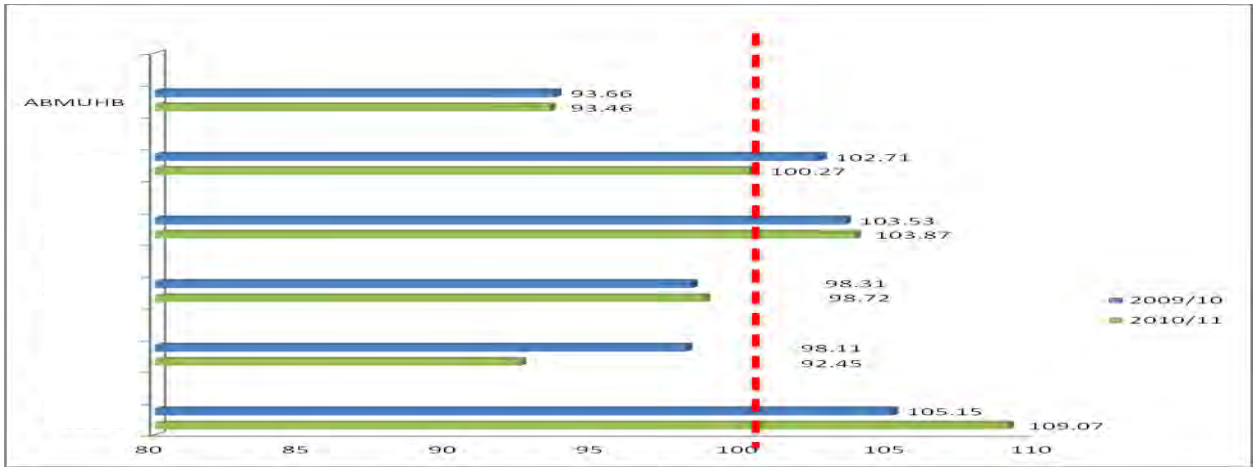
2.4 It is evident therefore that the NHS in Wales will need to plan to deliver its services over the period ahead within the context of a „flat cash" funding outlook.

3 SERVICE COST EFFICIENCY

3.1 It is clearly accepted that providing quality services that are appropriately delivered in the right setting must be at the centre of the approach taken by ABMU Health Board in planning and delivering services. This is not only the correct approach from a healthcare service and patient perspective, but is also the correct approach from a financial perspective.

3.2 In setting the context of the financial overview it is important to note that the cost efficiency of the service provider component of the ABMU Health Board compares favourably with the service provider component of other Health Boards in Wales. The latest Welsh Assembly Government produced analysis on the 2009/10 and 2010/11 cost statements shows the ABMU Health Board with a cost index that is significantly below the All Wales average service cost of a 100. This cost index ranks second in Wales, and represents - on a like for like basis - an improvement on the 2009/10 Index.-

All Wales Cost Index



Figures presented on a like for like basis excluding Primary Care

3.3 Whilst the Health Board compares favourably with regard to its cost efficiency, opportunities do exist to improve service productivity and efficiency within this positive cost index position.

3.4 An exercise promoted by the Welsh Government identified 14 High Value opportunities across Wales. The ABMU Health Board's potential share of these opportunities (at 17%) is shown in the Table below:-

	All Wales Opportunities	Health Board Potential
Capture the Opportunities of Integrated Care		
	£m	**£m**
➢ Care Pathways and Settings	100-170	17-29
➢ CHc	40-50	7-9
➢ Unscheduled Care	50-100	9-17
➢ I.T.	20	3
Improve Quality and Financial Stability by reducing harm, waste and variation		
➢ Wasteful Interventions	100-200	17-34
➢ Acute Performance	150-250	26-43
➢ Non Acute Performance	65-100	11-17
➢ Mental Health	30-50	5-9
➢ Medicines Management	70-100	12-17
➢ Procurement	100-170	17-29
➢ Prevention	NYQ*	NYQ
Empower the Front Line		
➢ Streamline the Centre	NYQ	NYQ
➢ Streamline Management	NYQ	NYQ
➢ Workforce	NYQ	NYQ
*NYQ: Not yet quantified	**725-1210**	**124-207**

The lower value in the range of the 14 High Value Opportunities has been used within the Financial Plan above and this total would still require further service reconfiguration from strategic schemes, to be identified and taken forward.

3.5 Realistically, the Health Board will strive to achieve the required efficiency and productivity targets in a number of areas but will not be able to achieve the target levels in all areas. The majority of efficiency and productivity targets are based on the highest performing organisation in each target area. It is not realistic to expect all organisations in Wales to achieve all of these levels simultaneously as service models are different in each Health Board and the nature of specialist services in some Health Boards will mean that National target levels will never be achieved even when a service is run at maximum efficiency locally, simply because that service may have more cancer patients, or receive disproportionately higher levels of more complex patients due to specialist services being present in that Health Board. This is especially relevant to the tertiary services provided in Morriston Hospital.

3.6 The Health Board also faces a service redesign agenda, arising from significant service and workforce challenges, and this is tempered with the challenging financial environment ahead. This will require the Health Board to develop a service and financial strategy that covers a medium term period, in order that the services can be shaped and safely delivered within the very challenging environment ahead.

3.7 The final point to make on efficiency gains is that these are often not cash releasing, but capacity releasing. Where efficiency improvements are planned in theatres and outpatient treatment areas in particular, increased throughput has often seen non pay costs increase beyond the notional efficiency saving released. Efficiency is being pursued as core business for the Health Board, but this is being done in recognition of the potential downstream impact on finances overall.

3.8 The Executive Director responsibilities have been changed in order to provide clinical leadership to the Changing for the Better Programme and to establish a Chief Operating Officer role for service delivery.

4 EXTERNAL BENCHMARKING

4.1 In order to support the identification of further efficiency savings as a service provider, the Health Board commissioned CHKS to benchmark service level costs with efficiency and outcome measures, comparing the Health Board with high performer providers in England.

4.2 The performance of the Board was measured against three assessments of Cost, Quality and Efficiency. CHKS adapted their methodology used over many uses in its Top Hospital Programme to rank the top hospitals in the UK. This exercise identified the overall relative cost of the Health Board services against the peer Group and identified outlying services and provided insight into the drivers of variance.

4.3 The comparative analysis of cost identified that the relevant cost of admitted patient care within ABMU Health Board was lower than the Peer Group. Overall, the casemix adjusted cost of the main bed holding services was 4% lower than the peer norm.

4.4 This overall performance included specialties that operated at even lower cost than the peer norm and others that had an adverse variance against their peer norm. Executive Directors considered the services that presented an adverse relative cost and correlated the information to other benchmarking data. A second phase of work has now been commenced with CHKS undertaking a “deep dive” on three specialties from this adverse relative cost group, involving Clinical, Informatics and Finance managers.

4.5 These three services are undertaking a more indepth analysis and are visiting three high performing organisations identified by the Health Board and CHKS as being constructive peers. The three services will identify opportunities for further efficiencies and improvements in services from this exercise. Further “deep dives” will be considered after the first wave has been concluded.

5 WELSH GOVERNMENT REVENUE ALLOCATION LETTER 2012/13

5.1 The Welsh Government issued the 2012/13 Revenue Allocations in late December 2011, which set out the funding for Health Boards for 2012/13.

5.2 The Key features are set out below:-

- Health Boards are expected to achieve and deliver Tier 1 priorities as set out in the Delivery Framework from within their Allocations.
- Discretionary and Ring-fenced HCHS and Prescribing allocation receive no uplift in 2012/13.
- Contract negotiations have been concluded for GMS and Dental Contracts, allocations are therefore based on 2011/12 final allocations. Allocations will be adjusted when negotiations are concluded.
- Community Pharmacy contract has attracted a 5% uplift.
- Ring fenced HCHS Services and funding comprise of:
  - Learning Disabilities
  - Mental Health Services
  - Cardiac Rehabilitation
  - Renal Services
  - Strategic Continuing Healthcare Funding
  - Recurrent orthopaedic funding
- The additional £17m funding allocated in 2011/12 has been allocated again in 2012/13. However this is still non-recurrent in nature.
- Funding for shared services has been top-sliced from revenue allocations.

5.3 A summary of the allocation for ABMU Health Board are shown in the table below:-

2012/13 Allocations	
	£m
Discretionary HCHS & Prescribing	584.060
HCHS Ring Fenced	158.225
Directed Expenditure	5.037
Sub Total	**747.322**
GMS Contract	69.478
Community Pharmacy Contract	28.481
Dental Contract	25.226
TOTAL	**870.507**

*This figure will fluctuate throughout the year as additional allocations are received.

6. FINANCIAL FRAMEWORK FOR 2012/13

6.1 Financial Responsibilities

6.1.1 The Health Boards key statutory responsibilities are as follows:-

- Revenue running costs must remain within an annual Resource Limit, which is set by Welsh Government;

- To achieve the Public Sector Payment Policy target of paying at least 95% of all invoices within a 30 day target; and finally
- To remain within a Resource Limit set for Capital expenditure (assets costing over £5k).

6.1.2 The ability to deliver these responsibilities requires the Health Board to ensure that certain key processes remain firmly in place, thereby ensuring that financial contracts are robustly maintained through a variety of mechanisms, and specifically:-

- Robust financial planning, with early setting of financial targets, especially savings targets
- Clear lines of accountability to relevant managers
- Ensuring that Budget holders fully understand their accountability
- Robust adherence to authorisation levels
- Well understood Standing Orders, Standing Financial Instructions and Financial Procedures
- Strong Audit reviews by both Internal and External audit partners
- Regular and comprehensive reporting of financial performance to the Health Board and other key management groups in the organisations.

6.1.3 The Resource Plan for 2012/13 will need to comprise the assessed impact of the following:-

- The likely carry forward underlying deficit from 2011/12
- An assessment of new costs and commitments for 2012/13
- New income to be received in 2012/13
- Measures to finalise addressing the „financial gap" in terms of:-
  - Cost containment/avoidance action
  - Cost savings through initiatives/schemes.

6.2 Underlying Deficit Carried Forward from 2011/12

6.2.1 The draft accounts of the Health Board show that we have been able to deliver a balanced financial out-turn for 2011/12, one of only two Health Boards to achieve this requirement without further additional funding. Whilst this is a credible achievement, it should also benefit the new 2012/13 year in that resources from that year were not required to be „drawn forward" from 2011/12 as is the case for four other Health Boards.

However, it has to be borne in mind that within the balanced financial out-turn of the ABMU Health Board, there was an operational overspend of some £12.9m, arising out of:-

2011/12 Operational Overspend	**£m**
2011/12 CIP Delivery Shortfall	5.9
Nursing Budgets overspend	2.9
Medical Staff Overspend	2.7
Other overspends	1.4
	12.9

This operational overspend was offset in 2011/12 by resources from a combination of technical savings and balance sheet releases. Clearly, these measures will not be available in future years and it is likely that any substantial operational overspend will cause the Health Board to overspend against its resource limit.

Some of the Directorates and Localities have improved their „in month" financial performance in the second half of the 2011/12 financial year, to the extent that they are able to contain their „in month" expenditure to the „in month" budget available. This should produce the position that they do not carry forward a recurring overspend for their area into 2012/13. A number are however claiming that non-recurring measures were taken to secure this position, which is not sustainable.

The table below outlines the last three month „in month run rate" for periods 9-11 (Dec-Feb) with their stated carry forward position:-

Operational Run Rate	Month 9 £000	Month 10 £000	Month 11 £000	Derived Annual 'Run Rate' £000	Declared Annual 'Run Rate' £000	'Forced' Annual Run Rate £000
Clinical Support Services	411	332	276	4,076	2,851	2,500
Surgical Services	258	279	425	3,848	3,203	3,000
Regional Services	-7	-20	-26	-	-	-
MSK	-15	-30	-39	-	600	-
Women & Child Health	99	236	181	2,064	2,200	2,000
Acute Directorates	**746**	**797**	**817**	**9,988**	**8,854**	**7,500**
Mental Health	134	46	79	1,036	2,300	1,000
Learning Disabilities	-4	14	35	-	615	600
Bridgend Locality	-22	-5	-19	-	450	-
NPT Locality	-5	-106	-86	-	116	-
Swansea Locality	8	-46	-134	-	1,270	750
Integrated Medicines Mgt	-321	-26	-9	-	392	-
Localities, MH & LD	**-210**	**-123**	**-134**	**1,036**	**5,143**	**2,350**
Director of Therapies	-1	-1	0	-	-	-
Board Secretary	-6	-10	-14	-	-	-
Medical Director	-1	-1	0	-	-	-
Nursing Director	-3	0	8	-	112	-
Planning	-1	10	1	-	-	-
Workforce, OD & Informatics	41	10	-14	-	320	300
Finance	-1	0	-1	-	-	-
Corporate Directorates	**28**	**8**	**-20**	**-**	**432**	**300**
Operational Run Rate	**564**	**682**	**663**	**11,024**	**14,429**	**10,150**

From the Operational In month Run Rate over the last period 9-11, it can be seen that all Directorates/Localities were delivering in month breakeven, with the exception of Clinical Support Services, Surgical Services, Women and Child Health, Mental Health and Learning Disabilities.

Based on this „three month" Derived Operational Run Rate, the Health Board"s underlying recurring overspend position has been assessed as being in the region of some £11m, which needs to be addressed in addition to the 2012/13 CIP requirement.

However, the Declared „Run Rate" of each Directorate and Locality is far higher than that evident in the recent past at £14.4m. It is evident therefore that it is imperative that the tight controls that have been put in place over the last three months must be maintained and embedded in budgets.

It is considered that efforts should be made by the relevant Directorates and Localities to contain their underlying overspend position to a Force Annual „Run Rate" that would total £10.1m for 2012/13.

It is imperative that the actions underpinning the „in month" breakeven position of Directorates and Localities are sustained in a robust and manageable way in 2012/13. This should include the continuation of the agreed control measures.

- Control of variable pay costs – bank, agency and overtime.

- Robust process for managing vacancies and removing the posts from establishments
- Control of non-pay through tight authorisation processes
- No new expenditure commitments to commence without clearly identified income sources.

It is a requirement that the Board must agree:-

(i) the initial budgets for Directorates/Localities, so that budgetary control/reporting can be facilitated; and

(ii) How the overall Financial Plan, including any shortfall, should be addressed.

This section of the report deals with the Directorate/Locality budgets, whilst addressing the shortfall has been considered earlier in the report.

6.3 Assessment of New Costs and Commitments in 2012/13

6.3.1 The National Cost Assessment undertaken on behalf of all Welsh Health Boards identified an inflationary pressure of 3.79%. This can be broken down as follows:-

Inflationary Pressure	% Cost	£m
Pay Inflation	0.88	7.1
Non-Pay inflation	0.85	6.8
NICE and High Cost Drugs	0.61	4.9
Statutory Compliance and National Policy	0.13	1.0
Prescribing	0.53	4.3
Funded Nursing Care	0.04	0.3
Continuing Healthcare	0.38	3.0
Specialist Services	0.37	3.0
TOTAL	**3.79**	**30.4**

6.3.2 The Health Board has undertaken a local assessment of the likely inflationary pressures and the application of cost avoidance measures and this exercise has reduced the level of inflationary pressure from £30.4m to £26m. The table below sets out this local calculation for 2012/13 and for the subsequent 2 years.

Local Assessment of Inflationary Pressure

	£m 2012/13	£m 2013/14	£m 2014/15
Pay Inflation	7.0	14.0	14.0
Non- Pay Inflation	3.0	14.0	14.0
NICE & High Cost Drugs	4.0	4.0	4.0
Statutory Compliance & National Policy	0	0	0
Prescribing	4.0	3.5	3.5
Funded Nursing Care	1.0	1.0	1.0
Continuing Health Care	3.0	3.0	3.0
Specialist Services	2.0	1.5	1.5
Other/Contingency	2.0	2.0	2.0
	26.0	**32.5**	**32.5**

The most significant change is within non-pay inflation were in the main reduced procurement COSG and lower Drug costs.

6.3.3 It must be noted that the local assessment does not take into account any local cost pressures and these will need to be managed in a way which maintains costs neutrality. This will be an additional pressure on Directorates and Localities.

6.3.4 In addition to inflationary pressures, the Health Board has identified further areas where investment will be required which will increase the likely costs in 2012/13 to some £30m:-

- **Unscheduled Care** – The Health Board non recurrently committed £3m to support unscheduled care in 2011/12, with reduced levels of investment identified in forthcoming years; 2012/13 £2m, 2013/14 £1m, 2014/15 no additional investment. This tapered investment allows efficiency opportunities to be delivered in order to sustain service improvements.

- **Sustaining Services** – significant pressures are being experienced due to Medical staff shortages, which are destabilising services. Whilst efforts are being made to reconfigure services, it is likely that this reconfiguration will take some time to deliver. The Health Board has therefore identified a £2m fund to support additional costs associated with sustaining existing service models in the short term.

6.3.5 The Health Boards has also agreed to the establishment of a Strategic Change Fund which will provide resources to deliver the NHS services of the future in order that all challenges being faced are addressed. Such a fund could provide resources to meet the challenges of:-

- Achieving Strategic shifts in Service Delivery
- Addressing Priority Service Improvements
- Planning Future Services
- Structural and Workforce Change.

This has been estimated at £5m for 2012/13, which requires an additional 1% CIP over and above identified new costs and commitments. There should be no release of these resources within delivery of the required CIPs.

6.3.6 The table below sets out the full cost assessment for the forthcoming year:-

	2012/13 £m
Inflationary Pressures	26.0
Unscheduled Care	2.0
Sustaining Services	2.0
Strategic Change Fund	5.0
	35.0

6.4 Addressing the 'Financial Gap' in 2012/13

6.4.1 It is evident that 2012/13 will represent a very major financial challenge, with a zero allocation uplift, a carry forward deficit and new costs identified.

6.4.2 In order meet the £35m new costs identified, a 6% CIP is required to be delivered by all Directorates and Localities.

6.4.3 The Financial Framework for 2012/13 can therefore be set out as follows:-

New Costs	£m
Pay	7.0
Non Pay	3.0
NICE and High Cost Drugs	4.0
Prescribing	4.0
Funded Nursing Care	1.0
Continuing Healthcare	3.0
Specialist Services	2.0
Other/Contingency	2.0
Unscheduled Care	2.0
Sustaining Service	2.0
Strategic Change Fund	5.0
TOTAL – New Costs	**35.0**
SAVINGS General 6% CIP to Directorates and Localities	(34.1)
Prescribing – Cost Containment	(4.0)
TOTAL Savings	**(38.1)**
'Excess' Savings	**(3.1)**

6.4.4 The planned „excess" savings allows for some slippage in the achievement of the 6% target in the current year.

6.4.5 It must be noted that this approach does not address the carry forward. This is currently estimated to be £10m and will be assigned directly to the Directorates that generated the shortfall.

7. SAVINGS

7.1 Integrated Plans

7.1.1 Given the scale of the challenge, Directorates and Localities are working to produce Integrated Service, Finance and Workforce Plans for 2012/13 that bring together service plans, access delivery plans, workforce plans and financial and savings plans into one coherent plan. These plans must identify the measureable targets on a month by month basis to allow clear comparison with delivery.

7.1.2 The following categories must feature in all Directorate and Locality plans:-

- Service Location/Facility Rationalisation – realignment of services to enhance service quality and improve efficiency of service delivery. It is recognized that some of these will be large scale issues which will require consultation and will form part of our longer term plan, however there are many smaller issues which may be able to be actioned more quickly.

- Service Efficiency/Productivity/Performance – the Health Board is not performing optimally and there are many areas where improvements can be made in patient pathways to improve efficiency and reduce such things as length of stay.

- Service Reduction – given the current economic climate, all services must be reviewed for clinical effectiveness and robustness of service model. This must be clearly linked to LTA requirements to fully understand the impacts of any service changes or reduction.

- Housekeeping schemes – identifying areas for further cost efficiencies.

- Medicines Management – review of all drug/prescribing opportunities. This will be supported by the Medicines Management Team.

- Procurement Savings – ongoing review of contracts and identification of opportunities to deliver savings through improved procurement options. This will be supported by the Procurement Team.

- Workforce Redesign – it is imperative that opportunities are fashioned that allows the workforce to adapt and respond to changing circumstances and new ways of working.

7.2 Directorate and Locality Plans

7.2.1 All Directorates and Localities have been set clear savings targets equivalent to 6%.

7.2.2 At this stage the Integrated Planning process has not reached its end point and therefore the financial schemes that are available at this stage do not meet the full savings targets established.

7.2.3 The table below sets out the Directorate and Locality targets and current level of identified CIPs:-

	2012/13 Recurrent 6% CIP target £000	Initial Stage CIP Schemes £000s	Current Shortfall £000s
Clinical Support Services	4,417	1,461	2,956
Surgical Services	3,727	1,205	2,522
MSK	1,919	1,919	0
Women & Child Health	2,765	1,445	1,320
Regional Services	3,352	1,948	1,404
Mental Health	3,644	3,115	529
Learning Disabilities	1,243	475	768
Bridgend Locality	2,041	1,245	796
NPT Locality	4,637	3,441	1,196
Swansea Locality	3,918	1,164	2,754
Integrated Medicines Management	4,000	4,000	0
Nurse Director	218	165	53
Medical Director	97	97	0
Workforce & OD & Informatics	954	304	650
Finance	363	363	0
Board Secretary	81	69	12
Director of Therapies	11	11	0
Planning	743	743	0
TOTAL CIP	**38,129**	**23,170**	**14,959**

7.2.4 It must be noted that the identified CIPs are currently being validated to ensure that they can be turned into firm proposals supported by detailed implementation plans. There is therefore a risk that the deliverable in full or part and that the deliverable schemes may have lead times for implementation that result in only a part year effect in 2012/13.

7.2.5 It is clear that the Health Board will have a significant shortfall on its CIP plans at the commencement of the financial year and that this will translate into a material financial overspend.

7.2.6 Work is continuing to:-

- Review schemes
- Identify additional savings schemes
- Seek additional savings to address any carried forward recurrent deficit.

7.3 Corporate Schemes

7.3.1 The Health Board has also identified a range of corporate schemes in addition to the £38.1m target previously described to support the delivery of the savings requirement:-

- Income Repatriation – The Health Board is continuing with its strategy of repatriating activity back to ABMU facilities. This has been successful in 2010/11 and 2011/12. A proposed target of £500k has been set.

- Workforce – It is proposed that this will be addressed through a range of initiatives to be led be Workforce and OD. - A target saving of £500k is proposed.
- Energy Efficiency – A proposed target of £500k has been set.

7.4 Addressing the Shortfall

7.4.1 It is evident that the current savings identified are not sufficient to meet the financial pressures facing the Health Board.

7.4.2 A further range of actions are also being considered to assist in closing the financial gap:-

- Demand Management – The Health Board has seen a rise in costs as a result of delivering RTT targets, and evidence shows an increase in referral rates across a number of areas. This increasing referral rate is adding pressure to RTT delivery, resulting in additional activity and rising costs. The integrated Health Board model should enhance opportunities to manage demand through greater use of Primary Care, reductions in inappropriate treatment and more focus on preventative models of care. The Health Board is considering an expansion of its current Referral Management System to encompass referrals within ABMU as well as those referred to services outside of the Health Board.

- Commissioning – All Directorates and Localities within The Health Board have completed detailed capacity plans as part of the Integrated Planning Process. This can be used to identify opportunities for further repatriation of services and opportunities to expand services commissioned for other Health Boards. This must be formulated into a clear and robust commissioning strategy to ensure patients receive appropriate services.

- Clinical Productivity/Efficiency – Review of effectiveness of clinical teams i.e. have we got the right people, in the right place at the right time to maximise the efficiency and effectiveness of the service area. This will need to be linked to the job planning process for consultants and SAS doctors.

- Theatre Efficiency – The objective is to maximise the efficient use of theatre capacity, through minimising downtime. A Theatre Board has been established within the Health Board and progress has been made. The activities of the Theatre Board need to be closely aligned with the Directorate capacity plans to maximise benefits and support delivery.

- Critical Care Facilities - Critical Care areas have been under significant pressure in 2011/12, a review has highlighted significant delayed transfers of care within critical care. In an effort to reduce delayed transfers of care, the Health Board is piloting an incentive charge for such delays.

- 7 Day working – The Health Board recognises that in order to maximise efficient use of resources, there should be a move towards a model of 7 day working. Whilst this may impact on costs in the short term, it is considered that the efficiency gains would outweigh any additional costs.

- Patient Services Support Review – to ensure efficient use of available resource and capacity.

- Efficient use of Support Services – the Health Board has experienced increasing activity levels across support services such as Radiology and Pathology. A review of the benefits of introducing a re-charge mechanism for these services within the Health Board is being considered.

- Forensic Finance Reviews – an exercise will be undertaken to examine retrospectively any staff overpayments, duplicate invoice payment and agency overpayments utilising external consultants.

- Virtual Medical Agency – examine the option of utilising an external firm for acquiring Medical Agency staff.

- Business Intelligence/Resource Consumption – Provide greater focus on how resources are expended within the Health Board by GP/Community Network area to assist in planning and focus on areas for efficiency improvements.

7.4.3 The Board will also receive updates as to the progress that is made with these additional initiatives as well as the progress by the Directorates and Localities in achieving their savings targets.

7.5 In Year Cost Management

7.5.1 Given the current level of identified savings is less than that required within the Financial Framework, it is essential that all new costs are fully scrutinised and actions taken to contain all new costs to those commitments that are completely unavoidable, until sufficient savings have been generated to support the „discretionary" commitments. This will require difficult decisions to achieve.

7.5.2 The table below gives a minimum projection of costs that are likely to be incurred at the commencement of 2012/13 against the initial cost assessment set out previously. It is therefore considered that before additional costs above their levels are committed to, the decision should identify the sum of funding before agreement is given.

New Costs	Forecast Cost Assessment £m	Minimum/ Contained Cost Assessment £m
Pay	7.0	7.0
Non Pay	3.0	3.0
ChC	4.0	2.0
NICE	4.0	1.6
WHSSC	2.0	2.0
Primary Care Drugs	4.0	4.0
Unscheduled Care	2.0	2.0
Other/Contingency	2.0	0.0
Sustaining Services	2.0	2.0
Sub Total	**30.0**	**23.6**
Strategic Change Fund	5.0	0.0
TOTAL	**35.0**	**23.6**

8. ASSUMPTIONS AND RISKS

8.1 In setting out the financial challenge facing ABMU Health Board in 2012/13; it is essential that Board members are fully aware of the key assumptions and risks built into the financial projections. These are set out below for Board Consideration.

8.2 Key Assumptions

In identifying the shortfall requirement, a number of key assumptions have been made:-

(i) **Inflation** – the plan considers the inflationary costs identified through the National Cost Assessment process. The majority areas are expected to be in line with National Cost Assessment however cost avoidance opportunities have been identified within, non-pay through contract negotiation which should significantly reduce the inflationary impact.

(i) **Cost Pressures** – the plan assumes any in year pressures will be managed in a cost neutral way.

(ii) **AQF** – The current plan provides for the following:-

RTT/Waiting Times – Funding agreed recurrently in 2010/11 has been reprovided within the plan. Funding for orthopaedic services has been provided on a recurrent basis within the WG allocation. The 2011/12 delivery required an investment of £1m, this has been included in the plan for 2012/13. It is essential that the resource requirement does not exceed the planned level.

Unscheduled Care – The non-recurrent £2m provided in 2011/12 has been reduced to £3m provided in 2011/12 and the plans have been formulated to reflect this tapered funding available.

Other AQF Priorities - Planning and Service colleagues are currently working through additional requirements coming out of the AQF exercise. There is no financial provision in the current Interim Resource Plan for any additional investment in this area.

8.3 Key Risks

8.3.1 It is important to emphasise that the assessment of the Board"s likely financial challenge in 2012/13 is based on the latest information available. It is inevitable that even marginal changes on budgets of more than £1billion can have a major impact on the Board"s ability to achieve financial targets.

8.3.2 As a consequence it is very important to highlight a number of high level financial risks facing the Board. In particular the following are key:-

(i) Inflation – pay inflation is considered low risk as this the inflationary impacts are clearly identified, there are however risks around non-pay, particularly the potentially volatile areas of energy.

(ii) Payscale Incremental Movement – The plan makes provision for £4m for A4C payscale incremental movement. This should be sufficient but pressures are increasing due to low levels of turnover.

(iii) Continuing Healthcare Pressures – Demographic changes within the local populations have resulted in increased likelihood of ill health and multiple co-morbidities. This inevitably means that there are major risk in being able to maintain costs within the allocated sum. Demand for CHC funding has also increased as a result of the general population being more aware of CHC, as well as being due to the actions of Local Authorities who are increasingly trying to move patients from Social to Healthcare as their financial problems increase. There has been a considerable amount of work within the Health Board to drive down CHC costs e.g. high cost patient repatriation, strengthening review panels, reallocating budgetary management to those Directorates making the placements etc.
The recent court ruling on the setting of residential home fees by Pembrokeshire Unitary Authority will inevitably drive fees up across Wales in both the Social and Healthcare sectors, this is currently being worked through with Care Homes Forum and a proposal has been made by the Health Board. The Health Board is also facing significant growth in numbers of children with Learning Disabilities transitioning to adulthood with severe Learning Disabilities requiring complex packages of care.

(iv) Primary Care Prescribing – this is the second consecutive year that no financial uplift has been given by WAG, despite the inevitable increase in both the cost of drugs and also the volume prescribed. WAG has allocated 5% uplift to the Community Pharmacy Budget in recognition of growth in dispensing, but not uplifted the cost of the extra volume of drugs prescribed. Whilst the primary care prescribing teams continually work with GPs to drive down costs (regularly achieving over £2 million new savings per annum) these costs are regularly more than offset by volume increases and new expensive drugs coming into the market. On a recurrent basis one new drug replacing Warfarin could increase the drugs bill by over £4 million per annum.

(v) Nice and High Cost Drugs Funding – the financial plan provides £4m for new cost growth in this area. This reflects the net growth after taking into account numerous savings opportunities. This is a particularly difficult area to estimate costs and recent months have seen u-turns from NICE which have significantly changed the forecast. The Health Board is currently considering changes to the process and audit of NICE and High Cost Drugs which should help to ensure costs are managed as robustly as possible.

(vi) Long Term Agreements with other Health Boards and WHSSC – there are potential threats to the Board"s income base as a result of some Boards looking to reduce LTA financial quantums. There are also ongoing discussions with WHSSC over the recurrent quantum.

(vii) Delivery of Major Savings Programme – the scale of the shortfall facing the Board is clearly a major risk in itself. It has been recognised nationally that the Board"s services are already low cost when benchmarked against those provided by other Boards. The delivery of such a large savings target must be set against this backcloth and there is a risk of slippage in delivery.

8.3.3 These and other financial risks with be monitored closely throughout 2012/13 and the Board will be updated regularly.

9 DIRECTORATE/LOCALITY BUDGETS

9.1 In accordance with Standing Financial Instructions the Board are required to approve the delegation of the Health Board budget at the start of the financial year.

9.2 The starting budgets have been delivered as a result of working through the methodology and assumptions outlined earlier in this report. The table below sets out the estimated income and expenditure for the Board for 2012/13. These sums exclude the income received by the hosted Agencies:-

AMBU Health Board Summary Resource Plan 2012/13		
Income	**£m**	**£m**
Revenue Resource Limit	883	
LTA Income	164	
Other Income	47	1,094
Budgets		
Localities, MH & LD	523	
Acute	284	
Corporate Directorates	176	
Other Budgets	149	
Savings Plan	(38)	1,094
Financial Plan Balance		**0**

9.3 These budgets have been set before applying the savings measures discussed previously.

9.4 As part of the recommendations set out in his report, Board members are asked to confirm that the budgets set out in **Appendix 1** are agreed as a starting point for Directorate/Locality budgets for 2012/13 before any savings schemes are applied. This is crucial to ensure that budgetary control can be facilitated in the new year.

10 CONCLUSION

10.1 The ABMU Health Board is facing a facing a major cost savings challenge over the 3-year period ahead, which will require very difficult decisions on service delivery and configuration to be considered. The cost savings achieved over the recent past has been very substantial, and the cost of services provided by ABMU Health Board compare very favourably with other Health Boards.

10.2 For 2012/13, the ABMU Health Board needs to achieve a savings level of some £38m (6%) and to date, savings of some £23.1m has been identified, some of which are still in their planning phase. In addition, £10m underlying deficit is also carried forward into 2012/13, increasing the cost pressure in year. It is estimated that the unavoidable expenditure commitment is some £33.7m at the commencement of the year, against which £23.1m of savings has been identified and a further £1.5m corporate schemes planned. This leaves a starting deficit of some £9.1m for the 2012/13

financial year, and also the need to identify more savings that will meet the required inevitable discretionary commitments in 2012/13.

	Financial Plan £m	April 12/13 Starting Position £m
Underlying Deficit	10.1	10.1
Planned Commitments		
- Unavoidable	23.6	23.6
- Discretionary	11.4	-
Savings		
- 2012/13	(38.1)	(23.1)
- Corporate Schemes	-	(1.5)
- Savings to achieve underlying deficit	(10.1)	-
Total	**(3.1)**	**9.1**

10.3 There is considerable financial exposure facing the Health Board in the period ahead, and a comprehensive range of strategic and operational savings schemes are required. Reasonable progress has been made to date, but the firm proposals of the Integrated Planning process must now be brought to fruition for this new financial year, and progress maintained in identifying additional schemes urgently to produce a balanced financial position for the Health Board, as required by Standing Financial Instructions.

11 RECOMMENDATIONS

11.1 The Board is recommended to: -

(i) Agree the Resource Plan for 2012/13; and

(ii) Agree the detailed budgets set out in Appendix 1 be used as starting point for 2012/13. These budgets will of course, be subject to amendment throughout the financial year.

(iii) Note that the Savings identified at the commencement of the year do not deliver the target level required to balance the expectation of the Health Board to the resources available.

(iv) Agree the approach required to identify further cost containment and savings during 2012/13.

Appendix 5

ABMU HEALTH BOARD
CAPITAL FINANCIAL PLAN 2011-12

ACTUAL

FUNDING	£000
Discretionary (Schedule 1)	-11,464
Sub Total	**-11,464**
All Wales Capital Programme (Schedule 2)	
HVS 1B Scheme 1 Main Entrance FBC Fees	-2,654
HVS 1B Scheme 3 Estates	-1,324
HVS 1B Scheme 4 Combined Services (ALAC) OBC Fees	-3,226
HVS 1B Scheme 5 Service Centre	-7
CAMHS Inpatient Unit, POW	-857
RMHSS P2 Intermediate Care, Cefn Coed	-9,758
RMHSS P5 Ty Einon	-2,512
RMHSS P6 Garngoch	-3,751
RMHSS P8 Low Secure	-477
Pencoed Primary Care Resource Centre	-1,748
Theatre Expansion, Morriston	-3,000
Mortuary, Morriston	-2,746
A&E Morrison	-2,538
Pharmacty Robot	-213
Telemedicine (NWIS)	-40
Welsh Clinical Portal (NWIS)	-50
EOY Capital Funding	-399
EOY Clinical Renal Network	-711
2 PCs sets and DICOM screens	-5
Singleton Wards	-1,508
Opthalmology Cameras	-124
Sub Total	**-37,648**
Disposals	
Cowbridge Health Centre	-417
Pencoed Health Centre	-109
Sub Total	**-525**
Externally Financed Schemes	
Flying Start IT, NPT CBC	-8
Flying Start IT, Swansea	-16
OT Early Support, IT	-2
Sub Total	**-26**
Total Funding Available	**-49,663**
Expenditure	
Discretionary Commitments Brought Forward	2,951
Discretionary Capital Programme	9,129
All Wales Capital Programme	37,368
Externally Financed Schemes	29
Disposal Costs	149
Total Expenditure	**49,625**
Net -Under / Over Commitment	**-38**

Appendix 6

ABMU HEALTH BOARD
CAPITAL FINANCIAL PLAN 2012-13

FORECAST

Funding Available	**£000**
Discretionary (Schedule 1)	-8,608
Possible reduction 10%	861
Sub Total	**-7,747**
All Wales Capital Programme (Schedule 2)	
HVS 1B Scheme 4 Combined Services Unit	-6,412
RMHSS P2 Intermediate Care, Cefn Coed	-209
A&E Morrison	-3,352
Singleton Wards	-892
Sub Total	**-10,865**
Disposals	
Maesgwyn Hospital	-746
Cefn Coed Hospital	-584
Sub Total	**-1,330**
Total Funding Available	**-19,942**
Expenditure	
Discretionary Commitments Brought Forward	3,054
Discretionary Capital Programme	4,288
All Wales Capital Programme	12,510
Externally Financed Schemes	0
Disposal Costs	90
Total Expenditure	**19,942**
Cumulative Planned Net -Under / Over Commitment	**0**