

**Cyfarwyddwr Cyffredinol Grŵp Iechyd, Gofal Cymdeithasol a'r
Blynyddoedd Cynnar / Prif Weithredwr GIG Cymru**

**Director General Health, Social Care & Early Years Group / NHS
Wales Chief Executive**



**Llywodraeth Cymru
Welsh Government**

Mark Isherwood MS
Public Accounts and Public Administration Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

2 May 2024

Dear Mr Isherwood

Call for evidence: NHS Finances and Governance

Ahead of the Public Accounts and Public Administration Committee meeting on 8 May 2024, please find attached the Welsh Government's evidence paper providing an update on NHS Finances, Betsi Cadwaladr University Health Board, The NHS Oversight and Escalation Framework, Velindre Cancer Centre and the NHS Accountability Review.

Yours sincerely

A handwritten signature in black ink that reads "Judith Paget". The signature is written in a cursive, flowing style.

Judith Paget CBE

Welsh Government’s Evidence Paper on NHS Finances and Governance

Public Affairs and Public Administration Committee – 8 May 2024

Contents

Betsi Cadwaladr University Health Board	2
How is progress monitored	2
De-escalation Criteria	3
NHS Finances.....	4
2022/23	4
2023/24	5
2024/25	8
Escalation Framework	10
Current escalation status.....	13
Accountability review	15
Velindre Cancer Centre Project (nVCC)	16

Betsi Cadwaladr University Health Board

On 27 February 2023, Betsi Cadwaladr University Health Board was placed into special measures as a result of serious concerns about board effectiveness, organisational culture, service quality and reconfiguration, governance, patient safety, operational delivery, leadership and financial management as set out in the Special Measures Framework.

There have been four progress reports published, which reflect on progress made over the first 12 months of the current special measures escalation, lessons learned, and improvements and challenges that have been identified. The health board has also published its own reflections on its response to special measures over the past 12 months. The focus over the first 12 months of special measures has been on stabilising the organisation and putting in place building blocks for the future. The next stage of special measures will be focused on making and embedding sustainable improvements with a focus on improved operational performance, quality management and governance systems.

The health board has made some good progress on enabling actions since its escalation to special measures as demonstrated by the planning, performance and risk frameworks now embedded within the organisation, supported by numerous corporate improvements. The health board is focused on building upon these to ensure they are further embedded, resulting in sustainable improvements.

It is essential that the outcomes and impact of the work undertaken so far translate into the delivery of real improvements and benefits to patients and staff, that quality and safety processes start to improve and waiting times for urgent and emergency care and elective care are in line with national metrics.

Over the past 12 months a small number of independent advisors worked with the health board to support the board in its improvement journey. The work programme of the independent advisors is now completed. Ongoing support to the health board will be undertaken via the NHS Executive, directed by the Welsh Government in line with the escalation priorities.

How is progress monitored

The Cabinet Secretary for Health and Social Care will chair a quarterly Special Measures Improvement Forum with the unitary board, and the Minister for Mental Health and Early Years will also be in attendance. This allows Welsh Ministers to ensure that the health board is progressing with the appropriate actions in response to the special measures escalation.

The Cabinet Secretary for Health and Social Care and the previous Deputy Minister for Mental Health and Wellbeing have visited the health board on a number of occasions, over the last year including each of the three acute sites and a number of other mental health and community settings. This has given them the opportunity to hear experiences of staff and patients, and to see the improvements being made.

Minister for Mental Health and Early Years will chair a quarterly meeting with the health board on mental health.

The Cabinet Secretary will meet with the Chair each month. These meetings are used to assess progress against his objectives.

The Chief Executive of NHS Wales chairs a quarterly Special Measures Assurance Board that reviews progress against the priorities within each 90-day cycle.

There are a number of health board and Welsh Government meetings in place to track progress including but not limited to monthly cancer and eye-care meetings, a monthly Integrated Quality, Planning and Delivery meeting, a Joint Executive Team meeting twice a year, and regular touchpoints on finance, quality, planned care and urgent and emergency care.

De-escalation Criteria

The Cabinet Secretary for Health and Social Care will soon publish the [Betsi Cadwaladr University Health Board special measures framework including de-escalation criteria](#). This document will set out the clear criteria and conditions against which progress will be assessed, with a clear set of de-escalation criteria the health board must meet for de-escalation to level 4/targeted intervention to be considered.

This new framework provides the health board with additional clarity about Welsh Government expectations. It sets out the roles and responsibilities and the support and oversight arrangements, which the Welsh Government will continue to take to coordinate and direct interventions to support the health board to strengthen its capacity and capability to drive improvements. It also describes the quantitative and qualitative measures which will be used to track progress against each of the escalation domains.

In line with the [NHS oversight and escalation framework](#), scope for de-escalation will be considered using the six escalation domains. To be considered for de-escalation from special measures, the health board must demonstrate the de-escalation and sustainability criteria for each domain has been consistently met. De-escalation will take place when there is sufficient assurance and evidence that enough progress has been made to stabilise the organisation and deliver sustainable improvements.

NHS Finances

2022/23

In 2022/23, the Auditor General concluded that eleven out of twelve health body accounts presented their positions fairly. Six of the seven health boards however failed to meet the statutory duty to break even over a three-year period. As a result, the Auditor General qualified his regularity opinion for those bodies as failing this duty meant that bodies exceeded their authority to spend during the three-year period.

In addition, the Auditor General was unable to conclude in all material respects that expenditure in 2022/23 was fairly stated and qualified the 'true and fair' view opinion of Betsi Cadwaladr University Health Board.

In 2022/23, the cumulative in-year deficit across NHS bodies totalled £150.3m, of which £151.9m related to the seven health boards. This is set out in the table below:

Table 1 – Under/(Over) spend against Revenue Resource Limit by Health Board 2022/23

Under/(Over) spend against revenue resource allocation limit				
	2020-21	2021-22	2022-23	Three year duty
	£000	£000	£000	£000
Aneurin Bevan University LHB	245	249	(36,842)	(36,348)
Betsi Cadwaladr University LHB	490	289	389	1,168
Cardiff and Vale University LHB	90	232	(26,789)	(26,467)
Cwm Taf Morgannwg University LHB	88	172	(24,481)	(24,221)
Hywel Dda University LHB	(24,910)	(25,000)	(59,044)	(108,954)
Powys Teaching LHB	143	80	(7,002)	(6,779)
Swansea Bay University LHB	(24,304)	(24,399)	1,838	(46,865)
All local health boards	(48,158)	(48,377)	(151,931)	(248,466)

This in-year deficit marked a significant deterioration from the outturn position of the previous financial year (£48m), driven by the impact of rising inflation, and significant service pressures against the backdrop of ongoing impacts of the pandemic as the NHS transitioned towards routine arrangements post-pandemic.

During the 2022/23 financial year health boards were provided with significant additional funding in recognition of both the exceptional high costs of energy experienced that year and the ongoing costs of Covid-19. These allocations were provided on a non-recurrent basis. Despite that support five of the seven boards posted annual deficits, with Swansea Bay University Health Board and Betsi Cadwaladr University Health Board achieving a small surplus position.

2023/24

At the outset of the financial year, the planned deficit outlined by Local Health Boards totalled £648m. NHS Strategic Health Authorities and Trusts outlined plans to deliver a balanced financial position. The drivers for this position related to a significant underlying deficit from the previous financial year, and significant inflationary and demand pressures over and above the funding made available to NHS bodies.

These pressures were not unique to NHS Wales but reflective of the challenges being faced by all healthcare services across the UK. In setting out this position, NHS organisations outlined plans to deliver savings of £221m, a level of savings delivery that was in excess of what had been delivered previously.

At the outset of the year NHS organisations were facing in-year challenges to deliver these plans that were set out, due to operational challenges and persistent inflationary pressures.

In recognition of the challenges facing Health and other areas, Welsh Government undertook a mid-year budgetary review, which resulted in the in-year changes to the Welsh Government's spending plans announced by the Minister for Finance and Local Government in October 2023. This was informed by a review by all Groups and MEGs of opportunities to review and repurpose funding and forecast under-spends.

The outcome of the in-year budget exercise resulted in an additional £425m being allocated to the Health and Social Services MEG to help support the NHS in 2023/24. In addition, the Health Group reviewed all central budgets and repurposed funding towards NHS organisations where possible. Whilst this additional funding support was welcomed and was essential, Health Boards still faced some difficult decisions to deliver financial improvement.

As a result of actions taken in-year, funding was also confirmed and provided to NHS organisations in support of pay award commitments that were agreed with and committed to union partners.

Local Health Boards were notified of the additional allocations being made in recognition of the challenges that were being faced, alongside a requirement for each Local Health Board to reduce planned deficits by 10%. Welsh Government consolidated the approach to allocating additional funding, and deficit reduction expectations into a Target Control framework. This resulted in a consistent framework being deployed for all Local Health Boards, with target control totals being set which across the seven LHBs combined to total a deficit of £123m. These target deficit positions for Local Health Boards were offset by funding within central budgets to support that deficit position. As part of this process, other NHS organisations who were forecasting financial balance were also asked to deliver further financial improvement if this was achievable.

Full details on the NHS position of these allocations and the target control totals set for each organisation were published as part of a [written statement](#) by the Minister for Health and Social Services on 8 November 2023.

On 17 October 2023, the Minister for Finance and Local Government provided an [oral statement](#) to the Senedd on the Welsh Government's 2023-24 financial position. That statement detailed the outcome of the work over the summer to address the impact of the Welsh Government budget being worth around £900m less than it was when it was set in 2021. The statement also contains information on the target controls totals for Health Boards.

Forecast performance against target control totals set has been closely monitored since they were issued, as part of escalation processes in place with NHS organisations. Welsh Government officials, supported by the Financial Planning & Delivery Team of the NHS Executive worked with all NHS Wales organisations on a consistent national basis, and organisational specific basis, in progressing delivery of the target forecast positions set out for the financial year. All Health Boards are expected to be making the best decisions possible to balance service, workforce, and financial risk within these delivery parameters. Health Boards were expected to ensure that decisions taken to deliver financial improvement were robustly impact assessed in terms of quality, safety, risk, and deliverability, and that balance of risk judgment and decision-making were optimised.

All Local Health Boards were expected to make progress against the control framework set out for the system. This also came with recognition that whilst there are some challenges which affect all organisations consistently which have been recognised with additional funding such as inflationary pressures, other challenges would be unique to organisations given different population needs, geography, and configuration of services across Health Boards.

The draft NHS forecast outturn position for 2023/24 (subject to audit) is a combined deficit of £182.9m. Of this draft outturn position, the position across the seven Health Boards equates to £184.7m, offset by all Trusts and Strategic Health Authorities cumulatively forecasting a surplus of £1.8m.

The deficit across the seven Health Boards of £184.7m equates to a £61.7m shortfall against the cumulative target control total set for the seven Boards of £123m. Additional non-recurrent funding support was provided to the Health and Social Services MEG in the second supplementary budget to support this position resulting in a forecast balanced position for the Health MEG within Welsh Government.

Within this position, four Health Boards (Swansea Bay University Health Board, Cardiff & Vale University Health Board, Cwm Taf Morgannwg University Health Board, and Powys Local Health Board) are forecasting delivery of the target control total set. Three Health Boards (Aneurin Bevan University Health Board, Betsi Cadwaladr University Health Board, and Hywel Dda University Health Board) have not been able to deliver the target control totals set.

In delivering this position therefore, four of seven health boards have delivered the actions required to achieve the target control total inclusive of actions that delivered a 10% reduction on original planned deficits. In addition, the forecast savings delivery for NHS bodies based on month 11 forecasts totalled £233m, more than delivered in any previous financial year. One of the seven Health Boards, Cwm Taf

Morgannwg University Health Board is forecasting delivery of a breakeven in-year position which also reflects the target control total set.

The draft forecast out-turn position by organisation, and comparison to Target Control Total is summarised below:

Organisation	2023/24 Draft Outturn Forecast	Target Control Total	Distance from Target Control Total
Surplus (Deficit)	£'000	£'000	£'000
Swansea Bay	-16,800	-17,000	200
Aneurin Bevan	-49,793	-13,000	-36,793
Betsi Cadwaladr	-24,000	-20,000	-4,000
Cardiff & Vale	-16,460	-16,000	-460
Cwm Taf Morgannwg	103	0	103
Hywel Dda	-65,815	-45,000	-20,815
Powys	-11,982	-12,000	18
HEIW	1,370	0	1,370
DHCW	260	0	260
Public Health Wales	55	0	55
Velindre	44	0	44
Welsh Ambulance	85	0	85
Total	-182,933	-123,000	-59,933

In managing this position, a number of support and escalation mechanisms have been deployed in order to support improvement. These include:

- Implementing a clear and consistent Target Control framework.
- Ensuring all organisations were clear on the delivery requirements and identifying actions to deliver progress towards the Target Control Totals outlined.
- Enhancing system processes, and controls to support financial improvement. This includes on 13th September 2023 the Minister for Health and Social Services confirming that all seven LHBs were now in escalation measures, with the escalation framework supporting financial delivery strengthened in overall terms and in activity with each Local Health Board.
- Strengthening routine monitoring, scrutiny, and assurance arrangements both in overall terms at a national level, and with NHS organisations in support of the delivery of Target Control Totals, supported by interaction from the Financial Planning & Delivery team of the NHS Executive.
- Re-establishing the National Value & Sustainability Board, chaired by the Director General, from the pre-pandemic National Value & Efficiency Group. This forum and supporting workstreams supports the identification and spread of action to deliver increased value and savings on a system-wide basis.

- A continuous and ongoing review of all options and choices in the MEG through robust financial controls, to deliver savings and improve the overarching forecast position.

2024/25

In 2024/25 Welsh Government again face difficult budget choices, with a budget worth £1.2 billion less in real terms than when it was set in 2021, against a backdrop of increasing demand, persistent inflationary pressures and challenges to public sector pay.

Through the budget process, Welsh Government has prioritised the NHS, and allocated an additional £450m to the Health & Social Services MEG as part of the budget settlement for 2024/25. This is in addition to the £425m allocated mid-year in 2023/24. In addition, the HSS MEG has made choices to release further funding and manage financial pressures in support of the challenges being faced.

The allocation letter issued in December 2023 to NHS organisations compliments the [NHS planning framework](#) which sets out Ministerial priorities and reflects the Minister's expectation in terms of financial improvement and delivery for 2024/25.

Through the allocation process, Welsh Government has set out an allocation framework and confirmed to NHS bodies funding that includes:

- Recognition of the recurrent costs of energy, which is now baselined on a recurrent basis.
- Recurrent baselining of the totality of the £170m of planned care funding allocated to support planned care improvement and recovery.
- Recurrent baselining of funding to support other developments (e.g. further faster), and for ongoing national Covid responses such as Health protection (including vaccination).
- An increase in baseline funding of 3.67% of discretionary allocations to support the unavoidable impact of inflation and demand pressures for 2024/25.
- Continuation of conditionally recurrent funding which are recurrent in principle but require Health Boards to make sufficient progress in the delivery and maintaining of control totals.
- Any pay award which is agreed for 2024/25 with Welsh Government holding funding centrally to support any awards which will be allocated once awards are made.

In addition to the allocation framework set out above, NHS organisations will need to maintain the actions that supported financial improvement in 2023/24 on a recurrent basis and deliver further significant savings to support financial improvement and sustainability. It is expected that NHS bodies will need to deliver a minimum of at least 2% savings on all baseline expenditure in order to deliver financial improvement or balance.

The enhanced controls and support mechanisms outlined above will continue in 2024/25, with a view to continuously increasing their impact.

NHS bodies have recently submitted their plans for 2024/25, which are in the process of being consolidated and reviewed by Welsh Government, who will set out next steps in terms of approach for 2024/25.

Escalation Framework

The NHS Wales oversight and escalation framework sets out the process by which the Welsh Government maintains oversight of NHS bodies and gains assurance across the system. It describes the escalation, de-escalation and intervention process, the five levels of escalation and the six domains against which each health body will be assessed.

The framework was published on 22 January 2024. It builds upon lessons learnt following the escalation and de-escalation of BCUHB and CTMHB. It takes into account learning and experiences from escalation systems in NHS England and Scotland and many of the changes are based upon the reflections shared following a workshop with tripartite members and a survey of NHS Wales bodies.

The previous escalation and intervention framework was introduced in 2014 following previous PAC recommendations. Since its introduction, the tripartite partners of Welsh Government, Healthcare Inspectorate Wales and Audit Wales, together with health organisations, have learnt lessons through the delivery and operationalisation of the arrangements.

An assessment/review of the escalation and intervention arrangements was undertaken. This included conversations with tripartite partners, and a review of existing arrangements with Health Boards and Trusts. An external review of the evidence on the effectiveness of escalation arrangements and best practice across the UK was undertaken. Lessons from the experience of placing two Health Boards in Wales under special measures has aided the production of the new arrangements.

A number of areas that needed to be addressed were identified including:

- The criteria for de-escalation was not always clearly defined.
- Clear framework and financial indicators are required to determine where in the framework each organisation should be and what triggers de-escalation.
- Levels of support and action need to be set for each level of the framework.
- The current system is too focused on acute health services – not ‘whole system’.
- There was insufficient focus on diagnosing ‘root cause’ of difficulties (to ensure most appropriate/effective response is adopted).
- The arrangements can be interpreted as punitive rather than supportive (‘done to’ Boards rather than working with them).
- There is no option for Boards to proactively seek support.

NHS organisations and tripartite participants had the opportunity to comment on draft versions of the revised framework and where appropriate their comments and suggestions were incorporated into the final document. The refreshed version builds heavily upon the learning and experiences from the health boards that have been in special measures.

The oversight and escalation framework sets out the statutory environment within which the framework operates including the links to the NHS Wales [planning](#) and [performance](#) frameworks. It sets out the process through which the Welsh

Government gains assurance on NHS bodies and how the escalation and de-escalation process works. The framework sets out the domains against which each organisation is assessed.

The oversight and escalation framework now has five escalation levels which will be used for future escalation decisions. Level one is equivalent to the existing routine arrangements. Level two is new and will be used where there is a specific area of concern and will be used to respond to emerging concerns with the service delivery, quality and safety of care and/or organisational effectiveness. The decision to utilise level two will not require a ministerial decision. This will allow Welsh Government and the NHS Executive to work with health bodies to prevent, if possible, formal escalation.

The table on the next page sets out the different levels of escalation:

Escalation level	Description
Routine arrangements (level 1)	NHS organisations are responsible for maintaining appropriate governance arrangements. They need to make sure these are effective and provides quality and safe care.
Area of concern (level 2)	Level 2 will be used where there is a specific area of concern, it will not require a ministerial decision and will respond to emerging concerns with service delivery, quality and safety of care and/or organisational effectiveness. Welsh Government will meet with the NHS organisation to explore the nature and extent of the concern. The NHS organisation will be expected to respond to these concerns.
Enhanced monitoring (level 3)	NHS organisations to put effective processes to address issues of concern. Whilst an organisation is in enhanced monitoring, the Welsh Government will closely monitor, challenge and review progress against the agreed criteria. Monitoring will be more frequent than that carried out under routine arrangements and will include regular interactions and meetings in addition to written progress updates and submission of evidence, including updated action plans and reviews of qualitative and quantitative data.
Targeted intervention (level 4)	Welsh Government will take co-ordinated action and direct intervention to support the NHS organisation to drive improvement. Targeted intervention is applied when organisations have serious problems and where there are concerns that they cannot make the necessary improvements without external support. It consists of a set of interventions designed to remedy the problems within a reasonable timeframe. Support will always be designed and delivered within the relevant organisational context and specific support needs will be reviewed through regular oversight meetings and additional enhanced oversight arrangements.
Special measures (level 5)	In exceptional circumstances, Welsh Government may find very serious concerns about an NHS organisation. Welsh Ministers may intervene as set out in the NHS (Wales) Act 2006. This may include providing targeted support, suspending or removing powers and duties from individual or all members of the NHS organisation's board. These formal powers are a last resort when other intervention is unlikely to succeed.

In line with the joint escalation and intervention arrangements, meetings take place at least twice a year between Welsh Government officials, Healthcare Inspectorate Wales and Audit Wales. Escalation decisions are made by the Cabinet Secretary for Health and Social Care following advice from the Chief Executive of NHS Wales based on feedback and discussion with tripartite participants and a full assessment of NHS organisation in respect of governance, quality, service performance, finance and planning and other issues as appropriate. Where appropriate and considered necessary, any one of the tripartite partners can call an extraordinary meeting to discuss emerging concerns.

Current escalation status

The table below sets out the current status for health boards: (all NHS Trusts and Special Health Authorities currently remain at level 1 in routine arrangements).

Organisation	Previous Status (July 2023)	Current Status (April 2024)
Aneurin Bevan UHB	Enhanced monitoring for planning and finance	Targeted intervention for planning and finance Enhanced monitoring for performance and outcomes relating to urgent and emergency care at the Grange University Hospital
Betsi Cadwaladr UHB	Special measures	Special measures
Cardiff and Vale UHB	Enhanced monitoring for planning and finance	Enhanced monitoring for planning and finance
Cwm Taf Morgannwg UHB	Enhanced monitoring for planning and finance Enhanced monitoring for maternity and neonatal Enhanced monitoring for quality and governance, leadership and culture, trust and confidence Targeted intervention for quality issues relating to performance	Enhanced monitoring for planning and finance Targeted intervention for quality, performance and outcomes
Hywel Dda UHB	Targeted intervention for planning and finance	Targeted intervention

	Enhanced monitoring for performance and quality	
Powys tHB	Enhanced monitoring for planning and finance	Enhanced monitoring for planning and finance
Swansea Bay UHB	Enhanced monitoring for planning and finance Enhanced monitoring for performance and quality	Enhanced monitoring for planning and finance Enhanced monitoring for maternity and neonatal Targeted intervention for performance and outcomes

An escalated status is an important way of ensuring that the health body understands the problems and issues it is facing and can receive the support it requires to make improvements. Welsh Government officials, through the escalation arrangements, will work with the Health Board to support it in delivering the actions and improvements required. It is important that the Health Boards robustly address these issues, and Welsh Government will closely monitor, challenge and review progress.

Accountability review

The Ministerial Advisory Task and Finish Group, commissioned by the now Cabinet Secretary, has submitted a report and recommendations to the Cabinet Secretary. Once this report is shared with Welsh Government officials, we will consider its findings and consider our reply. Any more questions on the review should be directed to the Cabinet Secretary.

Velindre Cancer Centre Project (nVCC)

Welsh Ministers approved the Outline Business Case for the New Velindre Cancer Centre in March 2021. Since then, Velindre University NHS Trust (Velindre) has been developing the Full Business Case (FBC) in conjunction with progressing the Mutual Investment Model (MIM) component of the scheme. In March 2024, Welsh Ministers approved the MIM component which enabled the scheme to progress to Financial Close (28 March 2024).

Scrutiny of the FBC identified elements which were considered to require further work around the equipment, programme resources and management arrangements of the scheme. Upon satisfactory conclusion of this additional work, formal advice will be provided to Welsh Ministers on the final FBC approval.

From a due diligence and value for money perspective, the need for clear and robust governance arrangements has been a consistent feature, with both the well-established NHS Infrastructure Investment Board and the Health Strategic Board having clear oversight of scheme progress. NHS Wales Shared Services – Specialist Estates Services have been instrumental in overseeing the development of the scheme – as both advisors to the Welsh Government and to Velindre. The clinical model and the impact on the infrastructure has been challenged throughout to ensure the building was right-sized and offered the right level of functionality.

As part of the due diligence on the CAPEX of the MIM scheme, the costs were scrutinised by independent specialist Quantity Surveyors, which concluded that the cost of the scheme was comparative to schemes of a similar nature and in keeping with the general construction market.

The scheme has undertaken a number of independent assurance exercises, both Gateway and Commercial Approval Point (CAP) reviews. Further reviews have been undertaken by NHS Internal Audit for Velindre.

Two bidders went through the procurement process to ensure competitive tension in the exercise. Alongside this, independent assurance was sought from consultants around what an appropriate cost envelope should be to deliver the scheme.

During the summer and winter of 2023, value engineering exercises were undertaken to help control the costs of the scheme which were encountering pressures linked to significant construction inflation. A Public Sector Comparator on the scheme costs was calculated in advance of Financial Close which demonstrated that the scheme remained value for money compared to traditional capital funding.