



Bwrdd Iechyd Prifysgol
Betsi Cadwaladr
University Health Board

Ms Claire Griffiths
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Dyddiad / Date: 9 October 2013

Dear Claire

NATIONAL ASSEMBLY FOR WALES FINANCE COMMITTEE – 15 OCTOBER 2013

1. PURPOSE OF THIS SUBMISSION

This written submission has been prepared to inform the Committee of the financial challenges which face the Health Board during the current financial year, and the outlook for the budget year 2014/15 and beyond. The briefing will cover the following headings:

- Inflation pressures and challenges for 2013/14;
- Assumptions for 2014/15 and beyond and the financial challenges for the Health Board.

2. INFLATION PRESSURES AND CHALLENGES FOR 2013/14

Table 1, below, summarises the impact of inflation assessed for this Health Board based on an assessment across NHS Wales. These amount to £31.8m and do not take account of demographic changes for our population.

Table 1 - Inflation and Cost Pressures for 2013/14

National Inflation Assessment	£000s
Pay Award 1%	5,057
Pay Increments	5,015
Non Pay and Travel	4,436
Continuing Healthcare/Funded Nursing Care	4,880
NICE Appraisals	3,136
Prescribing Growth	4,933
External Commissioning costs	4,365
Total Inflation	31,822

Table 2, below, summaries the opening financial challenge for this financial year, inclusive of inflationary pressures.

Table 2 - Showing the Original Financial Challenge as shown in the Budget Plan

Plan Headings	Original Financial Gap £000s
Underlying Deficit Carried Forward 2013/14	32,095
New Cost Pressures:	
CPG/Departmental unavoidable cost pressures	4,552
National Inflation Assessments:	
Pay Award 1%	5,057
Increments	5,015
Non Pay & Travel	4,436
CHC/FNC	4,880
NICE	3,136
Prescribing	4,933
Commissioning (external)	4,365
Sub total	31,822
Other Costs:	
Service Reviews	5,679
Financial Challenge (gap) 2013/14	74,148

The opening gap of £74 million equates to a savings target of 5.9% for 2013/14.

Addressing a gap of 5.9% in addition to the savings achieved in the past 3 years presents an increasing challenge to the Health Board. Some of this can be achieved through cost efficiencies and traditional savings approaches, however the gross financial challenge is such that broader more structural changes to service delivery will be required if financial balance is to be achieved. These changes will also necessitate a more critical appraisal of the way in which our workforce is deployed and remunerated.

This points to the need for more fundamental changes to the way in which services are delivered both within the NHS, and increasingly in partnership with Local Authorities and other partners.

3. ASSUMPTIONS FOR 2014/15 AND BEYOND AND THE FINANCIAL CHALLENGES FOR THE HEALTH BOARD

The Health Board has undertaken an initial assessment of the future financial outlook, on the assumption of 'flat cash' Welsh Government Allocations with the requirement to meet national inflation, financial and service pressures through equivalent savings.

Early indications and calculations of the new inflationary and Service pressures (including pay awards, incremental drift, CHC, NICE, demographics) suggest total new cost pressures of £45 million in 2014/15.

This figure will also be affected by the financial outturn of the Health Board in 2013/14. If the current forecast deficit of £29m remains then it is possible that a further £29 million savings target will be required taking the total financial challenge to £74 million. Should the Health Board require brokerage borrowing, then the repayment of this would also add further to the financial challenge to be addressed.

The Health Board will reassess this financial challenge as the year progresses through a detailed budget setting process which will align the service priorities for the year ahead with the financial resources available.

Table 3 - The Financial Challenge for 2014/15

	2014/15 £m
New Inflationary Pressures	17
Growth (CHC, NICE, Prescribing)	14
Access and demographic change	14
Sub-total of new pressures	45
Underlying Deficit Carried Forward	29
Total Management of the Financial Challenge	74

This assessment does not at this stage, reflect the potential increases in the Employers pension contributions from 14% to 18% taking effect in 2015/16, which if implemented without any supporting funding could add a cost pressure of £16 million per annum. In addition to this pension change, there is also the potential removal of the National Insurance rebate, which if implemented in 2016/17 with no additional funding could add a further cost pressure of similar magnitude.



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At this stage the Health Board is assuming a Financial Challenge of £74 million in 2014/15 as shown in the table above. Savings plans in years to date have predominantly focused on the current and forthcoming financial year, however it is clear that a longer term strategic service change approach must now be taken to ensure financial sustainability for the planning period and beyond. Pursuing cost efficiencies will allow the Board to bridge some of this gap, but this approach alone will not deliver sustainability.

Achieving financial sustainability will require significant service change. The current model and pattern of delivery of services will not be sustainable within an ongoing flat cash financial scenario. The Health Board will be required to re-consider the way in which services are delivered and bring about changes to local services in order to meet its financial duties.

To develop the detailed plans that will deliver safe, high quality services within the financial resources available the Board must engage with staff and stakeholders to create a common understanding of the challenge we face. Work on this has commenced and will continue through the autumn in readiness for the coming financial year. The Board has involved clinicians and other staff in considering how services may be re-designed to deliver within the resources available. Further work will be undertaken with Local Authorities and other stakeholders to consider the potential benefits of further integration in service delivery, particularly in our community based services which must offer the potential alternatives to hospital admission which are crucial to our sustainability. In taking this approach we are conscious of the financial pressures which exist in other sectors and are seeking to identify integrated responses which secure the maximum return from the public finances available to support the population of North Wales.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Geoff Lang', written in a cursive style.

GEOFF LANG
ACTING CHIEF EXECUTIVE