Cardiff & Vale University Health Board
Submission to Welsh Government Finance Committee - 9 October 2013

CARDIFF & VALE UHB CURRENT FINANCIAL POSITION

The UHB is on track to deliver the first year of the three year financial recovery plan which was agreed with Welsh Government in March 2013.

The UHB recognised in summer 2012 that it needed to take a radically different approach to recovering its underlying financial deficit. It therefore invested in Ernst & Young to support development of a turnaround programme in early 2013. This resulted in a report in January 2013 which set out clearly that the UHB had a large underlying financial deficit, but also identified a range of opportunities, based on benchmarking, which would move the UHB from deficit into recurring surplus.

As a result of this, by March 2013, the UHB had developed and agreed a three year financial recovery plan with the Welsh Government. This returns the UHB to recurring financial balance in 2014/15 and pays back the deficit from 2013/14 in 2015/16. The agreed profile is as follows:

	2013/14 £m	2014/15 £m	2015/16 £m
Deficit / (Surplus)	**32.5**	**(8.1)**	**(25.1)**

The financial plan set out above anticipated a requirement to deliver savings each year significantly higher than those planned and delivered by Foundation Trusts in England of 4.3% in 2013/14 and 5% in 2014/15. This poses a significant challenge.

In 2013/14, in line with the above plan, the UHB is planning an agreed deficit of £32.5m. This will be achieved through delivering savings equating to £56.7m. In addition to this the UHB is covering the cost of incremental uplifts from national pay contracts of £4.7m ('Agenda for Change' and 'Consultant Contract'). In total therefore the UHB has an agreed plan which delivers savings in 2013/14 of £61.4m (5.3%).

The savings are being delivered through a combination of changes:

- Service change which improves patient care e.g. changes to mental health services which support policy implementation (care moving into community sectors from inpatient)
- Service related efficiency including reductions in length of stay through earlier discharge of patients, earlier rehabilitation of patients leading to lower likelihood of them requiring a continuing health care package, more effective prescribing
- Administrative efficiency e.g. savings on procurement, back office functions
- Workforce changes e.g. skill mix and reductions in variable and temporary pay

At M6, the UHB has a deficit of £7.1m worse than its planned deficit of £16.2m (1.3%). There is a significant risk to achieving the in year financial position of approximately £15m. The UHB believes that its plans are sound, but the UHB entered the year with no headroom or contingency. Further cost pressures have arisen in year e.g. around medicines management and growth in continuing health care and there has in addition been slippage on change programmes. However the UHB continues to forecast that it will be close to delivering the planned and agreed forecast deficit at year end.

45% of the UHB costs relate to pay (61% of influenceable costs). This means that in order to manage in a flat cash environment, with a national pay increase, continuing requirement to fund incremental pay awards and no changes to terms and conditions, either workforce numbers need to reduce or average pay needs to reduce.

As at the end of September 2013, workforce numbers have reduced by 180 compared to the end of March 2013. A further reduction of 380 is expected by the end of March 2014. The UHB issued a section 188 giving notice that significant numbers of jobs would be put at risk in June 2013. The three month consultation period is now complete and workforce change schemes are now being individually delivered by UHB Clinical Boards.

CARDIFF & VALE UHB 2014/15 FINANCIAL PLAN

In 2014/15 the UHB will be in the second year of its financial recovery plan. The UHB has made assumptions about the Welsh Government budget as follows:

- Flat cash settlement
- Impact of changes to Research and Development and Service Increment for Teaching funding are neutral
- No changes to the funding formula or additional allocation for population growth

The UHB is also assuming the following:

- Funding for specialised services will also be at flat cash plus the marginal rate for any additional treatments provided above 2013/14 contract levels. It is essential that patient flows towards the tertiary centre are backed by the appropriate resource flows.
- The UHB is not planning for significant cost pressure from the introduction of new drugs or Welsh Government policies.
- No assumptions have been made around changes to national terms and conditions negotiated for 2014/15 which could impact favourably both on the financial position but also in terms of incentivising changed patterns of working to deliver better patient care (e.g. 7 day working). Terms and conditions, particularly around the consultant contract and GP contract, are significantly more expensive and less flexible than the English contract.
- A small amount of funding has been built in for costs of strategic service change e.g. workforce changes, investment in project managing and non recurring capacity to drive change programmes.
- Capital will be allocated on a similar basis to 2013/14,however any opportunity to increase this would enable faster implementation of new technology and upgrading or vacating poor quality estate. Both these would support financial savings and improvements in quality and safety.

The UHB in making the assumptions above is taking a cautious position and it is hoped that the 2014/15 budget settlement announced yesterday will improve the position as the headline is that there will be some growth rather than a flat cash settlement.

The UHB is then expecting cost pressures for 2014/15 as follows:

- Pay award of 1%
- Incremental drift in line with 'Agenda for Change' and 'Consultants Contract'
- Increased costs of PFI contracts for car parking, which cannot be passed on to the public
- Recovering the underlying deficit
- Non recurring costs of achieving Tier 1 targets, particularly Referral to Treatment times
- Demand growth in continuing health care
- Non pay inflation, with particular pressures on energy prices
- Primary and secondary care drugs growth

These assumptions mean that the UHB will need to deliver a savings target of 6.2% to achieve its planned financial surplus for 2014/15. The plan also assumes that the 2013/14 savings targets are achieved recurrently.

This equates to a real-terms reduction in expenditure of 6.2% and will again require workforce reductions to deliver. The UHB continues to use benchmarking of upper quartile performance against its UK peers to identify those areas through which savings schemes can be delivered.

In 2014/15 the UHB is also aiming to move some funding from acute into primary and community care, predominantly by requiring lower savings targets from primary and community care. This will enable the clinical and management teams in these areas to focus on managing demand, changing services and support preventative treatment, however it has the impact of requiring a higher savings target on hospital services which will be challenging to deliver.

At this stage, no change to the financial position has been planned as a result of the South Wales Programme. Modelling on the potential impact of this is being undertaken following the recent public consultation.

SUMMARY

In summary, Cardiff & Vale UHB has an agreed three year financial plan to move it from significant underlying deficit into recurring surplus. Despite challenging savings targets, which are slightly behind plan at M6, the UHB is on track to deliver year 1 of the plan. Plans are based on benchmarking and aim to drive improvements in patient care as well as financial savings. The three year plan is based on a flat cash settlement, the potential improvement in this announced yesterday will enable some headroom to manage in-year risks and pump priming of service change.

Adam Cairns, Chief Executive
9 October 2013