

Review of Cost Improvement Arrangements – Public Health Wales NHS Trust

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Introduction

- 1 NHS Wales is facing unprecedented financial challenges. The legacy of the COVID-19 pandemic on service demand; the rising costs associated with staffing, energy, medicines, maintaining an ageing estate; and tackling the increasingly complex health conditions associated with an ageing population all contribute to the worsening financial situation across the NHS.
- 2 Despite the Welsh Government making an additional £425 million available to the NHS in October 2023, the 2023-24 year-end audited position for NHS Wales was a collective deficit of £183 million. Whilst some NHS bodies were able to achieve year-end financial balance, the position for others - particularly some Health Boards - was challenging with several not being able to deliver the control total deficit expected by Welsh Government.
- 3 The position for 2024-25 is equally, if not more challenging. Health bodies will need to ensure that they have robust approaches in place to identify and deliver in year cost improvement opportunities and to also take a longer-term approach to achieving financial sustainability that moves away from short-term approaches to ones where savings are achieved by transforming service models and ways of working.

Objectives and scope of our work

- 4 Given the challenges outlined above, the Auditor General has undertaken a programme of work examining NHS bodies' approaches to identifying, delivering, and monitoring sustainable cost savings opportunities. Whilst our more detailed work has been targeted at health boards, we have also undertaken high level work at Special Health Authorities and NHS Trusts, linked to the specific functions of those bodies. The findings from that high level work at Public Health Wales NHS Trust (the Trust) are set out in this report.
- 5 The work has been undertaken to discharge the Auditor General's statutory duty under Section 61 of the Public Audit (Wales) Act 2004 to be satisfied that the Trust has proper arrangements in place to secure economy, efficiency, and effectiveness in its use of resources.
- 6 We undertook our work between March 2024 and June 2024. The methods we used to deliver our work are summarised in **Appendix 1**.

Key findings

- 7 Overall, we found that **the Trust has clear arrangements for identifying and delivering its cost improvement opportunities and monitoring its overall financial position. However, uncertainty around inflationary uplift funding presents risks that will need to be managed in the medium to long-term.**
- 8 The findings that support our overall conclusion are summarised below under the following headings:
- Identifying cost improvement opportunities.
 - Delivering cost improvement opportunities.
 - Monitoring and overseeing cost improvement opportunities.

Identifying cost improvement opportunities

- 9 The Trust has a good understanding of its cost drivers which are clearly set out in its 2024-27 Financial Plan and Budget Strategy. These include national and local cost pressures such as non-pay inflation, energy, impact of the public COVID-19 Inquiry, digital system requirements, pay incremental drift and uplifts to posts previously funded by the Trust's Investment Fund, and several workforce requirements including Certificate of Sponsoring to enable foreign nationals work in the UK.
- 10 The Trust acknowledges the challenging financial environment in which the organisation, and the wider NHS in Wales, is operating and has developed its 2024-25 revenue plan in line with principles set by the Welsh Government. This includes allocating a 2% efficiency savings target across all directorate baseline expenditure budgets and building in contingencies to deal with inflation in the absence of a Welsh Government inflationary funding uplift¹. In future years, the Trust has assumed it will receive an uplift for non-pay inflation and cost pressures but given this has not been confirmed, the Trust will need to keep its medium to long-term financial position under close review.

Delivery of cost improvement opportunities

- 11 As shown in **Exhibit 1**, the Trust has a good track record of delivering its overall savings targets with a high proportion of the savings delivered being recurrent in nature. This is except for 2022-23, when most savings were non-recurrent.

¹ In its guidance to NHS bodies, the Welsh Government announced that it would only be providing inflationary allocation uplifts to Health Boards. No inflationary allocation uplift has been provided to the Special Health Authorities and NHS Trusts for 2024-25.

Exhibit 1 – the Trust’s savings track-record between 2018 and 2024

Year	Overall Savings Target (£M)	Actual overall savings delivered (£M)	Recurrent savings as a % of overall savings target	Delivered non-recurrent savings (£M)	Delivered recurrent savings (£M)
2018-19	2.2	2.2	90%	0.2	2.0
2019-20	1.0	1.0	100%	-	1.0
2020-21	1.1	1.0	90%	-	1.1
2021-22	1.1	1.1	100%	-	1.1
2022-23	1.1	1.1	9%	1.0	0.1
2023-24	3.2	3.2	78%	0.7	2.5

Source: Welsh Government Monthly Monitoring Returns

- 12 As part of its wider response to the significant financial pressures within the NHS during 2023-24, Welsh Government asked the Trust to identify financial improvement actions to help improve the overall NHS Wales position. The Trust was able to rapidly identify additional savings through the return of non-recurrent funding totalling £4.2 million resulting from pauses to investments, greater than expected income (such as bank interest), and the reduced impact of inflationary pressures². The Trust subsequently enhanced its financial oversight arrangements in light of these additional savings to ensure it was able to deliver a financial breakeven position for 2023-24.
- 13 The Trust has good arrangements in place for turning its high-level savings requirements into deployable savings plans. To meet the 2024-25 Welsh

² For reporting purposes, these are not included in Exhibit 1.

Government efficiency savings target, it allocated savings targets based on an iterative approach which included:

- the early issue of planning guidance to directorates with anticipated savings requirements;
- Finance Business Partners³ (FBPs) working with directorates to identify potential savings opportunities;
- formal communication from the Executive Director of Operations and Finance setting out savings targets;
- the issue of budget, allocations, and savings plan templates to directorates by the Finance Team;
- drafting of directorate RAG⁴ rated savings plans; and
- the finalisation of savings plans articulating how savings will be delivered through green rated schemes.

- 14 The Finance Team provided oversight and scrutiny of the plans to ensure their delivery feasibility, challenging their RAG status and ensuring that proposals did not impact on the Trust's ability to deliver its strategic objectives. The Trust identified a total recurrent savings target of £2.8 million across its directorates and corporate departments and an additional £0.8 million of non-recurrent corporate savings schemes bringing its overall savings to £3.6 million. The savings were removed from budgets at the outset of the financial year, and financial performance and value for money expectations were set out in the 'budget booklets' issued to each of the Executive Directors.
- 15 For several years, in delivering the Welsh Government efficiency savings target the Trust has used additional savings over and above what is required to cover its cost pressures to enable the re-allocation of resources into three key areas as part of its strategic investment approach, namely the Strategic Prevention Programme, Strategic Priority Enablement and Business Efficiency and Improvement. Our 2023 Structured Assessment found that the Trust has good arrangements in place to prioritise how the Investment Fund is used, ensuring that spending is aligned with its strategic priorities.

Monitoring and oversight of cost improvement opportunities

- 16 The Trust has good arrangements for monitoring and overseeing its overall financial performance with comprehensive reports routinely presented to each

³ The finance business partner model ensures engagement on financial management and provides a good link between services and corporate finance. The financial business partners are financial accountants who have responsibility for supporting services, financial reporting and providing an advisory role.

⁴ 'Red', 'Amber', 'Green'.

Board meeting and subject to good scrutiny and challenge. Due to the way the Trust accounts for its savings (**see paragraph 14**), there is no requirement to include updates on savings delivery in its finance reports with emphasis placed on managing the overall financial position. However, the monthly monitoring returns submitted to Welsh Government are attached to the finance report to the Board to provide non-executive directors with the detail should they need it. Detailed analysis is also provided on the schemes supported by the Investment Fund.

- 17 The Trust routinely monitors its key financial risks. The Finance Team routinely oversee the monthly financial position, and forecast expenditure plans. FBPs work with directorate and divisional management teams to ensure any risks and changes to forecast delivery are identified and reported to Senior Management Teams through routine financial performance reporting. To date, this approach has been successful in ensuring both operational and organisational savings delivery.

Appendix 1

Audit methods

Exhibit 1 below sets out the methods we used to deliver this work. Our evidence is limited to the information drawn from the methods below.

Element of audit approach	Description
Documents	We reviewed a range of documents including: <ul style="list-style-type: none">• Strategic Plan 2024-27• Financial Plan and Budgetary Control Framework 2024-27• Board Finance Reports• Welsh Government Monthly Monitoring Returns• Financial Planning Updates / Emails
Interviews	We interviewed the following senior officers and Independent Members: <ul style="list-style-type: none">• Assistant Director - Operations• Senior Finance Business Partner• Acting Director of Operations and Finance• Head of Financial Intelligence, Value, and Impact• General Manager, Health, and Wellbeing Directorate
Observations	<ul style="list-style-type: none">• We virtually observed the Trust's Board Meetings in March and May 2024



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