



24 Cathedral Road / Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 20 320502
Fax / Ffacs: 029 20 320600
Email / Epost: wales@wao.gov.uk
www.wao.gov.uk

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Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Dear Darren

Please find attached a copy of my *Health Finances: Update*. The report updates some of the figures in my July 2012 *Health Finances* report. My July report showed that the NHS in Wales faces major challenges with a growing funding gap and tougher financial settlement than other parts of the UK. The update sets out the financial position of NHS bodies at month six within the current financial year. It is based entirely on the data reported by NHS bodies to the Welsh Government, setting out the current financial position, the potential end of year position and progress with savings plans. There are some important points that merit drawing to the Committee's attention.

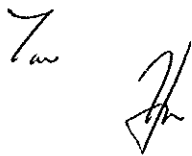
Overall, the NHS is in a better financial position than at the same time last year. However, that is in large part due to the additional recurrent funding that the Welsh Government provided in October 2011. The Welsh Government intended that the recurrent funding would help bring to an end the cycle of NHS bodies over-spending and the Welsh Government providing additional funding in the year to enable them to break-even. It now seems highly unlikely that the cycle has been broken. Most Health Boards are unlikely to break-even within their current resource limits. The Committee will no doubt be aware that the Health Minister has commissioned a mid-year review of NHS bodies' financial position and non financial performance, which I understand is nearing completion.

Health Boards are making some progress with their savings plans but it is clearly not sufficient. Following two years where they have focused heavily on savings, the quick wins and obvious areas for savings are now harder to come by. Health bodies have taken different approaches to their plans: some have plans to fully bridge their funding gaps, others have only been able to develop plans to partially bridge the funding gaps. Regardless, no Health Board has achieved the savings they planned by month six. Workforce savings – the largest area for planned savings - seem to be particularly difficult to actually achieve. Most Health Boards planned to reduce staffing numbers, but overall staff numbers have actually slightly increased. All Health Boards have recognised that there is a risk that they will not deliver the savings they need by the end of the year.

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As the Committee intends taking evidence from the Chief Executives of Cardiff and Vale University Health Board and Betsi Cadwaladr University Health Board, I thought it would be helpful to briefly comment on the specific challenges they face. The figures in the report raise some significant questions for both organisations. Cardiff & Vale University Health Board is the only Health Board to have a higher deficit at the end of September 2012 than the previous year. Betsi Cadwaladr University Health Board's position is only marginally better than it was at this point last year. Both organisations are considerably behind their initial plans for making savings. Both Health Boards are forecasting similar and large (relative to other Health Boards) "most likely" end of year deficits in the order of £20 million.

Overall, the update report shows that, with a £69 million deficit at month six, NHS bodies face a major challenge in the next six months just to contain their over-spending against plan. Welsh Government budgets, including the latest draft budget, show that there is no let up in the financial pressures for the foreseeable future. As we have said in several previous reports, these financial pressures point to a need for realistic short-term savings plans, including some tough choices around savings on workforce costs; and urgent transformation to new models of care and delivery that are sustainable and deliver better quality services to patients



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

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