WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Structured Assessment – Follow-up 2011

Powys Teaching Health Board

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Status of report

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Contents

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Summary report

1. Powys Teaching Health Board (the Health Board) is the organisation responsible for providing health and wellbeing services for people who live in, work in or visit the Powys county area. Appendix 1 sets out the background to the Health Board and the challenges it faces.

2. The Auditor General has a statutory responsibility to satisfy himself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. To assist in this, the Auditor General has developed a 'structured assessment', undertaken throughout all NHS bodies in Wales for the first time as part of the 2010 audit work.

3. The 'structured assessment' methodology reviews corporate arrangements for governance, management of resources and financial management.

4. The Auditor General reported his conclusions from last year's assessment of the Health Board in his 2010 Annual Audit Report.

5. This report follows up the key areas for improvement identified in the 2010 Annual Audit Report. In particular, this report reviews progress made by the Health Board in relation to:

- approaches for delivering service improvement and modernisation;
- arrangements for engaging internal and external stakeholders; and
- the current financial position of the Health Board and its financial management arrangements.

6. In addition, we have also considered the Health Board's governance arrangements.

7. The aim of the work is to answer the question: 'Has Powys Teaching Health Board made progress in the areas identified in the 2010 structured assessment?'

8. A key aim of the work has been to assist the Health Board in developing and embedding both its arrangements to secure improvement and its governance arrangements. To this end, we have already discussed the headline findings with senior executive officers to support early identification of issues that need attention.

9. The overall conclusion from our structured assessment follow-up work is that **'Progress is being made in addressing the areas for development identified in our 2010 structured assessment, although some specific challenges remain.'** In reaching this conclusion, we have found that:

- The Health Board's approach to **delivering its vision** for service modernisation is developing and leading to improvement. However, there is still a need to identify clearer indicators by which success can be measured and to address gaps in organisational capacity and capability, particularly at the locality level.
- There have been improvements in **engaging** external stakeholders, but more work needs to be done to ensure the Health Board's staff understand and support the organisation's strategic plans.
- **Financial management** has understandably focused on the annual position and the Health Board is beginning to see the benefits of this, although it is currently predicting a £3 million deficit for 2011-12. The Health Board still needs to do more to clarify longer-term finances.

- The Health Board's **governance arrangements** are generally sound and further work is ongoing to ensure the arrangements drive and support improvement.

10. The following sections of this report consider our findings in more detail. Where relevant, the findings aim to acknowledge the Health Board's development path, however, we have also identified those areas where we think the Health Board needs to accelerate its progress.

11. To assist the Health Board in strengthening its corporate arrangements, we have summarised below the areas in which it needs to take additional action.

Recommendations

R1	By May 2012, develop clear medium to long-term health and service 'outcomes'. By September 2012, support delivery of the outcomes by developing and implementing a performance measurement approach that covers the areas identified in paragraph 30.
R2	By June 2012, improve personal performance management by: • ensuring that there are tangible personal performance targets for all staff that link to the newly developed outcomes; • ensuring continuous improvement in the percentage of appraisals completed; and • creating development opportunities (leading and participating in change and improvement projects) for staff so that they can gain experience both internally and with other health providers.
R3	Progress stakeholder engagement through: • developing more explicit consultation and external engagement on the design of locality and sub-locality level services; • ensuring that Enquiry by Design work for the Bronllys site is actively pursued, so that visible benefits are achieved for the community and those who contributed to the process; and • continuing to develop and plan integrated services with Powys County Council (the Council).
R4	By June 2012, develop medium-term financial plans that reflect capital and revenue requirements based on new service models, localised workforce planning requirements, and potential for pooled funding with other providers.
R5	By April 2012, develop an assurance framework that includes: • the process for identifying, documenting and reporting the required assurances; • defining the sources of assurance; and • the role of all the committees particularly in terms of how these contribute to the provision of assurance to the Board.

Detailed report

Progress is being made in addressing the areas for development identified in our 2010 structured assessment, although some specific challenges remain

12. The structured assessment audit work for 2011 has followed up the key areas for improvement identified in the 2010 Annual Audit Report. These areas were:

- approaches for delivering service improvement and modernisation;
- arrangements for engaging internal and external stakeholders; and
- the current financial position of the Health Board and its arrangements for financial management.

13. In addition, we have also considered the Health Board's governance arrangements.

The Health Board's approach to delivering its vision for service modernisation is developing and leading to improvement. However, there is still a need to identify clearer indicators by which success can be measured and to address gaps in organisational capacity and capability, particularly at the locality level

The Corporate Plan has become the vehicle for delivering the Health Board's strategic vision, but there needs to be clearer focus on outcomes particularly when redesigning services and care pathways

14. There is a reasoned and coherent set of strategic documents which provide a framework and direction for the Health Board for the next five years. Over the past 12 months, these key documents (the Strategic Outline Programme, New Directions, Service Workforce and Financial Framework, and the Corporate Plan) have been further refined. As a result, there is a more consistent understanding among senior managers and executive directors about how the Health Board should provide its health services.

15. However, the Corporate Plan lacks a focus on outcomes, and while improved over previous years, remains predominantly task-oriented. When developing the next iteration of the Corporate Plan there needs to be a clearer focus on the development of outcomes and supporting performance measures as identified in paragraph 30 and Recommendation 1 of this report.

16. Health services modernisation requires a methodical approach to health pathway design and development of new locally provided services (both directly and in partnership with other in-county providers). Further work is required to redesign services, pathways, plan financial resource requirements, and build and manage staff capacity and capability.

17. This development work may require up-front investment (both in terms of staff time and revenue) to ensure that the Health Board secures efficiencies and that future service models are resilient to anticipated demographic change.

Developing outcomes

R1 By May 2012, develop clear medium to long-term health and service 'outcomes'. By September 2012, support delivery of the outcomes by developing and implementing a performance measurement approach that covers the areas identified in paragraph 30.

There has been mixed progress in developing coherent organisational structures to support delivery of corporate objectives

18. Last year, we reported that the intention of the Council and the Health Board was to integrate at a strategic level. In early 2011, both organisations decided against structural integration in favour of operational integration of health and social care services. While this revised collaborative model has the potential to deliver, it appears that the change in approach may have had an impact on the commitment to and pace of health and social care service integration. However, we do recognise that there has been progress in collaboration with the Council in areas such as integration of ICT management, general maintenance services, transportation and meals on wheels to east Radnorshire.

19. The Heath Board has continued to develop its organisational structures, and is starting to embed its locality model. Each of the localities has demonstrated some aspects of improved working aligned to strategic objectives.

20. In addition to the localities, the Health Board has identified five main patient pathways. These pathways represent the general direction of patient flow to and from regions of Powys to out-of-county providers. The Heath Board is starting to develop clinical localities around these patient pathways.

21. Moreover, over the past 12 months, the primary care GPs have started to group together into GP clusters. We understand the reasons for this and commend the Board for looking at developing new structures and ways of working within a complex health environment. However, there is always a risk that revised structures could become overly complex, making it difficult for staff and stakeholders to engage with and understand.

The appointment of the new Chair and permanent appointment of a Chief Executive have provided more corporate and executive level stability but, overall, capacity and capability issues to support delivery of the vision remain

22. A new Chair was appointed in May 2011 and the position of the permanent Chief Executive was appointed in August 2011. These appointments have led to a greater stability and confidence than was evident during our previous review in 2010.

23. The Heath Board has recently restructured at executive director level through a formal recruitment process. These executive director posts are permanent and should further support stability and confidence across the Health Board. There will be a need to revise the scheme of delegation after completion of the appointment process.

24. However, below executive and at locality levels, there remains a concern from a number of interviewees about capacity and organisational capability to support change. This may limit the pace of change, and particularly service redesign.

25. There is a new workforce plan in place and it includes good analysis of internal and external environmental factors and a high-level analysis of workforce projection. Further detailed work will be required to ensure that workforce capacity, professional competencies and capability match the future needs of the organisation both to support any changes in healthcare delivery models and effective and safe delivery of services.

26. Workforce sickness absence management has improved, resulting in lower sickness absence, but there remain issues regarding effectiveness of appraisal processes and staff development in some areas.

Performance management, staff engagement and development

R2 By June 2012, improve personal performance management by:

- ensuring that there are tangible personal performance targets for all staff that link to the newly developed outcomes;
- ensuring continuous improvement in the percentage of appraisals completed; and
- creating development opportunities (leading and participating in change and improvement projects) for staff so that they can gain experience both internally and with other health providers.

Performance reporting to the Board has improved but more work is needed to establish a better overall performance measurement framework based on clearly defined outcomes

27. Since our review last year, the Heath Board has improved its board level performance reporting and this has created a good focus on key targets. The revised reporting includes better detail and an honest reflection of good and weak performance, recognising where the Health Board needs to make improvements.

28. The integrated performance reports and our review of health board indicators demonstrate general improvements in performance, although there remain some specific areas for improvement. It should be noted that the current suite of measures informing our evaluation represents a limited overall picture of services and does not represent the full extent of services provided both internally and commissioned by the Health Board.

29. While there is improved performance reporting to the Board, the lack of clarity of agreed outcomes, which we have identified previously, means that it is not currently possible to plan and measure effectively against the achievement of outcomes.

30. The Health Board is starting the development work for an assurance framework. This framework will need to ensure that the underpinning performance measurement approach covers:

- locally identified outcomes for patients (for example, quality of care and patient experience wherever the patient receives care, patient outcomes, and wider public health outcomes);
- internal business outcomes for the Heath Board (for example, financial balance, workforce productivity, efficiency measures, process metrics);
- local outputs (for example, action against high-priority tasks and delivery of the Strategic Outline Programme);
- national targets, delivery framework measures and standards; and
- external contract performance for 'both acute and primary service suppliers' contract performance.

31. In addition to the identification of outcomes and measures, it is important to have robust information to support performance management, decision making and scrutiny. While the information department services have improved, further investment to secure relevant, timely and accurate information is required.

There have been improvements in engaging external stakeholders, but more work needs to be done to ensure the Health Board's staff understand and support the organisation's strategic plans

External engagement approaches are improving and as a result the Health Board is starting to get shared ownership of modernisation initiatives. However, going forward, engagement needs to be more clearly linked to tangible models of healthcare design

32. The Heath Board recognises that it needs to do more to raise the corporate profile with external stakeholders. Several members of the Board have worked with key individuals at the Welsh Government and with politicians, to help raise the profile of the work of the Health Board and gain support. The appointment of the Chair and permanent posts of Chief Executive and the Executive team will support this.

33. There is clear evidence of improved engagement approaches with citizens:

- The Enquiry by Design process has provided a strong independently led design process for the future of the Bronllys site. This has created a range of options that include the interests of both the community and the Heath Board.
- New Directions consultation has taken a positive high-level approach to engaging communities, but the effectiveness and response by the community has been mixed. The Board has further approved a South East locality based

engagement process initiated by GPs and the Heath Board. The Board should continue these engagements, but needs to do more to engage clearly with stakeholders more explicitly in health service model design.

34. Engagement with the voluntary sector generally is good. The Health Board considers voluntary sector providers to be strategic partners. To ensure sustainability of this relationship, there may be a need for longer-term assurance of continued funding and activity levels.

35. Engagement with the Council has changed direction over the past 12 months. The Health Board and the Council have moved away from strategic level integration, but there remains commitment to operational joint working in developing new local health and social care solutions. Both parties need to clarify how they see their future roles developing in delivering, and committing themselves to, the best service possible for citizens and patients.

36. We will consider the effectiveness of GP engagement in our review of clinical engagement which we will report on early in 2012.

Stakeholder engagement

R3 Progress stakeholder engagement through:

- developing more explicit consultation and external engagement on the design of locality and sub-locality-level services;
- ensuring that Enquiry by Design work for the Bronllys site is actively pursued, so that visible benefits are achieved for the community and those who contributed to the process; and
- continuing to develop and plan integrated services with the Council.

Internal engagement is not yet sufficient to ensure that staff fully support the vision

37. Staff engagement processes are not yet effective. Our work indicated that there were some issues with morale and uncertainty primarily as a result of recent locality restructures, as well as future health service design. In contrast, we also found good examples of staff becoming more empowered and committed to participate and lead change initiatives. Staff level engagement is likely to be one of the key areas for the Board because staff will play a significant and important part in the delivery of Heath Board developments.

38. Staff engagement processes need to be supported effectively and reinforced with good personal performance management. To support this process, the HR department needs to enable managers to link organisational outcomes to effective staff performance management processes and personal objectives.

Financial management has understandably focused on the annual position and the Health Board is beginning to see the benefits of this, although it is currently predicting a £3 million deficit for 2011-12. The Health Board still needs to do more to clarify longer-term finances

The Health Board achieved financial balance at the end of 2010-11, but there is a risk that this will not be achieved in 2011-12

39. The Auditor General reported in his 2010 Annual Audit Report that the Health Board, in setting an annual budget for 2010-11 of £243.0 million, needed to resolve some uncertainties around Welsh Government strategic assistance, as well as its cost improvement programmes and financial savings plans.

40. The final position at the end of 2010-11 was that the Health Board achieved financial balance (reporting a small surplus), but with a total of £19.8 million strategic assistance. The Board also managed to achieve cost improvements and savings of £10.3 million, which was 83 per cent of its targets.

41. The Health Board approved an annual financial plan for 2011-12 in April 2011, based on a Revenue Resource Limit of just over £236 million and identified cost pressures of £31 million. These pressures were to be addressed through:

- identified savings plans of £13.3 million;
- additional strategic financial support from the Welsh Government of £15 million; and
- further savings to be identified in year of £3 million.

42. The position at month seven (reported at the Board meeting in November 2011) identifies an overspend at that stage of £3 million and forecasts a £3 million overspend at the year-end. The Director of Finance report confirms that:

- the year-end projected savings will be £12.7 million against the target of £13.3 million;
- the £15 million strategic financial support is agreed; and
- although there are plans to manage the additional savings required, growth in expenditure in some areas has been above the planned levels.

43. While the Heath Board may be able to manage its financial position this year and achieve the requirement to break even, savings for the next financial year are more dependent on complex service changes. The pace of modernisation over the next six months is likely to be the key enabling factor in achieving next year's savings requirements.

44. For the Health Board, savings approaches which are both straightforward and have minimal consequence to the citizen or service user are likely to become limited going forward. It is likely that in future there will be a greater reliance on

achieving savings where it is more complex, difficult to achieve and time-consuming or where there is a greater consequence to the citizen or service user.

Financial management at a locality level is developing but Board level assurance needs to be clarified

45. There is improved formality for support and challenge, and greater delegation to localities. This includes improved support to locality general managers by executive directors as well as greater delegation for financial management, decision making and control. There are improved arrangements for providing financial information at locality level, and better financial specialist support at locality level, which enables greater understanding of the financial implications of the decisions made.

46. The Health Board met governance requirements for monitoring its finances last year by the introduction of focussed meetings for all Board members. Since our 2010 review, the creation of an Integrated Governance Committee has replaced this on a more formal basis. This arrangement will need to fully embed, with the Board defining how financial assurance fits into the overall assurance framework that is being developed.

There remains a lack of clarity in longer-term financial strategy and assurance which will be required to deliver the vision

47. Longer-term certainty of future funding remains an issue, which makes it difficult for the Health Board to plan. There is little scope for additional resources to enable the Health Board to 'pump prime' service transformation, so improvements to healthcare models are funded and implemented incrementally.

48. While the Service Workforce and Financial Framework provides a high-level overview, this needs to be supported by more detailed financial modelling which links to developing service models. This needs to take consideration of:

- funding (capital and revenue); and
- how decisions on implementing the new service models could consequently affect the viability of the voluntary sector, council, English trusts, Welsh health boards and the Health Board's own provided services.

49. Financial assurance is provided for short-term finances, but there is no formal arrangement to provide long-term assurance to the Health Board.

Medium-term financial planning

R4 By June 2012, develop medium-term financial plans that reflect capital and revenue requirements based on new service models, localised workforce planning requirements, and potential for pooled funding with other providers.

The Health Board's governance arrangements are generally sound and further work is ongoing to ensure the arrangements drive and support improvement

50. High standards of governance and accountability are fundamental requirements in demonstrating effective stewardship of public money and the efficient, effective and economical use of resources. Boards of NHS bodies need to ensure that they have an effective 'Assurance Framework' in place to support decision making and to scrutinise performance. They need to assure themselves that the organisation is well managed and is providing safe, appropriate and good quality healthcare.

51. Corporate governance and accountability rest with the formal 'Board' which is made up of independent members, executive officers and associate members which, for the Health Board, include the Chief Executive of Powys County Council, Chair of Stakeholder Reference Group and the Chair of Professional Forums. There are currently seven committees of the Board, some of which have formal sub-committees:

- Quality and Safety
- Audit Committee
- Mental Health Committee
- Integrated Governance Committee (first formal meeting in September 2011)
- Information Governance Committee
- Charitable Funds
- Remuneration and Terms of Service

52. Internal Audit is currently in the process of reviewing the effectiveness of formal governance arrangements. We have designed the 2011 structured assessment to allow us to place assurance on the work of the Internal Audit governance review.

53. Early findings of the Internal Audit governance review indicate that the Health Board has a functioning governance framework in place, but there are risk areas, aspects for improvement and also opportunities to better link governance to the improvement aspirations of the Health Board through an assurance framework.

54. We have identified the following assurance risk areas through the structured assessment review and the early findings of the Internal Audit review:

- there are developing risk management arrangements, but there is a need to integrate risk management further into the assurance framework;
- there is a need to ensure the effectiveness and required scope of coverage of the quality and safety assurances, particularly ensuring that issues of quoracy are resolved; and
- assurance arrangements need to become embedded in the committee agenda for services provided out of county for Powys residents in terms of both value for money and quality.

55. The Health Board is aware of its governance strengths and weaknesses and is seeking to improve its arrangements. It is currently undertaking further work to set out a clear and effective Assurance Framework. Part of this work to set the scene for Board members was undertaken at the Board development day in November 2011. At this meeting, there were a number of suggestions for improvement, which in time will need to be formalised through additional development work and recommendations to the formal Board. In doing so, this work will need to consider:

- how the Assurance Framework will be documented and reported;
- the process for identifying required assurances;
- what the sources of assurance are;
- the clarity of committee remit, accountability for providing assurances; and
- the role of all the committees, particularly in terms of how their role contributes to the provision of assurance to the Board.

56. The development of an Assurance Framework will strengthen governance arrangements but a clearer understanding of how this will work in practice is required.

Assurance Framework

R5 By April 2012, develop an assurance framework that includes:

- the process for identifying, documenting and reporting the required assurances;
- defining the sources of assurance; and
- the role of all the committees particularly in terms of how these contribute to the provision of assurance to the Board.

Appendix 1

Powys Teaching Health Board – its background and challenges

Powys Teaching Health Board (the Health Board) is the organisation responsible for providing health and wellbeing services for people who live in, work in or visit the Powys county area. The Health Board was created in October 2009, although unlike other health boards in Wales, the formation of the Health Board did not result in a significant structural merger of former health bodies.

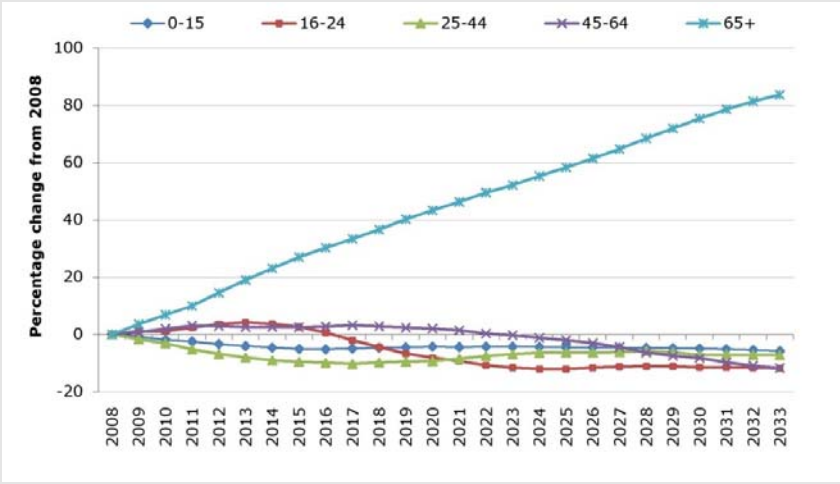
Powys county is both a large geographic area and sparsely populated, making it difficult to base any significant acute hospital provision within the county. As a result, the Health Board relies on out-of-county acute health service providers in England and Wales. This creates added complexity because of the number of clinical health pathways between the Health Board and out-of-county health service providers.

The creation of the Health Board provided the opportunity to better integrate planning and delivery of externally commissioned services together with locally provided services to help improve quality of services and to provide greater efficiencies.

The Health Board serves a population of around 130,000 people, employs approximately 1,480 staff and has an annual operating budget of some £240 million. The Health Board is responsible for securing health services, whether provided directly or commissioned from external providers, in the most rural county in Wales.

Exhibit 1: 2008-based population projections for Powys Teaching Health Board, persons: 2008 to 2033

The demographic challenge



Source: Produced by the Public Health Wales Observatory, using data from the Welsh Government

There are also specific and significant demographic challenges. For example, the longer-term population forecasts indicate that there will be substantial demographic growth in the age group of 'over 65s', as identified in Exhibit 1. This has the potential to place significant future strain on the Health Board's finances and the Health Board's own locally provided services, because of the increased demand for services for older people.

These challenges are amplified by the need of the NHS in Wales to transform itself to address longstanding challenges in respect of performance, health outcomes, service quality and financial sustainability. The scale of the financial challenge facing NHS bodies is considerable.

In the Auditor General's recent report, *A picture of public services 2011*, he identified that:

- 'Welsh public services face change and tough choices as a result of budget cuts and other pressures over the next four years'; and
- 'despite positive examples of progress, health service transformation needs to be accelerated and the NHS is likely to struggle to meet the immediate financial challenges unless it revisits some of its ambitions'.

The Health Board recognises that there are issues of affordability for current service models and there is a risk that growth in costs will continue to outstrip the available budget unless it makes fundamental changes to the way in which it delivers care. At the same time, the Health Board is required to meet its statutory targets as set out in the Annual Operating Framework, work within an understanding of 'making no redundancies' and also deliver national improvements against national health outcomes defined in the Delivery Framework, issued in August 2011.

The Welsh Government has developed a five-year strategic framework to meet these challenges. As part of this, the Health Board has had to produce its own five-year plan setting out how it will achieve the necessary service transformation, alongside the work that was already underway following NHS re-organisation.

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