

Review of Cost Savings Arrangements – Hywel Dda University Health Board

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Detailed Report

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 total¹ 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 our work

- 4 Given the challenges outlined above, the objective of our review has been to examine whether the Health Board has an effective approach to identifying, delivering, and monitoring sustainable cost savings opportunities. The detailed audit criteria are set out in **Appendix 1**.
- 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 Health Board has proper arrangements in place to secure economy, efficiency, and effectiveness in its use of resources.
- 6 We undertook our work between December 2023 and March 2024. The methods we used to deliver our work are summarised in **Appendix 2**. Our work comments on the approach within the Health Board to identifying, delivering, and overseeing cost saving opportunities. It considers the impact these arrangements had on the 2023-24 year-end position and highlights where arrangements may need to be strengthened for 2024-25 and beyond.

¹ Revised deficit positions for 2023-24, known as 'control totals', were allocated to Health Boards by Welsh Government in November 2023 following the provision of additional funding to support their financial positions.

Key findings

- 7 Overall, we found that **the Health Board did not meet its financial targets for 2023-24 and its track record on delivering recurrent savings is poor. Given the Health Board’s challenging financial position for 2024-25, it urgently needs to address its cost drivers and strengthen its overall arrangements for identifying, delivering, and monitoring sustainable cost savings opportunities to prevent its financial position from deteriorating further.**
- 8 The findings that support our overall conclusion are summarised below under the following headings:
- Identifying cost savings opportunities;
 - Delivering cost savings plans; and
 - Monitoring and oversight of savings plans.

Identifying cost savings opportunities

- 9 We considered whether the Health Board:
- has a clear understanding of the factors that are driving its costs;
 - routinely uses a range of data and intelligence to help identify cost savings opportunities; and
 - has an effective approach to selecting cost savings opportunities.
- 10 We found **that the Health Board broadly understands its cost drivers, and has taken positive steps to strengthen budget management at an operational level. The Health Board makes good use of data and intelligence to identify cost savings opportunities, but elements of its approach to selecting and developing savings opportunities require improvement.**

Understanding the drivers of cost

- 11 The Health Board's current configuration of four acute hospital sites is a key driver of its current cost base. Many of the Health Board’s clinical services are “fragile” and work is still underway to develop a Clinical Services Plan that underpins the Health Board’s longer-term strategy² and identifies a service model which is clinically and financially sustainable. The Health Board is in ongoing dialogue with Welsh Government over its proposed reconfiguration of services culminating in the building of a new hospital. However, we understand that Welsh Government is yet to formally respond to the business case.
- 12 Irrespective of any final decision by Welsh Government on the new hospital, the Health Board recognises the need to take immediate action to address its financial challenges. Consequently, its Annual Plan for 2024-25 outlines key areas that are

² The Health Board’s long-term strategy is also known as “A Healthier Mid and West Wales”

driving cost and how it proposes to deliver its financial targets over the short-term together with an identification of the key risks associated with delivering the required savings.

- 13 The Health Board has undertaken some proactive analysis of its key cost drivers to develop a clearer understanding of the areas that are driving cost across its Directorates³. These include clinically optimised patients⁴, patients medically fit for discharge, continuing health care, and premium (variable) pay. However, despite having a broad understanding of its cost drivers, the Health Board is facing a particularly challenging and worsening financial position. The reported deficit position at the end of 2023-24 was £66 million, with a projected plan for 2024-25 of £64 million. This is significantly higher than Welsh Government's expected control total deficit position of £44.8 million. After accounting for Welsh Government's additional in-year funding of £56.8 million, the Health Board's final 2023-24 year-end position has deteriorated by a further £10 million since its original planned 2023-24 deficit of £112.9 million.
- 14 Sound budget management at the operational level will be of central importance in identifying and managing the factors that are driving costs within the organisation. During our work, we heard concerns that 'base budgets' within Directorates may not fully reflect the actual cost base. Senior Health Board management has already recognised this position, and work has been concluded to improve the accuracy and management of base budgets as part of the 2024-25 budget round.

Using data and intelligence to identify cost savings opportunities

- 15 The Health Board's Opportunities Framework - its mechanism for identifying, appraising, and monitoring savings - is effective in terms of capturing and analysing comprehensive data from several sources to support the identification of savings. These sources include:
- the NHS Benchmarking Network;
 - the VAULT⁵;
 - NHS reference cost data;
 - data from the Efficiency Group established by NHS Wales Directors of Finance;
 - outputs from the national Value and Sustainability Board;
 - GiRFT⁶ review outcomes; and

³ Directorates refer to all areas within the Health Board's responsibilities.

⁴ Clinically Optimised Patients are patients where the consultant in charge of the patient has decided that no further acute medical input is necessary or appropriate.

⁵ The Value, Allocation, Utilisation and Learning Toolkit (VAULT) is managed by the NHS Executive to support and improve resource utilisation across the Welsh NHS.

⁶ Getting it right first time (GiRFT) are programmes designed to improve the treatment and care of patients through in-depth review of services, benchmarking, and presenting a data-driven evidence base to support change.

- CHKS⁷ benchmarking data.

In addition, the Health Board is undertaking work to develop savings across the themes identified by the national Value and Sustainability Board and is further strengthening the focus on these themes through the establishment of a new organisational Value and Sustainability Group.

- 16 The Health Board's Finance Team has also used a range of data to highlight areas of high cost and variability⁸. The analysis includes an indicative financial assessment of the opportunities from cost variation. The Finance Team has shared the outputs from this analysis with the senior Health Board management. However, not all Directorates have fully adopted and implemented the identified cost savings opportunities. The Health Board should address this to ensure the work of the Finance Team is appropriately utilised by all Directorates. (**Recommendation 1**)

Selecting cost savings opportunities

- 17 The Health Board has further refined its Opportunities Framework over the last year in response to internal reviews. However, the Health Board recognises that it still needs to do more to convert the savings opportunities identified via the Opportunities Framework into viable schemes. The new Value and Sustainability Group will oversee the Opportunities Framework and consider the opportunities arising from the national Value and Sustainability Board. Whilst these new arrangements should strengthen the Health Board's approach to identifying and delivering savings, opportunities remain for clinical and operational teams to self-identify opportunities based on their own knowledge and intelligence of cost and waste drivers.
- 18 Whilst the Health Board had identified sufficient schemes to meet its original 2023-24 savings target, a significant proportion of these were non recurrent and the Health Board was unable to identify any new savings schemes after Month 10 2023-24. It therefore reported that it had only identified a further £4.6 million of savings schemes in respect of the additional £11.3 million required to achieve the £44.8 million control total identified by Welsh Government. Moreover, all of the additional savings' schemes identified were proven to be unviable for 2023-24.
- 19 Other aspects of the Health Board's approach to developing cost savings opportunities also require improvement – specifically, stakeholder engagement and the use of Project Initiation Documents (PIDs) and Quality Impact Assessments (QIAs). In terms of stakeholder engagement, the Opportunities Framework requires stakeholder engagement after a savings idea has been identified. However, the way in which stakeholders and service users are engaged in the process of generating cost savings ideas is less clear (**Recommendation 2**). In terms of PIDs and QIAs, their use for new savings schemes is variable, despite this being a

⁷ Caspe Knowledge HealthCare Systems (CHKS) is a provider of healthcare intelligence, benchmarking, and quality improvement services.

⁸ Variation in costs between the Health Boards Health Resource Groups (standard groupings of clinically similar treatments) and other English and Welsh NHS bodies.

requirement of the Opportunities Framework. This is due to in part to some misunderstanding and awareness of when PIDs and QIAs are required and also a concern from some scheme owners that time invested in developing the PIDs and QIAs for schemes, before they have had formal sign-off from the Executive, may be wasted. The need for effective stakeholder engagement and robust PIDs and QIAs will become increasingly more important when the Health Board needs to make more complex cost savings/reduction decisions that could impact on performance, patient safety, and other parts of the Health Board.

(Recommendation 3)

Delivery of cost savings opportunities

- 20 We considered whether the Health Board has:
- a good track record of delivering savings plans and cost improvements;
 - clear plans in place to deliver the cost savings opportunities it identifies; and
 - the necessary skills and capacity to deliver its agreed cost savings opportunities.
- 21 We found that **the Health Board has a poor track record of delivering recurrent savings. This, coupled with skills and capacity gaps in key areas and insufficient operational management arrangements for managing finances, will make achieving its significantly higher 2024-25 savings target even more challenging.**

Track record of delivery savings plans and cost improvements

- 22 The Health Board's track record for delivering overall savings and recurrent savings is poor and has been a key contributor of its deteriorating financial position. For the last six years, the Health Board has not achieved its overall savings target (see **Exhibit 1**). We comment in **paragraph 23** on the accuracy of the 2023-24 savings target. However, based on the Health Board's reported 2023-24 savings position, it had made some improvement on the prior year by delivering 77% of its original savings target of £19.5 million. However, only £8 million, or 41% of these savings, were classified as recurrent savings and it has still not reached the level of recurrent savings achieved during the pre-COVID years. These challenges are likely to become further exacerbated by the need to deliver almost twice the level of overall savings and nearly four times the level of recurrent savings in 2024-25 compared to 2023-24. This poor track record on delivering savings represents a significant risk to the Health Board's future financial sustainability.

Exhibit 1 – the Health Board’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	31	26	68%	5	21
2019-20	29	18	41%	6	12
2020-21	34.2	3.4	3%	2.1	1.3
2021-22	16.1	11.9	29%	7.3	4.6
2022-23	29.4	12.4	1%	12	0.4
2023-24	19.5	14	41%	6	8

Source: Welsh Government Monthly Monitoring Returns and Health Board Finance Reports.

23 The Health Board’s track record of delivering savings in 2023-24 would have been significantly worse than reported if it had reflected the additional 10% savings requirement of £11.3 million in its overall savings target and subsequent savings plans. The Welsh Government savings requirement of an additional 10% was set to deliver the Health Board’s 2023-24 control total of £44.8 million. Whilst the Health Board has reported the need to deliver the additional 10% requirement in overall terms, its original savings target of £19.5 million was not amended to reflect this additional element and, therefore, was not part of its routine reporting on savings to Board and Sustainable Resources Committee (SRC). Incorporating the additional savings target would have provided a more accurate picture of the overall savings required for 2023-24 and would have resulted in a savings target of £30.8 million and a reduction in the percentage of delivered recurrent savings from 41% to 26%. **(Recommendation 7.1)**

Approach to delivery of savings plans

- 24 The Health Board has used a more sophisticated approach for the allocation of savings targets in 2024-25. Savings targets for Directorates includes both a pan Health Board percentage target and a more targeted approach for areas with higher drivers of cost. The Health Board has agreed that the savings target would be either 5% of a Directorate's total budget or a 50% reduction in a Directorate's costs of its four key waste drivers⁹, whichever is higher. Whilst having a more general focus on the areas of waste that are driving cost is pragmatic and provides a useful point of focus for Directorates to start to develop their savings plans, it will also be important to ensure savings plans and targets also reflect the specific opportunities within each individual Directorate.
- 25 The Health Board's plans to deliver its cost savings need further development. Whilst most savings plans are clearly linked to the Health Board's annual financial planning process, some Directorates have considered their planning for savings for 2023-24 as distinct from their annual financial planning. This approach risks creating confusion, which may impact the delivery of both savings and budgets. The Health Board has indicated that for the 2024-25 planning cycle, the annual financial operational plans and saving plans will become more integrated. Ensuring clearer integration between savings and annual financial planning and embedding this approach must be an important element of strengthening the Health Board's approach to savings planning and delivery. **(Recommendation 4)**
- 26 The Opportunities Framework provides a mechanism for savings schemes to consider the Health Board's ambitions and intra Health Board impacts. For example, savings scheme owners should consider the scheme's potential and strategic fit using a high-level impact analysis of the potential benefits and risks of the savings idea. Depending on their scale, the governance layers within the framework have responsibility to consider strategic alignment and the potential cross cutting nature of savings ideas. To support this, the Health Board's savings schemes within its savings tracker are grouped into workstreams, some of which correlate to the improvement workstreams within its 2023-24 Annual Plan, such as Planned Care Reconfiguration. Whilst this does show a link between the wider savings programme and the organisation's strategic ambitions, the Health Board has recognised that this and the identification of cross-service savings needs to be strengthened, which it aims to do through its new Value and Sustainability Group.
- 27 The Health Board has sought to strengthen accountability for savings delivery through its new approach for accountability letters. For 2023-24, the Health Board changed the level at which accountability letters were to be signed-off, with Executive Directors now required to sign accountability letters. However, despite this change, the current configuration of the Health Board's operational structures does not adequately support the delivery of savings as they are overly complex and multilayered. This is further compounded by staffing challenges in key areas,

⁹ Waste Drivers refers to the four key areas within the Health Board where there are high costs that have the potential to be reduced.

such as the Primary Care and Secondary Care Directorates, which has led to a degree of instability and an imbalance of roles and responsibilities amongst senior leaders as well as confusion around lines of operational accountability for delivery of savings. The Health Board is currently implementing new operational structures, underpinned by an Organisational Change Process (OCP) ¹⁰, which should, in time, provide greater clarity around roles, responsibilities, and lines of accountability. However, work to introduce the new structures has been protracted, in part due to the COVID-19 pandemic, with the implementation of Phase 1¹¹ of the OCP planned to conclude in the Autumn of 2024-25 and until fully implemented will continue to negatively impact on the Health Board's ability to effectively hold parts of its organisation to account. The Health Board, therefore, should progress the OCP at pace to provide the clarity and stability required at an operational level to drive forward the delivery of savings opportunities.

Skills and capacity to deliver savings opportunities

- 28 The Health Board has an overall skill and capacity gap in respect of the financial and transformational aspects of delivering savings. Whilst this is reflected as a risk in the Corporate Risk Register, it is very clinical in focus and doesn't reflect the Health Board's gaps in skills and capacity around transformation and delivery of financial savings at an operational level. As referenced in **paragraph 27**, the Health Board is currently undertaking an Organisational Change Process which proposes changes to operational structures. This process should culminate in the appointment of senior personnel with the appropriate capabilities as well as strengthen both its operational and corporate capacity to deliver savings.
- 29 The Health Board's approach to savings delivery has looked to make best use of capacity from other Health Board teams. In an environment of limited resources, making use of resource from teams across the organisation is pragmatic. However, there are concerns over the capacity of the Health Board's centralised transformation resource to effectively support transformational savings, and specifically to support Directorates to identify and then deliver complex areas of change that would lead to sustainable long-term savings. This is an area that will need addressing if the Health Board is going to be successful in moving away from its approach of delivering short term non-recurrent savings to one where more complex transformational areas of change help deliver its future financial targets.
(Recommendation 5)

¹⁰ The Health Board is currently implementing a new Operational structure. To support these changes, the Health Board is going through an Organisational Change Process, which will culminate in the alignment of senior roles to support this new structure.

¹¹ Phase 1 of the OCP is focused on the appointment of Health Board senior roles.

- 30 The Health Board commissioned an independent review of the role of the Finance Business Partner (FBP)¹² to better understand and address some of the specific financial capabilities risks. One of the outcomes of this review was that going forward the FBP role will be more proactive and provide a greater level of challenge and scrutiny around financial efficiencies and savings. The Health Board was implementing this change of approach within the Finance Team at the time of our review.
- 31 The engagement of clinicians in the identification and delivery of financial savings and efficiencies varies across the Health Board. Whilst there has been positive engagement with clinicians in the development of the Clinical Services Plan and the review of fragile services, the Health Board has recognised that it needs to continue to engage clinicians in savings delivery. This will ensure that there is further capacity for the successful delivery of its identified savings schemes. It has told us that a key step in its approach will be to strengthen the dialogue around cost reduction by clearly demonstrating how clinicians can deliver savings whilst at the same time improving patient outcomes and maintaining quality.
(Recommendation 6)

Monitoring and oversight of cost savings delivery

- 32 We considered whether the Health Board:
- Has an effective approach to reporting and monitoring the delivery of its cost savings plans;
 - Identifies risks to the delivery of savings plans and actions to mitigate those risks; and
 - Applies learning where cost savings plans have not been achieved.
- 33 We found that **whilst the Health Board's arrangements for monitoring and reporting on cost savings are improving, opportunities exist to strengthen them further by enhancing scrutiny of savings underperformance, effectively managing the delivery risks within its identified 2024-25 savings schemes, and implementing the learning from recent savings governance reviews.**

Reporting and monitoring the delivery of savings plans

- 34 The Health Board's reporting on its savings has improved, however, there are still some aspects of these reports that require further development. The SRC, Executive Team, and Board receive detailed monthly finance and savings reports that provide a high-level summary as well as detailed financial information on savings and wider financial performance at a Health Board level and for each Directorate. The report also includes a narrative commentary on the reasons for

¹² The FBP model ensures engagement on financial management and provides a good link between services and corporate finance. The FBPs are financial accountants who have responsibility for supporting services, financial reporting, and providing an advisory role.

variance of key cost drivers and key actions and mitigations for the overall financial performance. However, we found that some recipients of the reports considered them to be complicated and difficult to understand. The Health Board, therefore, should address this by supporting Board members to deepen their financial literacy skills to enable them to better understand the content of the reports and provide effective oversight and scrutiny. **(Recommendation 7.2)**

- 35 The Health Board has made good progress in turning its savings tracker spreadsheet into a Power BI Dashboard, which will further improve the visualisation, reporting, and analysis of savings data. The savings dashboard for 2023-24 included a varied range of savings opportunities from across the Directorates and a wider analysis of cost saving type opportunities such as, productivity gains, pay and non-pay cash releasing savings and income generation. However, at the time of our work, there was still further work to do to refine the tool to ensure its was a 'single source of the truth' around savings. **(Recommendation 7.3)** Once fully embedded across the organisation it should facilitate a rolling programme of savings opportunities with the ability to quickly identify and replace failing savings plans with new opportunities.
- 36 The Health Board has outlined the role of several groups that are engaged in both the operational and strategic monitoring of savings. These, together with Accountability Letters for Executive Directors, clearly outline the roles and responsibilities for delivering cost savings. In addition to these groups, the Health Board has also held ad hoc financial performance meetings and more formal meetings focused on financial planning and performance such as its Delivering Improvement Together Meetings. However, these arrangements have not adequately supported the delivery of savings targets. As a result, the Health Board has recently introduced a formalised and systematic escalation process for holding underperforming Directorates to account for delivery. This formalised process, along with the new Value and Sustainability Group, once fully embedded, will begin to address some of the shortcomings of the previous accountability arrangements.
- 37 The SRC and Board have a pivotal role in providing strategic scrutiny and oversight of the Health Board's savings programme. Our observation of a SRC meeting in December 2023 highlighted scope for the committee to better scrutinise underperforming areas and for officers to provide a clearer and more complete picture of the financial position. However, the Health Board has since taken steps to clarify the role of the committee in overseeing delivery of opportunities aligned to national Value and Sustainability themes and to provide greater assurance on arrangements to improve financial performance and delivery of savings.

Identification of risks to savings plans delivery

- 38 The Health Board has adequately documented the risks around its wider financial position. Its ability to deliver the agreed financial deficit features as a key part of its Board Assurance Framework and as a significant strategic risk on its Corporate Risk Register. The Audit, Risk, and Assurance Committee and SRC receive regular risk progress reports and monthly finance reports that outline the controls and

remedial action the Health Board is taking to address this risk. However, this scrutiny and oversight has yet to have the desired positive impact on the Health Board's financial position.

- 39 The Health Board classifies its savings in its savings tracker and dashboard using Welsh Government's Red, Amber, and Green definitions of savings schemes. However, the Health Board has included an additional internal 'Black' classification to ensure that it captures schemes that have yet to be developed or recognised by the organisation. An analysis of the risk ratings of savings schemes at Month 9 2023-24 showed that of its ninety-one cash releasing savings schemes, almost sixty of those were Green and Amber schemes representing £18 million of identified savings, with the remainder being Red and Black schemes of £3 million. However, as highlighted in **paragraph 22**, the Health Board's track record for delivering on its identified Green and Amber schemes has been poor. The Health Board has been slow to identify savings for 2024-25 and, as of February 2024, it had a gap in identified savings of £17.9 million, which highlights its challenges in identifying saving schemes that fully deliver. **(Recommendation 8)** Of the schemes already identified for 2024-25, £23 million are Red or Black schemes, which come with significantly higher risks to implementation, delivery, and overall performance. Carrying this level of risk in the identified savings schemes for 2024-25 represents a significant challenge to the delivery of the Health Board's 2024-25 Annual Plan. **(Recommendation 9)**

Applying learning

- 40 The Health Board is currently implementing the recommendations from its recent internal review of its savings governance arrangements and the Internal Audit Service review of the Health Board's Strategic Change Programme, which included the Savings Programme, and gave limited assurance. Both pieces of work identified similar issues with the governance arrangements for the Health Board's savings programme and included several recommendations focused on improving the identification, governance, and reporting of the Health Boards approach to savings.
- 41 The Health Board's Opportunities Framework provides a platform to share learning through various groups. However, there is more work to do to ensure all areas of the Health Board are fully engaged in the sharing of learning around savings schemes/opportunities. One specific example of where the Health Board can apply its learning relates to the forced closure of wards at Witybush Hospital due to the discovery of RAAC¹³. The Health Board have told us that this delivered positive outcomes in terms of cost efficiencies from reduced length of stays, and we understand the Health Board is seeking to embed the learning from this work into business as usual and where possible replicate this approach across other areas of the Health Board. **(Recommendation 10)**

¹³ Reinforced Autoclaved Aerated Concrete - RAAC

Recommendations

42 **Exhibit 2** details the recommendations arising from this audit. The Health Board's management response to our recommendations is summarised in **Exhibit 5 Appendix 3**.

Exhibit 2: Recommendations

Recommendations

- R1 The Health Board should ensure that where appropriate Directorates routinely consider and implement its central work on cost savings benchmarking, and variation analysis. (**Paragraph 16**)
- R2 The Health Board should ensure the Opportunities Framework includes a more systematic approach to canvassing the views of stakeholders, staff, and service users in the generation of savings ideas. (**Paragraph 19**)
- R3 The Health Board should strengthen both its guidance and governance around the Project Initiation Document and Quality Impact Assessment processes for savings. This will ensure a consistent and clearly documented and understood approach for considering quality, patient safety, and intra Health Board impacts of savings decisions. (**Paragraph 19**)
- R4 The Health Board should make improvements to the way it plans for its savings by strengthening the integration between its annual financial operational planning and savings planning arrangements. This should provide greater clarity over the interdependency between delivering annual budgets and savings and ensure that savings plans fully reflect the specific savings opportunities that exist within individual Directorates. (**Paragraphs 24 and 25**)
- R5 The Health Board should develop sufficient transformational capabilities and capacity to support Directorates to identify and deliver broader transformational savings. (**Paragraph 29**)
- R6 The Health Board should explore ways of enhancing clinical engagement in the identification and delivery of savings to increase the potential for the savings schemes to deliver their full benefits. (**Paragraph 31**)

Recommendations

- R7 The Health Board should make improvements to how it reports on cost savings by:
- 7.1 Ensuring that future savings reports articulate all the savings the Health Board needs to deliver in a given year to meet its Welsh Government control total. **(Paragraph 23)**
 - 7.2 Supporting Board members to deepen their financial literacy skills to enable them to better understand the content of finance reports and provide effective oversight and scrutiny. **(Paragraph 34)**
 - 7.3 Prioritising work on its “single version of the truth” to establish a comprehensive picture of savings across the Health Board to strengthen monitoring, reporting, and shared learning. **(Paragraph 35)**
-
- R8 The Health Board should ensure that its savings planning for 2025-26 commences earlier and puts a greater emphasis on delivering recurrent savings opportunities through service transformation and reconfiguration **(Paragraph 39)**.
-
- R9 The Health Board needs to implement effective actions to manage the inherent risk that the Health Board is currently carrying within its 2024-25 savings schemes, by prioritising how best to turn its current red and black savings schemes into recurrent green and amber schemes that have a realistic chance of delivering the identified savings. **(Paragraph 39)**
-
- R10 The Health Board should develop a more systematic approach to the sharing of learning on savings between Directorate and continue to implement the learning from its recent internal reviews into its savings arrangements, and its learning from the recent changes brought about by the discovery of RAAC. **(Paragraphs 40 and 41)**

Appendix 1

Audit criteria

Exhibit 3 below sets out the detailed audit criteria for this review.

Identifying cost savings opportunities

Area	Audit Criteria
Understanding the drivers of cost	<ul style="list-style-type: none">• The organisation's opening balance sheet is true and fair.• The organisation has effective arrangements in place for identifying and analysing the full range of pay and non-pay factors driving its costs in the short, medium, and long-term.• The organisation has a good understanding of the scale of cost savings required to achieve financial sustainability in the short, medium, and long-term and has set realistic and achievable targets accordingly.• The Board is appropriately involved in overseeing, scrutinising, and challenging the organisation's financial analysis and cost savings targets.
Using data and intelligence to identify cost savings opportunities	<ul style="list-style-type: none">• The organisation routinely accesses and uses benchmarking information from a range of sources (e.g. NHS Benchmarking, CHKS, Medicines Management KPIs)

Area	Audit Criteria
	<ul style="list-style-type: none"> • The organisation routinely accesses and uses efficiencies data and information from a range of sources (e.g. NHS Wales Efficiency Framework / VAULT, GIRFT reviews, local Value-based Healthcare reviews / opportunities) • The organisation has clear processes in place to canvas, capture, and assess ideas and suggestions on cost savings opportunities from staff, service-users, and other stakeholders on a regular basis. • The organisation has clear processes in place for responding to centrally identified cost savings opportunities from the NHS Wales Value and Sustainability Board.
<p>Selecting cost savings opportunities</p>	<ul style="list-style-type: none"> • The organisation has a clear and iterative process in place to appraise all potential cost savings opportunities for achievability and for impact on delivering the organisation’s strategic aims, well-being objectives, population health, the quality and safety of services, and ability to meet performance targets / service specifications in the short, medium, and long-term. • The organisation has a clear and iterative process in place for scrutinising, agreeing, and approving cost savings opportunities, which also involves the Board and its relevant committee(s). • The organisation’s agreed cost savings opportunities: <ul style="list-style-type: none"> – are realistic, achievable, and focus on maximising value to the health of the population being served; – cover the breadth of the organisation’s clinical, administrative, and technical functions; – balance one-off non recurrent savings with more sustainable saving opportunities; – incorporate productivity savings, but recognise these will not lead to a reduction in monetary terms; and

Area	Audit Criteria
	<ul style="list-style-type: none"> – focus on medium- to longer-term transformation, as well as short-term and incremental opportunities. • have been scaled and targeted appropriately across all parts of the organisation (rather than a standard percentage applied across all parts.)

Delivery of cost savings opportunities

Area	Audit Criteria
Approach to delivery of savings plans	<ul style="list-style-type: none"> • The organisation has plans in place for delivering cost savings opportunities which clearly set out: <ul style="list-style-type: none"> – the financial savings that will be delivered and how they will be measured; – the anticipated impact on strategy, quality, and / or performance; – the key risks, controls, and mitigating actions; – any interdependency with other cost savings plans; – any dependency on other organisational work streams and strategies; – key delivery milestones; and – which senior officer is responsible and accountable for delivery. • The organisation has effective arrangements in place for managing cross-cutting cost savings plans. • The organisation has appropriate arrangements in place to communicate its cost savings plans to staff, service-users, and other stakeholders.
Skills and capacity to deliver savings opportunities	<ul style="list-style-type: none"> • Roles and responsibilities in relation to delivering cost savings plans at all levels of the organisation are clearly documented and understood.

Area	Audit Criteria
	<ul style="list-style-type: none"> • The organisation has assessed the skills / capability and capacity required to deliver its cost savings plans at both a corporate and operational level and has put appropriate arrangements in place to address any shortfalls and gaps (including the appropriate use of external capacity / expertise.) • The organisation has appropriate corporate structures and resources in place (such as a Programme Management Office) to: <ul style="list-style-type: none"> – keep delivery on track; – provide challenge when needed; – support corporate and operational staff to manage delivery risks; and – provide an agile and timely response to under-performance / under-delivery.
Track record of delivery savings plans and cost improvements	<ul style="list-style-type: none"> • Cost savings plans in recent years have been largely achieved. • There is evidence of learning being applied where cost savings plans previously haven't been achieved.

Monitoring and oversight of cost savings delivery

Area	Audit Criteria
Monitoring the delivery of savings plans	<ul style="list-style-type: none">• The organisation has clear arrangements in place for monitoring delivery which reflect the timescales and risks associated with delivering individual plans and the overall cost savings target.• The organisation has selected appropriate key KPIs and has put effective controls in place to ensure the quality of underlying data are reliable for effective monitoring and reporting.• The organisation's approach to monitoring and tracking delivery of its cost savings plan is appropriately aligned to its broader financial management arrangements (e.g., Standing Financial Instructions, Schemes of Reservation and Delegation, budget allocations.)• The organisation produces tailored reports that meet the differing needs of users in the governance chain.• The organisation ensures that delivery of cost savings is accurately reflected in finance reports presented to the Board and / or its relevant committee(s).
Identification of risks to savings plans delivery	<ul style="list-style-type: none">• The organisation has identified and documented the key risks to delivery in the appropriate risk registers (operational, corporate, and Board Assurance Framework.)• The organisation is actively managing / mitigating the risks at the appropriate level.• The organisation has appropriate arrangements in place to identify and escalate cost savings plans that are off-track and / or having an adverse / unanticipated impact on strategy, quality, and / or performance.• The organisation takes appropriate action in a timely manner where cost savings plans are off-track and / or having an adverse / unanticipated impact on strategy, quality, and / or performance.

Area	Audit Criteria
Applying learning	<ul style="list-style-type: none">• The organisation seeks assurance on its arrangements by using internal audit, or a similar independent and objective reviewer.• The organisation appropriately evaluates its approach to achieving cost savings.• The organisation actively uses its own evaluation(s) and assurances provided by internal audit to identify lessons learned and to change / improve its arrangements.• Lessons learned and changes / improvements are reported to the Board and / or its relevant committee(s) to enable an agile response in-year.• The organisation has appropriate arrangements in place to fully transfer and / or integrate changes arising from its cost savings plans to its business-as-usual operations and activities.

Appendix 2

Audit methods

Exhibit 4 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
Self-assessment	The Health Board completed a self-assessment structured around the audit criteria (“What We Looked At”).
Documents	We reviewed a range of documents, provided in support of the self-assessment, including: <ul style="list-style-type: none">• Board and Committees agendas, papers, and minutes• Key organisational strategies and plans• Savings benchmarking data• Key risk management documents, including the Board Assurance Framework and Corporate Risk Register• Key reports and plans relation to organisational finances and savings• Reports prepared by the Internal Audit service.

Element of audit approach	Description
Interviews	<p>We interviewed the following senior officers and Independent Members:</p> <ul style="list-style-type: none"> • Exiting Chief Executive Officer • Interim Chief Executive Officer • Principle Programme Manager - Financial Savings work • Senior Workforce Manager • A Finance Business Partner • Vice Chair Board (Interim Chair) • Chair of Strategic Development and Operational Delivery Committee • Executive Director of Finance • Executive Director of Workforce & Organisational Development & Deputy Chief Executive Officer • Executive Director of Operations • Chair of Sustainable Resources Committee • Deputy Director of Operational Planning and Commissioning • Interim Director of Pembrokeshire County • Interim Director of Carmarthenshire County
Observations	<p>We observed Board meetings as well as meetings of the following committees.</p> <ul style="list-style-type: none"> • Public Board

Element of audit approach	Description
	<ul style="list-style-type: none"><li data-bbox="595 288 1055 316">• Sustainable Resources Committee<li data-bbox="595 331 1350 359">• Strategic Development and Operational Delivery Committee

Appendix 3

Management response to audit recommendations

Exhibit 5: Hywel Dda University Health Board's management response to our audit recommendations

Ref	Recommendation	Management response Please set out here relevant commentary on the planned actions in response to the recommendations	Completion date Please set out by when the planned actions will be complete	Responsible officer (title)
R1	The Health Board should ensure that where appropriate Directorates routinely consider and implement its central work on cost savings benchmarking, and variation analysis.	Opportunities are now embedded into the Directorate Improving Together Meetings and Escalation Meetings to ensure they are being actively considered by teams.	Completed	Assistant Director of Finance (Value)
R2	The Health Board should ensure the Opportunities Framework includes a more systematic approach to canvassing the	Agreed. The Health Board is considering building on its 'Do the small things' approach to	December 2024	Assistant Director of Finance (Value)

Ref	Recommendation	Management response Please set out here relevant commentary on the planned actions in response to the recommendations	Completion date Please set out by when the planned actions will be complete	Responsible officer (title)
	views of stakeholders, staff, and service users in the generation of savings ideas.	canvassing views from staff, patients and the public on savings opportunities.		
R3	The Health Board should strengthen both its guidance and governance around the Project Initiation Document and Quality Impact Assessment processes for savings. This will ensure a consistent and clearly documented and understood approach for considering quality, patient safety, and intra Health Board impacts of savings decisions.	Guidance has since been updated to ensure a consistent approach is used across the organisation.	Completed	Deputy Director of Planning and Commissioning
R4	The Health Board should make improvements to the way it plans for its savings by strengthening the integration between its annual financial operational planning and savings planning arrangements. This should provide greater clarity over the interdependency between delivering annual budgets and savings and ensure that savings plans fully reflect the	Improvements were made during the planning round for 2024/25 and further improvements will be made on an ongoing basis as plans are developed further into the 2025/26 financial year.	March 2025	Deputy Director of Finance

Ref	Recommendation	Management response Please set out here relevant commentary on the planned actions in response to the recommendations	Completion date Please set out by when the planned actions will be complete	Responsible officer (title)
	specific savings opportunities that exist within individual Directorates.			
R5	The Health Board should develop sufficient transformational capabilities and capacity to support Directorates to identify and deliver broader transformational savings.	Transformational capabilities are supported through the Executive Director of Strategy and Planning. This is being considered through the Targeted Intervention (TI) approach.	March 2025	Executive Director of Strategy and Planning
R6	The Health Board should explore ways of enhancing clinical engagement in the identification and delivery of savings to increase the potential for the savings schemes to deliver their full benefits.	Clinical engagement is a key part of the savings schemes which are being developed through the “100 day cycles” and the Clinical Services Plan. Further engagement will be supported as savings schemes are further developed.	March 2025	Medical Director Director of Nursing Director of AHP and Health Science
R7.1	The Health Board should make improvements to how it reports on cost savings by ensuring that future savings reports articulate all the savings the Health	This issue arose because of the issuing of the Target Control Total by Welsh Government in the last financial year. This has been addressed in our ongoing financial reporting.	Completed	Deputy Director of Finance

Ref	Recommendation	Management response Please set out here relevant commentary on the planned actions in response to the recommendations	Completion date Please set out by when the planned actions will be complete	Responsible officer (title)
	Board needs to deliver in a given year to meet its Welsh Government control total.			
R7.2	The Health Board should make improvements to how it reports on cost savings by supporting Board members to deepen their financial literacy skills to enable them to better understand the content of finance reports and provide effective oversight and scrutiny.	This is being considered through the Finance Skills Development workplan through the Finance Department. Training packages will be developed and deployed.	March 2025	Deputy Director of Finance
R7.3	The Health Board should make improvements to how it reports on cost savings by prioritising work on its “single version of the truth” to establish a comprehensive picture of savings across the Health Board to strengthen monitoring, reporting, and shared learning.	This has been completed in the revised financial reporting approach used for Sustainable Resources Committee.	Completed	Assistant Director of Finance (Value)

Ref	Recommendation	Management response Please set out here relevant commentary on the planned actions in response to the recommendations	Completion date Please set out by when the planned actions will be complete	Responsible officer (title)
R8	The Health Board should ensure that its savings planning for 2025-26 commences earlier and puts a greater emphasis on delivering recurrent savings opportunities through service transformation and reconfiguration.	Agreed. The Finance Roadmap has started this exercise by clearly defining the requirement for savings in the current and coming financial year. However, this will be further developed over the year in advance of the planning cycle.	March 2025	Director of Finance
R9	The Health Board needs to implement effective actions to manage the inherent risk that the Health Board is currently carrying within its 2024-25 savings schemes, by prioritising how best to turn its current red and black savings schemes into recurrent green and amber schemes that have a realistic chance of delivering the identified savings.	Agreed. This is being taken through the Escalation Meetings, chaired by the Director of Finance; through Integrated Quality, Finance and Performance Delivery (IQFPD), chaired by the Chief Operating Officer and through the Value and Sustainability Group, chaired by the Interim Deputy Chief Executive.	November 2024	Director of Finance
R10	The Health Board should develop a more systematic approach to the sharing of learning on savings between Directorate and continue to implement the learning	Agreed. This is facilitated through the Value and Sustainability Group and IQFPD; supported by sharing within Escalation meetings and Directorate Improving Together Meetings.	Completed	Interim Deputy Chief Executive and Chief Operating Officer

Ref	Recommendation	Management response Please set out here relevant commentary on the planned actions in response to the recommendations	Completion date Please set out by when the planned actions will be complete	Responsible officer (title)
	from its recent internal reviews into its savings arrangements, and its learning from the recent changes brought about by the discovery of RAAC.			



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We welcome correspondence and telephone calls in Welsh and English.
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