

Structured Assessment 2021 (Phase Two) – Corporate Governance and Financial Management Arrangements: Betsi Cadwaladr University Health Board

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Summary report

About this report

- 1 This report sets out the findings from phase two of the Auditor General's 2021 structured assessment work at Betsi Cadwaladr University Health Board (the Health Board). Our structured assessment work is designed to help discharge the Auditor General's statutory requirement to be satisfied that NHS bodies have made proper arrangements to secure economy, efficiency, and effectiveness in their use of resources under section 61 of the Public Audit (Wales) Act 2004. Our 2021 [structured assessment phase one report](#) considered the Health Board's operational planning arrangements and how these are helping to lay the foundations for effective recovery.
- 2 The COVID-19 pandemic required NHS bodies to quickly adapt their corporate governance and decision-making arrangements to ensure timely action was taken to respond to the surge in emergency COVID-19 demand and to ensure the safety of staff and patients. Our [2020 structured assessment report](#) considered these interim arrangements and was published in October 2020.
- 3 NHS bodies have continued to respond to the ongoing challenges presented by COVID-19, whilst also starting to take forward plans for resetting and recovering services affected by the pandemic. Our 2021 structured assessment work, therefore, was designed in the context of the ongoing response to the pandemic ensuring a suitably pragmatic approach to help the Auditor General discharge his statutory responsibilities whilst minimising the impact on NHS bodies as they continued to respond to COVID-19.
- 4 Phase two of our 2021 structured assessment has considered how corporate governance and financial management arrangements have adapted over the last 12 months. In particular, we have provided an overview of the Health Board's de-escalation to targeted intervention and the approach that it is now taking.
- 5 The key focus of the work has been on the corporate arrangements for ensuring that resources are used efficiently, effectively, and economically. We have also considered how business deferred in 2020 has been reinstated and how learning from the pandemic is shaping future arrangements for ensuring good governance and delivering value for money. We have also sought to gain an overview of the Board's scrutiny of the development and delivery of the Health Board's 2021-22 Annual Plan.
- 6 We have provided updates on progress against any areas for improvement and recommendations identified in previous structured assessment reports.

Key messages

- 7 Overall, we found that **in the context of dealing with significant service pressures the Health Board has continued to evolve its governance arrangements, service planning and financial monitoring. The initial**

response to the Welsh Government’s Targeted Intervention framework has been positive and it will be important that this is used to demonstrate progress against a number of long-standing challenges. The immediate focus for the Board is to effectively manage the service pressures across all divisions and to ensure its wider strategic and recovery plans both align to those pressing recovery challenges and shape the organisation for the future.

- 8 Following the de-escalation from special measures, the Health Board is demonstrating strong ownership of its response to targeted intervention, adopting what it is calling a targeted improvement approach. It has undertaken a balanced but critical self-assessment against the maturity framework as a basis to drive improvements. There is good alignment between the Health Board’s approach to targeted intervention and its wider planning and strategy development, which should help secure the desired improvements.
- 9 The Board and its committees are using self-review effectively to support governance, risk management and assurance changes. The new arrangements include revised committee and executive delivery structures, evolving risk management approaches and Board Assurance Framework improvements. These will take time to embed and will also need to be managed alongside some specific risks such as independent member turnover. The Board and its Committees are, in general, sufficiently informed and this helps them discharge their duties. There is a good focus on acute services, and improving attention given to primary care services. Once organisational and clinical strategies are approved, there will be a need to reflect progress against priorities and objectives within assurance reporting, whether performance reports or monitoring of plans. The Health Board is taking steps to further strengthen its arrangements for overseeing the quality and safety of services. This is particularly important because of the continued strain on primary, community and acute care services may introduce additional quality and safety risks.
- 10 The Health Board is planning for service recovery, but the continued impact of COVID-19, wider unscheduled care pressures, and internal and external capacity constraints may result in service recovery which is drawn-out. The Health Board is planning for additional regional treatment centres, which if progressed and well implemented should help support some ‘ring fencing’ of planned care services and provide extra service capacity.
- 11 The Health Board did not meet its two main financial duties in terms of having an approvable medium-term plan and financial balance over three years. However, for 2020-21 it ensured expenditure was within its allocation, albeit with additional financial support. Over the last 12 months, there has been a good focus on learning from COVID-19 financial governance arrangements and implementing improvements. Financial planning is improving and there is a better link between actions set out in the Annual Plan and resources required to deliver them. The Health Board needs to secure additional capacity and to drive efficiency improvements within existing services. In some areas this will require additional

financial capital, but at present the level of capital funding may affect service recovery and efficiency.

Recommendations

- 12 We have made one recommendation arising from this audit in **Exhibit 1**. The Health Board's management response to this is summarised in **Appendix 1**. As highlighted in the detail of this report, there remain recommendations from previous years' structured assessment reports that are still being progressed. We will continue to follow progress against these as part of an ongoing programme of work at the Health Board.

Exhibit 1: 2021 recommendations

Recommendations

Financial reporting

- R1 To support recovery, the Health Board will need to maximise the use of its own resources. While assurance reports provide good information on costs, savings and forecasts, there is little information to indicate the financial efficiency of services. **Ensure improved focus on financial efficiency of services within finance reports**. This could be achieved through periodic or thematic deep dives on financial efficiency, reporting on value-based healthcare progress, or as part of routine financial reporting.

Detailed report

Governance arrangements

- 13 Our structured assessment work considered the Health Board's governance arrangements while continuing to respond to the challenges presented by the pandemic.
- 14 We found that **the Health Board has made a promising start and is demonstrating strong ownership to make improvements to address targeted intervention. Governance and risk management arrangements are improving as is the approach for supporting service change and improvement. Considerable ongoing service pressures and waiting list backlogs are likely to present challenges for many years.**

Conducting business effectively

Response to targeted intervention framework

- 15 We found that **while at an early stage, the Health Board is demonstrating strong ownership of the targeted intervention framework and the associated improvements it is seeking to drive.**
- 16 In November 2020, the (then) Minister for Health and Social Services announced that the Health Board would be de-escalated to targeted intervention and supported with additional financial resource totalling £297 million for a three-and-a-half-year period ending March 2024. In March 2021, the Welsh Government set out its expectation for improvement¹ in four key domains:
 - Mental Health (adult and children)
 - Strategy, planning, and performance
 - Leadership (including governance, transformation, and culture)
 - Engagement (patients, public, staff and partners)
- 17 In May 2021, the Board set out an initial approach for responding to targeted intervention requirements and engaged with internal and external partners as part of this process. The targeted intervention 'improvement' approach, agreed with the Welsh Government, is based on an assessment of maturity, and supported by underpinning improvement plans. The Health Board's self-assessment to date has been an honest and critical evaluation of its current position and as such provides a good platform from which to move forward. As an example, the self-assessment in respect of mental health services highlights the challenges and concerns that persist within those services.

¹ Welsh Government, [Targeted Intervention Framework for Betsi Cadwaladr University Health Board – Welsh Government Publication](#), March 2021

- 18 The Health Board has introduced a good structure to drive improvement. This is coordinated by a Targeted Improvement Steering Group underpinned by an Evidence Group and Outcomes Group, which are in turn supported by four sub-groups. The membership of each sub-group includes the senior responsible executive officer with oversight from an independent board member. The Health Board is collating evidence to help demonstrate progress and has brought in the Good Governance Institute to help provide additional independent support. The Board receives regular assurance reports on Targeted Intervention progress at every Board meeting.
- 19 Overall, there is a better alignment between targeted intervention improvement plans and the wider organisational Annual Plan than we found when the Health Board was in special measures. There was a general sense from those we interviewed that the Health Board properly owns the improvement process albeit with a recognition that necessary improvements would take time to effectively deliver.

Board and committee governance arrangements

- 20 We found that **the Board and its committees are operating appropriately, using an objective review of arrangements to drive governance improvements. The proposed changes both to committee structures and wider governance processes should strengthen arrangements but are likely to take time to embed.**
- 21 As identified in our 2020 structured assessment, governance arrangements returned from the temporary emergency command and control and Cabinet arrangements to pre-COVID arrangements in May 2020, albeit continuing to utilise videoconferencing. In November 2020, the Board invoked Cabinet² in response to significant demand to the second wave of the pandemic until April 2021. The COVID-19 Cabinet was once again reinstated in September 2021 at the request of the Executive team. These changes were approved through 'Chair's actions' and appropriately communicated to the following Board meeting on 23 September 2021. The Health Board is adapting its governance arrangements as the nature of the pandemic and wider service pressures evolve. An example of this includes the current review of the terms of reference for the COVID-19 Cabinet to ensure that it remains fit for purpose for the challenges ahead.
- 22 The Health Board has committed to learn lessons from the pandemic and has reviewed its serious incident planning and response, interim COVID-19 governance 'command and control' arrangements and financial 'COVID-19' governance arrangements (See **Exhibit 2, Recommendation 1, 2020**). Lessons

² The purpose of the Cabinet is to be responsible for oversight of key high-level strategic matters relating to the Health Board's response to the health emergency presented by the COVID-19 pandemic. Membership of the Cabinet includes the Health Board Chair, Vice-Chair, Audit Committee Chair and the Chief Executive. Other officers are in attendance.

identified include infection prevention measures, supporting staff to enable flexible redeployment if needed, adapting to virtual outpatients and supporting research and development. The Health Board has also commissioned an additional external evaluation of Emergency Planning, Resilience and Recovery arrangements, which is ongoing at the time of writing.

- 23 Our observations of various Board and Committee meetings in 2021 indicate that they are well chaired, follow expected procedures and are supported by appropriate management information in general to inform decision making. The use of technology and the etiquette around virtual meetings is well embedded.
- 24 Board meeting agendas are well planned, proportionate and focus on key risk and improvement areas. Independent Member contribution is balanced, supportive and where necessary challenging. The Health Board ensures the Board and committee agendas, minutes and papers are available in advance, and reports a breach to audit committee if papers are published late.
- 25 Performance information on acute services and some wider services in the Board's integrated quality and performance report is enabling scrutiny and provides assurance on actions to support improvement. The recent report to the Board in October on primary care services provides a useful update on the actions being taken to address service risks. There may however be a need for a more routine focus on Primary, community and population health performance. We also recommended last year that the Health Board strengthens its arrangements for reporting the outcomes from its plans and investments. Work in this area is still ongoing (See **Exhibit 2, Recommendation 3, 2020**).
- 26 While there remain challenges around public accessibility of committees, the nature of virtual meetings is starting to create opportunities. For example, senior operational managers and leads based at hospital and community sites who would not previously have been able to physically attend a meeting can join virtually. This is giving board and committee members greater insight and depth of understanding from the services where needed.
- 27 Over the last 12 to 18 months, we have seen some committees' agendas grow and some unnecessary overlap of agenda, particularly between the Strategy, Partnerships and Population Health and Finance and Performance Committees. The Health Board has undertaken a review of its committee governance arrangements with the aim of:
- balancing the focus on strategy, culture, and accountability;
 - improving the structural line of accountability between underpinning groups, the executive team, committees, and the Board, and improving accountability and assurance flows in general from 'floor to Board'; and
 - improving the focus on the people and transformation agenda.

- 28 The review identified some specific challenges and proposed some changes to the committee structure³ which were approved by the Board in July 2021, and at the time of writing, are being introduced. The structural changes to the committees appear logical and should help to reduce the risk of duplication of agenda across committees. However, it is too early to determine the effectiveness of the revised arrangements, which will take time to embed.
- 29 The Health Board is currently seeking to recruit three new Independent Members, and there could potentially be another two or three Independent Members leaving at the end of 2021-22 depending on the re-appointment process. This turnover will create risks that will need to be managed in respect of the experience and knowledge of the independent membership and the continuity of committee chairmanship. At the same time the Health Board is continuing with its Board development group sessions. Board development activity will need to take into consideration the changes to independent membership.

Exhibit 2: progress made on the previous year recommendations relating to this report section

Recommendation	Description of progress
<p>R1 (2020) Undertake a rapid learning exercise on COVID-19 governance to inform and adapt resilience and emergency response plans, so they can be implemented should they be required over the coming months. This should include consideration:</p> <ul style="list-style-type: none"> • of any need to temporarily adapt the Scheme of Reservation and Delegation to ensure financial and decision-making authority is aligned; and • of the risk management approach adopted as part of command and control and workstream arrangements. 	<p>Complete</p> <p>An internal review of the Command and Control Framework has been completed by the Emergency Planning, Resilience and Recovery lead and taken through the Civil Contingency Forum. An additional external review is ongoing.</p> <p>The current governance structure for the COVID-19 response has been approved by the Board.</p> <p>The Partnership Prevention and Response Plan was reviewed and refreshed in June 2021 as required by the Welsh Government. The ongoing implementation of the plan is overseen by the Chairs of the six local authority Prevention and Surveillance Groups and reported to the Regional Coordination Group.</p>

³ Changes include removal of the Digital Information and Governance Committee, refresh of the terms of reference of committees and creation of Executive Delivery Groups and underpinning group structures.

Recommendation	Description of progress
	<p>A refresh of the Risk Management Strategy was approved in July 2021 enhancing the focus on the Board's risk appetite during exceptional circumstances. These changes built upon a more substantial review of the risk management strategy in October 2020. An Emergency Scheme of Reservation and Delegation has been developed and was to be presented to the September 2021 Audit Committee, prior to Board approval.</p>
<p>R3 (2020) Ensure that impacts and outcomes achieved as a result of delivery of actions are appropriately articulated within quarterly plan and annual plan monitoring reports. This may require strengthening of underpinning business benefits analysis processes.</p>	<p>Action in progress The 2021-22 Annual Plan seeks to ensure that all actions are appropriately articulated in line with SMART principles. The Health Board has introduced more detailed guidance and a planning template that sets out the required supporting information for each action agreed and includes a requirement to consider both outcomes and return on investment.</p>

Planning for recovery⁴

- 30 We found that **the Health Board is developing a logical ‘six-point’ approach for planned care service recovery and is strengthening its organisational development focus through its extensive ‘Stronger Together’ programme. However, risks and issues including the continued impact of COVID-19, unscheduled care pressures, and capacity constraints may result in the service recovery effort being drawn-out over several years.**
- 31 The extent of the recovery challenge, although not unique to the Health Board, is substantial. The pandemic, alongside significant unscheduled care pressures, continues to affect the available service capacity and productivity of wider services.

⁴ NHS bodies are required to submit a three-year Integrated Medium Term Plan (IMTP) to the Welsh Government on an annual basis. The IMTP process for 2020-2023 was paused by the Welsh Government in March 2020, to allow NHS bodies to focus on responding to the COVID-19 pandemic. Instead, health bodies were required to submit quarterly plans during 2020-21 as well as prepare an annual plan for 2021-22 by 31 March 2021.

- 32 For planned care, over 50,000 patients are now waiting over 36 weeks⁵. The Health Board has prepared a 'six-point' recovery plan for planned care including the development of a diagnostic and treatment centre model. The six-point approach is logical, although we expect that recovery will be highly challenging. The Welsh Government has provided considerable additional revenue to support recovery, but we understand there is limited available capital funding. Consequently, the Health Board is exploring all possible options for revenue-based solutions. The nature of the revenue funding and the need to accelerate recovery efforts may lead the Health Board towards greater reliance on providers from outside of Wales to provide insourced, outsourced and fully managed services⁶.
- 33 While additional contracting will assist recovery, core service and workforce productivity is essential, but may be challenging to improve. There is a clear recognition in the Health Board of the impact of the pandemic on staff and the pressures ahead. The Health Board has initiated a 'Stronger Together' programme. This is a major organisation development programme focussed on improving quality, performance, productivity, engagement, and culture and engaging more than 1,800 staff directly.
- 34 Sustainable recovery, both for planned and unscheduled care, will require stronger approaches for integration of services across acute sites, and integration of services between acute and community services. The Health Board has attempted for several years to drive forward such service integration, but with mixed success. For several years, we have identified concerns about the capacity available to support change and transformation. As part of the recent review of governance arrangements, the Health Board will be implementing stronger programme and transformation structures. There are three new Executive Delivery Groups which will support strategy development and drive the transformation agenda and a cross-cutting planning and strategy group. Underpinning these strategic groups, the Health Board is introducing tactical delivery groups designed to deliver transformation and improvement. This is a positive step forward.
- 35 The Health Board is also strengthening capacity to support change. It has recently appointed a Director of Transformation and Improvement and is strengthening its capacity for programme coordination, analytical modelling, and programme and project management support (See **Exhibit 3, Recommendation 3, 2019**). The Health Board is also seeking to formally incorporate 'value-based healthcare'⁷ and 'getting it right first time'⁸ and data modelling approaches within its change

⁵ As of July 2021 – data sourced from Stats Wales.

⁶ Fully managed services relate to a complete package where an external provider may develop new temporary facilities within the Health Board area but fully providing additional theatre capacity and the necessary workforce to deliver services.

⁷ Value based care is aimed on maximising the value of healthcare and reducing unwarranted variation.

⁸ Getting it right first time is a national programme designed to improve the treatment of care of patients through analysis, benchmarking to support service change.

structure as part of the portfolio of the Executive Director of Primary Care and Community Services (See **Exhibit 3, Recommendation 4, 2019**). If delivered effectively, these approaches create the potential to improve the outcomes for patients and release capacity to better support patients waiting for treatment.

- 36 The Health Board continues to rely on interim management in some important areas including mental health, secondary care, and planned care improvement. While there may be value for money considerations relating to interim appointments, the potentially greater issue is the effect of turnover or 'churn' of interim staff, often filling key posts. This could affect the continuity of important change programmes and continuity of leadership for acute services (See **Exhibit 3, Recommendations 5 and 6, 2019**).
- 37 While the Health Board is building additional capacity to support improvement, a range of factors and risks could affect planned care waiting list recovery. These include:
- exacerbation of levels of COVID-19 in the community, unscheduled care demand and winter pressures, as well as increased complexity of conditions.
 - the extent that the workforce is able to work above and beyond to support additional internal capacity.
 - ability to improve service efficiency.
 - insufficient capital investment resulting in lack of physical capacity to expand services or to remedy existing estate to improve patient flow.
 - revenue funding which needs to be spent within the financial year. This may potentially inhibit multi-year recovery options and could limit the extent that the funding can be effectively utilised.
 - competition with the wider NHS for:
 - insourced and outsourced service providers;
 - modular theatres and/or demountable care facilities; and
 - medical and nursing staff, potentially limiting locum and agency staff availability, and impacting the ability to recruit.
- 38 The Annual Plan appropriately incorporates a strong focus on service recovery actions, and it is responding to the risks above, but some of those risks will present a longer-term strategic challenge. Recovery actions will not only need to bring back service performance but also help to shape services so that they are fit for the future. The Board is currently refreshing its organisational strategy, developing a clinical services plan, and preparing a three-year IMTP 2022-2025. It is currently undertaking wider engagement to support these developments (See **Exhibit 3, Recommendations 1 and 2, 2019 and Recommendation 2, 2020**).

Exhibit 3: progress made on the previous year recommendations relating to this report section

Recommendation (year)	Description of progress
<p>R1 (2019) Ensure that work to develop a clinical services strategy is delivered to planned timescales and includes a fundamental review of the shape and location of clinical services across all three main hospital sites. (Further detail on this recommendation is available at the report link above).</p>	<p>Action in progress The Clinical Strategy development has undergone review since the appointment of the new Chief Executive. This approach has been approved by the Board and will lead to new thinking for a clinical services strategy which will underpin the refreshed Living Healthier, Staying Well strategy. The Health Board has set out next steps including establishment of a clinical senate, using feedback from strategy engagement and findings from the ongoing Stronger Together work. The Health Board is aiming to complete this work by the end of March 2022.</p>
<p>R2 (2019) Ensure clinical engagement and leadership are integral elements as part of the development of clinical strategy and associated change programmes.</p>	<p>Action in progress This will be considered within the refresh of the 'Living Healthier Staying Well' strategy, and clinical services plan.</p>
<p>R3 (2019) To support effective delivery of clinical strategy, introduce clear programme management structure, change programmes, and programme management methodology. This should incorporate both required central and corporate structure as well as resources to enhance division-level change management capacity.</p>	<p>Action in progress A new approach to improvement and transformation has been agreed following recognition of the need to increase investment, focus, and alignment of existing improvement approaches. This is now being led by the Executive Director of Primary Care and Community Services. A Director of Transformation has been appointed and they will lead the Transformation Support Office approach utilising a central resource through a business partner model. A Quality Improvement toolkit is in development to drive coordination and dissemination of learning which will incorporate learning from COVID-19. Some appointments within the change structure are completed and the arrangements will continue to develop through the remainder of this financial year.</p>

Recommendation (year)	Description of progress
<p>R4 (2019)</p> <p>The Health Board should review the form and function of the executive team to:</p> <ul style="list-style-type: none"> ensure that there is clear responsibility for acute care services at an Executive level; ensure that programme leadership for service transformation has clear executive director level responsibility or responsibilities; and increase focus on strategy, organisational design and the capacity and capability within the organisation to deliver the necessary change. 	<p>Action in progress</p> <p>The new Chief Executive of the Health Board took up position in January 2021. Since this time, a review of Executive portfolios is enabling improvements in portfolio balance and the improved alignment of some key corporate functions.</p> <p>The organisation is currently enhancing its leadership as part of the Targeted Improvement programme. It is undertaking a 'listening' exercise known as the Discovery Phase of Stronger Together. Early indications from that exercise and feedback suggest more extensive work is required to optimise the organisation's operating model. This could include a review of operational management structures. This work will conclude in Quarter 3 of 2021-22.</p>
<p>R5 (2019)</p> <p>As part of the Health Board's wider approach to workforce planning, aim to reduce reliance on external interim management by building the required senior manager capacity and capability within the organisation, especially in relation to service transformation and change.</p>	<p>Action in progress</p> <p>The refreshed Workforce Strategy will draw on themes from the Stronger Together organisation development work. Key senior leadership roles in the Executive Team and Senior Leadership Team have been substantively appointed to. However, use of interim management remains an ongoing challenge for the health Board. A Service/Workforce Review model and programme has been approved by Executive Team. This is being used, for example, to review Emergency Departments as a basis for informing a new staff model. The output of the reviews will inform the refreshed workforce strategy and plan for 2022-2025.</p>

Recommendation (year)	Description of progress
<p>R6 (2019) Finalise and agree the management structure for acute services.</p>	<p>Action in progress</p> <p>The acute management structure has been subject to some further changes, but with a number of recent key appointments. The Health Board is considering how its operating model aligns with business need as part of the Stronger Together programme. The Health Board is aiming to develop a delivery plan by the end of the calendar year.</p>
<p>R2 (2020) Ensure there is effective stakeholder engagement in the development of clinical strategy and any plans for significant service change.</p>	<p>Action in progress</p> <p>The Living Healthier, Staying Well strategy refresh includes public, staff and stakeholder engagement. The Health Board will share and discuss emerging findings with partners, stakeholders and those who contributed in November 2021.</p>

Systems of assurance

39 We found that **the Health Board is undertaking work to embed its risk management arrangements, but because of the consistent exceptional services pressures, it will need to ensure that its quality assurance arrangements are effective from floor to Board.**

Managing risk

40 We found that **the Health Board is taking appropriate action to embed its risk management approach and board assurance framework.**

41 As identified in our structured assessment in 2020, the Health Board's approach to risk management has changed with the introduction of a three-tier model⁹. The aim was to implement the strategy and new supporting risk management arrangements in October 2020, but the impact of the pandemic resulted in some delay. The Board reviewed and agreed some further revisions to the risk management strategy in July 2021 including strengthening the focus on risk appetite, new staff

⁹ Three-tier risk management reflects responsibility to manage at either tier 1 (director level), tier 2 (divisional level), tier 3 (service or project level), depending on the severity of the risk.

training and arrangements for ensuring risk intelligence is shared across services and divisions. We have seen good challenge from Independent Members on the risk management arrangements, reporting and the effectiveness of actions in place to mitigate the risks.

- 42 Risks relating to the pandemic are reviewed and included in the risk register. Given the dynamic COVID-19 situation, there are regular formal and informal briefings for Board members on those risks. Overall, the risks on the board assurance framework and risk management framework reflect our understanding of the Health Board's key issues and the actions that it is taking to resolve them.
- 43 The board assurance framework is progressing well although not yet fully mature. The Health Board is seeking to use the opportunity of strategy refresh to develop clearer corporate objectives. This should provide a platform for further strengthening the assurance framework. The framework is actively and consistently used by the board and committees, which is helping to focus on the key strategic risks that prevent delivery of objectives. The Health Board has continued to maintain its legislation assurance framework, reflecting changes to legislation and basic monitoring. However, capacity constraints over the last 18 months have proved a limitation and a more manageable risk-based approach may be required in future.
- 44 In relation to wider internal assurance, our work indicates:
- a comprehensive programme of internal audit delivered during the year. This was sufficient to enable a 'Reasonable' head of internal audit opinion as part of the annual report;
 - clinical audit is progressing, although significant service pressures may affect delivery of the plan in full; and
 - the Counter Fraud programme is progressing well, although we understand that there are lower levels of fraud reporting in the last year than prior to the pandemic.

Quality and safety assurance¹⁰

- 45 We found that **the Health Board is taking steps to secure further improvements to its quality governance arrangements.**
- 46 The Board receives appropriate assurance on a wide range of quality and safety matters that it is responsible for. The Health Board uses the four quadrants of harm model and understands the direct and indirect quality concerns resulting from the pandemic. These are reflected in the Quality and Performance report, risk registers

¹⁰ We have limited the work we have undertaken on quality governance arrangements as part of our 2021 structured assessment, as we are undertaking a separate review of quality governance arrangements at the Health Board. The quality governance review will consider whether the organisation's governance arrangements support delivery of high quality, safe and effective services. We will report our findings later in 2021.

and the board assurance framework. The agenda of the Quality, Safety and Experience Committee is comprehensive and there is good scrutiny of it. As well as receiving routine quality reports, specific areas are focussed on by the committee. Examples include Vascular, Mental Health and Ophthalmology services and the lessons learnt from COVID-19 outbreaks.

- 47 As part of the Health Board's governance review (**paragraph 28**), there are changes to the corporate quality structure which will be introduced over the autumn of 2021. This includes the introduction of:
- an Executive delivery group for quality improvement;
 - a strategic Health and Safety Group; and
 - underpinning Patient Safety, Patient Experience, Clinical Effectiveness and Infection Prevention and Control groups.
- 48 The new structure may take time to embed but it should help to enable specific focus in key quality areas and improve floor to board visibility. It will be essential across all divisions to maintain a strong focus on operational quality given the extent that services are currently stretched.

Tracking progress against audit and review recommendations

- 49 We found that **the Health Board has continued with its approach to track, review, and challenge the response to recommendations**. During the pandemic, the Audit Committee has continued to receive tracking reports on progress against key recommendations and challenge areas where progress has been limited. Whilst a number of recommendations from previous years' Structured Assessments are still to be implemented, action in these areas is ongoing, with timescales for implementation having been affected by the emergency response to the pandemic. The update is included in **Exhibits 2 and 3** of this report.

Managing financial resources

- 50 Our work considered the Health Board's financial performance, plans, controls, and arrangements for monitoring and reporting financial performance. We found that **additional income alongside improving financial planning is strengthening the Health Board's financial outlook, but there is a risk that limited capital funding could inhibit longer-term sustainable models of care built and resourced in North Wales**.

Achieving key financial objectives

- 51 We found that **while the Health Board did not meet its two main statutory financial duties, strategic financial assistance from the Welsh Government has helped achieve financial balance for 2020-21**.

- 52 The Health Board has not been able to achieve a balanced financial revenue position for several years. In 2020-21, the annual financial revenue funding, together with additional Welsh Government financial allocations, enabled the Health Board to balance its expenditure within its revenue resource limit. It achieved a £0.4 million surplus on net operating costs of just over £1.8 billion. The two most significant streams of additional Welsh Government revenue allocation included funding to cover the costs of COVID-19, and additional strategic financial assistance. On the latter, the (then) Minister for Health and Social Care announced his decision to de-escalate the Health Board from special measures to targeted intervention in November 2020. This announcement included a financial assistance package of £297 million over a 3½ year period of which £40 million per year is specifically for financial recovery.
- 53 The Health Board's COVID-19 costs for 2020-21 totalled £171.7 million (**Exhibit 4**) and were covered by the Welsh Government. This included cover for direct COVID-19 costs but also recognised the wider financial consequences of the pandemic, which included:
- under-delivery of savings plans – the Health Board achieved £18.4 million of savings against a £45 million target leaving a £26.6 million financial pressure; and
 - an underspend of £20.4 million for elective services where the Health Board was expecting to fund services which were not able to be delivered.

Exhibit 4: financial impact of COVID-19 in 2020-21

Cost area	£ million
Direct cost of COVID-19 (including Field Hospitals, PPE, Vaccination, Test, Trace and Protect, Staff costs)	159.1
Lost income	10.5
Non-delivery of savings	26.6
Elective underspend (cost saving against original budget)	(20.4)
Other underspend against the budget	(4.1)
Total COVID-19-related costs	171.7

Source: Month 12 finance report to Board in May 2021

Financial plans

- 54 We found that **financial planning is improving and the Health Board understands its financial risks, but limited financial capital allocation may affect the longer-term sustainability and efficiency of services.**
- 55 The Health Board is improving in financial planning, which both gives a good indication of budgetary spend and a stronger link between additional service investment and the intended improvements than in previous years. The Health Board is also planning to develop a longer-term financial strategy. This will need to set out how finances will support service recovery, and how financially sustainable services can be achieved in the longer term. This is particularly important when the significant additional Welsh Government allocations for COVID-19, the targeted intervention strategic assistance, and performance recovery funding reduce.
- 56 The Health Board's Annual Plan outlines the basic revenue allocation for 2021-22 at £1,697 million. At the time of the approval in July 2021, the plan also anticipated additional allocations for performance improvement which when combined with this year's element of the £297 million strategic assistance totals £91.5 million. The plan sufficiently identifies at a high level how this additional Welsh Government funding is to be spent during the year. This may help to inform assessment of value from the investment. We have undertaken some specific work during the year on the additional £297 million 3½ year strategic financial assistance. This work identified:
- broadly clear plans for how it will spend the strategic financial support funding it is receiving from the Welsh Government;
 - that plans appropriately consider required resources, but there is a need to prepare business cases earlier in the year as well as challenges around workforce capacity, estate, and procurement; and
 - evolving arrangements in place for ongoing monitoring of plans but also a need to ensure that the funding is achieving its intended benefits.
- 57 As at month 5, the Health Board is forecasting a balance between expenditure and its resource allocation for 2021-22. The Health Board is anticipating COVID-19 costs of £112.8 million, and that the Welsh Government will fully cover the cost. The Health Board has a good understanding of its financial risks for the current year. These include the impact of a potential third wave of COVID-19, possible under-delivery of savings, ability to manage cost and demand growth and its ability to secure efficiencies through clinical strategy and pathway redesign.
- 58 Capital funding may also present a risk for the Health Board. The continued impact of COVID-19 is increasing waiting lists considerably. The Health Board is developing a recovery plan which includes options to increase its capacity using regional treatment centres. Typically, additional estate capacity would be funded through capital, but availability of capital financing across Wales is extremely pressured. The Health Board is exploring approaches for commissioning additional managed services using revenue funding. This revenue approach could help to

expand service capacity quickly, but revenue funding approaches could also introduce additional strategic risks including:

- increasing the reliance on externally contracted care may not necessarily provide the health board with service capacity which can be sustained in the longer term once contracts are concluded.
- any substantial new external contracts for additional capacity may require long-term funding. The income to support this may not be guaranteed if funded from additional annual Welsh Government allocations rather than core budgets.

59 While the availability of capital may affect the development of new service capacity, we have also heard that limited capital funding may impede the ability to adapt the existing estate to help improve patient flow and efficiency. This may also be a factor affecting sustainable and efficient recovery within existing sites. The Health Board is acutely aware of these risks and is exploring options that may help to mitigate the impact of limited capital funding.

Financial controls and wider internal controls

60 We found that **the Health Board is continuing to focus on improving its financial controls in relation to COVID-19 spend.**

61 In our 2020 [structured assessment report](#), we identified that key financial controls have operated throughout the pandemic, and that the Health Board was undertaking further work to provide assurance on the controls. We highlighted clear processes agreed by the Board in April 2020 which set out decision-making arrangements, and delegated authority limits continued to be enforced alongside tracking and analysis of COVID-19 spend. Since last year's assessment, the health board has formed a 'financial governance cell' and undertook a review of its COVID-19 governance arrangements. The review found several strengths including COVID-19 financial controls built around existing financial systems, creation of COVID-19 cost centres and scrutiny of COVID-19 spend. Of the improvements needed, work on Business Continuity planning and the Emergency Scheme of Reservation and Delegation remains in progress. The latter was presented as a draft to the Audit Committee in September 2021 with a view of formally approving this at the next full Board meeting.

62 The pandemic has impacted on some routine internal controls and the Health Board is now strengthening arrangements:

- **policy management** – the Health Board is exploring options to secure extra capacity to strengthen its overall policy management approach, policy controls, and is reviewing out of date policies.
- **single tender waiver** use increased from 33 waivers in 2019-20 to 99 in 2020-21. Forty-three out of those 99 waivers related to COVID-19 spend. The Health Board has set up a single tender waiver group which is taking action to reduce the single tender waiver use going forward.

- **declarations of interest** – for 2020-21, 58% of the circa 1,100 declarations of interest were completed last year. The Health Board is working to improve further this year.

63 As we highlighted last year, use of Chair's actions¹¹ is formally recorded in the public Board meetings. Emergency pressures and the need to make rapid decisions to support recovery may necessitate this approval route in future. For assurance purposes, the Health Board could consider including further detail on the Chair's actions within the Audit Committee finance conformance report. It is positive though that the Health Board has decided to arrange an extra-ordinary Board meeting for a potentially significant contract which it is currently progressing for eye-care services.

Monitoring and reporting

64 We found that **financial reporting arrangements provide a sufficient overview on the financial position, risks, and forecasted outlook.**

65 Finance reports provide sufficient and timely information on financial position, financial performance, cost savings and progress against the capital programme. Additional deep dives into specific areas of expenditure are periodically used to support understanding and scrutiny. Where there are new or amended contracts and agreements that have a financial implication to the Health Board, the Finance and Performance Committee is appropriately informed and provides appropriate challenge.

66 As highlighted throughout this report, service recovery will be challenging. Improving the focus on the financial efficiency of existing services should help to ensure that core capacity is used to best effect. The Health Board has a track record of focussing on cost control and cost avoidance. While this has provided assurance on financial position, it has not particularly helped to create financially efficient care pathways. Over the last six months, we are seeing increasing emphasis on value, return of investment and efficiency at senior levels within the organisation. This is becoming more visible at Finance and Performance Committee, particularly within emerging business cases and is a welcome development. The Health Board should also consider how it can bring a greater focus on financial efficiency and value within its formal financial monitoring and reporting (**Recommendation 1, 2021**).

¹¹ Chair's actions are normally used for urgent decisions taken outside of a formal Board meeting.

Appendix 1

Management response to the audit recommendation

Exhibit 6: management response to the 2021 structured assessment

Recommendation	Management response	Completion date	Responsible officer
<p>Financial reporting</p> <p>R1 Ensure improved focus on financial efficiency of services within finance reports. This could be achieved through periodic or thematic deep dives on financial efficiency, reporting on value-based healthcare progress, or as part of routine financial reporting.</p>	<p>The Health Board already produces comprehensive benchmarking data on clinical services, and this is used to help identify savings opportunities as well as initiatives to improve patient experience.</p> <p>We also now provide regular transformation updates (which incorporate value-based healthcare (VBHC) and service improvement projects) to the Performance, Finance and Information Governance (PFIG) Committee</p> <p>We have included 2 deep dives / meeting into divisional performance onto the cycle of business for the PFIG Committee.</p>	<p>December 2021 [first reports being presented to the Committee]</p> <p>December 2021</p> <p>December 2021</p>	<p>Executive Director of Finance</p> <p>Executive Director of Finance</p> <p>Executive Director of Finance</p>

Recommendation	Management response	Completion date	Responsible officer
	<p>The business case process is being updated and simplified and will include an assessment of:</p> <ul style="list-style-type: none"> • the relative efficiency of the specific service; • what action has been considered to improve that efficiency ahead of the business case. <p>The programme around clinical pathways and service reviews will include an assessment of relative financial and operational efficiency and what benefits can be expected from the implementation of the new pathway.</p>	<p>January 2022</p> <p>February 2022</p>	<p>Executive Director of Primary and Community Care</p> <p>Executive Director of Primary and Community Care</p>



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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.