

Review of Cost Savings Arrangements – Velindre University NHS Trust

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Introduction

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

Objectives and scope of our work

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

Key findings

- 7 Overall, we found that **the Trust has reasonably effective arrangements for identifying, delivering, and monitoring its cost savings opportunities. However, continuing reliance on non-recurrent savings and uncertainties around long-term agreement income present risks to its future financial sustainability.**
- 8 The findings that support our overall conclusion are summarised below under the following headings:
- Identifying cost savings opportunities
 - Delivering cost savings opportunities
 - Monitoring and overseeing cost savings opportunities.

Identifying cost savings opportunities

- 9 The Trust has a good understanding of its cost drivers which are clearly set out in its 2024-27 Integrated Medium Term Plan (IMTP) and Financial Plan. These include service investments, the Acute Medical On-Site Clinical Model¹, enhancement to its service delivery model, increased operating costs for the current Velindre Cancer Centre estate, and the Pathology Service Level Agreement (SLA). The IMTP and Financial Plan acknowledges the wider national cost pressures facing the organisation, including the cost of implementing additional capacity to deal with rising demand, non-pay inflation, pay-inflation and the increasing costs of both digital and Welsh Risk Pool² payments.
- 10 The Trust acknowledges the challenging financial environment in which the organisation, and the wider NHS in Wales, is operating. In response, it has established enhanced finance and investment monitoring arrangements to strengthen its control environment and ensure additional accountability amongst its Executive Team across several key financial measures³ with a view to addressing the Trust's long-term sustainability and value strategic risks. These arrangements incorporate the national Value and Sustainability Board's five areas of focus⁴ and

¹ An Acute Medical On-Site Clinical Model is a hospital service that provides care for patients who present as medical emergencies.

² The Welsh Risk Pool is part of the NHS Wales Shared Service Partnership Legal and Risk Service. It provides the means by which all Trusts and Health Authorities in Wales are able to indemnify against risk.

³ Key financial measures include: savings delivery, cost control, choices and options which contribute towards system financial pressures, and impacts of spending decisions considering quality, safety and experience.

⁴ The Value and Sustainability Board's five areas of focus include: workforce, medicines management, Continuing Health Care/Funded Nursing Care, non-pay and procurement, and clinical variation/service configuration.

the Trust's 2024-25 Finance Plan sets out how the organisation can help improve the overall NHS Wales financial position, including:

- exploring opportunities with the NHS Wales Shared Service Partnership (NWSSP) Medicines Unit to supply drugs at lower costs;
- working with health boards on pre-operative anaemia pathways using Value-Based Healthcare⁵ principles to release bed capacity;
- providing potential savings⁶ to health boards if the Plasma for Medicine Business Case is approved and funded by the Welsh Government, and the Joint Commissioning Committee; and
- using a Value-Based Healthcare approach to review non-value-adding clinical practice or processes and changing ways of working.

11 The Trust's 2024-25 Financial Plan aims to improve both the organisation's internal and wider NHS bodies efficiency and productivity. The Trust has initially set an internal 3.1% savings target of £2.6 million in 2024-25 made up of £1.3 million recurrent and non-recurrent savings, respectively. The 2024-25 Financial Plan clearly sets out the organisation's savings requirement covering the three-year period of its 2024-27 IMTP and provides a high-level breakdown of how it will achieve current year's savings, mainly through the organisation's Cost Improvement Programme planned savings and income generation.

Delivery of cost savings opportunities

12 As shown in **Exhibit 1**, the Trust has a good track record of significantly exceeding its overall savings targets. However, this has mainly been achieved through delivery of non-recurrent savings. While the proportion of recurrent savings increased steadily up to 2021-22, there has been a gradual reduction in recent years with only 41% of savings achieved in 2023-24 being recurrent.

⁵ Value-based healthcare is the equitable, sustainable and transparent use of the available resources to achieve better outcomes and experiences for every person.

⁶ There are potential savings of circa £1.5 million in phase 1 and £2 million in phase 2 on blood-derived medicines used by Health Boards.

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

| Year | Overall Savings Target (£M) | Actual overall savings delivered (£M) | Recurrent savings as a % of overall savings target | Delivered non-recurrent savings (£M) | Delivered recurrent savings (£M) |
|---------|-----------------------------|---------------------------------------|--|--------------------------------------|----------------------------------|
| 2018-19 | 3.8 | 5.7 | 55% | 3.6 | 2.1 |
| 2019-20 | 4.0 | 6.8 | 42% | 5.1 | 1.7 |
| 2020-21 | 4.2 | 5.4 | 64% | 2.7 | 2.7 |
| 2021-22 | 2.7 | 5.7 | 128% | 2.2 | 3.5 |
| 2022-23 | 2.4 | 5.8 | 79% | 3.9 | 1.9 |
| 2023-24 | 4.6 | 6.9 | 41% | 5.0 | 1.9 |

Source: Welsh Government Monthly Monitoring Returns

13 As part of its wider response to the significant financial pressures within the NHS during 2023-24, the Welsh Government asked the Trust to identify further financial improvement actions to help improve the overall NHS Wales position. The Trust was able to rapidly identify additional savings totalling £2.3 million resulting from the relinquishment of Long Term Agreement (LTA) income protection⁷, the reduction of energy costs, and evaluating the increased use of generics and

⁷ LTA income protection was agreed as part of the LTA Service Level Agreement between the Trust and its commissioners (health boards). The income protection provided some certainty for the Trust when committing investment to increase capacity for cancer services. A level of income was protected to provide certainty for the Trust, should the activity levels be lower than anticipated, and thus the LTA contracting income received by the Trust from health boards be lower than expected. Its relinquishment in 2023-24, subsequently reduced the costs of the Velindre Cancer Centre services for health boards and provided a contribution towards the wider deficit reduction of circa £1.25 million.

biosimilars⁸ to deliver savings. The Trust subsequently enhanced its financial oversight arrangements in light of these additional savings, to ensure it was able to deliver a financial breakeven position for 2023-24.

- 14 An Internal Audit report on Finance and Service Sustainability issued in July 2024 gave a reasonable assurance rating. It identified several areas of good practice around budgetary control and savings plans, including timely issue of budget delegation letters, scrutiny and approval of new revenue projects, and regular financial reporting to divisional budget holders and the Executive Management Board. In addition, it found that the Trust responded swiftly to the NHS Wales Chief Executive's request for options for further savings, to support the reduction of the overall NHS Wales financial deficit, and delivered on savings totalling circa £2.3 million during 2023-24.
- 15 The Trust has clear arrangements in place for turning its high-level savings requirements into deployable savings plans. Delegated expenditure limits and savings targets are devolved to divisions with recurrent savings plans developed through discussions with divisional Senior Leadership Teams to meet their respective targets. Detailed outline proposals are developed setting out how and where the savings are to be delivered, along with the anticipated impact.
- 16 For the 2024-25 financial year, the Trust originally set a savings target of £2.6 million. However, in June 2024, the Trust revised its savings target to £2.9 million, representing a £0.270 million increase. This prompted a re-profiling of savings delegated to divisions⁹ to reflect the need to identify new savings schemes, and to replace savings schemes that had not delivered or progressed at the time. The Month 5 2024-25 Finance Update to Board in September 2024 indicated that savings delivery was on target.

Monitoring and oversight of cost savings opportunities

- 17 The Trust has good arrangements for monitoring and overseeing savings delivery. Financial performance is reported to the Quality, Safety, and Performance (QS&P) Committee and Board, with routine updates providing a detailed overview of savings delivery. Our 2024 Structured Assessment report notes good scrutiny and challenge around the organisation's financial position at both forums.
- 18 The Trust has adequately documented the risk around its wider financial position in the Trust Assurance Framework (TAF) and Trust Risk Register (TRR), namely, the organisation becoming financially unsustainable if it does not secure sufficient

⁸ Generics and biosimilars are types of follow-on medications that are similar to brand-name drugs and can be more affordable than the original.

⁹ The Divisional share of the revised overall Trust savings target has been allocated as follows – Velindre Cancer Services £0.939 million (32%) (Previously per IMTP £0.939 million (36%)); Welsh Blood Service £0.569 million (20%) (IMTP £0.650 million (25%)); Research Development and Innovation £0.230 million (8%) (IMTP £0.230 million 9%); and Corporate Services £1.137 million (40%) (IMTP £0.787 million (30%)).

funding for the provision of services and does not maximise the use of resources. There are appropriate financial management structures and controls in place to mitigate this risk.

- 19 The Trust routinely monitors its in-year financial risks, such as, 2023-24 pay award, costs associated with its Velindre Cancer Centre site, energy costs, non-delivery of savings, and uncertainties around income it will receive from its commissioners. Following a 3.67% LTA uplift to health board allocations by the Welsh Government in 2024-25, the Trust's expectation was that that an equivalent 3.67% allocation would be passed to provider organisations by its commissioning health boards. During June 2024, it emerged that two health boards would not pass on the full 3.67% increase and a compromise position was reached with them, leading to a financial impact for the Trust¹⁰ against the financial plan originally set out for 2024-25. In response, the Trust took appropriate action by reviewing and revising its savings plan (**see paragraph 16**). However, this approach might not be sustainable in future, if more commissioners decide to pass on none or only some of the uplift.
- 20 Like all NHS bodies in Wales, the Trust applies a RAG (Red, Amber, Green) rating to its savings schemes to determine the risk of non-delivery. The 2024-25 Financial Plan identifies that 61% of its savings were 'green', 4% were 'amber', and 35% were 'red'. The Welsh Government requires 'amber' schemes to turn to 'green' schemes (ie a strong likelihood of delivery) within three months. As at Month 5 2024-25, the Trust reported only one 'amber' scheme which it expects to turn 'green' later in the year, indicating that it addresses savings risks quickly.
- 21 The Trust identifies 'red' savings schemes in its finance reports, which enables Board members to get a complete picture of the level of risk the Trust is holding in relation to the saving schemes it has identified and gauge the viability of schemes that could be drawn upon in the case of underperformance of existing 'green' and 'amber' schemes.

¹⁰ The Trust experienced reductions in recurrent discretionary and non-recurrent income of £318,000 and £483,000, respectively.

Audit methods

Exhibit 2 below sets out the methods we used to deliver this work. Our evidence is limited to the information drawn from the methods below.

| Element of audit approach | Description |
|---------------------------|---|
| Documents | We reviewed a range of documents including: <ul style="list-style-type: none">• 2024-25 IMTP and Financial Plan• Financial Reports to Board and the Quality, Safety, and Performance Committee• Trust Assurance Framework• Trust Risk Register |
| Interviews | We interviewed the following senior officers: <ul style="list-style-type: none">• Executive Director of Finance• Deputy Director of Finance• Head of Finance Business Partner• Head of Financial Planning and Reporting |



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