

Review of Cost Improvement Arrangements – Digital Health and Care Wales

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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 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 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 Digital Health and Care Wales (DHCW) 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 DHCW has proper arrangements in place to secure economy, efficiency, and effectiveness in its use of resources.
- 6 We undertook our work between February 2024 and May 2024. The methods we used to deliver our work are summarised in **Appendix 1**.

Key findings

- 7 Overall, we found that **DHCW has generally sound arrangements for identifying, delivering, and monitoring cost improvement opportunities. However, it needs to rapidly progress work on its 'Building our Futures' transformation programme to reduce its reliance on non-recurrent savings.**

- 8 The findings that support our overall conclusion are summarised below under the following headings:
- Identifying cost improvement opportunities
 - Delivering cost improvement opportunities
 - Monitoring and overseeing cost improvement opportunities

Identifying cost improvement opportunities

- 9 DHCW has a good understanding of its cost drivers which are clearly set out in its 2024-27 Integrated Medium Term Plan (IMTP). These include service growth, digital inflation, sustaining key digital products, energy costs, and cyber security improvements, as well as costs linked to the progress of product development choices, such as the transition to cloud.
- 10 DHCW's 2024-27 IMTP also acknowledges the increasingly challenging financial environment in which the organisation is operating and sets out an approach to support its medium to long-term organisational ambitions and financial sustainability. As part of this approach, work to develop a new product-focussed operating model¹ is underway. However, progress to date has been slow. DHCW, therefore, has incorporated this work into its newly established 'Building our Futures' transformation programme². A key deliverable of this programmes is the 'Finding More Value' workstream which aims to identify and deliver on strategic efficiency programmes across the organisation and help reduce reliance on non-recurrent savings. However, as recommended in our 2024 Structured Assessment report, DHCW will need to identify the expected savings it hopes to achieve from this approach.
- 11 DHCW receives some national benchmarking information from NHS Scotland and Health and Social Care Ireland to help understand its overall service cost. However, as the only digital services provider in NHS Wales, there are limited opportunities for benchmarking with other NHS Wales organisations to help inform its cost savings identification and selection arrangements. DHCW, therefore, completes internal benchmarking of its product and service costs to identify potential savings.
- 12 There are adequate arrangements to canvass, capture, and assess cost savings opportunities through DHCW's internal Financial Savings Group which develops proposals that are then reviewed by the Executive Directors, Management Board, and DHCW Board.

¹ The product-based operating model aims to generate efficiencies by improving workforce productivity, development pace, and performance.

² The 'Building our Future' transformation programme will support delivery of DHCW's strategic objectives by creating several projects and aligning key critical deliverables of its strategic missions 1 to 4 with the enablers of mission 5. The focus of the programme will be to enable DHCW to introduce its 'product-approach' operating model.

- 13 While DHCW's 2024-25 Financial Plan clearly sets out the organisation's savings requirement covering the three-year period of its 2024-27 IMTP, it does not provide a breakdown of how the current year's savings will be achieved. However, this information is provided in the routine finance reports received at Board meetings.

Delivery of cost improvement opportunities

- 14 As shown in **Exhibit 1**, DHCW has a good track record of delivering its overall savings targets. However, a high proportion of the savings delivered were non-recurrent in nature (56% in 2021-22, 54% in 2022-23, and 52% in 2023-24), mainly driven by an over-delivery of vacancy savings. As a result, DHCW's reliance on non-recurrent savings and growing cost pressures continue to present risks to its financial sustainability.

Exhibit 1 – DHCW's savings track-record between 2021 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)
2021-22	1.8	1.8	44%	1.0	0.8
2022-23	2.4	5.9	46%	4.8	1.1
2023-24	5.0	8.1	52%	5.9	2.2

Source: Welsh Government Monthly Monitoring Returns and DHCW Board Finance Reports

- 15 As part of its wider response to the significant financial pressures within the NHS during 2023-24, the Welsh Government asked DHCW to identify financial improvement actions to help improve the overall NHS Wales position. DHCW was able to rapidly complete a review of all non-committed pay and non-pay spending by directorate. DHCW identified £2.4 million of funding reductions across several areas through this review including energy, non-recruitment to corporate strategy areas, estates rationalisation, and slowing digital pipeline investments. These

reductions were assessed as mainly having a moderate impact on planned deliverables.

- 16 DHCW has clear arrangements in place for turning its high-level savings requirements into a deployable savings plan. The 2024-25 Savings Plan contains two elements – vacancy savings and a 3% non-pay efficiencies target. Delegated expenditure limits and savings targets are devolved to directorates at the end of Quarter 1 of each financial year, with the expectation that they develop recurrent savings plans to meet their respective targets.
- 17 DHCW has effective mechanisms for communicating its cost savings plans to staff. During 2023-24, both the Chief Executive Officer and Executive Director of Finance and Business Assurance provided a joint communications update to staff which set out how DHCW is supporting the NHS Wales financial position and expectation of directorates to identify potential savings opportunities. DHCW also uses general staff briefings, news updates and the staff and accountability report pages on its website to communicate key messages around cost savings and expenditure.

Monitoring and oversight of cost improvement opportunities

- 18 DHCW has reasonably effective arrangements for monitoring and overseeing savings delivery. Financial performance is reported directly to Board with routine updates providing a detailed overview of savings delivery. The Audit and Assurance Committee undertook a deep dive of financial sustainability in October 2023, with the paper setting out a clear overview of the key financial risks which provided additional assurance to the Board on its financial challenges. Overall, there is good Board-level scrutiny and challenge of DHCW's financial performance and savings delivery. However, should financial risks increase, the Board may wish to consider introducing a standing item at Audit and Assurance Committee meetings to discuss financial performance and risks on a more frequent basis.
- 19 DHCW routinely monitors its key financial risks. The Finance Team closely monitors savings delivery at directorate level and takes the necessary action to address risks as they arise. To date, this approach has been successful in ensuring both operational and organisational savings delivery. However, DHCW's reliance on non-recurrent vacancy savings (see **paragraph 14**) presents risks to the organisation's future financial sustainability should it recruit to these vacancies.
- 20 The complexity of the Digital Priorities Investment Funding (DPIF)³ model continues to present a risk to programme delivery which the organisation is seeking to mitigate through its Board Assurance Framework (BAF). In September

³ The Welsh Government Digital Priorities Investment Fund has been established to drive improvement across five themes: transforming digital services for patients, the public and professionals; investing in data and intelligent information; modernising devices; moving to cloud services; and cyber security and resilience.

2024, DHCW added two new finance-related red risks to the Corporate Risk Register in relation to sustainable digital services and the development funding model, and Connecting Care⁴ funding. These corporate risks are routinely monitored by the Audit and Assurance Committee, Programmes Delivery Committee, and the Board.

⁴ Connecting Care is a new programme established to replace the Welsh Community Care Information System as it reaches end of life. This is currently unfunded.

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	<p>We reviewed a range of documents including:</p> <ul style="list-style-type: none">• Board and Committees' agendas, papers, and minutes• Key organisational strategies and plans• Key risk management documents, including the Board Assurance Framework and Corporate Risk Register• Key reports and plans in relation to organisational finances, savings and cost improvements• Any relevant reports prepared by the Internal Audit service
Interviews	<p>We interviewed the following senior officers and Independent Members:</p> <ul style="list-style-type: none">• Board Secretary• Executive Director of Finance and Business Assurance• Associate Finance Manager• Head of Financial Services and Reporting
Observations	<ul style="list-style-type: none">• We observed Public Board and committee meetings



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