

HFMA introductory guide to NHS finance

Chapter 21: The NHS in Wales



Chapter 21. The NHS in Wales



Overview

This chapter describes the structure and governance as regards the provision of healthcare services in Wales.

Many of the principles underpinning NHS finance in Wales are like those in England – this chapter focuses on the key differences relating to finance and governance.

21.1 Introduction

Responsibility for health and social care services in Wales lies with the Senedd (the Welsh Parliament) and with the Welsh government.

Devolved responsibility for health was first established in 1999 with the creation of the Senedd Cymru (the Welsh Parliament; formerly known as the National Assembly for Wales) and Welsh Government. Following a referendum in March 2011, the Senedd was given the power to create laws where policy had been devolved (including for health). Devolved responsibilities include:

- education
- health
- local government
- transport
- planning
- economic development
- social services
- culture
- Welsh language
- environment
- agriculture and rural affairs.

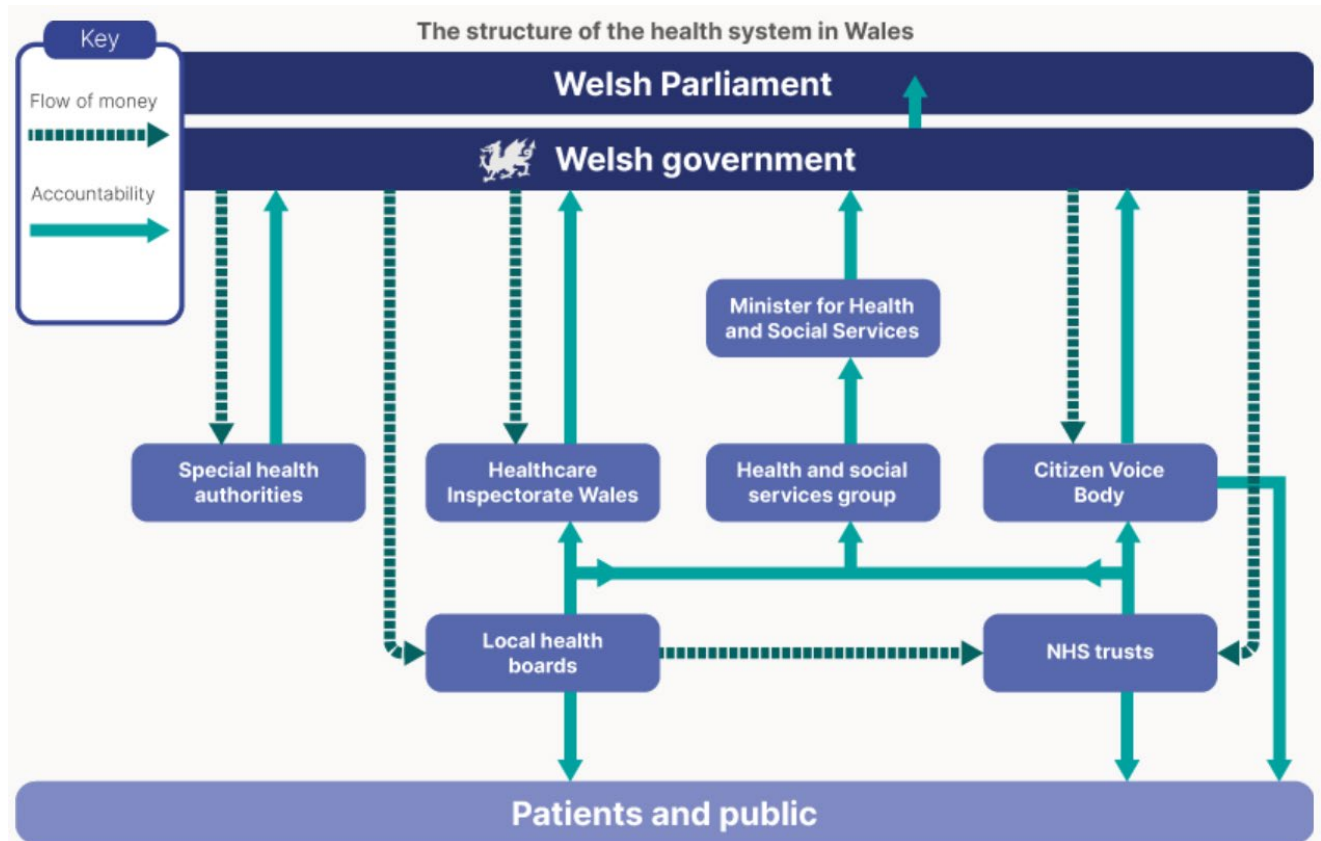
The Welsh government develops and implements policy in these areas and is accountable to the Senedd; it is led by the First Minister.

The First Minister is nominated by the Senedd, and formally appointed by the Crown. The First Minister will appoint a Cabinet of Welsh ministers for the development and implementation of government policy. Cabinet responsibility for the NHS in Wales rests with the Minister for Health and Social Services.

21.2 The structure

The diagram below shows the current structure of the NHS in Wales. Each of these areas has specific responsibilities, outlined in the sections below.

Structure of the NHS in Wales



Parliamentary and governmental arrangements

The Senedd (the Welsh Parliament)

The Senedd comprises 60 members and is the democratically elected body that represents the interests of Wales and its people. The Senedd makes laws for Wales and holds the Welsh Government to account.

The Welsh government

The Welsh government formulates health policy and sets out the strategic planning and delivery framework for NHS Wales and its partner bodies.

The Welsh government is usually established by the party, or parties, who hold most seats in the Parliament, and consists of Welsh ministers, deputy ministers and the Counsel General. The Welsh government is headed by the First Minister, and its role is to:

- make decisions regarding the devolved areas for the whole of Wales
- develop and implement policy

- propose Welsh laws and make statutory instruments.

The arrangements provided for in the Government of Wales Act 2006³⁸⁴ created a formal legal separation between the Welsh government and the Senedd.

Welsh ministers

The Minister for Health and Social Services is a cabinet position in the Welsh government. The Minister is responsible (and accountable to the Welsh Parliament) for the exercise of all the powers in the health and social services portfolio, including:

- health and social care strategy
- NHS delivery and performance, including financial management
- public health
- general practice management.

Health and Social Services Group

The Health and Social Services Group (HSSG) is the Welsh government department responsible for the NHS and social care in Wales. The HSSG is headed by the Director General of Health and Social Services, who is also the Chief Executive of NHS Wales. The HSSG supports ministers, and the Director General, in discharging their responsibilities. The Chief Medical Officer for Wales is also a member of the HSSG.

The HSSG advises the Welsh government on policies and strategies for health and social care in Wales. This includes contributing to relevant legislation and providing funding for the NHS and other related bodies.

National Delivery Group

This group is responsible for overseeing the development and delivery of NHS services across Wales, and for planning and performance management of the NHS on behalf of Welsh ministers. This is enacted in accordance with the directions set by ministers. The group is chaired by the Director General for Health and Social Services/ Chief Executive of NHS Wales (the Director General).

The Director General is responsible for providing ministers with policy advice and exercising strategic leadership and management of NHS Wales.

NHS Wales

NHS Wales

NHS Wales³⁸⁵ is one service made up of several organisations (described in further detail below). Healthcare in Wales is delivered through a variety of providers, ranging from local health boards (LHBs) and NHS trusts to community pharmacies and opticians.

NHS Wales comprises seven LHBs, three NHS trusts and two special health authorities. The LHBs and trusts are accountable to the Director General of Health and Social Services and NHS Wales Chief Executive (the Director General) through their chief executives. The Director General is in turn accountable to Ministers.

³⁸⁴ UK Government, *Government of Wales Act 2006*

³⁸⁵ NHS Wales, *About us*, 2024

NHS Wales executive

A decision was made in 2018 and outlined in *A healthier Wales: our plan for health and social care*³⁸⁶ (document updated 2021), to establish a national executive however, development was paused due to the Covid-19 pandemic. In May 2022 a *Written statement: update on setting up an NHS Executive for Wales*³⁸⁷ was issued by the Minister for Health and Social Services setting out the aims of the NHS Executive.

To support and enable the continuing transformation of clinical services, the NHS Executive will:

- strengthen national leadership and support quality improvement
- provide more central direction, ensuring a consistent and equitable approach to national and regional planning based on outcomes
- enable stronger performance management arrangements, including capacity to challenge and support organisations that are not operating as expected.

The NHS Wales Executive³⁸⁸ become operational on 1 April 2023 with the overall aim to drive improvements in the quality and safety of care, and to achieve better and fairer health outcomes.

The NHS Executive brings together four key functions:

- Delivery Unit – with core values of quality and safety, improvement, prevention removing inequality, partnerships and staff development.
- Finance Delivery Unit – financial management.
- Improvement Cymru – with an aim to support best quality healthcare that can be accessed by all and is available in the right place and at the right time.
- Health Collaborative – facilitates engagement and collaboration to support improved working across organisational boundaries.

Local health boards (LHBs)

The seven LHBs are responsible for planning, commissioning and providing local health services to address local needs. Responsibilities include:

- planning, designing, developing and securing delivery of primary, community and secondary care services
- specialised and tertiary services for their areas, to meet identified local needs within the national policy and standards framework set out by the Minister.

The LHBs must adhere to the standards of good governance set for the NHS in Wales, encapsulated in the governance e-manual³⁸⁹. These are based on the Welsh government's citizen centred governance principles³⁹⁰.

Under the provisions of the Social Services and Well-being (Wales) Act 2014³⁹¹, local authorities and LHBs can pool funding to jointly commission care services within their areas. The Welsh ministers have the power to make regulations requiring local authorities and LHBs to pool budgets.

In addition, across the seven LHBs are two joint committees. These cover specialised services and ambulance services:

³⁸⁶ Welsh Government, *A healthier Wales: our plan for health and social care*, October 2021

³⁸⁷ Welsh Government, *Written Statement: Update on setting up an NHS Executive for Wales*, May 2022

³⁸⁸ NHS Wales Executive, *About us*, April 2023

³⁸⁹ NHS Wales, *Governance e-manual*, 2024

³⁹⁰ Welsh Government, *The good governance guide for NHS Wales Boards*, 2017

³⁹¹ UK Government, *Social Services and Well-being (Wales) Act 2014*

- the Welsh Health Specialised Services Committee (WHSSC) - specialised services are planned and funded jointly by the LHBs through this committee.

The WHSSC exercises its responsibilities on behalf of the seven LHBs. Established in 2010, it is not a statutory body and is hosted by the Cwm Taf Morgannwg University Health Board. Each LHB is a member of the committee.

- the Emergency Ambulance Services Committee (EASC) - the EASC is responsible for planning and ensuring there are sufficient ambulance services for the people of Wales.

Each LHB is a member of the committee and they collaboratively commission both emergency and non-emergency services across Wales.

NHS trusts

There are three NHS trusts in Wales:

- Welsh Ambulance Services NHS Trust provides emergency and non-emergency ambulance services and manages NHS Direct in Wales
- Velindre University NHS Trust provides specialised cancer services for South East Wales, as well as hosting the Welsh Blood Service
- Public Health Wales NHS Trust is the public health agency for Wales.

Special health authorities

There are two special health authorities in Wales:

Health Education and Improvement Wales (HEIW)

HEIW leads on education, training and development for the healthcare workforce across Wales. Its strategic objectives are:

- to lead the planning, development and well-being of a competent, sustainable and flexible workforce to support the delivery of *A healthier Wales: our plan for health and social care*³⁹²
- to improve the quality and accessibility of education and training for all healthcare staff ensuring that it meets future needs
- to work with partners to improve collective leadership capacity in the NHS
- to develop the workforce to support the delivery of safety and quality
- to be an exemplar employer and a great place to work
- to be recognised as an excellent partner, influencer and leader.

Digital Health and Care Wales (DHCW)

DHCW was established as a special health authority within NHS Wales. Its role is to:

- support frontline staff with modern systems and secure access to information about their patients, available wherever they want to work
- deliver new digital solutions to support care for cancer patients, to help nurses, to modernise critical care units, to update hospital pharmacy, prescribing and community care
- use data to provide insight and improve how health and care services are delivered and accessed by patients

³⁹² Welsh Government, *A Healthier Wales: our Plan for Health and Social Care*, 2021

- help Welsh people manage their own health and recovery from illness by putting health services in their pocket. Give people access to their own digital health record and apps from any device making it easier to connect with health and care services
- combat cyber-crime through a dedicated cyber resilience unit
- use digital standards to allow for faster development and delivery of digital services
- protect valuable data assets by modernising data storage and adopting a 'cloud-first' policy.

Partnership bodies

Public Service Boards (PSBs)

Public service boards are partnerships across public service agencies working together to improve local services. The members of each PSB are the local authority, the LHB, the local fire and rescue authority and the Natural Resources Body for Wales, but they can involve other organisations that would have an interest in the well-being for that area.

Every local council area in Wales is required to have a PSB (established under the Well-being of Future Generations (Wales) Act 2015³⁹³). The Act is about improving the social, economic, environmental and cultural well-being of Wales and established seven well-being goals:

- a prosperous Wales
- a resilient Wales
- a healthier Wales
- a more equal Wales
- a Wales of cohesive communities
- a Wales of vibrant culture and thriving Welsh language
- a globally responsible Wales.

The aim is to improve the economic, social, environmental and cultural well-being for the Welsh population. Each PSB has responsibility for:

- assessing the state of economic, social, environmental and cultural well-being in its area
- setting objectives that are designed to maximise the PSB's contribution to the well-being goals.

Each PSB is required to prepare a plan setting out the steps it will take to meet its objectives.

The citizen voice body

The citizen voice body (CVB)³⁹⁴ came into being in April 2023 and replaced the previous seven community health councils.

The CVB is independent of government, the NHS and local authorities and with a responsibility to:

- listen to the views of the public
 - help ensure that the people of Wales are part of the design and improvement of services; that their experiences are built into new models of care and influence policies and plans

³⁹³ UK Government, *Well-being of Future Generations (Wales) Act 2015*

³⁹⁴ Welsh Government, *Citizen voice body for health and social care, what we do*, June 2023

- help build greater connection between health and social care providers, individuals and communities.

Regional Partnership Boards (RPBs)

Regional partnership boards (RPBs) were established in April 2016. They operate at a regional level to support the delivery of social services and work in close collaboration with the health sector. RPBs are coterminous with each health board and local authority and implement joint area plans and pool budgets for the benefit of the local population.

RPBs - alongside PSBs, are part of the Welsh government's ambition to develop a 'wellness system'. The aim is to provide a seamless whole system approach to health and social care that is designed around the needs and preferences of individuals.

Other health agencies

The Healthcare Inspectorate Wales (HIW) and the Care Inspectorate Wales (CIW)

The HIW is responsible for the inspection and regulation of Welsh NHS services (including Welsh NHS funded care) and independent healthcare services in Wales. The CIW is responsible for the inspection and regulation of social and non-health care for adults and children in Wales.

To maintain their independence, both organisations are managed within the Welsh Government but outside the HSSG.

As part of their overall responsibility to improve the safety and quality of health and care services across Wales, and to ensure the sharing of good practice, the HIW and CIW have agreed several protocols, concordats and memoranda setting out how they will work together where there is a cross-over in their work.

Shared services

The NHS Wales Shared Services Partnership (NWSSP) is an independent organisation, owned and directed by NHS Wales. It supports NHS Wales through the provision of a range of back-office functions and services including internal audit, procurement, counter-fraud services, employment services (including payroll and payment of expenses).

21.3 How the NHS in Wales is financed

NHS Wales is funded by the Welsh government that itself receives funds voted to it by the UK Parliament. The overall level of funding received is based on a population driven mathematical formula known as the Barnett formula. In addition, the principle of comparability is applied to these monies: any changes to the funding provided for the NHS in England are matched by an increase/decrease in the Welsh government's funding.

The *Autumn budget and spending review*³⁹⁵ set out the total resource limits to 2024/25. These were updated in the November 2023 *Autumn statement*³⁹⁶ which resulted in the following pattern of allocations of revenue and capital Departmental Expenditure Limits (DEL) to government departments:

³⁹⁵ HM Treasury, *Autumn budget and spending review 2021*, updated February 2023

³⁹⁶ HM Treasury, *Autumn statement 2023*, November 2023

Departmental Expenditure Limits (DEL)

	Outturn 2022/23 £bn	Plan 2023/24 £bn	Plan 2024/25 £bn
Revenue DEL (excluding depreciation)	15.4	16.1	15.9
Capital DEL	2.8	3.1	2.9

Source: Tabled 2.1 and 2.2, Autumn statement 2023, HM Treasury

It is for the Welsh government to determine how the funding is applied, and this is done through an annual budget planning round that allocates funding to the sectors for which the Welsh government has responsibility. The budget is formally presented to the Parliament for approval in an annual budget motion. The 2023/24 budget was published in February 2023: *Final budget 2023 to 2024*³⁹⁷.

The health and social services budget is the largest expenditure group in the Welsh government's budget and in 2023/24 accounts for approximately 44% of the total Welsh budget.

The allocation for health and social services comprises:

- a revenue budget for current expenditure (i.e., the day-to-day money for salaries and consumables). In 2023/24, this amounts to £10.4bn
- a capital budget for expenditure on larger, long life items such as land and buildings. In 2023/24, this amounts to £0.4bn
- a £0.2bn 2023/24 annually managed expenditure (AME) allocation. AME allocations are for expenditure that is considered volatile and is not part of usual day-to-day spend; for example - provisions.

The Welsh government holds back a 'top slice' for centrally funded initiatives or services (such as the costs of training new doctors and nurses). It then decides how to share the rest of the allocations to NHS organisations.

Revenue allocation

Each LHB has a unified allocation to fund healthcare for its population³⁹⁸. The allocation for hospital and community health services is based on resident populations. Allocations for general medical services and prescribing are based on registered populations, and pharmacy and dental contract allocations are based on the provision of services.

The distribution of funding is largely based on historical patterns and follows a needs-based allocation formula that was developed by the late Professor Townsend in 2001. The formula is based on the population covered by the LHB area adjusted to take account of:

- the health needs of the population
- unavoidable geographical variations in the cost of services.

The Welsh Health Specialised Services Committee (WHSSC) and the Emergency Ambulance Services Committee (EASC) are funded from LHB allocations.

³⁹⁷ Welsh Government, *Final budget 2023 to 2024*, February 2023

³⁹⁸ Welsh Government, *Health board allocations for 2023 to 2024*, February 2023

Velindre University NHS Trust receives its funding through healthcare agreements with the LHBs and via WHSSC.

The Public Health Wales NHS Trust receives most of its funding directly from the Welsh government.

As well as the Welsh government revenue allocation, healthcare agreements with other LHBs and cross border income, LHBs may also receive funding from:

- the leasing of buildings
- charges to staff, visitors or patients - for example, catering or private patient facilities
- the Welsh Government for specific initiatives, teaching and research and development
- grants from government bodies.

Treatment for some Welsh residents, particularly for specialised services and patients living in North Wales and Powys, is provided by English NHS providers. These treatments are funded through contracts with the English provider. Where applicable, payment is made in line with the payment mechanism (see chapter 16).

Capital allocation

In 2023/24 the capital budget for health is £378m, which accounts for around 9% of the total budget. The Welsh government allocates these capital resources to LHBs and NHS trusts. There are 2 types of capital allocations:

- discretionary capital to cover routine equipment replacement, IT developments and small-scale building works
- Wales infrastructure investment plan for specific medium to large scale schemes beyond the scope of discretionary capital.

LHBs and trusts are required to submit business cases for funding for major capital schemes using the five-case model, in line with the *NHS Wales infrastructure investment guidance*³⁹⁹. The HSSG has established an infrastructure investment board (IIB) to provide support to LHBs and trusts in the development of business cases, and to scrutinise cases at all stages of their development.

All NHS infrastructure investment proposals must be prioritised at a local level and included in the integrated medium-term plans (IMTP) of NHS organisations.

NHS trusts are allowed to retain sale proceeds from the disposal of assets up to a maximum of £500,000.

As with other parts of the public sector, the Welsh government and NHS Wales are not able to move (vire) funds between capital and revenue allocations.

The private finance initiative (PFI) is no longer used in Wales although a small number of schemes still exist.

³⁹⁹ NHS Wales, *NHS Wales infrastructure investment guidance*, 2018

21.4 How the NHS in Wales demonstrates financial accountability

Statutory financial duties

Statutory financial duties have been established that encompass both revenue and capital expenditure.

The National Health Services Finance (Wales) Act 2014⁴⁰⁰ established the statutory financial duties of LHBs as:

- a resource limit (break-even) duty - to ensure, across a three-year rolling period, that aggregate expenditure does not exceed aggregate funding
- a planning duty – to prepare an integrated medium-term plan (IMTP) that complies with the resource limit duty, and for the plan to be submitted to and approved by, Welsh ministers.

The NHS (Wales) Act 2006⁴⁰¹, Schedule 4 Paragraph 2 sets down the financial duties for trusts, and these were confirmed under Welsh Health Circular WHC/2016/054 (Statutory Financial Duties of Local Health Boards and NHS Trusts)⁴⁰² being:

- a breakeven duty - to ensure that revenue is not less than sufficient to meet outgoings properly chargeable to the revenue account in respect of each rolling three-year accounting period
- a planning duty – to prepare a plan that is compliant with the breakeven duty, and for that plan to be submitted to and approved by the Welsh Ministers.

In summary, the financial performance of NHS organisations in Wales is assessed using the following targets:

- three-year break-even performance for NHS trusts or resource limit for LHBs - the three-year rolling break-even duty
- external financing limit for NHS trusts: the difference between what a trust plans to spend on capital in a year and the level of funding that it has available internally
- preparation of a three-year IMTP that is approved by Welsh ministers
- capital resource limits for LHBs and NHS trusts.

In 2022/23 six of the seven LHBs failed to meet their revenue financial duty to break-even over a three-year period. None of the NHS trusts were in breach of this duty⁴⁰³.

As regards the planning duty, this was paused in 2021/22 due to the Covid-19 pandemic; all organisations were deemed to have met this duty.

One NHS body, the Betsi Cadwaladr University Health Board, received a qualified 'true and fair' opinion, because of significant uncertainty in the opening balances and whether expenditure for 2022/23 was materially understated⁴⁰⁴.

⁴⁰⁰ UK Government, [National Health Services Finance \(Wales\) Act 2014](#)

⁴⁰¹ UK Government, [National Health Service \(Wales\) Act 2006](#)

⁴⁰² Welsh Government, [Welsh Health Circular WHC/2016/054 \(Statutory Financial Duties of Local Health Boards and NHS Trusts\)](#), December 2016

⁴⁰³ [Audit Wales, NHS Wales finances data too - up to March 2023, September 2023](#)

⁴⁰⁴ [Betsi Cadwaladr University Health Board, Annual report and accounts 2022/23, August 2023](#)

Integrated medium term plans (IMTP)

As indicated above, LHBs and trusts are directed by the Welsh government to produce three-year IMTPs. Directions and guidance for the completion of IMTPs, *The Planning Framework (2022 – 2025)*⁴⁰⁵, was published in November 2021.

The IMTP is a plan that sets out the organisation's strategy for complying with its financial duties while improving:

- the health of the people for whom it is responsible
- the provision of healthcare to such people.

While developing the IMTP, wider statutory duties must be taken into account - for example, the requirement to undertake a joint assessment of the local population's care and support needs under the Social Services and Well-being (Wales) Act 2014⁴⁰⁶ and to plan services jointly with other public bodies under the Well-being of Future Generations (Wales) Act 2015⁴⁰⁷.

LHBs are also required to submit delivery plans for specific services - for example, stroke and heart disease to outline actions to achieve nationally agreed performance measures and outcomes.

Statutory accounts

The format and presentation of statutory accounts are prescribed by NHS Wales and are based on the guidance in *HM Treasury's Financial reporting manual*⁴⁰⁸. The accounts must be adopted formally by the board and presented, as part of the overall annual report of the organisation, at the annual general meeting by 30 September following the financial year end on 31 March.

The director of finance is responsible for preparing the accounts.

The individual accounts of LHBs and NHS trusts are summarised into two consolidated NHS accounts that are then subject to independent audit and scrutiny by the Wales Audit Office.

Monthly financial monitoring

Each NHS organisation is also required to submit monthly monitoring statements reporting on actual financial performance and forecast outturn. This is supplemented by a detailed commentary from the director of finance covering assumptions and risks behind the reported position. The overall position is monitored by the Welsh Government. The Minister will occasionally make a statement to the Parliament on the financial position of the NHS in Wales.

Audit

Each NHS organisation is responsible for providing an effective internal audit service to meet public sector internal audit standards (PSIAS). All NHS bodies are required to submit a governance statement as part of their annual accounts. Accountable officers (i.e., chief executives) are required to sign the statement on behalf of the board.

The annual accounts are audited by the Wales Audit Office, and the Auditor General for Wales⁴⁰⁹ is the statutory auditor for most of the Welsh public sector.

⁴⁰⁵ Welsh Government, *NHS Wales, Planning Framework, 2022 - 2025*, November 2021

⁴⁰⁶ UK Government, *Social Services and Well-being (Wales) Act, 2014*

⁴⁰⁷ UK Government, *Well-being of Future Generations (Wales) Act 2015*

⁴⁰⁸ HM Treasury, *The government financial reporting manual: 2023-24*, December 2023

⁴⁰⁹ Audit Wales, *Auditor General for Wales, 2023*

21.5 Health and social care strategy in Wales

The regulation and performance management⁴¹⁰ of the NHS in Wales is undertaken in the context of the Welsh government's health and social care strategy, and so is dependent on the political composition of the Welsh Government and the policies in place.

The strategy will develop over time. Key elements of the current overarching health and social care strategies are summarised below.

In February 2016, the Welsh government and NHS Wales jointly published *Prudent healthcare: securing health and well-being for future generations*⁴¹¹ to support national action. The stated concept of 'prudent healthcare' is to ensure that the Welsh NHS is always adding value, is contributing to improved outcomes, and provides a sustainable service. To this end, the following principles are to be applied:

- achieve health and well-being with the public, patients, and professionals as equal partners through co-production
- care for those with the greatest health need first, making the most effective use of all skills and resources
- do only what is needed, no more, no less; and do no harm
- reduce inappropriate variation using evidence-based practices consistently and transparently.

In 2018 (updated in 2021) the Welsh government published *A healthier Wales: our plan for health and social care*⁴¹² setting out how the NHS and social care should work together to:

- support people to stay well
- develop a person-centred approach to care
- provide more services outside of hospitals
- make better use of technology.

21.6 How the NHS in Wales is regulated

The key regulatory bodies in Wales are the Healthcare Inspectorate Wales (HIW) and the Care Inspectorate Wales (CIW), as described earlier.

21.7 Health and care standards

The health and care standards⁴¹³ establish a common framework of standards that to support NHS and partner bodies in the delivery of healthcare services. The standards set out the high-levels of service that people in Wales should expect when they access health services.

They comprise six domains of quality: safe, timely, effective, efficient, equitable and person centred. The model identifies six quality enablers: leadership, workforce, culture, information, learning, improvement & research and whole systems approach. The domains and enablers are described in the diagram below.

⁴¹⁰ Welsh Government, *NHS Wales performance framework 2023 to 2024*, June 2023

⁴¹¹ Welsh Government, *Prudent healthcare: securing health and well-being for future generations*, 2019

⁴¹² Welsh Government, *A healthier Wales: our plan for health and social care*, October 2021

⁴¹³ Welsh Government, *Health and care quality standards 2023*, May 2023



21.8 How NHS organisations in Wales are structured and run

For the NHS in Wales, governance is defined as ‘a system of accountability to citizens, service users, stakeholders and the wider community, within which healthcare organisations work, take decisions and lead their people to achieve their objectives.’

As in England, all NHS organisations have a board that is the pre-eminent governing body and has some functions ‘reserved’ to it (including financial stewardship, strategy and appointing senior executives). However, they are also required to establish (as a minimum) several committees to cover the following aspects of board business:

- quality and safety
- audit
- information governance
- charitable funds
- remuneration and terms of service
- Mental Health Act requirements.

As in England, NHS bodies must have an accountable officer (the chief executive) who is accountable to the Welsh Government for the proper stewardship of public money and assets and for the organisation’s performance. Chief executives are also accountable to their own board for meeting their objectives and the day-to-day running of the organisation.

21.9 Commissioning

LHBs are responsible for deciding how to use their funding to meet the health needs of their population including hospital, community, GP, and other primary care services. LHBs also fund

services provided by the private and independent sectors although the Welsh Government is committed to eliminating the use of private sector hospitals.

Patient flows between LHBs are funded through healthcare agreements between the boards. These are currently based on historic costs.

Although LHBs have significant discretion in relation to how they use their funding, they must meet the priorities set out in the *NHS delivery framework* issued by the Welsh Government, and they must develop their plans together with local authorities.

21.10 Costing

Most of the patient activity in Wales is covered by patient level costing. This requires costs to be classified in a specific way and using a defined process to work out the cost of treating an individual patient.

NHS organisations submit annual cost returns that capture total cost by specialty and total cost by healthcare resource group (HRG). LHBs are also required to analyse costs over the 23 programme budget categories, based on version 10 of the *International classification of diseases*⁴¹⁴.

The development of costing and benchmarking in NHS Wales is overseen by the strategic financial intelligence group, reporting into the efficiency framework - a sub-group of the NHS Wales directors of finance group.

Further details regarding NHS costing are provided in chapter 17 of this guide.

21.11 Charitable funds

Charitable funds are held by NHS trusts and LHBs in Wales under the same legislative framework as exists in England. All funds are registered with the Charity Commission and accounts must be submitted to the Charity Commission.

Further details regarding Charitable Funds are provided in chapter 19 of this guide.



Key learning points

- Responsibility for health and social care services in Wales lies with the Senedd (the Welsh Parliament) and with the Welsh government.
- Commissioning and provision of health services is through local health boards (LHBs). Hospital services are managed by the LHBs.
- NHS Wales is funded by the Welsh government which itself receives funds voted to it by the UK Parliament. It is based on a population driven mathematical formula known as the Barnett Formula that has been in use since 1979.
- Accounts are produced based on guidance in HM Treasury's *Financial reporting manual (FReM)* following international financial reporting standards (IFRS).
- NHS Wales bodies follow governance arrangements like English NHS organisations, led by a board.

⁴¹⁴ World Health Organisation, *International Statistical Classification of Diseases and Related Health Problems (ICD-10)*, 2019

Additional HFMA resources

The HFMA maintains a directory of resources which provides links to other HFMA outputs such as briefings and webinars across a range of subjects, including a section dedicated to NHS charitable funds. It also highlights online learning courses that are available. [The directory of resources can be found here.](#)