



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

Parc Cathays  
Caerdydd CF10 3NQ

Cathays Park  
Cardiff CF10 3NQ

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**Status: FOR ACTION**

**Title: An Incentives and Sanctions Framework for NHS Wales for 2007/2008**

**For Action by:** NHS Trust, Local Health Board Chief  
Executives and Health Commission Wales

**Action required:**  
See Sections: 4 - 9

**For Information to:** See attached list

**Sender:** John Hill-Tout Director, Director, Directorate of Performance and Operations

**National Assembly contact(s) :** See Section 11 of this Circular

**Enclosure(s):**

## **1. SUMMARY**

- 1.1 The delivery of more effective and efficient services is at the heart of achieving world class healthcare by 2015; the vision of the Welsh Assembly Government as set out in *Designed for Life*.
- 1.2 The NHS Performance Improvement Framework, introduced in 2003, has provided the structure for the continued improvement of performance and the delivery of the national priorities in Wales. The Performance Improvement Framework will be strengthened through the introduction of an incentives and sanctions component.
- 1.3 Incentives and sanctions will be used to reward high performing organisations and to take corrective action against poor performing organisations. This circular sets out the incentives and sanctions framework for 2007/2008 and details how it will be used within NHS Wales.

## **2. BACKGROUND AND CONTEXT**

- 2.1 The achievement of world class healthcare by 2015 is the vision of the Welsh Assembly Government. *Designed for Life* identified ten enablers which are critical in achieving the delivery of services that are of high quality and secures the most effective outcome for patients.
- 2.2 Performance management and improvement is one of the ten enablers to secure accelerated change and reform in Wales. The importance of effective performance management is identified in the *Wanless Report 'The Review of Health and Social Care in Wales'* (2003) which stated that a stronger set of incentives and sanctions was a priority if significant improvements were to be achieved in service delivery.
- 2.3 *Wanless* further stated that the performance improvement culture required further development in Wales, premised upon rewarding success and not failure, with the provision of greater freedoms for organisations that consistently perform well. The report concluded that the implementation of a more rigorous performance improvement framework in Wales was a key priority in delivering services that achieved the level of quality expected by its citizens.
- 2.4 In acknowledgement of this, the Welsh Assembly Government introduced the NHS Performance Improvement Framework in 2003, which provides a structure for the planning, management and improvement of performance in Wales. The framework is constantly evolving and has been supplemented by the production of a series of complementary circulars within the performance improvement series. This circular is the fourth in the series and introduces a further component to the NHS Performance Improvement Framework: an incentives and sanctions framework.
- 2.5 The investment made by organisations in performance management and improvement has delivered a number of significant improvements in Wales over the last few years. The use of incentives and sanctions will provide another tool through which this improvement can be continued and accelerated.

- 2.6 The introduction of an incentives and sanctions framework in Wales, as part of the overall NHS Performance Improvement Framework, will assist in the further development of a culture that rewards high-performing organisations with increased flexibility and autonomy and takes appropriate action against those who perform poorly.
- 2.7 As this is the first year of implementation of an incentives and sanctions framework there will inevitably be a period of learning for the Welsh Assembly Government and NHS organisations in Wales in its application and management. The framework will be strengthened for 2008/2009 as a result of this learning and the feedback from organisations based upon the experience gained in 2007/2008.

### **3. AN INCENTIVES AND SANCTIONS FRAMEWORK FOR NHS WALES**

#### **PRINCIPLES**

- 3.1 The incentives and sanctions framework is based upon a number of principles. As such the framework will:
- be fair and equitable in its application;
  - be open and transparent to the citizens of Wales with the publication of results in the public domain;
  - not be detrimental to the quality of services or penalise the citizens in areas of poor or declining performance;
  - judge performance at both an organisational and health community level;
  - only reward high performance and take decisive action against poor performance;
  - only be applied with the objective of improving health outputs and outcomes for the citizens served by the organisation and/or health community;
  - be based on a small number of core targets which are clearly defined and are measurable; and
  - score organisations against the set criteria.

### **4. AN OVERVIEW OF THE INCENTIVES AND SANCTIONS FRAMEWORK**

- 4.1 All NHS organisations are required to achieve the national requirements set out in the *NHS Wales: Annual Operating Framework – WHC (2006) 087*. For 2007/2008, the incentives and sanctions framework is based upon the achievement of a specific number of targets and requirements contained within the Annual Operating Framework. This will change in future years where the wider requirements of the Healthcare Standards for Wales and other Ministerial priorities will be included.

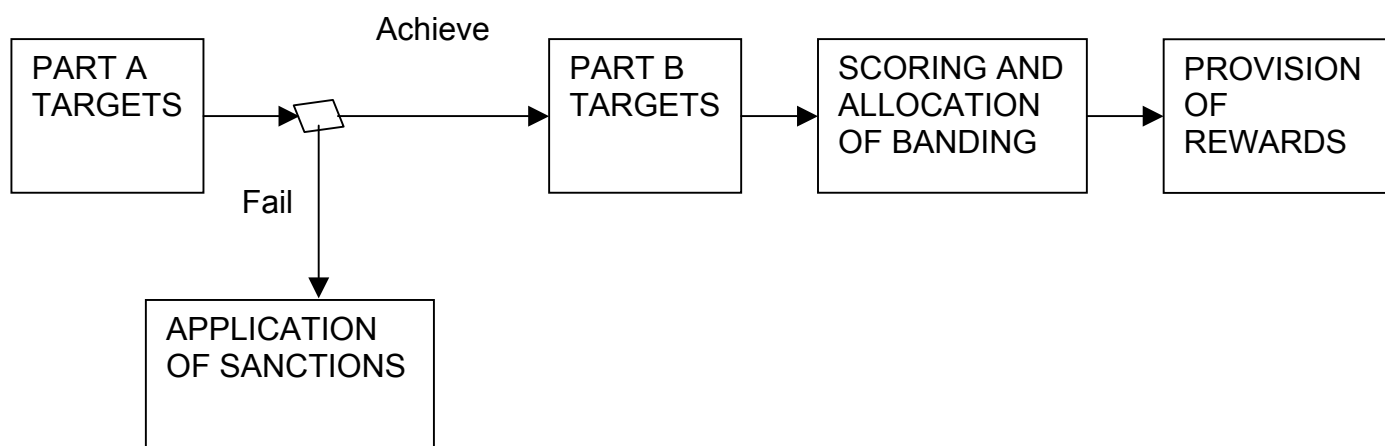
- 4.2 The framework requires organisations to achieve a number of targets, which are divided into two parts:

PART A: Core targets  
PART B: Ministerial priority targets

All of the targets set out in Part A and B of the framework are taken from existing national requirements placed upon the NHS in Wales as set out in the *NHS Wales: Annual Operating Framework*: WHC (2006) 087 and *Improving Efficiency and Productivity of NHS Wales*: WHC (2006) 079.

- 4.3 For the purposes of the incentives and sanctions framework all organisations must achieve the Part A targets which represent the core minimum performance standard for 2007/2008. Any organisation that does not achieve all of the Part A targets will automatically face a range of sanctions, which are set out later in this circular. Any organisation that does not achieve all the Part A targets will not be eligible for any form of reward irrespective of their performance in any of the targets set out in Part B of the framework.
- 4.4 All organisations that are successful in achieving all of the Part A targets are eligible to be considered for reward under Part B of the framework. The targets set out in Part B are a Ministerial priority and organisations will be able to achieve rewards for their delivery.
- 4.5 Each of the targets carries a score and an organisation will accumulate points for each target it is successful in delivering. The points achieved by each organisation in Part A and Part B will be aggregated at the end of the financial year to give an overall score for the organisation.
- 4.6 The final score will place the organisation in one of four performance bands (Band 1 to Band 4). Each of these separate bands carries a different type of outcome, as outlined in Section 6 of this circular. The three courses available are the provision of rewards (Bands 1 – 2), required support and assistance (Band 3), and the application of a range of sanctions (Band 4).
- 4.7 The process is illustrated in the flowchart set out in Fig. 1 on the following page.

**Fig.1 Process flow of the incentives and sanctions framework**



4.8 Local Health Boards and NHS Trusts, working alongside various partners, share the responsibility for delivering high quality services that achieve the national targets and standards within their health community. However, the performance data available for a number of services is not disaggregated at a Local Health Board level. In the context of this circular this applies to:

- (i). Accident and Emergency 4 hours waiting time target (SaFF target 5); and
- (ii). Cancelled Operations (Core Measure 14) set out in WHC (2006) 079.

4.9 In this area, the performance of a Local Health Board will be determined by its relationship as a host commissioner with an NHS Trust in Wales. Therefore, the performance data provided by the appropriate NHS Trust provider will represent the performance of the Local Health Board.

4.10 The host commissioner/provider relationships used to judge performance in these areas are set out in Annex A.

4.11 The determination of Local Health Board performance against the cancer targets (SaFF target 9 (i) and (ii)) will be undertaken using the quarter 4 data (January – March 2008) which will be disaggregated by the Welsh Assembly Government to establish Local Health Board performance for 2007/2008.

4.12 The determination of Local Health Board performance against the average length of stay (Core Measure 1) and daycase procedures (Core Measure 3), set out in WHC (2006) 079, will be undertaken by the Welsh Assembly Government by disaggregating year-end data.

## 5. EXCLUSIONS FROM THE FRAMEWORK

5.1 The Welsh Ambulance Services Trust and Health Commission Wales are excluded from the incentives and sanctions framework in 2007/2008 given the specialist nature of the services they provide. It is intended that both organisations will be included in a revised framework for 2008/2009.

## 6. THE FRAMEWORK IN DETAIL

### TARGETS AND APPLICATION OF SCORES FOR 2007/2008

6.1 The Part A targets are considered to be those which are core business for the NHS in Wales. Therefore, all organisations must achieve all of the targets in Part A in order to be eligible for the rewards offered in Part B.

6.2 An organisation will be awarded a score of 1 for achieving the target and the aggregate score will be used to determine an organisation's performance in delivering the targets and the subsequent application of a reward, required assistance support or sanction.

6.3 The Part A and Part B targets are set out in Tables 1 and 2.

**Table 1. Part A targets and scores for 2007/2008**

Part	Source Document	SaFF Target No.	Target	Applies to		Score
				Trust	LHB	
A	<i>Annual Operating Framework 2007/2008: WHC (2006) 087</i>	1	To reduce the maximum waiting time for inpatient or daycase treatment to 22 weeks	✓	✓	1
		2	To reduce the maximum waiting time for first outpatient appointment to 22 weeks	✓	✓	1
		3	To reduce the maximum waiting time for access to specified diagnostic services to 14 weeks	✓	✓	1
		4	To reduce the maximum waiting time for access to specified therapy services to 24 weeks	✓	✓	1

A	<i>Annual Operating Framework 2007/2008: WHC (2006) 087</i>	5	95% of all new patients (including paediatrics) to spend less than 4 hours in a major A&E department from arrival until admission, transfer or discharge. No one should wait longer than 8 hours for admission, transfer or discharge *	✓	✓	1
	<i>Annual Operating Framework 2007/2008: WHC (2006) 087</i>	9 (i)	Patients referred by their GP with urgent suspected cancer and subsequently diagnosed as such by a Cancer Specialist will start definitive treatment within 2 months of receipt of referral.	✓	✓	1
		9 (ii)	Patients not referred as urgent suspected cancer but subsequently diagnosed with cancer will start definitive treatment within 1 month of diagnosis, regardless of the referral route.  ** <i>Tolerance levels of 98% and 95%</i>	✓	✓	1
			The achievement of financial balance (i.e. breakeven or surplus only).	✓	✓	1
Total			8	8		

**Notes:**

\* *Performance against the accident and emergency target will be judged using the data for March 2008.*

\*\* *Organisations must achieve a minimum performance of 98% and 95% in the 62 day and 31 day cancer access targets for 2007/2008 to achieve the cancer access targets in Part A. Performance against the cancer targets will be judged using quarter 4 data (January to March 2008).*

*The only Part A targets applicable to Velindre NHS Trust are SaFF targets 9 (i) and (ii), and the achievement of financial balance.*

**Table 2. Part B targets and scores for 2007/2008**

Part	Source Document	Target No.	Target	Applies to		Score
				Trust	LHB	
B	<i>Annual Operating Framework 2007/2008: WHC (2006) 087</i>	7	All patients referred by a GP or other medical practitioner to secondary or tertiary cardiology will receive definitive treatment within 52 weeks of receipt of the original referral by the receiving Trust.	✓	✓	1
		9 (i)	Patients referred by their GP with urgent suspected cancer and subsequently diagnosed as such by a Cancer Specialist will start definitive treatment within 2 months of receipt of referral.	✓	✓	1
		9 (ii)	Patients not referred as urgent suspected cancer but subsequently diagnosed with cancer will start definitive treatment within 1 month of diagnosis, regardless of the referral route.  *** <i>Achievement of 100% performance in 31 and 62 day access</i>	✓	✓	1

<b>B</b>	<i>Annual Operating Framework 2007/2008: WHC (2006) 087</i>	10	To improve the management of chronic conditions for patients, the health community will achieve:			
		(i)	an average length of stay of no greater than 5.7 days for emergency medical admissions	✓	✓	1
		(ii)	a multiple admission rate of or no greater than 14.6%	✓	✓	1
		20	The health community will implement all milestones for 2007/2008 contained within the approved Local Mental Health Action Plans	✓	✓	1
		Implementation of the Quality Improvement Plan requirements for 2007/2008	✓	✓	1	
	<i>Improving Efficiency and Productivity of NHS Wales: WHC (2006) 079</i>	1	Average length of stay for elective procedures: <ul style="list-style-type: none"> <li>• General surgery</li> <li>• Trauma and orthopaedics</li> <li>• Gynaecology</li> </ul>	✓	✓	1 1 1
		3	Daycase procedures <ul style="list-style-type: none"> <li>• Arthroscopy</li> <li>• Laparoscopy</li> <li>• Hernia</li> </ul>	✓	✓	1 1 1
		14	Cancelled operations	✓	✓	1
	<b>Total</b>			14	14	

**Notes:**

\*\*\* *Organisations must achieve a 100% performance against the 62 day and 31 day cancer access targets for 2007/2008 to achieve the cancer access targets in Part B. Performance against the cancer targets will be judged using quarter 4 data (January to March 2008).*

*The only Part B targets applicable to Velindre NHS Trust are SaFF targets 9 (i) and (ii), and the Implementation of the Quality Improvement Plan requirements for 2007/2008*

**7. BANDS OF PERFORMANCE AND ASSOCIATED INCENTIVES AND SANCTIONS**

7.1 The performance of organisations will be divided into four bands based. Each of the bands is set out in Table 3.

**Table 3. Performance Bands**

<b>BAND</b>	<b>SCORE RANGE</b>	<b>INCENTIVE OR SANCTION</b>	<b>TYPE</b>
<b>1</b>	22 - 21	INCENTIVE	<ul style="list-style-type: none"> <li>• Non-recurrent Band 1 financial reward</li> <li>• Entry into national awards</li> </ul>
<b>1 Tolerance Zone</b>	20 - 19	<b>Welsh Assembly Government Decision</b>	
<b>2</b>	18 - 16	INCENTIVE	<ul style="list-style-type: none"> <li>• Non-recurrent Band 2 financial reward</li> <li>• Entry into national awards</li> </ul>
<b>2 Tolerance Zone</b>	15	<b>Welsh Assembly Government Decision</b>	
<b>3</b>	14 - 12	NEUTRAL	<ul style="list-style-type: none"> <li>• Focussed support and assistance from Welsh Assembly Government Agency e.g. NLIAH, DSU</li> </ul>
<b>3 Tolerance Zone</b>	11- 9	<b>Welsh Assembly Government Decision</b>	
<b>4</b>	8 - 0	SANCTION	<ul style="list-style-type: none"> <li>• Imposition of special measures at discretion of Welsh Assembly Government</li> </ul>

- 7.2 The total aggregate score for each organisation will determine which band they are placed in.
- 7.3 This is with the exception of organisations that do not achieve all the Part A targets and will not be able to achieve a score greater than 8, irrespective of their performance against the Part B targets.
- 7.4 There are three tolerance zones attached to Bands 1, 2 and 3. Organisations that fall into each of these tolerance zones will be subject to final placement in a band at the discretion of the Welsh Assembly Government. This will be based upon the improvement that the organisation has made during the year and over time.
- 7.5 Organisations that fall into Band 4 will be subject to the imposition of special measures, at the discretion of the Welsh Assembly Government, as described in Section 9. Any organisation subject to special measures will not be eligible for any form of reward, irrespective of their performance in any of the Part B targets.

## 8. THE APPLICATION OF REWARDS

- 8.1 The Welsh Assembly Government will adhere to a strict principle when allocating financial rewards to high-performing organisations. The key guiding principle will be that any reward can only be used by an organisation to assist it in continuously improving performance through innovative methods.
- 8.2 Any financial reward allocated cannot be used to support an organisation in offsetting financial deficits or for any reason that is not viewed as a continuous improvement activity.
- 8.3 The financial rewards available to organisations are set out in Table 4.

**Table 4. Revenue Rewards 2007/2008**

PERFORMANCE BAND	REWARD £ millions	
	Trust	Local Health Board
1	2	1
2	0.5	0.25

- 8.4 Velindre NHS Trust is considered unique in Wales as a result of the specialist nature of the services it provides. In the context of this framework, Velindre will be eligible for a reward of £0.25 million to ensure proportionality is maintained.
- 8.5 While organisations who achieve Band 1 and Band 2 performance will be eligible for the allocation of the financial reward, it will not be an automatic right. To ensure that the principle of continuous improvement is adhered to the Welsh Assembly Government will only allocate the reward if a number of key criteria are met.

8.6 Therefore, successful organisations will submit a brief Business Case which sets out:

- the service identified for improvement in the context of the situation;
- the key outcomes and objectives of the project;
- the expected benefits and how the benefits will be realised and demonstrated;
- the timescales for the project and where overall accountability lies; and
- how the learning will be shared in Wales.

8.7 All Business Cases will be submitted for consideration to the:

Director of Delivery,  
Department of Health and Social Services  
Welsh Assembly Government

8.8 The release of all financial rewards will occur on agreement of the business case and be undertaken on a retrospective non-recurrent basis, as described in section 10.

8.9 Organisations that fall within Band 3 and qualify for focussed support and assistance will be invited to enter into discussions with the appropriate agencies in the Autumn of 2008 to identify any support that could be provided to assist in improving their performance. A detailed terms of reference, to include objectives, accountabilities and timescales will be developed during the initial session(s).

8.10 The Welsh Assembly Government is currently undertaking work to develop a national awards event in Wales that recognises high performance. It is envisaged that this will take place at the end of 2008, with further information being available in the Autumn.

## **9. APPLICATION OF SANCTIONS**

9.1 The NHS Performance Improvement Framework, established under WHC (2003) 120, has been supplemented by a number of additional components over the last four years. The introduction of special measures is an additional tool which will complement the existing arrangements.

9.2 Special measures will be the term used to describe the application of a range of tools and actions to an organisation by the Welsh Assembly Government, where performance is below the required levels. It represents the next stage in the performance management escalation process which is set out in WHC (2005) 097.

9.3 The Welsh Assembly Government will choose when to exercise the use of special measures based upon the merits of each individual situation.

9.4 All NHS organisations will be required to co-operate fully with the Welsh Assembly Government if placed in special measures.

9.5 In the context of this circular, special measures will be applied to an organisation that falls within Band 4 as a result of non-achievement of one or more of the Part A core targets for 2007/2008.

- 9.6 The Welsh Assembly Government will impose special measures on an organisation through the issuing of a letter to the Chairman and Chief Executive Officer, which will be received by an organisation within one month of the availability of validated end-of-year performance information.
- 9.7 The imposition of this sanction will be communicated in the public domain in accordance with the increased level of openness and transparency sought in public service delivery in Wales.
- 9.8 The special measures sanction consists of a number of different actions and requirements imposed upon an organisation. The type of action or requirement imposed will depend upon the level of under-performance and the capacity and capability that the organisation possesses to improve.
- 9.9 The following process will be applied to organisations subject to special measures process:
- (i). **Recovery Plan** - an organisation will be required to develop a recovery plan which will include a number of key milestones for achievement by the organisation. The recovery plan will have a timescale of between 3 - 6 months for delivery (with the maximum recovery period being 6 months) and must be signed-off by the Welsh Assembly Government;
  - (ii). **Intensive Support and Assistance** – an organisation will be provided with intensive support and assistance to deliver the recovery plan by the appropriate agencies e.g. NLIAH and/or the Delivery and Support Unit;
  - (iv). **Increased level of performance monitoring and management** - the organisation's progress in the delivery of the plan will be monitored by the Welsh Assembly Government through a formal evaluation process on a monthly basis. The Welsh Assembly Government may wish to increase the level of reporting and performance management of the organisation in areas of risk;
  - (v). **Senior Executive Reporting and Accountability** - the Chairman will report the progress of the organisation to the Welsh Assembly Government on a frequency determined by the Government. The Chairman and Chief Executive Officer are responsible and accountable for the delivery of the plan and improving the performance of the organisation; and
  - (vi). **Allocation of a Turnaround Director** – if the Welsh Assembly Government considers that the organisation and/or health community performance is too poor to be improved by the measures outlined in section 9.9, a Turnaround Director will be assigned to the organisation.
- 9.10 It is envisaged that in most circumstances the actions outlined above should be sufficient to assist an organisation in achieving the required levels of performance.

- 9.11 An organisation that achieves the milestones set out within the recovery plan and maintains the required levels of performance for a period of three consecutive months, will have the special measures removed and be subject to the routine performance management arrangements of NHS Wales.
- 9.12 Organisations that do not achieve the milestones set out in the recovery plan will be subject to further action deemed appropriate by the Welsh Assembly Government.

## **10. TIMESCALES FOR THE ALLOCATION OF REWARDS**

- 10.1 The provision of incentives or application of sanctions will be undertaken by the Welsh Assembly Government on a retrospective basis, the only practical approach given the structure and timetable of the NHS Performance Improvement Framework.
- 10.2 The judgement of annual performance will be made using final validated data, which is available in August of each year. The Welsh Assembly Government will inform organisations of their validated performance at this point and accept all business cases from the point of notification.
- 10.3 The Welsh Assembly Government will provide a final response to all submitted business cases within a maximum of four weeks of the submission date.
- 10.4 All financial rewards will be allocated in the autumn of 2008, following successful business case approval.

## **11. QUERIES AND CORRESPONDENCE**

- 11.1 All queries about the contents of this guidance should be sent to:

Policy

**Carl James**  
**Head of NHS Performance Management Policy,**  
**Waiting Times and Emergency Care**  
Welsh Assembly Government  
Cathays Park  
Cardiff CF10 3NQ  
[Carl.James@wales.gsi.gov.uk](mailto:Carl.James@wales.gsi.gov.uk)  
029 20 825630

Finance

**Jeff Buggle**

**Director of Resources**

Welsh Assembly Government

Cathays Park

Cardiff CF10 3NQ

[Jeff.Buggle@wales.gsi.gov.uk](mailto:Jeff.Buggle@wales.gsi.gov.uk)

029 20 823137

Human Resources

**Ian Stead**

**Director of Human Resources**

NHS Human Resources Division

Welsh Assembly Government

Cathays Park

Cardiff CF10 3NQ

[Ian.Stead@wales.gsi.gov.uk](mailto:Ian.Stead@wales.gsi.gov.uk)

029 20 823293

Yours sincerely

A handwritten signature in black ink that reads "John Hill-Tout". The signature is written in a cursive style with a long horizontal flourish underneath.

**John Hill-Tout**

Director of Performance and Operations

Health and Social Services Department

**Annex A Host Commissioner / Provider Relationships**

<b>LHB</b>	<b>Main Provider</b>
<b>South East Wales</b>	<b>Trust</b>
Blaenau Gwent Local Health Board	Gwent Healthcare
Caerphilly Local Health Board	Gwent Healthcare
Cardiff Local Health Board	Cardiff and Vale
Merthyr Tydfil Local Health Board	North Glamorgan
Monmouthshire Local Health Board	Gwent Healthcare
Newport Local Health Board	Gwent Healthcare
Rhondda Cynon Taff Local Health Board	Pontypridd & Rhondda
Torfaen Local Health Board	Gwent Healthcare
Vale of Glamorgan Local Health Board	Cardiff & Vale
<b>Mid &amp; West Wales</b>	
Bridgend Local Health Board	Bro Morgannwg
Carmarthenshire Local Health Board	Carmarthen
Ceredigion Local Health Board	Ceredigion
Neath Port Talbot Local Health Board	Bro Morgannwg
Pembrokeshire Local Health Board	Pembs & Derwen
Powys Local Health Board	Ceredigion and Mid Wales
Swansea Local Health Board	Swansea
<b>North Wales</b>	
Conwy Local Health Board	Conwy & Denbigh
Denbigh Local Health Board	Conwy & Denbigh
Flintshire Local Health Board	North East Wales
Gwynedd Local Health Board	North West Wales
Wrexham Local Health Board	North East Wales
Ynys Mon Local Health Board	North West Wales