



**Mark Drakeford AM**  
Minister for Health and Social Services  
**Vaughan Gething AM**  
Deputy Minister for Health

24 October 2014

Dear Ministers,

### Welsh Government draft budget 2015–16

Thank you for attending the Health and Social Care (HSC) Committee's meeting on 16 October 2014 to discuss the Welsh Government's Draft Budget for 2015–16. During the meeting Members covered a number of themes of relevance to the Committee's remit, and touched on some health and social care matters also of relevance to the Children, Young People and Education (CYPE) Committee.

The purpose of this letter is to highlight the key issues the HSC Committee has identified during the course of its scrutiny. These are attached at Annex A. As with previous years, the issues raised have been labelled in accordance with the four principles of good financial scrutiny: affordability, prioritisation, value for money, and budget process.

This letter will be shared with the Finance Committee to aid its overarching scrutiny of the Draft Budget. The HSC Committee would welcome receipt of the further information requested in Annex A as soon as possible in order to inform the final debate on the Welsh Government's Draft Budget 2015–16.

The letter will also be shared with the CYPE Committee which, for the purpose of drawing on your time effectively, asked the HSC Committee to lead on matters in relation to health and social services (see letter attached at Annex

Bae Caerdydd  
Cardiff Bay  
CF99 1NA

Ffôn/Tel: 029 2089 8403

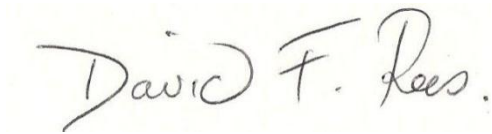
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Trydar/Twitter: [@iechyd\\_senedd](https://twitter.com/iechyd_senedd)/[@seneddhealth](https://twitter.com/seneddhealth)

Croesewir gohebiaeth yn y Gymraeg a'r Saesneg/We welcome correspondence in both English and Welsh

B). As time did not allow Members to raise the questions posed in the letter at Annex B, the HSC Committee would be grateful to receive a written response to these questions from you.

Yours sincerely,

A handwritten signature in black ink that reads "David F. Rees." The signature is written in a cursive style with a clear, legible font.

**David Rees AM**

Chair of the Health and Social Care Committee

**Cc:**

Jocelyn Davies AM, Chair of the Finance Committee

Ann Jones AM, Chair of the Children, Young People and Education Committee

## ANNEX A: Welsh Government Draft Budget 2015–16 – key issues identified by the Health and Social Care Committee

### 1. Additional revenue allocation for NHS services in 2015–16

*(Principle: prioritisation)*

The largest change in the Welsh Government Draft Budget 2015–16, is due to an additional allocation of £225 million in line with Welsh Government’s priority to support the NHS in Wales. Overall, the Draft Budget 2015–16 includes additional revenue funding of £273 million (4.8%) in the NHS Delivery Revenue SPA for 2015–16 compared to 2014–15.<sup>1</sup> This change does not reflect the announcement of £200 million funding which is planned to be allocated to the NHS in 2014–15 via the next Supplementary Budget.<sup>2</sup>

The Committee recognises the conclusion of the recently published Nuffield Trust report that, in a context of rising costs, increasing demand, an ageing population, and a growth in the number of people experiencing chronic conditions, an innovative response and additional funding is needed for the NHS to continue to deliver high quality and safe services.<sup>3</sup> The Committee also acknowledges that the additional revenue allocation for 2015–16 reflects the estimates outlined by the Auditor General for Wales in his work on NHS finances in recent years.<sup>4</sup> The £200 million additional funding announced for 2014–15 also links closely with the latest estimate of a £198 million funding gap in the current year. The Committee welcomes the additional funding allocated for the 2014–15 and 2015–16 financial years.

The Committee is conscious of the emphasis in the Nuffield Trust report on the importance of improvements in efficiency, productivity and service delivery to secure the long term future of the NHS in Wales. The Committee shares this view, and that of the Auditor General for Wales, who has noted that NHS Wales will “struggle to make progress without transformational change”.<sup>5</sup> As such, the Committee would welcome further information from

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<sup>1</sup> Welsh Government, [Draft Budget 2015-2016 Priorities for Wales](#), September 2014

<sup>2</sup> National Assembly for Wales, [Record of Plenary Proceedings](#), 30 September 2014

<sup>3</sup> Nuffield Trust, [A decade of austerity in Wales? The funding pressures facing the NHS in Wales to 2025/26](#), June 2014

<sup>4</sup> Auditor General for Wales, [NHS Wales: Overview of Financial and Service Performance 2013-14](#), 13 October 2014

<sup>5</sup> Ibid, [Welsh NHS breaks even in 2013-14 with mixed performance against service targets](#), 13 October 2014

the Welsh Government on how it will monitor and ensure that the additional revenue funding for the 2014–15 and 2015–16 financial years delivers meaningful reform to services and positive outcomes for patients, rather than being used by health boards to address end of year deficits resulting from unchanged models of care.

## **2. Resource allocation formula (Townsend) and distribution of additional funding**

*(Principle: budget process/value for money)*

The Committee was told that around £200 million of the £225 million additional revenue funding for 2015–16 will be allocated predominantly via the revised Townsend formula, with reference to information in the medium term financial plans. The Minister noted that the allocations will be made as “late in the cycle” as possible in order that decisions may be informed by the most up to date population trends and needs–based data.<sup>6</sup> This will be concluded before formal allocation letters are sent out in January 2015.<sup>7</sup>

The Committee acknowledges the importance of using a transparent, evidence–based formula to ensure a sustainable method of allocating funding to health boards in the future. The Committee would welcome further detail on the distribution of this additional funding once made, to include information about how the integrated medium term plans of health boards have influenced decisions.

## **3. The reduction in local government funding and its impact**

*(Principle: prioritisation/affordability)*

The Draft Budget for 2015–16 outlines a reduction of £154 million (3.5%) in the Funding Support for Local Government Action. The narrative document accompanying the Draft Budget notes that an additional £10 million has been allocated to local government in recognition of pressures that social services will face as a consequence of the overall budget reduction. It also states that funding of £67.5 million would be maintained within the *Health and Social*

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<sup>6</sup> National Assembly for Wales, [Draft Record of Proceedings \[para 16\]](#), 16 October 2014

<sup>7</sup> Ibid, [HSC\(4\)-24-14 Paper 5 - Written evidence from the Minister for Health and Social Services and Deputy Minister for Health](#), 16 October 2014

*Services MEG* “to support policy transformation that underpins the delivery of social care in Wales”.<sup>8</sup>

The Welsh Government’s Strategic Integrated Impact Assessment which accompanies the Draft Budget documentation highlights that:

- social care services are facing real increases in demand;
- the numbers of looked after children and those on the child protection register are growing;
- the number of older people with complex care needs are growing; and,
- the number of people registered with local authorities as having a learning disability is increasing.<sup>9</sup>

The Committee is concerned, therefore, that the significant reduction to the local government allocation for 2015–16 will have a negative impact on the delivery of social services. The Committee is also concerned that reduction could impact on the provision of the local government services which support both improved physical and mental health and recovery from medical procedures. Furthermore, given the important links between health and social care services, the Committee is concerned that the considerable reductions proposed to the local government allocation could place pressure on the long term sustainability of health services as well as social care.

#### **4. Intermediate Care Fund**

*(Principle: prioritisation/value for money)*

One of the stated priorities of the Welsh Government is to ensure greater integration of health and social services. The integration agenda has been encouraged by the creation of the Intermediate Care Fund (“the Fund”), among other things.

The Final Budget for 2014–15 included £35 million revenue funding within the local government allocation and £15 million capital in the housing and regeneration budget to create the Fund. Its stated aim was to build effective

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<sup>8</sup> Welsh Government, [Draft Budget 2015-2016 Priorities for Wales](#), September 2014, p42

<sup>9</sup> Ibid, [Draft Budget 2015-16: Strategic Integrated Impact Assessment](#), 30 September 2014

joint-working across the health, social services, housing, third and independent sectors that would:

“support people to maintain their independence and remain in their own home [...] avoid unnecessary hospital admissions, inappropriate admissions to residential care, as well as preventing delayed discharges from hospital”.<sup>10</sup>

In accordance with the Minister’s previously stated intention, the allocation was made for one year only and no provision for the Fund is made in the Draft Budget for 2015–16.

The Committee welcomes information provided by the Minister that, in the absence of the Fund in the next financial year, and given the savings realised by its use, some health boards and local authorities are planning to allocate money from elsewhere to continue the work the Fund instigated. The Minister also explained that he will consider whether part of the unallocated £25 million additional revenue funding for NHS services for 2015–16 could potentially be used to finance services proven to be successful by the Fund in 2014–15.<sup>11</sup>

Although the Committee acknowledges that the Welsh Government cannot fund every initiative in the current economic climate, it is concerned that good work enabled by the existence of the Fund is not lost in the absence of this specified allocation. The prioritisation of innovative, integrated and money-saving initiatives of this kind is, in the Committee’s view, one of the main ways that the Welsh Government can deliver the reform that is required to maintain sustainable health and social services. In the short term, the Committee would welcome further information from the Minister on how he will monitor and ensure that the positive steps made as a consequence of the Fund’s existence will be maintained once its funding stops at the end of 2014–15. In the longer term, the Committee would welcome an update on whether (and, if so, how) the unallocated £25 million is used to deliver intermediate care services.

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<sup>10</sup> Welsh Government written statement, [Intermediate Care Fund](#), 20 May 2014

<sup>11</sup> National Assembly for Wales, [Draft Record of Proceedings \[paras 88-90\]](#), 16 October 2014

## 5. Preventative spending

*(Principle: prioritisation/value for money)*

The Minister estimates that £105 million, 2% of the total Health and Social Services revenue budget, is focused on preventing problems and easing future demand on services. In requesting information on allocations for preventative services, the Committee acknowledges that prevention runs through many strands of health and social services spend.

The Deputy Minister told the Committee that a range of cross-sector and cross-departmental initiatives are in place, including the Healthy Ageing Programme and exercise referral schemes. He also referred to the importance of the immunisation programme as part of the preventative agenda. The Deputy Minister went on to say that there is recognition that the preventative agenda requires dialogue across departments and partner organisations.<sup>12</sup>

The Committee welcomes the Deputy Minister's assurance that work in this field is moving in the right direction. Nevertheless, the Committee notes his comment that the pace of change remains a challenge. Furthermore, the Committee is concerned that reductions to the local government budget could reduce the overall spend on preventative services as local authority services are often preventative in nature. In order to safeguard the future sustainability of the health and social care systems, the Committee expects the Welsh Government to redouble its efforts in this area and to focus on the transformation that is needed within service design to move from a reactive to a proactive approach.

## 6. Capital

*(Principle: affordability)*

In 2015–16 the total capital allocations for the NHS Delivery SPA will decrease by £65.5 million, a reduction of 23% compared with the latest figures for 2014–15. The Minister's paper to the Committee highlights that this is as a result of non-recurrent funding provided in 2014–15 not being carried forward to 2015–16.<sup>13</sup>

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<sup>12</sup> National Assembly for Wales, [Draft Record of Proceedings \[paras 120-122\]](#), 16 October 2014

<sup>13</sup> National Assembly for Wales, [HSC\(4\)-24-14 Paper 5 - Written evidence from the Minister for Health and Social Services and Deputy Minister for Health](#), 16 October 2014

In order to respond to the reduction in the capital budget, the Minister explained to the Committee that a prioritisation exercise will take place for capital projects. He noted that all future bids for capital funding are likely to be required to demonstrate their ability to deliver revenue savings and service change before being approved.<sup>14</sup> The Minister sought to assure the Committee that the capital funding needs of the service reconfiguration plans in Wales remain affordable and that there has been no change in relation to the availability of central funds for the Gwent Specialist and Critical Care Centre (SCCC).<sup>15</sup> The Minister went on to express his disappointment that the Welsh Government is not in a position this year or next to increase discretionary capital funding. Related to this, he noted that if any capital underspend emerges during 2015–16 he will consider allocating the funding directly to Health Boards for the purpose of equipment replacement.<sup>16</sup>

The Minister's paper to the Committee refers to the pursuit of innovative funding mechanisms by relevant health organisations, the most advanced of which is Velindre NHS Trust's initiative to fund a new specialist cancer centre. He also noted that discussions are underway to explore the viability of using innovative models to fund developments to the primary care estate, and that a number of individual health boards are now coming forward with ideas.<sup>17</sup>

The Committee is concerned by the overall reduction in capital funding and would welcome further information about how the new capital prioritisation exercise will work in practice. The Committee welcomes the exploration of innovative funding mechanisms and will take a keen interest in the future policy and legislative developments that will be necessary to underpin these financial models.

## **7. Mental health services and the ring fence**

*(Principle: prioritisation/budget process)*

Most funding for mental health services is included within the ring-fenced mental health allocations for health boards. Included within this is the funding

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<sup>14</sup> Ibid, [Draft Record of Proceedings \[para 105\]](#), 16 October 2014

<sup>15</sup> Ibid, [Draft Record of Proceedings \[paras 108-110\]](#), 16 October 2014

<sup>16</sup> Ibid, [Draft Record of Proceedings \[para 115\]](#), 16 October 2014

<sup>17</sup> Ibid, [HSC\(4\)-24-14 Paper 5 - Written evidence from the Minister for Health and Social Services and Deputy Minister for Health](#), 16 October 2014



for Child and Adolescent Mental Health Services (CAMHS), although spending on CAMHS is not separately ring-fenced.

In light of previous references to the limitations of monitoring compliance with the mental health ring-fenced allocations, the Committee welcomes the Welsh Government's commissioned review of the ring fence mechanism and looks forward to its conclusion in 2015. The Committee notes that the Minister does not wish to pre-empt the conclusions of the review but that he questions the feasibility of introducing a ring-fence within a ring-fence. The Committee welcomes the Minister's focus on delivering good outcomes for patients as opposed to remaining wedded to any particular funding model. Furthermore, the Committee welcomes the Minister's assurances that his focus on CAMHS will be "unremitting" and that services will be held to account for their performance.<sup>18</sup> The Committee hopes that this information will help inform the Children, Young People and Education Committee's current inquiry into CAMHS.

The Committee would welcome further detail about the allocation of funds to mental health as information appears to have been presented in a different format in this year's Draft Budget documentation. Furthermore, the Committee would welcome clarification of whether the ring-fenced allocation for mental health services has grown with inflation since its inception.

## **8. Legislation**

*(Principle: affordability/value for money)*

The Welsh Government's legislative programme in the field of health and social care has been ambitious during the Fourth Assembly. The Food Hygiene Rating (Wales) Act 2013, the Human Transplantation (Wales) Act 2013, and the Social Services and Well-being (Wales) Act 2014 all have significant pieces of subordinate legislation flowing from them that require funding. In addition, funding is allocated for provisions contained in the NHS Redress (Wales) Measure 2008 and Mental Health (Wales) Measure 2010. The Minister's paper notes that proposals for legislation in the fields of public health and the regulation and inspection of social services will incur expenditure during the 2015-16 financial year, but that work is on-going to assess their potential financial impact in subsequent years. The Committee will take a keen interest

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<sup>18</sup> National Assembly for Wales, [Draft Record of Proceedings \[para 51\]](#), 16 October 2014

in the financial aspects of both Bills if introduced and referred for consideration, as anticipated, during 2015.

In relation to the Social Services and Well-being (Wales) Act 2014, the Minister's paper states that further work on assessing the costs and benefits of its implementation will be undertaken as relevant subordinate legislation is developed. It goes on to state:

“The outcomes of this work should be viewed against the broader background of a system developed to be revenue-neutral through shifting the focus and burden of cost towards supporting well-being, earlier intervention and citizen voice and away from late-stage, high intensity, intrusive and high cost interventions”.<sup>19</sup>

The paper also notes that the Welsh Government will provide three years of transitional funding – to include £3 million in 2015–16 – to local government and its partners to assist them in meeting the costs of moving to the new way of working introduced by the Act. The Committee has committed to considering the regulations emanating from the Act and will keep a close eye on the likely impact of the regulations on the capacity of local authorities to deliver services, particularly in light of the budget reductions discussed in section 3 of this annex.

## **9. Moving services from hospitals to the community**

*(Principle: affordability/value for money)*

The Minister told the Committee that moving services out of secondary care and into community and primary care is a “key strategic objective” for the Welsh Government. The Minister noted that he is considering whether the unallocated £25 million additional revenue funding for NHS services for 2015–16 can be used to deliver further progress in relation to this strategic aim, notwithstanding the other demands that may be placed on this currently unallocated sum.<sup>20</sup>

The Minister recognised primary care services received less in the 2015–16 financial year as a proportion of the total budget than in previous years, but

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<sup>19</sup> National Assembly for Wales, [HSC\(4\)-24-14 Paper 5 - Written evidence from the Minister for Health and Social Services and Deputy Minister for Health](#), 16 October 2014

<sup>20</sup> Ibid, [Draft Record of Proceedings \[para 45\]](#), 16 October 2014

noted that in cash terms they have received more money than in previous years because more money has been allocated to health and social services than in the past. He also acknowledged that shifting services from secondary to primary care is not an easy task, noting that the impetus for this to happen has to come not only from health boards seeking to push services from hospitals into the community, but also from primary care seeking to take these services on.<sup>21</sup>

Given the emphasis placed by the Welsh Government on the importance of moving services from hospitals to the community for the sustainability of services, the Committee calls on the Ministers to work with health boards to ensure that the shift in policy is reflected by the necessary shift in budgets.

## 10. Efficiencies

*(Principle: affordability/value for money)*

In its written evidence to the Finance Committee, the Welsh NHS Confederation warns:

“While the efficiency savings made by the NHS are significant, the annual achievement has been gradually diminishing year on year, a reflection that ‘doing more of the same’ will not deliver the level of cost reductions required to contend with the anticipated increased demands and costs of running NHS services going forward”.<sup>22</sup>

The Auditor General for Wales’ recent report *NHS Wales: Overview of Financial and Service Performance 2013–14* noted:

“...there is scope to build on the progress to date that the Nuffield Trust identifies and further improve efficiency but our own analysis suggests that the more optimistic projections on acute-sector efficiency would be very difficult to achieve without radical changes”.<sup>23</sup>

The Minister accepted the Welsh NHS Confederation’s assertion that, year on year, making savings becomes more difficult as the easier issues have been tackled. Nevertheless, he believed that NHS Wales’ overall performance in

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<sup>21</sup> National Assembly for Wales, [Draft Record of Proceedings \[paras 143-145\]](#), 16 October 2014

<sup>22</sup> Ibid, [FIN\(4\) – 15-16WGDB13 Written evidence from the Welsh NHS Confederation](#), September 2014

<sup>23</sup> Auditor General for Wales, [NHS Wales: Overview of Financial and Service Performance 2013-14](#), October 2014

delivering savings of the necessary volume has been “remarkable”. The Minister noted that, in the last financial year, NHS Wales made £185 million of efficiency savings, which is only £3 million less than it achieved in the previous financial year.<sup>24</sup> He warned, however, that not every part of the system can be expected to find savings in the same way as other parts of the system, citing the Welsh Ambulance Service as an example. In this case, the Minister explained that extra capital funding has been made available to assist its attempts to realise savings by improving efficiency, for example, by modernising its vehicle fleet.<sup>25</sup>

The Committee acknowledges the hard work that has been undertaken by NHS Wales to achieve efficiencies in recent years. It remains clear, however, that to achieve the savings the Nuffield Trust states are necessary to sustain services in Wales, significant changes to services are needed.

## 11. Litigation and the risk pool

The Welsh Government’s accounts for 2013–14 include provisions that recognise an obligation to pay for certain costs in future years. Note 18 shows that £593.8 million of the £605 million in Welsh Government provisions related to the NHS Welsh Risk Pool, which mainly relates to claims for medical or employer negligence. This has risen significantly from £521 million in 2012–13.

During evidence, officials explained that, under relevant audit rules, provisions need to be made in the Welsh Risk Pool, not just for the current year, but prospectively. They noted that the actual impact within any individual financial year for the Welsh risk pool is approximately £70 million, which is covered within existing budgets. They noted that the larger sum relates to a prospective period of approximately a decade.<sup>26</sup>

The Committee looks forward to receiving further analysis relating to the quantity and level of in-year settlements made against the risk pool in recent years, as requested during the meeting.

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<sup>24</sup> National Assembly for Wales, [Draft Record of Proceedings \[para 150\]](#), 16 October 2014

<sup>25</sup> Ibid, [Draft Record of Proceedings \[paras 151-152\]](#), 16 October 2014

<sup>26</sup> Ibid, [Draft Record of Proceedings \[paras 132-133\]](#), 16 October 2014

**ANNEX B – Letter from the Chair of the Children, Young People and Education Committee**

Cynulliad  
Cenedlaethol  
Cymru  
National  
Assembly for  
Wales

**Y Pwyllgor Plant, Pobl Ifanc ac Addysg  
Children, Young People and Education Committee**



David Rees AM  
Chair of the Health and Social Care  
Committee  
National Assembly for Wales

Bae Caerdydd / Cardiff Bay  
Caerdydd / Cardiff  
CF99 1NA

15 October 2014

Dear David

**Welsh Government Draft Budget 2014–15**

The Children, Young People and Education Committee wrote to the Minister for Health and Social Services on 14 August to seek information on the budget allocations within his portfolio. The Minister replied on 2 October.

The Committee agreed in its meeting on 9 October that I should write to you to draw your Committee's attention to a number of issues relating to the Minister's response, in advance of your scrutiny session with the Minister. The Committee will, of course, be writing to the Minister separately to seek further information on these issues, but I would be grateful if you could, if possible, raise some of these issues with the Minister.

- **Additional £10M for Social Services:** what mechanism has the Welsh Government put in place to ensure that an appropriate proportion is spent on children;
- **Transfer of £4.6M for the Integrated Family Support Services into the RSG:** what safeguards have been put in place to ensure local authorities make a continued investment in this new programme over time;

- **£3M for Social Services Act implementation:** what mechanism has the Welsh Government put in place to ensure the appropriate proportion is spent on the legislation as it affects children and young people;
- **Funding arrangements for LHBs:** given that funding arrangements are at the discretion of the LHB and have no age related hypothecation:
  - How does the Welsh Government assess the impact of LHB spending decisions on children's health and well-being;
  - What assessment has the Welsh Government undertaken of the potential impact on children's health arising from the LHB Resource Review.

The Committee will also be writing to the Minister on a number of issues.

Yours Sincerely

A handwritten signature in black ink that reads "Ann Jones". The signature is written in a cursive, slightly slanted style.

**Ann Jones AC / AM**  
Cadeirydd / Chair