

**Mark Drakeford AM**  
Minister for Health and Social Services

**Vaughan Gething AM**  
Deputy Minister for Health

19 January 2016

Dear Ministers,

**Welsh Government Draft Budget 2016-17**

Thank you for attending the Health and Social Care (HSC) Committee's meeting on 14 January 2016 to discuss the Welsh Government's Draft Budget for 2016-17.

The annex to this letter highlights the key issues identified by the Committee's scrutiny of the Draft Budget. 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.


The letter will be shared with the Finance Committee to inform its overarching scrutiny of the Draft Budget. It will also be shared with the Children, Young People and Education Committee given the policy areas of common interest that fall within its remit.

The HSC Committee would welcome receipt of the further information requested in the annex as soon as possible in order to inform the Assembly's final debate on the Welsh Government's Draft Budget 2016-17.

Yours sincerely,

Croesewir gohebiaeth yn Gymraeg neu Saesneg | We welcome correspondence in Welsh or English



A handwritten signature in black ink on a light yellow background. The signature reads "David F. Rees." in a cursive style.

**David Rees AM**

Chair, 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. Additional revenue allocation for NHS services

*(Principles: affordability; prioritisation; value for money)*

01. The largest change in the 2016–17 Draft Budget for health care is a £259 million (4.0 per cent) increase in Revenue compared to the First Supplementary Budget 2015–16.<sup>1</sup> This change comprises:

- an additional £200 million to support core NHS delivery;
- an increase of £30m for the Intermediate Care Fund, which has grown from £20 million in 2014–15 to £50 million in 2016–17;
- an additional £30 million for older people and mental health services.

02. The Minister’s written evidence states that the additional £200 million allocated to support core NHS service delivery:

“...demonstrates [the Welsh Government’s] clear commitment to a sustainable NHS in Wales based on the reforms highlighted in the Nuffield report, which also acknowledges the scope for the NHS to continue to achieve efficiency savings in the medium to longer term.”<sup>2</sup>

03. The Committee notes that the use and distribution of the £30 million for older people and mental health services allocated in the Draft Budget has yet to be determined.<sup>3</sup> Furthermore, it notes that the additional £65 million allocated in 2015–16 for primary care, delivery plans, health technology and mental health, which will be made available again in 2016–17 for the same purposes, will not be allocated until the projects initiated in the current financial year have been reviewed.<sup>4</sup>

04. The Committee recognises that the health service in Wales is facing long term funding and sustainability pressures including:

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<sup>1</sup> The Welsh Government’s baseline figures for 2015-16 as presented in the Draft Budget are £14.3 million higher than the Supplementary Budget figures

<sup>2</sup> Welsh Government, [\*Written evidence to HSC Committee: scrutiny of Draft Budget 2016-17\*](#), 14 January 2016, page 2

<sup>3</sup> Ibid, page 3

<sup>4</sup> Ibid

- an increasingly ageing population leading to increased morbidity;
- growing rates of obesity and related conditions;
- continual developments in technology leading to the introduction of more complex treatments.

05. It further notes the general consensus that service transformation is essential and welcomes the detailed commentary provided on the matter by organisations such as the Nuffield Trust, the Wales Audit Office, the British Medical Association and the Welsh NHS Confederation.

06. The Committee shares the Welsh NHS Confederation’s view that:

- the rise in demand for health, coupled with constrained financial resources, has made delivering healthcare in the current model increasingly difficult;
- there is a need to shift more care closer to people’s homes, whilst also maintaining hospital care;
- while recent funding increases are welcome, finances will continue to be extremely tight, and it is increasingly clear that traditional methods of savings are unlikely to deliver what is needed in the future.<sup>5</sup>

07. Responding last year to the Committee’s scrutiny of the 2015–16 Draft Budget, the Minister for Health and Social Services acknowledged that:

- the majority of the increased funding for healthcare in 2015–16 was required to maintain existing service levels for that financial year;
- continuing to provide services in the same way was not possible, and new and more innovative models of service delivery would be needed.<sup>6</sup>

08. The Committee would welcome further information to demonstrate:

- how the draft budget ensures that service transformation is being delivered in 2016–17;

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<sup>5</sup> Welsh NHS Confederation, *The 2016 Challenge: A vision for NHS Wales*, October 2015

<sup>6</sup> Welsh Government, *Written response to the HSC Committee’s draft budget scrutiny letter 2015-16*, 4 November 2014, page 1



- how the additional funding allocated for 2016–17 will lead to further service improvement rather than funding inefficiencies or compensating for overspends;
- to what extent the allocations made will be sufficient to deliver key performance targets (e.g. cancer treatment times, waiting times for outpatient appointments, inpatient and day case treatment and access to diagnostic services).

## B. Financial planning and the financial position of LHBs in 2015–16

*(Principles: affordability; budget process)*

09. The NHS Finance (Wales) Act 2014 introduced a new legal financial duty for Health Boards to break even over three financial years rather than each and every year. When introducing the legislation, the Minister noted that its aim was to address the “inflexibility” of the existing regime which, he argued, “distract[ed] efforts at year end by focusing on relatively small saving requirements to meet the year–end target rather than on the medium term financial strategy and Integrated Plan to deliver the forthcoming financial years”.<sup>7</sup>

10. The Committee notes that we are only part–way through the first three year cycle introduced by the NHS Finance (Wales) Act 2014. As such, it acknowledges that it is not yet possible to evaluate fully the impact of the new arrangements. The Committee notes that for 2015–16 seven of the ten NHS Trusts and Health Boards have secured approval of their three year Integrated Medium Term Plan (IMTP), three more than the number approved in 2014–15.<sup>8</sup>

11. The Committee welcomes the progress made in producing and approving IMTPs. Nevertheless, it notes that there are still three organisations (Betsi Cadwaladr and Hywel Dda University Health Boards, and the Welsh Ambulance Service NHS Trust) operating on the basis of a one year plan due to the Minister not receiving the assurances he needs to be able to approve their three year plans.<sup>9</sup> The Committee notes the Minister’s view that those

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<sup>7</sup> Welsh Government, [Explanatory Memorandum to the National Health Service Finance \(Wales\) Bill](#), 30 September 2013, page 7

<sup>8</sup> National Assembly for Wales, [Draft Record of Proceedings \[para 8\]](#), 14 January 2016

<sup>9</sup> Ibid



organisations who have three year plans in place demonstrate higher levels of performance, efficiency and better workforce and service planning.<sup>10</sup> As a consequence, while it recognises fully the need for a robust and thorough approval process for IMTPs, it believes that an injection of pace and resource is needed to secure three year plans for the organisations operating on the basis of a one year plan.

12. The Committee notes the Minister's statement that the health service in Wales, as a whole, has "lived within its means".<sup>11</sup> However, it also notes that not every health organisation in Wales will remain within its 2015–16 budget balance at year end. The Committee shares the Minister's particular concerns about Betsi Cadwaladr and Hywel Dda University Health Boards, neither of which are projected to break even. Furthermore, the Committee notes the Minister's ongoing work with Abertawe Bro Morgannwg and Cardiff and Vale University Health Boards to ensure that they achieve financial balance by the end of the 2015–16 financial year.<sup>12</sup>

13. The Committee notes the Minister's statement that he is not prepared to "sustain a fiction" that organisations have managed to live within their means by providing additional funds to those unable to balance their books by the end of the financial year.<sup>13</sup> The Committee would welcome an update on the financial position of NHS Trusts and Health Boards before the end of the 2015–16 financial year.

## C. Reduction in local government funding and its impact

*(Principles: affordability; prioritisation; value for money)*

14. The draft budget for 2016–17 outlines a reduction in funding for local government. The provisional local government settlement shows a decrease of 1.4 per cent, or 3.1 per cent in real terms. However, the budget narrative

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<sup>10</sup> National Assembly for Wales, [Draft Record of Proceedings \[para 9\]](#), 14 January 2016

<sup>11</sup> Ibid, [Draft Record of Proceedings \[para 11\]](#), 14 January 2016

<sup>12</sup> Ibid, [Draft Record of Proceedings \[para 38\]](#), 14 January 2016

<sup>13</sup> Ibid, [Draft Record of Proceedings \[para 21\]](#), 14 January 2016



states that an additional £21 million has been included for social services within the Revenue Support Grant.<sup>14</sup>

15. The Committee notes the three ways in which the Minister reported he is seeking to maintain support for local authorities' provision of social care:

- through the Intermediate Care Fund (ICF);
- through the planned use of powers provided by the Social Services and Wellbeing Act 2014 to enable the pooling of local authority and health budgets for residential care;
- through the application of the preventative approach to care enshrined in the Social Services and Well-being (Wales) Act 2014, which aims at shifting investment to support early intervention and preventative services.<sup>15</sup>

16. The Committee acknowledges that the consultation on the local government settlement is ongoing, and that difficult choices have to be made in the current economic climate. However, it is concerned about the impact of the proposed reduction in local government funding on the sustainability of social care services. These concerns are reinforced by the WAO's recent reports *[A Picture of Public Services 2015](#)* (December 2015) and *[Supporting the Independence of Older People: Are Councils Doing Enough?](#)* (October 2015) which:

- indicate there may be signs of pressures in adult social care, with a significant reduction in the number of people getting any kind of support from councils;
- identify that there are particular concerns about the sustainability of the residential care home sector in Wales;
- outline that preventative services have experienced a 16.8 per cent cut, with budgets falling from £147.3 million in 2013–14 to £122.5 million in 2014–15.

17. The Committee would welcome further information on how the Minister intends to work across government, and in the broader context of financial constraint, to ensure:

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<sup>14</sup> Welsh Government, *[Welsh Government Draft Budget 2016–2017](#)*, page 29

<sup>15</sup> National Assembly for Wales, *[Draft Record of Proceedings \[paras 50 - 52\]](#)*, 14 January 2016



- the reduction in the local government financial settlement will not lead to a decrease in the availability and quality of social care, including preventative and early intervention services;
- implementation of the eligibility criteria under the Social Services and Well-being (Wales) Act 2015 will not have a detrimental impact on service users, nor lead to any inappropriate restrictions in access to social services;
- mechanisms will be put in place to monitor the effectiveness and impact of pooling budgets;
- mitigation of the risk that cuts in local government budgets could impact negatively on hospitals' ability to discharge patients to be cared for in community settings.

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

*(Principles: budget process; prioritisation)*

18. The Minister told the Committee that the additional £200 million funding for health services in Wales in 2016–17 will be allocated to individual Health Boards based on population shares, and in line with the updated Townsend formula.<sup>16</sup> During the Committee's evidence session it requested an outline of the allocations made to individual Health Boards. This had not been received at the time of writing.

19. The Committee has previously highlighted the need to consider and improve arrangements for financial flows across Health Board boundaries. The Minister wrote to the Committee on 17 July 2015 setting out that, while the Welsh Government had been working with NHS Wales on this issue for some time, principles for the handling of financial flows across Health Board boundaries had not been finalised due to the significant planned service changes that needed to be implemented.<sup>17</sup> The Minister reported in July 2015 that:

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<sup>16</sup> National Assembly for Wales, [\*Draft Record of Proceedings \[para 140\]\*](#), 14 January 2016

<sup>17</sup> Welsh Government, [\*Additional information from the HSS Minister following HSC Committee's in year financial scrutiny session in June 2015\*](#), 17 July 2015, page 4





- the work on financial flows needed to be reviewed by Health Board Chief Executives and others to reflect the proposed changes resulting from the changing patient flow arrangements that would arise through the South Wales Programme and other reconfiguration plans;
- the work on financial flows was now being led by the NHS Wales Health Collaborative Director Bob Hudson and would be updated and submitted to Health Board Chief Executives in September 2015;
- the new principles for income and financial flows could be considered for application starting in 2016–17.

20. During the Committee’s evidence session on 14 January 2016, Andrew Goodall, Director General for Health and Social Services and Chief Executive of NHS Wales, told the Committee that work on agreeing principles had not yet concluded. He added that he was hopeful that principles of agreement would be reached by the end of the 2015–16 financial year, but that they were unlikely to be in place to influence allocations in the first part of the 2016–17 financial year.<sup>18</sup>

21. The Committee is concerned and disappointed that the timescales for delivery of an improved approach to financial flows across Health Board boundaries have not been met. The Committee would therefore welcome a clear action plan for completion of this work to include timescales for the application of the new methodology.

22. Furthermore, the Committee would welcome an outline of the allocations made to individual Health Boards from the additional £200 million provided for health services in Wales in 2016–17.

## E. Intermediate Care Fund

*(Principles: prioritisation; value for money)*

23. The Intermediate Care Fund (ICF) has increased from £20 million in 2014–15 to £50 million in 2016–17.<sup>19</sup> The Committee notes the funding for the coming

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<sup>18</sup> National Assembly for Wales, [Draft Record of Proceedings \[paras 120 - 122\]](#), 14 January 2016

<sup>19</sup> Welsh Government, [Written evidence to HSC Committee: scrutiny of Draft Budget 2016-17](#), 14 January 2016, page 1



year will not be allocated until the projects initiated in the current financial year have been reviewed and welcomes the Minister's commitment to targeting investment at projects which demonstrate tangible evidence of value for money.<sup>20</sup>

24. The Committee commends the opportunities afforded by the ICF to encourage and stimulate the innovation, health and social care integration, and greater collaboration between the statutory and third sector that is essential to deliver much-needed service transformation in health and social care.
25. The Committee would welcome an outline summary of the outcomes of ICF-funded initiatives, with a particular focus on areas of good practice that should be shared and rolled out across Wales.

## F. Capital

*(Principles: affordability; budget process)*

26. The draft budget capital allocation for 2016–17 is £253m, which includes additional funding of £33.4m when compared to the 2015–16 budget allocation. The Minister told the Committee that, in real terms, by 2019–20, the public capital available to the Welsh Government will have been cut by 30 per cent as compared with 2009–10.<sup>21</sup>
27. The Committee believes that availability of capital funding is a key element in securing service transformation, not just in hospital services but also in primary care. It notes that there are potentially significant upcoming capital costs associated with the delivery of planned service change, including:
- the Specialist Critical Care Centre (SCCC) at Llanfrechfa;
  - new cancer provision at Velindre Hospital;
  - the possible reshaping of major trauma services in South Wales;
  - the development of neonatal services in North Wales;
  - improving and developing the primary care estate.

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<sup>20</sup> National Assembly for Wales, [Draft Record of Proceedings \[paras 63 - 64\]](#), 14 January 2016

<sup>21</sup> Ibid, [Draft Record of Proceedings \[para 17\]](#), 14 January 2016



28. The Committee is concerned that the ambitious capital programme required to deliver the service transformation needed to deliver a sustainable NHS in Wales may not be matched by the necessary capital funding. To this end, the Committee would welcome an update on progress achieved in the delivery of the South Wales Programme, which is key to service transformation. A critical element of this is the SCCC and the Committee would welcome an updated timescale for completion and commissioning of the SCCC.
29. Furthermore, the Committee believes that the information published on the capital programme should be accessible, clear and complete. To this end, it would welcome a clear breakdown of planned capital expenditure for 2016–17, including the totals for ongoing capital work, the discretionary capital allocation for LHBs and Trusts and planned new capital investment.

## G. Primary care

*(Principles: affordability; budget process; value for money)*

30. The Minister set out his 2016–17 plans for General Medical Services in his written evidence, including a commitment to continue providing the additional £40m for primary care that was allocated in 2015–16.<sup>22</sup> He indicated the three priorities for this funding would be to help achieve service sustainability, improve access to services, and to move services out of hospital into the community. However, the Minister stated that the allocation of funding for 2016–17 would not be determined until the projects initiated in 2015–16 had been reviewed.<sup>23</sup> The Committee welcomes the Minister’s commitment to targeting investment at:

- projects which demonstrate tangible evidence of value for money;
- diversifying and developing the primary care team;
- improving local access to primary care services.

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<sup>22</sup> Welsh Government, [Written evidence to HSC Committee: scrutiny of Draft Budget 2016-17](#), 14 January 2016, page 6

<sup>23</sup> National Assembly for Wales, [Draft Record of Proceedings \[para 126\]](#), 14 January 2016



31. The Committee's concerns about GP recruitment and retention are well documented in its 2015 work on the [GP workforce in Wales](#). It would welcome an indication of how the Draft Budget has been shaped to ensure:

- there is a sustainable primary care workforce;
- steps are being taken to balance the proportion of GPs and other health professionals in primary care.

## H. Preventative services

*(Principles: prioritisation; value for money)*

32. The Minister's evidence emphasises the importance of investing in preventative services. He states that his plans have used a "whole systems approach"<sup>24</sup> which makes a broader assessment of how public health and social services provision interacts with a variety of other support interventions to meet people's needs. He also acknowledges the importance of rebalancing the health system in Wales towards prevention.<sup>25</sup>

33. The Deputy Minister told the Committee that it is difficult to be precise about the level of spend on prevention. However, he noted that activity ranges from programmes focused on promoting positive lifestyle messages and supporting people to become better informed about their health and wellbeing, through to immunisation and vaccination programmes, and smoking cessation services.<sup>26</sup>

34. The Committee shares the Welsh NHS Confederation's view, as set out in its publication [The 2016 Challenge: A vision for NHS Wales](#), that "bold decisions are now required to make industrial scale change" in healthcare services and that a shift of resources from treatment to prevention is needed to support people to make better lifestyle choices. To this end, the Committee would welcome further information on plans that are being put in place to deliver the

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<sup>24</sup> Welsh Government, [Written evidence to HSC Committee: scrutiny of Draft Budget 2016-17](#), 14 January 2016, page 2

<sup>25</sup> Ibid, [Written evidence to HSC Committee: scrutiny of Draft Budget 2016-17: Annex C – Health and Social Services Integrated Impact Assessment](#), 14 January 2016, page 2

<sup>26</sup> National Assembly for Wales, [Draft Record of Proceedings \[paras 93 - 94\]](#), 14 January 2016



flexibilities needed to facilitate the further development of preventative services called for by the Welsh NHS Confederation.

## I. Impact of legislation

*(Principle: affordability)*

35. The Minister's evidence sets out a number of areas of legislation which will have a financial impact in 2016–17, including:

Legislation	Funding	Action
Human Transplantation (Wales) Act 2013	£0.6m	Delivery of Targeted NHS Services
Social Services & Well-being (Wales) Act 2014	£4.3m	Social Services Strategy
Regulation & Inspection of Social Care (Wales) Bill	£1.5m	Social Services Strategy
Public Health (Wales) Bill	£0.7m	Promote Health Improvement & Healthy Working
NHS Finance (Wales) Act 2014	£0.025m	Delivery of Core NHS Services

36. The Committee would welcome clarification on:

- how the overall costs of implementing legislation has been estimated;
- what work will be done to control, monitor and report on these costs;
- whether the budget will be sufficient to deal with any potential costs relating to legislation which has not been identified in his report (e.g. the Nurse Staffing Levels (Wales) Bill);
- whether the funding identified for the implementation of the Social Services and Well-being (Wales) Act 2014 will be sufficient.

## J. Independent Living Fund

*(Principle: prioritisation)*

37. Further to the [Committee's consideration in January 2015 of arrangements for the transfer of responsibility for the Independent Living Fund \(ILF\)](#) from the UK to the Welsh Government in summer 2015, it welcomes the Minister's



confirmation that £27 million was allocated to Wales via the Comprehensive Spending Review for 2016–17.<sup>27</sup> The Committee further welcomes the Minister’s assurance that the £27 million will be put directly into Wales’ new Independent Living Grant. The Committee also notes that the Minister does not intend to change the administrative arrangements for distributing grants via local government in the short term, but that discussions are underway regarding the long term approach to the administration of the ILG.<sup>28</sup>

38. The Committee would welcome further information about the longer term arrangements for the distribution of the Independent Living Grant once discussions have progressed.

## K. Litigation and the risk pool

*(Principle: affordability)*

39. The [Welsh Government’s consolidated accounts](#) recognise an obligation to pay for certain costs in future years. Welsh Government provisions have increased to £707 million (2014–15) from £605 million (2013–14). In the 2013–14 accounts it was highlighted that almost all of this, £593.8 million, related to the NHS Welsh Risk Pool, which mainly relates to clinical negligence. The figure for the risk pool was not specified in the 2014–15 accounts.

40. The Committee shares the Minister’s view that the cost of litigation is a “source of anxiety”,<sup>29</sup> but recognises the Welsh Government is unable to affect the levels of damages paid out to eligible claimants, as the levels are determined by the courts. However, the Committee notes that growth in the costs and damages associated with the claims is not restricted to Wales and has been experienced across the UK. Furthermore, it notes the Minister’s statement that the increase in the number and cost of claims is lower in Wales than in England.<sup>30</sup>

41. The Minister explained that Health Boards are now required to demonstrate that action has been taken to address the source of any claim before any

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<sup>27</sup> National Assembly for Wales, [Draft Record of Proceedings \[para 182\]](#), 14 January 2016

<sup>28</sup> Ibid

<sup>29</sup> Ibid, [Draft Record of Proceedings \[para 147\]](#), 14 January 2016

<sup>30</sup> Ibid



reimbursement is secured from the Risk Pool.<sup>31</sup> The Committee welcomes these measures.

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<sup>31</sup> National Assembly for Wales, [\*Draft Record of Proceedings \[para 149\]\*](#), 14 January 2016

