

Welsh Government Draft Budget 2018-19

December 2017

Introduction

1. This report sets out the Health, Social Care and Sport Committee's ('the Committee') views on the Welsh Government's draft budget 2018-19 in respect of the policy areas within the Committee's remit. It takes into account funding levels for social care, provided to local authorities within the Revenue Support Grant. This report is intended to inform the Assembly's debate on the draft budget, scheduled for 5 December 2017.
2. The draft budget 2018-19 is the first to reflect the new tax and borrowing powers being devolved to Wales. It is also the first draft budget to be scrutinised in line with the new budget process agreed between the National Assembly's Finance Committee, the Assembly Commission and the Welsh Government.

The Welsh Government's Draft Budget 2018-19

3. On 3 October 2017, the Welsh Government published its outline proposals for the draft budget 2018-19, setting out the allocations for the budget's main expenditure groups (MEGs). The detailed draft budget, including individual areas of expenditure within each MEG, was published on 24 October 2017. It includes two-year revenue allocations and three-year capital allocations.
4. When the draft budget was published, the Health, Social Care and Sport MEG was the only one that reflected specifically the Committee's remit. Following the Cabinet reshuffle and the change in Ministerial portfolios on 3 November 2017, the responsibilities for sport moved from the Cabinet Secretary for Health, Well-being and Sport to the newly created role of Minister for Culture, Tourism and Sport. It is anticipated therefore that the associated funding will be transferred into the Economy and Infrastructure MEG. On 21 November 2017, the Cabinet Secretary for



Finance announced that the revised MEGs will be published ahead of the draft budget debate on 5 December 2017.

The Committee's approach to budget scrutiny

5. In October 2016, the Committee published its 'Strategic objectives for the Fifth Assembly'. This set out its intention to consider all of its work in the context of a set of agreed objectives. Of specific relevance to the scrutiny of this draft budget are our objectives to consider the following: the extent to which a preventative approach is being pursued to health and well-being; evidence of effective and efficient spending commitments; and consideration of matters relating to the health and social care workforce.
6. In June 2017, the Committee undertook an in-year financial scrutiny session with the Cabinet Secretary for Health, Well-being and Sport, to establish the position at that time.
7. Prior to the publication of the draft budget and in preparation for its scrutiny, the Committee received written and oral evidence from all the health boards and a representative of the Welsh NHS Confederation during two sessions on 27 September and 11 October 2017. This was a new approach to the Committee's scrutiny of the draft budget. The Committee may take pre-budget evidence from the NHS trusts in future years. In respect of social care, the Committee took evidence from the Welsh Local Government Association (WPGA) and the Association of Directors of Social Services Cymru (ADSS). The latter two sessions took place following publication of the outline draft budget proposals.
8. The Committee is grateful to health boards and local government representatives for their written papers. This report sets out our views and observations. We have not provided a detailed summary of their evidence. It can be found on the Committee's webpage¹.
9. The evidence gathered during these pre-budget evidence sessions informed the Committee's scrutiny session with the Cabinet Secretary for Health and Social Services and the Minister for Children and Social Care on 15 November 2017.
10. Due to the changes in ministerial portfolio (referred to in paragraph 4 of this report) that took place after publication of the draft budget, the Committee wrote to the Cabinet Secretary for Economy and Transport in respect of funding for sport. The response provided can also be found on our website.

¹ Health, Social Care and Sport Committee, 27 September and 11 October 2017

Health, Social Care and Sport MEG

Overview

11. The Welsh Government's overall Departmental Expenditure Limit (DEL) for 2018-19 has increased by £270m to £15.371billion.
12. The Health, Social Care and Sport Main Expenditure Group (MEG) is the largest MEG within the Welsh Government's draft budget 2018-19. The allocation within it is £7,647m, a 0.5% increase in real terms from the 2017-18 supplementary budget. This is made up of :
 - £7,231m resource: 0.8% real terms increase;
 - £295m capital: a 15.2% real terms increase; and
 - £121m Annually Managed Expenditure (AME).
13. Excluding AME, more than 90% of this funding is allocated to NHS Wales whilst 0.5% is allocated to Social Services. Although note that funding for local authority social services is primarily via the Revenue Support Grant.
14. In his evidence paper, the Cabinet Secretary told us that the most significant change to the Health, Well-being and Sport MEG for 2018-19 is the additional investment of a further £450 million in the Welsh NHS over the next two years (£230m in 2018-19 and £220m in 2019-20).

Health

Transformative change

15. During its scrutiny of the previous year's draft budget (2017-18), the Committee expressed concern about the slow progress in respect of service transformation in health and social care. At that time, the Cabinet Secretary told us 'the pace of change needs to be stepped up'. Similarly, his evidence to the Committee's in-year budget inquiry (June 2017) stated:

"I think the honest perspective is that we've seen real change in service transformation across the health sector but we'll need to see a lot more, and part of my frustration is the pace of that change - I don't think it's where it needs to be. And I'm really looking for a significant step forward in the pace of that change."

16. The Welsh NHS Confederation (WNHSC) in its response to the Finance Committee's draft budget consultation states that 'radical change is needed if NHS Wales is to meet the level of demand being placed upon it whilst living within its means'. It also identifies the need for transformation and transition funding to be given to NHS organisations to invest in new care models and technologies.

17. The Committee notes Abertawe Bro Morgannwg UHB's (ABMUHB) view that:

"Current funding mechanisms support to a large degree transformational change within Health Board organisational boundaries – given the constraints set out above of the requirement to deliver financial balance on an annual basis. The shortage of NHS Wales Capital funding in the foreseeable future will, however, be a constraint within this, and further advice and support on securing alternative sources of funding would be welcomed."

18. It also told us that 'relatively small amounts of monies which are made available for specific services (...) can make it more difficult to support local transformational change. It says 'this has also been some of the experience with some of the primary care investment to cluster networks, which has delivered on very local priorities but has consequently not been targeted at opportunities to make system wide changes in pathways and models of care'.

19. In oral evidence to the Committee during in-year budget scrutiny (June 2017), the Cabinet Secretary explained that the Nuffield Trust and the Health Foundation said 'about £200m extra' was needed, 'on a regular, annual basis to keep the wheels turning in the health service. They didn't say that was £200m for significant service transformation or improvement. So, that's money to help keep the services going'.

20. This was reiterated by the Finance Secretary, Mark Drakeford AM, on 3 October 2017, when he said that the extra money for the NHS in Wales for 2018-19 is not a 'generous settlement' but will let it 'go on doing the vital work it does'.

21. In oral evidence on 15 November 2017, the Cabinet Secretary for Health and Social Services told us:

"[...] this settlement is about giving the service the resources that objectively we've been told it should need to be able to keep the wheel turning and to allow it to be sustainable while we continue on that path of reform."

22. Significant service transformation is central to the long-term success of a financially viable NHS Wales. The Committee agrees that transformation and transition funding, from within the existing funding for NHS Wales, is essential to deliver this

change. If this does not happen we remain in a position where additional sums of Welsh Government funding are being ploughed into maintaining current delivery models. Any additional Welsh Government allocations to NHS Wales must be used to lever long-term change.

Recommendation 1. The Welsh Government should ensure, following the publication of the Parliamentary Review of Health and Social Care in January 2018, that it fully costs plans to take forward transformational change of health and social care. Additional funding for the NHS must be premised on it delivering change.

Recommendation 2. The Welsh Government should identify ways in which transformation and transition funding is prioritised and made available for NHS organisations from within existing budgets.

Preventative spend

23. The Cabinet Secretary's written evidence to the Committee's in-year budget scrutiny, June 2017, emphasized the importance of investing in preventative services.

24. The health benefits of prevention are clear. It is more prudent to prevent a disease than to treat its consequences at a later stage. We also note that 'Making a Difference: Investing in Sustainable Health and Well-being for the People of Wales, (Public Health Wales, 2016) sets out that prevention offers 'good value for money'. It states:

"Preventive policies and interventions save lives, money and improve people's mental, physical and social well-being. They show both short and long-term benefits far beyond the health system - across communities, society and the economy."

25. We note that funding for Public Health Wales is 1.7% of the Health, Well-being and Sport MEG (excluding AME). For 2018-19 that is the equivalent of £88.4m for Public Health Wales NHS Trust.

26. Our recent inquiry into Primary Care Clusters found some examples of clusters using funding to take forward preventative work, but that it was not clear that they have the capacity and drive to take forward such a substantial agenda.

27. The Welsh Government does not set requirements for NHS organisations on the proportion of their funding they should spend on preventative activities. The Welsh Government notes in its evidence paper that it has therefore used an alternative approach to assess the level of NHS spending on prevention; reviewing centrally

held budgets against the following categories: primary prevention, secondary prevention, tertiary prevention, and acute spending.

- 28.** In oral evidence on 15 November 2017, the Cabinet Secretary for Health and Social Services was asked how much of health board funding should be going on preventative spending. He told us he was ‘not going to get into giving artificial figures on sums of money or percentages’.
- 29.** We acknowledge that there are clear examples where the Welsh Government itself is taking forward a preventative approach. For example, in our Stage 1 report on the Public Health (Wales) Act 2017 we recommended that the then Minister urgently examined the potential to introduce measures to tackle obesity. We are pleased to see therefore that the Welsh Government has subsequently committed to developing a national strategy which focuses on preventing obesity, and reducing obesity levels.
- 30.** We also welcome the ongoing investment in the Integrated Care Fund (ICF) (formerly the Intermediate Care Fund), which takes a preventative approach promoting integrated working between social services, health, housing and the third and independent sectors.
- 31.** However we note evidence from WNHSC to the Finance Committee setting out the challenges of shifting spend towards preventative services. It says:

“Investment in prevention and early intervention is a priority for our members. However, there is a very real tension between the need to meet the immediate costs of treating those in need of healthcare services and diverting resources into preventative services which may not deliver tangible gains for a number of years.”

- 32.** This Committee is not convinced that there is sufficient impetus either nationally or within health boards to shift the balance of funding significantly towards preventative work. For health boards who are working to balance their books on an annual basis, the challenge of shifting spending away from existing services may seem like too much of a risk.

Recommendation 3. The Welsh Government and NHS Wales must prioritise prevention. This must range from interventions that deliver timely outcomes for patients to invest to save programmes such as health prevention campaigns. Investment in a preventative approach must be integral to the transformational change of NHS Wales.

The financial position of the health boards

- 33.** Given the largest proportion of the Welsh Government's funding for NHS Wales goes directly to health boards and trusts, the Committee sought to examine their current financial position. This year we have focused specifically on health boards, looking at whether resources provided to them are sufficient, represent value for money, and evidence they are spending effectively to deliver quality and sustainable health care.
- 34.** The Committee requested written information from the health boards ahead of its pre-budget oral scrutiny evidence sessions with them. We requested detailed information with a specific focus on four key areas: mental health; financial performance; the pace of change; and workforce pressures.
- 35.** In the oral evidence sessions, the Committee sought to examine the financial end of year position for 2016-17, the emerging position for 2017-18 and the objectives and potential challenges for 2018-19.
- 36.** We note that the ambitions of the National Health Service Finance (Wales) Act 2014 have not been fully realised by all NHS bodies. It requires health boards to manage their resources within approved limits over a three-year rolling period. We note that the Welsh NHS Trusts all reported a surplus each year between 2014-15 and 2016-17. This is very much welcomed.
- 37.** However, it is disappointing that four of the seven LHBs reported a deficit in at least one of the preceding three years. In particular, it is of concern that Betsi Cadwaladr and Hywel Dda both reported a deficit in each of the years 2014-15 to 2016-17.
- 38.** These points are illustrated in the three figures below:

Figure 1: Health Boards' aggregate performance against revenue spending, 2014-15 to 2016-17. Source: LHB Annual Accounts

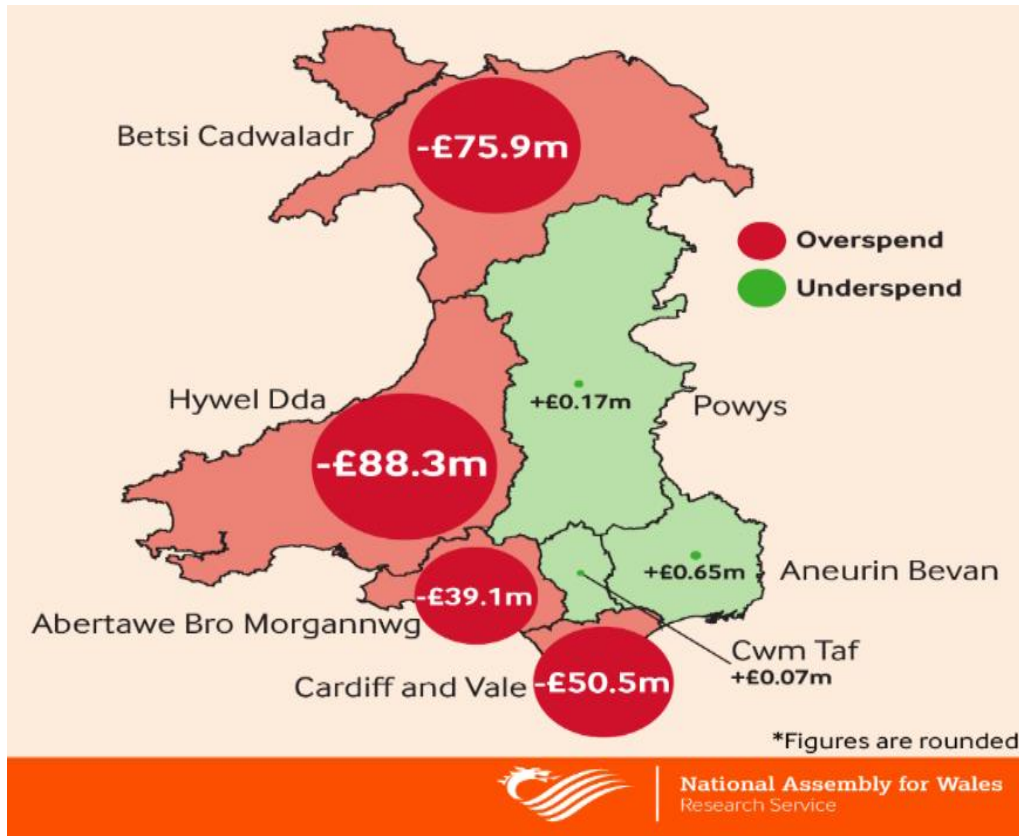


Figure 2: Welsh Health Boards' financial performance 2014-15 to 2016-17

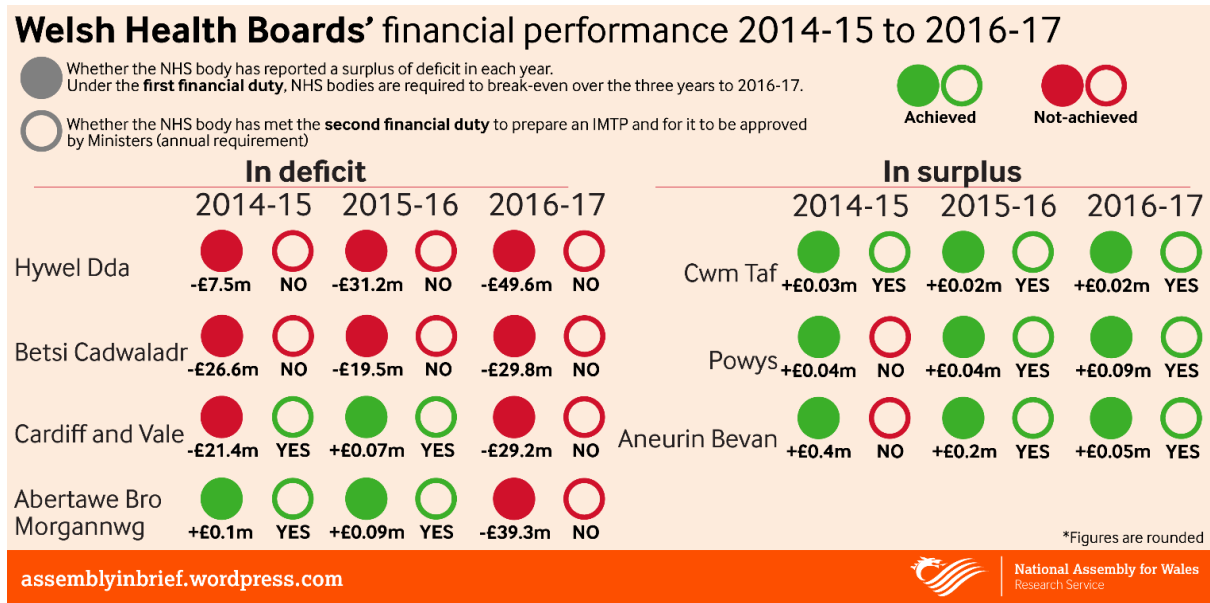
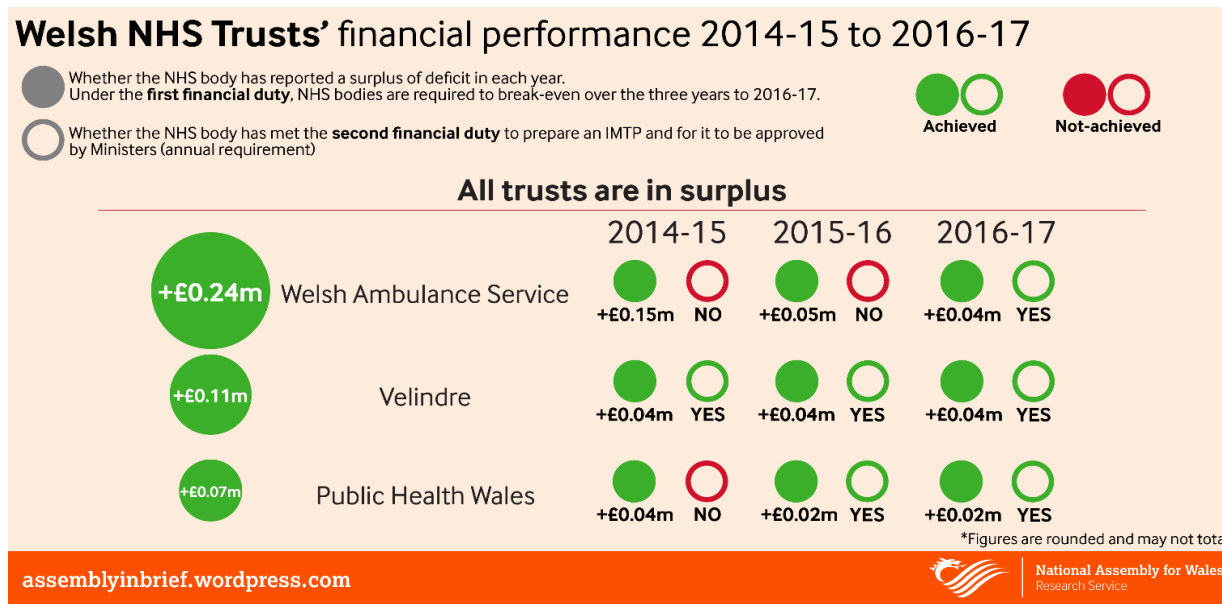


Figure 3: Welsh NHS Trusts’ financial performance 2014-15 to 2016-17.



39. We also note the findings of the 2017 report of the Auditor General for Wales on the implementation of the NHS Finance (Wales) Act 2014. He pointed to the fact that whilst there has been increased spending on health, some health boards are still relying on the Welsh Government making additional in-year funding allocations. The Auditor General notes this causes challenges for financial management in Welsh Government, needing to shift funding from other areas.

40. During the in-year budget inquiry in June 2017, the Cabinet Secretary confirmed he would be receiving and considering the financial governance reports on the health boards over the summer. He said:

“I think we should all have a healthy dose of scepticism about health boards that don’t currently live within their means, about what the real scale of that is.

[...] if you currently run the model you’ve currently got and you know you can’t live within your means for that, you should actually ask yourself, ‘Well, is that the right model of care to be providing?’

[...] the two health boards that live within their means, that are large health boards with secondary care provision, actually cover a significant chunk of the most deprived parts of Wales. So, there is something about understanding how those health boards have been successful. And that’s part of our challenging the system, about making sure that we transfer that successful leadership and understanding across our whole system.”

41. In oral evidence, the health boards all set out their attempts to meet the current financial challenges. When questioned about when Betsi Cadwaladr University Health Board (BCUHB) would 'balance the books', Gary Doherty, its Chief Executive said:

"Am I confident we can improve our position? Yes. Am I able to give you today a date when that break-even position will be achieved? No, because like I say, that would be putting us in a position where we shouldn't be today, and it wouldn't be right for me to get into that position."

42. The Cabinet Secretary for Health and Social Services told us in oral evidence that 'it is realistic' for health boards to get out of their deficit positions. He also told us that Betsi Cadwaladr UHB was 'the one I am most concerned about'. When questioned about the £95 million set aside by the Welsh Government in the previous year to deal with potential health board funding, he told us that he was thinking about a 'similar sort of sum' for this year although this was not as yet confirmed.

Recommendation 4. The Welsh Government should review the current methodology for setting health board budgets and publish its findings. Health boards must be working towards financial viability from a position of confidence that their current funding levels are appropriate.

Health board efficiencies

43. During our scrutiny, we sought to examine the scale of efficiencies that health boards have achieved to date and to find out whether there is a realistic possibility for future efficiencies to deliver the scale of financial change needed to make all health boards break even.

44. We note the findings of the Health Foundation in its 2016 report: 'The path to sustainability: Funding projections for the NHS in Wales to 2019-20 and 2030-31' which stated that the NHS in Wales is 'facing the most financially challenging period in its history'. Amongst its conclusions were that NHS Wales must deliver at least £700m of efficiency savings to close the projected funding gap by 2019/20.

45. We also note that similarly, the Public Policy Institute for Wales 2016 report 'Efficiency and the NHS Wales Funding Gap' suggests the 'easy gains' have been achieved by the Welsh NHS and achieving further gains is becoming more difficult. This is of concern given the scale of efficiencies which need to be delivered.

46. During the in-year budget scrutiny session in June 2017, the Cabinet Secretary stressed his belief that there was still scope for improved efficiency within NHS

Wales. He stated 'to say all the low-hanging fruit is gone, I have real scepticism about that'.

- 47.** The Cabinet Secretary also told us the Welsh Government hypothecated funding for innovation through the Efficiency through Technology Fund will reduce by £4 million in 2018-19. He says it has led an initiative to improve efficiency in health spending, through the establishment of an Efficiency, Healthcare Improvement and Value Group, chaired by the Chief Executive of NHS Wales. He also says that this Group has identified a range of opportunities where reducing variation in the way services are delivered across Wales can increase efficiency with no impact on the quality of services delivered.
- 48.** However, we also note the WNHSC, in its submission to the Finance Committee's consultation on the 2018-19 draft budget, stated that the NHS in Wales has delivered more than £1.1 billion in recurrent efficiency savings since 2011. However, it stated:
- “[...] our members are therefore continually seeking to drive out efficiency savings where they can, but successive years of dealing with financial challenges means the traditional methods of finding savings are unlikely to serve us well in the future. [...]”
- 49.** In their evidence to us, health boards told us that delivering efficiencies is getting harder every year. We also heard that whilst there are opportunities to do things differently, each of them is difficult to achieve.
- 50.** Whilst we welcome the evidence about the establishment of an Efficiency, Healthcare Improvement and Value Group, we are not convinced, to date, there is a clear and robust plan to deliver the remaining NHS efficiencies within the timeframes being discussed.

Recommendation 5. The Welsh Government should develop an all-Wales efficiencies programme in order to ensure that local good practice is translated in to all Wales service-wide change.

Recommendation 6. The Welsh Government's all-Wales efficiencies programme (our Recommendation 5) should include a clear focus on how capital investment will deliver efficiency savings and support transformational change.

Capital allocations and spend

- 51.** The Welsh Government told us it has an ambitious NHS infrastructure programme over the next three years which will see the delivery of new facilities and some major redevelopments as a result of increased investment in NHS capital funding.
- 52.** Within the increased capital allocation, £82.7m (29%) is made available to NHS organisations as discretionary capital for the following priority areas: meeting statutory obligations, such as health and safety, and fire code; maintaining the fabric of the estate; the timely replacement of equipment.
- 53.** Evidence from the health boards suggests they are using their capital to maintain the performance of that essential equipment and maintain the estate, For example Cardiff and the Vale UHB stated:
- “We get up to £16 million capital to spend each year. Most of that is taken up in maintaining all sites, maintaining the Heath, which has got tremendous amounts of need - backlog work that needs to be done to keep it functioning and operational. We do try to use some of it to improve our revenue position by replacing old, outdated theatres, or old, outdated areas for the delivery of clinical care that allow modern layouts to make care easier and less reliant on old infrastructure. So, unfortunately, it’s taken up with most of that, so the opportunity to use it to reduce revenue is quite limited, I’m afraid.”
- 54.** Several of our Committee reports to date have highlighted the importance of capital investment to underpin the Welsh Government’s ambitions for the NHS. For example, our recent report on Primary Care Clusters highlighted that the current NHS estate was not fit for purpose to deliver the emerging multi-disciplinary way of working. We therefore welcome the Welsh Government’s investment in a new generation of integrated health and care centres, which aims to see 19 projects across Wales being delivered by 2021’.
- 55.** Whilst we welcome the fact that all LHBs stayed within their capital spending limits for 2014-15 to 2016-17, we are concerned that the focus of the vast majority of this spend is on maintenance of the current estate rather than on investment to support the transformation of long-term sustainable services.
- 56.** WNHSC’s submission to the Finance Committee notes that the capital settlement for the NHS will be ‘critical’. It welcomes Welsh Government commitments to prioritise the investment in new medical equipment, IM&T and estate infrastructure and the increased certainty provided through a four-year capital budget, as they

believe it allows the NHS to better plan for the future. At the same time, WNHSC note that the capital allocation is 'particularly challenged' saying:

“The shortage of capital funding is a very particular barrier to service change. In order to consolidate services and make them more efficient to release revenue there will need to be a significant investment now and in the future in buildings, equipment and information and communication technology in the secondary care sector but also in primary and intermediate care.”

57. We welcome the Welsh Government's additional capital allocations. We also welcome the fact that some health boards have ambitious and wide-ranging Estates Strategy and proposed capital investment programmes including in digital technology. It is essential that such strategies have a clear focus on how capital investment can support future efficiency savings and service reconfiguration.

Recommendation 7. The Welsh Government should support and hold health boards to account to prioritise capital funding for primary care and ensure it improves the physical capacity for multi-disciplinary working and promotes new models of care.

Mental health

58. In 2008, the Welsh Government introduced arrangements to ring-fence mental health revenue allocations to health boards with the aim of protecting investment in mental health services.

59. The written evidence from the Cabinet Secretary and Minister states that, in line with the budget agreement with Plaid Cymru, the mental health ring fenced allocation for 2018-19 and 2019-20 will be increased by £20 million to nearly £650m from its current level of £629m.

60. We welcome the additional resources for mental health and the fact that health board spending on mental health generally exceeds the ring-fenced allocation. However, we are mindful of the need for additional resources to meet growing demand for mental health services and urge the Cabinet Secretary to ensure that adequate resources are available for mental health services going forward.

61. Evidence we received from health boards highlighted the pressures facing mental health services, including in Child and Adolescent Mental Health Services (CAMHS), crisis services, and Community Mental Health Teams (CMHTs). The increasing prevalence of dementia is also driving demand for services, including the growing need for Continuing NHS Healthcare. Our current inquiry on the use of

antipsychotic medication in care homes to manage the behavioural and psychological symptoms of dementia has emphasised the need to improve access to non-pharmacological treatment options and therapies.

62. Service reconfiguration in mental health is as important as in other health services, where spending on primary mental health services can have a preventative effect and in the longer term ease the pressures on in-patient services.

63. We welcome service innovations such as social prescribing and would highlight the importance of gathering evidence on the effectiveness of such schemes to enable informed decisions about future investment in services. The Committee's recent work on dementia and on loneliness and isolation has highlighted the importance of low level, community based support in enabling people to maintain their health and well-being and delay or prevent the need for more intensive care and treatment. It is therefore concerning that financial constraints are putting such local authority services under pressure, including in mental health where joint working with the NHS is well established in many areas.

Recommendation 8. The Welsh Government should undertake a further review of the mental health ring-fence to assess whether it has led to effective and appropriate expenditure on mental health and ensuring improved outcomes for patients.

Prisoner Health

64. We were concerned to hear from the health boards that funding for prison healthcare is not responsive to changes in the prison population. For example, ABMUHB told us it is facing ongoing pressures on its secondary care mental health in-reach team serving HMP Parc, estimating this additional cost to be approximately £400K. This is as a result of the service originally being commissioned based on a prison population of 800, but the prisoner population has risen to 2000, (a rise of 150%) whilst the levels of in-reach resource has remained static.

65. On an all-Wales basis, the Cabinet Secretary's explanation that the £2.5million transferred to the Welsh Government for this purpose has not increased to take account of the rising costs of prison healthcare has not provided reassurance. Given the development of HMP Berwyn in North Wales, we share the Cabinet Secretary's concerns about the adequacy of the funding arrangements for prison healthcare.

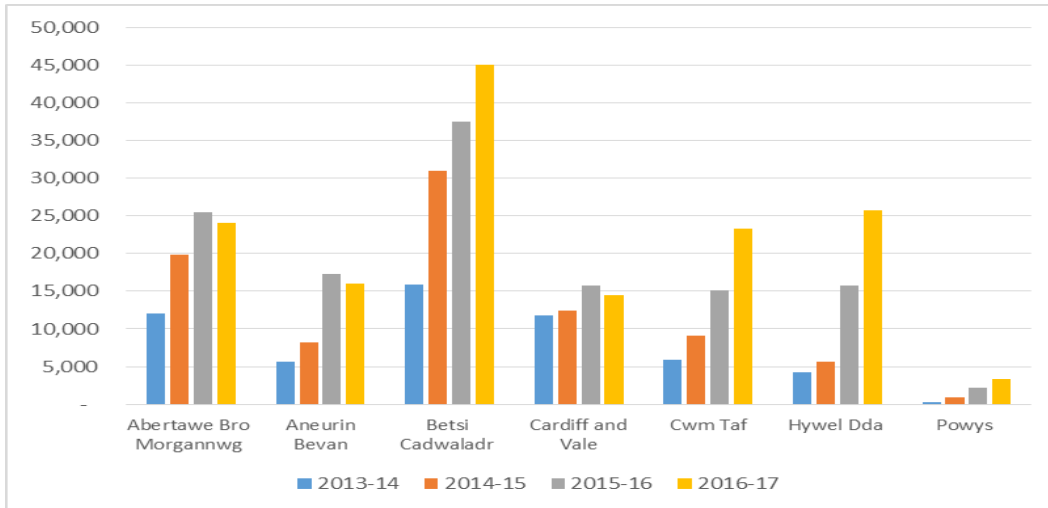
Recommendation 9. The Welsh Government to make the strongest possible case to the UK Government / National Offender Management Service for increasing what is a relatively modest financial allocation for prisoner health in order to ensure that

individuals in the secure estate in Wales, who often have above average needs, particularly in mental health, are able to receive a quality level of healthcare.

Health workforce

- 66.** The Committee has concerns about a number of funding issues related to the workforce. These include the costs to the NHS of agency staff and locum costs; the public sector pay cap; and the long-term investment needed in our GP workforce and the allocations made for training places.
- 67.** Health Boards consistently emphasised how fundamental workforce costs and issues are to delivering transformative change. We are clear that issue will be a crucial factor in whether NHS Wales will balance the books in the longer term.
- 68.** The Cabinet Secretary's submission for the in-year scrutiny session sets out a number of areas of investment in developing the health and social care workforce to meet current and future needs, including £46.2m to support primary care workforce plans; £95m to support education and training programmes; £8m social work development programme; £0.733m to support additional medical training places; continuing bursaries for initial social work training (up to £2,500 a year for three years); extending NHS bursaries and £19m to assist in implementing the National Living Wage.
- 69.** At the same time, there is limited evidence on the outcomes expected from this investment in terms of numbers of new staff, the development of skills and changes in services, as well as where the co-ordination and leadership for these changes will come from.
- 70.** In their written papers, all health boards referred to issues with controlling variable pay and cost of agency, locum and bank staff. We note that agency costs pose a particular challenge for several health boards. It is concerning that NHS Wales agency costs as a percentage of total salary and wages rose from 2.4% in 2013-14 to 5.7% in 2016-17. For 2016-17, the values for individual health boards ranged from 3% (Cardiff and the Vale) to 8.3% (Cwm Taf). This is illustrated below. We anticipate the implementation of the Nurse Staffing Levels (Wales) Act in April 2018, whilst welcome, will have the unintended consequence of increasing those costs.

Figure 4: Local Health Boards Staff Agency Costs, 2013-14 to 2016-17 (£'000)



- 71.** We welcome the health boards reporting they are making significant efforts to tackle their workforce issues. This includes involvement in all-Wales work to control the costs of agency work; encouraging long-term locums over time to become permanent NHS employees; tailored medical recruitment campaigns such as the work in Emergency Medicine in Ysbyty Gwynedd, which the Committee heard about during its recent inquiry into medical recruitment; and local and national recruitment campaigns for nursing.
- 72.** However, we also heard of the potential workforce risks associated with Brexit, with Betsi Cadwaladr UHB reporting that approximately 37% of their workforce declaring a nationality other than British. The WNHSC estimates around 1,300 people within the NHS are currently from European countries. Other health boards, such as Cwm Taf, told us the areas where they are experiencing recruitment difficulties have higher percentages of workforce from the EU and overseas with medical and dental services especially affected, with around 50% of EU and overseas staff.
- 73.** In oral evidence, the Cabinet Secretary told us ‘we recognise that this is a significant area of challenge’. He went on to outline a range of ways in which the Welsh Government is seeking to address this issue, for example he told us about increases in training places for both nurses and midwives. He also referred to the creation of Health and Education Improvement Wales and referred to a £95 million investment in training future healthcare professionals.

Recommendation 10. Given the significant amount of NHS Wales’s expenditure on agency staff, the Welsh Government should commission a review of the anomalies and perverse incentives across agency / bank arrangements with a view to making changes which significantly reduce spend.

Social Care

74. Local authority social care is partly funded through the revenue support grant. The provisional Local Government Settlement 2018-19 was published on 10 October 2017 setting out the allocations to each of the 22 local authorities. Whilst Cardiff has its funding slightly increased (0.2%), funding for all the other local authorities will reduce by up to 1%.

75. The Welsh Government's Draft Budget includes a two-year revenue budget, the figures for 2019-20 being indicative. In terms of social services the budget narrative in the document states:

“[...] In this Budget, we will continue to invest in social care, providing an extra £42m in 2018-19 increasing to £73m 2019-20. This is equivalent to maintaining the Welsh Government share of core spending on social care at 2017-18 levels in 2018-19 and 2019-20.”

76. The Welsh Government also refer to £20million extra recurrent funding which has not been made available from 2017-18 through consequential funding following the UK Government's March budget.

77. In oral evidence, Jon Rae, Director of Resources, Welsh Local Government Association, told us: ‘we're not convinced it's additional resource; it's a reallocation of resource within the current funding envelope. The funding envelope for 2018-19 reduces by 0.5 per cent. That's £20 million.’

78. The WLGA/ADSS Cymru written evidence also set out its views on the Welsh Government's funding settlement for social services for the current year (2017-18):

“The additional funding that was made available as a result of consequential funding from the UK government's March budget was awarded for specific areas of work with restrictions placed on what it could be used for, rather than providing local authorities with flexibility to meet local demand and needs. (...) However, if part of this additional funding is for new responsibilities then it cannot be said to be funding any existing pressure.”

Pressures on social care

79. WLGA/ADSS Cymru told us about the financial pressures experienced by social care. They were clear in their view that social services spending is not currently keeping pace with increasing demand. They estimate that this year there will be a

shortfall in social services budgets of £100m and are sceptical about the proposed increases for 2018-19:

“So, we estimate this year there will be a shortfall of £100 million; accumulatively, £344 million. You will have seen in the evidence that there’s been an independent report by the Health Foundation that estimates that the cost of adult social care’s going to double over the coming years. The impact of that is that we are going to struggle to maintain existing services because, obviously, we have fewer resources and we have rising demand for services, and the cost of those services is also rising as well.”

80. WLGA/ADSS referred to the impact of changing demographics. Leader of Bridgend Council, Huw David, told us:

“You look at the number of people over 65 in the next 15 years, and, even more frighteningly, the number of people over 85, and, unfortunately, there is going to have to be a public sector intervention for them unless another model can be developed. It is the perfect storm, isn’t it? The demographic time bomb at a time of financial austerity is very difficult. ”

81. Jon Rae of the WLGA told us ‘the bottom line is that cuts are having a big effect on local public services’.

82.In written evidence the Cabinet Secretary for Health and Social Services told us:

“Welsh Government is aware of the potential tension between day-to-day cost pressures and preventative spend for social services. Our major legislative and service reform aims to free up local authorities and the wider sector to respond to the demographic and other challenges by taking a longer term approach focusing on prevention and early intervention and meeting personal well-being outcomes in improving the well-being of people in Wales.”

83.In oral evidence on 15 November 2017, the Minister for Children and Social Care referred to reductions in the Welsh Government’s budget acknowledged the pressures on social care. Referring to the Welsh Government’s budget, he said:

“It’s going to be £1billion lower in real terms than we had in 2010-11, with increasing pressures at the same time.”

84. The Committee is acutely aware of the impact of prolonged austerity on local government and that the Welsh Government continues to make difficult decisions in light of the reductions in its budget. We do not underestimate the challenges

faced by authorities in continuing to deliver and improve services for communities in Wales within reduced budgets. We believe it is incumbent on both the Welsh Government and local government to work collectively to identify solutions that will ensure sustainable funding not only for vital local services, such as education and social care, but for unprotected services such as planning and regulatory services, which have borne the brunt of austerity.

85. Delivering quality and sustainable social care is one of the most significant challenges facing national and local government today. However difficult and testing this may be, the escalating costs of social care coupled with rising demand means this problem needs urgent attention and must be at the forefront of budget considerations over the next few years. The Committee has specific concerns about likely increase in demand for social care places for older adults and the trend of a decreasing number of places for older adults over the past few years, despite a small increase in 2016-17. Given the ‘perfect storm’ referred to by the WLGA, planning for future social care provision and creating a sustainably funded model is crucial. We are aware of proposals for new approaches being developed to help pay for social care, making use of the opportunities provided by the devolved tax system.

Recommendation 11. The Welsh Government should invest in a whole-system approach to health and social care. It must ensure there is planned year-on-year additional funding available for social care and that it is sufficient to reflect increasing demands.

Increases in NHS funding compared to social care

86. WLGA/ADSS also drew our attention to differences in resources provided to the NHS and social services. Cllr Huw David told us

“[...] the pressures that we face are more acute than the pressures in the health service. The health service will have their budgets increased this year. [...] We will not have our budgets increased; our budgets will be reduced this year.”

87. Effective social care is crucial for an effective NHS. There is therefore no doubt that a sustainable NHS Wales is reliant on investing adequately in social care. We note the findings of the Health Foundation’s 2016 report which found:

“Adequately funded social care is critical to a sustainable health service. But as the Welsh population ages, pressures on social care are projected to rise at a faster rate than for the NHS. With funding unlikely to rise at the same

rate, there is a real risk that the level of unmet need for care services in Wales could increase.”

Threshold for residential care

88. We note the then Cabinet Secretary for Finance and Local Government’s written statement of 10 October 2017 where he referred to the changes to social services charging, stating:

“Prior to the final settlement we will consider further evidence collected on the financial impact of increasing the capital limit used in charging for residential care. This will allow a decision to be taken on the next stage of increasing this limit to deliver our commitment to raise it to £50,000 during the lifetime of this government.”

89. In oral evidence, the Minister stated:

“It is a firm commitment of this Government to do. We think it's achievable. We think it's deliverable. We can see the benefits delivering. I have to say, as well, it is immensely popular as a commitment as well. So, people are expecting us to deliver on this. But we do want to make sure that we do it in the right way. So, this mid-year, more balanced approach, to look at the analysis and see how we take it forward for the next part of the budget, will be a crucial one. But we are confident we will be taking this commitment forward.”

90. The change in the residential care threshold raises questions about the impact of this commitment on the overall budget. This is an issue the Committee will monitor closely as the changes are implemented.

Sport

91. The Committee was surprised to see the change in Welsh Government portfolios, with sport and physical activity being separated from public health, after being purposely brought together under one portfolio. Indeed the Welsh Government’s written paper provided on 15 November to assist this Committee with the scrutiny of the draft budget states:

“Physical activity is shown to play a significant role in health and prevention of illness, and can contribute to mental well-being and reducing isolation. Sport has a meaningful role to play in contributing to physical activity levels.

It is for this reason that Sport and Public Health were brought together in this Government.”

- 92.** Nevertheless, the letter we received from the Cabinet Secretary for Economy and Transport on 21 November 2017 states that the Welsh Government does not consider there is any separation between health, sport and physical activity, despite the splitting of the portfolios. The Cabinet Secretary’s letter goes on to say ‘the change in Ministerial portfolios will not deter or have any negative impact on the work being undertaken by Sport Wales or on their outcomes framework’. This Committee has noted the Welsh Government’s apparent change of position in this regard and will monitor developments to determine whether this is the case over time.
- 93.** Sport Wales is tasked with important duties, including developing a new approach to physical activity and increasing the number of people meeting the Chief Medical Officer’s guidelines for physical activity, which must be delivered effectively. We plan to hold a scrutiny session with Sport Wales later in this Assembly to assess and review its progress. The Cabinet Secretary’s letter acknowledges that ‘more work needs to be done’ to increase the number of young people who take part in sport and physical activity and states that this remains a priority for Sport Wales. We anticipate that our current inquiry into the physical activity of children and young people will provide a steer for the Welsh Government on this issue.
- 94.** The WLGA and ADSS Cymru told us that local authorities have responded to the financial pressures on them by prioritising statutory services. They told us this is often at the expense of non-statutory services such as leisure centres, which clearly have a preventative role in terms of the health of the local population. We are therefore concerned to hear from the Cabinet Secretary for Economy and Transport that there is no assessment of the impact on physical activity levels of cuts to community leisure centres. We urge the Welsh Government to undertake an impact assessment and further work to mitigate the reduction in community facilities which have an important role in enabling people to keep fit and active in their local areas.

Recommendation 12. The Welsh Government should ensure that recent portfolio changes do not have an adverse impact on the alignment between policies in respect of physical activity and sport and those that aim to improve health and well-being outcomes.

Overall conclusions

- 95.**The NHS faces numerous challenges to the delivery of services. We note the evidence received about financial constraints due to the UK Government's austerity agenda. We also note other challenges, including changing demographics, which exert pressure on the NHS and local government alike.
- 96.**Finding further efficiencies and reforming current health services are vital if these challenges are to be met. Urgent attention is needed to ensure that the Welsh Government's allocations for NHS Wales expenditure is used in a way which will deliver transformative change.
- 97.**Similarly, social care provision is likely to reach crisis point without significant change in either the funding levels and mechanisms or the delivery model. In light of reducing budgets and increased demand, the WLGA and ADSS Cymru refer to a 'perfect storm' in this regard. We agree that this is an issue which needs urgent attention.
- 98.**Physical activity and sport is integral to health and well-being. It is vital that overall impact of the Welsh Government's policies, programmes and expenditure is not diluted by recent portfolio changes. This is an issue we will actively monitor over time and will explore in our current inquiry into the physical activity of children and young people.