

## Agenda – Y Pwyllgor Cyllid

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|---|--|
| Lleoliad:                                 | I gael rhagor o wybodaeth cysylltwch a:  |
| Ystafell Bwyllgora 3 – y Senedd           | <b>Bethan Davies</b>   |
| Dyddiad: Dydd Mercher, 9 Tachwedd<br>2016 | Clerc y Pwyllgor<br>0300 200 6372  |
| Amser: 09.00                              | <a href="mailto:SeneddCyllid@cynulliad.cymru">SeneddCyllid@cynulliad.cymru</a> |

### 09.00–09.15 Rhag-gyfarfod anffurfiol

#### 1 Cyflwyniad, ymddiheuriadau, dirprwyon a datgan buddiannau

#### 2 Papur(au) i'w nodi

(09.15)

PTN1 – Llythyr oddi wrth Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol –  
1 Tachwedd 2016 – Cyllideb Ddrafft Llywodraeth Cymru 2017–18

(Tudalennau 1 – 2)

PTN2 – Llythyr gan Gomisiwn y Cynulliad at y Cadeirydd – 4 Tachwedd 2016 –  
Cyllideb ddrafft Comisiwn y Cynulliad ar gyfer 2017–18

(Tudalennau 3 – 5)

#### 3 Cyllideb Ddrafft Llywodraeth Cymru 2017–18: Sesiwn dystiolaeth

4

(09.15–10.30)

(Tudalennau 6 – 46)

Mari Thomas, Swyddog Polisi Cyllid, Cymdeithas Llywodraeth Leol Cymru (CLILC)  
Y Cynghorydd Aaron Shotton (Arweinydd, Cyngor Sir y Fflint), Llefarydd CLILC dros  
Gyllid ac Adnoddau

Y Cynghorydd Huw David (Dirprwy Arweinydd, Cyngor Bwrdeistref Sirol Pen-y-  
bont ar Ogwr), Llefarydd CLILC dros Iechyd a Gofal Cymdeithasol

Y Cynghorydd Anthony Hunt (Dirprwy Arweinydd, Cyngor Bwrdeistref Sirol  
Torfaen), Dirprwy Llefarydd CLILC dros Gyllid ac Adnoddau



Papur 1 – Cymdeithas Llywodraeth Leol Cymru – tystiolaeth ysgrifenedig

#### **4 Cyllideb Ddrafft Llywodraeth Cymru 2017–18: Sesiwn dystiolaeth**

**5**

(10.30–11.30)

(Tudalennau 47 – 72)

David Robinson OBE, Uwch-gynghorydd, Community Links

Yr Athro Ceri Phillips, Athro Economeg Iechyd, Prifysgol Abertawe

Yr Athro Marcus Longley, Cyfarwyddwr Athrofa Iechyd a Gofal Cymdeithasol ac

Athro Polisi Iechyd Cymhwysol, Prifysgol De Cymru

Anita Charlesworth, Cyfarwyddwr Ymchwil ac Economeg, y Sefydliad Iechyd

Papur 2 – Community Links – tystiolaeth ysgrifenedig

Papur 3 – Prifysgol De Cymru – tystiolaeth ysgrifenedig

Papur 4 – y Sefydliad Iechyd – tystiolaeth ysgrifenedig

#### **5 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o weddill y cyfarfod**

(11.30)

#### **6 Cyllideb Ddrafft Llywodraeth Cymru 2017–18: Trafod y dystiolaeth**

(11.30–11.45)

#### **7 Yr Ombwdsmon Gwasanaethau Cyhoeddus: Amcangyfrif o incwm a threuliau ar gyfer 2017–18: Trafod yr adroddiad drafft**

(11.45–12.00)

(Tudalennau 73 – 92)

Papur 5 – Craffu ar Amcangyfrif Ombwdsmon Gwasanaethau Cyhoeddus Cymru ar gyfer 2017–18 – Adroddiad drafft

Papur 6 – Llythyr gan Ombwdsmon Gwasanaethau Cyhoeddus Cymru – gwybodaeth meincnodi yn erbyn sefydliadau perthnasol yng Nghymru a chynlluniau ombwdsmyr eraill yn y DU

## **8 Datganoli pwerau cyllidol i Gymru**

(12.00–12.15)

(Tudalennau 93 – 94)

Papur 7 – Llythyr gan Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol – 27 Hydref 2016 – Datganoli pwerau cyllidol i Gymru

## **9 Bil Treth Gwarediadau Tirlenwi (Cymru): Trafod y cyngor arbenigol**

(12.15–12.30)

(Tudalennau 95 – 99)

Papur 8 – Penodi Cynghorydd Arbenigol ar gyfer Bil Treth Gwarediadau Tirlenwi (Cymru)

Mark Drakeford AM/AC  
Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol  
Cabinet Secretary for Finance and Local Government



Llywodraeth Cymru  
Welsh Government

Simon Thomas AC  
Cadeirydd – y Pwyllgor Cyllid  
Cynulliad Cenedlaethol Cymru  
Tŷ Hywel  
Bae Caerdydd  
Caerdydd  
CF99 1NA

1 Tachwedd 2016

Annwyl Simon,

Ar ôl i fi ymddangos gerbron y Pwyllgor Cyllid ar 19 Hydref, cytunais i ddarparu eglurhad ar lefel y benthycu a'r ddyled a ariennir gan Lywodraeth Cymru.

Ceir dwy brif agwedd ar y cwestiwn hwn; sef benthycu uniongyrchol gan Lywodraeth Cymru, a benthycu gan gyrff eraill sy'n cael ei alluogi gan gyllid Llywodraeth Cymru. Rwyf wedi ymdrin â phob agwedd ar wahân at ddibenion eglurder isod. Mae'r holl ffigurau wedi'u tynnu o'r flwyddyn ariannol ddiwethaf y mae gennym gyfrifon cyflawn ar ei chyfer, sef 2015-16 yn yr achos hwn, oni nodir fel arall.

### Benthycu gan Lywodraeth Cymru

Nid yw Llywodraeth Cymru wedi defnyddio ei phwerau benthycu eto yn unol â Deddf Cymru 2014.

Mae Llywodraeth Cymru wedi etifeddu benthycu hanesyddol adeg uno ag Awdurdod Datblygu Cymru (WDA). Tynnwyd y benthycu hwn o'r Gronfa Benthyciadau Cenedlaethol (NLF). Y ddyled sy'n dal heb ei thalu i'r NLF oedd ychydig dros £11 miliwn (£11.406 miliwn) yn 2015-16.

### Benthycu a ariennir gan Lywodraeth Cymru

Lansiwyd Grant Cyllid Tai 1 (HFG1) 2013-14 ac o dan y grant hwn mae tua £130 miliwn wedi cael ei fuddsoddi gan Landlordiaid Cymdeithasol Cofrestredig (RSLs), gan ddarparu tua 1000 o unedau newydd o dai cymdeithasol fforddiadwy. Mae hyn yn cael ei ariannu'n

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[Correspondence.Mark.Drakeford@gov.wales](mailto:Correspondence.Mark.Drakeford@gov.wales)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Tudalen y pecyn 1

rhannol gan daliad refeniw blynyddol o £4 miliwn gan Lywodraeth Cymru i'r landlordiaid cymdeithasol cofrestredig sy'n cymryd rhan, ac fe fydd yn parhau tan 2032-33.

Offeryn arall sydd wedi rhoi hwb i fuddsoddi yw Menter Benthycia Llywodraeth Leol (LGBI)-sy'n darparu cyllid refeniw i'r Awdurdodau Lleol i liniaru pwysau cyllidebol ehangach ac yn eu galluogi i fenthycia ar gyfer buddsoddi mewn blaenoriaethau y cytunwyd arnynt. Yn dilyn llwyddiant wrth ddefnyddio LGBI yn y sector trafndiaeth, pan fuddsoddwyd £170 miliwn ym mhrrifyrdd Cymru yn ystod tymor blaenorol y Cynulliad, mae'r cynllun hefyd yn galluogi rhyw £170 miliwn o gyllid i gael ei fuddsoddi yn Rhaglen Ysgolion yr 21ain Ganrif. Bydd hyn yn sicrhau bod y rhaglen yn cael ei darparu erbyn 2018-19, ddwy flynedd yn gynt na'r bwriad gwreiddiol.

Ceir nifer o gynlluniau hanesyddol hefyd o dan y Fenter Cyllid Preifat (PFI) y bu Awdurdodau Lleol Cymru a chyrff eraill, megis Byrddau Iechyd Lleol, yn rhan ohonynt. Yn 2015-16, disgwyliad i'r rhwymedigaethau refeniw fod tua £99 miliwn. Gan fod llawer o arian ar gyfer y cyrff hyn yn dod o Lywodraeth Cymru, mae'n bwysig nodi'r rhwymedigaethau presennol. Er hynny, gan nad Llywodraeth Cymru yw'r awdurdod contractio yn y rhan fwyaf o achosion, ni ddelir gwybodaeth am union faint y ddyled yn y cynlluniau PFI hanesyddol hyn.

### Benthycia yn y dyfodol

Yn y Pwyllgor, buom yn trafod hefyd yn fwy penodol fynediad cynnar i fenthycia ac unrhyw gostau cyfalaf sy'n gysylltiedig â'r M4. Fel y dywedais bryd hynny, mae ein cynlluniau cyfalaf a nodir yn y Gyllideb Ddrafft yn defnyddio ein capasiti benthycia i'r eithaf dros y pedair blynedd nesaf. Yn 2017-18, mae ein cronfeydd cyfalaf yn £110 miliwn sy'n cynnwys y posibilrwydd o fenthycia £20 miliwn yn gynnar ar gyfer yr M4 os oes angen.

O ran y costau sy'n gysylltiedig â'r M4 y flwyddyn nesaf, cydnabuwyd yn y Pwyllgor ei bod yn anochel y bydd costau cyn i'r ymchwiliad cyhoeddus ddod i ben, gan gynnwys costau sy'n gysylltiedig â'r ymchwiliad ei hun. Costau cyfalaf fydd rhai o'r costau hyn ac maent yn angenrheidiol er mwyn cadw at yr amserlen arfaethedig os na fydd y cynllun yn mynd rhagddo. Er hynny, ni fydd unrhyw waith seilwaith ffisegol yn gysylltiedig â'r M4 nes i'r ymchwiliad ddod i ben, ac fel y dywedais yn y Pwyllgor, byddem yn ceisio manteisio i'r eithaf ar yr holl gyfalaf confensiynol sydd ar gael inni cyn defnyddio ein capasiti benthycia.

Yn gywir,



### **Mark Drakeford AC / AC**

Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol  
Cabinet Secretary for Finance and Local Government

Suzy Davies (Aelod)

Comisiynydd y Cynulliad  
Assembly Commissioner

Simon Thomas AC  
Cadeirydd y Pwyllgor Cyllid  
Cynulliad Cenedlaethol Cymru  
Tŷ Hywel  
Bae Caerdydd  
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4 Tachwedd 2016

Annwyl Simon

Diolch am adroddiad eich Pwyllgor, Craffu ar Gyllideb Ddrafft  
Comisiwn y Cynulliad 2017-18, a gyhoeddwyd ar 19 Hydref 2016.  
Mae'r Comisiwn yn derbyn holl argymhellion y Pwyllgor Cyllid fel y'u  
nodir yn yr atodiad i'r llythyr hwn.

Hoffwn ddiolch i'r Pwyllgor am eich gwaith craffu ac rwy'n edrych  
ymlaen at y ddadl ar y cynnig ynghylch cyllideb y Comisiwn ar 16  
Tachwedd. Mae'r Comisiwn bob amser yn ceisio gweithredu yn  
ddidwyll, yn dryloyw ac yn glir, felly os hoffai eich Pwyllgor gael  
unrhyw wybodaeth bellach, rhowch wybod i mi.

Yn gywir



Suzy Davies

cc Claire Clancy, Nia Morgan

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Ysgrifenyddiaeth Comisiwn y Cynulliad/Assembly Commission Secretariat

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

## Atodiad

### Adroddiad y Pwyllgor Cyllid yn craffu ar Gyllideb Ddrafft Comisiwn y Cynulliad 2017–2018

#### Ymateb Comisiwn y Cynulliad i'r Argymhellion

*Argymhelliad 1: Mae'r Pwyllgor yn nodi'r manylion yn y ddogfen, 'Cyllideb ddrafft Cynulliad Cenedlaethol Cymru 2017–18' ac, yn amodol ar y sylwadau a'r argymhellion yn yr adroddiad hwn, yn cefnogi'r cais cyffredinol am adnoddau yn 2017–18, ac yn argymhell bod y Cynulliad yn cefnogi'r gyllideb hon.*

Mae'r Comisiwn yn croesawu'r argymhelliad ac yn cytuno â'r Pwyllgor y gallai'r cynlluniau gwariant y tu hwnt i 2017–18 newid yn y dyfodol o ystyried yr ansicrwydd presennol mewn sawl maes.

*Argymhelliad 2: Mae'r Pwyllgor yn cydnabod bod angen adnoddau ychwanegol i gefnogi blaenoriaethau'r Pumed Cynulliad wrth iddo symud ymlaen, ond er mwyn sicrhau tryloywder a chynnig eglurder, argymhellir y dylid darparu'r wybodaeth ddiweddaraf i'r Pwyllgor am sut y defnyddiwyd yr adnoddau a ddyrannwyd yn dilyn yr ymarfer cynllunio capasiti manwl.*

Mae'r Comisiwn yn cytuno.

Mae ymarfer i sicrhau bod adnoddau staffio yn cyd-fynd ag anghenion yn rhan hanfodol o waith cynllunio'r Comisiwn. Mae'r asesiad cynllunio capasiti blynyddol hwn yn llywio penderfyniadau o ran unrhyw swyddi newydd ac yn sicrhau bod gennym y staff cywir yn y manau cywir. Rydym wrthi'n cynnal adolygiad o'n cynlluniau capasiti eleni ar hyn o bryd. Byddwn yn ysgrifennu at y Pwyllgor i nodi canlyniad y broses hon unwaith y bydd wedi ei chwblhau.



*Argymhelliad 3: Mae'r Pwyllgor yn argymell y dylai Comisiwn y Cynulliad roi'r wybodaeth ddiweddaraf yn fuan cyn diwedd y flwyddyn ariannol, gan fanylu ar y tanwariant a ddisgwylir o ran yr arian a ryddhawyd i gyllido penderfyniad y Bwrdd Taliadau a chyfiawnhau sut y mae Comisiwn y Cynulliad yn defnyddio'r tanwariant hwn.*

Mae'r Comisiwn yn cytuno.

Byddwn yn rhoi ymateb i'r Pwyllgor ym mis Mawrth 2017. Bydd dogfen ein Hadroddiad Blynyddol a Chyfrifon gyfer 2016–17 hefyd yn cynnwys manylion llawn am ein gwariant yn ystod y flwyddyn ariannol hon.

*Argymhelliad 4: Mae'r Pwyllgor yn argymell bod costau manwl mewn perthynas â'r costau sy'n gysylltiedig â phrosiectau buddsoddi TGCh yn cael eu cynnwys o fewn y Gyllideb Ddrafft yn y dyfodol.*

Mae'r Comisiwn yn cytuno.

Bydd cyllidebau'r dyfodol yn cynnwys mwy o wybodaeth am y gwaith TGCh a gynlluniwyd i gyflawni strategaeth TGCh y Comisiwn.



# National Assembly Finance Committee

Welsh Government Draft Budget  
2017-18

9<sup>th</sup> November 2016



WLGA • CLILC

## Summary

1. Local Government is a vital partner for the Welsh Government in delivering its broad social and economic outcomes. Following the publication of the programme for Government, there are clearly few areas where councils do not make a crucial contribution to national outcomes. Local services support healthy people living productive lives in prosperous and innovative local economies. Local services provide the bedrock of safer, more cohesive and more equal communities. Local services make an invaluable contribution to a resilient environment and a society with a vital sense of its own culture and heritage.
2. Councils have borne the brunt of austerity and the publication of the latest report from the Institute of Fiscal Studies (IFS)<sup>1</sup> on the Welsh Government Budget shows that local services are the most vulnerable to cuts. Continued austerity is putting local services, and the government's own objectives at serious risk, both now and in the future.
3. The build-up of unavoidable financial pressures such as the National Living Wage and the Apprenticeship Levy coupled with demographic demands and funding cuts mean that the smaller, discretionary local services are being hollowed out.
4. The Legacy Report of the previous Committee<sup>2</sup> focuses on prevention and the Wellbeing of Future Generations Act. The Act places duties on the whole public sector to demonstrate how they have applied long term, preventative, integrated and collaborative approaches in achieving the seven national well-being goals. As we stated in our evidence last year, this signifies a step change that will place sustainable development and the needs of future generations at the heart of public service delivery in Wales. The whole financial planning framework, including budget setting, needs to reflect that.

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<sup>1</sup> [Welsh Budgetary Trade-offs to 2019-20, Institute for Fiscal Studies 2016.](#)

<sup>2</sup> [Fourth Assembly Legacy Report, National Assembly Finance Committee 2016](#)

**(1) What, in your opinion, has been the impact of the Welsh Government's 2016-17 budget?**

5. The average reduction applied through the local government settlement was 1.3% and was not as difficult as the experience of the previous 2 years. The Welsh Government (WG) responded positively to our lobbying for a floor arrangement for those authorities subject to extreme reductions, and this was supported by the previous Finance Committee in its report on the 2016-17 Budget<sup>3</sup>. The Programme for Government<sup>4</sup> contains a formal commitment to 'provide funding to put in place a floor for future local government settlements'.
6. While the lack of a clear and consistent approach by Welsh Government to Medium Term Planning continues to undermine the plans of local authorities, the cumulative impact on local authority services since the onset of austerity has been drastic. The 2015-16 announcement was the third year in a row that the published indicative settlement had been significantly revised downwards. The Auditor General<sup>5</sup> has calculated that that between 2010-11 and 2016-17, there will be a real-terms reduction of £761 million (17%) in aggregate external finance (core grant).
7. The recently published CIPFA 2015 Manifesto<sup>6</sup> underlined that sound financial planning remains a concern across the public sector in the UK. Our major concern remains the inability to rely on any figures while attempting to introduce significant reductions in funding in a planned and rational way. This limits local government's ability to plan based on sound evidence and appropriate lead-in time. In England they operate a system of multiyear settlements that requires local government to produce efficiency plans.<sup>7</sup>
8. There is no doubt that local public services continue to bear the brunt of austerity in Wales. While overall expenditure has levelled off in cash terms the impact on unprotected or discretionary services is extreme.

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<sup>3</sup> [Scrutiny of the Welsh Government Draft Budget 2016-17, National Assembly Finance Committee 2016](#)

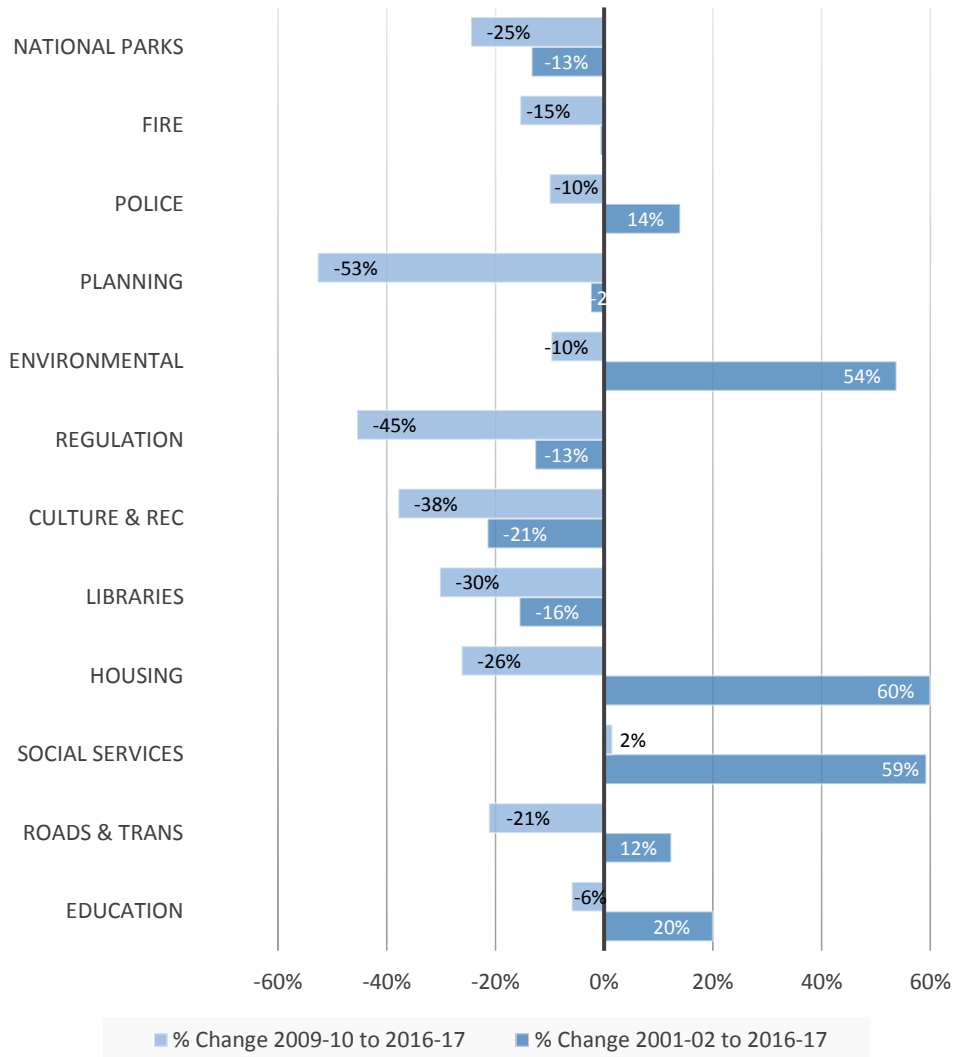
<sup>4</sup> [Taking Wales Forward, Welsh Government 2016](#)

<sup>5</sup> [Financial Resilience of Local Authorities in Wales 2015-16, Wales Audit Office 2016](#)

<sup>6</sup> [CIPFA Manifesto 2015, Chartered Institute of Public Finance and Accountancy 2015](#)

<sup>7</sup> [Four-year settlements for councils could include more grants, says DCLG, Public Finance September 2016](#)

**Figure 1:** Real terms reductions in service spend, 2001-02 to 2016-17



**Source:** WLGA, RO and RA returns

9. Figure 1 above shows that services which are vital to economic growth and preventative in nature have seen precipitous reductions. Some of the largest reductions have been in unprotected areas such as Planning and Regulatory Services which play a vital role in regeneration and preventative areas.
10. Many other areas of LG spend have shrunk by at least a fifth in real terms. Areas that had been relatively protected including education, social services and environmental services, have nonetheless also been contracting. The recently published report of the IFS, cited above, came to a similar conclusion while a report from the Public Policy Institute for Wales (PPIW) at the end of last year showed that the scale of reductions for some services in Wales is on a par with

those in England<sup>8</sup>.

11. One of the main features of the above graphic is that services in all but 6 areas are now been resourced at levels last seen at the end of the 1990s. The increased investment of the early 2000s has been wiped out. Most of the savings so far have been achieved through pay restraint and reductions in posts. Workforce surveys have shown that 15,000 posts have been lost since 2009-10. This is likely to continue through to 2019-20 on the same scale, effectively reducing the local government workforce by 20% over a 10-year period. Many of the initiatives for addressing budget shortfalls can be identified from local authorities' medium-term financial plans.
12. At the same time performance has been improving. The latest local government performance data<sup>9</sup> shows how those services performed in 2015-16 compared to 2014-15. At a Wales level, 65% (26) of the 40 indicators which are comparable between 2014-15 and 2015-16 show improvement. Moreover, the gap in performance (between the best and worst performing authorities) continues to narrow in 59% (23) of the indicators. For 41% (16) of the indicators, performance improved and the gap between the best and worst performing authorities narrowed. Of the 41 national performance indicators in place for 2015-16, 66% (27 indicators) were comparable to 2009-10. Of the 27 comparable indicators, 67% (18 indicators) had improved.

## **(2) What expectations do you have of the 2017-18 draft budget proposals?**

13. WLGA Leaders continue to emphasise the preventative nature of local services, especially social services. The letter at the annex was sent by the WLGA's Finance Spokesperson and the Spokesperson for Health and Social Care setting out the very real pressures that local authorities will experience over the next few years, not just 2017-18.
14. This derives from the increased demand for local public services and the increased cost of providing them. Demand pressures are largely demographic and are most acute in the larger budget areas of social services and education. The work done for Wales Public Services (WPS) 2025<sup>10</sup> demonstrated that pressures in social services budgets drive around 2.9% growth each year, which is around £43m annually up to 2019-20. This includes increases in Looked After Children as well as the elderly population. For Adult Social Care, a report commissioned by the Welsh Government from LE Wales<sup>11</sup> came up with a similar

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<sup>8</sup> [Coping with the Cuts: Lessons from English Councils' Responses to Budget Reductions, PPIW 2015](#)

<sup>9</sup> [Local Authority Performance 2015-16, Data Unit Wales 2016](#)

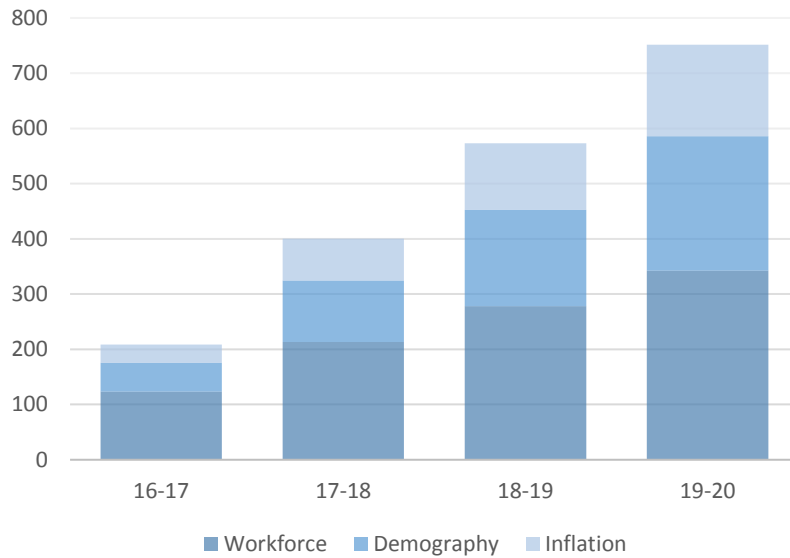
<sup>10</sup> [Future Pressures on Welsh Public Services, WPS 2025 2014](#)

<sup>11</sup> [Future of Paying for Social Care in Wales, LE Wales 2015](#)

figure.

15. Within education budgets, increased birth rates are starting to feed through to growth in pupil numbers. From 2015 to 2019, the ratio of growth of school-aged children to the general population will increase nearly threefold from 0.8 to 2.3. The resultant annual pressure increases from £9m in 2016-17 to £24m in 2019-20.
16. However inescapable cost pressures are now becoming a greater proportion of total pressures and they are felt across every service area, as well as social services and education. Last year local authorities were expected to absorb a £60m additional baseline cost due to the loss of the National Insurance rebate as a consequence the introduction of Single Tier Pensions. The introduction of the National Living Wage means that this level of inescapable pressure will be the same in every year from 2017-18 to 2019-20 as is was in 2016-17. Added to this £60m pressure in 2017-18 is a £18m pressure due to the introduction of the Apprenticeship Levy and another £42m for pay and the impact of the triennial pensions revaluation.
17. These unavoidable workforce costs, left unfunded, mean that local services would have to be cut, in order to fund them. Figure 2 below shows that workforce costs make up 46% of cumulative pressures by 2019-20. When inflation is also taken into account, the figure below shows the increased pressure from 2016-17 to 2017-18 is £192m followed by £172m in 2018-19 and £178m in 2019-20. The cumulative pressure by 2019-20 is £750m which is around £150m higher than last year's estimate and largely down to the combined effect of the National Living Wage, the Apprenticeship Levy and additional pensions contributions.

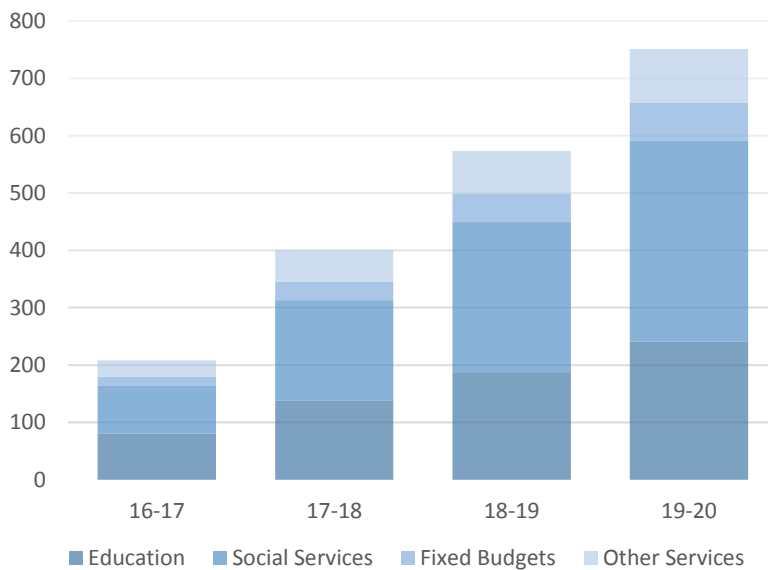
**Figure 2:** Cumulative impact of pressures up to 2019-20, £m



**Source:** Base estimates: RO and RA returns (2014-15 to 2015-16), NLW impact: WLGA Survey (2016)

18. An alternative way of looking at these pressures is to base them on services and other elements of the overall budget. Figure 3 shows the pressures broken down in this way. Over 80% of the pressures are attributable to the largest services of social services and education, a proportion that remains consistent through to 2019-20.

**Figure 3:** Cumulative impact of pressures up to 2019-20, by budget, £m



**Source:** Base estimates: RO and RA returns (2014-15 to 2015-16), NLW impact: WLGA Survey (2016)



19. While Council tax continues to be an important source of income for local authorities, future increases are nowhere near enough to fund the pressures highlighted above. Assuming funding stays flat in cash terms, council tax would have to increase by nearly 15% every year up to 2019-20.

**(3) How financially prepared is your organisation for the 2017-18 financial year, and how robust is your ability to plan for future years?**

20. In his most recent report on the financial resilience of local authorities<sup>12</sup>, the Auditor General has recognised that 'local authorities are improving their strategic planning arrangements but are having difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience.' There is clearly work still to do.

21. While local authorities can make sound estimates of future expenditure pressures, second guessing the scale of funding reductions in the future has become a quest for the grail. This is not helped by the WG's approach to its own budget setting.

22. The WG has retreated from a sound medium-term approach which it had at the outset of the 2010 Spending Round. The budget cycle has returned to an annual incremental approach accompanied by a complete withdrawal of the system of multiyear settlements for local government that had been developed as far back as 2007. However, we do understand that the uncertainties of Brexit make planning ahead for this year one of the most difficult so far but as that uncertainty recedes we really need to see a return to proper financial planning framework.

23. One guide to the future is the information published by the Office for Budget Responsibility. At the time of the Budget in March 2016 it published its own forecast of local authority funding and spending up to 2021<sup>13</sup>. Published figures in the supplementary tables show increases in central government current grants to local authorities between 2015-16 and 2020-21 are set to rise by 8% in Wales or 1.5% on annual basis.

24. However, the Spending Review documentation does provide estimates for the Welsh Block Resource DEL (RDEL). Along with assumptions about growth in business rates, these estimates can assist in modelling a number of scenarios<sup>14</sup> for the Welsh Government Budget and the impact on local government's core grant in the remaining years of the Spending Review.

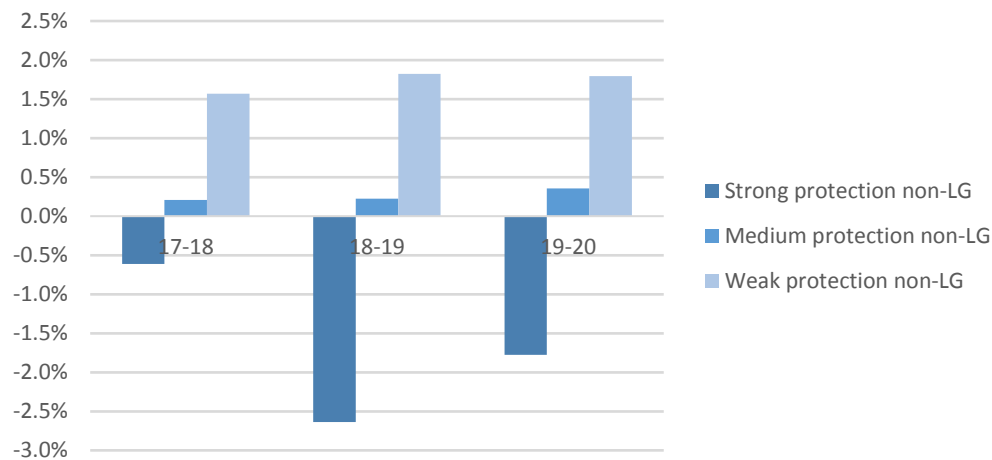
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<sup>12</sup> [Financial Resilience of Local Authorities in Wales 2015-16, Wales Audit Office 2016](#)

<sup>13</sup> [Table 2.29 in the Economic and Fiscal Outlook Supplementary Fiscal Tables](#), OBR, 2016

<sup>14</sup> Based on modelling taken to Society of Welsh Treasurers in January 2016 and updated to reflect the outcome of the March Budget.

**Figure 4:** Modelled changes to Aggregate External Finance (AEF) to 2019-20, under 3 scenarios



Source: WLGA

25. Under the most optimistic scenario there is 'weak' protection for non-Local Government Budgets. Under this scenario, the NHS receives future increases based on a 'consequential' of the increase to the English NHS through the lifetime of the Parliament. All other budgets are held cash flat, allowing AEF to increase by 1.6% in 2017-18, 1.8% in both 2018-19 and 2019-20. This scenario roughly aligns with the OBR forecast.
26. A less favourable scenario is to assume that there is 'medium' protection for non-Local Government Budgets. This time the NHS receives more generous uplifts based upon general (GDP) inflation over the SR period. All other budgets are held cash flat, allowing AEF to reduce by 0.2% in 2017-18, 0.2% in 2018-19 and 0.4% in 2019-20.
27. An even more pessimistic scenario could be envisaged where, as above, the NHS is protected for inflation, and so are all other non-LG budgets. AEF reduces by 0.6% in 2017-18, 2.6% in 2018-19 and 1.8% in 2019-20.
28. None of these scenarios can take account of the additional resource that Welsh Government Ministers will need to fund the Programme for Government. There are some big ticket items in this but at the time of writing we do not know how much the programme will cost.
29. The Committee should also be aware that WLGA and CIPFA recently joined forces to appoint an Independent Commission to look at the future of Local Government

Finance<sup>15</sup> in Wales which is chaired by Professor Tony Travers. The Commission was not tasked with evaluating specific issues such as the funding formula but did take a broader view of the system and also on whether funding may be better incentivised or even localised. A balance needs to be struck between a system that better incentivises and one that fully equalises and reflects need. In the WLGA manifesto<sup>16</sup> we make a case for more localisation and the corollary to this is greater fiscal devolution. A summary of the recommendations of Professor Travers' Commission is set out at Annex I.

#### **(4) Specific areas in the scrutiny of the budget**

##### Approach to preventative spending and how is this represented in resource allocation

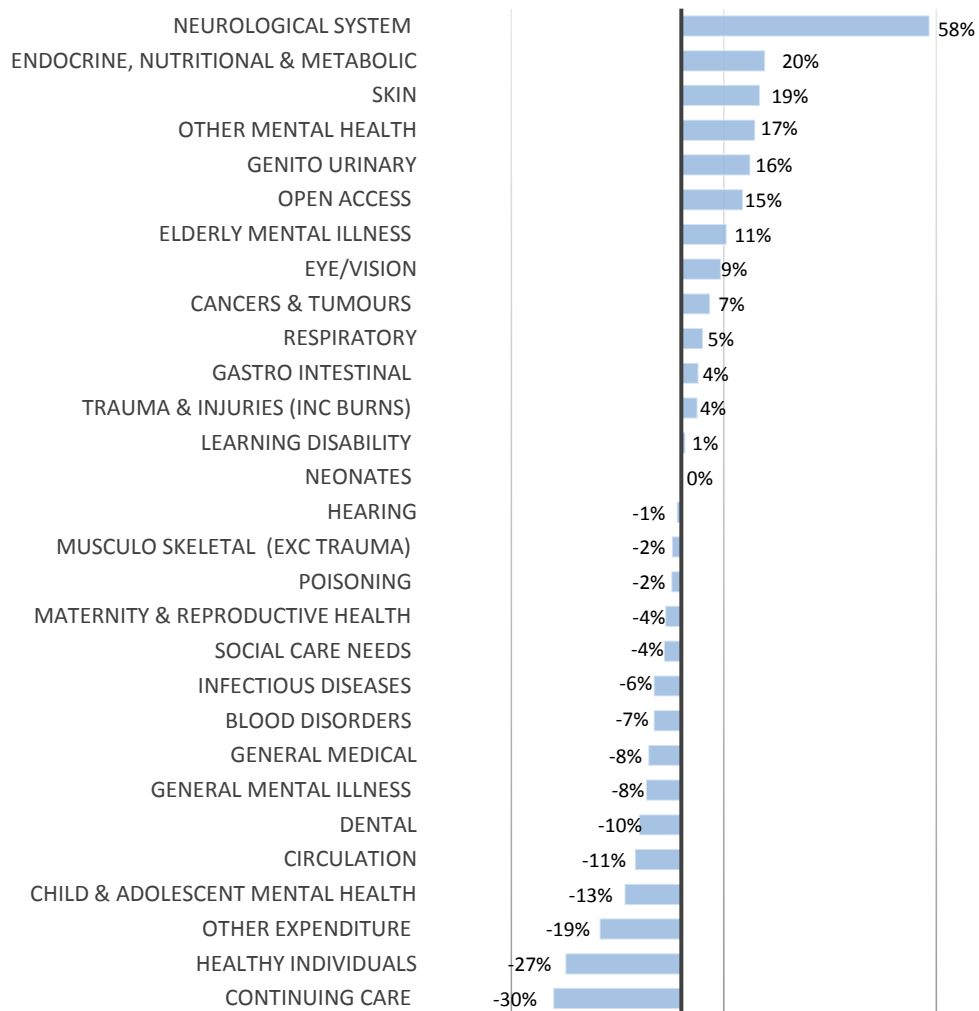
30. The WLGA agrees with the recommendations on prevention contained in the Legacy Report. The term is neither well defined nor does it have much influence in resource allocation. In figure 1 it is clear that for local public services, areas of preventative spend are synonymous with areas of unprotected spend and therefore subject to the largest reductions.
31. There is some evidence that something similar is happening within health budgets. The breakdown of NHS Programme Budgets collected centrally shows many areas of spend that are preventative in nature suffering large reductions after adjusting for inflation. However, funding for Public Health Wales is not included here as the organisation did not exist in 2009-10.

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<sup>15</sup> [Ambition for Change: Aiming Higher, Independent Commission on Local Government Finance Wales 2016](#)

<sup>16</sup> [Localism 2016-21: A Plan for Public Services in Wales, WLGA 2016](#)

**Figure 5: Real terms spending in NHS programme areas, 2009-10 to 2014-15**



**Source:** StatsWales & HMT (GDP Deflators)

Welsh Government policies to reduce poverty, mitigate welfare reform and prepare for an aging population

32. We have made a submission to the Equalities, Local Government & Communities Committee on their future work programme and that submission should be read in conjunction with this.

Local health board financial arrangements

33. Our comments on the NHS-Social Care Interface can be found in paragraphs 53 to 55 below.

### Preparation for the UK to leave the EU

34. The timing and likely impact of the UK leaving the EU are uncertain. Under Article 50 an agreement for withdrawal has to be negotiated. EU requirements will cease to apply from the date the agreement comes into force or, failing that, two years after the UK notifies its intention to leave. The recent report from the IFS explains the impact in two distinct components: the mechanical effect and the national income effect.
35. In terms of the mechanical effects, the withdrawal agreement has to address the phasing-out of EU financial programmes. Until those negotiations have taken place it is unclear whether any EU financial support will continue after departure (e.g. up until the end of current programmes in 2020) and/or the extent to which any shortfall will be made up from domestic funding. The UK Government has already guaranteed that financial support from the Treasury will be provided for EU Structural and Investment-funded projects signed before this year's Autumn Statement and for any Horizon (R&D) projects signed before the UK leaves the EU. As far as the 2016/17 budget is concerned there is likely to be limited impact and the greater uncertainties relate to the tail end of the current programme up to 2020, and beyond.
36. However, there is pressure to agree as many projects as quickly as possible and match funding will need to be in place for all approved projects. This may result in the profile spend on European projects being more 'front-loaded' than would otherwise have been the case. On the other hand, the uncertainty surrounding later years' funding is causing uncertainty and could result in some multi-year projects not being taken forward and/or some projects finding it difficult to recruit/retain the calibre of staff needed for successful implementation.
37. The national income effect is more profound in the medium to long term and public finances are sensitive to national income. The IFS estimates that if national income drops by more than 0.6% then this would be enough to outweigh the positive of the £8bn that the UK currently contributes to the EU. The IFS cautions that the medium to longer term outlook for the economy will still be unclear. In the shorter term the UK Government has announced that it will not aim to reach a surplus by 2019-20 which may ease austerity a bit but push its end date well into the early 2020s.

### Low carbon budgeting and preparing for the Future Generations Act

38. Carbon budgeting is being introduced in Wales via the Environment Act. It links to the Well-being of Future Generations Act in the sense that the latter requires a

long term perspective that acknowledges the risks associated with dependency on carbon-based fuels. These risks relate to health impact, long term climate change and future energy security. Carbon budgets are a monitoring tool intended to help ensure regular progress is being made towards long-term emission reduction targets (80% by 2050 compared to 1990 levels for the UK as a whole, under the Climate Change Act 2008).

39. Whilst covered by the Climate Change Act, the devolved administrations can introduce their own climate change policies and that is what is being done in the Environment Act up to 2050. Interim targets will be set for 2020, 2030 and 2040. The budgetary periods are 2016 to 2020, and then each succeeding period of five years, ending with 2046 to 2050. The targets for the first two periods have to be set by Welsh Government before the end of 2018. The budgets for the third and later periods must be set at least five years before the start of the period in question.
40. As 2016-17 and 2017-18 are the first two years of the initial carbon budget, local authorities' progress in each of these years is of relevance. That is the case even though the first target may not be known until the end of 2018. Moreover, the first statement of progress will not have to be produced until up to two years after the interim target year (i.e. 2022). However, it is clear that Welsh Government will depend on local authorities who manage the largest portfolio of properties in the public sector in Wales and other partners to meet the carbon reduction targets for Wales. It makes sense for authorities to be taking steps to reduce their carbon emissions in any case. It would be surprising if it was not an objective in their Well-being Plans and there may well be cost savings - or even income - from energy efficiency measures and return on investment in renewable energy technologies. Such measures often require significant capital investment.
41. WG's Green Growth Wales is currently providing financial support for authorities and that includes advice and support under the RE:FIT programme (an energy performance contracting arrangement) and for the introduction of renewable energy. Continued support will be vital if progress is to be maintained. There is scope to widen such support to include transport, which will have to make more of a contribution over the coming years if the overall carbon reduction goals are to be met. Schemes like the Metro – if based on electrification using renewable sources – could make a significant contribution, as could support for infrastructure for electric and/or hydrogen vehicles.

#### Preparation for the impact of further devolution included with the Wales Bill

42. The Independent Commission on Local Government Finance chaired by Professor Travers recognised that by 2021 it is possible that nearly a third of public spending in Wales could be financed by taxes raised within Wales. One of its

recommendations was that as the Welsh Government achieves greater fiscal devolution this should flow through to the local level.

43. We would argue that this kind of 'double devolution' applies as in a functional or sense than it does in a fiscal sense. This means that not only should local government be considered to collect and retain devolved taxes (or as Travers concluded, the City Regions as well) but they should be considered to deliver newly devolved services where it is appropriate to do so at a local (or regional) level.

44. One of the issues we've highlighted in our Manifesto is the creation of an independent Office for Budget Responsibility that is accountable to the National Assembly. This could provide independent scrutiny of WG forecasts of receipts and economic determinants from taxes devolved to Wales as well as broader economic and fiscal forecasting. By March 2016 the Scotland Act 2016 and associated Fiscal Framework were agreed between the Scottish Government and UK Government.

Impact of the Welsh Government's legislative programme and whether its implementation is sufficiently resourced

45. Our experience of new legislation and associated impact assessments is mixed. Where there is good and early engagement with local government, generally satisfactory outcomes in terms of implementation are being achieved. The Housing Bill was a good example of where Welsh Government and local government have worked together on ground-breaking legislation.

46. With regard to the Social Services & Wellbeing (SSW) Act, the WLGA was very supportive but the costs were underplayed and benefits oversold. The very nature of this enabling legislation meant that it was difficult to analyse with any degree of rigour as we found out when commissioning the Institute for Public Care<sup>17</sup> to analyse the implications of the SSW Bill along with the NHS Confederation and the WCVA.

47. The RIA for the Wellbeing of Future Generations Bill came in for a more thorough evaluation by the Wales Audit Office<sup>18</sup>. It raised an important point about opportunity costs where costs have to be absorbed. Where the costs do have to be absorbed and activity is displaced from elsewhere, the WAO were critical of the WFG RIA and stated (p.8):

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<sup>17</sup>[Transitional and longer-term implications of the Social Services and Well-being \(Wales\) Bill 2013, Institute of Public Care 2013](#)

<sup>18</sup> [Review of the Regulatory Impact Assessment of the WFG \(Wales\) Bill, WAO 2016](#)



*In relation to the Welsh Government's view that additional costs of the Bill may need to be absorbed within existing resources, as expressed during the Environment and Sustainability Committee's evidence session on 29 September 2014, we consider it unhelpful that the Regulatory Impact Assessment does not make this intention clear. The absorption of costs within existing resources is an opportunity cost, in terms of the other activity forgone. The intention to fund additional costs in this way should be explicit in the Regulatory Impact Assessment.*

48. In conclusion what we would like to see is a return to the protocol where Welsh Government funded the costs of new legislation, a reinstatement of the Essex-Jones agreement. We call for this in our manifesto.

**(5) The previous Welsh Government have highlighted that the Draft budget 2017-18 will be aligned with national indicators for Wales.**

49. A report will be published every year by the Welsh Government on progress made in Wales in achieving the seven well-being goals, using the national indicators. This will be called the Annual Well-being Report, the first will be published in the financial year following the publishing of the national indicators. i.e. March 2017.

50. It can be assumed therefore that the first report will be a reference/baseline against which to determine improvement and progress. If budgets will be aligned to the national indicators, on what basis? Will the budgets for those indicators relating to Health, Education and Social Services be 'ring-fenced'? Will weightings be applied? What criteria will be applied i.e. if there is a lack of progress towards one or more of the goals is it the intention to 'divert' monies to improve the progress against one or more indicators to the detriment of another? The 7 Well-being Goals are of equal value, interrelated and inter-dependent e.g. you cannot have a prosperous Wales if the workforce is unhealthy.

51. Preventative spend requires an understanding of the root cause of the problem and tackling that, not just the symptoms of the problem. If there is a lack of understanding and a lack of willingness to address the root causes of the high incidences of say Diabetes, Cardiac conditions, obesity then the health service will be faced with a never ending and increasing number of these cases for future generations. Simplistically common root causes of diet high in sugar and fats, lack of exercise, if not addressed, will exacerbate the situation AND if addressed and funded there will still be the 'backlog' of those currently affected by the illnesses which also needs funding, until the preventative measures have their full effect.

52. In our evidence to the Williams Commission in 2012 we advocated the outcomes framework that the Scottish Government adopted in 2007. Outcomes-based budgeting is not a new phenomenon and will not immediately improve resource allocation. There will be difficulties attributing outcomes to large delegated budgets within the WG Budget, but the WG should take a lead in embedding it across public services and issue the kind of guidance that the Scottish Government has issued<sup>19</sup>.

**(6) What spending commitments and priorities would you like to see in the 2017-18 draft budget in order to ensure that progress is being made on preventative spending and, in particular, the area of health and social services?**

53. In Wales, significant progress has been made through partnership working in terms of enacting the Social Services and Wellbeing Act 2014, and in the introduction of initiatives such as the intermediate care fund (ICF). This progress has been significant, however we have also seen the policy developments and investments that have taken place in England which point to an ambitious agenda.

54. For example, Greater Manchester's proposals for a combined health and social care budget will see a £6bn pooled budget between the NHS and local government. It will be important that the work of the Committee ties in with the Parliamentary Review into the long-term future of Health and Social Care in Wales announced by the First Minister, but we believe that an inquiry looking at the progress made to date; and assessing the impact of Welsh Government policies and legislation on integration of health and social care services should be one of the priorities for the Committee.

55. One of the key issues for the new Welsh Government will be how to shift the priorities from hospitals to prevention and public health. It has been the WLGA's policy that the latter function should be located in local government as is the case in England. Once again the WLGA has felt compelled to write to WG Ministers on the issue of funding for social care, this is set out at Annex II. The premise is simple: if we wish to avoid the problems facing the English Health and Social Care system as a whole then then we need to fully fund aspects of inescapable pressures, and ensure that councils have the freedom to set charges and fees at a level that best suits local circumstances.

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<sup>19</sup> [Outcomes-based Approach: Guidance for Scottish Public Bodies, Scottish Government 2011](#)

**(7) What spending commitments and priorities would you like to see in the 2017-18 draft budget in order to ensure that progress is being made on reducing poverty and preparing for an aging population?**

56. See our recent submissions to the Health and Social Care Committee and the Equalities, Local Government & Communities Committee on their respective work programmes.

**(8) Do you feel that allocations made by the Welsh Government are sufficiently evidence based?**

57. We feel we answer this question as part of our comments on preventative spend, the quality of evidence in Regulatory Impact Assessments and funding for new burdens or responsibilities.

**(9) What changes to allocations and priorities do you feel need to be reflected in the draft budget 2017-18 and subsequent years as a result of the vote to leave the EU?**

58. At the point EU funding is terminated there is an expectation, following pledges made before the referendum, that the UK government will provide 'replacement' funding. It is important that the opportunity is taken to review current programmes of financial support and to consider whether a more appropriate regional policy that can be put in place, tailored to meet the needs of Wales. For example, the 'West Wales and the Valleys' geographic area was devised with EU funding in mind – is it the best configuration to support economic development across Wales? Levels of funding have also been weighted towards that region as opposed to 'East Wales'.

59. Whilst that reflects the level of need it may not always reflect the 'geography of opportunity'. Given that travel to work patterns frequently cross the West Wales and the Valleys/East Wales border a more strategic approach might deliver better outcomes. Any such regional policy should take account of work already underway at regional level via City Deal, City Regions, Growth Deals etc.

60. WLGA in its Manifesto called for a statutory economic development duty for LAs, properly resourced and capable of being discharged at a regional level, delivered alongside Welsh Government support. This has received a positive response from Welsh Government to date and, if the idea is to be progressed, it is important that it starts to feed into budgetary plans.

**(10) What long term planning is carried out to fully deliver on preventative spending strategies and how do you plan for this within short term budget periods?**

61. While medium-term financial planning is firmly embedded and improving in local authorities, longer term thinking is still at a nascent stage. Saying that there are positive signs the WFG Act is proving to be a useful lens through which to view future service provision. Some authorities are starting to undertake strategic programmes of 'whole-authority' work. For example, 'Future Monmouthshire' aims to pose a set of questions about the authority's core purpose, relationships with communities, citizens and stakeholders and its appetite for economic growth and local prosperity.
62. One of the aims of programmes like this is to develop a new operating model in order to equip authorities to meet their goals amidst increasing change and uncertainty. The new operating model will have a clear purpose: to create the capacity and foresight to develop solutions to some of the biggest challenges, ensuring that authorities understand the shifting needs and priorities of communities and positioning themselves as enablers for change.
63. As an Association we think that long-term planning is under-developed in the Welsh public sector and this is one of the reasons that we collaborate with a number of other public sector bodies to fund Wales Public Services (WPS) 2025.

**(11) What baseline evidence is used to measure preventative outcomes?**

64. We are not convinced that there is a particular issue with baseline assessments but there are wider issues around planning horizons and the quality of evaluation. Preventative strategies tend to come with bold statements about the costs or negative social outcomes (or both) that will be avoided in the future. They rely on some subjective assessment of what 'otherwise would happen' in the future.
65. For example, the UK Government's Troubled Families programme was a flagship preventative initiative. It initially aimed to "turn around" 120,000 households at a cost of around £400m. A second wave of the Troubled Families programme was announced in June 2013, and began to roll out in April 2015. It covered another 400,000 families at a further cost of £900m.
66. By the time a thorough-going evaluation saw the light of day, the evidence showed that there had been no discernible effect on unemployment, truancy or criminality.

67. A major issue with the programme was that local authorities were over-reporting successes in order to gain vital funding that made up for drastic funding reductions. It is an indictment of 'payment by results'.

68. Another issue is the time that it takes to realise significant savings or improvements in social outcomes. One of the few studies that attempts to quantify the preventative impact of the Social Services and Well-being Act is the LE Wales' *Paying for Social Care* report cited above. Over a 24-year period the costs of Adult Social care are estimated increase by 114% in the base line scenario and under the preventative scenario, they increase by 108%. Preventative savings are definitely worth realising, but relative to cost and demographic pressures, in the longer run they may potentially be modest.

**(12) How can good examples of service transformation and innovation be encouraged and shared nationally across key agencies and what is the role for the Welsh Government here?**

69. Welsh public services organisations are currently working collaboratively to support innovation and service transformation through providing opportunities for practitioners to acquire knowledge and skills and share experiences and connections. This collaborative approach has proved valuable in cross fertilisation of ideas across service areas and sectors and alignment with national priorities or legislation such as the Wellbeing of Future Generations Act and Social Services and Wellbeing Act.

70. National partners work together via the Good Practice Wales partnership to share information, identify practice and plan programmes of activity either through case study development via the Good Practice Wales website or shared learning events:

- Good Practice Wales: a single access online portal to Welsh Public Services good practice and knowledge. The site currently signposts to over 3000 case studies and key resources such as Co-production Catalogue for Wales, Alternative Models of Service Delivery etc. as well as hosting national programmes such as Together 4 Children and Young People, All Wales Continuous Improvement Network etc. The WLGA are the co-ordinating partner. <http://www.goodpractice.wales/>
- Shared Learning events over a range of themes such as the Behaviour Change, Joint Commissioning for Integrated Health & Social Care, digital services, open data, etc. Many events are organised or coordinated via the Wales Audit Office's Good Practice Exchange <https://www.wao.gov.uk/good-practice> or are coordinated by the WLGA via Good Practice Wales.

- Professional networks and communities of practice actively share practice and learning. Communities of practice have been established for continuous improvement and the Welsh co-production network has recently received funding to expand its activities.
- Other Wales and UK-wide partners or programmes such as NESTA, Carnegie, Y Lab, Wales Cooperative Centre also work with Wales-based partners through Good Practice Wales to stimulate and support innovative ideas and solutions.

71. The Welsh Government participates in the work of Good Practice Wales, but its role should not be any more than a partner or a facilitator; practice is best developed, owned and shared through communities of practice or through sector-led activity coordinated by national partners rather than via the Welsh Government; a sector-led and partnership-based approach tends to encourage a more organic, flexible and responsive approach to sign-posting and sharing innovation compared to previous Welsh Government initiatives.

72. The Welsh Government should however provide additional resources and support to service transformation and innovation, through capacity funding for ongoing initiatives such as Good Practice Wales and shared learning events and funding to support service transformation and innovation in priority areas; the WLGA's 2016 Manifesto called for the creation of a new £20m capacity fund for local government to merge services, digitalise delivery where applicable and explore alternative delivery models such as mutuals, cooperatives and social enterprises.

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**Cleared by: Cllr Aaron Shotton (Finance) & Cllr Huw David (Health & Social Care)**

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## Recommendations of the Independent Commission on Local Government Finance

The Commission recommends full localisation of business rates, with 100% of business rates and business rate growth being retained by local government. In the year of implementation measures would need to be put in place – such as adjustments to grants receipts or pooling arrangements - to ensure that no authority is better or worse off financially than in the previous financial year.

The Commission commends the fact that Wales is the only nation in the UK to have undergone a council tax revaluation exercise, and recommends that since even in Wales, properties are taxed based on a 2005 valuation base, a further revaluation needs to be undertaken, with commitment to this being done on a five yearly basis in the future.

The Commission recommends that the Welsh Government introduce legislation to make it possible for city regions, or other sub-national groupings of authorities, to reform bandings and the ratio of council tax payable from band to band.

The Commission recommends that the incoming government should devolve to local authorities the setting of council tax discount and the power to determine who receives council tax support.

The Commission recommends authorities be given a suite of permissive powers that can be introduced locally, depending on local circumstances. Examples of powers to be conferred would be the introduction of a tourism tax. There should be a logic in choosing to levy these taxes, with money raised to be utilised according to related priorities, so tourism tax to assist with local development/ regeneration which would aid the tourism industry.

From April 2017, the Welsh Government will also assume responsibility for the replacements for Stamp Duty Land Tax and Landfill Tax with the proposal for partial Income Tax devolution by 2020. As the Welsh Government achieves greater fiscal devolution from the UK Government the Commission recommends that this should flow through to further devolution to the local level.

The Commission recommends a substantial reduction in the number, scope and scale of specific grants. It is the Commission's belief that specific grants force councils to use resources on services that may not be a local priority and are a challenge to local autonomy, service users and good government, whilst adding additional administrative burdens with each grant. The Commission's view is that specific grants should only be used for a national priority, or for a national function for which the local authority is an agent. Innovation grants should be limited to a maximum of three years. All existing specific grants should be folded into the RSG unless there is special justification. The Commission also recommends that any further specific grants should be reviewed on a two yearly basis to ascertain if the case for hypothecation remains valid or to decide if the grant is to cease or be incorporated within the RSG.

The Commission recommends that the incoming government commits to full and clear multi-year settlements to enable effective long-term planning for local authorities and other public services. The Commission would urge rolling three yearly settlements to allow effective planning and appropriate consultations for required service changes.



The Commission supports councils having the freedom to determine fees and charges locally.

The Commission recommend that councils are given greater freedom on capital expenditure by de-hypothecating capital grants.

The Commission recommends the establishment of a Welsh equivalent of the UK Office for Budget Responsibility (OBR): an advisory, Assembly sponsored public body to provide independent economic forecasts and analysis of the public finances in Wales. It would produce fiscal and economic forecasts and report on the Welsh Government's taxation and expenditure assumptions. It would work alongside the UK OBR. Other duties could include scrutiny of the Government's policy costing and assessing the long term sustainability of the public finances in Wales. The finances of Welsh local government would be reviewed as part of this process.

The Commission has received a great deal of evidence about the formula for the RSG being based on outdated data, complex and lacking in transparency. The Commission therefore recommends the existing grant regime is frozen and, for the immediate future, used as the basis for the rolling three year settlements proposed above. This change would provide temporary stability and predictability, allowing councils to plan effectively and assist planning with partner organisations. To improve the system in the longer term, an Independent Grants Commission should be set up to commence work on a more effective and fairer formula for the future. The Commission also believe the Grants Commission should be asked to comment on the use of local authority grants by the Welsh Government and to undertake a periodic review of specific grants. As the Grants Commission would be independent, it would be possible to separate the legitimate role of the Welsh Government in setting the quantum of grant from decisions about grant distribution.

The Commission recommends that the City Regions are given the power to add a supplementary business rate, whose sole purpose would be to assist in paying for large capital projects (similar to the way the Crossrail scheme in London has been funded). These powers should be available to other regions as they evolve.

In the longer-term, the Commission see merit in the idea of a locally-retained share of Welsh Government income tax, or a purer form of local income tax. But in the short term, we are mindful of the fact that any such recommendations would be complicated by the fact that the Welsh Government itself is in the early stages of seeing the devolution of income tax to Wales. Consequently, we recommend considering this issue again in the next five years.

The Commission query whether Wales currently has a suite of outcome performance measures that can effectively judge good performance for councils. The Commission therefore recommends that robust outcome measures are devised to provide a way of ensuring that increased devolution of tax powers can be seen to improve performance.

## ANNEX II



**Our Ref/Ein Cyf:** JR/AS HD  
**Your Ref/Eich Cyf:**  
**Date/Dyddiad:** 6<sup>th</sup> September 2016  
**Please ask for/Gofynnwch am:** Steve Thomas  
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### **Mark Drakeford AM**

Cabinet Secretary for Finance and Local Government

### **Vaughan Gethin AM**

Cabinet Secretary for Health, Well-being and Sport

### **Rebecca Evans AM**

Minister for Social Services and Public Health

Welsh Government  
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Dear Ministers,

### **Local Government Provisional Settlement 2017/18**

We would like to thank you for the ongoing dialogue with WLGA since you assumed the new role of Cabinet Secretary for Finance and Local Government. Your direct contact both nationally and locally with individual authorities has been warmly welcomed. It is this level of dialogue that allows us to move forward in partnership and navigate the difficult challenges ahead.

Inevitably with the announcement of the Draft Welsh Government Budget on 18<sup>th</sup> October and the Chancellor's Autumn statement to follow in November/December, councils are now fully focused on delivering Medium Term Financial Plans. It is not our intention to rehearse again the arguments we made in the WLGA paper to the Finance Sub Group but we feel it important to highlight some fundamental points for your consideration.

**We retain a firm belief that investment in preventative services must be the core priority for Welsh Government, in line with the**

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**philosophy of the Wellbeing and Future Generations Act and in terms of sound budgetary policy.** You clearly recognised and responded positively to this when you were Minister for Health and Social Services.

The case of England is illustrative. Draconian cuts to social care across Offa’s Dyke has led to a crisis that threatens the delivery of secondary care. Councils are now spending 10 per cent less on adult social care than in 2009-10. Figures show that at least a million people are not getting the basic care they need. The consequence is that one million hospital days were lost due to delayed discharge in 2015, costing the NHS £2.4bn. It is estimated that the money spent by the NHS on excess bed days due to people awaiting homecare could fund 5.2 million hours of homecare.

We note with interest (and some irony) the view of the Conservative MP, Dr Dan Poulter who has recognized that “On the hospital wards I often see people who are medically fit to go home, but who are forced to stay in hospital because of difficulties arranging their social care package or because of a lack of appropriate housing. Good healthcare cannot be delivered without properly funded social care”.

We are seeking your continued support to maintain investment in preventative services and avoid the problems faced by our English colleagues and service users. The burdens of pressures on social care are enormous and some of these are clearly set out in the study commissioned by the previous Welsh Government from LE Wales. Taking the impact of demographics and combining this with unavoidable payroll pressures such as the National Living Wage adds just over £90m to existing budgets next year. This is just under half of the overall pressures of £189m that will face local government in 2017-18.

**Example - Living Wage**

In a medium size council like Conwy in 2017/18 it is estimated that a 45 pence increase in the hourly rate (from £7.20 to £7.65) would increase costs as follows:

|                     |              |
|---------------------|--------------|
| Residential/Nursing | £0.6m        |
| Domiciliary         | £0.3m        |
| Supported Living    | £0.3m        |
| <b>TOTAL</b>        | <b>£1.2m</b> |

By 2020 the increase to £9.30 per hour will mean that Conwy’s costs will be £5.6m higher than they are now.

In terms of service issues a number of authorities are also reporting a big spike in the number of looked after children due to increased referrals and court judgements. All authorities also recognise the fragility of large parts of the residential/nursing care sector. The reality is that

with figures such as those highlighted the option of running to stand still and meeting these costs from existing budgets is unrealistic. **Fundamentally the solution is a significant uplift in the RSG and accepting the principle when it comes to pressures like the Living Wage that the approach applied to the NHS workforce in Wales by Welsh Government must equally apply to the low paid social care workforce.**

Finally, we are conscious that again while this letter majors on the arena of social care, it is evident that other services such as housing, environmental health, youth services, leisure and transport all play a considerable role in terms of prevention. These are the same “unprotected” services which have faced the brunt of the cuts over the past years. A holistic approach to budget formation as envisaged in the Wellbeing and Future Generations Act would recognise that investment in these services falls firmly in the principle of “taking action to try and stop problems getting worse - or even stop them happening in the first place”.

We fully recognise the scale of challenges for Welsh Government in funding Welsh Public Services. We have readily supported the recent record investment into the NHS and are keenly aware of the challenges it faces. However, as the English situation demonstrates if more resource is channeled to one part of the system without changing anything else, it is likely to result in a major crisis.

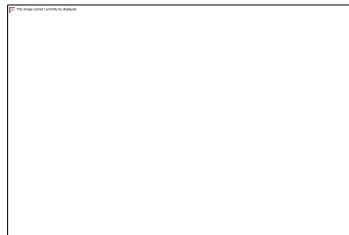
Thank you for your active consideration of the issues in this letter which we written on behalf of our colleagues across the 22 Councils.

Yours sincerely,



Councillor Aaron Shotton

**WLGA Spokesperson for  
Finance and Resources**



Councillor Huw David

**WLGA Spokesperson for  
Health and Social Care**

Yn rhinwedd paragraff(au) vi o Reol Sefydlog 17.42

Mae cyfyngiadau ar y ddogfen hon

## The Early Action Task Force Evidence to the Finance committee – Welsh government draft budget 2017 – 18

### The Early Action Task Force

The [Early Action Task Force](#) is a UK wide leadership group working across the sectors for a society that prevents problems from occurring rather than one that deals with the consequences. It has published “[The Triple Dividend](#)” and “[The Deciding Time](#)” and was behind ideas like Ten Year Planning and early action as a statutory duty.

The Task Force coined the term “early action” to describe any service or activity that forestalls a problem. It is a **need reduction strategy**. We believe that early action should be the guiding principle shaping the way in which government and civil society spend money, deploy resources and judge success. It should be at the heart of the government’s budget making process.

### Readiness: the purpose of public spending in Wales.

The purpose of public spending in Wales should be to build **readiness**: Our children should be ready to learn at Primary school and to thrive in Secondary. They should be job-ready when they leave school and, when the time comes, ready and able to be good parents. Because we all experience difficulties at some point in our lives, we should also be ready and able to manage adversity, to cope with losing a job or a relationship, to rebuild after illness or bereavement and to adapt to change.

The infographic is set against a pink background with a dark pink curved line at the bottom. It features four white-bordered boxes with rounded corners. The first three boxes are arranged horizontally, and the fourth is positioned below them to the right.

- Primary Prevention**: Includes a circular logo with icons for a person, a lightbulb, a heart, a person with a plus sign, and a person with a minus sign, surrounded by the text 'happier @ work'. The text below describes a workplace wellbeing scheme by Kings Health Partners.
- Secondary Prevention**: Includes a photo of a woman in a blue shirt talking to an elderly man in a white shirt. The text below describes a 'Call and Check' service by Jersey Post.
- Tertiary Prevention**: Includes a photo of a man in a high-visibility vest using a power drill on a wooden structure. The text below describes a social enterprise by Lancashire Constabulary.
- Acute Spending**: Includes text describing examples like long-stay institutions and acute services.

We picture this “**Ready for everything**” community at the top of a cliff. Here **Primary Prevention** prevents or minimises the risk of problems arising. Usually these are universal services like health promotion or a vaccination programme. Even here things will sometimes go wrong. **Secondary Prevention** targets those at risk of, or showing early signs of, a particular problem. A Literacy Catch Up scheme or a detached youth work project in a neighbourhood where many young people are on the streets might be examples of secondary prevention.

Further down the cliff face services become more targeted at those with more developed problems. **Tertiary Prevention** stops a problem getting worse and reverses the direction of travel. Work with “troubled families” or preventing reoffending are examples of tertiary prevention. Finally **Acute Spending** manages the impact of a strongly negative situation but does little to tackle the wider consequences or reduce the likelihood of a recurrence - prisons for example, or acute hospital care.

This approach to public policy yields three benefits: Its popular, everybody wants to be happy, healthy and secure at the top of the cliff, we are cheaper when we are there and we are contributing more, economically and socially. This is the **Triple Dividend**: Thriving lives, costing less, contributing more.

There are many examples of [successful early action programmes](#) in Wales and across the UK delivering this triple dividend.

### **Three recommendations for the Welsh government draft budget.**

#### **Classify spending plans on the spectrum from cliff top to bottom.**

We cannot plan a transition towards a preventative society in Wales without knowing exactly where we start. The National Audit Office Landscape Review on Early Action published in January 2013 used the classification categories on the cliff diagram above and arrived at some approximate but useful baseline figures. It might be the model. Building further on this work the Task Force published a guide on [How to Classify Early Action Spend](#).

The results of the classification exercise can then provide the base line for a planned shift towards earlier action as envisaged in the recent legislation that established the Future Generations Commission.

#### **Ask of every spending line “what are the 5, 7 or even 10 year implications of spending in this way?”**

Although it is still early days for the Future Generations Commission the Welsh government should be very proud of the legislation which created the commission. It is, by far, the strongest and most thoughtful legislation of its kind anywhere in the world. This is NOT about setting spending plans in stone for many years ahead, that clearly would be impractical. It IS about considering the costs and consequences of a spending line over a sustained period. For example capping the amount that might be spent on helping a young person into work at the amount that might otherwise be spent on them being unemployed for one year might look sensible in a one year budget but moving the claimant on into permanent employment by spending twice that amount would be far more sensible when considered over the longer term. In, say, five years the young person might move from being a lifelong cost to being a lifelong contributor. It is important therefore to ask of every spending line:



What are the costs and consequences of spending this pound, this way, this year when considered over 5, 7 or even 10 years?

**Protect investment in early action in the same way as investment in capital infrastructure:**

Investment in early action yields rates of return which consistently outperform the ROIs on physical infrastructure. In their analysis of 15 economic studies of programmes from birth to 9, for instance, Reynolds and Temple found an average rate of return of £2.83 per £ invested whilst the Department of Transport estimate the rate of return on HS2 at between £1.80 and £2.50 per £ invested. However capital building programmes are planned and costed and, crucially, protected with a view to the long term asset life cycle and for the benefit of future generations. Spending on support for young parents, health education or effective youth work is, in contrast, subject to annual fluctuations and regular raids to meet short term pressures.

If we accept that spending on early action or the “social infrastructure” has a long term value then it should be planned for the long term asset life cycle, classified and protected from short term raids in the same way as investment in capital infrastructure is planned, classified and protected.

**What if we don't?**

We suggest to the Committee that a sustainable future for Wales is dependent upon an improved understanding of the “prevention to acute” base line, on longer term planning and budgeting and on the structural protection of early action budgets and spending plans. Without such changes public services will continue on unsustainable trajectories. They will deal increasingly with consequences not causes, barely meet current needs and accumulate impossible liabilities for the future.

On a series of occasions over the last year the Task Force has been hugely impressed by the positive attitude of public service managers and frontline staff towards the agenda of the Future Generations Commissioner. There is a great appetite and enthusiasm for early action. It is important that the 2017/18 budget captures and supports that momentum.

Thank you for providing us with this opportunity to contribute

David Robinson Chair, Early Action Task Force

**Written submission to the Finance Committee of the National Assembly for Wales:  
Welsh Government's Draft Budget 2017-2018**

**PREVENTATIVE SPENDING AND PREPARING FOR AN AGEING POPULATION**

**Author: Professor Marcus Longley, Director of the Welsh Institute for Health and Social Care and Professor of Applied Health Policy, University of South Wales**  
marcus.longley@southwales.ac.uk

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**Introduction**

Thank you for the opportunity to submit written evidence. This focuses on how the Budget might most usefully address preventative challenges across Welsh Government expenditure, and particularly what this might mean for health and social care. I highlighted six key areas where there is potential to achieve (or fail to achieve) a lot, and would be happy to expand on any of the brief points made here, if that is helpful. It is, of course, written before the publication of the Budget proposals.

**1. Prevention is both primary and secondary**

It is common to regard prevention as being about 'stopping bad things ever happening' – preventing chronic conditions like diabetes from developing – primary prevention. This is clearly important, but probably of equal importance is secondary prevention - minimising the harmful consequences of those bad things once they have already set in (helping people to reduce the side effects of their diabetes, for example). Preventing diabetes in the first place is great, but will never be 100% successful; so secondary prevention is vital. What is more, most of the efforts of health and social care are – and will for a long time be – focused on secondary prevention rather than primary, for two reasons – it's easier for clinical services to achieve good results, and it's urgent for those already with the conditions. Such expenditure is less visible - it often does not appear as a programme in its own right, but is woven into much of the activity in every area of health and social care.

So one crucial test for the budget is:

- how does it facilitate and enhance *secondary* prevention in mainstream services?

**2. Integration of health and social care**

Recent data and analysis, for example from the Kings Fund and Nuffield Trust<sup>1</sup>, has highlighted once again the mutual dependence between health and social care, and the need to consider the two as one item. This is equally true for prevention activity, where both health and social

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<sup>1</sup> <http://www.nuffieldtrust.org.uk/publications/social-care-older-people-home-truths>

care have the potential to achieve much in combination. There are considerable challenges for both these services – and particularly social care – in simply keeping services from reaching crisis point, and this is likely to make preventative work less urgent for local politicians and managers who are struggling to keep service afloat. Effective integration of effort and budget between these services is one vital building block to ensure maximum value from the Welsh £, but progress has been slow.

Two further tests for the budget, therefore, are:

- How will it incentivise integrated working?
- How will it ensure that services, and social services in particular, are able to meet demand over the next few years?

### 3. Health Inequalities

Health inequalities in Wales – and elsewhere in the UK - appear to be widening<sup>2</sup>. Prevention strategies need to tackle this, otherwise they risk failing to respond to the different needs of Wales' different communities, and thereby being less effective overall. It has been unclear how health and social care in particular have allocated their resources *on existing services* to tackle health inequalities – for instance, how should expenditure on primary health care be allocated to reflect different levels of need? The result has sometimes been a lack of explicit focus on this issue, and a perpetuation of perverse effects such as the 'Inverse Care Law', which actually describes *poorer* services in those communities at greatest need.

One question, therefore, is:

- How does the Budget envisage expenditure on existing preventative activity changing to reflect the differential needs of different communities?

### 4. Prudence and Co-production

In addition to considering the *quantum* of expenditure, it is important to consider what such expenditure provides. The NHS in Wales has been pursuing the goals of 'Prudent' healthcare<sup>3</sup> (crudely: greater partnership working with patients; only doing what is necessary to achieve agreed outcomes; staff working at the top of their licence; and reducing waste, harm and unwarranted variation) for almost three years, and there is now some interest in applying such approaches in social care and elsewhere. I am currently leading some work (supported by the Health Foundation) on the impact of this approach in NHS Wales. Many would argue that Prudence is inherently about prevention, and therefore has the potential to make services more effective at both primary and secondary prevention. Crucial to its success,

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<sup>2</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/bulletins/healthylifeexpectancyatbirthandage65byuppertierlocalauthorityandareadepriation/england2012to2014>

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/lifeexpectancyatbirthandage65bylocalareasinenglandandwales/2014-11-19>

<sup>3</sup> <http://www.prudenthealthcare.org.uk/>

though, is the ability of services to work *in partnership with* individual service users and communities – ‘co-production’. Only when the paternalistic and professional-led approaches of the past are balanced with greater regard for the capacity of service users, and a focus on the outcomes that *they* want, can prevention really work.

Another question, therefore, is:

- How does the budget encourage services to be more ‘Prudent’?

## 5. Early Years

There has been considerable international interest for some time in the importance of the early years of our lives in affecting life-long levels of health and wellbeing. A recent publication from Public Health Wales<sup>4</sup>, for example, highlighted how a relatively small number of ‘adverse childhood experiences’ (ACEs) can affect subsequent risks of harmful behaviour and poor health. A serious, coordinated investment of time, imagination and resource in tackling these ACEs, across all public services, might offer substantial long-term gain.

Another question, therefore, is:

- How does the budget encourage a coordinated focus on early years’ prevention?

## 6. Shifting resources

Finally, the Government is clear in its forward Programme that it intends ‘move more care and services from hospitals into communities’ (Welsh Government, 2016, *Taking Wales Forward 2016-2021*, chapter 2). This should have the net effect of enhancing the preventative impact of the NHS.

The question, therefore, might be:

- To what extent will the budget contribute to the movement of care and services into the community?

### **Marcus Longley**

*Professor Marcus Longley is Director of the Welsh Institute for Health and Social Care at the University of South Wales, where he is also the Professor of Applied Health Policy. He was educated in the universities of Oxford, Cardiff and Bristol, and worked as a manager in the NHS for 14 years. Marcus was a member of the Bevan Commission, and has also served at various times as an advisor to the House of Commons Welsh Affairs Committee, the Royal Pharmaceutical Society of Great Britain, the Older People’s Commissioner for Wales, and others. He was elected a Fellow of the Faculty of Public Health in 2008, and in 2013 was appointed Vice Chair of Cardiff and the Vale University Health Board. He is a Senior Associate of the Nuffield Trust and is the Lead Partner for Wales, WHO European Observatory on Health Systems and Policies. He has no political affiliations.*

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<sup>4</sup> <http://www.cph.org.uk/wp-content/uploads/2016/01/ACE-Report-FINAL-E.pdf>



# Welsh Assembly finance committee's consultation: Government Draft Budget 2017-18

1 November 2016

In October 2016 the Health Foundation published analysis of the funding pressures for the NHS in Wales to 2019/20 and 2030/31<sup>1</sup>. This submission of evidence summarises the findings and includes additional information in the context of the Wales draft budget for 2017-18 published shortly afterwards.

## Current position

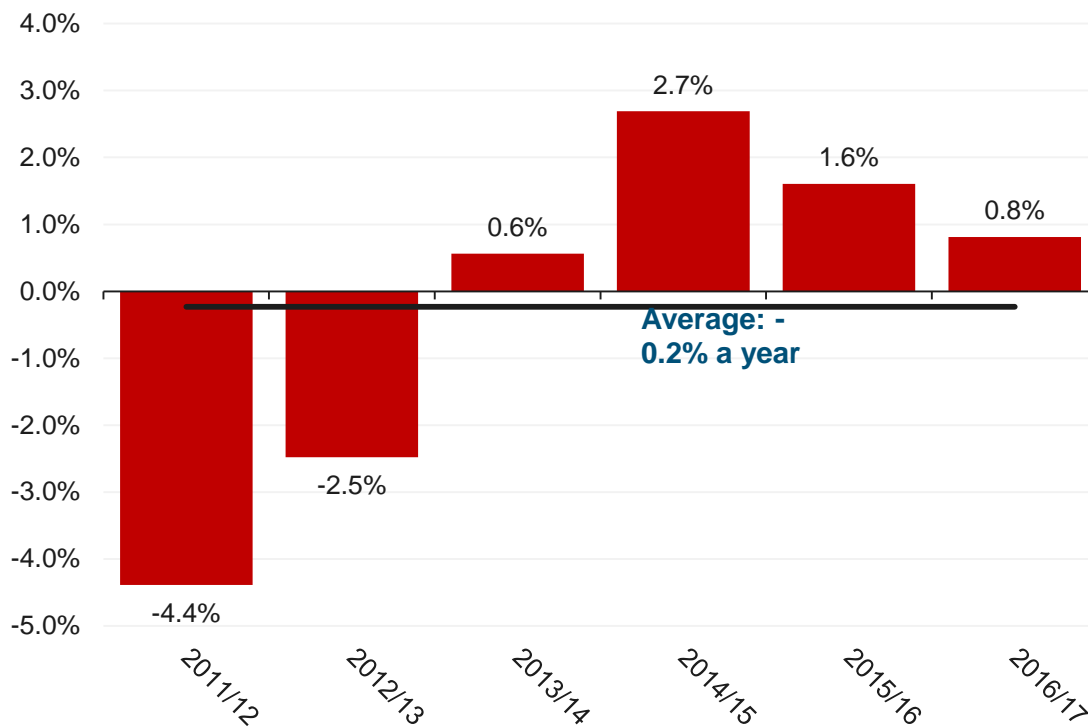
The total budget for the NHS in Wales in 2016/17 is £6.8bn, comprising £6.5bn for day-to-day running costs (the resource budget) and £0.3bn for capital investment.<sup>2</sup> This has increased by an average of 0.1% a year since 2010/11, with an average real-terms fall of 3.1% between 2010/11 and 2012/13, followed by an average increase of 1.7% a year between 2012/13 and 2016/17. This is lower than the long-run average increase of 3.7% for the UK NHS since 1948.

Over the same period, the population of Wales has grown by an average of 0.3% a year, from 3.05m in 2010/11 to 3.13m in 2016/17. As a result the total NHS spend per head in Wales has fallen by an average of 0.2% a year, from £2,200 in 2010/11 to £2,170 in 2016/17 (Figure 1).

<sup>1</sup> Watt & Roberts. The path to sustainability. Health Foundation. 2016.  
[http://www.health.org.uk/sites/health/files/PathToSustainability\\_0.pdf](http://www.health.org.uk/sites/health/files/PathToSustainability_0.pdf)

<sup>2</sup> We use the total budget for NHS delivery and health central budgets, as published in the October 2016 draft budget. Welsh Government 2016: <http://gov.wales/docs/caecd/publications/161018-budget-tables-en.pdf>

**Figure 1: Change in spend per head for total NHS budget in Wales.**



Since 2010, hospital activity is not generally rising in line with population. The number of outpatient appointments and non-elective admissions per head has fallen by an average of 1.3% and 0.2% a year respectively. While elective admissions have risen by 1.4% a year, the length of stay for both elective and non-elective admissions have fallen by an average of 4.7% and 4.6% respectively (Table 1). This will have contributed towards savings required during this period.

**Table 1: Change in acute activity in Wales.**

|                       | Outpatient appointments per 1,000 people per year | Non-elective admissions per 1,000 people per year | Elective admissions per 1,000 people per year | Average bed days per non-elective spell | Average bed days per elective spell |
|-----------------------|---|---|---|---|-------------------------------------|
| <b>2010/11</b>        | 1032  | 117   | 158   | 9.5                                     | 2.2                                 |
| <b>2011/12</b>        | 1061  | 117   | 163   | 8.7                                     | 2.3                                 |
| <b>2012/13</b>        | 999   | 114   | 161   | 8.5                                     | 2.2                                 |
| <b>2013/14</b>        | 1002  | 116   | 167   | 8.2                                     | 1.9                                 |
| <b>2014/15</b>        | 981   | 116   | 167   | 7.9                                     | 1.8                                 |
| <b>Average change</b> | -1.3%   | -0.2%   | 1.4%  | -4.6%                                   | -4.7%                               |

Partly as a result of low funding growth, the NHS in Wales overspent its budget by £50m in 2015/16. This was predominantly due to large deficits of £19.5m for Betsi Cadwaladr University Health Board and £31.2m for Hywel Dda University Health Board. These combined deficits were larger than the combined surpluses reported by the other five health boards and three NHS trusts.

The draft budget for 2017/18 includes an increase for the total NHS budget (NHS delivery and health central budgets) of £271m in cash terms, worth £150m in 2016/17 prices. This is a 2.2% increase in real-terms, higher than the average of 0.1% since 2010/11, and larger than the planned increase for the English NHS of 0.7%. It is an increase of 1.9% per head, which will see total NHS spend per head rise to £2,220.

The extra funds are all allocated to the resource budget, which will rise by 2.7% in real terms. This includes an extra £240m, in cash terms, to support front line NHS services. The capital budget will fall by 10.4% from £264m to £236m (2016/17 prices).

### **Spending pressures for the NHS in Wales 2015/16 to 2019/20**

Our analysis estimates that pressures on the NHS in Wales will rise by around 3.2% a year in real terms, unless efficiency savings are made in how services are provided. This will require around an extra £890m by 2019/20, in 2016/17 prices. If the NHS maintains efficiency growth of 1% a year in line with the historic trend for the UK NHS<sup>1</sup> this would reduce pressures to around 2.2% a year, requiring an extra £600m by 2019/20.

Staff earnings account for around two-thirds of total NHS costs, so any change to pay and conditions will have major implications for total spending pressures. Current national policy is that public sector pay per head should not rise by more than an average of 1% a year in cash terms.<sup>3</sup> This is below the historic trend of 2% a year in real-terms.<sup>4</sup> If this pay deal is held to 2019/20, it would further reduce pressures to an average of 1.2% a year, requiring an extra £320m.

Our report, *A path to sustainability*, was published before the 2017/18 draft budget, so there was no information on NHS spending beyond 2016/17. As a guide to likely spending we used plans for the English NHS, and applied the health specific Barnett consequential to estimate the budget for Wales. This would see the budget rise by an average of 0.8% a year in real terms between 2015/16 and 2019/20. With this assumption, we concluded that a combination of both maintaining efficiency growth of 1% a year and the UK government's pay policy would still leave a funding gap of £150m in 2019/20. Closing this would require efficiency growth of 1.5% a year, which would be above the UK trend but not unprecedented.

The October draft budget announced a larger increase for the NHS resource budget than estimated, rising by 2.7% in real terms. What happens beyond 2017/18 is still unknown, but further increases of this scale would only be possible with substantial reductions in other public services, which may in turn create extra pressures for the

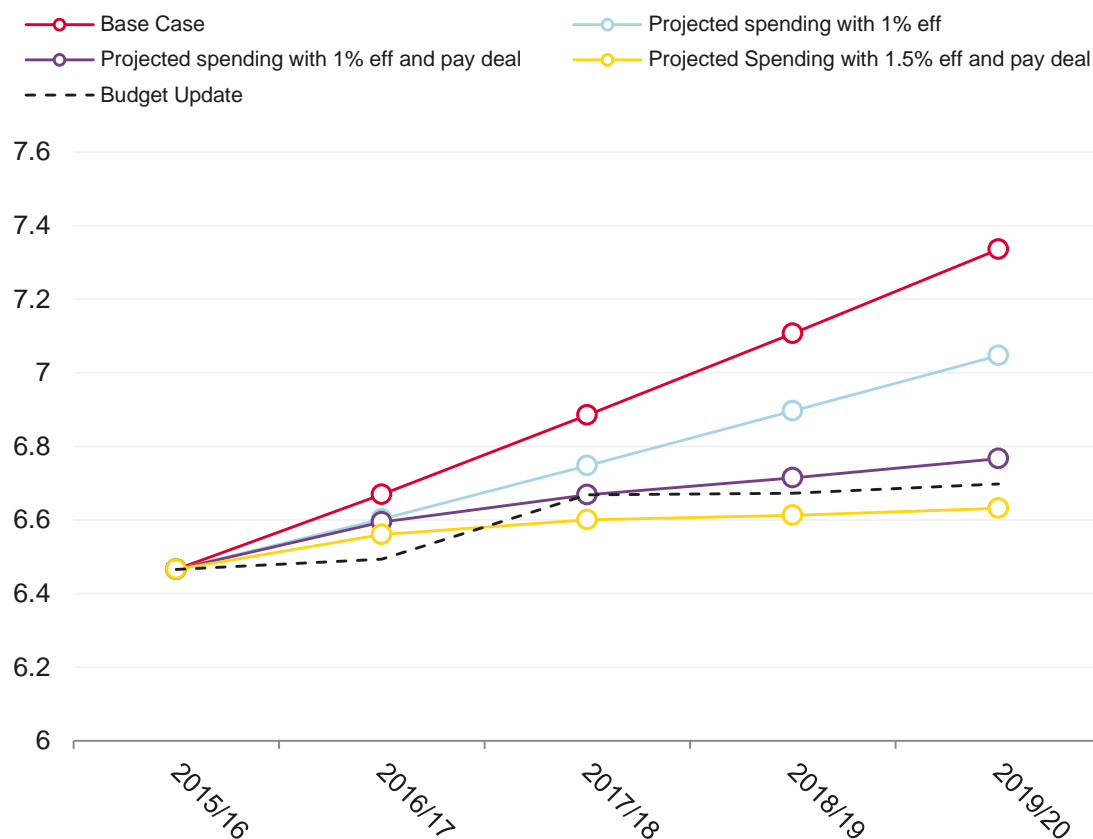
<sup>3</sup> HM Treasury. Civil service pay guidance 2016 to 2017. April 2016. Available via: [www.gov.uk/government/publications/civil-service-pay-guidance-2016-to-2017/civil-service-pay-guidance-2016-to-2017](http://www.gov.uk/government/publications/civil-service-pay-guidance-2016-to-2017/civil-service-pay-guidance-2016-to-2017)

<sup>4</sup> Roberts A, Charlesworth A. A decade of austerity in Wales. Nuffield Trust, 2014.

NHS.<sup>5</sup> If instead, NHS funding in 2018/19 and 2019/20 rises in line with the budget for the English NHS (using the Barnett consequential) then 1% efficiency growth and the national pay policy would still leave a gap of £70m (Figure 2). This is lower than estimated in the report, but would still require an increase in efficiency to around 1.3% a year. If instead, the NHS budget falls back to something closer to our original estimate, in order to provide some relative protection to other public services, then our original estimate of 1.5% efficiency would remain.

In either case, the additional investment for 2017/18 should be treated as a front-loaded investment to allow the NHS to prepare for more austere years that are likely to follow.

**Figure 2: Pressures for the Welsh NHS in 2019/20**  
*Projections with different rates of efficiency growth, with proposed budget in 2017/18 and growth similar to English NHS for 2018/19 and 2019/20.*



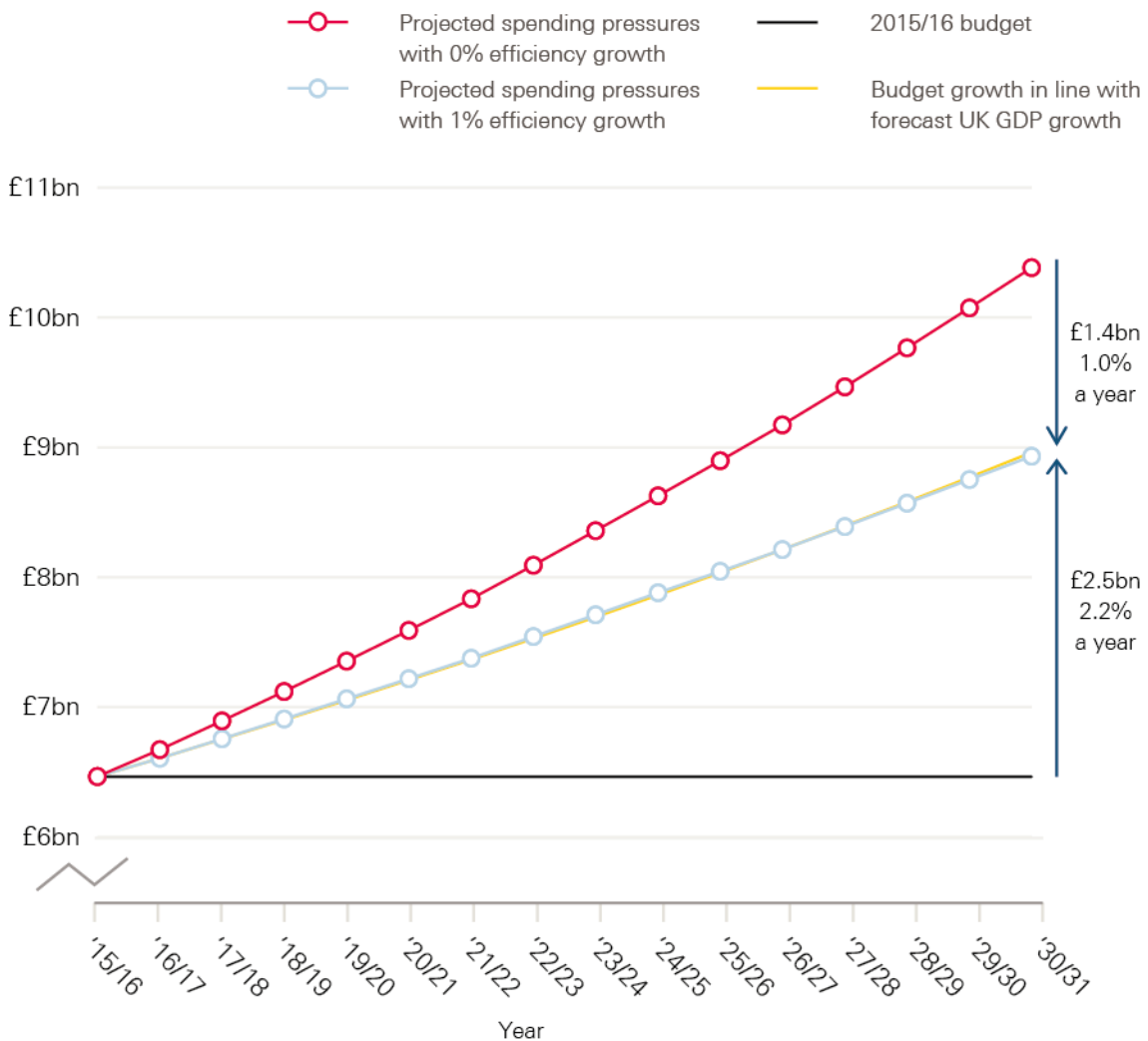
<sup>5</sup> Phillips D, Simpson P. Welsh budgetary trade-offs to 2019–20. Institute for Fiscal Studies, 2016. Available via: [www.ifs.org.uk/uploads/publications/docs/IFS%20report%20R120.pdf](http://www.ifs.org.uk/uploads/publications/docs/IFS%20report%20R120.pdf)



### Long-term funding pressures to 2030/31

After 2019/20, the UK economy is currently projected to grow by around 2.2% a year in real-terms. If the NHS in Wales maintains efficiency growth of 1% a year, then an increase in the budget of 2.2% a year would be sufficient to maintain the current range and quality of services (Figure 3). So, if funding maintains its share of UK GDP, and the NHS continues to achieve efficiency growth of 1% a year, then it is likely that the NHS could be sustainable for the long-term.

**Figure 3: Funding pressures for the NHS in Wales with 1% efficiency growth and budget rising in line with GDP to 2030/31**



However, additional efficiency growth would be required if the budget rises by less than 2.2% a year, either because funding falls as a share of GDP, or because economic growth is lower than projected. One major reason that economic growth may be lower is the recent decision to leave the European Union (EU). There is a high level of uncertainty over the likely impact of leaving the EU, but most economists project a

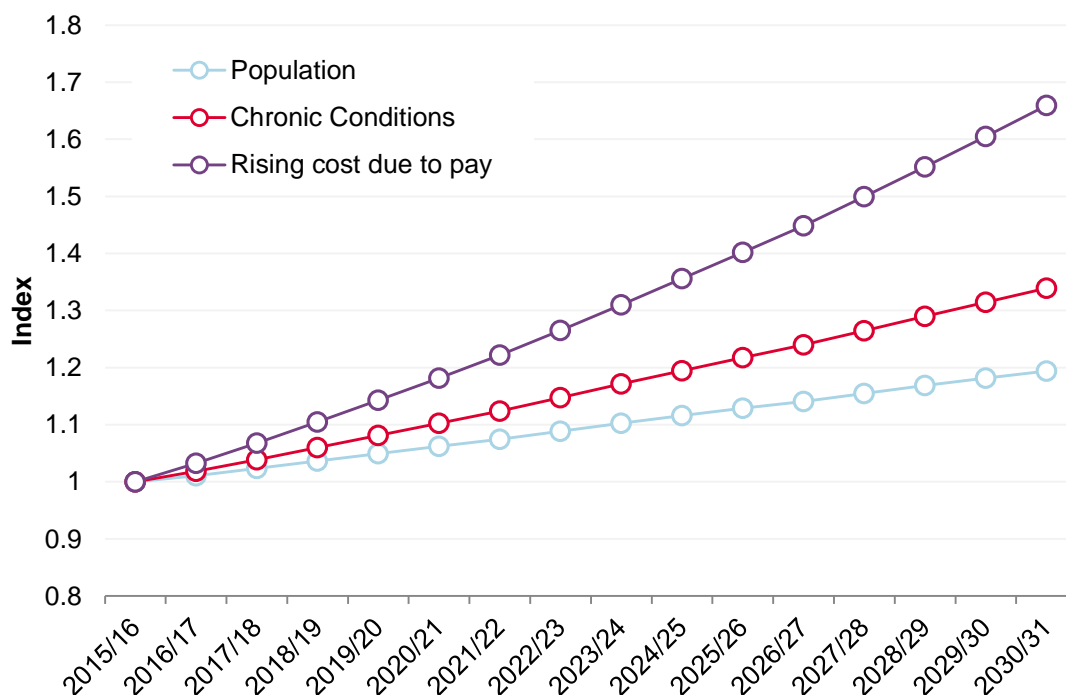
negative impact on economic growth. Based on analysis from NIESR and IFS we estimate that leaving the EU could result in a reduction for the Welsh NHS budget of between £120m and £650m by 2030/31 depending on the level of access to the single market.<sup>1</sup>

Increased funding of 2.2% a year above inflation would maintain current services, but additional funding over and above this would be needed to fund any major improvements to the quality of care.

### Main causes for funding pressures

The major factors driving funding pressures in the NHS are a growing and ageing population, an increasing need for treatment of chronic conditions and rising costs of providing care. Based on acute care, which has the highest quality data, we estimate that population alone would increase pressures by an average of 1.2% a year in real terms. The growth in the proportion of people receiving admissions for chronic conditions increases this to 2.0%. The cost of pay rising in line with the long-run trend increases this further to 3.4% a year (Figure 4).

**Figure 4: Index of contribution of population, chronic conditions and pay to projected pressures for NHS acute care in Wales (2015/16 = 1).**

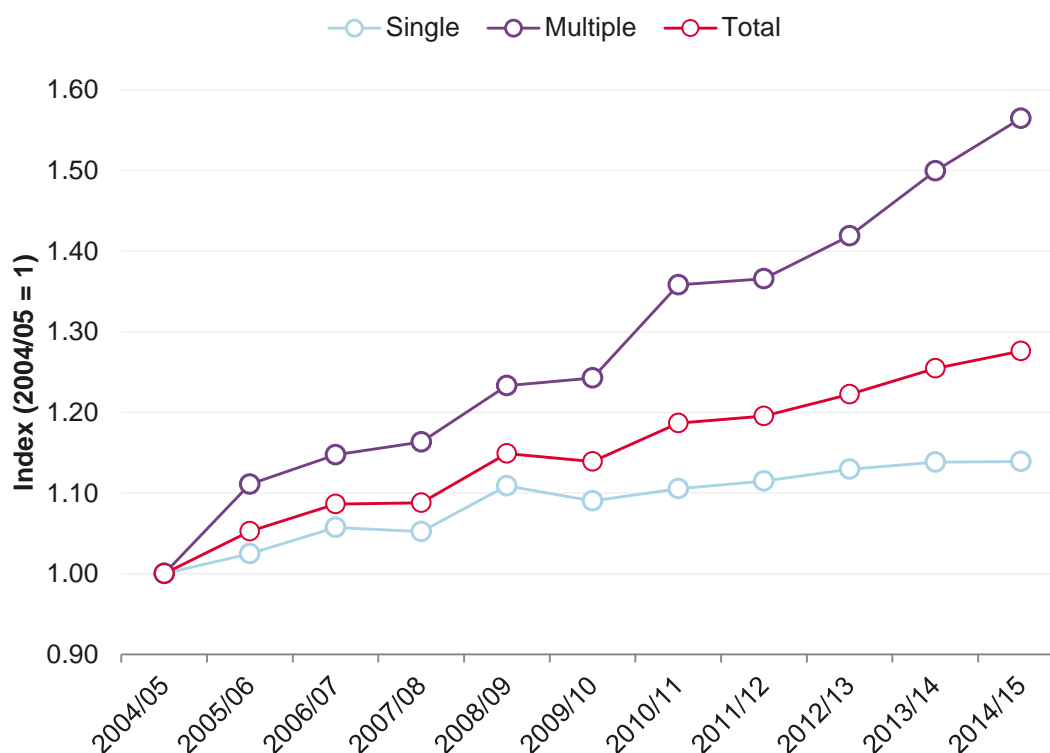


The total population is projected to grow by 6% between 2015 and 2030, while the number of people aged 65 and over is estimated to grow by 29%. The rate of growth for older people is particularly important as the cost of an average person's care rises with their age. For example, total acute care for a female aged between 75-79 will cost an average of 5.4 times a female aged 20-25.

Hospital admissions for people with at least one of 12 chronic conditions from the report<sup>1</sup> accounted for 58% of total inpatient spend in 2014/15, and 72% for people aged 50 and over. The proportion of people receiving care with a chronic condition is rising, for example 1.3% of women over 50 years had an admission related to diabetes in 2014/15, compared to 1.1% in 2004/05.

Additionally, the number of people admitted with multiple conditions is rising faster than for single admissions. Between 2004/05 and 2014/15, the number of people admitted with one chronic condition rose by an average of 1.8% a year, while those admitted with at least two rose by an average of 5.1% a year (Figure 5).

**Figure 5: Index of inpatient admissions in Wales for people with a single or multiple chronic conditions (2015/16 = 1).**



Chronic conditions are a major cause of the rising funding pressures facing the NHS in Wales, particularly for multiple conditions. How NHS adapts to treat these will have a major impact on the quality and cost of the services provided. Equally the level of investment in prevention will be crucial. One of the major risk factors for chronic conditions is smoking. The prevalence of smokers in Wales fell significantly between 2003 and 2014, from 26% to 19%.<sup>6</sup> However, it is higher than the UK average of 18%.<sup>7</sup>

<sup>6</sup>Welsh Health Survey 2015 <http://gov.wales/statistics-and-research/welsh-health-survey/?lang=en>

<sup>7</sup>ONS 2015:

[www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/referencetable06cigarettesmokersbycountry](http://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/referencetable06cigarettesmokersbycountry)

Another major risk factor is the growing number of people who are overweight or obese. Fifty-nine per cent of people in Wales aged 16 or over were overweight or obese in 2014.<sup>6</sup> This is an increase from 54% in 2003. The proportion of people who are obese has increase from 18% in 2003 to 24% in 2015. While men are more likely than women to be overweight or obese (63% vs 56%), they are less likely to be obese (23% vs 24%). People living in more deprived areas are also more likely to be overweight or obese.

The UK as a whole does not consistently over-perform or under-perform on international benchmarks of healthcare quality and, as with any health system, there is considerable scope to improve quality of care<sup>8</sup>. However, the main risk factors for ill health in the UK are linked to lifestyle and individual behaviour – including smoking, excessive alcohol consumption, lack of physical activity and obesity. These factors place considerable burdens on the NHS<sup>9</sup>, but addressing them will require wider policy action not just improvements to health services<sup>10</sup>. A strong focus on population health must be a key priority for the NHS in Wales, but much of the improvement in population risk will also need action beyond the NHS.

## Social care

In 2014/15, Wales spent £1.2bn on personal social services, excluding family and children's services. This is worth around £397 per head of population, higher than in England (£290). This partly reflects estimates of higher needs in Wales, as well as the government's decision not to ring-fence the health care budget in 2011/12 in order to protect other areas of public spending.

We estimate that pressures on social care will rise by around 4.1% a year between 2015 and 2030/31, due to demography, chronic conditions and rising costs. This will require the budget to almost double to £2.3bn by 2030/31 to match demand (Figure 6). The draft budget includes an extra £25m for social services in 2017/18. Although the investment is welcome, unless funding for adult social care rises at the same rate as pressures, or there is a dramatic change in the rate of efficiency growth for social care services, there is a risk that the level of unmet need in Wales will rise.

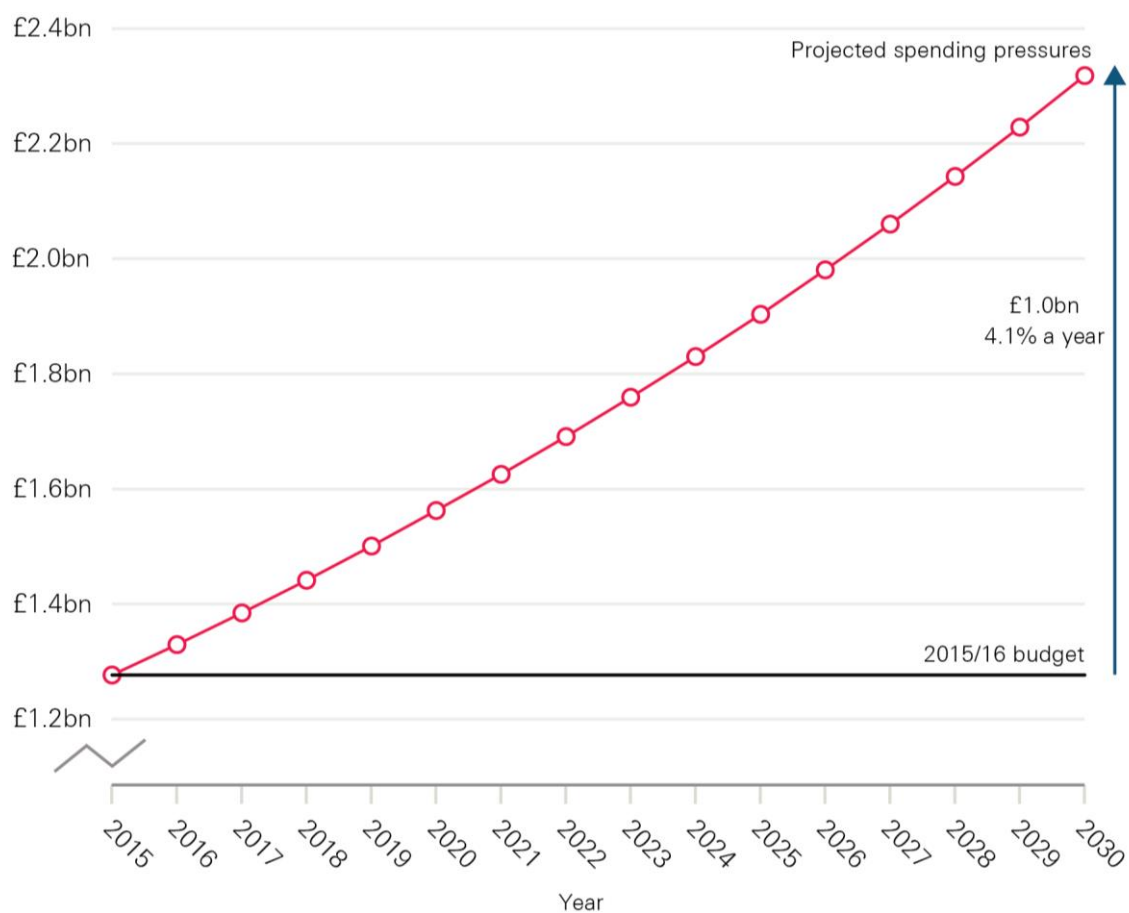
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<sup>8</sup> Kossarova L, Blunt I, Bardsley M. Focus on: International comparisons of healthcare quality. Health Foundation and Nuffield Trust, 2015.

<sup>9</sup> Davies A, Keeble E, Bhatia T, Fisher E. Focus on: Public health and prevention. Health Foundation and Nuffield Trust, 2016.

<sup>10</sup> Organisation for Economic Cooperation and Development. Health at a Glance 2015: How does the United Kingdom Compare? OECD, 2015

**Figure 6: Projected cost pressures for adult social care in Wales**



**For further information:**

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