The Issues

3. The Health Foundation report was published by the same authors of the 2014 Nuffield Trust report - ‘A Decade of Austerity in Wales? the funding pressures facing the NHS in Wales through to 2025/26’. It is an independent authoritative piece of research using Welsh data to model and adjust activity and spend trends for a number of detailed areas of the health service, to make assumptions regarding staff pay, efficiency savings and to follow trends in the prevalence of chronic conditions in the Welsh population.

4. The Health Foundation modelled the potential financial impact of certain NHS policy decisions and scenarios compared to the project high level funding assumptions to 2030/31. Additionally they have undertaken further analysis on
the financial challenge up to 2019/20. The modelling on the funding challenge to 2019/20 included:

a. Assumption on additional funding based on the 5.69% Barnett share of the Department of Health as per the 2015 UK Government CSR
b. Assumed continuation of current UK national pay policy to 2019/20

5. In addition Health Foundation commissioned:

- Welsh Institute for Health and Social Care (WIHSC) to conduct qualitative research to understand the views of experts in Wales about what will happen to activity levels within specific time frames as a result of prudent healthcare. They are also gathering case studies to illustrate what is happening at the frontline.

- Public Policy Institute for Wales (PPIW) to undertake research on the opportunity for technical efficiency to reduce the gap between cost & demand pressures and resources.

**Report Key Findings**

The key findings of the Health Foundation are:

6. that NHS Wales should be financially sustainable over the long-term period to 2030-31, based on two key assumptions, namely

a. that annual real terms NHS efficiencies of at least 1% will be achieved and
b. that, in the long run, funding increases in line with increases in GDP, estimated at 2.2% per annum.

7. Over the shorter term to 2019-20,

a. there is a potential gross funding gap of up to £700 million, based on assumptions of NHS Wales funding increases beyond 2016-17 at the same rate as the growth for the UK Government’s Department of Health budget as outlined in the UK Government’s November 2015 Comprehensive Spending Review.

b. This gap would reduce to a net gap of £450m if delivery of efficiency savings continued at 1% a year.

c. A further reduction to a net £150m gap from continuation of the current UK national pay policy to 2019/20.

d. Need to achieve efficiency growth of an additional 0.5% a year, to take this to 1.5%, higher than the current UK trend (1%).

8. Other key messages from the report include:

a. adoption of prudent health care principles would not increase the total cost pressures for the NHS
b. Sustainability of the NHS in Wales is dependent on the quality and motivation of its workforce.

c. Sustainability of the NHS is intertwined with sustainability of other public services, crucially social care. Pressures for adult social care are projected to rise faster than for the NHS, by an average of 4.1% a year. With social care funding unlikely to rise at the same rate, there is a real risk that the level of unmet need for care services could rise in Wales.

d. Any major advances in quality or technology would require investment above the levels projected

e. If the decision by the UK to leave the EU has a negative effect on economic growth, as predicted by most economists, this may lead to a reduction in the total budget for the Welsh NHS in 2030/31 and increase the challenge of achieving a sustainable NHS.

Implications for Welsh Government

9. The Health Foundation’s key assumption for long term financial sustainability for NHS Wales is that funding rises annually at a rate of 2.2% in real terms, in line with the expected growth in GDP. If the Welsh Government’s overall budget is reduced in real terms over the longer term, then NHS Wales will continue to need an increasing proportion of the total Welsh Government budget to achieve and maintain sustainability.

10. In contrast, the Health Foundation’s short term funding gap of £700 million is overstated, as it assumes that NHS Wales receives the same annual growth in funding, from a 2015-16 baseline, to the increase in the UK Government’s investment in the Department of Health. The additional revenue investment in NHS Wales of £260 million in 2016-17 and £240 million in 2017-18, along with assumptions on UK public sector pay restraint and NHS efficiency, mean that this gap is effectively closed. The additional funding from reserves in 2016-17 also helps address this gap, albeit on a non-recurrent basis.

11. The predicted growth in social care pressures is potentially of more concern than the forecast NHS projections. The Health Foundation’s analysis in this area is limited, but they predict that social care spend will need to almost double, in real terms, over the next fifteen years. The Welsh Government’s commitment to allocate an additional £21 million in 2016-17 and £25 million in 2017-18 in the local government settlement is a contribution to this pressure, but this issue will need to be a key point for consideration if future budget plans.

12. Whilst NHS pay is largely determined in line with UK Government’s public sector pay policy, the Health Foundation have warned of the impact on staff morale from the ongoing real terms freeze in pay levels. Transforming NHS services will require a fully engaged workforce, and so it will be important to emphasise the other benefits that working in NHS Wales brings, in addition to pay. This
includes pension, leave, sick pay and other terms and condition benefits NHS Wales staff receive.

13. The Health Foundation has assumed that NHS will continue to deliver real terms efficiencies at the trend level of 1% per annum in real terms. To ensure a continued focus on this requirement, an Efficiency, Healthcare Value and Improvement Group has been established, chaired by the Chief Executive of NHS Wales and comprising officials and senior NHS staff. The Group is requiring organisations to adopt identified efficiency opportunities, or justify non-compliance.

**Joint Welsh Government and NHS response and action**

14. The actions planned in response to the Health Foundation and PPIW work will be led by the Efficiency, Healthcare Value and Improvement Group. The Group have already been assessing earlier published work, such as the Carter Review report “Operational productivity and performance in NHS hospitals” and will review and take forward actions identified in the more recent reports within its work programme. This Group will be the engine for change, identifying opportunities and best practice across Wales, and then requiring organisations to adopt or justify non-compliance.

15. Additionally the next Team Wales event in December, for all NHS Executive Directors and senior HSSG officials, will be focused on the findings of the Health Foundation report, but more importantly on the national and local actions required to address the efficiency, productivity and variation challenges faced by NHS Wales.

16. The Welsh government has maintained an active dialogue with local authorities and other social care delivery partners over the past six months following three round table events to consider the financial impact of the National Living Wage in April / May 2016. The Health Foundation report is scheduled to be discussed at a meeting with Directors of Social Services in January. If we are in a position to do so, following the Autumn Statement, that could include discussion of potential further financial support.

**Finance Requirements and Governance Implications**

17. This is a paper to note. There are no direct financial implications to its consideration.

18. The draft Welsh Government budget for 2017-18 has been informed by initial findings from the Health Foundation work. Briefings have been shared to ensure
no surprises and consistency with the direction of travel as the draft Welsh Government budget has developed over the summer.

19. HSS Finance clearance code SE/EM2016/5966, Strategic Budgeting Division SB0080/5

Research and / or Statistics

20. The report is an independently commissioned and delivered report by the health economics team within Health Foundation. While data and support has been provided by HSS and KAS officials and NHS officials the report and findings are Health Foundation own.

Communications and publication

21. Media interest occurred at the time of the report’s publication. No further communications are intended.

Recommendation:

22. Cabinet is invited to note that Health Foundation published their independent report “The path to sustainability : Funding projections for the NHS in Wales” on 13th October 2016, the implications for Welsh Government and the action in hand to respond to the challenges identified in the report.

Joined up Working

23. The Cabinet Secretary for Finance and Local Government and also the Strategic Budgeting (SB) Division have been briefed on the work and findings of the Health Foundation report.

Vaughan Gething AM,
Cabinet Secretary for Health, Wellbeing and Sport
November 2016