

Finance and the NHS in Wales

This briefing provides an overview of Welsh NHS finance, the pressures on the system and the actions being taken by Local Health Boards and NHS Trusts in Wales to address them.

Key Points

Like healthcare systems across the globe, the NHS in Wales has reached a tipping point. The cost of providing healthcare continues to increase due to issues such as a growing and ageing population, developments in medical technology, pay and price inflation, pharmaceutical developments and recruitment and retention challenges. At the same time, both demand and expectations on the service continue to increase while patient safety remains paramount.

The Welsh Government budgeted £7.3 billion in 2017-18 on health, well-being and social services, representing nearly 49% of the Government's £15 billion revenue budget. An estimated £6.5 billion is invested directly into the delivery of services. However, we know that the funding gap for health and social care in Wales could be between £1.4 billion and £2.5 billion per annum by 2031, despite actions being taken by both sectors to drive greater efficiency, control pay and develop new service models.

In view of the funding outlook, there is a pressing need for the Welsh Government to review the long-term funding model for health and social care to ensure future sustainability.

Alongside healthcare services, other public services play a vital role in supporting population health and well-being. All public services in Wales need to adapt and find innovative ways to support population health and well-being, focused on prevention and early intervention. We need to maximise the way in which our country spends the resources available to minimise the amount spent on treating ill-health and enable greater collaboration and partnership working across sectors. The Well-being of Future Generations (Wales) Act 2015 and Social Services and Well-being (Wales) Act 2014 are central to this vision.

In the meantime, the NHS will continue to face significant financial pressure. To manage this, it is seeking to improve its approach to medium term resource planning. Across Wales, Health Boards and Trusts are seeking to manage their financial pressures by driving out inefficiencies, while at the same time looking to derive greater value from their resources through innovative ways of working and practicing Prudent Healthcare. As well as the NHS, public sector services, the third sector, and the public have significant roles to play to achieve a sustainable health and care system in the future.

Background

Since it was established in 1948, the NHS has provided healthcare free at the point of use, supported by public taxation. For the 2017-2018 fiscal year, the total revenue budget for public services in Wales is £15 billion. Approximately 49% of this is invested in the health, well-being and sport (or £7.3billion) Main Expenditure Group (MEG).

The Health Foundation report *The Path to Sustainability* outlined the financial challenge facing the health and social care sector in Wales over the next fifteen years. The report suggested that a sustainable publicly financed healthcare system in Wales is achievable by 2031 – but only if a number of conditions are met, including the delivery of year on year efficiency savings of at least 1% and imposing restraints on pay for at least another three years. Brexit brings further uncertainty around the long term recruitment and retention challenges for the NHS Wales workforce, which must be addressed at both a UK and Wales level. Increases in funding must be proportionate to growth in GDP, plus a 4% uplift year on year in social care funding. Despite the additional investment identified, the Welsh Government's Draft Budget does not provide the growth required to meet the uplift. The public sector pay cap of 1%, set by the UK government, is likely to be lifted for some NHS staff in 2018-19 and if Government funding is not provided to support this change this will introduce an additional cost pressure.

Without long-term sustainable funding, the NHS will face significant financial pressure as the growth it receives from Welsh Government is lower than is required. Pay and price inflation, rising demands and expectations of the public and establishing a strong and stable workforce, among other factors, are making balancing the budget extremely challenging for many Health Boards.

It has become clear that a combination of additional resources and investment from Welsh Government, with more prudent use of resources from Health Boards and Trusts across Wales, is needed if we are to make positive changes at the required pace and scale, NHS organisations are seeking to manage these financial pressures by driving out technical inefficiencies in traditional ways (e.g. reducing running costs) and introducing new cost control mechanisms, such as caps on agency and locum rates, but increasingly they are also looking to derive greater value from their resources through innovative means.

While the Welsh Government invested around £6.1 billion directly on healthcare services in 2015-2016 (£1,974.03 per capita), we know that as little as 10% of the population's health and well-being is determined by access to healthcare. Good health is as dependent on the food we eat, our surroundings, housing, education, employment and income as it is on healthcare interventions. Public services in Wales need to adapt and find innovative ways to support population health and well-being in a way that is focused on prevention and early intervention. To this end, NHS organisations are developing models of care that treat the patient closer to home by moving services out of hospital settings and into the community, whilst at the same time working with partners to develop new models of care that support the health and well-being of the population, in particular social care and housing partners. NHS leaders are acutely aware of the financial pressures on other public services, especially social care. However, the pace at which progress in developing new models of care is restricted by the availability of transitional funding and workforce capacity.

The UK context

At a national level, the UK Government spends a smaller percentage of Gross Domestic Product (GDP) on healthcare compared to other developed nations, and this amount is declining in relative terms. Of the EU14 countries, the UK comes in 8th, spending 9.9% of their GDP on health - top ranked Sweden, spends over 11% of GDP on health.

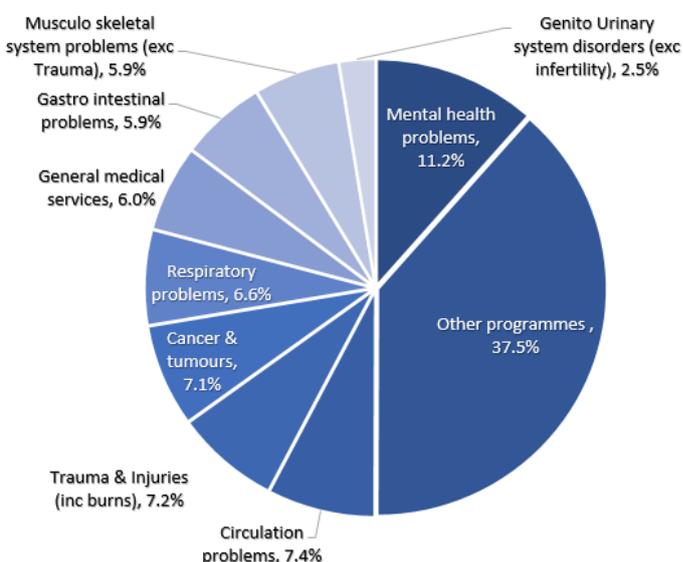
Furthermore, austerity has led to difficult choices for Welsh Government as it's budget has been cut by 7.9% in real terms since 2009-2010. Since funding for the NHS in Wales is impacted by UK Government budgetary decisions, austerity has directly impacted the level of funding the Welsh NHS has available.

The overall health of the economy directly impacts on public finance and the NHS. Before the recent Autumn Budgetary announcement the Health Foundation and Nuffield Trust had estimated that the NHS budget in England needed £4 billion more in 2018-19, and the repercussions of this will be felt by Wales.

Despite health and social care being the largest section of the Welsh budget, which has increased year on year, it has been increasingly difficult to achieve financial balance. These problems cannot simply be solved with more funding as this is not currently sustainable and therefore behavioural changes must be made to the way in which NHS Wales operates and how we work with our partners to develop joint solutions. Due to external pressures such as austerity and the uncertainty of leaving the EU, we are increasingly needing 'to do more with less' which requires tough decisions to be made and followed through to a conclusion.

Expenditure in the Welsh NHS

The NHS in Wales acts as both the commissioner and provider of healthcare services. In 2015-16 the NHS spent £6.1 billion on programme expenditure across Health Boards in Wales as well as Public Health Wales NHS Trust. The chart below shows the breakdown of programme expenditure across Health Boards, with mental health receiving the largest proportion of single programme expenditure, roughly 11.2%.



Staff costs represent the largest expense for the NHS in Wales. The pay bill has continued to increase year on year, with a significant increase over the last three years from £3.16 billion (2.9%) in 2014-15, to £3.51 billion (6.4%) in 2016-17. Total overall agency and locum pay increased by 22% compared to the same period last year, and is at the highest level in the past four years. To address this, capped agency and locum rates were introduced in November 2017.

Draft Budget 2018-19 and 2019-20

The Draft Budget for the next two years proposes an additional £450 million in healthcare revenue funding; £230 million in 2018–19, and £220 million in revenue in 2019–20, and an additional £90 million for the NHS Wales' capital programme. Health will remain the single largest area of investment for Welsh Government, with 90.4%, or approximately £6.78 billion, of the health and social care MEG invested directly into NHS services. Increased investment within the NHS is needed yearly to properly manage local population needs. It is important to note that even with additional resources, NHS organisations will still need to make significant savings in year, and some may still face a planned deficit.

One way to help address these challenges would be to secure additional revenue. The 2018-19 financial year will be a landmark funding moment as the Welsh Government will have responsibility for raising a proportion of its own revenue through the introduction of the Land Transaction tax and the Landfill Disposal tax. The revenue generated will be used directly to fund and support public services.

Despite increased investment and additional revenue sources, there is a funding gap between healthcare funding and providing services. Even with the identified additional resources and increased investment, and if growth were to remain at the historic rate of 1% per year, this would only reduce the funding gap to £450 million by 2019-2020. At worst, the funding gap could increase to £700 million. Rather than tiptoeing around the edges of service delivery that lead to incremental margins of funding and expenditure increases, large scale cultural and behavioural changes are needed to achieve a healthcare system that meets the needs of the population.

The key financial challenges facing the Welsh NHS

There are a number of challenges facing the Welsh NHS that are putting service, financial, and workforce pressures on the system. In addition to price inflation and technological advances, the NHS faces considerable cost pressures from pay, rising demand, out-dated infrastructure and workforce recruitment and retention issues.

A) Prospect of a pay award above one percent

The current public sector pay cap has been in place since 2013 and limits pay awards to 1%. In June 2017, the Cabinet Secretary for Health and Well-being, Vaughan Gething, wrote to Jeremy Hunt, Secretary of State for Health, urging him to make the case to the UK Treasury to remove the public sector pay cap for NHS staff. The Cabinet Secretary has made it clear that any pay award above the pay cap for public service workers needs to be funded by the UK Government. The cost of a 1% increase in pay is around £50 million and any increase above that, without specific funding from the UK Government, would be a new cost pressure for Welsh Government/NHS Wales. As it stands now with the proposed Draft Budget, the Welsh NHS would not be able to meet this cost internally while still meeting all other requirements, such as maintaining and continuing to develop high-quality services.

B) Rising demands and increasing expectations of the public

Wales has an increasingly ageing population - people are living longer and are developing multiple and/or chronic conditions that place an increasing demand on health and care services. The number of people aged 65 and over is projected to rise by 50% by 2037 and the percentage of people living with multiple chronic conditions is set to grow by 56% over this period if population increases are taken into account.

Not only will such a development impact on frontline NHS services, but an increasing number of people will require further support through the social care system, which is already facing unprecedented workforce and financial challenges across Wales.

C) Establishing a strong and sustainable workforce

Staffing costs remain the largest expense in the Welsh NHS. A reduction in the use of locum and agency staff, coupled with a slowing of recruitment processes and the challenges brought by Brexit, means that recruitment and retention within the NHS continues to demand the urgent attention of policymakers and service providers. The NHS is Wales' largest employer, currently directly employing around 89,000 people (76,381 full time equivalent) and providing a significant contribution to the national and local economies. For the past six years, the total NHS pay bill has increased year on year, with an increase of 13% from 2010-11 to 2015-16.

There are many factors at play that make the workforce such a challenging issue, which include increased agency / locum spend due to internal staff shortages and recruitment issues, workforce sickness absence and use of EU recruitment. Work is being done to address these issues, including the introduction of the external and internal agency and locum cap in November 2017.

The workforce must evolve and respond to the challenges ahead. As well as meeting the future needs of the population, the workforce must develop new ways of working in community settings/services closer to peoples' homes, as well as providing new models of care and working across sectors. We must also acknowledge that maintaining and developing the current workforce is just as important as growing and training a new one.

NHS response to the financial challenge

Financial pressure is a constant feature of healthcare systems across the globe and the Welsh NHS is no different. Years of public finance constraint has meant that the NHS, like other public services in Wales, has had to find recurrent annual efficiencies for many years.

The focus of these savings has been traditionally placed on driving out technical efficiencies from transactional services. NHS leaders are also sharing good practice, comparing themselves to others and pursuing incremental improvements to processes and practices. More recently, as austerity continues and the financial pressure grows, the NHS in Wales is looking at more transformational innovations to improve outcomes for patients and deliver better value for money.

NHS organisations are under a legal duty to prepare Integrated Medium - Term Plans (IMTPs), and these are helping to plan service provision, finances and improvement over a three-year period.

Some Health Boards have encountered particularly acute financial challenges in recent years, requiring them to submit plans annually. The fact that a number of Health Boards are working to annual plans, and are in some level of implementation, illustrates the challenges the NHS in Wales is facing. To make the healthcare system in Wales financially sustainable, NHS leaders are working to develop a new value based health and care strategy based on priorities that will ensure the best patient experiences and outcomes while ensuring the best value for money. The outcome of the Parliamentary Review into the long term future of health and care in Wales will be very timely in this regard.

Projects that highlight transformational financial changes

While incremental financial efficiencies are being gained throughout the NHS in Wales, it is clear that transformational changes within the healthcare system are needed in order to encourage whole system change. The following case studies outline some of the measures that have been taken to alleviate financial pressures on the healthcare system in Wales.

Value Based Healthcare in COPD and Asthma – Aneurin Bevan UHB (ABUHB)

Traditionally, NHS cost and efficiency programmes have tended to be divorced from quality improvement and patient safety initiatives. Value-based healthcare demands that we consider healthcare outcomes and costs together, constantly seeking to improve through reducing unwarranted variation and allocating resource where it has the maximum benefit for patients. Crucially the implementation of a value-based approach informs whole-system resource allocation and service design– in this case for a population with chronic obstructive pulmonary disease (COPD) and Asthma.

In 2014/15 £17.3 million was spent on respiratory drugs in Gwent of which £16 million was inhaled therapy for asthma and COPD. Specifically, spend on Inhaled Corticosteroids accounted for 65% of respiratory prescribing costs, with inhaled corticosteroid/long acting beta agonists (ICS/LABA) combinations forming the majority of prescriptions. Approximately 45% of ICS items prescribed were high strength products. Despite a high use of high strength ICS and with prevalence accounted for, ABUHB still has a high rate of admissions/ procedures for COPD and Asthma.

It was clear the system had to be rebalanced by disinvesting in interventions which were not improving outcomes and therefore adding value for patients, while reinvesting a proportion of any savings made in high value care. Some solutions utilised include:

- Simplified treatment guidelines/pathways for asthma and COPD;
- Rationalised formulary choices with a device led approach for each drug class across each step of the pathway; and
- Developed a business case to reinvest prescribing savings into pulmonary rehabilitation.

Since 2014/15 ABUHB has reduced respiratory prescribing spend by £1.3 million and has reduced the average respiratory item cost by 9.2%. The proportion of high strength Inhaled corticosteroids prescribed also reduced from 39% in 2014 to 23% in 2017. This reduction is greater than any other Health Board in Wales and prescribing is now better than the Welsh average.

The promise to reallocate a proportion of savings from inhaled therapies to pulmonary rehabilitation, from focus on a low value to high value intervention, was an essential way to engage GPs to change their prescribing patterns. This case study demonstrates that it is possible to engage the multidisciplinary teams and patients in going some way to achieving 'allocative value' for a population of patients with COPD and asthma.

Direct Nursing Feature using Chromebooks – Cwm Taf UHB

As technology develops, the NHS needs to look at how it keeps pace with digital advancements. In May 2015, the district nursing service launched a Mobile Working in the Community project thanks to a successful bid for Welsh Government funding from the Health Technology and Telehealth Fund and Invest to Save Fund. Under this initiative, around 225 district nurses are now using Chromebooks as part of their normal daily duties, such as administrative tasks, access to clinical systems and patient records.

Mobile working has now become part of their daily lives and a number of benefits are being seen. Most importantly, patients appreciate the fact that their district nurse can access information immediately to improve their care and manage their conditions better. The team reported an improvement in the care they can provide to patients and less travel time as they can access key information remotely. Furthermore, nurses can now access the INR Clinic list using the mobile device and results are recorded straight onto patients' GP patient record. This is leading to significantly improved response times, improved patient safety and reduced transcribing error.

Figures have shown that, since the introduction of the Chromebooks, levels of activity have dramatically risen. Looking at October - December 2016, compared with the same period the year before, there was a 22.6% increase in activity, and a massive 61% increase in the number of treatments. The project also made financial savings, with £150,000 of district nursing productivity realised in 2016-2017 and £26,000 travel savings recorded each year.

Developing a sustainable model for a pharmacy-led GP medication review service (pacesetter) - Betsi Cadwaladr UHB

Clinical pharmacists have the key skills that can support GP practices to undertake medication reviews. This is an element of the GP workload that could potentially be managed by a pharmacist, thus releasing GP capacity. Increasing the access to pharmacists and pharmacy technicians could also potentially improve the quality of medicines management and enhance patient medication safety. The aim of the project is to develop a sustainable model for a pharmacy-led medication review service within a GP practice and to become normal practice.

Pharmacy lead Polypharmacy reviews have meant that HPI has achieved an underspend of £50,000 against the allocated prescribing budget for the last fiscal year. This equates to a £309,000 reduction in prescribed medication costs versus the previous fiscal year spend for the practices that merged to become HPI.

This also specifically relates to care home residents, which are particularly at risk of medication related problems as they are often elderly, prescribed several medicines (polypharmacy) and have multiple co-morbidities. Across Gwynedd and Ynys Mon 532 patients were reviewed. Assuming a GP would take 10 minutes to undertake each review, the service has saved 5320 minutes (approximately 88 hours) of GP time. As of September 2017, this equates to £23,740 annual medication cost saving from interventions since April 2016.

Chief Executive Management Team (CEMT) National Improvement Programme and *Medicines Identified as Low Priority for Funding in NHS Wales*

Led by the CEMT, the National Improvement Programme brings together the various professional peer groups across the NHS in Wales. The aim is that with a multidisciplinary approach, health professionals and those on a strategic level will be able to come together to increase value within the Welsh NHS. Half way through its first year of execution, the National Improvement Programme is already seeing gains in terms of efficiency and financial savings while putting the needs and safety of patients at the core of operations.

As part of this programme the All Wales Pharmacy Director Peer Group, with the endorsement of other professional Peer Groups and bodies, recently developed a paper regarding *Medicines Identified as Low Priority for Funding in NHS Wales*. In 2015–2016, prescribing expenditure in NHS Wales totalled £0.85 billion, or 5.7% of total Welsh Government expenditure. Therefore, the purpose of the document was to encourage clinical and cost effective use of resources at a time when there are real financial pressures on the NHS, by reducing unwarranted clinical variation in prescribing behaviours. This will ensure that health boards and clinicians are able to make the most efficient use of the resources available to them.

According to this work, for the 2016-2017 fiscal year five medicines (Lidocaine, Liothyronine, Tadalafil daily, doxazosinXL, and Co-proxamol) received £5.6 million of NHS Wales expenditure in terms of primary and secondary care, despite being deemed low value for prescription services. Due to the high level of variation across Health Boards in prescribing these medicines, it was determined that they should not be routinely prescribed. This is now endorsed by the All Wales Medicines Strategy Group and Health Boards across Wales are now interpreting and implementing this guidance in an effort to reduce variation while improving financial efficiencies and patient outcomes.

Conclusion

The complex nature of finances in the Welsh healthcare system, coupled with various external pressures and challenges it faces, indicates that the growth in funding and the more prudent use of existing resources is needed in health and social care. However, this will be very difficult to find and will require difficult choices to be made about public services in Wales.

The NHS and Local Government have delivered millions of pounds of recurrent efficiency savings over the past five years, we now need to become more sophisticated in our search for further resource releasing efficiencies. We need to go beyond the delivery of traditional technical efficiencies to think innovatively and consider the efficiency of our resource allocation, based on a better understanding of the outcomes of spending decisions.

To address the challenges, there is a need for radical service transformation, long-term funding solutions and sustained action on social care if the NHS is to make real progress towards achieving long term sustainability.

How can the Welsh NHS Confederation help you?

Please get in touch if you want further details on any of the issues raised in this briefing. Please contact **Nesta Lloyd-Jones, Policy and Public Affairs Manager** at Nesta.Lloyd-Jones@welshconfed.org

The Welsh NHS Confederation is the only national membership body which represents all the organisations that make up the NHS in Wales: the seven Local Health Boards and three NHS Trusts.

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