



Briefing for Debate on Statement: The Draft Budget 2024-2025

Introduction

This briefing is for Members of the Senedd (MSs) in preparation for the Statement: The Draft Budget 2024-2025 (90 mins) on Tuesday 9th January 2024.

Key points to consider

- The whole public sector is operating under severe financial pressure with demands for services also at an all-time high. The NHS is in uncharted territory in terms of the scale of the predicted financial deficits and the challenges operating in the current environment.
- Plans submitted by health boards at the outset of the financial year detailed a combined cumulative deficit position of £648m. NHS organisations that have never, or very rarely, been in a deficit position now have predicted deficits ranging from £17m to over £40m per organisation. In addition to receiving additional allocations from the Welsh Government, each health board has been required to reduce planned deficits by 10 per cent.
- The pandemic has led to multiple challenges for the health and care system, with increased pressures resulting from inflation, the elective care backlog, recruitment and retention of the health and care workforce, the rising cost-of-living and high demand on NHS and social care services, alongside high public expectations and reducing confidence.
- The NHS requires clear and more focused priorities, underpinned by a long-term vision for the system. This will need a tight focus on those issues which require immediate prioritisation and the financial support to enable them. We must emphasise the importance of working with partners across the public sector so that we may collectively rise to the challenges we face.

Our priorities

As the membership body representing NHS leaders in Wales, we ask that the Welsh Government Budget for 2024-25 supports the following areas:

- **Capital:** Develop a ten-year investment plan for service change to reshape NHS estates and infrastructure, including digital. This would make NHS estates more sustainable, boost productivity and support the NHS to get through its care backlog,

reduce carbon emissions, maximise public assets, attract additional funding through research and development opportunities, regenerate the local economy and improve patient care outcomes.

- **Revenue:** Provide funding to cover inflationary pressures, to address the backlog in elective care and the increase in acuity of patients' post-pandemic and support the maintenance of NHS estates and infrastructure, including digital.
- **Workforce:** Support the development of flexible and innovative workforce plans and increase investment in NHS workforce so we continue to see an increase in the number of students and trainees across a range of professional groups.
- **Social care:** Provide local authorities with ring-fenced allocations for social care to meet the needs of their population and to support system-wide sustainability. The variation in investment in social care across Wales, for example, needs to be addressed through a renewed collaboration between the Welsh Government and local government. The funding allocated to social care needs to have clearly defined target outcomes imposed by the Welsh Government to ensure the total amount spent on social care drives the change we need to see.
- **Prevention and early intervention:** Recognise that national governments, local government and the NHS need to focus more on addressing the drivers of demand on our health services by working on prevention and population health measures, which will support the long-term sustainability of the service. The variation in underlying need for preventative activities should be considered in the allocation formulas.
- **Digital investment:** Invest in digital infrastructure and functionality and realise the opportunities that digital can bring to the economy and the NHS. Build digital functionality across patient pathways that captures and enables data to inform decision making and tools that support its delivery. Opportunities include enhanced self-care; connecting parts of our health, care and wider public sector to enable people to stay safe and healthy at home for longer; enabling organisations to work in partnership to support the highest risk citizens first and deploying scarce staffing resources in an efficient way.
- **Inequalities:** The NHS deals with the health impact of inequalities, which could be addressed through the wider determinants of health. Support a cross-government approach that creates the conditions for everyone to enjoy the best possible health, publishing a delivery plan that outlines actions being taken across all government departments to tackle inequalities.
- **NHS and the economy:** Recognise that health is an investment in growing the Welsh economy, both locally and nationally. Analysis published in October 2022 by the NHS Confederation shows that every £1 invested in the NHS, returns £4 in Gross Value Added (GVA) for the economy. Stop seeing the NHS as a drain on public resources but instead as a key driver of economic activity and employment. As large employers, purchasers, and capital asset holders, NHS organisations are well positioned to use their spending power and resources to address the adverse social, economic, and environmental factors that widen inequalities and contribute to poor health outcomes.
- **Long-term planning:** We would encourage a long-term planning framework for financial recovery. Longer term financial certainty is key to support NHS leaders to enable them to transform their services and improve patient outcomes.

Factors contributing to increased deficits

It is clear the pandemic and its ongoing effect continues to have a significant impact on healthcare systems. This includes the NHS's ability to achieve the level of service delivery needed to eradicate clinical treatment delays, alongside rising demand on services with more patients presenting with higher acuity, and the ability to recruit and retain the workforce needed across health and care services. This is further affected by the impact of inflation on the provision of health and social care. Other factors include the increasing number of clinically optimised patients in hospital awaiting discharge to home and care home, emergency pressures and industrial action.

NHS organisations are being asked to deliver more for less, with budgets almost 5 per cent lower in real terms this financial year. Unfortunately, with a significant gap between the growth in demand on healthcare and an inability to respond fully in the short term, within certain fiscal constraints, all health boards this year have been unable to submit financially balanced plans to the Welsh Government.

On 8 November 2023, the Minister published a [written statement](#) summarising health board financial allocations and target control totals. Welsh Government made additional allocations were made in recognition of the challenges faced and it was confirmed each health board was required to reduce planned deficits by 10 per cent. Allocations and control totals by local health board are detailed on the [Welsh Government website](#).

The key drivers contributing to the increased deficits in 2022/23 and forecasted deficits for 2023/24 include:

- **Underlying deficits from 2022-23:** All health boards' deficits from 2022-23 were carried forward to 2023-24, acting as the starting point for 2023-24 finances. As highlighted in the [Audit Wales report](#), the overall deficit for 2022-23 was £150m: "Against a backdrop of significant pressure, the total in-year deficit for 2022-23 has increased to £150 million (£47 million in 2021-22) and the three-year cumulative over-spend across the NHS increased from £184 million in 2021-22 to £247 million in 2022-23". The underlying deficit is likely to again be carried forward into 2024-25.
- **Workforce:** A sustainable workforce is essential for a sustainable NHS. Workforce costs have increased in both the NHS and social care. Pay costs accounted for 45 per cent of health board revenue spend in 2022-23, around £5.4 billion. Workforce pay pressures have increased due to industrial action, high levels of vacancies and sickness, resulting in high variable pay expenditure and outsourcing of services from private providers, such as agency. The increase in agency nursing staff is largely down to pressures from delayed transfers of care. As highlighted by [Audit Wales](#), expenditure on agency staff has grown steadily over the last five years, with a further increase of 20 per cent in cash terms in 2022-23, putting overall agency spend at £325 million across NHS Wales.
- **Inflation:** There has been significant in-year variation driven by inflationary pressures, namely from energy price fluctuations but also for goods and services, including digital.
- **Social care:** Social care services play a crucial role in care pathways by keeping people well for longer outside of hospital and enabling faster, safer discharges home. There continues to be a significant number of patients, on average 1,500, waiting to be discharged from hospital due to challenges in the care home sector or requiring a care package to be put in place, costing the NHS hundreds of millions of pounds every year. The average rate of a hospital bed is £500 per night, therefore with 1,500 people medically fit for discharge in hospitals across Wales it costs an average £750,000 per night to the NHS in Wales. This is a significant driver of financial pressure. In addition, there has been increased expenditure on Continuing Health

Care due to increases in local authority care home rates, the increase in the Real Living Wage and the Funded Nursing Care rate driven by the NHS pay award.

- **Medicines and prescriptions:** There has been increased spending on primary care and hospital prescriptions due to patient demand and the increased costs of drugs. For example, the [number of items prescribed in primary care](#) increased by 5% in the last five years and by 10.4% in the last ten years. Between April 2022 and March 2023, the total net ingredient cost of items prescribed through general practices increased by 7.4% compared with the previous year, the largest annual increase since 2003-04.
- After changes in clinical guidelines and increased activity following the pandemic, there has been an increase in oncology and scheduled care medicine. There has also been a higher-than-average increase in unscheduled care drugs expenditure as emergency departments continue to experience unprecedented demand.
- **Maintenance of outdated estates and infrastructure:** The cost of running NHS estates and infrastructure continues to rise. The NHS is faced with an ageing estate, including digital infrastructure, which was not designed for current demands and therefore fails to meet modern standards. Many hospitals in Wales were built in the 1960s or earlier, with 12 per cent of the estate built pre-1948 and only 6 per cent post-2015. For many NHS organisations, there are significant ongoing costs to repair estates and undertake essential maintenance, with one health board estimating the maintenance costs in the region of £150m, and many must replace key expensive service items that are well past their effective working lives. In addition, in Witybush Hospital in Hywel Dda University Health Board and Nevill Hall Hospital in Aneurin Bevan University Health Board, remediation work is being undertaken following the discovery of RAAC. This is not only expensive but prevents NHS organisations from using the limited funds available to create new services.
- **COVID legacy:** The ongoing effects of the pandemic continue to have a significant impact on healthcare systems and the workforce. This includes the ability to achieve the level of service delivery needed to eradicate clinical treatment delays, with rising demand on services, more patients presenting with higher acuity, and the ability to recruit and retain the workforce needed across health and care services. Alongside this, service changes made during COVID have been embedded in health board expenditure as well as the continuation of higher infection prevention and control standards, PPE provision and testing.

Conclusion

NHS leaders understand the current budget limitations facing the Welsh Government and believe we need to work together with the government, all political parties and public sector leaders to create innovative solutions across a streamlined set of priorities, which effectively balance short-term need with long-term vision. Creating a sustainable system requires a cross-sector effort to build healthier and more prosperous communities, reducing demand well into the future.

To this end, healthcare, reducing inequalities and maintaining people's mental health and wellbeing, should be at the heart of the Welsh Government's draft budget and be considered across government departments. It is vital that we work with partners across the public sector so we may collectively rise to the challenges faced. NHS organisations across Wales are committed to doing the very best they can to deliver high-quality, timely and safe care to the people of Wales.

Ultimately, we cannot lose sight of the fact that this is not just about budgets, targets and deficits – it is about people’s lives. They will bear the brunt of the impact, as will the staff who do their very best to care for them every day.

Further information

If you would like further information on any of the issues raised in the briefing, please contact Haleema Khan on haleema.khan@welshconfed.org

The Welsh NHS Confederation represents the seven local health boards, three NHS trusts (Velindre University NHS Trust, Welsh Ambulance Services NHS Trust and Public Health Wales NHS Trust), and two special health authorities (Digital Health and Care Wales and Health Education and Improvement Wales). The twelve organisations make up our members. We also host NHS Wales Employers.

Our director, Darren Hughes responded to the publication of the [Welsh Government’s 2024-25 Draft Budget](#), stating [the importance of further capital investment in the NHS’s estates and infrastructure](#) and the need to have an open and honest conversation with the public about what the future health and care service looks like to ensure future sustainability.

Our briefing, [‘Investing in the NHS: Priorities for future government budgets’](#), further details the budgetary pressures within the health and care system, outlining priorities for future government budgets.