

Agenda – Finance Committee

Meeting Venue: Hybrid – Committee room 4 Ty Hywel and video conference via Zoom	For further information contact: Owain Roberts Committee Clerk 0300 200 6388 SeneddFinance@senedd.wales
Meeting date: 19 January 2023	
Meeting time: 09.30	

Registration (09.00–09.15)

Private pre-meeting – Informal (09.15–09.30)

1 Introductions, apologies, substitutions and declarations of interest

(09.30)

2 Scrutiny of the Welsh Government Draft Budget 2023–24: Evidence session 6

(09.30–10.30)

(Pages 1 – 41)

Sally May, Executive Director of Finance Cwm Taf Morgannwg University Health Board

Darren Hughes, Director, Welsh NHS Confederation

Alwyn Jones, President, Association of Directors of Social Services Cymru (ADSS Cymru)

Dave Street, Corporate Director of Social Services and Housing, Caerphilly County Borough Council

Supporting documents:

FIN(6)–02–23 P1 Welsh NHS Confederation

FIN(6)–02–23 P2 ADSS Cymru

Research Service Brief



Senedd Cymru
Welsh Parliament

Break (10.30–10.40)

3 Scrutiny of the Welsh Government Draft Budget 2023–24:

Evidence session 7

(10.40–11.40)

(Pages 42 – 77)

Jon Rae, Director of Resources, Welsh Local Government Association

Cllr Anthony Hunt, Leader, Torfaen County Borough Council

Cllr Llinos Medi, Leader, Isle of Anglesey County Council

Cllr Lis Burnett, Leader, Vale of Glamorgan Council

Supporting documents:

FIN(6)–02–23 P3 – Welsh Local Government Association

Research Service Brief

4 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from items 5,7 and 8; and the next meeting

(11.40)

5 Scrutiny of the Welsh Government Draft Budget 2023–24:

Consideration of evidence

(11.40–11.55)

Lunch (11.55–12.45)

6 Scrutiny of the Welsh Government Draft Budget 2023–24:

Evidence session 8

(12.45–14.30)

(Pages 78 – 98)

Minister for Finance and Local Government,

Andrew Jeffreys, Director Treasury

Emma Watkins, Deputy Director, Budget & Government Business

Supporting documents:

7 Scrutiny of the Welsh Government Draft Budget 2023–24:

Consideration of evidence / Key issues

(14.30–14.45)

**8 Consideration of the Landfill Disposals Tax (Tax Rates) (Wales)
(Amendment) Regulations 2022**

(14.45–14.55)

(Pages 99 – 102)

Supporting documents:

[Regulations](#) (PDF, 47KB)

[Explanatory Memorandum](#) (PDF, 311KB)

Legal Services advice note

Agenda Item 2



Welsh NHS Confederation
Confederasiwn GIG Cymru

	The Welsh NHS Confederation response to the Finance Committee's consultation on the Welsh Government's Draft Budget 2023-2024.
Contact:	Nesta Lloyd-Jones (Assistant Director): [REDACTED] Madelaine Phillips (Policy and Public Affairs Officer): [REDACTED]
Date:	22 November 2022

Introduction

1. The Welsh NHS Confederation welcomes the opportunity to respond to the Finance Committee's consultation on the Welsh Government's Draft Budget 2023-24.
2. The Welsh NHS Confederation represents the seven Local Health Boards, three NHS Trusts, Digital Health and Care Wales and Health Education and Improvement Wales (our members). We also host NHS Wales Employers.
3. The last few years have presented some of the greatest challenges that the NHS has ever faced, with little sign that the pressures will decrease over the coming year. The pandemic has led to a more complex picture for the health and care system, with pressures resulting in areas such as the waiting times backlog, the recruitment and retention of the health and care workforce, demand on NHS and social care services and the considerable financial challenges facing the whole of the public sector.
4. The budgetary pressures within the health and care system and where further investment should be made were thoroughly explored in our briefing published in October 2022, '[Investing in the NHS: Priorities for future government budgets](#)'. This briefing examines, in detail, each of the funding priorities that should be considered in future UK and Welsh Government budgets. It also highlights the areas that should be scrutinised by the Senedd to improve patient outcomes, enhance the quality and safety of healthcare services and reduce inequalities.
5. As the briefing highlights, we ask that the future Welsh Government budget prioritises the following areas:
 - **Revenue:** Providing additional funding to cover inflationary pressures, including energy costs, the ongoing COVID-19 costs, recovery of care services, addressing the backlog in elective care and supporting the maintenance of NHS estates and infrastructure.

- **Capital:** Developing a ten-year investment plan for service change to reshape NHS estates and infrastructure, making them more sustainable, reducing carbon emissions and maximising public assets.
 - **Digital:** Increase investment in digital data, technology and opportunity across NHS Wales and benchmark the level of digital investment against other health systems.
 - **Workforce:** Increasing investment in the NHS workforce so we continue to see an increase in the number of students and trainees across a range of professional groups, the development of new roles and support for education and training opportunities to support the retention and development of current staff.
 - **Inequalities:** Publishing a delivery plan that outlines the action being taken across all government departments to tackle inequalities, how success will be measured and evaluated, and how individual organisations should collaborate across Wales to reduce inequalities and tackle the cost of living crisis.
 - **Efficiencies:** Recognising the significant efficiencies NHS Wales organisations have made and continue to make and introduce a three-to-five-year efficiency programme to positively incentivise efficiency improvements, grounded in quality improvement data, better outcomes for citizens and Value-Based Healthcare.
 - **Social care:** Providing local authorities with ring-fenced allocations for social care, to support system-wide health and wellbeing sustainability and to meet the needs of their population. Through developing policies and frameworks in this area it will drive greater integration of the workforce which will deliver efficiency and effectiveness in the use of resources.
 - **Prevention and early intervention:** Setting a proportion of health and social care funds which should be spent on preventative and early intervention activities and to hold spending bodies to account for the use of these monies.
 - **Climate and sustainability:** Providing further investment to support public bodies to reach the net zero target by 2030.
 - **NHS and the economy:** Recognising the significant contribution the NHS makes to wider economic and social recovery when allocating funding. 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, to help create an 'economy of wellbeing'.
 - **Accessing Levelling Up Fund:** Working with the UK Government to ensure that the strategic priorities for NHS organisations in Wales are considered as part of the Levelling Up Fund and investment.
6. The issues outlined in the briefing are substantial and are likely to increase in severity as we head into winter. There is an understanding that change will be required to meet these challenges, whilst working within a restricted budget. The NHS requires a clear and streamlined direction and priorities, underpinned with a long-term vision for the system and a long-term strategic workforce plan. This will need a tight focus on those issues which require immediate prioritisation and the financial support to enable it to happen.

7. We acknowledge that there is limited action which can be taken due to restrictions on the Welsh Government's budget. While there is acknowledgement from NHS leaders of the restrictions that the Welsh Government face, it is vital that the Government is open with the public to raise their wider understanding of the pressures facing the NHS, to understand the scale of the challenge and the need to radically re-think how services are delivered to help support long-term sustainability.
8. In addition, service change is not the only means by which the current crisis can be addressed, and a cross-sector view will need to be taken. The NHS alone cannot bring about the needed improvements in areas such as population health. As highlighted in our Health and Wellbeing Alliance paper, [Mind the gap: what's stopping change? The cost of living crisis and the rise in inequalities in Wales](#), in partnership with the Royal College of Physicians, this response calls for a cross-government plan for reducing poverty and inequalities and the consideration of investment in key areas such as social care, prevention and education in order to have an impact on the health of the population.
9. The response from NHS Wales organisations to the challenges of the pandemic serve to demonstrate that the system can respond quickly and effectively to challenges when the resource framework, and investment, supports the direction of travel and aims to achieve the same outcomes.

What, in your opinion, has been the impact of the Welsh Government's 2022-23 Budget, including funding related to the recovery of the pandemic? Have Welsh Government business support policies been effective as the economic outlook for 2023-24 continues to worsen?

10. The Welsh Government 2021-22 and 2022-23 budgets recognised the ongoing need to stabilise the health system following the pandemic, providing additional financial support to NHS organisations in Wales as they continued to respond to the various challenges, including financial, in the health and social care system.
11. Prior to the current economic uncertainty and the increase in energy prices, the Welsh Government 2022-23 budget and the additional support provided had enabled the NHS to maintain some form of financial stability whilst also supporting:
 - The continued response to COVID-19 at a local level;
 - Supporting the recovery of waiting lists and waiting times that have grown during the pandemic;
 - The continued successful delivery of all-Wales programmes, including the vaccination programme;
 - Enabling partnership working with Local Authorities to support the social care system, including discharging patients from hospital;
 - Health Education and Improvement Wales's (HEIW) recommendations for increased education and training commissioning;

- Supporting Digital Health and Care Wales and the provision of digital systems as part of the pandemic response.
12. Such financial assistance supported the system in incorporating new initiatives, whilst ensuring resilient service provision. However, the service finds itself having to respond to the ongoing demands in increasingly innovative ways. Pressures across the health and care system are intense and this focus on current services leaves little space for long-term strategic thought, with our members having indicated the impact of the 2022-23 budget, with several non-recurrent funding streams, leading to a focus on 2022-23 only and not future budgets.
 13. One of the key financial challenges currently facing the NHS is in relation to the elective backlog. Reducing the elective backlog will take sustained investment over many years and a commitment from the Government. Reducing the elective backlog must consider all parts of the health and social care system, not just acute hospital settings. Mental health, primary and community care form an eco-system that helps patients wait well before elective treatment. Ambulance services, for instance, play a critical role in supporting communities and have a unique role in connecting with all parts of the NHS, as well as other emergency services, and can play a big part in helping transform the way that patients interact with the health service.
 14. In addition to day-to-day funding, capital investment is key to continue to deliver high-quality, safe health services, as well as meet longer-term goals to integrate care. Creating a multi-year capital funding settlement for the entire NHS would support reducing the backlog, ensure the safety of the NHS estate, embed positive pandemic-era changes, and truly make inroads to reducing inequalities by transforming models of care.
 15. NHS Wales organisations also recognise that partners across the public sector are facing acute financial challenges. To enable health and wellbeing systems to operate effectively, the whole system needs to be appropriately resourced, and this will include increasing the funding provided to social care. As highlighted within our briefing, ["It's not just a crisis, it's a national emergency": Addressing the challenges in social care](#), social care services play a crucial role in continuity of care pathways and protecting NHS capacity by keeping people well for longer outside of hospital, and enabling faster, safer discharges from hospital to home. The last two years have exposed deep cracks in the system and have exacerbated structural vulnerabilities, with devastating consequences for social care residents and their families. It is vital to ensure appropriate access for those who need support, with adequate state funding to improve access and quality of care. We also need to secure a stable provider market which is providing the right model of care. A sustainable workforce is also required which is properly valued, paid and respected for this vitally important work.

How should/could the Welsh Government support the economy and business following the pandemic, Brexit and inflationary and other economic pressures?

16. Health, wellbeing and the economy are bound tightly together; a healthy (physically, psychologically and socially) population results in a more economically active population. Interventions designed to improve health, inclusive growth and wellbeing in Wales are in the interests of all local, regional and national partners, businesses and communities and should be a shared priority.
17. Spending on prevention and improving population health would support the creation of a healthier workforce, not only helping individuals live better and more fulfilling lives but economically advantageous for Wales as a whole.
18. Within the broader economic picture, the NHS must be understood as a key driver within budget considerations, with substantial purchasing power and as a major employer. In our briefing, [Health, wealth and wellbeing: The NHS' role in economic and social recovery](#), we highlighted the numerous ways the NHS helps support the economy in its role as an anchor institution.
- ***How financially prepared is your organisation for the 2023-24 financial year, how will inflation impact on your ability to deliver planned objectives, and how robust is your ability to plan for future years?***
19. NHS organisations are about to enter a very challenging period and with little space to effectively plan long-term system transformation. The [triple challenge](#) of Brexit, COVID-19, climate change, alongside inflationary and energy price increases and the cost of living crisis, presents significant pressures for all organisations in 2023-24.
20. COVID continues to place financial pressure on the service, including an additional spend for organisations. One health board has forecasted that an estimated £84.4m will be spent on COVID-related costs in 2023-24, with additional funding provided by the Welsh Government during the crisis reducing. These continued pressures will make it difficult for organisations to maintain all current services.
21. It is important that the Welsh Government, and Members of the Senedd, recognise the millions of pounds of recurrent efficiencies NHS Wales organisations have made and continue to make due to the financial constraints across many years. However, 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. It is vital that the Welsh Government introduce a three-to-five-year efficiency programme to positively incentivise efficiency improvements, grounded in quality improvement data, better outcomes for citizens and Value-Based Healthcare.

22. The financial position of NHS organisations will have an impact on the speed of recovery following the pandemic. However, this position and the scale of the challenge must be communicated to the public as they are understandably becoming less tolerant towards long waiting times and expect the NHS to recover at a speed which it is currently unable to deliver.
23. Therefore, an open and honest conversation is needed with the public about what the NHS can be expected to provide in the future, and the newly established Citizens Voice Body will play an important role in this. Difficult decisions will have to be made between the demands of elective recovery, access to primary care, mental health and the generational task of reducing health inequalities. That is why NHS leaders require the Welsh Government, and all politicians, to be clear with the public about the scale of the recovery challenge. We explored the importance of engaging and communicating with the public in our briefing ['Reshaping the relationship between the public and the NHS'](#).
24. It will be challenging to focus attention on the delivery of transformational services as operational services rightly focus on meeting the issues brought about by the COVID-19 pandemic, particularly with regard to the impact on the NHS Wales workforce. The delivery of savings will remain a challenge across NHS Wales organisations. As a consequence, the underlying financial position across NHS Wales as a whole will remain a significant issue.
25. Finally, transparency regarding the level of funding held in reserve at the centre and for all-Wales projects would also be useful to ensure a clear picture could be communicated regarding what is required.

With inflation and costs of living issues continuing to escalate, what action should the Welsh Government take to help households cope with this latest crisis?

26. The Office of Budget Responsibility [identified](#) that 2022-23 will see the biggest fall in living standards in the UK since records began. It will be crucial to both the short-term and long-term outlook for the NHS that support is given to the population to help them through the crisis. As highlighted within the recent Public Health Wales report, [Cost of living crisis: a public health emergency](#), the cost of living crisis will lead to people not being able afford the essentials, such as food, rent or mortgage payments, heating and hot water, or transport, and will have a significant and wide-ranging negative impacts on mental and physical health. It is likely that those who are facing the very difficult decisions to eat or heat their homes will require the support of the NHS, and so preventative action is required to alleviate any potential demand and to ensure inequalities are not exasperated.
27. The NHS alone does not have the levers to reduce inequalities, which is why we need to shift the focus from public health initiatives delivered through the NHS and local authorities to addressing factors such as poor housing, transport and

food quality. Addressing the factors that cause ill-health in the first place should be a central focus for the Welsh Government.

28. Our members have suggested a number of areas where investment could support this aim, such as transport and support to help people stay connected through local advice and support groups. The Discretionary Assistance Fund (DAF) could be extended and expanded to address areas of specific concern in different communities.
29. While the current crisis will have serious consequences for inequalities and population health, it also has serious financial implications for NHS organisations. There is already a substantial spend as a result of increased energy prices and fuel costs, with the current NHS estate in Wales consisting of old building which are not energy efficient. There will also be a particular impact on students and fill and attrition rates for health professional programmes due to limitations of current bursary policy. While the policy has changed, the Welsh Government could consider short term measures to support students.
30. The implications of the cost of living crisis and increased energy prices will affect the entire public sector and there will be a need to work together as part of any budget considerations.

Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?

31. The climate emergency is a public health emergency and NHS organisations do have a key role to play in supporting the Welsh Government to meet its climate change objectives. Examples of how the NHS in Wales is taking action in response to the climate emergency can be found [here](#).
32. NHS organisations have a significant impact on the environment and are some of the largest contributors to climate change and air pollution. Delivering high-quality health and care places numerous demands on natural resources and the environment, such as: the use of energy, water and consumables, including single-use plastics; waste production and waste management; travel, which requires fossil fuels and contributes to air pollution.
33. NHS Wales organisations are looking at using their buying powers to establish new, local supply chains, which will have the additional impact of shortening the supply chain and reducing carbon. In addition, making better use of digital technology across our services and communities, including video consultations, will reduce the environmental impact of healthcare delivery. HEIW is enhancing and accelerating its action plan to embed the climate agenda in healthcare

leadership, practice, training and education. This will enable the NHS to grow a faculty of sustainable health care.

34. However, members have indicated that current infrastructure is not adequate to deal with natural emergencies, so consideration could be given to climate adaptation and new ways of supporting the NHS to react to adverse weather or climate incidents.
35. Demonstrating value benefits from actions to reduce climate change and support the greener economy are difficult to quantify. Payback periods may be over several years, which for public sector organisations with annual funding can be an affordability barrier.
36. More expertise and guidance could also be offered to organisations to ensure the capital allocated to support them on the decarbonisation agenda is effectively utilised.
37. Given its large carbon footprint, any action taken by the NHS to support responsible consumption and reduce waste has a significant impact on the environment. This is important not only to reduce carbon impact but to support more sustainable utilisation of finite resources overall across Wales and the UK. The NHS has the power and responsibility to influence action on a broader scale, to reduce its contribution to climate change and protect resources for the health of future generations.

The Committee would like to focus on a number of other specific areas in the scrutiny of the Budget. Do you have any specific comments on any of the areas identified below?

- ***Welsh Government policies to reduce poverty and gender inequality. Is enough support being given to those people living in relative income poverty?***
 - ***How/whether the approach to preventative spending is represented in resource allocations (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early).***
38. Poverty is one of a range of socio-economic factors which can adversely affect people's health and wellbeing. It is key to understand that the power to address this does not reside in the health service alone, so we welcome any action taken to alleviate poverty and improve population health. In a report produced by the Welsh NHS Confederation's Health and Wellbeing Alliance, in partnership with the Royal College of Physicians, entitled '[Mind the gap: what's stopping change?](#)', there were calls for a cross-government approach to inequalities and this does need to extend into budget considerations.
 39. Better public health and a reduction in health inequality will need a significant focus on prevention. However, the benefits of such action may not be felt for some time but are important to reduce the long-term pressure on the NHS.

40. Our members suggested a number of preventative interventions which fall outside of the health service, including more education regarding low-cost meals and free exercise. They were also supportive of initiatives such as the additional funding to address the issues around holiday hunger, and access to free activities for children and young people during school holidays, including the extension of free school meals. It was also suggested improvements be made to the housing stock in Wales, with housing having a significant impact on people's health, including students.
41. Patient and public empowerment is also key to preventative action with a key enabler being provision of digital services. This will ensure seamless interaction with health and care services, which support patients to fully participate in their own health and wellbeing.
- ***How resources should be prioritised to tackle NHS waiting lists for planned and non-urgent NHS treatments. Do you think the Welsh Government has a robust plan to address this issue?***
42. In our [response](#) to the Health and Social Care Committee's consultation on the Welsh Government's plan for transforming and modernising planned care and reducing waiting lists, we were clear that the planned care backlog could take years to reach a healthier position.
43. As part of this recovery, it is important to prioritise resources towards social care as challenges in the sector are having serious ramifications across the whole system and on the ability of the NHS to tackle the backlog. This will require a sustainable social care funding model to address problems in care in the community and hospital discharge. We believe that pay parity across health and care, restructuring of social care provision and the creation of a national care service will provide a framework for these changes. We have recently [welcomed](#) the recommendations of the Expert Group report, [Towards a National Care and Support Service for Wales](#).
44. In relation to the Welsh Government's planned care recovery plan, there continues to be concern over the system's capacity to achieve the ambitious targets that it sets out. Whilst staff are working tirelessly to help patients, there are limiting factors which prevent the effective address of the backlog. This includes capital funding, with the current state of the estate having major implications on the physical capacity of the NHS to make inroads in planned care backlogs, and further support and investment in the workforce.
45. Members also suggested investment be placed toward digital enablers to improve access to information and introduce new ways of delivering care.

- ***The sustainability of NHS, social care, further and higher education, local government and other public services more generally. Is the Welsh Government providing adequate support to the public sector to enable it to be innovative and forward looking through things like workforce planning.***

46. It will be important to ensure a whole system consideration within budget discussions, and how the public sector can work together to best support each other over the coming months and years. There are key issues which will require a cross-sector effort and ultimately affect the long-term outlook for public services. These include social care, prevention and climate change. For the NHS to be sustainable in the long-term, it needs to stand shoulder to shoulder with well-resourced partners.

47. Improved governance structures are also needed to better support funding initiatives, and ultimately create more productive partnership arrangements. For example, initiatives such as the Regional Integration Fund allow health, social care, housing and the third sector to work more closely together. But members have suggested solutions are needed to overcome different terms and conditions, governance, and financial positions.

48. As mentioned in the previous answer, the sustainable funding of the social care sector is crucial to a well-functioning health service. In [our recent member survey](#), 100 per cent of NHS leaders agreed there is a crisis in the social care workforce, with a subsequent impact on patient care and safety. Many of those surveyed expect the situation to deteriorate over winter. However, there are opportunities for Wales to deliver on integrated citizen-centred care. Therefore, we have called on the Welsh Government to take actions to alleviate current pressures in the system and ensure future sustainability.

49. Continued investment in NHS workforce growth and retention and long-term workforce planning is also key, with NHS leaders worried over levels of burnout among staff. It is important that we continue to see an increase in student and trainee numbers across a range of professional groups. Well recognised benefits of investing in student education and staff training extend beyond financial and include benefits to patient experience, quality and continuity of care, a reduction in complaints and adverse incidents. It is also evident that investment in educating and training existing staff to acquire new skills and expertise is essential to support the NHS in Wales' drive to deliver new ways of working and adopt innovative technology.

50. Long term workforce planning is essential for a sustainable workforce but is only effective if it is properly integrated with healthcare service and digital redesign and transformation. Given the lead times, this needs to take a 10 – 15-year approach in order to change the shape of care, the shape of work and the shape of education. This would provide the opportunity for a radical rethink of how we work.

51. The NHS is already facing great strain in just holding the current position and pressures make it difficult to look no further than the immediate future. It is utilising an aging estate, which was not designed with the demands of a 2022 health service in mind, and a tired workforce. These issues, among others, are making it difficult to plan in the long-term.

- ***Whether there has been adequate investment from the Welsh Government in basic public sector infrastructure.***

52. Recovering from COVID-19 and reducing the size of waiting lists will require significant additional capital investment in the NHS. Research shows capital constraints hamper the ability of NHS organisations to successfully deliver care, that the state of the built environment affects patient outcomes, and staff are more productive when they have up to-date equipment to efficiently treat patients.

53. While NHS leaders share the government's commitment to boost NHS productivity and are doing all they can to tackle the waiting list backlog, the lack of capital funding is now a major barrier. We have called for the Welsh Government to develop a ten-year investment plan for service change to reshape NHS estates and infrastructure, making them more sustainable, reducing carbon emissions and maximising public assets.

54. Many NHS organisations are using significant funding to repair their estates and are having to undertake essential maintenance and repair work rather than looking at investing in new infrastructure. This is an issue for NHS systems across the UK, with a recent NHS Confederation [poll](#) highlighting that nine in ten NHS leaders in England say their efforts to reduce the size of the waiting list are being hindered by a decade-long lack of investment in buildings and estate.

- ***Support for children and young people whose education, development, and mental health and well-being have been affected by the pandemic. Is there enough infrastructure investment targeted at young people?***

55. Members are aware of a significant amount of unmet need in this area, and it will be critical that additional investment is made available to support children and young people who have been impacted by the pandemic, including the continued investment in CAMHS. Education is critical for the future wellbeing and aspiration raising of children in our more deprived communities.

56. A cross-sector approach will be needed to ensure that children and young people's need are met.

- ***Whether it is clear how evidence and data is driving Welsh Government priority setting and budget allocations.***

57. Members felt that there is a lack of clarity around how evidence is driving some of the Welsh Governments priorities. It is also not always clear how the relative

prioritisation of Welsh Government objectives is determined and how budget allocations are applied.

58. A major initiative in helping to inform the budget allocation exercise and prioritisation is through the National Data Resource (NDR) programme, which will support the need for a data-informed approach to allocating resource to where it will deliver the most improved outcomes.

- ***What are the key opportunities for Government investment to support 'building back better' (i.e. supporting an economy and public services that better deliver against the wellbeing goals in the Well-being of Future Generations Act)?***

59. We require a public sector strategy which considers the system as a whole and understands the ways in which different sectors impact on each other. Actions in care, education and transport will all have an impact on the health service and vice versa. If we are to effectively tackle some of the most serious issues facing Wales today, it could be difficult to do it from inside budgetary silos, which could have the perverse incentive of creating competition between sectors instead of producing strong working partnerships.

60. The report of the social care Expert Group has created an opportunity for a closer relationship between health and care, which will be crucial for system sustainability. Investment in domiciliary care staff recruitment and retention through better terms and conditions could also benefit the whole system.

Conclusion

61. We understand the current budget limitations on the Welsh Government and believe both government and NHS will need to work together to create more innovative solutions, across a streamlined set of priorities, which effectively balance short term need with long-term vision. However, the scale of the challenge must be communicated clearly to the public.

62. Creating a sustainable system will be a cross-sector effort to build healthier and more prosperous communities, reducing demand well into the future. To this end, population health must be a consideration across government department budgets. We need to emphasise the importance of working with partners across the public sector so that we may rise collectively to the challenges we face.

**ADSS Cymru Evidence to the Finance Committee's Inquiry into
Welsh Government's Draft Budget 2023-24
January 2023**



ADSS Cymru

Yn arwain Gwasanaethau
Cymdeithasol yng Nghymru
Leading Social Services in Wales

General Comment

The Association of Directors of Social Services (ADSS) Cymru is the professional and strategic leadership organisation for social services in Wales and is composed of statutory directors of social services, the heads of service and tier three managers who support them in delivering statutory responsibilities: a group which consists of over 300 social services leaders across the 22 local authorities in Wales.

The role of ADSS Cymru is to represent the collective, authoritative voice of senior social care leaders who support vulnerable adults and children, their families, and communities, on a range of national and regional issues in relation to social care policy, practice, and resourcing. It is the only national body that articulates the view of those professionals who lead our social care services.

As a member-led organisation, ADSS Cymru is committed to using the wealth of its members' experience and expertise. We work in partnership with a wide range of partners and stakeholders to influence the important strategic decisions around the development of health, social care, and public service delivery. Ultimately, our aim is to benefit the people our services support and the people who work within those services.

We welcome this opportunity to respond to the invitation extended by the Senedd's Finance Committee regarding its inquiry to scrutinise the Welsh Government's Draft Budget for 2023-24 and its potential impact on social care services in Wales.

Comments on the Draft Budget and areas of concern

The Welsh Government have identified that the health and social care system is under significant pressure. Whilst we welcome the increased uplift of £165m, accompanied with the recurrent provision of £70m for the RLW, it is evident that very difficult choices will have to be made in relation to continued service provision.

We know from survey work undertaken in the early autumn by the Welsh Local Government Association (WLGA) in collaboration with our members and the Society of Welsh Treasurers (SWT), that local authorities are facing an overall social services financial pressure of £95.2m in the current financial year (2022-23) with both adults and children's services facing inflationary and demand pressures. The returns indicate that children's residential

placements account for nearly £20m of the total, adults residential placements £12m and adults domiciliary care £7.5m. The likelihood is this has become more acute in the last 3-4 months.

Forecasting ahead, the survey indicates that social care across Wales is facing a considerable financial challenge in 2023-24 and 2024-25. The pressure in both adults' services and children's services includes the challenge of recruitment and retention of staff with this issue also affecting commissioned services from providers.

Local authorities are projecting an estimated total cumulative pressure for social services of £407.8m for 2023-24 and 2024-25. Within this overall social services total, the estimated total commissioning cost and demand pressures are £288.4m, with a pay inflation pressure totalling £75.8m for the two years.ⁱ

Summary of Social Services Pressure 2023-24 and 2024-25

	2023-24	2024-25	Total
	£000s	£000s	£000s
Pay inflation pressures	51,858	23,918	75,776
Non pay inflation pressures	20,712	12,423	33,135
Fees/charges inflation	(2,677)	(2,192)	(4,869)
Commissioning cost pressures - Adults	86,939	55,201	142,140
Commissioning cost pressures - Children's	14,066	10,449	24,515
Demand related pressures - Adults	35,980	29,462	65,442
Demand related pressures – Children's	37,235	19,104	56,339
Reduction in specific grants	5,914	1,646	7,560
Local priorities	4,418	1,651	6,069
Other	1,699	0	1,699
Overall Total	256,144	151,662	407,806

Source: WLGA/SWT Survey September 2022

In October 2021, Audit Wales published '*A Picture of Social Care*' that summarised key information about social care in Wales. It noted that demand for adult social care is likely to increase significantly. The report states 'The challenge of addressing the indirect impact of COVID-19 will likely continue for years into the future. The problem is compounded by the fact that there are significant, long-standing issues in the social care sector which pre-date the pandemic', with the report identifying the need to achieve financial sustainability and

funding arrangements as one of the key issues.ⁱⁱ The financial estimates of the 22 Welsh authorities adds further support to the conclusions drawn by Audit Wales.

We know that the COVID-19 pandemic still has an impact on the existing challenges within social care. The removal of COVID-19 related financial support through the hardship fund means that local authorities are having to meet care home costs, which were previously met from the COVID-19 hardship fund, for example the payment of voids. Local authorities are dealing with, and factoring into future pressures, costs previously met by former hardship funding to support pandemic related costs. However, the impact of COVID-19 means our citizens have had delayed care and on presentation to social services some now have even higher dependency requiring more costly care provision.

The escalating costs for commissioned care providers (domiciliary, residential and nursing) linked to inflation (food and fuel are particularly impactful) and the need to increase the pay of staff to compete with retail and hospitality and the increased reliance on agency staff (particularly registrant nurses) have meant that some local authorities have reported having to look at applying across the board increases in their fees during the past year. However, providers are continuing to get into financial difficulty and local authorities are having to intervene further to avoid provider failures.

There are also increasing concerns for unpaid carers who carried out their critical role under severe pressure throughout the pandemic. While carer's services have continued to support people, there has been an increase in demand, with concerns that if unpaid carers are unable to continue to care effectively, then there will be increased demand for support placed on already overstretched services in a fragile market.

Workforce:

The workforce is ADSS Cymru's number one priority. Workforce capacity and the significant challenges in recruitment and retention (for both in-house and commissioned service) are issues that cut across all of the issues highlighted, and are the main reasons for the lack of capacity to provide packages of care needed to undertake assessments or provide reablement support; with the loss of existing staff and challenges in recruitment as significant concerns. It is evident that local authorities are factoring in the need to use agency staff due to workforce issues and these costs further add to future years financial pressures. For example, one authority reported that commissioning agency social workers was a £2.5m pressure due to acute recruitment challenges.

However, addressing the current pressures needs a multi-pronged approach. ADSS Cymru, is working with the Welsh Government, Social Care Wales (SCW) and the WLGA to examine workforce action planning by examining a range of measures. However, these are likely to include additional financial commitments that will need to be funded. It is evidenced that

there is a need to attract people to work in social care to deal with the current and future demand, but this will take time and will not immediately resolve acute pressures in the system. The pandemic has exposed the fragility of care markets and this has a clear and direct link to the financial pressures faced by all local authorities.

We believe that there is a need for a clear and sustainable offer to stabilise the domiciliary care and care home workforce and to provide proper and fair remuneration for the workforce. ADSS Cymru is fully supportive of the Welsh Government's intention to increase pay for social care workers to the RLW and we have been working with them to provide workforce data and intelligence. However, it is becoming increasingly clear that our ambition must go well beyond this rate if we really want to be able to offer 'fair pay' for those who are undertaking some of the most important roles in society.

The Health Foundation published a report in October 2022, entitled *'The cost of caring: poverty and deprivation among residential care workers in the UK'*. The report was a challenging read and presented the stark reality of those working in the adult residential care sector in the UK. Whilst the prevalence of poverty and deprivation experienced by workers in residential care is similar to hospitality, retail and administration, residential care workers experienced much higher rates than most workers – and were at least twice as likely to experience poverty and food insecurity than health workers. Their dependent children were nearly four times as likely to experience material deprivation than children of health workers.ⁱⁱⁱ Whilst the focus of the report was on the residential care workforce, some of our members suggest that similar prevalence and outcomes could exist within the domiciliary workforce.

As sector leaders, we continue to call for an urgent focus on parity of esteem with health in relation to pay, terms and conditions and career progression and this requires additional investment now and over the next 3 years. We believe we need a national pay and grading system for care workers, which will ensure that conditions of pay, holiday entitlement, job security and opportunities for career development and growth are as equally ambitious as the healthcare workforce.

The recruitment and retention challenge is even more acutely felt in relation to professional social workers. We know there is a shortage of experienced qualified social workers across the sector but within children's services there is a particular challenge. Rebalancing the workforce so that capacity mirrors demand will take time but we are working with SCW, BASW Cymru and other partners to ensure there are varied career pathways into the profession, other than the student graduate route. However, the need for sufficient and sustainable bursaries that facilitate career change is critical.

Children's Services:

Local authorities across Wales continue to highlight challenges finding appropriate placements for children and young people. In particular, a lack of provision for children with complex needs in fostering and residential placement settings, with this driving up costs. Our members report that children and young people presenting with more complex and challenging behaviour is leading to increased demand for residential care placements.

Children's services estimated cost pressure reflects high-cost bespoke care. This is in high demand, but supply of appropriate services is low. As a result, one local authority has seen a 25% increase in the average cost of placements in the last 12 months; a second authority reported a placement costing £19k a week compared with £12.5k in the previous year; whilst a third authority has seen £772k of additional pressure due to increasingly complex needs of children in residential care requiring additional support.

Our members also have some concerns about the impact on the market regarding the Welsh Government's 'not for profit' pledge. While we completely agree with the underlaying principle of removing profit from the sector, the transition pathway needs to be clear and well managed. There are signs that the progression of this commitment is having a destabilising impact on availability of residential provision at a time we can least afford it.

As need increases in communities, we are seeing corresponding increases in the number of children looked after and children at risk. It is crucial that current growth does not simply meet care and statutory intervention costs. Preventative services must develop and expand to meet need at the earliest possible point. We believe that a significant percentage increase in preventative services for vulnerable children should be made available. For example, for every £1 spent to meet immediate statutory demand an additional £2 should be spent on preventative services to reverse the current position. We would need to realise what that true cost would be based on current and future demand, which also takes into consideration how the market will change as we transition to a not for profit model for children's services.

Relationship with Health Services

The relationship between the NHS and social care is an important one. This has been evidenced even more so in recent months where we are seeing that whilst the reasons for slow or delayed discharge from hospital can be many and complex, without a good supply of well-staffed and properly funded social care (including care homes, home care, supported living, and other services), people cannot always easily be discharged from hospital in a timely way. Long stays in hospital can impact people's long-term health and wellbeing and can damage people's confidence to live independently. This then creates a knock-on effect on so many other health and social care services already under intense pressure. For

example, fewer planned operations can take place, there are fewer beds for patients coming into emergency departments and less capacity for ambulance handover, impacting individual patient's experience and outcomes.

At the same time a lack of capacity and resources in health also has implications for local authorities. For example, a lack of resources to progress the individuals with a high level of complex needs where consideration of CHC is required that some of these packages are £150k to £250k per annum. There is a similar situation in children's services, where there are an increased number of children with complex care needs in need of assessment for continuing care. Local authorities have reported that health board's capacity to assess and arrange provision for these children and young people means that local authorities continue to have to meet their needs, requiring the use of specialist children looked after placements.

A significant investment into social care is required to help resolve some of these issues, but it is essential that social care is not just seen as a service simply there to support the NHS. There is a need to recognise the value social care has in its own right. However, where the NHS and social care work well together, there is potential to keep people well and reduce demand on secondary health services. There is evidence that greater availability of nursing and residential care is associated with fewer hospital admissions and readmissions, fewer delayed discharges, reduced length of stay, and reduced expenditure on secondary health care services. There is also evidence that interventions like reablement have the potential to prolong people's ability to live at home and reduce or even remove the need for care. However, greater clarity on joint funding arrangements and their governance is required to ensure that people are front and centre of service provision not budgets.

Social care is also essential because it links to a wide range of other services that can support people's wellbeing such as work, housing, social interaction and a good environment. Ultimately, the greatest impact on health and wellbeing is in addressing the wider determinants of health and ensuring that Local Government has the power, flexibility and resources to fulfil its core purpose of ensuring that all our residents have the opportunities to have the best start in life, to live well and age well.

Conclusion

While we of course welcome the increases earmarked by the Welsh Government in the Draft Budget for 2022-23, we are conscious that this is not going to put social care on a path to stability and sustainability. Sector transformation requires strong, collective, compassionate leadership, a resilient and respected workforce and these need to be backed up by a long-term and sustainable funding settlement for the health and social care system, which we have long been calling for.

The only way we can accelerate innovation in preventative services and sustain new models of health and care, is if Local Government is properly resourced. This needs to be in parity with health, which will allow us to properly recognise and reward the workforce and allow it to undertake the full scale of its work unfettered. The fragility of the acute health sector continues to be exposed following the pandemic. Therefore, we must accelerate the policy intent in *A Healthier Wales*, that focuses on the redistribution of resources away from a hospital-centred health care system to a health and social care system rooted in the community in its broadest sense. Only by increasing integrated working at the local level between primary and community health services and social care services – through a Strategic Programme for Primary Care and the Accelerated Cluster Development - will we be able to intervene at the earliest point of need and provide a holistic response to keep people mentally and physically well.

As leaders in the sector, we welcome the opportunity to work with partners to help develop a medium to long-term plan that will ensure we have a sustainable health and social care system in the future that delivers high-quality care to meet the needs of all of our citizens that require support.

References

ⁱ The pressures calculated are based upon maintaining working practices and core structures as they are at present. The paper allows for inflationary pressures in line with increasing salaries and fees within normal parameters, however, this does not allow for increasing salaries and fees at a higher aspirational rate to address the current workforce and system challenges. Without additional funding these challenges are likely to continue and exacerbate.

ⁱⁱ Audit Wales, A Picture of Social Care, 2021. (As accessed on 9 January 2023 - <https://www.audit.wales/publication/picture-social-care>)

ⁱⁱⁱ Lucinda Allen, Skeena Williamson et. al, The cost of caring: poverty and deprivation among residential care workers in the UK, The Health Foundation, 2022. (As accessed on 9 January 2023 - <https://www.health.org.uk/sites/default/files/pdf/2022-10/2022%20-%20The%20cost%20of%20caring.pdf>)

Document is Restricted

Agenda Item



Senedd Cymru / Welsh Parliament
Y Pwyllgor Cyllid / Finance Committee
Cyllideb Ddrafft Llywodraeth Cymru 2023-24 / Welsh Government Draft
Budget 2023-24
WGDB_23-24 29
Cymdeithas Llywodraeth Leol Cymru / Welsh Local Government Association

Finance Committee: Scrutiny of Welsh Government's Draft Budget Proposals 23-24

Jon Rae, Director, Director of Resources

Welsh Local Government Association - The Voice of Welsh Councils

The Welsh Local Government Association (WLGA) is a politically led cross party organisation that seeks to give local government a strong voice at a national level.

We represent the interests of local government and promote local democracy in Wales.

The 22 councils in Wales are our members and the 3 fire and rescue authorities and 3 national park authorities are associate members.

We believe that the ideas that change people's lives, happen locally.

Communities are at their best when they feel connected to their council through local democracy. By championing, facilitating, and achieving these connections, we can build a vibrant local democracy that allows communities to thrive.

Our ultimate goal is to promote, protect, support and develop democratic local government and the interests of councils in Wales.

We'll achieve our vision by

- Promoting the role and prominence of councillors and council leaders
- Ensuring maximum local discretion in legislation or statutory guidance
- Championing and securing long-term and sustainable funding for councils
- Promoting sector-led improvement
- Encouraging a vibrant local democracy, promoting greater diversity
- Supporting councils to effectively manage their workforce



Introduction

1. This evidence paper addresses the questions posed by the committee in annex 2 of the commissioning letter. It is largely based on the paper that we presented to Welsh Government in a meeting of the Finance Sub Group on 13 October. Most of it comprised our assessment of local government spending pressures that have escalated significantly over the current financial year. We have updated our estimates of the pressures in 23-24 and 24-25 based on local authorities' medium-term financial plans. These are based on the results of a full survey of councils and fire services carried out during August/September with the help of the Society of Welsh Treasurers (SWT).

Summary

2. Cumulatively, the pressures building up in the system are starting to look potentially catastrophic. Recent experience tells us that pressures in local government budgets vary from anything between £250m to £300m in any one financial year. Even though pressures in the current financial year were offset by a generous settlement, it is becoming clear that there are additional in-year pressures amounting to £257m. This becomes a cumulative pressure £784m by the end of 23-24. Surging inflation continues to drive the cost base up by £439m in the subsequent year, which gives a cumulative pressure of £1.23bn by the end of 24-25 according to the SWT survey.
3. On the funding side, planned increases in Aggregate External Finance (AEF) of 3.5% and 2.4% in 23-24 and 24-25 respectively, will yield an additional £293m in additional grant. Councils are planning for £121m worth of council tax increases over the same period. Taking these and other funding streams together means that there is £421m of additional income available leaving a cumulative shortfall of £802m by the end of 24-25.
4. Every authority is now reporting an overspend in the current financial year and budget gaps in the future years. Other than the experience of the early months of the pandemic, there is no precedent for pressures of this scale escalating so quickly. Without additional funding the risks to all local government services including the larger ones of education and social care cannot be understated.

Analysis

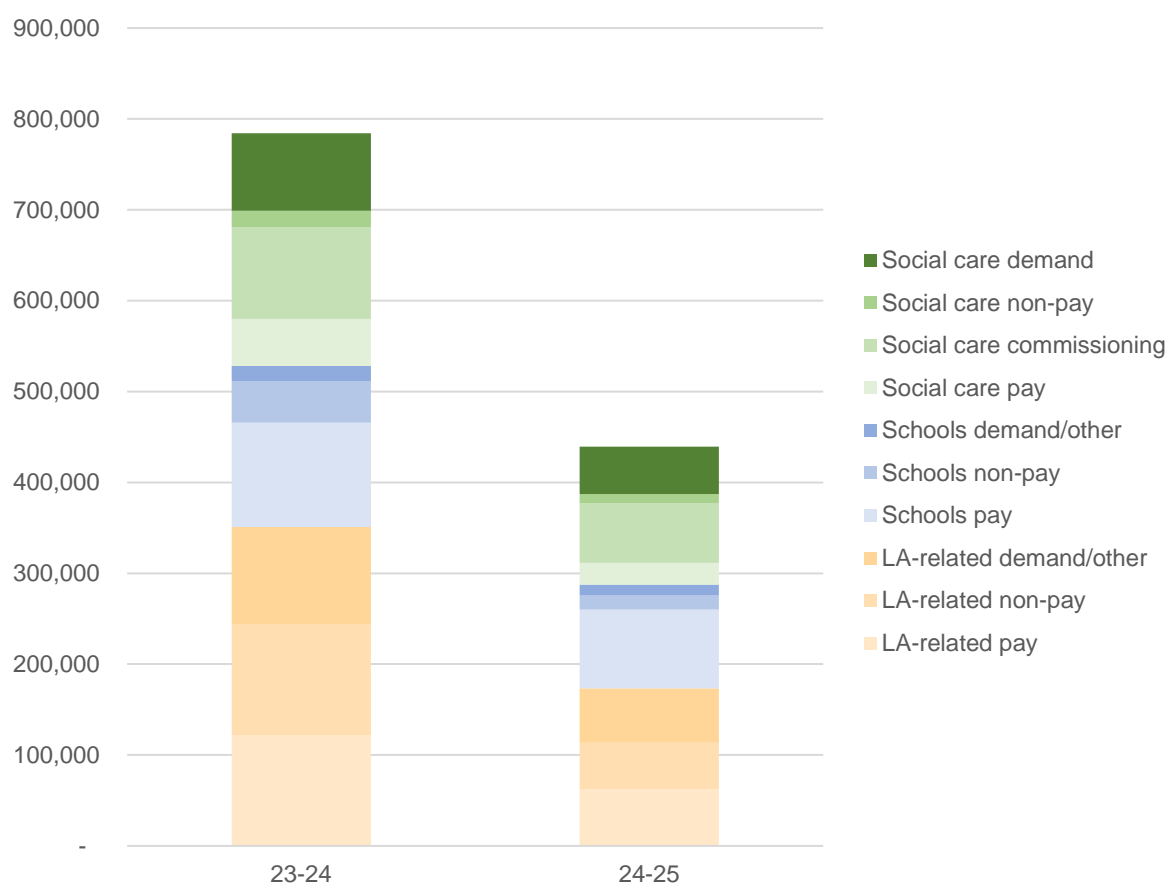
5. In August the [Institute of Fiscal Studies](#) (IFS) described the UK economy as 'under the cosh'. Referring to the Bank of England's latest economic forecasts the IFS describes the UK set to face both a recession and an extended period of high inflation and this presents a serious challenge to households, businesses



and public services. For local public services, cash-based budgets do not automatically increase for unexpected inflation and councils purchase fewer goods and services, and budgets shrink in real terms.

6. Inflationary pressures in council budgets arise from 4 main sources: pay, energy, transport, and food. Additional inflationary pressures that were initially flagged up at the end of the last financial year are starting to feed into this year's spending commitments and affect future financial plans in a significant way. This will impact on budgets both in the current financial year, and in 2023-24 and 24-25.
7. Figure 1 shows how the pressures, in both financial years, breaks down by service and theme. The pressure in the current financial year is close to £257m and is rolled into next year's pressure of £527m which makes the cumulative pressure £784m at the end of 23-24. The additional pressure of £439m in the subsequent year, gives a cumulative pressure of £1.23bn by the end of 24-25.

Figure 1: Councils' Budget Pressures, 2023-24 and 2024-25, £000s



Source: SWT Survey 2022



8. Although there is speculation as to whether the spending review may be reopened, the profile of increases for AEF is 3.5% (£177m) and 2.4% (£128m), for 23-24 and 24-25, respectively. Assumptions around council tax are mostly based on a range and could yield around of £60m for each of those years. Taking these and other funding streams together means that there is £421m of additional income available leaving a cumulative shortfall of £802m by the end of 24-25.

Pay Inflation

9. During the summer, the immediate challenge was a need to recruit and retain staff to aid with the pandemic recovery and we reported significant supply constraints in areas like social care. The Welsh Government has already committed to uplifting care workers' pay in line with the cost-of-living-indexed Real Living Wage (RLW) and that is helpful. However, the increase in the RLW to £10.9 is a pressure that needs to be built into the funding for 23-24 especially in respect of commissioned social care services.
10. During the year the three NJC unions (UNISON, GMB and Unite) had tabled their pay claim for local government services ('Green Book') employees for 2022-23. The claim states that council workers have '...endured a decade of pay freezes and below average pay awards...[and]...have lost on average 27.5% from the value of their pay spine since 2010. The pay claim is set in the context of the cost-of-living crisis and inflationary pressures.
11. At the end of July, the national employers responded to the unions pay claim with an offer of £1,925. Overall, this puts an additional 6.5% to 7.5% pressure on the local government pay bill with the majority of authorities assuming between 3% to 4% at the time budgets for 22-23 were set in early 2022. The Welsh Government accepted the recommendations of the Independent Wales Panel for Teacher's Pay and offered 5%. Again, most councils were assuming between 3% and 4%.
12. UNISON and GMB members have voted to accept the National Employers' final pay offer for local government services ('Green Book') employees, however, Unite rejected it. This is disappointing but does not prevent a collective agreement from being reached and implemented by employers as Unison and GMB represent the majority on the Trade Union Side and have formally accepted the offer. Councils were notified on the 1 November.
13. The national employers for Fire and Rescue Services revised their pay offer and proposed a 5% uplift across all pay points on 4 October 2022, this is now with the FBU for consideration. Whilst the cost of this may be met through existing budgets for 2022-23, there will be an impact on the fire contribution levy in future years, with an increase anticipated of between 10-16%.

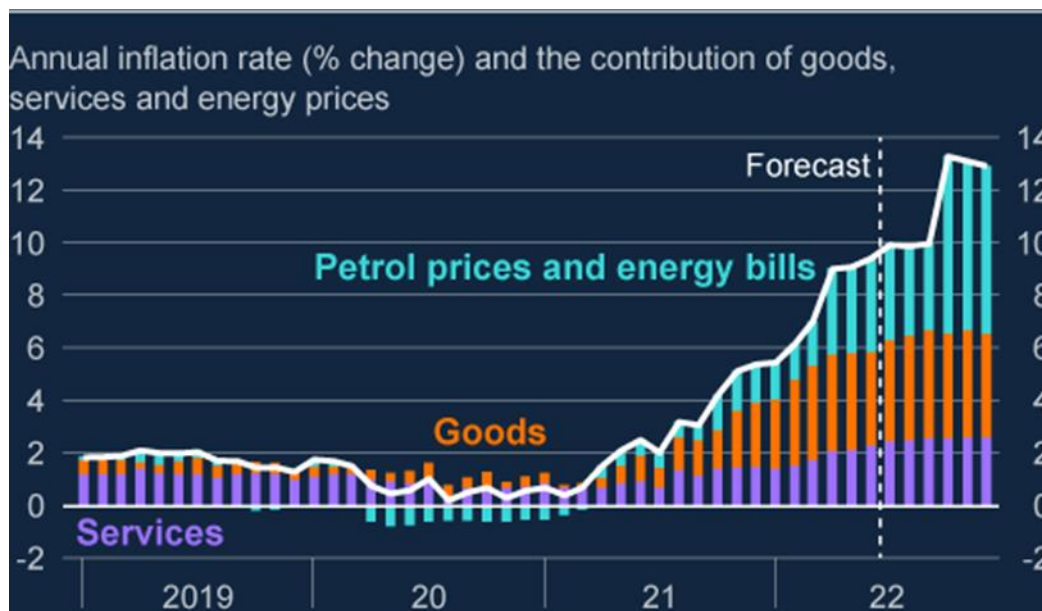


14. Overall, the survey returns are telling us that the unplanned increase in the wage bill in 22-23 comes to £109m: £32m for schools, £20m in social care and £57m in other council services. As responsible employers, committed to social partnership, we will be fully engaged in discussions with the unions over the coming period. Councils are making plans for £462m of pay pressure by the end of 24-25, nearly 40% of the overall cumulative pressure of £1.18bn

Non-pay Inflation

15. According to the Office for National Statistics (ONS) the Consumer Prices Index rose by 10.1% in the 12 months to September 2022. The rapid increase in inflation is evident when comparing this figure with 3.1% CPI in September 2021. Energy cost increases consistently feature in the reasons for the considerable increase seen in 2022.
16. In August 2022 the Bank of England's Quarterly Monetary Policy report indicated inflation was well above their 2% target. It stated, 'Higher energy prices are one of the main reasons for this'. Russia's invasion of Ukraine has led to more increases in the price of gas. Since May, the price of gas has more than doubled. We think those price rises will push inflation even higher over the next few months, to around 13%. The following chart was included in the report.

Figure 2: Bank of England's Inflation analysis and forecast August 2022



Source: Bank of England

17. The impact of rising costs due to the rapid increase in inflation has led to the significant recalculation of the estimated non-pay inflation costs faced by councils in 2023-24. At the time of the previous SWT survey in 2021 the non-pay



inflationary pressure for 2023-24 was calculated at £65m. The recent survey has seen this rise to £124m creating an estimated £58m of additional pressure.

18. The emergence of inflation at levels outside of previous estimates comes at a time when the significant and welcome temporary financial support provided by Welsh Government during the pandemic has ended. Increased inflation will also drive increased demand for services at a time when councils are facing inflationary pressures.
19. It is also clear that the inflation position has quickly deteriorated in 2022 requiring financial projections contained within medium term financial plans to be significantly updated. For many councils this means a 100% increase in the projected non pay inflation costs for 2023-24.
20. The survey indicates the impact of inflation is driven by the impact of global events that councils can do little to mitigate. With average council tax assumptions set at just under 4% councils have to balance raising funding with cost-of-living pressures faced by residents. Regardless of Council Tax assumptions, the current estimated pressures both in the current and future financial years are surpassing the estimates made last year that fed into the spending review.
21. There is a consistent message about pressures currently faced by councils who report that areas such as home to school transport, school catering and energy costs are already causing pressure on revenue budgets. One authority indicates that home to school transport inflationary pressure is £950k above the current budget. Inflation has seen the handing back of contracts by some transport providers. Inevitably there is a general trend of contracts being repriced at time of retender.
22. The findings of the SWT survey are in line with those made by the Market Intelligence Expert Group (MIEG), a subgroup of the WLGA National Procurement Network, formed in June 2022 to coordinate and share market intelligence. MIEG's briefing in September indicated inflation was affecting categories of council expenditure from utilities to food. It highlighted some parts of the economy are suffering inflation in excess of headline CPI or RPI rates. For example, food inflation was over 10% on August 2022, a new 40 year high. This will impact areas such as school meals as well as the lives of the most vulnerable who depend on council services.
23. Some councils are able mitigate the increased costs in the current year through existing fixed energy contracts. However, these price fixes will not cover the 2023-24 financial year. At present, there is no certainty regarding the UK Government's Energy Price Guarantee for public services after March 2023. Depending of the framework adopted, some authorities are facing surging costs from the second half of the current year, even though they may be below the cap.



24. The position for 2024-25 is also impacted by increasing inflation. The estimated impact of an additional £56m brings the two-year impact for non-pay inflation to £179m

Education (Schools)

25. The survey indicates that Schools are facing estimated inflationary financial pressure of £161m in 2023-24 with a further £102m in the following year. The impact of inflationary pressures is evident given that the previous year's survey estimated inflationary pressures would be £49m in 2023-24, a third of the current estimate. Schools also face demand and other pressures bringing the overall totals to £177m and £114m in 23-24 and 24-25 Respectively. Cumulatively is a pressure of £291m over the two-year period.
26. Schools' estimates include the impact of energy price rises although some authorities are awaiting new contract rates. One authority is estimating that increased energy costs of over 60% for electricity and a 160% increase for gas will apply from October 2022 (this does not take into account any cap put in place by the Government).
27. Councils are building into estimates the general trend of contracts being repriced at higher values when services / works are re-tendered. This also includes food contracts as well as maintenance contracts.
28. Pay inflation for schools of £115m includes the assumed pay award for 2023-24. Authorities are also including 'catch up' funding for the 2022-23 proposed pay offer. There is some pressure being faced by schools for additional learning needs requirements.
29. Concerns regarding home to school transport costs are increasing. Councils are seeing contractors significantly increasing their costs and are feeling vulnerable as some contractors have more than 50% of the council's schools contracted to them. This has worked in the past to keep costs down, but the risk now is the sustainability of the contractors. One authority is facing market failure and has not received any bids from contractors. They are seeking alternative arrangements, even the possibility of setting up their own market operators.
30. New school builds are adding pressure to budgets as original build costs have significantly increased due to inflationary costs which are increasing each quarter.

Social care



31. The pandemic has exacerbated many of the existing challenges within social care that we were already well aware of, including increasing demand for services coupled with increasing complexity, insufficient funding and significant workforce pressures. The SWT survey indicates that social care is facing a considerable financial challenge in 2023-24 and 2024-25. The pressure being faced by both adults' services and children's services includes recruitment and retention of staff with this issue also affecting commissioned services from providers. Consequently, councils are factoring in the need to use agency staff and these costs further add to future years financial pressure. Councils comment that the pandemic increased financial pressure for social care services, and this continues to be evident even as councils move into the recovery phase.
32. The survey identified £95m worth of in-year pressures in social care with pay and non-pay inflation accounting for around £41m. Demand pressure in adults' services account for £25m and children's services account for £30m. Cumulatively these pressures rise to £256m and £156m in 23-24 and 24-25 respectively giving a cumulative total of £361m. Commissioned services, which are essential to the provision of social care, from independent providers are also affected by similar issues to local authority social care services with increased running costs for staffing and energy, as well as increases in relation to insurance and fuel which are further adding to significant financial pressure.
33. The fragility of the market, in particular in relation to domiciliary care (both in house and commissioned), where increased demand, along with a lack of suitable providers has previously been identified as an issue. The survey indicates that the social care market remains fragile, and this has impacts for the long-term sustainability of the sector. Local authorities have experienced domiciliary care packages being handed back by providers which has a wider impact on reablement provision, hospital discharges, prevention of admissions and responding to urgent need and some councils will inevitably face pressure to provide reablement provision if home care packages are handed back.
34. There are also increasing concerns for unpaid carers who have continued under severe pressure throughout the pandemic. While carers' services have continued to support people, there has been an increase in demand, with concerns that if unpaid carers are unable to continue to care effectively, then there will be increased demand for support placed on already overstretched services.
35. The loss of one year (2021-22 only) Welsh Government funding of the Social Care Recovery Fund and the Social Care Pressures Grant has impacted the ability to fund pressures such as high-cost placements within Adult Services (such as 24-hour care at home care packages) and Councils are dealing with, and factoring into future pressures costs previously met by former hardship funding to support pandemic related costs. One council notes some clients who have had delayed health care are now presenting to Social Care with higher dependency requiring more costly care provision.



36. Some councils indicate clients are moving over from England to benefit from the more generous capital threshold limits in Wales when moving into a care home setting. Some face demand pressures from Health and hospitals to provide care to speed up discharge.
37. Concerns continue to be highlighted over challenges finding appropriate and quality placements for children and young people. In particular, a lack of provision for children with complex needs with a lack of both fostering and residential placements available. Children's services estimated cost pressure reflects high-cost bespoke care. This is in high demand, but supply of appropriate services is low. As a result, one council has seen a 25% increase in the average cost of placements in the last 12 months. The high placements costs for care reflects a lack of availability making commissioning placements a challenge.
38. There are also significant issues in relation to the recruitment and retention of experienced social work staff in children's services with demand for permanent, experienced workers outstripping supply, this also leads to a greater reliance on more expensive agency staffing. In addition, councils are reporting an impact as a result of Welsh Government's 'not for profit' pledge with signs that progression of this commitment is having a destabilising impact on availability of residential provision.
39. Higher levels of referrals have been seen for early help / intervention services, with COVID-19 having an impact on children and family's stability, development and security. Along with increased volume of cases has been an increase in complexity of need which require specialist interventions / workers. Councils have long recognised that there needs to be an increased focus and investment on prevention and early intervention services. A move to more upstream interventions and approaches to support families at earlier stages, preventing escalation of issues and the need for crisis responses. Such an approach will lead to better outcomes and experiences for families and less pressure on social services as a whole (and likely also leading to less children coming into care). However, this requires significant investment into new and existing preventative services.
40. In October 2021 Audit Wales published 'A Picture of Social Care' that summarised key information about Social Care in Wales. It noted that demand for adult social care is likely to increase significantly. The report states 'The challenge of addressing the indirect impact of COVID-19 will likely continue for years into the future. The problem is compounded by the fact that there are significant, long-standing issues in the social care sector which pre-date the pandemic', with the report identifying the need to achieve financial sustainability and funding arrangements as one of the key issues. The financial estimates of the 22 Welsh authorities adds further support to the conclusions drawn by Audit Wales.



Ukraine and wider migration

41. The response from Wales to support those feeling the war in Ukraine has impacted significantly upon councils who have been responsible for a range of functions in ensuring those arriving in Wales are accommodated safely and receive the necessary support to settle and re-establish their lives. While funding is currently provided to councils by the UK Government to support this work, including funding for education, there is no committed funding post the end of March 2023. Should no continued funding be provided this will impact significantly on the capacity of councils to continue to support this work.
42. Councils are also facing increased pressures from other migration related programmes, including the provision of placements for unaccompanied asylum-seeking children and the UK Government policy of 'full dispersal' of asylum seekers which will see an increased number of up to 2,344 additional asylum seekers accommodated in Welsh communities by the end of December 2023. It is noted that these programmes are operated by the UK Government and are non-devolved, however, support services such as education, homelessness and rehousing services are devolved and will be impacted by extra demand.

Housing and homelessness

43. Driven initially by the pandemic and changes to the statutory guidance from Welsh Government, there has been a significant change in approach to the provision of emergency temporary accommodation for homeless households. Increasing numbers of people are being accommodated in emergency temporary accommodation provided by Councils (8,468 individuals as at end of July 2022). Since the start of the pandemic over 25,200 people who were previously homeless have been supported through emergency temporary accommodation. There is a consistent upward trend around the numbers of people in emergency temporary accommodation which shows no sign of reducing.
44. As well as increased household costs for everyone, including rising energy costs, there have been significant increases in rents in most areas, with an increasing gap over Local Housing Allowance support means that the Private Rented Sector is increasingly difficult for many households to access and afford. A sustained period of rising consumer costs and increased interest rates, without any increase in household incomes, is also very likely to impact on owner-occupiers who will find their mortgage payments more difficult to meet. All leading to increased demand for homelessness services and the use of temporary accommodation.



45. The Housing Support Grant (HSG) is the Welsh Government's principal funding stream for preventing homelessness, supporting more than 60,000 people each year to live independently in their communities. Through the provision of refuge, supported accommodation and tenancy support services, the HSG allows people to exit homelessness, leave abusive relationships, maintain their tenancies, overcome mental health and substance abuse issues, build on their strengths and fulfil their aspirations. The current annual HSG funding of £166m is under considerable pressure to meet the increased demand related to these homelessness pressures outlined above, and the need to ensure that services commissioned by Councils receive enough funding to pay their staff a fair wage and provide them with the support they need.

Capital

46. The survey also gathered evidence on capital programmes and pressures. The responses indicate that a tightened revenue settlement will impact capital programmes. The funding of borrowing from the revenue budget will be a potential source of funds to fill gaps in the day-to-day expenditure budgets resulting from a tight funding settlement. This may lead councils to delay or remove capital programmes to deliver key local priorities. It will also put pressure on match-funding for projects that require councils to contribute to the overall cost. Overall, it seems likely that council capital programmes will be downsized.

47. There is strong evidence that inflation is impacting building costs of existing projects. Councils have raised concerns about significant additional costs to meet 2030 net zero requirements especially for 21st Century Schools. In addition, a number of contractors across Wales have gone into administration, leading to the contract re-tendering and subsequent additional costs. Where this has been grant-funded councils have sought additional grant, but there are no guarantees of support leading to potential additional pressure on capital programmes.

48. The main source of funding is the Public Works Loan Board and long-term rates are currently around 5% although there is a lot of volatility in the markets. This is significantly above rates when capital programmes were set in March 2022. This carries significant risk to affordability and sustainability, particularly in respect of housing schemes and extensive core asset infrastructure assumed to be paid for by borrowing.

Climate change

49. Councils have made a number of commitments to contribute towards the target of net zero emissions in the public sector by 2030. Many of the steps required



involve capital investment (e.g. in relation to property and energy, fleet transition, land-based decarbonisation). A wide range of funding streams will be required to make the sort of changes needed at the pace required. That could include borrowing to meet upfront costs that will then have to be repaid from revenue budgets over a number of years. It could also involve leasing or hire (e.g. for vehicles) rather than a capital outlay. There are workforce implications that will need to be addressed, working with unions in a social partnership approach, including retraining and recruitment in many cases (e.g. vehicle maintenance; energy and environmental management; financial accounting methods). Current labour shortages in many 'green' jobs in councils have highlighted not only the shortage of staff with the required skills but also wage differentials with the private sector, with retention of trained staff a growing issue.

50. Other important measures relate to procurement, where councils need to reduce 'Scope 3' emissions, which relate (amongst other things) to their purchased goods and services. Where suppliers have developed carbon plans to reduce emissions associated with their goods and services, the direct costs will tend to be higher (although there are compensating environmental, and often social and wider economic benefits – e.g. arising from local purchasing). At a time of significant financial pressure, it will be a challenge for councils to 'do the right thing' as opposed to choosing the most affordable option.
51. There will be a payback from climate change actions (in terms of adaptation as well as mitigation). However, the issues are, first, the timescales for that payback and, second, that many of the benefits do not accrue to the council in a direct or financial sense. Rather, they will often contribute to well-being goals for the wider community – for example more local jobs, healthier food, better quality environment, biodiversity gains, greater resilience against future extreme weather events. The risk is that the necessary measures will be a casualty of current financial pressures causing them to be deferred, whereas ideally they should be prioritised to ensure timeliness and maximum potential impact.

Conclusion

52. At the meeting of the WLGA Executive on Friday 30 September, it became clear that the situation is very fluid and the estimates in the survey had been superseded in a matter of weeks. Council leaders reported that the impact of the mini budget was still being assessed with some authorities reporting that their budget gaps had grown by around a quarter since the survey was returned.
53. Over the last fortnight, the media has reported the challenges faced by half a dozen councils; it is a picture replicated across Wales, and it is becoming increasingly bleak. Moreover, Welsh Government ministers are reporting that inflation will erode their budget by £4bn over the current spending review period.

55. We continue to welcome the partnership approach that we have forged with Welsh Government, and the close working relationship between ministers and leaders that has developed in recent years. We are committed to continuing with that approach to protect our shared priorities from the worst effects of the economic headwinds to come.

Authors: Jon Rae, Director of Resources



ANNEX I

In-year (2023-24) projected financial pressures (in excess of budget)

**Projected Pressures, 20-23
£000s**

A. LA-related (excl. schools and social services)

Pay inflation pressures	56,806
Non pay inflation pressure	29,705

Inflation (Stand Still) pressures	86,511
--	---------------

Non Inflation Financial pressures

a. Demand related pressures	22,892
b. Capital financing pressures	831
c. Reduction in specific grants	1,497
d. Local priorities	1,361
e. Other	7,654

Total LA-related (excl. schools and social services)	34,235
---	---------------

B. Schools

Pay inflation pressures	31,756
Non pay inflation pressure	6,578
Fees/Charges inflation (positive)	-

Inflation (Stand Still) pressures	38,334
--	---------------

Financial pressures

a. Demand related pressures	1,844
b. Capital financing pressures	-
c. Reduction in specific grants	275
d. Local priorities	-
e. Other	610

Total Schools	2,729
----------------------	--------------

C. Social Services

Pay inflation pressures	20,121
Commissioning Cost Pressures - Adults'	11,246
Commissioning Cost Pressures - Children's	7,473
Non pay inflation pressure	1,781

Inflation (Stand Still) pressures	40,621
--	---------------

Financial pressures**a. Demand related pressures****Adults Services**

Domiciliary Care (incl supported living)	7,454
Residential Placements	11,913
Other	5,180

Childrens Services

Domiciliary Care	379
Residential Placements	19,687
Foster Care	682
Other	9,289

Total Social Services	54,584
------------------------------	---------------

Total projected financial pressures (A+B+C)	257,014
--	----------------



ANNEX II

Projected financial pressures, 2023-24 and 2024-25 (cont.)

		Projected Pressures		
		2023-24 £000s	2024-25 £000s	Total £000s
<u>A. Local Authority Related (excluding schools and social services)</u>				
	Pay inflation pressures	122,121	62,555	184,677
	Non pay inflation pressure	127,446	56,183	183,629
	Fees/Charges inflation (positive)	- 5,539	- 5,071	- 10,610
	Inflation (Stand Still) pressures	<u>244,028</u>	<u>113,667</u>	<u>357,696</u>
Budget pressures				
	a. Demand related pressures	37,988	30,634	68,622
	b. Capital financing pressures	14,145	11,695	25,840
	c. Reduction in specific grants	5,160	1,170	6,330
	d. Local priorities	21,442	4,050	25,492
	e. Other	28,259	12,202	40,461
	Total Local Authority Related	<u>106,994</u>	<u>59,751</u>	<u>166,745</u>
<u>B. Schools</u>				
	Pay inflation pressures	114,685	86,631	201,316
	Non pay inflation pressure	46,061	15,989	62,050
	Fees/Charges inflation (positive)	- 347	- 365	- 712
	Inflation (Stand Still) pressures	<u>160,399</u>	<u>102,255</u>	<u>262,654</u>
Budget pressures				
	a. Demand related pressures	13,221	9,259	22,481
	b. Capital financing pressures	- 1,090	- 890	- 1,980
	c. Reduction in specific grants	585	205	790
	d. Local priorities	2,013	1,609	3,622
	e. Other	1,925	1,729	3,654
	Total Schools	<u>16,654</u>	<u>11,912</u>	<u>28,567</u>



Projected Pressures			
	2023-24 £000s	2024-25 £000s	Total £000s
<u>C. Social Services</u>			
Pay inflation pressures	51,858	23,918	75,776
Commissioning Cost Pressures - Adults'	86,939	55,201	142,140
Commissioning Cost Pressures - Children's	14,066	10,449	24,515
Non pay inflation pressure	20,712	12,423	33,135
Fees/Charges inflation (positive)	- 2,677	- 2,192	- 4,869
Inflation (Stand Still) pressures	170,898	99,799	270,697
Budget pressures			
a. Demand related pressures	3,828	4,628	8,456
<u>Adults Services</u>			
Domiciliary Care (incl supported living)	7,662	7,776	15,438
Residential Placements	11,886	8,955	20,841
Other	12,604	8,103	20,707
<u>Childrens Services</u>			
Domiciliary Care	1,309	- 685	624
Residential Placements	22,688	8,277	30,965
Foster Care	5,352	3,870	9,222
Other	5,386	5,872	11,258
b. Capital financing pressures	-	-	-
c. Reduction in specific grants	5,914	1,646	7,560
d. Local priorities	4,418	1,651	6,069
e. Other	1,699	-	1,699
Total Budget Pressures	85,246	51,863	137,109
Total Social Services	256,144	151,662	407,806
Total Pressures (incl. schools and Social Services)	784,220	439,248	1,223,468
<u>D. Funding changes</u>			
Council Tax (net of CTRS)	59,092	61,879	120,971
RSG	169,632	123,125	292,757
Use of Reserves	7,894	- 490	7,404
	236,618	184,514	421,132
Total (A+B+C-D)	547,602	254,734	802,336

Document is Restricted

Agenda Item 6

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted

Document is Restricted