

IWA evidence to Finance Committee Welsh Government Draft Budget 2018-19

October 2017

1. About the IWA

1.1 The Institute of Welsh Affairs is an independent think-tank. Our only interest is in seeing Wales flourish as a country in which to work and live. We are an independent charity with a broad membership base across the country. We aim to bring people together from across the spectrum in a safe space where ideas can collide and solutions can be forged in our five priority areas: the economy, education, governance, health & social care, and the media in Wales.

2. Our response

2.1 The IWA convenes 5 policy groups in our priority areas, to guide and inform our policy development. Members of the groups include practitioners, academics and policy professionals with diverse expertise. This response has been developed with input from our Economy and Health & Social Care Policy Groups. Our response seeks to do three things: make general observations on the draft budget; present specific policy implications for consideration by the Committee, and identify areas where solutions can be sought.

3. General observations

3.1 This budget generally represents continuity: broadly the same level of gradual decline of spend as the last 5 years, while the NHS is protected. There is some evidence this is consistent with public opinion on the areas the Welsh government should prioritise¹. We note that this study also found that economic issues are the primary concern of Welsh people, however many of the critical spending decisions impacting the Welsh economy will be determined at a UK level.

3.2 Spending is increasingly dominated by health- and age-related spending. This trend is likely to continue, as pointed out in the Office for Budget Responsibility's recent report on fiscal sustainability². This challenge needs explicit, active consideration at both UK and Wales levels. We need a four nation reappraisal of the total resources devoted to health and social care, which embraces the large body of ideas generated in the last decade (Dilnot, Barker et al) to enable us to build a pan-UK consensus on the different ways of channeling resources into the care of the ageing population, and that could lead to a sustainable, evidence-based settlement. In Wales, we

¹ Elections in Wales – Etholiadau yng Nghymru blog, Professor Roger Scully. Accessed 12th October 2017 at: <http://blogs.cardiff.ac.uk/electionsinwales/2016/08/08/the-most-important-issue-part-iii/>

² Office for Budget Responsibility, Fiscal Sustainability Report, January 2017. Available at: http://cdn.budgetresponsibility.org.uk/FSR_Jan17.pdf

need to explore the potential of our new levers for innovation, such as Gerry Holtham and Tegid Robert's recent proposal for a social care insurance scheme³.

3.3 The detailed budget portfolios are still to come, and so the detailed implications of spending choices are yet to be seen. We welcome the fact that this budget covers a two year period (three in the case of capital spending) which is a valued effort to provide some certainty for public services in Wales.

3.4 However, the UK budget on 22 November 2017 may well result in some further material changes as UK spending choices become clear. The question remains as to where the planned £3.5bn cuts to the UK budget will fall, and what the impact will be on the Welsh budget.

4. Policy Implications

4.1 Health

4.1.1 The decision to protect health spending is not unexpected, and indicates the Welsh Government's acceptance that health and social care expenditure needs to increase at above general inflation if the rising needs of the ageing population and the new capacity of advancing technology are to be met. Estimates of the optimal margin vary, but most accept that about +2% pa, in addition to efficiency savings of another +2%, would allow expenditure to stabilise in real terms. Given the fiscal climate and difficult choices to be made, 1% represents a realistic settlement however it also keeps services in the current iron vice.

4.1.2 The decision to protect health spending, which represents nearly 50% of the Welsh budget, is increasingly challenging to justify, particularly in the context of the Welsh Government's commitment to early intervention and long-term planning, as expressed through the the Social Services and Well-being (Wales) Act and Well-being of Future Generations (Wales) Act. In the absence of the detailed budgets it is not yet possible to assess the balance of spend. However, it is important to note that many services outside the formal health spend contribute to the population's health and wellbeing, such as housing, support services and social care. Cuts in these areas arguably pose as much of a threat to our nation's health as cuts to the NHS.

4.1.3 Health services in recent years have been characterised by pay restraint; running services at close to maximum capacity; and allowing Health Boards to overspend (4/7 now have recurring deficits which they have no active plans to resolve). The opportunity cost of this is that disproportionate amounts of time is devoted to 'keeping things going' rather than carrying out the system redesign Wales needs.

4.1.4 There is emerging consensus on the direction in which health and social care services need to change, and the Parliamentary Commission reporting later this year is well placed to cement this consensus. The problem hitherto has not been *what* we should do, rather achieving

³ Institute of Welsh Affairs, Click on Wales. Accessed 12th October 2017 at: <http://www.iwa.wales/click/2017/05/solving-social-care-besides/>

sufficient scale and pace of change. This is of course not solely a problem with money: between 2000 and 2010 expenditure on health in Wales increased by 50% in real terms but there was little evidence of fundamental transformation. Nevertheless it is difficult to see how +1% pa will do anything other than force health and social care to continue with a series of sticking plasters rather than the radical surgery they need to transform. The key questions are less about spend, but rather who and how will we drive transformation into a 21st Century Health Service.

4.2 Environment and decarbonisation

4.2.1 We note that the Environment and Rural affairs budget heading has taken the greatest reduction in this year's budget. The draft budget narrative states that "Funding for environment and rural affairs has been reduced but this does not mean that sustainable growth and climate change is not important". It points to funding interventions which have the greatest impact, and using investment in other areas to achieve decarbonisation objectives, such as housing. The IWA supports the intention within the Welsh Government tax policy work plan 2017 to explore whether the devolved tax system could help to incentivise more energy efficient homes.

4.2.2 We endorse Welsh Government's approach that other budget areas can contribute towards decarbonisation, however delivery of this relies on deploying effective policy incentives in diverse areas. For example, the South Wales Metro could be powered through renewable energy sources; new build housing could be built to higher energy standards via changes through Part L of the building regulations. Welsh Government could significantly ramp up the scale of energy efficiency investment in Wales' existing housing stock to help drive decarbonisation as well as wider benefits such as health improvements, which in turn reduces the stress on the NHS and potentially reduces the need to increase spending on health significantly year on year. The decarbonisation agenda needs maximum engagement across all Welsh Government departments to ensure that we meet the targets set out within the Environment (Wales) Act 2016. What is unclear at this time, with limited budget detail and policy in these areas still being developed, is how proposals in this budget will help Welsh Government reach its own stated goal of a green and prosperous Wales. Without this detail, it is difficult to be confident that the budget settlement will not have an adverse effect on this area of Welsh life.

4.3 Taxation

4.3.1 The introduction of taxation powers, limited at the moment to Landfill Tax and Land Transaction Tax, marks the start of the Welsh budget evolving into a budget which balances income raised with money spent. This welcome change will develop further with the introduction of limited income tax powers next year. The cautious approach the Welsh Government is taking to the introduction of income tax is understandable, particularly in the context of unanswered questions about any payment Wales will need to make to HMRC to work on Welsh income tax and how payments will be deducted from the block grant i.e. will Wales be charged for gross or net tax revenues? We welcome the Welsh Government's work with Bangor

University and the OBR to underpin forecasts of tax revenues, and consider their involvement will ensure a useful source of independence.

4.3.2 We welcome the intention to use innovative funding to raise capital investment, such as to deliver the commitment to build 20,000 new homes by 2021. In the face of stretched core capital budgets, this offers the Welsh Government a means of delivering much needed improvements to infrastructure despite continued austerity budgets from HM Treasury.

Thank you for your consideration of our response. We look forward to further exploring these points in Committee.

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