Draft Budget Scrutiny 2014-2015
British Medical Association (Scotland)

Background
Spending by government is broadly divided into two categories: annually managed expenditure (AME), the main elements of which are social security payments, debt interest, and spending by local authorities; and departmental expenditure limits (DELs). DELs are further divided into current or revenue expenditure and investment in capital projects. Together AME and DELs make up total managed expenditure (TME). Most health-related spending falls into the DEL category. The Scottish Government’s Draft Budget 2014-15 must be seen against the backdrop of a reduction in real terms in the DEL allocations for Scotland arising from the UK-level Spending Round 2013.

The Scottish Budget is determined through use of the ‘Barnett formula’, which means that when the UK Government decides to alter spending in an area of devolved responsibility, such as health, the Scottish Government’s budget is altered by a proportional amount. Such adjustments are commonly referred to as ‘Barnett consequentials’. The Scottish Government is not required to allocate those Barnett consequentials to the area of spending from which they resulted, and can allocate any increased funds to any area of spending of its choice.

In the Spending Round 2013, the Westminster Government increased overall resource DELs for Scotland from £25.6 billion in 2014-15 to £25.7 billion in 2015-16 in nominal or cash terms. Taking into account inflation, this was real terms cut of 1.5 percent\(^1\). In the Draft Budget 2014-15, the Scottish Government has committed to “pass on the full Barnett resource consequential to the NHS in Scotland”.

Table 1: Health Spending within the Scottish Government Draft Budget 2014-15

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>NHS Resource DEL</td>
<td>11,468.6</td>
<td>11,841.3</td>
<td>11,874.1</td>
</tr>
<tr>
<td>NHS Capital DEL(^2)</td>
<td>418.5</td>
<td>254</td>
<td>187.1</td>
</tr>
<tr>
<td><strong>Total NHS DEL</strong></td>
<td>11,887.1</td>
<td>12,095.3</td>
<td>12,061.2</td>
</tr>
<tr>
<td>Nominal Growth</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>NHS Resource DEL</td>
<td>3.25</td>
<td>0.28</td>
<td></td>
</tr>
<tr>
<td>NHS Capital DEL</td>
<td>-39.31</td>
<td>-26.34</td>
<td></td>
</tr>
<tr>
<td><strong>Total NHS DEL</strong></td>
<td>1.75</td>
<td>-0.28</td>
<td></td>
</tr>
<tr>
<td>GDP Deflator</td>
<td>1.9</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Real growth</td>
<td>%</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>NHS Resource DEL</td>
<td>1.35</td>
<td>-1.52</td>
<td></td>
</tr>
<tr>
<td>NHS Capital DEL</td>
<td>-41.21</td>
<td>-28.14</td>
<td></td>
</tr>
<tr>
<td><strong>Total NHS DEL</strong></td>
<td>-0.15</td>
<td>-2.08</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Spending Round 2013, HM Treasury
\(^2\) Excluding financial transactions
Within the Draft Budget, Health resource DEL in Scotland will increase from £11.5 billion in 2013-14 to £11.8 billion in 2014-15 and £11.9 billion in 2015-16. Scotland will see a real increase in its resource DEL of 1.35 percent in 2014-15, followed by a real terms decrease in 2015-16 of 1.52 percent. As noted, this is in line with commitment set out in the Draft Budget to pass on the full Barnett consequentials for health resource DEL. However, capital spending, which is the other element of DEL, will fall by nearly 40 percent in 2014-15 and by a further 30 percent in 2015-16. As the table below shows, since 2010-11, capital spending has fallen by more than two-thirds.

Table 2: Scottish health capital expenditure

<table>
<thead>
<tr>
<th></th>
<th>2010-11 £m</th>
<th>2011-12 £m</th>
<th>2012-13 £m</th>
<th>2013-14 £m</th>
<th>2014-15 £m</th>
<th>2015-16 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEL</td>
<td>577.7</td>
<td>488.2</td>
<td>459.5</td>
<td>418.5</td>
<td>254</td>
<td>187.1</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

What are the pressures on health spending and how do we mitigate them?

The health portfolio remains protected in terms of its settlement within the draft budget and within this, the revenue provision continues to benefit at the expense of reduced capital spending. Although the Draft Budget 2014-15 will barely keep pace with inflation, as measured by the GDP deflator, it is worth noting that the healthcare system is subject to long-term cost pressures of around 4 percent a year in real terms, resulting from technological and demographic change. Moreover, other measures of inflation, which probably capture more accurately the pressures on the NHS budget, are forecast to be significantly higher than the GDP deflator used in the Draft Budget. The consumer price index (CPI) is projected to grow by 2.4 percent in 2014, 2.1 percent in 2015 and 2.0 percent in 2016. Inflation as measured by the retail price index (RPI) is set to grow by 2.8 percent in 2014, 3.2 percent in 2015 and 3.6 percent in 2016.

The increasing use of revenue budgets for capital expenditure is an issue of concern. While the capital budget is only a very small element of overall health DEL, the significant reduction in capital DEL means that while the Barnett consequential has been passed on for the health resource DEL, overall health spending in Scotland will fall by a greater amount than the total reduction in funding to Scotland from the Westminster Government. Total DELs for Scotland will rise from £28.4 billion in 2014-15 to £28.6 billion in 2015-16. In real terms this represents a fall of 1.1 percent. The fall in health spending forecast in the Draft Budget is nearly twice that, at 2.08 percent.

Are we spending wisely?

The priority areas identified for revenue spending are clearly appropriate but earmarking expenditure in a period of near zero resource growth pre-empts health board priorities and should arguably be minimised where possible. The...

---

3 Draft Budget 2013-14, Scottish Government; Health Finance: Financial Scrutiny Unit Briefing 11/61, Scottish Parliament Information Centre, August 2011
4 Economic and Fiscal Outlook, Office for Budget Responsibility, March 2013
5 Ibid.
BMA continues to believe that there must be a public debate, led by the Scottish Government, on priorities for the NHS.

The BMA would like to comment specifically on the following priorities:

**Increasing the role of primary care:** Whilst the BMA has welcomed the Government’s support for an expanded role for primary care and general practice in particular, this commitment has not been reflected in recent policy decisions. In April 2013, the Scottish Government announced its decision, despite its stated support for general practice, not to accept independent review body pay recommendations for general practitioners and uplift GP income only by 1.25%. This was the lowest uplift for GPs anywhere in the UK and will further widen the pay gap between GPs in Scotland and those in England, Wales and Northern Ireland. This announcement was followed, earlier this month, by the publication of GP income data for 2011/12 which showed that GPs in Scotland earned significantly less than colleagues in the rest of the UK; £20,000 less than GPs in England and around £4-5,000 less than colleagues in Wales and Northern Ireland. These are significant sums of money and could encourage doctors to leave Scotland to work elsewhere in the UK or abroad. At a time when recruitment, particularly to remote and rural areas is reaching crisis point, this could pose serious threats to NHS boards’ ability to deliver primary medical services across Scotland.

The increasing demands on GP time are adding to workload pressures in general practice and reducing time with patients. Many GPs believe this pressure to be unsustainable and, with one in five GPs aged 55 or over, there is a very real risk that older GPs may choose to take early retirement or reduce their sessional commitment.

There is a clear need to expand the capacity and infrastructure of general practice to be able to meet the expectation of an increased role for general practice.

**Integrating health and social care:** The single biggest challenge to health and social care services now and in the long term is the increasing number of elderly people with multiple physical problems, cognitive impairment and increasingly complex care needs. Projected future demand for elderly care services indicate that there will be 21% more people aged 75+ in Scotland by 2016, compared with 2006, and 83% more by 2031. Assuming demand increases in line with this growth and that current service models remain the same, this would require an average real increase in the NHS budget of 1.2% per year, every year. Healthcare spending is concentrated in the last year of life, but as people live longer, they are more likely to have more complex needs for both health and social care over extended periods.

The integration agenda is ambitious and requires careful and robust planning to ensure long term sustainability. An ageing population combined with a

---

6 Primary care workforce survey 2013, ISD Scotland
7 “Funding health and social services for older people – a qualitative study of care recipients in the last year of life”, Hanratty, B et al, *Journal of the Royal Society of Medicine, May 2012*
difficult public spending environment clearly poses a very significant challenge. A comprehensive assessment is needed of the likely resources required to meet the needs of both primary and secondary care as well as social care of a population with a higher proportion of elderly and very elderly patients and a rising prevalence of long term conditions. Without adequate planning and investment across all sectors, Scottish Government aspirations to shift the balance of care and integrate adult health and social care may be ultimately unachievable.

There will need to be significant additional investment over and above that set out in the Financial Memorandum for the Public Services (Joint Working) Bill to ensure that robust IT systems are in place to support the needs of both health and social care providers.

Improving safety in all healthcare environments: The BMA recognises the progress made in implementing the Scottish Patient Safety Programme. However, there remain challenges to ensure high quality, safe services for patients at a time when demand is rising and budgets are shrinking. Doctors already report that the increased pressure and intensity of work in the NHS is not sustainable for the long term. In light of the findings of the Francis Inquiry it is vital that the Scottish Government recognises that some of the key drivers that led to the problems at Mid Staffs exist in Scotland and that a political drive to achieve targets amid falling budgets and staffing shortages could impact on the quality of care for patients.

How are we ensuring that services are efficient?
There continues to be a need for more detailed information to answer the fundamental questions on how efficient services are. There is a lack of detailed information on how resources are spent and the outcomes that this funding delivers.

How are we planning for change (particularly with regard to the integration of health and social care)?
In order to succeed, there is a need for long term political commitment and resourcing of health and social care integration. Whilst Change Funds are providing limited additional resource to prepare the services for integration, these will end and integration will be expected to succeed within existing budgets. As stated previously the financial pressures facing local authorities will place additional challenges for the delivery of social care within falling budgets.

Other Issues:

Public Sector Pay Policy: In respect of the accompanying Public Sector Pay Policy for Staff Pay Remits 2014-15, it is welcome that the pay freeze which applied to those earning £80,000 and above will not apply in 2014-15 or 2015-16. However, given the actual rates of inflation detailed previously, the existence of a 1 percent pay cap for individuals earning above £21,000 will lead to a further depression of real earnings for all those working in the health
sector. However, the explicit statement that pay progression will be funded outside of the 1 percent pay cap is to be welcomed.

For GPs, it is essential that consideration is given to the rising expenses associated with providing NHS general practice and this should be allocated over and above any pay award.

**Capital spending:** Whilst the profile for public expenditure reflects the needs of the hospital building and renovation programme, the movement of care from acute to non-acute settings requires infrastructure investment to provide long term savings allied to better provision. The budget highlights some spending initiatives for health centres in a few areas across Scotland, however there is a clear need to improve premises provision in existing general practices.

**Distinction awards:** Since 2010, the number of distinction award holders has reduced by 30.8% (Source: SACDA). The draft budget sets out £19.4m for Distinction Awards (DA), a reduction of £4.1m from 2013-14. The Cabinet Secretary confirmed that the five-yearly review of current distinction awards would take place as usual in 2013-14. However, for the third consecutive year, there continues to be no increase in the value of awards, no new awards created and no progression through the scheme.

The primary purpose of the national awards schemes is to encourage excellence, innovation, teaching and research at the highest level of medical care so that all NHS patients benefit from the best possible healthcare, in line with the Scottish Government’s healthcare quality strategy. It is widely recognised that consultants provide leadership and innovation to pioneer and drive forward new treatments and models of care for patients. Studies repeatedly illustrate that consultants lead changes in practice to encourage new ways of working for both doctors and other members of the clinical team which address local needs and improve patient care.

The distinction award scheme has a fundamental role in supporting and driving Scotland’s medical research base. Scotland has several outstanding universities with particular strengths in biomedical research, and these in turn lead on to pharmaceutical, technological and intellectual advances. Doctors who perform at the highest levels both nationally and internationally drive a knowledge based economy which is becoming increasingly important in Scotland with the changes to the financial and economic landscape. Scottish medicine has some of the leading doctors in the world, both homegrown and from abroad, and in terms of the quality and extent of our research output the UK is second only to the USA. This world-class research benefits our patients and is translated into improved patient survival, biomedical discoveries and prevention strategies. Scottish medical academic research also benefits the wider economy and contributes greatly to Scotland’s global competitiveness. Clinical academics, trained in medicine, research and teaching, are essential components of this success story, but this area of medicine is facing a significant shortfall in recruitment and retention as a direct result of the freeze on distinction awards.