Scrutiny of the Draft Budget 2012-13 and Spending Review 2011

NHS Lothian

1. Introduction

1.1 On behalf of NHS Lothian, the Board’s Director of Finance welcomes the opportunity to submit a response to the Committee’s call for written evidence on the Scottish Budget.

1.2 The Scottish Budget sets out the financial framework that informs NHS Lothian’s financial planning process for 2012/13 and beyond. Its content is embedded in NHS Lothian’s financial and local development plan (LDP) in accordance with a process and timetable set out by the Scottish Government Health and Social Care Directorate (SGHD). NHS Lothian Board agrees its financial plan and LDP by 31 March of the preceding financial year.

1.3 SGHD has issued further guidance to NHS Boards setting out the individual funding implications of the draft Scottish Budget for 2012/13. This informs and updates the process for identifying investment and savings plans over the financial planning period to 2015/16.

1.3.1 Whilst the Scottish Budget is a financial framework, the document builds on and re-emphasises a number of key themes in earlier publications including:

- The Independent Budget Review (IBR)

These explore the issue of sustainability in the delivery of public services in the context of a more constrained financial framework for the NHS in Scotland.

1.4 Following the publication of the draft Scottish Budget, NHS Lothian is setting out potential financial scenarios arising from the 2012/13 indicative allocations and incorporating themes from the IBR and Christie report into its financial planning process for its updated version of financial plan and LDP.

1.5 This submission sets out the potential impact and current work programme within NHS Lothian that address the issues of financial sustainability of local health services within the financial framework set out by the Scottish Government in its draft Budget. This is concentrated around the subject areas identified by the Committee in its call for evidence.
2. **The Scottish Budget impact on NHS Lothian**

2.1 NHS Lothian spends approximately £1.4bn per annum which is mainly financed through the allocation that it receives from Scottish Government. Although the overall uplift to the Health budget for 2012/13 is 2.9%, NHS Lothian’s uplift in its allocation is 3.7%. Whilst this may appear to be a significant increase above the average, when like-for-like factors (such as the access monies already allocated on a non recurring basis in 2010/11) are stripped out, the actual year on year increase for 2012/13 is 2.2%.

2.2 One of the main contributors is that NHS Lothian is still progressing towards parity with the National Resource Allocation Commission (NRAC) formula. We welcome the efforts from SGHD over recent years to ensure NHS Lothian receives a fair share of the NRAC funding available, and in particular the additional £13.9m for 2012/13. However, even with this additional funding, we still remain £50m below our parity level of revenue funding. Through the Board’s efficiency and productivity programme we continue to strive for additional savings to bridge this gap, whilst continuing to deliver safe and high quality healthcare.

2.3 Whilst the health budget is protected relative to other public services, the level of uplift is historically lower than in the periods up to 2008/09 and significant elements of the uplift are committed to inevitable cost and price increases. These include:

- Pay band increases
- Rising costs of historic clinical negligence compensation
- Rates revaluation cost pressures
- Cost increases arising from changes to clinical practice
- Investments to reflect demographic effects on growth in births and the number of people with long term conditions, such as diabetes, dementia and renal disease amongst others

In the continuing drive to ensure quality of service, advances in medicine are to be welcome. However, these often have a significant financial implication and need to be managed alongside existing financial challenges. For example, the Scottish Medicines Consortium has just approved the use of Dabigatran (Pradaxa) as an effective replacement of the blood thinning agent Warfarin. The cost of Warfarin is about £9 per patient per annum whilst the cost of Dabigatran is £900 per annum. Applying this to the estimated 8,000 patients that would benefit from a change over, this gives rise to a recurring additional cost of up over £7m per annum.

2.4 Consequently, NHS Lothian must continue to review all aspects on its recurrent embedded revenue cost base. In addition we have to prioritise investments arising from more limited allocation uplifts, if we are to deliver our clinical obligations and continue to maintain financial
balance. NHS Lothian has a current year (2011/12) savings programme of £50m which is re-invested internally in order to maintain and develop services. This is approximately 33% higher than the value of the savings programme delivered in the previous financial year. It is inevitable that a significant level of savings will be required during the spending review period to 2014/15.

2.5 The Scottish Budget indicates significant reductions in capital funding. In 2010/11, NHS Lothian spent £90.5m on capital schemes. The figure for 2011/12 will be approximately £70m. With the overall capital budget allocation being reduced in the Scottish Budget, lower allocations in subsequent years can be anticipated. In this context, NHS Lothian and the Scottish Government are committed to re-providing a new Royal Hospital for Sick Children’s Hospital and Department of Clinical Neurosciences on its Little France site, alongside the Royal Infirmary, by 2016. This particular project is being delivered through the Non Profit Distributing (NPD) model of revenue financing, a variant of the Public Private Partnership model (PPP), in conjunction with the Scottish Futures Trust.

2.6 Whilst NHS Lothian will continue to apply new approaches to delivering service efficiencies it is likely that future significant savings will also have to be achieved by public bodies working collaboratively on a number of themes. These internal and collaborative themes are explored below.

3. Internal Savings initiatives

3.1 Given the internal savings agenda, NHS Lothian has an established Efficiency and Productivity Group to develop schemes that will meet the overall targets set during the financial planning and budgeting process. The schemes have a number of key themes aligned with SGHD efficiency programme subject areas:

- Prevention and early intervention
- Workforce
- Shared Services
- Service redesign
- Primary Care
- Prescribing
- Effectiveness of clinical procedures
- Acute patient flows

3.2 Leadership on these groups is from Executive and Senior managers across NHS Lothian, supported through our workforce development programmes and incorporates productivity improvements deliverable from tools such as “lean” and 5*5*5 work streams (this is five teams of five people working on five different topics) bringing leadership perspectives to bear, which has shown improvements in length of stay
which have freed up capacity and in turn released money to reinvest into other areas.

3.3 The savings programmes being delivered internally are under-pinned by workforce reductions achieved through natural wastage and agreed voluntary severance. To date, the current year programme for workforce reduction has delivered 418 out of the 734 whole time equivalent (wte) reduction target for the year.

3.4 Included within this workforce target, we have a 25% reduction target for senior managers, as required by the Cabinet Secretary for Health. This equates to a target of 109 wte by the end of the current Parliament. NHS Lothian has already delivered 71 wte reductions.

4. Cooperative models of delivery

4.1 The Scottish Budget has increased the value of the ‘Change Fund’ which supports the improvement in care pathways for older people who pass through both health and social care organisations. NHS Lothian agrees the use of the Change Fund investment through its joint working with its four partner local authorities and has set metrics to measure delivery and success against spend.

4.2 NHS Lothian has also participated in an SGHD pilot to introduce the Integrated Resource Framework (IRF) as a tool of resource analysis to inform service redesign across Health and Social care. The collection of data and activity from health and local authorities then allows us to map this information onto patient pathways. The objective of IRF is to identify opportunities to enhance services through joint commissioning with an agreed financial envelope and integrator to assist the delivery of agreed outcomes. The tool is being applied to a pilot area within each local authority in Lothian in areas such as dementia, Chronic Obstructive Pulmonary Disorder (COPD) respiratory patients and tele-health projects. At present, the database is incomplete with regard to child health information as this requires to be disaggregated from some local authority budgets and activity datasets. Ultimately the tool can be used to better direct change fund and wider investments.

4.3 During the year, issues have arisen on proposed directives from central government with regard to pooling of budgets which potentially limit the flexibility in application of the IRF tool. This will require further discussion with SGHD and with our partners. It would be unfortunate if the tool were compromised as it develops when early issues of difficulty such as data protection have been dealt with. It is however important to note that NHS Lothian and its Council partners already have agreed ways of working through a Resource Transfer budget of circa £35m which supports the care of people with mental health, learning disabilities, HIV and AIDs and older people. In addition we have joint strategies for mental health, learning disabilities, physical and complex care, drugs and alcohol and sexual health amongst others. These
along side the work on HEAT targets and Single Outcome Indicators support partnership working to deliver agreed outcomes for the people of Lothian.

4.4 Outwith the area of cooperation with local authorities the Director of Human Resources leads a cross sectorial group from NHS Boards, local authorities, the local police and fire and rescue service and the higher education sector in addressing the shared services agenda. Initial analysis has resulted in a threshold of targeting areas that could deliver at least a 10% saving on current resource. Work is currently concentrated in scoping savings opportunities in three areas:

- Transport
- Estate
- Laundry services

The Scottish Ambulance Service is leading the workstream on transport, whilst NHS Lothian is providing the lead on laundry services and a joint lead with West Lothian Council on estates. The objective is to present detailed options for review and approval by March 2012 with implementation in the following year.

With 208 owned and 82 leased premises giving an asset value of £730m and an annual running cost of £79.5m the estates arena provides a significant opportunity for savings. As joint projects are progressed with partners through the “Hub” initiative for estate asset replacement this level of joint working will provide savings on both the revenue and capital accounts.

4.5 There is a genuine desire and commitment of NHS Lothian towards cooperative working to realise the objective of delivering sustainable public services where cost pressures in a constrained financial envelope are increasing. The above is a short summary to demonstrate areas where NHS Lothian is trying to respond in an agile way to scenarios and opportunities for joint working. However, as a separate public body, we have to exercise due accountability for public monies.

4.6 Preventative spend is a key theme and NHS Lothian with its partners both in terms of Local Authority, and through the work that it does with other NHS Boards through regional working, is exploring ways that we can achieve better outcomes. Work highlighted above through delivery of our strategic frameworks has already delivered against this ambition and we would sight the work on mental health as a significant achievement. We have significantly shifted the balance of care with more care now delivered in the community, for those that are admitted, admissions are shorter and the quality of care in the community has been sighted and indeed rewarded through national recognition in national awards.
5. **Summary and conclusion**

In the interests of the brevity requested by the Committee, this submission can only provide a brief overview of how NHS Lothian is committed to delivering the theme of sustainability set out in the Scottish Budget and the precursor papers of the IBR and the Christie report. NHS Lothian would be pleased to explore the issues raised in this paper in more detail with the Committee. However, we hope the submission illustrates how NHS Lothian is addressing the challenge to public services to maintain quality service delivery in financially constrained circumstances.

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