

Finance Committee

Strategic Budget Scrutiny

Submission from NHS Lothian

1 Summary of the Issues

1.1 The Finance Committee of the Scottish Parliament has launched an enquiry to examine:

- (a) The impact of the recession on public sector budgets in Scotland, both for the new financial year 2009/10 and in future years
- (b) The pressures and demands on the Scottish Governments 2010/11 budget
- (c) The likely implications for the Scottish Governments budget in the longer term.

1.2 This is partly in response to the fact the full effects of recession were not foreseen at the time of the Spending Review 2007. While the 2010/11-budget plan was included in the Spending Review 2007, it is likely that this will be revised in light of the current economic climate. In particular:

- (a) The UK Chancellors prebudget statement announced plans for £5bn of efficiency savings in the budget for 2010/11. It has been estimated that the impact on the Scottish Government's budget as a result of this, will be circa £500m.
- (b) The pre-budget statement also announced a reduction in the Department of Health's capital budget of £1.4bn in 2010/11. This will mean a recurring reduction in the Scottish Governments capital budget of circa £125m.
- (c) The Scottish Budget was over committed at the last Spending Review and this has to be repaid through the next Spending Review.

Questions

2.1 What direct effects are already being seen through demand for services, reduced income streams and higher costs?

- (a) The current system in Health of all NHS Boards receiving the same level of uplift with the implementation of the National Resource Allocations Committee (NRAC) recommendation being managed by additional allocations each year is compromised. This means that NHS Lothian will be required to deliver potentially significant cash releasing efficiency savings from a lower cost base than other systems. NHS Lothian currently receives an allocation which is

£61.9m less than the NRAC an allocation indicates is appropriate for NHS Lothian's share of the population. This is at a time when NHS Lothian is experiencing pressure in services such as maternity, paediatrics, orthopaedics, cancer, emergency attendances and admissions as a consequence of a rising and ageing population.

- (b) Consumer Price Inflation (CPI) as at January 2009 was 3% and retail price inflation (RPI) is 0.1%. For public bodies, inflation tends to mirror the CPI rather than the RPI. The most up to date price index for the NHS indicates an increase of 3.49% over the past 12 months to January 2009 in the main NHS commodities. Although the volatility in the market for fuel has abated and national contracts have been put in place, there remains additional cost pressures from an increase in fuel prices. This suggests there is currently little benefit from low inflation in the NHS, although the NHS may benefit from the changed conditions in the construction market. This will, in part, depend on the exchange rate (see C.)
- (c) The impact on NHS Lothian of the poor performance of the pound sterling is already being experienced in 2009/10 with significant price increases in key commodities. For example, textiles have increased in price by 33.5%. Similarly, Continence suppliers have increased prices by 10% (98% of continence products used in the UK are manufactured in European countries). We do not appear to benefit from smart hedging.
- (d) There are however potential benefits in terms of employment. There is evidence of increased competition for vacancies across different staff groups, with those applying often better qualified than previously. Continuation of this means that there will be less reliance on more expensive forms of payment such as overtime, agency and other enhanced rates of pay.

2.2 How will these effects develop and what impact are they expected to have on different public bodies and on the services they provide?

(a) HEAT targets

The consequence of an increasing population in NHS Lothian is an increase in demand for all services with particular pressures on children's, orthopaedics and cancer services.

NHS Lothian's ability to sustain targets for waiting times will be seriously compromised by the requirement to operate with an allocation which does not fully reflect changes in population and the requirement for further efficiency.

(b) Employment/ Unemployment

- Potential adverse impact on mental health. Uncertainty and income insecurity reduce levels of mental health in adults and children
- Greater impact on men and those with lower levels of education who are more likely to lose their job and to remain unemployed for longer
- Those with mental health problems are more likely to exit from the labour market

(c) Alcohol

- Consumption and associated adverse effects may go down at a population level or at least rise more slowly
- There should be no attempt to slow down the tightening of licensing arrangements, reducing overprovision or cracking down on cut price drinks. This will not stimulate the economy, simply increase the impact of alcohol related harm

(d) Smoking

- Findings are mixed. People may take up opportunities to quit to reduce their outgoings but many will change brands, to roll ups or set aside the cash. There should be no let up in smoking prevention and cessation
- Female smokers on low income report that smoking curbs their appetite and allows them to give more food to other family members

(e) Drugs

- The geopolitical situation is complex but economic and social insecurity, lack of opportunities for productive activity, increased availability and reduced price increase the likelihood of problematic use and harm.

(f) Healthy weight

- Reports suggest that people are changing where they shop for food and reducing the frequency and amount that they eat out. Further work is required to examine the impact of the recession on food choices
- Currently, a proportion of people on low income are more likely to attain the minimum activity levels required for health because they lack access to other forms of transport

- Reduced user costs and increased access to support for people of all ages to undertake different methods of being active, to reflect people's preferences, would be a positive step.

(g) Use of services

- People in the lowest income group already attend primary care and out of hours services at least 1.5 times more often than those in the highest. This can be managed by organising preventive, acute and chronic care in line with the principles of advanced access, as NHS Lothian strategies seek to do
- Systematic efforts to remove barriers to access, engagement and retention can also reduce DNAs to around 5% and increase the uptake of preventive services
- User costs reduce appropriate and inappropriate use by similar levels. While some service users do not present at the most appropriate place or participate productively, user charges do not address this.

(h) Need for social and practical support

- Increase in the vulnerability of individuals and families that are already struggling because of the selective rate of re-employment
- Universal social benefits and income related transfers are important protective measures

2.3 How can the Scottish Government's budget be used to combat the effects of recession?

An emphasis on welfare and health security will minimise the adverse impact of recession. Public services have a role to provide structured, productive activity as part of their duty to improve the health and wellbeing of the population. For local authorities, this is in addition to their role in stimulating business activity and attracting investment.

The actions following appear to reduce the potential adverse impact of recession and enable more rapid recovery when the outlook begins to improve:

- Retaining people in employment (directly or through local procurement) Lothian initiatives include apprenticeships, a local healthcare academy and programmes which help people with chronic illness, including mental health, to stay in and get back to work
- Supporting kinship and informal carers to reduce the risk of family breakdown

- Supporting volunteering, education and skill development, including organisational, managerial and supervision skills
- Maintaining people in their homes (financially and practically)

2.4 It is already known that there will be pressures on the 2010-11 budget such as reductions to balance the capital spending that has been brought forward and the consequences of budget cuts due to increased efficiency savings. What are the likely effects of these pressures on different areas of public spending?

- See above regarding HEAT targets/alcohol etc.
- NHS Lothian has a significant capital programme planned over the next 10 years. Any reductions to planned capital availability combined with a reduced contribution from receipts could delay the implementation of this investment and the potential benefits for employing local apprentices and skilled workers

2.5 What is known about the longer term demands and cost pressures on different public service areas and budgets, such as spending that cannot be changed, changes in demographics or patterns of service use or known project commitment?

See 2.2 (a) and 2.4

It is vital that spending is directed to areas where there is good evidence intervention will be effective. It does not make economic sense to loosen the controls on the managed entry of new drugs and technologies, or to introduce interventions that Health Technology Assessment has identified as of more limited benefit than the alternatives. It would be helpful to add generic substitution to the requirement on all prescribers to maximise generic prescribing.

Investments that pump prime long term health gain such as smoking cessation, alcohol brief interventions and immunisations are important. At the same time, however, it is vital that policy interventions around food composition, food supply and carbon consumption are implemented.

Current level of uplift (3.73% for NHS Lothian in 2009/10) and internally generated efficiency (2%) are fully required to cover the cost of pay awards, new drugs or new indicators for existing drugs, volume growth in prescribing, in addition to pressures arising from demand new technologies. Any reduction in level of uplift will result in NHS Lothian being unable to meet such costs in full in the future.

2.6 What are the priority areas for spending in future budgets, and what flexibility is there to respond to these?

See 2.5.

There is very limited flexibility to respond to the demand for healthcare. The Government's budget will come under pressure as household income drops, but at the same time it is likely that the need for services increases. Experience has shown that spending in the private sector tends to decline in an economic downturn, as patients either defer care completely or turn from the private to the public sector. Unless public sector services are ensured adequate financial support in these circumstances, quality of care is likely to deteriorate. It may well be that the challenges faced by Health Boards to provide appropriate care and treatment are even greater.

The economic recession may both provide the incentive to, and provide the necessity to, further increase the attention that is paid by the NHS to effective spending. It may be that the way services are both financed and organised will improve their efficiency. Currently, curative care attracts more political attention, and it is tempting for preventive activities to be sacrificed in the face of budgetary pressures. Getting the balance right between maintaining essential curative services and sustaining preventive programmes is essential in managing the health sector.

3 Impact on Health Inequalities

- 3.1 *This report has not been subject to the Equality Diversity Impact Assessment. However, this should be undertaken by NHS Lothian as a precursor to a full organisational impact assessment of the recession.*

4 Resource Implications

- 4.1 There are no resource implications associated with this report.

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NHS Lothian