13th March 2015

Dear Mr McNeil,

REPORT ON DRAFT BUDGET 2015-16

Thank you for the Committee's report and the further correspondence from the Committee Clerk in which a formal response was requested by 12 March 2015.

I have attached the Scottish Government's formal response to the points highlighted within the Committee's report. My officials and I would be very happy to provide further information in order to support the Committee's ongoing scrutiny process.

SHONA ROBISON

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www.scotland.gov.uk
<table>
<thead>
<tr>
<th>Policy area</th>
<th>Page Ref</th>
<th>Recommendation</th>
<th>Scottish Government Response</th>
</tr>
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<tbody>
<tr>
<td>Capital</td>
<td>3</td>
<td>The Committee would like to see detailed data on the ongoing unitary charges resulting from NPD and PFI projects and for this information to be presented to allow comparisons to be drawn against charges that are incurred as a result of traditional public sector capital funding for 2015-16 and in future Draft Budget documents.</td>
<td>Ongoing unitary charges resulting from NPD and PFI projects are published at the following location: <a href="http://www.gov.scot/Topics/Government/Finance/18232/12308">http://www.gov.scot/Topics/Government/Finance/18232/12308</a> We do not routinely directly compare costs of NPD projects to the costs that would have been incurred had they proceeded through direct capital funding. This is because the decision to make use of revenue-financing is driven by the need to make the best strategic use of the funding available. Revenue-financing is most suitable for stand-alone new-build projects; by making use of this financing mechanism for these projects we free up capital for projects that are not suitable for revenue-financing, such as refurbishment and upgrades to existing facilities, equipment replacement and addressing backlog maintenance. However, the Outline Business Case for the New South Glasgow Hospitals project (available on NHS Greater Glasgow and Clyde’s website at <a href="http://www.nhsggc.org.uk/content/default.asp?page=s2244_1">http://www.nhsggc.org.uk/content/default.asp?page=s2244_1</a>) did include an analysis of the comparative value for money of NPD and PFI funding models with the conventional funding that has been used. The business case compared the net present values, adjusted for estimated risk, of the expected cash flows for the three models. The conclusion was that NPD provided the best value for money, with conventional procurement 0.2% more expensive, and PFI 1.1% more expensive.</td>
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<tr>
<td>Capital</td>
<td>3</td>
<td>The Committee is concerned about the possible impact that reductions in the capital budget might have on backlog maintenance. While recent evidence reassured the Committee that NHS boards were</td>
<td>Response attached at Appendix 1.</td>
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<tr>
<td>Performance</td>
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**targeting the backlog, there is still concern that a considerable proportion of the backlog is classified as high risk.**

Scotland Performs provides a transparent assessment of how Scotland is performing as a nation across a diverse range of National Performance Framework indicators – economic, social and environmental. A Scotland Performs Update was published alongside the draft budget 2015-16, and is available at the following location: [http://www.scotland.gov.uk/Topics/Government/Finance/18127/scotland-performs-update-1](http://www.scotland.gov.uk/Topics/Government/Finance/18127/scotland-performs-update-1)

This report included a section on indicators selected as relevant to the Health and Sport Committee for the purposes of the Draft Budget Consultation Period. These indicators are used in order to assess what progress is being made towards those National Outcomes which are most closely linked to the Health and Wellbeing portfolio – National Outcome 6 ‘We live longer, healthier lives’ and National Outcome 15 ‘Our people are able to maintain their independence as they get older and are able to access appropriate support when they need it’.

A review of the NPF is currently underway to improve the indicator set and address gaps. The review will result in a new indicator set being proposed in Autumn of this year.

We have recently reviewed HEAT performance and financial targets. From April 2015, we will use the term Local Delivery Plan (LDP) Standards to describe NHS performance; LDP Standards will replace HEAT targets and HEAT standards. A copy of the LDP Guidance was sent to the Committee when it was published on 19 December 2015.

The legislative framework for integration of health and social care includes national outcomes for health and wellbeing, which can be viewed at the following location:
A core suite of indicators to underpin these outcomes is currently being finalised, which will measure progress across health and social care under integration, focussing particularly on the quality of care experienced by people with multimorbidities.

We are absolutely committed to supporting our NHS to deliver world-leading care. That is why we have clearly outlined the standards of care that Scottish people can be assured they will get from our NHS. Scotland has some of the strongest health standards in Europe. This has seen more Scots diagnosed and treated quickly for cancer, greatly improving their chances of survival. We will continue to do everything we can to support health boards to achieve these standards.

We agree that it is important that the meeting of targets does not have the unintended consequences of distracting those delivering services from their roles. In this respect, the Scottish Government and the Scottish Partnership Forum developed a set of 10 Performance Management principles. These principles are intended to ensure standards are delivered in the spirit of improvement – they are not an end in themselves. For example, they make it clear that clinical decision making always trumps delivery of targets or standards.

The principles are set out at the following location:
http://www.gov.scot/Topics/Health/Quality-Improvement-Performance/NHSScotland/TenPerfManPrin?refresh=0.5435929308814312

<table>
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<tr>
<th>Performance</th>
<th>8</th>
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<tr>
<td>The Committee asks the Scottish Government for its view on the merits of dividing the performance priorities and targets into two groups: ones to be monitored on an annual (or more regular) basis, and ones that present long-term</td>
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<td>The Scottish Government recognises the distinction that Dr Andrew Walker makes, between short-term targets, which are amenable to action by the NHS and partner organisations, and other indicators which more accurately reflect the ultimate outcome we are trying to achieve but which move slowly over time and are the result of the actions of very many parts of the system and of individuals themselves. Short-term targets have been used in order to focus particular effort and/or improvement activity on selected aspects of service delivery, which in turn will contribute to</td>
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miles. Improvement in more aggregate or longer-term outcomes.

Other indicators are more reflective of longer-term outcomes: for example premature mortality appears in the National Performance Framework as an important indicator of the overall health of the population. While annual data is available and is reported in the NPF, it is direction of travel and longer term trends which are the focus rather than a target for year-to-year change.

The Committee also notes that, in addition to HEAT targets, a number of HEAT standards are set for each year. Standards are targets that boards have achieved, but to which they must continue to adhere. The Committee asks the Scottish Government for further information on how it monitors performance against HEAT standards by NHS boards.

As noted above from April 2015, we will use the term Local Delivery Plan (LDP) Standards to describe NHS performance - LDP Standards will replace HEAT targets and HEAT standards. Performance against these standards will continue to be published in an easy to access manner through Scotland Performs which currently provides information down to NHS Board level.

Ministers are in constant contact with NHS Boards and SG officials as they continually review NHS performance. As is normal, Ministers are updated, as and when they require, on various aspects of performance, for example prospective weekly management information on cancer waiting times to support delivery of cancer waiting times. Ministers consider weekly reports on NHS performance and pressures over the winter including Emergency Department performance, and this can move to daily reporting if required. Ministers also consider a report on performance that includes all LDP standards on a six weekly basis – this report supports monitoring of performance trends, variation between NHS Boards on individual standards, and performance in the round for each NHS Board.

The Committee welcomes the announcement of additional funding for GP, primary care and mental health services. In light of comments regarding the need to assess the rationale behind budget decisions, the Committee

The Scottish Government has received continued feedback from GPs and the SGPC on the need for additional investment in primary care to support the integration of health and social care. The funding level agreed was deemed appropriate within the total integration fund available and taking account of competing priorities. The funding level agreed reflects our commitment to invest in GPs, primary care and mental health to deliver improvements for patients. We are currently working with partners to finalise allocation of this substantial investment to ensure it delivers the
calls for the Scottish Government to provide further commentary on the reason for this increase in spending allocation, specifically how the decision to increase funding in these areas was assessed against the potential benefits of increasing the financing of other services.

<table>
<thead>
<tr>
<th>Priorities</th>
<th>The Committee asks the Scottish Government to provide further information on how it will prioritise spending within the Integration Fund and for a full breakdown on the allocation of the £73.5 million. Finally, the Committee seeks reassurance from the Scottish Government that the total funding available within the Integration Fund is sufficiently large to meet the likely demands during 2015-16, particularly in the light of some of the available funding being diverted for other purposes.</th>
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The 2015-16 Integration Fund has been allocated as follows:

<table>
<thead>
<tr>
<th>Application of Integration Fund</th>
<th>2015-16</th>
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<tbody>
<tr>
<td>Telehealth</td>
<td>£10.0m</td>
</tr>
<tr>
<td>Mental Health Development Fund</td>
<td>£5.0m</td>
</tr>
<tr>
<td>Winter Resilience (b/f to 2014-15)</td>
<td>£10.0m</td>
</tr>
<tr>
<td>Primary Care Development Fund*</td>
<td>£20.0m</td>
</tr>
<tr>
<td>Other measures to be confirmed**</td>
<td>£28.5m</td>
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<tr>
<td>Total Integration fund</td>
<td>£73.5m</td>
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* This is part of the total £40m Primary Care Development Fund.
** Discussions are on-going on a range of other measures to support the social care sector.

The Scottish Government has supplemented the Integration fund by a further £30m for delayed discharges in 2015-16 (or £100m over 3 years from 2015-16). This funding will be used to support health boards and local authorities to deliver good quality care and support for people at home in a homely setting and will forms part of our wider commitment to integrating health and social care services.

The Scottish Government believe the £73.5m Integration Fund will be sufficient in
2015-16 to meet the specific outcomes required in respect of each of the projects identified within it. We will closely monitor each project to ensure objectives are met and identify any risks at the earliest opportunity. This national funding is in addition to £100m Integration funding which will be allocated to partnerships.

<table>
<thead>
<tr>
<th>Priorities</th>
<th>The Committee asks the Scottish Government for further information on how it identified the final budget figure for the NMF and how future funding will be determined.</th>
<th>Response attached at Appendix 2.</th>
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</thead>
<tbody>
<tr>
<td>Performance</td>
<td>The Committee therefore asks the Scottish Government to clarify how it plans to monitor the effectiveness of FNP and how the lessons from this type of preventative spending might influence future spending decisions. In particular, the Committee would ask the Scottish Government to provide information about any short to medium term indicators that it intends to use to measure progress being achieved through FNP.</td>
<td>Response attached at Appendix 3.</td>
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<tr>
<td>H&amp;SC Integration</td>
<td>The Committee requests further information from the Scottish Government on how the health boards, which are the largest</td>
<td>A key feature of our approach to integration is the creation of a single budget for health and social care. The new health and social care partnerships will undertake strategic commissioning for, at least, all of adult social care, all of adult community and primary health care, and some adult hospital services defined in legislation that</td>
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recipients of the Integration Fund, will use the resources to achieve the outcomes required to deliver the integration agenda. The Committee is keen to receive further information on how the Scottish Government will monitor the progress of the integration programme.

provide the best opportunity for redesign in favour of prevention. Partnerships will publish annual performance reports setting out progress against their strategic commissioning plans, in terms of the national health and wellbeing outcomes that are set out in legislation and a suite of indicators that is currently being finalised.

In addition, we are making £100m available to partnerships in 2015-16 through the Integrated Care Fund, to support delivery of improved outcomes from health and social care integration, to help drive the shift towards prevention, and to further strengthen our approach to tackling inequalities. The Integrated Care Fund builds upon the work undertaken via the Reshaping Care of Older People Change Fund and will be used by local partnerships to support investment in integrated services for all adults. Guidance was issued to partnerships in July 2014, setting out how the Integrated Care Fund should be used. Partnerships will submit 6 monthly updates to the Ministerial Strategic Group for Health and Community Care, which is chaired by the Cabinet Secretary for Health and Wellbeing, during 2015/16.

We recognise that low pay is an issue in the social care sector which is likely to affect quality and recruitment and retention, particularly in higher wage areas. That is why, as one of the recommendations of the report of the Taskforce for the Future of Residential Care in Scotland, it was agreed that financial modelling should be undertaken by COSLA and others to establish the costs of paying the Living Wage across the care sector. The Task Force also highlighted issues around career structure and other ways of making the care sector a more appealing profession. Support for pay needs to be seen within the context of the overall availability of funding for social care and the need to maintain the numbers of care workers and levels of support needed by vulnerable people.

While the Scottish Government does not employ care workers our policy on the Living Wage extends beyond those we employ directly. Our Programme for Government sets out that we are the first and only Government in the UK to commit to paying the Living Wage to our staff and to those in the NHS and will go further by ensuring that the staff of contractors working in our buildings will also get the Living Wage and that
The Living Wage will be a key priority in all future contracts. It also states that we will take a range of measures to further promote the Living Wage across the private sector, including providing an additional £200,000 to the Poverty Alliance for work in this area. With this funding, we are setting a target to more than double the number of organisations signed up to the Living Wage Accreditation Scheme from 70 to at least 150 by the end of 2015.

<table>
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<tr>
<th>Performance</th>
<th>14</th>
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<tr>
<td>The Committee notes and welcomes the work being undertaken by the Scottish Government and boards to develop a bed management toolkit. The Committee invites the Scottish Government to provide more detailed information on how this toolkit will work in practice, in due course.</td>
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We have engaged with several key stakeholders to help develop the Bed Planning Toolkit, including NHS Boards, the Royal Colleges, the Unscheduled Care Programme Board, the National Steering Group on Joint Commissioning and the Scottish Partnership Forum. The Toolkit is based upon the following 4 principles:

**Principle 1:**
Bed Planning is embedded within the wider planning landscape of Health and Social Care and informs effective use of resources to deliver efficient models of care.

**Principle 2:**
Local bed planning models are in place to inform short, medium and long term planning and develop scenario based models.

**Principle 3:**
Regular refreshing of models should consider the strength of the assumptions, model outputs and impact on scenarios.

**Principle 4:**
Information on bed plans should be available in the public domain.

We are currently working out the pilot testing arrangements which will commence in April 2015. We will continue to work with key stakeholders to identify useful tools and resources which will facilitate and support effective bed planning and create opportunities for sharing good practice.
<table>
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<tr>
<th>Financial planning</th>
<th>The Committee welcomes the commitment to pay the living wage and the recent 1% pay award for NHS staff, which will impact most on the lowest paid staff within the NHS. However, the Committee notes that these commitments, together with the increased employer contribution to pension schemes, will impact on the resource levels available to boards in the future. The Committee may wish to consider some of these issues in more detail during its annual budget scrutiny of NHS boards’ budgets, but in the meantime asks the Scottish Government to provide further information on the impact of these changes on the resources of NHS boards.</th>
</tr>
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<tbody>
<tr>
<td>Economic</td>
<td>The Committee notes that information provided by the Scottish Government to the Committee shows that NHS board budget uplifts have been in excess of the Hospital and Community Health Services (HCHS) pay and price inflation index. The Committee is keen to determine the impact health</td>
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The Scottish Government draws on a number of resources to assess the effect of inflation on the costs of delivering health services in Scotland. These include: the UK GDP deflator; the Health Service Cost Index for England; the Hospital and Community Health Service Pay Cost Index for England; cost data from Scottish Health Service Costs; and, pay modelling for NHS Scotland. The price series for health service supplies for England are particularly useful as they cover a wide range of tradeable inputs for which the UK would be a single market and therefore the price changes in England would be a reliable guide to price changes in Scotland. Where the English data are less likely to be a reliable guide to conditions in Scotland, e.g. in the case of pay awards, we rely on local pay modelling within the Scottish Health
### Priorities 16

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Inflation has on the provision of health services and was disappointed to learn that this information is not produced for Scotland. The Committee notes that an annual inflation series which includes data on health inflation and GDP deflators is published for Hospital and Community Health Services in England. The Committee believes that the provision of equivalent data in respect of Scotland would increase transparency and aid scrutiny, and invites the Scottish Government to consider the feasibility of providing such data in support of future draft budgets.

The NRAC formula is concerned with target shares for boards rather than absolute funding amounts. As boards move towards parity, it is ensured that all Boards continue to receive real-terms growth in their allocations year-on-year, with those below parity (i.e. below their target share) receiving more growth than those above parity. In this way no Board receives a reduction in core funding and it is considered that priorities and services are better protected in this way.

Territorial Boards have been given a general allocation increase of £282 million for 2015/16, of which £70.6 million (25%) is comprised of funding to accelerate NRAC parity.

On Tuesday 24 February 2015, the Information Services Division of NHS Scotland (ISD) published their annual ‘target shares’ for the National Resource Allocation Directorate. There are therefore no plans to produce a specific health input price series index for NHS Scotland. The work to produce such a series would be quite extensive and, in addition, the costs of delivering treatments will reflect changes in health service productivity as well as any changes to input prices.
<table>
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<tr>
<th>Performa</th>
<th>16</th>
<th>The Committee would be interested to learn how the Scottish Government uses any comparative evidence to assess the performance of NHS boards. The Committee would also be interested to learn if and how this information is fed back to boards and the extent to which it influences budget allocation, if indeed it does at all.</th>
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Committee (NRAC) distribution of 2015/16 funding for the 14 territorial NHS Health Boards. Even small percentage changes mean that every year Boards will move above and below parity depending upon relative changes to the total share. As part of our financial planning for 2016/17, a funding priority will be to maintain that no Board is further than 1% behind NRAC parity.

The Scottish Government monitors NHS Board level performance using the Local Delivery Plan LDP standards (formerly HEAT targets and standards). This information is brought together in the public domain through Scotland Performs. The Scottish Government also supports NHS Boards to use comparative evidence through a number of improvement tools including the Hospital Scorecard. Comparative evidence with other countries is also available on a topic by topic basis, for example the Scottish Government has shared information on A&E waiting times from the rest of the UK, Australia, New Zealand and Canada with NHS Boards; as well as on elective waiting times comparisons with the rest of the UK.

SG also supports the provision of a wide range of benchmarking tools and encourages NHS boards to use them to compare their performance with other boards, and with healthcare organisations outwith Scotland, through a series of commissions from the Quality & Efficiency Support Team (QuEST). These include: National Efficiency and Productivity Scorecard; Better Value, Better Quality; National Theatres Benchmarking tool and systems looking at non-clinical areas such as Estates & Facilities, Procurement and Energy management. In addition, SG has commissioned the implementation of an overarching ‘portal’ that will make it easier for boards to access all of this comparative information in one place. This system – ‘Discovery’ – will go live in April 2015.

This information allows NHS Boards to make best use of resources locally. At a national level funding to Boards is driven by the NRAC formula. The NRAC formula’s Unavoidable Excess Cost Adjustment is based on the average unit cost of delivering services across small areas, within in each urban-rural category. This provides boards with an incentive to improve efficiency.
| Private sector spend | 17 | The Committee would welcome a breakdown of the private sector spend according to the type of service being purchased. It would also invite the Scottish Government to set out clearly the rationale for use of private sector services. In particular, the Committee would like to gain a better understanding of when it is considered appropriate to access services externally rather than develop expertise within the NHS. | Spending priorities are determined locally by Boards and the Scottish Government does not hold the level of information required to provide such a breakdown. NHS Scotland makes limited use of the private sector services for targeted services, and this ensures people are seen quickly, and can receive the services required regardless of where they live. In its report ‘NHS in Scotland 2013/14’, Audit Scotland noted that spend on private sector healthcare by territorial boards had fallen by 6.9% in real terms between 2012/13 and 2013/14, from £80.3 million to £75.9 million. The frontline NHS resource budget for 2013/14 was £9,077.5 million. £75.9 million is less than 1% of this amount. |
| Capital | 17 | While the Committee welcomes the information that capital resources continue to be invested in the healthcare sector, it would ask for more detailed information alongside future draft budgets on funded projects, the rationale for investing in these projects, the expected benefits and the value for money that the NPD programme will have in the short and long-term. | The Scottish Government will review this recommendation as part of the 2016/17 Draft Budget process and consider how best to communicate this detail to the Committee. |
| Management of efficiency | 18 | The Committee notes the suggestion by Dr Andrew Walker that part of the savings originating from efficiency savings, rather than being retained by the NHS board could be transferred to the public health services. This would |
| | | | Territorial Boards reinvest all efficiency savings locally, which is part of the Scottish Government's commitment to protect and support front line services. This approach allows boards to determine local priorities, which may include public health services as they form part of Board budgets |
encourage a more innovative approach in the service and avoid the risk that the resource retained in the NHS board would simply continue funding services on a historical basis. The Committee would welcome comments from the Scottish Government on Dr Andrew Walker’s suggestion.

| Financial planning | 19 | The budget document still lacks any clear linkage between priorities and spend. Taking into account the comments made by Dr Andrew Walker and Professor David Bell it would be interesting to understand how much of the healthcare budget is prepared using a traditional “incremental” approach, and what elements are assessed on a more “zero-based” approach. [...] The Committee suggests that there may be a case for more of a zero-based approach in relation to budget setting, particularly in relation to integrated boards. While recognising that the detailed budgetary decisions for these boards will be taken by existing NHS boards and local authorities, the Committee invites the Scottish Government to consider this approach. |

The views of the committee are very much in line with our own thinking. At a high level, our approach to each spending review is to use a mix of incremental and zero based budgeting - to review existing investments, opportunities to disinvest and to restructure programmes to deliver existing commitments in more efficient ways. We also identify any new priorities and resource required to deliver.

Within each spending review period we use an incremental approach, but always taking the opportunity to challenge existing programmes in terms of efficiencies and evidence of outcomes. As an example we are currently undertaking a priority based budget review of all of our programme lines - looking short term at 2015-16 and this will lead us into a zero based approach in preparation for the 2016-17 spending review which will develop over the next few months.

We believe Integration funding has been approached using a zero base and this stems from the change fund which was time limited. Partners have developed specific plans to make best use of this resource in delivering against very specific strategic priorities. As IJBs develop financial plans in 2015-16, the use of integration funding as well as funding streams such as resource transfer, should be very transparent and linked to integration outcomes.
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<thead>
<tr>
<th>Field</th>
<th>Details</th>
<th>Notes</th>
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<tr>
<td><strong>Financial planning 19</strong></td>
<td>The Committee would invite the Scottish Government to consider whether there is scope, through the budget process, to demonstrate more explicitly the links between budget lines and targets and objectives.</td>
<td>This Scottish Government notes the Committee’s comments, and will consider this as part of the process for 2016/17.</td>
</tr>
<tr>
<td><strong>Financial planning 20</strong></td>
<td>The Committee notes its intention to undertake further scrutiny of the Board budgets once details are available. However, it also notes the challenges in undertaking any assessment of a total picture of spending in particular areas and would welcome any information that the Scottish Government can provide in this respect.</td>
<td>The Scottish Government has taken further advice from the Clerk of the Committee to understand more fully the Committee’s recommendation and will consider ways to better facilitate the assessment of total spending in particular areas. This will be considered as part of the process for 2016/17.</td>
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<tr>
<td><strong>C'wealth Games 20</strong></td>
<td>The Committee assumes that £25 million underspend on the Commonwealth Games will be allocated as part of the 2014-15 Spring Budget Revision. The Committee asks the Finance Committee to scrutinise this amended spending plan for the underspend on the Commonwealth Games.</td>
<td>The underspend on the Commonwealth Games has been carried forward to 2015/16 by utilising the budget exchange mechanism: - £6 million will be used for the national parasports centre; - £2 million will be provided specifically for legacy purposes; and - £16 million forms a non-recurring element of the additional funding provided to support the Integration Fund in 2015/16, taking the total budget to £173.5 million.</td>
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The £6 million noted above for the national parasports centre is the funding
### Climate change

| 22 | As the Committee has stated in previous years' budget reports, it considers that more information could be presented within the current budget documents to demonstrate how measures in the Draft Budget can contribute to meeting climate change targets. | Referenced in the 2015/16 Draft Budget. |
Appendix 1

Health and Sport Committee Report Recommendations
Report on Draft Budget 2015-16

Backlog maintenance – para 16

Recommendation

The Committee is concerned about the possible impact that reductions in the capital budget might have on backlog maintenance. While recent evidence reassured the Committee that NHS boards were targeting the backlog, there is still concern that a considerable proportion of the backlog is classified as high risk.

SG Response

Backlog maintenance “budget”

It is an on-going challenge for the NHS to balance investment between that which is focussed on service improvement and development, and that which is necessary to maintain buildings in a good condition and ensure that they are safe, reliable and fit for purpose.

Investment in backlog maintenance will continue to be a focus for NHS boards going forward. Of the additional £32.0m that was allocated to the capital budget for 2015-16 (increase on the 2014-15 draft budget plans for 2015-16), £9.5m will be used to increase formula capital allocations of boards to tackle backlog and equipment replacement.

Formula capital allocations for 2015-16 which are primarily used for backlog maintenance and equipment replacement have increased by 8.6% for NHS territorial boards on 2014-15 (increase from £133.5m to £144.5m) demonstrating the importance which we place on this area. Formula allocations for special boards will be the same as for 2014-15.

Although backlog maintenance is primarily tackled through NHS boards formula allocations which have increased for 2015-16 on 2014-15, backlog maintenance is also targeted through other areas of spend. For instance the following types of expenditure have an impact on the overall NHSScotland backlog maintenance requirement:

- Estate rationalisation and disposal of older properties avoiding the need for expenditure on backlog. Of the total backlog requirement of £797m, £80m relates to properties expected to be disposed of in the next 5+ years.

- Replacing older properties with new facilities and avoiding the need for expenditure on backlog e.g. the new South Glasgow Hospitals project, Balfour Hospital in Orkney, and Dumfries and Galloway Royal Infirmary. Of the total backlog, £65m relates to properties expected to be replaced in the next 5+ years.

- Incorporating backlog works within major redevelopment, modernisation and refurbishment projects e.g. improvements to inpatient accommodation at Aberdeen Royal Hospital, Royal Edinburgh Hospital, and Ayrshire Central Hospital. Major refurbishment programmes will remove circa £50m of backlog over the next 5+ years.
- Undertaking specific projects to target the high and significant backlog e.g. inpatient accommodation at Monklands Hospital. Targeted backlog programmes will aim to remove circa £80m of backlog over the next 5+ years.
- Incorporating backlog work within operational repair and cyclical maintenance.

In the Annual State of NHSScotland Assets and Facilities Report (SAFR) 2011 the total backlog maintenance requirement reported was £1,010 million. As per SAFR 2014, this has now dropped to £797 million, an overall reduction of 21.1%.

Risk

Of the £797 million reported in SAFR 2014 this has been risk assessed and the results of this are shown in the chart below:

![Backlog Maintenance Risk Profile](image)

This is a similar risk profile to that reported in previous SAFR.

![Percentage of High and Significant Risk Backlog](image)
Whilst the above chart shows a slight increase during 2014 on the proportion of Significant and High backlog, it is set against a lower overall backlog cost. These proportions are also affected by reductions in low and moderate risk taking place when implementing projects focussed on reducing high and significant risk items; as well as the identification of new backlog since originally identified in 2011.

The following chart therefore uses the backlog originally reported in the 2011 SAFR to track the actual annual change in this backlog (i.e. excluding the impact of newly reported backlog) up to 2013/14, and then plots further reductions necessary to meet future expectations:

* excluding newly reported backlog

The chart shows that the greatest reduction in backlog maintenance that occurs between 2010/11 and 2013/14 relates to high and significant risk items, which confirms that as the overall backlog is reducing Boards are continuing to address high and significant risk backlog. This will remain a key focus for improvement in future years.
Appendix 2

Health and Sport Committee Report Recommendations
Report on Draft Budget 2015-16

New Medicines Fund – para 53

Recommendation

Access to new medicines has been a key area of focus for the Committee’s work in recent years. The Committee asks the Scottish Government for further information on how it identified the final budget figure for the NMF and how future funding will be determined. The Committee will scrutinise this funding stream closely, to assess the extent to which the level of demand for the fund increases over the coming financial years and how the funding is spent. The Committee believes that the Scottish Government should be ready to respond, given the likelihood of increasing demand emerging as more medicines are approved for use in NHS Scotland.

SG Response

The Scottish Government welcomes the Committee’s support for the New Medicines Fund. The Fund supports the change in approach for end of life, orphan and ultra-orphan medicines following the work of the Committee and the Scottish Government to implement a change in approach to access to new medicines. There are two aspects underpinning the New Medicines Fund, the payments Scotland will receive from the Pharmaceutical Price Regulation Scheme and the financial implications of the Scottish Medicines Consortium’s new approach. Decisions on budget levels are based on both of these aspects.

The New Medicines Fund is supported by a reinvestment of allocations that will be received by Scotland from the Pharmaceutical Price Regulation Scheme. The 2015-16 New Medicines Fund budget figure of £40m, announced in October 2014, was based on estimates provided by the Department of Health.

The Scottish Government found no robust underpinning to the different figures quoted to the Committee speculating on the financial implications of the new SMC approach. Work has been undertaken by SG and NHS Scotland, using commercial in confidence information from horizon scanning and considering, for example, the timeframe for SMC decisions, to forecast financial implications. This is an on-going process and continues to be refined as more market intelligence becomes available. This does have limitations and at times the price of a medicine at launch is significantly different from what has been anticipated through tools such as PharmaScan. Many companies also offer patient access schemes, as part of the SMC process, and these details are not known prior to submission of the scheme to NHS Scotland.

Clearly, once decisions have been taken by SMC it is easier to assess the potential impact (and relevant information made available to SMC by the manufacturer on budget impact is published where this is not commercially confidential) however the clinical demand for a particular medicine may differ from pharmaceutical company estimates provided to SMC. In addition, each medicine has an individual profile of
what the budget impact is likely to be in each year following a positive recommendation from SMC. For example it shouldn't be assumed that a budget impact of £1m in year 1 will be £2m in year 2.

We are closely monitoring the impact of the New Medicines Fund and we will review the impact of the fund to inform future budgetary decisions. The Scottish Government are aware, as the Committee will be, that over and above new medicines for end of life, orphan and ultra-orphan conditions and the increased costs from SMC taking a different approach to cost-effectiveness, the cost of new medicines will continue to be a challenge for NHS Scotland. The Pharmaceutical Price Regulation Scheme does not eliminate this challenge. As identified elsewhere in the Committee's Report this becomes an issue of prioritisation.

We will update the Committee at the end of 2014/15 on the operation of the New Medicines Fund in that year.
Appendix 3

Health and Sport Committee Report Recommendations
Report on Draft Budget 2015-16

FNP – para 57

Recommendation

The Committee has previously taken evidence on FNP and remains supportive of FNP. However, the Committee recognises the challenges faced in justifying investment in preventative spending when the positive outcomes and financial savings may not be realised for many years. The Committee therefore asks the Scottish Government to clarify how it plans to monitor the effectiveness of FNP and how the lessons from this type of preventative spending might influence future spending decisions. In particular, the Committee would ask the Scottish Government to provide information about any short to medium term indicators that it intends to use to measure progress being achieved through FNP.

SG Response

The FNP National Unit, based in NHS Education Scotland, is responsible for implementing the programme in Scotland. It provides an annual report to the Scottish Government as part of adhering to the programme licence. The national report contains Scotland level data on fidelity to the programme (client enrolment and attrition, visit frequency, dosage and content) and on key client outcomes (including father engagement, smoking, alcohol use, subsequent pregnancy, birth, breastfeeding, immunisation, A&E attendance, child development). An evaluation strategy is being developed building on these reports and on what we know from existing evidence and will be implemented in 2015. This includes considering how to evaluate the economic impact of the programme on public expenditure and the development of key indicators. Additionally, a Randomised Controlled Trial (RCT) on FNP in sites across England is due to be published in Spring 2015. The RCT findings will be helpful to Scotland in looking at core outcomes.

Independent research on the economic analysis of cost of FNP, undertaken by Dartington Social Research Oct 2014, states: "Based only on the outcomes monetized so far in the UK, for each £1 invested in the programme society obtains £1.94 at an annual rate of 6 per cent return on investment." A report from the Washington State Institute for Public Policy (2011) states that the benefit-to-cost ratio from delivering the programme in Washington is $3.23 with 7% rate of return on investment. An earlier report from the same source states that FNP significantly decreased child abuse and neglect among the children of participating mothers. In addition, "FNP demonstrated significant reductions in future crime and substance abuse among program children, as well as significant improvements in their standardized test scores." This study also states "The effect of FNP on crime reduction leads to savings for taxpayers (in lower criminal justice system costs) and non-taxpayers (in reduced crime victim costs). In addition, "FNP provides benefits to program participants via increased test scores (due to higher wages earned as an adult), to taxpayers (from increased taxes and fringe benefits on
those earnings), and to non-taxpayers (from non-market benefits such as reduced medical costs). " Also a report from April 2013 from the Care Inspectorate on Children's Services in Edinburgh states "FNP is providing" outstanding support for young women through pregnancy and at meeting their babies needs as they grow".

References:


Appendix 4

Health and Sport Committee Report Recommendations
Report on Draft Budget 2015-16

Financial planning – para 80

Recommendation

The Committee welcomes the commitment to pay the living wage and the recent 1% pay award for NHS staff, which will impact most on the lowest paid staff within the NHS. However, the Committee notes that these commitments, together with the increased employer contribution to pension schemes, will impact on the resource levels available to boards in the future.

The Committee may wish to consider some of these issues in more detail during its annual budget scrutiny of NHS boards' budgets, but in the meantime asks the Scottish Government to provide further information on the impact of these changes on the resources of NHS boards.

SG Response

The committee will gather information from its scrutiny of NHS Board budgets.

In addition to that exercise we would comment that NHS Boards are constantly refining their financial planning to take account of forthcoming changes. These include the financial impacts of policy commitments as well as changes to the financial environment they work in, for example the increased employer contribution to pensions highlighted by the Committee.

In addition to the on-going refinement, all Boards submit a formal 3-5 year financial plan to Scottish Government for approval prior to the start of the new financial year. We are currently engaged with Boards in this process for 2015-16.

Uplifts to NHS Boards for 2015-16 have recently been confirmed, including the additional funding resulting from consequentials. For territorial boards the uplift totalled 3.8%, with all boards receiving an uplift of at least 1% above inflation.
Within the context outlined above, the Scottish Government expects each NHS Board, along with all other public bodies, to deliver efficiency savings of at least 3% per annum. This is not about making cuts, but rather about raising productivity, enhancing value for money and improving quality of service.

Efficiencies are achieved by delivering the same results at a reduced unit cost which may be demonstrated by delivering the same outcomes or outputs for a reduced input. This may allow the resources freed up, whether financial, staff time, or infrastructure assets to be used for other services. Delivering an increased volume of service for the same cost also demonstrates a reduced unit cost and, by definition, constitutes an efficiency. Planned efficiencies are set out in Boards' Local Delivery Plans and are monitored throughout the financial year.

Through the work of the Guiding Coalition, which brings together Scottish Government, Chairs and Chief Executives, we are working together to learn from each other and to support Boards to deliver services within budget and in line with the 2020 vision to be providing safe, effective and person-centred care which supports people to live as long as possible at home or in a homely setting.
Appendix 5

Health and Sport Committee Report Recommendations
Report on Draft Budget 2015-16

Climate change – para 121

Recommendation

As the Committee has stated in previous years' budget reports, it considers that more information could be presented within the current budget documents to demonstrate how measures in the Draft Budget can contribute to meeting climate change targets.

SG Response

NHS Boards continue to report their hospitals' energy consumption and GHG emissions under the HEAT Target. This requires a year-on-year energy efficiency improvement of 1% on all energy sources based on an overall improvement by 2050 of 33% (or one third) on the comparative performance as at the 2009-10 baseline year. This equates to a 10% reduction in energy performance by 2020. The Annual State of NHSScotland Assets and Facilities Report, published in February 2014, provides detail on progress with regard to energy and carbon performance. The report can be accessed at http://www.gov.scot/Publications/2014/02/4321. The 2015 report is due to be published early in March 2015.

During financial year 2012/13, c £11.2million was invested in energy efficiency projects across the NHSScotland Boards via the EcoHospitals initiative. These projects should result in annual savings of over 34million kWh and £4.3million (at current energy costs). Assuming no change in estate size or weather conditions, this would have the impact of reducing the overall NHSScotland KPI to 439.3kWh/m² (a 2.13% reduction on 2012/13).

A further estimated £16.6million was due to be invested in energy efficiency projects in 2013/14 and 2014/15.

In a wider context, NHSScotland has adopted the Good Corporate Citizenship Assessment Model which tests NHSScotland's approach to sustainability in its' day to day business by focusing on six key areas. These are travel, procurement, facilities management, workforce, community engagement and buildings. Support materials are provided to assist NHS Boards in tackling these issues via a website at the following location: http://www.corporatecitizen.scot.nhs.uk