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The Scottish Government
Riaghaltas na h-Alba

Health and Sport Committee

In 2014 Scotland Welcomes the World

Our ref: November 2014

Thank you for the opportunity to discuss Draft Budget 2015-16 at the meeting of the Committee on Tuesday 4th November. At this session, I agreed to provide the Committee with some additional information in relation to the following requests, which I attach at annex A of this letter:

1. Further detailed analysis of health investment through resource, capital and the equivalent capital values of the NPD model and the hub programme for 2014-15 and planned resource for 2015-16.

2. Figures on the impact of health inflation. Detail on how the new moneys that are coming forward meet the perceived demand on the health service.

3. How funding for locums, nurse agency and medical agency spending is allocated in the budget.

4. Local Delivery Plans for the current year.

5. Further details on the integration fund.

6. Differences between NPD, PFI and PPP. Comparison between NPD and current public sector charges, including using the Southern General as a case study.

7. The impact of the provision of the living wage to NHS Scotland staff in comparison to the situation in England.

8. Information on the cost of providing the living wage, pension costs and delivering the treatment time guarantee.

9. Specific figures (by Board) for additional NRAC investment in 2015-16.

I trust this information will be of use to the Committee in advance of their response to their Finance Committee regarding the Bill.

ALEX NEIL

1. **Analysis of health investment in 2014-15 and planned investment for 2015-16**

As indicated at the session, between 2014-15 and 2015-16 there is a 2.2% real terms increase in Health and Wellbeing budget when NPD/Hub is included or 0.1% increase when this is excluded. For the Committee's information, the tables below provide the detail behind this point:

Cash (including NPD/Hub)

Level 2	2014-15 Final Budget £m	2015-16 Draft Budget £m	Increase £	Increase %
NHS and Special Health Boards	9,392.0	9,625.6	233.6	2.5%
Other Health	2,687.1	2,915.5	228.4	8.5%
Total Level 2	**12,079.1**	**12,541.1**	**462.0**	**3.8%**
of which:				
DEL Resource	11,603.1	11,866.0	262.9	2.3%
DEL Capital	250.0	193.1	-56.9	-22.8%
NPD/Hub	122.0	380.0	258.0	211.5%
Financial Transactions	4.0	2.0	-2.0	-50.0%
AME	100.0	100.0	0.0	0.0%

Real (including NPD/Hub)

Level 2	2014-15 Final Budget £m	2015-16 Draft Budget £m	Increase £	Increase %
NHS and Special Health Boards	9,392.0	9,474.1	82.1	0.9%
Other Health	2,687.1	2,869.6	182.5	6.8%
Total Level 2	**12,079.1**	**12,343.6**	**264.5**	**2.2%**
of which:				
DEL Resource	11,603.0	11,679.2	76.2	0.7%
DEL Capital	250.0	190.1	-59.9	-24.0%
NPD/Hub	122.0	374.0	252.0	206.6%
Financial Transactions	4.0	2.0	-2.0	-50.8%
AME	100.0	98.4	-1.6	-1.6%

Cash (excluding NPD/Hub)

Level 2	2014-15 Final Budget £m	2015-16 Draft Budget £m	Increase £	Increase %
NHS and Special Health Boards	9,392.0	9,625.6	233.6	2.5%
Other Health	2,565.1	2,535.5	-29.6	-1.2%
Total Level 2	**11,957.1**	**12,161.1**	**204.0**	**1.7%**
of which:				
DEL Resource	11,603.1	11,866.0	262.9	2.3%
DEL Capital	250.0	193.1	-56.9	-22.8%
Financial Transactions	4.0	2.0	-2.0	-50.0%
AME	100.0	100.0	0.0	0.0%

Real (excluding NPD/Hub)

Level 2	2014-15 Final Budget £m	2015-16 Draft Budget £m	Increase £	Increase %
NHS and Special Health Boards	9,392.0	9,474.1	82.1	0.9%
Other Health	2,565.1	2,495.6	-69.5	-2.7%
Total Level 2	**11,957.1**	**11,969.6**	**12.5**	**0.1%**
of which:				
DEL Resource	11,603.0	11,679.2	76.2	0.7%
DEL Capital	250.0	190.1	-59.9	-24.0%
Financial Transactions	4.0	2.0	-2.0	-50.8%
AME	100.0	98.4	-1.6	-1.6%

2. **Figures on the impact of health inflation. Detail on how the new moneys that are coming forward meet the perceived demand on the health service**

There is not published data for health inflation in Scotland, however the Department of Health publishes an annual inflation series for Hospital and Community Health Services (HCHS) in England. The table below sets out the (HCHS) pay and price inflation with the GDP deflator for the last three years:

	HCHS Pay and Price Inflation*			**GDP Deflator****		**NHS Territorial Board Uplifts**	
Year	***Pay (%)***	***Prices (%)***	***Pay & Prices combined (%)***	***Year***	***GDP Deflator (%)***	***Year***	***Uplift (%)***
2011-12	*0.9*	*4.1*	2.1	2011-12	1.8	2011-12	3.2
2012-13	*0.9*	*3.1*	1.7	2012-13	1.7	2012-13	2.9
2013-14	*0.7*	*1.8*	1.1	2013-14	1.8	2013-14	3.3

Source: * Department of Health; ** HMT.

While this shows that there are variances between Health inflation (as calculated by HCHS) and the latest GDP deflators, whichever inflationary figure is used, NHS Territorial Board uplifts are above these inflationary changes to meet the demands on the Health Service.

3. **How funding for locums, nurse agency and medical agency spending is allocated in the budget**

As indicated at the Committee, I agreed to provide more detail on spend on locums, nurse agency and medical agency spend. The table below shows spend in the first six months of 2014-15.

Nursing

	Cost (£m)	**% of Total Nursing Spend**
Bank Nursing	62.3	5.4
Agency Nursing	6.6	0.6

Agency and NHS medical locums

	Cost (£m)	**% of Total Medical Spend**
Agency Locums	32.5	4.7
NHS Locums	23.0	3.3

The private sector spend described by Audit Scotland is extracted from NHS Boards Annual Accounts and includes all spend with private sector bodies with which the Board is in contract for health care services. This covers, for example, expenditure with private sector hospitals undertaking specific contracted activities. As highlighted at the Committee, it does not include spend on locum and bank staff.

Boards are required to meet such costs within their baseline allocations. The Scottish Government is continuing to work with Boards to reduce medical agency costs, which have fallen over the last three years through the introduction of a medical staff bank – a bank of NHS recruited doctors who will be used to supplement staffing rotas where required.

4. Local Delivery Plans for 2014-15

Please see below for links to all Local Delivery plans, which are accessible on all NHS Board websites:

NHS Ayrshire & Arran
NHS Borders
NHS Dumfries and Galloway
NHS Fife
NHS Forth Valley
NHS Grampian
NHS Greater Glasgow & Clyde
NHS Highland
NHS Lanarkshire
NHS Lothian
NHS Orkney
NHS Shetland
NHS Tayside
NHS Western Isles
NHS National Waiting Times Centre
NHS 24
NHS Education for Scotland
NHS Health Scotland
NHS National Services Scotland
NHS Healthcare Improvement Scotland
Scottish Ambulance Service
NHS State Hospital

5. Further details on the Integration Fund

When I discussed this matter at the Committee meeting, I highlighted that the Integration Fund should not be seen as a continuation of the Change Fund programme. The increase of funding to £73.5m will place an emphasis on the development and delivery of new models of care.

The New Fund will total £173.5 million, with £100 million going directly to integrated partnerships to support local priorities. Of the £73.5m to be retained centrally to support national initiatives, £10m has already been allocated to support telehealth and telecare projects, with £40m to be invested in GP and primary care services over the next year.

6. Differences between NPD, PFI and PPP. Comparison between NPD and current public sector charges including using the Southern General as a case study

The NPD model retains a number of benefits of traditional PFI structures, such as:

- Optimum risk allocation;
- Whole-life costing;
- Maximised design efficiencies;
- Robust programming of lifecycle maintenance and facilities management;
- Performance-based payments to the private sector;
- Single point delivery system, reducing interface risk for the public sector client; and
- Improved service provision.

However it also produces the following additional benefits:

- Capped returns ensure that a “normal” level of investment return is made by the private sector and that these returns are transparent;

• Operational surpluses generated by the Project Company are reinvested in the public sector; and

• The public interest is represented in the governance of the NPD structure, which increases transparency and accountability and facilitates a more pro-active and stable partnership between public and private sector parties.

The NPD programme is delivering competitive prices for both construction and finance, with recently closed projects in NHS Ayrshire and Arran and the New National Centre for the Scottish National Blood Transfusion Centre achieving construction prices below the caps set for those projects by Scottish Futures Trust.

The recent contract signature, for the NHS Ayrshire and Arran Acute Mental Health and North Ayrshire Community Hospital project in June this year, was achieved in only 17 months from launching the procurement – approximately half the historic normal time quoted by HM Treasury. It was financed by the European Bank Nord LB at highly competitive rates following a funding competition in which several financial institutions priced the investment opportunity keenly.

With regard to the New South Glasgow project, the Outline Business Case is publicly available, with Chapter 9 showing the comparative impact of public capital, PFI and NPD funding options. The business case can be accessed at the following link:

http://library.nhsggc.org.uk/mediaAssets/New%20Hospitals/New%20South%20Glasgow%20OBC.pdf

A rigorous value for money and affordability analysis was conducted comparing a public capital option against a Non Profit Distributing (NPD) and/or PPP model. The results of this analysis showed a negligible margin between the two routes and therefore, in value for money terms, either funding route could be justified.

In affordability terms however, given the impact of resource accounting and budgeting, the impact of the two routes is markedly different, with the additional revenue costs of the public capital option being £53.8m per annum against the impact of £76.0m per annum for the NPD route. In other words, use of the private finance route would have required an additional £22m of service savings to be achieved, with no additional value for money benefit.

7. **The provision of the living wage to NHS Scotland staff in comparison to situation in England**

In Scotland, we have, for the last two years, chosen to be more generous to the lower paid within the NHS generally than has been the case in England, meaning that those earning below £21,000 are in an appreciably better position in Scotland.

An individual at point 14 on the Agenda for Change pay matrix, for instance, whose salary would be just below the £21,000 mark is £345 better off this year than the equivalent staff member in England. The lowest paid in particular are doing better in Scotland because we have applied the Scottish Living Wage by discontinuing the lowest pay point on the Agenda for Change pay matrix. In England, someone starting in either band 1 or 2 of the Agenda for Change system currently will go on to £14,294, which works out at £7.31 per hour. In Scotland, that same person would go on to £15,058, which works out at marginally over £7.70 per hour, i.e. well above the £7.65 living wage rate which was in place on 1 April 2014, the NHSScotland settlement date.

Employers have six months to take account of changes to the announced living wage within their pay settlements and any increase in the Scottish Living Wage in the interim will be taken account of on the next NHSScotland settlement date of 1 April 2015. Analysis suggests that around 2,665 whole time equivalent staff will start in NHSScotland on bands 1 and 2 in 2014-15 and therefore have benefitted from this policy.

8. Information on the cost of providing the living wage, pension costs and delivering the treatment time guarantee

NHS Boards have updated estimates on pressures arising over the next three years, as detailed in the table below. The impact of providing the living wage and additional pension costs is reflected in the cost uplift (pay) line. Pressures within the service investment requirements line include additional costs relating to Waiting Times, administering immunisations and the Major Trauma Network.

These pressures should be seen in the context of baseline budget increases for Territorial Boards (3.1% in 2014-15 and 2.7% in 2015-16) and efficiency saving targets of 3.0% for each of the years detailed below. These savings are retained by Boards and reinvested in frontline services.

	2014/15	2015/16	2016/17
Forecast change in expenditure	£m	£m	£m
Cost uplift – pay (including increments)	90.0	190.0	190.0
Cost uplift – drugs (prescribing & secondary care & New Medicines Fund shortfall)	40.0	55.0	55.0
Cost uplift – non pay	50.0	50.0	50.0
Service investment requirements	44.0	45.0	48.0
Demographic impact on cost base	80.0	80.0	80.0
Impact of non recurring funding			10.0
Total	**304.0**	**420.0**	**433.0**

9. Specific figures (by Board) for additional NRAC investment in 2015-16

In the 2014-15 Draft Budget, it was indicated that £42 million would be applied to NRAC parity funding in 2015-16. The table below provides detail on which Board this was allocated to (£42.5m was allocated in total). In all cases, the Board receiving additional funding is behind NRAC parity and this funding has been used to bring the Board closer to parity, without destabilising other Boards:

Board	NRAC parity funding (£000s)
Fife	2,000
Grampian	17,500 (plus additional 5,000 on recurring basis from 14-15)
Highland	5,000
Lanarkshire	5,500
Lothian	7,000
Orkney	500
Total	**42,500**