SCOTTISH TRENDS

(Press Release - 18th October 2018)

Analysis of 'Scottish Government Medium Term Health and Social Care Financial Framework'

Introduction

The Scottish Government recently published its, long promised, medium term plans for Health and Social Care funding (see https://www.gov.scot/Resource/0054/00541276.pdf). Press coverage at the time concentrated on the writing off of any debts built up by NHS boards across Scotland, to allow for a fresh start with the introduction of a new 3 year budget balancing period. In contrast, the following analysis considers the medium term plans that were outlined, in particular with regards to how they compare to similar analysis of past and future funding pressures for Healthcare in England. The latter is based on a joint paper by the Institute for Fiscal Studies and the Health Foundation (IFS/HF) - 'Securing the future: funding health and social care to the 2030's' - published in May of this year (see https://www.ifs.org.uk/uploads/publications/comms/R143.pdf).

Main Findings

- The Scottish Government's estimates of future Healthcare funding needs diverge significantly from those independently assessed for the English Healthcare system. The best like-for-like comparison suggests that the Scottish Government estimate is for around 3.5% annual, cash terms, funding needs growth over the next 5 years, as compared to around 6.7% estimated for England. Such a discrepancy seems untenable. The funding implications differ by over £400 million a year, moving from an extra £455 million being needed at 3.5%, to over £870 million being needed at 7%.
- Furthermore, within these overall figures the Scottish Government's assumed productivity gains (efficiency savings) amount to 1.3% a year, in comparison to an English, like-for-like, figure of 0.8% a year. Again this appears to be over-optimistic on the Scottish side, ultimately underestimating future funding needs.
- The interrelationship between Healthcare and Social Care funding remains unclear and is complicated by the continuing downward pressure on the Local Government Budget;
- The lack of any serious challenge to the Scottish Government's plans and announcements in this area is starting to be felt. At present almost all independent analysis of future Healthcare needs is done at the English level with little or no consideration of the different circumstances observed in Scotland, Wales or Northern Ireland. This is a consequence of a variety of factors including; the lack of funding available to fund Scottish think tanks; lack of in depth media analysis; lack of academic involvement; and a lack of medium term planning analysis by NHS Scotland;
- Unless the situation is improved there is a risk that future NHS and other healthcare funding needs will not be properly assessed and that the quality of service may decline. While any funding shortfall can still be recognised after the event, and moves made to resolve the situation, it would be far more efficient if such finding needs were properly addressed in advance.

Comparison of Assumptions

Assumptions for Scottish Healthcare (Scottish Government, October 2018)

The principal assumptions made with regards to future demand projections for Healthcare over the next 5 years are:

- **price effects**: 2.2% to 2.4% p.a. (versus forecasts for CPI and RPI inflation of 2% and 3% respectively);
- **demographic** (increase in, and ageing of, the population) effects of 1% p.a.;
- **non-demographic** (increased expectations and new technology) effects of 2% to 2.5%;
- pressures partly offset by **productivity gains** (from efficiency savings and reforms) of 1.3% p.a.;
- **overall impact** of 3.5% p.a. IN CASH TERMS (note: this figure is notably lower than the 4.2% to 4.9% range implied from the individual estimates above).

Assumptions for English Healthcare (IFS and Health Foundation, May 2018)

The IFS/HE analysis looks 15 years forward (to 2033-34) but also includes an analysis for the next 5 years (to 2023-24). It considers 2 scenarios, one of status quo and another which assumes a degree of modernisation. The figures below apply to the modernisation scenario as this appears to match better the aspirations of the Scottish Government for an improving service.

Key assumptions for the next 5 years are:

- **input cost** pressures of around 2% p.a. above 'inflation', i.e closer to 4% in cash terms;
- **demographic pressures** of around 3% p.a.;
- **modernisation** effects of around 1% p.a.;
- offset by **productivity gains** of 1.4% p.a.;
- **overall impact** of 4.7% p.a. IN REAL TERMS or around 6.7% IN CASH TERMS.

(Points to note with regards to the comparisons:
- the estimates do not include **capital** Healthcare pressures. The IFS/HF analysis estimates that this would be 11% in the next 5 years for the modernisation scenario;
- the estimates do not include **Social Care** funding needs. Both analyses include an overall estimate for Social Care but not any detailed breakdown. The estimate for Scotland is 4% p.a. IN CASH TERMS and the estimate for England is 3.9% p.a. IN REAL TERMS;
- some of the **non demographic** effects assumed for Scotland appear to be included under demographic effects in the English analysis;
- the IFS/HF analysis is consistent with that undertaken by the OBR in this area.)

Key differences in the assumptions

- the Scottish Government assumes that Healthcare **inflation** will be little different to overall economy-wide inflation. In contrast, the UK extra inflationary element is notably higher and reflects history better;
- the Scottish Government assumes **demographic impacts** to be much lower than the IFS/HF do for England (although the exact comparison is difficult to identify due to different definitions being used). To some extent this is likely to be true, in that the population of England is expected to grow faster than that of Scotland. However, the Scottish population is growing older quicker than England's, which has funding consequences. (Note: it remains unclear what the net effect of Scotland's lower life expectancy has on such funding.);

- in terms of **productivity gains**, the Scottish Government assumes a rate of 1.3% p.a. This is above the 'status quo' assumption by IFS/HF, of 0.8% p.a., although in line with its 'modernisation' assumption of 1.4% p.a. However, the Scottish growth in funding (around 1.5% p.a. in real terms) suggests that the lower IFS/HF figure is a better comparator figure here;
- The Scottish **productivity gains** are composed of an annual 1% p.a. assumption (again above the 0.8% p.a. 'normal' assumption for England) alongside a further element of efficiency savings relating to a variety of reforms (e.g. Shifting the Balance of Care, Regional Working, Public Health and Prevention, Once for Scotland). The latter, presumably, contribute the further 0.3% p.a. that take the 5 year average from 1% to 1.3% p.a.. However, it could be assumed that past such initiatives are included in the 0.8% to 1% p.a. productivity gains averages. Furthermore, the figures shown for the reform based gains (see Figure 8 in Annex C) suggest that these amount to almost as much as those achieved from annual efficiency savings, rather than being closer to a third of the size. (See also Annex A for more discussion of Healthcare productivity issues.);
- despite much talk of integrated systems, the focus remains very much on Healthcare needs and funding with much less of a focus on **Social Care.**

The above analysis covers the first element of the Medium Term Health and Social Care Financial Framework (MTHSCFF) paper. The second element consists of how the Scottish Government sees future funding needs being met given: the existing funding position; expected Barnet Consequential's; and using the assumptions made above. This exercise results in a small funding gap being left (£159 million).

However, it is not possible to marry up the figures used in this analysis of filling the funding gap (see Figure 8, repeated in Annex C) with those used in the earlier analysis of future funding needs. This is for a variety of reasons:

- first, the data in Figure 8 refers to resource funding for Healthcare AND Social Care, rather than just Healthcare;
- second, the period covered in Figure 8 extends from 2016-17 to 2023-23. As such, we are now two years (up to 2018-19) into out-turn or planned spending, as opposed to future forecasts of spending. As figures for growth in 2017-18 and 2018-19 are not given so the average growth over the whole period fails to tell us what 'future' funding growth rates are expected to be;
- third, the categories contributing to closing the funding gap differ in definition from those used to construct the 3.5% p.a. cash terms future funding growth (demographic, non-demographic etc).

All this leads to the ultimately confusing position whereby Figure 8 is looking at a 1.8% annual (real terms) increase in Healthcare and Social Care over the period 2016-17 to 2023-24, whereas the latest UK Government commitment for Healthcare spending in England up to 2023-24 is an annual 3.4% in real terms (which will equate to slightly less for Scotland in % terms, given its higher base spend per head level). It may be that these two positions are reconcilable, but if so this is not possible using the information contained in the Scottish strategy paper. (Note: the 3.4% p.a. real terms funding increase figure for England suggest that the 1.5% p.a. real terms rise in Scottish funding needs will not be very challenging. However, confusion reigns.)

Furthermore, it is not possible to move from the previous outline of Scottish Government intentions in this area, as outlined in the 5 year Financial Strategy document from May, to the estimates used in the MTHSCFF, again due to different definitions and time periods being covered. (See Annex B for more detail.)

Possible Implications

Due to the lack of clarity in the Scottish Government's analysis it is impossible to state whether or not, or the degree to which, the future funding of Scottish Healthcare may have been mis-estimated. However, two areas of concern are clear and worthy of further clarification and research:

- first, the degree to which future funding to ensure that Healthcare needs are being met may have under estimated;
- second, the degree to which efficiency savings to help meet such funding pressures may have been over estimated.

Meanwhile it is not difficult to identify, beyond demographic ones, issues that highlight ongoing funding pressures, including:

- the build up of debt, estimated at around £150 million;
- a backlog of maintenance work, estimated at around £900 million;
- wage settlement pressures, which IFS/HF put at 1.7% to 3%, including rises in the Living Wage.

Should the cash terms annual increase needed for Scottish Healthcare be nearer the 6.7% implied by the UK analysis, rather than the 3.5% assumed by the Scottish Government, the funding shortfall would equate to up to £415 million a year.

Conclusions

The main conclusion is that greater clarity is needed over what the medium term funding needs are for Scottish Healthcare and how these might be met. Such clarification is also important for non Healthcare budgets holders, so that they can judge any future implications from meeting the growing needs of the Healthcare and Social Care sector while overall funds remain scarce.

Greater clarity is also needed over how the spending on Healthcare and on Social Care will interact and how the Social Care funding level can be ensured. This is complicated by the fact that funding for Social Care comes largely from the Local Government budget, which continues to be under considerable pressure to meet rising needs with a declining, in real terms, budget.

Part of the problem with the existing Scottish analysis is its lack of detail. The MTHSCFF paper is less than 20 pages in length, whereas the IFS/HF analysis was almost 170 pages in length, with considerable discussion of the details and of a variety of possible scenarios.

It could be argued that it is not the place for the Scottish Government to publish such a detailed paper. However, in the absence of any think tank or NHS Scotland producing a detailed analysis of spending needs in this area, then the Scottish Government's analysis becomes the 'go to' source for understanding future needs. (Note: the only other analysis of the MTHSDFF thus far has been in a SPICe blog, which also noted the difficulty of drawing firm conclusions from the paper.)

This lack of critical challenge highlights the poverty of think tank and academic contribution to Scottish politics and policy development in general. It has been evident since the start of devolution and continues to be a problem. Most analysis of Healthcare (or other areas of public policy, e.g. education) at the UK level tends to concentrate on England as the 4 systems are different and think tank funding is largely provided to analyse in detail at England only level. Clearly this is inadequate and leads to an ill informed debate in terms of both policy and funding needs.

Quotes:

"The Scottish Government's recently published medium term financial plans for Health and Social Care do not allow for a clear picture to emerge of future funding needs.

This confusingly presented document appears to suggest that Scottish funding needs in this area are considerably below those estimated for England. It is difficult to see why this would be the case.

In addition, projected efficiency savings are anticipated to be higher for Scotland than for the UK and heighten the degree of over-optimism that seems to pervade the report.

Much more clarity is needed in this vital area of government funding as well as further analysis than has hitherto been undertaken."

Contact details

John McLaren
Mobile: 07429 508 596
E-mail: john.mclaren@btinternet.com
Website - scottishtrends.co.uk

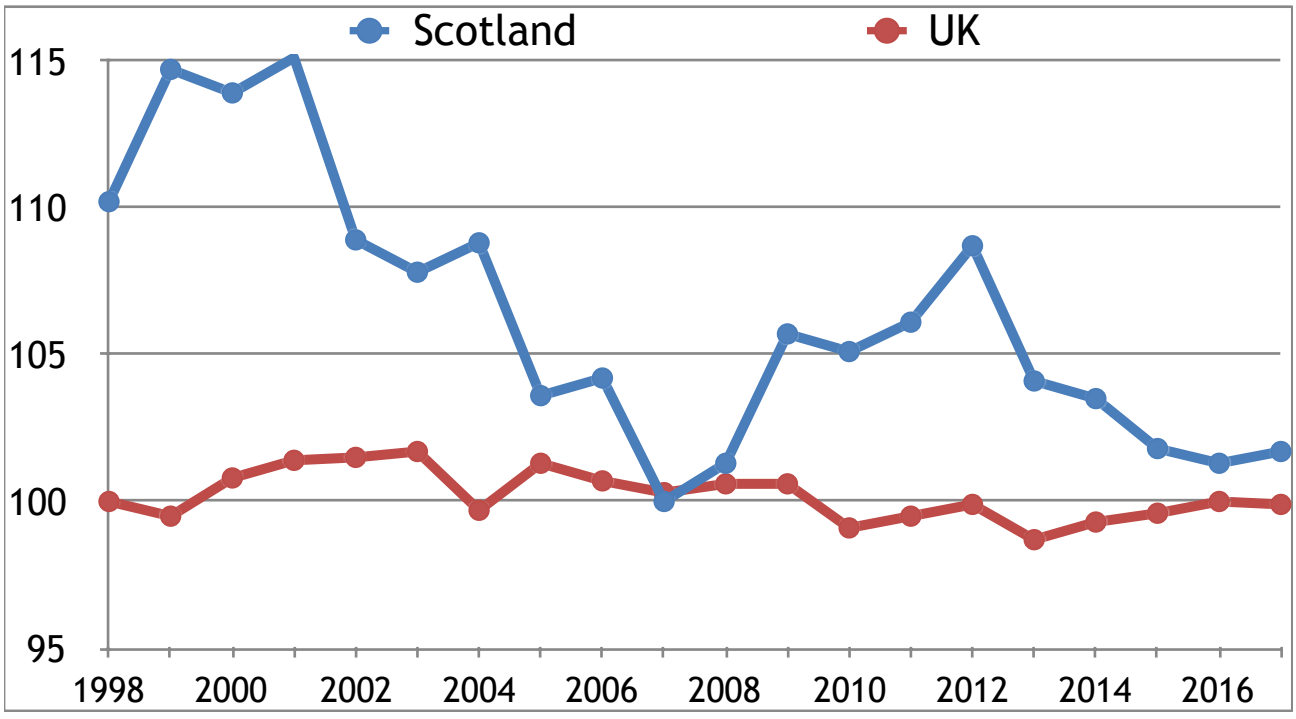
Annex A: Healthcare Productivity

As well as the funding available to the Health service, another important aspect of its keeping up with demand is the ability to improve productivity (the amount of output related to a fixed amount of input) over time. This has been a key element in all recent medium term budget analyses and settlements. For example, the NHS England settlement of 2014 assumed that efficiencies and productivity would provide £22 billion of the £30 billion needed by 2020-21. However, productivity, especially in an area of public service output like Health is not easy to measure and so it is difficult to test whether productivity targets have been met.

At the UK level the ONS publish a productivity measure for Healthcare. A recent publication (January 2018) gives data covering the 20 year period from 1995 to 2015. This data suggests an annual productivity increase of 0.8%. (Note that this figure is quality adjusted. Excluding quality adjustments the figure falls to 0.4%.) For England alone the figure is slightly higher at 1% per annum. This implies that, combined, the Healthcare productivity of the devolved administrations is below that of England, but still positive. However, the ONS warns against making any assumptions for devolved administrations and estimates the three countries cannot be separately identified and may differ markedly. Both the England and UK productivity figures are well below the optimistic 2-3% productivity gains assumed in the NHS England 5 year plan of 2014.

Scottish Healthcare productivity estimates are not available, although estimates for Government Services as a whole (of which Health & Social Work amounts to just over 40%) are. Figure 3 compares Government Services productivity for both the UK and Scotland. In general it shows Scottish productivity falling over time, rather than rising, as against a flat profile for the UK.

Figure 1: Government Services Productivity, Output per Hour, Real Terms, Indexed



Sources: latest ONS and Scottish Government Labour Productivity quarterly releases.
Note 1: For Scotland 2007 = 100, while for the UK 2016 = 100.
Note 2: Scottish data currently 'experimental' status.

(Note: productivity estimates by activity are also available by region from the ONS, based on regional GVA and employment data. These estimates give very different results from those alluded to above. In particular, the regional data suggest that output per hour in the Health and Social Work sector for Scotland has grown more quickly than for the UK since 1998, although at a similar rate since 2011. However, regional data for both Scotland and the UK is inconsistent with the official government services productivity estimates published by the ONS and Scottish statisticians. Furthermore the regional data can be very erratic and exhibit large annual changes. As a result the regional productivity estimates are assumed to be inferior to the official published estimates.)

Annex B: Different definitions and baselines used by the Scottish Government

Publication: Scottish Draft Budget 2018-19 (December 2017)
(pre UK Government June announcement on extra NHS cash)

Table 5.01
Health Resource Budget
2016-17 - £12.1 billion
2018-19 - £12.9 billion (+£0.8 billion)
(implied annual cash terms increase = 3.3%)

Also Local Government Social Work Resource budget identified as £3.2 billion for 2017-18 (Table 10.15)

Publication: Scottish Government Medium Term Financial Strategy (May 2018)
(pre UK Government June announcement on extra NHS cash)

Table 7.1
Health Budget total (Resource)
2018-19 - £12.9 billion
2022-23 - £14.4 billion (+£1.5 billion)
(implied annual cash terms increase = 2.8%)

Note: Social Care figure not separately identified.

Publication: Scottish Government Medium Term Health and Social Care Financial Framework (October 2018)
(post UK Government June announcement on extra NHS cash)

Figure 1:
Frontline Health and Social Care (Resource) budget, 2016-17, £14.7 billion (£11.6 Health and £3.1 Social Care)

Figure 8:
Health and Social Care running costs (i.e. Resource)
2016-17 - £14.7 billion
2023-24 - £18.8 billion (+£4.1 billion)
(implied annual cash terms increase = 3.6%)

Annex C

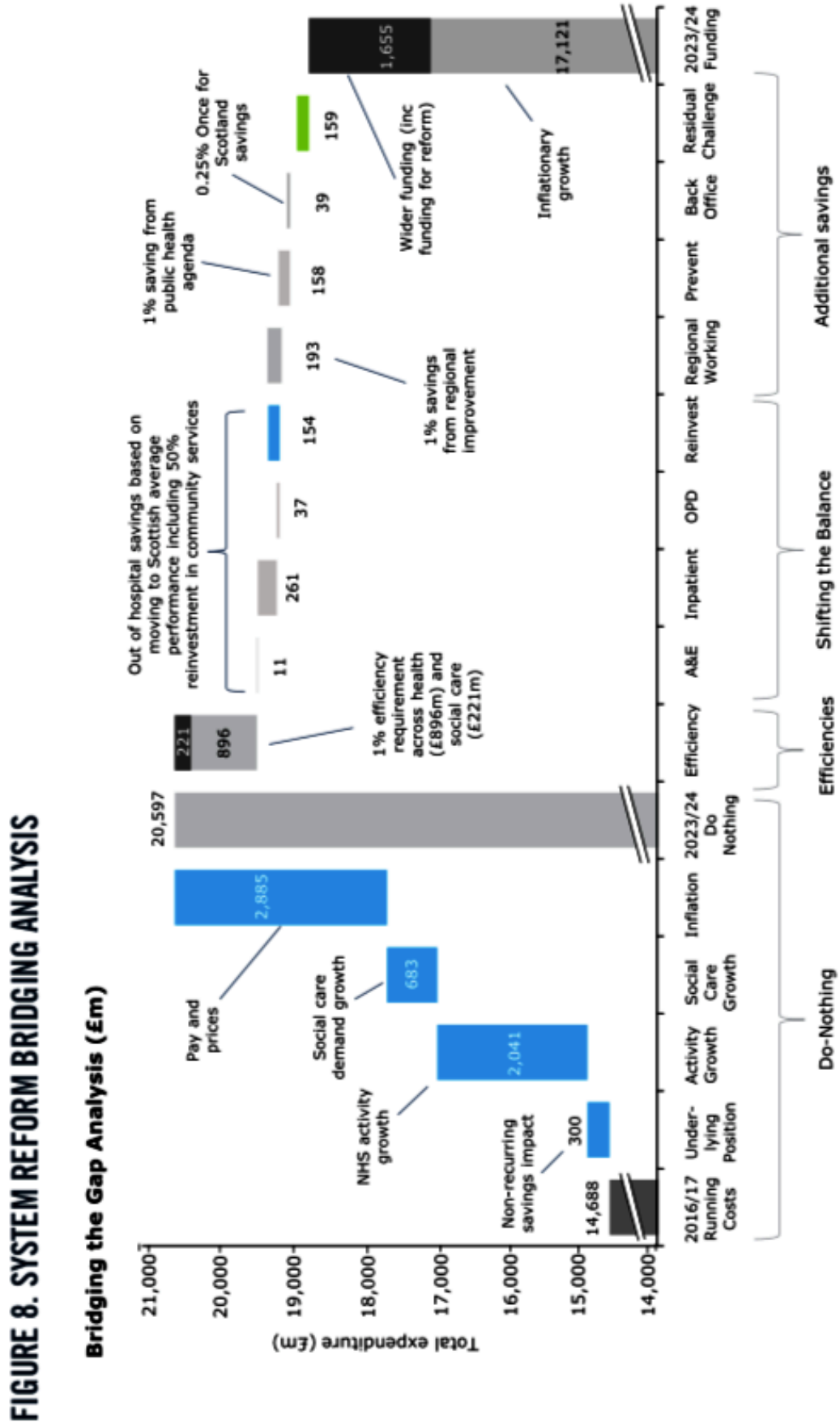


FIGURE 8. SYSTEM REFORM BRIDGING ANALYSIS
Bridging the Gap Analysis (£m)
Total expenditure (£m)
21,000
20,000
19,000
18,000
17,000
16,000
15,000
14,000
14,688
300
2,041
683
2,885
20,597
221
896
11
261
37
154
193
158
39
159
1,655
17,121
2016/17 Running Costs
Under-lying Position
Activity Growth
Social Care Growth
Inflation
2023/24 Do Nothing
Efficiency
A&E
Inpatient
OPD
Reinvest
Regional Working
Prevent
Back Office
Residual Challenge
2023/24 Funding
Non-recurring savings impact
NHS activity growth
Social care demand growth
Pay and prices
1% efficiency requirement across health (£896m) and social care (£221m)
Out of hospital savings based on moving to Scottish average performance including 50% reinvestment in community services
1% savings from regional improvement
1% saving from public health agenda
0.25% Once for Scotland savings
Wider funding (inc funding for reform)
Inflationary growth
Do-Nothing
Efficiencies
Shifting the Balance
Additional savings