

Overview of Spending Review and its impact on NHSGG&C in 2008/09

1. Introduction

The purpose of this paper is to provide an initial appraisal of the outcome of the Spending Review and its anticipated impact on NHSGG&C in 2008/09.

2. Background

The Spending Review announced £434m of additional funding for Health in Scotland in 2008/09, an increase of 4.2% on 2007/08. £154m of this increase has been earmarked by SGHD for specific purposes, while £30m has been set aside for additional capital investment, leaving £250m for allocation to Health Boards by way of general funding uplift for 2008/09. This translates to an increase of 3.2% on 2007/08.

The precise level of uplift which will ultimately be received by NHSGG&C in 2008/09 will depend on SGHD's approach to the further application of the Arbutnott formula, however it is reasonable to anticipate that this will not be less than 3%. This equates to £60.4m of additional funding in 2008/09.

In addition, the Spending Review identified a 2% general cost savings target for Health in 2008/09, albeit SGHD have indicated that Health Boards will be able to retain cost savings which they generate for local reinvestment. For NHSGG&C, a 2% general cost savings target equates to £35m of cost savings to be achieved in 2008/09. This includes cost savings generated as part of the process of restoring the Clyde area of its management responsibilities to financial breakeven.

3. Unavoidable cost inflation

The Board has recently updated its projection of unavoidable cost inflation for 2008/09. A summary is provided below:

<u>Cost Driver</u>	<u>Annual Cost Increase</u> £'M	<u>Underlying Assumptions/ Explanatory Notes</u>
1. Pay costs – General Pay Uplift	26.4	Assumes this is settled at 2%
2. Pay costs – Impact of Agenda for Change implementation in 2008/09	6.6	Output of National Pay Model, as applied to NHSGG&C staff cost base...equivalent to 0.5% increase in pay costs.
3. Prescribing cost growth	19.5	Provision based on average annual growth over previous 5 year period...equivalent to 6% overall growth rate across Primary and Secondary Care .
4. Supplies and services – general cost inflation	9.6	Assumes an overall inflation rate of 2% in 2008/09.
5. Capital charge costs	<u>2.0</u>	Provision to mitigate impact of fixed assets revaluation in 2008/09.
TOTAL	64.1 ===	

On the basis of the above, expenditure growth related to unavoidable cost inflation can be expected to exceed anticipated general funding growth by £3.7m in 2008/09.

4. **Other expenditure commitments**

In addition to covering cost inflation, the Board also requires to cover a number of pre-existing funding commitments totalling £11m which are carried forward from 2007/08 and previous years.

These include a number of national, regional and local service commitments, which are not covered by earmarked funding allocations recently announced as part of the Spending Review.

Looking forward to 2009/10, the Board will commission two new ACAD facilities and requires to provide for additional net annual expenditure of £23m related to this particular service commitment at that stage. Recognising the scale of financial commitment involved, it is both necessary and prudent to approach this particular funding challenge over a two year period, identifying £11m of funding cover in 2008/09.

5. **Cost savings challenge 2008/09**

In the light of the cost commitments identified within sections 3 and 4 above, and having played in anticipated total additional general funding of £60.4m, the Board faces a cost savings challenge of £25.7m in 2008/09...before including the cost savings which it is required to generate as part of the process of bringing Clyde back into recurrent financial balance. If a recurrent cost saving target of £7.5m is assumed for Clyde in 2008/09, this being equivalent to the level of recurrent costs savings being targeted and achieved in 2007/08, this gives a total cost savings challenge for NHSGG&C of £33.2m in 2008/09. This means that the Board's cost savings target of £35m for 2008/09 would require to be delivered almost entirely in the form of cash releasing savings. During the forthcoming weeks and months the Board will work to develop a cost savings plan which is capable of delivering a level of cost savings unprecedented in recent years, to enable it to maintain overall financial balance while addressing its £26m share of an overall recurrent deficit within Clyde of £30m.