

# Health and Social Services Committee

**HSS(2)-10-05(p.8)**

**Date: 05 October 2005**

**Venue: Committee Rooms 3 & 4, National Assembly for Wales**

**Title: Health and Social Care Efficiency Savings as part of Making the Connections**

## **Purpose**

1. A paper was requested by the Health and Social Services Committee on 3 November 2004 detailing how the efficiency savings announced by the First Minister within Making the Connections would be achieved within Health and Social Care by 2010.

## **Summary / Recommendations**

2. The following summarises the content of the paper:-

- Making the Connections requires £600m of efficiency savings to be delivered across the public sector by 2010, with 50% of this to be achieved by 2008;
- Health and Social Care are required to deliver £236m of overall efficiency savings by 2010, with £118m to be achieved by 2008;
- The Budget Planning Round 2005 / 2006 identified efficiency savings of £196.6m within Health and Social Care to be achieved by 2008; and
- Work is currently being undertaken to identify the remaining efficiency savings to be delivered by 2010, the outcome of which will be reviewed upon the publication of the results of the next BPR.

## **Background**

3. Making the Connections identifies the need to make more efficient use of resources within the public sector. A target of £600 million of value-for-money improvements has to be achieved by 2010, with at least half of this sum to be delivered by 2008. As such, the Health and Social Care portfolio has to achieve £236 million value-for-money efficiencies as part of the targeted £600 million by 2010, as set out in Table 1.

Table 1. Efficiency Savings to be achieved by 2010

MEG (£millions)	Total	Pro rata 2010 target by MEG	Pro rata 2008 target by MEG	Five year annual equivalent by MEG
Health and Social Services (1)	4,725	236	118	47
Local Government (2)	4,478	224	112	45
Social Justice & Regeneration (1)	202	10	5	2
Environment, Planning & Countryside (1)	221	11	6	2
Economic Development & Transport (1)	942	47	24	9
Education & Lifelong Learning (1)	1,074	54	27	11
Culture, Welsh Language & Sport	117	6	3	1
Central Administration	237	12	6	2
		600	300	120

Source: Making the Connections: Making the Most of our Resources: Framework and Guidance (draft)

## The Context

4. Realising efficiency savings is not without difficulty. The underlying issue is that Wales has a relatively old, poor and ill population compared with some other parts of the United Kingdom. It also has a backlog to make up in infrastructure renewal and modernisation. It is facing pressures from several directions, which must be managed, whilst at the same time achieving cost improvements. These include:-

- Actions to improve performance – improving access, setting and attaining quality standards
- The need to absorb new requirements such as pressure from changes in legislation, policy, demography, culture, expectations and technology. The general estimate to deliver such issues is a real annual additional cost requirement of about 2% per annum, though it varies greatly.

## Current issues

5. There are a number of issues facing the health community in Wales at this juncture including:

- The need to consolidate and build services. There are shortages in some staff areas, including radiologists and cardiologists, speech and language therapists, and theatre staff; and
- Workforce planning needs as Wales is particularly vulnerable to a retirement bulge soon to hit us, which will depress GP numbers and will affect deprived areas badly.

## Consideration

### Realising Efficiency Savings

6. The Health and Social Services portfolio is required to deliver target savings of £236m by 2010, with £118m of this to be delivered by 2008. This represents 39% of the total Assembly target based on the £4.725b Health and Social Care budget.

7. As part of the Budget Planning Round 2005 / 2006, Health and Social Care was required to demonstrate efficiency savings to deliver the 2008 target, as set out within Making the Connections. As such, NHS organisations have generated cash-releasing savings of 3.3% (£91.6m) of hospital and community services budgets in 2005 / 2006. 0.9% of these savings (£25 million) have been used to fund non-pay inflation increased within the NHS with the remaining 2.4% (£66.6m) has been used to absorb unfunded service pressures. These include:

- Implementing the costs of new clinical technologies appraised by the National Institute for Clinical Excellence (NICE),
- Meeting the costs of the reduction in junior doctors working hours,
- Meeting the increasing costs of providing continuing care services to patients with long-term care needs.

8. It is not sustainable for the NHS to generate this level of cash-releasing efficiency on an ongoing basis without impacting on patient care. However, cash-releasing savings of 1% each year should be achievable through improved procurement practices and more collaborative working in line with "Making the Connections". This would provide savings of £27.7 / £28.5m to enable the portfolios cash-releasing efficiency target to be exceeded.

9. The 2005-06 NHS annual planning and priorities guidance set productivity targets for NHS trusts to achieve by March 2007. These were to:

- reduce average lengths of stay for inpatients

- increase the percentage of certain procedures carried out as a daycase
- reduce follow-up outpatients consultations to increase the number of new outpatient consultations
- improve operating theatre utilisation rates

10. The efficiency gain from the achievement of these targets is estimated at approximately £21m, which assumes 20% slippage of achievement of the target into 2007-08.

11. The total efficiency savings are therefore £58.1 / £46.9m, giving a cumulative efficiency gain, including efficiencies achieved in 2005-06, of £196.6m by March 2008. This is shown in Table 2 below.

Table 2. Overall Trajectory of Efficiency Gains for Health and Social Services

£millions	2006-07	2007-08
DEL Baseline (current figures)	5,108.7	5,387.2
Total annual Efficiency Gain (cash and non-cash releasing)	58.1	46.9
Of which:	27.7	28.5
Recurrent cash releasing gains		
Total cumulative annual Efficiency Gains	149.7 (includes 91.6 from 2005-06)	196.6

## Future developments

12. The above discussion is a preliminary view. The future will increasingly be influenced by the need to achieve the objectives set out by Designed for Life, including service reconfiguration, a shift to early interventions and strengthening of community-based services. This transformation will be reinforced by the contribution of Informing Health Care and the programme budgeting programme to resource shifts. Whilst longer-term changes cannot be forecast at this stage a work programme has commenced with the objective of identifying further efficiency savings to be delivered by 2010.

## Compliance

13. This is dealt with in SB/BG/0540/05.

## **Financial Implications**

14. The achievement of £196.6m of efficiency savings identified exceeds the required target for 2008 contained within Making the Connections. Further efficiency savings need to be identified to deliver the overall target of £236m by 2010.

## **Action for Subject Committee**

15. Committee members are asked to note the contents of the paper.

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