REPLY BY THE CHIEF MINISTER TO A QUESTION ASKED PURSUANT TO RULE 6 OF THE RULES OF PROCEDURE BY DEPUTY MIKE HADLEY

Question 1

Can you supply the rules, which apply to FTP savings?

Answer

The tests that have been applied throughout the programme for savings to count towards the FTP are:

- it must enable a reduction in a general revenue budget;
- it must be an annually recurring benefit not a one off saving; and
- it must be calculated net of any associated ongoing costs.

If a forecast saving does not satisfy all three criteria then it cannot be accepted as an FTP saving. It should be noted that 'savings' can take a variety of forms and are not limited to efficiencies. All benefits are classified as a cost-cutting, efficiency or income generation saving, and are categorised as an income saving, efficiency saving, grants & subsidy saving, service cut or internal transfer.

Question 2

Do these rules differ from those outlined at the start of the program in 2009?

Answer

No specific rules were outlined upon establishing the FTP. However, the tests above have been applied consistently throughout the life of the programme.

Question 3

To what extent do you check that FTP savings from Departments comply with the rules?

Answer

The nature of savings was discussed with all Departments during the portfolio development and prioritisation process to ensure they fitted with the stated criteria. Departments are responsible for identifying savings opportunities, delivering projects or activities to realise these, and verifying the budget values to be adjusted upon sign off and delivery. The management of benefits is a key activity carried out by staff in the Programme team. It ensures that the desired benefits have been clearly defined, are measurable and are ultimately realised through a structured approach.

As part of the benefit sign off process a Department is required to submit a budget transfer form that contains the budget codes to be adjusted, the in-year and recurring amounts. This is the final stage in a process that has included checking that all savings, whether derived from a defined project or from a budget adjustment are recurring, from a general revenue budget and are net of any costs that will be incurred to deliver the saving.

Question 4

HSSD claim that one of three posts vacant in the implementation team for EHSCR was claimed as an FTP saving. Can you explain why you allowed this, as it was not recurring and was in fact a capital sum?

Answer

The saving for this post was not from a Capital budget. One permanent post, funded through HSSD's general revenue budget has been deleted following an assessment that it was no longer required. The deletion of this post enabled a permanent reduction in the Department's general revenue budget. As such we are satisfied it meets all three criteria set out in response to Question 1 and is therefore a valid FTP benefit.

Question 5

£10 million was transferred to the Fundamental Spending Review fund and was to be repaid over 5 years. Has this money now been repaid?

Answer

Net revenue benefits arising from the FTP are credited to the Fundamental Spending Review (FSR) Fund. Annual transfers have been made from the FSR Fund to General Revenue which, prior to 2013, were solely to fund States Strategic Plan (SSP) projects with the balance of the net revenue benefits arising from the FTP remaining in the FSR Fund along with the original £10million, to fund the five year programme and project delivery costs (which total c£15.5m to date as set out in Table 1, in the answer to question 8).

For 2013 and 2014, the total net revenue benefits arising from the FTP (before any programme and project delivery costs) have been/will be transferred to General Revenue in order to fund SSP projects, repay the loan and reduce the deficit (i.e. reduce the draw-down from the Contingency Reserve).

Therefore, the £10million transferred to the FSR Fund from General Revenue is being repaid in full during 2013 and 2014.

Question 6

Could you please supply a copy of the business case made for the transfer of £650,000 from SSD to HSSD for consultant fees?

Answer

No business case was prepared or submitted for this project. However, the paper submitted by HSSD to Policy Council provided the rationale and justification for the transfer of the cost from general revenue to the Guernsey Health Service Fund. The relevant extract of this paper together with that from the covering memo considered by the Policy Council are attached as Appendix 1.

Question 7

Have any of the FTP savings claimed in the program not recurred, as they should have done?

Answer

No FTP savings have been claimed that are not recurring as this does not satisfy the criteria set out in response to Question 1 above. Where project teams or Departments have identified that signed off savings have failed to be delivered, adjustments have been made to ensure that the recurring value is correctly reported.

Question 8

Can you supply an update on the FTP savings made after the costs of the program have been taken into account?

Answer

It is important to emphasise that the FTP delivers annually recurring benefits and the total value of those signed off to date (end of July 2014) is £28m (please refer to Table 1, column C). From its inception, the targets for the FTP and the measure of its progress have been the annually recurring value of reductions in general revenue expenditure enabled by its programmes and projects. This annually recurring total (as of the end July 2014) stands at £28m.

The total cumulative value of budget adjustments relating to FTP benefits to date is £54million (please refer to Table 1, column A). Total one-off costs of the programme to date is £15.5million (please refer to Table 1, column B). Therefore the net cash saved by the programme to date is £38.5million.

	In Year Cash Savings (A)	Costs (B)	FTP Savings (annually recurring) (C)
2009	£0	(£1,175,000)	£0
2010	£134,000	(£1,163,000)	£0
2011	£3,942,000	(£2,782,000)	£5,665,500
2012	£8,816,000	(£5,698,000)	£5,178,706
2013	£15,720,000	(£3,031,000)	£12,780,464
2014	£25,420,000	(£1,597,000)	£4,381,513
TOTAL	**£54,032,000**	**(£15,446,000)**	**£28,006,183**

Table 1 – Summary of FTP Costs and Savings

Date of Receipt of Question: **8 August 2014**

Date of Reply: **20 August 2014**

Appendix 1

CONFIDENTIAL TO THE POLICY COUNCIL
UNTIL AND UNLESS RELEASED BY THE COUNCIL

Section A – *Matters for Consideration- Item 7*

MEMORANDUM TO CHIEF MINISTER AND MEMBERS OF THE POLICY COUNCIL

Proposed Transfer of Service Delivery Costs from HSSD General Revenue to Social Security Funding

The attached paper has been submitted by the Health and Social Services Department (HSSD) to request that certain service delivery costs are transferred from the general revenue funded HSSD cash limit to one of the Social Security Department (SSD) Funds in order to deliver on FTP targets within HSSD.

1. Visiting Consultants

As outlined in the paper, visiting consultant services have been developed over time to cover gaps in the service provision provided by the Medical Specialist Group. The cost of these services, currently circa £650k per annum, has been picked up by HSSD (presumably originally as providing the services on island reduced the need for off island referrals). Both Departments have now agreed that it would be more appropriate that the costs of visiting consultants be picked up by the Guernsey Health Service Fund (GHSF) and SSD included a proposal to do so in its 2011 Uprating Report although no specific recommendation to transfer funding was made at that time as '*there was insufficient surplus in the Guernsey Health Service Fund to make this move in 2011*'.

The operating surpluses on this fund in the last three years have been 2010 £2.6m, 2011 £3.3m and 2012 £4.3m which would suggest that there are sufficient surpluses to enable the transfer to take place. However, the question is not whether they transfer should happen – this is clearly the preference of both Departments – but whether the net reduction in general revenue expenditure should be counted towards the FTP target of HSSD.

The financial facts are:

- This transfer would see HSSD's general revenue expenditure reduce by £650k per annum which is an ongoing revenue saving consistent with the FTP definition.
- The transfer would not require any adjustment to the general revenue grant to the GHSF as there are sufficient surpluses being generated within that fund to bear the additional cost

- There would not be any requirement to increase contribution rates to the GHSF since there appear to currently be sufficient operating surpluses being generated at the existing rates to cover the additional expenditure.

- Overall total States expenditure would not change but general revenue expenditure would reduce by £650k.

My view is that this case could be argued either way. It is clear that the transfer should proceed and that general revenue should therefore get the benefit. However, whether this is classed as an FTP benefit is purely a political judgement for Ministers.

POLICY COUNCIL IS ASKED:

- **To consider whether it wishes to allow the general revenue saving as a result of the transfer of visiting consultant costs to GHSF to be counted as an FTP benefit.**

Bethan Haines
States Treasurer

July 2013

The original HSSD report to the Policy Council contained two proposals, one concerning the transfer of funding for Visiting Consultants and the other concerning Long-term Care provision and funding. For the purposes of responding to Deputy Hadley's Rule 6 Question, the report has been redacted so that it concerns the Visiting Consultants proposal only. The Long-term Care proposal was not pursued.

HEALTH AND SOCIAL SERVICES DEPARTMENT

REPORT TO THE POLICY COUNCIL ON THE PROPOSED TRANSFER OF SERVICE DELIVERY COSTS FROM HSSD GENERAL REVENUE TO SOCIAL SECURITY FUNDING

1. Introduction

1.1. This report sets out the rationale for transferring some of the costs [...] currently funded by general revenue through Health and Social Services, to the Social Security Funds.

2. Overarching Rationale

2.1. The Financial Transformation Programme (FTP) is time constrained to 2014, and it only covers about two thirds of States of Guernsey routine revenue expenditure (excluding £162m of Social Insurance Funded expenditure).

2.2. However, there is sufficient evidence to suggest there are significant genuine cost reduction opportunities within Social Insurance Funded activities, particularly where they are part of a wider health or long term care system which is not properly coordinated or structured to deliver best value.

2.3. Releasing these cost reductions to the benefit of the people of Guernsey is the right thing to do but will take time and cannot be achieved within the timeframes of the FTP. They can be delivered as part of the 2020 Vision and in particular by releasing structural savings through reviews of the Healthcare System and Long Term Care system.

2.4. One of the issues that HSSD has is finding ways of releasing general revenue savings ahead of 2014, in a way that will be consistent with the anticipated outcomes of the 2020 Vision. HSSD has tried to be creative in doing just that, by proposing the transfer of costs from general revenue to Social Insurance Funded expenditure, ahead of opportunities to bring down the underlying costs of those funds. The longer term impact of demographics will inevitably mean an increase in the demands on either General Tax Revenue or Social Security Contributions

or both. The key political decision is which funds they fall upon and how is this determined. This paper argues that the current way some expenditure is funded is inconsistent and this presents an opportunity to correct that and reduce general revenue expenditure in the short term.

2.5. However, if the States rejects these proposals, which are linked to more significant longer term savings, HSSD will be unlikely to achieve its FTP savings targets through cost reduction methods alone and will inevitably have to put forward proposals for the States to consider of making significant increases in charges and/or cutting front line services.

3. General Revenue Funded Visiting Consultants

3.1. For the purpose of this report, the term "specialist medical care" refers to secondary care (that is, health services which can only be accessed by a referral from a GP or other medical practitioner) provided by doctors with specialist training.

3.2. At the moment, the majority of specialist medical care on Guernsey is provided by the Medical Specialist Group (MSG) using private and HSSD facilities, and with specialist nurses and support staff employed by HSSD. MSG has a contract with the States which is paid as "Specialist Medical Benefit" from the Guernsey Health Service Fund (GHSF) – administered by Social Security and funded from social insurance contributions.

3.3. The current costs associated with the contract with the MSG are approximately £14.5m. Historically the GHSF was created to provide subsidised medical prescriptions. The benefits were extended in 1991 to include primary care medical consultation grants and further extended in 1996 to provide free at the point of delivery, secondary care medical services. Prior to 1992 these services were provided by specialists from within Primary Care General Practices.

3.4. HSSD directly employs a small number of specialist medical doctors in psychiatry, radiology, pathology and sexual health. In addition, HSSD funds an increasing number of UK-based specialists to travel to Guernsey and provide treatment on a regular basis, to meet the shortfall in those services offered by MSG on island. These services include:

- Rheumatology
- Maxillofacial
- Paediatric Orthopaedic
- Paediatric Cardiology
- Neurology
- Oncology
- Palliative Care

- Dermaology
- Renal
- Breast Reconstruction
- Orthopaedic Prosthetics
- Prosthetic Eyes
- Orthotics
- Haematology
- Microbiology
- Sexual Health
- Alderney Optician

3.5. HSSD also funds all off-island specialist medical care (predominantly delivered by Southampton University Hospital Trust, as well as a number of other partner healthcare providers with particular specialties). Social Security covers the costs of the patient's travel for this through the Travelling Allowance Grant, paid from Guernsey Insurance Fund.

3.6. Whilst the rationale for funding the MSG through the GHSF was at the time very clear, the funding and responsibility for providing the range of services between MSG, off-island services, visiting specialists and HSSD employed Doctors has become increasingly blurred. The radiologists employed by HSSD for example now undertake both diagnostic and invasive procedures as part of their day to day work which previously would have been referred off Island or undertaken by an MSG specialist. The system of funding specialist medical staffing has therefore not kept pace with the changing nature of medical services. The current system is therefore inconsistent and confusing in its application. This will be considered as part of the forthcoming Health System Review.

3.7. The MSG contract is funded under the Health Service (Specialist Medical Benefit) Ordinance, 1995. The Ordinance states that:

"Specialist medical benefit, in relation to any person, comprises the provision of all such specialist consultations, treatment, procedures and ancillary entitlements as may be prescribed and as may be requisite in the case of that person for the diagnosis, treatment, management, prevention or control of disease or otherwise by reason of that person's condition." [Section 2: 5A (2)].

4. Proposals for Change

4.1. In its Uprating Report in September 2010 (Billet d'Etat XX p1449/50) Social Security said that:

"The current contracts which the HSSD has with visiting UK specialists cost approximately £600,000 in 2009. The [Social

Security] Department believes that there is merit in moving these costs from the HSSD general revenue budget to the Guernsey Health Service Fund, which is controlled and administered by the Department. This would be consistent with the general principle of on-island specialist care being funded from the Guernsey Health Service Fund. It will also assist rational decision making regarding the cost of bringing over consultants versus the cost and inconvenience of sending patients off-island." [para 70]

4.2. Social Security did not, at that time, make a specific recommendation to transfer the funding, as "there [was] insufficient surplus in the Guernsey Health Service Fund to make this move in 2011." However, the idea has been carried forward in subsequent Uprating Reports. The value of reserves in the Fund stood at £72.2 million at 31 December 2011, an annual increase of £1.3 million over the balance the year before.

4.3. The following table helps to explain why a transfer of funding from HSSD to GHSF would "assist rational decision-making regarding the costs of bringing over consultants ..." The table below illustrates the effect of sending 20 patients off-island for a specific treatment (the values will vary so this is a typical cost) compared to the typical cost of providing this service on-island.

	Activity	HSSD Costs	SSD Costs	Total Costs
Off Island	Return travel x 20 patients	-	£3,600	£3,600
	Medical visits x 20 patients	£4,000	-	£4,000
	TOTAL COST	£4,000	£3,600	£7,600
On Island	Return travel x 1 consultant	£180	-	£180
	Clinic for 20 patients	£2,000	-	£2,000
	TOTAL COST	£2,180	-	£2,180
Savings achieved by On Island visits		**£1,820**	**£3,600**	**£5,420**

Note: SSD costs relate to Travelling Allowance Grant

4.4. These savings have in effect already been made by both HSSD and SSD, as HSSD has taken the initiative to bring visiting consultants to the Island at its own cost, when all other such services (i.e. MSG) have been funded by the GHSF. It should be noted that for clinical reasons it is not possible to bring all specialties to the Island, and there is at present very little scope to increase the level of on-island visiting services. HSSD has therefore already made significant savings in this area, as far as

it can, but it has not been credited with those savings through the FTP programme. There are two reasons for this. Firstly the savings largely predate the current FTP plans and secondly it would be incredibly difficult to quantify.

4.5. This raises the question of why the off-island budget is now not underspending, and the simple answer to that is that MSG consultants have been referring more people off-island over the years for more expensive procedures. HSSD pays for this activity out of its general revenue budget and has historically had no control over how, what and where MSG consultants refer. Therefore any savings created by bringing visiting consultants on-island has been offset by these additional costs for which HSSD has received no additional funding.

4.6. It can be seen that HSSD has provided services on-island using visiting consultants and incurred less costs as a Department, and SSD have made savings through a reduction in Travelling Allowance Grant expenditure.

4.7. To make rational decision-making possible, both healthcare and health travel costs need to be funded from the same budget – which could as easily be HSSD or GHSF/GIF. However, the rationale for preferring GHSF is also expressed in the Social Security Uprating Report – the majority of on-island healthcare (including grants to Primary Care GPs and nurses) is already funded from GHSF. The services provided by visiting consultants would also fit cleanly within the definition of what is to be funded by "specialist medical benefit", provided the relevant laws and ordinances could be amended to remove any provisions which limit this specifically to the MSG contract.

4.8. This change would equate to approximately £645,000 per annum based on 2012 activity. Indications are that the GHSF could in future sustain such a cost without the need for a transfer from general revenue or additional contributions, thus reduced general revenue expenditure and making a contribution towards HSSD's FTP. There would however need to be agreement on the mechanics of how this funding would operate so that Social Security had some assurance that HSSD would not increase the level of visiting consultants without prior agreement with Social Security. This would not include States Employed Medical Staff at this stage.

4.9. To enable this transfer to take place a States Report would be needed as it would the requisite legislation. This may be achievable in time for 2014. It is assumed that FTP credit for 2013 might be possible if the relevant legislation is passed before the end of 2013.

4.10. If the release of general revenue is not counted towards either the HSSD FTP target or the in year cash target (both of which will be very significant challenges for 2013 and 2014), HSSD would need to identify a further tranche of savings. At the present time this would mean either increasing income or an equivalent amount of service reduction. This transfer in itself, if agreed, would of course see no net saving to Public Expenditure[1] as a whole, but it would reduce General Revenue expenditure by £645,000. It should also lead to better decision making as all non-states employed consultants would be funded from one source.

11. Recommendation

11.1. The Policy Council are asked to agree to allow the reduction in General Revenue of £645,000 from the proposed use of the Guernsey Health Services Fund for visiting consultants, subject to approved legislation, to be counted as a contribution towards HSSD's FTP target position, subject to the approval of the any necessary legislation.

[1] The term Public Expenditure includes General Revenue and Social Security Funds