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BILLET D'ÉTAT

WEDNESDAY 12th DECEMBER 2012

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B I L L E T D'É T A T

TO THE MEMBERS OF THE STATES OF

THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE**, on **WEDNESDAY**, the 1**2th DECEMBER, 2012**, immediately after the meeting already convened for that day for the purpose of considering the States Budget 2013; pursuant to Rule 1 (4) of the Rules of Procedure of the States of Deliberation, to consider the items contained in this Billet d'État which has been submitted for debate.

R.J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey
7th December 2012

MOTION OF NO CONFIDENCE IN THE MINISTER AND MEMBERS OF THE HEALTH AND SOCIAL SERVICES DEPARTMENT

TO THE POLICY COUNCIL:

PURSUANT to Rule 18 of the Rules of Procedure of the States of Deliberation ("the Rules of Procedure"), we the undersigned being Members of the States of Deliberation **REQUEST** the Chief Minister to lay this motion of no confidence in the Minister and Members of the Health and Social Services Department ("HSSD") before the States of Deliberation as soon as is reasonably practicable.

Grounds

1. At the November, 2012 meeting of the States of Deliberation, and in accordance with the provisions of Rule 8 of the Rules of Procedure, a Statement was made to the Assembly by the Minister of HSSD. That Statement advised, inter alia:
   'It is with great reluctance, therefore, that I have to announce that the Health and Social Services Department will be taking the following action with effect from 1 December 2012:
   1 Deferring all non-emergency and non-urgent off-island treatment until January.
   2 Close a surgical ward and a theatre, and postpone all elective, contract surgery until January.
   3 Close Divette Ward and relocate patients to other appropriate placements.
   4 Cease recruitment to vacant posts, unless the post is demonstrated to be essential for patient, service user or public safety, and a business case is approved by all Directors.
   5 Minimise the use of agency staff to provide cover, and increase the use of bank and part-time staff wherever possible.
   6 Minimise weekend overtime duties and defer weekend work to week-days wherever this is clinically appropriate.'

2. In February 2002 the States of Deliberation debated a report titled 'New Contracts for Specialist Health Insurance Scheme' from the then Guernsey Social Security Authority [Social Security Department]. The States resolved 'To authorise the Guernsey Social Security Authority and the States Board of Health [HSSD], on behalf of the States, to enter a contract with the Medical Specialist Group for 15 years'. One of the key points of the contract was that the maximum waiting time for routine admission to hospital after seeing the specialist will be 8 weeks; and the Board of Health [HSSD] must provide the resources in respect of facilities and staffing to fulfil the contract.

3. Since 2003 contributors have been paying an increased social security contribution which goes to the Guernsey Health Service Fund to fund the contract

with the Medical Specialist Group. The withdrawal of facilities and staffing by HSSD will mean that the waiting times specified in the contract and outlined in paragraph 2 will not be met.

4 We the undersigned Members of the States of Deliberation are of the opinion the Minister and Members of HSSD have grossly misjudged this issue by making a decision to postpone all elective, contract surgery until 2013; and that if they held such a view they should have brought a proposition to the Assembly for the decision to be made by the States of Deliberation.

5. We are of the opinion that announcing this decision at such short notice will cause additional pain and suffering and undue anxiety to all those affected.

6. We are of the opinion that it is insensitive and unacceptable for the Minister and Members of HSSD to make this decision at such short notice when they have been expecting to overspend for some months and they cannot even identity the amount it will save.

7. In March 2011 Billet IV the States resolved to adopt the six core principles of good governance.

Good governance was defined in that report as *"the prerequisite for every public body to deliver sustainable, value for money and quality services in a transparent manner"* and to ensure that bodies are *"doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner"*.

Core Principle 1 was defined as:

'**The overall function of governance is to ensure that the organisation fulfils its primary purpose, achieves its intended outcomes for citizens and operates in an effective, efficient and ethical manner**. For the States of Guernsey, this means that governance should work to secure high quality public services that meet the needs of Islanders but which also represent value for money.'

We the undersigned consider that the decision of HSSD was not good governance and does not comply with this Core Principle. We are of the opinion that the Minister and Members of HSSD must be accountable to the States for making this decision.

8 For the above reasons, we have no confidence that the Minister and Members of HSSD can adequately discharge their mandate on behalf of the States.

9. The Minister and all the Members of HSSD were invited in writing on 30 November to tender their resignations from HSSD and by 7 December none of them has tendered his resignation.

Motion

THESE PREMISES CONSIDERED we recommend that the States of Deliberation should approve the following motion of no confidence, and so propose:

That pursuant to Rule 18 of the Rules of Procedure, the States of Deliberation have no confidence in the Minister and Members of the Health and Social Services Department.

SIGNED at Guernsey, this 7th day of December, 2012

M.P.J Hadley

A.R. Le Lièvre

M.H. Dorey

B.J.E. Paint

M.M. Lowe

Lester C Queripel

S. A James MBE

G.M Collins

The States are asked to decide:-

I.- Whether, after consideration of the Motion of No Confidence in the Minister and Members of the Health and Social Services Department dated 7th December, 2012, signed by Deputy M.P.J. Hadley and seven other Members of the States, they are of the opinion:-

1. That pursuant to Rule 18 of the Rules of Procedure, the States of Deliberation have no confidence in the Minister and Members of the Health and Social Services Department.

2. To elect:

(1) a sitting Member of the States as Minister of the Health and Social Services Department to complete the unexpired portion of the term of office of Deputy A.H Adam;

(2) four sitting Members of the States as members of Health and Social Services Department to complete the unexpired portions of the terms of office of Deputies B. L. Brehaut; E. G. Bebb; D. A. Inglis and A. M. Wilkie

to serve until May 2016 in accordance with Rule 7 of the Constitution and Operation of States Departments and Committees.

(NB Paragraph (5) of Rule 18 of the Rules of Procedure of the States of Deliberation provides:

(5) Where a motion of no confidence in respect of a Department or Committee is approved by the States –

(a) all the members of that Department or Committee including the Minister or Chairman thereof shall thereupon be deemed to have tendered their resignations from such membership and those resignations shall be deemed to have been accepted by the States;

(b) the motion shall be deemed to include such propositions to the States as may be appropriate for the election at that meeting of new members of the Department or Committee and a Minister or Chairman thereof to complete the respective unexpired portions of the terms of office of the previous members and Minister or Chairman.)

HEALTH AND SOCIAL SERVICES DEPARTMENT
INCREASE IN AUTHORISED BUDGET FOR 2012

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

6th December 2012

Dear Sir

EXECUTIVE SUMMARY

1. The Health and Social Services Department (HSSD) is expected to overspend its authorised revenue expenditure budget for 2012 by up to £2,500,000.

2. In accordance with the changes to States' financial procedures approved in Billet d'État VIII (1991)[1], this report asks the States to direct the Treasury and Resources Department to increase the 2012 revenue expenditure budget of HSSD up by £2,500,000.

3. The HSSD Board has stated on a number of occasions that the Health and Social Care System is not sustainable and requires a fundamental review, most notably in the "Future 2020 Vision of the Health and Social Services System". This was specifically referred to in Billet VIII 2011 p495 paragraph 120. The next stage of this review is about to be presented to the States of Deliberation in February, following the 2020 Vision update in January.

4. The Health and Social Care System has some major shortcomings, which do not serve the people of Guernsey well. The funding structure is complex. The organisational structure is fragmented and HSSD has very little control over how the overall system works. Most notably the Department pays for the impact of clinical decisions of Primary Care and Medical Specialist Group Doctors over which HSSD has little and often no control whatsoever. The 2020 Vision sets out to change that and HSSD has produced a proposal to enable a fundamental review of how the Health and Social Care System works, before the expiry of the Medical Specialist Group and other contracts in 2017 and 2018.

[1] See para 4.13 ('Sanctioning of overspends on Revenue Account').

5. This report explains:

   a. the causal factors which have led to the overspend. These include relating to changing population demographics and increasing demands on services;

   b. the changing nature of that overspend and steps which HSSD has already taken;
   c. the urgent action which it has taken in December 2012, and;
   d. the longer-term plans of the Department to mitigate as far as possible, the financial impact of the systemic issues with the present structure of health and social care.

6. Health service provision is an inherently volatile and activity led business. Volumes rise and fall year on year, and measures to curtail activity in one year may "bounce back" the following year, so flexibility is required to manage this volatility, particularly in a small jurisdiction. Professor Geoffrey Wood, whilst presenting his Independent Annual Fiscal Policy Report to States Members on 20 November 2012, stated that (paraphrased): *"you should not be surprised that Social Security and Health and Social Services departments are overspending. You cannot control such expenditure."* HSSD has practically no flexibility to manage this widely recognised volatility.

INTRODUCTION

7. HSSD was set an authorised budget for 2012 of £106,900,000. This included a reduction of £2,350,000 for the delivery of the 2012 Financial Transformation Programme (FTP) target, which was notified to the Department on 18 October 2011. The HSSD Board subsequently placed an amendment to the 2012 Budget to reinstate £1.35m of the savings target due to the difficulties this target would create, particularly given the significant restraint that HSSD had already imposed on expenditure over the previous two years. This amendment failed.

8. In support of the amendment, in December 2011 the HSSD Minister wrote to all States Deputies outlining the Department's plans to achieve a balanced budget. These included a number of one-off savings as a result of deferring three projects approved in the 2011 States' Strategic Plan process, as follows:

Family and Friends Care arrangements	£206,000
Learning Disability Respite Care	£211,000

Mental Health Review Tribunals	£198,000
Total	**£615,000**

9. These items were included within the Department's budget assumptions for 2012, as agreed with the Treasury and Resources Department at that time, but the funding was never utilised. Despite the fact that no expenditure was incurred against these items, HSSD has not been allowed to count these one-off savings against its budget. This decision was first conveyed to HSSD after the new board of the Treasury and Resources Department was established following the May 2012 elections, almost halfway through the financial year. This late notice has put the Department at a significant disadvantage in terms of achieving its targets. It has also caused the people who were to benefit from these projects to experience unnecessary delays and distress, as nothing was ultimately gained by the deferral – a result which, at the time, was totally unforeseeable.

10. Furthermore, in recent months, there has been a significant increase in demand for health and social care services, including mental health, children's and hospital-based services (in the latter case, especially for people aged over 65). The cost of providing services has increased in line with this increased demand, and at the same time HSSD has faced difficulty in covering sickness and maternity absences among skilled staff, and in recruiting to specialist services. This has also been a pressure which has only in the last two or three months created significant additional costs. These challenges are explored in more detail below.

CAUSAL FACTORS

11. The HSSD's States Report "Future 2020 Vision of the Health and Social Services System" (Billet d'État VIII 2011) was unanimously supported by the States of Deliberation in May 2011. The report contained a description of a system which it said on P476 paragraph 52 "The current configuration of the health and social care system in Guernsey and Alderney is a complex mixture of organisations and organisational inter-relationships - which make quality difficult to assess and creates some inconsistencies in the way services are delivered and funded. This, combined with a significant, but not always suitable, estate infrastructure, creates inefficiencies in the way services are delivered.".

12. Over 30% of the Health and Social Care System is funded by the Social Security Department. For example the Medical Specialist Group contract, the consultation grant for primary care, primary care drugs and medicines are all funded by Social Security. HSSD has no authority over the use of these funds and has no authority

over the way in which primary care doctors' practice. All of these areas have a major impact on the activities for which HSSD ultimately has to provide services and funding. GPs and MSG doctors refer patients to the hospital and (in the case of MSG) off-island for treatment. Those requests for treatment and the associated costs have to be met by HSSD irrespective of whether that treatment is valid and appropriate or indeed affordable. If HSSD costs are to be appropriately managed this cannot continue.

13. The options for addressing these issues will be considered as part of a fundamental review of Healthcare, which is the subject of a separate States report to be considered in 2013. That review will seek to address these issues and is consistent with both the 2020 vision and the findings of the PAC commissioned report "Value for Money Review of Secondary Health Services in Guernsey".

14. Health and social care services are demand-led, and require the flexibility to respond to needs as and when they arise. Small changes in demand can lead to significant changes in cost. One additional off-island placement or one additional patient requiring complex intervention and off-island hospital admission can incur costs of more than £250,000 a time.

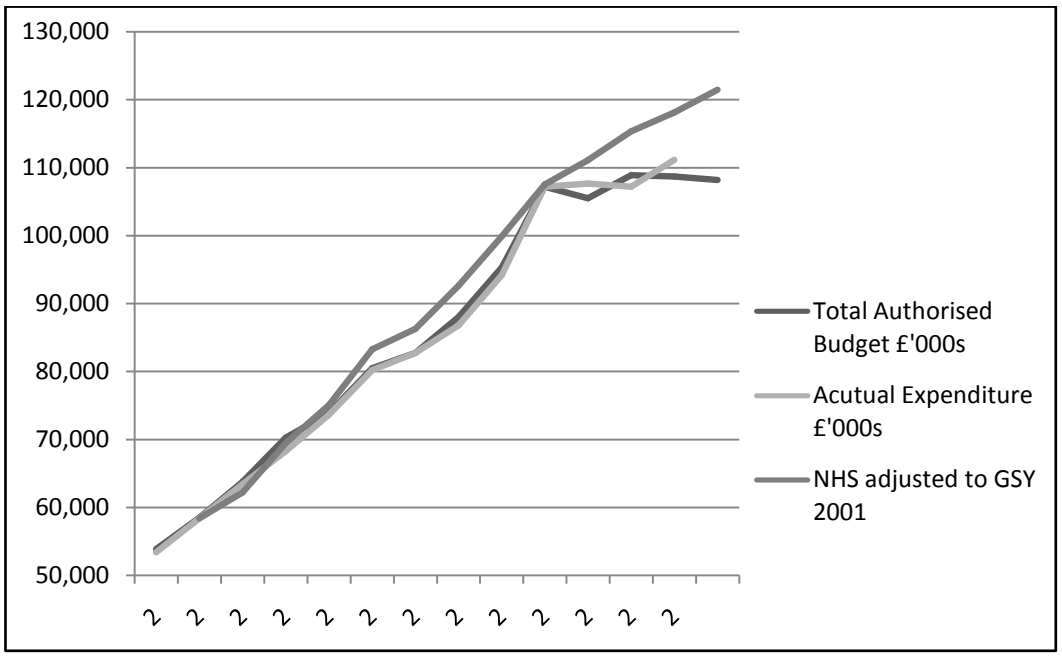
15. This year has seen an overall increase in activity in excess of 12%, a greater proportion of which has been experienced in the second half of the year. With that increased demand comes increased cost, although this increase in demand and the other operational difficulties we have faced has all been contained within a 2.25% forecast overspend. Compared to last year HSSD forecast expenditure represents an overall 3.8% increase over 2011 which is barely sufficient to meet the inflationary pressures faced by HSSD, let alone the demand for more services, new technologies and the other operational pressures the Department is facing. The Department has therefore continued to increase its levels of efficiency and productivity.

16. HSSD has maintained its revenue expenditure at a constant level for the past three years, despite the impact of inflation, pension cost increases, the funding of States-approved initiatives, more demand for services and other cost increases. The outturn spend for HSSD since 2009 has been:

2009	£107,197,000
2010	£107,651,000
2011	£107,213,000

17. During this period, HSSD has had to absorb costs relating not only to an increasing demand for services, but also to increasing complexity in the type of needs presented by people who require support and treatment.

18. By definition, maintaining a constant level of expenditure while managing substantial increases in demand means that HSSD has significantly reduced the overall unit costs of the service it provides (and/or increased its levels of productivity). By comparison with the UK – which is a reasonable comparator for a number of reasons, not least because the majority of Guernsey's specialist health and social care staff are trained there, and because UK decisions about the affordability and acceptability of treatments are usually followed locally – Guernsey has avoided costs of over £13m since 2009. The recent discrepancy between HSSD and NHS funding increases is shown below:



19. The top line in the above graph demonstrates the trend of NHS expenditure (in £m's) compared to the trend in Guernsey. It is clear from this that HSSD has taken more action in relative terms than the UK government in controlling Health and Social Care expenditure since 2009. The next two years of FTP savings targets for HSSD will continue to take proportionately much more out of health budgets in Guernsey than the UK is willing to do. There has been no impact assessment of these reductions through the FTP and levels of resources for health and social care services are very tight. It is the Board's belief that a fundamental review of resource allocation is now required to determine the most appropriate level of resources.

20. In many other jurisdictions the allocation of the health and social service budget would be based on a formula relating to the assessed health needs of the population. For example in Scotland, the Arbuthnott Formula is used. This is a so-called 'weighted capitation' formula - based on the size of population in each Health Board area (capitation), with factors that seek to adjust for the relative need for healthcare funding. So the four main elements of the allocation formula are:

- share of the Scottish population living in the area (updated annually from mid-year population estimates);

- relative number of males and females within different age groupings (age/gender mix);

- level of deprivation (morbidity and life circumstances) assessed by the Arbuthnott Index based on 4 components of:
    - mortality rate among people under 65;
    - unemployment rate;
    - percentage of elderly people living on income support;
    - multiple deprived households (i.e. households with two or more measures of deprivation from the 1991 census); and

- an adjustment to take account of costs of delivering services in remote and rural areas.

21. As far as the HSSD Board is aware, no such formula is used in the Bailiwick.

22. Health and social care finances require flexibility to meet fluctuating levels of demand which is not reflected by the States' current budgetary practices. It is true that some services can absorb additional demand with no increased in cost, to the point at which capacity for that service is all being used. There then has to be a step increase in cost to create additional capacity. These types of services are mainly pay based and little additional fixed cost (usually a building) until that fixed capacity has also been used. These services are typically social care based services.

23. Some services incur additional consumable (or marginal) costs which increase with demand. These are typically short term intervention services like A&E. Other services which require virtually full cost for every unit of activity are also provided by HSSD. These would include 1 to 1 services like Neonatal Intensive Care, Critical Care, clients with severe Mental Health problems, and corporate

guardian responsibilities. HSSD has all of these types of services. We do not however have the sophisticated infrastructure to be able to constantly monitor or predict either the volume or cost of these activities; neither does the current system of Health and Social Care in Guernsey allow us to do that due to the disparate nature of the system.

24. In May 2012, HSSD forecast a £2.5m overspend, which comprised:

- the pressures on children looked after resulting from the need for earlier intervention in the light of national changes in child protection expectations following Baby P (£1m);

- a shortfall of FTP savings (£700,000) due mostly to the later decision in May 2012 by the T&R Board that the savings delivered to the States by HSSD deferring the three SSP bids proposed in the HSSD Minister's Amendment, would not count towards HSSD's savings target but accrue to central reserves instead;

- pressure on off island complex need placements (£450,000), and;

- a potential overspend via St John Ambulance due to their financial problems potentially being passed through to HSSD (£250,000).

25. These pressures were dealt with, very effectively by management action. The Assistant Director, Children and Maternity Services, successfully managed an incredibly difficult situation and has made serious compromises to accommodate more children at risk. This has meant that children have been looked after safely but in less than ideal circumstances. It has also resulted in this budget not forecasting an overspend in 2012, when earlier in the year it could have cost some £1m for 6 months' activity.

26. The FTP savings shortfall has largely been dealt with through reductions to budget holders, delivering new income streams and negotiating better unit rates with agencies. The overspend on complex needs placements has been addressed through very careful management of placements and more robust challenges being placed by the Placement Panel to ensure all placements are appropriate. This area is now forecasting an underspend of some £0.5m through that management action. The potential overspend on St John Ambulance was addressed through dialogue between HSSD, SJARS and T&R and the T&R Board's supportive approach to the financial problems faced by the Ambulance Service.

27. Now the Department is forecasting an overspend largely due to rising demand for hospital services in the second half of the year, both on- and off-island, especially among the over-65s. It is important to note that the costs and complexity, in general terms, of dealing the needs of more elderly are often far greater that those of working age. Looking at the incident of demand for those over the age of 65, whilst not a perfect methodology, it is usually a good indicator of increased costs of providing services. This peak in demand coincides with other operational service pressures and HSSD has had no alternative but to take radical action to control costs within the financial year. It is important to recognise that the forecast deficit reported and forecast in Quarter 2 this year had been actively managed and that is why a States Report of this nature was not presented by the HSSD at that time. Subsequent events have resulted in additional pressures which could not be foreseen at that time.

28. The States' Financial Procedures set out in Billet d'État VIII (1991), in accordance with which this States Report has been produced, put forward "recommended rules for [the] control of variances." For operational and staff costs, of the type which HSSD faces, its first recommended control is the "retention of unspent balances". The States has since resolved that unspent balances should be returned at the year end, thus removing from HSSD (and other States Departments) any ability to smooth down peaks in demand by carrying forward savings from periods of lower demand.

29. Increasing financial pressures of all kinds mean that HSSD has inevitably had to reduce the level of flexibility within its budgets. As demonstrated by this month's events, HSSD has now reached the point where there is no contingency or flexibility left within its budgets to manage peak demands. The Department set this out clearly as a risk, to the Treasury and Resources Department, as part of its budget setting process for 2012.

INCREASED DEMAND FOR SERVICES IN 2012

30. There has been a substantial increase in demand for health and social care services in 2012, including mental health, children's and hospital-based services. In particular, there have been significant increases in the number of people aged over 65 who are accessing health and social care services (over 65's are useful surrogate for increasing complexity of care as they usually present with multiple morbidities). This is reflected in the following data:

Table 1 - All current and completed episodes in age ranges <65 and =>65

		2011 YTD	**2012 YTD**	**YTD Change**	**YTD Growth**
Episode Type	***Age at Admission***	**Count**	**Count**	**Count**	**Count**
A&E	**Under 65**	11,666	11,901	235	2.01%
	65 and Over	3,508	3,992	484	13.80%
	Sub Total	15,174	15,893	719	**4.74%**
Admissions	**Under 65**	10,388	11,164	776	7.47%
	65 and Over	6,591	7,171	580	8.80%
	Sub Total	16,979	18,335	1,356	**7.99%**
Outpatients	**Under 65**	14,338	16,448	2,110	14.72%
	65 and Over	4,881	6,805	1,924	39.42%
	Sub Total	19,219	23,253	4,034	**20.99%**

Table 2 - Intensive Care Unit (ICU) Episodes

		2011 YTD	**2012 YTD**	**YTD Change**	**YTD Growth**
Episode Type	***Age at Admission***	**Count**	**Count**	**Count**	**Count**
Admissions	**Under 65**	53	59	6	11.32%
	65 and Over	39	50	11	28.21%
	Sub Total	92	109	17	**18.48%**

Table 3 - Mental Health inpatient activity

		2011 YTD	**2012 YTD**	**YTD Change**	**YTD Growth**
Mental Health Speciality	***Age at Appointment***	**Count**	**Count**	**Count**	**Count**
All Adult Mental Health	**Under 65**	13,831	14,885	1,054	7.62%
	65 and Over	3,099	3,247	148	4.78%
	All Ages	16,930	18,132	1,202	7.10%

Table 4 - Children's Services activity

	2011	**2011**	**2012 YTD**	**2012 YTD**	**% Growth**	**% Growth**
Episode Type	**Enquiries**	**Referrals**	**Enquiries**	**Referrals**	**Enquiries**	**Referrals**
Child Protection Assessment and Intervention	2,020	764	2,464	1,860	22%	143%

Table 5 – Off- Island acute hospital activity

	2011 YTD	**2012 YTD**	**YTD Change**	**YTD Growth**	**% of total off-island activity**
Specialty	**Count**	**Count**	**Count**	**Count**	**Count**
Ophthalmology (Eyes)	615	669	54	8.78%	21.81%
Cardiology (Heart)	307	370	63	20.52%	12.06%
Paediatrics (Children)	328	368	40	12.20%	11.99%
General Medicine	240	293	53	22.08%	9.55%
General Surgery	109	175	66	60.55%	5.70%
Radiology	85	162	77	90.59%	5.28%
Others	1197	1104	-93	-7.77%	33.61%
Total Referrals	2864	3068	204	7.12%	100%

Table 6 – Off- Island acute hospital activity by period

Period	**2011**	**2012**	**Change**
Q1	873	946	8.36%
Q2	821	904	10.11%
Q3	891	871	-2.24%
Oct	279	347	24.37%
Cumulative total	**2864**	**3068**	**7.12%**

31. This information clearly shows an increase in demand for services and, in

particular, a disproportionate increase in demand for services for those over 65. This increase in activity inevitably comes with an increased cost.

32. In other jurisdictions, most notably England, the providers of Health care services are remunerated on the volume of activity. This is why the off-island acute costs will vary with activity levels, as HSSD pay for every individual case sent to England based on a complex "tariff" set by the Department of Health. The Guernsey systems do not allow for such a sophisticated approach. However, based on an average NHS tariff of approximately £4,300 per in-patient admission, if the Princess Elizabeth Hospital were an NHS provider, it would have attracted an additional (1,356 x £4,300=) £5.8m in income. Even adjusting for the different financial regime in the UK (which accounts for the revenue cost of fixed assets and equipment whereas Guernsey does not) and consultant costs (which are met by the MSG contract), the additional income would be in excess of £4m. This would not have applied to outpatients as these are mainly seen by MSG consultants who are paid per consultant by Social Security Department through the Health Insurance Fund, although HSSD would have incurred the consumable costs associated with any diagnostics (probably in the region of £100,000).

33. With regard to A&E services, HSSD would again have met all the diagnostic and consumable costs, but Primary Care Company Limited (who provide the medical staff for A&E) are entitled to charge for the additional activity at full cost (the £52.35 consultation fee plus the cost of any procedures or result reporting undertaken, which can sometimes run into hundreds of pounds per patient) without incurring any additional marginal costs.

FINANCIAL POSITION

34. During 2012, HSSD reduced its resource allocations to budget-holders by the £2,350,000 required as part of the FTP. These savings have by and large been met in-year, although not all savings have been achieved on a recurrent basis. Over 50 individual schemes have been pursued over the year. Some of these initiatives have resulted in savings as predicted and others have not, or are still being pursued. Other savings have been made to compensate for that. Initiatives include:

- Procurement savings
- Reductions in housekeeping costs and new working practices
- Reductions in grant payments
- Reduction in training costs
- Better energy efficiency
- Better administrative practices

35. The Department has faced some significant challenges and increased demand for

services during 2012, as illustrated by the tables above. As a result of these pressures, HSSD is now forecasting a year-end overspend against its authorised budget of up to £2.5m, based on the latest available information. However, the Department is continuing to take action to try and contain this overspend to below £2m.

36. The current overspending position largely relates to the increases in activity demonstrated above, although the Department has also faced other challenges. The main overall reasons for the overspend are:

a) Income generation not meeting targets

Asbestos was discovered in one of the general wards at the Princess Elizabeth Hospital. Although patients and staff were not put at risk, the ward had to be closed during the year in order to deal with the issue. As a consequence, the private patient wing had to be used to maintain operational services, with a resultant loss in private patient income.

b) Agency staff costs required to meet service demands and to cover staff absence

A number of examples of these costs are set out below:

i. **PEH Surgical Services - £415,000 overspent.** The reasons for this overspend include:
- a high rate of sickness and maternity leave in this area;
- staff vacancies which are extremely difficult to recruit to (there is a national shortage);
- increased activity levels;
- major increases in the cost of medical theatre supplies as a consequence of surgical procedures being introduced by newly-recruited consultants.

There are currently six agency staff working within theatres.

ii. **PEH Medical Wards - Pay - £172,000 overspent.** The reasons for this overspend include:
- a high level of long-term sickness;
- highly complex patients requiring additional staff support.

A total of 33 weeks' worth of agency staff were therefore utilised on wards up to the end of September at a cost of £126,000.

iii. **Child Protection Assessment and Intervention Team - £127,000 overspent.** The reasons for this overspend include:
- Team vacancies;
- 143% increase in referrals to the Team during 2012.

The Assessment and Intervention Team therefore employed eight locum social workers during 2012.

iv. **Acute Paediatrics and Neonatal Intensive Care Unit - £225,000 overspent.** The reasons for this overspend include:
- Difficulty in recruiting qualified and skilled neonatal nurses.

This has resulted in the continued use of agency nurses.

v. **Occupational Therapy - £92,000 overspent.** The reasons for this overspend include:
- employment of three locum occupational therapists, in:
  1. The wheelchair service - to cover maternity leave;
  2. The stroke service - to cover maternity leave;
  3. Neurological care - to cover a vacancy.

vi. **Community Services - £173,000 overspent.** The reasons for this overspend include:
- a locum social worker to cover long term sickness;
- a locum community OT to cover vacancy;
- increased use of bank staff to cover long term sickness and maternity leave;
- increased staffing numbers on nights (adjusted to reflect demand) to provide safe and effective palliative care.

The service as a whole has seen a 20% increase in demand on the same period in 2011.

vii. **Albecq Ward - £386,594 overspent.** The reasons for this overspend include:
- a significant change in the number, type and complexity of patients in Albecq Ward, as a result of:
  1. Eating disorders;
  2. Serious self harm;

3. Risk of harm to others;
4. Changing detention practices in line with best practice.

There has been a substantial increase in the number of patients who require observation on a 1:1 basis. This has exceeded the capacity of the service on a regular basis and led to a high reliance on agency, overtime and bank staff to meet these demands.

viii. **Off-Island Acute Referrals - £411,000 overspent.** The reasons for this overspend include exceptional episodes during 2012, including organ transplants and multiple births, as well as higher than average referrals in a number of areas (illustrated above).

c) Other unavoidable costs

These include costs associated with increased utility bills (the Princess Elizabeth Hospital is a very large consumer of energy and, despite a 3% reduction in consumption, has experienced a disproportionately higher increase in energy costs due to increased use of the MRI scanner, for example), and exceptional items such as dealing with legionella within the PEH (and now the KEVII) water system.

37. It is estimated that a significant proportion of these additional costs have been incurred in the last quarter of this year, many of which could not have been foreseen even a few weeks ago. A summary of this is set out below:

Estimated Unforeseen Additional Last Quarter Costs	**£000's**
Nursing levels in Neonatal Intensive Care Unit met by agency staff due to a shortage of skilled staff	180
Nursing levels in Theatres met by agency staff due to a shortage of skilled staff and long term sickness issues	220
Staffing of Intensive Care Unit met by additional agency staff due to significant increase in the use of ICU with higher dependency of patients	80
Continued additional staffing and accommodation costs for children looked after, above predicted levels	200

Significant increased use of agency staff in Adult and Elderly Mental Health Services due to increased demand on services and staffing issues	190
An unexpected increase in the use of off-island acute hospital services*	200
Total unforeseen additional costs forecast in the last quarter	**1,070**

*This additional cost will now reduce as SUHFT has offered a further volume discount for 2012.

38. The latest forecast overspend is disappointing but unavoidable. It results from a large increase in demand on services, as well as staffing issues associated with maternity leave, long-term sickness, and recruitment difficulties in particular specialist areas.

39. These pressures will undoubtedly continue into next year, although the Department has been able to make some progress on recruitment issues. A reduction in demand for services in 2013 is not anticipated or thought to be very likely.

40. Furthermore, it is of course not possible to recruit to posts in relation to long-term sickness or maternity leave. Due to the relatively small size but highly specialized nature of some of the workforce, a modest increase in turnover in staff in a difficult to recruit area, or a long-term sickness issue, can create major operational challenges.

41. The HSSD Board is satisfied that the forecast overspend is not associated with poor performance or any lack of effort to meet savings targets. Much has been achieved by the Department in the last three years to keep spending under control, and has absorbed additional costs of in excess of £13m by taking decisive action over the past two years, including a £500,000 reduction in management costs. This year has been exceptionally challenging.

42. Earlier in the year it was assumed that the forecast overspend by HSSD might be contained within the fiscal constraints and covered by the Budget Reserve. There was an acknowledgement that the pressure on HSSD budgets was real, but that due to the lack of contingency previously discussed with Treasury and Resources,

that across the States as a whole the HSSD overspend could be managed. There was no indication at that time that the downturn in tax receipts and the over spend in Social Security would also materialise. That, alongside increasing demand for HSSD services and the operational difficulties it has need to meet, has resulted in the Board needing to take more urgent action later in the year.

SHORT-TERM MITIGATION

43. In order to contain the final overspend position at as low a level as possible, given the changing context as described above, the HSSD Board reluctantly announced the following action with effect from 1 December 2012:

a. To defer all non-emergency and non-urgent off-island treatment until January. Since this was agreed, University Hospital Southampton NHS Foundation Trust (UHSFT) has reconsidered its 2012 charge to Guernsey and based on the higher volume of patients using UHSFT and offered a further discount for this year, which will result in all off-island appointments and procedures now going ahead.

b. To close a surgical ward and a theatre, and postpone all elective, contract surgery until January. This action will result in savings as lower levels of agency staff will be needed for December.

c. To close Divette Ward and relocate patients to other appropriate placements. It is important to note that the service provided to these patients will not cease. This move will enable the service to continue and will make more efficient use of resources in other areas, again reducing the need for agency staff. The number of agency staff has already reduced by 7 as part of this move.

d. To cease recruitment to vacant posts, unless the post is demonstrated to be essential for patient, service user or public safety, and a business case is approved by all Directors.

e. To minimise the use of agency staff to provide cover, and increase the use of bank and part-time staff wherever possible.

f. To minimise weekend overtime duties and defer weekend work to week-days wherever this is clinically appropriate.

44. It is estimated that this combination of measures will reduce costs in December 2012 by approximately £500,000.

45. HSSD Board are keen to stress that patient safety is paramount and it is, therefore, down to the individuals' clinical assessment by their consultant as to whether it is appropriate to defer their operation. For example if, by cancelling an operation, there is the potential for a patients' condition to become more urgent, then that operation will go ahead.

46. The Department continues to strive towards achieving its FTP targets and reducing its in-year overspend as far as possible.

47. The current overspend is caused by increased demand on services and unforeseen operational challenges, particularly in the last few months of 2012. A 2% variance in expenditure against budget (that is, in HSSD's case, a £2m overspend against a £100m+ budget) is not unreasonable for a service which is demand-led, but this variance has now become more visible due to the Department's diminished budget flexibility, and vastly improved productivity and levels of delivered efficiency.

LONGER-TERM PLANS

48. The Department already has plans to meet its FTP targets for 2013 and 2014 and is currently working on the more detailed implementation aspects of these.

49. It is also implementing the approved longer-term strategic vision (the 2020 Vision and subsidiary programmes) which will help to ensure that the entire health and social care system is as efficient as it can be. The Department will be bringing forward reports in early 2013 to ask the States to support these future plans. A fundamental review of how the Health and Social Care system operates will need to take place.

50. The States Report for this review is now near completion and will be presented to the States in the New Year. This will demonstrate the huge amount of work that the Board has been doing on correcting the problems with the current Health and Social Care system which were outlined in the 2020 Vision.

51. The HSSD Board also believe that there should, as part of the Health System Review, be an examination of how the States of Guernsey allocate resources to the Health and Social Service Department and the use of the health related Social

Security funds. At the present time there is no particular rationale or methodology by which States resources are distributed, other than on historical expenditure or specific one off developments. A population based model as referred to earlier in this report should be considered, along with other potential options.

52. In connection to its financial position and ability to generate income, HSSD will be exploring a number of areas as part of its FTP plans, including the possibility of charging for diagnostics (radiology and pathology), particularly for services delivered to Primary Care providers for which there is currently no charge by HSSD and other services as it deems appropriate.

53. In conjunction with the Social Security and Housing Departments, HSSD will also be examining as part of the FTP process and the emerging Supporting Living and Ageing Well Strategy the future of long-term care funding, including a more equitable funding structure for all forms of care, whether States-funded or private sector, residential or community based.

54. HSSD wishes to explore as soon as possible the management of off-island travel, and off-island acute services with the Social Security Department and the Medical Specialist Group, as this part of the system is also disjointed and inefficient.

55. HSSD currently pays for visiting specialist consultants to the Island, for services which the MSG contract cannot provide. This is inconsistent with the funding of the Medical Specialist Group contract, and was identified in 2010 by the Social Security Department as an issue that needed addressing, but has not yet taken the steps needed to correct this anomaly. HSSD will be seeking further discussions with SSD to establish whether visiting consultants should now be funded by the Guernsey Health Service Fund as it recorded a surplus of £3.33m in 2011. [2].

56. HSSD has also submitted 2 amendments to the 2013 Budget report. The first amendment asks the States to direct the Treasury and Resources Department to incorporate a contingency reserve in the HSSD budget allocation for 2013, to enable the Department to better manage the cost implications of anticipated further increases in activity levels.

57. The second amendment relates to the fact that the regrettable action HSSD has taken at the end of 2012 may have been avoided had there been more flexibility to manage variations in volatile expenditure between financial years.

[2] This was confirmed in principle in Billet d'État XIX (2010), 'Policy Council – States Strategic Plan 2010-2015', para 34, and again in Billet d'État XX (2010), 'Social Security Department – Benefit and Contribution Rates for 2011', subject to the Guernsey Health Services Fund having sufficient surplus to accommodate the increase in costs and a States Resolution being made to effect the transfer.

RECOMMENDATIONS

58. The Health and Social Services Department therefore recommends the States:

i) To delegate authority to the Treasury and Resources Department to increase the 2012 revenue expenditure budget of the Health and Social Services Department by a maximum of £2,500,000 and to rescind resolution 1 of Billet d'État XXVI of 12 December 2012 and to authorise the Treasury and Resources Department to transfer from the Contingency Reserve (Tax Strategy) to General Revenue a maximum sum of £32,000,000 during 2012.

Yours faithfully

A H Adam

Minister

B L Brehaut	E G Bebb	D A Inglis	A M Wilkie
Deputy Minister	Member	Member	Member

(NB The Treasury and Resources Department has commented as follows:

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port
Guernsey
GY1 1FH

7th December 2012

Dear Chief Minister

Health and Social Services - Increase in Authorised Budget for 2012

The Treasury and Resources Department (TRD) wishes to express its deep concern at the financial position of the Health and Social Services Department (HSSD).

Firstly, the TRD is cognisant of the multitude of expenditure pressures that the HSSD faces and the challenges it encounters in delivering services in the most efficient, effective and economic manner. However, the basic fact is that the States of Guernsey, in December 2011, approved a 2012 Cash Limit for the HSSD. In December 2012, the States are being presented with what is effectively a fait accompli request to increase the HSSD's budget by up to £2.5million and which may result in an increase in the transfer required from the Contingency Reserve (Tax Strategy).

The mandate of the HSSD includes *"to be responsible for the management and safeguarding of public funds and other resources entrusted to the Department."* However, this request for a substantial budget increase would indicate that this responsibility has not been fulfilled. For the avoidance of doubt, individual Departments are responsible for the detailed monitoring of their budgets, analysing variances and forecasting outturns. Therefore, the TRD is not in a position to give the States an assurance that the underlying reasons for expenditure being in excess of the budget allocation are as described by the HSSD.

The States Financial Procedures include:

> **Additional States votes**
>
> **Where during the life of a budget a Department identifies a need to spend additional sums and these cannot be financed from either compensating**

reductions in other areas of expenditure or from accumulated 'savings', then specific approval will be required.

In the case of major items such approval will be sought by submission of a States Report setting out the necessity of such request, together with the comments of the Treasury and Resources Department thereon including the consequences for States finances as a whole of such additional expenditure by individual Departments.

and

Sanctioning of overspends on Revenue Account

If States Departments follow the recommended rules for control of variances, ..., then overspends should not occur as procedures would exist to enable prior sanction to be obtained.

The TRD does have certain delegated authorities pertaining to financial matters and the Treasury and Resources Department has delegated authority to increase an individual General Revenue Department's revenue expenditure budget by the greater of £250,000 or 2% in any one financial period". It is emphasised that, just because the Department has delegated authority, this does not mean it will be used and that the Department cannot, or will not, require specific instances to be referred to the States.

My Board has continued the previous policy of not exercising its delegated authority to approve general increases in Departments budgets as it believes that this would be contradictory to the States aim of restraining revenue expenditure. The consistent communication has been that, if such expenditure cannot be met from existing budgets, then a States Report should be submitted at the earliest opportunity. Irrespective, the Board's delegated authority in respect of increasing the HSSD's 2012 budget would be limited to £2.179m (being 2% of the HSSD's 2012 Authorised Budget) which would not be sufficient to cover the shortfall currently anticipated. Furthermore, this level of budget increase would result in an increase in the required draw-down from the Contingency Reserve (Tax Strategy) which requires States approval.

The TRD will, if necessary, use its delegated authority to increase revenue budgets by transfer from the Budget Reserve, as set out in the 2012 Budget Report in respect of, "..... *and any unanticipated / 'emergency' expenditure where there is a clear business case and the expenditure cannot be met by reprioritising existing budgets.*" No such requests have been received in 2012 from the HSSD.

Adherence to the provisions of the States Financial Procedures would mean that approval for the appropriate budget increase is sought prior to the expenditure being incurred and that there is the opportunity for the States to put in place, if so wished, mitigating action to protect the overall States financial position – for example, reducing the budgets of other States Departments. The position that the HSSD is presenting to the States is effectively seeking a retrospective budget increase as the expenditure has already been incurred and with less than a month of 2012 remaining, other mitigating measures cannot be instigated.

The TRD is concerned that the underlying expenditure level of HSSD appears to have increased to a level in excess of budget and that there is a strong possibility that its Cash Limit could be overspent in 2013. This is reflected in the amendment to the 2013 Budget Report placed by Deputy Adam which seeks to establish a Budget Reserve specifically for the HSSD.

During the year, the level of potential budget shortfall forecast by HSSD has fluctuated, both in value and the reasons therefore. Some of the early potential expenditure pressures identified by the HSSD have, fortunately, not crystallised and other issues have arisen, as notified by the HSSD only very recently. Inevitably, this experience has let the TRD to conclude that the HSSD does not have an adequate financial monitoring and forecasting regime in place such that expenditure pressures are properly identified and quantified at an early stage and thus allow appropriate action to be taken.

Against this background, the Chief Executive (through his Executive Leadership Team) has advised the TRD that he is initiating a review that will, at a minimum, consider the adequacy of financial management within the Department. The TRD welcomes this review and strongly recommends that the terms of reference should include an assessment of the expected level of resource requirements for the level of service delivered in 2012 – i.e. is the HSSD demonstrating value for money and delivering the appropriate level of services in the most effective, efficient and economic manner.

Regrettably, the Treasury and Resources Department has no option but to advise the States to approve the recommendation of this States Report.

Yours sincerely

Gavin St Pier
Minister

(NB The Policy Council has no comments to make on the Report.)

The States are asked to decide:-

II**.-** Whether, after consideration of the Report dated 6th December, 2012, of the Health and Social Services Department, they are of the opinion to delegate authority to the Treasury and Resources Department to increase the 2012 revenue expenditure budget of the Health and Social Services Department by a maximum of £2,500,000 and to rescind resolution 1 of Billet d'État XXVI of 12 December 2012 and to authorise the Treasury and Resources Department to transfer from the Contingency Reserve (Tax Strategy) to General Revenue a maximum sum of £32,000,000 during 2012.