

Report

Financial Planning Update

Edinburgh Integration Joint Board

18th November 2016

Executive Summary

1. This paper presents the final budget offers for 2016/17 from the City of Edinburgh Council and updates the Integration Joint Board on the financial planning process for 2017/18.

Recommendations

2. It is recommended that the board:
 - Accepts the delegated budget for 2016/17 proposed by City of Edinburgh Council subject to the conditions in paragraph 11 of this report;
 - Notes that a proposal will be presented to NHS Lothian Board on the distribution of additional non recurring resources, following which an updated offer is expected;
 - Agrees interim arrangements for financial planning arrangements for 2017/18 as a step towards a process led by the IJB;
 - Notes the potential financial implications of the strategic plan, including the risks inherent in current funding assumptions;
 - Approves the principle of carry forward of Social Care Fund monies to support investment in 2017/18; and
 - Approves, pending agreed business cases, the indicative allocation of the social care fund presented in table 4.

Background

3. The Integration Joint Board (IJB) agreed to proceed on the basis of indicative allocations from the City of Edinburgh Council (CEC) and NHS Lothian (NHSL). A position has been agreed with CEC which is now presented to the IJB for consideration. An agreed position has not yet been reached with NHSL. This is discussed in more detail in paragraphs 5 to 15.



4. Financial planning 2016/17 was led by the parent organisations. For 2017/18 the IJB would want to see a more collaborative approach, in line with Scottish Government guidelines. The 2017/18 process is now underway based on a number of planning assumptions. Formal confirmation of the settlements for CEC and NHSL will be made following the Scottish Budget announcement in mid December; however it is already clear that the financial landscape for the IJB will present significant challenges. Progress with the financial plan for 2017/18 is outlined in paragraphs 19 to 33.

Main report

Update on base budgets

5. The formal process of financial assurance (also referred to as 'due diligence') undertaken by the Interim Chief Finance Officer on the resources which are proposed to be allocated by CEC has now concluded. This process has identified that, although challenging, the proposed delegated budget is fair. This assessment has to be seen in the context of the overall resources available to CEC and the consequent challenging financial climate.
6. On this basis the IJB is recommended to accept the CEC offer of £187,928k which discussed in more detail in sections 7 to 11.

City of Edinburgh Council

7. As has been previously reported, the one material outstanding issue with the CEC offer was a condition associated with the Social Care Fund (SCF). Often referred to as the "Swinney test" this can be summarised as:

The opening budget should be no less than:
2015/16 outturn - ½ share of the £250m + 6 months of living wage

8. Originally the offer from CEC failed this test and, over the last 6 months, discussions have been ongoing with Scottish Government and CEC officials. As a result CEC have increased their proposal to the IJB to include
"a provisional estimate of £3.5m of non recurring funding in respect of voluntary severance costs arising from the ongoing organisational review within health and social care."
9. It should be noted that whilst the offer has increased by £3.5m, the costs charged to the IJB will increase by an equal amount, and there will be no net gain for either party. Nevertheless this revised offer now

meets the criteria set out in the test and the IJB is recommended to accept on this basis.

10. The full offer letter is attached as appendix 1 to this report and the test is set out in table 1 below:

| | £k |
|------------------------------------|----------------|
| 2015/16 outturn | 194,181 |
| Share of first half of SCF | (10,090) |
| 6 months living wage | 3,831 |
| Minimum settlement required | 187,922 |
| Actual offer | 187,928 |
| Difference | 6 |

Table 1: Social care fund test

11. Monitoring of the financial position for the first 6 months of the year indicates that, with the exception of delivery of savings, actual costs are in line with this offer. It is therefore recommended that IJB accept the proposal subject to:
- (a) CEC agreeing to meet any voluntary severance costs in excess of £3.5m provision; and
 - (b) Final agreement of transfers of criminal justice and support services budgets.

NHS Lothian

12. Following a quarter 1 review of the financial position, the Director of Finance gave NHSL Board a “moderate level of assurance that a breakeven position will be achieved.” This would be achieved through the use of additional non recurring resources.
13. As reported to the IJB in September, initial indications were that NHSL recognised and acknowledged that certain IJB pressures are manageable within the overall resource envelope.
14. A proposal will now be presented to the NHSL Board on the distribution of non recurring resources to IJBs to facilitate delivery of a balanced outturn at IJB level. Before finalising this proposition, NHSL have asked the 4 IJBs for details on their year end position, specifically whether they have any plans to hold reserves at the year end.
15. Paragraph 25 of this report proposes the carry forward of an element of the social care fund (SCF) into next financial year to support delivery of the strategic plan. Whilst acknowledging that IJBs have the ability to build reserves, NHSL has raised concerns that this does not recognise the inherent pressures in the system, including the costs of delays. They have now formally requested information on the extent to which the SCF has delivered additional capacity.

Approach to financial planning

16. Financial planning for 2016/17 was led by CEC and NHSL with the IJB reviewing budget proposals as part of its financial assurance. From 17/18 onwards the clear expectation of the Scottish Government is that primary responsibility for financial planning for delegated functions will sit with IJBs. This is reflected in statutory guidance which stipulates that budget setting for year 2 onwards should be a process based on negotiation about the level of funding, performance and associated risks, rather than a roll forward of individual service budgets used for the initial allocations.
17. Whilst this remains our aspiration, recognising that this is a material change in approach, it is recommended that interim arrangements are agreed for 2017/18. This could take the form of a tri-partite arrangement with leadership of the financial planning shared by the IJB, CEC and NHSL. Officers have started exploratory discussions and an IJB financial plan is being developed to support this approach.
18. In 2018/19 the process would move to being IJB-led.

Financial outlook

19. Financial settlements from CEC and NHSL should reflect the costs of implementing the strategic plan. However the challenge of delivering this in the current financial climate should not be underestimated. This is reinforced by the findings of two recently published reports: the Fraser of Allander Institute report on the Scottish Budget and the annual Audit Scotland report on the NHS in Scotland.
20. The former indicated that the Scottish budget could be cut by between 3% and 4% in real terms by 2020/21 and up to 6% – around £1.6 billion – under a worst case scenario. Specifically, under the scenario presented within the report, overall external council funding (excluding Council Tax) is forecast to reduce by an average of 2.5% per year in real terms over the period to 2020/21.
21. One of the key messages from the Audit Scotland report was that “NHS funding is not keeping pace with increasing demand and the needs of an ageing population. NHS boards are facing an extremely challenging financial position and many had to use short-term measures to break even. NHS boards will need to make unprecedented levels of savings in 2016/17 and there is a risk that some will not be able to achieve financial balance.”
22. Until the Scottish Government budget is announced on 15th December neither CEC nor NHSL will have clarity on the level of resource available to them in 2017/18. This clearly impacts on their ability to agree a financial settlement with IJBs.

23. Nevertheless both bodies are continuing to progress financial plans, based on a number of assumptions, including:

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- A 2.5% reduction in Scottish Government grant funding in 2017/18 with a further 1% reduction in 2018/19. This is consistent with the real-terms changes referred to in paragraph 20 above, although members should be aware that there remains the potential for the actual level of grant reduction to be more severe;
- Incremental demographic funding for health and social care of £5.9m/£6.0m/£6.1m over the period from 2017/18 to 2019/20. This assumption will be reviewed in light of Scottish Government announcements on the Social Care Fund.
- An annual efficiency requirement across health and social care services of 3% from 2018/19 onwards; and

NHS Lothian

- A £60m recurring deficit brought forward from 2016/17;
 - Uplift on the base allocation of 1.7%;
 - Proposed investment in primary care services of £5m across Lothian over 3 years (£2m in year 1);
 - Additional demographic funding of £18m in 2017/18 (referred to as “NRAC”); and
 - The Finance Director of NHS has advised that savings in the region of 7% will be required to support a break even position. At c£28m for the IJB this will clearly present a significant challenge.
24. Given this level of uncertainty, close working between the Chief Officer and Interim Chief Finance Officer of the IJB and representatives from CEC and NHSL will be crucial in ensuring planning assumptions are aligned.

IJB financial planning assumptions

25. In addition to the funding delegated from CEC and NHSL, the IJB retains some social care fund (SCF) monies which have been held in reserve pending the agreement of business cases. Of the original £20.1m, £12.0m has been invested on a recurring basis, leaving a balance of £8.2m. This would be supplemented on a one off basis by any funds which remained unspent in 2016/17 and carried forward into next financial year, currently estimated at £3.4m.

26. Considering how the SCF monies are invested to support delivery of the strategic plan will be a key part of the 2017/18 financial planning process. Other sources of incremental funding reflected in current CEC and NHSL planning assumptions are the £5.9m provision for demography and the £2m available across Lothian for primary care. It should be noted that these assumptions will not be confirmed until the publication of Scottish budget in December at the earliest. At this point any uplift to the SCF will also be announced.
27. Despite this level of uncertainty it is recognised that the IJB needs to progress the allocation of the balance of the SCF in a way which achieves the “additionality” objective set by the Scottish Government. Proposals are included in table 3 below.

Costs of implementing the strategic plan

28. An initial assessment of the financial implications of delivering the actions within the strategic plan has been undertaken. At this point these costs (where they are available) are indicative, and further work is required to finalise the associated business cases. Projects for which indicative costs are not yet available have been included for completeness although it should be noted that not all will have cost implications. Any business cases requiring additional investment will be scrutinised initially by the Strategic Planning Group and referred to the full IJB for final approval.
29. A summary of likely cost implications is included in table 3 below, along with an indication of potential funding sources. This assessment does not include standard inflationary increases in costs (for example pay awards).
30. It is clear from the quantum of cost in table 3 and limited funding available that the full level of investment will not be affordable without cost release from elsewhere in the system. The mechanisms and options for funding must be identified as part of the business case process. Even with these arrangements in place it is highly likely that a degree of prioritisation or phasing of implementation will be required.

| | £k | Potential funding source |
|---|---------------|--------------------------|
| Disabilities | | |
| FYE of 2016/17 investment | 618 | demography |
| Transition | 2,000 | demography |
| Murray Park reprovion | TBC | cost neutral |
| Complex care facility | 779 | demography |
| Mental health | | |
| Community placements | 1,190 | SCF |
| Rapid response function | 700 | SCF |
| Reduction in drug and alcohol funding | 1,500 | under review |
| Alcohol related brain damage unit | 385 | cost neutral |
| Contracting | | |
| 20p increase in living wage | 1,633 | SCF 2 |
| Increase in care at home rate | 688 | demography |
| Care at home waiting list | 4,992 | SCF |
| Older people | | |
| Review of Liberton operating model | 1,500 | SCF |
| Gylemuir (currently funded non recurringly) | 1,327 | SCF |
| Front door assessment service | 314 | SCF |
| Primary care | | |
| Prescribing | 3,800 | NHSL uplift |
| Community NHS complex care | 400 | SCF |
| Diabetes LES | 171 | SCF |
| Other | | |
| Apprenticeship levy | TBC | CEC uplift |
| Carers legislation | TBC | TBC |
| Share of NHSL deficit | TBC | TBC |
| Hospital at home (hub workers) | 1,000 | SCF |
| Telecare | 760 | SCF |
| Grand total | 23,756 | |

Table 3: Initial assessment of potential financial impact of strategic plan

32. Based on this, it is proposed that the SCF would be invested per table 4 below:

| | Recurring £k | Non recurring £k |
|---|-----------------|------------------------|
| Total funding | 20,180 | |
| 2016/17 recurring commitments | (11,994) | |
| Carry forward from 2016/17 | | 3,427 |
| Recurring balance | 8,186 | 3,427 |
| Less: proposed 2017/18 investments | | |
| Community placements | (1,190) | |
| Rapid response function | (700) | |
| Care at home waiting list | (4,992) | |
| Review of Liberton operating model | (1,500) | |
| Gylemuir (currently funded non recurrently) | (1,327) | |
| Front door assessment service | (314) | |
| Community NHS complex care | (400) | |
| Diabetes LES | (171) | |
| Hospital at home (hub workers) | (1,000) | |
| Telecare | | (760) |
| Remaining balance | (3,408) | 2,667 |
| Over commitment to be managed | | (741) |

Table 4: Potential investments from the Social Care Fund

33. It should be noted that the IJB's ultimate ability to support these investments will be contingent on: the crystallisation of financial planning assumptions; settlements from CEC and NHSL; and full delivery of savings.

Key risks

34. The key risk is to the delivery of the IJB's strategic plan in the current financial environment. Until the Scottish Government's budget is announced in December, neither CEC nor NHSL can finalise their financial planning and the impact on the IJB will remain unclear. However the prevailing financial climate would indicate that funding will be extremely limited. Development and delivery of a programme of recurring savings together with active management of a range of risks and pressures will be critical.

Financial implications

35. Outlined elsewhere in this report.

Involving people

36. The successful implementation of these recommendations will require the support and co-operation of both CEC and NHSL personnel.

Impact on plans of other parties

37. As above.

Background reading/references

38. None.

Rob McCulloch-Graham

Chief Officer, Edinburgh Health and Social Care Partnership

Report author

Moira Pringle, Interim Chief Finance Officer

E-mail: moira.pringle@nhslothian.scot.nhs.uk | Tel: 0131 469 3867

Links to priorities in strategic plan

**Managing our
resources
effectively**

Mr Rob McCulloch-Graham
Chief Officer Edinburgh Health & Social Care
Partnership
City of Edinburgh Council
Waverley Court, 4 East Market Street
Edinburgh, EH8 8BG

Date 10 October 2016

Your Ref

Our Ref

Dear Rob,

2016/17 IJB Allocation

Further to my letter of 31st March 2016, please note that the Council's approved allocation to the EIJB has been revised to take account of the following:

- The Council's previous offer reflected a provisional estimate of budget transfers in respect of Criminal Justice and support services. Budget transfers have been finalised as support service organisational reviews have been completed and the offer to the EIJB has been updated to reflect actual budget transfers. Some further transfers in respect of non-staffing budgets remain to be finalised and a further update of the offer to the EIJB will be provided in due course.
- The offer now includes a provisional estimate of £3.5m of non-recurring funding in respect of voluntary severance costs arising from the ongoing organisational review within Health and Social Care. Expenditure incurred to date in 2016/17 is £2.0m and the provisional estimate of £3.5m will be monitored and updated as the organisational review is implemented and severance costs are confirmed.
- The offer has been updated to reflect final resource allocations for the costs of pay awards and loss of the National Insurance rebate.

The adjusted allocation is appended to this letter.

Hugh Dunn, Acting Executive Director of Resources
Waverley Court, 4 East Market Street, Edinburgh EH8 8BG Tel 0131 469 3150

If you require any further information, please let me know.

Yours sincerely

Hugh Dunn
Acting Executive Director of Resources

IJB - Financial Allocation from City of Edinburgh Council 2016/17 (10 Oct 2016)

| | Delegated to IJB £000 | Notes |
|--|--------------------------------------|--|
| Approved Budget 2015/16 | 200,096 | |
| Assumed budget transfers | -13,595 | Updated following transfers for Council transformation |
| In-Year Budget Adjustments | 1,126 | Allocation of confirmed uplifts for pay awards, pensions, etc. |
| Additional Funding Contribution to address 15/16 Budget Pressures | 7,000 | |
| Revised Budget 2015/16 | 194,627 | |
| Pay Award | 798 | 1% assumed |
| Purchasing Inflation | 853 | Provision for uplift to reflect National Living Wage in Night Time Support "Sleepover" |
| Living Wage - CEC Employees | 141 | Provision for uplift of CEC staff to Living Wage |
| Provision - impact of funded posts within savings targets | 225 | Provision to offset impact of funded posts within savings targets |
| Care Home Fees Inflation | 1,355 | Provision for uplift to reflect NLW in line with national contracts negotiated through COSLA |
| Legislative Change - Loss of Existing National Insurance Rebate | 1,457 | Provision for loss of National Insurance rebate |
| Provision for Additional Costs of Health and Social Care in 2016/17 | 4,829 | |
| Approved Savings | -15,028 | |
| Voluntary Severance | 3,500 | Provisional "non-recurring" contribution to costs arising from organisational review |
| Offer to IJB 2016/17 | 187,928 | |