

Report

Financial Plan Update and Financial Assurance

Edinburgh Integration Joint Board

24th March 2017



Executive Summary

1. The level and adequacy of resources available are key factors in the ability of the Integration Joint Board (IJB) to deliver its strategic plan and improve health and social care outcomes. This paper considers the level of 2017/18 resources delegated by City of Edinburgh Council (CEC) and NHS Lothian (NHSL) and presents the resultant 2017/18 financial plan for approval.

Recommendations

2. It is recommended that the board:
 - notes the financial assurance work undertaken to date;
 - agrees that budgets delegated from CEC and NHSL are allocated back to partners to operationally deliver and financially manage IJB delegated functions;
 - agrees the draft financial plan for 2017/18, including the proposed investments in projects previously funded through the Integrated Care Fund;
 - remits the Strategic Planning Group to scrutinise the savings proposals to ensure alignment with the strategic plan on behalf of the IJB;
 - requests that partners work in conjunction with the Chief Officer and Interim Chief Finance Officer to prepare a medium term financial strategy for IJB delegated functions; and
 - agrees to receive the annual financial statement following the review of the strategic plan.

Background

3. A high level financial plan overview was presented to the board in January 2017. This provided an update on the implications of the Scottish Government draft budget for the City of Edinburgh Council

(CEC), NHS Lothian (NHSL) and the Integration Joint Board (IJB) itself.

4. Subsequently, the CEC budget was presented to the full Council for approval on 9 February 2017. Development of the NHSL financial plan remains ongoing with the next version of the plan being presented to the Finance and Resources Committee on 15th March 2017 and the full NHS Lothian Board on 5 April 2017.
5. Based on this, the IJB has received a budget proposition from CEC and an indicative proposal from NHSL, pending agreement on 5 April. Both CEC and NHSL have been working with the IJB to consider the potential financial pressures inherent in these budgetary offers and it is clear that, without a significant change to the current model of service delivery, there will be a significant gap between the resources available and the projected expenditure. Given that, at this time, there are not fully developed recovery plans which will allow the IJB to achieve a break-even position in 2017/18, acceptance of the budget propositions from the partners contain a significant element of risk.
6. A detailed financial assurance process was undertaken by the IJB in relation to its 2016/17 budget. This review of the financial risks inherent in the budgetary position and detailed consideration of how these risks can be mitigated is a continuing process. This report, which builds on the financial reports received during 16/17, is therefore the most recent part of the financial assurance process.

Main report

2017/18 delegated resources

7. This section of the paper considers whether the budget proposal from the partners is a fair share of the resources available to them. Paragraphs 8 to 19 below set out the resources identified by CEC and NHSL to support services delegated to Edinburgh IJB. These figures exclude both tranches of social care funding which are considered in paragraphs 20 to 22.

City of Edinburgh Council

8. The approved CEC revenue budget framework for 2017/18 incorporates an IJB delegated budget of £184.4m, a sum which is unchanged in cash terms from the 16/17 recurring budget as demonstrated in table 1 below:

	£k
16/17 delegated budget	187,928
Less: non recurring	(3,500)
Recurring budget	184,428

Table 1: CEC proposed delegated budget 2017/18

9. To reflect the additional support provided through the social care fund, the Scottish Government allowed local authorities the flexibility to adjust their allocations to integration authorities in 17/18 by up to their share of £80m below the level of baseline budget provided in 16/17. In the context of growing demand for social care services, CEC has opted not to use this flexibility, which would have allowed it to reduce its contribution by up to £6.5m. This level of delegated budget compares favourably to the overall position of CEC where the reduction in revenue funding in the Scottish Government settlement for 2017/18, net of additional income arising from changes to Council Tax band multipliers, is 1.5%, excluding ring-fenced funding for specific new commitments.
10. In practice this “flat” budget for delegated services means that any cost increases not covered by the Social Care Fund will have to be paid for by generating savings.
11. Given the factors detailed in paragraphs 8 to 10 above, the CEC budget proposal represents a fair share of available resources.

NHS Lothian

12. NHS Lothian continues to refine the financial plan but remain unable to provide assurance on its ability to deliver a balanced position in 2017/18. The figures in this report are based on the version of the plan which will be presented to the NHSL Finance and Resources Committee on 15 March 2017 and reflected in the local delivery plan to be submitted to the Scottish Government at the end of March 2017. The proposed budget therefore remains indicative until formally agreed by the NHSL Board in April 2017.
13. After taking account of cost pressures, additional funding, financial recovery plans and in year flexibility, the in year gap on the pan Lothian plan has reduced from £51.5m (as reported to the IJB in January) to £35.1m.

14. Excluding both tranches of the social care fund, the 17/18 budget associated with NHS delegated functions for Edinburgh is £398.4m, as summarised in table 2 below. Whilst this represents an increase in recurring budget resources of £13.8m it is £6.5m below the expenditure forecast for the year. This shortfall of 1.6% equates to an overall gap of 2.2% across NHSL, reflecting the targeting of additional funding at primary and community services and the consequent higher level of savings challenge associated with acute hospital services.
15. The Scottish Government's 2017/18 budget settlement required health boards to maintain IJBs budgets at 16/17 levels and NHSL has clearly complied with this requirement, as demonstrated in table 2 below.

	17/18 funding	Initial gap	
	£k	£k	
Core services	226,807	(3,881)	1.80%
Share of pan Lothian hosted services	75,644	98	-0.10%
Payment to the IJB	302,451	(3,783)	1.20%
Share of acute set aside services	95,902	(2,729)	2.80%
Budget for delegated services	398,352	(6,511)	1.60%
16/17 recurring budget	384,554		
Increase in budget	13,798		

Table 2: NHS Lothian proposed delegated budget 2017/18

16. Prescribing represented the main financial pressure inherent in the NHS budget during 16/17. Over the past few years growth in costs had significantly outstripped the budget uplifts. Through the financial plan, NHS Lothian has reset the GP prescribing budgets for each of the IJBs to reflect the projected outturn position in 16/17. For 2017/18 initial projections for growth suggest around a further £11.5m of cost pressures across Lothian, equating to an increase of circa 7%. Edinburgh's share of this growth is estimated at £5.7m although a final update on estimated 17/18 growth is currently being prepared.
17. This will be supplemented by a pan Lothian fund of £2m fund for efficient prescribing and a further £2m to provide support to primary care services. Although provided for in the overall financial plan these sums have not yet been distributed and therefore are not included in the budget laid out above.
18. Based on the methodology agreed by NHS Lothian for allocating resources, it is considered that the revised contribution represents a fair share of resources to the IJB, albeit there currently remains a gap to be addressed.
19. As previously reported, NHSL financial planning is not undertaken at an IJB level and recovery actions to deliver a balanced plan are focussed on business units in the first instance. NHSL will continue to

work with business unit management teams and the four Lothian IJBs with the objective of balancing the remaining £35m gap and achieving an overall breakeven position for 17/18. Two key elements of this work will be the close management of expenditure during the year and scope for further funding during 2017/18.

Social Care Fund

20. The Scottish Government budget incorporated a step up of £107m in the Social Care Fund, bringing the total provision to £357m. This increase of £107m provides additional support to:
- meet the full year costs of the living wage across the care sector; address pressures related to changes in legislation in respect of sleepover costs;
 - disregard the value of war pensions from financial assessments for social care; and
 - pre implementation of the Carers' Act.

Specifically, a sum of £80m has been identified within the overall £107m increase to address the full year cost of living wage implementation and a number of other pressures affecting the care sector. The funding will be transferred directly from the NHS to integration authorities and the IJB's allocation has now been confirmed at £8.7m and forms a key strand of the financial plan for 2017/18.

21. The increase in Social Care Fund monies described above will supplement the sum the IJB has available from the 16/17 monies to support investments. This is a combination of £8.0m which has yet to be allocated on a recurring basis plus an estimated £3.3m carried forward from 16/17. Total funding available to Edinburgh IJB through the Social Care Fund is detailed in table 3 below:

	Scotland	Edinburgh IJB
	£k	£k
Social Care Fund I (16/17)	250,000	20,180
Social Care Fund II (17/18)	107,000	8,721
Grand total Social Care Fund	357,000	28,901

Table 3: Social Care Fund I & II 2017/18

22. The potential impact on Scotland of the additional £2bn of funding, to be spread over three years, announced in the recent UK Government budget remains to be clarified.

IJB financial plan

23. This section of the paper focuses on the impact of the settlements described above on the IJB financial plan and details the risks inherent in the delivery of a balanced financial position.
24. Taking account of the delegated resources from CEC and NHSL and the balance of social care funding available gives the IJB total funds of £611.7m for delivery of the strategic plan in 17/18 as demonstrated in table 4:

	Recurring £k	Non recurring £k	Total £k
City of Edinburgh Council	184,428		184,428
NHS Lothian core and hosted	302,451		302,451
Social care fund	28,901	3,282	32,183
Subtotal	515,779	3,282	519,061
NHS Lothian set aside	95,902		95,902
Total	611,681	3,282	614,963

Table 4: Total IJB budget 2017/18

25. In assessing the impact of this level of income on the savings programme the following cost increases have been considered alongside 16/17 baseline expenditure:
- Pay awards;
 - Payment of the increased national living wage of £8.45 and related employer on costs from 1 April for all employees and contracted staff;
 - Existing commitments, including the 16/17 national living wage, against Social Care Fund 1;
 - Apprenticeship levy;
 - Standard inflationary uplifts, including projected increases in third party contracts;
 - Projected increases in prescribing costs;
 - Savings which have not been delivered in 16/17 and consequently need to be carried forward; and
 - Agreed and proposed investments (detailed in paragraphs 30 to 32 below) in line with the IJB's strategic plan.

26. This gives a total expenditure projection of £635.4m, which represents a recurring shortfall of £20.5m, against which recovery actions and savings plans of £14.4m have been identified. The position is summarised in table 5 below with further detail included in Appendix 1:

	Recurring £k	Non recurring £k	Total £k
Income	611,681	3,282	614,963
Projected expenditure	632,614	2,844	635,458
Difference	(20,933)	438	(20,495)
Recovery actions identified to date	14,420		14,420
Balance to be identified	(6,512)	438	(6,074)
Representing:			
Social care services	0		
Health services	(6,513)		
Balance to be identified	(6,513)		

Table 5: Projected IJB income and expenditure 2017/18

Recovery actions and savings programme

27. As discussed above, the level of delegated resources and costs associated with the proposed investment programme will require delivery of a £20.9m programme of savings and recovery actions. To date, projects with a total value of £14.3m have been identified and these are summarised in table 6 below:

	CEC £k	NHS £k	Total £k
Organisational review/agency	3,926		3,926
Reablement 1	630		630
Telecare	960		960
Reablement 2	510		510
Review Team	300		300
Support planning and brokerage	2,880		2,880
Review of financial allocation system	750		750
Prescribing		2,813	2,813
Hosted services recovery plans		310	310
Set aside services recovery plans		1,341	1,341
Total	9,956	4,464	14,420

Table 6: IJB savings programme and recovery actions 17/18

28. Successful delivery of these schemes will leave a balance of £6.5m, which relates to the IJB's share of the £31m NHSL financial plan gap. As described above, NHSL have committed to working with management teams and IJBs to identify opportunities to bridge this.
29. Given the level of risk associated with delivery of the savings it is recommended that the detailed proposals are scrutinised by the

Strategic Planning Group (SPG) on behalf of the IJB. Further detail on the risks and associated mitigations is included below.

Investment in service change

30. The draft financial plan incorporates provision for a range of investments reflecting the priorities agreed in the strategic plan. At its meeting in January, the IJB agreed that the business cases in support of these investments would be progressed via the SPG. Accordingly the SPG has now supported cases for investment in drug and alcohol services and the continuation of integrated care fund projects focused on alleviating some of the existing pressures in the system by doing things differently. Papers on these two topics are presented separately to the IJB for consideration at this meeting with the financial implications built into the draft financial plan. Agreement on all other schemes is dependent on support from the SPG and the IJB. It should also be noted that the IJB's ability to make these investments is contingent on the delivery of both the savings programme and ongoing financial balance.
31. The SPG also have a role in reviewing the detailed delivery plans associated with agreed business cases. It is anticipated that these will be brought to the SPG in the early part of 2017/18 for recommendation to the IJB.
32. Proposed investments are summarised in table 7 with the full list included in appendix 2:

	Recurring £k	Non recurring £k
Disabilities	2,168	0
Mental health & substance misuse	2,116	0
Older people	3,267	489
Primary care	886	278
Other	3,597	2,077
Total	12,035	2,844

Table 7: summary of proposed investments

Future financial strategy

33. The IJB has a statutory responsibility for delegated health and social care functions in relation to the strategic planning of future health and social care delivery. The IJB's strategic plan and strategic commissioning plans should help inform decisions around prioritisation of resources, new models of service delivery and disinvestment decisions, all of which will be necessary in the medium term financial planning process.

34. Strategic planning of future service delivery and financial planning are intrinsically linked. An informed approach to future service delivery over the medium term must take account of assumptions around available resources over the same period and ultimately resource availability will be a key determinant of shaping future service delivery.
35. Taking account of this and the challenge of a continuation of constrained financial resources, it is recommended that the board requests partners to work with the IJB Chief Officer and Interim Chief Finance Officer to prepare a financial plan for IJB delegated functions over a minimum three year period.

Annual financial statement

36. Section 39 of the Public Sector (Joint Working) (Scotland) Act 2014 requires that each integration authority must prepare an annual financial statement on the resources delegated to the IJB. This review is closely linked to the update of the strategic plan which will conclude at the end of April 2017 in order to take account of any recommendations from the Joint Inspection of Services for Older People. Both the financial statement and any changes to directions will follow on from this.

Key risks

37. There are a number of key risk inherent in the budgets delegated by partners and therefore the draft financial plan presented for approval, including:
 - The impact of increasing demands and inflationary pressures on social care **capacity**. Whilst the budget resources include a provision to meet growth in direct care demands, there is a risk that demand will outstrip the assumptions and resources available;
 - Increasing demand to shift the balance of care from a hospital setting to a community/social care setting and reduce **delayed discharges**. Reducing Edinburgh's delayed discharges, currently amongst the highest in Scotland, is a priority for the IJB;
 - Provision to fund the full costs of **contract inflation**, including payment of the living wage for independent and third sector providers and an allowance to fund the increase in the national care home contract (NCHC) has been included in the draft plan. However there remains a risk that this is not sufficient, particularly for the NCHC where negotiations between providers and COSLA remain ongoing;

- Full delivery of 17/18 **savings**. As discussed above, when the budgets are delegated back to CEC and NHSL, substantial savings (£20.5m) will be required to ensure financial balance. CEC officers have developed outline plans which will require ongoing and active management to support and drive delivery. As reported above, NHSL will continue to work with business unit management teams and the four Lothian IJBs to identify recovery actions to bridge the remaining £35m gap;
- Delivery of **ongoing financial balance**, the main financial pressure facing delegated services in 16/17 have been reflected in the financial plan and are therefore driving the £20.5m gap. Whilst a focus on delivery of savings programmes and recovery actions will be key to achieving an in year break even position, this cannot detract from managing within base budgets;
- As set out above, additional resources have been provided to help meet **prescribing** pressures. This means that the prescribing budget is funded to the level of the anticipated outturn for 16/17. However, even allowing for this, prescribing will remain a key risk as prices and growth in volumes continue to indicate likely pressures in this area. This will be partly mitigated by investing a share of the £2m available across Lothian in schemes targeted at reducing growth in prescribing;

38. Equally, there is a range of issues which have the potential to impact on the IJB's financial. These include:

- The **new GMS contract** is being developed in collaboration between the Scottish Government and GP representatives. As further information on the financial implications is available this will be reported to the IJB;
- Part of the additional social care funding is to support work to allow the full implementation of the **Carers Bill** in early 2018. However, the associated long term costs of implementing this legislation are not yet clear and as further information becomes available this will be reported to the IJB; and
- NHS Lothian has agreed that a safe and effective target **occupancy** for acute wards (including those functions delegated to the IJB) should be 85%, well below the current average. The financial impact of reducing occupancy and increasing community capacity has not yet been modelled and may require additional investment.

Financial implications

39. Outlined elsewhere in this report.

Involving people

40. 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

41. As above.

Background reading/references

42. None.

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Links to priorities in strategic plan

**Managing our
resources
effectively**

	Recurring £k	Non recurring £k	Total £k
Income			
<i>Budget b fwd from 16/17</i>			
- City of Edinburgh Council	184,428		184,428
- NHS Lothian	384,554		384,554
- Increase in NHS funding	13,798		13,798
Social care fund I	20,180	3,282	23,462
Social care fund II	8,721	0	8,721
Delegated budget 17/18	611,681	3,282	614,963
Expenditure			
Baseline expenditure	592,300	0	592,300
<i>Anticipated cost increases 17/18</i>			
- Pay awards	3,384		3,384
- Apprenticeship levy	1,108		1,108
- National living wage, NCHC and other contractual costs	3,596		3,596
- Veterans	408		408
- Pre implementation of carers act	163		163
- Prescribing	5,729		5,729
- Proposed developments	451		451
- Other	1,303		1,303
<i>Previously agreed SCF investments</i>			
- Learning disabilities (transition)	1,855		1,855
- Learning disabilities (FYE 15/16)	540		540
- Charging thresholds	522		522
- Reduction in care at home waiting list	470		470
- Implementation of living wage	8,752		8,752
<i>Proposed provision for further investments (see appendix 2)</i>	12,035	2,844	14,879
Total projected expenditure	632,614	2,844	635,458
Net position before recovery plans	(20,933)	438	(20,495)
Recovery actions identified to date	14,420		14,420
Position after recovery plans	(6,513)	438	(6,075)

	Recurring £k	Non recurring £k	Recommended for IJB approval	Lead officer
Disabilities				
Full year impact of 16/17 investments	723	0		Strategic Planning & Quality Manager - Disabilities
Transition from school & home	836	0		
Disabilities complex care	234	0		
Forensic services	375	0		
Mental health & substance misuse				
Community placements - rehab services	1,190	0		Strategic Planning & Quality Manager - MH & Substance Misuse
Reduction in drug & alcohol funding	420	0	√	
ARBD	506	0		
Older people				
Liberton (increase in bed numbers)	1,500	0		Strategic Planning & Quality Manager - Older People
Gylemuir (non recurring funding)	1,327	0		
EBSS & care home liaison	222	0	√	
Night support service	144	0	√	
Overnight homecare service	0	150		
Edinburgh dementia training partnership	0	26	√	
LOOPs hospital discharge service	0	313	√	
Carers' support hospital discharge	74	0	√	Locality Manger - NW
Primary care				
Community complex care	400	0		Strategic Planning & Quality Manager - Primary Care
COPD integrated service	155	0	√	
Anticipatory care planning	0	78	√	Locality Manger - NE
Step forward	81	0		
District nursing review	250	200		Chief Nurse
Other				
Hospital at home (hub workers)	1,000	0		Chief Strategy and Performance Officer
Capacity and unmet demand	2,597	1,317		
Telecare	0	760		Strategic Planning & Quality Manager - Older People
Total	12,035	2,844		