

# Report

## Financial Performance and Outlook

### Edinburgh Integration Joint Board

15 December 2017



#### Executive Summary

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1. The purpose of this report is to provide the Integration Joint Board (IJB) with an overview of the financial position for the 7 months of 2017/18 and the forecast year end position. It also gives an initial indication of the scale of the financial challenge facing the IJB over the 5 year period 2018/19 to 2022/23.

#### Recommendations

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2. The Integration Joint Board is asked to:
  - a) note that delegated services are reporting an overspend of £4.0m for the first 7 months of 2017/18, which is projected to rise to £7.1m by the end of the financial year without any further action
  - b) acknowledge that ongoing actions are being progressed to reduce the predicted in-year deficit to achieve a year-end balanced position, however, only **limited assurance** can be given of the achievement of break even at this time
  - c) acknowledge the initial financial outlook for the next 5 years; and
  - d) support the development of an underpinning financial strategy.

#### Background

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3. On 17 November 2017, the IJB considered the in-year financial position for 2017/18 and received limited assurance that despite the work led by the Interim Chief Officer to identify and implement appropriate mitigating action, a break even position could be delivered for delegated services.
4. It was also acknowledged that significant and long-standing pressures were impacting on the ability of both NHS Lothian and the Council to meet financial targets, deliver approved savings programmes and operate within established budgets. These pressures are evident in the current financial position of

delegated services and were reflected in the initial assessment of the financial outlook for 2018/19 onwards. This was shared with IJB members at the October development session. Further, the Board recognised that returning to a balanced position requires major redesign of services, radical changes in thinking and approach, and the involvement of all partners and stakeholders.

## Main report

### Overview of 17/18 financial position

5. For the first 7 months of the financial year, the Council and NHS Lothian overspent against the budgets agreed by the IJB by £8.2m. The equivalent year-end forecast is an overspend position of £14.2m. This will be offset by the Council commitment, on a non-recurring basis, to meet the anticipated shortfall of up to £7.1m in the delegated services it runs in 2017/18. A summary is presented in Table 1 below, with further detail included in Appendix 1 (NHS Lothian) and Appendix 2 (Council).

	Position to end October 2017			Year end forecast Variance £k
	Budget £k	Actual £k	Variance £k	
NHSL services				
Core services	160,950	163,693	(2,743)	(4,892)
Hosted services	47,188	46,726	462	528
Set aside services	55,606	57,335	(1,729)	(2,721)
<b>Sub total NHSL services</b>	<b>263,745</b>	<b>267,755</b>	<b>(4,010)</b>	<b>(7,085)</b>
<b>CEC services</b>	<b>107,713</b>	<b>111,854</b>	<b>(4,142)</b>	<b>(7,100)</b>
<b>Gross position</b>	<b>371,458</b>	<b>379,609</b>	<b>(8,152)</b>	<b>(14,185)</b>
<b>Non recurring contribution (CEC)</b>	<b>4,142</b>		<b>4,142</b>	<b>7,100</b>
<b>Net position</b>	<b>375,599</b>	<b>379,609</b>	<b>(4,010)</b>	<b>(7,085)</b>

Table 1: summary financial position for NHS services to September 2017

6. Delegated health services are reporting an overspend of £4.0m for the first 7 months of the year. NHS Lothian has now concluded its mid-year review and, as predicted, the forecast position for the IJB has slightly improved and now stands at £7.1m. The drivers of this position remain largely unchanged and can be articulated as: prescribing, nursing, supplies costs, unachieved efficiencies and junior medical staffing.
7. NHS Lothian continues to indicate that a break-even position across the organisation is not achievable, and overall, its forecast overspend has increased to £4.9m. Work is ongoing to identify and deliver further corporate flexibility to close the outstanding gap, and a second round of quarterly financial performance meetings began in November, offering an opportunity to refine year-end projections and identify further opportunities to support year-end break-even. The

impact on the 4 Lothian IJBs is the subject of ongoing discussions with NHS Lothian.

8. Despite the in-year forecast of break-even for the delegated services run by the Council, demand-led pressures and non-delivery of savings continue to factor in the financial position. As described above, the anticipated shortfall of up to £7.1m will be met by the Council on a non-recurring basis in 2017/18. Work is continuing to identify further opportunities to reduce the level of projected overspend.
9. As previously reported, this forecast reflects service levels at period 5 and does not include provision for any further uplift in activity, either in terms of increased baseline demand or through addressing the waiting lists. Plans to support the work of the assessment and review board are detailed in a separate paper to the Board.

### **Financial outlook**

10. The IJB faces twin challenges of increasing demand for services and a climate of constrained financial resources. In this context, the development and implementation of a strategic approach to financial planning over the next 3–5 years is essential to support the sustainability of health and social care delivery in Edinburgh.
11. Both Council and NHS Lothian await the Scottish Government's December budget announcement for Scotland, which will inform their respective financial plans, ultimately impacting on their ability to delegate resource to the IJB. Whilst an additional £2bn for Scotland over the period to 2020/21 was announced in the UK budget on 22 November 2017, the impact on NHS board and local authority finances is not yet clear. Further information will be available following the Scottish Budget, and the programme for government announced on 5 September 2017 gives an indication of likely priorities. Points pertinent to IJBs include:
  - at least a real terms increase in the NHS budget
  - a safe staffing bill to ensure sufficient staff in the right areas
  - a health and social care delivery plan to shift resources to primary and community care
  - an additional £20m for alcohol and drug misuse services
  - ill-health strategy; and
  - implementation of 'Frank's Law' making free personal care available for people under the age of 65 with certain conditions, such as dementia.
12. **NHS Lothian** is planning on the basis of:
  - a 0.5% uplift (£6.8m) on its baseline allocation from the Scottish Government
  - a further contribution of £12m to recognise its current level of resource falls below their NRAC share

- internally generated resources to supplement this additional funding; and
  - a current overall financial plan gap of £42m in 2018/19.
13. Current estimates provided by NHS Lothian are that the impact on the IJB's delegated budget would be an increase of £1.1m annually.
14. Although the **Council** expects to face continuing significant cash terms reductions in the overall level of resourcing available, it has recognised that underlying pressures in health and social care require to be addressed on a sustainable basis to ensure a stable longer term financial position. The Council's financial strategy for 2018/19 requires:
- the identification of savings sufficient to address the underlying structural pressures of £7.1m discussed above
  - £4.1m is planned to be delivered internally by the Health and Social Care Partnership (representing savings originally planned for delivery in earlier years); and
  - the £3m balance will be delivered by other Council services.
15. The net effect is an uplift of £3m in the Council's baseline offer to the IJB for 2018/19.
16. The third element of the IJB's funding package is the **Social Care Fund**. Over the last 2 financial years, the Edinburgh share totalled £28.9m, and the application of these funds was set out in the IJB financial plans for 2016/17 and 2017/18. The majority of the money has now been allocated to base budgets. There are 2 exceptions to this, provisions to: implement the new model of care for older people (£1.5m); and mental health community accommodation (£1.2m), where the supporting strategic plans are not yet fully developed. It is recommended that these provisions are revisited when the outline strategic commissioning plans are finalised.
17. The combination of the 3 sources of funding discussed in paragraphs 12 to 16 above would give an opening IJB delegated budget of £624m for 2018/19, rising to £629m in 2022/23 as demonstrated in table 2 below:

	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
NHSL core	265,397	265,772	266,147	266,521	266,896
NHSL hosted	73,454	73,918	74,004	74,468	74,932
NHSL set aside	94,874	95,205	95,798	96,390	96,982
<b>Sub total</b>	<b>433,725</b>	<b>434,896</b>	<b>435,948</b>	<b>437,379</b>	<b>438,810</b>
City of Edinburgh Council	187,650	187,650	187,650	187,650	187,650
Social Care Fund balance	2,690	2,690	2,690	2,690	2,690
<b>Grand total</b>	<b>624,065</b>	<b>625,236</b>	<b>626,288</b>	<b>627,719</b>	<b>629,150</b>

Table 2: projected IJB delegated budget 2018/19 to 2022/23

18. Planning assumptions have been used to model the expenditure profile over the same period. This will continue to be refined over the coming months, but gives an indication of the quantum of the challenge facing the IJB. Following the agreement of the outline strategic commissioning plans, members may wish to review the way funds are directed. The analysis set out in table 3 below is based on existing service provision. It shows the projected increases in costs over the next 5 years compared to income, demonstrating the growing baseline pressure:

	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
Opening cost base	633,265	657,726	678,904	700,606	722,839
Projected increase in costs	23,341	21,206	21,712	22,233	22,854
<b>Total projected costs</b>	<b>656,606</b>	<b>678,932</b>	<b>700,617</b>	<b>722,839</b>	<b>745,693</b>
<b>Projected income</b>	<b>624,065</b>	<b>625,236</b>	<b>626,288</b>	<b>627,719</b>	<b>629,150</b>
<b>Projected shortfall (£k)</b>	<b>(32,541)</b>	<b>(53,696)</b>	<b>(74,329)</b>	<b>(95,121)</b>	<b>(116,544)</b>
<b>Projected shortfall (%)</b>	<b>5.0%</b>	<b>7.9%</b>	<b>10.6%</b>	<b>13.2%</b>	<b>15.6%</b>

Table 3: Edinburgh IJB projected shortfall 2018/19 to 2022/23

19. This analysis is based on the following assumptions:
- pay awards of 2%
  - provision for contract inflation, including the national care home contract
  - NHS non-pay inflation of 2%
  - increases in prescribing of 5% to 6% pa
  - savings identified to date (£2.1m across the delegated services in 2018/19) will be delivered in full
  - demographic growth in older people and learning disabilities services will increase costs by £6m to £7m annually
  - unmet need can be addressed within existing financial constraints by changing models of service provision; and
  - the implications of Scottish Government policies, including the Carers' Act, the living wage, the new GP contract and free personal care are fully funded.
20. Work is underway in the Partnership and NHS Lothian to identify saving proposals to mitigate these pressures, and an update on progress will be presented to the IJB when these are more fully developed. In addition, there are a number of scenarios that would reduce resultant shortfall (£32m or 5% in 2018/19, rising to £116m in 2022/23), including:
- changes in planning assumptions (for example lower than predicted pay award settlements or contract inflation)
  - the identification of additional funding to offset these costs, either through announcements in the December budget settlement or increased contributions from Council and NHS Lothian; and

- the identification of opportunities to increase productivity and manage demand for services within existing resources, as well as areas where costs can be reduced.
21. Equally, a number of factors could see the gap increase, for example insufficient new funding available to underpin national strategies and initiatives.
  22. Whilst the figures quoted are estimates, even if these prove inaccurate, it is clear that in line with other public sector services, the IJB faces significant financial challenges for the foreseeable future. The system is some way from recurring financial balance and budgets delegated by Council and NHS Lothian are extremely unlikely to be sufficient to deliver services in line with the strategic plan intentions. Further, the prevailing financial climate for public services means that neither Council nor NHS Lothian is likely to be able to increase their offer to the IJB.

### **Key risks**

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23. The key risk to the IJB is on the ability to deliver fully on the strategic plan in the context of the prevailing financial position.

### **Financial implications**

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24. Outlined elsewhere in this report.

### **Implications for directions**

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25. There is no direct impact of this report on directions.

### **Equalities implications**

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26. While there is no direct additional impact of the report's contents, budget proposals will be assessed through the existing Council and NHS Lothian arrangements.

### **Sustainability implications**

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27. There is no direct additional impact of the report's contents.

### **Involving people**

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28. As above.

## Impact on plans of other parties

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29. As above.

## Background reading/references

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## Report author

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## Appendices

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<b>Appendix 1</b>	Financial position of delegated services provided by NHS Lothian 2017/18
<b>Appendix 2</b>	Financial position of delegated services provided by City of Edinburgh Council 2017/18



FINANCIAL POSITION OF DELEGATED SERVICES PROVIDED BY NHS Lothian  
2017/18

	Position to end October 2017			Year end forecast
	Budget £k	Actual £k	Variance £k	Variance £k
<b>Core services</b>				
Community AHPs	3,423	3,773	(349)	(518)
Community Hospitals	6,498	6,726	(228)	(319)
District Nursing	6,126	6,179	(52)	(131)
GMS	41,598	42,040	(442)	(548)
Mental Health	5,314	5,251	64	193
Other	33,785	34,510	(725)	(1,141)
Prescribing	46,153	47,164	(1,011)	(2,426)
Resource Transfer	18,052	18,051	1	(1)
<b>Sub total core</b>	<b>160,950</b>	<b>163,693</b>	<b>(2,743)</b>	<b>(4,892)</b>
<b>Hosted services</b>				
AHPs	3,756	3,661	94	81
Complex Care	922	1,221	(299)	(53)
GMS	3,294	3,303	(9)	(80)
Learning Disabilities	4,713	4,866	(153)	(431)
Lothian Unscheduled Care Service	3,153	3,153	0	14
Mental Health	14,317	13,844	473	479
Oral Health Services	5,380	5,204	177	300
Other	(491)	(570)	79	37
Palliative Care	1,363	1,369	(6)	(0)
Psychology Service	2,453	2,402	50	(23)
Rehabilitation Medicine	1,897	1,782	115	135
Sexual Health	1,758	1,784	(26)	2
Substance Misuse	2,695	3,102	(408)	(319)
UNPAC	1,978	1,604	374	387
<b>Sub total hosted</b>	<b>47,188</b>	<b>46,726</b>	<b>462</b>	<b>528</b>
<b>Set aside services</b>				
A&E	3,612	3,710	(98)	(5)
Cardiology	9,228	9,273	(45)	40
Diabetes	629	688	(59)	(119)
Gastroenterology	2,280	2,742	(462)	(541)
General medicine	13,876	14,055	(179)	(647)
Geriatric medicine	7,755	7,669	86	136
Infectious disease	4,346	4,315	30	34
Junior medical	7,156	7,969	(813)	(1,178)
Management	919	1,023	(104)	(163)
Other	947	989	(42)	(135)
Rehabilitation medicine	1,190	1,252	(63)	(88)
Therapies	3,668	3,648	20	(56)
<b>Sub total set aside</b>	<b>55,606</b>	<b>57,335</b>	<b>(1,729)</b>	<b>(2,721)</b>
<b>Grand total</b>	<b>263,745</b>	<b>267,755</b>	<b>(4,010)</b>	<b>(7,085)</b>



## FINANCIAL POSITION OF DELEGATED SERVICES PROVIDED BY CITY OF EDINBURGH COUNCIL 2017/18

	Position to end October 2017			Year end forecast
	Budget £k	Actual £k	Variance £k	Variance £k
<b>Employee costs</b>				
Council Paid Employees	<b>48,578</b>	<b>47,995</b>	<b>583</b>	<b>1,000</b>
<b>Non pay costs</b>				
Premises	752	752	0	0
Third Party Payments	103,813	108,334	(4,521)	(7,750)
Supplies and Services	5,150	5,383	(233)	(400)
Transfer Payments	452	569	(117)	(200)
Transport	1,026	1,172	(146)	(250)
Other	262	262	0	0
<b>Sub total</b>	<b>111,455</b>	<b>116,471</b>	<b>(5,017)</b>	<b>(8,600)</b>
<b>Gross expenditure</b>	<b>160,033</b>	<b>164,466</b>	<b>(4,433)</b>	<b>(7,600)</b>
<b>Income</b>	<b>(52,320)</b>	<b>(52,612)</b>	<b>292</b>	<b>500</b>
<b>Balance</b>	<b>107,713</b>	<b>111,854</b>	<b>(4,142)</b>	<b>(7,100)</b>
<b>Non recurring Council contribution</b>	<b>4,142</b>	<b>0</b>	<b>4,142</b>	<b>7,100</b>
<b>Net position</b>	<b>111,854</b>	<b>111,854</b>	<b>0</b>	<b>0</b>