

# Report

## Financial Performance and Outlook

### Edinburgh Integration Joint Board

2 March 2018



#### 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 first 9 months of 2017/18 and the forecast year end position. It also gives an update on the ongoing discussions with NHS Lothian and the City of Edinburgh Council (the Council) and the consequent impact on the 2018/19 IJB financial plan.

#### Recommendations

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2. The Integration Joint Board is asked to:
  - a) note that delegated services are reporting an overspend of £3.7m for the period to the end of December 2017, and that this is projected to rise to £5.8m by the end of the financial year
  - 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) note the progress made with discussions on the financial plan for 2018/19, including the planning assumption that both NHS Lothian and the Council are exploring options to increase the delegated budget to reflect demand led pressures
  - d) note that neither the Council nor NHS Lothian's financial planning processes for have concluded in advance of this report being prepared; and
  - e) agree to receive an update at the meeting in May 2018.

## Background

3. At its meeting in November and December 2017, the IJB considered the in-year, financial position for 2017/18 and delivery of a break-even position was dependent on reaching an agreement with NHS Lothian.
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 the financial outlook shared with members at the board development session in October and the update considered at the meeting in December 2017. Consequently, 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. Between April and December 2017, the Council and NHS Lothian overspent against the budgets delegated by the IJB by £9.1m. The equivalent year-end forecast is an overspend position of £12.9m, a reduction of £1.5m over the previous estimate. This will be offset by the Council commitment to meet, on a non-recurring basis, the anticipated shortfall of up to £7.1m in the delegated services it runs. This contribution brings the net position to a projected £3.8m. A summary is presented in table 1 below with further detail included in Appendix 1 (NHS Lothian) and Appendix 2 (Council).

	Position to end December 2017			Year end forecast Variance £k
	Budget £k	Actual £k	Variance £k	
NHS services				
Core services	198,232	200,870	(2,638)	(3,767)
Hosted services	61,081	59,998	1,084	731
Set aside services	71,447	73,655	(2,208)	(2,747)
<b>Sub total NHS services</b>	<b>330,760</b>	<b>334,523</b>	<b>(3,763)</b>	<b>(5,783)</b>
<b>CEC services</b>	<b>138,488</b>	<b>143,813</b>	<b>(5,325)</b>	<b>(7,100)</b>
<b>Gross position</b>	<b>469,248</b>	<b>478,336</b>	<b>(9,088)</b>	<b>(12,883)</b>
<b>Non recurring contribution (CEC)</b>	<b>5,325</b>		<b>5,325</b>	<b>7,100</b>
<b>Net position</b>	<b>474,573</b>	<b>478,336</b>	<b>(3,763)</b>	<b>(5,783)</b>

Table 1: summary financial position for IJB delegated budgets to December 2017

6. Delegated health services are reporting an overspend of £3.8m for the first 9 months of the year, with a year-end projection of £5.8m. The drivers of this position remain largely unchanged and can be articulated as prescribing, nursing, supplies costs, unachieved efficiencies and junior medical staffing.
7. Based on data to December, NHS Lothian is now able to provide significant assurance on the achievement of financial balance by the year end. A break-even position for the IJB is dependent on the outcome of the ongoing discussions between the 4 Lothian IJBs and NHS Lothian. A paper setting out the options for addressing the IJB in-year deficits will be considered at the next Finance and Resources Committee on 21 March 2018.
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 are key factors in the financial position. 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.

### Scottish budget

9. The Scottish Government's draft budget for 2018/19 was announced on 14 December 2017, key headlines from the budget included:
  - uplift of 1.5% for all territorial health boards plus a share of £30m for those below NRAC parity (this equates to £29.0m for NHS Lothian)
  - additional revenue funding in 5 core areas:
    - a) **transformational change** – establishment of a £126m fund to support regional delivery plans
    - b) **mental health** – a further £17m, which will go towards the commitment to increase the workforce by an extra 800 workers over the next 5 years; and for transformation in CAMHS – this funding is provided on the basis that it is in addition to a real-terms increase in existing 2017/18 spending levels by NHS Boards and Integration Authorities
    - c) **primary care** – investment in the primary care fund will rise to £110m to support transformation by enabling the expansion of multi-disciplinary teams for improved patient care, and a strengthened and clarified role for GPs as expert medical generalists and clinical leaders in the community
    - d) **social care** – £66m (provided as part of the settlement for local government) to recognise a range of pressures, including implementation of the Carers (Scotland) Act 2016, continued payment of the living wage and increases in personal and nursing care payments; and
    - e) **alcohol and drug partnerships** – a renewed focus on alcohol and drugs backed by additional investment of £20m for treatment and support services.
  - An ostensibly “flat cash” funding package for local authorities, which reflects baselining of the £130m of revenue resources initially provided on a one-off

basis as part of the revised Local Government Finance Settlement in February 2017, as well as the £66m for social care referenced above.

10. As part of the Stage 1 Budget Bill Debate on 31 January, the Cabinet Secretary introduced several amendments. These revised budget proposals were approved and now move onto the next stage in the legislative process ahead of a final parliamentary vote on 21 February. These changes include an increase of £170m in the Local Government Finance Settlement for 2018/19 (comprising £159.5m of support to be allocated across councils in accordance with shares of overall assessed expenditure need and £10.5m specifically in respect of funding support for inter-island ferries for Orkney and Shetland Islands Councils).
11. The likely settlement for Edinburgh is a cash reduction of 0.4%, equivalent to c£3m. This equates to a favourable movement of £27.1m over the planning assumptions in the revenue budget framework.

### **Council and NHS Lothian financial plans**

12. The draft budget and subsequent amendments, combined with the Scottish Government public sector pay policy impact on the financial plans for both partner organisations. This in turn influences their ability to delegate resource to the IJB.
13. Neither NHS Lothian nor the Council has yet finalised financial plans for 18/19 and therefore neither can yet propose a delegated budget. That said, positive discussions have taken place with both parties, each of which recognises that underlying pressures in health and social care require to be addressed on a sustainable basis to ensure a stable longer term financial position. To this effect, each partner is exploring the options for increasing its allocation to the IJB by an additional £4m (i.e. £8m in total).
14. The Council Finance and Resources Committee considered a progress update on the revenue budget framework at its meeting on 2 February 2018 and full Council will debate the budget on 22 February. NHS Lothian is in the same position as the previous 2 years and is currently unable to provide assurance on its ability to deliver a balanced financial position in 2018/19. The version of the plan presented to the NHS Lothian Finance and Resources Committee on 23 January 2018 highlighted an in-year deficit of £27.8m.

### **IJB outline financial plan**

15. The Council's financial strategy for 2018/19 assumes an increase in the budget delegated to the IJB of £12.6m, of which £5.6m is the share of the £66m available nationally and referenced in paragraph 9. Similarly, NHS Lothian is planning on the basis of a £13.3m increase. These planning assumptions are subject to change as the respective financial plans are finalised.
16. Funding from the Council and NHS Lothian is supplemented by the Social Care Fund, the majority of which 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 (£1.0m), 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 final element of the IJB financial position is the balance of the Integrated Care Fund (ICF). Members previously agreed the distribution of these monies and established a £2.3m innovation fund from the remaining balance. In 2017/18, this was allocated to the budget agreed to support the work of the improvement team focusing on reducing the number of outstanding assessments. Whilst it is recognised that there are currently no firm plans for this money, it is also the case that, except for the provisions referenced at paragraph 16 above, this is the one remaining source of funds to encourage innovation and pump prime change.
18. The combination of the funding discussed in paragraphs 15 to 17 would give an opening IJB delegated budget of £649m for 2018/19, as demonstrated in table 2 below:

	£k
City of Edinburgh Council	197,750
NHS Lothian	446,677
Social care fund - balance	2,550
Integrated care fund - balance	2,300
<b>Total delegated resources</b>	<b>649,277</b>

*Table 2: projected IJB delegated budget 2018/19*

19. Planning assumptions have been used to model the associated costs. This requires further refinement as additional information from NHS Lothian and the Council becomes available. It does, however, give an indication of the quantum of the challenge facing the IJB. Table 3 below shows a gross shortfall of £23.5m, which reduces to £12.4m assuming savings of £11.1m are delivered in full (further detail of the proposed saving and recovery programme is included in Appendix 3).

	£k
Opening cost base	625,123
Projected increase in costs	47,673
<b>Total projected costs</b>	<b>672,796</b>
<b>Projected income</b>	<b>649,277</b>
<b>Projected shortfall</b>	<b>(23,519)</b>
Savings and recovery programme	11,121
<b>Balance</b>	<b>(12,398)</b>

*Table 3: Edinburgh IJB projected shortfall 2018/19*

20. There are 2 components to the remaining balance of £12.4m: a share of the NHS Lothian financial plan deficit (£10.1m); and a shortfall in funding to offset the costs of additional community capacity (£2.3m). The IJB has several options to bridge this gap, including: limiting investments to support demographic growth; reducing the provision to support the additional capacity for older people waiting for

community services; identification of additional savings; and the reprioritisation of social and integrated care funds. The option of requesting that either NHS Lothian and/or the Council increase the value of the delegated resource has been ruled out on the basis this would be undeliverable. Rather than agree any of these options at this point, it is recommended that the position is revisited when the year-end reserves position is clearer.

21. This underpinning analysis is based on the following assumptions:

- pay awards in line with Scottish Government public sector pay policy
- provision for contract inflation, including the national care home contract
- NHS non- pay inflation of 2%
- increases in prescribing of 5% to 6% pa
- the full year impact of 2017/18 purchasing growth is £2m
- demographic growth in older people and learning disabilities services will increase costs by £4.5m in 2018/19
- a £6.5m provision for unmet need has been factored in, any costs in excess of this will be met within existing financial constraints by changing models of service provision (i.e. the requirements for savings will increase); and
- the implications of Scottish Government policies, including the Carers' Act, the living wage, the new GP contract and free personal care are deliverable within the funding available.

22. It is clear that, like many other public sector bodies, the IJB faces significant financial challenges for the foreseeable future. The system is some way from recurring financial balance and the indicative budgets delegated by the Council and NHS Lothian will not be sufficient to deliver services without the requirement to make further savings.

## 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
<b>Appendix 3</b>	Projected savings and recovery programme 2018/19



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

	Position to end December 2017			Year end forecast
	Budget £k	Actual £k	Variance £k	Variance £k
<b>Core services</b>				
Community AHPs	5,070	4,942	128	120
Community Hospitals	8,357	8,498	(141)	(222)
District Nursing	7,945	7,935	10	(99)
GMS	54,492	55,104	(613)	(548)
Mental Health	7,554	7,370	184	193
Other	36,684	37,719	(1,034)	(1,023)
Prescribing	60,077	61,251	(1,174)	(2,186)
Resource Transfer	18,052	18,051	1	(1)
<b>Sub total core</b>	<b>198,232</b>	<b>200,870</b>	<b>(2,638)</b>	<b>(3,767)</b>
<b>Hosted services</b>				
AHPs	4,883	4,719	164	81
Complex Care	1,249	1,468	(219)	28
GMS	4,349	4,444	(95)	(80)
Learning Disabilities	6,142	6,332	(190)	(432)
Lothian Unscheduled Care Service	4,128	4,128	0	14
Mental Health	18,583	18,074	510	593
Oral Health Services	6,871	6,622	248	293
Other	(603)	(707)	104	37
Palliative Care	1,748	1,759	(11)	(0)
Psychology Service	3,049	3,004	46	(23)
Rehabilitation Medicine	2,414	2,234	180	130
Sexual Health	2,311	2,344	(33)	(7)
Substance Misuse	3,372	3,471	(98)	(323)
UNPAC	2,586	2,107	479	421
<b>Sub total hosted</b>	<b>61,081</b>	<b>59,998</b>	<b>1,084</b>	<b>731</b>
<b>Set aside services</b>				
A & E	4,664	4,824	(160)	(6)
Cardiology	12,017	12,122	(105)	35
Diabetes	798	915	(117)	(119)
Gastroenterology	2,681	3,310	(629)	(558)
General medicine	17,825	18,049	(224)	(654)
Geriatric medicine	9,932	9,803	129	133
Infectious disease	5,491	5,434	56	29
Junior medical	9,297	10,211	(914)	(1,178)
Management	1,227	1,361	(134)	(163)
Other	1,249	1,304	(55)	(124)
Rehabilitation medicine	1,527	1,631	(103)	(88)
Therapies	4,740	4,691	49	(56)
<b>Sub total set aside</b>	<b>71,447</b>	<b>73,655</b>	<b>(2,208)</b>	<b>(2,747)</b>
<b>Grand total</b>	<b>330,760</b>	<b>334,523</b>	<b>(3,763)</b>	<b>(5,783)</b>



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

	Position to end December 2017			Year end forecast
	Budget £k	Actual £k	Variance £k	Variance £k
<b>Employee costs</b>				
Council Paid Employees	62,458	61,708	750	1,000
<b>Non pay costs</b>				
Premises	967	967	0	0
Third Party Payments	133,474	139,286	(5,813)	(7,750)
Supplies & Services	6,621	6,921	(300)	(400)
Transfer Payments	581	731	(150)	(200)
Transport	1,319	1,507	(188)	(250)
Other	337	337	0	0
<b>Sub total</b>	<b>143,299</b>	<b>149,749</b>	<b>(6,450)</b>	<b>(8,600)</b>
<b>Gross expenditure</b>	<b>205,756</b>	<b>211,456</b>	<b>(5,700)</b>	<b>(7,600)</b>
<b>Income</b>	<b>(67,268)</b>	<b>(67,643)</b>	<b>375</b>	<b>500</b>
<b>Balance</b>	<b>138,488</b>	<b>143,813</b>	<b>(5,325)</b>	<b>(7,100)</b>
<b>Non recurring CEC contribution</b>	<b>5,325</b>	<b>0</b>	<b>5,325</b>	<b>7,100</b>
<b>Net position</b>	<b>143,813</b>	<b>143,813</b>	<b>0</b>	<b>0</b>

**EDINBURGH INTEGRATION JOINT BOARD INDICITIVE SAVINGS AND  
RECOVERY PROGRAMME 2018/19**

	<b>£k</b>	<b>Accountable Officer</b>
Telecare and support planning/brokerage	4,000	Angela Lindsay/Katie McWilliam
Disability services (interim review)	700	Mark Grierson
Disability services review	500	Mark Grierson
Legal services	200	Colin Beck
Discretionary spend	200	Pat Wynne
Review of sleepover and night-time services	400	Mark Grierson
Review of transport	200	Sylvia Latona
Review of charges	400	Wendy Dale
Review of grants	400	Wendy Dale
Workforce management (including agency costs)	1,700	Pat Wynne
Homecare and reablement (efficiency and productivity)	1,000	Mike Massaro-Mallinson
Prescribing (locality quality initiatives)	243	Locality Managers
Other schemes (including hosted and set aside)	1,178	Various
<b>Total</b>	<b>11,121</b>	