

Report

Financial Framework 2020-2023

Edinburgh Integration Joint Board

22 October 2019



Executive Summary

1. The purpose of this report is to present the board with the medium term 3 year financial framework for the Integration Joint Board (IJB).

Recommendations

2. The Integration Joint Board is asked to:
 - a) Support the approach to the financial framework set out in this paper, including the role of the Strategic Planning Group;
 - b) Note that the financial outlook for 2020-2023 is unbalanced;
 - c) Support the proposed approach to developing a savings and recovery programme for agreement by the Board; and
 - d) Support development of a financial strategy for the IJB.

Background

3. As discussed elsewhere on the agenda, we are projecting a position of break even for 2019/20. However welcome, it is important to note that this financial position is underpinned by use of non recurring resources and, although the current savings programme steps up in 2020/21, it does not bridge the projected gap. Our partner organisations are also dealing with significant financial constraints and, although at different stages of their planning processes, it is clear that both will require sizeable savings programmes to balance their budgets.
4. This paper presents the board with an initial financial outlook based on where the partners are in their respective financial planning cycles. The numbers presented are iterative but do provide an insight into the scale of the financial gap over the next 3 years.

- Accordingly, this IJB financial framework will form the basis of a medium term financial strategy, aligned to the strategic plan, which will be presented to the board in January 2020.

Main report

National Context

- Integration Authorities (IAs) were created in order to transform health and care across Scotland in response to the challenges faced across the system. This transformation needs to happen against a backdrop of sustained real terms reductions in funding coupled with demand for health and social care services which is projected to increase significantly and at a faster rate than the wider economy.
- The Scottish Government's (SG) Medium Term Financial Framework for Health and Social Care (2018) classifies the growth in spending on services in response to increasing demand into three parts:
 - Price increases:** general price increases across health and social care services;
 - Demographic change:** the effect of the growing population living longer and with multiple and complex conditions; and
 - Non demographic growth:** is a consequence of demand led growth, resulting from increasing public expectation and advances in care and developments of new medicines.
- In developing this framework, the Scottish Government has assessed future demand forecasts and assumed an annual growth rate of 3.5% for health services in Scotland and 4% for social care services. Demographic growth within social care is assumed to be higher because of the ageing population. This is abated by the "fixed cost adjustment" which reflects the fact that not all growth will result in increased fixed costs. A breakdown of this is shown below in table 1:

Area	Health Services %	Social Care Services %	Total Growth %
Price effects	2.2%	2.2%	4.4%
Demographic factors	1.0%	1.5%	2.5%
Non-demographic growth	2.2%	2.2%	4.4%
Less: savings	-1.3%	-1.3%	-2.6%
Less: fixed cost adjustment	-0.6%	-0.6%	-1.2%
Total annual growth	3.5%	4.0%	7.5%

Table 1: Scottish Government growth forecasts 2018

9. The Scottish Government have made integration one of its key priorities and have made a pledge that over half of front line NHS spending will be incurred in community health services by the end of parliament in 2021.
10. There are a number of new Scottish Government investments which will support the shift in the balance of care. These include; the primary care improvement fund, action 15, and seek keep and treat. The IJB has approved plans for implementation of each of these programmes which seek to strengthen primary and community services.

Edinburgh

11. The IJB continues to operate in an extremely difficult financial environment; once again beginning the current financial year (2019/20) with an unbalanced financial plan. This financial framework is intended to support our annual financial plans as well as ensuring our strategic aims can be delivered in the most efficient way possible. The framework will create the outline for a fully formed financial strategy for the IJB.
12. As articulated in our strategic plan, our vision remains to deliver together a “caring, healthier and safer Edinburgh.” Practically over the next 3 years this will involve the adoption of the Three Conversations model, redesigning services and shifting the balance of care from a hospital setting to a community one, implementing a home first approach, and introducing the Edinburgh Pact.
13. One of the key levers available to the IJB to support transformation is that NHS and Local Authority budgets are no longer separate. The IJB can move resources between the partners in order to deliver new models of care and ensure the health and care system for Edinburgh is high quality, sustainable and effective. It is proposed that this premise is the basis of the financial framework – that the IJB will direct the totality of its resources in a manner which best serves the people of Edinburgh to be cared for in a homely setting.

Financial Framework

14. In developing the financial framework the three main areas driving demand growth must be addressed. The overarching approach of the financial framework to each of these challenges is shown below in table 2:

Demand Driver	Response
Price Effects	<ul style="list-style-type: none"> • Collaborating with providers • Driving best value • Integrated teams • Reduce reliance on institutional based care
Demographic Change	<ul style="list-style-type: none"> • “Bending the curve” • Reducing demand • Investing in prevention
Non Demographic Change	<ul style="list-style-type: none"> • Edinburgh pact • Realistic care, realistic medicine • Engaging communities

Table 2: Financial framework approach

15. The IJB is limited in the influence it can exert over the Scottish Government and its partner organisations (NHS Lothian and the City of Edinburgh Council) around budgetary uplifts. However under the integration act all delegated funding can be redirected as the IJB sees fit. This is the key principle of the financial framework and in redirecting its finite resources the IJB can enable transformation and reform. Building on this guiding principle and in support of the broad aims of the strategic plan it is proposed that the IJB set out to achieve a number of commitments over the next 3 years:
- To reduce hospital based expenditure by 5%. This relates to the aim in the strategic plan of introducing a home first approach;
 - To reduce spend on purchased services within social care by 30%. This relates to the aim in the strategic plan of rolling out the Three Conversations model across the city, focusing on prevention and early intervention; and
 - To reduce spend on purchased services within social care by an additional 15% through technology enabled care, tying in with the ambition of delivering care supported by technology.

16. These are clearly ambitious targets and further work is required to test the hypothesis and to refine as required. It is proposed that this is undertaken via the Strategic Planning Group.
17. As previously reported, along with our partners, we face an extremely challenging financial position in the short, medium and long term. In order to ensure the health and care needs of the people of Edinburgh are met we will need to work with routinely decreasing resources (in real terms) and apply these in the way which best address the needs of the city. To support this, our 3 horizon approach to savings and recovery (shown below in figure 1) is a key component of the financial framework.
18. The first horizon, grip and control, reflects the ongoing sound financial management and ongoing efficiencies we expect from those managing budgets on our behalf. The commitments of the financial framework are reflected in the second and third horizons (redesign and transformation). It is in these areas that the financial framework and subsequent financial strategy will primarily focus primarily on; i.e. how redesign and transformational will help the IJB meet its strategic aims and achieve financial balance.

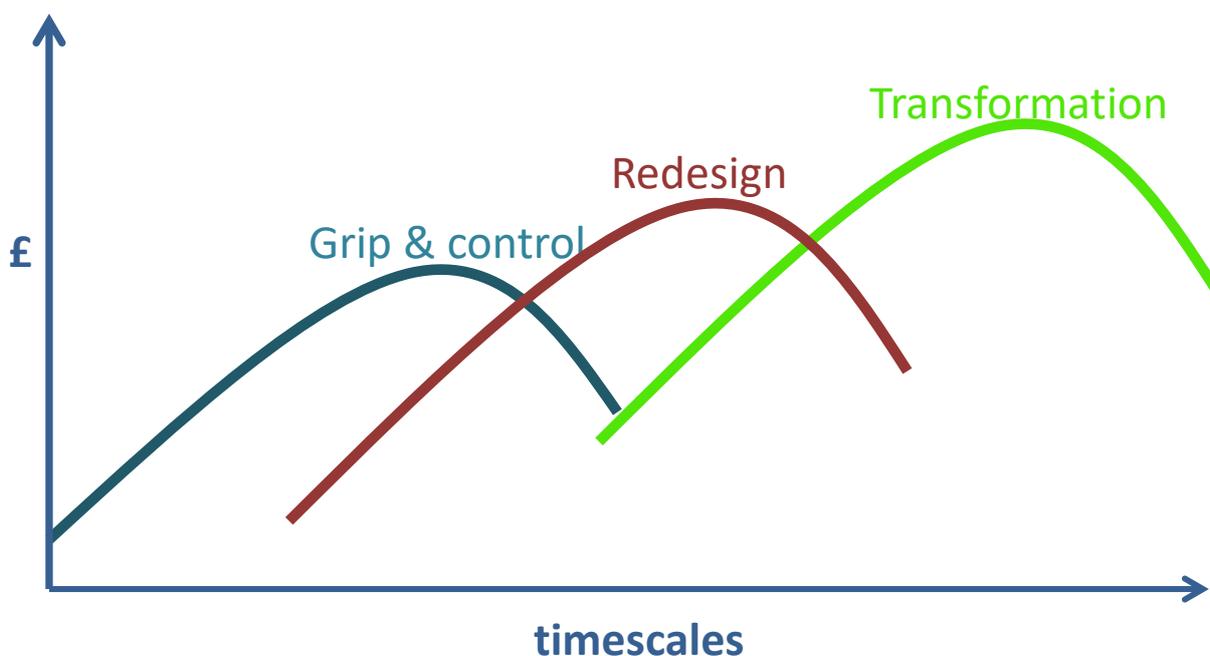


Figure 1: IJB savings and recovery strategy

Financial Strategy

19. Our financial strategy will build upon the commitments of the financial framework. It will link more closely with the strategic plan of the IJB, focusing on how resources are consumed by specific services now and how the board would like to direct resources in the future. For example reducing spend on hospital learning disabilities to a minimum in support of the strategic aim of ensuring people with a learning disability can live full and fulfilling lives in the community.

20. It is recommended that this work is progressed through the Strategic Planning Group (SPG), recognising the strong links between our strategic plan and financial strategy. Initial thinking is that a draft financial strategy for 2020-23 will be considered by the SPG in early 2020 before being presented to the Board.

Financial Outlook 2020-2023

21. Based on the current planning assumptions by both partner organisations a 3 year financial outlook for the IJB has been developed. The outlook remains subject to material changes as both partner organisations undertake detailed financial planning for 2020 and beyond but does provide the IJB with the scale of the financial challenge it faces. The Scottish Government budget announcement in December 2019 may also materially alter the figures presented in the outlook.
22. The financial planning assumptions involved in producing the 3 year outlook for the IJB are as follows:

Income:

- NHS uplift assumed at 1.65% in 2020/21 and 1% thereafter
- CEC uplift in funding assumed at 2.5%

Expenditure:

- NHS pay inflation 4% for 2020/21; 2% thereafter
- CEC pay inflation 3% each year; £0.5m each year for increments
- NHS hospital drugs growth 9% each year
- NHS GP prescribing growth 4% each year
- Purchasing inflation in line with pay inflation
- NHS other non pay inflation 1% each year

Recovery (savings):

- Full year impact of the 2019/20 savings programme
- GP prescribing efficiencies of 2.5% each year
- Home first; £2.5m across 3 years
- Three conversations; 10% of purchasing budget each year
- Technology enabled care; 5% of purchasing budget each year

23. Even with the commitments of the financial framework around redesign and transformation of IJB services the outlook remains extremely challenging as can be seen in tables 3-5 below:

	20/21	21/22	22/23
	£m	£m	£m
NHS delegated base budget	445	453	456
Additional contributions	7	4	4
Total NHS income	453	456	460
CEC delegated base budget	217	222	228
Additional contributions	5	6	6
Total CEC income	222	228	234
Total income	675	684	694

Table 3: Anticipated income 2020-2023

	20/21	21/22	22/23
	£m	£m	£m
Base expenditure	680	687	698
Price effects	18	15	15
Demographic change	11	12	12
Non demographic growth	1	2	2
Total expenditure	710	715	727

Table 4: Projected expenditure 2020-2023

	20/21	21/22	22/23
	£m	£m	£m
Total income	675	684	694
Total expenditure	710	715	727
Gap before savings plans	(35)	(31)	(33)
Total savings plans	24	19	17
Total gap	(11)	(12)	(15)

	20/21	21/22	22/23
% gap	(1.7%)	(1.8%)	(2.2%)

Table 5: Projected financial outlook 2020-2023

24. The Council's Head of Finance has written to the Chief Finance Officer to provide an update on the budget framework assumptions and these have been reflected in this financial outlook. Of particular note is the planning assumption that any uplift provided by the Scottish Government to support health and social care will not be passed on in full to the IJB. This is despite the recognition of the scale of the demographic challenge facing health and social care services. As in previous

years the Council is aiming to set its budget in February 2020. See paragraph 27 for further detail on the timetable leading up to this.

25. NHS Lothian's Finance and Resources Committee considered the first draft of the financial plan for 20/20 onwards on 25th September. This will be refined over the coming months with an indicative budget for the IJB expected shortly. The final plan is timetabled to be agreed by the end of March 2020.
26. As outlined in the financial outlook for the next 3 years, even with the commitments outlined in the financial framework, there is still a significant financial gap for the medium term for Edinburgh IJB. This will require us to continue to work productively with our partners and external stakeholders such as the Scottish Government to resolve the gap through transformation and redesign.
27. The Partnership's management team has started a series of workshops to develop a proposed savings and recovery programme for 2020 and beyond. This in turn will be presented to the board at development sessions scheduled between November 2019 and January 2020 with the final proposed programme being presented to the Board in February 2020. In parallel the Chief Officer and Chief Finance Officer, supported by colleagues from the Council and NHS Lothian finance teams, will continue to refine the planning assumptions.
28. It is clear that due to the level of financial challenge faced by the IJB, this financial framework needs to be expanded into a financial strategy for the medium term. This strategy will be closely linked to the strategic plan and will help inform the annual delivery plan and directions in future years.

Financial implications

29. Outlined elsewhere in this report.

Implications for directions

30. There is no direct additional impact of the reports contents.

Equalities implications

31. As above.

Sustainability implications

32. As above.

Involving people

33. As above.

Impact on plans of other parties

34. As above.

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Appendices

None

