

Midlothian Integration Joint Board



Thursday 9 February 2017 at 2pm

Budget Setting, Financial Planning and Financial Management 2017/18 – Outline and approach

Item number: 5.2

Executive summary

On 15th December 2016, the Scottish Government announced its proposed budget settlement for both the Local Authorities and the NHS in Scotland for 2017/18. This announcement also contained further details about the social care fund and laid out the government's ambitions for IJBs.

In summary the Council's budget has been reduced and NHS Lothian has a net uplift of 0.4%.

Both the Council and NHS Lothian have provided the IJB with estimates of expenditure in 2017/18, these forecasts are considerably in excess of the budgetary resources that will be available.

The IJB will have to agree its 17/18 budget and its Directions at its March meeting, this paper should be seen as a preparatory briefing for the finance paper to be presented to the March meeting.

Board members are asked to:

- 1. Note the projected out-turn position for 2016/17*
 - 2. Note and consider the magnitude of the financial challenge facing the IJB in 2017/18*
 - 3. Consider the implications of Scottish Government's clear ambitions for IJBs which will need to be achieved with the financial resources available*
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Report

Budget Setting, Financial Planning and Financial Management 2017/18 – Outline and approach

1. Purpose

1. This paper lays out :-

- 1.1 The projected financial out-turn for the IJB for 2016/17
- 1.2 The Scottish Government's budget settlement for Midlothian Council and NHS Lothian for 2017/18
- 1.3 The Scottish Government's indications for the IJB's budget settlement for 2017/18
- 1.4 The 'soft' offers from NHS Lothian and Midlothian Council to the IJB
- 1.5 The financial pressures identified by the current projection
- 1.6 The proposed approach to this settlement

2. Recommendations

The Board is recommended to:-

- 2.1 Note this report.
- 2.2 Note the projected out-turn position for 2016/17
- 2.3 Note the issues surrounding the 2017/18 budget settlement
- 2.4 Note the magnitude of the financial challenge facing the IJB in 2017/18

3. Background and main report

3.1 IJB Projected Out-turn 2016/17.

As was discussed in the finance paper presented to the IJB in December 2016, the IJB's budget has been revised since the opening budgetary position was laid out in the directions issued by the IJB at its March 2016 meeting. There have been a range of movements but broadly, NHS Lothian made a formal offer to the IJB (which was presented to the IJB) and Midlothian Council have adjusted the 2016/17 budget to include funds that had been brought forward from 2015/16.

In 2016/17 Midlothian Council is projecting an overspend against the social care budget of c. £1.4m and NHS Lothian are projecting an overspend of c. £1.4m for those delegated health functions. This is total forecast net overspend against the overall IJB's budget of c. £2.8m. However, as was reported previously, both NHS Lothian and Midlothian Council will cover these overspends with non-recurrent resources in 2016/17. The current projection for the IJB's financial out-turn for 2017/18 is therefore break-even.

There are clearly underlying financial pressures in the current financial year and the full year impact of these in 2017/18 is discussed below.

The IJB issued a specific Direction in 2016/17 for the Integrated Care Fund, the Delayed Discharge Fund and the Social Care Fund. It was agreed that the IJB would be provided with a detailed analysis of the use of these funds and detailed reports will be presented to the IJB in early 2017/18 when the final financial position for these funds is known. That said, there may be some slippage on the estimated spend on some of the projects that are being supported by these funds however given that these funds are now recurrent then the general principle is that any slippage in these funds will be used to support pressures elsewhere within the IJB's budgets. It would be neither reasonable nor within the spirit of the partnership to expect the Council and the NHS Lothian to underwrite the IJB's overspends whilst the IJB carried forward any elements of what are now recurrent funds.

3.2 2017/18 Scottish Government Settlement

Council Settlement

In general councils' core grant from the Scottish Government has been reduced by c 3.6% although the council tax freeze has now ended and Councils will retain the monies generated by the reform of Council tax bandings (c. £111m nationally). The Scottish Government core grant represents c. 80% of any local authorities income and the council tax may only rise by a maximum of 3%. Any increase in the council tax will only provide a modest offset to the overall reduction in Council income. For Midlothian Council the core grant reduction for 17/18 is estimated at £4.3m whilst taken together the monies generated by Council Tax reform and increase will generate c £3m.

NHS Settlement

The Scottish Government has announced an uplift of 1.5% for the territorial health boards and for NHS Lothian this is £19.6m. However this includes the Social Care Fund II element (c. £14.2m) which is to be transferred to the IJBs (see below). NHS Lothian will therefore receive a net uplift of £5.4m (c. 0.41%) but will also be allocated additional funds of £19m as a contribution towards moving towards NRAC parity.

The Scottish Government has also included the Drug and Alcohol funding into the NHS Lothian base (this was previously an allocation made 'in year') and is funding is at the level of the 2016/17 budget.

Social Care Fund – 2017/18

The Scottish Government are making a total of £107m available through the allocation to the Health Boards (as above) for Integration Authorities to support the continued delivery of the living wage, sustainability in the care sector, disregarding the value of war pensions from financial assessments for social care and pre-implementation work in respect of the new carers' legislation. This is in addition to the £250m added to the 2016/17 budget.

Midlothian IJB's share of the Social Care fund is now £5.13m being £3.59 from 2016/17 along with an additional £1.54m from the £107m discussed above.

3.2 Settlement for the IJB

The settlement for the IJB will be a function of the partners' overall settlement above but the guidance from the Scottish Government states that 'NHS contributions to Integration Authorities for delegated functions will be maintained at 2016/17 cash levels', '....local authorities will be able to adjust their allocations to integration authorities in 2017/18 by up to their share of £80m below the level of budget agreed with their Integration Authority for 2016/17'.

This means that the NHS allocation for 2017/18 should not be less than the recurrent budget agreed by the IJB for 2016/17 although the Council have the opportunity to reduce their allocation to the IJB.

The Social Care fund will be passed by the NHS directly to the IJB and the IJB will agree the use of this fund with its council partner.

3.3 'Soft' Offers from the Partners to the IJB

Neither NHS Lothian nor Midlothian Council have yet proposed a budget for 2017/18. Midlothian Council will set its budget at its meeting on 7th February 2017 and NHS Lothian will agree a budget before 31st March 2018. The IJB has been part of the 2017/18 financial planning process with both partners and, at this time, two 'soft' offers are available for examination. The offers being 'soft' in that they are not part of the final agreed budgets of the partners nor have they been fully discussed with the IJB.

Midlothian Council

At its meeting of 20th December 2016, Midlothian Council proposed an budgetary offer for the IJB of £37.5m. This excludes the social care fund.

The movement between the offer for 2017/18 and the 2016/17 opening budget offer is as follows :-

	£M
Midlothian budget offer to the IJB 2016/17	37.1
Additional uplifts and support for increased pressures	1.9
Efficiency targets (agreed by the Partnership)	-1.5
Budget offer per 20/12/16	37.5

It can be seen from the above table that Midlothian Council is offering the IJB a net increase of £0.4m more than the 2016/17 opening budget. As was discussed above the Scottish Government's guidance would allow the Council to reduce their offer to the IJB by their share of a national £80m (c. £1.2m) however the council has increased the budgetary offer for 2017/18 over that of 2016/17. Given the overall financial challenge to the council this is a very helpful offer from Midlothian Council.

NHS Lothian

NHS Lothian is continuing to develop its 2017/18 budget, the IJB has been provided with detailed analyses of the various versions of the budgetary proposals. A paper was presented to Lothian Finance and Review committee on 18th January 2017 which laid out the financial plan. A further version of the financial plan was presented to the NHS Lothian Board and this will allow NHS Lothian to make an offer to the IJB. It is expected that this budget offer will meet the criteria laid out by the Scottish Government above. The key to the NHS Lothian offer will be that this offer is a fair share to the IJB of the resources available to NHS Lothian for the delegated functions

3.4 Financial Pressures identified by the Partners

The budget is a statement of the total financial resources available. The current financial planning work with the partners will ensure that the IJB's budget is a reasonable share of the overall resources available to the partners. However it is very clear from the financial planning process that the projected expenditure based on the current model of service delivery is considerably in excess of the budget available. There appear to be three underlying keys to this position:-

1. The costs of providing services to clients with disabilities. The numbers of such clients continues to increase year on year and the current model of provision has very high unit costs.
 2. GP Prescribing costs continue to increase above the uplift available. It is accepted that the current GP prescribing budget is inadequate and steps are being worked through to improve the baseline position but the issue is very simple – if the GP prescribing costs continue to rise at a significantly greater rate than the budgetary uplifts available then this pressure will overcome the IJB's ability to manage it. Midlothian has been leading work across the Lothian system to reduce this pressure, most promisingly through a project of 'deprescribing' where the efficacy of the current approach to drug use in Primary Care is being revised.
 3. The ability of the operational management teams of the partners to achieve efficiency/recovery programmes is clearly challenged as much of the financial pressures in any year are the brought forward pressures of unactioned efficiency/recovery plans from the previous year.
- In summary these pressures would be:-

Outline of financial pressures 2017/18	Social		
	Health	Care	Total
	£m	£m	£m
Pressures brought forward	1.0	1.0	2.0
Efficiency Targets for 2017/18/Pressures	1.0	1.6	2.6
FYE of Living Wage		0.0	0.0
Living Wage Uplift (£8.25 to £8.24)		0.0	0.0

NCHC Uplift			0.0
GP Prescribing (17/18)	1.1		1.1
Transitions for LD			0.0
Impact of future demand			0.0
	3.1	2.6	5.7

It is presumed that the full year costs of the living wage settlement, the 17/18 living wage up lift and the uplift for the National Care Homes Contract will be covered by the second tranche of the social care fund. Midlothian Council, as discussed above, have proposed an uplift to cover the additional costs of demographic pressures in 17/18.

This gross pressure will be offset by some uplift from NHS Lothian but the magnitude of the financial pressures in 2017/18 is considerably in excess of that in previous years.

3.5 Other Potential Financial Pressures

Primary Care.

The Scottish Government is negotiating a new contract with General Medical Practitioners – referred to as the GMS contract. The IJB will be aware of the current pressures on General Medical Practices, especially the issues around the recruitment of GPs and other pressures within the current model. Its possible that the new contract will increase the costs of delivering this service – however none of this potential financial projection is in neither NHS Lothian's nor the IJB's financial plan for 17/18. Further briefings will be made available to the IJB as these become available.

Set Aside.

As the IJB is aware, a significant element of the budget represents those delegated functions which are delivered by the Acute system – which is part of the set aside budget. There are some proposed further investments laid out in the 2017/18 financial plan which the IJB will have to consider. These are:-

Pressure	Mid IJB Element £000's
Acute Recieving Unit	47
Insulin Pumps	46
Add'n Nurse Staffing	69
	<hr/> 162

The IJB will have to consider its response to the management of these proposals.

Non-Recurrent Support

NHS Lothian have underpinned their 2017/18 offer with a significant element of non-recurrent support and much of the resources available for 2017/18 have also gone to underpin the 2016/17 non-recurrent support. This will generate further financial pressures in 2018/19 and Lothian is painfully aware of this

matter but has no choice as it works to meet its statutory requirement to break-even.

3.6 Recovery and Efficiency Plans.

The operational management teams of NHS Lothian and the Partnership are preparing recovery plans to endeavour to provide a break even position. It can be seen from 3.4 above that the nature of the financial challenge is significant and is considerably in excess to the recovery and efficiency targets of previous years which themselves have clearly not been fully delivered.

Any recovery/efficiency plans will have to be supported by the IJB but the IJB must also support the delivery of financial balance for its delegated functions by laying out general principles. A series of principles and some broad examples were laid out in the report to the IJB at its November 2016 meeting.

This detail of these plans is still in development but whatever further information is available will be presented to the IJB at its March meeting

3.7 Scottish Government's Expectations

As part of the 2017/18 financial settlement the Scottish Government have articulated their ambitions for the IJBs. A list of 9 ambitions was laid out in the SG's letter of 15th December 2016, this was further detailed in the letter of 19th January 2017 – 'measuring performance under integration'. NHS Boards must submit a local delivery plan (an operational and financial plan) every year and the guidance for 2017/18 makes it clear that this plan has to be developed in collaboration with the IJB and emphasises the ambitions of the SG Health and Social Care Delivery Plan. These matters are further discussed in a report which will be presented to this IJB meeting and the IJB's direction will have to address the issues raised in these letters and guidance.

3.8 2017/18 budget and 2018/19 – 2020/21 financial strategy

Its proposed that the 2017/18 financial plan and settlement is for that year only. The IJB retains its clear ambition to have a long term financial strategy and, using the 2017/18 settlement as a base will then develop a three year strategy for 2018/19 to 2020/21 in line with the Strategic Plan.

3.9 Financial Management propositions for 2017/18

It is clear from the experience in 2016/17 that the IJB requires a detailed financial management agreement with the partners to ensure that financial pressures and the proposed actions to resolve them are reported timeously to the IJB. This is being developed.

4 Policy Implications

- 4.1 There may be some policy implications arising for the recovery/efficiency plans, these will be brought to the IJB as they are developed.

5. Equalities Implications

- 5.1 The implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper have yet to be assessed. Such issues will be the cornerstone of longer term planning to be undertaken beyond 2017/18, in partnership with the partners.

6. Resource Implications

- 6.1 The resource implications are laid out above.

7 Risks

- 7.1 Some of the risks are discussed above but this work requires to be fully developed in the IJB's risk register

8 Involving People

- 8.1 There are no direct implications for involving people as a result of this report.

9 Background Papers

- 9.1 Financial reports December and October 2016 IJB.

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