



REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 23 February 2017

BY: Chief Finance Officer

SUBJECT: Financial Planning 2017/18

1 PURPOSE

1.1 This paper lays out:-

- The Scottish Government's budget settlement for East Lothian Council and NHS Lothian for 2017/18
- The Scottish Government's indications for the IJB's budget settlement for 2017/18
- The outline offer from NHS Lothian and a reflection of the East Lothian Council's budgetary proposals and the IJB
- The financial pressures identified by the current projection
- The proposed approach to this settlement

2 RECOMMENDATIONS

2.1 The IJB is asked to:

- (i) Note this report
- (ii) Note the issues surrounding the 2017/18 budget settlement
- (iii) Note the magnitude of the financial challenge facing the IJB in 2017/18
- (iv) Consider the approach to the 2017/18 financial settlement.

3. BACKGROUND

3.1 2017/18 Scottish Government Settlement

Council Settlement

East Lothian Council's core grant from the Scottish Government is proposed to be reduced by c 1.7% 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 authority's 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.

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 this 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.

East Lothian IJB's share of the Social Care fund is now £6.2m being £4.4 from 2016/17 along with an additional £1.8m 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 Current Offers from the Partners to the IJB

East Lothian Council

East Lothian Council will set their budget at their meeting on 21st February 2016. The budget proposals which are currently available show a flat settlement (excluding the Social Care Fund) for the Adult Wellbeing services. However, it is important to note that the Adult Wellbeing budget is not the budget allocated to the IJB for its delegated functions. There has to be an adjustment for an element of the Adult Wellbeing budget that is not delegated to the IJB along with additional budgets for HRA services that are delegated to the IJB. This will be detailed in the March paper.

The proposition before the Council for Adult Wellbeing shows that East Lothian Council has **not** reduced its social care budget in line with the option provided by the Scottish Government in the budget settlement. A further update on the Council settlement will be provided at the IJB's meeting.

Having agreed its budget, the Council will proceed quickly to making a formal budgetary offer to the IJB.

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 NHS Lothian Finance and Resources 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 two broad underlying keys to this position :-

1. GP Prescribing costs continue to increase above the uplift available. Its accepted that the current GP prescribing budget is inadequate and steps are being worked through to improve the baseline position but the issues is very simple – if the GP prescribing costs

continue to rise at a significantly greater rate than the budgetary uplifts available then this pressures will overcome the IJB's ability to manage it. Work is underway to develop new approaches to this problem including a "deprescribing" approach similar to Midlothian.

2. 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.

Currently, the partners' financial planning outlines the following (gross) pressures:-

Outline of financial pressures 2017/18

	Health £m	Social Care £m	Total £m
Unmet 16/17 Efficiencies	0.7	1.7	2.4
Efficiency Targets for 2017/18/Pressures	1.5	0.2	1.7
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)	1.3		1.3
Day Centres		0.2	0.2
Transitions for LD			0.0
Impact of future demand			0.0
	<hr/> 3.5	<hr/> 2.1	<hr/> 5.6

Notes.

- The investment in Day Centres is not a pressure as such but it is a new investment which will have to be resourced from within the funds available to the IJB. The IJB has agreed that this will be funded from the ICF funds.
- The Lothian position is a proxy derived from the most recent financial plan. This plan continues to be revised and has not yet been recast at IJB level. It is likely that the Health pressures may be less than stated above and will be offset by some further uplift from NHS Lothian.

It is presumed that the full year costs of the living wage settlement, the 17/18 living wage uplift and the uplift for the National Care Homes Contract will be covered by the second tranche of the social care fund.

The key message from this analysis is that 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. It is possible that the new contract will increase the costs of delivering this service – however none of this potential financial projection is in either NHS Lothian's or 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	East IJB Element £000's
Acute Receiving Unit	55
Insulin Pumps	56
Add'n Nurse Staffing	80
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The IJB will have to consider its response to the management of these proposals. Chief Officers and Chief Finance Officers have already queried the need for these investments.

Non-Recurrent Support.

NHS Lothian has 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 NHS Lothian is aware of this. However the NHS has a statutory requirement to break-even each year.

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 of 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 will be addressed within the IJB's directions and this will be reported to the IJB's March meeting.

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

It is 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 Implications For Directions

The IJB will have to consider the implications of the budget for 2017/18 and the new guidance on targets referred to above in setting its directions to the partners for 2017/18. Since the paper on proposed directions for 2017/18 presented to the IJB at its December 2016 meeting has now been superseded by these events, work is now underway to reconsider directions for 2017/18.

3.10 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 This paper is covered within the policies already agreed by the IJB.

5 INTEGRATED IMPACT ASSESSMENT

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 Financial – discussed above.

6.2 Personnel – there are none.

7 BACKGROUND PAPERS

7.1 Previous reports to the IJB

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