

West Lothian Strategic Planning Group

Date: 7/04/2016

Agenda Item: 5

IJB FINANCIAL ASSURANCE

REPORT BY CHIEF FINANCE OFFICER

A PURPOSE OF REPORT

The purpose of this report is to set out the outcome of the financial assurance process on the currently proposed resources to be delegated to the IJB for 2016/17.

B RECOMMENDATIONS

It is recommended the Strategic Planning Group:

1. Notes the financial assurance work undertaken to date;
2. Notes the agreed allocation of the Social Care Fund resources, taking account of Scottish Government requirements;
3. Notes that approved council resources and indicative NHS Lothian resources are allocated back to Partners, via Directions, to operationally deliver and financially manage IJB delegated functions from 1 April 2016; and
4. Notes that a further report on financial assurance will be provided to the IJB following the conclusion of the NHS Lothian 2016/17 budget process

C TERMS OF REPORT

C.1 Background

A key aspect in the ability of the IJB to deliver its Strategic Plan and improve health and social care outcomes is the level and adequacy of resources available. This report considers the level of 2016/17 resources delegated to the IJB, as approved by West Lothian Council, and indicative resources currently assumed by NHS Lothian.

The content of the report was agreed by the IJB at its meeting on 31 March 2016. This report considers assumptions, risks and budget saving plans incorporated within the 2016/17 resources set out for IJB delegated functions.

C.2 Purpose and Approach to Financial Assurance

As noted in the Scottish Government guidance and approved IJB Financial Regulations, the purpose of undertaking financial assurance is to allow the IJB to understand the assumptions and risks associated with the annual resources allocated by West Lothian Council and NHS Lothian. The council and NHS Lothian are, in accordance with legislation, responsible for agreeing the functions delegated to the IJB and setting their respective budgets including the level of payments and set aside resources to the IJB.

Previous reports to the IJB on 20 October 2015 and 16 February 2016 set out the proposed approach to financial assurance which is based on Scottish Government and Audit Scotland guidance. The matters to be taken into account s part of this assurance process are:

- Assessment of actual expenditure for IJB functions in 2014/15 and forecast year end spend for 2015/16
- Information on assumptions regarding estimated budget to be delegated to the IJB for 2016/17 and comparison against previous year spend and anticipated 2016/17 demands
- Information on key budget risks associated with functions that will be delegated to the IJB
- Information on approved budget savings for 2016/17 that relate to IJB functions
- Details of any non-recurring funding included in the budget resources delegated to the IJB

The above approach forms the basis of reviewing the 2016/17 resources identified in this report by West Lothian Council and NHS Lothian, subject to the status of each bodies 2016/17 budget plans and information available. In addition, the approved West Lothian IJB Integration Scheme also informs the approach taken on financial assurance.

C.3 West Lothian Council Resources

West Lothian Council approved its 2016/17 budget on 23 February 2016, including the 2016/17 level of resources associated with functions delegated to the IJB of £66.685 million. This took account of Scottish Government funding to IJBs, provided in the first instance to Health Boards, of £250 million specifically for social care. For West Lothian, the share of this funding has been confirmed as £7.130 million.

C.3.1 Social Care Fund

In terms of allocation of the £250 million provided to Health Boards, the Scottish Government confirmed that the sum is not intended to mitigate any Health Board pressures and Ministers have directed IJBs to use the money to protect and support social care. The Scottish Government have confirmed the funding is to be used as follows:

- £125 million is provided to support spend on protecting and increasing social care capacity to support the objectives of integration, including through making progress on charging thresholds for all non-residential services to reduce charges and help address poverty.
- £125 million is provided to help meet a range of existing cost pressures faced by local authorities in the context of reduced budgets. In addition, it is to be used to meet the cost of councils introducing the Living Wage of £8.25 per hour for all social care workers, including in the independent and third sector. This is to be implemented from 1 October 2016.

As part of the council's approved budget, the following has been assumed in terms of the £7.130 million:

- £2.275 million to meet the costs of additional social care capacity requirements, in terms of additional clients and care hours, which reflects increasing pressures to meet delayed discharge targets and reduce emergency admission to hospital. This will also be used to meet the additional cost of increasing charging thresholds for non-residential care clients
- £1.635 million to protect social care provision by retaining eligibility criteria at existing levels and retaining charging at the current low levels;
- £2.240 million to address low pay in the care sector by introducing a living wage of £8.25 per hour for all external care sector workers contracted by the council, to be implemented from 1 October 2016. The actual cost of this remains uncertain and will be subject to the outcome of discussions with care providers;
- One-off preventative care investment of £980,000 reflecting the additional amount estimated to meet the full year cost (from 2017/18) of introducing the Living Wage, which will not be required for this purpose in 2016/17. This will allow the purchase of new telecare units to replace approximately 2,000 units which are at the end, or nearing the end, of their useful life. In addition, housing with care and sheltered housing improvements are required as a priority in a number of units. Housing based solutions are a key element of ensuring the overall sustainability of the health and social care system and provide a necessary level of support that helps to prevent care home and hospital admissions.

As part of the agreement on the overall local government budget for 2016/17 with the Scottish Government, councils were required to agree to the conditions of the Social Care funding and, as a result, take account of it in their budget plans for 2016/17.

The Scottish Government also stipulated that to ensure transparency for the flow of Social Care funding support for local authorities and delivery of the Living Wage commitment, the arrangements for West Lothian's allocation of the Social Care fund will require to be signed off by the West Lothian IJB Section 95 officer.

C.3.2 Financial Assurance

The table below summarises the 2014/15 outturn, forecast 2015/16 outturn and approved 2016/17 budget associated with council functions delegated to the IJB.

West Lothian Council – Resources Associated with Delegated IJB Functions			
	2014/15 Actual £'000	2015/16 Forecast Spend £'000	2016/17 Budget £'000
WLC Delegated Functions	59,849	62,545	66,685
Growth in Resources		2,696	6,836

Appendix 1 shows further details on the split of the above resources against the various adult social care functions/services in each year.

2015/16 Budget Position

The forecast spend of £62.545 million represents an overspend of £321,000 against the 2015/16 budget of £62.224 million. The overspend is largely due to pressures within council care homes and reablement services where client demands continue to increase. Pressures in these areas are being partially offset by savings across a range of areas including purchased care home placements and staffing. For 2015/16, the £321,000 pressure is being met as part of the overall council Social Policy budget.

2016/17 Budget

The 2016/17 budget resources total £66.685 million, of which £7.130 million relates to West Lothian's share of the Social Care fund. In addition £48,000 of this relates to time limited investment to support dementia, with the remainder being directly received recurring council funding.

This level of resource provides for the estimated additional costs associated with staff pay awards, single tier pension costs, demographic and demand led pressures and contractual inflation, including the estimated cost of introducing the Living Wage from 1 October 2016. The 2016/17 budget also reflects approved council savings of £1.604 million which will require to be delivered to manage within the resources of £66.685 million delegated to the IJB. While comprehensive budget planning has been undertaken to realistically assess the additional cost demands to be budgeted for in 2016/17, and savings required as a result, there are a number of key risks and uncertainties that will require to be closely monitored during 2016/17. This also shows current assumptions regarding savings for 2017/18.

Key Risks and Uncertainties

- Increasing demands in social care capacity. West Lothian has the fastest growing elderly population in Scotland and while the budget resources assume £2.275 million to meet growth in demand and meet delayed discharge targets, there is a risk that demand will outstrip the assumptions and resources available.
- Increasing demand to shift the balance of care from a hospital setting to a community / social care setting. As well as elderly clients this also particularly relates to high cost adult complex care clients
- The introduction of the Living Wage for all independent and third sector providers. This will require significant discussion and negotiation with a range of care providers. A sum of £2.240 million has been estimated but there remains uncertainty over the actual cost of introduction which will not be known until contractual uplifts have been agreed
- Delivery of 2016/17 Savings. Substantial saving totalling £1.604 million will be required to be achieved. Ongoing monitoring of progress towards delivery will be required on a regular basis.
- Funding Risks. The council's contribution to the IJB assumes various sources of Scottish Government funding received via NHS Lothian. The NHS Lothian budget is still to be finalised and the impact of Scottish Government funding allocations for a number of areas, including ADP, is still being assessed.

C.4 NHS Lothian Resources

Updates to the 2016/17 financial plans have been presented to the NHS Lothian Finance and Resources Committee, most recently on the 9 March 2016. NHS Lothian continue to progress their 2016/17 budget planning. This report showed gross 2016/17 pressures of £136.7 million across NHS Lothian. After taking account of additional funding, financial recovery plans (low and medium risk savings only) and in year flexibility, the remaining gap to be funded was reported indicatively as £46.4 million.

The most recent version of the draft NHS financial plan indicates a reduced remaining gap of £31 million across an overall NHS Lothian budget of approximately £1.5 billion. It is important to note that NHS Lothian financial planning is undertaken at Business Unit level, rather than IJB level, and the focus of NHS Lothian is to balance its budget at Business Unit level in the first place, which will then feed through to IJBs. NHS Lothian is continuing to work with its Business Unit management teams to agree further options to balance the remaining £31 million gap. A significant element of this remaining gap relates to IJB delegated set aside acute services and non delegated acute services.

C.4.1 Financial Assurance

Given the ongoing work to progress and balance the NHS Lothian 2016/17 budget, the West Lothian IJB position is indicative at this stage. Full financial assurance of the 2016/17 NHS Lothian contribution to the IJB is not possible at this time and given information of IJB related spend in previous years is not fully available, the focus of the assurance will be on the current 2016/17 indicative IJB budget and assumptions attached to these resources. The table below shows the indicative 2016/17 budget position in respect of functions to be delegated to the IJB by NHS Lothian. The NHS Lothian figures do not include the Social Care Fund as the assumption made, based on Scottish Government guidance, is that this will not impact directly on NHS Lothian 2016/17 budget plans.

West Lothian IJB Indicative 2016/17 NHS Contribution		
	£'000	£'000
Base Budget Brought Forward		130,494
<u>Funding Adjustments</u>		
Proposed Share of NRAC Funding	1,998	
Base Budget Funding Uplift	1,501	
Other Misc. Adjustments	(422)	3,077
Updated Indicative 2016/17 Contribution		133,571

The table shows an indicative 2016/17 contribution of £133.571 million for the IJB from NHS Lothian, reflecting a £3.077 million increase from the 2015/16 base budget associated with IJB delegated functions.

The split of the £133.571 million between the three elements of the NHS Lothian contribution to the IJB is shown in the table below.

Components of Indicative 2016/17 NHS Contribution	
Indicative Payment to IJB	£'000
Core West Lothian Health Services	87,694
Share of Pan Lothian Hosted Services	16,686
Indicative Payment to IJB - Total	104,380
Share of Acute Set Aside	29.191
Total Indicative Contribution	133,571

Further details on the indicative £133.571 million is shown in Appendix 2, including the split of functions between the payment to the IJB and the share of Acute set aside.

In respect of the NHS payment (excluding acute set aside) there is an assumption that £2.287 million of low to medium risk savings will be achieved. In addition, further measures of approximately £2.5 million would also require to be identified to manage anticipated spend within the £104.380 million payment to the IJB.

In respect of overall acute services, substantial savings are required to ensure a balanced budget position can be achieved in 2016/17. For the purposes of IJB strategic planning a notional share of resources totalling £29.191 million has been estimated as West Lothian's share of resources associated with delegated acute functions.

A number of areas are being considered by NHS Lothian to identify options to manage the remaining pressures both within the NHS overall shortfall and the West Lothian IJB payment element of approximately £2.5 million. These include sources of additional funding, in year flexibility funds and West Lothian IJB related Financial Recovery Plans categorised as high risk. These plans are being developed further to ascertain the scope for savings in 2016/17 and beyond.

Key Risks and Uncertainties

The key risk at this stage in terms of the NHS Lothian contribution is clearly that the budget contribution is still indicative and further work requires to be progressed to identify saving options that will provide for a balanced 2016/17 budget. In addition, the following specific risks will require to be closely monitored.

- Prescribing. A key change to the budget setting arrangements for next year relate to the move to a 'PBSG' based budget setting approach. The result of this change means that additional resources of just under £3.2 million is transferred to Edinburgh's prescribing budget from East, Mid and West Lothian Business Units. In order to support transition to PBSG, and giving due recognition to concerns expressed by IJBs on this issue, a principle of nil detriment will be applied from 2016/17. This will be achieved through the use of £3.2 million of NRAC funding. However, even allowing for this nil detriment, prescribing will remain a key risk as inflation and demands continue to grow in this area
- Delayed Discharge. Pressures in this area continue to be a budget risk and will require continued joint working to reduce bed days lost
- ADP Investment. Scottish Government funding for ADP investment has been reduced by 20% for 2016/17. The implications of this are being considered by NHS Lothian as part of their 2016/17 budget plans and discussions are ongoing with councils, including West Lothian Council, as a substantial element of this funding is transferred to councils
- Delivery of savings required to ensure spend is managed within available 2016/17 resources

C.5 Financial Assurance – Key Points

As noted the purpose of the financial assurance process is to set out the assumptions and risks associated with the contributions agreed by NHS Lothian and the council. The council and NHS Lothian are, in accordance with legislation, responsible for agreeing the functions delegated to the IJB and setting their respective budgets including the level of payments and set aside resources to the IJB.

The IJB is then responsible for allocating the resources it has been provided back to partners to operationally deliver services. This will be through Directions issued to the council and NHS Lothian who remain operationally responsible for delivering services within the resources available. As noted in the approved West Lothian Integration Scheme in respect of financial assurance, 'if any such (financial assurance) review indicates that the projected expenditure is likely to exceed the initial payments to the Board, then the relevant party will be notified. The relevant party will be required to take action to ensure that services can be delivered within the available budget.'

Based on the financial assurance undertaken to date, it is clear that NHS Lothian have further action to take to agree a balanced budget for 2016/17 and financial assurance of their budget contribution cannot be fully completed until this has been achieved. Given this position, the current indicative resources will be required to form the basis of the directions back to NHS Lothian who will then be operationally responsible for managing within these resources, or any subsequently amended resource level following the finalisation of their 2016/17 budget plans.

Similarly, the council, whilst approving a balanced budget position, will also be responsible to manage within the resources available. Taking account of the budget resources identified in this report the table below shows the indicative level of 2016/17 resources associated with IJB functions.

West Lothian IJB – Indicative 2016/17 Delegated Resources	
	£'000
Adult Social Care	66,685
Core Health Services	87,694
Share of Hosted Services	16,686
Indicative IJB Payment	171,065
Indicative Acute Set Aside	29.191
Total Indicative IJB Resources	200,256

C.6 Ongoing Monitoring and Review

A further report on financial assurance will be provided to the IJB following NHS Lothian having finalised their 2016/17 budget plans. Any amendments required to the NHS Lothian budget contribution to the IJB will be taken account of as part of this report, and reflected in revised Directions as necessary.

In addition, financial assurance will be ongoing during the year as part of regular financial reporting on the 2016/17 resources associated with IJB functions. As noted in this report, there are a number of risks across health and social care that will require to be closely managed.

D CONSULTATION

Relevant officers in NHS Lothian and West Lothian Council.

E REFERENCES/BACKGROUND

Public Bodies (Joint Working) (Scotland) Act 2014

Local Government (Scotland) Act 1973

F APPENDICES

Appendix 1 – West Lothian Council Delegated Resources

Appendix 2 – NHS Lothian Delegated Resources

G SUMMARY OF IMPLICATIONS

Equality/Health The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, equality impact assessment has not been conducted. The relevance assessment can be viewed via the background references to this report.

National Health and Wellbeing Outcomes The 2016/17 budget resources delegated to the IJB will be used to support the delivery of outcomes.

Strategic Plan Outcomes	The 2016/17 budget resources delegated to the IJB will be used to support the delivery of the Strategic Plan.
Single Outcome Agreement	The 2016/17 budget resources delegated to the IJB will be used to support the delivery of the Single Outcome Agreement.
Impact on other Lothian IJBs	None.
Resource/Finance	The indicative 2016/17 budget resources relevant to functions that will be delegated to the IJB from 1 April 2016 have been estimated at over £200 million.
Policy/Legal	None.
Risk	There are a number of risks associated with health and social care budgets, which will require to be closely managed.

H CONTACT

Patrick Welsh, Chief Finance Officer, West Lothian Integration Joint Board
Tel. No. 01506 281320
E-mail: patrick.welsh@westlothian.gov.uk

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