

REPORT

Item No:

SUBJECT:	Financial Overview 2018/2019
TO:	Performance, Finance and Audit Committee
Lead Officer for Report:	Chief Officer
Author(s) of Report	Chief Financial Officer
DATE:	27 August 2019

1. PURPOSE OF REPORT

1.1 This paper is coming to the Performance, Finance and Audit Committee (PFA):

For approval	<input type="checkbox"/>	For endorsement	<input type="checkbox"/>	To note	<input checked="" type="checkbox"/>
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1.2 The current performance of health and social care integration authorities, from both a financial and non-financial perspective, has recently been reviewed. The [Health and Social Care Integration: Spending and Performance Update](#)¹ SPICe briefing was issued in June 2019. The [NHS Scotland and Integration Authorities consolidated financial reporting for 2018-2019](#)² is also now publicly available on a quarterly basis. This report provides an overview of the outturn in respect of the financial year 2018/2019 across the 31 partnerships and the key highlights of both reports.

2. ROUTE TO THE PERFORMANCE, FINANCE AND AUDIT COMMITTEE

2.1 This paper has been:

Prepared By; Chief Financial Officer	Reviewed By; Chief Officer
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3. RECOMMENDATIONS

3.1 The PFA is asked to agree the following recommendations:

- (1) Note the contents of the report.

4. VARIATIONS TO DIRECTIONS

Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	N/A	<input type="checkbox"/>
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5. BACKGROUND/SUMMARY OF KEY ISSUES

5.1 The Public Bodies (Joint Working) Scotland Act 2014 led to the formation of 31 integration authorities (IAs), 30 of which established Integrated Joint Boards (IJBs). One IA adopted the lead agency model.

5.2 The aim of IAs is to improve the quality and consistency of the health and social care services delegated to them with the objective of achieving patient-centred outcomes and providing health and social care services in a community setting as opposed to a hospital setting. IAs must also ensure that resources are used effectively and efficiently to deliver services that meet the increasing number of people with longer term and often complex needs, many of whom are older. The 31 IAs are now providing quarterly financial data reports to the Scottish Government.

¹ <https://digitalpublications.parliament.scot/ResearchBriefings/Report/2019/6/26/Health-and-social-care-integration--spending-and-performance-update>

² <https://www.gov.scot/publications/nhsscotland-and-integration-authorities-consolidated-financial-reporting-2018-2019/>

6. CONCLUSIONS

- 6.1 The demand for and cost of health and social care services has increased since 2013.
- Across Scotland, NHS costs have increased annually by 3% to 4%.
 - Across local authority social care services, the level of expenditure has remained relatively constant. This indicates a real terms reduction in revenue budgets when inflationary and demographic cost pressures are taken into consideration.
 - Across IAs, additional cost pressures emerged during 2018/2019. In addition to management action, additional financial contributions were made by partners to some IAs.
- 6.2 The demand for and cost of health and social care services is expected to continue to increase. The number of people aged 75 year or over is projected to increase by 27% by 2027 and by 79% by 2042. There is also expected to be an increase in the number of people living with multiple chronic conditions and complex care needs. Employee, prescribing and equipment cost pressures will continue to increase particularly as a result of the emergence of new drugs and technological developments.
- 6.3 IAs and their partners are striving to maintain the overall quality of health and social care however they are coming under increasing pressure. Increases in health and social care costs are likely to outstrip the financial envelope available. Health is projected to remain the single largest area of Scottish Government expenditure in future years. Projected future health funding increases are unlikely to be enough to keep pace with intensifying cost pressures. Across Scotland, Health Boards increasingly don't know where future savings will come from. The identification of further savings opportunities across local authorities is also challenging.
- 6.4 Strong and effective financial management has been a key feature of the systems of internal control demonstrated by both the NHS Lanarkshire (NHSL) and North Lanarkshire Council (NLC) partners over many years. Across North Lanarkshire, social care services continue to face demand pressures for service provision within home support, independent care homes and family placement services and these social care cost pressures are expected to continue. A budget recovery plan is being developed for 2019/2020 and a recurring funding solution will require to be identified. Prescribing costs continue to represent a high risk area within the NHSL element of the partnership's budget particularly due to the uncertainty associated with the EU withdrawal in October 2019.

7. HEALTH AND SOCIAL CARE SERVICES

- 7.1 Across Scotland, the total expenditure on health and social care services in 2018/2019 was £9.215bn (Set Aside £0.845bn; Non-Set Aside £8.370bn). This included funding of £357m which had been received during the year for the Primary Care Improvement Fund, Mental Health Action 15, Alcohol and Drug Partnerships, Winter Pressures, Out-of-Hours Funding, Pay Awards and other non-recurring funding to address cost pressures. Part of this new funding was transferred to earmarked reserves to ensure the planned commitments are met.
- 7.2 The consolidated position for the 31 IAs indicated cost pressures totalling £159m as follows:
- Savings totalling £67m were not achieved. The savings target for 2018/2019 was £216m. £149m (69%) of this target was achieved.
 - Demographic cost pressures of £26m.
 - Staffing cost pressures of £15m.
 - Prescribing cost pressures of £4m.
 - Other cost pressures totalled £47m which included medical locum costs, living wage uplifts, support for primary care services, complex care costs, support for waiting times performance, social care costs including care at home and care home services, residential and secure accommodation for young people, fostering and kinship care costs and community hospitals.

7. HEALTH AND SOCIAL CARE SERVICES (CONT.)

7.3 There is variation across IAs due to differences in the delegated functions. The planned savings schemes across the IAs also varied. Similar themes however emerged in respect of the shortfall of £67m. These included:

- the original savings target being challenging;
- achievable savings schemes not being realised;
- the timeline to implement service redesign taking longer than originally anticipated and
- planned reductions in services not materialising due to new demand being experienced. This was particularly relevant across social care services and prescribing.

7.4 The total cost pressures of £159m were partly offset by underspends totalling £95m as a result of staff vacancies, the lead in time for new funding for strategic priorities and the early implementation of 2019/2020 savings. Some partners provided additional funding to IAs totalling approximately £57m. Reserves totalling £18.5m were drawn down to spend on agreed commitments.

7.5 The net movement on IA's reserves was an increase of £33m from £125m on 1st April 2018 to £158m on 31st March 2019 (Earmarked £131m (83%); Contingency £27m (17%). The contingency reserve represents 0.29% of the total financial envelope of £9.215bn. 5 IAs do not have a reserve. Of the 25 IAs who have reserves, 9 IAs do not have a contingency reserve. 1 IA has a negative reserve. A total of 3 IAs are in a repayment arrangement with partners (£11m).

8. NORTH LANARKSHIRE IJB FINANCIAL PERFORMANCE

8.1 Since 2016, both NHSL and NLC have maintained the same level of base cash resources to the IJB. NHSL transferred inflation uplifts and additional Scottish Government funding to the IJB. Additional funding issued during the year has also been passed to the IJB in respect of delegated health care functions. In 2017/2018 and 2019/2020, NLC had the option to reduce its partner contribution to the IJB by £5.210m and £3.000m respectively totalling £8.210m. NLC however agreed not to reduce their contribution.

8.2 Including base budget adjustments and income proposals, savings totalling £26.708m have been approved by the IJB since 2016 as follows:

Financial Year	NLC Savings £m	NLC Income £m	NHSL Savings £m	Total £m
2016/2017	2.804	3.100	8.431	14.335
2017/2018	1.893	0.000	3.249	5.142
2018/2019	5.486	0.000	1.745	7.231
Total	10.183	3.100	13.425	26.708

Some slippage in the achievement of savings was experienced in each financial year mainly due to the timing of the approval processes and implementation timescales. However, with the exception of the proposal to charge for community alert alarms (£2.8m), the savings in each of the three years 2016/2017 to 2017/2018 totalling £23.908m have been implemented in full.

8.3 The financial outturn in each year was as follows:

Financial Year	NLC Underspend / (Overspend) £m	NHSL Underspend / (Overspend) £m	Total Underspend / (Overspend) £m
2016/2017	2.224	5.238	7.462
2017/2018	9.577	2.685	12.262
2018/2019	0.000	5.035	5.035
Total	11.801	12.958	24.759

8. NORTH LANARKSHIRE IJB FINANCIAL PERFORMANCE (CONT.)

- 8.4 The total underspend of £24.759m was transferred to IJB ring-fenced, earmarked and contingency reserves. Since 2016, reserves totalling £8.776m have been drawn down. In respect of the balance of reserves of £15.983m as at 31 March 2019, £15.930m was allocated to ring-fenced and ear-marked reserves and £0.053m to contingency reserves.
- 8.5 Since March 2017, at the start of each subsequent financial year, reliance has been placed on both anticipated in-year underspends and the use of reserves to address a residual funding gap. In respect of the financial year 2018/2019, in addition to the original financial planning assumptions, additional costs were incurred across social care services totalling £2.595m, of which £0.850m was due to slippage in the implementation of savings and £1.745m due to demographic growth and the complexity of care needs. The cost reduction trends experienced during the final quarter of 2017/2018 did not materialise again in 2018/2019.
- 8.6 The total funding for the North Lanarkshire IJB (IJB) in 2018/2019 was £621.583m (NHSL- £450.163m; NLC - £171.420m). Savings totalling £4.763m have been approved for implementation in 2019/2020 (NHSL - £1.435m; NLC - £3.328m). The IJB reserves were reviewed in June 2019 and an update is the subject of a separate report to the IJB PFA Committee.

9. NOTIONAL SET-ASIDE BUDGETS

- 9.1 The notional set-aside budget relates to unscheduled inpatient hospital care services including Accident and Emergency Services. 28 IAs reported a set aside budget. Although the position varies across the IAs, increased costs were highlighted due to:
- increased activity across A&E and set aside specialties;
 - demographic growth;
 - increased complexity and co-morbidity of patients;
 - increased staff costs;
 - prescribing cost pressures; and
 - cost of locums.
- For some IAs, additional funding was provided to the IA by the NHS partner to offset these cost pressures.
- 9.2 The calculation of the notional cost of set-aside services is a complex process. The IJB relies on the availability of activity information from the Information Services Division. This information is in arrears. NHSL however have been committed to implementing the set-aside concept. Following receipt of the validated 2016/2017 activity data, on 19th February 2019 the NHSL Director of Finance presented an overview of the results of the analytical work undertaken to assess the overall use of hospital resources by the IJB. The 2016/2017 notional set-aside budget was £57.250m. The actual comparative information available for 2016/2017 demonstrated an increase in the use and cost of the hospital resource of £1.153m (2%). NHSL retained responsibility for managing the cost pressures across set-aside services.
- 9.3 Work is being progressed to further develop the set-aside monitoring arrangements. The 2017/2018 activity data was issued early in 2019 and is currently being analysed.

10. PERFORMANCE OUTCOMES

- 10.1 There are nine national health and wellbeing outcomes, twenty three integration indicators and six Ministerial Strategic Group indicators. Since 2016, performance across IA varies both within IAs and between IAs.
- 10.2 Across Scotland, there has been a positive direction of change since 2016 for three indicators. These relate to decreases in the number of unscheduled hospital bed days and increases in the proportion of the last six months of life spent in the community, as well as the percentage of people aged 65 or over living in non-hospital settings. The other three indicators showed a negative direction of change, with an increase in the number of emergency admissions, A&E admissions and the number of delayed discharge bed days.

10. PERFORMANCE OUTCOMES (CONT.)

- 10.3 The performance outcomes in respect of the North Lanarkshire IJB are set out in the Annual Performance Report 2018/2019 which is the subject of a separate report to the IJB PFA Committee.
- 10.4 IAs are committed to sharing good practice and the Ministerial Strategic Group for Health and Community Care also set out 25 proposals to progress health and social care integration. In respect of the North Lanarkshire IJB, an action plan has been developed to take forward each proposal.

11. HEALTH AND SOCIAL CARE FINANCIAL FRAMEWORK

- 11.1 The [Accounts Commission report, Local Government in Scotland: Challenges and Performance 2019](https://www.audit-scotland.gov.uk/report/local-government-in-scotland-challenges-and-performance-2019)³ advised that Scottish Government revenue funding to councils has reduced in real terms between 2013/2014 and 2019/2020, while national policy initiatives continue to make up an increasing proportion of council budgets. This report highlights that the demands for council services are increasing as a result of a changing population profile. All councils expect an increase in the proportion of people aged over 65. Between 2013/2014 and 2019/2020, total revenue funding has fallen six per cent in real terms. Scottish Government funding to councils is forecast to continue to reduce in the medium-term.
- 11.2 Each year the Auditor General for Scotland publishes a review of the NHS in Scotland. The [NHS in Scotland 2019](https://www.audit-scotland.gov.uk/report/nhs-in-scotland-2019)⁴ report, which will be published in October 2019, will assess the financial and wider performance in relation to the financial year 2018/2019, highlighting significant issues facing the NHS. The most recent report for 2017/2018 reported that the overall health budget in 2017/2018 was £13.1 billion. £5.8bn (46%) of this budget was delegated to IAs. The overall health budget has increased by 7.7% in real terms over the past decade. However between 2016/2017 and 2017/2018, although the overall health budget increased by 1.5% in cash terms when inflation is taken into account, the budget decreased by 0.2%.
- 11.3 The NHS met its overall financial targets in 2017/2018, but boards struggled to break even, making unprecedented savings and relying heavily on one-off savings. The number of patients on waiting lists continued to rise and from a national perspective, performance against targets declined. The pressures facing the NHS continue to intensify. Scotland's ageing population means that more people will be living longer with multiple long-term conditions, leading to greater costs for the NHS. Financial pressures such as drug costs, a backlog of maintenance and the use of temporary staff are predicted to continue in future years. The NHS faces significant workforce challenges. Recruitment remained difficult in 2017/2018, while sickness absence and turnover increased.
- 11.4 Projected funding increases are unlikely to be enough to keep pace with rising health costs and the need for investment in the NHS estate. The Fraser of Allander Institute has predicted that the health resource budget is likely to have to increase by around two per cent per year in real terms to 2030 just to stand still. EU withdrawal will mean additional challenges, including recruiting and retaining staff and procuring vital supplies such as drugs. The report indicated that the NHS in Scotland is not in a financially sustainable position.
- 11.5 An update to the NHSL Financial Plan 2019/2020 was presented to the Health Board on 29 May 2019. In order to fully fund pay increases, increased expenditure on drugs, supplies inflation and increased expenditure on information management and technology, it was estimated that the NHSL Health Board would have to supplement the anticipated increase in allocations with a minimum £22.214m of efficiency plans. Even with the schemes agreed to date, £2.382m of further savings would be needed to deliver breakeven. The report highlighted that reliance is being placed on £10.336m of non-recurring savings. The financial assumptions upon which the plan is based continue to be closely monitored.

³ <https://www.audit-scotland.gov.uk/report/local-government-in-scotland-challenges-and-performance-2019>

⁴ <https://www.audit-scotland.gov.uk/report/nhs-in-scotland-2019>

11. HEALTH AND SOCIAL CARE FINANCIAL FRAMEWORK (CONT.)

- 11.6 Strong and effective financial management has been a key feature of the systems of internal control demonstrated by both the NHSL and NLC partners over many years.
- 11.7 In October 2018, the Scottish Government published the Medium Term Health and Social Care Financial Framework. Health and Social Care expenditure totalled £14.7 billion in 2016/2017. It is expected to increase by £5.9 billion (40%) to £20.6 billion in 2023/2024.
- 11.8 It is assumed that savings totalling £1.8 billion can be achieved by 2023/2024 as follows:
- a 1% efficiency saving in health (£896 million) and social care (£221 million) expenditure
 - £155 million savings from integration authorities achieving their aims of shifting the balance of care from hospital to community care. This expects total hospital savings of £309 million, with £154 million reinvested to community services. Savings are expected from reduced variation between integration authorities in A&E attendance rates, outpatient follow up rates, and hospital inpatient lengths of stay
 - £193 million savings from regional improvement to reduce variability in performance across Scotland
 - £158 million savings from preventative care work
 - £39 million savings from the "Once for Scotland" approach and
 - a residual £159 million in savings yet to be identified.
- 11.9 These assumptions are still to be tested. If these savings were achieved by 2023/2024, Scottish health and social care expenditure would increase by £4.1 billion (28%) to approximately £18.8 billion. This includes the Scottish Government commitment to increase NHS spending between 2016/2017 and 2021/2022 as follows:
- An additional £1.5 billion is being invested to maintain baseline allocations to the NHS boards and to provide additional funding to support integration authorities in shifting the balance of care from hospital to community care.
 - An additional £0.5 billion is being directed to primary care services.
 - An increase in the share of NHS spending on mental health, primary, community, and social care in each year to 2021.
- 11.10 The policy intention is that the balance of expenditure over the next 5 years will change with hospital expenditure accounting for less than 50% of frontline NHS expenditure. In order to progress this, it will be important to better understand the patterns of demand and activity particularly the actual rise in demand, the impact of reductions in capacity and the combination of both of these influences. In order to build public confidence, it is recognised that more engagement and information is needed about how new forms of healthcare will work, what they will cost and the difference they will make to people's lives.

12. IMPLICATIONS

12.1 NATIONAL OUTCOMES

This relates to all nine national outcomes.

12.2 ASSOCIATED MEASURE(S)

The PFA and both partners are required to establish effective governance arrangements across the partnership.

12.3 FINANCIAL

This paper has been reviewed by Finance:

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input type="checkbox"/>
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12. IMPLICATIONS (CONT.)

12.4 PEOPLE
None.

12.5 INEQUALITIES

EQIA Completed:

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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12.6 CARBON MANAGEMENT IMPLICATIONS

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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13. BACKGROUND PAPERS

None.

14. APPENDICES

None.



CHIEF OFFICER (or Depute)

Members seeking further information about any aspect of this report, please contact Marie Moy on telephone number 01698 453709.