



**REPORT TO:** HEALTH AND SOCIAL CARE INTEGRATION JOINT BOARD –  
18 DECEMBER 2018

**REPORT ON:** DELEGATED BUDGET 2019/20 – INITIAL OUTLOOK

**REPORT BY:** CHIEF FINANCE OFFICER

**REPORT NO:** DIJB72-2018

### **1.0 PURPOSE OF REPORT**

The purpose of this paper is to provide the Integration Joint Board (IJB) with an initial overview of the delegated budget 2019/20 following publication of Dundee City Council's Financial Outlook 2019/2022 and the Scottish Government's Medium Term Health and Social Care Financial Framework. This paper forms phase one of a set of three budget development reports to be presented to each IJB meeting leading up to the meeting of the 29<sup>th</sup> March 2019 when the delegated budget will be laid before the IJB for approval.

### **2.0 RECOMMENDATIONS**

It is recommended that the IJB:

- 2.1 Notes the content of this report including the potential implications to the delegated budget of the impact of the Scottish Government's Budget on Dundee City Council and NHS Tayside's financial settlements as set out in sections 4.2 and 4.3 of this report;
- 2.2 Notes the potential implications of these and the range of increased costs and cost pressures to Dundee Integration Joint Board's delegated budget and subsequent indicative level of budget requisition to Dundee City Council and NHS Tayside as set out in section 4.4 and Appendix 1 of this report to enable the IJB to deliver the priorities as set out within its Strategic and Commissioning Plan;
- 2.3 Remits to the Chief Finance Officer to bring an updated report as phase two of the development of the budget to the IJB meeting of the 26<sup>th</sup> February 2019 to further inform the budget setting process;
- 2.4 Remits to the Chief Finance Officer to bring forward a proposed budget for 2019/20 in relation to delegated services as phase three of the development of the budget for consideration by the IJB at its meeting on the 29<sup>th</sup> March 2019.

### **3.0 FINANCIAL IMPLICATIONS**

The financial planning projections highlighted in Appendix 1 are provisional at this stage of the budget process and will continue to be refined following subsequent negotiations with Dundee City Council and NHS Tayside. An updated position will be presented to the February IJB meeting once further clarity is available as to the various factors impacting on the budget with the final budget proposal to be considered by the IJB at its' meeting in March 2019.

The potential cost pressures within the delegated budget for 2019/20 could be around £14.2m prior to the outcome of the Scottish Government's Budget Settlement and subsequent impact on local authorities, NHS Boards and Integration Authorities. Therefore this is not the projected shortfall in resources as it is anticipated that funding provision will be made to support inflationary pressures and the cost of implementing legislation and national policies.

**4.0 MAIN TEXT**

**4.1** Discussions are underway between officers of the Health and Social Care Partnership and Dundee City Council in relation to the shape of the delegated budget for 2019/20 with early dialogue with NHS Tayside around the likely financial framework within which the NHS Tayside financial proposition will be based. Recent publications setting out the likely parameters around the respective financial settlements impacting on both the council and the NHS and their respective challenges and responses around these have assisted the early development of the delegated budget and the scale of potential financial pressures facing the IJB both for 2019/20 and beyond. These financial frameworks however remain provisional until the detail of the Scottish Government’s proposed Budget for 2019/20 is made clear by mid to late December 2018. The relevant publications are set out in the following sections. This report, as phase one of a set of three papers to be laid before the IJB over the coming months, sets out the potential cost pressures, with papers two and three focussing on the funding associated with the level of delegated budget available, including additional funding for inflationary uplifts and legislative and national policies, with any efficiency and transformation savings which may be required.

**4.2 Dundee City Council Financial Outlook 2019-2022**

**4.2.1** Dundee City Council Policy and Resources Committee noted the detail of the above report (Report Number 339-2018) at its meeting of 19 November 2018 and subsequently agreed the Council’s Medium Term Financial Strategy as adapted to reflect the current financial circumstances and projections.

**4.2.2** The Council’s overall Revenue Budget for 2018/19 is currently £351.1m. The current total Revenue Budget requirements over the following 3 years are as follows:

	<b>Total (£m)</b>	<b>Annual Increase (£m)</b>	<b>Cumulative Increase (£m)</b>
<b>2018/19 Final</b>	351.1	-	-
<b>2019/20 Provisional</b>	362.9	11.8	11.8
<b>2020/21 Provisional</b>	371.9	9.0	20.8
<b>2021/22 Provisional</b>	381.4	9.5	30.3

These figures represent the estimated cost of continuing to provide the current level of services and the impact of the following:

- i) the full year effect of savings and cost pressures that were already reflected in the 2018/19 Final Revenue Budget;
- ii) a 3% annual allowance for pay awards for all categories of staff – this is a particular risk area given that every additional 1% adds around £2.1m to the Council’s pay-bill;
- ii) allowances for price inflation on specific budget heads;
- iv) a 2% annual increase in chargeable income arising from the annual review of charges exercise;
- v) the on-going effect of unavoidable cost pressures and savings reflected in the current year revenue monitoring;
- vi) new costs pressures and savings that will arise over 2019-2022, including an increase in the employer’s contribution rate for teachers pensions which will add £3.2m per annum to the pay-bill from 1 April 2019. Discussions are on-going at a national level with the Scottish Government around possible additional funding to help offset this particular cost pressure;
- vii) provision for capital financing costs to support the new borrowing included in the 2019-2024 Capital Plan.

The report notes the risks and uncertainties associated with all of these items which will be refined as the budget process develops.

4.2.3 Following consideration of the potential scenarios which may impact on local authority finance settlements from the Scottish Government, the council has projected what this may mean for its own finance settlement. Based on the council’s current projections of budgetary requirements and available grant funding, the range of projected savings and efficiencies which may be required to be achieved by the Council in its overall budget over the next three financial years in order to achieve a balanced budget are noted as follows:

	<u>Cumulative Savings Required – Flat Cash Settlement (£m)</u>	<u>Cumulative Savings Required – 1% Grant Reduction (£m)</u>	<u>Cumulative Savings Required – 2% Grant Reduction (£m)</u>	<u>Cumulative Savings Required – 3% Grant Reduction (£m)</u>
<b>2019/20</b>	11.8	14.7	17.6	20.4
<b>2020/21</b>	27.7	33.4	39.1	44.7
<b>2021/22</b>	<u>37.2</u>	<u>45.7</u>	<u>54.0</u>	<u>62.1</u>

4.2.4 Within the Council’s Medium Term Financial Strategy there are a number of statements which will have a direct impact on the level of resources delegated to the IJB. The potential impact of these are described in section 4.4:

- services will be expected to operate within the limits of their overall revenue budget allocation. Cost pressures which emerge in-year should, where possible, be accommodated within the relevant service revenue budgets.
- allocation of resources will be informed by a thematic approach designed to reflect the strategic priorities of the Council.
- budget provision will be made for estimated pay awards and, in limited circumstances, for areas of specific price inflation. The costs of incremental progression for staff will be funded from service revenue budgets.
- demographic growth will not be funded given the scale of the financial challenge. All services are expected to redesign services and work in partnership with other bodies to meet the cost of additional pressures.
- the reduction of grant that the Council receives after providing for new responsibilities will be shared by all directly provided and commissioned services, including Health and Social Care, Leisure & Culture Dundee and the Third Sector.
- the initial costs associated with VERs / VRs will be met from service revenue budgets. On-going staff costs savings from VERs / VRs will be reflected in service revenue budgets.

**4.3 Scottish Government Medium Term Health and Social Care Financial Framework**

4.3.1 The Scottish Government published the above report in October 2018 (<https://www.gov.scot/publications/scottish-government-medium-term-health-social-care-financial-framework/>) and its sets out for the first time, the potential scale of the challenges facing the health and social care system within a financial planning context and at the same time looks at the Scottish Government’s approach to addressing these pressures through a combination of investment and reform. The report sets out an estimate of the future resource requirements across health and social care in line with the Health and Social Care Delivery Plan and the anticipated demographic and other pressures which will shape these requirements and set within a context of funding growth for health and social care services, including the consequential of the Barnett formula as a result of increased investment by the UK Government in health services.

4.3.2 The assumptions within the framework for growth and reform are as follows:

- Price effects will move in line with UK Government GDP deflator projections and will reflect the impact of the NHS pay deal (combined impact of 2.2-2.4% each year over the next five years);
- Demographic factors will on average increase the demand for healthcare by 1% year on year;
- Non-Demographic growth will contribute 2-2.5% growth year on year within the healthcare sector;
- Benefits realised from savings and reform will amount to 1.3% each year and will be retained locally.

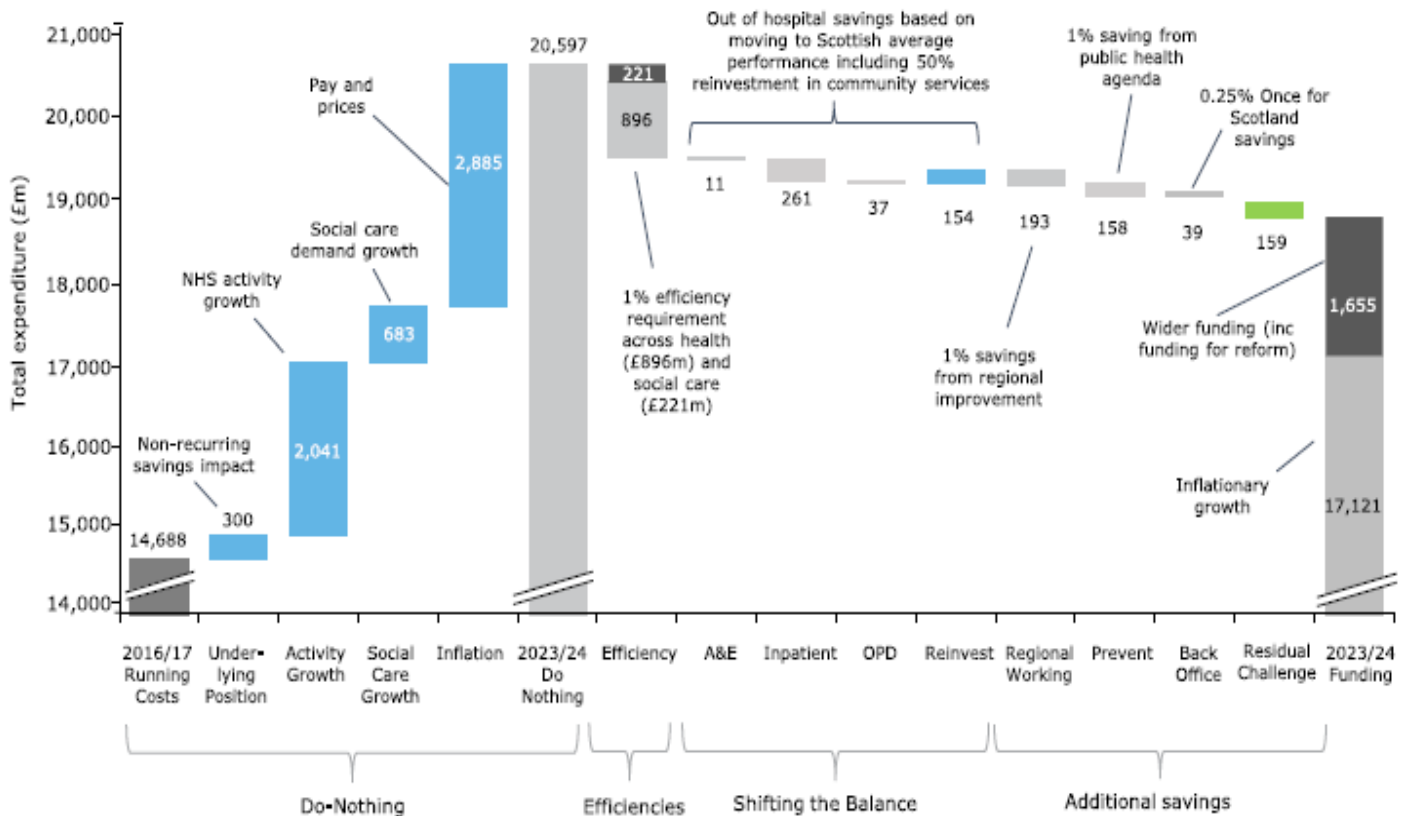
The net impact of the above with the variable and fixed costs within the overall health system results in an anticipated annual growth rate of 3.5%. Taking into consideration the various estimates of social care growth, pressures on the social care sector are likely to be slightly higher than in healthcare, with demographic pressures around the frail elderly in particular, an annual growth rate of 4% has been applied to the framework.

4.3.3 The actions required to address these challenges are set out in the Health and Social Care Delivery Plan and are described as five distinct areas:

- Shifting the balance of care – from hospital based to community based care;
- Regional working – better collaboration and regional approaches to the planning and delivery of services (assumption of 1% saving);
- Public Health and Prevention – through tackling a range of lifestyle behaviours (assumption of 1% reduction in demand);
- Once for Scotland – to improve, integrate and coordinate the way services are delivered (assumption of 0.25% reduction in cost of services);
- Annual Savings Plans – through the delivery of productivity and efficiency savings (assumption of 1% savings).

4.3.4 The financial framework pulls all of the above together and estimates that by 2023/24, a residual shortfall between available resources and the cost of providing health and social care services nationally of £159m will require to be found. This is illustrated below:

### Bridging the Gap Analysis (£m)



While these assumptions are at a national level, it is reasonable to assume a similar impact for services locally.

## 4.4 Dundee IJB Financial Planning Assumptions 2019/20

4.4.1 The estimated financial impact of the range of factors likely to affect the level of delegated budget, including current year's pressures and moving from non-recurring savings for 2018/19 to recurring savings (given the high usage of reserves in 2018/19) is set out in Appendix 1.

These figures are provisional and will continue to evolve over the budget process however this sets out for the IJB the potential cost pressures which will require to be funded through a combination of the levels of funding received by Dundee City Council, NHS Tayside and the Scottish Government, efficiency savings and significant service redesign.

4.4.2 Before considering the impact of growth and new pressures impacting on the delegated budget for 2019/20, there are a number of current financial pressures which will need to be addressed within the budget process. The IJB agreed a balanced 2018/19 budget by implementing a range of non-recurring savings, including applying a substantial sum of its reserves to fund the projected deficit for the year. In addition, risks were highlighted around the delivery of a balanced budget for prescribing and in relation to hosted services recharges, particularly around In Patient Mental Health Services. The 2018/19 financial monitoring position highlights these risks as being realised with a further range of actions being explored to reduce or balance the scale of the overspend, again on a non-recurring basis. The 2018/19 legacy issues account for around £4.4m for which sustainable funding options will need to be identified within the budget process.

- 4.4.3 New cost pressures driven by inflation (pay awards, purchased services cost increases etc) will also have a significant impact on the delegated budget. With pay awards estimated to be within the region of 2-3%, an additional £2m of funding may be required to support pay costs. Other inflationary issues include the impact on the cost of externally purchased care services such as the National Care Home Contract and supporting care providers with similar inflation based cost increases in their cost base. The cost of prescribing is also likely to be subject to price increases and demand growth. The Council has reflected pay inflationary uplifts and third party inflation for the Health and Social Care Partnership as part of its additional budget pressures provision however the outcome of this won't be confirmed until the Council agrees its budget in February 2019. Inflationary pressures are anticipated to result in additional cost pressures of around £4.6m.
- 4.4.4 The impact of new legislation and national policies will also result in a further increase in the cost of delegated services. The introduction of free personal care for under 65s and the second year of the implementation of the Carers Act are anticipated to result in increased demand for services and in relation to the introduction of free personal care, result in a reduction in income for chargeable services. While the cost of implementing this nationally is being assessed, this could cost in the region of £800-£900k in Dundee. In addition, with a further increase in the living wage announced from £8.75 per hour to £9 per hour, sustaining the Scottish Government's commitment to ensure all adult social care workers receive at least this level of remuneration will further increase the cost base. The cost of national policy implementation could potentially be around £2m in 2019/20. It is assumed that these additional funding pressures will be funded in full by the Scottish Government.
- 4.4.5 Increases in demand for services as a result of an increasingly frail elderly population and high prevalence rates of disabilities, mental health and substance misuse problems within Dundee are predicted to continue to present funding challenges for the foreseeable future. This includes ensuring sufficient community based supports are available to service users and patients to reduce the number of people admitted to hospital settings on an unplanned basis and reducing delayed discharges for those who are ready to be discharged from hospital, including those with complex care needs. The IJB invested an additional £1.1m in social care provision in 2017/18 to meet additional demand with a further £900k estimated to be required in 2019/20. A further £1.5m is anticipated to be required in 2019/20 for people with complex care needs, many of whom are delayed in hospital. Applying the Scottish Government's assumptions around growth in healthcare demand, a further £820k of demand pressures is assumed for 2019/20.
- 4.4.6 This report sets out the potential scale of the financial pressures which may impact on the delegated budget for 2019/20. Given the detail of the Scottish Government's proposed budget is still being assessed, including what it means in relation to both the Local Authority Finance Settlement and NHS Budget and the scale and route of funding for new legislation and national policy initiatives, the level of funding to be provided to meet these pressures is as yet unknown. However, as reflected in Dundee City Council's medium term finance strategy, demographic growth or service pressures will not be funded and reductions in grant the council receives will be shared by all directly provided and commissioned services (including the Health and Social Care Partnership). Therefore there is a high risk of unfunded budget pressures reflected in the delegated budget from the council. It can also be assumed that given the financial challenges facing NHS Tayside that while inflationary funding uplifts are likely to be provided for, budget pressures may not.
- 4.4.7 The IJB received an update on progress with regards to the Health and Social Care Partnership's Transformation Programme (Report DIJB58/2018) at its meeting of the 30<sup>th</sup> October 2018. This report set out the full range of areas of service redesign and service change being developed to improve outcomes for individuals and to ensure the best use is made of resources. This Transformation Programme and a programme of efficiency savings continue to be developed for consideration by the IJB at its meetings in February and March 2019 with a view to contributing to delivering a balanced budget for 2019/20. The scale of this required however will be dependent on the funding received from the partner bodies and will have an impact on the scale and pace of the IJB's ambitions which will be reflected in the Review of the Strategic and Commissioning Plan which will be presented to the IJB at its March 2019 meeting.

## 5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Equality Impact Assessment. There are no major issues.

## 6.0 RISK ASSESSMENT

<b>Risk 1 Description</b>	There is a risk that the IJB will not be able to balance its resources and achieve its strategic objectives should the combination of the level of funding provided through the delegated budget and the impact of the IJB's Transformation Efficiency Programme be insufficient.
<b>Risk Category</b>	Financial
<b>Inherent Risk Level</b>	Likelihood 4 x Impact 4 = 16 (Extreme)
<b>Mitigating Actions</b> (including timescales and resources )	Developing a robust and deliverable Transformation Programme Negotiations with Dundee City Council and NHS Tayside to agree the most advantageous funding package as part of the development of the IJB's delegated budget.
<b>Residual Risk Level</b>	Likelihood 3 x Impact 4 = 12 (High)
<b>Planned Risk Level</b>	Likelihood 3 x Impact 4 = 12 (High)
<b>Approval recommendation</b>	Despite the high level of risk, it is recommended that this should be accepted at this stage of the budget process with a reviewed position set out as the proposed budget is set out to the IJB in March 2019.

## 7.0 CONSULTATION

The Chief Officer, the Director of Finance - NHS Tayside, Executive Director - Corporate Services, Dundee City Council and the Clerk have been consulted on the content of this paper.

## 8.0 BACKGROUND PAPERS

None.

**Dave Berry**  
Chief Finance Officer

**DATE:** 5 December 2018

				Appendix 1
<b>DUNDEE HEALTH AND SOCIAL CARE PARTNERSHIP</b>				
<b>REVENUE BUDGET 2019/20</b>				
		<b>2019/20 Value - Social Care</b>	<b>2019/20 Value - NHS</b>	<b>Total Delegated Budget Cost Pressures</b>
<b>Anticipated Cost Pressures:</b>				
		<b>£000</b>	<b>£000</b>	<b>£000</b>
<b><i>Current Year Non-Recurring Savings / Budget Pressures</i></b>				
2018/19 Legacy Savings Gap		1,983	854	<b>2,837</b>
Current Year Budget Pressures			1,600	<b>1,600</b>
<b>Total Current Years Funding Requirements</b>		<b>1,983</b>	<b>2,454</b>	<b>4,437</b>
<b><i>New Pressures 2019/20 - Inflationary Pressures</i></b>				
Staff Pay Increases		988	1,034	<b>2,022</b>
Increased Costs of Externally Provided Services		1,615		<b>1,615</b>
Prescribing Growth			977	<b>977</b>
<b>Total Inflationary Pressures</b>		<b>2,603</b>	<b>2,011</b>	<b>4,614</b>
<b><i>National Policy / Legislative Costs:</i></b>				
Carers Act Implementation - Year 2		290		<b>290</b>
Free Personal Care for Under 65s		870		<b>870</b>
Living Wage Increases (incl Sleepover)		750		<b>750</b>
Free Personal & Nursing Care Rate Increases		56		<b>56</b>
<b>Total National Policy / Legislative Costs</b>		<b>1,966</b>	<b>0</b>	<b>1,966</b>
<b><i>Demographic Pressures:</i></b>				
Anticipated Care at Home/Complex Care/Delays/Accommodation with Support Packages (Learning/Physical Disabilities/Mental Health/Substance Misuse Problems)		<b>2,400</b>		<b>2,400</b>
Healthcare Demographic Demand (excl prescribing - see above)			<b>820</b>	<b>820</b>
<b>Total Anticipated Cost Pressures 2019/20</b>		<b>8,952</b>	<b>5,285</b>	<b>14,237</b>