

AGENDA ITEM

15

Title/Subject: Update on Medium Term Financial Planning
Meeting: Integration Joint Board
Date: 5 October 2018
Submitted By: Chief Finance Officer
Action: For Noting

1. INTRODUCTION

- 1.1. The purpose of this report is to provide an update on the development of a medium term financial plan for the IJB.

2. RECOMMENDATION

- 2.1. The IJB is asked to note the contents of this report.

3. BACKGROUND

- 3.1. Previous reports to the IJB have set up a commitment to the development of a medium term financial plan (MTFP). The aim of the plan is to ensure a more robust approach to financial planning, allowing co-ordination between service redesign and transformation and annual budgets. Such an approach is considered essential to facilitate delivery of the Strategic Plan and maximise the use of resources across the medium term. The MTFP will aim to plot out the path ahead.
- 3.2. For the MTFP to be effective, the IJB must have a clear understanding of the challenges it faces, both external and internal. With these challenges understood, the IJB can agree the approach it wants to take to address them. In order to do this, the IJB must understand the nature of the challenges, the strengths and weaknesses of the IJB and the options available to it.
- 3.3. IJBs were established as agents of change and improvement, with an expectation that plans would be put in place to improve the health and wellbeing of the local population. Critical to this is unlocking resources that have up till now been managed and allocated separately. The IJB has been set up to challenge the status quo, including the traditional allocation of resources.
- 3.4. External Audit have highlighted the need for a MTFP in their annual audit report, noting that it is essential for such a plan to be underpinned by identified and agreed budget savings over the term of the plan.
- 3.5. The MTFP will form the basis of the business plans that will be submitted to the Partners each year.

4. FALKIRK IN CONTEXT

4.1. A National Framework

The Scottish Government published its Medium Term Financial Strategy in May 2018. This is the arguably the clearest statement of intent by the Scottish Government in terms of its future funding plans for some time.

4.2. The spending priorities of the Scottish Government have been identified as:

- Health - £1bn increase in funding by 2021/22 (to £14bn)
- Police – £1bn budget protected in real terms (i.e. growing at the same rate as inflation)
- Early Learning & Childcare – budget rising to over £0.5bn by 2021
- Attainment – the £0.75bn Attainment Scotland Fund over the term of the Parliament
- Higher Education = budget of over £1bn
- Social Security – budget rising to over £3bn by 2021/22

4.3. Whilst Health Services have been clearly prioritised, Social Care does not feature in the list. The overall Resource Budget used by the six priority areas outlined above is expected to grow from 56% in 2019/20 to 64% in 2022/23. This has clear implications for those areas not included in the list, mainly Local Government. This must be considered when projecting the funding settlement from Falkirk Council.

4.4. The Scottish Government will produce a Health and Social Care financial strategy during 2018. This will be a key document for the Partnership and should provide more clarity for the IJB MTFP.

4.5. National Demand

The challenges facing the health and social care sector in Scotland have long been the subject of national discussion and debate. In March 2016 Audit Scotland published a report entitled “Changing models of health and social care”, as part of their series of papers on health and social care. This paper highlighted that NHS boards and councils are finding it increasingly difficult to cope with the pressures facing health and social care services.

4.6. The Audit Scotland report also set out some projections for the health and social care sector, including:

- 64% increase in population aged 85 and over projected between 2014 and 2030
- The number of GP consultations is expected to increase by 12% by 2030
- The number of home care clients is expected to increase by 335 by 2030, with a 31% increase projected for those receiving 10+ hours of care per week
- The number of long stay care home residents is expected to increase by 35% by 2030.

- Emergency bed days could rise by 28% by 2030 with acute emergency bed days from patients with 3+ admissions rising by 26%.

4.7. The above projections are based on current rates of activity and the report concludes that health and social care services will be unable to cope with the effects of the changing population unless major changes are made to the way services are delivered.

4.8. Local Context

The Joint Strategic Needs Assessment (JSNA) for the Falkirk HSCP is in the process of being refreshed. The JSNA will inform the review of the Strategic Plan for 2019-22 and help to focus attention on the service redesign and transformation work that will be required in the medium term.

4.9. The projections for an aging population and workforce have been reported nationally and locally and are well understood. The charts below summarise the position for Falkirk, highlighting the reduction in the working age population and the increase in all of the age groups beyond 65 years. This will undoubtedly mean an increase in demand for services.

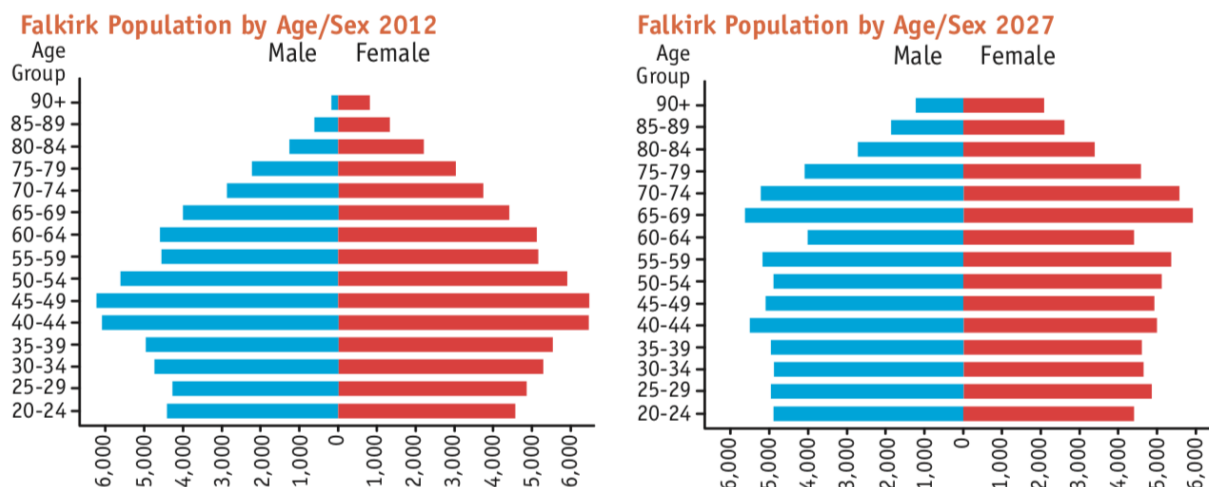


Figure 4: 75+ population expected to nearly double by 2037
 Older Population = Heavy users of services
 Increased Older Population = Increased demand for services
 Need for service re-design

4.10 The projections for Falkirk will be further developed. The strategic plan, delivery plans and MTFP must focus on those areas that will either mitigate demand or reduce cost.

5. APPROACH TO DEVELOPING A MEDIUM TERM FINANCIAL PLAN

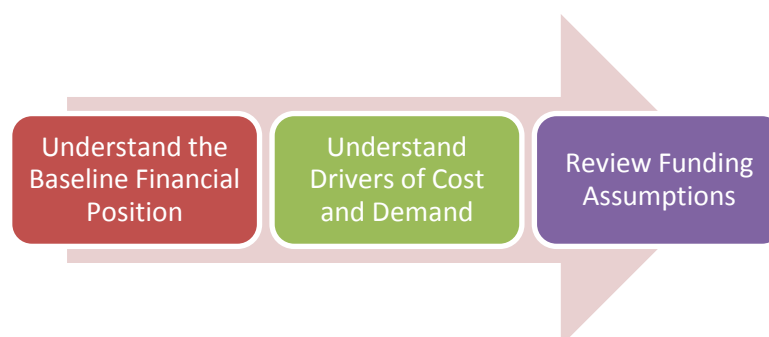
5.1. Principles

It is important to emphasise that the preparation of a MTFP requires collaboration with the Partners to ensure that the information used is robust and consistent. In order to facilitate this, some draft principles are being discussed, including for example:

1. Where possible the MTFPs of the Partners and the IJB will use the same assumptions around cost pressures, activity data etc. Where there is a difference, this will be discussed and if felt necessary, explained in covering reports.
2. The Strategic Needs Assessments of the IJBs are prepared by ISD staff. These will be shared with partner colleagues. If there are significant planning differences, these will be discussed and we will try to reach an agreed position. If there is a difference which cannot be resolved, this will be explained in covering reports where necessary.
3. Information prepared as part of the regionalisation work will be taken into account in the MTFP. NHS colleagues will identify which elements of the information should be retained and which will be superseded
4. At all stages, efforts will be made to reach agreement on all assumptions and approaches throughout the process. Where material differences arise, these will be highlighted in the MTFP.

5.2. Approach

The MTFP aims to pull together in one place all the known factors affecting the financial position and sustainability of the Partnership over the next five years. The proposed approach is:



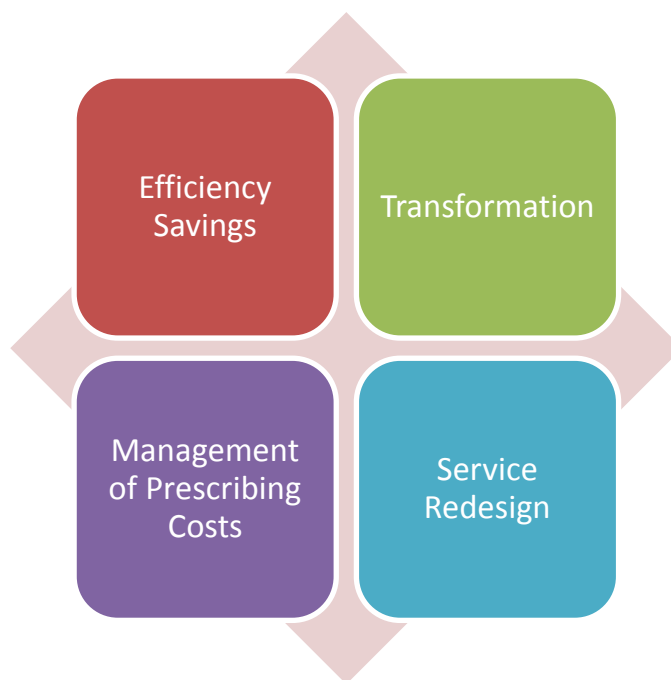
- 5.3. The baseline financial position is a projection of the IJB's financial position in the future if nothing significantly changes in terms of service delivery. The Partnership will face a number of pressures and to understand the impact of these, it is necessary to understand what drives the costs of different aspects of service delivery. The driver can be something that impacts on the volume of activity, such as demand through demographic changes, or the unit cost of the activity, such as pay costs.
- 5.4. To derive the baseline position, the information will be based on the 2018/19 budget and adjusted for the financial impact of known cost drivers. These include cost pressures such as inflation and pay uplifts as well as demand pressures associated with demographic change.

5.5. Once the steps outlined above have been taken, it is anticipated that a funding gap will be generated for each of the next five years. Discussions are ongoing with the Partners to produce this information.

5.6. **Bridging the Financial Gap**

A critical element of the MTFP is the identification of transformation work and activities that will either manage increasing demand or generate financial savings, as well as improve outcomes for the local population. It is important to emphasise that the MTFP is not simply a financial document. It must be integrated with planning, risk management and asset management and help to ensure that these activities are integrated and harmonised.

5.7. Key areas for closing the financial gap will be:



5.8. The aim is that the MTFP will set out the key pieces of work that are required to help bridge the financial gap. The IJB will have a clear view of the transformation and service redesign work that will be required, along with an understanding of the timescales involved as well as the risks.

5.9. It is important that we take a Partnership view when looking at transformation work and service redesign. As a Partnership we need to set out how we plan to recognise the benefits that can come from integrated health and social care services. Whilst in the early years there may still be a focus on each Partner individually, it is hoped that this will reduce over time.

6. PROGRESS TO DATE

- 6.1. The first stage of the process has been to understand the financial assumptions which will underpin all our future work. Discussions have been ongoing with colleagues at NHS Forth Valley and Falkirk Council to agree how we will take this forward and this is likely to invite a range of assumptions from pessimistic to optimistic. A summary of the broad planning assumptions agreed to date is shown in the table below. These reflect a mid-point between more pessimistic and optimistic assumptions. It is expected that the Scottish Government's Health and Social Care Financial Strategy will inform many of these assumptions.

	2019/20	2020/21	2021/22	2022/23	2023/24
Cost Drivers:					
Social Care Pay Inflation	3%	2%	2%	2%	2%
Social Care Provider Inflation	2%	2%	2%	2%	2%
National Care Home Contract	TBC	TBC	TBC	TBC	TBC
Health Pay Inflation	2.3%	2.3%	2.3%	2.3%	2.3%
Prescribing Inflation	TBC	TBC	TBC	TBC	TBC
General Inflation	2.5%	2.5%	2.5%	2.5%	2.5%
Demographics (Social Care)	0.5%	0.5%	0.5%	0.5%	0.5%
Demographics (Health)	2.0%	2.0%	2.0%	2.0%	2.0%
Funding:					
LA Funding Reduction	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%
NHS Funding Increase	TBC	TBC	TBC	TBC	TBC
Additional Social Care Funding	1.6%	1.6%	1.6%	1.6%	1.6%

- 6.2. A number of these assumptions are highly uncertain at this time, particularly pay awards. Pay awards are one of the Partnership's most significant cost drivers. Given the spending priorities set out by the Scottish Government, the funding settlement for local government may be optimistic.
- 6.3. The next stage will be to apply these assumptions to the 2018/19 budget as appropriate to determine the potential funding gap for the Partnership. Some of this work has already been completed for the adult social care side of the budget. However, the aim is to present a full picture for the Partnership as a whole.
- 6.4. **Falkirk Council Funding Proposals**
The Executive of Falkirk Council considered a report on medium term financial planning in September 2018. That report sets out reductions in funding for Council services as well as Falkirk IJB and Falkirk Community Trust. At this stage Falkirk

Council are proposing a £2m reduction in funding for each of the next 5 financial years - £10m in total.

7. NEXT STEPS

7.1. There are two parallel workstreams that are progressing:

Workstream 1
Finalise Assumptions
Confirm Financial Impact
Determine Funding Gap
Consider Sensitivity Analysis
Workstream 2
Prioritisation Workshop with Managers
Set out Service Delivery Plans
Estimate Impact on Cost/Demand
Identify Efficiencies
Understand Risks

- 7.2. The two workstreams reflect the need for the MTFP to bring together service planning, resource assumptions and risk.
- 7.3. A workshop has been set up for Adult Social Care. Discussions are ongoing with colleagues at NHS Forth Valley and Clackmannanshire & Stirling IJB to agree the best way to get the same process and outputs for Health services.

8. CONCLUSIONS

- 8.1. This report provides an update on work to date on medium term financial planning. Collaboration with statutory partners will be crucial to the success of the plan and discussions are ongoing to consider how best to align processes.
- 8.2. To ensure the MTFP is successful, it is essential that emerging funding gaps are underpinned by robust plans which will deliver budget savings or help to mitigate demand. The Partnership needs to be focussed on service redesign and transformation which can deliver. The next step will be to meet with Service Managers in order to produce a road map for delivering financial stability through service redesign and transformation.

Resource Implications

The resource implications are considered in the body of the report.

Impact on IJB Outcomes and Priorities

The MTFP will set out the overall resources available to the Partnership to support delivery of the Strategic Plan. The plan will help to ensure that resources are directed to the delivery of IJB outcomes.

Legal & Risk Implications

The activities underpinning the MTFP will require an understanding of the associated risks. Assumptions which present a significant risk to the Partnership will be highlighted in the plan and mitigating actions identified where possible.

Consultation

The Chief Officer of the IJB, Chief Finance Officer of Falkirk Council and Director of Finance of NHS Forth Valley have been consulted on this report.

Equalities Assessment

The plan will include savings proposals which involve service change. These should all be subject to an Equality Assessment.

Approved for Submission by: Patricia Cassidy, Chief Officer

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Date: 25 September 2018

List of Background Papers: The papers that may be referred to within the report or previous papers on the same or related subjects.

