



Title/Subject: 2018/19 Budget
Meeting: Integration Joint Board
Date: 16 March 2018
Submitted By: Chief Finance Officer
Action: For Decision

1. INTRODUCTION

1.1 The purpose of this report is to present an update on the development of the 2018/19 Falkirk Integration Joint Board budget. This report sets out:

- the key points arising from the Scottish Government financial settlement for 2018/19
- the feedback from Falkirk Council's consideration of the IJB Business Case for 2018/19
- the financial projection for the 2018/19 base budget for the NHS arm of the budget, covering both recurring and non-recurring budgets
- the funding settlement proposed by NHS Forth Valley
- the position with savings proposals for NHS Forth Valley

2. RECOMMENDATIONS

The IJB is asked to:

- 2.1 Note the key points arising from the Scottish Government financial settlement
- 2.2 Note the outcome of the Falkirk Council budget meeting on 28 February 2018 and accept the financial settlement as proposed
- 2.3 Approve the revised savings options for Adult Social Care, reflecting the outcome of the Falkirk Council budget meeting on 28 February 2018
- 2.4 Note the proposed financial settlement from NHS Forth Valley for 2018/19 and the potential impact of the settlement on the 2018/19 budget savings requirement
- 2.5 Note that under this funding settlement the ADP budget will be retained at 2017/18 levels

- 2.6 Note that the activity information used to allocate the set aside budget will be refreshed during 2018/19 and that this piece of work will need to be looked at on a Forth Valley wide basis
- 2.7 Note that savings proposals from NHS Forth Valley are not yet available and it is anticipated that these will be presented to the April meeting of the IJB
- 2.8 Note that the financial settlement for 2018/19 from NHS Forth Valley will be fully assessed alongside available savings proposals with a view to bringing a report back to the IJB in April
- 2.9 Note that a balanced budget will not be prepared in time for the start of the new financial year
- 2.10 Note that Directions will be submitted to the IJB for approval in April
- 2.11 Note that work is underway for the second national performance audit of health and social care integration

3. BACKGROUND

- 3.1. The Integration Scheme of the Falkirk IJB sets out how Falkirk Council and NHS Forth Valley will work together to integrate services. The scheme has a Finance section which outlines the mechanism for agreeing the payments from both partners to the IJB. Section 8.3 of the scheme covers the requirement for a business case to be presented by the IJB to the partners as part of the negotiation process.
- 3.2. In December the IJB approved the draft Business Case for submission to Falkirk Council as part of its budget setting process. Falkirk Council considered the Business Case at their meeting on 6 December. A further iteration of the Business Case was approved by the IJB on 2 February 2018 and considered by Falkirk Council on 28 February 2018. The outcome of that consideration is outlined at section five of the report.
- 3.3. Whilst the December business case outlined some of the anticipated financial pressures facing the NHS arm of the budget, the reports to date have focussed on Adult Social Care. This reflects the different timelines associated with the budget processes, not least the timetables for Scottish Government notifications. This report focusses on the NHS arm of the budget.
- 3.4 The Chief Finance Officer's duties in Scotland require a balanced budget to be set. This is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992. However, advice from CIPFA is that these responsibilities are relevant for the IJBs also.

4. SCOTTISH GOVERNMENT 2018/19 BUDGET

4.1 The Scottish Government set out their draft 2018/19 budget in December 2017. These proposals have been subject to debate with final budget approval taking place on 21 February 2018. The Scottish Government have approved a one year budget for 2018/19. No restrictions have been placed on either the NHS or Local Authorities in terms of the minimum payments they can make to the IJB. The main points that impact on the Partnership are set out below and the allocation letters are appended to this report:

4.2 NHS Allocation (Appendix 1)

- NHS Forth Valley have received a cash term uplift of 1.5% on the 2017/18 baseline and a share of NRAC funding to take the Board position to 0.8% below NRAC parity.
- Funding will also be made available for Investment in Reform, totalling £303m nationwide in 2018/19. This funding includes a Transformational Change Fund to support regional delivery plans (£126m), increasing the workforce support mental health services (£47m) and investment in Primary Care (£110m).
- The funding for mental health services is provided on the basis that it is in addition to a real terms increase in existing 2017/18 spending levels by NHS Boards and Integration Authorities. For Scotland wide this would be a minimum of £17m above inflation and would include mental health and CAMHS services.
- As in 2017/18, NHS Boards will transfer £350m from baseline budgets to Integration Authorities to support social care. A further £5m will be allocated in 2018/19 on a recurring basis in relation to war pensions and guaranteed income payments.
- There will be an additional investment of £20m in treatment and support services for Alcohol and Drug Partnerships. This is in addition to the £53.8m allocated to Board baselines in 2017/18.
- NHS Boards should ensure that the 2018/19 budget settlement for Integration Authorities is in place in advance of the new financial year. A high level draft financial plan is to be submitted to the Scottish Government by 9 March 2018.
- Furthermore, it is expected that there will be Barnett Consequentials flowing from the Westminster Government decision to offer a pay award of 2.6% to NHS staff (previous assumption was 1%). These consequentials cover the difference between the 1% and 2.6% and applies only to Agenda for Change staff.

4.3 Local Authority Allocation (Appendix 2)

- Whilst not binding on local government, the Scottish Government's pay policy announcement, committing to 3% up to £36,500, 2% up to £80,000 and a flat rate of £1,600 above £80,000, has raised expectations of higher settlements than in recent years. This is still under negotiation but the improved financial settlement for the Council has allowed it to build in additional resilience to meet additional costs.
- The allocation included an additional £66m of funding to support additional investment in social care in recognition of a range of pressures, including support for implementation of the Carers (Scotland) Act 2016, the commitment to the living wage and an increase in free personal and nursing care payments.

4.4 Each of the above factors has to be taken into account when reviewing the proposed financial settlements and approving the 2018/19 budget.

5. FEEDBACK FROM FALKIRK COUNCIL MEETING OF 28 FEBRUARY 2018

- 5.1 Falkirk Council considered the budget settlement for the IJB at its meeting on 28 February 2018. The proposed funding settlement is £62.162m. This takes into account the pay award as set out in section 4.
- 5.2 Falkirk IJB has already considered savings options totalling £3m for Adult Social Care and approved submission of these savings to Falkirk Council for consideration. The savings options included two savings with a red risk rating - £0.185m for Younger Adult Day Services and a further £0.200m for Older Adult Day Services. The business case considered by Falkirk Council was clear that delivery of these savings would put significant pressure on these areas which would impact on deliverability.
- 5.3 At its meeting on 28 February, Falkirk Council agreed that these savings would be problematic and agreed to reduce the savings requirement from £3m to £2.615m to allow removal of these savings. The IJB is asked to approve the revised savings for Adult Social Care which reflects the removal of these savings. A summary of the proposed savings is included at Appendix 3.
- 5.4 The proposed funding settlement includes £0.050m of new funding to facilitate the review of day services for younger adults.
- 5.5 The proposed funding settlement also includes the full share of the £66m additional investment in social care. This includes an estimated £0.544m for implementation of the Carers (Scotland) Act Ltd. This figure represents the full allocation for Falkirk and therefore includes the sum of £0.143m for NHS Forth Valley and £0.028m for Children's Services. Review of the funds for Carers is ongoing.
- 5.6 A summary of the Adult Social Care budget for 2018/19 is provided at Appendix 4, and reflects information previously presented to the IJB.

6. NHS 2018/19 FINANCIAL SETTLEMENT PROPOSALS

- 6.1 The NHS Forth Valley Board held a 2018/19 budget seminar on 20 February 2018. However, the Board will not agree its final budget position until 27 March 2018. The current proposed funding settlement could therefore be subject to change. The proposed settlement is £135.997m. This includes the Set Aside element of the budget.
- 6.2 The settlement proposed by NHS Forth Valley includes the pass through of the 1.5% uplift to the base budget and the anticipated Barnett consequentials for the pay award.
- 6.3 The proposal does not currently include additional investment for Primary Care and Mental Health Services from the Investment in Reform monies. The Scottish Government has not published the allocation letters for these pots of money. Once further information is available on the allocation, a sum will be passed to the IJBs. This will be reported back to the IJB at the earliest opportunity.
- 6.4 The Scottish Government will write separately to NHS Boards in respect of Alcohol and Drug Partnership (ADP) allocations and the additional investment of £20m. The purpose of this additional investment is to support additional work to foster improvement and innovation in the way that services are developed and delivered as part of the new substance use strategy. In prior years ADP funding was reduced by the Scottish Government and NHS Forth Valley matched this reduction with funding from their baseline budget. NHS Forth Valley now plan to replace that baseline budget funding with the additional investment funding. The impact on the ADP budget will be reviewed and reported back to the IJB in April 2018.

7. IMPACT OF FUNDING SETTLEMENT

- 7.1 The draft business case that the IJB considered in December 2017 included some assumptions on the NHS arm of the IJB budget, including pay awards and inflationary pressures. These assumptions have now been updated and the additional costs are shown below:

Operational & Universal	£m
Pay Awards	0.680
General Price Inflation	0.062
Other Price Inflation	0.042
Prescribing Inflation	1.530
Hospital Drugs Inflation	0.094
Total	2.408
Set Aside	
Pay Awards	0.600
General Price Inflation	0.041
Hospital Drugs Inflation	0.143
Total	0.784

Total Additional Pressures 2018/19	3.192
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7.2 For 2018/19 NHS Forth Valley will continue to manage the pressures and risk on the Set Aside budget. In February the Health Finance Director wrote out to NHS Boards in respect of large hospital services and set aside budgets with a focus on the inclusion of this information in the 2017/18 financial accounts. As part of the response to the Government it was noted that the activity information used to allocate the set aside will need to be refreshed and this piece of work will need to be looked at on a Forth Valley wide basis.

7.3 For the Operational & Universal budget there is an estimated additional £1.3m of recurring pressures from 2017/18 will need to be taken account of in 2018/19. These pressures were addressed in 2017/18 through non-recurring funds, meaning that the underlying cause of the overspend in 2017/18 has not been dealt with. The majority of these pressures relates to Prescribing which is reflected within IJB budgets nationally. The full savings requirement on the Operational & Universal budget is therefore:

Savings Requirement	£m
Operational & Universal	
2018/19 New Pressures	2.408
Recurring 2017/18 Pressures	1.300
Total	3.708

7.4 A summary of the impact of both the funding settlement and the new pressures for Operational & Universal services in 2018/19 is shown in the table below:

	£m
Expenditure:	
2017/18 Recurring Budget	108.519
Recurring 2017/18 Pressures	1.300
New 2018/19 Pressures	2.408
Total Anticipated Expenditure	112.227
Total Anticipated Funding	110.553
Funding Gap	1.674

7.5 Based on the information above, the savings requirement for the NHS arm of the budget would be £1.674m. It may be worth noting that the Community Services Directorate and the Medical Directorate will likely have further savings to be made from their out of scope budgets.

7.6 A summary of the proposed financial settlements from both NHS Forth Valley and Falkirk Council are included at Appendix 5.

8. SAVING OPTIONS

- 8.1 Based on the current proposed financial settlements and estimates of pressures, the Falkirk IJB would be required to make budget savings totalling £4.289m in 2018/19 (excluding Set Aside). This is split between Adult Social Care (£2.615m) and NHS Forth Valley (£1.674m).
- 8.2 The NHS Forth Valley approach to savings is to apply a 4% savings target across each of the Directorates, adjusted for some areas such as PFI costs and Mental Health spend.
- 8.3 NHS Forth Valley has taken an approach to identifying budget savings which looks at four key areas:
- Savings options planned for 2017/18 which will now be delivered in 2018/19
 - Schemes expected to have minimal service impact
 - Schemes requiring corporate decisions or support
 - Non recurring flexibility
- 8.4 A key focus area for savings will be prescribing and medicines cost. Development of a cost reduction plan for these areas is underway and could feature some of the elements previously highlighted to the IJB, for instance the increased pharmacy input through the Partnership Funding bid, a focus on waste and a GP incentive scheme. Detailed proposals will be brought back to a future IJB.
- 8.5 Colleagues at NHS Forth Valley are continuing to work on savings options. However, at this stage proposed savings are not available and the Chief Officer, Chief Finance Officer and Leadership Team have not had the opportunity to contribute to the development of detailed savings proposals.
- 8.6 Furthermore, the requirement to increase mental health spend may result in funds having to be vired from other areas of the IJB budget into mental health services. Savings beyond the £1.674m may have to be identified to ensure that additional investment is available for mental health services. Discussions are ongoing with the Scottish Government to clarify the requirements.

9. DIRECTIONS

- 9.1 Directions are the legally binding instrument through which the IJB commissions the constituent authorities to carry out the statutory functions and implement the Strategic Plan. Directions are issued by the IJB under Section 26 of the Public Bodies (Joint Working) Scotland Act 2014.
- 9.2 Previous reports to the IJB have noted the need for a review of Directions. This has been superseded somewhat by a national review involving the Scottish Government to look at how directions should be used going forward, and to improve their

consistency and quality. This work is not going to be available to inform the Directions issued for the 2018/19 initial budget setting.

- 9.3 As outlined in this report, work is ongoing to identify savings on the NHS arm of the budget. This will inform how NHS Forth Valley is directed to apply funding and deliver services. It is therefore proposed that Directions for both NHS Forth Valley and Falkirk Council are presented to the IJB at its April meeting or approval. These Directions may be revisited during 2018/19 as further guidance is issued.

10. AUDIT SCOTLAND

- 10.1 Audit Scotland will shortly undertake the second national performance audit of health and social care integration. The first audit was published in December 2015 and looked at the emerging arrangements for establishing, managing and scrutinising Integration Authorities. The second audit is focussed on how integration is changing the way services are planned and designed around the needs of local communities. The review will also consider impact on the public.
- 10.2 A data return has been issued to all auditors and we are providing data to our external auditors, Ernst & Young to facilitate completion of the return.

11. CONCLUSIONS

- 11.1 The Scottish Government financial settlement for 2018/19 for both Falkirk Council and NHS Forth Valley is more benign than expected. However, both Partners are still required to make significant budget savings. This will be challenging for both Partners, particularly as demand and activity are expected to rise.
- 11.2 The financial settlement from Falkirk Council has been negotiated and has seen the savings requirement for Adult Social Care reduce from £4m to £2.615m. This remains challenging for the Partnership but a number of savings options have been identified which would deliver the full quantum of savings. This will however have to be closely tracked and monitored throughout 2018/19.
- 11.3 There remains a number of details attached to the proposed settlement from NHS Forth Valley that need to be discussed and resolved. Until these issues are resolved, the full impact of the proposed settlement is unclear. The Partnership is unable to present a balanced budget for 2018/19 at this time albeit work is progressing on the development of savings options and to fully understand the requirements around mental health services spend. It is anticipated that following further discussion with NHS colleagues, a balanced budget will be presented to the IJB in April.
- 11.4 The Scottish Government asked all NHS Boards to ensure that 2018/19 budget settlements for Integration Authorities are in place in advance of the new financial year. It is anticipated that the NHS Board will approve the financial settlement for the

IJBs on 27 March 2018. The outcome of that Board meeting will be reported back to the IJB on 6 April 2018.

Resource Implications

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

Impact on IJB Outcomes and Priorities

The report sets out the budget available to the IJB for delivery of the outcomes and priorities of the Strategic Plan. There is a risk that an insufficient budget would negatively impact on the ability to deliver the outcomes and priorities of the Strategic Plan.

Legal & Risk Implications

Key risks set out in the report include the capacity of the management team to deliver operational services, delivery efficiencies and implement significant service changes. A support structure will be developed to mitigate these risks.

The savings set out in Appendix 3 for Adult Social Care include a risk rating. These risk evaluations take into account both risks associated with deliverability of the saving and/or the impact of the saving on quality of service, delivery of strategic objectives and the whole systems approach that the Partnership has committed to take.

There is a risk of using non-recurring means to achieve financial balance. This is the case for 2017/18 on the NHS arm of the budget and these pressures will be felt in 2018/19. A focus on recurring savings will be essential going forward.

Consultation

Requirements for consultation on the proposed savings programme will require to be considered.

Equalities Assessment

An equalities assessment will require to be prepared for each of the savings proposals.

Approved for Submission by: Patricia Cassidy, Chief Officer, Falkirk IJB

Author: Amanda Templeman

Date: 28 February 2018

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

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Chief Executives, NHS Scotland

Copy to: NHS Chairs
NHS Directors of Finance
Integration Authority Chief Officers

Issued via email

Our Ref: A19675337

14 December 2017

Dear Chief Executives

Draft Budget 2018-19 – Indicative Allocation

Following the announcement of the Scottish Government’s Draft Budget for 2018-19 by the Cabinet Secretary for Finance and the Constitution in Parliament today, I am writing to provide details of the funding settlement for Health Boards and the indicative 2018-19 baseline budget for Territorial and National Boards. A breakdown of the total is provided in the annex to this letter.

A central component of the settlement for the Portfolio is that it will allow for progress to be made in delivering the commitment that more than half of frontline spending will be in community health services by the end of this parliament. The funding in 2018-19 is designed to support a further shift in the share of the frontline NHS budget dedicated to mental health and to primary, community and social care. The Cabinet Secretary for Health and Sport expects NHS Boards and Integration Authorities to contribute to this Programme for Government commitment and it will be essential that this is clearly evidenced as part of plans for 2018-19.

Investment in Reform

Funding for reform will increase by £175 million, to £303 million in 2018-19.

	2017-18 (£m)	2018-19 (£m)	Increase for 2018-19 (£m)
Transformational Change Fund	25.0	126.0	101.0
Primary Care	60.0	110.0	50.0
Mental Health	30.0	47.0	17.0
Trauma Networks	5.0	10.0	5.0
Cancer	8.0	10.0	2.0
Total Investment in reform	128.0	303.0	175.0

The components of these lines and the approach to allocating reform funding will be set out by individual policy areas in advance of the new financial year.

Baseline Funding

Territorial Boards will receive a cash terms uplift of 1.5%. In addition to this, those Boards furthest from NRAC parity will receive a share of £30 million, which will mean that no Board is further than 0.8% from NRAC parity in 2018-19.

The four patient facing National Boards, (Scottish Ambulance Service, NHS24, Golden Jubilee and The State Hospital) will each receive a cash terms uplift of 1.0%. In addition, the Scottish Ambulance service will receive a further £6 million to support the implementation of their strategy. NHS National Services Scotland, Healthcare Improvement Scotland, NHS Education for Scotland and NHS Health Scotland will receive a flat cash settlement.

The National Board savings requirement of £15 million in 2017-18 will be made recurring in 2018-19. This savings requirement is not yet reflected in the National Board baseline allocation and will be agreed in advance of the new financial year.

When combining the £175 million increase in investment in reform, with an increase of £179 million in baseline funding for NHS Boards, the total additional funding for frontline NHS Boards will amount to £354 million (3.7 per cent) in 2018-19.

Pay Policy

The Scottish Government has set out its 2018-19 pay policy, which recommends a 3% pay increase for public sector workers earning £30,000 or less and a cap of 2% on the increase in the pay bill for staff earning more than £30,000. In addition, there will be a cap on the pay increase for highest paid, with a maximum cash increase of £1,600 for those earning above £80,000.

The pay settlement for NHS staff will of course be subject to the NHS pay reviews process as in previous years.

Core Areas of Investment

Transformational Change

The transformational change fund of £126 million will provide support to the regional delivery plans for implementation of new service delivery models, improved elective performance and investment in our digital capability.

Mental Health

Through our new Mental Health Strategy, we are shifting the balance of care towards mental health, increasing the level of investment in mental health services and improving support in the crucial period from birth to young adulthood. To support this, in 2018-19 a further £17 million will be invested, which will go towards the commitment to increase the workforce by an extra 800 workers over the next 5 years; and for transformation in CAMHS. In order to maximise the contribution from this direct investment, this funding is provided on the basis that it is in addition to a real terms increase in existing 2017-18 spending levels by NHS Boards and Integration Authorities. As a result therefore, it is expected that NHS Boards and Integration Authorities ensure that total spending on mental health and CAMHS services in 2018-19 will increase as a minimum by £17 million above inflation. Directions regarding the use of £17 million will be issued in year.

Primary Care

Investment in the Primary Care Fund will rise to £110 million in 2018-19. This will support the transformation of primary care by enabling the expansion of multidisciplinary teams for improved

patient care, and a strengthened and clarified role for GPs as expert medical generalists and clinical leaders in the community.

Social Care

As in 2017-18, Territorial NHS Boards are required to transfer £350 million from baseline budgets to Integration Authorities to support social care. A further £5 million will be allocated in 2018-19 on a recurring basis to Boards to be transferred to Integration Authorities in relation to war pensions and guaranteed income payments.

As part of the settlement for Local Government, £66 million has been provided to Local Authorities recognising a range of pressures in relation to Social Care. This funding will be allocated directly to Local Authorities from the Scottish Government and will not pass through NHS Board baselines.

NHS Boards should ensure that 2018-19 budget settlements for Integration Authorities are in place in advance of the new financial year.

Alcohol and Drug Partnerships

In 2018 a refreshed alcohol framework will be in place which will continue to take on Scotland's often problematic relationship with alcohol misuse. This renewed focus on alcohol and drugs will be backed by additional investment of £20 million in treatment and support services and further detail will be provided on this before the start of the financial year. This funding is not included in Board baseline budgets and is in addition to the £53.8 million that was allocated to Board baselines in 2017-18. Our expectation is that following the budget we will, as last year, write outlining the allocation by Board area and associated Ministerial expectations.

Capital Funding

We will continue to prioritise funding for existing commitments and Boards should assume an unchanged initial capital formula allocation.

Annual Plan

We will shortly set out the requirements for an annual plan, which will replace the previous Local Delivery Planning process and will link into the Regional and National Delivery Plans. This will set out a number of principles to be delivered in relation to finance and wider performance.

Yours sincerely

CHRISTINE MCLAUGHLIN
Director of Health Finance
Scottish Government

Annex

2018-19 Draft Budget Funding Allocations

	2017-18 Budget Bill	Recurring Allocation Adjustments	Total 2017-18 Allocation	Uplifts	Total 2018-19 Allocation	Distance from NRAC parity
	£m	£m	£m	£m	£m	%
Territorial Boards						
Ayrshire and Arran	683.6	-0.3	683.3	11.6	694.9	(0.8%)
Borders	197.7	-0.1	197.6	3.0	200.6	1.1%
Dumfries and Galloway	284.9	-0.1	284.8	4.3	289.1	2.8%
Fife	624.7	-0.2	624.5	12.1	636.6	(0.8%)
Forth Valley	496.7	-0.1	496.6	10.3	506.8	(0.8%)
Grampian	902.4	-0.2	902.1	18.5	920.6	(0.8%)
Greater Glasgow & Clyde	2,123.5	-0.9	2,122.6	31.8	2,154.5	1.8%
Highland	592.6	-0.2	592.4	12.0	604.3	(0.8%)
Lanarkshire	1,135.9	-0.4	1,135.5	20.7	1,156.1	(0.8%)
Lothian	1,356.0	-0.6	1,355.4	29.0	1,384.3	(0.8%)
Orkney	46.7	0.3	47.0	0.7	47.7	(0.4%)
Shetland	47.5	0.4	47.9	0.7	48.7	(0.4%)
Tayside	721.3	-0.2	721.1	13.7	734.8	(0.8%)
Western Isles	71.6	0.3	72.0	1.1	73.0	11.3%
Total	9,285.1	-2.3	9,282.8	169.4	9,452.0	
Special Boards						
National Waiting Times Centre Board	51.9	1.5	53.4	0.5	54.0	
Scottish Ambulance Service	229.3	0.0	229.3	8.6	237.9	
NHS National Services Scotland	324.7	3.5	328.2	0.0	328.2	
Healthcare Improvement Scotland	24.7	0.1	24.7	0.0	24.7	
The State Hospital	34.4	0.0	34.4	0.3	34.8	
NHS 24	65.2	0.4	65.6	0.7	66.3	
NHS Education for Scotland	420.0	0.0	420.0	0.0	420.0	
NHS Health Scotland	18.4	0.0	18.4	0.0	18.4	
Total	1,168.6	5.5	1,174.1	10.1	1,184.3	
TOTAL	10,453.7	3.2	10456.9	179.5	10,636.3	
Investment in Reform				175.0		
Total additional funding for frontline Boards				354.5		

Cabinet Secretary for Finance and the Constitution
Derek Mackay MSP



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Copy to: The Leaders of all Scottish local authorities

14 December 2017

Dear Alison,

Today I set out the Scottish Government's draft spending and tax plans for 2018-19. Further to my announcement I write now to confirm the details of the local government finance settlement for 2018-19.

Details of the indicative allocations to individual local authorities for 2018-19 are also being published today as set out in Local Government Finance Circular No. 5/2017.

This settlement is set against the context of the continuing austerity imposed on Scotland by the UK Government, which means that by 2019-20 the Scottish Government's fiscal block grant allocation will be £2.6 billion (8.0%) lower in real terms than it was in 2010-11.

I have considered carefully the representations and evidence COSLA have presented on behalf of local government and have welcomed the constructive approach with which you have approached our negotiations.

I have noted the issues COSLA have said are important for local government and have tried where possible to address these in this settlement. I recognise the continuing financial pressures local government, along with the rest of the public sector, is facing in a very challenging fiscal environment. However, I believe that the outcome, presented in the measures set out in this letter, is the best that could be achieved in the circumstances and continues to provide a fair settlement for local government to enable them to meet our shared ambitions for the people and communities we serve.

Turning now to the detail of the package of measures, the total revenue funding to be provided through the settlement for 2018-19 will be £9630.8 million, which includes distributable non-domestic rates incomes of £2,636 million.

The core Capital funding is set at £726.4 million but with the inclusion of the expansion of Early Years provision as set out below this increases the Capital funding within the settlement to £876.4 million.

The total funding which the Scottish Government will provide to local government in 2018-19 through the settlement is therefore £10,507.1 million. This includes;

- Baseline from 2018-19 of the £130 million additional revenue investment I announced earlier this year at Stage 1 of the Budget Bill for 2017-18;
- £52.2 million revenue and £150 million capital to deliver on our joint agreed ambitious programme for the expansion of Early Years provision;
- £11 million of revenue to support the initial expansion of Early Years set out in the 2014 Act provisions;
- £24 million for the full year cost of our contribution to the Teachers' pay offer; and
- £66 million to support additional investment in social care in recognition of a range of pressures local authorities are facing.

I have also had to look very seriously at the capital allocation to Local Government, in particular the calculation of the share commitment which guarantees that Local Government will receive a fixed percentage of the overall Scottish capital budget each year until 2019-20, based on the position as at the 2015 Spending Review. However, I believe that the context has changed since this commitment was originally made, including the introduction of additional funding streams outwith the settlement which local authorities will directly benefit from.

For 2018-19 the calculation of the capital share allocation takes into account, at least in part, the additional funding streams outwith the settlement, except in the case of Early Years which is additional to the share allocation. The value of the capital funding I have made available to local government exceeds the percentage commitment made and equates to 31 per cent. Taking into account the Early Years grant, the percentage increases to 36 per cent.

The commitment to repay £150 million of re-profiled capital from an earlier settlement remains and this will be repaid in full in 2019-20.

For 2018-19 local authorities will continue to have the flexibility to increase Council Tax by up to a maximum of 3%. This local discretion will preserve the financial accountability of local government, whilst also potentially generating around £77 million to support services.

The revenue allocation delivers a flat cash settlement for local government for 2018-19 compared to 2017-18, including the additional resources to meet our commitments on the expansion of Early Years, teachers pay and support for social care. Taken together with the additional spending power that comes with the flexibility to increase Council Tax (worth around £77 million next year) the total funding (revenue and capital) delivers an increase in the overall resources to support local government services of 1.6%.

In my response on 12 September to the Barclay Review of non-domestic rates I made clear that there were certain recommendations that I wished to engage further on before coming to a conclusion, including the removal of charity relief for council arm's-length external organisations (ALEOs). In these discussions I heard a strong and consistent message from local government and other stakeholders about the importance of this benefit, to sports, leisure and culture facilities in particular, and of keeping the costs of these services affordable especially in disadvantaged and vulnerable communities.

As a result I confirmed on 28 November that charity relief will continue to be applicable to qualifying properties currently occupied by council ALEOs. However I am aware that some

councils are planning to increase the numbers of ALEOs or the number of properties occupied by existing ALEOs. To mitigate against this it is my intention to offset any further charity relief benefit awarded in respect of both new council ALEOs and additional properties occupied by existing ALEOs since my announcement, by implementing an equal compensating reduction in General Revenue Grant for the councils in question.

In addition, a new relief for public sector and private sector day nurseries is proposed. This will offer 100% relief for properties wholly or mainly used to provide day nursery care for pre-school children. The relief will be applicable under EU State aid rules.

We will require local authorities to achieve a pupil:teacher ratio of 13.7, and ensure that places are provided for all probationers who require one under the Teacher Induction Scheme. This is supported by a continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the Teacher Induction Scheme. In order to support delivery of this commitment the Scottish Government will work with COSLA to consider how the use of existing or additional data on unfilled posts and teacher vacancies could be better utilised to inform how delivery of this commitment is measured. As in previous years teachers whose posts are funded through the Attainment Scotland Fund, including Pupil Equity Funding, are additional and do not contribute towards the delivery of this commitment. An additional £24 million is also be included in the settlement to cover the additional full year cost of the teachers' pay offer for 2017-18.

We have committed to provide certainty to local authorities over the quantum of multi-year funding for the expansion of early learning and childcare to support authorities in planning for and implementing the delivery of the commitment.

I understand the Deputy First Minister has been very encouraged by the constructive discussions which are taking place through the Early Learning and Childcare Finance Working Group to reach a shared understanding of the costs arising from the expansion. It is right and proper that Scottish Government and local authority colleagues take the time to challenge and refine cost estimates for this significant investment in the education and care of our youngest children, so that we can all be assured that we make best use of public funds.

On that basis, we are content to agree to the proposal made by COSLA leaders that we should agree revenue and capital funding for 2018-19 (adds £52.2 million and £150 million respectively) in our draft spending plans announced today and to continue to work closely together to agree funding levels for 2019-20 onwards in early 2018. For 2018-19 the £52.2 million includes revenue funding for free lunches and implementation of the additional graduate commitment (from August 2018). There is also a further additional £11 million included in 2018-19 for implementation of the 2014 Act provisions.

In 2018-19 an additional £66 million is included in the settlement allocations to support additional expenditure by local government on social care in recognition of a range of pressures they and integration authorities are facing, including support for the implementation of the Carers (Scotland) Act 2016, maintaining our joint commitment to the Living Wage (including our agreement to now extend it to cover sleepovers following the further work we have undertaken) and an increase in the Free Personal and Nursing Care payments. This funding is provided directly to local authorities and is in addition to the £355 million baselined provision transferred from NHS Boards to Integration Authorities. I will look to local authorities to continue to prioritise their financial support for social care.

The Scottish Government is fully committed to further engagement with COSLA as we seek to make local taxation as a whole fair and progressive. We will work with COSLA to consider your objectives for local tax reform and our commitments for local government to retain the net incomes from the Crown Estate for the benefit of island and coastal communities.

I can also restate my commitment to our partnership working and can confirm my intention that this will again be a sanction free settlement.

The measures set out in the settlement offer must be viewed as a package to protect our shared priorities. In order to access all of the benefits involved, including those priorities supported by specific financial benefits, local authorities must agree to deliver all of the measures set out in the package and will not be able to select elements of the package.

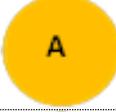
Any individual authority not intending to agree the offer and accept the full package of measures and benefits should write to me by no later than 19 January 2018. For those authorities not agreeing the offer a revised, and inevitably less favourable, offer will be made.

I have carefully considered the representations made to me by COSLA and this is reflected in the detail of the settlement and the package of measures included. My aim throughout our discussions has been to reach an agreement with councils around the implementation of these commitments. I now invite local authorities to agree the terms of the settlement which I consider delivers the best outcome for local government that can be achieved in the circumstances.

DEREK MACKAY

ADULT SOCIAL CARE

2018/19 SAVINGS PROPOSALS – SUMMARY

Savings Ref	Title	£m	FTE Impact	Risk Rating	EPIA Rating
Efficiency Savings					
1.1	High Cost Care Packages	0.800	-		Low
1.2	Reduction in costs relating to sickness absence	0.100	-		Low
1.3	Improved rotas at Care Homes for Older People	0.050	-		Low
Changing Models of Service Delivery					
2.1	Reduction in spend on purchased care home placements	0.400	-		Low
2.2	Provision of equipment	0.030	-		Low
2.3	Older Adults Day Services	0.200	-		Low
Increasing Income & Other Savings					
3.1	Application of Integration Funding	0.700	-		N/A
3.2	Charging income	0.300	-		Low
3.3	Supporting People budget	0.035	-		Low
	TOTAL	2.615	-		

A. SAVINGS 2018/2019

1. Efficiency Savings

Ref	Title	Budget £m	Saving Amount £m	Comments	Risk
1.1	High Cost Care Packages	13.920	0.800	Deliverable through reablement informed reviews. Deliverability was previously assessed as low risk in light of 16/17 and 17/18 experience of achieving savings in this area of service. However, the increase in the savings to be achieved requires an amber risk rating. The reason for the amber rating is that a reduction will be required in higher cost mainstream home care packages where the Partnership doesn't yet have the experience and practice base established to give full confidence of short term savings.	
1.2	Reduction in costs relating to sickness absence	-	0.100	This saving will be delivered through a reduction in levels of sickness absence. The reduction will be achieved through a programme of enhanced management of sickness absence and a focus on prevention. This proposed saving has an amber risk for deliverability reflecting known experience of our efforts to reduce sickness absence.	
1.3	Improved rotas at Care Homes for Older People		0.050	This saving will be delivered through reduction in staffing costs derived from more efficient staff deployment. The saving has been given an amber rating as further work is required in this area.	

2. Changing Models of Service Delivery

Ref	Title	Budget £m	Saving Amount £m	Comments	Risk
2.1	Reduction in spend on purchased care home placements	33.958	0.400	This requires to be delivered through redesign enabling more people to be supported in their own homes. This proposed saving has an amber risk reflecting the interdependencies with wider improvement efforts in the area of Care at Home.	

2.2	Provision of Equipment	0.325	0.030	This saving will be delivered through redesign and review, supported by the shift towards reablement, self-management (ADL Smartcare) and revised approach to Eligibility Criteria. This saving has a green risk rating given the enablers referred to above.	
2.3	Older Adults Day Services	2.427	0.200	This saving will be delivered through a combination of increased efficiency in the existing service delivery model and redesign through review of that model. This saving has a green risk rating for deliverability, based on knowledge of existing provision.	
3. Increasing Income & Other Savings					
Ref	Title	Budget £m	Saving Amount £m	Comments	Risk
3.1	Application of Integration Funding	-	0.700	A one off application of the IJB's Integration Funding reserves. This type of funding is not sustainable but will buy time to implement more radical service delivery changes.	
3.2	Charging Income	11.161	0.300	This saving would be delivered through a standard rate increase by 3% on all services. This would be in line with state pension increase in 18/19.	
3.3	Supporting People Budget		0.035	Deliverable by reducing spend on the Supporting People budget following partner organisations having ceased their activity in this area of service provision, therefore no longer requiring payment.	
TOTAL			2.615		

FALKIRK HSCI PARTNERSHIP
Local Authority Budget

APPENDIX 4

In Scope Function	2017/18 Budget	2018/19 Budget
	£'000	£'000
Older People	3,322	3,500
Mental Health	575	600
Learning Disability	327	345
Physical Disability	702	739
Adult Support & Protection	99	101
Carers	48	48
Care at Home	32,396	32,559
Residential Care	20,696	21,107
Respite Care	1,205	1,799
Day Care/Services: PD, LD, OP, MH	4,272	4,423
MECS/Telecare/Telehealth	569	584
Housing with Care/Sheltered Accommodation	1,158	1,193
Shopping Service	24	26
Equipment & Adaptations	429	403
Advocacy	96	96
Sensory Team	358	370
Mental Health Team	295	304
Learning Disability Team	588	606
JLES	303	344
Day Care/Centre: MH	267	275
Sensory Resource Centre	79	80
Voluntary Organisations	554	554
Garden Aid	489	489
Housing Aids and Adaptations	1,200	1,200
Improvement Grant	327	327
IJB Operation	195	200
	70,573	72,272

Funded by

Integration Funding & Share of £66m	10,110	12,000
General Fund Payment	58,722	58,481
Additional Investment - Day Services	-	50
HRA Payment	1,414	1,414
Capital Payment	327	327
	70,573	72,272

SUMMARY OF PROPOSED FINANCIAL SETTLEMENTS FOR 2018/19

	FALKIRK COUNCIL £m	NHS FORTH VALLEY			GRAND TOTAL £m
		OPERATIONAL & UNIVERSAL £m	SET ASIDE £m	TOTAL £m	
Recurring 2017/18 Base Budget	70.573	108.519	24.712	133.231	203.804
Inflationary Pressures:					
Pay Awards	0.787	0.680	0.600	1.280	2.067
Non Pay Inflation	2.033	0.104	0.041	0.145	2.178
Prescribing Inflation	-	1.624	0.143	1.767	1.767
	<u>2.820</u>	<u>2.408</u>	<u>0.784</u>	<u>3.192</u>	<u>6.012</u>
Other Increases:					
Demographic Growth	0.350	-	-	-	0.350
Carers Act Requirements	0.890	-	-	-	0.890
Day Care Investment	0.050	-	-	-	0.050
Other Miscellaneous Increases	0.204	-	-	-	0.204
	<u>1.494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.494</u>
Sub Total	<u>74.887</u>	<u>110.927</u>	<u>25.496</u>	<u>136.423</u>	<u>211.31</u>
Integration Funding	10.110	-	-	-	10.110
HRA & Capital Funding	1.741	-	-	-	1.741
	<u>11.851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11.851</u>
New 2018/19 Investment:					
Share of £66m for Adult Social Care Pressures	1.890	-	-	-	1.890
Investment in Day Services for Younger Adults	0.050	-	-	-	0.050
Investment in Reform - Mental Health	-	-	-	-	-
Investment in Reform - Primary Care	-	-	-	-	-
	<u>1.940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.940</u>
Proposed Recurring Settlement	58.481	110.553	25.444	135.997	194.478
Total Funding	72.272	110.553	25.444	135.997	208.269
Gap to be met by Savings	2.615	0.374	0.052	0.426	3.041
Recurring 2017/18 Pressures to be met from Savings	-	1.300	-	1.300	1.300
Savings Identified	2.615	-	-	-	2.615
Savings to be Identified	<u>-</u>	<u>1.674</u>	<u>0.052</u>	<u>1.726</u>	<u>1.726</u>