



REPORT TO: MORAY INTEGRATION JOINT BOARD ON 30 AUGUST 2018

SUBJECT: FINANCIAL OUTLOOK

BY: CHIEF FINANCIAL OFFICER

1. REASON FOR REPORT

- 1.1 To provide the Board with an overview and early indication of the scale of financial challenge facing the Moray Integration Joint Board (MIJB) over the 5 year period 2018/19 – 2022/23.

2. RECOMMENDATION

2.1 It is recommended that the MIJB:

- i) note that the delegated services are reporting an overspend of £1.032m on core services for the first 3 months of the financial year;**
- ii) acknowledge the initial financial outlook over the next 5 years; and**
- iii) support the development of an underpinning financial strategy aligned to the Strategic Plan 2019 – 2022.**

3. BACKGROUND

- 3.1 Since the MIJB became operational on 1 April 2016, it has been faced with one year financial settlements from the funding Partners. The 2016/17 first year budget for the MIJB included historical cost efficiencies that had in the past, failed to be met and no additional funding for service developments or transformational change. The settlement for the 2017/18 financial year became increasingly difficult due to a flat cash allocation from NHS Grampian and a budget reduction of £1.3m in the Moray Council allocation. To further burden this position, no additional funding was received for pay awards, inflationary increases, growth or budget pressures.
- 3.2 On 29 March 2018 at a meeting of this Board, an indicative budget was accepted to allow services to continue to be delivered. At this point the budget displayed a shortfall of £4.596m (paragraph 8 of the minute refers). A

revised revenue budget position was presented to the MIJB on 28 June 2018 presenting a reduced budget shortfall position of £3.293m due to a proposed increase in efficiency savings and use of remaining reserves (paragraph 6 of the draft minute refers). This report noted the high level of financial risk inherent in the 2018/19 revenue budget in achieving financial balance and delivery of delegated services.

4. KEY MATTERS RELEVANT TO RECOMMENDATION

4.1 CURRENT FINANCIAL POSITION

- 4.1.1 The 2018/19 Revenue Budget Monitoring for quarter 1 is presented to this Board today on the financial position at the end of the first 3 months showing an overspend of £1.032M on core services.

	Annual Budget £	Budget to Date £	Expenditure to Date £	Variance to date £
MIJB Core Service	111,024,411	27,669,459	28,701,503	(1,032,044)
MIJB Strategic Funds	7,526,035	205,614	317,798	(112,184)
Total MIJB Expenditure	118,550,446	27,875,073	29,019,301	(1,144,228)

Whilst this is very early in the year, assurance cannot be given that a break-even position will be achievable in the delivery of delegated services. It will be key to observe the first forecast out-turn position, which will be presented at the 6 month point and reported to this Board on 29 November 2018.

- 4.1.2 The MIJB Integration Scheme sets out the process for addressing a forecast overspend position. In the first instance, the Chief Officer and Chief Financial Officer should agree corrective action with the MIJB. This is already being explored through sessions being held with the senior and operational management teams. If the overspending cannot be resolved through this mechanism then a recovery plan must be agreed between the Chief Officer and Chief Financial Officer of the MIJB and the Director of Finance, NHS Grampian and the Section 95 Officer, Moray Council. If the recovery plan is unsuccessful then the application of reserves is required. It should be reiterated at this point that the MIJB has utilised its reserves in full by including the balance as part of the 2018/19 funding position.
- 4.1.3 It has already been recognised by this Board that major redesign of services, together with revised approach and involvement of all partners and stakeholders is required in order to pursue a balanced budget position. It has also been acknowledged that change of this scale requires time, planning and appropriate consultation and communication. Demand-led pressures continue to impact adversely on the financial position, however, work continues to identify further opportunities to reduce the level of anticipated overspend.

4.2 FINANCIAL OUTLOOK

- 4.2.1 The MIJB faces challenges of increasing demand for services and a climate of constrained financial resources. In this context, the development and implementation of a strategic approach to financial planning over the next 3–5

years is essential to support the sustainability of health and social care delivery in Moray. It is vital that close observation of the financial outlook and emerging pressures is made as the development of the Strategic Plan 2019 – 22 is progressed.

- 4.2.2 The MIJB has to consider its revenue budget in the context of one year financial settlements being announced by central government and in a period of continuing real terms reductions in funding. Local Authorities in particular have faced challenging decisions as a result of reduced real term funding. Whilst funding for NHS Boards continues to be challenging, the NHS in Scotland is currently receiving relative protection in comparison with the rest of the public sector.
- 4.2.3 The high level of uncertainty surrounding future funding increases financial risk, making it essential to set out some key planning assumptions which should be reviewed regularly and updated as information becomes available. Set out below is the anticipated medium case funding scenario. The assumptions made are that health board funding will provide an uplift of 2% on recurring core funding and that local authority funding will decrease by 2% each year until 2020/21 where thereafter it will remain static. Since 2016/17 funding for Social Care has also been provided from Scottish Government and routed through the health arm of the budget and is now embedded within recurring core health funding. In 2018/19 Scottish Government introduced a further £66m across Scotland to support investment in Social Care in recognition of a range of pressures being faced which was routed through the Local Authority arm of the budget. Due to the uncertainty of the future of this funding it has been highlighted separately in the table below. The table demonstrates the potential future funding levels using 2018/19 as the base year where the funding is known:

	2018/19 £000 (Base Agreed)	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
NHS Grampian	72,828	73,979	75,154	76,352	77,574
Moray Council	38,254	37,489	36,739	36,739	36,739
SG Social Care	1,186	1,186	1,186	1,186	1,186
Use of Remaining Reserves	847	0	0	0	0
TOTAL	113,115	112,654	113,079	114,277	115,499

- 4.2.4 Planning assumptions have been made to illustrate the expenditure profile over the same period. This will continue to be refined but provides an indication of the challenge facing the MIJB. As the Strategic Plan is developed and priorities established, cognisance will be required surrounding the review and direction of funding, ensuring alignment with our commissioning plans. Based on existing service provision, the table below sets out the projected increases in costs over the next 5 years and compares this to projected income, demonstrating the growth in baseline pressure.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
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Opening Cost Base	113,534	116,408	119,546	121,963	124,458
Cost Pressures	4,390	3,138	2,417	2,495	2,576
Savings Identified (recurring)	(1,516)	In progress	In progress	In progress	In progress
Total Projected Costs	116,408	119,546	121,963	124,458	127,034
Projected Income	113,115	112,654	113,079	114,277	115,499
Projected Shortfall (£K)	3,293	6,892	8,884	10,181	11,535
Projected Shortfall (%)	2.9%	6.1%	7.9%	8.9%	10%

4.2.5 The above table reflects analysis based on the following assumptions:

- Pay Award (health)
- Contractual Uplifts and National Care home Contract
- Prescribing Pressures
- Demographic Growth
- Government Policy and Legislation, including Carers Act and Free Personal Care
- Locum Costs
- High Cost Complex Care

4.2.6 Work continues to identify further savings proposals to provide some mitigation of the pressures identified. Regular progress updates will be presented to the MIJB. In addition, there are a number of scenarios that could potentially reduce the projected future shortfall including:

- Changes to the planning assumptions made – e.g. contractual inflation or pay awards beyond 2020/21;
- Identification of additional funding through better than anticipated Central Government settlements being passed through to the MIJB;
- Progress with redesign initiatives
- Identification of opportunities to manage demand or cost reduction;

Equally, there are a number of factors that could see the cost pressure and subsequent funding gap increase, for example insufficient funding to support national strategies and legislative impact.

4.2.7 Whilst there is a high degree of uncertainty in the estimates highlighted within this financial outlook, it is clear that the MIJB faces significant financial challenge for the foreseeable future leading to an increased level of risk surrounding the delivery of the Strategic Plan and reliance cannot be placed on funding partners to provide the level of funding required.

4.3 FINANCIAL STRATEGY

- 4.3.1 The current Strategic Plan for the MIJB will be replaced from 1 April 2019 covering a further 3 year period. The Strategic Planning Group are already progressing with the Plan and workshops are being held at planned intervals to ensure the appropriate stakeholder engagement is embedded into the process. With the Strategic Plan in mind, it is essential to consider the financial context as the priorities over the next 3 years are developed. The financial outlook as presented in this report will help to inform the strategic planning process. The MIJB is required to develop a 3 to 5 year financial strategy to support the strategic plan and the Board is asked to support the development of this aligned approach.

5. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP)) and Moray Integration Joint Board Strategic Commissioning Plan 2016 – 2019

Ensuring an adequate revenue budget for the MIJB is key to the successful delivery of health and social care services in Moray and in accordance with the Strategic Plan. Financial planning in these times of extended financial uncertainty will support positive outcomes.

(b) Policy and Legal

The MIJB has a duty to set a revenue budget each year and in accordance with the Public Bodies (Joint Working) (Scotland) Act 2014, MIJB is subject to the audit and accounts regulations and legislation of a body under Section 106 of the Local Government (Scotland) Act 1973 and is classified as a local government body for accounts purposes by the Office for National Statistics (ONS). Financial planning is a key element to this process.

(c) Financial implications

Considered throughout the body of this report

(d) Risk Implications and Mitigation

The key risk to the MIJB is to deliver fully on the Strategic Plan in the context of the prevailing financial position. Scenario planning against future financial predictions will support the mitigation of this risk within what remains an extremely challenging financial climate.

(e) Staffing Implications

None arising directly from this report.

(f) Property

None arising directly from this report.

(g) Equalities/Socio Economic Impact

None arising directly from this report.

(h) Consultations

Consultations have taken place with the Senior Management Team , the Head of Financial Services and Legal Services Manager (Litigation and Licencing) (both Moray Council) and the Deputy Director of Finance, NHS Grampian. Any comments received have been considered in writing this report.

6. CONCLUSION

- 6.1 This report sets out the potential financial outlook being faced by the MIJB over the next 5 years and is intended to support the Strategic Planning responsibilities of the MIJB.**
- 6.2 The development of a medium term financial strategy, aligned to the MIJB Strategic Plan and subject to regular review will support this process.**

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Background Papers: with author
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