

REPORT TO ABERDEENSHIRE INTEGRATION JOINT BOARD –20 December 2017

MEDIUM TERM FINANCIAL STRATEGY

1 Recommendation

The Integration Joint Board (IJB) is recommended to:

- 1.1 Consider and comment on the Medium Term Financial Strategy set out in the report;
- 1.2 Agree to receive a further Medium Term Financial Strategy update, including a budget proposal for 2018/19 at the January meeting of the IJB ;
- 1.3 Agree that the Medium Term Financial Strategy facilitates the delivery of the IJB's Strategic Plan.

2. Risks

- 2.1 IJB Risk 1 Sufficiency and affordability of resource.
- 2.2 This report is pivotal to managing this risk as it sets out proposed future areas that will inform the implementation of actions by officers to manage and plan the financial position for future years.
- 2.3 The IJB achieved a financial position for 2016/17 within budget by £9,000, whereas the latest forecast for the current year is an overspend of £2.948 million plus a forecast overspend on Prescribing of £1.811 million totalling £4.759 million.

3. Discussion

- 3.1 At the meeting of the Aberdeenshire Integration Joint Board on 22 March 2017, a balanced revenue budget was agreed for the current financial year 2017/18. It was also agreed that a five year Medium Term Financial Strategy (MTFS) was to be developed reflecting the strategic priorities of the IJB.
- 3.2 At this point last year, a Development Session was held with IJB members to discuss the framework for a MTFS in the context of legislative requirements, strategic priorities and resourcing challenges. Resourcing challenges at a UK and Scottish level were highlighted as having a major influence on the future years' position for the IJB. This context, within which the IJB operates remains a dynamic one, particularly around funding levels and demographics for our area.
- 3.3 The work that has progressed since this meeting has focused on balancing the financial year 2018/19 whilst later years are less detailed, reflecting the expected single year settlement originating from the Scottish Government. Therefore there is a focus on expenditure plans for future years rather than specific savings plans, and in particular around the scope and standard of service that can be delivered within assumed resources.

- 3.4 There are clear pressure areas that are being identified as part of this process and therefore savings options will also be identified, however, the Strategic Priorities of the IJB are key to shaping the MTFs for next year and future years.
- 3.5 Within the framework of the MTFs risk is a prevalent factor as a number of key components are not yet known with certainty. For example: assumptions regarding inflation: pay, non-pay and general inflation have been made. In addition a final position with regard to demographic growth needs to be taken and reflected within both the expenditure and income figures.
- 3.6 Attached as an Appendix to this report is a draft version of the MTFs setting out a summary position, the methodology used to date, strong links to the Strategic Plan, indicative figures with scenarios and links to the Risk Control Plan.

4. Revenue Budget 2018/19

- 4.1 A balanced revenue budget must and will be prepared for 2018/19 based on income from the Scottish Government, NHS Grampian and Aberdeenshire Council. It is intended that the IJB prepare a budget for agreement at its meeting on 17th January 2018 and this forms the basis of the 'ask' to NHS Grampian and Aberdeenshire Council. Dialogue is on-going between the IJB and our partner organisations in order to inform them of the scale of the funding requirements for the IJB and it is hoped that these requirements are sufficiently built into the partners' budget proposals.
- 4.2 The financial pressures being faced by our partners is fully recognised and understood, hence the importance of the continued dialogue and regular meetings with colleagues. Of equal importance is the need for the IJB to be sufficiently funded to enable the vital services under its control to be delivered in line with strategic priorities.
- 4.3 Taking all of these factors into account and recognising that a number are yet to be finalised including demographic information, together with the key fact that the Settlement from the Scottish Government will have been announced on 14th December 2017 and therefore is not known at the time of writing this report, explains the reason why a detailed set of budget proposals within an MTFs are not presented to the IJB at this stage.
- 4.4 Once the final Settlement position is known and all budget discussions are concluded with NHS Grampian and Aberdeenshire Council, a balanced budget for 2018/19 will be presented to the IJB on 14 February 2018 for consideration and agreement.

5. Reserves

- 5.1 A key element of a MTFs are Reserves. However, given the financial position of the IJB it is not expected that resources will be available to create a Reserve. This is not an ideal position for an organisation of the scale of Aberdeenshire IJB. However the sufficiency of resources to delivery services is the immediate priority. It is also recognised that NHS Grampian and Aberdeenshire Council have a financial responsibility as partners to the IJB and this accepted responsibility mitigates the risk of not directly holding reserves. The establishment of a reserve will continue to be an important part of the discussions when setting a financial plan for future years.

6 Consultation

- 6.1 The Chief Officer and the Legal Monitoring Officer within Business Services of the Council have been consulted in the preparation of this report and any comments have been incorporated.

7 Equalities, Staffing and Financial Implications

- 7.1 An equality impact assessment is not required at this stage because the recommended actions are not considered to have a differential impact on people with protected characteristics.
- 7.2 Any staffing and financial implications arising directly as a result of this report will be reported back to the IJB.

Alan Wood
Chief Finance Officer



Aberdeenshire Health and Social Care Partnership - Medium Term Financial Strategy 2017 – 2022

APPENDIX

Summary

- Aberdeenshire Health and Social Care Partnership has set out its objectives and priorities for the future delivery of integrated health and social care services through its Strategic Plan and Commissioning Plan.
- A key driver is to respond to the challenges presented by our changing demography. By the year 2035, it is forecast that the population of people aged over 65 will have increased by 65%.¹
- The resulting increase in demand on health and social care services is well known, placing an increasingly unsustainable pressure on resources and current models of service delivery. Put in context, we expect a year on year increase in costs of at least 1.7%, or around £5 million per annum.
- This Medium Term Financial Strategy, based on a defined set of work programmes underpinning the Strategic Plan and Commissioning Plan, begins to set out a forecast position for the next 5 years to inform and enable the process of prioritising resource and delivering financial balance.
- In doing so, it has been necessary to make speculative but pragmatic assumptions about budget allocations and inflationary uplifts in future years. The financial modelling contained should therefore be viewed with this note of caution, and that adjustments will inevitably be made as the future funding position is clarified.

1. Introduction

- 1.1 This document describes the financial planning framework over the next 5 years to ensure delivery of the Aberdeenshire Health and Social Care Partnership (H&SCP) Strategic Plan (2016 – 2019) and current Commissioning Plan (2017 – 2019).

¹ Aberdeenshire Health and Social Care Partnership 'Strategic Plan 2016 – 2019'

- 1.2 This is set within a context of significant demographic change and ever increasing pressure on resources. A rising population of older people with more complex health and social care needs, against a backdrop of public sector financial constraints, means current models of service delivery are unsustainable.
- 1.3 This presents increasing challenges as well as opportunities for Aberdeenshire H&SCP to continue to meet the needs of our communities in the provision of high quality, safe and affordable local services within identified resources, whilst achieving the transformational change required in the future delivery of health and social care services.

2. Background

- 2.1 Aberdeenshire H&SCP completed its first full financial year of operation in 2016/17, with responsibility for a complex range of budgets and funding streams (see Appendix 1). This presented many challenges but also positive progress whereby all partners worked together to ensure the best use of available resources to achieve financial balance.
- 2.2 As pressures continue on particular areas of budget (including home care, prescribing and community hospitals), an overspend position is currently forecast for the 2017/18 financial year. A range of actions are underway to monitor and mitigate these specific areas of overspend.
- 2.3 Alongside this, within the Aberdeenshire H&SCP Annual Report 2016-17² the need to establish a medium-term financial strategy was identified to ensure a strategic approach to our financial planning within a complex and changing environment over the next 5 years.

3. Approach and Methodology

- 3.1 This financial strategy will dovetail with the H&SCP's Strategic Plan and current and future Commissioning Plans to ensure our approach to service change and implementation is underpinned by robust financial governance and planning.
- 3.2 In the most recent iteration of the Commissioning Plan (2017 – 2019) the strategic priorities of the H&SCP have been streamlined whilst continuing to ensure we will deliver against the Scottish Government's 9 National Health and Wellbeing core indicators (see Appendix 2).³

² Aberdeenshire Health and Social Care Partnership (2017) 'Report to Aberdeenshire Integration Joint Board 26 July 2017 – Aberdeenshire Health and Social Care Partnership Annual Report 2016-17'

³ Aberdeenshire Health and Social Care Partnership (2017) 'Commissioning Plan (Implementation and Change Plan) 2017 – 2019'

- 3.3 In addition the H&SCP has agreed 4 key programmes of work, as outlined below, which will drive forward the service change required to deliver models of care fit for the future (in line with our Strategic Plan) and within identified resource:
1. Reshaping Care at Home
 2. Enabling Health and Wellbeing
 3. Facilitating Shared Ownership and Engagement
 4. Safe, Effective and Sustainable
- 3.4 Accordingly this financial strategy has been constructed around these 4 programmes of work. Each programme has an identified Partnership Manager with lead responsibility for its implementation.
- 3.5 Each spreadsheet explains: the specific project and associated strategic intent; current budgetary position and financial forecast; immediate financial actions underway and anticipated phased actions; investment/dis-investment required over the lifespan of this plan; and associated risks and outcomes.
- 3.6 The work programme plans have been structured into phases rather than financial years, recognising the fluidity of implementation. **These are 'live' documents which will be subject to review and revision over time.**
- 3.7 More detailed work plans will be developed for each project supported by appropriate performance measures (linking with existing national and local performance indicators).

4. Financial Forecast 2017 – 2022

- 4.1 Aberdeenshire is currently forecasting a year end overspend position of £4.167m (or 1.3% over budget) for 2017/18. Current planning assumptions are to expect a year on year increase in costs of at least 1.7% or around £5 million per annum.
- 4.2 Understanding that we will not receive an additional £5m to address the funding gap, at the same time we do not consider it realistic to produce a financial plan that suggests a zero increase year on year. Accordingly this Medium Term Financial Strategy aims to take a proactive approach, working with both Council and NHS partners, to help set out a longer term plan around what is a reasonable settlement to be achieved each year thereby ensuring that we have a sensible cash flow annually to deliver the aforementioned programmes of work.
- 4.3 Based on current available information and the projected impact (where known) of the key projects within each of the 4 programmes of work, a range of potential forecast financial positions for the H&SCP over the next 5 years is provided in Table 1 below.

Table 1: Forecast financial position of the Aberdeenshire IJB under different assumed financial scenarios

Forecast financial position of the Aberdeenshire IJB under different assumed financial scenarios							
Table 1							
		Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	
		2017/18	2018/19	2019/20	2020/21	2021/22	
Inflationary Pressures							
NHSG	2% Pay Inflation		986,564	1,006,295	1,026,421	1,046,949	
NHSG	1% Non-Pay Inflation		1,287,928	1,300,807	1,313,815	1,326,954	
Council	2% Pay Inflation		1,000,000	1,020,000	1,040,000	1,060,000	
Council	2% Providers Inflation		1,600,000	1,630,000	1,660,000	1,690,000	
Council	Other Inflation		50,000	51,000	52,000	53,000	
Council	Additional fees & Charges		(350,000)	(590,000)	(830,000)	(850,000)	
Total Inflationary Pressures			4,574,492	4,418,102	4,262,236	4,326,903	
Programmes							
	Reshaping Care at Home		178,000	78,000	(5,000)	(59,000)	
	Enabling Health & Wellbeing		(121,000)	(1,795,000)	(2,548,000)	(3,263,000)	
	Safe, Effective & Sustainable		(12,000)	(141,000)	(764,000)	(637,000)	
	Facilitating Shared Ownership & Engagement		(103,000)	(100,000)	(100,000)	(200,000)	
Total Programmes			(115,000)	(184,000)	(2,581,000)	(4,159,000)	
Net Outcome for the year			(115,000)	4,390,492	1,837,102	872,236	167,903
Forecast Accumulated deficit			4,759,000	9,149,492	10,986,594	11,858,831	12,026,733
Assumed Funding Uplift 0%			0	0	0	0	
Outcome Scenario 1 (no uplift)			4,759,000	9,149,492	10,986,594	11,858,831	12,026,733
Assumed Funding Uplift 1%		1%	2,772,970	2,800,700	2,828,707	2,856,994	
Outcome Scenario 2 (1% uplift)			4,759,000	6,376,522	8,185,895	9,030,124	9,169,739
Assumed Funding uplift 2%		2%	5,545,940	5,601,399	5,657,413	5,713,988	
Outcome scenario 3 (2% uplift)			4,759,000	3,603,552	5,385,195	6,201,417	6,312,746
Assumed Funding uplift 2.5%		2.5%	6,932,425	7,001,749	7,071,767	7,142,484	
Outcome scenario 4 (2.5% uplift)			4,759,000	2,217,067	3,984,845	4,787,064	4,884,249
Assumed that Year End over/under spend will be carried forward in full							

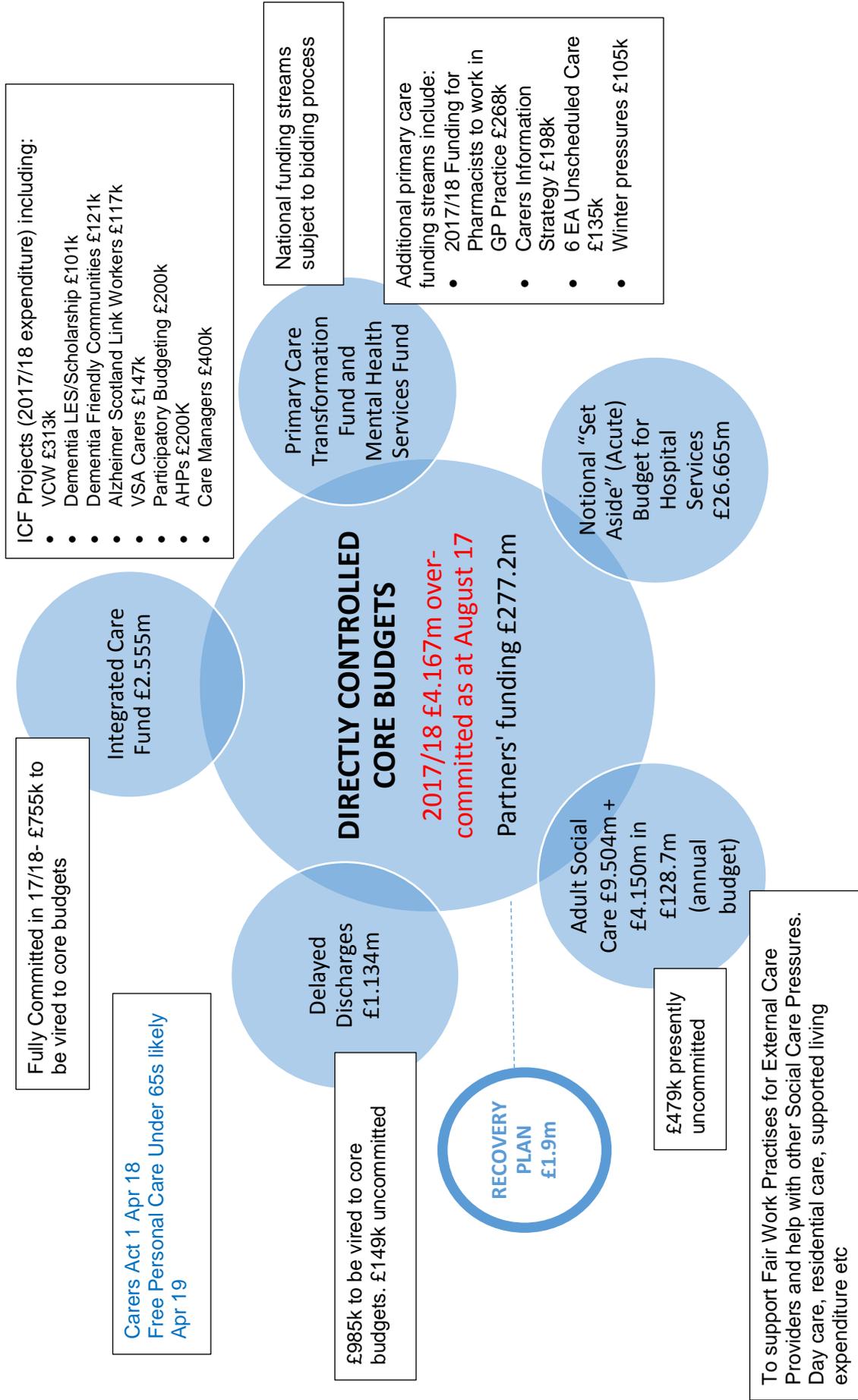
4.4 This provides 4 scenarios for the H&SCP, based on different assumed annual funding uplifts from the partners (0%, 1%, 2% and 2.5%). These estimated annual forecasts indicate that, should all projects deliver against intended targets, expenditure is expected to trend down. However when we include background pressures (pay increases and other inflationary uplifts) we still expect to see a worsening overspend position.

- 4.5 Current assumptions regarding demographic change, workforce pressures and other factors outside our control, may alter over time, and therefore also the associated impact on available resources. We can with some certainty expect that pressure will continue to be most significant in the following budget areas:
- Community hospitals (staffing)
 - Prescribing
 - Home care
 - Care packages
 - Hosted services
 - Staffing costs in other areas.
- 4.6 Our strategy is to deliver a more efficient and effective model of care through the aforementioned 4 work programmes, achieving cost savings whilst maintaining quality of care. Appendix 3 provides the key risks identified in delivery of this financial strategy.

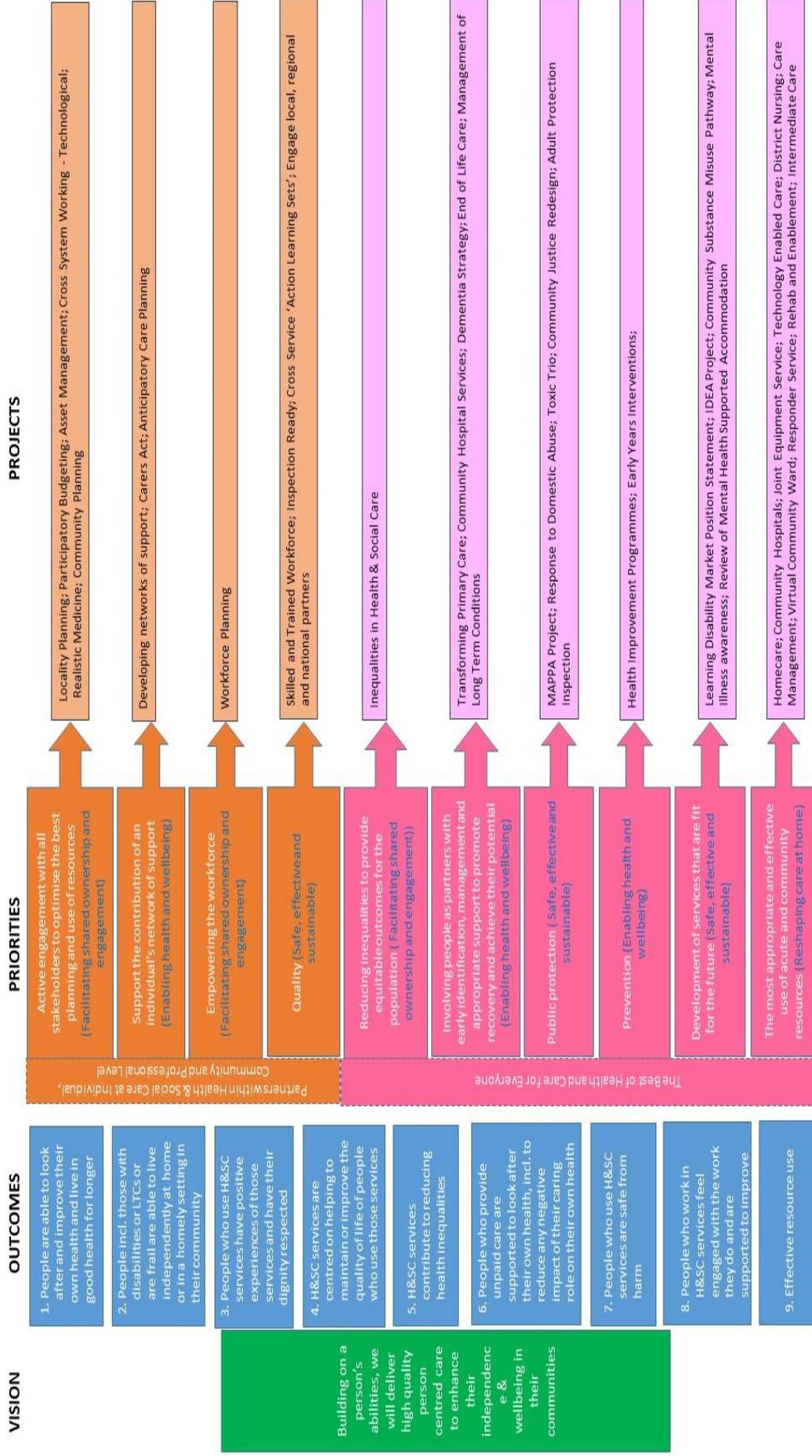
5. Performance Monitoring

- 5.1 All of the work programmes will report in to an overarching Programme Board chaired by the Chief Officer.
- 5.2 Each work programme will in turn establish its own programme monitoring arrangements. It is intended that more detailed work plans will be developed for each project and, where appropriate, performance targets and measures will be applied based on both the national suite of outcome indicators for H&SCPs and our own local performance indicators (currently being reviewed).
- 5.3 Due financial scrutiny will be applied to ensure the H&SCP is progressing sufficiently against each phase in line with financial targets and its governance responsibilities. This will be supported by monthly reporting to the overarching Programme Board with regular reports going to the IJB (in line with performance monitoring reporting to the IJB).

Appendix 1: Aberdeenshire Health and Social Care Partnership – Map of Funding Streams 2017-18



Appendix 2: Aberdeenshire Health and Social Care Partnership



Source: Aberdeenshire Health and Social Care Partnership 'Commissioning Plan (Implementation and Change Plan) 2017 – 2019'

Appendix 3: Risk Control Plan (Medium Term Financial Strategy) ⁴

Risk	Risk Category ⁵	Controls	Risk Level
<p>1. At this stage costs can only be based on estimates/assumptions in relation to inflationary and other increases (pay awards, living wage etc).</p>	Financial	<ul style="list-style-type: none"> • Planning assumptions allow for potential 'best and worst' case scenarios. • Monthly financial reports to IJB will monitor progress against expenditure in-year and identify areas where action/recovery plan required. • Annual budget setting process will provide basis for adjusting forecasts in longer-term. 	High
<p>2. Budget allocations for 2018/19 onwards are unknown; coupled with Risk 1 this means it is not possible to have a definitive picture as to whether the planned changes will bring the H&SCP within operating resource.</p>	Financial	<ul style="list-style-type: none"> • As per Risk 1 	High
<p>3. Staff engagement – absence of staff support for change will inhibit progress in delivering change.</p>	Organisational	<ul style="list-style-type: none"> • Numerous channels for staff engagement and involvement will be employed to support understanding of the need for change as well as enabling staff input to the process of service redesign and transformation. • Staff representation on programme boards. • Regular updates via existing communications within H&SCP and partner organisations. • Locality based approach to service planning and redesign. 	Medium
<p>4. Some of the proposed areas of service redesign may attract negative public response if not communicated effectively or insufficient public involvement in service planning.</p>	Reputation	<ul style="list-style-type: none"> • Locality planning structures to be utilised and public involvement supported in service planning and redesign. • Participatory budgeting approach to be adopted in service planning/investment decisions where possible. • Local and statutory public involvement processes to be followed if/where significant service change is proposed. 	Medium

⁴ Risk Control Plan is aligned to the overarching Aberdeenshire Risk Plan - Risk 1 (Sufficiency and Affordability of Resource)

⁵ Risk Category and Risk Level based on NHS Scotland Core Risk Assessment Matrices.

Risk	Risk Category ⁵	Controls	Risk Level
<p>5. Current service planning assumptions and associated financial projections may be impacted by continued demographic, political or other changes outside the H&SCP's control.</p>	<p>Political & Societal; Financial</p>	<ul style="list-style-type: none"> As per Risk 1 	<p>Medium</p>
<p>6. Actions identified within financial strategy – through programme work plans – are perceived to or actually impact negatively on individuals, staff and the wider system e.g. dilution of services or widening of inequalities.</p>	<p>Organisational</p>	<ul style="list-style-type: none"> Managers instructed to move forward carefully and not put individuals or staff at risk and be cognisant of the wider health and social care system e.g. increased delayed discharge, reduced ability to transfer patient from ARI to community hospitals etc. All opportunities for public and staff involvement in service redesign process to be utilised as per control measures outlined under Risks 3 and 4. 	<p>High</p>
<p>7. Actions identified within financial strategy – through programme work plans – make incorrect assumptions about the capacity of external services to expand and/or deliver different models of care – meaning pressures on internal service/overspends continue.</p>	<p>Financial; Partnership; Other Organisations</p>	<ul style="list-style-type: none"> Service planning assumptions to be supported by intelligence gathering and, where appropriate, Market Position Statements. Test of change approach to be utilised where appropriate followed by evaluation before further roll out. 	<p>Medium</p>

