

The Highland Council

13 March 2014

Agenda Item	12
Report No	HC/63/13

Adult Care Services – NHS Highland

Joint Report by Director of Finance and Director of Health and Social Care

Summary

The purpose of this report is to seek agreement of an additional payment of £1m, from balances, in the current financial year to partly meet a forecast budget deficit; and to agree a revised funding package for NHS Highland to deliver Adult Care Services over the following three financial years 2014/15 – 2016/17.

1. Background

- 1.1 2013/14 is second year of the five year Partnership Agreement between the Highland Council and NHS Highland to deliver Adult and Children's Services. This report deals with Adult Care Services commissioned by the Council from NHS Highland.
- 1.2 The Partnership Agreement was signed at a time of significant demographic pressure on the Adult Care Service, and of considerable financial constraint within the public sector. The Agreement seeks to address these underlying pressures by re-provisioning services and targeting resources on a more preventative basis by combining hospital and community based services and budgets.
- 1.3 However, it is acknowledged by both parties that change will take time (evidence from Torbay suggests 7 years to effect real change). During this period, both parties face the significant challenge of effecting change, targeting resources more appropriately, but still managing budgets within stretching targets.
- 1.4 During the first two years of the Partnership Agreement officers from both NHS Highland and the Highland Council have spent considerable time seeking to understand and consider an adequate Budget Quantum that seeks to deliver services for the residents of Highland, whilst recognising the financial constraints placed on both organisations and an increasing demand and cost of services. During this process the Scottish Government has also provided support to partly address some of the financial challenges.

2. 2013/14 Budget

- 2.1 Following the successful conclusion of budget negotiations in March 2013 in respect of the Budget Quantum for 2012/13 and the initial Quantum for 2013/14, demand for Adult Care Services has continued to increase, and NHS Highland has continued to face financial challenges to achieve a balanced budget position by 31 March 2014.
- 2.2 The main financial challenges are a result of an increasing number of young adults with disabilities, increasing numbers of elderly clients and complexity of caseload, reduced income from clients, and pay and non-pay inflation. NHS Highland has also faced additional costs relating to Pensions auto-enrolment and fire compliance work within care homes.
- 2.3 At this stage of the financial year a net overspend of £2.396m is forecast against budget. Officers have examined the figures and believe that this is an accurate reflection of the budget position.
- 2.4 NHS Highland has requested that the Highland Council makes an additional non-recurring contribution of £1m towards the forecast deficit, with NHS Highland meeting the balance. It is recommended that the Council agrees to this request, with the sum of £1m met from the forecast surplus anticipated in 2013/14, which is the subject of a separate report on today's agenda.
- 2.5 This commitment is proposed to address the consequences of the financial challenge, meet client needs, and fulfil the Partnership commitments.

3. Financial Years 2014/15 to 2016/17

- 3.1 Officers from NHS Highland and the Highland Council have been working together to identify ways in which the Budget Quantum can be placed on a sounder financial footing for the balance of the Partnership Agreement period. Whilst fully acknowledging the demand led, and other financial pressures, it is also important for any further financial settlement to acknowledge and reflect the benefits arising from Integration and evidence that services are being re-configured with improved outcomes for clients.
- 3.2 NHS Highland are working on a Change and Improvement Plan that will provide this detailed evidence. These budget proposals have been brought forward in advance of the finalisation of the Plan to enable budgets to be set prior to the start of the financial year, and to provide certainty of funding to NHS Highland. The budget proposals reflect the Plan which is due to be completed by the end of March and will span the three years to the end of the current Partnership Agreement.
- 3.3 Part of the budget proposals for 2014/15 include a planned investment of £1m by NHS Highland, from health budgets, to enable the delivery of more Care at Home hours, in-house, and in the independent and voluntary sectors. The result will be growth in the independent sector which will aid stability, and will provide the opportunity to change the current allocation and culture which in

some cases creates a dependency and expectation that a Care at Home package remains static.

- 3.4 There is an urgent need to ensure packages are flexible to meet demand, and this must be driven by clinicians and providers who are making recommendations and allocating the care. The current increase in delayed hospital discharge reflects a success in shifting this expectation and it is important to meet that expectation or there may be a return to the unsustainable model pre-Integration.
- 3.5 Appendices to this report provide a detailed analysis of the proposed budget for Adult Care Services, taking account of cost pressures, efficiency and cost reductions, and proposed new investment in services, aimed at Prevention from both NHS Highland and the Highland Council.
- 3.6 Despite all these measures it is not possible to achieve a balanced budget over the three year period without either additional funding from the Highland Council, or a significant cut in Care Packages. Appendices 1-3 therefore illustrate three funding scenarios for the Council to consider.
- 3.7 Option 1 (Appendix 1) represents a “flat cash” budget for NHS Highland and reflects the Council’s known and projected level of grant funding from the Scottish Government. No increase in funding for NHS Highland is assumed over this three year period, therefore significant reductions in service are required to balance the budget. These would equate to £19.8m over the 3 year period. Significant reductions in Care Packages will fail to deliver true integration of care and the transfer and re-provisioning of services towards community based provision.
- 3.8 Option 2 (Appendix 2) represents the level of additional recurring funding that the Highland Council would require to input to achieve a balanced budget without a significant reduction in service. Whilst this is NHS Highland’s preferred position, as it retains existing service levels, the level of recurring funding is the least affordable to the Council in light of the latest forecast funding gap of c£60m, and could only be achieved through additional cuts to Council services over and above those already required and would increase the funding gap. Incrementally this would involve additional funding of:-

2014/15	£3.7m
2015/16	£1.9m
2016/17	£1.9m

In total this equates to an additional £16.8m over the 3 year period.

- 3.9 Option 3 (Appendix 3) represents a combination of recurring and non-recurring funding by the Highland Council. This proposal will be extremely challenging for the Council to deliver financially, and can only be achieved through the use of balances that will require a change in the current policy to reduce balances below the existing level of 3%. This therefore carries a degree of risk to the Council in the event of any unforeseen events occurring

that place a further drain on budgets.

- 3.10 However, and most importantly, Option 3 shows a reducing reliance on additional Council funding over the three year period, and therefore provides evidence of a re-provisioning of services that meets the continued forecast increasing demand for services and inflationary pressures within a financial climate of no annual uplift in government funding. Full details of the financial implications are provided in Appendix 4 but are summarised below.

	Recurring £m	Non-Recurring £m
2014/15	3.0	1.5
2015/16	1.3	-
2016/17	0.4	-

In total this equates to £13.5m over the 3 year period, however £5.0m is already built into the base budget (see section 4 below).

- 3.11 It should also be noted that even Option 3 requires a reduction in the value of some care packages, and there is still a requirement to deliver savings.
- 3.12 All three options require an increase in the base budget to reflect the existing pressures faced by the service. The sum of £6.536m is calculated on the basis of the current year forecast net overspend of £2.396m plus the “reversal” of various one-off actions taken in the current year to address the budget pressure, but which are not repeatable in future years, totalling £4.14m. Full analysis is provided at Appendix B. However the budget does continue to make assumptions that in-year savings can continue to be made to meet pressures on a short term basis.
- 3.13 Social work budgets across Scotland face significant pressure and there is clear evidence that local authority budgets are being managed either through significant cuts in services, or an increase in delayed hospital discharge, thereby transferring additional cost to NHS budgets. Integrating Care in the Highlands is a different model of delivery, and these budget proposals provide evidence of the benefits of Integration by delivering improved outcomes for the people of the Highlands.

4. Financial Implications

- 4.1 A one-off contribution from balances relating to the 2013/14 budget deficit will be required.

In addition, in relation to the 2014/15-2016/17 funding package, Option 3, which is recommended, requires recurring funding as follows:-

2014/15 - £3.0m
2015/16 - £1.3m
2016/17 - £0.4m

In addition, non-recurring funding of £1.5m is required in 2014/15. Full financial implications are analysed in Appendix 4.

- 4.2 Recurring funding in 2014/15 presents a particular challenge due to the fact that a balanced budget has already been set for that year. It is therefore proposed that £2m, rather than £1m is provided from the £3m budget for preventative spend in both 2014/15 and 2015/16, leaving £1m to continue to be targeted at Children's Services in each year in line with the Council's Programme. This proposal represents forward commitment of these preventative spend budgets at this time.
- 4.3 The balance of £2m is added to the £1.5m non-recurring funding and a total of £3.5m taken from balances in 2014/15. It is estimated that this will reduce balances to 2.5% of Net Revenue Budget rather than the policy of 3%. This still leaves a prudent sum of around £14.4m to meet any unforeseen circumstances.
- 4.4 The increase in recurring spend for 2015/16 and 2016/17 will require to be met from within the Council's forecast £60m budget gap for those years. The updated long term financial planning report (see later on this agenda) factors these additional cost pressures into that financial outlook.

5. Risk Implications

- 5.1 Adult Care budgets carry a significant financial risk due to the demographic and demand-led nature of the services. The proposals for the following three years aim to address these risks, place the budget on a more sustainable basis going forward, give greater certainty to both the Council and NHS Highland in relation to their budget planning, and aim to place a financial cap on the Council's budget obligations in relation to adult care.
- 5.2 Officers are keen to move away from annual discussions about budgets. However this can only be achieved through the development of a Budget Protocol and continued scrutiny and dialogue between NHS Highland and the Highland Council throughout the year.
- 5.3 Part of the Protocol will require an agreement about risk sharing, particularly the risk of financial overspends. Regular monitoring during the year will reduce this risk. However this will also require appropriate reporting of the budget position throughout the year through the normal monitoring reports to both Education, Adult & Children's Services Committee and Resources Committee. Any financial risks will therefore be highlighted at an early stage and enable corrective action to be taken. As stated at 5.1 above, the proposals contained within this report seek to place a financial cap on the Council's budget obligations, over the next three years, so that there is no further request for additional funding, unless in exceptional circumstances.

6. Legal, Climate Change/Carbon Clever and Equalities Implications

6.1 There are no immediate legal or Climate Change/Carbon Clever implications. However the re-provisioning of services will, in time, deliver positive outcomes in terms of a shift in care towards community based services.

6.2 Equalities Implications

The provisions within this report provide a positive impact for clients who require additional care because of disability or age and can be supported in their home or through a range of support mechanisms, allowing the most appropriate targeted care to be provided that meets individual needs and circumstances. This helps the Council meet its equality duties under the Equality Act 2010.

7. Recommendation

The Highland Council is asked to:-

1. Approve the allocation of £1m from the projected budget surplus in 2013/14 to contribute to funding the forecast budget deficit in Adult Care services in the current year.
2. Agree the amendments to the Budget Quantum for Adult Care Services covering the period 2014/15 to 2016/17 as follows:-
 - i) additional recurring funding
 - 2014/15 - £3.0m
 - 2015/16 - £1.3m
 - 2016/17 - £0.4m
 - ii) additional non-recurring funding in 2014/15 of £1.5m
3. Agree that the amendments to the Budget Quantum as outlined in 2 above are financed as follows:-
 - i) additional £1m in both 2014/15 and 2015/16 from the budget for Preventative Spend (in addition to an assumed baseline £1m preventative spend p.a. for adult care);
 - ii) £2m from balances in 2014/15;
 - iii) balance of funding required is addressed as part of the work required to deliver a balanced budget in the period 2015-19
4. Note the requirement to amend the Council's policy regarding the level of reserves held (covered by separate report on today's agenda).
5. Note the expectation that no additional financial commitment will be required from the Council over the next three years. Should any exceptional pressures arise, these will be considered by the Partners through the Finance and Commissioning Group in line with the Financial Protocol.
6. Note that a Change and Improvement Plan will be provided by 31 March 2014.

Designation: Director of Finance and Director of Health and Social Care

Date: 4 March 2014

Author: Derek Yule and Bill Alexander

Appendix 1

ADULT SOCIAL CARE BUDGET 2014-19

		2014/15	2015/16	2016/17
Cost Pressures	see Appx	£m	£m	£m
- demand led	A	2.440	2.225	2.334
- pay & non pay inflation	A	1.483	2.088	2.130
- recurring underlying position b/fwd	B	6.536	1.023	1.060
		<hr/>	<hr/>	<hr/>
NHS Investment in Care at Home		10.459	5.336	5.524
		<hr/>	<hr/>	<hr/>
		1.000		
		<hr/>	<hr/>	<hr/>
		11.459	5.336	5.524
Less Savings/funding				
- efficiencies & cost reductions		1.560		
Highland Council Preventative Spend		1.000	1.000	1.000
NHS investment in Care at Home		1.000		
Increase in Charges (2%)		0.086	0.086	0.086
Resource Transfer inflation (from NHS)		0.250	0.250	0.250
		<hr/>	<hr/>	<hr/>
		3.896	1.336	1.336
Net Budget Position (Surplus)/Deficit		<u>7.563</u>	<u>4.000</u>	<u>4.188</u>
Option 1 - "Flat Cash"				
- transfer Care Home services		0.440	0.440	0.440
- reduce residential Care Packages (30% - 10% pa)		3.000	2.500	2.700
- reduce non-residential Care Packages (10% in first year)		3.100		
Total Potential Savings/Funding		<u>6.540</u>	<u>2.940</u>	<u>3.140</u>
Net Recurring Position (Surplus)/Deficit		<hr/> <u>1.023</u> <hr/>	<hr/> <u>1.060</u> <hr/>	<hr/> <u>1.048</u> <hr/>
Non Recurring				
Savings		1.000	1.000	1.000
		<hr/>	<hr/>	<hr/>
		1.000	1.000	1.000
		<hr/>	<hr/>	<hr/>
OVERALL POSITION (SURPLUS)/DEFICIT		<hr/> <u>0.023</u> <hr/>	<hr/> <u>0.060</u> <hr/>	<hr/> <u>0.048</u> <hr/>

Appendix 2

ADULT SOCIAL CARE BUDGET 2014-19

		2014/15	2015/16	2016/17
Cost Pressures	see Appx	£m	£m	£m
- demand led	A	2.440	2.225	2.334
- pay & non pay inflation	A	1.483	2.088	2.130
- recurring underlying position b/fwd	B	6.536	1.023	0.960
		<hr/>	<hr/>	<hr/>
		10.459	5.336	5.424
NHS Investment in Care at Home		1.000		
		<hr/>	<hr/>	<hr/>
		11.459	5.336	5.424
Less Savings/funding				
- efficiencies & cost reductions		1.560		
Highland Council Preventative Spend		1.000	1.000	1.000
NHS investment in Care at Home		1.000		
Increase in Charges (2%)		0.086	0.086	0.086
Resource Transfer inflation (from NHS)		0.250	0.250	0.250
		<hr/>	<hr/>	<hr/>
		3.896	1.336	1.336
Net Budget Position (Surplus)/Deficit		<u>7.563</u>	<u>4.000</u>	<u>4.088</u>
Option 2 - Highland Council recurring support				
- transfer Care Home services		0.440	0.440	0.440
- reduce residential Care Packages (3% reduction year 1)		1.000		
- reduce non-residential Care Packages (6% over 3 years)		1.400	0.700	0.700
- Highland Council recurring funding		3.700	1.900	1.900
Total Potential Savings/Funding		<u>6.540</u>	<u>3.040</u>	<u>3.040</u>
Net Recurring Position (Surplus)/Deficit		<hr/> <u>1.023</u>	<hr/> <u>0.960</u>	<hr/> <u>1.048</u>
Non Recurring				
Savings		1.000	1.000	1.000
		<hr/>	<hr/>	<hr/>
		1.000	1.000	1.000
OVERALL POSITION (SURPLUS)/DEFICIT		<hr/> <u>0.023</u>	<hr/> <u>-0.040</u>	<hr/> <u>0.048</u>

Appendix 3

ADULT SOCIAL CARE BUDGET 2014-19

		2014/15	2015/16	2016/17
Cost Pressures	see Appx	£m	£m	£m
- demand led	A	2.440	2.225	2.334
- pay & non pay inflation	A	1.483	2.088	2.130
- recurring underlying position b/fwd	B	6.536	2.503	0.960
		<hr/>	<hr/>	<hr/>
		10.459	6.816	5.424
NHS Investment in Care at Home		1.000		
		<hr/>	<hr/>	<hr/>
		11.459	6.816	5.424
Less Savings/funding				
- efficiencies & cost reductions		0.780	0.780	
Highland Council Preventative Spend		1.000	1.000	1.000
NHS investment in Care at Home		1.000		
Increase in Charges (2%)		0.086	0.086	0.086
Resource Transfer inflation (from NHS)		0.250	0.250	0.250
		<hr/>	<hr/>	<hr/>
		3.116	2.116	1.336
Net Budget Position (Surplus)/Deficit		<u>8.343</u>	<u>4.700</u>	<u>4.088</u>
Option 3 - Non Recurring/Recurring Support				
- transfer Care Home services		0.440	0.440	0.440
- reduce residential Care Packages (10% over 3 years)		1.000	1.000	1.000
- reduce non-residential Care Packages (10% over 3 years)		1.400	1.000	1.350
- Highland Council recurring funding		3.000	1.300	0.400
Total Potential Savings/Funding		<u>5.840</u>	<u>3.740</u>	<u>3.190</u>
Net Recurring Position (Surplus)/Deficit		<hr/> <u>2.503</u>	<hr/> <u>0.960</u>	<hr/> <u>0.898</u>
Non Recurring				
- Highland Council non-recurring		1.500		
Savings		1.000	1.000	1.000
		<hr/>	<hr/>	<hr/>
		2.500	1.000	1.000
OVERALL POSITION (SURPLUS)/DEFICIT		<hr/> <u>0.003</u>	<hr/> <u>-0.040</u>	<hr/> <u>-0.102</u>

Adult Social Care Budget Pressures 2014/15

Appendix A

Activity Heading	Budget Pressure	2014/15	2015/16	2016/17
FYE of existing clients				
Deaf Communication Project	Budget shortfall following withdrawal of European Social Fund (ESF) funding	0.058	-	-
Increasing levels of client demand and complexity	Impact on community care budgets of increased demand and increasingly complex care packages for all adults with disabilities	1.488	1.500	1.500
Fire compliance within Care Homes	Cost of additional staff following Fire and Rescue Service inspections	0.382	-	-
Income	Reduced level of income received from clients	0.000	0.000	0.000
Increasing Elderly Demographic	Cost of increasing numbers of vulnerable and dependent older people	0.000	0.000	0.000
Transition of young adults with profound disabilities	Impact on community care budgets of young people with high level care needs	0.512	0.725	0.834
		2.440	2.225	2.334

Activity Heading	Budget Pressure	2014/15	2015/16	2016/17
Pay Inflation/ Incremental Drift		0.914	1.013	1.032
Non Pay Inflation		0.045	0.046	0.046
Service Contracts		0.021	0.020	0.021
Energy Inflation		0.078	0.086	0.095
Tertiary Inflation		0.085	0.084	0.086
National Care Home Contract	Additional cost of placements in homes subject to the National Care Home Contract and non-National Care Home Contract	0.340	0.839	0.850
		1.483	2.088	2.130

Adult Social Care**Appendix B**

		£m	£m
Projected 2013/14 overspend as at month 10	**		2.396
Add non-recurrent benefits:			
Savings met non-recurrently		2.349	
Fire Alarm - Deaf Project		0.028	
Surplus funding to Reserves		0.065	
Change Fund - Care at Home		0.500	
Charging Order accrual		1.000	
SDS underspend		0.100	
Use of grants		0.098	
		<u> </u>	<u>4.140</u>
Underlying Position at 31/3/14			<u>6.536</u>

** Proposed to meet by one off additional funding

Highland Council	1.000
NHS Highland	1.396

Analysis of Full Financial Implications of Option 3

Appendix 4

Note The presentation of budgets in Options 1-3 are based around recurring assumptions. This means that the figures in each year are additional to the year before. If the budget is not recurring, then it means that additional funding has to be provided to offset the implications of meeting recurring budgets on a one-off basis.

Option 3 (as per appendix 3)

Highland Council Contribution

		2014/15	2015/16	2016/17	
		£m	£m	£m	
Per Report					
Recurring Funding		3.000	1.300	0.400	
Non Recurring Funding		1.500			
Total Budget Funding		<u>4.500</u>	<u>1.300</u>	<u>0.400</u>	
Cash Basis					
Recurring Funding	Year 1	3.000	3.000	3.000	
	Year 2		1.300	1.300	
	Year 3			0.400	
Non Recurring Funding	Year 1	1.500			
Total Additional Cash Funding		<u>4.500</u>	<u>4.300</u>	<u>4.700</u>	<u>13.500</u>
Recommended Funding (per Section 4)					
Use of Balances	Year 1	3.500			
Preventative Spend		1.000	1.000	1.000	**
	Year 2		1.000	1.000	**
Recurring Savings to be determined			2.300	2.300	
	Year 3			0.400	
		<u>4.500</u>	<u>4.300</u>	<u>4.700</u>	<u>13.500</u>

** This is already provided for in the base budget as part of the £3m set aside for Preventative Spend