

**HEALTH AND SOCIAL CARE PARTNERSHIP OVERSPEND 2017-18**

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**1. EXECUTIVE SUMMARY**

- 1.1 It was clear from the beginning of financial year 2017-18 that the Health and Social Care Partnership (HSCP) had financial challenges. At the Integrated Joint Board (IJB) on 29 March 2017, the Board noted that further proposals would require to be added to the quality and financial plan to address the budget gap of £2.8m in 2017-18. By the IJB meeting on 31 May 2017, the budget gap had reduced to £1.982m in 2017-18.
- 1.2 The budget position continued to be monitored and due to the forecast overspend of £5m as at the end of June 2017, Members instructed the Chief Executive to write to the Chair of the IJB expressing concern at the escalating financial gap and to seek confirmation from the IJB that a robust action plan was being put in place to mitigate the risks. A reply was received on 20 September 2017 from the Chair of the IJB, who provided assurance that plans were in place to address the projected overspend.
- 1.3 The IJB's financial recovery plan was approved by the Board on 27 September 2017 and, whilst it did reduce the overspend, it was unable to deliver financial balance in 2017-18.
- 1.4 The Chief Financial Officer to the IJB contacted the Head of Strategic Finance in February 2018 to request that the overspend relating to Social Work services within the HSCP be repaid back to the Council over a three year period. She intimated that as at the end of January the projected overspend for the HSCP was £2.628m (risk sharing £1.628m Council and £1.000m Health). She noted that there had been improvement since December and she hoped to see a continued improvement in the recovery plan, but was not expecting that the HSCP would deliver financial balance overall in 2017-18. The approved Scheme of Integration outlines what should happen in the event of an overspend and relevant paragraphs are included in paragraph 4.2.1. In summary, where recovery plans are unsuccessful and an overspend occurs at the financial year end, and there are insufficient reserves to meet the overspend, then the Parties will be required to make additional payments to Argyll and Bute Integrated Joint Board with any additional payments deduced from future years funding/payments.
- 1.5 The final outturn position for 2017-18 is an overspend of £2.528m and the breakdown is £1.155m for Social Work (Council) and £1.373m for Health (NHS Highland).
- 1.6 There are a number of options outlined in section 4.4 of the report for Members summarised as follows:

- Option 1 – Overspend deducted in full from 2018-19 payment.
  - Option 2 – Overspend deducted from payments over the next three years in equal amounts.
  - Option 3 – Overspend deducted from payments over the next three years with payback weighted towards the end of the three years to allow the HSCP an element of time to deliver sufficient change to accommodate repayment.
  - Option 4 – Overspend deferred for three years to allow the HSCP a greater element of time to deliver sufficient change to accommodate repayment.
  - Option 5 – The Council agree to pay off any overspend with no repayment required.
- 1.7 Additionally, the Chief Financial Officer of the IJB has asked what funding arrangement, with payback, could be put in place to pay for severance for HSCP employees. At this stage it is unclear as to the value requested - an officer working group is being set up so there is a greater understanding on both sides as to the arrangement that is being requested and to allow the Council to consider this further.
- 1.8 Observations by the Council's Section 95 officer highlight risks to the Council, however, it is encouraging to note that a number of actions are already in place in order to address the 2018-19 position and the budget process going forward.
- 1.9 There remains a risk to the Council that the HSCP are not in a position to repay their 2017-18 overspend with a further risk that the HSCP don't balance their budget in 2018-19 and the outstanding balance increases.
- 1.10 In terms of accounting for this overspend, Audit Scotland have clarified that their view is that this is not a liability/debtor to be recognised and as a result there will be a direct impact on the Council's General Fund balance.
- 1.11 In light of the Audit Scotland advice and the impact that any Social Work overspend has on the Council's General Fund balance, the projected outturn on Social Work services for 2018-19 will be incorporated into the Council's revenue budget monitoring position instead of being reported as a financial risk. The effect of this is to show the total estimated outturn position that will potentially transfer to/from the General Fund balance at the year end and for consideration to be given as to whether there is sufficient General Fund balance to accommodate any projected overspend position.
- 1.12 It is recommended that the Policy and Resources Committee approve Option 3 as outlined in paragraph 4.4.3 agreeing that any overspend in relation to Social Work services for 2017-18 is repaid over a period of three years with repayments weighted to the end of the three year period. Repayments are to be £0.100m in 2018-19 and £0.300m in 2019-20 with the balance of £0.755m due in 2020-21. This agreement will be reviewed at the end of 2018-19.

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**2. INTRODUCTION**

- 2.1 A formal request has been received from the Chief Financial Officer of the Integrated Joint Board (IJB) to request that the overspend relating to Social Work services within the Health and Social Care Partnership (HSCP) be repaid back to the Council over a three year period.
- 2.2 This report outlines the position with the Scheme of Integration, options to be considered and the risks involved.

**3. RECOMMENDATIONS**

- 3.1 It is recommended that the Policy and Resources Committee approve Option 3 as outlined in paragraph 4.4.3 agreeing that any overspend in relation to Social Work services for 2017-18 is repaid over a period of three years with repayments weighted to the end of the three year period. Repayments are to be £0.100m in 2018-19 and £0.300m in 2019-20 with the balance of £0.755m due in 2020-21. This agreement will be reviewed at the end of 2018-19.

**4. DETAIL****4.1 Health and Social Care Partnership 2017-18**

- 4.1.1 It was clear from the beginning of financial year 2017-18 that the Health and Social Care Partnership (HSCP) had financial challenges. At the IJB on 29 March 2017, the Board noted that further proposals would require to be added to the quality and financial plan to address the budget gap of £2.8m in 2017-18. By the IJB meeting on 31 May 2017, the budget gap had reduced to £1.982m in 2017-18.
- 4.1.2 The HSCP budget monitoring report as at the end of June 2017 was presented to the IJB on 2 August 2017 and the overspend for 2017-18 was reported as £4.966m for 2017-18 (risk sharing £2.966m Social Work and £2.000m Health). The IJB agreed that work should continue to develop a financial recovery plan which was to be brought back to the IJB in September 2017.
- 4.1.3 At the Policy and Resources Committee on 17 August 2017, the budget monitoring report for the IJB as at the end of June was included as an appendix to the Council's financial risks report. Concerns were expressed by Elected Members in relation to the increase in the projected overspend of the HSCP and in specific terms the absence, at this stage of the financial year, of detailed plans to ensure the full value of the budget gap was met within the delegated budget. The Committee instructed the Chief Executive to write to the Chair of

the IJB expressing concern at the escalating financial gap and to seek confirmation from the IJB that a robust action plan was being put in place to mitigate the risks arising from an increasing budget gap and to focus on meeting service and savings targets. The Chief Executive wrote to the Chair of the IJB on 18 August 2017.

- 4.1.4 The Chair of the IJB responded to the letter from the Chief Executive on 20 September 2017 and provided assurance that plans were in place to address the projected overspend on the integrated budget, including the development of a detailed recovery plan and other actions to bring a balanced outturn position.
- 4.1.5 The budget monitoring reports of the IJB were included in each financial monitoring pack submitted to the Policy and Resources Committee with improvements made to the outturn position as follows:
- End of July 2017 – forecast overspend reduced from £5m to £4.412m (risk sharing £2.412m Council and £2.000m Health)
  - End of October 2017 – forecast overspend further reduced to £3.415m (risk sharing £1.914m Council and £1.501m Health)
  - End of December 2017 – forecast overspend further reduced to £2.915m (risk sharing £1.915m Council £1.000m for Health).
- 4.1.6 The Chief Financial Officer to the IJB contacted the Head of Strategic Finance in February 2018 to request that the overspend relating to Social Work services within the HSCP be repaid back to the Council over a three year period. She intimated that as at the end of January the projected overspend for the HSCP was £2.628m (risk sharing £1.628m Council and £1.000m Health). She noted that there had been improvement since December and she hoped to see a continued improvement in the recovery plan, but was not expecting that the HSCP would deliver financial balance overall in 2017-18.
- 4.1.7 The final outturn for the Health and Social Care Partnership overall is a £2.528m overspend and the breakdown of this overspend is £1.155m for Social Work related services and £1.373m for Health related services.

## **4.2 Scheme of Integration**

- 4.2.1 The approved Scheme of Integration outlines what should happen in the event of an overspend. Relevant paragraphs are copied below:

*8.2.17 Any potential deviation from the planned outturn should be reported to Argyll and Bute Integration Joint Board, the Council and NHS Highland at the earliest opportunity.*

*8.2.18 Where it is forecast that an overspend will arise then the Chief Officer and Chief Financial Officer of Argyll and Bute Integration Joint Board will identify the cause of the forecast overspend and prepare a recovery plan setting out how they propose to address the forecast overspend and return to a breakeven position. The Chief Officer and Chief Financial Officer of Argyll and Bute Integration Joint Board should consult the Section 95 Officer of the Council and*

*the Director of Finance of NHS Highland in preparing the recovery plan. The recovery plan should be approved by Argyll and Bute Integration Joint Board. The report setting out the explanation of the forecast overspend and the recovery plan should also be submitted to the Council and NHS Highland.*

*8.2.19 A recovery plan should aim to bring the forecast expenditure of Argyll and Bute Integration Joint Board back in line with the budget within the current financial year. Where an in year recovery cannot be achieved then any recovery plan that extends into later years should ensure that over the period of the Strategic Plan forecast expenditure does not exceed the resources made available. Where a recovery plan extends beyond the current year the amount of any shortfall or deficit carried forward cannot exceed the reserves held by Argyll and Bute Integration Joint Board. Any recovery plan extending beyond in year will require prior approval of the Council and NHS Highland in addition to Argyll and Bute Integration Joint Board.*

*8.2.20 Where recovery plans are unsuccessful and an overspend occurs at the financial year end, and there are insufficient reserves to meet the overspend, then the Parties will be required to make additional payments to Argyll and Bute Integrated Joint Board. Where there is a requirement for additional payments an analysis of the requirement for additional payments will be carried out to determine the extent to which they relate to either budgets delegated back to or activities managed by the Council or NHS Highland with the allocation of the additional payments being based on the outcome of this analysis. Any additional payments by the Council and NHS Highland will then be deducted from future years funding/payments.*

### **4.3 Request from IJB**

- 4.3.1 The Chief Financial Officer to the IJB wrote to the Head of Strategic Finance in February 2018 to advise that she was not expecting that the HSCP would deliver financial balance overall in 2017-18. She outlined that the Integration Scheme doesn't make it clear about timing of any overspend repayment and has requested, in order to smooth the impact, that the overspend can be repaid over a three year period. A similar request has been made to the NHS Highland Health Board which has been agreed.
- 4.3.2 At the time of the request, the projected overspend for Social Work services was £1.628m and the estimated budget gap for 2018-19 was £10.1m in total.
- 4.3.3 Since the original request, the projected overspend for Social Work services has reduced to £1.155m and the budget gap for 2018-19, as reported to the IJB on 28 March 2018 had reduced to £5.345m (which assumes a three year pay back of the estimated 2017-18 overspend is agreed). At its March meeting, the IJB agreed savings of £2.951m leaving a balance of £2.394m of additional savings to be identified. The IJB has agreed savings of £10.6m as part of the 2018-19 Quality and Financial Plan.
- 4.3.4 There would be an expectation that the IJB would firstly use any reserves held before looking to partners for additional funding. The unallocated IJB reserves

held currently amount to £0.028m and this has been offset against the Health overspend.

#### **4.4 Options for Members to Consider**

- 4.4.1 Option 1: Any overspend in relation to Social Work services is deducted in full from the 2018-19 payment to the HSCP. As the HSCP have still to balance their 2018-19 budget and had previously accounted for a 3 year pay back on an estimated overspend of £1.628m (£0.542m each year), this option would add a further £0.613m to the savings that they still have to find in 2018-19.
- 4.4.2 Option 2: Any overspend in relation to Social Work services is deducted in equal amounts from future payments to the HSCP over a three year period. This would see £0.385m deducted from their payment in 2018-19, 2019-20 and 2020-21 to recover the full amount. As the IJB had previously accounted for a 3 year pay back on an estimated overspend of £1.628m (£0.542m each year), this option would reduce their budget gap still to find by £0.157m in 2018-19.
- 4.4.3 Option 3: Any overspend in relation to Social Work services is deducted on a phased basis from future payments to the HSCP over a three year period. This option is being presented so that repayment of the overspend does commence in 2018-19, but by weighting the payback towards the end of the three year term, it will allow time for the HSCP to deliver sufficient change to accommodate the repayment. It is suggested that the repayments are phased at £0.100m in 2018-19, £0.300m in 2019-20 with the balance of £0.755m due in 2020-21. As the IJB had previously accounted for a 3 year pay back on an estimated overspend of £1.628m (£0.542m each year), this option would reduce their budget gap still to find by £0.442m in 2018-19.
- 4.4.4 Option 4: Any overspend in relation to Social Work services is deferred for three years and deducted in full from the 2021-22 payment to allow the Health and Social Care Partnership a greater measure of time to deliver sufficient change to accommodate the repayment. This would be in recognition of the scale of challenges faced by the HSCP in taking forward service redesign at an appropriate pace. However any such agreement will be subject to annual review in each of the intervening years. This option would have the effect of reducing the budget gap still to find by £0.542m in 2018-19.
- 4.4.5 Option 5: The Council agree to pay off any overspend with no repayment required. The Council have already increased the payment to the HSCP in 2018-19 and the Council would need to consider whether their level of reserves after close down of financial year 2017-18 are sufficient to accommodate this.

#### **4.5 Observations on IJB financial position**

- 4.5.1 Whilst appreciating the significant challenges facing the Health and Social Care Partnership, as the Council's Section 95 Officer it is appropriate for me to share my concerns on the HSCP financial position with Members.
- 4.5.2 At the start of 2017-18, there were unidentified savings of £2.8m to balance the

HSCP budget, which were subsequently reduced to £2.0m at the end of May 2017. No further recurring savings were delivered during 2017-18 and the final position is an overspend of £2.528m in total. A financial recovery plan was approved by the IJB on 27 September 2017 and whilst it did reduce the overspend it was unable to deliver financial balance in 2017-18.

- 4.5.3 In 2018-19, the HSCP have approved savings of £10.6m but also have unidentified savings of £1.6m to reach a balanced budget. The HSCP are facing these challenges in a context of significant public, media and political interest. The IJB will require a focus on delivering the approved savings and also delivering additional savings in 2018-19 to bridge the budget gap. There is a risk that the HSCP could be faced with a similar scenario to 2017-18, i.e. an overspend of at least equal to the unidentified savings. This would replicate the overspend position being faced by the Council and NHS Highland as parent bodies currently.
- 4.5.4 The IJB met to consider their budget proposals on 28 March 2018 and was unable to agree a balanced budget at that meeting. The delay on agreeing savings to balance the budget means that due to lead in time to deliver savings, it will become much more difficult to actually deliver a balanced position in 2018-19. It is clear that the budget process has not delivered what was required. There needs to be a more effective budget process put in place much earlier in each financial year that looks not just to the year ahead but more to the medium/ long term.
- 4.5.5 The nature of some of the savings options presented to the Board were either not transformational or not immediately deliverable within the required timeframe given the need for full engagement of stakeholders and the lead in time for implementation. To have a sustainable service for the future there needs to be much more focus on earlier development and engagement and more consideration of transformation and doing things differently. The Council's Transformation Board are continuing to explore opportunities for transformation and efficiencies and has offered support and assistance to the HSCP in this work.
- 4.5.6 The apportionment of savings to Social Work and NHS services needs to be given further consideration. There is currently £1.6m of unidentified savings aligned to Social Work in 2017-18. This £1.6m of savings was based on an allocation of funding to Social Work which was equivalent to the funding provided from the Council, adjusted for Social Care funding for Living Wage routed via health. The principles behind integration are about moving people away from institutional care to community care settings and therefore if this funding allocation approach continues, then the gap within Social Work is likely to continue to rise and, if the budget reduction in health services does not keep pace, will see an ever increasing proportion of overspend written back to the Council. The proposed review of the Integration Scheme will consider the core issue of attribution of overspends given the effect of policy directions in the Strategic Plan.
- 4.5.7 The ongoing difference in terms and conditions, particularly in relation to

voluntary redundancy needs to be addressed. Currently staff employed by the Council may be subject to compulsory redundancy and NHS staff are not. In addition NHS Highland have a no voluntary redundancy policy for their staff. Introducing a voluntary redundancy arrangement for NHS staff would provide an equity in treatment of staff and also produce recurring savings where posts are removed through service redesign.

4.5.8 In a recent telephone call with the Chief Financial Officer of the IJB, I was encouraged that the following actions are in place for 2018-19:

- The financial recovery plan is being updated and will be in place from the beginning of the financial year.
- A budget challenge process is to be rolled out across the partnership to ensure that the base budget is set at the correct levels and budget holders are signed up to deliver on budget.
- A high level action plan is also being created for better communications and engagement building on the work to date with Locality Planning Groups and Health Forums and other public engagement events.
- Offers of support from the Scottish Government have been welcomed and the HSCP officers will engage on the detail of those offers.

#### **4.6 Risk to the Council**

4.6.1 The main risk to the Council is that the HSCP are not in a position to repay their 2017-18 overspend. A further risk is that the HSCP don't balance their budget in 2018-19, overspend again and the outstanding balance increases.

4.6.2 In terms of accounting for this overspend, Audit Scotland have clarified that their view is that this is not a liability/debtor to be recognised. Instead Audit Scotland regard it as a commitment against future funding, and given that future funding is not recognised it would not be appropriate to recognise the liability/debtor.

4.6.3 The impact of this accounting treatment is that there will be a direct impact on the Council's General Fund balance. A note will be included within the Management Commentary within the accounts to explain any repayment arrangements.

#### **4.7 2018-19 Position**

4.7.1 In light of the Audit Scotland advice and the impact that any Social Work overspend has on the Council's General Fund balance, the projected outturn on Social Work services for 2018-19 will be incorporated into the Council's revenue budget monitoring position instead of being reported as a financial risk. The effect of this is to show the total estimated outturn position that will transfer to/from the General Fund balance at the year end and for consideration to be given as to whether there is sufficient General Fund balance to accommodate any projected overspend position. The Chief Financial Officer of the IJB has confirmed that any projected outturn reported for the HSCP will take into consideration the current risk sharing arrangements (i.e. if there is an estimated underspend on either the Health or Social Work side and an overspend on the other side, the two will be netted off).



- 4.7.2 The Chief Financial Officer has confirmed the up to date 2018-19 position. The position reflects that NHS Highland intend that the repayment of the Health overspend doesn't need repaid for three years, in line with the expected repayment of their NHS brokerage (still to be confirmed by Scottish Government) and it also reflects our proposed phased repayments. The updated HSCP budget gap for 2018-19 is £1.618m. This is presented as an overspend on Social Work of £2.331m offset but a surplus of £0.713m on Health.
- 4.7.3 Discussion has taken place as to how this should be presented and accounted for and there is currently a difference of opinion. The view from the Chief Financial Officer of the IJB is that the £0.713m surplus on the Health side is the planned surplus and it remains on the Health side until the year end. If the planned surplus is realised then this would offset against any overspend on Social Work at the year end.
- 4.7.4 My view, as the Council's Section 95 Officer, is that payments to the IJB should lose their identify and as such, if the IJB have agreed savings and set their budget for 2018-19 that results in a surplus on one side and a deficit on the other (reflecting the direction of travel towards community based services, many of which are social care) the surplus should be transferred as part of the approved/base budget. Any overall overspend at the end of the financial year would be analysed and partners would be expected to make additional payments in line with the Scheme of Integration.

#### **4.8 Access to Severance Earmarking**

- 4.8.1 The Council have an earmarked reserve that has been set aside to pay for any severance resulting from savings options (the current balance of which is £2.299m). The Chief Financial Officer of the IJB has asked what funding arrangement, with payback, could be put in place to pay for severance for HSCP employees. At this stage it is unclear as to the value being requested and I have suggested that an officer working group is convened in order that there is a greater understanding on both sides, as to the arrangement that is being requested and to allow us to consider this further. In particular, the working group would focus on the possibility of equitable voluntary redundancy arrangements for all employees, on Council or NHS terms, as an essential pre-requisite to any HSCP access to the Council's earmarked reserve.

### **5. CONCLUSION**

- 5.1 The Health and Social Care Partnership is £2.528m overspent in 2017-18 (£1.155m Council and £1.373m Health) and are seeking a three year pay back from the partner organisations. This is in line with the approved Scheme of Integration. NHS Highland has agreed to the request for the Health related overspend.
- 5.2 There remains a risk to the Council that the HSCP are not in position to repay their 2017-18 overspend with a further risk that the HSCP don't balance their

budget in 2018-19 and the outstanding balance increases.

## **6. IMPLICATIONS**

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| 6.1 | Policy -           | Options are in line with the Scheme of Integration.   |
| 6.2 | Financial -        | The overspend on Social Work will directly impact on the General Fund balance until it has been repaid.                         |
| 6.3 | Legal -            | None from this report but savings options considered by the IJB could have legal implications.                                  |
| 6.4 | HR -               | None from this report but savings options considered by the IJB will likely have HR implications.                               |
| 6.5 | Equalities -       | None from this report but savings options considered by the IJB will likely have equalities implications that will be assessed. |
| 6.6 | Risk -             | There is a risk that any additional payment to the Health and Social Care Partnership will not be recoverable.                  |
| 6.7 | Customer Service - | None from this report but savings options considered by the IJB will likely have customer service implications.                 |

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15 May 2018**