



Health and Wellbeing Board
10 March 2016

Surrey County Council and Clinical Commissioning Group Financial Challenges Summary

Purpose of the report: Scrutiny of Services and Budgets

To provide the Health and Wellbeing Board with an overview of the financial challenges facing Surrey County Council following the final local government finance settlement and those facing Surrey's six Clinical Commissioning Groups (CCG) in light of the CCG allocations 2016/17 – 2020/21.

Recommendations:

It is recommended that the Health and Wellbeing Board note the financial challenges facing both Surrey County Council and the County's six Clinical Commissioning Groups.

Introduction:

1. The provisional local government finance settlement (Provisional Settlement) was published on 17 December 2015 and detailed the Government's funding proposals for local authorities over the next four years. Following this, the Department of Communities and Local Government (DCLG) led a consultation on the proposed settlement which concluded on 15 January 2016.
2. For Surrey County Council (SCC), the Provisional Settlement stipulated a core loss in grant funding from the Government of £132 million:
 - £109 million lost after two years through the removal of the Revenue Support Grant (RSG);
 - SCC to lose a further £17 million annually by 2019/20 through reductions in the business rate top-up paid by Central Government;
 - losses in grant funding to SCC will not be offset by increases to the social care precept of up to 2% on top of normal annual Council Tax rises announced by the Chancellor in his Autumn Statement.
3. SCC was extremely active during the consultation process informing DCLG that the scale and the speed of the grant funding losses to the

Council proposed in the provisional settlement would necessarily impact on its ability to deliver the quality services demanded by residents. As a result of these efforts DCLG awarded SCC transitional funding of £11.9m for 2016/17 and £12.2m for 2017/18 of a £300m national pot made available by the Government. It should, however, be noted that this transitional funding does not address the significant financial challenges SCC faces.

4. These reductions in Central Government funding are set against the backdrop of a reduction in funding to local authorities for Public Health. The Comprehensive Spending Review committed the Government to a 3.9% annual reduction in the funding that it provides to each local authority for Public Health functions over the next four years which equates to a total reduction in Public Health funding of 9.6% by 2020.
5. Surrey's six Clinical Commissioning Groups (CCGs) received details of their funding allocations for the next five years in December 2015 and these reflect the Chancellor's commitment to provide an additional £10 billion in funding for the NHS between 14/15 and 20/21, front-loaded to aid delivery of the Five Year Forward View.
6. In return for this additional funding, the Department of Health (DH) is requiring each CCG to create a Sustainability and Transformation Plan (STP) which outlines how each CCG will 'support financial balance, the delivery of the Five Year Forward View, and enable new investment in key priorities'. The DH has specified that each STP should run from October 2016 to March 2021.

Financial Challenges

Surrey County Council Financial Challenges

7. On 9 February the Council agreed its annual budget for 2016/17 which included a Council Tax rise of 3.99% through the addition of a 2% increase in the social care precept to mitigate some of the impact of losses in the RSG allocation from Central Government. The previous day DCLG also announced that it had allocated SCC a total of £24.1m in transitional funding staggered across two years.
8. Despite this additional funding from DCLG and the increased opportunity to raise revenue through Council Tax, SCC still faces considerable financial challenges as a result of the final local government finance settlement, the required savings from which are far steeper than were anticipated. In 2016/17 the Council will receive £7.5m less in RSG than was expected and in 2017/18 the disparity between allocation and the reductions expected increases to £25.1m. Additional funding of £6m allocated to cover additional costs generated by the introduction of the Care Act has been rolled included in the RSG.
9. At the same time, demand on services continues to rise particularly in the realm of adult social care where the Council already faces significant budgetary pressures. Projected demand for Surrey's adult social care services far outstrips available funding even with the additional 2% of

Council Tax that SCC is able to levy through the social care precept. Nor is this remedied through the additional £1.5 billion that the Government has pledged nationally to the Better Care Fund (BCF). SCC will receive just £1.5m of the extra BCF money made available by the Government, just 0.1% of the total funding available and the second lowest amount allocated to any County Council nationally.

Mitigating financial challenges

10. In the wake of the proposals made in the provisional local government finance, SCC has been developing proposals for how to meet such significant losses in core grant funding from Central Government. Two of these proposals, namely an increase in Council Tax (including social care precept) of 3.9% and lobbying for transitional funding from DCLG have been achieved and will have some effect on reducing the impact of the cuts to funding mentioned above.
11. The Council agreed to use money from its reserves in 2016/17 and 2017/18. In order to deliver a balanced budget, however, the Council will be required to implement a number of strategies designed to achieve the significant savings required. Individual services within SCC have been asked to find further budget savings while the Council will also initiate a Public Value Transformation Review to consider each service provided by the Council.

Clinical Commissioning Group Financial Challenges

12. The deficit among CCGs in Surrey rose significantly in 2015/16 compared to the previous year. The Chancellor's announcement in the Autumn Statement that the additional funding injection for the NHS would be front loaded was welcome given the financial pressures across the health care system. However, the CCGs must adhere to business rules which impact on the true amount available as growth. For the year 2016/17, CCGs in Surrey will receive an average headline increase in funding of 4.6%, however the impact of business rules and repayment of deficits makes the real term growth significantly lower and in some cases negative.
13. The business rules set by the Department of Health (DH) require each CCG to commit a proportion of their annual funding to areas specified by the DH. This year these areas include funding mental health parity of esteem as well as the Child and Adolescent Mental Health Services (CAMHS) transformational funding. The growth also has to cover areas of funding which had previously been provided as a separate stream such as General Practice Information Technology (GPIT). The Government has further stipulated that CCGs are to maintain a 1% year end budget surplus while having an uncommitted reserve fund of 1% of their annual budget as well as an additional 0.5% uncommitted contingency fund.
14. These funding allocation commitments are even more significant for Surrey Downs CCG and East Surrey CCG which both posted deficits in 2015/16. Although they have received growth funding for 2016/17, the

DH also requires them to pay down the deficits which they have accrued in previous years thereby further reducing the amount of money available to meet increasing demand on services through demographic growth and fund the transformations required to achieve the Five Year Forward View.

15. CCGs in Surrey are also having to set very high Quality, Innovation, Productivity and Prevention (QIPP) targets in order to deliver balanced budgets whilst delivering the business rules. QIPP schemes are designed to improve the quality of care while delivering significant efficiency savings.

Mitigating financial challenges

16. In line with the new requirements published by NHS England in January, each CCG in Surrey will produce an Operational Plan for 2016/17 detailing their plans for how they intend to meet rising demand for services while achieving a balanced budget next year. The Operational Plan will be produced in conjunction with Sustainability and Transformation Plans (STP) which require CCGs to provide a longer-term, place-based approach to developing high-quality, sustainable services.
17. CCGs will also continue to work closely with Surrey County Council to integrate health and social care services delivering improved outcomes for residents at reduced cost.

Conclusions:

18. The financial challenges facing both Surrey County Council and the CCGs in the coming years are significant. Continuing to deliver high quality health and social services to residents will require strategic planning which is truly innovative to achieve the necessary savings and meet rising demand. Ensuring the integration of health and social remains at the centre of discussions on transforming services is vital to ensuring that CCGs and SCC can provide high quality services within a balanced budget.

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