Bath & North East Somerset Council		
MEETING:	COUNCIL	
MEETING DATE:	16th November 2010	**AGENDA ITEM NUMBER**
TITLE:	Community Health and Social Care Services – Future Provision UPDATE OF INFORMATION	
WARD:	ALL	
THIS IS A PUBLIC REPORT		

1. EXECUTIVE SUMMARY

1.1 This report updates the main report on the Agenda for this meeting of the Council.

1.2 Since the publication of the report two textual corrections to the original report need to be made for clarity.

1.3 This update report also updates the financial information contained in the original report for updated assumptions in the development of the relative financial appraisal of the options and the initial integrated business plan.

2. THE ISSUE

2.1 These are as contained in the original report.

3. RECOMMENDATIONS

3.1 These are as contained in the original report.

4. CORPORATE PRIORITIES

4.1 These are as contained in the original report.

5. THE REPORT - UPDATE

Textual Corrections

5.1 Since the publication of the report two textual corrections to the original report need to be made for clarity. These are:

- Paragraph 1.10: To make the body of the report consistent with the recommendations to Council REPLACE the current Paragraph 1.10 with the following (the change is in italics):

"If the further work proposed shows the financial challenges can be addressed and that General Practitioner representatives and SHA support the proposal, the report proposes the Council delegate authority to *the Chief Executive with the agreement of the Leader of the Council and the Leader of the Liberal Democrat Group, in consultation with the Labour and Independent Group Leaders, the Cabinet Member for Adult Social Care and Housing, the Chair of the Healthier Communities and Older People Overview and Scrutiny Panel and relevant officers."*

- Paragraph 5.1: The references to the Appendices are incorrect. Paragraph 5.1 should read as follows (the change being in italics and bold type):

  "This report is divided into five sections supported by detailed Appendices:

  - A chronology of events to date.
  - The options appraisal, including a risk assessment (Appendix 3).
  - The proposed legal form [of the new organisation] (Appendix ***5***).
  - An outline of the project arrangements, governance and budget (Appendix ***6***).
  - An outline of the next steps.

- To make the body of the report consistent with the recommendations to Council REPLACE the current Paragraph 1.10 with the following (the change is in italics):

Update of Financial Information

5.2 Since the publication of the report, the initial financial information has been updated further.

5.3 The financial table set out in paragraph 5.23 should now read as follows.

	Averaged Annual Costs		
	Social Enterprise £'000	**NHS £'000**	**Council £'000**
VAT	1,072	473	0
Operating Costs			
Pensions	87	234	0
Corporate Governance	315	50	100
IT/Licences	0	0	250
Corporation Tax	0	0	0
Delegations	80	50	30
Funding Opportunity Cost	16	16	0
Set Up Costs Funding	17	0	0
	515	350	380
Total VAT and Operating Costs	1,587	823	380
One-Off Costs			
Set Up	1,050	600	350
Social Enterprise Grant (none assumed)	0	0	0
Existing Budget	-300	-300	-300
	750	300	50

5.4 The changes which are both for the Social Enterprise option are:

- A minor change in operating costs of £10,000 per annum on average for working capital facilities, which is now reflected in the set up costs line for the period.
- Removal of an assumption of £230,000 of Social Enterprise Grant at this stage as an application has not been made and this item represents a risk.

5.5 The financial table set out in paragraph 5.39 has been updated and should now read as follows (changes from the original are shown in italics).

	2011-12 (full year) £'000	2012-13 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000
Savings required to meet PCT/Council financial plan Targets (common to all options)	*3,056*	*3,011*	*1,318*	*924*	*876*
Further savings/mitigations required for a potential social enterprise	*889*	*830*	*(57)*	*(42)*	*(35)*
Total	*3,945*	*3,841*	*1,261*	*882*	*841*

5.6 The changes are a result of updating the Council's and the PCT's saving target assumptions and illustrating the further savings related to the social enterprise over the first two years on the assumption that any potential social enterprise will be operation from 1 October 2011.

5.7 The table also reflects the impact of updating the assumptions in paragraph 5.40 to 5.42 of the original report. The relevant paragraphs have been reproduced in full below with changes shown in italics.

5.8 The key assumptions are as follows:

- A baseline contract for services provided by NHS B&NES and the Council. The contract will cover a 3-5-year period and should be co-terminus between the PCT and the Council. These contract periods exclude contract periods for support services, which will be dealt with differently.
- Baseline service contract revenues show a reduction on the current Partnerships revenues due to the exclusion of certain services. It has been assumed that the "Purchasing Budget" and "Client Income" will be retained by the Commissioners. The net impact of this is to reduce the revenues by circa £30 million per annum. The financial value of the Council and PCT services are based on the current levels after adjusting for inflation, savings targets from the NHS and performance incentives.
- The generation of surpluses, which if retained would amount to a cumulative reserve of approximately £2m before tax either to be retained for financial stability or a portion to be reinvested in services if this is appropriate.
- The PCT budget is uplifted by 2.5% inflation and 1.5% for quality and innovation payments under the NHS Commissioning for Quality and Innovation payment framework

(CQUIN) in 2011-12 to 2013-14 but also include saving requirements of 4% per annum for each of these years under the NHS Quality, Innovation, Productivity and Prevention (QIPP). *The model assumes a net zero increase in PCT revenues in 2014-15 and FY 2015-16. This is made up of a 2% inflation increase and a 2% saving.*

- *The PCT CQUIN revenue is based in achieving quality targets. The LTFM assumes that the SE will achieve these targets and hence receive the monies due. To date the Partnership has met all CQUIN targets.*
- *It has been assumed that Council revenues will decrease in 2011-12 to 2013-14 in line with agreed savings Council targets of £1m million for 2001-12 and 2012-13 and £0.7 million in 2013-14. This does not include the stretch targets for savings within the Council. The LTFM assumes that there will be both an inflationary increase of 1% in the Council revenues in 2014-15 and 2015-16 and an annual efficiency savings requirement of £450k.*
- *The Council and PCT revenue assumptions are in line with discussions with Commissioners. Estimates have been made with respect to Commissioners savings requirements for 2014-15 and 2015-16.*
- *Third party income (mainly other PCTs) will remain static for the duration of the contract. Third party income comprises income from other PCTs, the majority of which is held under short-term arrangements i.e. less than 2 years. It has been assumed that the SE will be able to replace any lost contracts by winning new work.*
- Pensions contributions for NHS staff remain at 14% subject to a Direction Order, Council staff employer contributions will increase by 2.5% as a result of admitted body status in relation to future actuarial risks. This also assumes there is no requirement for a bond. Finally the model assumes a reduced employer contribution of 10% to employees' pensions although this may also be incorporated with other flexible employee packages, which will be at the discretion of the social enterprise.
- *Non-pay inflation is modelled at 1% per annum. It is recognised that certain costs e.g. heat, light and power are likely to increase at a higher rate. It has been assumed that savings in other areas can absorb these cost increases.*
- *Pay inflation will be zero in first three years of the business plan and 1% for the last two years of the business plan. This headline inflation figure covers both pay awards and incremental drift and is the same for both PCT and Council transferring staff. Employer's National Insurance contributions are increased to 13.8% from April 2011.*

5.9 These variables are used in the LTFM to extrapolate income and expenditure through to 2015/16 and produce an Income & Expenditure (I&E) plan for each of the next five years.

5.10 The LTFM assumes a number of changes to costs and income. These business changes are contained within the LTFM, and the key assumptions which underpin each of the Business Change schemes are:

- Business Change 1 (Revenues) – As noted previously, a number of functions currently undertaken by the Partnership will not transfer to the SE. These include the Purchasing Budget and Client Income. The net impact of these is to reduce revenues and costs by circa £30 million.
- Business Change 2 (New Social Enterprise Structure) – The SE is a different form to the current Partnership and this gives rise to a number of cost differentials. These include different management and Board structures, increased audit and professional fees and increased insurance costs etc. The annual impact of this is circa £0.4 million. It is difficult to assess the costs including, if any, of the governance costs of a transfer to the NHS so this is currently not included in the relative financial appraisal.
- Business Change 3 (VAT) - Both the Council and NHS enjoy special rules with respect to VAT recovery. For VAT purposes the SE is considered a commercial entity and therefore will not qualify for these special reliefs. As a result it will be able to recover less VAT on purchased services than the current Partnership model. The annual impact of this is circa £1 million.
- Business Change 4 (Pensions) - The LTFM assumes that legacy Council and PCT staff will be able to retain membership of their respective pension schemes; the NHS through the SE being granted "Direction Status" and the Council by having "Associated Status". However the consequence of this is that new staff will not be eligible to join either of the legacy schemes. It has been assumed that the SE will establish a new defined contribution scheme for new staff. The LTFM assumes that employer contribution to the new scheme will be lower than the current Council and PCT employer contributions. However, it should be noted that if recruitment proves difficult, the SE may need to put in place a pension scheme that is equivalent to the NHS/Council Pension scheme. The LTFM does not include provision for such a cost. The LTFM assumes that the contributions payable to the Council scheme will increase. The net impact of the Pension Scheme changes is to increase annual costs in 2011-12 by £0.2 million reducing to a saving of £0.05 million by 2015-16. *The model also assumes*

the Council will take responsibility for the historic deficit on its scheme and that no bond is required.

- Business Change 5 (SE Savings) – Business changes 2 to 4 and 8 will result in increased costs to the SE. The LTFM assumes that the SE will be able to deliver additional cost savings over and above those already identified by PCT and Council Commissioners (see below) to offset these cost increase and deliver a small surplus to the SE. *To date the SE has not identified how it will deliver these savings or the balance of the Commissioner savings requirements and these are the subject of the next stage of the business planning*.
- Business Change 6 (QIPP Workforce) – There is a requirement for the PCT Provider Services to achieve a 40% reduction in management costs. This amounts to savings of £363k in 2011-12 and a further saving of £153k in 2012-13. The LTFP assumes the 2011-12 savings will be achieved by the Partnership prior to the transfer to the SE in October 2011. The SE will need to deliver the 2012-13 target. There is no redundancy provision in the LTFM associated with this.
- *Business Change 7 (CRES/PCT Savings) – The current Partnership is committed to deliver CRES savings of £0.9 million per annum in 2011-12 to 2013-14. The LTFM assumes that the Partnership is able to identify the 2011-12 prior to the transition to the SE. The SE will need to deliver the 2012-13 and 2013-14 savings of £0.9 million in each year.*
- *Business Change 8 (Council Savings) - The current Partnership is committed to deliver Council savings of £1.1 million in 2011-12, £0.8 million in 2012-13, £0.3 million in 2013-14 and £0.45 million per annum in the last two years of the Plan. The LTFM assumes that the Partnership is able to identify the savings to deliver the 2011-12 target prior to transfer. The LTFM does not take account of the Council's stretch savings target. If these were included it would increase the levels of savings required by circa £1 million in 2011-12 and 2012-13.*
- *Business Change 9 (PCT Revenues) The PCT SLA income line includes the receipt of 1.5% CQUIN revenues. CQUIN revenues are payable on meeting pre-agreed quality. To date the Partnership has met these targets and the LTFM assumes that the SE will continue to meet these targets and hence continue to receive the CQUIN monies.*
- *Business Change 10 (Transition Costs) – This business change reflects the increased costs in 2010/11 and 2011/12 of going through transition. A total cost of £1.05 million has been identified. The LTFM model assumes that £0.3 million of this will be met from existing Council and PCT budget allocations for 2010/11 The LTFM assumes that the balance will be funded*

via a Commercial Loan of £0.75 million repayable over 5 years. Given that the SE will be a new entity with no assets or track record, it is likely that this loan will require a guarantee from the Council/PCT. The SE has not applied for this loan and its receipt cannot be guaranteed. If the SE is unsuccessful in its loan application, the SE will not be able to meet its initial expenditure without another source if income/funding facility being available. The SE has the potential to apply for a Social Enterprise Investment Fund (SEIF) Grant. The SE is yet to apply for this loan and there is some doubt over its potential receipt. As such it has been excluded from the LTFM.

- *Business Change 11 (Redundancy) – The savings requirements of the LTFM will result in a reduction in headcount. The LTFM does not contain any provision for redundancy costs. The LTDM assumes that all the redundancies required to deliver the 2011-12 savings will be implemented prior to the transfer to the SE and any share of redundancy costs required to be met by the current joint provider will be met through savings agreed by the current commissioners and the current provider, including any changes in service provision. It has been further assumed that redundancy costs relating to headcount reductions to deliver the 2012-13 savings will be covered by the PCT Commissioners. The LTFM assumes that any subsequent redundancy costs associated with Commissioner agreed changes in the service delivery model will also be covered by Commissioners. The LTFM makes no assumptions of potential redundancy costs that the SE is required to make to deliver its own aspirations which would not be met by Commissioners. Based on a 20% reduction in headcount and assuming that 50% could be delivered via the natural attrition, based in recent Council experience, the total redundancy cost could exceed £4.5 million.*

- *Business Change 12 (Property) The LTFM model assumes that all the property used in the delivery of the services will be retained by the Commissioners. The LTFM assumes that arrangements will be put in place to enable the SE to use the properties to deliver the services. The LTFM also assumes that these arrangements will be cost neutral to the SE. The LTFM also assumes that Commissioners will retain responsibility for repairs and maintenance of the properties. Properties are subject to a detailed workstream with further analysis required.*

- *Business Change 13 (IM&T) The LTFM assumes that arrangements will be put in place to enable the SE to use the required IM&T equipment to deliver the services. It should be noted that all Council IM&T equipment is held under an outsourcing agreement. The LTFM assumes that the SE will be able to utilise this service and the LTFM includes recharges* *from the Council to cover the cost. This recharge does give rise to an additional vat liability (included in the Vat provision). IM&T is subject to a detailed workstream with further analysis required.*

- *Business Change 14 (Other Equipment) The LTFM assumes that the SE will be granted use of all misc equipment required for the delivery of the service. This is subject to further analysis.*
- *Business Change 15 (Cost Pressures) The underlying assumption in the LTFM is that the SE will manage its cost pressures (with the exception of redundancy) and not seek additional funding from Commissioners.*
- *Business Change 16 (Corporation Tax) Depending on the final form of the SE, the entity may become liable to Corporation Tax. Currently, the LTFM does not make any provision for any potential Corporation Tax liability. Given the low level of reserves being generated, this is not considered a material risk at this stage.*

6. RISK MANAGEMENT

6.1 This section remains unchanged.

7. FINANCIAL IMPLICATIONS

7.1 This section remains unchanged apart from the in paragraph 7.4 bullet point one the baseline savings identified by the Council and PCT Commissioners are £3 million (not £2.9M) for 2011/2012 rising to over £9M by 2015/2016.

8. LEGAL IMPLICATIONS

8.1 This section remains unchanged.

9. EMPLOYEE IMPLICATIONS

9.1 This section remains unchanged.

10. EQUALITIES

10.1 This section remains unchanged.

11. CONSULTATION AND ENGAGEMENT

11.1 This section remains unchanged.

12. ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 This section remains unchanged.

13. ADVICE SOUGHT

13.1 This section remains unchanged.

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Background papers
There are no further background papers.
Please contact the report author if you need to access this report in an alternative format