



REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 21 December 2017

BY: Chief Finance Officer

SUBJECT: Finance Update – December 2017

1 PURPOSE

- 1.1 The purpose of this report is to lay out the current financial position for the IJB and the actions being taken by the management team.

2 RECOMMENDATIONS

- 2.1 The IJB is asked to
- Note the current position
 - Consider the recovery plans including an IJB directed recovery plan.
 - Support the recovery actions

3 BACKGROUND

- 3.1 At its March meeting the IJB received a report laying out the financial assurance around its proposed 2017/18 budget. In summary, the financial assurance considered the budgetary offers made by partners to the IJB and examined an analysis of the financial challenges within these offers. This analysis showed that a total of c. £3.8m of financial pressures had been identified with c. £3.3m of plans available to support these pressures and therefore this left a projected £0.5m 'gap' for which plans had (at that time) still to be identified.
- 3.2 The gap described above was c. £300,000 within the Set Aside budget and c. £200,000 within social care service with other services forecasting a balanced position albeit with a considerable efficiency challenge.

- 3.3 The March financial assurance report to the IJB also noted that there was no financial risk sharing agreement in 2017/18 in that any overspends would not automatically be supported by the partners as had happened in 2016/17. That said, the IJB decided to accept the budgetary offer in order to continue to develop and deliver its strategic plan and the operational service management teams of the partners would work towards a break-even position.
- 3.4 The 2017/18 financial position was reported to the IJB at its meetings in August and October. The October report laid out a projected overspend within the health services of c. £479,000 and noted that, although the quarter one forecast was not available from East Lothian Council the operational reports suggested an unbalanced position. The IJB asked its partners to continue to develop and deliver their in-year recovery plans.
- 3.5 East Lothian Council has now reported the six month position for the Adult Wellbeing services and, given that the IJB position is not the same as the Adult Wellbeing position, provided the IJB with a financial position. This shows an overspend against the IJB's social care budget of c. £581k. The Council has not, as yet, developed an out-turn forecast but has directed that the Adult Wellbeing Management Team deliver a recovery plan to bring the position back to break-even. The recovery actions are discussed further below
- 3.6 The pressures within social care are driven by two issues –
- Full, recurrent delivery of the brought forward recovery programmes
 - An operational overspend within the budgets for older people's care home places and care packages, the Council's care homes and some specialist placements.
- 3.7 The NHS has provided an updated forecast for the health elements of the IJB's budgets and this is:-

	Annual Budget £m	Forecast Out-turn £m	Variance £m
Core	67.2	66.8	0.4
Hosted	14.6	14.5	0.1
Set Aside	21.0	21.5	-0.6
Total	102.7	102.8	-0.1

That is an overspend of c. £128,000 which is driven entirely by the Set Aside services being offset by underspends in Core and Hosted. This is an improved position from both the opening budget setting forecast and the information available to the IJB in October.

- 3.8 The key drivers behind the health position remain largely the same as those reported in the October paper – that is overspends in junior

medical staffing, gastroenterology and general medical in the set aside budget.

3.9 NHS Lothian Finance and Performance Review Committee at its meeting on 15th November 2017 received a paper entitled 'Impact of IJB financial performance on NHS Lothian'. This report noted the steps available to the IJB as laid out in the integration scheme in the event of an overspend being forecast – these (along with a commentary) are:-

1. **That the partners prepare a recovery plan.** Although the Social Care position is at month six and not an out-turn forecast, the adult wellbeing service has been marked as high risk (that is at a high risk of an overspend) and has prepared a recovery plan. The NHS Lothian forecast position has improved since the start of the financial year although the pressure remains within Set Aside. NHS Lothian has intimated that, at this time, it seems unlikely that the set aside position can be recovered. The health position's return to break-even would now be based on underspends in core and hosted supporting the overspend in set aside.
2. **That the IJB prepares a recovery plan.** In practical terms at this time in the financial year there is not a great deal of scope however such a plan is considered at 3.13 below. It may be worth considering if the IJB should draw up such plans for 18/19 early in the financial year as a contingency position.
3. **That the IJB uses any underspend in 'one arm' of its budget to underpin overspends in the other.** Given the position above this is not an option at this time. However, the health position has improved since the start of the financial year and it may improve further. It's also worth considering that the IJB has a very modest influence over the set aside budget and that any overspend in set aside is shared amongst the Lothian IJBs and does not necessarily reflect the IJB's usage of that resource.
4. **That the partners make additional funds available to the IJB.** In 2016/17, both partners provided additional resources to cover 'their' element of the overspend. No such agreement exists in 2017/18 but discussion are underway between the IJB and its partners.
5. **That the IJB is provided with brokerage (a loan) by the partners.** This is a very poor position for the IJB – the IJB has no realistic way of repaying such a loan and if, as an example, the loan was to be repaid through the 18/19 budgetary allocation then could the IJB accept a budget that was clearly 'insufficient'?

The NHSiL Finance and Resources paper is attached to this report for information.

It should be noted that East Lothian IJB and HSCP are still formally at step one above. However, the Chief Officer and the Chief Finance Officer are examining the other options and discussing these informally with the partners.

Recovery plan

- 3.10 'Recovery plan' is a generic term used above to address both the overall financial challenge to be managed by the IJB and operational pressures arising in year. The IJB is fully aware of the underlying position wherein financial resources are reducing (in real terms) over the next few years along with increased demands driven by demography and population expectation. The IJB is addressing these challenges through its financial strategy and its financial plan and this strategy is based on the principles of full operational integration, fundamental service redesign and moving from institutional care to care in a community based setting. This work to be underpinned by a prioritisation of service delivery and some difficult decisions will be required as to how resources are prioritised.
- 3.11 In operational terms delivering this change in the service delivery model is difficult and unforeseen operational issues can mean that the financial plan cannot be delivered in year and the operational units will then have to take decisions to reduce expenditure in year and it is possible that some of these actions may not be in line with the IJB's own financial or service strategy.
- 3.12 As was discussed above, the Adult Wellbeing service, based on its month six position has been flagged as 'high risk' and a recovery plan has been asked for. In the current financial year Adult Wellbeing has been challenged by the efficiency targets set in 2016/17 and carried forward into 2017/18. This was reported to the IJB as part of the 2016/17 out-turn along with financial assurance for 2017/18. East Lothian Council removed the planned efficiency target for 2017/18 in recognition of this overall pressure and the additional resources from the Social Care Fund (both the 2016/17 allocation and the 2017/18 allocation) has allowed the service to redesign some services following the IJB's overall principles.
- 3.13 The original efficiency programme and an update at the beginning of December 2017 was as follows:

EXISTING EFFICIENCY PROGRAMME	PLANNED VALUE	ACTUAL VALUE 17/18
Redesign of care at home framework	1,053	1,195
Maximise income collection/charges	425	250
Efficient Workforce Management	70	150
Transport Costs	75	25
Miscellaneous	418	333
Total	2,041	1,953

It should be noted that although there appears to be minimal slippage on the programme, some efficiencies did not deliver in the first 8 months of 2017/18 and will deliver in the later months of the year. Therefore this slippage in timing will affect the year to date position negatively.

The HSCP has considered further actions as part of a recovery programme and these are summarised below:

RECOVERY PROGRAMME	PLANNED VALUE
Residential care purchasing	50
Reductions in temporary and agency staffing	50
Slippage on Day Centres Spend	25
NHS funding	?
Further review of temporary staff	To be completed
Care Homes cost control	80
Review of SDS respite budgets	To be completed
Recharge of invoices	24
Total	

- 3.14 As was discussed above, step two is for the IJB to prepare a recovery plan. Of necessity this will have to either utilise funds that had been planned to be carried forward or to stop projects in train but wherein commitments are not yet finalised. For example, utilising the MELDAP reserve held by the Council on behalf of the IJB to support the social care position. This is valued at 190k. The IJB should consider if it would wish to issue such a plan but it should be recognised that this is unlikely to resolve the entirety of the pressure.
- 3.15 In summary the financial position in adult social care remains challenging and there is a high risk that the budget will not break even. The HSCP management team is focused on improving the position and further recovery actions will be explored.
- 3.16 It should be remembered that the IJB is not an operational unit nor is it a Board of management and the partners remain responsible for the operational delivery and their management teams are dealing with these financial issues on a daily basis. The role of the IJB is to direct the delivery of its Strategic Plan and it must allow the partners' management teams to deliver the operational services that support that plan

- 3.17 Although the forecast out-turn is not yet available, there are clearly a range of challenges being addressed and further information will be provided to the IJB at its January meeting. The IJB would wish to break even but it is possible, in theory, for either or both partners to break-even and for the IJB to be overspent – if, for example, ELC supported the social care overspend from their reserves but did not allocate any additional funds to the IJB. However, such a position would not benefit the partners since the partners would have to reflect the IJB's overspend in their accounts and (in their operational budgets) account for the overspend in their own books.
- 3.18 Discussions are underway between the Chief Officer, the Chief Finance Officer and the partners and these are being progressed on the basis that the IJB is supported to break-even (assuming that the partners can break-even) and that the IJB will not achieve this through brokerage. Progress on this matter will be reported back to the IJB at its next meeting.

4 ENGAGEMENT

- 4.1 The IJB holds its meetings in public and the Partners have made the financial information publically available.

5 POLICY IMPLICATIONS

- 5.1 There are no new policy implications in the above report.

6 INTEGRATED IMPACT ASSESSMENT

- 6.1 The subject of this report does not specifically affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

7 RESOURCE IMPLICATIONS

- 7.1 Financial – note above
- 7.2 Personnel – none
- 7.3 Other – none

8 BACKGROUND PAPERS

- 8.1 Finance report presented to the IJB at its October 2017 meeting.

AUTHOR'S NAME	David King
DESIGNATION	Chief Finance Officer
CONTACT INFO	David.king@nhslothian.scot.nhs.uk
DATE	14 December 2017

Finance and Resources Committee
15 November 2017

Director of Finance

IMPACT OF IJB FINANCIAL PERFORMANCE ON NHS Lothian

1 Purpose of the Report

- 1.1 The purpose of this report is to inform the committee of the work ongoing to establish the impact of the four IJB outturn positions on the financial results of NHS Lothian.
- 1.2 Any member wishing additional information should contact the Executive Lead in advance of the meeting.

2 Recommendations

- 2.1 Committee members are asked to note the following:
 - **Endorse** the interpretation of the IJB integration schemes for dealing with projected financial oversends;
 - **Acknowledge** the financial options available to NHS to meet IJB projected financial overspends;

3 Discussion of Key Issues

- 3.1 This report has been produced following a request from the F&R committee to fully understand the accounting treatment of IJB performance on NHS Lothian. The review has been undertaken in partnership with our external auditors (Scott Moncrieff)and in conjunction with the four Chief Financial Officers.
- 3.2 The review needs to consider both the impact on the Board's financial performance and the consolidated disclosure position in the annual accounts, as governed by Joint Venture accounting rules.
- 3.3 The report is structured into the following sections:
 - Detailed breakdown of IJB outturn in 16/17 and associated annual accounts treatment;
 - Explanation of the escalation flowchart for dealing with IJB overspends;
 - NHS Lothian options for managing IJB overspends in 17/18.

IJB Financial Performance in 2016/17

- 3.4 In 2016/17 all four IJBs required additional funding from NHS Lothian to deliver a balanced set of annual accounts. Following discussion at the F&R Committee the recommendation was accepted to provide further in year funding to enable all four IJBs to breakeven. Council partners also agreed to make similar allocations to meet Social Care funding pressures that would be jointly covered within the IJB accounts. The additional allocations are detailed in Table 1 and were allocated to primarily offset additional GP prescribing and set aside pressures.

Table 1: Additional resource provided to IJBs by NHS Lothian 2016/17

Integrated Joint Bodies	Additional Flexibility £'000
East Lothian IJB	1,054
Edinburgh IJB	2,457
Mid Lothian IJB	855
West Lothian IJB	1,840
Total	6,206

- 3.5 As part of the Edinburgh IJB strategic plan a reserve of £3.7m was retained from the Social Care Fund in 2016/17. Their strategic plan recognised that the funding would be held over until 17/18 for service investment. The ability to retain reserves is available to the IJBs, however, this approach is not available under NHS accounting treatment.
- 3.6 The accounting guidance for managing reserves is covered in IAS 28 – Investments in Associates and Joint Arrangements. The adoption of this treatment resulted in the primary financial statements of both the Council and the Health Board being amended for the additional disclosure required to accurately reflect their interest in the IJB, using the equity method of accounting. The impact of this on NHS Lothian consolidated financial statements was that the balance sheet showed an investment reserve of £1.845m (Edinburgh Council show the corresponding 50% joint venture share in their financial statements).
- 3.7 NHS Lothian has no access to this reserve as this is purely an accounting entry in the consolidated accounts as per accounting standards. The establishment of this reserve had no impact on the Revenue Resource Limit of NHS Lothian in 2016/17. Following discussion with Scott Moncrieff on the treatment of any future IJB overspend it was clarified that under Joint Venture accounting both the Council and the Health Board require to split the deficit 50/50 and present in the balance sheet as a negative investment reserve.

Escalation flowchart for managing an IJB overspend

- 3.8 IRAG (Integrated Resource Accounting Guidance) guidance states that any IJB overspend should be managed by the risk arrangements covered in the individual Integration Schemes. Some other Boards have it embedded in the scheme that as part of the process the overspend will be covered by the 2 parties by additional contributions as per the % of the original contribution. The Lothian schemes do not have this direction in their agreements.
- 3.9 Whilst there is nothing in any of the 4 schemes that specifically states that the IJB cannot overspend (unlike some other schemes in Scotland) there is the general understanding that forecast overspends will be managed and resolved by the IJB and its partners.
- 3.10 All of the Integration Schemes document an escalation process for resolution of forecasted overspends. This process is the same for each of the 4 schemes and is shown in Appendix 1 as a flow chart. The following sections of this report describe each of the four stages of the escalation process and the impact on NHS Lothian and the IJB.

Stage 1 - Operational partner takes remedial action

- 3.11 Where a forecast overspend is projected, the Operational partner (Health Board or Council) would be expected to develop a suite of recovery actions to bring expenditure in line with available resource. Any remedial actions should be signed off by the IJB and considered against the extant or emerging directions to ensure convergence.

Stage 2 - CFO develops recovery plan - approved by IJB

- 3.12 Where the recovery actions identified by the operational partner (above) have failed to achieve a balanced position, the CFO is required to develop a recovery plan, which would then be approved by the IJB Board.

Stage 3 - IJB can use a) underspend on the 'other arm' of the operational budget and/or b) IJB Utilise a reserve

- 3.13 If the recovery plan measures are unsuccessful the IJB may have other options available to it, both of which relate to the utilisation of flexible resource rather than cost reduction.
- 3.14 The IJB may have an opportunity to utilise an underspend on the other element of the IJB delegated budget. In practice this would mean that there was an adjustment between the notional budgets delegated to the NHS and Council. The underspending Partner has its operational budget reduced and this is transferred to the overspending partner. The relevant Partner would show this as income in the consolidated financial accounts.
- 3.15 All parties have to agree to any redetermination of budgets/payments. If all adjustments are done at budgetary level in terms of delegated budgets then no cash transfers occur and the service level budgets will continue to show the overspend at operational service area. However, if a cash payment is made (as has been the case in some Boards in Scotland) then this would involve a transfer of resources between Partners that would alter the operational service area as well as the IJB financial position.
- 3.16 As a second option the IJB would have the discretion to utilise any reserves that it might be holding. Effectively Edinburgh IJB would have this option in 2017/18 if their £3.7m reserve was not already committed.

Stage 4 - Additional payment by Partners or brokerage

- 3.17 If the above measures still do not support the achievement of an IJB breakeven position there is the option of a Partner increasing the delegated budget to the IJB in year either as a one off 'payment' (as done by NHSL in 2016/17) or as brokerage to be recovered from future years budget(s).
- 3.18 If NHSL were unable to make additional payment and elected to allow the overspend this may mean that the IJB was overspent for that year. The balance sheet treatment of any deficit would result in both stakeholder bodies having to establish a negative investment reserves for 50% of the deficit.
- 3.19 The schemes are written in such a way that all efforts are to be undertaken by Partners with the IJB to resolve overspends and if this was not possible then the IJB should follow documented dispute/mediation arrangements as documented in all 4 schemes.
- 3.20 As highlighted in section 3.9 the schemes say the same for managing and resolving budget variances. Any differences in individual IJB Boards approach will be in

interpretation, the respective financial position of all the Partners and the nature of the relationships between the Partners.

2017/18 forecast IJB outturn

- 3.21 At present all four IJBs are forecasting deficits for 2017/18, totalling circa £9m for the health component. They are currently working their way through the escalation cascade and are working with the operational arms to agree recovery plans. The conclusion of the formal mid year review exercise will assess the achievability of the recovery plans. It is expected that not all four IJBs will be able to deliver a balanced position. The Board will then be required to agree whether to support the IJBs with additional funding and whether any allocation will be in the form of brokerage, which will require to be repaid.
- 3.22 There is also the risk for the Board that any of the health 'arms' of the IJBs generate underspends, which the IJB may request to utilise to offset possible social care overspends. There is a further risk that if the IJB generate an underspend on the health arm that resources are removed from the health system and carried forward in the form of reserves on the IJB balance sheet. The reserves would then be used at the IJBs discretion in future years.
- 3.23 The forecast impact on the year end outturn will be reported to the F&R Committee as appropriate following the the mid year review exercise. The Committee will be asked to approve any additional funding allocations to the IJB's.

4 Key Risks

- 4.1 There is a risk that the financial performance of the IJB impacts on the achievement of the Board's financial and service targets. The risk register accompanying the financial plan includes the potential impact of IJB financial performance on the Boards financial targets.

5 Risk Register

- 5.1 There is nothing further to add to the Risk Register at this stage, although this will be reassessed on an ongoing basis.

6 Impact on Inequality, Including Health Inequalities

- 6.1 There are no implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper.

7 Duty to Inform, Engage and Consult People who use our Services

- 7.1 As this particular paper does not relate to the planning and development of specific health services there was no requirement to involve the public in its preparation. Any future service changes that are made as a result of the issues raised in this paper will be required to adhere to the Board's legal duty to encourage public involvement.

8 Resource Implications

- 8.1 The report results deals principally with the accounting treatment for IJB's financial performance and therefore has no specific resource implications.

Susan Goldsmith

Director of Finance

8th November 2017

susan.goldsmith@nhslothian.scot.nhs.uk

Appendix 1: IJB overspend resolution escalation flowchart

