



REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 24 August 2017

BY: Chief Finance Officer

SUBJECT: Financial Position – 2017/18 update and future planning

1 PURPOSE

1.1 This paper covers four main areas :-

- An update on the year to date (to June 2017) financial position for the IJB
- A proposition to review the health budgeting setting model for the IJB
- A proposition around the financial planning model for 2018/19
- Proposal to develop a multi-year financial plan to support the IJB's Strategic Plan.

2 RECOMMENDATIONS

The IJB is asked to:

- 2.1 Note the outline financial position for the first three months of the current financial year.
- 2.2 Support the proposal to review the health budget setting model and consider a review of the adult social care budget setting model.
- 2.3 Support the proposal to redesign the financial planning model in 2018/19.
- 2.4 Support the development of a multi-year financial plan.

3. BACKGROUND

Year to date financial position for the IJB

- 3.1 At its March 2017 meeting the IJB received a financial assurance report on the IJB's budget for 2017/18. This report identified a range of

financial pressures but, because the IJB wished to continue to move forward with the delivery of its Strategic Plan and recognising that both Partners had made an equitable allocation of their available resources, the IJB accepted the budget propositions.

- 3.2 In summary, the report identified gross financial pressures in 17/18 of £3.8m of which plans had been developed to deliver c.£3.3m leaving a position wherein plans had to be developed to deliver c. £0.5m, being c. £0.2m in the social care budgets and c. £0.3m in the set aside.
- 3.3 At its June 2017 meeting the IJB received a further report laying out the final 2016/17 out-turn and reflecting further on the 17/18 plans. This report noted that the IJB was required to break-even in 2017/18 and that it was unlikely that either NHS Lothian or East Lothian Council would be able to make any further non-recurrent funds available to support any in-year pressures.
- 3.4 Clearly, it is important that the IJB understands the current financial position and reflects on the actions required to ensure a break-even position. However, both NHS Lothian and East Lothian Council are currently undertaking a quarter one review and the overall output from this exercise will not be available until September. That said, indicative information is available from East Lothian Council and NHS Lothian has prepared a three month actual position for the IJB. This information has been used to inform this report. It should be noted, therefore, that the discussion below is based on an extrapolation of the indicative information for the IJB itself and not a reflection of the quarter one financial reviews of the partners.
- 3.5 NHS Lothian produces a monthly report showing the year to date financial position for the health services of the IJB. For month 3 this shows:-

	Annual Budget £000's	YTD Budget £000's	YTD Actual £000's	YTD Variance £000's
Core	66,883	16,163	16,474	-311
Hosted Set	14,525	3,197	3,190	7
Aside	20,832	5,057	5,273	-216
Total	102,240	24,417	24,937	-520

It should be noted that the hosted and set aside position are based on the share element of the NHS Lothian health budget setting model. That means that hosted and set aside costs represent the IJB's share of the budget and not its actual usage. This is simply a function of the model and the IJB, in accepting the NHS Lothian budget, has asked Lothian for a further review. This is discussed further below.

- 3.6 East Lothian Council has reported its financial position based on the first quarter's financial information. This indicates that the Adult Wellbeing services should break-even in 2017/18. It should be noted (and this is discussed further below) that the IJB's budget from East Lothian Council is not simply the Adult Wellbeing budget, there are various adjustments, however for the purposes of this exercise it has been assumed that the IJB's social care budget will break-even.
- 3.7 On a simple pro-rata basis – that is by multiplying the year to date position by four – a projected out-turn for the health services would be c. £2.1m plus the projected position break-even for the adult social care services as above. This would suggest, at this time, a forecast overspend for the IJB of c. £2.1m.
- 3.8 Within the health element of the core budgets, the pressures sit within the Mental Health services and GMS (The directly managed practice at Eskbridge). In addition the efficiency plans required to underpin the projected prescribing position are not being delivered to the original timescales.

Recovery actions required

- 3.9 There are a range of recovery actions underway and being developed:-
- A review of 'night-time support' services within adult social care
 - A review of transport services for adult social care
 - Review of the pressures within the Mental Health Services
 - Reduction in costs in the Hopetoun Unit
 - Further delivery of prescribing efficiencies along with benefits arising for the partnership's share of the Lothian investment
 - Further controls over the costs within the Eskbridge Practice
 - A review of sickness/absence
 - Income maximisation review
 - Recovery and efficiency plans for those services not directly managed by the Partnership (Hosted and Set Aside services) are managed by other teams within NHS Lothian. There is an element of pressure within set aside services and NHS Lothian has been asked for a further breakdown of these pressures and for plans to recover the position.

Longer Term Developments

Revision of the Health Budget Setting Model

- 3.10 As part of the financial assurance process in both 2016/17 and 2017/18, NHS Lothian's health budget setting model has been considered. In summary the model is based on the simple proposition that each (health) functions that had been delegated to the IJB could be expressed in terms of the services that support the delivery of that function. Simplistically each of these services holds budgets (and expenditure is coded to) at a cost-centre level and therefore each

costcentre in the Lothian system can be considered to be either delegated (to an IJB) or not-delegated. For each delegated costcentre the model proposes how much of that costcentre is delegated to each IJB. Therefore services that support only East Lothian are delegated 100% to the IJB and those that support all of Lothian are delegated on the basis of a 'fair share'. This model, however, only considers direct clinical service costcentres and does not examine those services that support the clinical services, nor the facilities services nor the corporate services.

- 3.11 There are, perhaps four main areas of this model that now require to be resolved and work is now underway to produce a position that can be considered by NHS Lothian and then presented to the IJBs. These four areas are :-
- Are the costcentres appropriately delegated – do they completely represent the delegated functions?
 - Do all the resources for delivering the delegated functions sit wholly in the delegated costcentres – that is, are there resources used to support delegated functions in (apparently) non-delegated costcentres
 - What is the 'fair share' of a service and how should it be applied? This is a key issue and is discussed further below
 - How should those services which support clinical services be treated – currently the model treats them as non-delegated?
- 3.12 As part of its budget setting model, NHS Lothian proposed a principle of 'fair shares'. That is that each IJB has a fair share of the totality of the Lothian resources and does not just take a share of any individual service resource based on that IJB's historic usage. The IJB has accepted this principle but now needs to understand that this means in practice. An exercise is underway that will both update the current share model (PCNRAC) and then compare the actual expenditure incurred against the fair share. Clearly if the IJB has a significant deviation between its actual use of delegated resources and the fair share budget then this needs to be fully understood.
- 3.13 This work is currently underway. It should be noted that this work may not only change the IJB's budget, it will also change the charges against that budget made by NHS Lothian.
- 3.14 As was mentioned above, the IJB may also wish to consider the adult social care budget setting model it has agreed with East Lothian Council. In summary this takes the Adult Wellbeing budgets, removes the supporting people services and adds in elements of the HRA and the private sector housing grant. This model reflects an interpretation of the IJB's Integration Scheme and early advice suggest that its within the IJB's gift to review. There should not impact on the IJB's financial position and it would be simpler in management and reporting to simply map the adult wellbeing budget directly onto the resources to be delegated to the IJB. This should also not impact on the IJB's ability to

deliver its Strategic Plan. The IJB is asked to consider if such a review of this particular element of the budget setting model may take place.

Budget Setting for 2018/19

- 3.15 As part of previous reports, the IJB has been considering the development of its financial strategy. It is clear that the partners remained the drivers behind the 2015/16 budget setting process – that is that East Lothian Council and NHS Lothian undertook their own financial planning process and then presented the IJB element to the IJB. However, in 17/18, this process was more tripartite, that is the IJB was a partner in the financial planning process.
- 3.16 The IJB now needs to explain to its partners (ELC and NHSiL) its vision for the financial planning (and budget setting) for 18/19 and beyond.
- 3.17 In principle the mechanism for the IJB's budget setting should be:-
 - The partners indicate the resources which they will make available to the IJB
 - The IJB then considers if these resources reflect a fair share of the resources available to the partners in respect of the delegated functions
 - The IJB then takes the totality of that resource and uses it to deliver its Strategic Plan. This means that the IJB, through its directions, actions its financial plan which will, of course, have already been approved by the IJB as reflecting its strategic plan.
- 3.18 In practice this movement from the current mechanism to a wholly IJB driven model will take some time and the IJB will have to be wholly clear as to its prioritisation of the increasing scarce financial resources.
- 3.19 Of course, it has always been clear that the key role of the IJB is to drive a fundamental transformation of services which will reduce the cost base and increase capacity.
- 3.20 The challenge therefore for the 2018/19 budget setting process is to ensure that recovery actions are being delivered on a recurrent basis whilst transforming the current service delivery. Part of that transformation will be the IJB's role in the governance around any potential new investments by the Partners. For example NHS Lothian is re-providing Mental Health and Learning Disability services at a new Royal Edinburgh Hospital. Its clear that the IJB must decide if it is prepared to invest any further resources in this reprovision or to use this opportunity to transform the delivery of these services by further reducing its use of in-patient beds in that facility.
- 3.21 The IJB needs to make a clear statement to its partners on the deployment of resources in 18/19 and beyond and not simply respond to the management of financial gaps in the future plans – although it is accepted that the solution to some of these financial gaps is redesign of the services.

Further development of a multi-year financial plan

- 3.22 As has been discussed several times at IJB meetings, a multi year financial plan is required that shows how the IJB's Strategy will be delivered. It is clear that the IJB will simply not have anything like the resources required to deliver the delegated functions using the current model and the transformations required are, as was discussed above, laid out in the October 2016 paper.
- 3.23 A financial plan is required to be drawn up which, simplistically, having identified the totality of the resources available then prioritises the use of these resources by service. This will start at the current budget for that service (which is why a full review of the budget setting model is now critical) and indicate those areas where the IJB will not reduce the resources to be used and also indicate these services in which the IJB will dis-invest. It is obvious that, in many cases, the partners simply cannot switch service provision off, even if these services were no longer part of the care pathway so a model is required that will provide sufficient time to the partners to allow them to undertake the appropriate actions to reduce the costs in line with the financial plan.
- 3.24 The proposal is to draw up a 'straw man' plan, which would start with an agreed opening budget by service and then show over the period of five years how the IJB would use these resources. Therefore each line would reduce or increase given how the IJB prioritised this service. This work would also include an examination of the capacity that the service can deliver and, if additional resources were not to be made available but demand would increase how the unit cost of that capacity would change

4 POLICY IMPLICATIONS

- 4.1 This paper is covered within the policies already agreed by the IJB.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper have yet to be assessed. Such issues will be the cornerstone of longer term planning to be undertaken beyond 2017/18, in partnership with the partners

6 RESOURCE IMPLICATIONS

- 6.1 Financial – discussed above.

6.2 Personnel – any implication for personal will be examined as the financial plan is developed.

7 BACKGROUND PAPERS

7.1 Previous reports to the IJB

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