



REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 24 May 2018

BY: Chief Finance Officer

SUBJECT: Financial Out-turn 2017/18 and Review of 2018/19
Budget Setting

1 PURPOSE

- 1.1 This report provides the financial out-turn position for 2017/18 and provides a further review of the 2018/19 budget setting process.

2 RECOMMENDATIONS

- 2.1 The IJB is asked to:
- i. Agree to the movement of the IJB's underspend in its health arm into its social care arm.
 - ii. Accept the charges made against the IJB's budget by the Partners (subject to the partners audited positions)
 - iii. Note the IJB's 2017/18 DRAFT financial out-turn position.
 - iv. Note the formal East Lothian Council budget proposition for 2018/19
 - v. Accept the NHS Lothian 2018/19 budget proposition on the basis that plans to balance the Set Aside position are presented to the IJB

3 BACKGROUND

Summary – 2017/18 out-turn

- 3.1 The IJB's operational partners have now provided the IJB with draft financial information to strike an out-turn position for the IJB for 2017/18. For the financial year ending 31st March 2018, the IJB has broken even. That said, a significant element of non-recurrent support has been provided by the Partners, especially East Lothian Council, to allow the IJB to break-even. There remains, as has been reported previously, an underlying financial pressure within the IJB's social care budgets.

- 3.2 The table below summarises the actions which will allow the IJB to achieve a break-even position, with the positions expressed as variances (the difference between the budgets and the actuals) with a negative value showing an unfavourable variance (that is an overspend) :-

	Health £000's	Social Care £000's
Initial position	250	(1,101)
Move underspend	(250)	250
Add'n Support from Partners	75	796
Move support	(75)	75
Year end position	0	0

- 3.3 As highlighted above, the initial financial position for 2017/18 (before any adjustments) was an underspend within the health arm of the budget and an overspend within the social care arm of the budget. A further analysis of both these positions is discussed below. The IJB's integration scheme allows the movement of underspends from one arm of the budget to offset overspends within the other arm if the appropriate partner (that is the partner who is reporting the underspend) agree that the underspend is 'planned' and not fortuitous. NHS Lothian accept that the position, although not directly planned by the IJB, is a result of management actions undertaken by the partnership and are prepared to make these funds available to the IJB. The IJB has directed NHS Lothian to make these funds available to the Council to support the social care position.
- 3.4 The adjustment above does not, clearly, allow the IJB to breakeven and both partners have made further funds available to the IJB, as laid out above.
- 3.5 At its meetings in July 2017, August 2017, October 2017, December 2017 and March 2018 the IJB received an update on the in-year (2017/18) financial position. The early papers (July and August) reported issues within the health budget but noted that the social care budget was expected to break-even. However as the year progressed the health position improved but financial pressures in social care were reported along with an indication that the IJB may therefore not break even. The October and December papers laid out the actions described in the Integration Scheme in the event of an overspend forecast and reported the actions taken by the Chief Officer and the Chief Finance officer to address these.
- 3.6 The March 2018 paper, considering the financial informational available at that time estimated an overspend for the IJB of c. £1.0m, the social care position being an overspend of c. £850,000 along with a health overspend of c. £84,000. That said, the IJB social care position was based on the Adult Wellbeing position which is not necessarily the same as the IJB position. The difference between the AWB position

and the IJB's Social Care position is illustrated clearly in the budget proposition letter from East Lothian Council.

- 3.7 As can be seen from the high level out-turn position above, the health position has improved whilst the social care position is roughly at the position of the March paper.
- 3.8 The key movement between the position laid out at March and the out-turn is the improvement in the Health position of c. £334,000. There are three broad elements to this improvement:-
- Improvement in the GP prescribing position – the partnership had agreed to support a prescribing forecast overspend position of c. £0.5m. As the financial year progressed this forecast position improved and, other things being equal, the partnership (part of the IJB's core budgets) was underspent. This improvement was especially significant in the last two months of the financial year with the final prescribing out-turn being an overspend of c. £151,000.
 - Slippage in the core position – the partnership continues to manage a range of new development and project work for the IJB. In year some of the original plans have slipped – that is the expenditure in 2017/18 is less than the planned position. Although an element of slippage was built into the year-end projections, this has proven to be greater than forecast.
 - Improvement in the Set Aside position – the Set Aside budgets are managed by the site management teams at the RIE, WGH and St. Johns. The actual out-turn position has improved from the forecasted position
- 3.9 The main drivers in the social care position are driven by a significant overspend in those services supporting Older People especially in care homes and care at home and in services for adults with Learning and Physical disabilities. Along with these operational pressures the achievement of the efficiencies built into the opening budgets has proven to be a challenge and a small part of the overspend is driven by unachieved efficiencies.
- 3.10 Appendix 1 lays out the final budgets, along with the actual charges against these budgets. However, it must be remembered that these are the final value after adjustments – that is the adjustments laid out above have been actioned. Thus, this report shows both arms of the IJB breaking even.
- 3.11 It should be noted that the financial information in appendix 1 includes 'Non cash limited' budgets and expenditure. In the Health system, expenditure to support the delivery of community dentistry, community opticians and community pharmacists is termed as 'non cash limited' but is clearly part of the delivery of primary care services and these functions are delegated to the IJB. However, being NCL there is no budget as such but any expenditure incurred is supported in its entirety by the Scottish Government. The NCL values are not part of the budget

setting process, there being no budget, but NHS Lothian has matched the NCL expenditure with income to cover this expenditure.

Non-recurrent support

- 3.12 As is discussed above, there is a significant element of non recurrent support in the overall position. Given that the improvements in the health position are largely underpinned by in-year slippage the underspend is certainly a one-off position and, as is discussed further below, there are a range of financial pressures in the health element of the budget projected in 2018/19.
- 3.13 Within social care, there is clearly c. £950,000 of non-recurrent support and work continues to clarify how much of this position is driven by operational pressures and how much is a result of slippage in the delivery of the efficiency programmes from previous years.

2018/19 Budget Setting

- 3.14 At its February 2018 meeting the IJB considered the budgetary offers from its partners for 2018/19 and beyond. This was based on:-
- For social care budget a position from East Lothian Council based on its Adult Wellbeing Budget, an IJB Position not being available at that time. A letter was received from ELC on 27th March 2018 (attached) laying out a proposed budget for the IJB starting with the AWB budget. This is clearly in line with the position agreed by the IJB in February.
 - For its health budgets, the IJB accepted a proposition based on the NHS Lothian financial plan data that was presented to the NHSiL Finance and Resources Committee at its January meeting. Since that date there has been a further iteration of the NHSiL financial plan and NHSiL sent the IJB a formal budget proposition in April 2018. This letter is also attached.
- 3.15. The letter from NHS Lothian lays out in some detail the basis of the 2018/19 position. In summary this describes:-
- An overall (for the whole of Lothian) projected financial gap of c. £21m – that is the current NHSiL financial plan for 2018/19 does not balance.
 - Pay awards are to be fully funded.
 - The GP prescribing budgets have been reset at the projected closing position for 2017/18.
 - Additional NHSiL Investments of £2.0m (£240,000 for the IJB) have been made to support capacity in Primary Care that is in additional to investment of £2.0m made in 2017/18.
 - A further non-recurrent investment of £2.0m (£240,000 for the IJB) to support developments in GP prescribing both locally with East Lothian and Lothian wide as appropriate

- 3.16 The Scottish Government's settlement for 2018/19 included further investments in Primary Care to support the delivery of the new GMS contract, along with investments in Mental Health and Substance Misuse. These investments have not, as yet, been made available to the Health Boards who will then pass on the appropriate elements to the IJBs. The letter also notes that these investments are not in the current budget, but that the funds will be made available when they are available to NHSIL.
- 3.17 Appendix 2 compares the position that was reported to the IJB in February 2018 with this letter. There are two main differences:-
- Set Aside – this is less than that value discussed previously. There are two reasons for this – the budgetary movements from the closure of Liberton Hospital are now complete and the appropriate budgets have been transferred to the IJB (now in core). There has also been a further revision to the current IJB health budget setting model which has moved budgets from Set Aside into non-delegated. It is important to remember that the health budget setting model is being revised. This adjustment does not prejudice the IJB's position and in fact the projected pressures in Set Aside are reduced from the previous position.
 - The core budget has increased and that element of it which was non-recurrent previously has now been made recurrent. That said, the projected pressures have increased from the previous analysis but that is a reflection of further work on the local operational financial plans for the East Lothian HSCP.
- 3.18 The IJB applies two tests to any budgetary proposition – that of fairness (a fair share of the resources available to the partner) and adequacy (which is measured on the ability of the partner to manage the projected financial pressure as laid out in their own financial plans). Given that the current health IJB budget setting model will continue to be used until the new model can be brought into operation then the position in the letter complies with these two tests as described in the February IJB paper. A restatement of the financial pressures along with a comparison of the position laid out in February 2018 is included in appendix 2.
- 3.19 Both partners have made multi-year financial propositions available and this information will be used to update the IJB's financial plan. A further report on the development and the current shape of the IJB's financial plan will be brought to a further meeting.

4 ENGAGEMENT

- 4.1 The IJB's meetings are held in public and its papers are available on line.

5 POLICY IMPLICATIONS

5.1 There are no further policy implications arising from this paper.

6 INTEGRATED IMPACT ASSESSMENT

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

7 RESOURCE IMPLICATIONS

7.1 Financial – none.

7.2 Personnel – none.

7.3 Other – none.

8 BACKGROUND PAPERS

8.1 Reports to the IJB as discussed above.

Appendices

- 1. 2017/18 year end summary**
- 2. Comparison between current budgetary proposition and that agreed at the February meeting of the IJB**
- 3. Letter from East Lothian Council making a formal budgetary proposals to the IJB for 2018/19 – March 2018.**
- 4. Letter from NHS Lothian making a formal budgetary proposals to the IJB for 2018/19 – April 2018.**

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DATE	17 May 2018

East Lothian Integration Joint Board

DRAFT Financial Out-turn 2017/18

	Final Budget £000's	Actual Costs £000's	Variance £000's
Health Services			
Core	68,394	68,060	334
Hosted	14,753	14,592	161
Set Aside Non Cash Limited	21,141	21,636	(495)
Social Care Services	10,447	10,447	0
Social Care Services	44,492	44,492	0
Total	159,227	159,227	0

Notes :-

1. The charges made by East Lothian Council to the IJB are the net direct costs incurred in the delivery of social care services in East Lothian. The charges from NHS Lothian are based on the health budget setting model as agreed by the IJB. That is, charges for the Core services are based on the net direct actual costs incurred in East Lothian but charges for hosted and set aside services are based on the total actual costs for these services shared across the IJBs per the budget setting model. East Lothian's share of the total actual costs incurred in 2016/17 for hosted services is 12% and, generally, 12% of the Lothian element of the set aside budgets.
2. The position above reflects the partners' financial statements. It should be noted (paragraph 3.2 above) that both partners have made additional resources available to the IJB to allow it to break-even in 2017/18

NHS Lothian Budget proposition 2018/19

1. Movements between indicative position in February 2018 IJB paper and final 2018/19 budget proposition.

	February Paper £000's	April Offer £000's	Movement £000's
Core	67,189	68,344	1,155
Hosted	12,253	12,091	(162)
Set Aside	21,232	19,457	(1,775)
	100,674	99,892	(782)

The February indicative position included c. £1.8m of non-recurrent funds. These have now largely, per the offer letter, been made recurrent.

2. Financial Pressures - movement between February paper and current NHSiL offer

	February Pressure £m	Revised Position
Adult Social Care	-0.85	-1.10
Health - Core	-0.46	-0.61
Health - Hosted	-0.14	-0.51
Health - Set Aside	-0.90	-0.67
	-2.35	-2.89

Note – the February report noted that there was an underlying financial pressure in social care and estimated this at c. £500,000. Per the discussion above this has now been revised to reflect a position of c. £940,000.

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27 March 2018

Peter Murray
Chair, East Lothian Integration Joint Board
c/o petermurray1@nhs.net

Dear Peter,

**FINANCIAL RESOURCE PROPOSAL FROM EAST LOTHIAN COUNCIL TO
EAST LOTHIAN INTEGRATION JOINT BOARD – 2018/2019 - 2020/2021**

In accordance with the Scheme of Integration agreed between East Lothian Council and NHS Lothian, this letter sets out the formal proposal from East Lothian Council to the Integrated Joint Board (IJB) detailing the level of financial resource which will be provided by the Council in 2018/2019 to the IJB in relation to delegated functions.

This proposal has been derived from the 2018-2021 Budgets approved by Council on 13 February 2018, and includes East Lothian's share of the National Social Care Fund, which is £6.24m. The offer also sets out indicative budgets for 2019/2020 and 2020/2021, and these will be updated annually in line with the Council's approved budget framework.

The funds to be allocated to the IJB are in line with the delegated functions set out within the Scheme of Integration. Summary details are shown within the table below, and include a number of adjustments to reflect budgets relating to delegated functions from within the Housing Revenue Account (HRA) and General Services Non Housing budget, and removal of non-delegated expenditure from within the wider Adult Wellbeing Service. You should be aware that discussions are still ongoing to finalise the actual budgets for these adjusted areas and, therefore, the figures set out below have been based on indicative budgets for 2018/2019. It is, however, unlikely that there will be any material change to these budgets during 2018/2019 and I will ensure that the Chief Officer and Chief Finance Officer are presented with the finalised position as soon as possible.

You should also be reminded that, given some of these delegated budgets are from resources contained within the HRA, any direction around the use of these budgets must also be considered alongside the prevailing HRA guidance which sets out the parameters around the use of the HRA resources.

	£m
Adult Wellbeing 2018/19 approved Budget	51.233
Less Non delegated Functions	(0.770)*
Add	
Non HRA – Private Sector Housing Grant	0.256*
HRA – Disabled Adaptions (Capital)	0.600*
HRA – Garden Aid	0.238*
Total IJB budget allocation	51.557

* indicative budgets

I confirm that these budgets represent the resources available to the Council to support the functions that have been delegated by the Council to the IJB.

You will be aware that this budget has been presented on a NET basis and, as such, assumes that identified efficiency plans will be delivered on a recurring basis.

As you will be aware, the Council has approved a three-year budget covering the period up to 2020/2021, and indicative budgets have been provided for 2019/2020 and 2020/2021 to assist with forward planning, albeit recognising budgets are updated each year to reflect Scottish Government grant settlements and wider contractual commitments. Details of the indicative 2019/2020 and 2020/2021 budgets are set out in **Appendix 1** of this letter.

The Council will make appropriate effort to ensure that the operation of the delegated functions will be delivered within the available budgetary resources. In the event that financial monitoring reports indicate that an overspend is forecast, and immediate recovery plans prove unsuccessful, the responsibilities set out within the Scheme of Integration must be adopted to ensure an agreed and timely process is applied to consider the implications for the financial year and any recurring issues going forward.

I look forward to receiving early confirmation from you around the level of budgets which will then be devolved to the Council, including the related directions that will apply during 2018/2019.

Yours sincerely



Jim Lamond
Head of Council Resources (CFO)

cc: David Small, Chief Officer, East Lothian Integration Joint Board
David King, Chief Finance Officer, East Lothian Integration Joint Board
Sarah Fortune, Service Manager, Business Finance, ELC

East Lothian Council

Appendix 1

<u>Indicative Budgets to IJB 2019/20 and 2020/21</u>	<u>2019/20</u>	<u>2020/21</u>
	<u>£'M</u>	<u>£'M</u>
Adult Wellbeing Budget	50.444	49.991
<u>Less: Non Delegated Functions</u>	-0.770	-0.770
<u>Add:</u>		
Non HRA - Private Sector Housing Grant	0.256	0.256
HRA - Disabled Adaptations (Capital)	0.600	0.600
HRA - Garden Aid	0.238	0.238
TOTAL	<u>50.768</u>	<u>50.315</u>

To Chair and Chief Officer of IJB

Date 26 April 2018

Your Ref

Our Ref SG/AMcC/AWW

Enquiries to Susan Goldsmith

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Dear Colleagues

Budget Agreement 2018/19 – East Lothian Integration Joint Board

The NHS Lothian 2018/19 Financial Plan was approved by the Board of NHS Lothian on April 4th. The Plan presents a projected financial gap of circa £21m and provides limited assurance on the achievement of a balanced outturn next year.

The Plan includes details on the planned receipt and allocation of resources for 2018/19. NHS Lothian is assuming the following additional funding streams (equating to a total uplift against the baseline allocation of 3.08%):

- £20.3m of uplift (1.5% on the baseline);
- £8.7m of an NRAC parity adjustment (bringing NHS Lothian to within 0.8% of parity, in line with all other underfunded Boards).
- £12.7m of Scottish Government funding to meet the additional cost of the enhanced pay awards for staff on Agenda for Change pay scales.

In distributing additional resources, a number of principles are recognised:

- The importance of maintaining integrity of pay budgets through an equitable application of budget uplift to meet pay awards;
- A need to use recurrent resources against recurrent costs as far as possible, particularly in relation to the baseline recurrent gap;
- A recognition that there will be certain national costs which are inevitable;
- Under the arrangements for financial planning there is an expectation that all Business Units will plan to deliver financial balance against their budgets and therefore there needs to be recognition of the relative efficiency challenge across operational units;
- A reasonable balance of risk for NHS Lothian in the context of its breakeven target.

Recognising these key principles, additional recurrent uplift has been prioritised against the following key areas:

- £24.7m to fully fund pay awards, including Agenda for Change;
- £8.6m to provide a recurrent funding solution to the uplift to prescribing for 2017/18, previously funded through non recurring sources;
- £5.4m to fund the additional costs in the new RHSC Hospital.

GP Prescribing has been a key financial challenge for both the IJB and NHS Lothian in recent years, and I am committed to ensuring the recent improvement in the Prescribing financial position can be sustained. To this end the following adjustments will be made to support Prescribing, in addition to the allocation of the £8.6m recurrent solution identified above:

- An estimated £2.5m of additional funding from non-recurrent sources will be allocated across IJBs to ensure that the total prescribing budget available in 2018/19 will be consistent with the prescribing outturn spend for each IJB in 2017/18. This principle is the same as 2017/18 arrangements;
- A further £2m of non recurrent support has been allocated to support delivery of Lothian-wide Prescribing efficiency initiatives, with £1.3m being allocated on an NRAC basis across the four IJBs, and the balance of £0.7m utilised against specific initiatives and infrastructure support (pending final agreement on its allocation and therefore not forming part of the budget allocation at this stage).

The IJB's share of the £2m Primary Care Investment monies (the second tranche) is also included in IJB budgets for the coming year. The revised baseline budget does not currently include additional expected allocations from the Scottish Government (eg Alcohol & Drug Funding). These balances will be allocated across IJBs once confirmation is received from the Scottish Government.

Table 1 below summarises the impact of these additions on your IJB. Note that the percentage uplift values against your baseline have been included. At this stage GMS has been excluded from this calculation on the basis it will receive additional uplift during the year. In addition, non-cash limited expenditure and budget is also excluded.

Table 1 – Budget adjustments for East Lothian IJB, 2018/19

	Recurrency of Budget	Status	Allocation	East Lothian IJB £'000	% uplift on base net of GMS
<u>Baseline Budget 18/19</u>	R	Delegated	Core	51,988	
			Corporate	254	
			Hosted	11,604	
	R	Set Aside		18,937	
	NR	Set Aside		(51)	
				82,732	
Total	R	GMS		13,550	
				96,281	
<u>Additional Budget 18/19</u>					
Pay Uplift	R			1,166	1.41%
Investment in Prescribing	R	Recurrency of 16/17		1,880	2.27%
	NR	2017/18 Outturn		10	0.01%
	NR	Efficiency initiative funding		158	0.19%
PC Investment share of £2m	R			240	0.29%
Other				157	0.19%
				3,611	4.36%
Total Budget				99,892	

The baseline budget includes the 16/17 and 17/18 Social Care Fund; Drugs and Alcohol Partnership Funding; and adjustments during 17/18 in relation to Liberton Hospital.

East Lothian IJB 2018/19 – 2022/23 Budget

At this stage the Scottish Government has confirmed arrangements to allow for a one-year Plan only. However, assumptions have been made in order to forecast forward into future years and the implications of assumed additional funding streams and their agreed application for East Lothian IJB are shown below. The element of projected uplift is based on the assumption that future years' uplift will cover the cost of pay awards, with the value of pay award consistent with that for

2018/19: this remains subject to confirmation. At this stage, no further assumptions have been made around other uplift values. Table 2 shows the budget values to 2022/23.

Table 2 – East Lothian estimated budget baselines to 2022/23.

		19/20	20/21	21/22	22/23
		£'000	£'000	£'000	£'000
Baseline Budget	R	99,618	100,736	101,967	103,231
Additional Budget	R	1,198	1,231	1,264	1,299
Additional Budget	NR	16	0	0	0
Estimated Total Budget:		100,832	101,967	103,231	104,531

A more detailed breakdown of these constituent balances is presented in **Appendix 1**.

In addition, there are a number of additional funds which have been included in the Financial Plan for set aside functions, but which have not been included in the future years IJB allocations above as we do not yet have confirmation on how these resources will be allocated across each IJB (eg funding for new medicines). Once agreed, these allocations will further increase the total resources delegated to the IJB.

Finally, I can confirm that support services to the IJB, including Finance, will be provided on the same basis as previously. These resources are not included in the budgets set out above.

You will be aware that we have been working with CFOs to develop a revised cost and budget allocation model. This requires further work and agreement with both NHS Lothian and each of the IJBs, but I look forward to working with you on this important programme as we continue to collectively identify and action opportunities to develop health service delivery within available resources across your IJB.

Yours sincerely



Susan Goldsmith
Director of Finance
 cc Chief Finance Officer
 Enc

APPENDIX 1

IJB Budgets - 2018/19 to 2022/23				18/19	19/20	20/21	21/22	22/23
	Recurrency of Budget	Status	Allocation	East Lothian IJB £'000	East Lothian IJB £'000	East Lothian IJB £'000	East Lothian IJB £'000	East Lothian IJB £'000
Baseline Budget	R	Delegated	Core	65,538	68,177	68,711	69,260	69,825
			Corporate	254	258	262	266	271
			Hosted	11,604	11,833	11,989	12,231	12,479
	R	Set Aside		18,937	19,350	19,774	20,210	20,657
	NR	Set Aside		(51)	0	0	0	0
Total				96,281	99,618	100,736	101,967	103,231
The baseline budget includes the 16/17 and 17/18 Social Care Fund; Drugs and Alcohol Partnership Funding; and adjustments during 17/18 in relation to Liberton Hospital								
Additional Budget								
Pay Uplift	R			1,166	1,198	1,231	1,264	1,299
Investment in Prescribing	R			1,880	0	0	0	0
Investment in Prescribing	NR			168	0	0	0	0
PC Investment share of £2m	R			240	0	0	0	0
Other	NR			157	16	0	0	0
				3,611	1,214	1,231	1,264	1,299
Total Budget				99,892	100,832	101,967	103,231	104,531