

NHS Lothian

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.

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List of Appendices

Appendix 1: IJB overspend resolution escalation flowchart

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