

# Midlothian Integration Joint Board



Thursday 24 August 2017 at 2.00pm

## Financial Update 2017/18 and 2018/19

Item number: 5.1

### Executive summary

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*The IJB is required to break-even in 2017/18. Financial information from the partners for the first three months of the current financial year is now available and the position for the IJB suggest that the IJB is likely be overspent by c £2.3m unless recovery plans are put in place. Recovery plans are being implemented by the partners.*

*In the longer term the IJB needs to:-*

- *Review the financial model that is used to set its budgets to ensure that the system that generates the IJB's budget doesn't in any way disadvantage the IJB. Considers the budget setting mechanism for 2018/19 and reflect on the issues that the IJB must now address for next year.*
- *Prepare a multi-year financial plan that will support the delivery of the IJB's Strategic Plan and support the partners in transforming the services they provide to the IJB.*

### **Board members are asked to:**

1. *Note the IJB's financial position at the end of the first quarter of 2017/18.*
  2. *Note the proposition to review the health budget setting model for the IJB.*
  3. *Note the proposals for a budget setting mechanism for 2018/19.*
  4. *Note the update on the provision of a multi-year financial plan.*
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## Financial Update 2016/17 and 2017/18

### 1. Purpose

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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
- Proposals to develop a multi-year financial plan to support the IJB's Strategic Plan.

### 2. Recommendations

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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
- 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 and main report

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#### **Year to date financial position for the IJB**

- 3.1 At the 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 the 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 £4.8m of which plans had been developed to deliver c. £2.8m leaving a position wherein plans had to be developed to deliver c. £2.0m. Of this value c. £0.5m was within the set aside budgets and £1.5 within the social care budgets.
- 3.3 At the 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 neither NHS Lothian nor Midlothian 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 Midlothian Council are currently undertaking a quarter one review and the output from this exercise will not be available until September. That said, indicative information is available and that 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 produce 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	58,301	13,578	13,695	(117)
Hosted	12,448	2,861	2,837	24
Set Aside	18,712	4,492	4,673	(181)
<b>Total</b>	<b>89,461</b>	<b>20,931</b>	<b>21,205</b>	<b>(274)</b>

It should be noted that the hosted and set aside positions 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 Midlothian Council do not produce regular monthly financial monitoring report but instead manage on an exception basis and by a rigorous series of quarterly financial out-turn forecasts. As was discussed above, this has not yet been completed but, at this time, it seems unlikely that the position is significantly improved from that described in the financial assurance report and that financial actions to underpin the projected pressure are not being delivered at a pace that would deliver end of year balance.. That is, for the purposes of this exercise, a projected overspend of c. £1.3m for the adult social care services that have been delegated to the IJB.
- 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. £1.1m plus the projected position for the adult social care services as above. This would suggest, at this time, a forecast overspend of c. £2.3m

### **Recovery actions required**

- 3.8 There are a range of recovery actions underway and being developed :-

The work within those IJB services managed by the Midlothian Partnerships is managed by the Realistic Care Realistic Expectations Programme Board. . The Board has identified a range of efficiency and recovery actions for both the health and social care services managed by the Partnership. Policies agreed by IJB in April 2017, which were subsequently agreed by Council and are now being implemented. A further policy is being developed on day care. (See elsewhere on the agenda).

Recovery and efficiency plans for those services not directly managed by the Partnership (Hosted and Set Aside services) are managed by other management teams within NHS Lothian. It can be seen from the analysis above that the most significant pressure lies 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**

- 3.9 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) function 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 cost-centre in the Lothian system can be considered to be either delegated (to an IJB) or not-delegated. For each delegated cost-centre the model proposes how much of that cost-centre is delegated to each IJB. Therefore services that support only Midlothian 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 or the corporate services.
- 3.10 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 cost-centres 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?
- 3.11 As part of the 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.

- 3.12 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 the NHS Lothian.

### **Budget Setting for 2018/19**

- 3.13 At the meeting In October 2016, the IJB considered a paper laying out 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 Midlothian 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.
- 3.14 In principle the mechanism for the IJB's budget setting is:-
- 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.
- 3.15 At the meeting in April 2017, the IJB considered a paper that outlined the quanta of the financial pressures between 2018/19 and 2020/21. This showed that, assuming the current delivery model constitutes that the IJB would have to identify recovery and efficiency actions of c £3.0m in each of these years. However, that forecast started from an assumed break-even position (and the discussion above suggests that this will be challenging) and further information available suggest that the pressures it described will be greater.
- 3.16 The Council is considering reducing the allocations available to the IJB by a further X%
- 3.17 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. A set of principles and outline plans behind that overall ambition were laid out in the October 2016 paper referred to above.
- 3.18 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 reprovion or to use this opportunity to transform the delivery of these services by further reducing its use of in-patient beds in that facility.

- 3.19 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**

- 3.20 As has been discussed several times, 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. 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.
- 3.21 The proposal is to draw up a 'straw man' plan, which would start with an agreed opening budget by services 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 the unit cost of that capacity. This would also meet the requirement of service transformation to be articulated in financial terms.

## **4 Policy Implications**

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- 4.1 There are no further policy implications arising from any decisions made on this report.

## **5 Equalities Implications**

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- 5.1 There are no implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper. However, as services are redesigned as discussed above equalities impacts will require to be undertaken

## **6 Resource Implications**

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- 6.1 The resources implications are laid out above

## **7 Risks**

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- 7.1 The issue of financial sustainability is already identified in the IJB's risk register

## 8 Involving People

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- 8.1 This report is based on the IJB's Strategic Plan which itself has been consulted on with both the general population and staff.

## 9 Background Papers

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- 9.1 Previous finance reports to the IJB discussed above.

<b>AUTHOR'S NAME</b>	David King
<b>DESIGNATION</b>	Chief Finance officer
<b>CONTACT INFO</b>	<a href="mailto:David.king@nhslothian.scot.nhs.uk">David.king@nhslothian.scot.nhs.uk</a>
<b>DATE</b>	August 2017

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