

Title/Subject: Financial Report
Meeting: Integration Joint Board
Date: 6 April 2018
Submitted By: Chief Finance Officer
Action: For Decision

1. INTRODUCTION

- 1.1 The purpose of this report is to provide the IJB with a provisional financial position for 2017/18, subject to year end processes. The report also presents an update on the development of a risk sharing agreement.
- 1.2 The reserves policy and strategy for the IJB should be updated on an annual basis. A revised policy and strategy document is attached for approval.

2. RECOMMENDATIONS

The IJB is invited to:

- 2.1 note the projected outturn for 2017/18 for the Partnership
- 2.2 approve the transfer of £0.100m to earmarked reserves for the Dementia Innovation Fund
- 2.3 note the risk sharing agreement agreed by both Partners
- 2.4 approve the revised reserves strategy as set out in appendix 3.
- 2.5 approve the transfer of the adult social care general fund underspend, estimated to be £0.085m, into general reserves in line with the reserves strategy

3. BACKGROUND

- 3.1 The financial reports presented to the IJB during 2017/18 have highlighted a significant financial risk on the in-scope NHS budget of the Partnership.
- 3.2 At the February meeting of the IJB, it was noted that the next stage in the budget management process would be to formally agree a cost sharing model for 2017/18. The one year agreement recognises that the Partnership is in a transitional phase with significant structural change anticipated in 2018/19 and 2019/20. Progress on the development of the cost sharing model was to be reported back to the IJB at the earliest opportunity.

4. FINANCIAL PROJECTION

- 4.1 The current projection for the Partnership is an overspend of £1.605m, an improvement on the position reported to the Board in December of £0.415m. This position assumes that the NHS Board will be able to address pressures in the Set Aside budget, as previously indicated. The forecast position is reflected in Appendix 1 and summarised in the table below:

	£m
Budgets delegated to Falkirk Council (non HRA)	(0.273)
Budgets delegated to NHS Forth Valley	1.690
Sub Total	1.417
Proposed Transfer to Earmarked Reserves	0.188
Proposed Transfer to General Reserves	0.085
Projected Overspend	1.690
Budgets Delegated to Falkirk Council (HRA)	0.086

- 4.2 As previously noted, the overspend on the HRA elements of the budget will be met from ring fenced reserves.
- 4.3 The position on the NHS arm of the budget has improved significantly, with a forecast overspend of £1.690m. This is mainly due to improved forecasts for complex care and learning disability package costs as well as the impact of the savings identified through the recovery plan. The remaining areas of overspend are due to prescribing and community hospitals.
- 4.4 Budgets delegated to Falkirk Council on the general fund side are now expected to underspend by £0.273m. £0.088m of this underspend is due to the previously agreed transfer to reserves for Services for Survivors. In addition the funds set aside for the Dementia Innovation Fund of £0.100m have not been spent in year and it is proposed to transfer this into an earmarked reserve. It is proposed that the remaining underspend of £0.085m is transferred into General Reserves. This is considered further in section 6 of this report.
- 4.5 Discharge to Assess costs for 2017/18, included in the Falkirk Council projection are £0.750m. These costs were originally to be met from Leadership Funding. As previously reported to the Board, some costs associated with Discharge to Assess have been met from an underspend in other areas of the budget. As a result, the original drawdown of £0.750m has been reduced to c£0.493m, albeit the final figure will not be known until the year end. The balance remaining as Leadership Funding will be subject to the approved decision making and governance framework. However, it should be noted that some Discharge to Assess costs will continue into 2018/19 and will be funded from the remaining Leadership Funding.

- 4.6 The net overspend of c£1.690m on the NHS arm of the budget will need to be considered as part of a risk sharing agreement.

5. RISK SHARING AGREEMENT

- 5.1 Previous reports to the IJB have highlighted the ongoing financial pressures facing the NHS arm of the budget in particular and have noted that whilst efforts to identify solutions were continuing, achieving financial balance on the NHS arm of the budget was unlikely.
- 5.2 The Integration Scheme sets out the steps to be taken in the event that the recovery plan is unsuccessful. The relevant extract from the Integration Scheme is set out in Appendix 2.
- 5.3 Where a recovery plan is unlikely to be successful, the Partnership can apply an underspend on another arm of the budget or use the general fund balance if appropriate.
- 5.4 The NHS arm of the budget is projected to overspend by £1.690m. At this stage, there is a general fund balance of £0.213m carried forward from 2016/17. The Integration Scheme would allow this sum to be applied to the overspend on the NHS arm of the budget, leaving a net overspend of c£1.477m.
- 5.5 Colleagues in Falkirk Council and NHS Forth Valley have met to discuss and agree in principle an appropriate cost sharing model for 2017/18, recognising that full integration has not yet taken place. This short term approach recognises that the Partnership is in a transitional phase with significant structural change anticipated in 2018/19 and 2019/20. The cost sharing model adopted for 2017/18 may not be appropriate once these structural changes have taken place.
- 5.6 An agreement in principle has been reached that for 2017/18, each Partner takes responsibility for their overspend if applicable. This effectively means that NHS Forth Valley have agreed to fund the projected overspend, as adjusted for the application of reserves noted above, totalling c£1.477m.
- 5.7 It should be emphasised that these figures are provisional pending various year end processes. A year end outturn position will be reported to the IJB in June. Final directions for each of the Partners will be issued following the June meeting.

6. REVIEW OF THE RESERVES STRATEGY

- 6.1 The IJB has the power to hold reserves and there are two main types of reserves which are relevant to the IJB:
- Earmarked reserves
 - General reserves

- 6.2 A reserves policy and strategy was reviewed by the IJB on 27 February 2017. At that time it was agreed to set the maximum level of general reserves at £1.5m, approximately 0.75% of the budget. However the strategy also stated that general reserves would not be available to the IJB for the foreseeable future. It is recommended that the strategy is reviewed on an annual basis.
- 6.3 CIPFA guidance sets out the three main reasons for holding a reserve in a local authority context:
1. As a working balance to help cushion the impact of uneven cashflows and avoid unnecessary temporary borrowing – this is not currently applicable to the IJB.
 2. As a contingency to cushion the impact of unexpected events or emergencies (this would be a general reserve).
 3. A means of building up funds to meet known or predicted requirements (this would be the earmarked reserves).
- 6.4 To date the majority of the reserves held by the IJB have been earmarked reserves – reserves which are held for specific agreed areas of spend, for example Partnership Funding and Primary Care Transformation. The general reserve has been relatively small in comparison (£0.213m).
- 6.5 In considering the appropriate level of reserves a number of local circumstances need to be taken into account, for example:
- Funding arrangements, i.e. Partners are facing financial pressures and it would be inappropriate for the IJB to build up significant reserves indefinitely.
 - Financials risk – the Partnership has had an overspend on the NHS arm of the budget for the last two years, met in both cases by an injection of non recurring funds.
 - Integration structures – significant changes are planned during 2018/19 and this could result in some short term risk whilst new reporting lines and lines of accountability are bedded in.
 - Capacity to identify and deliver savings options to balance the budget.
 - Capacity to deliver significant change programmes and redesign service delivery to tackle the rising demand for services.
- 6.6 With the above factors in mind, it is recommended that where possible some level of general reserve is maintained. It is difficult to set an appropriate level of reserves at this early stage. The 2017/18 overspend is c£1.5m. It would be inappropriate for the

IJB to retain general reserves at a similar level at a time when significant budget reductions are being made elsewhere, thus tying up funds unnecessarily.

- 6.7 The Reserves Strategy at appendix 3 sets out options for reserves on a percentage of budget basis. Given affordability issues, it is recommended that the target level for general reserves should be set at c£0.250m (0.125% of the 2017/18 budget).
- 6.8 In order to reach the target level, it is recommended that the projected £0.085m underspend on the Adult Social Care arm of the budget in 2017/18 be set aside, subject to the year end outturn.
- 6.9 In terms of earmarked reserves, these are often associated with timing of projects, for example with the current primary care transformation funds and projects which are funded over more than a one year period. The balance of these reserves can therefore vary significantly as projects are implemented and in some cases as new ring-fenced monies are received. As such, it would be inappropriate to put a limit on this form of reserve. However, it is essential to demonstrate sound governance and monitoring arrangements around such reserves, ensuring that plans are developed and implemented to get best value out of any available resources. Appropriate reporting and scrutiny of reserves should ensure funds are applied effectively.
- 6.11 A revised reserves strategy has been included at appendix 3 for approval.
- 6.12 A year end outturn position on reserves will be presented to the June IJB.

7. CONCLUSIONS

- 7.1 This report provides a projected outturn for the Falkirk Partnership for 2017/18. There remains a significant risk of the Partnership overspending by £1.690m on the NHS arm of the budget. A risk sharing agreement has been developed in collaboration with Partners which would see the application of £0.213m of general reserves to offset this overspend. The remainder of the overspend will be met from an injection of funding from NHS Forth Valley. The final figures will be agreed following the year end processes.
- 7.2 An appropriate reserves strategy which recognises the risks facing the Partnership and the Partners is essential. The reserves strategy has been revised and it is recommended that a general reserve target of £0.250m is set by the IJB.
- 7.3 An unanticipated underspend on the Adult Social Care arm of the budget provides an opportunity to put £0.085m into general reserves.

Resource Implications

The resource implications are considered in the body of the report.

Impact on IJB Outcomes and Priorities

The budget sets out the overall resources available to the Partnership to support delivery of the Strategic Plan.

Legal & Risk Implications

The main financial risks facing the Partnership are considered in the body of the report.

Consultation

The Chief Officer of the IJB, Chief Finance Officer of Falkirk Council and Assistant Directors of Finance of NHS Forth Valley have been consulted on this report.

Equalities Assessment

The budget may include savings proposals which involve service change. These should all be subject to an Equality Assessment.

Approved for Submission by: Patricia Cassidy, Chief Officer, Falkirk IJB

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Date: 20 March 2018

List of Background Papers: The papers that may be referred to within the report or previous papers on the same or related subjects.

FALKIRK HEALTH AND SOCIAL CARE PARTNERSHIP

PROJECTED OUTTURN STATEMENT 2017/18 AS AT 28/02/2018

	<u>Budget</u>	<u>Projected Outturn</u>	<u>(Fav)/ Adv Variance</u>	
	£m	£m	£m	%
Adult Social Work Services	70.574	70.387	(0.187)	(0.3)
Falkirk Council Spend to Save	0.325	0.082	(0.243)	-
NHS Forth Valley	137.748	139.438	1.690	1.2
Sub - Total	<u>208.647</u>	<u>209.907</u>	<u>1.260</u>	<u>0.6</u>
Use of Earmarked Reserves	-	0.619	0.619	-
NET EXPENDITURE	<u>208.647</u>	<u>210.526</u>	<u>1.879</u>	<u>-</u>
<u>Funded By :</u>				
Falkirk Council Contribution	60.464	60.464	-	-
Falkirk Council Spend to Save Contribution	0.325	0.082	(0.243)	-
NHS Forth Valley Contribution	137.748	137.748	-	-
Integration Funding (via Health Boards)	10.110	10.110	-	-
Leadership Funding	-	0.619	0.619	-
NET INCOME	<u>208.647</u>	<u>209.023</u>	<u>0.376</u>	<u>-</u>
SURPLUS/(DEFICIT)	<u>-</u>	<u>(1.503)</u>	<u>1.503</u>	<u>-</u>
Transfer from HRA Reserves		0.086		
Transfer to Reserves - Services for Survivors		(0.088)		
Transfer to Reserves - Dementia Innovation Fund		(0.100)		
Transfer to General Reserves (subject to approval)		(0.085)		
Projected Outturn		(1.690)		

8.5 In-year overspend on the Integrated Budget

8.5.1 Where there is a projected overspend against an element of the Integrated Budget, the Chief Officer, the Chief Finance Officer of the Integration Joint Board and the relevant finance officer and operational manager of the constituent Party must agree a recovery plan to balance the overspending budget.

8.5.2 If the recovery plan is unsuccessful, the Integration Joint Board may increase the payment to the affected Party, by either:

- I. utilising an under spend on another arm of the Integrated Budget to reduce the payment to that Party; and/or
- II. utilising the balance of the general fund, if available, of the Integration Joint Board in line with the reserve policy.

8.5.3 If the recovery plan is unsuccessful and there are insufficient general fund reserves to fund a year end overspend, then the Parties have the option to:

- I. make additional one-off payments to the Integration Joint Board, based on an agreed cost sharing model; or
- II. provide additional resources to the Integration Joint Board which are then recovered in future years, subject to scrutiny of the reasons for the overspend and assurance that there is a plan to address this; or
- III. access the reserves of the Integration Joint Board to help recover the overspend position.

8.5.4 The exception is for overspends that arise due to material differences between assumptions used in setting the payments to the Integration Joint Board and actual events (e.g. pay inflation). Unplanned overspends effectively represent underfunding by the Parties with respect to planned

outcomes and the cost should be met by the relevant Party, subject to the financial capacity of the relevant Party.

Falkirk Integration Joint Board Reserves Strategy

1. INTRODUCTION

- 1.1 This document outlines the Falkirk Integration Joint Board's (IJB) strategy for developing and holding financial reserves.
- 1.2 The strategy is linked to the IJB's Strategic Plan objectives and financial plan which highlights the financial risks and challenges facing the IJB and its constituent partners. As medium term financial planning is developed, the strategy will need to be revised to ensure alignment.
- 1.3 The strategy will be reviewed annually to ensure all financial changes and challenges facing the IJB and its constituent partners are taken into account in determining the appropriate level of reserves to hold for the future.

2. LEGISLATIVE/REGULATORY FRAMEWORK

- 2.1. The Public Bodies (Joint Working) (Scotland) Act 2014 establishes the framework for the integration of health and social care in Scotland. The Act empowers an IJB to hold reserves subject to an agreed reserves strategy.
- 2.2. As the IJB is considered a Local Authority body under section 106 of the Local Government (Scotland) Act 1973, all relevant legislative and regulatory principles as applied to local authorities have been deemed equally applicable to the IJB.
- 2.3. In Scotland, explicit statutory powers under Schedule 3 of the Local Government (Scotland) Act 1975 permit local authorities to establish a Capital Fund, alongside a requirement to maintain a General Fund Reserve. Within the General Fund Reserve, local authorities are allowed to earmark elements for specific intended purposes.
- 2.4. Local Authority Accounting Practice Bulletin 99 published in July 2014 provides advice from the Chartered Institute of Public Finance and Accountancy in respect of local authority reserves and balances. The principles and good practice examples contained within the Local Authority Accounting Practice bulletin have been applied in developing the proposed reserves strategy for the IJB.
- 2.5. Legislation also places a range of safeguards that help to prevent local authorities over-committing themselves financially as follows:

- The balanced budget requirement, for Scotland this is derived from Section 93 of the Local Government Finance Act 1992 and there is ongoing discussion on whether this is also a requirement for IJBs, albeit it is a prudent approach;
- The Chief Finance Officer's duty to report on robustness of estimates and adequacy of reserves when considering the annual budget requirement;
- The Chief Finance Officer's duty to make arrangements, in addition to having responsibility for the proper administration of the IJB's financial affairs; and
- In line with the "Prudential Code" published by the Chartered Institute of Public Finance and Accountancy, the Chief Finance Officer's duty to have full regard to affordability when making recommendations about future capital programs, including giving due consideration to the level of long term revenue commitments.

3. TYPES OF RESERVE

3.1. Earmarked Reserves

The purpose of an Earmarked Reserve is to set aside amounts for initiatives that extend beyond one year or as a contingency for a specific situation.

- 3.2. Once an Earmarked Reserve has been established by the IJB, it is the responsibility of the Chief Finance Officer to ensure funds are spent in line with their purpose. The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant.

3.3. General Reserves

General Reserves represent non-earmarked elements of the General Fund Reserve. The main purposes of General Reserves in the context of the IJB is to provide a contingency to cushion the impact of emerging or unforeseen events or genuine emergencies.

- 3.4. Given the pressures on public finances now and over the medium term, constituent partners do not currently have the capacity to provide extra resources to provide for General Reserves. When setting an appropriate level of reserves, the IJB must take this into account along with other local factors. Decisions on reserve levels should ultimately be linked to the medium term financial strategy.

3.5. Capital Reserves

Capital reserves represent monies set aside to meet expenditure of a capital nature, as opposed to day to day expenditure on operational activities. It is unlikely that the IJB will operate such reserves initially.

4. PRINCIPLES OF A RISK BASED APPROACH TO RESERVES

- 4.1. In order to assess the level of reserves, the Chief Finance Officer should take account of the financial and operational risks facing the IJB both in the short and medium to long term. The estimate of these risks should include (but is not limited to):
- The reasonableness of underlying budget assumptions.
 - Inflationary pressures.
 - Realisation of income targets.
 - Trends and current spending patterns.
 - Known future legislative or other regulatory changes.
 - Ability to achieve Strategic Plan objectives.
 - Estimates of likely demand for demand-led budgets.
 - A review of any major risks associated with future years' budgets, including savings delivery.
 - The availability of any revenue contingency budget.
 - Discussions and contributions from constituent partners.
- 4.2. The Chief Finance Officer should develop and implement proper arrangements to manage these risks, including adequate and effective systems of internal control. Decisions on reserves should reflect the short term, medium and long term needs of the IJB.
- 4.3. Part of the risk management process involves taking appropriate action to mitigate or remove risks where this is possible, which in turn may lead to a lower level of reserves being required. A balance will need to be found between maintaining adequate levels of reserves and investing in risk reduction measures. The use of a Risk Sharing Agreement mitigates some of the financial risks for the Partnership, meaning a lower level of reserves is more appropriate for the time being.
- 4.4. Whilst it will primarily be the responsibility of the IJB and its Chief Finance Officer to maintain a sound financial position, external auditors will regularly express their views on the adequacy of the reserves of the IJB for which they carry out the audit function. However, it will not be the responsibility of external auditors to prescribe the optimum or minimum level of reserves to be held.

5. MANAGEMENT OF RESERVES

5.1. Overview

The required levels of Earmarked and General Reserves and their purpose will be agreed as part of the annual budget setting process and reflected in the Strategic Plan agreed by the IJB. The constituent partners will be able to review the levels of reserves held by the IJB as part of this process.

- 5.2. The level of Earmarked and General Reserves to be maintained may change from year to year depending on any changes to the financial risks facing the IJB, and/or resources needed for investment to meet Strategic Plan objectives and budgetary control.

5.3. Any in-year call on General Reserves will generally only be approved to meet the cost of unexpected and unforeseen expenditure, or where an opportunity has arisen which is time limited and/or meets an objective within the Strategic Plan.

5.4. The IJB will allocate resources it receives from the constituent partners in line with the Strategic Plan. In doing this it will be able to use its power to hold Earmarked and General Reserves, so that in some years it may plan for an underspend to build up reserves, and in others to breakeven, or to use a contribution from reserves in line with the Reserve Policy and Strategy.

5.5. Use of Reserves

Decisions on the use of General Reserves should take account of the financial and operational risks that could impact on the IJB's position, and should be made in a coordinated and planned way to ensure that best use is made of these resources.

5.6. For this reason it is important that any approval to use General Reserves complies with the IJB's Reserves Strategy and a formal procedure facilitates this process. The application to use General Reserves should be submitted to the IJB for approval.

5.7. With reference to section 8 of the Falkirk Integration Scheme, the following in- year scenarios could impact on any General Reserves held by the IJB:

- **In-Year Overspend on the Operational Integrated Budget** - Where there is a projected overspend against an element of the operational budget, the IJB may decide to increase the payment to the affected body by utilising the balance of the General Reserve of the IJB (if available).
- **In-Year Underspend on the Operational Integrated Budget** - Underspends on either arm of the operational integrated budget should be returned from the relevant constituent partner to the IJB and carried forward through General Reserves (with the exception of underspends that arise due to material differences between assumptions used in setting the payments to the IJB and actual events).

5.8. Reporting Arrangements for Reserves

In terms of reporting on Earmarked and General Reserves, all budget reports to the IJB should include from the Chief Finance Officer (where applicable):

- A position statement on Earmarked Reserves. This should include a list of the various Earmarked Reserves and the purposes for which they are held. It should also show the estimated opening balances for the year, planned additions/withdrawals and the estimated closing balances.
- A statement showing the estimated opening General Reserve balance for the year ahead, the addition to/withdrawal from the reserve, and the estimated end of year balance.
- A statement on the adequacy of Earmarked and General Reserves.

6. LEVEL OF RESERVES

6.1. Earmarked Reserves

Earmarked reserves provide a means of accumulating funds for use in a later financial year to meet known or planned initiatives. As such, the level of any required Earmarked Reserve is likely to be known with reasonable certainty. Given the nature of Earmarked Reserves, it would not be appropriate to set a target or maximum level of reserves. However, the purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant.

6.2. General Reserves

There is generally no prescriptive basis for the level of General Reserves that should be held. The level of General Reserves will depend on the financial risks and challenges facing the IJB and its constituent partners, but ideally as a minimum, should be capable of covering all estimated financial risks including contingent liabilities.

6.3. However the pressures on public finances now and over the medium term are intense with the result that the constituent partners do not currently have the capacity to provide extra resources to provide for General Reserves. Therefore, the ability to build up and retain General Reserves for unforeseen events and circumstances will be continue to be difficult.

6.4. Although there is no requirement or expectation placed on the IJB to build up General Reserves, it is still appropriate to at least consider a prudent “target” level of reserves that may be achievable.

6.5. Setting a suitable target level of General Reserves provides its own difficulties. Many of the financial risks impacting on the IJB will be difficult to estimate, and the ability to benchmark other IJB reserve policies and strategies is currently not yet available. Options for reserves on a percentage of budget basis could be as follows:

	£m
2017/18 Budget	208.647
0.125%	0.261
0.25%	0.522
0.50%	1.044
0.75%	1.566
1.00%	2.088

6.6. It is recommended that a target for reserves of £0.250m be set for the IJB. This level of reserves recognises the pressures on the Partners but also the need for the IJB to be able to respond to financial pressures and risks. It also recognizes that the risk sharing agreement mechanism per the Integration Schemes provides some risk mitigation.

6.7. Any change to the target level of reserves should only be made following agreement with the Partners. Any such agreement will be reported to the IJB for approval.

6.8. Capital Reserves

It is not anticipated that the IJB will hold a Capital Reserve in the near future.

6.9. The IJB will identify the specific asset requirements to support the Strategic Plan. Where the Chief Officer of the IJB identifies as part of the Strategic Plan new capital investment requirements, a business case should be developed and submitted to all constituent partners to consider.

6.10. Options may include one or more of the constituent partners approving the project from its own capital budget or where appropriate, using the hub initiative. The existing procedures in the constituent partners should be used to consider capital bids and business cases.

7. CONCLUSIONS

7.1. Robust financial management and control requires the IJB to give consideration to the holding of General Reserves to provide protection against unforeseen and/or unavoidable costs arising.

7.2. Given the pressures however on the finances of the constituent partners currently and over the medium term, the level of General Reserves must be proportionate and prudent.

7.3. It is recommended that a target level of reserves of £0.250m is set for the IJB. This target will be subject to review as part of future annual budget setting processes and would be expected to increase as integration evolves.

7.4. Where appropriate, Earmarked Reserves will be held to plan for major expenditure or one-off significant payments.

7.5. It is currently not anticipated that the IJB will require to hold a Capital Reserve.