

# REPORT

Item No:

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<b>SUBJECT:</b>	IJB Reserves Strategy 2019/2020
<b>TO:</b>	Integration Joint Board
<b>Lead Officer for Report:</b>	Interim Chief Officer
<b>Author(s) of Report</b>	Chief Financial Officer
<b>DATE:</b>	12 June 2019

## 1. PURPOSE OF REPORT

1.1 This paper is coming to the Integration Joint Board (IJB):

For approval	<input checked="" type="checkbox"/>	For endorsement	<input type="checkbox"/>	For noting	<input type="checkbox"/>
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1.2 This report provides an update on the following:

- the North Lanarkshire Integration Joint Board (IJB) reserves; and
- the proposals for further ring-fenced, earmarked and risk-based reserves to support the IJB Financial Plan 2019/2020.

## 2. ROUTE TO THE INTEGRATION JOINT BOARD

2.1 This paper has been:

Prepared By; Chief Financial Officer	Reviewed By; Interim Chief Officer
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## 3. RECOMMENDATIONS

3.1 The IJB is asked to approve the following recommendations:

- (1) That the classification of the current reserves in line with the revised Reserves Policy is noted;
- (2) That the net movement in reserves in 2018/2019 of a reduction of £2.217m is noted;
- (3) That the draw down from the contingency reserve of £2.465m to meet the cost of the increase in the demand for social care services, as highlighted at paragraph 8.4, is approved;
- (4) That the transfer of funding of £1.077m from ring-fenced and ear-marked reserves to contingency reserves, as highlighted at paragraph 9.4, is approved;
- (5) That the requests to create ring-fenced reserves totalling £2.376m, as highlighted at paragraph 9.7 and appendix 3, are considered and approved;

### 3. RECOMMENDATIONS (CONT.)

- (6) That the requests to create ear-marked reserves totalling £2.034m, as highlighted at paragraph 9.8 and appendix 4, are considered with £1.437m being approved and £0.597m being approved in principle pending further review;
- (7) That the requests to create risk-based reserves totalling £2.392m, as highlighted at paragraph 9.10 and appendix 5, are considered and approved;
- (8) That the implications of approving the proposed reserves strategy which are highlighted at section 10 are noted;
- (9) That the relevant budget holders will be asked to confirm to the next meeting of the Performance, Finance and Audit Committee on 27 August 2019 the spending plans in respect of these ring-fenced and earmarked reserves to allow further scrutiny by the IJB mid-year; and
- (10) That the ongoing consultation with both partners to agree how in-year budget pressures will be managed is noted.

### 4. VARIATIONS TO DIRECTIONS

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input type="checkbox"/>
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Subject to the decisions of the IJB, the directions to each of the partners will be updated.

### 5. BACKGROUND/SUMMARY OF KEY ISSUES

- 5.1. The final outturn position for 2018/2019 in respect of the services delegated to the IJB has now been reported by North Lanarkshire Council (NLC) and NHS Lanarkshire (NHSL). This report provides an update on the overall position with the IJB reserves based on the final year-end positions reported by both partners.
- 5.2 The Head of Financial Solutions of NLC and the Director of Finance of NHSL have both been consulted on the proposals for the allocation of the IJB reserves and on the implications of the update to the financial planning assumptions for the IJB Financial Plan 2019/2020. An update on the ongoing consultation is highlighted at section 10.6.

### 6. CONCLUSIONS

- 6.1 The overview of the projected reserves position for 2019/2020, taking into consideration the financial planning assumptions for 2019/2020, is summarised at appendix 1.
- 6.2 The IJB is asked to consider and approve each of the proposals set out at sections 8 and 9. The recommendations reflect decisions taken by the IJB throughout the year and also the likely position for each partner in respect of commitments at the end of the first quarter of the current financial year 2019/2020.
- 6.3 The IJB is also asked to consider the implications of the proposed Reserves Strategy highlighted at section 10.

## **7. NET MOVEMENT IN RESERVES**

7.1 The projected reserves position for 2019/2020 is outlined at appendix 1. The key observations to note are as follows:

- The balance on the IJB reserves on 1 April 2018 was £18.200m. A total of £13.809m was ring-fenced, earmarked or risk-based for specific purposes during the year. The balance on the contingency reserves was therefore £4.391m.
- The transfers from reserves during 2018/2019 to meet agreed commitments totalled £4.787m.
- Reserves totalling £1.181m were transferred between contingency reserves to earmarked reserves during 2018/2019.
- Reserves totalling £0.296m were transferred between earmarked reserves to contingency reserves during 2018/2019.
- Reserves totalling £0.298m were transferred between contingency reserves to earmarked reserves during 2018/2019 to increase the palliative care earmarked reserve following IJB approval on 26 March 2019.
- The balance on the IJB reserves at 31 March 2019 is therefore £13.413m. A total of £10.205m has been ring-fenced, earmarked or risk-based for specific purposes in the forthcoming year(s). The balance on the contingency reserves was therefore £3.208m.

## **8. RESERVES PROPOSALS 2018/2019**

8.1 Following agreement with NHSL, the total underspend of £5.035m across health care services at 31 March 2019 is being transferred to the IJB reserves. For the purposes of this report, and pending the outcome of the reserves requests, the funding is initially allocated as follows:

Ring-fenced reserves	£2.376m
Ear-marked reserves	£0.000m
Risk-based reserves	£2.392m
Contingency reserves	£0.267m
Total	£5.035m

8.2 The final year-end outturn at 31 March 2019 across social care services is an overspend of £2.465m. The main factors contributing to the overspend include an increase in care home placements, home support services, the provision of equipment and adaptations in private homes and the timing of achieving planned savings during 2018/2019.

8.3 The IJB were previously advised that the Chief Financial Officer and the Head of Financial Solutions of NLC had discussed the option of NLC making an additional partner contribution in 2018/2019. Both however were agreed that the preferred option would be to draw down IJB contingency reserves and that this would be formally requested as part of the year-end process in order to achieve a balanced budget.

## 8. RESERVES PROPOSALS 2018/2019 (CONT.)

8.4 The IJB is therefore asked to approve the draw down of £2.465m from the IJB contingency reserves to meet social care pressures incurred in 2018/2019.

8.5 Subject to approval, the balance on the IJB reserves at 31 March 2019 would therefore be £15.983m. A total of £14.973m has been ring-fenced, earmarked or risk-based for specific purposes in the forthcoming year(s). The balance on the contingency reserves would therefore be £1.010m.

8.6 The IJB reserves as at 31 March 2019 are represented by debtors balances as follows:

Amount held by NHSL	£9.823m
Amount held by NLC	£6.160m
Total	£15.893m

## 9. RESERVES PROPOSALS 2019/2020

9.1 The current allocation of funding to reserves was reviewed by the Chief Financial Officer in consultation with both partners as part of the preparation of the IJB Financial Plan for 2019/2020. The purpose of each reserve and the amounts are detailed at appendix 2. The allocation of the reserves also reflects the revised IJB Reserves Policy to allocate reserves to ring-fenced, earmarked, risk-based or contingency reserves.

9.2 This initial review identified the option to transfer £1.077m from ring-fenced and earmarked reserves to the contingency reserves as follows:

<b>Ring-Fenced Reserves</b>	<b>£m</b>
Mental Health Service Redesign	(0.115)
Psychological Therapies Access Project	(0.091)
Mental Health Innovation Fund	(0.080)
Psychological Therapies Service	(0.065)
Mental Health and Learning Disability Fund	(0.046)
<b>Total Transfer from Ring-fenced Reserves To Contingency Reserves</b>	<b>(0.397)</b>

<b>Earmarked Reserves</b>	<b>£m</b>
Integrated Service Review Programme	(0.500)
Equipment and Adaptations (LOLER Testing)	(0.100)
Strategic Framework Support	(0.080)
<b>Total Transfer from Earmarked Reserves To Contingency Reserves</b>	<b>(0.680)</b>

<b>Total transfer to Contingency Reserves</b>	<b>(1.077)</b>
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## **9. RESERVES PROPOSALS 2019/2020 (CONT.)**

- 9.3 When the IJB approved the Financial Plan for 2019/2020 on 26 March 2019, there was no known commitment against each of the reserves detailed at section 9.2.
- The total ring-fenced funding referred to at section 9.2 was received in 2017/2018. Part of the original funding remained unspent at 31 March 2019.
  - Inflation uplifts have been applied to these services which are in receipt of ring-fenced funding as appropriate. These services have also been protected to some extent, as far as possible, from efficiency savings.
  - It is anticipated that the totality of the funding for the ring-fenced services over recent years would be sufficient to comply with the receipt of the original funding.
  - The reallocation of the balance of these uncommitted ring-fenced and earmarked reserves to the contingency reserves was therefore included as a financial planning assumption for 2019/2020.
- 9.4 The IJB is therefore asked to approve the transfer of the £1.077m from the ring-fenced and earmarked reserves to the contingency reserves.
- 9.5 The balance on the IJB reserves at 1 April 2019 would therefore remain at £15.983m. Subject to approval, the total allocated to the ring-fenced, earmarked and risk-based reserves for specific purposes in the forthcoming year(s) would be reduced by £1.077m to £13.896m. The balance on the contingency reserves would be increased by £1.077m to £2.087m.
- 9.6 The NHSL partner has identified funding which requires to be ring-fenced to comply with the conditions of receipt of the funding. If the funding is not used for this purpose, there is a risk it will have to be repaid to the Scottish Government. The total ring-fenced funding which has been identified is £2.376m and is detailed at appendix 3. As this ring-fenced funding is current, there is no flexibility to re-allocate this funding for any other purpose. The partner has advised that plans are also in place to spend the funding.
- 9.7 The IJB is therefore asked to approve the allocation of this funding of £2.376m to the ring-fenced reserves as detailed at appendix 3.
- 9.8 The NHSL partner has identified funding which requires to be earmarked for specific purposes. The total earmarked funding which has been identified is £2.034m and is detailed at appendix 4. Appendix 4 is analysed between section A and section B.
- 9.8.1 The earmarked reserves in section A of appendix 4 total £1.437m. The commitments in respect of these reserves have already been agreed by the IJB through previous reports to the IJB and/or the strategic commissioning intentions as directed by the IJB to the partner. As a result, the partner is incurring costs in respect of these earmarked reserves. The IJB is therefore asked to approve the allocation of this funding of £1.437m to the ear-marked reserves as detailed in section A of appendix 4.

## 9. RESERVES PROPOSALS 2019/2020 (CONT.)

- 9.8.2 The earmarked reserves in section B of appendix 4 total £0.597m. These are new requests. Recognising that it is June 2019 and the partner may have already incurred costs in respect of these service areas during the first quarter to maintain service continuity, the IJB is asked to approve the requests in principle. Notwithstanding the approval in principle, the Chief Financial Officer, in consultation with the partner, will review the reserves to confirm the anticipated outcomes of each reserve and the extent to which the reserve would require to be fully spent. This will provide an indication if there is any flexibility to reallocate part of this funding to the contingency reserves.
- 9.9 The IJB Financial Plan for 2019/2020 recognised projected cost pressures of £2.025m across social care services and health care cost pressures of £0.367m in respect of the winter planning arrangements. A recurring funding solution was not identified and reliance has had to be placed on the non-recurring use of reserves in 2019/2020.
- 9.10 In line with the IJB Financial Plan for 2019/2020, the IJB is asked to approve the allocation of £2.392m to the risk-based reserves as originally indicated at paragraph 8.1 and also detailed at appendix 5.
- 9.11 In consultation with the partners, the Chief Financial Officer has reviewed the current reserves detailed on appendix 2 which totalled £13.413m at 31 March 2019 prior to the above proposals being considered. The flexibility to reduce the reserves was identified and has been confirmed at paragraph 9.2. The Chief Financial Officer and the partners will continue to monitor the planned expenditure on reserves to take advantage of further reductions in costs, if any. The IJB is therefore asked to note that these reserve balances will continue to be available for the purposes already approved by the IJB as the circumstances which necessitated their original establishment have not changed.
- 9.12 The IJB is asked to note that the relevant budget holders will be asked to confirm to the next meeting of the Performance, Finance and Audit Committee on 27 August 2019 the spending plans in respect of all reserves to allow further scrutiny by the IJB. Budget holders will also be asked to confirm the exit strategy when the reserve is fully spent including the impact on service delivery and performance targets. This is particularly relevant if the reserve has been relied on as a non-recurring funding solution for a recurring cost pressure.
- 9.13 Subject to IJB approval, the projected reserves position for 2019/2020 would be as follows:
- |                      |          |      |
|----------------------|----------|------|
| Ring-fenced reserves | £2.421m  | 15%  |
| Ear-marked reserves  | £5.022m  | 31%  |
| Risk-based reserves  | £8.487m  | 53%  |
| Contingency reserves | £0.053m  | 0%   |
| Total                | £15.983m | 100% |
- 9.14 The timing of when each of the reserves is likely to be drawn down is indicated at appendix 6 and summarised as follows:
- |           |          |      |
|-----------|----------|------|
| 2019/2020 | £13.636m | 85%  |
| 2020/2021 | £2.254m  | 14%  |
| 2021/2022 | £0.093m  | 1%   |
| Total     | £15.983m | 100% |

## 10. FINANCIAL PLAN 2019/2020 UPDATE

10.1 The implications of approving the IJB Reserves Strategy outlined at section 9 are considered further at sections 10.2 to 10.7.

10.2 Subject to IJB approval, the total value of the risk-based reserves will be £8.487m which represents 53% of the total reserve available. This reserve effectively contributes towards costs which are demand led and/or not solely within the control of the IJB and the partners.

10.2.1 These reserves are allocated to address specific risks as follows:

Self Directed Support Strategy	£3.214m
Prescribing Fund	£2.881m
Financial Plan Contingency 2019/2020	£2.025m
Winter Plan 2019/2020	£0.367m
Total	£8.487m

10.2.2 The risk-based reserve is 1.5% of the total 2018/2019 IJB budget of £564.590m, excluding the Family Health Services budget of £94.362m and the Hosted Services budget of £21.840m led by the South Lanarkshire IJB on behalf of the North Lanarkshire IJB.

10.3 The current prescribing reserve of £2.881m cannot be increased further at this stage.

10.3.1 This reserve represents 4% of the North Lanarkshire IJB prescribing budget of £71.752m.

10.3.2 In 2018/2019, there was an underspend of £1.464m against the prescribing budget as a result of the action taken to control costs and implement efficiencies. The prescribing budget will also be uplifted by 2.5% in 2019/2020 which is approximately £1.794m.

10.3.3 It is anticipated that there should be sufficient scope to accommodate prescribing cost pressures in 2019/2020 however action will require to be taken to implement a strategy to replenish and further increase the prescribing reserve from 1 April 2020.

10.4 It is good financial management to maintain a contingency reserve. The approval of the reserves strategy for 2019/2020 outlined at section 9 will result in a reduction in the contingency reserve by £2.034m from £2.087m to £0.053m.

10.5 Both partners are currently implementing the agreed budget adjustments across health and social care services following the approval of the IJB Financial Plan 2019/2020 on 26 March 2019. Financial monitoring reports for 2019/2020 are therefore not yet available.

10.5.1 A range of costs are still uncertain at this early stage of the financial year in particular the actual cost of implementing free personal care for individuals under 65 years old and the second year of the Carer's (Scotland) Act 2016. The amount of non-recurring funding for 2019/2020 from the Scottish Government for health care services is also still to be confirmed. There is a risk this may be less than the amounts received in previous years.

## 10. FINANCIAL PLAN 2019/2020 UPDATE (CONT.)

10.5.2 It is expected that cost pressures will emerge in year. The factors contributing to this include:

- Ongoing demand for care home placements, home support services and the provision of equipment and adaptations.
- Volatility around prescribing costs in particular from October 2019 onwards depending on the impact of the EU withdrawal.
- Slippage in the implementation of 2019/2020 savings, particularly across social care services.

These anticipated cost pressures, which are currently being quantified, have not been accounted for in the IJB Financial Plan for 2019/2020.

10.5.3 The contingency reserve is not sufficient to manage further cost pressures as a result of foreseen or unforeseen circumstances.

10.5.4 In the absence of a sufficient contingency reserve, reliance requires to be placed on the Integration Scheme and the IJB Financial Regulations which set out the options for addressing overspends. The first action which needs to be exhausted is the development of a budget recovery plan for 2019/2020 which includes management actions agreed with the relevant partner(s) as appropriate. The budget recovery plan will include identification of expenditure which can be reduced or avoided and the ongoing review of reserve commitments from July 2019. The financial implications as a result of the disaggregation of Children and Justice Services will also require to be confirmed as part of this process.

10.5.5 Notwithstanding the development of a budget recovery plan for 2019/2020, the underlying cost pressures particularly across social care services require to be considered and addressed. The Interim Chief Officer and the Chief Financial Officer will progress this with the Chief Executive and Head of Financial Solutions in North Lanarkshire Council, in consultation with the Chief Executive and Director of Finance of NHS Lanarkshire.

10.5.6 The immediate requirements for 2019/2020 therefore are as follows:

- To confirm the budget recovery plan for 2019/2020 with both partners.
- To confirm the feasibility of further options to replenish the risk-based reserves and to increase the contingency reserve from 1 April 2020. Based on a financial planning assumption of 2%, this would equate to £11.292m. In the current financial climate, this would be challenging. Any plan to increase the contingency reserve will require to be prioritised alongside the immediate demands for services to meet current needs and achieve performance targets.

10.6 The IJB Reserves Strategy has been shared with the Head of Financial Solutions of NLC and the Director of Finance of NHSL who are both supportive of the requirement to reduce and/or avoid costs. It is therefore intended that a further review of all reserves to identify options to reduce expenditure will form part of the development of the budget recovery plan for 2019/2020.

**10. FINANCIAL PLAN 2019/2020 UPDATE (CONT.)**

10.7 Each partner will be asked to provide an early indication of the projected outturn for 31 March 2020 when the first financial monitoring reports for 2019/2020 are available. Each partner will also be asked to implement arrangements to identify new reserves as soon as it becomes apparent that funding will not be spent before the year-end and will need to be carried forward. This will further improve the reliability of the financial planning process and facilitate improved scrutiny of reserve proposals in advance of the following financial year.

10.8 The options to address in-year cost pressures and/or to increase the contingency reserve include the following:

- (1) The use of, or transfer to reserves of, a planned underspend
- (2) The use of, or transfer to reserves of, an unplanned underspend
- (3) The early implementation of agreed savings which could generate a non-recurring beneficial financial impact
- (4) An additional contribution from the partner(s). It is important to note that both partners are managing a range of significant cost pressures across non-IJB services.

10.9 Each partner has prepared a medium term financial plan which is currently being updated to reflect current cost pressures and the impact of the disaggregation of Children and Justice Services. The intention is to finalise the medium to long term financial plan for the IJB by the end of June 2019.

**11. IMPLICATIONS**

**11.1 NATIONAL OUTCOMES**

This relates to all nine national outcomes.

**11.2 ASSOCIATED MEASURE(S)**

The IJB and both partners are required to achieve a balanced budget for each financial year. The identification and implementation of a reserves strategy contributes to this financial strategy.

**11.3 FINANCIAL**

This paper has been reviewed by Finance:

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input type="checkbox"/>
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**11.4 PEOPLE**

None.

**11.5 INEQUALITIES**

EQIA Completed:

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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**11.6 CARBON MANAGEMENT IMPLICATIONS**

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
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**12. BACKGROUND PAPERS**

None.

**13. APPENDICES**

Projected Reserves Position 2019/2020	Appendix 1
Useable Reserves Position Statement	Appendix 2
Proposed Ring-fenced Reserves	Appendix 3
Proposed Earmarked Reserves	Appendix 4
Proposed Risk-based Reserves	Appendix 5
Projected Reserves Position 2019/2020 – Indicative Timeline	Appendix 6



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INTERIM CHIEF OFFICER (or Depute)

Members seeking further information about any aspect of this report, please contact Marie Moy on telephone number 01698 453709.

Reserve Already Approved by the IJB	Report Section	Ring-fenced £m	Earmarked £m	Risk-Based £m	Contingency £m	Total £m
<b>Total Reserves As At 1 April 2018</b>		<b>1.173</b>	<b>5.035</b>	<b>7.601</b>	<b>4.391</b>	<b>18.200</b>
Less Expenditure Incurred 2018/2019		(0.731)	(2.550)	(1.506)	0.000	<b>(4.787)</b>
Transfer from Contingency Reserves to Earmarked Reserves during 2018/2019 already approved by the IJB		0.000	1.181	0.000	(1.181)	<b>0.000</b>
Transfer from Earmarked Reserves to Contingency Reserves during 2018/2019 already approved by the IJB		0.000	(0.296)	0.000	0.296	<b>0.000</b>
Transfer from Contingency Reserves to Earmarked Reserves to increase the palliative care earmarked reserve		0.000	0.298	0.000	(0.298)	<b>0.000</b>
<b>Reserves Balance As At 31 March 2019</b>		<b>0.442</b>	<b>3.668</b>	<b>6.095</b>	<b>3.208</b>	<b>13.413</b>

IJB Approval Requested	Report Section	Ring-fenced £m	Earmarked £m	Risk-Based £m	Contingency £m	Total £m
Transfer to reserves as a result of the underspend across health care services in 2018/2019		2.376		2.392	0.267	<b>5.035</b>
Planned draw down from the contingency reserve to fund social care cost pressures in 2018/2019, subject to IJB approval					(2.465)	<b>(2.465)</b>
<b>Reserves Balance As At 31 March 2019</b>		<b>2.818</b>	<b>3.668</b>	<b>8.487</b>	<b>1.010</b>	<b>15.983</b>

IJB Approval Requested	Report Section	Ring-fenced £m	Earmarked £m	Risk-Based £m	Contingency £m	Total £m
Proposed Transfer from Ring-fenced to Contingency Reserves, as proposed in the IJB Financial Plan 2019/2020, subject to IJB approval		(0.397)			0.397	<b>0.000</b>
Transfer from Earmarked Reserves to Contingency Reserves during 2018/2019 subject to IJB approval			(0.680)		0.680	<b>0.000</b>
<b>Sub Total</b>		<b>2.421</b>	<b>2.988</b>	<b>8.487</b>	<b>2.087</b>	<b>15.983</b>
Transfer from Contingency Reserves to Earmarked Reserves during 2018/2019 subject to IJB approval		0.000	2.034		(2.034)	<b>0.000</b>
<b>Reserves Balance As At 1 April 2019</b>		<b>2.421</b>	<b>5.022</b>	<b>8.487</b>	<b>0.053</b>	<b>15.983</b>

