Meeting of Lanarkshire NHS Board
26 June 2019

Lanarkshire NHS Board
Kirklands HQ
Telephone 01698 858185
Fax 01698 858288
www.nhslanarkshire.scot.nhs.uk

LANARKSHIRE HEALTH BOARD

ANNUAL ACCOUNTS FOR YEAR TO 31 MARCH 2019

1 OVERVIEW

The Annual Accounts for the year to 31st March 2019 are presented to the Board for approval and signing. The external audit of the accounts is complete and an unqualified audit opinion has been issued for the accounts. The Audit Committee has reviewed the accounts, along with the annual reports from external and internal audit, and endorses them for signing.

The audited accounts confirm the year end position reported to the Board in May 2019. All three financial targets were met. The Board's Local Delivery Plan for 2018/19 committed all of the Board's recurring funding and planned to use all of the £0.381m brought forward surplus to breakeven. The audited annual accounts give a final carry forward of £0.288m, marginally ahead of the planned position.

In 2018/19 NHS Lanarkshire spent £1.462bn (17/18 £1.457bn) providing for the full range of health needs of its 659,200 residents and the occupants of Shotts prison. £1.375bn (17/18 £1.350bn) of the funding for this came from through Scottish Government allocations and £86.4m (17/18 £106.84m) came from other sources, primarily NHS.

The Board provides these services using property and equipment valued at £556.1m (17/18 £552.8m).

The Board employed 11,640.9 whole time equivalent staff (17/18 11,362.8) with a pay cost of £ 535.746m (2017/18 £514.2m)

2 ISSUES TO NOTE

Consolidated Accounts/ Accounting for IJBs

The IJB's became legal entities in June 2015 and started live operation on 1 April 2016. The planning, commissioning and monitoring of a wide range of services was delegated to IJBs on that date. The £777.905m budget delegated to IJBs is treated as other healthcare expenditure in Note 3 (page 61). The £ 772.393 that the IJBs directed back to the NHS to deliver services is treated as income in note 4 (page 62). The sum directed back included approximately £3m of funding provided from previous years reserves, with the year end outturn against the in year budget being a £8.780m underspend (split £5.035m North, £3.745m South)

In each the first 3 years of operation the NHS budget provided to the IJB has been in excess of the in year spend against the IJB directions, demonstrating the NHS Board's commitment to providing fair budgets. SGHSCD has also demonstrated its commitment to shifting the balance of care by ringfencing significant funding cross the 3 years year to support primary care, mental health, community nursing and social care. A significant factor in the in year surpluses has been the time lag between receiving the additional funding and having the new staff and services in place.

Year	In year surplus transferred to reserves
	£m
2016/17	11.357
2017/18	4.264
2018/19	8.780

As at 31st March 2019 the NHS ledger held £ 10.322m of reserved funding on behalf of South IJB and £9.823m on behalf of North IJB.

Under the accounting rules IJB's are viewed as joint ventures between the council and the NHS and, as membership is 50:50, any underspend in the IJBs (whether originating from health or the council budgets) is split 50:50 and consolidated back into the council/NHS accounts. As a result the SOCNE shows £0.264m (2017/18 £6.449m) in relation to the 50% share of the IJB underspends.

The endowment fund, although a separate legal entity and run separately from the Board's activities, has been consolidated with the Board's accounts since 13/14. Note 26 (page 97) show the impact of doing this. Given the scale of the NHS Board's activities, the income and expenditure impact of consolidating the endowment funds is 0.01%.The areas where it does make a perceptible difference is in available for sale financial assets where the Board has £1.186m at 31/3/19 but the endowment fund investments add a further £4.885m.

Financial performance

The Scottish Government Health and Social Care Directorates (SGHSCD) set three financial targets for the Board on an annual basis. These are to stay within the:-

- Revenue Resource Limit - a resource budget for ongoing operations;
- Capital Resource Limit - a resource budget for new capital investment;
- Cash Requirement - a financing requirement to fund the cash consequences of the ongoing operations and new capital investment.

NHS Lanarkshire delivered on all 3 of these targets as reported on page 6 of the accounts. The Board underspent its main allocation, the core Revenue Resource Limit by £0.288m (0.02%). The table below shows the separate income streams and related expenditure.

16/17 Income £000s	17/18 Income £000s	Summary Resource Outturn	18/19 Income £000s	18/19 Expenditure £000s	18/19 U/spend £000s
1,204,514	1,239,828	Core	1,272,215	1,271,927	288
63,073	35,715	Non Core	24,370	24,370	0
74,900	74,947	FHS Non Discretionary	78,784	78,784	0
1,342,487	1,350,490	Total	1,375,369	1,375,081	288
85,722	106,834	Other Income (exc IJB payment)	86,144	86,144	0
1,428,209	1,457,324	Total	1,461,513	1,461,225	288

Income movements since 2017/18

The net increase was £32.387m. The 1.5% allocation uplift of £17.032m was later supplemented by £10.606m to cover the cost of the new AFC pay deal. The Board received £3.621m to address historic underfunding and this helped reduce the brought forward underlying deficit.

The in year GMS allocation increased by £7.381m to £89.813m (8.95%) as part of the commitment to the new GMS contract. This was reinforced by an additional £1.005m of primary care improvement funding, £0.807m more for health visitors and family nurse practitioners, £2.099m more for alcohol and drug services and £1.309m for mental health. This additional funding all related to functions delegated to IJBs and was in support of the commitment to shift the balance of care.

Outside the IJBs, there was a £1.214m increase in funding for new high cost medicines. The increase in Hospital drug expenditure would have been £10.5m (14.66%) had it not been contained to £4.590m (6.41%) through successful efficiency measures such as switching to biosimilar products or obtaining rebates. The new funding, drug price efficiencies and the 1.5% allocation lift were not enough to cover the growth in high cost drugs and a further £2.301m of efficiencies had to be found from other service budgets.

A number of funding transfers partly obscure the income increase. In GP prescribing, a new tariff for reimbursing pharmacy contractors the price of drugs, would normally have resulted in savings against the budget of £2.836m. However as part of a nationally negotiation it was agreed it would be reinvested in pharmacy practices so was deducted from the RRL and transferred to the global sum in the FHS discretionary, non cash limited portion of the budget. £0.570m of carers information funding was combined with other funding and issued directly to the councils, deducting it from NHS budgets. Approximately £3.35m of funding for e health applications was managed as a central budget rather than being issued to Boards as it had been in previous years. Finally the NHS Board, having approved a number of infrastructure projects spanning more than one year, lodged £4.8m of 2018/19 revenue funding with Scottish Government to support the future year's element of these and other infrastructure needs.

The Non Core RRL covers transactions that are not immediately linked with a real cash transfer such as depreciation of assets and the creation of provisions for future liabilities. Future liabilities require to be "discounted" to reflect the economic view that a pound in the future has a different value from a pound today. There was a very significant change in the discount rate during 2016/17 which increased the level at which certain future liabilities were quantified with a £32.771m additional noncore allocation to cover this was issued by the SGHSCD in March 2017 to cover this. In 2017/18 the probability of 2 very high cost cases being settled increased, resulting in additional provision and income. In 2018/19 there were no exceptional items hence the lower value in this line.

FHS non discretionary funding is made available for payments, processed centrally under national regulations for ophthalmic, dental and pharmacy services. £2.836m of the £3.837m increase relates to the transfer of the gain from a lower drug tariff out of the revenue drug budgets and into the pharmacy global sum. The remainder relates to a 3 % increase in dental expenditure.

Expenditure

The net expenditure of £1.375bn in the table above, is spread over NHS Lanarkshire's operating divisions as set out in the table below (sourced from note 5 page 63).

	2017/18 £000s	2018/19 £000s	% Change
Acute	355,387	367,955	3.54%
Corporate	151,103	148,969	-1.41%
North Partnership	270,630	280,849	3.78%
South Partnership	369,279	385,159	4.30%
Other	203,710	192,149	-5.68%
	1,350,109	1,375,081	1.85%

A new pay deal agreed during 2018/19 had an overall impact of 3% , with further pay increases such as new holiday pay agreements, discretionary points and increments taking this to 3.6%.

The increase in the Acute Division expenditure came through the pay deal and a drug costs rise, net of savings of 4.6% (£2.272m). Other supplies costs in total were largely static. In year £0.701m had been transferred out the Acute budget and into south HSCP in respect of the closure of the Douglas ward at Udston.

In the 2017/18 the corporate departments had an exceptionally high level of expenditure on I M & T to ensure end user devices were up to date and using supported software as well as an increased expenditure on the amount spent on backlog maintenance. The absence of this spike in expenditure in 2018/19 is the main reason for the net decrease despite the underlying rise in pay costs. Corporate departments underspent their budget in year, helping the rest of the system stay in balance.

The relatively higher increase in expenditure in the partnerships reflects the new investments in primary care, mental health and other areas highlighted in the income section as well as the Udston budget transfer.

The drop in "other" is mainly attributable to a far lower technical adjustment relating to provisions for clinical negligence.

Staff Numbers and costs

Pay costs per note 3 (page 61) were £538.801 4.36% up on the 2017/18 value of £516.3m. The pay rise plus other terms and conditions movements equated to around 3.6%. The annual mean number of whole time equivalent staff increased by 278 from 11,362.8 to 11,640.9. Further analysis can be found in the remuneration and staff report on (pages 27 to 37). Despite efforts to control the use of agency staff the costs increased from £16.219m to £16.530m. During 2018/19, the arrangements for doctors in training changed with new lead employer arrangements. The recharged costs are now include in “inward secondees“ in the remuneration report rather than as direct wage costs.

Assets

NHS Lanarkshire operates using the following profile of non current assets (previously known as fixed assets)

Net Book Value of Assets	31/03/2016 £000s	31/03/2017 £000s	31/03/2018 £000s	31/03/2019 £000s
Land	26,150	21,395	21,394	17,490
Owned Buildings	229,089	225,190	226,934	226,558
PFI Hospitals	268,002	272,212	273,968	275,388
Medical Equipment ,Plant, Machinery, Vehicles, fittings	22,386	23,257	24,930	28,854
IT Hardware and Software	6,517	5,498	7,142	7,105
	552,144	547,552	554,368	555,395

There is also £3.022m tied up in assets under construction, connected with Monklands refurbishment and other acute redesign work.

The Land and Buildings value decreased due to £3.873m worth of sites being transferred to non current assets held for sale in note 7(b). Assets judged as capable of being sold within a year are disclosed as current assets and shown in note 10 (page 75). The Board has £1.186m of assets within that category at 31/3/19. The expected sale proceeds are anticipated as a funding source in the 2019/20 capital plan.

To support capital demands the Board had to transfer £5.278m funding from revenue to capital, with a similar sum in 2017/18. Only by doing that has it been able to keep pace with its medical replacement programme whilst still carrying out risk based work in Monklands and meeting other service needs. In 2018/19 the Board switched from leasing to owning the equipment in the west of Scotland as it was marginally more cost effective and gave greater flexibility for replacements. This was the single largest factor in the equipment value increasing.

More detail can be found in the various sections of notes 6 and 7 (pages 64 – 71).

Provision for Future Compensation claims

A provision should be recognised when an entity has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are shown in note 13 (page 79).

At the start of the year NHS Lanarkshire held a provision of £84.911m for clinical negligence claims. This sat at £77.852m at the end of the year. This was due to the progression of a number of high value claims and a new claim during the year. The total number of outstanding claims lodged against the Board has not increased.

There are a further £17.379m (2017/18 £23.800m) of claims which are judged as not likely to succeed (note 14 page 82).

3 ELEMENTS OF THE ACCOUNTS

a) Key Documents

Performance Report - This gives an overview of financial and non financial performance during the year (pages 1 – 12).

Statement of Comprehensive Net Expenditure and Resource Outturn - which shows the Board's financial operating performance (pages 41 and 42). The Statement shows a saving against Revenue Resource Limit (RRL) of £0.288m.

Statement of Financial Position (Balance Sheet) - (page 44) Details of specific elements, e.g. Property, Plant and Equipment, Receivables and Payables, are on pages 62 – 80.

Cash Flow Statement - (page 44) details cash transactions for the year.

Statement of Changes in Taxpayers Equity - (pages 45 and 46) shows the General Fund, Revaluation Reserve and the Donated Asset Reserve.

b) Policies Applied in Preparing the Accounts

Pages 47 – 59.

c) Other Operating Costs

Page 61; these should show items of interest to a reader of the Accounts.

d) Specific Items that Accounts must Disclose

Contingent Liabilities	Page 82 (i.e. potential issues which could have a financial impact).
Post Balance Sheet Events	Page 83 (i.e. events after the year end which could colour the view of the previous year). None.
Commitments	Pages 84 - 87 (these reflect contractual and business case commitments).

Pensions Costs	Page 88.

4 CONCLUSION

The Board is asked to approve the draft Annual Accounts for the year ended 31 March 2019 for signing.

Laura Ace
Director of Finance
18 June 2019