

**REPORT TO:** East Lothian Integration Joint Board

**MEETING DATE:** 27 August 2015

**BY:** Chief Officer

**SUBJECT:** Financial Arrangements for the IJB in 2015/16

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## **1 PURPOSE**

- 1.1 To lay out the financial arrangements for the East Lothian Integration Joint Board (the 'IJB').

## **2. RECOMMENDATIONS**

- 2.1 To agree to receive a report laying out the proposed Standing Financial Instructions for adoption at its next meeting.
- 2.2 To agree to set up an Audit Committee and to consider the process, remit and membership of that committee at its next meeting.
- 2.3 To agree the appointment of a Chief Internal Auditor for the IJB.
- 2.4 To agree to hold a workshop to discuss and review the financial assurance process.
- 2.5 To agree to receive a report at the next meeting of the IJB laying out the proposals for financial reporting to the IJB.

## **3 BACKGROUND**

### **3.1 Key Points**

#### **Implementing the Strategic Plan**

The IJB's primary role is strategic planning and having prepared a strategic plan the IJB will then action that plan to achieve its broad goal of 'rebalancing care'. It will do this using the totality of the financial resources that have been delegated to it, these financial resources being

delegated by NHS Lothian and East Lothian Council to support the functions that these bodies have delegated to the IJB.

It is critical that the IJB clearly understands these financial resources and the financial arrangements that support its overall plans. Unquestionably, given the overall financial constraints that NHS Lothian and East Lothian Council are facing both now and in the medium-term future there will be a significant financial challenge that the IJB will have to address. That challenge will be to use the financial resources available to the IJB through service redesign and by redistribution of these resources to achieve the goals laid out in the strategic plan. This will include planned disinvestment in acute services and other institutional services and investment in community services.

### **Financial Model**

The IJB's financial model is key to this work. The Integration Scheme lays out the functions that have been delegated to the IJB. The financial model to agree the resources that support these delegated functions (the IJB's 'budget') is made up as follows :-

- 1) The budgets for Adult Wellbeing;
- 2) The core budgets for the Community Health Partnership (including General Medical Services(GMS) and Prescribing);
- 3) A share of the budgets of the NHS Lothian 'hosted services' (services delivered on a pan Lothian basis) that have been delegated to the IJB
- 4) A share of the acute services budgets for those functions that are delegated to the IJBs.

This budget above is split into two parts:-

- 1, 2 and 3 are termed the 'payment' to the IJB
- 4 (the Acute element) is not 'paid' to the IJB, but the budgets remain held by NHS Lothian on the IJB's behalf – this is called 'set aside'.

Getting a clear agreement on the shares for the pan-Lothian delegated functions will be important and the IJB will wish to understand what its 'fair share' of these resources is and also how (historically) it has used those resources.

The IJB's budget having been agreed, the IJB then issues 'directions' (instructions) to the Partners which state the financial resources to be used to deliver the functions that have been delegated. This is the mechanism that allows the IJB to action its Strategic Plan. Directions are further discussed in 3.7.3 below.

### **Working with other IJBs**

There is a risk that because of the complexity of this model that change driven by the Strategic Plan will be more difficult to achieve. The IJB will

have to consider how it can work with the other Lothian IJBs to jointly drive change required in those delegated services that continue to be managed and delivered on a pan-Lothian basis.

### **3.2 Financial Governance Framework**

Section 95 of the Local Government (Scotland) Act 1973 requires all Integration Joint Boards in Scotland to have adequate systems and controls in place to ensure the “proper administration of their financial affairs”. The key element of this is a set of Standing Financial Instructions (SFIs) which are also referred to as financial regulations and directions. A draft set of SFIs has been drawn up for the IJB, but now requires to be reviewed by audit colleagues. A final set of SFIs will be brought for the IJB’s approval to its next meeting.

### **3.3 Creation and Operation of an Audit Committee**

A key element of governance is the creation of a ‘scrutiny body’ to review the operations of the IJB. This role is generally fulfilled by a committee of the IJB being an Audit or Risk and Audit committee and best practice would suggest that the IJB should create such a sub-committee.

A detailed proposal is being prepared but, in summary:-

- The Committee would consist of four voting members of the IJB along with the Chief Officer, the Chief Finance Officer and Internal and External Audit colleagues.
- The Chair of this Committee to be drawn from within the voting members of the IJB but the Chair of the Audit Committee would not be the Chair of the IJB.
- This Committee would meet four times per annum and could sit either before or after one of the IJB main meetings
- The IJB will require to prepare and maintain a risk register and the review of the risk register will also be undertaken by the Audit Committee

A paper laying this out in detail will be brought to the next meeting of the IJB for its approval.

### **3.4 Appointment of a Chief Internal Auditor**

The Scottish Government’s guidance recommends the appointment of a Chief Internal Auditor (CIA) for the IJB. The Chief Internal Auditor will prepare an audit plan for the IJB’s approval and that plan and the assurance that is derived from the audits within the plan will support the work of the Audit Committee which the CIA will also attend. The guidance goes on to suggest that this role is carried out by either the CIA of the Health Board or the Council. The IJB – through the Chief Officer – should approach either NHS Lothian or East Lothian Council and request that they appoint their CIA to this role.

### **3.5 Financial Assurance Process**

It is very important the all the parties to the Integration Scheme – that is East Council, NHS Lothian and the IJB itself – undertake a financial assurance process.

- In the case of NHS Lothian and East Lothian Council that work will lay out the value of the financial resources to be delegated to the IJB and the impact of that delegation of resources on the Council/Health Board.
- In the case of the IJB the work will examine the underlying financial issues that exist within that allocation and will explore the financial risks that the IJB will have to manage. The IJB will specifically wish to understand the efficiency schemes that are embedded in the resources from both the Council and the Health Board.

A detailed process for this work has been agreed and documented and this paper is attached as Appendix I for information. This paper also discusses many of the risk areas that may be identified as part of the financial assurance process. To date NHS Lothian has presented two reports to its Finance and Resources Committee at their May and July 2015 meetings.

These reports review the 2014/15 out-turn position for those budgets in both the council and NHS Lothian that are part of the delegated resources for the IJB and consider how the 15/16 financial plan has managed any historic issues. Further reports to both the Council and the Health Board are in preparation to complete their financial assurance process.

The IJB's financial assurance process will start with the reports discussed above which generally address the 2014/15 position. However, both partners are in the process of undertaking financial forecasts for 2015/16 (current year based on quarter 1 performance) and this analysis along with the indicative budgets for 16/17 (and thereafter) will be used to finalise a financial assurance report for the IJB. The key matter to be understood through this process is the financial baseline available to the IJB and the underlying risks inherent in that baseline. The establishment of the baseline will depend on the model discussed above and given that much of the shares of pan-Lothian functions that are delegated to the IJB will be estimated, the IJB may commission additional work to further analyse the sharing mechanism.

### **3.6 Outline framework for financial reporting to the IJB**

The IJB will require a series of financial reports for its consideration during the financial year. These will be:-

### **3.6.1 Statutory Reports**

The IJB will have to prepare a set of Annual Accounts at the end of the financial year which will be audited by the appointed external auditors. These will be prepared in line with the appropriate local authority guidance and although a key financial document, it will not provide significant financial management information to support the operations of the IJB.

### **3.6.2 Strategic Plan**

The financial framework is discussed further below but the Public Bodies (Joint Working) (Scotland) Act (2014) requires the preparation of Annual Financial Statement which, again is a key document in showing how the IJB will fund the ambitions in its Strategic Plan, but will also not generally provide operational management information.

### **3.6.3 Financial Management Information**

The IJB will be concerned with the direction of travel and will wish to concentrate on the delivery of its Strategic Plan, although performance against the plan will obviously be impacted by operational financial performance of the services delegated.

The operational delivery of the IJB's 'budgets' will be through either the Council or the Health Board as appropriate. The IJB will therefore not be in receipt of the detailed operational financial information that will be used by the management teams of the partners.

That said, the IJB will have a clear requirement for financial information:-

- To review, on a quarterly basis, the progress in year against its Strategic Plan
- To understand the projected out-turn forecasts for its delegated resources.
- To reflect any financial pressures identified by this in its planning process for the next financial year
- To prepare and approve a financial plan to be embedded into its Strategic Plan for the next financial year
- To review the completed financial position – in a 'non-statutory' format - for the previous financial year
- Financial analyses will also be required to support the Strategic Plan

If there are significant financial variances then the Integration Scheme directs that a recovery plan will be drawn up and that plan will have to be approved by the IJB. Discussions are underway within the Council and NHS Lothian to consider how a financial risk sharing mechanism may work – although any such mechanism will have to be agreed by the IJB – and it is hoped that the IJB will not become too embroiled in operational financial matters.

The publishing of financial information in public IJB papers will be constrained by what information is also reported through the appropriate Partner's governance processes. A report laying out a financial reporting framework (including reporting timescales and the content of reports) will be brought to the next meeting of the IJB for consideration.

### **3.7 Financial Framework for the Strategic Plan**

The Strategic Plan is the key mechanism for defining and delivering the ambitions of the IJB. This plan will contain a financial plan showing how the resources available to the IJB will be used to deliver the outcomes required by the IJB. The formal articulation of this is the Annual Financial Statement (discussed above) but in essence the financial information is broken down into:-

#### **3.7.1 Opening baseline position.**

This will lay out the resources that have been delegated to the IJB by the Partners and indicate – from the financial assurance process – the financial issues inherent within these resources. The guidance suggests that the baseline is broken down into 'programmes' (Older people, mental health, physical disabilities and so on) and this analysis will show the starting position for the IJB.

#### **3.7.2 Indication of change reflected within the Strategic Plan**

The above value will be analysed by 'programmes' (Older People, Mental Health, Learning Disabilities etc) for the first year of the plan. The ambitions and planned changes reflected in the Strategic Plan will then be modelled in financial terms and this will then illustrate the impact of the plan in those programmes.

#### **3.7.3 Directions**

The Public Bodies (Joint Working) (Scotland) Act 2014 describes how the IJB will action its Strategic Plan by issuing 'directions' to both the Council and the Health Board as appropriate. These 'directions' will be issued for each function delegated to the IJB and will lay out how much is to be spent in order to deliver that delegated function per the Strategic Plan. It is important that these directions map clearly onto the strategic plan and even if the strategic plan proposes no changes to the current provision of any function delegated then that position will also have to be reflected in the plan to support the IJB's 'direction'.

#### **3.7.4 Overall Financial Framework**

It is important to reiterate that the resources available to the IJB flow through the Council and the Health Board and therefore the IJB has no more funds than the Council and the Health Board can allocate. The Council and the Health Board themselves are experiencing a very challenging financial environment and it is unlikely that, in total, the overall resources available to either the Partners or the IJB will increase.

The IJB's financial plan which is embedded into its Strategic Plan will recognise this and the overall financial strategy will focus on service redesign within the overall financial envelope.

#### **4 POLICY IMPLICATIONS**

4.1 This report complies with the Order and national guidance.

#### **5 EQUALITIES IMPLICATIONS**

5.1 There are no equalities issues arising from any decisions made on this report.

#### **6 RESOURCE IMPLICATIONS**

6.1 The Resource implications are laid out above.

#### **7 BACKGROUND PAPERS**

7.1 There no background papers other than those included in the appendix.

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## Appendix

### Process for Undertaking Due Diligence for the Integrated Joint Boards

#### 1 Purpose

This paper lays out a proposed process for the undertaking of due diligence of the financial resources allocated to the four Integrated Joint Boards in Lothian these being Edinburgh IJB, East Lothian IJB, Midlothian IJB and West Lothian IJB.

This paper also considers some of the risks which this process might identify however it does not complete the financial analyses proposed

This paper is written from the point of view of the IJB and neither of the Council nor the Health Board.

#### 2 Background

The 2014 public Bodies (Joint Working) Bill directs each Local authority and the appropriate Health Board to set up an Integration Authority. This authority can be set up from April 1 2015 and must be set up by 1<sup>st</sup> April 2016.

In Edinburgh, East Lothian, Midlothian and West Lothian Integration Schemes have been prepared and agreed between these authorities and NHS Lothian and this will create – the Integration Schemes having been agreed by Scottish Ministers and laid before the Scottish Parliament – four Integration Joint Boards.

It is clear from the guidance available – the most recent guidance is attached as appendix 1 of this briefing – that a process of due diligence will have to be undertaken on the resources that are proposed to be delegated to the IJBs to undertake the functions that have been delegated and presented to the IJB for its consideration. The guidance refers to this as ‘Integration Financial Assurance’ and states its purpose as:-

*‘An effective assurance process should enable the host body (whether an Integration Joint Board (IJB) in a corporate body arrangement; or a Health Board or Local Authority in a lead agency arrangement) to identify the resources delegated to it and the financial, legal or organisational risks involved; it should also help the delegating partners to quantify the risks to their respective operations. If planned and implemented in a logical sequence, it should allow the Health Board and Local Authority to maximise the benefits and minimise the risks from integration.’*

The guidance notes that there are three areas to be considered, Legal, Financial and operational. This paper concerns its self with the financial area of this work. Further work will be required to undertake due diligence on the legal and operational areas.

This work is recommended to be carried out on an 'open book' basis and the whole process to be as transparent as possible.

### **3 Areas of work**

Both the Council and NHS Lothian have set budgets for 2015/16 (and beyond) and the IJBs will be constituted during 15/16. Therefore the overall resources from which the IJB's budget have already been set. The risks and issues arising from that overall budget setting process have therefore been documented and this documentation will have to be reviewed as part of the overall due diligence process.

The finance teams have then extracted elements from these overall budgets that will represent the functions that have been delegated to the IJBs by the Council and the Health Board. This process will also need to be reviewed and the issues that might arise from that review are discussed in more detail below.

Having considered how the IJB's budget is made up, further analysis will be required to consider the past financial performance against this budget and to reflect on what pressures are in the current (2015/16) financial year and what provision and management actions have been made to address these pressures.

The Scottish Government's guidance recommends that this work is then reviewed by Internal Audit and should be shared with the Council, Health Board and the IJB's external Auditors.

The final product will be a formal report to the IJB which will lay out clearly the matters identified by the guidance quoted in paragraph 2.

The details are:-

#### **3.1 Financial Plan – Council.**

The council agreed its 2015/16 financial plan at its meeting in February 2015. The report presented to the council examined the processes and the risks inherent in the overall budget position. This report is attached as appendix 2 and a summary analysis of the budgetary movements is also provided.

## 3.2 Financial Plan – NHS Lothian

NHS Lothian's Board agreed its 15/16 Financial Plan at its meeting of 1<sup>st</sup> April 2015. The report presented to the council examined the processes and the risks inherent in the overall budget position. This report is attached as appendix 3.

## 3.3 Creation of an IJB Budget from the overall council and Health Board financial plans.

### 3.3.1 Health Board Budgets:-

#### 3.3.1.1 Allocation of cost centres

Health Functions are delegated to the IJB but NHS Lothian budgetary system is based on services which do not necessarily (at the lowest operational level) map onto the level at which the operational budgets are held. Also, given that Lothian provides a range of services to other Scottish Health Board there are elements of 'non-Lothian income' embedded into some of the costcentres. A table has been prepared of costcentres (which hold budgets at an operational level) and the allocation of these costcentres to the IJB. This will require to be reviewed and agreed by the IJB and by Lothian.

#### 3.3.1.2 Shares of Pan-Lothian Functions

For costcentres that are not CHP specific (that is pan-Lothian hosted services or Acute services to be set aside) an appropriate 'share' of the costcentre will have to be agreed. There are various options – for example shares based on weighted populations or historic activity reflecting patient pathways that have developed over a period of years. The options will need to be considered and agreed.

### 3.3.2 Council Budgets – Adult Social Care

These will be the same as those laid out in the Council's budget setting report.

## 3.4 Financial Analysis

A series of financial analyses will require being undertaken:-

### 3.4.1 The IJB's budget (as above) requires to be assessed against actual expenditure reported in the management accounts for the most recent three years. Ideally, the roll

forward of the budget for the delegated services and the actual expenditure over this period should be understood

- 3.4.2 Material non-recurrent funding and expenditure budgets for the delegated services and the associated risks should be identified and assessed.
- 3.4.3 The medium term financial forecast for the delegated services and associated assumptions and risks should be reviewed.
- 3.4.4 Savings and efficiency targets and any schemes identified are clearly identified and the assumptions and risks are understood by all partners. This is a key part of the assurance process and the experience from Highland partners is that it is a potential source of future disagreement. The IRAG guidance advises that partners devote sufficient time to understand the targets, efficiency schemes and associated assumptions and risks.
- 3.4.5 All risks should be quantified where possible and measures to mitigate risk identified. Risks could be classified as delivery of efficiency savings; on-going risks; emerging risks. Some discussion of risks that are being identified as part of this work is laid out in section 4 below.
- 3.4.6 The amount set aside for the IJB consumption of large hospital services will be calculated as part of the IJB budget setting as above. Consideration is required that this consistent with the methods recommended in the IRAG guidance on the set aside resource and that the assumptions and risks are assessed.

#### **4 Key Risk areas**

From the foregoing process, the following risks will have to be quantified and mitigation considered:-

- Health Costcentre Allocations – the IJB will have to review this list to ensure that its understanding of functions delegated to it has been reflected in the resources made available.
- Costcentre Shares – in 15/16 it is unlikely that sufficient activity information will be available that is both agreed by all parties and is able to be mapped onto the financial information. On that basis much of the 'shares' for both pan-Lothian hosted services and Acute 'set aside' will be proxies and therefore these budgets will be indicative. The IJBs will have to decide their priority areas and budgets for these areas will require further analysis.

- Fair Shares – historic usage of health services (both these services specifically allocated to the IJB and the shares of pan-Lothian services) is not necessarily a ‘fair’ share of the overall resource. The IJB will have to agree what a model for a ‘fair share’ is and then compare that to the shares which it has been allocated.
- Income – some Lothian costcentres have income assumptions embedded in them (income being resources that are not directly allocated by the SG to the Health Board) and elements of the Social Care services are underpinned by charges to clients. It is important that these income assumptions are clearly understood by the IJB and any risks therein highlighted.
- Previous performance – part of the analysis of the past years actual out-turns will indicate issues arising from previous years.
- Deviation for the FPs – any deviation for the underlying position that drove the financial plan (increases in costs bases, increase in demand etc) will generate financial pressures. This will be seen through the operational reporting of the service position and the IJB needs to ensure that this information is reported to it along with proposed recovery plans as appropriate.
- Efficiencies – as was discussed above, a key element of the financial planning process are the agreed efficiency schemes. The IJB will require to understand the risks around the delivery of schemes that impact on any services delegated to it and will have to consider future efficiency plans and the impact that these plans will have on any future resources delegated to the IJB.
- Size – The four IJBs within the Lothian Health Board area are different in size. Inevitably the largest IJB’s plan will impact on the plans of smaller IJBs – especially in the redesign of pan-Lothian services. Although there are agreements within the Integration Schemes that the IJB will work together within Health Services, the impact of one IJB’s plans on the delivery of social care can impact on other IJBs which are (in geographical terms) very close - payments for Care Home Places for example or the availability of Care at Home staff..
- GMS – the GMS budgets are held at GP Practice level and these are largely a function of the GP Practice list sizes. As list sizes change, GMS budgets will change and this is not within the gift of the IJB. The IJB will have to recognise that the budget setting for IJBs is undertaken on a different basis than other budgets.
- Prescribing – the CHPs have historically shared the risk around the GP Prescribing budgets. A considerable amount of work has taken place over the years to establish ‘fair share’ GP Prescribing budgets

but this has not proven practical and a protocol is required to manage this financial risk.

- Non-cash Limited – there are a range of payments made to Primary Care Practitioners (Opticians, Pharmacists and Dentists) for which there are no budgets. These services are, however fully funded by the Scottish Government and therefore do not, at this time, present a financial risk. That said, there is not a geographical analysis of these services and although PC Practitioner payments are delegated to the IJBs there is no mechanism to split these costs over the IJBs. The IJBs will have to agree a model to manage these payments.
- Management Resources – the IJB does not have a management team as such. It has only two officers reporting to it and these officers will be supported by staff who will work directly for either the Council or the Health Board. The IJB will have to assure itself that it is properly supported.
- Management of ‘non local’ services – In practice the IJB’s Chief Officer will also manage a range of services much of which will be delegated to that IJB. This team will therefore be part of the support to the IJB however there will be services (Hosted services) which are managed in totality by the management team but only an element of which is delegated to the IJB and there are services (‘Set aside’)( which are not managed by the Management Team at all. The IJB will have to set up a mechanism by which it can be assured of appropriate management of services which are delegated to it but into which it does not have any management input.
- Corporate support – there are two risks herein :-  
It has been agreed only to delegate ‘direct’ budgets – that is facilities costs and property running costs are charged to budgets that are managed corporately by both the council and the health board.

The corporate resources (Planning, finance, HR, IT, performance management etc) will be largely similarly supplied by the Council and the Health Board. The Integration Scheme lays out a mechanism to provide such support to the IJB and the IJB requires assurance that this support is adequate

- Corporate reserves – NHS Lothian holds some ‘Strategic’ budget corporately much of which represent services that have been delegated. A mechanism is required to disaggregate these and ensure that the IJB can plan for the use of these resources.
- Future financial plan – the guidance clearly lays out that the Council and the Health Board should indicate the 15/16 and 16/17 financial settlements. The IJB needs to consider how it will bring its financial planning and strategic planning processes for these years into line

with the financial planning processes of the Council and the Health Board

- Non-recurrent Support – there is a considerable element of non-recurrent support in the Health system, both in terms of allocations that are time limited and non-recurrent resources used to underpin in year pressures. The IJB should establish if there are any non-recurrent resources available to it in the financial year and the budget setting process should clearly show the recurrency of the resources delegated.

## **5 Input from Internal Audit**

The IRAG guidance recommends that Internal Audit are involved in the due diligence process. Clearly the Council's and the Health Board's Internal Audit services will be considering the impact of the IJBs on the governance of their respective organisations. However, apart from those two teams there are no additional IA resources available to the IJB. Therefore any IA work undertaken for the IJB will have to be taken from current resources. It is important that IA are involved into this process as early as possible so that they can provide assurance for this process and can report their opinions to the IJB at its early meetings.

## **6 Reports and Governance**

Given the ambition for transparency it's important that this work is shared both within and between the Council and the Health Board. It is essential that the Council and Health Board agree that a reasonable process has been followed and that they understand the outcome.

## **7 Process**

Resources are not delegated to the IJB until the Strategic Plan has been agreed and the start date indicated by Strategic Plan has occurred. Given that issues above it is likely that the IJB will view much of its budget as indicative but there will be priority areas indicated in the Strategic Plan that will require a detailed financial plan and overall management of financial risks may impact on these priorities.

There are a range of tasks laid out above and each IJB will have to have a separate report. However, much of the Health work can be undertaken on a pan-Lothian basis and it may be that the IA work can be done on behalf of all the partnerships.