

**REPORT TO:** East Lothian Council

**MEETING DATE:** 27 October 2015

**BY:** Depute Chief Executive (Resources & People Services)

**SUBJECT:** Financial Assurance – Health & Social Care Integration

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## **1 PURPOSE**

- 1.1 The purpose of this report is to commence the process for the undertaking of due diligence and financial assurance of the financial resources that will be delegated to the Integrated Joint Board (IJB) from 2016/17.
- 1.2 Specifically, the report will review the 2014/15 performance for the East Lothian Health and Social Care Partnership, including Adult Wellbeing, East Lothian CHP and wider NHS Lothian. The report will also take into consideration the 2015/16 performance to date and will identify future financial implications that may impact on the budgets going forward.

## **2 RECOMMENDATIONS**

- 2.1 Council is recommended to:
- Agree the proposed process for undertaking the due diligence and financial assurance review;
  - Note the initial due diligence work undertaken to date;
  - Agree that further financial updates on the due diligence work will be presented to Council prior to formal consideration of the IJB's Strategic Plan.

## **3 BACKGROUND**

- 3.1 The 2014 Public Bodies (Joint Working) (Scotland) Act directs each Local Authority and appropriate Health Board to set up an Integration Authority. This Authority must be set up and operational by 1 April 2016.

- 3.2 The Integration Joint Board (IJB) is a legal entity in its own right, created by parliamentary order following ministerial approval. NHS Lothian and East Lothian Council prepared an Intergation Scheme creating an East Lothian Integration Board. This Scheme was agreed by Members at the Council Meeting of 10 March 2015 and was subsequently approved by the Scottish Government. The East Lothian IJB became a legal entity on the 27 June 2015, with the first meeting held on 1 July 2015.
- 3.3 The IJB's fundamental task is to consider and agree a Strategic Plan, which sets out the wider strategic direction as to how health and social care services for adults will be delivered over the coming years, and importantly the timescale as to when the Strategic Plan will be adopted, including associated budgets.
- 3.4 In advance of then, all the parties involved in the Integration Scheme – that is; East Lothian Council, NHS Lothian and the IJB itself, must undertake a financial assurance process to review the resources that are proposed to be delegated to the IJB in order to undertake the functions. This process will set out the following:
- In the case of East Lothian Council and NHS Lothian, the value of the financial resources to be delegated to the IJB and the impact of that delegation of resources on the Council and Health Board.
  - In the case of the IJB 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.
- 3.5 A detailed process for this work in relation to the due diligence requirement for the IJB was agreed at its meeting on 27 August 2015. In addition, two initial reports have been presented to NHS Lothian Finance and Resources Committee, setting out a review of the 2014/15 financial outturn for those budgets in NHS Lothian that will be part of the delegated resources for the IJB. It is anticipated further reports will be presented as part of the wider due diligence review.
- 3.6 This is the first report to be presented to the Council on the wider financial assurance process, and it is anticipated that further reports will be considered as the assurance work continues.

#### **Financial Assurance Review Process**

- 3.7 The Council has already agreed to delegate a range of functions to the IJB for the purposes of strategic planning and operational oversight. In practice, this will include the entire current Adult Wellbeing budget including Criminal Justice.
- 3.8 In addition, many of the functions currently undertaken by NHS Lothian will be delegated to the IJB, with the total budget for East Lothian Integration Joint Board therefore consisting of:-

- The Council's Adult Wellbeing budget;
- The East Lothian Community Health Partnership's (CHP) core services including Community Hospitals, GMS and GP Prescribing;
- A share of the delegated Hosted services which are managed on a pan Lothian basis by all CHPs;
- A share of NHS Lothian's delegated Acute Services. This budget is held by NHS Lothian on the IJB's behalf – the 'set aside' budget.

3.9 The financial assurance process is critical from the Council's perspective to ensure there is a clear understanding of current and future risk associated with the transfer of funding to the IJB, and that the financial resources delegated to the IJB are sufficient to meet the outcomes required from the Strategic Plan.

3.10 The scope of the financial assurance work has extended to review and analyse the Adult Wellbeing 2014/15 actual expenditure against budget by Service Categories (set out within Appendix 1) and Subjectively (set out within Appendix 2), as well as identifying any known pressures and identified efficiencies within the approved budget for 2015/16 and the indicative budgets for 2016/17 and 2017/18. In addition, this paper has also included a review of the 2014/15 financial performance relating to the wider East Lothian CHP, including the 2015/16 budget and any identified financial risks.

## **Adult Wellbeing Review**

### 2014/15 Outturn

3.11 As part of the 2014/15 Financial Review, the Council has already been informed that during that period the Adult Wellbeing service was overspent against approved budget by £0.391 million (0.8%). The service experienced significant financial pressures within the wider purchasing of external care packages, particularly in relation to the Elderly Provision and Learning Disability packages of care, most of which is being driven by demography pressures and increasing complexity of care needs. These pressures were in part offset by savings in other areas including; management of in-year Change Fund income; additional income received during the year for the Criminal Justice Service; the delivery of an in year underspend of £0.171 million relating to Midlothian & East Lothian Drug and Alcohol Partnership (MELDAP). When considering this on a subjective level, the increased care packages are reflected through increased costs within the supplies and services and third party payments, offset in part through lower than anticipated employee costs reflecting a number of vacancies during 2014/15 within the service, and the higher than budgeted income mentioned above.

## 2015/16 Financial Review

- 3.12 Recognising that many of the pressures experienced during 2014/15 were demographic, and as such were recurring in nature, additional investment of £0.900million was included within the budget for 2015/16 to address identified pressures including: demand and service pressures; contractual uplifts relating to National Care Home Contract; and new legislative requirements including additional costs how sleepover rates are calculated and earned following on from European Rulings. This additional investment, alongside contractual uplifts relating to pay and pension contributions and the delivery of efficiencies totalling £0.185 million; increased the Adult Wellbeing base budget in 2015/16 by £1.443 million (3.1%) to £45.838 million.
- 3.13 Despite this investment, a number of further pressures have been identified during 2015/16 including; additional costs associated with the national pay agreement (£0.070 million); and additional costs associated with the specialist Care at Home contracts (£0.316 million). We are working closely with Adult Wellbeing Management to monitor the 2015/16 in year performance to ensure that expenditure can be contained within budget, and identify any recurring impact going forward.

## Financial Planning

- 3.14 The draft budgets for 2016/17 and 2017/18 have been based on a number of planning assumptions, most notably that the grant received from the Scottish Government will be maintained in line with 2015/16 levels (i.e. 'flat cash'), and anticipated pressures and contractual commitments including pay across the Council will prevail. The outcome of the current UK Government Comprehensive Spending Review is unlikely to be known until end of November, with current indications suggesting that we are unlikely to receive confirmation as to the Scottish Local Government Settlement until mid-January.
- 3.15 There remains significant uncertainty around what this will mean in practice for the Local Government settlement, with indications suggesting we should be planning for a reduction in Grant. In addition, the recently agreed national pay award means that our current planning assumption for 2016/17 is understated by 0.5%. The draft Adult Wellbeing budgets for 2016/17 and 2017/18 already include the delivery of planned efficiencies of £0.485 million in 2016/17 and a further £0.250 million in 2017/18, however dependent upon the next grant settlement, further efficiencies may be required in order to deliver a balanced budget.
- 3.16 The due diligence and financial assurance review will continue taking cognisance of the emerging 2015/16 financial performance as well as any anticipated changes to future years budgets.

## NHS Lothian Review

- 3.17 Whilst the due diligence review considered by the IJB will need to seek assurance that the level of resources delegated from both the Council and NHS are appropriate, it is important that as part of the Council's due diligence process that there is awareness around the wider financial resources which will be delegated to the IJB from NHS Lothian, and to have an understanding as to any associated financial risks.
- 3.18 Similar to the initial review of the Council's Adult Wellbeing performance and budgets set out in the first part of the report, details around the 2014/15 financial performance for both NHS Lothian and the wider East Lothian Community Health Partnership is set out in the forthcoming paragraphs, as well as an indication as to the 2015/16 performance to date.

### 2014/15 Outturn - NHS

- 3.19 Overall in 2014/15 NHS Lothian delivered a break-even position. Operationally however, the Business Unit's (including the respective Community Health Partners) delivered an overspend of just under £35 million (comprising £24.6 million overspend against approved budget, and non-achievement of planned efficiencies of £10.4 million), most of which was offset by a combination of corporate efficiencies, use of general reserves, financial plan flexibility and an in year rates rebate.
- 3.20 The 2014/15 financial outturn for the East Lothian Community Health Partnerships (CHP's) is set out in **Table 1** below. The CHP includes budgets in relation to a wide range of expenditure elements including; General Medical Services (GMS), Prescribing and Resource Transfer budgets (the income of which is reflected within the Adult Wellbeing budget within the Council).

Table 1 – Community Health Partnership 2014/15 Financial Outturn

Community Health Partnership Outturn 2014-15	Annual		
	Budget £'000	Actual £'000	Variance £'000
Core	18,154	19,048	894
Hosted	20,271	19,982	-289
GMS	13,173	13,077	-96
Prescribing	17,829	18,861	1,032
Resource Transfer	3,163	3,163	0
	<b>72,590</b>	<b>74,131</b>	<b>1,541</b>

- 3.21 During 2014/15, the East Lothian CHP reported an overspend of £1.541 million. The most significant financial pressure identified during 2014/15 related to GP Prescribing costs. In addition, the CHP did not achieve the planned efficiencies target (LRP) of £0.356 million, largely as a result of

operational pressures relating to delayed discharge. To date, the Lothian CHP's have operated a financial risk sharing mechanism between them to manage many of the pressures within the respective CHP budgets on a pan Lothian basis, including prescribing budgets. A risk sharing protocol has been discussed by NHS Lothian; however, the future decisions on whether this is implemented will need to be taken by individual IJBs.

#### 2015/16 Financial Review – NHS

- 3.22 The 2015/16 budget for East Lothian CHP is £86.9 million, with a breakdown against the respective budget headings set out in **Table 2** below.

Table 2 – East Lothian CHP 2015/16 Budget

<b>East Lothian CHP 2015/16 Budget</b>	<b>Annual Budget £'000</b>
Core	20,724
Hosted	34,345
Unachieved LRP (Net)	-259
GMS	11,809
Prescribing	17,040
Resource Transfer	3,227
<b>TOTAL</b>	<b>86,886</b>

- 3.23 There continues to be pressures on the GP Prescribing budget, largely driven by higher than projected average prices.
- 3.24 In addition, the budgets include plans to deliver around £1.2 million of efficiencies during 2015/16. Both areas will require close monitoring and control during the year if the CHP is to deliver a financial outturn within the available resources.

#### Financial Planning - NHS

- 3.25 Similar to the Council, the level of resource made available to NHS Lothian, will be subject to the outcome of the Comprehensive Spending Review and subsequently the amount of resource delegated to the East Lothian IJB will be subject to discussions within NHS Lothian. It will be necessary to ensure that an appropriate level is allocated in order to deliver the required outcomes agreed by the IJB and contained within the Strategic Plan.

## **Financial Risks**

- 3.26 The financial performance for both the existing Adult Wellbeing service and also the East Lothian CHP will continue to be closely monitored against the 2015/16 approved budgets. A number of financial risks have already been highlighted within this paper, including; the continued delivery of planned efficiencies; the management of new and emerging pressures and the implication of future financial settlements for both the Council and NHS will have on the delivery of the strategic direction which will be set by the IJB. Integrated management structures are in the process of being established within the Council designed to work collaboratively to support the delivery of integrated health and social care services in line with the proposed strategic direction. As such the way in which services are jointly planned and resources expended may change, and appropriate arrangements will be required to be put in place in order to ensure expenditure is managed within the financial resources that are made available.
- 3.27 The Council and NHS Lothian currently manage risk within their own established policies ensuring that expenditure is contained within existing spending limits, with discussions on-going to identify any areas where risk sharing arrangements might be established that will better serve the new integrated arrangements for Health and Social Care.
- 3.28 The level of resources and associated financial risks will need to be considered alongside the proposed Strategic Plan to ensure that the overall level of resources available are appropriate to deliver the strategic directions, and that appropriate financial arrangements are in place to allow the required level of resources to flow between bodies to deliver the strategic outcomes set by the Strategic Plan.

## **Next Steps**

- 3.29 This paper sets out a retrospective review of the financial resources and performance for the Adult Wellbeing service to date. As we move to a new model of integrated service delivery, it is important that as a Council, there is a clear understanding as to the; overall level of resources which will be delegated to the IJB, and any associated risks which may prevent the strategic outcomes to be delivered within the financial resources which have been made available.
- 3.30 As such, the financial assurance and review process will continue during the 2016/17 budget setting and beyond by all associated bodies - the Council, NHS Lothian and IJB.
- 3.31 As part of this process, a further report will be presented to Council which will take into consideration the updated 2015/16 financial performance for both Adult Wellbeing service and also the wider East Lothian CHP, any implications on the proposed budgets for 2016/17 to 2018/19, and also any implications associated with the emerging Strategic Plan.

3.32 Further financial assurance reports will also be considered by both NHS Lothian and also the East Lothian IJB.

#### **4 POLICY IMPLICATIONS**

4.1 None

#### **5 EQUALITIES IMPACT ASSESSMENT**

5.1 This Report is not applicable to the wellbeing of equalities groups and an Equalities Impact Assessment is not required.

#### **6 RESOURCE IMPLICATIONS**

6.1 Financial – The due diligence and financial assurance work has highlighted areas of financial risk for the Council and the IJB, and these will require close monitoring during 2015/16 and beyond.

6.2 Personnel - none

6.3 Other – none

#### **7 BACKGROUND PAPERS**

7.1 None

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APPENDIX 1

DUE DILIGENCE HEALTH & CARE INTEGRATION

EAST LoTHIAN HEALTH & SOCIAL CARE PARTNERSHIP

ADULT WELLBEING	Budget 2014/2015 £'000	Actual 2014/2015 £'000	Budget 2015/2016 £'000	Budget 2016/2017 £'000	Budget 2017/2018 £'000
OLDER PEOPLE	21,781	23,221	22,489	22,436	22,301
ADULTS WITH PHYSICAL DISABILITIES	4,244	4,113	4,382	4,372	4,345
ADULTS WITH LEARNING DISABILITIES	12,450	12,569	12,855	12,825	12,748
ADULTS WITH MENTAL HEALTH NEEDS	1,491	1,499	1,539	1,536	1,527
CRIMINAL JUSTICE SOCIAL WORK	0	-185	0	0	0
SERVICE STRATEGY	4,429	3,546	4,573	4,562	4,535
TOTAL	44,395	44,763	45,838	45,731	45,456

**APPENDIX 2**

**DUE DILIGENCE HEALTH & CARE INTEGRATION**

**EAST LoTHIAN HEALTH & SOCIAL CARE PARTNERSHIP**

<b>ADULT WELLBEING SUBJECTIVE ANALYSIS</b>	<b>Budget 2014/2015 £'000</b>	<b>Actual 2014/2015 £'000</b>	<b>Budget 2015/2016 £'000</b>	<b>Budget 2016/2017 £'000</b>	<b>Budget 2017/2018 £'000</b>
Employee Costs	14,313	13,887	14,990	15,219	14,989
Premises Costs	1,585	1,562	1,599	1,608	1,608
Transport Costs	190	220	190	190	190
Supplies & Services Costs	17,224	18,486	17,552	17,404	17,407
Third Party Payments	18,414	19,561	18,741	18,594	18,596
Transfer Social Work Client Payments	150	17	150	150	150
Capital Charges	0	0	0	0	0
Income	<b>-8,329</b>	<b>-9,663</b>	<b>-8,232</b>	<b>-8,282</b>	<b>-8,332</b>
Support Services	848	693	848	848	848
<b>TOTAL</b>	44,395	44,763	45,838	45,731	45,456