

REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 29 October 2015

BY: Chief Officer

SUBJECT: Financial Assurance and Financial Reporting

1 PURPOSE

- 1.1 This paper discusses the financial risks and financial management issues that the Integration Joint Board (IJB) will have to manage in relation to the financial allocations (the budget) that East Lothian Council and NHS Lothian will provide to support the functions that have been delegated to the IJB.

2 RECOMMENDATIONS

- 2.1 The IJB is asked to note the content of this paper.
- 2.2 The IJB is asked to consider the proposal for a risk management strategy.

3 BACKGROUND

- 3.1 The East Lothian Integration Joint Board was set up by an Integration Scheme presented jointly by East Lothian Council and NHS Lothian and agreed by Scottish Ministers. This scheme laid out a series of functions to be delegated to the IJB. In order to deliver these functions, the IJB will receive a financial allocation (the budget) from both East Lothian Council and NHS Lothian.

- 3.2 This budget will be split into four:-

- 1) The budgets for Adult Wellbeing.
- 2) The Core budgets for the CHP – these being the core (that is specific to East Lothian) Community services budgets, GMS budgets (the budgets to support the East Lothian GP Practices), GP Prescribing budgets and Resource Transfer budgets.

- 3) A share of the NHS Lothian 'hosted services'. These are services managed on behalf of NHS Lothian by each of the CHPs. Most of these hosted services are to be delegated to the IJBs and an appropriate share of each hosted service will be included in the IJB's integrated budget.
- 4) A share of the Acute services that are delegated to the IJBs

The budgets above being the direct budgets – that is the operational budgets that are delegated to the service managers. The budgets for property running costs and other 'corporate' overheads are not delegated to the IJB at this time.

1, 2 and 3 above will be 'paid' to the IJB with the budgets for the delegated Acute services being 'set aside' by NHS Lothian on behalf of the IJB. However, it should be noted that there is no payment as such, these are not cash transactions. The IJB does not have a bank account.

- 3.3 The totality of the financial budget as above will be the resources that are available to the IJB to deliver the functions that have been delegated to it. The IJB has therefore to undertake a process of financial assurance on this financial resource to explore the underlying financial risks that exist with the budgets and consider the financial management strategies that the IJB can adopt.

The budgets will form the resources available to support the IJB's Strategic Plan.

- 3.4 A process for undertaking financial assurance has been developed and a paper laying out this process was attached as an annex to the finance paper presented to the IJB on 27th August. This process has (broadly) the following steps:-

- 3.4.1 A review of the financial out-turn of the partners for the previous financial year (2014/15)

- 3.4.2 A review of the budget settlements of the partners for the current financial year (2015/16)

- 3.4.3 A review of the projected out-turn of the partners for the current financial year (2015/16)

- 3.4.4 A review of the proposed budget settlements for the next financial year (2016/17)

- 3.4.5 A review of the budget setting model proposed by the partners

- 3.4.6 Consideration of any financial risk management proposals

- 3.5 NHS Lothian and East Lothian Council have already undertaken a great deal of work to address items 3.4.1, 3.4.2 and 3.4.3 and the IJB (through its Chief Officer) has a significant input into both East Lothian and NHS Lothian's financial planning processes for 2016/17.

- 3.6 NHS Lothian has presented two papers to its Finance and Resource Committee discussing the out-turn position for 14/15, its proposed budget setting model and its proposals around a risk sharing protocol with the IJBs. Lothian notes that, although the Board broke-even in 2014/15, its operational units had an overspend of c. £35m which was underpinned by slippage and non-recurrent support. The overspend on East Lothian CHP was £1.5m. The reports reflected on the financial challenges that would have to be managed in 2015/16.
- 3.7 A financial assurance report is being prepared for East Lothian Council and will be considered at its meeting on 27 October. Adult Wellbeing reported an overspend in 2014/15 of c. £0.4m, the Council overall being underspent with a positive movement in its reserves.
- 3.8 Budget Setting Model

The budget setting model is the mechanism by which the budget for the IJB is set from within the overall budgets for NHS Lothian and East Lothian Council.

There are four key issues to be considered:-

Specific Budgets

These being the Adult Wellbeing budgets from East Lothian Council and the 'core' (ex CHP) budgets from NHS Lothian. There are elements in these budgets that are historic – for example the community hospitals – but it is proposed that these budgets are accepted as a 'given' to the IJB.

Within the hosted and 'set aside' element of the budget setting model there are two further issues:-

Costcentre Allocations.

NHS Lothian's management structure is not based around 'functions' but around a range of services. These services hold their budgets at costcentre level and the key to the health budget setting model is the allocation of these costcentres into 'delegated' and 'not delegated'. This allocation of costcentres has been examined in detail by colleagues within NSH Lothian and described in the first paper to the Finance and Resources committee (see below) but will require to be agreed on the IJB's behalf by the Chief Officer.

Shares

Hosted services and Acute services are services that are provided to the whole population of the Lothians and managed on a service (not IJB) basis. Therefore a mechanism is required to share the appropriate budgets across the IJBs. There are various options but three principles have been proposed for the current model:-

- NRAC (this is the national model to allocate health resources amongst Health Boards) which is based on weighted population.
- Geographical – to reflect where populations are based and therefore where the closest service is – it's unlikely that the population of East Lothian will use the emergency services at St. John's Hospital for example.
- Agreements – there are arrangements that were agreed by the CHPs (for example East Lothian use of Adult Psychiatry beds at the Royal Edinburgh Hospital) and these have been continued if this is appropriate.

It's important to recognise that none of these methods reflects actual usage; however actual usage does not necessarily reflect need and is unlikely to be "fair" in any case.

Budgets not delegated

As was discussed previously only direct, operational budgets are currently delegated. This simplifies the process considerably and allows services managers to be able to recognise the IJB allocations (at the appropriate level). Discussions require to take place about those budgets that support delegated functions but are not delegated.

3.9 Financial Position in 2015/16

Both NHS Lothian and East Lothian Council have agreed their budget settlements for 15/16 reflecting on the out-turns in 14/15, planned efficiencies, additional resources available and their consideration of pressures within services in 15/16. The outcome of these financial settlements will now be reflected in the actual positions for 15/16 and both the Council and the Health Board are finalizing out-turn projections for the current financial year. These will be a key part of the financial assurance process.

3.10 Proposed financial settlements for 2016/17

Both parties have started their financial planning process for 16/17 – the first year in which the IJB will have a budget –and, as was discussed previously, the IJB is represented by the Chief Officer with support by the Chief Finance Officer. The IJB has not yet formally published its Strategic Plan for consultation – and it has not yet received any financial allocations to support that plan – but the consultation of the Strategic Plan will support the Chief Officer in their representations with the Partners. It's clear that there will be significant financial challenges in the public sector settlements for 16/17 (and beyond) and although the government has announced that it will continue to protect health there is likely to be increased financial pressure on councils. The outcome from the public sector spending review will not be known until later in the calendar year and this is constraining the current financial planning processes.

Timescales

NHS Lothian will agree the 16/17 budget at its Board meeting in March 2016 with East Lothian Council having agreed its 16/17 budget in February 2016. Therefore, the IJB will not have 'final' 16/17 budgets to include in its Strategic Plan which requires to be published for consultation in January 2016. Much of the Strategic Planning work will have to use indicative financial positions for planning purposes. It is clear that, in order to allow the IJB's to properly develop their Strategic Plans, indicative financial positions for the next (and following years) will have to be made available to the IJB at least before December of the previous financial year. This is an issue that requires to be discussed with the Partners during 16/17.

3.11 Proposed Financial Settlements for 2017/18 and 2018/19

The IJB will require a three year allocation from the partners to allow it to undertake a three Strategic Plan. As with 16/17, information for future years remains in development.

3.12 Risk Sharing Protocols

Discussions are underway with partners about risk sharing protocols. There are a significant range of financial pressures in both the Council and the Health systems and there will be financial management issues arising in 16/17. Risk sharing protocols will both protect the IJB and avoid unnecessary financial turbulence in the partners' operational processes. However, if nothing changes – that is if pressures remain where they are – then it will be challenging to make changes in the system and to deliver the goals and objectives of the Strategic Plans. Any financial risk sharing protocol must set any benefit to the IJB (and the partners) against the impact of that protocol on the IJB strategic plan. The appendix to this report considers a range of risks and a reflection of how the potential impact of these risks.

3.13 Each of the budget elements above has different elements of financial risk :-

- Adult Social Care – the key risk here – apart for the on-going management of operational pressures – is the impact of the spending review on the resources available to the Councils. Councils may have to ask their operational departments for significant levels of efficiency schemes which may have an impact on the operational department's ability to achieve their goals. In any event such programmes will consume management time which could be otherwise utilised in service development and redesign by the IJB.
- Core (ex CHP) budgets – the key financial pressure (and overall

funding pressures and other operational pressures are also issues in these budgets) lies within GP Prescribing wherein the average drug price has been and remains higher than the values used in the budget setting model. This is likely to remain a significant challenge in 16/17

- Hosted services – there are two key risks
 - An operational risk as above
 - The ‘sharing’ mechanism as discussed above.
- ‘Set Aside’ (Acute services)
The risks are the same as those with hosted services but the quantum of the financial pressures are considerably greater.

In both the Council and NHS Lothian budgets are underpinned by a range of efficiency schemes. In NHS Lothian it has proven very challenging to achieve these efficiencies on a recurrent basis especially within the Acute system.

3.14 ‘New’ Risks and ‘Old’ risks

Part of the risk sharing protocols above will have to consider the difference between new and old risks. Old risks are those of which the partners are already aware and those which they are currently considering management actions to support. However, as the IJB issues directions and makes changes to the way functions are delivered then the IJB might create financial risks that are not currently known to the system. The IJB will have to develop strategies to manage these risks as they will be of their own creation.

- 3.14 It’s important to note that although the IJB may have reservations about its proposed budgets, if it does not accept these budgets then it has no resources to support its Strategic Plan. In essence the IJB would not be able to publish its Strategic Plan.

3.15 Initial Conclusions

It’s apparent that 16/17 will be challenging financially and that the IJB’s influence on the 16/17 financial plans is limited. Risk sharing protocols will require to be drawn up both between the IJB and the partners and between the four Lothian IJBs. These should be, however, strictly time limited.

The issue of shares of pan Lothian services requires some sort of resolution in 16/17. The proposal being under development is that the IJB ‘accepts’ the proposals from NHS Lothian for 16/17 with the provisos that NHS Lothian presents to the IJB a clear view of the IJB’s ‘fair share’ of that service along with an analysis of the IJB’s historic usage of that service and that these shares are not set forever. The IJB

will have to ensure that its usage is in line with its fair share before the IJB is able to make any redesign of any service.

3.16 Directions

The IJB will action its Strategic Plan through directions to the Council and NHS Lothian. These directions require to lay out the financial resources allocated by the IJB to achieve the function(s). A paper will be presented to the IJB laying out a policy as to what is contained within directions and how these will be monitored. It is assumed that directions will be issued for the totality of the resources allocated to the IJB (that is both the payments and the set aside) and that directions will vary in specificity depending on the priorities for those functions in the Strategic Plan

3.16 Reporting

The IJB will require an appropriate reporting mechanism to allow it to monitor the achievement of its Strategic Plan through the outcome of its directions and reports to show the consumption of allocated resources. The integration scheme has specific sections on the management of over and underspends and a mechanism to report on this needs to be developed.

A further paper will be prepared for the IJB considering these matters and proposing a position.

3.17 Next Steps

As NHS Lothian and East Lothian Council continue to develop their financial plans and produce further considerations on financial assurance, this will be reported to the IJB.

The Strategic Plan will continue to be developed with whatever indicative financial information is available from the partners, but the partners must make indicative financial information available

The Scottish Government's guidance on financial assurance recommends that Internal Audit review the process to provide the IJB with further assurance. Having appointed a Chief Internal Auditor (CIA) the Chief Finance Officer will engage with the CIA and start this review

5 POLICY IMPLICATIONS

5.1 The relevant policy issues referred to in this report arise from the Public Bodies (Joint Working) (Scotland) Act 2014.

6 EQUALITIES IMPLICATIONS

6.1 There is no direct impact on inequalities arising from this report.

7 RESOURCE IMPLICATIONS

7.1 There are no additional resource implications arising from the content of this report.

8 BACKGROUND PAPERS

8.1 Report to the IJB – 27 August 2015.

AUTHOR'S NAME	David King
DESIGNATION	Chief Finance Officer (Designate)
CONTACT INFO	david.king@nhslothian.scot.nhs.uk
DATE	20 October 2015

Appendix – Consideration of risks

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 is 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 Financial Plans – 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 available 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 that 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

Income – both the Health and to a greater extent the Social Care operational budgets are supported by income. In health this is generally income from outwith Lothian (from other Scottish Health Boards or from other government bodies) and within Social Care this income is from chargeable services. As activity varies then the income may vary. However, generally the costs are fixed and therefore this might generate a pressures within the operational budget.