

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

**MEETING DATE:** 31 March 2016

**BY:** Chief Finance Officer

**SUBJECT:** Update on Financial Assurance

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## **1 PURPOSE**

- 1.1 This report updates the Committee on the current position of the financial assurance process for the 2016/17 budget setting process.

## **2 RECOMMENDATIONS**

It is recommended that the Committee:

- 2.1 Notes the financial assurance work that has been undertaken to date.
- 2.2 Considers the recommendations made by the Audit and Risk committee at its meeting of 23 March 2016 (outlined in paragraphs 3.6.1 – 3.6.11).

## **3 BACKGROUND**

- 3.1 The start date for the IJB's agreed Strategic Plan is 1 April 2016. At that time the IJB will require an appropriate level of financial resources to allow it to deliver the functions that have been delegated to the IJB in line with the IJB's Strategic Plan.
- 3.2 These financial resources will have been made available to the IJB from East Lothian Council and NHS Lothian and the IJB is required to undertake a process of financial assurance to examine the proposed financial allocations for the Partners.
- 3.3 Updates and consideration of this process has been reported to the IJB and a final paper was presented to the IJB's Audit and Risk Committee at its meeting on 23 March 2016.
- 3.4 This paper built upon a previous report which had been presented to the previous meeting of the Audit and Risk Committee which detailed

the work that had been undertaken to date and noted the elements of work that had yet to be completed

3.5 The key elements at that time that remained to be completed were:-

- A formal proposition from East Lothian Council to the IJB regarding financial resources for the functions that the Council has delegated to the IJB
- A formal proposition from NHS Lothian to the IJB regarding financial resources for the functions that the Health Board has delegated to the IJB
- A detailed analysis from both partners of all efficiency or recovery actions built into these propositions. This will allow the IJB to review the impact of any cost base reduction proposals on its ability to deliver the Strategic Plan
- A financial risk sharing agreement between the Council, NHS Lothian, East Lothian IJB and the other Lothian IJBs (as appropriate) to allow the IJB to put an appropriate risk management strategy in place

3.3 At the time of writing, the position on each of these is as follows:-

3.3.1 The IJB is in receipt of an offer from East Lothian. This offer is based on the Council's agreed budget (set at its meeting on 9 February 2016). This letter (which is attached as the Appendix to this report) lays out the following:-

	<b>£m</b>
Adult Wellbeing 2016/17 approved Budget	47.868
<b>Less</b> Non delegated Functions	(0.800)
<b>Add</b>	
Non HRA – Private Sector Housing Grant	0.256
HRA – Disabled Adaptions (Capital)	0.600
HRA – Garden Aid	0.234
<b>Total IJB budget allocation</b>	<b>48.158</b>

It should be noted that this amount includes the IJB's share of the Scottish Governments Social Care Fund (£4.37m). This offer also includes East Lothian Council proposals to utilise the Social Care fund. Although further work is required to refine and understand the details, the CFO (Chief Finance Officer) on behalf of the IJB will write and confirm that the IJB agrees to this proposed use of the Social Care Fund.

However, its should be noted that this budget has embedded in it c.£2.3m of efficiencies and the Director of Health and Social Care is still finalising his proposals to achieve these efficiencies.

3.3.2 Further discussions with NHS Lothian have taken place and NHS Lothian has continued to share their financial planning assumptions

and updates in considerable detail with the IJB. However, a final offer has not been received at this stage as was discussed in the previous report and at the previous meeting the Committee agreed to accept recommendation 2.3 in the financial assurance report which said:-

*That the Audit and Risk Committee agree to consider an indicative position from NHS Lothian in 2016/17 and to make this recommendation to the IJB.*

3.3.3 As is described above, this analysis has not yet been received. As was discussed in the previous report, NHS Lothian will not have a balanced financial plan by 1 April 2016. NHS Lothian will submit its 2016/17 financial plan to the Scottish Government in May 2016 and the IJB will have to await the completion of that process before it can consider the impacts of any efficiency/recovery programmes on its ability to deliver its Strategic Plan.

3.3.4 It has not been possible to develop a financial risk sharing agreement at this time. Discussions are continuing to consider the requirements of the Integration Scheme both in line with the initial budget setting processes and also within the processes for managing under/over spends within the IJB's budgets.

3.4 The IJB will have to undertake a final financial assurance process early in 2016/17 on receipt of the information from NHS Lothian and East Lothian Council as above. The out-turn position for 2015/16 will be available at that time along with the recovery/efficiency plans. It is proposed that this work is carried out at the end of the first financial quarter to allow a review of the current financial position as part of this work.

3.5 There are three tests to be applied to the financial assurance process:-

3.5.1 Is this process reasonably transparent and are the financial risks clear?

East Lothian Council and NHS Lothian have shared all their financial planning assumptions, detailed working schedules and information with the IJB. They have met with the IJB's officers and discussed positions and proposed models. The IJB has been briefed both formally and informally on this process. However, because NHS Lothian's financial plan is not completed and East Lothian Adult Wellbeing efficiency schemes are not finalised, it is not possible to fully understand the financial risks at this time.

3.5.2 Are the resources proposed 'fair'?

This element can itself be divided into two parts:-

Is the underlying baseline budget for the functions being delegated (and this is normally expressed in terms of services) a fair share of the total resources available to the partner. In terms of the Health service budgets these are all simply historical and have been developed incrementally over a long period of time. The Adult Wellbeing budget, although more discrete has also evolved over a period of years. In

order to clearly understand if the underlying service budgets represent a reasonable share of the total resources available to the partners a significant exercise would have to be undertaken and its not clear how long this would take or if there is any real appetite to undertake it. On that basis, it is recommended that the underlying base budgets are accepted at this time.

The other element is an equitable distribution of the resources that the Council and NHS Lothian have available in 2016/17 to the IJB. As is discussed above, both partners have shared their planning and allocations processes. Although further clarity is required (for example around the 'shares' of pan-Lothian services) generally this process seems to have delivered a 'fair' offer to the IJB although in order to fully understand this position it will also been necessary to examine the efficiency schemes to ensure that these also treat the services 'fairly'.

### 3.5.3 Are the resources 'adequate'?

It is clear that the resources available to both East Lothian Council (in absolute terms) and NHS Lothian (in real terms) are less in 2016/17 that they were in 2015/16. Added to that, the impact of demography and an increasingly frail population creates additional pressures to the Health and Social Care system. It is very unlikely that the resources are now adequate to continue delivering the Health and Social Care services in the way that they are being delivered but they do represent all the resources that are available.

### 3.6 Having discussed this matter the Audit and Risk Committee agreed to the following recommendations which they wish to make to the IJB. These are that the Committee:-

- 3.6.1 Notes the financial assurance work that has been undertaken to date.
- 3.6.2 Recommends that the East Lothian Integration Joint Board (IJB) accepts the proposal from East Lothian Council subject to assurance from the Director of Health and Social Care on the resources available to support the Adult Wellbeing services delegated to the IJB, especially on his plans to achieve the significant efficiency target. The efficiency plans to clearly articulate the impacts (if any) on the IJB's Strategic Plan and to be supported by a clear timetable for each scheme.
- 3.6.3 Recommends that the IJB agrees to East Lothian Council's proposals regarding the use of the Social Care Fund.
- 3.6.4 Recommends that the IJB agrees to support an indicative proposal from NHS Lothian based on the current health budget setting model subject to final financial assurance to be undertaken after NHS Lothian submits its LDP (Local Development Plan, really financial plan) to the Scottish Government in May 2016. Any recovery plan or efficiencies

proposed by NHS Lothian should clearly articulate the impacts (if any) on the IJB's Strategic Plan and to be supported by a clear timetable for each scheme.

- 3.6.5 Recommends that the IJB receives a further report on the 16/17 financial assurance at the end of the first quarter in 2016/17. This will include a detailed of all efficiency schemes proposed by both partners and an examination of the IJB's actual financial position.
- 3.6.6 Recommends that the financial assurance for the IJB is also considered as part of the totality of the financial resources available to support the overall community services in East Lothian. This will entail considering the IJB's resources as part of the overall community planning partnership.
- 3.6.7 Recommends that the IJB ensure that an appropriate process for financial and performance management is put in place as early in the financial year as possible to allow the IJB to fully understand the financial and performance position.
- 3.6.8 Recommends that further entries are made on the IJB's risk register to recognise the impact of the constraints on the financial resources in the delivery of the services and that a set of mitigation actions is developed and monitored.
- 3.6.9 Recommends that the IJB requests a further analysis of the NHS Lothian budget setting model to review the East Lothian 'share' of the pan-Lothian services and analysis of East Lothian's historic usage of these services. This work to support the creation of a clear financial baseline for the IJB.
- 3.6.10 Recommends that the IJB ensures that the process for financial planning for 2017/18 and thereafter starts more timeously and that the IJB engages with the Scottish Government to review the national health financial planning process.
- 3.6.11 Recommends to the IJB that they request the Chief Officer and the Chief Finance officer to undertake to develop and appropriate financial risk sharing agreement with East Lothian Council and NHS Lothian.

#### **4 POLICY IMPLICATIONS**

- 4.1 There are no further policy implications arising from this document.

#### **5 EQUALITIES IMPLICATIONS**

- 5.1 Any changes to workforce arrangements will be subject to equality impact assessments.

## **6 RESOURCE IMPLICATIONS**

- 6.1 The resource implications are discussed above but, in summary these cannot be adequately analysed until a final position is available.

## **7 BACKGROUND PAPERS**

- 7.1 Financial Assurance report to the Audit and Risk Committee of 23 March 2016.

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<b>DATE</b>	28 March 2016

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Councillor Donald Grant  
Chair of East Lothian Integrated Joint Board  
John Muir House  
Haddington  
EH41 3HA

Dear Councillor Grant

**Financial resource proposal from East Lothian Council to East Lothian Integration Joint Board – 2016/17, 2017/18 and 2018/19.**

As you will be aware, from 1 April 2016, the responsibility for delivering the functions as laid out in the Integration Scheme agreed by East Lothian Council and NHS Lothian commences. As such, the formal proposition from East Lothian Council to the IJB laying out the financial resources that will be 'paid' by the Council to the IJB in relation to these functions is set out within this letter.

This proposal has been derived from the Council's budget for 2016/17 which was approved on 9 February 2016, and includes East Lothian's share of the national £250m 'social care fund' of £4.37m.

The proposed use of the Social Care fund investment in 2016/17 has been discussed in detail with the IJB's Chief Officer and Chief Finance Officer, details of which are set out within **Appendix 1** of this letter, and it is my view that these proposals meet the commitments which were set out in the Deputy First Minister's (DFM) letter to Council Leaders of 27 January 2016. We are continuing to refine the costs associated with delivering these commitments, and I will ensure that the IJB is kept informed of any changes in the use of the fund driven by increased costs that are not quantifiable at this time. As set out in the DFM letter, I would be grateful to receive confirmation of the use of the social care fund from East Lothian's Chief Finance Officer on behalf of the IJB.

The funds to be allocated to the IJB is set out within the table below, and include elements of expenditure from within the Housing Revenue Account, as well as an adjustment made to the Adult Wellbeing budget to take account of Supporting People expenditure which is not part of the wider delegated functions which have been approved within the scheme of integration.

	£m
Adult Wellbeing 2016/17 approved Budget	47.868
<b>Less</b> Non delegated Functions	(0.800)
<b>Add</b>	
Non HRA – Private Sector Housing Grant	0.256
HRA – Disabled Adaptions (Capital)	0.600
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I confirm that these budgets represent the resources available to the Council to support the functions that have been delegated by the Council to the IJB.

You will be aware that this budget has been presented on a NET basis, and assumes that £2.375m of efficiencies will be delivered by Adult Wellbeing service during 2016/17. The Director of Health and Social Care will provide you with his plans to achieve these efficiencies in 2016/17.

The Council has approved a 3 year budget covering the period up to 2018/19, and whilst these we have only received confirmation of a one year financial settlement from the Scottish Government, the IJB should be planning on delivering services and planned efficiencies across the next 3 years within the indicatives budgets which have been approved, albeit recognising that these will be updated each year to reflect Scottish Government grant settlement and contractual commitments. Details of the 2017/18 and 2018/19 budgets which will be delegated to the IJB are set out in **Appendix 2** of this letter.

Clearly, the timescales are now very tight and I would be grateful for a response to this letter (including your response to our proposed use of the Social Care funds) at your earliest convenience.

Yours sincerely



Jim Lamond  
Head of Council Resources (CFO)  
East Lothian Council



**East Lothian Council****Utilisation of the Integration Fund - 2016/17**

	<b>Per Budget £000's</b>	<b>Per Budget £000's</b>
Opening Adult Wellbeing Budget Efficiency Schemes	45,873 <u>(2,375)</u> 43,498	45,873 <u>(2,185)</u> 43,688
		<b>Closing budget 2015/16</b>
		Agreed efficiencies 2016/17
		<b>Supporting Pressures</b>
<b><u>Utilisation of Integration Fund</u></b>		
Direct Pay and Pension costs	464	500
Service Pressures (including living Wage)	1,741	464
Additionality - Day Centre Investment	50	1,221
Additionality - not yet agreed	<u>2,115</u>	2,185
	4,370	
Closing Budget	47,868	
		<b>Total Investments</b>
		Further Efficiencies
		4,370 (190)
		<b>Opening budget 2016/17</b>
Half of £4,370	2,185	47,868

**East Lothian Council****Indicative Budgets to IJB 2017/18 and 2018/19**

	<b><u>2017/18</u></b>	<b><u>2018/19</u></b>
Adult Wellbeing Budget	46.399	45.306
<b><u>Less:</u></b> Non Delegated Functions	-0.800	-0.800
<b><u>ADD:</u></b>		
Non HRA - Private Sector Housing Grant	0.256	0.256
HRA - Disabled Adaptations (Capital)	0.600	0.600
HRA - Garden Aid	0.236	0.239
<b>TOTAL IJB BUDGET ALLOCATION</b>	<b><u>46.691</u></b>	<b><u>45.601</u></b>