East Lothian
Integration Joint Board

REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 22 February 2018

BY: Chief Finance Officer

SUBJECT: Outline Three Year Financial Plan – 2018/19, 2019/20 and 2020/21

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1 PURPOSE

1.1 The report further develops the IJB's financial strategy and presents an outline draft of a three year financial plan for the IJB.

2 RECOMMENDATIONS

2.1 The IJB is asked to:

- Note the report
- Support the continued development of both the financial strategy and the financial plan.

3 BACKGROUND

3.1 The IJB requires to prepare a multi-year financial plan which will lay out how the IJB will resource the delivery of its Strategic Plan. At its August 2017 meeting the IJB agreed to draw up a 'straw man' outline financial plan – that is a financial plan laying out a set of propositions which will both inform the partners of the direction of travel and stimulate discussion around the proposed position.

3.2 This proposition was further considered by the IJB at its December meeting, the paper also articulating the IJB's underlying financial strategy – that is a series of principles which will underpin the redesign of the service delivery of the IJB's functions to both manage down the costs and provide capacity to manage further demand.

3.3 The IJB held a workshop in January 2018 to discuss the financial planning principles and process around the delivery of the financial

plan. Agreement to the principle that would support the financial strategy and the overall direction of the financial plan was accepted.

3.4 There is a difference between the financial strategy and the financial plan. The financial strategy lays out the principles through which the IJB will deliver its financial plan, the financial plan being a statement of what financial resources will be used to deliver the functions that have been delegated to the IJB.

3.5 In terms of operational delivery, it's envisaged that the Health and Social Care Partnership will largely be the delivery model for the delegated functions working on the broad premise that any service that can be managed by the partnership should be managed by the partnership.

3.6 That said, in the case of some pan-Lothian health services and specifically the Set Aside services the IJB will have to work with the other Lothian IJBs and NHS Lothian to ensure that the goals in the IJB's Strategic Plan are delivered. Clearly the IJB needs to understand how its delegated functions managed in the Acute system can be transformed and will work with the Acute management teams to deliver this transformation. Work is underway with NHS Lothian to ensure that a proper financial model exists to allow funds to be transferred from the Acute system as activity is moved into a community based setting.

Financial Context

3.7 Broadly, the financial context is simple. Demand for health and social care services is increasing and the financial (and staffing) resources to deliver health and social care services are decreasing. Demand is driven by improvements in medical technology, increased patient expectation and demographic changes and the UK government's policy of constraining public expenditure has reduced the financial resources available. It's also important to note that health and social care is facing serious staffing shortages – for example it is very difficult to recruit GPs and social care workers.

3.8 It's clear that the current delivery model employed by both Health and Social Care is not sustainable in the longer term and the IJB is committed to changing the service delivery model for health and social care to allow it to live within both the financial envelope and to recognise the current staffing issues.

3.9 Of course, the IJB remains committed to delivering the highest quality of care and to continue to tackle the issue of inequalities. However, achievement of these goals does not necessarily require the expenditure of more money – the IJB will achieve these goals by changing the delivery model of health and social care to a locally managed, locally delivered, integrated services that support the population on a holistic basis. The IJB will also continue to engage with its public and continue to develop the realistic care, realistic

expectations programme. This will be further explored in the IJB's financial strategy.

3.10 At its December 2017 meeting the IJB received a report which was an illustration of the financial challenges and a reflection of the impact of not changing the delivery model. This report highlighted that 'in total, over the three years this amounts to increased cost demand of c. £20.4m, and, expressed as a percentage of the IJB's opening baseline for 2017/18 efficiency targets of 5.7% in 2018/19 , 4.4% in 2019/20 and 4.2% in 2020/21'. Although this work was undertaken before the Scottish Government announced its budgetary proposals for 2018/19 (along with further amendments that have since been made) the financial pressures remain significant.

Financial Strategy

3.11 The IJB's financial Strategy will lay out, as was discussed in the October paper and in more detail in the January workshop those underlying principles and mechanisms which themselves will underpin the IJB's financial plan. A summary of these, along with some examples is attached as Appendix 1. It's important to recognise that much of this work is already happening, for example integration of the delivery of services has commenced, the Musselburgh Primary Care hub reflect the proposed redesign of primary care, hospital at home and extra care house change the balance of care.

3.12 The IJB will build on the principles of realistic care and realistic expectations and this work will be supported through wide ranging public engagement which will not only explain how the health and social care service delivery is changing but will also engage the public as key elements in the delivery of their own care

3.13 The key themes underpinning the financial strategy are :-

- Prioritising the Allocation of Resources
- Making more efficient use of resources
- A move from failure demand to prevention
- A move from hospital care or care homes to community based services
- A move to improved quality and access
- A move from working in silos to team working
- A move from reactive to anticipatory care planning

3.14 Both NHS Lothian and East Lothian Council have also produced financial strategies. These plans are complementary to that of the IJB in that they both agree that the current service delivery model requires fundamental redesign.

Outline three year financial plan

3.15 Appendix 2 is the first iteration of a high level financial plan for the IJB. This is based on the current information available – that is based on East Lothian Council's budget and the NHS position as presented to their Finance and Resource committee in January 2018. This plan lays out the current 'do nothing' position and illustrates the financial challenges in the system. However, it shows how the principles of a multi-year plan would be presented.

3.16 Thus the simple principle behind this financial plan is that the IJB will identify the total resources available to it and then use these resources to deliver its Strategic Plan. The IJB will not plan to spend any more resources than it has available and given the discussion on the pressures arising from the 'do nothing' option this will present significant challenges.

3.17 This process starts with a proper mechanism through which the IJB agrees the total resources available. The current mechanism by which NHS Lothian and East Lothian Council make offers to the IJB will not change and the IJB will have to undertake financial assurance on the' budget' proposition from the partners however, these propositions will not constitute either health or social care budgets but, as described above, the totality of the resources available to the IJB.

3.18 As before, the IJB will have to decide if the financial propositions from the partners are 'fair' and equitable. NHS Lothian are currently undertaking further work to establish a 'fair share' budget and this process will be more transparent that the current budget setting process. NHS Lothian's most up-to-date position on this work is laid out in a paper that was presented to the Lothian Finance and Resources committee in November 2017. This is attached for reference (Appendix 3).

3.19 The Council's budget proposition is simpler in that it is basically the budget for adult wellbeing care, although given the principle above the council is actually deciding what resources it will allocate to the IJB having delegated the delivery of social care to the IJB.

3.20 The plan does not differentiate between who will deliver, in operational terms, the functions (presented as programmes) and the total against each programme also provides an indication in intent – increased investment, continued investment or reduced investment.

3.21 Clearly, given the discussion above regarding the totality of the challenges, even with the application of the changes articulated in the strategic plan there will be financial pressures in individual programmes as (for example) pressures arise from increased pay awards and contractual uplifts along with demand pressures. Against each programme line an indication of the potential pressures which has been extracted from the financial planning details of the partners. It should be remembered that the January '18 iteration of the NHS Lothian financial plan does not have a break-even position in any of these three years and, although East Council has set a balanced budget for each

of the three years, the efficiency targets included in that plan have been shown as pressures.

3.22 The IJB's financial plan is based on the assumption of break-even on a year on year basis and although the IJB can create reserves this mechanism has not been considered in this first draft. This plan will become a discussion document in that it will show where the IJB proposes to utilise its financial resources and where it will invest and where it will disinvest. That said, the plan does not, in any meaningful way, propose investments in any programmes, with the exception of those investments planned by the Scottish Government. Given the overall constraints in resources it is proposed that the 'best' position in years one to three for a programme is a (relatively) flat settlement.

3.20 The base position in the plan (2018/19) is based on the current operational budgets. Ideally a zero based budgeting exercise would have been undertaken which would have prioritised the overall use of resource and directed the resource accordingly. However, this has not been possible at this time however although the total value for the programme is based on the current budgets this does not mean that individual services budgets will remain the same. The services that deliver each programme will have to deliver the programme using no more that the overall resources for that programme.

3.21 The Management Teams will now have to construct operational budgets that fit the resources envelope expressed in the programmes and this will give them the opportunity to redesign their services based on the principles that the IJB has articulated in its financial strategic.

3.22 As is described above, the IJB's functions have been gathered into 'programmes'. These programmes are based on those used in local authority planning and reporting with the additional of specific health issues – primary care and set aside. Appendix 2 describes the contents of the programmes

3.23 The IJB was previously presented with the Scottish Government advice on prioritisation. Prioritisation is simply the exercise of deciding which services to support within the constrained resources with those services not prioritised not being supported. This recognises that not every service currently being provided can continue to be provided and the SG advice provides a model to undertake this exercise.

3.24 Its accepted that the 'programmes' are necessarily at a relatively high level and that each programme will, using the principle and models laid out in the financial strategy have to redesign within the resources elements in the plan. Of course, it is also accepted that these overall resource elements are based on the current budgets and not on a fundamental review of how the total resources available to the IJB should be used (and prioritised). This exercise can be carried out in the next financial year to support a revised plan in future periods.

3.25 The plan does not currently recognise any further investments in Health and Social Care as indicated by the Scottish Government in their 2018/19 budget proposition. These elements will be built into subsequent plans once the details have been finalised.

4 ENGAGEMENT

4.1 This work has been widely discussed at the IJB. The principles and ideas have also been laid before the IJB's Strategic Planning Board.

5 POLICY IMPLICATIONS

5.1 There are no further policy implications arising from this report.

6 INTEGRATED IMPACT ASSESSMENT

The subject of this report has not been through the Integrated Impact Assessment process but this process will be undertaken as the plan is further developed.

7 RESOURCE IMPLICATIONS

7.1 Financial – discussed above

7.2 Personnel – none.

7.3 Other – none

8 BACKGROUND PAPERS

8.1 Reports to the IJB – August 2017 and December 2017.

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Appendices

1. Draft Financial Strategy
2. Draft Financial Plan
3. NHS Lothian – review of IJB budget setting model

Summary Outline – Financial Strategy **APPENDIX 1**

1. Introduction

The Financial Strategy lays out the principles and process the underpin the IJB's financial plan. These principles support the Scottish Government's overall policy of changing the balance of care and supporting people in their own homes or in a homely setting as far as possible. This is a first draft and will continue to be developed as the principles below are further developed by the operational teams.

2. Principles.

There are a range of broad principles that will underpin the financial strategy, these are

Prioritising the Allocation of Resources

Given the financial and staffing constraints it is very likely that some services or elements of services currently offered within Health and Social Care will have to be stopped. It is a very challenging exercise but the IJB's plan will have to look at the outcomes delivered by its services and consider how each service contributes to the overall outcomes as described by the Scottish Government. Some of this work will fall naturally out of the service redesign and the IJB's underlying principles of transparency and engagement with the populations it services should support this process.

1. Making more efficient use of resources

Part of the NHS Lothian financial strategy is an principle of improved efficiency in every service. Some of this will be delivered by redesign and some may be delivered by advances in technology.

2. A move from failure demand to prevention

There is little doubt that early intervention, especially in health will both improve that quality of life for individual and often reduce the need to later more costly interventions and treatments. A key part of this is 'co-production' – that is making sure that the individual is fully involved in their health and rather than a recipient of treatment a partner in their overall care.

3. A move from hospital care or care homes to community based services

This is fundamental to the principle of changing the balance of care – the Scottish Government's policy is that more care should be delivered in the home or in a homely setting. Institutional services, especially large acute hospitals are not only costly but the experience of the patients is often poor. Not, of course, in terms of the quality of the clinical care but it terms of having to be moved from the individuals home and then to be returned back into the community a process which can lead to delays in discharge.

4. A move to improved quality and access

Improved quality of care should lead to better outcomes and mean that individuals do not have to be admitted to institutional services or that they do not have to be readmitted to care unnecessarily. Improved access to the appropriate level of care should support quality and should also support reductions in unnecessary interventions and thus reduce costs.

5. A move from working in silos to team working

In simplest terms this would entail the creation of a 'care team' whose members would support individuals based on the premise that the most appropriate member of the care team intervening where required. The current model often provides a highly trained specialist to support an individual who then refers onto another specialist or to a more generalist support. The system is currently designed around quite specialist services (the 'silos') and the redesign will move from a specialist based system into a team based system with specialist support.

6. A move from reactive to anticipatory care planning

This is an underlying principle to the treatment of individuals with long term conditions or needs. Simply – rather then wait until a crisis and respond to that crisis, a long term anticipatory plan will support the individual through their care path.

3. Examples

Most of the above principles are currently being developed in terms of new services or service redesign. None of the above is new and the partnership management teams have, over the past few years been developing new services and redesigning current services using the above principles.

The whole structure and ethos of the local health and care service has been changed by the creation of the partnership by East Lothian Council and NHS Lothian. This has been further developed by the implementation of a single management team structure wherein managers manage both health and social care services that deliver support to individuals. This has allowed the creation of integrated care teams and generated additional efficiencies and improved the quality and appropriateness of services. In additional to this, services previously managed on a pan-Lothian basis

have been disaggregated (Substance Misuse services and Learning Disabilities services) and moved into the partnership, thus allowing these services to be incorporated into the local teams.

The creation of Step-down beds, hospital at home and hospitals to home have supported the principle of changing the balance and have reduced the bed usage at the Acute hospital sites.
The development of Musselburgh primary care hub has supported improved access to primary care services and the ability to direct individuals to the most appropriate care provider. This development also support capacity in primary care allowing improved access.

The further development of extra-care housing will support many of the above principle – not only changing the balance of care but also providing better anticipatory care

4. Next Steps

As discussed above, this financial strategy requires further development and a further iteration will be brought back to the IJB as part of the overall development of the financial plan during 2018/19

APPENDIX 2

East Lothian IJB Financial Plan – 2018/19, 2019/20 and 2020/2

1. Introduction

This is the first, draft high level multi year financial plan for the IJB. It shows the totality of the resources that will be available to the IJB and then how the IJB will use these resources to deliver its Strategic Plan.

The use of these resources is laid out on a programme basis and the resources available to each programme in each year shows the intent of the IJB to either invest or disinvest in the overall resources available to each programme.

The operational management teams of the partners will be asked to prepare service budgets that fit into the overall programme envelope. The opening financial plan below is based on the indicative recurrent budgets built up on a service basis, however it may be that the later iterations of the plan will use a zero-based budgeting approach to build up service budgets from scratch but that has not been done at this time.

It should be noted that this plan has been prepared based on the current information provided by the partners – that is on the East Lothian Council's budget for 2018/19 and beyond and the iteration of the NHS Lothian financial plan as presented to the Lothian Finance and Resources committee in January 2018.

The plan is prepared for the next three financial years and is based on information provided by the partners. That information shows an indicative allocation for the IJB along with a subsidiary analysis of the financial pressures, the financial pressures being pay wards, contractual uplifts and operational pressures. This financial analysis has been used to show an indicative financial pressure in all three year. This is, of course, based on the 'do nothing' option and the partners are finalising efficiency plans that will address these pressures along with further service redesign as discussed in the financial strategy

2. Detailed Assumptions.

2.1 The resources available are based on the current status of the partners' financial plans. These do not take account of any additional health resources as indicated by the Scottish Government in their 2018/19 draft budget. The resources are net of client contributions and other income – the IJB has no authority over charges made by either partner.

2.2 The programmes are based on the recurrent service budgets which have been grouped together into programmes, these programmes are

described further below. The programmes are services that provide care for that category of individual and will be provided b y both NHS Lothian and East Lothian Council.

2.3 In principle the budget against each programme indicates the total amount of the resources that the IJB will use to support the delivery of that programme.

2.4 The operational units will be required to lay out delivery budgets that, in accordance with the IJB's financial strategy that will deliver the IJB's delegated functions

2.5 The Primary Care programme consists of :-

- Budgets for the operation of GP Practices across East Lothian (GMS)
- The IJB's share of a range of support to the GMS budgets which is managed on a corporate basis
- Budgets for the GP prescribing

It should be noted that the costs of the delivery of the General Pharmaceutical Services, General Dental Services and General Ophthalmic Services do not have budgets as such and are not included in the Primary Care Programme

3. Financial Plan

3.1 This is the start of an iterative process and the next steps (see below) identify the further work that requires to be undertaken.

3.2 The plan shows the recurrent budgets (expressed in programmes) along with the indicative financial pressures as extracted from the partner's financial planning systems.

3.3 There are, in this plan, apparently no further investments in Primary Care. This is function of this particular model and will not be the case in reality. As the East Lothian population increases, the national formula to distribute the national GMS resource will increase the funds to East Lothian. The Scottish Government has also committed to an increase in Primary Care funding over the next few years of c. £250m nationally. As these funds are made available to the IJB, they will be invested in Primary Care services.

3.4 The plan is appended to the end of this report.

4. Management of Financial pressures

The financial strategy lays out an approach to redesign and this approach will be used to redesign the services in line with the resource

envelop as above. However, it can be seen from the first version of the analysis above that the two largest elements of pressure lie within Primary Care and Set Aside.

- The Primary Care pressure is GP prescribing, this being generated by a non-recurrent investment in 2017/18 budget and projected increased growth in future years. The Partnership is working with the Partners to identify if any further recurrent resources are available to underpin this pressure and with GPs who are considering a 'de-prescribing' exercise which will reduce demand and therefore prescribing costs. It may be that further efficiencies will have to be delivered, however, to underpin prescribing resources
- The Set Aside position requires further analysis. Although Set Aside services have a significant staffing element (and therefore cost pressures are generated by pay awards in excess of funding uplifts) there are a further range of pressures which the IJB will require to understand further. The IJB has already directed that it will not support additional investments in Set Aside and it will expect resources (and cost pressures) to be released as the IJB's Acute Bed usage reduces.

5. Programmes

   The programmes are as follows and include both health and social care budgets -

   - Older People – social care and health services for older people, including beds in the Edington and Belhaven Hospitals, Care Home beds and district nursing.
   - Children's Services – only Health Visiting services are currently delegated to the IJB. These are considered to be the only children's services
   - Learning Disabilities – social care and health services for individuals with learning disabilities – much of the health services are currently provided corporately by NHS Lothian (including beds at the REH) although the community element of these services is currently being transferred to the Partnership.
   - Physical Disabilities –health services for individuals with physical disabilities largely services delivered on the Astley Ainslie Hospital site
   - Mental Health - social care and health services for individuals with mental health issues including acute and rehabilitation beds at the REH.
   - Primary Care – this is described above and does not include non-cash limited services (GOS, GPS and GDS)
   - Other – costs of management administration and planning and Public Protection and Criminal Justice for the Partnership. The IJB's

share of Dental, Dietetics, Arts Therapies, Smoking Cessation, Family Planning and Podiatry services. There are also a range of budgets for the support to voluntary organisations.

- Acute Set Aside – the delegated services are :-
    - A & E (outpatients)
    - Cardiology
    - Diabetes
    - Endocrinology
    - Gastroenterology
    - General Medicine
    - Geriatric Medicine
    - Infectious Disease
    - Management
    - Rehabilitation Medicine
    - Respiratory Medicine
    - Therapies
- Integrated Care Fund /Social Care Fund – although much of the SCF is currently invested in supporting increased service delivery costs (living wage etc), the IJB wished to retain a governance overview of this investment.
- Substance Misuse Services – health and social care services to support those individuals with misuse issues with drugs and alcohol, including MELDAP

6. Next Steps

As was discussed above this is the start of an iterative process. Ideally the plan should reflect changes in investments and changes in priorities expressed in financial terms with a direction of travel obvious over the period of the plan and showing (if applicable) movements between programmes. The following steps are required:-

- Consideration of the delivery of efficiencies laid out above within the current position
- Consideration of prioritisation of the overall resources available to the IJB.
- Engagement with partners and discussion of any reprioritisation of IJB resources
- Engagement from the operational teams regarding their proposals and agreement to deliver services within the agreed financial envelope.
- Further mapping the revised financial plan onto the directions
- Improved financial monitoring and management in year in terms of cost and delivery
- Improvements financial monitoring in terms of outcomes.

East Lothian IJB - Three Year financial Plan ('do nothing') - 2018/29, 2019/20 and 2020/21 Appendix 2

Programme	Recurrent Budget 18/19	Non-Recurrent budget18/19	EL IJB Total Budget 18/19	Projected Recurrent Exp 18/19	Projected Variance 18/19	Budget 19/20	Proj. Exp 19/20	Projected Variance 19/20	Budget 20/21	Proj. Exp 20/21	Project Variance 20/21
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Older Peoples Services	36,927		36,927	36,889	38	36,682	36,745	-63	36,937	36,605	333
Children's Services	1,388		1,388	1,350	37	1,422	1,391	31	1,456	1,433	23
Learning Disabilities	15,973		15,973	16,107	-134	16,011	16,201	-190	16,049	16,555	-506
Physical Disabilities	3,306		3,306	3,292	13	3,319	3,311	8	3,333	3,330	2
Mental Health	8,931		8,931	9,266	-335	9,064	9,504	-440	9,117	9,727	-610
Primary Care	34,369	1,922	36,291	37,294	-1,003	34,427	38,258	-3,831	34,485	39,264	-4,779
Other	20,455	-1	20,454	20,421	33	20,298	20,373	-75	19,978	20,175	-197
Acute Set Aside	21,147	85	21,232	22,122	-890	21,534	22,887	-1,353	21,922	23,704	-1,782
Integrated Care/Social Care Fund	6,130		6,130	6,131	-1	6,130	6,131	1	6,130	6,131	-1
Substance Misuse	1,854		1,854	1,947	-93	1,867	1,993	-126	1,881	2,042	-161
	150,480	**2,005**	**152,485**	**154,820**	**-2,335**	**150,755**	**156,795**	**-6,040**	**151,287**	**158,965**	**-7,678**

Appendix 3

NHS LOTHIAN

Finance and Resources Committee
15th November 2017

Director of Finance

UPDATING THE IJB BUDGET AND COST ALLOCATION MODEL

1 Purpose of the Report

1.1 This paper seeks endorsement of the proposal to progress an update to the allocation of budget and cost to each IJB within Lothian using a refined allocation model.

1.2 This paper sets out the following:

- The current arrangements in place to model and allocate NHS Lothian budgets and costs to each IJB;
- The proposed changes to modelling and allocating budget and cost to more fairly reflect the resources delegated to and utilised by each IJB;
- The next steps required in order to ensure these arrangements can be progressed timeously.

2 Recommendations

2.1 The Committee is recommended to:

- **Agree** the principle to explore the modification of the budget setting model based on an NRAC share;
- **Endorse** the proposal to utilise patient level data as a means to ascribe costs to IJBs based on the utilisation of services within their patient population.

3 Discussion of Key Issues

Current Allocation Model

3.1 With the creation of the four IJBs, a budget allocation model was agreed by NHS Lothian through its Finance and Resources Committee in 2015/16, taking effect from 1st April 2016. This model has been the basis of financial reporting throughout 2016/17 and 2017/18. The IJBs accepted the principles within the model on the basis that this would be reviewed again in the future.

3.2 In summary, the extant allocation model identifies budgets associated with delegated functions, and allocates those budgets to IJBs using an appropriate allocation tool:

- For **Core** services, Partnership budgets are allocated in full to the IJB;

- For **Hosted** services (held within a specific Partnership on behalf of all Partnerships), budgets are allocated to IJBs based on appropriate shares, mainly using PCNRAC;
- For **Set Aside** services (those services operationally managed within Acute services but are functions delegated to the IJB), the same principle is applied as that used for Hosted Services.

3.3 PCNRAC is a derivative of the National Resource Allocation Committee model utilising information from Practice list sizes. Where delegated functions contain services that are used by the wider Lothian population, PCNRAC is a tool which can allocate shares of budget to the IJBs on the following basis:

- Edinburgh 57%
- East Lothian 12%
- Midlothian 10%
- West Lothian 21%

3.4 For costs, the same allocation principles apply. Therefore if PCNRAC is used to allocate a budget in a cost centre, the same PCNRAC calculation will be applied to the expenditure against this budget heading.

3.5 Chief Finance Officers have been fully involved in the construction of the model, and continue to participate in the refinement of allocations. They are also supportive of the principle to modify the model as set out in this paper, although remain concerned with the potential turbulence that a refinement to the model may cause, highlighting a requirement to have measures in place to protect IJBs from any volatility.

Challenges of the Current Allocation Model

3.6 Whilst the current model has been useful in supporting agreements around budget setting, financial planning and reporting financial performance in the early years of the IJB, there is recognition that the model would benefit from enhancements, both in relation to the allocation of budgets to the IJB, and distribution of cost.

3.7 NHS Lothian currently receives its allocation from the Scottish Government on an NRAC basis. The current IJB allocation model applies a split which is essentially historical in nature and does not take a holistic view when considering budget allocation. For example, budgets for Core services are allocated directly to each IJB without any consideration of the relative size of those budgets.

3.8 The latest information on NRAC shares at an IJB level in 2017/18 (based on the latest IJB data) are:

- Edinburgh 56.16%
- East Lothian 12.36%
- Midlothian 10.61%
- West Lothian 20.87%

3.9 One of the key tasks of the IJB is to strategically plan healthcare provision for its patient population. To do this, the IJB also needs good information on how its patient group currently utilise services across Lothian. The current cost allocation model does not distinguish this.

3.10 Given the current model has been in situ for two years giving IJBs time to settle, it is now an appropriate time to review the allocation principles with the aim of making it more responsive to IJB requirements, whilst recognising those concerns raised around system turbulence.

A new approach to setting budget and allocating actual cost to IJBs

3.11 It is now proposed that a review to the allocation model be undertaken to provide more robust budget and cost information to the IJBs. The proposal breaks down as follows:

- **Budgets** – The allocation model would be revised to recognise proportionate shares of the total resource included within delegated functions. This would result in an NRAC share of Core, Hosted and Set Aside budgets being allocated to each IJB;
- **Costs** – Patient level data would be used to create a new proxy for resource utilisation where possible. Costs associated with a specialty would be split across each IJB based on an appropriate usage related weighting, such as occupied bed days for a ward cost. It is recognised that patient level data may not be available across all services, and where this is unavailable an agreement to use NRAC to split actual cost will be pursued as an interim measure.

3.12 Allocating costs to an IJB on the basis of usage would reflect the use of services from the relevant population and would allow a better understanding of how resources should be deployed in the future.

3.13 It is important that any budget and cost allocation model is clearly understood by both NHSiL and each IJB. The model requires to be tested and any turbulence caused by this change of approach understood and, if required, a transition plan prepared and agreed. Any issues relating to specific budgetary areas within IJBs which may render the application of an NRAC approach inappropriate will also need to be reviewed. Any model revision must also consider the consequent strategic and operational arrangements to support the delivery of the services, and the ongoing reporting support required. And finally the model needs to be agreed by the IJBs.

3.14 Timescales for the implementation of any new model will be dependent on a number of factors, and it is not currently expected to have the new arrangements agreed and in place for the 2018/19 financial year.

Next Steps

3.15 Following agreement by the F+R committee and subsequent support from each IJB, a number of strands of work will be progressed:

- Application and review of NRAC shares to overall delegated (and agreed) budgets;
- Application of Patient level data to delegated costs to provide an updated share of resources;
- Agreement on the arrangements for monitoring performance;
- Agreement with the IJBs on any interim arrangements required to mitigate against turbulence created from the new model;
- Agreement on the protocols for budget reallocation based on IJB requirements.

4 Key Risks

4.1 There is a risk that the development of budget and actual models do not provide sufficient detail to allow an accurate understanding of the use of resources at IJB level. There is also a risk that the output will create too much potential turbulence that the model cannot be agreed.

5 Risk Register

5.1 At this stage, no further updates need to be added to the Risk Register. This will be reviewed following the conclusion of the modelling process.

6 Impact on Inequality, Including Health Inequalities

6.1 There are no implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper. This will require to be reviewed from any follow up work required.

7 Duty to Inform, Engage and Consult People who use our Services

7.1 As this particular paper does not relate to the planning and development of specific health services there was no requirement to involve the public in its preparation. Any future service changes that are made as a result of the issues raised in this paper will be required to adhere to the Board's legal duty to encourage public involvement.

8 Resource Implications

8.1 There are no resource implications arising specifically from this report.

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