

## **West Lothian Integration Joint Board**

Date: 16 February 2016

Agenda Item: **8**

### **IJB FINANCE ARRANGEMENTS AND FINANCIAL ASSURANCE UPDATE**

#### **REPORT BY DIRECTOR**

##### **A PURPOSE OF REPORT**

The purpose of this report is to provide information on the proposed financial management and governance arrangements for the IJB and provide an update on the financial assurance process for 2016/17 budget contributions to the IJB.

##### **B RECOMMENDATION**

1. To note the proposed financial management and governance arrangements for the IJB budget in 2016/17
2. To note the proposed approach to financial assurance and the progress and proposed timescales for the completion of the financial assurance process.

##### **C TERMS OF REPORT**

###### **C.1 Background**

The Public Bodies (Joint Working) (Scotland) Act 2014 established the framework for the integration of health and social care in Scotland. The Act requires new financial arrangements to be put in place for the delivery of integrated health and social care functions. The new arrangements will involve delegation of relevant functions and budget resources by West Lothian Council and NHS Lothian to the IJB from 1 April 2016.

###### **C.2 West Lothian IJB Financial Arrangements**

The West Lothian Integration Scheme, approved by the Scottish Government, sets out the financial arrangements in respect of finance for the West Lothian IJB.

###### **IJB Delegated Functions and Resources for 2016/17**

The approved Integration Scheme details the functions that have been agreed to be delegated to the IJB from 1 April 2016. There are four main elements of services and resources which will be delegated to the IJB which are:

- West Lothian Adult Social Care Services – This will represent the Council approved budget for 2016/17 for the services agreed to be delegated
- West Lothian Delegated Community Health Services – This will represent the NHS Lothian approved budget for 2016/17 for the services agreed to be delegated

- Share of Pan Lothian Hosted Health Services – this will represent a share of the NHS Lothian approved 2016/17 budget for delegated hosted services.
- Share of Acute Health Services – this will represent a share of NHS Lothian approved 2016/17 budget for delegated acute services.

The total of the agreed 2016/17 budgets for the first three of the above elements will represent the 'payment' to the IJB. The legislation uses the term 'payment' to describe the budget contribution that the Council and NHS Lothian will make to the IJB. However, the approved contributions will not be cash payments to the IJB, rather the term payment means the budget contributions that have been agreed as resources delegated to the IJB.

The share of the 2016/17 delegated acute services budget will not form part of the payment to the IJB but will be a set aside amount that is taken account of in IJB strategic planning, linking to the key objective of shifting the balance of care from acute to community care.

Council services and budgets are accordingly only delegated in relation to adult social care services meaning that children's social care services and budgets are not within the remit of the IJB. In relation to NHS Lothian, services and budgets are mainly delegated in relation to adult health services. In addition, the following health functions delegated to the IJB will include services and budgets in relation to people under the age of 18 years.

- Primary Medical Services and General Medical Services (including GP Pharmaceutical Services)
- General Dental and Public Dental Services
- General Ophthalmic Services

In preparation for resources being delegated, significant work has been undertaken to identify the level of relevant 2015/16 budgets that relate to functions that will be delegated to the IJB from 1 April 2016. The 2016/17 budgets will be calculated taking account of budget growth and savings approved by the Council and NHS Lothian. It should be noted that during the course of 2016/17 it is likely that there will be further movements in the approved contributions to the IJB, for example, as a result of additional Scottish Government funding received in year relating to delegated activities.

The budgets delegated to the IJB will relate to the direct service delivery functions and will exclude budgets relating to central support and overhead services (e.g. Legal, HR, Finance, Facilities Management and Estates) which will continue to be managed under existing arrangements reflecting the nature of these services. For VAT clarity purposes, support in relation to these services will be provided by the Council and NHS Lothian free of charge to the IJB.

The resources received from the Council and NHS will be allocated back to the partners by the IJB in line with the strategic plan and functions that they will be required to operationally deliver on behalf of the IJB. The allocation of resources by the IJB to provide functions will be formalised through directions to the Council and NHS Lothian.

Both the Council and NHS Lothian have expenditure commitments in the short to medium term that cannot be avoided. Given this and the fact that year one of the new health and social care arrangements will be a transitional year it is not anticipated there will be any material movement in the level of funds delegated to the IJB and the level of funds allocated back to the Council and NHS Lothian. However, the Board, through its Strategic Plan and through future directions issued by it, will be able to influence such commitments over time in relation to integration functions.

### **C.3 Financial Management and Governance**

#### Budget Responsibility

The IJB is responsible for making decisions on how the budget resources delegated to it are used and this will be informed by the Strategic Plan and the IJB Directions to the Council and NHS Lothian. The Directions must include the level of resources for carrying out the functions and the sufficiency of financial resources associated with directions must be robust and agreed with the party receiving the Direction.

The IJB Director will be responsible for managing the IJB budget and taking all action necessary to ensure spend is contained within budget resources available. This does not include the notional share of the acute budget, the budget management of which will remain the responsibility of NHS Lothian.

A report on the appointment of the IJB Director has been prepared separately for this IJB meeting.

#### Chief Finance Officer

The IJB will require to make arrangements for the proper administration of its financial affairs. The relevant legislation applying to integrated Joint Boards on financial matters such as administration and annual accounts is the Local Government (Scotland) Act 1973. Based on this, there is a requirement to appoint a section 95 Finance officer and the recruitment process is currently progressing. The IJB Finance officer will liaise closely with the Council section 95 officer and the NHS Lothian Director of Finance to discharge all aspects of their role.

#### Financial Regulations

The IJB will be required to have its own financial regulations. A draft set of financial regulations is currently being prepared and this will be presented to the Board for approval in March 2016. The Chief Finance Officer appointed by the IJB will periodically review these financial regulations and present any proposed changes to the Board for its approval.

#### Final Accounts

Integration Joint Boards are specified in legislation as Section 106 bodies under the terms of the Local Government Act 1973. As a result the IJB will prepare its financial accounts in compliance with the Code of Practice on Accounting for Local Authorities in the United Kingdom. The Chief Finance Officer will be responsible for preparing the IJB accounts and ensuring compliance with statutory reporting requirements as a body under the relevant legislation.

Final Accounts will be required in 2015/16 and Audit Scotland have been confirmed as the IJB auditors.

### Strategic Plan

The Strategic Plan will include a medium term financial plan. The Chief Finance Officer will be responsible for preparing this as well as the Annual Financial Statement that the IJB must publish under Section 39 of the Public Bodies (Joint Working) (Scotland) Act 2014. This statement will set out the IJB's spending plan for 2016/17 in implementing the Strategic Plan and indicative spending plans for future years contained within the plan.

### Financial Monitoring and Reporting

It is proposed that budgetary control and monitoring reports will be provided to the IJB on a quarterly basis. The reports will set out the outturn forecast against each element of the resources delegated to the IJB. This will reflect the agreed payments from the Board to the Council and NHS Lothian for carrying out integration functions and the amount set aside by NHS Lothian for hospital services. These reports will present the forecast positions of expenditure compared to operational budgets for delegated functions.

The Board is required to deliver its financial outturn within approved resources. Where financial monitoring reports indicate that an overspend is forecast on the NHS Lothian or the Council operational budget for delegated functions, the relevant party will be required to take the necessary action to manage the overspend and bring its operational budget back into balance. The IJB Director will be responsible for ensuring that action is taken to manage pressures arising.

In the event that, despite action taken, an overspend occurs at the year end the approved Integration Scheme states that the overspend is at the risk of the Party (NHS Lothian or Council) incurring the overspend after usage of any reserve available, and in the absence of any other agreement, must be met by the relevant Party.

In terms of a year end underspend, the approved Integration Scheme notes that any unplanned underspend, unrelated to any IJB direction, shall be returned to the Party delivering the underspend, except where the Parties agree that the underspend should be retained by the Board for future use. Any underspends retained by the Board would be established as a Reserve.

## **C.4 Financial Assurance**

An important part of ensuring the financial arrangements for integration will operate successfully is the assessment of the process for identifying the 2016/17 resources to be delegated to the IJB and the assumptions around these resources. Key financial risks associated with functions being delegated to the IJB should also be clearly explained as part of the financial assurance.

In terms of the financial assurance process in respect of 2016/17 budget resources delegated to the IJB, the proposed approach was previously reported to the Board on 20 October 2015. This took account of Scottish Government and Audit Scotland guidance and is set out below.

- An analysis of actual expenditure for IJB functions in 2014/15 and forecast year end spend for 2015/16
- Information on assumptions regarding estimated budget to be delegated to the IJB for 2016/17 and comparison against previous year spend and anticipated 2016/17 demands
- Information on key budget risks associated with functions that will be delegated to the IJB
- Information on approved budget savings for 2016/17 that relate to IJB functions
- Details of any non recurring budget that have been included in the budget resources delegated to the IJB

Work continues to progress around financial assurance and the key aspects of this is the 2016/17 budget settlement and planning work progressing by the Council and NHS Lothian. This is considered in the next section of the report.

## **C.5 2016/17 Budget Settlement and Planning**

### West Lothian Council

Based on the Scottish Government's draft 2016/17 budget announced on 16 December 2015, West Lothian Council's revenue grant funding is estimated to be reduced by 1.67%. It is currently estimated that this will result in the council facing an additional funding gap of £5.8 million in addition to the significant existing value of budget savings already agreed by the council for 2016/17.

The council's 2016/17 budget will be reported for approval by Council in February or March 2016. As part of this report, the budget resources associated with functions to be delegated to the IJB will also be reported for approval.

### Social Care IJB 2016/17 Budget

Work is continuing to progress on 2016/17 social care budget plans and the financial impact of increasing growth in social care demands in West Lothian resulting from a number of key factors including:

- Significant growth in the elderly population with increased social care demands. Over the five year period to 2017, West Lothian's population of over 75s will have increased by 20% compared to the national average of 7%. In addition, over the next ten years, West Lothian's population of over 85s is forecast to increase by 74% compared to the national average of 43%.
- Increasing pressure to provide social care capacity and responsiveness to meet delayed discharge targets.
- Increasing demand for adult complex care clients to move from a hospital setting to a community / social care setting.
- Impact of Living Wage on the cost of care services purchased from the private and third sector.

The impact of the above has been demonstrated by the council's investment in elderly care at home services increasing by 52% over the period 2012/13 to 2015/16. In addition, investment in care for adults with learning disabilities has increased by 93% over the same period. Cost pressures and demands in these areas are anticipated to increase further in 2016/17 and future years due to West Lothian's demographic position and the continuing focus on shifting the balance of care.

A further factor that will result in additional significant costs for social care in 2016/17 and future years is the introduction of the new statutory minimum wage and the ongoing movement towards paying the Living Wage. This will have a substantial impact on the costs to external care providers who provide the vast majority of care on behalf of the council and it is inevitable that this will have financial implications for social care costs.

The Scottish Government draft 2016/17 budget announced additional investment of £250 million per year through Integration Authorities to support the delivery of social care services, and the intended use has since been confirmed as follows:

- £125 million is provided to support additional spend on expanding social care to support the objectives of integration, including making progress on charging thresholds for all non-residential services to address poverty. This additionality reflects the need to expand capacity to accommodate growth in demand for services as a consequence of demographic change.
- £125 million is provided to help meet a range of existing costs faced by local authorities in the delivery of effective and high quality health and social care services in the context of reducing budgets. The allocation of this resource is intended to ensure that all social care workers, including in the independent and third sector, are paid £8.25 per hour. As part of this there is an assumption that the independent and third sector will meet their share of the increase in costs which the Scottish Government has assumed to be 25%. An implementation date of 1 October 2016 has been set out for introducing the living wage.

West Lothian's share of this funding has been confirmed as £7.13 million, split equally between the two elements above. The share of this funding, as well as teacher and council tax funding, is part of an overall offer of funding that Council Leaders are being asked to agree to by 9 February 2016.

Given the combination of increasing social care demands, significant inflationary living wage pressures and reduced cash funding settlement, and subject to Council agreement, the use of the additional £250 million fund will be critical to informing 2016/17 budget plans and helping ensure social care budget demands can be met. This will also impact on the level of savings that will be required in the social care functions delegated to the IJB

#### NHS Lothian

The Scottish Government's draft 2016/17 budget announced on 16 December 2015 indicates that NHS Lothian will receive an additional £71.3m of funding (circa 4.85%). This is made up as follows

<b>Description</b>	<b>£'000</b>
Base Uplift @ 1.7%	20,963
NRAC Parity Funding	14,000
Delayed Discharge Step up	712
<b>Sub Total</b>	<b>35,675</b>
Social Care Fund	35,625
<b>Total Additional Resources</b>	<b>71,300</b>

After taking into account current baseline pressures within NHS Lothian and the additional costs of pay and supply uplifts, drug cost increases and strategic developments NHS Lothian are projecting cost pressures of £108m in their 2016/17 financial plan. Work is underway within the NHS Business Units to develop financial recovery plans to close this gap.

Decisions are still to be made on the basis for allocating the baseline and additional resources across the four Lothian IJBs, Acute Services and NHS Lothian Corporate Services. Work is continuing in this area.

It should be noted that NHS Lothian are not required to submit their balanced financial plan to the Scottish Government until late May 2016.

Based on the above, it is anticipated that a further report on financial assurance of 2016/17 budget resources delegated to the IJB by the Council and NHS Lothian will be prepared for the 23 March 2016 meeting of the Board. This will set out the level of budget resources proposed by the Council and NHS Lothian and assess the assumptions attached to the level of resources delegated to the IJB.

Risks attached to the overall level of resources available for functions will also be considered as well as key risk areas of the budget that will require to be closely managed during 2016/17.

## **D CONSULTATION**

Relevant officers in NHS Lothian and Council and NHS National services Scotland.

## **E REFERENCES/BACKGROUND**

Public Bodies (Joint Working) (Scotland) Act 2014

West Lothian Integration Joint Board Integration Scheme

## **F APPENDICES**

None

## **G SUMMARY OF IMPLICATIONS**

<b>Equality/Health</b>	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, equality impact assessment has not been conducted. The relevance assessment can be viewed via the background references to this report.
<b>National Health and Wellbeing Outcomes</b>	None.
<b>Strategic Plan Outcomes</b>	None.
<b>Single Outcome Agreement</b>	None.

<b>Impact on other Lothian IJBs</b>	None.
<b>Resource/Finance</b>	The 2015/16 budget resources relevant to functions that will be delegated to the IJB from 1 April 2016 have been estimated at £201.588 million
<b>Policy/Legal</b>	None.
<b>Risk</b>	There are a number of risks associated with health and social care budgets, which will require to be closely managed on an ongoing basis.

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