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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