

Midlothian Integration Joint Board – Financial Assurance Update**Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of the Report**

The purpose of this report is to provide a further update to Council on the work undertaken to date on financial assurance in relation to the delegation of financial resources to the Midlothian Integration Joint Board, and on the work plan for the period leading up to delegation on 1 April 2016.

2 Background

In June 2015 the Board received Scottish Government approval to be legally constituted from 27 June 2015. The first meeting of the Board took place on 20 August 2015.

The work of the Board to date has included the appointment of a Chief Officer and a Chief Financial Officer, approval of a set of Financial Regulations and agreement to the setting up of an Audit and Risk Committee. Accordingly it is considered that the Board has put in place appropriate and proportionate financial governance arrangements. In addition to these arrangements it is important to note that the Board has focussed on consideration of its draft Strategic Plan.

A key task for the Board at this stage is to finalise its Strategic Plan for the period 2016-19. This plan will set out how the Board intends to address the health and care needs in the County and it will form the basis on which the Board issues directions for the delivery of services to both the Council and NHS Lothian. A key element of the Strategic Plan will be its associated Financial Statement which will detail the resources the Board expects to be delegated to it and how it will direct these resources to deliver the objectives set out in the Strategic Plan.

In broad terms, from 1 April 2016 Midlothian Council and NHS Lothian will both be required to transfer to the Board an agreed level of resources. It will then be for the Board to direct how these resources will be used and to provide resources back to the Council and NHS Lothian to deliver the services set out in the directions.

3 Midlothian Council Element of Delegated Budget

The element of the Council budget to be delegated to the Board from 1 April 2016 will be the Adult and Social Care budget as currently managed by the Head of Adult and Social Care. This will exclude central support costs and budgets managed across the Council such as utilities costs and property repairs.

In arriving at the quantum of the budget to be delegated, cognisance has to be taken of the resources consumed by the Council to deliver the delegated services over the last few years. The Financial Monitoring 2014-15 report presented to Council on 23 June 2015 showed, for Adult and Social Care, an underspend for the year of £0.457m on a net budget of £35.948m.

The budget setting process for 2015-16 made provision for pay awards and incremental progression, contractual inflation and for the estimated impact of demographic pressures which lead to an increase in demand for social care services. The calculation of the uplift for demographic pressures assumed that some of the pressures would be mitigated by the ongoing transformation of services. Additional savings of £0.244m, mainly in relation to staffing reviews, were agreed.

The Financial Monitoring 2015-16 report presented to Council on 3 November 2015 showed, for Adult and Social Care, a projected overspend of £0.950m on a recurring budget of £36.923m. There are financial pressures across the service, particularly in front-line services and purchased care (including care packages in the community, care home places and day care). There are minimal underspends available to offset these pressures. Work is ongoing to manage these pressures and an update report will be presented to Council on 9 February 2016.

Work on the budget setting process for 2016-17 is ongoing. Some of the pressures which have been identified during 2015-16, such as non-achievement of performance factor in front-line services, will be considered when setting the budget. At this time the anticipated budget provision required for the delegated services is around £38m.

The Council is expected to agree its 2016/17 Revenue Budget on 9 February 2016 and as part of this it will also need to agree the total resource to be delegated to the Board. One of the consequences of this will be a reduction in the flexibility in future years the Council has over its overall budget, estimated at £200m.

4 NHS Lothian Element of Delegated Budget

Work is ongoing within NHS Lothian to determine the level and makeup of the NHS budgets which will be delegated to the Integration Joint Board. The completion of this work and the final level of resources to be delegated by NHS Lothian is integral to the whole process of integration and accordingly this strand of work is a critical risk in terms of the delivery of the Board's Strategic Plan.

Whilst delegation of the Core CHP budgets (i.e. Midlothian specific budgets) is relatively straightforward, there are complications attached to the splitting of budgets for pan-Lothian delegated functions, some of which are hosted by individual IJBs. For these hosted budgets a transparent process will be necessary to ensure that a fair share of resources is given to each IJB. Also a decision will need to be made by the IJBs on the future of the existing risk sharing arrangements, for example in relation to prescribing.

NHS Lothian Finance and Resources Committee is giving ongoing consideration to the overall budget for 2016/17, the delegation of resources to IJBs and the risk sharing arrangements. A report presented to the Committee on 8 July 2015 is attached at Appendix 1. This report details the interim arrangements being proposed for hosted services, these being that financial risks for all hosted budgets are shared across IJBs in 2016/17 and that this arrangement is reviewed for future years.

A further paper on the overall budget for 2016/17 and financial risk arrangements for set aside budgets is under consideration. A final NHS Lothian budget and decisions on the resources to be delegated to the Midlothian Board is not expected to be available until March 2016.

5 Overall Budget of Integration Joint Board

The financial assurance process needs to ensure that the budgets delegated to the Board represent a fair share of that resource and that the risk sharing arrangements in place are acceptable. This work is of relevance to Midlothian Council to gain an appropriate level of assurance that cost pressures and financial risks borne currently by NHS Lothian do not transfer through the IJB arrangements and impact on Midlothian Council resources. Midlothian Council also needs to understand the resource being delegated back to it for the delivery of delegated services.

Further assurance work is required on the treatment, across the Board's budget, of over and underspends, and on the consideration of risks in relation to the directions which will be in place from 1 April 2016. It is anticipated that the four Lothian IJBs will adopt a model that gives some clarity on the existing risks currently managed on a pan Lothian basis by NHS Lothian (and that such pan Lothian arrangements will continue), and new risks which arise as a consequence of the directions issued by the Board will fall to the Board to manage.

6 Report Implications

6.1 Resources

There are no resource implications arising directly from this report. The report gives an update on the work around determining the initial budget for the Board and the work on financial assurance.

The Council will continue to provide service support to the work of the Board and there is a commitment to continue this support going forward. There will be no charge for these support services.

6.2 Risk

The Council and NHS Lothian continue to manage risk according to their own established policies and arrangements are being developed to manage these risks through the Board arrangements. The directions of the Board will bring a new facet to the risks and these will be managed by the Board.

The work being undertaken on financial assurance will identify and address the financial risks which are inherent in the new arrangements.

Council and NHS Lothian financial pressures will impact on the resources available to the Board at the same time as demographic pressures increase demand for services. NHS Lothian's overall financial position continues to rely on non-recurrent budgets to fund ongoing services.

There remains further work to be completed by NHS Lothian to determine the share of NHS budgets for pan Lothian delegated functions which will be allocated to the Board.

The future development of pan-Lothian services will be dependent on IJBs across Lothian working together effectively. There is a risk that this work will be dominated by the larger IJBs.

6.3 Policy

Strategy

The creation of new arrangements for Health and Social Care are consistent with one of the key findings of the Christie Commission that "public services work effectively together to achieve outcomes".

Consultation

Consultation has taken place with the Chief Officer and Chief Financial Officer of the Integration Joint Board. Finance workstreams continue to be discussed at a Lothian-wide level through a Section 95 Officers Finance Group with representation from the four Lothian authorities and NHS Lothian.

Equalities

There are no equalities issues arising from this report.

Sustainability

There are no environmental sustainability issues arising from this report

IT Issues

There are no IT issues arising from this report.

7 Summary

Budgets will be delegated to the Board by the Council and NHS Lothian from 1 April 2016. The Council, at its meeting on 9 February 2016, will, as part of determining its budget for 2016/17, also need to determine the amount of its resources to be delegated.

In the meantime work continues to progress the financial assurance process in advance of 1 April 2016 and to determine the resources to be delegated to the Board. Financial assurance will continue beyond the 1st April 2016 as the IJBs, Councils and NHS Lothian embrace integration.

8 Recommendations

Council is recommended to

- 8.1 Note the ongoing financial assurance process in relation to the delegation of financial resources to Midlothian Integration Joint Board.
- 8.2 Note that the amount to be delegated to the Board will be agreed as part of the Council's budget setting process for 2016/17.
- 8.3 Agree to receive a further update report in March 2016.

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