

HEALTH AND SOCIAL CARE PARTNERSHIP DRAFT FINANCIAL STATEMENT 2016/17 AND ASSURANCE OVER THE SUFFICIENCY OF RESOURCES

Aim

- 1.1 To provide the Shadow Board with a position statement in relation to the 2016/17 Health and Social Care Partnership's Financial Statement and Assurance report, detailing the level and sufficiency of resources supporting the first and future years' delivery of the partnership's Strategic Plan.

Background

- 2.1 Under the legislation, NHS Borders and Scottish Borders Council must make payment to the Integrated Joint Board for the delegated functions at the start of each financial year. In addition, NHS Borders must calculate and present the notional budget for large hospitals set-aside for the population of the Scottish Borders. These two elements form the overall integrated budget.
- 2.2 Within the Health and Social Care Integration Scheme for the Scottish Borders, it is defined that in the first year of operation of the Integrated Joint Board, the baseline payment made to it for delegated functions will be established by reviewing past performance and existing plans for NHS Borders and Scottish Borders Council for the functions delegated, adjusted for material items.
- 2.3 The 2016/17 delegated budget therefore is based on previous years' budget levels, adjusted incrementally to reflect:
 - Partners' absolute level of funding by the Scottish Government
 - Past performance and known areas of financial pressure arising due to cost, demand, legislative and other factors
 - Efficiencies and other required savings delivery to ensure overall affordability
 - New priorities as expressed within partners' plans and the Integrated Joint Board's Strategic Plan
 - Other emerging areas of financial impact

Draft Financial Statement

- 3.1 In summary, the proposed delegated budget for the Scottish Borders Health and Social Care Partnership at this point in development is **£144.426m**, whilst the budget retained for large hospital set-aside is **£18.128m**. Based on a range of factors, it will be for the IJB to agree whether to accept this proposed level of resourcing is sufficient to deliver both the functions delegated to it and its first year of progressing towards delivery of its medium-term Strategic Plan.
- 3.2 The draft delegated budget is based on the proposed/agreed budget for former NHS Borders and Scottish Borders Council functions delegated to the IJB from 1st April taking account of the adjustment factors above, together with the large hospitals budget set aside for the population of the Scottish Borders. In reality however, whilst this is the basis for the calculation of the Integrated Budget, the relevance is in the absolute value of the delegated and notional budgets and not on the component elements of how or within which organisation they were calculated.

3.3 A summary breakdown of each element of the partnership's budget is detailed in Appendices 1-3 of this report:

1. Draft budget delegated by NHS Borders
2. Budget delegated by Scottish Borders Council
3. Draft budget retained by NHS Borders in respect of large-hospitals budget set-aside for the population of the Scottish Borders

3.4 In summary terms, this amounts to:

	2016/17	2017/18	2018/19
	£'000	indicative £'000	indicative £'000
1. NHS Borders Delegated Functions	92,622	92,622	92,622
2. Scottish Borders Council Delegated Functions	51,805	51,856	52,356
Total Delegated Budget	144,426	144,477	144,977
3. Large Hospital Budget Set-Aside	18,128	18,128	18,128
Total Integrated Budget	162,555	162,606	163,106

Assurance

4.1 There are primarily two areas over which financial assurance is required by the IJB:

- Financial Governance
- Financial Assurance and Risk Assessment for Integrated and in particular, Delegated Resources

4.2 In terms of the former, the IJB has and will receive a number reports over progress regarding establishing robust financial governance arrangements including a view from the Board's Chief Internal Auditor, in addition to a progress report over compliance with best practice recommendations. Of equal importance and current priority is the latter area of assurance over the sufficiency of resources and any risks inherent in order to enable a view to be formed by the IJB as to whether the resources delegated to the it are adequate for it to carry out its functions, including the large hospitals budget set-aside for the population of the Scottish Borders.

Financial Risk

5.1 Risks over the sufficiency of resources delegated to the Partnership to robustly deliver its strategic plan can be categorised into 3 main types of ascending criticality:

- A. Assurance Arrangements Going Forward
- B. Mitigation of Inherent Financial Risks

C. Absolute Affordability

A. Assurance Arrangements Going Forward

1. The basis, regularity and frequency of periodic financial performance monitoring reports to the Partnership going forward

This reporting arrangement will enable clear understanding of the affordability of existing service provision and where variances arise, how they will be treated or addressed, either by partners or where appropriate, by the IJB, enabled by virement provision the Financial Regulations.

2. Agreement of Risk Sharing

Financial Regulations and the overall Scheme of Integration provide clarity over agreement for sharing risks between the IJB and its partners and how any in-year variations will be dealt with, during the first and future years of operation of the Integration Joint Board.

3. The agreed basis of calculation of future years delegated budget levels and representation of IJB priorities and targets within partners' financial planning processes

Going forward, adjustments in respect of budget variances, where appropriate and taking account of their root causes and options for addressing, will be made through future years' allocations to the IJB and in the directions from the IJB to its partners. The IJB will plan and allocate resources within the overall integrated budget, including transfers to/from the delegated and notional budgets and in future years, will present a business case for the integrated budget to its partners for consideration and agreement as part of the annual financial process and based on clear evidence in respect of activity, costs, efficiencies, performance and other factors which NHS Borders and Scottish Borders Council will evaluate this and negotiate respective contributions to the integrated budget accordingly

4. Audit and Risk Management Arrangements

The establishment of the IJB Audit Committee has an important role to play in the assurance process going forward and its role in assessing the IJB's objectives, risks and post-integration performance results will help demonstrate the IJB's effectiveness of delivering the Strategic Plan in an affordable manner and that its activities are founded on robust and effective governance arrangements. Similarly, each partner will seek and be provided with assurance over the arrangements both prior and post-integration and the roles of Chief Internal Auditors of both NHSB and SBC will enable this on an ongoing basis. In the immediacy, key areas of governance and assurance are in place through:

- The appointment of a Chief Internal Officer to the IJB
- Agreement over the establishment of the IJB Audit Committee Arrangements
- The development of a draft IJB Local Code of Corporate Governance
- The development of a draft IJB Risk Management Strategy

B. Mitigation of Inherent Financial Risks

1. Due diligence over how partners have addressed historic financial risks

experienced over the years leading up to the 1st April 2016

Both partners have undertaken considerable due diligence work, following best-practice methodology, in order to identify, quantify and where possible address recurring pressures within budgets to be delegated to the IJB by examining historic budget and spend profiles over the years 2013/14 – 2015/16. A more detailed analysis will be reported to the Board prior to the 1st April in order to provide fuller assurance over the sufficiency of overall proposed level of resources delegated.

2. Whether partners have identified and evidenced existing and emerging pressures and provided for either appropriate remedial action to address them or sufficient additional funding to meet their cost within the 2016/17-2018/19 Financial Plan

Again, the due diligence work undertaken has identified a range of pressures to which the integrated budget has been delegated and both partners' draft financial plans for 2016/17 demonstrate a commitment to investing in the areas at a sufficient level to ensure meeting their cost are met going forward, further analysis over which will be reported to the Board prior to the 1st April.

3. The deliverability of planned efficiency and other savings measures on which partners' financial plans are predicated and the degree over which the delegated budget can be assessed as being robust and affordable

As a result of the issues outlined in C below, without full clarity over the identification of fully identified and sufficient efficiency measures within the proportion of delegated budget from NHS Borders, then assurance over the deliverability of all savings required cannot be provided at the current time. However, as work progresses to identify and agree these measures, an assessment of any risks associated with them will be presented to the Board prior to 1st April in order to further provide assurance over both this area of risk specifically and the overall affordability of the Partnership's financial plan for 2016/17.

4. Certainty over the level of external/government funding for each financial year covered by the Strategic Plan

The draft budget to be delegated in totality remains provisional at the current time. Whilst Scottish Borders Council approved its financial plan, including the Health and Social Care Partnership's proposed delegated budget, on 11th February 2016, NHS Borders Budget remains unapproved at this point in time. Additionally, no final funding settlement from the Scottish Government to NHS Borders, has yet been agreed and any variance from assumed levels on which the draft budget is based, may have a further impact on both the absolute level of proposed delegated budget and also on any view over the sufficiency of resources available to support the Strategic Plan delivery next year.

C. Absolute Affordability

1. The absolute level of resources and a fully funded Partnership Financial Statement

This risk relates to the extent that the budget delegated by both partners to the partnership is wholly affordable, in respect of whether it is sufficient in financial terms to fully support

ongoing activity. Primarily, assurance is required that the assumptions on which the level of budget delegated are robust. In particular, it is critical that a view be formed in relation to how any budget gap will be addressed and that sufficient planned savings measures which require delivery in order for the budget to be 'balanced' and therefore functions delegated will be affordable, are both in place and clear.

In line with the proposed methodology above, the draft budget delegated by both partners is based on the 2015/16 baseline budget for functions to be delegated, adjusted incrementally by a number of factors. These include a range of growths/pressures to address historic, current and emerging pressures driven by increased costs, demand, legislative changes or Scottish Government funding conditions. In order to ensure overall affordability however, efficiency and other cost savings/increased income require to be identified in order to ensure the proposed budget delegated in 2016/17 is affordable in absolute terms and therefore fully funded.

Both NHS Borders and Scottish Borders Council have experienced or are experiencing considerable challenge in delivering balanced and affordable financial plans for 2016/17 as a result of a combination of further additional pressures arising from inflationary and other cost pressures or demographic increases in demand. In particular, the extent of the impact of Scottish Government funding settlements to both organisations has resulted in unprecedented resource gaps requiring to be addressed and the achievement of a balanced budget.

For 2016/17, NHS Borders total draft resource gap is **£11.451m**, whilst Scottish Borders Council's is **£11.155m**. For those functions delegated to the IJB or retained and set-aside, NHS Borders resource gap is **£5.327m** (£4.239m & £1.088m respectively), excluding a further £471k relating to specific earmarked allocations, whilst Scottish Borders Council's is **£2.663m**. Work is ongoing to critically challenge and quality assure the process through which both partners have calculated total resource gaps within the financial plan and their allocation of efficiencies and other savings to the Health and Social Care partnership.

Draft Budget delegated by NHS Borders

A summary of the proposed draft budget (at 29th February 2016) delegated by NHS Borders for 2016/17 is detailed below:

	2016/17
	£'000
Baseline Budget	89,408
Social Care Fund	5,270
Uplift	1,138
Other Agreed Uplifts	1,515
Efficiency	(4,239)
Other Savings	(471)
Proposed Budget	92,621

Draft Budget retained by NHS Borders and set-aside for large hospital services

In addition to delegated budget, the proposed draft budget (at 29th February 2016) for large hospitals retained by NHS Borders and set-aside for 2016/17 is:

2016/17

	£'000
Baseline Budget	18,158
Social Care Fund	0
Uplift	309
Other Agreed Uplifts	749
Efficiency	(1,088)
Other Savings	0
Proposed Budget	18,128

NHS Borders, in order to fully fund its financial plan in 2016/17, requires the delivery of a considerable level of efficiency savings. For functions that will be delegated to or held notionally for large hospitals in relation to the Health and Social Care Partnership's Strategic Plan next year, these amount to:

	2016/17 £'000
Delegated Budget:	
Efficiency	(4,239)
Other Savings	(471)
Retained Large Hospitals Budget Set-Aside:	
Efficiency	(1,088)

Within NHS Borders financial plan presently, only **£2.572m** of the **£4.239m** apportioned to the IJB currently has draft identified plans proposed for delivery. These are outlined in *Appendix 4* to this report. Further work is required to secure agreement over these proposals and their targeted efficiency savings. Even if accepted and approved, this leaves **£1.667m** of savings requirement unidentified. Additionally, there is also **£471k** of unidentified savings requirement relating to the functions and services specifically funded by earmarked Scottish Government grant in 2016/17 which have been reduced within the provisional NHS settlement by the government and which could require additional investment in order to sustain existing levels of services next year.

There are also **£1.088m** of efficiency savings relating to the notional large hospitals set-aside budget which requires further clarity at the current time. This results in a total efficiency requirement of **£5.798m** for Partnership services across delegated and notional budgets. In relation to the proposed efficiency targets and work undertaken to identify options for their delivery, further analysis and appraisal is required and, in particular, due diligence over this, before agreement can be reached. This will be undertaken during March and its outcome will be incorporated into the wider final financial statement and assurance report to the board, prior to 1st April 2016. Until full assurance and agreement over plans to deliver the required level of efficiency savings within both delegated and notional budgets is in place, this fundamental risk to the sufficiency of resources to the IJB remains high and will require to be considerably mitigated or eliminated before it can be recommended that the Board accept the level of budget proposed.

Draft Budget delegated by Scottish Borders Council

A summary of the proposed budget (approved 11th February 2016) delegated by Scottish Borders Council for 2016/17 is detailed below:

	2016/17 £'000
Baseline Budget	47,088
Social Care Fund	5,270
Pressures/Growths	1,439
Other corporately Pressure/Growths (e.g. manpower increments, inflation etc)	671
Efficiency and Other Savings	(2,663)
Proposed Budget	51,805

The baseline budget for functions to be delegated by Scottish Borders Council in 2015/16 was **£47.088m**. In 2016/17, it has been assumed that this will be supplemented by the transfer of resource from NHS of £5.270m through the Social Care Fund. In addition, a number of areas of investment have been made corporately or specifically within social care services to meet a range of pressures arising, which in total amount to £2.110m. However, in order to ensure the overall level of budget delegated is affordable, a range of efficiency and other savings have been identified which require delivery before or during 2016/17 amounting to **£2.663m** relating to Partnership services. Again, the robustness and deliverability of all proposals within the plan for savings is currently undergoing due diligence and assurance over this will be reported to the Board prior to 1st April.

A summary of how Scottish Borders Council will deliver its **£2.663m** of efficiency and other savings is detailed in *Appendix 5*.

At the present time therefore, assuming appropriate assurance over the deliverability of the proposed savings plans, their associated financial targets and the sufficiency of level of investment to meet pressures identified, the Council-delegated component of the overall delegated budget is, prima-facie, affordable and funded.

Conclusion

6.1 Following a number of steps taken to date, including:

- robustness of structure of and governance over both partners' respective financial planning processes
- due diligence over proposed delegated budgets
- management arrangements over the delivery of transformation and associated savings in place within NHS Borders and Scottish Borders Council
- the development of wider governance and financial planning and management arrangements pertaining to the IJB

6.2 With agreed resolution over the level and plans for delivery of required savings and a fully funded integrated budget subsequently arising, the Board will be able to form a clear picture over the overall sufficiency of resources available and accept the proposed budget to be delegated and the element retained by NHS Borders for large hospital set-aside.

6.3 Until further progress is made in order to identify sufficient and appropriately robust savings proposals which will enable a balanced and fully funded budget to be delegated to the IJB, assurance over the sufficiency of resources cannot be provided at this time and further work is required before a fully

assured 2016/17 Financial Statement can be presented to the Board prior to the 1st April.

- 6.4 At 7th March therefore, the Chief Officer and Chief Financial Officer to the IJB do not recommend acceptance of the draft delegated and notional budgets until this further work is undertaken and full assurance can be provided.**
- 6.5 It is critical that both partners work to enable the successful establishment of the Partnership and delivery of its Strategic Plan during its first year of operation in particular, but failure to fully fund the draft budget delegated to it or that notional budget retained by NHS Borders for large hospitals set-aside will result in significant risks to the delivery of the Partnership's Strategic Plan outcomes and / or the risk of overspending during its first year of operation, which under the Scheme of Integration will fall on the responsibility of the partner delegating the budget to make additional payment to cover the shortfall, if no delivery or recovery plan can be agreed.
- 6.6 If a plan cannot be agreed to fully fund the budget proposed for delegation to the IJB within the required timescale, then the IJB may be required to direct partner(s) to reduce spend within specific functions. Such a scenario, whilst wholly legitimate should circumstances dictate, would only be required if NHS Borders cannot / does not bring forward further proposals during March and is an option of last resort. In the first year following its establishment, it is important that the IJB is provided with maximum enablement to be successful both in its performance and financially and if this latter scenario was to apply, it would undoubtedly be with increased reputational and financial risks to both the IJB and its partners than the former.
- 6.7 In order to achieve this therefore, a further, more detailed report will be brought forward to the Partnership board, in advance of the 1st April seeking approval of the outcomes of the assurance process and acceptance of the proposed delegated and notional integrated budgets calculated and reported at that time.

Recommendation

It is recommended that the Health & Social Care Integration Joint Board:

- **Note**: the current position in relation to the production and agreement of a fully evidenced and funded joint delegated and notional budget for 2016/17 for the Scottish Borders Health and Social Care Partnership
- **Agree**: that further work should be undertaken to bring forward efficiency proposals within NHS Borders 2016/17 financial plan (delegated or non-delegated) or alternatively, identify other sources of potential funding in order to fully fund the proposed level of budget to be delegated to the Partnership on the 1st April 2016.
- **Agree**: that a final financial statement accompanied by a full assurance report be presented to the Board prior to the 1st April 2016 for approval, requiring the convention of an extra-ordinary meeting in late March 2016

Policy/Strategy Implications	In compliance with the Public Bodies (Joint Working) (Scotland) Act 2014 and any
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	consequential Regulations, Orders, Directions and Guidance.
Consultation	The report has been reviewed by both NHS Borders Director of Finance and SBC Chief Financial Officer and further consultation will be undertaken across all key stakeholders as part of the wider report to the IJB prior to the 1 st April 2016.
Risk Assessment	A full risk assessment and risk monitoring process for the Integration Programme is in place as part of the Integration Programme arrangements.
Compliance with requirements on Equality and Diversity	An equality impact assessment will be undertaken on the arrangements for Joint Integration when agreed, including the Integrated Budget in particular. The pressures / savings proposals within the Council component element of the budget have already been subjected to Equality Impact Assessment.
Resource/Staffing Implications	The report provides an interim position statement over the level of and sufficiency of draft Partnership resources for 2016/17, which will be further developed and presented to the board with full financial assurance by 1 st April 2016.

Approved by

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