

## **FINANCIAL STATEMENT 2016/17 - OVERVIEW OF DUE DILIGENCE PROCESS**

### **Aim**

- 1.1 To provide Integration Board (IJB) members with further information on the process of due diligence over the historic budgets supporting the functions delegated to the partnership from the 1<sup>st</sup> April 2016 and progress against the development of a Schedule of Payments to the IJB, for 2016/17, from partner organisations.

### **Background**

- 2.1 The Scottish Borders Health and Social Care Partnership approved its 2016/17 Financial Statement at its meeting of 30<sup>th</sup> March 2016. In order to do this, IJB members were required to form a view over the sufficiency of resources delegated for 2016/17. In order to enable a holistic view to be formed, a number of factors required to be considered by members, emanating from various individual pieces of work undertaken as part of the assurance process including:

- Evaluation of progress made by the Scottish Borders Partnership against the recommendations made by the Integrated Resources Advisory Group (IRAG) relating to the provision of financial management and governance arrangements. Reports have been previously made to the IJB in respect of compliance against the recommendations.. Similarly, in relation to the financial arrangements put in place, the IJB has, within reports on both 7<sup>th</sup> and 30<sup>th</sup> March 2016, been provided with assurance over their compliance with the partnership's Scheme of Integration
- Ensuring compliance with the partnership's Scheme of Integration – in particular, sections 8.1 to 8.6, which specifically lay out the key arrangements for financial planning and management operations of the IJB during the first year following its establishment and in subsequent years
- Definition of the wider governance mechanisms in place for the partnership and across NHS Borders and Scottish Borders Council
- In February 2016, PwC, NHS Borders Internal Auditor, published their findings from a review of the NHS governance arrangements pertaining to the integration of health and social care within the Scottish Borders. Within this report, it was noted that a number of documents referred to within the final Scheme of Integration have not yet been completed or signed off

- 2.2 A number of further work packages are now progressing in relation to wider governance arrangements such as internal audit and risk management and further reports will be made to the partnership in due course. Financial planning and management arrangements will be further supported by monthly monitoring reports to the IJB during 2016/17 and enhanced by the ongoing development of strategic financial planning and a more integrated approach to budget-setting prior to 2017/18.

- 2.3 The IJB agreed the 2016/17 Financial Statement on the basis of assurance over the sufficiency of resources provided within the supporting report. A key feature of this assurance was based on the outcomes from due diligence undertaken over the historical spend / base budget levels of delegated functions during the period 2012/13 to 2015/16.

## Due Diligence

- 3.1 The partnership's Scheme of Integration states that "in determining payment to the IJB in the first year (2016/17) for delegated functions, delegated baseline budgets will be subject to due diligence and comparison to recurring actual expenditure in the previous three years adjusted for any planned changes to ensure they are realistic" and that "there will be an opportunity in the second year of operation to adjust baseline budgets to correct any inaccuracies".
- 3.2 Accordingly, detailed analysis was undertaken on all budget monitoring reports made to the IJB and its Executive Management Team / Programme Board during the shadow year 2015/16 and on budget monitoring reports to NHS Borders Board and Scottish Borders Council Executive during financial years 2012/13 to 2014/15.
- 3.3 Accompanying this analysis were further considerations around the nature (e.g. one-off or recurring) of any reported pressures arising during this period, how they were addressed (e.g. temporarily or permanent / remedied in-year or as part of the annual budget setting process / etc) and with specific emphasis on any potential residual impact on 2016/17, whether the 2016/17 financial planning process and in particular, the partnership's Financial Statement provides financially for the recurring impact of any historical financial pressure. Examples of these considerations are those reported in the regular monitoring reports to the IJB, some examples including:
- The temporary drawdown of reserves by Scottish Borders Council to meet the 2015/16 costs of transferring homecare contracts to SBC Cares or the outcome from an Employment Tribunal on Night Support Sleep-ins / Living Wage
  - The use of underspends in Dental Services and Mental Health Services to offset the increased costs of some GP prescribed drugs which are in short supply.
  - The allocation of cash savings targets to locality teams
  - Managed staff turnover to deliver savings to offset wider pressures
- 3.4 A summary of 3-year outturn positions for delegated services is detailed in **Appendix A** to this report.

|                                    | 2012/13<br>Actual<br>£000 | 2013/14<br>Actual<br>£000 | 2014/15<br>Actual<br>£000 | 2015/16<br>Outturn<br>Projected*<br>£000 |
|------------------------------------|---------------------------|---------------------------|---------------------------|--|
| <b>Total Spend 2012/13-2015/16</b> | <b>131,523</b>            | <b>137,460</b>            | <b>138,484</b>            | <b>139,051</b>                           |

\*at 31<sup>st</sup> January 2016

- 3.5 As can be seen from the above summary, there has been a considerable increase in spend between 2012/13 and 2015/16 due to sustained net investment by way of uplift and growth/pressures across delegated functions within NHS Borders and Scottish Borders Council. This is a continuing trend and as a result of ongoing pressures above base budget, the delegated budget for 2016/17 proposed for the IJB is £139.150m as approved by the IJB on 30<sup>th</sup> March, based on the following component elements:

|  |               |
|--|---------------|
| <b>Total funding delegated by Borders Health Board</b>     | <b>£m</b>     |
|  | <b>92.619</b> |
| <b>Total funding delegated by Scottish Borders Council</b> | <b>46.531</b> |

- 3.6 A breakdown of the basis of the above delegated budgets is detailed in Appendix A.
- 3.7 A key reason for this ongoing net increase in budget is attributable to the actions aimed at ensuring the ongoing affordability of delegated services from 1<sup>st</sup> April. A number of key areas of financial pressure from previous financial years, which have recurred in 2015/16, have been identified in-year (as part of the ongoing monthly monitoring process) with appropriate remedial action put in place (within both delegated and non-delegated functions). All such significant pressures have been factored into the 2016/17 financial planning process as either recurring efficiency targets or new savings proposals, or as identification of an ongoing pressure and in respect of the latter, by a range of uplift and targeted investment into these budgets.
- 3.8 A summary of these significant recurring pressures experienced and reported during 2015/16, together with how they have been addressed as part of the 2016/17 financial planning process is detailed below:

---

|                                   |   |
|-----------------------------------|---|
| GP Prescribing                    | Projected 2015/16 pressure of £1.0m attributable to the cost of drugs in short supply / price volatility has been addressed by targeted uplift of £1.5m in 2016/17          |
| Older People Residential Care     | Additional demand for bed numbers above budgeted level £178k has been addressed by demographic pressure investment of the same amount in 2016/17                            |
| Older People Homecare             | Additional pressure of £579k attributable to additional provider costs and demand levels has been addressed by demographic and other targeted investment in full in 2016/17 |
| Learning Disability Night Support | Additional sleep-in costs due to living wage implications in 2015/16 has been addressed in full by targeted investment in 2016/17 £200k                                     |
| Phys. Disability Comm. Services   | Demand pressures have not yet been addressed in full through the 2016/17 financial planning process and require further permanent resolution during the financial year £50k |

---

- 3.9 Overall, during 2015/16, the level of the shadow delegated budget has increased from £136.3m to £137.8m, an increase of £1.5m in-year. This is in direct contrast to total projected spend of £138.5m, projected overspend of £700k.
- 3.10 For 2016/17, the planned base budget for delegated resources is £139.150m. This represents an increase in base budget of £2.85m, a significant proportion of which is attributable to the additional investment made to address historic and current pressures. Additionally, the increase is net of considerable savings targets allocated to delegated services in 2016/17, amounting in total to £7.373m, for which delivery plans have been, or are currently being, developed.

- 3.11 There are a considerable number of other areas of the delegated budget where variances have occurred over the period 2012/13 to 2015/16. These are both favourable and unfavourable and like all budgets across wider partner organisations, require ongoing management to ensure a balanced and breakeven outturn is delivered.
- 3.12 In addition to the above, a number of other emerging pressures not experienced during 2012/13 – 2015/16 but likely to occur in 2016/17 have also been addressed as part of the financial plan. Examples include expected cost increases due to the retendering of large Care at Home contracts due to take effect from 1<sup>st</sup> May 2016, or changes in legislation which have driven up the costs which require to be met by clients in receipt of Direct Payments which will require factoring into the DP rates structure from 2016/17.
- 3.13 Whilst these other ad-hoc pressures in these and other areas of the delegated budget may arise in future, with the levels of investment into these budget areas in 2016/17 outlined above, then following the process of due diligence undertaken, the budget is believed to be sufficiently affordable to meet current levels of activity / cost and was approved accordingly by the IJB on 30<sup>th</sup> March.

### **Schedule of Payments**

- 4.1 Within the legislation, a schedule of notional payments requires to be provided to Integration Joint Board following approval of the Strategic Plan and the Financial Statement. Section 8.6.8 of the Integration Scheme specifically states that the IJB will *“Provide a schedule of payments to the Integration Joint Board following approval of the Strategic Commissioning Plan and its related financial plan. It is intended that this will be a one-off payment made during April/May of each financial year. This payment may be subject to in-year adjustments.”*
- 4.2 The schedule of payments to be made in settlement of the payment due to the IJB will include the financial effects of:
- Resource Transfer
  - Virement between partner organisations during the course of 2016/17 (if any)
  - The net difference between payments delegated to the IJB and resources paid by the IJB in respect of its commissioning arrangements with partners (taking account of all intra-adjustments)

*Resource Transfer*

- 4.3 In terms of Resource Transfer, the following historical amounts have been paid to Scottish Borders Council by NHS Borders over the financial years 2012/13 – 2015/16 excluding Children's respite care (non-delegated):

|                                 | 2012/13<br>£000 | 2013/14<br>£000 | 2014/15<br>£000 | 2015/16<br>£000 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| St Aidans - Gattonside          | 735             | 749             | 764             | 764             |
| St Aidans - Liverpool           | 16              | 17              | 17              | 17              |
| Ark Housing                     |                 |                 |                 |                 |
| <i>Hawick Residential</i>       | 31              | 31              | 32              | 32              |
| <i>Tweedbank Residential</i>    | 25              | 25              | 26              | 26              |
| <i>Kelso Residential</i>        | 23              | 24              | 24              | 24              |
| <i>Kelso Respite</i>            | 41              | 42              | 42              | 42              |
| Gala Day Services               | 29              | 30              | 30              | 30              |
| Infrastructure Costs            | 38              | 39              | 40              | 40              |
| People with Mental Health Needs | 72              | 73              | 75              | 75              |
| Older People                    |                 |                 |                 |                 |
| <i>Crawwood</i>                 | 506             | 517             | 527             | 527             |
| <i>Saltgreens</i>               | 174             | 177             | 181             | 181             |
| Phase 1                         | 245             | 250             | 255             | 255             |
| Phase 2 and 3                   | 396             | 404             | 412             | 412             |
|                                 | <b>2,331</b>    | <b>2,378</b>    | <b>2,425</b>    | <b>2,425</b>    |

- 4.4 Historically, resource transfer provided a means of funding to establish services in the community at a time of considerable change and shift in the balance of care. It represents the cost of funding service provision, not specific to individuals, nor even specific models of care which over the years since, may have changed from how the baseline position was calculated. The impact of this change needs to be clarified for both NHS Borders and Scottish Borders Council.

*Net Payment: Social Care Funding*

- 4.5 In addition to Resource Transfer, following agreement and direction over the use of the Social Care funding element of the delegated budget (£5.267m), the relevant level of resources will transfer from NHS Borders to Scottish Borders Council in respect of the costs of funding social care services during 2016/17 (e.g. living wage, demand pressures, etc).
- 4.6 Presently within Scottish Borders Council's Financial Plan, the following provisions have been made:

| <b>Social Care Funding Earmarked</b>                         | <b>2016/17<br/>£'000</b> |
|--|--------------------------|
| Homecare demand shortfall                                    | 300                      |
| Older People demographic increases                           | 234                      |
| Increased young adults with learning / physical disabilities | 549                      |
| Living Wage (from 1st October 2016)                          | 1,474                    |
| Health & Social Care Partnership Uncommitted                 | 2,717                    |

**\*5,274**

\*rounded assumption

- 4.7 It will be for the IJB however to direct the full use of the social care funding, taking account of prevalent factors such as financial settlement conditions, forecast cost/demand pressures and partnership priority requirements for 2016/17, in line with the Strategic Plan outcomes. Once the full impact of the proposal to implement a living wage of £8.25 for all social care staff from 1<sup>st</sup> October 2016 is known, a further report on the direction in the use of all social care funding by the IJB will be made in June 2016.
- 4.8 Once finalised, a full report summarising the Schedule of Payments will be reported to the IJB for noting prior to the conclusion of the financial year and the production of 2016/17 annual statutory accounts. It is not anticipated however, that beyond those areas outlined above, there will be any further difference between the payments delegated to the IJB and resources paid by the IJB to NHS Borders and Scottish Borders Council during 2016/17.

### Timetable for Financial Reporting

- 5.1 Section 8.6.8 of the Integration Scheme also states that “in advance of each financial year a timetable of financial reporting will be submitted to the Integration Joint Board for approval”.
- 5.2 A detailed operational timetable for the production of reports is currently being developed. This timetable will ensure the reporting of full, frequent and regular budgetary control reports to each formal meeting of the Integration Joint Board during 2016/17. An exception report on the delegated budget will be made to each meeting of the Executive Management Team on a monthly basis.

### Recommendation

The Health & Social Care Integration Joint Board is asked to:

- **Note** the due diligence process undertaken to provide assurance over the 2016/17 delegated budget
- **Note** the concluded position that based on all known factors at the time of setting budgets for the areas delegated, that there are no identified recurring pressures of a significant nature that have not been addressed as part of the 2016/17 or prior financial planning processes
- **Note** that a report on the options for direction of £5.267m social care funding by the partnership will be made to the IJB in June 2016
- **Note** that a full Schedule of Payments between the IJB and its partners will be reported on conclusion of all financial activity prior to the production of annual statutory accounts at the end of 2016/17
- **Note** the proposed budgetary control reporting basis for 2016/17

|                                     |  |
|-------------------------------------|--|
| <b>Policy/Strategy Implications</b> |  |
| <b>Consultation</b>                 |  |
| <b>Risk Assessment</b>              |  |

|   |  |
|---|--|
|   |  |
| <b>Compliance with requirements on Equality and Diversity</b> |  |
| <b>Resource/Staffing Implications</b>                         |  |

**Approved by**

| <b>Name</b>  | <b>Designation</b>                              | <b>Name</b>     | <b>Designation</b>            |
|--------------|---|-----------------|-------------------------------|
| Susan Manion | Chief Officer, Health & Social Care Integration | David Robertson | Chief Financial Officer - SBC |

**Author(s)**

| <b>Name</b>    | <b>Designation</b>                    | <b>Name</b> | <b>Designation</b> |
|----------------|---------------------------------------|-------------|--------------------|
| Paul McMEnamin | Interim Chief Financial Officer - IJB |             |                    |