

UPDATE: FINANCIAL GOVERNANCE AND MANAGEMENT ARRANGEMENTS**PROGRESS TO DATE AND COMPLIANCE ASSESSMENT WITH LEGISLATION / RECOMMENDED BEST PRACTICE****Aim**

- 1.1 The aim of this report is to provide an update of the progress made within the Scottish Borders Health and Social Care Integration (H&SCI) programme in advance of 1st April 2016. The report summarised the latest position against compliance with the legislative provisions within The Public Bodies (Joint Working) Scotland Act 2014 and the subsequent recommended best practice guidance issued by the Scottish Government / Integrated Resources Advisory Group (IRAG), in terms of the establishment of the arrangements for Financial Governance and Management within NHS Borders, Scottish Borders Council and the Scottish Borders Health and Social Care partnership, specific to the establishment of the Integrated Joint Board (IJB).

Background

- 2.1 Specific to the establishment of an integration model for the Scottish Borders – delegation to a (body corporate) Integration Joint Board – there are 69 key provisions / recommendations within the IRAG guidance that require addressing, from a financial arrangements perspective and against which, progress has been evaluated. An updated summary of progress by the Scottish Borders partnership, with the recommended requirements, is detailed in Appendix 1 to this report.
- 2.2 Progress made to date has been identified in order to ensure that all required provisions in relation to the financial arrangements required by the Act or desired locally are in place. These arrangements will ensure all partners consider:
- The robustness of governance over the operations of the IJB now that it is established
 - The overall affordability of its Strategic Plan and any financial risks inherent
 - The adequacy of levels of delegated resources and controls over how these resources are managed
 - Any impact on NHS Borders and Scottish Borders Council that may have arisen as a result.
- 2.3 The Integration Programme Finance workstream Action Plan has been subsequently updated in respect of the initial review and progress update and it is anticipated at the time of writing this report that all required arrangements which require to be put in place prior to 1st April will be approved and established by the IJB.
- 2.4 These arrangements will be supplemented by an ongoing programme of development during the first year of operation of the IJB.
- 2.5 This report updates the previous report to the IJB on 7th March 2016.

Summary

3.1 Within the previous report to the IJB, Appendix 1 detailed 69 key IRAG provisions, against which overall progress to date was evaluated. These provisions covered a range of areas of financial governance and management:

- Governance Structure
- Assurance and Governance
- Financial Reporting
- Financial Planning and Financial Management
- VAT
- Capital and Asset Management
- Accounting Standards

3.2 Evaluation of progress was made based on the work undertaken to date and supporting evidence and a “RAG” rating (Red, Yellow, Amber, Green, Grey) applied against each provision. These were:

Actions Complete
Actions Complete, Minor Remaining Actions Profiled
Actions On Track, Actions Planned
Requires Further Action to be Instigated
Does Not Currently Apply – No Actions Currently Required

3.3 In early March, of the 69 provisions within the guidance, the following assessment was made:



- 30 provisions were assessed as Green
- 7 provisions were assessed as Yellow
- 18 provisions were assessed as Amber
- 6 provisions were assessed as Red
- 8 provisions were assessed as not requiring any action currently but may require addressing in the future



3.4 31 provisions therefore required one or more further actions in order to ensure that sufficiently robust arrangements are in place. These obviously varied in terms of their overall materiality and required timing however and during March 2016, focus has been specifically placed on ensuring that all required arrangements which require to be put in place prior to the 1st April, are. A summary of the progress made against these areas is outlined in Appendix 1, together with the current RAG rating, timing required and any outstanding issues.

3.5 Of the provisions stated within the guidance, 24 are believed to still require action (rated Yellow, Amber or Red). In terms of materiality however, only a small number require action prior to the first of April. All outstanding action points are summarised below in chronological importance. Each have one or more driving IRAG principle behind them and these are detailed, along with their current RAG rating – this will allow IJB members to cross-refer to the actual IRAG provision detailed in Appendix A.

Prior to 01 April 2016


3.6 Two immediate actions required undertaking prior to 01 April 2016. These were:

01 April 2016	The development, publication and approval by the IJB of a Financial Statement (1 year + 2 indicative years) outlining the resources delegated to support the Strategic Plan	Report to IJB 30 March 2016	<u>Provision Refs:</u>  
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01 April 2016	Assurance to the IJB over the 'sufficiency of resources' included within the Financial Statement and any inherent risks and mitigating arrangements put in place	Report to IJB 30 March 2016	<u>Provision Refs:</u>  
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3.7 The report to the IJB on 30th March 2016 detailed a medium-term Financial Statement for the partnership and proposed delegated and notional budgets for 2016/17. Accompanying the Financial Statement was a comprehensive statement of assurance over the sufficiency of resources detailed within these budget areas including an analysis of risks inherent, such as whether historic pressures have been addressed sufficiently within financial plans, the requirement to identify further savings proposals or risks to the delivery of efficiency/savings measures. By agreeing this report, the IJB ensured that IRAG provisions 34, 45, 40 and 67 are in place at the point when the IJB becomes operational following its establishment and that all recommended best practice / legal requirements are now in place, in advance of the 01 April 2016.

2016/17 – Strategic Developments





30-Jun-16	The allocation of resources within the outcomes of the Strategic Plan requires to be developed further		<u>Provision Refs:</u> 
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3.8 The 2016/17 delegated budget 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 Integration Joint Board's Strategic Plan
- Other emerging areas of financial impact

3.9 For the first year of the IJB therefore, the budget is formed by the product of both partner organisations' respective financial planning processes. Building on this, with

reference to the approved Strategic Plan, it is important that resource analysis within the Financial Statement is developed further, linking finances to the outcomes and objectives of the Strategic Plan and on a more detailed level, to the work of locality planning currently underway. This will further inform the development of an integrated financial planning process for 2017/18 onwards.

30 June 2016	The publication of written Directions from the IJB to NHS Borders and Scottish Borders Council detailing the duties of the IJB and partners and amount of delegated budget/set-aside and how it will be used, a description of services together with any supplementary provisions		<u>Provision Refs:</u>    
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3.10 Each Integration Authority is required to produce a Strategic Plan that sets out how services will be planned and delivered over the medium-term using the integrated budgets under its control. To action these, a mechanism is required by partnerships, as laid out in the Act, taking the form of binding directions from the IJB to one or both partners. A direction must be given in respect of every function that has been delegated to the IJB, setting out how each function is to be exercised and the budget associated with that. In relation to area b) above, the partnership should use Directions to NHS Borders and Scottish Borders Council in order to ensure actions are undertaken in order to make its overall 2016/17 financial plan fully funded and affordable. During early 2016/17, work will commence on developing initial medium-term directions by the IJB in order to deliver the Strategic Plan within its available resources framework, although directions can be given, retracted or superseded at any time.

31 August 2016	Refinement of and quality assurance over large hospitals budget set-aside remains ongoing following and will be incorporated into any revised financial statement		<u>Provision Refs:</u>  
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3.11 Work will also continue during the first half of 2016/17 to review the methodology for calculating the large-hospitals budget set-aside. Currently, direct costs-only has been used but going forward, the use of the Integrated Resource Framework (IRF) will be a key enabler of the calculation of the amount of these resources. The current approach is felt to be appropriate at the current time given that:

- IRF has currently not been fully updated in respect of 2014/15 expenditure and income and there have been considerable changes in spending patterns since 2013/14
- Further work is required to interrogate and interpret the Scottish Government summary tables of historic IRF information in order to determine overall relevance and usefulness in establishing the amount set-aside
- In terms of influence and therefore relevance to the IJB, direct-only costs are more likely to be, if required, increased or decreased in line with the requirements of the partnership's Strategic Plan over the medium-term of its life

- A key benefit of IRF will be to measure over time, the financial impact of changing policy decisions, delivery of strategic objectives and the degree to which resources have been realigned in their respect. At this embryonic stage however, it is believed that the direct spend supporting large hospital services under the Strategic Plan provides a more transparent measure of the resources controllable by NHS Borders which are consumed in specifically supporting the plan directly

3.12 As part of the work to further develop the financial planning process however, in advance of the commencement of planning for 2017/18 in late summer 2016, a new approach will be developed, developing not only the notional budget in line with the Scheme of Integration, but how the Strategic Plan and other key drivers such as 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, the requirement for efficiencies and other required savings delivery to ensure overall affordability influence the level of resources across all integrated functions:

31 August 2016	An integrated Financial Planning process, involving the IJB, within each organisation, which takes account of priorities and results in a negotiated contribution from each partner must further be developed for 2017/18		<u>Provision Refs:</u> 42 43
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30 September 2016	A Financial Strategy will be developed which will cover a number of key areas including forecast funding levels for the Integrated Budget, priority areas for investment and disinvestment and identification of financial risks and an approach to a strategy for building and managing IJB reserve levels		<u>Provision Refs:</u> 57
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3.13 This approach will also be developed concurrently with a Financial Strategy for the Integrated Joint Board and will include the requirements for both Revenue and Capital Planning within both partner organisations.

30 September 2016	The Integration Joint Board will identify the asset requirements to support the Strategic Plan to enable the Chief Officer to identify capital investment projects, or business cases to submit for consideration as part of each organisation's capital financial planning processes		<u>Provision Refs:</u> 68
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Other Operational Developments

3.14 In addition to the above summary actions, underpinned by the guiding principles referenced, there are a number of other operational financial planning, management and reporting tasks which require undertaking or agreement reached during 2016/17. These are:

During 2016/17	At an operational financial management level, a policy on the application of monthly accrual accounting requires further discussion and agreement		Provision Refs: 54
During 2016/17	Further work is also required in relation to clear identification of the nature, value, source and services supported by current Health Board Resource Transfer which will then require to be accounted for in the method of calculating the Integrated Budget of the IJB. Similarly, further work is also required in relation to hosted services.		Provision Refs: 48 49 50
During 2016/17	The IJB's Internal Audit Plan for 2016/17 still requires developing and approval by the IJB		Provision Refs: 24 25
During 2016/17	A proposed strategy for Insurance over the activities of the IJB still requires agreement and approval		Provision Refs: 23
During 2016/17	Completion of the risk analysis process (for both the IJB and NHSB/SBC – updated risk registers for both the latter organisations) is required and a Risk Register and Risk Management Strategy both require completion		Provision Refs: 19 20 22
During 2016/17	NHS Borders and Scottish Borders Council are in the process of reviewing their respective organisation's own Financial Regulations to ensure they are consistent with and complement the new proposed Financial Regulations of the IJB		Provision Refs: 18 59
During 2016/17	The Health Board and Local Authority may make use of non-current assets, owned or otherwise, to deliver the services in scope of the Strategic Plan. Arrangements for Capital Financial Planning require to be developed post April 2016		Provision Refs: 13

3.15 In addition to the above provisions, there are a number of financial reporting undertakings that require to be actioned at the end of each financial year, in order the IJB meet its statutory reporting requirements. It is unclear at this stage if there will be any requirement to report on 2015/16 and discussions continue with External Audit.

Recommendation

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

- **Note** the progress made to date in the development and implementation of the key financial arrangements following recommended best practice and compliance with legislation which require to be in place prior to the 1st April 2016
- **Note** the plan of actions for the remaining work requiring completion and approval before and beyond 1st April 2016

Policy/Strategy Implications	
Consultation	
Risk Assessment	
Compliance with requirements on Equality and Diversity	
Resource/Staffing Implications	

Approved by

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