

**CÙRAM IS SLÀINTE NAN EILEAN SIAR  
SHADOW INTEGRATION JOINT BOARD**

**2016/17 IJB BUDGET**

**PURPOSE OF REPORT**

1. To note the budget position of NHS Western Isles and Comhairle Nan Eilean Siar and consider the work undertaken to establish the budget of the Integration Joint Board.

**COMPETENCE**

2. There are financial implications for the IJB in respect of the settlement provided to the parent bodies.

**BUDGET POSITION OF PARENT BODIES**

NHS Western Isles

3. The Scottish Budget announced on 16 December 2015 included a one year settlement for NHS Scotland for 2016/17. Overall revenue funding for the NHS has increased 5.5% but this includes a £250m investment to be directed to IJBs/councils to invest in social care. Indeed, when additional earmarked funding is removed, the increase to base budgets is 1.7%. The baseline budget of NHS Western Isles will increase to £68.5m in 2016-17 from £63.7 in 2015/16.
4. In previous years, the Scottish Government has indicated to Health Boards that a 3% efficiency is assumed within the settlement; this year, the assumed efficiency is 5%. What is more, a number of 'service bundles' within the overall settlement will receive an efficiency cut of 7.5%, and other services which are not contained within the baseline will have similar cuts to funding. In respect of IJB services, this could impact significantly on dentistry and on other service areas such as dietetics. Nationally, the ADP resource has been reduced from £70m to £55m, which involves a cut of £150,000 for the Western Isles ADP.
5. The Scottish Government has committed to baseline the Integrated Care Fund (circa £640k per annum) and the Delayed Discharge Fund (£224k per annum in 2016/17 and 2017/18), which will play an important role in supporting service redesign.
6. In respect of the budget gap that is faced by NHS Western Isles, this is currently assumed to be in the region of £4million. Work is ongoing to consider how this gap can be bridged and specific programmes of work include:
  - Weekly meetings of the Financial Efficiencies Working Group, chaired by the Health Board Chief Executive;
  - Direct engagement with service managers to establish service needs into the future, including potential efficiency savings
7. In process terms, a draft budget will be presented to the Health Board on 24<sup>th</sup> February for approval, with a final budget being approved on the 30<sup>th</sup> March. This budget, along with the Health Board's Local Delivery Plan, is then submitted to the Scottish Government, with final agreement expected in early summer. The Health Board budget will be conditional until the LDP is signed-off by the Scottish Government.

## Comhairle Nan Eilean Siar

8. The Scottish Budget announced on 16 December 2015 included a one year settlement for Local Government for 2016/17. Overall revenue funding for authorities has reduced by £336m (3.4%) compared with 2015/16. With the floor set at minus 4.5% the consequence for the Comhairle is a reduction of £4.5m in funding. The settlement is conditional on Councils agreeing to continue the Council Tax freeze and maintain teacher numbers. Discussion is ongoing at a political level between the Scottish Government and COSLA on behalf of the local government community. Taking account of the planned deficit for 2015/16, the reduction in funding, pay awards, inflation and additional pension related costs, the deficit for 2016/17 stands at £9.5m.
9. The Scottish Government has indicated that 2016/17 is likely to be the most challenging year. As only one year funding has been announced there is significant uncertainty about future years. However, a planning assumption of a further 3% reduction in the Comhairle settlement would mean a further funding gap of £4.5m in 2017/18.
10. Total workforce efficiency savings of £163,000 (including early retirements) have been agreed for the services delegated to the IJB. Further budget choices will be required to deliver a balanced budget. The Comhairle is currently consulting on these and will make a decision about whether to assume these budget savings as part of its budget-setting process. In doing so, it will arrive at a proposed budget to support the functions it passes to the IJB. However, it will be for the IJB to decide whether to implement the proposed savings, given its responsibility for directing the integrated budget. Should the IJB decide against proposals assumed by the Comhairle in its budget, further work would need to be undertaken to establish alternative savings proposals.
11. The proposed savings are as follows:

<b>Savings: Service redesign (CNES)</b>	<b>2016/17</b>	<b>2017/18</b>
Reduction in high cost care packages	£20,000	£50,000
Self-Directed Support (purchasing budget)	£25,000	£25,000
Cessation of MOSS	£90,000	£90,000
Repatriation of mainland placements	£55,000	£50,000
Redesign of Grianan Day Centre		£50,000
Redesign of laundry services	£50,000	
	<b>£270,000</b>	<b>£315,000</b>

12. In process terms, the Comhairle is seeking to agree its budget on Wednesday 17<sup>th</sup> February.

## **DUE DILIGENCE**

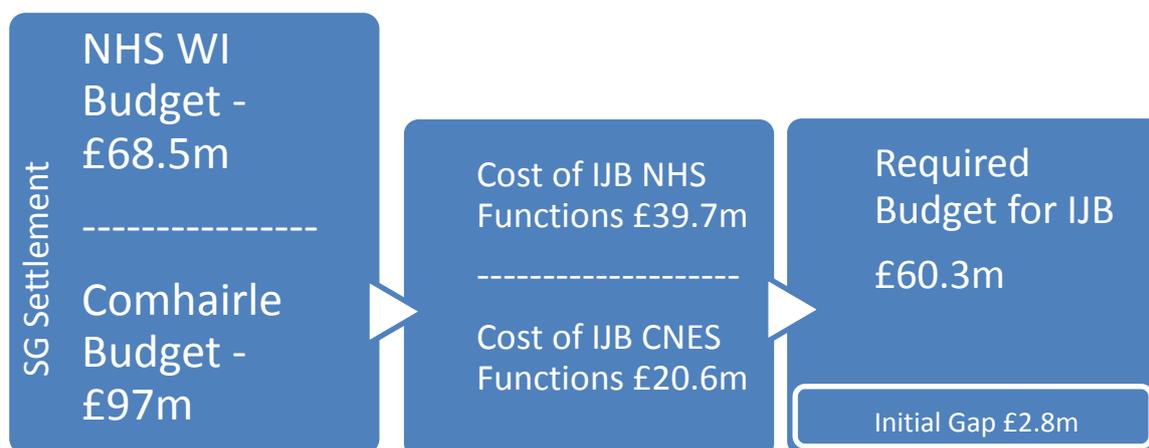
13. The Public Bodies (Joint Working) (Scotland) Act 2014 was passed by the Scottish Parliament on 25 February 2014. It establishes the framework for the integration of health and social care in Scotland.
14. Members of the IJB will be aware that the Integration Joint Board is a legal entity in its own right, created by Parliamentary Order, following Ministerial approval of an Integration Scheme. It will operate under public sector good practice governance arrangements which are proportionate to its transactions and responsibilities.

15. The Integration Scheme sets out the detail of the integration arrangement, as agreed by the Health Board and Local Authority; its content is specified in regulations and these include several provisions on finance related matters.
16. The Health Board and Local Authority will delegate functions and make payments to the Integration Joint Board in respect of those functions. Additionally, the Health Board will also, where appropriate, set aside amounts in respect of hospital functions for use by the Integration Joint Board.
17. The legislation requires that Health Boards and Local Authorities make payments to the IJB for the delegated functions and that the method for determining the value of the payments is included in the Integration Scheme.
18. The initial sums should be determined on the basis of existing Health Board and Local Authority budgets, actual spend and financial plans for the delegated services. It is important that the plans are tested against recent actual expenditure and that the assumptions used in developing the plans and the associated risks are fully transparent:
  - The budget in the financial plan should be assessed against actual expenditure reported in the management accounts for the most recent two/three years. Ideally, the roll forward of the budget for the delegated services and the actual expenditure over this period should be understood;
  - Material non-recurrent funding and expenditure budgets for the delegated services and the associated risks are identified and assessed;
  - The medium term financial forecast for the delegated services and associated assumptions and risks should be reviewed;
  - Savings and efficiency targets and any schemes identified should be clearly identified and the assumptions and risks understood by all partners;
  - All risks should be quantified where possible and mitigating measures identified.
19. The Integration Scheme states that because integration arrangements will still be evolving in the transition period, payment in the first year to the IJB is likely to be indicative in nature. Due diligence will be carried out during the transitional period to assess the adequacy of the payment made in the first year for delegated functions.
20. The integration authorities should carry out a process of financial assurance for the initial sums to be delegated to the Integration Joint Board. The Health Board and Local Authority Directors of Finance and the Chief Officer and Chief Financial Officer of the Integration Joint Board have developed an assurance process based on mutual trust and confidence, involving an open-book approach and an honest sharing and discussion of the assumptions and risks associated with the delegated services.
21. In general terms, there are two main tasks which steer the due diligence process: to establish the sufficiency of the IJB budget to deliver on its statutory obligations and the outcomes detailed in the strategic plan; and to identify the budget lines which follow functions identified in the integration scheme.

#### Sufficiency of Budget

22. In respect of the former, the sufficiency of budget is clearly a challenging matter at a time of fiscal constraint. That point notwithstanding, the general proposition is that the parent bodies ought to pass through resources that reflect previous activity (as

opposed to budget allowances). The parent bodies should also consider the growth requirements of the services in question, to allow for increases in demand. On the other hand, the parent bodies themselves have to live within prescribed financial limits, and therefore can legitimately expect the IJB budget to assume a share of efficiencies. To put that more straightforwardly, we need to develop a budget settlement which is based on an equation of growth minus efficiency. This is illustrated below:



23. At this stage of the planning cycle, the IJB Budget gap stands at £2.8m, based on the following analysis:

<b>Cash Planning Limit (Control Total)</b>	<b>£57,436,000</b>
Transition and Mainland Placements	£798,000
Net Social services pressures	£552,000
NHS NI increases	£363,000
Non-recurring NHS Pressures	£783,000
Other general pressures	£294,000
<b>Total Draft Budget</b>	<b>£60,225,000</b>
Initial Gap	£2,857,000
Workforce Efficiencies (CNES)	£163,000
Proposed Savings (CNES)	£240,000
<b>Remaining Gap</b>	<b>£2,474,000</b>

24. A full draft budget is attached an Annex A.

25. Within the financial planning arrangements that we have in place, a number of key issues need to be looked at in more detail:

### Social Care Fund

26. IJB members were briefed at a development session on 12<sup>th</sup> January about the significant challenge facing health and social care services. One of the major issues affecting budget setting processes across the country is how the £250m earmarked for social care will be applied within this context.
27. We now understand that of the £250 million, £125 million is provided to support additional spend on social care to support the objectives of integration and specific Scottish Government policies, such as raising charging thresholds for all non-residential services. This additionality also reflects the need to accommodate growth in demand for services as a consequence of demographic change.
28. The remaining £125 million is provided to help meet the range of cost pressures local authorities need to address in order to deliver effective health and social care services, including to offset the reduction to council budgets and the joint aspiration to make progress towards the living wage.
29. The allocation of this resource will enable councils to ensure that all social care workers are paid £8.25 an hour by 1 April. This assumes that private and third sector providers will meet their share of the costs.
30. Councils may reduce their contribution to Integration Authorities below their spend in 2016-17, with the only provisos that their contribution must not reduce by more than their share of the £125 million and on the basis that they deliver on the commitment in respect of the Living Wage. To ensure transparency for the flow of funding support for local authorities and delivery of the living wage commitment the arrangements will be signed off at a local level by the appropriate Integration Authority section 95 Officer.
31. This would seem to imply that for the Western Isles, £800k is available to the IJB to meet the growth in demand for services and subsidise Scottish Government policy objectives locally; and £800k is available to the Comhairle to attribute to its contribution to the IJB settlement (thereby making pressures less severe for remaining council services) – but recognising that this comes with an obligation to establish an £8.25 floor for social care workers across all sectors. The precise terms of that proposal will now need to be considered by the Comhairle.

### Transition Costs

32. The cost to the IJB of supporting people with disabilities from children's services to adult services is almost £800,000. In principle, were we seeing the demand for children's services decrease, the Comhairle might have disinvested in children's services in order to support increased demand in adult services. However, given that there is relatively steady demand in children's services, consideration needs to be given by the Comhairle as to how best to support this cost pressure.
33. While the additional investment channeled to the Comhairle, this pressure becomes less severe – although still extremely difficult to meet. A business case is being developed to establish what the needs of the IJB are in respect of supporting these care packages.

### NHS Pressures

34. Beyond the corporate pressures experienced by NHS Western Isles, it is evident that there are significant pressures anticipated in respect of the cost of General Practice, dental services (we are anticipating a 5% cut to this budget line), and hospital nursing. There are a range of smaller pressures identified within the draft budget, but these too

could have a significant impact. For instance, we anticipate that the ADP will have £150,000 less from the Scottish Government in earmarked resource this year. Although there is some slippage from last year which will provide short-term protection, this is nonetheless a challenging issue for the IJB given our ongoing focus on supporting people with alcohol dependency.

35. It is clear from this analysis that we are still some way off producing a balanced budget proposal, even at this late stage. Intensive work is being carried out in order to bridge the gap.

### **Resources following Delegated Functions**

36. The second question pertains to the functions themselves. While it may seem straightforward to identify what functions (and hence resources) pass through to the IJB, it is detailed and complex work and often involves interpretation and judgement. For example, the scheme provides that AHP services for adults should be delegated to the IJB but not for children. Given the relatively small teams of AHPs, it is difficult to begin to separate out and split individual posts. As such, we are recommending that we proceed on the basis that where an AHP service focuses in the main on the adult population, the full resource passes to the IJB. Where the main focus is on children, the resource stays with NHS Western Isles. In practice, this means that while all of the AHP services will be managerially accountable to the Chief Officer, the budget decisions for the use of the Speech and Language Therapy service will stay with NHS Western Isles.
37. As part of the due diligence process, a pragmatic approach has been taken to ensure that, as far as possible, the position of the parent bodies is reflected in the budget lines. Discussion to date has focused on facilities costs, the Alcohol and Drug Partnership, and secondary care costs. This is a complex matter, and often the legislation and guidance provides no clear direction, especially in the classification, disaggregation and apportionment of secondary care services.
38. While it is purely for the parent bodies to decide what functions are passed to the IJB (in accordance with the legislation), it is important that members are assured that the IJB's legal duties are capable of being discharged and that delegated functions are supported by the relevant budget lines. The due diligence process should therefore be viewed as a partnership endeavour which builds confidence on the basis of openness and transparency.
39. We also need to be content that the principles and methodologies used by our internal auditors are consistent with the approach that we have taken in applying the due diligence process. Our auditors have indicated that the Scottish Government's Integrated Resource Advisory Group Guidance and the CIPFA Service Reporting Code of Practice will be used to support their analysis of the due diligence process.
40. Members are asked to note that the Chief Executives, Chief Officer and Chief Finance Officer will take responsibility for ensuring that due diligence exercise is completed and, as far as possible, checked against these audit requirements.

### **Recommendations**

41. The board is invited to:
  - a) note the budgetary position of the parent bodies;
  - b) consider the likely budget position of the IJB; and
  - c) note that more work will need to be done before a balanced budget can be presented for agreement.

