

Report

Financial Regulations

Edinburgh Integration Joint Board

11th March 2016

Executive Summary

1. The Integration Joint Board (IJB) is required to adopt a set of financial regulations; these define the financial roles and outline the financial governance for the IJB.
2. Draft regulations are attached at Appendix 1.

Recommendations

3. It is recommended that the Committee:
 - adopt the financial regulations as laid out in Appendix I: and
 - delegate the responsibility for preparing the directives and instruction (to support the regulations) to the Interim Chief Finance Officer.

Background

4. A key element of financial governance is a clear set of financial regulations.
5. Section 95 of the Local Government (Scotland) Act 1973, requires all Integration Joint Boards (IJB) in Scotland to have adequate systems and controls in place to ensure the “proper administration of their financial affairs”, including the appointment of an officer with full responsibility for their governance. These financial regulations detail the responsibilities of the Chief Finance Officer who has been appointed as the “proper officer” along with the responsibilities of the Chief Officer and members of the IJB.
6. A proposed draft is attached as Appendix 1 to this report.
7. It should be noted that the IJB does not employ any staff nor does it have a bank account.



8. These regulations will be supported by a series of financial directives and instructions which are at a more operational level. It is proposed that the responsibility for producing the directives be delegated to the Interim Chief Finance Officer.
9. The IJB may revise the financial regulations at any time but any changes must be approved by the IJB.

Key risks

10. The key risk is that, without a clear set of financial regulations, there is a lack of clarity about roles and responsibilities.
11. A clear agreed approach as outlined in this paper will help mitigate this risk.

Financial implications

12. As set out in the main body of the report.

Involving people

13. The successful implementation of these recommendations will require the support and co-operation of both CEC and NHSL personnel.

Impact on plans of other parties

14. As above.

Background reading/references

15. None.

Report author

Moira Pringle, Interim Chief Finance Officer

E-mail: moira.pringle@nhslothian.scot.nhs.uk | Tel: 0131 469 3867

Links to priorities in strategic plan

**Managing our
resources
effectively**

Financial Regulations Summary

INDEX

- 1. Definitions and interpretation**
- 2. Scope and observance**
- 3. Framework for financial administration**
- 4. Integration joint board responsibilities**
- 5. Financial management**
- 6. Financial planning**
- 7. Internal audit**
- 8. Risk management and insurance**
- 9. Strategic planning group**
- 10. Delegated authority**
- 11. Corporate governance**
- 12. Economy, efficiency and effectiveness (best value)**
- 13. Observance of financial regulations**

1. DEFINITIONS AND INTERPRETATION

1.1. “**1973 Act**” means the Local Government (Scotland) Act 1973;

“**Act**” means the Public Bodies (Joint Working) (Scotland) Act 2014;

“**Chief Finance Officer**” means the Chief Finance Officer of the Board appointed by the Board in terms of section 95 of the 1973 Act;

“**Chief Officer**” means the Chief Officer of the Board appointed by the Board in terms of s10 of the Act;

“**Council**” means City of Edinburgh Council;

“**IJB**” means the Integration Joint Board;

“**Integrated budget**” means the integrated budget of the IJB set in accordance with the provisions of the Integration Scheme;

“**Integration Scheme**” means the Integration Scheme between the parties approved by the Scottish Ministers;

“**NHS**” means Lothian Health Board;

“**Parties**” means the Council and the NHS (and “party” means either of them); and

“**Strategic plan**” means the plan which the IJB is required to prepare and implement in relation to the delegated provision of health and social care services to adults and children in accordance with section 29 of the Act.

1.2. Words in these financial regulations that are also used in the IJB’s other governing documents shall, where possible, have the same meanings as they have in those other governing documents.

2. SCOPE AND OBSERVANCE

2.1. The IJB is a legal entity in its own right created by Parliamentary Order 2015 No 88 The Public Bodies (Joint Working) (Board Establishment) (Scotland) Order 2015 which came into effect on 1 April 2015 following Ministerial approval of the Integration Scheme.

2.2. The IJB is accountable for the stewardship of public funds and is expected to operate under public sector best practice governance arrangements, proportionate to its transactions and responsibilities. Stewardship is a function of management and, therefore, a responsibility is placed upon the appointed members and officers of the IJB. In particular:

(1) NHS (Financial Provisions) (Scotland) Regulations 1974 require NHS Directors of Finance to design, implement and supervise systems of financial control and NHS circular 1974 (GEN) 88 requires the Director of Finance to:

- approve the financial systems;
- approve the duties of officers operating these systems; and
- maintain a written description of such approved financial systems including a list of specific duties.

(2) Section 95 of the 1973 Act requires that every local authority shall make arrangements for the proper administration of its financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs.

2.3. All members of the IJB (voting and non-voting) have a duty to abide by the highest standards of probity in dealing with financial issues. This is achieved by ensuring everybody is clear about the standards to which they are working and the controls in place to ensure these standards are met.

2.4. The key controls and control objectives for financial management standards are:

- (1) the promotion of the highest standards of financial management by the IJB;
- (2) a monitoring system to review compliance with the financial regulations;

- (3) comparisons of actual and forward projection of financial performance with planned/budgeted performance that are reported to the IJB; and
 - (4) the IJB Audit and Risk Committee fulfilling its duties under its terms of reference.
- 2.5. Prior to any funding being passed by one of the parties to the IJB as part of the integrated budget, the financial regulations or standing financial instructions of the relevant party will apply. Similarly, once funding has been approved from the integrated budget by the IJB and directed by it to the Council or the NHS for the purposes of service delivery, the standing financial instructions or financial regulations of the relevant party will then apply to the directed sum, which will be utilised in accordance with the priorities determined by the IJB in its strategic plan.
- 2.6. The IJB has been delegated the responsibility for delivering a set of health and social care functions by the City of Edinburgh Council and NHS Lothian. These functions are laid out in the IJB's Integration Scheme. The City of Edinburgh Council and NHS Lothian will provide financial resources in respect of these functions to the IJB.
- 2.7. The IJB will issue directions to the Council and to the Health Board in relation to the delivery of the delegated functions. The Council and the Health Board in following these directions shall ensure that their own financial regulations are fully observed. This is explicit in the directions that are issued by the IJB.
- 2.8. The IJB will not deliver any of the delegated functions itself, all operational delivery for delegated functions will be provided by either the City of Edinburgh Council or NHS Lothian as directed by the IJB.
- 2.9. The IJB will ensure that only expenditure within the legal powers of the IJB is incurred or directed to be incurred. Where this is not clear, the IJB will consult the Chief Finance Officer prior to incurring such expenditure. Similarly, the legality of expenditure relating to new service developments, initial contributions to other organisations and responses to new emergency situations will also be clarified prior to any related expenditure being incurred.

3. FRAMEWORK FOR FINANCIAL ADMINISTRATION

- 3.1. The financial regulations detail the responsibilities of all members of the IJB. They may only be amended by the IJB.
- 3.2. The Chief Finance Officer as the 'proper officer' for the administration of the IJB's financial affairs will oversee the operation of the financial regulations within the IJB and will provide to the Chief Officer and the other members of the IJB a written framework which governs the IJB's financial affairs. The framework will consist of:
 - **Financial directives** - These will cover all relevant aspects of financial administration and the Chief Finance Officer will have the delegated authority to alter the financial directives except for any matters which are covered by the financial regulations where IJB's approval will be required. Changes to the financial directives will be reported to the IJB's Audit and Risk Committee for their endorsement; and
 - **Financial guidance notes** - These guidance notes will provide the IJB with detailed guidance and advice on specific procedures to be followed and any such guidance notes issued will require the prior approval of the Chief Finance Officer.
- 3.3. All financial directives and guidance notes issued in terms of these financial regulations are issued with the same status and authority as if they were contained within these financial regulations.

4. INTEGRATION JOINT BOARD RESPONSIBILITIES

- 4.1. The Integration Scheme sets out the detail of the integration arrangements agreed between the parties in accordance with the Act.
- 4.2. The IJB and its officers (Chief Officer and Chief Finance Officer) will continuously strive to secure best value and economy, efficiency, and effectiveness in their use of resources.

Responsibility of the IJB

- 4.3. The IJB is responsible for the production of the strategic plan, setting out the needs, priorities and services for its population over the medium term (3 years), including:
- the payment from the Council to the IJB for delegated social care services;
 - the payment from the NHS to the IJB for delegated primary and community healthcare services; and
 - the amount set aside by the NHS for delegated services.

Responsibility of the Chief Officer

- 4.4. The Chief Officer will provide a strategic leadership role as principal advisor to, and officer of, the IJB and will be a member of the senior management teams of the parties. The Chief Officer will lead the development and delivery of the strategic plan for the IJB and will be accountable to the IJB for the content of the directions issued to the parties by the IJB and for monitoring compliance by the parties with directions issued by the IJB.
- 4.5. The Chief Officer is the accountable officer of the Board in all matters except finance. The Chief Officer will discharge his/her duties in respect of the delegated resources by:
- ensuring that the strategic plan meets the requirement for economy, efficiency and effectiveness in the use of the IJB resources; and
 - giving directions to the NHS and the Council that are designed to ensure resources are spent according to the strategic plan. It is the responsibility of the Chief Officer to ensure that the provisions of the directions enable the parties to discharge their responsibilities with regard to the provisions of the directions.

Responsibility of the Chief Finance Officer

- 4.6. Subject to the overarching responsibility of the IJB, the Chief Finance Officer will be responsible for overseeing the IJB's financial and budgetary arrangements.
- 4.7. The Chief Finance Officer will undertake the role as laid out in S95 of the 1973 Local Government (Scotland) Act and shall make arrangements for the proper administration of

the IJB's financial affairs and, as the proper officer of the IJB, have responsibility for the administration of those affairs. The Chief Finance officer will discharge this duty by:

- establishing financial governance systems for the proper use of delegated resources;
- ensuring that the strategic plan meets the requirement for best value in the use of the IJB's resources; and
- ensuring that the directions to the Council and NHS require that the financial resources are spent according to the allocations in the strategic plan.

4.8. The Chief Finance Officer, in consultation with the Chief Officer, will advise the IJB and all its committees on the financial implications of the IJB's activities.

5. FINANCIAL MANAGEMENT

5.1. The responsibilities of the IJB and its committees in relation to the conduct of the IJB's financial affairs are defined in the IJB's Standing Orders and Integration Scheme. In summary they are as follows.

IJB

5.2. The IJB, on recommendations of the Chief Officer and the Chief Finance officer will approve all revenue budgets.

Chief Officer and Chief Finance Officer

5.3. These officers will:

- develop and implement an operational policy within the IJB's approved budget and strategic policy framework;
- provide the IJB with appropriate financial assurance to allow the IJB to accept the opening and future years' budgets allocated by the Council and NHS;
- consider and recommend to the IJB for approval all revenue budgets and no expenditure can be authorised unless provided for in approved estimates. These estimates will be clearly detailed in the directions issued to the Council and the Health Board

and neither of these parties may expend more than the approved estimate without the specific approval of the IJB; and

- monitor the overall financial performance of the IJB's functions (as directed to either the Council or the Health Board) in relation to the approved revenue budgets. The Chief Finance Officer will provide to the IJB regular budget monitoring reports along with explanations for any significant variances from budget and the remedial action planned.

6. FINANCIAL PLANNING

Strategic Plan

6.1. The IJB is responsible for the production of the strategic plan, setting out the needs, priorities and services for its population over the medium term (3 years). This should include a financial plan for the resources within the scope of the strategic plan, incorporating:

- the integrated budget – aggregate of payments to the IJB; and
- the notional budget – the amount set aside by the NHS for delegated set aside services.

6.2. The NHS and the Council should provide indicative three year rolling funding allocations to the Board to support the strategic plan and the medium term financial planning process such indicative allocations would remain subject to annual approval by both parties.

6.3. It is the responsibility of the Chief Officer and the Chief Finance Officer to develop a draft integrated budget based on the strategic plan and to present this to the parties for consideration and agreement within each party's budget setting process.

Budgetary Control

6.4. It is the responsibility of the Chief Finance Officer to report regularly and timeously on all budgetary control matters, comparing projected outturn with the approved financial plan to the IJB and other bodies as designated by the NHS and the Council in the Integration Scheme.

- 6.5. The Director of Finance of the NHS and the Chief Financial Officer (section 95 officer) of the Council shall, along with the Chief Finance Officer put in place a system of the budgetary control which will provide the Chief Officer with management accounting information for both arms of the operational budget and for the IJB in aggregate.
- 6.6. It is the responsibility of the IJB Chief Finance Officer, in consultation with the Director of Finance of the NHS and the Chief Financial Officer (section 95 officer) of Council, to agree a consistent basis and timetable for the preparation and reporting of management accounting information.

Management of budget variances

- 6.7. The Integration Scheme lays out the arrangement for the management of variances within the IJB's operational budget, that is the resources that have been allocated by the Council and NHS to undertake the functions delegated. The Chief Officer and the Chief Finance Officer will prepare and present to the IJB arrangements for the financial management of these variances. This will be laid out in the financial directives.

Reports to the IJB

- 6.8. All reports to the IJB and any committees thereof must specifically identify the extent of any financial implications. These must have been discussed and agreed with the Chief Finance Officer prior to lodging of reports.

Legality of Expenditure

- 6.9. It is the duty of the Chief Officer to ensure that no expenditure is incurred, or included within the Strategic Plan, unless it is within the legal powers of the IJB. In cases of doubt the Chief Officer should consult the respective legal advisors of the NHS and the Council before incurring expenditure. Expenditure on new service developments, initial contributions to other organisations and responses to new emergency situations which require expenditure, must be clarified as to legality prior to being incurred.

Management of Reserves

- 6.10. Legislation empowers the IJB to hold reserves, which should be accounted for in the financial accounts and records of the IJB.

- 6.11. The Chief Finance Officer will prepare a policy to hold and manage any such reserves which will be presented to the IJB for approval..

Accounting Procedures and Records

- 6.12. The IJB's accounting policies are governed by the appropriate local government Acts as directed and amended by Scottish Ministers.
- 6.13. All accounting procedures and records of the Board shall be determined by the Chief Finance Officer in consultation with the Director of Finance or equivalent of the relevant party.
- 6.14. Legislation provides that the Board is subject to the audit and accounts provision of a body under section 106 of the 1973 Act. This requires audited annual accounts to be prepared with the reporting requirements specified in the relevant legislation and regulations - section 12 of the Local Government in Scotland Act 2003 and regulations under section 105 of the 1973 Act. These will be proportionate to the limited number of transactions of the Board whilst complying with the requirement for transparency and true and fair reporting in the public sector.
- 6.15. The accounting records of the IJB will be held by City of Edinburgh Council on behalf of the IJB.

7. INTERNAL AUDIT

- 7.1. A Chief Internal Auditor will be appointed by the IJB. The Council and NHS will support the Chief Internal Auditor as they require per the Integration Scheme:
- The Chief Internal Auditor will report to the IJB's Audit and Risk Committee;
 - The internal audit service will undertake work in compliance with the Public Sector Internal Audit Standards;
 - The Chief Internal Auditor will at the start of each financial year prepare an annual strategic risk based audit plan for the IJB and submit this for approval to the IJB's Audit and Risk Committee;
 - The Chief Internal Auditor will submit an annual audit report summarising the work undertaken during the

year and provide an opinion on the adequacy of risk management, governance and internal controls. This will be presented to the Chief Officer and the IJB's Audit and Risk Committee;

- All internal audit reports for the IJB will be presented to the Chief Officer and the IJB's Audit and Risk Committee; and
- The Chief Internal Auditor, or their appointed representative (on production of identification), will have authority (as defined in the Audit Charter) to access any data held on any site by either the City of Edinburgh Council or NHS Lothian that relates to the functions delegated to the IJB through the Integration Scheme.

8. RISK MANAGEMENT AND INSURANCE

Audit and Risk Committee

8.1. The purpose of the Audit and Risk Committee is to provide assurance to the IJB of the adequacy of the risk management framework and the internal control environment. It provides independent review of the IJB's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place:

- The Audit and Risk Committee will endorse the annual Internal Audit Plan, and receive regular reports on these in accordance with the Internal Audit Reporting Calendar;
- The committee will receive and review reports from the Chief Internal Auditor on audit activity and results of reviews;
- The committee will review the risk register on a regular basis;
- The committee will promote sound corporate governance, management of risk, and a robust internal control environment;
- The annual accounts of the IJB will be presented to the committee for review prior to the presentation to the IJB;

- The committee will consider reports by the IJB's external auditors, including reports on the audited annual accounts; and
- The committee will review and approve the Annual Governance Statement which will be presented for approval to the IJB.

Risk

- 8.2. The Chief Officer will be responsible for establishing the IJB's risk strategy and profile and developing the risk reporting arrangements, including a risk register. The risk management strategy will be approved by the IJB and reviewed by the IJB Audit and Risk Committee.

Insurance

- 8.3. The IJB will join the NHS CNORIS scheme which will provide the IJB with the appropriate insurance cover. This insurance scheme will only cover the IJB, its professional advisors and Council or NHS officers who have been requested by the IJB to provide specific advice or services to the IJB. NHS Lothian and City of Edinburgh Council in delivering functions as directed by the IJB will ensure that the appropriate clinical and liability insurance is in place.

9. STRATEGIC PLANNING GROUP

- 9.1. The IJB will set up a Strategic Planning Group which will prepare a strategic plan as directed by the 2014 Public Bodies (Joint Working) Act and subsequent regulations;
- 9.2. This Strategic Plan will include a financial plan (and any other financial information as directed by regulations). The Chief Finance Officer will support the production of this financial plan in line with these financial regulations; and
- 9.3. The IJB will approve the Strategic Plan and the resources committed by it to delivering the functions delegated to the IJB as laid out in the Integration Scheme.

Directions to the Council and to the Health Board

- 9.4. The Public Bodies (Joint Working) Act 2014 lays out in sections 27 to 28 that an IJB will give directions to a constituent authority to carry out the functions delegated to

that IJB. The provenance for these directions being the IJB's agreed strategic plan. Directions must specify the payment to be made (or the element of the set aside budget to be used as appropriate) and to regulate the manner in which the function is carried out:

- The IJB will agree a policy and a format for directions made as above;
- Directions will flow from the IJB's approved strategic plan;
- Directions will be authorised by the Chief Officer or, in the absence of the Chief Officer by the Chief Finance Officer; and
- All directions will be reported to the IJB at least annually.

10. DELEGATED AUTHORITY

- 10.1. Through its directions to the Council and the Health Board (as appropriate), the IJB will delegate financial resources for the delivery of the delegated functions. The Council and the Health Board will apply their own financial regulations as part of the undertaking of any direction issued by the IJB.
- 10.2. The Council and the Health Board may not, without the specific approval of the Chief Finance officer vire funds between individual directions unless there is a specific protocol for financial risk management agreed as part of the direction.
- 10.3. If a protocol for financial risk management is drawn up between the IJB and the Council or the Health Board (as appropriate) and/or between the IJB and other IJBs, then this will be agreed by the IJB prior to the direction being issued.

11. CORPORATE GOVERNANCE

- 11.1. The public sector has adopted corporate governance principles which, in the context of an IJB, are about how it conducts its business and relates to its community. Corporate governance is about openness, integrity and accountability.

11.2. The six principles of Corporate Governance are:

- Focusing on the purpose of the IJB and on outcomes for the community and creating and implementing a vision for the area;
- Members and officers of the IJB working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the IJB and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective; and
- Engaging with local people and other stakeholders to ensure robust public accountability.

11.3. The IJB is expected to demonstrate that its local Code of Corporate Governance is available to be viewed by all stakeholders, partners and members of the public. Audit Scotland expects the IJB to have robust corporate governance procedures in place. A code of corporate governance will be prepared and agreed by the IJB.

11.4. The Local Code of Corporate Governance is approved by the IJB and scrutinised by the Audit Committee. The IJB will receive an annual report from the Chief Officer on compliance with the Code and whenever the Code requires to be updated.

11.5. The annual report coincides with the publication of the annual accounts and performance information, which will include an annual governance statement, signed by the Chief Officer and the Chair of the of the IJB.

11.6. The basis of the annual governance statement will be an overview and opinion on the IJB's arrangements contained in the approved Local Code.

11.7. The IJB will submit an annual performance report every year as laid out in regulations. This will be prepared by the Chief Officer and presented to the IJB for approval prior to submission.

12. ECONOMY, EFFICIENCY AND EFFECTIVENESS (BEST VALUE)

12.1. The Chief Officer will ensure that arrangements are in place to maintain control and clear public accountability over the public funds delegated to the IJB. This will apply in respect of:

- the resources delegated to the IJB by the Council and the NHS; and
- the resources paid to the Council and the NHS by the IJB for use as directed and set out in the strategic plan.

12.2. The IJB has a duty to put in place proper arrangements for securing best value in the use of resources and delivery of services. There will be a process of strategic planning with full Board member involvement, in order to establish the systematic identification of priorities and realisation of best value in the delivery of services. It is the responsibility of the Chief Officer to deliver the arrangements put in place to secure best value and to co-ordinate policy in regard to ensuring that the IJB provides best value.

12.3. The IJB will follow best practice principles as set out in the Code of Guidance on Funding External Bodies and Following the Public Pound and this will be incorporated into the directions made by the Integration Joint Board.

13. OBSERVANCE OF FINANCIAL REGULATIONS

Responsibility of Chief Officer and Chief Finance Officer

13.1. It is the duty of the Chief Officer, assisted by the Chief Finance Officer, to ensure that these financial regulations are made known to the appropriate persons within the IJB and the partnership and to ensure that they are adhered to.

Breach of Regulations

13.2. A breach of these financial regulations must be reported immediately to the Chief Officer, who may then discuss the matter with the NHS's Chief Executive, the Council's Chief Executive or another nominated or authorised person as appropriate to decide what action to take.

Review of Financial Regulations

- 13.3. These financial regulations shall be the subject of regular review by the Chief Finance Officer, and where necessary, subsequent adjustments will be submitted to the IJB for approval.