

# Report

## Update on Financial Assurance

### Edinburgh Integration Joint Board

11 March 2016



#### Executive Summary

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1. Indicative budget propositions have been received from both the City of Edinburgh Council (CEC) and NHS Lothian (NHSL). Neither partner is yet in a position to make a final offer therefore it is not possible at this time to give the Edinburgh Integration Joint Board (IJB) comprehensive assurance about the opening budget for 2016/17.
2. Based on the information available the draft IJB budget will be £574.4m with a savings target of £32.4m.

#### Recommendations

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3. It is recommended that the Board:
  - note the contents of this report;
  - agree to proceed based on the draft budget outlined in this paper; and
  - receive the full due diligence report following receipt of final budget settlements from CEC and NHSL.

#### Background

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4. On 1 April 2016 financial resources will be formally delegated to the IJB by the City of Edinburgh Council and NHS Lothian to support the implementation of the IJB's strategic plan. These resources are formally accepted by the IJB following a formal process of financial assurance.
5. Both CEC and NHSL have made interim or draft offers to the IJB and financial assurance work has been undertaken in parallel. However, at the time of writing, the IJB has received neither a formal offer from either party nor all the necessary information to complete the due diligence process.
6. Officers of the IJB, supported by the Chair, have been working closely with both parties and, whilst further work is required to complete the assurance process, no material issues have been identified to date.

7. It is therefore proposed that the IJB proceed on the basis of the draft budgets received to date. The full due diligence report will be presented to the Board when final offers have been received from CEC and NHSL.

## Main report

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### Financial Models

8. The Integration Scheme lays out the functions that have been delegated to the IJB. There are 4 component parts to the resources that support these delegated functions (the IJB's 'budget'):
- (i) The CEC budgets for adult health and social care;
  - (ii) The core NHS budgets for the community health partnership (including general medical services (GMS) and prescribing);
  - (iii) A share of the budgets of the NHS Lothian 'hosted services' (services delivered on a pan Lothian basis) that have been delegated to the IJB; and
  - (iv) A share of the acute services budgets for those functions that are delegated to the IJBs.
9. The proposed settlements for 2016/17 are summarised in table 1 below and discussed in paragraphs 10 to 20 below. The opening budget for the IJB would be £575m, comprising a "payment" of £485m with a further £89m set aside by NHSL.

	£k
City of Edinburgh Council	184,766
NHS Lothian core and hosted	280,231
Social Care Fund	20,180
<b>Subtotal</b>	<b>485,177</b>
NHS Lothian set aside	89,387
<b>Total</b>	<b>574,564</b>

*Table 1: Indicative opening 2016/17 budget for Edinburgh IJB*

### City of Edinburgh Council

10. CEC agreed a 4 year budget framework on 21 January 2016. This required savings of £148m to be generated across all council departments and made limited provision for investments.

11. Following this a draft offer was made to the IJB, which is summarised in table 2 below and attached at Appendix 1.

	<b>Income £k</b>	<b>Exp £k</b>	<b>Net £k</b>
<b>Brought forward from 15/16</b>	<b>188,133</b>	<b>195,133</b>	<b>(7,000)</b>
Financial framework adjustment	7,000		7,000
Inflationary increases	4,651	4,651	
Increases in cost (demography)		5,853	(5,853)
Savings target	(15,018)		(15,018)
<b>Net budget change</b>	<b>(3,367)</b>	<b>10,504</b>	<b>(13,871)</b>
<b>2016/17 forecast</b>	<b>184,766</b>	<b>205,637</b>	<b>(20,871)</b>

*Table 2: forecast implications of CEC financial settlement*

12. Although the CEC proposal totalled £190.7m it should be noted that this assumed a contribution of £5.9m from the Social Care Fund, which is discussed in more detail in paragraphs 23 to 25 below. As this decision is within the remit of the IJB, this has been adjusted to give a total funding allocation from CEC of £184.8m.
13. Against this funding, the projected costs for 2016/17 have been modelled, giving a resultant funding gap of £20.9m. This in turn can be considered as having 2 component parts: £15.0m which represents the IJB share of the CEC wide savings target and a potential demography pressure of £5.9m.
14. Obtaining reassurance through the due diligence process that the £205.6m accurately represents the total forecast cost for 16/17 is key to being in a position to confirm that this budget should be accepted by the IJB. It is anticipated that this information will be available shortly.

### **NHS Lothian**

15. The NHS Lothian financial planning process is not yet completed. Draft financial plans have been presented to the Finance and Resource Committees and the NHS Board but, a significant financial gap remains and a series of further financial risks yet to be quantified. The latest version shows an overall gap for 2016/17 of £108m against which uplifts totalling £35.7m are applied to give a net position of £87.0m. NHS Lothian is working with its management teams to prepare recovery plans to address this shortfall but do not currently have sufficient confidence that these plans will deliver the full required savings. This position was confirmed in a paper to the NHS Lothian Board meeting of 3 January 2016 which indicated that it would not have a balanced financial plan by 1 April 2016 and therefore any allocations of resource to the IJB for 16/17 would therefore be indicative.
16. That said, NHS Lothian has written to the IJB proposing a model to set the IJB's budget. This letter is attached (Appendix 2) and the implications for the Edinburgh IJB are summarised in table 3 below:

	Income £k	Expenditure £k	Net £k
<b>Brought forward from 15/16</b>	<b>364,581</b>	<b>373,427</b>	0
Uplift from financial plan	5,037		5,037
Inflationary increases		13,607	(22,454)
<b>Net budget change</b>	<b>5,037</b>	<b>22,454</b>	<b>(17,417)</b>
<b>2016/17 forecast</b>	<b>369,618</b>	<b>387,035</b>	<b>(17,417)</b>

*Table 3: forecast implications of NHSL financial settlement*

17. The net impact for the IJB is a savings target of £17.4m, £12.1m of which relates to core and hosted services with the balance of £5.3m to be delivered against set aside.
18. In the proposition, NHS Lothian included: details of the model they are proposing to use to generate the IJB budgets; and a suggested methodology for applying their £35.7m uplift across business units. Of these, the allocation of uplift is the main issue which remains outstanding.
19. Another area of ongoing dialogue is between the 4 Lothian IJBs who are discussing a potential risk sharing arrangement for prescribing.
20. Finally, it should be noted that NHS Lothian is in the process of updating its financial plan, as a consequence the numbers previously presented to IJBs will change, potentially materially.

### **Savings**

21. Based on the numbers above, savings of £32.4m must be delivered against the delegated services, these are summarised in table 4 below:

	£k
CEC	(15,018)
NHS Lothian	
Core & hosted	(12,074)
Set aside	(5,341)
<b>Total</b>	<b>(32,433)</b>

*Table 4: Savings target 2016/17*

22. Initial assessments have been undertaken with the next stage being to work up detailed proposals. The IJB Executive team, supported by programme management resource, will drive delivery of the Health and Social Care Partnership's element of the savings programme. An early indication of the extent to which the savings are deliverable will be a key factor in determining the application of the social care fund discussed below.

### **Social Care Fund**

23. The new social care fund is a crucial element of the IJB financial plan. A fund of £250m to enhance social care will be passed to the NHS for onward distribution to IJBs. The use of this fund is laid out in the formal offer letter to Scottish Local

Authorities dated 27th January from Mr John Swinney. The £250m is to be considered in two parts:

- ‘£125 million is provided to support additional spend on expanding social care to support the objectives of integration, including through making progress on charging thresholds for all non-residential services to address poverty. This additionality reflects the need to expand capacity to accommodate growth in demand for services as a consequence of demographic change’
- ‘£125 million is provided to help meet a range of existing costs faced by local authorities in the delivery of effective and high quality health and social care services in the context of reducing budgets. This includes our joint aspiration to deliver the Living Wage for all social care workers as a key step in improving the quality of social care.’

24. Edinburgh’s share of the fund is £20.2m and further work is required to accurately quantify the commitments in line with the guidance but an indicative position is given in table 5 below:

	Growth £k	Pressures £k
<b>Available funding</b>	<b>10,090</b>	<b>10,090</b>
Demography	(5,853)	
Charging thresholds	(522)	
Living wage		(7,000)
<b>Potential commitments</b>	<b>(6,375)</b>	<b>(7,000)</b>
<b>Balance</b>	<b>3,715</b>	<b>3,090</b>

Table 5: Potential Application of the social care fund

25. As discussed previously, work is progressing to fully identify the required level of savings against the IJB budget. Until this exercise is concluded and the risk associated with delivery is clear, it would be prudent to not make any commitments against the balance of this funding. A proposal on utilisation of the social care fund will be presented to the IJB in due course.

### Conclusions from financial assurance

26. Given that the proposed budget allocations from both partners have yet to be finalised it is not possible at this point to complete the financial assurance process. Further, as NHS Lothian are not yet in a position to agree a balanced budget for next financial year it is unlikely that the IJB will have a confirmed budget at 1<sup>st</sup> April. However it should be noted that dialogue to date with both parties has been positive.

### Key risks

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27. Until final budget propositions are received from both CEC and NHS Lothian there is a risk that the draft opening budget for the IJB will be subject to change.

28. Risks inherent in the settlements include prescribing and full delivery of savings.

## Financial implications

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

## Involving people

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30. 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

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31. As above.

## Background reading/references

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32. None.

## Report author

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## Links to priorities in strategic plan

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**Managing our  
resources  
effectively**

## IJB - Draft Financial Allocation from City of Edinburgh Council 2016/17 (Subject to Due Diligence)

	<b>Delegated to Notes</b>	
	<b>IJB</b>	
	<b>£000</b>	
<b>Approved Budget 2015/16</b>	<b>187,091</b>	Areas not delegated are Business and Support Services; Property; Criminal Justice
In-Year Budget Adjustments	1,042	Allocation of confirmed uplifts for pay awards, pensions, etc.
<b>Revised Budget 2015/16</b>	<b>188,133</b>	
<b>Changes in Budget Framework 2016/17:</b>		
<b>Additional Funding Contribution to Address Budget Pressures</b>	<b>7,000</b>	<b>Additional Council contribution to offset projected 15/16 financial deficit.</b>
Pay Award	843	1% assumed
Purchasing Inflation	853	Includes provision for New Living Wage (£8.25) in Care at Home Contract
Care Home Fees Inflation	1,355	Provision in line with national contracts negotiated through COSLA
Legislative Change - Loss of Existing National Insurance Rebate	1,600	Indicative allocation
<b>Provision for Additional Costs of Health and Social Care in 2016/17</b>	<b>4,651</b>	
Demographic Provision	5,900	CEC budget assumes contribution from additional £250m
<b>Provision for Additional Capacity to Respond to Change and Demand</b>	<b>5,900</b>	
<b>Total Additional Funding assumed in CEC Budget</b>	<b>17,551</b>	
<b>Updated Budget Baseline 2016/17</b>	<b>205,684</b>	
Approved Savings	-15,018	
<b>Approved Budget 2016/17</b>	<b>190,666</b>	Assumes £5.9m to be provided through £250m
Year-on-year increase in resource allocation	1.3%	Compares to reduction of 6.8% for other CEC services
Savings as a proportion of revised expenditure baseline	-7.3%	Compares to savings of 11.2% for other CEC services

*Circulation : See below*

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Dear Colleague

## **RESOURCE ALLOCATION TO THE INTEGRATED JOINT BOARD (IJB) IN RELATION TO FUNCTIONS DELEGATED BY NHS LOTHIAN**

The Integration Scheme for each IJB lays out that financial resources to deliver the functions delegated (I have referred to these as 'budgets' below) will be allocated to the IJB. There have been a series of discussions and papers laying out the options for translating existing CHP budgets into IJB budgets and for determining the distribution of the set aside Acute budget. The purpose of this letter is to set out NHS Lothian's formal budget allocation proposal for IJB consideration. The letter also sets out a proposal for 16/17 uplift on these budgets following the Spending Review and current thinking on NRAC.

NHS Lothian are not able to make a final financial proposal at this time as further work is required to fully understand the impact of the Scottish Government's recent budget announcements on the resources available to the Board. For example, the Scottish Government has indicated a 7.5% reduction in the funding for the 'bundles' and we are still establishing how this will impact on your IJB. In addition this proposal is also subject to consideration of the proposals from all our Council partners.

To support this we have developed a set of underlying principles, key of which is the equitable distribution of the financial challenge across the full range of NHS services.

The resultant proposal for apportioning budgets and allocating uplift is summarised in sections 1 to 4 below:

### **1. Core Services (Specific IJB services and GMS budgets)**

The budgets that are held for the services that represent functions delegated to the IJBs by NHS Lothian are held at cost centre level and a detailed model has been developed to allocate these budgets by cost centre to the IJBs. This model will be agreed by the Chief Officers on behalf of the IJB and will be distributed to the Chief Officers separately. These cost centres will be allocated to IJBs based on the historic core budgets held by the CHPs



## **2. GP Prescribing budgets**

It is proposed to allocate the current prescribing budget for NHS Lothian across the 4 IJBs using the Prescribing Budget setting model. The PBSG model is specifically designed for GP Prescribing and is based at GP Practice level. I appreciate that the IJBs may wish to continue with the current risk sharing model but this will be a matter for IJBs.

## **3. Share of pan-Lothian Services (Hosted and Set Aside)**

It is proposed to allocate budgets for services that represent functions delegated to the IJBs by NHS Lothian currently managed on a pan-Lothian basis on a PCNRAC basis with certain exceptions as appropriate. The detail associated with this is attached as an Appendix 1 to this letter.

A summary of the opening budget for 16/17 for each IJB, based on these proposals is attached as Appendix II. These budgets are prior to any uplift for 16/17.

Turning to the proposal for uplift there are 4 elements to this: pay and price uplift, NRAC, Social Care funding, and efficiency savings.

## **4. 2016/17**

1. Pay and Prices - The general uplift of 1.7% available to NHS Lothian in 2016/17 is calculated on NHS Lothian's baseline funding of £1.2bn and therefore equates to circa 1.4% when shared across all budget. It is proposed that this is distributed on a pro rata basis with the exception of GMS which receives a separate nationally determined uplift.
2. NRAC - There are currently 2 options being considered by NHS Lothian for the distribution of the NRAC allocation of £14m. The discussion at our meeting on the 8 January with Chairs, Chief Officers, and section 95 officers concluded that NRAC should be allocated across all Acute budgets. Since then further consideration has been given to the pressure across all drugs budgets and the use of NRAC to partially address this. Given that the NRAC allocation for NHS Lothian is still subject to the final approval of the Spending Review no formal proposal is being made to the IJBs at this stage.

3. Social Care Fund - It is proposed to distribute this Fund as directed by the Scottish Government. In addition the Delayed Discharge step up will be distributed to the IJBs on the same basis as the original allocation.
4. Efficiency Schemes - CHPs have been provided with a summary financial plan for 16/17 which identifies the forecast cost pressures within their services for 16/17. Chief Officers in their capacity as managers of NHS Lothian services have been asked to develop financial recovery plans to demonstrate how financial balance can be achieved for these services. For this reason each IJB has a specific savings target for their service. Once plans are agreed this may result in the reallocation of budgets to reflect the consequent service change. This will be agreed with IJBs.

The NHS Lothian Board will be considering the draft Financial Plan at its Board Meeting on 3 February and so a response to this proposal prior to then is required. Of course I am happy to meet and discuss this proposal.

I am copying this letter to my Council partners and would be grateful for details on their proposals to the IJB.

Yours sincerely

**Susan Goldsmith**  
**Director of Finance**

***Circulation :***

*To Chairs of East Lothian, Midlothian, Edinburgh and West Lothian Integration Joint Boards*

*Copies to Chief Officers and Chief Financial officers of East Lothian, Midlothian, Edinburgh and West Lothian Integration Joint Boards*

Area	Description	Allocation Split	East Lothian %	Edinburgh %	Mid Lothian %	West Lothian %	Acute Non Delegated %
<b>Core Services</b>							
The share of the core services is 100% to the specific IJB with the following exceptions:							
<b>Exceptions:</b>							
	Lothian Memory Treatment Clinic	PC NRAC (Traditional)	12.64	56.04	10.44	20.88	0.00
	E And M School Nurses/HPV Inoculation	East and Mid Split	50.00	0.00	50.00	0.00	0.00
	Community Equipment Store and Continence Service	Edinburgh, East and Mid	15.19	72.15	12.66	0.00	0.00
	Prescribing	PBSG	13.00	54.00	11.10	21.90	0.00
<b>Hosted</b>							
The share of the hosted services based on PCNRAC(Traditional) with the following exceptions							
<b>Exceptions:</b>							
	Edinburgh Mental Health and Psychology Services	All in Edinburgh	0.00	100.00	0.00	0.00	0.00
	West Lothian Mental Health and Psychology Services	All in West	0.00	0.00	0.00	100.00	0.00
	East & Mid Psychology Services	East and Mid Split	50.00	0.00	50.00	0.00	0.00
	Liberton Hospital	Liberton	4.40	71.20	22.40	2.00	0.00
	REH - Adult Psy beds	REH - Adult Psy beds	10.00	80.00	10.00	0.00	0.00
	VO - Children And young People	East and Mid Split	50.00	0.00	50.00	0.00	0.00
	Change Fund reserve	ICF	12.36	57.52	10.11	20.01	0.00
<b>Acute - Set Aside</b>							
The share of the hosted services based on PCNRAC(Traditional) with the following exceptions							
<b>Exceptions:</b>							
	Cardiology and Respiratory	Cardiology (non Lothian)	8.00	37.80	6.60	13.90	33.70
	RIE Emergency Department	ED @ RIE	14.80	57.50	15.70	2.50	9.50
	St John's Emergency Department	ED @ St. John's	0.30	7.20	0.30	85.00	7.20
	Adult Therapy Service	Edinburgh, East and Mid	15.19	72.15	12.66	0.00	0.00
	RIE & WGH Metabolic Diseases	Endocrinology (non Lothian)	8.90	42.20	7.40	15.60	25.90
	WGH Infection Diseases	Infectious Diseases (non Lothian)	11.00	52.00	9.10	19.20	8.70
	Liberton Hospital	Liberton	4.40	71.20	22.40	2.00	0.00
	WGH ARAU	WGH ARAU	20.60	62.90	16.50	0.00	0.00
<b>Note:</b>		PC NRAC (Traditional)	12.64	56.04	10.44	20.88	0.00

	Total £'000	East Lothian IJB £'000	Edinburgh IJB £'000	Mid Lothian IJB £'000	West Lothian IJB £'000	Not Delegated	
						Acute Budget £'000	Other Budget £'000
<b>Delegated</b>							
Core	423,047	67,777	218,820	49,974	86,476		
Hosted	90,248	9,783	57,592	8,718	14,155		
Set Aside	153,773	19,011	88,169	17,738	28,855		
<b>Total Delegated</b>	<b>667,068</b>	<b>96,571</b>	<b>364,581</b>	<b>76,430</b>	<b>129,486</b>		
<b>Non Delegated</b>							
Hosted	5,030						5,030
CHP	36,057						36,057
Acute	463,042					463,042	
Corporate	299,303						299,303
<b>Total Non Delegated</b>	<b>803,432</b>					<b>463,042</b>	<b>340,390</b>
<b>Total Potential Budget</b>	<b>1,470,500</b>	<b>96,571</b>	<b>364,581</b>	<b>76,430</b>	<b>129,486</b>	<b>463,042</b>	<b>340,390</b>