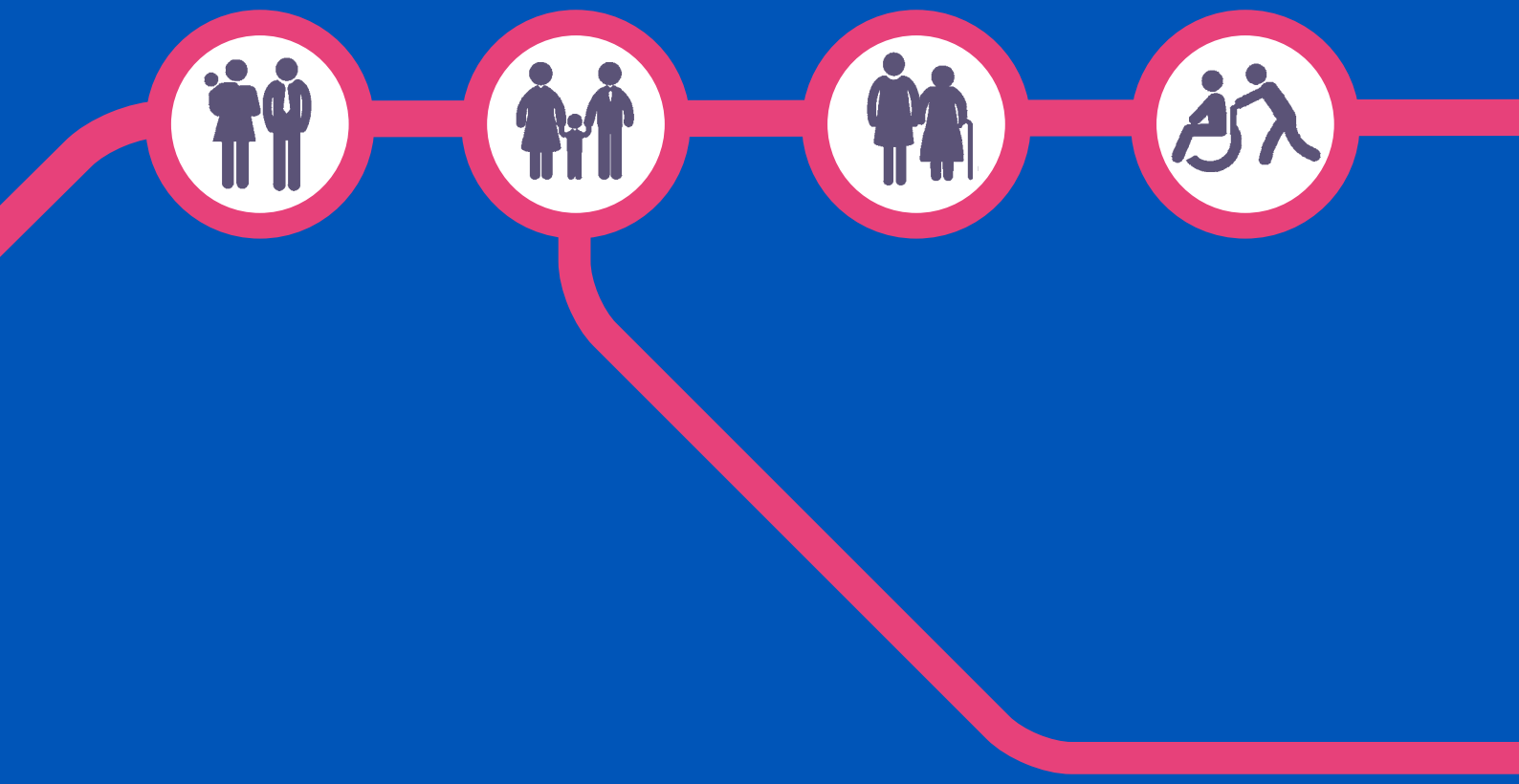
The Scottish Government
Riaghaltas na h-Alba

Integration
Financial Assurance

Advice to Health Boards, Local Authorities and Integration Joint Boards on a process of assurance



Public Bodies (Joint Working) (Scotland) Act 2014

Health and Social Care Integration

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Guidance for Integration Financial Assurance

1. Introduction and Purpose

The purpose of this note is to provide advice to Health Boards, Local Authorities and Integration Joint Boards on a process of assurance to help make Integration a success.

The advice is based on a number of publications and on lessons learnt from the Highland partnership, which partners may find a useful resource [1,2,3,4,5].

2. Assurance and Integration

It has been noted[1] that many of the challenges of public sector mergers stem from the fact that they tend to be externally imposed on the bodies and that Health Boards, Local Authorities and senior management teams often feel that they are being thrown into a process over which they have little control. This introduces additional risks to the success of the new arrangements and to existing operations during the transition period.

Audit Scotland's June 2012[2] report emphasised a number of lessons that public sector bodies can learn from to minimise these risks, including the importance of strong leadership, effective planning for transition and implementation and assessing performance.

An effective assurance process should enable the host body (whether an Integration Joint Board (IJB) in a corporate body arrangement; or a Health Board or Local Authority in a lead agency arrangement) to identify the resources delegated to it and the financial, legal or organisational risks involved; it should also help the delegating partners to quantify the risks to their respective operations. If planned and implemented in a logical sequence, it should allow the Health Board and Local Authority to maximise the benefits and minimise the risks from integration.

Typically, an assurance process covers three main areas:

- Legal
- Financial
- Operational

The focus of this guidance is on financial assurance, but it is recommended that partners coordinate their activities across the three domains as work in one area can often inform work in another.

A formal process of financial assurance will typically involve an exhaustive review of all relevant documents and records in an effort to assess the resources and risks associated with them. A similar process will be required for integration but it should be possible for partners to avoid some of the work by placing reliance on assurances from each other for their respective delegated resources and on the existing operational and financial knowledge of the shadow Chief Officer. This will clearly require a high degree of trust between the key officers.

[1] Audit Scotland: Learning the lessons of public body mergers. Good practice guide
[2] Scott-Moncrieff Briefing: Mix with Care- Mergers in the Public sector
[3] Deloitte: The Role of the Audit Committee in the merger & Acquisition cycle
[4] Charities Commission: Checklist for due diligence
[5] HFMA. Combining NHS bodies. A practical checklist for mergers and acquisitions synopsis

It is recommended that Health Boards and Local Authority Directors of Finance and the shadow Chief Officer and shadow Chief Financial Officer of the IJB foster 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.

The assurance process should be proportionate to the potential risks and should cover the whole transition period from pre-integration, implementation and post integration.

3. Financial Assurance

Integration Joint Boards will be established during 2015/16 and so will not be able to formally participate in the financial assurance process until that point. One of most important items of business for a newly established Integration Joint Board will be to obtain assurance that its resources are adequate to allow it to carry out its functions and to assess the risks associated with this. In order to facilitate this, it is recommended that:

- The shadow Chief Officer and the shadow Chief Finance Officer work with the Health Board and Local Authority Directors of Finance in carrying out the assurance work up to establishment of the Integration Joint Board. Where the shadow Chief Finance Officer has not been identified, the Health Board and Local Authority Directors of Finance should provide advice to the shadow Chief Officer.

- The shadow Integration Joint Board should receive regular reports on the assurance work until the IJB is established and the IJB audit committee (or committee(s) carrying out equivalent function) should receive them thereafter; and

- The Health Board and Local Authority internal auditors provide a report to the Health Board and Local Authority audit committees (copied to the shadow Integration Joint Board) on the assurance process that has been carried out by the Health Board and Local Authority.

The financial assurance process should focus on two main areas: financial governance; and financial assurance and risk assessment for the delegated resources.

3.1 Financial Governance

The legislation sets out the finance provisions that must be included in the Integration Scheme and the Integrated Resource Advisory Group guidance (IRAG) and the model integration scheme provide further information on these.

The Health Board accountable officer and the Local Authority section 95 officer must ensure that these provisions enable them to discharge their responsibilities in respect of the resources that will be delegated to the Integration Joint Board; similarly, the shadow Chief Finance Officer must ensure that the provisions provide

the IJB with the financial information and support systems to enable it to carry out its functions.

3.2 Financial Assurance and Risk Assessment

In order to assess whether the resources delegated to the Integration Joint Board are adequate for it to carry out its functions, the shadow Chief Officer and shadow Chief Finance Officer must review the provisions in the Integration Scheme that set out the method of determining the payments and amounts to be made available to the IJB; this should include both the method for setting the initial sums and that to be followed in subsequent years.

3.2.1 Assurance for the Initial Sums

It is recommended that 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.

To assist in this it is recommended that:

- The budget in the financial plan is 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 is reviewed;

- Savings and efficiency targets and any schemes identified are clearly identified and the assumptions and risks are understood by all partners. This is a key part of the assurance process and the experience from Highland partners is that it is a potential source of future disagreement (see annex A); it is advised that partners devote sufficient time to understand the targets, efficiency schemes and associated assumptions and risks;

- All risks should be quantified where possible and measures to mitigate risk identified. Risks could be classified as delivery of efficiency savings; on-going risks; emerging risks;

- The amount set aside for the IJB consumption of large hospital services is consistent with the methods recommended in the IRAG guidance on the set aside resource and that the assumptions and risks are assessed.

Partners should be aware that the financial regimes, cultures and terminology differ between Health Boards and Local Authorities with the potential for confusion when reviewing the budget-particularly in the definition of what represents a recurrently

balanced budget. It is recommended that partners are clear about the definitions of the terms used in their assurance work.

In line with normal budget monitoring practice, it is advised that a review be carried out during the post integration period to compare actual performance against the assumptions in the plan.

A key lesson from the experience of Highland partnership is that partners may find it useful to consider treating the first year as a transitional year and agree to a risk sharing arrangement with adjustments being made through subsequent year's allocations; if partners adopt this approach, it is recommended that it is incorporated in the Integration Scheme.

3.2.2 Assurance for Subsequent Years

It is recommended that the method included in the Integration Scheme for determining the payments to the IJB in subsequent years is consistent with the approach set out in section 4.2 of the IRAG guidance. Similarly, it is recommended that the method included in the Integration Scheme for determining the amount to be set aside in subsequent years for consumption of large hospital services should be assessed against the methods recommended in the separate IRAG guidance on the set aside resource.

4. Role of the Audit Committees (or committee(s) carrying out equivalent function)

The introduction of integration arrangements and the establishment of the IJB Audit Committee (or committee(s) carrying out equivalent function) will have implications for the ongoing work of the Health Board and Local Authority audit committees. Advice on this is provided at section B2.6 of the IRAG guidance.

In addition, the Audit Committees will have an important role to play in the assurance process through assessment of the objectives, risks, and post integration performance results of the IJB.

4.1 Pre Integration-shadow Period

The Health Board and Local Authority Audit Committees can help increase the likelihood for success of the new arrangements by verifying that officers have effective assurance processes in place. Preparations for integration may be too far advanced for full involvement of the audit committees in the preparatory stage, but where this is practical, it is recommended that they obtain assurance:

- On the finance provisions to be included in the Integration Scheme;
- On the plans for financial governance and financial assurance and risk;
- That lessons have been learnt from other integration projects (e.g. Highland partnership); and

- That the predetermined financial metrics that officers will use in future to assess whether integration has met its objectives have been identified and that a process for obtaining baseline data is in place.

It is recommended that the Audit Committees are provided with a report, produced jointly by the Health Board and Local Authority Chief Internal Auditors (and copied to the shadow IJB), on the assurance work that has been carried out by the Health Board and Local Authority. This report should be produced sufficiently in advance of the date of delegation of functions and resources (published in the Strategic Plan) to allow for consideration by the Audit Committees.

The arrangements for obtaining financial assurance should be set out in the Annual Governance Statements of the Health Board, Local Authority and Integration Joint Board for both the year prior to and the year of, delegation of functions and resources.

4.2 Implementation

The Audit Committee of the Integration Joint Board once established (or the committee(s) carrying out an equivalent function) should be provided with the assurance report and should:

- Review the finance provisions to be included in the Integration Scheme to ensure that they enable the IJB to carry out its functions;

- Formally assess whether the resources to be made available to the IJB are adequate for it to deliver its objectives and that the associated risks and assumptions are reasonable and clearly understood;

- That the respective risk management arrangements have been updated to incorporate the risks introduced by integration. See IRAG guidance section B2.2.

Advice for cases where the IJB cannot obtain assurance that its level of resources are adequate will be provided by the policy team in due course.

4.3 Post Integration

The post-integration period is a critical stage of the change process and the audit committees (or the committee(s) carrying out an equivalent function) have a key role in assessing whether the objectives of integration are on line to be achieved. It is recommended that the three audit committees (or the committee carrying out equivalent function in the IJB) are provided with a post integration report within the first year of the establishment of the IJB to evaluate the actual risk and financial performance against the pre-integration assumptions, performance on relevant integration milestones, identify lessons learned and assess whether the IJB is on course to deliver the long-term benefits.

The results of the review should be shared with the Scottish Government to enable wider learning.

5. Role for Internal Audit

It is recommended that the report (on the assurance process carried out by the Health Board and Local Authority) is a joint report by the Chief internal Auditors of the Health Board and Local Authority.

Further Resources

1. Audit Scotland: Learning the lessons of public body mergers. Good practice guide

2. Scott-Moncrieff Briefing: Mix with Care- Mergers in the Public sector

3. Deloiite: The Role of the Audit Committee in the merger & Acquisition cycle

4. Charities Commission: Checklist for due diligence

5. HFMA. Combining NHS bodies. A practical checklist for mergers and acquisitions synopsis

Annex A

Lessons from Highland Partnership

NHS Highland and Highland Council established a lead agency arrangement in April 2012, in which adult social care services and resources were delegated to the health board; and children's community health services and resources were delegated to the local authority. The following note summarises the experience of the partners and the main lessons learnt in the first years of the partnership.

General

NHS Highland and Highland Council did not undertake 'due diligence' in the legal sense. It is important to recognise the fact that the two partners entered into a Partnership Agreement on a high-trust basis with buy-in from all key senior players. The general view expressed was that it would be impossible to remove all the risk from the process of entering into a Lead Agency arrangement and there had to be a balance between understanding the risks and 'just doing it'.

There was exchange of budgetary information in advance of the transfer and meetings with counterparts to understand the composition of the budgets. Clearly, it will always be the case that the 'transferring' organisation will inevitably have a much more detailed understanding of the budgets, pressures, risks etc than the 'receiving' organisation and in our view it is impossible for a transfer to take place without some degree of trust. Probably the key lessons learnt were:

Budgets

- There needs to be a mutual acceptance that the first year must be a transitional year. This allows the 'receiving' organisation to begin to get to grips with the budgets, service pressures etc.
- There needs to be clarity around risk sharing/risk transfer. Whilst this will never cover every scenario it is clear we did not set this out in sufficient detail in Highland. This caused some significant difficulties towards the end of the first year and towards the end of the second year.
- There needs to be clarity about the reporting arrangements and the responsibilities. For example – do we report every month? Every quarter? Do we just report variances or do we present action plans to address these. If so, which organisation takes the decisions around any actions that might be challenging? If there is a significant adverse variance does the 'host' reduce services unless the 'commissioner' provides more funding? Or does the host need to look for savings elsewhere in its portfolio. These scenarios were briefly addressed in the Partnership Agreement but in a fairly simplistic way (with the default being that the two Directors of Finance...and then the two Chief Executives...should resolve any differences). In effect this is what happened (although it required senior political and senior non-executive input, plus senior operational input as well as the Directors of Finance/Chief Executives).

- The cultures and terminology differ between the two organisations. In the context of budget setting perhaps the most significant difference is the definition of what represents a recurrently balanced budget.

- The financial regimes differ – most notably the ability of councils to carry reserves/have year-end variances versus the requirement on Health Boards to break-even each and every year. Although this was a known issue right from the start it still led to some misunderstandings during the first year and perhaps a mutual briefing on respective financial regimes might have been useful.

Efficiency Savings

Very similar issues to the budget issues above. Probably the only additional issue is the degree to which existing efficiency savings programmes already in train are explained/and 'owned' by the organisation delegating the functions. This issue probably gave rise to the most significant disagreement between the two organisations (i.e. the degree to which the savings programme 'inherited' by the other party was understood/owned and deliverable).

Financial Planning

Again – similar issues but in particular there needs to be clarity around the timescales and 'ground rules' for budget setting – particularly in relation to cost pressures and efficiency savings. We found that timelines differed. We also had to take a view as to whether NHS Highland ought to play into the Highland Council budget setting process in a traditional way (i.e. of submitting pressures and savings plans for agreement or otherwise) or whether we employed more of a 'commissioning' approach where the Highland Council agreed a quantum of funding and NHS Highland took the decisions as to what savings to make, pressures to fund etc. In practice we began with a model towards the 'commissioning' end of the spectrum but have moved back towards a more traditional approach, with NHS Highland being represented on the Highland Council senior management team as part of the budget setting process.

Service Planning

In theory this takes place in the Adult Strategic Commissioning Group. However – by definition – this is a high level Group setting high level principles. Therefore, the strategic approach to commissioning is therefore reasonably well defined. Less well defined is operational service planning – for example the extent to which the Council should be involved in redesigns. This brings into play the different governance regimes and in particular the role of local councillors.

Local councillors have a keen interest in Adult Social Care services provided in their locality and will often take up issues with NHS Highland as the provider. In theory they should take their issues to Highland Council officials (as 'commissioners') in order for them to take up issues with NHS Highland as provider, but in reality councillors will want a direct line of sight. They will also take a keen interest in any efficiency plans that may affect services in their area. Another difference in governance is the fact that NHS executive directors are full Board members with 'voting rights' whereas council officials can only make recommendations to Council. This is not an issue for the vast majority of business but potentially might be an issue for very significant matters.

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