

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	20 February 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2507 – IJB Budget Setting and Monitoring
REPORT NUMBER	IA/AC2507
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on IJB Budget Setting and Monitoring.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of IJB Budget Setting and Monitoring.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2507 – IJB Budget Setting and Monitoring

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of IJB Budget Setting and Monitoring

Status: Final

Date: 17 September 2024

Risk Level: Corporate

Report No: AC2507

Assurance Year: 2024/25

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	20-May-2024	20-May-2024
Scope agreed	24-May-2024	24-May-2024
Fieldwork commenced	27-May-2024	27-May-2024
Fieldwork completed	21-Jun-2024	3-Jul-2024
Draft report issued	28-Jun-2024	5-Jul-2024
Process owner response	12-Jul-2024	21-Aug-2024
Director response	19-Jul-2024	17-Sep-2024
Final report issued	26-Jul-2024	17-Sep-2024
RAP Committee	3-Dec-2024	

Distribution	
Document type	Assurance Report
Director	Fiona Mitchelhill, Chief Officer
Process Owner	Fiona Mitchelhill, Chief Officer
Stakeholder	Fraser Bell, Chief Operating Officer
	Jonathan Belford, Chief Finance Officer, Aberdeen City Council
	Alan Sharp, Assistant Director of Finance, NHS Grampian
Final only	External Audit
Lead auditor	Colin Harvey, Audit Team Manager

1 Introduction

1.1 Area subject to review

The Aberdeen City Health and Social Care Partnership (ACHSCP) has now been operating for almost eight years, tasked with integrating services delegated from its partners Aberdeen City Council (ACC) and NHS Grampian (NHSG). The Aberdeen City Integration Joint Board (IJB) is the governing body of the ACHSCP and agrees an annual budget following the delegation of funding from its partners each financial year.

The ACHSCP's Medium Term Financial Framework (MTFF) is intended to assist in delivering its strategic intent, further improve strategic financial planning and maximise the use of resources across the medium term. It takes cognisance of the Strategic Plan approved by the IJB on 7 June 2022; the Aberdeen City Health & Social Care Integration Scheme; and various strategies agreed by the IJB since it became operational. It aims to pull together in one place all the known factors affecting the financial position and sustainability of the organisation over the medium term (currently defined as seven years), and to set out how the IJB intends to take action to address this financial challenge across key areas of the IJB's strategic plan. The document is updated annually to reflect any changes to baseline assumptions.

The IJB approves the MTFF, and the annual budget included therein, in March each year. The current MTFF, agreed on 26 March 2024, indicates a £52 million funding gap to be addressed in the medium term, through reshaping commissioning, transformation, and achievement of savings targets. The 2024/25 budget totals £422 million. This includes: £131 million towards functions and services delivered by ACC; £266 million for services provided by NHSG (including £30 million towards hosted services), including £53 million set aside for large hospital services; service income of £18.5 million; and £6.5 million of government grants.

Every organisation must manage the risks inherent in the operation of large and complex budgets. These risks are minimised by regular review of financial information by budget holders and corporately by the Board and the Risk Audit & Performance Committee. Budget monitoring provides an overview of the current financial operating position, including anticipated outturns.

Throughout the last financial year (2023/24), the IJB continued to report significant financial pressures through its budget monitoring. This resulted in a forecast year end overspend of £5.4 million (final outturn of £10.8 million) and the IJB agreed on 5 December 2023 to allow for the use of reserves to balance the year end position. The Partnership continued to work with its partners, Aberdeen City Council, NHS Grampian and the third and independent sectors to support the health and social care system within Aberdeen and to maximise the use of the reserve within set funding criteria.

The issues of rising demand, increasing level of complexity of clients' need and rising prescription costs are well documented. The MTFF shows a direction of travel to reducing the financial pressures it is likely to face and balance the budget over the medium term. However, should the levels of funding identified not be made available to the IJB in future years from either or both partners, or additional financial pressures arise, then more radical and robust choices will need to be made.

Due to the challenging financial climate across Scotland, several IJBs have requested additional support from their Boards and Councils to balance 2023/24 overspends and 2024/25 budgets. To date the IJB has undertaken all of its activities, whether that be operational service delivery or transformation of services, without having to approach either NHSG or Aberdeen City Council for additional funding.

1.2 Rationale for the review

The audit objective is to ensure that appropriate arrangements are in place regarding IJB budget setting and budget monitoring.

Budget setting, management and monitoring are essential to governance, risk management and control within the Health and Social Care Partnership, and act as mitigating controls to a variety of risks included in the strategic risk register including commissioning and hosted services. The risk of IJB financial failure and overspending is currently reported as 'High', with the IJB indicating it has a low to moderate risk appetite to financial loss. This is weighed against the IJB's lower appetite for risk of harm to people,

and requirement to deliver statutory services. Management of this risk is essential to sustain future service delivery.

The area was last reviewed in 2018, at which time risks were identified including: utilisation of reserves to fund mainstream services; gaps in information flows from partners; and audit trails in respect of in-year budget movements.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Corporate	This issue/ risk level impacts the Partnership as a whole. Mitigating actions should be taken at the Senior Leadership level.

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Health and Social Care Partnership’s Budget Setting and Monitoring processes.

There is clear governance and reporting lines, roles, and responsibilities. Assurance can also be taken from partners’ (Aberdeen City Council (ACC) and NHS Grampian (NHSG) internal processes. There is extensive scheduling for updating the Medium Term Financial Forecast (MTFF) and Budget - a full project plan, tracker and timeline is in place and is being kept up to date, including timelines for obtaining key information, preparing committee reports, stakeholder workshops and management discussions.

There is emerging evidence of enhanced financial planning, and increasing engagement with senior management and budget holders, with regard to the identification and delivery of key savings options required to deliver a balanced budget for 2024/25.

However, the review identified some areas of weakness where the framework of control could be strengthened, specifically:

- Financial Governance, Protocols, and Scheduling** – There are currently no written procedures for budget setting, monitoring or annual reporting, and no schedules for production of budget monitoring information, at an IJB level, though in practice a reasonably consistent approach was being taken. Given key staffing changes it would have been helpful to have procedures fully documented to ensure continuity and consistency of existing processes. Data is generated by partners in line with their own period-end processes, and collated at the IJB level to meet reporting requirements. There is a risk that wider partner demands and priorities could impact on the availability of up to date information for the IJB. Whilst the IJB and its Committees have business planners for upcoming reports, financial reporting is not being scheduled in advance. The need for a consistent approach to reporting was also recently highlighted by External Audit.
- Finance and Support Resources** – Charges are being applied to the IJB for some corporate resources, but the extent to which budget for these was included in the amounts delegated at the point of the IJB’s inception is not clearly recorded. The level of service has also reduced in some instances. The Integration Scheme sets out that any charges/changes are to be agreed between the partners and the IJB, but this agreement has not been documented. Internal reallocation within partners would normally be matched with reallocation of the relevant budget, and this is not apparent. There may be scope for clearer specification of the resource provided, and paid for, by the IJB.

- **Use of Reserves** – The Reserves Policy was last formally reviewed in 2019, though it is currently under review for 2024. CIPFA guidance highlights that best practice includes clearly setting out the purpose for each reserve, how and when it can be used, procedures for its management and control, and a process and timescale for review to ensure continuing relevance and adequacy. This has not been explicitly set out for the IJB, and funds notionally set aside for 'integration and change' are continuing to be used to fund in-year budget overspends, rather than from the 'risk fund' or 'working balance' in the first instance. There is limited assurance that the overspends are a result of 'integration and change', and a risk that funds originally set aside to fund investment and delivery of potential savings, may be eroded.
- **Budget Setting and Allocations** – The basis for the budget is largely historic, and as a result it may not fully reflect the actual cost of the activities, staff, and commissioned services, required to deliver the IJB's Strategic Plan. It is making use of the resource envelope made available by partners. Notwithstanding the challenging financial environment in which the IJB's partners operate within, there is further scope for the IJB prepare evidence-based cases for strategic resource (re)allocation for partners' collective consideration, as set out in the Integration Scheme and reflected in the IJB's Financial Regulations. There are transformation projects, and there are savings built in to future years of the MTFF, however there is limited evidence of planning to transfer resource to specific parts of the system which require investment, to reduce whole-system impact and costs. This could limit incentives for e.g. one partner to invest in changing processes which could reduce costs for the other, as the benefit would not be shared.
- **Budget Monitoring** – Forecast accuracy is variable, with some areas (e.g. prescribing and in-year and variable central government funding) presenting particular challenges, and other areas where assumptions have changed significantly within the financial year. There is a risk that government funding announcements made in-year are not in line with reasonable assumptions made as part of the budget setting process. Year-end variances for 2023/24 exceeded original expectations, and plans set out earlier in the year to avoid potential overspends did not fully mitigate them. There is a variable level of management assurance being provided regarding variances highlighted within the IJB's budget monitoring reports. Whilst most variances are being explained, not all partners/service areas are providing sufficient narrative detail to assure stakeholders that appropriate mitigating actions are being implemented, which will address the identified forecast variances, either within the current financial year or in the medium term through the budget process.
- **Resource Adjustments** – The IJB budget is not static throughout the financial year. Adjustments are regularly made to reflect revised government funding announcements, particularly for budgets managed by NHSG. Substantial reliance is placed on partners' finance teams to determine and agree the appropriate adjustments, and changes are not always well explained or supported.

Recommendations have been made for the Partnership to develop its planning and scheduling for financial reporting; to review forecast accuracy and options for obtaining improved data nationally; and ensure the level of detail contained in budget monitoring reports is sufficient to provide assurance over the mitigation of potential overspends; and improved transparency over the use of virements, budget adjustments, and Reserves where required. With regard to budget setting, and development of financial strategy, we have recommended the Partnership review the cost base and allocation of budget between partners, supported by the effective use of business cases, and Directions as appropriate; to include a review of the provision of, and costs for, support services recharged to the IJB budget. The Reserves Policy should also be updated.

2.3 Management response

Significant changes and improvements have been made in recent years. Initiatives such as a detailed savings tracker and regular review and scrutiny meetings with SLT ensure that the focus remains on delivering target savings.

In terms of the budget setting process, a well-established MTFF process is in place. Added to this, a draft Budget Protocol document has been developed to better identify the key stages in developing the MTFF and annual budget, enabling a shared understanding of budget processes, options and impacts and the delivery of a balanced budget. Importantly, the process is connected to NHSG and ACC processes in terms of reaching agreement on allocations, including the need for wide stakeholder engagement for some of the more challenging future savings options.

The Budget Protocol is further underpinned by a much more detailed and live Budget Setting Pathway document, with more than 100 separate activities spread over the 4 quarters of the financial year.

Agree with the recommendations, all of which are “moderate”. Management actions have been duly provided, where appropriate.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p>Financial Governance, Protocols, and Scheduling – Financial Governance, Protocols, and Scheduling are key aspects of the Budget Setting and Monitoring process.</p> <p><u>Governance</u></p> <p>There is clear governance and reporting lines, roles, and responsibilities. These are set out in the Integration Scheme, Standing Orders, committee Terms of Reference, and Chief Officers' Roles and Responsibilities. Officers have reviewed their financial governance arrangements in line with CIPFA guidance on the role of the chief financial officer, and with limited exceptions (e.g. a budget protocol which has recently been drafted) these are in place and evidenced.</p> <p><u>Protocols</u></p> <p>At the time of the audit there were no written procedures for budget setting, monitoring, or annual reporting, at an IJB level, though in practice a reasonably consistent approach was being taken. Given upcoming staffing changes it would have been helpful to have procedures fully documented to ensure continuity and consistency of existing processes and minimise the impact of the loss of institutional knowledge. However, where there is limited time remaining to address this risk, a handover period has commenced, and workings are generally well documented. There is a small cross-partner team working on these processes, alongside partners' existing finance teams and procedures within Aberdeen City Council (ACC) and NHS Grampian (NHSG). Assurance can be taken from these processes, which are subject to their own internal audit arrangements, and are generally well defined.</p> <p><u>Scheduling</u></p> <p>There is extensive planning for updating the Medium Term Financial Forecast (MTFF) and Budget - a full project plan, tracker and timeline is in place and is being kept up to date. This includes timelines for obtaining key information, preparing committee reports, stakeholder workshops and management discussions. However, there are no timetables for generating financial monitoring data at an IJB level. Data is generated by partners in line with their own period-end processes and collated at the IJB level to meet reporting requirements. There is a risk that wider partner demands and priorities could impact on the availability of up to date information for the IJB as the IJB is not explicit in its ask of partners.</p> <p>The IJB and Risk, Audit and Performance Committee (RAPC) have committee business planners in place, showing when key reports are anticipated. These do not show future budget monitoring reports beyond the next committee cycle. Budget monitoring is officially delegated to the RAPC under its Terms of Reference; however some reports have been presented to the IJB instead, Quarter 2 figures to the end of September 2023 were not reported to Committee until December 2023, and Quarter 3 figures were not reported at all, limiting the opportunity to scrutinise and respond effectively. The need for a consistent approach to reporting was also recently highlighted by External Audit (March 2024 with regard to 2022/23 reporting).</p>		
IA Recommended Mitigating Actions			
The HSCP should develop more detailed budget monitoring timetables, and use this to inform advance planning for committee reporting.			
Management Actions to Address Issues/Risks			

Ref	Description	Risk Rating	Moderate
	<p><i>A budget setting protocol has been developed and is due to be presented to the Integration Joint Board meeting on 24 September 2024. This is supported by a Budget Setting Pathway which sets out a detailed plan to implement the Protocol. The Budget Setting Pathway sets out the intended dates for reporting on monitoring to the Risk, Audit and Performance Committee (RAPC) and these dates are set out in the RAPC Business Planner. The Chief Officer, through the IJB Terms of Reference, retains the ability to report on the quarterly budgetary position to IJB as well as or instead of RAPC having due regard to levels of risk.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Chief Finance Officer	Implemented

Ref	Description	Risk Rating	Moderate
1.2	<p>Finance and Support Resources – Each partner has provided a Finance Manager (or equivalent) to support the IJB's Chief Finance Officer. Each has a wider range of responsibilities within their portfolio - i.e. they are not a dedicated resource for the IJB. Their wider teams are involved in the day to day financial reporting, adjustments, and discussions with partner budget holders etc. With the exception of savings plans (where the IJB has renewed focus for 2024/25), partners apply their internal processes as with any other budget.</p> <p>Provision 6.5 of the Integration Scheme sets out:</p> <p><i>"The Parties and the IJB will review the support services being provided on an annual basis to ensure that these are sufficient. The Parties and the IJB shall agree on the arrangements for future provision, including specifying how these requirements will be built into the IJB's annual budget setting and review process".</i></p> <p>There is an explicit recharge to the IJB budget for corporate support from ACC. A similar charge from NHSG was not identified. Other charges are also being added or proposed annually (e.g. new premises costs, IT costs etc). Premises costs are specifically referenced in the Integration Scheme at 12.9.1.9, indicating partners cannot unilaterally determine recharges:</p> <p><i>"The management of all other associated running costs (e.g. maintenance, insurance, repairs, rates, utilities) will be subject to local agreement between the Parties and the IJB".</i></p> <p>Normally within an organisation, movements in responsibility for charges would have to be matched with movements in budget (i.e. if the spend moves, the budget should follow). There is limited assurance that this is always the case. In line with the Integration Scheme, any new activity/demands on partners should be subject to a new or revised Direction from the IJB to the relevant partner. There is no indication that this has been the case prior to changes and recharges being implemented.</p> <p>It is not clear what level of budget was originally built in for these activities. A 'resource transfer' calculation is used to account for the original assumed split between NHSG and ACC (at the point of integration in 2016), as adjusted for changes going forward. However, this baseline was not fully documented. There may be scope for clearer specification of the resource provided, and paid for, by the IJB. If it were identified the resource currently provided is in excess of that budgeted for, this could create an additional budgetary pressure for the IJB, should the IJB and Parties accept that pressure.</p>		
IA Recommended Mitigating Actions			

Ref	Description	Risk Rating	Moderate
	The HSCP should review the support services being provided by partners, against the budget and costs incurred, on an annual basis to ensure it continues to deliver Best Value, in line with provision 6.5 of the Integration Scheme. All revisions to the budget or additional recharges should be subject to tripartite agreement in advance.		
Management Actions to Address Issues/Risks			
<i>It is agreed that the HSCP should review the support services being provided by partners, against the budget and costs incurred, on an annual basis. This will be undertaken as part of the 25/26 budget setting process and has been embedded within the ACHSCP Budget Setting Pathway.</i>			
Risk Agreed	Person(s)	Due Date	
Yes	Chief Finance Officer	March 2025	

Ref	Description	Risk Rating	Minor
1.3	<p>Financial Strategy – The Medium Term Financial Framework (MTFF) sets out the IJB’s financial strategy, reflecting on delivery of the Strategic Plan and transformation activities within a challenging financial context.</p> <p>The Strategic Plan sets out the following Aims:</p> <ul style="list-style-type: none"> • Caring Together • Keeping People Safe at Home • Preventing Ill Health • Achieving Fulfilling, Healthy Lives <p>Whilst the Aims are referenced within the MTFF and are included as part of discussion of planned budget savings, there is no equivalent alignment for core budgets, or cost pressures. Instead, there is analysis into a ‘Three Tiers’ cost categorisation following a similar approach to Aberdeen City Council: Prevention, Early Intervention, and Response. The budget is also broken down into manageable resources i.e. commissioning, staff, set aside, prescribing, primary care, hosted, other. Given limited resource availability, the primary focus of the MTFF needs to be balancing the budget in the medium term through savings. However, there is an opportunity to use it to demonstrate the level of investment being used to maximise delivery of the IJB’s strategic priorities.</p>		
IA Recommended Mitigating Actions			
The HSCP should set out its budget/MTFF to more explicitly demonstrate the level of investment planned in delivering each of the Aims set out in the Strategic Plan.			
Management Actions to Address Issues/Risks			
<i>The MTFF will be updated ahead for the IJB’s budget setting meeting with more clarity on the level of investment being used against the delivery of the IJB’s Strategic Priorities.</i>			
Risk Agreed	Person(s)	Due Date	
Yes	Chief Finance Officer	March 2025	

Ref	Description	Risk Rating	Moderate
1.4	<p>Use of Reserves – The Reserves Policy was last formally reviewed in 2019, though it is currently under review for 2024.</p> <p>CIPFA guidance highlights that best practice includes clearly setting out the purpose for each reserve, how and when it can be used, procedures for its management and control, and a process and timescale for review to ensure continuing relevance and adequacy. This has not been explicitly set out for the IJB, and funds notionally set aside for 'integration and change' are continuing to be used to fund in-year budget overspends, rather than from the 'risk fund' or 'working balance' in the first instance. In effect these reserves are being offset, though there is no explicit recorded decision to reduce and then replenish the working balance. There is limited assurance that the overspends are actually as a result of 'integration and change', and a risk that funds originally set aside to fund investment and delivery of potential savings, may be eroded.</p> <p>Historically the level of reserves has protected partners from the need to contribute additional funding. There is a risk that availability of these funds could reduce SLT's urgency to deliver planned savings for the IJB. The requirements are being reinforced for 2024/25.</p> <p>Whilst there is evidence that formal consideration is being given to the use of reserves as part of each budget setting and year-end process, including an initial plan to top-up reserves in 2024/25, a more clearly planned approach would improve assurance that reserves are being planned for and used effectively.</p>		
IA Recommended Mitigating Actions			
The HSCP should update the Reserves Policy. This should be adapted to include the purpose for each reserve, how and when it can be used, procedures for its management and control, and a process and timescale for review to ensure continuing relevance and adequacy. All use of reserves should be transparently recorded.			
Management Actions to Address Issues/Risks			
<i>The Reserves Policy will be reviewed to meet the recommendations set out above.</i>			
Risk Agreed		Person(s)	Due Date
Yes		Chief Finance Officer	March 2025

Ref	Description	Risk Rating	Moderate
1.5	<p>Budget Setting and Allocations – The basis for the budget is largely historic, and as a result it may not fully reflect the actual cost of the activities, staff, and commissioned services, required to deliver the IJB's Strategic Plan. Partners have indicated there is limited scope for additional funds due to their own funding pressures (e.g., NHSG did not set a balanced budget for 2023/24 and is still in the process of reviewing this for 2024/25). New funding, where available and known, is passported and included in the budgets. However, the Integration Scheme sets out that the IJB Chief Officer and Chief Finance Officer will develop an evidence-based case for the Integrated Budget and present it to the Council and NHS Grampian each year, to reflect changes in activity, inflation, legal requirements and so on, and this has not been regularly evidenced.</p> <p>As with its partners, the IJB must make do with the resources that are made available and fit within that funding envelope, adjusting plans and activity to meet the budget. However, it has limited flexibility available to do so. For example, the IJB is unable to initiate compulsory redundancies to reduce staffing budgets; it is reliant on commissioned services, the rates for</p>		

Ref	Description	Risk Rating	Moderate
	<p>which are often set nationally; and it has limited opportunities to generate income. Alternative savings plans and options are being taken forward, but the means for delivering a proportion of savings targets were un-planned at the point the budget was set. This presents a risk, although it is being managed through regular senior management review.</p> <p>With limited exceptions (e.g. where a resource transfer was historically agreed, or where specific external funding streams dictate a varying share between partners), the amounts planned for partners to input to the IJB, are the same as the amounts planned to be transferred back out to them, as reflected in the official Budget Directions issued by the Chief Officer. There is a risk this could create or reinforce barriers to cooperation, if partners perceive specific ownership of their part of the IJB budget, which should be integrated, and entirely under the IJB's strategic direction.</p> <p>Outputs from the budget setting exercise, savings plans, and regular budget monitoring reports, indicate that incentives/drive to progress, and ability to implement, changes to activity to manage within budget, varies between partners and business units. This is evident within the MTFF Delivery Plan, and within areas where proportional savings were allocated as part of the budget and delivery is now being planned and monitored by management.</p> <p>There are transformation projects, and there are savings built into future years of the MTFF, however there is limited evidence of planning to transfer resource to specific parts of the system which require investment, to reduce whole-system impact and costs. This could limit incentives for e.g. one partner to invest in changing processes which could reduce costs for the other, if the benefit would not be shared.</p>		
IA Recommended Mitigating Actions			
<p>The IJB should review the cost base in detail to ensure the current budget is reflective of its ongoing costs.</p> <p>The IJB should review plans with the Council and NHS Grampian for the strategic allocation of its resources between partners and activities in the medium term, setting out the case for change in funding and allocation where required. Agreed changes to the balance of funding should be underlined through issue of a formal Direction from the IJB.</p>			
Management Actions to Address Issues/Risks			
<p><i>Regular meetings exist between the Chief Finance Officers of the IJB and Partners. This includes the sharing of available information such as the IJB's anticipated savings target for future years. It is acknowledged that partners are also managing significant financial savings targets. It is accepted that there is scope to better connect the respective budget setting processes, as per the Integration Scheme, including the review of evidence base cases for additional funding beyond existing assumptions as and when considered appropriate. The practice of reviewing plans, and evidence base cases as required, will be incorporated within the IJB's Budget Setting Pathway. Any changes would be supported by a formal Direction from the IJB where appropriate.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Chief Finance Officer	March 2025

Ref	Description	Risk Rating	Moderate
1.6	Budget Monitoring – Budget monitoring information is collated by partner finance teams, reviewed with budget holders, and reported to the IJB CFO and Senior Leadership Team, in advance of quarterly reporting to Committee.		

Ref	Description	Risk Rating	Moderate
	<p><u>Data</u></p> <p>The Integration Scheme changed in 2023 to reflect a move from monthly to quarterly budget monitoring, but risk registers still indicate monthly monitoring as a mitigating control to financial sustainability risk. Information is available and discussed at a management level more frequently.</p> <p>There are some risks inherent in the manual processes used to collate financial data at the IJB level - each manual entry figure or adjustment introduces a potential risk of error. Reliance is placed on the finance teams to undertake appropriate due diligence, as the IJB CFO does not currently have direct access to the underlying data, and budget holders have varying access depending on the scope of their role, and the employing partner. The IJB CFO is able to check/challenge and request further explanations or supporting detail if required, and there is evidence of their doing so where appropriate.</p> <p><u>Forecasting</u></p> <p>Forecast accuracy is variable. Year-end variances for 2023/24 exceeded original expectations, and plans set out earlier in the year to avoid potential overspends did not fully mitigate them. Whilst the majority of variances arose from unanticipated external events, the impact of which was only identifiable late in the financial year (e.g. recovery of funds held in reserve, additional backdated charges by a partner, and changes in costs and demand), forecasts also varied substantially throughout the year (between an initial on-budget forecast, to £5.432m (1.3%) and then £10.774m (2.7%) overspent overall).</p> <p>Forecasting is challenging in a number of areas. For example: for 2023/24, the Prescribing budget was set based on supporting data from national reporting systems. Prescribing then varied through 2023/24 between an anticipated £4.3m and £1.8m overspent after in-year budget adjustments. Issues have been identified with delays in obtaining supporting data from national systems, and the assumptions included therein. Income streams to the IJB from the Scottish Government via NHS Grampian are also not all confirmed in advance of a new financial year, and the in-year impact may not be in line with assumptions made in the budget setting process. In other areas there may be scope for refinement of forecasting techniques. For example, Older People and Disabilities moved from a projected £1.7m within budget position, to £6.4m over.</p> <p><u>Variance Reporting</u></p> <p>There is a variable level of management assurance being provided regarding variances highlighted within the IJB's published budget monitoring reports. There is no defined threshold for reporting, which presents a risk to efficiency of the process. There is also no required level of detail. The IJB Financial Regulations require that reports 'include recovery action proposed where a year end budget variance is identified'. However, this is not being applied effectively in practice.</p> <p>Whilst most variances are being explained, not all partners/business areas are providing sufficient narrative detail to assure stakeholders that appropriate mitigating actions are being implemented, which will address the identified forecast variances, either within the current financial year or in the medium term through the budget process. There is varying language used in different partners' narrative, for example reasons for variances included: '<i>unfunded savings targets</i>', '<i>unallocated savings</i>', '<i>various small overspends</i>'. In many cases variances were reported to the Integration Joint Board factually, with no assurance provided that mitigating action was being taken to address anticipated variances. In others, the same reasons for overspending were re-stated (e.g. increases in the National Care Home Contract rate), for areas in which this was unlikely to be applicable/material.</p>		

Ref	Description	Risk Rating	Moderate						
	<p>There is opportunity for variances to be discussed at the relevant Committee meeting, however their recurring nature indicates they are not always being fully addressed. Financial sustainability may therefore be at risk.</p> <p>IA Recommended Mitigating Actions</p> <p>The HSCP should review forecast accuracy with budget holders and identify areas where further work is required with partners.</p> <p>Partners / the IJB should engage with government bodies to identify opportunities to improve access to Prescribing data and information on Funding, to aid financial planning.</p> <p>The HSCP should define the level of detail and assurance required from budget holders where a variance is anticipated.</p> <p>Management Actions to Address Issues/Risks</p> <p><i>Forecasting is subject to increased risk in areas such as Prescribing, where in-built time delays in receiving actual data from the national database continues to present challenges (in common with all other IJBs). The ACHSCP, following consultation with Partners, will seek to engage with relevant government bodies to raise awareness of the impact of existing arrangements to IJB budget monitoring and with a view to seeking improvement to current processes.</i></p> <p><i>Those areas where forecasting has varied significantly will be explored with budget holders and relevant council/health board finance staff to identify scope for improving existing processes.</i></p> <p><i>The Chief Finance Officer is aware of budget variance through enhanced monitoring arrangements which have been developed in recent months. The level of detail and assurance required from budget holders is set out in the Financial Regulations as identified above and these will be complied with in future reporting.</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #003366; color: white;">Risk Agreed</th> <th style="background-color: #003366; color: white;">Person(s)</th> <th style="background-color: #003366; color: white;">Due Date</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>Chief Finance Officer</td> <td>March 2025</td> </tr> </tbody> </table>	Risk Agreed	Person(s)	Due Date	Yes	Chief Finance Officer	March 2025		
Risk Agreed	Person(s)	Due Date							
Yes	Chief Finance Officer	March 2025							

Ref	Description	Risk Rating	Moderate
1.7	<p>Resource Adjustments – The IJB budget is not static throughout the financial year. Adjustments are regularly made to reflect revised government funding announcements, particularly for budgets managed by NHSG. Funding letters may go to the partner CFO's, the IJB CFO, to one or more of the Chief Executives, or another officer. Their content is also variable - they may or may not detail: which areas and organisations will receive funding; whether or not they should be passported in full to the IJB; how much funding will be provided; how funding should be split between partners; whether and to what extent the funding is recurring. Funding changes and payments can be late in the financial year, limiting the ability to act, use them effectively, and to factor them into budget monitoring and financial planning. For future years, the MTFF model is updated regularly throughout the year, and will take account of known recurring changes to the base budget.</p> <p>For NHSG, changes are regular, and are reflected in figures appended to budget monitoring spreadsheets. Supporting records are not typically shared unless specifically requested. Changes to funding through the Council are generally fewer and more predictable. However, a more consistent approach to recording these changes and their sources, would provide greater assurance that changes to the IJB budget are being applied correctly.</p>		

Ref	Description	Risk Rating	Moderate
	<p>There are regular budget monitoring adjustments, and changes to the budget (virements). Most reflect movement of budget between headings, and have a net-nil effect on the budget. However, they are not typically well explained in the budget monitoring. The IJB's Financial Regulations do not require a formal request for Committee approval to change the budget, and only require reporting over £100k; however the RAPC Terms of Reference indicate it should approve budget virements, with no specified thresholds. Whilst such changes to the budget are generally used to reflect structural changes, or to move budget to areas where it is required to avoid overspend, there is a risk they could mask potential issues - therefore a clear explanation is required in each instance.</p> <p>A 'resource transfer' is drawn down monthly from NHSG to ACC, reflecting historic agreement on the distribution of funding between the partners to fund various aspects of the HSCP's delegated functions. Further adjustments are made on a regular basis, and these are recorded on a spreadsheet used for a year-end reconciliation of amounts due to / from each partner, to consolidate the final accounts. Substantial reliance is placed on the partners' finance teams to determine and agree the appropriate adjustments. As with adjustments to the budget, there is limited supporting information available to explain each change, reducing assurance over their accuracy. This risk could increase due to imminent changes to key finance staff.</p>		
	IA Recommended Mitigating Actions		
	<p>All changes to the IJB budget, and each partner's share thereof, should be fully and consistently documented: including calculations, supporting records, and agreement; in advance of changes being applied to budgets and actual payments. Material changes should be noted and explained to Committee as part of the budget monitoring report.</p>		
	Management Actions to Address Issues/Risks		
	<p><i>The ACC budget does not fluctuate month by month. Any additional funding is referenced to a Scottish Government funding letter that the HSCP is copied in to. Therefore, the HSCP has advance notice of any budget adjustments, with draft estimates routinely calculated, with the final figure discussed and agreed with the Council's Chief Officer - Finance.</i></p> <p><i>The NHSG budget moves every month and HSCP does not receive the same level of funding letter detail. The adjustments are made by NHSG finance staff.. As part of developing a budget monitoring report to committee, the Chief Finance Officer will engage with the NHSG Director of Finance to ensure that material changes are able to be noted and explained for inclusion within the relevant report.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Chief Finance Officer	December 2024

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk Level	Definition
Corporate	This issue / risk level impacts the Partnership as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Partnership's objectives or could impact the effectiveness or efficiency of the Partnership's activities or processes. Action is considered imperative to ensure that the Partnership is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

The Aberdeen City Health and Social Care Partnership (ACHSCP) has now been operating for almost eight years, tasked with integrating services delegated from its partners Aberdeen City Council (ACC) and NHS Grampian (NHSG). The Aberdeen City Integration Joint Board (IJB) is the governing body of the ACHSCP and agrees an annual budget following the delegation of funding from its partners each financial year.

The ACHSCP's Medium Term Financial Framework (MTFF) is intended to assist in delivering its strategic intent, further improve strategic financial planning and maximise the use of resources across the medium term. It takes cognisance of the Strategic Plan approved by the IJB on 7 June 2022; the Aberdeen City Health & Social Care Integration Scheme; and various strategies agreed by the IJB since it became operational. It aims to pull together in one place all the known factors affecting the financial position and sustainability of the organisation over the medium term (currently defined as seven years), and to set out how the IJB intends to take action to address this financial challenge across key areas of the IJB's strategic plan. The document is updated annually to reflect any changes to baseline assumptions.

The IJB approves the MTFF, and the annual budget included therein, in March each year. The current MTFF, agreed on 26 March 2024, indicates a £52 million funding gap to be addressed in the medium term, through reshaping commissioning, transformation, and achievement of savings targets. The 2024/25 budget totals £422 million. This includes: £131 million towards functions and services delivered by ACC; £266 million for services provided by NHSG (including £30 million towards hosted services), including £53 million set aside for large hospital services; service income of £18.5 million; and £6.5 million of government grants.

Every organisation must manage the risks inherent in the operation of large and complex budgets. These risks are minimised by regular review of financial information by budget holders and corporately by the Board and the Risk Audit & Performance Committee. Budget monitoring provides an overview of the current financial operating position, including anticipated outturns.

Throughout the last financial year (2023/24), the IJB continued to report significant financial pressures through its budget monitoring. This resulted in a forecast year end overspend of £5.4 million (final outturn of £10.8 million) and the IJB agreed on 5 December 2023 to allow for the use of reserves to balance the year end position. The Partnership continued to work with its partners, Aberdeen City Council, NHS Grampian and the third and independent sectors to support the health and social care system within Aberdeen and to maximise the use of the reserve within set funding criteria.

The issues of rising demand, increasing level of complexity of clients' need and rising prescription costs are well documented. The MTFF shows a direction of travel to reducing the financial pressures it is likely to face and balance the budget over the medium term. However, should the levels of funding identified not be made available to the IJB in future years from either or both partners, or additional financial pressures arise, then more radical and robust choices will need to be made.

Due to the challenging financial climate across Scotland, several IJBs have requested additional support from their Boards and Councils to balance 2023/24 overspends and 2024/25 budgets. To date the IJB has undertaken all of its activities, whether that be operational service delivery or transformation of services, without having to approach either NHSG or Aberdeen City Council for additional funding.

5.2 Rationale for review

The audit objective is to ensure that appropriate arrangements are in place regarding IJB budget setting and budget monitoring.

Budget setting, management and monitoring are essential to governance, risk management and control within the Health and Social Care Partnership, and act as mitigating controls to a variety of risks included in the strategic risk register including commissioning and hosted services. The risk of IJB financial failure and overspending is currently reported as 'High', with the IJB indicating it has a low to moderate

risk appetite to financial loss. This is weighed against the IJB's lower appetite for risk of harm to people, and requirement to deliver statutory services. Management of this risk is essential to sustain future service delivery.

The area was last reviewed in 2018, at which time risks were identified including: utilisation of reserves to fund mainstream services; gaps in information flows from partners; and audit trails in respect of in-year budget movements.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the Corporate level.
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- Financial governance, operational protocols, and schedules.
 - Governance, procedures, resources.
- Development of financial strategy.
 - Medium term financial framework and wider strategic alignment.
- Budget setting.
 - Partners and IJB, scheduling, assumptions, and risks.
- Budget monitoring.
 - Basis, content and level of detail, frequency and forecast accuracy.
- Resource adjustments.
 - Reserves, in-year adjustments, commitments, and actions.

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, guidance.

Due to hybrid working, this review will be undertaken primarily remotely.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 5.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Colin Harvey, Audit Team Manager (**audit lead**)
- Jamie Dale, Chief Internal Auditor

5.7 Partnership key contacts

The key contacts for this review across the Partnership are:

- Fiona Mitchelhill, Chief Officer
- Fraser Bell, Chief Operating Officer

-
- Paul Mitchell, Chief Finance Officer (**process owner**)

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	20/05/2024
Scope agreed	24/05/2024
Fieldwork commences	27/05/2024
Fieldwork completed	21/06/2024
Draft report issued	28/06/2024
Process owner response	12/07/2024
Director response	19/07/2024
Final report issued	26/07/2024