

Appendix A

Financial Implications

The integration of equipment services in East Sussex by Social Services and Health replaces the Authority's existing arrangements for the provision of equipment. The current contract for the delivery of daily living equipment is scheduled to finish on 31st August 2004. It is proposed that a new five year agreement will be in place from 1st September 2004 which can be terminated on twelve months notice.

The Social Services budget contains provision of £900,000 for the purchase and installation of community equipment.

Three separate Health schemes currently operate across East Sussex. The combined Health budget identified is £411,000 and provides an estimated 20,000 items of equipment. This is twice as many items as that provided by Social Services at less than half the cost. Given the limited information systems maintained by the PCT stores, there is a lack of good quality information and thus the Health figures have to be treated with a significant degree of caution.

Using the preferred tenderers' prices, Health funding required for the initial 7 months of the contract in 2004/05 is £576,000 (£986k full year). This is based on applying the original assumption of the ICES model of 50% of issues being returned for further utilisation at no additional cost.

This cost represents a shortfall in identified Health funding of £336,000 in 2004/05 (£575k in a full year) and compares with the modelled full year shortfall of £850,000 reported in July 2003. This in part reflects the economies of scale, which can be achieved from integrated provision.

Health stores currently operate on a high level of recycling and currently 70% of equipment issues by Health are returned. This is higher than Social Services, which is operating with returns of around 50%.

To reflect a higher level of recycling, Health has requested that the agreed model be based upon **70% equipment returns** in any one year. A 5-year forecast based on this return activity for both Agencies is identified at Appendix B. The model assumes annual inflationary increases of 3%. Annual increases in activity of 10% have been illustrated, subject to resources being available.

The projections for 2004/05 (part year) and 2005/06 are summarised below:

COSTS	2004/05 (sep-mar) £	2005/06 £
Equipment	82,735	160,269
Service Costs	495,893	866,448
Management Costs	145,833	282,500
Support Staff	98,495	173,913
TOTAL	822,956	1,483,131
Funding	£	£
SSD	525,000	927,000
HEALTH	297,956	556,131
TOTAL	822,956	1,483,131

The higher level of returns reduces the projected Health funding to £556k in 2005/06, the first full year of operation. The estimated level of equipment purchases is reduced to reflect the utilisation of equipment currently in use by both Health and Social Services. Thus it is assumed that during the first 18 months of the contract 90% of equipment will be recycled with few items being purchased directly. This will be a major shift in operational use, particularly for Social Services.

Purchases of equipment are projected to increase in later years due to the need to replace existing pre-contract equipment and assumed increases in activity. This additional cost, from 2005/06, will need to be agreed by all partners in the pool.

Given that budget provision will be based on this relatively high level of returns, effective monitoring of activity (both issues and returns) by individual partners will be crucial in order to ensure that:

- Equipment is identified directly to the relevant commissioner;
- Fixed costs such as the stores operation, delivery and collection are apportioned to ESCC/Health on the basis of activity.

The IT system adopted will require, through equipment coding and staff PIN numbers, that individual pieces of equipment are traced directly to the commissioning body. A 70% return rate is very challenging, particularly for Social Services, and monthly monitoring will provide early indication of whether targets are being achieved.