

**Integrated Joint Board**

**Agenda item:**

**Date of Meeting: 29 January 2020**

**Title of Report: Budget Outlook 2020-21 to 2022-23**

**Presented by: Judy Orr, Head of Finance and Transformation**

**The Integrated Joint Board is asked to:**

- Note the current estimated budget outlook report for the period 2020-21 to 2022-23.

**1. EXECUTIVE SUMMARY**

- 1.1 This report summarises the budget outlook covering the period 2020-21 to 2022-23 taking into consideration the budget decisions taken at the Integrated Joint Board (IJB) on 27 March 2019. There has been a full update of the budget outlook presented to the IJB on 27 November 2019. The assumptions will continue to be updated and refined as the year progresses.
- 1.2 The assumptions for funding from NHS Highland has been amended to a 2.5% mid-range increase from the previous 2.0% estimate, now using the updated assumptions now being used across the NHS. Whilst additional NHS in year allocations have been received since the last report, all are non-recurring and are matched by planned expenditure so do not change the outlook.
- 1.3 The position for funding of employers superannuation has been agreed and funding of £4.575m received. The outlook assumes expenditure of £5m, fully matched in best case, and funding restricted to £4.575m in mid and worst case scenarios. This is unchanged since the November report.
- 1.4 The main changes have been to update the estimates for non-pay inflation and for future cost and demand pressures. New health cost pressures have been added for Salen relocation of surgery to Mull PCC as a one-off in 2020/21, for a share of the national charge of the new hospital patient administration system (HEPMA), new high cost care packages anticipated, an increase to out of hours costs for GP practices reflecting recent negotiations, and a significant increase in Microsoft costs as recently notified. Updates have been made to the estimates for SLA increases based on recent submissions from NHS Greater Glasgow & Clyde, to salary estimates and to utilities inflation which has been increased in line with similar changes for Council utilities. In social work, the cost pressure for

Greenwood hostel staffing has been removed for all scenarios as this is now included in updated pay estimates following completion of pay modelling for next year. The Scottish Living Wage estimates have been further refined following the announcement of the new rates in November of £9.30 per hour. The allowance for unknown cost and demand pressures has been reduced significantly as there is less uncertainty now.

- 1.5 In the mid-range scenario, the Health and Social Care Partnership budget gap estimated over the three year period 2020-21 to 2022-23 is £18.733m with a gap of £8.289m in 2020-21.
- 1.6 In contrast, the budget gap in the best case scenario over the three years is £6.493m with a gap of £3.248m in 2020-21 and in the worst case scenario, the budget gap over the three years is £31.115m with a gap of £12.153m in 2020-21. A summary of all three scenarios is included within Appendix 1.

## **2. INTRODUCTION**

- 2.1 This report summarises the budget outlook covering the period 2020-21 to 2022-23. This is full update of the budget outlook presented to the IJB on 27 November 2019. The assumptions will be updated and refined as the year progresses.
- 2.2 As previously, the budget outlook has been prepared using three different scenarios, best case, worst case and mid-range. Relatively small variations in assumptions can lead to fairly significant changes in the outcome. In the paragraphs that follow, the mid-range outlook is shown. The detail of all three scenarios is provided at Appendix 1.

## **3. DETAIL OF REPORT**

### **3.1 Funding Estimates**

#### **NHS Highland**

- 3.1.1 The funding from NHS Highland in 2019-20 included an uplift of 2.5%. The budget was set for 1 year only. The future estimates have been based on a 1.8% uplift for worst case, 3.0% best case and 2.5% mid-range. This has been revised since the last budget outlook based on agreed NHS wide planning scenarios.
- 3.1.2 The increase in public sector pensions' schemes employers' contribution from 14.9% to 20.9% is meant to be fully funded. A&B HSCP has received £4.575m to date and costs are estimated at £5.0m. The expectation is that this will be distributed on NRAC shares for future years. Best case assumes that we will receive the full funding at £5.0m and mid-range and worst case that we will receive the same amount as this year at £4.575m. This is unchanged.
- 3.1.4 The table below outlines the updated estimated funding from NHS Highland over the next three years within the mid-range scenario. The highlighted figures are the ones which have changed below:

	<b>2020-21 £000</b>	<b>2021-22 £000</b>	<b>2022-23 £000</b>
Baseline funding	175,886	175,886	175,886
Baseline funding uplift	4,279	8,665	13,160
Other Recurring Funding	30,327	30,327	30,327
Resource Transfer baseline (net)	7,181	7,181	7,181
Resource Transfer uplift	298	603	916
Pensions Increase	4,575	4,575	4,575
<b>Total Funding NHS</b>	<b>222,546</b>	<b>227,237</b>	<b>232,045</b>

## Council Funding

- 3.1.5 The estimates for Council funding remain unchanged from the previous Budget Outlook. The mid-range position is as per the indicative allocation agreed by Council in February 2019 on the basis of current year funding less 1%. The best case scenario assumes a flat cash position and the worst case assumes a 2% decrease in line with the estimated reduction from Scottish Government.

## 3.2 Savings Measures Already Approved

- 3.2.1 A number of additional savings for 2019-20 were agreed at the IJB on 7 August 2019 as part of a Financial Recovery Plan. These new savings totalled £700k. These are expected to provide continuing savings in future years, reducing the future budget gap. The further savings agreed at the IJB on 25 September 2019 are measures to bring back spending within existing budgets and are not expected to impact on the future budget outlook.

## 3.3 Updated Budget Outlook

- 3.3.1 The updated budget outlook for the mid-range scenario, taking into consideration all the factors noted within this report, is summarised in the table below. Changed figures are highlighted.

	<b>2020-21 £000</b>	<b>2021-22 £000</b>	<b>2022-23 £000</b>
Base Budget	276,985	277,290	277,603
Employee Cost Changes	3,286	6,390	9,551
Non-Pay Inflation	4,902	8,507	12,266
Cost and Demand Pressures	4,325	6,713	9,156
Q&F Plan Savings	(139)	(139)	(139)
Management/Operational Savings agreed March 2019	(500)	(1,020)	(1,020)
Policy Savings agreed March 2019	(198)	(198)	(198)
Recovery Plan agreed Aug 2019	(700)	(700)	(700)
<b>Total Estimated Expenditure</b>	<b>287,961</b>	<b>296,843</b>	<b>306,519</b>
Estimated Funding	279,672	283,126	287,786
<b>Estimated Budget Surplus / (Gap) Cumulative</b>	<b>(8,289)</b>	<b>(13,717)</b>	<b>(18,733)</b>

<b>Estimated Budget Surplus / (Gap) In Year</b>	<b>(8,289)</b>	<b>(5,428)</b>	<b>(5,017)</b>
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- 3.3.2 In the mid-range scenario, the Health and Social Care Partnership budget gap estimated over the three year period 2020-21 to 2022-23 is £18.733m with a gap of £8.289m in 2020-21.
- 3.3.3 In contrast, the budget gap in the best case scenario over the three years is £6.493m with a gap of £3.248m in 2020-21 and in the worst case scenario, the budget gap over the three years is £31.115m with a gap of £12.153m in 2020-21. A summary of all three scenarios is included within Appendix 1.
- 3.3.4 The changes from the previous anticipated outlook to 2021-22 (as noted at the IJB meeting on 25 September 2019) are summarised in the table below based on the mid-range scenario:

	<b>2020-21 £000</b>	<b>2021-22 £000</b>	<b>2022-23 £000</b>
<b>Previous Reported Budget Gap (mid-range)</b>	<b>(8,837)</b>	<b>(15,243)</b>	<b>(21,063)</b>
Change to NHS Funding estimates	916	1,873	2,872
Base budget adjustment	(60)	(122)	(187)
Employee cost changes	(420)	(605)	(795)
Change to non-pay inflation	679	765	873
Change to cost & demand pressures	(567)	(385)	(433)
<b>Revised Budget Gap (mid-range)</b>	<b>(8,289)</b>	<b>(13,717)</b>	<b>(18,733)</b>

- 3.3.5 For Social Work the assumptions for **pay inflation** have been updated in line with salaries templates for next year, and the Greenwood hostel cost pressure has been removed as this is included in the pay forecasts. The main change are for the national care home contract where we are now assuming a 4% increase for mid-range scenario. The calculation for Scottish Living wage increase has been further refined based on the new rates announced in November of £9.30 per hour.
- 3.3.6 For Health, the calculations for **pay inflation** have been updated in line with 2019-20 experience of the new Agenda for Change shortened pay scales and the updated pay baseline costs. The allowances for non-pay inflation have been updated for utilities and for SLAs in line with updated claims from NHS GG&C which are still under dispute. For **cost and demand pressures**, an increase has been made for the cost pressure for new out of hours GP contracts in line with current negotiations. New cost pressures have been added for new high cost care packages. A substantial increase has been made to the cost pressure for Microsoft licences based on the updated national position. A one-off provision has been made for the cost of moving the Salen surgery to Mull PCC.

#### **4. RELEVANT DATA AND INDICATORS**

- 4.1 The budget outlook is based on a number of assumptions, using a best, worse and mid-range scenario. These assumptions will be regularly reviewed and updated as appropriate.

## **5. CONTRIBUTION TO STRATEGIC PRIORITIES**

- 5.1 The Integrated Joint Board has a responsibility to set a budget which is aligned to the delivery of the Strategic Plan and to ensure the financial decisions are in line with priorities and promote quality service delivery. This needs to be considered when options are developed to balance the budget.

## **6. GOVERNANCE IMPLICATIONS**

- 6.1 Financial Impact – There is a significant budget gap for future years that requires to be addressed.
- 6.2 Staff Governance – None directly from this report but there is a strong link between HR and delivering financial balance.
- 6.3 Clinical Governance - None

## **7. PROFESSIONAL ADVISORY**

- 7.1 There are no recommendations from this report which require to be consulted on with Professional Advisory leads.

## **8. EQUALITY AND DIVERSITY IMPLICATIONS**

- 8.1 None directly from this report but any proposals to address the estimated budget gap will need to consider equalities.

## **9. GENERAL DATA PROTECTION PRINCIPLES COMPLIANCE**

- 9.1 None directly from this report.

## **10 RISK ASSESSMENT**

- 10.1 There is a risk that sufficient proposals are not approved in order to balance the budget in future years. Any proposals will need to consider risk.

## **11. PUBLIC AND USER INVOLVEMENT AND ENGAGEMENT**

- 11.1 None directly from this report but any proposals to address the estimated budget gap will need to take into consideration local stakeholder and community engagement.

## **12. CONCLUSIONS**

- 12.1 A budget outlook covering the period 2020-21 and 2022-23 has been prepared. In the mid-range scenario, the Health and Social Care Partnership budget gap estimated over the three year period 2020-21 to

2022-23 is £18.733m with a gap of £8.289m in 2020-21. The assumptions will continue to be updated and refined as the year progresses.

### 13. DIRECTIONS

Directions required to Council, NHS Board or both.	<b>Directions to:</b>	tick
	No Directions required	√
	Argyll & Bute Council	
	NHS Highland Health Board	
	Argyll & Bute Council and NHS Highland Health Board	

### APPENDICES:

Appendix 1 – Budget Outlook Best, Worst and Mid-Range Scenarios

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