

Integration Joint Board

Agenda item:

Date of Meeting: 25 March 2020

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

Presented by: Judy Orr, Head of Finance and Transformation

The Integration Joint Board is asked to:

- Consider the current estimated budget outlook report for the period 2020-21 to 2022-23 and note that there is a separate report on the agenda detailing savings options to deliver a balanced budget in 2020-21.

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 29 January 2020.
- 1.2 The assumptions for funding from NHS Highland has been amended to a 3.0% mid-range increase from the previous 2.5% estimate, now using the draft opening funding offer from NHS Highland. Although the Scottish Budget showed a 3.2% uplift for NHS Highland, none of the extra 0.2% for NRAC parity comes to the IJB because of population decline in our area. To this, we have added the expected allocations for Primary Medical Services and other recurring funding which includes a new allocation of £660k for new medicines funding.
- 1.3 The funding from the Council has now been approved. The main changes from the previous outlook are that there is a flat cash position for 2020/21 (previously assumed a 1% reduction) along with a share of the national £101m additional funding which amounts to £1.752m. This includes Carer's Act extension, appropriate adults funding, and further funding for free personal care. There is also an £11k adjustment re fleet capital charges.
- 1.4 The Council has agreed a revised repayment plan in respect of previous year overspend on social care. The agreement is to repay £500k in 2020/21, with adjusted amounts for later years as set out at 3.1.5.
- 1.5 A number of changes have been to update the estimates for payroll increments, non-pay inflation and for future cost and demand pressures. NHS increments provision has been increased by £70k, updates have been

made to the estimates for SLA increases based on the 3% agreed uplift in the Scottish budget (2.5% estimated previously) and to prescribing where £400k further cost pressure has been recognised in view of current overspend on this line reflecting high cost drugs. Similarly the provision for cystic fibrosis treatments has been increased from £160k to £581k. The provision for NHS National Services Division (NSD) developments has increased by £150k following communication of an indicative top slice of £223k for ultra orphan medicines. This has been offset by an announcement of new medicines funding of £660k in December. A small provision of £60k has been made for refurbishment of Aros residences as the current condition is potentially affecting the recruitment of junior doctors.

- 1.6 In social work, the cost pressure for Criminal justice development has been removed as this is covered by a new specific grant of £46k announced in the budget. The Scottish Living Wage estimates have been further refined to include the full amount (this was previously reduced by expected Scottish Government funding which is now known). New commitments made in the Scottish Budget of £141k have been added – appropriate adults £16k, Carers Assessment Officers £125k. A new cost pressure of £250k has been added for continuing care demands for children & families following a recent expensive new case requiring out of area provision. The allowance for unknown cost and demand pressures has been removed as there is less uncertainty now.
- 1.7 A previously agreed policy saving of £200k due to be delivered in 2020/21 related to the management restructuring has been removed. This was additional to the £200k in 2019/20 and reflected a full year estimate. The restructuring is planned to take effect from 1 April 2020 and updated estimates show that only £200k p.a. saving is likely to be achieved.
- 1.8 A single scenario is now presented for 2020/21 with a budget gap before new savings of £5.362m. The usual best, mid-range and worst case scenarios are presented for the next two years. 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 £15.831m with a gap of £5.562m in 2020-21.
- 1.9 In contrast, the budget gap in the best case scenario over the three years is £6.785m and in the worst case scenario, the budget gap over the three years is £26.110m. A summary of all three scenarios is included within Appendix 1.
- 1.10 The budget gap over 2020-21 to 2022-23 across each scenario is summarised in the table below:

Budget Gap	2020-21 £000	2021-22 £000	2022-23 £000	Total £000
Best Case	5,362	(361)	1,806	6,808
Mid-Range	5,362	5,136	5,282	15,779
Worst Case	5,362	11,139	9,550	26,051

2. INTRODUCTION

- 2.1 This report summarises the budget outlook covering the period 2020-21 to 2022-23. This is a full update of the budget outlook presented to the IJB on 29 January 2020. For 2021-22 and 2022-23 the outlook is based on three different scenarios, best case, worst case and mid-range. A single scenario is presented for 2020-21. The detail of all three scenarios is provided at Appendix 1.
- 2.2 The updates include new funding estimates following the Scottish Government budget on 6 February and reflect draft funding offers received from NHS Highland and the funding offer from the Council approved at the Council meeting on 27 February 2020. The Council has agreed a further deferral of the repayments in respect of previous years' overspends and revised details for this are presented below.

3. DETAIL OF REPORT

3.1 Funding Estimates

NHS Highland

- 3.1.1 The assumptions for funding from NHS Highland has been amended for 2020/21 to a 3.0% mid-range increase from the previous 2.5% estimate, now using the draft opening funding offer from NHS Highland. This follows the letter from the Scottish Government on 6 February 2020 which states that "In 2020-21, NHS payments to Integrated Authorities for delegated health functions must deliver an uplift of at least 3% over 2019-20 agreed recurring budgets." Although the Scottish Budget showed a 3.2% uplift for NHS Highland, none of the extra 0.2% for NRAC parity comes to the IJB because of population decline in our area. To this, we have added the expected allocations for Primary Medical Services and other recurring funding including a new allocation of £660k for new medicines funding. The Other recurring funding figures are estimates as at end of Month 10 which are matched by equivalent expenditure. These are expected to change but will not alter the budget gap. For future years, the mid-range forecast still assumes a 2.5% uplift.
- 3.1.2 The table below outlines the updated estimated funding from NHS Highland over the next three years within the mid-range scenario. The baseline funding now includes the pensions increase. The resource transfer is now shown gross before any recharges (previously shown net). All figures have been updated.

	2020-21 £000	2021-22 £000	2022-23 £000
Baseline funding	180,453	180,453	180,453
Baseline funding uplift	5,261	9,776	14,404
Other Recurring Funding	33,306	33,306	33,306
Resource Transfer baseline	6,851	6,851	6,851
Resource Transfer uplift	358	666	981
Total Funding NHS	226,229	231,052	235,995

Council Funding

- 3.1.3 The estimates for Council funding are also changed from the previous Budget Outlook. The Scottish Government letter of 6 February 2020 stated that “the Health portfolio will invest a further £100million on Local Authorities for investment in social care and integration, and continued support for school counsellors. ... The funding allocated to Integration Authorities should be additional and not substitutional to each Council’s 2019-20 recurring budgets for social care services that are delegated. ..” . All scenarios now assume a flat cash position (previously flat cash to -2% range).
- 3.1.4 On 27 February 2020 the Council agreed a change in terms of the payback of previous years’ overspends as had been requested. This is firmly agreed for 2020/21, but is indicative only for 2021/22 and 2022/23. The Council’s Policy Resources Committee is to consider the repayment profile at its meeting in May 2020 when the 2019/20 overspend will be confirmed. The Council also agreed that “in the event of the HSCP underspending in 2020/21 or any future years, the Council will seek earlier repayment of outstanding debts. Notes that the level of future years funding is subject to the level of Scottish Government funding and the Council’s overall financial position in future years.”
- 3.1.5 The requested new repayment schedule is presented below:

	Repayment 2017-18 Overspend £000	Repayment 2018-19 Overspend £000	Repayment 2019-20 Estimated Overspend £000	Total Repayment £000	Status
2020-21	200	300	0	500	agreed
2021-22	400	800	0	1,200	indicative
2022-23	355	900	0	1,255	indicative
2023-24	200	1,127	0	1,327	Not yet agreed
2024-25	0	0	1,310	1,310	Not yet agreed
Total	1,155	3,127	1,310	5,592	

- 3.1.6 The table below outlines the funding from Argyll and Bute Council in 2020-21 and the indicative funding over the next two years.

	2020-21 £000	2021-22 £000	2022-23 £000
Baseline funding	58,814	58,814	58,814
Fleet capital charges	11	11	11
HSCP Funding as per Finance Circular (share of £100m)	1,736	1,736	1,736
Appropriate Adult Funding	16	16	16
Total Funding Council	60,577	60,577	60,577
Less 2017-18 and 2018-19 overspend payment	(500)	(1,200)	(1,255)
Net Payment from Council	60,077	59,377	59,322

The table below summarises the total estimated funding over the next three

3.1.7 years within the mid-range scenario.

	2020-21 £000	2021-22 £000	2022-23 £000
Funding NHS	226,229	231,052	235,995
Funding A&B Council	60,077	59,377	59,322
Total Funding	286,306	290,429	295,317

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.

3.2.2 Although the IJB approved a number of management and operational savings at the meeting of 25 January 2020, these are not reflected here as they are covered in the separate paper on savings to balance the budget.

3.2.3 However, a previously agreed policy saving of £198k due to be delivered in 2020/21 related to the management restructuring has been removed. This was additional to the £200k in 2019/20 and reflected a full year estimate. The restructuring is planned to take effect from 1 April 2020 and updated estimates show that only £200k p.a. saving is likely to be achieved. Approval for this change is requested in the separate savings paper.

3.3 Base Budget

3.3.1 The base budget is the approved budget from 2019-20 adjusted as required. There are three adjustments to the base budget:

- Increase to the base to reflect the additional annual funding (NHS Highland other recurring funding) matched by equivalent commitments mainly for primary care services
- Adjustment in respect of the fleet capital charges change of accounting treatment. £0.11m has been added to the base budget which matches the amount added within the funding calculation.
- New commitment for appropriate adults £16k which matches the amount added within the funding calculation
- New commitment for Carers assessment officers of £125k which is included within the additional £1,736k additional funding

(It should be noted that the cost pressures for Scottish Living Wage have been updated to include the full cost pressure rather than splitting this between base funding (resource transfer uplift) and cost pressures.)

3.3.2 The table overleaf summarises the base budget in the mid-range scenario.

	2020-21	2021-22	2022-23
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	£000	£000	£000
Base Budget NHS	208,004	208,004	208,004
Base Budget Council	58,814	58,814	58,814
New commitments in SG budget	141	141	141
Fleet Capital Charges	11	11	11
Resource Transfer	11,946	11,946	11,946
Base Budget	278,916	278,916	278,916

3.4 Employee Cost increases

3.4.1 For Health staff, a 3 year pay deal has already been agreed for 2018-19 to 2020-21 at 3% each year. For 2021-22 and 2022-23, it has been assumed that the 3% will continue within the best case and mid-range scenarios, with a 3.5% increase in the worst case scenario. The cost had previously been calculated as £1.800m for 2019-20 and this has been reviewed and increased to £1.880m.

3.4.2 For Social Work staff, an agreement has been reached on the pay award and the increase in 2019-20 and 2020-21 is 3%. For 2021-22 and 2020-23, the best case scenario assumes the public sector pay commitment which averages around 2.7%, the worst case scenario assumes a 3.5% increase (similar to the 2018-19 offer) and the mid-range scenario assumes a 3% increase.

3.4.3 There are also additional costs in relation to incremental drift and an estimate has been built into all three scenarios. The estimate for Health staff for 2020-21 has been further reviewed and increased by £0.070m to £0.370m.

3.4.4 The increases to the employee budgets estimated over the next three years within the mid-range scenario are summarised in the table below.

	2020-21 £000	2021-22 £000	2022-23 £000
Health pay award	1,880	3,816	5,809
Health pay increments	370	555	740
Social Work pay award	936	1,872	2,808
Social Work pay increments	82	164	246
Greenwood Hostel increase	88	88	88
Total Employee Cost Changes	3,356	6,495	9,691

3.5 Non-pay Inflation

3.5.1 A review of the non-pay inflation assumptions, previously reported to the IJB on 29 January 2020, has been undertaken by the Senior Leadership Team during February and the following assumptions have been updated:

- Prescribing – increased from £400k to £900k for next year recognising increased level of costs experienced in current year
- SLAs increased by 3% (previously 2.5%) for 2020-21 in line with

overall NHS uplift. Other SLA's re-based to current level of £24m p.a. Includes a small provision for settling GG&C main SLA dispute.

- Scottish Living Wage provision increased to show gross provision rather than netting off expected SG funding

3.5.2 The table below summaries the updated non-pay inflation estimated over the next three years within the mid-range scenario. Further information is included within Appendix 1.

	2019-20 £000	2020-21 £000	2021-22 £000
<i>Health:</i>			
Prescribing	900	1,400	1,900
Hospital Drugs	75	154	237
Main GG&C SLA	2753	2,647	4,019
Other SLAs	719	557	846
Energy Costs	142	290	437
<i>Social Work:</i>			
Catering Purchases	37	78	127
National Care Home Contract	231	470	729
NHS Staffing Recharges	128	268	435
Purchase and Maintenance of Equipment	11	37	56
CPI Essential increases	18	39	78
Scottish Living Wage	856	1,738	2,672
Carers Allowances	33	67	102
Utilities	26	55	89
Total Non-Pay Inflation	5,929	9,991	14,271

3.6 Cost and demand pressures

3.6.1 As with non-pay inflation, a review of the cost and demand pressure assumptions, previously reported to the IJB on 29 January 2020, has been undertaken by the Senior Leadership Team during February and the following assumptions have been updated:

- Other NSD developments provision increased from £50k to £200k reflecting recent advice of topslice of £223k for next year for Ultra Orphan medicines
- Cystic fibrosis treatments estimate increased to 11 patients p.a. at cost of £581k as per recent notification from NHS GG&C. Worst case is an increase of 2 patients p.a.. Best and mid-range – no change.
- One-off provision made in 2020-21 for refurbishment of Aros residences for £60k as their current condition adversely affects recruitment of junior doctors.
- The cost pressure for Criminal justice development has been removed as this is covered by a new specific grant of £46k announced in the budget.
- A new cost pressure of £250k has been added for continuing care demands for children & families following a recent expensive new case requiring out of area provision.
- The allowance for unknown cost and demand pressures has been

removed as there is less uncertainty now.

3.6.2 The table below summaries the updated cost and demand pressures estimated over the next three years within the mid-range scenario. Further information is included within Appendix 1.

	2020-21 £000	2021-22 £000	2022-23 £000
Health:			
LIH Laboratory	50	100	150
Out of Hours GPs	542	542	542
Share of national charge for HEPMA (a new IT system)	100	100	100
New high cost care packages	200	200	200
Other NSD developments	200	250	300
Oncology medicines demand	450	900	1,350
Bute Dialysis unit	93	93	93
Microsoft Licence fees	300	300	300
Cystic fibrosis drugs	581	581	581
Asbestos removal	85	85	0
LIH clinical lead	15	15	15
Salen relocation of surgery to Mull Primary Care Centre	130	0	0
Refurbishment of Aros residences	60	0	0
Social Work:			
Older People Growth	640	980	1,325
Care Services for Younger Adults	539	817	1,087
National Care Home Contract	326	665	1,017
Continuing Care demand pressure in Children & Families	250	500	750
Social Work Emergency standby	150	157	164
Additional governance support from Council	95	99	103
Allowance for Unknown Cost and Demand Pressures	0	1,000	2,000
Total Cost and Demand Pressures	4,806	7,384	10,077

LIH: Lorn & Isles Rural general hospital

3.7 Updated Budget Outlook

3.7.1 The updated budget outlook for the mid-range scenario, taking into consideration all the factors noted within this report, is summarised in the table overleaf:

	2020-21	2021-22	2022-23
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	£000	£000	£000
Base Budget	278,916	278,916	278,916
Employee Cost Changes	3,356	6,495	9,691
Non-Pay Inflation	5,929	9,991	14,271
Cost and Demand Pressures	4,806	7,384	10,077
Q&F Plan Savings	(139)	(139)	(139)
Management/Operational Savings agreed March 2019	(500)	(1,020)	(1,020)
Policy Savings agreed March 2019 now removed	0	0	0
Recovery Plan agreed Aug 2019	(700)	(700)	(700)
Total Estimated Expenditure	291,668	300,927	311,096
Estimated Funding	286,306	290,429	295,317
Estimated Budget Surplus / (Gap) Cumulative	(5,362)	(10,498)	(15,779)
Estimated Budget Surplus / (Gap) In Year	(5,362)	(5,136)	(5,282)

3.7.2 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 £15.779m with a gap of £5.362m in 2020-21.

3.7.3 In contrast, the budget gap in the best case scenario over the three years is £6.808m and in the worst case scenario, the budget gap over the three years is £26.051m. A summary of all three scenarios is included within Appendix 1.

3.7.4 The changes from the previous anticipated outlook to 2021-22 (as noted at the IJB meeting on 29 January 2020) are summarised in the table below based on the mid-range scenario:

	2020-21 £000	2021-22 £000	2022-23 £000
Previous Reported Budget Gap (mid-range)	(8,289)	(13,717)	(18,733)
Increase in NHS Funding estimates	3,683	3,815	3,950
Increase in Council funding estimates	2,951	3,488	3,581
Base budget adjustment	(1,931)	(1,626)	(1,313)
Employee cost changes (increase)	(70)	(105)	(139)
Increase in non-pay inflation	(1,027)	(1,484)	(2,005)
Increase in cost & demand pressures	(481)	(671)	(921)
Savings removed (to be approved)	(198)	(198)	(198)
Revised Budget Gap (mid-range)	(5,362)	(10,498)	(15,779)

3.7.5 The budget gap over 2020-21 to 2022-23 across each scenario is summarised in the table below:

Budget Gap	2020-21 £000	2021-22 £000	2022-23 £000	Total £000
Best Case	5,362	(361)	1,806	6,808
Mid-Range	5,362	5,136	5,282	15,779
Worst Case	5,362	11,139	9,550	26,051

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 to 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 £15.779 with a gap of £5.362m in 2020-21. This is a significant improvement of £2.9m from the gap indicated on 29 January 2020 of £8.289m following the Scottish Budget announcements on 6 February.

12.2 The main reasons for the improvement is the increase in NHS funding of 3% (0.5% above previous assumptions); flat cash from Council (previously 1% reduction of £588k assumed) and reduced repayment assumed; and pass through funding from Scottish Government net of new commitments of £1.480m and a Criminal Justice Specific grant of £46k.

13. DIRECTIONS

Directions required to Council, NHS Board or both.	Directions to:	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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