

Integration Joint Board

Agenda item:

Date of Meeting: 27 May 2020

Title of Report: Budget Outlook 2021-22 to 2023-24

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 2021-22 to 2023-24.

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 25 March 2020. The budget outlook presented to the IJB on that date has been rolled forward for a further year and the NHS Highland funding assumptions have been updated in line with the financial directions issued which reflect month 12 funding allocations.
- 1.2 The month 12 funding allocations from NHS Highland included a reduction in non-discretionary primary care services which is matched by an equivalent change in expected expenditure. The outturn for 2019/20 was an overspend of £1.280m, all wholly due to the dispute with NHS GG&C. This has not been paid over, but had to be accrued in accordance with NHS accounting rules. Although this will be covered through Scottish Government brokerage in the first instance, this will eventually require to be paid back to NHS Highland, but the timescale for that is unlikely to be agreed for another year so is not reflected in this outlook.
- 1.3 There have been no changes to the funding from the Council. We note that they plan to consider the repayment programme for previous years' overspends at their next Policy & Resources Committee meeting. The outturn for 2019/20 was an overspend on social care of £1.165m, and this will require repayment to the Council in future years. The plan for this has not yet been agreed.
- 1.5 A number of minor changes have been to update the estimates for Council payroll inflation, non-pay inflation and for future cost and demand pressures through re-basing the calculations. None have been significant.
- 1.6 Some amendments have been made to the cost and demand pressures for

Health. The growth in prescribing drugs has been increased, and additional allowances has been made for Microsoft licencing costs, new high cost care and some further refurbishment of Aros residences.

- 1.7 The usual best, mid-range and worst case scenarios are presented for the next three years. In the mid-range scenario, the Health and Social Care Partnership budget gap estimated over the three year period 2021-22 to 2023-24 is £18.193m with a gap of £6.613m in 2021-22.
- 1.8 In contrast, the budget gap in the best case scenario over the three years is £7.635m and in the worst case scenario, the budget gap over the three years is £31.262m. A summary of all three scenarios is included within Appendix 1.
- 1.9 The budget gap over 2020-21 to 2022-23 across each scenario is summarised in the table below:

Budget Gap	2021-22 £000	2022-23 £000	2023-24 £000	Total £000
Best Case	3,246	2,002	2,387	7,635
Mid-Range	6,613	5,515	6,065	18,193
Worst Case	10,992	9,835	10,434	31,262

2. INTRODUCTION

- 2.1 This report summarises the budget outlook covering the period 2021-22 to 2023-24. The outlook is based on three different scenarios, best case, worst case and mid-range. The detail of all three scenarios is provided at Appendix 1.
- 2.2 The updates include new funding estimates following month 12 funding allocations from NHS Highland and a review of inflation and post and demand pressures.

3. DETAIL OF REPORT

3.1 Funding Estimates

NHS Highland

- 3.1.1 The assumptions for funding from NHS Highland has been amended for 2021/22 to a 2.5% mid-range increase, now using the opening funding offer from NHS Highland for 2020/21. To this, we have added the expected allocations for Primary Medical Services and other recurring funding. The Other recurring funding figures are now based on allocations as at end of Month 12 which are matched by equivalent expenditure. 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. All figures have been updated and rolled forward for another year.

	2021-22	2022-23	2023-24
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	£000	£000	£000
Baseline funding	185,867	185,867	185,867
Baseline funding uplift (2.5%)	4,516	9,144	13,888
Other Recurring Funding	32,738	32,738	32,738
Resource Transfer baseline	7,057	7,057	7,057
Resource Transfer uplift (2.5%)	308	623	946
Total Funding NHS	230,486	235,429	240,496

Council Funding

3.1.3 The estimates for Council funding are rolled forward for another year but otherwise unchanged from the previous Budget Outlook. All scenarios now assume a flat cash position as per the settlement for 2020/21.

3.1.4 The Council's Business Continuity 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 expected 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	500	0	0	500	agreed
2021-22	655	545	0	1,200	indicative
2022-23	0	1,255	0	1,255	indicative
2023-24	0	1,327	0	1,327	Not yet agreed
2024-25	0	0	1,165	1,165	Not yet agreed
Total	1,155	3,127	1,165	5,447	

3.1.6 The table below outlines the funding from Argyll and Bute Council expected over the next three years.

	2021-22 £000	2022-23 £000	2023-24 £000
Baseline funding	60,577	60,577	60,577
Total Funding Council	60,577	60,577	60,577
Less 2017-18 and 2018-19 overspend payment	(1,200)	(1,255)	(1,327)
Net Payment from Council	59,377	59,322	59,250

3.1.7 The table below summarises the total estimated funding over the next three years within the mid-range scenario.

	2020-21	2021-22	2022-23

	£000	£000	£000
Funding NHS	230,486	235,429	240,496
Funding A&B Council	59,377	59,322	59,250
Total Funding	289,863	294,751	299,746

3.2 Savings Measures Already Approved

3.2.1 A number of additional savings for 2021-22 were agreed at the IJB on 27 March 2019 as part of setting the 2019/20 budget. These new savings totalled £520k and comprise a further £500k on prescribing and £20k for criminal justice.

3.2.2 In addition saving 2021-65 of £50k, review of support payments to GP practices, was deferred to 2021/22 at the budget meeting on 25 March 2020.

3.3 Base Budget

3.3.1 The base budget is the approved budget from 2020-21 and includes the second year of the agreed investment in financial sustainability for 2021/22 only.

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

	2021-22 £000	2022-23 £000	2023-24 £000
Base Budget NHS	213,358	213,358	213,358
Base Budget Council	60,077	60,077	60,077
Investment in financial sustainability – 2 nd year	318	0	0
Resource Transfer	12,304	12,304	12,304
Base Budget	286,057	285,739	285,739

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 to 2023-24, 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.

3.4.2 For Social Work staff, an agreement has been reached on the pay award and the increase in 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.

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 overleaf.

	2021-22 £000	2022-23 £000	2023-24 £000

Health pay award	1,936	3,929	5,979
Health pay increments	185	370	555
Social Work pay award	964	1,957	2,980
Social Work pay increments	82	164	246
Total Employee Cost Changes	3,167	6,420	9,760

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 £900k (best), £1000k (mid) and £1100k worst p.a. for next year recognising increased level of costs experienced in current year
- SLAs increased by 2.5% p.a. on mid range (best 2%; worst 3%)
- All others have simply been rolled forward for a further year

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.

	2021-22 £000	2022-23 £000	2023-24 £000
<i>Health:</i>			
Prescribing	1,000	2,000	3,000
Hospital Drugs	79	162	249
Main GG&C SLA	1,340	2,782	4,326
Other SLAs	618	1,252	1,885
Energy Costs	148	295	443
<i>Social Work:</i>			
Catering Purchases	41	86	135
National Care Home Contract	240	489	749
NHS Staffing Recharges	140	295	465
Purchase and Maintenance of Equipment	11	22	34
CPI Essential increases	23	45	70
Scottish Living Wage	882	1,790	2,726
Carers Allowances	34	68	103
Utilities	29	60	94
Total Non-Pay Inflation	4,585	9,346	14,279

3.6 Cost and demand pressures

3.6.1 As with non-pay inflation, the cost and demand pressure assumptions have been rolled forward and the following assumptions have been updated:

- An allowance made for Health new high cost care package of £120k in 2021/22
- Microsoft licence fee allowance of £300k added for 2021/22 based on increase notified for 2020/21

- A one off provision for further refurbishment of Aros residences of £60k made for 2021/22
- The allowance for unknown cost and demand pressures has been reinstated at £1m p.a. as we are at the start of a new financial year.

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.

	2021-22 £000	2022-23 £000	2023-24 £000
Health:			
LIH* Laboratory	50	100	150
New high cost care packages	120	120	120
Other NSD* developments	50	100	150
Oncology medicines demand	450	900	1,350
Microsoft Licence fees	300	300	300
Refurbishment of Aros residences	60	0	0
Social Work:			
Older People Growth	340	685	1,035
Care Services for Younger Adults	278	548	818
National Care Home Contract	339	691	1,058
Continuing Care demand pressure in Children & Families	250	500	750
Allowance for Unknown Cost and Demand Pressures	1,000	2,000	3,000
Total Cost and Demand Pressures	3,237	5,944	8,731

*LIH: Lorn & Isles Hospital *NSD: National Services Division

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 below:

	2021-22 £000	2022-23 £000	2023-24 £000
Base Budget	286,057	285,739	285,739
Employee Cost Changes	3,167	6,420	9,760
Non-Pay Inflation	4,585	9,346	14,279
Cost and Demand Pressures	3,237	5,944	8,731
Management/Operational Savings agreed March 2019	(520)	(520)	(520)
Management/Operational	(50)	(50)	(50)

Savings agreed March 2020			
Total Estimated Expenditure	296,476	306,879	317,939
Estimated Funding	286,306	290,429	295,317
Estimated Budget Surplus / (Gap) Cumulative	(6,613)	(12,128)	(18,193)
Estimated Budget Surplus / (Gap) In Year	(6,613)	(5,515)	(6,065)

3.7.2 In the mid-range scenario, the Health and Social Care Partnership budget gap estimated over the three year period 2021-22 to 2023-24 is £18.193m with a gap of £6.613m in 2020-21.

3.7.3 In contrast, the budget gap in the best case scenario over the three years is £7.635m and in the worst case scenario, the budget gap over the three years is £31.262m. A summary of all three scenarios is included within Appendix 1.

3.7.4 The changes from the previous anticipated outlook to 2022-23 (as noted at the IJB meeting on 25 March 2020) are summarised in the table below based on the mid-range scenario:

	2021-22 £000	2022-23 £000
Previous Reported Budget Gap (mid-range)	(5,136)	(10,417)
Decrease in NHS Funding estimates	(566)	(566)
Change in Council funding estimates	0	0
Base budget adjustment	249	567
Employee cost changes (increase)	(28)	(85)
Increase in non-pay inflation	(523)	(1,004)
Increase in cost & demand pressures	(659)	(673)
Savings agreed	50	50
Revised Budget Gap (mid-range)	(6,613)	(12,128)

3.7.5 The budget gap over 2021-22 to 2023-24 across each scenario is summarised in the table below:

Budget Gap	2021-22 £000	2022-23 £000	2023-24 £000	Total £000
Best Case	3,246	2,002	2,387	7,635
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Worst Case	10,992	9,835	10,434	31,262

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 2021-22 to 2023-24 has been prepared rolling forward the previous outlook by a further year. In the mid-range scenario, the Health and Social Care Partnership budget gap estimated over the three year period is £18.193m with a gap of £6.613m in 2021-22. This has deteriorated from the outlook previously presented by

£1.477m mainly due to additional provision for cost and demand pressures.

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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