

Integration Joint Board

Agenda item:

Date of Meeting: 5 August 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. The budget outlook presented to the IJB on that date has been updated.
- 1.2 The funding allocations from NHS Highland have been adjusted for changes to other recurring (non-baselined) funding as at month 1, all of which is assumed to be matched by expenditure. The outturn for 2019/20 was an overspend of £1.280m, 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 has been one change to the funding from the Council with the worst case scenario now showing a potential 2% reduction to adult social work funding in line with the latest Council projections. This is in line with Scottish Government advice on funding flexibilities which was received late last year. If the Council decided to exercise this flexibility, it would have a very considerable negative impact on the HSCP. The repayment programme for previous years' overspends was agreed by the Council at their Business Continuity Committee on 14 May 2020. In addition a more optimistic assumption has been made across best and mid range scenarios about additional funding for social work from Scottish Government in line with experience over last few years. We now assume an additional £1m pa. in mid range and £1,5m pa. in best scenario.
- 1.4 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, changing future years' inflationary assumptions for electricity and catering purchases, and reflecting Council proposals to change their pay and grading structure. None have been significant.

1.6 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 £15.021m with a gap of £5.678m in 2021-22.

1.7 In contrast, the budget gap in the best case scenario over the three years is £3.224m and in the worst case scenario, the budget gap over the three years is £33.482m. A summary of all three scenarios is included within Appendix 1.

1.7 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	1,906	476	842	3,224
Mid-Range	5,678	4,411	4,932	15,021
Worst Case	11,865	10,528	11,088	33,482

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 from NHS Highland and a review of inflation and cost and demand pressures.

3. DETAIL OF REPORT

3.1 Funding Estimates

NHS Highland

3.1.1 The assumptions for funding from NHS Highland for 2021/22 is a 2.5% mid-range increase, 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 month 1 which are matched by equivalent expenditure. £(149)k of this has now been baselined being a topslice from NSD. 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 £000	2022-23 £000	2023-24 £000
Baseline funding	185,718	185,718	185,718
Baseline funding uplift (2.5%)	4,512	9,137	13,877
Other Recurring Funding	33,818	33,818	33,818
Resource Transfer baseline	7,057	7,057	7,057
Resource Transfer uplift (2.5%)	308	623	946
Total Funding NHS	231,413	236,353	241,416

Council Funding

3.1.3 The estimates for Council funding are unchanged from the previous Budget Outlook for the best and mid-range scenarios which assume a flat cash position as per the settlement for 2020/21. For the worst case scenario, this now reflects a potential 2% reduction to adult social work funding in line with the latest Council projections. This is in line with Scottish Government advice on funding flexibilities which was received late last year. If the Council decided to exercise this flexibility, it would have a very considerable negative impact on the HSCP.

3.1.4 The Council's Business Continuity Committee agreed the repayment profile of previous years' overspends over a 5 year period at its meeting on 14 May 2020. 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 agreed 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 in the mid-range scenario.

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

	2020-21 £000	2021-22 £000	2022-23 £000
Funding NHS	231,413	236,353	241,416
Funding A&B Council	59,377	59,322	59,250
Total Funding	290,790	295,675	300,666

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. There is no change to this position from that reported in the previous budget outlook.

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. The base budget for Health has changed reflecting changes in the other recurring funding. There are no other changes from the base budget previously presented.

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	214,289	214,289	214,289
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	286,988	286,670	286,670

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 a proposed change to the Council's pay and grading structure 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 below.

	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
Social work change to pay structure	57	59	61
Total Employee Cost Changes	3,224	6,479	9,821

3.5 Non-pay Inflation

3.5.1 A review of the non-pay inflation assumptions, previously reported to the IJB on in May 2020, has been undertaken and the following assumptions have been updated:

- Catering purchases – inflation of 10% for first year only (due to EU exit) and thereafter reduced to 5% p.a.
- Electricity – inflation of 9.76% for first year only (when new contract is due to be agreed) and thereafter reduced to CPI
- National Care Home contract – this was previously split between inflation and cost/demand pressure by client group and has now been consolidated into a single line under non-pay inflation
- All others have simply been rolled forward as per the previous outlook

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	37	58	79
National Care Home Contract	530	1,082	1,655

NHS Staffing Recharges	128	184	242
Purchase and Maintenance of Equipment	11	22	33
CPI Essential increases	18	37	56
Scottish Living Wage	856	1,738	2,647
Carers Allowances	33	67	101
Utilities	26	36	46
Total Non-Pay Inflation	4,824	9,715	14,762

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:

- National Care Home contract – this was previously split between inflation and cost/demand pressure by client group and has now been consolidated into a single line under non-pay inflation above and removed from this section.
- All others have simply been rolled forward as per the previous outlook, but calculations have been updated to reflect current forecast where this is above budget.

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	367	740	1,119
Care Services for Younger Adults	355	710	1,065
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	3,002	5,470	8,004

*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	286,988	286,670	286,670
Employee Cost Changes	3,224	6,479	9,821
Non-Pay Inflation	4,824	9,715	14,762
Cost and Demand Pressures	3,002	5,470	8,004
Management/Operational Savings agreed March 2019	(520)	(520)	(520)
Management/Operational Savings agreed March 2020	(50)	(50)	(50)
Total Estimated Expenditure	297,468	307,764	318,687
Estimated Funding	291,790	297,675	303,666
Estimated Budget Surplus / (Gap) Cumulative	(5,678)	(10,089)	(15,021)
Estimated Budget Surplus / (Gap) In Year	(5,678)	(4,411)	(4,932)

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 £15.021m with a gap of £5.678m in 2020-21.

3.7.3 In contrast, the budget gap in the best case scenario over the three years is £3.224m and in the worst case scenario, the budget gap over the three years is £33.482m. A summary of all 3 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 27 May 2020) are summarised in the table below based on the mid-range scenario:

	2021-22 £000	2022-23 £000	2023-24 £000
Previous Reported Budget Gap (mid-range)	(6,613)	(12,128)	(18,193)
Increase in NHS Funding estimates	927	924	920
Increase in Social Work funding by Scottish Government	1,000	2,000	3,000
Base budget adjustment	(931)	(931)	(931)
Employee cost changes (increase)	(57)	(59)	(61)
Increase in non-pay inflation	(239)	(369)	(483)
Decrease in cost & demand pressures	235	474	727
Revised Budget Gap (mid-range)	(5,678)	(10,089)	(15,021)

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	1,906	476	842	3,224
Mid-Range	5,678	4,411	4,932	15,021
Worst Case	11,865	10,528	11,088	33,482

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 £15.021m with a gap of £5.678m in 2021-22. This has improved from the outlook previously presented by £935k mainly due to changes in assumptions for additional funding for social work from the Scottish Government.

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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