

**Integration Joint Board**

**Agenda item:**

**Date of Meeting: 25 November 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 16 September has been updated.
- 1.2 The main change has been to update the health cost and demand pressures to reflect a number of new ones for additional junior doctor at LIH, new patients for the Bute dialysis service, additional HR staffing agreed, CareFirst replacement expected costs, re-instatement of a gastro service, additional TAVI (transcatheter aortic valve implantation) patients and some changes to previous estimates. Additional allowance has been made for Physical Disability cost pressures and increases in continuing care for children & families reflecting areas of overspend in the budget monitoring. The allowance for unknown pressures has been removed. These changes have added additional pressures of £171k in the mid-range scenario.
- 1.3 There have also been minor updates to estimates for inflation, both pay and non-pay.
- 1.4 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 £15.789m with a gap of £6.448m in 2021-22.
- 1.4 In contrast, the budget gap in the best case scenario over the three years is £4.291m and in the worst case scenario, the budget gap over the three years is £35.648m. A summary of all three scenarios is included within Appendix 1.

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

<b>Budget Gap</b>	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>Total £000</b>
Best Case	3,030	373	889	<b>4,291</b>
Mid-Range	6,448	4,332	5,009	<b>15,789</b>
Worst Case	13,942	10,490	11,215	<b>35,648</b>

## 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 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 based on allocations as at month 1 which are matched by equivalent expenditure. A reduction of £149k of this has now been baselined being a topslice from NSD. For future years, the mid-range forecast still assumes a 2.5% uplift. These estimates are unchanged from the previous budget outlook.
- 3.1.2 The table below outlines the estimated funding from NHS Highland over the next three years within the mid-range scenario.

	<b>2021-22 £000</b>	<b>2022-233 £000</b>	<b>2023-24 £000</b>
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
<b>Total Funding NHS</b>	<b>231,413</b>	<b>236,353</b>	<b>241,416</b>

#### 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
<b>Total</b>	<b>1,155</b>	<b>3,127</b>	<b>1,165</b>	<b>5,447</b>	

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.

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

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

	<b>2020-21 £000</b>	<b>2021-22 £000</b>	<b>2022-23 £000</b>
Funding NHS	231,413	236,353	241,416
Funding A&B Council	59,377	59,322	59,250
New SG funding for social work	1,000	2,000	3,000
<b>Total Funding</b>	<b>291,790</b>	<b>297,675</b>	<b>303,666</b>

## 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 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. There are no changes from the base budget previously presented.

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

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>
Base Budget NHS	214,289	214,289	214,289
Base Budget Council	60,077	60,077	60,077
Investment in financial sustainability – 2 <sup>nd</sup> year	318	0	0
Resource Transfer	12,304	12,304	12,304
<b>Base Budget</b>	<b>286,988</b>	<b>286,670</b>	<b>286,670</b>

### 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. This estimate has been revised slightly following completion of the salary templates for next year.

- 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.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>
Health pay award	1,936	3,929	5,979
Health pay increments	185	370	555
Social Work pay award	980	1,989	3,028
Social Work pay increments	87	174	261
Social work change to pay structure	-5	-5	-5
<b>Total Employee Cost Changes</b>	<b>3,183</b>	<b>6,457</b>	<b>9,818</b>

### 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 all assumptions have been rolled forward as per the previous outlook. There has been one addition to add in catering inflation for health (was previously included for social care only).

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.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>
<b><u>Health:</u></b>			
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
Catering Purchases	50	100	150
<b><u>Social Work:</u></b>			
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
<b>Total Non-Pay Inflation</b>	<b>4,874</b>	<b>9,815</b>	<b>14,912</b>

### 3.6 Cost and demand pressures

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

- Additional junior doctor for LIH (no longer funded through NES)
- Increase in cost of day responder services
- Additional staffing for Bute dialysis service following increase in number of patients.
- Share of new West of Scotland sexual assault and rape services
- Share of new national clinical waste disposal contract
- Additional HR staffing for c 18 months
- Carefirst replacement costs
- Additional costs of contracted out laundry service
- Additional TVAI patients
- Re-instatement of gastro service at LIH
- Additional cost of physical disability clients
- Additional cost of children's placements
- Removal of allowance for unknowns for 2021/22

- 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.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>
<b>Health:</b>			
LIH* Laboratory	50	100	150
Additional junior doctor LIH	40	41	42
Day responder services	40	41	42
New high cost care packages	150	150	150
Low secure service NHS Fife	190	190	190
New Craigs Mental health unit	150	150	150
Other NSD* developments	50	100	150
Oncology medicines demand	450	900	1,350
Bute Dialysis staffing	115	118	122
Microsoft Licence fees	300	300	300
Cystic fibrosis drugs	250	250	250
WoS* Sexual Assault & Rape Services	28	29	30
New clinical waste disposal contract	50	50	50
CareFirst replacement cost	30	75	78
Additional HR staffing	81	41	0
Gastro service at LIH*	60	62	64
Adaptation of Knapdale Ward	250	0	0
Contracted out laundry service	18	18	18
TAVI procedures	78	80	82
<b>Social Work:</b>			
Older People Growth	371	748	1,131
Care Services for Younger Adults: Learning Disability & Mental Health	308	622	943
Care Services for Younger Adults: Physical Disability	454	518	583
Continuing Care demand pressure in Children & Families	350	600	850
Allowance for Unknown Cost and Demand Pressures	0	1,000	2,000
<b>Total Cost and Demand Pressures</b>	<b>3,763</b>	<b>6,083</b>	<b>8,625</b>

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

\*WoS West of Scotland

### 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:

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>
Base Budget	286,988	286,670	286,670
Employee Cost Changes	3,183	6,457	9,818
Non-Pay Inflation	4,874	9,815	14,912
Cost and Demand Pressures	3,763	6,083	8,625
Management/Operational Savings agreed March 2019	(520)	(520)	(520)
Management/Operational Savings agreed March 2020	(50)	(50)	(50)
<b>Total Estimated Expenditure</b>	<b>298,238</b>	<b>308,455</b>	<b>319,455</b>
Estimated Funding	291,790	297,675	303,666
<b>Estimated Budget Surplus / (Gap) Cumulative</b>	<b>(6,448)</b>	<b>(10,780)</b>	<b>(15,789)</b>
<b>Estimated Budget Surplus / (Gap) In Year</b>	<b>(6,448)</b>	<b>(4,332)</b>	<b>(5,009)</b>

- 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 £15.789m with a gap of £6.448m in 2020-21.

- 3.7.3 In contrast, the budget gap in the best case scenario over the three years is £4.291m and in the worst case scenario, the budget gap over the three years is £35.648m. 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 5 August 2020) are summarised in the table below based on the mid-range scenario:

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>
<b>Previous Reported Budget Gap (mid-range)</b>	<b>(6,268)</b>	<b>(10,679)</b>	<b>(15,611)</b>
Employee cost changes	41	22	3
Increase in non-pay inflation	(50)	(100)	(150)
Increase in cost & demand pressures	(171)	(23)	(31)
<b>Revised Budget Gap (mid-range)</b>	<b>(6,448)</b>	<b>(10,780)</b>	<b>(15,789)</b>

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

<b>Budget Gap</b>	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>Total £000</b>
Best Case	3,030	373	889	<b>4,291</b>
Mid-Range	6,448	4,332	5,009	<b>15,789</b>
Worst Case	13,942	10,490	11,215	<b>35,648</b>

#### **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 updated following a review of cost and demand pressures. In the mid-range

scenario, the Health and Social Care Partnership budget gap estimated over the three year period is £15.789m with a gap of £6.448m in 2021-22. This has worsened from the outlook previously presented by £180k mainly due to changes in assumptions for these new cost pressures.

### 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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