

Integration Joint Board

Agenda item:

Date of Meeting: 27 January 2021

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 25 November has been updated.
- 1.2 The main change has been to update the health cost and demand pressures to reflect additional costs for Knapdale ward adaptations, removal of Microsoft o365 cost pressure, new pressure of Golden Jubilee Cardiac SLA and additional medical director sessions, change is pay inflation estimates for Council staff to reflect lower estimates, and reduction in estimates for Scottish Living Wage increases. There have been a number of other small adjustments to estimates.
- 1.3 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 £14.036m with a gap of £6.054mm in 2021-22.
- 1.4 The budget gap in the best case scenario over the three years is £1.515m and in the worst case scenario, the budget gap over the three years is £35.208m. 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:

| Budget Gap | 2021-22 £000 | 2022-23 £000 | 2023-24 £000 | Total £000 |
|-------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| Best Case | 1,990 | (685) | 209 | 1,515 |
| Mid-Range | 6,604 | 3,614 | 4,368 | 14,586 |
| Worst Case | 13,820 | 9,876 | 11,513 | 35,208 |

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 2 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. We have been advised that New Medicines funding will be decreased by c £550k but this should be offset in cost reductions. Following discussion of this through the relevant networks, we are reflecting the loss of funding in the mid-range scenario, and in worst case.

3.1.2 The table below outlines the estimated funding from NHS Highland over the next three years within the mid-range scenario.

| | 2021-22 £000 | 2022-233 £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 |
| Reduction in New Medicines Funding | -550 | -550 | -550 |
| Resource Transfer baseline | 7,057 | 7,057 | 7,057 |
| Resource Transfer uplift (2.5%) | 308 | 623 | 946 |
| Total Funding NHS | 230,863 | 235,803 | 240,866 |

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. We expect Scottish Government budget to be announced on 28 January so this will be considered carefully for implications for funding.

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 |

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 | 230,863 | 235,803 | 240,866 |
| Funding A&B Council | 59,377 | 59,322 | 59,250 |
| New SG funding for social work | 1,000 | 2,000 | 3,000 |
| Total Funding | 291,240 | 297,125 | 303,116 |

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.

| | 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, the assumptions have been reduced downwards following UK government announcement of a public sector pay freeze. For 2021-22 onwards, the best case scenario assumes a 1% increase p.a., the worst case scenario assumes a 3.0% increase (similar to the 2018-19 offer) and the mid-range scenario assumes a 2% 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 is unchanged.

- 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 | 672 | 1,357 | 2,056 |
| Social Work pay increments | 87 | 174 | 261 |
| Social work change to pay structure | -2 | -2 | -2 |
| Total Employee Cost Changes | 2,878 | 5,828 | 8,849 |

3.5 Non-pay Inflation

3.5.1 A review of the non-pay inflation assumptions has been undertaken and all assumptions have been rolled forward with some small recalculations only apart from a more significant change in the calculation of the Scottish Living Wage uplift based on the new rate announced in November. . 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.

| | 2021-22 £000 | 2022-23 £000 | 2023-24 £000 |
|---------------------------------------|-----------------|-----------------|-----------------|
| <u>Health:</u> | | | |
| Prescribing | 1,000 | 2,000 | 3,000 |
| Hospital Drugs | 79 | 162 | 249 |
| Main GG&C SLA | 1,385 | 2,805 | 4,260 |
| Other SLAs | 618 | 1,252 | 1,885 |
| Energy Costs and Rates | 174 | 347 | 521 |
| Catering Purchases | 50 | 100 | 150 |
| <u>Social Work:</u> | | | |
| Catering Purchases | 37 | 58 | 79 |
| National Care Home Contract | 530 | 1,082 | 1,655 |
| NHS Staffing Recharges | 125 | 180 | 237 |
| Purchase and Maintenance of Equipment | 11 | 22 | 33 |
| CPI Essential increases | 9 | 18 | 28 |
| Scottish Living Wage | 622 | 1,256 | 1,905 |
| Carers Allowances | 33 | 67 | 101 |
| Utilities | 26 | 35 | 45 |
| Total Non-Pay Inflation | 4,699 | 9,384 | 14,148 |

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:

- Increase in cost of day responder services
- New cost pressure for Golden Jubilee Cardiac SLA reflecting increased demand
- New cost pressure for additional medical director sessions
- Reduction in allowance for new high cost packages
- Removal of pressure for Microsoft licence fees as they look able to be contained within current budgets
- All others have simply been rolled forward as per the previous outlook, but some calculations have been slightly 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 |
| Additional junior doctor LIH | 40 | 41 | 42 |
| Day responder services | 57 | 58 | 59 |
| Golden Jubilee Cardiac SLA | 70 | 72 | 74 |
| New high cost care packages | 120 | 120 | 120 |
| 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 | 0 | 0 | 0 |
| 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 | 420 | 0 | 0 |
| Contracted out laundry service | 18 | 18 | 18 |
| TAVI procedures | 78 | 80 | 82 |
| Additional medical director sessions | 31 | 32 | 33 |
| Social Work: | | | |
| Older People Growth | 380 | 766 | 1,158 |
| Care Services for Younger Adults: Learning Disability & Mental Health | 326 | 659 | 999 |
| Care Services for Younger Adults: Physical Disability | 455 | 520 | 586 |
| Continuing Care demand pressure in Children & Families | 350 | 600 | 850 |
| Allowance for Unknown Cost and Demand Pressures | 0 | 1,000 | 2,000 |
| Total Cost and Demand Pressures | 3, 849 | 6,031 | 8,605 |

*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:

| | 2021-22 £000 | 2022-23 £000 | 2023-24 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Base Budget | 286,988 | 286,670 | 286,670 |
| Employee Cost Changes | 2,878 | 5,828 | 8,849 |
| Non-Pay Inflation | 4,699 | 9,384 | 14,148 |
| Cost and Demand Pressures | 3,849 | 6,031 | 8,605 |
| Management/Operational Savings agreed March 2019 | (520) | (520) | (520) |
| Management/Operational Savings agreed March 2020 | (50) | (50) | (50) |
| Total Estimated Expenditure | 297,844 | 307,343 | 317,702 |
| Estimated Funding | 291,240 | 297,125 | 303,116 |
| Estimated Budget Surplus / (Gap) Cumulative | (6,604) | (10,218) | (14,586) |
| Estimated Budget Surplus / (Gap) In Year | (6,604) | (3,614) | (4,368) |

- 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 £14.586m with a gap of £6.604m in 2020-21.

- 3.7.3 In contrast, the budget gap in the best case scenario over the three years is £1.515m and in the worst case scenario, the budget gap over the three years is £35.208m. 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:

| | 2021-22 £000 | 2022-23 £000 | 2023-24 £000 |
|---|-------------------------|-------------------------|-------------------------|
| Previous Reported Budget Gap (mid-range) | (6,448) | (10,780) | (15,789) |
| Funding decrease | (550) | (550) | (550) |
| Employee cost changes | 305 | 629 | 969 |
| Increase in non-pay inflation | 175 | 431 | 764 |
| Increase in cost & demand pressures | (86) | 52 | 20 |
| Revised Budget Gap (mid-range) | (6,604) | (10,218) | (14,586) |

- 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 | 1,990 | (685) | 209 | 1,515 |
| Mid-Range | 6,604 | 3,614 | 4,368 | 14,586 |
| Worst Case | 13,820 | 9,876 | 11,513 | 35,208 |

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 £14.036m with a gap of £6.604m in 2021-22. This has worsened from the outlook previously presented by £156k for 2021-22 mainly due to the reduction in New Medicines funding offset by changes in assumptions for Social Work pay inflation, Scottish Living Wage and review of cost 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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