

**Integration Joint Board**

**Agenda item:**

**Date of Meeting: 15 September 2021**

**Title of Report: Budget Outlook 2022-23 to 2024-25**

**Presented by: James Gow, Head of Finance and Transformation**

**The Integrated Joint Board is asked to:**

- Consider the current budget outlook report for the period 2022-23 to 2024-25.
- Note the anticipated budget challenge faced by the HSCP and the scale of potential budget gap.

**1. EXECUTIVE SUMMARY**

- 1.1 This report summarises the current budget outlook model covering the period 2022-23 to 2024-25. This document provides the basis for future financial planning and will be used to inform the savings targets for those years as the budget planning cycle commences in the coming weeks. It is highlighted that there are funding and cost uncertainties associated with medium term planning and the model will continue to be refined as the budgeting cycle progresses. On-going savings plans will require to be developed and implemented in order to ensure financial targets are met and that the partnership operates on a sustainable basis. This report has been considered by the Finance and Policy Committee at its meeting on 27 August 2021.
- 1.2 The outturn for 2020/21 was an underspend of £1.1m. This has been repaid to Argyll and Bute Council to offset previously carried forward overspends and has reduced the value of future repayments due to the Council. The model makes an allowance for the outstanding repayments due to the Council totalling £2.8m by the end of 2024/25. On this basis, cash releasing savings are required during the period of the model to fund this.
- 1.3 The budget outlook model has been updated to reflect current planning assumptions. Additionally, the model now makes some allowance for the current overspending within Social Care budgets. Further analysis is being undertaken to review costs within a number of Social Work services, including the Learning Disability Service, it is apparent however, that the current baseline budget is insufficient to cover current levels of spend which are driven by service demand and the levels of care packages funded.

- 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 2022-23 to 2024-25 is £14.6m with a gap of £3.9m in 2022-23. Any unachieved savings carried forward from the current year will be in addition.
- 1.5 The budget gap in the best case scenario over the three years is a surplus of £0.3m and in the worst case scenario, the budget gap over the three years is £31.2m. A summary of all three scenarios is included within Appendix 1.
- 1.6 The budget gap over 2022-23 to 2024-25 across each scenario is summarised below, with surpluses shown as a negative:

<b>Budget Gap</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>Total £000</b>
Best Case	(1,172)	421	468	<b>(283)</b>
Mid-Range	3,877	5,147	5,610	<b>14,633</b>
Worst Case	9,771	10,506	10,887	<b>31,164</b>

- 1.7 The overall position in the mid-range scenario provides the current estimated level of new efficiency savings that require to be identified in order to balance the budget in future years. There remains a high degree of uncertainty and risk. In particular the changes currently being consulted upon in respect of Social Care may impact towards the end of the planning period.
- 1.8 There is a flat cash assumption in respect of Social Work funding while inflation and cost and demand pressures continue. Modelling on this basis results in £12.1m of the £14.6m gap identified in the mid-range scenario being attributable to Social Work budgets. This reflects the nature of recent and anticipated future local authority funding allocations.

## **2. INTRODUCTION**

- 2.1 This report summarises the budget outlook covering the period 2022-23 to 2024-25. The outlook is based on three scenarios, best case, worst case and mid-range. The detail of the scenarios is provided at Appendix 1.
- 2.2 The updates include new funding estimates 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 has been amended for 2022/23 to include the further NRAC uplift of £2.85m. This was agreed as part of the 2021/22 funding settlement. To this, we have added the expected allocations for Primary Medical Services and other recurring funding. The mid-range forecast still assumes a 2.5% uplift per annum.

- 3.1.2 The table below outlines the updated estimated funding from NHS Highland over the next three years within the mid-range scenario. This funding source is predicted to increase in cash terms each year.

	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
Baseline funding incl £2.9m NRAC	192,855	192,855	192,855
Resource Transfer	7,261	7,261	7,261
Baseline & RT funding uplift (2.5%)	5,446	10,585	15,852
Other Recurring Funding	36,743	36,743	36,743
Further NRAC uplift offered £2.85m +inflation	2,921	2,994	3,069
<b>Total Funding NHS</b>	<b>245,226</b>	<b>250,438</b>	<b>255,780</b>

### **Council Funding**

- 3.1.3 The estimates for Council funding are rolled forward and all scenarios assume a flat cash position as per the settlement for 2021/22. This assumption continues to be the main driver of the increasing budget shortfall in the context of increasing cost and demand pressures.

- 3.1.4 The Council's Policy & Resources Committee considered the repayment profile in respect of historic overspending at its meeting in May 2021 when the 2020/21 underspend was confirmed. The Council previously 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. Note that the level of future funding is subject to the level of Scottish Government funding and the Council's overall financial position in future years." The underspend at the end of 2020/21 was used to make an additional repayment to the Council as required by the scheme of integration.

- 3.1.5 The new repayment schedule is presented below and if the HSCP is able to make these repayments the liability will be cleared which will assist the longer term outlook:

	Repayment 2018-19 Overspend £000	Repayment 2019-20 Overspend £000	Total Repayment £000	Status
2021-22	200	0	200	agreed
2022-23	900	0	900	agreed
2023-24	493	407	900	agreed
2024-25	0	759	759	agreed
<b>Total</b>	<b>1,593</b>	<b>1,166</b>	<b>2,759</b>	

- 3.1.6 The table below outlines the funding from Argyll and Bute Council expected over the next three years. It includes the additional allocation in respect of Scottish Living Wage uplift.

	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
Baseline funding	62,763	62,763	62,763
Less 2018-19 and 2019-20 overspend payment	(900)	(900)	(759)
<b>Net Payment from Council</b>	<b>61,863</b>	<b>61,863</b>	<b>62,004</b>

- 3.1.7 The following table summarises the total estimated funding over the next three years within the mid-range scenario. It includes an estimated additional £700k from Scottish Government p.a. in line with additional un-earmarked funding made available for 2021/22:

	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
Funding NHS	245,226	250,438	255,780
Funding A&B Council	61,863	61,863	62,004
New SG funding for social work	700	1,400	2,100
<b>Total Funding</b>	<b>307,789</b>	<b>313,701</b>	<b>319,884</b>

### 3.2 Savings Measures Already Approved

- 3.2.1 One of the savings for 2021-22 agreed at the IJB on 31 March 2021 as part of setting the 2021/22 budget was one-off and has to be removed from future years. Others have increased values in 2022/23 and beyond. These are as follows:

<b>Ref</b>	<b>Description</b>	<b>£000s</b>
2122-04	Bring back urology services from NHS GG&C	111
2122-08	Care home placements paid at national rates	70
2122-09	Cap on 24 hour care packages	40
2122-54	Reduction in supported living packages through improved commissioning	30
2122-71	Remove non-recurring vacancy saving	(1,000)
	<b>Total</b>	<b>(749)</b>

- 3.2.2 The net impact is that this adds to the expected budget gap.

### 3.3 Base Budget

- 3.3.1 The base budget is the approved budget from 2021-22 and includes the third year of the agreed investment in financial sustainability extended into 2022/23 only as agreed by IJB in March 2021.

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

	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
Base Budget NHS	223,724	223,724	223,724
Base Budget Council	74,826	74,826	74,826
Investment in financial sustainability – 3rd year	330	0	0
<b>Base Budget</b>	<b>298,880</b>	<b>298,550</b>	<b>298,550</b>

### 3.4 Employee Cost increases

- 3.4.1 For Health staff and Council staff, for 2022-23 to 2024-25, it has been assumed that the 1% p.a. increase will be the best case, 2% mid-range scenarios, and a 3% increase in the worst case scenario. No agreement

has yet been made for 2021/22 for Social Work staff, so there is still considerable uncertainty in respect of future year employee costs. The increase for Health staff is expected to be met in full for the current year by Scottish Government, but there is no such undertaking for Social Work staff. Therefore there is a possibility that the baseline for social care staff may have to be adjusted. There are also additional costs in relation to incremental drift and an estimate has been built into all three scenarios.

3.4.3 The increases to the employee budgets estimated over the next three years within the mid-range scenario are summarised in the following table:

	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
Health pay award	1,371	2,779	4,210
Health pay increments	185	370	555
Social Work pay award	685	1,384	2,097
Social Work pay increments	87	174	261
<b>Total Employee Cost Changes</b>	<b>2,328</b>	<b>4,707</b>	<b>7,123</b>

### 3.5 Non-pay Inflation

3.5.1 The non-pay inflation calculations have been updated, a key assumption has been to set the inflation applied to hospital drugs at best 2.5%, mid-range 5% and worst 7.5% increase.

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>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
<b><u>Health:</u></b>			
Prescribing & Hospital Drugs	1,150	2,308	3,465
Main GG&C SLA	1,405	2,845	4,321
Other SLAs	756	1,531	2,506
Energy Costs	167	335	504
<b><u>Social Work:</u></b>			
National Care Home Contract	580	1,185	1,813
Scottish Living Wage	1,100	2,239	3,417
Free personal & nursing care	82	166	255
Other non-pay Inflation	179	355	538
<b>Total Non-Pay Inflation</b>	<b>5,419</b>	<b>10,964</b>	<b>16,891</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 as described previously. Additionally, some allowance has been made to re-align some of the Social Work budgets to reflect current levels of demand and cost. Significant overspending has been identified and therefore it is prudent to ensure that budgets for these

services are better aligned. This applies particularly to the Learning Disability budget. A contingency allowance of £1m per year is also built into the model in each year to allow for cost and demand pressures in future years which are currently unknown.

- 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>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
<b>Health:</b>			
TAVI Cardiac Procedures	103	104	105
Additional NMAHP staffing	200	204	208
New high cost care packages	100	102	104
Oncology medicines demand	450	900	1,350
Cystic fibrosis drugs	150	300	450
Other Identified Health Cost & Demand Pressures	332	368	446
<b>Social Work:</b>			
Older People Growth	384	774	1,170
Care Services for Younger Adults	388	785	1,190
Continuing Care demand pressure in Children & Families	250	500	750
Social Work Emergency standby	25	51	78
Realignment of Learning Disability, Physical Disability and Mental Health budgets	758	1,516	2,274
Contingency for HSCP Unknown Cost and Demand Pressures	1,000	2,000	3,000
<b>Total Cost and Demand Pressures</b>	<b>4,139</b>	<b>7,604</b>	<b>11,125</b>

### 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 below:

	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
Base Budget	298,880	298,550	298,550
Employee Cost Changes	2,478	4,857	7,273
Non-Pay Inflation	5,419	10,964	16,819
Cost and Demand Pressures	4,139	7,604	11,125
Savings agreed March 2021	749	749	749
<b>Total Estimated Expenditure</b>	<b>311,665</b>	<b>322,724</b>	<b>334,516</b>
Estimated Funding	307,788	313,700	319,883
<b>Estimated Budget Surplus / (Gap) Cumulative</b>	<b>(3,877)</b>	<b>(9,023)</b>	<b>(14,633)</b>
<b>Estimated Budget Surplus / (Gap) In Year</b>	<b>(3,877)</b>	<b>(5,147)</b>	<b>(5,610)</b>

3.7.2 In the mid-range scenario, the Health and Social Care Partnership budget gap estimated over the three year period 2022-23 to 2024-25 is £14.6m with a gap of £3.9m in 2022-23.

3.7.3 The budget gap in the best case scenario over the three years is a surplus of £0.3m and in the worst case scenario, the budget gap over the three years is £31.2m. Appendix 1 provides a summary of all three scenarios.

3.7.4 The change from the previous outlook is summarised in the table below, based on the mid-range scenario:

	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>
<b>Modelled Budget Gap May 2021 (mid-range)</b>	<b>(2,371)</b>	<b>(3,945)</b>	<b>(4,378)</b>
<b>Current modelled Budget Gap (mid-range)</b>	<b>(3,877)</b>	<b>(5,147)</b>	<b>(5,610)</b>

The main drivers of the deterioration in the model relate to increased non-pay inflation assumptions and increased cost and demand pressures in a range of services, particularly in respect of Social Work services as described above.

3.7.5 The budget gap over 2022-23 to 2024-25 across each scenario is summarised below:

<b>Budget Gap</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>Total £000</b>
Best Case	(1,172)	421	468	<b>(283)</b>
Mid-Range	3,877	5,147	5,610	<b>14,633</b>
Worst Case	9,771	10,506	10,887	<b>31,164</b>

These figures provide the current estimated savings requirement for each year. Initial budgeting will be based upon the mid-range scenario and the model will continue to be updated. The HSCP is required to set and balanced budget and therefore transformation and savings projects will need to be identified and delivered to close the gap and address the shortfall in the current saving programme.

#### **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 Integration 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 and address the expected shortfall.

## **6. GOVERNANCE IMPLICATIONS**

- 6.1 Financial Impact – There is expected to be a significant budget gap in 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 impacts.

## **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. There is also a risk that proposals made and approved will not be delivered on time or will not generate the predicted level of savings. All proposals will need to assess the risk associated with them.

## **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 as part of the project management process.

## **12. CONCLUSIONS**

- 12.1 The budget outlook covering the period 2022-23 to 2024-25 has been updated to reflect current planning assumptions and cost and demand expectations. In the mid-range scenario, the Health and Social Care Partnership budget gap estimated over the three year period is £14.6m with a gap of £3.9m in 2022-23. This has deteriorated from the outlook previously presented as outlined in section 3.7. Managing this situation will continue to be challenging and will require further transformation and savings plan to be identified and delivered in order to achieve financial balance.



### 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

AUTHOR NAME: James Gow, Head of Finance and Transformation  
[james.gow@argyll-bute.gov.uk](mailto:james.gow@argyll-bute.gov.uk)