

Integration Joint Board

Agenda item: 12b

Date of Meeting: 24 November 2021

Title of Report: Budget Outlook and Progress Report

Presented by: James Gow, Head of Finance and Transformation

The Integration Joint Board is asked to:

- Consider the current budget outlook report for the period 2022-23 to 2024-25.
- Note the assumptions and uncertainties in respect of the budget outlook.
- Endorse the approach to the development of the 2022-23 budget and savings proposals.

1. EXECUTIVE SUMMARY

- 1.1 This report summarises the current budget outlook model covering the period 2022-23 to 2024-25. It provides the basis for financial planning and is being used to inform the savings target for the 2022-23 budget cycle. It is highlighted that there are funding and cost uncertainties associated with medium term planning and the model will continue to be refined. Savings plans require to be developed and implemented in order to ensure financial targets are met and that the HSCP operates on a financially sustainable basis. The report should be considered alongside the Annual Audit Report and the review of the current savings programme. This report has been considered by the Finance & Policy Committee on the 19th November.
- 1.2 The Scottish Government have announced substantial additional funding for 2021/22 (some of which is recurring) in recent weeks. At the time of writing, the HSCP has not had its allocation of this funding fully confirmed and is unclear in respect of the conditions and expectations attached to it. Additionally, the UK government have recently announced increases in Employer National Insurance contributions from April 2022, this will add approximately £1.1m to direct staff costs and will have a knock on effect upon contract rates with delivery partners. This has not been incorporated in the model, it is assumed that the additional costs will be fully funded as the intention associated with the increase is to better fund Health and Social Care. There are other implications associated with the new funding announcements and it is assumed that this will have a limited positive impact on the financial position. This has been reflected in the model through the removal of the contingency in 2022/23.
- 1.3 The outturn for 2020/21 was an underspend of £1.1m. This was 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 totalling £2.8m over the 3 years. Cash releasing savings are needed to fund this.

- 1.4 The budget outlook model has been updated to reflect current planning assumptions. Additionally, it now makes some allowance for the overspending within Social Care budgets, including the Learning Disability Service. It is apparent that the baseline budget is insufficient to cover current spend patterns which are driven by service demand and the levels of care packages.
- 1.5 The best, mid-range and worst case scenarios are presented for the next three years. In the mid-range scenario, the budget gap estimated over the three year period 2022-23 to 2024-25 is £13.9m with a gap of £3.3m in 2022-23. The cancelled savings and any unachieved savings carried forward from the current year add to the gap.
- 1.6 The modelled budget gap across each scenario is summarised below, with surpluses shown as a negative:

Budget Gap	2022-23 £000	2023-24 £000	2024-25 £000	Total £000
Best Case	(918)	22	423	(473)
Mid-Range	3,330	5,492	5,056	13,877
Worst Case	11,281	10,513	10,876	32,670

- 1.7 The overall position in the mid-range scenario provides the estimated new savings that require to be identified in order to balance the budget in future years. The review of the savings programme adds to this total. In addition to the uncertainty in respect of the recent funding announcements, the impacts of the proposed structural change may also impact towards the end of the planning period.
- 1.8 There is a flat cash assumption in respect of baseline Social Work funding from Argyll & Bute Council while inflation and cost and demand pressures continue. Modelling on this basis results in £10.7m of the £13.8m 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.
- 1.9 The main short term priority is to ensure that the IJB can consult upon and then approve a budget and range of savings proposals prior to the commencement of the next financial year. This report outlines, and seeks endorsement for the approach and timetable.

2. INTRODUCTION

- 2.1 This report summarises the budget outlook covering the period 2022-23 to 2024-25 and provides an update in respect of the budget setting process for 2022-23. This report should also be considered alongside the comments made by Audit Scotland in their Annual Audit Report and the agenda item which sets out the implications of the review of the current savings programme.

- 2.2 The budget outlook is based on three different scenarios, best case, worst case and mid-range. The detail of the scenarios is provided in Appendix 1. The model has been updated to reflect current assumptions in respect of cost pressures, service demand and inflation. There are unusually high levels of uncertainty at present and the model does not take into account the impact of the National Insurance Increase upon either our direct staff costs or costs of commissioned services. It is assumed this will be fully funded.
- 2.3 In respect of the budgeting process, the budget outlook model described in this report has been used as a basis for financial planning for 2022-2. This is in the context of on-going uncertainty in respect of recent government funding announcements. However, it is important to recognise that an on-going budget gap is anticipated and managers require planning assumptions in respect of anticipated savings targets in order to develop proposals which will enable the HSCP to balance its budget next year.

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. For future years, the mid-range forecast 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.

	2022-23 £000	2023-24 £000	2024-25 £000
Baseline funding incl £2.9m NRAC	192,855	192,855	192,855
Resource Transfer	7,176	7,176	7,176
Baseline & RT funding uplift (2.5%)	5,133	10,262	15,519
Other Recurring Funding	36,800	36,800	36,800
Further NRAC uplift offered £2.85m +inflation	2,921	2,994	3,069
Total Funding NHS	244,885	250,087	255,419

Council Funding

- 3.1.3 The estimates for Council funding are rolled forward and all scenarios assume a flat cash settlement. 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 In respect of the debt owed to Council, the repayment profile was reconsidered in May 2021 when the 2020/21 underspend was confirmed. The new repayment schedule is presented below. If the HSCP is able to make these repayments the liability will be cleared which will assist the longer term outlook, in the meantime these repayments are adding to the budget

gap and savings target, in particular in increase from a £200k planned repayment in 2021-22 to £900k in 2022-23 increases the savings target next year by £700k:

	Repayment18-19 Overspend £000	Repayment 19-20 Overspend £000	Total £000
2021-22	200	0	200
2022-23	900	0	900
2023-24	493	407	900
2024-25	0	759	759
Total	1,593	1,166	2,759

3.1.5 The table below outlines expected funding from Argyll and Bute Council:

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

3.1.6 The following table summarises the total estimated funding over the next three years within the mid-range scenario. It includes an estimated additional £937k from Scottish Government p.a. in line with anticipated inflationary funding in respect of the Scottish Living Wage:

	2022-23 £000	2023-24 £000	2024-25 £000
Funding NHS	244,885	250,087	255,419
Funding A&B Council	61,863	61,863	62,004
New SG funding for social work	937	1,874	2,811
Total Funding	307,685	313,824	320,234

This does not include the recurring elements of the recent winter planning funding or anticipated uplifts in line with UK and Scottish Government commitments to better fund health and social care in future.

3.2 Savings Measures Already Approved & Vacancy Savings

3.2.1 There is an adjustment for savings measures already taken which also adjusts for the removal of £1m in one-off vacancy savings. This has the net impact of increasing the budget gap by £749k in each year.

3.2.2 Work is on-going in respect of repeating the approach of assuming £1m in non-recurring vacancy savings can be made to reduce the savings target. If actioned this would be largely allocated against Health staffing budgets.

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 JJB in March 2021.

- 3.3.2 The following table summarises the base budget in the mid-range scenario, the model then makes inflationary and cost and demand pressure adjustments to the base budget:

	2022-23 £000	2023-24 £000	2024-25 £000
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
Base Budget	298,880	298,550	298,550

3.4 Employee Cost increases

- 3.4.1 For Health and Council staff, for 2022-23 to 2024-25, it has been assumed that a 1% p.a. increase is the best case, 2% mid-range, and 3% worst case. No agreement has yet been reached for 2021/22 for Social Work staff, so there is still considerable uncertainty in respect of future employee costs. The increase for Health staff is being met in full by the 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. The increase in employers' national insurance contributions has not been incorporated in the model, it is assumed that this will be fully funded. It should be noted that the increase will also have an impact on our staff as their take home pay will reduce, this is likely to add further to the upward pressure on wages. The level of pay increases assumed in the model are a significant risk as inflationary pressure appears to be both increasing and longer term than previously assumed.
- 3.4.2 The increases to the employee budgets estimated over the next three years in the mid-range scenario are summarised below.

	2022-23 £000	2023-24 £000	2024-25 £000
Total Employee Cost Changes	2,478	4,857	7,273

This additional cost is in respect of existing staffing levels only.

3.5 Non-pay Inflation

- 3.5.1 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. Assumed energy cost inflation has been increased and there is a risk that increased inflation may not be as temporary as previously assumed. Most other lines have been uplifted by 1%, 2% and 3% in the scenarios in line with OBR forecast. Higher than assumed supplies and services inflation, if it occurs, is a risk that will require to be managed in year.

3.5.2 The table below summaries the updated non-pay inflation estimated over the next three years within the mid-range scenario.

	2022-23 £000	2023-24 £000	2024-25 £000
<u>Health:</u>			
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	223	446	669
<u>Social Work:</u>			
Catering Purchases	21	43	66
National Care Home Contract	609	1,242	1,901
NHS Staffing Recharges	72	146	224
Purchase and Maintenance of Equipment	20	40	61
CPI Essential increases	25	51	78
Scottish Living Wage	1,062	2,161	3,298
Free personal & nursing care	87	177	271
Carers Allowances	32	65	99
Utilities	9	19	28
Audit fee	8	9	10
Total Non-Pay Inflation	5,479	11,083	16,997

3.6 Cost and demand pressures

3.6.1 As with non-pay inflation, the cost and demand pressure assumptions have been rolled forward. Additionally, 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.

3.6.2 The table below summaries the updated cost and demand pressures:

	2022-23 £000	2023-24 £000	2024-25 £000
<u>Health:</u>			
TAVI Cardiac Procedures	103	104	105
Additional NMAHP staffing	200	204	208
New high cost care packages	100	102	104
New dementia pathway	50	51	52
Other NSD developments	50	100	150
Oncology medicines demand	350	700	1,050
Cystic fibrosis drugs	100	200	300
CareFirst replacement	45	45	45
Depreciation	25	50	75
CAMHS staffing	85	87	89
SLA unfunded uplift	355	355	355
Microsoft Licenses	75	75	75
Distress Brief Interventions	140	0	0
Other	183	183	183

Social Work:			
Older People Growth – part funded	133	272	417
Care for Younger Adults - MH and LD	335	677	1,026
Care for Younger Adults – PD	67	135	205
Demand pressure in Children & Families	250	500	750
Social Work Emergency standby	25	51	78
Realignment of LD, PD and MH budgets	758	1,516	2,274
Contingency for HSCP Unknown Cost and Demand Pressures	0	2,000	3,000
Total Cost and Demand Pressures	3,429	7,407	10,541

The contingency for 2022/23 has been removed as additional cost pressures have been identified. It is assumed that any further cost pressures for next year will either have to be funded or offset with additional savings. It is also thought that the additional funding allocations still to be confirmed reduce the risk associated with removing the contingency at this stage. This is important as the budget gap will now feed into the indicative savings targets being allocated to service managers for 2022/23.

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:

	2022-23 £000	2023-24 £000	2024-25 £000
Base Budget	298,880	298,550	298,550
Employee Cost Changes	2,478	4,857	7,273
Non-Pay Inflation	5,479	11,083	16,997
Cost and Demand Pressures	3,429	7,407	10,541
Savings adjustment	749	749	749
Total Estimated Expenditure	311,015	322,646	334,110
Estimated Funding	307,685	313,824	320,234
Estimated Budget Surplus / (Gap) Cumulative	(3,330)	(8,821)	(13,876)
Estimated Budget Surplus / (Gap) In Year	(3,330)	(5,492)	(5,056)

3.7.2 In the mid-range scenario, the budget gap estimated over the three year period is £13.9m with a gap of £3.3m in 2022-23.

3.7.3 The budget gap in the best case scenario over the three years is a surplus of £0.4m and in the worst case scenario, the budget gap over the three years is £32.7m. Appendix 1 provides a summary of all three scenarios.

3.7.4 The budget gap over 2022-23 to 2024-25 is summarised below:

Budget Gap	2022-23 £000	2023-24 £000	2024-25 £000	Total £000
Best Case	(918)	22	423	(473)
Mid-Range	3,330	5,492	5,056	13,877
Worst Case	11,281	10,513	10,876	32,670

These figures provide the current estimated savings requirement for each year in order to balance expenditure with available resources.

3.8 Budget Planning 2022/23

- 3.8.1 Budget planning for 2022/23 is now underway and the figures in this report are being used as a basis for setting the savings targets for services. The additional funding recently announced will have an impact on the financial plans next year, however it is important that work commences early on developing new savings proposals to address the budget gap. The model will continue to be updated in the coming months as part of the budget development process.
- 3.8.2 The mid-range budget gap outlined in this report for next year is £3.3m. The proposal to cancel or amend exiting savings targets totals £1.5m. On the assumption that the amendments to the existing savings proposals are approved, the total cash releasing savings target for next year will be £4.8m (1.6% of total spend).
- 3.8.3 Work is currently underway to identify savings opportunities to address the gap outlined above. Due to the timeframes involved, the approach has been to allocate the overall savings target on a pro-rata basis to service budgets which are deemed to be within scope. This is to say that some budgets have been excluded from having a share of the savings allocated due to being ring-fenced or deemed to be largely out-with the control of the HSCP in a one year timeframe. The targets, included in appendix 2 have been communicated to service managers who are now working closely with finance and service improvement colleagues to identify options. It is envisaged that these will be discussed in further detail at a management team workshop scheduled for 1st December. Clearly this process is becoming increasingly challenging as this process has been repeated for several years and significant savings have already been made and declared. Additionally, there are still actions required to deliver the remainder of the current savings programme in respect of projects which are not yet complete and are expected to be carried forward into next year. It is intended that templates will be completed in respect of savings proposals to ensure risk, consequences and actions are well understood in respect of each proposal. This approach seeks to manage the risk of under-delivery.
- 3.8.4 It is re-iterated that there are a number of risks and uncertainties in respect of the budget outlook figures and that the contingency has been allocated to cover known cost pressures. In particular it is hoped that there will be some scope to reduce the requirement for budget savings as new funding is confirmed by Government. It must be appreciated that the Scottish Government intend publishing their budget on 9th December 2021, this will be the point at which we have increased certainty in respect of the resources available in 2022-23 and beyond.

3.8.5 The timetable for the budgeting process is provided below:

Agree approach with SLT	JG / FD / GM	8 September - Complete
Issue template to managers to identify undeliverable savings - drafts due by 23 September	JG	10 September - Complete
Issue template for identification of new savings and provisional targets	JG	23 September - Complete
Report Process to Finance and Policy Committee	JG	24 September - Complete
Report updated budget outlook to Finance and Policy Committee	JG	22 October - Complete
First draft of new savings templates completed by managers with SIO and Finance support	SLT	26 November
ELT Workshop to review proposals	ELT	1 December
Scottish Government Draft Budget Published		9 December
Finalisation of savings programme for 2022/23	ELT / Professional Leads	20 December
Update report to Finance and Policy Committee	JG/FD	21 Jan
Consultation on Draft Budget and Savings Proposals	JG/FD	Feb 2022
Final Budget for approval by IJB	JG/FD	30 March 2022

The timetable is again challenging as the implications of the Scottish Budget will require to be modelled during December and draft savings proposals finalised to enable a meaningful consultation exercise. It is intended that the consultation on this will be progressed using the approach and framework utilised by Argyll and Bute Council.

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. The assumptions used are considered carefully and will be regularly reviewed and updated as appropriate. However it is recognised that there are likely to be variations between the assumptions made at this stage of the budget planning process and the eventual funding allocations and cost pressures for 2022/23 and beyond.

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 funding 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 as the HSCP is required to set a balanced budget.
- 6.2 Staff Governance – None directly from this report but there is a strong link between HR management 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. The development of savings plans will require consultation 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. Additionally there is a risk that the use of the mid-range scenario as a basis for budget planning and the associated development of the savings programme could be optimistic as government mechanisms in respect of funding allocations progress in the coming months. In particular there is a risk associated with increasing inflation and the national insurance increase.

These risks are offset by the expectation that recurring funding into the Health and Social Care sector will be increased as the Scottish Government progresses its budgeting process for 2022/23. This creates a risk that the mid-range outlook is pessimistic and plans to deliver savings are developed unnecessarily.

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 £13.9m with a gap of £3.3m in 2022-23. Managing this situation will continue to be challenging and requires the development of new savings proposals to address the shortfall. The current proposal is to allocate a savings total of £4.8m across services to address the budget shortfall and proposed amendments to the current savings programme. Planning is currently proceeding on this basis to ensure that the IJB is able to approve a balanced budget for 2022-23 in March 2022.

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

Appendix 2 – Allocation of Savings Targets

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