

Integration Joint Board

Agenda item:

Date of Meeting: 26 January 2022

Title of Report: Budget Outlook and Progress Report

Presented by: James Gow, Head of Finance and Transformation

The Board is asked to:

- Consider the current budget outlook report for the period 2022-23 to 2024-25.
- Note the funding and expenditure assumptions and uncertainties in respect of the budget outlook.
- Note that it is anticipated that the IJB will be able to set a balanced budget in March 2022 for the 2022/23 financial year.
- Endorse the approach to the development of the 2022-23 budget and note that separate reports on savings proposals and public consultation have been provided.

1. EXECUTIVE SUMMARY

1.1 This report summarises the current budget outlook model covering the period 2022-23 to 2024-25. The key focus is the mid-range scenario for 2022-23, this is anticipated to form the basis of the budget for next year, due to be approved by the IJB in March 2022. The report should be considered alongside the Budget Proposals and the Budget Consultation reports, included as separate agenda items. This report has also been considered by the Finance & Policy Committee at its meeting on the 21st January.

1.2 The overall context in respect of the funding for Health and Social Care is outlined in the Scottish Government Budget and subsequent letters issued to NHS Highland and Argyll & Bute Council. At the time of writing formal offers of funding from partners have not been made and there is a lack of clarity in respect of some funding streams. The figures outlined in this report therefore remain provisional and uncertain. The budget outlook is more positive than previously due to additional funding being invested by the Scottish Government. This allows for growth in the budget and enables the HSCP to consider options for some limited investment in developing services in line with Government priorities. Much of the additional funding allocations have specific targets and new spend attached to them which severely limits flexibility. Savings plans still require to be implemented in order to ensure financial targets are met, the debt to the council is repaid timeously and that the HSCP operates on a financially sustainable basis in the longer term.

- 1.3 There are funding and cost uncertainties associated with medium term planning and the model will continue to be refined. This report focuses primarily on the development of a budget for the HSCP for 2022/23. The Scottish Government currently intend to publish a full Spending Review in May 2022, this will enable better informed medium term plans to be developed in due course.
- 1.4 The Scottish Government published its draft budget on 9th December, the key contextual aspects of this, as they impact on the Health and Social Care sector include:
- significant additional investment in Health and Social Care;
 - re-statement of the commitment to the implementation of a National Care Service;
 - commitment to £10.50 per hour wage floor for social care staff and a tiered approach to public sector pay increases;
 - National Insurance increase is fully funded within the NHS but not within the Local Government settlement; and
 - Local Authorities expected to pass on additional funding to HSCPs.

Appendix 2 provides members with the introductory section and the chapters relating to the Health and Local Government budgets. At the time of writing, the HSCP has not had its allocation of this funding fully confirmed by its partners and there remains some degree of uncertainty. The budgeting process is increasingly complex due to this, along with modelling the increases in costs.

- 1.5 The HSCP context is that outturn for 2020/21 was an underspend of £1.1m, repaid to Argyll and Bute Council to offset previously carried forward overspends. This reduced the value of debt due to the Council substantially. The model makes an allowance for the outstanding repayments totalling £2.8m over 3 years. Cash releasing savings are needed to fund this. Additionally, a minimum repayment of £200k is scheduled to be made in 2021/22. It is hoped that the HSCP will be able to repay this debt more swiftly if at all possible to enable sustainable longer term planning, capital investment and transformation.
- 1.6 The best, mid-range and worst case scenarios are presented for the next three years. The focus at present is the mid-range scenario for 2022-23 as this forms the basis of the HSCP financial planning.
- 1.7 The mid-range budget position is summarised below:

	2022-23 £m	2023-24 £m	2024-25 £m
Estimated Funding	320.8	325.2	330.3
Estimated Spend	325.6	337.1	349.8
Budget Gap (Cumulative)	4.8	11.9	19.5

The budget gap for 2022/23 is £4.8m and this requires to be addressed by savings, these are outlined in the budget proposals for 2022/23. The budget gap for future years is dependent upon future funding and the extent to which additional funding is rolled into the baseline for future years. Further

clarity on this is expected when the Scottish Government publish their Spending Review.

- 1.8 The 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.

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. It should be considered alongside the report on the Budget Proposals, this outlines the proposed savings plan for next year, and the Budget Consultation report. The budget outlook is more positive than previously due to additional funding. This allows for growth in the overall budget and also enables the HSCP to consider options for some limited investment. However, much of the additional funding allocations have specific targets and new spend attached to them which limits flexibility.

- 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 funding allocations, cost pressures, service demand and inflation. At the time of writing, the Scottish Budget has been published but there are still some uncertainties in respect of the final allocations to the HSCP which are to be confirmed by NHS Highland and Argyll & Bute Council. The main focus of this report is in respect of 2022/23, longer term planning will be prioritised once the Scottish Government publish their full Spending Review.

- 2.3 In respect of the budgeting process, the budget outlook model described in this report is anticipated to form the basis of the HSCP budget for 2022-23, due to be approved by the IJB in March 2022. The mid-range scenario provides the anticipated budget for next year. It is important to recognise that an on-going budget gap is anticipated and delivery of savings is a crucial element.

3. DETAIL OF REPORT

3.1 Funding Estimates

The overall context in respect of the funding for Health and Social Care is outlined in the Scottish Government Budget and subsequent letters issued to NHS Highland and Argyll & Bute Council. At the time of writing formal offers of funding from partners have not been made and there is a lack of clarity in respect of some funding streams, the figures outlined in this report therefore remain provisional.

NHS Highland

- 3.1.1 The assumptions for funding from NHS Highland have been amended for 2022/23 to include the further NRAC uplift of £2.85m as well as the additional funding which is being allocated through Health budgets.

- 3.1.2 The table below outlines the estimated funding from NHS Highland over the next three years within the mid-range scenario. This funding source is increasing, however there remains a risk in respect of the funding for next year as Highland Health Board is still to confirm HSCP allocations:

	2022-23 £m	2023-24 £m	2024-25 £m
Baseline funding	194.2	194.2	194.2
Resource Transfer	7.2	7.2	7.2
Funding uplift	5.9	10.1	14.3
Other Recurring Funding	37.7	37.7	37.7
Further NRAC uplift offered £2.85m	2.8	2.9	2.9
Total Funding NHS	247.8	252.1	256.3

Council Funding

- 3.1.3 The Council funding estimates are likewise still to be fully confirmed. There has been a significant increase in anticipated funding via this route as outlined in the Scottish Government budget announcement. This additional funding has improved the financial outlook for next year and funds some previously identified 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. It is intended that the HSCP will seek to accelerate these repayments if it can. This will improve the financial outlook and provide an opportunity for the development of improved longer term planning, transformation and an associated capital investment programme. 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 by £700k:

	Repayment 18-19 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 £m	2023-24 £m	2024-25 £m
Baseline funding	62.8	62.8	62.8
Less current planned repayments	(0.9)	(0.9)	(0.8)
New Funding	11.1	11.3	12.0
Net Funding from Council	73.0	73.2	74.0

- 3.1.6 The following table summarises the total estimated funding over the next three years within the mid-range scenario, The Scottish Government have not published spending plans beyond 2022-23.

	2022-23 £m	2023-24 £m	2024-25 £m
Funding NHS	247.8	252.1	256.3
Funding A&B Council	73.0	73.2	74.0
Total Funding	320.8	325.3	330.3

3.2 Existing Savings Cancelled

- 3.2.1 Following the review of the savings programme, the IJB agreed to cancel or reduce historic savings deemed as undeliverable. The impact of this, as described at the time, is that it adds to the budget gap next year and £1,470,000 has been added into the model to account for un-delivered savings to be removed from the baseline budget.

3.3 Base Budget

- 3.3.1 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 £m	2023-24 £m	2024-25 £m
Base Budget NHS	226.1	226.1	226.1
Base Budget Council	75.1	75.1	75.1
Base Budget	301.2	301.2	301.2

3.4 Employee Cost increases

- 3.4.1 Employee costs are expected to increase by £3.9m in total. This is based on an assumption of a 2% increase for Health and Council employed staff. It also includes £1.1m for the National Insurance Increase in April 2022 and for anticipated incremental increases. Pay claims related to 2021/22 are now settled and the public pay policy for 22/23 has also been published by the Scottish Government. This sets expectations in respect of public sector pay increases and is tiered, with lower paid staff receiving higher pay increases than higher paid staff. There is a risk in respect of this assumption particularly in the context of increasing general inflation. Increases for commissioned staff pay rises are allowed for in other budget lines.
- 3.4.2 The increases to the employee budgets estimated over the next three years in the mid-range scenario is summarised below.

	2022-23 £m	2023-24 £m	2024-25 £m
Total Employee Cost Increases	3.9	6.7	9.6

This additional cost is in respect of existing staffing levels, as plans are more fully developed in respect of some of the new funding streams, it is likely that budgeted spend on employees will increase.

3.5 Non-pay Inflation

3.5.1 Non-pay inflation calculations have been updated to reflect the impact of expected additional inflation on energy costs and a 5% allowance has been made for inflation on prescribing and drugs. 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 £m	2023-24 £m	2024-25 £m
<u>Health:</u>			
Prescribing & Hospital Drugs	1.2	2.2	3.3
Main GG&C SLA	1.4	2.8	4.3
Other SLAs	0.8	1.6	2.4
Energy Costs	0.2	0.5	0.7
<u>Social Work:</u>			
National Care Home Contract	0.7	1.5	2.2
Living Wage–full year @ £10.02	2.3	2.3	2.3
Living Wage to £10.50 in 22/23 and inflation thereafter	1.5	3.0	4.7
Free personal & nursing care	0.4	0.4	0.4
Other Inflationary Increases	0.3	0.5	0.7
Total Non-Pay Inflation	8.8	14.8	21.0

3.6 Cost and demand pressures

3.6.1 Cost and demand pressures include specific areas where there is an identified need for additional budget to cover increasing demand. For the purposes of the model, the costs associated with additional funding allocations (investments) are included here. Plans are currently in development for this spend and as result spend is not yet incorporated in baseline budgets. There is uncertainty in respect of whether some funding streams are recurring, longer term commitments to spend can only be made once the recurring baseline is fully confirmed. Appendix 1 provides further detail.

3.6.2 The table below summaries cost and demand pressures and new investments:

	2022-23 £m	2023-24 £m	2024-25 £m
Health:			
Oncology Medicines	0.5	0.9	1.3
NMAHP Additional Staffing	0.2	0.2	0.2
SLA Adjustment for 21/22 Increase	0.4	0.4	0.4
Health - Others	1.0	1.0	1.3
Social Work:			
Older People Growth and investment	3.0	3.0	3.5

Younger Adult Services	1.6	2.4	3.5
Multi-Disciplinary Teams & Adult Services Investment	1.8	1.7	1.6
Social Work Other	0.6	1.3	1.6
Contingency for HSCP Unknown Cost and Demand Pressures	1.2	2.0	3.0
Total Cost and Demand Pressures	10.3	12.9	16.4

The budget includes some contingency for 2022/23 due to uncertainties in respect of funding and to make some allowance for slippage with the savings programme, this is likely to be challenging to deliver in full. In addition, there are specific risks in respect of some of our key partners and it is recognised that there is a requirement to develop a long term investment plan. Accelerating the repayment of the debt to the council is also a priority.

3.7 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 £m	2023-24 £m	2024-25 £m
Base Budget	301.2	301.2	301.2
Employee Cost Changes	3.9	6.7	9.6
Non-Pay Inflation	8.8	14.8	21.0
Cost and Demand Pressures & Investment	10.3	12.9	16.4
Cancellation of Savings	1.5	1.5	1.5
Total Estimated Expenditure	325.6	337.1	349.7
Estimated Funding	320.8	325.3	330.3
Estimated Budget Surplus / (Gap) Cumulative	(4.8)	(11.8)	(19.4)
Estimated Budget Surplus / (Gap) In Year	(4.8)	(7.0)	(7.6)

3.7.2 In the mid-range scenario, the anticipated budget gap for 2022/23 is £4.8m which will be managed through the savings programme. It is re-iterated that there remains some contingency and additional funding streams are enabling growth, particularly focussed on social care services. The identified gap in the future years is expected to narrow as future funding, and the recurring nature of it is confirmed. In the event that funding is not confirmed on a recurring basis, action would be taken to unwind some of the growth currently planned.

3.7.3 Appendix 1 provides details of Best Case and Worst Case scenarios. As stated previously, the focus has been on working towards a robust budget and savings programme for 2022/23. Longer term planning, including the development of capital investment plans will be a priority in the coming months, particularly once the Spending Review is published and there is improved clarity in respect of the National Care Service.

3.8 Budget Planning 2022/23

3.8.1 The figures presented in this report 2022/23 are forming the basis of financial planning and budget setting for that year. The development of the budget has progressed in line with the agreed timeline. The key work required to finalise include:

- final development of the plans for delivering the £4.8m savings target and public consultation;
- confirmation of funding from partners;
- development of firm plans for new investments; and
- finalise value of current savings being carried forward

3.8.2 Reports in respect of the budget savings and the consultation are provided separately.

3.8.3 There are number of risks and uncertainties in respect of the budget outlook figures and that the contingency has been allocated to help manage these. The Financial Risk Register will be updated as the budget is finalised and will be reported in line current practise. Some of the key risks include:

- final funding allocations and terms;
- delivery of the savings programme;
- inflation and pay increases;
- on-going Covid-19 pandemic and funding of additional costs; and
- sustainability of key providers and commissioned services.

Additionally, the commitment to the development of the National Care Service poses a significant risk of disruptive structural change which could divert attention from operational and strategic priorities and planning within the coming year.

3.8.4 The updated 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 - Complete
ELT Workshop to review proposals	ELT	1 December - Complete
Scottish Government Draft Budget Published		9 December

Finalisation of savings programme for 2022/23	ELT / Professional Leads	20 December – small number of plans outstanding
Update report to Finance and Policy	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

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 are aligned with the Scottish Government Draft Budget. These will be regularly reviewed and updated as appropriate. Medium term financial plans will be developed further once the Spending Review is published. 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 has been taken into account when difficult options to balance the budget have been developed. Whilst the finalisation of the new Strategic Plan has been delayed due to the emergency footing status announced in December 2021, the budgetary planning process has sought to be consistent with the direction of travel and work done to date.

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. Savings proposals are consulted on with all members of the HSCP management team.

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 Financial risks will continue to be identified and reported separately. Some of key risks relating to the Budget Outlook include:

- final funding allocations and terms;
- delivery of savings;
- inflation level and pay increases;
- on-going covid pandemic and funding of additional costs; and
- sustainability of key providers and commissioned services.

11. PUBLIC AND USER INVOLVEMENT AND ENGAGEMENT

11.1 This is considered as part of a separate report which outlines a proposed consultation process on the budget proposals. Projects to address the budget gap will 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. The focus at present is on the development of a balanced budget for 2022/23. Due to current levels of risk and uncertainty, the savings target for next year remains at £4.8m and it is anticipated that the HSCP will be able to set a balanced budget in March 2022.

The overall funding environment has improved and it is now intended that the focus moves towards longer term planning, and transformation. Addressing capital investment need and repaying the outstanding debt to Argyll and Bute Council as timeously as possible are priorities.

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 – Scottish Government Draft Budget

AUTHOR NAME: James Gow, Head of Finance and Transformation

james.gow@argyll-bute.gov.uk