

## **Integration Joint Board**

**Date of Meeting:** 24 August 2022

**Title of Report:** Medium Term Financial Plan 2023-2026

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

### **The Integration Joint Board is asked to:**

- Consider the draft Financial Plan and budget outlook for 2023-24 to 2025-26.
- Note the risks and uncertainties regarding the Financial Plan.
- Note the forecast budget gap and endorse the proposal that the HSCP seeks to develop a Value for Money and Savings Strategy aimed at addressing the budget gap.

## **1. EXECUTIVE SUMMARY**

- 1.1 This report provides the Finance and Policy Committee with the current medium term financial plan for the HSCP covering 2023/24 to 2025/6. It provides the basis for detailed financial planning and will be used to inform the savings target for 2023/24. It is intended that the budget gap will be addressed through the development of a value for money strategy and savings plan. The financial plan will continue to evolve as funding and cost pressures are confirmed. The contents of this report have also been considered by the Finance & Policy Committee on 5<sup>th</sup> August 2022.
- 1.2 The medium term plan aims to provide a clear budgeting framework for the development of the budget for 2023/24 whilst putting this in a longer term context. The Scottish Government have published a 3 year spending review which outlines their funding intentions for the Health and Care sector. It also confirms that the National Care Service will be established and is likely to be in its early implementation phase by the end of the planning period.
- 1.3 The HSCP is in a healthy financial position as at the end of 2021/22. This enables it to maintain a specific unallocated budget to support transformation at £900k per year. This is critical in enabling non-recurring investment in specific projects aimed at longer term service transformation and delivery of savings.
- 1.4 The best, mid-range and worst case scenarios are presented for the next three years. Financial planning will be based upon the mid-range scenario which outlines a budget gap of £6.7m or 2% of spend for 2023/24.

## **2. INTRODUCTION**

2.1 The purpose of this report is to outline a draft medium term financial plan for the HSCP covering the period from the current year (2022/23) through to 2025/26. This document seeks to outline the current and expected financial context facing the HSCP with a view to ensuring that it continues to operate on a financially sustainable basis. The document includes the following sections:

- Financial & Strategic Context
- Current Financial Position
- Revenue budget modelling & assumptions
- Budget Gap and Savings Target
- Transformation & Investment
- Reserves
- Scenarios and Risks

## **3. DETAIL OF REPORT**

### **3.1 Financial & Strategic Context**

The strategic context facing the HSCP at the time of writing is important:

- Draft legislation for the National Care Service (NCS) has been published. This does not provide the level of detail required to fully understand its likely implications for the Argyll & Bute HSCP. It is expected that the structural change associated with the NCS will be funded in addition to the allocations in the Spending Review.
- Recent reports by Audit Scotland on NHS and Social Care services outline a series of challenges including workforce, reduced activity, increasing demand and waiting times and increasing unmet need. Addressing these challenges are likely to be service priorities throughout the planning period.
- Inflation is in excess of 9% and expected to increase further in 2022/23. There are several risks associated with Government inflation assumptions including pay rate increases and the real terms value of medium term funding allocations.

The key medium term financial planning document which informs high level policy and spending intentions is the Scottish Government's Resource Spending Review. This was published in May 2022 and sits alongside a medium term financial strategy for the public finances. The full document is available at: <https://www.gov.scot/publications/scottish-resource-spending-review>.

Additionally, appendix 1 provides a copy of a recent letter on financial planning from the Chief Operating Officer, NHS in Scotland.

The Spending Review prioritises spending on Health and Social Care which accounts for around 40% of the total budget. It reconfirms the commitment to the National Care Service and outlines a 25% increase in social care investment. The

high level Health and Social Care allocations per the spending review (at current prices) is:

	<b>22-23 £'m</b>	<b>23-24 £'m</b>	<b>24-25 £'m</b>	<b>25-26 £'m</b>	<b>26-27 £'m</b>
Health & Social Care	17,106	17,550	17,995	18,536	19,029
Increase on prior year		2.6%	2.5%	3.0%	2.7%
Health & Social Care Capital	554	443	428	443	-

Settlements for local government are frozen through most of the planning period. Additionally, Health and Social Care Capital Funding is set to reduce against the current year total reflecting the financial challenge faced by the Scottish Government.

The Spending Review also confirms the intention to maintain a no compulsory redundancy policy for public sector workers and reiterates that pay negotiations should take account of public sector pay policy. It also recognises the pressure the public finances are expected to be under in the coming years and highlights that public sector staffing numbers require to be reduced to pre-pandemic levels and that further reform and efficiency improvement will be required.

The Government also published a medium term financial strategy which provides further information on the outlook for the public finances and economic performance in Scotland. It again outlines an expected fall in living standards and disposable income as a result of the cost of living crisis and high inflation. It acknowledges that Consumer Price Index (CPI) inflation is at 9% for the 12 months to April 2022. The document sets out forecast inflation in line with the Office Of Budget Responsibility forecasts:

<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
<b>Actual Inflation</b>	<b>Forecast Inflation</b>				
9.0%	8.0%	2.4%	1.7%	2.0%	2.0%

The document models 1%, 2% and 3% pay increases from 2023/24 onwards using 2022/23 as a baseline. It is not clear what the underlying assumption for the April 2022 pay increase is in the context of current offers being well in excess of public pay policy. This is important as the cumulative effect of actual CPI inflation in 21/22 and forecast inflation in 22/23 is over 17%.

### **3.2 Current Financial Position**

The HSCP ended the 2021/22 financial year in a favourable position. It has repaid all of the debt it owed to Argyll and Bute Council and has operated within budget for the second year in succession. Total revenue spend on services for 2021/22 was £312m.

In addition, the HSCP has earmarked reserves totalling £21.2m, including £0.7m of general reserves. The earmarked reserves are being held for specific purposes and are not generally available to the HSCP for purposes or priorities other than

those for which the funding was allocated. The general reserves have been earmarked to support investment in transformation projects in 2022/23 and supplement the revenue budget.

However, the HSCP has not been able to deliver all of its savings targets on a recurring basis and therefore it is carrying forward savings projects from prior years which still require to be delivered, this adds to financial pressures going forward.

The HSCP does not have delegated responsibility for asset ownership or capital spend. This is an important issue as significant backlog maintenance and replacement needs have been identified and require to be addressed in partnership with NHS Highland and Argyll & Bute Council. Addressing investment need is a priority and represents a risk to the ability of the HSCP to deliver on its strategic objectives in the longer term.

### 3.3 Revenue Budget 2023/24 to 2025/26

#### 3.3.1 Funding Allocations

Services provided by the HSCP are largely funded by allocations made by the Scottish Government to Local Authorities and NHS Boards. They then pass on funding for delegated services to HSCPs. Actual funding allocations are predominantly based upon allocations formulas which take into account factors such as population and demographics, levels of deprivation and rurality. The table below provides a summary of the current funding allocations and assumptions for future funding uplifts:

<b>Funding Allocations</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>
<b>NHS Funding</b>				
Baseline	201.7	205.7	210.9	217.2
Resource Transfer	7.2	7.3	7.5	7.7
Other Recurring Funding	37.9	38	38	38
Additional Inflation 22/23	6.3	6.3	6.3	6.3
<i>Assumed uplift %</i>		2	2.5	3
<b>Total NHS Funding</b>	<b>253.1</b>	<b>259.3</b>	<b>265.2</b>	<b>272.2</b>
<b>Social Work Funding</b>				
Baseline Funding	62.8	64.4	66	68
22/23 New Recurring Funding	11.4	11.7	12	12.3
<i>Assumed uplift %</i>		2.6	2.5	3
<b>Total Local Authority Funding</b>	<b>74.2</b>	<b>76.1</b>	<b>78</b>	<b>80.3</b>
<b>Total Revenue Funding</b>	<b>327.3</b>	<b>335.4</b>	<b>343.2</b>	<b>352.5</b>
<b>Funding for Transformation</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

The key assumptions in respect of NHS funding are:

- Additional budget will be allocated in 2022/23 to fully fund pay increases and SLA increases which are set to be above budget;
- A 2% uplift planning assumption has been provided by Scottish Government for 2023/24 and the Spending Review uplifts have been used for the following years; and
- The Argyll & Bute funding share (NRAC) will remain at its present rate and NHS Highland will pass on the full value of any uplifts.

Local Authority allocations are more difficult to predict as Spending Review intentions are particularly challenging for that sector. However, there is a commitment for increased funding for Social Care. The uplifts applied in the model mirror the Spending Review increases per the table at section 3.1.2.

These assumptions are critical to the HSCP medium term plan, particularly in the context of higher inflation. Alternative scenarios are outlined later.

### 3.3.2 Expenditure Budget

There is a high level of uncertainty in respect of the expenditure budget, again largely as a result of high inflation. This impacts on direct staff costs through pay settlements (approximately one third of the revenue budget) and through increased contract values as minimum pay rates can be expected to increase significantly. Additionally, non-pay costs are expected to increase at a faster rate and are generally outwith the control of the HSCP. Key concerns relate to the PFI contract for the Mid-Argyll Hospital, energy, travel and transport and drug costs.

In addition to inflationary pressure, it is anticipated that there will be further demand pressure and this is built into the expenditure estimates. This is expected to arise from the introduction of new services and treatments, the on-going demographic shift in the area and the increasing numbers of individuals who require additional support on the community.

The baseline budget also incorporates the savings target for 2022/23 (£3.9m of new savings). It also includes additional recurring funding allocations which provided for significant growth in the overall budget for 2022/23.

Baseline Expenditure Budget	2022/23 £m
NHS Baseline Spend	236.2
SW Baseline Spend	88.7
Less Savings Programme	-3.9
Additional Inflation for 2022/23 (NHS)	6.3
<b>Total Baseline Expenditure Budget</b>	<b>327.3</b>

### 3.3.3 Social Work Cost and Demand Pressures

The table below summarises the cost pressures that have been modelled for Social Work Budgets:

<b>Social Work Cost and Demand Pressures</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Additional unfunded pay inflation 22/23	660	660	660
Pay inflation @ 2% per year	675	1,360	2,060
Assumed incremental increases	100	200	300
Non Pay Inflation	3,300	6,090	8,490
Younger Adults Demand Growth	400	820	1,200
LD, PD and MH Cost and demand pressures	340	680	840
Continuing Care for Looked After Young People	200	400	600
Estimated net cost of KCC	750	750	750
Allowance for unknown cost and demand pressures	200	250	500
<b>Total Social Work Cost and Demand Pressures</b>	<b>6,625</b>	<b>11,210</b>	<b>15,400</b>

The key assumptions here are that pay inflation will be 2% per year, this is a significant risk to the plan but allowance is being made for the 2022/23 pay increase being higher than budget and it is assumed this will not be funded. Non-pay inflation is calculated line by line on a total baseline budget of £58m. This covers expected uplifts in national contract rates for care services and increases to the expected pay floor for social care staff. In addition to demand pressures for services to support people with lifelong conditions, mainstreaming the Kintyre Care Centre into Social Work Budgets is a further significant additional cost pressure for which no specific funding has been identified.

### 3.3.4 Health Cost and Demand Pressures

Cost and demand pressures identified for Health Services are summarised below:

<b>NHS Cost and Demand Pressures</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Pay Inflation Uplift 2% pa	1590	3210	4800
Pay Increments & Uplifts	330	590	850
Prescribing & Hospital Drugs Inflation	650	1,310	1,970
Inflation on SLA's & Resource Transfer	1,980	3,900	5,990
Inflation on PFI Contract	535	800	1,065
Estimate for Additional Medical Staffing	400	400	400
Estimated allowance for Safe Staffing Act	300	400	500
Energy Inflation	790	1,810	2,960
Allowance for new drug approvals	260	510	770
Specific projects approved	100	150	230
Contingency	750	750	750
Allowance for unknown cost and demand pressures	500	1,000	2,000
<b>Total Health Cost and Demand Pressures</b>	<b>8,185</b>	<b>14,830</b>	<b>22,285</b>

Overall the cost and demand pressures modelled at present are based upon planning assumptions provided by Scottish Government as well as estimates of potential local cost pressures. The expectation that cost pressures and actual inflation will be in excess of funding uplifts add substantially to the budget gap.

### 3.3.5 Summary and Budget Gap

The table below summarises the aggregate HSCP financial position for the planning period and identifies the estimated scale of the funding gap in the mid-range scenario:

Revenue Budget Summary	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
<b>Funding Total</b>	<b>327.3</b>	<b>335.4</b>	<b>343.2</b>	<b>352.5</b>
Baseline Spend	327.3	327.3	327.3	327.3
Social Work Cost & Demand Pressures		6.6	11.2	15.4
NHS Cost & Demand Pressures		8.2	14.8	22.3
<b>Estimated Expenditure</b>	<b>327.3</b>	<b>342.1</b>	<b>353.3</b>	<b>365</b>
<b>Mid Range Budget Gap / Savings Target</b>		<b>6.7</b>	<b>10.1</b>	<b>12.5</b>

  

<b>New Savings Target as % of spend</b>		<b>2%</b>	<b>2.9%</b>	<b>3.4%</b>
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The assumption in respect of 2023/24 pay increases is one of the most concerning as clearly this is substantially below predicted inflation for this year. The assumption used is based on guidance from Government. There is a general understanding the NHS pay increases are fully funded which mitigates the importance of this assumption to some extent.

### 3.4 Budget Gap and Savings Targets

The above modelling, based on a mid-range scenario results in a budget gap due to cost and demand pressures being in excess of anticipated funding. This is a new gap or savings requirement and assumes the existing savings plan is delivered in full.

In order to enable the HSCP to set a balanced budget for 2023/24 and beyond it is likely new savings of the magnitude outlined above will need to be identified and delivered. The HSCP is therefore required to develop a Value for Money Strategy which outlines the approach to addressing the shortfall. It is intended that the 3 year financial plan and value for money strategy would form the basis of the budget consultation for 2023/24.

It is acknowledged that the approach to budgeting outlined in the plan is largely incremental in nature. It is likely that more fundamental reviews of budgets and service delivery will be required, this may include the use of zero base budgeting techniques as the HSCP is finding it increasingly challenging to identify new savings within existing service delivery structures.

### 3.5 Transformation and Investment

The budget figures assume that £900k in available funding will be held to enable transformation projects to proceed. One of the difficulties in delivering Service



Improvement and Transformation has been the absence of a funding source to support projects. Maintaining this budget will facilitate this and will be allocated based upon business case submissions and strategic priorities. It will also enable work relating to infrastructure business case development to proceed.

In respect investment in facilities, the HSCP does not have delegated responsibility or budgets but does need to progress important projects with partners. Long term asset replacement is required and work is underway to prioritise projects which including care home development and replacement and the need for investment in the NHS Estate. The Transformation programme and workforce plan outline other areas where infrastructure investment is required. The Transformation programme and budget will help facilitate this work without impacting upon service budgets.

### **3.6 Reserves**

This plan does not set a target for increasing general reserves held by the HSCP. It is intended that the resources available will be allocated to service delivery and transformation. As in recent years, it can be expected that there will be slippage and resources which will be carried forward for specific projects for use in future years, however, it is not proposed that this is a target or objective in the current context.

The impact of the implementation of the National Care Service is not certain at the time of writing, however it would appear likely that the new Boards will be classified as Public Bodies and not able to generate or carry forward general reserves. It is also unlikely that they will be able to borrow to fund investment in infrastructure.

Reserves carried forward into 2022/23 are intended to be spent during the period of this plan. This spend is in addition to the revenue budget outlined above and will also assist with the transformation and service improvement agenda. Capacity in the economy generally and within the workforce is likely to be the main constraint in progressing with projects and planned spend. An estimated schedule of spend in addition to the revenue budget is provided below:

	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2024/25 £m</b>
Reserves Spend Profile	12.5	5.1	3.0	0.6

The above profile assumes that the majority of the covid reserve will be spent in 2022/23 and spend will wind down sharply in 2023/24. Having this level of additional resource will contribute to improving services and facilities over the period of the plan.

### **3.7 Scenarios and Risk**

- 3.7.1** There are risks associated with medium term financial planning. The key strategic risks associated with the plan are summarised below, using the HSCP's standard assessment of probability and impact:



Risk	Like.	Impact		Mitigations
HSCP unable to identify and deliver sufficient savings.	4	5	20	Development of and consultation on value for money strategy. Utilisation of allocated reserves and progressing transformation.
Demographic or population changes reduce the formula funding to the HSCP.	4	4	16	Review annually.
One or both of the partners do not pass on anticipated funding allocated to Health and Social Care.	3	4	12	On-going partnership working and consultation.
Inflationary pressures are not funded to the extent assumed in the model.	4	4	16	Engagement in sector networks, modelling based on Spending Review figures.
Increases in pay rates or employer on-costs are in excess of those allowed for in the budget.	4	4	16	Monitor progress with pay negotiations, general commitment to fund within NHS.
Implementation of NCS diverts attention from operational priorities and financial management	4	4	16	Seek to resource NCS appropriately.
Service costs increase due to providers withdrawing from the market and / or ongoing workforce shortage	4	4	16	Commissioning strategy and engagement with partners and care providers. Workforce planning and management of agency / locum contracts
Funding reduced due to level of reserves held in HSCP and across sector	3	3	9	Allocate reserves to projects and priorities

### 3.7.2 Scenarios

The figures presented within this plan are based upon modelling of the mid-range financial outlook. The table below summarises a best and worst case outlook which reflects the risks highlighted above:

	2023-24 £m	2024-25 £m	2025-26 £m
<b>Mid-Range Budget Gap</b>	<b>6.7</b>	<b>10.1</b>	<b>12.5</b>
Health Worst Case Additional	6	12.4	18.5
Social Work Worst Case Additional	1.3	2.4	4.1
<b>Worst Case Budget Gap</b>	<b>14</b>	<b>24.9</b>	<b>35.1</b>
Health Best Case Improvement	2.1	4.1	5.5
Social Work Worst Case Improvement	1.2	2.4	3.4
<b>Best Case Budget Gap</b>	<b>3.4</b>	<b>3.6</b>	<b>3.6</b>

The use of the mid-range assumptions as a basis for financial planning is currently considered a reasonable and realistic approach. In the event that the outlook improves the HSCP would be able to scale back the savings target.

### **3.7.3 Workforce**

There is also a significant workforce risk associated with the financial plan. This is considered in detail in the Workforce Plan, however it is highlighted that on-going labour are likely to constrain the ability of the HSCP to deliver services and service improvement as planned. The financial plan outlined in this document assumes a level of growth in workforce numbers. This is difficult to quantify at present but includes:

- Increase in workforce size to narrow gap between current budgeted establishment and actual staffing (reduced vacancies);
- Reduce reliance on temporary and agency staff to implement more cost effective, stable and sustainable staffing models;
- Some transition from commissioned services to direct delivery of service;
- Additional growth in 2022/23 budget and use of non-recurring reserves balances not yet fully reflected in staffing establishment; and
- Cost and demand pressures allowed for will require additional staffing.

It is likely to be the case that some of the savings programme will require reductions in staffing which will in part offset the increases referred to above. The Workforce plan seeks to outline how the HSCP can seek to address the workforce challenge over the medium term.

### **3.8 Alignment with Strategic Planning**

The medium term financial plan sits alongside a range of HSCP strategic and operational planning documents. These include the new Joint Strategic Plan and Commissioning Strategy. The HSCP has sought to ensure that these are all consistent. Specifically, the Transformation programme and the budget to support it are important in facilitating some of the targets and objects set out in these documents, particularly in respect of service improvement and redesign, beginning the shifting of resources towards the prevention agenda and closer working with communities and the voluntary sector.

The development of the National Care Service will further transform the HSCP, this will change the way it is structured and operates fundamentally and as a project will need to be managed and resourced. It will also place even greater importance upon partnership working as the transition is likely to present challenges for partners as well as the HSCP. It is assumed that this will be funded in addition, per the Financial Memorandum which has been prepared by the Scottish Government as part of the legislative process.

## **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 are drawn from the Government's Spending Review documentation, local modelling and guidance provided from policy teams. 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 and demand pressures for 2023/24 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 any savings plans will require consultation with Professional Advisory Leads.

## **8. EQUALITY AND DIVERSITY IMPLICATIONS**

- 8.1 None directly from this report, 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 are significant risks associated with medium term financial planning. To some extent these are quantified within the worst case scenario and further detail is provided within the main body of the report.

## **11. PUBLIC AND USER INVOLVEMENT AND ENGAGEMENT**

- 11.1 A public consultation relating to the HSCP's financial planning is being developed. It is intended that this will take place earlier than it has in recent years and will be supported by the improvement service.

## **12. CONCLUSIONS**

This document provides a draft medium term financial plan for 2023/24 to 2025/26. It outlines the key assumptions, cost pressures and risks associated with financial planning. It also provides an indication of the anticipated scale of the budget gap facing the HSCP in those years. The overall financial context for

the HSCP is that it is in a healthy financial position with reserves available to help manage services pressures and priorities.

The identified budget gap requires to be addressed through the development of a Value for Money Strategy and savings plan. Work on this will commence in the coming weeks and this in turn will enable consultation to take place. The scale of the challenge for 2023/24 is estimated at £6.7m or 2% of the expenditure budget. This level of savings is in addition to the delivery of the current programme. The budget for 2023/24 and beyond will continue to be updated as planning assumptions and assessment of risk is updated during the current year.

### 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 – Priorities and Finance Planning

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