

Integration Joint Board

Date of Meeting: 23 November 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 high level of risk and uncertainty.
- Note the forecast budget gap.
- Note work is underway to develop value for money and savings plans to address the budget gap.

1. EXECUTIVE SUMMARY

- 1.1 This report provides the Integration Joint Board with a medium term financial plan for 2023/24 to 2025/6. It is 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, work on this is underway. The financial plan will continue to evolve as funding and cost pressures are confirmed. A UK Budget is expected in November and draft Scottish Budget in mid-December 2022.
- 1.2 The medium term plan aims to provide a clear budgeting framework for the development of the budget for 2023/24 whilst placing it 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 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, however the financial context is deteriorating and significant efficiency and cost savings are required. The plan maintains a specific budget to support transformation projects at £900k per year. A worst case scenario is also presented for the next three years. Financial planning will be based upon the mid-range scenario which outlines a budget gap of £9.7m or 2.8% of total spend for 2023/24.

2. INTRODUCTION

- 2.1 The purpose of this report is to update the medium term financial plan covering the period from the current year through to 2025/26. It summarises the financial

context facing the HSCP and aims to ensure that it plans to operate on a financially sustainable basis. It 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 but does not provide the detail required to fully understand its implications. It is expected that this structural change will be funded separately.
- Recent reports by Audit Scotland on NHS and Social Care services outline a series of challenges including workforce, reduced activity, increasing demand, increased delayed discharges and waiting times and increasing unmet need. Addressing these are likely to remain service priorities.
- Inflation is around 9% and expected to remain high through the remainder of 2022/23. There are risks associated with the Government inflation assumptions which have been built into the spending review including pay rate increases and the real terms value of funding allocations.
- The Scottish Government made an emergency budget announcement in early November 2022 which reduced funding for a wide range of public services, including Health and Social Care, to enable it to fund inflationary pressures and higher than planned pay for public sector workers.

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>.

The emergency budget statement by the Scottish Government in November 2022 outlined a series of reductions in budgets, primarily to fund higher than expected public sector pay increases. This, combined with indications of public spending reductions by the UK Government suggest that funding settlements for 2023/24 are going to be challenging and the outlook is deteriorating. The Scottish Government intends to publish its draft budget for 23/24 in mid-December.

The Spending Review (SR) prioritises Health and Social Care, around 40% of the total budget. It reconfirms the commitment to the National Care Service and

outlines a 25% increase in social care investment. High level Health and Social Care allocations (at April 2022 prices) are:

	22-23 £'m	23-24 £'m	24-25 £'m	25-26 £'m	26-27 £'m
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 period. Health and Social Care Capital Funding is set to reduce against the current year total.

The SR 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. The pay assumptions built into the spending review and pay policy have turned out to be far short of settlements (and offers where no settlement has been reached). This has undermined spending plans and has resulted in mid-year revisions in 2022/23, there is a high risk that a similar situation will occur when the 2023/24 negotiations commence.

The SR also recognises the pressure the public finances are expected to be under in the coming years and states that public sector staffing numbers require to be reduced to pre-pandemic levels and that further reform and efficiency improvement is required. Again this has been undermined by the higher than expected pay offers and the situation is likely to have worsened by the time the December draft Budget is published. The outlook has also further deteriorated as the UK Government have expressed an intention to reduce public spending to manage the overall budget deficit and borrowing requirement.

The Scottish Government 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 was 9% for the 12 months to April 2022 and sets out forecast inflation in line with the Office Of Budget Responsibility forecasts:

2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Actual Inflation	Forecast Inflation				
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 likely that these assumptions will require to be reviewed as the budget cycle progresses. This is critical as the cumulative effect of actual CPI inflation in 21/22 and forecast inflation in 22/23 is over 17%.

It is of particular concern that the use of non-recurring resources and reserves are being used by government to fund recurring pay uplifts in 2022/23 which were

not budgeted. Current pay awards may still have to be rolled into baseline budgets adding to next year's pressures.

The worsening situation also has implications for both partners. The local authority sector has a flat cash settlement in the spending review and additionally the 2022/23 pay increase is not fully funded, Argyll & Bute Council expect to have to deliver significant savings in the coming years as a result. NHS Highland continue to be in a particularly challenging financial position and have an existing structural deficit to address as well as future cost pressures. Recent correspondence from the Scottish Government relating to the NHS financial outlook is attached as appendix 1.

3.2 Current HSCP Financial Position

The HSCP ended the 2021/22 financial year in a favourable position. It repaid all of the debt it owed to Argyll and Bute Council and operated within budget. Total revenue spend on services was £312m. It also ended the year with earmarked reserves of £21.2m, including £0.7m of general reserves. These reserves are being held for specific purposes and are not available to the HSCP for purposes other than those for which the funding was allocated. General reserves have been earmarked to support investment in transformation projects in 2022/23. Some will be clawed back by Government to contribute to funding the pay pressures described above.

Managing performance in the current year is proving difficult, largely as a result of increased cost and demand pressures and slippage with the savings programme. It is anticipated that the HSCP will be able to operate within the resources it has available to it. It is essential that the financial position is managed within budget to avoid a return to carrying debt or future funding reductions to repay overspending. However, with spend and clawback of reserves it is expected that reserves balances will be substantially lower at the end of 2022/23, this reduces flexibility going forward. The HSCP has not been able to deliver all of its savings targets on a recurring basis and it will be carrying forward savings projects from prior years.

The HSCP does not have delegated responsibility for asset ownership or capital spend. 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 formulas which take into account factors such as population demographics, levels of deprivation and rurality. The table below provides a summary of the current funding allocations and assumptions for future uplifts:

Funding Allocations	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
NHS Funding				
Baseline	201.3	205.4	209.5	213.7
Resource Transfer	7.2	7.4	7.6	7.7
Other Recurring Funding	37.9	38	38	38
Additional Inflation for 22/23 Pay Offer	6.3	6.3	6.3	6.3
<i>Assumed uplift %</i>		2	2	2
Total NHS Funding	252.7	257.1	261.4	265.7
Social Work Funding				
Baseline Funding	62.8	64.4	66	68
22/23 New Recurring Funding	11.4	11.7	12	12.3
Additional inflation for 22/23 Pay Award	0.9	0.9	0.9	0.9
<i>Assumed uplift %</i>		2.6	2.5	3
Total Local Authority Funding	75.1	77.0	78.9	81.2
Total Revenue Funding	327.8	334.1	340.3	346.9
Funding for Transformation	0.9	0.9	0.9	0.9

The key assumptions for NHS funding are:

- Additional budget will be allocated in 2022/23 (estimate £6.3m) 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 beyond; 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 flat cash. 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, 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. Additionally, non-pay costs are expected to increase at a faster rate and are often 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 arises from

the introduction of new services and treatments, the on-going demographic shift and the increasing numbers of individuals who require additional support in 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	235.8
SW Baseline Spend	88.7
Less Savings Programme	-3.9
Additional Inflation for 2022/23	7.2
Total Baseline Expenditure Budget	327.8

3.3.3 Social Work Cost and Demand Pressures

Social Work Cost and Demand Pressures	2023-24 £000	2024-25 £000	2025-26 £000
Additional unfunded pay inflation 22/23	350	350	350
Pay inflation @ 2% per year	850	1,604	2,376
Assumed incremental increases	103	206	309
Non Pay Inflation	3,490	6,840	10,250
Younger Adults Demand Growth	346	700	1,061
LD, PD and MH Cost and demand pressures	876	1,752	2,628
Continuing Care for Looked After Young People	0	250	500
Estimated net cost of KCC	750	750	750
Allowance for unknown cost and demand pressures	0	250	500
Total Social Work Cost and Demand Pressures	6,765	12,702	18,724

The key assumption is that pay inflation will be 2% per year, a significant risk to the plan. Allowance is being made for the 2022/23 pay increase being higher than budget and not fully 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 an additional cost pressure for which no specific funding is available.

3.3.4 Health Cost and Demand Pressures

NHS Cost and Demand Pressures	2023-24 £000	2024-25 £000	2025-26 £000
Pay Inflation Uplift 2% pa	1,540	3,111	4,713
Pay Increments & Uplifts inc. Succoth	240	392	544
Prescribing & Hospital Drugs Inflation	460	929	1,407
Inflation on GCCSLA	1,274	2,474	3,697
Inflation Commissioned Services & SLAs	668	1,349	2,045
Resource Transfer Inflation	277	560	849

Inflation on PFI Contract	443	467	493
Additional Medical Staffing (CDF)	335	342	348
Estimated allowance for Safe Staffing Act (AHP)	300	306	312
Renal Patient Transport	300	306	312
Energy, Estates & Utilities Inflation	437	560	701
Allowance for new drug approvals (oncology)	500	1,000	1,500
Regional Cath. Lab Costs & Tavi	224	224	224
High Cost Care Packages - new	100	100	100
IFRS 16 Revenue Consequences	250	500	750
MHRA Medicines Transport	165	165	165
NSD Topslice – Foxgrove	63	91	91
Fleet Replacement	118	120	123
LIH Clinical Nurse Manager (1yr)	77	0	0
Jura Progressive Care Centre	30	31	31
Website / other	33	33	33
Contingency	750	750	750
Allowance for unknown cost and demand pressures	300	1,000	1,500
Depreciation	274	302	332
Total Health Cost and Demand Pressures	9,158	15,112	21,020

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
Funding Total	327.8	334.1	340.3	346.9
Baseline Spend	327.8	327.8	327.8	327.8
Social Work Cost & Demand Pressures		6.8	12.7	18.7
NHS Cost & Demand Pressures		9.2	15.1	21.0
Estimated Expenditure	327.8	343.8	355.6	367.5
Mid Range Budget Gap / Savings Target		9.7	15.3	20.6

New Savings Target as % of spend		2.8%	4.3%	5.6%
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The assumption for 2023/24 pay increases is one of the most concerning as it is below predicted inflation. The assumption is based on guidance from Government (2%). There is a general understanding the NHS pay increases are fully funded which mitigates the importance of this assumption to some extent. However, Scottish Government are in the process of funding the 2022/23 pay award through clawback of reserves, the cost will be recurring whilst the funding source is not, this has the potential to contribute to additional cuts in future.

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 increases. This is a new 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, new savings of the magnitude outlined above (and perhaps more) 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 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 above assumes that £900k will be held to enable transformation projects to proceed. One of the difficulties in delivering Service Improvement and Transformation has been the absence of funding 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 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. It is intended that all resources available will be allocated to service delivery. As in recent years, it can be expected that there will be some slippage and resources which will be carried forward for specific projects for use in future years, there is no target to do this. Reserves carried forward into 2022/23 are intended to be spent during the period of this plan. Balances are also being clawed-back by the Scottish Government. Reserves spend is in addition to the revenue budget outlined above and will also assist with the transformation and service improvement agenda. An estimated schedule of spend in addition to the revenue budget is provided below:

	2022/23 £m	2023/24 £m	2024/25 £m	2024/25 £m
Reserves Spend Profile	12.0	2.5	2.0	0.5
Clawback (estimate)	2.5			

3.7 Scenarios and Risk

3.7.1 There are risks associated with medium term financial planning, these are summarised below, using the 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.	5	4	20	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, 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 and additional funding to improve terms and conditions.
Funding reduced due to level of reserves held in HSCP and across sector	5	3	15	Level of risk reduced as opportunity for SG to do this further is reduced as clawback and funding reductions are confirmed.

3.7.2 Scenarios

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

	2023-24 £m	2024-25 £m	2025-26 £m
Mid-Range Budget Gap	9.6	15.7	22.3
Health Worst Case Additional	6	13	20
Social Work Worst Case Additional	1.7	3.7	5.7
Worst Case Budget Gap	17.3	32.4	48

The use of the mid-range assumptions as a basis for financial planning is currently considered a reasonable approach whilst recognising that the risk is on the downside. In the event that the outlook improves if the Scottish Budget allocates additional funding or inflation reduces faster than anticipated the HSCP would be able to scale back its savings target. It is more likely that the mid-range gap will increase in December / January.

3.7.3 Workforce

There are workforce risks associated with the financial plan. This is considered in detail in the Workforce Plan. Labour shortages are likely to constrain the ability of the HSCP to deliver services and service improvement as planned. The financial plan assumes some 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
- Cost and demand pressures will require additional staffing; and
- Savings and vacancy management required to balance budget will offset the above to some extent.

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 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 process of 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 resourced. It will 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. The actual funding environment is expected to deteriorate due to macroeconomic factors.

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 requires 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. The key risks are inflation and future public funding allocations at both UK and Scottish Government level.

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. A lack of stability as a result of emergency budget announcements is making the financial planning more uncertain than expected.

12. CONCLUSIONS

This documents 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 current 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 is now underway. The scale of the challenge for 2023/24 is estimated at £9.7m or 2.8% of the expenditure budget. The Scottish Government Draft budget is expected in mid-December and this will provide further information on planning assumptions and resource allocations. 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.	Directions to:	tick
	No Directions required	√
	Argyll & Bute Council	
	NHS Highland Health Board	
	Argyll & Bute Council and NHS Highland Health Board	

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Appendix 1 – Correspondence from Director of Health Finance & Governance