

**Integration Joint Board**

**Date of Meeting:** 25 January 2023

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

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

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

- Consider the Financial Plan and budget outlook for 2023-24 to 2025-26 and note the high level of risk and uncertainty.
- Note the forecast budget gap totalling £9.4m.
- Note that indicative savings targets have been allocated to services.
- Note that oversight of the budget process for 2023/24 will continue to be undertaken by the Finance & Policy Committee.

**1. EXECUTIVE SUMMARY**

- 1.1 This report provides the Integration Joint Board with an updated budget outlook for the 2023/24 financial year and medium term financial plan. This takes into account the Scottish Government's draft budget published in December 2022. It forms the basis for detailed financial planning and informs the HSCP value for money and savings target for 2023/24. The financial plan will continue to evolve as funding allocations are confirmed by partners.
- 1.2 The medium term plan aims to provide a framework for the development of the HSCP 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 medium term funding intentions for Health and Social Care.
- 1.3 The HSCP is in a healthy financial position as at the end of 2021/22 and expects to balance its financial position in 2022/23. However, the financial context is deteriorating and significant efficiency and cost savings are required. A medium and worst case scenario is presented for the next three years. Financial planning will be based upon the mid-range scenario which estimates the budget gap at £9.4m or 2.8% of total spend for 2023/24. This has been allocated to services and work is underway to develop firm savings proposals to balance the budget 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 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.
- Recent reports by Audit Scotland on NHS and Social Care outline a series of challenges including workforce shortages, reduced activity, increasing demand, increased delayed discharges and waiting times and unmet need. The Health and Social Care system has been under severe pressure throughout the 2022/23 winter period.
- Inflation is at 10.7% and is not expected to reduce until mid-2023. There are risks associated with the Government's inflation assumptions built into financial plans. The Scottish Government have decided not to publish a public sector pay policy for 2023/24 at this time. As a result national planning assumptions in respect of pay have been used.
- The Scottish Government recently published a draft budget for 2023/24 which provides additional funding for the Health and Social Care Sector. However, the additional funding translates to a baseline funding uplift assumption of 2% for the NHS with the rest of the additional funding required to fund current year pay increases already offered. Audit Scotland have also recently highlighted the scale of the fiscal challenge facing the Scottish Government in coming years.

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

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 increases in social care investment. Allocations (at April 2022 prices) are:

Spending Review	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. In the medium term the SR recognises the pressure the public finances are expected to be under and indicates that overall public sector staffing numbers require to be reduced to pre-pandemic levels with reform and efficiency improvement a priority.

The SR figures have been further amended in the draft budget published in December 2022: <https://www.gov.scot/publications/scottish-budget-2023-24/>

The draft budget sets out the spending priorities for 2023/24. In respect of the economic outlook, the Scottish Government expect the economy to shrink by 1% in 2023/24 with unemployment set to rise and real earnings to reduce.

For Health and Social Care, the main headline is a £1bn increase in funding for the sector. This provides for the full year impact of higher pay increases already offered and a 2% baseline uplift for 2023/24. The minimum hourly rate for Social Care staff is to increase from £10.50 to £10.90 per hour from April 2023 (3.8% uplift). The Scottish Government have decided against publishing a Public Pay Policy at this time as negotiations and industrial action continue in respect of the 2022/23 increases. There is no additional service development or growth funding and the 2% uplift represents a second year where general cost inflation far exceeds nominal (cash) terms funding growth.

The Scottish 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 recognises that Consumer Price Index (CPI) inflation was 9% for the 12 months to April 2022 and sets out forecast inflation:

2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
<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 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%.

### 3.2 Current Financial Position

The HSCP ended the 2021/22 financial year in a favourable position. It repaid all of its debt and operated within budget. Total revenue spend on services was £312m and £21.2m was held in earmarked and general reserves at the year end.

Some of these reserves are now being clawed back by Government to contribute to funding current year pay pressures.

Managing performance in the current year is proving challenging, largely as a result of increased cost and demand pressures and slippage with the savings programme. It is anticipated that the HSCP will operate within the resources it has available to it. However, as reserves are spent and clawed-back, balances will be substantially lower at the end of 2022/23. Overall, the financial position is expected to deteriorate and the level of financial risk is increasing.

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

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 formulae which take into account factors such as population demographics, levels of deprivation and rurality. The table below provides a summary of the current allocations and assumptions for future 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	201.3	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
<b>Total NHS Funding</b>	<b>252.7</b>	<b>257.1</b>	<b>261.4</b>	<b>265.7</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
Additional inflation for 22/23 Pay Award	0.9	0.9	0.9	0.9
<i>Assumed uplift %</i>		2.6	2.5	3
<b>Total Local Authority Funding</b>	<b>75.1</b>	<b>77.0</b>	<b>78.9</b>	<b>81.2</b>
<b>Total Funding</b>	<b>327.8</b>	<b>334.1</b>	<b>340.3</b>	<b>346.9</b>
<b>Additional Funding for Transformation</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

The key assumptions are:

- Additional resource will be allocated in 2023/24 (estimate £6.3m) to fully fund pay and SLA increases which are above budget in the current year;

- A 2% uplift planning assumption has been provided by Scottish Government for 2023/24 and beyond (with 2% uplift for pay assumed); and
- The Argyll & Bute funding share (NRAC) will remain at its present rate and NHS Highland will pass on the full value of uplifts.

The uplifts for Social Care applied in the model mirror the Spending Review increases per the table at section 3.1. These assumptions are critical to the HSCP medium term plan in the context of high inflation.

### 3.3.2 Expenditure Budget

There is uncertainty with the expenditure budget, largely as a result of inflation. This impacts on direct staff costs through pay settlements (approximately one third of the budget) and through increased contract values. 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, the rates revaluation and drug costs. A 2% assumption has been used for pay increases in 2023/24 in line with national guidance. This ensures consistency across the Health and Social Care sector although it is not widely viewed as realistic in the current context.

The baseline budget incorporates the savings targets for 2022/23.

<b>Baseline Expenditure Budget</b>	<b>2022/23 £m</b>
NHS Baseline Spend	235.8
SW Baseline Spend	88.7
Less Savings Programme	-3.9
Additional Inflation for 2022/23	7.2
<b>Total Baseline Expenditure Budget</b>	<b>327.8</b>

### 3.3.3 Social Work Cost and Demand Pressures

<b>Social Work Cost and Demand Pressures</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Pay inflation @ 2% per year inc. 2022/23 adjustment	1,270	2,065	2,879
Incremental increases	103	206	309
Non Pay Inflation	3,494	6,841	10,259
Younger Adults Demand Growth	388	785	1,190
LD, PD and MH Cost and demand pressures	1,166	2,332	3,501
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 / contingency	0	0	0
<b>Total Social Work Cost and Demand Pressures</b>	<b>7,171</b>	<b>13,229</b>	<b>19,388</b>

A key assumption is that pay inflation will be 2% per year for 2023/24 onwards. 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.

Significant additional budget allowance is being made to help manage cost and demand pressures for services to support people with lifelong conditions (£1.5m plus inflation). The decision to purchase the Kintyre Care Centre has also added to budget pressures in Social Work.

### 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
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	350	750	750
Allowance for unknown cost and demand pressures	0	1,000	1,500
Depreciation	274	302	332
<b>Total Health Cost and Demand Pressures</b>	<b>8,458</b>	<b>15,112</b>	<b>21,020</b>

### 3.3.5 Summary and Budget Gap

Revenue Budget Summary	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
<b>Funding Total</b>	<b>327.8</b>	<b>334.1</b>	<b>340.3</b>	<b>346.9</b>
Baseline Spend	327.8	327.8	327.8	327.8
Social Work Cost & Demand Pressures		7.2	13.2	19.4
NHS Cost & Demand Pressures		8.5	15.1	21.0
<b>Estimated Expenditure</b>	<b>327.8</b>	<b>343.5</b>	<b>356.1</b>	<b>368.2</b>
<b>Mid Range Budget Gap / Savings Target</b>		<b>9.4</b>	<b>15.8</b>	<b>21.3</b>
<b>New Savings Target as % of spend</b>		<b>2.7%</b>	<b>4.4%</b>	<b>5.8%</b>

### 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 greater than funding increases. For 2023/24

planning purposes the budget gap is estimated at £9.4m which translates into the new savings target for 2023/24. The HSCP is in the process of developing a Value for Money Strategy and savings plan to address the shortfall at this level.

The assumption for 2023/24 pay increases is one of the most concerning as it is below predicted inflation. It is based on guidance from Government (2%), there is a general expectation that NHS pay increases are fully funded which mitigates the importance of this assumption to some extent, however it is not clear if funds are available to make up any excess pay awards in-year.

The approach to budgeting is largely incremental in nature. It is likely that more fundamental reviews of budgets and service delivery will be required in the medium term as it is increasingly challenging to identify new savings within existing service delivery structures.

There are some mitigations which can be taken to reduce the impact of the funding gap on front line services as summarised below. Appendix 1 provides indicative savings targets for each service which total £6.9m or approximately 3.6% of in-scope budgets. The development of savings proposals is underway across all services with the intention of having a balanced budget for 2023/24. Management are also considering additional ways to manage spend early in the new financial year in recognition of the scale of the challenge.

	£'000
<b>Budget Gap 2023/24</b>	<b>9,400</b>
Retention of Employer NI increase budget (now reversed)	(1,038)
Allocation of Social Work Growth budgets to offset cost and demand pressures	(1,000)
Other central budget adjustments	(400)
<b>Balance – allocated to service budgets</b>	<b>6,962</b>

Management are now in the process of identifying savings proposals to bridge the budget gap. The appendix provides a summary of service budgets that are considered in scope for savings and the target attached to each one. A series of workshops and SLT have taken place or are planned to focus management time on this task.

Progress with the development of savings plans will be reported to the Finance & Policy Committee which will meet three times prior to the final budget proposals being made to the IJB in March 2023.

### 3.5 Transformation and Investment

The budget assumes that £900k will be held to enable transformation projects to proceed. One of the difficulties in delivering Improvement and Transformation has been the absence of funding to support projects. The HSCP is seeking to maintain this budget which provides important flexibility.

The HSCP does not have delegated responsibility or budgets for capital investment 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.

### 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. Reserves carried forward into 2022/23 are intended to be spent during the period of this plan and balances will reduce. Reserves spend is in addition to the revenue budget outlined above and will also assist with service improvement. 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	2.5	2	1
Clawback (estimate)	3.5			

### 3.7 Scenarios and Risk

3.7.1 The risks associated with medium term financial planning 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. Management of expenditure in 2023/24
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.	4	4	16	On-going partnership working and consultation.
Cost and Demand pressures increase further or are not funded to the extent assumed in the model.	4	4	16	Engagement in sector networks, modelling based on Spending Review figures and draft Budget.
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. Nationally agreed assumptions used, high risk these are not realistic.



Implementation of NCS diverts attention from operational priorities and financial management	4	4	16	Seek to resource NCS project 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	4	3	12	Level of risk reduced as opportunity for SG to do this further is reduced as clawback and funding reductions are confirmed.

Additionally, there are service and financial risks related to both partners. NHS Highland have a structural deficit to address over the coming years in addition to unfunded cost and demand pressures. Argyll & Bute Council are also having to identify savings, again due to funding allocations growing at a much slower pace than costs. This presents risk to both the HSCP financial plans and to the level of service the HSCP and communities receive from partners.

### 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 increased risk:

	2023-24 £m	2024-25 £m	2025-26 £m
<b>Mid-Range Budget Gap</b>	<b>9.4</b>	<b>15.8</b>	<b>21.3</b>
Health Worst Case Additional	6	13	20
Social Work Worst Case Additional	1.8	3.8	5.9
<b>Worst Case Budget Gap</b>	<b>17.2</b>	<b>32.6</b>	<b>47.2</b>

The use of mid-range assumptions as a basis for financial planning is considered a reasonable approach whilst recognising that the risk is on the downside. In the event that the outlook improves if the final Scottish Budget allocates additional resource or inflation reduces quickly, the HSCP would be able to scale back its savings targets.

### 3.7.3 Workforce

Workforce issues and risks are considered in detail in the Workforce Plan. Labour shortages are likely to constrain the ability of the HSCP to deliver services and improvement as planned. The financial plan assumes some net 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;
- 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 objectives set out in these documents, particularly in respect of service redesign and beginning the process of shifting of resources towards prevention.

The National Care Service will further transform the HSCP, this will change the way it is structured and operates and as a project will need to be resourced. It will place greater importance upon partnership working as the transition is likely to present challenges for partners as well as the HSCP.

## **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 Scottish Government's Draft Budget and Spending Review, local modelling and guidance provided from policy teams. The assumptions used are considered carefully and will be regularly reviewed and updated. There will 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. Assumptions in respect of pay inflation are consistent with national planning assumptions.

## **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 funding shortfall.

## **6. GOVERNANCE IMPLICATIONS**

- 6.1 Financial Impact – There is expected to be a significant budget gap that requires to be addressed, the HSCP is required to set a balanced budget.
- 6.2 Staff Governance – None directly 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 in this report which require to be consulted on with Professional Advisory leads. The development of the savings plan is being progressed in consultation with Professional Advisory Leads and the full leadership team.

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

- 8.1 None directly from this report, some of the proposals to address the estimated budget gap will require equality impact assessments to be completed and considered.

## **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 rates exceeding planning assumptions and future funding allocations. The scale of the financial challenge facing the HSCP is significant and addressing this is also likely to impact on service risk as savings are implemented.

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

- 11.1 Public engagement and consultation relating to the HSCP's financial planning is being progressed using existing engagement frameworks such as the locality planning groups. This process will continue as savings proposals are developed to address budget shortfall as the HSCP seeks to move towards sustainable financial and service models. The HSCP is also developing improved engagement and co-production processes and will seek to consult with the wider community on its strategic priorities. Budget proposals will be available as part of the IJB public papers for public comment accompanied by Equality Impact Assessments for review by the IJB.

## **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. 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 and savings targets for each service are attached. The scale of the challenge for 2023/24 is estimated at £9.4m or 2.7% of the expenditure budget. The management team are currently prioritising the development of savings plans and progress will be reported to the Finance & Policy Committee. It is intended that the IJB will be asked to approve a balanced budget alongside savings proposals and equality impact assessments where appropriate at its March meeting.

### 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	

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Appendix 1 – Allocation of savings target to services