

## Integration Joint Board

**Date of Meeting:** 29 March 2023

**Title of Report:** 2023/24 Financial Plan and Budget

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

### The Integration Joint Board is asked to:

- Note that the HSCP has developed a budget which relies on in-year savings to be identified and brokerage via NHS Highland.
- Approve the proposed budget for 2023/24 and the Value for Money Strategy and Savings Plan.
- Note that Equality Impact Assessments have been completed for relevant savings proposals and that these will be publicly available.
- Note that, if required, the IJB will utilise reserves to offset the budget gap for Social Work services and does not intend to request additional financial support from Argyll & Bute Council.
- Note that the budget gap for NHS services is of such a scale that a brokerage request is being made, the use of this will be minimised.
- Request the HSCP continue to identify and implement savings proposals aimed at returning to a financially sustainable position as quickly as possible.
- Note that a revised approach to management of spend has been implemented and will remain in place until the HSCP is operating within the resources available to it.
- Note that opening offers and directions are being finalised with partners and are expected to align with the budget presented in this report.

## 1. EXECUTIVE SUMMARY

- 1.1 This report provides a proposed Budget supported by a Value for Money Strategy for 2023/24 for approval by the IJB. Earlier iterations of the budget and budget outlook have been considered by the Finance & Policy Committee in February and March 2023.
- 1.2 The overall context for the preparation of the 2023/24 budget has been particularly difficult. Inflation and pay awards have continued to exceed funding allocations and this has resulted in financial pressure across the public sector. Additionally there are a number of local issues, these include the additional costs of directly operating the Kintyre Care Centre, the requirement to fund current service overspending, the reduction in the formula allocation of NHS funding and on-going challenges in identifying and delivering savings which do not have adverse impacts on service delivery.
- 1.3 The budget for 2023/24 is supported by a Value For Money Strategy which includes a number of defined savings proposals. It also outlines strategic work

that is proposed in respect of funding and costs. It is recognised that the potential use of reserves to contribute to a balanced position is not sustainable and consequently a revised approach to service planning and budget setting requires to be developed. The budget outlines a clear plan for achieving balance within Social Work Services. It recognises that NHS costs and funding are not sustainable and allows for the potential that brokerage, and a detailed recovery plan will be required. The Value for money strategy also outlines short term measures now in place to manage spend in 2023/24.

- 1.4 The implications associated with carrying the NHS budget gap into 2023/24 are complex. A detailed plan will be required to return to balance within 3 years and there is a risk that actual brokerage received will require to be repaid. Significant budget gaps are common within NHS Boards at present and financial plans have been submitted by Health Boards, including NHS Highland, to the Scottish Government outlining potential brokerage requirements. The HSCP will be committed to managing its brokerage requirement down during the year.

## **2. INTRODUCTION**

- 2.1 The purpose of this report is to seek formal approval for the budget, value for money strategy and savings proposals for 2023/24. Work on financial planning has been progressing for a number of months in particularly challenging and uncertain circumstances. The report provides:

- The financial context
- The proposed budget for 2023/24
- A summary of the value for money and savings programme

## **3. DETAIL OF REPORT**

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

The environmental context for the 2023/24 is complex due to on-going high inflation, a lack of a public pay policy, late confirmation of funding and widespread challenges for NHS Boards in planning for a balanced position based on current assumptions. The key Scottish Government documents which provide the basis for the budget include:

- The Spending Review published in May 2022
- The emergency budget published in November 2022
- The Scottish Budget – December 2022 and February 2023

The planning assumptions made in the Spending Review have largely been superseded by on-going high inflation and higher than anticipated pay settlements. The Scottish Government have allocated significant additional resource to Health and Social Care, however, most of this was required to provide baseline funding for excess pay awards agreed in 2022/23.

The way in which services are being funded in 2023/24 is different for Social Work and NHS budgets. Unfortunately this also pushes the HSCP to take a slightly different approach to the two aspects of its activities. The Social Work budget position is slightly less difficult as the additional funding provided for inflationary pressures is proportionately higher than for the NHS. The HSCP also has greater

control over inflation within Social Work as these budgets are less sensitive to large increases in non-pay related elements such as energy, drugs, medical supplies and contractual uplifts on PFI costs.

### 3.2 HSCP Current Financial Position

The HSCP has operated within budget in 2020/21 and 2021/22. It is also forecasting a material underspend in 2022/23 which is expected to result in it being able to carry forward a relatively small general reserve of around £4m. This will provide some flexibility and will help enable the HSCP to manage its financial position in 2023/24. Longer term financial sustainability remains a risk as cost and demand pressures are currently exceeding funding growth and the ability of the HSCP to identify and generate new savings.

### 3.3 Social Work Budgets

Social Work resourcing is largely confirmed and significant progress has been made in narrowing the budget gap. The tables below summarise the main elements of funding, cost pressures and proposed savings.

#### Net Budget / Funding

<b>Social Work Funding</b>	<b>£'000</b>	<b>£'000</b>	
22/23 Recurring Base budget		62,227	
Additional 22/23 funding		11,727	
<b>2023/24 Adjustments:</b>			
Free Personal & Nursing Care uplift	380		
Whole Family Wellbeing	438		New allocation.
Real Living Wage Funding	1,842		Funds an increase in the pay floor from £10.50 to £10.90.
Removal of Interim Care funding and misc. adjustments	(359)		
Funding Adjustments Total		2,301	3% increase
<b>Total Anticipated Funding 23/24</b>		<b>76,255</b>	

<b>Social Work Cost Pressures</b>	<b>£'000</b>	
Pay inflation @3.5% & Increments	1,277	
Non Pay Inflation	3,409	
Younger Adults Demand Growth	388	
LD, PD and MH Cost and Demand Pressures	1,166	
Child and Adult Disability Claims	11	Funded
Net cost of KCC purchase	750	
Whole Family Wellbeing Investment	438	Funded
<b>Total Cost and Demand Pressures</b>	<b>7,439</b>	

Key assumptions:

- Pay inflation assumed at 3.5%, risk as staff side expectations are higher. Additional funding has been announced by the Scottish Government to facilitate early conclusion of 2023/24 pay negotiations, it is assumed this will fund any excess.

- It is assumed that the removal of Interim Care funding is offset by reduced spend, however, delayed discharge remains an issue nationally and there may be some continued flexibility.
- Non-pay inflation is estimated on a line by line basis but averages 6%, not all budget lines have been increased by inflation and all uplifts on contracts are being carefully evaluated.
- £1.5m has been added to LD/PD/MH budgets plus inflation to reflect overspending in the current year.
- The Scottish Government have confirmed the minimum pay rate for care staff will increase from £10.50 to £10.90 (3.8%). This is below inflation and initial offers to NHS and some other public sector workers. This will not help address staffing sustainability in care at home and care homes in particular.

The Value for Money Strategy provides a full listing of the Social Work related savings proposals, summarised below:

<b>Social Work Savings</b>	<b>£'000</b>
Centrally managed budget adjustments	2,200
Older Adults Services	973
Children and Families	530
Lifelong Conditions	272
Others	174
Removal of interim care spend to match loss of income	366
<b>Total Savings Proposals</b>	<b>4,515</b>

The savings are predominantly budget adjustments and will have relatively limited impact on services. The Value for Money Strategy provides further detail and equality impact assessments where appropriate. Existing unachieved social work savings will be rolled into 2023/24, forecast at £346k. There are implications associated with this approach:

- Little scope to manage in-year cost pressures or overspending; and
- Funding for new transformation projects is limited to available reserves funding.

The savings are insufficient to cover the cost pressures and a gap remains. The preferred approach is to identify further efficiencies in-year. This may be achieved through on-going work by service managers and through revised processes for approval of recruitment and spend. Secondly the gap can be managed by the allocation of reserves carried into 2023/24. While this is not sustainable it does enable the HSCP to balance the Social Work Budget:

<b>Social Work Budget 23/24</b>	<b>£'000</b>
Confirmed funding	76,255
Service budgets before savings	81,393
Savings & budget adjustments	(4,515)
General reserve / in-year savings	623
<b>Social Work Net Budget</b>	<b>0</b>

The Social Work budget is therefore balanced overall and there is no requirement to request additional financial support from Argyll & Bute Council.

### 3.4 NHS Budget

The financial challenge within the NHS is significant at present:

- The general uplift allocated by the Scottish Government is only 2%, well short of actual inflation and anticipated cost increases;
- The Scottish Government Health Department provide indicative assumptions for Boards to make when developing their financial plans. With the exception of staff costs, these are far in excess of 2%. For example prescribing is 5%, the new national electricity contract 44%, Gas & Liquid Fuels 15% and inflation on the PFI contract will exceed 10%;
- The population in Argyll & Bute is estimated to have declined further, this has resulted in a £1m reduction in the formula allocation; and
- Baseline funding is still to be confirmed by SG and NHS Highland, the budget figures are based on current expectations.

Contextually, indications are that NHS Boards are collectively forecasting a very substantial shortfall next year with an expectation that additional support will be required for most Health Boards. Typically, Boards will request 'brokerage' to fund their anticipated shortfall. The Scottish Government have indicated that any brokerage provided will be required to be paid back. It is also expected that a recovery plan will be developed, this should detail how the position will be managed back to a sustainable one over a 3 year time frame. Given this situation, there remains some uncertainty regarding overall funding for next year. The tables below summarise the position as understood at present.

<b>Funding</b>	<b>£'000</b>	<b>£'000</b>	
NHS Highland Base	769,388		
A&B NRAC share 28.6% of above		220,045	NRAC share reduced from 28.8%
2023/24 Baseline Uplift	4,334		
Less NRAC adjustment	(992)		
New Medicines Funding	923		
<b>Total Additional Funding</b>	<b>4,265</b>		<b>1.9% net increase included in baseline above</b>
<b>Other Recurring Funding &amp; Resource transfer</b>		<b>38,000</b>	Mainly Primary Care and non-cash allocations
<b>Anticipated Funding 23/24</b>		<b>258,045</b>	

The funding settlement creates a budget challenge as the impact of the uplift is much less than demand and inflation pressures. The problem is amplified by the National Resource Allocation Formula (NRAC) impact. This has reduced funding by £1m. The NRAC issue is a strategic one and work is underway to better understand the detail behind the model (operated by Public Health Scotland). It is a formulaic approach which has significant implications upon our ability to deliver services and fund our current SLA with Greater Glasgow and Clyde in a sustainable way. Draft figures for 2024/25 suggests a further reduction may apply in that year.

## NHS Cost Pressures 2023/24

<b>NHS Cost and Demand Pressures</b>	<b>2023-24 £'000</b>
Pay Inflation Uplift 2% and Increments	1,872
Prescribing & Hospital Drugs Inflation - 5%	1,150
Inflation on GCCSLA - 2%	1,314
Inflation Commissioned Services & SLAs - 2%	668
New drug approvals (oncology)	923
Inflation on PFI Contract - Jan CPI 10.1%	443
Resource Transfer Inflation	277
LIH Additional Medical Staffing (CDF)	585
LIH Clinical Nurse Manager (1 year)	70
LIH Lab Staffing	68
Estimated allowance for Safe Staffing Act (AHP)	300
Energy, Estates & Utilities Inflation	802
MHRA Medicines Transport	207
Regional Cath. Lab Costs & Tavi	224
Fleet electrification	118
High Cost Care Packages - new	100
Point of Care Testing	124
Additional Depreciation	274
CF National to Regional Service	95
NSD Topslice – Foxgrove	63
Renal Patient Transport	55
Others	170
<b>Total NHS Cost and Demand Pressures</b>	<b>9,902</b>

## Costed Savings Proposals - NHS

<b>Description</b>	<b>£'000</b>
Centrally Managed Budget Adjustments	1,088
Management & Service Improvement	165
Strategy Planning & Performance	86
Estates	105
Children & Families	250
Acute & Complex Care	150
Health & Community Care	200
Prescribing	150
Other	62
<b>Total Savings Proposals</b>	<b>2,256</b>

The Value for Money Strategy and Savings Proposals provides the detail of the proposed savings. The HSCP has been unable to identify savings which enable it to balance the NHS budget. Cost and demand pressures exceed funding uplifts and a gap remains for 2023/24. The Argyll and Bute proposed NHS budget position is summarised below and will be consolidated by NHS Highland as a request for additional financial support:

<b>NHS Budget 23/24</b>	<b>£'000</b>
Anticipated Funding for 23/24	258,045
Service Budgets before savings	263,682
Savings Proposals	2,256
Allocation of Reserves (22/23 underspend)	700
<b>Remaining Gap</b>	<b>2,681</b>

The remaining gap is equivalent to around 1% of budgeted spend. While it is not unreasonable at this stage to assume that the Scottish Government will provide

additional funding to Health Boards on the basis of the scale of the challenge, there are consequences if the budget cannot be balanced in-year. Expectations from Government are likely to include:

- A clear plan outlining how financial balance can be achieved within 3 years;
- Full engagement with national work on Sustainability & Value; and
- An expectation that the brokerage request will be minimised.

It is likely that the IJB will be required to allocate general reserves it holds which are not earmarked for specific purposes, this will minimise the request for additional funding. Further detail on short term actions to manage the situation is provided in the Value for Money Strategy.

A recent report prepared by Audit Scotland on the NHS in Scotland highlights severe financial and service challenges. Audit Scotland report that Health Boards are anticipating deficits totalling £221m in 2022/23 with 11 of 14 Boards expecting to be in deficit, the indicative position for 2023/24 is significantly worse. There is presently a widespread structural issue with NHS finances.

### 3.5 IJB Budget 2023/24

The budget the IJB is being requested to approve is:

<b>HSCP Budget Summary</b>	<b>£'000</b>
Anticipated Resourcing	334,300
Service Budgets before savings	345,075
Savings Proposals	(6,771)
Reserves allocation to balance Social Work	(623)
Reserves allocation to reduce NHS Brokerage	(700)
<b>Budget Deficit</b>	<b>2,681</b>
<b>Brokerage request (up to)</b>	<b>2,681</b>

The deficit is an estimate of the extent to which planned spend across services exceeds expected available resources, as understood at present. The budget provides realistic service budgets and savings plan. The remaining gap is less than 1% of funding but relies on allocation of general reserves. There is some expectation that inflationary pressure will reduce during the year and the Value for Money Strategy outlines the steps the HSCP intends to implement to address the budget gap and minimise brokerage. This level of brokerage is included in the NHS Highland financial plan submitted to Scottish Government.

### 3.6 Transformation and Investment

The savings plan removes £500k of the £900k budget for transformation, most of the balance is committed already. New projects are dependent upon specific funding from carried forward reserves. There are planned projects which rely on the use of reserves including the large scale planned project in Dunoon.

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 HSCP will be increasingly dependent upon partners for funding infrastructure investment as there is no flexibility in the revenue budget.

### 3.7 Reserves

It is anticipated that the HSCP will have circa £4m in general reserves to carry forward into 2023/24. These reserves will be required for specific infrastructure projects including:

- the Kintyre Care Centre Improvement Plan;
- the HSCP contribution to the Cowal Community Hospital project;
- prevention, catering and hotel services and housing for key workers projects; and
- essential repairs where specific capital funding from partners is not available.

Reserves of £1.3m have been allocated in the budget proposal to mitigate the revenue deficit. The budget does not set a target for increasing general reserves and all resources available are allocated to service delivery. The HSCP will not be able to hold general reserves if it does not operate on a financially balanced basis.

### 3.8 Risk

The risks associated with the budget are summarised below, using the standard assessment of probability and impact:

Risk	Like.	Impact		Mitigations
HSCP unable to deliver identified savings and operate within the budget outlined in this report.	3	5	15	Proposed savings are clear and most are viewed as low risk and deliverable.
HSCP is unable to make further in-year savings which are sufficient to balance its position	4	5	20	This will result in increased financial monitoring by SG and partners and will require brokerage support which the HSCP may have to repay.
Demographic or population changes reduce the formula funding to the HSCP.	5	4	20	Review annually and engage with partners, politicians and Public Health Scotland. Understanding and addressing this is a priority for service and financial planning.
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, funding from A&B Council confirmed. Some NHS funding streams are not yet confirmed.
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 SG Budget.
Increases in pay rates or employer on-costs are in	5	4	20	Monitor progress with pay negotiations, commitment to fund within NHS. Nationally

excess of those allowed for in the budget.				agreed assumptions used, high risk these are not realistic. Offers already in excess of assumptions and additional funding announced by SG for Local Authorities.
Implementation of NCS diverts attention from operational priorities and financial management	3	4	12	Seek to resource NCS project appropriately once it is better understood. Timelines delayed by Scottish Government.
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	4	16	Ensure reserves are allocated timeously
HSCP unable to secure additional funding, brokerage or identify proposals to balance its budget in the medium term	4	5	20	SG and NHS Highland will expect progress to be made early in 2023/24. Halt all non-essential spend and allocate all available reserves.

Additionally, there are service and financial risks related to both partners. NHS Highland have a substantial structural deficit to address and are requesting significant brokerage. Argyll & Bute Council are also identifying savings, this presents risk to the level of service the HSCP and communities receive from partners.

### 3.9 Workforce

Workforce issues and risks are outlined in the Workforce Plan. Labour shortages are likely to constrain the ability of the HSCP to deliver sustainable 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; and
- some transition from commissioned services to direct delivery of service;
- cost and demand pressures will require additional staffing.

Savings and vacancy management required to balance the position will offset the above to some extent and will focus on agency staffing costs in particular.

### 3.10 Alignment with Strategic Planning

The 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 budget presents a risk to the delivery of Strategic Priorities. This is particularly the case if a medium term recovery plan is required, population decline continues and resource to support transformation remains constrained.

#### **4. RELEVANT DATA AND INDICATORS**

The budget is based on a number of assumptions. These are drawn from the Scottish Government's Draft Budget and Spending Review, local modelling and guidance provided by SG policy teams. The assumptions used are considered carefully and will be regularly reviewed and updated. There will be variations between the assumptions made and eventual funding allocations and cost and demand pressures for 2023/24 and beyond.

#### **5. CONTRIBUTION TO STRATEGIC PRIORITIES**

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. Commencing the year with a budget that is not in balance for NHS services presents a risk to how well the HSCP will be able to deliver on its strategic priorities in the medium term.

#### **6. GOVERNANCE IMPLICATIONS**

6.1 Financial Impact – The Budget and Value for Money Strategy outline how the Social Work financial position can be managed within available resources. There remains a budget gap for NHS services and it is proposed that the HSCP request brokerage of up to £2.7m to balance its budget. It is intended that the HSCP will seek to manage spend in year and minimise the brokerage requirement. This will have significant governance implications as plans to bring the HSCP back into balance will need to be developed quickly. The position is indicative of a structural issue throughout the NHS in Scotland, with the reduction in formula funding adding local pressure.

6.2 Staff Governance – None directly but there is a strong link between HR management and delivering financial balance. Some of the measures outlined in the Value for Money Strategy will have implications for staffing.

6.3 Clinical Governance – None directly.

#### **7. PROFESSIONAL ADVISORY**

7.1 Professional Advisory leads have been involved in discussions on the budget throughout the process.

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

8.1 None directly from this report, some of the proposals to address the estimated budget gap have completed equality impact assessments.

#### **9. GENERAL DATA PROTECTION PRINCIPLES COMPLIANCE**

9.1 None.

## 10. RISK ASSESSMENT

10.1 There are significant financial risks facing the HSCP as outlined above.

## 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. Savings proposals which have potential service impacts are supported by Equality Impact Assessments and further public engagement will be required as these and other savings measures are developed and implemented.

## 12. CONCLUSIONS

12.1 This document seeks approval for the HSCP budget for 2023/24. The budget is supported by the Value for Money Strategy which outlines the savings proposals for 2023/24 in more detail. The Value for Money Strategy also outlines the actions the HSCP intends to take to manage its financial position during the year to further reduce the funding gap.

12.2 The HSCP has not been able to identify sufficient savings to offset inflation and demand pressures. It is therefore in a position whereby it has a deficit budget and may require additional financial support from the Scottish Government via NHS Highland. The HSCP will have sufficient reserves to enable it to balance the Social Work element of the budget and therefore the budget does not rely on additional support from Argyll & Bute Council. It is therefore likely that additional savings proposals will require to be developed during the year and separately consulted upon and approved.

## 13. Directions

The formal offers and directions are being drafted and are expected to align with the budget presented in this report.

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	

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