

Integration Joint Board

Date of Meeting: 27 September 2023

Title of Report: Budget Outlook 2024-2027

Presented by: James Gow, Chief Finance Officer

The Integration Joint Board is asked to:

- Consider the indicative financial plan for 2024-25 to 2026-27.
- Note the high level of risk and uncertainty at this point in the planning cycle.
- Note the forecast budget gap totalling £10.2m or 2.8%, and that this will form the basis for service planning.
- Note that the budget outlook will next be updated following the December 2023 publication of the Draft Scottish Budget.
- Note that the budget consultation will commence in October 2023.

1. EXECUTIVE SUMMARY

- 1.1 This report provides the IJB with an updated budget outlook and indicative medium term financial plan. The budget, value for money and savings targets for 2024/25 will be firmed up once the Scottish Budget is published in December.
- 1.2 The medium term plan aims to provide a framework for the development of the HSCP budget for 2024/25, the Scottish Government have indicated that Health and Social Care will benefit from real terms increases. However, national planning assumptions do not yet suggest that actual cash allocations will exceed inflationary pressure.
- 1.3 The local context is that the HSCP is in a relatively healthy financial position. However, funding reductions as a consequence of population decline are expected and reserves remain low relative to other IJBs. It is likely significant efficiency savings will be required to balance the budget. A medium and worst case scenario is presented for the next three years. Initial financial and service planning will be based upon the mid-range scenario which estimates the budget gap at £10.2m or 2.8%. This is similar to targets for recent years and aligns with Scottish Government expectations for Health Boards.

2. INTRODUCTION

- 2.1 The purpose of this report is to update the medium term financial plan and budget outlook covering the period through to 2026/27. It summarises the financial context facing the HSCP and aims to assist planning to operate on a 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 current strategic context is summarised below:

- The Verity House Agreement provides some improved understanding regarding the National Care Service (NCS). Timelines have been pushed back, there is still a lack of detail on the local implications.
- Recent reports by Audit Scotland on the NHS and Social Care outline a series of challenges including workforce shortages, reduced activity, increasing demand, delayed discharges, waiting times and unmet need.
- Inflation remains high at 9.0%, it is forecast to reduce during the next year but remains a risk to Government level and local financial plans. It is anticipated that the Scottish Government will set their budget and pay policy in December 2023.
- The Scottish Government's longer term financial plans are outlined in the Resource Spending Review (May 2022). This commits to real terms funding increases for Health and Social Care. The Medium Term Financial Strategy (May 23) and programme for Government (Sept 23) detail a challenging outlook for the public finances throughout the 2023/24 to 2027/28 period. These documents recognise that national demographic change require year on year real terms increases in Health and Social Care spend and budgets.

The Scottish Government's financial plans are under pressure due to the impact of inflation. Budgets were based upon a set of assumptions which seriously underestimated inflation and public sector pay rises. This has already resulted in the reallocation of funds and the future consequences of higher pay rises will become apparent as the budget is set in December.

Locally:

- The population within Argyll & Bute is decreasing which has an immediate impact upon NHS funding. For 2024/25 the estimated population reduction is around 0.6% which translates to £1m budget reduction. This does not however account for the most recent census data which presents a more positive view of the population in the area.

- Demographic data suggests that the HSCP will struggle to recruit staff and will continue to face increasing demands from the older adult population in the area.
- The implementation of the Health & Care Staffing Act in 2024 is likely to result in additional cost pressure both administratively and in direct staffing terms, subject to ability to recruit.
- NHS Highland continue to face financial pressure which is impacting on funds available for spend within Argyll & Bute. It is hard to predict at present what impact this will have in future years.

It is assumed that the HSCP will be required to make savings to remain financially sustainable. However, this should be considered in the context of expected increases in Health and Social Care budgets. NHS guidance to Boards suggests the expectation is that savings of around 3% are required. The gap in the Scottish Government's anticipated budget is significant and there is an expectation that some previously made commitments will be de-prioritised. Current medium term financial planning documents can be accessed at the following links:

<https://www.gov.scot/publications/scottish-governments-medium-term-financial-strategy/>
<https://www.fiscalcommission.scot/>

3.2 Financial Position of the HSCP

The HSCP ended the 2022/23 financial year in a favourable position. It reported an underspend and had reserves to carry forward of £17m.

However, the lack of sufficient uplifts in the 2023/24 budget meant that £4.1m of the general reserve was earmarked to cover the budget gap. This creates an underlying shortfall in the budget for 2024/25. Some additional funding has been made available on a recurring basis during the first part of 2023/24 which reduces the gap. Key metrics are:

Reserves @ 1 April 2023	£m
General Reserve Earmarked to cover 2023/24 potential gap	4.1
Other General Reserves earmarked for investment and transformation	5.0
Other Earmarked Reserves	7.9
Total Reserves Carried Forward to 23/24	17.0
2023/24 Revenue Budget	£m
2023/24 Budgeted Spend (@M4)	351.9
2023/24 Budgeted Funding	347.8
2023/24 Additional Sustainability Allocation (NHS)	2.3
2023/24 Remaining Budget Gap	1.8

The HSCP has repaid all historical debt and has earmarked its reserves for investment in transformation and infrastructure and to address backlog maintenance. Managing performance in the current year is proving challenging as a result of high inflation, on-going reliance on agency and locum staffing and increasing demand pressures in older adult services.

The Scottish Government allocated an additional recurring uplift (sustainability) funding which is worth £2.3m to the HSCP and therefore reduces the underlying deficit. It appears to be recognised that further funding is required to enable the NHS more widely to operate on a sensible financial basis. The current baseline budget is therefore:

	NHS £m	Social Work £m	HSCP Total £m
Budgeted Spend	260.9	91.1	352.0
Recurring Funding	259.7*	90.5	350.2
Underlying Gap	1.2**	0.6	1.8

* includes NRAC share of sustainability funding

**assumes in year cost pressures are managed within budget

It is anticipated that NHS Highland will seek to recover additional sustainability funding on a one-off basis to assist with their deficit position but will allocate the funding on a fair formula (NRAC) share going forward.

3.3 Revenue Budget 2024/25 to 2027/28

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 current allocations and assumptions for future uplifts:

Funding Allocations	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
NHS Funding				
Total Allocation	259.7	266.2	272.8	279.7
Assumed uplift %		2.5	2.5	2.5
Social Work Funding				
Baseline Funding	90.5	92.8	95.1	97.5
Assumed uplift %		2.5	2.5	2.5
Total Funding	350.2	359.0	367.9	377.1
Additional Funding for Transformation	0.4	0.4	0.4	0.4

Key assumptions are:

- Additional resource will be allocated in 2023/24 to fund pay increases to the extent that they exceed budget in the current year;
- It is assumed a 2.5% NHS uplift will be applied by Scottish Government for 2023/24 and beyond with pay increases fully funded (some of this is likely to relate to specific funding eg for medicines costs); and
- The Argyll & Bute funding share (NRAC) is anticipated to reduce slightly to 28.48%. The very recent census data does however suggest that the decline may have been overstated.

The uplifts for Social Care applied in the model are assumed at 2.5%, similar to the implied increases in the May 2022 Spending Review document. It is expected that additional one-off or recurring financial support will be received to cope with increased drugs costs in particular.

3.3.2 Expenditure Budget

There is uncertainty within the expenditure budget 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. Concerns include the PFI contract for the Mid-Argyll Hospital, energy, travel and transport, the rates revaluation and drug costs.

For the majority of NHS budgets a 2% inflation uplift is assumed in line with national guidance. A 10% uplift is assumed for drugs costs, 7% for the PFI arrangements and 10% to 15% for energy costs as the impact of recent increases feeds into national contracts.

For Social Work Budgets mid-range uplifts of 2% for 2024/25 are also generally applied with adjustments made to specific budgets where this assumption is not deemed appropriate. This is in line with national guidance and ensures consistency across the Health and Social Care sector. It is assumed increases to the living wage rate for care staff (£12 per hour minimum) will be fully funded.

The baseline budget incorporates current savings targets.

3.3.3 Social Work Cost and Demand Pressures (mid range)

Social Work Cost and Demand Pressures	2024-25 £000	2025-26 £000	2026-27 £000
Pay inflation @ 2% per year	691	1396	2,115
Incremental increases	152	304	456
Non Pay Inflation	3,770	7,564	11,513
Older People Demand Growth	426	859	1,299
LD, PD and MH demand pressures	545	1,098	1,553
Continuing Care for Looked After Young People	0	250	500
Allowance for unknown cost and demand pressures / contingency	500	1,000	1,500
Total Social Work Cost and Demand Pressures	6,084	12,471	18,936

3.3.4 LD budgets in particular were re-aligned for the 2023/24 year, therefore the levels of demand pressures going forward are reduced. Further work on forecast demand for older adults and lifelong conditions is a priority as the budget for 2024/25 is developed.

3.3.5 Health Cost and Demand Pressures

NHS Cost and Demand Pressures	2024-25 £000	2025-26 £000	2026-27 £000
Recurring cost pressures – prescribing & Qfit testing	2,240	2,240	2,240
Pay Inflation Uplift 2% pa	1,891	3,817	5,780
Prescribing & Hospital Drugs Inflation	2,124	4,455	7,014
Inflation on GCCSLA	1,248	2,521	3,820
Inflation Commissioned Services & SLAs	694	1,403	2,125
Resource Transfer Inflation	283	572	866
Inflation on PFI Contract	151	312	484
Energy, Estates & Utilities Inflation	284	525	784
IFRS 16 Revenue Consequences	157	321	494
High Cost Care Packages - new	400	400	400
Demand for new Oncology drugs	500	1,000	1,500
LIH Pharmacy	45	45	45
NSD – Foxgrove / Regional Centre	436	738	989
Safe Staffing Act - Admin	70	70	70
Allowance for unknown cost and demand pressures	700	1,700	2,700
Total Health Cost and Demand Pressures	11,223	20,119	29,311

3.3.6 Summary and Budget Gap

Revenue Budget Summary	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Funding Total	350.2	359.0	367.9	377.1
Baseline Spend	351.9	351.9	351.9	351.9
Social Work Cost & Demand Pressures		6.1	12.5	18.9
NHS Cost & Demand Pressures		11.2	20.1	29.3
Estimated Expenditure	351.9	369.2	384.5	400.1
Mid Range Budget Gap / Savings Target	1.8	10.2	16.6	23.0
New Savings Target as % of spend		2.8%	4.5%	6.1%

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 assumed funding increases. For 2024/25 planning purposes, the budget gap is estimated at £10.2m which is the indicative new savings target for 2024/25. However, Scottish Government are under pressure to better fund Health and Social Care. The above reflects expected costs of these impacts but there is a reasonable expectation that additional funding will be required, this may reduce the savings targets across the planning period. The Scottish Government have set an expectation of 3% efficiency savings year on 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 will be some mitigations which can be taken to reduce the impact of the funding gap on front line services as financial planning progresses. This includes anticipated funding to increase the care staff pay floor to £12 per hour and the potential allocation of remaining reserves in the event the HSCP cannot identify sufficient savings.

3.5 Transformation and Investment

The budget assumes that £400k will continue to be held to enable transformation projects to proceed. This will augment earmarked reserves budgets that have been allocated to fund service transformation, strategic business case work and infrastructure projects.

3.6 Reserves

Current financial planning does not set a target for increasing general reserves, there is pressure in the sector to reduce holding reserves and the HSCP is seeking to invest reserves it currently holds. It is intended that all resources available will be allocated to service delivery. Reserves held are intended to be spent during the period of this plan and balances will reduce. Additionally, it is likely that NHS Highland will seek to reallocate resource to assist with their overall deficit.

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.
Demographic or population changes reduce the formula funding to the HSCP.	5	4	20	Review annually and request re-assessment based upon census data publication.
One or both of the partners do not pass on anticipated funding allocated to Health and Social Care.	4	5	20	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, risk these are not realistic.

Implementation of NCS diverts attention from operational priorities and financial management	4	4	16	Seek to resource NCS / governance structure work 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 or removed due to level of reserves held locally and across sector	3	4	12	Reduced as opportunity for SG to do this further is reduced as clawbacks have been implemented. Risk from partners is covered above.

Additionally, there are service and financial risks related to both partners. NHS Highland have a structural deficit to address in addition to unfunded cost and demand pressures. Argyll & Bute Council are also having to identify savings. 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:

	2024-25 £m	2025-26 £m	2026-27 £m
Mid-Range Budget Gap	10.2	16.6	23.0
Health Worst Case Additional	5.9	11.3	16.8
Social Work Worst Case Additional	2.6	5.1	7.7
Worst Case Budget Gap	18.7	33.0	47.5

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

3.7.3 Workforce

Workforce issues and risks are considered in the Workforce Plan. Labour shortages are likely to constrain the ability of the HSCP to deliver services and improvement. 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;

- demand pressures will drive additional staffing in some teams; and
- savings required to balance budget will offset the above to some extent.

3.8 Alignment with Strategic Planning

The medium term financial plan sits alongside other HSCP strategic and operational planning documents. These include the Joint Strategic Plan and Commissioning Strategy.

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 are drawn from the Scottish Government's Spending Review and Financial Strategy and will be reviewed and updated. There will be variations between the assumptions made at this stage of the budget planning process and the final funding allocations. There are also likely to be differences between assumed pay increases and actual settlements.

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 anticipated 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 a savings plan will be 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, future funding allocations and population and demographic change.

11. PUBLIC AND USER INVOLVEMENT AND ENGAGEMENT

11.1 Public engagement and consultation relating to the HSCP's budget is being planned at present. The HSCP is considering the use of an on-line tool to try and improve engagement with the wider public on the costs of services and the challenges of balancing the budget. Individual savings proposals will be subject to engagement as appropriate in line with the engagement framework. It is intended that the HSCP will start its budget engagement in October and that this will inform its final budget which will be developed for approval by the IJB in March 2024.

12. CONCLUSIONS

This document provides an indicative budget outlook and medium term financial plan for 2024/25 to 2026/27. It outlines the key assumptions, cost pressures and risk. 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. However, there is some expectation that additional financial support for Health and Social Care will be made available to address current underlying cost pressures, many of which are as a result of inflation exceeding funding uplifts for 2023/24. The scale of the challenge for 2024/25 is currently estimated at £10.2m or 2.8%.

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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