

Integration Joint Board

Date of Meeting: 27 March 2024

Title of Report: Budget 2024/25 and Consultation

Presented by: James Gow, Head of Finance

The Integration Joint Boards is requested to:

- Note the HSCP is seeking approval for its budget for spend of £329m which relies upon financial recovery, in-year savings and/or brokerage via NHS Highland totalling £2.7m.
- Approve the budget and savings plan for 2024/25 outlined in this report.
- Note Equality Impact Assessments have been completed for relevant savings proposals and that these are publicly available.
- Note that the Social Work Budget is partly funded by non-recurring pension fund savings to be held by Argyll & Bute Council for this purpose and for transformation.
- Note the HSCP expects to be operating on a financial recovery basis in 2024/25.
- Note there may be a requirement to develop and implement additional service reduction plans urgently, these are likely to involve service cuts.
- Note that opening offers and directions are being finalised with partners and are expected to align with the budget.
- Note the HSCP is proposing to utilise non-recurring funding to support services and that future funding gaps are substantial.

1. EXECUTIVE SUMMARY

- 1.1 This report provides the Integration Joint Board with a proposed budget and savings plan for the 2024/25 financial year for formal approval. Earlier iterations have been considered by the Finance and Policy Committee and IJB in January and February 2024. This report has also been considered by the Finance & Policy Committee on 22 March.
- 1.2 The context is challenging as the Scottish Budget for 2024/25 changed the landscape by indicating that there would be no general uplifts for NHS Boards. The budget also reduced the availability of capital funding and resulted in the cancellation / delay of previously approved projects. This has resulted in a situation whereby the resources being made available to NHS boards are less than expected and less than required to provide services in the way that they are currently configured. This is due to increasing costs (inflation) and demand pressures which are generally not within the control of Boards. The settlement for local government and much of the rest of the public sector is likewise challenging and significant savings, service reductions/cuts and transformation are required in the coming years to return to a financially sustainable position.

- 1.3 The HSCP is operating in line with its financial plan for 2023/24. However, the planned use of reserves reduces flexibility going forward. The situation across the NHS in Scotland remains unsustainable with many Health Boards forecasting deficits while the Scottish Government seek to restrict brokerage. This results in the allocation of funding to support deficits, reducing resources available for formula allocations. This disadvantages the HSCP. Overall, the financial context is deteriorating and further efficiency and cost reduction is required across the system. The approach within the NHS is to identify value and efficiency measures (3% target) and begin work to develop change projects and service reductions which require political support in order to achieve financial balance. The implications for governance, consultation and risk management associated with this process are not clear at present. Further national guidance is required. It is acknowledged that the changing environment locally and nationally will have an impact upon staff and staff morale throughout health and social care services.
- 1.4 This report seeks to provide an operating budget for 2024/25, the longer term outlook was considered in January and has not changed substantially. The Scottish Government are expected to publish a revised 3 year spending review in May 2024. This will provide the basis for updating the medium term plan.

2. INTRODUCTION

- 2.1 The purpose of this report is to seek approval for the budget and savings proposals for 2024/25. The financial context is difficult and work has been on-going for a number of months to address the budget gap identified some months ago. The report includes the following sections:

- Financial & Strategic Context
- Social Work Services Budget and Savings
- NHS Services Budget and Savings
- Summary HSCP Budget
- Transformation & Investment
- Reserves
- Scenarios and Risks

3. DETAIL OF REPORT

3.1 Financial & Strategic Context

- The Government remains committed to the National Care Service (NCS), the timetable has been delayed and the scale of change is more limited than originally anticipated.
- The sector continues to experience workforce shortages, increasing demand, high delayed discharges, long waiting times and unmet need. The Health and Social Care system continues to be under severe pressure.
- The Health and Care (Scotland) Staffing Act is due to become law in April. Preparatory work is on-going, the implementation is likely to be costly and will be phased. There is no financial allowance for additional staff or management and administrative support to enable its requirements to be met.

- Inflation has reduced but is still high with the Retail Prices Index at 4.9%. The funding uplifts are not sufficient to compensate, the cumulative effect of 2021/22 and 2022/23 inflation is 23.7% rising to circa 28.6% over 3 years. There are risks associated with inflation assumptions, particularly in respect of public sector pay where national assumptions have been used. The Government have indicated that the number of public sector employees will reduce and that the pay metrics for 2024/25 (public pay policy) will be published later.
- The Scottish Budget provides a £230m funding allocation for the minimum pay rate for health and social care staff to increase from £10.90 to £12 per hour from 1 April 2024.

The Government continues to prioritise the sector with 33% of the budget allocated to NHS Recovery, Health and Social Care (£19.5bn). The Budget document is available at:

<https://www.gov.scot/publications/scottish-budget-2024-25/documents>

Management letters have been issued to the NHS and Local Government following publication of the budget. These highlight that:

- the NHS uplift includes funding already allocated in 2023/24, Boards are asked to assume future pay increases will be funded and that the increase in NHS superannuation costs will be funded;
- There is zero uplift for non-pay costs and Boards are expected to manage inflation within existing budgets; and
- There is an implication that capital funding has been transferred to revenue and that some capital schemes are subject to delay or cancellation.

Separately, Boards have been asked to manage within set brokerage limits. It is apparent that the budget allocation for the NHS does not align with current spend patterns and does not represent a sustainable funding settlement. This is a concern for the IJB as brokerage totals are not included in formula allocations. NHS Highland is facing a reduced brokerage limit. The budget available to the HSCP will not increase in real terms in 2024/25 per the most recent spending review and previous planning assumptions. The next spending review is to be published in May 2024.

Further, the NRAC formula will not be reviewed to take account of the census population data. This disadvantages the HSCP as the level of population decline (relative to Scotland) is less than modelled. It is expected that this will be addressed in 2025/26.

3.2 Current Financial Position

The HSCP ended 2022/23 in a favourable position. Revenue spend on services was £332m and £17m was held in earmarked reserves at year end. The HSCP has operated within budget for the past 3 years, has repaid all of its debt and generated a general reserve which is now being used to maintain services and mitigate the impact of the financial challenges.

However, the HSCP was not able to identify sufficient savings to balance its budget in 2023/24 and planned on using £4.1m of reserves. The Scottish Government did have to allocate additional funding as expected. This is recurring in 2024/25 and improved the underlying position which is a £1.8m gap. An equivalent value has been clawed back by NHS Highland so this does not reduce the reliance on reserves. It is anticipated that the HSCP will operate within plan and will end 2023/24 year with reduced reserves balances but will still have some resource to progress projects.

The HSCP does not have delegated responsibility for asset ownership or capital spend. Backlog maintenance and asset replacement needs have been identified and require to be addressed with both partners. The 2024/25 Budget indicates a shift towards maintenance rather than replacement of assets within the NHS. Several projects will be cancelled or postponed, including the HSCP project to relocate the GP surgeries in Dunoon and refurbish part of the Cowal Community Hospital. Business case development is also subject to review. This presents a significant risk to the ability of the HSCP to deliver on its strategic objectives in the longer term.

3.3 Revenue Budget 2024/25 to 2026/27

3.3.1 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. Allocations are predominantly based upon formulae which take into account factors such as population demographics, levels of deprivation and rurality. Funding for 2024/25 is confirmed by the Council but is still to be formally confirmed by NHS Highland. Due to the different arrangements associated with each service, the following sections outline the budget for each separately.

3.3.2 Social Work

The budget allocates additional funding for:

- an uplift in free personal and nursing care £292k
- additional funding for kinship care £207k; and
- funding for the uplift in minimum pay from £10.90 to £12 per hour at £4m.

These pay for cost increases which will come through the national care home contract rate increase, inflation on care packages across all services and the new care at home service rates. The HSCP will request all its commissioned service providers comply with the £12 minimum pay rate.

The proposed social work budget is summarised below. The Council have confirmed funding and the assumptions align with those of the Council:

Social Work Funding	£'000	£'000
A&B Council Baseline Funding 23/24		76,253
NHS Funds Flow 23/24		14,970
Baseline		91,223

Additional Personal & Nursing Care	292	
2023/24 Pay Settlement	1,140	
Scottish Government recommended rates increases C&F	207	
Funding for minimum wage uplift	4,270	
Misc adjustments	(17)	
Uplift on NHS Funds Flow 2%	283	
Additional Funding 2024/25		6,175
Pension Fund Adjustment – held by Council for HSCP		(3,534)
Total Funding 2024/25		93,864

The £3.5m pension fund saving will be held by the Council and made available for funding the Social Work budget gap and service development and transformation. While the funding allocation is reduced, there is also an equivalent reduction in costs and no net impact in 2024/25, there is no recurring benefit beyond 2025/26.

Expenditure Budget	£'000
2023/24 Baseline Budget	91,223
Add underlying deficit	630
Cost & Demand Pressures	
Pay inflation for 24/25 - 3%	1,198
Incremental increases	172
NHS Staff Recharge Inflation	171
Non-Pay Inflation	1,791
Living Wage	3,169
Older Adults Demand – Residential Care	1,384
Older Adults Demand - Other	458
Older Adults – Personal & Nursing Care uplift - funded	206
Childrens and Families Kinship Care	207
Physical Disability – Demand Pressure	60
Mental Health Services Demand Pressure	97
Transfer of Kintyre Care at Home	60
Additional Staffing less income- KCC	150
Total Cost & Demand Pressures	9,123
Less pension fund cost reduction	(3,534)
Total funding requirement for current services	97,442

The net impact is that the cost of delivering services as they are currently configured and budgeted is £3.6m more than recurring funding. The savings plan partially addresses this gap:

Social Work Savings Plan - 2024/25 Deliverable Savings

Service	Description	£'000	
SW	Revert to National Minimum Pay Rate - uplift for some contracts is from £11.02	110	
OA	Review of day service provision for older adults and move to closure of the internal	160	EQIA 1

	service. Total budget is £500k, some allocation may be required to manage risk		
OA	Structured and monitored review of high cost care packages	150	
SW	Increased income - fees and charges inflation already approved	100	
OA	Allocate uncommitted budgets to savings	550	
OA	Review of miscellaneous unspent budgets	115	
LD/PD/MH	Review of expensive care packages	150	EQIA 2
LD/PD/MH	Sleepovers & service configuration	80	EQIA 3
LD/PD/MH	Revise LD budget to reflect current demand	270	
C&F	Revised budgets across looked after children's services to reflect demand	200	
SW	Travel Budgets reduction to reflect spend patterns	50	
SW	Transformation Budget - Allocate uncommitted budget to savings	130	
SW	Review all centrally managed budgets	200	
MH	Removal of redundant post from budget	57	
OA	Review of long-term vacant posts: Older Adults – Lorne Campbell Court & Catering posts	50	
	Total Saving Programme	2,372	

The proposed Social Work Budget and funding is therefore:

	£'000	£'000
Revenue Funding		93,864
Allocation of pension fund saving to 24/25 revenue budget		1,206
Total Resources		95,070
Spend	97,442	
Less savings plan	(2,372)	
Budgeted Spend		95,070

The above summarises a balanced budget for Social Work services. It is reliant on a non-recurring saving from the pension fund of £1.2m. Key risks are in respect of pay awards, settlement of national contracts, local management of inflationary uplifts and delivery of the savings programme. The new care at home contract and increasing demand for older adult services and high cost support packages for those with long term conditions are further risks which are allowed for but are difficult to predict and model. It is intended that there will be some further efficiencies as a result of the new contract in the second half of the year.

Pension Scheme

The non-recurring pension saving is critical to the Social Work budget. Local Authority employed staff are auto-enrolled in the Strathclyde Pension Fund (SPF). The employer pays 19.3% of pensionable salary and the cost is built into service budgets. The SPF is currently funded to a higher level than it anticipated and announced reductions in employer contribution rates in response:

	2023/24	2024/25	2025/26	2026/27
SPF Employer Contribution Rate	19.3%	6.5%	6.5%	17.5%
HSCP estimated total saving @23/24 payroll rates	-	£3.8m	£3.8m	£0.5m
Recurring	-	£0.5m	£0.5m	£0.5m
Non-recurring	-	£3.3m	£3.3m	-

The balance of the £3.5m pension fund saving (£2.3m) is to be held by the Council for use by the HSCP for service development and transformation. This also provides some contingency as there is flexibility in the event that spend is higher than budgeted during the year.

3.3.3 Health Budget

The approach to NHS budgeting has changed. The Scottish Government have revised the budget assumptions for Boards:

- 0% uplift in baseline funding (likely for 3 years);
- pay increases will be fully funded;
- the superannuation increase will be fully funded;
- plan for the delivery of 3% annual efficiency savings; and
- assume 2024/25 funding will be same as 2023/24 unless told otherwise.

There is a cost pressure associated with the employer superannuation rate increasing from 20.9% to 22.5% of pay. Advice from Government is to assume that there will be an allocation via UK consequential funding. The implication of this is circa £1.5m plus the impact on SLA costs.

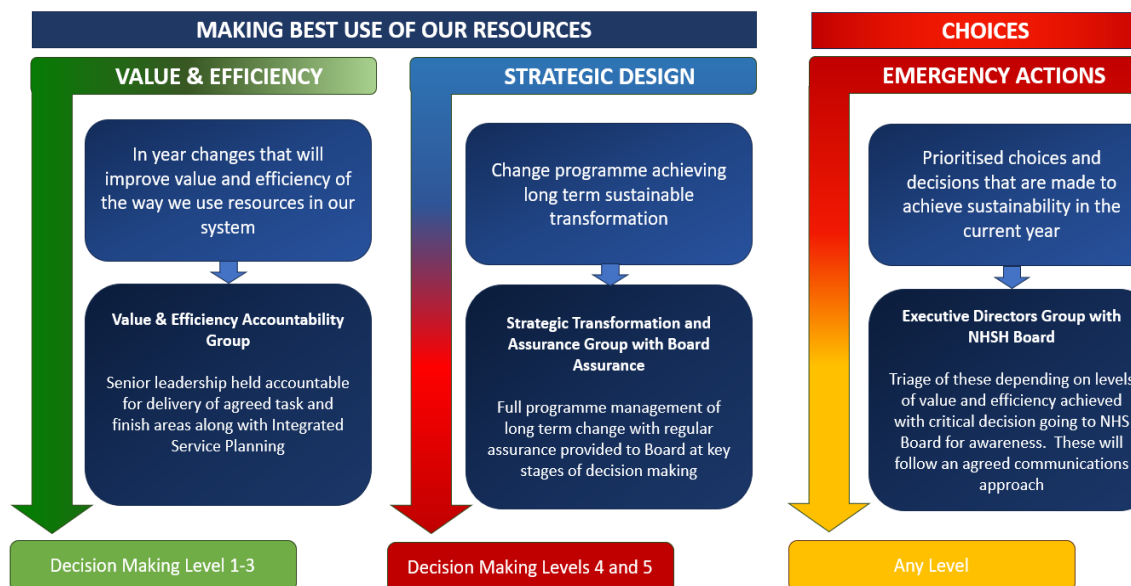
Part of the current Agenda for Change settlement is that the contracted weekly hours for staff will reduce from 37.5 to 37. This is to be applied from 1 April 2024 (with further reductions planned), where staffing hours are not reduced the half hour will be paid at time and one half. The 1.3% reduction in contract hours could result in a 2% increase in employee costs with no funding confirmed, national guidance is expected. The cost could be up to £1.5m as a mix of reduced staffing resource and additional cash costs.

The budget planning reflects these assumptions. Growth and inflation increases are kept to an absolute minimum as these add to the savings requirement. No allowance for additional staffing for the Staffing Act has been made.

The approach being taken is to:

- develop a short term savings plan with deliverable targets for 2024/25 badged as Value and Efficiencies;
- review available reserves and re-consider earmarking to make a non-recurring contribution to the funding shortfall;
- put in place financial recovery processes to manage down spend opportunistically, largely focussing on vacancy controls and premium staffing; and
- identify plans or choices that, if implemented, would reduce the service offer to achieve financial balance. These require political support and would not normally be able to be implemented within one year.

The HSCP is liaising with NHS Highland. It is apparent that further national level guidance is required on the consideration of further plans to bring health budgets into balance. The development of such plans is at an early stage. The framework being adopted by NHS Highland is summarised below and this helps outline how the NHS more widely is considering how the implications of the real terms funding cuts can be managed if more funding is not put into the system:



The Scottish Government also remain committed to a series of policies which place constraints on the ability of NHS Boards to respond to the budget challenge. These include the Staffing Act, a commitment to no redundancies (including voluntary severance) and commitments to a range of service priorities and to consultation and engagement on service re-design. Given the proximity of the start of the new financial year it is not clear how the budget situation can be managed with this level of restriction on delivering change.

The budget gap is substantial as a consequence of there being zero funding (over 2023/24 recurring funding) to cover cost pressures. The baseline budget is slightly reduced due to a reduction in the formula share of the NHS Highland budget allocated to the IJB. This is calculated nationally and has reduced from 28.60% to 28.48%, equivalent to a cash reduction of around £0.9m.

	£'000
Baseline Budget 2023/24	228,439
NHS Cost and Demand Pressures	£000
Pay Inflation Uplift – assume fully funded	-
Pay Increments	100
Current year recurrent cost pressure - prescribing	1,500
New prescribing & Hospital Drugs Inflation – 8%	1,802
Inflation on GCC SLA – assume fully funded	-
Inflation Commissioned Services & SLAs – assume funded	-
Resource Transfer Inflation (2% PA)	283
Inflation on PFI Contract (RPI assumption)	263
Energy, Estates & Utilities Inflation (8%)	261
Care Packages and other commissioning inflation 2%	87

New High Cost Care Package	400
Vaccination funding shortfall	245
NSD – Regional Car-T	308
NSD Topslice – Foxgrove	28
NSD Cost Pressures share	200
LIH Pharmacy	30
Other current cost pressures	150
MS 365 Licenses	85
Gastro Service Development	250
Depreciation	213
Misc funding adjustments	210
Total Health Cost and Demand Pressures	6,415
Add 23/24 Recurring Deficit	1,084
Savings Shortfall	1,054
Estimated Budget Gap	8,553

The savings plan is summarised below. It is reliant on the use of reserves and the Scottish Government allowing unspent funds to be re-purposed. It also results in an increasing underlying deficit in the coming years.

NHS Savings Plan

Unachieved Savings Brought Forward – Previously Approved	£'000
Bed Reductions Dunoon – currently in place on a non-recurring basis (no additional reduction)	150
SAS Contract Reduction linked to Bute Dialysis Unit	20
New Contract for Cowal Hospital Medical Services	120
New Contract for Cowal / other FME Services	70
Hotel Services Redesign to reflect reduced bed numbers	99
Catering & Domestic Savings	30
Admin & Clerical Modernisation	127
Centralised Booking	97
Centralised lab ordering	33
Building Rationalisation	71
LIH Housekeeping savings	103
Review of Contracts – Lead Nurse	15
Estates Staffing Structure	119
Savings Brought Forward Total	1,054
2024/25 Savings – Value & Efficiency	
Review of Primary Care Drugs – Drugs of limited value, switches and impact of national financial improvement work	150
Review of Secondary Care Drugs – specific, high cost drugs moved off patent	300
Removal of unallocated budget reserves	450
Additional patient income	50
Review of out of area care packages	150
Remove small value uncommitted budgets	20
Review of energy budgets	50
Allocate waiting times funding to LIH Service	310
Specific reductions in Premium Staffing (cost avoidance)	
Nursing (10%)	240

AHP (10%)	91
Medical (10%)	478
Value & Efficiencies Total	2,289
Non-Recurring Use of General Reserves	
Allocate Cowal Community Hospital Project Reserve	1,000
Repurposing of Specific Reserves – requires approval:	
Additional Health Care Support Workers 2020/21 & 21/22	250
Interface Care (no plans in place to spend)	133
Mental Health Recovery Facilities (no plan in place)	110
Dental – premises refurbishment (plans at design stage)	240
General Reserves Balance / 2023/24 Underspend	550
End Hospital @ Home as quickly as possible	210
Non Recurring Use of Reserves	2,493
Savings Plan	5,836
Remaining Budget Gap	2,717

There is an expectation that the HSCP will participate in expenditure controls being implemented by NHS Highland as part of a financial recovery process. This will be opportunistic in nature and will include a risk assessment process:

Restrictions on Premium Staffing	Total spend on Premium Staffing is currently in excess of £12m per annum and
<ul style="list-style-type: none"> - Agency staffing - Overtime & Additional Part Time Hours - Locum Medical Staffing 	
Vacancy Control	Restrictions already in place for some staff groups / grades
Non-pay spend controls	Increased review and scrutiny of new orders and contracts

It must be expected that these controls will impact on operational decision making processes within the HSCP in lieu of being able to provide assurance that it can operate within the resources being made available via NHS Highland.

Proposals to re-purpose reserves will require support from the Government and it is recognised that there is an opportunity cost associated with this approach. Using reserves to mitigate, to some extent, the requirement to make further revenue savings (or increase further the budget gap) will come at the expense of using this funding to progress preventative approaches and innovation / transformation. The budget proposal seeks to present an appropriate balance between developmental approaches and protecting existing services in the short term. This also helps provide more time to consider how the challenge can be managed in the medium term. The funding earmarked for the Prevention Programme has been maintained at £600k to enable this Transformation Project to progress.

The governance in respect of the development of service re-design and reduction proposals is currently unclear. There are risks associated with any assumption that service change can be designed and implemented quickly including:

- requirement for joint governance and risk assessments to avoid the potential for challenge;
- requirement for consultation with stakeholders and staff and adherence to national standards in this regard;
- unintended consequences of change due to insufficient time consultation and planning;
- reputational damage if changes are not implemented carefully;
- patient safety risks if alternative pathways are not formally put in place and agreed with NHS Highland/Greater Glasgow and Clyde;
- risk of breaching the new staffing legislation;
- inability to deliver savings due to restrictions on change management processes;
- management capacity to plan and deliver savings safely; and
- likely adverse impact on staff morale, industrial relations and recruitment processes.

The HSCP will continue to work with NHS Highland and Scottish Government on the development of financial plans and the approach to managing the remaining budget gap.

In summary, there is a £2.7m gap between the costs of services and available budget, equivalent to 1.1%. Greater clarity and direction from NHS Highland and Scottish Government is required to enable the IJB to plan service delivery and change. The expectation is that this will be addressed through:

- in year expenditure controls
- a share of brokerage from NHS Highland
- additional funding; and/or
- urgent service re-design and reductions.

The IJB are asked to approve the budget on the basis that additional actions are required to address the shortfall to enable the HSCP to operate within a reasonable financial framework from 1 April 2024. Members should consider this in the national context that is placing most NHS Boards in a similar position at this time.

HSCP Proposed Budget	Social Work £m	NHS £m*	HSCP £m
2023/24 Baseline	91.2	228.4	319.6
Cost and demand pressures & Underlying deficit	6.3	8.6	14.9
Revenue Savings	(2.4)	(3.3)	(5.7)
Expenditure Budget	95.1	233.7	328.8
Resourcing	93.9	228.5	322.4
Allocation of Pension Fund Saving	1.2	-	1.2
Allocation of HSCP Reserves	-	2.5	2.5
Brokerage / financial recovery savings	-	2.7	2.7
Anticipated Resources	95.1	233.7	328.8

*the NHS budget will increase as uplifts and pay awards are confirmed

The budget allocates £3.7m of non-recurring reserves to protect services and when added to the £2.7m remaining gap, the underlying deficit is £6.4m, this is not sustainable and requires to be addressed in addition to any future budget gap.

3.4 Transformation and Investment

The HSCP has the opportunity to continue to fund transformation through the non-recurring element of the pension fund saving held by the Council. When combined with remaining reserves there is some scope for investing in service change. The Transformation Programme is currently under review and this will take into account the drivers for change:

- demographic change;
- current and future staffing availability;
- technological change; and
- financial constraints.

Infrastructure investment is required as a consequence of many years of underinvestment. The shift toward maintenance rather than replacement may enable refurbishment of existing assets which are assessed as not being fit for purpose, assuming funds are allocated on a need rather than formula basis. The challenge relates to both physical and digital infrastructure which in turn impacts on the ability of the HSCP to effectively transform the way in which it operates. The reduction in capital resource for the next 2-5 years is a risk for the HSCP and requires review of the approach to long term investment planning.

3.5 Reserves

The plan assumes reserves will be allocated to help manage the short term financial pressure and protect services. This limits the resources available for investment in projects. Using reserves in this way enables services to continue to be delivered in the short term but masks an increasing budget gap in future years. The table below provides an indicative summary of the use of reserves.

	2023/24 £m	2024/25 £m	2025/26 £m
Opening Balance	16.9	9.4	2.9
Reserves - Deficit	(4)	(2.5)	(1.9)
Reserves - Projects & Other	(3.5)	(4)	(1)
Closing Balance	9.4	2.9	0

3.6 Scenarios and Risk

Identified risks are summarised below, using the standard assessment of probability and impact:

Risk	Like.	Impact		Mitigations
HSCP unable to identify and deliver sufficient	5	5	25	Development of and consultation on value for

savings in 2024/25 to balance the budget.				money strategy. Implementation of additional expenditure control measures. Potential requirement for NHS Brokerage and liaison with partners.
Demographic or population changes reduce the formula funding to the HSCP.	3	4	12	The Census data indicates that the formula is already disadvantaging A&B based on population numbers, this should be reviewed for the 2025/26 budget cycle.
One or both of the partners do not pass on anticipated funding allocated to Health and Social Care.	5	4	20	On-going partnership working and consultation. Increased risk reflects scale of challenge NHS Highland and Scottish Government are facing.
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. The Agenda for Change pay increase results in additional costs which are not funded.	5	4	20	Monitor progress with pay negotiations, commitment to fund within NHS. Nationally agreed assumptions used. These may not be realistic or SG may not have sufficient funds to resource 2024/25 agreements still to be negotiated.
Implementation of NCS diverts attention from operational priorities and financial management.	3	3	9	Seek to resource NCS project appropriately, however implementation is subject to delay and scale of anticipated change is reduced.
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 reserves held by HSCP and/or across sector.	4	5	20	Opportunity reduced as sector reserves are reducing. Progress key projects as quickly as possible.

System wide challenges result in decisions to control recruitment and spend being made outwith the control of the HSCP.	3	5	15	Ensure that implications of such decisions are communicated and understood. Ensure spend plans align with Strategic Plan.
HSCP pressed to implement service re-design change at short notice which has a detrimental impact on delivery of strategic plan and operational service delivery	4	5	20	Ensure that partners are aware of scale of financial challenge.

There are service and financial risks related to both partners. NHS Highland have a structural deficit to address which has been exacerbated by the zero uplift planning assumption. Argyll & Bute Council are also implementing savings, again due to funding allocations growing at a slower pace than costs. This presents risk to HSCP financial plans and to the level of service the HSCP and communities receive from partners. There is also an expectation that real terms cuts for other services and investment including housing and education may have an impact on local communities.

Longer Term Planning

The budget outlook presented in January is summarised below, these figures remain relevant and will be updated when the Scottish Government publishes its new spending review document in May 2024.

	2024-25 £m	2025-26 £m	2026-27 £m
Mid-Range Budget Gap	11.4	18.2	25.8
Health Worst Case Additional	3.0	6.0	9.0
Social Work Worst Case Additional	2.0	4.4	7.0
Worst Case Budget Gap	16.4	28.6	41.8

3.6.1 Workforce

Workforce 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. The financial plan no longer assumes a net growth in workforce numbers, the Scottish Government is clear that the size of the workforce needs to reduce and it is not going to be possible to deliver balanced budgets and efficiency improvement without an impact on staffing structures. The shift from growth in recent years to retraction has been swift. However it is hoped that the HSCP will be able to reduce the vacancies it has within existing structures and significantly reduce its reliance on agency and locum staff to implement more cost effective, stable, safe and sustainable staffing. The change in the financial environment nationally and local service reductions will clearly be unsettling for staff and damaging for staff morale. The HSCP is mindful of this and will seek to be transparent and will involve staff in service re-design processes.

3.7 Alignment with Strategic Planning

The medium term financial plan sits alongside a range of HSCP strategic and operational planning documents. These include the 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. However, the financial context has deteriorated to such an extent that there may have to be some re-consideration of what is deliverable within the resource envelope available. The reduction in capital funding presents a further challenge to long term service re-design and transformation processes.

4. RELEVANT DATA AND INDICATORS

- 4.1 The budget is based on a number of assumptions. These are drawn from the Scottish Government's Budget, local modelling and guidance provided by policy teams. The assumptions used are considered carefully and will be 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.

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 budget gap.

6. GOVERNANCE IMPLICATIONS

- 6.1 Financial Impact – The HSCP is required to set a balanced budget, the budget presented relies upon in-year savings and service reduction and/or NHS brokerage. NHS Highland are aware of this.
- 6.2 Staff Governance – None directly but there is a strong link between HR management and delivering financial balance.
- 6.3 Clinical Governance – the impact of the budget and financial context is likely to include increased clinical governance risk.

7. PROFESSIONAL ADVISORY

- 7.1 The budget proposals have been developed by the leadership team as whole including professional leads. Concerns have been raised and discussed 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 require equality impact assessments which are attached as annexes (currently under development and review).

9. GENERAL DATA PROTECTION PRINCIPLES COMPLIANCE

- 9.1 None.

10. RISK ASSESSMENT

- 10.1 There are a variety of risks associated with the budget and medium term financial planning. To some extent these are quantified within the worst case scenario and further detail is provided within the report. Financial sustainability risks are increasing as a consequence of the budget outlook for 2024/25 and beyond. Management of finance by the HSCP and partners is expected to be an increasing priority in the coming period.

The consequential impact on service delivery, industrial relations and infrastructure are amongst other strategic risks that are perceived to be increasing at present.

11. PUBLIC AND USER INVOLVEMENT AND ENGAGEMENT

- 11.1 The HSCP conducted an improved on-line way of engaging with the public on its budget in early 2024. This generated an increased response with over 260 responses received. A summary of the responses is provided in Appendix 1.

12. CONCLUSIONS

This document seeks approval for the 2024/25 HSCP budget. The budget is reliant upon in-year savings which have not yet been identified and / or places some reliance on NHS brokerage. The longer term outlook and financial sustainability of services requires action on service transformation. The HSCP not currently operating on a financially sustainable basis and cannot continue to utilise reserves to achieve balance.

This report also outlines a process whereby national financial pressures may drive an urgent need for service reductions and change. There are concerns about governance, consultation processes and service safety in the event that the HSCP is required to deliver significant short term change to balance its budget. There are also the normal risks in respect of pay settlements.

The budget proposed in this report seeks to present a realistic budget which includes a challenging but reasonable savings plan whilst recognising that the HSCP will likely be required to operate on a financial recovery basis. The HSCP management team will seek to continue to work on future service delivery models and transformation on the basis that, as a minimum, the recurring funding gap will need to be addressed.

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	

The formal directions associated with this paper will be prepared once the funding position is fully agreed with both partners.

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Appendix 1 – Budget Consultation / Simulator

Appendix 2 – EQIA reports (1-3)