

Integration Joint Board

Date of Meeting: 31 January 2024

Title of Report: Budget and Medium Term Financial Plan 2024-2027

Presented by: James Gow, Head of Finance

The Integration Joint Board is asked to:

- Consider the budget outlook for 2024-25 to 2025-26 and note the high level of risk and uncertainty.
- Note the forecast budget gap totalling £11.4m for 2024-25.
- Note that indicative savings targets have been allocated to services.
- Note that oversight of the budget process will continue to be undertaken by the Finance & Policy Committee.
- Note that additional expenditure control measures are being put in place in partnership with NHS Highland as a response to the financial context.

1. EXECUTIVE SUMMARY

- 1.1 This report provides the Integration Joint Board with an updated budget outlook for the 2024/25 financial year and the following two years. It takes into account the Scottish Government's draft budget published in December 2023 and forms the basis for detailed financial planning, the value for money strategy and savings targets. The financial plan will continue to evolve as funding allocations are confirmed by partners and clarity in respect of the capital programme.
- 1.2 The outlook aims to provide a framework for the development of the 2024/25 budget whilst placing it in a medium term context. However, the Scottish Government draft budget creates a number of challenges which are still to be fully understood. The most recent 3 year spending review document is now of limited relevance due to changes driven by inflation, pay increases and re-prioritisation of spend. The Draft Budget commits the Government to publishing a new 3 year spending review in May 2024. At a high level there is still a commitment to protect Health and Social Care budgets relative to the rest of the public sector, however, the previous commitment to real terms funding increases is not feeding into formula funding allocations when the impact of actual inflation is taken into account.
- 1.3 The HSCP is operating broadly in line with its financial plan for 2023/24. However, the planned use of reserves reduces financial flexibility. The situation across the NHS in Scotland remains unsustainable with many Health Boards forecasting significant deficits (£363m forecast deficit in 2023/24). This situation continues to result in the allocation of funding to support deficits thereby reducing resources

available for formula funding allocations. This disadvantages the HSCP in its efforts to deliver services in a sustainable way. Overall, the financial context is deteriorating and further efficiency and cost savings are required across the system. Financial planning is based upon a mid-range scenario which estimates the budget gap at £11.4m or 3.2% of spend for 2024/25. Work is underway to develop firm savings proposals to seek to balance the budget with the expectation that enhanced financial control measures will also be required.

2. INTRODUCTION

2.1 The purpose of this report is to update the medium term financial plan. It summarises the context and aims to ensure that the HSCP is operating in a financially responsible way. 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 Government remains committed to the National Care Service (NCS), the timetable has been delayed and the scale of change for IJBs is expected to be more limited than initially 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 2024. Preparatory work is on-going, in pragmatic terms the implementation of it is likely to be costly and will require to be phased. There is no financial allowance for additional staffing or for additional management and administrative support to enable its requirements to be met.
- Inflation has reduced, RPI is 4.2%. The impact has been significant and funding uplifts have not been sufficient to compensate, the cumulative effect of 2021/22 and 2022/23 inflation is 23.7%. There are risks associated with inflation assumptions built into financial plans, particularly in respect of public sector pay where national assumptions have been used. The Government have indicated that the number of public sector employees is expected to reduce and that the pay metrics for 2024/25 (public pay policy) will be published after the UK Government Budget in March 2024.
- The 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 Scottish Government continues to prioritise the sector with 33% of the total budget allocated to NHS Recovery, Health and Social Care (£19.5bn). The Draft Budget is available at:

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

Additional management letters have been issued to the NHS and Local Government following publication of the budget. These provide further information and are attached as appendixes:

- 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 non-staff inflation within existing budgets;
- There is an implication that capital funding has been transferred to revenue and that some capital schemes will be subject to delay or cancellation; and
- Further information on the approach to capital investment and business case development will be forthcoming in January.

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 and therefore, in relative terms, it is disadvantaged by this approach. NHS Highland is facing a reduced brokerage total for next year. It does not appear that the budget available to the HSCP will increase in real terms in 2024/25 per the spending review and previous planning assumptions.

Further, the NRAC formula will not be reviewed to take account of the census population data. This also 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. It repaid its debt, generated a surplus and held reserve funds. Total revenue spend on services was £332m and £17m was held in earmarked and general reserves at the year end.

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 allocated additional funding as expected and this is recurring in 2024/25 and improves the underlying position which is now a £1.8m shortfall. This has not reduced reliance on reserves in 2023/24 as an equivalent value has been clawed back by NHS Highland. It is anticipated that the HSCP will operate within its plan and will end the year with reduced reserves balances but will still have some resource to progress key 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 in partnership with NHS Highland and Argyll & Bute

Council. The 2024/25 Draft Budget indicates a shift towards maintenance rather than replacement of assets within the NHS and implies some existing projects will be cancelled or postponed. Business case development is also subject to review. This is a 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. Planning assumptions are based upon the draft Scottish Budget and associated letters and are still to be confirmed at the time of writing. The draft budget is still to progress through parliamentary processes. The following sections outline the forecast position within each service.

3.3.2 Social Work

The draft 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, to be confirmed and estimated at £4.4m.

These pay for known cost increases and 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 of its commissioned service providers comply with the £12 per hour minimum pay rate. It is assumed the Council will pass through funding for pay inflation. The table below summarises the cost and demand pressures within Social Work Budgets based on a mid-range scenario. The assumptions used generally align with those of the Council:

Social Work Cost and Demand Pressures	2024-25 £000	2025-26 £000	2026-27 £000
Pay inflation @ 3.5% for 2024/25 and 2% thereafter	1,085	2,065	2,879
Incremental increases	152	304	456
Non-Pay Inflation	1,095	2,082	3,055
Older Adults Demand – Residential Care	1,370	1,870	2,370
Older Adults – Personal & Nursing Care uplift - as funded	292	292	292
Childrens and Families – as funded	207	207	207
Physical Disability – Demand Pressure	60	60	60
Mental Health Services Demand Pressure	50	50	50
Potential transfer of Kintyre Care at Home	160	160	160
Older People Demand Growth	445	897	1,356
New Care @ Home Contract	900	900	900
Estimated Impact of minimum pay rate increase – contracts (10.1% then 3.5%)	4,400	6,000	7,800
Estimated Impact of ending of Smarter Commissioning	(1,200)	(1,700)	(1,700)
Total Social Work Cost and Demand Pressures	9,016	13,187	17,885
Offset by additional funding:			

Free personal nursing and nursing care	292	292	292
Kinship Care	207	207	207
Minimum pay rate uplift (TBC)	4,400	6,000	7,800
Pay increase funding (TBC)	1,140	1,140	1,140
Total Additional Funding	(6,039)	(7,639)	(9,439)
Net Pressures	2,977	5,548	8,446
Add underlying deficit	630	630	630
Budget Gap	3,607	6,178	9,076

There are some initial budget saving adjustments available to reduce the gap:

Allocate uncommitted budget to savings	(420)	(420)	(420)
Right size LD budget to reflect current demand	(370)	(370)	(370)
Revert to national minimum pay rate	(110)	(110)	(110)
Total Budget Savings	(900)	(900)	(900)
Revised Social Work Budget Gap	2,707	5,278	8,176

Pension Scheme

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 has announced reductions in employer contribution rates as a 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	-

Discussions are on-going with the Council about the extent to which the saving is available to the HSCP. It would not be prudent to rely on this to balance the budget but the resource provides some flexibility to enable key projects to proceed and make resource available for service transformation.

3.3.3 Health Budget

The approach being taken with NHS budgets has changed. The Scottish Government request that Boards make the following assumptions as they develop their financial plans:

- 0% uplift in baseline funding (likely for 3 years);
- future 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 Scottish 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.

The normal approach is to assume that internal (NHS) SLA cost increases will be fully funded as part of the pay funding. The budget planning, summarised below, 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.

NHS Cost and Demand Pressures	2024-25 £000	2025-26 £000	2026-27 £000
Pay Inflation Uplift – assume fully funded	-	-	-
Pay Increments	100	200	300
Current year recurrent cost pressure - prescribing	1,500	1,500	1,500
New prescribing & Hospital Drugs Inflation – 8%	1,802	3,744	5,836
Inflation on GCC SLA – assume fully funded	-	-	-
Inflation Commissioned Services & SLAs – assume funded	-	-	-
Resource Transfer Inflation (2% PA)	283	572	866
Inflation on PFI Contract (RPI assumption)	263	518	760
Energy, Estates & Utilities Inflation (8%)	261	544	851
Allowance for new drug approvals (oncology)	250	500	750
Care Packages and other commissioning inflation 2%	87	176	266
New High Cost Care Package	400	400	400
Vaccination funding shortfall	245	245	245
NSD – Regional Car-T	308	610	861
NSD Topslice – Foxgrove	28	28	28
NSD Cost Pressures share	200	400	600
LIH Pharmacy	30	30	30
Other current cost pressures	150	150	150
MS 365 Licenses	85	135	185
Allowance for unknown cost and demand pressures	150	500	1000
Depreciation	218	484	759
Total Health Cost and Demand Pressures	6,360	10,736	15,387
Add 23/24 Recurring Deficit	1,084	1,084	1,084
Current Savings Shortfall	1,057	1,057	1,057
Estimated Budget Gap	8,501	12,877	17,528

The NHS gap includes the current anticipated shortfall in savings delivery which sits at £1.1m, some of these are dependent upon capital investment now under review. Previously made funding commitments are at risk of being reversed. Implications will include local and national challenges with communication in respect of specific services and potentially cancelled projects. IJB reserves are at increasing risk in this context as balancing the overall budget is a relatively short term challenge for Government and NHSiS management.

3.3.4 Summary Budget Gap and Savings Target

As stated previously, this report provides an indicative budget gap for planning purposes. Between now and budget approval in March management will be

working on plans to address the gap outlined below as far as possible. The Transformation programme is also currently under review in this context.

Revenue Budget Summary	2024-25 £m	2025-26 £m	2026-27 £m
Opening Recurring deficit	1.8	1.8	1.8
NHS Cost & Demand Pressures	6.4	10.7	15.4
Social Work Cost & Demand Pressures (net)	3.0	5.5	8.4
Allowance for unachieved savings	1.1	1.1	1.1
Initial Social Work Savings	(0.9)	(0.9)	(0.9)
Budget Gap	11.4	18.2	25.8
New Savings Target as % of spend	3.2%	5.1%	7.3%

Based on a mid-range scenario, the budget gap is estimated at £11.4m which is the savings target for 2024/25. This is relative to an anticipated budget of circa £360m (plus the NHS pay uplift). The HSCP is in the process of developing a Value for Money Strategy and savings plan which will seek to address the shortfall at this level as far as is reasonable and responsible.

However, taking into account the wider financial challenge within the NHS, it is not clear how a budget gap at this level can be delivered in the context of service pressures and systemic constraints on implementing change quickly. The approach to budgeting continues to be largely incremental in nature. More fundamental reviews of budgets and transformation of service delivery is required in the medium term as it is increasingly challenging to identify new savings within existing service delivery structures.

Progress with the development of savings plans will be reported to the Finance & Policy Committee which will meet twice prior to the final budget proposals being made to the IJB in March 2024.

3.4 Transformation and Investment

The budget assumes that £400k will be held to enable transformation projects to proceed. This is critical in enabling the HSCP to develop longer term plans to operate in a more sustainable way and provides some flexibility.

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 needs 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.

3.5 Reserves

The plan does not set a target for increasing reserves, it is anticipated that reserves will diminish as projects proceed and balances are likely to be used to address IJB or partner budget shortfalls. The short term pension cost benefit is intended to enable key projects to proceed. Reserves carried forward into 2023/24 are intended to be spent during the period of this plan and balances will reduce.

	2023/24 £m	2024/25 £m	2025/26 £m	2025/26 £m
Opening Balance	9.1	4.1	1.5	0.8
Reserves Spend	(2.7)	2.6	0.7	0.3
Clawback	(2.3)			
Closing Balance	4.1	1.5	0.8	0.5

3.6 Scenarios and Risk

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

Risk	Like.	Impact		Mitigations
HSCP unable to identify and deliver sufficient savings in 2024/25 to balance the budget.	5	5	25	Development of and consultation on value for money strategy. Implementation of additional expenditure control measures.
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 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.	4	4	16	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.

There are service and financial risks related to both partners. NHS Highland have a significant structural deficit to address which has been exacerbated by the zero uplift planning assumption. 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 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 Further & Higher education may have an impact on local communities.

Scenarios

3.6.2

The figures presented are based upon modelling of the mid-range outlook. A worst case scenario for health assumes a 1% additional efficiency saving is required. For Social Work the table below summarises a potential worst case which reflects increased risk:

	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

In the event that the outlook improves or if the final Scottish Budget allocates additional resource the HSCP would scale back its savings target.

3.6.3 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.

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.

4. RELEVANT DATA AND INDICATORS

- 4.1 The budget outlook is based on a number of assumptions. These are drawn from the Scottish Government's Draft 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 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.

9. GENERAL DATA PROTECTION PRINCIPLES COMPLIANCE

- 9.1 None.

10. RISK ASSESSMENT

- 10.1 There are 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 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 Public engagement and consultation relating to the HSCP's financial planning is being progressed using existing engagement frameworks such as the locality planning groups. Additionally the HSCP is utilising new on-line budget consultation software and is planning its engagement with the wider public from late January until the end of February 2024. It is hoped that this will help us understand better the priorities of the communities served by the HSCP. Engagement processes will continue as savings proposals are developed to address the budget shortfall. It is also likely that the HSCP will require to manage engagement and communications carefully as decisions to reverse previously made commitments may be made by either the HSCP, NHS Highland or the Scottish Government. Budget proposals will be available as part of the IJB public papers for public comment and accompanied by Equality Impact Assessments for review by the IJB.

12. CONCLUSIONS

This document provides an updated budget outlook for 2024/25 to 2026/27. It outlines the key assumptions, cost pressures and risks. It also provides an indication of the 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 but faces severe challenges in operating within a balanced budget in 2024/25 and beyond.

The identified budget gap requires to be addressed through the development of a Value for Money Strategy and savings plan. Work on this underway and it is also expected that additional expenditure control measures will be put in place in partnership with NHS Highland. The scale of the challenge for 2024/25 is estimated at £11.4m or 3.2% of the budget. 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. The budget is likely to be reliant on the use of the reserves to some extent or NHS brokerage.

13. DIRECTIONS

Directions required to Council, NHS Board or both.	Directions to:	tick
	No Directions required	√
	Argyll & Bute Council	
	NHS Highland Health Board	
	Argyll & Bute Council and NHS Highland Health Board	

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Appendix 1 – Budget Letter NHS
 Appendix 2 – Budget Letter Local Authority