

## Integration Joint Board

### 16<sup>th</sup> March 2023

<b>Subject :</b>	<b>Medium-Term Financial Outlook 2023-2026</b>
<b>Purpose :</b>	To make IJB aware of the projected medium-term financial outlook for the period to 31 <sup>st</sup> March 2026.
<b>Recommendation :</b>	That IJB notes the Medium-Term Financial Outlook.

<b>Direction Required to Council, Health Board or Both</b>	Direction to :-	
	1. No Direction Required	x
	2. North Ayrshire Council	
	3. NHS Ayrshire & Arran	
	4. North Ayrshire Council and NHS Ayrshire & Arran	

<b>Glossary of Terms</b>	
NHS AA	NHS Ayrshire and Arran
HSCP	Health and Social Care Partnership
MTFO	Medium Term Financial Outlook

<b>1.</b>	<b>EXECUTIVE SUMMARY</b>
1.1	This Medium-Term Financial Outlook (MTFO) covers the three-year period 2023-2026. The annual budget for 2023-24 is also on the agenda for this meeting for IJB approval.
1.2	The MTFO looks at the range of factors which influence the financial planning of the Integration Joint Board.
1.3	A range of possible scenarios for the financial position in 2024-25 and 2025-26 are considered based on the information currently available. This helps to identify the financial challenges which will be faced by the IJB, enabling the IJB to see the impact of current and future decisions on its medium-term financial health.
<b>2.</b>	<b>BACKGROUND</b>
2.1	North Ayrshire Integration Joint Board (NAIJB) has responsibility for planning how community health and social care services are delivered across North Ayrshire. It does this by directing North Ayrshire Council and NHS Ayrshire and Arran to work together to deliver integrated services through the Health and Social Care Partnership.

2.2	A Medium-Term Financial Outlook (MTFO) is a critical part of the strategic planning process. The financial context for public services remains very challenging and so it is vital that the IJB's strategic ambitions are set against the financial resources which are anticipated to be available.
2.3	This MTFO covers the three-year period 2023-2026. The annual budget for 2023-24 is also on the agenda for this meeting for IJB approval.
2.4	<p>There are a range of factors which influence the financial planning of the IJB. These are considered through the MTFO and include the following:</p> <ul style="list-style-type: none"> <li>• Demographic changes</li> <li>• Local priorities</li> <li>• Workforce challenges</li> <li>• The UK and Scottish Economy</li> <li>• Policy and Legislation</li> <li>• Cost and demand pressures</li> <li>• Available funding</li> </ul>
	<b>Local Context</b>
2.5	<p>Our Strategic Needs Assessment details a range of demographic and health factors which will see growing demand for services:</p> <ul style="list-style-type: none"> <li>• Decreasing and ageing population</li> <li>• High deprivation</li> <li>• Long-term health conditions which increase in older people</li> <li>• Unplanned and emergency admissions to hospital which increase in older people</li> <li>• Increasing mental health concerns</li> <li>• Higher than average numbers of Looked After and Accommodated Children</li> </ul>
2.6	The IJB faces workforce challenges with an ageing workforce and already there are difficulties in recruiting to certain job roles. There is a reducing working age population and a national shortage of appropriately trained staff for particular professions.
	<b>The UK and Scottish Economies</b>
2.7	The economy continues to face challenges with funding pressures for the public sector, high inflation and the complexities caused by Brexit and the Covid pandemic. This will impact on the funding available for Health and Social Care, and a range of possible scenarios from the Scottish Government Medium Term Financial Strategy are outlined in section 3 of the MTFO.

	<b>Policy and Legislation</b>
2.8	The IJB requires to deliver on a range of national and local priorities and demonstrate that it has made progress in shifting the balance of care towards more community-based settings. In addition, the National Care Service will represent a huge change in how the IJB operates in the coming years.
2.9	Set against all of this, Health and Social Care is a clear priority for the Scottish Government, and this may result in additional financial support, although this will undoubtedly come with additional cost commitments to deliver new policies.
	<b>Cost and Demand Pressures</b>
2.10	Pressures fall largely into three categories: price inflation, demographic change and non-demographic change. Cost pressures have been identified by the Partnership totalling £10.447m for 2024/25 and £11.030m for 2025/26 and are reflected in the financial modelling within the MTFO.
	<b>Funding</b>
2.11	A detailed funding settlement for 2023/24 has been received through the Scottish Budget. There remains a lack of certainty around the levels of funding for 2024/25 (year 2) and 2025/26 (year 3), although the Scottish Government published its Resource Spending Review through to financial year 2026/27 and this provides a high-level indication of funding for each spending portfolio.
	<b>Medium-term Financial Outlook</b>
2.12	Three scenarios have been developed for years 2 and 3 which align to the Scottish Government Medium-term Financial Strategy – best-case, medium-case and worst-case.
2.13	<u>Best-Case Scenario</u> – this assumes a 5% increase in funding per annum for Social Care, in line with the Scottish Government commitment to a 25% increase over the lifetime of the current Parliament. A 4% increase per annum has been assumed for Health funding, which is also in line with the Government commitment to a 20% increase in frontline health spending over the lifetime of the current Parliament.
2.14	<u>Medium-Case Scenario</u> – this assumes funding increases in line with the Health and Social Care Portfolio figures used in the Resource Spending Review (published May 2022). For 2024/25 this equates to an increase of 2.54% and for 2025/26 an increase of 3.01%.
2.15	<u>Worst-Case Scenario</u> – this assumes a flat cash settlement for both Social Care and Health across both years.

2.16	Against each of the three scenarios, sensitivity analysis has been used to demonstrate what the impact would be in 2023/24 and 2024/25 if the funding was to increase or decrease by 5% or 10%.
2.17	For 2024-25, the forecast budget gap ranges from a deficit of £1.140m in the best-case scenario to a shortfall of £5.854m in the medium-case and a shortfall of £11.699m in the worst-case. These figures are after adjusting for the saving of £1.252m which was planned on a non-recurring basis for 2023/24 through the use of reserve balances.
2.18	The most likely position is considered to be somewhere between medium and worst case which would suggest there could be a shortfall in the region of 2.0% to 4.1% of the Partnership budget to address for 2024-25.
2.19	For 2025-26, the forecast budget gap ranges from a breakeven position in the best-case scenario, to a shortfall of £3.876m in the medium-case and a shortfall of £11.031m in the worst-case.
2.20	The most likely position is currently considered to be somewhere between medium and worst case which would suggest there could be a shortfall in the region of 1.3% to 3.8% of the Partnership budget to address for 2025-26. This also assumes that all savings for 2024-25 will be delivered on a recurring basis and there is no requirement to use reserves.
<b>3.</b>	<b>PROPOSALS</b>
3.1	It is proposed that the IJB <b>notes</b> the Medium-term Financial Outlook and the potential financial position in years 2 and 3.
3.2	<u>Anticipated Outcomes</u>
	<p>The development of the Medium-term Financial Outlook provides key information on the possible financial position of the IJB over the next three years.</p> <p>It identifies the financial challenges which will be faced by the IJB enabling the IJB to see the impact of current and future decisions on its medium-term financial health.</p> <p>The MTFO will also be used to identify pressure points and inform decisions which are required to ensure the Partnership remains financially sustainable.</p>
3.3	<u>Measuring Impact</u>
	The IJB receives in-year financial monitoring reports which assist with monitoring the financial position and addressing any concerns. The MTFO will support the development of future annual budgets.

<b>4.</b>	<b>IMPLICATIONS</b>
4.1	<u>Financial</u> The Medium-term Financial Outlook outlines potential funding and expenditure scenarios for 2023-26, identifying possible budget gaps for each financial year.
4.2	<u>Human Resources</u> None.
4.3	<u>Legal</u> The IJB requires to agree a balanced budget each financial year and a Medium-term Financial Outlook helps to support that requirement in future years.
4.4	<u>Equality/Socio-Economic</u> Equality Impact Assessments are carried out as necessary in relation to any new savings proposals.
4.5	<u>Risk</u> The report falls in line with the agreed risk appetite statement which is a <b>low</b> -risk appetite in respect to adherence to standing financial instructions, financial controls and financial statutory duties and a <b>high</b> -risk appetite in relation to finance and value for money.
4.6	<u>Community Wealth Building</u> None.
4.7	<u>Key Priorities</u> A Medium-term Financial Outlook helps to support the delivery of the Strategic Plan 2022-2030.
<b>5.</b>	<b>CONSULTATION</b>
5.1	No consultation has been required in the preparation of this report.

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Appendices

- Medium Term Financial Outlook 2023-26



*Delivering care  
together*

**North Ayrshire  
Health and Social Care Partnership**

**Medium Term Financial Outlook**

**2023-2026**

## MEDIUM TERM FINANCIAL OUTLOOK 2023-2026

### 1 Introduction

- 1.1** North Ayrshire Integration Joint Board (NAIJB) has responsibility for planning how community health and social care services are delivered across North Ayrshire. It does this by directing North Ayrshire Council and NHS Ayrshire and Arran to work together to deliver integrated services through the Health and Social Care Partnership.
- 1.2** The Vision of the Health and Social Care Partnership is that “All people who live in North Ayrshire are able to have a safe, healthy and active life”.
- 1.3** The Partnership has five strategic priorities:
- Enable Communities
  - Develop and Support our Workforce
  - Provide Early and Effective Support
  - Improve Mental and Physical Health and Wellbeing
  - Tackle Inequalities
- 1.4** The Partnership provides locality-based health and social care services for people throughout their life. Our service areas and key partners are:
- Delivery Services:
- Children, Families and Justice Services
  - Health and Community Care Services
  - Mental Health, Addictions and Learning Disability Services (Including the pan-Ayrshire mental health lead partnership)
- Support Services:
- Business Support
  - Finance and Transformation
- Key Partners:
- North Ayrshire Third Sector Interface
  - The Independent Sector
  - Wider community planning partners including Ayrshire Justice Partnership, Police Scotland and Scottish Fire and Rescue Service.
- 1.5** The IJB has agreed a long-term strategic plan through to 2030. This sets out how we plan to improve services and the health and wellbeing of the local community.
- 1.6** A Medium-Term Financial Outlook (MTFO) is a critical part of the strategic planning process. The financial context for public services remains very challenging and so it is vital that the IJB’s strategic ambitions are aligned with the financial resources which are anticipated to be available. It has been very difficult to put in place meaningful medium term financial planning arrangements due to the pandemic and the ongoing one-year funding settlements for the IJB.
- 1.7** This MTFO, covering the three-year period 2023-2026, assists with ensuring that resources are directed towards the priorities of the Strategic Plan, as well as with annual financial planning.

**1.8** There are a range of factors which influence the financial planning of the IJB. These are considered through the MTFO and include the following:

- Demographic changes
- Local priorities
- Workforce challenges
- The UK and Scottish Economy
- Policy and Legislation
- Cost and demand pressures
- Available funding

## **2 Local Context**

### **Strategic Needs Assessment**

**2.1** North Ayrshire covers an area of 340 square miles, including the islands of Arran, Great Cumbrae and Little Cumbrae.

**2.2** Population projections continue to suggest two population changes which will have an impact on health and social care in the future:

- The North Ayrshire population continues to decrease and is expected to shrink by 1% between 2012 and 2025, falling to 132,482. By 2030, the population is expected to further decrease to 129,987, a further 1.9% reduction from 2025.
- Within this falling population, we will continue to see a growing older people population, with those 65+ accounting for over 25% of the population by 2025, and almost 28% by 2030. This correlates with a shrinking younger (0-15) and working age (16-64) population, resulting in an increasing dependency ratio which places increasing financial stress on the working age population.

**2.3** By 2025, those between 65 and 74 will increase by 5%. However, those 75 plus will increase by 8.3% over the same period. From 2025 to 2030, the 65-74 age group will increase by a further 9%, with those 75 plus increasing by a further 7%. As outlined at 2.6 and 2.7 below, older people are more likely to develop multiple long-term conditions. An increase in this population implies a greater demand on Health and Social Care services in the future.

**2.4** In the latest period available (2018-2020 3-year aggregate), the average life expectancy in North Ayrshire was 75.3 years old for men, and 80.1 years old for women. For the reporting period 2018-20, the average healthy life expectancy in North Ayrshire was 57.4 years for men, down from 58.5 in the previous reporting cycle. Similarly, health life expectancy of women fell to 55.5 years, from 56.3 previously.

**2.5** North Ayrshire continues to be an area of high deprivation resulting in both social and health inequalities across the population. The most recently published Scottish Index of Multiple Deprivation figures suggest as much as 41% of North Ayrshire's population live within areas that are considered among the most deprived areas in Scotland. Information published by the charity End Poverty Now, suggests that 28.3% of children in North Ayrshire live in poverty.

**2.6** 27% of local people are living with a long-term condition (LTC) (which could include Arthritis, Asthma, Diabetes or Chronic Obstructive Pulmonary Disease (COPD)).



Long-term conditions are more common in older age groups, with the proportion of people living with one or more LTC increasing with age. When compared, only 1.7 people in 10 under 65 have a long-term condition, unlike those 85+ where 8.2 people in every 10 live with an LTC.

- 2.7** Projected prevalence up to 2025/2026 shows there is an expected gradual increase in the older age groups for LTC. For people 85 plus, it is forecast that this will increase to 8.8 in 10 people. (7.3% increase). Those living with more than one long-term condition (multi-morbidity) increases with age, with approximately 15% of over 65s with multi-morbidities, compared to less than 5% of under 65s for 3 LTCs.
- 2.8** Across most acute hospital measures (including Emergency Admissions, Unscheduled Bed days, Delayed Discharges, and preventable admissions), we see higher proportions of people from older age groups and those proportions increase with age. As such, those aged 75 or over account for the greatest volume of emergency admissions, unscheduled bed days and delayed discharges. When taking this in context with the population projections outlined at 2.2 and 2.3 above, a growing population of those 75+ is likely to place additional demands on local health and care services. However, those 75+ also account for the greatest volume of potentially preventable admissions, which suggests investment in community-based services could help reduce demand on acute hospitals.
- 2.9** Mental Health concerns continue to rise, with the percentage of the local population receiving medication for some form of mental health condition increasing each year. In the 2019/20 financial year, 22% of local people were receiving some form of Mental Health medication. North Ayrshire is continually higher than the overall percentage for the health board area and Scotland. This suggests a greater demand for local Mental Health support. When looking at hospital admissions, North Ayrshire's rates are below that of Scotland as a whole, and mostly in line with the NHS Ayrshire and Arran health board area. However, unlike general acute admissions, the highest proportion of Mental Health admissions are among adults aged 18-44, suggesting a demand within this age group for mental health services.
- 2.10** Over the period from 2013 to 2021, North Ayrshire has continually had a higher rate of children looked after than Ayrshire as a whole and Scotland. The number of children that were looked after in 2021 for North Ayrshire was 20.8 (rate per 1000), which represents a decrease from the previous figure of 22.7. However, North Ayrshire's rate of children looked after is third highest across all local authority areas.

### **Locality Priorities**

- 2.11** North Ayrshire is divided into 6 locality areas – Irvine, Kilwinning, Three Towns, Garnock Valley, North Coast and Cumbrae, and Arran.
- 2.12** Our six Locality Planning Forums (LPFs) are one of our key mechanisms for engaging with local people. The Chairs of the LPFs are also members of our Integration Joint Board and LPF membership is made up of a range of health and social care professionals, third and independent sector representatives and local community groups. Their role is to use their knowledge of services and the local area to support and engage with local people and communities, to identify locality priorities.

- 2.13** During 2021, each LPF reviewed and updated their locality priorities. These have been agreed by the IJB's Strategic Planning Group. These priorities will inform local action by the HSCP and our partners to help address the concerns raised.
- 2.14** All mainland locality planning forums adopted the priorities below:
- Improving Mental Health and Wellbeing
  - Reducing social Isolation
  - Prevention, early intervention and recovery from drug and alcohol related harms and deaths
  - Recovering from the COVID experience
- 2.15** Due to additional local concerns, other identified priorities were adopted in specific localities:
- Enabling financial inclusion and tackling poverty, was adopted in the Three Towns
  - Enabling digital inclusion, was also adopted in Three Towns
  - Preventing suicides, was adopted by the North Coast and Cumbrae.
- 2.16** The following priorities of opportunity are shared by all Locality Planning Forums:
- Capitalising on the Covid experience – continuing the legacy of the great partnership working that was developed in the early stages of the pandemic.
  - Developing personal self-care/ self-management, coping skills and health literacy

### **Workforce Challenges**

- 2.17** At the start of April 2022, the Health and Social Care Partnership had 3,622 employees, with just over half (52%) employed by North Ayrshire Council and the remainder (48%) employed by NHS Ayrshire and Arran. This figure does not include the workforce employed by our commissioned health and social care providers.
- 2.18** 43% of the staff were over the age of 50 which indicates that many will retire in the coming years and the Partnership will face challenges in replacing them.
- 2.19** As outlined above, the local population will reduce in number in the next few years and the age profile will increase. Older people are more likely to have multiple Long-Term Conditions. This means there will be more demand on health and social care services in future but less people of working age to fill these job roles.
- 2.20** The Partnership and its commissioned service providers are already facing challenges in recruiting to certain job roles. This challenge is compounded when investment in our services is predicated on growing our workforce, particularly where that similar investment and recruitment is being replicated across Scotland.
- 2.21** In October 2022, the Partnership published a three-year Workforce Plan. It highlighted many key challenges facing the HSCP Workforce, including:
- Widespread challenges in recruiting to vacant posts, experienced across all service and professional areas.
  - Staff retention; likely as a result of the high level of vacancies and competition across the health and social care market.

- A lack of nationally available trained/qualified workers – particularly for professional roles (e.g., shortage of trained Mental Health Officers).
- High levels of staff absence, exacerbated by the high pressure of working through the pandemic.

**2.22** To address these challenges and build the local HSCP workforce needed to meet future Health and Social Care Demand, a workforce action plan was developed built around local priorities. These priorities mapped to the Scottish Government's five pillars of Workforce Planning. Our five priorities of workforce planning are:

- Understanding our Workforce (Plan)
- Promoting our Organisation (Attract)
- Investing in our People (Train)
- Building our Workforce (Employ)
- Growing our People (Nurture)

### **3 National Context**

**3.1** IJBs operate in a complex and changing environment where national issues have an impact on what services are delivered and how they are delivered, as well as the financial resources which are available to support the IJB in commissioning services. An understanding of this national context is essential when developing a medium-term financial outlook.

#### **The Economy**

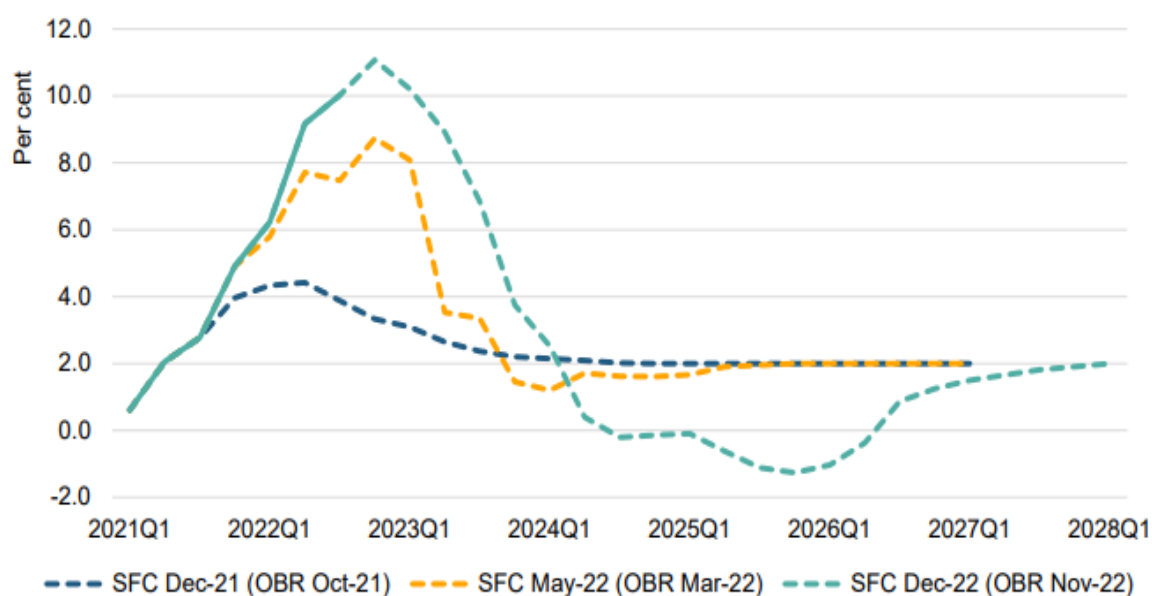
**3.2** The past year has been defined by economic turmoil. At a global level, this has been a consequence of the Covid pandemic and the Russian invasion of Ukraine. These have impacted on the cost of living for individuals, driven by high inflation in food, fuel and energy, and on costs for organisations in all sectors. Towards the end of 2022, UK inflation was at a 40-year high.

**3.3** Scotland and the UK face the additional challenge of the withdrawal from the EU, which has impacted on the availability of labour and the ease of international trade. The Office for Budget Responsibility (OBR) estimates that the UK economy will be 4% smaller relative to remaining in the EU.

**3.4** The UK Government mini budget in September 2022 resulted in higher costs of borrowing. The Bank of England is warning that the UK economy is facing the longest recession in a century and the Scottish Fiscal Commission (SFC) forecasts that the Scottish economy will take almost six years to recover to pre-pandemic levels as a result.

**3.5** All of this represents a marked contrast to the position when the previous Scottish Budget was published in December 2021. At that time, SFC forecasts suggested that the economy would return to pre-pandemic levels by April-June 2022 and that inflation would peak at 4.4% during the same quarter and then return to 2% during 2024.

**3.6** Inflation is now forecast to have peaked at 11.1% in late 2022 and to decline throughout 2023 and into 2024. This is illustrated in the graph below along with the previous forecasts which were made in December 2021 and May 2022.



Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – May 2022 ([link](#)), Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – December 2021 ([link](#)). Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

**3.7** The public sector has faced significant pay demands during 2022-23 and settlements reached so far have been in excess of the Public Sector Pay Policy which was published alongside the Scottish Budget in December 2021. This has placed additional pressure on public finances during 2022-23 and recurringly.

**3.8** The labour market remains challenging as the economy recovers from the pandemic with vacancies at historic highs. Employers face challenges in recruiting to many jobs.

### Fiscal Outlook

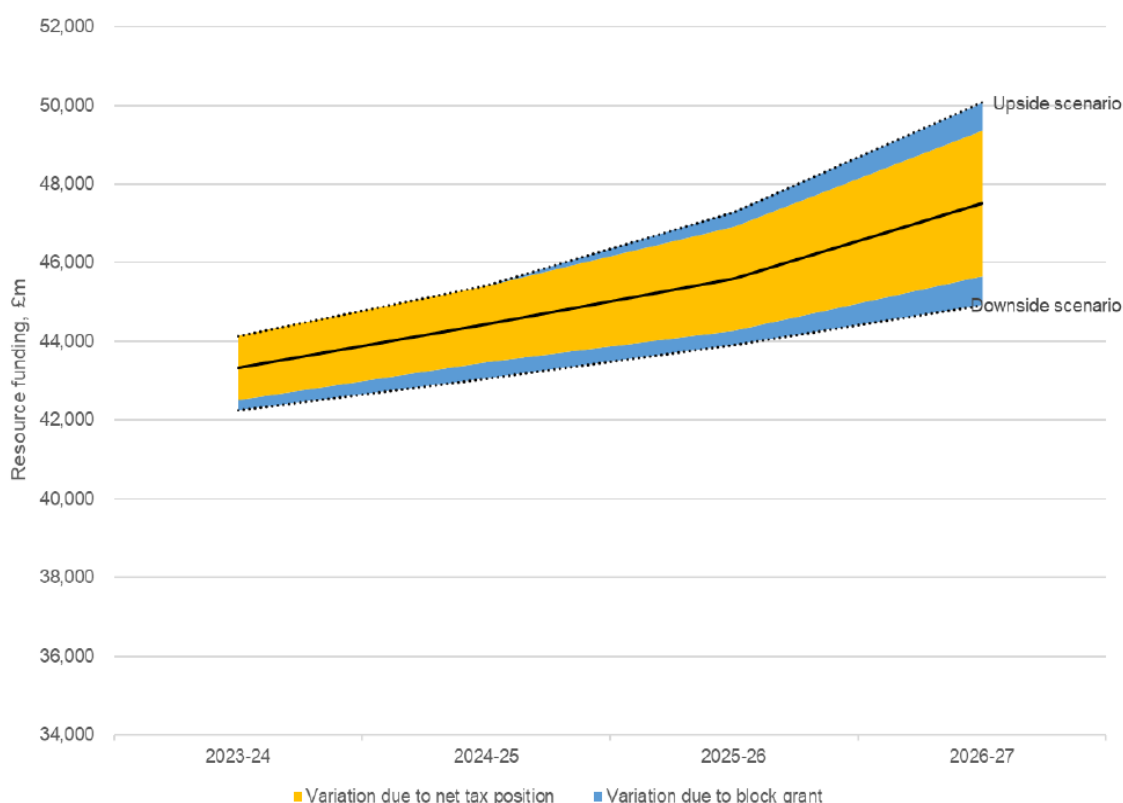
**3.9** The Scottish Government published an updated Medium-Term Financial Strategy in May 2022 which covers the period to 2026-27. It compares the funding and spending scenarios to assess the scale of the challenge. It was published alongside the Resource Spending Review for the same time period.

**3.10** The available funding for the Scottish Budget is broken down into 5 high-level categories:

1. The Block Grant – the single largest source of funding; it is determined by the Barnett Formula, based on the spending plans of the UK Government.
2. Devolved Taxes – the Scottish Government receives the income from these, the largest of which is Scottish Income Tax. The budget is also reduced based on how quickly the revenues from the corresponding tax have grown in the rest of the UK.
3. Non-Domestic Rates – raised by local authorities; all revenue raised is returned to Scottish Government for redistribution.
4. Social Security Block Grant adjustments – revenue provided by the UK Government for devolved social security payments, based on the growth in expenditure in the corresponding payment in the rest of the UK.
5. Other income.

**3.11** The MTFS notes that the funding available to Scottish Government is expected to grow steadily (by 14%) over the next four years to 2026-27, with slightly higher growth from 2025-26. In real terms the growth would only be 5% due to the effect of inflation. However, much of the growth relates to the Social Security block grant, driven by increased demand. Excluding this implies real terms growth of only 2% across the whole four-year period.

**3.12** The Scottish Government MTFS models three scenarios (a central resource funding outlook and an upside and downside scenario, indicating plausible alternative funding paths) and outlines the immediate and longer-term pressures on public spending which need to be considered when developing spending plans to ensure that they meet the needs of a changing population and build resilience for the future.



	2023-24	2024-25	2025-26	2026-27
Central funding envelope	43,321	44,439	45,600	47,498
Upside scenario	44,144	45,419	47,285	50,069
% variation	1.9%	2.2%	3.7%	5.4%
Downside scenario	42,248	43,059	43,914	44,927
% variation	-2.5%	-3.1%	-3.7%	-5.4%

**3.13** The central scenario is based on UK Spending Review announcements to 2023-24 for the block grant, and Office for Budget Responsibility (OBR) forecasts for growth in government spending beyond that. It reflects Scottish Fiscal Commission (SFC) tax revenue forecasts and the OBR's forecasts for block grant adjustments. Upside and downside scenarios have been modelled to illustrate the potential impact of UK spending decisions on the Block Grant, and the impact of Scottish tax performance.

- 3.14** The central scenario is considered the most likely outcome and is used by the Scottish Government for planning purposes. However, the alternative scenarios help to illustrate the risks to the Scottish Budget funding outlook, should there be significant changes to UK fiscal policy or to economic or fiscal forecasts.

### Resource Spending Outlook

- 3.15** The Scottish Government MTFS outlines the economic and fiscal outlook for the period to 2027, to provide the necessary context to spending plans. The Resource Spending Review, which was published at the same time, sets out the multi-year portfolio spending envelopes.

Table 2: Health and Social Care Portfolio Spending Plans

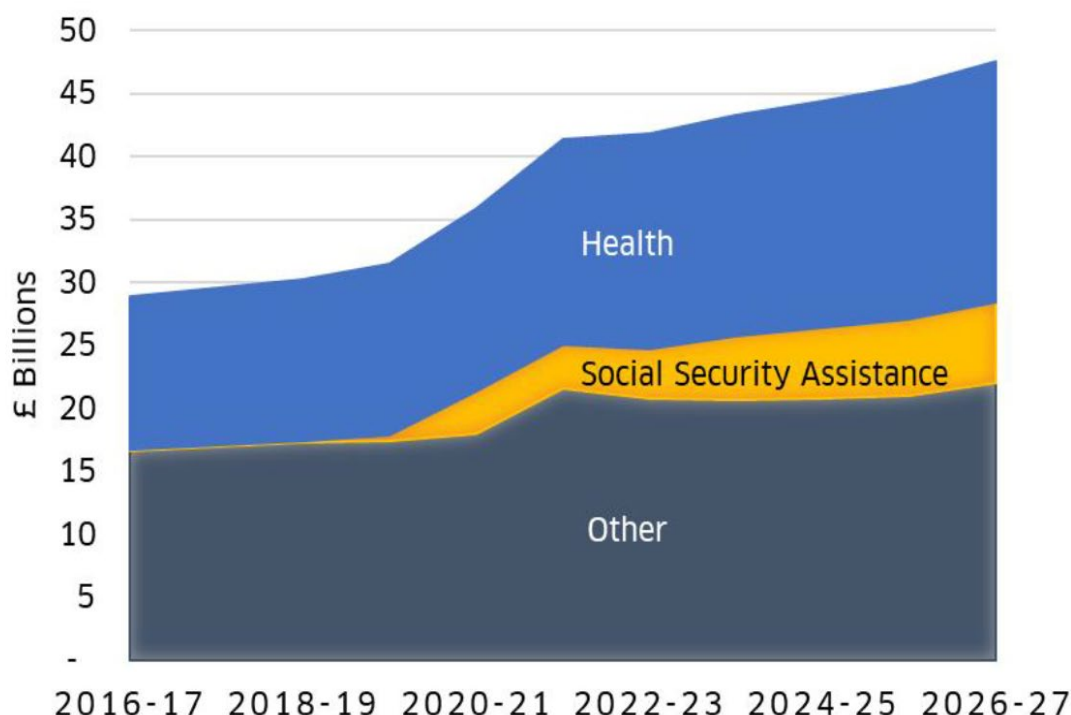
Level 2*	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Health and Social Care	17,084	17,527	17,972	18,513	19,006
Food Standards Scotland	23	23	23	23	23
Total	17,106	17,550	17,995	18,536	19,029

- 3.16** The risks to the resource spending outlook include the following:

- Spending pressure from increased demand from an ageing population
- Demand-led nature of social security expenditure
- Public sector pay
- Inflationary pressures

- 3.17** From 2016-17 to 2022-23 the Health and Social Care Portfolio has risen by £5bn and by the end of the spending review period in 2026-27 the total rise will have been £6.9bn. This is illustrated in the graph below.

Figure 2: Trends in Scottish Government expenditure, 2016-17 - 2026-27



Source: Scottish Budget; 2016-17 to 2022-23

- 3.18** The RSR also outlines the underlying growth in the size and cost of the public sector workforce, even since before Covid. Some of it relates to the devolution of new functions, but the RSR notes that the growth is not sustainable. The approach from 2023-24 onwards will be to contain the total cost of the public sector pay bill at 2022-23 levels – so increasing salary costs will need to be balanced by reductions in workforce numbers.

### Scottish Government Legislative and Policy Changes

- 3.19** National Care Service – the Independent Review of Adult Social Care (published February 2021) recommended the creation of a National Care Service (NCS), with Scottish Ministers being accountable for the delivery of adult social care services. In Autumn 2021, the Scottish Government consulted widely on the creation of a NCS which would have a much wider remit, assuming responsibility for the delivery of a community health and social care service which would support people of all ages. The Scottish Government has drafted legislation and has committed to the NCS being operational by the end of the current parliamentary term in 2026. The establishment of a NCS may fundamentally change the role and operation of the Integration Joint Board and will have significant implications for the whole health and social care system. However, it is currently unclear what form the NCS will take, with the candidates in the SNP Leadership contest (March 2023) indicating that they have differing views on the way forward.
- 3.20** GP Contract 2018 and Primary Care Improvement Plans – the new General Medical services contract came into force in April 2018 and aims to refocus the role of GP as an Expert Medical Generalist, supported by multi-disciplinary teams in general practice. These teams will provide services such as vaccination, pharmacotherapy, community

treatment and care (CTAC), urgent care and additional professional services such as acute musculoskeletal physiotherapy, community mental health and community link workers. The three Ayrshire IJBs are working together to deliver Primary Care Improvement Plans (PCIP), supported by additional Scottish Government funding, to ensure these multi-disciplinary teams are available in each medical practice. The PCIP links closely to Caring for Ayrshire, which will ensure that more health provision is available in communities, and that GP surgeries have the capacity to host multi-disciplinary teams.

- 3.21** Carers Act (Scotland) 2016 - this Act is designed to support carers' health and wellbeing and help make caring more sustainable and came into effect from 1 April 2018. It places a duty for local authorities to provide support for carers, based on the carer's identified needs which meet the local eligibility criteria and supported by adult carer support plans or young carer statements to identify carers' needs and personal outcomes. This duty is supported by additional funding which has incrementally increased each year since 2018 and reached the maximum level in 2022-23.
- 3.22** Mental Health Strategy 2017-2027 - In March 2017, the Scottish Government published its Mental Health Strategy, providing a 10-year vision to improve Mental Health services and improve support to those affected by poor mental health and other complex conditions. The national strategy had a large focus on prevention and early intervention of mental health concerns, with a goal of ensuring mental health problems were treated with the same approach as physical health problems. In 2019 we undertook the Ayrshire Mental Health Conversation and engaged with people across Ayrshire to co-produce a strategic response to the national strategy. Significant additional funding has been provided for investment in mental health services.
- 3.23** The Promise – the findings of the Independent Care Review, published in February 2020, form the promise to all young people who have experienced the care system in Scotland. The aim is to improve the experience of all children and young people and their families if they require additional support and will create a more compassionate care system.
- 3.24** Scottish Living Wage – this is part of a Scottish Government policy to improve people's lives and help create a fairer society. The rate was increased from £9.90 to £10.90 per hour in September 2022 (although employers have until May 2023 to implement the change) and is subject to annual review. This impacts on the costs for the Council and NHS Board as employers and on the cost of services which we commission from other providers.
- 3.25** Annual Adult Social Care Workforce Uplift – Scottish Government funding has been provided to support an uplift to £10.90 per hour from April 2023 for all eligible employees; this will align to the Living Wage.
- 3.26** National Drugs Mission – In 2021 the Scottish Government announced a new national mission to reduce drug related deaths and harms. This will provide £50m of funding per year for five years to support a number of key approaches and priorities including the roll out of the Medication Assisted Treatment Standards.

### **National Demand Pressures**

- 3.27** There are many studies which consider the factors driving expenditure on health and social care. Most of these conclude that demand will increase faster than the rate of



growth of the wider economy and an increasing proportion of GDP will require to be spent on these services. The factors driving growth can be classified into three areas:

- Prices: the general price inflation within health and social care services
- Demographic Change: the effect of population changes as well as the impact of people living longer
- Non-demographic Change: demand-led growth, generated by increased public expectation and advances in new technology or service developments, for example the introduction of new drugs.

**3.28** An increasing proportion of people of pensionable age leads to increased pressures on health and social care services and a smaller working age population. Both alter the demographic make-up of society, the tax base and the needs which public services must meet; people living longer lives with higher and more complex care needs. Policy interventions are required to maintain the affordability of the health care system over the longer-term, including more efficient service delivery and demand management through more self-care, prevention and health improvement.

## **4 Reserves**

**4.1** As the North Ayrshire IJB has the same legal status as a local authority, i.e. a section 106 body under the Local Government (Scotland) Act 1973 Act, it is able to hold reserves which should be accounted for in the financial accounts and records of the IJB.

**4.2** The IJB has a Reserves Strategy which was last refreshed and approved in September 2022. The purpose of this Strategy is to:

- outline the legislative and regulatory framework underpinning the creation, use or assessment of the adequacy of reserves;
- identify the principles to be employed by the IJB in assessing the adequacy of the IJB's reserves;
- indicate how frequently the adequacy of the IJB's balances and reserves will be reviewed; and
- set out arrangements relating to the creation, amendment and use of reserves and balances.

**4.3** At 31<sup>st</sup> March 2022, the IJB held reserves as follows:

- Unallocated General Fund Balance = £7.248m
- Earmarked General Fund Balance = £1.199m
- Earmarked Scottish Government Funding = £23.106m
- Negative Reserve (debt to North Ayrshire Council) = £2.321m

**4.4** The IJB was in the unusual position of holding a negative reserve balance, which reflects an outstanding debt to North Ayrshire Council in respect of deficits incurred in earlier years. The outstanding balance has been repaid in full during the 2022-23 financial year.

**4.5** IJB agreed a draw on the unallocated general fund balance during the year to support the purchase of a property on Arran to provide short-term staff accommodation; this

will assist with the filling of posts on the island and will avoid other accommodation costs being incurred on an ongoing basis.

- 4.6** The earmarked Scottish Government funding included £13.321m of Covid monies which were received at the end of 2021-22 and carried forward. This will be zero by the end of 2022-23 with the funding either spent or recovered by Scottish Government and with no expectation of any additional Covid funding for future years.
- 4.7** At 31<sup>st</sup> January 2023 (Month 10), the IJB was projecting an underspend for the 2022-23 financial year of £1.181m. It is intended that any in-year underspend will be earmarked within a service change fund, which will support the delivery of future savings, including any severance costs arising through Voluntary Early Release of staff.
- 4.8** The Chief Finance Officer is responsible for advising on the targeted optimum levels of reserves the IJB would aim to hold (the prudential target). In determining the prudential target the Chief Finance Officer must take account of the strategic, operational and financial risks facing the IJB over the medium term and the IJB's overall approach to risk management.
- 4.9** Good practice suggests that a prudent level of unallocated general reserves would be in the range 2% to 4% of the revenue budget. In cash terms, this would be between £5.761million and £11.522 million. The projected unallocated balance at 31<sup>st</sup> March 2023 meets the minimum recommended level, however is towards the lower end of the range.

## **5 Scottish Government Funding**

- 5.1** The Scottish National Party manifesto for the Scottish Parliament Elections in May 2021 made several spending commitments over the lifetime of this parliamentary term (2021 to 2026) which are relevant to community health and social care services:
- Increase NHS frontline spending by 20%
  - Create a National Care Service backed by increasing investment in social care by 25%
  - A £250million National Drugs Mission (£50m per year starting 2021-22)
  - Increase direct investment in Mental Health services by 25% and ensure that 10% of the frontline NHS budget is spent on Mental Health services.
  - Increase Primary Care funding by at least 25%
- 5.2** It can be seen how these indicative funding commitments link to the highlighted legislative and policy changes outlined earlier in the document.
- 5.3** As noted at 3.9 above, the Scottish Government published a Resource Spending Review in May 2022; this is not intended to be a detailed multi-year budget but provides high level indicative figures for each spending portfolio.

- 5.4** The Health and Social Care Portfolio figures are detailed in the table at 3.15 and indicate the following:

2022-23	£17,084m		
2023-24	£17,527m	+£443m	+2.59%
2024-25	£17,972m	+£445m	+2.54%
2025-26	£18,513m	+£541m	+3.01%
2026-27	£19,006m	+£493m	+2.66%

- 5.5** The detailed funding commitments made in the Scottish Budget in December 2022 covered only financial year 2023-24 and the following areas have been reflected in our financial planning:

Via Health

- Health Boards must provide IJBs with an uplift of 2% onto the base budget from 2022-23 (NA IJB share £2.164m)

Via Local Authorities

- Free Personal and Nursing Care – additional funding of £15m (NA IJB share £0.388m)
- Real Living Wage - £100m (£2.826m)
- Removal of non-recurring Interim Care funding - £20m (-£0.551m)
- Whole Family Wellbeing Fund - £30m (£0.954m)
- Other minor adjustments - £0.032m

## **6 Budget Pressures**

- 6.1** As noted at 3.27 above, pressures fall largely into three categories: price inflation, demographic change and non-demographic change.
- 6.2** The budget pressures for 2023-24 are detailed in the budget paper and the assumptions made for 2024/25 (year 2) and 2025/26 (year 3) are outlined below.

**Price Inflation**

- 6.3** Pay – it has been assumed that pay will increase by 3% per annum for Council staff and 2% for NHS staff groups. These assumptions align with those used by the partner bodies in their budget planning. Any increase above these levels, should additional Scottish Government funding not be forthcoming, will present a financial risk to the IJB.
- 6.4** National Care Home Contract (NCHC) inflation – each year discussion takes place between COSLA and Scottish Care to negotiate new NCHC rates for residential and nursing care. Budget provision has been made for an increase of 5% in nursing and residential care rates in 2023/24 and 4% per annum in each of 2024/25 and 2025/26.
- 6.5** Other Contract inflation – provision has been made in 2023/24 for the increase in real living wage to £10.90 per hour which will be paid in line with Scottish Government

guidance and further estimated increases have been factored in for 2024/25 and 2025/26.

## Demographic Changes

- 6.6** Physical Disabilities – increased demand of 3.73% per annum has been anticipated based on the average increase in community packages since 2020/21.
- 6.7** Mental Health – increased demand of 4% per annum for 2024/25 and 2025/26 have been built into the financial plan based on annual increases in residents being prescribed medication for mental health concerns and rates of depression. It has been assumed that increased demand in 2023/24 could be absorbed within the existing budget provision.
- 6.8** Learning Disabilities - there is a pressure in relation to service users living longer with an increased acuity of need, particularly those with older carers where the Partnership is required to provide additional support for a longer period. The pressure is solely based on the service information available on the expected increase in the number of clients requiring support due to sustainability of the current care arrangements in place.
- 6.9** Children and Young people – provision has been made for increased demand for foster care and kinship care in 2024/25 and 2025/26. It has been assumed that increased demand in 2023/24 could be absorbed within the existing budget provision.
- 6.10** Older People – provision has been made in 2024/25 and 2025/26 for increased demand for Care at Home services linked to the expected increase in the over 65 population. No additional budget pressure has been included in 2023/24 as significant additional Scottish Government funding to increase Care at Home capacity was made available in 2022/23 and not all posts have yet been recruited to.

## Non-demographic Changes

- 6.11** Mental Health and Learning Disabilities transitions of care – provision has been made for known service users who are expected to move from Children's services into adult health services. Complex care arrangements are required to support a number of individuals, it is anticipated that through the investment in supported accommodation models of care in the community that there will be a longer-term reduction in the ongoing need to invest in individual care packages. This ambition is aligned to the review of complex care arrangements and the Community Living Change Fund.
- 6.12** These budget pressures have been quantified as shown in the table below:

	2024/25 (£m)	2025/26 (£m)
<b>Price inflation:</b>		
• Pay	3.624	3.718
• Contract inflation	1.340	1.398
<b>Demographic Changes:</b>		
• Physical Disabilities	0.172	0.178
• Mental Health	0.129	0.134

• Learning Disabilities	0.277	0.284
• Children and Young People	0.138	0.141
• Older People	0.389	0.389
<b>Non-demographic Changes:</b>		
• Mental Health transitions	0.303	0.270
• LD transitions	0.380	0.524
• Other service changes	0.700	0.850
Estimated cost of Scottish Government priorities	2.995	3.144
<b>TOTAL COST PRESSURES</b>	<b>10.447</b>	<b>11.030</b>

- 6.14** It should be noted that there is no significant year on year change to the level of financial pressures over the next three years and that the assumptions are also in line with the actual cost increases over recent years.

## **7 Risk Assessment and Sensitivity Analysis**

- 7.1** The IJB must be aware of the risks to its financial modelling – it has an approved Risk Strategy and Risk Appetite Statement which support ‘risk aware’ decision-making.
- 7.2** The key risks to this Medium-term Financial Outlook include the following:
- The impact of the current significant levels of inflation on our staff costs and on our partner providers
  - Current significant overspends in relation to low-volume high-cost care packages, particularly in children’s residential placements, learning disability care packages and unplanned activities within the Mental Health lead partnership.
  - Public expectation around levels of service delivery
  - The impact of decisions made by NHS Ayrshire and Arran and North Ayrshire Council on the IJB
  - The impact of introducing a National Care Service
  - Demand and cost pressures are over or underestimated.
  - Recruitment challenges
  - Failure to accurately estimate sources of income, including grant funding or charges to service users.
- 7.3** The next section of the MTFO looks at three different scenarios with different levels of funding and estimates and what the budget position of the IJB could be over the next three financial years under each of these scenarios.
- 7.4** Sensitivity analysis has also been used to test the assumptions made by the MTFO and understand what the implications would be if the assumptions change.

## 8 Scenarios

- 8.1** Based on the budget pressures which are detailed in Section 6 above, three scenarios have been developed which align to the Scottish Government Medium-term Financial Strategy – best-case, medium-case, and worst-case. These have been developed for years 2 and 3 of this MTFO, i.e., 2024/25 and 2025/26, as a plan for a balanced budget in 2023/24 has been developed.
- 8.2** Best-Case Scenario – this assumes a 5% increase in funding per annum for Social Care, in line with the Scottish Government commitment to a 25% increase over the lifetime of the current Parliament. A 4% increase per annum has been assumed for Health funding, which is also in line with the Government commitment to a 20% increase in frontline health spending over the lifetime of the current Parliament.
- 8.3** Medium-Case Scenario – this assumes funding increases in line with the Health and Social Care Portfolio figures used in the Resource Spending Review (published May 2022). For 2024/25 this equates to an increase of 2.54% and for 2025/26 an increase of 3.01%.
- 8.4** Worst-Case Scenario – this assumes a flat cash settlement for both Social Care and Health across both years.
- 8.5** Against each of the three scenarios, sensitivity analysis has also been used to demonstrate what the impact would be in 2024/25 and 2025/26 if the funding was to increase or decrease by 5% or 10%.

8.6

	2024-25			
	Social Care (NAC) £m	Health Lead (NHS A&A) £m	Health Non Lead (NHS A&A) £m	Total £m
<b>FUNDING</b>				
Best Case Scenario	(6.182)	(2.196)	(2.181)	(10.559)
Medium Case Scenario	(3.067)	(1.394)	(1.385)	(5.846)
Worst Case Scenario	0.000	0.000	0.000	0.000
<b>ESTIMATED PRESSURES</b>				
Best Case Scenario	7.890	1.096	1.461	10.447
Medium Case Scenario	7.890	1.096	1.461	10.447
Worst Case Scenario	7.890	1.096	1.461	10.447
<b>POTENTIAL BUDGET GAP</b>				
: Based on Best Case Scenario	1.708	(1.099)	(0.720)	(0.112)
: Based on Medium Case Scenario	4.823	(0.297)	0.077	4.602
: Based on Worst Case Scenario	7.890	1.096	1.461	10.447
<b>EXISTING SAVINGS</b>	0.000	0.000	0.000	0.000
<b>ADJUST FOR NON-RECURRING USE OF RESERVES</b>	1.252	0.000	0.000	1.252
<b>POTENTIAL BUDGET GAP (AFTER EXISTING and NON-RECURRING S.</b>				
: Based on Best Case Scenario	2.960	(1.099)	(0.720)	1.140
: Based on Medium Case Scenario	6.075	(0.297)	0.077	5.854
: Based on Worst Case Scenario	9.142	1.096	1.461	11.699

- 8.7 For 2024-25, the forecast budget gap ranges from a deficit of £1.140m in the best-case scenario to a shortfall of £5.854m in the medium-case and a shortfall of £11.699m in the worst-case. These figures are after adjusting for the saving of £1.252m which was planned on a non-recurring basis for 2023/24 through the use of reserve balances.
- 8.8 The most likely position is considered to be somewhere between medium and worst case which would suggest there could be a shortfall in the region of 2.0% to 4.1% of the Partnership budget to address for 2024-25.
- 8.9 The sensitivity analysis below shows the impact on each scenario if funding was to increase or decrease by 5% or 10%.

		2024-25
		£ Impact
<b>1) BEST CASE FUNDING VARIATION</b>		
Scenario a: funding is 5% more		(0.528)
Scenario b: funding is 5% less		0.528
Scenario c: funding is 10% more		(1.056)
Scenario d: funding is 10% less		1.056
<b>2) MEDIUM CASE FUNDING VARIATION</b>		
Scenario a: funding is 5% more		(0.292)
Scenario b: funding is 5% less		0.292
Scenario c: funding is 10% more		(0.585)
Scenario d: funding is 10% less		0.585
<b>3) WORST CASE FUNDING VARIATION</b>		
Scenario a: funding is 5% more		0.000
Scenario b: funding is 5% less		0.000
Scenario c: funding is 10% more		0.000
Scenario d: funding is 10% less		0.000



## 2025-2026

8.11

	2025-26			
	Social Care (NAC) £m	Health Lead (NHS A&A) £m	Health Non Lead (NHS A&A) £m	Total £m
<b>FUNDING</b>				
Best Case Scenario	(6.491)	(2.284)	(2.269)	(11.044)
Medium Case Scenario	(3.729)	(1.718)	(1.707)	(7.155)
Worst Case Scenario	0.000	0.000	0.000	0.000
<b>ESTIMATED PRESSURES</b>				
Best Case Scenario	8.434	1.112	1.485	11.031
Medium Case Scenario	8.434	1.112	1.485	11.031
Worst Case Scenario	8.434	1.112	1.485	11.031
<b>POTENTIAL BUDGET GAP</b>				
: Based on Best Case Scenario	1.943	(1.171)	(0.784)	(0.012)
: Based on Medium Case Scenario	4.705	(0.606)	(0.222)	3.876
: Based on Worst Case Scenario	8.434	1.112	1.485	11.031
<b>EXISTING SAVINGS</b>	0.000	0.000	0.000	0.000
<b>ADJUST FOR NON-RECURRING USE OF RESERVES</b>				
<b>POTENTIAL BUDGET GAP (AFTER EXISTING and NON-RECURRING S.</b>				
: Based on Best Case Scenario	1.943	(1.171)	(0.784)	(0.012)
: Based on Medium Case Scenario	4.705	(0.606)	(0.222)	3.876
: Based on Worst Case Scenario	8.434	1.112	1.485	11.031

- 8.12** For 2025-26, the forecast budget gap ranges from a breakeven position in the best-case scenario, to a shortfall of £3.876m in the medium-case and a shortfall of £11.031m in the worst-case.
- 8.13** The most likely position is currently considered to be somewhere between medium and worst case which would suggest there could be a shortfall in the region of 1.3% to 3.8% of the Partnership budget to address for 2025-26. This also assumes that all savings for 2024-25 will be delivered on a recurring basis and there is no requirement to use reserves.
- 8.14** The sensitivity analysis below shows the impact on each scenario if funding was to increase or decrease by 5% or 10%.

8.15

	2025-26
	£ Impact
<b>1) BEST CASE FUNDING VARIATION</b>	
<i>Scenario a: funding is 5% more</i>	<i>(0.552)</i>
<i>Scenario b: funding is 5% less</i>	<i>0.552</i>
<i>Scenario c: funding is 10% more</i>	<i>(1.104)</i>
<i>Scenario d: funding is 10% less</i>	<i>1.104</i>
<b>2) MEDIUM CASE FUNDING VARIATION</b>	
<i>Scenario a: funding is 5% more</i>	<i>(0.358)</i>
<i>Scenario b: funding is 5% less</i>	<i>0.358</i>
<i>Scenario c: funding is 10% more</i>	<i>(0.715)</i>
<i>Scenario d: funding is 10% less</i>	<i>0.715</i>
<b>3) WORST CASE FUNDING VARIATION</b>	
<i>Scenario a: funding is 5% more</i>	<i>0.000</i>
<i>Scenario b: funding is 5% less</i>	<i>0.000</i>
<i>Scenario c: funding is 10% more</i>	<i>0.000</i>
<i>Scenario d: funding is 10% less</i>	<i>0.000</i>

## 9 Balancing the Budget

9.1 There are a number of options open to the IJB to balance any budget gap for 2024-25 and 2025-26. These include:

- Revisiting the budget pressures which have been identified
- Reviewing staff turnover savings targets
- Utilising an element of any additional Scottish Government funding against core service pressures
- Identification of further efficiency savings
- Service transformation via the Transformation Plan
- Use of reserves on a non-recurring basis.

## 10 Conclusions

10.1 The IJB faces significant financial challenges in the coming years which will place increasing pressure on its budgets. These are outlined in this document.

10.2 Our Strategic Needs Assessment details a range of demographic and health factors which will see growing demand for services:

- Decreasing and ageing population
- High deprivation
- Long-term health conditions which increase in older people
- Unplanned and emergency admissions to hospital which increase in older people
- Increasing mental health concerns
- Higher than average numbers of Looked After and Accommodated Children

- 10.3** The IJB faces workforce challenges with an ageing workforce and already there are difficulties in recruiting to certain job roles. There is a reducing working age population and a national shortage of appropriately trained staff for particular professions.
- 10.4** The economy continues to face challenges with funding pressures for the public sector, high inflation and the complexities caused by Brexit and the Covid pandemic.
- 10.5** This will impact on the funding available for Health and Social Care, and a range of possible scenarios from the Scottish Government Medium Term Financial Strategy are outlined in section 3.
- 10.6** The IJB requires to deliver on a range of national and local priorities and demonstrate that it has made progress in shifting the balance of care towards more community-based settings. In addition, the National Care Service will represent a huge change in how the IJB operates in the coming years.
- 10.7** Set against all of this, Health and Social Care is a clear priority for the Scottish Government, and this may result in additional financial support, although this will undoubtedly come with additional cost commitments to deliver new policies.
- 10.8** There remains a lack of detail about the funding settlement beyond 2023-24 although the Scottish Government Resource Spending Review (May 2022) provides some high-level figures which have been used in our financial modelling.
- 10.9** Based on the scenarios within this MTFO, it is highly likely that the IJB will have significant funding gaps to address for 2024-25 and 2025-26. Some potential routes for addressing any such gaps are identified at section 9 above, and detailed proposals will be brought to the IJB for approval through the budget exercises for these years.

## **11 Reference Documents**

North Ayrshire Health and Social Care Partnership Strategic Plan 2022-2030 (March 2022)

Scottish Government Medium-term Financial Strategy (May 2022)

Scottish Government Resource Spending Review (May 2022)

Scottish Budget 2023-24 (December 2022)

"A Stronger and More Resilient Scotland – The Programme for Government 2022-23" (September 2022)

**Paul Doak**

**Head of Service (Finance and Transformation)**

**16<sup>th</sup> March 2023.**