

Integration Joint Board

17th November 2022

Subject : **Financial Outlook 2023-2024**

Purpose : The purpose of this report is to make the IJB aware of the financial outlook of the Partnership for 2023-24 at the present time.

Recommendation : It is recommended that the IJB notes the financial outlook for 2023-24 and the work ongoing to allow a balanced budget to be presented to the IJB for approval in March 2023.

Direction Required to Council, Health Board or Both <i>(where Directions are required please complete Directions Template)</i>	Direction to :-	
	1. No Direction Required	x
	2. North Ayrshire Council	
	3. NHS Ayrshire & Arran	
	4. North Ayrshire Council and NHS Ayrshire & Arran	

Glossary of Terms	
NHS AA	NHS Ayrshire and Arran
HSCP	Health and Social Care Partnership

1.	EXECUTIVE SUMMARY
1.1	This report outlines the budget outlook for 2023-24 to provide the IJB with information in relation to the scale of any potential budget gap prior to the budget being submitted to the IJB for approval in March 2023. The information includes three different scenarios for the potential budget gap, based on anticipated cost pressures and different funding assumptions. The report also provides an updated position in terms of reserves, highlights the associated risks and the timetable for setting next year's budget.
1.2	The potential budget gap is estimated to be between £0.890m and £10.355m for next year. Services are developing potential plans to address the budget gap with further detail on any savings proposals being shared with the IJB in January 2023.
2.	BACKGROUND
2.1	The Integration Scheme outlines a process of budget planning for future years where the Chief Officer and the Chief Finance Officer develop the funding requirements for

	the Integrated Budget based on the Strategic Plan and present it to the Parties for consideration as part of the annual budget setting process. This includes consideration of pay awards, contractual uplifts, resource transfer and ring-fenced funds. The IJB are then required to balance the overall resource provided by funding partners to deliver a balanced budget.
3.	2022-23 BUDGET
3.1	The IJB agreed a balanced budget for 2022-23 on 17 th March 2022. Only a small savings target of £0.683m required to be found in setting the budget and the IJB agreed a savings plan to meet this target. There was no requirement to draw on reserve balances.
3.2	The financial settlement from North Ayrshire Council for 2022-23 was on the basis of a flat cash settlement plus the passthrough of additional funding from the Scottish Government which was specifically for the use of the IJB.
3.3	The settlement from NHS Ayrshire and Arran was directed by Scottish Government on the basis of a 2% increase to funding plus an additional amount for increased Employer National Insurance contributions. In total this equated to an increase of 2.56%. In addition, Scottish Government funding for specific policies was passported to the IJB.
4.	2023-24 FUNDING SCENARIOS
4.1	The Scottish Budget will not be published until 15 December 2022, following the UK Chancellor's Autumn Statement on 17 November. Three funding scenarios have been developed which are based on the Scottish Government Resource Spending Review published in May 2022.
4.2	It is noted that there has been considerable turbulence in the UK Economy since then and the Deputy First Minister published an Emergency Budget Review (2022-23) on 2 November which saw £400m of spend within the Health and Social Care Portfolio being delayed or reprioritised. This was to address a reduction in Scottish Government funding and inflationary pressures on the budget, driven in part by higher than expected pay settlements. The longer-term impact of this remains unclear.
4.3	The funding assumptions below expect that any Scottish Government policy areas will be fully funded.
4.3.1	<u>Best Case Scenario</u>
	This scenario assumes a 5% increase for social care and a 4% increase for health. This assumption is based on the Scottish Government manifesto commitment to increase spending over the lifetime of the current parliament by 25% in social care and 20% in health.

		Social Care (NAC) £m	Health - Lead (NHS A&A) £m	Health - Non Lead (NHS A&A) £m	Total £m
	FUNDING				
	Best Case Scenario	(5.256)	(2.111)	(2.097)	(9.465)
4.3.2	<u>Medium Case Scenario</u>				
	The medium case scenario assumes that funding will increase in line with the Health and Social Care Portfolio commitment in the May 2022 Resource Spending Review. For 2023-24 this anticipates an increase of 2.6%.				
		Social Care (NAC) £m	Health - Lead (NHS A&A) £m	Health - Non Lead (NHS A&A) £m	Total £m
	FUNDING				
	Medium Case Scenario	(2.669)	(1.340)	(1.331)	(5.340)
4.3.3	<u>Worst Case Scenario</u>				
	This scenario assumes a flat cash settlement across health and social care and therefore there would be no additional funding.				
4.4	Under the current modelling, the assumptions therefore range from an increase of £9.465m to no change in funding.				
5.	BUDGET PRESSURES				
5.1	Estimated budget pressures for health and social care services total £10.355m. These have been developed in partnership, with finance supporting front line services to identify current and emerging financial pressures considering historic demand and costs and potential future variations.				
5.2	The provision of funding for pressures has the impact of increasing the budget gap to be addressed through savings, therefore the pressures are only included in budget plans where these are absolutely unavoidable. The pressures have been subject to a				

rigorous challenge process. The pressures that have been through this challenge process and are deemed to be unavoidable and therefore recommended for inclusion in the budget planning. However, these pressures will remain under review until the IJB set the budget in March 2023.

5.3 The estimated pressures are noted in the table below:

Category	Social Care (NAC) £m	Health (NHSAAA) £m	Total £m
Payroll	2.179	3.111	5.290
Cost, demand and other inflation	4.735	0.330	5.065
TOTAL	6.914	3.441	10.355

5.4 Payroll inflation accounts for slightly more than half of the overall cost pressure. The assumption has been based on a 3% pay settlement and any pay award in excess of this for 2023-24 would further increase the funding gap. The payroll inflation figure includes funding the balance of the 2022-23 local government pay settlement on a recurring basis. Provision was made in the 2022-23 budget for a 3% pay settlement but the actual settlement meant there was a significant shortfall, which was partly covered by additional Scottish Government funding provided via North Ayrshire Council.

6. RISKS TO THE FINANCIAL POSITION

6.1 There are a number of risks to the Partnership's financial position moving into 2023-24. These include:

- The current very high levels of inflation and the impact this has on costs, including pay settlements and pressures on our commissioned providers.
- The national and global economies are facing significant pressures and these will impact on the resources available.
- The NHS pay award for 2022-23 has not been settled; if this is not fully funded then provision will require to be made for the shortfall on a recurring basis.
- Covid recovery – no funding is expected for Covid costs beyond 2022-23 and therefore it is essential that additional costs arising from Covid are minimised. Cost areas such as PPE will need to be absorbed within existing budgets.
- The National Care Service remains a significant unknown, with very little detail despite the publication of the draft bill in Summer 2022.
- Current areas of overspend – these are largely driven by low-volume high-cost packages of care within Children's Residential Placements, LD and UNPACS. Work is ongoing with services to reduce expenditure in these areas.
- Growing demand for services driven by demographic changes and pressures elsewhere in the health and social care system

- Recruitment – there remain significant challenges in recruiting to vacant posts across many areas of our workforce, driven by a national shortage of suitably qualified candidates
- Scottish Government priorities and the performance and delivery expectations aligned to those, sustainability of investment to grow capacity and workforce to improve performance and address unmet need, for example in Primary Care, Mental Health Services, Alcohol and Drugs and Winter investment.

7. BUDGET GAP

7.1 The table below illustrates the possible budget gap for 2023-24 under the three different scenarios:

	Social Care (NAC) £m	Health - Lead (NHS A&A) £m	Health - Non Lead (NHS A&A) £m	Total £m
POTENTIAL BUDGET GAP				
Based on Best Case Scenario	1.228	(0.340)	0.002	0.890
Based on Medium Case Scenario	3.815	0.431	0.769	5.014
Based on Worst Case Scenario	6.484	1.771	2.100	10.355

7.2 The position outlined in this report considers the IJB budget on a managed basis as this is the position delegated to the North partnership to financially manage. The Ayrshire Finance Leads work together to agree the uplift and pressures from an IJB to managed basis and any budget gap that may need addressed for lead partnership services, this includes for example separating out the lead partnership Mental Health services.

7.3 It is not anticipated at present that the 2022-23 financial position will have an adverse impact on the setting of the 2023-24 budget. At Month 6, a small underspend is projected which, if realised at year-end, will be added to the general fund reserve.

7.4 The estimated budget gap is estimated to be between £0.890m and £10.355m for next year. Savings plans are being developed by the HSCP in line with these estimates and progress with this will be shared at the IJB budget briefing in January 2023.

8. RESERVES

8.1 The IJB is established as a Local Government body therefore has the ability to hold reserve balances. Reserve balances are held as part of an approach to good financial management, the purpose of reserves is as follows:

	a) As a working balance to help cushion the impact of uneven cash flows; b) As a contingency to manage the impact of unexpected events or emergencies; and c) As a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.																									
8.2	The balance of reserves should be considered as part of the budget setting process. The IJB has a reserves policy in place which outlines an optimum value of reserves to be held uncommitted in contingency, this is currently set as 2% to 4% of net expenditure.																									
8.3	The table below shows the reserves position at 1 April 2022.																									
	<table><tr><th rowspan="3"></th><th colspan="2">General Fund Reserves</th><th colspan="3">Earmarked Reserves</th><th rowspan="2">Total</th></tr><tr><th>Debt to NAC</th><th>Free GF</th><th>SG Funding</th><th>Non-SG Funding £m</th><th>HSCP</th></tr><tr><th>£m</th><th>£m</th><th>£m</th><th>£m</th><th>£m</th><th>£m</th></tr><tr><td>Opening Balance - 1 April 2022</td><td>(2.321)</td><td>7.248</td><td>23.106</td><td>0.699</td><td>0.500</td><td>29.232</td></tr></table>		General Fund Reserves		Earmarked Reserves			Total	Debt to NAC	Free GF	SG Funding	Non-SG Funding £m	HSCP	£m	£m	£m	£m	£m	£m	Opening Balance - 1 April 2022	(2.321)	7.248	23.106	0.699	0.500	29.232
	General Fund Reserves		Earmarked Reserves			Total																				
	Debt to NAC		Free GF	SG Funding	Non-SG Funding £m		HSCP																			
	£m	£m	£m	£m	£m	£m																				
Opening Balance - 1 April 2022	(2.321)	7.248	23.106	0.699	0.500	29.232																				
8.4	The position in the North Ayrshire IJB is unique in that we hold a negative reserve balance which has accumulated from previous year overspends. The negative reserve balance is offset by a debtor on the balance sheet reflecting the debt due to North Ayrshire Council. There is currently £1.486m of resource set aside out with the IJB delegated budget to repay this debt. The outstanding debt at 1 April 2022 was £2.321m; based on the agreed repayment schedule the debt would be cleared during 2023-24. However North Ayrshire Council and the HSCP are currently exploring options to clear the full debt by the end of 2022-23.																									
8.5	Earmarked reserves are for a specific purpose. The largest proportion of this relates to Covid funding (£13.321m) which will be fully utilised during 2022-23, as the Scottish Government will reclaim anything which is not spent, to be utilised elsewhere in the health and social care system.																									
8.6	The free balance of £7.248m (2.5%), adjusted for any in-year draw on reserves and any surplus or deficit at the end of 2022-23, is available to support the balancing of the 2023-24 budget.																									
8.7	It should be noted that any use of reserves to balance the budget is on a non-recurring basis and would widen the gap to be addressed in 2024-25.																									
9.	BUDGET TIMETABLE AND NEXT STEPS																									
9.1	The key dates in setting the IJB budget for 2023-24 are noted below:																									

	Event	Timescale
	UK Government Autumn Statement	17 November 2022
	Scottish Budget	15 December 2022
	IJB Budget Private Briefing	12 January 2023
	NAC Budget setting meeting	1 March 2023
	IJB Budget setting meeting	16 March 2023
	NHSAAA Budget setting meeting	Tbc – March 2023
9.2	The IJB budget briefing in January will outline the savings proposals being considered to bridge the budget gap.	
10.	PROPOSALS	
10.1	It is proposed that the IJB notes the financial outlook for 2023-24 and the work ongoing to allow a balanced budget to be presented to the IJB for approval in March 2023.	
10.2	<u>Anticipated Outcomes</u>	
	The IJB and HSCP are aware of the potential challenge in setting a balanced budget for 2023-24 to inform planning for options, which will ensure the IJB are able to approve a balanced budget prior to the start of the new financial year.	
10.3	<u>Measuring Impact</u> The IJB will be provided with updates on progress in line with the budget timetable.	
11.	IMPLICATIONS	
11.1	<u>Financial</u> The report outlines the budget outlook using information available on cost and demand pressures and potential funding scenarios. It is estimated there may be a requirement to deliver savings in the range from £0.890m to £10.355m depending on the level of funding for 2023-24. Work is ongoing to ensure savings options can be presented to the IJB for approval in March 2023 to ensure a balanced IJB budget moving into next year.	
11.2	<u>Human Resources</u> There will be full consultation with the Trade Unions as appropriate when the final savings are developed if there any proposals which impact on staffing.	
11.3	<u>Legal</u> The IJB has an implicit obligation to funding partners to set a balanced budget prior to the start of the new financial year.	
11.4	<u>Equality/Socio-Economic</u> Equality Impact Assessments (EIAs) will be undertaken for all savings proposals.	

11.5	<u>Risk</u> Risk implications are outlined in full at section 6 of the report.
11.6	<u>Community Wealth Building</u> None.
11.7	<u>Key Priorities</u> The 2023-24 budget proposals have been developed in line with the HSCP Strategic Plan Priorities, the IJB would be advised specifically of any plans that would not be in line with the Strategic Plan outcomes and priorities.
12.	CONSULTATION
12.1	The budget and savings proposals are developed in conjunction with the Director and Heads of Service. Consultation also takes place with colleagues in North Ayrshire Council and NHS Ayrshire and Arran, as well as East and South Partnerships in relation to Lead Partnership services.

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