

# REPORT

## Medium Term Financial Strategy Update: 2024/25-2026/27

Edinburgh Integration Joint Board

12 December 2023

### Executive Summary

This report presents an update on the medium-term financial strategy (MTFS) and outlines the approach being taken to balance the plan.

The MTFS has been updated to reflect the latest available estimates of income and expenditure for the Integration Joint Board. Financial implications of recent increases in social care capacity, rising prescribing costs and risks around income are driving a higher budget deficit than previously identified.

A process to identify and develop savings and recovery proposals to bridge the financial gap is underway. As far as possible these will align to our improvement and strategic plans. Despite this there is a risk that financial balance over the 3-year period of the MTFS is not achievable without significant negative impact on outcomes for people and performance more generally.

Officers will continue engagement with our partners. All involved in these discussions recognise and accept a number of complex inter-related factors, namely: the ongoing improvements in performance; the likely increased demand for services as we emerge from the Covid pandemic; and the IJB's structural deficit and inflation price pressures.

## Recommendations

It is recommended that the Board notes the:

- a) update on the Integration Joint Board's medium term financial strategy 2024/25-2026/27; and
- b) officers' ongoing engagement to ensure partners are briefed on the updated medium term financial strategy and potential implications.

## Directions

Direction to City of Edinburgh Council, NHS Lothian or both organisations	No Direction required	✓
	Issue a direction to City of Edinburgh Council	
	Issue a direction to NHS Lothian	
	Issue a direction to City of Edinburgh Council & NHS Lothian	

## Report Circulation

1. This report has not been presented elsewhere but the content and issues raised in the paper have been explored and discussed through a series of Budget Working Group sessions.

## Main Report

### Background

2. In March 2023, the Integration Joint Board (IJB) considered the 2023/24 financial plan and agreed the first phase of the associated savings and recovery programme (SRP). The second phase of the SRP, along with further mitigating actions, was subsequently agreed in June 2023. At this point the plan showed an opening shortfall for 2023/24 of £47.0m. This was offset in year by phase 1 and 2 of the agreed savings and recovery programme (SRP), slippage on investments and commitments held in reserves and additional

funding assumed from NHS Lothian to balance the position on set aside services. Despite these actions, the plan remained unbalanced with a deficit of £14.4m with the board accepting the recommendation from officers that bridging this residual budget gap would require a series of measures which would have significantly negative in-year and future year consequences for people and performance more generally.

3. On 2<sup>nd</sup> November 2023, the City of Edinburgh Council (the Council) agreed to increase the budget delegated to the IJB by £14.2m. This would be mainly funded from the Council's 2022/23 underspend and would allow the in-year deficit to be offset on a one-off basis. Whilst clearly welcome the underlying IJB budget shortfall remains for 2024/25 onwards. The appendix sets out the budget gap for 2023/24 and how this was addressed.

### **Financial context**

4. In common with most public services, the IJB is agreeing a budget at a time when demand for our services is increasing, costs are rising and we are striving to improve performance. This is likely to be exacerbated by continuing public finance constraints, unmet need in our communities, and the impact of pay awards and fair work measures across the health and social care system compounding the critical risks around provider sustainability.
5. The wider context in which the IJB sets its budget has been covered in previous reports to the board. Publications, from both UK and Scottish Governments, have set the scene of tightening resources, increasing demands, workforce shortages and the requirement to prioritise and target key priorities. Most recently, the UK Government's Autumn Statement 2023 was published on 22<sup>nd</sup> November 2023. This will be followed by the Scottish Government's (SG) draft budget which is scheduled to be announced on 19<sup>th</sup> December 2023.

### **Medium-term financial strategy**

6. In a bid to adopt a longer term, strategic approach to financial planning which drives improvement and savings, the board has supported the development of a medium-term financial strategy (MTFS). This takes a longer-term view of our finances and is aligned to a set of longer-term transformation change programmes and projects. We continue to refine and align the improvement

plan and MTFFS wherever possible and will prioritise projects and programmes which minimise negative impacts on the people of Edinburgh.

7. The MTFFS shared with the IJB in June 2023 estimated the financial gap for 2024/25 if no action was taken to be £44.9m. Assuming full delivery of the SRP agreed at the same meeting alongside further mitigations would reduce this to £20.2m. As with any financial projection, it is important to routinely review and update in the light of any emerging changes and as further information becomes available. The Chief Finance Office has been working with colleagues from the Council and NHS finance teams to update the MTFFS and the current position is summarised in paragraphs 8 to 11 below.

### Opening position 2024/25

8. In conjunction with the City of Edinburgh Council and NHS Lothian finance teams, the estimated costs of delegated services for the coming financial year have been modelled. Additionally, assumptions have been agreed in respect of funding increases. This work has informed the updated starting point for the 2024/25 MTFFS. The drivers of this change are articulated below and summarised in figure 1:

- The June MTFFS allowed for an increase of £10m in **purchasing costs**, driven largely by demographic change. Current trends indicate that this does not take sufficient account of recent growth as waiting lists for assessments have reduced. As an example, we have seen care at home hours increase by c14% over the last year. Recalculating the provision in the December 2023 version of the MTFFS to factor in this level of growth has added **£12.5m** to our previous estimate. As this is a significant change, it is being reviewed with input from the Service Director – Operations and the Head of Performance. It has been assumed that, in line with previous years, no additional funding will be provided to meet this pressure.
- **Other contractual inflation** has been calculated in line with the methodology developed nationally. The estimate in the MTFFS allows for the increase in the living wage to £12.00 from 1<sup>st</sup> April 2023. It has been assumed that funding will be provided in the SG draft budget. However, the allocation between integration authorities has yet to be agreed by the

COSLA Distribution Group. This group is responsible for confirming the allocation methodology to be used for all local authority funding. In previous years it has indicated a reluctance to move from distributing monies on a GAE basis. If they maintain this stance then there is a material risk that the funding Edinburgh receives is insufficient to uplift all contracts in line with national policy. Modelling indicated that this shortfall would be in the region of **£4.3m** and this has been reflected in the MTFS.

- **Prescribing** pressures are calculated on a pan Lothian basis by the Medicines Management Group. Work to finalise their assessment is ongoing with the current best estimate being **£7.8m** in excess of the level already reflected in the MTFS. This is driven by a combination of increased activity and increasing prices linked to inflation and nation-wide shortages of drugs.
- **Set aside costs** are estimated as an integral part the NHS Lothian financial planning process. The latest iteration of which indicates an increase in pressure of £5.1m, caused by a combination of drug growth and additional staffing costs, particularly around front door services.
- MTFS expenditure projections assume that operational services continue to run with **vacancies**. This reflects the ongoing recruitment and retention challenges and the high levels of current staffing gaps and will be closely monitored as the year progresses. The previous version of the MTFS included an allowance of £15.0m across Council and health services. This has been adjusted based current levels of vacancies and where we have seen changes in vacancy patterns. Specifically, to reflect ongoing recruitment in nursing (**£1.5m**) and an increased level of vacancy in Council services (**£2.5m**). As in 2023/24, this will be closely monitored as the year progresses.

9. As a result of these changes, the opening savings requirement for 2024/25 has increased to £67.6m. To compare this to the opening gap in the previous version of the MTFS (£20.2m), the full year impact of the agreed 2023/24 SRP (£18.7m) should be added back. Figure 1 below summarised these movements:

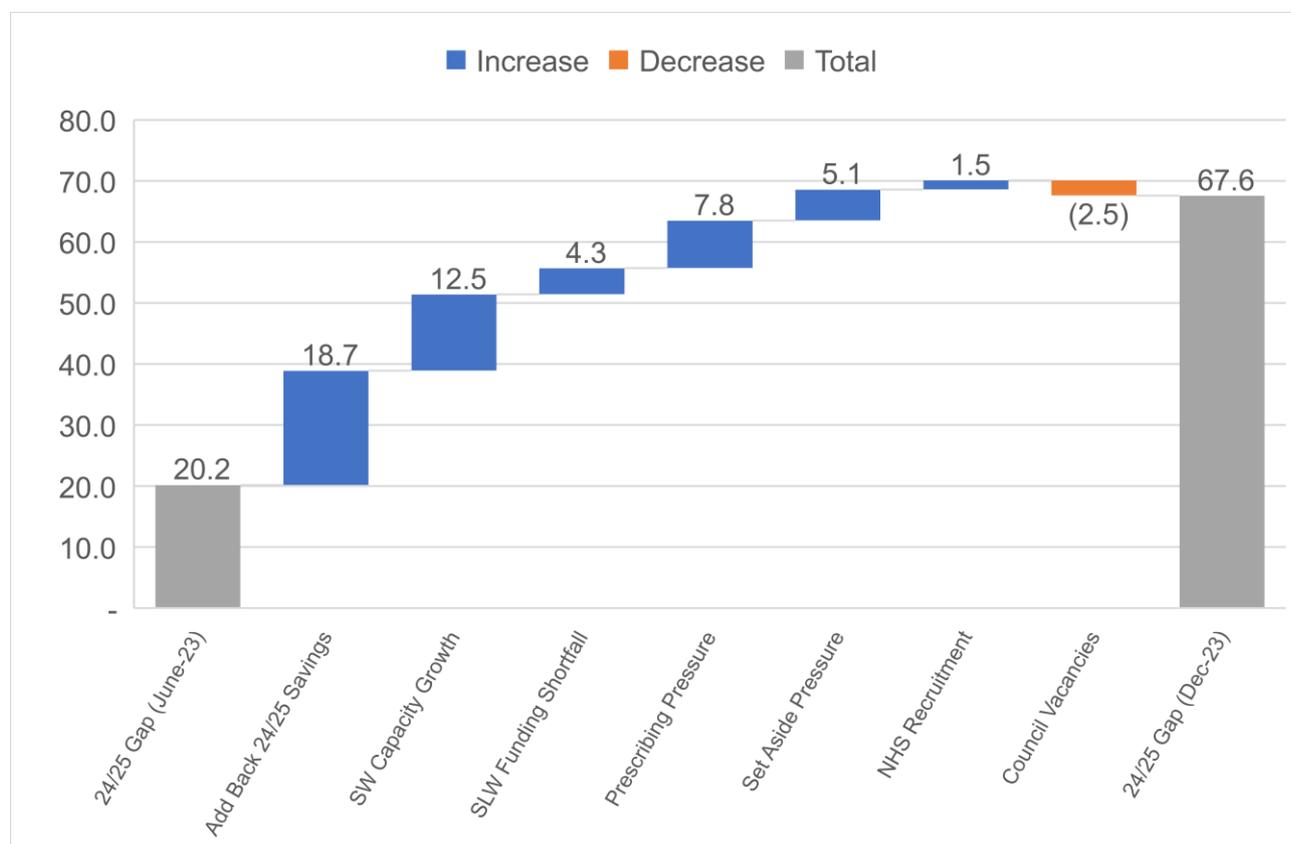


Figure 1: 2024/25 financial plan gap (as at December 2023)

10. Table 1 summarises the drivers of the opening budget deficit for 2024/25. These reflect a combination of longstanding pressures as well as in year increases.

	£m
Social care capacity growth	36.7
Living wage & contract uplifts	10.4
Pay awards	5.9
Prescribing	12.3
Set aside services	14.4
Other	4.0
Vacancies	(16.0)
<b>Total</b>	<b>67.6</b>

Table 1: drivers of MTFS financial gap 2024/25

11. Table 2 below extrapolates this over the 3-year period of the MTFs. It demonstrates that, if no action was taken, the gap would increase to £120m by 2026/27.

	2024/25 £m	2025/26 £m	2026/27 £m
Opening position	19.2	67.6	93.9
Non-recurring adjustments	11.6	-	-
Funding changes	(30.4)	(9.7)	(9.8)
Cost changes	67.2	36.0	35.7
<b>Savings requirement total</b>	<b>67.6</b>	<b>93.9</b>	<b>119.8</b>

*Table 2: MTFs gross savings requirement 2024/25 to 2026/27*

### Balancing the plan

12. We are facing unprecedented challenges to the sustainability of our health and care system; an ageing population; an increase in the number of people living with long term conditions; a reduction in the working age population which compounds the challenge in workforce supply, and fundamentally resource availability cannot continue to match levels of demand. These issues are longstanding and have been recognised on a UK and Scotland wide basis. In the case of Edinburgh this is evidenced by the structural deficit which the IJB inherited from partners. Since its inception the IJB has routinely faced an underlying budget gap which we are unable to bridge on a sustainable basis.
13. In line with other integration authorities across Scotland, the prevailing circumstances and associated financial constraints reinforce the need to redesign services and reshape the services we commission. Our aim is that, wherever possible we will do this via the MTFs in a way which maximises alignment with the strategic plan and improvement programme. It should be noted though that, given the scale of the financial challenge, this may not be possible in every instance.
14. Initial responses to reduce the scale of the next phase of the SRP are shown graphically in figure 2 and can be summarised as:
- an **additional contribution** of £5m from the Council. This is a combination of a £3.4m anticipated benefit from changes in employer's pension contributions with the balance of £1.6m being provided in the draft budget;

- further **funding** of £13.2m from NHS Lothian representing their ongoing commitment to supporting the financial position for set aside services; and
- an assumption that the pressure (referred to at 8 above) relating **uplifting contracts** to support the payment of a minimum £12/hour will be managed within the budget available. This would mean that either full funding will be received via the SG budget or that implementation would be constrained.

15. The combined impact of these factors would reduce the net savings requirement for 2024/25 to £45.1m (see figure 2 below). Of this, £18.7m (representing the full year impact of the 2023/24 SRP) has already been agreed, leaving a balance of £26.4m.

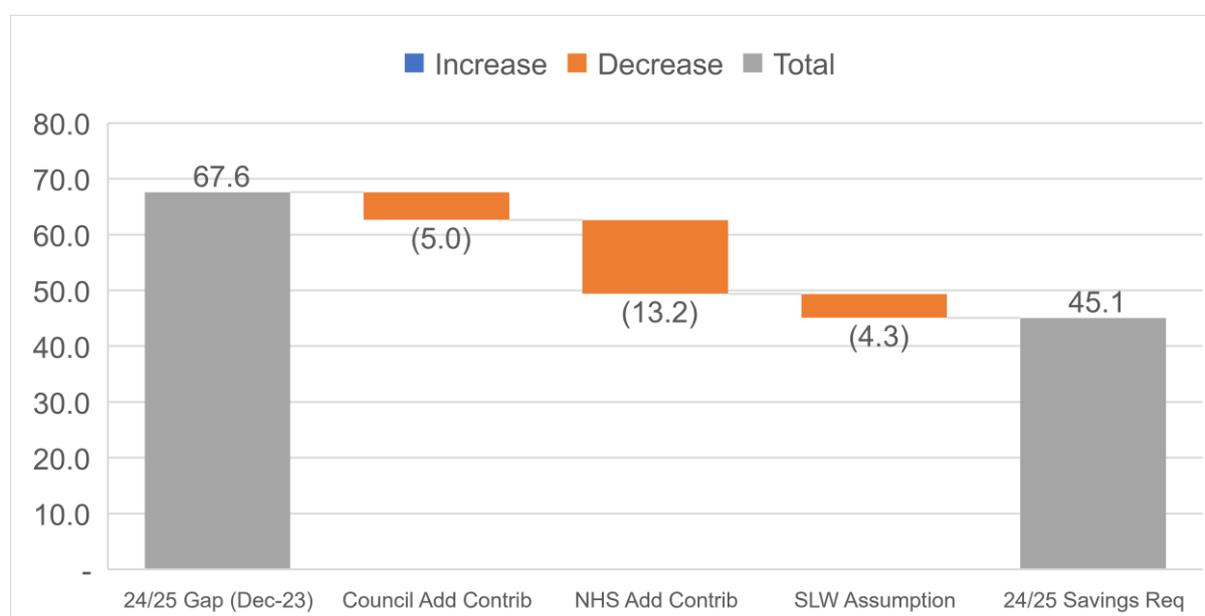


Figure 2: net savings requirement 2024/25

16. The financial projections discussed above are consistent with the planning assumptions of our partners and are based on the best currently available information. These will be kept under review by the Chief Finance Officer and will be amended as further data becomes available. Risks inherent in the current assumptions include:

- Scottish Government settlement - this will become clearer following publication of the draft budget;
- Capacity growth – the extent to which growth in demand aligns with projections and the ability for internal services and the market to respond;

- Provider sustainability – prevailing economic conditions are impacting a number of providers;
- Prescribing – as referenced above, growth in prescribing costs remains under review;
- Recruitment – the financial plan assumes level of vacancies which offsets other pressures. This reflects the challenges in recruiting and retaining staff. Whilst not a deliberate ‘freezing’ of posts it does mean that recruitment above current levels will necessitate savings in other areas;
- Pay awards – any pay award in excess of the level provided for in the MTFS will bring additional pressure if not funded in full; and
- Safe staffing – the financial consequences of the implementation of new legislation from 1<sup>st</sup> April 2024 are not yet clear.

### **Approach to developing the savings and recovery programme**

17. Following the agreement of the improvement and savings and recovery plans in June 2023, the Edinburgh Health and Social Care Partnership (EHSCP) reviewed its governance arrangements. A priority of this work was to align the improvement plan with the MTFS and ensure appropriate arrangements are in place for delivery and management of this complex, large-scale programme of change. This governance model includes the establishment of a new Change Board, chaired by the Chief Officer, which has responsibility for overseeing major change work. The Change Board considered and agreed the approach to developing proposals for the SRP. This is set out diagrammatically in figure 3 below. Main features of the process include:

- a themed approach to the development of savings rather than assigning a blanket percentage reduction across all teams;
- where possible, savings and efficiency themes are linked to, and build on, existing MTFS priorities and programmes. As such, this is the next phase of activity rather than an entirely new set of proposals;
- Senior responsible officers (SROs) have been identified for each theme and will work with their teams to develop proposals. This will include

working with finance and performance colleagues to ensure that financial savings assumptions are valid; and

- SROs are required to set out the path to delivering savings and what the risks and impacts of this would be.

18. “Star chamber” sessions, chaired by the Chief Officer, will take place in December to review initial proposals and provide feedback. A second round of sessions will be held in January which will further review and finalise proposals. It is likely that there will be some cross-over or duplication in these themed areas – the process will aim to identify and address this. The board will be kept informed and updated through budget working group sessions in early 2024. Learning from the successes and challenges of the 2023/24 MTFS process we will also ensure close and regular engagement with partners throughout.

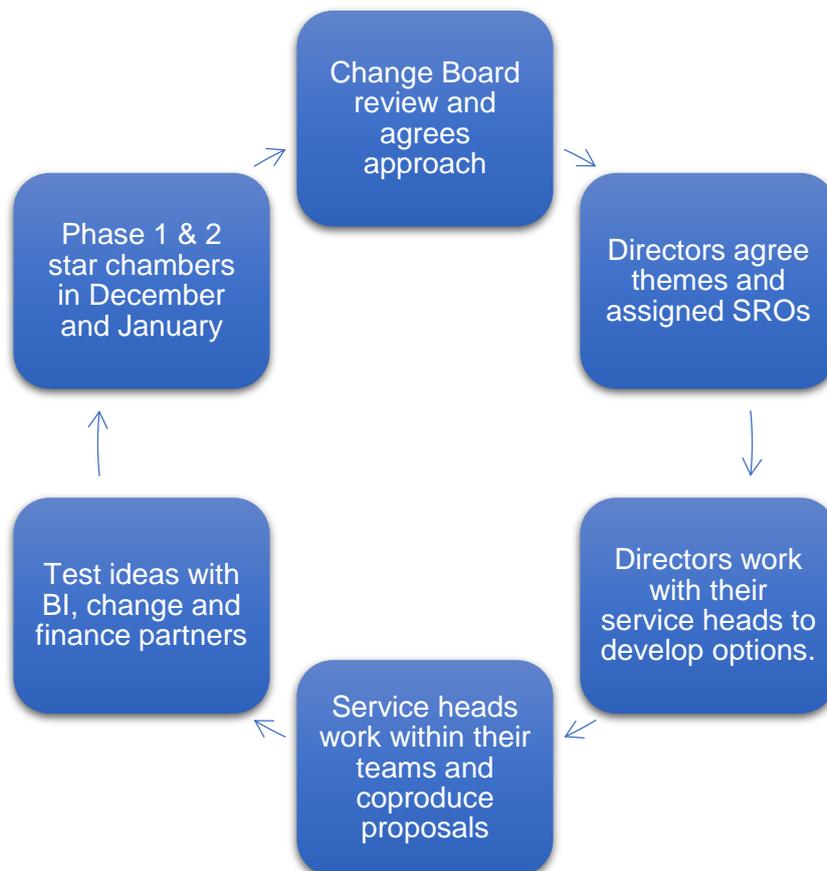


Figure 3: process for developing savings

19. SROs will look to maximise opportunities for transformation and for efficiencies, but delivering savings of this magnitude will undoubtedly affect performance and outcomes for people.

20. 17 individual areas for investigation have been grouped into 5 themes. These are summarised in figure 4 below:

No	Title	Description
1.	Commissioning and pathways	Savings and efficiencies associated with redesign of pathways and models to facilitate reduced spend on externally commissioned services. Majority of the suggested workstreams are already in delivery, though further work needed to define potential savings and delivery approach for 24/25.
2.	Social care demand and capacity	Continuation of work commenced in 23/24 to address growth within purchasing budget and ensure that packages of care deliver quality outcomes within appropriate cost envelope. To develop and embed options for the continued review of existing packages ensuring greater use of digital solutions and universal services. To include assessment of current eligibility criteria and options and impacts for strengthening and/or raising this.
3.	Grip and control	Ongoing grip and control workstreams to release financial efficiencies through better processes, tighter fiscal control and appropriate approval mechanisms for spend.
4.	Internal service redesign	Redesigning our models for internal services and teams to ensure best value and effectiveness.
5.	Other	Any and all other areas for development

*Figure 4: MTFS savings and recovery plan themes*

## Conclusion

21. The MTFS has been refreshed to reflect the latest available information. This will continue to be refined over the coming weeks and months, including the monitoring of the risks inherent in the underpinning assumptions.
22. To balance the plan, a clear process for developing themed savings opportunities has been agreed. This approach has avoided “salami slicing” and seeks to target areas where work is already underway. It is recognised that

significant resource and capacity required to deliver on this scale of change and this will be kept under close review.

23. Wherever possible we will look for efficiency and transformation options, but this will not be sufficient to bridge a gap of this size. Officers aim to present a balanced plan to the EIJB, but this is likely to come with impacts on performance, service delivery and outcomes for people we support. As the plan develops it will be critical to continue working collaboratively with partners.

## **Implications for Edinburgh Integration Joint Board**

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### **Financial**

24. Outlined in the main body of this report.

### **Legal/risk implications**

25. There are a number of risks associated with the ongoing development of the 2024/25 MTFS. Whilst every effort has been made to ensure all likely additional costs have been incorporated into the financial outlook at this time, there remain a number of inherent uncertainties and associated risks. The financial planning process is an ongoing and iterative cycle, and it is not possible to fully identify all financial risks facing individual service areas, or the wider organisation, at this stage.
26. Whilst the MTFS aims to provide a route to service and financial sustainability, the size of the financial challenge facing the IJB is significant. In this context it is highly probable that some of the actions required to support financial balance will have detrimental impact. This is particularly true when considering the interaction between the reliance on vacancies and the requirements of the improvement plan.

### **Equality and integrated impact assessment**

27. There are no specific implications arising from this report.

### **Environment and sustainability impacts**

28. There are no specific implications arising from this report.

## Quality of care

29. There are no specific implications arising from this report.

## Consultation

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30. This report has been prepared with the support of the finance teams in the City of Edinburgh Council and NHS Lothian.

## Report Author

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**Moira Pringle**

**Chief Finance Officer, Edinburgh Integration Joint Board**

[moira.pringle@nhslothian.scot.nhs.uk](mailto:moira.pringle@nhslothian.scot.nhs.uk)

## Appendices

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Appendix                      2023/24 budget gap

## 2023/24 BUDGET GAP

	£m
Demographic pressures	(12.3)
Performance linked capacity increases	(15.3)
Insourcing services	(2.0)
Living wage & contract uplifts	(5.1)
Pay awards	(2.9)
Vacancies	6.1
<b>Sub total Council services</b>	<b>(31.5)</b>
Prescribing	(10.7)
Set aside services	(9.1)
Vacancies	8.9
Other	(4.6)
<b>Sub total health services</b>	<b>(15.5)</b>
<b>Initial savings requirement</b>	<b>(47.0)</b>
1. Phase 1 savings	11.8
2. Phase 2 savings	8.8
3. Slippage on investments/reserves	4.0
4. Additional funding from NHS Lothian (set aside)	8.0
<b>Total savings and other actions</b>	<b>32.6</b>
<b>Remaining budget deficit</b>	<b>(14.4)</b>