



<b>Meeting of East Renfrewshire Health and Social Care Partnership</b>	Integration Joint Board	
<b>Held on</b>	31 January 2024	
<b>Agenda Item</b>	7	
<b>Title</b>	Financial Recovery 2023/24 and Budget Setting 2024/25	
<b>Summary</b>		
To provide the Integration Joint Board with the latest information on financial recovery in the current year and an overview of the potential impact to 2024/25 resulting from the Scottish Government budget announced on 19 December 2023.		
<b>Presented by</b>	Lesley Bairden, Chief Financial Officer	
<b>Action Required</b>		
The Integration Joint Board is asked to note and comment on this report and agree to the continued actions to mitigate costs as part of financial recovery planning.		
<b>Directions</b>	<b>Implications</b>	
<input type="checkbox"/> No Directions Required	<input checked="" type="checkbox"/> Finance	<input checked="" type="checkbox"/> Risk
<input type="checkbox"/> Directions to East Renfrewshire Council (ERC)	<input type="checkbox"/> Policy	<input type="checkbox"/> Legal
<input type="checkbox"/> Directions to NHS Greater Glasgow and Clyde (NHSGGC)	<input type="checkbox"/> Workforce	<input type="checkbox"/> Infrastructure
<input checked="" type="checkbox"/> Directions to both ERC and NHSGGC	<input type="checkbox"/> Equalities	<input type="checkbox"/> Fairer Scotland Duty

**EAST RENFREWSHIRE INTEGRATION JOINT BOARD**

**31 JANUARY 2024**

**Report by Chief Financial Officer**

**FINANCIAL RECOVERY 2023/24 and BUDGET PREPARATION 2024/25**

**PURPOSE OF REPORT**

1. To advise the Integration Joint Board of the latest information in relation to financial recovery for 2023/24 and to provide an overview of the potential impacts to 2024/25 per the Scottish Government budget announced on 19 December 2023.
2. This reflects to position discussed at the recent IJB seminar held on 12 January 2024.

**RECOMMENDATIONS**

3. The Integration Joint Board is asked to note and comment on this report and agree to the continued actions to mitigate costs as part of financial recovery planning.

**BACKGROUND**

4. The IJB will recall that we have been considering the possibility of invoking the need for financial recovery since the budget discussions in 2021/22 when we set our budget for that year. Again in 2022/23 we signalled that funding may not be sufficient to meet the increasing demand for services, recognising the historic level of savings delivered (£11.5 million on social care between 2015/16 and 2022/23, including non-recurring Covid support funding for 2 years).
5. Some IJB members may also recall that a change to a criteria based approach was signalled as the only viable option to reduce social care costs when the 2020/21 budget was set on the cusp of the Covid pandemic.
6. During 2023/24 we have been reporting that despite best efforts we may not be able to contain costs in the current financial year, with the complexities and demand of the post Covid landscape. In particular we recognised the risk of deliverability of the Supporting People Framework.
7. The IJB will also recall that at its November meeting the Chief Officer and Chief Financial officer advised that, based on the scale of the budget deficit and following discussion with both partner organisations the board recognised that we were entering formal negotiations with Local Authority and Health Board and also agreed that moving to substantial and critical levels of risk in our response to people's needs was required to mitigate costs.
8. The IJB also noted in and welcomed that East Renfrewshire Council have indicated support to the IJB for social care cost pressures on a non-recurring basis this financial year.

9. The position in 2023/24 will also impact on the budget for 2024/25 as the underlying deficit will require to be funded on a recurring basis, along with any new pressures from the 2024/25 budget settlement.
10. Following the November IJB meeting the Chief Officer wrote to both partner Chief Executives to confirm the outcome of the meeting and discussions with partners are ongoing.

## REPORT

11. The Integration Scheme sets out the high level approach for financial recovery. The following extract (paragraph 8.8 in the scheme) shows the text of the scheme and our update to each element:
12. The Chief Officer will deliver the outcomes within the total delegated resources and where there is a forecast overspend against an element of the operational budget, the Chief Officer, the Chief Finance Officer of the Integration Joint Board and the appropriate finance officers of the Local Authority and Health Board must agree a recovery plan to balance the overspending budget, which recovery plan shall be subject to the approval of the Integration Joint Board.
  - i. We have discussed our financial sustainability over the past few years and recognised in the past 2 budget cycles that financial recovery may be required. In the current year our IJB reporting is summarised below and in each report we reference that financial recovery will be a likely requirement.
  - ii. At our IJB meeting on 16 August 2023 we advised that the projected overspend for the year was £2.64 million, and the Chief Officer and her management team are working on actions to mitigate cost pressures as far as is possible in the current year. This projected position also assumes that the full savings target of £7.06 million will be achieved in year, including a draw from the budget savings, pressures and general reserves.
  - iii. At our IJB meeting on 27 September 2023 we advised that the projected overspend for the year was now £3.044 million and we continue work on actions to mitigate cost pressures as far as is possible in the current year. Action plans continue to be developed and so far have identified cost reductions of £0.5m (further tightening of vacancy management, ensuring non pay spend is minimised including equipment and running costs where there is any flexibility to do so). We are in the process of undertaking a voluntary severance trawl, with our staff employed by the council to support the delivery of recurring savings.
  - iv. At our IJB meeting on 22 November we advised that the actions to reduce costs were now £0.6 million. The IJB were also advised that although the projected overspend in the report was still c£3 million, as the prescribing position is deteriorating and we are also concerned about the delivery of supporting people existing savings we now need to revise our criteria to substantial and critical and this was agreed by the IJB.
  - v. We have had a moratorium on non-essential spend in place from prior years, however a refresher communication has been issued as part of the Chief Officer update on our financial position to all staff.

- vi. The Chief Officer continues to work with her management team and we are introducing further measures to review weekly the impact of reviews of care packages to substantial and critical and any other changes. We have revised the governance process for chairing our weekly allocation groups.
  - vii. We were already reviewing our grant funded activity and are expediting any changes we can make, whilst recognising the importance of our voluntary organisations as a backbone of mitigation to provide support at lower levels of need.
  - viii. We are looking at delegation and authorisation levels to further control our costs.
  - ix. Our Income Generation group, including IJB members continues to meet and this will inform our approach for 2024/25.
13. In the event that the recovery plan does not succeed, the Chief Officer, Chief Financial Officer of the Integration Joint Board will consider utilising Integration Joint Board reserves where available.
- i. Our financial reporting for the year already recognises we will utilise all reserves available to us in this financial year.
14. The Parties may consider as a last resort making additional funds available, on a basis to be agreed taking into account the nature and circumstances of the overspend, with repayment in future years on the basis of the revised recovery plan agreed by the Local Authority and Health Board and Integration Joint Board.
- i. The Council have indicated non-recurring support in the current financial year and as reported to the IJB in November 2023 this was at the point the social care element of the projected overspend was c£2 million. However in the letter sent to commence the recovery mechanism this included the updates provided at the IJB and this was now c£3.2 million.
  - ii. The additional Covid support funding from the council has also been factored in to the latest monitoring.
15. If the revised plan cannot be agreed by the Local Authority and Health Board, or is not approved by the Integration Joint Board, mediation will require to take place in line with the dispute resolution arrangements set out in this Scheme. However given the ongoing discussions with partners, including the support from the council, we do not consider that this will be required.
16. The potential deficit we communicated to our partners of £5.8 million as at the end of November, is summarised in the table below and this already allows for the actions to mitigate further cost increases as well as reducing existing costs, as referred to above:

	ERC £m	NHS £m	Total £m
November 2023 projected deficit (per report)	1.8	1.2	3.0
Further Pressures:			
Prescribing (net of £0.1m local actions)		1.4	1.4
Savings at risk (supporting people £2.5m, other £0.1m) (after £1.7m reserves)	2.6		2.6
Less: reduction from criteria changes	(1.2)		(1.2)
Potential Overspend in Financial Recovery letter	3.2	2.6	5.8

17. The latest revenue monitoring shows that we whilst we have a modest reduction in projected costs of £0.2 million against the position as above, we are still concerned around the deliverability of the supporting people change in criteria saving, from both the time and capacity to undertake reviews and the outcome of the assessments. This is the biggest priority for our management team across the HSCP.
18. You will see in the revenue monitoring report that the current overspend is £5.6 million, which is reduced to £4.6 million after the Covid support funding from the council of £0.7 million and further reserves release of £0.3 million are factored in.
19. The current projected spend includes the assumption that £1.2 million of savings will still be achieved in the remainder of the current year from the move to substantial and critical care criteria. Any shortfall will increase the budget deficit meaning that options for alternative savings would then need to be identified and will result in significant reduction and / or cessation of services. In reality this would mean significant reductions to staffing and we are exploring whether any “plan B” options can be developed.
20. The voluntary severance trawl, with our staff employed by the council, has been finalised for phase 1 and is part of the financial recovery cost reductions, effective from 1 April 2024 and this will reduce cost next year by just under £0.8 million. We are looking at a targeted trawl as a phase 2 during 2024/25.
21. The IJB is also asked in the revenue monitoring report to release the £0.327 million reserves previously identified to offset costs in the current year.
22. The latest monitoring report also recognises the additional £0.687 million of non-recurring Covid pressures funding provided by the council in the current year.
23. Taking into account the changes set out above this means the current unfunded deficit is £4.549 million, split £2.120 million against our council funded activity and £2.429 million against NHS.
24. Any support we gain in the current year is assumed, at this stage, to be non-recurring and therefore the underlying deficit needs to be factored into the 2024/25 budget to ensure we have sufficient recurring savings to close any funding gap. In the event we need to consider a loan approach (i.e. we “borrow” funding from either partner to balance 2023/24) then the associated payback would also need to be factored in to our future cost pressures.
25. The Chief Officer and her management team continue to work on actions to mitigate cost pressures in the current year. We continue with a moratorium on non-essential spend; have stringent scrutiny on recruitment; focus on review of care package costs; reviewing grant funded activity; looking at charging for services; utilised all reserves; progressing change through our savings, recovery and renewal programme; and we are seeking any other ideas and options to reduce costs in the current year.
26. When we look at the budget for 2024/25, it's fair to say the budget settlement announced by the Scottish Government on 19 December 2023 was worse than we had hoped for. In summary:
  - i. NHS pay uplift funded, no other uplifts or growth
  - ii. ERC expect pay will be funded
  - iii. Up-rating of Free Personal & Nursing Care – no gain or flexibility
  - iv. £12p/h funding for Living Wage for providers – no gain or flexibility

- v. Superannuation gain for next 2 years included both recurring and non-recurring
27. So this means that there is no non-pay uplift to the NHS, resulting in a significant new pressure, nor any recognition of population, demand, complexity of need or prescribing growth. So this increases our local pressures.
28. The budget letters are included at Appendices 1A (NHS) and 1B (Council) for information and a significant point to note in the NHS letter is the expectation that higher savings is the only mechanism to meet increased costs, the letter states a 3% expectation on NHS and also recognises that this alone will not be sufficient to close funding gaps.
29. The initial impact by partner is set out in the tables below and as discussed at the recent IJB seminar is heavily caveated as a number of assumptions will be refined over the coming weeks including understanding our share of funding for implementation of the uplift to free personal and nursing care and the living wage versus expected costs, contractual rates such as the national care home contract, the impact of any system wide actions on prescribing etc.
30. The table below shows the latest scenario against our council funded activity with a balance of £0.282 million as yet unfunded, options are continuing to be explored. You will note that the pressures include £3.6 million of unachieved savings brought forward from 2023/24 and this should reduce during the coming weeks as reviews progress against the substantial and critical criteria now in place (we had modelled £1.2 million for this).

<b>New Cost Pressures - ERC</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Pay at 3% then 2% and 2%	0.878	0.590	0.590
Increment Pressure (adjusted for voluntary severance)	0.104		
Non Care Inflation - utilities and transport in line with ERC assumptions	0.074		
Care Inflation at 5% reducing to 4% reducing to 2%	2.852	2.087	1.044
FPNC policy increase % tbc but £0.51m is share of funding	(0.510)		
Living Wage to £12 p/h (10%) - details to follow on allocation			
Demographics & Demand	1.988	2.067	1.364
Unachieved 2023/24 - tbc (working to eliminate / minimise)	3.600		
<b>Total Potential Pressures</b>	<b>8.986</b>	<b>4.744</b>	<b>2.998</b>
Less: Superannuation Gain – Recurring	0.360	0.360	0.360
Less: Superannuation Gain – Non Recurring	2.200	2.200	-
Less: Fostering & Kinship funding gain	0.100		
<b>Revised Pressures and associated Funding Gap</b>	<b>6.326</b>	<b>2.184</b>	<b>2.638</b>
<b>To be funded by:</b>			
Savings, Recovery & Renewal	0.761	0.440	
Voluntary Severance - Phase 1 with 15 posts agreed	0.783		
Voluntary Severance - Phase 2 will require targeted approach	0.300	0.300	
Move care criteria to substantial and critical only (£5.8m was modelled over 2023/24 and 2024/25, but allows further £0.6m (10% of model) deduction for complexity etc.)	4.000		
Charging for Services	0.200	1.300	
<b>Remaining Gap - what to stop?</b>	<b>0.282</b>	<b>0.144</b>	<b>2.638</b>

31. The savings currently included within recovery and renewal are summarised in the next table and wider options are underway to ensure we can look at whether we can identify any “plan B” options for any shortfall in criteria based savings and also to develop service redesign models to help close the potential gap against our NHS

funding too. This will have to include cessation and significant reduction of some services and we will explore the options to share services with partners and fellow HSCPs too.

	2024/25 £m	2025/26 £m	
<b>HSCP Wide Savings</b>			
Grant Funded Activity	0.300	0.200	New target based on workshop and working group
Transport			Lease v's purchase, electric, LD strategy etc - saving amount tbc
<b>Learning Disabilities</b>			
Sleepover Review	0.100	-	
Supported Living	0.020	-	
<b>Intensive Services</b>			
Care at Home Review Phase 2	0.150	0.050	allows for some delay in 24/25
Review of posts and associated running costs	0.064	-	this is full year effect from 23/24
<b>Children and Families</b>			
Review of Connor Road funding	0.065	-	this is full year effect from 23/24
<b>Finance and Resources</b>			
Review of Structure and Processes	-	0.190	Was dependant on system - part advanced in VR trawl phase 1
<b>Localities</b>			
Review of posts and associated running costs	0.052	-	
<b>Mental Health and Addictions</b>			
Review of Structure and Care Packages	0.010	-	
<b>Total Savings</b>	<b>0.761</b>	<b>0.440</b>	

32. The table below shows the latest scenario against our NHS funded activity with a balance of £1.948 million as yet unfunded, with options continuing to be developed. The expected 3% efficiency target is shown and as difficult as this will be to achieve, particularly without any mechanism for any voluntary release of staff, this is insufficient to close the possible funding gap. This in turn is dependent on the level of prescribing pressure that needs to be funded, recognising the multitude of complexities not in our direct control. The lack of any non-pay uplift in the Scottish Government settlement is significant as this was assumed at £0.680 million, in line with the 2% per the current year.

<b>New Cost Pressures - NHS</b>	2024/25 £m	2025/26 £m	2026/27 £m
Pay at 3% then 2% and 2%	0.642	0.441	0.441
Non Pay Inflation was assumed at 2% based on prior year	0.680	0.680	0.680
Prescribing Pressure assumed including inflation	2.500	1.500	1.000
Equipment Pressure	0.100	0.100	0.100
Staffing - HV / LD in-patients - tbc	0.500		
Unachieved savings 2023/24	0.000		
<b>Total Potential Pressures</b>	<b>4.422</b>	<b>2.721</b>	<b>2.221</b>
Less: Any settlement or other gains			
Less: pay award assumed fully funded	0.642	0.441	0.441
<b>Revised Pressures to Fund if Flat Cash</b>	<b>3.780</b>	<b>2.280</b>	<b>1.780</b>
<b>To be funded by:</b>			
No non pay increase for 2024/25 but assume for future years?		0.680	0.680
Savings Identified (so far, further tbc)			
No uplift to non pay as not funded	0.680		
3% Savings Target			
- staffing	0.642		
- non pay (excluding prescribing)	0.510		
- prescribing	0.510		
<b>Remaining Gap - what to stop?</b>	<b>1.948</b>	<b>1.600</b>	<b>1.100</b>

33. We anticipate the redesign of long stay beds within our hosted Learning Disability In-Patient service will help mitigate some of the staffing pressure we are currently facing, however some allowance has been included to phase this in during 2024/25
34. Primary Care Improvement Plan, Alcohol and Drugs (Local Improvement Fund) and Mental Health Action 15; given we still await confirmation from the Scottish Government of our current year allocation for Mental Health Action 15, it is a little difficult to accurately plan ahead .However given we have relatively stable activities within each area no significant changes are expected at this stage, albeit if pay awards are unfunded this will create some pressure.

## **IMPLICATIONS OF THE PROPOSALS**

### Finance

35. The financial implications are detailed in the report. Financial recovery discussions remain ongoing with our partners and preparation for budget setting in March continues. The current modelled costs show total unfunded gap could be £10.1 million with options to close that gap totalling £7.9 million, with a further £2.2 million being worked on, subject to impact of the final budget settlement and ongoing clarification and refinement.

### Risk

36. Delivering services and the savings recovery and renewal programme within existing funding is clearly our most significant risk and we remain concerned about the Supporting People Framework criteria changes.
37. There are other risks which could impact on the current and future budget position; including:
  - Maintaining capacity to deliver our services
  - Achieving all existing savings on a recurring basis and containing the current projected overspend
  - The ongoing impact of Covid-19 on our partner providers and the care service market
  - Prescribing costs and the ability to accurately model and project the position, particularly in the early part of the year
  - Observation and Out of Area costs within Specialist Learning Disability Services
  - The impact of current year pressures on forward financial planning
  - The ability to identify, develop and deliver any “plan B” proposals across health as well as social care

## **DIRECTIONS**

38. The budget directions for 2024/25 will be issued following the agreement of the IJB budget in March 2024.
39. Financial recovery discussions are ongoing with both partners and the council’s support for 2023/24 pressures will be reflected for our final outturn.



## **CONSULTATION AND PARTNERSHIP WORKING**

40. The Chief Financial Officer has consulted with our partners and the opportunities for ongoing discussions are very much welcomed.
41. The Chief Officer and Chief Financial Officer continue to attend the council's budget strategy group and appreciate the opportunity the present the IJBs budget position. It is also acknowledged that the in-year Covid support funding of £0.687 million is very much welcomed.

## **CONCLUSIONS**

42. The report provides an overview of the current financial recovery position and ongoing discussions to support the projected overspend of £5.563 million after the planned use of reserves. This decreases to £4.549 million after the additional Covid funding from the Council of £0.687 million and the remaining earmarked reserves of £0.327 million are factored in.
43. The current budget planning assumptions are included for information and are heavily caveated as work will continue between now and the end of March, recognising this position may change as impacts and issues become clearer.

## **RECOMMENDATIONS**

44. The Integration Joint Board is asked to note and comment on this report and agree to the continued actions to mitigate costs as part of financial recovery planning.

## **REPORT AUTHOR**

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18 January 2024

Chief Officer, IJB: Julie Murray

## **BACKGROUND PAPERS**

None

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Chief Executives, NHS Scotland

Copy to: NHS Chairs  
NHS Directors of Finance  
Integration Authority Chief Officers  
Integration Authority Chief Finance Officers

***Issued via email***

19 December 2023

Dear Chief Executives

**Scottish Government Budget 2024-25**

Following the announcement of the Scottish Government's Budget for 2024-25 by the Deputy First Minister in Parliament today, I am writing to provide details of the indicative funding settlement for Health Boards. A breakdown of the total is provided in **Annex A** to this letter.

The Deputy First Minister noted in her response to the UK Government's Autumn Statement that it delivered a worst-case scenario for Scotland's finances. The financial pressures across health and social care are, by far, the most challenging since devolution. We have worked to protect NHS Budgets and social care funding where other parts of the public sector have faced reductions. All health consequentials have been passed through to the Portfolio, but these were not at a level expected by the Scottish Government, particularly given the non-recurring nature of 2023-24 pay consequentials, and we recognise the continued pressures health and social care services face in the aftermath of the pandemic and changing demographic profiles.

As in previous years, the budget announced will be subject to any amendments agreed through the Scottish Parliament's Budget Bill process. In addition, we will undertake further work with you specifically in relation to pay costs and waiting times funding. I will keep you up to date with any changes to our planning assumptions.

**Budget Uplift**

Compared to 2023-24 budgets, territorial NHS Boards will receive a total increase of 4.3% for 2024-25 to cover costs related to the 2023-24 pay deals, as well as the baselining of £100 million sustainability and NRAC funding provided in 2023-24. For clarity, the 4.3% uplift relates to 2023-24 non-recurring funding now being made on a recurring basis. National Boards will receive a 3.8% uplift to fund 2023-24 pay deals.

In terms of pay, funding arrangements for Boards will be revisited by the Scottish Government following the outcome of the pay negotiations in the new financial year. As part of Boards recurring adjustments for 2023-24, amounts have been included based on pay offers for Agenda for Change and Medical and Dental staffing in 2023-24. Pay for NHS staff remains subject to agreement for 2024-25, and we will work with Directors of Finance to finalise this position once the outcome is known. We will write to Boards in 2024 to confirm finalised baseline budgets following the conclusion of this work, but at this stage it should be assumed that additional funding will be allocated to support a deal.

We have committed the £100 million sustainability funding for non-pay costs, but beyond this and the NRAC funding provided in 2023-24, Boards will be expected to manage pressures within existing envelopes. Funding ensures no Territorial Board is further than 0.6% from parity.

## Covid-19 Funding

Whilst the scale of Covid-19 costs has reduced significantly in 2023-24, we recognise there are specific legacy costs that will require additional funding support in the new financial year. This includes funding for:

- Vaccinations staffing and delivery.
- Test & Protect activities including Regional Testing facilities.
- Additional PPE requirements; and
- Some specific Public Health measures.

Following today's budget, we will seek to provide early clarity as to the total funding to be provided to support these costs. However, beyond the above, NHS Boards and Integration Authorities should expect to meet remaining costs from baseline funding and should continue to drive these costs down as far as possible.

## Policy Funding

In addition to the baseline uplift outlined, funding aligned to policy commitments and recovery of health and social care services will be allocated to Boards and Integration Authorities in 2024-25. It is our intention to provide early indication of allocations where possible, and to align this to the planning guidance that will be issued in relation to Annual Delivery Plans, setting out the priorities for health and social care in the coming year.

We are aware there has been a rise in the volume of allocations over the past few years and we are committed to reducing this. We are also aware timing of some allocations being later in the year leads to uncertainty and difficulties in service planning without funding certainty. We are committing to putting out 80% of allocations in the first quarter, where necessary these may be a % of the full allocation value.

## Health and Social Care Integration

Formal notification of the terms and approach to the Local Government funding settlement will be given in the Circular and Local Government Budget Letter. The Health and Social Care Portfolio will transfer net additional funding of £241.5 million to Local Government to support social care and integration. The overall transfer to Local Government includes additional funding of £230 million to deliver a £12 per hour minimum pay settlement for adult social care workers in private and third sectors, in line with the Real Living Wage Foundation rate. In addition, an inflationary uplift on Free Personal Nursing Care rates (£11.5 million) is provided.

The funding allocated to Integration Authorities for Free Personal and Nursing Care and adult social care pay in third and private sectors should be additional and not substitutional to each Council's 2023-24 recurring budgets for adult social care services that are delegated. This means that, when taken together, Local Authority adult social care budgets for allocation to Integration Authorities must be £241.5 million greater than 2023-24 recurring budgets to ensure funding from Health and Social Care Portfolio contributes to meeting outcomes in this area. Where there is evidence funding is not passed across to be used for the policy intent, the Scottish Government reserves the right to look at reclaiming funding allocated.

We have progressed baselining prior year Real Living Wage funding totalling £333.5 million to Local Government. A further £52.3 million has been baselined for other commitments including uprating free personal nursing care.

## Capital

### a. Capital Budget

The health capital budget increases from £578 million to £754 million, however if the health research element is excluded (which is a ring-fenced budget that cannot be used for capital investment), the budget reduces by £59 million from £373 million to £314 million. This is lower than our planning assumptions, which were shared with Chief Executives, Chairs and Directors of Finance in August.

The settlement allows for formula capital to be maintained at 2023-24 levels, all major projects in construction to be completed (Baird and Anchor, Parkhead Health Centre, QEUH rectification and Jubilee Phase 2), as well as support for the national replacement programmes for Ambulances and Radiotherapy equipment. Beyond these

core areas outlined above, we will not be providing any funding, including in relation to our intention to increase formula capital so that it doubles over the Capital Spending Review period (2021-22 to 2025-26).

In respect of 2023-24, we are asking all Boards to review their capital expenditure for the remainder of the year and to defer any areas where spend is discretionary.

**b. New Developments and Capital Planning**

We are aware that most Boards are developing infrastructure plans and individual projects which will require Scottish Government funding to progress. Given the challenging settlement we are managing, we will not be funding development costs for any new projects, as we do not anticipate starting construction of any new project over the next two years at least. We understand the local challenges this will present in some instances, so the Health Capital Finance team will arrange a discussion with all affected Boards in the New Year to confirm arrangements. However, in the meantime, NHS Boards should immediately stop any project development spend, otherwise these costs may need to be funded from local formula capital budgets which should instead be directed towards maintenance of the existing estate and essential equipment and digital replacement.

Now that we have clarity on the capital funding position, a Directors' Letter on Whole System Planning that focusses on maintaining your current estate, will be issued in the New Year.

**c. Small Scale Projects**

The Scottish Government has always looked to provide capital support for relatively small scale, but essential investments, that could not be funded through formula capital. At this point, our ability to fund such investments is extremely limited and Boards should not anticipate receiving additional funding in 2024-25, even if funding has previously been agreed.

It is clear that there is significant financial challenge in 2024-25 above levels we have seen before and we will continue to work closely with Chief Executives to address this. I thank you again for your support to date and your continued engagement moving into the next financial year.

**2024-25 Financial Planning**

I wrote to all Boards previously outlining my expectations for 2024-25 plans, being:

- a clear programme of work and supporting actions to achieve the target of 3% recurring savings on baseline budgets,; and
- an improved forecast outturn position compared to your forecast outturn position reported at the start of 2023-24.

Further to this, I confirmed for Boards in receipt of brokerage in previous years that this would be capped for 2024-25. There is no central budget available for brokerage and any funding given for this limits investment in other areas.

**Financial savings**

I am aware the 3% savings target alone will not be enough to return to breakeven or in some cases the brokerage cap. There are a number of areas of work underway to support NHS Boards and collectively improve the financial position as set out below.

15 box grid

I have communicated previously the 15 box grid approved by Board Chief Executive on 14 November. This sets out 15 areas of focus for Boards to progress. There are various national programmes of work supporting these areas to be implemented at a local level.

The Financial Delivery Unit will continue to co-ordinate and assist Boards to identify further actions or areas that will support delivery of your 3% recurring savings target.

The NHSSP&DB has been established to direct and co-ordinate a range of national work including strategic planning, national programmes and national improvement. Work will continue to rationalise national programmes and agree priorities to simplify the landscape and have a stronger focus on affordability. As agreed, decisions will be taken on a Once for Scotland basis working alongside Board Chief Executives and the other functional professionals groups.

### CHOICES

As set out at the Board Chief Executive meeting on 12 December, we will progress the development of the CHOICES options which will provide the framework in which decisions around the following key areas will be made:

- Workforce
- Innovation
- Service and infrastructure optimisation

Further guidance will follow in respect of the above and will take account of the discussions you have been having with the NHS Scotland Chief Operating Officer and members of my team.

It is clear that there is significant financial challenge in 2024-25, above levels we have seen before, and we will continue to work closely with Chief Executives and colleagues across the whole system. I thank you again for your support to date and your continued engagement moving into the next financial year.

Yours sincerely,



**RICHARD MCCALLUM**

Director of Health and Social Finance, Digital and Governance

	2023/24 Allocation	Recurring Allocations*	Updated Allocation	Uplift**	2024/25 Total Allocation	Uplift from 2023/24	NRAC Funding	Distance from NRAC Parity
	£m		£m	£m	£m	%	£m	%
<b>NHS Territorial Boards</b>								
Ayrshire and Arran	850.2	33.1	883.3	0.2	883.5	3.9%	0.2	-0.6%
Borders	248.6	10.4	259.0	1.5	260.4	4.8%	1.5	-0.6%
Dumfries and Galloway	352.2	12.5	364.7	0.0	364.7	3.6%	0.0	1.1%
Fife	790.8	31.3	822.1	7.2	829.2	4.9%	7.2	-0.6%
Forth Valley	631.1	25.7	656.8	2.1	658.9	4.4%	2.1	-0.6%
Grampian	1,129.9	44.4	1,174.2	2.2	1,176.4	4.1%	2.2	-0.6%
Greater Glasgow and Clyde	2,639.4	93.8	2,733.1	0.0	2,733.1	3.6%	0.0	1.3%
Highland	768.2	39.0	807.1	0.0	807.1	5.1%	0.0	-0.6%
Lanarkshire	1,424.1	57.9	1,482.0	6.9	1,489.0	4.6%	6.9	-0.6%
Lothian	1,743.3	72.0	1,815.3	10.2	1,825.5	4.7%	10.2	-0.6%
Orkney	60.2	2.5	62.8	0.8	63.6	5.6%	0.8	-0.6%
Shetland	60.1	2.2	62.4	0.0	62.4	3.7%	0.0	1.9%
Tayside	912.2	39.0	951.2	0.0	951.2	4.3%	0.0	-0.3%
Western Isles	89.0	3.8	92.9	0.0	92.9	4.3%	0.0	12.6%
<b>Territorials Total</b>	<b>11,699.2</b>	<b>467.5</b>	<b>12,166.7</b>	<b>31.1</b>	<b>12,197.9</b>	<b>4.3%</b>	<b>31.1</b>	
<b>NHS National Boards</b>								
National Waiting Times Centre	75.8	6.0	81.8	0.0	81.8	7.9%		
Scottish Ambulance Service	334.2	15.0	349.2	0.0	349.2	4.5%		
The State Hospital	42.5	2.0	44.5	0.0	44.5	4.6%		
NHS 24	90.7	0.7	91.4	0.0	91.4	0.8%		
NHS Education for Scotland	517.6	32.6	550.2	0.0	550.2	6.3%		
NHS National Services Scotland	378.6	1.7	380.3	0.0	380.3	0.4%		
Healthcare Improvement Scotland	33.6	0.2	33.8	0.0	33.8	0.5%		
Public Health Scotland	56.9	0.6	57.5	0.0	57.5	1.0%		
<b>Nationals Total</b>	<b>1,530.1</b>	<b>58.8</b>	<b>1,588.9</b>	<b>0.0</b>	<b>1,588.9</b>	<b>3.8%</b>		
<b>Total NHS Boards</b>	<b>13,229.3</b>	<b>526.3</b>	<b>13,755.6</b>	<b>31.1</b>	<b>13,786.7</b>	<b>4.2%</b>		

\* Includes recurring allocations from 2022-23

\*\* Includes NRAC parity adjustments.

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COSLA President  
Verity House  
19 Haymarket Yards  
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EH12 5BH

Copy to: Councillor Steven Heddle  
The Leaders and Chief Executives of all Scottish  
local authorities

19 December 2023

## LOCAL GOVERNMENT SETTLEMENT 2024-25

Today I formally set out the Scottish Government's proposed Budget for 2024-25 to the Scottish Parliament. Further to the budget statement I write now to confirm the details of the local government finance settlement for 2024-25.

This draft budget prioritises supporting people through the cost-of-living crisis, investing in our frontline public services, and tackling the climate emergency head-on. It focuses on our three missions:

- Community - Delivering efficient and effective public services
- Equality - Tackling poverty and protecting people from harm
- Opportunity - Building a fair, green and growing economy

This Budget comes at a difficult fiscal period for Scotland. The economic conditions for the 2024-25 Scottish Budget are set to remain challenging as inflationary and pay pressures continue to impact on households, businesses and public bodies. The funding provided by the UK Government in the Autumn Statement fell far short of what we needed. Scotland needed more money for infrastructure, public services and fair pay deals. Instead, the Autumn Statement delivered a real terms reduction in the total block grant. The UK Government have not inflation-proofed their Capital Budget which is forecast to result in a 9.8% real terms cut in our UK capital funding over the medium term between 2023-24 and 2027-28.

It is also important to recognise the positive change in the relationship between the Scottish Government and local government. On 30 June of this year we signed the Verity House Agreement which set out our vision for a more collaborative approach to delivering our shared priorities for the people of Scotland. We agreed to change the way we work together, building a relationship on mutual trust and respect; focusing on achievement of better

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outcomes; and consulting and collaborating as early as possible in policy areas where local government has a key interest.

We committed to regularly reviewing councils' powers and funding, with the expectation that services will be delivered at a local level unless agreed otherwise; and to develop a framework for collecting and sharing evidence to ensure progress is maintained.

We also undertook to agree a new Fiscal Framework governing how local authorities' funding is allocated, reducing ring-fencing and giving greater control over budgets to meet local needs. On Thursday 14 December we jointly published an update on the development of this fiscal framework and our officials will continue to work together to develop this further. We also wish to work with COSLA through the development of that Fiscal Framework to ensure the distribution arrangements for the settlement continue to meet the needs of our remotest communities and changing population. In this regard, I am open to considering adjusting the funding floor percentage ahead of the Local Government Order and would welcome any views on this or other elements of distribution as part of the consultation to the order due to publish on Thursday 21 December."

As part of our discussions with you on the new fiscal framework we will also seek to increase discretion for local authorities to determine and set fees and charges locally. This will include continuing our joint work to agree next steps following the recently closed consultation on building warrant and verification fees, and a consultation on planning fees to launch in early 2024. We also intend to explore with local government options in respect of other fees and charges which are currently levied locally but set nationally, with a view to further empowering councils in these areas.

The intention is that the indicative allocations to individual local authorities for 2024-25 will be published in a Local Government Finance Circular on Thursday 21 December. That circular will begin the statutory consultation period on the settlement.

The total funding which the Scottish Government will make available to local government in 2024-25 through the settlement will be over £14 billion for the first time should all 32 councils agree to freeze council tax. This includes:

- An additional £6m to support the expansion of Free School Meals;
- An additional £11.5m to support the uprating of Free Personal and Nursing Care rates;
- Additional funding of £230m to deliver a £12 per hour minimum pay settlement for adult social care workers in commissioned services via agreed contract uplifts;
- An additional £6.8m for Discretionary Housing Payments
- £145.5m to continue to maintain teachers and support staff (on which further detail will follow) as well as £242m to support teacher pay uplifts;

This excludes funding for teacher pension contributions. As you are aware there will be an increase in the employer contribution rate in the Scottish Teachers' Pension Scheme. The rate is set to increase from 23% to 26% from 1 April 2024, following the conclusion of the 2020 scheme valuation. The UK Government have publicly stated that the funding will be allocated to individual UK Government departments in Spring 2024. Scottish Ministers will make decisions on funding allocations once the UK Government funding position is clearer and the implications for consequentials are understood.

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Discussions with COSLA are also underway to finalise the costs of delivering the £12 per hour minimum pay commitment for PVI providers delivering children's social care, bringing this in line with ELC and adult social care. Following discussions with COSLA, and approval through the formal financial governance process, our aim is to provide additional funding in 2024-25 for children's social care.

The funding allocated to Integration Authorities for Free Personal and Nursing Care and adult social care pay in commissioned services should be additional and not substitutional to each Council's 2023-24 recurring budgets for adult social care services that are delegated. This means that, when taken together, Local Authority adult social care budgets for allocation to Integration Authorities must be £241.5 million greater than 2023-24 recurring budgets to ensure funding from Health and Social Care Portfolio contributes to meeting outcomes in this area. Where there is evidence funding is not passed across to be used for the policy intent, the Scottish Government reserves the right to look at reclaiming this.

Within the Verity House approach, Scottish Government and Local Government are committed to developing a joint overarching framework of outcomes, accountability and monitoring. It is envisaged that this framework will be finalised by spring 2024. In the meantime, this settlement includes almost £1 billion of funding which has been baselined into the General Revenue Grant, as part of our commitment under the Verity House Agreement to remove ring-fencing and increase funding flexibilities to local authorities, subject to agreeing the detail set out below. As I have advised the COSLA President, Vice President and Resources Spokesperson in our pre-budget engagement, the baselining exercise has required us to restate the fiscal position for prior years to meet Parliamentary expectation on budget presentation. In light of this restatement, I have asked my officials to provide the necessary data to ensure that the reconciliations are clearly understood by COSLA.

The baseline proposals will deliver flexibilities across Social Care, Education, Social Justice, Net Zero and Justice. The detail of the individual lines is set out in the Annex to this letter.

In return, our expectation is that Councils will continue to deliver all statutory and contractual commitments associated with the relevant funding. In relation to the funding for Social Care being baselined we expect the continued payment of the living wage to adult social care staff in commissioned services, with Councils benefitting from flexibility on how that is delivered locally.

Alongside this, we expect that local government will continue in good faith to engage in a range of discussions about future policy direction. Given the joint work required to progress the delivery of the National Care Service, and the positive progress made so far, we expect this to continue, with every effort being made to reach agreement on outstanding matters in relation to arrangements for the chairs of local boards, direct funding and consistency of delegation.

Our offer to baseline £564.1m of education funding is conditional upon the agreement that, by the end March 2024, the assurance framework being sought by the Cabinet Secretary for Education and Skills is in place and that the new joint Education Assurance Board has been

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established. In light of the £521.9 million of early learning and childcare (ELC) funding which is being baselined, I am also seeking your agreement to commit publicly to exploring options for a national indicative rate or range of rates for the ELC PVI sector to secure their financial sustainability in future years.

Further discussion on flexibility on other Education funding lines will take place within the Education Assurance Board once it is operational. Our expectation is also that Councils will continue to honour the existing joint agreement on provision of free school meals on a universal basis to primary 4, 5 and special school pupils, building upon our earlier agreement with respect to universal provision to primary 1 to 3 pupils.

This baselining is an initial step in the process of embedding the Verity House Agreement and is not a one-off event. I have emphasised the need for further movement in Budget 2025-26 to my Cabinet colleagues and over the coming months we will be identifying further lines which could be considered and put forward for baselining supported by the outcomes, accountability and monitoring framework to be agreed in the coming months.

The Scottish Government is committed to working in partnership with Local Government to deliver a national freeze on Council Tax in 2024-25. We have engaged closely with you to discuss the parameters and principles for identifying funding to support this commitment and will continue discussions during the coming months to reach agreement. Consequently, we have set aside £144 million to fund a freeze in Council Tax across each of Scotland's 32 local authorities. The funding earmarked is equivalent to a 5% increase in Council Tax nationally, taking into account the average rise to Council Tax in 2023-24, whilst recognising that inflationary pressures have eased in the last 12 months.

The funding represents the Council Tax revenue that might have been raised (net revenue), and excludes the forgone revenue associated with the increased cost of the Council Tax Reduction scheme, and other deductions (gross revenue), which Council Tax rises would have caused. On this basis we will seek the agreement of councils to freezing their Council Tax in 2024-25, and as I have indicated this week, I remain open to continued dialogue as to how we might best achieve that.

In respect of the statutory accounting framework and discussions on its robustness over the past number of years, I can also confirm that I have no plans in the immediate future to commence the Capital Accounting Review which was proposed in the Resources Spending Review in May 2022.

Should all councils agree to freeze Council Tax, the 2024-25 Local Government Settlement of over £14 billion offers an increase equivalent to 6.0% in cash terms since the 2023-24 budget. It continues to provide local government with a funding settlement that is both fair and affordable, under the most challenging of circumstances. Critically, in the face of a worst-case scenario Autumn Statement and amongst all the difficult decisions in the Budget, we have increased the Local Government Settlement's share of the discretionary budget.

I acknowledge that this Budget cannot deliver the resources all our partners will want. I am under no illusions about the challenging fiscal environment we face across all of our public services, not only this year but in years to come. This Budget addresses key priorities, targets resources on low-income households and paves the way for future investment in this

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Parliament. It treats local authorities fairly and consistently with other portfolios. Scottish Ministers have had to take difficult decisions which have allowed us to prioritise funding and invest in the areas which have the greatest impact on the quality of life for the people who call Scotland home.

I look forward to working with COSLA in the year ahead to deliver our shared priorities and to continue to fully implement the Verity House Agreement.



**SHONA ROBISON**

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## FUNDING BASELINED IN 2024-25

<b>Funding Line</b>	<b>Proposal (£m)</b>
Local Heat and Energy Efficient Strategies	2.4
Community Justice Partnership Funding	2.0
Living Wage	333.5
Blue Badge	0.72
Free Personal and Nursing Care	42.3
Former Housing Support Grant	1.0
Free period products in schools and public places	4.9
Early Learning and Childcare Specific Revenue Grant	521.9
Free School Meals	42.2
<b>Total (£m)</b>	<b>£950.92</b>

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