North East and North Cumbria

Item: 9.2

REPORT CLASSIFICATION	✓	CATEGORY OF PAPER	✓
Official	✓	Proposes specific action	
Official: Sensitive Commercial		Provides assurance	✓
Official: Sensitive Personal		For information only	

BOARD

26 MARCH 2024

Report Title:	**NENC ICB and ICS Finance Report – M10**

Purpose of report

To provide the Board with an update on the financial performance of the North East and North Cumbria Integrated Care Board (NENC ICB) and NENC Integrated Care System (ICS) in the financial year 2023/24 for the period to 31 January 2024.

Key points

ICS Revenue Position:

As at 31 January 2024, the ICS is reporting an overall year to date (YTD) deficit of £32.3m compared to a planned deficit of £52.3m, a favourable variance of £20.0m.

The improved YTD position is mainly due to the receipt of additional non-recurrent funding to support industrial action and other pressures, together with changes in Elective Recovery Fund (ERF) arrangements agreed by NHS England (NHSE) in November 2023. It should be noted that the full impact of the Industrial Action related funding of £46m was required to be shown against the YTD position rather than phased evenly through the whole year as originally expected.

The forecast ICS position reported at month 10 continues to be a deficit of £35m, reflecting the revised plan approved by ICB Board in November 2023. This is an improvement of £15m on the original planned position for the year.

In month 11, an additional non recurrent funding allocation of £35m has been received from NHSE. This is effectively funding that was held by NHSE at a national level to offset the agreed planned deficit at the start of the year which is now being transacted to allow cash to flow to the system. This funding is intended to offset deficits within relevant organisations within the system and will enable an overall breakeven position to be reported for the year. It will reduce cash borrowing costs in deficit organisations. It is important to note from a system financial performance perspective, the ICS will still be deemed to have over-spent its funding by £35m which will still be subject to repayment from 2025/26 and that this £35m is not funding that can be spent on revenue items such as additional staffing – it is effectively cash support to reduce borrowing costs.

In line with NHSE expectations, Executive Committee agreed the allocation of this £35m of funding to the three provider trusts forecasting a deficit position, in proportion to respective deficit values. All three providers will be required to improve their deficit positions by the value of this funding, resulting (all other things being equal) in the ICS reporting an overall breakeven position at month 11.

The ICS Efficiency programme is on track to deliver the total required of £408m however it should be noted that the level of recurrent efficiency delivery is expected to be circa £69m behind plan (around 1% shortfall). This is mainly within the provider sector of the ICS and effectively makes the 24/25 financial plan production and delivery more challenging.

ICB Revenue Position:

As at 31 January 2024 the ICB is reporting a YTD surplus of £28.3m, an improvement to plan of £1.0m. Again this improvement is due to the receipt of additional non-recurrent funding and ERF overperformance funding which is helping to offset pressures in prescribing and continuing healthcare costs. The ICB forecast surplus for the year continues to be £32.4m in line with plan.

Pressures continue to be seen on prescribing budgets with growth in costs of almost 9% compared to the same period last year, significantly higher than national expectations of growth reflected in ICB funding allocations of 2.4%. This prescribing growth has slowed somewhat over the past 3-4 months however, which has helped to improve the overall position.

Following discussions around the pressures being faced within General Practice, the ICB has agreed a number of actions to support resilience of GP providers including non-recurrent funding to support a range of initiatives that are already underway and support for infrastructure costs of the primary care collaborative.

Proposed amendment to ICB Revenue Position in Month 12:

Under the current NHS finance regime there are no cash or revenue benefits of an ICB generating a surplus as long as the system overall is in balance, but there are cash impacts of NHS providers having a deficit such as significant borrowing costs for providers (and hence the system) where those deficits drive a cash shortfall.

In light of this, and aligned to the approach being taken by NHS England in respect of the £35m additional funding noted earlier, it is proposed that the ICB forecast outturn surplus is reduced non recurrently in month 12 by £28m with relevant Foundation Trust (FT) providers within the ICS reducing deficit positions by an equivalent amount, ensuring no change to the overall ICS position. Such a transfer will provide a benefit to the ICS in respect of reduced cash borrowing requirement costs within relevant FT providers.

Similar to the allocation of the £35m from NHSE, a £28m transfer of surplus between the ICB and deficit FT providers (who need to borrow cash to fund their deficits) does not create an ability for any provider organisation within the ICS finance regime to spend more on services, staff or equipment (as this would create a net revenue overspend position across the ICS). Rather it reduces deficits within one or more organisations within the ICS with a corresponding reduced surplus in the ICB. This is because the net spending position of the ICS (ICB and FT providers) is what is measured by NHSE and any increase in net terms over plan would cause the ICS to go into an unplanned deficit overall.

Such a transfer would lead to the ICB having a smaller year end reported surplus of £4m in total but as there is no overall change to the ICS net position, the approach has the support of NHS England. Any transfer must have no net impact on the overall ICS financial position, therefore the ICB surplus can only be reduced if it leads to an equal and opposite improvement in the net deficit position across the FT providers within the ICS.

The proposal to the Board is that in line with the £35m allocation from NHSE, the ICB would reduce its planned surplus by £28m with a corresponding reduction in deficit by a reduction within one or more of the three FT providers in deficit this year. The change in forecasts and any cash transfers to be agreed with those organisations in the coming days with a focus on ensuring the maximum value for money is achieved from any transactions for the ICS as a whole.

The Board is asked to support this approach to deliver cash benefits for the system and agree delegated authority for the Chief Executive and the Chief Finance Officer to agree the allocation of a £28m reduced ICB surplus across NENC ICS FT providers in deficit this year ensuring the maximum value for money from such a transfer is achieved.

ICB Running Costs:

The ICB is reporting a relatively small underspend against running costs budgets (£1.2m YTD and £1.5m forecast underspend). This underspend helps to offset pressures where certain costs have been realigned to programme budgets.

Running costs remains a potential risk area for the ICB on a recurring basis with work continuing on the development of ICB 2.0 in response to the forthcoming 30% real terms reduction in running cost allowances.

A total of £3m costs have been included in the year to date position reflecting the cost of redundancies agreed under the voluntary redundancy scheme. It is expected that further potential redundancy costs associated with ICB 2.0 can be managed without any impact on delivery of financial duties.

ICS Capital Position:

In month 10, the ICS capital spending forecasts include the impact of IFRS16 (lease accounting), resulting in a forecast overspend of £33m. This overspend relates to the impact of IFRS16 with some additional funding held by NHSE which is expected to largely offset this pressure. Work continues via the Provider Collaborative to manage the overall capital position by the end of the year, with the expectation that spending for 2023/24 will be within budget constraints.

Elective Recovery Funding (ERF):

An update on the approach to ERF was considered by the Finance, Performance and Investment Committee in February 2024. Due to the impact of industrial action in-year on delivery of ERF targets, FPIC supported amendments to two elements of the previously agreed local arrangements (a flexibility stipulated as part of the original approval at the start of the financial year) in order to reduce the potentially material financial impact on individual organisations as a result of national factors outwith ICS control.

The national approach to transacting activity delivered against ERF targets is a key planning assumption and therefore it is proposed to continue to transact activity in line with national guidance. The amendments supported by FPIC were to the local arrangements in respect of residual funding allocated for wider pathway costs and advice and guidance activity. In order to provide further certainty to providers and minimise any material financial impacts, it was proposed the funding for wider pathway costs is effectively fixed at amounts originally included in plans, and advice and guidance funding received is allocated to providers based on the national methodology for monitoring advice and guidance.

This approach was approved by Executive Committee in March 2024 in accordance with delegated financial limits and is noted here for the awareness of the Board. The only deviation from initial contract values previously approved by Board is to reflect actual activity levels against ERF targets for the element transacted in line with national guidance (that is that Trusts are paid for elective activity via the Payment by Results Regime methodology).

Risks and issues

Net risks across the system increased slightly in month 10 to £12.2m (from £8.7m at month 9). This reflects a potential risk that the system is not able to retain certain Public Dividend Capital (PDC) benefits relating to IFRS16 which are currently included in the forecast position. This is awaiting confirmation from NHSE.

There are a number of risks still to manage across the system but overall risks continue to be significantly reduced from those reported earlier in the year. The reported net risk position (and reported forecast position) does not include any potential impact from further industrial action beyond January 2024.

Work will continue across the system to review the position, seek to identify mitigations and collectively work to manage potential risks. Financial controls are being actively reviewed across the system, with additional controls implemented where necessary to manage potential financial risks.

Assurances

ICB finance teams will monitor and report monthly on the risks noted above. This will include actions being taken to mitigate these risks.

The ICB Executive Director of Finance meets monthly with the ICS Directors of Finance to review the ICS finance position.

The financial position of both the ICB and the wider ICS will continue to be reviewed in detail on a monthly basis by the Finance, Investment and Performance Committee and the ICB Executive Committee.

Work is progressing on the 24/25 financial plan although formal planning guidance is yet to be issued and the development of a medium term financial plan for the ICS, incorporating a financial recovery plan.

Recommendation/action required

The Board is asked to:

- note the latest year to date and forecast financial position for 2023/24,
- note there are a number of financial risks across the system still to be managed although these are reduced from previous levels,
- note the overall ICS position will be reported as breakeven at month 11 following receipt of additional funding from NHSE,
- agree the proposed redistribution of £28m of the ICB surplus across the ICS with delegated authority to Chief Executive and Chief Finance Officer to agree the allocation across deficit FT providers.

Acronyms and abbreviations explained

ARRS – Primary Care Networks Additional Roles Reimbursement Scheme
BPPC – Better Payment Practice Code
CHC – Continuing Healthcare
ERF – Elective Recovery Fund
FT – NHS Provider Foundation Trust
H2 – Half 2 (widely used by NHSE and financial institutions to refer to the second half of the financial year in the same way Q1 = Quarter 1)
ISFE – Integrated Single Financial Environment (financial ledger system)
MHIS – Mental Health Investment Standard
NHSE – NHS England
QIPP – Quality, Innovation, Productivity and Prevention
POD – Pharmacy, Ophthalmic and Dental
YTD – Year to Date

Executive Committee Approval	12 March 2024
Sponsor/approving executive director	David Chandler, Executive Director of Finance
Date approved by executive director	20 March 2024
Report author	R Henderson, Director of Finance (Corporate) A Thompson, Senior Finance Manager

Link to ICP strategy priorities (please tick all that apply)

Longer and Healthier Lives	✓
Fairer Outcomes for All	✓
Better Health and Care Services	✓
Giving Children and Young People the Best Start in Life	✓

Relevant legal/statutory issues

Note any relevant Acts, regulations, national guidelines etc

Any potential/actual conflicts of interest associated with the paper? (please tick)	**Yes**		**No**	✓	**N/A**	
If yes, please specify						
Equality analysis completed (please tick)	**Yes**		**No**		**N/A**	✓
If there is an expected impact on patient outcomes and/or experience, has a quality impact assessment been undertaken? (please tick)	**Yes**		**No**	✓	**N/A**	

Key implications	
Are additional resources required?	n/a
Has there been/does there need to be appropriate clinical involvement?	n/a
Has there been/does there need to be any patient and public involvement?	n/a
Has there been/does there need to be partner and/or other stakeholder engagement?	Yes, engagement within the ICB and the wider ICS

Version Control

Version	Date	Author	Update comments
1.0	11/03/24	Richard Henderson	Report updated based on approved Exec Committee version
2.0	11/03/24	David Chandler	Minor amends and approved
3.0	17/03/24	Richard Henderson	Updated for proposed redistribution of ICB surplus
4.0	18/03/24	David Chandler	Minor amends and approved
5.0	19/03/24	Richard Henderson	Minor updates following review by DC and SA
6.0	19/03/24	David Chandler	Minor amends
7.0	20/03/24	David Chandler	Further amends re ICB surplus